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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 95/4

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Executive Board Attendance

S. Fischer, Acting Chairman

Executive Directors

L. E. Berrizbeitia
I. Clark
B. S. Dlamini

K. P. Geethakrishnan
J. E. Ismael

W. Kiekens
Y.-M. T. Koissy

K. Lissakers

A. S. Shaalan

E. L. Waterman
J. de Beaufort Wijnholds

Alternate Executive Directors

A. A. Al-Tuwaijri
M. Sirat
E. Srejber

D. Z. Guti
J. Shields
W. Hettiarachchi
L. M. Cheong
K. Link
A. Chang Fong, Temporary

H. A. Barro Chambrier
M. Giulimondi, Temporary
B. S. Newman
T. Fukuyama
M. Dairi
J. Leiva, Temporary
E. Wagenhoefer
Y. Y. Mohammed
A. V. Mozhin
J.-H. Kang

Wei B.

A. Mountford, Acting Secretary
S. Bhatia, Assistant

Also Present

A. H. Ahmed, Minister of Finance of Sudan; A. Saddiq, Director General of International Cooperation in the Ministry of Finance; M. Salih, Deputy Chief of Mission, Embassy of the Republic of Sudan. IBRD: R. R. Blake, Africa Regional Office. African Department: P. A. Acquah, U. Wilson. External Relations Department: H. P. Puentes. Legal Department: W. E. Holder, Deputy General Counsel; J. K. Oh. Middle Eastern Department: P. Chabrier, Director; A. Banerji, H. Ghesquiere, G. M. Iradian, M. D. Knight, J. Martelino, S. M. Nsouli, A. Salehizadeh. Policy Development and Review Department: T. Leddy, Deputy Director; N. L. Happe, A. K. McGuirk. Research Department: P. A. Cashin. Secretary's Department: J. M. Boughton, K. S. Friedman. Treasurer's Department: D. Williams, Treasurer; L. Aylward, J. E. Blalock, W. J. Byrne, J. C. Corr, Z. Farhadian-Lorie, R. Thorne, M. A. Wattleworth. Advisors to Executive Directors: S. K. Fayyad, T. K. Gaspard, J. Jonás, J. M. Jones, Y. Margoninsky, M. F. Melhem, C. F. Pillath, K. Sundara. Assistants to Executive Directors: S. E. Al-Huseini, R. N. A. Ally, J. A. Costa, D. Daco, J. Dagustun, M. Dzervite, G. El-Masry, S. S. Farid, L. Fontaine, H. Golriz, B. Grikinyté, J. Hamilius, M. A. Hammoudi, G. H. Huisman, T. Kanada, W. C. Keller, N. Laframboise, Ng C. S., H. Petana, S. Rouai, V. Trivedi, V. Verjbitski, J. B. Wire, Zubir b. A.

1. SUDAN - 1994 ARTICLE IV CONSULTATION; OVERDUE FINANCIAL OBLIGATIONS -
CONSIDERATION OF COMPLAINT WITH RESPECT TO COMPULSORY WITHDRAWAL; AND
TERMINATION OF SUSPENSION OF RIGHT TO USE SDRS

Executive Directors considered the staff report for the 1994 Article IV consultation with Sudan (EBS/94/245, 12/20/94), together with a paper for the further consideration of the complaint with respect to compulsory withdrawal in connection with Sudan's overdue obligations (EBS/94/250, 12/28/94). They also had before them a background paper on recent economic developments in Sudan (SM/94/311, 12/30/94). Mr. Abdalla Hassan Ahmed, Minister of Finance, participated in the discussion as the representative of Sudan.

The staff representative from the Middle Eastern Department made the following statement:

This statement updates the staff report for the 1994 Article IV consultation with Sudan (EBS/94/245, 12/20/94). All prior actions specified for end-December 1994 have been implemented consistent with the letter of intent, except for the legal clearance of the issuance of government securities.

The Government has observed the schedule of payments described in Annex IV of the letter of intent. The Fund received a payment of SDR 1.6 million on December 22, 1994.

Measures were taken to further liberalize the interbank foreign exchange market. Effective January 1, 1995 the proportion of export proceeds subject to compulsory sale by the commercial banks to the Bank of Sudan was lowered from 80 percent to 65 percent. On December 17, 1994 the proportion of export proceeds subject to surrender to the Bank of Sudan at its daily reference rate was reduced from 50 percent to 25 percent; this measure was intended to reduce the disincentives faced by commercial banks who seek to quote a more depreciated rate than the average in the interbank market. The interbank exchange rate moved from LSd 395 per \$1 at end-November 1994 to LSd 417 per \$1 at end-December 1994 and LSd 426 per \$1 on January 9, 1995. Meanwhile, the parallel market rate remained at about LSd 490 per \$1 through end-December, but moved to about LSd 10 per \$1 in the first week of January 1995. The authorities attribute the further depreciation in the parallel market rate to higher demand for foreign exchange following the lifting of the import ban on cars. Consequently, the premium of the parallel market rate over the interbank rate fell to 20 percent, compared with an indicative goal of a reduction to about 17 percent in January 1995.

Sugar and passenger cars were eliminated from the negative list of imports from January 3, 1995; the list is now limited to products banned for reasons of religion, health, or security. On

this occasion, the customs duty rate on passenger cars was raised from 100 percent to 200 percent. The authorities are confident that fiscal revenue envisaged from this measure--about LSd 6 billion during January-June 1995--will be attained, notwithstanding the reduction in import demand that can be expected from the higher tariff rate, but they will monitor developments closely.

Procedures have started for the issuance of government securities with market-related rates of return, but the legal clearance by Parliament was not obtained by the end of 1994. The authorities expect legislative approval before end-January 1995 and remain confident that the objective of offering securities in an amount of LSd 2 billion to the nonbank sector during 1994/95 will be achieved. In December 1994, commercial banks were instructed to increase the rate of return to savers through higher profit sharing with investment account holders.

The Bank of Sudan has reinforced instructions to commercial banks and held seminars in December 1994 to ensure consistent use of the end-month exchange rates for the valuation of foreign-currency denominated assets and liabilities in monthly reporting.

The exchange rate for customs duty valuation was raised to LSd 390 per \$1 effective January 8, 1995. The subsidy on furnace oil for electricity generation was reduced by one third from LSd 1.2 billion a month to LSd 0.8 billion consistent with the commitment to eliminate this subsidy by June 1995.

The authorities have reported information to the staff as specified in the letter of intent and are making further efforts to expedite the process.

Prospects for a good harvest of sorghum, wheat, cotton, and other agricultural products have been confirmed by the Sudanese authorities and an FAO team. Export prices remain favorable and the goal of exports rising to \$615 million in 1994/95 should be attained.

The 12-month rate of inflation for November 1994 was 85 percent, down from 108 percent in October 1994 and 143 percent in May 1994. Assuming full implementation of the 1994/95 program, the staff expects the rate of inflation to fall below 60 percent by end-June 1995.

Preliminary information on money and credit developments through end-November 1994 indicates that the financial program remains on track. Net bank credit to the Government, which is programmed to be limited to LSd 20 billion during June-December 1994, amounted to about LSd 20 billion during the five-month period that ended in November. Fiscal developments are broadly as

expected, although some shortfall was reported in revenue from fees and charges, which was offset by higher revenue from trade taxes. Credit to the private sector was contained to LSd 26 billion during the first half of 1994/95, consistent with the program.

Mr. Abdalla Hassan Ahmed, the Minister of Finance of Sudan, made the following statement:

The past few months have seen intensive efforts by the Sudanese authorities to improve relations with the Fund. The recent Article IV consultation has provided yet another opportunity to move further down this road. Toward this end, the Government of Sudan has taken significant steps to strengthen its adjustment effort and has reaffirmed its commitment to increase payments in the second half of 1994/95 with a view to reducing arrears to the Fund, despite the very difficult foreign exchange situation. The authorities have gone further to request an informal monitoring arrangement in connection with the implementation of their program for 1994/95. The progress toward normalization of relations with the Fund is testimony to the pragmatism, perseverance, and flexibility exhibited by both parties in keeping the door open for dialogue. These three pillars must continue to be the foundation for cooperation in the future.

The Sudanese economy is now at a crossroads. On the one hand, the strong growth performance over the past three years is expected to be repeated in 1994/95; the fiscal situation has improved considerably; and the prospects for exports are encouraging. On the other hand, serious problems remain, the most critical being the high rate of inflation and the extremely weak balance of payments position. The latter is reflected in the continued buildup of already large external arrears, a reminder of the long road ahead as the authorities try to mend relations with external creditors.

Sudan's reform program has placed emphasis on stabilization as the basis for sustaining the growth momentum and moving toward a viable external position. Accordingly, the program for 1994/95 hinges on restrained fiscal and monetary policies, supported by structural reform aimed at making the economy more efficient and more responsive to market forces.

The 1994/95 budget continues the process of fiscal consolidation, an area where substantial progress has been made in recent years. The deficit declined from over 13 percent of GDP on a cash basis in 1991/92 to 4.3 percent in 1993/94, and is programmed to decline further to 2.3 percent of GDP in 1994/95. Additional corrective actions that were taken since the budget was approved last July included measures to increase revenue and to reduce

expenditure. The authorities realized that further action aimed at strengthening the fiscal posture was critical, not only to addressing the immediate problem of inflation but also to making progress toward the longer-term goal of increased resource mobilization to support a much-needed rise in the level of investment. Nevertheless, much remains to be done to put Sudan on a sound fiscal footing, and the Government is looking at ways to further raise the revenue/GDP ratio which remains well below historical levels.

The Bank of Sudan is a full partner in the fight against inflation, and some success is already being registered on this front. Inflation dropped from 130 to 85 percent between July and November 1994, reflecting in part the tight monetary stance of the Bank of Sudan. A further decline to about 55-60 percent, which is the target under the program, is envisaged by the end of 1994/95, against the background of the substantial cut in net borrowing by the Government to less than one third of the amount planned under the initial budget. Overall, the growth in credit in 1994/95 is expected to be less than half the rate of last year. The adequacy of the limit on credit to the private sector, which has been slightly reduced from the original stipulation, will be reassessed in the context of the review of the program later this year.

Financial sector liberalization is one of the major elements of Sudan's adjustment program. In this regard, there is a move toward increased reliance on indirect monetary instruments, including the sale of government securities at market-related rates of return. The legislation for the sale of such securities has encountered some delay because of the legislative recess. However, approval is expected by the end of January. In the meantime, the Bank of Sudan is going ahead with work on administrative procedures that would facilitate the smooth functioning of the market for government securities. The supervisory role of the central bank is also being strengthened.

