Sudan Economic Brief:
A Review of Sudan's 2013 Budget

I. Overview and Summary

This brief takes a detailed look at Sudan's 2013[1] budget, with three key aims:

i. To provide a reality check of the macro assumptions underlying the budget;
ii. To assess the structure of the proposed expenditure and how it relates to the policy targets stated in the three-Year Salvation Economic Program (2011-2013); and
iii. To evaluate the potential impact for the budget of oil fees and transitional financing assistance (TFA), expected from South Sudan, in overcoming shortcomings in the budget as currently planned.

Insights into these issues are particularly relevant for the preparation of a possible amended 2013 budget, which might be required given the March 2013 agreement between Sudan and South Sudan[2]. There are also implications for the 2014 budget process, which will coincide with implementation of the Interim Poverty Reduction Strategy (I-PRSP) and development of a full PRSP.

The repercussions of the secession of South Sudan present important challenges for Sudan's budget process with respect to managing the macro-fiscal adjustment and promoting a structural re-orientation of the economy. The 2013 budget was prepared during a time when a series of economic reform measures came into effect to reverse the deteriorating economic situation caused by the secession. (See Sudan Economic Brief, 2nd Semester 2012). Key challenges include management of the fiscal adjustment following the large economic shock, while keeping the impact on the poor and vulnerable at a minimum; and promotion of economic diversification and improved incentives for private sector-led growth, particularly in agriculture.

The analysis in this Brief indicates that the 2013 budget falls short in taking credible corrective macroeconomic measures to respond to the oil revenue shock and to encourage the revival in the non-oil sector. The impact of the secession of South Sudan keeps unfolding and the lack of agreement up to March 2013 put further strain on the economy, causing the continuation and deterioration of serious external and internal deficits, inflation, and economic

[1] The draft 2013 budget of the Government of Sudan (GoS) was approved by the Council of Ministers on December 3, 2012, and passed by the National Assembly on December 19, 2012. This budget is the third following the secession of South Sudan on July 9, 2011 and represents the second budget under the framework of the three-year "Salvation Program" (2012-2014).

[2] On March 12, 2013, a significant breakthrough was reached between Sudan and South Sudan facilitating security improvements and oil flow. This will result in important revenue for Sudan under the oil agreements. However, slow implementation of the cooperation agreements signed in September 2012 points to ongoing risks to stability and growth.

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Authors: Michael Geiger, Mosllem Alamir, and Toru Nishiuchi
Task Team Leader: Mosllem Alamir
Lead Economist: Paolo Zacchia
Sector Manager: Pablo Fajnzylber

Comments on the document should be submitted to: mgeiger@worldbank.org, malamir@worldbank.org, and pzacchia@worldbank.org

hardship for the population. Given these difficult circumstances, the current budget raises the following issues:

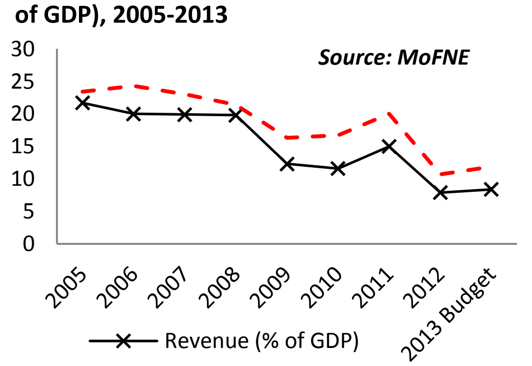
- It remains unclear how the budget supports the objectives of the three-year Salvation Economic Program (2012-2014) to promote self-sufficiency by 2013 of a number of agricultural products, as well as increasing exports;
- Federal development expenditures are likely to drop significantly, especially in agriculture. The reduction of federal development is expected to have significant regressive effects, especially given the eroded state of infrastructure in the country, a situation which needs to be addressed through improvements in public investment planning. The outcome of the recent successful post-secession negotiations presents an opportunity for the government to reverse this trend to some extent, but a strategic and long-term approach will be required to address the remaining structural challenges;
- The budget does not contribute to reining in the persistently high inflation rate, which remains a key concern for the national economy; the double digit-inflation rate of 2012 is expected to persist in 2013, due to the foreign exchange shortage, the monetization of the budget deficit and supply bottlenecks resulting from structural constraints on the private sector. The high inflation trend adds to the economic stress for the poor and vulnerable. As in many countries, the poorest parts of the population in Sudan face higher effective inflation rates than the richer population; this is since the poor spend the majority of their income on food. Thus, in a situation where food prices drive up overall inflation, the poorer population is relatively more affected; and
- Foreign exchange pressures and exchange rate fluctuations also remain key concerns, imposing challenges on economic stability and financial balances, and on the servicing of domestic and foreign debt obligations. Sudan's budget needs to use a mix of policy measures to address the structural sources of the foreign exchange shortfall.

