FOR AGENDA

EBS/13/90

June 26, 2013

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of South Sudan—Request for Disbursement Under the Rapid Credit Facility and Staff-Monitored Program**

Attached for consideration by the Executive Directors is a paper on the Republic of South Sudan's request for a disbursement under the Rapid Credit Facility and Staff-Monitored Program, which is tentatively scheduled for discussion on **Wednesday, July 10, 2013**. A draft decision appears on page 15. Unless an objection from the authorities of the Republic of South Sudan is received prior to the conclusion of the Board's consideration, the document will be published. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Gelbard (ext. 34418), Ms. Saxena (ext. 38728), and Mr. Issoufou (ext. 36341) in AFR.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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REPUBLIC OF SOUTH SUDAN

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND STAFF-MONITORED PROGRAM

June 25, 2013

Context. South Sudan is a fragile state with acute challenges but significant potential. A shutdown of oil production, volatile relations with Sudan, and internal tensions have diverted attention from the urgent task of consolidating institutions and jumpstarting development. The situation is expected to improve as oil production resumes, but financial challenges and risks remain and a concerted policy effort will be needed to ensure economic stability and secure support from donors and investors. To this end, the government has formulated a strong economic program for the fiscal year that begins in July 2013, which could set the basis for sustained growth and poverty reduction.

Support under the Rapid Credit Facility and Staff-Monitored Program. The slow resumption of oil production and maturing debt repayments pose a large financial burden in the second half of 2013. In this regard, the authorities are requesting a disbursement equivalent to SDR 30.75 million (25 percent of quota) to help fill an immediate fiscal and balance of payments gap. Following the South Sudan Economic Partners Forum in April 2013, the authorities expect that their commitment to a strong economic program will facilitate financial support from multilateral organizations, bilateral partners, and investors. The program, formulated in consultation with IMF staff, contains a set of key reforms and targets aimed at lowering inflation, unifying the foreign exchange market, implementing a balanced budget to foster internal stability and support development, rebuilding depleted buffers, and improving public financial management.

Key policies and program measures. The agreed fiscal targets are aligned with the 2013/14 budget submitted to Parliament, and the monetary and reserve accumulation targets pursue the goal to bring inflation down toward single-digit levels and to maintain a realistic exchange rate. The key measures under the program comprise improving the management of foreign exchange reserves through major foreign central banks, eliminating foreign exchange rationing and setting up an efficient system to allocate foreign exchange, publishing oil, fiscal and central bank data, preparing a plan for the clearance of domestic arrears, and moving toward a single treasury account.

Capacity building. Technical support and training from the IMF have intensified during the past few months and have been aligned with the policies and measures envisaged in the program. This support is being coordinated with other stakeholders and primarily delivered through the donor-funded capacity building program for South Sudan that was set up in 2012.

Approved By
Roger Nord (AFR) and Ranil Salgado (SPR)

Discussions were held in Juba during October 24-November 7, 2012, and in Washington D.C. during April 22-30, 2013. The mission comprised Mr. Gelbard (head), Ms. Saxena, Mr. Pani, Mr. Issoufou (all AFR); Mr. Rafiq (FAD); and Mr. Majewski (FIN). Mr. Karangwa, resident representative, participated in the discussions and assisted the mission. The mission met with Finance Minister Manibe Ngai, Deputy Ministers of Finance Awou Yol and Jervas Yak, Bank of South Sudan governor Koriom Mayik, Deputy Governors Dor Majok and Wani, Minister of Petroleum Stephen Dhieu Dau, Presidential Advisor on Economic Affairs Tisa Sabuni, other officials, and representatives of the donor community, civil society, and the financial sector.

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CONTEXT

1. **After a troubled history, South Sudan became an independent country in 2011.** Decades of civil conflict between North and South Sudan ended with a peace agreement in 2005 that granted the South autonomy and the right to a referendum on secession, after which South Sudan became an independent state on July 9, 2011. Under the peace agreement and until independence, oil proceeds were equally shared between the central government in Khartoum and the regional government of South Sudan—where three-fourths of former Sudan's oil production was located.

2. **Following independence, unresolved issues with Sudan reignited tensions.** Disagreements with Sudan over oil transit fees (the infrastructure to export oil is within Sudan's territory) prompted South Sudan to suspend oil production in January 2012. Prior to the shutdown, South Sudan's oil production was about 330,000 barrels per day and accounted for more than 95 percent of government revenue and export receipts.[1] During 2012, border tensions and mistrust led to an unstable security situation.

3. **A recent agreement with Sudan paved the way for resuming oil production in April 2013.** The agreement, signed in September 2012, stipulates that South Sudan would pay oil transit fees of about US$10 per barrel plus US$3 billion in transfers to Sudan over three years.[2] The agreement also contains provisions for a demilitarized zone, mutual forgiveness of bilateral claims, and regularization of cross-border and pension payments.[3] While some progress has already been made in these areas, continued commitment to implement the agreement and to settle outstanding border issues will be critical for regional stability and development.

4. **Beyond its dependence on oil production, South Sudan is a fragile state with enormous challenges.** Most social and human development indicators are below sub-Saharan African averages, the economy is severely underdeveloped, institutions are still nascent and governance concerns abound, critical road and energy infrastructures are lacking, and a legacy of

Republic of South Sudan: Selected Social Indicators [1]

	South Sudan	Sub-Saharan Africa
GNI per capita (US$, 2012 data)	1,117	...
Share of the population below the poverty line (%)	51	48
Infant mortality rate (per 1,000 live birth)	84	71
Literacy rate (age 15+, %)	27	63
Access to improved drinking water (% of population)	55	61
Access to electricity (% of population)	1	32
Paved roads (% of primary network)	2	16

Source: World Bank World Development Indicators; South Sudan Authorities; and IMF staff estimates.

[1] Data for 2009-2010, except for the poverty figue for Sub-Saharan Africa which reflects the weighted average of 2003-2011 data.

[1] Proven oil reserves are estimated at 1.2 billion barrels, although observers anticipate that a new review will likely reveal a much higher figure. South Sudan is also planning to build alternative pipelines (preliminary understandings have been reached with Kenya, Ethiopia, and Djibouti), a project that could take 2-3 years to be completed.

[2] The transfers will be linked to the flow of oil production at the rate of US$15 per barrel.

[3] Under the agreement on "Certain Economic Matters" of September 27, 2012 between Sudan and South Sudan, Sudan committed to assume all external debt of former Sudan subject to securing "firm commitment" of international creditors for debt relief, i.e. Sudan's reaching the HIPC decision point no later than two years from entry into force of the agreement or such later date as agreed by the two states (the "zero option"). In case of failure of the "zero option," the parties agreed that they would enter into good-faith negotiations on how to apportion the debt.

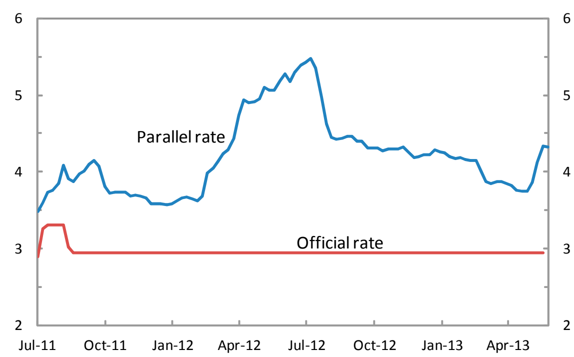
internal ethnic conflicts and tensions with Sudan are sources of fragility. Violence in some regions of Sudan and South Sudan in 2012 produced an inflow of refugees, an internal displacement of civilians, and a humanitarian crisis in border areas, while the economic crisis led to increased crime and bribery in urban areas. The situation has been fragile as evidenced by recent violence in Jonglei (South Sudan's largest and most underdeveloped state) and in some Sudanese states bordering South Sudan amidst allegations by each country that the other supports rebels within its territory.

5. **Economic development will require peace, proper policies and good governance.** In the period ahead, and aside from the importance of alleviating internal tensions and securing good relations with Sudan, it will be critical to strengthen key institutions such as the Ministry of Finance and the central bank and ensure transparency and accountability in oil operations and public financial management. Over time, key investments in transportation, energy, and agricultural development need to be undertaken with support from donors, multilateral institutions, and investors. Progress in these areas will set the conditions for the demobilization of former combatants, a reform of public administration, the diversification of the economy, and a well-managed exploitation of abundant natural resources.

ECONOMIC DEVELOPMENTS AND OUTLOOK

6. **In the first six months after independence, expansionary policies and foreign exchange rationing led to inflation and a parallel exchange rate.** The increase in oil revenue, as the oil sharing agreement with Sudan expired upon independence, spurred an increase in public spending. At the same time, the new currency, introduced in July 2011,[4] was pegged to the U.S. dollar, and the central bank began limiting its sales of foreign exchange to the official market (where it was the main supplier) provoking the emergence of a parallel market. These policies triggered an increase in money supply, a parallel market premium of 20–40 percent, and an increase in average inflation to nearly 50 percent by end-2011.[5]

Official and Parallel Market Exchange Rates
(South Sudanese pounds per U.S. dollar)



Source: South Sudanese authorities; and IMF staff estimates and projections.

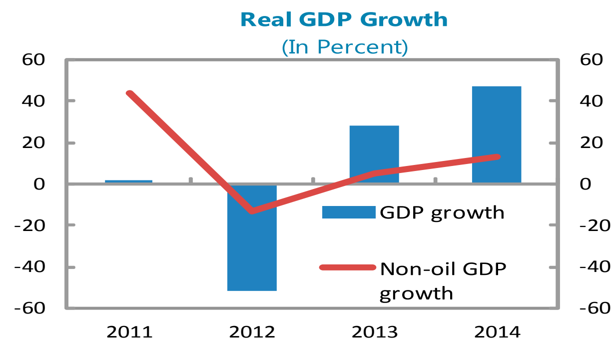
7. **The shutdown of oil production deprived the budget of revenue and put additional pressure on the exchange rate and prices.** The loss of oil revenue led to a further expansion in the money supply as public expenditure could only be paid by reducing government deposits. As a result, inflation rose to about 60 percent in June 2012, while the parallel market exchange rate

[4] The authorities originally planned to conduct foreign exchange auctions for a few months and move to fixed rate thereafter (the law stipulates a fixed exchange rate regime). In September 2011, however, the authorities decided to peg the exchange rate at 2.95 South Sudanese pounds per U.S. dollar.

[5] Data limitations and volatile food prices make the end-of-period data less informative.

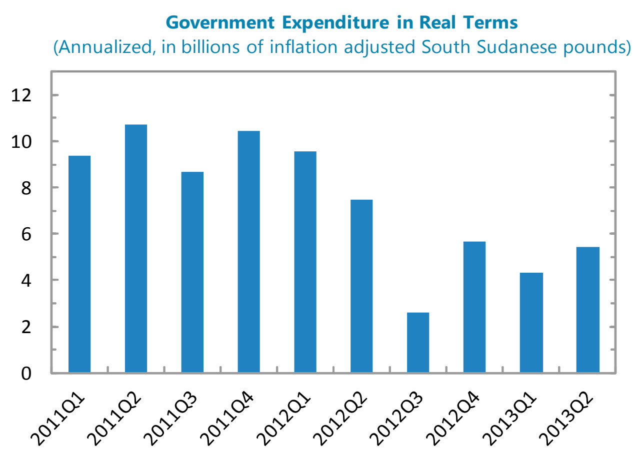
premium rose to over 70 percent as the central bank tightened its rationing of foreign exchange in order to slow down the erosion of its foreign reserves.[6]

8. **In 2012, the economy contracted and public debt rose.** Lower domestic demand, shortages of goods, and declining real wages led to a contraction of economic activity and living standards. In 2012, real GDP is estimated to have declined by about 50 percent; a similar but less abrupt decline is estimated for non-oil GDP.[7] Since April 2012, government spending was cut by about 40 percent in real terms, government deposits and external reserves were virtually depleted, domestic arrears were incurred, and the government had to borrow about US$1.5 billion from domestic commercial banks and oil companies.[8]

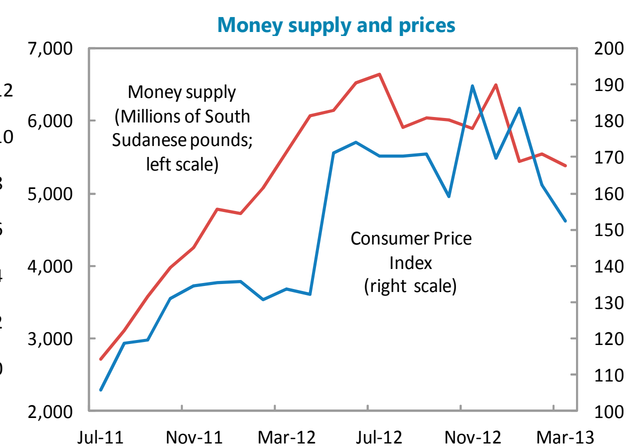


Source: South Sudanese authorities; and IMF staff estimates and projections.

