dzfjkl

May 2006
IMF Country Report No. 06/182

Sudan: 2006 Article IV Consultation and Staff-Monitored Program—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Sudan

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2006 Article IV consultation with Sudan and the staff-monitored program, the following documents have been released and are included in this package:

- the staff report for the 2006 Article IV Consultation and Staff-Monitored Program, prepared by a staff team of the IMF, following discussions that ended on February 9, 2006, with the officials of Sudan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 19, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of May 3, 2006 updating information on recent developments.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its May 3, 2006 discussion of the staff report and the staff-monitored program.

- a statement by the Executive Director for Sudan.

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

Letter of Intent sent to the IMF by the authorities of Sudan*
Memorandum of Economic and Financial Policies by the authorities of Sudan*
Technical Memorandum of Understanding*
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

SUDAN

Staff Report for the 2006 Article IV Consultation and Staff-Monitored Program

Prepared by the Middle East and Central Asia and
Policy Development and Review Departments

Approved by Lorenzo L. Pérez and Carlo Cottarelli

April 19, 2006

Contents Page

Tables

Appendices

Attachments

EXECUTIVE SUMMARY

Sudan's economic performance in recent years has been good despite internal conflicts and the difficulties of concluding and implementing the peace agreement with the South. Growth has been robust, inflation has been kept at a single-digit level, and important reforms have been undertaken. There has been progress with financial sector reforms and trade liberalization, and the managed floating exchange rate regime has been working well. Notwithstanding these achievements, several challenges remain to make the Government of National Unity fully operational, achieve peace throughout the country, and implement additional reforms to sustain growth and stability and deal with widespread poverty.

The economic program for 2006 addresses some of those challenges. Despite an increase in oil revenues, the fiscal space of the central government will be constrained because of the transfers required by the peace agreement and decentralization. These transfers, coupled with higher capital expenditures, will contribute to a substantial increase in pro-poor development spending. In this context, and to safeguard macroeconomic stability, an additional reorientation of expenditures is required, including through a reduction in fuel subsidies.

Sudan's economic prospects are favorable, assuming a continuation of the reform effort. Critical actions going forward are as follows:

- Adhere to fiscal spending and reserve money targets in an environment of exchange rate flexibility to keep inflation in check.

- Introduce a new national currency to foster financial development in the South and economic integration.

- Ensure close coordination between the government of Southern Sudan, the other states, and the central government to harmonize spending and preserve macroeconomic stability.

- Initiate fiscal reporting according to Government Finance Statistics Methodology and publish detailed oil-sector data to improve expenditure management and transparency.

- Build capacity, transparency, and accountability at all levels of government and make the Fiscal and Financial Allocation and Monitoring Commission operational to support fiscal decentralization.

- Proceed with reforms to remove structural rigidities and lower transactions costs in order to improve competitiveness.

Sudan's external debt problems continue to limit the country's access to external development financing. Despite these and other emerging constraints, the staff has urged the authorities to maintain their record of cooperation on economic policies and payments to the Fund including minimizing nonconcessional borrowing in order to facilitate the prompt resolution of Sudan's debt and arrears problems at the appropriate time.

I. INTRODUCTION

1. During the last seven years, the authorities have maintained close cooperation with the Fund as evidenced by good performance on successive Staff-Monitored Programs (SMPs) and by making payments in excess of obligations falling due. During January 27–February 9, 2006, a staff team visited Khartoum to conduct discussions on the 2006 Article IV consultation, the performance under the 2005 SMP, and an SMP for 2006.[1] The attached Memorandum of Economic and Financial Policies (MEFP, Attachment I) describes the authorities' program and their policy commitments through December 2006.

2. In concluding the last Article IV consultation on April 29, 2005, Directors stressed the importance of keeping inflation low, strengthening the tax base, improving oil sector transparency, and containing nonconcessional borrowing. During the midyear review of the SMP on December 2, 2005, Directors urged the authorities to press ahead with the implementation of the Comprehensive Peace Agreement (CPA) and redouble efforts to resolve the crisis in Darfur. Directors also encouraged the authorities to formulate a prudent budget for 2006, scale back fuel subsidies, adopt the Government Finance Statistics (GFS) methodology, and increase the level of payments to the Fund.[2]

3. The authorities have been carrying out staff recommendations, although there have been some slippages and delays. Inflation pressures have been contained, and measures to broaden the tax base and improve administration have been undertaken. However, the adoption of GFS (GFSM 2001) methodology has progressed slowly, and the target on nonconcessional borrowing has been missed. The program for 2006 contains important commitments to increase fiscal and oil sector transparency as well as higher payments to the Fund.

4. The framework for assistance to Sudan by donors and multilateral institutions is based on the reports prepared by the Joint Assessment Mission (IMF, UN, World Bank, and the authorities) in early 2005 and the commitments made by donors and the government at the Oslo Conference in April of that year.[3] Since then, the first semiannual consultative group meeting (the "Sudan Consortium") to follow up on these commitments, redefine priorities, and foster mutual accountability was held in Paris during March 9–10, 2006 (Appendix II). Fund staff provided input and participated at these events.

---

[1] The staff team comprised Mr. Gelbard (head), Mr. Ilahi, Mr. Al-Ghelaiqah, Ms. Maseeh (all MCD), Mr. Hussain (PDR) and Mr. Chua (FAD). Mr. Pérez (MCD) joined the mission for a few days. Mr. de Schaetzen (Resident Representative) assisted the mission and participated in the discussions. The mission met with senior government officials including the First Vice-President, Mr. Salva Kiir Mayardit; representatives of the business and the banking community; and members of the donor community.

[2] Most Directors supported the view that the policy commitments under the SMP continued to be in line with what would be required for a Rights Accumulation Program (RAP) and that performance under successive SMPs since 2000 should be taken into account in determining the length of a RAP. A number of Directors suggested that, at the appropriate time, the requirement of a RAP could be waived altogether.

[3] The Joint Assessment Mission report to the Oslo Donor Conference in April 2005 provided a comprehensive view of development challenges in Sudan and outlined the areas in need of donor assistance. At that time, donors pledged US$2 billion in development assistance to Sudan during 2005–07.

II. STOCKTAKING OF PERFORMANCE AND MEDIUM-TERM OUTLOOK

5. Sudan's economic performance in recent years has been good despite adverse security conditions and the difficulties of concluding and implementing the CPA. Growth has been robust, inflation has been at single-digit levels, and important reforms were undertaken. The authorities attained macroeconomic stability, lifted price controls, set up liberal foreign investment and foreign exchange regimes, pursued an ambitious privatization and enterprise-restructuring program, and began a second phase of reforms to liberalize the trade regime. The authorities have also finalized a strategy to try to attain the Millennium Development Goals, increased pro-poor and investment spending in 2005, and plan to finalize an interim Poverty Eradication Strategy in 2006.

6. Notwithstanding these achievements, progress was not smooth and major challenges remain. In the period ahead, Sudan's main tests are to make the Government of National Unity fully operational, achieve peace throughout the country, sustain growth and economic stability, and reduce poverty. The difficulties in ensuring the effectiveness of the new government (and the newly created North-South commissions) cannot be underestimated. Similarly, resolving the crisis in Darfur and dealing with potential unrest in the Eastern provinces is a major challenge. Sustaining growth and stability and fostering poverty reduction will require further structural reforms and addressing the country's social and reconstruction needs. Lastly, the ongoing process of fiscal decentralization requires improvements in implementation capacity, transparency, and coordination at different levels of government.

7. Sudan's economic prospects are promising, but there are also risks. The medium-term outlook, based on the continuation of reform policies, envisages growth of 8–10 percent per year, low inflation, and rising international reserves (Table 1). The economic growth assumptions reflect the effects of the ongoing investment boom, the improved prospects for the South in the period after the peace agreement, and prospective economic reforms. The external current account deficit is projected to decline gradually and remain financed by external capital inflows. Fiscal and balance of payments gaps of about 1.5–2 percent of GDP per year are assumed to be covered by official grants. While the outlook is favorable, there are risks arising from the influence of anti-reform groups that may oppose necessary reforms, unresolved domestic political tensions, and weak institutions (especially at the subnational level).

