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August 15, 1997

To: Members of the Executive Board

From: The Secretary

Subject: **Sudan—Review of Staff-Monitored Program for 1997**

Attached for consideration by the Executive Directors is a paper on the review of the staff-monitored program for Sudan for 1997. This subject, together with a paper on Sudan's overdue financial obligations to the Fund—further consideration of complaint with respect to compulsory withdrawal (EBS/97/149, 8/15/97), is tentatively scheduled for discussion on Friday, August 29, 1997.

Mr. Sundararajan (ext. 38573), Mr. Shabsigh (ext. 35364), or Mr. Treichel (ext. 34045) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, August 25, 1997; and to the African Development Bank (AfDB), the Arab Monetary Fund (AMF), the European Commission (EC), and the Islamic Development Bank (IsDB), following its consideration by the Executive Board.

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SUDAN

Review of Staff-Monitored Program for 1997

Prepared by the Middle Eastern and
Policy Development and Review Departments

Approved by V. Sundararajan and Thomas Leddy

August 14, 1997

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EXECUTIVE SUMMARY

- Macroeconomic performance in Sudan has shown significant improvements on several fronts. The quantitative benchmarks through June and the structural benchmarks through July under the staff-monitored program were met. Real GDP is estimated to grow in 1997 by 5.5 percent compared with the initial program projection of 4.9 percent, while inflation declined to 37 percent (on a year-to-year basis) in July 1997 compared to 114 percent in December 1996. The overall external balance improved, despite a worsening terms of trade, owing to sizable remittances and private capital inflows. The improved macroeconomic performance reflected, in good part, a tight fiscal stance, prudent monetary policy, and adjustments in the exchange rate. Data and economic information were reported to the Fund as specified under the program. Monthly payments to the Fund through July were made as committed (for a total amount of US$36.8 million during February–July 1997).

- The financial program for the second half of 1997 reflects continued prudence in fiscal policy, further tightening of monetary policy, and faster pace of adjustments in the official dealer exchange rate toward the market rate. This rebalancing of the policy mix will help to consolidate the gains in disinflation and adjust to the deterioration in the terms of trade. The bank-financed fiscal deficit will be maintained at the original program level, helped by the introduction of revenue measures (totaling 0.4 percent of GDP) to meet unanticipated additional expenditures (mostly related to emergency development projects). The program also envisages limiting credit growth below the original program target. Macroeconomic policies will be complemented by the ongoing structural reforms and institutional improvements in the areas of tax policy, monetary and banking sector, and exchange and trade systems, as a means to set the stage for sustaining stabilization and reforms over the medium term.

- The staff appraisal stresses the importance of the steadfast implementation of comprehensive macroeconomic and structural reforms to achieve durable gains in disinflation, attain external viability over the medium term, and create the basis for sustainable growth. The authorities are urged to support their stabilization efforts during the second half of 1997 by further improvements in tax enforcement and administration, tight expenditure controls, responsive petroleum pricing policy, expediting the exchange system reform, and an active monetary policy. The authorities are encouraged to further rationalize the tax system toward the eventual adoption of the value-added tax, press ahead with the structural reforms to strengthen monetary operations and the soundness of the banking system, undertake the structural reforms that are necessary to unify and strengthen the exchange markets, and broaden the scope of structural reforms in order to sustain stabilization policy and improve the supply responsiveness of the economy. Finally, the staff appraisal welcomes the authorities' efforts to move toward normalizing financial relations with external creditors, and the authorities' commitment to adhere to the schedule of payments to the Fund, and to accelerate these payments as balance of payments developments permit.

I. INTRODUCTION

1. Subsequent to the Executive Board's consideration of the program of economic and financial adjustment for Sudan in 1997[1] and the finding by the Board, as a whole, that the program was broadly of a quality that warranted monthly monitoring by the staff, the staff has conducted monthly visits to Sudan since April. So far, three monthly reports on developments and program performance during April–June have been issued for the information of the Executive Board.[2] In accordance with its decision on February 12, 1997 (EBS/97/6, 2/18/97, Supplement 2), a staff team visited Khartoum during July 19–31, 1997,[3] to undertake a comprehensive review of performance under the program, and update the program of economic and financial adjustments for the second half of 1997, for the Executive Board's consideration on August 29, 1997. This report provides the findings of the mission on recent developments in economic performance and policies, compliance with quantitative benchmarks through end-June and structural benchmarks for July 1997, and presents a revised program of economic and financial adjustments for the second half of 1997.[4]

2. The mission found that macroeconomic performance during the first half of 1997 was on track and quantitative and structural benchmarks under the program were met (Tables 1 and 2). While serious distortions in the economy remain, the trend in policy over the last few months has been positive. In this regard, the staff sees prospects for significant improvements if the program is maintained and strengthened.

3. Data and economic information were reported to the Fund as specified under the program, and further progress was made in developing information and reporting systems, particularly in the fiscal and monetary areas, to facilitate monitoring of key economic variables, including the quantitative benchmarks under the program.

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[1]EBS/97/45, 3/14/97, considered at EBM/97/29, 3/27/97.

[2]EBS/97/83, 5/15/97, EBS/97/101, 6/11/97, and EBS/97/132, 7/16/97.

[3]The mission consisted of Messrs. Sundararajan (head), Shabsigh, Treichel (all MED), Lin (PDR), and Ms. Lissenburg (assistant, MED). The mission was assisted by Mr. Subramanian, the resident representative in Egypt. The staff team met with H.E. Abdel-Wahab Osman, the Minister of Finance and National Economy, the Hon. Abdallah Hassan Ahmed, the Governor of the Bank of Sudan, Dr. Sabir Mohamed Al-Hassan and Dr. Izzedin Ibrahim, State Ministers of Finance, and other senior officials.

[4]The Board will also be giving further consideration to the Managing Director's complaint on August 29; a paper for that review is also being issued.

4. Monthly payments to the Fund through July were made as committed (for a total amount of US$36.8 million during February–July 1997). Payments to other international organizations totaled US$2.3 million during the first half of the year, the bulk of which was made to the International Fund for Agricultural Development, from which a net inflow of about US$4 million was received.

5. The authorities reaffirmed their commitment to implementing the program effectively and to strengthening the adjustment and reform efforts beyond the program period, building upon the progress made thus far. However, they indicated that sustaining the needed political consensus for undertaking further reforms would benefit from some indication from the Fund on the prospects for strengthening the cooperation with the Fund over the medium term. Specifically, they expressed the hope that the timely and effective implementation of the policies and reforms under the program and a full compliance with the program's performance benchmarks during 1997 would help establish a good track record that would prepare the ground for initiating discussions toward a medium-term arrangement with the Fund. In the meantime, they requested help from the Fund in their efforts to move toward normalizing their relations with other external creditors. They stressed that the effective implementation of programs with the Fund would benefit from access to training provided by the Fund.

6. The political situation has generally improved in recent months, although it remains fragile. The parliament recently ratified the peace agreement signed by the government with some of the opposition forces in the South that envisaged, inter alia, a referendum, in four years time, on south-north relations. The two factions of Mr. Garang and Mr. El-Mehdi, constituting the main military and political opposition groups, have not joined the peace initiative, but the dialogue within the regional context has resumed in Nairobi.

II. Recent Developments and Program Performance

7. Economic developments during the first half of 1997 were favorable on several fronts. Real GDP growth is now estimated at 5.5 percent for the full year, exceeding the program projection of 4.9 percent, reflecting good weather and improvements in the irrigation systems. Inflation fell sharply, to a 6–months rate of 16 percent during January–June, compared with 75 percent for the same period in 1996, partly reflecting policy tightening. Inflation continued to be moderate in July, falling to 37 percent on a year-on-year basis from 114 percent in December 1996.[5] The trade balance was somewhat weaker than projected, owing to a

[5]The monthly inflation rate in July was 3.4 percent, of which 1.6 percent was due to an administrative adjustment in electricity prices. Inflation in Sudan is dominated by food prices, which have a weight of more than 60 percent in the consumer price index. Over the period March–July 1997, monthly increases of food prices averaged about 3.8 percent, while the overall monthly inflation rate averaged 3 percent, reflecting more moderate increases in the

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deterioration in the terms of trade (by an estimate of 12 percent), while the overall balance improved, on the strength of large remittances and private capital inflows, which amounted to US$161 million and US$357 million, respectively.[6]

8. The improved macroeconomic performance reflected, in good part, a tight fiscal stance, prudent monetary and credit policies, and adjustments to the exchange rate and exchange arrangements. Fiscal restraint was achieved through improved tax collection, curtailment of tax exemptions, and the adjustment of domestic petroleum prices, as well as cuts in expenditures. Transfers of profits from domestic petroleum sales at prices above the international level—together with lower world oil prices—helped to increase budgetary revenue, and also buildup a reserve fund (Petroleum Price Stabilization Fund) with the Bank of Sudan.[7] This contributed to a sharp slowing of reserve money growth, and thereby helped to restrain credit to the nongovernment sector. This, together with fiscal restraint, resulted in a more moderate growth in net domestic credit than envisaged. Nevertheless, broad money growth exceeded the programmed level on account of unanticipated foreign currency inflows. The free accounts-to-accounts market exchange rate remained stable since March, while the official dealer exchange rate[8] was adjusted downward progressively, so that the spread between the two exchange rates was reduced to 12.5 percent by end-June (compared with the program ceiling of 13 percent) and further to 9 percent by end-July. The real effective official exchange rate is estimated to have appreciated by slightly over 3 percent during January–June.

9. In the first half, the authorities undertook, with support from Fund technical assistance, reviews of structural reforms in the monetary, fiscal, and exchange system areas, that were needed to prepare the ground for sustaining stabilization efforts and pursuing broader structural reforms over the medium term. These reviews led to understandings on a timetable of steps to initiate, design, and implement reforms in core areas, as already outlined in the monthly reports to the Executive Board. These steps also constitute structural benchmarks for the second half of the year, as listed in Attachment I, Appendix III.

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[5](...continued)
prices of nonfood items.

[6]The bulk of private capital, which is classified as errors and omissions in the balance of payment table, is related to private sector imports, most of which are directly financed by overseas accounts.

[7]This is the contingency fund envisaged under the staff-monitored program (see Attachment I, Appendix VII, EBS/97/45).

[8]Since March 1997, the exchange rate for transactions in the authorized dealer market has been set by a Joint Committee consisting of representatives from commercial banks, nonbank authorized dealers, and the Bank of Sudan.

A. Fiscal Developments

10. Tight expenditure controls and a strong tax performance helped to contain the bank-financed fiscal deficit within the program limit in the first half of 1997, despite a significant shortfall in nontax revenue. At the same time, profits from domestic petroleum sales helped budgetary revenues as well as monetary control.[9]

11. The performance of central government revenue in the first half of 1997 exceeded program projections on account of improved performance in all major tax categories (direct, customs, and excises). Tax revenue in the first half of 1997 amounted to 2.2 percent of full year GDP, compared with 2 percent in the same period of 1996. Several structural measures contributed to improve performance, including: the curtailment, as envisaged in the 1997 budget, of the tax and customs exemptions, and the improvements in customs procedures and the enhancement of tax and customs enforcement.[10] Nontax revenue, on the other hand, was much weaker than expected, reflecting mainly significant shortfalls in fees, and in profit transfers from the Sudanese Petroleum Company and cement companies,[11] while transfers from most other public enterprises were in line with the program. However, these shortfalls were partially offset by higher-than-expected transfers of profits from domestic petroleum sales which contributed LSd 21 billion to budgetary revenues in the first half (compared with the programmed LSd 30 billion, or 0.2 percent of GDP, for the full year). In addition, in line with the program commitment, some LSd 16 billion of surpluses from petroleum sales were kept in the Petroleum Price Stabilization Fund, held with the Bank of Sudan. The improved profits from petroleum sales reflected the maintenance of domestic prices above international prices (Chart 4) (Box 1).

12. Expenditures (excluding interest arrears) were kept under tight control during the first half of 1997, limited to 3.3 percent of GDP compared with 4.5 percent in the same period of 1996. Development expenditures were reduced below program levels, owing mostly to a substantial shortfall in foreign financing.[12] While expenditures on wages, salaries, and benefits

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[9]See paragraph 13 for further details on the monetary impact of petroleum profit transfers.

[10]A bonded warehouse system for use by customs was instituted in early 1997.

[11]Transfers from the Sudanese Petroleum Company were adversely affected by unanticipated infrastructure problems (e.g., delayed completion of access roads). The sharp decline in transfers from cement companies was caused by a severe drop in sales resulting from increases in domestic taxes, as local governments imposed additional excises on top of the increase in the federal excise duty effected in the 1997 budget. The situation was streamlined subsequently, and the state level taxes have been withdrawn since April 1997.

[12]Compared with budgeted US$40 million, only US$8 million of external finance was

(continued...)

were broadly in line with the program, the operational budgets of ministries were contained to below the program levels to ensure that expenditures remained within the available revenue and financing limit under the program.

13. The bank-financed budget deficit was limited to LSd 45 billion in the first half (some 0.3 percent of GDP), slightly below the program's domestic borrowing limit.[13] The containment of the deficit was assisted by a significant improvement in budget management and monitoring. In particular, strict controls were imposed on the granting of government guarantees—an important source of expenditure overruns—thus avoiding the accumulation of domestic payments arrears. Effective expenditure controls were also placed on all government ministries, including the establishment of accounts monitoring units in ministries and major government departments. In addition, the government stepped up its inspection efforts of government units to ensure prompt transfers of revenue collected and to enforce spending discipline. As a result, the cash management of the budget improved significantly, contributing to better revenue collections and tight expenditure control. Finally, progress was achieved in developing a budget monitoring system, including the preparation of daily reports on the government's cash position, weekly estimates of the budget position, and rolling three-month forecasts.

B. Monetary and Credit Developments

14. Broad money rose more than programmed in the first half, despite strong credit restraint, owing to sizable inflows of foreign currency deposits. The growth of the domestic currency money supply, however, remained below the program projection reflecting lower-than-programmed growth of net domestic credit (7.8 percent in the first half, compared with programmed 10.5 percent). The subdued growth of net domestic credit reflected both fiscal restraint as well as the buildup of the Petroleum Price Stabilization Fund with the Bank of Sudan. These factors helped to slow the growth of reserve money substantially to below the programmed estimate (6.3 percent compared to the programmed growth of 9.2 percent),[14] with excess reserves of commercial banks falling to very low levels, and thereby helping to

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[12](...continued)
disbursed during the first half of the year.

[13]Additional domestic financing (referred to as exceptional financing in Table 4) was provided when public sector deposits were drawn down by about LSd 24 billion, in part to finance the February payment to the Fund.

[14]An increase in the reserve balances of about LSd 16 billion in the Petroleum Price Stabilization Fund at the Bank of Sudan reduced the growth of reserve money by about 2.5 percentage points during January–June 1997.

contain expansion of credit to nongovernment sectors.[15] Foreign currency deposits, however, rose by US$45 million and net foreign assets of commercial banks improved by US$33 million,[16] reflecting both an increase in remittances from abroad and tight financial policies. As a result, the growth of broad money (including foreign currency deposits) in the first half of 1997 amounted to about 16 percent compared with the originally programmed 11 percent.

