

International Monetary Fund

[Sudan](#) and the IMF

Press Release:

[Statement at the Conclusion of an IMF Mission to Sudan to Conduct the First Review under the Staff-Monitored Program](#)

May 9, 2014

Sudan: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 10, 2014

The following item is a Letter of Intent of the government of Sudan, which describes the policies that Sudan intends to implement in the context of its request for financial support from the IMF. 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.

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Letter of Intent

Khartoum, March 7, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700, 19th Street N.W.
Washington, D.C. 20431

Dear Ms. Lagarde:

As you know, Sudan's economy has suffered significant setbacks during the past three years on account of the secession of South Sudan in July 2011, the ensuing rising economic imbalances, civil regional conflicts, continuing U.S. sanctions, and an unsustainable external debt position. In response to these challenges, we adopted a three-year emergency plan covering 2012–14, with the task of addressing the post-secession challenges and laying the ground for a reconstruction of our economy. This undertaking is complex, but we believe that, absent debt relief and the support of the international community, it will be difficult to reach our economic potential.

Consistent with our three-year emergency plan, we adopted in June 2012 a package of corrective measures to restore macroeconomic stability and establish a framework for adjusting the economy to its new potential. In March 2013, with support from the international community, we signed an implementation matrix of the Cooperation Agreement that was reached with South Sudan in September 2012. This enabled resumption of oil production in South Sudan and its transit through our territory to the benefit of both economies. The September 2013 summit with South Sudan has created a favorable momentum to intensify bilateral economic cooperation.

Against this background, we decided to resume our adjustment process. In this context, we implemented by late September a second package of corrective measures to address the remaining macroeconomic imbalances. This package contains a significant adjustment of domestic petroleum prices as well as a unification of the official exchange rates. Recognizing the need to alleviate the impact of these measures on the most vulnerable segments of the population, the package included significant increases in social expenditure.

We recognize that the achievement of a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth will not be possible without the clearing of Sudan's arrears vis-à-vis the international financial institutions and other creditors and the financial support of the support of the international community. In view of this, and building upon the recent Article IV consultation which was successfully completed and the recently announced measures, the Sudanese government is committed to designing and implementing an economic and financial program during 2014 with a view to restoring credible macroeconomic and financial management, and to accelerating structural reforms. This program will be monitored by IMF staff and should facilitate our dialogue with multilateral and bilateral creditors and the eventual resolution of Sudan's unsustainable external debt.

The policies and measures set forth in the attached memorandum (MEFP; Attachment I) reflect the understandings reached with IMF staff during the November 2013 and February 2014 missions, which we believe can achieve the objectives of the program. We will, however, take any additional measures that may become necessary for this purpose. We will remain in close consultation with IMF staff on the adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. The government will provide IMF staff with all information that it requests to assess the implementation of the staff-monitored program. A Technical Memorandum of Understanding (TMU) defining the indicative targets of the staff-monitored program and the data to be reported is also attached (Attachment II).

Very truly yours,

/s/

Badredin Mahmoud Abbas
Minister of Finance and National Economy

/s/

Abdulrahman Hassan Abdulrahman
Governor, Central Bank of Sudan

Memorandum of Economic and Financial Policies for 2014

1. **This memorandum sets out the economic and financial policies and objectives of the Government of Sudan for January 1-December 31, 2014.** These policies will be implemented in the context of an IMF staff-monitored program (SMP) to improve Sudan's economic and financial conditions that deteriorated in the aftermath of the secession of South Sudan and launch reforms to restructure the economy in line with its new potential.

A. Background

2. **Sudan's economic conditions have deteriorated since the secession of South Sudan.** Non-oil real GDP growth has slowed markedly, average annual inflation soared, fiscal and external imbalances widened, and pressures on the exchange rate intensified. Aware that the deterioration of the economy could turn into a self-sustained process that would trigger a generalized economic and financial crisis, the government adopted a first package of reforms in June 2012 to address the situation. The difficult regional and domestic environments interrupted the reform process in the context of the 2013 budget. The economic situation would have been worse had it not been for the remarkable increase in the gold production and exports, which contributed significantly to the non-oil GDP growth and eased the impact of the external shocks.

3. **In late September 2012, we reached a comprehensive economic cooperation agreement with South Sudan, including on debt, assets, trade, pensions, and oil transportation.** Revenue from the oil-sharing agreement covers a period of 3½ years, starting from the date of the resumption of oil production in South Sudan. It includes a transitional financial arrangement (TFA)—in the form of a transfer fee from South Sudan—and pipeline and facilities-related fees.

4. **This agreement is now being implemented.** It follows the milestone signature in March 2013 of the implementation matrix and the decisions of the September 2013 summit between Presidents Bashir, Kiir, and Mbeki, chair of the African Union's High Level Implementation Panel. The summit cleared the way for a full implementation of the bilateral agreement, including the continued production of oil. As a result, oil production has resumed, border tensions have abated, and bilateral cooperation is under way in several areas, including in the economic area under the aegis of a Tripartite Committee (Sudan/South Sudan/African Union). More importantly, it will pave the way for renewed efforts at jointly tackling the significant challenges we are facing. In the context of the joint outreach process, the presidents of the two countries signed a joint letter to the creditors, the Sudan Technical Working Group on external debt (TWG) and the international community asking them to grant Sudan debt relief under the HIPC initiative. The Tripartite Committee on the Joint Approach held its inaugural meeting to develop modalities and a work program for approaching the international community, thereby symbolizing the high level of cooperation that has been established between the two countries.