9. **Prudent financial policies averted hyperinflation.** Fiscal restraint, together with restrictions on central bank financing to the government, helped prevent an inflation-depreciation spiral. At the same time, the announcement of the agreement with Sudan in August 2012 calmed



Source: South Sudanese authorities; and IMF staff estimates and projections.



Source: South Sudanese authorities; and IMF staff estimates and projections.

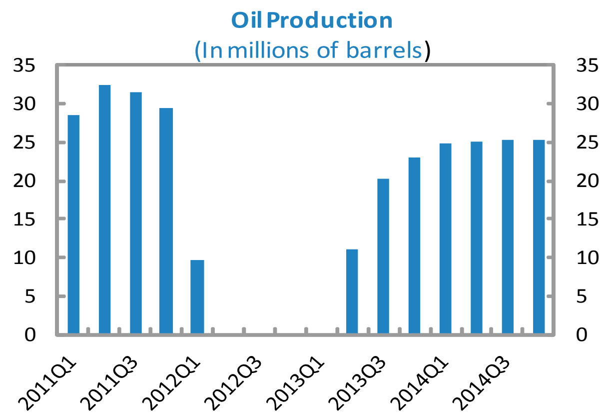
[6] The controls included fixed allocations to banks and exchange bureaus, changes in procedures for acquisition of foreign exchange to travelers and transfers to neighboring countries, and regulations to allocate foreign exchange to essential imports (food, medicines, and fuel).

[7] Except for oil production, there is no data on GDP by type of activity, and data compiled by expenditure are not accurate. Agriculture is subsistence-based and there is some production of fruits and timber. However, industrial activities are insignificant and most domestic consumption is satisfied through imports for the market.

[8] At end-May 2013, net foreign assets of the central bank fell to US$0.4 billion (from about US$2 billion in January 2012), less than 1 month of imports of goods and services, while government debt (excluding domestic arrears and borrowing from the central bank) reached US$1.5 billion (13 percent of GDP), of which about US$1 billion were short-term obligations secured through oil companies or collateralized with oil receipts, US$350 million was borrowed from commercial banks in the form of one-year Treasury bills in domestic currency, and the remaining was related to a project loan for the Juba airport.

down expectations and contributed to the narrowing of the parallel market spread. Inflation slowed down as monetary conditions tightened after June 2012, with prices falling in recent month and average inflation reaching 30 percent in May 2013.

10. **Economic activity is expected to rebound in 2013, but the financial situation will remain challenging.** With the resumption of oil production, real GDP is expected to increase sharply in 2013 and 2014, while the non-oil economy is also expected to recover (Table 1). However, oil production is subject to various risks, especially related to the implementation of the cooperation agreement with Sudan. The baseline scenario projects that oil output resumes gradually and reaches only about 80 percent of the pre-shutdown level in early 2014.[9] Furthermore, the financial recovery will be burdened by sizable oil payments to Sudan, maturing domestic and external debt obligations, the urgency of increasing public spending to contain internal tensions and jumpstart development, and the need to rebuild fiscal and external reserves in light of the country's fragility and the risks ahead.



Source: South Sudanese authorities; and IMF staff estimates and projections.

ECONOMIC POLICIES FOR 2013/14

11. In consultation with Fund staff, the authorities have prepared an economic program for the fiscal year that begins in July 2013 together with a request for support under the Rapid Credit Facility. The program is described in the attached Memorandum of Economic and Financial Policies (MEFP). The discussions centered on managing the recovery after oil production resumes while moving forward with critical reforms that could attract support from bilateral and multilateral partners and private investment.

12. **Program goals.** The authorities agreed to focus on achieving economic stability and implementing a number of meaningful reforms to set the basis for a strong economic recovery and strengthen key economic institutions. To this end, the main goals of the program are to:

- Reduce inflation to about 15 percent or less in FY 2013/14;
- Remove restrictive measures in the foreign exchange market and unify the exchange rate;

[9] The recovery of oil output could also be constrained by possible damage to the oilfields caused by hurried closure and bombings at the border in 2012.

- Increase resilience to shocks by gradually rebuilding fiscal and external buffers;
- Implement a prudent and well-managed fiscal policy that, while maintaining internal peace and security, would facilitate implementation of social policies and support poverty alleviation; and
- Improve transparency and controls in the management of foreign reserves, public expenditures, and oil and central bank operations in line with IMF and other international standards.

A. Fiscal Policy

13. Fiscal policy will aim at expanding public expenditure in priority areas in the second half of the fiscal year while restoring depleted buffers and ensuring economic stability. Although the resumption of oil production will boost revenue, maturing debt obligations and the urgency of rebuilding reserves to enhance resilience to shocks poses significant demands on public finances. This leaves limited space to recover from the recent large decline in government spending. Within these constraints, maintaining a prudent fiscal policy and financing of the deficit with external grants and loans will be critical to ensure a stable economic environment. Should oil receipts be significantly lower than expected, the authorities are committed to revise spending plans and the policy framework in consultation with Fund staff.

14. **Budget for 2013/14.** The authorities have decided to maintain expenditure at the FY2012/13 levels for the first part of the new fiscal year until oil production has firmly recovered and reserve buffers are somewhat replenished. In the second half of the fiscal year, the budget envisages a partial reversal of the large spending cuts in FY2012/13 (Tables 2a and 2b). The composition of spending in the second half of the year reflects the urgency to maintain internal peace (through slightly higher wages for civil servants and security outlays) and to pursue social and development objectives (through higher spending on health, education, and infrastructure) (MEFP, ¶17-19).[10] Finally, the budget has a provision of up to SSP 1 billion for the possible repayment of domestic arrears.

Selected Fiscal Indicators
(Inflation adjusted, billions of South Sudanese pounds of 2011/12)

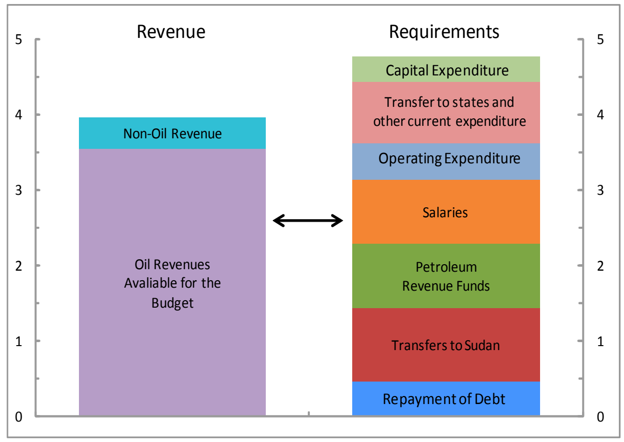
	2011/12	2012/13	2013/14
Revenue and grants	11.6	3.1	14.1
of which: non-oil revenues	0.5	0.7	1.1
Expenditure[1]	10.6	5.5	10.1
of which : Transfers to Sudan	-	-	2.9
Wages	3.8	2.4	2.7
Social spending	0.8	0.6	0.8
Capital expenditure (domestically financed)	1.8	0.4	1.0
Expenditure excluding transfers to Sudan[1]	10.6	5.5	7.2

Source: South Sudanese authorities; and IMF staff estimates and projections.
[1] Excluding off-budget grant-financed public spending.

[10] The submission of the agreed budget to the National Assembly is a prior action for the program (MFEP, ¶17-18, and Table 2). It entails a spending envelope (excluding off-budget grants, payments to Sudan, and oil transfers to States) of up to SSP9.2 billion and higher levels of social and infrastructure spending.

15. **Financing.** While mobilizing support to address financing constraints, the authorities are requesting additional assistance from donors to expand development spending. At a conference in Washington D.C.in April 2013, key bilateral and multilateral stakeholders reaffirmed their commitment to support South Sudan in its stabilization and development efforts, signaling that the implementation of an IMF-supported program would facilitate the scaling up of their financial assistance. Beyond the support from the Rapid Credit Facility, the authorities expect additional support from the World Bank, the African Development Bank, the European Union, and other bilateral donors.[11] Reliance on grant financing, however, will not be sufficient to meet the fiscal requirements associated with the projected gradual increase in fiscal spending in 2013/14, maturing debt obligations, and the need to rebuild financial buffers. Additional net external disbursements of about US$0.5 billion will, therefore, be necessary to support the budget and investment projects.[12]

Fiscal Envelope in FY2013/14
(In Bilions of U.S. Dollars)



Source: South Sudanese authorities; and IMF staff estimates and projections.

16. **Public expenditure reforms.** The authorities are implementing a public financial management action plan aimed at improving budget processes and fostering transparency and accountability, consistent with IMF recommendations. In the past year, the treasury has enforced more effective monthly spending controls at all stages of the budget execution process and has begun preparing quarterly budget execution reports. In the period ahead, the authorities are committed to enforce spending limits, carry out an inventory of domestic arrears and formulate a strategy for their clearance, and prepare a plan to rationalize multiple government accounts and move towards a single treasury account (MEFP, ¶20).

17. **Non-oil revenue mobilization.** Non-oil revenue increased significantly in FY 2012/13 from a low base and despite an underdeveloped tax collection system. A significant potential for raising domestic revenue can be mobilized in coming months through a prompt passage of a Customs Law, improvements at two strategic customs posts, and a strengthening of revenue administration.[13]

[11] In addition to the disbursement from the Fund, the authorities expect budget support of up to US$25 million from the World Bank, US$10 million from the African Development Bank, US$65 million from the European Union, and up to US$100 million from a donors' pooled fund. Total foreign aid to South Sudan is expected to reach US$1.4 billion (8 percent of GDP) in FY2013/14.

[12] The authorities are seeking loans for budget support with the highest level of concessionality, at better terms compared to recent borrowing at about 3 percent. Net external borrowing for this purpose is projected at US$0.5 billion (given repayments estimated at US$1 billion). In addition, a project loan (already signed) for the construction of the Juba airport (already contracted in early 2013) is expected to disburse an additional US$50 million during FY2013/14.

[13] Lack of customs legislation led to partial and ad-hoc collection of import duties at several check points based on Sudan's tariff rates. The upcoming customs legislation will raise average tariff rates for finished goods and set up the basis for a one-stop window for importers.

Regarding the latter, the authorities are committed to broaden the taxpayer register and strengthening the large taxpayers' unit (MEFP, ¶21).[14] In addition, the authorities are expected to streamline tax exemptions currently estimated at 1.5 times the current level of non-oil revenues.

B. Monetary and Exchange Rate Policy

18. Monetary policy will aim at maintaining a fixed and sustainable exchange rate as mandated by the central bank law and eliminating rationing of foreign exchange that encourages rent-seeking behavior and generates distortions.

19. **Monetary policy.** Given the lack of monetary instruments[15] and the prospects of higher flows of oil revenue, the Bank of South Sudan will need to stand ready to mop up excess liquidity by selling foreign exchange and, jointly with the Ministry of Finance and Economic Planning, monitor the government's liquidity position and its financing needs.[16] Consistent with the fiscal program, the monetary program envisages a gradual increase in monetary aggregates and a buildup of government deposits and foreign reserves (Tables 3-5).

20. **Exchange rate policy.** The authorities are planning to unify the exchange rate by end-August 2013, [17] implement a new system for allocating foreign exchange, and set up the basis for an interbank foreign exchange market. The central bank is committed to introduce a weekly two-way auction system where banks will be able to buy and sell foreign currency (on behalf of their clients and foreign exchange bureaus) in line with South Sudan's fixed exchange rate system (MEFP, ¶22-23).[18] The Bank of South Sudan may sell foreign exchange to accommodate excess demand or buy to absorb an excess supply at the fixed exchange rate.

C. Transparency and Accountability

21. The authorities agreed on the need to focus on a streamlined structural reform agenda with key reforms aimed at improving governance and efficiency in the management of public resources and strengthening key economic institutions.

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[14] This involves more resources for the large taxpayers' unit, including key large firms, improving the design of tax forms, investing in taxpayer education, improving controls, and moving away from cash payments to the direct payment of taxes through the banking system.

[15] At the current stage, central bank organization and management of foreign exchange reserves are considered a priority over developing monetary instruments.

[16] The excess liquidity arises primarily as a result of the execution of the government budget.

