0404

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 87/22

3:00 p.m., February 4, 1987

M. Camdessus, Chairman

Executive Directors	Alternate Executive Directors
	E. T. El Kogali
	Song G., Temporary
C. H. Dallara	
	L. Hubloue, Temporary
A. Donoso	E. Feldman
M. Finaish	
G. Grosche	
	D. V. Nhien, Temporary
	J. R. N. Almeida, Temporary
	M. Foot
H. Lundstrom	
	D. McCormack
Mawakani Samba	
Y. A. Nimatallah	I. A. Al-Assaf
	C. Noriega, Temporary
	V. Rousset, Temporary
G. A. Posthumus	
	C.-Y. Lim
G. Salehkhou	
A. K. Sengupta	
	K. Murakami, Temporary
	N. Kyriazidis

L. Van Houtven, Secretary
R. S. Franklin, Assistant

Also Present

IBRD: J. de Leede, Eastern and Southern Africa Regional Office. African Department: E. M. Taha. Exchange and Trade Relations Department: J. T. Boorman, J. M. F. Braz. IMF Institute: I. Habib, Participant. Legal Department: J. K. Oh, S. A. Silard. Middle Eastern Department: J. R. Dodsworth, M. A. El-Erian, M. Melhem, M. Yaqub. Research Department: A. Mirakhor. Secretary's Department: P. D. Péroz. Treasurer's Department: T. Leddy, Deputy Treasurer; D. Berthet, J. E. Blalock, J. C. Corr. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: A. A. Agah, P. E. Archibong, A. Bertuch-Samuels, M. B. Chatah, L. P. Ebrill, S. M. Hassan, A. Ouanes, D. C. Templeman, A. Vasudevan. Assistants to Executive Directors: F. E. R. Alfiler, O. S.-M. Bethel, S. Fayyad, O. Isleifsson, V. K. Malhotra, J. K. Orleans-Lindsay, L. M. Piantini, D. Saha, C. A. Salinas, G. Schurr.

1. SUDAN - 1986 ARTICLE IV CONSULTATION; AND OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

The Executive Directors continued from the previous meeting (EBM/87/21, 2/4/87) their consideration of the staff report for the 1986 Article IV consultation with Sudan (SM/87/12, 1/8/87) together with a paper on the second review of the matter of Sudan's overdue financial obligations to the Fund following the declaration of Sudan's ineligibility to use the general resources of the Fund with effect from February 3, 1986 (EBS/87/18, 2/2/87). They also had before them a background paper on recent economic developments in Sudan (SM/87/23, 1/22/87).

Mr. Sengupta made the following statement:

> The economic and financial situation in Sudan has been engaging the attention of the Board for some time, and I welcome the staff paper and the statement of Mr. El Kogali, which helped us to have a better understanding of the problems and challenges facing the economy.
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> The economic situation in Sudan remains precarious, notwithstanding some improvement in the growth rate in 1985/86. The situation calls for a very bold approach. The authorities' strategy as outlined by Mr. El Kogali is indeed a reflection of a bold approach. However, I agree with the staff that a piecemeal or an ad hoc approach will not work and that a medium-term adjustment program needs to be devised. The rationale for adjustment is not in doubt; what we are concerned with here is the size, speed, and nature of adjustment that would at the same time ensure that the growth rate does not suffer.
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> Given the large debt overhang, the size of the external arrears, and the large current account deficit, Sudan's reserves, currently at about $25 million, would not be of any help in resolving the problem. It is therefore necessary to look at the problem with understanding and sympathy and come up with policy and financing packages that would help Sudan to service its external payments obligations in a smooth manner over time. I am not suggesting that Sudan should default on this score. I am only stressing that the stretch of time that is required for Sudan to pay necessarily depends upon not only domestic efforts but also on the new money that it can mobilize.
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> I am encouraged to note that the authorities are formulating a comprehensive medium-term program effective July 1, 1987. Mr. El Kogali's statement has given a graphic description of the elements that are likely to be embedded in the medium-term program. In this connection, I am particularly impressed by the fact that, given the record of drought in recent years, the authorities have

taken up measures to stimulate agricultural production by remunerative producer pricing as well as by securing the necessary inputs. I am also impressed by the authorities' commitment to reform the parastatals. I have noted in this connection that the authorities are embarking on the structural reforms of the public enterprises. It is here that the Fund and the World Bank's input in terms of technical advice and material support are of crucial importance so that Sudan can give signals to its external creditors about its serious commitment to adjustment.

In the area of public finance I agree with the staff that there is considerable scope for improving the tax base and tax collections. Table 6 of the paper on recent economic developments shows that the budget for 1986/87 would bring about a lower tax revenue in relation to GDP in 1986/87 than in the previous year. It is necessary for the authorities to take all measures to improve the tax revenues. This is not totally beyond the ability of Sudan, for in 1982/83, tax revenues were in fact as high as 12.4 percent of GDP, which is more than twice the ratio of 5.8 percent in 1986/87.

I welcome the intention to reduce current expenditures during 1986/87. In regard to development expenditure, I have more sympathy with Mr. El Kogali's view that the increase in development expenditures has to be in line with the authorities' production-oriented policies. If the international community shows sympathy and allows the aid flows as targeted, there is a good chance for the economic recovery program (including rehabilitation of existing capital stock and completion of existing projects) to succeed.

In respect of monetary and credit policies, the general thrust of the staff appraisal is appropriate under the circumstances. There is a need for proceeding with caution in regard to expansion of credit to the Government, in view of the already large share of domestic bank financing of the central government deficit. I am encouraged to note that the authorities have been actively considering the reintroduction of interest-bearing banking facilities to be operated in parallel with the prevailing Islamic banking system.

On exchange rate policy, the differences between the staff and the authorities seem to be more apparent than real. The authorities admit the need for exchange rate adjustment and accept the objective of rate unification, and I do not think that they would object to the following statement on page 26: "The staff emphasized that, within an appropriate package of macroeconomic policies, exchange rate adjustment could be an effective policy instrument, particularly in stimulating tradables production and increasing remittance flows." I fully agree with this position of the staff. But I also do not find it difficult to agree with Mr. El Kogali's statement--indeed I have considerable sympathy with it--that "Sudan's experience with repeated large devaluations in previous years has made it clear that for an exchange rate adjustment to achieve its desired objectives, there is need to ensure conducive conditions first" and that "the ultimate objective of exchange rate unification would be pursued by gradually narrowing the gap within the existing dual system." However, I should note that the staff expresses caution about reducing the gap only through changing the proportions of receipts allocated to official and commercial bank markets, which has the potential of introducing more distortions than at present. The gap should be reduced by adjusting the salary ratio, maybe gradually over the medium term, in order to arrive at a more realistic and unified exchange rate.

On the balance of payments, there is no doubt that financing gaps are so large (whether one agrees with the authorities or the staff on the estimates) that Sudan's ability to meet all its obligations in the short run depends on significant increases in external assistance in the form of generous debt relief and substantial concessional flows. I am glad to note from Mr. El Kogali's statement that the authorities recognize their full responsibility for discharging their payment obligations and that they are not proposing any limitation on their own on debt repayments.

