INTERNATIONAL MONETARY FUND

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SUDAN

December 2017

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SUDAN

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2017 Article IV consultation with Sudan, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its November 29, 2017 consideration of the staff report that concluded the Article IV consultation with Sudan.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 29, 2017, following discussions that ended on September 26, 2017, with the officials of Sudan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 13, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Sudan.

The documents listed below have been or will be separately released.

Selected Issues

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IMF Executive Board Concludes 2017 Article IV Consultation with Sudan

On November 29, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Sudan.

Economic conditions in Sudan have been challenging since the secession of South Sudan in 2011 and the loss of the bulk of oil production and exports, which have compounded the difficult external environment—including arrears and limited access to external financing, U.S. sanctions, and the withdrawal of correspondent bank relations. The authorities have implemented partial policy adjustments to help stabilize the economy and reestablish growth, most recently by allowing for greater exchange rate flexibility and reducing fuel subsidies. However, while these measures were helpful, they were insufficient to turn the tide toward sustained macroeconomic stability and broad-based growth.

External imbalances are moderating from previous high levels, but economic activity remains modest. The current account deficit (cash basis) is expected to decline by 3.25 percentage points to 2.75 percent of GDP in 2017, reflecting (i) the strong depreciation of the parallel exchange rate and the introduction in late 2016 of a commercial bank incentive rate close to the parallel rate for many formal transactions; (ii) fuel and electricity price hikes in November 2016, which helped curb domestic demand; (iii) quantitative import restrictions adopted in 2016; and (iv) improved the terms of trade. GDP grew at an estimated 3.5 percent in 2016, led by private and public consumption and a positive contribution from net exports. Data for the first half of 2017 indicate weaker real domestic demand, partly offset by a strengthening contribution from net exports (notably due to lower imports), and 3.25 percent growth is projected for 2017.

Loose policy settings are fueling inflationary pressures. The on-budget fiscal deficit is expected to widen from 1.6 percent of GDP in 2016 to 1.8 percent of GDP in 2017. This is slightly better than the budget target (2 percent of GDP), as revenue shortfalls (largely oil related) have been more than offset by expenditure restraint, notably in goods and services, capital expenditure, and

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

transfers to state governments. Access to foreign currency at the overvalued official exchange rate for socially sensitive imports leads to quasi-fiscal activities that—result in continued monetization, causing monetary aggregates to expand rapidly and increasing inflationary pressures.

The recent revocation of U.S. sanctions would amplify the benefits that would arise from decisive implementation of ambitious reforms to support inclusive growth and macro stability. Associated upside risks are broadly balanced by downside risks stemming from the continuation of fiscal and monetary policy settings that are incompatible with macro stability, alongside risks to external financing that has declined from earlier peaks.

Sudan remains in debt distress and is eligible for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. Public and external debt remain high and unsustainable, and most external debt are in arrears. Sudan's arrears to the Fund declined to SDR 966.3 million at end-September 2017. The authorities plan to continue to engage with external creditors to secure comprehensive support for debt relief, and continue to strengthen their cooperation with the Fund on policies and payments.

Executive Board Assessment[2]

Executive Directors noted the challenging economic conditions in Sudan since the secession of South Sudan in 2011 and the associated loss of the bulk of oil exports. Directors welcomed the authorities' policy adjustments, but noted that the measures have been insufficient to secure sustained macroeconomic stability and broad-based growth, particularly given the difficult external environment with limited external financing and the withdrawal of correspondent bank relations. Going forward, they underscored the need for reforms to achieve fiscal sustainability, reduce inflation, and foster inclusive growth. Directors emphasized that the permanent revocation of U.S. sanctions on trade and financial flows presents a unique opportunity for decisive action to strengthen the outlook and boost the payoff from reforms.

Directors agreed that exchange rate unification is critical for eliminating the distortions that hamper investment and growth. Many Directors saw merit in an upfront unification of exchange rates to eliminate multiple currency practices and to bolster the credibility of the authorities' reform agenda. At the same time, some Directors recognized that a gradual approach could mitigate the risks of potential exchange rate overshooting given minimal international reserves, and the adverse social impact of adjustment. Directors encouraged the authorities to continue a close dialogue with the staff on the appropriate timing and pace of adjustment, while

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

emphasizing that successful exchange rate unification will also require appropriate supportive macroeconomic and structural policies.

Directors stressed that fiscal consolidation is needed to entrench macroeconomic stability and create space for priority public spending. While assessing import duty and oil revenues at a market-determined exchange rate could generate a revenue windfall, additional measures are needed to reduce the fiscal deficit. Strengthened revenue mobilization should be accompanied by streamlined tax exemptions, the phasing out of costly fuel and wheat subsidies, and greater use of targeted cash transfers.

Directors called for tighter monetary policy to keep inflation in check. They noted that limits on central bank monetization of fiscal deficits should be reinforced to contain inflationary pressures. Until the building blocks to directly target inflation are in place, a reserve money targeting framework would be helpful to anchor monetary policy under a flexible exchange rate regime. Directors encouraged the central bank to continue upgrading its capacity to supervise and mitigate financial stability risks. They also welcomed Sudan's progress in addressing AML/CFT deficiencies, and called for continued efforts to strengthen the framework.

Directors encouraged the authorities to modernize the business climate and legal framework, and to press ahead with anti-corruption measures to support investment and growth.

Directors recognized that Sudan remains in debt distress and is eligible for debt relief under the HIPC Initiative. They encouraged the authorities to continue to engage with international partners to secure comprehensive support for debt relief, and to strengthen their cooperation with the Fund on policies and payments, including by making regular payments to the Fund at least sufficient to cover obligations falling due, and increasing them as Sudan's payment capacity improves. Directors noted the authorities' interest in a new Staff Monitored Program, which is a pre-condition to reach the HIPC decision point.

Sudan: Selected Economic Indicators, 2013–18

	2013	2014	2015	2016	2017	2018
					Proj.	
Output and prices			(Annual change in percent)			
Real GDP (market prices)	2.2	3.2	3.0	3.5	3.2	4.0
Consumer prices (end of period)	41.9	25.7	12.6	30.5	26.1	22.2
Consumer prices (period average)	36.5	36.9	16.9	17.8	29.8	23.0
Central government			(In percent of GDP)			
Revenue and grants	10.3	10.8	10.0	8.7	8.6	8.6
Of which: Oil revenues	1.9	2.1	1.5	0.8	0.8	0.7
Tax revenue	6.0	5.5	5.6	5.3	5.0	5.3
Expenditure	12.5	12.1	11.7	10.3	10.3	10.6
Overall balance	-2.2	-1.3	-1.7	-1.6	-1.8	-2.1
Primary balance	-1.7	-0.5	-1.0	-1.1	-1.3	-1.6
Monetary sector			(Annual changes in percent)			
Broad money	13.0	17.0	19.8	30.0	49.5	28.9
Reserve money	20.3	16.0	21.6	27.5	46.7	27.5
Credit to the economy	23.2	17.6	20.8	26.5	40.0	28.9
Balance of payments			(In percent of GDP, unless otherwise indicated)			
Exports of goods (in US$, annual percent change)	-4.4	-9.4	-28.5	-2.6	9.8	3.3
Imports of goods (in US$, annual percent change)	2.3	-7.0	3.1	-12.5	-12.7	12.2
Current account balance (cash basis)	-7.3	-5.5	-7.7	-6.1	-2.8	-3.9
External debt 1/	77.4	82.8	81.3	110.8	94.9	97.7
External debt (in billions of US$)	45.0	46.8	49.7	52.4	54.1	56.5
Gross international reserves (in millions of US$)	1,611.5	1,461.1	1,003.0	874.6	969.6	829.8
In months of next year's imports of G&S	1.9	1.7	1.4	1.4	1.4	1.1
Memorandum items:						
Nominal GDP (in millions of SDGs)	331,804	452,531	540,785	659,770	917,208	1,144,619

Sources: Central Bank of Sudan and Ministry of Finance and Economic Planning; and IMF staff estimates and projections.

1/ GDP estimated at the weighted average of the parallel and official exchange rate.

INTERNATIONAL MONETARY FUND

SUDAN

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

November 13, 2017

KEY ISSUES

Context: After 20 years, longstanding U.S. sanctions on trade and financial flows were revoked in October 2017, considering Sudan's progress in cessation of hostilities in internal conflicts, improved cooperation on regional stability and counterterrorism, and improved humanitarian access. However, Sudan remains on the U.S. list of State Sponsors of Terrorism (SSTL), blocking progress towards badly needed debt relief. Arrears to the Fund are large (SDR 966.3 million). Economic conditions have been challenging since the secession of South Sudan in 2011, and the associated loss of the bulk of oil exports. Loose fiscal and monetary policies are fueling high inflation and could increase external imbalances over the medium term. Reserves remain very low and external financing relies on support from Gulf states.

Policy Advice: The revocation of U.S. sanctions presents a unique opportunity to strengthen the outlook and boost the payoff from ambitious reforms.

- A unified and market-determined exchange rate is key to further reducing external imbalances and boosting competitiveness, investment, growth, and fiscal revenues.
- Fiscal policy should be tightened to eliminate the monetization of deficits, thus helping to reduce inflation and buttress macroeconomic stability. The tax base should be broadened; energy and wheat subsidies phased-out and replaced by increased cash transfers to the poor; and capital investment increased.
- Monetary policy should be tightened to curb rising inflationary pressures.
- The central bank should continue to strengthen financial sector soundness and mitigate risks, including through enhanced risk-based AML/CFT supervision.
- A critical mass of structural reforms is needed (together with exchange rate reform and improved macroeconomic policies) to support higher sustained growth.

Past Surveillance: During the 2016 Article IV consultation, Executive Directors called for fiscal consolidation, monetary tightening, greater exchange rate flexibility, and structural reforms to achieve macroeconomic stability, address vulnerabilities, and promote inclusive growth. Progress since has been mixed: while exchange rates were partially liberalized and energy subsidies reduced in November 2016, the fiscal deficit continues to trend upward, increasing its monetization and fueling inflation.

Approved By
Daniela Gressani (MCD) and Yan Sun (SPR)

Discussions were held in Khartoum during September 13–26, 2017. The team comprised Daniel Kanda (head), Gabriel Presciuttini, Ali Alreshan (all MCD), Olusegun Akanbi (FAD), Abdikarim Farah, (Resident Representative), and Abdelmhmoud Abuelhassan (local economist). Ms. Daniela Gressani (MCD) joined the conclusion of the mission. Mr. Muayad Ismail (OED) participated in the policy discussions. Lodewyk Erasmus (MCD) and Gilda Fernandez (FIN) supported from headquarters. The mission met with First Vice-President and Prime Minister Bakri Hassan Saleh, Finance Minister Mohamed Osman Suliman Alrikabi, Deputy Central Bank Governor Hussein Jangoul, other senior government officials, and members of the business and diplomatic communities.

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ANNEXES

CONTEXT

1. **Economic conditions in Sudan have been challenging since the secession of South Sudan in 2011, and the associated loss of the bulk of oil production and exports.** Since then, the authorities have implemented partial policy adjustments to help stabilize the economy and reestablish growth, most recently by allowing for greater exchange rate flexibility and reducing fuel subsidies in November 2016. However, while these measures were helpful, they were insufficient to turn the tide toward sustained macroeconomic stability and broad-based growth, particularly given the difficult external environment—including arrears and limited access to external financing, U.S. sanctions, and the withdrawal of correspondent bank relations.

2. **The permanent revocation of U.S. sanctions on trade and financial flows on October 12, 2017 has strengthened optimism and is a unique opportunity to implement ambitious reforms.** In revoking the sanctions, the U.S. government cited progress made on cessation of hostilities in internal conflicts, and improved cooperation on regional stability, counterterrorism, and humanitarian access. Sanctions revocation will lead to significant reductions in costs of imports, trade, and international financial services, potentially also opening new import sources and export destinations. Domestic optimism has risen since January 2017—when the sanctions were initially suspended—and there are indications that prospective foreign investor interest in Sudan could be substantial. However, most investors (and correspondent banks) are proceeding cautiously, while concerns about macroeconomic policies and the investment climate persist.

3. **A National Consensus Government, with participation from opposition parties, was installed in May 2017, and a new constitution is to be drafted.** This is the result of a national dialogue that took place in 2015–16. Twelve of the 31 ministerial portfolios were given to opposition parties involved in the dialogue. First Vice President Saleh was named Prime Minister. In July 2017, the UN reported significant improvements in the humanitarian situation, though it remains difficult, with large numbers of internally displaced people and refugees from several countries including Eritrea, Central African Republic, South Sudan, Syria, and Yemen.

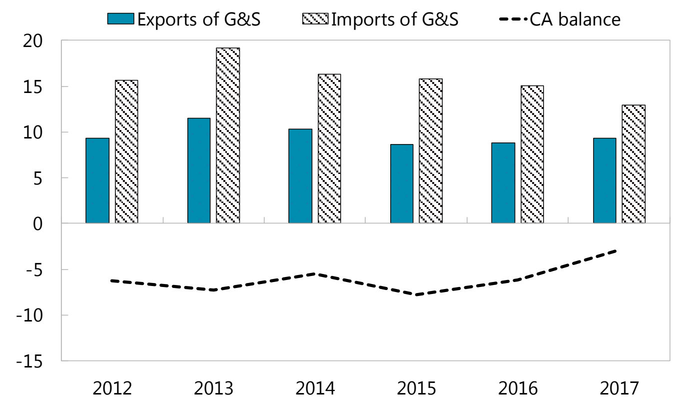
4. **With sanctions now revoked, the authorities intend to pursue negotiations with the U.S. government to remove Sudan from the State Sponsors of Terrorism List (SSTL).** Removal from the SSTL is necessary for the elimination of statutory prohibitions on U.S. aid to Sudan, which currently block progress toward debt relief and the clearance of large arrears to the Fund (Annex I). Sudan has had 14 Staff-Monitored Programs (SMPs), and the authorities have expressed interest in another SMP to pursue sound macroeconomic policies and fulfil debt-relief conditionality.

DEVELOPMENTS, OUTLOOK, AND RISKS

5. External imbalances are moderating from previous high levels, but economic activity remains modest (Tables 1–7; Figures 1–4).[1]

- The external position is substantially weaker than implied by fundamentals, but the gap appears to be narrowing. Comparing the current account deficit to its estimated equilibrium level indicates that the overvaluation of the average real exchange rate declined from about 38 percent in 2015 to a still-high 30 percent in 2016 (Annex II).[2] Alongside, the current account deficit (cash basis) declined by 1½ percentage points to 6 percent of GDP in 2016.

Exports, Imports and CA balance
(In percent of GDP)



Sources: Central Bank of Sudan, and IMF staff calculations.

- Further moderation in external imbalances is underway in 2017. Based on H1 2017 data, a 3¼-percentage point decline in the current account deficit (cash basis) is projected, to 2¾ percent of GDP in 2017, which would imply additional substantial reduction in the overvaluation of the real exchange rate, to about 15–19 percent.

- The recent improvement in the current account deficit primarily reflects weaker imports due to (i) the strong depreciation of the parallel exchange rate, and the introduction in late 2016 of a commercial bank incentive rate close to the parallel rate for many formal transactions;[3] (ii) fuel and electricity price hikes in November 2016 which helped curb domestic demand; (iii) quantitative import restrictions adopted in 2016, including a negative list and a prohibited list of selected imports; and (iv) lower international import prices which improved the terms of trade,

[1]Staff has revised national accounts data (see accompanying Selected Issues Paper, which also contains chapters on consumer subsidies and correspondent banks).

[2]The estimated equilibrium current account deficit is based on the EBA-lite model, which may be imprecise for Sudan given data limitations and other external constraints such as U.S. sanctions not captured by the model.

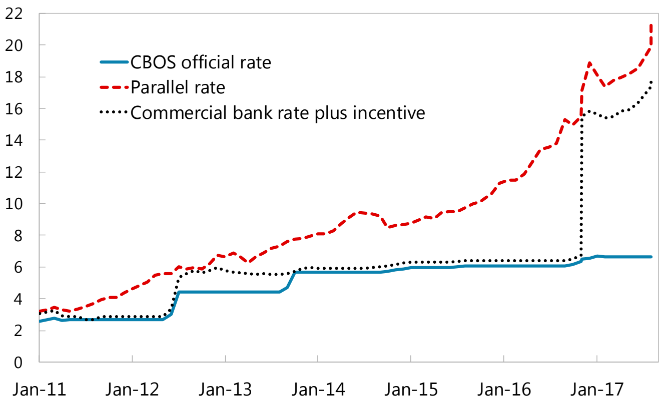
[3]Currently, four exchange rates cover most transactions: (i) the central bank official buying rate (SDG 6.6/$), for selected government transactions and for customs duty calculations; (ii) the wheat import rate (SDG 7.5/$); (iii) the commercial bank incentive rate (SDG 18/$), for other government and formal private sector transactions; and (iv) the parallel market rate (SDG 20.7/$) where all other transactions (close to two-thirds of total) take place.

- However, while gross international reserves increased by $100 million in H1 2017, they remain very low ($1.1 billion, 1¾ months of imports). Moreover, the exchange rate system is highly distorted, with Multiple Currency Practices (MCPs) being used to implement various fiscal and social objectives, hampering investment and growth (Box 1).

- GDP grew at an estimated 3½ percent in 2016, led by private and public consumption and a positive contribution from net exports. Data for H1 2017 indicate weaker real domestic demand, partly offset by a strengthening contribution from net exports (notably due to lower imports), and overall, 3¼ percent growth is projected for 2017.

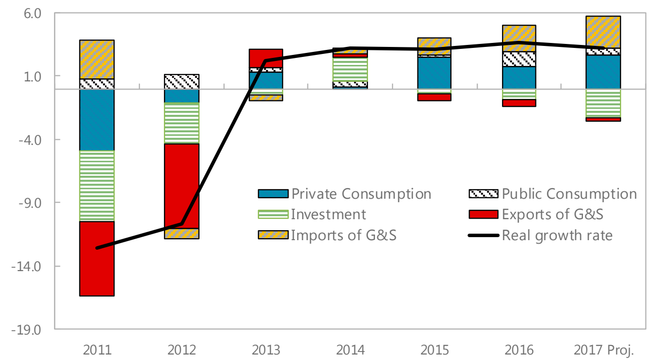
Exchange Rates

(In SDG per US dollar and percent)



Contribution to Real GDP Growth

in percent



Box 1. Exchange Rate System

Sudan maintains the following exchange restrictions and multiple currency practices subject to Fund jurisdiction under Article VIII, Sections 2 and 3:

- An exchange restriction arising from the government's limitations on the availability of foreign exchange and the allocation of foreign exchange to certain priority items.

- A multiple currency practice and exchange restriction arising from the establishment by the government of a system of multiple exchange rates used for official and commercial transactions (i.e., the CBOS rate, the wheat rate, and the commercial bank incentive rate), which gives rise to effective exchange rates that deviate by more than two percent.

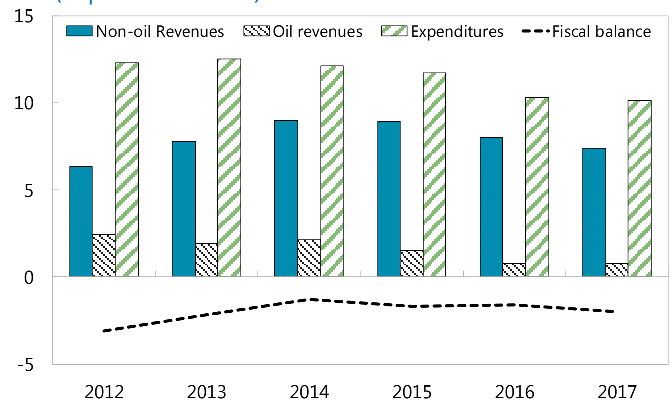
- A multiple currency practice and exchange restriction arising from large spreads between the CBOS rate and the parallel market exchange rate due to the CBOS' limitation on the availability of foreign exchange which channels current international transactions to the parallel market; and

- A multiple currency practice and exchange restriction arising from the imposition by the government of a cash margin requirement for most imports.

6. Loose policy settings are fueling inflationary pressures.

- The on-budget fiscal deficit is expected to widen from 1.6 percent of GDP in 2016 to 1.8 percent of GDP in 2017. This is slightly better than the budget target (2 percent of GDP), as revenue shortfalls (largely oil related) have been more than offset by expenditure restraint, notably in goods and services, capital expenditure, and transfers to state governments. With low external financing and limited sources of non-inflationary domestic financing (paragraph 19), the monetization of fiscal financing needs continues to rise.

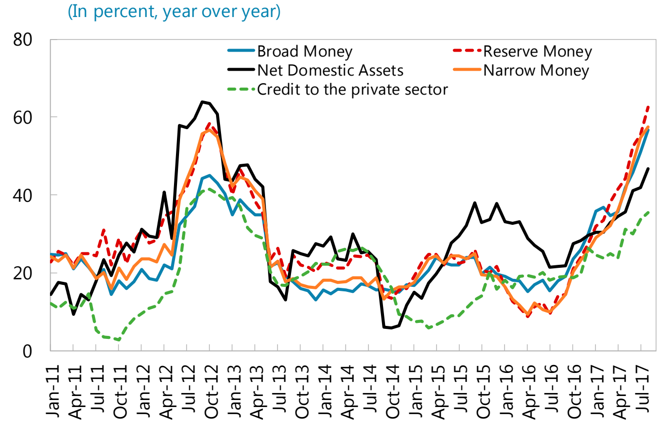
Revenues, Expenditures and Overall Balance
(in percent of GDP)



Source: Sudanese authorities, and IMF staff calculations.

- The true fiscal deficit is much larger than presented on the budget. Subsidies linked to official exchange rates are not recorded on-budget as they are implemented by selling foreign exchange for fuel and wheat imports at the overvalued official exchange rate, and are only recorded on the central bank's balance sheet. Shifting the cost of these subsidies onto the budget, where they belong, reveals that the true fiscal deficit for 2017 is substantially larger than reported; staff's estimate based on available data is 6½ percent of GDP, with a much larger deficit monetization than presented on-budget.

Monetary Aggregates
(In percent, year over year)



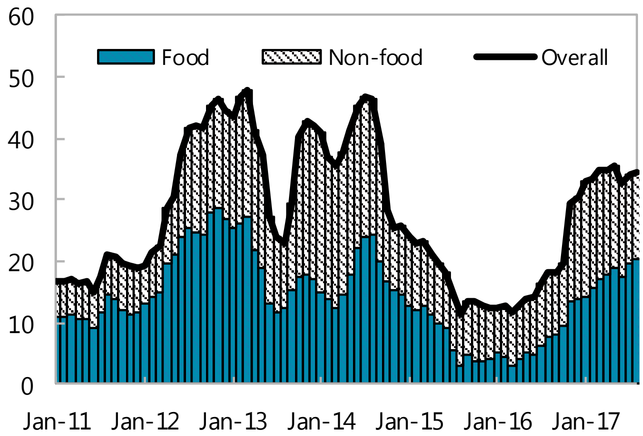
Source: Sudanese authorities

- The high deficit monetization has caused monetary aggregates to expand rapidly in 2016–17. Reserve money growth (y/y) has increased from 27½ percent at end-2016 to 60 percent in August 2017. Credit to the private sector had been growing at a slower pace, but is picking up steam.

- Loose fiscal and monetary policy settings, fuel and electricity price hikes, and exchange rate depreciation, have led to a sharp increase in inflation, which stood at 35.1 percent in September 2017, up from 18.3 percent in September 2016.

- Public and external debt remain high and unsustainable, and most external debt are in arrears. All external debt indicators breach their indicative thresholds under the baseline scenario, and stay above the thresholds throughout the time horizon of the analysis (see accompanying DSA).

