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**Statement by Mr. Mahlinza and Mr. Ismail on Sudan**
**Executive Board Meeting**
**September 23, 2020**

## I. Introduction and Background

1. Our Sudanese authorities thank staff for the constructive engagement during the recent virtual mission on the Staff Monitored Program (SMP). They broadly agree with staff's appraisal and key policy recommendations.

2. The transitional government, which assumed office in August 2019, inherited significant economic challenges, including a contracting economy, large and growing fiscal deficits, high and rising inflation, and depleted international reserves. With a large number of internally displaced people and refugees from neighboring countries, the humanitarian situation is dire, and poverty remains high and widespread. The outbreak of COVID-19 pandemic and devastating floods that recently hit the country have exacerbated these challenges, with a significant negative impact on lives and livelihood. At the same time, Sudan's access to concessional and emergency financing has been limited due to the protracted arrears to the Fund and other international financial institutions (IFIs).

3. Considering the enormity of socio-economic challenges, the authorities have prepared a comprehensive reform package aimed at restoring macroeconomic stability and improving governance and the business environment while mitigating the fallout from the pandemic. In parallel, they have made concerted efforts to promote peace across the country and normalize relations with the U.S. government to help remove the country from the state sponsors of terrorism (SST) list. Importantly, the recent signing of comprehensive peace agreements with key rebels is a notable milestone, expected to bring political stability and create an enabling business environment.

4. In this context, the authorities seek the Executive Board's endorsement of staff's assessment that policy commitments under this SMP meet the rigors of an Upper Credit Tranche (UCT) quality program. This will allow the authorities to build a track record of sound policy implementation required for debt relief under the HIPC initiative. As demonstration of their commitment to the reforms, the authorities have successfully completed all prior actions, including the passing of the 2020 revised budget consistent with

the SMP objectives. They also look forward to the catalytic role of the SMP in galvanizing financing from donors and development partners to support efforts to advance the reform agenda and ameliorate social conditions while addressing risks to the SMP implementation.

## II. Recent Economic Developments

5. The Sudanese economy has continued to contract, with GDP estimated to have declined from -2.3 percent in 2018 to -2.5 percent in 2019, reflecting weak competitiveness, a difficult business environment and the repercussions of the social and political turmoil. GDP is expected to further contract by 8.5 percent in 2020 due to the COVID-19 pandemic and its severe impact on international trade and domestic economic activities. In the external sector, the current account deficit widened from 8.7 percent of GDP in 2018 to 10.9 percent of GDP in 2019, driven by deterioration in the trade balance. After declining from 63.3 percent in 2018 to 51 percent in 2019, inflation surged to 166.8 percent in August 2020, driven by the exchange rate depreciation and a surge in money supply owing to recurrent fiscal deficit.

## III. Fiscal Policy

6. The authorities overall fiscal stance aims to ensure medium term fiscal sustainability through implementation of comprehensive fiscal reforms. The immediate objective is to implement subsidy reforms to create space for social spending needed to alleviate adjustment pains and the negative impact of the COVID-19 pandemic. In this context, the authorities have steadily reduced fuel subsidies since February 2020 and plan to fully eliminate subsidies on gasoline and diesel. To better inform the public and garner support for the fuel subsidy reform, the authorities have conducted an extensive awareness campaign. To mitigate the impact of the reforms on vulnerable households, they have increased public wages and plan to raise social spending. In this respect, the Sudan Family Support Program (SFSP), piloted in June 2020, will be expanded to cover more families in the coming months.

7. To enhance revenue mobilization, the authorities plan to broaden the tax base through the rationalization of tax exemptions, while improving tax administration. Concurrently, the customs exchange rate will be gradually adjusted to boost tax revenues while ameliorating associated inflationary and social impacts. At the same time, the authorities plan to reform the import tariff structure, with IMF technical assistance, to limit the impact of customs exchange rate unification on prices. Overall, these fiscal measures along with donor support are expected to reduce the fiscal deficit by 4 percent of GDP in 2020 and 3.3 percent of GDP in 2021. Beyond 2021, the authorities plan to accelerate fiscal consolidation to further strengthen fiscal stability.

8. The authorities plan to strengthen public financial management through improved budget planning, fiscal reporting and establishment of a treasury single account (TSA). To this end, good progress has been made in establishing the TSA, improving cash management and forecasting, and consolidating all bank accounts of ministries and public enterprises held at the central bank into a single account. Further, they plan to continue these reform efforts, including through incorporating a medium-term fiscal framework into budget planning and strengthening the macro-fiscal unit to improve fiscal policy formulation. To further enhance fiscal transparency, the authorities will publish monthly budget execution reports in line with

the GFS Manual 2001, while strengthening public procurement system with World Bank technical support.

