INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/160

REPUBLIC OF SOUTH SUDAN

June 2024

2023 ARTICLE IV CONSULTATION, AND FIRST AND SECOND REVIEWS UNDER THE STAFF-MONITORED PROGRAM WITH BOARD INVOLVEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF SOUTH 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 2023 Article IV consultation with Republic of South Sudan, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 7, 2024 consideration of the staff report that concluded the Article IV consultation with Republic of South Sudan.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 7, 2024, following discussions that ended December 8, 2023, with the officials of Republic of South Sudan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 20, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the World Bank.
- A **Statement by the Executive Director** for Republic of South Sudan.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2023 Article IV Consultation and IMF Management Completes First and Second Reviews and Extends Staff-Monitored Program with Board Involvement with the Republic of South Sudan

FOR IMMEDIATE RELEASE

- *South Sudan is significantly impacted by the war in Sudan, especially from a very large and growing number of refugees, and by a sharp decline in oil production and exports since mid-February 2024 due to damages to the oil pipeline.*
- *Article IV discussions focused on putting economic reforms on a sustainable footing, boosting domestic revenue mobilization, enhancing social spending, and implementing governance and transparency reforms to reduce corruption.*
- *The extension of the Staff Monitored Program with Board Involvement (PMB) through November 15, 2024, provides time to the authorities to implement corrective actions to bring macroeconomic policies back on track and implement governance reforms; building a strong track record is essential for any financial arrangement with the IMF.*

Washington, DC – **June 10, 2024:** On June 7, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the 2023 Article IV consultation[1] with the Republic of South Sudan. On May 14, 2024, IMF Management also approved the completion of the first and second reviews as well as an extension through November 15, 2024, of South Sudan's Staff Monitored Program with Board Involvement (PMB) which was initially approved on February 16, 2023.

The war in Sudan is exacerbating an already dire humanitarian situation. The Sudan conflict has led to massive return of refugees (over 675,000 as of late-May 2024 in total), higher food and fuel prices due to difficulties in importing from Sudan, and rising oil production costs caused by the disruptions of operations at the Port of Sudan. Delays in the repair of the oil pipeline have reduced oil exports since mid-February 2024 to about one-third of their previous level. This has exerted pressure on South Sudan's external and fiscal accounts given that oil exports account for nearly 90 percent of fiscal revenues and 95 percent of exports.

A 9-month PMB was approved by IMF Management in February 2023 to support the authorities' reform agenda aimed at maintaining macroeconomic stability and debt sustainability and improving governance and transparency with the objective of building a track record in support of the authorities' request for a financing arrangement under the Extended Credit Facility (ECF). Performance under the PMB was initially strong. However, there have been several slippages in recent months, including the resumption of monetary financing of the deficit since December 2023, an accumulation of public sector salary arrears

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

(currently at six months), and the reemergence of a significant gap between the official and market exchange rates. The program has been extended through November 15, 2024, to allow the authorities time to implement policies aimed at restoring macroeconomic stability, safeguarding gains on FX reforms, addressing salary arrears, and taking further steps to strengthen governance and transparency of oil revenue and its use.

Article IV discussions focused on: (i) putting economic reforms under the PMB on a sustainable footing; (ii) boosting domestic non-oil revenues to create fiscal space; (iii) enhancing social spending to allow the government to shoulder some of the support for nutrition, health and education that are currently provided mostly by international partners; (iv) implementing governance and transparency reforms to reduce corruption; and (v) assisting the authorities through a tailored capacity building program in key areas, such as public financial management, revenue administration, and monetary operations.

Escaping fragility requires sustained domestic and multilateral efforts. South Sudan has significant medium-term BOP financing needs. This reflects several factors, including social and development spending needs, debt service obligations on a large stock of non-concessional external debt, reserve coverage of below one month of imports, against a background of a projected decline in oil prices, and a continued downward global trend for international aid. To help address these challenges, the authorities have requested a 3-year arrangement under the ECF. Implementation of macroeconomic stabilization policies and continued progress on the authorities' reform program would help establish a track record towards a potential financial arrangement in the future.

Executive Board Assessment[2]

Executive Directors broadly agreed with the thrust of the staff appraisal. They expressed serious concerns over South Sudan's severe economic and humanitarian challenges, which have resulted from numerous external shocks, including flooding, the Red Sea crisis, and the war in Sudan; as well as from domestic policy slippages. Against this worrying backdrop, Directors urged the authorities to return to prudent macroeconomic policies to restore economic stability, rebuild buffers, and maintain debt sustainability. They stressed that pressing ahead with fiscal, governance, and structural reforms, together with continued multilateral support, is crucial to help South Sudan overcome fragility and address the serious humanitarian crisis.

Noting the drastic decline in oil revenues, Directors called on the authorities to enhance non-oil revenue collection and tax administration and to prioritize spending on salaries and critical social spending, while cutting non-priority spending, as needed, to close the budget financing gap and preserve debt sustainability. They underscored the need to avoid recourse to arrears, monetary financing, and non-concessional borrowing. Directors called for resolute reforms to improve governance and transparency of public operations, including the use of IMF resources. They recommended improving public financial management and the public investment framework, including for the oil-for-infrastructure program, which has weak controls. Directors saw merit in further strengthening the debt management framework.

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

Directors underscored that ending monetary financing and keeping money growth in check is essential to bring inflation under control and stabilize the foreign exchange (FX) market, which would also help in addressing food insecurity. They emphasized the need to build reserves and to maintain a unified and market determined exchange rate to eliminate FX distortions and support economic diversification. Directors recommended enhancing the monetary policy framework, including by implementing the remaining recommendations of the 2021 Safeguards Assessment. They called for addressing the banking sector's undercapitalization and for continued efforts to strengthen the anti-money laundering and counter-terrorism financing framework.

Directors emphasized the need to press ahead with other reforms, including building climate resilience and improving data provision. They stressed the importance of capacity development support from the international community, including the IMF, given the large reform needs amid limited capacity. Directors urged the authorities to facilitate the delivery of support by humanitarian agencies to help address the dire conditions faced by the population.

Directors took note of the Management-approved 6-month extension of the Staff Monitored Program with Board Involvement (PMB), which will give the authorities more time to address recent policy slippages and implement outstanding reforms amid the challenging domestic and external environment. They called on the authorities to sustain a strong commitment to the reform agenda and, in this context, welcomed the corrective policy actions being implemented. Noting the authorities' interest in a possible arrangement under the Extended Credit Facility, Directors stressed that successful completion of the PMB with a strong policy track record is essential for any consideration of a possible arrangement.

Republic of South Sudan: Selected Economic Indicators, 2021/22–2026/27[1]

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Prel.	Proj.			
Output, prices, and exchange rate						
Real GDP growth	-8.0	-2.4	-8.5	21.1	5.2	5.1
Oil	-14.8	-6.8	-16.6	30.9	3.5	3.0
Non-oil	6.0	7.2	7.1	7.4	8.2	8.2
Prices						
Inflation (%)	0.9	25.3	42.2	62.9	11.8	7.6
Central government budget						
Revenue (%GDP)	30.5	33.7	31.0	33.0	31.7	30.5
Of which: Oil	27.9	29.6	25.3	27.0	25.5	24.1
Expenditures (% GDP)	37.0	25.6	27.3	29.3	27.7	26.2
Fiscal balance (% GDP)	-6.5	8.1	3.8	3.7	4.0	4.3
Non-oil [2]	-27.5	-17.1	-16.9	-15.2	-14.0	-12.7
Public debt (% GDP)	47.2	51.2	42.9	29.5	23.6	20.8
Balance of payments						
Current account (% GDP)	-1.6	8.3	4.3	7.1	7.3	6.4
FDI (% GDP)	0.1	0.1	0.6	0.5	0.3	0.5
Reserves (in months of imports)	0.5	0.4	0.7	1.4	2.0	2.4
External debt (% GDP)	34.8	34.8	42.9	36.3	32.8	30.0

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

[1] The fiscal year runs from July to June.

[2] Non-oil revenue excluding grants minus domestically-financed current expenditure minus transfers to Sudan (including pipeline fees).

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

May 20, 2024

STAFF REPORT FOR 2023 ARTICLE IV CONSULTATION, AND FIRST AND SECOND REVIEWS UNDER STAFF–MONITORED PROGRAM WITH BOARD INVOLVEMENT

EXECUTIVE SUMMARY

Context. South Sudan is a very fragile post-conflict country, and one of the most vulnerable in the world to climate change effects. The spillovers from the fighting in Sudan have exacerbated an already dire humanitarian situation. Two-thirds of South Sudan's population was exposed to acute food insecurity prior to the outbreak of the conflict in Sudan and the situation has worsened due to a large and growing number of refugees, and a sharp increase in fuel and food prices in the border areas with Sudan driven by trade disruptions. The Sudan war has also delayed the needed repair of the pipeline that transports South Sudan's crude oil to international markets through Sudan. As a result, oil exports have since mid-February 2024 collapsed to about one-third of their previous level. This has increased significantly the fiscal financing and balance of payments gaps given that oil exports account for nearly 90 percent of fiscal revenues and 95 percent of exports. National elections, the first-ever since South Sudan's independence in 2011, are scheduled for December 2024. However, due to delays in and operationalizing key election-related institutions development partners have expressed skepticism that free and fair elections will be feasible by the envisaged date.

Article IV discussions. Guided by the 2022 Country Engagement Strategy, discussions focused on: (i) putting economic reforms under the current Program Monitoring with Board Involvement (PMB) on a sustainable footing; (ii) boosting domestic non-oil revenue mobilization to create fiscal space; (iii) enhancing social spending to allow the government to shoulder some of the support for nutrition, health and education that are currently provided mostly by the international partners; (iv) implementing governance and transparency reforms to reduce corruption; and (v) assisting the authorities through a tailored capacity building program in key areas, such as public financial management, revenue administration, and monetary operations.

PMB reviews and extension. A 9-month PMB was approved by IMF Management in February 2023 to support the authorities reform agenda aimed at maintaining macroeconomic stability and debt sustainability and improving governance and transparency with the objective of building a track record towards an upper credit tranche financial arrangement. The PMB was combined with a disbursement of 35 percent of quota (about US$114.8 million) through the Food Shock Window (FSW) of the Rapid Credit Facility (RCF) to address urgent balance of payments needs, partly arising from the global food shock. Performance under the PMB was

initially strong. Except for the floor on social spending and on reserve money growth that were missed (the latter by a small margin), all other quantitative targets under the PMB for end-March and end-June 2023 were met. However, there have been several slippages including the difficulty of adopting a FY2023/24 budget consistent with the program and delays in implementing several structural benchmarks. In addition, authorities have resorted to monetary financing of the deficit since December 2023 to accommodate emerging fiscal spending pressures. In addition, public sector salary arrears have been accumulating since August 2023 as the authorities delayed salary payments while verifying payrolls. Despite sporadic payments, salary payments are now outstanding for the past six months. These slippages have led to extended delays in completing the PMB reviews. IMF Management had approved two PMB extensions by three months each previously, and the authorities have requested another 6-month extension to November 15, 2024, to implement the outstanding structural reforms targeted under the program and bring macroeconomic policies back on track. The outstanding structural benchmarks have been completed as prior actions for the first and second PMB reviews, and in the attached Letter of Intent (LOI) the authorities commit to implement corrective macroeconomic policies as part of the requested third and final PMB review.

Request for financing from the Fund. Escaping fragility requires sustained domestic and multilateral efforts. South Sudan has significant medium-term BOP financing needs. This reflects several factors, including social and development spending needs, debt service obligations on a large stock of non-concessional external debt, and reserve coverage of below one month of imports, against a background of a projected decline of oil prices and a downward global trend for international aid. To help address these challenges, as well as the fallout from the damage to the oil pipeline, the authorities have requested a 3-year arrangement under the Extended Credit Facility (ECF). Successful completion of the current PMB would help establish track record towards a potential ECF arrangement in the future.

Staff's view. Staff assesses that the program remains on track to achieve its objectives and supports the authorities' request for completing the first and second reviews of the PMB and its extension to November 15, 2024 on the basis of the performance so far under the PMB and the corrective measures that are being taken as outlined in the attached LOI, including the completion of three prior actions: (i) the completion and publication of the audit of spending financed by the FSW of the RCF disbursed in March 2023; (ii) the adoption by the BoSS Board of the external audit for the BoSS financial statements for FY2021; and (iii) completion and publication of budget execution reports for the first two quarters of FY2023/24. The PMB extension would allow time to implement corrective actions on salary arrears, monetary financing, and exchange rate policy; strengthen the macroeconomic policy framework to respond to recent external shocks; and take steps toward improving the transparency of oil revenue and its use, especially for spending under the oil-for-roads program.

Approved By
Catherine Pattillo (AFR) and Guillaume Chabert (SPR)

An IMF team conducted a mission during November 29–December 8, 2023. The mission team visiting Juba in person comprised Niko Hobdari (head), Enrique Chueca Montuenga, Sunwoo Lee, Jules Leichter, Masateru Okamoto, Jens Reinke (all AFR), Guy Jenkinson (IMF Resident Representative, Juba Office), Hoth Chany (economist, Juba Office), and Mr. Nyamongo (Senior Advisor, OED). The team met with the previous Minister of Finance and Planning Mr. Bak Barnaba Chol, Bank of South Sudan Governor Mr. James Alic Garang, and other high-level government officials. Staff also had productive discussions with representatives of the donor and business communities. Discussions continued during the 2024 Spring Meetings in Washington DC with the new Minister of Finance and Planning Mr. Awow Daniel Chuang Deng and the Governor of the Bank of South Sudan Mr. James Alic Garang. Mr. Fernando Morán Arce and Ms. Mireille Nsanzimana (both AFR) contributed to the preparation of this report.

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CONTEXT

1. **The authorities have reiterated their commitment to holding elections by end-2024 but concerns about the timeline are intensifying.** The country's first national elections are due to be held in December 2024. However, with the establishment and operationalization of key institutions behind schedule, and insufficient budgetary allocations for election expenses, development partners have expressed skepticism that free and fair elections will be feasible by the envisaged date.

2. **The Sudan war is exacerbating an already dire humanitarian situation and has delayed the repair of the oil pipeline that transports South Sudan's crude oil to export markets causing a collapse in oil exports since mid-February 2024 (Box 1).** Approximately 7.1 million individuals—more than half of the population—will experience acute food insecurity during the April–July 2024 lean season (Annex I). This reflects a combination of continuing localized conflict, the fallout from recent historic flooding, and the precarious conditions of 2.3 million internally displaced people. The Sudan conflict has led to massive return of South Sudanese refugees that had settled in Sudan (over 650 thousand as of late-April 2024 in total, including refugees from Sudan), higher food and fuel prices given difficulties importing from Sudan, and rising oil production costs from the disruptions of operations at the Port of Sudan. Delays in the repair of the oil pipeline have reduced oil exports since mid-February 2024 to about one-third of their previous level. This has exerted pressure on external and fiscal accounts given that oil exports that account for nearly 90 percent of fiscal revenues and 95 percent of exports.

3. **A 9-month Program Monitoring with Board Involvement (PMB) was approved in February 2023 and combined with a disbursement through the Food Shock Window (FSW) of the Rapid Credit Facility (RCF).** The PMB has been extended twice by three months each previously, and the authorities have requested another 6-month extension to November 15, 2024, to implement the outstanding structural reforms targeted under the PMB and bring macroeconomic policies back on track (see ¶7). The FSW disbursement was SDR 86.1 million, 35 percent of quota (about US$114.8 million). The authorities allocated US$72.3 million for FX reserves and transferred US$15 million to the World Food Program (WFP) and US$5 million to the International Organization for Migration (IOM) to mitigate food insecurity.[1] The remainder (US$22.5 million) was allocated predominantly for social spending, including to import essential drugs (US$10 million) and to fund school construction and renovation (US$10 million).

RECENT ECONOMIC DEVELOPMENTS

4. **The authorities have struggled to maintain fiscal and monetary discipline in the face of large external shocks**. The Ministry of Finance and Planning (MoFP) was able to close the FY2022/23 fiscal gap estimated at 2.9 percent of GDP at the start of the PMB.[2] This was achieved

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[1] The WFP and IOM have spent the resources allocated to them from the FSW on refugee emergency response, school feeding programs, urban safety net, and capacity strengthening.

[2] See IMF Country Report No. 23/108.

without new non-concessional borrowing or monetary financing, largely through higher-than-expected oil and non-oil revenues and lower-than-projected external debt service. The Bank of South Sudan (BoSS) held reserve money steady between August 2022 and November 2023. However, it resumed providing overdrafts to the MoFP starting in December 2023 to accommodate emerging fiscal pressures stemming largely from the need to finance critical spending while faced with challenges to oil production and export from attacks by Houthi rebels on commercial shipping in the Red Sea and, more recently, damage to the oil pipeline running through war-torn Sudan (Text Figure 1).

Box 1. Republic of South Sudan: Spillovers from the Conflict in Sudan

The humanitarian and economic spillovers to South Sudan from the conflict in Sudan have occurred through three main channels: refugees, trade, and impacts on the oil sector.

Refugees

As of late-April 2024, the total number of arrivals had exceeded 650,000 individuals and continues to rise. Many of these arrivals are South Sudanese returnees who fled from the civil war during 2013-18, along with refugees from Eritrea and Sudan. Relocation of refugees from the Northern border regions is made more difficult by South Sudan's poor road infrastructure and flooding caused by heavy seasonal rains. The difficult logistics are also hampering the provision of in-kind assistance by aid agencies, which typically "pre-position" their supplies ahead of the start of the rainy season.

Trade

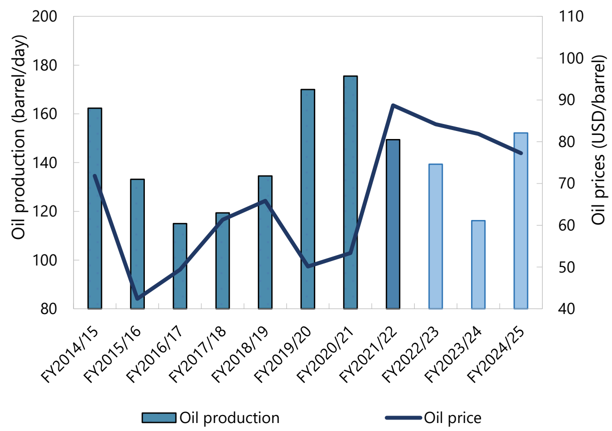
South Sudan's border states import food, medical goods, and fuel from Sudan. This trade has been disrupted and substituting it with imports from other East African neighbors is logistically difficult and costly due to South Sudan's poor internal transport infrastructure. The shift in trade patterns has contributed to the depreciation of the South Sudanese Pound (SSP) since the start of the Sudan conflict, as a larger share of its trade with Sudan is reportedly conducted in SSP, while trade with the EAC is predominantly conducted in U.S. dollars. The disruption in trade with Sudan together with the agglomeration of refugees in a small number of areas have caused price spikes and shortages in food, medical goods, and fuel in the states bordering Sudan, exacerbating an already challenging humanitarian situation.

Oil Sector Impact

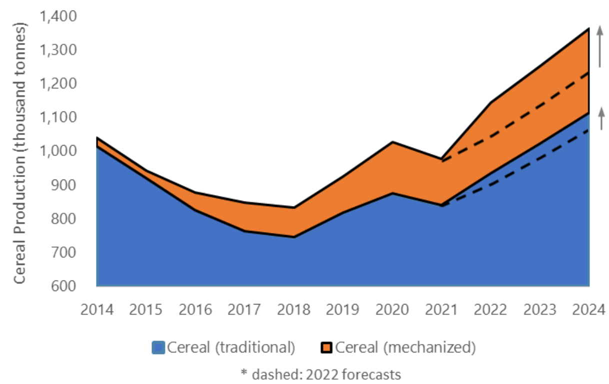
The conflict in Sudan has compromised the oil pipeline to Port Sudan—which carries all of South Sudan's oil to international markets. Conflicting parties in Sudan's civil war control various sections of the pipeline, making access for maintenance hazardous and significantly delaying needed repairs. As a result of damages to the pipeline, oil exports have since mid-February 2024 declined to about one-third of their previous level. Uncertainty caused by the conflict (as well as Houthi attacks on shipping vessels in the Red Sea) has further increased the insurance and freight costs applied to South Sudan's oil exports, reducing the net FOB price of a barrel of South Sudanese oil and consequently the government's oil revenue per barrel. The ongoing conflict in Sudan is also preventing the importation through Port Sudan of chemicals and spare parts, which constitute critical inputs for South Sudan's oil sector, thus altering import routes for such inputs and increasing the cost of oil production.

Figure 1. Republic of South Sudan: Recent Economic Developments

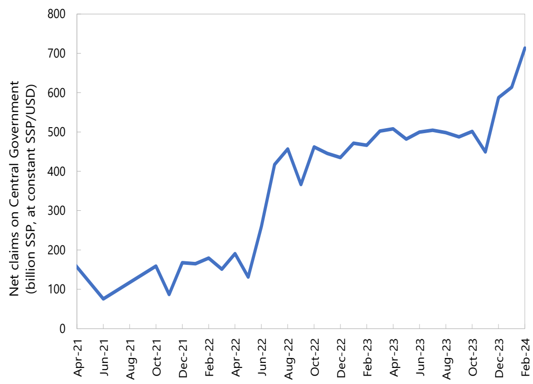
Oil production has been adversely affected by floods and, more recently from damages to the oil pipeline from the Sudan war.



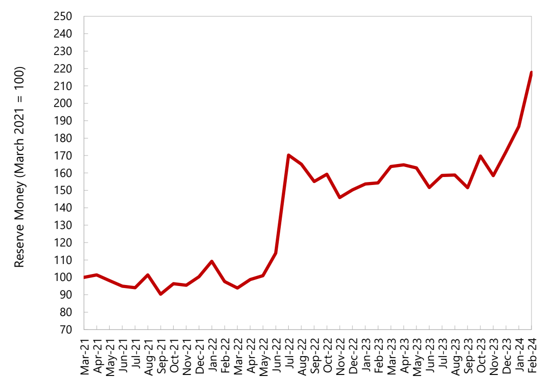
Preliminary data from FAO/WFP shows agricultural production exceeded staff forecasts in 2022.



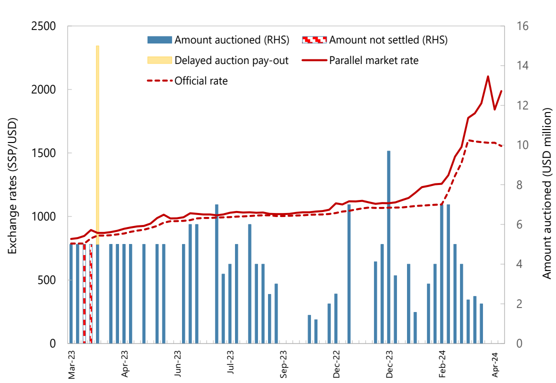
Following an 18-month pause, the authorities resumed using the government overdraft in December 2023...



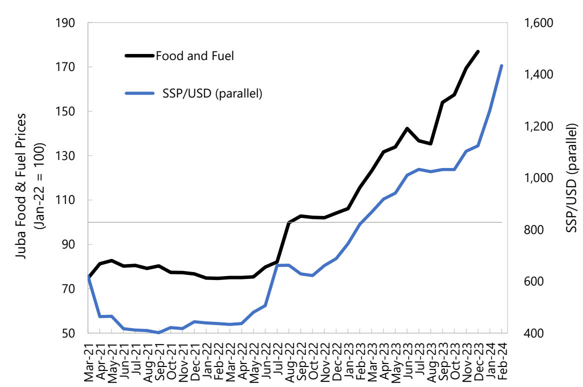
...which has led to a sharp increase in reserve money...



... and, together with a reduced supply of FX from the collapse in oil exports, precipitated a rapid depreciation of the exchange rate...



...and, in turn, a spike in inflation as food and fuel prices continued to move one-for-one with the exchange rate.



Sources: Bank of South Sudan, FAO, WFP, and IMF staff calculations.

5. The exchange rate has been under pressure. Despite the tight monetary stance between August 2022 and December 2023, the exchange rate depreciated at a faster-than-expected pace for most of FY2022/23. A brief appreciation of the exchange rate following the FSW disbursement in March 2023 was reversed by the effects of the outbreak of the Sudan war in April 2023. During the second half of 2023, the rate of depreciation slowed, reflecting higher oil prices and continued tight monetary policy. However, the pace of depreciation picked up sharply at the turn of 2024, driven by a severe disruption to oil production and export and subsequent monetary financing. In addition, there has been a significant increase in the premium of the exchange rate in the parallel market relative to the official rate, which stood at about 60 percent in late-April 2024 compared to an average of below 5 percent during August 2021-December 2023.

6. The depreciation of the exchange rate has led to an inflation surge. Historical evidence indicates a one-for-one pass-through from exchange rate movements into food and fuel inflation within six months (Annex II), and this appears to be borne out in recent months. As such, the larger-than-expected depreciation raised FY2022/23 inflation to 25.3 percent, with elevated inflation expected to continue through FY2023/24.

7. The performance under the PMB has been mixed. Six out of seven quantitative targets (QTs) for end-March and end-June 2023 were met; the only missed QTs resulted from a breach of the floor on social spending and on reserve money growth (the latter by a small margin) (Table 5).[3] While the authorities made progress towards the structural reforms targeted under the PMB, several structural benchmarks were missed (Table 6), resulting in a delay of the two PMB reviews envisaged for end-June and mid-November 2023. IMF Management approved two extensions of three-months each of the PMB and the authorities have requested another extension to November 15, 2024, to provide time to implement pending structural reforms and bring economic policies back on track. As prior actions for the first and second PMB review: (i) an audit of the FSW-financed expenditure was finalized and published in April 2024; (ii) the BoSS Board has adopted the external audit for the BoSS financial statements for FY2021; and (iii) budget execution reports for the first two quarters of FY2023/24 have been completed and published.[4] As elaborated in the attached Letter of Intent, the authorities are implementing corrective macroeconomic policies for the third and final PMB review. Most of the 2022 Article IV recommendations have been or are being implemented (Annex III).