15. Adjustments in the cost of borrowing reinforced tight liquidity conditions. In mid-March the Bank of Sudan increased banks' average profit margins under Murabaha by about 5 percentage points for all sectors, and in mid-May the customer share of financing under Musharaka by 5 percentage points.[17] The average cost of borrowing under Murabaha is estimated to have reached now about 70 percent in nominal terms, hence a positive level in real terms. The increase in customer share under Musharaka, on the other hand, limited the availability of credit and hence contributed to a higher cost of borrowing. The average return on investment deposits, however, is estimated to have amounted only to 35–40 percent in the first half of 1997.

16. During the first half of 1997, the Bank of Sudan took several structural measures to improve the effectiveness of its monetary management (Box 2). In order to facilitate a more timely management of monetary policy, the Bank of Sudan started to develop a short-term information system to monitor monetary and credit developments, and established a Monetary Policy Committee to strengthen monetary analysis and policy implementation. Furthermore, steps are being taken to develop the operational framework of the overdraft facility and interbank markets. In order to encourage the mobilization of domestic currency deposits and strengthen monetary control, the Bank of Sudan has lowered the reserve requirement on domestic currency deposits from 30 percent to 26 percent, while introducing a reserve requirement on foreign currency deposits at the level of 4 percent. Steps were also initiated to develop market-based instruments of government funding consistent with Islamic banking rules, which would reduce the current dependence of the budget on financing from the Bank

[15]The excess reserves of commercial banks (cash in vault and clearing balances at the Bank of Sudan) fell to 14 percent of domestic currency deposits by June 1997, compared to a historical average of above 20 percent.

[16]Net foreign assets of the Bank of Sudan improved by about US$70 million if the IMF liabilities are valued at the current US$/SDR exchange rates, and by US$30 million if the constant end-December 1996 exchange rate is used.

[17]Musharaka and Murabaha are financing tools under the Islamic mode of finance. Under Musharaka, the bank and its customer contribute capital jointly to a particular operation and share the risks and profits according to a negotiated formula. Murabaha resembles most closely a repurchase agreement, under which the bank purchases commodities and sells them to the customer, typically in installments at a pre-negotiated price.

of Sudan and widen the scope of monetary policy. Moreover, in order to improve its banking supervision, the Bank of Sudan has reviewed banks' accounting practices for income recognition and profit computation, and has started developing new accounting guidelines suitable for Islamic banking practices. In addition, the authorities have started a review of banks' compliance with capital adequacy and loan loss provisioning requirements with the view to developing compliance program for specific banks.

C. External Sector Developments

17. The trade deficit was somewhat larger during the first half of 1997 than projected, reflecting a worsening of the terms of trade of about 12 percent. The overall balance, however, improved slightly, on account of strong inflows of remittances and other private capital. Exports fell by 5 percent in U.S. dollar terms from the same period in 1996, as the sharp decline in prices of key products, in particular, cotton, sesame, and gum arabic was only partially offset by a strong increase in volume terms (by about 13.5 percent). Imports remained at the same level as in the previous year, partly as a result of limitations on financing of public sector imports through the accounts-to-accounts market. The net reserve position of both commercial banks and the Bank of Sudan improved. Sudan's arrears to external creditors continued to accumulate, as its actual payments, which amounted to about US$39 million during January–July (including repayments of US$36.8 million to the Fund), were much smaller than its debt service obligations.

18. The free accounts-to-accounts exchange rate (LSd per US dollar) remained broadly stable during the first half of 1997, influenced by tight financial conditions, large inflows, and the reduced demand for foreign exchange by the public sector. The official dealer rate depreciated by about 9 percent during March–July, so that the exchange rate spread declined steadily to below the program ceilings. The real effective official dealer exchange rate is, however, estimated to have appreciated by about 3.5 percent from December 1996.

19. The government has taken a number of structural measures aimed at reducing inefficiencies associated with the current exchange system and moving toward a transparent, unified, and market-based exchange regime (Box 3). Importantly, in parallel with the liberalization of pricing and importation of some petroleum products, the export surrender requirement to the Bank of Sudan on a broad range of exports was reduced, while retention on some specific products was increased. Moreover, the private sector has increased its participation in the importation and financing of petroleum imports. As a result, the Bank of Sudan's financing of government imports has declined significantly.

20. Progress has been made in improving the trade system in recent years; in particular, a comprehensive tariff reform was carried out in early 1996, which has resulted in a substantial reduction in the average tariff rate and its dispersion.[18] However, as discussed below, several export and import restrictions remain, and complicated administrative procedures, together with export taxes, continue to discourage export growth and diversification. The authorities have recently adjusted upward tariff rates on several products partly to offset the impact of increases in taxes on similar products produced domestically (particularly in the case of cement).

III. PROGRAM FOR THE SECOND HALF OF 1997

A. Outlook and Objectives

21. The key challenges for the second half of 1997 are to consolidate the gains in disinflation achieved during the first six months, adjust to adverse external developments, and pursue strongly the design and initial implementation of core structural reforms in the monetary, fiscal, exchange reform, and trade areas. While inflation remained moderate in the first half, pressures may arise from the expected administrative price adjustments and the planned reduction in the exchange rate spread. On the fiscal front, revenue is expected to fall short of the program target, owing to weaker nontax performance and the lower-than-originally programmed exchange rate, while expenditure pressures are expected to intensify, reflecting some catching up in spending and new development outlays unanticipated at the time of the original program. Moreover, implementation of monetary policy is complicated by a significant seasonal increase in the demand for money and credit by the private sector in the third quarter, while uncertainties remain regarding the size, timing, and direction of foreign currency flows. External sector performance will continue to be influenced by the impact of the worsening terms of trade.

22. Against this background, the authorities will undertake additional policy adjustments to ensure that the program's objectives for the full year will be attained or exceeded. Building upon the success during the first half of the year, they will strive to reduce inflation to below the original program target through a further tightening of credit policies than initially envisaged. While the initial inflation projection of 65 percent has not been explicitly revised by the authorities, it is expected that the likely inflation outcome could be around 55 percent and the program projections for the second half have been revised accordingly.[19] On the external sector, taking into account the deterioration in the terms of trade in the first half, the

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[18]The number of tariff bands was reduced from 12 to 6 and the maximum tariff rate was also reduced from 250 percent to 100 percent.

[19]This would allow for further upward adjustments in administrative prices and the likely impact of a faster depreciation of the official dealer exchange rate than initially envisaged.

authorities now anticipate a somewhat smaller improvement in the current account deficit than originally projected. To counter balance of payments pressures and preserve competitiveness, the authorities are allowing a faster reduction in the exchange rate spread, while reducing credit growth to below the original program target. The bank-financed fiscal deficit will be maintained at the program level, through a mid-year supplementary budget that will raise additional revenue to meet the unanticipated expenditures. Macroeconomic policies will be complemented by ongoing structural reforms and institutional improvements in the areas of tax policy, the monetary and banking sector, and the exchange and trade system, which will lay the foundation for sustained policy and structural reforms over the medium term.

B. Fiscal Policy

23. Without additional measures, budget revenue for the full year is expected to fall short of the program target, on account of weaker-than-programmed nontax revenue, despite continuing strong performance of tax revenue. At the same time, expenditures are expected to rise above the program projections for the full year on account of new commitments (as outlined below in paragraph 25). These developments have necessitated the introduction of temporary contingency revenue measures, which are expected to yield revenue of about 0.4 percent of GDP and will help limit the budget deficit to within the program target of 0.9 percent.

24. Tax revenue is expected to continue its strong performance in the second half, as the full impact of the tax policy measures initiated in the 1997 budget is realized. The higher tax revenue would reflect, in particular, higher customs collection resulting from the adjustment, since May 1997, of the customs valuation rate,[20] as well as the impact of improvements in tax and customs administrations. Nontax revenue, on the other hand, is expected to fall short of the program projection for the full year by about LSd 20 billion (0.1 percent of GDP), despite a significant recovery expected for the second half of 1997 and the beneficial effect of the measure to strengthen surveillance of public enterprises and expedite profit transfer. In particular, most of the transfer of revenues that is generated by sales of sugar (LSd 50 billion programmed for the full year) is expected to occur during the second half,[21] and some LSd 12 billion of additional (over program target) transfers are expected on account of surpluses from petroleum sales. Profit transfers from other public enterprises are also expected to remain as programmed. However, the revenues from fees and transfers from the Sudanese petroleum and cement companies, are not expected to recover fully from the shortfalls recorded in the first half.

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[20]The customs valuation rate was adjusted initially from its appreciated level to equal the official dealer exchange rate, and since May, the official dealer exchange rate is being used for customs valuation.

[21]Sales of commercial and industrial sugar, which generate the revenue to the budget, usually occur in the second half of the year, as rationed sugar is disbursed first during the first half.

25. Additional expenditures (excluding interest arrears) are expected during the second half of 1997, reflecting new commitments of about 0.4 percent of GDP (LSd 70 billion); however, the decline in foreign-financed development expenditures would limit the increase in total expenditures for the year as a whole to about LSd 33 billion (2.3 percent of the initially programmed amount). Most of the additional expenditures (about LSd 52 billion) are development related (e.g., emergency maintenance of electricity grids, disaster relief, contribution to foreign-financed development projects and transfers (LSd 10 billion) to the South on account of the peace agreement).[22] The additional expenditures also include a payment to the African Development Bank of about LSd 5 billion (US$3 million), LSd 10 billion of additional current expenditures, and LSd 3 billion of contributions to international organizations.

26. The additional expenditures have necessitated the introduction of revenue measures (Box 4) through a mid-year supplementary budget. These revenue measures are expected to generate some LSd 55 billion in tax revenue and LSd 11 billion in nontax revenue, for a total of about 0.4 percent of GDP.[23] These revenue measures are expected to be temporary (with the exception of the tariff rate adjustment on imported cement) and will lapse at the end of the year.

27. The additional revenue measures, coupled with continued tight expenditure controls, would ensure that government borrowing from the banking system remains within the program limit of LSd 80 billion. Foreign-financed development expenditures are expected to be less than programmed due to a shortfall in foreign financing of about US$16 million for the year as a whole (the original program envisaged US$40 million in foreign financing). The overall budget deficit is expected to remain within the program projection of 0.9 percent of GDP.

28. The authorities have been planning the introduction of a value-added tax (VAT), for phased implementation starting in 1998, that would significantly improve the current indirect taxation system. Significant progress, with Fund technical assistance, has been achieved so far (Box 1) and the work and recommendations of the interdepartmental committee in charge of VAT are summarized in Box 5. The committee has already begun consultations with businesses and industry and trade organizations to solicit their views on the proposed VAT modalities. Consultations on federal-state cooperation on VAT implementation have also

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[22]The transfers are related to resettlement of refugees and reconstruction as provided for under the peace agreement.

[23]The difference between the revenue generated by the new measures and the additional expenditures is financed by a LSd 4 billion of Bank of Sudan credit that was not used during the first half.

started.[24] The committee started at end-July the preliminary work necessary for drafting the VAT law, with a view to completing a first draft at end-August/early September 1997, ahead of the end-September target agreed to with the staff in May 1997. It is expected that the law will be presented to the Executive Branch by end-October.

C. Monetary and Credit Policies

29. The main objective of monetary policy in the second half of 1997 will be to consolidate the gains achieved in reducing inflation in the first half by limiting liquidity and credit growth, taking into account the seasonal increase in the demand for credit in the second half. In addition, various structural reforms will be pursued to strengthen monetary policy implementation and domestic public debt management.

30. The monetary program for the second half of the year is designed to reduce the annual growth of net domestic credit[25] by 4 percentage points below the original program, while the domestic currency component of the money supply will also grow less than originally programmed. In particular, the growth of net domestic credit in the second half will be restricted to 11.9 percent (or LSd 105 billion), lower by about LSd 10 billion from the original program target. In order to be sufficiently responsive to the financing needs of the agricultural sector, which reach a seasonal peak in the third quarter, the program maintains the originally programmed flows of net domestic credit in the period July–September, while restricting credit more tightly in the fourth quarter. In line with the original program, government bank borrowing for the second half would be contained to LSd 35 billion.[26] As a result, the growth of the domestic currency component of money supply would be contained to about 22 percent, against 23 percent in the original program projection, while broad money would increase by 36 percent on annual basis, somewhat higher-than-originally envisaged, reflecting the impact of higher foreign currency deposits.

31. In line with the programmed acceleration of domestic credit growth in the second half of 1997 compared with the first half of 1997 and to allow for some rebuilding of banks' excess reserves, the growth of reserve money in the second half is programmed to increase by 8.4 percent compared with 6.3 percent in the first half. This will be achieved through

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[24]As a fallback position, the government can still impose the VAT as a federal tax which would cover over 90 percent of the indirect tax base.

[25]The program will monitor net domestic credit in the second half of 1997 instead of net domestic assets (as envisaged under the original program) which exhibited significant volatility during the first half of 1997 owing to accounting and valuation problems.

[26]The program definition of bank borrowing excludes operations involving government deposits, because the current treasury management procedures do not allow a sufficient control of these deposits, which also include deposits of some agencies for import financing.

adjustments in the reserve requirement ratio,[27] changes in the terms of access to overdraft facility, the removal of the need for preapproval of interbank trades by the Bank of Sudan, and other measures to facilitate interbank trading.

32. These actions will be complemented by further structural measures to strengthen monetary and public debt management and banking soundness as outlined in Box 6. In particular, the authorities plan to design and implement in the coming months, new market–based instruments of government funding, and new procedures for interbank trading, consistent with Islamic banking principles. Also, the Bank of Sudan has accelerated the technical preparations for the adoption of new accounting, auditing, and disclosure standards consistent with Islamic banking practices. Some of the standards will apply already in 1997. In addition, the loan classification and provisioning system will be improved further in 1998 in connection with the new accounting standards.

D. External Sector Policy

33. Despite the adverse developments in the terms of trade (which are expected to persist in the second half), the envisaged adjustments in policies should help contain the current account deficit at about 23 percent of GDP, slightly above the program target of 22.7 percent, while the overall balance of payments is expected to continue to improve. These objectives will be achieved through tight credit policies; a faster depreciation of the official dealer exchange rate; and increases in export retention, with an aim to strengthen export growth and maintain competitiveness. Despite strong growth in volume terms (about 15 percent), the value of exports is expected to increase only marginally during the second half of the year. Imports are expected to decline in both volume and value terms, reflecting lower imports of foodstuffs and petroleum. Public sector imports are expected to continue to decline as a share of total imports, while private sector imports will grow strongly. The current account deficit will continue to be financed by inflows of remittances and private capital.[28]

34. Exchange rate policy will have an important role to play in helping preserve export competitiveness. To this end, while reaffirming their commitment to observe the program ceilings on the spread between the accounts-to-accounts market and official dealer exchange rates (11 percent by end-September and 8 percent by end-December 1997), the authorities

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[27]The introduction of the reserve requirement on foreign currency deposits at 4 percent—with a corresponding reduction in the reserve requirement on domestic currency deposits to 26 percent (from 30 percent)—could have an expansionary effect, insofar as banks choose to maintain the required reserves on foreign currency deposits in foreign currency.

