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October 14, 1993

To: Members of the Executive Board
From: The Secretary
Subject: Sudan - Staff Report for the 1993 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1993 Article IV consultation with Sudan, which is tentatively scheduled for discussion on Monday, November 8, 1993. A draft decision appears on page 20.

Mr. Chesquiere (ext. 34535) 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 European Communities (EC), following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

SUDAN

Staff Report for the 1993 Article IV Consultation

Prepared by the Staff Representatives for the
1993 Consultation with Sudan

Approved by Paul Chabrier and T. Leddy

October 13, 1993

I. Introduction

The 1993 Article IV consultation discussions with Sudan were held in Khartoum during August 14-26, 1993. The Sudanese representatives were led by the Minister of State for Economic Planning and Investment, H.E. Mohamed Kheir El-Zebeir, and included the Governor of the Bank of Sudan, The Hon. Sabir Mohamed El Hassan, as well as other senior officials. 1/ The mission also met with the Finance Minister, H.E. Abdel-Rahim Hamdi. In concluding the last Article IV consultation for Sudan on August 3, 1992 (EBM/92/100), Executive Directors welcomed the reorientation of policies that had been initiated in February 1992, but called upon the authorities to undertake a comprehensive adjustment program, and to move decisively toward a resolution of Sudan's overdue financial obligations to the Fund. 2/

Sudan has been continuously in arrears to the Fund since July 1984. It was declared ineligible to use the Fund's general resources on February 3, 1986, and a declaration of noncooperation was issued on September 14, 1990. The Executive Board suspended Sudan's voting rights in the Fund effective August 9, 1993 (EBS/93/122). As of September 30, 1993, Sudan's arrears to the Fund amounted to SDR 1,159.7 million (683.4 percent of quota). Arrears to the World Bank were US\$5.3 million as of September 30, 1993. For details, see Appendix IV.

Following a long period of economic decline, growing financial imbalances, and pervasive price distortions, in February 1992 the Government embarked on a program of economic liberalization and reform. The measures announced included: a substantial depreciation of the Sudanese pound in the context of a unification of the exchange rate regime and a liberalization of the exchange and trade system; the lifting of price and mark-up controls for

1/ The staff representatives were Messrs. Ghesquiere (Head), Wilson, and Barnard (all MED), Mr. Allum (PDR) and Ms. Yee (Administrative Assistant-MED). Mr. Hitti joined the mission for the policy discussions.

2/ Sudan is on the 12-month consultation cycle; it continues to avail itself of the transitional arrangements of Article XIV. Further information on Sudan's relations with the Fund is given in Appendix II.

goods and services other than bread, sugar, petroleum products, and public utilities; and the opening up of all sectors to private investment. These efforts were reinforced in April 1992 with the adoption of further price increases for most petroleum products to international price equivalency and in June 1992 with the further removal of exchange restrictions. Based on these developments and the authorities' commitment to progress toward a rights accumulation program (RAP), it was agreed that the staff would monitor informally Sudan's macroeconomic policies and payments to the Fund (EBS/92/139) over the period July-December 1992.

A review under the informal monitoring arrangement in November (EBS/92/195) revealed that although Sudan's performance remained broadly consistent with selected quantitative indicators, developments and prospects in key policy areas warranted substantial concern. A staff visit in February 1993 (EBS/93/69) confirmed that structural benchmarks for end-December 1992, comprising the introduction of government securities bearing market-related rates of return, the establishment of a unified market-determined exchange rate, improvements in monetary statistics, and the avoidance of new subsidies on petroleum products, had not been met. 1/ From July 1992 to January 1993, 2/ Sudan made regular monthly payments to the Fund, which, although consistent with undertakings made by the authorities in July 1992, were on a scale considered inadequate by the Executive Board in light of obligations falling due (about SDR 52 million in 1992/93) and the requirement that payments rise to a level sufficient to stabilize the stock of arrears prior to the commencement of a RAP. No payments were made between February and June 1993, and the US\$2.9 million paid in fiscal 1992/93 fell well short of the authorities' commitment to pay US\$6 million in that period. Sums of US\$300,000 (approximately SDR 0.2 million) were received on July 30 and August 5 in line with a pledge made in July to maintain monthly payments of at least that magnitude for a minimum of 12 months.

In a further review of Sudan's arrears to the Fund on May 17, 1993 (EBS/93/69), the Executive Board judged that Sudan had not cooperated actively with the Fund with a view to resolving the problem of its overdue financial obligations, and noted that it was intended to initiate promptly the procedure under Article XXVI, Section 2(b) with respect to Sudan. The Managing Director issued a complaint on June 17, 1993 (EBS/93/99) that was considered by the Executive Board on August 6, at which time Directors decided to suspend Sudan's voting rights effective August 9, 1993. In addition to the inadequate payments record, there was growing concern at signs of worsening economic imbalances and policy retrogressions.

1/ The initial unification of the exchange system in February 1992 was progressively undermined by the failure of the official exchange rate to adjust fully in line with market developments.

2/ The payment for January 1993 was received on February 1.

In the consultation discussions, the staff representatives emphasized the need for prompt action on the part of the Sudanese authorities to address the country's deep-seated imbalances. In this connection, it was pointed out that in the absence of significant progress toward active cooperation with the Fund, procedures pertaining to compulsory withdrawal might be initiated in early 1994. The authorities, for their part, reaffirmed their desire for an eventual normalization of relations and their readiness to maintain the dialogue. They emphasized the Government's commitment to a market-oriented economy led by the private sector, temporary interruptions in the progress of reform notwithstanding. As regards payments to the Fund, the authorities said that the virtual drying up of foreign assistance precluded monthly payments exceeding US\$300,000, barring unexpectedly favorable developments in the balance of payments.

II. Assessment of Performance in 1992/93

For the fiscal year ended June 1993, real GDP extended the robust expansion which began in 1991/92 (Chart 1a). A second consecutive year of generally favorable weather and the benefits of the liberalization of agricultural pricing for some crops more than compensated for the adverse effects of the serious fuel shortages--symptomatic of a worsening foreign exchange situation--experienced in the second half of the fiscal year. The livestock sector saw a pronounced pick-up in value added, as pastures were plentiful and advantage was taken of expanding export opportunities. Efforts to deliver crucial inputs appear to have helped to sustain manufacturing output, and agro-industrial activities such as sugar production also benefited from the good growing conditions in 1992/93.

Preliminary estimates indicate that the Government's net borrowing from the Bank of Sudan, which amounted to about LSd 34.5 billion (Table 1), was broadly in line with the target incorporated in the informal monitoring arrangement. This total reflects net borrowing through the Government's regular accounts of LSd 28.7 billion and additional reliance on Bank of Sudan financing of LSd 5.8 billion presently recorded in the Bank's suspense account. ^{1/} Revenues were boosted in part by higher than expected inflation, while cash expenditures were generally held down to the levels projected in the budget. Outlays were contained via suppression of capital expenditures, lower than budgeted debt service payments (due to the shortage of foreign exchange), and cuts in a number of other expenditure categories.

^{1/} This financing appears to be related to expenditures undertaken by spending units after, and in spite of, the withdrawal of Ministry of Finance approval in the context of fiscal restraint measures announced in December 1992. Suspense account assets of the Bank of Sudan rose a further LSd 5.3 billion due to interest charges incurred by the central bank on its borrowing operations with external correspondents on behalf of the Government.

Table 1. Sudan: Summary Operations of the Central Government, 1990/91-1993/94

	1990/91	1991/92	Prel. 1992/93	Budget 1/ 1993/94	Scenario A 2/ 1993/94	Scenario B 2/ 1993/94
(In millions of Sudanese pounds)						
Total revenue	11,976	32,103	80,496	155,307	144,480	155,330
Tax revenue	7,706	23,206	59,284	115,000	107,470	117,820
Taxes on income and profits	2,378	5,730	20,642	55,250	49,550	50,400
Taxes on international trade	3,991	10,030	28,390	39,360	36,000	45,500
Taxes on goods and services	3,203	5,474	14,595	20,390	21,920	21,920
Other 3/	-1,866	1,972	-4,343	--	--	--
Nontax revenue	4,270	8,897	21,212	40,307	37,010	37,510
Total expenditure	28,174	110,166	255,269	353,109	390,354	457,230
Current expenditure	24,828	94,639	209,229	281,945	328,501	393,240
Wages and salaries 4/	851	954	2,875	35,612	37,880	37,426
Transfers and subsidies 4/	8,497	38,121	43,964	37,393	38,593	34,953
Accrued interest	3,605	31,270	105,623	121,520	156,240	221,340
Goods and services 4/	6,401	12,783	30,587	72,132	72,132	68,725
Of which: defense	4,300	7,000	18,174	30,000	30,000	28,500
Other	5,475	11,512	26,180	15,288	23,656	30,795
Capital expenditure and net lending	3,345	15,526	46,040	71,164	61,853	63,990
Overall deficit (on an accrual basis)	-16,197	-78,063	-174,774	-197,802	-245,874	-301,900
Interest arrears	3,440	27,244	103,390	112,116	152,748	195,840
Overall deficit (on a cash basis)	-12,758	-50,818	-71,383	-85,686	-93,126	-106,060
Financing	12,758	50,818	-71,383	85,686	93,126	106,060
External (net)	3,506	19,118	36,800	49,692	55,683	79,560
Domestic (net)	9,252	31,701	34,583	35,994	37,443	26,500
Net credit from central bank 5/	9,598	32,251	34,493	35,994	37,443	24,000
Net credit from commercial banks	-346	-551	90	--	--	--
Other	--	--	--	--	--	2,500
(As percent of GDP)						
Revenue	6.2	7.4	9.2	9.9	9.2	10.7
Expenditure	14.6	25.4	29.1	22.5	24.9	31.5
Overall deficit (accruals)	-8.4	-18.0	-19.9	-12.6	-15.7	-20.8
Overall deficit (cash)	-6.6	-11.7	-8.1	-5.5	-5.9	-7.3
(As percent of opening money stock)						
Domestic bank borrowing	34.4	80.0	33.4	21.8	22.7	14.5

Sources: Ministry of Finance and Ministry of Economics, Planning, and Investment; and staff estimates.

1/ Includes staff estimates of debt service payments on an accrual basis and of foreign financed capital expenditures which are not covered in the budget document.

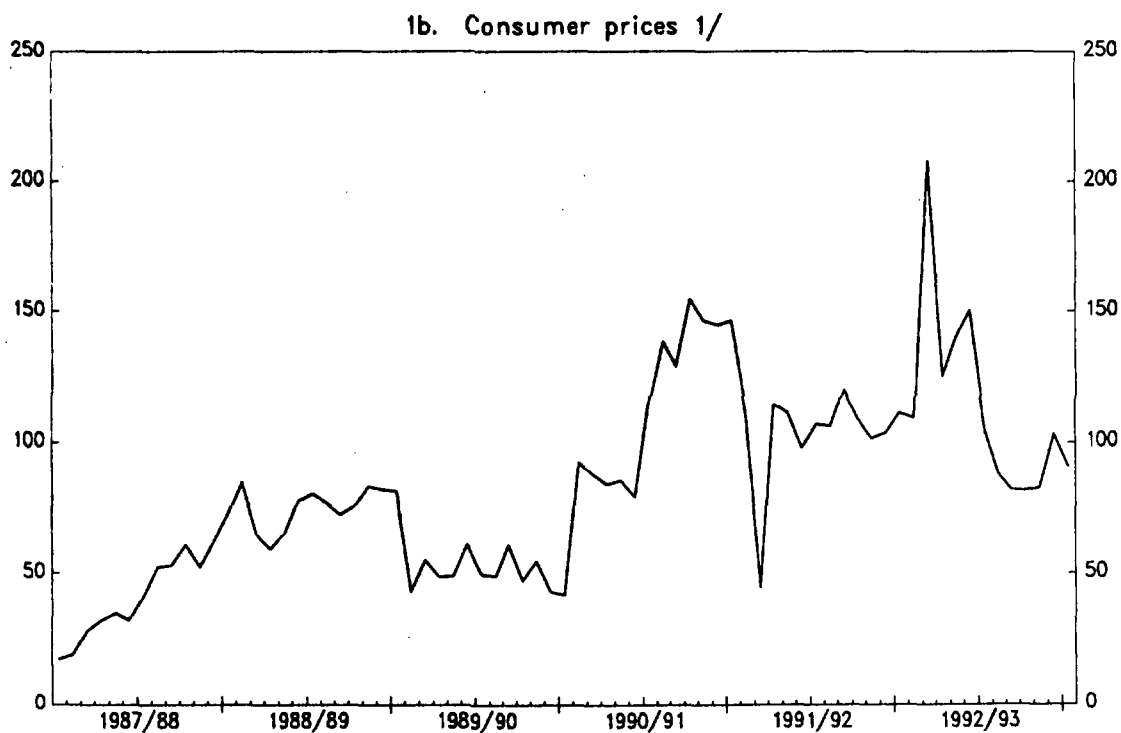
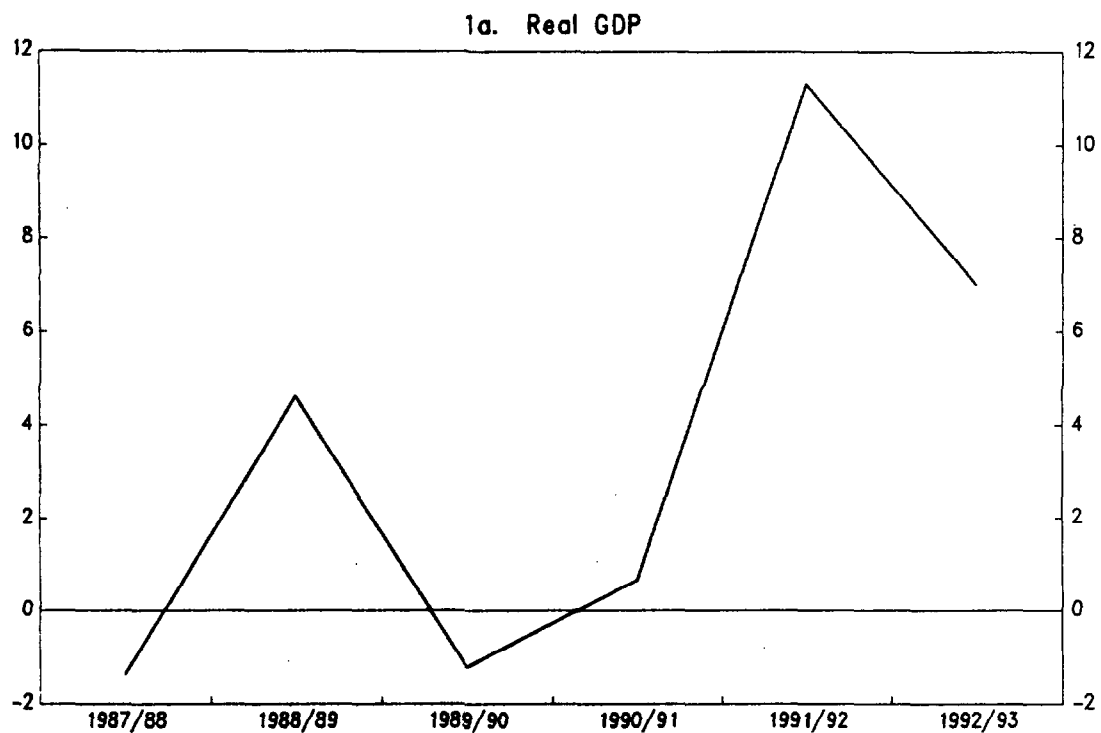
2/ Scenario A represents staff projections assuming a continuation of current policies (limited adjustment); Scenario B reflects the assumption of a strengthened adjustment effort.

