**FOR INFORMATION**

FO/DIS/20/197

**CONFIDENTIAL**

October 9, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Sudan—Deletions—Staff-Monitored Program**

Board Action: The attached deletions to EBS/20/138 (9/10/20) have been proposed by the authorities of Sudan and agreed with staff in accordance with the policy on publication of papers:

**Highly Market-Sensitive Material**

**Pages 11 (second blue bullet, lines 4–6) and 46 (para. 11, lines 7–8)**

**Operational Details of Policy Intentions**

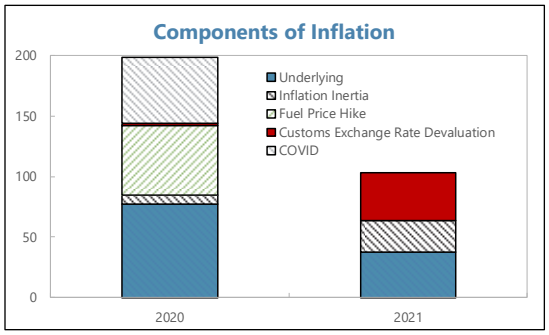
**Pages 11 (first blue bullet, lines 4–5) and 46 (para. 11, lines 4–5)**

Questions:

Ms. Baker, MCD (ext. 34041)
Ms. Chen, MCD (ext. 37642)
Mr. Chaudry, MCD (ext. 38464)

also be deployed, albeit with relatively marginal impact on reserve money given the limited stock.

- An active treasury committee would also be established to enhance coordination between the central bank and the ministry of finance to improve liquidity management and forecasting to strengthen monetary control.




- With the pre-requisites in place, all but the customs exchange rate would be unified in September 2020, and banks and FX bureaus would be permitted to set exchange rates in line with market conditions *(Structural benchmark)*. ~~The central bank would then set the daily official exchange rate as the weighted average market exchange rate of the previous day.~~

- However, to help manage potentially high volatility in the initial period of the reform a band on the daily exchange rates set by banks and FX bureaus would be established (which would place a cap on daily exchange rate changes but would not prevent large cumulative appreciation or depreciation over time). The band would be widened progressively. ~~from an initial ±5 percent—non-binding under most conditions—around the daily official rate to ±10 percent by March 2021.~~ If necessary, in consultation with Fund staff, the width of the band could be adjusted to ensure that it does not cause a market segmentation by excessively restraining commercial banks and FX bureaus from adapting to market conditions. After end-March 2021, staff and the authorities would discuss whether the band remains necessary or can be removed.

- The customs exchange rate will be adjusted gradually, from the current SDG 15/$, from end-September 2020 and unified with the market rate by June 2021 (structural benchmark), thus allowing more time for importers and the general public to adjust to the significant impact on prices. To limit the price impact of this measure, there would be a reform of the import tariff structure, with IMF TA, to reduce the average import tariff rate from the current 20 percent to 10 percent.

- The authorities also committed to refrain from imposing any administrative restrictions on current account transactions as a means of constraining exchange rate movements.

**21. Building a strong government securities market would help reduce inflationary pressures and strengthen monetary policy considerably over the medium term**. It would help eliminate deficit monetization and augment the stock of securities available for central bank monetary operations. To this end, the authorities intend to progressively increase sales of government securities over the near to medium term, supported by IMF TA, with the objective of establishing a sizeable government securities market with active participation of banks, nonbanks and the general public. Alongside, the authorities plan over the course of the program to begin converting substantial long-term claims of the central bank on the government (SDG 263 billion, about 13 percent of GDP in 2019) into government securities,

strengthen competitiveness, significantly narrow the external current account deficit and increase GDP growth to 4½ percent over the medium term. While fuel subsidy and exchange rate reforms would generate sharp increases in prices over 2020–21, inflation would fall considerably thereafter as internal and external imbalances are reduced. We believe that the macroeconomic and structural policies under the proposed SMP would be of Upper Credit Tranche (UCT) quality and look forward to the IMF Executive Board's confirmation of this assessment in due course.

**10. While the availability of greater external financing would reduce program-implementation risks, we are determined to press on with the reforms even with limited financing.** We estimate an overall external financing need of $5.4 billion over 2020–21 to eliminate fiscal deficit monetization, finance the SFSP, and support the accumulation of international reserves. However, new donor pledges thus far have been well short of the financing needs (about $1.1 billion for fiscal financing, with no pledges for augmenting international reserves). To partially fill the remaining financing gap, we will aggressively pursue the recovery of domestic assets illegally amassed by the previous regime and we have already identified easily marketable assets valued at about SDG 76 billion (or $490 million) that we will dispose of as and when market conditions improve. We will also progressively expand the sales of government securities to banks and nonbanks, thus minimizing deficit monetization.

## Exchange Rate, Monetary, and Financial Sector Policies

**11. We will reform the exchange rate system to bolster competitiveness and transparency.** We will unify all exchange rates (except the customs rate) and allow much greater flexibility for commercial banks and FX bureaus to set exchange rates in line with market conditions by September 2020 (*structural benchmark*). ~~The central bank will set the daily official exchange rate as the weighted average market exchange rate of the previous day. However, t~~To help manage potentially high volatility in the initial period of the reform we will establish a band on the exchange rates set by commercial banks and FX bureaus~~,~~ ~~which will be widened progressively from an initial ±5 percent around the daily official rate to ±10 percent by March 2021.~~ We will consult regularly with IMF staff about the width of the band and stand ready to adjust it as needed to ensure that it does not cause a market segmentation by excessively restraining commercial banks and FX bureaus from adapting to market conditions. After end-March 2021, we will take stock, jointly with IMF staff, of the economic context and experience under the reformed policy with a view toward reassessing the necessity of the band. The customs exchange rate—which is only used in assessing customs duty and VAT on imports—will be adjusted gradually from the current SDG 15/$ from September 2020 and unified with the market rate by June 2021 (*structural benchmark*), thus allowing more time for importers and the general public to adjust to the significant impact on prices. To limit the price impact of this measure, we will also, with IMF technical assistance, reduce the average import tariff rate from the current 20 percent to 10 percent. We will refrain from imposing any administrative restrictions on current account transactions as a means of constraining exchange rate movements.

**12. We will ensure that the key pre-requisites for exchange rate reform are in place prior to the reform**. To this end, (i) we have completed bank by bank stress tests to exchange rate shocks