Sudan: Medium-Term Prospects, 2005–10

	2005	2006	2007	2008-10 (Average)
	Est.	Projections		
	(Percent of GDP, unless otherwise indicated)			
Real GDP Growth (in percent)	8.0	13.0	10.3	8.9
Oil	-0.2	71.0	28.2	9.0
Non-oil	8.9	7.2	7.5	8.8
Inflation (period average)	8.5	7.5	5.0	3.3
Gross investment	23.3	25.3	26.9	27.4
Fiscal balance	-1.8	-0.9	-0.4	-0.1
Current account balance	-8.5	-5.2	-4.0	-3.7
Crude oil export price (U.S. dollars per barrel)	49.7	47.4	47.2	46.2
Crude oil production (in millions of barrels/day)	0.29	0.49	0.63	0.77

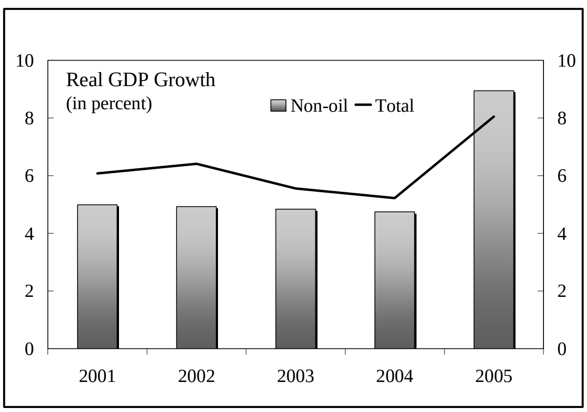
Sources: Sudanese authorities; and Fund staff estimates and projections.

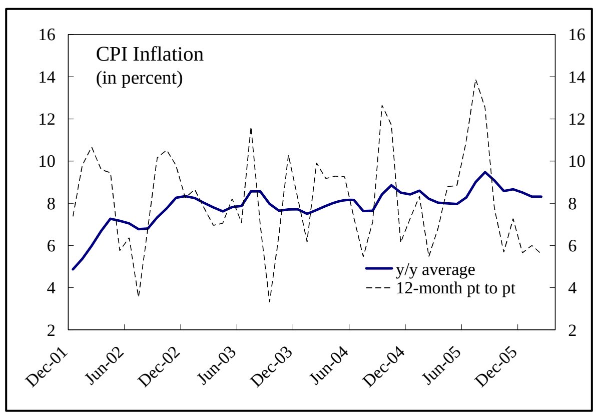
III. Recent Developments and Performance Under the Program

8. **The CPA is being implemented, albeit with some delays.** An interim national constitution was put into force and the Government of National Unity and the government of Southern Sudan were set up in mid-2005.[4] The central government has begun transferring oil revenues to the South as stipulated in the CPA, although the exact amounts due are still under discussion.[5] Furthermore, important commissions dealing with North-South borders, the oil sector, and financial aspects of fiscal federalism are not yet functioning effectively.

9. **Progress has been made at the Darfur peace talks in Abuja, but the situation on the ground remains precarious.** There has been progress on a revenue sharing agreement as well as on power-sharing and security arrangements. However, the security situation in Darfur has deteriorated during the last year, and the international community has stepped up pressure for strengthening peacekeeping operations in the region. Relations between Sudan and Chad have also deteriorated because of allegations that each country is supporting rebel forces in the other country.

10. **The economy has been growing at a fast pace and macroeconomic conditions have been stable**. Real GDP grew at an estimated rate of 8 percent in 2005, owing mainly to a recovery in agriculture and robust activity in construction and services. After rapid growth in 2003 and 2004, oil sector output remained virtually unchanged in 2005 at 287 thousand barrels per day (Table 2). Average inflation in 2005 was contained at 8.5 percent. At end-February 2006, the 12-month rate of inflation was 5.8 percent.





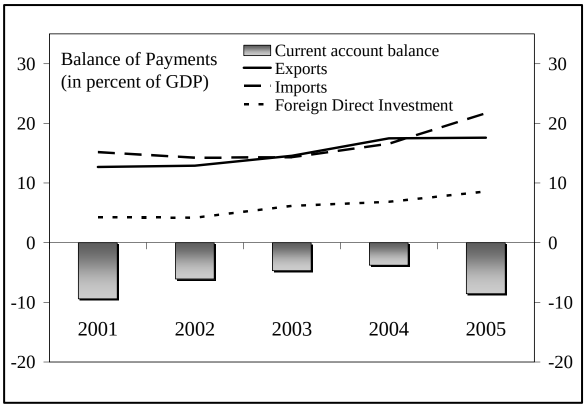
11. **The external current account worsened in 2005, but the balance of payments was supported by strong capital inflows.** Oil export revenues rose because of higher oil prices, but imports rose drastically and non-oil exports slowed. The latter suffered from transportation bottlenecks, high domestic demand, and, possibly, real exchange rate

---

[4] Under the new constitution, the national unity government has authority over national sovereignty, central banking, and selected central government functions. The Government of Southern Sudan has a large degree of autonomy (especially on fiscal matters) and responsibility for 10 states in the South.

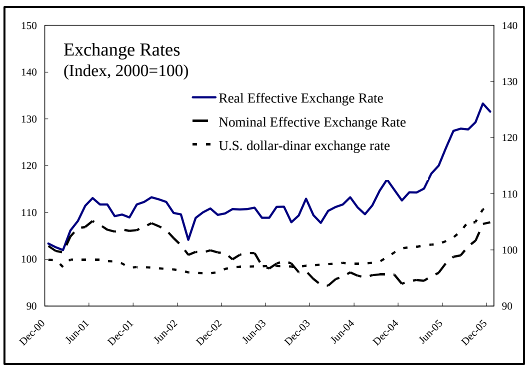
[5] The South's share of revenues is based on oil production from fields in the South. However, the precise demarcation of where all fields lie needs to await the work of a technical commission envisaged under the CPA.

appreciation (Box 1). At the same time, the strong trend in capital inflows continued (mainly in the form of foreign direct foreign investment in industrial, telecommunications, transport, and banking activities) allowing for a buildup of net international reserves from 1.9 months of imports at end-2004 to 2.6 months at end-2005 (Table 3).



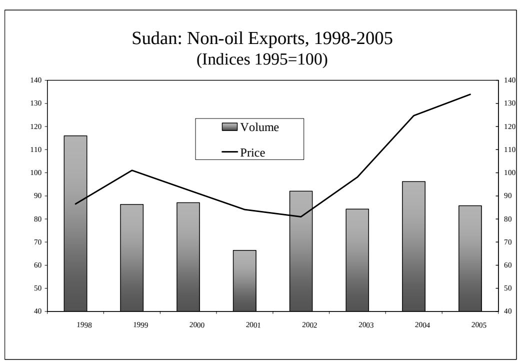
Box 1: Exchange Rate Trends and Competitiveness

Since late 2004, improved market fundamentals coupled with a move towards a market-driven exchange rate have led to an appreciation of the dinar. In 2005, the economy grew at fast pace and higher oil prices led to a 35 percent increase in oil exports. In addition, foreign direct investment rose sharply from US$1.8 billion in 2003 to US$3.8 billion in 2005. During the last year, the currency appreciated by 12 percent and 17 percent in nominal and real effective terms, respectively.



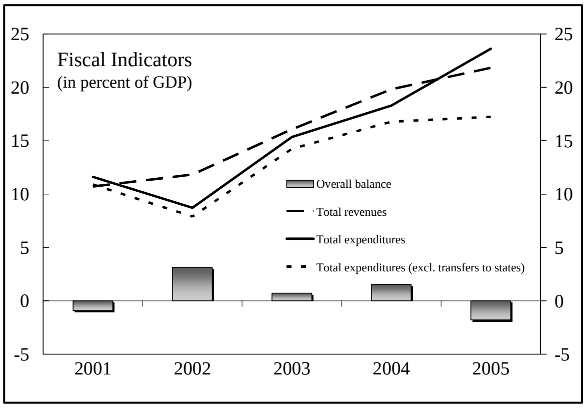
Beyond the effects of growth and foreign exchange inflows, higher levels of government spending have also put pressure on nontraded goods' prices and contributed to the real appreciation. Prices of nontraded goods (housing, water, and electricity) grew at an average rate of 11 percent in 2004–05, while prices of tradable goods (food, clothing, and other consumer goods) grew by an average of 6 percent.

