International Monetary Fund

Sudan and the IMF

Sudan: Staff-Monitored Program: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

Country's Policy Intentions Documents

March 9, 2006

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The following item is a Letter of Intent and a Memorandum of Economic and Financial Policies of the government of Sudan. The document, which is the property of Sudan, is being made available on the IMF website by agreement with the member as a service to users of the IMF website. This memorandum describes the policies that is implementing in the framework of a staffmonitored program. A member's staff-monitored program is an informal and flexible instrument for dialogue between the IMF staff and a member on its economic policies. A staff-monitored program is not supported by the use of the Fund's financial resources; nor is it subject to the endorsement of the Executive Board of the IMF.

March 9, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato,

Slightly more than a year ago a historical peace agreement was signed that ended more than twenty years of civil war between the north and the South of Sudan. Implementation of the Comprehensive Peace Agreement is now underway and we have formed a new government of national unity. This government has now turned its efforts to peacefully resolving the Darfur crisis. To this effect, we have been an active and good faith party in the peace talks currently held in Abuja.

Meanwhile we have sought to implement economic policies that aim at maintaining economic stability, fostering growth, and reducing poverty. We believe these will be important factors in promoting peace and reconciliation throughout the country. We appreciate in that respect the close and long-standing policy dialog with the Fund. Discussions with Fund staff on the 2006 Article IV consultation, and on a new Staff Monitored Program for 2006 were conducted in Khartoum in February 2006.

The attached Memorandum of Economic and Financial Policies (MEFP) sets forth our policy intentions under the 2006 SMP. We are committed to maintain macroeconomic stability and advance the reform agenda. The government believes that these policies are adequate to achieve the objectives of the program and will consult with the Fund on any revision of the policies contained in the MEFP. Notwithstanding the enormous financing needs for national reconstruction and peace that we face, and to strengthen our cooperation, we propose to increase our payments to the Fund from $30 million in 2005 to $45 million in 2006.

We are committed to a process of economic integration both within Sudan and with the international community, but our success depend also on the support we get from multilateral institutions and development partners. In this regard, we look forward to the Fund's Executive Board's discussion of the SMP and to the resolution of Sudan's debt and arrears problems in the near future. In the meantime, we will intensify our efforts to obtain financing assurances from creditors for arrears clearance and debt relief under the Heavily Indebted Poor Countries and the Multilateral Debt Relief Initiatives.

Sincerely yours,

/s/	/s/
Al- Zubeir Ahmed AL-Hassan	Dr. Sabir Mohamed Hassan
Minister of Finance and National Economy	Governor
Ministry of Finance and National Economy	Central Bank of Sudan

GOVERNMENT OF SUDAN
Memorandum of Economic and Financial Policies
March 9, 2006

1. This memorandum sets out the economic policies and objectives of the government of National Unity for 2006. These policies will be pursued in the context of an IMF staff-monitored program (SMP) for 2006.

I. Recent Developments

2. Despite the tremendous challenges we faced in the first year of implementation of the Comprehensive Peace Agreement (CPA), we have tried to maintain the thrust of our economic policies, achieved high economic growth, and contained inflationary pressures. In 2005, GDP growth is estimated at 8 percent while average inflation was contained at 8.5 percent. High oil prices supported the balance of payments and allowed for a further accumulation of international reserves. Economic stability, robust growth, and a stronger balance of payments led to an 8 percent appreciation of the Sudanese dinar against the U.S. dollar.

3. Fiscal performance was weaker than programmed, owing primarily to the expanding fuel subsidy.[1] Although higher than in 2004, oil revenues were also lower than programmed because of a delay in commencing oil production in Blocks 3 and 7. In addition, non-oil revenues were below projection because of an increase in the volume of imports exempted from VAT (capital goods and NGO-related imports). The lower-than-programmed revenues and higher expenditures led to a withdrawal of deposits from the oil savings account and higher-than-programmed non-bank financing (mostly government securities). Following the stipulations of the CPA, we initiated transfers to the government of South Sudan.

4. Broad money during the year grew by 45 percent, while reserve money growth increased by 35 percent. Both variables exceeded the programmed amounts because of high foreign exchange inflows and an expansionary fiscal stance. Private sector credit also increased rapidly during the year (62 percent).