3/ Represents adjustment of tax revenue subtotals (which are available only on an "as recorded" basis) with total tax revenue (which, as shown, reflects official data on a cash basis).

4/ There is a discontinuity in these series between 1992/93 and 1993/94, due to a reclassification of the budget (involving, inter alia, the movement of the contingency reserve for wage adjustments from the Transfers and Subsidies category to the Wages and Salaries category).

5/ For 1992/93, includes an increase of LSd 5.8 billion in suspense account assets of the central bank corresponding to Government borrowing which is not reflected in the accounts of the Ministry of Finance.

CHART 1
SUDAN
DEVELOPMENT IN OUTPUT AND PRICES
(Annual percentage changes)



Sources: Data provided by the Sudanese authorities; and staff estimates.

1/ Percent change over preceding twelve months.

Commercial bank credit to the private sector and state enterprises grew rapidly, expanding by an estimated 130 percent (equivalent to 23 percent of the initial broad money stock) in the year to June 1993 (Chart 2) compared with the 63 percent increase targeted at the beginning of the year. A combination of factors was responsible for the slippage in monetary policy. In the first place, the importance attached to agricultural growth and food self-sufficiency, particularly in view of the fall in foreign assistance, overshadowed concerns about the inflationary consequences of rapid credit expansion. Also, weak institutional capacity resulted in inadequate monetary surveillance, with the formulation and monitoring of monetary policy being hampered by the slower than expected improvements in Sudan's money and banking statistics and the continued failure to make use of an integrated set of analytical accounts of the banking system. ^{1/} The surge in credit constituted a major factor in the roughly 60 percent increase in broad money (Table 2), which was some 15 percentage points more than the target in the informal monitoring arrangement, but significantly less than the rate of inflation: consumer prices rose 103 percent in the 12 months to June 1993 (Chart 1b), compared with a 50-55 percent rate projected by the authorities at the beginning of the 1992/93 fiscal year. Monthly inflation showed a sharp upward spike in June, apparently reflecting speculative marking-up of prices in response to new surrender requirements of foreign exchange imposed by the Bank of Sudan. This measure was reversed in July and there is some indication that the associated surge in prices has ebbed somewhat.

The persistence of rapid inflation, combined with the stickiness of the official exchange rate, which since February 1992 has been set by a bankers' committee, led to a serious tightening of the foreign exchange situation over the course of 1992/93. Hard pressed for foreign exchange even to buy essential imports, the Government fell into arrears with the World Bank, AfDB, and IFAD in the second half of the fiscal year; payments to the Fund were suspended after February 1993. These difficulties led the authorities in April 1993 to defer the initiation of the new foreign exchange market and to introduce new restrictions. A one-year ban was imposed on imports of cars and other consumer durables in late April. In June the negative list of imports was further expanded and surrender requirements of foreign

^{1/} New reporting forms have been brought into use for banking statistics. Some efforts have been made to improve the gathering and reporting of economic statistics in a number of other areas as well. Further national accounts data for past years have been released, and the budget for 1993/94 has been recategorized for improved transparency. Substantial room for improvement as regards comprehensiveness, timeliness, and accuracy remains in all areas, however (see Appendix III).

Table 2. Sudan: Monetary Survey and Factors Affecting Liquidity, 1988/89-1993/94

	1988/89	1989/90	1990/91	1991/92 1/	Estimate 1992/93 1/	Scenario A 2/ 1993/94 3/	Scenario B 2/ 1993/94 3/
(In millions of Sudanese pounds, period end)							
Foreign assets (net)	-10,796	-11,247	-13,257	-275,164	-422,667	-653,850	-865,500
Bank of Sudan	-12,318	-13,242	-15,914	-306,320	-452,267	-699,750	-926,700
Commercial banks	1,522	1,995	2,657	31,156	29,600	45,900	61,200
Counterpart to valuation changes	8,885	9,980	10,257	297,039	442,679	672,197	878,852
Domestic assets (net)	19,661	27,565	41,978	81,637	144,970	201,336	181,693
Net claims on Central Government	12,737	20,588	30,333	62,965	91,748	129,101	121,058
Bank of Sudan	13,432	21,287	31,377	64,565	93,258	130,701	123,058
Commercial banks	-695	-698	-1,045	-1,600	-1,510	-1,600	-2,000
Claims on state and local governments	--	--	--	--	80	200	100
Claims on public enterprises (BOS)	2,618	3,387	3,076	2,658	2,339	2,400	2,400
Claims on nongovernment sectors	5,550	5,932	11,085	18,263	41,935	62,335	56,935
Private sector 4/	5,547	5,932	11,085	18,217	34,535	54,535	49,535
Nonfinancial public enterprises 4/	4	--	--	46	7,400	7,800	7,400
Other items (net) 5/	-1,244	-2,342	-2,515	-2,248	8,868	7,300	1,200
Money and quasi-money	17,750	26,298	38,977	103,513	164,982	219,683	195,045
Currency	7,482	10,775	13,190	27,902	65,304	97,663	70,995
Demand deposits	7,090	11,451	19,710	38,923	51,551	67,600	62,770
Quasi monetary deposits	3,178	4,072	6,078	36,688	48,127	54,420	61,280
Bank of Sudan	204	194	421	8,183	5,837	6,820	6,880
Commercial banks	2,974	3,879	5,656	28,505	42,290	47,600	54,400
Memorandum: Foreign currency deposits	83	520	2,413	12,907	29,100	34,600	43,500
(Change from year earlier, in millions of Sudanese pounds)							
Foreign assets (net)	-417	-450	-2,010	-261,907	-147,503	-231,183	-442,833
Counterpart to valuation changes	358	1,095	277	286,783	145,639	229,518	436,173
Domestic assets (net), of which	6,221	7,904	14,413	39,659	63,333	56,366	36,723
Net claims on Central Government	4,886	7,852	9,745	32,632	28,783	37,353	29,310
Claims on nongovernment sectors	1,201	381	5,153	7,178	23,672	20,400	15,000
Other items (net)	-302	-1,098	-173	267	11,117	-1,568	-7,668
Money and quasi-money	6,161	8,548	12,679	64,535	61,470	54,701	30,063
(Change from year earlier, as percent of broad money)							
Foreign assets (net)	-3.6	-2.5	-7.6	-671.9	-142.5	-140.1	-268.4
Counterpart to valuation changes	3.1	6.2	1.1	735.8	140.7	139.1	264.4
Domestic assets (net), of which	53.7	44.5	54.8	101.7	61.2	34.2	22.3
Net claims on Central Government	42.2	44.2	37.1	83.7	27.8	22.6	17.8
Claims on nongovernment sectors	10.4	2.1	19.6	18.4	22.9	12.4	9.1
Other items (net)	-2.6	-6.2	-0.7	0.7	10.7	-1.0	-4.6
Money and quasi-money	53.2	48.2	48.2	165.6	59.4	33.2	18.2

Sources: Bank of Sudan; and staff estimates.

1/ Monetary Survey data were revised in June 1992 in structure and valuation; prior data are not strictly comparable.

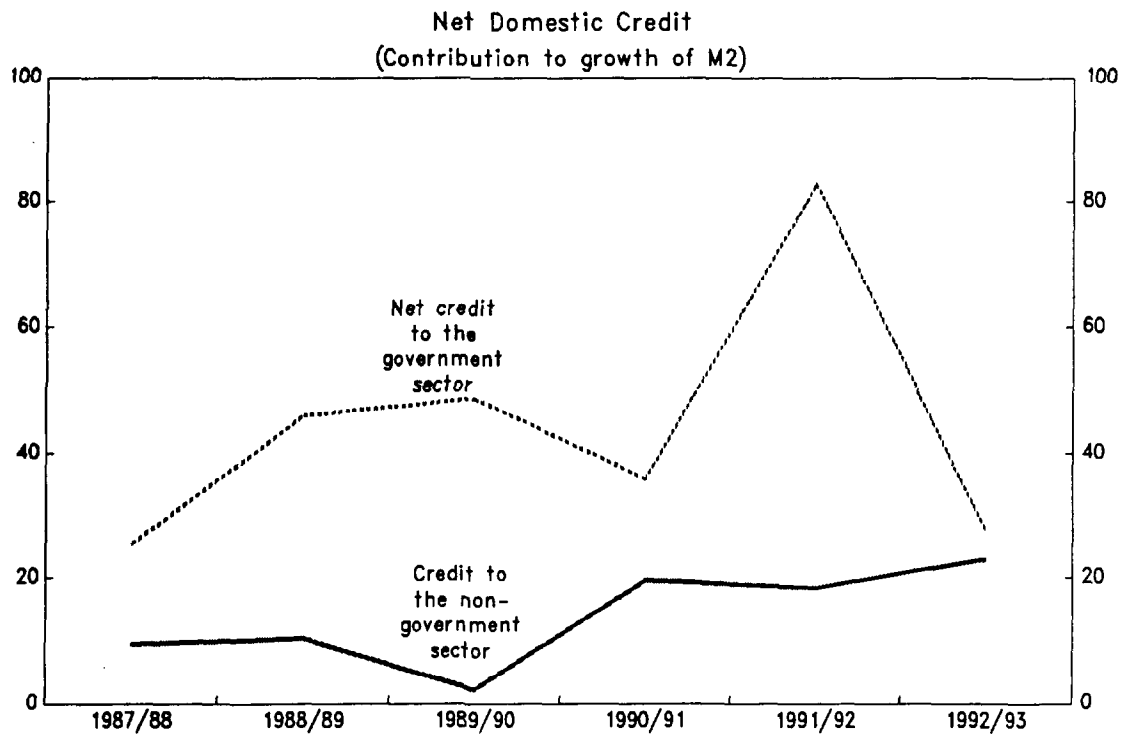
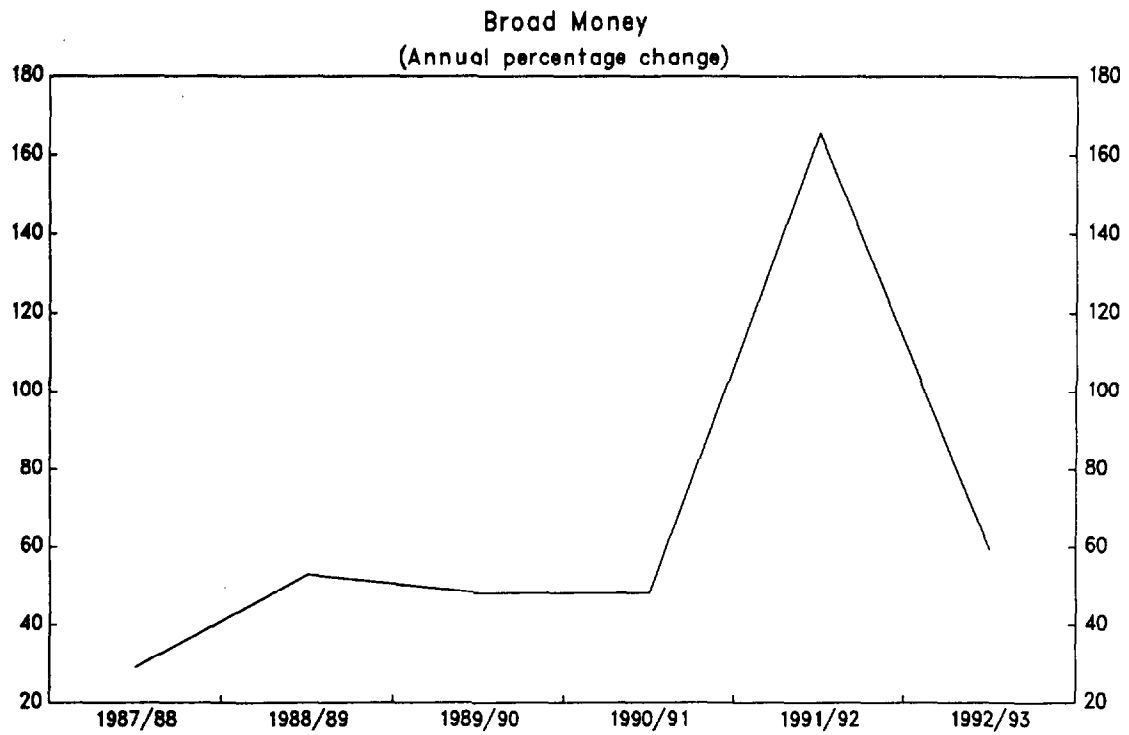
2/ Scenario A represents staff projections assuming a continuation of current policies (limited adjustment); Scenario B reflects the assumption of a strengthened adjustment effort.

3/ Exchange rate assumption for end-June 1994: (A) LSd 225 = US\$1 under current policies; (B) LSd 300 = US\$1 under strengthened adjustment program.

4/ Statistical break in January 1993 because of new and more detailed report forms.

5/ For 1992/93, includes LSd 5.8 billion in suspense account assets of the Bank of Sudan corresponding to central bank financing of government expenditures not authorized by the Ministry of Finance.

CHART 2 SUDAN MONETARY DEVELOPMENTS



Sources: Bank of Sudan; and Fund staff estimates.

currency were extended to import transactions. ^{1/} Despite these measures, the discount of the Sudanese pound in the parallel market reached about 45 percent by end-July 1993.

The balance of payments in 1992/93 remained under severe pressure (Chart 3 and Table 3). Despite a second successive year of good harvests, recorded exports remained depressed. Recorded receipts from workers' remittances also failed to recover, while external assistance continued to contract. Disbursements of grants and loans reached only US\$343 million compared with US\$601 million expected at the beginning of the fiscal year, despite borrowing of about US\$93 million on commercial terms from official and private sources. It appears that while full data are not available, the Government contracted nonconcessional, medium-term loans totalling at least US\$43 million during 1992/93. A further medium-term, nonconcessional loan of US\$25 million was contracted in July 1993. These loans are secured on export contracts, primarily of cotton and gum arabic. Import capacity was bolstered by unidentified capital inflows estimated at US\$338 million, broadly unchanged from levels in the preceding two years. These inflows are thought largely to reflect unrecorded workers' remittances. Debt service obligations in 1992/93 are estimated to have amounted to US\$1,460 million (about 250 percent of external current account receipts). ^{2/} Actual debt service payments fell further in 1992/93 to US\$35 million: these flows continued to be directed mainly to disbursing creditors, particularly multilateral and regional institutions. The overall deficit (US\$1.4 billion) was largely financed by the accumulation of external arrears.

III. Economic Policies for 1993/94

1. External sector policies

Under current policies, prospects for 1993/94 are for a continuation, and indeed an intensification, of pressure on the balance of payments (Table 3). Sources of foreign exchange earnings are likely to remain depressed. Recorded private transfers, which picked up in early 1992 after the unification of the exchange market, have subsequently fallen sharply and for 1993/94 are projected to be about US\$69 million lower than in 1992/93. Even barring further suspensions of development assistance on account of payments arrears, total grants and loan disbursements are likely to fall further in 1993/94, to about US\$325 million compared with over US\$600 million in 1991/92. Without implementation of a comprehensive program,

^{1/} For a further description of recent changes in the exchange system, see Appendix V.

^{2/} Information on Sudan's external debt and debt service obligations is very approximate (see Appendix III). A survey of Sudan's external debt, which was to have been conducted with UNDP and World Bank assistance, constituted a structural benchmark under the 1992 informal monitoring arrangement. The technical assistance was deferred and the benchmark was not met.