Trade performance also suggests that competitiveness may be deteriorating, although other factors have also played a role. In 2005, the volume of non-oil exports (mainly agricultural products and livestock) fell. Export volumes were also affected by supply constraints (inadequate capacity at the port, deterioration in the road infrastructure), conflict in livestock-rich areas, and higher domestic demand.

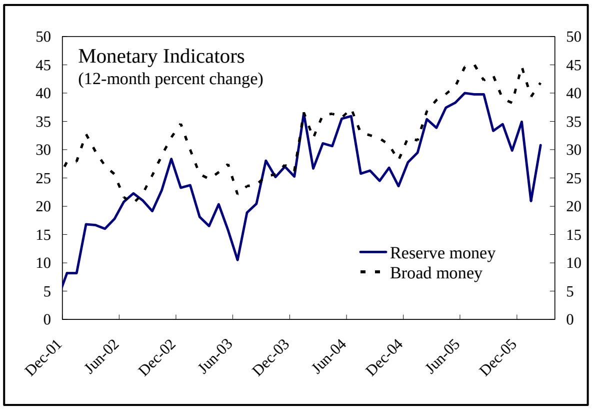


Looking ahead, the oil sector boom coupled with strong fundamentals will likely exert further upward pressure on the equilibrium real exchange rate. This highlights the importance of removing structural bottlenecks and improving the business environment to preserve competitiveness in non-oil export and import-competing sectors.

12. **After three years of surpluses, the fiscal balance turned into a deficit in 2005.** Oil revenue continued to rise, but it could not keep pace with the increase in government spending (Table 4). Transfers to the South and northern states increased significantly because of the CPA and fiscal decentralization in the North. At the same time, a domestic fuel subsidy equivalent to 3.5 percent of GDP emerged as domestic fuel prices were not increased in line with rising international prices.[6] The fiscal deficit was financed by bond sales to the domestic nonbank sector and a lower-than-programmed accumulation of deposits in the oil savings account.



13. **In 2005, money demand remained high and the dinar appreciated.** Money demand was bolstered by the strong pace of economic activity and increased financial intermediation. Despite central bank's attempts to mop liquidity through open market sales of government securities and foreign exchange, broad money and reserve money grew by 45 percent and 35 percent, respectively (Tables 5 and 6). Credit to the private sector also grew rapidly (by 65 percent) during the year.[7] Money demand pressures, backed by strong foreign exchange inflows, translated into dinar appreciation.



14. **Faced with a trade-off between higher inflation and exchange rate appreciation, the authorities have appropriately allowed the exchange rate to appreciate.** In the context of Sudan's managed floating exchange rate regime, the authorities have been monitoring inflation developments closely and allowed the exchange rate to appreciate in response to incipient inflationary pressures. While also aimed at containing excessive exchange rate volatility, foreign exchange market intervention has been geared to the attainment of the program's foreign exchange accumulation reserves objectives rather than targeting an implicit path for the exchange rate.

---

[6] Fuel prices are set administratively and the estimated fuel subsidies are implicit; that is, they reflect domestic sales at below export prices with no explicit compensation in the budget. The staff has urged the authorities to record these subsidies as an explicit expenditure item and set an automatic adjustment mechanism to adjust them in line with world prices.

[7] About 60 percent of the new credit was channeled to the services and trade sectors. Regarding the concentration of the new credit, almost 40 percent originated in a single bank. The central bank has stepped up supervision of this bank to monitor its lending portfolio.

15. **The authorities took steps to improve the import tariff structure and increase flexibility in the foreign exchange market.** As part of a three-year import-tariff reform program, the authorities lowered the top tariff rate from 45 percent to 40 percent. The average tariff fell to 20 percent, and there are plans to reduce it further to 15 percent or less by 2008 (MEFP, ¶23). Regarding the foreign exchange market, the authorities have recently allowed for further flexibility (through auctions) in the pricing of foreign exchange. Sudan maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions (Appendix I).

16. **Banking system soundness indicators improved in 2005.** The ratio of nonperforming loans to total loans fell from 8.9 percent in 2004 to 6.9 percent at end-2005. During the same period, capital adequacy ratio for the banking system increased from 10.8 percent to 12 percent (Table 5).[8]

17. **The authorities made progress with the envisaged fiscal and financial sector reforms.** They set up a medium taxpayer unit to boost non-oil revenue collection, adopted the Automated System for Customs Data at customs ports, and strengthened cash management through cash plans and better coordination between the ministry of finance and the central bank. Regarding monetary and financial sector reforms, the central bank introduced competitive auctions of government securities, implemented a new financing window for banks using collateral-based certificates, and privatized a large bank (Khartoum Bank). The authorities have also been setting up the new federal structure in the banking system (required by the CPA) by enacting laws to restructure the central bank and banking activities and by establishing a branch of the central bank in the South. Furthermore, the central bank has formulated a strategy for screening mergers and acquisitions and opened the banking sector to foreign banks.[9]

18. **Performance under the 2005 SMP was broadly satisfactory.** Three of the five quantitative targets and all but one structural benchmark for end-December 2005 were met (Tables 7 and 8). The target on the domestic financing of the fiscal deficit was missed by a small margin, while the ceiling on nonconcessional borrowing was not observed as US$935 million in loans were contracted during the year. The authorities explained that, in the absence of concessional financing, these loans financed key water and electricity projects.[10] The structural benchmark on converting the 2006 budget in GFSM 2001 format was delayed because of technical difficulties in the preparation of the budget; the authorities expect to implement this measure in May 2006.

---

[8]It should be noted that measures of regulatory capital in Sudan are artificially high because fixed assets are improperly counted as capital. The authorities are reviewing accounting norms for commercial banks to correct the problem.

[9] In 2005, the authorities granted four licenses for new banks.

[10] Project-related nonconcessional loan contracts with China amounted to US$814 million, while contracts with the Islamic Development Bank and the Arab Monetary Fund amounted to US$102 million. Iran provided a loan for U$S19 million with a grant element of 25 percent.

IV. Report on the Discussions

19. The discussions focused on economic policies for 2006 and macro-relevant structural measures to sustain growth and foster poverty reduction, and the 2006 SMP. The main Article IV issues relate to the need to consolidate macroeconomic stability and pursue pending reforms. In this context, particular attention was given to the need to streamline tax exemptions, create the conditions for successful fiscal decentralization, improve efficiency and transparency in public sector operations, and support continued private sector development in light of the recent appreciation of the dinar. The program for 2006 contains measures to maintain inflation in single-digits, keep the fiscal deficit under control, reorient public spending to increase pro-poor outlays and reduce fuel subsidies, and implement key measures to improve fiscal and oil-sector transparency and reform the financial sector.

A. Macroeconomic Policies

20. **The economic outlook for 2006, underpinned by higher oil output, is favorable.** The macroeconomic framework envisages GDP growth of 13 percent and average inflation of 7.5 percent. The non-oil sector is expected to grow by 7 percent, but oil production will increase by nearly 70 percent (to 492,000 barrels per day) as two new oil fields come on stream. The new oil (Dar blend) is of lower quality compared to Sudan's traditional oil (Nile blend). The forecast for 2006 envisages prices of US$55 and US$40 per barrel of Nile blend and Dar blend, respectively.