5. We undertook a number of structural reforms in the fiscal arena. To enhance non-oil revenues, a medium taxpayer unit was set up early in the year. A three-year tariff reform program was prepared and the first phase of the reform was initiated in the 2006 budget. In customs administration, we adopted the ASYCUDA++ and plan to implement risk based verification system later this year. We

[1] The prices of most domestically consumed fuels were set when the 2005 budget was formulated and remained unchanged since then despite rising international prices. These prices are traditionally set by decree and are not automatically adjusted in response to changing market conditions. The SPC discounts the difference between domestic and world prices when it transfers oil revenue to the treasury. This way of handling the oil subsidy will be addressed in future fiscal execution reports and budgets by presenting the subsidy as an expenditure item.

continued our efforts to strengthen cash management by the preparation of a cash plan on a regular basis and improving coordination between the ministry of finance and the central bank through regular high-level meetings. Notwithstanding our efforts, we acknowledge that further improvements in cash management are warranted.

6. Banking system soundness indicators improved in 2005. While credit expanded rapidly during the year, the ratio of nonperforming loans to total loans decreased from 8.9 percent in December 2004 to 6.9 percent at end-2005. The asset quality of banks also improved. As of December 2005, a total of 18 banks (out of 24 banks) complied with capital adequacy requirements. As for the concentration of credit, almost 40 percent of the increase in credit to the private sector was granted by a single bank. We have put this bank under close supervision to monitor its lending activities.

7. Regarding monetary operations, we began auctioning Government Musharaka Certificates (GMCs) and Government Investment Certificates (GIC) through competitive tenders without predetermined prices, phased out the existed financing window for banks, and implemented the new financing window by using collateral-based certificates. We also launched the Central Bank Ijara Certificates (CIC) in the fourth quarter of 2005 to help manage short-term liquidity. During 2005, we privatized the Khartoum Bank and granted four new licenses for commercial banks: Al-Salam Bank, the Egyptian Sudanese Bank, Capital Bank, and the Emirate Sudanese Bank. The restructuring of the central bank to function within a new federal banking system has already begun with the Central Bank of Sudan (CBOS) changing its legal structure and the approval of new laws for the central bank and for commercial banks. Lastly, the CBOS has established its branch in Juba as envisaged in the CPA.

8. Despite a number of difficulties related to the first year of implementation of the peace agreement with the South, we made every effort to meet the targets under the Staff-Monitored Program and met three of the five quantitative targets for end-December and all but one of the structural benchmarks. The quantitative target on the financing of the fiscal deficit was missed by a small margin, while the target on nonconcessional borrowing was missed as new loans for US$122 million were contacted in the second half of the year. These loans were needed to finance critical water and social projects and were contracted as we had limited access to concessional financing and grants. Regarding the conversion of the 2006 budget into GFSM 2001 format (end-December structural benchmark), we have not been able to proceed as fast as planned because of complexities in the preparation of the 2006 budget, which in turn are related to the implementation of the new revenue sharing arrangements under the CPA. However, given the importance of this reform, we will implement this measure by May 2006.

II. Medium-Term Outlook and Challenges

9. The CPA provides a good framework for building a prosperous and peaceful Sudan. Despite initial unavoidable delays, we are fully committed to implement the agreement, tackling regional inequalities, and reducing poverty. In this regard, we launched a strategy to meet the Millennium Development Goals and intend to finalize our interim Poverty Eradication Strategy by the end of this year. We will also continue to reorient public spending toward disadvantaged regions and social and infrastructure projects as well as on capacity building and the revamping of public financial

management systems at all levels of government. We are committed to clear arrears and achieve debt sustainability, but we will need comprehensive and deep debt relief beyond traditional mechanisms.

10. Meeting Sudan's medium term challenges will require economic stability, sustained growth, the spread of peace throughout the country, and regularization of relations with donors and creditors. We are committed to prudent macroeconomic policies and a new wave of structural reforms to strengthen the business environment, foster agricultural development, and improve transparency in the oil sector as well as in the use of public resources. This will require improvements in policy coordination between (and within) national and subnational governments as well as capacity building. Notwithstanding higher oil revenues, fiscal policy will mobilize non-oil revenues to lower the dependence on oil revenues and preserve a prudent fiscal policy. The medium-term outlook envisages economic growth of 8–10 percent per year, a continued decline in inflation to 5 percent or less by 2008, and reductions in poverty levels.

