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EBS/92/195

CONFIDENTIAL

November 30, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Sudan - Overdue Financial Obligations to the Fund -
Further Review Following Declaration of Ineligibility

The attached paper will be brought to the agenda for consideration by the Executive Directors on a date to be announced. A draft decision appears on pages 11 and 12.

Mr. Corr (ext. 38774) or Mrs. Lorie (ext. 38343) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Sudan - Overdue Financial Obligations to the Fund -
Further Review Following Declaration of Ineligibility

Prepared by the Treasurer's, Middle Eastern, Legal,
and Policy Development and Review Departments

Approved by David Williams, Paul Chabrier, François Gianviti,
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November 30, 1992

1. On August 3, 1992, at the conclusion of the 1992 Article IV consultation with Sudan and the review of Sudan's overdue financial obligations, the Executive Board welcomed the recent reorientation of economic policies in Sudan, and considered the provision of technical assistance in support of Sudan's efforts to formulate a comprehensive adjustment program to be appropriate. Executive Directors emphasized, however, that payments to the Fund, in amounts that would be sufficient to prevent overdue obligations from increasing further would be an essential element of a rights accumulation program. It was decided that the staff would monitor informally the authorities' program for the period July-December 1992, 1/ and that the Executive Board would again review the overdue obligations of Sudan within four months. 2/

Accordingly, this paper describes developments with respect to these arrears, the recent discussions held with the authorities, and Sudan's performance in the context of the informal monitoring arrangement, as a basis for Executive Directors' evaluation of Sudan's performance and its cooperation with the Fund. It contains a draft decision proposed for adoption at the Executive Board meeting.

1/ As noted below, it was subsequently considered advisable that the informal monitoring period be extended to at least end-March 1993, and possibly to the end of the 1992/93 fiscal year, given that much of the adjustment was expected to take place in the second half of the current fiscal year.

2/ The text of Decision No. 10105-(92/100), adopted August 3, 1992, is provided in Attachment I. In communications from management following that review, the Governors of the Fund and the heads of a number of international financial institutions were apprised of the developments regarding Sudan. See EBS/92/120, Supplement 2 (8/12/92).

2. Sudan's arrears to the Fund amounted to SDR 1,125.5 million or 663.2 percent of its quota on November 23, 1992. 1/ These arrears are equal to 167.6 percent of Fund credit outstanding to Sudan (including Trust Fund loans). Of the total arrears, SDR 671.6 million represents overdue principal, which is equal to 395.8 percent of quota (Attachment II). Deferred income resulting from overdue charges of Sudan, which is subject to burden sharing, totaled SDR 286.1 million on October 31, 1992.

Sudan has settled 5.3 percent of obligations falling due in the period since February 3, 1986 when it was declared ineligible to use the Fund's resources. During this period, SDR 7.0 million in refunds of burden sharing and retroactive reductions in the rates of charge have been applied to the settlement of Sudan's arrears to the Fund. As regards more recent payments, since the last review on August 3, 1992, in line with the authorities' intention with respect to making payments to the Fund, Sudan has paid SDR 0.6 million, settling 4.3 percent of obligations falling due since that time. 2/ It is estimated that in the period to end-1996, further obligations of Sudan totaling SDR 188 million would fall due, consisting entirely of interest and charges on overdue principal obligations to the Fund. 3/

Sudan is current with the World Bank. As shown in Appendix Table 2, in the past two fiscal years--1990/91-1991/92--Sudan made debt service payments to the World Bank Group totaling US\$ 48.4 million (20 percent of total debt service on medium and long term loans in the period), as compared to payments totaling US\$ 2.2 million (0.9 percent of that total) to the Fund. Data provided by the authorities indicate that projected payments to the World Bank and the Fund would represent 13.7 percent and 5.5 percent of total debt service payments by Sudan, respectively, during 1992/93. In the current fiscal year, about 61 percent of Sudan's debt service payments would be made to commercial creditors--up from 50 percent in 1991/92. The authorities stated that these payments are largely to service loans for imports of agricultural inputs in recent years. Debt service payments are also being made to multilateral organizations that are continuing to disburse to Sudan, including the World Bank, the African Development Bank/Fund, IFAD, the Islamic Development Bank, and the OPEC Fund. Appendix Tables 1 and 2 provide further information on Sudan's external debt and debt service obligations and payments.

3. Following the last review of Sudan's arrears in August 1992, the staff visited Khartoum in August to assist the authorities in formulating

1/ See Attachment II. Under the Ninth General Review of Quotas, it is proposed that Sudan's quota be increased from SDR 169.7 million to SDR 233.1 million. In accordance with the Board of Governors' Resolution on the Ninth Review, Sudan may not consent to nor pay for its increase in quota while it has overdue financial obligations to the Fund in the General Resources Account.

2/ The authorities have indicated their intention to make an additional payment of US\$500,000 on November 25, 1992.

3/ See Attachment III.

financial targets and structural benchmarks to serve as a basis for an informal monitoring framework for the period July-December 1992. The elements of the monitoring arrangement were subsequently reported in EBS/92/139 for the information of the Executive Directors. That paper also indicated that the monitoring period would be extended into 1993, possibly to the end of the 1992/93 fiscal year, but that the extension would not by itself delay unduly the timetable on which Sudan could move into discussions with the staff toward a possible rights accumulation program.