Consumer Price Index
(In percent)



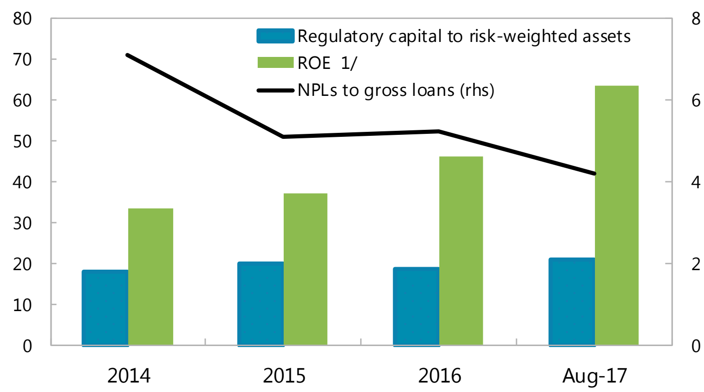
CBOS Financing of Fiscal Needs
(In percent of GDP)

	2013	2014	2015	2016	2017 Proj.
Total CBOS financing	**3.1**	**2.0**	**4.9**	**5.6**	**7.3**
CBOS financing of the budget	**1.5**	**0.7**	**3.1**	**2.3**	**2.5**
Net claims on government	*0.8*	*-0.2*	*1.3*	*0.9*	*1.0*
Deposits	0.0	-0.1	0.1	0.0	0.0
Advances	0.8	-0.1	1.2	0.8	1.0
Other financing	*0.8*	*0.9*	*1.8*	*1.4*	*1.6*
Letters of guarantee 1/	0.2	0.2	1.2	1.3	1.6
Losses from wheat exchange rate 2/	0.4	0.5	0.5	0.1	0.0
Unpaid returns on government securities	0.2	0.2	0.1	0.0	0.0
Losses from CBOS sales of FX for fiscal transactions 3/	**1.6**	**1.3**	**1.8**	**3.3**	**4.8**
Losses on gold purchases 4/	0.6	0.7	0.4	1.0	1.8
Other losses from FX sales to importers 5/	1.0	0.6	1.3	2.3	3.0
True fiscal deficit 6/	**3.8**	**2.6**	**3.5**	**4.9**	**6.5**
Total CBOS monetization of fiscal needs 7/	**2.1**	**1.4**	**3.5**	**3.3**	**4.3**
Memorandum items					
Budget deficit	2.2	1.3	1.7	1.6	1.8
Loans to agricultural sector	0.3	0.4	0.4	0.0	0.0

Sources: Sudanese authorities and IMF staff estimates.
1/ Central bank amortization of maturing government securities (average maturity greater than 1 year).
2/ Losses owing to the difference between the official and the wheat exchange rate (more overvalued than the official rate until 2016).
3/ For imports of "strategic" goods, including wheat and fuel products.
4/ Losses arise because the CBOS purchases gold in local currency at a price that reflects the parallel exchange rate, exports the gold, and then sells the FX proceeds to importers of strategic goods at the more appreciated official rate.
5/ Losses arising from sales of FX acquired from other sources (apart from gold) to importers at the official rate rather than the parallel rate. This does not cause monetization, but weakens the central bank's balance sheet.
6/ Budget deficit plus losses from the CBOS sale of FX for fiscal transactions.
7/ CBOS financing of the budget plus losses on gold purchases.

7. **The banking system has been constrained by the breakdown of correspondent bank relations since mid-2014.** Large penalties imposed on international banks in 2014–15 found in breach of U.S. sanctions contributed to a sharp decline in correspondent banking lines with Sudanese banks. While aggregate financial stability indicators have since improved (with significant capital buffers, declining nonperforming loans and increased profitability), several banks remain weak. Equity injections resulted in the authorities fully or partly owning 14 of the 37 banks, but the authorities have since sold their stake in one bank to private investors, and intend to do the same for the others. Bank balance sheets indicate an overall long net foreign exchange open position, but adding off-balance-sheet items (which include contingent credit lines) would cause their position to be short. Banks operate under Islamic finance principles.

Financial Soundness Indicators
in percent



Source: Central Bank of Sudan.
1/ Figure for 2017 H1 is annualized.

8. **Outlook.** Staff's baseline scenario assumes that current conditions persist over the medium term: sanctions have been revoked, but there is no further progress toward debt-relief, nor do the authorities undertake far-reaching economic reforms. In this case, growth is projected at 3¾ percent on average over the near term, driven by the mining and agriculture sectors. With a still-overvalued exchange rate, weak business environment, and loose fiscal policies financed by money creation, external imbalances and inflationary pressures are likely to intensify, raising risks of disorderly adjustment and compromising growth prospects over time.

9. **Risks are broadly balanced but with large margins of uncertainty (see RAM).** The key upside risk to the baseline is the implementation of ambitious reforms to support inclusive growth and macro stability, which would amplify the benefits generated by the revocation of sanctions. Downside risks stem from the fiscal and monetary policy settings that are incompatible with macro stability, alongside risks to external financing which has declined from earlier peaks. The authorities broadly concurred with staff's assessment on the outlook and risks.

POLICY DISCUSSIONS

Re-establishing macro stability and strengthening growth will require exchange rate and structural reforms, and tighter monetary and fiscal policies—including tax and subsidy reform.

10. **There was consensus that reforms are urgently needed to reestablish macroeconomic stability and create conditions for stronger broad-based economic growth.** Without corrective measures, the circle of loose policy settings, inflationary pressures, and depreciation would continue

and become unsustainable, requiring greater eventual adjustment with a higher social impact. The beneficial impact of the recent revocation of sanctions on confidence is unlikely to persist without the implementation of sound policies to capitalize on the improved external environment and domestic optimism. In addition, the recent revocation of sanctions is likely to amplify the payoff from policy adjustment—an opportunity that should not be missed. Restoring macro stability would require exchange rate reform and tighter monetary and fiscal policies—including through tax and subsidy reform. At the same time, structural reforms would be needed to help strengthen the economy's supply response and boost inclusive growth.

11. Staff's analysis suggests significant short-term costs to reform, but sound policies and improved competitiveness would substantially improve the medium term economic outlook. In a scenario with full exchange rate liberalization, phasing-out of fuel and wheat subsidies with compensating targeted social spending, and supply side reforms, the immediate impact of policy adjustment and reform would lead to inflation accelerating above 36 percent (compared to 23 percent in the baseline scenario), and GDP growth slowing to 2 percent (compared to 4 percent in the baseline scenario). Over the medium term, policy adjustment and reform would lead to significant improvements in the fiscal and external balances and inflation, and a significantly stronger growth outlook (Annex III).

A. Exchange Rate Reforms to Boost Competitiveness and Public Finances

12. Staff and the authorities broadly agreed that exchange rate liberalization is critical for restoring macro stability and eliminating the distortions that hamper investment and growth. A unified market-based exchange rate would boost competitiveness by (i) removing the adverse incentives against exports implicit in the overvalued exchange rate, and (ii) improving the profitability of domestic companies competing against more-appropriately priced imports in the domestic market. It would reduce rent-seeking activities, helping to establish a level playing field that would encourage more investment. It would also improve fiscal policy by boosting revenues, and monetary policy by relieving the central bank of responsibility for subsidies and other quasi-fiscal activities.

13. Staff recommended unifying all exchange rates at the same time, thus eliminating distortions upfront and sending a clear signal to investors about the credibility of the authorities' reform agenda. This would also be consistent with the authorities' plans to embark on deep macroeconomic and structural reforms to strengthen economic growth and facilitate WTO membership. Upfront unification would also reduce the risk of delay and interference from vested interests. Prior to reform, however, it would be important to review banks' financial positions and asset quality to assess their resilience to exchange rate changes and identify measures to address potential risks. The authorities requested Fund Technical Assistance (TA) to help them conduct bank stress tests and identify appropriate remedial measures as needed.

14. Exchange rate unification would substantially increase revenues and strengthen the fiscal position. Assessing import duty and US dollar-denominated oil revenues at the parallel exchange rate (rather than at overvalued official exchange rates), and adjusting for import volume changes using plausible price elasticities, results in an estimated revenue gain of about 5 percent of GDP. Thus, exchange rate unification would generate a large revenue windfall, with the true deficit (including all fuel and wheat subsidies) falling from 6½ percent of GDP to 3½ percent of GDP, even accounting for increases in foreign currency denominated expenditure. Deficit monetization would in turn fall sharply, and this—after the initial impact of the unification on prices—would reduce inflationary pressures and help buy additional time for socially sensitive subsidy reforms. With the heavier import duty burden, there may be a need to reduce import tariff rates to mitigate their distortionary impact—the World Bank has recommended that the number of tariff peaks should be reduced; the maximum tariff rate reduced from 40 percent to 25 percent; and tariffs on food phased out.[4] The negative impact on revenues caused by tariff rate reduction and simplification should be offset by broadening the tax base and strengthening customs administration.

15. The authorities agreed in principle with staff's advice, but were concerned about the potential for exchange rate overshooting, and the social impact of adjustment. With minimal international reserves, there is no cushion to use to moderate exchange rate volatility. Moreover, exchange rate liberalization—even with gradual phasing out of energy and wheat subsidies— would generate substantial increases in prices that could raise social tensions among vulnerable groups and the middle class. They indicated that after suffering for 20 years under sanctions, it would be difficult to ask the population to make further substantial sacrifices with no clear guarantee that reforms would better their lives. Moreover, Sudan would be one of the few countries to undertake deep reforms without the benefit of concessional loans from International Financial Institutions to cushion the pain of adjustment.

16. Thus, the authorities leaned toward a gradual pace of exchange rate reforms. An alternative under consideration was a phased approach, where the commercial bank incentive rate and the parallel rate are unified, with the new private-sector rate determined thereafter by market forces; the other official rates would then be moved gradually toward the market rate, at a pace that is yet to be determined.

17. Staff observed that gradual exchange rate reforms would incur other costs that would have to be mitigated, and adjustment should be time-bound to ensure its credibility. Notably:

- Weaker competitiveness, investment, and economic growth from incomplete exchange rate adjustment and the continued adverse impact of MCPs and rent seeking activities on the business environment. This could be a particularly costly missed opportunity given the revocation of sanctions. Mitigating this would require stronger efforts to upgrade the business environment and improve governance. Tighter monetary and fiscal policies would also be needed to help contain external imbalances.

[4] A World Bank report found that the tariff schedule has a high proportion of peaks (15 percent and above), with an economy-wide average of 20 percent and a numerous tariff lines taxed at a 40 percent rate. About 54 percent of imports are exempted from taxation, via tax holidays and exemptions in the Investment Law, regional trade agreements, and weaknesses in customs administration that are being addressed.

- Continued fiscal revenue losses from the use of overvalued official exchange rates in customs duty assessments and the valuation of foreign currency denominated revenues. Mitigating this would require stronger up-front revenue mobilization, which would also reduce the monetization of deficits and buttress macro stability.

- Continued large costs from the provision of foreign currency at overvalued official exchange rates for fuel and wheat imports, on the central bank's balance sheet. Mitigation would require additional increases in domestic energy and wheat prices.

18. Irrespective of the pace of exchange rate unification, its success would require appropriate supporting fiscal, monetary, and structural policies to ensure macroeconomic stability and lay the foundation for higher growth. Clear communication and implementation of a comprehensive reform package would boost its credibility and help contain overshooting pressures. It would also be important to disentangle exchange rate and fiscal issues during the reform process. Transparently presenting subsidies on the budget and breaking the formal link with the overvalued official exchange would allow for better informed policy making, including on subsidy removal, without hindering the pace of exchange rate reform.

B. Fiscal Consolidation to Bolster Macroeconomic Stability and Growth

19. There was agreement that additional fiscal consolidation would be needed to eliminate deficit monetization and entrench macro stability. A fiscal deficit of one percent of GDP is about the maximum that can be credibly financed from non-inflationary sources (foreign financing, government musharakah certificates, and government investment certificates), and thus reducing the deficit to no more than 1 percent of GDP would eliminate the monetization of deficits, significantly reducing inflationary pressures. This would require revenue mobilization and expenditure measures—notably phasing-out subsidies, partly offset by increased social and capital spending (see Annex III). Over time, lower fiscal deficits and sustained growth would also generate a clear decline in the public debt ratio.

20. Revenue mobilization should be intensified to support fiscal consolidation. In 2016, Sudan's central government tax to GDP ratio was 5.3 percent of GDP, far lower than the average for

Regional Comparison of Central Government Tax Revenue with Sudan

(In percent of GDP)

	Total Tax Revenue	Personal Income Tax	Corporate Income Tax	Goods and Services Tax	International Trade Tax
Sudan	5.3	0.1	0.4	3.4	1.4
Sub-Saharan Africa	16.8	2.7	2.5	3.6	4.2
Middle-East and Central Asia	12.7	1.7	3.5	3.2	1.2

Source: Country authorities and IMF Staff estimates.

Note: Data are based on 2015 and 2016 estimates.

other countries at similar levels of development.[5] Heavy corporate tax and VAT revenue losses arising from widespread tax exemptions and tax holidays should be substantially reduced by rationalizing exemptions and phasing out tax holidays. Increasing personal income tax rates and their progressivity, harmonizing the multiple corporate tax rates, and further strengthening customs and tax administration would also be important for boosting revenues. Other measures include introducing a presumptive tax for small businesses and reforming gold taxation. Strong revenue mobilization would create added scope for the reduction of import tariff rates, thus strengthening the business environment, and help fund higher capital and social spending to support inclusive growth. The authorities continue to strengthen customs and tax administration, and are considering other tax measures, but were concerned that removing tax exemptions could hamper investment.

21. There was broad agreement that subsidy reform should be prioritized. Despite price increases in November 2016, total fuel and wheat subsidies (on and off budget) are about 5¾ percent of GDP, and available evidence suggests that they largely benefit the upper income urban population rather than vulnerable groups (SIP chapter 1). Staff recommended that subsidies should be eliminated in a phased but time-bound manner (2–3 years), starting with those on fuel, to reduce inflationary deficit monetization and eventually create room for priority social and capital spending. In the event of exchange rate unification, subsidies would have to be shifted to the budget and the authorities would need to determine how to best implement them—for example, instead of cheap foreign exchange, importers could receive direct payments in local currency from the budget to maintain existing local energy and wheat prices, with the higher on-budget expenditure transparently financed by the central bank. Sustainable fuel subsidy reforms would also require a comprehensive policy framework, including mechanisms to depoliticize future price adjustments, clear communication on the reform agenda to facilitate consensus building and adjustment, and improving the efficiency of state-owned enterprises.

22. The authorities concurred that increasing targeted social spending would be the most efficient way of mitigating the pain of adjustment. The sharp increase in energy and wheat prices from subsidy removal would adversely impact vulnerable groups and could raise social tensions including among the middle class. Mitigating this impact could be accomplished by strengthening existing cash transfer programs which already cover about 700,000 vulnerable families, and are being supported with TA from the African Development Bank and the World Bank. The traditional Zakat system (with a Zakat council in every village) could potentially be used to identify vulnerable persons to be targeted for social assistance. The authorities requested Fund TA in upgrading the social safety net, including considering options to provide time-bound cash transfers to a broader segment of the population following the example of other countries.

23. Staff emphasized that other current expenditures should also be contained. Notably, foreign currency denominated fiscal expenditures would increase by an estimated 2 percent of GDP with exchange rate unification. Savings should be sought particularly in goods and services, while

[5] As indicated in Box 1 of the 2016 Article IV staff report, for 1995–2015 Sudan's tax revenues averaged only 6.3 percent of GDP, compared to 12 percent for low and lower-middle income countries. This low level of tax revenues is in part due to reliance on oil revenues prior to the secession of South Sudan.

cost-of-living adjustments to public sector wage rates should be sufficiently reflective of inflation developments to avoid raising tensions particularly in the middle class. Capital expenditure should be boosted to support growth.

24. The authorities' efforts to strengthen public financial management continue. A single treasury account has been established and budget planning is being improved. The authorities requested technical assistance to support their efforts to (i) incorporate a medium-term fiscal framework into budget planning; and (ii) strengthen the macro-fiscal unit to enhance policy formulation.

C. Monetary and Financial Sector Policies

25. The central bank has commenced monetary policy tightening to help contain rising inflation. Recently, it sold limited amounts of government paper to mop up excess liquidity, and there are plans to continue and augment this effort, including through sales of central bank securities. A higher reserve requirement rate may also be considered. Staff welcomed these efforts, while emphasizing that it would be important to reinforce limits on the monetization of fiscal deficits, since this is a key source of inflationary pressures. Also, in the event of exchange rate reforms, more tightening would be needed to curb second round effects on inflation.

26. The authorities intend to transition to a new nominal anchor for monetary policy as the exchange rate regime is liberalized. Staff supported this, observing however that while inflation targeting is an appropriate medium-term objective, it cannot be implemented immediately given data and capacity gaps. Intensified efforts are needed to build the ability to accurately target inflation and identify the appropriate intermediate targets and indicators to monitor. It would be important to ensure that the central bank has sufficient autonomy to conduct monetary policy and maintain low inflation. The authorities requested Fund TA to help establish the building blocks to directly target inflation, and agreed that in the meantime a reserve money targeting framework would be helpful to anchor monetary policy.

27. The authorities' efforts to upgrade their capacity to supervise and mitigate financial stability risks continue. Staff encouraged the authorities to complete efforts to restructure the remaining weak banks, especially in anticipation of exchange rate unification, and further strengthen supervisory vigilance. Sudan has made commendable progress in addressing AML/CFT deficiencies, and the authorities continue to strengthen the framework with Fund assistance: in 2015, the FATF removed Sudan from the grey list, and in 2016 Sudan was shifted from the enhanced to regular follow-up process of its AML/CFT regime. The financial intelligence unit (FIU) joined the Egmont Group of FIUs in June 2017. The authorities intend to request to be included in the Fund's new Financial Sector Stability Review (FSSR) instrument to support financial sector development in low and middle income countries.

D. Supply Side Reforms

28. While exchange rate and trade policy reform would be important contributions to competitiveness, the business climate will also need to be overhauled to support investment and growth. Sudan ranks 168 out of 190 countries on the 2017 World Bank Doing Business rankings, with major improvements needed especially in getting credit, protecting minority investors, and trading across borders. Efforts to boost investment and productivity in key sectors such as agriculture, gold, and oil, as well as better public infrastructure and human capital, could also bear large dividends. Staff encouraged the authorities to explore and address any additional constraints that hinder female entrepreneurship and employment.

29. The authorities have intensified efforts to modernize the business environment, notably in the context of their application for WTO membership. A high-level committee and eight sub-committees have been formed to coordinate this effort, and they have already identified 151 laws to be amended or completely modernized; staff encouraged them to press on with this effort. The authorities also continue to develop measures to fight corruption, including the Auditor General Act of 2017 which permits the Auditor General to audit any entity with at least 1 percent government ownership, the establishment of a Special Prosecutor General to investigate cases of abuse of public funds, and the establishment of an Anti-Corruption Commission.

OTHER

30. There are major shortcomings in macroeconomic data, especially in national accounts and balance of payments statistics, and more resources should be devoted to statistics. National accounts have serious weaknesses in quality and timeliness. Coverage of FDI and exports of the informal gold sector is limited, impairing BOP compilation. The authorities agreed with the need to strengthen economic statistics.

31. The authorities intend to continue cooperation with the Fund on policies and payments. Sudan's arrears to the Fund declined to SDR 966.3 million at end-October 2017. Partial payments to the Fund resumed in 1995, and since 2014 the authorities have paid close to US$10 million annually, on average. So far, the authorities have paid US$5 million in 2017. These payments should continue and increase in line with Sudan's payment capacity.

STAFF APPRAISAL

32. Economic conditions in Sudan have been challenging since the secession of South Sudan in 2011, and the associated loss of the bulk of oil production and exports. Since then, the authorities have implemented partial policy adjustments to help stabilize the economy and reestablish growth, but these reforms were insufficient to turn the tide toward sustained macroeconomic stability and broad-based growth. The external environment, including limited access to external financing, U.S. sanctions, and substantial reductions of correspondent bank relations since 2014, has remained difficult and has been a major obstacle to macro stability and growth.

33. Without reforms, the current economic situation appears unsustainable, with a substantially weaker than warranted external position. Substantial fiscal deficits persist, inflation is high, and economic growth remains below potential. Without decisive adjustment, loose policy settings will fuel high and rising inflation over the medium term, which would disproportionately affect vulnerable groups, and could aggravate social tensions. Moreover, delaying reform would likely require greater eventual adjustment with a higher social impact.

34. The permanent revocation of U.S. sanctions on trade and financial flows presents a unique opportunity to strengthen the outlook and boost the payoff from ambitious reforms. Past reform momentum had been hampered, in part, by the longstanding sanctions, which limited the payoff from reforms. With sanctions now revoked, investor interest in Sudan is likely to be substantial, but the potential will only be realized if supported by appropriate measures to strengthen macro stability and the overall investment climate.

35. Exchange rate unification is critical for eliminating the distortions that hamper investment and growth. A unified market-based exchange rate would boost competitiveness and reduce rent-seeking activities, helping to establish a level playing field that would encourage investment. It would be best to unify all exchange rates at the same time, thus eliminating distortions upfront and sending a clear signal to investors about the credibility of the authorities' reform agenda. Gradual unification would risk delay and interference from vested interests, with MCPs and embedded distortions persisting and limiting investment and growth.

36. Successful exchange rate unification requires supportive policies. Macroeconomic and structural policies need to be aligned to reap the benefits of exchange rate unification. In addition, it would be important to identify and pro-actively address negative impacts from the unification, particularly banks' resilience to exchange rate changes.

37. The true fiscal deficit is much larger than presented on the budget, because subsidies linked to official exchange rates are not recorded on-budget. Fuel and wheat subsidies are implemented by selling foreign exchange to corresponding importers at the overvalued official exchange rate, and recorded on the central bank's balance sheet. Shifting these costs onto the budget, where they belong, reveals that the true fiscal deficit is much higher than reported, with far larger deficit monetization than presented on-budget.

38. Exchange rate unification would improve macro stability by strengthening the fiscal position and curbing the monetization of fiscal deficits. Assessing import duty and oil revenues at a market-determined exchange rate would generate a large revenue windfall, with the true deficit falling substantially even accounting for increases in foreign currency denominated expenditure. Deficit monetization would fall sharply, reducing inflationary pressures and buying additional time for socially sensitive subsidy reforms.

39. Additional fiscal consolidation would be needed to eliminate deficit monetization and entrench macro stability. Over the medium term, a fiscal deficit not exceeding one percent of GDP would be appropriate: it is about the level that can be financed from non-inflationary sources, and adherence to this target would eliminate the monetization of deficits, significantly reducing inflationary pressures. Over time, lower fiscal deficits and sustained growth will also generate a clear decline in the public debt ratio. Revenue measures should focus on reducing the large number of exemptions, strengthening tax and customs administration, and increasing personal income tax rates and their progressivity. On the expenditure side, fuel and wheat subsidies, which disproportionately benefit the wealthier urban population, should be phased out, with the pain of adjustment on the poor mitigated via increased targeted cash transfers. Public financial management should be further strengthened, including budget planning and operating the single treasury account.

40. **Monetary policy should be tightened to contain rising inflation, and a new nominal anchor will be needed under a flexible exchange rate regime.** Alongside fiscal consolidation, limits on the monetization of fiscal deficits should be reinforced, since this is a key source of inflationary pressures. The central bank should also actively use all available instruments to mop up excess liquidity and contain inflationary pressures. While inflation targeting is an appropriate nominal anchor in the medium-term, it cannot be implemented immediately given data and capacity gaps. Thus, until all the building blocks to directly target inflation are in place, a reserve money targeting framework would be helpful to anchor monetary policy.

41. **The central bank should also continue to upgrade its capacity to supervise and mitigate financial stability risks.** Efforts to restructure remaining weak banks should be completed, and supervisory vigilance further strengthened. Sudan has made commendable progress in addressing AML/CFT deficiencies, and the authorities continue to strengthen the framework with Fund assistance.

42. **While exchange rate and trade policy reform would be important contributions to competitiveness, the business climate will also need to be overhauled to support investment and growth.** Sudan ranks very low in the 2017 World Bank doing business rankings, with major weaknesses in getting credit, protecting minority investors, and trading across borders. The authorities have intensified efforts to modernize the business environment in the context of their application for WTO membership, and staff encourages them to press on with this effort. Also, the business environment would benefit from intensified anti-corruption measures. Efforts to boost investment and productivity in key sectors such as agriculture, gold, and oil, as well as better public infrastructure and human capital, could also bear large dividends.

43. **Sudan remains in debt distress and is eligible for debt relief under the HIPC Initiative.** The authorities should continue to engage with international partners to secure comprehensive support for debt relief. Alongside, the authorities should continue to strengthen their cooperation with the Fund on policies and payments, including by making regular payments to the Fund at least sufficient to cover obligations falling due, and to increase them as Sudan's payment capacity improves. The authorities should adopt a prudent debt strategy that minimizes non-concessional borrowing and avoid selective debt servicing of bilateral lenders since this risks complicating future fund-raising efforts to clear arrears and secure debt relief. Early implementation of comprehensive reforms would lay the basis for a track record of sound economic policies that would facilitate

agreement and successful implementation of an SMP, which is a pre-condition to get to the HIPC decision point. Efforts to prepare a full PRSP should also continue.

44. Article VIII issues. The authorities note the findings of MCPs and exchange restrictions and expect that these will be removed as plans for exchange rate reforms are finalized and implemented. The authorities are not requesting approval for the exchange restrictions and MCPs (see informational annex), and no approval is recommended, as there is no clear timetable for their removal.