The implementation of the agreement with South Sudan would help the budget situation in 2013. Based on South Sudan's production projections for 2013, it is estimated that the inflow of funding from South Sudan to Sudan for the second half of 2013 would be around SDG 1.7 billion (SDG 0.7 billion for transit fees and SDG 1 billion for TFA). Inflows of that magnitude could decrease the current fiscal deficit by 0.6 percentage points, to 2.7 percent of GDP (everything else being equal). Alternatively, if the current deficit of 3.3 percent of GDP were to be maintained, the incoming funds in 2013 could increase spending by around 5 percentage points compared to the original budget.

II. Key Elements and Implications of the 2013 budget

Deficit and Financing

Figure 1. Sudan's aggregate fiscal picture (% of GDP), 2005-2013



The overall fiscal deficit in the 2013 budget document is projected to increase to 3.3 percent of GDP, from 2.8 percent of GDP in 2012 (Figure 1). Sudan's fiscal situation faces the challenge of balancing consolidation against the pressing needs of the development agenda (i.e. "doing more with less"). The fiscal balance has shown growing deficits since the secession of South Sudan. The projected increase of the 2013 budget fiscal deficit by 0.5 percentage points of GDP is driven by an increase in projected overall revenues by 0.7 percentage points of GDP, against an increase in expenditures of 1.2 percentage points.

The budget optimistically assumes that the bulk of the deficit will be financed by domestic borrowing (72 percent of the total fiscal deficit), largely due to limited access to external financing. The bulk of domestic financing is non-bank sector borrowing (e.g. Government Musharka Certificates, GMCs, and Government Investment Certificates, GICs and Sukuk), while monetized financing from the Central Bank is a projected 0.8 percent of GDP. External financing is projected at $1.1 billion (28 percent of the total fiscal deficit), of which $0.7 billion is in loans and $400 million in grants. The bulk of the drawings will be from China, the Islamic Development Bank, the Arab funds, and the United Nations and its agencies.

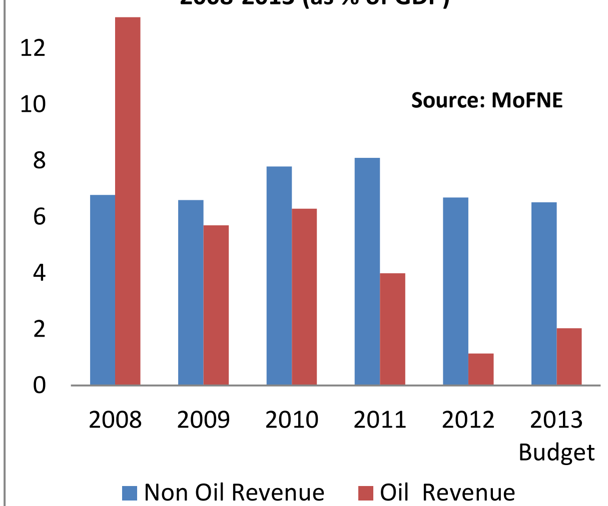
However, given the fragile domestic market sentiment due to economic uncertainties, the fiscal reliance on monetized financing is likely to increase in 2013, offsetting the price stability targeting and fueling inflation over the short and medium-term. High reliance on domestic financing imposes considerable challenges on domestic price stability, the amount of credit available to the private sector, and the cost of financing.

Revenues

Aggregate revenue is optimistically projected in the budget to increase to 8.6 percent of GDP, 0.7 percentage point higher than 2012, largely driven by a rapid anticipated improvement in oil revenue collections. (Figure 2) Oil revenue is projected to almost double, to 2.0 percent of GDP, compared with 1.1 percent in 2012. Oil revenues account for 24 percent of total revenue, compared with an average of 50 percent during the nine years ending in 2008. The current oil revenue projection is based exclusively on the anticipated production of Sudan's oil wells.

Oil production is expected to increase from 115,000 barrels per day in the first year of the post-secession period, to 150,000 barrels per day in 2013. The government plans to increase the production efficiency of the existing oil fields and re-operate the oil fields which were disrupted due to security and regional conflicts, as well as to encourage new oil exploration. Oil production was originally planned to reach 180,000 barrels per day by the end of 2012, but this level of production is yet to be realized, as the major Heglig oilfield was damaged during a brief occupation by South Sudan's army and border fighting in April 2012. Sudan currently produces 121,000 barrels per day from Nile Blend Block 2/4 (56,000 barrels per day), Dar Blend Block 6 (61,000 barrels per day), and Nile Blend Block 17 (4,000 barrels per day).