Table 3. Sudan: Balance of Payments, 1990/91-1993/94

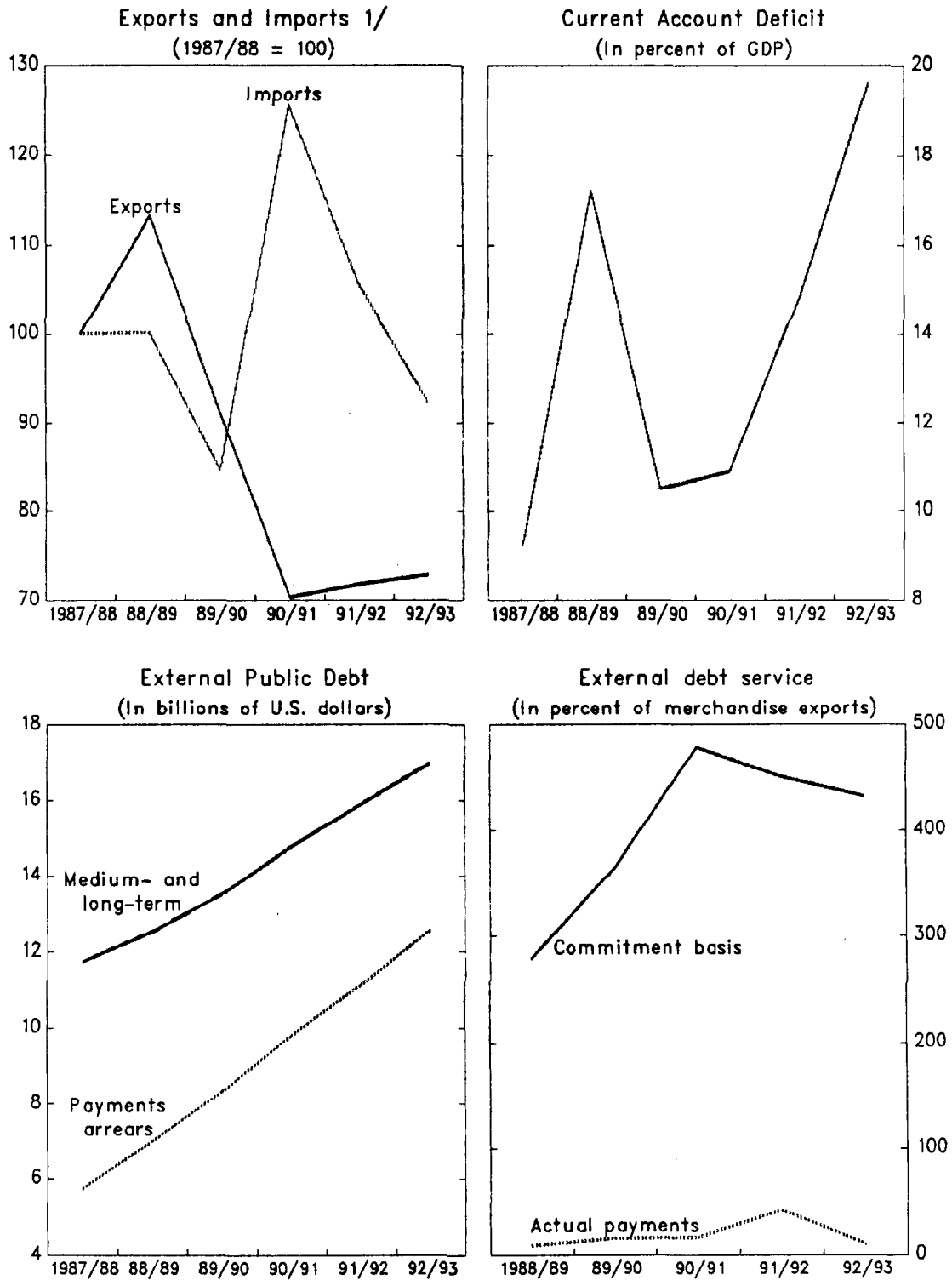
(In millions of U.S. dollars)

	1990/91	1991/92	Estimate 1992/93	Projections	
				Scenario A ^{1/} 1993/94	Scenario B ^{1/} 1993/94
Current account	-1,927	-1,622	-1,484	-1,480	-1,410
Exports, f.o.b.	342	349	354	363	401
Imports, c.i.f.	-1,535	-1,290	-1,129	-1,047	-1,227
Services (net)	-813	-850	-878	-895	-874
Receipts	68	40	52	54	62
Noninterest payments	-80	-54	-85	-81	-68
Interest payments due	-801	-836	-845	-868	-868
Interest paid	-28	-37	-19	-19	-100
Private transfers	79	169	169	100	290
Official transfers	205	268	108	143	163
Cash and commodity aid	110	154	68	120	120
Project aid	95	114	40	23	43
Official medium- and long-term capital flows (net)	-53	-274	-380	-413	-383
Disbursements	639	344	235	182	212
Cash and commodity	472	193	111	109	124
Project aid	167	151	124	73	88
Amortization due	-692	-618	-615	-595	-595
Amortization paid	-65	-110	-16	-16	-63
Errors and omissions and private capital	373	323	338	330	360
Overall balance	-1,402	-1,305	-1,418	-1,419	-1,270
Change in net reserves (- increase)	112	101	63	43	-30
Of which:					
IMF (net)	110	103	70	51	--
Scheduled repurchases	-38	-2	--	--	--
Change in arrears on repurchases	38	2	--	--	--
Change in arrears on charges	110	103	70	51	--
Other (net)	2	-2	-7	-9	-30
Net change in non-Fund arrears (increase +)	1,290	1,204	1,355	1,377	1,300

Sources: Information provided by the Sudanese authorities; and staff estimates.

^{1/} Scenario A represents staff projections assuming a continuation of current policies (limited adjustment); Scenario B reflects the assumption of a strengthened adjustment effort.

CHART 3 SUDAN BALANCE OF PAYMENTS



Sources: Bank of Sudan; and Fund staff estimates.

1/ Based on U.S. dollar values.

there appears to be little prospect of any significant recovery in export proceeds from the low levels of recent years. Against this background, import capacity in 1993/94 is likely to contract for the third consecutive year.

In reviewing the balance of payments outlook, the staff representatives expressed concern that the reform of the foreign exchange system had fallen short of the authorities' original intentions. The measures introduced in February and June 1992 had been important steps toward the creation of a liberal and efficient foreign exchange regime with a single market-determined rate for all transactions. The intended benefits, however, have not materialized. The committee of bankers which determines the exchange rate on a twice-weekly basis has resisted depreciating the Sudanese pound in line with market conditions. The stickiness of the rate, combined with rapid inflation, has resulted in a real appreciation of the currency amounting to some 60 percent between February 1992 and July 1993 (Chart 4). The staff representatives argued that the immediate introduction of an interbank foreign exchange market with a unified rate for all transactions and involving participation of nonbank dealers, along the lines discussed by a Fund technical assistance team in November 1992, would eliminate the current segmentation of the market and obviate the need for informal foreign exchange rationing. At the same time, the reversal of the real appreciation of the Sudanese pound would improve incentives for exports and enhance the supply of foreign exchange available to the authorities for debt service and essential imports (see Scenario B in Table 2). Reform of the exchange system, appropriately supported by financial policies and market-oriented pricing in agriculture, would also permit the return to a more liberal import regime, with fewer quantitative import controls.

The authorities shared the view that exchange rate unification was central to the reform agenda, and indicated their intention to move forward on this issue as soon as circumstances permitted. Their near-term preoccupation, however, was the price level, and the concern was expressed that the short-run inflationary impact of a sharp fall in the official exchange rate would foment further popular discontent, and could help to entrench inflationary expectations. They were therefore not in a position to be specific on the timing of any move to unify the exchange market, or on the modalities for its operation.

2. Fiscal policy

The 1993/94 budget, which aims to facilitate the reduction of the 12-month rate of inflation to 45 percent by June 1994, allows for recourse to domestic bank financing of LSd 36 billion, predicated on a near doubling of revenues and the containment of cash expenditures to an increase of 62 percent over the outcome for 1992/93. ^{1/} The budgeted level of

^{1/} The official target of 45 percent for the end-year inflation rate implies an increase in the average price level of about 80 percent over the preceding year.

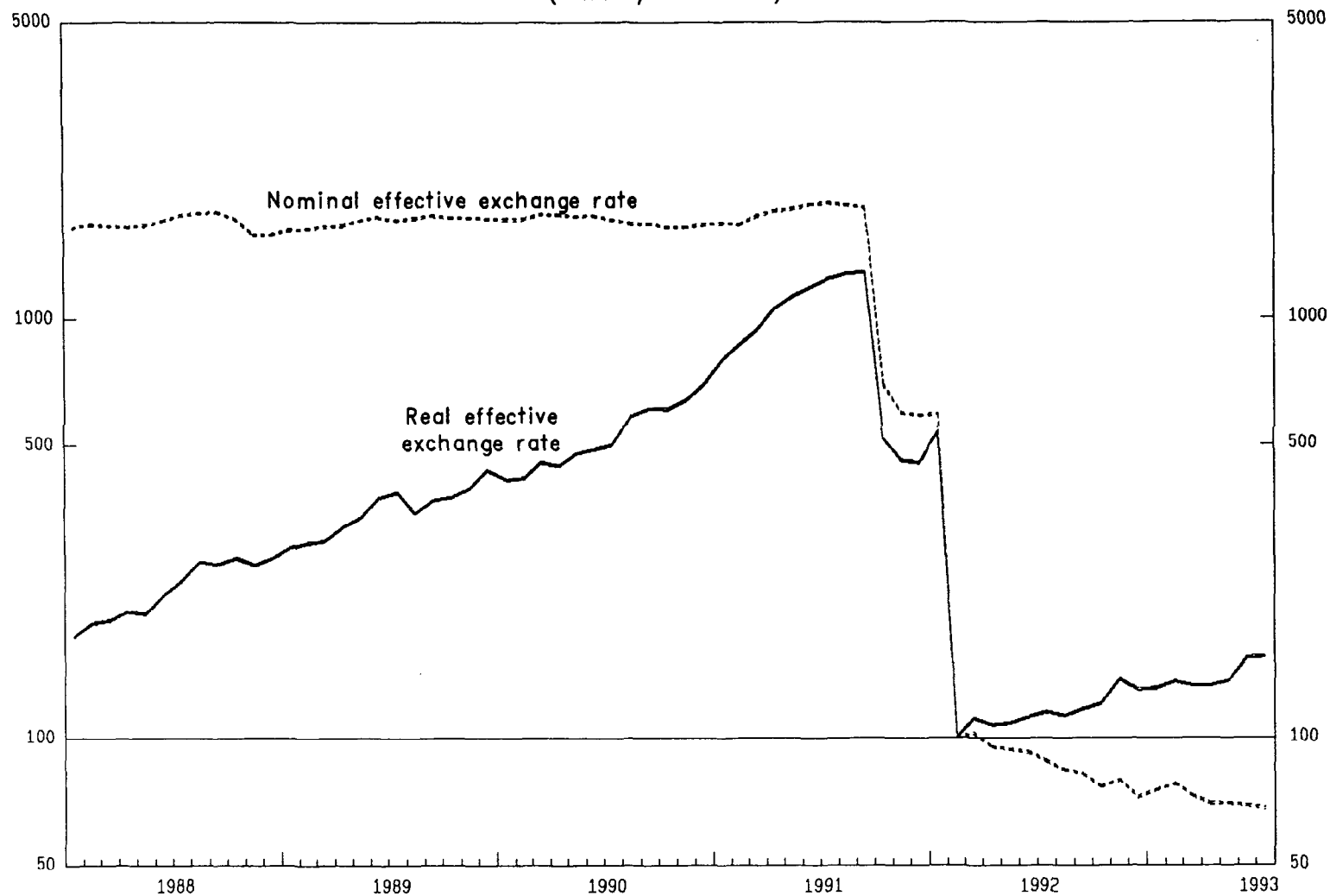
revenues (LSd 155 billion) represents a real increase of about 8 percent in spite of the lack of increases in rates or of the introduction of new taxes. ^{1/} The authorities offered several reasons for this, including: (i) a strengthening of the tax collection effort, with new offices in the field and additional personnel to enforce payment; (ii) the introduction of a pay-as-you-go system for taxes on profits, which will result in revenues in the current fiscal year reflecting both past and current year assessments; and (iii) expected contributions from certain areas, such as crude oil production, which hitherto yielded no revenue.

The projected cash expenditure level represents a cut of about 10 percent in real terms vis-à-vis the outcome for 1992/93. Wages and salaries are budgeted to be up only about 34 percent over the outcome for 1992/93; this reflects a rise in rates of pay at the beginning of 1993/94 of 20-30 percent, with no further increase in rates budgeted for the rest of the year. Current outlays on defense are also expected to be cut in real terms, given a projected nominal increase of 65 percent over the outcome for 1992/93. The biggest increases are foreseen for domestically financed development expenditures and interest payments on external debt (up 287 percent and 321 percent, respectively, on the outcome for 1992/93), the areas squeezed most by spending restraint last year. The increase in subsidies contributes about LSd 9 billion to the projected rise in current expenditures over 1992/93. Continued high inflation and dwindling foreign assistance have resulted in the erosion of living standards, mainly for urban groups, which has prompted demands for a broadening of the scope of subsidies as well as other measures intended to control prices. The 1993/94 budget allows for LSd 3.4 billion in subsidies for rationed wheat flour, with a further LSd 10 billion allocated to subsidies on petroleum products and LSd 1 billion for health services.

While the staff team endorsed the authorities' efforts to enhance fiscal revenues and strengthen expenditure control, concern was expressed about the realism of the budget estimates--both on the revenue and expenditure sides--as well as about the magnitude of the deficit and its financing implications, particularly in view of the goal of substantially lowering inflation. The staff underscored the risk that attainment of the Government's fiscal objective under current policies may again be possible only through cuts in capital expenditure and a larger than expected increase in external arrears. The mission expressed the view that without changes in policies, the revenue assumptions were at risk. Difficulties were foreseen, for example, in meeting such targets as the projected tripling of profit tax receipts, the largest single revenue item, or the large increase foreseen for asset sales and public enterprise profits. Also, under current policies, a compression of import volume is seen as likely by the staff, leading to a possible shortfall in customs receipts in relation to budget

^{1/} Indeed, in May 1993 two rates of tax applying to agriculture were cut, from 16 percent to 8 percent and from 5 percent to 2 percent, respectively, and the threshold for personal income tax was raised from LSd 30,000 to LSd 54,000 per annum.

CHART 4
SUDAN
EXCHANGE RATE MOVEMENTS 1/
(February 1992 = 100)



Source: International Monetary Fund, Information Notice System.

1/ The effective rate indices are based on officially recognized exchange rates.

estimates. In addition, agriculture, to which a large part of total revenue is tied, remains vulnerable to any number of shocks, including bad weather, pests, and inadequate supplies of inputs. The authorities have assumed a third consecutive year of generally favorable conditions for agriculture. 1/

The mission expressed concern at the feasibility of the assumed deep cuts (in real terms) in wages and salaries and the rapid projected increase in certain items of current expenditures. In the circumstances, a closer look at specific expenditures proposals is warranted. In light of the limited resources available to the budget, efforts to target subsidies more narrowly, focusing on the most needy groups, are called for. The gasoline subsidy is the most obvious candidate for early elimination, and the staff urged the full and permanent liberalization of all energy prices. Such a step could usefully be combined with an increase in the preferentially low duties imposed on petroleum imports and/or the imposition of an excise tax on gasoline. The mission also noted that demands to raise public service wages further were likely, and urged the authorities to maintain their resolve in this area, given the link between public sector wages and inflation, and to explore the possibility of reducing public sector employment.