The staff visited Khartoum again in October to evaluate Sudan's performance during the period through end-September. Based on information obtained by the mission and discussions with the authorities, the staff expects the high rate of growth of real GDP in 1991/92 (estimated at 10-11 percent) to be sustained in 1992/93 due in large part to continued growth in agricultural output, particularly cereals, and agro-based manufacturing. While a second year of favorable weather facilitated a further expansion of rainfed cultivation and improved yields, the authorities also attribute the strong performance of agriculture to recent policy actions including the liberalization of pricing and distribution, and steps to ensure adequate supplies of credit, inputs, and equipment.

Meanwhile, inflation as measured by the CPI, though erratic, appears to be on a downward path in recent months, following the surge in prices at the beginning of this (calendar) year arising from the sharp depreciation of the Sudanese pound and broad-ranging price decontrol. The rate of price increase averaged about 5 percent per month in the first quarter of the current fiscal year (July-September 1992). Provided that Government borrowing from the banking system remains below the agreed target, a further deceleration of inflation is foreseen in the coming months; thus the staff expects the average price level in 1992/93 to be approximately 90 percent above that in the past fiscal year--roughly in line with earlier expectations. On this basis, by the end of this fiscal year, inflation would be running at an annual rate of 55-60 percent. This would represent an improvement over the measured rate of inflation in 1991/92, though comparisons are difficult because of the substantial weight of price-controlled items in the index during the earlier period.

Balance of payments projections for 1992/93 envisage continued tightness in Sudan's external financing position and a further accumulation of arrears. Despite weaknesses in world market prices for Sudan's major export commodities, export earnings are expected to rise by about US\$40 million, or 11 percent (Appendix Table 3). Although receipts from cotton exports are expected to continue to decline, the growth in agricultural output over the last two years has increased the exportable surplus of a number of other crops, notably gum arabic, sugar, and sorghum. The authorities are planning to export about 1 million tons of sorghum in 1992/93, which could generate as much as US\$90 million in export revenues, provided a market can be found. (Reflecting this uncertainty related to marketing, the staff projection tentatively includes half the value of the potential sorghum exports). On the import side, reflecting the prospect of a second good harvest, imports of wheat are expected to fall sharply; the

projected amount for 1992/93 relates to imports by relief agencies for distribution in deficit areas.

Project assistance in the form of transfers and loans in 1992/93 is expected to remain broadly unchanged from last year as a projected increase in disbursements from the African Development Bank/Fund helps offset reduced disbursements from other sources. At the same time, cash and commodity loans (and transfers) are projected to decline significantly this year. This is mainly attributable to the termination of oil supplies by Libya under a credit agreement which provided about US\$160 million of financing in 1991/92. In the face of reduced foreign assistance, Sudan has increased borrowing on commercial terms from both bilateral and commercial sources. This has included loans (with maturities ranging up to 4 years) to finance imports of agricultural inputs and various types of equipment; in some cases, these loans have been secured by forward sales of cotton and, more recently, gum arabic. In addition, certain overdue current payments have been rescheduled into credits of over one year and serviced on a priority basis. As shown in Appendix Table 2, debt service payments on commercial credits rose sharply in 1991/92, and the authorities expect to make substantial payments on these credits in the current year.

Since the devaluation of the Sudanese pound in February 1992 the official exchange rate has been set by a committee of commercial bankers. The official exchange rate has depreciated gradually to about Lsd 120 per dollar in early November; this implies an appreciation of the pound in the official market in real effective terms of about 15 percent since February 1992. In recent months the exchange rate on the parallel market has diverged from the official exchange rate (the spread is currently about 12 percent), and a backlog of unfilled applications for foreign exchange has developed in the official market which at end-October amounted to about 50 days' supply on the official market. The Bank of Sudan has reported experiencing difficulty in obtaining the Government's foreign exchange needs in the market. The staff urged the authorities to adjust the official rate to restore a unified exchange rate and to maintain competitiveness and to facilitate a smooth transition to planned foreign exchange market reforms.

The authorities have been punctual in reporting the relevant data to the Fund, in accordance with the understandings relating to the informal monitoring arrangement. Data through the end of the first quarter of the arrangement (end-September 1992) indicate that Sudan is on track as regards the financial targets (Appendix Table 4).

Government borrowing from the central bank--a key element in the adjustment strategy--was in fact almost Lsd 1 billion below the limit of Lsd 12.7 billion and an ex ante "unfinanced gap" projected in August was covered without additional domestic borrowing (Appendix Table 5). In addition, the Government built up substantial balances with the commercial banks (some Lsd 5 billion) in the quarter ended September 30. 1/ In these

1/ These deposits in large part represent funds set aside to meet expenditures that have already been incurred.

circumstances, the Government decided to defer additional fiscal actions they had undertaken to announce by mid-October to make up for the loss of some LSd 12 billion in external financing (included in the 1992/93 budget) resulting from the suspension of Libyan oil credits.