21. **The fiscal stance in 2006 is intended to support macroeconomic stability.** The overall fiscal deficit is projected to fall from 1.8 percent in 2005 to 0.9 percent of GDP in 2006 because of higher oil revenues.[11] The domestic financing of the deficit is expected to be 0.3 percent of GDP (compared to 1.6 percent in 2005) and is consistent with a financial program that targets 7.5 percent inflation and a further accumulation of international reserves.[12]

Sudan: Selected Fiscal Indicators, 2004–06

	2004	2005 Est.	2006 Prog.
	(In percent of GDP)		
Total revenue	19.8	21.8	24.0
Of which: Oil	10.4	13.4	14.3
Total expenditure	18.3	23.6	24.9
Of which: Fuel subsidies	0.0	3.5	1.8
Transfers to the South	0.4	2.8	4.0
Transfers to other states	1.1	3.6	4.2
Overall balance	1.5	-1.8	-0.9
Memorandum items:			
Consolidated capital spending	5.0	5.5	6.9
Pro-poor spending	...	2.8	5.1

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

22. **The authorities intend to reinvigorate the non-oil revenue effort of recent years and to continue saving resources in the oil savings account.** Oil revenues will rise because of higher

[11] The fiscal framework is based on revised oil revenue and expenditure projections compared to the original 2006 budget. The authorities intend to inform Parliament about the changes to the original budget as mentioned in the MEFP.

[12] Given the potential for crowding out associated with high domestic borrowing, the authorities' program envisages a decline in borrowing from the nonbank sector from 1.3 percent of GDP in 2005 to 0.7 percent of GDP in 2006.

oil output, while non-oil revenues are expected to increase because of improvements in administration (including tax collection in the South) and a rationalization of tax exemptions (see Section B below). The oil savings account is expected to accumulate the equivalent of 1.4 percentage points of GDP in 2006.

23. **Given the need to preserve macroeconomic stability, the authorities' fiscal framework for 2006 envisages a reorientation of expenditures away from lower priority areas.** The fiscal framework envisages a moderate growth in outlays on wages and on goods and services and a smaller fuel subsidy.[13] The authorities recognize that the fuel subsidy does not benefit the poor and, despite opposition from vested interest groups, intend to begin dealing with the problem in 2006. They consider that a large increase in fuel prices could be counterproductive, but will be informing the public about the costs of the subsidy and developing a strategy for the automatic pass-through of changes in world prices in the future.[14]

24. **The authorities' plan to devolve resources to the states and foster national unity through infrastructure investments entails a sizable increase in public spending.** Central government transfers to the South and to northern states are expected to grow significantly in 2006. The bulk of the latter (meant for state-level spending on health, education, and water) and some national capital expenditures are deemed pro-poor.[15] The authorities recognize that capacity constraints will condition the effectiveness of such spending, but see their strategy as the only option to reduce poverty in disadvantaged areas and prevent the disintegration of the country.

25. **Successful decentralization will require good budget preparation procedures, sound budgetary and financial management, transparency, and effective monitoring.** Careful coordination of expenditure and borrowing plans between the Government of Southern Sudan, the northern states, and the central government will be critical in safeguarding macroeconomic stability. The newly created Fiscal and Financial Allocation and Monitoring Commission (FFAMC) established under the CPA will need to lead and coordinate work in these areas.

26. **The authorities plan to focus on attaining reserve money targets in an environment of exchange rate flexibility.** Reserve and broad money growth are targeted at 25 percent and 28 percent, respectively, consistent with the GDP growth and inflation objectives and with an increase in money demand driven by financial deepening and the reintegration of the South. The conduct of monetary policy will require the flexible use of

---

[13] While some fuels are priced close to international levels, selected fuels such as gas oil carry a large subsidy element. Sudan's level of (implicit) fuel subsidies in 2005 (3.5 percent of GDP) was in the middle range compared to other oil exporters. The staff estimates that a price increase of 60 percent will be needed to eliminate the subsidy on gas oil.

[14] The decline in the fuel subsidy in 2006 reflects, in part, a decline in fuel imports that enjoy a higher subsidy per unit compensated by a significant increase in the domestic production of such products. The subsidy is also lower because of the recent appreciation of the dinar and lower oil prices in 2006.

[15] The aggregate level of pro-poor spending in 2006 is close to the more than doubling of such spending (in percent of GDP) promised by the government at the Oslo Donors' Conference in 2005.

instruments (e.g. domestic open market operations and foreign exchange market operations) to deal with a number of uncertainties such as the fiscal behavior of subnational governments, money demand in the South, and foreign exchange inflows. While the authorities expressed concern about exchange rate appreciation pressures and external competitiveness, they agreed with the staff that maintaining flexibility in the exchange rate combined with improvements in the business environment through structural reforms is the most appropriate policy response. In this regard, they intend to carry out a World Bank-sponsored investment climate assessment later this year.

B. Structural Reforms

27. The authorities agreed on the need to reinvigorate the reform momentum by proceeding with the implementation of pending reforms. The discussions covered selected reforms in the following areas: tax policy and administration, expenditure management, oil sector transparency, and financial system restructuring.

28. **Tax policy and administration**. Following efforts over the last few years to streamline exemptions and improve administration, the authorities recognize the need to reinvigorate reforms in these areas (Box 2). As part of the program, they intend to stop the renewal of expired business-profits tax and customs-duty exemptions, introduce self-assessment for large and medium-sized taxpayers, and set up three federal tax offices in major cities in the South. The authorities also intend to prepare a program to revamp the system of investment incentives in line with best international practices.

Box 2: Tax Reforms—Progress and Future Agenda

Sudan has carried out important tax policy and administration reforms in recent years. The main policy reforms were the introduction of a value-added tax, the phasing out of privileges for major oil distribution companies, and the removal of income tax exemptions. Key administration reforms involved setting up large and medium taxpayer units, enforcing departmental fee collection, and implementing the Automated System for Customs Data. Because of these reforms, non-oil tax revenues as a share of non-oil GDP rose from 7 percent in 2002 to 9.9 percent in 2005.

Notwithstanding these achievements, further reforms are needed:

- The Investment Encouragement Act should be modified by removing tax holidays and customs duty exemptions while grandfathering existing beneficiaries. To improve the cost-effectiveness of investment promotion, a system of accelerated depreciation should be implemented.
- A low (20 percent or less) uniform business profit tax (currently, there are different rates depending on the type of economic activity) needs to be adopted.
- VAT exemptions, especially on capital goods and selected consumer goods need to be scaled back.
- Improve audit and collection enforcement by the large taxpayers unit and implement self-assessments by taxpayers and risk-based methods in tax and customs administration.

29. **Expenditure management.** The authorities recognize that the success of the rapid move to a decentralized system of public finances depends on appropriate regulations, implementation capacity, transparent reporting, and effective monitoring mechanisms. At present, however, capacity in the South and other states is weaker than at the central government, highlighting the need for urgent investments in administration and training. A key initial step is to ensure the efficient operations of the new Fiscal and Financial Allocation and Monitoring Commission (FFAMC). At the same time, close cooperation between the federal government, the Government of Southern Sudan, and other state governments will be essential to coordinate development planning and implementation and attain good macroeconomic outcomes (Box 3). Regarding fiscal reporting, the authorities intend to pursue an ambitious timetable for compiling budget execution reports according to the GFSM 2001 format (covering operations of the central government and the government of Southern Sudan). Lastly, the government is conducting its first public expenditure review in consultation with the World Bank (Fund staff will assist on revenue management).

Box 3: Macroeconomic Challenges of Implementing the CPA

The CPA contains numerous peace-related provisions (including the modalities of power and wealth sharing with the South) and strengthens the federal system of government in Sudan. On the monetary front, the CPA envisages a new national currency and a single monetary policy conducted from Khartoum. On fiscal matters, the CPA confers autonomy to the South by transferring a share of national oil revenues and allowing the South to levy state taxes and retain one-half of the federal taxes collected in the region. The Government of Southern Sudan and other states can also borrow at home or abroad.

The challenges of implementation and the implications for macroeconomic outcomes are manifold:

- *Monetary policy.* The central bank plans to introduce conventional instruments of monetary policy in the South because of the dual nature of the new banking system stipulated in the CPA (Islamic banking in the north and conventional banking in the South). The central bank will also need to strengthen its regulatory and supervisory capacity to cover banks in the South.

- *Single currency*. Introducing a new currency is essential to provide for a single means of payments in the South, develop its economy, and integrate the South with the rest of the country.