[17] The authorities recognize the importance of unifying the exchange rate and the timing chosen reflects the time required to set up a new allocation system as well as the authorities' concern that the currency will have no anchor unless the flow of foreign exchange receipts is restored.

[18] Given the persistent gap between the official and the parallel market exchange rate, it is likely that the official exchange rate will be devalued to converge to the parallel market rate. In this context, the mission noted the critical importance of implementing a communication strategy and avoiding a timid adjustment in the official rate that could undermine confidence and trigger speculation about subsequent devaluations. The program projections reflect the implications of the presumed adjustment of the exchange rate.

22. **Foreign reserves.** To safeguard foreign reserves and improve transparency, the central bank and the Ministry of Finance and Economic Planning have closed most accounts at lower-rated foreign commercial banks and opened new accounts at major foreign central banks and at the Bank for International Settlements. The authorities have also committed to channel official foreign exchange proceeds through these new accounts and to implement recently adopted investment guidelines and a memorandum of understanding signed between the Ministry of Finance and Economic Planning and the Bank of South Sudan for managing foreign assets in line with international best practice (MEFP, ¶26-27).

23. **Oil sector operations.** The authorities have taken steps that could ensure an efficient and transparent management of oil resources. Complementing the earlier passage of the Petroleum Act that sets a legal framework for the oil sector, Parliament is expected to pass this month (prior action) a Petroleum Revenue Management Act that contains, inter alia, provisions for allocating oil revenues to the budget (including a fiscal rule), for the management of two reserve funds, and for the disclosure of oil revenue data (Box 1). Taken together, the publication requirements of the above legislation (to which the authorities are committed) are more comprehensive than those required under the Extractive Industries Transparency Initiative (MEFP, ¶27).[19]

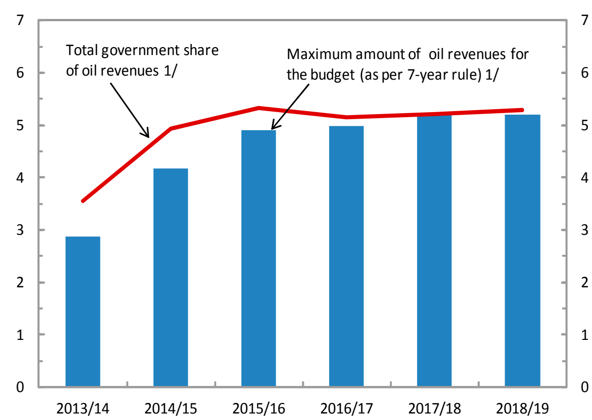
Box 1. South Sudan: Petroleum Revenue Management Act

The Petroleum Revenue Management Act aims at ensuring a transparent and efficient management of the oil wealth and at preventing wasteful spending before the necessary improvements in absorption capacity and public financial management are introduced.

The act enshrines the provisions of South Sudan's provisional constitution to establish two reserve funds: an Oil Revenue Stabilization Account (ORSA) to shelter public expenditure from unexpected fluctuations in oil revenues and a Future Generation Fund (FGF) that accumulates savings for future investment spending. The rationale for the FGF is that the projected profile for oil revenues anticipates a sizable amount of oil revenues that could be available within a short period of time, even though such amount cannot possibly be efficiently invested within the same timeframe.

In the short term, the act will limit the amount of revenue available to finance the budget through an oil price rule. The rule sets a maximum amount of revenues available for the annual budget based on average oil prices for the previous seven years. The design of the rule has been calibrated to leave, under plausible assumptions, enough oil revenue to finance higher levels of government spending and quickly bring the balance of the ORSA up to six months of government spending, followed by a subsequent accumulation of savings in the FGF.

South Sudan: Oil Revenues
(In billions of U.S. dollars)



Source: South Sudanese authorities; and IMF staff estimates and projections.
[1] Including amounts due to Sudan (as per 3-year agreement) and to oil producing states.

[19] The authorities have stated their intention to join the EITI and take steps to make South Sudan an EITI candidate.

24. **Central bank and anti-money laundering framework.** As a new central bank with significant capacity constraints, the Bank of South Sudan faces enormous challenges. In addition to recent work to improve its balance sheet and safeguards (see below), the authorities are committed to publish monetary and banking data, carry out the first external audit of the central bank, publish the 2012 financial statements, undergo a safeguards assessment, and embark on organizational reforms and improvements in management and in staff capacity. Lastly, the authorities have recently introduced new anti-money laundering and combating of financing of terrorism legislation (MEFP, ¶28).

25. **Budget execution reporting.** The authorities are committed to compile monthly fiscal data and publish quarterly budget execution reports that provide a comparison of outturns with budget estimates and financing information (MEFP, ¶29). The reporting of this information adheres to the recently adopted Public Financial Management and Accountability Act, which sets the basis for an effective budget execution system.

PROGRAM ISSUES, CAPACITY BUILDING, AND RISKS

26. **Rapid Credit Facility.** The authorities are requesting a disbursement from the IMF equivalent to 25 percent of quota (SDR 30.75 million) in connection with the urgent but temporary balance of payments need and fiscal financing gap resulting from the lack of oil revenue. The authorities have implemented one prior action—on the reconciliation of central bank accounts—and expect to implement two more—on the size and composition of the budget and petroleum revenue management legislation in coming days (MEFP ¶17, 18, and ¶26; and Technical Memorandum of Understanding¶4-6). They have also committed to implement the agreed economic program for 2013/14.

27. **Monitoring.** The implementation of the Staff-Monitored Program will be assessed through two reviews based on quantitative targets for end-December 2013 and end-June 2014 and selected structural benchmarks (MEFP, ¶30-32, and MEFP, Tables 1 and 2). The targets and measures under the program are defined in the attached Technical Memorandum of Understanding (TMU).

28. **Capacity building.** IMF technical assistance has been aligned with the program's objectives and coordinated with other technical assistance providers. The Fund has deployed six long-term advisors and has been providing technical assistance and training in selected areas (Box 2). These activities are being financed primarily by the donor-funded trust fund for capacity building set up by the IMF Executive Board in 2012.

29. **Safeguards.** Based on a roadmap prepared by staff to facilitate completion of a future safeguards assessment, the central bank has set up a process to ensure the reliability of its balance sheet and has finalized (prior action) the reconciliation of most of its foreign currency accounts with the statements of its correspondent banks and of its manual and internal records with its automated accounting system. In addition, the Ministry of Finance and Economic Planning has recently recapitalized the central bank (following the writing-off of claims on Sudan cancelled by the bilateral

agreements signed in September 2012) by issuing debt securities.[20] Furthermore, the central bank is committed to take steps to improve its governance, internal audit function, management of foreign exchange reserves, autonomy of its legal staff, and to undergo a formal safeguards assessment in the context of the RCF (MEFP, ¶27).

Box 2. Capacity Building in South Sudan

Background. Capacity building is a key component of the assistance South Sudan receives from the international community. Since 2005, Norway, USAID, DfID, the World Bank, the African Development Bank, and various European donors have provided support on petroleum issues, statistics, macroeconomic analysis, public financial management, and basic central bank functions. After independence, the Fund coordinated with existing providers the areas that it would cover and delivery modalities to ensure a harmonized and integrated approach.

IMF support. Given the amount of assistance needed from the Fund, a three-year dedicated Multi-Donor Trust Fund with a budget of USD10 million was set up in 2012 to support IMF capacity building. The trust fund is guided by a Steering Committee comprising the authorities, donors, and IMF staff and operates under a results-based management framework.

Areas Covered. The IMF capacity building program has five goals: (i) developing an integrated macroeconomic framework; (ii) setting up a fully functional central bank; (iii) modernizing tax and customs policy and administration; (iv) strengthening public financial management; and (v) building capacity for the production and dissemination of macroeconomic data. About 50 percent of the assistance comprises monetary and central banking issues, with the rest being applied to the other areas.

Delivery of assistance. The IMF assistance is delivered through short-term and long-term advisors, headquarters' missions, and training depending on regular assessments of needs together with the type of support provided by other development partners. At present, there are six long-term advisors on the macroeconomic framework, foreign reserves' management, central bank organization, central bank accounting, banking supervision, and monetary and financial statistics. Short-term advisors and headquarters missions cover foreign exchange market operations, public financial management, non-oil revenue administration, anti-money laundering and fiscal and balance of payments statistics. All activities include training components, and additional training is being provided through dedicated courses (e.g. financial programming and planning).

30. **Foreign debt.** At present, South Sudan's external debt is small and the authorities have reported no external arrears. Additional foreign debt is expected to be contracted this year to support the budget and an investment project in the health sector (MEFP, ¶19 and MEFP, Table 1).[21] Consistent with staff advice, the authorities have so far followed a prudent debt management strategy and stated their intention to rely as much as possible on grants and concessional borrowing and increase transparency with respect to external debt operations. Medium-term projections for

[20] The recapitalization of the central bank involved the issuance of a 7-year bond for the equivalent of US$650 million to cover the losses incurred from the cancellation of claims on Sudan in line with the cooperation agreements between the two countries.

[21] The new debt to be contracted refers to the budget loans mentioned in footnote 12 and an additional loan expected to be signed for the health sector.

debt service obligations to the Fund suggest that they will remain negligible at less than 0.1 percent of exports of goods and services (Table 6).

31. **Risks.** There are two key risks to the program, namely: (i) oil revenue shortfalls arising from technical setbacks in rehabilitating the oil infrastructure, tensions in border areas or areas with rebel activity, or problems with the implementation of the agreements with Sudan; and (ii) actions by vested interests that may be opposed to the envisaged reforms. The first risk is mitigated by Sudan and South Sudan's economic interests and by the active engagement of the international community, while the second could be contained by continued support from reformers within and outside the government and increased economic transparency as outlined in the program goals, the Petroleum Revenue Management Act, and the publication of Fund staff papers attached to program reviews.[22]

STAFF APPRAISAL

32. South Sudan is a fragile state with huge development needs. Despite significant challenges and setbacks after independence, the authorities have made progress to establish the institutions and rules for sovereign economic policy making, including through the Petroleum Act, the Petroleum Revenue Management Act, and the Public Financial Management Act. The authorities have also taken steps to instill budget discipline, establish budget reporting, improve accounting at the central bank, and strengthen the management of foreign reserves. In addition, prudent fiscal and monetary policies since May 2012 helped prevent an inflation-devaluation spiral that could have led to the demise of the local currency and a larger contraction of the non-oil economy.

33. As oil production resumes, the authorities will have the opportunity to begin addressing the country's urgent needs and set the stage for development. This will require managing public resources in a transparent and accountable manner, providing essential public services, strengthening key institutions, and upholding the rule of law. Progress in these areas will facilitate higher levels of support from multilateral institutions, bilateral partners, and investors. An additional near-term challenge will be to strike the right balance between increasing public spending and restoring depleted reserve buffers.

34. The economic program for 2013/14 is set within this framework. It entails an integrated set of fiscal and monetary policies and critical reforms that could ensure economic stability, establish a track record of good economic management, and set the basis for a recovery of the economy and sustained growth and poverty reduction.

35. The authorities' fiscal policy aims at lowering inflation and supporting the fixed exchange rate system while preserving social stability and attending development priorities. In light of the

[22] A third possible risk arises if, following the expiration of the "zero option", South Sudan agrees to assume part of Sudan's debt and this new debt makes South Sudan's debt unsustainable (see footnote 3). If this situation were to materialize, staff has sought assurances from Sudan's main official bilateral creditors that they would respect the Fund's preferred creditor status with respect to the amounts provided under the RCF.

fiscal risks, staff concurs with the authorities' plans to contain spending until oil production has firmly recovered and reserve buffers have been sufficiently rebuilt and to discuss an alternative fiscal program in case of a major shortfall in oil revenue. Staff also supports the envisaged partial recovery of wages that have been eroded by inflation and higher spending on education, health, and public infrastructure in the second half of the fiscal year.

36. The financing outlook will require the authorities to incur additional foreign debt in 2013/14. In this regard, the staff urges the authorities to seek support through grants and concessional loans and to limit recourse to non-concessional and oil-collateralized borrowing. The staff also notes the authorities' intention to seek Parliamentary approval for future debt obligations and ensure the public disclosure of these loans.

37. The success of the fiscal program will depend on enforcing the planned monthly budget allocations and preventing extra-budgetary spending. In addition, priority should be given to the timely preparation of an inventory of domestic arrears and to the rationalization of multiple government accounts in the domestic banking system. Lastly, the authorities should proceed with actions to mobilize non-oil revenue, in particular through the early passage of customs legislation and the strengthening of operations of the large taxpayers' unit.