45. Staff proposes that the next Article IV consultation take place on the standard 12-month cycle.

Risk Assessment Matrix [1/]

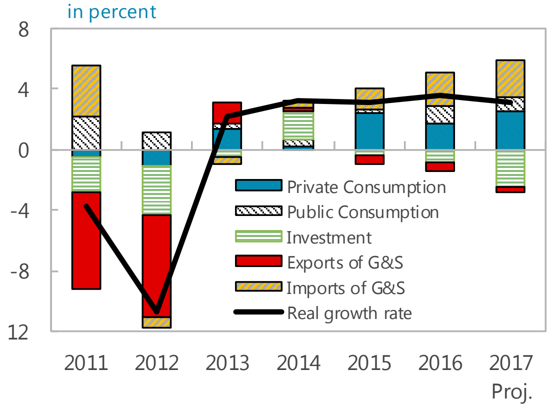
Source of Risks	Relative Likelihood	Impact if Realized	Policy Responses
Global			
1. Weaker-than-expected global growth, including slowdown in China (medium likelihood), in other large emerging markets (medium), and structurally weak growth in key advanced (high) economies	***Medium***	***Medium*** • Lower exports, FDI and deteriorating external balance. • Rising pressure on the exchange rate and reserves. • Lower growth.	• Greater exchange rate flexibility would help cushion the shock and prevent reserve losses. • Declining revenue and lack of fiscal space would likely require pro-cyclical spending cuts.
***2.* Intensification of the risks of fragmentation/ security dislocation in the Middle East, Asia, and Europe,** leading to socioeconomic disruptions	***High***	***Medium to High*** • Lower remittances and weaker external balance. • Lower growth and high inflation.	• Strengthen domestic revenue mobilization to increase social safety nets. • Mobilize international financing to support refugees.
3. Lower energy prices, driven by stronger-than-expected US shale and/or recovery of oil production in the African continent	***Low***	***Medium to High*** • Lower export receipts but also lower import bill. • Lower inflows from Gulf countries would put pressures on reserves. • Possible renegotiation of the agreement with South Sudan, lowering oil-related revenues.	• Remove fuel subsidies • Greater exchange rate flexibility to reduce external pressures and improve competitiveness. • Increase domestic revenue mobilization to reduce reliance on oil-related revenues.
Regional			
4. Oil production in South Sudan declines owing to civil conflicts	***High***	***High*** • Rising fiscal and internal imbalances and inflation.	• Greater exchange rate flexibility to encourage nonoil exports and reduce external imbalances. • Tight monetary policy would control inflation. • Rationalize spending and increase domestic revenue mobilization.
5. Heightened tensions between Sudan and South Sudan	***Low to Medium***	***Low to Medium*** • Rising military spending. • Higher budget deficit and its monetization. • Rising inflation.	• Advance economic and political cooperation with the South to lessen tensions • Provide assistance to South Sudan refugees and encourage international community to intermediate to reduce tensions. • Rationalize spending and tighten monetary policy.
Country Specific			
6. Sustained breakdown in correspondent bank relations, and reduced financial services by global/regional banks	***High***	***High*** • Drop in exports and imports. • Lower supply and higher cost of imports fueling inflation. • Foreign exchange shortage. • Expansion of the informal sector.	• Outreach efforts to restore correspondent banking relationships. • Tighten monetary policy as needed to control inflation. • Enhanced exchange rate flexibility would reduce shortages. • Effective implementation of the AML/CFT framework
7. Sudden stop of financial support from Gulf countries	***Medium***	***High*** • Foreign exchange shortage. • Exchange rate depreciation. • Drop in imports.	• Greater exchange rate flexibility. • Tighten monetary and fiscal policies. • Implement structural reforms. • Improve social safety nets.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities.

Figure 1. Sudan: Selected Economic Indicators

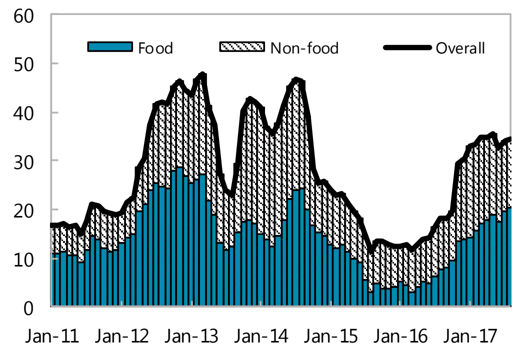
Growth remains modest...

Contribution to Real GDP Growth
in percent



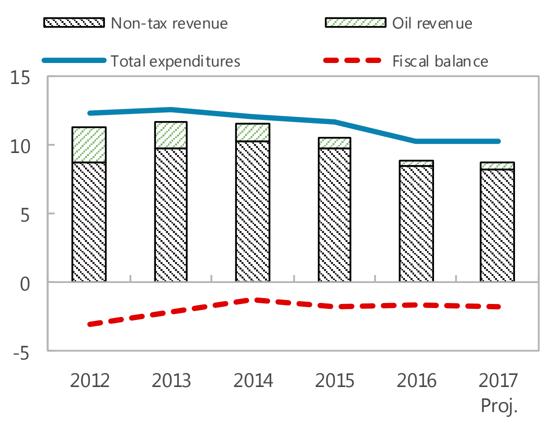
...while inflation is accelerating

Consumer Price Index
(In percent)



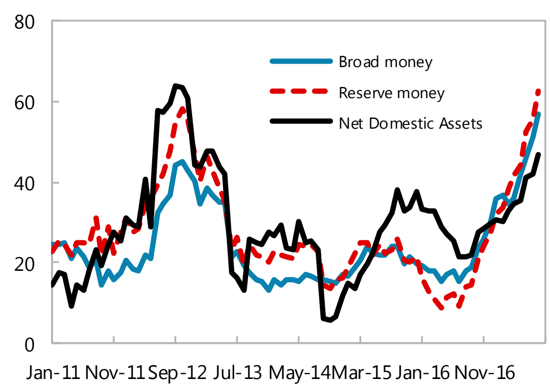
The fiscal deficit is widening...

Revenue, Expenditures and Fiscal Balance
(In percent of GDP)



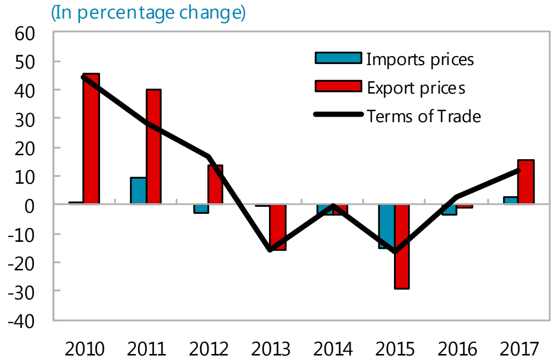
...prompting faster growth of monetary aggregates.

Monetary Aggregates
(In percent, year over year)



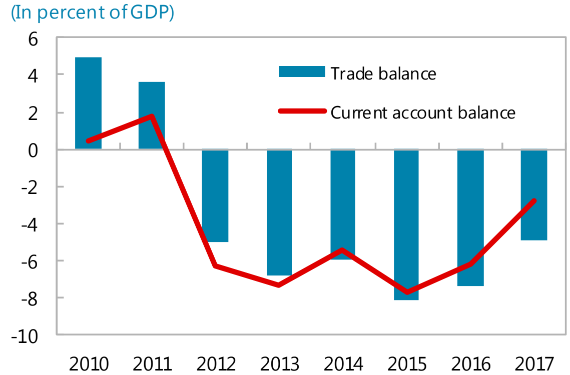
Stronger terms of trade...

Terms of Trade
(In percentage change)



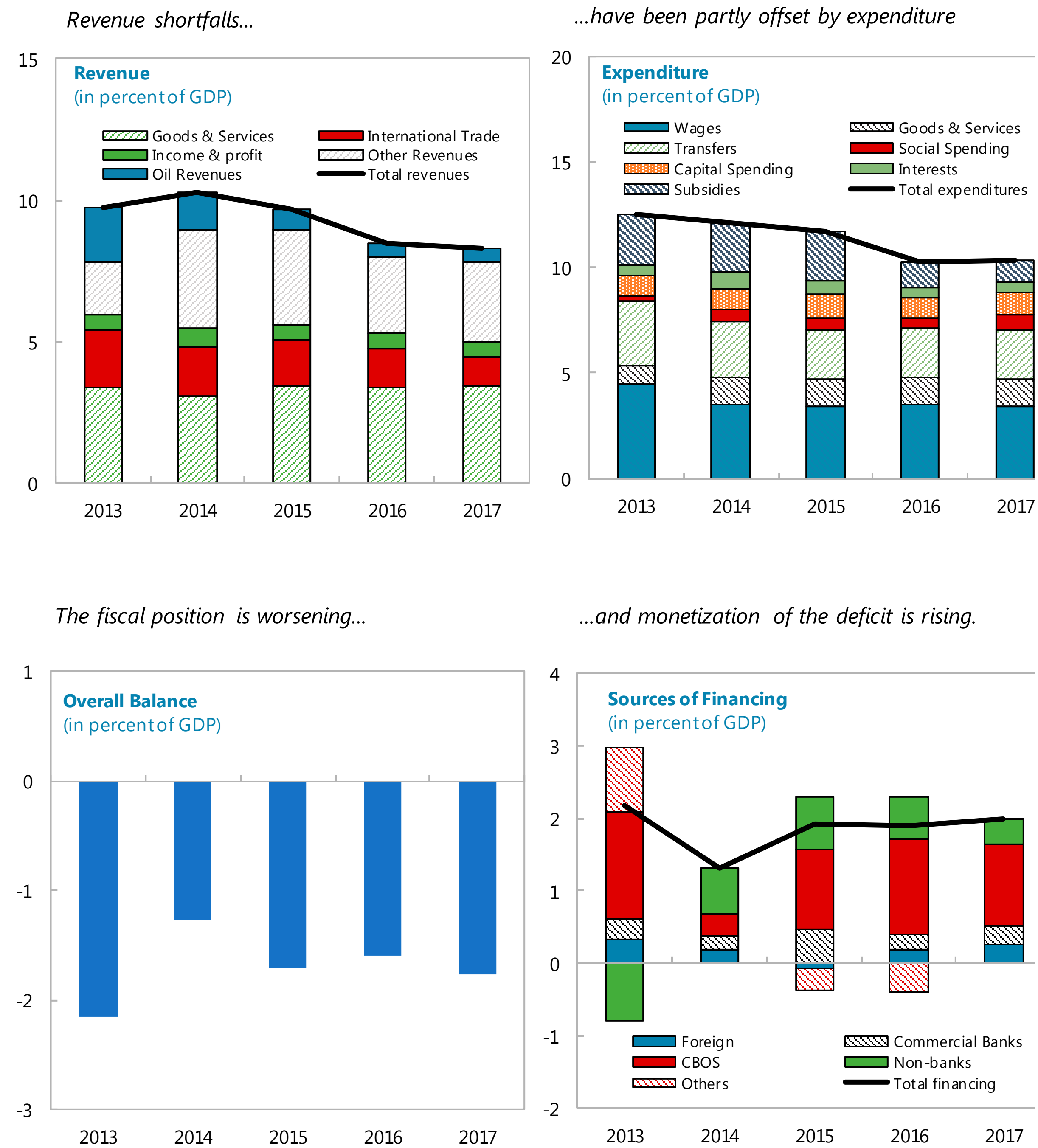
... and policy measures are reducing the current account deficit.

Current Account and Trade Balances
(In percent of GDP)



Sources: Sudanese authorities; and IMF staff calculations.

Figure 2. Sudan: Fiscal Sector

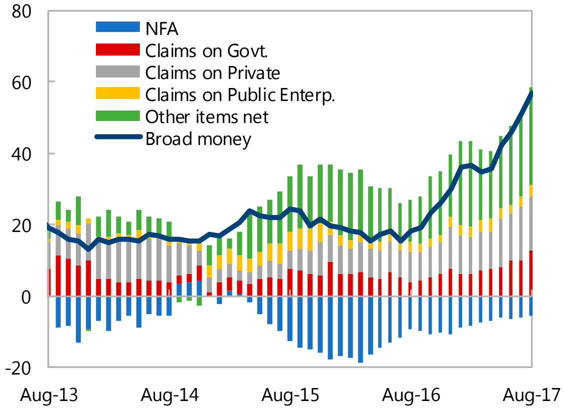


Sources: Sudanese authorities; and IMF Staff estimates.

Figure 3. Sudan: Monetary Sector

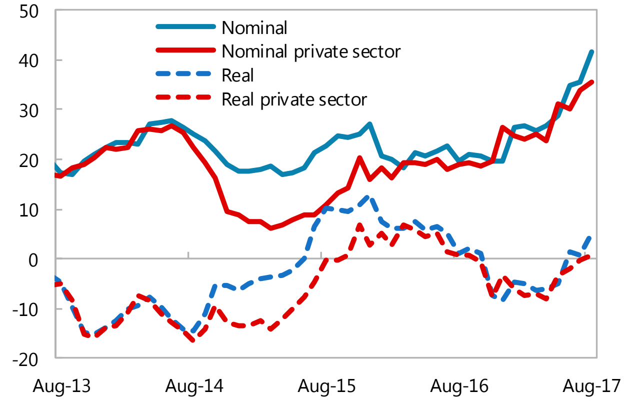
Monetary aggregates are growing rapidly…

Contributions to Broad Money Growth
(In percent, year over year)



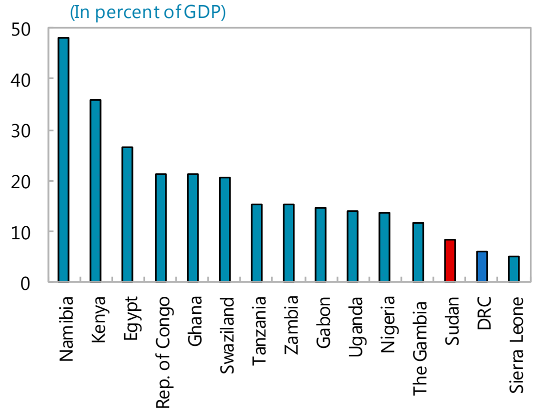
..but real credit to the private sector is stagnant…

Credit Growth
(In percent, year over year)



…and remains low compared to the middle and low income countries.

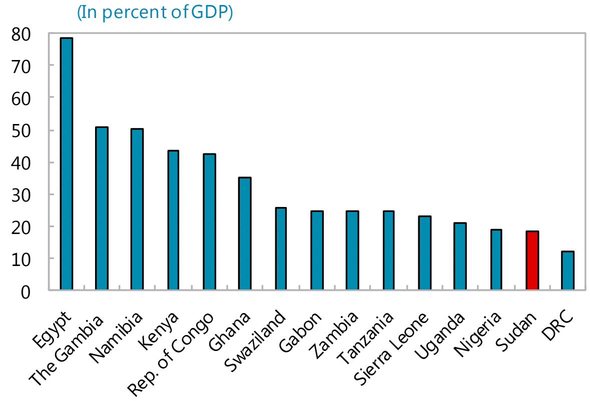
Selected countries-Credit to Private Sector 1/
(In percent of GDP)



1/ Year 2015 or latest available.

Monetization of the economy remains relatively low as well.

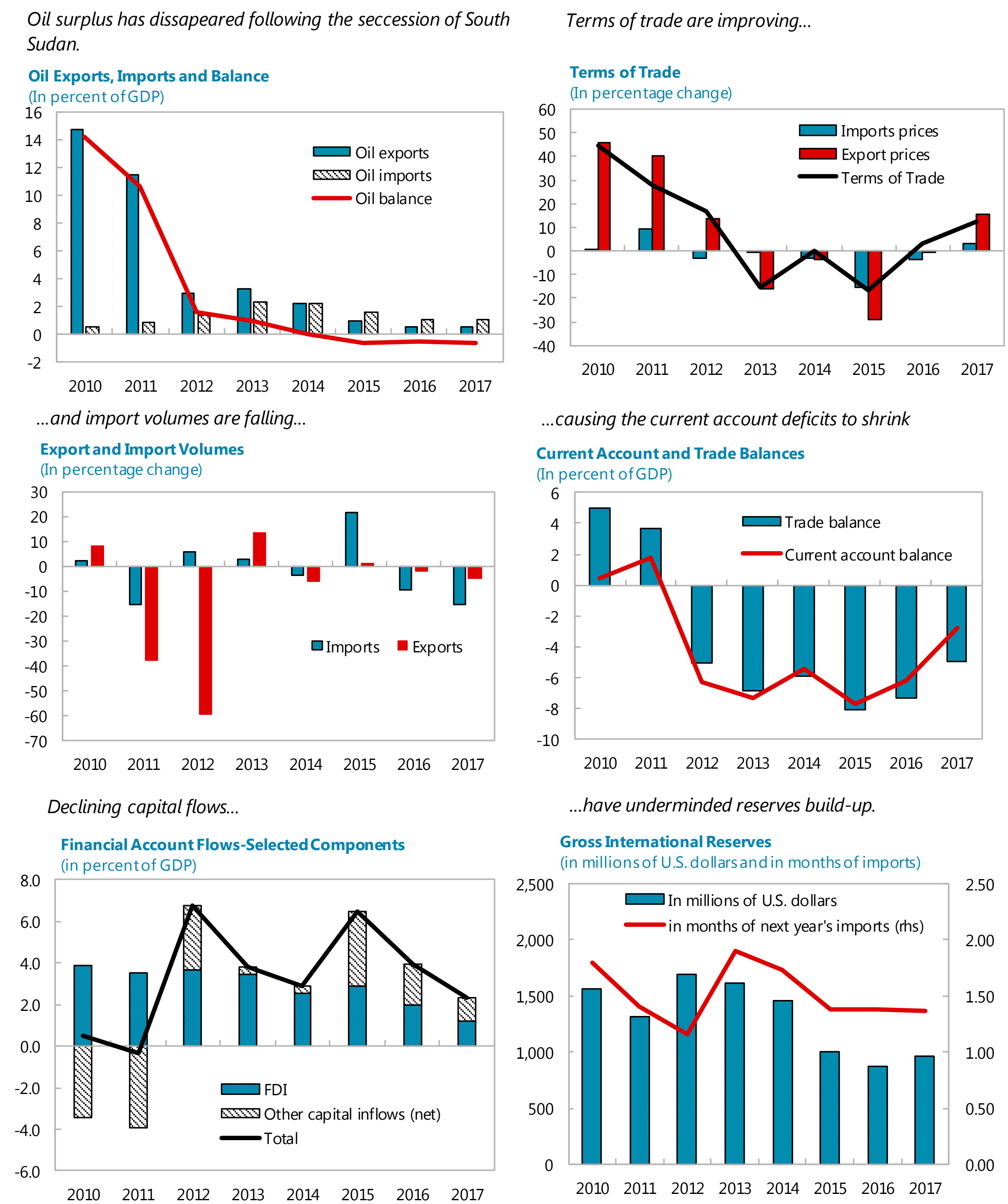
Selected Countries-Broad Money 1/
(In percent of GDP)



1/ Year 2015 or latest available.

Sources: Central Bank of Sudan; International Financial Statistics (IMF); and IMF staff calculations.

Figure 4. Sudan: External Sector



Sources: Central Bank of Sudan, and IMF Staff calculations.

Table 1. Sudan: Selected Economic Indicators, 2013–18

	2013	2014	2015	2016	2017	2018
					Proj.	
Output and prices			(Annual change in percent)			
Real GDP (market prices)	2.2	3.2	3.0	3.5	3.2	4.0
Consumer prices (end of period)	41.9	25.7	12.6	30.5	26.1	22.2
Consumer prices (period average)	36.5	36.9	16.9	17.8	29.8	23.0
Central government			(In percent of GDP)			
Revenue and grants	10.3	10.8	10.0	8.7	8.6	8.6
Revenues	9.7	10.3	9.7	8.4	8.3	8.4
Of which: Oil revenues	1.9	2.1	1.5	0.8	0.8	0.7
Tax revenue	6.0	5.5	5.6	5.3	5.0	5.3
Expenditure	12.5	12.1	11.7	10.3	10.3	10.6
Current	11.5	11.1	10.6	9.3	9.3	9.5
Wage bill	4.5	3.5	3.4	3.5	3.4	3.6
Subsidies	2.4	2.3	2.3	1.2	1.0	0.8
Transfers	3.0	2.7	2.4	2.3	2.3	2.4
Capital	1.0	1.0	1.1	1.0	1.0	1.2
Overall balance	-2.2	-1.3	-1.7	-1.6	-1.8	-2.1
Primary balance	-1.7	-0.5	-1.0	-1.1	-1.3	-1.6
Non-oil primary balance	-3.8	-2.7	-2.6	-2.2	-2.1	-2.4
Public debt 1/	84.4	90.2	90.5	116.2	99.6	102.9
Monetary sector			(Annual changes in percent)			
Broad money	13.0	17.0	19.8	30.0	49.5	28.9
Reserve money	20.3	16.0	21.6	27.5	46.7	27.5
Credit to the economy	23.2	17.6	20.8	26.5	40.0	28.9
Balance of payments			(In percent of GDP, unless otherwise indicated)			
Exports of goods (in US$, annual percent change)	-4.4	-9.4	-28.5	-2.6	9.8	3.3
Imports of goods (in US$, annual percent change)	2.3	-7.0	3.1	-12.5	-12.7	12.2
Merchandise trade balance	-6.8	-5.9	-8.1	-7.3	-4.9	-5.9
Current account balance (cash basis)	-7.3	-5.5	-7.7	-6.1	-2.8	-3.9
External debt service (in percent of exports of G&S.)						
Commitment basis	43.0	43.5	49.7	53.4	50.0	48.7
Cash basis	2.7	2.0	7.1	2.5	3.6	4.1
Financing gap (in billions of US$)	…	…	…	…	0.0	0.7
External debt 1/	77.4	82.8	81.3	110.8	94.9	97.7
External debt (in billions of US$)	45.0	46.8	49.7	52.4	54.1	56.5
Gross international reserves (in millions of US$)	1,611.5	1,461.1	1,003.0	874.6	969.6	829.8
In months of next year's imports of G&S	1.9	1.7	1.4	1.4	1.4	1.1
Memorandum items:						
Nominal GDP (in millions of SDGs)	331,804	452,531	540,785	659,770	917,208	1,144,619

Sources: Central Bank of Sudan and Ministry of Finance and Economic Planning; and IMF staff estimates and

1/ GDP estimated at the weighted average of the parallel and official exchange rate.

Table 2. Sudan: Medium-Term Macroeconomic Outlook, 2013–22

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Proj.					
Output and prices	(Annual change in percent)									
Real GDP (at market prices)	2.2	3.2	3.0	3.5	3.2	4.0	3.7	3.3	3.1	3.0
Consumer prices (end of period)	41.9	25.7	12.6	30.5	26.1	22.2	23.9	25.5	28.2	30.0
Consumer prices (period average)	36.5	36.9	16.9	17.8	29.8	23.0	23.1	24.7	26.9	29.1
GDP deflator	33.8	32.9	15.7	16.9	25.7	20.9	20.8	22.4	24.2	26.0
Investment and savings	(In percent of GDP)									
Gross national income	105.4	104.0	103.6	103.6	103.6	103.8	103.9	103.8	103.6	104.0
Gross domestic expenditure	97.2	95.3	96.6	95.4	93.1	93.2	93.1	93.3	93.5	93.5
Final consumption	79.6	80.1	81.9	81.6	81.0	80.4	79.9	80.1	80.5	80.7
Gross capital formation	17.6	15.2	14.7	13.8	12.1	12.8	13.3	13.2	13.0	12.7
Gross Savings	7.5	7.1	4.4	4.9	6.7	8.5	9.0	8.8	8.3	7.0
Central government operations										
Revenue and grants	10.3	10.8	10.0	8.7	8.6	8.6	8.2	7.7	7.4	7.0
Revenue	9.7	10.3	9.7	8.4	8.3	8.4	8.0	7.5	7.3	6.9
Nonoil revenues	7.8	8.1	8.2	7.7	7.5	7.7	7.3	7.1	6.9	6.7
Oil revenues 1/	1.9	2.1	1.5	0.8	0.8	0.7	0.6	0.5	0.4	0.2
Taxes	6.0	5.5	5.6	5.3	5.0	5.3	5.3	5.3	5.3	5.3
Expenditure	12.5	12.1	11.7	10.3	10.3	10.6	10.5	10.5	10.5	10.8
Current	11.5	11.1	10.6	9.3	9.3	9.5	9.3	9.4	9.4	9.6
Wages	4.5	3.5	3.4	3.5	3.4	3.6	3.6	3.6	3.6	3.6
Subsidies	2.4	2.3	2.3	1.2	1.0	0.8	0.6	0.5	0.4	0.3
Transfers	3.0	2.7	2.4	2.3	2.3	2.4	2.4	2.4	2.6	2.6
Capital	1.0	1.0	1.1	1.0	1.0	1.2	1.2	1.2	1.2	1.2
Overall balance	-2.2	-1.3	-1.7	-1.6	-1.8	-2.1	-2.3	-2.8	-3.1	-3.7
Primary balance	-1.7	-0.5	-1.0	-1.1	-1.3	-1.6	-1.9	-2.5	-2.8	-3.2
Public debt 2/	84.4	90.2	90.5	116.2	99.6	102.9	105.1	107.5	110.2	110.5
Monetary sector	(Annual change in percent, unless otherwise indicated)									
Broad money	13.0	17.0	19.8	30.0	49.5	28.9	28.0	27.1	25.8	23.9
Reserve money	20.3	16.0	21.6	27.5	46.7	27.5	26.6	25.1	24.2	22.4
Credit to the private sector	22.5	8.7	15.8	26.3	40.0	28.9	24.8	23.6	25.7	31.5
Broad money (percent of GDP)	20.0	18.3	17.2	18.3	19.7	20.4	20.6	20.4	19.7	18.4
Net claims on government (percent of GDP)	8.9	6.6	6.9	6.8	6.1	6.5	6.7	7.0	7.1	7.8
Credit to the private sector (percent of GDP)	10.0	7.9	7.7	8.0	8.1	8.4	8.2	7.9	7.6	7.6
External sector	(In percent of GDP, unless otherwise indicated)									
Exports of goods (in US$, annual percent change)	-4.4	-9.4	-28.5	-2.6	9.8	3.3	2.8	2.0	2.2	2.3
Imports of goods (in US$, annual percent change)	2.3	-7.0	3.1	-12.5	-12.7	12.2	6.5	5.1	4.5	3.8
Merchandise trade balance	-6.8	-5.9	-8.1	-7.3	-4.9	-5.9	-6.4	-6.7	-6.9	-7.1
Current account balance (cash basis)	-7.3	-5.5	-7.7	-6.1	-2.8	-3.9	-4.0	-4.4	-4.9	-6.0
Financing gap	0.0	0.0	0.0	0.0	0.0	1.1	1.5	1.9	2.2	4.0
External debt service (in percent of exports of G&S)										
Commitment basis	43.0	43.5	49.7	53.4	50.0	48.7	45.9	45.5	46.3	81.8
Cash basis	2.7	2.0	7.1	2.5	3.6	4.1	4.0	4.2	4.7	21.0
External debt 2/	77.4	82.8	81.3	110.8	94.9	97.7	99.6	101.7	104.3	104.2
External debt (in billions of US$)	45.02	46.78	49.75	52.38	54.08	56.50	59.21	62.23	65.52	67.29
Gross international reserves (in millions of US$)	1,612	1,461	1,003	875	970	830	872	953	947	829
In months of next year's imports of G&S	1.9	1.7	1.4	1.4	1.4	1.1	1.1	1.1	1.1	0.9
Memorandum items:										
Nominal GDP (in billions of SDG)	331.8	452.5	540.8	659.8	917.2	1,144.6	1,449.1	1,859.8	2,420.9	3,212.5
Indicators of Economic Activity, Oil Markets, Oil Prod	43.5	43.0	40.0	34.0	32.9	32.9	32.9	32.9	32.9	32.9
Exchange rate (SDG/US$, weighted average)	4.8	7.3	8.4	11.4	…	…	…	…	…	…
NEER (2007=100, percent change, period average)	-26.7	-16.1	-3.8	…	…	…	…	…	…	
REER (2007=100, percent change, period average)	-1.9	11.6	17.4	…	…	…	…	…	…	

Sources: Central Bank of Sudan and Ministry of Finance and Economic Planning; and IMF staff estimates and projections.

