EXECUTIVE BOARD MEETING

EBS/20/162

October 28, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of South Sudan—Request for Disbursement Under the Rapid Credit Facility**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Wednesday, November 11, 2020**
Proposed Decision:	Page 15
Publication:	Yes*
Questions:	Ms. Lahreche, AFR (ext. 36643) Ms. Jack, AFR (ext. 36293)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—World Trade Organization

***The authorities have indicated that they consent to the Fund's publication of this paper.**

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

October 27, 2020

EXECUTIVE SUMMARY

Context. After five years of civil conflict, the warring parties came to a peace agreement in September 2018. Until the COVID-19 crisis broke out, improved political stability and an uptick in international oil prices led to significant progress, with a rebound in economic growth, a decline in inflation, and a stabilization of the exchange rate. The COVID-19 pandemic is severely disrupting South Sudan's economy, leading to a sharp decline in projected growth (-3.6 percent in FY20/21, about 10 percentage points below the pre-pandemic baseline) and a contraction of oil export proceeds—the main source of exports and fiscal revenue—which has given rise to urgent balance of payments needs and opened a large fiscal financing gap.

Request for Fund support. In the attached letter of intent, the authorities request financial support amounting to 15 percent of quota (SDR 36.9 million or about 1.2 percent of GDP) under the Rapid Credit Facility (RCF), to help meet the urgent balance of payments need arising from the pandemic and the collapse in oil prices. Oil revenue losses have narrowed fiscal space to an extreme, and disbursement under the RCF will help limit the extent of fiscal consolidation, which would otherwise lead to cuts to priority spending, given the restricted access of the country to external financing. The authorities have resolved their external arrears and both external and overall public debt are sustainable on a forward-looking basis. The capacity to repay the Fund is adequate. Disbursement under an RCF is appropriate, though delayed, considering the practical difficulties of holding comprehensive policy discussions with a fragile state in the current conditions. Staff supports the request.

Macroeconomic policies. The authorities took measures to control the spread of the virus, including travel restrictions, curfews, and quarantine. They have started much-needed reforms to enhance public financial management and improve the quality, accountability, and transparency of public spending. They are committed to ensure that pandemic-related spending is used for the intended purposes and to publish promptly regular audits of this spending. The authorities also expressed commitment to adhere to a fiscal path that maintains debt sustainability, while trying to preserve growth and provide for peace-building and social spending. The discontinuation of the special accounts scheme is a first step towards the gradual liberalization of the FX market.

Approved By
David Owen (AFR), Gavin Gray (SPR)

An IMF team, consisting of Mses. Lahreche (Head), Jack, Koliadina, and Wiriadinata, and Messrs. Chany and Hobdari (all AFR), held discussions with Minister of Finance and Planning, Athian Ding Athian; Central Bank Governor, Gamal Abdalla Wani; and other senior government officials by teleconference during October 2–8, 2020. Mr. Garang (OED) participated in policy discussions. Executive Director Mahlinza and his alternates (all OED) and Ambassador Natana joined opening and closing meetings. Mses. Kiggundu and Nyankiye, and Messrs. Alfi and Morán (all AFR) contributed to the preparation of this report.

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CONTEXT

1. South Sudan (SSD) is an oil-dependent, low-income, post-conflict fragile state. After gaining independence in 2011, the country fell into civil war from end-2013, until the Revitalized Agreement on the Resolution of Conflict in South Sudan (R-ARCSS) was signed in September 2018. About 40 percent of the population are either internally displaced or live as refugees in neighboring countries and more than half of the population (nearly 7 million people) require humanitarian assistance and are acutely food insecure. The health sector is extremely weak and largely reliant on the support of the donor community, and its capacity to absorb the shock of the pandemic is extremely limited. The poverty rate is estimated to be 88 percent. The country is heavily dependent on oil, which represents 97 percent of its exports, and 88 percent of the government's revenues.

2. The implementation of the revitalized peace agreement has experienced delays but is progressing. Following the revitalized peace agreement in 2018, a unity government was formed in February 2020, and the government has recently appointed state governors. The parties have now also agreed on power-sharing at the states level. However, the situation remains fragile, and marked with lingering political tensions and bouts of violence.

POST COVID-19 ECONOMIC DEVELOPMENTS

3. South Sudan entered the pandemic shock in a very vulnerable situation. Improving prospects for lasting peace, rising global oil prices, and economic recovery had supported an expansion in oil production, leading to a pick-up in growth (3.4 percent in FY18/19 and 13.2 percent in FY19/20), inflation declined from 125 percent in FY17/18 to about 49 percent in FY18/19 and further to 35 percent in FY19/20.[1] Nonetheless, oil production remained significantly below its pre-civil war level, severely limiting the government's resources. Poor public financial management (PFM) had created a credibility gap with donors, resulting in aid being disbursed and implemented outside of government systems. Key PFM shortcomings include the lack of a credible macro-fiscal framework, inefficient cash management and the absence of a Treasury Single Account (TSA), poor governance structures (such as a weak public procurement system), chronic expenditure arrears, and inadequate fiscal reports and insufficient audits. Revenue shortfalls and cash rationing led to the accumulation of expenditure arrears, notably on salaries (between five and six months, or about 2 percent of GDP), and remaining financing needs were covered through expensive and sometimes non-transparent external borrowing arrangements. Low reserves levels and a depreciating exchange rate added to the vulnerabilities. The banking sector was weak and undercapitalized.

4. The economic recovery, following the revitalized peace agreement, and a debt restructuring agreement reached in July 2020 brought debt to sustainability on a forward-looking basis. A short-term trade facility provided by the Qatar National Bank (QNB) fell into arrears in 2015, and debt was assessed to be unsustainable, starting in 2016, reflecting mainly the

[1] The fiscal year in South Sudan runs from July to June.

sharp economic contraction from the civil war and high levels of fiscal spending. In July 2020, the authorities reached a debt-restructuring agreement with QNB, and as a result South Sudan is no longer in debt distress. Further, thanks to the economic recovery following the 2018 revitalized peace agreement and contingent on the authorities' macroeconomic policies outlined below (including prudent fiscal policy and greater reliance on more concessional external financing), the country's debt is assessed to be sustainable on a forward-looking basis, although currently in high risk of external and overall public debt distress (Annex I). The assessment is subject to risks due to the high level of uncertainty surrounding the pandemic and critically hinges on the authorities' commitments to adopt prudent monetary and fiscal policies, discontinue oil advances, and continue PFM reforms.

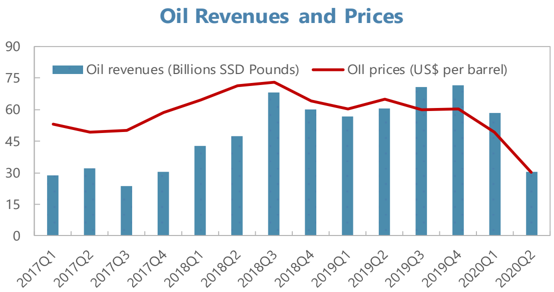
A. Impact of the Pandemic

5. The authorities took early measures to contain the health impact of the pandemic. Policy response to the COVID-19 health crisis was prompt, beginning even before the first positive case was recorded in the country on April 10. Since late February, the government took various precautionary measures, including international flight suspension, evening curfews, social distancing and quarantine periods for travelers arriving from virus-affected countries. Some restrictions—such as school closures—have been relaxed, carefully balancing the need to minimize the impact of restrictions on individuals and the economy with the concern to save lives and limit the virus spread given the country's weak healthcare capacity. As of October 20, the country recorded 2,847 positive cases and 55 deaths, and the risks remain high that COVID-19 might spread to the displaced persons' camps and settlements.

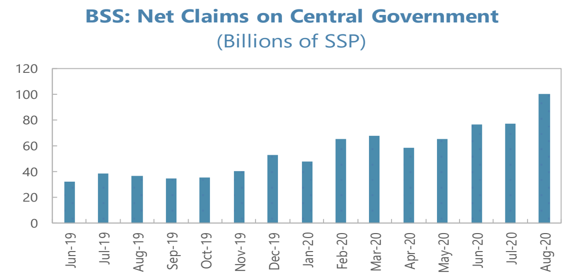
6. South Sudan's economy is severely impacted by the sharp decline in the international price of oil—the mainstay of the economy—which is expected to affect the country well into FY20/21. Significantly lower oil prices since March 2020, combined with the global slowdown in demand, have led to ongoing declines in South Sudan's oil production since the last quarter of FY19/20. Overall, oil production in FY20/21 is expected to decline by 6 percent relative to the previous year. Lower oil revenues and pandemic response measures, including travel restrictions, curfews, quarantine and social distancing, are reducing aggregate demand and, in turn, curtailing non-oil growth. As a result, overall growth for FY20/21 has been revised down to -3.6 percent, compared to a 6.6 percent pre-pandemic projection. Inflation is projected to remain high, at 35 percent, fueled by a combination of monetary financing, currency depreciation, and trade frictions related to border control; this, in turn, is expected to severely affect the large food-insecure population.

