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To: Members of the Executive Board

From: The Secretary

Subject: Sudan - Exchange System

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

Mr. Quirk (ext. 8520) 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

May 9, 1985

On February 12, 1985 the Sudanese authorities implemented a reorganization of the exchange system which resulted in the replacement of the three-tier exchange market system by a dual exchange rate system, and a devaluation of the exchange rates was effected (Attachments I and II). 1/

Sudan's exchange system had been modified on a number of occasions in recent years. 2/ Prior to the recent changes, there were three markets for foreign exchange: (1) the official market, in which the official exchange rate for the Sudanese pound was pegged to the U.S. dollar at US\$1 = LSd 1.3, and in which were transacted 75 percent of exports of cotton and gum arabic, imports of petroleum and essential pharmaceutical products, and most governmental foreign exchange receipts and payments; (2) a market operated by authorized banks in which an exchange rate of US\$1 = LSd 2.1 was in effect from October 22, 1984, and in which were transacted the remaining export proceeds, selected import payments, and certain official receipts (primarily aid from certain donors) and official payments. (3) A market operated by authorized private foreign exchange dealers in which the rate was allowed to fluctuate in response to market forces, and through which workers' remittances and most of private sector import payments were channeled. 3/

With effect from February 12, 1985, the number of exchange markets in Sudan has been reduced to two: the official market, in which the exchange rate for the Sudanese pound is now pegged to the U.S. dollar

1/ A brief description of the changes had been communicated to the staff by the resident representative at the time of their announcement. In the course of a special visit to Sudan in late March, the authorities provided the staff with a detailed explanation of the measures.

2/ See Sudan, Recent Economic Developments, (SM/84/265, 12/5/84).

3/ The exchange rate in the latter market moved from an average of US\$1 = LSd 2.9 during the month of November 1984, to US\$1 = LSd 3.1 in December 1984 and US\$1 = LSd 3.6 in January 1985.

at US\$1 = LSd 2.50, representing a 48 percent depreciation with respect to the previous official rate, and in which all commodity exports and government receipts and payments are transacted; ^{1/} and a commercial bank market operated by authorized banks for all other exchange transactions. Private foreign exchange dealers are no longer permitted to conduct foreign exchange operations. Transactions to be conducted in the official market were enlarged to include certain export proceeds previously channeled through the commercial bank market. It was also announced that, with effect from March 23, 1985, commercial banks would be permitted to set their own buying and selling rates for foreign currencies in the bank market. The midpoint exchange rate in the commercial bank market on April 22 was US\$1 = LSd 3.33. Since the adoption of the exchange arrangements and the tightening of controls on the opening of foreign exchange accounts described below, a small illegal market operated by private dealers is reported to have emerged, in which the midpoint exchange rate was reportedly US\$1 = LSd 3.7 on April 14.

The introduction of the dual exchange rate system has been accompanied by more stringent limitations on the opening of foreign exchange accounts by residents. Under the new regulations, only a limited group of private individuals are authorized to open bank accounts in foreign currency. Those authorized are importers who need to maintain foreign currency balances in order to import selected authorized goods, and recipients of direct transfers from abroad, including non-resident workers abroad. In addition, employees of selected governmental and diplomatic entities continue to be permitted to maintain special foreign currency accounts in which payments from their employers may be deposited. Balances in foreign currency accounts may only be used to finance authorized imports into Sudan, to finance travel abroad by the holder of the account or his family (provided the amount paid in bank notes does not exceed US\$200), or to settle minor service transactions in foreign currency. There is no restriction on the conversion of the foreign exchange holdings into local currency at the prevailing commercial bank rate (official rate in the case of special accounts), or the retransfer abroad of proceeds from direct transfers.

The Chairman's summing-up at the conclusion of the 1984 Article IV Consultation with Sudan on December 26, 1984 noted the importance placed

^{1/} The allocation of specific transactions to the official market is as follows: all export proceeds; import payments (including freight payments) for petroleum, sugar, wheat, flour, agricultural inputs and pharmaceuticals; receipts of invisibles from selected international organizations; hotel and travel expenses incurred by foreign tourists; loans and aid flows to the public sector; debt service payments on public sector debt; proceeds of direct investment in mining and petroleum exploration; repatriation of commercial banks' capital, provided the banks have received approval from the Bank of Sudan; and other payments upon specific instruction of the Bank of Sudan.

by Executive Directors on the adoption of a unified rate at a realistic level, accompanied by market-determined flexibility in exchange rate policy. The staff is of the view that the recent modification to the exchange system, particularly the change on March 23 whereby the exchange rate is to be freely set by participants in the commercial bank market, constitutes an important step in this direction, and would encourage the authorities to permit the commercial bank market to reflect fully supply and demand conditions. The devaluation of the exchange rate in the official market will increase incentives for exports, and is a step towards the appropriate pricing of imports.

