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**Statement by Mr. Raghani and Mr. Sidi Bouna on Sudan
(Preliminary)
Executive Board Meeting
September 23, 2020**

We thank staff for an insightful set of reports and Mr. Mahlinza and Mr. Ismail for their informative Buff statement.

A steadfast implementation of the Staff-Monitored Program (SMP) and a significant increase in donor support will be key to addressing Sudan's very challenging economic situation. Sudan has been in recession for the past two years and the economy is projected to further contract in 2020 given the severe impact of Covid-19 pandemic. This has caused a widening of macroeconomic imbalances and has increased inflationary pressures. The deep economic recession has taken its toll on the population and has exacerbated the country's humanitarian crisis. We welcome the authorities' commitment to the strong policies under the SMP and urge them to remain resolute in the implementation of their ambitious reforms to improve Sudan's economic and social situation while paving the way for debt relief under the HIPC Initiative. However, the risks to the program remain large and we would like to emphasize the importance of increased and sustained donor support to the success of the SMP. We also agree that the authorities' policy commitments under the SMP are of Upper Credit Tranche (UCT) quality.

The fiscal adjustment should be gradual considering the country's weakened economy and the impact of the pandemic. We note that a fiscal adjustment of 4 percent of GDP is expected in 2020, followed by a 3.25 percent adjustment in 2021. *While fiscal consolidation is critical to restoring macroeconomic stability, we wonder whether the economic situation and the need to ensure adequate pandemic-related spending would not warrant a more limited fiscal adjustment in 2020? Once the economy recovers, a more ambitious adjustment could be envisaged. Staff comments are welcome.* We agree that broad donor support would be essential, especially donors should provide grant resources to support the fiscal adjustment. Also, given that Sudan is in debt distress and has accumulated large arrears, we encourage the authorities to maintain a very prudent borrowing strategy. We positively note their commitment to cooperate with the Fund on the debt owed to the institution. We also

fully agree that Sudan's capacity to repay the Fund has declined considerably due to the difficult current economic conditions. In this context, we support the decision to reduce annual debt repayments to the IMF. The authorities' active engagement with other international partners to achieve debt relief under the HIPC should be pursued.

Monetary and exchange rate policies ought to support the recovery as well as the implementation of the broader reform agenda. We welcome the measures taken to anchor inflation expectations, and particularly, the adoption of a reserve money targeting framework. We also take positive note of the authorities' commitment to eliminate the monetization of the fiscal deficit which will be essential to reducing Sudan's high inflation. We support the steps envisaged to establish a unified market-clearing exchange rate and gradually liberalize the foreign exchange market. Continued progress in this area will also support fiscal consolidation due to the favorable impact of a unified exchange rate on import duties. We also welcome the staff's assessment that the width of the current foreign exchange band will enable banks to set an exchange rate that is aligned with market conditions. Continued careful sequencing of the reforms of the foreign exchange market is crucial, in particular, to ensure that the required prior measures have been implemented, including an assessment of the banking sector's resilience to shocks emanating from the exchange rate.

Structural reforms under the SMP are adequate. Strengthening governance will be key to the success of the program. We agree with the areas of focus of the reforms, including the need to establish and operationalize an independent anti-corruption commission. We also encourage the authorities to reinforce the governance of public enterprises and enhance the independence of the central bank by upgrading the central bank law. The Fund should also continue to provide the technical assistance needed to strengthen the AML/CFT framework. Close coordination with the World Bank on the structural reform agenda should continue, including on the improvement of the business environment.

With these remarks, we wish the Sudanese authorities success in their future endeavors.