The staff projections for 1993/94 presented to the authorities (Scenarios A and B) differ in regard to domestic bank financing, with the difference resulting primarily from divergent assumptions concerning the exchange rate. In Scenario B it is assumed that the exchange rate is allowed to float, leading to much higher receipts from taxes on international trade and on Sudanese nationals working abroad, as well as increased foreign financing. It is also assumed that subsidies are lower by LSd 3.6 billion and that some other current expenditures are controlled more tightly (facilitated by slightly lower inflation than is projected in Scenario A), permitting less recourse to bank financing.

The authorities' view was that the targeted real reduction in bank financing of the deficit in 1993/94 was consistent with their inflation target, and that a further tightening of the fiscal stance was unrealistic, given in particular the difficulties caused by the projected cutbacks in foreign budgetary assistance. They noted that the National Assembly had increased some subsidies beyond the amounts in the draft budget, and that the removal of newly-legislated subsidies would be very difficult. They stressed, however, that expenditures authorized in the budget were considered to be ceilings and that it might be possible to hold actual expenditures below these levels. They further noted that they intended to reduce all petroleum product subsidies steadily over the fiscal year, with the subsidies on gasoline and LPG to be eliminated entirely, and to keep actual spending in this area below the budgeted level. Reliance on

1/ The budget assumes real GDP growth in 1993/94 of 10 percent, while the staff projection is 2 percent. Agriculture accounts for about 35 percent of GDP.

rationing cards allowed the authorities to target the bread subsidy to those most in need. Finally, there was the hope that progress toward an early settlement of the conflict in the South would permit a significant alleviation of pressures on the budget.

3. Monetary policy

The authorities are aware that the disappointing inflation performance during 1992/93 was closely associated with the conduct of monetary policy. In their view, the experience of 1992/93 gives cause for concern in regard to current year developments, and they therefore wished to implement a significant slowing down of credit expansion to the private sector and public enterprises in order to alleviate inflationary pressures and support the exchange rate. It appeared to the staff, however, that credit policy had still not been fully defined for the fiscal year and the risk remained of ad hoc adjustments in credit limits to accommodate perceived credit needs. Moreover, progress toward a market-based financial system has been slower than expected. The introduction of government securities carrying market-related rates of return, a step designed to provide a source of domestic budgetary financing other than the central bank, and to encourage a more competitive rate of return on domestic financial instruments, has been delayed by the need to draft and pass new enabling legislation. The continued negative real rate of remuneration on bank deposits has raised the demand for foreign currency, thereby exacerbating pressures on the exchange rate in the parallel market. ^{1/}

The authorities stated that changes in procedures would permit the implementation of a more effective monetary policy in 1993/94. The instruments of monetary policy had been strengthened by the institution of a reserve requirement on a daily basis. The new system is closely monitored, with stiff penalties applied for noncompliance. The authorities were also sensitive to the fact that the Agricultural Bank--which has grown rapidly--remains to be brought into the consolidated system. Discussions were in train, and the authorities expected this bank to commence reporting in the near future. With regard to government expenditure financed with credit recorded in the Bank of Sudan suspense accounts, central bank officials indicated their intention to discuss this issue with the Ministry of Finance with a view to ensuring that such procedures would not be repeated in 1993/94.

4. Price policy, production, and structural reform

The mission found that the persistence of high inflation following the surge in prices associated with the currency depreciation and price deregulation of early 1992 had apparently eroded support for the policy of

^{1/} Demand deposits are not remunerated and the return on investment deposits, which under Islamic banking law is a residual that corresponds to an apportionment of the bank's profits after overhead costs, is estimated to be between 10 percent and 20 percent.

price liberalization and reliance on market forces. As a result, in addition to the provision of subsidies for wheat and petroleum products, plans were announced in July 1993 for a range of commodities, including soap, edible oils, sugar, tea, and rice, to be made available at below-market prices to a variety of target groups through a government distribution system. Such groups included civil servants, other urban wage-earners, pensioners, and the approximately 500,000 families on social security. Also, at the end of July 1993, the Government announced the setting up of price councils with powers to enforce fixed prices for a range of "essential commodities" via referrals to the judicial system. The mission expressed the view that these steps seemed to represent a setback to the authorities' liberalization program and did not address the causes of inflationary pressures but merely sought to suppress the symptoms. In the authorities' view, these measures were needed temporarily to avoid the worst excesses of speculative pricing which arose from a lack of experience of a liberalized price environment.

Information provided by the authorities indicated that the prospects for production in 1993/94 were fair, despite the likely further contraction of foreign assistance. Rainfall in July and August was above average in most regions, and steps had been taken to ensure adequate finance for planting on the irrigated schemes. The authorities' privatization program appears to have maintained forward momentum, although it has fallen somewhat behind schedule, with revenues in 1992/93 much less than expected. Sales expected in 1993/94 include two cotton ginning factories and a public mining corporation. Also, the recent mergers of several of the major state-owned banks were seen as a preliminary step leading to the privatization of the new, larger and financially strengthened groups, although the precise timing of the transfer of these groups to the private sector was not specified.

IV. Medium-Term Prospects

The staff representatives developed two quantified scenarios to highlight the differing implications for the balance of payments and income growth of a continuation of present trends (Scenario A) on the one hand, and a strategy for addressing Sudan's economic problems (Scenario B) on the other. ^{1/} The exercise shows the importance of implementing policies incorporating exchange reform supported by credit restraint and additional fiscal action in order to generate foreign resources for Sudan. Enhanced adjustment policies and a greater flow of foreign exchange would set the stage for possible resumption of active cooperation with the Fund. Such policies, in conjunction with other steps to improve relations with donors, would seem to offer a reasonable prospect for moving in the direction of medium-term external viability.

^{1/} The main assumptions underlying each of the Scenarios are given in Appendix VI.

A first scenario (Table 4a) embodies the current policy stance of partial adjustment and limited reform efforts. Actual debt service payments are assumed to remain at their current low levels, tantamount to a de facto unilateral moratorium. Some foreign assistance is projected to continue. In all likelihood, however, Sudan's external financing position would tighten, possibly leading to intensification of economic controls and restrictions, with consequent further deterioration in the domestic economy and a continued escalation of external arrears and indebtedness. Import repression and lower per capita output likely would follow, and the economy would remain highly vulnerable to adverse exogenous shocks.

As an alternative, the staff explored the medium-term implications of a broadening and considerable strengthening of the adjustment effort, consistent with the authorities' declared economic objectives (Table 4b). Policies would comprise, inter alia, the introduction of a unified, market-determined exchange rate, a tightening of financial policies to foster price stability and improve the real rate of return on deposits, and the adoption of structural reforms aimed at further decontrol of economic activity and increased responsiveness to market forces. These policies would be expected to encourage a significant inflow of workers' remittances and private savings held abroad by Sudanese nationals. They would also be expected to help provide a basis for a gradual resumption of donor support via rescheduling and/or new lending. It is very likely that a substantial reduction in the debt stock would also be necessary for the attainment of medium-term external viability. No explicit allowance has been made for such an operation in the quantified adjustment scenario, however, and the timing and extent of any debt forgiveness would depend importantly on progress with the adjustment program. This alternative scenario is seen as offering substantially better prospects for income and consumption, with the advantage growing over time.

The staff underscored that the exercise also brings out the need for a comprehensive adjustment and reform effort. Even under the most optimistic assumptions regarding the scale of foreign support that might be available, policies tailored to raising domestic savings, attracting transfers from Sudanese working abroad, and engineering a reflow of private capital appear essential to help finance the investment needed to support higher growth and consumption over time. The staff noted that since the benefits of these policies take time to materialize, their early introduction was all the more important.

In response, the authorities made a number of points. They stressed the difficulty of implementing basic market-oriented reforms in the absence of external support, observing that such efforts elsewhere were accompanied by substantial foreign assistance. In that regard, they recognized the importance of restoring relations with traditional donors, and they reported renewed efforts in this area. One key to progress on this front was moving toward a resolution of the conflict in the South, and there, too, they saw grounds for hope. Finally, the authorities emphasized the need to take into account the domestic social strain occasioned by vigorous adjustment, especially in the absence of an increased flow of capital from abroad.

Table 4a. Sudan: Medium-Term Macroeconomic Framework (Current Policies), 1992/93-1999/2000

	Prelim. Estimates 1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
		Projections						
		(Percentage change, unless otherwise indicated)						
Output and prices								
GDP at constant market prices	6.4	2.0	1.0	1.0	1.0	1.0	1.0	1.0
Consumer price index ^{1/}	103	80	77	76	75	75	75	75
Nominal GDP at market prices (in billions of Sudanese pounds)	877.4	1,566.2	2,768.3	4,892.9	8,648.2	15,285.8	27,017.6	47,753.6
GDP (in millions of U.S. dollars) ^{2/}	5,375	5,647	5,875	6,111	6,358	6,614	6,880	7,158
Per capita GDP (in U.S. dollars) ^{2/}	215	220	223	226	229	232	235	238
Index of real public and private per capita consumption (1990/91=100) ^{3/}	111	100	92	89	88	86	84	82
		(As percent of GDP)						
Saving and investment								
National savings ^{3/}	-7.1	--	0.5	0.5	0.6	0.6	0.6	0.7
Foreign saving ^{3/}	21.1	17.0	16.5	16.5	16.4	16.4	16.4	16.3
Gross Savings = Investment	14.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
		(In millions of U.S. dollars)						
External sector								
Current account	-1,484	-1,479	-1,498	-1,551	-1,609	-1,670	-1,735	-1,802
Merchandise exports	354	363	394	428	464	503	544	587
Merchandise imports, cif	-1,129	-1,047	-1,076	-1,114	-1,155	-1,199	-1,247	-1,296
Net nonfactor services (net)	-33	-27	-18	-18	-19	-20	-21	-21
Interest due	-845	-868	-915	-969	-1,026	-1,086	-1,149	-1,215
Private transfers	169	100	117	122	127	132	138	143
Capital account (net)	66	60	-25	-25	-25	-25	-25	-25
Official ^{4/}	-272	-270	-325	-325	-325	-325	-325	-325
Private (including errors and omissions)	338	330	300	300	300	300	300	300
Overall balance	-1,418	-1,419	-1,523	-1,576	-1,634	-1,695	-1,760	-1,827
Change in net international reserves (increase -)	63	51	53	52	53	54	56	57
Exceptional financing (net)	1,355	1,377	1,470	1,524	1,581	1,641	1,704	1,770
External debt stock ^{5/}	16,961	17,976	19,054	20,184	21,373	22,623	23,938	25,321
		(As percent of GDP) ^{2/}						
External debt stock ^{5/}	315.6	318.3	324.3	330.3	336.2	342.1	347.9	353.8
Current account balance	-27.6	-26.2	-25.5	-25.4	-25.3	-25.2	-25.2	-25.2
External interest due	15.7	15.4	15.6	15.9	16.1	16.4	16.7	17.0
		(As percent of current receipts)						
External debt service	254	285	262	253	243	235	226	220

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

^{1/} Period average.

^{2/} U.S. dollar value of GDP calculated using estimated real equilibrium exchange rate, based on parity in February 1992.

^{3/} There is a discontinuity in this series between 1992/93 and 1993/94.

^{4/} Includes official grants as well as loans.

^{5/} Outstanding at end of period.

Table 4b. Sudan: Medium-Term Macroeconomic Framework (with Additional Adjustment), 1992/93–1999/2000

	Prelim. Estimates 1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
(Percentage change, unless otherwise indicated)								
Output and prices								
GDP at constant at market prices	6.4	2.0	4.5	5.0	5.0	5.0	5.0	5.0
Consumer price index ^{1/}	103	70	25	14	12	11	10	8
Nominal GDP at market prices								
(in billions of Sudanese pounds)	877.4	1,449.9	1,924.2	2,323.5	2,732.4	3,184.6	3,678.2	4,171.1
GDP (in millions of U.S. dollars) ^{2/}	5,375	5,686	5,780	6,251	6,760	7,311	7,907	8,552
Per capita GDP (in U.S. dollars) ^{2/}	215	221	219	231	243	256	270	284
Index real public and private per capita consumption (1990/91=100) ^{3/}	111	105	105	104	104	106	107	109
(As percent of GDP)								
Saving and investment								
National savings	-7.1	-7.8	-4.6	0.4	3.6	4.9	7.0	8.0
Foreign savings	21.1	24.8	22.6	19.6	17.4	16.1	15.0	14.0
Gross Saving = Investment	14.0	17.0	18.0	20.0	21.0	21.0	22.0	22.0
(In millions of U.S. dollars)								
External sector								
Current account	-1,484	-1,410	-1,306	-1,228	-1,179	-1,179	-1,187	-1,199
Merchandise exports, f.o.b.	354	401	439	506	581	665	759	864
Merchandise imports, c.i.f	-1,129	-1,227	-1,168	-1,175	-1,237	-1,360	-1,487	-1,625
Nonfactor services (net)	-33	-6	-6	-6	--	--	--	--
Interest due	-845	-868	-896	-928	-956	-981	-1,005	-1,028
Private transfers	169	290	324	375	433	497	546	590
Capital account (net)	66	140	269	375	503	590	679	771
Official ^{4/}	-272	-220	-120	-45	50	100	150	200
Private (including errors and omissions)	338	360	389	420	453	490	529	571
Overall balance	-1,418	-1,270	-1,054	-870	-691	-605	-525	-444
Change in net international reserves (increase -)	63	-30	-30	-30	-30	-30	-30	-30
Exceptional financing (net)	1,355	1,300	1,084	900	721	635	555	474
External debt stock ^{5/}	16,961	17,878	18,661	19,336	19,907	20,443	20,947	21,421
(As percent of GDP) ^{2/}								
External debt stock ^{5/}	315.6	314.4	322.9	309.3	294.5	279.6	264.9	250.5
Current account balance	-27.6	-24.8	-22.6	-19.6	-17.4	-16.1	-15.0	-14.0
External interest due	15.7	15.3	15.5	14.8	14.1	13.4	12.7	12.0
(As percent of current receipts)								
External debt service	254	194	180	160	142	126	114	104

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

^{1/} Period average.

^{2/} U.S. dollar value of GDP calculated using estimated real equilibrium exchange rate, based on parity in February 1992.

^{3/} There is a discontinuity in this series between 1992/93 and 1993/94.

^{4/} Includes official grants as well as loans.

^{5/} Outstanding at end of period.

V. Staff Appraisal

In early 1992 Sudan initiated a limited re-orientation of economic policies that signaled a shift toward allowing freer operation of market forces and enhancing the role of the private sector. The initial reform steps were further strengthened in mid-1992 and the policy package that emerged was considered by the Executive Board to warrant informal monitoring. Attainment of the objectives of the program hinged critically on sustained implementation of tight fiscal and monetary policies, and maintenance of liberal, market-oriented policies, particularly in the foreign exchange area.

Developments during 1992/93 were uneven. On the positive side, real GDP extended its robust expansion helped by generally favorable weather and the effects of price liberalization. Efforts in the fiscal area succeeded in containing recourse by the Government to bank financing within the limit that had been established. There were also setbacks. The expansion of credit to other sectors exceeded program targets and inflation persisted at high levels. The reform of the exchange system stalled and the policy of market orientation and elimination of subsidies was not sustained. The Sudanese pound depreciated steeply in the unofficial market, exports stagnated, and the flow of remittances dwindled. Lower foreign exchange receipts led to renewed restrictions.