Figure 2. Sudan's Revenue Performance 2008-2013 (as % of GDP)



Non-oil revenues are projected to decline to 6.5 percent of GDP, compared with the actual realized level of 6.7 percent of GDP in 2012, equivalent to a reduction of 2.5 percent in real terms. Non-oil revenues would still account for more than three-quarters of total revenue (including foreign grants). This decline is largely driven by lower tax collections, projected at 5.1 percent of GDP compared with 5.6 percent in 2012, mainly reflecting a decline in the share of indirect tax in total revenue from 65 percent to 55 percent over the same period. Foreign grants are projected to slightly increase to 0.6 percent of GDP, compared with 0.5 percent in 2012, and to account for 7 percent of total revenue.

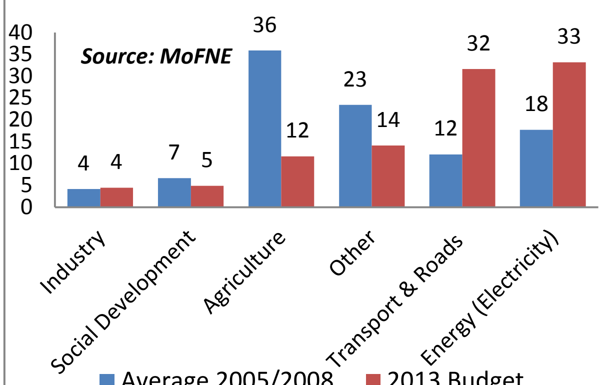
The aggregate fiscal stance will come under strain if the optimistic oil revenue projection of the budget is not met. Aggregate revenue projections indicate the expectation of a 9 percent growth in 2013 relative to 2012 budget outturns. This expectation is largely driven by the prediction of rapid increases in oil revenue, by a massive 79 percent, as new production comes on stream, accounting for around one quarter of total revenue. Obviously the revenue outturns relative to these optimistic expectations will be critical to the net fiscal outcomes. The level of revenue will be conditional on the quality of the new oil coming on line, which could affect the realization of these projections. Currently, Sudan produces two different Blend oil crude products; Nile Blend and Dar Blend. Initially there were very few refineries which processed Dar Blend product, but experience shows it is now more widely accepted. The price of this blend has gradually increased from an initial low level, and markets have expanded. Given its limited access to external financing and the need to contain budget deficit monetary financing, Sudan needs a concerted effort to expand the tax base, through tax policy and administrative measures to raise revenues on a more sustainable basis and to distribute the tax burden more evenly and transparently.

Expenditures

Aggregate expenditures in the budget are projected to increase to 11.9 percent of GDP, compared with 10.7 percent in 2012. This trend is driven by federal government expenditures , which are projected to increase to 9.3 percent of GDP, as compared with 8.4 percent in 2012. The increase comes from policies that direct more allocations to subsidies on strategic goods (increase of 81 percent), purchase of goods and services (increase of 17 percent), and employee compensation (increase of 12 percent). Subsidies on strategic goods are slated to absorb most of the increase, contrary to the government's stated intention to lift subsidies on food and fuel in the near term, and against advice by the IMF.

Overall development expenditures are projected to increase slightly to 2.5 percent of GDP compared to 2.3 percent of GDP in 2012. Looking at federal-level development spending, however, this is projected to decline from 1.8 percent of GDP in 2012 to 1.4 percent, taking the hardest hit among the federal government spending items. The share of federal development spending on total expenditures is significantly reduced to 15 percent of total expenditures from 25 percent and 21 percent in 2011 and 2012 respectively. This is likely to undermine the critical role of federal development spending in smoothing the transition into the post-secession era and in supporting the re-orientation of the economic growth framework towards a broad-based growth model (e.g. infrastructure development in rural areas). The bulk of national development spending in the budget is allocated for agriculture, in particular irrigation; power and electricity; and transport and roads (Figure 3). This pattern appears to reflect the fact that the primary responsibility for health and education lies with lower levels of government, and they do not, therefore, constitute a significant share of national development spending. However, it remains the case that capital spending on pro-poor facilities is critically necessary, especially given the eroded state of infrastructure in the country, a situation which needs to be

Figure 3. Composition of National Development Spending , Average 2005-2008 and 2013 budget (% of National Development Spending)



addressed through improvements in public investment planning.

The 2013 budget promises a significant increase in federal development transfers to states (from 0.5 percent of GDP in 2012 to 1.1 percent). Transfers to sub-national governments are projected to increase to 2.6 percent of GDP in 2013, from 2.3 in 2012; this is due to a 144 percent increase in development transfers, accounting for 22 percent of total expenditures compared with 21 percent of total expenditures in 2012. The budget therefore prescribes a situation where development spending is gradually shifting from federal to subnational levels, and overall levels are preserved if not slightly increased. In this situation it will be crucial that budget execution will follow these trends in budget planning and that the subnational capacity is being built to take on this new responsibility.