38. To improve efficiency in the allocation of foreign exchange and ensure economic stability, distortions in the foreign exchange market need to be removed by unifying the exchange rate and adopting a market-based allocation system for foreign exchange which would lay the foundations for an interbank market. These reforms would remove price distortions and rent-seeking losses and stop the transfer of resources from the government to those with access to foreign exchange at the official rate.

39. Improving transparency and accountability in the management of foreign reserves, mineral resources, and central bank operations will be critical to ensure that South Sudan's wealth is used for development and to attract sound investment. Delays in this area could lead to malpractices and waste and pose a threat to stability. In particular, the authorities need to implement the Petroleum Reserve Management Act and the Public Financial Management and Accountability Act, strengthen the central bank's operational capacity, and disseminate oil, fiscal, and financial data as envisaged under their program.

40. Despite significant risks linked to weak institutional capacity, volatile relations with Sudan, and the fragile environment, IMF engagement can assist South Sudan at a critical juncture by lending support to key reforms and by assisting the country to develop its economic management capacity. Satisfactory performance under the SMP would also pave the way for possible support under the Extended Credit Facility (ECF).

41. Based on the urgent balance of payments need, the implementation of the prior actions, and the strength of the program for FY 2013/14, staff supports the authorities' request for assistance under the RCF equivalent to 25 percent of the quota and their request to staff to monitor their economic program.

Proposed Decision

Republic of South Sudan – Request for Disbursement Under the Rapid Credit Facility

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. The Republic of South Sudan has requested a loan disbursement in an amount equivalent to SDR 30.75 million (25 percent of the quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.

2. The Fund notes the intentions of the Republic of South Sudan as set forth in the letter from the Minister of Finance and Economic Planning and the Governor of the Bank of South Sudan dated June 24, 2013, (the "June 2013 Letter") and its attachments, and approves the disbursement in accordance with the request on the condition that the information provided by the Republic of South Sudan on the implementation of the measures specified as prior actions in Table 2 of the Memorandum of Economic and Financial Policies, attached to the June 2013 Letter, is accurate.

Table 1. South Sudan: Selected Economic Indicators, 2011–14

(In percent of GDP, unless otherwise specified)

	2011/12 Act.	2012/13 Est.	2013/14 Proj.
Nominal GDP (billions of South Sudanese Pounds)	45.6	31.2	63.5
Real GDP (percent change)	-23.2	-40.1	82.7
Oil	-49.3	-100.0	…
Non-oil	10.3	-4.6	6.7
Inflation (percent change, end-of-period)	74.1	-2.1	6.5
Inflation (percent change, average)	59.2	23.7	9.5
Central government budget			
Total Revenues and Grants	25.5	12.4	30.1
Of which: Oil	21.9	1.2	22.4
Expenditures	25.7	29.7	26.7
Current	20.9	26.0	23.5
Of which: transfers and oil service payments to Sudan	…	0.0	6.1
Capital	4.8	3.7	3.2
Overall balance	-0.2	-17.3	1.8
Money and credit			
Broad money	…	-13.0	13.3
Reserve money	…	-36.7	4.5
Credit to the private sector	…	72.5	86.6
External Sector			
Current account balance	10.6	-19.4	4.7
External debt	…	10.4	9.2
Memorandum Items:			
Population (millions)	10.1	10.5	10.7
Oil production (millions of barrels)	70.5	0.0	87.5
South Sudan's oil price (U.S dollars per barrel)	96.4	91.3	89.7
Net foreign assets of the central bank (in months of imports)	5.1	1.0	2.7
Nominal GDP (percent change)	2.7	-31.4	103.4

Source: South Sudanese authorities; and IMF staff estimates and projections.

Table 2a. South Sudan: Fiscal Operations of the Central Government, 2011–14

(In billions of South Sudanese pounds)

	2011/12 Actual	2012/13 Budget	2012/13 Est.	2013/14 Prog.
Total Revenue and Grants	11.6	2.9	3.9	19.1
Oil Revenue	10.0	0.0	0.4	14.2
Non-Oil Tax Revenue	0.5	0.7	0.9	1.5
Other GoSS Revenue	0.0	0.1	0.1	0.1
Off-budget grants	1.2	2.1	2.5	3.3
Total expenditure	11.7	8.5	9.3	17.0
Current expenditure	9.5	7.6	8.1	15.0
Salaries	3.8	2.9	3.0	3.6
Operating expenses	2.7	1.3	1.4	1.7
Interest	0.0	0.0	0.0	0.2
Other expenses	3.1	3.3	3.7	5.6
Transfers to states	2.3	1.7	2.0	2.9
Conditional transfers to states				1.4
Capital transfers to states				0.0
Unconditional transfers to states				1.0
Transfers to oil producing states and communities (5%)				0.6
Off-budget grant-financed current spending	0.8	1.6	1.8	2.7
Transfers and oil service payments to Sudan	…	0.0	0.0	3.9
Net acquistition of Non-Financial Assets	2.2	0.9	1.2	2.0
On-budget financing	1.8	0.4	0.5	1.4
Off-budget grant-financed capital spending	0.3	0.5	0.7	0.6
Overall balance (net lending/borrowing)	-0.1	-5.6	-5.4	2.2
Statistical discrepancy	1.7	0.0	0.1	0.0
Payment of arrears incurred prior to 2012/13				1.0
Overall balance (incl. statistical discrepancy and payment of arrears)	1.6	-5.6	-5.4	1.2
Financing	-1.6	…	5.4	-2.0
Domestic	-1.6	…	2.4	-4.2
Net credit from the central bank	-1.6	…	3.2	-3.4
Net credit from commercial banks	0.0	…	1.1	-0.9
Net acquisition of financial assets[1]	0.0	…	-1.9	0.0
Net foreign borrowing	0.0	…	3.0	2.2
Financing gap[2]	0.0		0.0	0.8
Memorandum Items:				
Expenditure excl. off-budget grant-financed spending and transfers to oil producing states and to Sudan	10.6	6.4	6.8	9.2
Non-oil domestic current fiscal balance[3]	-8.2	-5.2	-5.3	-5.9
Social Spending[4]	0.8	0.7	0.7	1.1

Source: South Sudanese authorities; and IMF staff estimates and projections.

[1] Bond issued by the Ministry of Finance and Economic Planning in December 2012 to recapitalize the Bank of South Sudan for losses on account of old Sudanese pounds acquired during the introduction of the new currency and subsequently declared inconvertible by Sudan. The bond amounts to SSP 1.9 billion, repayable over seven years and carries an interest rate of 3 percent.

[2] The financing gap for FY 2013/14 is expected to be filled through contributions from donors and the IMF.

[3] Non-oil revenue excluding grants minus domestically-financed current expenditure minus transfers to Sudan (including pipeline fees), minus tranfers to oil producing states and communities.

[4] Social spending comprises education, health, and social and humanitarian outlays.

Table 2b. South Sudan: Fiscal Operations of the Central Government, 2011–14
(In percent of GDP)

	2011/12 Actual	2012/13 Budget	2012/13 Est.	2013/14 Prog.
Total Revenue and Grants	25.3	8.5	11.6	28.6
Oil Revenue	21.6	0.0	1.1	21.3
Non-Oil Tax Revenue	1.0	2.1	2.7	2.2
Other GoSS Revenue	0.1	0.1	0.3	0.2
Off-budget grants	2.5	6.3	7.4	4.9
Total expenditure	25.5	25.4	27.8	25.4
Current expenditure	20.7	22.7	24.3	22.4
Salaries	8.2	8.7	8.9	5.4
Operating expenses	5.9	4.0	4.2	2.5
Interest	0.0	0.0	0.1	0.3
Other expenses	6.7	10.0	11.1	8.3
Transfers to states	4.9	5.0	5.9	4.3
Off-budget grant-financed current spending	1.8	4.9	5.3	4.0
Transfers and oil service payments to Sudan	…	0.0	0.0	5.8
Net acquistition of Non-Financial Assets	4.7	2.7	3.5	3.0
On-budget financing	4.0	1.1	1.3	2.1
Off-budget grant-financed capital spending	0.7	1.5	2.1	0.9
Overall balance (net lending/borrowing)	-0.1	-17.0	-16.2	3.2
Statistical discrepancy	3.7	…	0.2	0.0
Payment of arrears incurred prior to 2012/13	…	…	…	1.5
Overall balance (incl. statistical discrepancy and payment of arrears)	3.6	-17.0	-16.0	1.8
Financing	-3.5	…	16.0	-3.0
Domestic	-3.5	…	7.1	-6.3
Net credit from the central bank	-3.5	…	9.7	-5.0
Net credit from commercial banks	0.0	…	3.1	-1.3
Net acquisition of financial assets	0.0	…	-5.7	0.0
Net foreign borrowing	0.0	…	8.9	3.3
Financing gap	0.0		0.0	1.3
Memorandum Items:				
Expenditure excl. off-budget grant-financed spending and transfers to oil producing states and to Sudan	23.0	19.0	20.3	13.8
Non-oil domestic current fiscal balance	-17.8	-15.6	-16.0	-16.0
Social Spending	1.7	2.1	2.1	3.3
Nominal GDP	46.0	33.4	33.4	66.9

Source: South Sudanese authorities; and IMF staff estimates and projections.

Table 3. South Sudan: Central Bank Survey, December 2012–June 2014

(In billions of South Sudanese Pounds, unless otherwise indicated).

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Jun-14
	Prel.[1]	Prel.[1]	Est.	Program		Program
Net foreign assets[2]	3.4	1.5	1.3	2.8	3.2	5.3
Claims on nonresidents[2]	4.3	2.4	2.2	4.0	4.4	6.5
Of which: Petroleum Revenue Funds	0.0	0.0	0.0	0.3	0.7	2.7
Liabilities to nonresidents	0.9	0.9	0.9	1.2	1.2	1.2
Net domestic assets	1.7	2.5	2.7	1.4	1.0	-1.2
Net domestic credit	0.6	1.2	1.4	0.5	0.1	-2.0
Claims on commercial banks	0.0	0.0	0.0	0.0	0.0	0.0
Net claims on central government[2]	0.6	1.2	1.4	0.5	0.1	-2.0
Claims on central government[2]	2.4	2.4	2.3	1.8	1.7	1.6
Liabilities to central government	1.8	1.2	0.9	1.3	1.6	3.6
Claims on other sectors	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	1.1	1.3	1.3	0.8	0.8	0.8
Monetary base	5.1	4.0	4.0	4.1	4.2	4.2
Currency in circulation	2.2	2.0	2.1	2.1	2.2	2.2
Liabilities to commercial banks	1.7	1.5	1.4	1.5	1.5	1.5
Liabilities to other sectors	1.2	0.5	0.5	0.5	0.5	0.5
Memorandum items:						
Gross foreign assets (millions of dollars)	1,458	811	751	991	1,111	1,636
Net foreign assets (millions of dollars)	1,153	510	450	690	810	1,335
Net international reserves (millions of dollars)[3]	1,358	711	651	808	934	952
Monetary base (Year-on-year change in percent)	…	…	…	…	…	4.0

[1] Subject to change following an ongoing revision of the central bank accounts.

[2] Including balances of the Petroleum Revenue Funds.

[3] Claims on nonresidents (gross reserves) minus liabilities to nonresidents (excluding IMF), pledges, guarantees, and other contingent liabilities on gross foreign assets, and minus balances of the Petroleum Revenue Funds.

Source: South Sudanese authorities; and IMF staff estimates and projections.

Table 4. South Sudan: Monetary Survey, December 2012–June 2014

(In billions of South Sudanese Pounds, unless otherwise indicated)

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Jun-14
	Prel.	Prel.	Est.	Program		Program
Net foreign assets	3.9	2.0	1.9	3.6	4.3	6.8
Claims on nonresidents	5.1	3.1	3.0	5.0	5.7	8.2
Central bank (BSS)	4.3	2.4	2.2	4.0	4.4	6.5
Commercial banks	0.8	0.7	0.7	1.1	1.3	1.7
Liabilities to nonresidents (comm. Banks)	1.2	1.1	1.1	1.5	1.5	1.5
Central bank (BSS)	0.9	0.9	0.9	1.2	1.2	1.2
Commercial banks	0.3	0.2	0.2	0.3	0.3	0.3
Net domestic assets	2.6	3.4	3.8	2.3	1.5	-0.3
Net domestic credit	2.1	2.8	3.0	1.8	1.1	-0.8
Net claims on central government	1.6	2.3	2.5	1.2	0.2	-1.8
Claims on other sectors	0.4	0.5	0.5	0.7	0.9	1.0
Other items (net)	0.6	0.6	0.8	0.4	0.4	0.4
Broad money	6.5	5.4	5.7	5.8	5.8	6.4
Memorandum items:						
Broad money (Year-on-year change in percent)	…	…	…	…	…	12.9
Money multiplier	1.3	1.4	1.4	1.4	1.4	1.5
Reserve/deposits ratio	0.4	0.3	0.3	0.4	0.4	0.3
Currency/domestic demand deposit ratio	0.8	0.7	0.8	0.8	1.0	0.7
Share of foreign currency deposits on total deposits	0.2	0.2	0.2	0.3	0.3	0.3
Net foreign assets of commercial banks (in millions of U.S. dollars)	161	158	178	198	253	353

Source: South Sudanese authorities; and IMF staff estimates and projections.