5. **The eruption of a civil conflict in South Sudan in mid-December 2013 did not endanger our bilateral agreements.** We have been in continuous contact with our South Sudanese counterparts since the beginning of the conflict supporting, alongside efforts of the Intergovernmental Authority on Development (IGAD) in Eastern Africa, a negotiated resolution of the

conflict. Those joint efforts have succeeded and resulted in the signing of a truce between forces loyal to President Kiir and those loyal to his adversary Mr. Machar. In parallel, we have provided technical assistance so that South Sudan can continue operating the oil wells and assure the flow of oil to the benefit of both of our economies. We look forward to the lasting resolution of the conflict; in the meantime, we are providing support to an estimated 24,000 refugees who entered Sudan as of end-January, which is creating a burden on our budget without any support from the international community, which is creating a burden on our budget. We do not expect that the conflict in South Sudan will have had a significant direct impact on our non-oil economy, because economic linkages between the two countries are limited.

6. **Nevertheless, significant challenges lie ahead, particularly stabilizing the economy and sustaining recovery.** There is a need to reconstruct the economy to foster broad-based and inclusive growth, create jobs, and reduce poverty. This would include actions in favor of regional integration with neighboring countries, mainly South Sudan to enhance economic opportunities.

7. **The proposed SMP will cover January 1–December 31, 2014.** It consolidates progress achieved last year and lays the groundwork for an ambitious program of economic reform and transformation aimed at restoring macroeconomic stability, reducing the economy's dependence on oil and mobilizing the country's economic potential. In the past, Sudan established a good track record with the Fund through 13 successful SMPs during the period 1997-2010. Nevertheless, this SMP will allow us to establish a track record of strong policy and performance with the goal of reaching the decision point by September 2014.

B. Recent Macroeconomic Developments

8. **Sudan's economic performance in 2012 encountered some challenges, despite the introduction in June 2012 of a package of reforms.** Non-oil real GDP growth slowed to 4.7 percent, reflecting a broad-based slowdown in economic activity. Inflation reached 44.4 percent at end-year, driven by the monetization of the fiscal deficit and a weakening exchange rate, among other factors. The gap between the official and curb market exchange rates, despite dropping from a peak of almost 100 percent after the June 2012 depreciation, remained at about 20 percent by end-December 2012. The overall fiscal deficit peaked at 3.8 percent of GDP, mostly on account of a significant fall in oil revenues in the aftermath of the secession. The external current account deficit is estimated to have reached 10.4 percent of GDP, reflecting the large drop in oil exports, and was mainly financed by a combination of foreign direct investment, grants and loans from official sources. Gross international reserves increased to 1.8 months of prospective imports.

9. **Economic conditions through end-December 2013 were mixed.** The 12-month consumer price inflation which fell to 22.9 by end-August from a high of 47.9 percent in March and rose to 41.9 percent through end-December, in the aftermath of the devaluation of the domestic currency and the rise in the prices of domestic petroleum products. The rebound was caused by an increase in food and transportation prices.¹ In the fiscal area, revenue performance exceeded budget projections

¹ These items represent about 61 percent of the household consumption basket.

on account of an improvement in tax collection as well as higher imports. Wage spending is estimated at 4.3 percent of GDP, slightly above the budget target. The overall fiscal deficit is estimated at 2.1 percent of full-year GDP, against a budget target of 3.0 percent of GDP. The gap between the official and curb market rates reached 35 percent, because of the recent conflict in South Sudan as well as the prevailing macroeconomic imbalances. Reserve money growth was contained at 20.3 percent since end-2012, largely reflecting the drop in gold purchase by the central bank. Private sector credit rose by 22.4 percent while central bank credit to the government rose by 24.1 percent. Overall, broad money grew by 13.2 percent. Gross international reserves stood at US\$1.62 billion, a decline of US\$75 million from end-2012.

10. **We adopted a new and ambitious package of reforms in September to signal our commitment to resuming our adjustment efforts to address the economic and social challenges.** The implemented measures comprise: (i) a weighted-average increase in domestic petroleum prices at the pump of about 68 percent, including increases in the prices of gasoline, gasoil, and LPG; (ii) a step devaluation of about 29 percent of the official exchange rate; (iii) an increase in the customs exchange rate to align it with the official level; and (iv) varied tax and custom duty increases applied on certain goods. The other new measures seek to increase revenues and cut nonpriority spending and are the core of the 2014 budget. In addition, the reform package included some measures to shield the most vulnerable from the social impacts of these reforms.

C. The Economic Program for January–December 2014

Overview

11. **Our new policy framework is being put in place.** In this context, we will (i) continue fiscal consolidation through revenue enhancement and fiscal retrenchment, while broadening social protection and allocating more resources to productive projects; (ii) tighten the monetary stance and improve the transmission mechanisms of monetary policy; (iii) address external imbalances, by measures that include greater exchange rate flexibility through a managed-float exchange rate system; and (iv) implement structural reforms, including a restructuring of the public sector to develop a non-oil economy and support private sector investment.

12. **Public finance consolidation and bank restructuring will remain at the core of the program.** In this context, policies will focus on (i) continuing tax reforms; (ii) rationalizing spending; (iii) reforming state finances; (iv) accelerating the privatization program; and (v) improving financial intermediation while promoting private sector development and financial inclusiveness.

13. **The implementation of this package is expected to engineer a gradual recovery.** For 2014, we will aim at: (i) reaching a non-oil real GDP growth rate of 2.5 percent, on account of a rebound in agriculture, improved export performance, and productivity gains related to the proposed fiscal and monetary adjustments; (ii) bringing inflation down to 18.1 percent, reflecting the combined effects of fiscal consolidation, monetary tightening, and the stabilization of the exchange rate; (iii) reduce the overall fiscal deficit to about 1.3 percent of GDP, reflecting both an improvement in revenue collection and a reduction in spending; and (iv) narrowing the current account deficit to about 8.3 percent of GDP, which will be financed mostly by non debt-creating flows.