OUTLOOK AND RISKS

8. The medium-term outlook is for modest economic growth and contained inflation amidst elevated levels of uncertainty (Table 1). GDP is projected to contract 8.5 percent in FY2023/24, with a bounce back of 21.1 percent growth in FY2024/25 following the projected fixing of the pipeline damage, and average about 5.4 percent over the medium term, driven by a

[3] While the authorities remained current on salaries in the priority social sectors, cash rationing led to a shortfall of spending on goods and capital relative to the budget for these sectors. Social and humanitarian spending was higher than budgeted to address the impact of the war in Sudan and drought, but it did not offset the significant underspending relative to allocation in health and education.

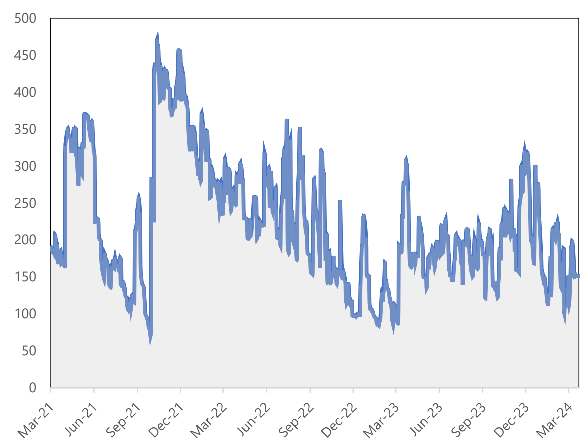
[4] The budget execution reports for Q1 and Q2 of FY2023/24 are published in the MoFP website.

continued gradual recovery in oil production from disruptions caused by flood damage and the Sudan war, and continued strong growth in agricultural output. While medium-term growth is projected above the SSA average, per capita GDP growth would be insufficient to significantly improve living standards. CPI inflation is expected to return to single digits in the medium term on the assumption that the BoSS adheres to its reserve-money growth target of below 10 percent per year.

9. Medium-term BOP gaps are sizeable. Most of the FSW disbursement in March 2023 was used to strengthen FX reserves. However, the reduced FX flows from the collapse in oil exports since February 2024 has put pressure on the FX market, and reserves have declined since then (Text Figure 2). As a result, import coverage remains insufficient at 0.9 months, leaving South Sudan highly vulnerable to further external shocks. Lifting of oil by Sudan in excess of agreed transfer fees (5 percent of GDP annually) and external debt amortization (4 percent of GDP annually) limit the resources available to support essential imports. Moreover, aid, including priority humanitarian assistance, is anticipated to continue declining substantially, following a recent temporary boost in the wake of COVID-19 pandemic, Russia's invasion of Ukraine, and the Sudan conflict.

Text Figure 1. Republic of South Sudan: Daily Reserves

(USD millions)



Source: Bank of South Sudan, and IMF staff calculations.

10. Risks to the outlook are mostly on the downside (Annex IV). South Sudan remains one of the world's most fragile countries (Annex V). The most significant risk arises from the Sudan war. A further escalation of the conflict in Sudan could complicate the repair of existing damage to the pipeline transporting South Sudan's oil through Sudan and result in an extended disruption of oil production and exports, with devastating economic consequences. Continued attacks on international shipping in the Red Sea could also further disrupt the export of oil. Significant domestic risks emanate from an unforeseen break-down of the political power-sharing arrangements and a flaring up of violence in the lead-up to the 2024 elections. Food insecurity and internal displacements could be aggravated given the high likelihood of severe floods and droughts due to climate change effects. On the upside, higher than projected global oil prices and a rapid resolution of the Sudan conflict could reduce BOP and fiscal financing gaps, while growth potential in agriculture could be realized if weather conditions allow.

POLICY DISCUSSIONS

11. Discussions focused on policies to help South Sudan progress on escaping fragility.[5] These include: (i) returning to prudent macroeconomic policies to restore maintain economic stability and maintain debt sustainability; (ii) enhancing social spending to allow the government to shoulder some of the support for health and education currently provided by international donors; (iii) boosting domestic non-oil revenue mobilization to create fiscal space to cushion volatility from natural disasters and commodity shocks and increase development spending; (iv) implementing governance and transparency reforms to reduce corruption; and (v) building resilience by strengthening safety nets.

A. Fiscal Policy

Background

12. The FY2023/24 budget implies a financing gap of 5.3 percent of GDP, despite a solid primary surplus, due to lower oil revenue from pipeline damages and large negative external financing (Text Table 1, Tables 2a and 2b). The budget included a significant rise (by 3.7 percent of GDP at the time of budget approval in August 2023) in public salaries to reverse the erosion of real public wages in recent years, which had left public salaries at an exceptionally low level (Box 2). This increase was partially offset by reducing the allocation to the oil-for-infrastructure scheme from 20,000 to 16,250 barrels per day, increasing the exchange rate used for customs valuation from 90 to 300 SSP/US$, and removing some ad-hoc tax exemptions granted in the past by the MoFP. Staff estimates a budgetary impact of SSP110 billion (1.7 percent of GDP) and SSP43 billion (0.6 percent of GDP) from the reduction in the oil-for-infrastructure allocation and customs exchange rate adjustment, respectively. High global oil prices and exchange rate effects on oil revenue in FY2023/24 are offset by a significant fall in oil revenues from the oil pipeline damage. While the authorities plan to move away from monetary financing, a persistent fall in oil revenue and limited domestic and external financing options may result in additional monetary financing in the near term, likely to further accelerate inflation.

13. Salary arrears have reemerged, reflecting both slow implementation of revised payment procedures and fiscal pressures. Salaries for July–October 2023 were paid with a delay and those for November 2023-April 2024 are in arrears. This reflects, in part, changes in August 2023 to the procedures for salary payments, which included a vetting by special committees for every government agency of all salary payments to eliminate ghost workers.[6] A significant reduction in oil revenues beginning in February 2024 has also adversely affected the ability to remain current on salaries and reduce past arrears.

[5] See the Country Engagement Strategy with South Sudan in IMF Country Report No. 23/108 for the main drivers of fragility in South Sudan and the recommended Fund strategy to help the country escape fragility.

[6] Vetting of civil servants was completed by early 2024 but vetting of other state employees, including security forces, is ongoing.

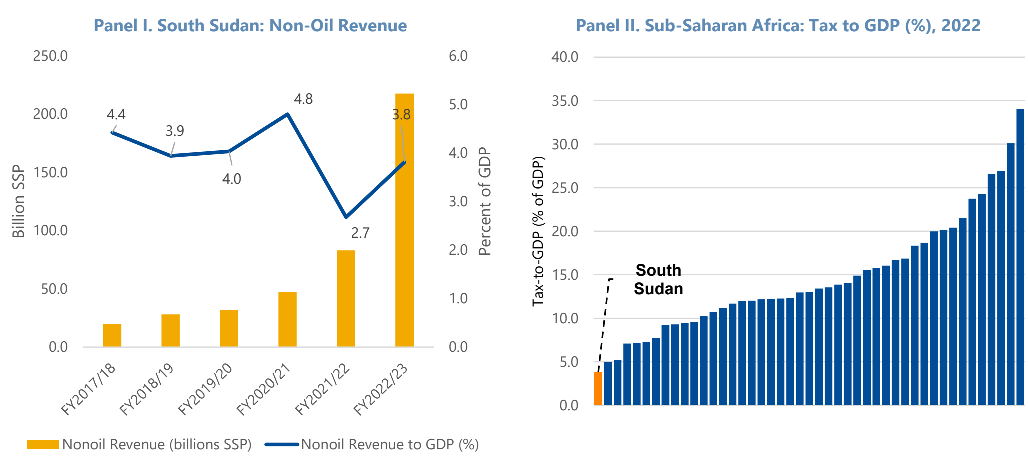
Text Table 1. Republic of South Sudan: Summary of Central Government's Fiscal Operations

	Billion of SSP				Percent of GDP			
	FY2022/23		FY2023/24		FY2022/23		FY2023/24	
	Budget	Prel.	Budget	Staff Proj.	Budget	Prel.	Budget	Staff Proj.
Total revenue and grants	**832.8**	**1,795.7**	**1,838.0**	**2,574.3**	**14.7**	**33.7**	**22.2**	**31.0**
Oil revenues	715.8	1,578.1	1,536.5	2,097.2	12.6	29.6	18.5	25.3
Non-oil tax revenue	117.0	217.6	245.3	477.1	2.1	4.1	3.0	5.8
Total expenditure	**1,170.7**	**1,362.6**	**1,971.3**	**2,263.1**	**20.6**	**25.6**	**23.8**	**27.3**
Current expenditure	770.6	859.2	1,383.1	1,496.4	13.6	16.1	16.7	18.0
of which: Salaries	64.1	166.1	457.1	457.1	1.1	3.1	5.5	5.5
of which: Operating expenses	158.2	300.2	270.4	270.4	2.8	5.6	3.3	3.3
of which: Interest		16.2	52.6	56.3	0.0	0.3	0.6	0.7
of which: Oil-sector-related domestic transfers	49.9	77.0	123.1	127.0	0.9	1.4	1.5	1.5
of which: Transportation and transit fees to Sudan	92.0	174.8	173.4	255.6	1.6	3.3	2.1	3.1
Net acquisition of non-financial assets	400.0	503.4	588.2	766.7	7.0	9.5	7.1	9.2
of which : Road project	238.2	462.0	435.7	614.1	4.2	8.7	5.3	7.4
Overall balance (cash)	**-337.8**	**433.1**	**-133.3**	**311.1**	**-5.9**	**8.1**	**-1.6**	**3.8**
Financing	**-183.1**	**-211.0**	**-133.7**	**-750.5**	**-3.2**	**-4.0**	**-1.6**	**-9.0**
Domestic (net)	0.0	154.4	0.0	22.8	0.0	2.9	0.0	0.3
Foreign (net)	-183.1	-365.4	-133.7	-773.3	-3.2	-6.9	-1.6	-9.3
of which: TFA Overpayment to Sudan		-270.7		-430.4		-5.1		-5.2
Financing gap	**521.0**	**0.0**	**267.1**	**439.3**	**9.2**	**0.0**	**3.2**	**5.3**

Note: For consistency, Percent of GDP figures are calculated as share of staff projected GDP.
Sources: South Sudanese authorities; and IMF staff estimates and projections.

14. **South Sudan's ratio of non-oil tax to GDP remains the lowest in SSA, despite ongoing progress with tax administration reforms.** South Sudan recorded 4.1 percent tax-to-GDP ratio in FY2022/23 and is on track to reach 5.8 percent of GDP in FY2023/24. While a significant increase from previous years, the non-oil tax to GDP ratio remains the lowest in SSA (Text Figure 3). Tax frontier analysis suggests that South Sudan's tax gap ranges from 2.9 to 6.1 percent, with the average gap estimated at about 4.5 percent of GDP (Annex VI). The size of the gap relative to the actual tax-to-GDP ratio is much larger than the SSA average, suggesting large potential gains from improvement in revenue administration and tax policy reforms.

Text Figure 2. Republic of South Sudan: General Government Tax Revenue



Source: WEO live database; South Sudanese authorities.

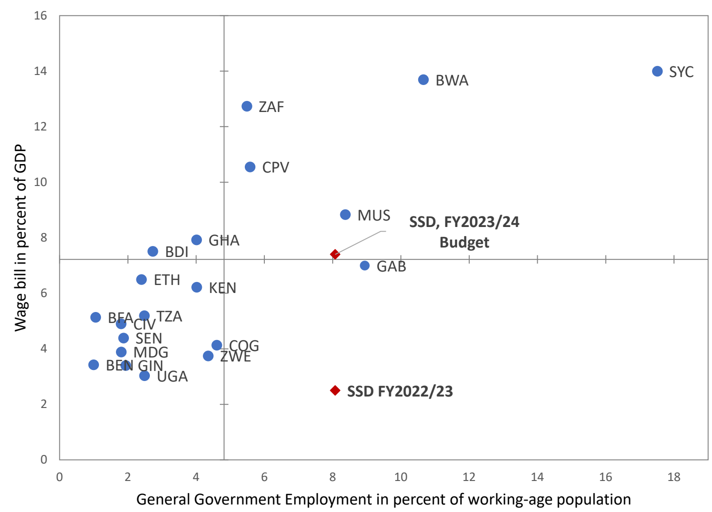
Box 2. Republic of South Sudan: Salary Increases in the FY2023/24 Budget

The FY2023/24 budget included a 400 percent nominal increase in salaries for most civil servants and organized forces (security and military personnel). The increase does not apply to members of Parliament and some other groups, whose salaries were increased significantly in FY2022/23. The increase applied to allowances and to public servants serving at the regional level who are paid through block grant allocations, creating challenges to proper estimation and budget allocation. The wage bill budgeted in FY2023/24 shows a 250 percent nominal increase relative to FY2022/23.

This salary increases reverses the sharp erosion of real public wages in recent years. The wage bill had fallen from about 5.5 percent of GDP in FY2017/18 to about 3.1 percent of GDP in FY2022/23, as nominal wage adjustment fell well below inflation during this period. As a result, average public salaries in South Sudan were exceptionally low by regional standards, as suggested by a low share of spending on salaries relative to GDP despite a relatively large government workforce (Box 2 Figure 1). While the salary increase in FY2023/24 would bring the wage bill as a share of GDP to a level slightly higher (5.5 percent) than in FY2017/18, the pay for the vast majority of government workers would remain below the international poverty line of 2.15 US$/day and the share of the wage bill in South Sudan's total government spending would remain below the average and mean in Sub-Saharan Africa (Box 2 Figure 2).

Box 2. Figure 1. Government Wage Bill and Employment in Sub-Saharan Africa

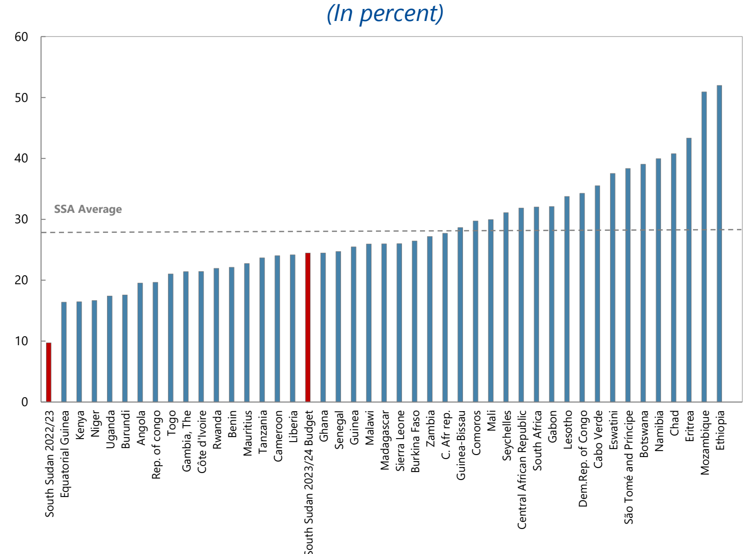
(Latest available value)



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

Box 2. Figure 2. Wage Bill as a Share of Total Expenditure in Sub-Saharan Africa in 2022

(In percent)



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

15. Significant spillovers from the conflict in Sudan, protracted flooding, and declining humanitarian assistance have increased the need for budgetary social spending. The Sudan war is exacerbating already dire social conditions in South Sudan (Box 3). South Sudan's social indicators are among the weakest in the world. This includes the world's highest proportion of primary school-aged children out of school (62 percent), and one of the lowest proportions of population that lives within reach of health care facilities (44 percent). The Sudan conflict is putting the social system under additional pressure. With social assistance programs for vulnerable groups accounting for a very small percentage of budgetary expenditures, humanitarian assistance is predominantly funded by aid from development partners. The resources available to the authorities are inadequate for addressing the substantial needs for spending in the social sectors.

16. The attached DSA suggest that South Sudan's debt remains sustainable, but with a high risks of debt distress. The breaches are larger and more sustained compared to the PMB approval, which reflect mainly a deterioration in the economic outlook following recent external shocks. Several risks loom, especially the large fiscal gap created by the recent collapse in oil revenue. In addition, weak debt management and governance heighten the vulnerability to domestic and external shocks. Therefore, while debt dynamics under the baseline appear on a sustainable path, even if the fiscal gaps were to be closed with non-concessional financing in a worst-case scenario, these risks call for continued commitment to maintaining fiscal discipline and avoiding new non-concessional borrowing to ensure South Sudan's debt remains on a sustainable path.

Staff Recommendations

17. A combination of fiscal measures of about 5.3 percent of GDP will be needed to close the baseline financing gaps in FY2023/24 and FY2024/25 without additional recourse to monetary financing or non-concessional borrowing. Raising the exchange rate used for customs evaluation could quickly raise revenue (the rate was raised to 300 SSP/US$ in the Finance Bill for FY2023/24, but the recent depreciation has eroded customs revenue potential). Given little scope for further revenue measures in the short term and the need to protect social spending, significant containment of non-priority spending will also be needed, especially from the oil-for-infrastructure scheme, which amounts to 7.4 percent of GDP in FY2023/24. Despite their substantial hike wages remain reasonable given their extremely low level, as well as the reality that public wages are the main channel of the social safety net. Salaries and social expenditure should enjoy absolute priority in spending, whereas non-priority spending, including oil-for infrastructure, be limited to revenue being available after priority needs have been met.

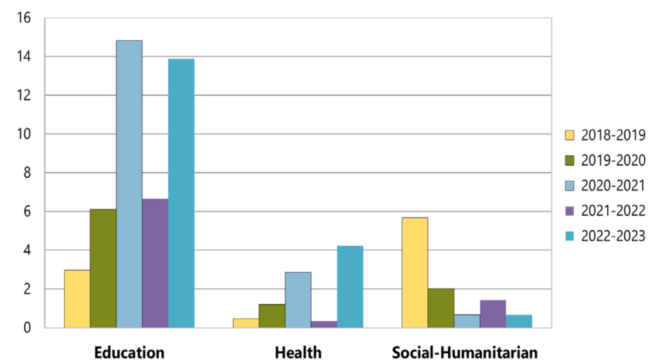
18. Expenditure arrears and reliance on non-concessional external or monetary financing should be avoided because they would undermine macroeconomic stability and debt sustainability. Progress on discussions on payment by Sudan for the oil lifted for excess transit fees and to collect from Sudan for credits accumulated (US$658.7 million or about 9.0 percent of GDP as of June 2023) would provide much needed fiscal space. Planned issuance of Treasury bills would be a useful instrument for the government to finance future budgets and could serve as a building block for development of financial markets. However, the issuance should be well prepared

Box 3. Republic of South Sudan: Social Situation Under Additional Pressure from Sudan's War[1]

The war in Sudan has exacerbated an already dire humanitarian situation in South Sudan. Around 9.4 million individuals or 76 percent of the population – including about 4.9 million children, 2.2 million women, and 337,000 refugees – are anticipated to require humanitarian aid and protection in 2024. The need has surged by about 500,000 people or by 5 percent compared to 2022. This escalation is propelled by the conflict in Sudan, climate adversities, and disease outbreaks. Over a million individuals escaping the war and seeking sanctuary in neighboring nations, including a significant influx of more than 650,000 people into South Sudan as of late-April 2024. To manage the issue at the border, the WFP has estimated a need for funding of US$120 million. Prior to the recent conflict in Sudan, South Sudan was already host to more than 300,000 refugees and asylum-seekers in addition to more than 2.3 million internally displaced people.

Health conditions remain critical. Only 48 percent of the population currently have access to basic health services. Preventable diseases like malaria, diarrhea, and pneumonia are leading causes of death, especially among children. Just 19 percent have access to basic sanitation services and 51 percent to basic drinking water services. Health expenditure has been about 5-6 percent of GDP in recent years. Life expectancy at birth has improved by 8 years from 54 years in 2000 to above 62 in recent years, mostly due to improvement in the political conditions and the end of internal war. Lack of power—with only 7 percent of the population having access to electricity—severely limits water pumping, healthcare, education, and other basic services.

Box 3. Figure 1. Republic of South Sudan: Social Spending as Percentage of Total Government Spending



Sources: MoFP, and IMF staff calculations.

The education system is profoundly inadequate and child protection risks are severe and increasing. Over 2.8 million primary-aged children now estimated to be out of school. Learning outcomes are extremely poor among those enrolled. Severe shortages of trained teachers, learning materials, and infrastructure undermine service delivery and access. Over 4 million children are estimated to need protection services due to threats from conflict, violence, exploitation, disease, and malnutrition. However, social services lack capacity and resources. Levels of acute malnutrition remain extremely concerning. Over 1.4 million children under 5 are expected to suffer from acute malnutrition in 2024.

The national system for social protection remains extremely limited. Government spending on social assistance programs accounts for less than 0.5 percent of GDP, one of the lowest rates globally. The majority of social assistance comes through international humanitarian aid, leaving vulnerable groups like women, children, the elderly, and disabled heavily dependent on external support.

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[1] For more details on social indicators and social spending in South Sudan see Annex V in IMF Country Report No. 23/108.

technically and be communicated effectively to the banking sector, given the potential adverse impact of past defaults on market confidence. Proper recording, monitoring and reporting of debt transactions and better information flow between the debt management unit and relevant agencies are key to improving the debt management framework. Strengthening the policy and governance framework to catalyze development partner support in the form of grants and concessional financing would also support macroeconomic stability. Staff urged the authorities to avoid non-concessional borrowing or to collateralize any loans against oil revenue consistent with PMB conditionality and the authorities' commitments as collateralized transactions could raise the risk of debt distress including through reducing budget flexibility and further complicating debt management, especially when the transaction lacks transparency.

19. Revenue and PFM reforms are needed to ensure that development objectives are met in a sustainable manner. Social and infrastructure needs in South Sudan are large and debt vulnerabilities are high. This requires efforts are made to increase both oil and non-oil revenues and ensure that spending is efficient and well-targeted. A strong commitment to strengthen revenue administration is essential, supported by an enhancement of human resource capacity.[7]

- ***Non-oil revenues*:** Increased non-oil revenue collection would be a more reliable source of government revenue and could serve as a buffer against significant downside risk from oil price and output volatility. Revenue mobilization measures that could help enhancing non-oil revenue collection include broadening of the sales tax base that currently remains very narrow, while ensuring that the poor and vulnerable are protected, streamlining of non-statutory tax and customs exemptions, adjusting gradually the exchange rate used for custom valuation towards the rate prevailing in the market, strengthening customs administration, enhancing human resource capacity through recruitment and training, and introducing a Value-Added Tax (VAT) over the medium-term.
- ***Oil revenues*:** Oil revenues could be increased through elimination of oil advances, which cost an estimated 1½ percent of GDP in FY2022/23. This could be supported through improved cash management and the creation of fiscal cash buffers covering 1–2 months of budget expenditures that would reduce the need for oil advances.
- ***Public investment*:** Strengthening public investment management is essential to ensure value for money. The oil-for-infrastructure program takes a significant portion of oil revenues and more needs to be done to report on the status of individual projects. The process for approving, implementing and monitoring projects should be rigorous and transparent, supported by procurement guidelines and a clear budget process based on international best practices. This would help address development partner concerns on governance and transparency and would be a key building block of building a policy track record ahead of future possible discussion on a Fund financing arrangement.
- ***Social spending*:** A more balanced allocation and reprioritization of the budget would be necessary for the government to shoulder part of the necessary social spending and start

[7] The IMF is providing technical assistance under the Global Public Finance Partnership project (2024–28) to the South Sudan Revenue Authority to support revenue administration reforms.

building basic social assistance programs targeted to the most vulnerable. An initial re-allocation of some spending from infrastructure to social spending would be welcome.

- ***Transparency and Accountability:*** Recent steps towards better transparency are welcome, including the publication of comprehensive quarterly budget execution. Their regular and timely publication, including dedicated reports on oil revenue and spending financed by earmarked resources would strengthen fiscal transparency and accountability (see also ¶29). Transparent procurement procedures consistent with the Public Procurement and Disposal of Assets (PPDA) Act will be needed to combat perceptions of pervasive corruption.

20. More efforts are needed to strengthen the institutional framework for debt management. The authorities need to implement the action plan, including by establishing an appropriate debt database and a debt management system. While the amendments to the BoSS Act approved by Parliament in August 2023 did not abolish the mandate of the BoSS to issue sovereign guarantees (end-May 2023 SB of the PMB), as the authorities argued that this would have been inconsistent with the Transitional Constitution that mandates BoSS to issue sovereign guarantees, the amendments limited the issuance of such guarantees only on behalf of the Government, against any state government subject to "relevant legislation on public finance." In light of this limited mandate, it is essential that the issuance of sovereign guarantees be coordinated with state budget process and subject to the same approval process used for external loans specified in the PFM Act (i.e., first screening any requests for sovereign guarantees by the Technical Loan Committee (TLC) of the MoFP, followed by approval by the Council of Ministers upon recommendation by the TLC, and ultimately adoption by Parliament, before any such guarantees are issued by the BoSS).

Authorities' Views

21. The authorities expressed their commitment to contain non-priority spending and continue efforts on non-oil revenue mobilization. They confirmed that the priority would be on avoiding new salary arrears and delivering planned social spending for the remainder of this fiscal year. In relation to revenue mobilization, the authorities noted that they had made good progress on increasing revenues under their 5-year plan but acknowledged that the current level of non-oil revenue remains significantly below its potential. They will continue efforts on tax and customs reforms, which include the introduction of a VAT over the medium term and further strengthening revenue administration. The authorities also agreed on the need to increase public spending on health, education, and other social and humanitarian support, noting that this may require containing non-priority spending, including on oil-for-infrastructure, given limited fiscal space in the current budget and the need to support debt sustainability over the medium term. They committed to make the issuance of any sovereign guarantees by the BoSS subject to the same approval process as specified in the PFM Act for external loans, consistent with the recent amendments to the BoSS Act approved by Parliament. However, they underscored the significant challenges to close the projected fiscal gap in FY2023/24 without additional recourse to monetary financing or non-concessional borrowing if the damaged oil pipeline is not brought fully back online soon.