The authorities recognize that the persistence of high inflation threatens the sustainability of the economic reform strategy. In their view, however, the momentum of inflation is largely attributable to the impact of the ongoing currency depreciation, which, they believe, reflects essentially speculative factors. It remains the intention to put into operation a free foreign exchange market when conditions permit. The staff is of the view that the depreciation of the currency results from high inflation and is not its cause; resisting market pricing of foreign exchange only exacerbates price distortions and postpones external sector recovery. A properly functioning foreign exchange market, however, should be sustained by cautious fiscal and monetary policies that are effective in curbing inflation and creating an environment conducive to exchange rate stability.

Evidence of credible policies to achieve price stability will be critical for restoring private sector confidence and generating the saving and investment required for the attainment of sustainable economic growth. Given the difficulty of rapidly increasing Sudan's access to official financing, the need for enhanced private inflows is all the more essential. Equally, investment and the inflow of private capital on a substantial scale is unlikely in the absence of a comprehensive strategy to address Sudan's overall external debt problem, the precise extent of which ought to be established as soon as possible via a thorough survey of the debt and debt service obligations. An atmosphere of confidence can only be fostered over time, making it all the more costly to delay embarking on a comprehensive policy correction.

The staff is conscious of the severe constraints on the conduct of economic policy imposed by the fall in foreign assistance. The achievement of financial stabilization under those conditions is a daunting task that will require the utmost perseverance. Lack of prospects for an immediate resumption of foreign assistance, however, does not make a weakening of the adjustment strategy a viable course of action. On the contrary, stronger and more effective adjustment policies become all the more necessary in order to persuade the international community to increase its support for Sudan in the context of a comprehensive program designed to address Sudan's economic problems. Meanwhile, the strengthened policies would help sustain domestic savings and generate a reflow of private capital which are indispensable for economic recovery.

A central element of an early policy correction would be the introduction of a unified market-determined exchange rate. Supported by tight credit conditions and a firm fiscal policy stance, such a move would contribute importantly to enhancing incentives for generating foreign exchange and breaking the inflation/devaluation cycle. The early introduction of government securities bearing market-related rates of return would lend further support to the adjustment strategy. In the continued absence of adequate remuneration for domestic financial savings that compensates for inflation it would appear all the more important to achieve a rapid move toward price stability, an aim requiring even greater reliance on a tightened fiscal policy.

A substantial strengthening of the adjustment effort could create conditions for restoring active cooperation with the Fund. Implementation of such a policy package in the period immediately ahead, notwithstanding the current low levels of aid, would help establish a track record of policy cooperation. If consistently applied, such policies could be expected to generate additional resources, a portion of which could be used to make payments to the Fund on a rising scale. A record of policy performance would also contribute to fostering the goodwill needed to unlock in time foreign assistance on a broader scale.

Notwithstanding the exchange reform steps introduced in 1992, Sudan continues to maintain a restriction under Article XIV on payments and transfers for current international transactions. This consists of limitations on the availability of foreign exchange for travel abroad. In addition, there continue to be restrictions on payments and transfers for current international transactions which are subject to approval under Article VIII, Section 2(a), including those evidenced by arrears on external obligations, a bilateral payments agreement with a Fund member, and limitation on the availability of foreign exchange for invisibles other than foreign travel. Sudan also continues to maintain multiple currency practices subject to approval under Article VIII, Section 3. These stem from the arrangement for the operation of export taxes, the official sanctioning of exchange transactions in the parallel market, and the requirements imposed on certain importers to sell foreign exchange at the official exchange rate to commercial banks for onward sale to the Bank of Sudan. Of the Article VIII restrictions, three have come into effect since

the liberalization of the exchange system in February 1992--the limitations on the availability of foreign exchange for invisibles payments, and the latter two multiple currency practices.

In the absence of a clear timetable for the removal of these restrictions, the staff does not recommend their approval. The staff urges Sudan to return to a reform path that would include, in addition to the introduction of a market-determined exchange rate, the elimination of all restrictions at an early date. The staff also urges Sudan to remove at an early date the restrictive features of a bilateral payments agreement with a Fund member. This would also pave the way for the eventual acceptance of the obligations of Article VIII. It is expected that the next Article IV consultation with Sudan will be held on the standard 12-month cycle.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Sudan's exchange measures subject to Article VIII, Sections 2(a) and 3 and in concluding the 1993 Article XIV consultation with Sudan, in the light of the 1993 Article IV consultation with Sudan conducted under Decision No. 5392-(77/63) adopted April 29, 1977 as amended (Surveillance Over Exchange Rate Policies).

2. Sudan maintains a restriction on payments and transfers for current international transactions as described in SM/93/222, in accordance with Article XIV, Section 2. In addition, Sudan retains restrictions on payments and transfers for current international transactions, including those evidenced by external payments arrears, a bilateral payments agreement with a Fund member, and limitation on the availability of foreign exchange for invisibles other than foreign travel, that are subject to Fund approval under Article VIII, Section 2(a), as well as multiple currency practices subject to approval under Article VIII, Section 3.

3. The Fund urges the authorities to eliminate the above stated restrictions and multiple currency practices and to eliminate the restrictive features of the bilateral payments agreement as soon as possible.

Sudan: Selected Economic and Financial Indicators, 1988/89-1993/94 1/

	1988/89	1989/90	1990/91	1991/92	Est. 1992/93	Proj. 1993/94 2/
(Annual percentage changes, unless otherwise indicated)						
National income and prices						
Real GDP (at factor cost)	4.6	-1.2	0.7	11.3	7.0	2.0
GDP deflator	70.0	62.0	91.0	100.9	90.0	75.0
Consumer prices (period average)	74.6	52.6	111.7	109.6	103.3	80.0
Central government operations						
Total revenue	56.6	32.6	45.1	168.1	150.7	79.5
Expenditure and net lending	72.0	35.4	29.6	291.0	131.7	52.9
External sector						
Exports, f.o.b. (in U.S. dollar terms)	13.2	-19.5	-22.6	2.0	1.4	2.5
Imports, c.i.f. (in U.S. dollar terms)	0.1	-15.4	48.3	-16.0	-12.5	-7.3
Real effective exchange rate (to end of period; depreciation -) 3/	70.4	29.9	149.1	-90.6	41.1	-9.2
(End of period; in millions of Sudanese pounds)						
Money and credit						
Money and quasi-money	17,750	26,298	38,977	103,513	164,982	219,683
Net domestic assets	19,661	27,565	41,978	81,637	144,971	201,336
Claims on Central Government	12,737	20,588	30,333	62,965	91,748	129,101
Claims on public enterprises	2,618	3,387	3,076	2,657	2,339	2,400
Claims on private sector	5,547	5,932	11,085	18,217	34,535	54,535
Claims on specialized banks	139	169	169	169	169	169
Net foreign assets	-10,796	-11,247	-13,257	-275,164	-422,667	-653,850
Offsetting adjustments 4/	8,886	9,980	10,257	297,039	442,679	672,197
(Growth as percent of beginning stock of broad money)						
Net domestic assets, of which	53.7	44.5	54.8	101.7	61.2	34.2
Claims on Central Government (net)	42.2	44.2	37.1	83.7	27.8	22.6
Claims on public enterprises	4.4	4.3	-1.2	-1.1	-0.3	0.0
Claims on private sector	10.1	2.2	19.6	18.3	15.8	12.1
Other (net)	-2.6	-6.2	-0.7	0.7	10.7	-4.6
Money and quasi-money	53.2	48.2	48.2	165.6	59.4	33.2
(Annual percentage change)						
Net domestic assets, of which	46.3	40.2	48.2	94.5	77.6	38.9
Claims on Central Government (net)	62.2	61.6	47.4	107.5	45.7	40.7
Claims on public enterprises	19.9	29.4	-9.2	-13.6	-12.0	2.6
Claims on private sector	27.7	6.9	86.9	64.3	89.6	57.9
Other (net)	31.9	88.3	7.4	-10.6
Money and quasi-money	53.2	48.2	48.2	165.6	59.4	33.2

Sudan: Selected Economic and Financial Indicators, 1988/89-1993/94 1/ (continued)

	1988/89	1989/90	1990/91	1991/92	Est. 1992/93	Proj. 1993/94 2/
(As percent of GDP)						
Central Government						
Revenue	9.8	8.2	6.2	7.4	9.2	9.2
Expenditure and net lending 5/	25.2	21.6	14.6	25.4	29.1	24.9
Surplus/deficit(-), financed by	-15.4	-13.4	-8.4	-18.0	-19.9	-15.7
External interest arrears	4.1	3.0	1.8	6.3	11.8	12.6
Domestic and other foreign borrowing (net)	11.3	10.4	6.6	11.7	7.7	5.9
Exports, f.o.b. 6/	10.9	5.5	2.2	3.8	5.0	4.2
Imports, c.i.f. 6/	-22.9	-12.4	-9.6	-13.3	-16.0	-12.0
Current account 6/	-22.8	-14.6	-12.1	-16.7	-21.1	-17.0
(In millions of U.S. dollars)						
Balance of payments and external debt						
Exports, f.o.b.	550	443	342	349	354	363
Imports, c.i.f.	-1,224	-1,035	-1,535	-1,290	-1,129	-1,047
Services, net, of which	-842	-813	-813	-850	-878	-895
Interest due	-706	-767	-801	-836	-845	-868
Private transfers, net	297	188	79	98	169	100
Official transfers	299	341	205	268	108	143
Official capital flows, net, of which	-328	-321	-53	-274	-380	-413
Amortization due	-652	-693	-692	-618	-615	-595
Errors and omissions 7/	-55	-145	373	323	338	330
Change in non-Fund arrears	1,132	1,242	1,290	1,204	1,355	1,377
Change in official reserves, net	172	102	112	101	63	43
Change in arrears with Fund	178	151	148	105	70	51
Gross official reserves (end of period)	33	10	14	12
Medium- and long-term external public debt (end of period)	12,514	13,538	14,884	15,917	16,961	17,976
External payments arrears (end of period)	6,986	8,404	9,793	11,225	12,618	14,046
Of which: arrears to the Fund	985	1,209	1,347	1,577	1,615	1,666
(As percent of current receipts)						
External debt service						
Commitment basis	129.7	173.6	305.3	260.6	253.9	283.0
Actual payments	21.6	25.9	41.5	44.8	18.3	16.6
(In Sudanese pounds per U.S. dollar)						
Exchange rates, end of period						
Official rate	4.5	4.5	4.5	98.0	145.0	225.0

1/ The fiscal year runs from July 1 to June 30.

2/ Staff projections based on limited adjustment (current policies) scenario.

3/ Data from the Information Notice System.

4/ Valuation adjustments to net foreign assets reflecting exchange rate changes.

5/ Includes extrabudgetary expenditures; interest on accrual basis.

6/ Exports, imports and current account results converted at commercial exchange rate for 1988/89-1990/91, and at official exchange rate thereafter.

7/ Includes unregistered private capital flows.

Sudan: Selected Economic and Financial Indicators, 1988/89-1993/94 (concluded)

Social and demographic indicators (1991) ^{1/}	
Area:	2.5 million sq km
Population:	25.84 million (growth rate 2.8 percent per annum)
Density:	10.0 per sq km
Population characteristics	
Life expectancy at birth	51
Infant mortality rate (per thousand)	101
Urban population (in percent)	22
Prevalence of malnutrition (under 5; percent of age group)	55
Health, education, and nutrition	
Population per physician (persons)	10,914
Population per hospital bed (persons)	959
Access to safe water (percent of population)	50.0
Illiteracy (percent)	73
Secondary education enrollment rate (percent of eligible children)	20

Source: Social Indicators of Development (IBRD) 1993.

^{1/} These indicators are extrapolations by the IBRD based on partial survey data compiled mainly during 1980-83 and should therefore be interpreted with caution.

Sudan: Fund Relations
(As of September 30, 1993)

I. Membership Status: Joined 9/5/57; Article XIV

II. <u>General Resources Account</u> :	<u>SDR Million</u>	<u>% Quota</u>
Quota	169.70	100.0
Fund holdings of currency	773.98	456.1
Reserve position in Fund	--	--
III. <u>SDR Department</u> :	<u>SDR Million</u>	<u>% Allocation</u>
Net cumulative allocation	52.19	100.0
IV. <u>Outstanding Purchases and Loans</u> :	<u>SDR Million</u>	<u>% Quota</u>
Other credit tranche	21.99	13.0
Stand-by arrangements	260.00	153.2
Extended arrangements	231.76	136.6
CFF	90.50	53.3
Trust Fund	67.38	39.7

V. Financial Arrangements:

	Approval	Expira- tion	Amount Approved	Amount Drawn
<u>Type</u>	<u>Date</u>	<u>Date</u>	<u>(SDR Million)</u>	<u>(SDR Million)</u>
Stand-by	6/25/84	6/24/85	90.00	20.00
Stand-by	2/23/83	3/15/84	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 <u>9/30/93</u>	<u>Forthcoming</u>				
		<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Principal	671.6					
Charges/interest	488.9	9.0	35.4	35.0	34.1	34.2
Total	<u>1,159.7</u>	<u>9.0</u>	<u>35.4</u>	<u>35.0</u>	<u>34.1</u>	<u>34.2</u>

1/ Projection based on the assumption that neither overdue obligations nor forthcoming obligations are settled during the projection period.

VII. Exchange and Trade Arrangement

Until February 2, 1992 three legal exchange markets operated in Sudan: the official exchange market, the free exchange market (within the official exchange system), and the exchange market based on the retention system and the commercial investment scheme.

On February 2, 1992 the Government abolished the official exchange market (exchange rate of LSd 15 per U.S. dollar), the free market (LSd 30 per U.S. dollar), and the third market along with the related retention and commercial investment schemes. These exchange markets were replaced by a unified exchange market in which the exchange rate for the Sudanese pound is determined by a committee of banks, and is quoted uniformly by all banks. As of August 26, 1993 the rate in this market was LSd 159 per U.S. dollar. A parallel market has emerged in which the rate reportedly was about LSd 270 per U.S. dollar as of mid-August, 1993.

In principle, commercial banks are authorized to sell foreign exchange to finance all imports, payments for invisibles, and capital transfers irrespective of their final use, although in practice, shortages of foreign exchange in the official market have led banks to ration foreign exchange for most types of payments and transfers. The import license requirement was abolished in February 1992; except for goods imported through defense and preferential trade arrangements. All applications for the import of goods are to be channeled through the commercial or specialized banks. As of June 12, 1993 commercial banks were required to surrender to the Bank of Sudan 50 percent of any foreign exchange purchased under such arrangements (obliging importers to sell foreign currency in excess of that needed to finance the import transaction); on July 21 this requirement was reduced to 10 percent. The negative list of imports was expanded considerably in mid-1993.

Export licensing was abolished as part of the package of measures announced in February 1992. Minimum surrender requirements apply to exports of sorghum, cotton, and some other products. All transactions are, in principle, at the unified free exchange rate.

VIII. Article IV Consultation

The last Article IV consultation discussions were held in May 1992. The Staff Report (SM/92/126) was discussed by the Executive Board on August 3, 1992. The Board took the following decision:

1. The Fund takes this decision relating to Sudan's exchange measures subject to Article VIII, Sections 2(a) and 3 and in concluding the 1992 Article XIV consultation with Sudan, in the light of the 1992 Article IV consultation with Sudan conducted under Decision No. 5392-(77/63) adopted April 29, 1977, as amended (Surveillance Over Exchange Rate Policies).