Let me now turn to the matter of Sudan's overdue obligations to the Fund. In spite of very low reserves and large financing gaps, Sudan has fully settled its overdue obligations in the SDR Department and has made some payments to reduce overdue obligations in the General Department. The authorities have also maintained an active policy dialogue with the Fund. I therefore support the proposed decision and request the authorities to continue to cooperate with the Fund and Sudan's major creditors and donors in finding suitable means for clearing the arrears to the Fund.

In this connection, let me draw attention to my intervention in the Board during the so-called general discussion of the problem of overdue obligations to the Fund. I had said then that the problem of overdue obligations was not a general problem; only three or four countries account for the overwhelming portion of the overdue obligations, and Sudan happens to be one of them. The solution to that problem has to be sought in looking after the problems of these countries specifically and not in looking for some overall "magic" formulations. In the light of that approach, I think that the Fund should take the initiative, case by case, of bringing together the country concerned--whether it is Sudan, or Liberia, or Zambia, or Peru--and a few major donor countries and financial institutions, to try to find specific solutions to the specific requirements of that country.

Mr. Noriega made the following statement:

The panorama described in the staff report on the economic situation in Sudan is disquieting from the point of view of both the country and the Fund. As the staff report and the background paper show, a comparison of the current situation with the one prevailing at the beginning of this decade indicates that GDP is lower, foreign debt as a proportion of GDP has increased around one third, exports are stagnant, if not falling, and, despite debt relief efforts by other nations, the debt service ratio has hovered around 30 percent or more. In sum, recent information seems to confirm that further deterioration has taken place in the country, even if in the short run the good weather has contributed to alleviating the external accounts and to the attainment of a positive rate of growth of GDP. It is important to mention that in interpreting these figures, one cannot ignore the prolonged civil strife, the vast immigration that has taken place, and the droughts which have befallen the country. However, all these factors, economic and otherwise, have been compounded by limiting the ability of the country to service its foreign financial obligations. As the information provided in the staff report indicates, full compliance with obligations falling due during FY 1986/1987, excluding outstanding arrears payments, would raise the debt service ratio beyond 130 percent.

The implication one may draw from these figures, therefore, is that a realistic economic program cannot assume that Sudan will be able to generate sufficient resources to become current in its obligations. Foreign assistance, in the form of debt relief and in other support from the international financial community, will indeed be required. This process, however, has to come about at the initiative of the Sudanese authorities. The lack of decisive actions based on adjustment programs announced in the past few years has continued to erode the credibility of the authorities in exerting control over key variables. Firm action is needed to signal unambiguously the commitment of the authorities to a new economic policy, which may broaden permanently the generation of foreign exchange by the country. The new Administration has an opportunity to take such action. A program answering this challenge would not only foster international competitiveness by domestic producers; it would also be aimed at export promotion.

As the achievement of these goals requires a prolonged effort supported by the international financial community, we strongly urge the Sudanese authorities to consider as a priority matter the settlement of their accounts with the Fund so that this institution may play an active role in assisting Sudan.

As time goes by, it becomes increasingly difficult to design a rescue program: internally, it becomes more burdensome to exert further efforts by the population; and, externally, the accumulation of arrears requires a more ambitious rescheduling program. The scope for action is limited, but inaction may reduce even more the maneuverability of the Sudanese authorities. In conclusion, we are prepared to endorse the proposed decisions in SM/87/12 and EBS/87/18.

Mr. Posthumus made the following statement:

On several occasions, the Board has discussed the economic situation in Sudan and regretfully expressed the Fund's deep concern over economic performance. Unfortunately, the underlying economic and financial conditions have continued to deteriorate.

Favorable weather conditions, together with international relief efforts in 1985/86, which eased to a large extent the food supply problem, created a good basis for an adjustment program; however, the authorities, partly due to political instability, failed to exploit the situation fully. The staff report and Mr. El Kogali's opening remarks reminded me of a statement by the President of a Dutch multinational who said: "When you look into the future, and you have to take decisions while you do not really know how things are developing, see to it that you act and do what is necessary in any case." Taking this as a guideline, I will try to focus on some specific issues.

First, no significant progress can be achieved without very generous external assistance. The trigger for such assistance should obviously be acceptance by the Sudanese authorities of the recommendations made by the staff.

Second, Sudan is a controlled economy in which controls are being imposed by the Government as part of a strategy running along what the staff calls "crisis management" lines. These controls on prices, imports, and so on pushed a part of the economy underground and made uncertainty the only certainty in Sudan. Lessening of controls would seem to support more efficient economic performance in Sudan than is occurring at the moment.

A third issue to be focused on is the exchange rate system. The dual market system, with an overvalued official rate and partly controlled commercial rate, is not helpful, at least not for the whole economy. I urge the authorities to adopt a flexible and realistic exchange rate policy aimed at the unification of rates. Such a system is vital for maintaining competitiveness of exports and encouraging the flow of remittances and, thus, investments.

The fourth point concerns monetary policy. The authorities argue that in an underdeveloped economy with a primitive money market such as that in Sudan, interest rate policy cannot be expected to play a crucial role. In my opinion, however, the emergence of a real rate of return of savings combined with the abolition of controls and implementation of flexible exchange rates could increase economic certainty, increase savings, and solve the excess liquidity problem of the banking system.

It is deplorable that the emergence of ever larger arrears to the Fund has not yet led to a fundamental change in policies. In the past, of course, Fund credits were extended to enable adjustment policies to be implemented more gradually than would have been necessary without the availability of such assistance. The Fund has a right to be repaid for this and for many other good reasons, which I will not now repeat.

I can therefore only conclude by urging the authorities to follow the recommendations of the staff. I am confident that the international community will then continue to assist Sudan in resolving its huge problems.

Mr. Kyriazidis made the following statement:

The purpose of my remarks is only to express our very positive interest in, and our deep concern for, the difficult case of Sudan, which has been clearly outlined in Mr. El Kogali's statement and the staff report. The accumulated imbalances over the past few years pose a formidable problem to the Sudanese authorities, and this chair wishes to encourage them in the pursuit of their objective of resolving the problem. The elaboration of an Economic Salvation Program for 1986/87 is a welcome step, and its objectives--particularly those of increased production and containment of demand--deserve the endorsement of the Fund. Although we recognize the severe constraints--political, structural, and social--under which the Sudanese authorities have to operate, we cannot but agree to a large extent with the staff's conclusions: the time horizon of the program as it now stands is much too short; and its scope is not wide enough. One cannot avoid the conclusion that the policy measures put in place, as the staff states, are not sufficient and lack the consistency necessary to attain the stated objectives. This is a cause of great concern. Mr. El Kogali has given us the assurance that his authorities are in the process of formulating a comprehensive four-year program to become effective as of July 1, 1987. One cannot overestimate the importance of such a program in addressing the fundamental economic problems of the country in a credible, decisive, and sustainable manner on the basis of the principles outlined on page 16 of the staff report, and with due regard to the constraints outlined by Mr. El Kogali.

