INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 09/01
FOR IMMEDIATE RELEASE
January 7, 2009

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2008 Article IV Consultation with Sudan

On November 26, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Sudan.[1]

Background

Economic growth in 2007 and in the first half of 2008 remained strong. Overall real GDP growth is projected to be 8½ percent in 2008 with non-oil growth at about 10 percent. A slight drop in oil output in 2008 was more than offset by the continued growth in the service sector, which has become the engine of growth in Sudan. Inflation meanwhile rose from 9 percent at end-2007 to 14 percent by end-September 2008, driven almost entirely by a rise in world food prices.

The fiscal position has improved, following difficulties in 2007 due to higher oil revenues and improved expenditure controls. Oil revenues were 1 percent higher than expected in the first half of 2008 mainly because of higher oil prices. Although non-oil revenues were relatively weak, cash expenditures (excluding on the fuel subsidy and on oil-related transfers to the South) remained within target limits despite clearance of arrears inherited from 2007. Overall, the 2008 fiscal deficit (on a cash basis) is expected to decline to 2.8 percent from 3.1 percent of GDP in 2007.

---

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Monetary growth is recovering following a sharp slowdown in 2007. This likely reflects the clearance of domestic arrears accumulated in 2007 which was the main source of slowdown in private sector credit and other monetary aggregates. Twelve-month reserve money and broad money are projected to increase by 21 percent and 20 percent, respectively, in 2008 compared to 12.8 percent and 10.3 percent in 2007. Credit to the private sector remains weak, however, reflecting lower demand and the time lag of arrears clearance on the economy.

The external current account improved in the first half of 2008, mostly because of higher oil exports receipts. Oil exports more than doubled in dollar terms reflecting a surge in oil prices in the first half of 2008. Non-oil exports, however, remained weak because of problems in sesame and livestock exports. Imports growth was also slow, reflecting a fall in imports of machinery and transport equipment mainly as a result of the credit squeeze caused by the accumulation of domestic arrears. The overall current account deficit is expected to be about 5 percent of GDP in 2008, compared with 11 percent in 2007. Higher oil prices and exchange rate flexibility facilitated a rise in net international reserves of the central bank to US$1.8 billion by end-August 2008. The Sudanese pound has depreciated by about 7 percent and 20 percent vis-à-vis the dollar and euro, respectively, since September 2007.

Important structural reforms were completed in 2007–08. Significant steps were taken to rein in tax exemptions, widen the tax base, and improve tax administration. Several key financial management reforms, including preparation of 2008 budget in Government Finance Statistics Manual 2001 format, were also implemented. The effective establishment of a centralized debt unit and the introduction of expenditure commitment controls were also recently executed.

Executive Board Assessment

Executive Directors welcomed Sudan’s overall satisfactory performance under the staff monitored program (SMP), notably the implementation of key structural reforms. Economic growth in both the oil and non-oil sectors has been strong, and macroeconomic stability generally has been maintained.

At the same time, Directors noted that Sudan continues to face large and complex challenges, which are exacerbated by the prospect of declining oil revenue and the global economic slowdown. Directors urged the authorities to maintain prudent macroeconomic policies and to accelerate fiscal and financial sector reforms so as to strike the right balance between lowering inflation and sustaining growth. They also stressed the important role of political and social stability and internal security in building confidence and fostering development.

Directors welcomed the improved fiscal performance in 2008, commending the authorities for the steps taken to widen the tax base, improve tax administration, and strengthen public financial management. They underlined the need to maintain a cautious fiscal stance in 2009 in the face of expenditure pressures and declining oil revenue. They called for a strong effort to improve the non-oil primary fiscal balance, including through an increase in non-oil revenue and restraint on non-priority spending. Directors observed that additional fiscal measures may be needed to achieve the agreed cash deficit target for 2009, and advised that contingency plans be developed for this purpose. They also encouraged the authorities to use the opportunity of declining oil prices to phase out subsidy schemes in favor of a targeted safety net, while recognizing the technical challenges involved.

While acknowledging Sudan's considerable reconstruction and development needs, most Directors urged the authorities to minimize or refrain from nonconcessional borrowing in view of Sudan's unsustainable external debt burden. They noted that this would also give a strong signal of Sudan's cooperative effort and avoid complications in the event of a future debt-relief operation. Directors acknowledged the authorities' effort to keep nonconcessional borrowing well below the allowed ceiling in the SMP.