The exchange rate regime has experienced systemic changes. Since July 1994, a unified official exchange rate determined in the interbank market has been in effect. The proportion of export proceeds subject to compulsory sale to the Bank of Sudan at its daily reference rate has been reduced from 50 percent to 25 percent since mid-December 1994, and a further reduction is scheduled by the end of January 1995. It is intended that these moves will be complemented with the licensing of nonbank joint stock companies to conduct a range of foreign exchange transactions. The ultimate goal of reforming the exchange regime is the full liberalization of the interbank market.

Structural reform is also proceeding in other areas. Administered prices have been virtually eliminated. Only bread and sugar are being subsidized for the poorest groups of the population. However, the subsidies impose no burden on the budget as they are covered by profits from the regular sale of both commodities. The Government's commitment to privatization remains firm. About 27 public corporations have already been sold since the Privatization Act was passed in 1992; another 18 have been placed on the market, of which nearly half is expected to be sold soon.

The authorities are in the process of working out in some detail a medium-term economic program centered around an increased role for the private sector. The aim is to increase investment and maintain a high rate of growth in a stable macroeconomic environment.

Overall, economic policies in Sudan are on the right track. In fact, the staff appropriately describes the current program as representing a credible effort at adjustment and constituting an important step in tackling Sudan's deep-seated economic problems. Undoubtedly, a long journey is still ahead; but a bold step has been taken. Against this background, it is important that the Fund provide timely technical assistance to Sudan to help formulate and implement a rights accumulation program, which is the only practical solution to the problem of overdue financial obligations to the Fund. The Fund should also view the present developments as a welcome effort toward an early restoration of Sudan's voting rights. Meanwhile, it is critical for the international community to show a concrete response to the Sudanese initiative not only by words of encouragement but also by providing adequate financial support to help the adjustment process move forward.

Extending his comments, the Minister of Finance said that he was grateful for the help Sudan had received from the Fund's management and staff in the past few months in its efforts to improve relations with the Fund and to continue implementing economic reforms. Sudan had made progress in complying with the two prerequisites of the cooperative strategy: it had established a clear record of regular payments to the Fund and was putting into effect a strong program of economic reform for 1994/95. He concurred with the staff that the program represented a credible effort by the authorities to tackle the country's deep-seated economic problems.

Sudan's request for an informal monitoring arrangement was evidence of the authorities' desire to implement the program fully, the Minister noted. However, it was important to look beyond the current program. Sudan would need to work closely with the Fund to achieve its goals of settling its arrears and reforming the economy. The positive results witnessed in other countries that had availed themselves of the Fund's cooperative strategy had

reinforced his view on the need to work closely with the Fund. Thus, the Sudanese authorities would like to begin negotiations with the Fund on a rights accumulation program, which would come into effect from the beginning of the next fiscal year. They were appealing to the international community to provide timely financial assistance. Such support was critical to speed up the process of liberalizing the economy and transforming the private sector into a principal engine of growth.

Mr. Dlamini said that he endorsed the Minister's statement and remarks. Economic policies had taken a turn for the better, with positive results: growth was strong and inflation was on the decline. He believed that the authorities were committed to reforming the economy. During a recent visit to Sudan he had had discussions with the President and a number of ministers and leaders of the business community, all of whom had indicated that the reforms were in the best interest of the country and deserved support. He had come away with the impression that the program was supported not only by the Ministry of Finance and the Bank of Sudan, but also by those at the highest levels of Government and the private sector. He considered that the Fund should continue to be pragmatic and flexible in its relations with Sudan. In that connection, he urged Directors to agree to the resumption of technical assistance and to accede to the Minister's request for early negotiations on the formulation of a medium-term adjustment strategy, which could form the basis of a rights accumulation program. He also appealed to the international community to provide timely assistance to Sudan in the form of debt relief and concessional aid to help the country during the difficult period.

Mr. Geethakrishnan welcomed the fact that Sudan had resumed its cooperation with the Fund by taking steps to clear its arrears and to establish an economic reform program. He supported the proposed decisions, as originally drafted. However, arrears remained to be cleared and the reforms needed to be strengthened further. He would thus urge the authorities to speed up their efforts on both fronts.

Ms. Lissakers made the following statement:

We are pleased by indications that Sudan has at least abided by the limited and modest commitments it made to the Board in late July 1994. This is a positive development in the saga of broken promises and unfulfilled commitments that has brought Sudan to the brink of compulsory withdrawal. Nevertheless, while the two staff reports provide some evidence of further movement toward cooperation, we believe Sudan still cannot be deemed to be fully engaged in active cooperation with the Fund, as the carefully hedged language in both staff reports makes clear.

Sudan has not met an essential first test of cooperation, namely stabilization of arrears. The minimal payments Sudan made to the Fund last year have not been sufficient to keep arrears from rising, even during the August-December period when Sudan was

supposedly working to patch up its relations. The many weaknesses we see in the economic program and Sudan's poor long-term track record make us skeptical of Sudan's ability to perform under the stepped up--and very back-loaded--monthly payments schedule for the next six months, much less the longer-term prospects for substantial repayments to the Fund.

On the policy side, another year has gone by and Sudan still has not implemented the bold and comprehensive adjustment measures that have long been needed, though the goalposts have been repeatedly lowered. Those of us who expressed skepticism that Sudan would make full use of the few months' breathing room other Directors advocated back in September are not surprised to see that Sudan did not take full advantage of that chance to develop and deliver a policy package that begins to approach the standard of a bold and comprehensive economic plan.

I can support the staff's analysis of Sudan's major economic problems. However, I would have to say that other elements of the staff report struck us as surreal, particularly in the treatment of Sudan's near-term economic program for the next six months, which appears to fall short of what is needed for a quality informal-monitoring arrangement. I am also troubled by the general presumption throughout the report that Sudan will have no problem shifting to a rights accumulation program on the basis of this informal program.

I have serious reservations about the half-hearted plan developed by Sudan, concerns that the staff would seem to share at least partially, if the numerous caveats and risks noted throughout the report are any indication. I am equally concerned by the substantial compromises the staff appears to have made by signing onto a plan that falls short of the bold and comprehensive effort that they have long argued was needed. The fact that Sudan failed to carry out a similar informal-monitoring agreement with the staff in 1992 adds to our doubts about the credibility of this weak current package.

Indeed, in at least two important respects, the program clearly does not meet the key objectives set out by the staff in its statement in May (EBM/94/43, 5/16/94). In the exchange rate area, the staff assured the Board that "...in particular, the exchange rates would be unified at the parallel market rate at the start of the program and the rate would afterward follow closely the parallel market rate." Now, it appears that Sudan has only committed to reduce the differential between the official and parallel rates to 10 percent by the end of June, which is supposed to come about through removal of the overt factors that allow the Government to exercise a heavy hand in the operations of both exchange rate markets. I would like the staff to explain the

rationale for its apparent about-face on an issue as central as an appropriate and market-determined exchange rate that does not induce the sort of external and internal distortions that continue to feature prominently in the economy. I would note that this was not a new goal--indeed, it appears to have been a prominent objective of the 1992 shadow program that Sudan failed to implement. Similarly, I see no real sign that the Government will move to deregulate interest rates and provide for interest rates that are positive in real terms, another feature that was mentioned prominently in connection with earlier discussions about the contents of a possible staff-monitored program.

The absence of progress on these important issues is not the only area in which Sudan's program fails to impress us. While a modest improvement on the highly expansionary policies of the last fiscal year, the fiscal and monetary package is unimpressive in scope and excessively back-loaded. Despite its major inflation problem, Sudan is once again relying on inflationary central bank financing and large interest arrears to finance its budget deficit. On top of the net borrowing that has taken place since July, more net borrowing from the central bank is expected this quarter. Plans to issue noninflationary government securities, another failed objective of the 1992 program, do not kick in until this February, and the Government's pessimism on their probable success is hardly reassuring.

On the budget itself, revenue performance will remain abysmal even if Sudan fully implements its commitments in this area on schedule, an unlikely prospect given the doubts expressed by the staff. On the expenditure side, spending is rising in real terms, and we see no sign that real reductions are in store. In this regard, I remain quite skeptical of the reported figure for defense spending. Our figures suggest that Sudan's military expenditures are on the order of \$550 million or more per year, which would represent 8 percent of GDP and two thirds of Sudan's actual expenditures. Other immediate policy adjustments could have been made, for instance, to eliminate price subsidies on key consumer goods. On the external side, in addition to the numerous restrictions and distortions that remain, we have continuing concerns about nontransparent measures used to control both exports and imports and the foreign exchange markets.

I must conclude by noting that the near-term scenario outlined in the report as the timetable for a rights accumulation program does not appear realistic. Even in the event Sudan carries out all commitments it has undertaken on the economic side, including additional measures to strengthen the near-term program, the long-standing civil war creates a strong political dimension that absolutely has to be addressed before a credible medium-term economic adjustment effort could be developed that

would be needed for a rights accumulation program. First, as noted in the staff report, the war is draining scarce economic resources from the economy, inhibiting prospects for real economic reform and a substantial boost in foreign exchange-generating activities. As noted, defense spending is a core problem that will have to be tackled as part of a truly credible adjustment effort. Second, war-related issues are one of the major factors limiting access to external assistance from creditors and donors. The bottom line is that we fail to see how a credible rights accumulation program could be formulated without very strong efforts to address these problems.

Turning to the proposed decision, given the continued absence of active cooperation, the many weaknesses inherent in the program that Sudan has formulated for the next six months, and the damage Sudan's \$1.7 billion in arrears inflict on other members, there has been no change in our fundamental assessment that the objective conditions for compulsory withdrawal have been met: Sudan's voting rights were suspended more than one year ago and its recent efforts toward active cooperation continue to fall short of the what the Sudanese have long known to be necessary in order to have their voting rights restored. As Sudan has not met the essential tests of cooperation and the objective conditions for compulsory withdrawal continue to exist, we are prepared to move forward with the next step, submission to the Board of Governors of a resolution in favor of compulsory withdrawal.

If others are still inclined to give Sudan the benefit of the doubt for several more months, we could reluctantly go along with a proposal to come back to the complaint by the Managing Director in the very near future, as the Annual Meeting is still a number of months off. However, we cannot support the decision as drafted because the program the staff proposes to monitor falls short in key respects, as described below, and because it cannot be said that Sudan is actively cooperating with the Fund.