[28]A consortium of foreign and Sudanese companies was formed in early 1997 on oil exploration, production, and transportation, currently at the exploration stage. It is expected that the construction of a pipeline connecting the oil field in the western part of Sudan to the Port of Sudan will be completed by 1999, which will transport up to 250,000 barrels a day.

have allowed a faster depreciation of the official dealer rate so as to accelerate its convergence with the market rate, and thereby contain the appreciation of the real effective official rate. Other measures aimed at strengthening export incentives will also be considered (Box 7), including steps to further liberalize the importation, marketing, and pricing of the remaining oil and petroleum products, and, in parallel, to rationalize the surrender and retention requirements.

35. The authorities are reviewing the regulatory and operational framework of exchange markets with the view to moving toward a well-regulated and market-based exchange regime. The planned step-by-step approach would allow—as implemented—for the phasing in of a wide range of structural measures needed to strengthen the market structure and regulations, while complementing the tightening of fiscal and monetary policies under the program. The recent measures to lower the surrender requirement and increase retention shares have helped improve the functioning of the exchange market, and further reforms are planned to reduce inefficiencies and strengthen market practices. In this context, a faster move toward unifying the exchange rates and markets has been constrained, in part, by the absence of a uniform regulatory framework: while freedom of capital movements exists in the accounts-to-accounts market—so as to encourage remittances and private capital inflows[29]—transactions in the authorized dealer market are limited to specified current account transactions. In previous unification attempts, the large initial adjustments in the exchange rate to the market level could not be sustained, partly because the supporting structural and regulatory framework was inadequate. As a result, restrictions on nonbank dealers and surrender requirements on export receipts were often reimposed or intensified to prevent foreign exchange flowing from the official to the accounts-to-accounts markets. The past experience indicates that, in addition to other requirements, including sound macroeconomic policies and flexible monetary policy instruments, adopting market-based regulations governing both capital movements and the current account transactions would be critical in implementing the unification strategy. In this area, the authorities would welcome Fund technical assistance.

36. In order to accelerate trade liberalization, the authorities plan to adopt the measures outlined in the attachment, including the possible elimination of export taxes in the context of the 1998 budget and further tariff reforms in coordination with the introduction of the VAT. In addition, they will undertake a comprehensive review of the trade system (Box 7), [30]

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[29]Regulations governing free foreign exchange accounts permit account holders to freely transfer foreign exchange abroad, issue checks for current account transactions, and withdraw cash within specified limits.

[30]There are no quantitative restrictions on imports except on grounds of health, public order, and religion. Importers are, however, not allowed to use credit facilities (such as forward letters of credit) for financing the import of non–essential goods. Export bans remain effective on sorghum, raw hides and skins, charcoal and firewood, scrap iron and bars, and female

(continued...)

including the recent as well as planned increases in the tariff rates on several imports.[31] The staff noted that this review should focus on reducing the distortions in the trade system, in particular, the higher tariff dispersion. The authorities indicated that most of the increases in tariff rates were temporary in nature (expected to lapse at the end of 1997) and their impact (excluding the defense tax which was partly envisaged under the contingency measures outlined in the original program) will be small, raising the effective tariff rate by about 1 percent.

37. The authorities will continue to seek progress in restoring normal financial relations with external creditors. In this context, they have intensified consultations with bilateral creditors and regional institutions, especially in the Gulf area, on the prospect of renewing financial cooperation. Efforts are being initiated to normalize financial relations with other multilateral creditors. Discussions are being held with the African Development Bank on repayment of arrears, with a view to securing new inflows. The authorities are planning to initiate, in the near term, consultations with the World Bank and other multilateral institutions. The authorities recognize the preferred creditor status of the Fund and reaffirm their commitment to abide by the payments schedule, and will adjust the amounts as needed to avoid further accumulation of arrears to the Fund in SDR terms. Payments to other creditors (African Development Bank, Islamic Development Bank, and the International Fund for Agricultural Development) are expected to amount to US$7.6 million in 1997, with net inflows from the latter two multilateral agencies expected to total US$17.4 million. Total debt service payments are expected to rise to 6.7 percent of current account receipts (excluding official transfers).

E. Structural Reforms

38. In line with its commitments, the government has eliminated the subsidization of some petroleum products—mogas (gasoline), gas oil, and furnace oil. The government has also liberalized the importation, marketing, and pricing of jet fuel and kerosene and LPG. The role of the private sector has been expanded to include the financing and import of crude and

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[30](...continued)
livestock. In addition, there are a number of administrative requirements, such as indicative minimum export prices, stamping of export contracts, and time limits on execution of export contracts.

[31]The tariff rate on cement was raised from 30 percent to 50 percent effective June 19, 1997. The tariff rates will be increased from 5 percent to 10 percent on plastic raw materials and 5 percent to 30 percent on packaging materials and plastic products. A defense tax of 4 percent will be levied on all imports, except petroleum, inputs, and essential goods. A consumption tax of 10 percent will be introduced on wheat flour and commercial sugar imports.

diesel oil. The authorities are planning to introduce further measures to encourage the role of the private sector in oil importation, particularly gasoline imports and marketing.

39. As regards privatization, during the first phase (1991/92-96), 33 government-owned companies were privatized through direct sales (17), liquidation (7), joint venture arrangements (4), leasing (1), and restructuring (4). The government has now embarked on its second phase of privatization, during which 37 entities are slated for privatization, including four large sugar companies, Sudan Airways, as well as Sudan Railways. Following cabinet approval of this list, preparations for privatization, including valuation of the companies, will be initiated. It is expected that privatization in 1997 will yield budgetary transfers of LSd 2 billion (0.01 percent of GDP).

40. In addition to the envisaged structural reforms in the fiscal, monetary, and external areas, the authorities plan to broaden the scope of structural reforms, in order to sustain the stabilization policy and improve the supply responsiveness of the economy over the medium term. A special committee, headed by a State Minister of Finance, was established to review these issues and prepare an action plan for reform. In particular, the committee will review: (i) measures to encourage exports, including abolishing export taxes and rationalizing the export regime; (ii) steps to accelerate privatization; (iii) labor laws to improve the labor market conditions; (iv) investment laws and the operations of the free trade and investments zones with a view to streamline investment incentives; (v) agriculture policy, including agricultural pricing, storage and marketing; (vi) anti-monopoly legislation, covering both the private and public sectors; and (vii) measures to improve education, training, and primary health care.

IV. Staff Appraisal

41. Since the beginning of the year, the government of Sudan has initiated efforts to reinforce its financial policies, supported by targeted structural reform measures, while at the same time laying the institutional groundwork for consolidating and broadening the reform effort in the medium term. The financial policies, comprising a strengthening of the fiscal balance, tight monetary and credit policies, and adjustments in exchange rates and exchange system, were aimed at reining in high inflation and improving the prospects for the balance of payments.

42. The early evidence indicates that these policies are beginning to bear fruit. Inflation for the first seven months, at 20 percent, is significantly below last year's rate of 87 percent, and it is likely that the inflation outcome for the full year could be well below the annual target of 65 percent under the staff-monitored program. Similarly, notwithstanding a large terms of trade shock that has adversely affected the trade account, the relatively tight policies have led to sizeable and offsetting inflows of foreign exchange, leading to an improvement in the overall balance of payments. The staff commends the authorities' intentions to consolidate these gains by adhering to, even strengthening, the stance of current policy, in particular by

maintaining fiscal restraint despite expenditure pressures, tightening credit policies in relation to the initial program, accelerating convergence of the official dealer exchange rate toward the market level, and expediting structural reforms in key areas.

43. The staff welcomes the implementation of the various structural benchmarks and action plans that are intended to sustain the reform effort in the medium term. Timely reporting has contributed to effective monitoring of the program by the staff, but also more nimble policy formulation and execution by the authorities. The government of Sudan has complied with the schedule of payments to the Fund committed at the Executive Board meeting of January 31, 1997. By staying the course charted in the staff-monitored program, the government of Sudan is demonstrating its desire to enhance cooperation with the Fund. The staff encourages the authorities to strive for durable gains in disinflation, strengthening efforts to normalize financial relations with external creditors, and attaining external viability over the medium term. The staff stresses that achieving these goals will require the implementation of comprehensive macroeconomic and structural reforms on a sustained basis.

44. *Tight fiscal policy* has underpinned the disinflation strategy. The adoption of the official dealer exchange rate for customs valuation, realistic pricing policies for petroleum, curtailment of tax exemptions, and enhanced tax enforcement, all have helped to maintain tax revenue broadly in line with projections, while the close monitoring and strict control of expenditures have helped to limit bank financing to within program benchmarks. The fiscal situation has come under some pressure, however, owing to the shortfall in nontax revenue and the unexpectedly large need for additional expenditures related to emergency funding for key infrastructure facilities and the new peace agreement. In this context, the staff commends the authorities' plan to introduce a supplementary budget that would keep the bank financed fiscal deficit to its programmed level. The budget would meet the new expenditure needs by activating many of the contingency revenue measures agreed under the program, while introducing additional taxes on specific products. While recognizing that these supplementary revenue measures are temporary and apply only through the end of the year, the staff notes that some of these measures (such as the increases of tariff rates) might be distortionary, and should be adjusted to be consistent with the medium-term reforms, particularly, the introduction of the VAT in the context of the 1998 budget. The staff commends the authorities' plans to press ahead with technical preparations for VAT and tariff reforms, and with further reforms of the expenditure control and monitoring system during the remainder of the year. The staff urges that further rationalization of the tax system be incorporated in the context of the 1998 budget with the view toward the eventual adoption of VAT.

45. *Monetary and credit policies* have been prudent in the first half of 1997. Notwithstanding the larger-than-envisaged foreign exchange inflows, broad money growth has been restrained by maintaining a tight credit stance and slowing the growth of reserve money through the buildup of the Petroleum Price Stabilization Fund. The authorities intend to further tighten the growth of domestic credit and domestic currency money supply in relation to the program targets for the second half in order to consolidate the gains in reducing inflation and to support the adjustment to the terms of trade shock. Although the revised

monetary program envisages a slightly faster growth in broad money, this reflects larger inflows of foreign currency deposits, while the restrained growth in the domestic currency component of broad money should sustain more rapid disinflation. In this context, the staff urges the authorities to maintain, or if appropriate further buildup, balances in the Petroleum Price Stabilization Fund, and to actively adjust the credit monetary policies settings, in order to ensure the attainment of monetary and credit targets. The staff welcomes the authorities' plans to press ahead with structural reforms to strengthen monetary operations and banking soundness. The staff commends the authorities' actions to phase in new accounting and auditing standards for banks and initiate the design of new market-based instruments of government funding and monetary management consistent with Islamic banking. The staff notes that these reforms, in particular the introduction of new government borrowing instruments to facilitate noninflationary financing of government budget, are crucial to arrest the progressive disintermediation in the banking system, reverse financial repression, and facilitate monetary control.

46. *External sector policies* have helped to cope with the balance of payments pressures and achieve progress toward a unified market-based exchange rate arrangement. The step-by-step strategy toward exchange rate unification has enabled the authorities to narrow the spread between the official dealer exchange rate and the free market rate in a gradual manner, allowing them to undertake the structural reforms that are necessary to unify and strengthen the exchange markets and to phase in the operational and institutional framework for tight financial policies. The staff welcomes the authorities' intention to accelerate the pace of reduction in the exchange rate spread in order to adjust to the terms of trade shock; the staff also welcomes the reductions in surrender requirements and increases in the retention ratios for a wide range of products and the greater role given to the private sector in importation and financing of petroleum imports. While these measures have helped to improve the competitiveness of exports, the staff urges the authorities to ensure that these reforms are complemented by measures to strengthen the interbank foreign exchange market and the establishment of an efficient regulatory and operational framework for transactions in these markets. Such reforms of exchange markets and associated exchange regulations are crucial to the eventual unification of exchange markets on a sustainable and sound basis.

47. The staff notes that the agenda for the design, preparation, and initiation of a host of structural reforms—preparation for VAT, trade reforms, monetary and exchange system reforms—in the second half of 1997 is ambitious and urges the authorities to exercise strong coordination and vigilance to complete the structural benchmarks in a timely manner as envisaged under the program. This would help articulate a package of financial and structural adjustments for the medium term that would improve the supply responsiveness of the economy based on market mechanisms. In this regard, the staff welcomes the authorities' plan to broaden the scope of structural reforms to complement the on-going stabilization efforts.

48. The staff welcomes: (i) the authorities' efforts to move toward normalizing financial relations with multilateral, bilateral, and regional creditors; (ii) the authorities' reaffirmation of their commitment to adhere to the schedule of payments to the Fund made at the Executive

Board meeting of January 31, 1997;[32] (iii) their commitment to accelerate payments beyond the schedule, as balance of payments developments permit, also made at the meeting; and (iv) their intention to adjust payments upward, if necessary, so as to at least stabilize arrears to the Fund in SDR terms. Continued and timely execution by Sudan of the payments committed to the Fund, together with the steadfast implementation of the agreed program, would enhance cooperation with the Fund, help set the stage for an improvement in relations with other creditors, and assist in the eventual adoption of a medium-term arrangement with the Fund.

[32]See BUFF/97/10, 1/31/97.

Box 1. Fiscal Measures Completed

- Eliminated (March) petroleum subsidies by adjusting domestic prices to exceed international prices at the official exchange rate.

- Introduced (March) organizational changes to strengthen the surveillance of public enterprises' accounts and financial operations, and expedite profit transfers to the budget.

- Established (March) accounts and monitoring units in ministries and major government departments and established procedures to ensure prompt transfers of revenue collected and to enforce spending discipline.

- Established (March) an interdepartmental committee on value-added tax (VAT).

- Initiated (May) concerted efforts to develop a budget monitoring system.

- Applied (end-April) official dealer rate for customs valuation.

- Completed (end-May) the report on the rationale and main features of VAT, developed (June) a proposal for VAT administration and completed analysis of revenue impact.

- Started (July) consultation on VAT implementation with the appropriate federal authorities responsible with federal–states relation, with the largest states, businesses, and trade and industry organization.

- Started (July) the preparation for setting up a consolidated statement for all government operations—federal, state, and local—by end-September.

Box 2. Monetary Sector Measures Completed

- Increased (mid-March) the average profit margin under Murabaha by 5 percentage points for all sectors bringing the effective minimum cost of borrowing to at least 65 percent.
- Increased (mid-May) customer share of financing under Musharaka by 5 percentage points for all sectors.
- Imposed (end-June) reserve requirements on commercial banks' holding of foreign currency deposits.
- Initiated steps (mid-July) to introduce a new market-based instrument of government funding, including the establishment of a joint committee between the Bank of Sudan and the Ministry of Finance to review the modalities of the new instrument.
- Undertook measures (end-July) to foster the development of an interbank market.
- Initiated (end-July) a short-term information system to monitor monetary and credit, banking activities, and foreign exchange market developments.
- Established (end-July) a Monetary Policy Committee within the Bank of Sudan to strengthen monetary analysis and policy implementation.
- Reviewed (end-July) banks' accounting practices and started developing new standardized accounting guidelines suitable for Islamic banking practices.
- Started review of banks' compliance with capital adequacy requirements and initiated development of new loan classification system.