- *Tax collection.* The Government of Southern Sudan lacks capacity and infrastructure to collect taxes in its territory. Customs posts and tax offices will gradually begin to operate this year.

- *Coordination of spending.* Coordinating the composition of expenditures will be essential to ensure the harmonization between national projects and those in the South and allow the central government to formulate a countrywide public expenditure program. Coordinating the timing of expenditures is also crucial to ensure a smooth conduct of monetary policy.

- *Transparency and monitoring*. The FFAMC will be critical to ensure transparency and monitor the allocation of nationally collected funds to the Government of Southern Sudan and northern states.

- *Coordination on budget preparation and execution.* Coordination on budget preparation and execution (including coordination of borrowing plans) will be necessary to safeguard fiscal sustainability and macroeconomic stability.

30. **Oil sector transparency.** The authorities' near-term reforms in this area include the monthly publication of detailed oil sector data, the completion and publishing of the audit of Sudapet (a state-owned oil company with equity stakes in a number of fields), and the regularization of the hitherto ad hoc transfers of profits from the state-owned oil companies to the treasury (MEFP, ¶21). The authorities are also expected to clarify the operational role of the National Petroleum Commission, a high-level body created under the CPA to manage oil sector policy.

31. **Financial system restructuring.** Cognizant of the importance of implementing CPA-related financial sector reforms, the authorities intend to proceed with the restructuring of the central bank and the introduction of the new currency. MFD has been providing intensive technical assistance in these areas. The most critical reform is the introduction of the new currency, and the authorities are aware of the risks involved, i.e., inappropriate planning for distribution and lack of safeguards to prevent fraud at the time of implementing the currency exchange. Following on the Financial System Stability Assessment (FSSA) prepared in March 2005, the authorities are also proceeding with a strategy to restructure commercial banks based on increasing minimum capital requirements and capital adequacy ratios and ensuring banks' compliance with prudential norms.

C. External Debt and Relations with Creditors

32. **Sudan's debt overhang continues to condition development prospects.** At end-2005, the stock of public and publicly guaranteed external debt was US$27.7 billion, of which US$24.4 billion was in arrears.[16] In present value terms, the estimated stock of debt is US$26 billion, or about 690 percent of the three-year average of exports of goods and services. The authorities are worried that, after seven years of successful implementation of consecutive SMPs, Sudan's pressing needs to finance programs for achieving the Millennium Development Goals cannot be met because of lack of access to concessional resources related to Sudan's debt problems.

33. **To strengthen Sudan's record of cooperation with the Fund, the authorities committed to increase the level of payments to the Fund to US$45 million in 2006.** In recent years, Sudan's payments to the Fund have exceeded obligations falling due, leading to a small decline in arrears. In 2005, Sudan paid US$30 million to the Fund as envisaged under the SMP. The staff emphasized the importance of increasing payments to the Fund in light of the deterioration of a number of indicators showing payments as a share of debt service capacity (Table 9). The authorities have taken this decision notwithstanding the need to deliver a peace dividend and a reduction in the fiscal space because of the requirements of the CPA.[17]

[16] About 70 percent of the debt is owed to official bilateral creditors (almost equally divided between Paris Club and non-Paris Club creditors). The remaining debt is owed to multilateral institutions (17 percent) and commercial creditors (13 percent).

[17] As shown in Table 9, the increase in payments has begun to reverse the erosion of Sudan's payments to the Fund in relation to various indicators of debt service capacity, including official reserves.

34. **Sudan has been making debt service payments to almost all multilateral creditors and selected bilateral creditors that have provided new financing in recent years.** In 2005, multilateral creditors excluding the IMF, World Bank, and the African Development Bank made a net resource transfer of US$74 million, while Arab bilateral creditors made a net transfer of US$68 million. In the same year, Sudan paid other bilateral creditors (China, India, and Malaysia) a net amount of US$84 million. These creditors have financed a number of water and electricity projects in recent years (IMF Country Report No.05/180).

35. **The staff urged the authorities to minimize nonconcessional borrowing,** noting the potential complications with a potential debt relief operation and the higher cost of debt relief for existing creditors. The authorities emphasized that their strategy to foster national unity called for undertaking substantial investment projects and that, in light of the limited fiscal space after the peace agreement and lack of access to concessional financing, they had to finance these projects from other sources. They also noted that these loans should be viewed as exceptional and that they are project-specific facilities to be disbursed over a number of years, not direct budget support. Lastly, the authorities expressed concern that it may take a long time until sanctions are removed and Sudan can regularize its debt situation. The authorities' initial borrowing plans for 2006 amounted to US$1.1 billion. The staff pressed the authorities to prioritize their projects and minimize this type of borrowing. The authorities later indicated that they could limit this type of borrowing to about US$700 million. Almost two-thirds of the borrowing would be for projects related to the reconstruction of a North-South railway and the construction of roads to the South and to Darfur.[18] The authorities acknowledged the concern of Sudan's creditors about this borrowing, and committed to limit contracting these facilities as much as possible, especially if concessional financing becomes available.

D. Data Issues and Technical Assistance

36. **Sudan's economic data is sufficient for surveillance and program monitoring, but inadequacies remain.** The quality of Sudan's economic data has improved in recent years, especially through the participation in the Fund's General Data Dissemination System. Monetary and financial sector statistics are comprehensive and timely, and detailed data on oil sector shipments, revenues, and payments are available regularly. However, fiscal expenditure data are not compatible with GFS methodology, national accounts are virtually nonexistent, details on oil production from new blocks are not available, and statistics on capital goods imports and foreign direct investment are weak.

37. **In the near term, Sudan's technical assistance priorities** comprise the adoption of GFSM 2001 methodology **(**budget classification, accounting, auditing, and reporting); tax administration; fiscal decentralization and public financial management; issuance of the new currency; banking supervision and liquidity management; and fiscal and real sector statistics. The Fund is coordinating a technical assistance program on financial sector reforms and is

---

[18] The remaining amount is intended for water and irrigation projects. The authorities noted that these intentions are plans and not final operations. They indicated that they would seek to obtain the highest possible degree of concessionality and will not use oil as collateral. These potential loans are not yet factored in the fiscal or the balance of payments projections.

expected to continue providing assistance on some of the fiscal areas mentioned above. In addition, with occasional support from Fund staff, the World Bank will continue providing technical assistance to the Government of Southern Sudan on several areas including public financial management.

E. The 2006 Staff-Monitored Program

38. **The program for 2006 aims at maintaining macroeconomic stability, ensuring the implementation of macro-relevant commitments under the CPA, and increasing fiscal and oil sector transparency.** The macroeconomic objectives and the policy commitments are described in the MEFP and were mentioned in sections A-C above. The program contains measures to keep inflation at no more than 7.5 percent, increase budget allocations on social and infrastructure projects, and lower the fuel subsidy. Other commitments include establishing rules and procedures for the FFAMC, beginning fiscal reporting according to GFS, publishing detailed oil sector data and oil-related transfers to the South, and introducing the new national currency.

V. Risks to the Outlook

39. Sudan's economic prospects are good, but significant risks exist. The main risk is a weakening of political resolve to maintain macroeconomic stability, advance critical reforms, and foster Sudan's integration with the world economy. This could set off a negative cycle of bad policies and worsening prospects for a united and peaceful Sudan. At the same time, the authorities' hope that Sudan's good performance under successive SMPs over the past seven years would pave the way for a resolution of Sudan's debt problems has not yet materialized. While the authorities want to foster Sudan's integration with the world economy and are aware of the negative impact of developments in Darfur on the views of key creditor countries, they are also concerned that the persistence of the external arrears problems and the lack of concessional financing may make it more difficult to continue implementing the reform agenda.

40. The lack of resolve could manifest itself in delayed action to lower fuel subsidies and implement fiscal and oil-sector transparency reforms as well as an inability to adhere to the fiscal spending ceilings. There are also potential pitfalls in trying to mount a modern administration in the South and in other states, prevent wasteful spending of transfers to subnational governments, and carry out a successful monetary policy amidst unpredictable spending patterns of subnational governments.

