

SU/20/28

CONFIDENTIAL

February 24, 2020

**The Acting Chair's Summing Up
Sudan—2019 Article IV Consultation; Review of Overdue
Financial Obligations to the Fund and Complaint with
Respect to the Suspension of Voting Rights
Executive Board Meeting 20/19
February 21, 2019**

Executive Directors agreed with the thrust of the staff appraisal. They noted that regime change has created a window of opportunity for fundamental reforms to stabilize the economy and lay the groundwork for inclusive growth. However, the new government faces daunting challenges. Macroeconomic imbalances are large, competitiveness is weak, and the humanitarian situation is dire. Directors observed that key elements of a comprehensive reform package include exchange rate liberalization, revenue mobilization, a gradual phasing out of fuel subsidies, increased social transfers to facilitate adjustment, and structural reforms to strengthen governance, curb corruption, and achieve inclusive growth. Directors stressed that reforms should be carefully sequenced, flexible, and condition-based rather than time-bound.

Directors emphasized that gradual exchange rate liberalization is critical for eliminating the distortions that hamper investment and growth. It would bolster competitiveness and transparency, eliminate multiple currency practices and associated distortions, reduce rent-seeking, strengthen central bank independence and boost fiscal revenues. The monetary policy framework needs to be enhanced, and the banking system's ability to sustain shocks needs to be reviewed and strengthened prior to the unification of the exchange rate. Moreover, there is a need to upgrade the central bank law to boost its independence and effectiveness, and curb fiscal dominance. The central bank should continue to upgrade its capacity to supervise and mitigate financial stability risks, including by strengthening banking regulation and supervision and continuing to address AML/CFT deficiencies.

Directors highlighted that substantial consolidation is needed to achieve macroeconomic stability and fiscal sustainability. In this regard, broadening the tax base and strengthening revenue administration are important and would help strengthen governance, transparency and accountability. Stronger public financial management and publication of comprehensive fiscal data would improve governance. Directors called for intensified efforts to mobilize additional domestic revenues to ensure credible fiscal consolidation in 2020.

They also emphasized that phasing out fuel subsidies over the medium term is crucial for durable consolidation. Strong information and communication efforts and a substantially expanded social safety net that can credibly be financed with donor assistance will be needed to build public support for reforms.

Directors recognized that Sudan remains in debt distress and is eligible for debt relief under the HIPC Initiative. They acknowledged that Sudan's inclusion in the state sponsors of terrorism list (SSTL) constitutes one of the obstacles to potential debt relief. Directors encouraged the authorities to continue to engage with international partners to secure comprehensive support for debt relief, respect the Fund's preferred creditor status, and avoid selective debt service payments and non-concessional borrowing. They also emphasized the need to strengthen cooperation with the Fund on policies and payments, including by making regular payments to the Fund at least sufficient to cover obligations falling due, and increasing them as Sudan's payment capacity improves. In this context, Directors welcomed the authorities' interest in a Staff Monitored Program to help build a track record of policy implementation to facilitate debt relief.

It is expected that the next Article IV consultation with Sudan will be conducted on the standard 12-month cycle.