This shortfall in foreign assistance was reflected in the revised budget projections for 1992/93 drawn up by the staff, in consultation with the authorities, at the inception of the informal monitoring arrangement. Projections for 1992/93 contained a corresponding unfinanced gap (LSd 12 billion) pending fiscal actions, while projections for the first quarter of the fiscal year were adjusted by LSd 3 billion. 1/ Actual receipts of foreign assistance during the first quarter indicated an additional unanticipated shortfall of some LSd 2 billion. Budgetary revenues, however, were unexpectedly strong (some LSd 5.5 billion above the projection) reflecting mainly higher than expected collections of trade taxes associated with the steep depreciation and price adjustments since February 1992. Meanwhile, expenditures were almost LSd 3.5 billion below the projections for the quarter reflecting across-the-board cuts, certain deferred disbursements, and reductions in reaction to lower foreign assistance receipts. 2/ The authorities explained that they had established a new expenditure control system, that is intended to provide greater ability to limit expenditure.

In reassessing prospects for the budget in the remainder of the fiscal year, the staff expects foreign aid receipts to be somewhat less than the level foreseen last August. The shortfall in foreign financing and the associated unfinanced gap in the August projections is made up by slightly higher revenues and lower expenditures, leaving the domestic borrowing requirement broadly unchanged. In the revenue projection, the staff has made allowance for the fact that revenues were buoyed in the first quarter by an unusually large carry-over of trade tax receipts from 1991/92 (about LSd 1 billion) while receipts from trade taxes are likely to weaken in the remainder of the fiscal year since the adjustment due to the suspension of Libyan oil financing is expected to lower dutiable imports. At the same time, budgetary revenues are expected to benefit from the continued high rate of growth of the economy noted above.

On the expenditure side, while welcoming efforts on the part of the authorities to strengthen expenditure controls, the staff has cautioned against delays in payments and other such expedients. Such actions did not represent expenditure restraint and raised questions about the adequacy of expenditure policies for the remainder of the fiscal year. In addition,

1/ As explained in EBS/92/139, to meet the shortfall of foreign assistance in the first quarter, provision was made for LSd 2 billion of additional borrowing by the Government in the first quarter (to be made up subsequently) and the Government was expected to cover the "unfinanced gap" of LSd 1 billion during the first quarter.

2/ As noted in EBS/92/139, expenditures for the first half of fiscal 1992/93 were projected on the basis of the authorities' plans to keep disbursements at 80 percent of the prorated budgetary allocations.

such actions could jeopardize efforts by the Government to restore private sector confidence. The expenditure projections assume that the authorities hold authorized expenditures to about 80 percent of prorated budgetary allocations in the first half of the year and to about 100 percent in the second half. This is in line with the authorities' plans. Domestic arrears incurred in the first quarter (approximately LSd 5 billion) are assumed to be cleared later in the year, with no residual carryover into 1993/94, and disbursements of allocated expenditures are expected to be made on a timely basis.

The Government expects domestic borrowing in 1992/93 to remain within the agreed limit of LSd 34 billion. However, the staff cautioned that vigilance will be needed in monitoring developments, given that adherence to the existing strict expenditure controls and opportunities to compress expenditures further may become increasingly difficult as the year progresses, and that the uncertainties surrounding foreign assistance expose the budget to considerable vulnerability.

In the discussions preceding the setting up of the informal monitoring arrangement in August, the authorities were not prepared to agree to proposals by the staff for the inclusion of limits on external borrowing on nonconcessional terms in view of the very limited concessional financing available to Sudan and the uncertainties in the external financing picture. The staff, however, continued to believe that limits on such borrowing should form part of the informal monitoring exercise, and it was stated in EBS/92/139 that further discussions would be held with the authorities on this subject with a view to incorporating limits on external borrowing in the arrangement for end-December 1992 and beyond. It was further noted that any nonconcessional borrowing by the Government would require that an adjustment be made to the limits on the Government's domestic borrowing.

While the authorities agreed, in principle, to accept limits on nonconcessional external borrowing in discussions with the staff in October, they stressed that a perceived hardening of donor attitudes and the uncertain prospects for external assistance would necessitate recourse in coming months to commercial borrowing to finance essential imports. The staff recommended that, in light of Sudan's debt and arrears and generally weak external payments capacity, a zero limit for the period November-December 1992 on the contracting or guaranteeing of nonconcessional public debt with maturities in the range of 1-15 years would be appropriate. The authorities were not prepared to accept this, and noted that negotiations for commercial credits totaling about US\$120 million (largely for the financing of agricultural inputs and equipment) were under way and were expected to be concluded by end-December 1992. However, drawdowns of these loans were expected to be minimal during the present fiscal year.

Regarding maturities of less than one year (other than trade-related credits) the authorities stated that relevant liabilities of the central bank will not increase by more than US\$10 million over the same period; in

practice, the staff expects there will be little or no net increase. ^{1/} While stating their preparedness to observe the above limits, the authorities stressed that in the present aid environment, unforeseen circumstances might necessitate access to additional commercial borrowing. They agreed to report on the contracting or drawdown of all external borrowing to the Fund in conjunction with the monthly reporting of financial data under the informal monitoring arrangement.

