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September 11, 2007

The Acting Chair's Summing Up
Sudan—2007 Article IV Consultation and Staff-Monitored Program
Executive Board Meeting 07/77
September 7, 2007

Executive Directors agreed with the thrust of the staff appraisal. Following several years of good performance, policy slippages contributed to weaker fiscal and external sector positions in late 2006 and early 2007, and significant risks to Sudan's macroeconomic and financial stability emerged. Against this background, Directors welcomed the authorities' efforts to implement the necessary corrective measures envisaged in the new 18-month staff-monitored program (SMP), which aims at restoring fiscal discipline and ensuring stability while supporting continued strong economic growth. Directors stressed that successful implementation of the peace agreement will be crucial for the social and economic advancement of Sudan.

Directors noted that the authorities' program to meet the twin objectives of boosting expenditures to address development needs while maintaining macroeconomic stability will require improved expenditure management and more transparent budget execution, combined with bold fiscal reforms to increase revenues. They welcomed the authorities' recent efforts to tighten fiscal policy, including through reducing fuel subsidies. Broadening the tax base by reducing exemptions and incentives and improving tax administration, as well as conservative revenue forecasting, will be key to ensuring macroeconomic stability. Directors called for improved transparency in oil sector revenues.

Directors considered that the conduct of monetary policy going forward will likely be challenging in the context of higher and more volatile capital inflows and oil revenues. They urged the authorities to monitor developments to ensure that money growth remains in line with the inflation objectives. The conduct of monetary policy will also need to rely increasingly on open market operations, with an emphasis on indirect monetary policy instruments.

Directors noted that over the past year Sudan's de facto exchange rate regime shifted from a managed float to a peg, which required heavy central bank intervention and led to an uncomfortably low level of foreign exchange reserves. Against this background, Directors welcomed the authorities' decision to allow greater exchange rate flexibility and to rebuild reserves. They welcomed the authorities' intention to eliminate the exchange restriction and multiple currency practice arising from the imposition of a floor on cash margins for letters of credit and import credit before the end of 2007.

Directors underlined the importance of implementing structural reforms aimed at strengthening competitiveness, reducing poverty, and bolstering non-oil growth. In particular, they welcomed the authorities' plans to modernize the judicial system and simplify legal and administrative procedures to improve the climate for domestic and foreign investment. Directors looked forward to the completion of the draft PRSP in early 2008.

Directors considered that sustained economic growth will require deeper financial intermediation and, in this context, expressed concern about the deterioration in financial sector indicators. They stressed the importance of preparing a resolution/restructuring strategy for the state-owned Omdurman Bank based on the results of the forthcoming independent audit. Directors also called on the central bank to actively enforce prudential standards and ensure that banks comply with regulations on capitalization and provisioning.

Directors welcomed Sudan's record of cooperation on economic policies and payments to the Fund, and a number of Directors called for a further increase in repayments. A number of Directors urged the authorities to allocate their payments to cover the General Resources Account (GRA) charges as they arise, while recognizing Sudan's right to attribute such payments to overdue GRA principal. While acknowledging Sudan's considerable reconstruction and development needs, many Directors urged the authorities to minimize nonconcessional borrowing in view of Sudan's already unsustainable external debt burden and to avoid complications in a potential debt-relief operation. A number of Directors would have preferred a zero ceiling on nonconcessional borrowing in the SMP. Directors recalled that under the HIPC Initiative, all creditors will be expected to contribute to the restoration of debt sustainability.

Directors generally considered that the new SMP would serve as a valuable tool to support the reform momentum, and welcomed the program's measures to reduce the budget deficit, address critical weaknesses in public financial management, rebuild international reserves, and tackle difficult problems in the banking system. A number of Directors noted that the expected reliance on nonconcessional borrowing would not allow them to consider the SMP as constituting part of a satisfactory track record for HIPC or MDRI purposes. However, some other Directors felt that Sudan's performance under successive SMPs should be reflected in the timetable for arrears clearance, and called for a timely and clear road map in this respect.

It is expected that the next Article IV consultation with Sudan will be held on the standard 12-month cycle.