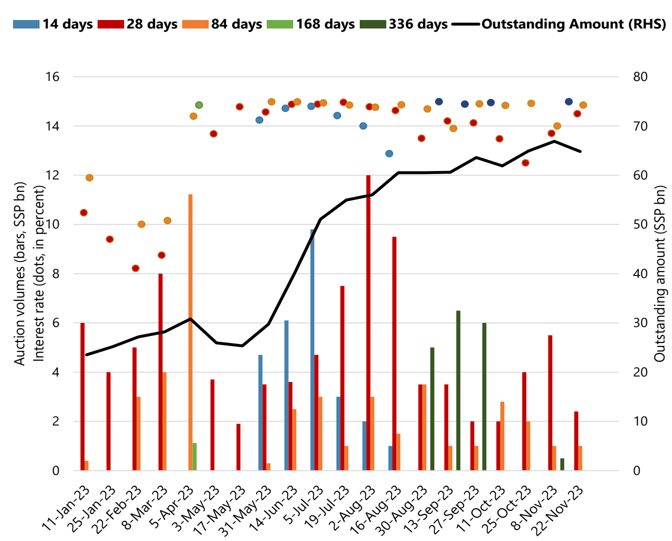
B. Monetary and Financial Sector Policy

Background

22. The authorities have relied on monetary financing since December 2023, following a period of strict control over money growth from August 2022 to late-2023. Reserve money declined by 2 percent between September 2022 and November 2023, contributing to signs of exchange rate stabilization. Responding to fiscal spending pressures, as well as external shocks affecting oil revenue, the authorities resorted to monetary financing since December 2023, causing substantial pressure on the exchange rate. FX auctions remain the main instrument at the disposal of the BoSS for mopping-up excess liquidity. Following an interruption in late-2022/early-2023, the regular weekly FX auctions resumed but were paused briefly around early 2023 as the BoSS reserves fell to a critically low levels and the FSW disbursement was delayed. This pause, together with delays in settling dollar auctions that took place in December 2022 and March 2023, undermined market confidence. Given the lack of a functioning FX interbank market, FX auctions in principle play an important role in helping price discovery in the market. Since January 2024, however, foreign currency at auctions has been awarded to the lowest, rather than the highest, bidder, slowing depreciation of the official exchange rate and widening the gap with the parallel market rate.

23. Demand for the BoSS term-deposit facility (TDF) has been robust. The BoSS introduced the TDF in October 2022, intended as an additional tool for monetary policy to complement FX auctions. It has successfully auctioned at least SSP 6 billion of term deposits every month since then, at an average interest rate of about 14 percent in 2023. Maturities have been extended gradually, with the 336- day tenor introduced in September 2023. The total credit outstanding under the TDF had risen to just over SSP 64 billion (about 10 percent of reserve money) by November 2023 (Text Figure 4).

Text Figure 3. Republic of South Sudan: TDF Auctions, January–November 2023



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

24. The supervisory role of the BoSS has expanded with the approval of the Amendment to the 2012 Banking Act in November 2023. The amended act (Banking and Other Financial Institutions Act) brings supervision of non-bank financial institutions including microfinance institutions and insurance companies under the mandate of the BoSS. The institutions were originally regulated by individual state authorities, including those operating across states. Common licensing process, supervision, and regular reporting requirement for banks and non-banks will help maintain financial stability.

25. The BoSS is continuing its effort to address the undercapitalization of the domestic banking sector. Several licensed commercial banks, while not systemically large, remain undercapitalized. The licenses of two inactive domestic banks were revoked in December 2022 as a first step towards resolving the issue. Following the revocation, a dedicated liquidation team within the BoSS was formed, but limited legal expertise in connection with the treatment of assets and liabilities during a wind down process remains a hurdle to the process. The BoSS is seeking Cabinet approval for its recently adopted action plan on banking sector reform to ensure that it enjoys broad political support.

Staff Recommendations

26. Reserve money targeting remains appropriate for South Sudan for the time being, given the very low level of international reserves and a limited monetary policy toolkit. Staff analysis suggests a one-for-one relationship, on average, between reserve money growth and the depreciation of the SSP against the U.S. dollar in the parallel market, with the estimated impact of a reserve-money expansion on the exchange rate being almost instantaneous. Furthermore, the exchange rate pass-through into food and fuel prices is also one-for-one with a few months' lag (Annex II). Against this background, staff urged the BoSS to avoid additional monetary financing to avoid further depreciation pressure on the SSP. FX auctions should accept bids according to their ranking starting with the best exchange rate to the worst from the auctioneer's point of view to ensure the premium between the official and parallel exchange rates remains, on average, within a relatively narrow band. Further strengthening of this monetary policy framework would require progress in two areas. First, the BoSS needs to improve its capacity for liquidity monitoring and forecasting in close coordination with MoFP. In particular, market liquidity implications of large fiscal expenditure should be assessed ahead of time and fiscal and monetary operations should be properly planned to maintain price stability. Second, the BoSS needs to mop up excess liquidity in a more predictable manner, with FX auctions being the most effective tool. A well-planned introduction of treasury bills would also eventually relieve pressure on monetary financing of the budget.

27. The implementation of the BoSS action plan will be critical to address the undercapitalization of the domestic banking sector. The BoSS action plan, which draws from IMF TA recommendations, lays out steps to strengthen the legal expertise and supervisory capacity of the BoSS, enabling it to enforce compliance of all banks with the amended 2012 Banking Act. A healthy banking sector would promote private sector development and help expand financial inclusion, which remains low compared to the average in sub-Saharan Africa.[8]

Authorities' Views

28. The BoSS expressed its commitment to strengthen its monetary and operational framework. The BoSS is committed to containing money growth and managing liquidity consistent with maintaining low inflation and macroeconomic stability. The BoSS stated that it is strengthening

[8] See Annex V of IMF Country Report No. 22/266.

coordination with the MoFP, including on cash management, and will respond appropriately to the macroeconomic impact of higher salary payments to civil servants resulting from large salary increases and the recent settlement of wage arrears. While the BoSS is committed to eliminating monetary financing, it noted that some limited monetary financing may be needed in the short term in the context of drastically lower oil revenues and continued spending pressures in priority areas. The BoSS plans to improve the auditing framework and implement the new national payment system in the coming months. Further the BoSS reiterated its commitment to roll out the BoSS action plan on the modernization of the monetary policy framework once it is endorsed by the Council of Ministers, which includes reforms to promote the independence of the central bank and the move to a price-based framework over the medium term consistent with EAC protocol.

C. Strengthening Governance and Transparency

Background

29. The transparency of monetary and fiscal operations and expenditure controls have improved, but significant weaknesses remain. Up-to-date data on FX auctions outcomes and key monetary indicators are published by the BoSS, and the MoFP has published the budget execution reports for FY2022/23 and Q1 and Q2 of FY2023/24. Progress is also being made in improving cash planning and establishing a Treasury Single Account (TSA). However key issues persist, including that the cash plan is not being used effectively, and the narrow scope of the TSA does not allow to fully benefit from cash pooling. A recent audit report by the National Audit Chamber on the part of central government spending financed from the disbursement through the FSW in March 2023 concluded that funds went to the intended beneficiaries (i.e., predominantly for spending on health and education). However, it identified several procedural weaknesses, and recommended improvements in a number of areas, including to ensure that all payments by the MoFP are made through the Integrated Financial Management and Information System (IFMIS), and that the award of contract for all goods and services should be consistent with the Public Procurement and Disposal Act (PPDA) of 2018. In line with the recommendations of Auditor General reports on the two previous RCF disbursements, the authorities are planning a gradual rollout of salary payments through commercial banks and issuance of biometric identifications with technical support from the World Bank for all government employees.

30. In addition, the process for approving, implementing, and monitoring public investment expenditures lacks transparency. The oil-for-infrastructure scheme accounts for about one quarter of government expenditure in the FY2023/24 budget; yet reporting on the implementation of current projects is minimal. The National Audit Chamber conducted a performance audit report on the status of one road project in October 2023, identifying implementation weaknesses including significant arrears to the contractor. There has been no reporting on the status of other road projects. In particular, considerable information gaps remain on investment planning, procurement processes, and the amount and quality of works completed in each road project.

31. Work is underway to bring South Sudan's legal framework for AML/CFT in line with international standards. The 2009 Anti-Corruption Commission Act has been amended in 2023 to strengthen the fight against corruption. However, the significance of the modification brought by the new law remains to be assessed as the Staff did not receive copy of it, while the commission remains under-resourced and lack capacity. South Sudan is on the FATF's grey list with significant deficiencies in its AML/CFT framework. With IMF TA the authorities are working to incorporate the current FATF standards into the draft AML/CFT Act, finalize governance and operational rules for the Financial Intelligence Unit and develop legislation to protect the non-profit sector from the risks of terrorism financing.

Staff Recommendations

32. The authorities should reinforce institutional checks on expenditure. This includes redesigning the payment procedures so that the MoFP can effectively control commitments, using the cash plan to inform cash limits on monthly expenditure, and enforcing expenditure controls through the IFMIS built-in functionality based on projected cash flow forecasts. The expansion of the TSA MOU is necessary to eventually include all spending agencies of the Central Government within the PFM framework. A robust framework should be adopted to guide the oil-for-infrastructure scheme starting from project prioritization to procurement and oversight from the MoFP regarding the inspection and certification of the works.

33. Building on the publication of budget execution reports, the authorities need to step up their efforts to enhance fiscal transparency. Quarterly budget execution reports should continue to be published in a timely manner. The procedures under the oil-for-infrastructure scheme should also be strengthened to bring them in line with best PFM practices, especially on the appraisal, selection, and procurement processes, as well as on reporting the amount and quality of works completed and payments made for each road project.

34. Concerted effort and commitment from the authorities are needed to move forward the implementation of the recommendations of the 2021 IMF Safeguards Assessment. While the external audit of the BoSS financial statements for FY2021 has been approved by the BoSS Board, it should be signed and published by the National Audit Chamber as a matter of urgency. Similarly, the appointment process of an external audit firm to start the FY2022-2023 audit has been delayed as it has taken longer than expected for the National Audit Chamber to check candidates' qualifications and should be completed as soon as possible (retained as a structural benchmark for end-June 2024). Limited progress has also been observed in addressing other priority safeguards recommendations, including on financial reporting and internal audit. The BoSS is also urged to follow through on its earlier commitments to strengthen currency operations, including by sending tender requests to reputable currency manufacturers.

Authorities' Views

35. The authorities concur with the need to strengthen governance and improve the transparency of government revenue and spending. They recognize weaknesses in the oil-for-infrastructure scheme and the need to improve its implementation process and transparency. They further agree on expanding the TSA, and regularly publishing quarterly budget execution reports. In addition, as prior action for the first and second reviews of the PMB, they have completed the audit of the expenditures financed by the disbursement through the FSW of the RCF and have published the audit report. They are also committed to appoint an external audit firm with experience in central bank audits with a view to start the audit for the BoSS financial statements for FY2022 and FY2023 as soon as possible.

D. Capacity Development and Emerging Priorities

36. The IMF will continue to support the authorities' CD needs with a tailored capacity building program. The capacity needs in South Sudan remain substantial across all sectors. Consequently, CD activities will leverage a variety of channels and resources. This includes physical and virtual TA delivery from HQ, AFRITAC East, and coordinated support with other organizations such as the World Bank, taking into account limited absorptive capacity. Support will prioritize areas such as PFM, fiscal governance, revenue administration, monetary operations, and macroeconomic statistics (Annex IX).

37. Emerging priorities for surveillance include building resilience to climate change, enhancing financial inclusion, and promoting gender-inclusive growth. Dealing with climate change effects will be guided by the analysis in the 2022 Article IV report, which emphasized the importance of consolidating macroeconomic gains and building reserve buffers, to create the fiscal and monetary space to cushion volatility from natural disasters or commodity shocks. To expand financial inclusion, discussions will center on pressing ahead with banking sector reforms. The policy advice discussed above to increase social spending has strong gender implications, as it would help support the increase of girls' enrollment in schools.

E. Data for Surveillance

38. Data provision continues to have serious shortcomings that hamper surveillance. Most official macroeconomic data continue to have significant weaknesses in terms of quality, periodicity, and timeliness. Data on government finances and oil sector transactions deteriorated in quality during the civil war. However, the authorities have been providing crucial information for surveillance on oil production, revenues, and debt to development partners through the PFM Oversight Committee, established in April 2020, and have started to publish such data through the recent budget execution. South Sudan has been receiving intensive TA from the IMF to assess and improve the quality of official data on government finances, monetary and financial statistics, and real sector statistics. Progress is being made to improve data availability and quality, subject to resource and capacity constraints.

PMB EXTENSION AND OUTLOOK FOR FUTURE IMF ENGAGEMENT

39. Staff supports the authorities' request for completing the first and second review and extending the PMB through November 15, 2024. As discussed in this report, the track record under the current PMB is mixed and efforts are needed to address recent policy slippages. The authorities achieved a stabilization of the economy and eliminated the distortions in the FX market by unifying the exchange rates in the market under the previous SMP. However, the geopolitical events in Sudan and the Red Sea presented a severe shock to revenue and FX earnings in early 2024. The authorities resorted to monetary financing as a short-term measure and have limited depreciation of the official exchange rate, resulting in a widening gap with the parallel exchange rate. While the fiscal authorities maintain a solid primary surplus and reforms are showing first results in raising non-oil revenues, salary arrears have accumulated and further cuts to non-priority are needed in the face of lower oil revenues. Governance reforms have also improved the transparency of monetary and fiscal operations. However, despite some progress, additional measures are needed to strengthen governance and transparency, including implementing recommendations of the safeguards assessment.

40. To that end, as elaborated in the attached LOI the authorities are committed to implement corrective macroeconomic policies as part of the third and final PMB review to stabilize the FX market, lower inflation, unify the exchange rate, and clear salary arrears. These objectives will be supported in the attached LOI and MEFP with:

- Quantitative targets for end-June 2024 that: (i) set a zero limit on monetary financing to avoid sharply accelerating inflation; (ii) set a floor on salary payments and social spending in line with budget allocations to safeguard such critical spending; and (iii) sets targets on the non-oil primary fiscal balance, the BoSS net credit to government, and on non-concessional borrowing to maintain debt sustainability (MEFP Table 1).
- Structural benchmarks for end-June 2024 on: (i) the appointment of an external auditor to conduct the audit for the BoSS financial statements for FY2022 and FY2023; (ii) the adoption a timebound action plan to clear all salary arrears; and (iii) the completion and publication of BoSS audited financial statements for FY2021 (MEFP Table 2).

41. The Fund's engagement with South Sudan over the medium term will continue be guided by the strategy outlined in the 2022 Country Engagement Strategy. As elaborated in the summary of the Country Engagement Strategy (IMF Country Report No. 22/266 Annex I), policies to address the manifold sources of fragility in South Sudan should aim to maintain macro stability; increase agricultural production (a sector that provides the livelihoods for 80 percent of the population); enhance social spending; and foster private-sector investment. These policies need to be complemented with institutional reforms to strengthen governance and transparency.

42. The economic reforms supported by the previous SMP and the current PMB are laying the groundwork for a future UCT program following the successful completion of the PMB.

South Sudan has significant spending needs for poverty reduction and promoting inclusive growth, giving rise to medium-term BOP gaps which would require financial support from development partners including the IMF. Nevertheless, significant steps remain to be taken to establish a track record for a potential program, including to return to fiscal and monetary discipline to recapture earlier gains in macroeconomic stabilization, and to consolidate FX market liberalization reforms by unifying the official and parallel market exchange rates. Key areas of reform the authorities should implement going forward include: (i) bolster reserves and expanding the set of available monetary instruments; (ii) strengthen debt management and oversight; (iii) deepen PFM reforms and enhancing the transparency of oil revenue and related spending (especially under the oil-for-infrastructure scheme); (iv) clear salary arrears and stepping up spending in the social sectors; (v) improve domestic revenue mobilization; and (vi) strengthen the anti-corruption and AML/CFT frameworks. Continued implementation of reforms in these areas will help build credibility with donors and may unlock concessional financing.

STAFF APPRAISAL

43. South Sudan is expected to show robust growth in FY2024/25, but the headwinds —especially from the Sudan crisis—are considerable. A modest recovery in oil production, despite the sector's logistical challenges arising from conflict in Sudan, alongside robust growth in the non-oil sector should deliver modest growth in the medium term. However, there is a risk that the fallout from the Sudan crisis could intensify, especially if South Sudan is unable to bring its oil to international markets for an extended period of time. An unforeseen breakdown of the interim government's power-sharing arrangements and larger-than-anticipated adverse impacts from floods or droughts also pose significant risks to the outlook. Even under the most optimistic growth outcome, South Sudan's humanitarian situation will remain dire in the near term, with two-thirds of the population exposed to acute food insecurity.

44. Considering the drastic decline in fiscal revenue from the damage to the oil pipeline, the authorities are urged to prioritize spending on salaries and social assistance while avoiding additional recourse to monetary financing or non-concessional borrowing. The authorities were able to close a sizeable fiscal gap in FY2022/23 without recourse to new non-concessional borrowing, monetary financing, or salary arrears. This was partly achieved by rationing non-priority spending in line with available cash limits. Fiscal discipline has been an essential precondition for monetary discipline in the past. Given uncertainties on the timing when the damaged oil pipeline will be brought fully back online, large social spending needs and large public wage increases, priority should be given to the payment of salaries and critical social spending while cutting non-priority spending, as needed to close the projected budget financing gap. The authorities are urged to achieve this with minimal, if any, additional recourse to monetary financing or non-concessional borrowing with a view to restore macroeconomic stability and maintain debt sustainability. If emergency financing needs cannot be entirely avoided, short-term non-concessional borrowing is preferable to monetary financing, due to the latter's fast pass-through to prices and exchange rates. The authorities are also urged to avoid collateralizing any external borrowing against oil revenue consistent with PMB conditionality and the authorities' commitments.

45. Keeping money growth in check will be essential to stabilize the FX market and bring inflation under control. The tight control of the money supply exercised by the BoSS until late-2023 helped anchor the exchange rate and inflation. The resumption of large monetary financing since December 2023 has fueled a sharp exchange rate depreciation and a rapid increase in inflation. The BoSS is urged to bring money growth under control as a priority, to help stabilize FX market and reduce inflationary pressures. As long as monetary and fiscal policy remain prudent and the authorities are able to address the impact of spillovers from Sudan, market confidence should improve, and the volatility of the exchange rate would be reduced.

46. A unified and market determined exchange rate is essential to eliminate the reemergence of distortions in the FX market and support economic diversification. Staff urges the BoSS to stick to a policy of awarding FX at auctions to bids according to their ranking starting with the best exchange rate to the worst from the auctioneer's point of view, up to the bid for which the cumulated amount of bids corresponds to the intended allotment. This would ensure that the premium between the official and parallel exchange rates remains, on average, within a relatively narrow band, consistent with the differences between these two markets, as was the case until late-2023.

47. The steadfast implementation of the authorities' action plans for debt management reform and banking sector reform is essential to address long-standing structural issues. South Sudan's debt management institutions have been beset by a lack of capacity and IT infrastructure, limited transparency on debt stocks and debt service, and the absence of a debt management strategy. This has facilitated non-transparent borrowing decisions, raised the cost of debt service, and undermined credibility vis-à-vis creditors, which the authorities are acknowledging but are slow to address. Meanwhile, South Sudan's domestic banking sector has suffered from long-standing undercapitalization issues, presenting an obstacle to the sustainable growth of banking services that are vital for South Sudan's economic development. The respective action plans adopted by the MoFP and the BoSS promise to address these issues by reforming institutional setups and increasing critical capacity within an ambitious yet realistic timeframe. The authorities should make the implementation of these plans a priority, seeking assistance from development partners as needed.

48. Continued PFM and governance reforms are essential to ensure a good use of public resources and to build credibility with the public. Transparency about fiscal operations, monetary developments, and oil sector activity has increased noticeably, and the authorities should maintain the regular, timely publication of budget execution reports, monetary statistics, and oil production figures. Further, the authorities are urged to address the findings and recommendations of the Auditor General report on the use of the FSW disbursement of March 2023, especially to ensure that all payments by the MoFP are made through IFMIS, and that the awarding of contracts for all goods and services is consistent with the PPDA of 2018. in addition, the authorities should implement in the coming months key PFM reforms, including by completing the roll-out of central-government salary payments through bank accounts, operationalizing the PPDA, and continuing to build the institutional framework to fight corruption and embed AML/CFT. The procedures under the oil-for-infrastructure scheme should also be strengthened, especially as regards the appraisal, selection, and procurement processes, as well as on reporting the amount and quality of works completed and payments made for each road project.

49. Staff assesses that the program remains on track to achieve its objectives and supports the authorities' request for the completion of the first and second reviews and the extension of the PMB through November 15, 2024, given overall adequate performance and demonstrated commitment towards meeting the program's objectives. The authorities completed three prior actions: (i) the audit of spending financed by the FSW of the RCF disbursed in March 2023 was completed and published in April 2024; (ii) the BoSS Board adopted the audit of the BoSS for FY2021 in May 2024; and (ii) the budget execution report for the first and second quarters of FY2023/24 have been published shortly after the end of each quarter.

50. Staff recommends that the next Article IV Consultation for South Sudan be held on the 12-month cycle.

Table 1. Republic of South Sudan: Selected Economic Indicators, 2019/20–2026/27[1]

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Act.	Prel.	Projections				
	(Annual percentage change, unless otherwise indicated)							
Output, prices, and exchange rate								
Real GDP (percent change)	13.2	-2.3	-8.0	-2.4	-8.5	21.1	5.2	5.1
Oil	26.4	3.2	-14.8	-6.8	-16.6	30.9	3.5	3.0
Non-oil	0.5	-11.6	6.0	7.2	7.1	7.4	8.2	8.2
Inflation (average)	33.6	43.5	0.9	25.3	42.2	62.9	11.8	7.6
Inflation (end-of-period)	12.7	44.7	-11.6	46.2	62.7	28.3	7.8	8.0
Oil GDP (percent of GDP)	62.4	67.2	64.8	61.1	55.9	59.7	56.3	53.2
GDP deflator	-2.1	31.9	229.5	77.1	70.3	63.4	8.6	10.2
Official exchange rate (SSP/US$, average)	160.8	190.7	422.7	...	...	...	...	...
Official exchange rate (SSP/US$, end period)	163.8	322.6	499.7	...	...	...	...	...
Parallel market exchange rate (SSP/US$, average)	309.2	522.9	432.1	...	...	...	...	...
Money and credit								
Broad money	40.8	67.3	47.4	108.0	...	...	...	...
Monetary base	42.3	53.4	48.9	82.8	...	...	...	...
Credit to non-government sector	35.2	60.6	74.1	264.6	...	...	...	...
M2/GDP (percent)	20.3	26.3	12.8	15.4	...	...	...	...
	(Percent of GDP, unless otherwise indicated)							
Central government budget								
Total revenues and grants	29.5	33.6	30.5	33.7	31.0	33.0	31.7	30.5
Of which: Oil	25.5	29.0	27.9	29.6	25.3	27.0	25.5	24.1
Of which: Non-oil tax revenue	4.0	4.7	2.6	4.1	5.8	6.0	6.2	6.4
Of which: Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	39.4	37.2	37.0	25.6	27.3	29.3	27.7	26.2
Current	35.7	26.5	24.1	16.1	18.0	21.1	20.0	18.8
Of which: transfers to Sudan	13.1	10.7	5.6	3.3	3.1	6.0	6.0	5.9
Net acquisition of non-financial assets	3.8	10.7	12.9	9.5	9.2	8.2	7.7	7.4
Overall balance (cash)	-9.9	-3.6	-6.5	8.1	3.8	3.7	4.0	4.3
Change in non-salary arrears	-3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual balance)	-6.5	-3.6	-6.5	8.1	3.8	3.7	4.0	4.3
Public debt								
Total External public debt[2]	55.2	55.8	47.2	51.2	42.9	29.5	23.6	20.8
Of which: external public debt	44.2	44.9	34.8	34.8	38.0	25.3	19.9	17.6
External sector								
Exports of goods and services	63.7	68.4	65.6	62.8	57.3	61.4	58.2	55.2
Imports of goods and services	92.0	85.6	72.8	64.8	68.7	69.2	67.4	65.7
Current account balance (including grants)	-19.3	-4.3	-1.6	8.3	4.3	7.1	7.3	6.4
Current account balance (excluding grants)	-39.7	-27.0	-20.0	-14.5	-24.4	-18.2	-18.4	-18.3
Gross foreign reserves (millions of US dollars)	129.5	163.7	191.7	148.5	284.4	565.6	840.9	1,083.5
Gross foreign reserves (in months of imports)	0.3	0.4	0.5	0.4	0.7	1.4	2.0	2.4
Memorandum items:								
Population (millions)	13.6	14.0	14.4	14.8	15.2	15.7	16.1	16.6
Oil production (millions of barrels)	62.1	64.1	54.5	50.9	42.4	55.5	57.5	59.2
South Sudan's oil price (U.S. dollars per barrel)	49.3	55.9	86.5	88.5	79.6	76.1	72.1	69.6
Brent price (U.S. dollars per barrel)	51.3	55.2	86.5	88.5	79.6	76.1	72.1	69.6
Nominal GDP (billions of SSP)	789	1,016	3,079	5,323	8,295	16,409	18,761.2	21,725.0
Nominal GDP (billion US$)	4.9	5.3	7.3	7.3	6.0	7.1	7.4	7.8
External debt (millions US$)	2,168	2,390	2,533	2,529	2,295	1,793	1,464	1,367
GNI per capita (US dollars)	320.7	327.8	441.6	429.8	334.9	438.6	413.4	429.6
Nominal SSP GDP (percent change)	10.8	28.8	203.0	72.9	55.8	97.8	14.3	15.8

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

[1] The fiscal year runs from July to June.

[2] Public external debt in SSP (at eop exchange rate) in percent of GDP in SSP (at avg exchange rate). FY2020/2021 value reflects large difference between eop and avg exchange in that fiscal year.