While recognizing the difficulties of the situation confronting the Government, the staff expressed its serious concern regarding the magnitude of Sudan's prospective external commercial borrowing in the 1-15 year range given the gravity of the country's external financial position. The staff also expressed serious concern about the Government's practice, regarded by the authorities as a matter of necessity, of securing such credits with the proceeds of future exports of cotton and other crops, a practice which ties up future earnings and impairs the position of all creditors not similarly secured. Rather, the staff has emphasized that economic policy, including exchange rate policy, should be shaped in such a way that financing for all imports, including priority imports, is found from available resources in the foreign exchange market. The authorities have been advised of the importance attached by the staff to the avoidance by Sudan of undertaking further commercial credits and that the staff would aim to reach understandings with the authorities regarding limits on nonconcessional external borrowing for the second half of 1992/93.

As to the structural benchmarks included in the informal monitoring arrangement, the authorities have stated that they are adhering to their commitments to ensure that flexible market-oriented pricing is maintained in respect of official procurement as well as by state enterprises, thus obviating the need for new subsidies. However, the staff is concerned that adjustments in domestic petroleum product prices appear to have been lagging behind the increasing domestic currency costs of imported petroleum. The state-owned petroleum corporation incurred a loss of LSd 800 million on its domestic sales of refined products during the first quarter of the fiscal year and the Government has provided temporary budgetary transfers to the corporation of LSd 1.5 billion to augment its working capital.

Progress toward improving the quality and timeliness of monetary statistics appears to be on track. A technical assistance mission that visited Khartoum in early October concluded that the improvements in the quality and timeliness of monetary statistics called for under the informal monitoring arrangement by end-December 1992 were within reach. A benchmark was also established to put in place a system for monitoring unmet foreign exchange demands of commercial banks. The authorities reported that this had not yet been possible, but provided subsequently on an ad hoc basis information on the current backlog in the foreign exchange market.

^{1/} Much of the short-term borrowing in the past year or two has been undertaken by commercial banks rather than the Bank of Sudan. However, it will not be possible to accurately monitor borrowing by commercial banks until the quality of their reporting has improved.

Benchmarks also pertain to the introduction of government securities carrying market related rates of return and to the implementation of measures to improve the organization and functioning of the foreign exchange market. 1/ To assist the authorities in meeting these benchmarks a technical assistance mission from MAE also visited Khartoum recently. Regarding the planned introduction of government securities, the authorities reiterated that such instruments would have to conform to Islamic financial principles, thereby ruling out explicit ex ante rates of return. Accordingly, the staff assisted the authorities in building upon their plans to link such instruments to the financing of specific projects or transactions within the public sector; the rate of return to investors would be linked to the profitability of those ventures. The mission developed a detailed proposal for the issuance of securities with market-related remuneration. Since approval of the High Sharia Committee of the Financial Institutions has yet to be obtained, the prospects for sale of such securities in the amount of LSd 500 million by the end of 1992--a benchmark under the informal monitoring arrangement--remain uncertain.

The MAE mission also discussed various options open to the authorities for improving the operation of the foreign exchange market, including a formal auction system. As a preferred strategy, the mission recommended instead a step-by-step program for the establishment of an interbank foreign exchange market, that would include licensed foreign exchange dealers. Procedures for the conduct of foreign exchange operations under such a system, as well as for the role of the central bank in supervising such a system, were also outlined. The staff has emphasized the importance of timely actions by the authorities in these areas in accordance with the understandings under the informal monitoring arrangement, which envisages the introduction of licensed foreign exchange dealers by the end of 1992.

Regarding the benchmark on external debt, the authorities provided data for recent years that will be helpful in improving the quality of debt statistics. Nevertheless, substantial work is needed in this area. The World Bank staff is planning to assist the Government, *inter alia*, in preparing an updated survey of Sudan's external public and publicly guaranteed debt to official and private creditors, as executing agency under a project financed by UNDP. The World Bank is about to open discussions with Sudan on a possible new agricultural credit.

Sudan's relations with bilateral donors, however, have reached a low ebb. With the recent decision by Japan to suspend its economic assistance to Sudan, virtually all major donors are now inactive in the country other than in connection with a few ongoing projects or humanitarian relief. The decline in external assistance is compounding the difficulties confronting the Government in implementing its economic reforms and adjustment policies. The staff has impressed upon the authorities the importance and urgency of achieving an improvement in relations with bilateral donors as a basis for sustaining the Government's reform efforts and ultimately normalizing Sudan's external financial position.

1/ For details see EBS/92/139, pp. 8-10.

4. As regards the efforts of members in arrears to resolve the problem of their overdue financial obligations to the Fund, the Executive Board has emphasized two criteria for judging a member's cooperation: namely, the implementation of appropriate economic policies and payments performance vis-à-vis the Fund, including recognition of the Fund's preferred creditor status.

With respect to policy implementation, as noted above, Sudan's performance has so far remained broadly on track in terms of realization of the quantitative indicators. The staff continues to have substantial concerns about developments or prospects in a number of areas, however, including public expenditure and domestic arrears, the absence of planned fiscal measures, the functioning of the exchange market and the improvement of its operations, the introduction of government securities with market-related rates of return, and external borrowing by the government. In particular, with regard to the latter, the authorities have not accepted proposals by the staff to forgo contracting long-term nonconcessional external debt (and are engaged in negotiations for such loans amounting to about \$120 million) and continue to secure new credits by precommitting future export receipts. They have also indicated that in the current foreign aid environment they cannot rule out the possibility of recourse to additional commercial borrowing.

