DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.

GRAY/17/542

March 13, 2017

Statement by Mr. Inderbinen and Mr. Imashov on Republic of South Sudan (Preliminary)
Executive Board Meeting
March 15, 2017

We are grateful to staff for the high-quality documentation, and to Messrs. Mkwezalamba and Nakunyada for their helpful Buff statement. We are encouraged to learn that their authorities share staff's assessment and recommendations.

The authorities of South Sudan face daunting challenges in their efforts to restore economic stability. Real GDP has contracted sharply over the last years; inflation is in triple digits; the proceeds from oil exports have dropped dramatically, also due to a significant decline in production; foreign reserves are close to depletion; and the country is not current on international payments.

Success of the current efforts to establish macroeconomic consistency will depend on a renewed process to attain lasting peace. The re-emergence of conflict following the formation of the National Unity government last year is deeply worrying, as is the humanitarian crisis associated with the displacement of a large share of the population and the recently declared famine in the northern provinces. Putting domestic strife to rest will be essential for South Sudan to reap the benefits of the natural resources it can dispose of since gaining national sovereignty.

Attaining economic viability will hinge critically on breaking fiscal dominance. It is encouraging that the authorities agree on the need for fiscal adjustment. The steps envisaged in the current budget to reduce expenditure and to tap additional sources of revenue are welcome. We particularly note from the Buff statement the recent decision to halt direct fiscal financing by the Bank of South Sudan. Notwithstanding the expected impact of higher oil prices on the fiscal accounts, we support staff's call for further consolidation measures outlined in paragraph 12 of the report. *Nonetheless, and despite progress in the creation of the National Revenue Authority, the question does arise whether the administrative capacity* *to levy the taxes and reform the customs as listed in text table 3 is given. Staff's comment on this would be appreciated.*

Steps to re-gain expenditure control will need to include terminating the subsidization of NilePet. It is thus encouraging that Parliament has recently agreed to phase out the current budgetary transfers. Also, given the low levels of reserves, foreign exchange expenditure by the government should be curtailed.

It will be important to maintain the exchange rate flexibility introduced in December 2015. This will likely require a regularization of the provision of foreign exchange to market participants. It will also be important that the authorities remove the remaining exchange rate restrictions. *Could staff elaborate on the necessary conditions for the full convergence of the parallel market exchange rate with the formal rate?*

Good governance in managing the oil sector will be critical. This will require the full implementation of the Petroleum Revenue Act of 2015. The authorities' agreement on this is encouraging, as is their intention to seek technical assistance. Transparency of NilePet, as well as clarity on the scope of its operations, will be important steps in reforming the domestic oil sector.

More generally, and looking beyond the immediate need to restore macroeconomic stability, it would seem advantageous to initiate discussion on a rules-based framework to allocate the surpluses generated by oil revenue, once these were to materialize. The Fund's advice and assistance on such a framework would certainly be warranted. *We would appreciate if staff could inform of any interest the authorities might have shown in this regard.*