Text Table 1. Republic of South Sudan: Impact of the Pandemic

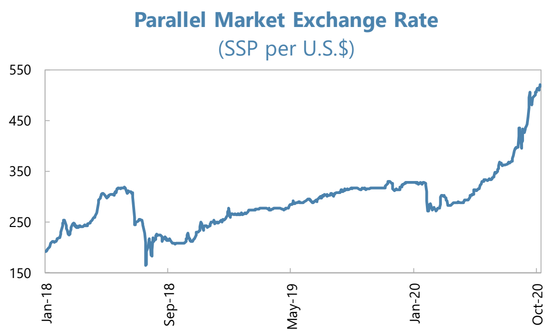
Government revenues took a hit as oil prices declined



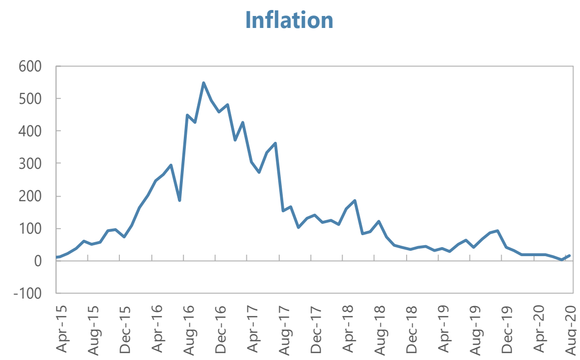
The authorities relied on central bank financing to cover revenue shortfalls



The exchange rate depreciated sharply on the parallel market...



... increasing the risk of a rebound in inflation



7. **An urgent balance-of-payments (BOP) need of US$272 million, or 6.4 percent of GDP, is expected in FY20/21.** The combination of the terms of trade shock, lower oil export volumes, and heavy reliance of the country on imports for basic needs, including personal protective equipment, limit the space for rapid adjustment of the BOP. The protracted RCF negotiations resulted from the authorities' efforts to complete debt restructuring (as a pre-requisite for Fund financing since South Sudan's debt was in distress). In addition, the authorities benefited from initial technical assistance (TA) required to strengthen PFM systems and address some of the corruption and governance vulnerabilities.

8. **The authorities are approaching the donor community for additional assistance to close the estimated BOP gap (Text Table 2).** The proposed disbursement under the RCF (see ¶19 and ¶20 for the determination of access under the RCF) will cover about 19 percent of the estimated BOP gap and is expected to catalyze donor support. The World Bank has notably provided additional financing for FY20/21 through the existing Contingency Emergency Response Components program and the COVID-19 Fast Track Facility; a total of US$20 million is estimated to be disbursed in FY20/21 due to the pandemic. Bilateral donors have so far pledged limited additional support for humanitarian relief in the context of COVID-19. Until measurable progress is achieved on PFM reforms, donor support is expected to remain relatively limited and continue to be disbursed through third parties, with minimal impact on the fiscal financing gap. The remaining

financing gap in FY20/21 is expected to be closed by a combination of additional donor contributions, further fiscal consolidation, and limited amounts of non-concessional financing.

Text Table 2: Republic of South Sudan: Projected External Financing Requirements and Sources for FY20/21[1]

	Pre shock		Post shock	
	USD million	% of GDP	USD million	% of GDP
Current account	380	6.3%	-191	-4.5%
Trade balance	141	2.3%	-268	-6.3%
Exports of goods and services	4,183	69.0%	2,534	59.6%
Exports of goods	4,061	67.0%	2,497	58.7%
of which: oil	3,943	65.1%	2,464	57.9%
Imports of goods and services	-4,635	-76.5%	-3,418	-80.4%
Imports of goods	-3,920	-64.7%	-2,765	-65.0%
of which: oil imports	-392	-6.5%	-245	-5.8%
of which: non-oil imports	-3,528	-58.2%	-2,520	-59.3%
Primary income balance	-357	-5.9%	-297	-7.0%
Secondary income balance	1,188	19.6%	990	23.3%
of which: grants	1,139	18.8%	1,139	26.8%
Capital and financial accounts	-40	-0.7%	-64	-1.5%
of which:				
Net foreign direct investments	70	1.2%	47	1.1%
Government net borrowing	-111	-1.8%	-111	-2.6%
Gross financing	130	2.2%	130	3.1%
of which: commercial borrowing	100	1.7%	100	2.4%
Principal payment	241	4.0%	241	5.7%
Financing gap (excess of financing -)	-339	-5.6%	272	6.4%
Additional financing sources	-339	-5.6%	72	1.7%
IMF (net)	0	0.0%	52	1.2%
Prospective RCF Disbursements	0	0.0%	52	1.2%
Repayments	0	0.0%	0	0.0%
World Bank (Prospective IDA grants)[2]	0	0.0%	20	0.5%
AfDB	0	0.0%	0	0.0%
Bilateral Donors	0	0.0%	0	0.0%
Reserve accumulation (increase -)	-339	-5.6%	0	0.0%
Remaining financing gap	0	0.0%	200	4.7%

Sources: South Sudanese authorities and IMF staff estimates and projections.

[1] The fiscal year runs from July to June.

[2] Not budget support and may not be fully disbursed in FY20/21.

B. Medium-Term Outlook and Risks

9. In the medium term, economic activity is expected to recover, supported by a rebound in the oil sector and peace dividends. Oil production should increase on the back of recovering oil prices and continued progress in peace building, combined with improved fiscal space as transfers to Sudan are phased out, which would lift non-oil growth. Overall growth is expected to be zero in FY21/22, about 5.5 percentage points lower than pre-pandemic estimates, and to gradually recover over the medium term. Nevertheless, real GDP is not expected to recover to its pre-pandemic level until 2025, reflecting the severity of the shock.

10. Downside risks dominate. Oil market developments are the key source of uncertainty around staff's assessment: lower oil prices would negatively affect oil revenues, weighing on the BOP and the fiscal deficit; limits to oil production related to the OPEC+ arrangements would also severely affect the country. Lower oil revenues would, in turn, further constrain public spending, which would result in deeper spending cuts and further downgrades on growth. In addition, risks to inflation have increased with the recent depreciation of the SSP in the parallel market. The risks are heightened by the low PFM capacity, notably the limited ability to raise non-oil resources, and the cash management practices, which could lead to the emergence of new arrears. Finally, despite recent progress in implementing the revitalized peace agreement, risks to political stability remain high. On the other hand, upside risks include faster economic recovery with agriculture production and post-war reconstruction potentially benefitting from the peace dividends earlier than staff expected.

POLICY ISSUES AND DISCUSSIONS

The main objective of the RCF disbursement is to provide emergency support to help the authorities face a large BOP gap driven by a sharp revenue shortfall. In a context where growth is already severely hit and poverty and food insecurity are widespread, it would be difficult to fully absorb the BOP gap through the compression of domestic demand. To respond to the crisis while maintaining debt sustainability, the authorities are committed to observe fiscal discipline and to reduce non-essential expenditure, while preserving wage payments and poverty-reducing spending. The authorities requested the use of the RCF disbursement for budget support (LOI ¶4). They are also committed to carry on the PFM reform agenda and plan to gradually unify the exchange rate. They see this ambitious reform program as critical to foster confidence in the economy and unlock access to much-needed concessional resources.

A. Fiscal Policy

11. Fiscal policy in response to the pandemic will be a combination of spending reallocation and fiscal consolidation made necessary by the contraction in domestic revenue and the limited access of the country to concessional borrowing and grants.