Box 3. External Sector Measures Completed

- Restructured (end-February) the Joint Committee in charge of setting the official dealer exchange rate by including a representative from the Bank of Sudan.

- Widened (end-February) the trading band from ±0.3 percent to ±2 percent, within which foreign exchange dealers are free to set their buying rates; abolished the fixed margin between the buying and selling rates and allowed dealers to set the trading margin within a maximum of 2 percent.

- Abolished (mid-March) surrender requirements to the Bank of Sudan of 20 percent on nonbank foreign exchange dealers' daily transactions and 85 percent on invisible receipts.

- Reduced (end-March) the spread between the accounts-to-accounts market and official dealer exchange rates to 16 percent, implying a depreciation of 3 percent of the latter rate.

- Liberalized (mid-May) the importation and pricing of jet fuel and kerosene, and reduced, in parallel, surrender requirements to the Bank of Sudan of all exports (other than cotton and gum arabic) from 30 percent to 25 percent.

- Reduced (mid-May) the surrender requirement on cotton exports from 100 percent to 40 percent, with the remainder being retained by exporters.

- Increased (mid-May) export retention from 50 percent to 55 percent on 13 specific products.

- Reduced the spread between the accounts-to-accounts market and official dealer exchange rates to 12.5 percent by end-June (as against the program ceiling of 13 percent), and further to 9 percent by end-July.

Box 4. Revenue Measures during the Second Half of 1997

The government will introduce the following revenue measures (expected to yield some LSd 66 billion, or about 0.4 percent of GDP):

- A defense tax of 4 percent on all imports (before customs) excluding petroleum, inputs, and essential goods (LSd 26 billion).
- A consumption tax of 10 percent on imported wheat flour (LSd 6 billion).
- A consumption tax of 10 percent on nonsubsidized commercial sugar (LSd 11 billion).
- Increases in fees (LSd 9 billion).
- An increase in the tariff rate on imported cement (from 30 percent to 50 percent) and on packing materials (from 25 to 30 percent) (LSd 12 million).
- Additional privatization (LSd 2 billion).

Box 5. Introduction of the Value-Added Tax

1. Outline of the VAT proposal

The VAT will be imposed on: all imports (10 percent), all domestically produced goods (10 percent), and a few selected services (5–20 percent). Exports are zero rated. VAT will be collected at the import, production and wholesale stages, and at the time the services, that are subject to VAT, are rendered. No VAT collection at the retail level, is envisaged at this time. The committee estimated that with these rates there would be no revenue loss.

2. VAT Administration

The VAT committee recommended, at least during a transitory period, to assign to the customs department the responsibility of collecting the VAT on imports and the excises on the 12 major products which are handled by the federal authorities. The responsibility of administering the VAT on the remaining categories (production, wholesale, and services) would be assigned to the tax department. This approach is expected to speed up the implementation of the VAT without undue additional administrative burden, since the current responsibilities of the customs and tax departments with respect to collecting indirect taxes are in line with the proposal.

3. The effect of Sudan's federal system on VAT implementation

The current constitutional arrangement in Sudan specifies how to allocate the various categories of sales and excise taxes between the central and the state governments. In order to determine, whether any amendments to constitutional decrees might be needed for the implementation of the VAT, consultations with the state ministers in the Inter-States Relations Ministry and with the Khartoum and Gezira states (which have the largest collections of indirect state tax) have been initiated, revealing a strong support for VAT, as long as the federal Ministry of Finance guarantees to the states the existing share of revenue transfers as a minimum, and that the implementation of VAT could be achieved with the voluntary participation of the states.

4. The authorities plan to finalize by end-October 1997 a draft law on VAT for introduction at the federal level, and propose a time table for passing the draft law through the executive branch and submission to the National Assembly with a view to begin a phased implementation of the VAT during 1998. Further rationalization of the tax system toward the eventual adoption of VAT will be considered in the context of the 1998 budget.

Box 6. Monetary Sector Measures Planned

- Draft (mid-August) prudential regulations, for implementation by end-December on appropriate limits on commercial banks' foreign exchange exposures in accordance with international norms.

- Submit (end-September) a proposal on new market-based instruments of government funding to the Bank of Sudan's High Shariaa Supervisory Council and, depending on its decision, announce the intention to use them as a government financing instruments in the next quarterly budget statement.

- Examine (end-September) banks' statements and agree with banks that do not meet capital adequacy requirements on a program for reaching full compliance.

- Standardize bank's accounting methodology for income recognition and profit computation, and also develop proforma bank returns which would incorporate liquidity and risk-weighted categories.

Box 7. External Sector Measures Planned

- Reduce (mid-August) the export surrender requirement from 45 percent to 40 percent on 13 specific products and allow exporters to retain the remaining export proceeds (60 percent).

- Prepare (mid-August) a plan (for adoption by end-September) on further liberalization of oil pricing and importation and reform of the surrender/retention system.

- Prepare and finalize (end-October) a plan on further tariff reform in coordination with the introduction of VAT.

- Undertake (end-October) a comprehensive review of the trade system, with a view to establishing a timetable to rationalize the trade regime and simplify administrative procedures governing foreign trade.

- Plan (end-November) to abolish export taxes in the context of the 1998 budget, pending recommendations of a study.

- Initiate (end-November) technical preparations to strengthen the rules governing foreign exchange market practices, trading arrangements, and code-of-conduct for foreign exchange operations.

- Eliminate (end-December) Bank of Sudan financing of all government imports other than petroleum products, life medicines, and some spare parts.

Table 1. Sudan: Quantitative Benchmarks, January–June 1997

(In billions of Sudanese Pounds; except if indicated otherwise)

	1996	1997										
	Dec.	Jan.	Feb.		Mar.		Apr.		May		June	
	Actual revised 1/	Actual revised 1/	Estimate	Actual	Prog.	Actual	Prog.	Actual	Prog.	Prel.	Prog.	Prel.
Benchmarks												
Ceiling on banking system's NDA 2/ 3/	989	44	25	-2	37	11	52	50	72	9	86	-8
Ceiling on net credit to government 2/ 4/	589	10	20	10	28	26	35	37	41	41	47	45
Ceiling on new nonconcessional borrowing contracted or guaranteed by the government	0	0	0	0	0	0	0	0	0	0	0	0
Floor on NFA on the Bank of Sudan (in millions of US$) 5/	-3,222	53	0	60	0	61	0	88	0	64	0	73
Payments to the Fund (in millions of US$) 6/	0	0	15.3	15.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Memorandum items												
Reserve money 2/	649	-15	24	17	34	20	44	53	52	29	60	41
Central government revenue 2/	702	60	141	127	217	222	300	297	381	383	466	480

Sources: Bank of Sudan; and staff estimates.

1/ December 1996 and January 1997 were revised to correct for a misclassification of certain accounts in the Bank of Sudan's balances. Figures for NDA and NFA in December 1996 differ from those in Table 5, as STA recommendations were taken into account only for the design of the new program, but not in the measurement of performance under the old program.

2/ Outstanding stocks in December 1996; cumulative changes through June 1997.

3/ Banking system's NDA was revised to reflect the correct valuation adjustment.

4/ Excluding changes in government deposits.

5/ Changes in stocks over the end-December 1996 level are converted into the U.S. dollar at end-of-period official exchange rates. The increase in NFA through June 1997 reflects primarily the impact of the appreciation of the U.S. dollar against the SDR.

6/ Monthly flows.

Table 2. Sudan: Status of End-July Structural Benchmarks

Benchmarks	Implementation
July Payment to the Fund of US$4.3 million.	Received on July 21, 1997.
Adjustment in domestic petroleum prices to eliminate any remaining subsidization and ensure the budgeted contribution.	Domestic petroleum prices remain higher than international prices.
Identify and further specify the administrative and organizational aspects of VAT implementation.	Inter-departmental committee worked on the analysis of the revenue impact and further specified organizational and administrative aspects of VAT implementation.
Establishment of joint MOF/BOS committee to study the design and operational modalities of the new government finance paper.	Committee was established.
Prepare action program for consultation with businesses and trade organizations to assure smooth implementation of the VAT.	Action program was developed.
Develop short-term information system to monitor monetary and credit developments, banking activities, and foreign exchange markets.	Development was initiated.
Take measures to develop interbank market, in line with MAE technical assistance recommendations.	Circular was issued by the Bank of Sudan on interbank trading and the overdraft facility.
Statistical reporting.	Observed.

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

	1995	1996	1997		
			Staff Mon. Prog.	June Prel.	Dec. Est.
	(Annual changes in percent)				
National income, prices and exchange rate					
Real GDP (at factor cost)	4.4	4.7	4.9	...	5.5
Consumer prices (month on year ago month)	71	114	65	42	55
Consumer prices (period average)	68	133	59	...	53
Official exchange rate end of period (LSd/US$)	838	1460	...	1591	...
Real effective exchange rate					
(period average: depreciation -)	-22.9	-0.4	...	2.2 2/	...
(end period: depreciation -)	-24.2	14.5	...	3.3 2/	...
External sector					
Exports, f.o.b.	31.8	11.6	0.5	-5.1 3/	-2.3 3/
Imports, c.i.f.	19.1	25.9	-5.8	0.2 3/	-4.2 3/
	(In percent of GDP)				
Central government operations 4/					
Total revenue	8.7	6.2	6.6	....	7.0
Total expenditure (including interest arrears)	24	26.7	18.1	...	17.6
Expenditure excluding interest arrears	12.1	9.6	7.5	...	7.8
Overall balance (on an accrual basis)	-15.3	-17	-11.5	...	-10.6
Overall balance (on a cash basis)	-3.2	-3.4	-0.9	...	-0.9
Primary balance	-2.3	-2.4	-0.2	...	...
Balance of payments and external debt					
Current account deficit	-20.8	-25	-22.7	...	-23.1
Exports, f.o.b.	7.8	8.1	7.7	...	7.5
Imports, c.i.f.	17.2	20.2	17.9	...	18.2
External debt	272	267.5	263.7	...	262.6
External interest due	12.9	13.5	13.4	...	13.3
External debt paid 5/	1	0.7	0.8	...	0.8
	(Annual changes as percent of beginning				
Money and credit					
Net foreign assets	-462.9	-267.3	-240.4	-25.5	-161.2
Net domestic assets	137.7	56.1	13.7	5.6	14.6
Net domestic credit	46.4	59.3	17.3	5.5	14.5
Net credit to the central government	31.2	31.7	6.9	1.8	4.8
Claims on nongovernment sector	15.2	27.5	10.4	3.7	9.7

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

	1995	1996	1997 Staff Mon. Prog.	1997 June Prel.	1997 Dec. Est.
Other items (net)	91.3	-3.1	-3.5	0.1	0.1
Counterpart to valuation changes	472.4	276.3	260.6	35.4	182.7
Money and quasi-money	147.2	65.2	33.9	15.5	36.1
Reserve money 5/	76.7	81.8	17.3	6.3 2/	15.3 2/
Velocity (GDP/average M2)	7.5	10.6	12.5	...	12.1
	(As percent of total current account receipts, unless otherwise indicated)				
Total external debt service					
Commitment basis	160.6	185.5	181.1	...	135.8
Actual payments 6/	9.7	8	8.5	...	6.7
Memorandum item:					
Nominal GDP (annual; in billions of Sudanese pounds)	4,179	10,203	17,008	...	16,700

Sources: Fund staff estimates and projections based on information provided by the Sudanese authorities.

1/ Starting in 1996, all official accounts moved from a fiscal year (July-June) to a calendar year basis.

2/ Cumulative percent change during 1997.

3/ Percent change during 1997 over the same period in 1996.

4/ For the purpose of comparison with the 1996 outcome, revenue and expenditure figures include LSd 145 billion from taxes collected by the Central Government on behalf of the state governments, and and transferred to state governments.

5/ Percentage change.

6/ Including payments of arrears to the Fund and burden sharing refunds.

Table 4. Sudan: Summary of Central Government Operations, 1995–97 1/

	1995	1996	1997				
			Authority Budget	Staff Monitored Program	1st half Actual	Revised Estimates Authority	Revised Estimates Staff
			(In billions of Sudanese pounds)				
Total Revenue	365	629	1,054	1,126	480	1,140	1,165
Tax revenue	289	532	744	816	371	802	865
Nontax revenue	77	97	310	310	109	339	301
Of which							
Petroleum price differential	0	0	30	30	21	48	48
Total expenditure including interest arrears	1,002	2,722	277	3,086	1,313	2,787	2,941
Expenditure excluding interest arrears	501	975	1,218	1,278	557	1,283	1,308
Current expenditure	376	727	1,069	1,117	517	1,125	1,150
Wages and salaries	60	220	346	350	176	346	356
Goods and services 2/	156	244	470	495	215	480	510
Transfers	38	56	52	52	23	62	62
Interest paid	40	100	94	113	51	121	106
Other	82	107	107	107	52	116	116
Extrabudgetary on net basis	58	192	0	0	0	0	0
Capital expenditure and net lending	67	56	149	161	40	158	158
Of which							
Domestic development	0	34	89	89	28	119	119
Interest arrears on external debt	501	1,392	1,504	1,808	756	1,504	1,633
Overall deficit (on accrual basis)	-637	-1,737	-1,668	-1,960	-833	-1,647	-1,776
Overall deficit (on cash basis)	-135	-346	-163	-152	-77	-143	-143
Financing	131	242	163	152	77	143	143
External	42	22	60	72	12	39	39
Domestic bank borrowing 3/	89	220	103	80	45	80	80
Exceptional domestic financing 4/	...	...	...	...	20	24	24
Float	4	104	0	0	0	0	0
			(In percent of GDP)				
Total revenue	8.7	6.2	6.2	6.6	...	6.8	7.0
Total expenditures (excluding interest arrears)	12.0	9.6	7.2	7.5	...	7.7	7.8
Deficit (on cash basis)	-3.2	-3.4	-1.0	-0.9	...	-0.9	-0.9
Domestic bank borrowing	2.1	2.2	0.6	0.5	...	0.5	0.5
Memorandum item							
Nominal GDP	4,179	10,203	17,008	17,008	...	16,700	16,700

1/ Revenue and expenditure data for 1996 and 1997 exclude taxes collected on behalf of and transferred to the states.

2/ Includes also spending on social subsidies and other obligations.

3/ Net lending to government as reported in the monetary survey by the Bank of Sudan.

4/ Reflects the drawing down of government deposits by about LSd 24 billion in part to finance the February 1997 payment to the Fund, and the build up of these deposits at end-June 1997 by LSd 4 billion on account of Bank of Sudan's lending to government that has been extended in June but drawn down.