Table 2a. Republic of South Sudan: Fiscal Operations of the Central Government, 2019/20–2026/27[1]

(In billions of South Sudanese pounds)

	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27
	Act.	Act.	Prel.	Budget	Prel.	Budget	Proj.	Projection		
Total revenue and grants	**232.8**	**341.5**	**938.1**	**832.8**	**1,795.7**	**1,837.9**	**2,574.3**	**5,419.2**	**5,945.2**	**6,629.8**
Total oil revenues	201.1	294.1	857.6	715.8	1,578.1	1,536.4	2,097.2	4,434.6	4,782.0	5,230.7
Non-oil tax revenue	31.8	47.4	80.5	117.0	217.6	245.3	477.1	984.6	1,163.2	1,399.1
Grants	0.0	0.0	0.0		0.0	56.2	0.0	0.0	0.0	0.0
Total expenditure	**311.1**	**378.0**	**1138.5**	**1170.7**	**1,362.6**	**1,971.3**	**2,263.1**	**4,811.9**	**5,195.6**	**5,702.5**
Current expenditure	281.3	269.5	742.9	770.61	859.2	1,383.1	1,496.4	3,468.7	3,750.9	4,094.8
Salaries	36.5	44.1	94.8	64.1	166.1	457.1	457.1	904.3	1,033.9	1,197.2
Operating expenses	82.7	60.4	356.5	158.2	300.2	270.4	270.4	535.0	611.7	708.3
NRA Retention/Commission				9.3	17.4	24.1	47.7	98.5	116.3	139.9
Interest	16.4	1.2	9.9	…	16.2	52.6	56.3	172.3	102.5	64.7
Transfers to states	31.4	44.7	110.7	193.4	137.9	265.0	268.9	603.8	667.6	750.8
Oil-related transfers	10.9	23.5	48.8	49.9	77.0	123.1	127.0	275.6	292.4	316.3
Transfers to MoP (3% of Oil Rev)	3.6	8.8	18.3	18.7	25.4	46.2	42.3	103.3	109.6	118.6
Capital transfers to states (Future Gen Fund)	1.2	0.0	0.0	0.0	8.6	0.0	14.1	0.0	0.0	0.0
Transfers to oil prod states & Com (5% of Oil Rev)	6.0	14.7	30.5	31.2	43.0	76.9	70.6	172.2	182.7	197.7
Non-oil transfers to states	20.5	21.2	61.9	143.5	60.9	141.9	141.9	328.2	375.2	434.5
Block grants to states	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to Sudan[2]	103.6	109.1	170.9	92.0	174.8	173.4	255.6	990.1	1,127.2	1,277.1
Transportation and transit fees	22.0	51.0	98.4	92.0	174.8	173.4	255.6	990.1	1,127.2	1,277.1
TFA payments	81.7	58.1	72.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Salary arrears repayment	…	0.0	0.0	67.1	0.0	50.0	50.0	83.4	91.7	-43.2
Other expenses	10.7	10.0	0.0	186.7	45.3	90.5	90.5	81.5	0.0	0.0
Emergency contingency fund + ORSA	0.0	10.0	0.0	169.5	13.5	20.9	20.9	0.0	0.0	0.0
Peace agreement	10.7	0.0	0.0	12.0	12.0	50.0	50.0	81.5	0.0	0.0
Transfers to WFP/IOM				0.0	19.8	0.0	0.0	0.0	0.0	0.0
Agriculture Bank of South Sudan						3.0	3.0	0.0	0.0	0.0
South Sudan Pension Fund						15.0	15.0	0.0	0.0	0.0
Other expenditure			14.5	5.2		1.6	1.6	0.0	0.0	0.0
Net acquisition of non-financial assets	29.8	108.4	395.6	400.0	503.4	588.2	766.7	1,343.2	1,444.6	1,607.6
of which: Constituency Development Fund	…	…	…	…	…	47.9	47.9	…	…	…
of which: Oil for Infrastructure project		100.0	274.7	238.2	462.0	435.7	614.1	965.8	0.0	0.0
Overall balance (cash)	**-78.3**	**-36.4**	**-200.4**	**-337.8**	**433.1**	**-133.4**	**311.1**	**607.3**	**749.7**	**927.3**
Change in non-salary arrears	-26.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual balance)	**-51.7**	**-36.4**	**-200.4**	**-337.8**	**433.1**	**-133.4**	**311.1**	**607.3**	**749.7**	**927.3**
Statistical discrepancy	142.8	38.5	-171.9	0.0	222.1	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**521.0**	**0.0**	**267.1**	**439.3**	**554.3**	**89.2**	**-655.2**
Financing	**194.5**	**74.9**	**28.5**	**-183.1**	**-211.0**	**-133.7**	**-750.5**	**-1161.6**	**-838.9**	**-272.1**
Domestic (net)	28.1	32.2	94.6	0.0	154.4	0.0	22.8	0.0	0.0	0.0
Net credit from the central bank	44.2	32.2	94.6	0.0	154.4	0.0	22.8	0.0	0.0	0.0
Overdraft	…	…	…	0.0	177.2	0.0	0.0	0.0	0.0	0.0
of which: RCF-1	…	-16.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: Carried over RCF-2	…	-94.6	94.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: Carried over RCF-FSW	…	…	…	…	-22.8	0.0	22.8	0.0	0.0	0.0
Net credit from commercial banks	10.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	-26.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign (net)	166.3	42.7	-66.1	-183.1	-365.4	-133.7	-773.3	-1161.6	-838.9	-272.1
Disbursement[3]	266.6	90.1	344.2	0.0	42.5		47.9	155.1	241.0	100.2
of which: RCF-1 Initial Disbursement	…	9.1	…	…	…	…	…	…	…	…
of which: RCF-1 Auction Gain	…	14.7	…	…	…	…	…	…	…	…
of which: RCF-2 Initial Disbursement	…	16.1	…	…	…	…	…	…	…	…
of which: RCF-2 Auction Gain	…	13.9	0.0	…	…	…	…	…	…	…
of which: RCF-FSW Disbursement	…	…	…	…	42.5	…	…	…	…	…
Budget for health and education					22.8					
Transfers to WFP/IOM					19.8					
of which : new SDR		…	60.0	0.0	…		…	…	…	…
Amortization	-100.3	-47.4	-283.6	-183.1	-137.2	-133.7	-390.8	-1316.7	-1079.9	-372.3
TFA Overpayment	…	…	-126.8	0.0	-270.7	…	-430.4	0.0	0.0	0.0
Memorandum items:										
Non-oil Primary Fiscal Balance[4]	-153.3	-205.5	-846.6	…	-910.9	…	-1403.7	-2492.7	-2619.9	-2763.9
Oil production (millions of barrels)	62.1	64.1	54.5	…	50.9	…	42.4	55.5	57.5	59.2
Nominal GDP (bn of South Sudanese pounds)	788.7	1,015.8	3,078.5	…	5,322.6		8,294.8	16,409.3	18,761.2	21,725.0

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

[1] The fiscal year runs from July to June.

[2] Transfer to Sudan is the sum of TFA payment (financial transfer) and average transportation fee (average of 9.7 US$/barrel) from using the oil pipeline. TFA payments ended in January 2022.

[3] Initial disbursement refers to the amount received directly by the authorities while Auction Gain refers to the proceeds of the auction in which disbursements were converted at the official exchange rate

[4] Non-oil revenue minus primary expenditure excluding transfers to Sudan, and tranfers to oil producing states and communities.

Table 2b. Republic of South Sudan: Fiscal Operations of the Central Government, 2019/20–2026/27[1]

(In percent of GDP)

	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27
	Act.	Prel.	Prel.	Budget	Prel.	Budget	Proj.	Projection		
Total revenue and grants	**29.5**	**33.6**	**30.5**	**15.6**	**33.7**	**22.2**	**31.0**	**33.0**	**31.7**	**30.5**
Total oil revenues	25.5	29.0	27.9	13.4	29.6	18.5	25.3	27.0	25.5	24.1
Non-oil tax revenue	4.0	4.7	2.6	2.2	4.1	3.0	5.8	6.0	6.2	6.4
Total expenditure	**39.4**	**37.2**	**37.0**	**22.0**	**25.6**	**23.8**	**27.3**	**29.3**	**27.7**	**26.2**
Current expenditure	35.7	26.5	24.1	14.5	16.1	16.7	18.0	21.1	20.0	18.8
Salaries	4.6	4.3	3.1	1.2	3.1	5.5	5.5	5.5	5.5	5.5
Operating expenses	10.5	5.9	11.6	3.0	5.6	3.3	3.3	3.3	3.3	3.3
NRA Retention/Commission				0.2	0.3	0.3	0.6	0.6	0.6	0.6
Interest	2.1	0.1	0.3	...	0.3	0.6	0.7	1.1	0.5	0.3
Transfers to states	4.0	4.4	3.6	3.6	2.6	3.2	3.2	3.7	3.6	3.5
Oil-related transfers	1.4	2.3	1.6	0.9	1.4	1.5	1.5	1.7	1.6	1.5
Transfers to MoP (3% of Oil Rev)	0.5	0.9	0.6	0.4	0.5	0.6	0.5	0.6	0.6	0.5
Capital transfers to states (Future Gen Fund)	0.2	0.0	0.0	0.0	0.2	0.0	0.2	0.0	0.0	0.0
Transfers to oil prod states & Com (5% of Oil F	0.8	1.4	1.0	0.6	0.8	0.9	0.9	1.0	1.0	0.9
Non-oil transfers to states	2.6	2.1	2.0	2.7	1.1	1.7	1.7	2.0	2.0	2.0
Transfers to Sudan[2]	13.1	10.7	5.6	1.7	3.3	2.1	3.1	6.0	6.0	5.9
Transportation and transit fees	2.8	5.0	3.2	1.7	3.3	2.1	3.1	6.0	6.0	5.9
TFA payments	10.4	5.7	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Salary arrears repayment	...	0.0	0.0	1.3	0.0	0.6	0.6	0.5	0.5	-0.2
Other expenses	1.4	1.0	0.0	3.5	0.9	1.1	1.1	0.5	0.0	0.0
Emergency contingency fund + ORSA	0.0	1.0	0.0	3.2	0.3	0.3	0.3	0.0	0.0	0.0
Peace agreement	1.4	0.0	0.0	0.2	0.2	0.6	0.6	0.5	0.0	0.0
Transfers to WFP/IOM	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Agriculture Bank of South Sudan						0.0	0.0	0.0	0.0	0.0
South Sudan Pension Fund						0.2	0.2	0.0	0.0	0.0
Other expenditure				0.1		0.0	0.0	0.0	0.0	0.0
Net acquisition of non-financial assets	3.8	10.7	12.9	7.5	9.5	7.1	9.2	8.2	7.7	7.4
of which: Constituency Development Fund	...	...	...	...	...	0.6	0.6	...	...	...
of which: Oil for Infrastructure project	0.0	9.8	8.9	4.5	8.7	5.3	7.4	5.9	0.0	0.0
Overall balance (cash)	**-9.9**	**-3.6**	**-6.5**	**-6.3**	**8.1**	**-1.6**	**3.8**	**3.7**	**4.0**	**4.3**
Change in non-salary arrears	-3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual)	**-6.5**	**-3.6**	**-6.5**	**-6.3**	**8.1**	**-1.6**	**3.8**	**3.7**	**4.0**	**4.3**
Statistical discrepancy	18.1	3.8	-5.6	0.0	4.2	...	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**3.2**	**5.3**	**3.4**	**0.5**	**-3.0**
Financing	**24.7**	**7.4**	**0.9**	**0.0**	**-4.0**	**-1.6**	**-9.0**	**-7.1**	**-4.5**	**-1.3**
Domestic (net)	3.6	3.2	3.1	-3.4	2.9	0.0	0.3	0.0	0.0	0.0
Net credit from the central bank	5.6	3.2	3.1	0.0	2.9	0.0	0.3	0.0	0.0	0.0
Overdraft	...	... .	...	0.0	3.3	0.0	0.0	0.0	0.0	0.0
of which: RCF-1	...	-1.6	0.0	...	...	...	...	...	...	...
of which: Carried over RCF-2	...	-9.3	3.1	...	...	...	...	...	...	...
of which: Carried over RCF-FSW	...	...	... .	...	-0.4	...	0.3	...	...	...
Net credit from commercial banks	1.3	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0
Foreign (net)	21.1	4.2	-2.1	0.0	-6.9	-1.6	-9.3	-7.1	-4.5	-1.3
Disbursement[3]	33.8	8.9	11.2	...	0.8	...	0.6	0.9	1.3	0.5
of which: RCF-1 Initial Disbursement	...	0.9	...	...	...	...	...	...	...	...
of which: RCF-1 Auction Gain	...	1.4	...	...	...	...	...	...	...	...
of which: RCF-2 Initial Disbursement	...	1.6	...	...	...	...	...	...	...	...
of which: RCF-2 Auction Gain	...	1.4	0.0	...	...	...	...	...	...	...
of which: RCF-FSW Disbursement	...	...	...	...	0.8	...	... ..	...	...	...
of which: new SDR		...	1.9	0.0	...	...	...	...	...	...
Amortization	-12.7	-4.7	-9.2	-3.4	-2.6	-1.6	-4.7	-8.0	-5.8	-1.7
TFA Overpayment	0.0	0.0	-4.1	0.0	-5.1	0.0	-5.2	0.0	0.0	0.0
Memorandum items:										
Non-oil Primary Fiscal Balance[4]	-19.4	-20.2	-27.5	...	-17.1	...	-16.9	-15.2	-14.0	-12.7
Oil production (millions of barrels)	62.1	64.1	54.5	...	50.9	...	42.4	55.5	57.5	59.2
Nominal GDP (bn of South Sudanese pounds)	788.7	1,015.8	3,078.5	...	5,322.6		8,294.8	16,409.3	18761.2	21725.0

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

[1] The fiscal year runs from July to June.

[2] Transfer to Sudan is the sum of TFA payment (financial transfer) and average transportation fee (average of 9.7 US$/barrel) from using the oil pipeline. TFA payments ended in Jan '22.

[3] Initial disbursement refers to the amount received directly by the authorities while Auction Gain refers to the proceeds of the auction in which disbursements were converted at the official exchange rate

[4] Non-oil revenue minus primary expenditure excluding transfers to Sudan, and tranfers to oil producing states and communities.

Table 3. Republic of South Sudan: Monetary Accounts, June 2018–June 2023

(In billions of South Sudanese pounds, unless otherwise indicated)

	2018 Jun	2019 Jun	2020 Jun	2021 Jun	2022 Jun	2023 Jun
	Actual					Prel.
Monetary Survey						
Net foreign assets	**-58.0**	**-69.2**	**-71.4**	**-199.3**	**-409.2**	**-980.1**
Claims on nonresidents	41.5	55.3	89.3	143.1	245.6	938.2
Central bank	7.6	5.0	21.2	52.8	95.8	470.9
Commercial banks	33.9	50.3	68.1	90.3	149.8	467.3
Liabilities to nonresidents	99.6	124.5	160.7	342.4	654.8	1918.3
Central bank	20.8	23.1	23.7	76.5	269.7	1101.4
Commercial banks	78.8	101.5	136.9	265.9	385.1	816.9
Net domestic assets	**147.0**	**182.8**	**231.2**	**466.7**	**803.2**	**1,799.8**
Net domestic credit	180.1	148.4	206.3	361.6	736.8	1818.2
Net claims on central government	174.6	139.4	194.1	342.0	702.7	1694.0
Claims on other sectors	5.5	9.0	12.2	19.6	34.1	124.2
Other items (net)	-33.1	34.4	24.9	105.1	66.4	-18.5
Broad money	**89.0**	**113.5**	**159.8**	**267.4**	**394.1**	**819.7**
Currency outside banks	27.1	36.9	59.5	74.3	96.1	183.2
Transferable deposits	50.3	65.7	87.4	165.0	260.3	542.3
o/w: in foreign currency	38.9	49.2	67.5	124.0	183.5	426.8
Other deposits	11.6	10.9	13.0	28.9	37.7	94.2
o/w: in foreign currency	4.2	3.4	3.6	13.4	15.2	46.8
Central Bank						
Net foreign assets	**-13.1**	**-18.1**	**-2.5**	**-23.6**	**-173.9**	**-630.5**
Claims on nonresidents	7.6	5.0	21.2	52.8	95.8	470.9
Liabilities to nonresidents	20.8	23.1	23.7	76.5	269.7	1101.4
Net domestic assets	**102.5**	**122.7**	**151.3**	**251.9**	**513.8**	**1,252.0**
Net domestic credit	88.4	35.3	78.7	110.8	330.3	858.4
Claims on commercial banks	1.2	2.8	2.0	1.7	2.1	2.6
Net claims on central government	87.2	32.5	76.7	108.8	327.3	854.1
Claims on central government	94.7	39.3	79.3	146.5	338.2	869.0
Liabilities to central government	7.5	6.8	2.6	37.6	10.9	14.9
Other items (net)	14.0	87.4	72.6	141.1	183.5	393.6
Monetary base	**89.3**	**104.6**	**148.8**	**228.3**	**339.9**	**621.5**
Currency in circulation	30.5	42.8	67.3	96.1	121.7	211.2
Liabilities to commercial banks	55.9	58.7	77.4	123.5	205.9	369.2
Liabilities to other sectors	3.0	3.1	4.2	8.7	12.4	41.1
Memorandum items:						
Money multiplier	1.0	1.1	1.1	1.2	1.2	1.3
Share of foreign currency deposits to total deposits	0.7	0.7	0.7	0.7	0.8	0.9
Monetary base (year-on-year change in percent)	29.0	17.1	42.3	53.4	48.9	82.8
Broad money (year-on-year change in percent)	63.5	27.6	40.8	67.3	47.4	108.0

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

Table 4. Republic of South Sudan: Balance of Payments, 2019/20–2026/27[1]

(In millions of U.S. dollars, unless otherwise indicated)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Prel.		Projections				
Current account balance	**-947**	**-230**	**-119**	**603**	**262**	**504**	**535**	**493**
Trade Balance	-733	-262	153	509	95	474	574	551
Exports of goods	3,089	3,611	4,745	4,534	3,430	4,313	4,254	4,248
Oil	3,061	3,583	4,717	4,500	3,376	4,229	4,146	4,122
Nonoil	28	28	28	34	54	84	108	126
Imports of goods	-3,822	-3,873	-4,592	-4,025	-3,335	-3,839	-3,680	-3,697
Balance of Services	-657	-656	-675	-657	-783	-1,031	-1,246	-1,358
Exports of services	34	34	34	34	34	34	34	34
Imports of services	-691	-690	-709	-691	-817	-1,065	-1,279	-1,392
o/w: oil-related	-438	-437	-470	-424	-420	-448	-481	-489
of which non-oil	-253	-253	-239	-266	-398	-617	-798	-902
Income	-558	-519	-937	-906	-786	-735	-679	-608
Wages of expatriate oil workers	-150	-162	-168	-168	-195	-221	-212	-203
Investors' profits	-351	-318	-650	-746	-598	-513	-511	-476
Investment income (net)	-82	-64	-142	-22	-41	-74	-40	-23
Current Transfers (net)	1,001	1,207	1,340	1,657	1,737	1,796	1,886	1,908
Grants	0	0	73	103	128	116	150	146
Workers' remittances (net)	79	79	75	82	121	189	249	281
Financial transfers to Sudan	-508	-233	-234	0	0	0	0	0
Other sectors (including NPISH)	1,290	1,361	1,444	1,473	1,488	1,491	1,488	1,480
Capital and financial account	**637**	**281**	**91**	**-415**	**-359**	**-451**	**-293**	**-27**
Capital account	0	0	0	0	0	0	0	0
Financial account	637	281	91	-415	-359	-451	-293	-27
Foreign direct investment[2]	-18	47	48	44	113	180	154	179
of which: non-oil	22	24	24	24	24	24	24	24
Other investment	655	234	43	-459	-472	-631	-447	-206
of which: Foreign borrowing (net)	672	234	144	-13	-250	-502	-329	-97
of which : New SDR allocation[3]	…	…	-150	…	…	…	…	…
of which : RCF-FSW	…	…	…	-113	…	…	…	…
Overall balance	**-310**	**51**	**-28**	**188**	**-97**	**53**	**242**	**465**
Errors and omissions	408	-17	56	-231	0	0	0	0
Financing	**-99**	**-34**	**-28**	**43**	**-136**	**-281**	**-275**	**-243**
Change in net foreign assets of the central bank	-99	-34	-28	43	-136	-281	-275	-243
of which : Change in gross reserves (Increase -)	-98	-34	-28	43	-136	-281	-275	-243
Financing gap	0	0	0	0	233	228	33	-223
Memorandum items:								
Current account balance including transfers (percent of GDP)	-19.3	-4.3	-1.6	8.3	4.3	7.1	7.3	6.4
Current account balance excluding transfers (percent of GDP)	-39.7	-27.0	-20.0	-14.5	-24.4	-18.2	-18.4	-18.3
South Sudan oil price (dollars per barrel; weighted average)	49.3	55.9	86.5	88.5	79.6	76.1	72.1	69.6
Gross foreign reserves (millions of US dollars)	130	164	192	149	284	566	841	1,083
In months of current year's imports of goods and services	0.3	0.4	0.5	0.4	0.7	1.4	2.0	2.4
Oil production (millions of barrels)	62.1	64.1	54.5	50.9	42.4	55.5	57.5	59.2
Nominal GDP (billions of U.S. dollars)	4.9	5.3	7.3	7.3	6.0	7.1	7.4	7.8

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

[1] The fiscal year runs from July to June.

[2] Net of outflows associated with the repatriation of oil investments (Capex cost oil).

[3] The full SDR allocation was SDR 235.8 million, approximately US$335 million, of which US$150 million was on-lent to the budget while US$185 million was used to strengthen reserves.

Table 5. Republic of South Sudan: Quantitative Targets Under the Program Monitoring with Board Involvement

	End-Nov 2022 Actual	End-Mar 2023 PMB Target	End-Mar 2023 Act.	End-Jun 2023 PMB Target	End-Jun 2023 Act.	End-Jun 2024 Proposed
Non-oil primary balance (floor: in billions of SSP)[1]	…	-830.0	-683.2	-996.0	-910.9	-1,358
Central bank net credit to the central government (ceiling: in billions of SSP)[2]	178.0	178.0	178.0	178.0	178.0	0.0
Contracting or guaranteeing of non-concessional debt by the central government (continuous ceiling: in millions of U.S. dollars)[3]	0.0	0.0	0.0	0.0	0.0	0.0
Average net international reserve (floor: in millions of U.S. dollars)[4]	97.5	141.5	208.2	151.5	183.7	100.0
Reserve money growth (ceiling: in percent)[5]	…	5.0	5.6	7.5	-2.2	2.5
Salary payments to central government workers (floor: in billions of SSP)[6]	…	106.7	114.1	142.3	166.1	75.8
Priority social spending (floor: in billions of SSP)[6, 7]	…	112.1	40.8	149.4	66.3	22.0

[1] For end-March and end-June 2023 the number is cumulative from June 30, 2022, and for end-June 2024 the number is cumulative from June 30, 2023.

[2] For end-March and end-June 2023 the number accommodates central bank net credit extended to the government in July and August 2022 and imposes no further central bank net credit to the government from September 2022 onwards. For end-June 2024 the number is cumulative from end-April 2024. If during the period May-June 2024 revenue fall below payments for salaries and social spending (on health, education and humanitarian assistance) as specified in the QTs for end-June 2024 on such spending in this table, the target for end-June 2024 would be adjusted upwards by the difference, up to SSP 55 billion.

[3] Subject to prior consultation with Fund staff, exceptions may apply for NCB that involves either (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) finances critical investment projects with a high social and economic return that are integral to the authorities' national development program, and for which concessional financing is not available.

[4] Targets are defined as the average stock of daily NIR balances during March and June 2023 and June 2024.

[5] For end-March and end-June 2023 the number is cumulative growth rate in reserve money (defined as currency in circulation, due to banks, and due to OFI) from September 30, 2022, adjusting for month-on-month exchange rate changes, and for end-June 2024 the number is the cumulative growth rate from end-April 2024. If during the period May-June 2024 revenue fall below budgeted amounts for salaries and social spending (on health, education, and social and humanitarian assistance) as specified in the QTs for end-June 2024 on such spending in this table, the target for end-June 2024 would be adjusted upwards by the difference, up to 15 percent.

[6] For end-March and end-June 20023 the number is cumulative from June 30, 2022, and for end-June 2024 the number is cumulative from April 30, 2024.

[7] The proposed floor on social spending is set at the proposed spending on education, health, and social and humanitarian sectors in the FY2022/23 budget

Table 6. Republic of South Sudan: Structural Targets Under the Program Monitoring with Board Involvement

Measures	Target Date[1]	Current Status/Rationale
1. MoFP to develop and adopt by end-March 2023, in consultation with Fund staff, an action plan to strengthen the institutional framework for debt issuance and management and formulate a debt management strategy. (IMF Country Report No. 2023/108 MEFP ¶18).	Mar-2023	Not met. Action plan adopted by MoFP in June 2023.
2. National Assembly to adopt amendments to the BoSS Act aimed at bringing the South Sudan legislation in line with international best practices for central banking legislation and governance (IMF Country Report No. 2023/108 MEFP ¶18).	May-2023	Not met. Amendments to the BoSS Act were adopted by Parliament in August 2023. The amendments allow the BoSS to issue sovereign guarantees consistent with the Transitional Constitution, but amendments specify that the issuance of such guarantees will be subject to relevant legislation on public finance.
3. BoSS to adopt an action plan to implement recommended action items on banking sector reform developed in August 2022 by BoSS staff with MCM (IMF Country Report No. 2023/108 MEFP ¶12).	Jun-2023	Met.
4. Publish all signed oil production sharing agreements with oil-extracting companies as well as quarterly reports on the oil sector (IMF Country Report No. 2023/108 MEFP ¶14).	Jun-2023	Not met. The publication of oil production sharing agreements is opposed by oil companies as a breach of contractual obligations. However, the details of the oil sharing agreements are available in the oil reports published in the Ministry of Petroleum website.
5. Completion and publication of an audit of the spending of the new RCF disbursement under the FSW (IMF Country Report No. 2023/108 LOI ¶5).	Sep-2023	Not met. The audit report was completed and published in March 2024.
6. Publish the audit of spending by the central government that was financed by the disbursement through the Food Shock Window of the Rapid Credit Facility;	Prior action	Met.
7. BoSS Board to adopt the BoSS financial statements for financial year 2021;	Prior action	Met.
8. Publish the budget execution reports for Q1 and Q2 of FY2023/24.	Prior action	Met.
9. Appoint an external auditor to perform BoSS audits for financial year 2022 and beyond (MEFP ¶4). Proposed.	Jun-2024	Strengthen BoSS safeguards.
10. Adopt a timebound action plan to clear all salary arrears (MEFP ¶4). Proposed.	Jun-2024	Strengthen fiscal discipline.
11. National Audit Chamber will finalize the external audit of the BoSS financial statements for FY2021 and the audit report will be published (MEFP ¶4). Proposed.		