- Government revenues as a ratio to GDP in FY20/21 are estimated to decline by about 15 percent[2] relative to the pre-pandemic projections, following the decline in both oil prices and oil production. Combined with a significant reduction in available financing, this would contribute to a fiscal financing gap of about 4 percent of GDP (Text Table 3).
- The authorities have allocated US$8 million (0.2 percent of GDP) to purchase medical equipment, repatriate South Sudanese students from abroad and provide food support to the most vulnerable in the population. Donors—including the World Bank, AfDB, UNICEF, WHO, WFP, and FAO—are contributing to efforts to mitigate the COVID-19 impact, through off-budget support.
- Fiscal consolidation, which is unavoidable even in FY20/21, given the large size of the external shock and limited access to financing, will aim at preserving peace and pro-growth expenditure. The composition of public spending incorporates a mechanical adjustment mechanism, as the Transitional Financial Arrangement (TFA) payments to Sudan (about 10 percent of GDP) and the transfers to oil producing states (about 1.5 percent of GDP) are indexed onto oil prices. Further fiscal consolidation will come from cuts to investment expenditures, which are expected to decline from 3.2 percent of GDP in FY19/20 to 2 percent of GDP for FY20/21. The immediate growth impact of such cuts will be contained given the large import content of investment projects. The payment of wages, which suffer regular delays and arrears, will be prioritized, notably as it is the main poverty-reducing instrument currently available to the authorities, in the absence of budget-funded transfer mechanisms.
- The IMF loan disbursement under the RCF is expected to close around 30 percent of the estimated fiscal financing gap. The authorities are expected to meet the remaining gap through donor support and limited non-concessional loans, at reasonable terms, given the country's high risk of debt distress (see below). A second RCF disbursement could be considered (possibly coupled with a Staff Monitored Program (SMP)) should further urgent BOP needs arise. Failing to secure additional financing would require painful further fiscal adjustment.

[2] Government revenues of FY20/21 (in SSP/USD exchange rate terms) are expected to decline by about 40 percent relative to the pre-pandemic expectation.

Text Table 3: Republic of South Sudan: Central Government Financial Operations, 2019/20–2020/21*

	2019/20		2020/21			
	in bn SSP	*% of GDP*	*in bn SSP*		*% of GDP*	
	Estimates		Pre-shock	Post-shock	Pre-shock	Post-shock
Revenue and Grants	**233**	**29.7%**	**423**	**249**	**33.1%**	**27.8%**
Of which Oil revenue	201	25.7%	384	229	30.1%	25.5%
Non-oil tax revenue	32	4.1%	38	21	3.0%	2.3%
Expenditure	**289**	**36.9%**	**412**	**268**	**32.2%**	**29.9%**
Of which Current expenditure	264	33.8%	364	250	28.5%	27.9%
Capital expenditure	25	3.2%	30	17	2.3%	1.9%
Overall balance	**-56**	**-7.2%**	**11**	**-18**	**0.8%**	**-2.1%**
Financing	**58**	**7.4%**	**-11**	**-18**	**-0.9%**	**-2.1%**
External	26	3.3%	-11	-23	-0.9%	-2.6%
Domestic	33	4.2%	0	5	0.0%	0.5%
Financing gap (+ = shortfall)	**0**	**0.0%**	**0**	**36**	**0.0%**	**4.0%**
Additional financing	**0**	**0.0%**	**0**	**36**	**0.0%**	**4.0%**
Additional external financing	0	0.0%	0	36	0.0%	4.0%
IMF (prospective RCF disbursement)	0	0.0%	0	11	0.0%	1.2%
Unidentified additional financing	0	0.0%	0	25	0.0%	2.8%
Additional net domestic financing	0	0.0%	0	0	0.0%	0.0%
Memorandum item						
Nominal GDP	783		1,278	897		

Sources: South Sudanese authorities and IMF staff calculations.

* The fiscal year runs from July to June.

12. To ensure that debt is sustainable on a forward-looking basis, external and domestic borrowing will be curtailed.

- The authorities are committed to a medium-term fiscal consolidation strategy and to continue avoiding oil advances. They have almost entirely paid back the residual oil advances contracted in the past from oil traders and have not relied on such short-term financing since May 2020. Under such commitments, even assuming some non-concessional borrowing to cover the financing gap, if concessional resources are not available, South Sudan's public debt would still be sustainable on a forward-looking basis. In the DSA, the financing gap in FY20/21 is assumed to be met by purchases under the RCF (around 30 percent of the fiscal gap, as discussed above) and non-concessional loans of 5-percent interest rate, 5-year maturity, and 1-year grace period.

- Domestic borrowing will be contained. Following the sharp decline in oil prices at the end of FY19/20, the Ministry of Finance relied heavily on its overdraft facility with the Bank of South Sudan (BSS), as revenues shrank sharply. Since then, the authorities partly repaid the overdraft, in line with their legal framework, but some net monetary financing of the deficit remained, which contributed to pressures on the exchange rate and the acceleration in inflation. Given the difficult macroeconomic conditions, some marginal monetary financing (0.6 percent of GDP) is expected in FY20/21, in addition to the on-lending of the prospective RCF disbursement from the central bank. However, the authorities have decided to completely halt the monetary financing of the deficit and have suspended the practice of relying on the overdraft. In the future, they plan on gradually reducing the stock of net credit from the central bank.

13. The authorities are committed to push ahead with the PFM reform agenda. Weak PFM systems, as discussed in ¶3, are a major constraint to the effective implementation of fiscal policy and contribute to the credibility gap with the donor community. South Sudan's nascent PFM institutions, designed at the time of independence, were severely weakened during the civil conflict. Following the revitalized peace agreement, there has been progress in reestablishing some of the essential institutions (Box 1). The authorities received technical assistance from both the IMF and the World Bank and are committed to implementing the recommendations. In the short term, they plan to develop a PFM reform strategy; start implementing a TSA; recast their macro-fiscal framework tools to improve budgeting; and strengthen cash management practices to improve budget execution and the credibility of the budget plans.

Box 1. South Sudan's PFM Reform Program

Following the revitalized peace agreement, the authorities established two key PFM institutions:

- The *National Revenue Authority (NRA)* was established in 2018; the NRA is not fully operational yet, and its performance in raising domestic revenues is yet to be tested.
- The *PFM Oversight Committee (OC)*, together with technical committees and a secretariat, was established by Executive Order of the Minister of Finance and Planning in April 2020, and its terms of reference approved. The OC is chaired by the Minister of Finance and Planning and includes other Ministers, senior political figures, and participation from the donor community. Terms of reference have been approved and a list of ten priority reforms identified. The authorities have also defined the scope of the initial PFM reform strategy, which follow those listed in the R-ARCSS:
- Implement a TSA, with technical assistance support;
- Strengthen cash management—a cash management committee has been established and its terms of reference are being drafted;
- Relocate Loan Committee to the Ministry of Finance and Planning (done);
- Review, verify and clear all arrears;
- Review and verify loans and contracts collateralized or guaranteed against crude oil;
- Strengthen the Anti-Corruption Commission (ACC) and the National Audit Chamber;
- Establish a Public Procurement and Asset Disposal Authority (PPADA);
- Rollout electronic payroll using a biometric system; and
- Strengthen the Fiscal and Financial Allocation Monitoring Commission (FFAMC).

They have also included two additional items that did not figure in the R-ARCSS:

- Strengthen the macro-fiscal framework (ongoing); and
- Strengthen the budget process and budget credibility (ongoing).

14. The authorities have committed to take measures to ensure that financial assistance under the RCF is used transparently for growth and poverty reduction. The RCF disbursement will be kept on a dedicated account at the BSS, and the funds will support the authorities' plans to prioritize health-related, poverty-reducing and growth-enhancing spending. All such pandemic-related spending will be recorded in the Integrated Financial Management Information System (IFMIS). The authorities will adhere to best practices in procuring and awarding contracts related to the pandemic, including publishing all procurement contracts and other related documentation on the Ministry of Finance's website along with the names of awarded companies and their beneficial ownership information; within three months after the contract signing. They will also publish the ex-post validation of delivery of the contracts within one year after the contract signing. Finally, the authorities will publish monthly reports on their pandemic-related spending, which will be audited by the Auditor General on a quarterly basis. The audit will provide lessons for strengthening expenditure control systems in the post-crisis period.

B. Monetary, Financial, and Exchange Rate Policies

15. The BSS loosened its policy stance. In two successive signaling moves, it cut the central bank rate from 15 to 10 percent and the reserve requirement ratio from 20 to 10 percent. The BSS also suspended the recent regulation of higher minimum paid-up capital for commercial banks. Those measures are to be reassessed as needs arise.

