GRAY/20/2914

CONFIDENTIAL

September 21, 2020

Statement by Mr. Ray and Mr. Iona on Sudan
(Preliminary)
Executive Board Meeting
September 23, 2020

We thank staff for the papers and Mr. Mahlinza and Mr. Ismail for their helpful Buff statement. Sudan's continued economic contraction since the secession of South Sudan is being exacerbated by the COVID-induced disruptions to international trade and economic activities. Poverty is widespread and increasing, inflation is high and accelerating, and large and widening external and fiscal imbalances are putting pressures on the already extremely low international reserves. The exchange rate arrangements are a mess. And Sudan remains in debt distress. So, we can only agree with staff that absent substantial reforms and donor support, the outlook is alarming. To this end, we welcome the recently agreed staff-monitored program (SMP) that aims to restore macroeconomic stability and establish a credible track record of policy implementation, ultimately paving the pathway towards the HIPC decision point. On this note, **we concur with staff that the steps agreed in the SMP are of upper credit tranche quality**. **We also consent to not taking any further remedial action at this juncture regarding the Managing Director's complaint with respect to the suspension of Sudan's voting and related rights in the Fund.**

A strong and credible fiscal consolidation is crucial to restoring macroeconomic stability and return to debt sustainability over the medium term. Here we acknowledge the authorities' commitment to a large fiscal adjustment of 4 percentage points of GDP in the revised 2020 budget, to be followed by a further 3.5 percentage points of GDP in 2021. This would be a daunting task in the best of times. Heightened uncertainty and the suggestion of some waning of political support for such steps complicate the policy environment. We encourage the authorities to press ahead with their commitments to remove fuel subsidies and enhance domestic revenue mobilization, including through streamlining tax exemptions and adjusting customs exchange rate. Among other things, these reforms would create some much-needed fiscal space to expand the social safety net in order to mitigate the policy adjustment pain and the negative impact of COVID-19. These efforts should be complemented by a clear communication strategy aimed at bolstering public support for the reforms.

Unification of a market clearing exchange rate will bolster competitiveness and support central bank independence. We agree with staff that the introduction of a band to mitigate volatility in the short term appears appropriate for now. We encourage the authorities to drop the band once volatility concerns abate. In this regard, we also positively note the authorities' commitment to unify the exchange rate by June 2021. This would be complemented by the anticipated new Central Bank Law that will include limiting monetary financing of the government deficit.

Strengthening governance and fighting corruption remain macro-critical for Sudan. While these priorities are embedded in the Constitutional Declaration governing the transition period, the key lies in resolute implementation of the planned reforms. These include passing the Anti-Corruption Law, recovery of looted assets and bringing responsible individuals to justice, enhancing the oversight of state-owned enterprises, and improving statistics to inform decision making.

Close engagement with international partners is critical to reaching the HIPC decision point. A pre-condition is for the Sudanese authorities to take the steps necessary for removal from the State Sponsors of Terrorism List. We support the intensified efforts of the authorities to obtain assurances of debt relief from official and commercial creditors. It will be critical for the authorities to build a credible track record through the successful implementation of the SMP.

Given the unprecedented magnitude of the economic crisis and the ensuing uncertainty, flexibility is required both in the authorities' policy settings and in the review of the SMP. To this end, we urge staff to engage closely with the authorities in the ongoing review of structural reforms and in the immediate future to focus only on those that are critical to the success of the program.