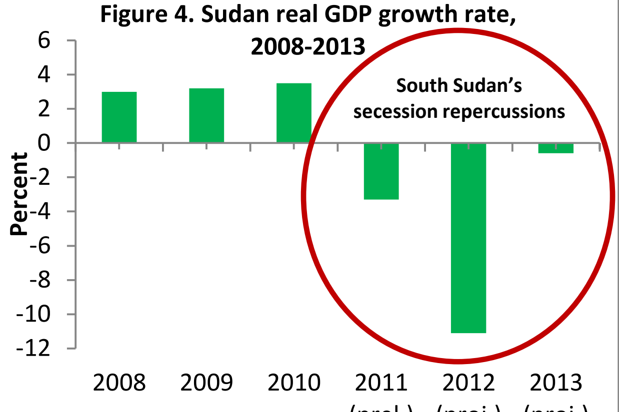
While this increase is consistent with the Interim National Constitution (INC) commitment to devolving responsibility for basic service delivery to sub-national governments, it remains unclear whether the increase suggested in the 2013 budget can be delivered in the prevalent tight fiscal situation. It is also unclear how the increased federal development transfers would translate into individual projects. A lack of detailed state-wise information on development transfers by state precludes any insightful analysis. While these overall resource allocation shifts are of interest, the realization of these development transfers to lower level of governments will be conditional on the realization of the budget's optimistic revenue projections and the availability of both external and domestic financing. The excessive reliance of development related expenditures on external financing remains a key concern, given the deteriorated economic and financial cooperation with international and regional financing institutions. The high volatility and pro-cyclical nature of foreign sources of financing suggest the need for realism in the budget assumptions on external financing, which to a large extent comes from Sudan's partners in the Gulf and China.

III. The economic assumptions of Sudan's 2013 budget do not reflect the conditions of persistent macroeconomic instability

2013 Budget Assumptions and Economic Growth

The government's underlying assumptions in the 2013 budget are very optimistic considering the current crisis, with a projection of real GDP growth at 3.6 percent, as compared with the negative growth rates projected by the IMF. Annex Table 1 compares the key assumptions in the GoS 2013 budget with the assessment in the latest IMF Article IV report (September 2012). The comparison highlights the optimistic stance of the 2013 budget, which assumes substantial economic growth, as compared with the contraction anticipated by the IMF, and rather low public revenues. But with the expected resumption of oil production, these projections may be revised.

Figure 4. Sudan real GDP growth rate, 2008-2013



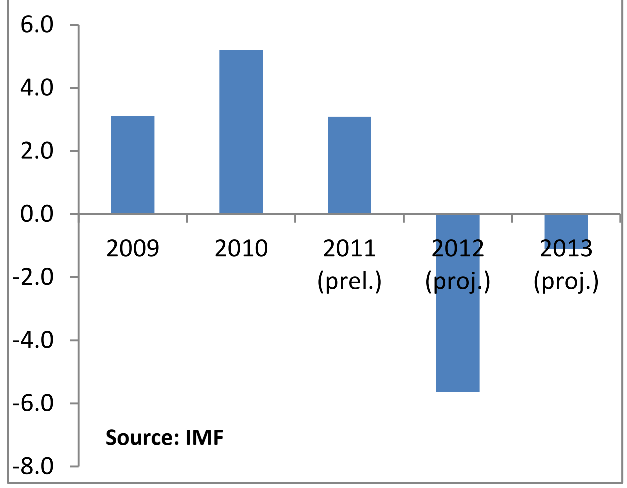
Source: IMF

The budget anticipates growth in 2013, while the growth records for the past three years clearly show the immense economic impact on Sudan of the secession of South Sudan. According to the IMF, growth turned negative in both 2011 and 2012, and is projected to be negative again in 2013. In contrast, GoS projects positive real GDP in 2013, seeing this reversed trend as largely due to improvements in non-oil GDP as well as increases in oil production (North only) by 34 percent. The oil sector's share in GDP is projected to increase to 7 percent, as compared with 5 percent in 2012; this compares with a pre-secession GDP oil sector share of around 15 percent in 2007.

The anticipated sources of this new growth momentum and the relatively broad sectoral growth contribution (i.e. agriculture, industry and services) seem both unrealistic and too optimistic. It is, in fact, difficult to argue that economic activity in Sudan has picked up over recent months. This view is supported by IMF projections that attribute shrinking real GDP in 2013 to declining non-oil GDP, and reflect the reduced domestic absorption capabilities in the economy stemming from the fiscal adjustment (Figure 4).

The considerable decline in the oil sector compared with the pre-session period heightens concerns for structural balance and strengthening of the non-oil sectors, which are essential for sustainable growth and poverty reduction efforts (Figure 5)**.** This is consistent with the call for a new growth strategy in the World Bank's 2009 *Country Economic Memorandum* (CEM). The post-secession significant decline in the oil sector's contribution to economic growth is a strong reminder of the need to diversify the economy, as well as of the particular macroeconomic and governance challenges in the near term. Fortunately, Sudan has significant, yet under-utilized, factor endowments other than oil.

