

SUR/17/20

March 16, 2017

**The Acting Chair's Summing Up
Republic of South Sudan—2016 Article IV Consultation
Executive Board Meeting 17/18
March 15, 2017**

Executive Directors agreed with the thrust of the staff appraisal. Directors noted the daunting humanitarian, economic and political challenges facing South Sudan in the wake of renewed internal conflict and subdued oil prices. In this context, Directors emphasized the need for a credible path towards lasting peace and decisive economic stabilization without which the country risks falling into a spiral of deteriorating economic performance and worsening security conditions. To alleviate the continued devastating humanitarian costs of the conflict, Directors called on the authorities to ensure that aid organizations have access to all areas of the country to deliver assistance.

Directors agreed that restoring fiscal discipline is necessary to reduce money expansion, help reduce inflation and restore external stability. They welcomed the adoption of the 2016/17 budget and accompanying policy measures, including a decision to stop monetizing the deficit and improve public financial management. Directors urged the authorities to implement the adopted revenue measures and spending cuts, and to take additional measures to reduce domestic financing to a level consistent with macroeconomic stability. Directors emphasized the need to improve expenditure management and prevent domestic arrears, primarily through enforcement of monthly budget allocations, strict control of extra-budgetary expenditures, and setting up of a treasury single account. They also stressed the need to minimize revenue leakages by implementing domestic oil market reforms, including removal of fuel subsidies, transparent transfer of government crude oil receipts to the budget, and liberalization of the fuel market.

Directors underlined the need to tighten monetary policy to reduce inflation and gradually replenish international reserves, and to enforce the statutory minimum reserve requirements and minimum capital for all banks to reduce vulnerabilities in the banking system. They acknowledged the progress achieved in the liberalization of the exchange rate regime and elimination of several exchange restrictions and multiple currency practices.

For the medium term, Directors underscored that policies should be focused on reprioritizing budgetary spending and rebuilding international reserves. They stressed that budgetary spending should be shifted from security-related outlays towards public services and infrastructure investment. Given capacity constraints, Directors encouraged the authorities to seek assistance to develop a coherent and well prioritized public investment

program. They also encouraged the authorities to seek donor support for a disarmament, demobilization and reintegration program.

Directors noted that South Sudan is in debt distress despite moderate levels of external debt due to the combined impact of a civil war, decline in oil prices and high levels of fiscal spending. They underscored that steadfast implementation of announced adjustment policies and a return to peace would improve the debt outlook and allow for a gradual resumption of external financing.

The next Article IV consultation with South Sudan is expected to be held on the standard 12-month cycle.