14. **For the medium term, the outlook is expected to improve.** The continuation of our reform efforts will allow macroeconomic conditions to continue improving gradually throughout 2016. Our main objectives are: (i) an average non-oil real GDP growth rate of about 3.8 percent; (ii) a fall in inflation to single digits (8.6 percent) by 2016; (iii) an overall fiscal deficit of 0.6 percent by 2016, as we anticipate that the consolidation of public finances will continue through the medium term; and (iv) a current account deficit of about 6.3 percent of GDP by 2016.

Macroeconomic Policies and Reforms

Fiscal Policy and Budgetary Reforms

15. **We intend to continue our fiscal adjustment efforts under the SMP, with an equal focus on stepping up revenue mobilization and streamlining expenditure.** With respect to revenue mobilization, our goal is to raise non-oil tax revenue to 6.4 percent of GDP in 2014, compared with an estimated 6.1 percent of GDP in 2013. On the expenditure side, our objective is to contain current spending to 11.5 percent of GDP, while improving public financial management (PFM) in line with IMF recommendations.

16. **We note that the country's low ratio of budgetary revenue to GDP reflects both a weak tax intake and low efficiency in revenue collection.** In addition to the measures introduced in late September 2013, we intend to introduce additional measures that would generate additional revenues of about 2 percent of GDP and enable us to target a revenue to GDP ratio of 11.2 percent. These measures include the following:

- Reduce VAT exemptions (end-June 2014 structural benchmark);
- Coordinating tax legislation between the federal government and states to eliminate legislative overlap;
- Strengthening the penalty procedures for non-compliant tax payers (quarterly structural benchmark). The monitoring of this benchmark will be conducted through quarterly reviews by the SMP review missions with technical assistance from the METAC;
- Rationalizing customs duties exemptions;
- Reviewing the tax exemptions granted to the contracted employees in line with the personal income tax reforms under way. Reforming the taxation of gold-related activities, including enforcing the tax regime for the newly licensed gold companies,² effective January 1, 2014, and subjecting traders to business profit tax (BPT);

² The key features of the new regime include: (i) a 7 percent royalty on total production; (ii) 18-30 percent free share of total production; and (iii) a 15 percent business profit tax.

- Ensure that all gold royalties and the government profit share accrue directly to the budget, starting with the 2014 budget law; and
- Improving the efficiency of revenue collection agencies, by increasing the taxpayer population, and preparing compliance management work plans for all large taxpayers.

We will strengthen taxpayer compliance management by introducing a framework that uses risk-based audit and non-audit interventions. A draft manual is already in place and will be completed and adopted in 2014 (end-September 2014 structural benchmark).

17. **The government will request technical assistance from the Fund** to help improve gold taxation and undertake a comprehensive tax expenditure review. Such review will allow us to streamline tax incentives and preferences and identify the policies that will enhance the efficiency of the tax system over the medium term.

18. **In 2014, the government's expenditure policy will be guided by the need to restore medium-term fiscal sustainability.** To this end, the 2014 budget contains structural adjustment measures to rationalize government spending while significantly increasing social spending. Current spending is projected at 11.5 percent of GDP, to enable a shift of resources from nonpriority current spending to productive capital in support of sustained economic growth and diversification. In this context, the government will:

- Contain the wage bill to 4.1 percent of GDP;
- Continue the gradual lifting of the fuel subsidies;
- Undertake a comprehensive restructuring of the Sudan Petroleum Corporation (SPC) and the electricity companies (EC), and improve corporate governance in their operations. In particular, SPC and EC will:
 - Prepare quarterly reports that include detailed operating accounts and financial statements that clearly indicate the sources of their revenues, the main components of their expenditure, and the size of their financing gap as well as the various sources of financing this gap. The government will request Fund technical assistance to that effect; and
 - Be audited annually by the auditor general.

19. **We will pursue our reforms to improve public financial management.** Consistent with the recommendations from the recent IMF TA missions in August 2012 (by the Fiscal Affairs Department) and April 2013 (by METAC), the government will strengthen budgetary execution and monitoring. In particular, we will:

- Close all central government accounts in commercial banks (end-June 2014 structural benchmark), except in areas where there is no branch of the CBOS;
- Complete the Treasury Single Account (TSA) reform, by endorsing its legal and regulatory foundation, and finalizing its organizational aspect;

- Develop a medium-term fiscal framework (MTFF) that provides three-year aggregate fiscal targets and projections of revenue and expenditure by main economic category (end-December 2014 structural benchmark);
- Design a commitment control for all in-year commitments and multiyear investment projects, the former being subject to the annual financing plan and the latter consistent with the MTFF (with the budget documents showing the full cost of the planned investment and the scheduling of expenditures over the life of each project);
- Extend the GFSM 2001 compatible economic classification to the six remaining states, and monitor the quality and consistency of classification applied at the state level (end-September 2014 structural benchmark);
- Prepare quarterly cash-flow tables based on the fiscal program targets to ensure that expenditure commitments remain consistent with available resources; Review development spending with a view to focus on priority projects; and
- Set up a fiscal policy unit at the Minister of Finance and National Economy in the first quarter of 2014 that would be responsible for preparing a rolling three-year medium term fiscal framework.

