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

We thank staff for a well-focused paper and Messrs. Mkwezalamba and Nakunyada for their helpful Buff statement. Political instability, internal conflicts and persistent low oil prices aggravated macroeconomic imbalances in South Sudan. This severely incapacitated the economy, and will urgently require developmental actions to recover standard of living. We are especially concerned by the recent escalation of the already dire humanitarian crisis and security relapse. At the same time, the authorities' multi-frontal proactivity aimed at regaining macroeconomic stability, is encouraging. However, the results of these efforts hinge on the country's actions to ensure long-lasting peace for its citizens and the delivery of basic public services, which are yet to be achieved. We broadly agree with the thrust of the Staff's recommendations and offer the following points for emphasis.

Urgent and credible fiscal consolidation efforts aimed at taming the debt distress are highly warranted. Fiscal deficit monetization -leveraged by accumulating arrears- used as the main vehicle to finance the deficit, in the setting of depleted oil and non-oil fiscal revenues should be phased out. To that end, we are encouraged by the proposal of the 2016/2017 Budget which assumes bold fiscal consolidation, bringing the deficit from 31 percent of GDP in 2015/16 to 8.5 percent of GDP in 2016/17. We are especially supportive of the envisaged halt on government financing by the Bank of South Sudan (BSS), the establishment of the National Revenue Authority (NRA) and the adjusted tax policy with significant revenue potential. *Can the staff comment on how realistic the 2016/2017 Budget oil price assumptions are?* We back the staff's view that, due to sizable unidentified financing needs and overreliance on T-bills issuance, the authorities should consider additional consolidation measures. *Yet, in the setting of the collapsed GNI and pronounced income inequality, we would appreciate staff's comments on how the proposed measures would affect the poorest*? We support further improvement of the public financial management (PFM), including the payroll audit and the introduction of the Procurement Act. Finally, we echo staff's recommendation that the authorities should seek support from the development partners to help them with the disarmament, demobilization and reintegration (DDR) efforts. This would eventually allow for the much needed relaxation of the wage bill and provide a sustainable solution to address the financial needs of redundant soldiers.

The Bank of South Sudan (BSS) should pursue monetary policy tightening and refrain from the fiscal deficit monetization. These efforts, leveraged with a gradual development of the monetary policy instruments and fiscal policy tightening, will help replenishing international reserves**.** Overwhelming crediting of the government, reflected in the unhealthy broad money levels has repetitively fueled exchange rate depreciation and inflationary pressures. To that end, we support the BSS' efforts to introduce a repurchase agreement for liquidity management. We are encouraged by the BSS' proactivity in strengthening the financial system resilience, by introducing the minimal capital requirement for the banking system and stepping up efforts to address undercapitalized banks. We welcome the authorities' bold approach in addressing the overvaluation of the official exchange rate by allowing for significant exchange rate liberalization. At the same time, we are aware that at this juncture external stability will be primarily driven by a combination of tighter fiscal and monetary policy, while exchange rate flexibility will bear results once the economy's base is restored (widened).

While acknowledging the challenges of the IMF's involvement in the FCSs, political complexity in South Sudan should not exonerate the role of the international community. We encourage the Fund to resume its TA activities in South Sudan, as soon as the security situation permits. Comprehensively addressing the chronic lack of institutional capacity is an additional key element of the ambitious reform agenda, peace efforts and nationwide dialogue to start bringing dividends to the South Sudanese people sooner and in an inclusive manner. Even if lasting peace is achieved, the country, given the experience of other FCSs, might be immediately challenged by the FCS trap of weak governance and low economic growth. *To that end, could staff elaborate on the areas, apart from PFM, where the technical assistance of IMF is of utmost importance?*

We wish the authorities continued success in their endeavors.