Figure 5. Sudan growth rate of non- oil GDP



Source: IMF

The fundamental challenge to Sudan's non-oil sector growth prospects comes from its weak agriculture and industry sectors, which have become an impediment to efforts supporting basic livelihoods of the population and job-creation. This underscores the paramount efforts that Sudan's budget needs to undertake to address the key constraints faced by the non-oil sector; these include increasing economic certainty and predictability, lowering transaction costs and building basic infrastructure and institutions that will help integrate Sudan's disparate markets. Where infrastructure deficiencies present constraints to growth in areas with strong economic potential, some level of investment in infrastructure would be vital in ensuring the success of the policies recommended by the three-year emergency economic recovery program. In addition, prudent financial sector development, aimed at providing adequate credit and financial services to appropriate productive sectors, can play an important role in reducing risks and vulnerability, ultimately leading to stimulating private sector-led growth in the non-oil sectors of the economy.

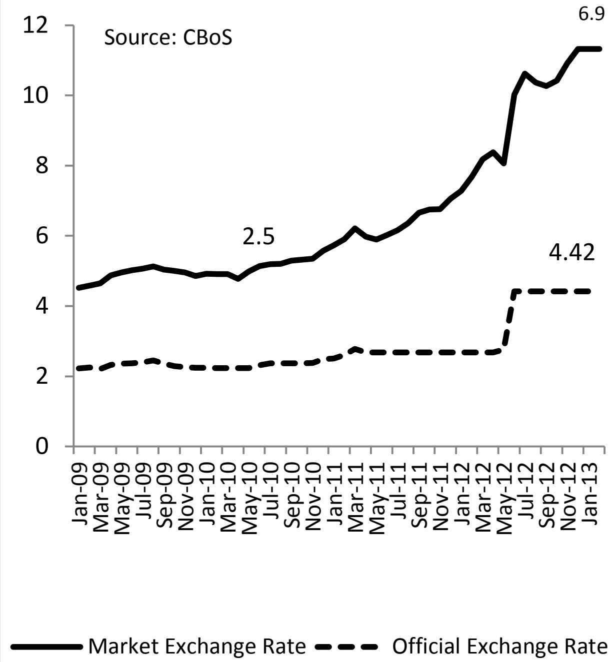
Continuing Prospects of Foreign Exchange Shortages

The 2013 budget projects narrowed, but still large, external imbalances, with a stable but overvalued exchange rate (SDG 4.42 per USD). A significant premium in the parallel exchange markets remains a concern, associated with the sharp drop in oil export earnings, recent decline in foreign direct investment, and slowdown in remittances (Figure 6). The exchange rate of the local currency in the black parallel market hit over SDG 6.9 per USD in late February 2013, up from around SDG 6.5 per USD in late 2012. By mid-March 2013 Sudan's exchange rate had improved significantly, partly reversing the large depreciation, driven by positive expectations following the recent Comprehensive Peace Agreement

(CPA). Going forward, GoS will ultimately have to address the problem of the dual exchange rates – official and black market – through further devaluation of the official rate.

The Central Bank of Sudan has adopted a number of intervention policies to reduce pressure in the foreign exchange market and close the gap between the official and parallel market rates. These measures have provided a temporary "breathing space", but have not addressed the source of the foreign exchange shortfall, which is likely to be structural in nature (World Bank, *Sudan CEM*, 2009). Sudan needs to use a combination of structural, exchange rate and monetary policies to address its external imbalance problem. The country will have to diversify its economic base, expand its agriculture and domestic manufacturing sectors, and reduce its reliance on imports. This underscores the need to demonstrate exchange rate flexibility to commercial banks in foreign exchange transactions, and to move the official exchange rate closer to the market rate to rebuild foreign exchange reserves. Allowing the devaluation of the local currency could also provide relief to mounting pressures on dwindling international reserves. On the other hand, devaluation would put additional pressure on domestic prices through higher import bills, especially for food items.

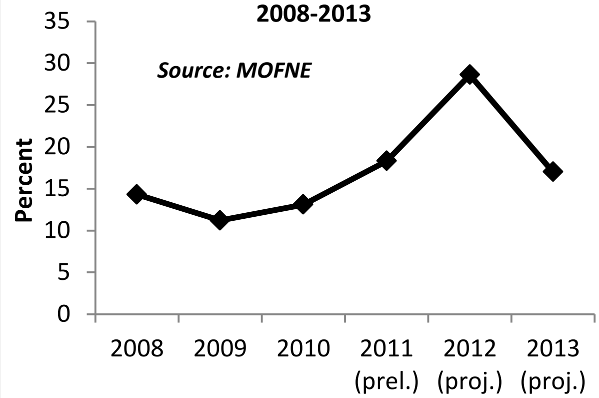
Figure 6. Sudan's Official Exchange Rate and Market Exchange Rate (SDG/USD)