1/ Oil sales, oil transit fees, and Transitional Financial Arrangement.

2/ GDP estimated at the weighted average of the parallel and official exchange rate.

Table 3a. Sudan: Balance of Payments, 2013–22
(In millions of U.S. dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
							Proj.			
Current account balance	-5,668	-5,020	-6,546	-5,127	-3,273	-3,971	-4,137	-4,460	-4,860	-5,850
Current account balance (cash basis)	-4,083	-3,412	-4,958	-3,541	-1,689	-2,384	-2,545	-2,862	-3,255	-4,113
Trade balance	-3,832	-3,684	-5,201	-4,237	-3,006	-3,670	-4,040	-4,361	-4,643	-4,878
Oil	538	7	-420	-269	-365	-598	-662	-713	-756	-791
Non-oil	-4,370	-3,691	-4,781	-3,968	-2,641	-3,072	-3,378	-3,648	-3,888	-4,087
Exports, f.o.b.	4,894	4,432	3,167	3,085	3,387	3,499	3,597	3,669	3,748	3,834
Oil	1,821	1,358	627	336	310	309	304	303	305	310
Crude oil	1,719	1,194	574	271	250	249	245	244	247	251
Petroleum products	102	163	53	65	60	59	59	58	59	60
Non-oil	3,073	3,075	2,540	2,750	3,077	3,190	3,293	3,366	3,442	3,524
Of which: Gold	1,048	1,271	726	1,044	1,143	1,207	1,279	1,375	1,488	1,628
Imports, f.o.b.	-8,726	-8,116	-8,368	-7,322	-6,392	-7,169	-7,636	-8,029	-8,391	-8,712
Oil	-1,284	-1,350	-1,047	-605	-674	-906	-966	-1,015	-1,061	-1,102
Non-oil	-7,443	-6,766	-7,321	-6,717	-5,718	-6,263	-6,671	-7,014	-7,330	-7,611
Services (net)	-456	-69	573	619	868	822	1,010	969	801	451
Receipts	1,574	2,006	2,352	1,976	2,053	2,151	2,425	2,458	2,356	2,066
Of which: Oil transit fees	123	219	213	169	282	282	347	347	347	357
Of which: TFA transfers 1/	248	438	427	57	261	309	475	475	339	0
Payments	-2,030	-2,075	-1,779	-1,357	-1,185	-1,329	-1,415	-1,488	-1,555	-1,615
Income (net)	-2,876	-2,391	-2,247	-2,010	-2,105	-2,125	-2,206	-2,252	-2,295	-2,806
Receipts	9	38	15	1	-50	-45	-101	-111	-113	-137
Non-oil payments	-2,636	-2,156	-2,130	-1,943	-1,951	-1,974	-2,002	-2,038	-2,079	-2,564
Public interest due	-1,672	-1,668	-1,668	-1,666	-1,666	-1,679	-1,699	-1,725	-1,756	-2,230
Of which: cash payments	-87	-60	-80	-81	-81	-92	-107	-127	-151	-492
Other payments	-964	-488	-462	-277	-285	-294	-304	-313	-323	-334
Oil-related payments	-249	-273	-132	-68	-105	-106	-103	-103	-104	-106
Current transfers (net)	1,495	1,124	328	501	970	1,002	1,099	1,183	1,278	1,383
Private	930	505	366	554	582	611	690	724	760	798
Official	565	619	-37	-53	387	390	409	459	518	585
Capital and financial account	2,122	1,517	4,507	2,321	1,578	1,339	1,436	1,530	1,597	93
Capital account	314	202	250	148	417	423	435	448	460	452
Financial account (net)	1,808	1,315	4,256	2,173	1,161	916	1,001	1,082	1,138	-359
Disbursements	344	284	382	206	465	493	522	554	587	604
Amortization	-381	-406	-351	-309	-328	-344	-338	-333	-342	-1,872
Of which: Cash payments	-90	-68	-312	-47	-115	-138	-135	-133	-137	-749
Net foreign assets of banks (increase -)	227	-64	223	75	78	81	84	87	90	93
Investors' net income—cost oil	-515	-301	-145	-68	-480	-492	-492	-492	-497	-507
Foreign direct investment and portfolio (net)	1,917	1,561	1,870	1,132	742	927	962	995	1,015	1,035
Other capital flows (net)	215	242	2,277	1,138	684	251	263	271	285	288
Public 2/	58	29	1,589	756	400	0	0	0	0	0
Private	158	213	688	382	284	251	263	271	285	288
Errors and omissions	1,399	1,634	169	834	0	0	0	0	0	0
Overall balance	-2,148	-1,869	-1,871	-1,972	-1,695	-2,633	-2,701	-2,930	-3,262	-5,757
Overall balance (cash basis)	-272	77	-245	-124	103	-839	-906	-1,132	-1,453	-2,896
Financing	2,148	1,869	1,871	1,972	1,710	1,947	1,769	1,737	1,838	3,003
Change in net international reserves (increase -)	273	-22	476	128	-95	140	-43	-81	6	118
Gross reserves	78	150	458	128	-95	140	-43	-81	6	118
Short-term foreign liabilities (increase +)	195	-172	17	0	0	0	0	0	0	0
IMF (net)	-7	-10	-10	-10	-10	-10	-10	-10	-10	-9
Exceptional financing (change in arrears)	1,875	1,891	1,395	1,844	1,805	1,807	1,812	1,817	1,832	2,886
Financing gap	0	0	0	0	-8	699	949	1,213	1,446	2,779
Memorandum items:										
Exports of goods (annual change in percent)	-4.4	-9.4	-28.5	-2.6	9.8	3.3	2.8	2.0	2.2	2.3
Non-oil exports of goods (annual change in percen	-1.2	0.1	-17.4	8.2	11.9	3.7	3.2	2.2	2.3	2.4
Imports of goods (annual change in percent)	2.3	-7.0	3.1	-12.5	-12.7	12.2	6.5	5.1	4.5	3.8
Crude oil exports (in millions of barrels, annual)	15.8	13.7	12.4	7.0	5.0	5.0	5.0	5.0	5.0	5.0
Sudanese crude oil price (US$ per barrel)	94.6	87.3	46.2	38.5	50.1	50.0	49.2	49.0	49.4	50.2
Terms of trade (annual change, in percent)	-13.9	-6.7	-16.4	3.0	12.1	-3.2	1.2	3.3	3.7	5.3
Import prices	-3.0	-4.3	-15.3	-3.5	2.9	4.2	1.3	0.7	0.8	0.0
Export prices	-16.5	-10.7	-29.2	-0.7	15.4	0.9	2.5	4.1	4.5	5.3
External debt	45,022	46,781	49,747	52,383	54,083	56,502	59,213	62,233	65,516	67,287
External debt (percent of GDP)	56.1	82.8	81.3	110.8	94.9	97.7	99.6	101.7	104.3	104.2
Arrears to the IMF	1,509	1,423	1,349	1,341	1,336	1,330	1,328	1,322	1,313	1,258
Gross International reserves	1,612	1,461	1,003	875	970	830	872	953	947	829
In months of next year's imports of G&S	1.9	1.7	1.4	1.4	1.4	1.1	1.1	1.2	1.1	0.9
Nominal GDP (at weighted average exchange rate (	56,085	62,319	64,059	57,649	60,808	61,692	63,461	65,301	67,005	68,883

Sources: Central Bank of Sudan; and IMF staff estimates and projections.
1/ TFA: Transitional financial arrangement of September 2012 between Sudan and South Sudan.
2/ Includes deposits at the central bank.

Table 3b. Sudan: Balance of Payments, 2013–22
(In percent of GDP)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Proj					
Current account balance	-10.1	-8.1	-10.2	-8.9	-5.4	-6.4	-6.5	-6.8	-7.3	-8.5
Current account balance (cash basis)	-7.3	-5.5	-7.7	-6.1	-2.8	-3.9	-4.0	-4.4	-4.9	-6.0
Trade balance	-6.8	-5.9	-8.1	-7.3	-4.9	-5.9	-6.4	-6.7	-6.9	-7.1
Oil	1.0	0.0	-0.7	-0.5	-0.6	-1.0	-1.0	-1.1	-1.1	-1.1
Non-oil	-7.8	-5.9	-7.5	-6.9	-4.3	-5.0	-5.3	-5.6	-5.8	-5.9
Exports, f.o.b.	8.7	7.1	4.9	5.4	5.6	5.7	5.7	5.6	5.6	5.6
Oil	3.2	2.2	1.0	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Non-oil	5.5	4.9	4.0	4.8	5.1	5.2	5.2	5.2	5.1	5.1
Of which: Gold	1.9	2.0	1.1	1.8	1.9	2.0	2.0	2.1	2.2	2.4
Imports, f.o.b.	-15.6	-13.0	-13.1	-12.7	-10.5	-11.6	-12.0	-12.3	-12.5	-12.6
Oil	-2.3	-2.2	-1.6	-1.0	-1.1	-1.5	-1.5	-1.6	-1.6	-1.6
Non-oil	-13.3	-10.9	-11.4	-11.7	-9.4	-10.2	-10.5	-10.7	-10.9	-11.0
Services (net)	-0.8	-0.1	0.9	1.1	1.4	1.3	1.6	1.5	1.2	0.7
Of which: Oil transit	0.2	0.4	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.5
Of which: TFA transfers 1/	0.4	0.7	0.7	0.1	0.4	0.5	0.7	0.7	0.5	0.0
Income (net)	-5.1	-3.8	-3.5	-3.5	-3.5	-3.4	-3.5	-3.4	-3.4	-4.1
Non-oil payments	-4.7	-3.5	-3.3	-3.4	-3.2	-3.2	-3.2	-3.1	-3.1	-3.7
Oil-related payments	-0.4	-0.4	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Current transfers (net)	2.7	1.8	0.5	0.9	1.6	1.6	1.7	1.8	1.9	2.0
Private	1.7	0.8	0.6	1.0	1.0	1.0	1.1	1.1	1.1	1.2
Official	1.0	1.0	-0.1	-0.1	0.6	0.6	0.6	0.7	0.8	0.8
Capital and financial account	3.8	2.4	7.0	4.0	2.6	2.2	2.3	2.3	2.4	0.1
Capital account	0.6	0.3	0.4	0.3	0.7	0.7	0.7	0.7	0.7	0.7
Disbursements (net)	-0.1	-0.2	0.0	-0.2	0.2	0.2	0.3	0.3	0.4	-1.8
Net foreign assets of banks (increase -)	0.4	-0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Investors' net income—cost oil	-0.9	-0.5	-0.2	-0.1	-0.8	-0.8	-0.8	-0.8	-0.7	-0.7
Foreign direct investment and portfolio (net)	3.4	2.5	2.9	2.0	1.2	1.5	1.5	1.5	1.5	1.5
Other capital flows (net)	0.4	0.4	3.6	2.0	1.1	0.4	0.4	0.4	0.4	0.4
Overall balance	-3.8	-3.0	-2.9	-3.4	-2.8	-4.3	-4.3	-4.5	-4.9	-8.4
Overall balance (cash basis)	-0.5	0.1	-0.4	-0.2	0.2	-1.4	-1.4	-1.7	-2.2	-4.2
Exceptional financing (change in arrears)	3.3	3.0	2.2	3.2	3.0	2.9	2.9	2.8	2.7	4.2
Financing gap	0.0	0.0	0.0	0.0	0.0	1.1	1.5	1.9	2.2	4.0

Sources: Central Bank of Sudan; and IMF staff estimates and projections.
1/ TFA: Transitional financial arrangement of September 2012 between Sudan and South Sudan.

Table 4a. Sudan: Central Government Operations, 2013–22
(In billions of Sudanese pounds)

	2013	2014	2015	2016	2017		2018	2019	2020	2021	2022
					Budget	Proj.			Proj.		
Revenue and grants	34.3	49.0	54.2	57.4	77.7	78.4	98.3	118.4	143.4	179.4	226.2
Revenue	32.3	46.5	52.5	55.7	74.8	75.8	95.7	115.7	140.4	175.9	222.3
Of which: Nonoil revenue	25.9	36.9	44.3	50.7	65.7	68.9	87.9	106.5	131.2	166.7	215.4
Taxes	19.9	24.9	30.5	34.9	40.1	45.9	60.7	76.6	98.9	129.3	170.5
Goods and services	11.2	13.9	18.5	22.3	24.0	31.6	42.9	56.0	73.3	95.7	125.4
International trade and transactions	6.8	7.9	8.7	9.1	11.2	9.5	11.3	12.5	15.4	20.5	28.0
Income, profits, property and others	1.8	3.1	3.3	3.5	4.9	4.8	6.5	8.1	10.2	13.2	17.1
Oil revenue	6.4	9.6	8.2	5.0	9.1	7.0	7.8	9.2	9.2	9.3	6.9
Oil sales	6.4	5.8	4.2	2.9	4.7	3.9	4.4	4.3	4.3	4.4	4.5
Transitional Financial Arrangement	0.0	2.5	2.5	1.1	1.7	1.7	2.1	3.2	3.2	3.2	0.7
Oil transit fees	0.0	1.3	1.5	1.0	2.7	1.3	1.3	1.7	1.7	1.7	1.7
Other revenue	6.1	12.0	13.8	15.9	25.6	23.0	27.3	29.9	32.2	37.4	44.9
Fuel stabilization fees	4.3	10.3	11.1	12.3	17.6	17.6	20.1	20.9	20.7	22.3	23.1
Property income	1.0	0.9	1.5	2.0	3.7	3.2	4.5	5.7	7.3	9.4	14.4
Administrative fees	0.7	0.8	1.1	1.5	4.3	2.1	2.6	3.4	4.3	5.6	7.4
Grants	2.0	2.6	1.7	1.6	2.8	2.6	2.6	2.7	3.1	3.5	3.9
Total expenditure	41.5	54.8	63.4	67.9	96.2	94.7	121.8	152.2	196.1	255.0	346.0
Expense (current expenditure)	38.1	50.1	57.4	61.3	83.8	85.2	108.3	135.0	174.2	226.8	307.2
Wages	14.9	15.8	18.5	22.9	31.2	31.2	41.0	52.5	67.5	88.2	117.2
Goods and services	2.8	5.7	6.9	8.7	14.9	12.1	17.4	22.0	31.1	40.3	53.5
Interest	1.5	3.5	3.6	3.0	4.5	4.5	4.8	5.7	7.0	7.6	18.2
Foreign	0.5	0.7	0.8	0.2	1.5	1.5	1.5	1.8	2.1	2.5	9.8
Domestic	1.0	2.8	2.8	2.9	3.0	3.0	3.3	4.0	4.9	5.1	8.4
Subsidies	7.9	10.5	12.4	8.2	5.6	9.3	8.9	9.1	9.4	10.0	10.8
Fuel	6.6	8.0	9.7	6.5	5.6	8.5	10.6	11.0	11.4	12.0	12.8
Wheat	1.3	2.6	2.7	1.7	0.0	0.8	0.0	0.0	0.0	0.0	0.0
Transfers	10.1	12.1	12.9	15.4	22.1	21.4	27.6	34.8	45.2	62.6	85.1
States (current)	7.1	7.6	8.8	10.7	13.7	13.7	18.3	23.3	30.7	44.0	60.8
States (capital)	2.7	4.4	3.9	4.6	8.1	7.6	9.1	11.3	14.3	18.2	23.8
Other transfers	0.2	0.1	0.1	0.1	0.4	0.1	0.2	0.2	0.3	0.4	0.5
Other current	0.9	2.4	3.1	3.0	5.5	6.9	8.6	10.9	13.9	18.1	22.3
Of which: Social spending	0.6	2.0	2.0	2.6	5.1	5.1	6.3	8.0	10.3	13.3	16.0
Net acquisition of nonfinancial assets (capital exp.)	3.3	4.6	6.0	6.6	12.4	9.4	13.5	17.3	21.9	28.2	38.8
Overall balance	-7.1	-5.8	-9.2	-10.5	-18.5	-16.2	-23.6	-33.8	-52.7	-75.6	-119.8
Primary balance	-5.6	-2.2	-5.6	-7.5	-14.0	-11.7	-18.7	-28.0	-45.6	-68.0	-101.6
Nonoil primary balance 1/	-12.0	-11.8	-13.8	-14.1	-23.1	-18.7	-26.5	-37.3	-54.9	-77.3	-108.5
Financing	7.1	3.8	12.0	13.2	…	15.0	23.5	33.8	52.7	75.6	119.8
Foreign financing	1.1	0.9	-0.4	0.9	…	2.3	2.4	2.6	2.8	3.0	-1.0
Disbursements	2.1	1.6	1.4	1.6	…	3.1	3.3	3.5	3.7	3.9	4.0
Principal repayments	-1.0	-0.7	-1.8	-0.7	…	-0.8	-0.9	-0.9	-0.9	-0.9	-5.0
Domestic financing	6.1	3.0	12.5	12.3	…	12.6	21.2	31.2	49.9	72.6	120.8
CBOS 2/	4.9	1.4	8.0	7.5	…	8.4	13.8	22.2	36.0	52.2	86.6
Of which: Wheat subsidies	1.3	2.0	2.7	1.7	…	0.0	-1.0	-1.0	-1.0	-1.0	-1.0
Commercial banks	0.3	1.2	2.4	1.3	…	2.4	4.0	5.4	10.2	16.5	30.0
Nonbanks	-2.5	2.5	4.0	3.6	…	3.1	3.3	3.5	3.7	3.9	4.2
Change in net domestic arrears	3.3	-2.1	-2.0	-0.1	…	-1.3	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	3.8	0.0	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of arrears	-0.5	-2.1	-2.0	-0.1	…	-1.3	0.0	0.0	0.0	0.0	0.0
Discrepancy	0.0	1.9	-2.9	-2.6	…	1.3	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Fiscal burden of fuel subsidies	9.0	2.7	-1.2	-5.5	…	-8.7	-7.6	-8.0	-8.2	-8.3	-8.4
Budgetary net fuel subsidies 3/	2.4	-2.3	-1.3	-5.8	…	-9.1	-9.5	-10.0	-9.2	-10.3	-10.3
Crude oil subsidies 4/	6.7	5.0	0.1	0.3	…	0.4	0.4	0.4	0.4	0.4	0.4
Public debt	280.0	408.2	489.5	766.9	…	913.5	1,177.5	1,522.8	1,999.4	2,668.5	3,551.1
External	247.2	362.6	425.3	711.4	…	844.0	1,085.4	1,401.1	1,838.3	2,457.1	3,257.7
Domestic 5/	32.9	45.6	64.3	55.5	…	69.5	92.1	121.7	161.1	211.4	293.4

Sources: Ministry of Finance and Economic Planning; and IMF staff estimates and projections.

1/ Primary balance minus oil revenue

2/ In the CBOS balance sheet, wheat subsidy obligations are classified as "other items net"; this explains the difference in net credit to government between the fiscal and monetary tables.

3/ Fuel subsidies minus fuel stabilization fees.

4/ Until 2015, crude oil subsidies, which were not included in the budget, arose from the government's sales of crude oil to state-owned refineries at a discounted price.

5/ Staff estimates and projections.

Table 4b. Sudan: Central Government Operations, 2013–22
(In percent of GDP)

	2013	2014	2015	2016	2017		2018	2019	2020	2021	2022
					Budget	Proj.			Proj.		
Revenue and grants	10.3	10.8	10.0	8.7	8.5	8.6	8.6	8.2	7.7	7.4	7.0
Revenue	9.7	10.3	9.7	8.4	8.2	8.3	8.4	8.0	7.5	7.3	6.9
Of which: Nonoil revenue	7.8	8.1	8.2	7.7	7.2	7.5	7.7	7.3	7.1	6.9	6.7
Taxes	6.0	5.5	5.6	5.3	4.4	5.0	5.3	5.3	5.3	5.3	5.3
Goods and services	3.4	3.1	3.4	3.4	2.6	3.4	3.8	3.9	3.9	4.0	3.9
International trade and transactions	2.1	1.7	1.6	1.4	1.2	1.0	1.0	0.9	0.8	0.8	0.9
Income, profits, property and others	0.5	0.7	0.6	0.5	0.5	0.5	0.6	0.6	0.6	0.5	0.5
Oil revenue	1.9	2.1	1.5	0.8	1.0	0.8	0.7	0.6	0.5	0.4	0.2
Oil sales	1.9	1.3	0.8	0.4	0.5	0.4	0.4	0.3	0.2	0.2	0.1
Transitional Financial Arrangement	0.0	0.6	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.0
Oil transit fees	0.0	0.3	0.3	0.2	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	1.8	2.6	2.5	2.4	2.8	2.5	2.4	2.1	1.7	1.5	1.4
Fuel stabilization fees	1.3	2.3	2.0	1.9	1.9	1.9	1.8	1.4	1.1	0.9	0.7
Property income	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Administrative fees	0.2	0.2	0.2	0.2	0.5	0.2	0.2	0.2	0.2	0.2	0.2
Grants	0.6	0.6	0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.1	0.1
Total expenditure	12.5	12.1	11.7	10.3	10.5	10.3	10.6	10.5	10.5	10.5	10.8
Expense (current expenditure)	11.5	11.1	10.6	9.3	9.1	9.3	9.5	9.3	9.4	9.4	9.6
Wages	4.5	3.5	3.4	3.5	3.4	3.4	3.6	3.6	3.6	3.6	3.6
Goods and services	0.9	1.3	1.3	1.3	1.6	1.3	1.5	1.5	1.7	1.7	1.7
Interest	0.5	0.8	0.7	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.6
Foreign	0.2	0.2	0.1	0.0	0.2	0.2	0.1	0.1	0.1	0.1	0.3
Domestic	0.3	0.6	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.3
Subsidies	2.4	2.3	2.3	1.2	0.6	1.0	0.8	0.6	0.5	0.4	0.3
Fuel	2.0	1.8	1.8	1.0	0.6	0.9	0.9	0.8	0.6	0.5	0.4
Wheat	0.4	0.6	0.5	0.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Transfers	3.0	2.7	2.4	2.3	2.4	2.3	2.4	2.4	2.4	2.6	2.6
States (current)	2.1	1.7	1.6	1.6	1.5	1.5	1.6	1.6	1.6	1.8	1.9
States (capital)	0.8	1.0	0.7	0.7	0.9	0.8	0.8	0.8	0.8	0.8	0.7
Other transfers	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current	0.3	0.5	0.6	0.5	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Of which: Social spending	0.2	0.4	0.4	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.5
Net acquisition of nonfinancial assets (capital exp.)	1.0	1.0	1.1	1.0	1.3	1.0	1.2	1.2	1.2	1.2	1.2
Overall balance	-2.2	-1.3	-1.7	-1.6	-2.0	-1.8	-2.1	-2.3	-2.8	-3.1	-3.7
Primary balance	-1.7	-0.5	-1.0	-1.1	-1.5	-1.3	-1.6	-1.9	-2.5	-2.8	-3.2
Nonoil primary balance 1/	-3.8	-2.7	-2.6	-2.2	-2.6	-2.1	-2.4	-2.6	-3.0	-3.3	-3.5
Financing	2.2	0.8	2.2	2.0	…	1.6	2.1	2.3	2.8	3.1	3.7
Foreign financing	0.3	0.2	-0.1	0.1	…	0.3	0.2	0.2	0.2	0.1	0.0
Disbursements	0.6	0.4	0.3	0.2	…	0.3	0.3	0.2	0.2	0.2	0.1
Principal repayments	-0.3	-0.2	-0.3	-0.1	…	-0.1	-0.1	-0.1	0.0	0.0	-0.2
Domestic financing	1.8	0.7	2.3	1.9	…	1.4	1.8	2.2	2.7	3.0	3.8
CBOS 2/	1.5	0.3	1.5	1.1	…	0.9	1.2	1.5	1.9	2.2	2.7
Of which: Wheat subsidies	0.4	0.4	0.5	0.3	…	0.0	-0.1	-0.1	-0.1	0.0	0.0
Commercial banks	0.1	0.3	0.4	0.2	…	0.3	0.4	0.4	0.5	0.7	0.9
Nonbanks	-0.7	0.5	0.7	0.5	…	0.3	0.3	0.2	0.2	0.2	0.1
Change in net domestic arrears	1.0	-0.5	-0.4	0.0	…	-0.1	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	1.1	0.0	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of arrears	-0.1	-0.5	-0.4	0.0	…	-0.1	0.0	0.0	0.0	0.0	0.0
Discrepancy	0.0	0.4	-0.5	-0.4	…	0.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Fiscal burden of fuel subsidies	2.7	0.6	-0.2	-0.8	…	-0.9	-0.7	-0.6	-0.4	-0.3	-0.3
Budgetary net fuel subsidies 3/	0.7	-0.5	-0.2	-0.9	…	-1.0	-0.8	-0.7	-0.5	-0.4	-0.3
Crude oil subsidies 4/	2.0	1.1	0.0	0.1	…	0.0	0.0	0.0	0.0	0.0	0.0
Public debt	84.4	90.2	90.5	116.2	…	99.6	102.9	105.1	107.5	110.2	110.5
External	74.5	80.1	78.6	107.8	…	92.0	94.8	96.7	98.8	101.5	101.4
Domestic 5/	9.9	10.1	11.9	8.4	…	7.6	8.0	8.4	8.7	8.7	9.1

Sources: Ministry of Finance and Economic Planning; and IMF staff estimates and projections.