With these comments, I would be prepared to consider a proposed decision provided it is strengthened--at a minimum--along the following lines. First, paragraph 3 should be amended to include a short phrase that would have the Board simply take note of the specific commitments made by Sudan in the letter and annexes attached to the staff report and urge full compliance with those specific commitments. Second, although we appreciate that some time would be needed to assess Sudan's progress against end-March data, the proposed date of May 31 by which the next review should take place is too far off. I would propose that paragraph 4 be amended to specify that: (a) the Board will meet again before the end of March, perhaps in an informal session, to hear a detailed report from the staff that would cover the latest information available, for example, end-December performance and

more subsequent developments--this would allow the matter of Sudan to be discussed informally, if needed, by interested participants at the time of the Interim Committee meeting; (b) a formal Board meeting will be called if Sudan fails to make any of the payments specified--this would hold Sudan to a higher standard of accountability in the months ahead; and (c) the Board will meet at the earliest feasible opportunity to further consider the Managing Director's complaint regarding compulsory withdrawal, and in no case later than May 31.

Finally, I would appreciate assurances from the staff that a Board decision to permit the staff to informally monitor the program and provide limited technical assistance to Sudan does not mean that we are agreeing to a test of cooperation that affects in any way further consideration of the complaint regarding compulsory withdrawal.

Mr. Daïri made the following statement:

The Sudanese authorities deserve to be commended for resuming their stabilization and reform efforts while addressing the problem of arrears to the Fund. We welcome the policy reinforcement for 1995 and the doubling of payments to the Fund for the next six months. The present consolidation of policy reforms has provided the basis for informal monitoring by the staff and we hope that it will help establish a reliable track record of cooperation that could pave the way for a rights accumulation program.

With buoyant output growth and robust expansion of the export sector, because of liberalization of prices and of marketing systems and favorable weather, efforts have been rightly directed toward tightening aggregate demand. To this end, financial policies were restrained despite substantial reduction in external financial assistance, weak administrative capacities, and a difficult economic environment. However, inflation remains high and we welcome the recent deceleration efforts mentioned by the Minister of Finance in his statement.

The program for 1994/95 developed by the authorities and monitored by the staff includes a number of encouraging steps to improve the budget position. On the revenue side, these include substantial progress in improving tax procedure and organization and in introducing new revenue measures, although, as the staff points out, further improvement in revenue is warranted, since revenue as a percentage of GDP remains low. We take note of the authorities' intention to launch a tax reform, including the introduction of a land tax and a broad-based sales tax and we support technical assistance from the Fund that may be needed in this respect. On the expenditure side, targeted subsidies, less

spending in real terms on wages and defense and more on development projects are healthy trends. Contingency measures have also been contemplated and would be put in place should the situation deviate from expectations.

In line with fiscal policy and with a view to reducing inflation, monetary policy is being tightened. Progress has also been achieved in moving toward indirect monetary instruments. However, the rates of return on bank lending in Sudan are substantially negative in real terms and must be corrected for both better allocation of banks' resources and proper remuneration of depositors. The introduction of securities with market-related rates of return announced for early 1995 will help to achieve more realistic structure of return and charge rates. The ongoing effort toward establishing prudential regulations would also play a major role in enhancing the contribution of the financial sector to a healthy development of private business.

The staff report refers to a number of bold steps taken by the authorities toward exchange rate liberalization including replacement of the central bank and commercial banks exchange rates with a new unified rate determined by the major commercial banks. Moreover, the authorities intend to further liberalize the foreign exchange market and, in that connection, to further reduce the proportion of export proceeds subject to sale to the central bank at its daily reference rates--which was recently reduced from 50 to 25 percent--to 20 percent at the end of the current month. To reduce the gap between the interbank and parallel markets to 10 percent targeted for the end of the program period, nonbank joint stock companies will soon be authorized to conduct foreign exchange transactions. While these are steps generally in the right direction, we would like to make two comments.

First, speculative demand, including transactions aimed at protecting purchasing power, plays apparently a major role in the parallel market and this is clear from the increasing trend of dollarization of the economy. As the parallel market is presumably a small part of the entire foreign exchange market and rates prevailing in this market might be distorted because of limited supply, we wonder whether unification necessarily means moving toward such rates. In other words, wouldn't further liberalization of the foreign exchange market coupled with positive rates of return for deposits in domestic currency lead to a strengthening of the pound from its present level? Second, we are concerned about the sequencing of unification and exchange and trade liberalization. When official exchange rates are overvalued--as in the case of Sudan--exchange trade and exchange liberalization would assumably increase pressure on foreign exchange resources. The staff's comments will be appreciated.

Ongoing structural reforms are also encouraging. With the exception of sugar and bread which are subsidized for the poor, all prices have been liberalized. Gasoline prices, a structural benchmark for end-March and end-June 1995, have already been increased to more than \$ 2 per gallon, which is more than the agreed level. The exchange rate for custom duty valuation is also now consistent with the agreed formula. However, privatization process needs to be expedited through higher flexibility and more lenient conditions for asking prices.

Looking ahead, the authorities will need to focus on a medium-term economic policy framework to insure that current efforts will continue with determination with the objectives of price stability, strengthened external position, and improved confidence and contribution of private sector in the economy. The staff's medium-term macroeconomic projections seem generally realistic. However, investment will continue to rely heavily on foreign financing which would be available only under assurance of continuation of sound policies. In this respect we note with some concern that the pace of adjustment envisaged in the staff paper for the medium term does not allow for an improvement in per capita GDP, which is already among the lowest in the world. This would justify in our view, and provided that appropriate policies are consistently pursued, that a substantial debt relief package be considered by creditors in addition to resumption and intensification of concessional assistance.

Sudan is also in need of technical assistance from the Fund to put together a comprehensive stabilization and reform strategy. We support the resumption of technical assistance to Sudan by the Fund, particularly in the areas of public finance and statistics.

With these remarks, we support the proposed decisions.

Mr. Shaalan made the following statement:

After a decade of deteriorating economic conditions, the Sudanese authorities have now embarked on a credible economic program for the remainder of 1994/95 that should pave the way to improving the economic situation in Sudan, as well as lead to a normalizing Sudan's relations with the Fund.

The program represents an important departure from the past policy stance in that it begins to address, albeit in a somewhat ad hoc fashion, the major imbalances that have characterized the economy for so long. To achieve a lasting improvement in the economic situation, this program will clearly need to be followed by a much more comprehensive medium-term program that would include timely structural reform measures in the fiscal, monetary, and exchange rate areas. I am hopeful that such a program would

be formulated in early 1995, as indicated in the authorities' letter to the Managing Director.

Within the framework of the staff-monitored program, the authorities have already undertaken a number of up-front measures and have committed themselves to quantitative and structural benchmarks which, if adhered to, should enhance the prospects for the success of the comprehensive reform strategy planned for 1995/96.

In fiscal policy, I welcome the authorities' intentions to avoid extrabudgetary expenditures and domestic arrears and their determination to take corrective contingency measures as may be needed to achieve their fiscal targets for 1994/95. More important, I am particularly encouraged by the intention to undertake, with Fund technical assistance, a major reform of the tax system in the next few months. The structural weakness of the budget is, and has been for many years, at the core of Sudan's problems. Without significant fiscal reform that would dramatically improve the tax structure, as well as tax administration and enforcement, the benefits of exchange system reform will not only be short lived, but also possibly discredited, and the effort to bring inflation under control will be undermined.

The maintenance of a restrained monetary stance will also be of vital importance to gaining control over inflation. To that end, more effective policies to limit the growth of money and credit need to be devised. More generally, the role of Sudan's financial system needs to be enhanced and the rates of return on financial assets significantly improved so as to achieve the necessary mobilization and efficient allocation of domestic savings. The introduction of government bonds at market-related rates of return, expected to take place this month, would be an important step and should not be delayed.

The maintenance of appropriately tight fiscal and monetary conditions will be essential to permit the full unification of the exchange rate while keeping inflation under control. While the exchange reform measures outlined in the staff report are steps in the right direction, the authorities should consider accelerating full liberalization of the exchange system at an early date.

Sudan's commitment to stabilize and then reduce its arrears to the Fund is important. Clearly, the resolution of the problem of Sudan's arrears to the Fund will require substantial assistance from the international community in the context of a comprehensive medium-term reform plan. The period ahead is likely to continue to be a difficult one for Sudan, but the task will be eased if conditions permit the donor community to participate in providing the financial resources necessary to facilitate the reform effort.

It is, therefore, important that Sudan make every effort to obtain the support of potential donors and creditors.

In conclusion, I am hopeful that this staff-monitored program will be successfully implemented by the authorities, and that it will represent a turning point in Sudan's relations with the Fund and, hopefully, also with other external creditors.

I support the proposed decisions.

Ms. Srejber made the following statement:

I am pleased to note that the Sudanese authorities have taken some tiny steps toward cooperation with the international community by making payments to the Fund in line with their commitments, by developing an economic program for 1994/95, which the staff has agreed to monitor, and by making a commitment to stabilize and then to reduce slightly its arrears to the Fund in the current year. Therefore we could broadly support the draft decisions, including a consideration of providing technical assistance and a termination of the suspension of the right of Sudan to use SDRs. However, like Ms. Lissakers, I have some proposals to change the draft decisions.

Turning first to Sudan's economic program for 1994/95, I welcome the intention to implement a staff-monitored program. But as we can see from the staff report, there are still daunting problems left in almost all sectors of the Sudanese economy, severely restricting the ability of the country to achieve external viability and sustained growth. I could talk at length about this, but as I agree with Ms. Lissakers I will not. Instead I urge the authorities to regard this program as the very minimum and to strive to achieve more. Any underperformance can certainly not be tolerated. In this context I would like to say that I agree to the amendment to paragraph 3 in the draft decision on the complaint with respect to compulsory withdrawal, as suggested by Ms. Lissakers. Let me just make one comment on the program, however; the authorities must keep in mind the importance of human capital development, particularly in view of Sudan's high level of adult illiteracy and low level of primary school attendance. Thus, when improving the fiscal position, care should be taken to design the expenditure structure to allow for investment in human capital. This requires, however, that one has an economic classification of expenditures, which Sudan does not. In order to be able to analyze its economy and formulate its policy Sudan has to address the serious problems in its macroeconomic statistics. Here I support the staff's recommendations that the Fund provide technical assistance.