Persistent and Considerable Price Instability

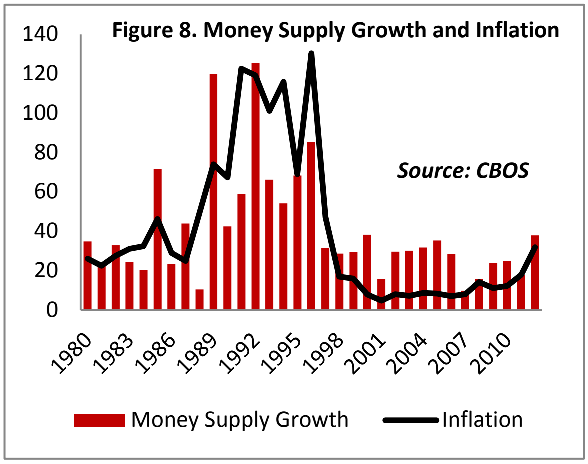
The budget projects a decline in the annual CPI inflation rate to 22 percent in 2013, which is significantly lower than the actual level recorded in 2012 (46 percent in December 2012) (Figure 7)**.** GoS attributes this projected decline to the application of contractionary monetary policy, through the controlling of borrowing from the Central Bank, and gradual fiscal consolidation. The money supply growth rate is projected to decline to 15 percent, from 38 percent in 2012. A number of short-term policy measures to reduce inflation have been implemented recently, including the removal of import duties and administrative fees for cereals.

Figure 7. Sudan Annaul Inflation Rate, 2008-2013



It is most likely that inflation will remain above 20 percent over the coming months, unless there is considerable improvement in the extreme foreign exchange shortage and the associated supply-side bottleneck. The annual inflation rate reached 48 percent in March 2013 and has remained at over 40 percent since July 2012 (three times the pre-secession rate of inflation). The poorest parts of the population are hit hardest by high inflation rates. In fact, in Sudan the poor face higher effective inflation rates than the richer population, a fact that can be observed in many countries; this is since the poor spend the majority of their income on food. Thus, in a situation where food prices drive up overall inflation, the poorer population is relatively more affected.

Inflation is largely driven by a vicious circle of weakening local currency in the parallel market, fed by the monetization of the budget deficit, and aggravated by supply bottlenecks due to structural constraints on the private sector (Figure 8 and Figure 9). The expansionary stance of fiscal and monetary and credit policies pursued in recent years was associated with a sharp increase in aggregate money growth. The expansion of money supply was increased from 17 percent in 2011 to 38 percent in 2012. This was largely attributed to a notable overall fiscal deficit, reaching about 3.6 percent of GDP, and was partly financed by the government borrowing from the Central Bank (1.5 percent of GDP).



The exchange rate pass-through effects following the secession had a significant effect on imported consumer goods, and also moderately affected the cost of locally produced goods, through higher costs of imported production factor inputs. The leading role of the exchange rate implies that the dynamics of Sudan's inflation are extremely sensitive to external shocks, underscoring the openness of Sudan's economy, which can lead eventually to enhancing competitiveness and improving the external current account (IMF, 2012).

IV. Key Issues to be Addressed

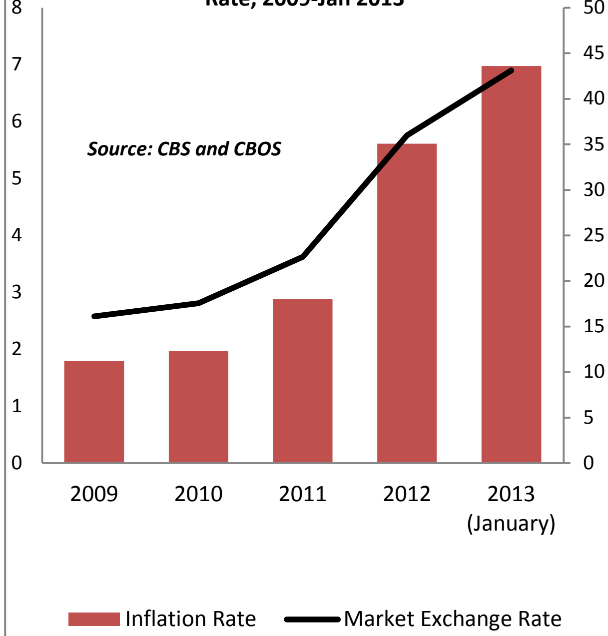
Linking the Budget to Key Strategic Planning Mechanisms

It is unclear how the 2013 budget is linked to the government's three-year emergency economic recovery program, the "Salvation Economic Program" (2012-2014), formulated to address current challenges emerging from the post-secession economic transition. The emergency economic recovery plan sets forth an ambitious goal of self-sufficiency by 2013 for a number of food products, such as wheat, sugar, and cooking oil. Sudan needs to move towards a "forward budgeting process" to ensure that the budget reflects policies that are stated in its strategic plan, including the allocations assigned to each of the "Salvation Economic Program" targeted commodities. This would also serve to assist the review of the implementation of the strategic plan and the relation of the annual budget to formulated strategy objectives.