The medium-term balance of payments prospects appear to me a bit puzzling. It would seem that the prospect of such a sharp reduction of the current account deficit, excluding interest, that is envisaged in the staff projections is not quite consistent with the present stage of development of the Sudanese economy. Perhaps the staff would care to comment on this. At any rate, these prospects indicate that there is potential for viability in the medium term. The problem is, therefore, the enormous complication created by the arrears and the excessive debt service burden. A serious cooperative effort among the Sudanese authorities, international institutions, creditors, and donors will be required to enable Sudan to face this problem over time, as most other speakers have recognized. On this point I feel Mr. Sengupta's realistic approach is attractive.

Mr. Foot commented that the case of Sudan was marked by underlying deterioration in the economic position and repeated drawing back by successive governments from the timely adoption of comprehensive policy actions. As he saw it, such actions were the only possible basis on which additional external assistance could realistically be sought by Sudan as part of its effort to restore medium-term external viability. The latest staff report did not give him reason to believe that the position in Sudan was improving. While good harvests and the fall in oil prices had combined to produce a rebound in activity, that rebound in itself was not a realistic basis on which to build the more broadly based recovery the authorities were hoping to achieve. He agreed with Mr. Nimatallah that steps were being taken in the right direction but that those steps would not be sufficient to overcome the dislocation in the Sudanese economy and, as a result, the notion of adjustment itself might become discredited.

The problems of Sudan were reflected in the authorities' attitude toward devaluation, Mr. Foot continued. Past devaluations had not been accompanied by appropriate fiscal policies and, therefore, had not worked. As a consequence, the authorities were shy about using devaluations as an adjustment tool. It was important to ensure that the same thing did not happen in other areas of the economy. In that respect, the Government must do more to get the parallel economy back into the official sector, because that was the only way that Government revenue and the availability of foreign exchange could be significantly enhanced. It was disappointing that the experience of successive governments in dealing with the parallel economy had not made them more willing to face the problem and accept a realistic exchange rate and a freeing up of internal prices. Similarly, it would only be by accepting market realities in respect of the exchange rate and of positive interest rates--by whatever means were appropriate--that the sizable potential pool of remittances from Sudanese expatriates could be properly tapped.

Another point to be made was that the Sudanese authorities were still being unduly ambitious in their targets for development spending, Mr. Foot remarked. It was apparent not only that the economy could not accommodate spending at the projected rate but also that external assistance would fall below projected levels in the absence of comprehensive economic reforms. The longer there was a delay in putting reforms in place, the greater the difficulty would be of convincing the population that the Government was earnest about adjusting. The new Government in Sudan, because it was new, perhaps had a better chance than its predecessors to establish credibility with the population, although every month that passed without reform reduced that opportunity.

He would appreciate elaboration by the staff on its suggestion that tax revenue from agriculture should be increased, Mr. Foot said. While such an increase was clearly desirable as part of the effort to expand the tax base, adequate taxation of agriculture in developing countries was notoriously difficult to achieve. Also, he wondered whether the staff had any information on the size and balance of payments implications of barter trades entered into by Sudan during the recent period. In conclusion, he could support the proposed decisions, including that on Sudan's overdue obligations to the Fund. Recent payments by Sudan to the Fund were welcome evidence of the authorities' recognition of their obligations but were among the few positive notes that could be found in the staff papers under discussion.

Mr. Mawakani made the following statement:

It is refreshing to read from the staff report that two continuous years of normal weather conditions in Sudan helped to revive activity in the agricultural sector in 1985/86. This favorable development contributed to a general improvement in the total supply situation during the year, with real GDP showing an encouraging recovery from three consecutive years of decline. Despite this favorable outturn, the overall economic and financial situation of Sudan continues to be worrisome. The budget deficit has widened, and its continued monetization has not only led to a rapid expansion of the money supply and intensified inflationary pressures; it has also contributed to a further deterioration of the balance of payments position. Furthermore, the lack of foreign exchange has resulted in a high level of external indebtedness, the servicing of which has become extremely burdensome.

To overcome the economic and financial difficulties confronting the country, it has been stressed over the past year that the Sudanese authorities not only should implement corrective measures without delay, but, more important, they should adopt a strong and comprehensive program of adjustment within a medium-term context that could attract the support of the international community. In this connection, I was encouraged to note from page 15 of the staff report that the staff and the authorities have reached broad agreement concerning the basic principles underlying policy formulation for dealing with the economy's fundamental problems, in particular, the acceptance of the idea that short-term policies should be based on a medium-term strategy for tackling the economy's deep-seated structural problems. I therefore welcome and endorse the objectives of the authorities' short-term measures announced in the context of the 1986/87 budget. However, I would appreciate additional information from the staff or Mr. El Kogali about the timetable for completing work on Sudan's medium-term economic program and on specific policies for achieving medium-term objectives.

On production prospects and policies, I note that the continuation of normal weather conditions in 1986/87 is expected to facilitate a further rise in agricultural output. The authorities' policy of providing adequate price incentives and necessary inputs for agricultural production seems appropriate. However, the Sudanese authorities should attempt to announce guaranteed higher prices well in advance of the crop season if the policies to stimulate production are to achieve the desired results.

In the area of structural reforms aimed at improving the operations of public enterprises, I endorse the main objectives underlying the reform program. I think that the measures that have already been taken to enable the Ministry of Finance to closely monitor and control the financial operations of the parastatals are steps in the right direction. Nevertheless, I would encourage the authorities to move quickly, with World Bank assistance, to implement specific action programs in the context of public enterprise reform and to consider measures that could help in easing the wide-ranging controls that seem to be impeding the efficient operations of the private manufacturing sector.

Regarding financial policies and prospects for 1986/87, the aims of the authorities to contain public sector borrowing and to reduce the rate of monetary expansion are commendable. But Table 6 (page 19 of the staff report) shows significant differences between the 1986/87 official budget estimates and those of the staff, which suggest that the commendable financial objectives are unlikely to be attained, given the substantial uncertainties surrounding the projected revenues and the exclusion of a significant amount of external debt payment obligations on the expenditure side. A large financing gap has emerged, and, in this regard, I would endorse the staff recommendation that the authorities ought to make a major effort toward resource mobilization by widening the tax base and improving the elasticity of revenues relative to prices and real income. In support of fiscal policies, the authorities would need to institute measures to enhance credit allocation to the private sector to promote productive activities essential for sustaining Sudan's economic recovery program and medium-term growth objectives. I would, in this connection, urge the authorities to pursue their aim of establishing a stable institutional mechanism for financial intermediation and mobilization of financial resources. The staff has described (page 27) Sudan's medium-term balance of payments prospects as extremely precarious. The situation is expected to improve in the medium term provided that, among other important assumptions mentioned by the staff, the Sudanese authorities embark on a sustained implementation of strong adjustment policies. In this vein, I would encourage the Sudanese authorities to move decisively to formulate and implement a comprehensive economic reform and rehabilitation program within a medium-term context. This seems to be a critical step that could attract the necessary international financial support for improving Sudan's economic and financial prospects.