III. Outlook and Policies for 2006

11. The 2006 program of the national government assumes economic growth of 13 percent, bolstered by a large increase in oil production and continued high growth in the non-oil sector. The average inflation objective is 7.5 percent, compared to 8.5 percent in 2005.

12. **Fiscal policy.** The fiscal deficit (including grants) will be contained at no more than 0.9 percent of GDP as both revenue and expenditure increase rapidly. On the revenue side, oil revenues will increase because of high international oil prices and higher output. For budget purposes, the benchmark price of oil has been set at US$45 per barrel for the Nile blend crude and US$40 for the new DAR blend crude. Non-oil revenues will benefit from improvements in administration, including improvement in collections in the South and other states, and from a rationalization of tax exemptions (see below). On the expenditure side, the recently approved budget figures have been revised because they were based on unfeasible assumptions about the size of the oil subsidy. Compared to the budget figures, we will contain the intended large increase in civil servants' salaries, expenditures on goods and services, transfers to the northern states, and domestically financed capital expenditures, to ensure that the fiscal framework is compatible with our goal of economic stability. This will be done in a manner that protects proposed spending on programs that directly benefit the poor—namely pro-poor development spending. Further, any shortfall in non-oil revenues will be covered by restrain in lower priority expenditures from Chapter I and Chapter II. We hope that increased development assistance from the international community in 2006 will also help co-finance pro-poor programs. We will inform parliament of these changes vis-à-vis the budget as no supplementary budget will be required.

13. **Fuel subsidies.** We intend to review the policy on domestic fuel prices this year to reduce the sizeable subsidy. We realize that these subsidies do not benefit the poor, distort the allocation of economic resources, contribute to environmental problems, and compromise other valuable expenditures. Still, we will ensure the public is well informed about this policy action. Later this year, we will also finalize a strategy to eliminate these subsidies and adopt an automatic mechanism that passes through changes in world prices of crude to product prices.

14. **Monetary policy.** The program will target a broad money growth rate of 28 percent in 2006, consistent with GDP growth and inflation objectives, and an increase in money demand reflecting the reintegration of the South. The monetary target and the projected build-up in foreign reserves will allow for an appropriate growth rate of credit to the nongovernmental sector. The conduct of monetary policy will be challenging given a number of uncertainties, including the fiscal behavior of national and sub-national governments, introduction of the new currency, the size of the private capital movements, and large oil export receipts. Accordingly, we expect to reassess the monetary targets mid-year to ensure that it remains in line with the program's inflation objective.

15. **Monetary operations.** We will rely heavily on open market operations for supporting banks' liquidity needs and government and central bank securities will continue to be issued in competitive auctions. Direct lending to banks will be limited and collateralized by short-term securities, while lending to public enterprises (including for agriculture) will remain at its end-2005 level.

16. **Exchange rate flexibility.** As exchange rate appreciation pressures are likely to continue, we will ensure exchange rate flexibility to safeguard our inflation objective. The envisaged fiscal expansion for 2006 will exert pressure on monetary aggregates and on inflation, which will need to be appropriately sterilized through open market operations and/or foreign exchange operations.

17. **Competitiveness.** High external inflows and an expansionary fiscal stance have recently led to an appreciation of the real exchange rate, which in turn appears to have been partly responsible for a decline in non-oil exports in 2005. As these trends are expected to persist, we will intensify our efforts to improve the business environment for the private sector through the removal of structural bottlenecks (especially on transportation) and other institutional reforms as well as efforts to foster rural development. In this regard, we will be conducting an investment climate assessment with the assistance of the World Bank. The assessment will identify key areas of improvement as well as indicators to be tracked over time.