20. **Strengthening anti-corruption and AML/CFT efforts with technical assistance from the Fund is essential.** As part of the government's plan to strengthen budgetary management and monitoring, we will undertake the following reforms:

- Reaffirm the exclusive use of guarantees—which will not exceed SDG 1.8 billion on a net basis—to the financing of investment expenditure;
- Establish a comprehensive list of outstanding guarantees by type of guarantees (local currency, foreign currency), including arrears related to these guarantees if any, by end-June 2014;
- Incorporate in the annual budget the medium- and long-term domestic debt maturities falling due during the year;
- Establish an indicator to monitor the government's overall financing requirements (GOFR). The GOFR will include (i) the overall fiscal balance; (ii) the cash payment for the amortization of the external debt; (iii) the amortization of the GMCs maturities falling due; and (iv) the amortization of the medium- and long-term domestic debt maturities falling due;³ and
- Promote the use of GICs instead of guarantees for mobilizing domestic resources to finance that portion of the government's investment program that is not covered by external financing or budgetary resources.

³ These maturities include GIC maturities as well as the maturities covered by the CBOS guarantees.

21. **Looking forward, we will pursue public finance consolidation as it is crucial to achieving and maintaining macroeconomic stability.** Given our unsustainable external debt position, we envisage, over the medium term, anchoring our fiscal policy on an overall budget balance of about 1.1 percent of GDP while ensuring a steady improvement in nonoil revenue. Starting in 2014, we will conduct (i) a comprehensive tax policy review to assess and reform the current system and improve the fiscal regime of the oil and mineral industries; and (ii) take all preparatory steps for a census of the civil service. We intend to request assistance from the Fund for the former and that of the World Bank and other donors for the latter.

Monetary Policy and Financial Sector Reforms

22. **We are determined to pursue our efforts to improve monetary conditions and contain inflation.** Monetary conditions have steadily weakened on account of the uncertainty prevailing since the beginning of the year. As the budgetary situation continued to be tense, this led to a continued increase in the monetization of the budget deficit, and ultimately to the amplification of inflation beyond 40 percent by mid-year. In 2014, our monetary program seeks to contain reserve money growth to 16 percent, consistent with the decision of the CBOS to limit monetary financing of the fiscal deficit to temporary financing. Accordingly, growth of credit to the private sector is projected at about 15.3 percent. Broad money growth is projected at 17 percent.

23. **To achieve this objective and consolidate this disinflationary process, the role of the CBOS will be enhanced and its independence reinforced.** Within this framework, the CBOS will:

- Cap temporary advances that are provided to the government during the year at about SDG 2½ billion, in line with the Central Bank of Sudan's Act;
- Refrain from providing direct credit to public enterprises and acquiring Government Musharaka Certificate (GMC) securities in the primary market; and
- Cease the rescheduling of overdue temporary advances to the government in line with the Central bank of Sudan's Act.

24. **We intend to improve the transmission mechanism of monetary policy.** We are planning to: (i) improve coordination between monetary policy and fiscal policy; (ii) promote an interbank market for GMC and Government Investment Certificate (GIC) securities; and (iii) expand the auction system to provide commercial banks with the opportunity to recycle their unused cash balances.⁴

25. **We are determined to improve banking conditions to support an expansion of non-oil activity and back microfinance and poverty reduction efforts.** Accordingly, we have decided to discontinue direct and subsidized credits which led to a misallocation of resources across sectors and impaired state-owned banks' lending activity. At the same time, we will continue to support the

⁴ In July 2012, the CBOS increased the reserve requirement (RR) ratio from 13 percent to 18 percent with a view to mopping up banks' excess reserves and stabilizing the exchange rate of the SDG in the curb market. In view of the high level of bank's excess liquidity, this policy has produced only limited results.

micro-finance sector which plays a critical role in poverty reduction, and gradually enhance the banking microfinance portfolio to reach 12 percent of the total portfolio via regulated and supervised micro finance institutions (MFIs) which will spearhead the sector. This is to be accomplished mostly through the newly established Wholesale Guarantee Agency acting to guarantee finance from banks to MFIs.⁵

26. The government will undertake in 2014 a comprehensive review of the banking sector.

Using the recently published Financial Sector Review prepared by the IMF in the context of the 2013 Article IV consultation, we have identified areas of reforms for the next few months. We intend to: (i) continue making headway towards best practices in bank supervision, inspection and enforcement; (ii) update the risk-based manuals for offsite and onsite supervision; (iii) take steps to terminate the direct ownership of banks by CBOS;⁶ and (iv) upgrade the legal, regulatory, and institutional framework of the sector; and (v) remove all impediments to financial deepening. Lastly, we intend to complete the reform of the domestic payment system and modernize the central bank. We will request technical assistance from donors to proceed with the implementation of these reforms.

27. We will continue preparing a restructuring plan for Omdurman National Bank in line with the recommendations of the independent audit (end-June 2014 structural benchmark). In the context of the restructuring program, the CBOS will prepare a comprehensive restructuring plan that will include a gradual phasing out of the CBOS shares in Omdurman National Bank.

Exchange Rate Policy and Reforms

28. Further reforms are needed to improve exchange rate policy. The signing of the implementation matrix for the oil revenue-sharing agreement with South Sudan and reforms introduced in September 2013 are expected to lessen the pressure on the exchange market and reduce the gap with the curb market. We are determined to pursue the reforms to continue improving and enhancing the functioning of the FX market with the objective of gradually eliminating the gap between the official and curb rates. With increased exchange rate flexibility, we expect to further build up our net international reserves (NIR) by about US\$250 million by end-December 2014.

29. We have unified all official exchange rates at the currently prevailing commercial bank rates. To further improve the functioning of the FX market, we will implement the following measures in 2014: (i) set the reference rate on a daily basis as a weighted average of the buy and sell exchange rates of the CBOS, commercial banks, and exchange bureaus; (ii) use the reference rate as

⁵ The murabaha rate subsidy is defined as the difference between the prevailing average market murabaha rate and the rate actually paid by the recipient of the microfinance loans, which is set by the monetary authorities.