[1] Target dates refer to end of the month unless otherwise stated.

Annex I. Food Insecurity in Republic of South Sudan[1]

A. Evolution of Food Insecurity

1. South Sudan has seen more than five consecutive years of severe food insecurity, which continues going into 2024 with an estimated 7.1 million people facing acute food insecurity. According to the most recent Integrated Food Security Phase Classification (IPC) exercise released in November 2023, approximately 7.1 million individuals will experience severe acute food insecurity at the Crisis level (IPC Phase 3) or higher during the April - July 2024 lean season projection period. Of those affected during the April - July 2024 lean season, 79,000 will be in Catastrophe (IPC 5) acute food insecurity, including 40,000 in Northern Bahr el Ghazal State, 11,000 in Jonglei State, and 28,000 newly arrived returnees from Sudan. About 2.3 million will face Emergency (IPC 4) acute food insecurity and the remaining 4.7 million individuals will be in Crisis (IPC 3) conditions.[2] More recently, spillover effects from the Sudan crisis on food prices, food availability, and insecurity have exacerbated the humanitarian needs of both the resident population and the 415,000 newly arrived returnees and refugees[3]. For more details on the Sudan crisis see Box 1.

2. During the July 2023–June 2024 time period, an estimated 1.65 million children under the age of five are estimated to have suffered from acute malnutrition, the highest level observed to date, surpassing levels seen during the conflict in 2013 and 2016.[4] This projection was generated collaboratively through the IPC AMN process, building from a convergence of evidence drawn from the county-level results of SMART surveys, and the Food Security and Nutrition Monitoring System (FSNMS). Out of these, approximately 480,000 children will require treatment for severe acute malnutrition (SAM), while another 1,170,000 children will need treatment for moderate acute malnutrition (MAM). The burden of acute malnutrition will be heavily concentrated in the five states of Jonglei, Northern *Bahr el Ghazal*, Upper Nile, Unity, and Warrap, which will account for about 72 percent of the total.[5]

3. Food insecurity situation has dramatically worsened in recent years, especially following the war and the back-to-back years of heavy flooding (Figure 1). The severity of the situation is evident from the classification of counties under the IPC AMN (Integrated Phase Classification—Acute Malnutrition) framework. During July - September 2023, 55.3 percent of the country's counties were classified as IPC AMN Phase 4 (Critical), 18.8 percent of counties in IPC AMN Phase 3 (Serious), 25.0 percent counties in IPC AMN Phase 2 (Alert), and 11.3 percent in IPC AMN

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[1] Contributors: Tara Muehlschlegel and William Nall from World Food Program.

[2] The Integrated Food Security Phase Classification. 6 November 2023. IPC South Sudan Acute Food Insecurity Malnutrition Sep2023 July2024 report. IPC. https://www.ipcinfo.org/ipc-country-analysis/details-map/en/c/1156667/?iso3=SSD.

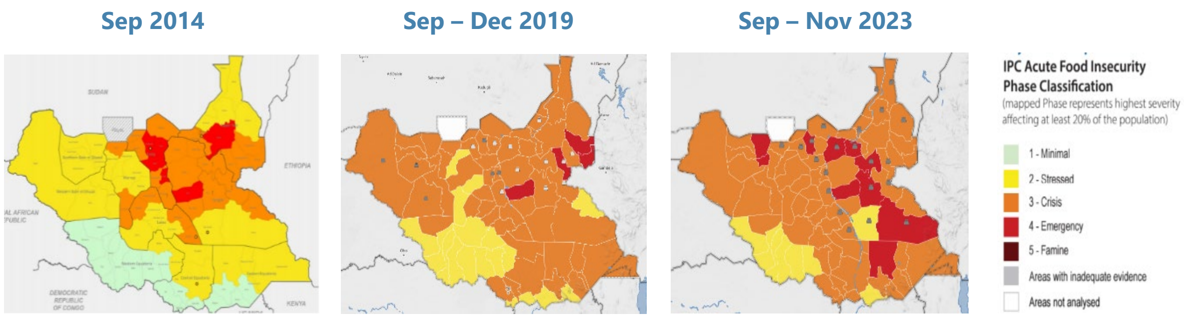
[3] RRC IOM UNHCR Population Movement from Sudan to South Sudan Dashboard. 1 December 2023. https://app.powerbi.com/view?r=eyJrIjoiZTMwNTljNWYtYmVhYi00ZGI2LTgwYzAtN2UyNDZmZTRlNjBkIiwidCI6IjE1ODgyNjJkLTIzZmItNDNiNC1iZDZlLWJjZTQ5YzhlNjE4NiIsImMiOjh9&pageName=ReportSection95859b8850a76994e6fb

[4] South Sudan Acute Food Insecurity and Malnutrition Analysis: IPC Acute Food Insecurity Analysis (July 2022) and SMART Surveys (July 2021–June 2022)", July 2022.

[5] World Food Programme. 30 March 2023. South Sudan Partner Briefing. WFP.

Phase 1 (Acceptable). During October 2023 to March 2024, while the situation is expected to improve in 77.5 percent of all counties, 93.8 percent of counties will likely remain within the same IPC AMN phase.

Figure 1. Republic of South Sudan: Acute Food Insecurity Phase Classifications, 2014-23



Source: [IPC South Sudan]

B. Climate Shocks and Food Insecurity

4. South Sudan is vulnerable to various climate shocks, including floods, droughts, and dry spells, which have intensified in recent years due to climate change. These climate shocks have had a significant impact on the country's food security, exacerbating an already fragile situation due to conflict and other humanitarian crises. The country has experienced a series of severe climate shocks in the past few years. For example, in 2019, heavy rainfall and flooding resulted in extensive damage to crops, livestock, and infrastructure, and displaced tens of thousands of people. In 2021, South Sudan experienced its worst floods in decades, with heavy rainfall affecting most parts of the country, leading to displacement and loss of livelihoods. Moreover, the flooding has exacerbated the situation by causing conflict in the Equatoria region of the country, where displaced herders were fighting with established farmers over land. The frequency and severity of climate shocks in South Sudan are expected to increase in the future due to climate change, which will further exacerbate food insecurity and other humanitarian crises in the country.[6]

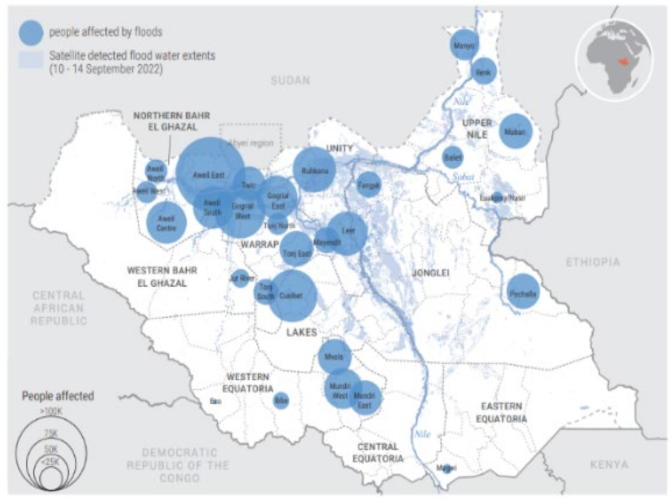
5. In 2022 approximately 900,000 individuals have been affected by floods across 29 counties in South Sudan, including the southern part of the Abyei Administrative Area (Figure 2). The most severely affected regions are Northern Bahr El Ghazal, Warrap, Unity, and Western Equatoria states. The floods caused significant damage, including the destruction of livestock and crops, washed away infrastructure such as roads and bridges, and demolished schools, and health facilities.[7] The floods resulted in outbreaks of cholera and malaria. These recurring floods, occurring just one year after even larger ones in 2021, underscore the persistent danger faced by a country lacking the necessary infrastructure to effectively respond to such crises.

[6] International Crisis Group. 17 April 2023. South Sudan. Crisis Group. Retrieved from https://southsudan.crisisgroup.org/.

[7] "South Sudan Flooding Snapshot 2 (October 11, 2022)." Humanitarian Response, United Nations Office for the Coordination of Humanitarian Affairs (OCHA), 11 October 2022, www.humanitarianresponse.info/en/operations/south-sudan/infographic/south-sudan-flooding-snapshot-2-october-11-2022.

6. Additionally, the flooded areas and heavy rainfall leave regions with engrained flooding from previous years. The floods of 2020 were so severe that they left some regions waterlogged even during the dry seasons that followed. As a result, the 2021 floods were exacerbated and made way for swift inundation during the rainy season. While the annual precipitation typically peaks in August, the floods in South Sudan's central regions typically reach their maximum extent in October. The water levels did not recede in early 2022 in many parts of South Sudan. Because the soil was already saturated, even a small amount of rainfall could cause catastrophic flooding. Unexpected rain between April and June, which was still months away from the annual flood peak displaced thousands.[8]

Figure 2. Republic of South Sudan: People Affected by Floods, 2022

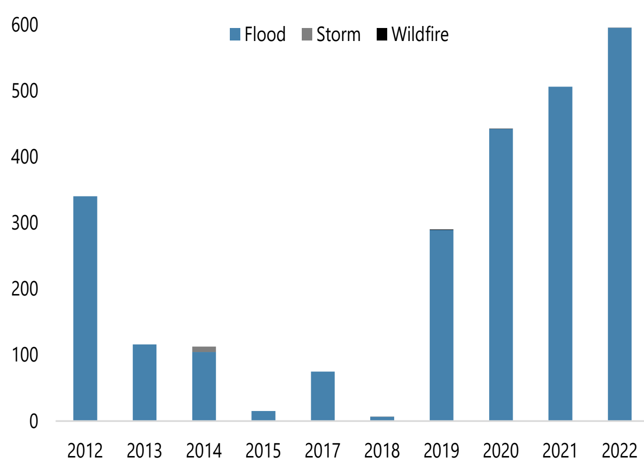


Source: UN OCHA.

7. Climate shocks in South Sudan compound the existing vulnerabilities, intensifying their adverse effects on the population and the economy. According to the Internal Displacement Monitoring Centre (IDMC), in 2022 almost 600,000 people have been internally displaced because of floods. This is an increase by 17.6 percent from the previous year and an increase of 691 percent in the past five years (Figure 3).

Figure 3. Republic of South Sudan: Internal Displacements Due to Natural Disasters, 2012–22

(New displacements, in thousands)



Source: IDMC

8. Looking ahead, South Sudan is projected to experience significant impacts from climate change in the long term, according to simulations conducted by UNDP Human Climate Horizons. Notably in the form of increasing temperatures, resulting in a substantial increase in the frequency of days with temperatures exceeding 35 degrees Celsius to 222 days per year on average (Figure 4).[9]

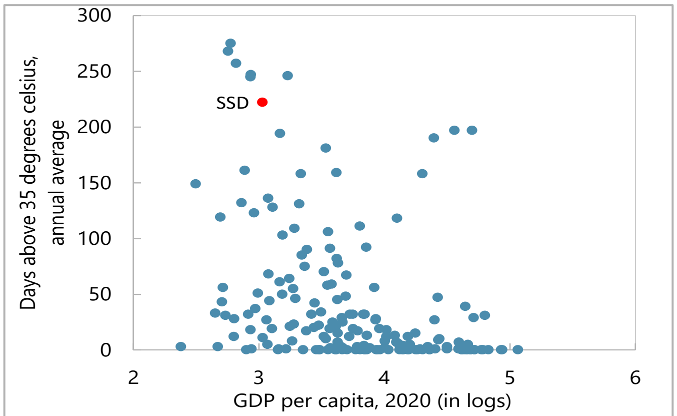
[8] International Crisis Group, 2022.

[9] UNDP Human Climate Horizons, 2023, https://horizons.hdr.undp.org/#/country/SSD

C. Addressing Food Insecurity in South Sudan

9. The World Food Program (WFP) has been expanding the use of cash transfers in its programs, with almost US$58 million transferred in 2021. This approach provides greater autonomy to recipients and enhances cost-efficiency by reducing the need for food transportation and storage. The WFP's school meal programs have also proved successful in fostering a healthy and productive learning environment for children, resulting in an increase in enrollment and attendance rates of up to an 80 percent. WFP aims to aid over 400,000 children through school meals and a special take-home ration until 2023. Additionally, WFP and UNICEF have been working together to intensify the nutrition response in South Sudan, providing treatment to malnourished children, pregnant women, and nursing mothers, with the aid of over 12,000 community nutrition volunteers across the region.

Figure 4. Republic of South Sudan: GDP Per Capita and Climate Change



Source: UNDP Human Climate Horizons
Note: Days above 35 degrees celsius in 2040-59, under a moderate emissions scenario.

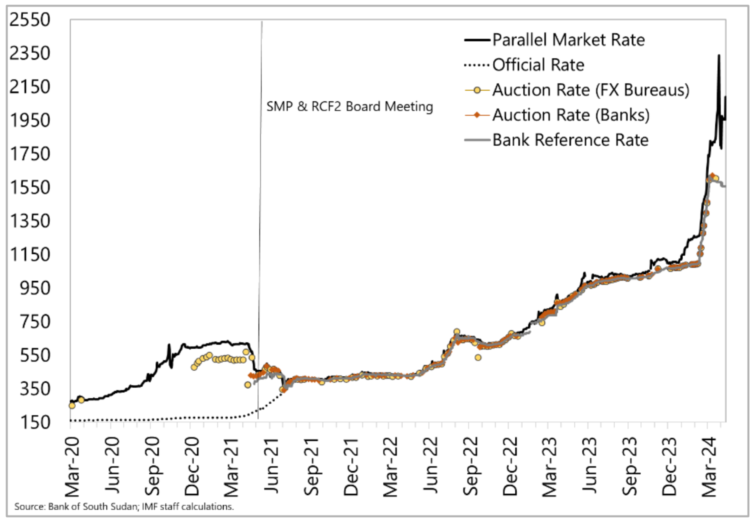
10. On January 1st, 2023, the WFP has initiated the implementation of its new three-year Country Strategic Plan (2023–25). This plan aims to expand upon the WFP's life-saving efforts by fostering pathways for resilience, development, and peace. The organization intends to combat entrenched inequities and isolation by promoting interconnected, peaceful communities. Over the next three years and beyond, the WFP will work towards achieving zero hunger goals while also contributing to climate resilience and peace initiatives. However, despite the WFP's efforts, the demand for humanitarian aid has continued to rise amidst numerous crises and limited resources, most recently due to the ongoing Sudan crisis and continued climate shocks. To address the most pressing needs, the WFP estimates it will require US$3.7 billion between January 2023 and December 2025.[10] Portions of the IMF's recent disbursement of the Food Shock Window have been channeled through the WFP and International Organization for Migration (IOM) by the authorities. The WFP resources will be used to support the WFP's school feeding program. A Memorandum of Understanding has not yet been signed with the authorities relating to the use of the funds going towards the IOM.

[10] World Food Programme. (2022). Country Strategic Plan for South Sudan (2023–25). Retrieved from: https://executiveboard.wfp.org/document_download/WFP-0000142938?_ga=2.128004620.1659485717.1697133057-401803399.1697133057

Annex II. Money Supply, the Exchange Rate, and Prices in Republic of South Sudan[1]

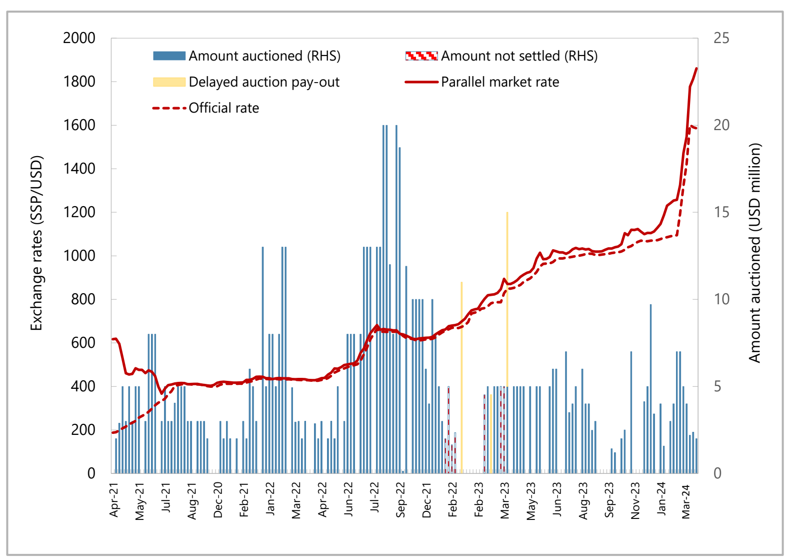
1. After a one-year period of stability following the successful unification of South Sudan's exchange rate in July 2021, the South Sudanese Pound (SSP) has experienced a sizeable depreciation over the past 12 months. The authorities committed to eliminating the gap between the official and parallel-market exchange rates, and to letting the official rate be market-determined, as a prior action to first Staff-Monitored Program (SMP) initiated in March 2021. At the time, the gap between the official and parallel exchange rates stood at over 250 percent, implying large rents for FX traders with access to U.S. dollars at the official rate. The Bank of South Sudan (BoSS) began adjusting the official rate from March 2021, achieving convergence of the two rates by July 2021, aided by an appreciation of the SSP in the parallel market (Figure 1). For the following 12 months, the unified exchange rate remained stable within a range of 400-450 SSP/USD, with regular FX auctions aiding price discovery in the market (Figure 2). However, the SSP has depreciated significantly since June 2022 following the second and third episode of monetary expansion discussed below, with parallel market rate reaching 2205 SSP/USD by mid-April 2024.

Figure 1. Republic of South Sudan's Official and Parallel-Market Exchange Rates since the FX Reform



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

Figure 2. Republic of South Sudan: FX Auctions and the Official and Parallel-Market Exchange Rates

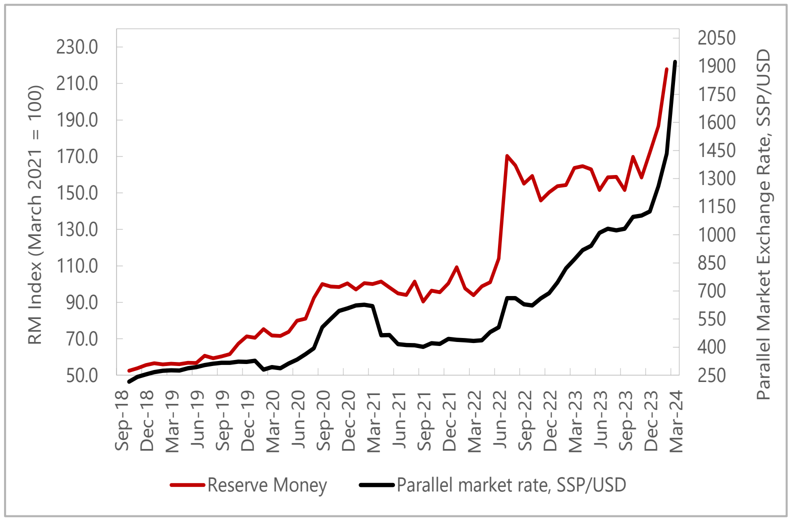


Sources: Bank of South Sudan, and IMF staff calculations.

[1] Prepared by Mr. Robert Zymek and Ms. Sunwoo Lee.

2. Periodic monetary financing has been a major contributor to the depreciation of the SSP since the formal end of South Sudan's civil war. Since the signing of the peace agreement in September 2018, South Sudan has enjoyed three periods of relatively steady money growth, interrupted by three episodes of rapid monetary expansion due to monetary financing of the deficit. This is reflected in the evolution of reserve money (Figure 3). Between September 2018 and July 2020, reserve money grew by about 2 percent per month, but it increased by 22 percent between July and September 2020—the first episode of monetary financing. Reserve money then remained virtually unchanged between September 2020 and May 2022, before expanding by 62 percent in the two months between May and July 2022—the second episode. It remained stable with small fluctuations until December when there was a third episode of monetary financing. The first two episodes, occurring at the turn of South Sudan's fiscal year, illustrate the continued fiscal dominance of monetary policy in South Sudan, with the BoSS required to finance fiscal operations due to revenue shortfalls and the resulting emergence of large arrears on public salaries. All three episodes were accompanied by significant depreciations of the SSP.

Figure 3. Republic of South Sudan: Reserve Money and the Exchange Rate



Sources: Bank of South Sudan, and IMF staff calculations. Episodes of monetary financing shaded in red. Reserve money is defined as currency in circulation and BoSS short-term liabilities to banks and other financial institutions at constant exchange rates.

3. Staff estimates suggest that a 1-percent increase in reserve money tends to trigger an approximately 1 percent depreciation of the SSP against the U.S. dollar in the parallel market on average. The estimated impact of a reserve-money expansion of the exchange rate is almost instantaneous: most of the long-term impact is realized within the same month, with the remainder manifesting in the following month (blue line in Figure 4a). However, given the relatively short data series available, and limited number of monetary episodes, such estimates come with large confidence bands (blue-shaded area in Figure 4a). This underscores the extent of uncertainty about the effect a potential future money shock will have on the exchange rate, with a significant probability that a 1-percent reserve-money expansion could trigger a depreciation in excess of 1 percent.

4. In turn, a 1 percent depreciation of the parallel-market SSP/USD exchange rate tends to pass-through into food and fuel prices in Juba one-for-one with a few months' lag. Staff estimates suggest that there is full pass-through of SSP depreciations into Juba food and fuel

Figure 4a. Republic of South Sudan: Impact of a 1-Percent Reserve-Money Shock on the SSP/USD Exchange Rate

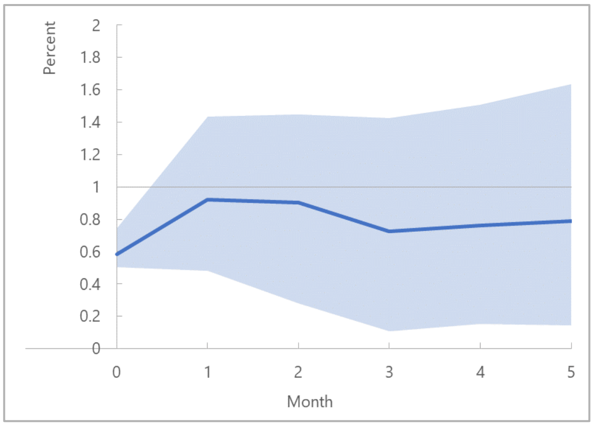
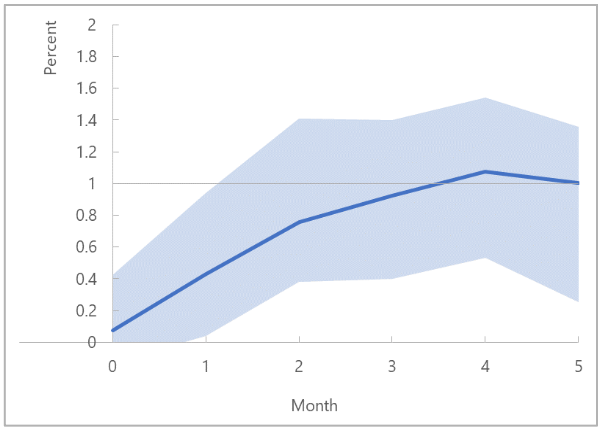


Figure 4b. Republic of South Sudan: Impact of a 1-Percent SSP/USD Depreciation on Juba Food and Fuel Prices



Sources: BoSS, South Sudan National Bureau of Statistics (NBS), World Food Programme (WFP), and IMF staff calculations. Solid lines show cumulative impulse responses estimated on monthly data for the period September 2018–February 2024 using local projections (Jordà, 2005), with the three post-2018 monetary expansions treated as exogenous shocks. Shaded areas represent 90-percent confidence intervals. The exchange rate is the SSP/USD exchange rate in the parallel market. Juba food and fuel prices are measured using WFP price data, aggregated employing NBS consumption weights. See Annex I Box 1 for technical details.

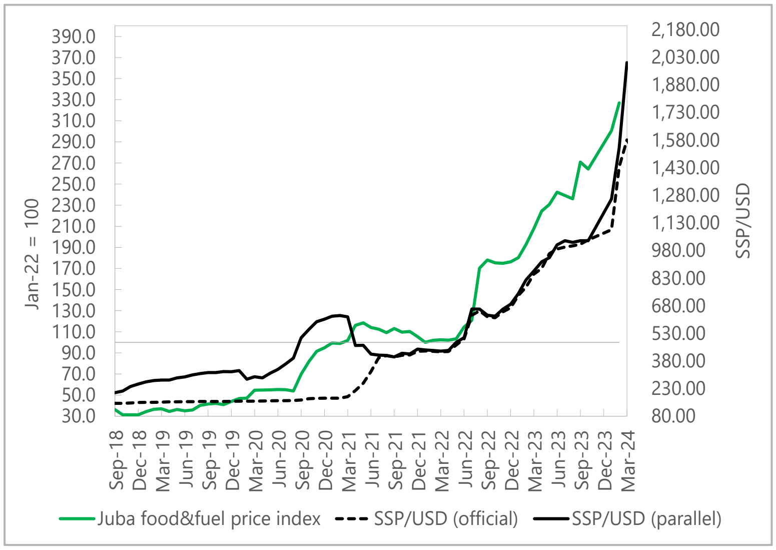
prices.[2] However, only a small portion of the effect occurs on impact, and it takes about a quarter for the long-run impact to be fully realized (Figure 4b). The magnitude of the effect and its gradual nature are consistent with South Sudan's heavy reliance on imported food and imported (processed) fuel and a plausible lag in the responsiveness of retail prices to rising import costs. The parallel-market exchange rate, on which these estimates are based, is the relevant gauge of the price impact of depreciations over the full period from September 2018 and February 2024. Since July 2021, the parallel and official exchange rates have tracked each other closely until a parallel market premium gap re-emerged in January 2024. Prior to the FX reform, while the official exchange rate was fixed at 162 SSP/USD, prices moved with the parallel rate (Figure 5).