Table 5. South Sudan: Balance of Payments, 2011–16

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

	2011/12	2012/13	2013/14	2014/15	2015/16
	Act.	Est.	Projections		
Current account balance	1,624	-1,889	799	700	203
Trade Balance	3,554	-2,749	4,317	4,595	4,019
Exports of goods	7,099	88	7,936	8,906	8,934
Oil	7,011	0	7,840	8,771	8,775
Nonoil	88	88	96	136	160
Imports of goods	-3,545	-2,837	-3,619	-4,311	-4,915
Balance of Services	-858	-428	-1,771	-1,494	-1,635
Exports of services	125	123	127	136	142
Imports of services	-983	-551	-1,898	-1,629	-1,777
of which non-oil	-654	-551	-613	-681	-775
Income	-1,896	0	-2,413	-2,714	-2,290
Wages of expatriate oil workers	-142	0	-372	-216	-230
Investors' profits	-1,754	0	-2,010	-2,391	-1,920
Investment income (net)	0	0	-32	-107	-140
Current Transfers (net)	823	1,288	667	313	109
General government	275	601	667	600	556
Workers' remittances (net)	207	201	179	176	175
Financial transfers to Sudan	0	0	-596	-839	-931
Other sectors (NPISH)	342	487	418	376	309
Capital and financial account	-171	1,380	-112	-289	165
Capital account	112	242	154	139	125
Financial account	-283	1,138	-267	-428	40
Foreign direct investment[1]	-187	161	-640	-695	-79
of which non-oil	191	161	163	190	220
Change in net foreign assets of commercial banks	-96	-30	-175	-77	-74
Public borrowing (net)	0	1,008	548	344	193
Overall balance	1,453	-509	687	411	368
Errors and Omissions	-613	-468	0	0	0
Financing	-840	976	-885	-411	-368
Change in net foreign assets of the central bank	-840	976	-885	-411	-368
Financing gap[2]	0	0	198	0	0
Memorandum Items:					
Current account balance excluding transfers (percent of GDP)	5.2	-32.7	0.8	2.1	0.5
South Sudan oil price (dollars per barrel; weighted average)	96	91	90	88	86
Net foreign assets of the Bank of South Sudan	1,427	451	1,336	1,747	2,115
In months of next year's imports of goods and services	5.1	1.0	2.7	3.1	3.2

Source: South Sudanese authorities; and IMF staff estimates and projections.

[1] Net of outflows associated with the repatriation of oil investments (Capex cost oil).

[2] Expected to be filled by disbursements from the IMF, the World Bank, the African Development Bank, the European Union and a multi-donor fund.

Table 6. South Sudan: Indicators of Capacity to Repay the IMF, 2013–23

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
						Projections					
IMF obligations based on existing credit											
(in millions of SDRs)											
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF obligations based on existing and prospective drawings											
Principal	0.0	0.0	0.0	0.0	0.0	4.9	6.2	6.2	6.2	6.2	1.2
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit [1]											
In millions of SDRs	0.0	0.1	0.1	0.1	0.1	5.0	6.2	6.2	6.2	6.2	1.2
In millions of US dollars	0.0	0.1	0.1	0.1	0.1	3.3	4.1	4.1	4.1	4.1	0.8
In percent of Gross International Reserves	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0
In percent of exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of debt service [2]	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.4	0.3	0.4	0.1
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of quota	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding IMF credit											
In millions of SDRs	30.8	30.8	30.8	30.8	30.8	25.8	19.7	13.5	7.4	1.2	0.0
In millions of US dollars	46.5	46.5	46.4	46.4	46.3	38.9	29.7	20.4	11.1	1.9	0.0
In percent of Gross International Reserves	4.2	5.2	2.0	1.0	0.9	0.9	0.7	0.4	0.2	0.0	0.0
In percent of exports of goods and services	1.2	0.5	0.5	0.5	0.5	0.4	0.3	0.2	0.1	0.0	0.0
In percent of debt service [2]	10.0	3.2	5.4	24.0	8.9	5.4	3.3	1.9	0.9	0.2	0.0
In percent of GDP	0.4	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0
In percent of quota	25.0	25.0	25.0	25.0	25.0	21.0	16.0	11.0	6.0	1.0	0.0
Net use of IMF credit (millions of SDRs)	30.8	0.0	0.0	0.0	0.0	-4.9	-6.2	-6.2	-6.2	-6.2	-1.2
Disbursements	30.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.0	0.0	0.0	0.0	0.0	4.9	6.2	6.2	6.2	6.2	1.2
Memorandum items:											
Nominal GDP (in millions of US dollars)	12,623	17,379	19,053	20,475	23,684	25,761	28,019	30,447	33,085	35,952	39,068
Exports of goods and services (in millions of US dollars)	3,726	8,912	9,162	9,058	9,485	10,288	11,710	12,214	13,230	14,613	16,298
Gross International Reserves (in millions of US dollars) [3]	1,111	899	2,339	4,520	4,999	4,246	4,553	4,759	4,819	4,906	5,429
Debt service (in millions of US dollars) [2]	465	1,441	854	193	521	716	897	1,078	1,220	1,124	1,012
Stock of nominal debt (millions of US dollars)	1,399	1,265	2,002	2,668	3,335	3,835	4,168	4,325	4,315	4,305	4,294
Quota (millions of SDRs)	123	123	123	123	123	123	123	123	123	123	123

Sources: IMF staff estimates and projections.

[1] Prospective drawings assume disbursements of RCF financial support according to a disbursement schedule of the new RCF arrangement to be approved in June 2013.

[2] Total public debt service, including IMF repurchases and repayments.

[3] Including the amount accumulated in the petroleum revenue funds.

Appendix. Letter of Intent

June 24, 2013

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431, USA

Dear Madame Lagarde:

Following decades of war and two years into independence, our country is at a critical crossroad, with huge deficits in health, education, and infrastructure. While we realize the enormous task ahead, we are determined to overcome these deficits, which will require peace, reforms led by the Government, and cooperation with international partners and investors.

Our strategy to overcome fragility and embark on a steady path of development is based on three pillars: prudent economic policies, visible improvements in governance and institutions, and sound investments in social development and infrastructure. We are also committed to the implementation of our recent agreements with Sudan which paved the way for restarting oil production and reopening our borders.

We are promoting a framework of cooperation under the New Deal for Engagement in Fragile States and see a leading role within that framework to foster equality and development in South Sudan. In this connection, the government has formulated an economic program focused on economic stability, a balanced budget that ensures peace and higher social and infrastructure spending, and transparency and accountability in oil, fiscal, and central banking operations. The government will also be working with international partners on a New Deal compact to boost capacity building and aid effectiveness.

Our current financial situation is precarious after a shutdown of oil production that lasted over a year and led to the current urgent balance of payments need. While a very tight budget execution helped prevent economic chaos, the shutdown has led to lower real incomes and severe hardship across the population, the depletion of fiscal and external reserves, and the accumulation of domestic and external debt.

Although oil revenues will provide valuable resources going forward, in the short term they will not be sufficient to repay debt, rebuild some savings, and move away from extreme fiscal austerity. To address the resulting fiscal financing and balance of payments gaps, we are requesting financial assistance from the IMF under the Rapid Credit Facility (RCF) equivalent to SDR 30.75 million (25 percent of quota), and expect additional financial support and investments from the World Bank, the

African Development Bank, the European Union, key bilateral countries, and private investors. In addition, we are also requesting that IMF staff monitors the implementation of our economic program covering the period July 2013-June 2014.

The implementation of this program, combined with the above support, will set the basis for macroeconomic stability, better governance, inclusive growth, and poverty reduction. Until oil production reaches pre-shutdown levels and our reserves are partially rebuilt, we will maintain a tight fiscal policy, which could be relaxed by year-end. We will also eliminate inefficiencies in the foreign exchange market by unifying the exchange rate and by taking steps to increase transparency and accountability. On the latter, we will move forward to implement the forthcoming Petroleum Management Revenue Act, manage our reserves prudently through major central banks, and publish data on oil, fiscal, and central bank operations. Furthermore, we will undergo a safeguards assessment of the central bank in connection with the request for assistance under the RCF.

The Government of the Republic of South Sudan believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) and technical memorandum are adequate to achieve the objectives of the program, but stands ready to take any further measure that may become necessary for this purpose. The government also commits not to introduce any restriction on foreign exchange payments for goods and services or any policy that could create balance of payments difficulties or interfere with the goal of a stable economic position.

The Government will consult with the Fund in advance of revisions to the policies contained in the MEFP and provide the staff of the IMF the information required to accurately assess the economic situation and progress in implementing the program. In line with our commitment to transparency, we will publish this letter, the Memorandum of Economic Policies, the Technical Memorandum of Understanding, and the related staff report. We also authorize the IMF to publish these documents on its website following the IMF Executive Board approval of the disbursement.

/s/

Marial Awou Yol
Acting Minister of Finance and Economic Planning
Republic of South Sudan

/s/

Kornelio Koriom Mayik
Governor, Bank of South Sudan
Republic of South Sudan

Attachments (2)
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment 1. Republic of South Sudan: Memorandum of Economic and Financial Policies

June 24, 2013

1. This document sets out the economic and financial policies of the Government of the Republic of South Sudan for the fiscal year July 2013-June 2014, which is expected to be supported by the International Monetary Fund (IMF) with a disbursement under the Rapid Credit Facility (RCF) and a Staff-Monitored Program (SMP). In this connection, we are asking our other development partners to assist the government in the implementation of the program. The accompanying Technical Memorandum of Understanding (TMU) provides additional details about the targets and actions to be undertaken including on data reporting to the IMF.

2. The government of the Republic of South Sudan has a medium-term vision that focuses on peace, social and economic development, and regional integration. We want to make sure that our natural resources are not mismanaged, that new projects are effectively implemented, that our people have access to education, water, and health services, and that investments in mining, agriculture, and forestry bring sustained and inclusive economic growth.

3. Despite several challenges during the past two years, including unstable relations with Sudan and a shutdown of oil production, we are eager to drive this vision forward. At the same time, we are aware that its success can only be assured by appropriate policies and reforms and in partnership with our neighbors, multilateral institutions, key bilateral countries and donors, and investors. This partnership has been recently reaffirmed at a conference hosted by the U.S. government in April 2013 in Washington, D.C., with the participation of the European Union, key bilateral countries, and multilateral organizations.

4. In the coming fiscal year that begins July 1st, we will implement an economic program which consists of policies and reforms to foster economic stability, transparency and accountability in the management of resources and finances, and a strengthening of the Bank of South Sudan (BSS) and the Ministry of Finance and Economic Planning (MOFEP). This program is an integral part of the above vision, for which we will need large-scale and continued support from our international partners and investors.

5. Promoting economic stability means maintaining inflation at low levels, sustaining the unified fixed exchange rate regime mandated by the central bank law, and improving public financial management. To this end, we will mobilize external financing and grants, as well as increase priority expenditures to alleviate current shortfalls, foster peace, and set the stage for private sector growth and poverty reduction. To enhance transparency and accountability in government operations, we will proceed to regularly publish oil, fiscal, and financial sector data, and we will strengthen the central bank and the MOFEP through audits and key reforms, technical assistance and training, and improved management of human resources.

I. BACKGROUND

6. The Republic of South Sudan faces huge challenges due in part to several decades of conflict that have resulted in extremely low development indicators and one of the worst formal educational attainments and endowments of infrastructure in the world. More than half of the population lives below the poverty line, security in some parts of the country remains fragile, and institutions need to be substantially consolidated to ensure development.