1/ Primary balance minus oil revenue.

2/ In the CBOS balance sheet, wheat subsidy obligations are classified as part of "other items net"; this explains the difference in net credit to government between the fiscal and monetary tables.

3/ Fuel subsidies minus fuel stabilization fees.

4/ Until 2015, crude oil subsidies, which were not included in the budget, arose from the government's sales of crude oil to state-owned refineries at a discounted price.

5/ Staff estimates and projections.

Table 5. Sudan: Monetary Survey, 2013–18
(In millions of Sudanese pounds)

	2013	2014	2015	2016	2017	2018
					Proj.	
Net foreign assets	-12,719	-12,550	-26,600	-36,540	-37,631	-48,113
Central Bank of Sudan	-15,418	-15,702	-28,521	-38,097	-40,933	-50,890
Commercial banks	2,700	3,152	1,921	1,556	3,302	2,777
Net domestic assets	79,164	90,289	119,703	157,604	218,605	281,353
Net domestic credit	68,015	75,293	92,146	113,802	153,665	200,577
Net claims on general government (NCGG)	29,566	30,078	37,519	44,713	55,928	74,844
NCGG excluding IMF	20,967	21,630	29,304	36,354	47,316	66,285
Central Bank of Sudan	13,503	12,923	18,191	23,990	32,527	47,462
Commercial banks	7,464	8,707	11,113	12,365	14,789	18,823
Claims on nongovernment sectors	38,449	45,215	54,627	69,088	97,736	125,733
Public enterprises	4,004	6,008	9,071	11,736	15,257	19,529
Private sector	33,034	35,920	41,606	52,561	74,356	95,656
Other	1,411	3,286	3,949	4,791	8,123	10,548
Other items (net)	11,149	14,997	27,558	43,803	64,940	80,776
Broad money (M2)	66,446	77,739	93,103	121,064	180,974	233,240
Money	47,309	56,199	65,609	85,759	126,879	163,522
Currency in circulation	19,178	23,343	27,495	38,712	56,795	72,428
Demand deposits	28,130	32,855	38,113	47,047	70,084	91,095
Domestic currency	16,487	19,742	25,363	33,460	49,437	65,167
Foreign currency	11,643	13,114	12,750	13,587	20,647	25,927
Quasi-money	19,137	21,540	27,495	35,305	54,095	69,718
Domestic currency	15,394	19,038	24,497	32,446	49,199	63,788
Foreign currency	3,743	2,503	2,998	2,858	4,896	5,929
			(In percent)			
Broad money to GDP	20.0	18.3	17.2	18.3	19.7	20.4
Money to broad money	71.2	72.3	70.5	70.8	70.1	70.1
Currency in circulation to M2	28.9	30.0	29.5	32.0	31.4	31.1
Private sector deposits to M2	60.4	62.8	62.6	59.9	58.4	58.7
Net claims on government to GDP	8.9	6.6	6.9	6.8	6.1	6.5
Net claims on government as a ratio to NHC	9.9	7.7	7.7	7.6	7.5	7.7
Credit to the economy to GDP	11.6	10.0	10.1	10.5	10.7	11.0
Velocity (GDP/M2, eop)	5.0	5.8	5.8	5.4	5.1	4.9
Foreign currency deposits to M2	23.2	20.1	16.9	13.6	14.1	13.6
Reserve money growth (annual changes, enc	20.3	16.0	21.6	27.5	46.7	27.5
Money multiplier (M2/reserve money, eop)	1.8	1.8	1.8	1.8	1.9	1.9

Sources: Central Bank of Sudan; and IMF staff estimates and projections.

Table 6. Sudan: Summary Accounts of the Central Bank of Sudan, 2013–18
(In millions of Sudanese pounds)

	2013	2014	2015	2016	2017	2018
					Proj.	
Net foreign assets	-15,418	-15,702	-28,521	-38,097	-40,933	-50,890
Foreign assets	9,495	9,030	6,401	6,085	6,661	5,688
Of which: Gross international reserve	9,179	8,726	6,110	5,668	6,204	5,298
Of which: SDR holdings	1,098	1,063	1,084	1,154	1,154	1,154
Foreign liabilities	24,913	24,732	34,922	44,182	47,593	56,578
Of which: Short-term foreign liabilities	7,826	6,614	7,427	9,850	10,393	12,403
Of which: IMF-related liabilities	10,159	9,990	9,720	9,887	9,887	10,161
Net domestic assets	51,889	58,025	79,985	103,710	137,196	173,648
Net domestic credit	25,912	25,460	32,611	40,097	49,541	66,102
Net claims on general government (NCGG)	22,103	21,371	26,406	32,349	41,140	56,021
NCGG excluding IMF	13,503	12,923	18,191	23,990	32,527	47,462
Claims	23,109	22,798	27,380	33,595	42,448	57,395
Of which: IMF on-lent	8,599	8,448	8,215	8,359	8,612	8,559
Deposits	1,006	1,426	974	1,246	1,309	1,374
Claims on public enterprises	792	894	1,170	1,400	1,900	2,280
Claims on banks	2,831	3,195	5,035	6,349	6,500	7,800
Money market instruments	187	0	0	0	1	1
Other items (net)	25,977	32,565	47,374	63,613	87,655	107,546
Reserve money	36,471	42,323	51,464	65,613	96,263	122,758
Currency outside banks	19,178	23,343	27,495	38,712	56,795	72,428
Reserves of commercial banks	13,897	17,806	20,988	23,815	35,166	45,120
Required reserves	3,975	4,509	5,244	6,164	9,044	11,533
Excess reserves	9,922	13,297	15,744	17,651	26,123	33,587
Cash in vault	1,234	1,717	1,845	2,192	3,216	4,102
Excess reserves on deposits	8,687	11,580	13,899	15,459	22,906	29,485
Deposits at CBOS included in broad money	3,395	1,175	2,981	3,086	4,301	5,211
	(Change in percent, end of period)					
Net foreign assets	7.3	-1.8	-81.6	-33.6	-7.4	-24.3
Foreign assets	24.9	-4.9	-29.1	-4.9	9.5	-14.6
Gross international reserve	25.9	-4.9	-30.0	-7.2	9.5	-14.6
Foreign liabilities	2.8	-0.7	41.2	26.5	7.7	0.0
Net domestic assets	0.2	11.8	37.8	29.7	32.3	19.3
Net domestic credit	2.9	-1.7	28.1	23.0	23.6	33.4
Net claims on general government	3.5	-3.3	23.6	22.5	27.2	36.2
Other items (net)	-2.3	25.4	45.5	34.3	37.8	22.7
Reserve money	1.3	16.0	21.6	27.5	46.7	27.5
Memorandum items:						
Gross international reserves (in millions of US$)	1,612	1,461	1,003	875	970	830
Net international reserves (in millions of US$)	355	259	-216	-344	-262	-402

Sources: Central Bank of Sudan; and IMF staff estimates and projections.

Table 7. Sudan: Summary Accounts of the Commercial Banks, 2013–18
(In millions of Sudanese pounds)

	2013	2014	2015	2016	2017	2018
					Proj.	
Net foreign assets	2,700	3,152	1,921	1,556	3,302	2,777
Foreign assets	4,696	5,149	3,859	3,724	5,808	5,283
Foreign liabilities	1,996	1,997	1,937	2,168	2,506	2,506
Net domestic assets	42,717	53,552	66,046	80,421	119,613	156,227
Reserves	14,440	19,523	22,833	26,008	38,383	49,221
Cash in vaults	1,234	1,717	1,845	2,192	3,216	4,102
Required reserves	4,029	4,573	5,316	6,270	9,253	11,866
Other reserves	9,098	12,600	14,656	17,856	25,913	33,254
Net claims on central government	7,464	8,707	11,113	12,365	14,789	18,823
Claims	7,590	8,773	11,191	12,469	14,904	18,949
Of which: GMCs	7,590	8,773	11,191	12,469	14,904	18,949
Deposits	126	67	79	105	115	127
Claims on state & local government	966	1,923	2,046	3,342	3,509	3,685
Claims on non-government sectors	36,691	42,398	51,410	64,347	95,837	123,453
Private sector	33,034	35,920	41,606	52,561	78,284	100,842
Non-financial public enterprises	3,213	5,114	7,901	10,336	15,395	19,831
Non-bank financial institutions	444	1,364	1,903	1,449	2,158	2,779
Other items, net	-16,844	-18,998	-21,357	-25,639	-32,904	-38,955
Unclassified assets	13,097	15,183	18,612	22,512	28,542	33,791
Unclassified liabilities	16,657	19,261	23,000	29,951	37,974	44,957
Capital accounts	13,149	14,739	16,254	18,424	23,359	27,655
Other (incl. discrepancies)	135	181	713	89	113	134
Deposits	43,872	53,221	62,627	79,266	119,878	155,602
Demand deposits	27,537	32,498	37,198	45,833	69,316	89,972
Domestic currency	15,893	19,384	24,448	32,246	48,768	63,301
Foreign currency	11,643	13,114	12,750	13,587	20,548	26,671
Quasi-money deposits (time & saving)	16,335	20,723	25,430	33,433	50,562	65,630
Domestic currency	15,394	19,036	24,484	32,446	49,070	63,693
Foreign currency	942	1,687	946	987	1,492	1,937
Liabilities to CBOS 1/	1,544	2,851	4,326	2,712	3,037	3,402
Memorandum items:						
Deposits with commercial banks	43,998	53,288	62,706	79,370	119,993	155,728
Central government	126	67	79	105	115	127
Other sectors	43,872	53,221	62,627	79,266	119,878	155,602
State and local government deposits	1,744	2,057	2,424	3,115	4,712	6,116
Demand deposits	1,173	1,492	1,776	2,295	3,470	4,504
Time and savings deposits	571	565	648	821	1,241	1,611
Public enterprises deposits	2,011	2,375	2,544	3,625	5,483	7,117
Demand deposits	880	950	1,180	1,966	2,974	3,860
Time and savings deposits	1,131	1,425	1,364	1,659	2,509	3,257
Private sector deposits	40,117	48,790	58,328	72,522	109,683	142,369
Demand deposits	25,484	30,057	34,242	41,572	62,874	81,611
Time and savings deposits	14,633	18,733	24,086	30,950	46,809	60,758
Time deposits	5,371	7,398	8,959	12,216	18,475	23,981
Savings deposits	9,262	11,335	15,127	18,734	28,334	36,778
			(In percent)			
Credit to deposits	85.8	83.3	85.4	85.4	85.4	84.2
Reserves to deposits	31.6	33.4	33.5	30.0	29.3	29.0
Required reserves to deposits	9.0	8.5	8.4	7.8	7.5	7.4
Excess reserves to deposits	22.6	25.0	25.1	22.3	21.8	21.6
Cash to deposits	2.8	3.2	2.9	2.8	2.7	2.6
Claims on government to reserves	54.6	49.3	53.3	52.4	42.4	42.0
GMC as a ratio to Bank excess reserves	76.5	66.0	71.1	70.6	57.1	56.4

Sources: Central Bank of Sudan; and IMF staff estimates and projections.

1/ The difference between commercial banks' liabilities to CBOS and CBOS's claims on banks (Table 6) is due to misclassification of government guarantees.

Annex I. Path to Debt Relief

1. Sudan is eligible for debt relief under the HIPC initiative, but has yet to meet all the qualifications. In particular, it needs to obtain assurances from bilateral official and commercial creditors that they are willing to consider providing debt relief. Sudan currently meets the following conditions for the HIPC initiative:

- Sudan faces an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms; and
- It has developed an Interim Poverty Reduction Strategy (I-PRSP) document. Sudan's I-PRSP and the Joint Staff Advisory Note were discussed at the IMF's and World Bank's Executive Boards in September 2013. The Government is implementing the Interim-PRSP and started the process of preparing a full PRSP.

2. To reach the HIPC Decision Point, Sudan would need to undertake the following:

- Obtain assurances of support for HIPC debt relief from a large majority of creditors representing at least 70 percent of HIPC-eligible debt;
- Establish with the IMF an adequate track record of strong policy performance in the period leading up to the Decision Point, under an SMP judged by the Executive Board to meet the policy standards associated with upper-credit tranche arrangements; and
- Clear its arrears with the IMF, and have a fully-financed plan and a timetable to clear arrears with the World Bank and the African Development Bank to restore its eligibility to borrow from these sources.

3. The resources required for the IMF's participation in the HIPC Initiative have not yet been identified. As the costs to the IMF for providing debt relief to Sudan were not included in the original costing estimates for the HIPC Initiative, additional financing will need to be secured when Sudan is ready to clear its arrears and embark on the HIPC Initiative. As of end-September 2017, Sudan's outstanding arrears to the IMF stood at SDR 968.07 million.

Annex II. External Stability Assessment

Sudan's external position is substantially weaker than implied by fundamentals, though the gap appears to be narrowing amid partial exchange rate liberalization and a declining current account deficit. Weak institutions and an unfavorable business environment continue to undermine competitiveness.

Overall Assessment

1. **The external position is substantially weaker than implied by fundamentals.** The differential between the parallel and official rate has continued to widen since the secession of South Sudan in 2011. Twenty years of U.S. sanctions, which were permanently revoked in October 2017, as well as the high cost of doing business have prevented the economy from fully adjusting to the sharp decline in exports following the loss of oil fields with the secession of South Sudan. EBA-lite estimates point to substantial overvaluation of the real exchange rate. The resulting weak external position has led to continued accumulation of external arrears to creditors. Sudan is also vulnerable to external shocks given its narrow export base. Structural reforms, exchange rate unification and greater exchange rate flexibility are necessary to improve competitiveness and attract investment in the tradable sector. The recent revocation of U.S. sanctions, along with clearance of external arrears, and debt relief will be key to restoring external sustainability. Prudent fiscal and monetary policies will need to support the exchange rate unification to ensure that the potential repercussions to domestic stability are minimized.

2. **Gradual exchange rate liberalization is taking place**. In efforts to ease constraints to the supply of foreign exchange, since November 2016, the authorities have implemented a series of measures that partially liberalizes the exchange rate regime, effectively allowing the bulk of exchange rate transactions by the private sector to take place at an exchange rate closer to the parallel rate. Nevertheless, some transactions, mainly for wheat and fuel imports, still take place at overvalued official exchange rates. These measures have led to a decline in the current account deficit, but international reserves remain well below adequate levels.

Recent Developments

3. **The external current account deficit declined but remains large.** In 2016, the current account deficit (on a cash basis) declined to 6.1 percent from 7.7 percent of GDP. Exports declined by 2.6 percent year-on-year while imports fell by 12.5 percent. The sharp decline in imports could be attributed to weaker demand in response to measures that allowed most exchange rate transactions to take place at a more depreciated exchange rate closer to the parallel rate (i.e., commercial bank plus incentive rate).

4. The parallel market exchange rate premium continued to increase in 2017. The parallel exchange rate reached SDG/USD 20.7 as of October 11, 2017—a 82 percent depreciation since end-2015, while the official rate was adjusted by only 10 percent. This suggests that the parallel rate premium stood at 210 percent.

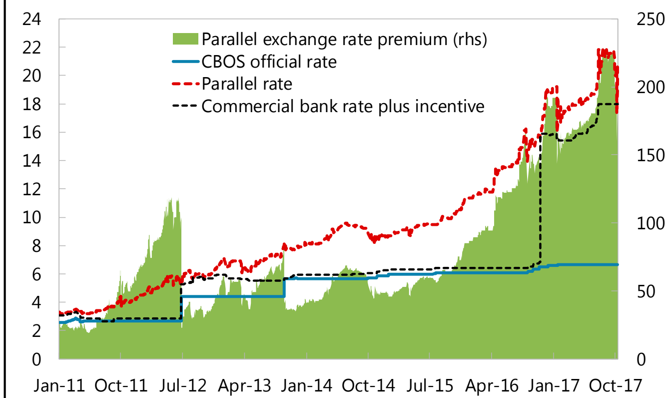
Price Competitiveness

5. While the (official) real effective exchange rate (REER) appreciated by 49.5 percent between December 2015 and September 2017, the parallel market REER depreciated by 14 percent. The sharp appreciation of the (official) REER was due to the tightly managed official exchange rate and the substantial inflation differential between Sudan and its trading partners, which further widened when Sudan's inflation increased sharply after fuel prices were raised in November 2016. This eroded the 11 percent real depreciation following the 29 percent nominal devaluation of the official rate in September 2013.

6. EBA-lite estimates point to substantial exchange rate overvaluation. Despite the recent decline, the 2016 (cash) current account deficit at 6.1 percent of GDP in 2016 remains large.[1] Based on the external balance assessment (EBA-lite) methodology, the current account norm—the equilibrium current account balance determined by medium-term values of fiscal balance, relative income level, demographic characteristics and productivity

Exchange Rates

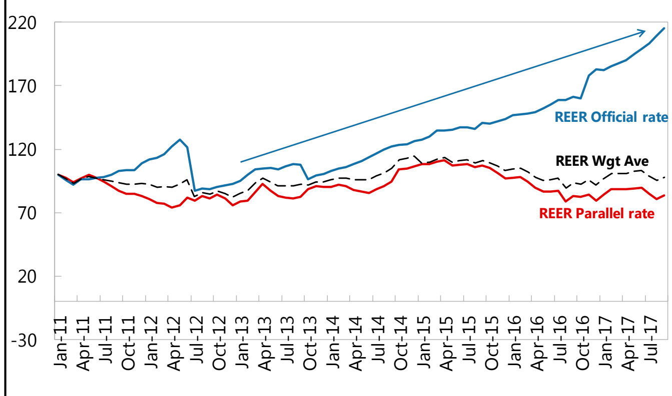
(In SDG per US dollar and percent)



Source: Central Bank of Sudan.

Nominal and Real Effective Exchange Rates

(January 2011 - September 2017)



Source: INS (IMF), and IMF staff calculations.

Source: WB Doing Business Report 2017 and IMF staff calculations.

[1] Interest and penalties on Sudan's external debt arrears are excluded from the current account deficit in this exercise as they do not present actual cash flows.

differentials—is estimated at about -1.6 percent of GDP. This implies a current account gap of about 4.5 percent of GDP. The current account gap together with a low long-term elasticity of the current account to the real exchange rate of -0.15,[2] suggests the average real exchange rate is overvalued by about 30 percent. In the case of Sudan, however, these model-based estimates should be interpreted with caution given that the country faces severe external constraints and other non-price related structural rigidities (see below).

Non-Price Competitiveness

7. Weak institutions and an unfavorable business environment continue to undermine competitiveness. Sudan ranks 168th among 190 countries covered by the 2017 World Bank Doing Business Survey, slipping by 4 places compared to its 2016 ranking.[3] Access to credit, protecting minority investors and trading across borders are identified as major weaknesses. The World Bank's Country Policy and Institutional Assessment 2017 report[4] classified Sudan as a weak performer with an overall score of 2.5 vis-à-vis 3.1 for Sub-Saharan African countries. In particular, Sudan scores poorly in Public Sector Management and Institutions.

Country and Policy Institutional Assessment 2016 1/

Concept	Sudan	Sub-Saharan Africa countries
Economic Management	**2.5**	**3.1**
Monetary & Exchange Rate Policy	3.0	3.2
Fiscal Policy	3.0	3.0
Debt Policy	1.5	3.2
Structural Policies	**2.7**	**3.2**
CPIA trade rating	2.5	3.6
Financial Sector	2.5	2.8
Business Regulatory Environment	3.0	3.1
Policies for Social Inclusion and Equity	**2.5**	**3.2**
Gender Equality	2.5	3.2
Equity of Public Resource Use	2.5	3.3
Building Human Resources	3.0	3.6
social protection and labor rating	2.5	3.0
Policies & Institutions for Environment	2.0	3.2
Public Sector Management and Institutions	**2.2**	**3.0**
Property Rights & Rule-based Governance	2.0	2.8
Quality of Budgetary & Financial Management	2.5	3.1
Efficiency of Revenue Mobilization	3.0	3.4
Quality of Public Administration	2.0	2.9
Transparency, Accountability & Corruption in	1.5	2.7
Overall CPIA Score	**2.5**	**3.1**

Source: CPIA (July 2017). World Bank.
1/ Scale: 1=low to 6=high

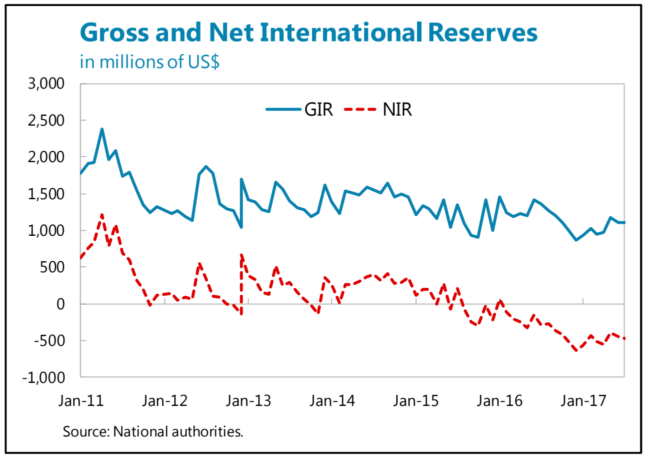
[2] Trade elasticities, estimated by Tokarick, 2010, were applied: Sudan has an export supply elasticity of 0.57 and an import demand elasticity of 1.23. Thus, the exchange rate gap is calculated as the ratio between the CA gap and the elasticity of the CA to the REER.

[3] Doing Business provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle. Economies are ranked from 1 to 190 by the ease of doing business ranking.

[4] The Country Policy and Institutional Assessment (CPIA) rates countries against a set of 16 criteria grouped in four clusters: (a) economic management; (b) structural policies; (c) policies for social inclusion and equity; and (d) public sector management and institutions. The CPIA measures the extent to which a country's policy and institutional framework supports sustainable growth and poverty reduction, and consequently the effective use of development assistance. The outcome of the exercise yields both an overall score and scores for all of the sixteen criteria that compose the CPIA. For each criterion, countries are classified from 1 (very weak performance) to 6 (very strong performance). http://go.worldbank.org/7NMQ1P0W10.