5. **Economic theory suggests that exchange rates are driven by purchasing power parity (PPP) in the long run, which can provide a guide to the "long-run fair value" of the SSP and help assess the drivers of the recent depreciation**. After controlling for transportation and other transaction costs, the long-run equilibrium exchange rate between currencies should be such as to bring about purchasing power parity of currencies in different locations. Food prices across markets in South Sudan and Uganda between September 2018 and June 2023 were used to compute the hypothetical PPP SSP/USD exchange rate. Uganda shares a common border with South Sudan and the two countries have strong social and economic ties. The prices of food items, including beans,

[2] Juba food and fuel prices for the period September 2018-June 2023 are measured using WFP-collected prices aggregated into a food-and-fuel CPI index using the weights South Sudan's NBS employs to construct the official CPI. This staff-constructed index is highly correlated with the official food-and-fuel CPI during the period September 2018-June 2022. Since June 2022, there has been a marked deterioration in the quality of official inflation statistics due to resource shortfalls at NBS.

maize, maize meal, millet, sorghum, and oil, were aggregated using WFP's *minimum consumption basket* weights to construct a price of a comparable food basket in each country, after accounting for transportation costs (see Annex II, Box 1 for details). The PPP SSP/USD exchange rate was calculated as the rate at which the SSP price of South Sudan food basket equals the USD price of adjusted Ugandan food basket once expressed in the same currency. For robustness, an alternative measure of the fair value was calculated based on the estimated one-for-one co-movement between the reserve money and exchange rate. Reserve money growth was used to make exchange rate projections, assuming in line with earlier staff analysis (see IMF Country Report No. 21/246) that the exchange rate was at around fair value in April 2021.

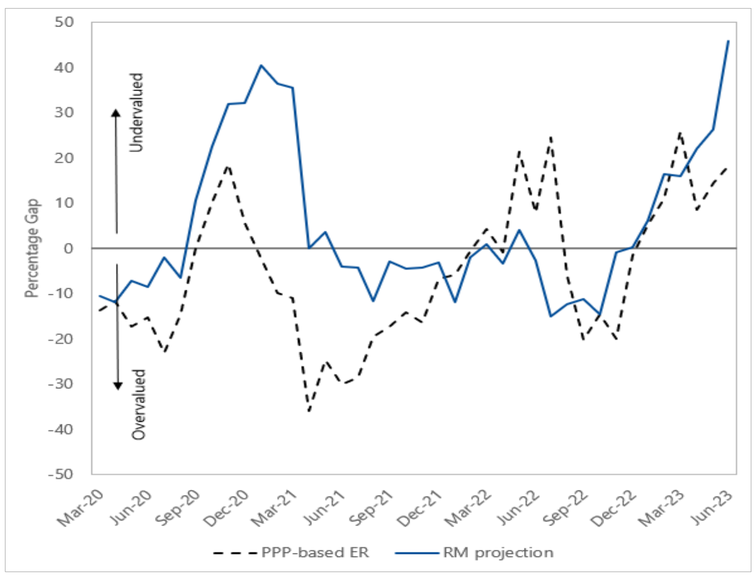
Figure 5. Republic of South Sudan: Juba Food and Fuel Prices and the Official and Parallel Exchange Rates



Sources: BoSS, South Sudan National Bureau of Statistics (NBS), World Food Programme (WFP), and IMF staff calculations. Juba food and fuel prices are measured using WFP price data, aggregated employing NBS consumption weights.

Figure 6. Republic of South Sudan: Gap Between Parallel Market Exchange Rate and Long Run Fair Value Measures

(in Percentage)



Sources: BoSS, IFS, World Food Programme (WFP), and IMF staff calculations. The percentage gap was calculated as the gap between the parallel market exchange rate and each estimated fair value measure as percentage of the estimated measure.

6. Such an analysis suggests that multi-month departures from "long-run fair value" are not uncommon for the SSP, possibly due to the confidence effects, and that the currency may be somewhat undervalued at present. Comparing the parallel-market SSP/USD exchange rate against the two long-run benchmarks suggest that there have been multi-month departures from long-run "fair value" in recent history (Figure 6). One explanation for this may be confidence effects:

in the short run, if market participants expect the local currency value to depreciate, with everything else constant, the demand for foreign currency will rise and the exchange rate will fall. Notably, the two long-run benchmarks both suggest that the SSP was undervalued in the months prior to the March 2021 FX reform, and both point to a possible confidence boost in the market immediately following the FX reform. Moreover, both measures suggest that the depreciation of recent months has left the SSP undervalued as of June 2023, although they disagree about the extent of the undervaluation. A possible undervaluation of the SSP could reflect low market confidence, due to the ongoing conflict in Sudan and an erratic pattern of FX auctions. November and December 2022 FX auctions were not settled, and auctions suspended for the following two months. There were further settlement delays in February and March 2023, with regular auctions only resuming from April 2023 at a volume of USD 5 million per week (Figure 2). This raises the prospect of appreciation if monetary conditions remain unchanged and market participants regain confidence in the management of the money supply and FX auctions by the BoSS.

7. The analysis highlights a number of policy messages.

- *A large residual fiscal gap can trigger monetary expansions at the end of the fiscal year in an environment characterized by fiscal dominance.* This underscores the importance of sound fiscal management, including realistic budget planning and good cash management, to safeguard monetary stability in a context of fiscal dominance.
- *Monetary stability is crucial to stabilize consumer prices.* Monetary expansion leads to inflation for key items in households' consumption basket via approximately one-for-one depreciation of the SSP and full pass-through of a depreciation into prices.
- *Fixing the value of the SSP does not insulate the economy from the effect of money on prices*. As South Sudan's pre-reform experience shows, in the presence of a fixed official exchange rate monetary expansion raises the premium between the official and parallel-market exchange rates and causes a depreciation of the parallel-market rate. In turn, prices respond to fluctuations in the latter rate, as most traders will be unable to access foreign currency at the official rate.
- *FX reform and steady money growth can restore market confidence, but this may take several months*. Monetary expansions, on the other hand, lower market participants' expectations and can result in undervaluation for extended periods of time. Following the large monetary expansion in the summer of 2022, the SSP/USD exchange rate remains about 20 percent above a long-run fair value implied by PPP as of end-June 2023.

Box 1. Republic of South Sudan: Local Projections and PPP Exchange Rate

The impulse-response functions shown in Figures 4a and 4b are estimated using local projections following Jordà (2015).[1] Specifically, to ascertain the impact of a shock to variable x_t in month t on variable y_{t+h} in month $t+h$ ($h \geq 0$), a regression of the following form is estimated:

$$\ln y_{t+h} = \alpha^h + \sum_{s=0}^{S} \beta_s^h \Delta \ln x_{t-s} + \sum_{s=1}^{S} \gamma_s^h \ln y_{t-s} + \sum_{s=0}^{S} \boldsymbol{\delta}_s^{h\prime} \boldsymbol{Z}_{t-s} + e_{t+h},$$

where $\boldsymbol{Z}_t$ is a vector of possible control variables, e_{t+h} is the error term, and $\hat{\beta}_0^h$ corresponds to the impact of the shock after h months. This approach is used to identify i) the impact of money shocks on the SSP/USD exchange rate, and ii) the impact of changes in the SSP/USD exchange rate on Juba food and fuel prices, up to a horizon of 5 months, $h \in \{0,1,2,3,4,5\}$. The analysis is performed on data covering the period September 2018 to February 2024. The reserve money expansions in August-September 2020, June-July 2022, and December 2023 are used as exogenous money shocks, with reserve money defined as under the terms of the ongoing PMB (see IMF Country Report No. 23/108, Appendix I.II). Juba food and fuel prices are measured using WFP data, aggregated into a basket price with the consumption weights used by South Sudan's NBS. A (lagged) measure of changes in global food and fuel prices is deployed as right-hand-side control variable. The estimation allows for up to three lags of the right-hand-side variables and imposes Newey-West standard errors.

The PPP exchange-rate benchmark is computed as the rate at which the SSP price of food basket in South Sudan equals the USD price of comparable food basket in Uganda. The food basket is constructed using the weights of the WFP's minimum consumption basket, which includes 15 kilograms (kg) of cereals, 1.5kg of pulse, and 0.9kg of cooking oil.[2] Retail prices of relevant food items, including maize, maize meal, millet, and sorghum, are aggregated using the Constant Elasticity of Substitution aggregator with equal weights to obtain price of cereals. When multiple types of each food item are available, as in the case of beans, the average price is used. Thirteen sample markets, which includes the markets in two capital cities, were selected based on data availability of relevant food items.[3]

To account for possible transportation cost differences, Ugandan prices are adjusted using commodity fixed effects estimated from the regression:

$$\ln \overline{p_{it}^S} = \delta_i + \ln \overline{p_{it}^U} + e_{it}$$

where $\overline{p_{it}^S}$ is the average USD price of good i at time t in South Sudan; $\overline{p_{it}^U}$ is the average USD price of good i at time t in Uganda; and δ_i is the commodity fixed effect of good i. The hypothetical price of good i imported to South Sudan from Uganda is then calculated as: $\hat{p}_{it}^S = e^{\hat{\delta}_i} p_{it}^U$. Once the hypothetical prices are obtained, the USD price of food basket is calculated using the prices and WFP weights. The PPP exchange-rate benchmark is calculated as the ratio between the hypothetical USD price and the actual SSP price of the food basket.

1/ Jordà, Ò., 2015. "Estimation and Inference of Impulse Responses by Local Projections," American Economic Review, 95, 1, pp. 161-182.

2/ The WFP basket also includes 0.15kg of salt, which is not included for this estimation due to data availability.

3/ The South Sudan sample includes prices from *KonyoKonyo (Juba), Jau, and Rumbek*. The Ugandan sample includes prices from *Owino (Kampala), Gulu, Iganga, Kaabong, Kapchorwa, Kotido, Lira, Makaratin, Masindi, Mbale, Mbarara, and Soroti*.

Annex III. Implementation of Recommendations from the IMF 2022 Article IV Consultation[1]

Recommendations	Status
Fiscal Policy	
Strengthen expenditure controls and cash management.	Ongoing. Bank accounts of central government ministries, departments, and agencies in USD have been closed and the funds deposited in SSP bank accounts; GoSS gradually rolling out electronic fund transfers for salary payments; an MoU on TSA arrangements signed in March 2023 between the BoSS and MoFP; cash plan being updated more regularly and used to inform budget releases.
Continue to improve revenue collection and spending efficiency.	Ongoing. Tax revenue collection as a share of GDP improved in FY2022/23 and is expected to improve further in FY2023/24, reflecting improvements in tax administration and suspension of non-statutory discretionary tax exemptions and adjustment of exchange rate used by customs. Expenditure is starting to be redirected towards social spending.
Review spending on the road infrastructure program.	Ongoing. Spending for roads reduced in the FY2023/24 to create room for salary increases and higher spending on health and education.
Strengthen the institutional framework for debt management.	Ongoing. An external debt stocktaking was completed by an external auditor and published in December 2022. Authorities currently receiving IMF TA towards strengthening the debt management framework.
Establish a fiscal anchor to guide fiscal policy.	Not met. Authorities have expressed commitment to continue implementing fiscal policies that are consistent with macroeconomic stability and debt sustainability.
Monetary Policy	
Improve BoSS's liquidity monitoring and forecasting capabilities.	Ongoing. BoSS coordinating with MoFP through the Liquidity Working Group and the Cash Management Committee.
Expand BoSS's monetary toolkit.	Met. BoSS introduced in October 2022 a new term deposit facility as an additional tool for monetary policy to complement FX auctions.
Financial Stability	
Address undercapitalized banks.	Ongoing. Licenses of 2 inactive domestic banks have already been revoked. The BoSS approved in June 2023 a time-bound strategy to review the licenses of banks that have ceased operations and to address undercapitalization in the domestic banking sector.
Governance	
Develop a plan for addressing recommendations in the audit report of the second RCF.	Met. The plan was approved by the MoFP in January 2023 and published on the MoFP website.
Publish all signed oil production sharing agreements between the government and commercial companies.	Not met. Publication is pending agreement with oil companies to ensure consistency with contractual obligations.
Implement the safeguards assessment recommendations	Ongoing. BoSS Board has adopted the audited FY2021 financial statements; the process of selecting an internationally reputable firm to audit the BoSS from FY2022 onwards is underway.

[1] Prepared by Mr. Masateru Okamoto.

Annex IV. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
Conjunctural Shocks and Scenarios			
Intensification of regional conflict. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	High. The conflict in Sudan could result in further damage to the oil pipeline to Port Sudan, negatively impacting South Sudan's export and fiscal revenues.	Build fiscal and international reserve buffers to cushion against potential balance of payment shock. Advance non-oil revenue reforms.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	High	High. Increased food and fuel prices and more inflationary pressure on the poor and vulnerable. On the positive side, higher global oil prices may strengthen the fiscal and external accounts.	Use windfall hydrocarbon earnings to rebuild macroeconomic buffers. Adopt temporary fiscal measures to protect food security for vulnerable population.
Social discontent. High inflation, real income loss, spillovers from conflicts (including migration), worsening inequality, and disputed elections cause social unrest and detrimental populist policies. This exacerbates imbalances, slows growth, and leads to policy uncertainty and market repricing.	Medium	High. Social unrest fueled by increasing prices and shortages of essentials, inadequate healthcare, and low food security	Improve budget execution with respect to social spending, and grow wages and social spending sustainably, in collaboration with development partners (where needed).

[1] Prepared by Mr. Masateru Okamoto.

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
Structural Risks			
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	High. Increased pressures on public expenditures during floods, droughts or famines would divert resources away from growth-enhancing spending and decrease growth. It would also lead to lower agricultural output, an increase in food inflation and negatively affect the poor and vulnerable groups.	Use targeted programs to help vulnerable groups. Reprioritize spending. Build buffer to cushion against next natural disaster. Guard against second-round effects on inflation.
Disorderly energy transition. A disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	Medium	High. Sharp decrease of exports and fiscal revenues resulting from disorderly shift to net-zero emissions and following decline in oil prices.	Implement reforms to improve competitiveness. Diversify exports as well as revenues. Build fiscal and international reserve buffers to help manage the transition.
Domestic Risks			
Political tension and the deterioration of security situation. [1]	Medium	High. Diversion of resources to deal with internal conflict and heightened levels of country risk, especially with first post-independence elections expected towards the end of 2024, could hamper the growth and lower oil production and lead to and insufficient investment, economic instability and increasing poverty.	Keep implementing the peace agreement and seek reconciliation between the political parties. Focus on economic stabilization, fair sharing of oil revenues, and overall good governance.
Delays in improving governance or capacity.	Medium-High	High. Diversion of resources from development and continued threat of social and political instability. Entrenched rent seeking behavior, pressures on current expenditures, and low quality of public investment.	Strengthen anti-corruption efforts, including by improving oil-sector transparency, focus on strengthening economic institutions, and foster improvements in the business environment.

[1] Overall, the political and security situation is stable but remains fragile.

Annex V. Fragility Trends in Republic of South Sudan: An AI-Augmented View[2]

1. **State fragility is a complex issue.** Fragile and conflict-affected states (FCS) are often characterized by problems with governance, capacity, and legitimacy, leading to tensions and violent conflict. Shared traits among these states include institutional and policy implementation limitations, a turbulent political backdrop, severe domestic resource constraints, and high vulnerability to shocks. Despite the absence of a universally agreed operational definition, most academic research considers states fragile when their limited institutional capability, political instability, and poor governance significantly impair their ability to provide security and basic public services to their population.

2. **State fragility arises from various internal and external factors.** Causes of fragility in the literature include but are not limited to weak governance, corruption, poverty, inequality, conflict and violence, international interventions, economic shocks, climate conditions, and erosion of social cohesion, among others. Poor institutions, political fragmentation, and inadequate national institutions contribute significantly to state fragility, as well as socioeconomic variables such as low Human Development Index (HDI), increased infant mortality, and lower schooling. Fragile states often face interconnected challenges that hinder long-term growth and are characterized by six defining qualities (Collier in Chami et al. 2021): lack of shared identity, illegitimate government, inability to perform basic functions, existential uncertainty, underdeveloped private sector and vulnerability to economic and political shocks. Various theories have been proposed to explain the conditions leading to fragility "traps". The states affected by the "fragility syndrome" (Collier, 2020) frequently exhibit divided societies with oppositional identities, making it challenging for different groups to collaborate for the common good. Instead, the state is often viewed as a resource to be exploited, perpetuating a cycle of poor governance, corruption, and instability.

3. **AI/ML techniques could offer some advantages over traditional methods.** Artificial intelligence and machine learning techniques such as various deep learning neural network architectures and support vector machines, if used and trained appropriately, could be more capable of detecting non-linear relationships, managing large and high-dimensional datasets, learning from data, avoiding overfitting, and handling noise and outliers. Due to the multi-dimensional and complex nature of fragility and its typically non-linear relationship with numerous socio-economic and environmental factors, AI/ML techniques can be very helpful for fragility analysis. Also, the dynamic nature of fragility data also could benefit from AI/ML techniques' ability to remember long-term patterns in large datasets, resulting in more reliable models. Our approach faces challenges with data quality and availability. We use imputation methods for missing data but recognize their limitations. Imputed data can lack the depth of expert judgment, crucial in contexts with limited or poor-quality data.

[2] Prepared by Mr. Tohid Atashbar. For technical details, see Atashbar, T. (2023). How Nations Become Fragile: An AI-Augmented Bird's-Eye View (with a Case Study of South Sudan).

4. Multiple methods could be used to assess fragility scores and trends. Utilizing multiple machine-learning methods, including scikit-learn for Kernel Principal Component Analysis and standard scaling, we performed fragility analysis for each year from 1979 to 2021 using OECD collected raw data to calculate dimensional and aggregate fragility scores for countries. We then employed an SVC (Support Vector Classifier) model with a Polynomial kernel to classify countries based on their fragility scores. To check for improvements, we repeated classification procedure using Recurrent Neural Networks (RNN). Finally, we trained a long-short-term memory network (LSTM) to estimate the impact of dimensions on fragility scores and predict future values. To effectively display the results, we built a Plotly Dash-based application that allowed for an interactive exploration and comparison of the data across dimensions, countries, and years.

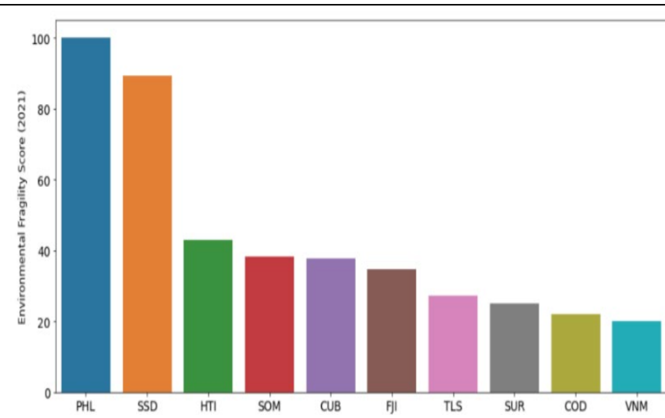
5. South Sudan has been among the most fragile nations in recent decade. The results from the ML-assisted analysis (in Table 1) shows that South Sudan, along with Somalia and the Central African Republic have experienced the highest levels of fragility in recent years.

6. Environmental challenges have greatly impacted South Sudan. As shown in Figure 1, South Sudan has been one of the most environmentally fragile countries in 2021 alongside the Philippines and Haiti. The country has faced historic flooding, which has affected two-thirds of its territory, emphasizing importance of environmental issues in understanding and tackling fragility.

Table 1. Republic of South Sudan: Most Fragile Countries in the World, 2010–21

Rank	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	HTI	PSE	SYR	CAF	SSD	CAF	SYR	SOM	SOM	SSD	SSD	SSD
2	SOM	SOM	SSD	SYR	CAF	SYR	SSD	CAF	CAF	CAF	SOM	CAF
3	COL	BTN	SOM	SOM	SYR	VUT	CAF	SSD	SYR	SOM	CAF	SOM
4	PSE	SSD	PSE	PSE	SOM	SSD	SOM	SYR	SSD	SYR	SYR	SYR
5	AFG	AFG	TCD	SSD	PSE	SOM	TCD	TCD	PSE	TCD	VUT	COD
6	CAF	SDN	CAF	SDN	TCD	YEM	PSE	CUB	AFG	NER	NER	TCD
7	PAK	ERI	SDN	TCD	SDN	TCD	NER	NER	TCD	COG	TCD	NER
8	CHL	JOR	AFG	JOR	IRQ	PSE	ERI	PSE	NER	PSE	HND	SDN
9	TCD	CAF	NER	PHL	ERI	NPL	AFG	COD	COD	MOZ	COD	PSE
10	ERI	IRQ	ERI	ERI	NER	ERI	CUB	ERI	SDN	SDN	SDN	YEM

Figure 1. Republic of South Sudan: Most Environmentally Fragile Countries in 2021



Source: Author's calculations based on OECD dataset.

7. Political fragility, along with human and security dimensions, are major contributors to South Sudan's overall fragility. Figure 2 illustrates that political fragility has consistently been a significant issue since the country's inception. Environmental challenges, such as floods and droughts, have periodically intensified the fragility, though their impact varies over time, as evidenced by the post-2020 levels being comparable to those in 2012. The human condition remains a persistent concern, consistently contributing to the nation's fragility. Economic fragility, however, shows signs of improvement since 2016–17. Moreover, Figure 3 highlights a strong correlation between the precarious security situation in South Sudan and its overall fragility, underscoring the interplay between these various dimensions.

Figure 2. Republic of South Sudan: Dimensional Fragility Over Time

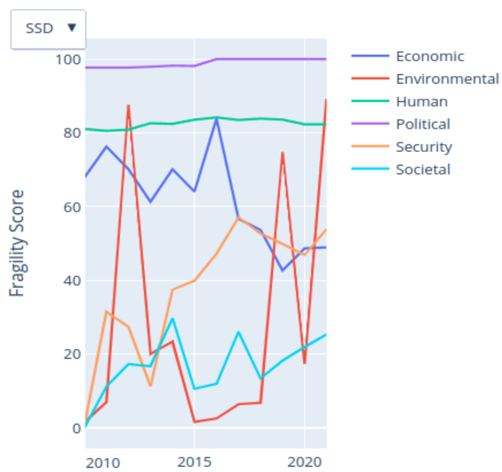
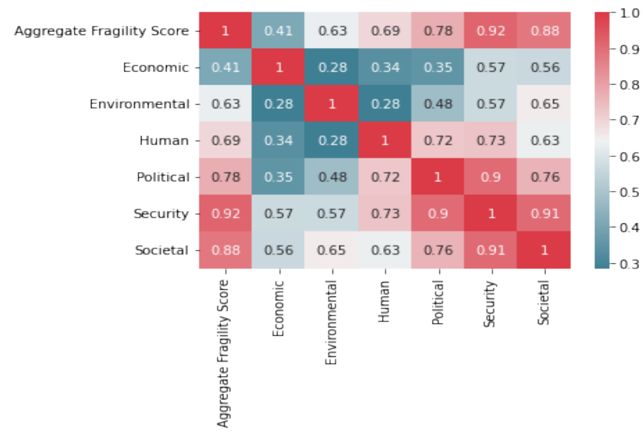
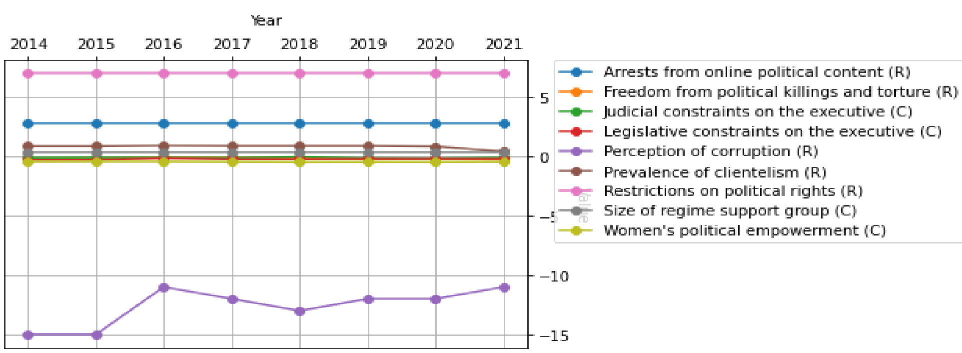


Figure 3. Republic of South Sudan: Heatmap of Correlation of Dimensional Fragilities in 2021



Source: Ibid.

Figure 4. Republic of South Sudan: Risk and Coping Political Fragility Sub-Indicators



Source: Ibid.

8. **Assessing the various aspects of political fragility in South Sudan reveals a concerning trend.** Apart from women's political empowerment, other sub-indicators of political fragility have remained at elevated levels in recent years, with no tangible improvements observed. This persistent high level of political fragility suggests that the country is struggling to establish a stable and inclusive political environment (as discussed in South Sudan CES, 2022), which in turn has far-reaching consequences for its overall fragility.

9. **The key to mitigate fragility of South Sudan is to address political and security issues.** This requires a sustainable governance strategy that addresses root causes of the conflicts as well as promoting inclusivity and dialogue among different groups. On the economic side, macroeconomic stability needs to be achieved through economic and public finance reforms as well as investments in infrastructure and improved agricultural techniques.

Annex VI. Domestic Revenue Mobilization in Republic of South Sudan[1]

1. **Increasing non-oil revenue will be key to create fiscal space and help maintain debt sustainability of South Sudan.** The government of South Sudan relies on oil revenue to cover more than 90 percent of its expenditure, which is prone to significant price and output risk. High volatility of oil prices, exchange rate, and oil production make it difficult for the government to have reliable revenue forecasts and execute the budget with consistency over the fiscal year. Moreover, the country's basic social spending needs are currently primarily covered by off-budget support from international donors. Diversifying the revenue source will be important in creating consistent fiscal space for necessary social and development spending needs without leading to debt sustainability risks.