Table 5. Sudan: Monetary Survey and Factors Affecting Liquidity, 1995–97

	1995	1996	1997 Original Program June	1997 Actual June	1997 Original Program December	1997 Revised Program December
	(In billions of Sudanese Pounds, end-of-period)					
Net foreign assets	-2,756	-4,462	-4,928	-4,759	-7,265	-6,341
Bank of Sudan (incl. IMF) 1/	-2,716	-4,719	-5,268	-5,091 2/	-7,638	-6,784 2/
Bank of Sudan (excl. IMF)	-1,234	-2,242	...	-2,421	...	-3,241
Commercial banks	141	257	271	332	373	442
Net domestic assets	608	1,004	1,049	1,069	1,164	1,174
Net domestic credit	398	817	903	881	1,018	986
Net claims on central government	251	475	522	496	555	531
Bank of Sudan	252	481	528	508	561	543
Gross credit to government	265	589	636	634	669	669
Deposits of the government	12	108	108	133	108	133
Commercial banks	-2	-6	-6	-5	-6	-5
Claims on nongovernment sectors	147	342	381	385	463	455
Private sector	131	319	...	357	...	...
Nonfinancial public enterprises	17	23	...	27	...	...
Other items (net)	209	187	146	188	146	188
Counterpart to valuation changes	2,674	4,624	5,227	5,037	7,662	6,754
Money and quasi-money	706	1,166	1,294	1,347	1,561	1,587
Currency outside banks	249	444	...	498	...	546
Demand deposits	395	634	950 3/	741	1,061 3/	916
in local currency	168	328	...	335	...	375
in foreign currency	227	306	343	406	500	541
Quasi-money deposits	62	87	...	108	...	125
	(Annual changes as percent of beginning stock of broad money)					
Net foreign assets	-326.3	-267.3	-39.9	-25.5	-240.4	-161.2
Net domestic assets	67.5	56.1	3.9	5.6	13.7	14.6
Net domestic credit	32.7	59.3	7.4	5.5	17.3	14.5
Net claims on central government	22.0	31.7	4.0	1.8	6.9	4.8
Claims on nongovernment sector	10.7	27.5	3.4	3.7	10.4	9.7
Other items (net)	34.8	-3.1	-3.5	0.1	-3.5	0.1
Counterpart to valuation changes	333.0	276.3	51.7	35.4	260.6	182.7
Money and quasi-money	74.2	65.2	11.0	15.5	33.9	36.1
Domestic curency money supply	67.6	54.0	7.8	7.0	17.3	16.0
Foreign currency money supply	79.6	11.2	3.2	8.6	16.6	20.2
	(In millions of U.S. dollars, unless otherwise indcated)					
Memorandum items:						
Net foreign assets of Bank of Sudan	-3,241.5	-3,232.2	-3,222.0	-3,199.9	-3,212.2	-3,199.9
Net foreign assets of commercial banks	167.7	175.9	165.9	208.7	156.6	208.7
Foreign currency deposits	271.3	209.6	209.8	255.2	209.9	255.2
Deposits in foreign currency (as percent of broad money)	32.2	26.2	26.5	30.1	32.0	34.1
Money multiplier for broad money supply (level)	1.79	1.80	1.78	1.91	1.88	1.97
Money multiplier for domestic currency money supply (level)	1.37	1.36	1.32	1.35	1.35	1.37
Velocity of money 4/	8.4	10.9	...	...	12.5	12.1
Velocity of domestic currency money supply 5/	10.9	15.3	...	...	17.7	17.5

Sources: Bank of Sudan and Fund staff projections.

1/ Beginning from 1996, revised in light of STA technical assistance recommendations.
2/ IMF liabilities valued at the December 1996 US$/SDR exchange rate.
3/ Includes currency outside banks, demand deposits, and savings and investment deposits in local currency
4/ Nominal GDP divided by the average of beginning and end-period stock of money and quasi-money.
5/ Nominal GDP divided by the average of beginning and end-period stock of domestic currency money supply.

Table 6. Sudan: Monetary Authorities' Accounts, 1995–97

	1995 Dec.	1996 Dec.	1997 June	1997 Dec.
	Actual			Program
	(In billions of Sudanese Pounds)			
Net international reserves	-2,716	-4,719	-5,091	-6,784
Foreign assets	86	155	160	..
Foreign liabilities	2892	4874	5252	..
Net domestic assets	394	730	719	766
Net domestic credit	258	487	537	584
Net claims on government	252	481	501	536
Net lending to government	265	589	634	669
Government deposits with BOS	12	108	133	133
Central Bank credit to banks	4	4	34	46
Central Bank credit to public enterprises	2	2	2	2
Other items (net)	136	243	182	182
Counterpart to valuation changes	2685	4638	5062	6766
Monetary base	363	649	690	748
Currency outside banks	249	444	498	542
Banks' reserves	97	186	175	191
Required reserves	40	73	99	104
Excess reserves	62	113	76	87
Other deposits with the Central Bank	12	19	17	15
	(Annual percentage changes) 1/			
Net international reserves	-51	-42	8	44
Foreign assets	-64	-45	...	...
Foreign liabilities	-51	-41	...	...
Net domestic assets	80	85	-1	5
Net claims on government	56	91	4	12
Net lending to government	55	122	8	14
Government deposits	36	800	23	23
Central Bank credit to banks	0	0	750	1,050
Monetary base	74	79	6	15
Currency outside banks	68	78	12	22
Banks' reserves	95	92	-6	3
Required reserves	44	83	36	42
Excess reserves	122	82	-33	-23

Source: Bank of Sudan; and Fund staff projections.

1/ For June 1997, percentage changes over December 1996.

Table 7. Sudan: Balance of Payments, 1995–97

(In millions of U.S. dollars)

	1995	1996	1997 Prog.	1997 1st half Prel. Act.	1997 Est.
Trade balance	-663.2	-927.0	-822.7	-426.5	-876.1
Exports, f.o.b.	555.6	620.3	623.2	279.9	605.9
Cotton	123.0	128.2	97.4	33.0	81.9
Gum arabic	51.4	29.2	35.5	10.2	20.3
Livestock	84.1	81.3	94.8	50.7	105.3
Sesame	80.6	141.1	133.8	50.8	116.4
Other	216.6	240.5	261.7	135.2	282.0
Imports, c.i.f.	-1,218.8	-1,547.3	-1,446.0	-706.4	-1,482.0
Foodstuffs	-214.5	-232.2	-204.8	-137.4	-238.1
Crude materials	-194.2	-305.9	-290.6	-155.4	-292.4
Manufactured goods	-276.6	-298.3	-306.8	-126.4	-306.6
Other	-533.5	-711.0	-643.8	-287.2	-644.8
Services (net)	-5.5	-29.0	-24.5	-19.0	-29.4
Receipts	131.6	52.0	58.2	14.9	39.3
Payments	-137.0	-81.0	-82.7	-33.9	-68.7
Income (net)	-914.4	-1,021.1	-1,086.7	-540.5	-1,081.7
Receipts	1.9	4.8	1.0	4.8	6.9
Payments	-916.3	-1,025.9	-1,087.7	-545.3	-1,088.6
o/w: public interest payments due 1/	-912.6	-1,024.3	-1,085.3	-542.1	-1,084.1
Current transfers (net)	103.9	71.2	100.4	47.1	112.4
Private transfers	60.1	30.8	57.0	27.6	72.9
Public transfers	43.8	40.5	43.4	19.5	39.5
Current account balance	-1,479.2	-1,905.9	-1,833.4	-938.9	-1,874.8
Excluding public transfers	-1,523.0	-1,946.4	-1,876.8	-958.4	-1,914.3
Capital account	10.6	7.8	6.8	2.4	6.2
Project aid	10.6	7.8	6.8	2.4	6.2
Financial Account (net)	75.0	-122.9	-122.0	-54.3	-133.7
Disbursements	86.0	28.6	29.3	8.1	21.7
Cash and commodity loans	22.9	12.7	4.0	0.2	0.2
Project loans	63.1	15.9	25.3	7.9	21.6
Amortization	-287.6	-279.6	-252.3	-128.0	-256.0
Short-term capital flows (net) 2/	330.6	121.1	120.0	32.6	67.6
Commercial banks net reserve increase (-)	54.0	-7.0	19.0	-33.0	-33.0

Table 7. Sudan: Balance of Payments, 1995–97

(In millions of U.S. dollars)

	1995	1996	1997 Prog.	1997 1st half Prel. Act.	1997 Est.
Errors & omissions and other private capital	282.3	774.6	673.5	357.1	729.6
Overall balance	-1,111.3	-1,246.4	-1,275.1	-634.7	-1,272.7
Change in official reserves (increase -)	-22.5	-12.6	-19.0	-15.0	-21.7
IMF (net)	-2.5	-9.7	-19.0	-13.5	-20.2
Change in arrears on repurchases	-39.7	-35.6	-55.3	-31.0	-55.4
Change in arrears on charges	37.2	25.8	36.3	17.5	35.2
Other	-20.0	-2.9	0.0	-1.5	-1.5
Debt relief and restructuring 3/	29.0	0.0	0.0	0.0	0.0
Net change in non-Fund arrears	1,104.8	1,259.0	1,294.0	648.7	1,294.4
Memorandum items:					
Current account deficit (in percent of GDP)	-20.8	-25.1	-22.7	...	-23.1
External debt paid (excluding payments in arrears on repurchases to the IMF)					
Actual interest payments 4/	-26.9	-18.6	-5.7	-2.1	-4.2
Of which: to the Fund	-15.9	-14.4	-3.0	-1.5	-3.0
Actual amortization payments	-6.1	-2.0	-1.6	-1.7	-6.4
	(Annual percentage change)				
Exports	31.8	11.6	-1.1	-5.1	-2.3
Volume	27.9	7.2	5.5	13.7	14.4
Unit price	3.0	4.1	-6.2	-16.5	-14.6
Imports	19.1	27.0	-5.8	0.2	-4.2
Volume	14.9	20.6	-4.9	5.6	-0.3
Unit price	3.6	5.3	-0.9	-5.0	-3.9
Terms of trade	-0.6	-1.1	-5.4	-12.1	-11.1

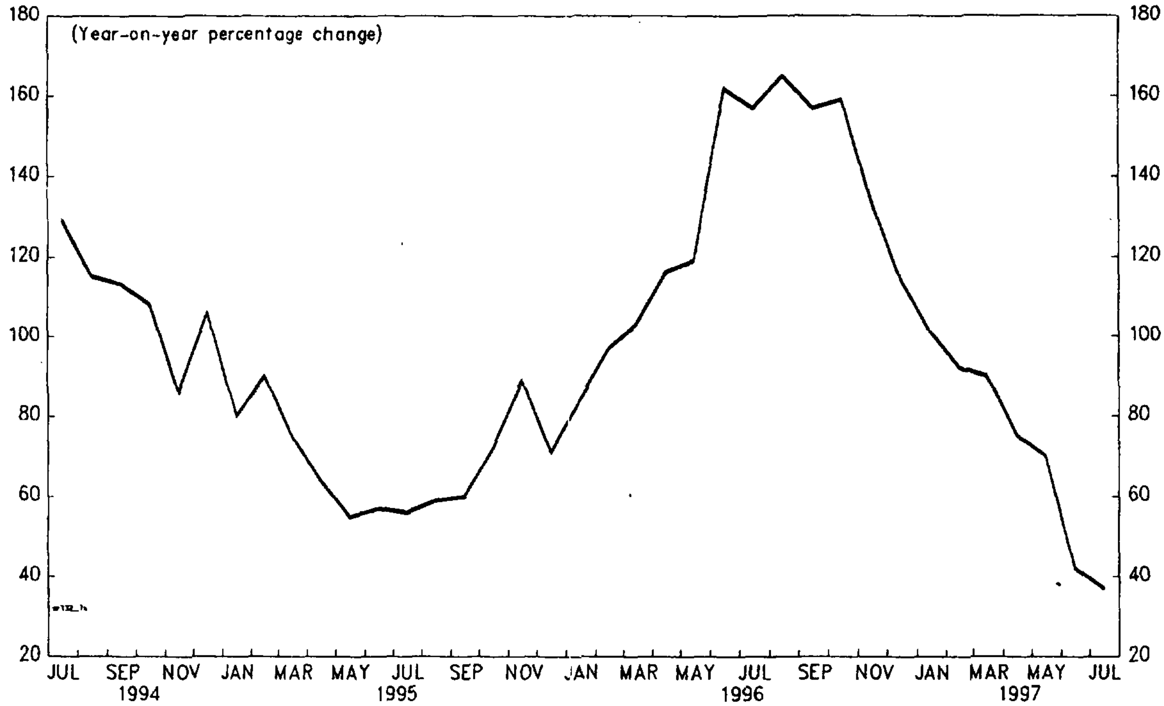
Source: Staff estimates based on information provided by the Sudanese authorities.

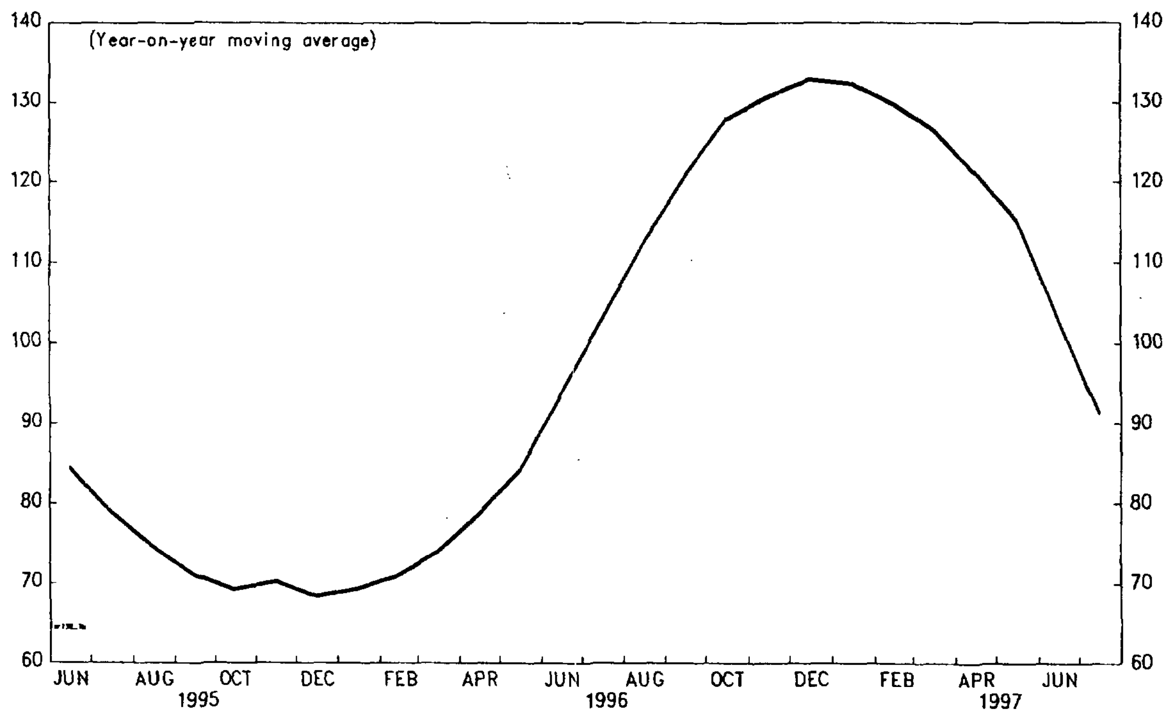
1/ Includes estimates of late interest accrued during the year and Fund special charges.
2/ Net short-term trade and other credit facilities of the Bank of Sudan and commercial banks.
3/ Reflects a restructuring debt operation, in May 1995, with the African Development Bank Group amounting to US$29 million.
4/ Including payments made by the private sector and the effect of refunds and burden sharing adjustments received from the IMF.