2. Sudan maintains a restriction on payments and transfers for current international transactions, as described in SM/92/126, in accordance with Article XIV, Section 2. In addition, Sudan retains restrictions on payments and transfers for current international transactions, including those evidenced by external payments arrears and a bilateral payments agreement, that are subject to Fund approval under Article VIII, Section 2(a) as well as multiple currency practices which are subject to approval under Article VIII, Section 3.

3. The Fund welcomes the unification of Sudan's official and commercial bank exchange markets. The Fund urges the authorities to eliminate the above-stated restrictions and multiple currency practices and to terminate the bilateral payments agreement with a Fund member, as soon as possible.

IX. Technical Assistance

The assignment of the last Fund expert, an advisor on research and statistics at the Bank of Sudan, expired in February 1990.

Technical assistance since 1986 has included a mission on general economic data (March 1988); on balance of payments data (January 1989); on money and banking statistics (October 1992); and on government securities and the foreign exchange market (November 1992). The 1992 missions followed the lifting of the suspension of technical assistance in August of that year, when the Executive Board decided that the provision of such assistance in support of the authorities' efforts to formulate and implement a comprehensive adjustment strategy was appropriate.

The October 1992 MED/STA technical assistance mission worked with the Bank of Sudan to recast the presentation of its balance sheet for conformance with Fund standards, including the proper valuation of foreign currency positions. The mission collaborated with the central bank and commercial banks to introduce--from December 1992--new reporting forms designed to enable the authorities to improve their monetary survey and statistical reporting to the Fund.

The purpose of the MAE mission that visited Khartoum in November 1992 was to assist the Ministry of Finance and Economic Planning and the Bank of Sudan in the reform of the foreign exchange system and the issuance of government securities. The mission made a number of detailed recommendations concerning steps to be taken in these areas. These included the replacement of the bankers' committee which currently fixes the exchange rate with an interbank market and the tying of returns on prospective government securities to revenues earned on projects financed by those securities.

X. Resident Representative

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

Sudan: Statistical Issues

1. Background

Economic statistics are compiled by a number of institutions, including the Statistics Department of the Ministry of Finance, the Bank of Sudan, and the Ministry of Economics, Planning, and Investment. Reconciliation among the various sources is limited. In the past six years, staff missions were sent to Sudan to provide technical assistance in the areas of general economic data (March 1988), balance of payments data (January 1989), and money and banking statistics (October 1992).

2. Assessment of data

In general, the quality and timeliness of economic data remains poor, although there have been improvements in a number of areas. In some cases, important series are not compiled (e.g., employment, unemployment, and earnings data), while in others the accuracy of the numbers is open to question (e.g., the GDP estimates of the Planning Ministry). Other problems include inconsistency between sources (e.g., on transactions between the Government and the central bank) and long lags in the publication of statistics: the national accounts data for 1985/86-1990/91 are only now available, for instance, and those for 1991/92 have not yet appeared.

a. National accounts

Until a year ago, no national accounts data were available beyond 1984/85. Some figures have now been provided for the years 1985/86-1990/91, but more detailed national accounts for these years are still to come; data have not yet been released for 1991/92 or 1992/93. The data compiled by the Statistics Department of the Ministry of Finance vary substantially from the estimates used by the Ministry of Economics, Planning, and Investment. A closer examination of the reasons for the different developments depicted over the past eight years by these two sources is in order. The methodology employed by the Statistics Department in estimating national income appears reasonable, constrained as it is by a lack of recent survey data ^{1/} and limited data-gathering resources.

b. Prices

Separate monthly series for consumer prices are constructed for lower, medium, and upper income groups in the Greater Khartoum Area, and a composite index is built up using fixed weights for the component indices. The aim of having a timely and comprehensive Sudan-wide CPI remains

^{1/} For example, housing data are still based on the results of the 1967-68 Household Sample Survey; estimates of household expenditure patterns rely on the 1978-80 Household Income and Expenditure Survey; and data on output and value added in manufacturing derive from the 1981/82 Industrial Survey.

unfulfilled. The consumer price data are usually available within six weeks of month-end and the methodology appears sound, ^{1/} although the Household Income and Expenditure Survey on which they are based dates to 1978-80. A total of 173 commodities are covered, with about 60 prices sampled four times a month and the rest sampled twice. There are no indices for such other aggregates as wholesale prices, raw materials prices, or housing prices.

c. Government finance

The fiscal data provided by the Ministry of Finance do not follow Fund classification standards. For instance, some sales taxes are classified as direct taxes, debt service is not broken down into interest and principal payments, and some grants and loans to the Government which are on-lent are not recorded in the Ministry's accounts. It is also not clear that all military transactions are comprehensively and transparently recorded: in the past, some foreign-financed defense spending went unrecorded in the fiscal data prepared by the Ministry of Finance, although the current position of the authorities is that all military expenditures are shown in the budget.

Expenditure data are presented on an "approvals" ^{2/} basis as well as on a cash basis. For analytical purposes it is the Government's estimates of cash revenues and expenditures that are of primary interest, but detailed breakdowns of some categories on this basis are not available.

There is a need to reconcile the domestic bank financing numbers shown by the Ministry of Finance with the information in the monetary accounts and the foreign financing operations with the balance of payments data.

For 1992/93, the buildup of suspense account assets by the Bank of Sudan included an amount of LSd 5.8 billion which apparently represented expenditures made by government spending units in the early part of 1993 despite the withdrawal of Ministry of Finance approval. Discussions between the Ministry of Finance and the Bank of Sudan on this issue were ongoing when the mission left Khartoum; the staff, based on its understanding of the matter, has added the LSd 5.8 billion to recorded expenditures and central bank financing of the deficit.

^{1/} For instance, for goods subject to price controls, such as bread and petroleum products, the authorities said that a weighted average of the rationed price and the commercial price was used as the input to the CPI, with the weights being the estimated share of the market accounted for by transactions at the respective prices.

^{2/} As distinct from an accruals basis: interest and amortization payments due are not shown anywhere in the Government's fiscal data. Revenues recorded but not yet encashed (notably foreign currency receipts of taxes on Sudanese nationals working abroad) and expenditures approved but not yet spent are shown in the approvals but not the cash data.

At present, only the central government accounts are available. It would be desirable to have a full set of fiscal data for the states also.

d. Monetary accounts

The new commercial bank reporting forms designed with the help of the MED/STA technical assistance mission that visited Khartoum in October 1992 were to have overlapped with the old forms for at least one month, but this was not accomplished, leading to a discontinuity in some series (such as credit to public enterprises). In addition, the targeted time periods for releasing central bank and commercial bank credit data (six weeks and eight weeks, respectively) have not yet been achieved.

The continued omission of the Agricultural Bank of Sudan from the monetary accounts represents a potentially serious gap in the statistics, given the rapid growth of this bank's balance sheet over the past few years; this point is appreciated by the authorities, and they are currently attempting to remedy the situation.

Despite repeated reminders, the authorities have persisted in their failure to transmit monetary data to the Fund.

e. Balance of payments

The authorities do not compile comprehensive accounts of external transactions consistent with standard balance of payments methodology. Customs data are available for merchandise exports and imports, and the reporting lag has recently been shortened, particularly for exports, figures for which are now available with a one-month lag. Customs data do not include imports by relief agencies or certain transactions under the Egyptian bilateral payments agreement, and reportedly also exclude military goods. Some banking system information is available on service sector transactions and private transfers, but a large portion of private transfers appears to take place outside the banking system and little information is available on private sector capital flows. In addition, reliable data are not available on the net foreign asset position of commercial banks. There is no centralized monitoring of new loans and grants contracted or guaranteed by the authorities.

f. External debt

A survey of Sudan's external debt was planned for late-1992, with UNDP-financed technical assistance to be provided by World Bank personnel. The carrying-out of this survey was included as a structural benchmark under the informal monitoring arrangement of July-December 1992. In the event, the technical assistance was delayed indefinitely, and no attempt at an inventory of the debt has been made. Only the broad magnitude of Sudan's debt burden is known with any certainty; estimates of total debt and debt service due in recent years are based on a 1989 survey of creditors and partial official information on subsequent debt transactions.

3. Coverage, correctness, and reporting of data in IFS

The table below shows the coverage of the data published in the country page for Sudan in the September 1993 issue of IFS. The data are based partly on reports sent to the Fund's Statistics Department by the Bank of Sudan, and partly on figures gathered by missions.

Status of IFS Data

Sector	Series	Latest Data in September 1993 IFS
Real sector	- National accounts	1990/91
	- Prices: CPI	December 1992
	WPI	n.a.
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/surplus	n.a.
	- Financing	n.a.
	- Debt	n.a.
Monetary accounts	- Monetary authorities	3rd quarter 1992
	- Deposit money banks	3rd quarter 1992
External sector	- Merchandise trade	4th quarter 1992 <u>1/</u>
	- Balance of payments	4th quarter 1992
	- International reserves	April 1993
	- Exchange rates	June 1993

1/ As recorded in the balance of payments. Merchandise trade data have not been separately reported for inclusion in IFS since 1988/89.

Sudan: Relations with the World Bank Group

From 1980 until the Fund's declaration of noncooperation in September 1990, new IDA commitments averaged about US\$80 million annually, generally focused on agriculture, but also directed toward the development of the country's infrastructure that supports productive activities. Attention was increasingly directed toward the rehabilitation of existing capital and the removal of production bottlenecks. Except for a US\$16 million drought relief loan in 1991, there were no new commitments after 1989. An agricultural sector review mission visited Sudan in November-December 1992 and identified a number of actions needed to remove the constraints to growth, but it was made clear to the authorities that the Bank was not in a position to commit itself to any lending to Sudan. In the absence of new commitments, annual disbursements were expected to fall from the 1985-92 average of about US\$85 million to about US\$60 million over the next two years. Disbursements were temporarily interrupted when, on April 2, 1993, Sudan's longest outstanding obligation to the World Bank became 60 days overdue. Although the arrears were cleared and disbursements resumed as of July 14, 1993, by September 15, 1993, there were again overdue obligations of 60 days' duration, and disbursements were suspended effective September 16, 1993. As at September 30, 1993, arrears amounted to approximately US\$5.3 million.

The Bank decided in February 1993 not to appoint a new resident representative and closed its resident mission in Khartoum in June 1993. In addition, it is not proceeding with UNDP-financed technical assistance projects intended for Sudan, including a planned survey of the country's external debt.

In its dialogue with the Sudanese authorities, the Bank has advocated policies that would increase efficiency in the public sector, encourage private sector participation in the economy, increase domestic resource mobilization, and alleviate poverty. To this end, the Bank, in conjunction with the IMF, has emphasized to the Sudanese authorities that only through a strong and comprehensive reform program implemented seriously over a number of years could Sudan hope to resolve its current economic problems. These views are also expressed in the 1990 Country Economic Memorandum "Sudan: Reversing the Economic Decline." The Bank has worked closely with the Fund in providing economic policy advice to the authorities.

In the 1980s the Bank provided Sudan with technical assistance in several areas, including health and family planning and the petroleum sector. In 1987-88, in the context of a planned Economic Reform Credit, the Bank studied the social costs of adjustment with a view to framing social safety net policies. It also sponsored a Public Sector and Economic Management Project in 1987 to improve public sector performance and accounting, but progress on the project lapsed. When heavy rains and floods in August and September 1988 caused extensive damage to Sudan's social and physical infrastructure, the Bank led a multi-donor effort to design and raise funds for an emergency reconstruction program and approved a credit

for US\$75 million in May 1989 to support the program. A credit of US\$82 million was approved in December 1989 for the rehabilitation of the Khartoum Port Sudan Highway which is the country's transport lifeline. In 1992 the Bank acted as an agent for the UNDP on a public finance project designed to improve macroeconomic management.

A. Sudan: Statement of Bank Loans and IDA Credits
(As of June 30, 1993)

(In millions of U.S. dollars)
(Net of Cancellations)

Credit No.	Fiscal Year	Borrower	Purpose	Bank	IDA	Undisbursed
8 loans and 34 credits fully disbursed Of which SECALS, SALs, and Loans/Credits: 1/				138.99	758.52	
1000	1980	Sudan	Agricultural Rehabilitation Program		61.80	--
1389	1983	Sudan	Sudan Agricultural Rehab. II		49.75	--
1388	1983	Sudan	Gezira Rehabilitation		80.00	32.69
1624	1986	Sudan	Power Rehabilitation Program		30.00	0.91
1639	1986	Sudan	Extension/Research		22.00	6.21
1640	1986	Sudan	Western Savannah II		10.60	4.23
1788	1987	Sudan	Fourth Power		38.00	0.67
1789	1987	Sudan	Public Enterprise and Economic Management		9.00	6.48
1867	1988	Sudan	S. Kordofan Agriculture		19.70	10.71
1894	1988	Sudan	Railways V		35.00	4.92
1961	1989	Sudan	Southern Kassala Agriculture		20.00	16.31
2011	1989	Sudan	Flood Reconstruction		75.00	22.69
2070	1990	Sudan	Highway Rehabilitation		82.20	52.50
2290 1/	1992	Sudan	Emergency Drought Rehabilitation		16.00	6.40
Total				<u>138.99</u>	<u>1,256.02</u>	<u>180.69</u>
Of which: repaid				132.46	44.05	
Total held by Bank and IDA				<u>6.53</u>	<u>1,211.97</u>	
Amount sold				5.77		
Of which: repaid				5.77		
Total undisbursed						<u>180.69</u>

Source: IBRD

1/ SECALs, SALs, and Program Loans/Credits.

B. Sudan - Statement of IFC Investments. June 30, 1993

(In millions of U.S. dollars)

			<u>Loan</u>	<u>Equity</u>	<u>Total</u>
1976	CTM	Spinning, weaving, and finishing Coastal fishing, spinning	8.71	1.38	10.09
1978	GEMATEX	Spinning, weaving, and finishing	6.69	1.40	8.09
1964, 1972	KSW	Spinning, weaving, and finishing	1.86	0.34	2.20
1978	Seleit Food	Agriculture and livestock products	11.16	1.02	12.18
1980	Sudan Cement	Manufacturing of cement, lime, and plaster	--	0.49	0.49
1982	Nile Petroleum	Petroleum refineries	<u>--</u>	<u>0.30</u>	<u>0.30</u>
	Total gross commitments		28.42	4.93	33.35
	Less: cancellations, terminations, exchange adjustments, repayments, write-offs, and sales		<u>28.43</u>	<u>4.93</u>	<u>33.36</u>
	Total commitments now held by IFC		-0.01	--	0.01
	Total undisbursed		--	--	--
	Total outstanding IFC		--	--	--

I. Exchange and Trade System

This appendix documents the exchange and payments system in Sudan at the time of the 1993 Article IV consultation discussions. A summary is also provided of changes to the system since January 1, 1992. Information on developments prior to 1992 is available from the documentation for the 1992 Article IV consultation discussions. 1/

1. Exchange arrangements

Exchange control is administered by the Bank of Sudan. On February 2, 1992, the Sudanese authorities abolished the multiple exchange rate system formerly in effect, and introduced an official unified exchange rate. Responsibility for determination of the official exchange rate was delegated to the Foreign Exchange Committee of the Union of Banks, comprising 7 bank managers and 4 alternates. 2/ The Foreign Exchange Committee also determines the guidelines for the daily operations in the foreign exchange market. 3/ The official rate of exchange is quoted uniformly by all banks, with buying and selling rates fixed at 1 percent on either side of the quoted central rate.