16. Staff and the authorities agreed that stabilizing the exchange rate and continuing to reduce inflation will require containing reserve money growth. The authorities' commitment to immediately discontinue the practice of relying on overdrafts is critical in this regard. Going forward, the BSS will need to develop its monetary policy tools, to enhance its ability to manage liquidity.

17. The BSS has discontinued the special accounts scheme, thereby lifting an important impediment to forex inflows into South Sudan. The scheme, introduced in July 2017 in part to help build up its foreign asset reserve, required banks to surrender a share of their purchases of FX from "special accounts" (the bank accounts of all foreign diplomatic missions, international and non-governmental organizations, oil and mining companies, and internationally funded projects) to the BSS at the indicative rate. The surrender requirement, originally set at 75 percent, failed to bring much FX into the country and was eliminated effective August 19, 2020. A greater flexibility in the forex markets would be expected to support forex inflows into South Sudan, thereby rebalancing the exchange rate of the SSP in the parallel market. The parallel market—in which the premium now stands around 200 percent—reflects the distortions in the official market that hamper economic growth and maintains opportunities for rent-seeking.

C. Corruption and Governance

18. The authorities are making some progress in improving governance and reducing corruption vulnerabilities, which have contributed to the credibility gap with the international donor community. They agree that oil and budget management have been complicated by oil advances in recent years and have reiterated the decision to stop oil advances and prepayments. They have actioned some key PFM reform recommendations (see ¶3 and Box 1), which are critical to improve fiscal governance. Ongoing and planned Fund TA will focus on strengthening budget projections and supporting cash management, with a view to strengthening budget credibility. The planned introduction of a TSA is also expected to yield improved overall PFM. Staff welcomed the authorities' commitment to strengthen the AML/CFT and anti-corruption frameworks as well as the capacity of the relevant local authorities with the assistance of international partners. Membership in a FATF-style regional AML body—such as the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)—would support those commitments and rebuild credibility with the donor community.

ACCESS AND CAPACITY TO REPAY

A. Access Level and Modalities

19. The authorities are requesting a disbursement under the RCF in an amount equivalent to 15 percent of quota (SDR 36.9 million or about US$52.2 million). South Sudan meets the eligibility requirements for support under the RCF. The country lacks the capacity to implement an upper credit tranche-quality economic program, owing to both its limited policy implementation capacity and the urgent nature of its BOP need. If left unaddressed, the BOP need would result in an immediate and severe economic disruption given the low and declining level of reserves. Following the recent debt-restructuring agreement with QNB and given their commitment to fiscal consolidation outlined above, South Sudan's public debt is sustainable on a forward-looking basis.

20. The proposed access of 15 percent of quota (US$52 million) is about 19 percent of the estimated BOP gap and 30 percent of the estimated fiscal gap for FY20/21. The remaining fiscal gap of US$120 million is expected to be closed by a combination of non-concessional and semi-concessional loans. The US$100 million remaining BOP gap after the RCF support and government loans is expected to be met by support from bilateral donors and international organizations, including UN agencies, the World Bank and African Development Bank. Given the government's weak PFM capacity, direct budget support remains unlikely in the short term. Should the expected external financing support not materialize, further policy adjustment (including fiscal adjustment) or reliance on non-concessional financing would be needed. An additional RCF could be considered—if further urgent BOP needs arise—possibly together with an SMP, in which the authorities have expressed interest.

21. The RCF will be disbursed to the BSS, with 100 percent of the funds then on-lent to the government as budget support. In accordance with the safeguards assessments policy, a Memorandum of Understanding (MOU) was signed between the central bank and the government to establish the responsibilities for servicing financial obligations to the IMF.

B. Capacity to Repay and Safeguards Assessment

22. South Sudan's capacity to repay its obligations to the Fund is adequate but subject to risks. South Sudan's capacity to repay the Fund is satisfactory (Table 5), as obligations are small, particularly relative to exports. Risks include the uncertainty surrounding future oil prices, given the critical dependence of the country on oil revenues. Given the high risk of debt distress and risks to debt sustainability, staff advised the authorities to avoid excessive borrowing on non-concessional terms.

23. The authorities have committed to move ahead with the PFM reforms, recommended by the recent Fund TA mission, and to undergo a safeguards assessment. The latter will need to be completed before Executive Board approval of any subsequent arrangement. The BSS has provided Fund staff with the most recently completed external audit report for the central bank (end-2015) and authorized its external auditors to hold discussions with staff.

STAFF APPRAISAL

24. South Sudan is experiencing a severe shock as a result of the COVID-19 pandemic. The short-term economic outlook has deteriorated quickly due to the fall of oil prices and the slowdown in economic activity. The crisis is affecting the country at a critical time, complicating the progress in the implementation of the revitalized peace agreement.

25. Staff welcomes the authorities' policy actions to contain and mitigate the spread and impact of the virus. The measures taken in the early days of the pandemic to limit the spread of the virus were appropriate, and continued efforts to enforce social distancing and meet hygiene requirements are welcome. However, the impact of the pandemic goes beyond health, and is affecting the economy and the budget deeply, creating immediate and large external financing needs. In light of South Sudan's very limited fiscal space, and restricted access to concessional financing and on-budget donor support, the prospective RCF disbursement is expected to help safeguard priority spending that would need to be cut otherwise. Containing the economic impact of the COVID-19 crisis will also require prudent fiscal policies while making sufficient room, to the extent possible, for COVID-19-related needs and growth-enhancing spending, especially in the health and education sectors, and continued efforts to improve public financial management. This will be critical to crowd in much-needed additional concessional financing.

26. The authorities have taken important steps to support external and fiscal sustainability. They have committed to fiscal prudence. They have also committed to limit recourse to non-concessional debt, in order keep debt sustainable in a forward-looking manner. They plan on continuing their progress in public financial management. The authorities have committed to discontinue monetary financing of the deficit with a view to stabilize inflation and the exchange rate. Staff stands ready to provide advice to support the authorities' commitment to a gradual unification of the exchange rate and to engage in an SMP, in which the authorities indicated interest.

27. South Sudan is assessed as having a sustainable debt on a forward-looking basis, and adequate capacity to repay the Fund. The country is no longer in debt distress, and under the prudent medium-term fiscal and debt policies to which the authorities have committed, debt is assessed to be sustainable on a forward-looking basis.

28. Staff supports the authorities' request for a disbursement under the RCF in the amount of SDR 36.9 million (15 percent of quota), to be on-lent to the government as budget support.

Table 1. Republic of South Sudan: Selected Indicators, 2017/18–2024/25[1]

