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**Statement by Mr. Poso and Ms. Skrivere on Sudan
(Preliminary)
Executive Board Meeting
September 23, 2020**

We thank staff for the insightful set of reports and the helpful outreach to our office. We also thank Mr. Mahlinza and Mr. Ismail for their informative Buff statement. We congratulate the Sudanese authorities for reaching an agreement on the SMP during an extremely challenging economic situation which is even further compounded by the COVID-19 crisis. We note the ambition in the program is commensurate with the scale of the economic challenges and acknowledge the high costs and risks related to program implementation. However, halting the vicious cycle of exchange rate depreciation and deficit expansion is crucial for Sudan to access the road of stabilization and inclusive growth. Thus, **we support the proposed Staff Monitor Program of UCT quality and highlight the importance of strong commitment to implementation** in order to build a track record of strong policies for eventual clearance of long-standing arrears vis-à-vis IFIs and HIPC-debt relief.

Agreeing on an ambitious policy program is only **the first step in a long process towards building a stable, durable, and resilient Sudan**. It is important to acknowledge the major challenges arising from the financial and monetary conditions of Sudan. The Nordic-Baltic constituency encourages and supports Sudan on its path towards poverty reduction, a better social safety net, and a more stable economy.

On the Review of Overdue Financial Obligations

Sudan is in an extremely difficult situation with a contracting economy, worsening fiscal and external imbalances, and high inflation. At the same time, Sudan has no access to COVID-19 financing nor any other emergency financing from IFIs. This is

mainly due to substantial arrears to IFIs, the Paris Club, and the London Club, as well as due to Sudan being on the US list of state sponsors of terrorism. The economic emergency in Sudan has also led to a large and deteriorating humanitarian crisis.

We acknowledge that Sudan has continued making token payments to the Fund since 1995. In view of the protracted unresolved overdue obligations, in principle we would have preferred the amount of the token payments to continue unchanged. However, we do recognize the current challenging situation in Sudan and the financing gap in the ambitious policy program. Thus, due to the extraordinary deterioration in the economic situation, **we can agree on the reduction of annual token payments from US\$ 10 million in 2019 to US\$ 2.5 million starting in 2021.** However, we strongly support staff's encouragement for Sudan to make the payments at least sufficient to cover obligations falling due, to make the payments regularly and in a timely manner, and to increase them as the Sudan's payment capacity improves. We underline the importance of avoiding selective debt service payments to lenders, which could undermine the clearance of existing arrears. Furthermore, we agree with the staff's proposal that no further remedial action is to be taken at this time regarding the Managing Director's complaint with respect to the suspension of Sudan's voting rights in the Fund.

Improved debt transparency through eliminating discrepancies in debt data is a key step in the process toward debt relief, and we strongly support the implementation of the planned debt reconciliation exercise in 2020.

On the Staff-Monitored Program

We join staff's assessment that **the SMP will support the Sudanese authorities' plans for comprehensive reforms to stabilize the economy and promote robust and inclusive growth.** While all the features in the SMP are beneficial, the program is very ambitious, especially considering the capacity constraints in Sudan. However, ambitious reforms offer Sudan a way out of a dire and deteriorating economic and humanitarian situation. Thus, we encourage the authorities to remain vigorous in program implementation and call for support from the development community both in providing much needed external concessional financing as well as targeted and well-coordinated TA for program priorities.

We agree with staff on the importance of exchange rate reform. **Gradually liberalizing and unifying the exchange rate will ease the monetary conditions in the long run.** We note that the reform will increase inflation in the short run leading to an even worse situation for

the poorest households. At the same time, it is a critical reform to end monetization in the longer run and eventually restore macroeconomic stability and kickstart growth. Furthermore, it is important to strengthen central bank independence, operations, and its capacity to supervise and mitigate financial stability risks.

The recent energy subsidy reforms are very welcome. Energy subsidies come with heavy fiscal costs and drive the vicious cycle of fiscal deficit monetization, inflation, and exchange rate depreciation. The importance of breaking the cycle cannot be underlined enough. **Reducing the energy subsidies will create space for social spending which is essential for improving the social safety net.** The social safety net reform helps reduce extreme poverty and enables more inclusive growth. More broadly, Sudan should aim for a transparent fiscal framework with increased tax revenue.

Nevertheless, we **note the highly elevated downside risks to program success and the outlook of the Sudanese economy.** The impact of COVID-19 can further hamper the possibilities of Sudan to achieve the reforms.