At the first meeting of the Foreign Exchange Committee in February 1992, the official exchange rate was set at LSd 90 per U.S. dollar, compared to the then prevailing rates of LSd 85-86 per U.S. dollar in the retention market and the rate of about LSd 93-94 per U.S. dollar for transfers between "Free Foreign Exchange Accounts." 4/ Initially, the committee met daily to establish the unified rate of exchange, but during 1993 meetings have been on a biweekly basis. While the committee is, in principle, unrestricted in its decision regarding the level of the official exchange rate, the rate has been adjusted infrequently, and by amounts insufficient to clear the market. While the official exchange rate depreciated from LSd 90 per U.S. dollar in February 1992 to LSd 148.7 per U.S. dollar in July 1993,

1/ See "Sudan--Recent Economic Developments," SM/92/130, (7/2/92), pp. 46-58.

2/ Membership of the committee is conferred on the specific bank manager rather than on the manager's bank, so that a member does not represent a specific bank.

3/ In the exchange market, 23 commercial banks and 3 specialized banks are authorized to operate as exchange houses.

4/ The official rate of LSd 90 per U.S. dollar represented a substantial devaluation relative to the official and "free market" exchange rates of LSd 15 and LSd 30 per U.S. dollar, respectively, in effect prior to February 1992.

the parallel market rate reportedly depreciated to about LSd 270, a discount of about 45 percent relative to the official rate. In real effective terms, the official rate appreciated by about 58 percent over this period. 1/

Given the increasing excess demand for foreign currency at the exchange rate established by the committee, and the requirement that banks conduct all foreign exchange transactions at this rate, commercial banks have established informal procedures for rationing access to foreign currency. In addition, the Sudanese authorities have demonstrated an increasing willingness to tolerate foreign exchange transactions conducted in the parallel market. Authorized banks seeking to conduct import transactions for customers have been permitted since June 12, 1993 to purchase from such customers the necessary foreign currency, including amounts obtained on the parallel market. 2/ There is also official recognition of the parallel market in the implementation of the regulations concerning price controls for privately imported petroleum products, where import costs are calculated using the exchange rate prevailing in the parallel market.

Plans had been initiated for the establishment of an interbank market in foreign exchange, and applications were solicited in late 1992 from prospective traders. However, following speculative disruptions to foreign exchange repatriation, these plans were postponed indefinitely in early 1993.

A bilateral payments agreement between Sudan and Egypt covers various bilateral payments including trade mission and embassy expenditures, student costs, and medical expenses. No payments are made to settle liabilities under the agreement. Instead, a broad financial balance under the agreement is maintained through administrative control of the granting of authorizations for transactions under the agreement.

2. Foreign currency accounts

Sudanese nationals are permitted to keep foreign exchange in "free" accounts. "Free" accounts may be credited with any means of payment without revealing their sources. Free accounts may be debited only for (1) transfers abroad; (2) withdrawals (in the form of traveler's or cashier's checks or cash) for travel abroad by the account holder and his family after verification of fulfillment of travel requirements; (3) payments made in cash or bank checks to the Duty-Free Shops Corporation; (4) payment of hotel

1/ Similar arrangements were in effect during the periods January 1986-October 1987 and October 1988-October 1991, when a Committee of Bankers determined the commercial exchange rate. In both periods, the rate set by the Committee proved to be "sticky," with infrequent and small adjustments resulting in a marked real appreciation.

2/ Previously, imports could only be effected using foreign exchange acquired from the banks.

bills and travel tickets by certified check in foreign currency (for non-resident Sudanese nationals only); and (5) purchase of Sudanese pounds at the official rate.

Diplomatic and foreign missions and organizations, international and regional organizations, voluntary and charitable organizations, foreign companies and branches of foreign companies, foreign constructors and subcontractors, and employees of these organizations are allowed to open "special" accounts with authorized banks in foreign currency and local currency. "Special" foreign exchange accounts may be credited with transfers from abroad for the organizations' accounts and with the salaries for the employees' accounts. "Special" foreign currency accounts may be debited for transfers abroad, withdrawals for purposes of travel by the account holder or his family, and local payments in Sudanese pounds, on the condition that the foreign currency is converted at the official exchange rate.

Foreign consultants paid in local currency are permitted to repatriate one half of their net salary after presentation to an authorized bank of: (1) a work permit; (2) a certificate from the employer showing net basic salary; and (3) a certificate to the effect that there are no taxes outstanding.

Transfers between foreign currency accounts within the country are prohibited, except for: (1) transfers between free accounts; (2) transfers from specified organizations' special foreign currency accounts to their employees' special foreign currency accounts to make salary payments; (3) deposits to and withdrawals from Duty-Free Shops accounts; and (4) transfers to airline company accounts.

Foreign currency accounts may bear interest, at the discretion of banks. Practice varies, with interest generally earned only in the case of savings accounts. Sudanese and foreign travelers may enter and exit the country with any amount of foreign exchange without restriction, and without declaration.

3. Trade

a. Imports and import payments

The negative list for imports, which was reduced to a limited number of products in July 1992, was extended substantially in April and June 1993 following a marked deterioration in the availability of foreign exchange. 1/ A number of these restrictions are maintained to protect

1/ The list now applies to passenger cars and other small trucks and vans; refrigerators, air conditioning units and coolers; VCRs and tape recorders; textiles and ready made garments; livestock and meat, except livestock for breeding; broilers and eggs, except for day-old chicks and fertilized eggs; sugar; alcohol and drugs; arms, ammunition and explosives; gambling equipment; mineral and carbonated water; carpets; canned foods (except tomato paste); confectionery and pasta; hides and footwear, except artificial leather; soap; fruit and vegetables; domestic utensils; plastic flowers; and furniture and ready made doors and windows.

domestic producers. Exemptions to the negative import list may be permitted for imports by: manufacturers of clothing (which may import fabrics with the permission of the Ministries of Trade and Industry); hotels (which may import various goods with the permission of the Ministry of Trade); the Duty-Free Corporation; and diplomats, specified voluntary and other organizations, and privileged persons under the Constitution (who may import vehicles through the Free Trade Zone Authority). Imports from Israel and South Africa are also prohibited.

All import licensing requirements were abolished in February 1992, except for goods imported through bilateral and preferential trade agreements. However, all applications for imports of goods not included on the negative list must be accompanied by: (1) a pro forma invoice; (2) a valid commercial registration certificate; (3) a valid tax clearance certificate; and (4) the written consent of authorized government bodies for specific categories of goods. 1/

In principle, commercial and specialized banks are authorized to sell foreign exchange to finance all imports (except those on the negative list) irrespective of their final use. However, in practice, a variety of different, informal mechanisms are used to allocate scarce supplies of foreign exchange among banks' customers. From June 12, 1993, commercial banks have also been able to act as intermediaries for import transactions financed with foreign exchange provided by the importer. Such arrangements are to be used only for payment against presentation of documents. The importer is required to sell to the bank 10 percent of the required foreign currency before the shipping documents are received, and the remaining 90 percent on receipt of shipping documents.

Authorized banks are allowed to provide credit facilities for imports of specified capital goods, 2/ by means of sight credit or documents against acceptance, provided that maturity is no less than two years and that repayments do not begin until one year after the arrival of goods. Purchases on credit may also be made for imports of a number of other commodities, 3/ provided that repayments do not begin until at least six months after arrival of goods.

1/ Drugs, medical tools and equipment and medical needs, veterinary medicines and veterinary needs; foods; seeds; petroleum and petroleum products; ammunition and explosives; airport needs; communications, telephone, facsimile, and telex equipment; insecticides and fertilizers; inputs to the chicken and dairy industry; and irrigation pumps and agricultural sprayers.

2/ Including agricultural equipment; transport equipment; mining equipment; industrial and service equipment; and road, irrigation, and construction equipment.

3/ Wheat, flour, gasoline, kerosene, LPG, and aviation fuel.

Importers using nonbanking system sources of foreign currency to import goods through the banking system are subject to a compulsory sale of foreign exchange. Commercial banks buying foreign currency from an importer to effect an import transaction are required to sell a fixed proportion of the foreign currency purchased to the Bank of Sudan at the official rate of exchange. From June 12, 1993, commercial banks were required to sell 50 percent of such purchases of foreign exchange to the Bank of Sudan; from July 21, 1993 the proportion was reduced to 10 percent. To the extent that foreign currency is purchased by an importer outside the banking system at an exchange rate more depreciated than the official rate, this compulsory sale requirement constitutes an implicit tax on such import transactions, payable in foreign currency. Exemptions to this sale requirement are made for a number of imports. 1/

Commercial and authorized banks are required to furnish the Bank of Sudan with the following information every two weeks: applicant's name; goods to be imported; value of imports; term of payments; approval number; commercial registration number; and tax clearance number.

b. Payments for invisibles

In principle, there are no restrictions on payments for invisibles. In practice, however, sales of foreign exchange for invisible payments differ among commercial and specialized banks owing to the informal rationing procedures established by each bank. Under the current practice, most commercial banks provide a nominal amount of foreign exchange for travel abroad after travel verification is obtained. When foreign exchange is in short supply, business travel is favored over vacation travel. For medical treatment abroad, a commensurate amount of foreign exchange is provided after the applicant has obtained medical committee certification.

c. Exports and export proceeds

Exports to Israel and South Africa and of hides and skins (other than reptile skins) are prohibited. Export licenses are not required for any category of exports (except for exports under bilateral protocol arrangements and on account of barter trade). However, all exporters must be registered at the Ministry of Trade, and must submit export contracts and the "EX" export form to commercial or specialized banks for approval. Indicative export prices are set by a committee consisting of the Minister of Commerce, the Governor of the Bank of Sudan, three private sector exporters, and the manager of a commercial bank. When export prices diverge significantly from indicative prices, the permission of the committee must be obtained before shipment.

1/ Yeast, tea, imported materials, the manufacture of soap, edible oils, rice, wheat, flour, school materials, and medication and pharmaceutical inputs.

All export proceeds, except those permitted to be retained under the Export Enhancement Scheme, must be repatriated to the domestic banking system at the official exchange rate. When the terms of payment are cash against documents or sight letters of credit, the proceeds must be surrendered on delivery of the shipping documents; otherwise, a surrender date is usually specified up to a maximum of three months. A fixed proportion of total export proceeds must be purchased by commercial banks in favor of the Bank of Sudan at the official exchange rate. For cotton and gum arabic this proportion is fixed at 100 percent. For other products, a single, variable rate has been applied, with the rate reduced from 75 percent to 45 percent from June 12, 1993. 1/ Some major export commodities, including gum arabic, are exported solely by public sector entities.

Export taxes are levied by customs on all goods (except exports under bilateral protocol arrangements and under barter trade). Applicable rates of tax were raised significantly following the exchange rate devaluation in February 1992, but were reduced to 10 percent on cotton and gum arabic and 5 percent on other goods from July 1, 1992.

Major export products (including sorghum, oil seeds, edible oil, cattle and camels, meat, hides and skins) are subject to minimum export prices. Exporters of these products in large quantities receive certain incentives in the form of the right to retain foreign exchange earned from selling goods at prices above the minimum level set by the authorities. These additional export earnings are exempt from the export tax.

d. Proceeds from invisibles

Sudanese nationals working abroad are allowed to keep free foreign exchange accounts. The repatriation of funds from these accounts is to be transacted at the official exchange rate. Incentives for the repatriation of foreign currency at the official rate of exchange were abolished in the context of the unification of the exchange market in February 1992. 2/ Travelers entering Sudan may bring in foreign exchange without restriction but may not import more than LSd 20 in Sudanese currency.

Shipping agencies are permitted to accept foreign currency in payment for any services; however, they are required to sell all the foreign currency proceeds to authorized banks on the day following their receipt at the unified exchange rate.

1/ The Government has granted exemptions to the purchase requirement in favor of the Bank of Sudan on a case-by-case basis, to permit banks to retain a larger proportion of foreign currency to finance imports of national importance.

2/ Under the dual exchange rate regime maintained prior to February 1992, foreign residents repatriating earnings at the appreciated official rate of exchange were exempted from certain import duties, had access to licenses for restricted imports, and had rights to bid for certain government sales of domestic residential land.

Sales of tickets and freight services in foreign currencies by airline companies in Sudan are restricted to: (1) foreign tourists and businessmen; (2) foreigners working with diplomatic missions and other specified organizations; and (3) foreigners working in the fields of contracting, investment, and prospecting for petroleum and minerals. Airline companies are permitted to deposit such foreign currencies in foreign currency accounts, and may remit them to the company's head office with approval of the Civil Aviation Authority.

4. Capital

Public sector capital transactions (including debt service payments) and all incoming private sector foreign capital flows, including bank capital, are effected at the official exchange rate. Foreign direct investments are permitted in accordance with existing laws and regulations.

Repatriation of share capital and amortization payments on loans to nonresidents is subject to certification from the Bank of Sudan regarding the original value of the foreign share in capital and loans. Repatriation of equity shares requires a certification of liquidation and tax compliance.

5. Gold

Residents may purchase, hold, and sell gold coins in Sudan for numismatic purposes. Subject to certain conditions, residents also purchase, hold, and sell domestically produced gold in Sudan. With these exceptions, residents other than the monetary authorities and authorized industrial users are not allowed to hold or acquire gold in any form other than jewelry, at home or abroad. Imports and exports of gold in any form other than jewelry require licenses issued by the Ministry of Commerce, Cooperation, and Supply; such licenses are not normally granted except for imports and exports by and on behalf of the monetary authorities and industrial users. Some newly mined gold is exported for processing and subsequent reimportation.

II. Changes in the Exchange and Trade System. January 1992-July 1993

1. Exchange arrangement

February 2, 1992. The exchange system consisting of the official exchange market (LSd 15 per US\$1), the free market (LSd 30 per US\$1), and the retention market for exports of goods and services was abolished and replaced by an official exchange market arrangement under which the exchange rate would be determined by a committee of bankers and quoted uniformly by all commercial banks. On February 3, 1993 the rate was set at LSd 90 per U.S. dollar. All transactions were moved to the unified market with the exemption of already approved licenses under the commercial investment

scheme which could continue to be effected outside the exchange market until May 31, 1992. New applications under the commercial investment scheme were prohibited and all retention schemes were abolished.

February 24, 1992. Special exchange rates were introduced for educational allowances for the period to June 30, 1992. Exchange rates of LSd 15 and LSd 20 per U.S. dollar were applied, respectively, to allowances for students who began university studies before and after October 7, 1991.

May 15, 1992. All licensed banks were required to sell all of their own holdings of foreign exchange in excess of US\$50,000 to the Bank of Sudan at the end of every week (Thursday) at the prevailing official rate of exchange.

2. Administration and control

February 5, 1992. Authorized banks were required to submit on a biweekly basis to the Bank of Sudan the following information on import transactions: name of importer, commodity imported, value of imports, terms of payment, and evidence of official approval for imports.

March 22, 1992. Authorized banks were prohibited from providing any information or statistical data except through the Bank of Sudan.

April 8, 1992. The Taxation Department and the Zakat Chamber were added to the bodies that had the right to demand information or statistical data from authorized banks.

April 27, 1993. Authorized banks were prohibited from conducting foreign exchange transactions with any public body without the prior approval of the Bank of Sudan. This prohibition extended to the disposal of balances in foreign currency accounts held by such bodies in domestic banks.

April 27, 1993. All exporters and importers were required to register with the Ministry of Trade.

3. Imports and import payments

February 2, 1992. The rate for customs valuation was set at LSd 90 per U.S. dollar and tariffs would be applied on 30 percent of the domestic currency value of imports.