18. **Tax policy and administration.** To protect our tax base, the Ministry of Investment will not refer to the Council of Ministers any proposal to renew expired business profit tax exemptions granted under the Investment Encouragement Act. By October 2006, we will finalize a program to revamp the system of investment incentives in consultation with Fund staff and in line with best international practice. The program will also address the need to adopt a uniform system of profit tax rates to ensure a level playing field for investors across sectors. Lastly, we will examine the scope for expanding the VAT base by bringing exempted items into the tax net. In the area of tax administration, key measures include the introduction of self-assessment for large and medium-sized taxpayers and setting up three federal tax offices in major cities in the South.

19. **Fiscal decentralization.** Pro-poor spending (i.e. transfers to states, state-level capital expenditures and some pro-poor national development expenditures) increased in 2005 and is expected to increase further in 2006. In order for such spending to realize the intended benefits, a strengthening of public financial management at all levels of government (including better transparency and accountability) is our key priority. We also plan to make significant progress on the public expenditure review, which will focus on pro-poor spending, decentralization and public

financial management, and implement the necessary provisions to ensure coordination in budget preparation, execution, and monitoring between the national government, the GOSS, and other states. To underpin the decentralization reforms envisaged under the CPA and to maximize the benefit from cooperation among the different levels of government, rules and procedures for the Fiscal and Financial Allocation and Monitoring Commission will be established and made operational by end-June 2006.

20. **Fiscal reporting and accounting.** We are committed to the implementation of GFS methodology at all levels of government. We will begin reporting under the GFS format the 2006 fiscal framework of the national government to parliament (by May) and monthly budget execution (by June). The GOSS is also committed to fiscal transparency and regular reporting and will follow the same schedule as the National Government. Other aspects of GFS implementation will require a larger project to support public financial management at the national, state and local levels, for which we will seek assistance from development partners. We also intend to upgrade our system of recording the outturn of development spending from the current cash basis to an accrual basis. The current system, among other difficulties, has led to inaccuracies in the measurement of development spending and in a pattern of accumulation of arrears that are paid down in the subsequent year. Later this year, we will modify the chart of accounts to ensure that the 2007 budget is prepared in accordance with GFSM 2001.

21. **Oil revenue management and transparency.** As the oil sector becomes more important in Sudan's economy, we will ensure that oil proceeds are wisely used for the welfare of the whole population. Our response to the specter of the "oil curse" in the form of wasteful use of oil revenues that have affected a number of countries with dire consequences for development will be transparency in oil sector operations and sound expenditure policies. In the near term, we will publish monthly detailed oil sector data and clarify the role and status of the National Petroleum Commission consistent with the CPA. We will also publish the 2004 and 2005 audited accounts of Sudapet, and ensure regular transfers to the treasury of the net operating income from the Sudan Petroleum Corporation and from Sudapet including that resulting from exports of fuel products. In addition, the prevailing marketing mechanism (open international tenders) for export of Nile blend crude will be extended to the new Dar blend crude after an initial test period of six months. Lastly, we intend to discuss will be discussing with Fund staff the medium-term agenda for subsequent oil sector reforms, including the process for joining the Extractive Industries Transparency Initiative.

22. **Financial sector.** In 2006, we will implement restructuring plans for the central bank and for commercial banks as well as the financial reform program discussed during the recent FSAP. We are also planning to introduce the new national currency (as envisaged in the CPA) in the second half of this year. We have also initiated a reform program to develop and restructure commercial banks (2006-2008). By end-2006, we will increase minimum capital requirements for commercial banks from SDD3 billion to SDD6 billion (US$25 million) and increase the capital adequacy ratio from 8 to 12 percent. We will also require banks to implement action plans to meet provisioning and capitalization requirements. Lastly, the CBOS will encourage mergers of commercial banks according

to specific guidelines. In order to permit screening of any merger/acquisition, we will carry out an evaluation of banks to identify their net worth and share value.

23. **Trade and Payments.** In the 2006 budget, we initiated the first phase of the three-year tariff reform program by reducing the top tariff rate from 45 percent to 40 percent, which will reduce the average tariff rate to 20 percent. By 2008, we plan to further reduce tariff dispersion and lower the average tariff rate below 15 percent, especially through reductions in the top tariff rate.