CHART 1

SUDAN

INFLATION, JULY 1994-JULY 1997





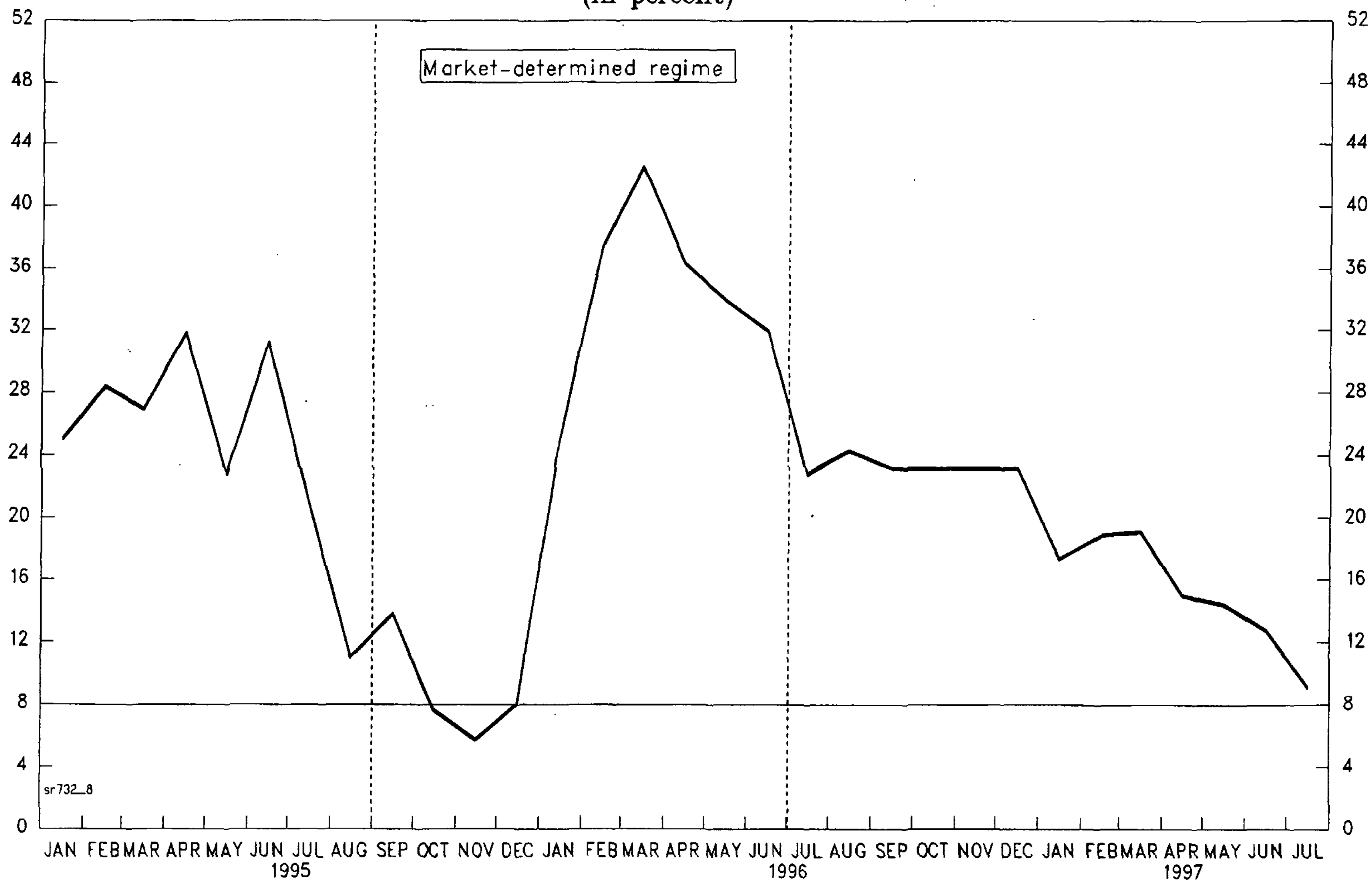
Source: Sudanese authorities.

CHART 2

SUDAN

EXCHANGE RATE SPREAD, JANUARY 1995-JUNE 1997 1/

(In percent)



Source: Bank of Sudan.

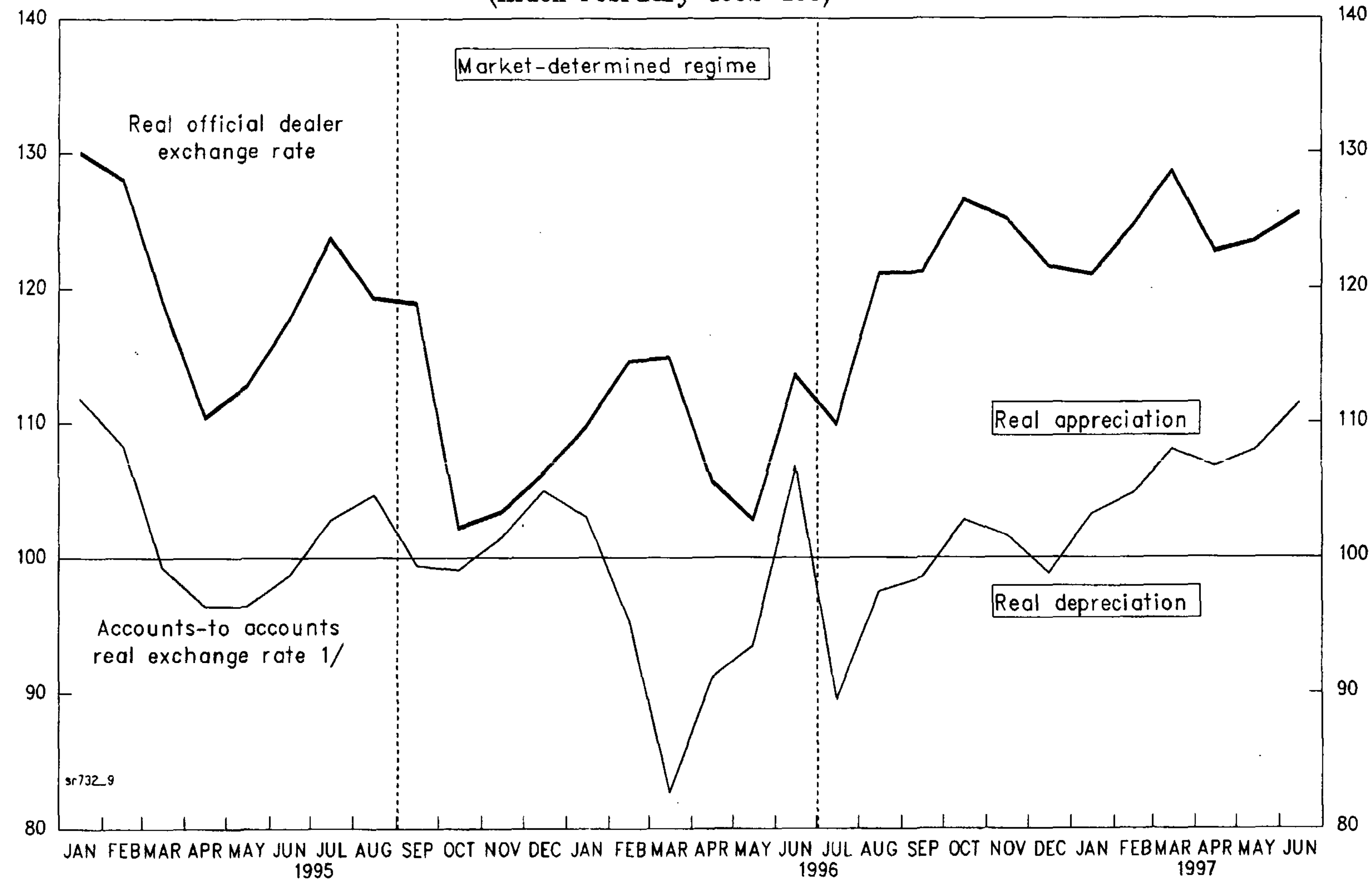
1/ Difference between the accounts-to-accounts and official dealer exchange rates (as a percentage of the latter).

CHART 3

SUDAN

REAL EFFECTIVE EXCHANGE RATES, 1995-1997 1/

(Index February 1992=100)



Source: Staff estimates based on information provided by the Bank of Sudan (Foreign Exchange Department).

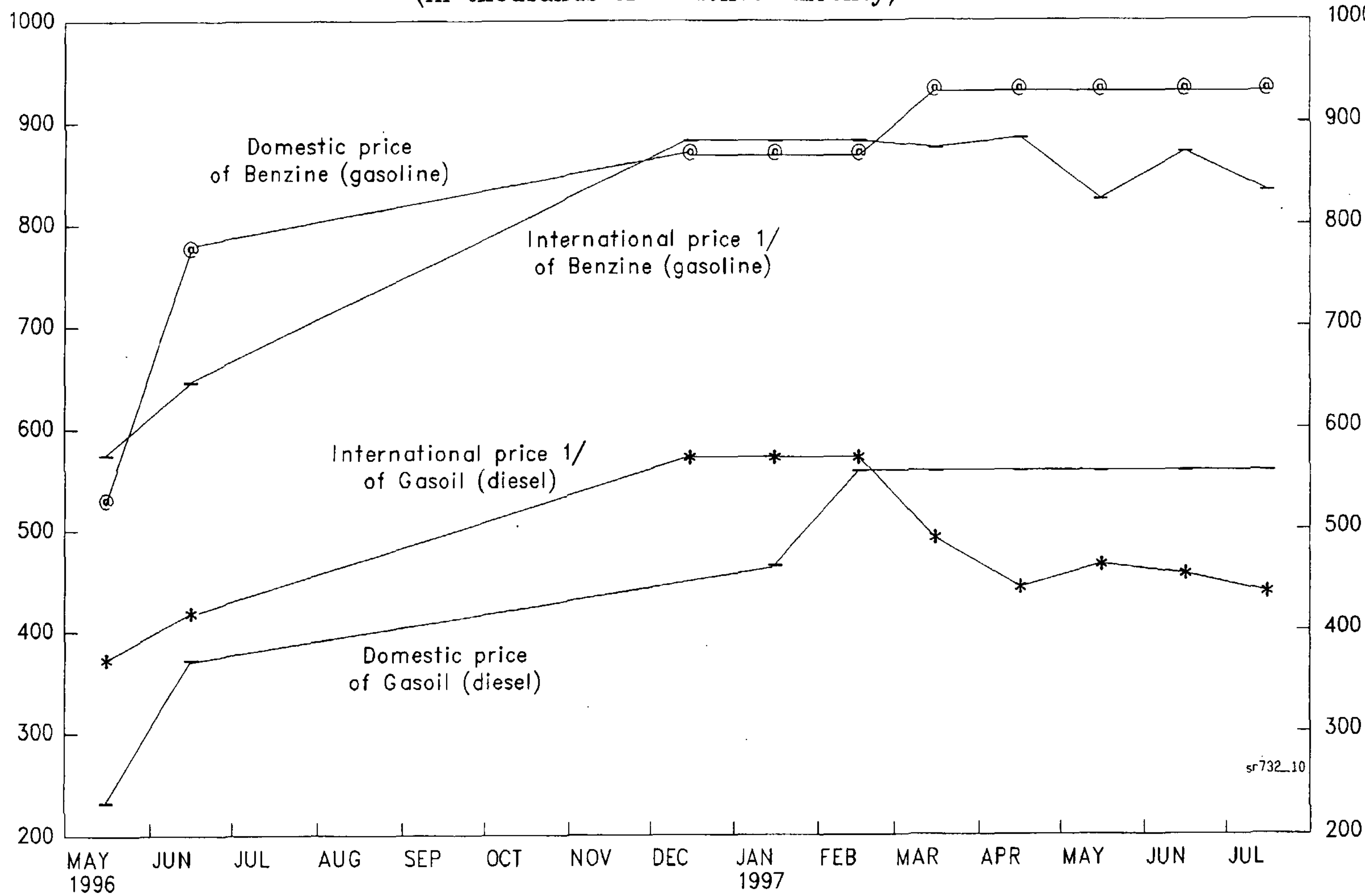
1/ Nonbank dealer exchange rates during the period of the market-determined regime.

CHART 4

SUDAN

PETROLEUM PRICES, MAY 1996-JULY 1997

(In thousands of national currency)



Source: Sudanese authorities.

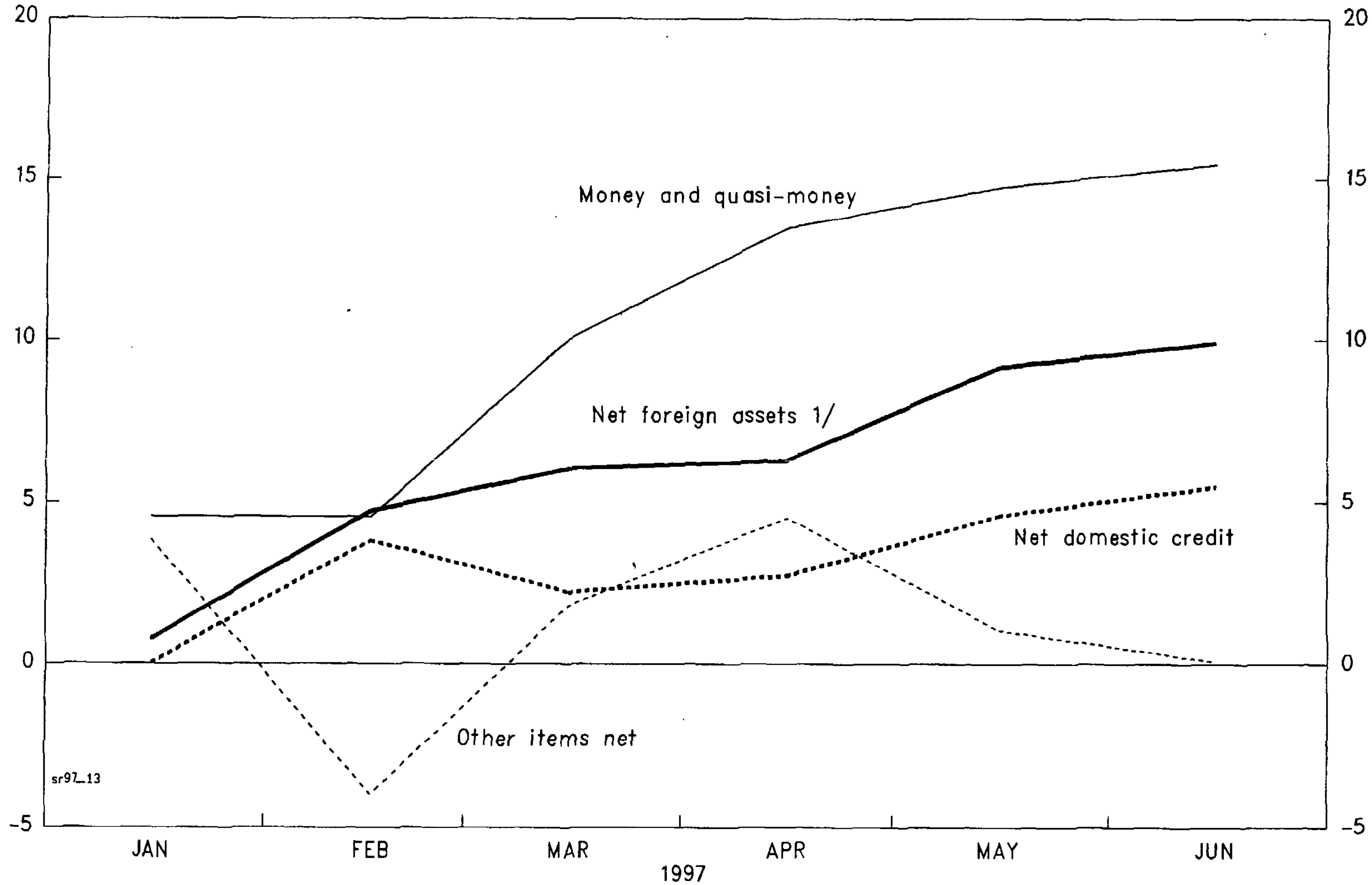
1/ On c. & f. basis.