VI. Staff Appraisal

41. Despite a difficult year marked by the beginning of the implementation of the CPA and a deterioration of the security situation in Darfur, the authorities managed to strike a balance between the pressures for a peace dividend and policies that maintained macroeconomic stability. Economic growth in the non-oil sector was robust, foreign direct investment reached new heights, and inflation was contained within single-digit levels. While there were some slippages on budget execution (mainly because of the fuel subsidy) and a higher-than-projected level of nonconcessional borrowing, most of the quantitative and structural targets under the program were met. As a result, performance under the 2005 SMP was broadly satisfactory. Since some policy actions were delayed last year, the authorities will need to press ahead with those policies and other critical reforms to achieve their objectives.

42. The program for 2006 aims at sustaining Sudan's recent record of high growth, preserving macroeconomic stability, and meeting the country's development and poverty reduction needs. The program contains a prudent fiscal framework with realistic revenue and expenditure assumptions, as well as a reorientation of public spending toward social and infrastructure investments. The staff is particularly encouraged by the authorities' commitment to improve fiscal and oil sector transparency. However, the continued reliance on nonconcessional borrowing is a serious concern.

43. Despite an increase in oil revenues in 2005–06, the fiscal space of the central government has been constrained because of the sizable increase in transfers required by the peace agreement and decentralization. The increase in transfers, coupled with higher capital expenditures, will lead to a substantial increase in pro-poor development spending. At the same time, the authorities will need to focus on improving expenditure management and monitor closely the effectiveness of the additional spending. In this context, the intended reorientation of public spending is welcome, including the much-needed steps to reduce fuel subsidies. Regarding the latter, the staff urges the authorities to bring domestic fuel prices in line with export prices and develop an automatic mechanism for future price adjustments.

44. The staff urges the authorities to press ahead with the fiscal reform priorities. These include rationalizing investment incentives to protect the non-oil tax revenues; building capacity, transparency, and accountability at all levels of government to support decentralization; and improving fiscal transparency through the adoption of GFS methodology. The authorities also need to redouble their efforts to ensure close coordination between the Government of Southern Sudan, the northern states, and the central government.

45. Monetary policy should continue to focus on attaining the authorities' inflation objectives in an environment of exchange rate flexibility. Fiscal prudence and a proactive monetary policy with close management of reserve money will help to ensure that inflation remains subdued. The authorities will also need to ensure flexibility in the pricing of foreign exchange to prevent the excessive monetization of external inflows and thus accommodate a prospective real exchange rate appreciation without rekindling inflationary pressures. In this regard, the current managed floating exchange rate regime remains appropriate. At the same time, structural reforms to remove structural rigidities and lower transactions costs will be

the best way to safeguard external competitiveness and improve profitability in non-oil exports and import-competing sectors.

46. The authorities should be commended for the implementation of a number of financial system provisions of the CPA. In 2006, the central bank will need to proceed with its internal restructuring, provide the basis for the effective functioning of a dual banking system, and introduce the new currency. The staff urges the authorities to embark on a well-planned, expeditious, and transparent process to introduce the new currency given the importance of the latter in fostering development in the South and the country's economic integration.

47. Sudan's external debt problems continue to constrain access to external development financing. Sudan's record of cooperation on economic policies and payments to the Fund in recent years augur well for the clearance of Sudan's arrears at the appropriate time. In the meantime, the authorities' should strive to minimize contracting nonconcessional debt as such borrowing threatens debt sustainability and could delay the process of securing creditors' participation in a potential debt-relief operation. In this regard, the staff underscores that it will be critical for creditors and Sudan to treat all such new borrowing under the Highly Indebted Poor Countries' Initiative. This will ensure that any eventual relief provided under the Initiative is sufficient to restore debt sustainability.

48. Looking ahead, the authorities should focus on the implementation of the CPA, sustained efforts to achieve peace throughout the country, capacity building, and the effective use of Sudan's oil wealth. In the near term, the main risk is a weakening of the reform effort. In this regard, the authorities should also strive to preserve macroeconomic stability and proceed with the reforms envisaged in the 2006 program. These include conducting a prudent monetary policy in a flexible exchange rate environment, adhering to the fiscal spending targets, monitoring the effectiveness of public spending, lowering fuel subsidies, and proceeding with the envisaged fiscal and oil-sector reforms.

49. While the proposed level of nonconcessional borrowing implies that in this area the program is no longer equivalent to an upper-credit tranche arrangement, the SMP is a valuable tool to support the reform momentum at a critical juncture in the country's history when the CPA needs to be implemented amidst a complex political environment. The program contains important actions to preserve economic stability and increase fiscal and oil-sector transparency as well as higher payments to the Fund. It also provides a framework within which donors can support the peace process and afflicted areas. Except for the high level of nonconcessional borrowing, the staff considers that the 2006 SMP continues to be equivalent in strength to a Rights Accumulation Program.

50. Sudan's economic data remains generally adequate for surveillance and program monitoring. It is proposed that the next Article IV consultation with Sudan be held according to the standard 12-month cycle.

Table 1. Sudan: Medium-Term Macroeconomic Scenario, 2005–10

	2005	2006	2007	2008	2009	2010
	Est.	Projections				
	(Change in percent, unless otherwise indicated)					
Production and prices						
Nominal GDP (in millions of U.S. dollars)	27,699	36,030	42,339	47,923	52,913	58,558
Real GDP	8.0	13.0	10.3	9.3	8.7	8.6
Oil	-0.2	71.0	28.2	13.5	7.3	6.2
Non-oil	8.9	7.2	7.5	8.5	9.0	9.1
Inflation (period average)	8.5	7.5	5.0	4.0	3.0	3.0
	(In percent of GDP, unless otherwise indicated)					
Investment and saving						
Gross investment	23.3	25.3	26.9	27.7	27.6	27.0
Government 1/	5.5	6.9	8.3	8.7	8.3	8.0
Nongovernment	17.8	18.4	18.6	19.0	19.3	19.0
Gross national saving	14.8	20.1	22.9	24.4	23.4	23.5
Government	3.7	6.1	8.0	8.5	8.1	8.0
Nongovernment	11.1	14.1	14.9	15.9	15.3	15.4
Central government						
Total revenue	21.8	24.0	25.8	27.5	27.1	27.7
Of which: Oil revenue 2/	13.4	14.3	16.4	17.7	17.2	17.5
Total expenditure	23.6	24.9	26.2	27.7	27.3	27.6
Overall balance (cash basis)	-1.8	-0.9	-0.4	-0.2	-0.2	0.0
External sector						
External trade balance	-4.0	1.9	4.4	5.3	3.9	3.2
Exports	17.4	22.0	24.1	24.8	23.0	21.8
Imports	21.5	20.1	19.7	19.5	19.1	18.6
Current account balance on cash basis 3/	-8.5	-5.2	-4.0	-3.4	-4.2	-3.5
Net international reserves (in months of imports)	2.6	3.1	3.5	4.3	4.6	5.1
Non-oil export volume (change in percent)	-12.4	6.5	9.8	11.1	11.4	11.9
Non-oil import volume (change in percent)	55.2	21.0	14.5	11.5	7.6	6.6
Terms of trade (change in percent)	24.4	-4.6	-0.8	-0.2	-3.0	-2.8
Memorandum item:						
Crude oil export price (U.S. dollars per barrel) 4/	49.7	47.4	47.2	47.4	46.1	45.2

Sources: Sudanese authorities; and Fund staff estimates and projections.

1/ Includes estimated capital spending by state governments.
2/ Crude oil revenue.
3/ Includes expected official transfers of about $1.8 billion pledged in Oslo for the 2006-08 period.
4/ The projections for Sudanese oil blends are based on March 2006 WEO oil prices.

