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**Statement by Mr. Saraiva, Mr. Bellot, and Mr. Souza on Republic of South Sudan
(Preliminary)
Executive Board Meeting
March 15, 2017**

We thank staff for the useful reports and Messrs. Mkwezalamba and Nakunyada for their comprehensive buff statement.

South Sudan has suffered from economic shocks in the past few years, namely, the fall in oil prices since 2014 and the severe drought last year. However, the main factors behind the near catastrophic situation of the economy and the extensive humanitarian crisis are political in nature. It seems clear that any lasting solution to the economic struggles in South Sudan requires first and foremost that a durable agreement is reached to end the political strife that has kept the country in an endemic state of civil war. In this regard, we particularly appreciate the sensible and informative annex by the Resident Representative in Juba on the preconditions, hurdles and the potential for the ample majority of the population to reap peace dividends in South Sudan. *More information on how the prospects for an effective and inclusive national dialogue have evolved is welcome.*

We are pleased to note that staff and authorities agree on many policy issues. Notwithstanding this welcome convergence of views, more than two years after the completion of the last (and first) Article IV consultation the situation in South Sudan remains extremely delicate and inspires serious concerns about the possible disastrous outcomes in the short to medium term, as depicted in the risk assessment matrix.

Macroeconomic stabilization is clearly a top and urgent priority, with GDP declining by almost 20 percent in the past two years (with another 10 percent decline projected for this fiscal year), inflation having peaked at 550 percent last September, and public deficit reaching 31 percent of GDP. Staff recommendations are straightforward: balancing fiscal finances (broadening tax base, increasing non-oil revenues, cutting expenditures), improving public financial management, stopping central bank financing to the government, and gradually rebuilding international reserves. Of course, any policy recommendation should be realistic and take into consideration the extreme fragility of South Sudan.

Indeed, given the dire situation of the country, we wonder whether the baseline scenario is realistic, outside a context of an externally financed disarmament, demobilization and reintegration (DDR) program. *At this point in time, only 4 months to the end of the fiscal year, are the baseline projections for 2016/17 still achievable? What is staff's assessment of the balance of risks for each of the main macroeconomic variables as projected for this year?* Also, as staff states in its appraisal, the fiscal measures “will constrain government activities to an absolute minimum”. *Would such deep adjustment entail further risk to the population already under distress and in need of humanitarian assistance?*

More specifically, it was not clear in the baseline scenario how the arrears of 23 percent of GDP in 2015/16 were dealt with in the subsequent years. *We would appreciate more details on the nature of these arrears, which presumably are mostly related to the agreed transfers to Sudan. How feasible would it be to renegotiate the terms of these transfers, which seem out of line with current levels of oil prices?*

Blocking central bank direct financing is certainly necessary, yet it is uncertain whether issuing Treasury bills to finance public deficit is a concrete option for the government. *Comments from staff about the depth of the domestic market or on how to develop it are welcome. In case the option of issuing Treasury bills is not immediately available, what would be staff's recommendation to cope with any remaining deficit?*

It is more than understandable that Fund's technical assistance had to be halted with the escalation of violence. The institution should, however, be ready to resume capacity building activities at full speed as soon as peace is reached under a sound overarching agreement.

Finally, given the tragic situation faced by millions of South Sudanese women, children and men, who have been displaced, subject to abhorrent crimes and increasingly threatened by famine and diseases, we join ourselves to Mr. Mc Donald and Ms. Pollard and call on the authorities to ensure access of humanitarian organizations to deliver needed assistance to all areas of the country.