CHART 5

SUDAN

COMPONENTS OF BROAD MONEY GROWTH, JANUARY-JUNE 1997

(Annual changes as percent of beginning money stock)



Source: Sudanese authorities.

1/ Includes counterpart to valuation changes.

Sudan: Fund Relations
(As of June 30, 1997)

I. Membership Status: Joined 9/05/57; Article XIV

		SDR Million	% Quota
II.	**General Resources Account:**		
	Quota	169.70	100.0
	Fund holdings of currency	714.69	421.2
	Reserve position in Fund	0.01	--

		SDR Million	% Allocation
III.	**SDR Department:**		
	Net cumulative allocation	52.19	100.0

		SDR Million	% Quota
IV.	**Outstanding Purchases and Loans:**		
	Stand-by arrangements	272.40	160.5
	Extended arrangements	207.87	122.5
	Contingency and compensatory	64.70	38.1
	Trust Fund	59.70	35.2

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	6/25/84	6/24/85	90.00	20.00
Stand-by	2/23/83	3/09/84	170.00	170.00
Stand-by	2/22/82	2/21/83	198.00	70.00

VI. Projected Obligations to Fund[1] (SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	6/30/97	1997	1998	1999	2000	2001
Principal	604.7	--	--	--	--	--
Charges/Interest	565.5	13.8	27.5	27.5	27.5	27.5
Total	1,170.2	13.8	27.5	27.5	27.5	27.5

[1]The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.

Nonfinancial Relations

VII. Exchange and Trade Arrangement

The market-determined exchange rate regime—introduced in September 1995—was abolished in July 1996, owing to strong fiscal and monetary expansions and inherent weaknesses in the regulatory and operational systems governing foreign exchange markets. Beginning in July 1996, the daily exchange rate for commercial banks and nonbank authorized dealers was set by a Joint Committee of commercial banks and nonbank dealers. In deciding this rate, the Committee took into account the transactions—weighted rate of the previous day, as well as demand and supply factors in the exchange market. Market participants set their own buying rate within a range of ±0.3 percent from the reference rate set by the Committee. On February 27, 1997, the Committee was expanded by including a representative from the Bank of Sudan and the trading band was widened from ±0.3 percent to ±2.0 percent. On March 24, the spread between the free "accounts-to-accounts" market and official dealer exchange rates was lowered to 16 percent (from about 20 percent), implying a depreciation of about 3 percent of the latter rate. Since then, the exchange rate set by the Committee has been adjusted downward progressively, and by end-July, the spread between the market and official dealer rates was limited to about 9 percent. The official buying rate of the Bank of Sudan is the weighted average of buying rates of commercial banks and nonbank dealers, and its selling rate is derived based on the buying rate plus a spread of 1¼ percent. As of July 31, 1997, the buying and selling rates of the Bank of Sudan were LSd 1,605 per U.S. dollar and LSd 1,625 per U.S. dollar, respectively.

VIII. Article IV Consultation

The last Article IV consultation discussions were held during October 23- November 6, 1996. The Staff Report (EBS/97/2; 1/10/96) was discussed by the Executive Board on January 31, February 3, 4, and 12, 1997.

IX. Technical Assistance

Since the Executive Board approval in January 1995 to resume Fund selective technical assistance to Sudan, there have been three technical assistance missions: (i) tariff reforms and sales tax (August 1995, March 1997, May 1997); (ii) multisector technical assistance in statistics (September/October 1995); (iii) exchange system reform (April 1997); (iv) monetary management and banking supervision; and (v) monetary statistics.

X. Resident Representative

The Fund's resident representative in Khartoum was withdrawn in June 1990.

August 14, 1997

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

1. In our letter to you dated March 11, 1997, the Government of Sudan set out its economic goals and policy intentions for 1997 under the staff-monitored program. We are pleased to report that, during the first half of 1997, macroeconomic performance was on track and quantitative and structural benchmarks under the program were met. Moreover, payments to the Fund have been made as committed. Economic growth is expected to be higher than programed, while inflation has come down faster. The trade balance, however, is estimated to be somewhat weaker than expected, owing to a significant deterioration in the terms of trade. Remittances and other private capital inflows remained strong and helped finance the trade deficit. While these developments show that the policy course adopted under the program remains broadly appropriate, recent internal and external developments may render necessary further adjustments in policies to ensure that the program's objectives can be attained.

2. The attached memorandum on Sudan's economic and financial policies, which was prepared in collaboration with Fund staff, assesses recent macroeconomic developments and prospects, and the progress in implementing structural reforms agreed under the program. It also outlines policy and structural measures that the Government of Sudan intends to undertake during the second half of 1997. We will continue, as committed, to pursue a prudent monetary policy with an aim to consolidate the gains already made in reducing inflation, undertake additional measures to strengthen export growth, and implement a supplementary budget to cover some unexpected expenditures so as to limit domestic bank financing within the program ceiling. We have also agreed with the Fund staff on a broad range of structural reforms aimed at sustaining the adjustment effort and ensuring progress towards establishing market-based arrangements, particularly an efficient exchange system, over the medium term. We will continue to make payments to the Fund as committed.

3. The Government of Sudan is confident that completion of the measures outlined in the attached memorandum will be sufficient to ensure that the objectives of the program will be achieved, but it stands ready to take additional measures that may be needed for this purpose. The Fund staff will conduct monthly reviews of the program to assess progress in the implementation of the program and examine the compliance of the quantitative and structural

benchmarks. During the period of the program, the government will consult with the Managing Director at its initiative or at the request of the Managing Director concerning the adoption of appropriate measures.

4. The Government of Sudan will provide the Fund with all the information required for reporting and monitoring purposes, in order to closely follow progress in the implementation of financial and structural policies and in the achievement of the program targets.

5. We hope that the timely and effective implementation of the measures under the program and full compliance with the program's performance benchmarks during 1997 will enhance and sustain cooperation with the Fund. We believe that the strong performance under the program in the first half augurs well for successful completion of the program. We hope that this establishment of a good track record will enable the Fund to assist us in the process of normalizing financial relations with other creditors, and provide a basis for starting discussions toward a medium-term arrangement with the Fund.

6. We would like to take this opportunity to, once again, extend our appreciation for the efforts you have personally made in helping Sudan to improve its cooperation with the Fund.

Sincerely yours,

/s/
Abdallah Hassan Ahmed
Governor, Bank of Sudan

/s/
Abdel-Wahab Osman
Minister of Finance and
National Economy

Attachment: Memorandum of Economic and Financial Policies

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES

I. RECENT ECONOMIC DEVELOPMENTS

1. Economic performance in the first half of 1997 has shown significant improvements on several fronts. Inflation, at 16 percent during January to June 1997, is well below the rate of 75 percent for the comparable period last year. While the trade deficit increased, owing to a deterioration in the terms of trade of about 12 percent, the overall balance has improved on the strength of large remittances and private capital inflows. Real GDP growth for 1997 is estimated at 5.5 percent, up from 4.7 percent in 1996, owing to policies implemented and good harvests.

2. The improved macroeconomic performance reflects tight fiscal and monetary policies, and adjustments to the exchange rate. Fiscal restraint is being achieved due to improved tax collection, curtailment of tax exemptions, lower world oil prices, adjustment of domestic petroleum prices, as well as cuts in expenditures. Credit restraint has complemented the fiscal adjustment. While the growth of broad money for the first six months exceeded the programed level on account of the unanticipated foreign inflows, growth in net domestic credit was more moderate than programed reflecting tight reserve money conditions.

3. The accounts-to-accounts market exchange rate since March has been stable, owing to tight financial conditions, large inflows, and restrictions on public sector purchases of foreign exchange in this market, thus reducing the demand for imports and foreign exchange. As agreed under the program, the exchange rate set by the Joint Committee (for transactions in the authorized dealer market) has been adjusted downward progressively, by a cumulative of about 8.5 percent during March–July, so that the spread between the accounts-to-accounts market rate and Joint Committee rate was reduced to about 9.5 percent by end-July, as against the program ceilings of 11 percent by end-September and 8 percent by end-December.

4. Against this background, the government will continue to pursue the medium-term objectives outlined in the Memorandum of March 11, 1997. Consistent with these objectives, policies in the second half of 1997 will aim at consolidating the gains in disinflation achieved in the first half and adjusting to adverse price developments in the external sector. The government will strive to reduce inflation to below the program target, while targeting a smaller improvement in the current account balance than originally programed. Accordingly, the government will maintain the current fiscal stance despite the higher-than-budgeted expenditures (outlined below) foreseen for the second half of 1997. A further tightening of credit policies relative to the original program is envisaged to counter the balance of payments pressures and safeguard the inflation objective. To adjust, albeit partially, to the terms of trade shock and preserve competitiveness, the government intends to continue its policy to accelerate convergence of the Joint Committee rate to market levels. Macroeconomic policies will be complemented by ongoing structural reform efforts and institutional improvements in

the areas of tax policy, monetary and banking sector reform, exchange and trade system, which will lay the basis for and help secure the reform effort in the medium term.

II. PROGRAM FOR THE SECOND HALF OF 1997

A. Fiscal Policy

5. The government will maintain the target for the domestically financed fiscal deficit for 1997 at the program level of LSd 80 billion (0.5 percent of GDP) compared with LSd 324 billion (3.2 percent of GDP in 1996). In the first half of 1997, net bank borrowing amounted to LSd 45 billion compared to a program target of LSd 47 billion; accordingly, net bank borrowing in the second half will not exceed LSd 35 billion. Notwithstanding higher expenditures envisaged for the second half of 1997, the government is committed to achieving a budget deficit of 0.9 percent of GDP (on a cash basis) in 1997, compared with 3.4 percent in 1996.

6. Revenue collection during the first half of 1997 was above the programed level despite the weak performance of nontax revenue, while disbursements of external finance for development projects fell significantly below expectation. The shortfall in nontax revenues reflected a decline in fees and transfers. Tax revenues, however, exceeded the program target in the first half of 1997, reflecting in good part a significant curtailment of tax and customs exemptions and a strengthening of the tax and customs administration. To limit inflationary financing and maintain the government's borrowing objective in the first half of 1997, strict expenditure controls were maintained, particularly in the operational and development budgets, to adjust for the flow of revenues and the unexpected shortfall in disbursements of external finance.

7. It is estimated that for the full year, however, revenues will fall short of the program projections by some LSd 27 billion, mostly due to a shortfall in nontax revenue. Tax revenue in the full year is also expected to be slightly lower owing to the lower-than-programed exchange rate and inflation rate. The shortfall in external finance in the full year, estimated at LSd 33 billion, will be matched by cuts in the corresponding development spending. In addition, domestically financed expenditures are expected to be higher than programed for the year as a whole, reflecting unanticipated additional commitments of about LSd 70 billion. These commitments include LSd 32 billion of expenditures related to emergency electricity projects, disaster relief, and national insect control; LSd 10 billion of additional transfer expenditures following the newly signed peace agreement; LSd 5 billion of payments to international organizations and LSd 10 billion of contributions to development projects financed by international organizations (both measures are part of Sudan's efforts to normalize its relations with international organizations); some LSd 10 billion in other current expenditures, and LSd 3 billion of contributions to international organizations.

8. To finance the additional expenditures, the government will introduce a midyear supplementary budget which will introduce in the second half of 1997 the following additional revenue measures that are expected to generate about LSd 66 billion (0.4 percent of GDP). These measures include a 4 percent defense tax for all imports excluding petroleum, inputs and essential goods; a 10 percent consumption tax on imports of wheat flour and nonsubsidized commercial sugar; an increase in fees; an increase in the tariff rate on imported cement from 30 percent to 50 percent; and further privatization. These measures, with the exception of the tariff rate adjustment on cement, will be temporary and will lapse at the end of the year.

9. As compared to the parliament's approved budget, which is based on initial assumptions that were different from the program budget assumptions (particularly with regard to exchange rate), revenue and expenditures will both rise by about LSd 85 billion, on account of additional expenditure commitments and revenue measures (including increased profit transfers from petroleum price differential).

10. The government is committed to the phased implementation of a value-added tax (VAT), starting in 1998, that would be broad-based and would improve the current indirect taxation system. As detailed in Appendix II, significant progress has already been achieved, with Fund technical assistance, in preparing for the introduction of the VAT. Further work is scheduled in the second half of 1997 (Appendix III) and a draft law on VAT is expected to be finalized and tabled for discussion by the cabinet of ministers before the end of 1997.

11. Furthermore, steps will be taken to rationalize the tax structure, particularly within the context of 1998 budget, to ensure a smoother introduction of the VAT. To this end, the authorities intend to abolish the existing taxes on exports and streamline, with Fund technical assistance, the consumption tax and excise tax structures.

12. Significant progress has been achieved in developing a budget monitoring, auditing, and reporting system. As a result, the cash management of the budget improved significantly and was an important contributing factor in revenue performance, in achieving tight control on expenditures, and in avoiding the accumulation of new arrears in 1997. Further work is planned in the second half of 1997, with Fund technical assistance, to improve the management of budget expenditure.

B. Monetary Policy

13. The government notes the positive effects of tighter financial policies in the first half of 1997 and intends to consolidate these achievements in the second half. To this end, the growth of broad money will be contained to about 22 percent in the second half of 1997, implying an annual increase of 37 percent. The higher-than-programed broad money growth is nevertheless consistent with the improved inflation outlook and higher foreign inflows. The government will restrict the growth of net domestic credit relative to the original program in

the second half by about LSd 10 billion to facilitate the attainment of the inflation and external sector objectives.

14. In order to implement the above policies, the government is taking measures to improve monetary instruments and strengthen liquidity management by the banking system. In this context, it has introduced a reserve requirement on foreign currency deposits and lowered the reserve requirement on domestic currency deposits. It will further streamline reserve requirement regulations in order to improve their effectiveness. Furthermore, to encourage development of the interbank market, it has eliminated the practice of pre-approving interbank trades and tightened the terms of access to the overdraft facility.