Table 2. Sudan: Selected Economic and Financial Indicators, 2001–06

	2001	2002	2003	2004	2005		2006
					Prog.	Prel.	Proj.
	(Annual changes in percent, unless otherwise indicated)						
Production, population, and prices							
Nominal GDP (in billions of Sudanese dinars, at market prices)	3,454	3,978	4,614	5,573	6,912	6,748	8,107
Nominal GDP (in millions of U.S. dollars)	13,369	15,109	17,680	21,610	28,050	27,699	36,030
Crude oil production (in thousands of barrels per day)	209	232	262	288	312	287	492
Population (in millions)	31.9	32.7	33.6	34.5	35.4	35.4	36.3
GNP per capita (in U.S. dollars)	374	425	486	579	790	790	903
Real GDP	6.1	6.4	5.6	5.2	8.2	8.0	13.0
Oil	21.6	24.7	13.0	9.9	8.2	-0.2	71.0
Non-oil	5.0	4.9	4.8	4.7	8.2	8.9	7.2
Consumer prices (average)	4.9	8.3	7.7	8.4	10.5	8.5	7.5
Consumer prices (end of period)	7.4	8.3	8.3	7.3	9.1	5.6	6.0
	(In percent of GDP)						
Investment and saving							
Gross investment	17.6	19.4	20.0	22.5	21.9	23.3	25.3
Government 1/	2.3	3.0	2.9	5.0	4.9	5.5	6.9
Nongovernment	15.3	16.4	17.0	17.5	17.8	17.8	18.4
Gross national saving	8.2	13.4	15.3	18.7	16.9	14.8	20.1
Government	1.4	2.2	3.9	6.1	4.7	3.7	6.1
Nongovernment	6.8	11.2	11.4	12.6	12.2	11.1	14.1
Central government operations 2/							
Total revenue	10.7	11.8	16.1	19.8	22.4	21.8	24.0
Total expenditure	11.6	8.7	15.4	18.3	23.0	23.6	24.9
Overall balance (cash)	-0.9	3.1	0.7	1.5	-0.6	-1.8	-0.9
Money and credit							
Broad money (change in percent)	24.7	30.3	30.3	32.1	33.0	44.7	28.0
Reserve money (change in percent)	3.7	22.0	26.6	27.8	29.9	34.9	25.0
Velocity (non-oil nominal GDP over average broad money)	8.1	7.1	6.6	5.7	4.9	4.8	4.2
	(In millions of U.S. dollars; unless otherwise indicated)						
External sector							
Exports, f.o.b.	1,699	1,949	2,577	3,778	5,619	4,825	7,936
Of which: Oil	1,377	1,511	2,082	3,101	4,915	4,187	7,226
Imports, f.o.b.	2,031	2,153	2,536	3,586	5,122	5,946	7,248
Non-oil export volume (change in percent)	-22.2	41.3	-6.9	7.8	1.1	-12.4	6.5
Non-oil import volume (change in percent)	31.2	4.8	6.6	27.9	33.4	55.2	21.0
Current account balance (cash basis, percent of GDP)	-9.4	-6.1	-4.7	-3.8	-5.0	-8.5	-5.2
Terms of trade (Index 1993 = 100, change in percent)	-8.6	-2.3	8.9	20.8	27.6	24.4	-4.6
Dinars per U.S. dollar (period average)	258	263	261	258	...	244	...
Real effective exchange rate (change in percent) 3/	8.1	-1.7	-0.5	2.7	...	16.8	...
External debt (in billions of U.S. dollars)	20.9	23.6	25.7	26.0	27.0	27.7	28.8
External debt (percent of GDP)	156.7	156.3	145.4	120.3	96.1	100.0	79.9
Debt service ratio (commitment basis) 4/	39.6	38.3	32.2	23.6	16.8	19.6	12.9
Debt service ratio (cash payments) 4/	5.1	6.8	9.5	7.9	5.8	5.6	4.9
Net international reserves (in millions of U.S. dollars) 3/	-109	84	290	1,144	2,005	1,889	2,589
In months of next year's imports	-0.5	0.3	0.8	1.9	2.9	2.6	3.1
Sudan's crude-oil export price (U.S. dollars per barrel)	22.0	23.0	27.0	36.4	51.8	49.7	47.4

Sources: Sudanese authorities; and Fund staff estimates and projections.

1/ Includes estimated capital spending by state governments.
2/ Cash basis.
3/ End of period.
4/ As a share of exports of goods and services.

Table 3. Sudan: Balance of Payments, 2002–06

	2002	2003	2004	2005 Rev. Prog.	2005 Prel.	2006 Prog.
	(In millions of U.S. dollars, unless otherwise indicated)					
Current account balance	-1,488	-1,369	-1,352	-1,989	-2,954	-2,486
Current account balance (on cash basis)	-918	-827	-816	-1,404	-2,341	-1,874
Trade balance	-204	40	192	497	-1,121	688
Exports, f.o.b.	1,949	2,577	3,778	5,619	4,825	7,936
Of which: Crude oil exports	1,397	1,968	2,962	4,704	3,948	6,867
Petroleum products	114	114	138	211	239	359
Non-oil products	438	494	677	704	638	709
Imports, f.o.b.	-2,153	-2,536	-3,586	-5,122	-5,946	-7,248
Services (net)	-724	-794	-1,020	-1,632	-1,643	-2,187
Income (net)	-1,226	-1,334	-1,647	-2,080	-1,912	-3,276
Receipts	19	10	22	37	44	58
Non-oil payments	-614	-603	-631	-674	-684	-695
Oil related expenses 1/	-631	-740	-1,038	-1,444	-1,271	-2,638
Current transfers (net)	666	718	1,123	1,226	1,721	2,289
Of which: Private transfers (net)	634	708	1,095	1,134	1,487	1,522
Capital account	2	0	0	0	0	0
Financial account (net)	499	1,045	1,194	1,894	2,688	2,390
Disbursements	30	85	191	231	309	395
Amortization	-166	-239	-280	-290	-290	-358
Of which: cash payments	-84	-161	-187	-223	-185	-277
Payments to the Fund	-24	-26	-32	-30	-30	-45
Short-term capital flows (net) 2/	189	138	-140	113	496	96
Net foreign assets of banks (increase -)	-163	-5	-26	-250	-153	-30
Foreign direct investment and portfolio (net)	633	1,092	1,481	2,090	2,355	2,332
Errors and omissions	582	12	272	291	315	0
Overall Balance	-405	-312	114	196	49	-96
Overall Balance (on cash basis)	247	308	743	849	767	597
Change in net international reserves (increase -)	-197	-204	-855	-849	-745	-700
Earmarked reserve assets (increase -)	-90	-125	112	...	-23	103
Exceptional financing	693	642	629	652	719	693
Change in arrears	652	620	629	652	719	693
Privatization receipts	41	22	0	0	0	0
Financing gap	0	0	0	0	0	0
	(In percent of GDP, unless otherwise indicated)					
Memorandum items:						
Current account balance (accrual basis)	-9.8	-7.7	-6.3	-7.1	-10.7	-6.9
Current account balance (cash basis)	-6.1	-4.7	-3.8	-5.0	-8.5	-5.2
Current transfers (net)	4.4	4.1	5.2	4.4	6.2	6.4
Of which: Private transfers	4.2	4.0	5.1	4.0	5.4	4.2
Net international reserves (in million of U.S. dollars)	84	290	1,144	2,005	1,889	2,589
In months of next year's imports	0.3	0.8	1.9	2.9	2.6	3.1
	(Percent change, unless otherwise indicated)					
Exports (value)	14.7	32.2	46.6	48.7	27.7	64.5
Non-oil export (value)	36.0	12.8	37.0	3.9	-5.8	11.2
Non-oil export (volume)	41.3	-6.9	7.8	1.1	-12.4	6.5
Imports (value)	6.0	17.8	41.4	42.8	65.8	21.9
Terms of trade	-2.3	8.9	20.8	27.6	24.4	-4.6
Crude oil exports (volume, in millions of barrels)	62.2	72.9	81.2	90.5	80.0	143.3
Sudanese crude oil price (U.S. dollars per barrel) 3/	23.0	27.0	36.4	51.8	49.7	47.4

Sources: Sudanese authorities; and Fund staff estimates and projections.

1/ Includes payments to oil companies as stipulated in production sharing arrangements.
2/ Net short-term trade and other credit facilities of the government and commercial banks.
3/ Starting from 2006, the reported price is a weighted average of prices for different crude blends.

