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September 21, 2020

Statement by Mr. Fachada and Ms. Mohammed on Sudan
(Preliminary)
Executive Board Meeting
September 23, 2020

1. We thank staff for the reports and Messrs. Mahlinza and Ismail for their informative statement.

2. **Sudan is a fragile economy facing complex and daunting challenges with chronic inflation, declining GDP, multiple exchange rates, deep-seated weak governance and institutional capacity constraints.** The country remains in debt distress amid widespread poverty, political fragmentation and limited social support to reforms. Against this background, solid fiscal consolidation, together with implementation of exchange rate, monetary, governance and structural reforms have become vital to avoid hyperinflation and lay the foundations for a sustainable path. In this context, we concur that the Staff Monitored Program (SMP) is well-designed to help the transitional government formulate and implement comprehensive policies to stabilize the economy and pave the way to normalize relations with the international financial community and achieve debt relief.

3. **We welcome the transitional government's commitment to implement Upper-Credit Tranche (UCT) quality policies under the SMP to restore the economy to a viable and sustainable position.** We positively note the authorities' successful adoption of two prior actions in critical areas. This notwithstanding, we underscore that reforms should be carefully sequenced, well communicated, and condition-based to minimize the risk of derailing the program. We also note that implementation risks are enormous and encourage the authorities to credibly renew their commitment to the reforms to attract donor support. Whilst flexibility of the reform timeline may be needed, a delicate balance must be struck in implementing painful reforms and ensuring there are sufficient safety nets to protect the most vulnerable.

4. **Exchange rate reform remains the cornerstone for restoring macroeconomic stability**. A unified market-clearing exchange rate together with foreign exchange liberalization would address the real exchange rate overvaluation, facilitate fiscal consolidation and bolster credibility and competitiveness. That said, with the mid-September parallel market exchange rate at a level equivalent to nearly five times the official rate and without monetary or fiscal anchor, the risks of an initial exchange rate overshooting and subsequent inflation spiral are not negligible. In this context, the authorities' plan for unification and market determination of the exchange rate within a sufficiently wide band to limit volatility seems appropriate in the short-term. As reforms are successful implemented and volatility subsides, dropping the band to help develop the foreign exchange market would become feasible.

5. **Strengthening the monetary policy framework and the banking system to support the unification of the exchange rate is essential.** We encourage the authorities to eliminate monetization of the fiscal deficit by strengthening monetary policy and gradually building a strong government securities market. In parallel, we welcome the new Central Bank Act, which will enhance its autonomy and improve the effectiveness of monetary policy. Moreover, the continued efforts of the central bank to strengthen its supervisory capacity and address financial stability risks and AML/CFT deficiencies are welcomed.

6. **Fiscal consolidation is critical to restore macroeconomic stability and put Sudan on a sustainable path.** We welcome the revised 2020 budget and emphasize that realistic fiscal consolidation is essential to stabilize inflation, eliminate fiscal dominance and boost the authorities' policy credibility. In this regard, we hope that the fuel subsidy reform, together with base-broadening revenue measures would help bring the deficit to a sustainable level, while mitigating the adjustment pain through higher social and health spending in a Covid-19 environment. We take note of the ambitious fiscal adjustment planned for 2021 and stress that consolidation should be condition bound rather than time bound. We also note with some concern that the government wage bill is having a substantial increase in 2020 (equivalent to 2.2 percent of GDP) despite all social hardship.

7. **Enhancing governance and anticorruption efforts are also important to improve growth and enhance credibility.** We are encouraged by the authorities' commitment to finalizing an anti-corruption law and establishing an independent anti-corruption commission in line with international best practice. We also welcome the authorities progress in strengthening public financial management with the Fund's technical assistance and note their commitment to improving oversight of state-owned enterprises.

8. **Sudan remains in debt distress, with substantial arrears to the Fund.** We agree with staff that the authorities should adopt a prudent debt strategy that avoids selective debt servicing and refrain from non-concessional borrowing in order to not worsen the already unsustainable situation. We encourage the Sudanese authorities to continue to cooperate with international partners on economic policies with a view of establishing a track record of

sound macroeconomic policies. We agree that Sudan's capacity to repay the Fund in 2020 has been severely impacted not only by the Covid-19 pandemic but also by recent natural disasters, and we can support the proposal to reduce Sudan's annual payments to the Fund to US$2.5 million starting in 2021 in light of the domestic situation and the authorities' commitment to macroeconomic stabilization.