2. **South Sudan's non-oil tax-to-GDP ratio remains the lowest in Sub-Saharan Africa (SSA), despite ongoing progress with reforms.** South Sudan's general government non-oil tax-to-GDP ratio was 4.1 percent in FY 2022/23, which was the lowest among 45 SSA countries (Figure 1). With the goal of raising the ratio to 6 percent by FY 2027/28, the National Revenue Authority (NRA) launched a five-year Strategic Plan for resource mobilization in 2022. Ongoing reforms include hiring of new NRA staff, construction of the NRA inhouse training center, implementation of e-tax and e-customs, and streamlining of customs duties and taxes exemptions. The NRA's non-oil revenue collection[2] has more than doubled in FY 2022/23 with progress in reforms. Despite the large growth, the country's revenue collection remains very low compared to neighboring countries. Even with the achievement of the NRA's 6 percent target, the country would stay very close to the bottom of the SSA country rankings.

3. **A measure of South Sudan's tax revenue potential can be obtained by comparing the actual level of revenue with the benchmark "tax frontier".** Stochastic tax frontier analysis estimates the tax effort of a country by comparing its tax-to-GDP ratio with the ratio of countries with similar characteristics. Higher *inefficiency* relative to the benchmark level implies lower tax effort in the model. The tax effort of South Sudan was estimated using a panel of 146 countries for the sample period between 2002 and 2020. A set of characteristics that are known to be associated with the level of tax revenue, including GDP per capita, share of agriculture in value-added to GDP, trade openness, income inequality, and public spending on education, were included in the model as independent variables.[3] The *Tax frontier* of each country was calculated using the estimated tax

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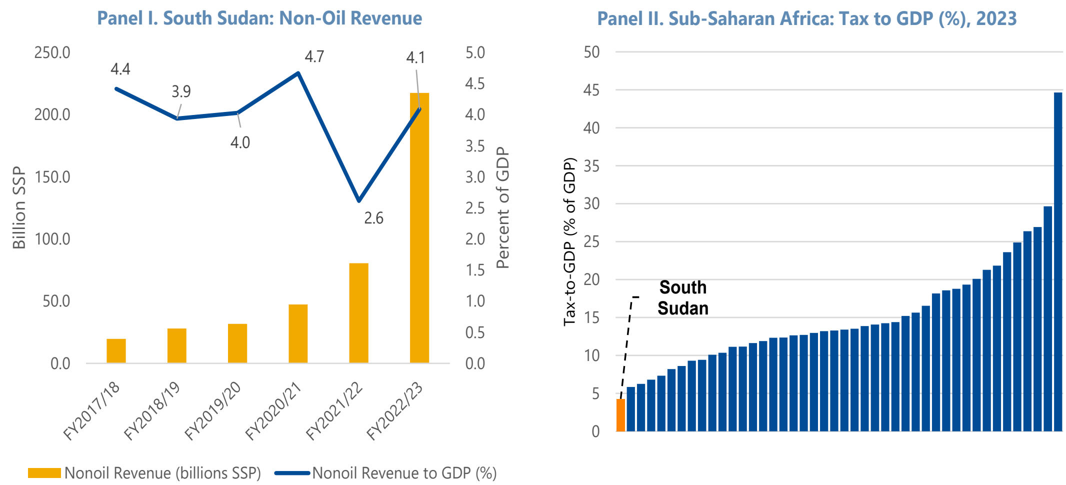
[1] Prepared by Ms. Sunwoo Lee.

[2] Non-oil revenue includes tax revenue, customs duty, and the revenue from fees and licenses.

[3] We follow the estimation approach in the April 2018 SSA Regional Economic Outlook "Domestic Revenue Mobilization in SSA: What Are the Possibilities?". Due to data availability and for consistency across countries, *'General Government Tax Revenue to GDP ratio'* as reported in WEO database was used for all sample countries as the dependent variable in the estimation. Tax frontier was estimated with the following equation: $y_{it} = \alpha_i + \beta' X_{it} + \theta_{it} - \mu_{it}$, where y_{it} is the log of tax revenue-to-GDP ratio for country i at period t, X_{it} is a vector of independent

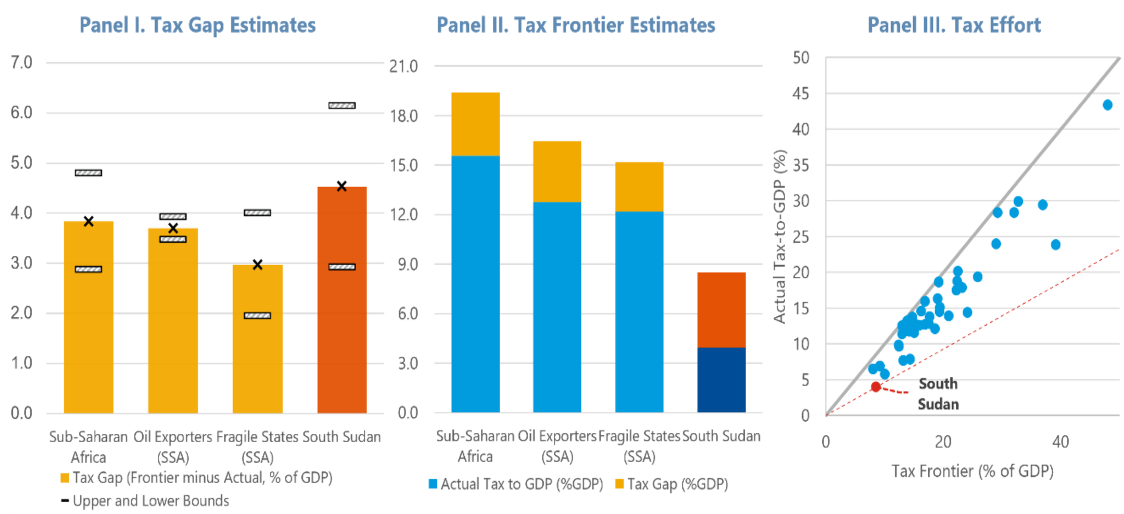
(continued…)

Figure 1. Republic of South Sudan: General Government Tax Revenue



Source: IMF WEO database; South Sudanese authorities

Figure 2. Republic of South Sudan: Tax Frontier Estimates



Source: South Sudanese Authorities; WEO live database; World Development Indicators, World Bank; and staff calculations.

Note: SSA = Sub-Saharan Africa. Estimations with three different country samples (world, emerging and developing economies, and SSA economies) were used to obtain the range for tax frontier. Point estimates report the average of different estimations. The upper and lower bounds are defined as two times the standard deviations of the estimations above and below the average.

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variables, μ_{it} is the inefficiency independent from the residual θ_{it}. Tax frontier is calculated as the actual tax-to-GDP ratio divided by the estimated tax effort $TE = \exp(-\mu_{it})$. μ_{it} and θ_{it} were assumed to follow truncated-normal and normal distribution with zero mean, respectively. For more information on the identification of μ_{it}, see Jondrow et al., 1981, "On the Estimation of Technical Inefficiency in the Stochastic Frontier Production Function Model", *Journal of Econometrics*, Volume 19, Issues 2–3.

effort and the actual tax-to-GDP ratio of the country. The gap between the actual tax-to-GDP ratio and the estimated tax frontier measures the tax gap (potential) that the country could achieve.

4. The tax frontier analysis suggests that South Sudan's tax gap ranges from 2.9 to 6.1 percent of GDP, with the average gap estimated at about 4.5 percent of GDP. The tax gap is larger than the SSA average, despite that lower actual tax-to-GDP ratio of the country tends to lower the level of estimated tax frontier. The calculated tax *frontier* in 2023 ranges from 6.9 to 10.1 percent of GDP, compared to the actual ratio projected at 4.0 percent.[4] South Sudan has the lowest tax effort (the ratio of actual tax-to-GDP ratio to tax frontier) in the SSA region, suggesting huge potential gains from improvement in tax administration and tax policy reforms (Panel III of Figure 2). The low tax effort can be partly due to the country's high oil dependence, which could encourage the substitution away from mobilizing non-resource tax revenue and discourage investment in tax institutions.[5] It is important to note that the estimate is sensitive to the group of sample countries and the frontier can increase over time with improvements in macroeconomic and institutional conditions. Reaching the SSA mean for the macroeconomic variables included in the model as independent variables, for instance, would further raise the country's tax frontier to about 12 percent of GDP with everything else fixed.

5. Stronger tax and customs administration and diversification of tax revenue sources would be required to better exploit the revenue potential:

Tax administration should be strengthened to enhance revenue collection. As part of the authorities' plan to modernize tax administration, new Integrated Tax Administration System was implemented in July 2021. However, the internal capacity of NRA remains weak, and the recruitment process is slow, delaying the final delivery of e-Tax and the integration of all revenue collection functions under the NRA. Compliance monitoring also needs to be strengthened with a dedicated unit.

Further progress in customs reforms is needed. Some progress has been made on customs reform but more needs to be done to meet government revenue collection targets. The implementation of e-Customs has been slow, further impeded by inadequate infrastructure and the weak IT environment. The NRA does not have complete oversight of all border posts and the customs exchange rate remains low compared to the official market exchange rate despite the recent adjustment. Moreover, the amount of exemptions remains large relative to the total collections, thereby considerably eroding the tax base. Some progress has been made in this area with the Ministry of Finance and Planning suspending non-statutory discretionary exemptions in May 2023 and directing the drafting of comprehensive exemption regulations to further streamline the exemptions.

Corporate Income Tax (CIT) collection could be improved. The country's tax revenue is currently primarily reliant on Personal Income Tax (PIT) revenues (Panel III of Figure 3). South Sudan's CIT revenue to GDP ratio remains extremely low even though the tax rate is comparable to SSA average,

[4] The range was obtained through estimating a variation of regressions using different country sample groups (global, emerging market developing economies, and Sub-Saharan Africa).

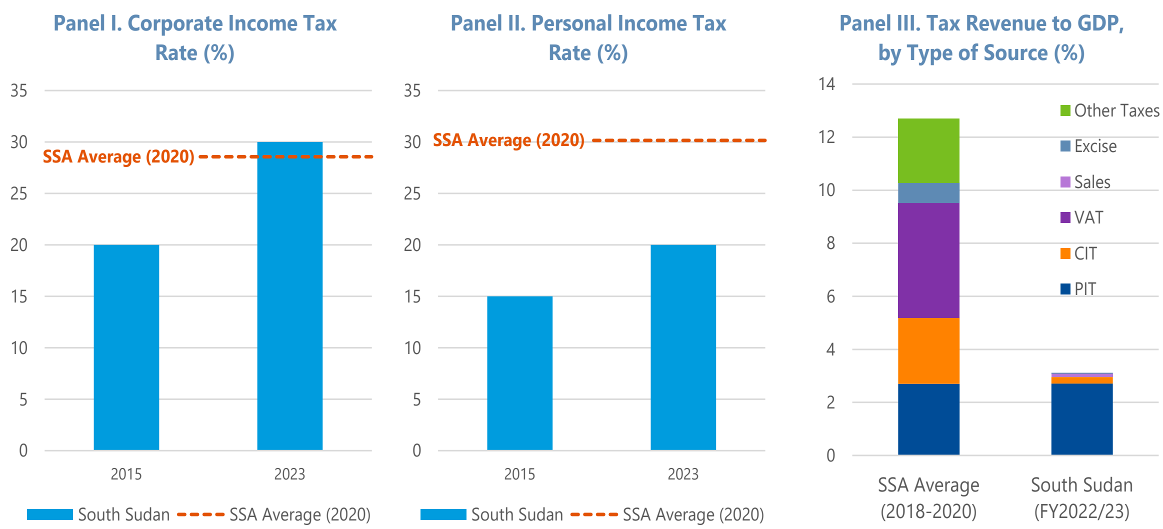
[5] Benitez et al., 2023, "Building Tax Capacity in Developing Countries", *IMF Staff Discussion Notes*, SDN/2023/006.

potentially due to weak tax compliance and limited business growth.[6] Strengthening of tax compliance monitoring and improvement of regulatory environment for businesses would enhance another source of direct tax revenue.

There is additional scope of revenue from the introduction of Value-Added Taxes (VAT), but the tax should be introduced with caution. VAT is considered an effective revenue booster that broadens the tax base, although it requires strong capacity for effective implementation. VAT yields on average amounts to about 4 percent of GDP in the SSA region and comprises about 30 percent of total revenue collected (Panel III of Figure 3). To minimize potential distortions and the impact on poorest population, carefully targeted exemptions would be required. Ongoing efforts to strengthen capacity in the NRA would also be needed to boost yields.

Figure 3. Republic of South Sudan: Tax Rates and Revenue in Republic of South Sudan

(by type of tax)



Source: IMF Fiscal Affairs Tax Revenues database; ISORA; KPMG; South Sudanese Authorities; and staff calculations.

Note: SSA = Sub-Saharan Africa; SSD = South Sudan; SSC = Social Security Contributions. Tax rates report the rates applied to the highest income bracket. 25, 18, and 35 SSA countries were included in Panel I, II, and III, respectively, for the calculation of SSA average due to data availability.

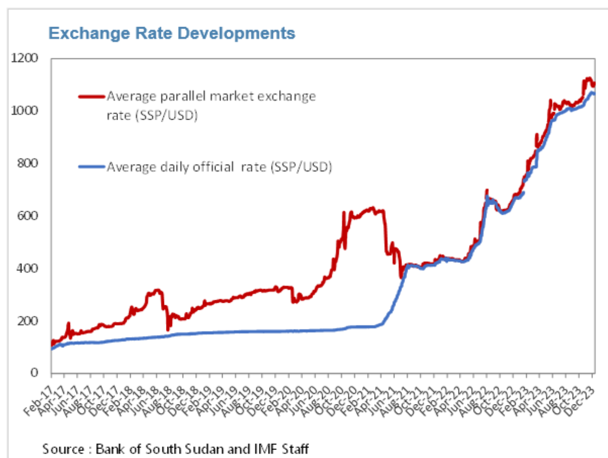
[6] South Sudan ranked 185 out of 190 in World Bank's 'Ease of Doing Business' in 2019.

Annex VII. External Sector Assessment[1]

Based on data as of October 2023, the external position of South Sudan is assessed to be weaker than implied by fundamentals and desirable policies. In the absence of standard tools, this conclusion reflects very low level of reserve adequacy coupled with South Sudan's political fragility and heavy reliance on oil export proceeds that have been very volatile in the recent past and South Sudan's political fragility. Achieving external stability requires sustaining macroeconomic stabilization through continued fiscal and monetary prudence, lasting peace, and good governance.

1. The significant structural changes in recent years, broad-based fragility and weak statistical infrastructure complicate the use of standard tools for the external sector assessment in the case of South Sudan. Given insufficient data and uncertainty about structural and policy variables, neither the External Balance Assessment (EBA) nor EBA-lite is applicable to South Sudan. In the following, the external assessment is based on a more descriptive analysis.

2. The FX reforms introduced under the SMP achieved convergence of the exchange rates, eliminating the previously large distortions in the FX market. The reform liberalized the FX market and eliminated the large distortions from a significant exchange rate premium in the parallel market relative to the official rate. Supported by two disbursements under the Rapid Credit Facility and higher global oil prices, the macroeconomic stabilization and FX market reforms contributed to an appreciation of the market rate.



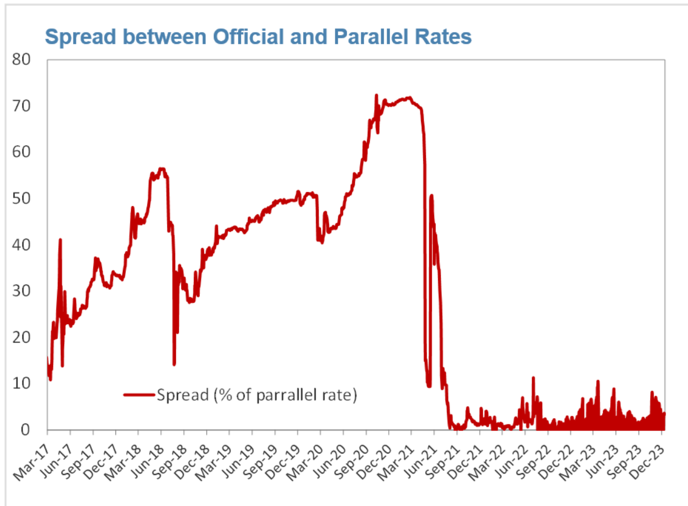
3. The FX reforms adopted a multi-pronged approach to liberalizing the foreign exchange market. The reforms started with the introduction of weekly FX auctions to FX bureaus in December 2020 and were deepened further in April 2021 through a number of additional measures that included (i) opening the FX auctions to banks; (ii) allowing commercial banks to buy and sell FX at market rates; and (iii) adjusting the official exchange rate gradually (1 percent each trading day) until it converged with the parallel market rate. These reforms led to convergence of the different exchange rates in the market in mid-August 2021. Following such convergence, the official exchange rate was discontinued and replaced with a reference rate based on rates prevailing in the market.

4. The spread between the official and parallel rates substantially decreased after the reforms. The FX reforms, combined with monetary discipline and an oil price recovery that has boosted FX liquidity, have led to a significant appreciation of the exchange rate in the parallel market. The spread between the official and parallel market rates has averaged about 2.3 percent

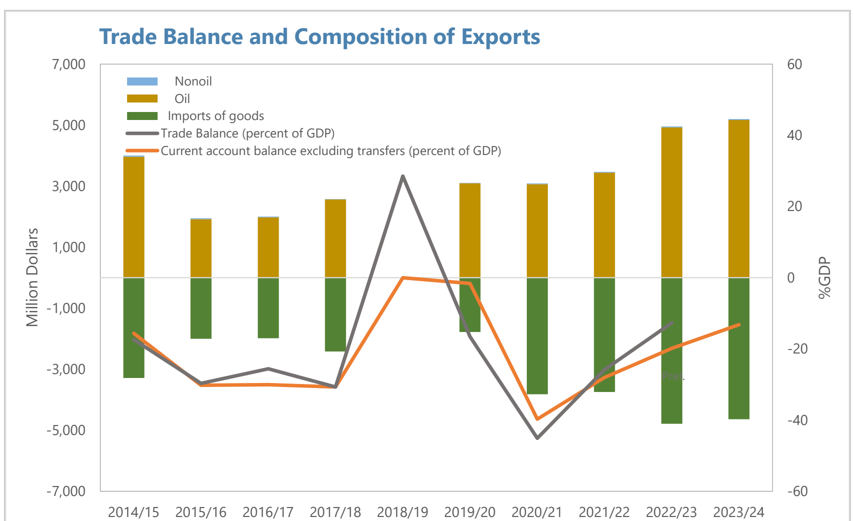
[1] Prepared by Mr. Tohid Atashbar.

since August 2021 when the exchange rates in the market were effectively unified until October 2023.

5. The exchange rate has depreciated significantly since mid-2022 and staff analysis suggests that the SSP is somewhat undervalued at present. The exchange rate depreciated for most of FY2022/23. While to a large extent this is attributed to last year's monetary expansion, other factors have contributed to the observed depreciation. These include a weakening oil price in early 2023 and confidence effects due to a pause in FX auctions by the BoSS in late-2022/early-2023, aimed at rationing reserves before the FSW disbursement, both of which played a significant role. Although there was a brief appreciation following the FSW disbursement, it was temporarily reversed in April due to the outbreak of conflict in Sudan. However, since June 2023, the exchange rate has shown signs of stabilization, buoyed by higher oil prices and the continued tight monetary policy stance of the BoSS. As discussed in Annex II, the SSP may be somewhat undervalued at present. This is based on two different approaches that are used as a guide to "long-run fair value" (i.e., a purchasing power parity approach and the estimated co-movement between reserve money and the exchange rate).

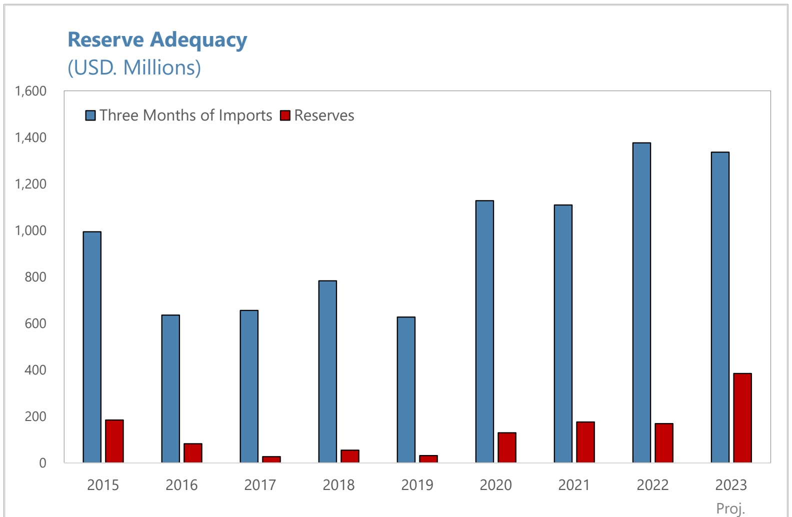


6. South Sudan is a heavily oil-dependent country, with oil exports accounting for about 99 percent of total exports of goods. The recovery of oil prices and the SDR allocation nearly closed the BOP gap in FY2021/22 and FY 2022/23. However, sizable BOP financing gaps are estimated for the current year and over the medium term. Measures of about 5.7 percent of GDP will be needed to close the financing gap in FY2023/24. Financing gaps averaging 44.2 percent of GDP over the horizon of the next 3-4 years will leave South Sudan vulnerable to shocks and large unmet financing needs to support the country's objectives for economic convergence and inclusive growth.



Source: South Sudan Authorities and IMF Staff calculations.

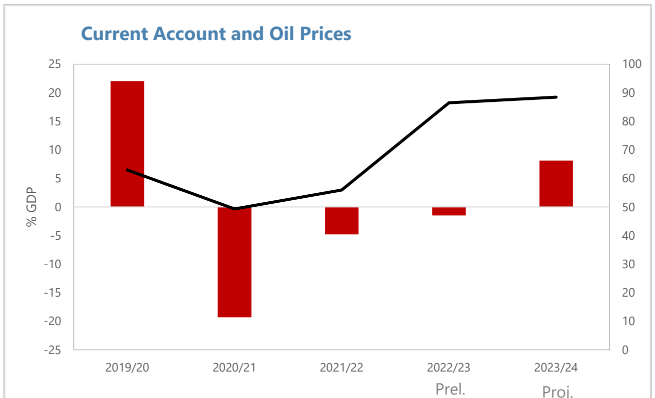
7. Low levels of foreign reserves reflect external disequilibrium. South Sudan's foreign exchange reserves have increased over the last two years after a steady decline since the outset of the civil conflict in 2013. The August 2021 SDR allocation and the uptrend in oil prices due to geopolitical uncertainties have contributed to the accumulation of reserves. Nonetheless, the level of gross international reserves at October-2023—at US$ 384 million, or 0.9 in months of imports—is inadequate by any measure. Given the country's high dependence on oil exports and reliance on imports for most basic goods for domestic consumption, South Sudan needs substantial foreign exchange buffers. In this context, the "rule of thumb" of three months of imports would likely be suboptimal. In the medium and long term, a level of reserves closer to the average of LIC oil exporters (4 months of imports cover) would be preferable.



Source: South Sudan Authorities and IMF Staff calculations.

8. Fiscal and monetary discipline and strengthening the balance of payments are important to stabilize South Sudan's external position. While the standard tools for the external sector assessment are not applicable to the case of South Sudan, the analysis on the exchange rate and the reserve adequacy shows South Sudan's external disequilibrium. In the short term, continuing fiscal discipline, refraining from central bank financing, and allowing for greater exchange rate flexibility are essential. Permitting gradual depreciation of the SSP in line with the reserve money growth target, in combination with a well-calibrated fiscal rule, could allow BoSS dollar reserves to grow over time. Over the medium term, diversification away from dependence on oil will be key for external stability and achieving sustainable economic growth.

9. The ongoing conflict in Sudan poses a sizable risk to South Sudan's external sector. Although the oil pipeline to Port Sudan is still operational, the ongoing strife in Sudan has already elevated insurance and freight costs for South Sudan's oil exports. If tensions escalate, these expenses could climb even higher and/or potentially disrupt oil shipments. The rise in global oil prices has offset some of these added expenses, helping to maintain the net price of a barrel of South Sudanese oil.



Source: South Sudan Authorities and IMF Staff calculations.

10. In conclusion, despite South Sudan's reliance on oil exports and higher oil prices, which should theoretically strengthen its position, the external sector outlook for the country is weaker than anticipated based solely on these factors. This assessment stems from factors unique to South Sudan as compared to other oil-exporting economies. In addition to the very low level of reserves discussed above, key among these is the country's political fragility, which, unlike in more stable oil-exporting countries, creates a heightened risk of disruption in oil production and exportation, in addition to the higher security-related expenditures. Additionally, South Sudan's economic challenges are compounded by its underdeveloped infrastructure and lack of economic diversification, making it more susceptible to external shocks. These elements, combined with the ongoing war in Sudan that could potentially lead to disruptions in South Sudan's oil exports, place South Sudan in a more precarious economic position than its oil-exporting peers, thereby justifying a 'weaker than' assessment.

Annex VIII. Capacity Development Strategy[1]

A. Context

1. Capacity development (CD) activities in South Sudan increased significantly under the first Staff Monitored Program (SMP). South Sudan formally joined AFRITAC East in May 2020. Since then, AFRITAC East has provided additional technical assistance and CD assessments. Technical Assistance (TA) missions have taken place in several areas including monetary policy operationalization, liquidity management, financial sector supervision, banking resolution, Public Financial Management (PFM), government finance statistics, CPI statistics, and macro-fiscal analysis. The framework provided by the SMP also allowed for some institution-building through program targets that may improve CD traction going forward.