Directors encouraged the authorities to continue to build on the progress made with fiscal reforms, which are crucial to improve the non-oil fiscal balance. Existing VAT exemptions should be streamlined, the personal income tax reformed, and key tax administration reforms expedited. Directors supported the re-orientation of spending toward the social sectors and infrastructure, and many Directors also encouraged stronger incentives for prudent financial management and increased revenue collection at the sub-national level. Directors noted that capacity and political constraints would call for careful prioritization of reforms.

Executive Directors welcomed the recent decline in inflation, while calling for a continued prudent monetary stance. They encouraged the authorities to monitor price developments closely, to improve coordination between the central bank and the finance ministry on the timing and amount of arrears clearance, and to adjust monetary policy and the pace of arrears clearance as needed to contain inflationary pressures. Directors supported the authorities' plans to develop indirect monetary instruments.

Directors noted that the real exchange rate appears broadly in equilibrium, although the real appreciation since 2005 may have contributed to the weak performance of non-oil exports. They emphasized the need to remove structural bottlenecks to competitiveness, and urged reforms to improve the business environment and boost productivity. Directors also recommended greater exchange rate flexibility to buffer the economy from external shocks and to protect reserves.

Directors noted that sustained economic growth and improved monetary control will require deeper financial intermediation. While they welcomed the improvement in financial soundness indicators in the first half of 2008, they expressed concern about financial sector vulnerabilities. They pressed for prompt action to resolve or restructure the state-owned Omdurman Bank based on the results of the recently completed audit. Directors also called on the central bank to actively enforce prudential standards and regulations.

Directors considered that the SMP has served as a valuable tool to support Sudan's reform momentum and maintain macroeconomic stability, and they welcomed the authorities' intention to negotiate a new SMP in 2009. Directors generally welcomed Sudan's record of cooperation on economic policies and payments to the Fund. At the same time, a number of Directors emphasized the importance of maintaining timely repayments to the Fund, and looked forward to a further increase in repayments. A few Directors also reiterated their call to allocate payments to charges falling due rather than to principal in arrears.

A number of Directors considered that the SMP meets the standard of upper credit tranche conditionality, except for the allowed level of non-concessional borrowing. A number of other Directors felt that Sudan's broadly satisfactory performance under the successive SMPs should be reflected in the timetable for arrears clearance. These Directors called for a timely road map for arrears clearance, while recognizing that this would require broad support from the international community.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Sudan: Selected Economic Indicators, 2003–08

	2003	2004	2005	2006	2007	2008 Proj.
Real Sector						
Real GDP growth (percent change)	7.1	5.1	6.3	11.3	10.2	8.5
GDP (in billions of dinars)	46,402	55,925	66,714	79,046	93,200	124,377
GDP (in millions of U.S. dollars)	17,780	21,685	27,386	36,401	46,228	62,189
GNP per capita	506	597	739	942	1,139	1,488
Inflation (in percent)						
Period average	7.7	8.4	8.5	7.2	8.0	16.0
End-of-period	8.3	7.3	5.6	15.7	8.8	12.0
Central government operations (in percent of GDP)						
Revenue and grants	16.0	19.7	23.0	21.0	20.7	22.8
Expenditure	15.3	18.2	25.4	25.2	26.1	24.4
Overall balance (commitment basis)	0.7	1.5	-2.8	-4.0	-3.1	-2.8
Monetary Indicators						
Reserve money (end-of-period growth rate, in percent)	26.6	27.8	34.9	27.8	12.8	19.8
Broad money (end-of-period growth rate, in percent)	30.3	32.1	44.7	27.4	10.3	21.0
Broad money velocity	6.6	5.7	4.7	3.9	4.2	4.6
External Sector						
Current account balance (including transfers)	-827	-815	-2,324	-4,903	-5,074	-3,244
In percent of GDP	-4.7	-3.8	-8.5	-13.5	-11.0	-5.2
External debt						
In billions of U.S. dollars	25.7	25.1	27.0	28.4	31.9	34.2
In percent of GDP	144.6	115.8	98.6	78.1	68.9	55.0
Net international reserves (in millions of U.S. dollars)	290	1,144	1,889	1,384	981	2,100
In months of next year's imports of goods and services	0.8	1.9	2.4	1.6	1.0	1.9

Sources: Sudanese authorities; and IMF staff estimates.