Finally, regarding the matter of Sudan's overdue financial obligations to the Fund, I welcome the encouraging step that the authorities have recently taken to become, and to remain, current in the SDR Department. However, more needs to be done toward normalizing Sudan's financial relations with the Fund. And, as I have already stated, the authorities need to intensify their efforts to formulate a credible medium-term adjustment program whose sustained implementation would place the country in a position to settle promptly its overdue obligations to the Fund. Finally, I support the proposed decisions in SM/87/12 and EBS/87/18.

Mr. Feldman made the following statement:

Sudan is clearly a candidate for a long-term program of structural reform and sustained economic rehabilitation, and it will continue to be so for some years to come. Throughout the period, Sudan will need sustained support from the international financial community, particularly in the form of concessional assistance.

We note the commitment of the Sudanese authorities to implement a comprehensive adjustment program aimed at correcting present distortions, improving resource allocation, and consolidating public finances as well as the external accounts. Given the severe circumstances that have been affecting the overall performance of the Sudanese economy in the past few years, we understand and share the authorities' views that the commitment to economic adjustment has to be weighed against the limited financial resources available to Sudan, the social restrictions that the country faces, and, therefore, the sustainability of the adjustment. However, this commitment to future actions should not prevent the authorities from undertaking some effective and far-reaching measures in the period immediately ahead.

We acknowledge that important steps have already been taken in some key areas of the economy, and we welcome the positive outcomes that have followed their implementation. We refer specifically to developments in the agricultural sector and to the positive real rate of GDP growth achieved in the past year, after three years of consecutive decline. The reduction in the rate of inflation is also a positive development that should be underlined. Nevertheless, these measures and achievements are still far from sufficient to cope effectively with the large domestic and external imbalances facing the Sudanese economy.

In addition, while we concur with the positive assessment by the staff of the authorities' "Economic Salvation Program"--particularly its objectives of increased production and containment of demand--we also believe that the achievement of these objectives will require some additional supporting measures, and a strengthening of some existing steps.

Again, we acknowledge and welcome the positive steps already taken in reorienting agricultural and industrial policies and in reforming the parastatal sector. The full implementation of a program of rehabilitation of the parastatal sector with the support of the World Bank would definitely improve the prospects for fiscal stability in the years to come.

We also welcome the decision of the Sudanese authorities to limit the reliance of the public sector on domestic bank financing to no more than 10 percent of the total budgetary revenues. Such commitment will release additional resources to the private sector and represents a reasonable scheme to attain a gradual reduction in the currently high fiscal deficit. Efforts in the supply side of the economy and in improving fiscal performance should be accompanied by an appropriate exchange rate policy aimed at fostering exports and at promoting an efficient import substitution.

In sum, we see some positive developments in the Sudanese economy that nonetheless appear insufficient to cope with the large imbalances of the country. However, the severity of such imbalances has to be once again evaluated against the extremely poor conditions of large segments of Sudan's population, and, hence, any adjustment effort will need to be balanced against the social costs and further hardship that it may induce.

On Sudan's arrears situation, we welcome the recent payments received by the Fund as well as Mr. El Kogali's encouraging news about forthcoming payments. They are a clear indication of Sudan's willingness to become current and to restore a normal relationship with this institution and with other creditors.

To conclude, while we urge the authorities to continue their efforts to explore all possible avenues to accelerate the pace of the required adjustment process, we would also like to stress the need for a substantial financial support from donors and other financial institutions on a long-term basis. Sudan's problems can not be solved in one year or two; the structural content of the required adjustment calls for a long-term program, adequate financial support, and a great deal of understanding.

Mr. McCormack made the following statement:

I wish to associate myself with previous speakers who stressed the gravity of Sudan's economic situation and who have emphasized the need for a fundamental reorientation and intensification of economic and financial policies to deal with the situation. The staff paper gave us a very clear and balanced assessment of the Sudanese economic situation. Mr. El Kogali, in his frank and informative statement, qualified and amplified this analysis from the point of view of his Sudanese authorities; in doing so, he enriched our understanding of the social and political constraints within which economic policy has to be conducted in Sudan. These two clear expositions form, in effect, a sort of point and counterpoint, and serve to put the issues at stake into stark relief.

The Sudanese authorities have developed a short-term "Economic Salvation Program" to deal with the immediate crisis. However, the staff's assessment is that the policies in place for 1986/87 are not sufficient to achieve the Program's stated objectives. This view seems to be supported by the data supplied in the supplementary statement by the staff representative read this morning.

When it comes to the medium-term objectives, there is, at first sight, an encouragingly large degree of agreement between the staff's assessment of priorities and those of the Sudanese authorities across a broad range of policy issues, including even exchange rate policy. However, when one probes a little deeper, it seems that there remains, in terms of practical decision making, a fairly wide gap separating the staff and the Sudanese authorities.

I will just take two examples and use Mr. El Kogali's statement to illustrate these. First, it is suggested that the staff may have exaggerated the impact of price and profits controls on public and private enterprises. The staff, it is suggested, should have conducted an in-depth study of the private sector to establish the validity of the proposition. At this time, with experience extending over many years, the staff would seem entitled to draw the conclusions which it did, especially in view of the urgency of the problems facing Sudan. On such a key issue, delay in taking decisions, pending the results of further study, would not seem to make good sense. A second, similar point has to do with the exchange rate adjustment, where the authorities have strong reservations about the necessity for a depreciation of the Sudanese pound and look to substitute other devices as alternatives.

Again, the logic of the staff's position seems compelling; a flexible and realistic exchange rate policy must be a key element in an effective adjustment program.

I take all of this to imply that the Sudanese authorities seem hesitant about adopting a number of the interrelated, far-reaching policies, which are required for an effective medium-term adjustment program, and which the gravity of their situation calls for. A quantum adjustment is needed; the Sudanese authorities may still be thinking in incremental terms, adopting a "piecemeal" approach to policy, as the staff puts it. I would hope that this will not prove to be the case when the authorities draw up their medium-term program to be made effective on July 1.

I wish to conclude by recognizing that economic growth and stability in Sudan depend not merely on domestic adjustment efforts but also on the amount of financial assistance obtainable both bilaterally and from multilateral institutions. The Sudanese authorities must, however, inspire by their own efforts the confidence of the country's creditors and donors. In this connection, the extent and continuance of overdue obligations to the Fund are particularly regretted. I welcome the continued constructive dialogue between the Sudanese authorities and Fund staff and hope that they will lead to an early resolution of Sudan's arrears problem. The payments made since the last review and Mr. El Kogali's statement this morning are encouraging as they give a clear picture of the Sudanese authorities' good intentions. Finally, I endorse the proposed decisions in SM/87/12 and EBS/87/18, and I wish the Sudanese authorities well.