24. **Technical assistance.** For the coming year, we would like to request further technical assistance from the Fund and other development partners in the following key areas:

- Implementation of Government Finance Statistics Methodology (GFSM 2001) (budget classification, accounting, execution, and auditing)
- Budget reporting, including accounting of development expenditures
- Fiscal decentralization and public financial management
- Issuance of the new currency
- Banking supervision
- Liquidity management
- Microfinance
- Balance of payments, monetary, and real sector statistics.

IV. RELATIONS WITH THE FUND AND OTHER CREDITORS

25. External debt problems. In 2006, Sudan's debt service payments capacity will be constrained by the considerable burden of implementing the peace agreement and dealing with widespread poverty and regional inequalities. Any shortfall (or even a delay) in donor assistance or a significant negative shock in oil prices would further limit our capacity to service our obligations. We are making partial debt service payments to almost all multilateral creditors and selected bilateral creditors that have provided new financing in recent years. At the end-2005, stock of public and publicly guaranteed external debt was about US$27.7 billion in nominal terms, of which US$24.4 billion was in arrears. We are still hopeful for an early resolution of Sudan's debt problems—including debt relief under the HIPC initiative and under the Multilateral Debt Relief Initiative—through concrete action by our key creditors and multilateral institutions. Needless to say, Sudan's income level calls for substantial debt relief to finance programs for achieving the Millennium Development Goals.

26. External financing. Sudan has continued to suffer from limited access to concessional loans because of the difficulties in resolving our debt and arrears situation. Development needs, however, are vast, and we have had to rely on nonconcessional facilities to finance critical development and social projects. We are fully aware of the concern of other creditors about this borrowing, and we will limit the contracting of such facilities as much as possible. At the same time, we see these levels of borrowing as exceptional and temporary, as they are an integral part of our strategy to unite the country after the signing of the peace agreement with the South. For this year, we will need to begin critical infrastructure and transportation projects that will require new financing equivalent to as much as US$700 million. Two critical large projects involve the reconstruction of a railway linking the North and the South and the construction of roads to the South and to Darfur. We will make every effort to avoid incurring nonconcessional loans and we hope that we can obtain concessional resources from donors and other creditors. At the same time, these projects cannot wait, and this may force us to contract nonconcessional loans for up to that amount. In line with our commitment to increase the transparency of public sector operations, we will continue to share openly with Fund staff our plans and information on loans and we will publish detailed information on all government or government guaranteed facilities (see Table 2 below).

27. **Payments to the Fund.** In addition to strong cooperation with the Fund on economic policy matters, Sudan made regular payments to the Fund as committed under the 2005 SMP. The Fund's preferred creditor status will be maintained by ensuring that our payments continue to exceed obligations falling due. To demonstrate our continued cooperation, we will increase payments to the Fund from US$30 million in 2005 to US$45 million in 2006. However, because oil and non-oil revenues will be much lower in the first half of the year (the new oil fields will only be at full production in the second half of the year and non-oil revenues are cyclical), payments to the Fund up until June will be US$15 million. We hope that our record of cooperation will be fully recognized at the appropriate time through a rapid resolution of Sudan's debt and arrears problems.

V. Program Targets and Monitoring

28. **Program monitoring.** The program covers the period January-December 2006 and takes into account the financial position of the South. It contains semi-annual quantitative targets (end-June and end-December test dates) and structural benchmarks. Given the impact of the South's finances for the financial program, the targets on net domestic assets and international reserves of the central bank will have an adjustor for any lower-than-programmed withdrawals of deposits by the government of South Sudan as noted in the attached Technical Memorandum of Understanding (TMU). There is also an adjustor on the value of oil export proceeds. The program targets and key structural benchmarks are specified in Tables 1 and 2 below.

29. **Compilation and provision of information.** To insure the effective monitoring of the program, the relevant ministries, the CBOS, and the Central Bureau of Statistics will compile and share with Fund staff all core economic data on a timely basis as specified in the attached TMU.