The authorities have, nevertheless, expressed their continued interest in the formulation of a comprehensive program of economic adjustment in the context of a policy framework paper as part of a process that could lead to the eventual endorsement by the Executive Board of a rights accumulation program for Sudan. In this light, the staff would continue to provide technical assistance, as appropriate, in areas considered important to the successful implementation of Sudan's monitored program. The staff would also continue discussions with the authorities early in 1993 on performance so far, including implementation of structural benchmarks; on a framework for informal monitoring in the first part of 1993; on the process of formulating a policy framework paper; and on the broad elements of a rights accumulation program. These discussions would include an assessment of the external financing requirement for Sudan's adjustment efforts in 1993.

In terms of payments to the Fund, the authorities have adhered to their intentions, as expressed prior to the last review to follow a schedule of monthly payments to the Fund totaling a minimum of US\$6 million during the period ending June 30, 1993. ^{1/} These payments remain very small, both in absolute terms and relative to the authorities' recent and intended payments to other external creditors (see paragraph 2 above and Appendix Table 2), and have fallen far short of settling obligations falling due to the Fund. In response to urgings from the mission to increase payments beyond the amounts committed (as the authorities had earlier promised to try to do), they stated that in view of the recent trend in foreign assistance, there

^{1/} The most recent payment (US\$500,000) was received on October 28. The authorities indicated their intention to effect the November payment on the 25th of the month.

was little or no prospect that payments would be increased before the flow of assistance improved. The authorities nonetheless reaffirmed their intention to adhere to their schedule of payments indicated in the informal monitoring arrangement. However, continued payments on the present scale will clearly be insufficient to prevent Sudan's overdue obligations from rising further.

The staff will continue to emphasize in further discussions with the authorities the primary importance that the Fund attaches to the matter of payments by members in arrears to the Fund, and, in particular, to the stabilization of the level of arrears as evidence of cooperation with the Fund and as an integral part of a rights accumulation program. In view of Sudan's continued poor payments performance and failure to accord the Fund preferred creditor status, the staff would conclude that Sudan cannot be judged to be actively cooperating with the Fund. In the circumstances, the Executive Board might wish to indicate that a rights accumulation program for Sudan would be considered by the Board only on the basis of an appropriate track record of payments to the Fund prior to its endorsement, and firm assurances that during the rights accumulation program Sudan would make payments sufficient to at least stabilize the level of its overdue obligations to the Fund. Establishment of an appropriate track record of payments would, at a minimum, involve a progressive increase in Sudan's monthly payments starting January 1993 to reach a level that would begin to stabilize overdue financial obligations to the Fund in the period immediately before Board consideration of a rights accumulation program. The need for increased monthly payments would be discussed with the authorities in the course of the forthcoming Fund mission to Sudan in January, which will aim to reach understandings on the elements of the monitored program for January-June 1993. The draft decision below contains language to emphasize the importance of an improving payments performance leading at least to stabilization by the time of a rights accumulation program.

As explained above, a deterioration in Sudan's relations with the international donor community is posing difficulties for the prospect of external financing for Sudan's adjustment efforts. In this light, the draft decision calls on the authorities to re-establish the conditions necessary to encourage the resumption of flows of grants and concessional lending in support of those efforts. 1/

It is further proposed to review the matter of Sudan's overdue financial obligations to the Fund again within four months, at which time, in the absence of a resumption by Sudan of active cooperation with the Fund, the Fund would consider what further measures might be appropriate.

Accordingly, the following draft decision, which could be adopted by a majority of the votes cast, is proposed for adoption:

1/ A similar reference has been included in recent decisions adopted by the Executive Board with respect to Peru--see EBS/92/68, Sup. 1 (4/22/92) and EBS/92/151 (9/10/92).

DRAFT DECISION

1. The Fund has reviewed further the matter of Sudan's overdue *financial obligations to the Fund in the light of the facts and developments* described in EBS/92/195 (11/30/92).

2. The Fund, while concerned at the level of Sudan's overdue obligations, which now total SDR 1,125 million, notes that the recent payments to the Fund by Sudan have been in line with the authorities' undertakings. The Fund regrets that these payments continue to be small in relation to obligations falling due, that Sudan has failed to give due recognition to the Fund's preferred creditor status, and that the amount of Sudan's overdue financial obligations to the Fund has therefore continued to increase. The continuing nonobservance by Sudan of its financial obligations to the Fund places a financial burden upon other members and reduces the financial resources needed to help others. The Fund urges Sudan to make full and prompt settlement of the overdue financial obligations to the Fund. The Fund stresses that settlement of the overdue financial obligations to the Fund should be given the highest priority.

3. The Fund notes the authorities' continued implementation of a program of economic and financial adjustment monitored by the staff, including observance of quantitative benchmarks for end-September 1992 under the program, but that there are developments, in particular in the emergence of public expenditure arrears and the real appreciation of the exchange rate, that are of concern. The Fund urges the authorities to stand ready to take additional measures as may be warranted. Particular importance is also attached to the commitment of the authorities under the monitored program to introduce government securities carrying market related rates of return and to implement improvements in the operation of the foreign exchange market by end-December 1992.