15. The government is undertaking the structural reforms to strengthen monetary management and operations and banking soundness as outlined in Appendix III. In particular, the government has accelerated the technical preparations for the adoption of new accounting, auditing, and disclosure standards consistent with Islamic banking practices and is developing guidelines on income recognition and profit computation of banks. The government intends to apply the new standards for the audits of bank accounts already in 1997, and will begin to enforce new disclosure requirements in 1998. In the context of implementing the new accounting and auditing standards, the authorities will also adopt an improved loan classification and provisioning system.

C. External Sector Policies

16. Despite the sharp decline in international prices for key Sudanese exports, the external current account deficit will be limited to slightly over 23 percent of GDP in 1997, as compared with the original program target of 22.7 percent. This is being achieved through tight credit policies and a faster than programed reduction in the spread between the accounts-to-accounts market and Joint Committee rates to contain the appreciation of the real effective exchange rate. In addition, as discussed below and in Appendix III, other structural measures aimed at fostering export growth and diversification will also be considered.

17. The government has taken a number of structural measures aimed at reducing inefficiencies associated with the current exchange system and moving toward a transparent, unified, and market-based exchange regime. Importantly, in parallel with liberalization of the pricing and importation of some petroleum products, the export surrender requirement to the Bank of Sudan on a broad range of exports has been reduced, while retention on some specific products increased. Moreover, the private sector has been encouraged to participate in activities, including financing, related to other petroleum imports. Partly as a result, the Bank of Sudan's financing of government imports has declined significantly. During the second half of the year, the government intends to take further steps to reform the exchange system and strengthen exchange market development. In light of the balance of payments developments, further increases in export retention will be considered during the second half of the year.

18. In order to accelerate trade liberalization, the government intends to consider adoption of the measures outlined in Appendix III. In addition, the government will undertake a comprehensive review of the trade system, with a view to establishing a time-bound plan to rationalize the trade regime and to simplify administrative procedures governing foreign trade.

19. The government continues to place high priority on restoring normal financial relations with its external creditors. It recognizes the preferred creditor status of the Fund and reaffirms its commitment to abide by its agreed monthly payments schedule. As regards its payments to other creditors and the contracting and guaranteeing of new nonconcessional loans, the government will adhere to the principles outlined in paragraph 22 of the Memorandum of March 11, 1997. It will also adhere to the principles outlined in paragraph 23 of the same memorandum.

D. Repayments to the Fund

20. The government affirms its commitment to make payments to the Fund amounting to US$58.3 million during 1997, including the outstanding US$22 million for the period September–December 1996, and US$36.3 million during March–December 1997. Payments to the Fund totaling US$36.8 million committed for February through July 1997 have been made. The government's total payments to the Fund in 1997 will be adjusted for changes in the SDR/U.S. dollar exchange rate and interest rates, with a view to preventing accumulation of arrears to the Fund in SDR terms.

E. Other Structural Reforms

21. In line with its commitments, the government has eliminated subsidization of petroleum products—mogas (gasoline), gas oil, and furnace oil. These adjustments coupled with the unforeseen drop in world oil prices have resulted in a greater budgetary contribution (LSd 20 billion for the first six months) than originally envisaged and in a build up of the reserve fund by about LSd 16 billion. The government has also liberalized the import, marketing, and pricing of jet/kerosene and LPG. The role of the private sector has been enlarged to include the financing and import of crude oil and diesel.

22. The government has embarked on its second phase of privatization, during which 37 public entities are slated for sale, including four large sugar companies, as well as Sudan Airways and Sudan Railways. The planned modalities of privatization include direct sale to investors, joint ventures, sale to the public, liquidation, restructuring, and leasing. Following Ministerial approval of this list, preparations for privatization, including valuation of the companies, will be initiated. It is expected that privatization in 1997 will yield budgetary transfers of LSd 2 billion.

III. Reporting and Monitoring

23. The policies set forth in this memorandum, which the government considers adequate to achieve the objectives of the 1997 economic program, will be adapted and complemented by additional measures that may be deemed necessary for this purpose. Reporting and monitoring, which will be assisted by the strengthening of the technical committee established for this purpose, will be done in accordance with paragraphs 28–30 of the Memorandum of March 11, 1997, as elaborated below.

24. There will be monthly monitoring by the staff on the basis of the following elements: (i) the quantitative benchmarks, including monthly ceilings on net domestic credit of the banking system, net credit to the government, new contracting or guaranteeing of nonconcessional external borrowing by the government, and a floor on net foreign assets of the Bank of Sudan (Appendix I); (ii) the structural benchmarks (Appendices II and III); (iii) the reporting requirements (Appendix IV); and (iv) the schedule of monthly payments to the Fund (Appendix V).

Table 1. Sudan: Quantitative Benchmarks, July–December 1997

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

	Cumulative Change 1/						
	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
	Prel. Stock	Benchmarks					
Benchmarks							
Ceiling on the net domestic credit of the banking system	881	24	49	81	88	97	105
Ceiling on net credit to government 2/	634	9	15	20	25	30	35
Ceiling on new nonconcessional borrowing contracted or guaranteed by the government	0	0	0	0	0	0	0
Floor on NFA of the Bank of Sudan (in millions of US$) 3/ 4/	-2,644	0	0	0	0	0	0
Payments to the Fund (in millions of US$) 5/	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Memorandum items							
Reserve money	690	16	25	33	41	49	58
Central government revenue 6/	480	101	210	334	446	563	685

Sources : Bank of Sudan; and staff estimates.

1/ Outstanding stocks in June 1997; cumulative since June 30, 1997.
2/ Excluding changes in government deposits with the Bank of Sudan.
3/ Liabilities to the Fund are valued at the constant end-December 1996 US$/SDR exchange rate.
4/ NFA data were revised, so as to exclude nonresident foreign time liabilities.
5/ Monthly flows.
6/ Includes the impact of revenue measures as outlined in paragraph 8 in the Memorandum on Economic and Financial Polcies.

SUDAN: STRUCTURAL REFORMS IMPLEMENTED DURING MARCH-JULY 1997

In addition to the structural measures taken as prior actions before the Board consideration of the staff-monitored program (EBS/97/45), the authorities have implemented the following steps in line with understandings reached with the staff in the course of monthly monitoring in April–June:

Monetary sector

- Raised the share of customer financing under Musharaka in all types of Musharaka contracts by 5 percentage points.

- Introduced a reserve requirement on foreign currency deposits and reviewed, with Fund technical assistance, the procedure on reserve requirement on domestic currency deposits, with the view to strengthening its effectiveness.

- Initiated steps to introduce a market-based instrument of government funding and established a joint Ministry of Finance (MOF)/Bank of Sudan (BOS) committee to study the design and operational modalities of the new paper including legislative and informational requirements.

- Initiated the development of a short-term information system to monitor monetary and credit developments, banking activities, and foreign exchange markets.

- To foster the development of the interbank market, the authorities, with Fund technical assistance, (i) have liberalized and actively encouraged interbank trades; (ii) improved the operational framework of the overdraft facility; and (iii) prepared measures to strengthen the interbank clearing and settlement procedures.

- Established a Monetary Policy Committee within the BOS.

- Reviewed banks' accounting practices for income recognition and profit compensation, and started developing new accounting guidelines, based on appropriate accrual principles.

External sector

- Liberalized the importation and pricing of jet/kerosene, and in parallel with this measure, reduced the surrender requirement to the BOS of all exports (other than cotton and gum arabic) from 30 percent to 25 percent.

- Reduced the surrender requirement on the cotton export proceeds from 100 percent to 40 percent, with the remaining being allowed to be retained by exporters.

- Increased export retention from 50 percent to 55 percent for 13 specific products.

- Reduced the spread between the accounts-to-accounts market rate and the Joint Committee rate to 9.5 by end-July.

Fiscal sector

- On the introduction of value-added tax (VAT), an inter-departmental committee was established, which prepared, with Fund technical assistance, a comprehensive report for the consideration of the government. Subsequently the committee worked on an analysis of the revenue impact and further specified organizational and administrative aspects of the VAT. The legal and procedural steps that may be required to effect the constitutional amendments on federal-states tax relations were identified in connection with VAT implementation. In addition, an action program has been prepared for consultation with businesses and trade organizations, training and increasing public awareness, to assure smooth implementation of the VAT.

- Significant progress has been achieved in developing a comprehensive budget monitoring and reporting system, including daily reports on government's cash position, weekly estimates of the budget position, and rolling three months forecasts for revenue and expenditures. In addition, accounting units were established in government ministries and agencies for tight monitoring and auditing, and the procedures were streamlined to ensure the prompt transfer of revenue to the MOF.

Reporting and monitoring

- In line with the staff-monitored program (EBS/97/45) a joint committee from the MOF and the BOS was established for coordinating the reporting of information to the Fund and for monitoring performance under the program. The committee will continue its work for the period ahead with a view to further improve the monitoring procedure taking into account the progress in establishing any information and monitoring systems within the MOF and the BOS.

SUDAN: STRUCTURAL MEASURES FOR THE SECOND HALF OF 1997

Mid-August 1997

- Draft prudential regulations for setting up appropriate limits on commercial banks' foreign exchange exposures in accordance with international norms.

- Reduce the surrender requirement on the 13 specific items from the present 45 percent to 40 percent while allowing exporters to retain the remaining 60 percent of export proceeds.

- Prepare a draft action plan for discussion and adoption by end-September, 1997, that would include concrete steps to (i) transfer in 1998 all activities related to gasoline to the private sector; (ii) foster the participation of the private sector in oil importation; and (iii) reduce and eventually eliminate the remaining export surrender requirements to the Bank of Sudan, taking into account further developments of the foreign exchange markets and progress under (i) and (ii) above. In coordination with this plan, the authorities will consider steps to rationalize the retention system for exports, taking into consideration external sector developments (export performance, in particular).

Mid-September 1997

- Prepare first draft law on VAT.

End-September 1997

- Adopt the final action plan developed in mid-August relating to oil sector liberalization and surrender/retention reforms.

- Submit the proposal on the new market-based instruments of government funding paper to Bank of Sudan's High Shariaa Supervisory Council for consideration and decision.

- On the basis of the High Shariaa Supervisory Council's decision, announce in the Ministry of Finance's next quarterly budget statement, its intention to use the government finance paper as a financing instrument and immediately initiate consultations with banks to further refine its modalities.

- Examine banks' 1996 statements (including computing banks' risk-weighted capital ratios), and agree with banks that do not meet the capital adequacy requirements on a program with a timetable of steps for full compliance. The authorities will also implement the improved loan classification system beginning in 1998.

- Set up a consolidated statement for all government operations—federal, state, and local.

Mid-October 1997

- Review the draft law on VAT with Fund technical assistance.

- Prepare a plan for tariff reform, with Fund technical assistance.

End-October 1997

- Finalize the draft law on VAT for introduction at the federal level, and propose a time table for passing the draft law through the executive branch and submission to the National Assembly with a view to begin a phased implementation of the VAT during 1998. Further rationalization of the tax system toward the eventual adoption of VAT will be considered in the context of the 1998 budget.

- Finalize the plan for tariff reform in coordination with the introduction of the VAT.

- On the basis of High Shariaa Supervisory Council's decision, begin to publish monthly the information that are necessary to support the new government finance paper, including data on tax collection, on a format to be agreed and announced in the quarterly budget statement.

- Undertake comprehensive review of the trade system with the view to establishing time-bound plan to rationalize the trade regime and simplify administrative procedures governing foreign trade.

End-November 1997

- Plan to abolish export taxes in the context of the 1998 budget, pending the completion of a review by the committee on supply-side policies.

- Review with Fund technical assistance the technical preparations to strengthen the present rules governing market practices and trading arrangements of authorized foreign exchange dealers, as well as appropriate code-of-conduct for various aspects of foreign exchange operations.

End-December 1997

- Adopt prudential regulations of commercial banks' foreign exchange risks.

- Eliminate the Bank of Sudan's financing of all government imports other than petroleum products, life saving medicines, and spare parts for some of the strategic projects.

- Review and standardize banks' accounting methodology for income recognition and profit computation, and also develop pro-forma bank returns which would incorporate liquidity and risk-weighted categories. In the medium term, the BOS will introduce a comprehensive accounting reform that is suitable for Islamic banking practices.

SUDAN: REPORTING AND REQUIREMENTS[1]

1. Weekly reporting

Daily data for the posted buying and selling exchange rates (LSd/U.S. dollar) for all commercial banks, nonbank dealers, and the Bank of Sudan; daily estimates of central exchange rates for transactions in the "accounts-to-accounts" market; and daily data on the exchange rate band determined by the Joint Committee.

Weekly data of key items of the balance sheet of the Bank of Sudan including banks' reserves with the Bank of Sudan, currency outside the central bank, and other public sector deposits, and temporary advances to the government.

2. Monthly reporting

a. The detailed balance sheet of the Bank of Sudan, the consolidated balance sheet of the commercial banks, and the monetary survey (five weeks). Data on net bank credit to government classified by budgetary, and extrabudgetary (including by product) components. Weekly data on government deposits with the Bank of Sudan broken down between the government and the Government Petroleum Company and Public Sugar Company.

b. Consolidated table of the foreign exchange position (sources and uses of foreign exchange) of Bank of Sudan, commercial banks, and nonbank dealers (four weeks).

c. Foreign debt service payments by creditor, indicating amounts (interest and principal), and purposes of payment (four weeks).

d. External credits contracted by creditor, indicating loan terms (maturity, grace period, effective rate of charge, number of principal repayments, whether repayable in foreign exchange or export commodities) (four weeks).

e. Monthly CPI (all three indices, January 1990 base) and the nine CPI subcomponents (foodstuffs, clothing, etc.) (two weeks).

f. Monthly outcome of main revenue and expenditure categories of the central government including a breakdown of nontax revenue that identifies separately the net budgetary contribution from GPC (five weeks).

[1]Figure in parenthesis denotes maximum lag for transmittal of information.

g. Average monthly domestic petroleum prices (five products) and international prices including cost and freight (four weeks).

h. Monthly estimates of exports and imports by major commodity (four to six weeks).

3. Other reporting

Notification of any significant changes in fiscal, monetary, and exchange rate policies as well as structural policies.

SUDAN: SCHEDULE OF PAYMENTS TO THE IMF

January–December, 1997

I.	**Amounts paid to date**	**(Amounts in U.S. dollars)**
	February 3, 1997	15,000,000
	February 18, 1997	300,000
	March 21, 1997	4,300,000
	April 22, 1997	4,300,000
	May 14, 1997	4,300,000
	June 23, 1997	4,300,000
	July 21, 1997	4,300,000
II.	**Schedule for the remainder of 1997**	
	August	4,300,000
	September	4,300,000
	October	4,300,000
	November	4,300,000
	December	4,300,000[1]

[1]Payments will be adjusted before end-1997 to take into account changes in the SDR/U.S. dollar exchange rate and interest rates, to prevent accumulation of arrears to the Fund in SDR terms.