7. This process was set back following disagreements with Sudan that compelled us to shut down oil production in January 2012. After months of negotiations, we reached a series of agreements with Sudan that is enabling the resumption of oil production and bilateral trade, the establishment of a demilitarized zone, and the regularization of cross-border bilateral and pension payments. We also agreed to mutually forgive and write off all bilateral claims and arrears and set a basis for resolving citizenship and freedom of movement issues. We are committed to the full implementation of these agreements and to the roadmap proposed by the African Union for resolution of disputes and will continue bilateral discussions on the remaining territorial issues with the goal of resolving them soon.

II. RECENT ECONOMIC DEVELOPMENTS

8. The shutdown of oil production caused severe economic hardship, depriving the budget of most of its revenues (oil represented 98 percent of fiscal revenue in the previous year) and the country of most of its foreign exchange earnings, leading to a drastic decline in GDP and real incomes, scarcity of goods, and an accumulation of debt.

9. In order to conserve foreign exchange reserves, we reduced foreign currency allocations to banks and foreign exchange bureaus and introduced administrative measures granting preferential access to foreign exchange for imports of essential commodities (food, medicines, and fuel). The shortage of foreign exchange and the administrative actions contributed to widening the gap between the official and the parallel market exchange rates of the South Sudanese Pound (SSP) and to higher inflation.

10. In April 2012, we introduced drastic measures to reduce government spending that, combined with a prudent monetary policy, helped prevent an inflation-depreciation spiral. The 12-month rate of inflation, which rose to near 80 percent in mid-2012, came down to 16 percent in April 2013. The budget for fiscal year (FY) 2012/13 entailed a severe contraction in government spending. Even then, a large fiscal gap remained, which led to the depletion of government deposits at banks and of foreign exchange reserves; internal arrears; and borrowing from the central bank, commercial banks, and oil companies.

11. While oil production resumed in April 2013, the first set of payments from oil exports are only expected to be received in July-August. Although there is some uncertainty related to the state of previously idle fields and the pipelines as well as to the implementation of the agreement with Sudan to export oil through the existing pipelines, the baseline projections assume a gradual

increase in oil receipts after July 2013 and that, by early 2014, production will stabilize at levels that are about 20 percent lower compared to pre-shutdown levels. The agreement with Sudan entails payments for transportation, processing, and transit fees to Sudan and a transitional financial transfer of US$3 billion over a period of 3 years, as well as specific provisions for monitoring production volumes and audit rights.

III. KEY POLICIES AND REFORMS UNDER THE GOVERNMENT'S ECONOMIC PROGRAM

12. Peace is a key goal, as in its absence no development will be possible. To cement peace both internally and with our northern neighbor, we will fully implement our agreements and expect that Sudan will do the same. Our budget will serve to keep peace at home and foster poverty alleviation and development, and we will cooperate with our Eastern African Community partners and expect that they will allow us to integrate economically with them in a manner that takes into account our constraints. Meanwhile, the prompt reopening of the border with Sudan remains critical for trade.

13. The agreements reached with Sudan in 2012 have prompted expectations that abundant revenue from oil exports will be immediately available to rapidly increase spending and finance the country's social and economic development. It should be noted, however, that those revenues will not be sufficient to cover financing needs in FY2013/14. These include gradually restoring spending on wages and transfers to contain internal tensions and disparities and prevent violence; rebuilding depleted reserves to enhance resilience against adverse events (most of which will be saved in the new oil Funds); repaying or refinancing much of the debt incurred during the past year; paying for the transfers and fees agreed with Sudan; and improving the public infrastructure and health and education services.

14. In light of our still precarious financial situation, and to prevent a deterioration of economic conditions, we will continue with the austerity measures we have adopted for FY2012/13 until December 2013 and secure financial support from our external partners, including the World Bank and the African Development Bank, as well as external loans from other sources. Assuming oil production remains on a recovery path and that our reserves have been partially restored, we expect to begin increasing government spending after December 2013.

15. In conjunction with an appropriately prudent fiscal policy, our priority will be to ensure economic stability and to carry out investments with high expected returns that reflect our development priorities. Furthermore, while our budget will give increased emphasis to education, health, poverty alleviation, and infrastructure, it will also be important to balance spending needs with the capacity to carry out such spending effectively.

16. Given the above, our economic program focuses on five key goals:

i. To lower average inflation from about 30 percent in fiscal year (FY) 2012/13 to about 15 percent in FY2013/14.

ii. By end-August 2013, we will eliminate the disparity between the parallel and the official exchange rates and put in place a system that will remove distortions in the foreign exchange market.

iii. To manage fiscal spending prudently and, if sufficient resources are available, implement an increased spending envelope focused on maintaining internal peace and security and increasing social and development expenditures.

iv. To set the basis for the good management of South Sudan's wealth by safeguarding our foreign reserves in major central banks and/or the BIS and by implementing the provisions of the Petroleum Act and of the Petroleum Revenue Management Act (PRMA).

v. To improve transparency and publish economic data and information, including oil, fiscal, public debt, and financial statistics in accordance with IMF and other international standards.

Fiscal policy

17. The budget for FY 2013/14 will continue to be prudent. As oil revenue is expected to increase gradually and there is an urgent need to begin rebuilding depleted reserves, budget execution in the first half of the fiscal year will continue to be based on austerity, with domestically financed spending limited at SSP 3.8 billion. Excluding grant-financed spending and oil transportation payments and transfers to Sudan and to oil producing states and communities, total central government spending in FY2013/14 will amount to no more than SSP 9.2 billion, including budget support grants of up to SSP 0.8 billion (TMU, paragraph 5). In addition, we have made a provision of up to SSP 1 billion for a possible repayment of domestic arrears in the last two quarters of FY13/14 after the completion of an analysis and validation of outstanding claims.

18. Once production reaches close to pre-shutdown level and our reserves are partially rebuilt, spending will be increased to accommodate the higher budget envelope. It is envisaged that such scaling up will take place in the second half of FY2013/14 with higher outlays in priority areas (including higher wages and higher social and infrastructure outlays). In particular, we will target social spending (health and education, and social outlays) of SSP 1.1 billion and on-budget capital expenditures of SSP 1.4 billion. In the event that oil production is shut down again or if oil revenues turned out 25 percent lower compared to the projected amounts during a six-month period, we will seek understandings with IMF staff on possible spending cuts, non-oil taxes, and an alternative financing strategy and adjust the program targets accordingly.

19. Prudent debt policies will also be critical in the period ahead. In this regard, our target for new external debt in FY2013/14 (defined as new borrowing agreements signed during the fiscal year for both budget support and projects, net of debt repayments paid during the same period) is

US$575 million.[1] This includes borrowing for the budget as well as for investment projects. Given large development needs in the areas of electricity generation, transport, health, and water resources, we will strive to finance future investment projects through budget resources, concessional loans and grants, and private investment. These projects will be carefully scrutinized and ranked in terms of their cost-benefit features, and in accordance with the law, we will seek approval by the National Legislative Assembly for any future contracting of public debt. Should investment projects require the contracting or guaranteeing of foreign debt beyond the above-mentioned target, we will consult with IMF staff when identifying the degree of concessionality of the new debt and to reach understandings on any additional debt in line with the principle of debt sustainability. The MOFEP has sole responsibility for the contracting and guaranteeing of external debt on behalf of the government and of the central bank.

20. Regarding public financial management reforms, we will focus our efforts on enhancing the effectiveness of public expenditures and increasing transparency and accountability. In particular, we will (i) enforce controls at all stages of the budget execution process, including over-commitments, verifications, and payments, and ensure adherence to monthly spending limits; (ii) publish quarterly budget execution reports; (iii) prepare, by December 2013, an inventory of outstanding domestic payment arrears, validate and classify them according to age, and prepare a strategy (including a time schedule) for their clearance; and (iv) by February 2014, begin implementing a treasury single account structure by closing redundant government bank accounts and by finalizing a Memorandum of Understanding between MOFEP and BSS that specifies responsibilities for managing government accounts, banking services to be provided, and agreed charges.

21. Lastly, we will continue to pursue our goal in enhancing non-oil revenue collection by building capacity and setting up appropriate collection and monitoring systems. Leakages will be reduced through improvements in tax and customs administration, including the establishment of a one-stop window for importers, the streamlining of exemptions, and efforts to broaden the taxpayer base and increase compliance with existing tax laws by reforming and strengthening the Large Taxpayers Unit. As a result, we hope to increase non-oil tax and customs revenue by more than 50 percent in fiscal year 2013/14.

Monetary and Exchange rate policy

22. Our monetary policy will aim at ensuring price stability under the fixed exchange rate regime established by the Bank of South Sudan Act. We will therefore supply enough foreign exchange to the market to mop up excess liquidity and prevent the re-emergence of gaps between the parallel and the official market rates. Under the nominal anchor of the fixed exchange rate, the clearing of the foreign exchange market by the BSS in weekly allocations and the implementation of the fiscal program should pave the way for a decline in inflation towards single-digit levels by mid-2014.

[1] As of May 31, 2013, South Sudan has no arrears on external debt.

23. By end-August 2013, we will adjust the official exchange rate to unify the official and parallel market rate to a level consistent with our fiscal program. We will also replace the current blanket allocation of foreign exchange with weekly two-way bidding to be conducted by the BSS, where banks will submit bids to purchase or sell U.S. dollars at the official rate. Only banks will be allowed to participate in these biddings, and they will be allowed to bid and make offers on behalf of foreign exchange bureaus and other customers. Subject to prudential limits on the amount that a single bank can bid, to prevent overbidding and cornering, the BSS will stand ready to sell any amounts needed to clear the net demand for U.S. dollars at each bidding session. These reforms will set the conditions for the development of an interbank market for foreign exchange.

24. Given the expected increase in export receipts, the international reserves of the BSS will be partially replenished to ensure a minimum buffer against future shocks. To ensure stable monetary conditions and low inflation, the growth in net domestic assets of the BSS will be contained through monitorable ceilings, as will the financing of the government from the banking system.

Transparency and accountability

25. Transparency in handling our foreign reserves and mineral resources will foster the legitimacy of our nascent institutions, encourage investment, and ensure the effective use of these assets for development. In this regard, the government will be fostering transparency and accountability in the management of foreign reserves and mineral resources and the institutions involved in these operations, namely the MOFEP, the Ministry of Petroleum, and the BSS.

26. During the past few months, we have carried out three important actions:

i. With two temporary exceptions, we have closed all major foreign currency accounts of the government and the BSS held in foreign commercial banks and transferred the remaining funds to new accounts at a few major central banks managed by the BSS;

ii. The National Legislative Assembly is expected to adopt in coming days the Petroleum Revenue Management Act (PRMA), including provisions for reports on oil revenue management by the MOFEP and the BSS, as the latter will manage the oil revenue account and reserve funds on behalf of the government (prior action). The PRMA also includes a 7-year oil price rule to determine the maximum amount of oil revenues available for the budget in a given year, provisions for the establishment of two Petroleum Revenue Funds (an Oil Revenue Stabilization Account (ORSA) and a Future Generation Fund (FGF)), procedures to allocate and transfer oil revenues to and from these funds, a comprehensive definition of oil revenues that includes all fees and signature bonuses, and a provision that limits oil-collateralized borrowing to cases of national emergency or to finance priority infrastructure projects, subject to the approval of the National Legislative Assembly. Appropriate implementation of the PRMA will attract sound foreign investment in the oil sector and elsewhere. The Act is expected to be signed into law in the coming weeks.

iii. The BSS has improved accounting practices, finalized the reconciliation of most of its accounts (prior action), and prepared financial statements for a forthcoming audit.

27. In the period ahead, we will also move forward with the following reforms:

i. All foreign exchange inflows of the government will be channeled to the BSS accounts at major central banks and/or the BIS and deployed in accordance with the guidelines framed for this purpose. Until the PRMA becomes law, we will manage foreign reserves in line with the Investment Guidelines of the BSS and a Memorandum of Understanding between the MOFEP and the BSS for the management of the petroleum flows.

ii. We will begin publishing by end-October 2013 data on oil flows. The Ministry of Petroleum and Mining will start quarterly publication of information on oil transactions, including data on oil production, investment expenditure, export sales and other proceeds (including proceeds from concessions, signature bonuses and oil forward sales), as well as contracts and concession licenses as required under the already enacted Petroleum Law. In parallel, the MOFEP and the BSS will begin reporting oil derived receipts and foreign reserves allocations as envisaged in the PRMA. In the coming year, we will also proceed to advance the process for South Sudan to become an Extractive Industry Transparency Initiative candidate.

iii. As part of our commitment to set up a modern and accountable central bank, we will publish by November 2013 the 2012 financial statements of the Bank of South Sudan audited by an international firm with experience in auditing central banks. IMF staff will have access to the central bank's complete external audit reports and the management letter and the auditors will be authorized to hold discussions with IMF staff with regards to the audit. Lastly, we are committed to undergo a formal safeguards assessment by the IMF in early 2014.[2]

28. Beyond improvements in the management of our foreign reserves, the oil sector, and central bank operations, another condition for preventing large-scale corruption and for South Sudan to become a credible participant in the global financial system is a sound Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework. In this connection, we have enacted AML/CFT legislation in June 2012 and are taking steps towards its implementation. Our key priorities in the period ahead are to strengthen the regulatory framework, establish a financial intelligence unit, and initiate a supervisory program for financial institutions.