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Act.	Prel.	Est.	Projections				
	(Annual percent of change, unless otherwise indicated)							
Output, prices, and exchange rate								
Real GDP (percent change)	-2.4	3.4	13.2	-3.6	0.0	2.5	5.5	6.0
Oil	3.8	12.7	26.4	-5.9	0.0	3.1	6.1	5.7
Non-oil	-6.2	-2.7	0.5	-1.9	0.0	2.2	5.2	6.2
Inflation (average)	125.8	48.9	35.0	31.1	22.6	16.0	12.1	11.7
Oil GDP (percent of GDP)	73.2	66.2	63.1	57.9	59.5	50.9	60.2	62.0
GDP deflator	65.1	54.2	-2.6	18.7	28.4	18.6	14.6	10.5
Official exchange rate (SSP/US$, average)	128.0	152.4	160.8	...	...	...	...	...
Official exchange rate (SSP/US$, end period)	140.2	158.6	163.8	...	...	...	...	...
Parallel market exchange rate (SSP/US$, average)	220.0	251.3	307.6	...	...	...	...	...
Money and credit								
Broad money	63.9	27.4	40.8	31.5	...	...	...	...
Reserve money	34.0	16.9	41.8	18.6	...	...	...	...
Credit to non-government sector	96.5	50.8	40.6	23.2	...	...	...	...
M2/GDP (percent)	20.0	16.0	20.4	23.4	...	...	...	...
	(Percent of GDP, unless otherwise indicated)							
Central government budget								
Total revenues and grants	34.1	31.8	29.7	27.8	29.2	29.4	29.5	30.3
Of which : Oil	29.2	27.9	25.7	25.5	26.2	26.4	26.5	27.3
Of which : Non-oil tax revenue	4.4	3.9	4.1	2.3	3.0	3.0	3.0	3.0
Of which : Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	37.5	32.9	36.9	29.9	30.4	27.7	27.9	30.1
Current	37.1	32.0	33.8	27.9	28.2	24.5	24.4	24.4
Of which : transfers to Sudan	19.0	13.4	11.7	10.1	10.4	5.2	5.1	5.1
Net acquisition of non-financial assets	0.4	0.9	3.2	1.9	2.2	2.2	2.0	3.7
Overall balance (cash)	-3.4	-1.0	-7.2	-2.1	-1.2	1.7	1.7	0.2
Change in arrears	3.9	2.4	-3.4	0.0	0.0	-1.0	-1.5	-2.0
Overall balance (accrual balance)	-7.3	-3.5	-3.8	-2.1	-1.2	2.7	3.2	2.2
Public debt								
Total public debt[2]	46.1	32.7	40.8	41.7	40.9	37.2	32.2	29.2
Of which : external public debt	37.8	26.7	28.3	30.1	31.7	29.5	25.7	23.5
External sector								
Exports of goods and services	74.8	67.1	64.6	59.6	61.1	61.7	61.8	63.6
Imports of goods and services	104.2	48.4	79.5	80.4	79.0	83.0	85.6	90.6
Current account balance (including grants)	-2.6	-0.7	-2.7	-4.5	-2.3	0.7	-1.3	-3.6
Current account balance (excluding grants)	-30.9	-24.4	-25.8	-27.8	-25.3	-28.7	-30.1	-32.7
Gross foreign reserves (millions of US dollars)	33.0	44.9	41.1	58.9	59.3	97.7	113.6	161.6
Gross foreign reserves (in months of imports)	0.2	0.1	0.1	0.2	0.2	0.3	0.3	0.4
Memorandum items:								
Population (millions)	12.8	13.2	13.6	14.0	14.4	14.8	15.2	15.7
Oil production (millions of barrels)	43.6	49.1	62.1	58.4	58.4	60.2	63.9	67.5
South Sudan's oil price (U.S. dollars per barrel)	58.6	62.9	49.5	42.2	45.4	46.6	47.5	48.5
Brent price (U.S. dollars per barrel)	60.6	64.9	51.5	44.2	47.4	48.6	49.5	50.5
Nominal GDP (billions of SSP)	446	711	783	897	1,152	1,401	1,695	1,985
Nominal GDP (billion US$)	3.5	4.7	4.9	4.3	4.5	4.7	5.0	5.3
External debt (millions US$)	1,202	1,196	1,355	1,245	1,443	1,429	1,348	1,300
GNI per capita (US dollars)	190.3	301.5	317.2	277.7	282.5	287.9	332.2	336.3
Nominal GDP (percent change)	61.1	59.4	10.2	14.5	28.4	21.7	21.0	17.1

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] The fiscal year runs from July to June.

[2] Public external debt in U.S. dollars in percent of U.S. dollar GDP.

Table 2a. Republic of South Sudan: Fiscal Operations of the Central Government, 2017/18–2024/25[1]

(in billions of South Sudanese pounds)

	2017/18	2018/19	2019/20		2020/21	2021/22	2022/23	2023/24	2024/25
	Act.	Prel.	Budget	Est.			Projections		
Total revenue and grants	**152.1**	**226.2**	**265.4**	**232.8**	**249.2**	**336.1**	**412.0**	**500.0**	**601.2**
Total oil revenues	130.3	198.2	235.5	201.1	228.6	301.5	370.0	449.2	541.6
Government share from oil exports	130.3	198.2	235.5	201.1	228.6	301.5	370.0	449.2	541.6
Non-oil tax revenue	19.7	28.0	29.9	31.8	20.6	34.5	42.0	50.8	59.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**167.3**	**233.5**	**311.5**	**289.3**	**267.7**	**349.8**	**388.0**	**472.1**	**597.0**
Current expenditure	165.3	227.1	194.0	264.5	250.3	324.9	343.0	413.1	484.5
Salaries	24.8	24.4	35.5	36.5	35.9	46.1	70.1	84.7	99.3
Operating expenses	23.4	69.5	24.8	82.7	71.7	92.1	112.1	135.6	158.8
Interest	1.4	3.9	1.3	16.4	9.7	12.3	13.8	12.6	12.9
Transfers to states	8.7	14.6	15.5	11.5	13.8	18.2	29.8	36.3	44.0
Conditional transfers	8.6	4.6	2.6	4.7	5.5	7.3	11.9	14.5	17.6
Current transfers to states	8.6	4.4	2.5	3.5	4.1	5.4	8.9	10.9	13.2
Capital transfers to states	0.0	0.2	0.1	1.2	1.4	1.8	3.0	3.6	4.4
Transfers to oil producing states (5%)	0.1	4.4	6.6	5.9	6.9	9.1	14.9	18.2	22.0
Block grants to states	0.0	5.6	3.7	0.8	1.4	1.8	3.0	3.6	4.4
Transfers to Sudan	84.6	95.0	85.9	91.5	90.9	119.9	72.3	86.0	101.6
Transportation and transit fees	31.9	35.9	32.4	38.8	49.3	60.4	72.3	86.0	101.6
Financial transfer	52.6	68.2	53.5	52.8	41.6	59.5	0.0	0.0	0.0
Arrears repayment	…	…	…	…	…	…	14.0	25.4	39.7
Other expenses	22.5	19.7	30.9	25.9	28.3	36.4	45.0	57.9	67.9
Subsidies and transfers to public enterprises	20.8	10.4	17.4	15.2	13.4	17.3	21.0	28.8	33.8
Emergency contingency fund	0.1	0.0	3.5	0.0	1.4	1.8	3.0	3.6	4.4
Peace agreement	1.6	9.2	10.0	10.7	13.4	17.3	21.0	25.4	29.8
Net acquisition of non-financial assets	1.9	6.5	117.5	24.8	17.4	24.9	31.0	33.6	72.7
Domestically financed	1.9	6.5	117.5	19.2	6.4	6.2	7.7	8.4	18.2
Foreign financed	0.0	0.0	0.0	5.6	11.0	18.7	23.2	25.2	54.5
Overall balance (cash)	**-15.1**	**-7.3**	**-46.1**	**-56.4**	**-18.4**	**-13.8**	**24.1**	**28.0**	**4.2**
Change in arrears	17.4	17.2	-26.6	-26.6	0.0	0.0	-14.0	-25.4	-39.7
Overall balance (accrual balance)	**-32.5**	**-24.6**	**-19.5**	**-29.8**	**-18.4**	**-13.8**	**38.1**	**53.4**	**43.9**
Statistical discrepancy	-7.5	-16.9	-21.9	-51.0	0.0	0.0	0.0	0.0	0.0
Financing	**40.0**	**41.5**	**41.4**	**80.8**	**-17.8**	**-6.2**	**-38.1**	**-53.4**	**-43.9**
Domestic (net)	45.5	42.4	-4.7	5.9	5.5	0.0	-14.0	-25.4	-39.7
Net credit from the central bank	11.2	5.7	21.9	21.9	5.5	0.0	0.0	0.0	0.0
Net credit from commercial banks	16.9	19.5	0.0	10.6	0.0	0.0	0.0	0.0	0.0
Change in arrears	17.4	17.2	-26.6	-26.6	0.0	0.0	-14.0	-25.4	-39.7
Foreign (net)	-5.5	-0.9	0.0	74.9	-23.3	-6.2	-24.1	-28.0	-4.2
Disbursement	48.2	59.1	24.7	179.5	27.5	33.6	39.0	43.7	48.8
Amortization	-53.6	-60.0	-24.7	-104.7	-50.8	-39.8	-63.0	-71.7	-53.0
Financing gap	0.0	0.0	46.1	0.0	36.3	20.0	0.0	0.0	0.0
Prospective RCF	…	…		…	11.0	…	…	…	…
Unidentified additional financing	…	…		…	25.3	20.0	…	…	…
<u>Memorandum items:</u>									
Non-oil domestic current fiscal balance [2]	-58.8	-99.6	-71.6	-135.3	-131.8	-161.4	-213.8	-258.1	-301.4
Oil production (millions of barrels)	43.6	49.1	58.3	62.1	58.4	58.4	60.2	63.9	67.5
Nominal GDP (bn of South Sudanese pounds)	445.9	710.6	783.1	783.1	896.6	1,151.6	1,401.0	1,694.8	1,985.5

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] The fiscal year runs from July to June.

[2] Non-oil revenue excluding grants minus domestically-financed current expenditure minus transfers to Sudan (including pipeline fees), minus tranfers to oil producing states and communities.