Mr. Lundstrom made the following statement:

I fully agree with the commendably articulate staff appraisal and would just like to emphasize a fundamental point, on which there would seem to be a broad consensus in the Board.

Effectively addressing the deep-seated predicament of the Sudanese economy, which is convincingly analyzed in the staff paper, requires, first, that a comprehensive reform package be promptly and determinedly adopted and implemented in a sustained manner. But this will not be sufficient in itself to generate the recovery of the Sudanese economy. A second condition is that a major effort by the country's largest donors be undertaken to help Sudan normalize relations with creditors. Such an effort is needed particularly in the field of concessional capital flows. Without prompt and simultaneous action on those two fronts, a sustainable recovery will not be possible in Sudan. It is highly appropriate that the Fund stand ready to assist the Sudanese authorities in developing an economic policy package credible enough to release the external financial support needed. In his informative statement, Mr. El Kogali refers to a comprehensive four-year program to be made effective on July 1, 1987. It would be interesting to learn from Mr. El Kogali or the staff whether this program is likely to be sufficiently consistent and far-reaching to qualify as the major reform package called for, or--at least--as a medium-term framework for such a package.

With regard to the arrears problem, I have some sympathy for the views and suggestions expressed by Mr. Sengupta, and I think that they deserve further exploration. Finally, I support the proposed decisions.

Mr. Dallara made the following statement:

Let me also begin by indicating that I agree with the broad thrust of the staff appraisal in the Article IV consultation report, and indeed with virtually all of the detailed comments embodied in that appraisal. I will only make a few additional comments on the economic situation in Sudan. It is clear, first, that the array of problems which Sudan faces is quite formidable; and that the imbalances are not solely domestic or external, but are widespread in a variety of sectors of the economy. They are reflected, of course, in external imbalances, which certainly have been the result in part of exogenous developments. But they are also the result of a variety of inappropriate domestic policies, including relative price distortions, negative real interest rates, and what we consider to be clearly overvalued exchange rates.

In spite of the problems and the serious and deep imbalances which exist, some progress has been made in the past year. We believe that the Government has taken a number of useful and positive steps in the right direction through the adoption of the Economic Salvation Program. I would particularly note more realistic producer pricing; and I would say that favorable exogenous developments have combined with these helpful steps to create what we believe is the best opportunity that may have existed in quite some time for Sudan to step forward now and go beyond these initial efforts to put together a comprehensive economic program.

We recognize, of course, that many of the difficulties which had, in effect, precluded such a program in the past still exist; there are certain civil difficulties and very serious imbalances in the economy. Nevertheless, we believe that a greater opportunity exists now than has been the case for some time. We see in Sudan the existence of a very large underground economy, which reflects to a degree the array of economic distortions and disincentives. But, in a way, this underground economy reveals the vast potential in Sudan for channeling the energies of the private sector into more productive activity. We believe that this will depend, however, on policy changes in a number of areas, and more generally on the Government's efforts to establish confidence that it really intends to allow private enterprise to play a positive role.

The continuation of very large fiscal deficits is, of course, at the core of the domestic imbalances that exist. Even with the decline in the ratio of expenditures to GDP, there has been, unfortunately, no detectable reduction in the fiscal deficit, in large part because of the virtually total collapse of the revenue system. We, therefore, would strongly endorse the suggestions of the staff that, as the authorities prepare the 1987/88 budget, they formulate a fundamental reform of the tax system.

Like Mr. McCormack and many others, we noted that in these, as well as in other areas, the broad objectives of the staff and of the authorities seem to be similar. That does give us some encouragement that this near consensus on objectives can be translated more fully into specific objectives or steps, because it is in this area where the general consensus appears to break down, unfortunately rather quickly.

On monetary policy, we welcome the reduction in the growth of broad money, but we recognize that it will be difficult, if not impossible, to reduce the rate of monetary expansion sufficiently without substantial progress in reducing the fiscal deficit.

Weakness in the external accounts and Sudan's very large debt burden overshadows the entire economic outlook for Sudan. Just the existence of $2.7 billion in external arrears as of mid-1986 is extremely daunting. I would say that we were somewhat reassured by the indication in Mr. El Kogali's statement that the presentation of debt data in the budget and the balance of payments estimates is not in any way intended to reflect a policy of unilateral limitation on debt payments.

In looking at the developments in the external accounts and the medium-term scenarios, we see that with some fairly optimistic assumptions, there is the possibility that the current account deficit could decline gradually in the years ahead. Even then, however, a very large financing gap would remain in the absence of additional foreign assistance flows.

I would like to express the deep concern that my authorities have for Sudan's arrears to the Fund, arrears that have regrettably continued to grow steadily, representing the largest block of arrears now outstanding to the Fund. Like other Directors, we welcome the payments which have been made since the previous review and the indications this morning from Mr. El Kogali that the authorities intend to make further payments in 1987. We also welcome the general reiteration of the intent to pay the Fund. Certainly this reflects continued acknowledgment by the authorities of the seriousness of this problem, and an intention to come to grips with it. Nevertheless, we had hoped that the somewhat improved economic situation in Sudan in recent months would have led to a more substantial repayment effort.

We must remind ourselves of the adverse implications which these arrears have--and which they could have further--if allowed to continue to grow at the current pace. There are, of course, rather intangible adverse implications which these and other arrears have for the Fund's credibility and for the Fund's catalytic capacity with regard to low-income and middle-income debtors. There is a point, I would suspect, at which the credibility of the Fund's advice to countries, large and small, on the matter of keeping their own houses in order is going to be called into question if the Fund cannot keep its own financial house in order.

In this connection, we are all well aware of the nonaccrual of interest arrears to the Fund and the development of our burden-sharing arrangements. There is also the question--to which we believe Sudan's particular case draws urgent attention--of whether or not we need to make provision with regard to overdue principal. We recognize that this is a complex question, which has been under study in the staff for quite some time and which has been touched on in a number of Board discussions. But we believe that it is time for the Board to face up to this problem and try to reach views on what is obviously a very difficult issue, and one with which I am sure the Treasurer's and Legal Departments are grappling. We believe that the time has come for us to come to grips with this. I, therefore, reiterate our hope that this matter could be brought to the Board at the earliest opportunity. Indeed, perhaps in light of its complexity, we would raise the question whether or not a brief status report on the efforts made to date to analyze and study this question might be useful.

In that connection, I might recall that in 1985, the External Audit Committee for the Fund noted--and here I quote from an attachment to an April 1986 paper issued by the staff on provisioning--"We understand that the Treasurer's Department is in the process of establishing a more comprehensive and structured approach to the evaluation of whether or not a material loss is probable with respect to members with protracted obligations to the Fund. We strongly endorse this effort." This was a subject, we understand, which was also discussed during last year's external audit of the Fund. We are concerned about the prospect that we may approach yet another external audit review without having reached more definitive judgments, and without having established this "more comprehensive and structured approach" to the problem. I make these comments not because they are relevant only to Sudan--of course, they relate more broadly to our arrears problem--but because this case does underscore, in our view, the urgency of dealing with this problem in one way or another.