The Sudanese authorities also need to adhere strictly to the schedule of payments to the Fund. Any slippage in payment or economic program should lead to an early consideration of the complaint with respect to compulsory withdrawal. Thus, I agree with Ms. Lissakers's suggestion of an amendment to paragraph 4 of the draft decision on the complaint with respect to compulsory withdrawal, namely, that a formal Board meeting would be held if at any point Sudan failed to make a payment. However, I think the amendment should clearly state that the Board would then meet to consider the complaint for compulsory withdrawal. It is also important that the staff promptly reports on developments in Sudan. Should any slippage in the economic program occur, the Board should immediately be informed, leading to an early consideration of the complaint. I also agree with Ms. Lissakers that paragraph 4 of the same draft decision be amended to specify that the Board meet before end-March to hear a report from the staff on developments in Sudan. Considering Sudan's history of noncooperation, that is, its failure to fulfill its financial obligations to the Fund and its failure to adopt appropriate economic policies, it is important that the Board closely follows the developments in Sudan. When the Baltic countries started their path toward transition, it was considered necessary to monitor them each quarter, and that was without any negative Fund history at all. We must be careful to give the right signals to our members. We will have a great risk of moral hazard if countries have the impression that noncooperation is rewarded with our tolerance for years, and that countries with bad track records are less closely monitored than are the successful reformers.

If Sudan adheres to its program and its payments plan, which I sincerely hope, we will reconsider the complaint in May. I would feel that the end of May is very late though. Agreeing on a date in early May would, with the two-week circulation period the staff tries to adhere to for issues of this type, allow the report to circulate before the Interim Committee meeting. Hence, I would prefer a change in paragraph 4 of the draft decision on the complaint with respect to compulsory withdrawal of the date to "no later than May 5, 1995." If it should prove difficult for the staff to give a full report before the Interim Committee meeting, one could aim at circulating at least a preliminary report before the Interim Committee's spring meeting, when the preliminary report and the March report could be discussed informally.

To summarize I would like to see the following changes in the draft decision on the complaint with respect to compulsory withdrawal: paragraph 3--as suggested by the Ms. Lissakers in her statement, point 1; paragraph 4--as suggested by Ms. Lissakers in her statement, point 2(a); further on paragraph 4--as suggested by Ms. Lissakers in her statement, point 2(b), with the following clarification "a formal Board meeting to consider the complaint

for compulsory withdrawal will be called if Sudan fails to make any of the payments specified."; further on paragraph 4--as suggested by Ms. Lissakers in her statement, but with the date May 5, 1995.

Finally, I urge the Sudanese authorities to take the further steps necessary soon in order to restore full cooperation with the Fund through the formulation of a comprehensive program laying the basis for a possible rights accumulation program and a further strengthening of the payments schedule to bring down the overdue obligations.

Ms. Lissakers said that, as the modifications proposed by Ms. Srejber were consistent with her position, she supported the changes suggested by Ms. Srejber.

Mr. Shields made the following statement:

I was pleased to see from the staff report that three sets of actions have now been undertaken by the Sudanese authorities. First, payments to the Fund continue to be made according to the agreed schedule; second, a program for 1994/95 is in place, which the staff believes represents a credible effort at adjustment, if implemented in full, and warrants informal monitoring; and, third, progress is being made in implementing early economic reforms. In particular, the fact that they have met all but one of the end-December prior actions. I very much hope that Minister Ahmed is right in his statement that the final outstanding action relating to the legislative framework for the sale of government securities will be met within the next couple of weeks. However, like other speakers I believe that these actions that Sudan has taken are really only the first steps in what will be a long road to normalizing relations with the Fund.

I can broadly agree with the proposed course of action as set out in the staff paper. I hope that the Sudanese authorities make every effort to meet the informally monitored program demands, and only by doing so in full--as others have also stressed--will overdue progress be made toward tackling Sudan's deep-seated economic problems. As we all know, much time has been lost.

I would like to stress again that reforms need to be strengthened and speeded up over the next few months. The authorities should concentrate not only on making good progress on the informally monitored program itself, but also on formulating a broadened menu of reforms for the medium term, to begin in July of this year. This should include, very importantly, a more realistic schedule of payments to the Fund, which should go further than the current minimalist excess of payments over obligations falling due.

The extent to which these initial reforms are developed will obviously determine whether, and when, a rights accumulation program can start. I do not think that the timetable outlined by the staff in its tentative work program is totally unrealistic, but it will certainly require steady progress under the current program, as well as ensuring that appropriately strengthened targets are put in place to follow from the current program. Any backtracking on progress made so far would necessitate further consideration of Sudan's compulsory withdrawal from the Fund. Indeed, I believe that the possibility of such consideration will remain close until there has been much more progress in actually reducing the level of Sudan's arrears to the Fund. The Sudanese authorities should not be under any illusions about this.

Although not fully agreeing with her conclusions, I fully understand the concerns expressed in Ms. Lissakers's statement about the performance so far of the Sudanese authorities and the weakness of the current program. Following some of her suggestions, I agree that it would be helpful if the Board could be kept closely informed about Sudan's progress between now and the next review. In particular, I support the suggestion that a Board meeting should be triggered if Sudan fails to make a scheduled payment. I also take on board Ms. Srejber's amendment to Ms. Lissakers's suggestion. I would also be in favor of an informal briefing, rather than a formal Board meeting, to take place at an appropriate time soon after the staff returns from the next planned mission, perhaps around the second half of March.

Ms. Srejber also mentioned that she would like to bring forward the meeting from the end of May to May 5, so that would also bring the papers forward to before the spring Interim Committee meeting. If that can be done without diminishing the quality of the data and the monitoring, then so much the better. If not, then I prefer to keep to the original timetable. But the notion of some provisional paper before the Interim Committee meeting is a good idea.

Finally, I can accept the proposed decisions to provide technical assistance and to terminate the suspension on the right to use SDRs.

Mr. Clark made the following statement:

I am pleased to see that the conditions set by the Executive in its meeting in September (EBM/94/86, 9/16/94) have been met by the Sudanese authorities. Sudan's commitment to meet the agreed payment schedule and its willingness to implement the policy measures clearly outlined in the staff document will provide the first substantive step toward resumption of active cooperation with the Fund. As noted in the report, only full implementation

of the staff-monitored program along with strict adherence to the payments schedule will send the appropriate signal to the international community.

In that regard, while I endorse the staff appraisal, I much prefer the decision proposed by Ms. Lissakers and elaborated on by Ms. Srejber. In the context of the Fund's strengthened arrears strategy, this chair has consistently supported Board decisions that articulate conditions more clearly. Indeed, we proposed an amendment to the September decision that was roundly endorsed. Moreover, Board decisions with precise policy and payments conditions have produced favorable results--probably because accountability is enhanced.

With respect to the staff-monitored program, there are some areas in which policy could have been more rigorous. I would have expected greater front-loaded efforts to raise government revenues and simplify the exchange rate regime. Given the severe weaknesses in the revenue structure, considerable work must be undertaken early on in this area to widen the tax base. Although we welcome the additional fiscal measures outlined in the authorities' letter of December 2, 1994, it would seem to us that more could be done in the near term within existing capacities to improve collection and widen the base. On the exchange regime, in our view, the Government's rationale for not moving to full unification and liberalization of the interbank market earlier is barely credible. Furthermore, the Fund had argued for action in this area much sooner than the timing agreed to in the papers before us.

While there are a number of points that could be raised on the proposed staff-monitored program, the important thing at this stage is for Sudan to continue with the program as rapidly as possible. I think the work done thus far satisfies this imperative quite well, and would urge the authorities to regard the goals of the program as minimum requirements on which better performance should be built.

In conclusion, I support the decision as amended by Ms. Lissakers and by Ms. Srejber.

Mr. Sirat made the following statement:

The progress made on payments to the Fund and policy measures are in line with our decision at the meeting in July (EBM/94/70, 7/29/94).

As regards payments, Sudan has maintained the schedule to which it had committed itself. Since the resumption of payments in May, disbursements have represented a significant share of

obligations falling due--51 percent--compared with 2 percent during the 1990-93 period.

Naturally, and in line with the commitments renewed today by the Minister, I look forward to a complete and strict adherence to the schedule of repayment for the first half of 1995, which should allow for a modest reduction in the stock of arrears.

I must admit that I would have preferred a somewhat larger reduction than the mere SDR 4 million contemplated; all the more, as the authorities intend to make payments to other creditors, thus violating the norm with respect to the Fund's preferred creditor status. Indeed, I understand that the authorities envisage significant payments to some multilateral creditors from which they expect to obtain higher loans, including non-concessional ones. I am not sure that this piecemeal approach, probably based on a rather short-term vision of its financial problems, is the most appropriate one. Altogether, the scheduled repayments represent an absolute minimum and must be adhered to strictly. Like Ms. Lissakers, I believe that this should be expressed more clearly in the proposed decision. For instance, it could be stated that in case of a delay in payments, the Board would be promptly informed and would then decide on the appropriate path of action.

With respect to policy measures, I note that some progress has been made, notably regarding the unification of the exchange rate and the lifting of quantitative restrictions on international trade; fiscal policy has been strengthened significantly after the adoption of the budget and consequently the fiscal program aims at eliminating recourse to bank credit for the rest of the fiscal year. Overall, we can share the staff's appraisal that the authorities' program represents a significant enhancement of policies, with a view to reducing inflation and strengthening the external position. It also represents the minimum package of policy measures that could warrant staff monitoring.

Indeed, previous speakers have already noted some policy shortcomings, particularly the reluctance to move decisively toward a full unification of the exchange rate, the maintenance of some export restrictions, the very gradual implementation of some fiscal measures, and the inadequacy of interest rate policy. Moreover, the program entails certain risks--apart from the situation in southern Sudan--which are mentioned in the staff report. Let me recall that, during the last fiscal year, both fiscal and monetary policies were less restrained than initially intended. So, again, a full implementation of this program should be considered as absolutely essential by the authorities.

Finally, as regards the medium-term perspective, the macro-economic framework elaborated by the staff at the occasion of this Article IV consultation will help the authorities to formulate policies that could possibly be supported by a rights accumulation program. But we should not convey too much of a feeling of automaticity in this: such an approach will require comprehensive collaboration with the staff--including through technical assistance--and major structural and adjustment efforts. In this regard, an active involvement of the World Bank, together with a regularization of its arrears, will be absolutely crucial to ensure appropriate export-oriented growth. Furthermore, it should be absolutely clear that a potential rights accumulation program will not be an easy or short path to follow, if only because of the extremely large level of existing arrears.