⁶ The CBOS interventions are kept to the minimum, except in cases of extreme necessity. Moreover, a committee mandated to gradually phase out the CBOS shares in the commercial banks.

an indicative rate in the foreign exchange market next day; and (iii) allow commercial banks and exchange bureaus operating in the foreign exchange market to gradually set the exchange rates they quote to customers freely.

30. **We will upgrade the legal framework of the FX market.** In order to safeguard the stability of the banking sector and ensure proper management of exchange rate risks, the CBOS will strengthen its prudential regulations related to exchange rate risks. These regulations will include, among others, the development of the newly-introduced net open foreign currency position for banks and the restriction of lending in foreign currency by authorized dealers to foreign exchange earners.

Other Structural Reforms

31. **Sudan's economy needs to be restructured to respond to the post-secession challenges.** For this purpose, we will implement far-reaching reforms to (i) encourage investment in order to promote broad and inclusive growth; (ii) promote exports of goods with a higher value added; and (iii) strengthen efforts in support of trade liberalization so as to benefit from closer integration with the regional and global economy, external financing, investment and technology transfers.

32. **We are determined to continue improvements of the business environment.** We are determined to continue to remove obstacles to doing business in Sudan. Our macroeconomic reforms aiming at, inter alia, lower inflation, development of foreign exchange and money markets, banking, and supporting growth will lower uncertainties regarding the future stability of the economy and thus provide incentives for increased investments. In addition, we will continue to improve the regulatory environment for business in order to remove constraints that businesses face and lessen the cost of doing business. We expect that those efforts will be evidenced by improvements in the international rankings of Sudan's business environment and will result in increased domestic and foreign investments.

Social and Employment Policies

33. **Poverty is widespread with the last household survey completed in 2008 (before the secession of South Sudan) showed that 47 percent of the population lives below the poverty line.** In line with our I-PRSP, we will continue to shield the most vulnerable from the effects of the crisis. Sudan faces challenges in achieving the Millennium Development Goals (MDGs), especially reducing poverty. Sudan's social indicators compare unfavorably vis-à-vis the regional comparators. The introduction of the September package has highlighted the need to ramp up social spending, despite the difficult fiscal situation. At the center of our social safety net is the Zakat program which targets 4.5 million households. In addition, the Ministry of Finance runs a cash transfer program which currently assists 500,000 families providing 150 SDGs per month. In addition, the government is committed to performing a new national household survey in 2014 and consequently preparing a full fledged PRSP, which is expected to be launched to the national and international development partners in 2015, in coordination with the new three-year government plan (2015-17).

34. **We are committed to providing additional assistance for the most needy.** To this end, we will: (i) expand the coverage of the programs in place to target 500,000 families in 2014, and (ii) increase health insurance coverage for the poor; (iii) improve primary healthcare; and (iv) expand

the supporting social activities. We also intend to improve our social policies. Consequently, it is essential that we set up, with support from the World Bank and other donors, a comprehensive targeted social safety net.

35. **Unemployment in Sudan is high.** In 2011, it was estimated at 18 percent of the labor force. We expect that our growth-supporting reforms will lead to increased employment opportunities. We will continue our work aimed at providing access to primary education for the whole population under the Education-for-All initiative in line with the MDGs. In addition, we will develop vocational and technical training programs including development of the professional education infrastructure to improve entry-level skills and on-the-job training. Additionally, we plan to continue our support for SMEs through development of the micro-finance sector including a country-wide network of savings banks overseen by the Ministry of Welfare. This sector has grown sevenfold since 2007 and we expect it to become an effective way to increase employment, especially for the youth and women. Additional employment opportunities can be explored in agriculture, through the implementation of different production plans in the real sectors, in cooperation with the private sector.

Regional Integration

36. **We are committed to continue efforts to deepen our regional cooperation especially with South Sudan.** The recent summit has provided momentum to strengthen and expand relations with South Sudan. Joint committees are already working to strengthen cooperation in the financial, trade, monetary, banking and security areas. With these in place, we are now working on adopting policies and institutional arrangements that will facilitate trade between our two countries, including reducing non-tariff barriers. In this connection, we are determined to strengthening transportation and customs infrastructure between the countries, for which we are seeking support from the international community.

D. External Debt and Relief Prospects

37. **Sudan is in debt distress.** Our stock of external debt at end-2013 is estimated at \$45.4 billion,⁷ of which 86 percent in arrears. The debt challenges facing Sudan are aggravated by several commercial debt litigation cases, which would lead to freezing and possibly confiscation of Sudan's assets. Resolving the unsustainable debt burden is critical to our development efforts, especially those associated with our poverty reduction and MDGs targets. Currently, we continue to accumulate arrears as our resources for debt service do not allow us to clear outstanding obligations or to meet obligations falling due. Foreign financing is necessary for continued operation and construction of the critical infrastructure and development projects in Sudan.

38. **At this stage, our debt strategy focuses on assuring the flow of critical financing for these projects by partially servicing the debt of those creditors who are still disbursing.** We strive to secure this financing at the most concessional terms possible. We recognize that any new borrowing will eventually need to be treated as part of any comprehensive debt relief workout that would return Sudan to a sustainable external debt position. In 2013, we were only able to meet 70 percent of the planned interest payments and 24 percent of the planned principal payments. As part of our efforts to secure debt relief, we have satisfied key technical requirements, including a long track record of economic performance with the IMF through 13 successful SMPs, a finalized I-PRSP, and a reconciliation of our external debt stock. Looking further to resolve the debt issues, we will continue to: (i) reach out to creditors with a view to seek a fast-track debt relief process; (ii) minimize non-concessional borrowing; and (iii) continue cooperation with the IMF. The government also intends to consult with the multilateral institutions, including the IMF, World Bank, and African Development Bank on modalities for eliminating arrears with those institutions, with a view to eventually seeking comprehensive debt relief through the HIPC process.