Looking forward, Sudan's budget reform agenda needs to respond to two critical challenges, with high risks for the achievement of a diversified, inclusive and sustainable economic growth that favors the poor, expands prosperity, and enhances peace and security. Firstly, the budget reform agenda should target managing the economic transition, through policy measures that focus on restoring macroeconomic stability and reinforcing economic conditions. Secondly, the budget has to focus on transforming the economy into a more competitive environment, so as to create opportunities for sustainable and productive employment.

To this end, the priority should be on the structural measures needed to move the country towards a non-resource economy, and on the adoption of policies that can stimulate private sector-led growth in the non-oil sector. Policies implemented since the secession of South Sudan, in July 2011, show that the government recognizes the importance of restoring macroeconomic stability by implementing fiscal and exchange rate adjustments. However, managing the economic transition and creating opportunities for a diversified, inclusive and sustainable growth will require a determined continuation of the reform momentum. In particular, the observed change in development financing level and composition is key for creating conditions for economic diversification and growth. But alack of information on the change in the composition of federal development spending towards transport and energy sectors and away from agriculture hinders deeper analysis.

Figure 9. Market Exchange Rate and Inflation Rate, 2009-Jan 2013



High reliance on domestic borrowing by GoS would increase the cost of finance and reduce the amount of credit available to the private sector. The World Bank's recent Sudan Investment Climate Assessment (ICA) indicates that the lack of formal finance and the cost of finance are major constraints for businesses and traders throughout the country[3]. Domestic credit to the private sector is only 13.2 percent of GDP, compared with an average of 45 percent in sub-Saharan Africa. Therefore, minimization of the crowding out of the private sector in the credit market requires that Sudan should reduce the investment by commercial banks in government certificates, in order to increase lending to private sector firms. Given the lack of a level playing field between the public sector and private sector firms, the emergence of a crowding-out has meant reduced growth prospects for the private sector (World Bank, *CEM*, 2009).

Strengthening Revenue Mobilization

Given its limited access to external financing and the need to contain the monetary financing of the budget deficit, Sudan needs a concerted effort to expand the tax base, beyond the measures for improved revenue mobilization already taken. However, this fundamentally requires greater emphasis on the cost-effectiveness of revenue collection. This would need to taking into account not only the direct costs of tax administration, but also the overall costs to the economy, including the compliance costs to the taxpayers. The objective of increasing revenues needs to be carefully balanced with the need for a conducive business environment to generate jobs and income opportunities, especially for the poor. This will require tax policy and administrative measures to raise revenues on a more sustainable basis and distribute the tax burden more evenly and transparently. Domestic tax revenue mobilization is projected at 5.2 percent of GDP in 2013, compared with 5.5 percent in 2012. The tax revenues are expected to account for 60 percent of total revenues, as compared with 71 percent in 2012. Sudan's tax system continues to rely mainly on indirect taxes, which in 2012 accounted for 91 percent of tax revenue collected, specifically through customs, excises, and VAT. This underscores the

[3] See *Sudan Investment Climate Assessment* (ICA), World Bank, September 2009.

need for improved non-oil revenue mobilization, including broadening the tax base and enhancing the efficiency of the system (IMF, SMP Report, 2012).