I also believe that we should note in this case, in particular, the important effects that the arrears problem have not only on the Fund as a whole and on our burden-sharing arrangements in general, but on individual members. We had deferrals of interest payments in the first half of FY 1987 of SDR 73.1 million. Sudan accounted for almost 30 percent of that, or SDR 21.1 million. Charges were raised by 39 basis points, temporarily we hope, as a result of the overall deferrals. Sudan's arrears accounted for 11.4 basis points in the increase in those charges.

The creditors, of course, received reduced remuneration, we hope temporarily, on their remuneration to the Fund. The United States, for example, received approximately SDR 4 million less than it would otherwise have received due to this one particular case. Saudi Arabia received SDR 0.7 million less than it would have received.

If it is difficult to feel concern for the positions of those members, let me also note the implications for individual debtors in the Fund. And I cite these figures not in an effort to single out Sudan, but because we need to remind ourselves of the real financial effect that these arrears are having. In the first half of FY 1987 alone, India had to pay the Fund SDR 1.08 million more than it otherwise would in interest charges to the Fund due to Sudan's arrears problem alone. Brazil paid the Fund SDR 1.46 million. Mexico paid an additional SDR 0.85 million. And Zaïre, a country hardly in a position to carry the burden of any other country in the world, had to pay an additional SDR 250,000 due to the problems of Sudan alone. It is when this problem is considered in the context of its effects on the Fund as a whole and on the positions of individual members that the seriousness of it strikes home.

We are confident that the Sudanese authorities recognize this. But we also agree with the sentiments in the staff paper and in the statement by Mr. El Kogali that, in the absence of a significant increase in external assistance in the form of generous debt relief and concessional flows, it will be difficult for Sudan to meet its obligations. Certainly, a concerted effort is needed. At the same time, there is a clear need for a recognition by the Sudanese authorities that a concerted effort by the creditors will depend initially upon a more substantial and comprehensive effort by the authorities. I would like to assure the Sudanese authorities that my authorities remain willing to assist Sudan in this effort. We remain willing to participate in a multilateral effort to help Sudan in eliminating its arrears to the Fund once a satisfactory program has been developed and is in place. This will permit the Fund, and indeed the entire international community, to play a more active role in Sudan's adjustment and development efforts.

I must say, on the other hand, that failure by Sudan to develop a more comprehensive and satisfactory program will inevitably reduce the ability and willingness of donors and creditors to continue to provide financial assistance to Sudan. Indeed, in donor countries such as my own, where extremely tight budget constraints exist, there is an increasingly clear need to direct limited aid resources toward programs which offer the best prospects for success.

In concluding, let me say that we support the draft decisions which have been put before us, both the Article IV decision and that relating to the arrears. We hope that on the occasion of another review of this problem of Sudan's arrears, if indeed such another review is necessary, a rather thorough update by the staff could be provided on economic developments at that time. Whether or not that requires further missions and consultations is, of course, a matter for management and staff. But we would certainly hope that we could receive a rather thorough update.

On behalf of my authorities, I would ask that the Sudanese authorities consider whether the path to growth and development does not lie in taking advantage of the current opportunities and favorable situations which exist, and in taking additional strong actions which can provide the essential basis for a renewed effort by the international community to support Sudan.

Mr. Rousset made the following statement:

Like other speakers, we were encouraged to read in the staff report and in Mr. El Kogali's very helpful statement that the Sudanese authorities and the Fund staff agree on the objectives to be reached in the long term. Unfortunately, disagreements still appear to be large on the policies which need to be implemented for that purpose.

The Fund recommends a global approach to the adjustment process, combining in a consistent package both supply-side and demand-management policies, and far-reaching structural reforms supported by a realistic and flexible rate of exchange.

For their part, while they deny neither the need for adjustment nor the depth and magnitude of the accumulated imbalances, the authorities propose far more gradual reforms, which so far do not appear to be consistent with the objectives they have set.

The report is very clear on this issue and demonstrates that the authorities' program will fall short of the goals set for 1986/87 by a wide margin. In spite of the several positive steps taken by the authorities, Sudan will experience a widening of its budgetary and balance of payments deficits, while a high rate of inflation will persist; at the same time, lacking the support of the needed exchange rate and liberalization reforms, the agricultural and industrial incentive policies are most likely to fail, leading to a recession of economic activities.

These prospects are all the more regrettable in that Sudan is currently enjoying more favorable economic and climatic conditions, which it should use to its advantage to put the economy back on the right track.

It is also unfortunate to note that the technical assistance liberally provided by the Fund is not being fully utilized. I do hope that the figures now available for the first part of 1986/87, which corroborate the staff views, will be taken into consideration by the authorities and will induce them to adopt the global approach recommended by this report.

Before concluding, I would like to add that, like the staff, we felt very much concerned by the figures displayed by the authorities' own forecasts regarding the servicing of Sudan's debt, but we took note of the indications provided by Mr. El Kogali in this respect. We fully agree with the staff that the normalization of financial relations is in the best interests of Sudan, in both the long run and the short run.

Is it necessary to recall that this normalization is made more difficult by every delay, and that this remark applies also to the settlement of Sudan's obligations toward the Fund?

In conclusion, we support the proposed decisions and urge the authorities to review their Economic Salvation Program along the lines recommended by the staff.

The staff representative from the Middle Eastern Department, recalling several questions about price developments in Sudan, noted that some speakers had pointed to an apparent contradiction between the figures mentioned by the staff and those quoted by the representative of the authorities. In fact, no contradiction existed; the staff and the authorities used the same data from the same sources. However, the staff had chosen a somewhat different period for its computation and had attempted to eliminate the distorting effect of the very substantial changes in the consumer price index brought about by a significant swing in dura (sorghum) prices. Also, Mr. El Kogali had used the year-end figures, while the staff had worked out a yearly average from the monthly series. On a related matter, Mr. El Kogali had indicated in his statement that the staff had arrived at its conclusions about the impact of price and profit controls in Sudan without an in-depth study of the subject matter. Actually, the matter had been studied quite fully. In 1983, the World Bank had undertaken a comprehensive study of pricing policies--including policies affecting manufacturing--and of how the price and profit controls were affecting investment and savings. In 1985, the Fund staff had been asked by the then Minister of Finance to undertake a further study, the results of which had been made available to the authorities, who had indicated that because of certain internal differences within the Cabinet, the recommendations of the study could not be adopted. Part of the same study had been attached as an appendix to the report for the 1985 Article IV consultation, and a copy of the report had also been made available to the present Minister of Finance on the occasion of the Fund staff's most recent mission to Sudan.

