

MASTER FILES
ROOM C-130

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November 4, 1988

To: Members of the Executive Board
From: The Secretary
Subject: Sudan - Exchange System

Attached for the information of the Executive Directors is a paper on changes in Sudan's exchange system.

Mr. Yandle (ext. 8769) or Mr. Huh (ext. 8525) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

SUDAN

Exchange System

Prepared by the Middle Eastern Department and
the Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by A.S. Shaalan and J.T. Boorman

November 4, 1988

In the attached communication dated October 26, 1988 the Sudanese authorities have notified the Fund of a change in the exchange system. With effect from October 25, 1988 there will be two exchange markets in addition to the "own resources" market: (1) the official market, in which the exchange rate for the Sudanese pound is pegged at a rate of LSd 4.50 = US\$1; and (2) a commercial bank market in which the exchange rate is determined by a bankers' committee composed of representatives of seven commercial banks. The commercial bank rate on October 25 was LSd 11.4 = US\$1.

Export proceeds are to be distributed between the official market and the commercial bank market in the proportion of 70 percent and 30 percent, respectively, resulting in an effective exchange rate for exports of LSd 6.6 = US\$1, which was the weighted average of the exchange rates in the two markets on October 25, 1988.

In addition to the 70 percent of export proceeds, on the receipts side the other transactions in the official market will include government loans and grants, and selected invisible receipts. On the payments side, the official market will handle imports of petroleum products, wheat and wheat flour, and a wide range of other consumer and intermediate imports, together with government invisible payments.

As regards the commercial bank market, all commercial banks will quote a uniform exchange rate that will be applied to 30 percent of export receipts. The commercial banks are also expected to attract and purchase the remittances of Sudanese nationals working abroad. The commercial bank rate will be determined by a committee of commercial bankers representing seven banks, four public and three private. Chairmanship of the committee will rotate among the public banks. The committee will meet daily to fix the rate. Foreign exchange purchased by the commercial banks will be for their own account.

The commercial bank resources will finance imports from a list of commodities to be determined by the Ministry of Economy and Foreign Trade, as well as certain service payments. Uses of commercial bank foreign exchange resources will be supervised by the Bank of Sudan which will also determine the working balance needs of the banks and purchase any surplus.

The existing system under which imports of certain items may be financed from the importers' own resources will be allowed to continue.

At this stage, the staff has not received comprehensive details of the modalities of the new exchange system and in particular on how any imbalances in the official market will be settled. The staff is scheduled to visit Khartoum in mid-November 1988 to assess the macroeconomic situation in the aftermath of the recent floods. During this visit the staff will also review the announced changes in the exchange system.

No action by the Executive Board is proposed at this time.

TO: INTERFUND
WASHINGTON, D.C.

FROM: BANK OF SUDAN
KHARTOUM, SUDAN

OCTOBER 26, 1988

IN ACCORDANCE WITH THE ARTICLES OF AGREEMENT, I SHOULD INFORM YOU OF THE CHANGES IN THE EXCHANGE SYSTEM WHICH BECAME EFFECTIVE ON OCTOBER 25, 1988.

1. THE FOREIGN CURRENCY RECEIPTS OF THE OFFICIAL MARKET WILL HENCEFORTH COMPRISE: SEVENTY PERCENT OF EXPORT RECEIPTS, RECEIPTS FROM GOVERNMENT GRANTS AND LOANS, FOREIGN PARTICIPATION IN COMMERCIAL BANKS CAPITAL, TRANSFERS OF EMBASSIES, INTERNATIONAL ORGANIZATIONS, RELIEF AGENCIES, AND OIL COMPANIES INVOLVED IN MINERAL EXPLORATION.

2. FOREIGN CURRENCY PAYMENTS IN THE OFFICIAL MARKET WILL COMPRISE: IMPORTS OF PETROLEUM PRODUCTS, LUBRICANTS, WHEAT AND WHEAT FLOUR, YEAST, LENTILS, POWDERED MILK, TEA, COFFEE, GOVERNMENT IMPORTS, SPARE PARTS FOR THE SUGAR, WATER, ELECTRICITY, EDIBLE OILS, MILLING AND BAKING INDUSTRIES, AGRICULTURAL INPUTS, GOVERNMENT INVISIBLE PAYMENTS AND TRANSFERS FOR EDUCATION ABROAD.

3. THE FREE MARKET WILL BE REORGANIZED SO THAT ALL COMMERCIAL BANKS WILL QUOTE A UNIFORM EXCHANGE RATE THAT WILL BE APPLIED TO THIRTY PERCENT OF EXPORT RECEIPTS. PURCHASED OF FOREIGN EXCHANGE BY THE COMMERCIAL BANKS WILL BE FOR THEIR OWN ACCOUNT.

4. THE FREE MARKET EXCHANGE RATE WILL BE DETERMINED BY A COMMITTEE OF COMMERCIAL BANKERS COMPRISING SEVEN BANKS, FOUR PUBLIC AND THREE PRIVATE. CHAIRMANSHIP OF THE COMMITTEE WILL ROTATE AMONG THE PUBLIC BANKS. THE COMMITTEE WILL MEET DAILY TO FIX THE RATE WHICH WILL MOVE FLEXIBLY AND TAKE INTO ACCOUNT SUPPLY AND DEMAND AS WELL AS MOVEMENTS IN INTERNATIONAL MARKETS.

5. FREE MARKET RESOURCES WILL FINANCE A LIST OF COMMODITIES DETERMINED BY MINISTRY OF ECONOMY AND FOREIGN TRADE, PAYMENTS FOR MEDICAL SERVICES, FOREIGN TRADE RELATED PAYMENTS FOR TRANSPORT AND INSURANCE, PRODUCTION RELATED SERVICE PAYMENTS AND REPATRIATION OF PROFITS. USES IN THE FREE MARKET WILL BE SUPERVISED BY THE BANK OF SUDAN WHICH WILL ALSO DETERMINE THE WORKING NEEDS OF THE BANKS AND PURCHASE ANY SURPLUS.

6. IF FOREIGN EXCHANGE IS NOT AVAILABLE WITH COMMERCIAL BANKS PRIVATE IMPORTERS WILL CONTINUE TO BE ABLE TO USE THEIR "OWN RESOURCES".

THIS POLICY IS EXECUTED PROMPTLY SO AS TO MOVE EXPORTS AND TO INSURE PRODUCERS OF THEIR OWN SHARE IN GOOD TIME. DAILY MONITORING WILL BE MADE AND WE EXPECT POSITIVE RESULTS.

BEST PERSONAL REGARDS.

MAHDI EL FAKI
GOVERNOR
BANK OF SUDAN

Received in Cable Room: October 26, 1988