4. The Fund welcomes the authorities' intention to formulate, in consultation with the staff, a comprehensive adjustment program, which, if strictly adhered to, could form the basis for a rights accumulation program. The Fund continues to stand prepared to assist the authorities in this endeavor. In this context, the Fund emphasizes that payments to the Fund in amounts that would be sufficient to prevent the overdue obligations to the Fund of Sudan from increasing further are an essential element of a rights accumulation program. Accordingly, the Executive Board would consider a rights accumulation program only after Sudan has established a stronger payments track record and has made payments to the Fund of an order that would stabilize the level of Sudan's arrears to the Fund.

5. The Fund calls on Sudan to re-establish the conditions necessary to encourage the resumption of flows of grants and concessional lending in support of Sudan's adjustment efforts.

6. The Fund will review the matter of Sudan's overdue financial obligations to the Fund again not later than four months from the date of this decision, in the light of actions taken by Sudan in the meantime in settling its arrears to the Fund and in adopting and implementing a comprehensive adjustment program. In the absence of a resumption by Sudan of active cooperation with the Fund toward the resolution of the problem of its overdue financial obligations to the Fund, the Fund would at that time consider what further measures might be appropriate.

Attachments

INTERNATIONAL MONETARY FUND

Sudan - Overdue Financial Obligations -
Review Following Declaration of Ineligibility

Executive Board Decision No. 10105-(92/100)
Adopted August 3, 1992

1. The Fund has reviewed further the matter of Sudan's overdue financial obligations to the Fund in the light of the facts and developments described in EBS/92/120 (7/27/92).

2. The Fund notes the recent payments to the Fund by Sudan and regrets that these payments remain small in relation to obligations falling due and that the amount of Sudan's overdue financial obligations to the Fund has therefore continued to increase. The continuing nonobservance by Sudan of its financial obligations to the Fund places a financial burden upon other members and reduces the financial resources needed to help others. The Fund urges Sudan to make full and prompt settlement of the overdue financial obligations to the Fund. The Fund stresses that settlement of the overdue financial obligations to the Fund should be given the highest priority. The Fund notes the commitment of the Sudanese authorities to increase their payments to the Fund. In this context, the Fund emphasizes that payments to the Fund in amounts that would be sufficient to prevent the overdue obligations of Sudan from increasing further would be an essential element of a rights accumulation program for Sudan.

3. The Fund welcomes the recent reorientation of economic policies in Sudan, including the economic measures adopted by the Sudanese authorities since the last review. The Fund also welcomes the authorities' intention to implement, in consultation with the staff, further adjustment measures in the near future with a view to the adoption of a comprehensive adjustment program, which, if strictly adhered to, could form the basis for a rights accumulation program. The Fund is prepared to assist the authorities in this endeavor, and considers the provision of technical assistance to Sudan in support of efforts to formulate and implement a comprehensive adjustment program to be appropriate. The Fund staff will monitor informally the authorities' program for the period July-December 1992.

4. The Fund will review the matter of Sudan's overdue financial obligations to the Fund again not later than four months from the date of this decision, in the light of actions taken by Sudan in the meantime in settling its arrears to the Fund and in adopting and implementing a comprehensive adjustment program.

Sudan - Overdue Financial Obligations to the Fund

(As of November 23, 1992)

Type of Obligation	Amount (In SDRs)	Date of Longest Overdue
1. <u>Principal</u>		
Repurchases	604,256,168	7/12/84
Trust Fund repayments	<u>67,377,794</u>	7/26/84
Subtotal	671,633,962	
2. <u>Interest and Charges</u>		
Quarterly charges	188,808,256	8/08/84
Semiannual charges	151,761,240	7/18/85
Special charges (GRA)	88,893,992	5/28/86
Assessments	18,994	4/30/91
Net SDR charges	8,962,468	8/01/90
Trust Fund interest	2,527,574	12/31/84
Special charges (TF)	<u>12,865,399</u>	5/28/86
Subtotal	453,837,923	
Total	<u>1,125,471,885</u>	

Sudan - Overdue and Forthcoming Financial Obligations
as of November 23, 1992

(In millions of SDRs)

Type of Obligation	Overdue as of 11/23/92	<u>Forthcoming 1/</u>					Total Through 1996 3/
		1992 2/	1993	1994	1995	1996	
Repurchases	604.3	--	--	--	--	--	604.3
Quarterly charges	188.8	--	20.7	20.7	20.6	20.6	271.4
Semiannual charges	151.8	--	19.9	19.9	19.9	19.9	231.4
Special charges (GRA)	88.9	--	--	--	--	--	88.9
Special charges (TF)	12.9	0.5	1.9	1.9	1.9	1.9	21.0
Net SDR charges	9.0	--	3.7	3.9	4.2	4.4	25.2
Trust Fund repayments and interest	<u>69.9</u>	<u>0.2</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>71.3</u>
Total 3/ 4/	1,125.5	0.7	46.5	46.7	46.9	47.1	1,313.5

1/ On the basis of present use of Fund credit, Trust Fund loans outstanding, and Sudan's present position in the SDR Department. Charges are projected on the basis of current rates of charge. Forthcoming charges and special charges estimated on the assumption that overdue obligations remain outstanding and forthcoming obligations are not settled. To the extent that obligations are settled, actual charges and special charges may be lower.