Reserve Adequacy

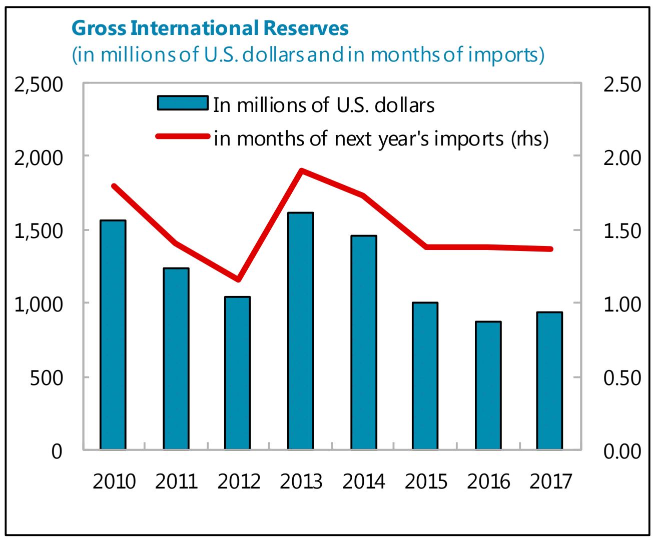
8. Sudan's gross international reserves (GIR) are very low. The GIR has been volatile and on a declining trend over past several years. As of August 2017, the GIR level stood at US$ 1.1 billion or 1.7 months of imports, despite about US$2.7 billion in financial support extended to the government mainly from Gulf countries from 2015 to early 2017. Over the medium term, GIR are projected to decline to about 1 month of imports, below the traditionally recommended 3 months of imports.



Conclusion

9. The REER is overvalued as suggested by: (i) a persistently large current account deficit; (ii) very low international reserves; (iii) appreciation of the real exchange rate over 2013-2017; (iii) results of the EBA-lite methodology; and (iii) weak external payment capacity as evidenced by the continued accumulation of external arrears.

10. Despite recent efforts to partially liberalize the exchange rate regime, Sudan's external position remains very weak. To reduce external imbalances and enhance resilience, the authorities need to: (i) fully unify the exchange rate and allow for greater exchange rate flexibility; (ii) implement fiscal and monetary policies supportive of external stability; and (iii) improve the business environment and implement wide-ranging structural reforms and infrastructure investments to improve competitiveness. Enhanced outreach to garner international support for debt relief under the Heavily Indebted Poor Country Initiative is also critical.



Annex III. Policy Reform Scenario

1. The policy reform scenario assumes the following:

- Exchange rates are fully liberalized at the beginning of 2018, and remain unified and market determined thereafter.
- Energy and wheat subsidies are phased out over 2019–21.
- Social spending is increased from 2018 onward to ease the adjustment pain from the reforms.
- Capital expenditure is boosted over the medium term to support inclusive growth
- The impact of tariff reforms on revenues is offset by other revenue mobilization measures notably to broaden the tax base and improve administration.
- The fiscal deficit is reduced to below 1 percent of GDP to avoid monetization.
- Monetary policy is tightened to contain inflation
- Structural reforms are vigorously pursued to boost the business environment.

2. The reforms would have a substantial impact on prices. Estimates of the price impact of exchange rate reforms are subject to a significant margin of uncertainty, which may be larger in the case of Sudan given the data gaps. With that caveat in mind, our calculations indicate the following:

- Assessing customs duty at the parallel market rate would imply about a 26 percent increase in the local currency prices of imports. Based on a 30 percent weight of imports in the consumption basket underlying the Consumer Price Index (CPI), and the experience from previous devaluation episodes on the pass-through from import prices to other domestic prices, it is estimated that the overall price level would increase by about 12 percent after exchange rate liberalization, given no subsidy removal.
- However, the removal of subsidies would have substantial additional effects on the price level. Notably, gasoline, diesel, and wheat prices would rise by 48, 164, and 214 percent, respectively if all subsidies are removed at once. Applying the relevant weights in the CPI basket and estimated pass-through to domestic prices, it is estimated that subsidy removal would raise the overall price level by 40 percentage points. Thus, the overall impact of exchange rate liberalization and subsidy removal on the price level would be over 50 percentage points. Under the assumption that subsidy reform is implemented over 2019-21, the price level impact would also be staggered over those three years.
- Fiscal and monetary tightening are assumed to significantly reduce the underlying inflation path over the medium term, however, and hence headline inflation falls sharply in 2022 after all the reforms have been concluded.

Sudan: Baseline and Reform Scenario - Key Indicators

	2017	2018	2019	2020	2021	2022
Output and prices						
Real GDP						
- Baseline	3.2	4.0	3.7	3.3	3.1	3.0
- Reform	3.2	2.0	4.0	4.5	5.5	6.0
Consumer prices (period average)						
- Baseline	29.8	23.0	23.1	24.7	26.9	29.1
- Reform	29.8	36.8	35.9	25.5	20.3	6.6
Central government operations						
Overall balance 1/						
- Baseline	-1.8	-2.1	-2.3	-2.8	-3.1	-3.7
- Reform	-1.8	-3.6	-2.0	-0.7	-0.7	-0.7
External sector						
Current account balance (cash basis)						
- Baseline	-2.8	-3.9	-4.0	-4.4	-4.9	-6.0
- Reform	-2.8	-3.0	-2.9	-2.2	-0.9	0.2
External financing gap						
- Baseline	0.0	1.1	1.5	1.9	2.2	4.0
- Reform	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves						
- Baseline (in US$ dollars)	969.6	829.8	872.4	953.1	946.6	828.8
in months of next year's imports of G&S	1.4	1.1	1.1	1.1	1.1	0.9
- Reform (in US$ dollars)	969.6	1,569.7	2,118.5	2,718.0	3,359.1	3,986.3
in months of next year's imports of G&S	1.4	2.0	2.5	3.0	3.4	3.8

Source: IMF staff calculations.

1/ The decline of the fiscal balance in 2022 is related to assumed interest payments on the deposits of Gulf states in the central bank.

3. **The immediate impact of reforms on GDP growth is likely to be negative, but stronger competitiveness will boost the medium-term outlook.** Notably, higher import prices and fiscal tightening will dampen domestic demand in the short run, but over the medium term this should be more than offset by the increased incentives to boost domestic supply and exports. Also, the compensating fiscal measures to mitigate the pain of adjustment would help contain the adverse short term impact on growth. We estimate that overall, the immediate adverse impact on GDP growth could be about 2 percentage points. Over the medium term, however, with renewed price and structural competitiveness GDP growth is expected to increase above the baseline, supported by stronger investment.

4. **The permanent revocation of sanctions significantly improves the outlook for growth and inflation in a reform scenario.** With full sanctions revocation and vigorous reform implementation, there is likely to be a substantial increase in foreign investment, particularly into the mining and agricultures sectors which have rich potential. While this would temporarily widen the current account deficit as higher investments generate higher import demand, over the medium term the current account would shrink as higher investment and stronger competitiveness stimulate higher exports.

5. Under the fiscal reform scenario, the changes in revenue are driven by exchange rate and other revenue mobilization measures. Exchange rate liberalization causes sharp increases in import duties and foreign currency denominated fiscal revenues (currently assessed at overvalued official rates)—we estimate a full-year revenue gain of about 5 percent of GDP. Over the medium term, revenue mobilization efforts lead to additional increase in revenues, which creates added space for reductions in tariff rates and higher social and capital spending while reducing the fiscal deficit.

Fiscal Reform Scenario: Sanctions Fully Revoked

	2017	2017 True deficit 1/	2018	2019	2020	2021	2022
Total Revenue	8.6	8.6	13.6	13.7	14.4	14.7	15.4
Taxes on Goods & Services	3.4	3.4	5.4	6.2	6.1	6.2	6.4
Taxes on International Trade	1.0	1.0	2.8	3.0	3.7	3.9	4.1
Taxes on Income, Profit, Property etc	0.5	0.5	0.5	0.6	0.8	0.9	1.2
Other Revenue & Grants	3.6	3.6	4.8	4.0	3.8	3.6	3.6
Total Expenditure	10.3	15.1	17.2	15.7	15.1	15.4	16.2
Wages	3.4	3.4	3.6	3.6	3.6	3.6	3.6
Subsidies	1.0	5.8	5.3	1.8	0.8	0.2	0.0
Transfers	2.3	2.3	2.8	2.7	2.8	2.8	2.8
Social Spending	0.6	0.6	1.7	1.9	2.0	2.0	2.0
Capital Spending	1.0	1.0	1.4	3.2	3.4	4.1	4.1
Other Expenditure	2.0	2.0	2.4	2.5	2.6	2.7	3.6
Overall Balance	-1.8	-6.5	-3.6	-2.0	-0.7	-0.7	-0.7
Financing	1.8	6.5	3.6	2.0	0.7	0.7	0.7
Foreign Financing	0.3	0.3	0.6	0.7	0.6	0.6	0.6
Domestic Financing:	1.5	6.3	3.0	1.3	0.1	0.1	0.1
Central Bank	0.9	5.7	2.4	0.8	0.0	0.0	0.0
Commercial Bank	0.3	0.3	0.3	0.3	0.1	0.1	0.1
NonBank	0.3	0.3	0.3	0.2	0.0	0.0	0.0

1/ Evaluated using an average parallel market exchange rate of SDG19.5/$ for 2017

INTERNATIONAL MONETARY FUND

SUDAN

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 13, 2017

Prepared By | Middle East and Central Asia Department (In consultation with other departments and the World Bank)

CONTENTS

RELATIONS WITH THE FUND

(As of September 30, 2017)

Membership Status

Joined September 5, 1957; Article VIII.

General Resources Account

	SDR Million	Percent Quota
Quota	169.70	100.00
Fund holdings of currency (Holdings Rate)	325.71	191.93
Reserve Tranche Position	0.01	0.01

SDR Department

	SDR Million	Percent Quota
Net cumulative allocation	177.99	100.00
Holdings	125.01	70.23

Outstanding Purchases and Loans

	SDR Million	Percent Quota
Stand-by Arrangements	105.69	62.28
Trust Fund	59.23	34.90
Extended Arrangements	50.30	29.64

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	6/25/1984	6/24/1985	90.00	20.00
Stand-By	2/23/1983	3/9/1984	170.00	170.00
Stand-By	2/22/1982	2/21/1983	198.00	70.00

Overdue Obligations and Projected Payments to Fund

(SDR million; based on existing use of resources and present holdings of SDRs)

The projection of charges and interest assumes that overdue principal as of September 30, 2017 will remain outstanding, but forthcoming obligations will be settled on time.

	Overdue	Forthcoming				
	September 30, 2017	2017	2018	2019	2020	2021
Principal	215.22					
Charges/Interest	752.85	0.83	3.0	3.0	3.0	3.0
Total	**968.07**	**0.83**	**3.0**	**3.0**	**3.0**	**3.0**

Exchange Rate Arrangement

The legal tender is the Sudanese guinea, which replaced the Sudanese dinar in proportion SDG 1=SDD 100 in mid-2007. Sudan has a de jure "managed float" exchange rate arrangement. Its de facto arrangement was reclassified from "stabilized arrangement" to "other managed," effective September 8, 2016. The Central Bank of Sudan (CBOS) sets two official exchange rates: an "indicative" rate and an "official" rate which applies to public transactions and customs valuation. There is also a wheat rate which applies to wheat imports. Commercial banks and foreign exchange bureaus are required to set their rates within ±4 percent of the indicative rate, but in practice they trade at top end of the band. Thus, the official rate differs by more than 2 percent from the commercial banks' rate. In November 2016, the CBOS introduced the commercial bank incentive rate (the commercial bank rate plus an "incentive" margin which effectively brings the exchange rate for commercial bank transactions significantly closer to the parallel market rate) to encourage foreign exchange transactions in the official market. Since January 2016, the CBOS devalued the official rate by less than 10 percent.

Sudan maintains the following measures subject to Fund jurisdiction under Article VIII, Sections 2 (a) and 3: (i) An exchange restriction arising from the government's limitations on the availability of foreign exchange and the allocation of foreign exchange to certain priority items; (ii)a multiple currency practice and exchange restriction arising from the establishment by the government of a system of multiple exchange rates used for official and commercial transactions (i.e., the CBOS rate, the wheat rate, and the commercial bank incentive rate), which gives rise to effective exchange rates that deviate by more than two percent; (iii) A multiple currency practice and exchange restriction arising from large spreads between the CBOS rate and the parallel market exchange rate due to the CBOS' limitation on the availability of foreign exchange which channels current international transactions to the parallel market; and (iv) An exchange restriction and a multiple currency practice arising from the imposition by the government of a cash margin requirement for most imports.

Sudan is on a 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on September 7, 2016.

FSAP Participation

The Financial Sector Assessment Program (FSAP) mission took place in December 2004. The Financial System Stability Assessment report was discussed by the Executive Board on April 29, 2005.

Resident Representative

The Fund's Resident Representative in Khartoum is Mr. Abdikarim Farah since May 2017.

Technical Assistance

The following table provides a summary of the technical assistance provided since January 2016, both from headquarters and from the IMF's Middle East Technical Assistance Center (METAC).

Technical Assistance from the Fund, 2016–17		
Subject	**Timing**	**Counterpart**
Fiscal Affairs Department		
Taxation of Mining Sector	January 2016	MOF
Fiscal Regimes for Traditional and Large-Scaled Mining	March 2016	MOF
Customs: Risk Management Pilot (METAC)	April 2016	MOF
Treasury Single Account, Cash Management, Budget Preparation and Macro-Fiscal Analysis Reforms	August 2016	MOF
Enhancing Macro-Fiscal Forecasting (METAC)	April 2017	MOF
Progress in Implementing Risk Management in Customs (METAC)	April 2017	MOF
Development of Medium-term Fiscal Framework (METAC)	July 2017	MOF
Monetary and Capital Markets Department		
Stress Testing (METAC)	March 2016	CBOS
Banking supervision (METAC)	January, March, and July 2017	CBOS
Credit Registry (METAC)	February 2016, December 2016, May 2017	CBOS
Financial Stability Analysis and Reporting	February and November 2016, April 2017	CBOS
Statistics Department		
National accounts (METAC)	July 2016 and April 2017	Central Bureau of Statistics (CBS)
Consumer Price Index (METAC)	April 2017	CBS
Legal Department		
AML/CFT Framework	January 2016, March and August 2017	CBOS
Banking Business Act	April 2017	CBOS

BANK-FUND COLLABORATION

Joint Management Action Plan, July 2017–June 2018

(As of September 30, 2017)

Title	Products	Provisional schedule of missions	Expected delivery
A. Mutual Information on Relevant Work Program			
Bank work program for the next 12 months	**Economic policy analysis and advice**		
	• Economic Update	N/A	April 2018
	• Informing Durable Solutions for IDPs in Sudan	Nov 2017	April 2018
	• Improving the Quality of Public Expenditure in Agriculture	Mar 2018	May 2018
	• Impact Evaluation of Sudan's Cash Transfer Program	Sep 2017	Dec 2018
	• Sudan Systematic Country Diagnostics	N/A	Mar 2018
	• Sudan Electricity Sector Development Strategy Note	Nov 2017	Sep 2018
	Technical assistance		
	• Macro modelling	N/A	Dec 2017
	• Credit Bureau & Collateral Registry	N/A	Dec 2017
	• PPP Support	Aug 2017	Mar 2018
	• Sudan: Evidence Base Knowledge Products	Sep 2017	June 2018
	• Health Finance	Oct 2017	June 2019
	• Financial Sector Capacity Building 2	Oct 2017	Sep 2018
	• Sudan Health Systems Strengthening	N/A	Sep 2019
	• Sudan Enabling Agribusiness SMEs	Oct 2017	Mar 2018
	• Poverty Assessment	Oct 2017	Mar 2018
	• Strengthening Sub-National Fiscal Policy Management	Oct 2017	Sep 2020
	• Statistical capacity building	Oct 2017	June 2018
Fund work program for the next 12 months	**Macroeconomic policy analysis and advice**		
	• Article IV consultation	May 2018	Sep 2018
	Technical assistance		
	• Statistics	Q4 2017	
	• Revenue administration	Q1 2018	Q1 2018
	• Customs administration	Q4 2017	Q4 2017
	• Medium-term Fiscal Framework (follow up)- METAC	Q4 2017	Q1 2018
	• Financial stability	Q1 2018	Q1 2018
	• Monetary and foreign exchange policy	Q2 2018	Q2 2018
	• Risk-based Supervision and Inspection Manual-METAC	Q2 2018	Q2 2018

B. Requests for Work Program Inputs			
Fund requests to Bank	• Periodic update on activities • Reports, macroeconomic and financial data to be shared regularly • Fund staff to participate in review of key analytical work	Ongoing	
Bank requests to Fund	• Periodic update on technical assistance activities • Macroeconomic and financial data to be shared regularly	Ongoing	
C. Agreement on Joint Products and Missions			
Joint products in the next 12 months	• Debt sustainability analysis	July 2017	Oct 2017

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Sudan's data provision has shortcomings but is broadly adequate for surveillance. Areas that need further improvements include upgrading the base year, coverage, periodicity and timeliness of national accounts data; improving labor market and direct investment data; and more detailed and comprehensive fiscal accounting. Enhancing the status of the Central Bureau of Statistics (CBS) with the authority and resources to compile and disseminate official statistics and coordinate the national statistical work program is important for further statistical improvements, and should be addressed within the context of the ongoing work in developing a five-year National Strategy for the Development of Statistics (2012-16). Retooling the CBS' computing infrastructure should also be accorded high priority.
National accounts: The CBS lacks a comprehensive data collection program, and relies largely on administrative reporting. Economic surveys were last conducted in the 1970s and 1980s, and the benchmarks derived from these surveys inform current estimates of value added. Informal activities are not covered, and are likely to be significant in areas such as retail trade and construction. Sudan's national accounts data are based on the System of National Accounts 1968 (*SNA 1968*), and the base year of the existing GDP constant price series (by activity and by expenditure) is very old, 1981/1982. National accounts statistics are compiled with a lag exceeding three years; and there are no national accounts or industrial production data at sub annual frequencies. On the expenditure side, data are lacking on final consumption by households, investment, and changes in stocks. Improving annual source data, both administrative and survey sources, is essential and the development work on regional GDP needs to be incorporated into the ongoing annual estimates. The adoption of updated statistical guidelines (*2008 SNA*), rebasing of the national accounts, and developing procedures to improve the timeliness of GDP estimates should be among core objectives. There is also an urgent need to increase funding to the CBS and to rebuild its capacity for conducting household, agricultural, and enterprise surveys.
Price statistics: The Consumer Price Index (CPI) is compiled using weights based on a household expenditure survey conducted over four months during 2007. Ideally, weights should be based on an annual household survey and should not be more than five years old so as to ensure that the index remains representative of current expenditure patterns. In 2014, the CBS published a Producer Price Index (PPI) for the manufacturing sector covering 2009–13, but this index seems to have been discontinued. An economic census would be needed to develop the PPI.

Government finance statistics: Data reported to MCD are broadly adequate, with the main revenue, expenditure, and financing items reported monthly using an economic classification with a lag of about one-and-a-half months. The data are for the central government only. While the allocation of resources by the finance ministry to the various ministries is reported, their actual expenditures are not. GFS data are compiled and disseminated by the chamber of accounts within the finance ministry. There is no comprehensive data reconciliation of government claims on and liabilities to the banking system. There has been some progress in implementing GFS classifications at the level of state governments. Priority should be given to the compilation of consolidated GFS for the general government with the objective of producing a statement of government operations, compilation of PSDS, and timely dissemination of GFS and PSDS to STA.
Monetary and financial statistics (MFS): Sudan has received significant technical assistance to improve the collection, compilation, and dissemination of monetary and financial statistics, and all major recommendations have been implemented. The coverage of Sudan's monetary statistics includes the central bank and all commercial banks. There is a need to develop a work program to compile MFS for other financial corporations, particularly insurance corporations and pension funds.
Financial sector statistics: The authorities compile financial soundness indicators (FSIs) on a monthly basis and provide them to MCD staff. They are encouraged to report those FSI data and metadata to STA for dissemination by the IMF. Progress has been made in completing the IMF's FSI sectoral financial statement templates, from which the underlying series for calculation of FSIs for deposit-takers can be derived based on the IMF's *FSI Compilation Guide*. The next step is for the authorities to provide to STA the source data used to complete the sectoral financial statements for deposit takers, compile FSIs, and prepare FSI metadata for STA review.
External sector statistics: Data quality has improved as a result of intense technical assistance (TA), and quarterly balance of payments and annual international investment position are reported in the format of the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*), but there are several areas for improvement in the external accounts, particularly with regard to direct investment (DI) and estimation of informal trade. The implementation of a DI survey has been delayed due to the lack of financing; STA recommended a collaborative approach with regional offices of the Ministry of Investment, CBS, and CBOS branches focusing on key reporters, to keep costs to a minimum. For estimating informal trade, past TA advice was to coordinate with the Anti-Smuggling Unit (Ministry of Interior), Sudan Customs Authority, and the Directorate of Foreign Trade (of the CBS). Further improvements require strengthening inter-institutional cooperation, implementing past TA advice, and increasing staff resources. The CBOS could consider compiling the data template on international reserves and foreign currency liquidity for better monitoring reserve assets.

II. Data Standards and Quality
Sudan participates in the Enhanced General Data Dissemination System (e-GDDS) since August 2003. GDDS metadata and plans for improvement need to be updated. No data ROSC is available.
III. Reporting to STA
The last annual data reported for the *Government Finance Statistics Yearbook* covers only budgetary central government up to 1999. No monthly and quarterly fiscal data are reported for the *International Financial Statistics (IFS).* No data is reported to the IMF and World Bank Quarterly Public Sector Debt Statistics (QPSDS) database. The reporting of external trade statistics for inclusion in the *Direction of Trade Statistics (DOTS)* database is done with significant lags. National accounts data are not provided for publication in the *IFS*. The CBOS compiles and reports monetary statistics regularly to STA for publication in the *IFS*. The CBOS also reports to STA quarterly balance of payments and annual IIP data on the basis of the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*). The authorities should submit updated e-GDDS metadata for dissemination on the Dissemination Standards Bulletin Board.

Table of Common Indicators Required for Surveillance

(As of September 30, 2017)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Sept. 2017	Sept 2017	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	July 2017	Sept. 2017	M	M	M
Reserve/Base Money	July 2017	Sept. 2017	M	W	M/W
Broad Money	July 2017	Sept. 2017	M	W	M/W
Central Bank Balance Sheet	July 2017	Sept. 2017	M	M	M
Consolidated Balance Sheet of the Banking System	July 2017	Sept. 2017	M	M	M
Interest Rates[2]	Dec. 2005	Jan. 2006	W	M	M/W
Consumer Price Index	Aug. 2017	Oct. 2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	April 2016	May 2016	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2015	May 2016	A	A	A
External Current Account Balance	2017:H1	Aug. 2017	Q	Q	Q
Exports and Imports of Goods and Services	2017:H1	Aug. 2017	M	M	M
GDP/GNP	2014	March 2017	A	A	A
Gross External Debt	2016	May 2017	I	A	A
International Investment Position [6]	2016	April 2017	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Monthly/Weekly (M/W); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND

SUDAN

November 13, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

This debt sustainability analysis (DSA) confirms that Sudan continues to be in debt distress.[1] *Both public and external debt ratios remain high, and the bulk of external debt is in arrears. Consistent with the results of past DSAs, Sudan's external debt is assessed to be unsustainable. All external debt indicators breach their indicative thresholds under the baseline scenario, and stay above the thresholds throughout the time horizon of the analysis. It is therefore critical for Sudan to undertake sound economic policies, including a prudent borrowing strategy, and to continue garnering support for debt relief.*

[1] This DSA was prepared jointly by IMF and World Bank staff under the joint Fund-Bank Low-Income Country (LIC) Debt Sustainability Framework (DSF). Sudan's Country Policy and Institutional Assessment (CPIA) Rating averaged 2.5 for 2016 and falls under the weak performer category. Sudan's fiscal year runs from January 1 to December 31.

BACKGROUND AND RECENT DEVELOPMENTS

1. **The economy of Sudan has not fully adjusted to the secession of South Sudan in 2011, which resulted in a sharp decline in its oil exports and fiscal revenues.** Sudan lost about three-quarters of oil production, two-thirds of exports, and half of fiscal revenues in the secession. A heavy debt burden, U.S. sanctions (which were revoked with effect from October 12, 2017), and volatile domestic and regional political environments continue to weigh on economic performance. A series of stabilization and reform efforts undertaken by the authorities during 2011-16 provided some support for the required economic adjustment, but fiscal and external imbalances persist.

2. **Economic performance in 2016 was mixed.** Economic growth increased slightly but remained modest at 3.5 percent. Inflation remained high at 17.8 percent reflecting loose fiscal and monetary policies, exchange rate depreciation and fuel and electricity price hikes. Oil-related revenues weakened further, partly offset by a decline in spending on subsidies, resulting in a fiscal deficit of 1.6 percent of GDP. The external current account deficit (accrual basis) narrowed due to a decline in imports, but remained high at 8.9 percent of GDP and international reserves remained low. Import growth weakened in light of measures taken in 2016, including: introduction of a commercial bank incentive rate close to the parallel rate and which is now used for many formal transactions; fuel and electricity price increases in November 2016; and the adoption a negative list on selected "luxury" imports.