Table 2b. Republic of South Sudan: Fiscal Operations of the Central Government, 2017/18–2024/25[1]

(in percent of GDP)

	2017/18	2018/19	2019/20		2020/21	2021/22	2022/23	2023/24	2024/25
	Act.	Prel.	Budget	Est.	Projections				
Total revenue and grants	**34.1**	**31.8**	**33.9**	**29.7**	**27.8**	**29.2**	**29.4**	**29.5**	**30.3**
Total oil revenues	29.2	27.9	30.1	25.7	25.5	26.2	26.4	26.5	27.3
Government share from oil exports	29.2	27.9	30.1	25.7	25.5	26.2	26.4	26.5	27.3
Non-oil tax revenue	4.4	3.9	3.8	4.1	2.3	3.0	3.0	3.0	3.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**37.5**	**32.9**	**39.8**	**36.9**	**29.9**	**30.4**	**27.7**	**27.9**	**30.1**
Current expenditure	37.1	32.0	24.8	33.8	27.9	28.2	24.5	24.4	24.4
Salaries	5.6	3.4	4.5	4.7	4.0	4.0	5.0	5.0	5.0
Operating expenses	5.2	9.8	3.2	10.6	8.0	8.0	8.0	8.0	8.0
Interest	0.3	0.6	0.2	2.1	1.1	1.1	1.0	0.7	0.7
Transfers to states	2.0	2.1	2.0	1.5	1.5	1.6	2.1	2.1	2.2
Conditional transfers	1.9	0.6	0.3	0.6	0.6	0.6	0.8	0.9	0.9
Current transfers to states (to MoP 3%)	1.9	0.6	0.3	0.5	0.5	0.5	0.6	0.6	0.7
Capital transfers to states (1%)	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Transfers to oil producing states (5%)	0.0	0.6	0.8	0.8	0.8	0.8	1.1	1.1	1.1
Block grants to states	0.0	0.8	0.5	0.1	0.2	0.2	0.2	0.2	0.2
Transfers to Sudan	19.0	13.4	11.0	11.7	10.1	10.4	5.2	5.1	5.1
Transportation and transit fees	7.2	5.0	4.1	4.9	5.5	5.2	5.2	5.1	5.1
Financial transfer	11.8	9.6	6.8	6.7	4.6	5.2	0.0	0.0	0.0
Arrears repayment	…	…	…	…	…	…	1.0	1.5	2.0
Other expenses	5.0	2.8	4.0	3.3	3.2	3.2	3.2	3.4	3.4
Subsidies and transfers to public enterprises	4.7	1.5	2.2	1.9	1.5	1.5	1.5	1.7	1.7
Emergency contingency fund	0.0	0.0	0.4	0.0	0.2	0.2	0.2	0.2	0.2
Peace agreement	0.4	1.3	1.3	1.4	1.5	1.5	1.5	1.5	1.5
Net acquisition of non-financial assets	0.4	0.9	15.0	3.2	1.9	2.2	2.2	2.0	3.7
Domestically financed	0.4	0.9	15.0	2.5	0.7	0.5	0.6	0.5	0.9
Foreign financed	0.0	0.0	0.0	0.7	1.2	1.6	1.7	1.5	2.7
Overall balance (cash)	**-3.4**	**-1.0**	**-5.9**	**-7.2**	**-2.1**	**-1.2**	**1.7**	**1.7**	**0.2**
Change in arrears	3.9	2.4	-3.4	-3.4	0.0	0.0	-1.0	-1.5	-2.0
Overall balance (accrual)	**-7.3**	**-3.5**	**-2.5**	**-3.8**	**-2.1**	**-1.2**	**2.7**	**3.2**	**2.2**
Statistical discrepancy	-1.7	-2.4	-2.8	-6.5	0.0	0.0	0.0	0.0	0.0
Financing	**9.0**	**5.8**	**5.3**	**10.3**	**-2.0**	**-0.5**	**-2.7**	**-3.2**	**-2.2**
Domestic (net)	10.2	6.0	-0.6	0.8	0.6	0.0	-1.0	-1.5	-2.0
Net credit from the central bank	2.5	0.8	2.8	2.8	0.6	0.0	0.0	0.0	0.0
Net credit from commercial banks	3.8	2.7	0.0	1.4	0.0	0.0	0.0	0.0	0.0
Change in arrears	3.9	2.4	-3.4	-3.4	0.0	0.0	-1.0	-1.5	-2.0
Foreign (net)	-1.2	-0.1	0.0	9.6	-2.6	-0.5	-1.7	-1.7	-0.2
Disbursement	10.8	8.3	3.1	22.9	3.1	2.9	2.8	2.6	2.5
Amortization	-12.0	-8.4	-3.1	-13.4	-5.7	-3.5	-4.5	-4.2	-2.7
Financing gap	0.0	0.0	5.9	0.0	4.0	1.7	0.0	0.0	0.0
Prospective RCF	…	…		…	1.2	…	…	…	…
Unidentified additional financing	…	…		…	2.8	1.7	…	…	…
Memorandum items:									
Non-oil domestic current fiscal balance [2]	-13.2	-14.0	-9.1	-17.3	-14.7	-14.0	-15.3	-15.2	-15.2
Oil production (millions of barrels)	43.6	49.1	58.3	62.1	58.4	58.4	60.2	63.9	67.5
Nominal GDP (bn of South Sudanese pounds)	445.9	710.6	783.1	783.1	896.6	1,151.6	1,401.0	1,694.8	1,985.5

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] The fiscal year runs from July to June.

[2] Non-oil revenue excluding grants minus domestically-financed current expenditure minus transfers to Sudan (including pipeline fees), minus tranfers to oil producing states and communities.

Table 3. Republic of South Sudan: Monetary Accounts, June 2017–2021

(in billions of South Sudanese pounds, unless otherwise indicated)

	2017	2018	2019	2020	2021
	Jun	Jun	Jun	Jun	Jun
		Actual		Projections	
			Monetary Survey		
Net foreign assets	**-72.8**	**-75.1**	**-84.8**	**-80.1**	**-96.7**
Claims on nonresidents	57.1	87.0	111.7	130.2	166.1
Central bank	43.3	53.1	61.4	62.2	86.0
Commercial banks	13.7	33.9	50.3	68.1	80.1
Liabilities to nonresidents	129.9	162.1	196.5	210.3	262.8
Central bank	57.2	69.3	77.5	79.2	104.7
Commercial banks	72.7	92.8	119.0	131.2	158.1
Net domestic assets	**127.1**	**164.1**	**198.2**	**239.8**	**294.6**
Net domestic credit	91.4	124.7	155.2	216.4	227.0
Net claims on central government	86.1	114.2	139.4	194.1	199.6
Claims on other sectors	5.3	10.5	15.8	22.2	27.4
Other items (net)	35.7	39.4	43.0	23.4	67.6
Broad money	**54.3**	**89.0**	**113.4**	**159.7**	**209.9**
Currency outside banks	13.5	27.1	36.9	59.5	74.3
Transferable deposits	31.3	50.3	87.4	120.3	120.3
o/w: in foreign currency	23.9	38.9	49.2	58.8	70.9
Other deposits	9.5	11.6	10.8	12.0	12.0
o/w: in foreign currency	4.8	4.2	3.4	3.3	4.0
			Central Bank		
Net foreign assets	**-13.8**	**-16.2**	**-16.1**	**-17.0**	**-18.7**
Claims on nonresidents	43.3	53.1	61.4	62.2	86.0
Liabilities to nonresidents	57.2	69.3	77.5	79.2	104.7
Net domestic assets	**80.6**	**105.6**	**120.7**	**165.3**	**194.6**
Net domestic credit	17.3	31.8	39.9	87.3	96.6
Claims on commercial banks	0.0	0.1	0.6	0.5	0.5
Net claims on central government	15.5	26.8	32.5	76.7	82.1
Claims on central government	21.1	34.3	39.3	79.3	84.8
Liabilities to central government	5.6	7.5	6.8	2.6	2.6
Other items (net)	63.3	73.8	80.8	78.0	98.0
Monetary base	**66.8**	**89.5**	**104.6**	**148.3**	**175.9**
Currency in circulation	15.2	30.5	42.8	67.3	87.4
Liabilities to commercial banks	49.5	56.0	58.8	77.0	84.3
Liabilities to other sectors	2.0	3.0	2.9	4.0	4.2
Memorandum items:					
Money multiplier	0.8	1.0	1.1	1.1	1.2
Share of foreign currency deposits to total deposits	0.7	0.7	0.5	0.5	0.6
Monetary base (year-on-year change in percent)	96.6	34.0	16.9	41.8	18.6
Broad money (year-on-year change in percent)	87.2	63.9	27.4	40.8	31.5

Sources: South Sudanese authorities; and IMF staff estimates and projections.