2/ Due after November 23, 1992.

3/ Totals may not add due to rounding.

4/ Includes overdue assessments of SDR 18,994.

Table 1. Sudan: Payments Indicators, 1988/89-1991/92 1/

	1988/89	1989/90	1990/91	1991/92 (Provisional)
<u>(In millions of SDRs)</u>				
1. Payments to the Fund				
a. Obligations falling due to the Fund	150.1	141.7	113.6	79.2
b. Payments made to the Fund	2.7	16.9	1.0	0.5
c. Burden sharing refunds and SFF subsidies received	0.1	1.0	1.4	1.9
d. Arrears to the Fund <u>2/</u>	790.3	914.1	1,025.3	1,102.0
2. Foreign exchange receipts				
a. Exports	441.3	334.5	246.9	251.6
b. Total current account receipts <u>3/</u>	840.0	635.3	340.5	347.6
3. Foreign exchange obligations and use				
a. Imports	981.6	782.0	1,105.1	938.2
b. Debt service payments due <u>4/</u>	1,165.8	1,158.0	1,069.1	1,057.5
c. Debt service payments made <u>5/</u>	50.0	72.3	61.2	106.9
4. Gross international reserves <u>2/</u> <u>4/</u>	16.0	7.6	7.6	8.3
5. Total external debt arrears <u>2/</u>	5,604.8	6,328.3	7,415.0	7,857.9
<u>(In percent)</u>				
6. Obligations falling due to the Fund, as percent of:				
a. Exports	34.0	42.4	46.0	31.5
b. Total current account receipts <u>3/</u>	17.9	22.3	33.4	22.8
c. Imports	15.3	18.1	10.3	8.4
d. Debt service payments due <u>4/</u>	12.9	12.2	10.6	7.5
e. Debt service payments made <u>5/</u>	300.2	196.0	185.6	74.1
f. Gross international reserves <u>2/</u>	938.1	1,864.5	1,494.7	2,140.0

Table 1 (concluded). Sudan: Payments Indicators, 1988/89-1991/92 1/

	1988/89	1989/90	1990/91	1991/92 (Provisional)
7. Payments made to the Fund, as percent of:				
a. Exports	0.6	5.1	0.4	0.2
b. Total current account receipts <u>3/</u>	0.3	2.7	0.3	0.2
c. Imports	0.3	2.2	0.1	0.1
d. Debt service payments due <u>4/</u>	0.2	1.5	0.1	0.1
e. Debt service payments made <u>5/</u>	5.4	23.4	1.6	1.5
f. Gross international reserves <u>2/</u>	16.9	222.4	13.2	6.0
g. Obligations falling due to the Fund	1.8	11.9	0.9	0.7
8. Arrears to the Fund, <u>2/</u> as percent of:				
a. Exports	179.1	273.5	415.3	438.0
b. Total current account receipts <u>3/</u>	94.1	143.9	301.1	317.0
c. Imports	80.5	116.9	92.8	117.5
d. Debt service payments due <u>4/</u>	67.8	78.9	95.9	104.2
e. Debt service payments made <u>5/</u>	1,580.4	1,264.3	1,675.3	1,030.9
f. Gross international reserves <u>2/</u>	4,938.8	12,027.6	13,491.4	13,277.1
h. Total external debt arrears <u>2/</u>	14.1	14.4	13.8	14.0

Sources: IMF Treasurer's Department and staff estimates based on data provided by the Sudanese authorities.

1/ Fiscal year July 1-June 30.

2/ End of period.

3/ Includes private transfers.

4/ Includes scheduled medium- and long-term debt payments, payments to the Fund, and interest on short-term debt.

5/ Includes actual medium- and long-term debt payments and payments to the Fund.

6/ Gross reserve data for end 1991/92 represents a revised series and may not be completely comparable to earlier data.

Table 2. Sudan: Actual Debt Service Payments on Medium- and Long-Term Loans, 1987/88-1992/93 1/

(In millions of U.S. dollars)

	1987/88	1988/89	1989/90	1990/91	1991/92	Official Proj. 1992/93
International institutions	26.5	23.3	39.3	21.6	29.0	21.0
World Bank Group	18.2	19.8	17.2	20.2	28.2	15.0
IMF <u>2/</u>	8.3	3.5	22.1	1.4	0.8	6.0
Regional multilateral institutions	31.0 <u>3/</u>	11.3	19.7	15.5	16.6	10.9
Paris Club creditors	42.5	23.5	8.0	--	--	--
Of which:						
United States	28.9	22.4	8.0	--	--	--
Other official creditors <u>4/</u>	36.8	4.2	40.3	47.1	28.2	11.2
Commercial banks	--	--	--	--	--	--
Other commercial credits <u>5/</u>	--	--	6.7	9.0	73.1	66.5
Total	<u>136.8</u>	<u>62.3</u>	<u>114.0</u>	<u>93.2</u>	<u>146.9</u>	<u>109.7</u>

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

1/ Fiscal year July 1-June 30. Excludes payments related to short-term trade credits. Also excludes payments to China of US\$25.5 million during 1989/90, as these were related to short-term suppliers' credits rather than medium- and long-term loans.