3. **In 2017, economic performance is expected to remained relatively unchanged.** Economic growth is projected to slightly slowdown to 3.2 percent on the back of weaker domestic demand. Fiscal deficit is projected at 1.8 percent of GDP, while the current account deficit is expected to continue to improve driven by lower imports. Continued loose monetary policy conditions, hikes in fuel and electricity prices, and exchange rate depreciation have led to a sharp increase in inflation, which reached 35.1 percent in September 2017. Risks to the outlook are broadly balanced with large margins of uncertainty with the current set of policies in place.

4. **Prospects for debt relief.** Debt relief prospects are predicated on obtaining assurances of support from key creditors, normalizing relations with international financial institutions, and establishing a track record of cooperation with the IMF on policies and payments. In 2016, the Sudanese authorities agreed with South Sudan to extend the deadline for the "zero-option" until October 2018.[2] They also agreed to continue to reach out to creditors to garner support for debt relief.

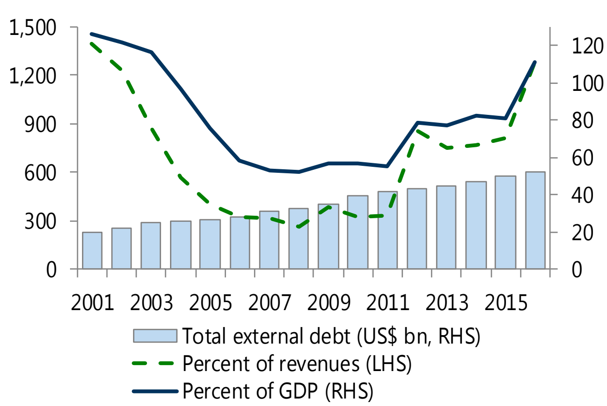
[2] The so-called "zero-option" is a 2012 agreement between Sudan and South Sudan whereby Sudan retains all the external liabilities after the secession of South Sudan, provided that the international community gives firm commitments of delivery of debt relief within two years. Absent such commitment, Sudan's external debt would be apportioned with South Sudan based on a formula to be determined. This deadline lapsed in September 2016, but the parties agreed to extend for two years to September 2018.

STRUCTURE OF DEBT

5. Sudan's external debt is very high and growing with the pace of the SDG depreciation.[3] It reached USD52.4 billion or 111 percent of GDP at end-2016 and, because of the large exchange rate depreciation, rose by 29.5 percent of GDP in 2016. On an end-of-period basis, the SDG depreciated about 59 percent in 2016 against the US dollar; on a period-average basis, however, the SDG depreciated by 36 percent against the US dollar. This discrepancy between end-of-period and period average exchange rate movements generates large residuals for 2016 in Table 1. In 2017, however, the debt-to-GDP ratio is projected to decline to 95 percent reflecting a sharp increase in prices (and nominal GDP) generated by pass-through of exchange rate depreciation, and sharp increases in fuel and electricity prices in November 2016—nominal GDP is projected to increase by 39 percent in 2017. This results in high residual yet again for 2017 in Table 1.

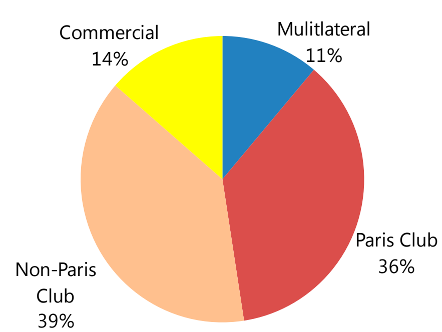
6. The structure of external debt has been stable over the last decade (Figures 1 and 2). It includes an estimated USD2.5 billion deposited in the Central Bank of Sudan by official creditors in 2016 and 2017.[4] About 84 percent of the external debt was in arrears in 2016. The bulk is public and publicly guaranteed (PPG) debt (USD50.7 billion, of which 85 percent are in arrears), mainly owed to bilateral creditors and roughly equally divided between Paris Club and non-Paris Club creditors Figure (2). Only a small fraction is private debt owed to suppliers (USD1.7 billion).

Figure 1. Stock of External Debt, 2001–16



Sources: Sudanese authorities, World Bank, and IMF staff estimates.

Figure 2. Structure of 2016 PPG External Debt



Sources: Sudanese authorities, World Bank, and IMF staff estimates

[3] Debt data were provided by the Sudanese authorities, complemented by information obtained during the 2011 external debt reconciliation exercise, as well as Fund and World Bank staffs' estimates.

[4] The $2.5 billion reflects deposits from friendly Gulf states including Saudi Arabia, Kuwait, and Qatar. It appears in the BOP under "Other capital flows (net); public."

Stock of External Debt

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total external debt (US$ million)	19,810	22,137	24,918	25,861	26,612	28,216	31,052	32,561	34,866	39,486	41,450	43,191	45,022	46,781	49,747	52,383
Percent of GDP (RHS)	126	122	117	97	76	58	53	52	57	57	55	79	77	83	81	111
Percent of exports	1,320	1,070	952	679	523	413	309	248	411	305	350	688	696	727	901	1,035
Percent of revenues (LHS)	1,400	1,231	874	565	400	326	315	260	389	328	334	860	747	767	813	1,282

Structure of Public and Publicly Guaranteed Debt

	2010		2016	
	(In US$ million)	(In percent)	(In US$ million)	(In percent)
Total PPG	**37,927**	**100.0**	**50,668**	**100.0**
Mulitlateral	**5,200**	**13.7**	**5,697**	**11.2**
Bilateral	**27,754**	**73.2**	**38,089**	**75.2**
Paris Club	13,964	36.8	18,360	36.2
Non-Paris Club	13,790	36.4	19,730	38.9
Commercial	**4,974**	**13.1**	**6,881**	**13.6**

Sources: Sudanese authorities; and IMF staff estimates.

7. **External public borrowing has been limited in recent years.** Sudan has been largely cut off from access to external financing due to its arrears with the creditors and U.S. sanctions. It has been only able to contract new debt—below 1 percent of GDP per year since 2012–with a limited number of multilateral and non-Paris Club bilateral creditors. The newly contracted debt has been mainly used to finance projects in the agriculture, services and energy sectors. In 2016, some USD319 million of new debt (0.6 percent of GDP) was contracted, all from bilateral creditors. There has not been any new private external debt in decades. In addition, official creditors from friendly Gulf countries deposited an estimated USD1.6 billion in the Central Bank of Sudan in 2015 and USD0.8 billion in 2016.[5] These amounts were added to outstanding debt. So far in 2017, only one bilateral loan of USD170 million was contracted to finance projects in electricity generation.

8. **Sudan's total public debt reached 116 percent of GDP by end-2016.**[6] The bulk of the public debt is external debt. Domestic debt reached 8.4 percent of GDP by end-2016. Domestic debt is expected to rise to about 12 percent of GDP by 2037 given the elevated deficits and limited external financing.

[5] The authorities did not disclose the exact terms and conditions of the deposits. However, they indicated that the interest rate was about 4–5 percent, and the average maturity in the range of 5–7 years.

[6] The decline in debt-to-GDP ratios in 2015–16 was partly due to high inflation and nominal GDP growth based on the weighted average exchange rate between official and parallel market.

New External Debt Contracted (2012–17)

	2012	2013	2014	2015	2016	2017Q2
Total new debt (in US$ million)	**431**	**618**	**152**	**262**	**319**	**170**
In percent of GDP	**0.6**	**1.1**	**0.2**	**0.4**	**0.6**	**0.3**
Of which:						
Concessional	134	16	5	6	-	-
Nonconcessional	296	602	147	256	319	170
By creditor (in percent)						
Multilateral	79	48	65	63	-	-
Non-Paris Club bilateral	21	52	35	37	100	100
Average grant element (in percent)	**30**	**28**	**27**	**22**	**27**	**35**
By sector (in percent)	**100**	**100**	**100**	**100**	**100**	**100**
Agriculture	32	38	-	2	62	-
Energy	7	47	33	-	-	-
Services	61	-	36	34	38	100
Industrial Development	-	6	31	-	-	-
Other	-	10	-	63	-	-

Sources: Sudanese authorities; and IMF staff calculations.

DEBT SUSTAINABILITY ANALYSIS

A. Underlying Assumptions

9. The macroeconomic assumptions underlying this DSA have been updated based on developments in 2016 and 2017H1 (Box 1). The baseline scenario assumes a deteriorating fiscal deficit and monetizing of the deficit, an overvalued official exchange rate and permanent removal of sanctions. As in previous DSAs, this DSA update does not include arrears clearance, possible external debt relief, or debt apportionment between Sudan and South Sudan in its baseline or alternative scenarios.

B. External Debt Sustainability

10. Sudan's external debt stock remains unsustainable under the baseline scenario (Figure 1 and Table 1). All PPG external debt level ratios continue to breach their indicative thresholds throughout the 20-year projection period. The present value (PV) of PPG external debt is at about 166 percent of GDP at end-2016—more than fivefold the 30 percent threshold for weak policy performers—and is projected to stay above the threshold through the projection period.[7] Similarly, in 2016, the PV of debt-to-exports is about 1,860 percent and the PV of debt-to-revenue ratio is about 1,930 percent, well above their respective thresholds. Despite the improvement in the PV of debt-to-exports over the medium to long run, the other two ratios will continue to deteriorate, keeping the debt at unsustainable levels. Under the historical

[7] Ratios in terms of GDP are calculated using a weighed exchange rate between the official and the parallel market rate.

averages scenario, the debt path shows improvements over the medium/long-terms given the lower current account deficit (3.7 percent of GDP average for 2007–16). However, since Sudan lost most of its oil revenue in the secession, and policy adjustment has been incomplete, the outlook for the current account balance has worsened.

Box 1. Macroeconomic Assumptions 2017–37

Natural resources. Oil production is projected at 90 thousand barrels/day in 2017, slightly lower than the 2016 production level. Ageing oil fields and a low international oil price outlook along with moderate expansion of further exploration keep oil production flat at 90 thousand barrels/day over the medium term. Meanwhile, non-oil GDP is projected to grow by about 3.4 percent, on average, by 2022 and remain stable afterwards. Price projections are guided by the IMF's latest World Economic Outlook (WEO). The price of Sudan's crude oil is projected to average USD$47/barrel in the medium term.

Real sector. Real GDP growth rate is expected to slightly decline to 3.2 percent in 2017 driven by weaker domestic demand. Real growth is expected to increase to 4 and 3.7 percent in 2018 and 2019, respectively, boosted by the impact of sanctions removal, and then gradually decline to 3 percent by 2022, and remain unchanged on average over 2022–37. Medium-term real GDP growth mainly reflects our baseline scenario assumptions: sanctions have been revoked, but there is no further progress toward debt relief, nor do the authorities undertake far-reaching economic reforms.[1] With a still-overvalued exchange rate, weak business environment, and loose fiscal policies financed by money creation, macro imbalances are likely to intensify, compromising growth prospects. Inflation, as measured by the GDP deflator, is projected to slightly increase from about 25.7 percent in 2017 to about 26 percent in 2022. Inflation is expected to increase in the medium to long term averaging 31.2 percent in 2023–37.

Fiscal sector. The fiscal deficit is projected to deteriorate over the medium term to 3.7 percent by 2022, reflecting a combination of revenue losses arising from the substantial use of the overvalued official exchange rate for government transactions and dwindling oil revenues, and unchanged pattern in current spending. Over the long run post-2022, the fiscal deficit is expected to stabilize at 3.5 percent through 2032 and thereafter improve slightly to 3.4 percent by 2037. Under those assumptions, the domestic debt-to-GDP ratio is projected to rise over the long run.

External sector. The current account deficit is expected to worsen over the medium term, to a high of about 8.5 percent of GDP by end-2022, reflecting the deteriorating effect of fiscal deficit as well as stable growth in real GDP. In the long run, it is projected to remain elevated at 6.3 percent of GDP, on average. The deficit will be financed by foreign direct investment and continued accumulation of external debt. Sizable financing gap are assumed to be covered by external debt throughout the projection period.

External debt. Reflecting continued limited access to international finance and a deteriorating debt service capacity, disbursements of new loans are expected to be limited, at about 0.6 percent of GDP during 2017–37. In line with the recent portfolio of new contracted debt, the share of new concessional loans is assumed at around one-third. It is assumed that Sudan will continue not to service obligations arising from the stock of arrears. In addition, the projected financing gaps are added to the external debt stock.

1/ For more information on sources of growth in Sudan, see IMF Country Report No. 16/324, Annex II.

11. In addition, Sudan's debt outlook is vulnerable to a range of shocks (Figure 1 and Table 2). The PV of debt-to-GDP is most vulnerable to a one-time depreciation shock, whereas the PV of debt-to-exports and debt service-to-exports ratios are most vulnerable to an export shock. The debt-to-revenue and debt service-to-revenue ratios are most vulnerable to a GDP deflator shock. A standard one-time 30 percent depreciation shock in 2018 would increase the PV-of-debt to 188 percent of GDP in that year and remain elevated over the projection horizon.[8]

C. Public Debt Sustainability

12. Public DSA remain unsustainable and continue to mirror those of the external DSA (Figure 2 and Table 3). The debt ratios, remain at relatively high levels in the long term. The present value of public debt is about 172 percent of GDP at end of 2016 and will remain above the threshold through the projection period reaching about 200 percent of GDP by 2037. Similarly, the PV of public debt to revenue will increase to about 2,732 percent from its current level of 1,974 percent by end of 2016.

13. Like the external DSA, the public DSA bound tests show that public debt path is most **vulnerable** to a one-time 30 percent real depreciation (Table 4).

CONCLUSIONS

14. Sudan's external debt remains in distress and unsustainable. The results of this DSA are broadly unchanged from those in previous DSAs, as no major policy correction has been undertaken and no debt relief has been granted to Sudan. In addition, the debt burden increases over time as the amounts needed to close projected financing gaps are added to the outstanding debt stocks. In the long term, all public and public-guaranteed external debt burden ratios remain well above their respective indicative thresholds. Public debt is also unsustainable, driven mostly by external debt dynamics.

15. Further efforts are needed for Sudan to obtain much-needed debt relief and regain access to external financing. Sudan needs to: (i) step up outreach efforts to its creditors to garner broad support for debt relief; (ii) continue to cooperate with the IMF on economic policies and payments with a view to establishing a track record of sound macro policies; (iii) continue efforts to develop a full-fledged PRSP; and (iii) minimize new borrowing on non-concessional terms, since it further increases the future debt burden, and instead secure foreign support on highly concessional terms to finance necessary development and infrastructure expenditures.

16. The authorities generally agreed with the results and assessments of the DSA. They agreed that external debt is at unsustainable levels, debt service burdens are beyond Sudan's debt servicing capacity, and as a result Sudan continues to accumulate external debt arrears. They agreed that non-concessional borrowing is costly and therefore should be minimized. They reiterated that debt relief is urgently needed for economic development, and remain hopeful that the international community will

[8] The peaks in debt service in 2022 in Figure 1 are due to estimated bullet repayments of central bank deposits.

provide debt relief in the near future. In this regard, the authorities are committed to continue reaching out to creditors.

17. The authorities are developing a national debt strategy. In February 2016, they held a donor-sponsored workshop to formulate a national debt policy. The workshop included a high-level seminar exploring the experience of Ethiopia in receiving HIPC and MDRI debt relief and was followed by a trip to Addis Ababa. The resulting national debt strategy is awaiting approval by the government. The strategy focuses on debt management and meeting the requirements to receive HIPC along with developing domestic debt markets to finance development projects. The authorities consider that technical assistance on external debt management, external debt statistics, macroeconomic policies, and financial programming would be helpful to advance their debt strategy.

Table 1. Sudan: External Debt Sustainability Framework, Baseline Scenario, 2014-2037 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2017-2022			2023-2037
	2014	2015	2016			2017	2018	2019	2020	2021	2022	Average	2027	2037	Average
External debt (nominal) 1/	**82.8**	**81.3**	**110.8**			**94.9**	**97.7**	**99.6**	**101.7**	**104.3**	**104.2**		**124.8**	**169.6**	
of which: public and publicly guaranteed (PPG)	80.1	78.6	107.8			92.0	94.8	96.7	98.8	101.5	101.4		121.7	164.8	
Change in external debt	5.4	-1.5	29.5			-15.9	2.8	1.8	2.1	2.6	-0.1		4.5	4.3	
Identified net debt-creating flows	-2.3	5.3	16.1			1.4	1.4	1.6	2.3	2.9	4.1		2.8	1.1	
Non-interest current account deficit	**5.3**	**7.6**	**6.0**	**3.7**	**3.6**	**2.6**	**3.7**	**3.8**	**4.2**	**4.6**	**5.2**		**5.6**	**6.8**	6.0
Deficit in balance of goods and services	6.0	7.2	6.3			3.5	4.6	4.8	5.2	5.7	6.4		6.8	8.5	
Exports	10.3	8.6	8.8			8.9	9.2	9.5	9.4	9.1	8.6		10.1	16.1	
Imports	16.4	15.8	15.1			12.5	13.8	14.3	14.6	14.8	15.0		16.9	24.6	
Net current transfers (negative = inflow)	-1.8	-0.5	-0.9	-1.5	0.8	-1.6	-1.6	-1.7	-1.8	-1.9	-2.0		-2.0	-2.7	-2.2
of which: official	-1.0	0.1	0.1			-0.6	-0.6	-0.6	-0.7	-0.8	-0.8		-0.8	-0.9	
Other current account flows (negative = net inflow)	1.1	0.9	0.5			0.7	0.7	0.8	0.8	0.8	0.8		0.9	1.0	
Net FDI (negative = inflow)	**-2.5**	**-2.9**	**-2.0**	**-3.5**	**0.9**	**-1.2**	**-1.5**	**-1.5**	**-1.5**	**-1.5**	**-1.5**		**-2.0**	**-3.8**	-2.5
Endogenous debt dynamics 2/	**-5.1**	**0.7**	**12.1**			**0.0**	**-0.8**	**-0.7**	**-0.4**	**-0.2**	**0.4**		**-0.9**	**-2.0**	
Contribution from nominal interest rate	2.6	2.9	3.1			3.4	2.9	2.9	2.8	2.8	3.5		3.0	3.5	
Contribution from real GDP growth	-2.2	-2.4	-3.2			-3.4	-3.7	-3.5	-3.2	-3.1	-3.1		-3.9	-5.5	
Contribution from price and exchange rate changes	-5.5	0.2	12.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**7.7**	**-6.8**	**13.4**			**-14.9**	**-0.9**	**-0.6**	**-0.5**	**-0.7**	**-4.5**		**1.8**	**3.2**	
of which: exceptional financing	-3.0	-2.2	-3.2			-3.0	-2.9	-2.9	-2.8	-2.7	-4.2		-3.2	-3.2	
PV of external debt 4/	...	...	166.2			140.4	141.9	141.7	141.7	142.3	139.5		153.8	192.8	
In percent of exports	...	...	1893.4			1569.8	1549.7	1493.6	1510.9	1562.6	1629.8		1518.9	1194.3	
PV of PPG external debt	**...**	**...**	**163.2**			**137.5**	**139.0**	**138.9**	**138.9**	**139.5**	**136.7**		**150.6**	**188.0**	
In percent of exports	**...**	**...**	**1859.5**			**1537.6**	**1518.1**	**1463.3**	**1480.5**	**1531.4**	**1596.7**		**1487.8**	**1164.8**	
In percent of government revenues	**...**	**...**	**1932.0**			**1663.5**	**1663.5**	**1738.8**	**1840.1**	**1919.5**	**1975.4**		**2151.7**	**2579.0**	
Debt service-to-exports ratio (in percent)	**32.7**	**37.1**	**33.5**			**37.1**	**36.1**	**34.1**	**33.9**	**34.7**	**69.9**		**31.5**	**36.5**	
PPG debt service-to-exports ratio (in percent)	**32.3**	**36.6**	**33.0**			**36.5**	**35.6**	**33.6**	**33.3**	**34.0**	**69.2**		**30.6**	**35.4**	
PPG debt service-to-revenue ratio (in percent)	**32.5**	**32.5**	**34.2**			**39.5**	**39.0**	**39.9**	**41.4**	**42.6**	**85.6**		**44.3**	**78.4**	
Total gross financing need (Billions of U.S. dollars)	3.9	5.0	4.0			2.9	3.4	3.5	3.8	4.2	6.7		4.8	6.0	
Non-interest current account deficit that stabilizes debt ratio	-0.1	9.1	-23.6			18.5	0.9	2.0	2.0	2.0	5.3		1.1	2.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.2	3.0	3.5	1.0	5.1	3.2	4.0	3.7	3.3	3.1	3.0	3.4	3.2	3.3	3.2
GDP deflator in US dollar terms (change in percent)	7.7	-0.2	-13.1	2.3	13.1	2.2	-2.4	-0.8	-0.4	-0.5	-0.2	-0.4	-2.8	-4.4	-3.3
Effective interest rate (percent) 5/	3.8	3.6	3.4	4.3	0.6	3.2	3.1	3.0	2.9	2.9	3.4	3.1	2.5	2.1	2.4
Growth of exports of G&S (US dollar terms, in percent)	-0.5	-14.3	-8.3	1.9	32.8	7.5	3.9	6.6	1.7	-0.4	-3.4	2.7	4.1	4.3	4.1
Growth of imports of G&S (US dollar terms, in percent)	-5.3	-0.4	-14.5	-0.7	6.8	-12.7	12.2	6.5	5.1	4.5	3.8	3.2	3.2	3.3	3.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	35.2	33.3	33.1	33.0	32.9	32.9	33.4	32.7	32.4	32.6
Government revenues (excluding grants, in percent of GDP)	10.3	9.7	8.4			8.3	8.4	8.0	7.5	7.3	6.9		7.0	7.3	7.1
Aid flows (in Billions of US dollars) 7/	0.4	0.2	0.1			0.2	0.1	0.1	0.1	0.1	0.1		0.0	0.0	
of which: Grants	0.4	0.2	0.1			0.2	0.1	0.1	0.1	0.1	0.1		0.0	0.0	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.5	0.9	1.0	1.1	1.1	1.1		0.9	0.7	0.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			52.8	40.3	38.2	36.8	35.9	35.5		34.2	33.5	34.0
Memorandum items:															
Nominal GDP (Billions of US dollars)	62.3	64.1	57.6			60.8	61.7	63.5	65.3	67.0	68.9		71.0	67.0	
Nominal dollar GDP growth	11.1	2.8	-10.0			5.5	1.5	2.9	2.9	2.6	2.8	3.0	0.3	-1.3	-0.2
PV of PPG external debt (in Billions of US dollars)			76.7			78.2	80.2	82.4	84.8	87.4	88.1		100.0	117.8	
(PVt-PVt-1)/GDPt-1 (in percent)						2.6	3.3	3.6	3.8	4.0	1.0	3.0	3.6	1.2	2.8
Gross workers' remittances (Billions of US dollars)	0.9	0.7	0.9			0.9	1.0	1.0	1.1	1.2	1.2		1.3	1.7	
PV of PPG external debt (in percent of GDP + remittances)	...	...	160.8			135.5	136.9	136.6	136.6	137.1	134.3		147.8	183.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	1588.2			1317.7	1298.9	1246.3	1254.9	1287.5	1324.2		1252.7	1009.5	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	28.1			31.3	30.4	28.6	28.2	28.6	57.4		25.8	30.7	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments (Notably, the large residuals for 2016 and 2017 is due to large exchange rate depreciation and valuation adjustment). For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