Table 1. Sudan: Quantitative Targets Under the Staff-Monitored Program 1/

	2005 2/	Cumulative Change During 2006			
	Dec.	Jan.-March	Jan.-June	Jan-Sept.	Jan.-Dec.
	Actual	Indicative	Mid-year Program	Indicative	End-year Program
	(In billions of Sudanese dinars; unless otherwise indicated)				
Central Bank of Sudan net domestic assets	76.1	41.8	21.2	13.9	-5.0
Domestic financing of the central government	109.6	48.7	36.9	6.8	21.1
Net international reserves	1,889	53	283	451	700
Contracting or guaranteeing of external nonconcessional debt by the government or the central bank (in millions of U.S. dollars)	935	...	...	... .	700
Payments to the Fund (in millions of U.S. dollars)	30.3	...	15.0	...	45.0
Memorandum items:					
Broad money	1,403	74	151	248	393
Reserve money	612	57	88	119	153
Programmed oil export revenues to the government	...	157	382	637	889
Of which: oil savings account	64	26	57	87	114

Sources: Sudanese authorities; and Fund staff estimates.

1/ As specified by the technical memorandum of understanding.
2/ Outstanding stock at end-2005.

Table 2. Structural Measures for 2006

Measures	Timing (end of period)
Prior Actions	
Stop the referral of requests for renewal of exemptions under the Investment Encouragement Act by the Minister of Investment to the Council of Ministers	Throughout after March 2006
Other Measures	
Convert the 2006 fiscal framework of the National Government to GFSM 2001 classification and present it to parliament for information (including the economic and functional classification of expenditures)	May 2006
Finalize and publish GOSS budget reporting for 2006 according to GFSM methodology (economic and functional classification)	May 2006
Initiate a public information campaign sensitizing the public about the costs of fuel subsidies and highlighting pro-poor policies of the government	June 2006
Compile (monthly) and publish (quarterly) fiscal reporting data according to GFSM 2001 for the national government and the GOSS (economic and functional classifications).	June 2006
Issue a decree establishing the rules and procedures for the operations of the Fiscal and Financial Allocation and Monitoring Commission (FFAMC)	June 2006
Begin monthly publication on the Sudan Petroleum Corporation (SPC) and the central bank websites of the following information (one-month lag) (i) volume of oil production by blend of crude; export receipts and prices (in US$) by blend, sales to refineries, exports and imports of petroleum products, revenue accrued to the government, and transfers to the government of Southern Sudan; and (ii) details of any new external loan or financing contracted or guaranteed by the government or the central bank, specifying the nature of the contract and the amount and terms.	July 2006
Complete and publish the 2004 and 2005 financial audits of Sudapet	September 2006
Finalize a strategy for the elimination of fuel subsidies and the adoption of an automatic mechanism that passes through changes in the world price of crude oil to domestic product prices.	October 2006
Finalize a program to revamp the system of investment incentives granted under the Investment Encouragement Act and in line with best international practice.	October 2006
Remit net operating income of Sudapet (at year end) and the SPC (quarterly), including those derived from exports of petroleum products to the treasury	Throughout

SUDAN
TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum specifies the understanding reached with the Fund staff regarding quantitative targets, structural benchmarks, and reporting for the 2006 staff-monitored program (SMP).

2. The SMP relies on five quantitative indicative targets for up to end-March and end-September and an equal number of quantitative targets for end-June and end-December. The targets are (i) ceilings on the change in net domestic assets of the Central Bank of Sudan (CBOS); (ii) ceilings on the domestic financing of the fiscal deficit; (iii) floors for the buildup of net international reserves of the central bank; (iv) ceilings on new nonconcessional external loans contracted or guaranteed by the government or the central bank; and (v) floors for payments to the Fund. Broad money, reserve money, total government revenues from crude oil exports and oil savings account will be monitored as memorandum items. Some of these targets are subject to adjustors depending on the financial position of the government of South Sudan and total government oil export revenue performance. The definitions of these variables and the adjustors are set out below. All the quantitative targets and structural benchmarks are displayed in Tables 1 and 2 of this attachment.