## IV. External Debt and Relief Prospects

9. Sudan remains in debt distress, with about 85 percent of external debt in arrears. The authorities recognize that successful implementation of the SMP is critical to an accelerated process towards international re-engagement. In this respect, they are stepping up engagement with international partners, including discussions with the U.S. government to remove Sudan from the U.S. state sponsors of terrorism list. The government will also consult with the IFIs, to seek comprehensive debt relief under the HIPC process. They are also finalizing preparation of a full PRSP, with support from the African Development Bank and the World Bank, while completing work on debt reconciliation.

10. Considering the acute financing conditions, the authorities' debt strategy has been tailored to ensure the flow of financing for critical development projects. In this context, they have partially serviced debt to those creditors who provided net positive flows to Sudan. That said, it is worth noting that the 2020 budget does not include an allocation for debt service, given the current difficult conditions exacerbated by the COVID-19 pandemic.

## V. Monetary and Exchange Rate Policies

11. The authorities have adopted a reserve money targeting framework to anchor inflation expectations. Over the medium term, they plan to strengthen their monetary toolkit to eliminate deficit monetization, while building a strong and liquid government securities market, supported by Fund TA. They also plan to establish a treasury committee to enhance coordination between the Central Bank of Sudan (CBOS) and Ministry of Finance and Economic Planning (MOFEP) with a view to improving liquidity management and forecasting. In addition, they are revamping the central bank law to strengthen its independence and aim to submit the new central bank law to the legislative body by end 2020.

12. Consistent with the commitment to address challenges in the monetary sector, the authorities have commenced preparatory activities towards unification of all exchange rates (except the customs rate) to enable greater flexibility for commercial banks and FX bureaus to set exchange rates in line with market conditions. In this respect, the authorities have finalized bank-by-bank stress tests and developed remedial measures to strengthen resilience to exchange rate movements in identified problem banks. To help manage volatility during the initial period of the reform, the central bank will maintain a band on the daily exchange rates set by banks and FX bureaus. At the same time, the authorities will refrain from imposing administrative restrictions on current account transactions to support free market determination of exchange rates.

## VI. Financial Sector Policies

13. The central bank will continue to modernize banking regulation and strengthen supervisory capacity while enhancing the compliance of banks with prudential regulations, including on limits on foreign exchange exposure and lending in foreign currency. They will

also conduct semi-annual stress tests to identify and address bank vulnerabilities, while laying the ground for adoption of a risk-based supervisory regime. At the same time, asset quality reviews of systemically important banks will be finalized by June 2021 and the bank recovery and resolution framework will be strengthened in line with international best practice.

14. To strengthen corporate governance in the banking sector, independent directors will replace central bank officials serving on commercial bank boards by end 2020. At the same time, the central bank will phase out its stake in state-owned banks and commercial banks by December 2021. In addition, the authorities will continue to address remaining AML/CFT deficiencies, including through conducting thematic AML/CFT on-site inspections of the high-risk banks, strengthening the capacity of the Financial Intelligence Unit (FIU), and fully implementing risk-based AML/CFT supervision.

## VII. Structural Reforms

15. The authorities remain committed to strengthening governance and intensifying the fight against corruption in line with the Constitutional Declaration. To this end, they are finalizing a new Anti-Corruption Law to be passed by the legislature body by October 2020, in time for the establishment of an independent Anti-Corruption Commission by March 2021. Meanwhile, the authorities are pressing ahead with efforts to recover stolen assets and prosecution of individuals who obtained these assets though corrupt means. They are also undertaking comprehensive state-owned enterprise (SOE) reforms aimed at strengthening SOE oversight, including through transferring oversight responsibilities of all SOEs to the MOFEP. In this context, the authorities look forward to a comprehensive Fund TA mission to help advance reforms to address governance weaknesses.

16. The authorities are also stepping up efforts to improve the business environment, enhance competitiveness, and support strong and inclusive growth, with support from the International Finance Corporation and the World Bank. Key activities include fostering public-private dialogue, strengthening the legal and institutional framework for public-private partnerships (PPPs), improving access to finance, and simplifying business entry and taxation while prioritizing efforts to improve data quality, frequency, and availability.

## VIII. Overdue Financial Obligations

17. The authorities welcome staff proposals on Sudan's annual token payments to the Fund and seek the Board's approval of the proposed decisions. They view the reduction in annual token payments as critical given the significant deterioration in Sudan's payment capacity in the wake of elevated economic challenges and the COVID-19 crisis. Going forward, the authorities remain committed to make payments regularly and to increase payments as capacity to repay improves.

## IX. Conclusion

18. Our Sudanese authorities reaffirm their commitment to implementing far reaching reforms under the SMP to lay a solid foundation for macroeconomic stability and eventual resolution of the country's debt burden. They recognize the complexity of the task ahead and

look forward to the support of the international community in implementing their reform program aimed at addressing the adverse social and economic legacies and building a prosperous society. The authorities appreciate the Fund's policy advice and technical assistance provided thus far and look forward to additional support in the implementation of their reform agenda.