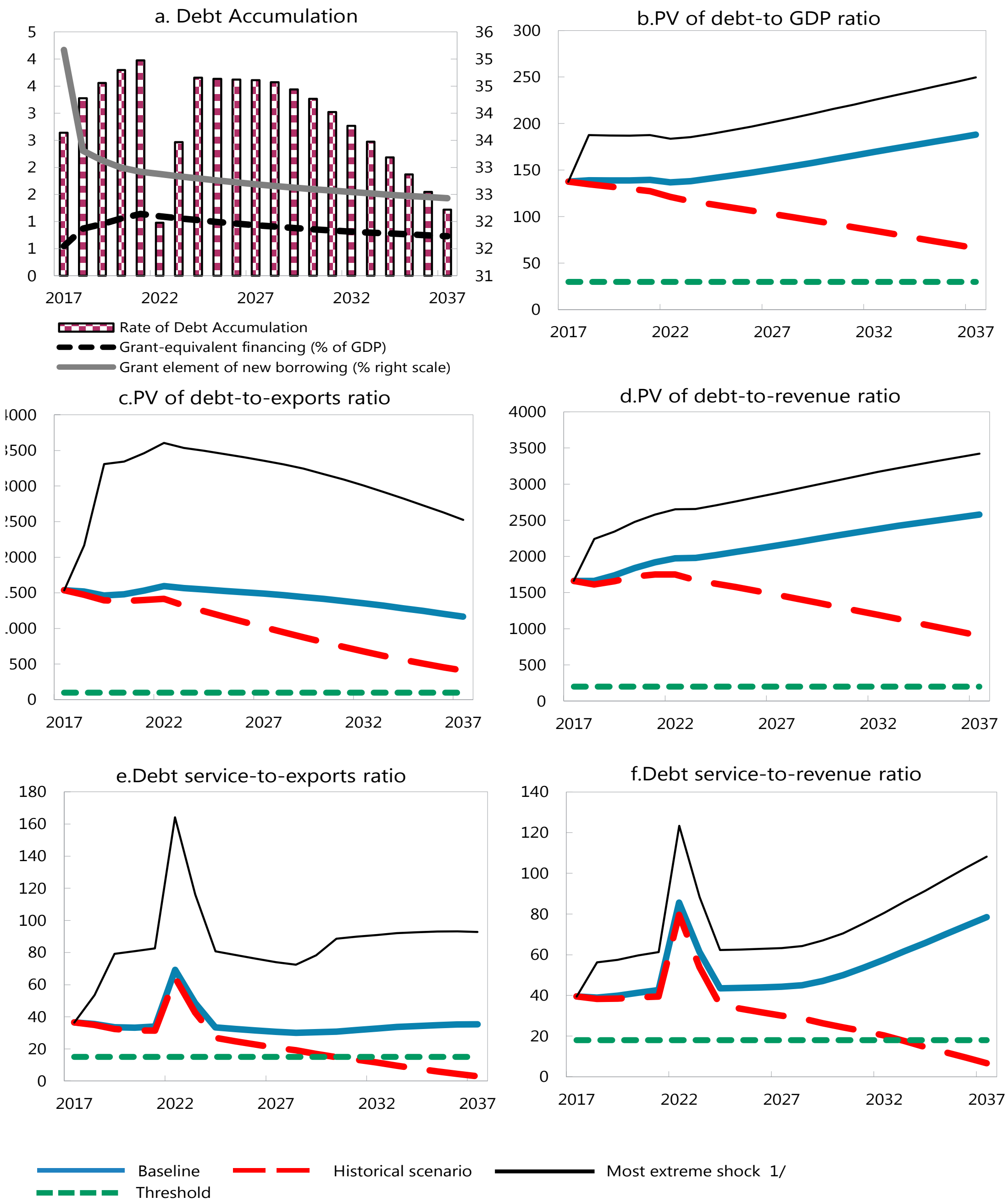
5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Figure 1. Sudan: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2017-2037 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table 2. Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017-2037

(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to GDP ratio								
Baseline	138	139	139	139	139	137	**151**	188
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	138	135	132	130	127	121	**103**	66
A2. New public sector loans on less favorable terms in 2017-2037 2	138	130	131	131	133	131	**148**	193
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	138	141	152	152	153	149	**164**	203
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	138	132	135	135	136	133	**147**	176
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	138	142	157	157	158	154	**169**	210
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	138	130	129	129	130	127	**139**	173
B5. Combination of B1-B4 using one-half standard deviation shocks	138	140	155	155	156	152	**167**	204
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	138	188	187	187	188	184	**201**	249
PV of debt-to-exports ratio								
Baseline	1538	1518	1463	1480	1531	1597	**1488**	1165
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	1538	1473	1396	1385	1398	1415	**1017**	409
A2. New public sector loans on less favorable terms in 2017-2037 2	1538	1425	1379	1401	1457	1528	**1459**	1195
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	1538	1419	1366	1381	1427	1486	**1377**	1070
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	1538	2166	3308	3345	3458	3607	**3356**	2526
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	1538	1419	1366	1381	1427	1486	**1377**	1070
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	1538	1417	1364	1378	1424	1483	**1375**	1070
B5. Combination of B1-B4 using one-half standard deviation shocks	1538	1730	2108	2131	2203	2295	**2131**	1633
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	1538	1419	1366	1381	1427	1486	**1377**	1070
PV of debt-to-revenue ratio								
Baseline	1663	1664	1739	1840	1920	1975	**2152**	2579
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	1663	1614	1658	1722	1753	1751	**1471**	905
A2. New public sector loans on less favorable terms in 2017-2037 2	1663	1561	1638	1742	1826	1890	**2110**	2647
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	1663	1686	1905	2014	2099	2157	**2338**	2781
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	1663	1579	1695	1793	1870	1925	**2093**	2413
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	1663	1699	1971	2083	2171	2232	**2418**	2877
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	1663	1553	1621	1713	1786	1835	**1988**	2368
B5. Combination of B1-B4 using one-half standard deviation shocks	1663	1680	1943	2054	2141	2202	**2390**	2805
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	1663	2244	2344	2478	2582	2654	**2876**	3421

Table 2. Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017-2037 (concluded)

(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
Debt service-to-exports ratio								
Baseline	37	36	34	33	34	69	**31**	35
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	37	35	32	31	31	64	**21**	3
A2. New public sector loans on less favorable terms in 2017-2037 2	37	36	34	34	35	71	**35**	45
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	37	36	34	33	34	69	**30**	34
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	37	53	79	81	83	164	**74**	93
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	37	36	34	33	34	69	**30**	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	37	36	33	33	34	69	**30**	34
B5. Combination of B1-B4 using one-half standard deviation shocks	37	43	51	51	52	106	**47**	55
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	37	36	34	33	34	69	**30**	34
Debt service-to-revenue ratio								
Baseline	40	39	40	41	43	86	**44**	78
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	40	38	38	39	39	80	**30**	7
A2. New public sector loans on less favorable terms in 2017-2037 2	40	39	40	42	44	88	**51**	101
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	40	42	47	48	50	100	**51**	88
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	40	39	41	43	45	88	**46**	89
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	40	43	48	50	52	104	**53**	91
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	40	39	40	41	42	85	**44**	74
B5. Combination of B1-B4 using one-half standard deviation shocks	40	42	47	50	51	101	**53**	95
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	40	56	57	60	61	123	**63**	108
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	32	32	32	32	32	32	**32**	32

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Sudan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014–2037

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 5/	Standard Deviation 5/	Estimate	Projections								
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	90.2	90.5	116.2			99.6	102.9	105.1	107.5	110.2	110.5		131.9	176.9	
of which: foreign-currency denominated	80.1	78.6	107.8			92.0	94.8	96.7	98.8	101.5	101.4		121.7	164.8	
Change in public sector debt	5.8	0.3	25.7			-16.6	3.3	2.2	2.4	2.7	0.3		4.5	4.2	
Identified debt-creating flows	3.7	-3.6	26.8			-16.5	2.0	0.7	0.9	1.3	1.9		3.7	6.5	
Primary deficit	0.5	1.0	1.1	0.8	1.5	1.3	1.6	1.9	2.5	2.8	3.2	2.2	3.1	3.4	3.2
Revenue and grants	10.8	10.0	8.7			8.6	8.6	8.2	7.7	7.4	7.0		7.1	7.3	
of which: grants	0.6	0.3	0.2			0.3	0.2	0.2	0.2	0.1	0.1		0.1	0.0	
Primary (noninterest) expenditure	11.3	11.1	9.8			9.8	10.2	10.1	10.2	10.2	10.2		10.2	10.7	
Automatic debt dynamics	3.2	-4.6	25.6			-17.8	0.4	-1.2	-1.5	-1.5	-1.3		0.5	3.1	
Contribution from interest rate/growth differential	-20.1	-11.6	-13.5			-29.7	-17.1	-19.0	-20.7	-22.5	-24.3		-28.3	-36.9	
of which: contribution from average real interest rate	-17.5	-9.0	-10.4			-26.1	-13.3	-15.3	-17.3	-19.3	-21.1		-24.4	-31.5	
of which: contribution from real GDP growth	-2.6	-2.6	-3.1			-3.6	-3.8	-3.7	-3.4	-3.2	-3.2		-4.0	-5.5	
Contribution from real exchange rate depreciation	23.3	7.0	39.1			11.9	17.5	17.8	19.2	21.0	23.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.1	3.9	-1.0			-0.1	1.3	1.5	1.5	1.4	-1.6		0.9	-2.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	171.7			145.1	147.1	147.3	147.5	148.2	145.8		160.8	200.2	
of which: foreign-currency denominated	...	...	163.2			137.5	139.0	138.9	138.9	139.5	136.7		150.6	188.0	
of which: external	...	...	163.2			137.5	139.0	138.9	138.9	139.5	136.7		150.6	188.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	4.5	3.9	2.8			3.1	3.4	3.7	4.2	4.5	7.4		5.0	7.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	1974.3			1697.3	1713.1	1801.5	1913.1	2000.5	2071.1		2276.9	2732.4	
PV of public sector debt-to-revenue ratio (in percent)	...	...	2031.6			1755.2	1759.7	1844.0	1954.8	2039.7	2107.4		2297.0	2745.3	
of which: external 3/	...	...	1932.0			1663.5	1663.5	1738.8	1840.1	1919.5	1975.4		2151.7	2579.0	
Debt service-to-revenue and grants ratio (in percent) 4/	50.3	46.0	42.5			45.4	44.2	45.2	46.9	48.5	90.5		53.6	89.4	
Debt service-to-revenue ratio (in percent) 4/	53.1	47.4	43.7			46.9	45.4	46.2	48.0	49.4	92.1		54.1	89.8	
Primary deficit that stabilizes the debt-to-GDP ratio	-5.3	0.7	-24.6			17.9	-1.6	-0.3	0.0	0.1	2.9		-1.4	-0.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.2	3.0	3.5	1.0	5.1	3.2	4.0	3.7	3.3	3.1	3.0	3.4	3.2	3.3	3.2
Average nominal interest rate on forex debt (in percent)	3.9	3.7	3.5	4.4	0.6	3.3	3.2	3.1	3.0	2.9	3.5	3.1	2.5	2.0	2.4
Average real interest rate on domestic debt (in percent)	-21.5	-7.7	-10.1	-7.6	9.3	-20.7	-12.3	-14.5	-16.2	-17.7	-19.9	-16.9	-17.6	-16.3	-17.3
Real exchange rate depreciation (in percent, + indicates depreciation	41.1	10.1	58.7	23.4	23.8	14.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	32.1	16.0	17.8	20.4	10.4	34.7	20.0	22.0	24.2	26.3	28.8	26.0	28.0	26.0	27.4
Growth of real primary spending (deflated by GDP deflator, in percer	13.0	-4.2	-17.0	-0.9	7.2	8.6	10.3	3.0	4.6	3.3	-1.3	4.8	2.7	2.7	3.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	35.2	33.3	33.1	33.0	32.9	32.9	33.4	32.7	32.4	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

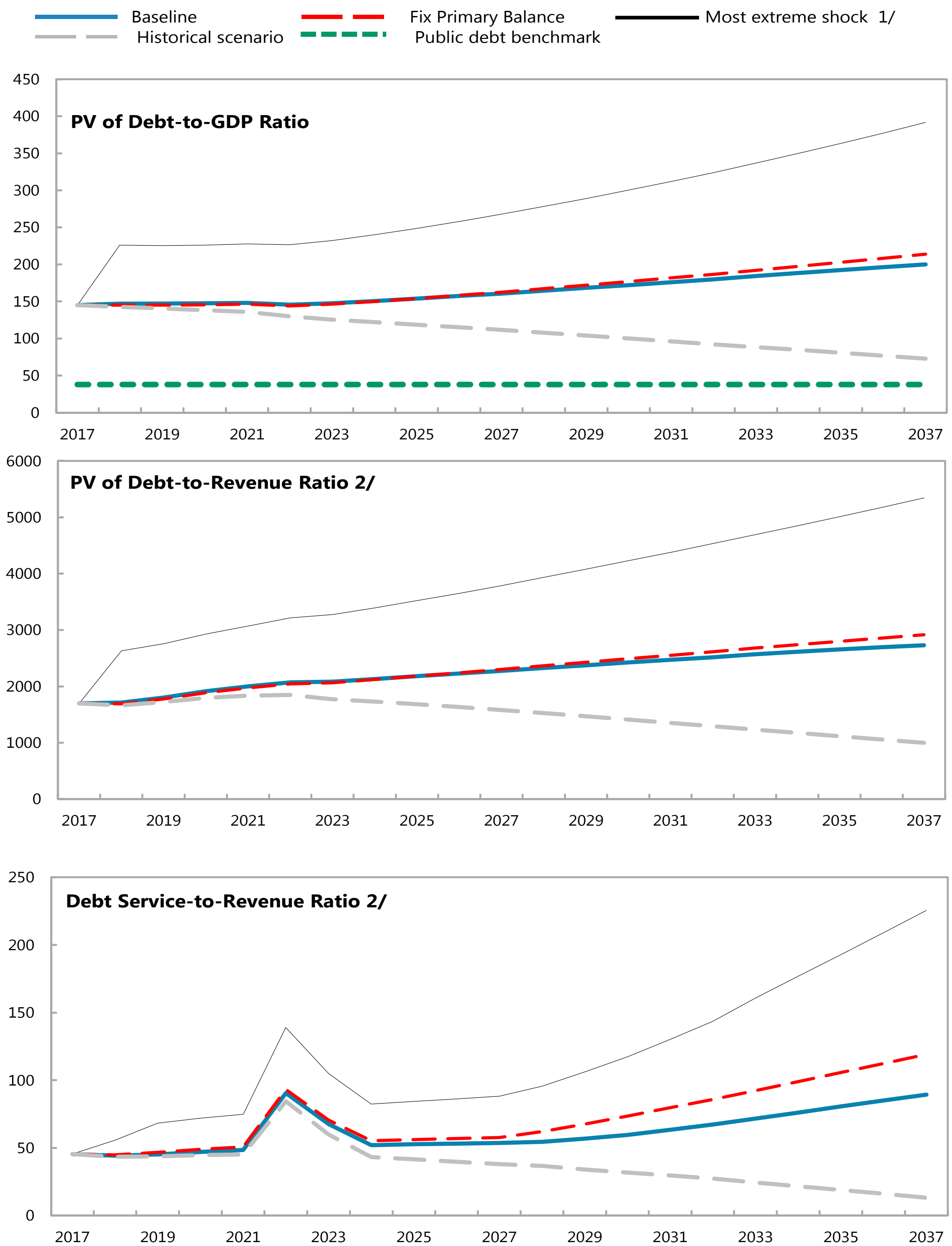
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Sudan: Sensitivity Analysis for Key Indicators of Public Debt 2017–2037

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	145	147	147	148	148	146	161	200
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	145	143	141	138	136	130	112	73
A2. Primary balance is unchanged from 2017	145	145	145	145	146	144	163	214
A3. Permanently lower GDP growth 1/	145	147	149	152	156	157	198	330
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-201	145	158	173	175	178	178	215	321
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	145	146	146	148	149	148	175	252
B3. Combination of B1-B2 using one half standard deviation shocks	145	153	162	164	166	166	199	294
B4. One-time 30 percent real depreciation in 2018	145	226	225	226	228	226	268	392
B5. 10 percent of GDP increase in other debt-creating flows in 2018	145	152	153	154	156	155	184	262
PV of Debt-to-Revenue Ratio 2/								
Baseline	1697	1713	1801	1913	2000	2071	2277	2732
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	1697	1664	1722	1796	1834	1847	1582	997
A2. Primary balance is unchanged from 2017	1697	1690	1776	1886	1974	2044	2302	2917
A3. Permanently lower GDP growth 1/	1697	1711	1824	1971	2102	2225	2803	4501
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-201	1697	1837	2103	2257	2391	2514	3037	4372
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	1697	1697	1792	1913	2016	2108	2484	3436
B3. Combination of B1-B2 using one half standard deviation shocks	1697	1784	1974	2115	2237	2346	2811	4005
B4. One-time 30 percent real depreciation in 2018	1697	2632	2758	2928	3072	3215	3791	5345
B5. 10 percent of GDP increase in other debt-creating flows in 2018	1697	1768	1867	1996	2106	2205	2605	3583
Debt Service-to-Revenue Ratio 2/								
Baseline	45	44	45	47	48	91	54	89
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	45	43	44	45	45	84	38	13
A2. Primary balance is unchanged from 2017	45	45	47	49	51	93	58	119
A3. Permanently lower GDP growth 1/	45	45	48	51	54	100	70	201
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-201	45	49	55	58	61	112	76	204
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	45	45	47	50	52	95	62	154
B3. Combination of B1-B2 using one half standard deviation shocks	45	47	52	54	57	105	70	181
B4. One-time 30 percent real depreciation in 2018	45	56	68	72	75	139	88	226
B5. 10 percent of GDP increase in other debt-creating flows in 2018	45	45	49	53	54	97	65	171

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Figure 2. Sudan: Indicators of Public Debt Under Alternative Scenarios, 2017–2037 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.
2/ Revenues are defined inclusive of grants.

Statement by Ms. Mkwezalamba, Executive Director for Sudan, and Mr. Ismail, Advisor to Executive Director for Sudan
November 29, 2017

Our Sudanese authorities thank staff for the comprehensive reports, and the candid discussions during the recent Article IV Consultation mission to Sudan. They broadly concur with staff's analysis and policy recommendations.

The Sudanese economy continues to recover from the shock brought about by the secession of South Sudan. This notwithstanding, the economy continues to face an array of persistent post-secession challenges, including huge external imbalances, mounting inflationary pressures, and contraction in government finances which pose significant risks to macroeconomic stability. While prudent policy measures adopted by the authorities, including allowing greater exchange rate flexibility and reducing fuel subsidies, have been helpful in partially addressing these economic challenges, broader economic reforms are envisaged to address remaining policy gaps, entrench macroeconomic stability, and support broad-based growth.

The permanent revocation of the U.S. economic sanctions on October 12, 2017 has opened-up economic, trade, and investment opportunities; provided a scope for reintegration into the global financial system; and ameliorated economic optimism and outlook. The installation of a National Consensus Government in May 2017, with broad participation from a spectrum of political factions, has bolstered peace and economic reforms. In this context, the authorities have formally requested a new Staff Monitored Program (SMP), which will lay the foundation for macroeconomic stability and galvanize support for debt relief. In addition, they continue to reach out to creditors to solicit support for debt relief under the Heavily Indebted Poor Countries (HIPC) and the Multi-Donor Debt Relief (MDR) initiatives. Relatedly, an Interim Poverty Reduction Strategy (I-PRSP) has been developed and is being implemented, whereas the process of preparing a full PRSP has commenced.

GDP growth is estimated by staff to have reached 3.5 percent in 2016, driven mainly by private and public consumption and a positive contribution from net exports. A weaker real domestic demand, partly offset by stronger net exports, will result in a modest growth of 3.3 percent in 2017 that is expected to pick up to 3.8 over the near term, on the back of improvements in the mining and agriculture sectors. The authorities' projections for GDP growth in 2016 and 2017, however, are higher than staff's estimates due to projected higher agriculture production and foreign direct investment (FDI) receipts.

On the other hand, inflation increased significantly from 18.3 percent in September 2016 to 35.1 percent in September 2017 owing to exchange rate depreciation, monetary expansion, and hikes in energy prices following the partial removal of fuel subsidies in

November 2016. The current account deficit narrowed from 7.7 percent of GDP in 2015 to 6.1 percent of GDP in 2016. It is projected to decline further to reach 2.8 percent of GDP in 2017, reflecting stronger exports and weaker demand for imports owing to exchange rate depreciation, subdued domestic demand, and the import rationalization policy adopted in 2016.

The fiscal deficit is projected to increase slightly from 1.6 percent of GDP in 2016 to 1.8 percent of GDP in 2017, mainly driven by a contraction in revenues. At the same time, the increased number of refugees from countries affected by regional conflicts, including South Sudan, Syria, Yemen, Eritrea, and Central African Republic continues to burden the government budget. In this regard, pro-cyclical spending cuts adopted by the government in 2017 have offset revenue shortfalls and contributed to keeping the overall deficit below the target of 2 percent of GDP.

The authorities remain committed to fiscal consolidation and will continue with efforts to strengthen fiscal sustainability and place public debt on a sustainable trajectory. To this end, they have embarked on gradually phasing out fuel and wheat subsides to improve the fiscal position and free up resources to enhance social protection and capital spending. In this context, the authorities will continue to strengthen social safety nets and targeted transfers, financed solely by the budget, to alleviate the burden of the removal of subsidies on the vulnerable segments of the population, and request technical assistance in upgrading the social safety net. Further, the wage bill will be contained and regularly reviewed, while dues arising from domestic financing will be met in a timely manner to safeguard the flow of non-inflationary domestic financing and reduce deficit monetarization.

Consolidation efforts will be supported by additional revenue mobilization measures to further improve the fiscal position. In this regard, the authorities plan to continue to strengthen customs and tax policy and administration, and improve the efficiency of state-owned enterprises (SOEs). Relatedly, they plan to rationalize tax exemptions and holidays, while strengthening the enforcement of tax compliance. In addition, progress will continue to be made on modernizing and automating revenue collection processes and improving the quality and availability of tax-related information. To complement and support their efforts, the authorities seek Fund technical assistance in tax reform.

On public financial management (PFM), the authorities will continue to improve the implementation of the Treasury Single Account (TSA) consistent with planned annual and monthly cash flows. Going forward, Fund technical assistance has been requested to improve medium-term budget planning and enhance the capacity of the Macro-Fiscal Unit in the Ministry of Finance and Economic Planning.

The authorities concur with staff on the need to tighten monetary policy to ease pressures on inflation and the exchange rate. To this end, the Central Bank of Sudan (CBOS) recently sold SDG 1.0 billion government securities with a view to mopping up excess liquidity in the banking system. This will be further augmented through the recent launch of central bank-issued securities, Shihab 2, that will be used for managing liquidity in the banking system. In addition, setting reserve money as a nominal anchor is expected to enhance CBOS's ability to control liquidity and pursue effective monetary policy. Going forward, CBOS considers implementing inflation targeting (IT) monetary policy framework over the medium term, and look forward to Fund technical assistance in this regard.

On the exchange rate reform, the authorities agree with staff on the benefits of liberalizing the exchange rate to restore macroeconomic stability and boost competitiveness. However, they are of the view that a gradual exchange rate reform will be more appropriate to mitigate any social and political impacts of the reform. In addition, the authorities are cautious that the implementation of such a reform without any financial support from International Financial Institutions (IFIs), as usually happens in similar cases, will amplify the risk of exchange rate overshooting.

While the authorities agree on the overall positive impact of the exchange rate reform on the fiscal position over the medium term, they caution against the short-term negative effects of the adjustment. Experience has shown that the demand for imports is highly sensitive to changes in the exchange rate, which could result in a greater reduction in customs revenues than envisaged by staff. Going forward, CBOS is currently assessing the resilience of banks to exchange rate adjustments and engineering a set of appropriate risk-mitigating measures. Fund technical assistance will be critical to support these efforts. In addition, the authorities acknowledge the findings of multiple currency practices (MCPs) and exchange rate restrictions arising from the current constrains on the foreign exchange position and plan to remove them as part of the imminent exchange rate reform.

The banking sector remains sound, profitable, and well capitalized as evidenced by the significant improvements in financial soundness indicators, particularly the declining non-performing loans (NPLs), and existence of adequate regulatory capital. The recent revocation of sanctions, removal of the country from the grey list of the Financial Action Task Force (FATF), and significant progress in addressing AML/CFT deficiencies have supported the authorities' efforts to mitigate financial stability risks and restore correspondent banking relationship (CBRs). In addition, the authorities are finalizing a comprehensive reform that aims at restructuring the banking sector. They also plan to expand access to microfinance and improve the efficiency of payment systems. In this regard, the authorities have requested Fund technical assistance on managing financial risks.

To improve the business environment, the authorities are undertaking a comprehensive overhaul of the legal framework that governs investment in Sudan. In this regard, a high-level committee chaired by the Vice President and eight sub-committees have been established to review and modernize investment laws in line with the World Trade Organization (WTO) accession efforts.

On the financial sector, the number of banked customers with mobile payment accounts has increased significantly after the recently introduced mobile payment system. This step is expected to contribute to the authorities' efforts to improve financial inclusion and access to credit, as well as enhancing competitiveness.

Further, the Sudanese authorities have taken substantial steps in fighting corruption through the establishment of an Anti-Corruption Commission, enacting the General Act of 2017 that allows the Auditor General to audit all entities with at least 1 percent government ownership, and through the establishment of a Special Prosecutor General to investigate cases of abuse of public funds.

The Sudanese authorities reiterate their commitment to pursue prudent macroeconomic policies and broad-based structural reforms to entrench macroeconomic stability, support inclusive growth, and reduce poverty. They remain committed to engagement with the Fund, commit to making arrears' payments to the Fund in line with their payment capacity, and look forward to approval of a successor SMP. Furthermore, the authorities are continuing the dialogue with the U.S. Government and other creditors with a view to removing Sudan from the list of State Sponsors of Terrorism (SSTL) and mobilizing support for the debt relief. In this regard, the authorities look forward to the Board's support of their efforts towards reaching the decision point for debt relief and commitment towards sound macroeconomic policy to support sustainable growth and poverty reduction. That said, the authorities continue to face challenges with macroeconomic statistics, appreciate Fund technical assistance in this regard, and look forward to additional support to address the data gaps.