February 4, 1992. Breeding livestock, day-old chicks, and fertilized eggs were removed from the negative import list.

February 5, 1992. The import licensing requirement was abolished, except for goods imported under defense or preferential trade agreements. However, applications for imports of goods not included on the negative list would have to be accompanied by certain documents, including: a pro forma invoice, a valid commercial registration certificate, a tax clearance certificate, and approval from authorized bodies for certain products.

Terms of payment for imports were limited to cash against documents and sight letters of credit. Authorized banks were required to furnish the Bank of Sudan bimonthly with information on import applications.

February 19, 1992. Furniture and furnishings were added to the negative import list.

April 12, 1992. The importation of tomato paste and chicken stock, formerly on the negative import list, was permitted.

June 6, 1992. Acceptable terms of payment for imports were expanded for specified capital goods. Authorized banks were allowed to provide credit facilities in local currency for the importation of such goods, provided that the facility would be for a period of at least two years, that it would entail no additional cost, and that payments would not begin until one year after the arrival of goods. All exchange risk would be borne by the importer.

July 4, 1992. The following products were excluded from the negative list of imports: carpets and moquette; furniture and ready-made doors and windows; canned food; confectionery items; tomato paste; dairy products; shoes; laundry soap; soda water and other nonalcoholic beverages; and fresh fruits and vegetables.

April 27, 1993. The following products were added to the negative import list: passenger cars; trucks and vans, excluding trucks of more than 3 tons and buses with a capacity of 15 or more passengers; refrigerators; VCRs; and TVs. Commercial banks were prohibited from earmarking purchases of foreign exchange for the financing of imports.

May 1, 1993. The ban on imports of passenger cars, trucks, and vans was specified to be for a one-year period with effect from April 30, 1993. The Free Trade Zone Authority was permitted to authorize exemptions to the ban on importation of these products for diplomats, aid organizations, and privileged persons under the Constitution.

June 12, 1993. Amendments were made to the regulations governing payments for imports and related margins and commissions. Commercial banks were authorized to finance imports using foreign exchange purchased from customers. Payments for such imports would be against presentation of documents. Authorized banks were required to obtain from importers a 10 percent margin, paid in foreign currency at least one month before receipt of shipping documents. The remaining foreign currency would be provided on receipt of shipping documents. Commercial banks were required to surrender to the Bank of Sudan 50 percent of any foreign exchange purchased under such arrangements. (This requirement obliged importers to sell to authorized banks a sum of foreign currency in excess of that needed to directly finance the import transaction.) Commercial banks were also authorized to import on credit capital goods (provided that the credit

agreement provides for a grace period of at least one year) and wheat, flour, gasoline, kerosene, LPG, and aviation fuel (conditional upon a grace period of at least six months).

The following products were added to the negative import list: gambling equipment; mineral and carbonated water; carpets; canned food, except tomato paste; confectionery; hides and footwear, except artificial leather; soap; fruit and vegetables; domestic utensils; plastic flowers; air conditioning units and coolers; furniture and ready made doors and windows.

June 26, 1993. Clothing factories were permitted to import textiles, with the authorization of the Ministry of Trade.

June 27, 1993. Hotels were permitted to import goods on the negative import list, with the authorization of the Ministry of Trade.

July 21, 1993. The surrender requirement applicable to foreign currency purchased by commercial banks to finance the import transactions of customers was reduced from 50 percent to 10 percent, except for the following products the importation of which was exempted from any surrender requirement: yeast, tea, soap manufacturing inputs, vegetable oils, rice, wheat, flour, school materials, and medication and pharmaceutical inputs.

July 22, 1993. The Duty-Free Corporation was authorized to import goods on the negative import list.

4. Exports and export proceeds

February 3, 1992. Licensed banks were instructed to purchase all proceeds from cotton, gum arabic, official transfers, loans and grants, and government charges and taxes in favor of the Bank of Sudan at the official rate of exchange. Banks were instructed to: give priority in allocating foreign exchange to existing commitments under the retention scheme and letters of credit established prior to February 3; purchase all balances in retention accounts outstanding on February 2 at the official rate of exchange; and collect the difference between buying and selling rates for transfers between foreign exchange accounts in favor of the Bank of Sudan.

February 4, 1992. Export tax rates were set at 75 percent on irrigated cotton and gum arabic; 30 percent on livestock and camels; 20 percent on sesame; and 10 percent on all other products.

February 9, 1992. The requirement to simultaneously purchase and sell foreign exchange and collect the difference in favor of the Bank of Sudan was abolished for: transfers abroad from free foreign exchange accounts; transfers from foreign exchange accounts for purposes of travel; settlement of Duty-Free Shop bills; settlement of Estate Bank bills for purchases of cement; and settlement of obligations arising from licenses approved under the commercial investment scheme prior to February 2, 1992.

February 18, 1992. The export tax rate on livestock and camels was lowered from 30 percent to 20 percent.

April 7, 1992. The export tax rate on livestock was raised from 20 percent to 40 percent.

April 13, 1992. The minimum f.o.b. price for exports of live sheep was raised to US\$100 per head.

July 1, 1992. The export tax rates were amended as follows: 10 percent on cotton and gum arabic; 5 percent on all other products. Commercial and specialized banks instead of customs were authorized to collect the tax on exports shipped on or after July 1, 1992. Commercial banks were required to surrender to the Bank of Sudan a proportion of export proceeds as follows: 100 percent for cotton and gum arabic; 35 percent for all other products.

July 9, 1992. Requirements for the surrender of export proceeds to the Bank of Sudan were raised for products other than cotton and gum arabic from 35 percent to 80 percent.

August 22, 1992. Requirements for the surrender of export proceeds to the Bank of Sudan were reduced for products other than cotton and gum arabic from 80 percent to 50 percent.

October 27, 1992. The ban on the export of sorghum and pearl millet was lifted. Minimum export prices of US\$550-600 per ton were established for sesame.

November 5, 1992. The ban on the export of cotton seed cake and wheat bran was lifted.

December 13, 1992. Minimum export prices were established for the following products: sorghum; oil seeds; edible oil; expellers except for manufactured fodder; cattle and camels; meat, hides, and skins, and melon seeds. An Export Enhancement Scheme for exporters of these goods was also introduced, under which exporters exporting large quantities of would be entitled to retain part of their foreign currency proceeds either in Sudan or abroad. Moreover, receipts from exports above the minimum prices were permitted to be used by exporters without restriction, and such receipts would be exempted from the export tax.

April 1, 1993. Requirements for the surrender of export proceeds to the Bank of Sudan were raised for products other than cotton and gum arabic from 50 percent to 75 percent.

May 16, 1993. The exportation of hides and skins was prohibited.

June 11, 1993. Requirements for the surrender of export proceeds to the Bank of Sudan were reduced for products other than cotton and gum arabic from 75 percent to 45 percent.

June 12, 1993. Minimum export prices were established for the following products: copper, scrap iron, brass, chromite, mutton, gum arabic, Egyptian and green beans, green cumin, henna, dehydrated limes, dried rose hips, sanakeh, and fruits and vegetables.

June 22, 1993. The minimum export price applicable to Egyptian beans was reduced from US\$400/ton to US\$200/ton.

July 25, 1993. The minimum export price applicable to sorghum was amended to US\$120/ton (US\$130/ton in sacks).

July 26, 1993. Reptile skins were exempted until January 16, 1994 from the prohibition on exports of hides and skins.

5. Foreign currency and nonresident accounts

February 3, 1992. Most transfers between foreign currency accounts within the country were prohibited.

February 9, 1992. Transfers between foreign currency accounts within the country were permitted for: transfers from the accounts of specified institutions; deposits to and withdrawals from the Duty-Free Shops Corporation accounts; and transfers from accounts of airlines.

February 26, 1992. Transfers between foreign exchange accounts were temporarily permitted until May 31, 1992 for certain previously approved commitments under the commercial investment scheme.

February 27, 1992. Authorized banks were required to close the foreign currency accounts of shipping agencies and were prohibited from issuing bank checks payable to the Duty-Free Shops Corporation against foreign currency accounts owned by individuals.

March 1, 1992. Regulations governing foreign currency held by Sudanese public entities abroad were tightened: 90 percent of all funds held in foreign currency accounts were transferred to a Bank of Sudan account at the Federal Reserve Bank of New York; the remaining 10 percent could be disposed of by the public entity; and new accounts could no longer be opened. All foreign currency accounts held by Sudanese public entities with domestic banks for the purpose of receiving foreign transfers for development projects were transferred to the National Export and Import Bank.

March 17, 1992. Regulations regarding documentary requirements for the opening of foreign currency accounts with licensed domestic banks and for transfers involving these accounts were tightened.

March 29, 1992. Authorized banks were permitted to issue checks payable to the Duty-Free Shops Corporation against the foreign currency accounts of individuals from whom the Corporation required payment for purchases of automobiles that it had imported on their behalf after obtaining the consent of the Ministry of Commerce.

May 12, 1992. Authorized banks were required to close the foreign currency accounts of airlines and keep the balances in closed foreign currency accounts. Transfers abroad of foreign currency from these closed accounts would be made only with approval of the Bank of Sudan.

May 20, 1992. Authorized banks were temporarily permitted to issue checks payable to the Duty-Free Shops Corporation against foreign currency accounts of individuals until May 31, 1992.

June 6, 1992. Restrictions on the use of free foreign exchange accounts were liberalized. Reporting requirements relating to the source of foreign currency deposited in such accounts were eliminated. Withdrawals in cash in foreign currency from the accounts in excess of US\$5,000 (or its equivalent) would be subject to a fee of LSd 1 per US\$1.

June 18, 1992. Airline companies were permitted to open "closed foreign currency accounts" without the consent of the Bank of Sudan. These accounts may be credited with payments from individuals permitted to buy tickets in foreign currency.

July 4, 1992. Withdrawals from foreign currency accounts in the form of traveler's or cashiers checks or cash to finance travel expenses were allowed without restrictions.

July 3, 1993. Commercial banks were required to report to the Bank of Sudan the balances of public bodies held in free foreign currency accounts as of July 6, 1993. Commercial banks were required to seek Bank of Sudan approval prior to opening any new free currency accounts for public bodies.

6. Payments for invisibles

February 27, 1992. Licensed banks were instructed to carry out transfers to designated institutions for the Hajj. Transfers could be made by the withdrawal or transfer of funds from a free foreign exchange account. In addition to usual charges and commissions, a legal duty stamp of LSd 25 would be payable for each transfer.

April 12, 1992. All airline tickets and freight charges for sales on Sudanese territory (except to Sudanese working abroad, Sudanese employed by Arab organizations, and foreign nationals) were required to be issued in Sudanese pounds. Airline companies were required to reopen closed local currency accounts for the deposit of sales revenues which could be utilized to finance local expenditures. Transfers from such accounts abroad would be permitted every three months, upon approval of documentary evidence of sales and payments of local expenses.

June 6, 1992. Sudanese and foreign travelers would be allowed to leave the country with an unlimited amount of foreign exchange without restriction.

April 1, 1993. Commercial banks were required to obtain from foreign consultants seeking to transfer funds abroad the following: evidence of a work permit, a certificate showing net basic salary, and a certificate showing that no taxes are owing. On this basis, up to 50 percent of net salaries may be remitted abroad.

7. Proceeds from invisibles

January 1, 1992. The schedule of minimum annual transfers to Sudan for laborers (US\$500), civil servants (US\$1,000), professionals (US\$2,000), professors and experts (US\$4,000), and businessmen (US\$6,000) was abolished and replaced by a system of income taxes payable in local currency.

February 27, 1992. Shipping agencies were permitted to accept foreign currency in payment for any services, but they were required to sell all of their foreign exchange proceeds to authorized banks one day after receipt at the unified exchange rate.

April 12, 1992. Airline companies were prohibited from selling their tickets in Sudan in foreign currency, except to: Sudanese nationals working abroad and their families; Sudanese nationals employed by specified organizations and their families; foreign tourists and businessmen; foreigners employed by embassies, aid organizations, etc; and foreigners employed by foreign companies operating in the fields of contracting, consulting, and prospecting for petroleum and minerals.

June 6, 1992. The requirement to register foreign currency on a customs declaration upon entry to Sudan was abolished. Sudanese and foreign travelers would be permitted to enter (and leave) the country with an unlimited amount of foreign exchange without restriction.

June 18, 1992. Airline companies were permitted to sell tickets in foreign currency only to specified categories of foreigners. Receipts in foreign currency were to be allocated to closed foreign currency accounts. Transfers from such accounts abroad would be permitted only with approval of the Civil Aviation Authority.

8. Bilateral payments

February 16, 1992. A special accounting exchange rate of three clearing U.S. dollars per US\$1 was applied to all transactions with Egypt conducted under the trade and payments agreement. All exports to Egypt to be settled under the trade and payments agreement were also exempted from the export tax.

May 8, 1993. Commercial banks were required to verify that exports and imports under the trade protocol with Egypt were in accordance with licenses issued by the Ministry of Trade. Monitoring was formerly the responsibility of the Bank of Sudan.

Sudan: Main Assumptions in the Medium-Term Macroeconomic Frameworks

1. Under current policies, real GDP growth is assumed to revert to the slow trend rate of the past 15 years, about 1 percent per annum. This reflects lower capital inflows and investment, as the growing debt burden, overvalued exchange rate, and increased resort to controls continue to constitute a strong disincentive to remittances, private transfers, and inflows of foreign capital. With a comprehensive adjustment effort, real GDP growth is assumed to rise from 2 percent in 1993/94 to a trend rate of 5 percent per annum by 1995/96, as a realistic exchange rate, lower inflation, and economic liberalization encourage savings and investment.

2. Inflation is assumed to remain chronic under the current, limited adjustment, scenario (falling only slightly from a projected 80 percent in 1993/94 to 75 percent by 1996/97), as the low levels of foreign assistance and private capital inflows, as well as the lack of noninflationary sources of deficit finance, are associated with a continued need to monetize large budget deficits. Under the adjustment scenario, inflation is assumed to fall from 70 percent in 1993/94 to 8 percent by 1999/2000, as fiscal consolidation and improved access to foreign financing reduce the impetus of the budget deficit to money growth.

3. In the current policies scenario it is assumed that the exchange rate continues to be managed in 1993/94, with the rate of depreciation of the Sudanese pound falling short of the excess of Sudanese inflation over world inflation (both on a period average basis). The degree of overvaluation is assumed to remain constant thereafter. The adjustment scenario incorporates the assumption that the exchange rate is allowed to float as of September 1993, and that the rate reverts to the real rate prevailing as at February 1992, when the exchange market was briefly unified. The real dollar exchange rate is assumed to remain unchanged thereafter.

4. The current policies scenario reflects the assumption that there are no agreements with creditors to reduce the stock of debt outstanding or to reschedule payments, and official capital flows are assumed to remain at low levels throughout the forecast period. Given a comprehensive economic adjustment effort, on the other hand, and assuming other initiatives to improve relations with donors and creditors, it is expected that some restructuring, rescheduling, and perhaps forgiveness of Sudan's debt would be forthcoming, along with increased flows of new money. Table 4b does reflect the assumption of significantly higher inflows of official grants and loans. In the table, however, no debt forgiveness has been assumed, and the projections show a continued need for exceptional financing throughout the forecast period: such financing could take the form of further capital inflows, debt rescheduling, or debt reduction. In the event of an agreement involving debt reduction, the debt to GDP, interest to GDP, and debt service ratios would be lower than those shown in the table.