The medium-term nature of this avenue certainly requires a full return to mutual confidence between Sudan and the international financial community. Today is a step in the right direction. No less, but no more.

Mr. Wei made the following statement:

Like the other speakers, we are pleased to see that the Sudanese authorities have made remarkable achievements in adjusting their economy over the past year. Real GDP has continued to grow at a better rate than in a number of countries in the region. More important, the authorities, by implementing an adjustment program and making efforts to pay the Fund, have demonstrated that they are seeking renewed active cooperation with our institution. In this context, we welcome the authorities' request for the resumption of an informal staff-monitored program. We are also very much encouraged by the Minister's clear statement that his authorities will make every effort to ensure that the program objectives will be met. As we are in broad agreement with the staff appraisal, I will make only a few brief remarks for emphasis.

On fiscal policy, we are concerned with the decline in central government revenue, which fell from 9.4 percent of GDP in the preceding year to 7.8 percent in 1993/94, although the authorities had taken a tighter fiscal stance. They are encouraged to make every effort in aiming to increase revenue, and it is hoped that the revenue-enhancing measures, as declared in the Minister's statement, will be strictly implemented. In the event of revenue shortfalls or expenditure overruns, it will be necessary for the authorities to take contingency measures. On the issue of a greater contribution from the agriculture sector in terms of revenue, it seems that the authorities and the staff have different views. Could the staff elaborate more on this issue?

On monetary policy, we share the staff's view that credit expansion must be contained as targeted to bring down the high inflation. The staff points out in the paper that banks' lending rates are substantially below the current rate of inflation. In this respect, I am wondering whether the authorities are considering taking any measures to address this issue.

On structural reforms, it is encouraging that the authorities have made great progress on price reforms and on the unification of exchange rates. However, the authorities are encouraged to continue their efforts in adopting reform measures, particularly in the financial sector and in the exchange rate area.

In conclusion, considering that the authorities have adopted a comprehensive economic program for 1995, and that a number of prior actions have been taken, we fully support the staff-monitored program. We believe that a successful implementation of the program and a strict adherence to the schedule of payments as committed to by the authorities will pave the way for the authorities to enter into a rights accumulation program "which is the only practical solution to the problem of overdue financial obligations to the Fund," as declared in the Minister's statement. The efforts of the authorities as outlined above should also be taken as a welcome attempt toward the early restoration of Sudan's voting rights in the Fund. The Sudanese economy is at a critical juncture in the sense that the authorities' adjustment efforts cannot be sustained if adequate external assistance is not provided. The international community is urged to take joint responsibility in providing financial support to help the authorities move forward with the adjustment process. In this connection, we fully support the resumption of technical assistance by the Fund.

We support the proposed decisions.

Mr. Giulimondi made the following statement:

The Sudanese economy is experiencing the fourth consecutive year of robust growth, mainly because of favorable weather conditions. Nevertheless, Sudanese policy performance during the last few years has fallen well short of expectations, and cooperation with the Fund has been unacceptably disappointing, leading to the initiation of the procedure for compulsory withdrawal. With some degree of satisfaction and great caution I find that the time now seems ripe to take the opportunity offered by the improved economic environment to address these problems with much greater determination.

As noted by other speakers, policy performance in the current fiscal year, albeit improving, is still rather poor. Regarding

fiscal policy, I welcome the measures that the authorities have committed themselves to implementing with the staff's supervision. I concur with the staff that a correction of the severe structural weakness in raising revenues is a top priority in the economic agenda and that technical assistance by the Fund can play an important role. On the expenditure side, the need for a strict control over nonproductive outlays--in particular the military ones--must be emphasized.

On monetary and credit policy, the attitude displayed by the authorities with respect to the determination of interest rates still shows much room for improved understanding and cooperation with the Fund. Interest rates--in particular those on investment deposit in the banking system--remain negative in real terms. The excessive caution displayed by the authorities about the introduction of market-based government securities is a disappointing development in their efforts to deregulate the interest rate regime, and may well pave the way to further inflationary financing of the budget.

As far as exchange rate policy is concerned, the persisting gap between official and parallel market rates is a cause of special concern. A unified market exchange rate is of fundamental importance to efficiently allocate the scarce foreign exchange resources available to Sudan. In this respect, while I welcome the provision of some structural benchmarks by March and June 1995 concerning the foreign exchange regime in the staff-monitored program, I regret that the cause of market segmentation will be addressed only to a limited extent.

Turning to structural reforms, the progress made by the authorities in liberalizing prices and privatizing companies is encouraging and must be strengthened. I agree with the staff that it is crucial that pressures for administered controls over resource allocation be strongly opposed.

I certainly welcome the measures undertaken by the end of 1994 and the payments made to the Fund. However, these represent just initial tokens of a new commitment by the authorities which still needs to be made clear in order to address the Sudan's economic problems and improve its cooperation with the Fund. A draft economic program of a quality that can be monitored by the staff has been hardly set forth and a workable economic strategy may begin to emerge only in the future. Furthermore, a question mark remains about what the Fund is going to do in case the next payments falling due are not made either all or in part, or some of the policy actions expected in the near future--which are not entirely satisfactory and must be deemed as a minimum requirement--are not undertaken. In fact, the structure itself of the compulsory withdrawal procedures, which require consideration

by the Board of Governors for a final decision, may provide unintentional incentives for a more lax attitude when the annual meetings are distant, and a more rigorous one when they are imminent. We should have a more precise plan of the steps to be taken in case of slippage in the policy or payments implementation schedule.

In conclusion, this chair is convinced that the amendments suggested by Ms. Lissakers to the proposed decisions are indispensable to allowing the Board to monitor any developments closely and in a timely manner, and to giving the Sudanese authorities a clear signal of the Fund's determination to strictly adhere to the compulsory withdrawal procedures if need be. We can also support the enhanced wording proposed by Ms. Srejber.

Mr. Koissy made the following statement:

Recent economic and financial developments in Sudan and renewed cooperation with the Fund remain encouraging, as the authorities have continued to deliver on their commitments made in September 1994 to strengthen financial policies, liberalize the exchange regime, and make payments to the Fund consistent with the agreed schedule. Already some positive results have become apparent despite the absence of external assistance, and we welcome the authorities' determination to strengthen further the reform process. Given the wide range of measures already taken, we are of the view that the momentum of this reform process and the prospect of mobilizing critical external assistance would have been much better had it been possible to engage in a rights accumulation program at this time. Nevertheless, we hope that the authorities will persevere in their adjustment efforts and that a rights accumulation program can be put in place as soon as possible.

The staff-monitored program, as described in the authorities' letter, contain important elements which, if firmly implemented, will start to address Sudan's deep-seated economic and financial problems. We are pleased to see that the authorities have made the reduction of inflationary pressures and the strengthening of the balance of payments their immediate objectives. Reducing inflation is essential to the credibility of the program and for laying the foundation for a comprehensive adjustment and structural reform program.

In addressing the inflation problem, the authorities have appropriately adopted a tight fiscal and monetary policy stance. However, we note from the staff report that severe structural weaknesses that have developed over recent years are the principal cause of the low revenue performance and, thus, of the large fiscal deficit. The intention of the authorities to embark on a

comprehensive reform of the tax system and of tax administration is therefore appropriate. Given the recent positive developments in Sudan's relations with the Fund and the strong commitment shown by the authorities to address the arrears problems, we can support the proposal to provide Sudan with the necessary technical assistance. I would also like to associate myself with the views expressed by previous speakers on the need to restrain public expenditure. In this regard, I would encourage the authorities to review their spending priorities and to improve their monitoring.

On the exchange and trade regime, while welcoming the measures already taken and the intention of the authorities to further liberalize the system, we would encourage the authorities to accelerate the pace of exchange rate unification. However, we note that, in view of dwindling financial assistance, the authorities are operating, under extreme financial constraints. While welcoming the authorities' determined efforts to redirect their economic policies and to address their external debt situation, we would note that appropriate external assistance remains of crucial importance to the authorities' adjustment efforts and will significantly enhance the chance of success, as well as speed up the process of normalizing relations with creditors.

Overall, we agree with the thrust of the staff's analysis and policy recommendations, as well as those of previous speakers. We are very much impressed by the determination and commitment of the Sudanese authorities to strengthen the reform process, as stated in the Minister's statement, and we can fully support the proposed decisions.

The staff representative from the Middle Eastern Department said that the staff would have preferred further progress on unifying the exchange rate. In designing the program, the staff had focused on two issues: strengthening the balance of payments and reducing the rate of inflation. The balance of payments target had been set with the aim of allowing Sudan to meet its obligations to the Fund, which the staff believed would be possible. In May 1994, the staff had hoped that the authorities would adopt bolder exchange rate measures. Nevertheless, despite shortcomings in the exchange rate area, developments on other fronts had led the staff to believe that the balance of payments projections were consistent with Sudan's payments obligations. For instance, exports had doubled in the past two years, allowing the authorities to make the requisite payments to the Fund. As a result of the favorable external developments, the authorities had strengthened their adjustment efforts, with the central bank increasing its reserves target by US\$30 million. As regards inflation, the authorities had set a target of reducing inflation to 55 percent. If that target were achieved, the annualized rate of inflation in the final months of 1994/95 would be around 40 percent. Financial policies were also consistent with the inflation target: credit expansion under the program was limited to

19 percent in 1994/95. In order to reduce inflation, the program was built on the assumption that there would be an increase in the velocity of money.

Interest rates on the lending side were between 60 and 80 percent, the staff representative observed. As inflation declined further and the program was implemented fully, it could be expected that lending rates would become positive in real terms. However, deposit rates were only about 30 percent, and the authorities had taken steps to raise them. The staff had not been informed about the details, only that a circular had been issued to banks directing them to change the profit-sharing formula. The staff had agreed, to the extent possible, to work within the system of Islamic banking. The best way to make Islamic banking practices consistent with the macroeconomic targets would be to bring inflation down, and thereafter other measures could be taken. The staff was willing to undertake a study to identify measures that the authorities could adopt and which would be consistent with Islamic banking practices.

A high degree of capital and trade liberalization was taking place, the staff representative noted. The fact that the parallel market exchange rate had been quite stable for the past seven months was an indication that fiscal and monetary measures had been effective. The risks of shocks and instability could be minimized as long as the authorities adhered firmly to the program.