Table 4. Republic of South Sudan: Balance of Payments, 2017/18–2024/25[1]

(In millions of U.S. dollars, unless otherwise indicated)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Act.	Act.	Est.			Projections		
Current account balance	**-91**	**-32**	**-131**	**-191**	**-103**	**31**	**-67**	**-192**
Trade Balance	149	267	-87	-268	-146	-315	-475	-659
Exports of goods	2,568	3,103	3,108	2,497	2,686	2,842	3,076	3,319
Oil	2,552	3,086	3,074	2,464	2,651	2,805	3,037	3,277
Nonoil	16	17	34	33	35	37	40	42
Imports of goods	-2,418	-2,836	-3,195	-2,765	-2,832	-3,157	-3,551	-3,977
Balance of Services	-675	-707	-642	-616	-650	-682	-726	-767
Exports of services	38	24	37	37	38	39	41	43
Imports of services	-713	-731	-679	-653	-688	-721	-767	-810
o/w: oil-related	-444	-457	-438	-431	-454	-473	-505	-536
of which non-oil	-269	-274	-241	-222	-233	-248	-262	-274
Income	-551	-698	-529	-297	-331	-346	-319	-300
Wages of expatriate oil workers	-134	-136	-150	-162	-168	-168	-195	-221
Investors' profits	-442	-563	-350	-188	-233	-264	-222	-182
Investment income (net)	-18	-20	-78	-42	-44	-43	-34	-32
Current Transfers (net)	985	1,106	1,128	990	1,024	1,375	1,452	1,535
General government	0	0	0	0	15	30	30	30
Workers' remittances (net)	53	58	79	66	70	74	78	82
Financial transfers to Sudan	-409	-335	-326	-215	-255	0	0	0
Other sectors	1,132	1,183	1,235	1,139	1,194	1,271	1,341	1,405
Capital and financial account	**42**	**14**	**125**	**-64**	**24**	**7**	**83**	**240**
Capital account	161	123	0	0	0	0	3	18
Financial account	-119	-109	125	-64	24	7	80	222
Foreign direct investment[2]	-19	-79	-18	47	48	44	113	180
of which: non-oil	0	0	22	24	24	24	24	24
Other investment	-100	-30	143	-111	-37	-33	41	78
Overall balance	**-49**	**-19**	**-6**	**-255**	**-79**	**38**	**16**	**48**
Errors and omissions	48	36	7	0	0	0	0	0
Financing	**1**	**-17**	**-2**	**-18**	**0**	**-38**	**-16**	**-48**
Change in net foreign assets of the central bank	1	-17	-2	-18	0	-38	-16	-48
of which : Change in gross reserves (Increase -)	-5	-12	4	-18	0	-38	-16	-48
Change in liabilities to non-residents	6	-5	-5	0	0	0	0	0
Financing gap	0	0	0	272	79	0	0	0
Prospective RCF from the IMF	...	...	...	52	...	...	...	...
Prospective financing from the World Bank	...	...	...	20	...	...	...	...
Residual financing gap	...	...	...	200	79	...	...	...
Memorandum items:								
Current account balance including transfers (percent of GDP)	-2.6	-0.7	-2.7	-4.5	-2.3	0.7	-1.3	-3.6
Current account balance excluding transfers (percent of GDP)	-30.9	-24.4	-25.8	-27.8	-25.3	-28.7	-30.1	-32.7
South Sudan oil price (dollars per barrel; weighted average)	58.6	62.9	49.5	42.2	45.4	46.6	47.5	48.5
Gross foreign reserves (millions of US dollars)	33	45	41	59	59	98	114	162
In months of current year's imports of goods and services	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.4
Oil production (millions of barrels)	43.6	49.1	62.1	58.4	58.4	60.2	63.9	67.5
Nominal GDP (billions of U.S. dollars)	3.5	4.7	4.9	4.3	4.5	4.7	5.0	5.3

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] The fiscal year runs from July to June.

[2] Net of outflows associated with the repatriation of oil investments (Capex cost oil).

Table 5. Republic of South Sudan: Indicators of Capacity to the Repay the IMF, 2020–30

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Fund obligations based on existing credit											
(In millions of SDRs)											
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Obligations to the Fund from existing											
and prospective credit											
(In millions of SDRs)											
Principal	0.0	0.0	0.0	0.0	0.0	0.0	7.4	7.4	7.4	7.4	7.4
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Obligations to the Fund from existing and											
prospective credit											
In millions of SDRs	0.0	0.1	0.1	0.1	0.1	0.1	7.5	7.5	7.5	7.5	7.5
In millions of U.S. dollars	0.0	0.1	0.1	0.1	0.1	0.1	10.5	10.5	10.5	10.5	10.5
In percent of gross international reserves	0.1	0.2	0.2	0.1	0.1	0.1	5.0	3.6	2.6	2.1	1.6
In percent of exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.2
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.1
In percent of quota	0.0	0.0	0.0	0.0	0.0	0.0	3.0	3.0	3.0	3.0	3.0
Outstanding Fund credit based on existing drawings											
(end-of-period, all PRGT)											
In millions of SDRs	36.9	36.9	36.9	36.9	36.9	36.9	29.5	22.1	14.8	7.4	0.0
In percent of quota	15.0	15.0	15.0	15.0	15.0	15.0	12.0	9.0	6.0	3.0	0.0
Outstanding Fund credit based on existing and											
prospective drawings (end-of-period)											
In millions of SDRs	36.9	36.9	36.9	36.9	36.9	36.9	29.5	22.1	14.8	7.4	0.0
In millions of U.S. dollars	52.2	52.1	52.1	52.1	52.1	52.1	41.7	31.3	20.8	10.4	0.0
In percent of gross international reserves	126.8	88.5	87.8	53.3	45.9	32.2	19.8	10.6	5.2	2.0	0.0
In percent of exports of goods and services	1.7	2.1	1.9	1.8	1.7	1.5	1.2	0.8	0.5	0.3	0.0
In percent of GDP	1.1	1.2	1.2	1.1	1.0	1.0	0.8	0.5	0.3	0.2	0.0
In percent of quota	15.0	15.0	15.0	15.0	15.0	15.0	12.0	9.0	6.0	3.0	0.0
Memorandum items:											
Exports of goods and services (in millions of U.S. dollars)	3,145	2,534	2,724	2,881	3,117	3,362	3,525	3,695	3,870	3,955	4,238
Gross international reserves (in millions of U.S. dollars)	41.1	58.9	59.3	97.7	113.6	161.6	210.4	295.8	404.4	510.7	644.1
Debt service (in millions of U.S. dollars)	1,035	283	198	253	248	173	190	166	167	189	212
Quota (in millions of SDRs)	246.0	246.0	246.0	246.0	246.0	246.0	246.0	246.0	246.0	246.0	246.0
SDR per USD (as of September 17, 2020)	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71

Sources: Fund staff estimates; and projections.

Appendix I. Letter of Intent

Juba, October 27, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva,

1. A revitalized peace agreement reached in 2018 has ended a five-year conflict and paved the way to the formation of the transitional unity government in February 2020 and later to an agreement on the number of states and the appointment of state governors. We have also agreed on the power-sharing arrangements at the state level. Following a protracted economic downturn, economic growth turned positive in FY18/19 and inflation was brought down in FY19/20. However, the oil dependence of our economy makes it vulnerable to external shocks.

2. The COVID-19 pandemic and associated decline in oil prices continue to severely affect economic and social conditions in South Sudan. Due to its limited capacity, our health system has not been prepared to respond to the pandemic. As of mid-October, we recorded 2,847 positive cases and 55 deaths. We have implemented measures to contain the virus spread, including international flight suspension, land border restrictions, passenger bus prohibitions, evening curfews, and a mandatory 14-day quarantine period for travelers arriving from high-infection countries. We have allocated additional resources to the health sector and spent about US$8 million to purchase necessary medical equipment, repatriate South Sudanese students from abroad and provide food support to the most vulnerable in the population. To mitigate the economic implications of the pandemic, the Bank of South Sudan (BSS) has introduced some temporary measures. It eased monetary policy (cutting the central bank rate from 15 to 10 percent and the reserve requirement ratio from 20 to 10 percent) and suspended an earlier announced regulation of higher minimum paid-up capital for commercial banks. The BSS also encouraged commercial banks to allow loan moratoria and debt restructuring for distressed customers, by extending maturities and reducing monthly payments.