3. **Net domestic assets (NDA)** of the CBOS are defined as the sum of the Net Domestic Credit of the CBOS, the net issue of money market instruments and other items net. Net Domestic Credit is defined as net credit to the central government (i.e. Government Musharaka Certificates (GMCs), Government Investment Certificates (GICs), and any other form of central bank credit to the central government minus total central government deposits) plus net central bank claims on state and local governments, central bank claims on public enterprises, and claims on banks, and minus Central Bank Ijara Certificates (CICs). The definition of the central government comprises all accounts of line ministries and agencies controlled by the government (corresponding to Group no. 11, Group no. 12, and some accounts of the Group no. 19 in the CBOS general ledger), the Zakat funds (recorded under Group no. 13), and margin deposits placed with the CBOS by the central government against letters of credit issued by the CBOS. The definition includes all oil-related accounts controlled by the government. To evaluate program targets, the dinar equivalent values of foreign exchange denominated items in the balance sheet of the central bank will be calculated at the program exchange rate.

4. **Domestic financing of the fiscal deficit** is defined as total net domestic borrowing by the central government, including net borrowing from the banking system (including GMCs and GICs), net sales of GMCs and GICs outside the banking system, and revenues from privatization. The definition of central government for the purpose of this criterion is the same as the one applied for the NDA of the central bank.

5. **Net international reserves** (NIR) are total gross non-earmarked official foreign reserve assets on active accounts plus reserve assets of the government of Southern Sudan in the central bank minus official short-term liabilities (i.e. no more than one-year maturity). The assets are maintained on accounts with overseas correspondent banks and foreign exchange banknotes in the vaults of the

central bank. Short-term liabilities include short-term liabilities, IMF deposit accounts, nonresident deposits, and (overdrawn) foreign correspondents accounts.

6. Limits on **contracting or guaranteeing of nonconcessional external debt** apply to all forms of debt of more than one-year maturity contracted or guaranteed by the government or the CBOS. It applies not only to debt as defined in point no. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision no. 12274-(00/85), August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received. The degree of concessionality of debt will be calculated as specified in the Guidelines.[2]

7. **Broad money** is defined as the sum of local currency circulating outside of the banks, banks' demand, and time and savings deposits. It also includes transferable deposits and margin deposits against letters of credit placed by state and local governments, nonfinancial public enterprises, and the nonbank private sector with the CBOS. **Reserve money** is defined as the sum of local currency circulating outside of the banks, total reserves (required and excess) for banks, and deposits at the CBOS included in broad money.

8. **Adjustor on the financial position of the government of South Sudan** (capped). The program target for changes in the NDA of the central bank will be reduced (increased) and the international reserve target will be increased (reduced) by the amount of any decline (increase) in net central bank claims on the government of South Sudan. The adjustor will not apply if the stock of net claims on the government of South Sudan turns positive.

9. **Oil revenue adjustor** (symmetric). The programmed government oil revenue from crude oil exports is based on the program's assumptions about oil prices (f.o.b. Port Sudan) and quantities expected to be exported (see Table below). Accrued revenue is the cumulative government oil revenue inflows based on actual shipments at current international prices (f.o.b. Port Sudan). The portion of oil revenue for use in the 2006 budget is estimated at a price of oil of US$45 per barrel for Nile blend and US$40 for Dar blend (benchmark prices). The accrued government oil revenue in excess of the planned budgeted amounts is deposited in an oil saving account (OSA), a locked sub-account within net credit to the government at the CBOS. The programmed OSA accumulation for the year is US$509 million.

The oil revenue adjustor will work as follows:

[2] For program purposes, a loan is considered concessional if the grant element is at least 35 percent calculated using a discount factor based on the Commercial Interest Reference Rates (CIRRs) published by the OECD plus margins depending on the loan maturity. The margins are 0.75 percent for repayment periods of less than 15 years, 1 percent for 15–19 years, 1.15 percent for 20–29 years, and 1.25 percent for 30 years or more. The average of the CIRRs over the last ten years will be used for loans with a maturity of at least 15 years and the average of the CIRRs for the preceding six months will be used for shorter maturities.

- If the accrued government revenue from crude oil exports exceeds the programmed amount (either because the price and/or volume exceed the programmed levels), these proceeds will also be deposited in the OSA. The program targets for domestic financing of the budget deficit and NDA will be reduced, and the international reserves target will be increased, by the difference between the accrued and the programmed amounts.

- If the accrued government revenue from crude oil exports falls short of the programmed amount, the program targets for domestic financing of the budget deficit and NDA will be increased and the international reserves target will be reduced by the difference between the programmed and the accrued amounts.