Attachments

The General Department of Foreign Exchange (GAFE)
Circular No. 8/85

To All Recognized Banks

Foreign Currency Regulations of 1979
Resources and Uses of Official and Free Markets

First:

Circulars No. 16/84 and No. 6/85 of GAFE, issued on 10/20/84 and 2/6/85, respectively, are canceled.

Second:

Two exchange markets are established: an official market applying the official exchange rate of US\$1 = 250 piasters, and a free market applying the rates to be announced by a committee to be established for this purpose by the association of banks.

Resources and uses of foreign currency of the official and free markets:

1. The official market

A. Resources

100 percent of all export proceeds, which must be pooled at Bank of Sudan.

Invisible receipts mentioned below:

(1) Banks' capital paid in foreign currency and invested only according to the conditions of authorization and the approval of Bank of Sudan.

(2) Foreign currency received from abroad to cover the expenses of foreign contractors and foreign company branches operating in all fields such as oil drilling and mining (the installations relating to exploration, exportation and exploitation) and construction, technical consultations, engineering and similar activities.

(3) Transfers made by the diplomatic corps, international and regional organizations and bodies, relief agencies, religious and charitable organizations, institutions operating in all social fields, and similar bodies.

(4) Foreign currency resulting from hotel and tourist operations.

(5) Funds received from abroad by the following bodies:

Arab Organization for Agricultural Development

Arab Bank for Economic Development in Africa

Arab Authority for Agricultural Investment and
Development

Arab Union for Sugar

Khartoum International Institute for Arabic

Arab Center for Social Insurance

African Islamic Center.

The above-mentioned organizations are authorized to pay the salaries of their employees--Sudanese and foreigners--in foreign currency, provided such payment is made by any means other than bank notes. Employees of the above-mentioned organizations are allowed to receive foreign bank notes up to US\$200 on traveling abroad, the remainder to be paid in traveler's checks, money orders or any other means of payment except bank notes.

(6) Foreign currency resulting from the purchase of travel tickets for nonresident foreigners and Sudanese working abroad.

(7) Revenues in foreign currency of ministries, public sector enterprises and bodies, and higher education institutions (loans, grants etc.).

Directives related to official market resources

Accredited banks must buy the revenues of hotels and travel agencies directly at the official rate, and these may not be deposited into private accounts or foreign exchange accounts.

Organizations mentioned in (2), (3), and (5) above may retain the foreign exchange they receive from abroad in the form of private accounts or they may sell it directly at the official announced rate to Bank of Sudan.

Replenishment and use of private accounts are governed by the regulations mentioned in this circular.

B. Uses

Resources of the official market are employed under the rules of this circular to meet payments for visibles and invisibles according to the following priorities:

Government payments for invisibles

Basic medicines for public and private sectors

Oil

Imports of the following supplies: sugar, wheat, and flour.

Agricultural production inputs

Retransfer of commercial bank funds paid in foreign exchange after authorization by the GAFE.

Payments for invisibles related to exports (difference in weight, freight, shipping and storage expenses, commission, etc.)

Freight on imports registered in the official market

Any other payments as decided from time to time by Bank of Sudan.

2. Free market ^{1/}

Transactions are made through this market at the rate announced by the special committee; they are to be confined to the authorized exchange banks. Resources and uses of free market funds are:

A. Resources

Transfers to residents, which are exchanged at banks;

Any foreign exchange from any source directly purchased by banks at the current free rate;

Sales from free accounts;

Revenue from tourism except foreign currency that has to be exchanged at hotels and travel agents at the official rate;

Foreign currency receipts of public sector enterprises for invisibles;

Foreign currency procured for equity of Sudanese companies;

^{1/} Modified--see Attachment II.

Foreign loans provided for private sector companies;

Any other resources to be added to those of the free market within the framework of directives issued in this regard.

B. Uses

Resources of the free market shall be used for payments connected with the following visibles and invisibles:

Private sector imports according to priorities.