2/ Excludes refunds received from the Fund.

3/ Includes US\$0.5 million of refinancing by the Arab Fund for Economic and Social Development.

4/ Prior to 1991/92, these amounts may include repayments of short-term borrowing to finance imports of petroleum products.

5/ Includes suppliers credits and loans from non-bank financial institutions, as well as overdue payments for current services which have been rescheduled into loans of one year or longer maturity.

Table 3. Sudan: Balance of Payments, 1990/91-92/93
(In millions of U.S. dollars)

	1990/91	1991/92	1992/93
Current Account	-1,943	-1,702	-1,331
Exports, f.o.b.	343	346	386
Cotton	162	125	83
Other	181	222	302
Imports, c.i.f.	-1,535	-1,290	-1,005
Petroleum	-356	-226	-285
Wheat/flour	-277	-265	-50
Other	-903	-799	-670
Services (net)	-813	-856	-862
Receipts	68	34	35
Non-interest payments	-80	-54	-51
Interest payments due (Interest paid)	-801	-836	-846
-28	-37	-22	
Private transfers	62	98	150
Official transfers	205	268	102
Cash and commodity aid	110	154	58
Project aid	95	114	43
Official M< capital (net)	-45	-274	-280
Disbursements	639	344	334
Cash and commodity loans	471	193	106
Project loans	167	151	229
Amortization due	-684	-618	-615
(Actual amortization)	-57	-110	-88
Errors and omissions and private capital	382	402	163
Overall balance	-1,402	-1,305	-1,347
Change in net reserves (-increase)	112	101	64
Of which:			
IMF (net)	110	103	67
Scheduled repurchases	-38	-2	0
Change in arrears on repurchase	38	2	0
Change in arrears on charges	110	103	67
Other (net)	2	-2	-3
Net change in non-Fund (excluding IMF)	1,290	1,204	1,283

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

Table 4. Sudan: Quantitative Targets
for Informal Monitoring, 1992/93

	1992/93					
	June	Sept.		Dec.		
	Actual	Target	Actual	Target		
(Amounts outstanding at end of period: <u>in millions of Sudanese pounds</u>)						
A. Net credit to the Central Government by the Bank of Sudan <u>1/</u>	66,900	79,600	78,813	89,500		
B. Gross credit to the non-financial public enterprises by the Bank of Sudan	2,489	2,489	2,489	2,489		
(In millions of U.S. dollars)						
C. Outstanding short-term external debt of the Bank of Sudan <u>2/</u>	550	560		
(In millions of U.S. dollars)						
D. Minimum monthly payments to the Fund	0.3 <u>3/</u>	0.3 <u>3/</u>	0.3 <u>3/</u>	0.5 <u>3/</u>	0.5	0.5

Source: Bank of Sudan.

1/ Net credit to the Central Government is defined as credit extended by the Bank of Sudan to the Central Government including loans, advances, and securities net of deposits (demand, saving, and time) of the Central Government at the Bank of Sudan. These limits would be reduced, *pari passu*, by the amount of any government securities outstanding.

2/ Includes time deposits and loans and advances by nonresidents (excluding normal trade-related finance) with an original maturity of less than one year.

3/ Payments received.

Table 5. Sudan: Summary Operations of the Central Government, 1991/92-1992/93

	1991/92 Actual	Staff Estimate Aug. 1992	1992/93		Revised Estimate Oct. 1992
			1st Quarter Projection Aug. 1992	Actual	
(In millions of Sudanese pounds)					
Total revenue	<u>32,103</u>	<u>74,082</u>	<u>12,376</u>	<u>17,879</u>	<u>75,534</u>
Tax revenue	23,206	55,515	9,324	12,993	55,747
Nontax revenue	8,897	18,567	3,052	4,886	19,787
Total expenditure	<u>115,652</u>	<u>270,966</u>	<u>61,345</u>	<u>59,539</u>	<u>257,548</u>
Current expenditure	100,891	234,721	54,048	53,848	227,317
Budgetary <u>1/</u>	92,093	234,721	54,048	50,648	224,117
Extrabudgetary <u>2/</u>	8,798	0	0	3,200	3,200
Capital expenditure and net lending	14,761	36,245	7,297	5,690	30,230
Overall deficit (on an accrual basis)	83,549	196,884	48,970	41,660	182,014
Interest arrears	29,871	96,875	24,219	25,963	96,024
Overall deficit (on a cash basis)	53,678	100,009	24,751	15,697	85,990
Financing	<u>53,678</u>	<u>100,009</u>	<u>24,751</u>	<u>15,697</u>	<u>85,990</u>
External (net)	19,435	54,250	11,055	9,059	52,240
Domestic (net)	34,243	33,759	12,696	6,638	33,750
Net credit from central bank	34,794	33,759	12,696	11,913	33,750
Net credit from commercial banks	-511	0	0	-5,275	0
Unfinanced gap <u>3/</u>	--	12,000	1,000	--	--

Sources: Ministry of Finance and Economic Planning; and Fund staff estimates.

1/ Interest payments on an accrual basis.

2/ Includes discrepancy between Ministry of Finance and Bank of Sudan estimates for net credit extended to the central government.

3/ Represents shortfall in foreign assistance (see text).