The staff agreed with the authorities that revenue from agriculture was too low, the staff representative remarked. Growth in the agricultural sector--which had been concentrated in livestock and the irrigated sector--had not resulted in higher revenues. The local governments' share of revenue from agriculture had been about 2 percent, while that of the Central Government had been approximately 1 percent. The authorities had pointed out that farmers and others in the rural areas made a substantial religious contribution--"zakat," which was primarily for humanitarian and other social services. While the contributions were generally not included in the official figures, the staff believed that they should be taken into account when analyzing the Government's revenues.

The staff would keep the Board fully informed, whether on a formal or on an informal basis, on matters relating to the staff monitored-program, the staff representative from the Middle Eastern Department stated. However, the staff would not have information on the monetary accounts and end-March benchmarks by May 5, 1995. Consequently, the staff had proposed that a review for the further consideration of the complaint with respect to compulsory withdrawal be no later than May 31, 1995.

Mr. Daïri wondered whether further liberalization of the exchange rate market, together with positive rates of return for deposits in domestic currency, could lead to a strengthening of the Sudanese pound.

The staff representative from the Middle Eastern Department replied that the increase of dollarization in the economy over the past four years

was a matter of concern to the authorities. The only way to reduce the dollarization would be through the full implementation of all the policies, which would reduce the rate of inflation, making the local currency relatively more attractive to hold. The fact that the parallel market rate had stabilized over the past six months was an indication that the situation was not deteriorating.

Ms. Lissakers said that, although she agreed that the Sudanese authorities were beginning to take seriously their responsibilities as a member of the institution, it remained to be seen whether they were willing to make the difficult choices necessary to bring the economy back on track. She agreed with Mr. Shaalan and Mr. Koissy that structural weaknesses on the fiscal side were at the heart of Sudan's problems. The Government had taken steps to increase revenues, but military expenditures continued to account for two thirds of total budgetary expenditures. Furthermore, the authorities had responded to falling revenues by cutting development expenditures by 50 percent. It was not sufficient simply to meet the numerical targets of the program; it was more important that the necessary structural changes take place. In other words, the qualitative changes would determine the sustainability of the program. As yet, there had been no fundamental change in Sudan's economic policies. In that context, she would like assurance that agreeing to an informally monitored program and to the authorities' request for technical assistance would not prejudice the basis for further consideration of compulsory withdrawal.

The Acting Chairman said that he could assure Ms. Lissakers on the last point.

The Minister of Finance observed that Sudan was not capable of spending US\$550 million on its military. Sudan's total export revenues were almost equal to that amount, and half of the export earnings was spent on fuel and oil imports, and paid for in cash. Sudan's defense expenditures accounted for approximately 2.2 percent of GDP. The figure mentioned by Ms. Lissakers could have been circulated by opponents of the regime; he would like to assure Directors that the information was incorrect.

Ms. Lissakers asked whether the quality of the data on budgetary expenditures allowed the staff to make an independent assessment of the magnitude of various types of expenditures.

The staff representative from the Middle Eastern Department replied that, according to official estimates, approximately 2.2 percent of GDP was devoted to defense spending. However, there could be other defense-related expenditures that were classified under "wages and salaries," "other," or "miscellaneous" items. Further study would allow the staff to judge whether the items were properly classified. According to independent sources, defense expenditures in 1991 had been in the range of 2.5-7.7 percent of GDP. The staff did not have any recent information on military expenditures.

Mr. Ismael made the following statement:

I am in basic agreement with the staff appraisal of the staff report. However, I believe that it is rather premature to urge Sudan at this stage to further liberalize the exchange system beyond the provisions of the agreed 1994/95 staff-monitored program, when the program has not even been implemented. Let us be more realistic and allow the authorities to tackle one problem at a time. I also fail to see the relevancy, at this stage, of mentioning the desirability of Sudan's moving to Article VIII status. What is more relevant, in my opinion, is to urge the authorities to persevere in their efforts to meet all their commitments in order to re-establish international confidence in their efforts to restore cooperation with the Fund.

I am encouraged to note that Sudan's payments performance to the Fund has improved since May 1994 and has fully met the schedule of payments as committed to by the authorities. Nevertheless, I would urge that Sudan, as part of its present "damage control" exercise, strive to prevent its outstanding arrears from increasing and to try to freeze the arrears at the December 22, 1994 level.

I am also encouraged by the agreement reached by the authorities and the Fund staff to implement a staff-monitored economic adjustment program for 1994/95. Considering the serious situation in which Sudan is, I can endorse the objectives of the program and the means contemplated to achieve these objectives. I welcome the authorities' commitment to strengthen the policies envisaged under the program as might be required to achieve the program's objectives.

I carefully note the proposals made by Ms. Lissakers and Ms. Srejber. However, it should be recognized that restoring stability and achieving economic adjustment takes time, particularly given the political, economic, and social situation prevailing in Sudan. Even, when Viet Nam was in arrears to the Fund and was under U.S. trade embargo, the Board agreed to review the situation every other six months. The Board has its periodical review of so-called problem countries. Sudan can be included for review whenever we discuss "problem" countries. I, therefore, wish to state that I can support the three proposed decisions as they are.

Mrs. Wagenhoefer made the following statement:

I would consider Sudan's slightly improved payments performance to the Fund and the prospects of an--albeit small--reduction in the stock of arrears envisaged in the first half of 1995 as first steps in the right direction. The staff-monitored program

for 1994/95, should hopefully provide a basis to launch a fundamental change in Sudan's economic policy. Nevertheless, even some of the important new policy reforms agreed under the program cannot hide the fact that Sudan will have a long way to go to tackle its deep-rooted economic problems. For the time being, the outline of Sudan's economic policy for after mid-1995 is unfortunately not yet very clear.

The staff notes that the monetary and fiscal stance adopted under the program is tighter than Sudan has experienced in many years. Some may take such a shift as a first sign of progress. In our view, however, it is not the backward-looking perspective that counts but rather a forward-looking perspective, which should focus more on the present and future needs of the Sudanese economy than on its past failures. Accordingly, a longer-ranging strategy--and here we fully agree with the staff--should envisage further substantial improvements particularly in the fiscal field. Much more has to be done to develop a sustainable revenue basis. This would include a reform of the revenue system, improvements in the tax administration, and a number of structural reforms, such as the development of a large private sector in order to enhance the tax base.

On monetary policy, I note from the report that "the role of interest rate in monetary policy and financial resource allocation is impeded by restrictions under Islamic banking law as practiced in Sudan." Perhaps the staff would like to comment.

Regarding exchange rate policy, although some convergence of views between the authorities and the staff concerning exchange rate policy can be observed, fundamental differences with respect to the elimination of market restrictions persist. Here, we fully support the staff's view and we do not find the authorities' views noted in the report convincing. Therefore, we would urge the authorities not to delay the full unification and liberalization of the interbank market exchange rate.

We have before us several decisions. I can support the decision as proposed on exchange measures and the decisions relating to the complaint with respect to compulsory withdrawal as amended by Ms. Lissakers and Ms. Srejber. Having listened to the staff's remarks on these amendments I wonder whether it makes sense for the Board to meet as early as May 5 in order to further consider the complaint. If we do not know about the performance in relation to the benchmarks for March, I do not think it makes sense to have such a formal Board meeting.

Mr. Kang stated that, although Sudan had made some progress in addressing its economic problems and in meeting some of its obligations to the Fund, it still had a long way to go. It was regrettable that, despite

some payments, Sudan's arrears to the Fund had continued to increase. His chair was prepared to give Sudan some more time to put its house in order, and was in favor of strengthening the decision, along the lines proposed by Ms. Lissakers and others.

Mr. Fukuyama made the following statement:

I learn with pleasure that Sudan has made payments to the Fund as scheduled, although the amount is small, and that the Sudanese authorities have adopted an economic adjustment program for 1994/95 and requested staff monitoring of the program.

I note that this program is not satisfactory in some areas. For example, the fiscal deficit will continue to be large, and inflation will also continue to be high, although declining. Nonetheless, the Sudanese authorities are to be commended for having started to tackle their severe economic problems. Progress, although minor, has been made concerning the arrears to the Fund: they are expected to decline slightly during the first half of 1995. Therefore, I can go along with the draft decisions.

However, like other speakers, I would like to stress that the Sudanese authorities were given another chance based on the expectation that repayments to the Fund would be made as scheduled and the program adhered to. In this respect, I wonder whether there is much advantage in having a Board meeting much earlier than the end of May if many important figures are unavailable. Instead, we can monitor the payments to the Fund each month, and therefore, I agree with the suggestion to have a Board meeting if Sudan fails to make the scheduled payments. I am not sure whether this requires an amendment to the draft decision or whether a general understanding is enough. I would like to have the staff's comment on this point.

Mr. Leiva made the following statement:

Since the Board discussion in September 1994 on the complaint with respect to overdue obligations, payments to the Fund have met the schedule as proposed by the authorities. They remain committed to adhering to the terms of this proposition for the next six months. We are encouraged by this development and agree with the staff that the program adopted by the Sudanese authorities should be the starting point in a long effort to attain macroeconomic adjustment and restore full cooperation with the Fund. In this regard we encourage the authorities to implement the appropriate policy measures and to adhere closely to a program that could be monitored by the staff.

Notwithstanding, Sudan's arrears to the Fund continued to rise last year, reaching approximately SDR 1.2 billion,

representing almost 40 percent of all overdue obligations as of end-November 1994. The financial burden that is being placed upon other members and the reduction of resource availability to assist them cannot be overlooked. Consistent with this concern, we would support propositions to amend paragraph 3 of the draft decision on the complaint with respect to compulsory withdrawal, so that this Board simply takes note of specific commitments made by Sudan and urges full compliance with them. We are also willing to support a closer monitoring of Sudanese performance during the next four months.

We agree with the staff that Sudan will need technical advice for designing and implementing a comprehensive adjustment and structural program. The importance of technical assistance in situations like the one Sudan is currently facing must be stressed. We believe that only with this assistance will the authorities be able to develop a comprehensive program.

In conclusion, this chair supports the proposed decisions with the necessary amendments to paragraph 3 of the draft decision on the complaint with respect to compulsory withdrawal.

Mr. Kiekens made the following statement:

During the past decade, Sudan has often not had positive track records to bring to show the Board and has failed to take credible confidence-building measures; therefore, Sudan has found it harder, if not impossible, to find bilateral and multilateral support.

As I am in broad agreement with the staff's assessment on Sudan's economic situation, I will limit myself to a brief comment before touching upon the further consideration of the Managing Director's complaint with respect to compulsory withdrawal.