Transfers to Sudanese students abroad according to the regulations stipulated in Circular No. 2/84 of January 22, 1984 and Circular No. 5/84 of February 16, 1984, except transfers to Sudanese students in Egypt, to whom transfers are made at the official rate of the dollar of account upon authorization from the GAFE.

Insurance and reinsurance upon a certificate from the insurance comptroller.

Transfers for medical treatment upon a certificate of cost estimate from the Medical Commission.

Transfers of royalties payable to foreign bodies for the provision of technical or administrative know-how or commercial trademarks to Sudanese companies, upon submission of the following documents:

- (a) A copy of the contract or agreement concluded;
- (b) A royalty exchange permit from the government body concerned (Ministry of Industry or other body) and a statement that such royalty is appropriate for the service provided by the foreign body;
- (c) A chartered accountant's statement that payment of royalty is in accordance with the terms of contract.

Retransfer of the value of share capital and loan principal to foreign investors subject to the provision of a certificate from Bank of Sudan stating the value of the foreign share in the capital and the loans received in the Sudan; for equity shares, a statement from a chartered accountant certifying the value of the shares at the date of sale or liquidation in addition to a certificate of compliance from the Zakat and Tax Office; for the transfer of principal installments on loans the commercial bank must make sure that the transfer is effected in accordance with the terms of the loan previously agreed upon.

Transfer of stock dividends of companies with foreign shares that were purchased with transferable currencies; transfer to be made at the end of the financial year of the company and upon presentation of a balance sheet certified by a chartered accountant, and a certificate of compliance from the Zakat and Tax Office.

Pensions of foreign employees received from the Government of Sudan, provided that application be made through the Pensions Administration, except for the pensions of foreigners living in Egypt.

Surplus income of foreigners working with the Government or public and private sector enterprises and institutions, in an amount of up to 50 percent of their net basic salaries, provided that they submit a work permit and an employer's certificate of net basic salary; this does not apply to their assets in dollars of account.

Transfer of the net proceeds of sales of foreign airline companies in the Sudan.

Execution of transfers for the purposes mentioned above is performed when it is ascertained from the documents submitted that the sums to be transferred are appropriate for those purposes.

Any other payments designated by decision for free market use within the framework of related instructions.

Directives on the free market

Authorized banks may accept foreign exchange up to five thousand (5,000) dollars or the equivalent in other hard currencies from residents, irrespective of their source, to be exchanged for traveler's checks or bank checks for traveling abroad.

Authorized banks may not accept any foreign exchange which is not supported by evidence of source for use in opening a foreign currency account, for deposit in a foreign currency account, or for transfer abroad by any means of payment except the travel transfers mentioned in the previous paragraph.

Authorized banks may purchase for their own purposes any foreign currency from any source at the current rate of exchange.

Free and Private Accounts in Foreign Currency

First: Free accounts in foreign currency

Persons other than the Government and public organizations and enterprises, public institutions and other similar bodies, may open free accounts in foreign currency provided that foreign exchange receipts are from sources or operations other than those listed under the official market sources. The sources of funds for these accounts are:

- (1) Direct transfers of foreign exchange from abroad;
- (2) Foreign exchange registered on customs declarations;
- (3) Salaries of employees working in Arab organizations and institutions paid in foreign currency, and verified by the employer.

A free account may not be replenished by foreign currency transferred from another free account or private account, nor by funds from unknown sources. These accounts are employed for the following purposes:

- (1) Importation in accordance with the prevailing laws;
- (2) Transfers abroad;
- (3) Foreign currency withdrawals in the interest of the account holder and his family on traveling abroad, in the form of traveler's or bank checks or cash, the latter up to a limit of US\$200 (two hundred dollars). The authorized bank must verify the fulfillment of travel requirements;
- (4) Payments made to Duty-Free Shop Corporation, to be made only in bank checks;
- (5) The equivalent in hard currency of the amount an account holder may agree to sell to the bank at the current free rate;
- (6) Payments of hotel bills and travel tickets by certified check in foreign currency in accordance with the current regulations on this subject.