29. To facilitate the implementation of the 2013/14 economic program and the monitoring of policies, we will ensure the disclosure of financial and economic data. In particular, we will:

(i) Prepare balance sheets of the BSS four weeks after the end of each month and produce and share with IMF staff the monetary accounts of the BSS and of the consolidated banking system within six weeks of the end of each month.

[2] The Ministry of Finance and Economic Planning will be audited by the National Audit Chamber as mandated by law.

(ii) Produce and share with IMF staff monthly central government fiscal data on revenues, expenditures, and financing four weeks after the end of each month and publish quarterly assessment reports on the fiscal outturn based on information from the treasury, budget, and revenue departments including a comparison of outturn with budget estimates of revenue and expenditure and financing information.

(iii) Disclose publicly and promptly information on receipts from mineral concessions or exploration rights and external debt or guarantees contracted (including terms and conditions).

IV. PROGRAM IMPLEMENTATION AND MONITORING

30. The program will be reviewed by IMF staff based on quantitative targets (Table 1) and key structural reforms (Table 2) to be implemented through mid-2014 and specified in the attached Technical Memorandum of Understanding (TMU). The disbursement under the RCF will be made immediately after the program is approved by the IMF Executive Board. Since the Fund's resources will be used for budget support, the government and the central bank have signed a memorandum of understanding defining their responsibilities for effecting the repayment of the RCF disbursement to the Fund.

31. There will be two reviews to assess the implementation of the Staff-Monitored program in early 2014 and shortly after June 2014. Completion of the first and second reviews of the program will be based on the quantitative targets and structural benchmarks up to December 2013 and June 2014, respectively. The targets and measures for the second review will be revised as needed at the time of the first review.

32. The government is committed to carry out its program successfully, and will set up a technical monitoring group, chaired by the MOFEP. The unit will meet once a month and will include representatives of the MOFEP, the Ministry of Petroleum, the BSS, and the President's Office. The group will (i) monitor program implementation and share its evaluation and any concerns in writing with the Minister of Finance and Economic Planning and the Governor of the central bank; (ii) propose corrective actions as needed; and (iii) serve as a forum for coordination of short-term monetary and fiscal policies and reconciliation of oil, financing, and banking sector data.

33. As a member of the community of nations and under the obligations of IMF members, the Government of the Republic of South Sudan does not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement. Also in line with the rules of IMF membership, the government recognizes the preferred creditor status of the IMF.

Appendix Table 1. South Sudan: Quantitative Targets, 2013–14[1]
(In millions of South Sudanese Pounds, unless otherwise indicated)

	2013				2014
	Mar.	Jun.	Sept.	Dec.	Jun.
	Stocks		Cumulative flows		
	Prel.	Est.	Prog.	Prog.	Prog.
Net foreign assets of the central bank (millions of U.S. dollars; floor)[2]	510	450	240	360	885
Net domestic assets of the central bank (ceiling)	2,453	2,668	-1,303	-1,717	-3,854
Net credit to the government from the banking system (ceiling)	2,258	2,473	-1,317	-2,255	-4,267
Contracting of nonconcessional external debt (millions of U.S. dollars; ceiling)[3]	450	1,165	625	891	1,579
Memorandum items:					
Net international reserves (millions of U.S. dollars; floor)[4]	711	651	158	283	301
Priority social spending (floor)[5]	…	…	165	330	1,077

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] The test dates for the first and second review of the Staff Monitored Program will be December 2013 and June 2014, respectively.

[2] Gross international reserves of the central bank minus short term liabilities.

[3] Contracting or guaranteeing of public external debt (gross). During FY13/14, the program also includes the repayment of external debt contracted during FY12/13 in the amount of US$1 billion.

[4] Net foreign assets of the central bank, plus liabilities to the IMF, minus pledges, guarantees, and other contingent liabilities on gross foreign assets, minus balances of the Petroleum Revenue Funds.

[5] Defined as health, education, and social and humanitarian expenditures.

Appendix Table 2. Republic of South Sudan: Prior Actions and Structural Benchmarks[1]

June 2013-June 2014

Measure	Timing	Rationale
The Bank of South Sudan will finalize the reconciliation of most of its foreign currency accounts with the statements of its correspondent banks and the reconciliation of its manual and internal records with its automated accounting system (suspense suspense accounts).	Prior action (implemented)	Improve the reliability of the central bank balance sheet
Submit to Parliament a 2013/14 budget in line with understandings on its size and composition reached with IMF staff.	Prior action	Ensure a balanced budget including higher levels of social and infrastructure spending
The petroleum revenue management bill, approved by the National Assembly, contains a definition of oil revenues that include fees and signature bonuses, oil reporting provisions, a 7-year average price of oil rule that determines the maximum financing to the budget, and conditions (e.g. national emergency, priority infrastructure projects for which concessional financing is not available, prior Parliamentary approval) under which collateralized oil borrowing can be undertaken.	Prior action	Set the basis for effective management of oil wealth
All foreign currency proceeds from oil exports, external loans, concessions, exploration rights, and any signature bonuses will be channeled to the BSS accounts at major central banks and/or the BIS and deployed in accordance with the guidelines framed for this purpose.	Continuous since June 2013	Safeguards foreign exchange reserves to support economic stability and good management of South Sudan's wealth
Adjust the official exchange rate to a level that unifies the exchange differential with the parallel market rate and adopt a market based allocation system based on fixed rate tenders.	August 2013	Unify foreign exchange market and improve allocation of foreign exchange.
Commence quarterly publication (including at the Ministry of Petroleum and Mining website) of oil production, exports, revenue (including proceeds from concessions, signature bonuses and oil forward sales), and expenditure data, contracts and licenses.	October 2013	Improve transparency on oil revenue management
Finalize inventory of outstanding domestic payments arrears covering all spending agencies, validate and classify them according to age, and adopt a plan and a timetable for their clearance.	December 2013	Improve credibility and accountability in government operations
Publish on the Bank of South Sudan's or the Ministry of Finance and Economic Planning website the central bank 2012 financial statements audited by an international audit firm with demonstrated experience in auditing of central banks.	November 2013	Set up a transparent and accountable central bank
Begin implementing a treasury single account (TSA) structure (including any necessary accounts of spending agencies as sub-accounts), close all other government bank accounts or turn them into transit accounts with daily sweeps to the Treasury account,, and finalize a Memorandum of Understanding between the Ministry of Finance and Economic Planning and the Bank of South Sudan that specifies responsibilities for managing the accounts, banking services to be provided, and agreed charges.	February 2014	Ensure expenditure control, improve cash management, and strengthen program formulation and monitoring.
Improve non-oil revenue administration by setting up automated systems, consolidating revenue, implementing broker licensing and integrated tariff systems for customs, and providing additional resources and upgrading the reporting structure of the large taxpayers unit to ensure direct reporting to the Director General.	March 2014	Boost non-oil revenue collection

[1] These measures are specified as needed in the accompanying Technical Memorandum of Understanding. Measures for January-June 2014 will be reviewed as needed during the first review of the program and in light of new developments.

Attachment 2. Republic of South Sudan: Technical Memorandum of Understanding

June 24, 2013

This Technical Memorandum of Understanding defines the quantitative targets and benchmarks to the economic program of the Republic of South Sudan, the associated adjustors, and data reporting requirements to the staff of the International Monetary Fund for program monitoring purposes. It is an integral part of the Memorandum of Economic and Financial Policies (MEFP).

I. DEFINITIONS

1. Government. Unless otherwise indicated, "government" is understood to mean the central administration of the Republic of South Sudan and does not include political subdivisions (such as state, counties and any other local government entities), the central bank, or any other public or government-owned entity with autonomous legal personality.

2. Public Sector. The public sector comprises the government as defined above, the central bank, the states, and nonfinancial public enterprises (enterprises and agencies in which the government holds a controlling stake—more than 50 percent of shares but are not consolidated in the budget).

3. Debt. For program purposes, the definition of debt is set out in Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

(a) For the purpose of this guideline, the term "debt" will be understood to mean a current (i.e., not contingent) liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans (i.e., advances of money) to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits (i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided); and

(iii) leases (i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property), while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

II. PRIOR ACTIONS AND STRUCTURAL BENCHMARKS

Prior actions

4. Bank of South Sudan accounting. The Bank of South Sudan (BSS) has just finalized the reconciliation of most its foreign currency accounts with the statements of its correspondent banks and the reconciliation of its manual and internal records with its automated accounting system (suspense accounts). No more than SSP700 million (8.7 percent of the outstanding amount) and SSP25 million (30 percent of the outstanding amount) will remain to be reconciled on foreign currency accounts and suspense accounts, respectively.

5. 2013/14 budget. The budget for 2013/14 to be submitted to Parliament will be in line with the understandings on its size and composition reached with the IMF staff. Taking into account the redemption of debt incurred in 2012/13 and the re-building of depleted financial buffers, budget expenditures do not exceed the amounts contained in the table below:

Fiscal Operations of the Central Government, 2013-14

(in billions of South Sudanese pounds unless otherwise stated)

Oil production (millions of barrels)	87.5
South Sudan oil price (U.S. dollars per barrel)	89.7
Non-oil revenues	1.6
Transfers and oil payments to Sudan (millions of U.S. dollars)	971
Total expenditure[1]	13.7
Current expenditure	12.3
Salaries	3.6
Operating expenses	1.7
Interest	0.2
Transfers to States	2.9
Conditional transfers to states	1.4
Unconditional transfers to states	1.0
Transfers to oil producing states and communities (5 percent of oil revenue)	0.6
Transfers and oil payments to Sudan	3.9
Net acquistition of Non-Financial Assets	1.4
Memorandum Item:	
Total expenditure excluding provision for arrears and transfers to oil producing states and Sudan[1]	9.2
Provision for the possible payment of arrears incurred prior to 2012/13	1.0
Social Spending[2]	1.1

[1] Excluding other grant financing on public projects not channelled through the budget.

[2] Social spending comprises outlays on education, health and social and humanitarian assistance.

6. Petroleum Revenue Management Act (PRMA). The National Legislative Assembly will pass a Petroleum Revenue Management Act that includes the following provisions:

- a 7-year average price of oil rule to determine the maximum amount of oil revenues that can be allocated to the budget in a given year (based on the average for Brent prices minus the average discount between Brent and South Sudanese blends);
- establishment of two Petroleum Revenue Funds (an Oil Revenue Stabilization Account and a Future Generation Fund) for managing the public savings of oil revenue (the amount of revenue that is not allocated to the budget and the amount that is allocated to the budget but not spent) and procedures to allocate and transfer revenue to and from these funds;
- quarterly records of petroleum revenue by the Ministry of Finance and Economic Planning (MOFEP); quarterly reports by the BSS on the management of the accounts and funds; and annual reports by the MOFEP on the management of petroleum revenue; and
- annual disclosure and publication of payments in accordance with the principles of the Extractive Industry Transparency Initiative (EITI).
- a comprehensive definition of oil revenue that includes "fees, signature bonuses, other cost-based fees from PSAs, production licenses, or other provisions in the Petroleum Law;"; and
- oil-collateralized borrowing can only be incurred by prior approval from the National Legislative Assembly, subsequent disclosure of the related information, and exclusively under the following circumstances: (i) a national emergency, such as another shutdown of oil production; and (ii) to finance sound infrastructure projects that cannot be financed by the private sector or concessional borrowing.

Structural benchmarks

7. Continuous benchmark on reserves management. All Government foreign currency proceeds from oil exports, concessions, exploration rights, and signature bonuses, as well as proceeds from any external non-project loans, will be channeled to the accounts opened by the central bank at major central banks and/or the Bank for International Settlements (BIS). The basis of the deployment of foreign reserves will be as follows:

(i) Foreign currency reserves, i.e. foreign currency assets belonging to the BSS, including foreign currency loans contracted by the government, will be managed according to the investment guidelines adopted by the BSS;

(ii) Petroleum Revenue, pending the transfer of surplus revenue to the Petroleum Reserve Funds (Oil Revenue Stabilization Account and Future Generations Fund), will be deployed abroad in treasury bills issued by countries rated AA- or better or money market instruments of financial institutions with the highest creditworthiness (central banks of countries rated AA- or better and/or the Bank for International Settlements) as per the agreement signed in June 2013 between the MOFEP and the BSS.