I share the view of the staff, Mr. Shaalan, and other speakers that it is absolutely necessary to further strengthen fiscal policy in order to effectively fight the inflationary pressures that are undermining Sudan's economy. The reduction of fiscal deficit should be addressed through a revenue increase.

We are fully aware that the reduction of the fiscal deficit for 1994/95 will be a difficult task. Therefore, and in order to help Sudan not only to reduce this deficit but also to tackle endemic tax problems, we support the resumption of the Fund's technical assistance in this area.

Let me now turn to the further consideration of the complaint with respect to compulsory withdrawal. During the meetings on this issue, this chair has always considered that the rules of the

Fund must be strictly observed and that if this were done the Fund would not shy away from its responsibilities.

During the Executive Board meeting of September 16, 1994 we urged the Sudanese authorities to take further steps to normalize their arrears to the Fund, but we also, very strongly, recommended the adoption of an economic program that would demonstrate the Sudanese Government's commitment to active cooperation with the Fund.

We noted with satisfaction that Sudan has taken steps to meet both conditions. First, payments have been made as scheduled, and second, an adjustment program for 1994/95 has been launched. In view of these facts, we support the proposed decision. We have carefully considered the amendments proposed by Ms. Lissakers and Ms. Srejber. We share the concern of their authors and also those articulated by Mr. Guilimondi. We therefore support Ms. Srejber's proposed amendments.

We urge the Sudanese authorities to continue to adhere to their policy of cooperating with the Fund and to even go beyond what is required by the very minimal program, particularly with respect to the quality of the Sudanese budget--which could be improved. We also urge the Sudanese authorities to meticulously meet the agreed repayment schedule.

Ms. Chang Fong made the following statement:

We are encouraged to see that there are prospects for a positive outcome to the recently intensified discussions between the staff and the Sudanese authorities.

The Sudanese authorities are to be commended for making good on their stated intention to deal in a more consistent way with their arrears to the Fund and, more important, to make a realistic and credible beginning in the assault on the many problems facing their economy. We want also to commend the staff for the clarity and conciseness of the staff report and the presentation of quantitative targets and structural benchmarks agreed, which makes it easier to assess the program to be pursued by the authorities and to monitor progress.

We are reassured by the staff's statement that all commitments but one have been adhered to, and we note the Minister's statement that the legislative change will be accomplished in the very near future. We believe that the steps that the authorities have taken in the areas of price decontrol, import and export deregulation, privatization, and liberalization of the foreign exchange market constitute a courageous effort. The agricultural sector has already responded positively to some of the reforms in

agricultural pricing, foreign exchange, and private ownership--albeit because of the favorable weather. This will not always be the case--some responses will be slower, but we would encourage the authorities to persevere with their program.

Considering the failures and disappointments of the previous decade, we would also encourage the authorities to make further efforts, above and beyond the conditions that the Fund might request, in the long-term interest of Sudan itself and the welfare of its people. As many have noted, this is just a beginning on a very long journey and there are a number of underlying issues that require concerted action at a very early stage. We therefore agree that the design of a longer-term strategy is essential, and thus we support opening the window for technical assistance by the Fund. The staff paper has highlighted the issues that need attention and we would note for emphasis: the weaknesses in the structure of public finances; the tax/GDP ratio, which is one of the lowest among developing countries; the importance of increasing the level of domestic savings and lowering inflation; and a comprehensive strategy to deal with the arrears on external debt and to normalize relations with creditors.

Like Mrs. Wagenhoefer, we suggest a more forward-looking approach in addressing the relationship with Sudan. I am sure that the Minister is aware of consequences of slippages in the implementation of the program.

With regard to the proposed decisions, we can support the amendment proposed by Mr. Kiekens for "a review as soon as possible after the required data is available." We do not see the usefulness of meeting before then. We are prepared to support the rest of the proposed decisions as drafted by the staff.

Mr. Wijnholds made the following statement:

The staff appraisal is quite clear, and I can subscribe to the various policy recommendations made in it. For a long time the Sudanese economy has suffered from many ills, including serious self-inflicted wounds, namely, inflicted through economic mismanagement and a lack of cooperation with international organizations, including the Fund. It is therefore encouraging to see that a change of heart seems to have occurred and that a more cooperative stance and more market-oriented policies are emerging. The staff has agreed to monitor the Sudanese program informally, and this seems worthwhile. There should be no misunderstanding about what this means, however. The Board's endorsement of Sudanese policies is not involved. As to policy itself, on which Mr. Shaalan has spoken with great authority, further steps are urgently required to ensure that Sudan stays on course toward sustainable growth, with low inflation and a strengthening of the

external position. Let me single out two areas on which I would place particular emphasis. First, government revenue, which amounts to less than 10 percent of GDP, needs to be urgently augmented, and for this a major tax reform and improved administration are needed. Second, the progress made in the area of exchange rates needs to be strengthened and speeded up so that a full unification of the exchange rate is not delayed for too long.

Turning to the matter of Sudan's overdue obligations to the Fund, I regret that these have increased once again. At the same time, there are signs of progress in Sudan's relationship with the Fund. I can therefore support draft decision on the complaint with respect to compulsory withdrawal, amended as proposed by Ms. Srejber. On the matter of the date on which to consider further the complaint--paragraph 4 of the draft decision--the staff observes that May 5, 1995 would be too early to have all relevant information. I would therefore be willing to stick to the wording "no later than May 31, 1995," but would then like to see the staff present a brief interim report which would be available before the Interim Committee meeting. Let me add that at the time of the new review, the decision on compulsory withdrawal should be made on the basis of Sudan's attainment of the quantitative and structural benchmarks that are contained in the letter of the Sudanese authorities of December 2, 1994, as well as Sudan's adherence to the schedule of payments set out for the first half of 1995.

In the light of Sudan's new willingness to work effectively with the Fund staff, I can agree with the proposed selective resumption of technical assistance. I can also support the draft decision concerning the termination of the suspension of Sudan's right to use SDRs.

Mr. Mozhin made the following statement:

On the positive side, the staff papers show that, over the past three years, Sudan has managed to achieve considerable real economic growth ranging from 5.6 percent to 11.3 percent a year--surpassing by far its annual population growth rate of about 2.7 percent and resulting in increased per capita incomes. This enabled the authorities to reduce Sudan's fiscal imbalances as a proportion of GDP at a time when external assistance to the country had virtually dried up.

On the negative side, Sudan's biggest problems, as correctly identified in the statement by the Minister of Finance, remain the high rate of inflation and the weak balance of payments position. To address these problems, the authorities need to develop a coherent medium-term adjustment program and to strengthen their

structural reform efforts soon. There is no doubt in my mind that restoring Sudan's relations with the international financial community is a necessary precondition for external donor and creditor support of such a program.

At this stage of the discussion, as I share the thrust of the staff's appraisal of the Sudanese economy, I shall try to avoid repeating the points made by previous speakers and will limit my remarks to several brief comments.

First, our position on the Fund's relationship with Sudan remains basically unchanged: a rights accumulation program appears to be the only available vehicle for improving Sudan's relations with the Fund and other international creditors. Therefore, we commend the authorities' intention to avail themselves of the rights approach after a short period of informal monitoring by the Fund staff. In this respect, I strongly support the view that removing the current ban on the Fund's technical assistance to Sudan will be self-serving for the membership as a whole. The sooner a comprehensive adjustment program is formulated and initiated, the better are the chances of resolving the oldest and largest arrears problem in the Fund.

Second, by resuming payments to the Fund and clearing arrears in the SDR Department, the Sudanese authorities have demonstrated their determination to honor the commitments made to the Fund last year. This merits encouragement by the Executive Board, including in the form of termination of the suspension of Sudan's right to use SDRs.

With these comments, I support the proposed decisions.

Mr. Link made the following statement:

We are pleased to note that since our last discussion four months ago the authorities have continued to demonstrate their commitment to addressing the problem of Sudan's arrears to the Fund. The two criteria set out by the Executive Board to evaluate Sudan's cooperation with the Fund have both been met: payments to the Fund through end-December have been made in line with the agreed upon schedule, and the authorities have reached understandings with the staff on an economic adjustment program for 1994/95 that warrants informal monitoring. Although the scheduled payments to the Fund in the first half of 1995 will reduce the stock of arrears only marginally, and serious structural weaknesses in the external and fiscal sectors remain untackled, this program should--if fully implemented--enable Sudan to establish a credible track record for future Fund involvement.

Although we consider that overall the authorities' economic program for 1994/95 represents a realistic first step in resolving Sudan's deep-seated financial imbalances and structural rigidities, we feel that in the area of exchange rate liberalization, progress continues to remain disappointing. In its meeting in July 1994 (EBM/94/70, 7/29/94), the Executive Board noted the importance of moving toward a market-determined exchange rate system. It specified that a divergence between the parallel and official exchange rates of more than 20 percent by September 5, 1994 would indicate inadequate progress in this area. In its previous report (EBM/94/86, 9/16/94) the staff noted that the divergence between the two rates had indeed narrowed to less than 20 percent at end-August 1994. The fact that the divergence subsequently increased again and is currently about 25 percent indicates that past measures have been inadequate. We strongly encourage the authorities to step up their efforts to liberalize and unify the exchange rate system, as this constitutes a crucial factor to ensure a revival of private investment and an increase in confidence of the business community.

With these remarks, our chair agrees with the proposed decisions, along with Ms. Lissakers's amendments, and as modified by Ms. Srejber and Mr. Wijnholds concerning the possibility of an interim report, if there are difficulties in collecting data before the end of March.

Mr. Kiekens said that he supported Ms. Lissakers's suggestion that, "the Board will meet at the earliest feasible opportunity to further consider the Managing Director's complaint regarding compulsory withdrawal, and in no case later than May 31."

Mr. Berrizbeitia stated that he associated himself with other Directors who had noted the progress made by the authorities in making some of their payments and implementing economic reforms. He would, like others, encourage the authorities to continue with those endeavors. At the same time, however, he had noted the comments and reservations expressed by Ms. Lissakers and Ms. Srejber and supported their suggestions to modify the draft decisions.

The staff representative from the Middle Eastern Department remarked that the principles of Islamic banking were applied differently in various countries. Even within Sudan, there were differences of view about how to apply those principles. As regards monetary policy, following Islamic banking principles, a discount rate could not be used as a means of regulating credit extended to commercial banks. However, there were other ways to achieve the same objective. The Bank of Sudan used the following monetary instruments: changing the reserve requirement; applying quantitative restrictions; and moral suasion. If the sale of government securities were a success, open market operations could be another way of regulating credit. As regards financial intermediation, the authorities had tried to

circumvent the tenet against interest payments by setting up a system under which monetary transactions were conducted in the form of purchases and sales, with a profit being made on each transaction.