Second: Private accounts in foreign currency

Organizations mentioned in paragraph (2), (3), (5) under 1.A. "Official Market Resources" may open private accounts in foreign currency. These accounts receive transfers from abroad and are employed for the following purposes:

- (1) Importation in accordance with the prevailing laws;
- (2) Transfers abroad;
- (3) Foreign exchange withdrawals in the interest of the account holder and his family on traveling abroad, in the form of traveler's checks or cash, the latter being up to US\$200 (two hundred dollars). The authorized bank must verify the fulfillment of travel requirements;
- (4) Local payments in Sudanese pounds. Conversion into the Sudanese currency must take place at the official rate and in such case the authorized bank must sell the foreign exchange equivalent to the Bank of Sudan.

The rules for use mentioned above apply to the current balances of free and private accounts in foreign currency.

Procedures related to importation

First: Import financing

Importation of goods listed under "free market uses" shall be financed from the following sources:

(1) Foreign currency made available by banks to their customers from their resources;

(2) Foreign exchange furnished by customers from free or private deposit accounts.

Second: Endorsement of import licenses

Import licenses issued by the Ministry of Commerce, Industry and Co-operation for the official and free market goods must be submitted by authorized foreign exchange banks to the Trade Section of the GAFE for approval, after deduction of a proportional commission. The import licenses must then be forwarded to the Bank of Sudan for endorsement and implementation of the importation.

Third: Import documentation

(1) A valid import license issued by the Ministry and certified by the bank.

(2) For books and printed matter, the original invoice and customs certificate of value or the regulations and prerequisites governing the import of goods issued by the competent authorities.

(3) In all cases of goods importation, an unconditional bill of lading must be presented stating that the Sudan is the final destination of the goods; substitute documents may be submitted confirming the Sudanese destination of the shipped goods.

(4) The original customs certificate of value.

(5) Bills and parcel wrappings may be accepted as evidence of imports of printed matter received in postal parcels provided that this be in conformity with the laws and regulations of the Postal Service.

Fourth: Documentary credits and import licenses

(a) Documentary credits for imports are valid for a period of six months, which may be extended for 45 days after expiry. Authorized banks must repurchase the unused portion of import credits. A fixed additional 15-day period shall be granted for completion of documentation of the operation.

(b) Payment be made subject to the terms specified in the import license; the credit shall be valid only during the period of validity of the license.

(c) Authorized banks may accept a partial payment for capital goods imported on credit, provided that a customs certificate of value is submitted within 45 days of the date of clearance.

Fifth: Means of payment

An import may be paid for by all acceptable means of payment except advance payment, and these include:

- (a) Foreign currency at the announced exchange rate;
- (b) Foreign currency accounts or private accounts.

Sixth: Monthly statements shall be submitted to the Trade Section of the GAFE, indicating payments for imports at the free market and the official market rates.

General Directives

1. Applications for the transfer of payments for invisibles, except for students' transfers, must be made on Form (B) (plus two copies), supported by the documents stipulated in this circular. Students' transfers shall be applied for on Form (MB) (plus two copies) bearing the tax stamp.
2. The bank is authorized to endorse applications and execute transfers after having verified the fulfillment of the terms and documents mentioned above.
3. When transfer procedures have been accomplished, the bank retains the endorsed original form with the attached documents. At the end of each week the first copy of each endorsement given during that week should be sent by ordinary mail to the GAFE, the second copy to the Auditing Department of the Bank of Sudan.
4. Banks keep the original endorsements with the documents in a special register with serial numbers for easy reference. Such registers shall be inspected by the Bank of Sudan.
5. During the first 15 days of each month, banks shall provide a statistical table on the resources and uses of funds in the official and free market, separately, during the previous month, including the details

of the value of exports and receipts from invisibles as well as details on foreign currency and its use in the free and official markets.

This circular shall be effective as of the date of issuance.

For Bank of Sudan
GDFE

Abdallah Almohtadi Alwasilah

Ali Fadlallah

Bank of Sudan
Khartoum
February 12, 1985

Amendment to Circular 8/85

Circular 8/85, dated February 12, 1985, established two markets for foreign exchange: an official market and a free market with a rate to be declared by a special committee formed for this purpose by the Association of Banks. The following amends this circular so as to allow each bank to declare its own rate independently:

This circular amends the provision in circular 8/85 dated February 12, 1985, concerning the determination of the exchange rate in the free market. Effective immediately each bank is permitted to set, freely and independently, its own buying and selling rates for foreign currencies.

All banks are required to post their rates for at least the U.S. dollar, Saudi riyal, and pound sterling and to report their daily closing rates to the Bank of Sudan.