(iii) Once the Petroleum Revenue Management Act is implemented, and the Investment Committee becomes fully operational, foreign currency assets belonging to the Petroleum Reserve Funds will be managed as per the investment guidelines to be adopted by the Investment Committee in this regard.

The Investment Guidelines for deployment of foreign exchange reserves have the following important provisions for limiting credit risk: (a) To be eligible for deposits, including holdings on current account, the international bank must be rated at least AA- or equivalent, by either Standard & Poor's or Moody's; (b) no more than US$ 20 million should be placed with any international bank in uncollateralized deposits at any time; and (c) no more than 15 per cent of reserves should be invested in uncollateralized claims on international commercial banks.

Since credit risk exposures are at variance with these and other risk parameters specified in the Investment Guidelines, the BSS will endeavor to achieve full compliance thereof within a 12-month long transition phase ending on March 31, 2014. However, during this phase, no credit exposure by way of deposits and balances in current accounts to an international bank rated below BBB- or equivalent by either Standard & Poor's or Moody's should be permitted. Also, credit exposure by way of deposits and balances in current accounts to an international bank rated above BBB- or equivalent and above by either Standard & Poor's or Moody's should not exceed US$ 150 million. A review of the credit exposures shall be undertaken in March 2014 with a view to achieving full compliance with the relevant provisions of investment guidelines.

8. Exchange rate adjustment and foreign currency allocations. The official exchange rate will be adjusted by the BSS to eliminate disparities with the parallel market rate and the new rate will be announced together with the integrated monetary and fiscal program. Until the date of the adjustment, the present allocation limits for banks and foreign exchange bureaus will be maintained. After the adjustment, a weekly allocation of foreign exchange will be introduced through a two-way allocation system with the new fixed rate from the outset where participants will bid for/make an offer to sell U.S. dollar amounts at that rate. Participation in the weekly allocations will be limited to commercial banks who will be guided by a code of conduct. They will have an obligation to bid on behalf of foreign exchange bureaus and other customers and also to accept sellers in the auctions. Subject to prudential limits on the amount that a single bank can bid, to prevent overbidding and cornering, the BSS will be ready to sell any amounts that are needed to clear the net demand for U.S. dollars in the weekly allocations and preserve the unified foreign exchange market.

9. Quarterly publication of oil data. Data on oil sector production, exports, revenue (including proceeds from concessions, signature bonuses and oil forward sales), and cost data, contracts (with the exception of market sensitive features) and licenses, and justification for the award of contracts (e.g. evaluation and tendering process) will be published by the Ministry of Petroleum and Mining (MPM), the MOFEP, and the BSS, including on these agencies' websites.

10. Government payment arrears. The government will (a) complete an inventory of all outstanding government payments arrears, (b) carry out their validation and classification according to age and (c) outline a strategy, including a time schedule, for clearing those arrears that have been

declared sound and valid after the auditing process. A tentative provision has been made for clearing these arrears in the second half of the 2013/14 fiscal year.

11. Treasury Single Account. Begin implementing a treasury single account (TSA) structure for central government operations including any necessary accounts of spending agencies as sub-accounts in conjunction with centralized payments under the Financial Management Information System (FMIS) by closing all other government bank accounts and finalizing a Memorandum of Understanding between the MOFEP and the BSS that specifies responsibilities for managing the accounts, banking services to be provided, and agreed charges.

III. QUANTITATIVE TARGETS

12. The unadjusted values of the quantitative targets for fiscal year 2013/14 are defined as cumulative flows from July 1, 2013 (Table 1, MEFP). The values against which program compliance will be assessed will be adjusted upward or downward according to the adjustors specified in Section IV below. The quantitative targets are defined as follows:

13. Floor on the change in Net Foreign Assets (NFA) of the BSS. NFA are net claims on nonresidents denominated in local currency and in foreign currencies and reported in the balance sheet of the BSS. They are defined as total BSS gross foreign assets (external assets controlled by the BSS) for meeting balance of payments financing needs and balances in the Petroleum Revenue Funds - Oil Revenue Stabilization Account and Future Generation Fund - set up by the Petroleum Revenue Management Act) minus foreign liabilities (foreign currency liabilities of the BSS that can be considered as direct claims by nonresidents on the reserve assets of the BSS to nonresidents). For monitoring purposes, the Bank of South Sudan will compute a measure of net international reserves (NIR) defined as the amount of reserves that are readily and unconditionally available for BSS to meet balance of payments financing needs and measured as NFA plus any outstanding liabilities to the IMF minus any outstanding value of pledges, guarantees, or other contingent liabilities on gross foreign assets, and minus the balance of the Petroleum Revenue Funds.

14. Ceiling on the change in Net Domestic Assets of the BSS. The net domestic assets (NDA) of the BSS are equal to reserve money (currency in circulation outside the BSS plus the BSS liabilities to banks plus all other BSS liabilities that are included in broad money) minus NFA. NDA thus include net BSS claims on the government (BSS gross claims, such as loans, treasury bills and other government securities less government deposits and other BSS liabilities to government), and any claims on state and local governments, other domestic nonfinancial sectors, domestic financial institutions, and other items net (other assets, other liabilities, and the capital account).

15. Ceiling on the change in Net Credit to the Government from the domestic banking system. Net credit to the government (NCG) is defined as claims on the government by the BSS and all commercial banks operating in South Sudan (including any Treasury bills and other government securities held by the domestic banking sector and any other claims, such as the domestic banking sector's loans to government) minus government deposits and other liabilities of the domestic

banking system to the government, including balances of the Petroleum Revenue Funds. For the purposes of program monitoring, the target on net credit to the government therefore includes any changes in the SSP value of net credit to the government deriving from adjustments in the exchange rate. The liabilities of the domestic banking sector to the government include all government deposits with the BSS and commercial banks (with government defined as in paragraph 1 above).

16. Ceiling on cumulative flows of contracted non-concessional external debt. A ceiling applies to non-concessional debt with nonresidents contracted or guaranteed by the public sector, including any rollover, refinancing, or rescheduling of maturing debt. This ceiling also applies to any external non-concessional debt to domestic private borrowers on which official guarantees are extended and which, therefore, generate a contingent liability for the public sector. Excluded from the limits are any use of the Special Drawing Rights (SDR) allocation, any purchases from the IMF, any disbursements of debt contracted on concessional terms (as defined below), and normal short-term trade-related credits.

The MOFEP has sole responsibility for the contracting and guaranteeing of external debt on behalf of the government and of the central bank. The government undertakes not to contract or guarantee any external debt without first having determined its concessionality and impact on debt sustainability with IMF staff and disclosed the terms and conditions of all loans; and second, as mandated by the Public Financial Management Law, having obtained approval for those loans from the National Legislative Assembly.

For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full any shortfall incurred by the debtor.

For program purposes, a debt is considered concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the NPV of debt and hence its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD would continue to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

17. Floor on cumulative flows of priority social spending. Priority social spending is defined as public expenditure on health (including HIV commission), education, and social and humanitarian

expenditures. Its execution is monitored on a cash basis under the program. The floor on priority social spending in fiscal year 2013/14 is of SSP 1.1 billion and indicated in Table 1 of the MEFP.

IV. ADJUSTORS

18. The floor on NFA will be adjusted upward (downward) by:

(i) any excess (shortfall) in the cumulative value (from July 1, 2013) of oil revenues to the government (net of payments to Sudan and the 5 percent transfers to oil producing states) relative to the program assumptions;

(ii) any excess (shortfall) in the cumulative value (from July 1, 2013) of non-project public sector net external loan disbursements relative to program assumptions; and

The floor on NFA will also be adjusted downward by any shortfall in the cumulative value (from July 1, 2013) of external budget support relative to program assumptions.

For the purposes of the above adjustments, the amount of oil revenues to the government, projected in SSP, will be converted in dollars at the program exchange rate.

19. The ceilings on net domestic assets of the BSS and on net credit to the government from the domestic financial system will be adjusted downward (upward) by

(i) any excess (shortfall) in the cumulative value (from July 1, 2013) of oil revenues to the government measured in domestic currency (net of payments to Sudan and the 5 percent transfers to oil producing states) relative to the program assumptions, and

(ii) any excess (shortfall) in the cumulative values (from July 1, 2013) of non-project public sector net external loan disbursements relative to program assumptions in domestic currency;

The ceilings on net domestic assets of the BSS and on net credit to the government from the domestic financial system will also be adjusted upward by any shortfall in the cumulative value (from July 1, 2013) of external budget support relative to program assumptions.

The following amounts of oil revenues (net of payments to Sudan and oil transfers to producing states) and public sector external disbursements, in millions of U.S. dollars, cumulative (from July 1, 2013), are assumed in the projections:

	September 2013	December 2013	March 2014	June 2014
	Cumulative values since July 1, 2013			
Oil revenues (net of payments to Sudan and of oil transfers to producing states)	442	949	1,697	2,445
Net public sector external disbursements	272	389	509	546
External budget support	67	100	150	200

Should oil revenue be less than programmed by more than 25 percent after any six-month period, the government will consult with the IMF to discuss corrective policies.

V. DATA REPORTING

20. The government will produce and share with IMF staff the following data:[1]

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
Bank of South Sudan	Monetary survey	BSS survey (with foreign currency items valued at the end-of-period official exchange rates)	Monthly	Six weeks after the end of each month
		Consolidated commercial banks survey (with foreign currency items valued at the end-of-period official exchange rates)	Monthly	Six weeks after the end of each month
	BSS balance sheets	Detailed data on the BSS balance sheet	Monthly	Four weeks after the end of each month
	Net international reserves	Beginning and end of period balances in each foreign currency account, also displaying foreign liabilities of the BSS and any encumbered foreign assets	Monthly	Four weeks after the end of each month
	Exchange rates	Daily data on official and parallel market exchange rates (buying and selling), in SSP per dollar	Monthly	One week after the end of each month
	BSS foreign exchange operations	Amounts of foreign currency purchased and sold by the BSS each month	Monthly	Four weeks after the end of each month
	Interest rates	Lending and deposit interest rates of commercial banks	Quarterly	Six weeks after the end of each quarter
	Financial	Capital adequacy; asset composition and	Quarterly	Six weeks after

[1] Whenever appropriate, the authorities will note if some of the data is preliminary and indicate the timeline for the production of the final data.

	soundness indicators	quality; profitability; liquidity; open foreign exchange positions; and compliance with prudential norms by commercial banks (by quartile)		the end of each quarter
Ministry of Finance and Economic Planning	Budget execution (revenue collection and expenditure execution)	Total revenue collected, disaggregated by type of revenue; total expenditure executed (on a cash basis), disaggregated by economic and functional classification; domestic financing of the government	Monthly	Four weeks after the end of each month
	Receipts from sales, leases, or concessions of public resources	Receipts and signature bonuses from the sale of mineral and other exploration/exploitation rights and concessions, land leases, proceeds from sale of public property or leases	Quarterly	Four weeks after the end of each quarter
	External debt	Information on amount of new loans, terms, and conditions, including guarantees and collaterals.	Quarterly	Four weeks after the end of each quarter
		Quantitative details on financial flows associated with external debt guaranteed by the government: past and projected disbursements, repayments, interest payments; in US dollars; disaggregated by lender and by currency	Quarterly	Two months after the end of each quarter
	Priority social expenditure	Data on the execution of priority social expenditure, on a cash basis	Quarterly	Six weeks after the end of each quarter
	Budget execution reports	Quarterly assessment reports on the fiscal outturn, including analysis of deviations from budget amounts and financing	Quarterly	Six weeks after the end of each quarter
Ministry of Petroleum and Mining	Oil sector operations	Oil production, exports, revenue (including proceeds from concessions, signature bonuses and oil forward sales), and cost data, contracts and licenses.	Quarterly	Four weeks after the end of each quarter
		Fiscal regime of new oil contracts, including recovery cost limit, profit oil sharing, corporate income tax, royalty rate, other taxes (supplementary profit, dividend and interest withholding), depreciation rule, period over which losses can be carried forward, signature/production bonuses, and state equity participation.	Quarterly	Four weeks after the end of each quarter
National Bureau of Statistics	Prices	CPI index, disaggregated by category and by city	Monthly	One week after the end of each month
	National accounts	GDP estimates by expenditure and production, disaggregated by component, in real and nominal terms	Annually and whenever revised	Ten weeks after the end of each year (or revision)