- If within a given quarter the accrued oil revenue that goes to the budget falls below the planned amount, appropriate amounts will be withdrawn from the OSA to ensure that cumulative oil revenues for use in the budget match the cumulative amounts planned in the fiscal program.

Table 1. Sudan: Government oil revenues from crude exports

		2006				
		Q1	Q2	Q3	Q4	Year
Nile blend crude						
Price (f.o.b. Port Sudan)	US$/barrel	53.9	55.2	55.1	54.7	54.7
Volume exported	Million barrels	12.9	13.5	13.5	12.4	52.2
Export revenues	US$ millions	698	745	741	676	2,859
Of which: programmed OSA accumulation	US$ millions	116	138	136	119	509
Dar blend crude and block 5A crude						
Price (f.o.b. Port Sudan)	US$/barrel	40.0	39.5	39.4	38.9	39.5
Volume exported	Million barrels	0.0	6.4	10.0	11.5	27.9
Export revenues	US$ millions	0	254	393	447	1,094
Of which: programmed OSA accumulation	US$ millions	0.0	0.0	0.0	0.0	0.0
Memo item:						
Programmed revenue from crude exports	US$ millions	698	999	1,134	1,122	3,953
Programmed revenue from crude exports	SDD billions	157	225	255	253	889
Of which: programmed OSA accumulation	SDD billions	26	31	31	27	114
Planned oil export revenue for the budget	SDD billions	131	194	225	226	775

10. **Data Reporting.** The following table contains the agreed reporting framework. To the extent possible, the data will be submitted in both printed and electronic form to the IMF local office.

Reporting Agency	Type of Data	Description of Data	Frequency	Timing (within period specified)
CBOS	Flash report	Weekly data for movement in main indicators of the CBOS balance sheet, international reserves, sales and purchases of foreign exchange, exchange rate, murabaha rate, musharaka shares, and inflation	Weekly	Tuesday of each week
	CBOS balance sheet	Detailed CBOS balance sheet.	Monthly	1 month after the end of each month
	Monetary survey	Banking system balance sheet and consolidated balance sheet of commercial banks	Monthly	1 month after the end of each month
	Rates of return and securities	Murabaha rate and shares of Musharaka and the rate of return on securities (GMC, GIC and CIC). Information on auctions and expiry for all certificates from the Sudan Financial Company	Monthly	1 week after the end of each month
	Banking indicators	Capital adequacy; asset composition and quality; profitability; liquidity; open FX positions; and compliance with prudential norms	Quarterly	1 month after the end of each quarter
	Balance of payments	Detailed composition	Quarterly	2 months after the end of each quarter
Ministry of Finance	Central government	Revenues, expenditures, and financing as in traditional presentation	Monthly	30 days after the end of each month
	Central government	Revenues, expenditures, and financing as in GFSM 2001	Monthly	Data for January-May by end-June, for the remaining months 45 days after the end of each month
	GOSS	GFSM 2001	Monthly	Data for January-May by end-June, for the remaining months 45 days after the end of each month
	Privatization receipts	Detailed figures for each transaction and nature of the transaction	Quarterly	1 month after the end of each quarter
	Bank financing	Certificates or advances from the central bank or commercial banks, listed by transaction specifying entity, date, amount, and maturity	Monthly	1 month after the end of each month
	Nonbank financing	Certificates or IOUs issued to any nonbank entity, listing by transaction specifying entity, date, amount and maturity	Monthly	1 month after the end of each month
	External debt	Disbursements, debt service, and contracting or guaranteeing of medium-and long-term external debt of the government, the CBOS, and state-owned companies	Quarterly	1 month after the end of each quarter
Central Bureau of Statistics	CPI	By category and income group (low, middle, high)	Monthly	1 week after the end of each month
Ministry of Finance/ Ministry of Energy	Crude oil exports	Shipment data, listing by blend specifying date, quantity, prices, and values in US$ and in dinars	Monthly	1 month after the end of each month
	Sales to refineries	Sales listing by refineries specifying date, quantity, prices, and values in US$ and in dinars	Monthly	1 month after the end of each month
	Net operating income transfers to the treasury	Net income of SPC (including those derived from exports of petroleum products)	Quarterly	1 month after the end of each quarter