3. The continued economic recovery in FY19/20 was essential for mitigating the effects of the dual (health and economic) shocks, which severely afflicted—South Sudan at the end of the fiscal year. The economy has continued to weaken in FY20/21, affected by the pandemic-related restrictions and the decline in oil production and exports. We now project an economic contraction of 3.6 percent in FY20/21, compared with a pre-pandemic growth projection of 6.6 percent and estimated GDP growth of 13.2 percent in FY19/20. Inflation is expected to remain in double digits, due to a shortfall in domestic food production and exchange rate pressures. We expect government

revenues to decline by more than 30 percent relative to FY19/20, following the decline in oil prices and oil production, creating a sizable fiscal financing gap.

4. We are requesting emergency funding from the IMF under the Rapid Credit Facility (RCF) to finance our urgent balance of payment and fiscal needs, which are primarily driven by the collapse in oil prices. We are requesting IMF support in the amount of SDR 36.9 million, or 15 percent of quota (about US$52.2 million or 1.2 percent of GDP). While we expect these funds to be disbursed to the BSS, considering the sizable fiscal gap of SSP 36 billion (about 4 percent of GDP), we ask for this support to be made available to the budget by having it on-lent by the BSS to the government on the same terms as obtained from the IMF, and we will open a dedicated account at the BSS for the RCF disbursement.

5. We are committed to transparency in the use of these resources to support essential pandemic-related spending. We will ensure that all such transactions are recorded in the Integrated Financial Management Information System (IFMIS). We will publish all pandemic-related procurement contracts and other related documentation, along with the names of awarded companies and their beneficial ownership information within three months after contract signing, and publish the ex-post validation of delivery of the contracts within one year after the contract signing. We will publish reports on pandemic-related spending on a monthly basis. In addition, the Auditor General will conduct and publish an audit of all spending from this account on a quarterly basis. All the information listed will be published on the website of the Ministry of Finance and Planning as soon as they are completed.

6. We have already prepared, in consultation with Fund staff, a memorandum of understanding (MOU) between the Ministry of Finance and Planning and the BSS, stipulating responsibilities for servicing financial obligations to the IMF. We have published our most recent audited financial statements, and we will publish the subsequent statements on completion of the audits; further, we will take steps to improve the timeliness of the financial statements' publication going forward. The BSS will provide IMF staff with access to BSS's most recently completed audit reports and authorization to hold discussion with BSS' external auditors who were contracted by the National Audit Chamber.

7. In support of our request for an RCF, we have prepared a set of policies which would mitigate the effects of the pandemic and ensure orderly economic adjustment to the oil price shock. We are committed to implement fiscal consolidation, while working on restoring economic growth, reducing poverty, and supporting the peace process. We are committed to contain the fiscal deficit in FY20/21 at 2.5 percent of GDP. We are planning to close the FY20/21 balance of payments gap through a combination of IMF support and additional external financing, including donor support. We stand ready to undertake further fiscal adjustment, if expected financing does not materialize or revenue shortfalls occur, which we would achieve by delaying non-essential public sector investment. We have reinvigorated public financial management (PFM) reforms to strengthen expenditure controls and to improve the quality of public spending. These steps will be instrumental to develop our budgeting processes and will support our goal of maintaining a credible and sustainable fiscal path for FY21/22 and the medium term.

8. While rationalizing expenditures, we will protect expenditure on salaries, peace- and nation-building. An automatic decline in oil-related transfers—Transitional Financial Arrangement (TFA) payment and the transfers to oil producing states are indexed to oil prices—will not be sufficient to close the initial pandemic-driven fiscal gap (before expenditure adjustments) of more than 6 percent of GDP. To narrow the fiscal gap to 4 percent of GDP, we will take measures to contain non-essential spending and will reduce operational expenses from 10.6 percent of GDP in FY19/20 to 8 percent of GDP for FY20/21, and investment expenditures from 3.2 percent of GDP in FY19/20 to 2 percent of GDP for FY20/21.

9. We have addressed the issue of debt distress. The agreement with the Qatar National Bank (QNB) signed in July 2020 resolved our arrears on the short-term trade facility provided by the QNB in 2015. According to the IMF assessment, our public debt is now sustainable on a forward-looking basis. We recognize that the assessment critically hinges on our commitments to discontinue the use of expensive and non-transparent oil advances and continue to refrain from highly non-concessional borrowing. We have almost entirely paid back the residual oil advances and have not relied on them since May 2020. In light of the commitments above, we see some limited space for non-concessional borrowing this year for high-return projects. In the medium term, this commitment, combined with our PFM progress, would help us improve public investment and rely more on grants and concessional borrowing, which are important for us to maintain a sustainable debt situation and reduce the risk of debt distress.

10. To alleviate exchange rate pressures and bring down inflation, we will contain government borrowing from the BSS. Following a sharp decline in oil prices at the end of FY19/20, the Ministry of Finance and Planning used its overdraft facility with the BSS to offset revenue losses. We have partly repaid the overdraft facility. Given the scarcity of government financing, the Ministry of Finance and Planning will have to resort to limited borrowing from the BSS (0.6 percent of GDP) in FY20/21, in addition to the RCF disbursement on lent from the central bank. However, the practice of monetary financing of the fiscal deficit will be completely discontinued, starting at the end of FY20/21.

11. Monetary policy aims at stabilizing the exchange rate and bringing inflation down. In August 2020, the BSS discontinued the special accounts scheme, introduced in July 2017 in part to help build foreign exchange reserves. This mechanism proved ineffective in mobilizing FX. This is a first step towards unifying the exchange rate market, an objective that we plan on achieving with support from the Fund's technical assistance. Through appropriate prudential policies, the BSS is also planning to strengthen financial sector resilience.

12. We will accelerate our PFM reforms to strengthen institutions, even while acknowledging that we have made significant strides in improving the governance framework. The continued support of the leadership of the PFM Oversight Committee, established in April 2020, will be critical for keeping the momentum of the reforms. We agreed during the recently concluded capacity development mission to strengthen the macro-fiscal framework as well as the budget process and budget credibility. To advance this work, we will finalize a concept note for the PFM reform strategy, strengthen the financial management system (IFMIS), ensure adequate implementation of the Treasury Single Account, improve cash management practices, and seek technical assistance to

accurately identify and measure domestic arrears. Additionally, we will strengthen our debt management unit, with assistance from the IMF and the World Bank. We also commit to undergo a safeguards assessment by the Fund before Executive Board approval of any subsequent arrangement and to provide staff with access to the central bank's most recently completed audit reports and authorize our external auditors to hold discussions with staff. We will also enhance AML/CFT framework as well as our Anti-Corruption framework, and the capacity of the relevant authorities in South Sudan with the assistance of our international partners. We will enhance the information on oil production and oil-related contracts through the PFM Oversight Committee.

13. We believe that the measures and policies outlined in this letter are adequate for addressing the immediate economic and social challenges—not only our urgent balance-of-payments needs but also our poverty-reducing and growth-enhancing objectives, primarily through efforts to bolster macroeconomic stability. We are committed to transparency and accountability in the use of resources. The audits of all pandemic-related spending will validate the effectiveness of the spending and the systems we put in place, and provide lessons for further strengthening our institutions, processes and systems.

14. We will not introduce measures or policies that would worsen the balance-of-payments position and will not impose new or intensify existing trade restrictions. We will also not introduce or intensify existing restrictions on payments and transfers for current international transactions or multiple currency practices; or enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement. We will consult with the IMF staff on any additional measures that might be required to close the BOP and the fiscal gaps. We will also provide Fund staff with all information needed for monitoring our economic adjustment. We will continue a close policy dialogue with Fund staff and look forward to engaging in a Staff Monitored Program (SMP) after the RCF.

15. We consent to the publication of the IMF staff report, including this letter, and the debt sustainability analysis (DSA) prepared by the IMF and World Bank staffs.

Very truly yours,

/s/	/s/
H. E. Mr. Athian Ding Athian Minister of Finance and Planning	Mr. Gamal Abdalla Wani Governor, Bank of South Sudan