39. **We have made progress in these areas, and we remain hopeful that the international community will recognize our track record, and take concrete action on debt relief comparable to that provided to other countries.** Prior to the secession, we agreed with South Sudan on a "zero option" clause, under which we would shoulder the entire external debt, provided that the international community provides firm commitments to the delivery of debt relief within two years, after we jointly conduct outreach efforts for debt relief. The two-year period ends in September 2014, and despite our having satisfied all technical requirements, little progress was achieved in debt relief delivery. With the deadline fast approaching, we are planning to step up our joint outreach efforts, with the goal of gaining commitment for debt relief and thereby avoiding the fall-back position of apportioning the debt.

⁷ Subject to changes based on results from the annual debt reconciliation exercise.

E. Program Modalities and Monitoring

- 1. Performance under the program will be monitored through quarterly reviews, starting in March 2014.** The program has two prior actions, seven quarterly quantitative benchmarks, four indicative targets and eight structural benchmarks. The quarterly quantitative benchmarks and indicative targets are described in Table 1, and the prior actions and structural benchmarks in Table 2. The understandings between the Sudanese authorities and the IMF regarding the quantitative targets and structural benchmarks are further specified in the technical memorandum of understanding (TMU) dated March 7, 2014. The government will make available to Fund staff all data appropriately reconciled and on a timely basis, as specified in the TMU.
- 2. We will set up an institutional framework to monitor program execution and improve data collection.** The institutional framework will comprise the key decision makers on economic and financial matters, notably the Vice-President, the Minister of Finance, the Petroleum Minister and the Governor of CBOS who will set the overall reform strategy and the action plan to move forward with the reforms. They will be assisted by a Technical Committee (TC) that will monitor execution of the SMP and report on a regular basis. This TC will comprise senior officials from the Finance and Petroleum Ministries, the Central Bank of Sudan (CBOS), the Statistics Office, and other institutions that are key to ensuring adequate execution of the program.
- 3. We will continue to strengthen our cooperation on payments with the IMF.** In this context, we will continue making regular quarterly payments totaling at least US\$10 million in 2014, and further increasing these payments as Sudan's payment capacity improves.
- 4. We appeal to the international community to support our reform program, recognize our accomplishments and work toward a rapid resolution of Sudan's debt and arrears problem.** Because of the latter, Sudan continues to suffer from limited access to concessional loans. As a low-income and fragile country, it needs concessional lending to develop and diversify its economy. Our infrastructure, reconstruction, and social development projects, which require critical external funding, are an essential component of our strategy to boost non-oil GDP growth in the aftermath of South Sudan's secession. In recent years, we have had to resort to non-concessional financing, but remain mindful of the risks to debt sustainability and the concerns of other creditors. We will seek to limit the contracting of such borrowing to an annual amount of US\$600 million for specific and well-identified projects.

Table 1. Sudan: Quantitative Targets, 2013-14

	2013	2014 1/			
	December	March	June	September	December
Quantitative Benchmarks					
Domestic financing of the central government (ceiling; in SDG million) 2/	5,596	1,059	2,118	3,178	4,237
CBOS net credit to the central government (ceiling; in SDG million)	13,503	14,249	14,842	15,435	15,876
CBOS net domestic assets (ceiling; in SDG million)	51,699	53,297	54,741	56,186	57,478
Net international reserves (floor; in millions of U.S. dollars) 2/	355	405	505	605	605
Contracting or guaranteeing of external long term nonconcessional debt by the government or the central bank (ceiling, in millions of U.S. dollars) 3/	600	600	600	600	600
Central government budget expenditure arrears accumulation (ceiling, in SDG million)	0	0	0	0	0
Payments to the Fund (in millions of U.S. dollars)	6	2.5	5.0	7.5	10.0
Indicative Targets					
Tax revenue (floor; in SDG million)	19,427	5,295	11,111	17,722	25,059
Social spending (floor; in SDG million)	580	368	737	1,105	1,473
Reserve money (ceiling; change in percent)	20.3	6.0	9.9	14.0	16.0
Nonoil primary deficit (ceiling; in SDG million)	8,377	1,743	3,706	5,671	7,659

1/ Cumulative from the beginning of the year.

2/ Subject to an adjustor to take account of oil-related fees and TFA from carrying crude oil of the RSS being different than assumed in the program.

3/ Continuous benchmark.

Table 2: Prior Actions and Structural Measures Under the 2014 SMP

Benchmarks	Target Date	Macroeconomic Rationale	Status
Prior Actions			
1. Adopt a 2014 budget in line with SMP.		Support fiscal consolidation.	Met.
2. Unify the CBOS exchange rates.		Eliminate distortions in the foreign exchange market and ensure flexibility going forward.	Met.
Structural Measures			
Tax policy			
1. Reduce VAT exemptions.	Jun. 2014	Boost tax revenue.	
Revenue administration			
2. Complete and adopt the manual for risk-based audit and non-audit interventions.	Sep. 2014	Enhance VAT and income tax productivity.	
3. Strengthen the penalty procedures for non-compliant tax payers.	Quarterly	Enhance tax administration.	
Expenditure policy			
4. Develop, with Fund TA, a flexible fuel pricing mechanism.	Dec. 2014	Improve the efficiency and targeting of current spending	
Public financial management			
5. Extend the GFSM 2001 compatible economic classification to the six remaining states, and monitor the quality and consistency of classification applied at the state level.	Sep. 2014	Improve budget classification and fiscal reporting.	
6. Develop a medium-term fiscal framework (MTFF) that provides three-year aggregate fiscal targets and projections of revenue and expenditure by main economic categories.	Dec. 2014	Enhance budget planning and preparation.	
7. Close all central government accounts in commercial banks (except in areas with no CBOS branch).	Jun. 2014	Improve cash management.	
Financial sector			
8. Prepare a time-bound restructuring plan for Omdurman Bank in line with the recommendations of the independent audit.	Jun. 2014	Reduce risks stemming from the financial sector.	

Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) sets out the framework for monitoring the performance of Sudan under the 2014 Staff-Monitored Program (SMP). It specifies the quantitative criteria, indicative targets, and structural benchmarks on the basis of which the implementation of the SMP will be monitored. In addition, the TMU establishes the terms and timeframe for transmitting the data that will enable Fund staff to assess program implementation and performance.
2. The SMP relies on seven quarterly quantitative benchmarks and four indicative targets for end-March 2014, end-June 2014, end-September 2014, and end-December 2014.
3. The quantitative benchmarks are:
 - (i) ceiling on domestic financing of the central government;
 - (ii) ceiling on the CBOS net credit to the central government;
 - (iii) ceiling on the change in net domestic assets of the Central Bank of Sudan (CBOS);
 - (iv) floor for the buildup of net international reserves of the CBOS;
 - (v) ceiling on new nonconcessional external loans contracted or guaranteed by the government or the central bank;
 - (vi) ceiling on central government budget expenditure arrears; and
 - (vii) floor for payments to the Fund.
4. The indicative targets are:
 - (i) floor for tax revenue;
 - (ii) floor for social spending;
 - (iii) ceiling on reserve money growth; and
 - (iv) ceiling on non-oil primary deficit.

Some of these targets are subject to adjustors. 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 the MEFP.

Definitions

5. Net domestic assets (NDA) of the Central Bank of Sudan (CBOS) are defined as the sum of: Net Domestic Credit of the CBOS, plus net issue of money market instruments, and plus other items net:

- CBOS net credit to the central government (NCG) is defined as CBOS credit to the central government minus total central government deposits. Central government deposits include all accounts of line ministries and agencies controlled by the government;
- CBOS credit to the central government includes temporary advance, plus CBOS's acquisition of Government Musharaka Certificates (GMCs) and Government Investment Certificates (GICs), plus CBOS long-term claims on the central government;
- Other items net is the difference between other assets and other liabilities. Other assets are defined as reported in the balance sheet of the CBOS; and
- 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 (e.g., OSA).

6. To evaluate program targets, the guinea equivalent values of foreign exchange denominated items in the balance sheet of the CBOS will be calculated at the program exchange rate of SDG 5.8 per U.S. dollar.

7. Net international reserves (NIR) are total gross official foreign reserve assets on active accounts minus official short-term liabilities. The gross reserve assets include assets maintained on accounts with overseas correspondent banks, foreign exchange banknotes in the vaults of the central bank, monetary gold, and SDR holdings. Short-term liabilities include the foreign liabilities, net of barter and payment agreements and non residents' time liabilities, as reported in the balance sheet of the CBOS.⁸

8. Domestic financing of the central government 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, promissory notes (i.e., standing orders, letters of guarantees,⁹ sanadats, etc.), revenues from privatization (net of new

⁸ These liabilities are related to government debts dating back to the 1970s and 1980s and that were not repaid.

⁹ These guaranties are issued by the government to finance capital and current spending and may, in some instances, be countersigned by the CBOS.

acquisition of financial assets), revenues from leasing, buildup of domestic government arrears, and drawdown in government cash deposits at the CBOS. 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.

9. Overall fiscal balance is defined as total revenues and grants minus total expenditures including capital expenditures cumulatively since the beginning of the calendar year.

10. Non-oil primary fiscal balance of the central government (NOPB) is defined as non-oil revenues¹⁰ minus non-oil expenditures¹¹ excluding net interest payments (interest payments minus interest receipts) and fuel subsidies¹² cumulatively since the beginning of the calendar year.

- The floor on the NOPB set in Table 1 will be lowered by the excess in project loans or budget loans relative to program assumptions. The floor on the NOPB set in Table 1 will be raised by the shortfall in project loans relative to program assumptions.

11. Debt is defined for program purposes in accordance with Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

- For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
 - (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

¹⁰ Oil revenue include royalties, oil income taxes, oil-related profit transfers, income from state equity in the oil sector (including national oil company dividends), oil export taxes, receipts from granting exploration rights, and signature bonuses.

¹¹ Oil expenditures include government investment in the oil sector and any associated recurrent spending, other current oil spending, and transfers to national oil companies.

¹² Fuel subsidies are defined as the difference between the international reference price and the domestic retail price, multiplied by total domestic consumption of gasoline, diesel, LPG, kerosene, jet fuel, and heavy fuel oil.

- (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
 - (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessee or retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.
- Under the definition of debt set out in point (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.
12. A non-concessional external debt ceiling applies to the contracting and guaranteeing by the public sector of new nonconcessional borrowing debt with nonresidents with original maturities of one year or more. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector.
- The public sector comprises the central government, the central bank, nonfinancial public enterprises (enterprises and agencies in which the government holds a controlling stake—typically owns more than 50 percent of the shares, but which are not consolidated in the budget, and other official sector entities.
 - For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full any a shortfall incurred by the debtor.

13. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The degree of concessionalism of debt will be calculated using 5 percent discount rate.

14. 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.

15. 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.
16. The program sets a floor on priority social spending of the central government. For the purpose of the program, priority social spending of the government is defined as the central government's spending on social benefits program that includes cash transfer, spending on health insurance, on primary health care, and students support.
17. Transitional financial arrangement (TFA) is defined as in the September 2012 agreement between Sudan and South Sudan and consists of financial transfers paid by South Sudan and totaling \$3.028 billion over 3½ year. These payments are expressed in per barrel terms (\$15/barrel), based on South Sudan's projection of an average of 152,000 barrels/day of oil production. If production is higher, payments will be made at the agreed rate until cumulative payments reach \$3.028 billion.
18. Oil transit fees are defined in the September 2012 agreement as the fees paid by South Sudan for exporting its oil using Sudan's pipeline and oil infrastructure. These fees (i) average \$9.6/barrel, of which only \$5.6/barrel accrue to the government and the rest to oil companies; and (ii) will apply for the whole 3½ year period and will be renegotiated thereafter.

Adjustors

19. An adjustor will be applied for the oil transit fees and TFA accrued from carrying crude oil from South Sudan. The gross programmed government revenue is based on the program's assumptions about oil transit fees and TFA from South Sudan. Accrued revenue is the cumulative government revenue inflows based on actual shipments at current international prices (f.o.b. Port Sudan).¹³ The local currency equivalent of the dollar difference between the programmed and accrued oil transit fees and TFA, needed to calculate the adjustor, will be obtained by multiplying the dollar difference by the average of the monthly exchange rates prevailing during the period in question.

The programmed value for the oil transit fees is SDG 2,441 million in 2014, and the TFA is SDG 3,253 million in 2014. The adjustor will work as follows:

- If the accrued oil transit fees and TFA falls short of the programmed value, the program targets on domestic financing of the central government and overall fiscal deficit will be increased by 25 percent of the local currency equivalent of the difference between the accrued and programmed value. The program target for NIR will be reduced by 25 percent of the difference between the accrued and programmed value.

¹³ As compiled monthly by the Ministry of Finance and National Economy (MOFNE).

- If the accrued oil transit fees and TFA exceeds the programmed value, the program targets on domestic financing of the central government and overall fiscal deficit will be reduced by the local currency equivalent of the difference between the accrued and programmed value. The program target for NIR will be increased by the difference between the accrued and programmed value.
- The payments to the IMF is defined as a quarterly payment of US\$2,500,000.

Program Monitoring

The Sudanese authorities should maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the Ministry of Petroleum, the CBOS, and other relevant agencies. The IMF Resident Representative will have observer status on this committee. The committee should be responsible for monitoring the performance of the program, recommending policy responses, informing the IMF regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of benchmarks. The committee should provide the IMF with a progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

Data Reporting

20. 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.

SUDAN

Reporting Agency	Type of Data	Description of Data	Frequency	Timing (within period specified)
Central Bank of Sudan	CBOS balance sheet	Detailed CBOS balance sheet	Monthly	15 days after the end of each month
	Monetary survey	Banking system balance sheet and consolidated balance sheet of commercial banks	Monthly	30 days after the end of each month
	Cash flow of foreign exchange	Cash flow data of foreign exchange, including sales and purchases by the dealing room at the CBOS	Monthly	1 week after the end of each month
	Banking indicators	Capital adequacy; asset composition and quality including non-performing loans; profitability; liquidity; open FX positions; and compliance with prudential norms	Monthly	30 days after the end of each quarter
	Balance of payments	Detailed composition (exports, imports volume and values, invisible transactions, quarterly BOP tables).	Quarterly	2 months after the end of each quarter
	External debt		Contracting or guaranteeing of medium- and long-term external debt of the government, the CBOS, and state owned companies	Quarterly
Disbursements and repayments, (i) scheduled, and (ii) actual interest and principal on debt of the government, the CBOS, and state-owned companies, by creditor			Monthly	30 days after the end of each month
Ministry of Finance and National Economy	Central government operations	Revenues, expenditures, and financing as in GFSM 2001 format	Monthly	45 days after the end of each month
	Privatization receipts	Detailed figures for each transaction and nature of the transaction	Monthly	30 days after the end of each month
	Central government domestic debt	End-month stocks, and monthly issuances and repayments, of all domestic debt instruments: GMCs, GICs, loans and advances from the banking system, sanadat, letters of guarantee, standing orders, accounts payable (including arrears) and amortization schedule	Monthly	30 days after the end of each month
	Social spending	Spending on education, health and training	Monthly	30 days after the end of each month

	External support	Disbursement of grants, disbursement and repayment (principal and interest) of loans by donor, breakdown of foreign budget and project grants	Monthly	30 days after the end of each month
Central Bureau of Statistics	CPI	Including detailed data and inflation for imported products	Monthly	1 week after the end of each month
Ministry of Finance and National Economy / Ministry of Petroleum	Oil transit fees/TFA, from South Sudan	Shipment data, listing by blend specifying date, quantity, prices, and values in US\$ and in guinea	Monthly	30 days after the end of each month
	Crude oil	Production by block; share of Sudan and foreign partners; prices and values (\$ million), investment and production costs by block	Monthly	30 days after the end of each month
	Sales to refineries	Sales listing by refineries specifying date, quantity, prices, and values in US\$ and in guinea	Monthly	30 days after the end of each month
	Refineries	Volumes and prices of production, consumption and imports of gasoline, gasoil, fuel oil, jet oil, kerosene, and LPG (see attached template).	Monthly	15 days 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), see template.	Monthly	15 days after the end of each month