In response to a query from Mr. Foot on how the agricultural sector in Sudan could be taxed, the staff representative observed that Sudan was fairly unique among developing countries in that the agricultural sector was tightly organized and under public control, which simplified the administration of the tax. The agricultural sector should be taxed, given that the public sector had during the past four-five years engaged in a transfer of income by supporting prices for major agricultural products. In the circumstances it was only fair that the sector should contribute to the revenue raising effort. On the means of increasing net budgetary receipts, the Fund and World Bank staffs had been urging the authorities, first, to eliminate agricultural subsidies, for example, by adjusting land and water charges to more economic levels. Moreover, a substantial amount of the transfers from the Central Government to the regions, aimed at sustaining the infrastructure and other facilities, could be reduced if the local and regional governments were to raise taxes at that level so that local expenditures could be financed from local sources of revenue.

While no data were available on the size of bilateral barter trade, the staff representative continued, it was clear that it had increased recently for two reasons. First, cotton had not been selling well, and the authorities had begun to arrange back-to-back deals, primarily with Eastern European countries, to dispose of the stocks. Second, it had been impossible to sell the large sorghum crop at the current exchange rate and, again, the authorities had negotiated some deals with neighboring and European countries for the sale of the sorghum. The effects of the increase in bilateral barter trade were clear: the availability of free foreign exchange needed to meet essential obligations was reduced; and the need for exchange rate adjustment was concealed.

Several questions had been raised by Mr. Salehkhou on the matter of Islamic banking in Sudan, the staff representative recalled. The Islamic banking system had been introduced in Sudan in September 1984 through the issuance of instructions to the banks that they should convert to the Islamic banking system. In countries like Pakistan and the Islamic Republic of Iran, such instructions had been followed by detailed guidance from the Central Bank on how to proceed with the conversion, but such guidance had not been provided in Sudan; as a result, the banks had interpreted the instructions as they had seen fit. For example, quite a few of the banks were charging the same interest as before the instructions but under a different name. At the same time, the authorities had recently given some indication that a change to a parallel banking system might take place. In this context, the staff did not have sufficient information about the Islamic banking system in Sudan to provide in its report the kind of analysis Mr. Salehkhou had been requesting. The staff had also been careful in its report not to state any preference or make any recommendations about the type of banking system that Sudan should adopt; indeed, the staff had limited itself to urging the authorities "to take steps in the near future to establish a stable institutional framework and to ensure the emergence of real rates of return on savings and charges on borrowing." Of course, the Middle Eastern Department continued to have a keen interest in Islamic banking--which affected a great many countries in the Department--and would be prepared to carry out analyses of the subject as more information became available.

In response to those who had remarked on the debate within Sudan on the usefulness of a devaluation, the staff representative observed that some in the country held the belief that devaluation was the cause of all of Sudan's troubles and, further, that devaluation had been imposed upon Sudan at the insistence of the Fund. Two points should be made in that regard. First, the devaluations that had taken place in Sudan had been only a mirror image of the rapid rate of inflation caused by an excessive injection of liquidity into the economy. Second, by any standard, it is clear that the exchange rate in Sudan is overvalued. Studies undertaken by the Bank of Sudan showed that most of its commodities would remain uncompetitive at the present exchange rate. The solution to the problem was to adjust the exchange rate to a realistic level and then to follow demand-management policies that would be effective in controlling inflation.

Remarking on the medium-term projections, the staff representative noted that the staff had worked on the basis of various assumptions, some of them apparently optimistic. First, it had been assumed that there would be no droughts and that production in Sudan would not be adversely affected by nature. Second, it had been assumed that policies would be in place that would reduce the rate of monetary expansion and encourage export growth and import substitution. Finally, the projections relied on the assumption that the international community would not only provide massive debt relief but would, at least initially, give concessional additional assistance in the form of cash and commodity aid. If those assumptions were valid, then the conclusions that had been drawn from them were also valid.

It was not clear whether the Sudanese authorities had set a specific timetable for the implementation of a medium-term program, the staff representative remarked. It was his understanding that Sudan was working on a four-year development plan, which was scheduled to be completed by March 1987. Whether the program would be sufficiently comprehensive remained to be seen, but the staff remained ready to help the Sudanese authorities in whatever way possible to develop a meaningful program.

The staff representative from the Treasurer's Department observed in response to a question from Mr. Dallara that the staff was doing its best to complete the requested paper on provisioning, which involved a number of difficult and complex issues in the context of the Fund; the intention was to circulate the paper to the Executive Board as soon as possible.

Mr. Nimatallah observed that he had been among those who had called for thorough discussions on the idea of provisioning. He, too, urged the staff to complete its paper on the subject as soon as possible.

Mr. El Kogali, noting that he had nothing to add to the responses of the staff, said that he would bring the views of Directors to the attention of his authorities.

The Chairman made the following summing up:

In their remarks on Sudan, many Directors referred to the most unfortunate conjunction of prolonged drought, internal security problems, massive inflow of refugees and other exogenous factors such as deteriorating terms of trade, which, in addition to severe inadequacies in economic management, have had a devastating effect on the Sudanese economy over a number of years. Directors were therefore pleased to note that a substantial recovery in agricultural production in 1985/86, coupled with relief efforts, had mitigated the famine conditions prevailing in the country and that a further good agricultural crop was expected to be harvested in 1986/87. They expressed concern, however, that, despite the revival of agricultural production and some policy actions by the authorities--e.g., in the field of producer prices--the underlying condition of the economy had deteriorated further in the recent period, mainly as a result of continued delay by the authorities in implementing a comprehensive set of economic policies. In this regard, Directors were in broad agreement with the staff appraisal contained in the Article IV consultation report. They welcomed the authorities' Economic Salvation Program and agreed with its stated objectives. Moreover, speakers generally generally stressed that, for the objectives to be fulfilled, fundamental policy initiatives were urgently needed on a broad scale, and the piecemeal approach to policy formulation should be abandoned.

Directors, highlighting the enormity of the economic and financial problems confronting the authorities, recognized that a solution to these problems could be attained only in the medium term. Some Directors felt that time had run out and that the authorities must act immediately and with urgency to undertake the required adjustment. A few others, taking note of the structural nature of the problems, considered that the newly elected Government should adopt an accelerating pace of program implementation which gathered momentum over time.

Sudan's external financing gap was large and rising rapidly; thus, for domestic efforts to succeed, the international community would need to provide support through additional concessional aid and debt relief on exceptional terms. To elicit such support, however, it was necessary for the new Government of Sudan to take strong policy actions on a sustained basis, and in that context, speakers welcomed the preparation of a comprehensive medium-term program to be made effective July 1987.

In evaluating the authorities' policy stance, Directors expressed their agreement with the priority the authorities attached to the expansion of production, but they emphasized that inefficiencies in the economy, particularly in the public enterprises, were deeply entrenched, and that only bold structural reforms would improve the economy's performance and integrate underground activities into the economy. In the agricultural sector, enhanced price incentives for production needed to be supported by increased efficiency of producing entities and by the adoption of an exchange rate policy that made agricultural exports competitive. Several Directors recommended, in addition, that measures be taken to release the productive potential of the private sector. In this connection, the importance of relaxing controls and creating a favorable environment for mobilization of savings was particularly emphasized.