The Minister of Finance said that the Government was committed to reforming the economy, and would continue in its endeavor to meet that objective. The Sudanese authorities were aware that they would need the help of the international financial community, and they had taken steps to improve relations with donor and friendly countries, with a view to obtaining debt relief and concessional financing. Those would be critical to Sudan's efforts to formulate and implement a rights accumulation program.

Mr. Dlamini stated that he would like to thank the Executive Directors and the staff for their advice to the Sudanese authorities. He appreciated the Minister of Finance's efforts in moving Sudan forward on the right track and closer to solving its economic problems.

The Acting Chairman made the following summing up:

Executive Directors were in broad agreement with the appraisal contained in the staff report for the 1994 Article IV consultation with Sudan. They noted the positive developments that took place in 1993/94, including the adoption of agricultural pricing and marketing arrangements that contributed to the continued robust growth of output. Nevertheless, although Directors noted that the rate of inflation had decelerated in recent months, they expressed concern over the continued high rate of inflation, which clearly called for a significant tightening of fiscal and monetary policies. Notwithstanding some recovery of exports, owing to price liberalization and more favorable weather conditions, the balance of payments remained under severe pressure, as evidenced by the further buildup of external payment arrears. Moreover, the official exchange rate remained overvalued and the exchange system had become more complex with the reintroduction of a dual exchange rate regime characterized by a wide dispersion of rates.

Directors welcomed Sudan's renewed efforts to cooperate with the Fund and to strengthen economic performance through adoption of a stabilization program for 1994/95, which the staff will monitor. They fully agreed with the authorities that the immediate objectives of the program should be to substantially reduce the rate of inflation and to strengthen the balance of payments. These objectives should be achieved through further steps toward a unified market-determined exchange rate and tighter fiscal and monetary restraint than envisaged in the budget that was approved at the beginning of the fiscal year.

Directors observed that important revenue-raising measures and expenditure cuts have already been undertaken in difficult

circumstances. However, in view of the fact that difficulties in fiscal consolidation derive from widespread structural weaknesses, Directors stressed the importance of instituting further tax reforms and strengthening tax administration, particularly within the context of Sudan's medium-term strategy.

Directors stressed the need for market forces to play a more important role in resource allocation, partly, they stressed, to obtain a much-needed increase in investment. In the monetary area, they urged the authorities to press ahead with financial reforms aimed at enhancing the role of financial intermediation and achieving and maintaining borrowing and lending rates that were positive in real terms, including through the issuance of bonds at market-determined rates of return. In addition, Directors encouraged the authorities to accelerate the pace of privatization. As regards the exchange system, Directors noted that earlier efforts at liberalization had been unsuccessful because of rigidities in adjusting the rate in light of market developments, particularly in an environment of lax fiscal and monetary policies. In this connection, they emphasized the importance of accelerating the removal of the remaining restrictive features that continued to inhibit the development of an interbank market and the market determination of the exchange rate.

Directors noted with satisfaction that Sudan had complied with the schedule of payments to the Fund that had allowed the elimination of arrears in the SDR Department by end-December 1994. They strongly regretted, however, that the overall level of overdue obligations to the Fund had continued to rise. They noted the authorities' assurances that outstanding arrears would be reduced, although only moderately, through increased monthly payments between now and June 1995. In view of the importance of renewed external assistance for a viable medium-term strategy, Directors urged Sudan to redouble efforts to normalize relations with external creditors and donors and to set a clear timetable in this regard as part of a comprehensive medium-term plan.

Directors supported the view that the authorities' program for 1994/95 warrants informal monitoring by the staff, and that, also taking into account recent and committed payments to the Fund, there is a reasonable basis for a selective resumption of technical assistance, particularly in the fiscal area. Directors stressed that the problems facing Sudan are daunting, and they underscored that full implementation of the 1994/95 program, including strict adherence to the proposed schedule of payments to the Fund, will be essential to establish a track record of cooperation with the Fund that might provide a basis for a possible rights accumulation program. Full implementation of the staff-monitored program, including recommendations arising from

Fund technical assistance, will be needed to send convincing signals of Sudan's resolve in addressing its economic difficulties, and could be an important factor in regaining the support of the international community. Finally, Directors stressed that, while the current efforts at stabilization and reform are a turning point, they are only a first step that must be followed up by a comprehensive longer-term program of fiscal, monetary, and structural measures.

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

The Acting Chairman said that, as the draft decision on the complaint with respect to Sudan's overdue obligations did not include Ms. Lissakers's suggestion that the Board meet before the spring Interim Committee meeting, he would propose the following: the staff would circulate a report on developments in Sudan, and the Board would meet--perhaps, in an informal session--to discuss Sudan's progress under the program before the end of March and in time for the spring Interim Committee meeting.

Ms. Srejber remarked that, in view of the staff's comments that all the necessary data would not be available by early May, she would support Ms. Lissakers's suggestion that the Board consider the complaint on Sudan's compulsory withdrawal not later than May 31, 1995. Furthermore, she asked whether the staff could issue a report on developments in Sudan up until the Interim Committee meeting. Such a step would send a message to the authorities that the Fund was interested in following closely the developments in Sudan and that they should accordingly speed up their reporting to the Fund.

The Acting Chairman replied that he did not anticipate further information being available between the end of March and April 26--the day of the Interim Committee meeting.

Ms. Srejber observed that monetary statistics were available on a monthly basis.

The Acting Chairman suggested that the staff would circulate any information that became available after the end-March meeting.

Mr. Daïri remarked that at the previous discussion on Sudan (EBM/94/86, 9/16/94), Directors had agreed that the Board would review further the progress toward a resolution of Sudan's overdue obligations, and whether there was a program in place that demonstrated active cooperation with the Fund through the implementation of appropriate policies that could be monitored by the staff. He wondered whether, by agreeing to the decision before them, Directors were stating that such a program was in place. If so, that would have to be reflected in the decision.

The staff representative from the Middle Eastern Department replied that, in the staff's view, a program of a quality that could be monitored by the staff was indeed in place.

The Executive Board took the following decisions:

Exchange Measures Subject to Article VIII

1. The Fund takes this decision relating to Sudan's exchange measures subject to Article VIII, Sections 2(a) and 3, in the light of the 1994 Article IV consultation with Sudan conducted under Decision No. 5392-(77/63) adopted April 29, 1977 as amended (Surveillance over Exchange Rate Policies).

2. Sudan maintains a restriction on payments and transfers for current international transactions as described in EBS/94/245 in accordance with Article XIV, Section 2. In addition, Sudan retains restrictions on payments and transfers for current international transactions and multiple currency practices that are subject to Fund approval under Article VIII, Sections 2(a) and 3, including those evidenced by external payments arrears, a bilateral payments agreement, limitations on the availability of foreign exchange for invisibles other than foreign travel, and the arrangement for compulsory sale of foreign exchange by banks at certain exchange rates, exchange transactions in the parallel market, and the operation of foreign export taxes. The Fund urges the authorities to eliminate the above-stated restrictions and multiple currency practices as well as the restrictive features of the bilateral payments agreement as soon as possible.

Decision No. 10888-(95/4), adopted
January 13, 1995

Overdue Financial Obligations - Consideration of Complaint with
Respect to Compulsory Withdrawal

1. The Executive Board has considered further the Managing Director's complaint under Article XXVI, Section 2(c) with respect to the compulsory withdrawal of Sudan from the Fund in accordance with paragraph 4 of the Executive Board Decision No. 10757-(94/70), adopted July 29, 1994.

2. The Fund notes the recent payments to the Fund by Sudan, which have been in line with the authorities' commitments. Nevertheless, the Fund remains concerned at the level of Sudan's overdue obligations, which now total SDR 1,188.7 million. The Fund regrets that the amount of Sudan's overdue financial obligations to the Fund has continued to increase. The continuing nonobservance by Sudan of its financial obligations to the Fund places a financial burden upon other members and reduces the

financial resources available to help others. The Fund urges Sudan to make full and prompt settlement of the overdue financial obligations to the Fund. The Fund stresses that settlement of the overdue financial obligations to the Fund should be given the highest priority.

3. The Fund welcomes the authorities' intention to implement a program of economic and financial adjustment for the fiscal year 1994/95 of a quality that can be monitored by the staff. The Fund notes the commitments set out by the Sudanese authorities in their letter to the Managing Director dated December 2, 1994 and elaborated in Annexes I-VIII of EBS/94/245. The Fund urges Sudan to adhere strictly to its commitments, to take additional measures as may be necessary to achieve the goals of the program, and to strengthen its adjustment effort by adopting a comprehensive program of financial and structural measures. The Fund is prepared to assist the authorities in these endeavors, and considers the provision of technical assistance to Sudan in support of efforts to formulate and implement a comprehensive adjustment and structural reform program to be appropriate.

4. The Executive Board will meet at the earliest possible opportunity to consider further the complaint of the Managing Director with respect to the compulsory withdrawal of Sudan from the Fund in the event that Sudan fails to make any of the payments specified in Annex IV of EBS/94/245 and, in any event, no later than May 31, 1995.

Decision No. 10889-(95/4), adopted
January 13, 1995

Termination of Suspension of Right to Use SDRs

The Fund decides that the suspension of the right of Sudan to use SDRs, as provided in Executive Board Decision No. 9577-(90/156) S, adopted November 2, 1990, is terminated.

Decision No. 10890-(95/4) S, adopted
January 13, 1995

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/95/3 (1/11/95) and EBM/95/4 (1/13/95).

2. REPUBLIC OF UZBEKISTAN - REPRESENTATIVE RATE FOR SUM

The Fund finds, after consultation with the authorities of the Republic of Uzbekistan, that the representative rate under Rule O-2(b)(i) for the sum is the midpoint between the buying and selling rates for the sum against the U.S. dollar (fixing rate) at the foreign exchange auctions, as ascertained by the Central Bank of Uzbekistan. (EBD/95/5, 1/6/95)

Decision No. 10891-(95/4) G/S, adopted
January 11, 1995

3. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/95/6 (1/9/95) and EBAM/95/7 (1/10/95) and by Advisors to Executive Directors as set forth in EBAM/95/7 (1/10/95) is approved.

APPROVAL: December 11, 1995

LEO VAN HOUTVEN
Secretary