Table 4. Sudan: Central Government Operations 2002–06

	2002	2003	2004	2005 Rev. Prog	2005 Year Prel.	2006 Year Prog.
	(In billions of Sudanese dinars)					
Total revenues	470.7	741.9	1104.5	1545.9	1472.9	1947.6
Tax revenue	213.4	270.0	420.5	490.0	472.1	571.0
Direct taxes	41.2	52.3	74.7	99.0	92.2	105.0
Indirect taxes	172.2	217.7	345.8	391.0	379.9	466.0
Nontax revenues	257.2	471.9	684.0	1055.9	1000.8	1297.7
Departmental fees	13.0	10.7	14.1	17.8	15.3	25.0
National revenues	244.2	461.2	669.9	1038.1	985.5	1272.7
Non-oil	33.5	38.7	90.6	89.9	84.5	115.0
Oil 1/	210.7	422.6	579.3	948.2	901.0	1157.7
Sales to refineries	99.1	93.1	101.8	288.1	293.3	268.6
Export	83.8	295.9	475.0	660.1	607.7	889.2
o/w OSA	10.1	36.0	84.7	135.0	64.3	114.4
Grants	0.0	0.0	0.0	0.0	0.0	78.9
Total expenditures	346.9	708.4	1019.5	1587.3	1593.9	2018.9
Current expenditures	384.8	563.8	762.5	1374.2	1382.7	1714.4
Chapter one (Wages and salaries) 2/	165.1	191.1	273.8	309.0	301.1	412.3
Chapter two (Other current spending)	186.8	321.3	404.6	639.6	651.0	631.5
Debt service paid	51.1	73.0	81.1	85.9	86.2	120.4
Goods and services	50.5	54.5	71.0	90.1	72.4	107.8
General reserves	50.4	104.0	144.3	155.0	123.3	109.4
Other	34.8	89.8	108.1	308.7	369.1	255.6
Of which: fuel subsidy 3/	0.0	0.0	0.0	200.5	237.5	147.0
Chapter three (Transfers to subnational governments)	32.9	51.4	84.2	425.6	430.7	670.6
Of which: Transfers to the south 4/	...	...	24.0	210.5	190.9	327.5
Capital expenditures	118.6	135.2	277.2	217.7	227.6	304.5
Locally financed	108.9	112.8	227.5	160.8	178.1	186.2
Foreign financed	9.6	22.4	49.7	56.9	49.5	118.3
Discrepancy	-156.5	9.3	-20.2	-4.5	-16.4	0.0
Overall balance	123.8	33.5	85.0	-41.4	-121.1	-71.2
Financing	-123.8	-33.5	-85.0	41.4	121.1	71.2
Foreign financing (net)	9.6	-15.2	5.2	12.1	11.5	50.2
Domestic financing	-133.4	-18.3	-90.2	29.4	109.6	21.1
Central bank	-22.0	-31.9	-85.9	-11.5	46.8	-85.9
Commercial banks	-133.2	12.8	9.0	29.0	29.8	40.0
Nonbanks	19.1	28.7	20.7	49.9	85.1	57.0
Domestic arrears repayment (-)	-8.4	-30.0	-33.9	-48.1	-52.4	0.0
Privatization 5/	11.1	2.1	0.0	10.0	0.3	10.0

Table 4. Sudan: Central Government Operations 2002–06 (Concluded)

	2002	2003	2004	2005		2006
				Rev. Prog.	Year Prel.	Year Prog.
			(In percent of GDP)			
Total revenues	11.8	16.1	19.8	22.4	21.8	24.0
Tax revenue	5.4	5.9	7.5	7.1	7.0	7.0
Direct taxes	1.0	1.1	1.3	1.4	1.4	1.3
Indirect taxes	4.3	4.7	6.2	5.7	5.6	5.7
Nontax revenues	6.5	10.2	12.3	15.3	14.8	16.0
Departmental fees	0.3	0.2	0.3	0.3	0.2	0.3
National revenues	6.1	10.0	12.0	15.0	14.6	15.7
Non-oil	0.8	0.8	1.6	1.3	1.3	1.4
Oil 1/	5.3	9.2	10.4	13.7	13.4	14.3
Of which: OSA accumulation	0.3	0.8	1.5	2.0	1.0	1.4
Grants	0.0	0.0	0.0	0.0	0.0	1.0
Total expenditures	8.7	15.4	18.3	23.0	23.6	24.9
Current expenditures	9.7	12.2	13.7	19.9	20.5	21.1
Chapter one (Wages and salaries) 2/	4.1	4.1	4.9	4.5	4.5	5.1
Chapter two (Other current spending)	4.7	7.0	7.3	9.3	9.6	7.8
Debt service paid	1.3	1.6	1.5	1.2	1.3	1.5
Goods and services	1.3	1.2	1.3	1.3	1.1	1.3
General reserves	1.3	2.3	2.6	2.2	1.8	1.3
Other	0.9	1.9	1.9	4.5	5.5	3.2
Of which: fuel subsidy 3/	0.0	0.0	0.0	2.9	3.5	1.8
Chapter three (Transfers to subnational governments)	0.8	1.1	1.5	6.2	6.4	8.3
Transfers to the South 4/	...	...	0.4	3.0	2.8	4.0
Transfers to other states	...	...	1.1	3.1	3.6	4.2
Capital expenditures	3.0	2.9	5.0	3.1	3.4	3.8
Locally financed	2.7	2.4	4.1	2.3	2.6	2.3
Foreign financed	0.2	0.5	0.9	0.8	0.7	1.5
Discrepancy	-3.9	0.2	-0.4	0.0	-0.2	0.0
Overall balance	3.1	0.7	1.5	-0.6	-1.8	-0.9
Financing	-3.1	-0.7	-1.5	0.6	1.8	0.9
Foreign financing (net)	0.2	-0.3	0.1	0.2	0.2	0.6
Domestic financing	-3.4	-0.4	-1.6	0.4	1.6	0.3
Central bank	-0.6	-0.7	-1.5	-0.2	0.7	-1.1
Commercial banks	-3.3	0.3	0.2	0.4	0.4	0.5
Nonbanks	0.5	0.6	0.4	0.7	1.3	0.7
Domestic arrears repayment (-)	-0.2	-0.7	-0.6	-0.7	-0.8	0.0
Privatization 5/	0.3	0.0	0.0	0.1	0.0	0.1
Memorandum Items						
Non-oil revenue 6/	7.0	7.6	10.7	10.4	9.9	10.7
Consolidated expenditures 7/						
Current	5.7	12.4	13.3	18.1	18.2	18.0
Capital	3.0	2.9	5.0	4.9	5.5	6.9
Overall balance (excl. oil savings account)	2.9	-0.1	0.0	-2.6	-2.7	-2.3
Non-oil domestic balance (primary)	-0.7	-5.4	-5.7	-12.3	-13.0	-12.9
Nominal GDP (in billions of Sudanese Dinars)	3,978	4,614	5,573	6,912	6,748	8,107

Sources: Sudanese authorities; and Fund Staff estimates and projections.

1/ From 2005 onwards, oil revenues are reported on an accrual basis and are valued at international prices.
2/ For 2006, the authorities have reclassified about SDD 30 billion (0.4 percent of GDP) of expenditures on wages and salaries to the states from Chapter 3 to Chapter 1.
3/ The gross shortfall in oil revenues from the low consumer prices is accounted for as a subsidy within Chapter Two expenditures. The figure does not include the proceeds from excise taxes on some oil products.
4/ Oil-related transfers as per the peace agreement with the south.
5/ In 2006 the authorities plan to privatize a total of 13 entities including Sudan Telecommunications Company, Sudan Airways, Seaports corporation and the National Building and Construction Company.
6/ Excluding grants. In percent of non-oil GDP. The reduction in the ratio in 2005 reflects a drop in excise rates.
7/ Includes estimated capital spending by subnational governments. Before 2006 a part of the transfers were expenditures carried out by the central government on behalf of the states. Since then, part of Chapter 3 transfers are capital spending by the states.