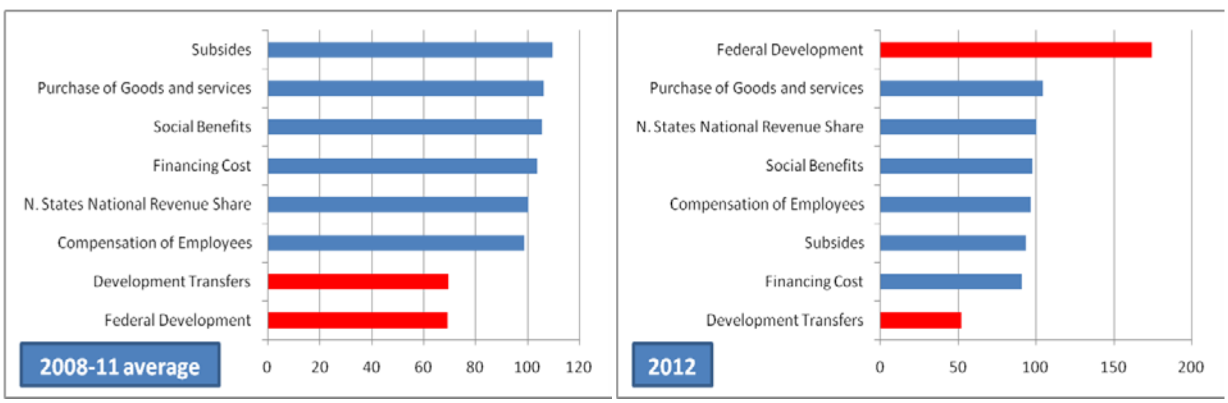
Ensuring Realism of the Budget

It remains doubtful whether the projected increase in key development and pro-poor spending could actually be implemented, given the highly uncertain revenue prospects. The past patterns of mid-year spending adjustment were heavily concentrated on development spending in times of revenue shortfalls. Weak budget credibility is a serious challenge for federal development transfers to states, implying a limited likelihood of protecting development transfers to lower levels of government during resource envelope shortfalls (Figure 10). This represents a continuation of a major issue presented in the PER; budget credibility is a major obstacle to the effective fiscal decentralization that would enable states to plan and undertake their poverty reduction efforts effectively.

The budget projects that over 70 percent of federal development transfers will be financed by external sources. This reliance on external financing for development related expenditures is excessive, given the high volatility and pro-cyclical nature of foreign sources of financing, which have been amongst the underlying causes for the erratic management of Sudan's development spending in the past. The historical execution trends show that foreign financing plans have been significantly under-executed as compared with domestic financing, suggesting the need for realism in the budget assumptions on external financing (World Bank, *Sudan Economic Brief*, January 2013).

The prospect of external financing is not likely to be favorable for Sudan, given the global credit crunch and the absence of major collateral.

Figure 10. Budget execution rate for Items in Sudan Government Expenditure (%)



Source: Ministry of Finance & National Economy, and World Bank Staff Estimates

V. Potential Budgetary Impact of the March Agreement with South Sudan

The outcome of the recent successful post-secession negotiations is likely to ease the adjustment burden on Sudan's fiscal balances to some extent in the short-term, but a strategic and long-term approach will be required to address the remaining structural challenges. The post-secession agreement includes pipeline fees for Southern oil through Sudan's oil infrastructure, and a transitional financial assistance (TFA) package from South Sudan to Sudan. Given that neither pipeline fees nor TFA were included in the 2013 budget, the signing of the agreement and the associated fund flows will contribute to a short-term relief of the immediate fiscal pressures presented in the budget. However, as a certain amount of time will be required to reach full projected oil flows and exports, the immediate financing to be expected is limited.

Based on South Sudan's production projections for 2013, it is estimated that the inflow of funding from South Sudan to Sudan for the second half of 2013 would be around SDG 1.7 billion (SDG 0.7 billion for transit fees and SDG 1 billion for TFA). Inflows of that magnitude could decrease the current deficit by 0.6 percentage points, to 2.7 percent of GDP (everything else being equal). Alternatively, if the current deficit of 3.3 percent of GDP were to be maintained, the incoming funds in 2013 could increase spending by around 5 percentage points compared to the original budget. If there were to be a focus on development expenditures, which were hard hit by the fiscal adjustment over the past year, the inflows of funding related to the re-established oil flow could allow the authorities to increase budgeted development expenditure by more than 40 percent (again, assuming the deficit remains at 3.3 percent of GDP). Development expenditures are generally seen to benefit the poor more than other spending, and the newly reached agreement in March could thus be an opportunity to utilize some of the fiscal relief gained to reprioritize spending in a pro-poor direction.

Annex Table 1: Key assumptions in the 2013 budget document

ITEM	2013	
	MFNE Targeted	IMF Article IV
Gross Domestic Product at Market Prices (SDG Billion)	**294.6**	**228.5**
Real GDP growth rate (%)	3.6	-0.6
Different Sectors' contribution in GDP		
Agriculture	34.8	..
Industry	18.5	..
Services	46.7	..
Average Inflation rate (%)	22.0	17.0
Exchange rate	4.42	..
Money Supply (SDG billion)	72.2	68.1
Money Supply growth rate (%)	25.0	17.4
Government budget as percentage to GDP		
Public revenue and foreign grants %	8.6	14.1
Value of public revenue and foreign grants (SDG Millions)	25,211	32,225
Public expenditure (SDG million)	35,004	39,638
Public expenditure to GDP %	11.9	17.3
Budget deficit to GDP %	3.3	3.2
Budget deficit (SDG million)	10,047	7,413
Additional resources (SDG million)	0	..
Additional Resources to GDP %	0.0	..
Government borrowing from banks to GDP %	0.8	2.6
Government borrowing from banks (SDG million)	2,500	5,975
Net external borrowing to GDP %	0	0.5
Net domestic borrowing to GDP %	3.1	2.9
Trade Balance (US$ million)	-2,674	-1,197
Exports	4,516	5,406
Oil	363	1,918
Non-oil	4,153	3,488
Imports	7,190	6,603

Source: MoFNE and IMF