Directors fully endorsed the objective of containing aggregate demand pressures by reducing significantly the budget deficit and improving the financial situation of the parastatal enterprises. They expressed reservations, however, about the effectiveness of present policies. In particular, Directors were concerned that the Government's budgetary targets for 1986/87 would not be fulfilled. They observed that the projected budget outcome depended largely on nonrecurrent revenue sources, an optimistic forecast of foreign aid, and nonpayment of debt service; and they stressed that basic fiscal reforms were essential if the Government's reliance on domestic bank borrowing was to be reduced. Several Directors noted that such reforms would entail a revision of the budgetary system to ensure firmer control over government expenditures, as well as a fundamental restructuring of revenue sources at the central and regional government levels to widen the basis for taxation and increase the responsiveness of revenue to changes in output and prices. Excessive liquidity creation to finance unsustainable public sector deficits had added to inflationary pressures, and Directors urged that fiscal rehabilitation be accompanied by a consistent monetary and credit policy stance that would facilitate increased activity in the productive sector and encourage private investment.

Directors emphasized that the authorities should incorporate in their economic program appropriate external policies which would stimulate tradable production and encourage greater remittance inflows from Sudanese workers abroad. In this respect, several Directors pointed out the shortcomings of a piecemeal approach to the management of the exchange rate. They observed that the recent depreciation of the exchange rate applicable to exports, without corresponding changes on the import side, had widened the imbalance in the official market and would result in additional subsidies to be financed through credit creation. Directors urged the authorities to adopt a realistic exchange rate policy that would lead to an early unification of the present dual exchange system and to the maintenance of flexibility thereafter.

Note was taken of the authorities' assurance that by including a debt service ratio of 36 percent in the 1986/87 external payments projection, they were not proposing a unilateral limitation on debt payments. However, several Directors pointed out that the limitations placed on external debt provision in the government budget and in the authorities' balance of payments projections were counterproductive. While noting that Sudan has insufficient resources to meet fully its international obligations, Directors emphasized the crucial importance of determining, in collaboration with creditors, an orderly and mutually acceptable resolution of Sudan's external debt servicing problems.

In regard to Sudan's overdue obligations to the Fund, Directors viewed with grave concern the continued accumulation of Sudan's arrears, which they considered harmful to Sudan as well as to the financial integrity of the Fund. They welcomed the partial payment that had recently been made by Sudan and the authorities' reiteration that they were committed to settling the arrears fully. It was also noted that Sudan has remained current in the SDR Department. Directors were unanimous in urging Sudan to implement national policies which would facilitate the mobilization of international assistance in order to enable Sudan to normalize its financial relations with the Fund.

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

Extending his remarks on a more personal level, the Chairman said that he had been impressed by the readiness expressed by several Executive Directors to participate in multilateral efforts aimed at assisting Sudan in the adoption of decisive actions to address the country's major problems and settle its arrears to the Fund. That readiness encouraged him to play an active role in supporting initiatives Sudan might take toward those ends. He also hoped to be active in the effort to overcome the general problem of overdue obligations to the Fund and took it that one of his main duties as Managing Director was to make every effort to maintain the revolving nature of the Fund's resources.

Mr. Dallara, recalling an earlier suggestion by Mr. Sengupta that there might be a role for the Fund in generating assistance for the efforts of Sudan to address its problems and settle its arrears, wondered whether the World Bank might not play a similar role. The authorities in Sudan, as in other cases, recognized that a substantial adjustment effort was required. They had heard general expressions of support for the adjustment effort but were rather uncertain about what resources would materialize if the majof adjustment effort was effected. Perhaps the Fund and the World Bank could play a role in clarifying those matters and ensure that support was provided that was commensurate with the effort.

The Executive Board then turned to the proposed decisions.

Mr. Salehkhou proposed an amendment to the decision regarding Sudan's overdue financial obligations to the Fund that would in some way acknowledge the payments made by Sudan in the SDR Department--in which it had become current--and in the General Department. While the payments made were not significant by prevailing standards, they represented a great sacrifice by a country whose situation was as serious as that of Sudan. Acknowledgment of that sacrifice would make no substantive change in the decision, but it might provide some encouragement for the Sudanese authorities to redouble their efforts to settle their arrears. Furthermore, the change he was suggesting was not without precedent.

The staff representative from the Treasurer's Department observed that the sort of approach suggested by Mr. Salehkhou had been taken in various decisions in the past when, in the Board's judgment, payments had been made that had reflected a substantial effort on the part of the authorities. Such an approach had not to date been incorporated in any of the postineligibility cases, although it was fair to say that in none of those cases had the payments been as large as those made by Sudan. If the Board were to agree, a sentence could be incorporated at the beginning of the first paragraph indicating that "the Fund welcomes the payments made recently by Sudan."

Mr. Finaish remarked that, given that the payments made by Sudan had been substantial, he could go along with Mr. Salehkhou's proposal to incorporate an acknowledgment of those payments in the decision.

Mr. Nimatallah commented that Mr. Salehkhou's idea was a good one. Sudan had, unlike other countries in similar circumstances, made a substantial payment and was current in the SDR Department. Indeed, it might be helpful to mention that latter fact in the decision with a statement, for example, to the effect that "the Fund appreciates that Sudan is current in the SDR Department and appreciates the recent payments."

Mr. Dallara stated that while he shared the sentiments of both Mr. Nimatallah and Mr. Salehkhou, he had a slight preference for merely welcoming the payments rather than expressing "appreciation" to the member for attempting to meet its obligations to the Fund. On balance, he could go along with the suggestion put forward by Mr. Salehkhou.

The Executive Board then took the following decisions:

Decision Concluding Article XIV Consultation

1. The Fund takes this decision relating to Sudan's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1986 Article XIV consultation with Sudan, in the light of the 1986 Article IV consultation with Sudan conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Sudan's exchange system includes a multiple currency practice and restrictions on payments and transfers for current international transactions as described in SM/87/12. These restrictions are subject to approval by the Fund under Article VIII, Sections 2 and 3. The Fund urges the authorities to eliminate the restrictions on payments and transfers for current international transactions and to take appropriate steps toward an early unification of the exchange system. The Fund hopes that Sudan will terminate the one remaining bilateral payments agreement with a Fund member as soon as possible.

Decision No. 8513-(87/22), adopted
February 4, 1987

Overdue Financial Obligations - Review Following Declaration of Ineligibility

1. The Fund has reviewed further the matter of Sudan's continuing failure to fulfill its financial obligations to the Fund in light of the facts and developments described in EBS/87/18 (2/2/87).

2. The Fund welcomes the payments recently made by Sudan. However, the Fund deeply regrets the continuing failure by Sudan to fulfill its financial obligations to the Fund and again urges Sudan to make full and prompt settlement of those obligations.

3. The Fund again stresses the urgency for the authorities to adopt a strong and comprehensive economic adjustment program.

4. The Fund will review further the matter of Sudan's overdue financial obligations to the Fund within six months of the date of this decision.

Decision No. 8514-(87/22), adopted
February 4, 1987

APPROVED: September 14, 1987

JOSEPH W. LANG, JR.
Acting Secretary