2. TA traction has improved significantly relative to the pre-SMP experience. Nevertheless, low capacity suggests that the best course of action in the near term continues to be for streamlined and sequential technical assistance that is focused on the most critical needs, and delivered in small increments, allowing the authorities to implement recommendations step by step, while demonstrating continuous progress. Further effort in implementing recommendations from past TA would help support future requests and ensure technical advice is usefully supporting the authorities' reform program.

3. The authorities have expressed a strong preference for longer-term, in-person TA. Experience under the SMP suggests that in-person TA, delivered through a longer-term program of hands-on activities, has delivered the most tangible benefits. The authorities have expressed a strong preference for this approach. In response, the IMF has resumed its in-person CD missions following the end of pandemic restrictions. A long-term resident Public Financial Management (PFM) advisor was installed in July 2023 to assist the authorities in strengthening budget execution. The BoSS has requested a similar arrangement to assist on key high-level reforms such as possible currency re-denomination, re-introduction of T-Bills, and liquidity forecasting.

4. Addressing South Sudan's status of being under Increased FATF Monitoring (Grey List) for AML/CFT risks requires CD support. To address these risks, the authorities committed to implementing reforms as part of the action plan developed in June 2021. South Sudan has also been approved as a member to the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG) and has committed to undertake a Mutual Evaluation by ESAAMLG. Such progress needs to be complemented with CD support and the authorities have received scoping TA to assist with drafting the necessary new legislation in this area.

[1] Prepared by Mr. Masateru Okamoto.

B. CD Priorities

5. The authorities have expressed interest in several capacity development topics related to the implementation of Chapter IV in the R-ARCSS, which remains a roadmap following the extension of the agreement, as well as their action plan on AML/CFT.

- The reform program on public financial management is fully owned by the government who developed a concept note for its PFM reform in which 13 reform areas are prioritized (Annex Box). The authorities have requested and received assistance in PFM issues including the implementation of a Treasury Single Account (TSA), cash management, and arears management. Progress of reform in these areas remains ongoing and will likely require additional support through follow-ups and additional TA.

Text Table: Republic of South Sudan: Current PFM Reform Priorities

1. Implement a TSA
2. Strengthen cash management
3. Relocate Loans Committee to MoFP
4. Review, verify and clear all arrears
5. Review and verify loans and contracts collateralized or guaranteed against crude oil
6. Strengthen the Anti-Corruption Commission (ACC) and the Audit Chamber (external auditor)
7. Establish a Public Procurement and Asset Disposal Authority (PPADA)
8. Rollout electronic payroll using biometric system
9. Strengthen Fiscal and Financial Allocation Monitoring Commission (FFAMC)
10. Strengthen macro-fiscal framework (Not in R-ARCSS)
11. Strengthen the budget process and budget credibility (Not in the R-ARCSS)
12. Revenue management (Not in R-ARCSS)
13. Cross-cutting: Instructional Reforms & Legislative Reviews (Not in R-ARCSS)

- TA support for civil service reform, in terms of wage, structure, and size of public employment is recommended to guarantee adequate resource allocation to social spending in education and health sectors.
- Further TA support for the central bank is needed to carry forward the reforms envisaged under the ongoing Staff Monitored Program with Board Involvement (PMB). This includes several topics in monetary policy, FX management, and banking supervision. The authorities received TA support on developing a crisis resolution framework and addressing the issue of undercapitalized banks in August 2022, and on currency operations to assist progress towards the implementation of the IMF Safeguards Assessment recommendations in March and August 2023. In addition, the authorities have expressed interest in the continued

support for the areas of monetary policy and FX management. They also identified other topics including assistance in compilation of statistics.

- In the area of AML/CFT, the objective is to bring the AML/CFT legal and institutional framework into compliance with international standards thereby allowing South Sudan to exit the gray listing of FATF. This will require significant effort on many fronts (e.g., development of a National Risk Assessment, risk based supervisory regimes and a system for the collection of beneficial ownership information). The authorities have received TA to identify gaps and drafting the needed AML/CFT legislation.
- Support in debt management is underway as an integral part of the reforms planned under the PMB. A scoping mission has recently been provided to assess gaps in debt management practices and will be followed by sequenced joint FAD-MCM missions to build the institutional framework for debt management and a medium-term debt strategy. TA to strengthen core functions of domestic tax and customs was also provided to the National Revenue Authority (NRA) in 2022 and 2023.
- TA has recently been provided on government finance statistics and public sector debt statistics to assist authorities to compile these statistics in a manner aligned with GFSM 2014 and to expand the institutional coverage of these statistics.
- Priority topics for CD growth are debt management, crisis resolution, public investment management, and wage structure, with assistance on CPI, national accounts, and external sector statistics to be provided subject to absorption capacity.

Priority CD Topics		
Priorities	**Objectives**	**Challenges**
Public Financial Management	Support the authorities' PFM reform strategy, implement a treasury single account, improve cash management, improve debt management, enhance budget preparation and implementation, and strengthen the macro-fiscal framework.	Absorptive and implementation capacity is very low. While the newly appointed FAD Resident Advisor will work with the MoFP to address the capacity constraints at the technical level, buy-in from top management would be key for timely implementation of CD recommendations.
Revenue Administration	Improve petroleum revenue management, as well as non-oil revenue.	The institutional, absorptive and implementation capacities are very low. The reforms underway at the national revenue authority have resulted in a significant increase in non-oil revenue but additional reforms are needed. While the PFM oversight committee has helped, there is still weak coordination between the MoFP and the Ministry of Petroleum which complicates the management of oil revenues and oil advances.
Central Bank Operations	Improve monetary policy operations and FX management, liquidity management, currency operations, banking supervision and resolution, and debt management.	Implementation capacity is very low at the central bank, and TA is required for most central bank operations.
Statistics	Improve monetary and financial statistics, balance of payment statistics, debt statistics, CPI, and national statistics.	Absorptive and implementation capacity is very low. Ownership needs to be established.
AML/CFT	Review the existing law, prepare for joining international conventions, develop a legal framework on beneficial ownership.	The institutional, absorptive and implementation capacities are very low. Ownership needs to be established.

C. CD Risks and Modality

6. Limited absorptive and implementation capacity remains the key risk to the CD activities. Traction on CD has historically been low and, despite significant recent improvements, the implementation of TA recommendations has been very slow due to political constrains, weak governance, high staff turnover, limited institutional memory, and frequent changes of management in most recipient institutions. Post-pandemic, while virtual TAs has helped expedite the delivery and follow up of TA, weak IT capacity has posed a major challenge.

7. Fund engagement with authorities in CD activities has taken place through several channels. These include the Fund's local office in Juba, bilateral meetings in HQ and Juba, workshops in neighboring countries, as well as several virtual meetings during the COVID-19 pandemic. South Sudan's membership of AFRITAC East has opened opportunities to deliver CD and helped increase support with several TA activities executed through the AFRITAC East center.

8. Incremental TA delivery supports the authorities best. Low capacity suggests that the best course of action in the near term would be technical assistance focused on the most critical needs and priority topics, delivered in small increments, in person, and through a series of longer-term interactions, allowing the authorities to implement recommendations step by step, while demonstrating continuous progress.

D. Priorities by IMF Department

FAD	
Topics (ordered based on priority)	Objectives
Debt Management (joint with MCM)	Strengthen the debt management framework including by enhancing debt data recording, monitoring, reporting and disclosure. This is a high priority area.
Public Financial Management	Implementation of the PFM reform strategy concept note, TSA implementation, cash management, budget preparation and implementation, and development of the macro-fiscal framework.
Expenditure policy	Enhancing execution of the budget in line with plans and support fiscal discipline.
Revenue Administration	Improving petroleum revenue management; enhance non-oil revenue management through CD to the national revenue authority; automation of NRA business processes; change management.

MCM	
Topics (ordered based on priority)	Objectives
Debt Management (joint with FAD)	Developing a medium-term debt management strategy. This is a high priority area.
Crisis resolution	Addressing the prevalence of critically undercapitalized banks (CUBs) in the domestic banking sector, developing a crisis resolution framework, and strengthening central bank supervisory capabilities. This is a high priority area.
Liquidity forecasting and monitoring	Continuing hands-on training and follow up virtual sessions to achieve the objective of issuing daily liquidity reports.
Currency Operations	Developing a strategy to strengthen currency operations including purchasing, storage, processing, destruction activities.
Banking Supervision	Identifying regulatory gaps and implement Risk Based Supervision (RBS). Authorities requested TA on RBS.
Central bank operations	Enhancing monetary policy implementation and introducing monetary policy tools and facilities (e.g., term deposits).
STA	
Topics (ordered based on priority)	Objectives
Monetary and financial statistics, balance of payment statistics, debt statistics	Supporting central bank in its operations.
Government Finance Statistics	Compilation of fiscal and public debt data.
CPI statistics	Improving the collection and methodology of CPI calculation across different states.
Real Sector Statistics	Computing and publishing national accounts statistics.
LEG	
Topics	Objectives
AML/CFT	Supporting the authorities in addressing gaps identified in a scoping mission.

Appendix I. Letter of Intent

Juba, Republic of South Sudan, May 14, 2024

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

Dear Ms. Georgieva:

1. The IMF Program Monitoring with Board Involvement (PMB), which was approved February 16, 2023, has provided welcome support to our macroeconomic and stabilization efforts. Our solid performance under the PMB as discussed below demonstrates our commitment to building a track record of sound policies and reform implementation. We also hope that continued progress on implementing our reform agenda will lay the groundwork for a future Fund-supported program and strengthen relations with development partners, unlocking financial support on concessional terms for critical development and poverty-reduction measures. Financial support received through the IMF Food Shock Window has been instrumental in supporting depleted FX reserves and addressing humanitarian challenges, with mechanisms in place to ensure the utilization of Fund resources is done in a transparent manner.

2. The program commitments under the PMB were largely respected. Quantitative targets for end-March and end-June 2023 covering fiscal, monetary and debt were met, except for the targets on social spending and on reserve money growth (the latter by a small amount). In line with program commitments, we have adopted an action plan to strengthen debt management and an action plan on banking sector reform while amendments to the BoSS Act have been adopted by the National Assembly to specify that the issuance of sovereign guarantees will be subject to relevant legislation while the Bank of South Sudan remains allowed to issue such guarantees consistent with the stipulation in the Transitional Constitution. In addition, we have improved the transparency of oil revenue, including by providing comprehensive information on oil production on the Ministry of Petroleum website, and publishing quarterly budget execution reports on a regular basis. However, the publication of oil production sharing contracts has not been possible given resistance from private sector counterparties. As prior actions for the first and second PMB reviews, we have taken the following measures: (i) the General Audit Chamber has published the audit of spending by the central government that was financed by the disbursement through the Food Shock Window of the Rapid Credit Facility; (ii) the external audit of the BoSS financial statements for financial year 2021 has been approved by the BoSS Board; and (iii) we have published the budget execution reports for Q1 and Q2 of FY2023/24.

3. Given the progress made in implementing the PMB, we are seeking completion of the first and second reviews. In addition, we request a 6-month extension of the PMB through November 15, 2024, to allow time to establish a credible macroeconomic framework aimed at addressing the oil shutdown and in line with our commitment to establish a strong policy track record to underpin our longer-term structural reform agenda.

4. We have benefited significantly from close engagement with the IMF through the PMB and capacity building in several key macro policy areas. We request that the remaining PMB review is conducted in conjunction with discussion for Fund financing through the Extended Credit Facility. Continued collaboration will be essential for maintaining reform momentum and ensuring that South Sudan builds the institutions needed for stability, growth and poverty reduction over the long term. We also look forward to further assistance from the Fund and other development partners to build the technical capacity needed to implement macroeconomic reforms. We will not introduce any measures or policies that would compound our BOP difficulties and will not impose new or intensify existing trade restrictions. We will also not introduce or intensify existing restrictions on payments and transfers for current international transactions; introduce or modify multiple currency practices; or enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles or Agreement. The GoSS will provide IMF staff with such information as may be requested in connection with the progress made in implementing the economic and financial policies and in achieving the objectives of the program.

5. We authorize the IMF to publish this letter, the attached MEFP and TMU, and the related staff report, and the Informational Annex and the debt sustainability analysis (DSA) prepared by the IMF and World Bank staff, including placement of these documents on the IMF website.

Sincerely yours,

/s/	/s/
Mr. Awow Daniel Chuang	Dr. James Alic Garang
Minister, Ministry of Finance and Planning	Governor, Bank of South Sudan

Attachments (2)

I. Memorandum of Economic and Financial Policies

II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

Juba, Republic of South Sudan, May 14, 2024

Recent Developments

1. **South Sudan has faced significant economic and humanitarian challenges over the past year, including from destructive flooding, the Red Sea crisis and the war in neighboring Sudan.** Historic levels of flooding have caused large displacements in many parts of the country. The Red Sea crisis is disrupting our oil exports, forcing the Bank of South Sudan (BoSS) to extend an overdraft to the budget in December 2023 to finance critical spending. The war in Sudan has increased costs of oil production and disrupted trade in our border areas with Sudan. In addition, more than 650,000 refugees have fled to South Sudan, exacerbating an already difficult humanitarian situation in our country and creating significant financing and other needs which are being addressed through a coordinated effort between the government and development partners. More recently, a part of the pipeline that transports two-thirds of our oil through Sudan has been shut down since mid-February due to technical reasons and repairing it has been challenging due to the ongoing conflict in Sudan.

2. **The economic pressures from these shocks are being felt through multiple and interrelated channels.** The drastic reduction in oil production and exports has had a devastating effect on our economy given that oil represents 90 percent of fiscal revenues and 95 percent of exports. The need to finance critical government expenditures through central bank overdrafts has increased SSP liquidity, while lower oil exports have reduced FX inflows. The combined effect of these recent developments has resulted in pressure on the FX market, contributing to a depreciation of the exchange rate and increased volatility in the premium between the official and parallel market exchange rates. Lower fiscal revenues since mid-February is making it difficult to pay salaries and finance critical social spending given limited sources of domestic and external financing. Budget implementation for the rest of FY2023/24 will be extremely challenging given uncertainty about the duration of the disruption to the oil sector.

Economic Policies

3. **Despite the extremely challenging environment, the government has made efforts to stabilize the economy.** Budget implementation in FY2022/23 was prudent, as higher than expected oil and non-oil revenues and expenditure restraint resulted in an increased primary surplus and no recourse to external borrowing. The government has strengthened administrative procedures for public sector salary payments by creating special committees for every government agency to review public sector payrolls. However, this process, combined with limited budgetary resources to finance the significant increase in the wage bill in the FY2023/24 budget, has resulted in the accumulation of several months of salary arrears. Additional fiscal challenges stem from the upcoming elections and the unification of the military and security forces in line with commitments in the 2018 Revitalized Peace Agreement. We have avoided external payment arrears and, given the heavy external debt service burden, we are discussing with some of our largest commercial creditors

potential market-based debt reprofiling operations, with a view to extending loan maturities and reducing payments in FY2023/24 and beyond.

4. Recognizing the need to address immediate macroeconomic policy challenges and reinvigorate our reform agenda, we commit to the following measures during the remainder of the extended PMB: (i) revise FX auction procedures to ensure that FX is awarded to the bids according to their ranking starting with the best exchange rate to the worst rate from auctioneer point of view in order to ensure that the premium between the official and parallel exchange rates remains, on average, within a narrow band consistent with our commitment to exchange rate unification, (ii) avoid budget financing from the BoSS, except in exceptional cases where limited amounts help address temporary liquidity needs or to support critical spending especially on salaries and social spending (e.g., health, education and social assistance) in case of continued large shortfalls in revenue from damages to the oil pipeline; (iii) cut spending as needed to contain the fiscal deficit, while prioritizing salary payments and social spending; (iv) elaborate and implement a timebound plan for the clearance of salary arrears (**structural benchmark** for end-June 2024); (v) National Audit Chamber will finalize the external audit of the BoSS financial statements for FY2021 and the audit report will be published (**structural benchmark** for end-June 2024); (vi) develop and begin implementing a plan to increase transparency in the oil-for-infrastructure scheme, including through improved reporting of earmarked revenues, a detailed breakdown of spending, and progress of individual projects, as well as implementation of procurement procedures for future road projects consistent with PPDA; and (vii) appointment of an appropriate external auditor with experience in central bank audits to perform BoSS audits for FY2022 and beyond (**structural benchmark** for end-June 2024). We remain committed to avoiding external non-concessional borrowing to support debt sustainability. Tables 1 and 2 attached contain the quantitative targets and the structural benchmarks for the remainder of the PMB.

Table 1. Republic of South Sudan: Quantitative Targets Under the Program Monitoring with Board Involvement

	End-Nov 2022 Actual	End-Mar 2023 PMB Target	End-Mar 2023 Act.	End-Jun 2023 PMB Target	End-Jun 2023 Act.	End-Jun 2024 Proposed
Non-oil primary balance (floor: in billions of SSP)[1]	...	-830.0	-683.2	-996.0	-910.9	-1,358
Central bank net credit to the central government (ceiling: in billions of SSP)[2]	178.0	178.0	178.0	178.0	178.0	0.0
Contracting or guaranteeing of non-concessional debt by the central government (continuous ceiling: in millions of U.S. dollars)[3]	0.0	0.0	0.0	0.0	0.0	0.0
Average net international reserve (floor: in millions of U.S. dollars)[4]	97.5	141.5	208.2	151.5	183.7	100.0
Reserve money growth (ceiling: in percent)[5]	...	5.0	5.6	7.5	-2.2	2.5
Salary payments to central government workers (floor: in billions of SSP)[6]	...	106.7	114.1	142.3	166.1	75.8
Priority social spending (floor: in billions of SSP)[6, 7]	...	112.1	40.8	149.4	66.3	22.0

[1] For end-March and end-June 2023 the number is cumulative from June 30, 2022, and for end-June 2024 the number is cumulative from June 30, 2023.

[2] For end-March and end-June 2023 the number accommodates central bank net credit extended to the government in July and August 2022 and imposes no further central bank net credit to the government from September 2022 onwards. For end-June 2024 the number is cumulative from end-April 2024. If during the period May-June 2024 revenue fall below payments for salaries and social spending (on health, education and humanitarian assistance) as specified in the QTs for end-June 2024 on such spending in this table, the target for end-June 2024 would be adjusted upwards by the difference, up to SSP 55 billion.

[3] Subject to prior consultation with Fund staff, exceptions may apply for NCB that involves either (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) finances critical investment projects with a high social and economic return that are integral to the authorities' national development program, and for which concessional financing is not available.

[4] Targets are defined as the average stock of daily NIR balances during March and June 2023 and June 2024.

[5] For end-March and end-June 2023 the number is cumulative growth rate in reserve money (defined as currency in circulation, due to banks, and due to OFI) from September 30, 2022, adjusting for month-on-month exchange rate changes, and for end-June 2024 the number is the cumulative growth rate from end-April 2024. If during the period May-June 2024 revenue fall below budgeted amounts for salaries and social spending (on health, education, and social and humanitarian assistance) as specified in the QTs for end-June 2024 on such spending in this table, the target for end-June 2024 would be adjusted upwards by the difference, up to 15 percent.

[6] For end-March and end-June 20023 the number is cumulative from June 30, 2022, and for end-June 2024 the number is cumulative from April 30, 2024.

[7] The proposed floor on social spending is set at the proposed spending on education, health, and social and humanitarian sectors in the FY2022/23 budget

Table 2. Republic of South Sudan: Structural Targets Under the Program Monitoring with Board Involvement

Measures	Target Date[1]	Current Status/Rationale
1. MoFP to develop and adopt by end-March 2023, in consultation with Fund staff, an action plan to strengthen the institutional framework for debt issuance and management and formulate a debt management strategy. (IMF Country Report No. 2023/108 MEFP ¶18).	Mar-2023	Not met. Action plan adopted by MoFP in June 2023.
2. National Assembly to adopt amendments to the BoSS Act aimed at bringing the South Sudan legislation in line with international best practices for central banking legislation and governance (IMF Country Report No. 2023/108 MEFP ¶18).	May-2023	Not met. Amendments to the BoSS Act were adopted by Parliament in August 2023. The amendments allow the BoSS to issue sovereign guarantees consistent with the Transitional Constitution, but amendments specify that the issuance of such guarantees will be subject to relevant legislation on public finance.
3. BoSS to adopt an action plan to implement recommended action items on banking sector reform developed in August 2022 by BoSS staff with MCM (IMF Country Report No. 2023/108 MEFP ¶12).	Jun-2023	Met.
4. Publish all signed oil production sharing agreements with oil-extracting companies as well as quarterly reports on the oil sector (IMF Country Report No. 2023/108 MEFP ¶14).	Jun-2023	Not met. The publication of oil production sharing agreements is opposed by oil companies as a breach of contractual obligations. However, the details of the oil sharing agreements are available in the oil reports published in the Ministry of Petroleum website.
5. Completion and publication of an audit of the spending of the new RCF disbursement under the FSW (IMF Country Report No. 2023/108 LOI ¶5).	Sep-2023	Not met. The audit report was completed and published in March 2024.
6. Publish the audit of spending by the central government that was financed by the disbursement through the Food Shock Window of the Rapid Credit Facility;	Prior action	Met.
7. BoSS Board to adopt the BoSS financial statements for financial year 2021;	Prior action	Met.
8. Publish the budget execution reports for Q1 and Q2 of FY2023/24.	Prior action	Met.
9. Appoint an external auditor to perform BoSS audits for financial year 2022 and beyond (MEFP ¶4). Proposed.	Jun-2024	Strengthen BoSS safeguards.
10. Adopt a timebound action plan to clear all salary arrears (MEFP ¶4). Proposed.	Jun-2024	Strengthen fiscal discipline.
11. National Audit Chamber will finalize the external audit of the BoSS financial statements for FY2021 and the audit report will be published (MEFP ¶4). Proposed.		

[1] Target dates refer to end of the month unless otherwise stated.

Attachment II. Technical Memorandum of Understanding

Juba, Republic of South Sudan, May 14, 2024

1. **This Technical Memorandum of Understanding (TMU) defines the quantitative targets and structural benchmarks for monitoring the performance of South Sudan for the third review of the Program Monitoring with Board involvement (PMB).** In addition, the TMU specifies the data to be provided to the IMF for program monitoring purposes, and the periodicity and deadlines for the transmission of the data.

2. **The third review of the PMB will be monitored based on seven quarterly quantitative targets (QTs) and three structural benchmarks listed in Tables 1 and 2 of the Memorandum on Economic and Financial Policies (MEFP).** The QTs are as follows.

i. Floor on non-oil primary balance;
ii. Ceiling on central bank net credit to the central government;
iii. Floor on the average net international reserves (NIR);
iv. Continuous ceiling on contracting or guaranteeing of non-concessional borrowing;
v. Floor on salary payments to central government workers;
vi. Ceiling on reserve money growth; and
vii. Floor on priority social spending.

Quantitative Targets

3. **Non-oil primary balance** of the central government is measured as non-oil revenues minus total expenditures excluding interest payments, transfers to the Ministry of Petroleum (MoP) and the oil producing states and communities, and transfers for transit fees to Sudan. For the purposes of the program, all revenues and expenditure denominated in foreign currency will be valued at the program exchange rate of 1,600 SSP/US$.

4. **Central bank net credit to the Central Government** is the change in the stock of net credit to the *central* government (NCG) by the Bank of South Sudan (BoSS) between end-June 2024 and end-April 2024. NCG is defined as the difference between gross claims on central government and gross liabilities to the central government. For the purposes of the program, all claims and liabilities of the central government to the BoSS denominated in foreign currency will be valued at the program exchange rate of 1,600 SSP/US$.

5. **Net international reserves (NIR)** of the BoSS are defined as reserve assets of the BoSS net of short-term external liabilities of the BoSS. Reserve assets are defined as foreign assets readily available to, and controlled by, the BoSS and exclude pledged or otherwise encumbered foreign assets, including, but not limited to, assets used as collateral or guarantees for third-party liabilities. Reserve assets must be denominated and settled in a convertible foreign currency. Short-term foreign liabilities are defined as liabilities to nonresidents, of original maturities less than one year,

contracted by the BoSS. For program-monitoring purposes, official reserve and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock denominated in SDR, EUR and GBP at program exchange rates of, respectively, 0.76, 1.07 and 1.25 against one US dollar. The NIR limits for each test period are defined as the average NIR daily stocks during the month of the test period.

6. **Contracting or guaranteeing of new non-concessional external debt by the central government** applies to debt to non-residents with original maturity of one year or more at non-concessional terms and to guarantees issued to both residents and non-residents. For the purposes of the program, the definition of "debt" is set forth in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt" (see Decision No. 6230-(79/140) as revised on August 31, 2009 (Decision No. 14416-(09/91)), attached in Annex I). This quantitative target will be assessed on a continuous basis starting from program approval.

- **For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows**: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt.

- **Discussion on the contracting and/or guaranteeing of any new non-concessional debt will only be undertaken after consultation with the IMF.** Exceptions to the zero-program target for non-concessional debt and guarantees may apply for debt that involves either (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) transactions that finance critical investment projects with a high social and economic return that are integral to national development program and for which concessional financing is not available.

7. **Floor on salary payments to central government workers** includes payment of all central government civil salaries, military and armed forces, and foreign mission salaries during May and June 2024. Foreign currency salary payments, such as foreign mission salaries, will be valued at the program exchange rate of 1,600 SSP/US$.

8. **Floor on priority social spending** includes central government spending on the education, health, and humanitarian sectors as defined in the FY2022/23 budget.

9. **Reserve money** is defined as the sum of local currency circulating outside of banks, and total reserves for banks and other financial institutions (required and excess) at the BoSS. For program purposes, limits on reserve money growth for the end of the test period are defined as the percentage difference between the average daily reserve money during June 2024 and the reserve

money stock at end-April 2024, adjusting foreign-currency components for exchange-rate changes between the two periods.

PROGRAM MONITORING AND REPORTING REQUIREMENTS

10. The information on implementation and/or execution of structural benchmarks under the program will be reported to IMF staff within two weeks after their programmed implementation date. The status of implementation of other structural program measures will also be reported to IMF staff within the same time frame.

11. The authorities will report the information specified in Table 1 below according to the reporting periods indicated. More generally, the authorities will provide IMF staff with all information required for effective follow-up on economic policy implementation.

12. The authorities agree to consult IMF staff on any new external debt proposals. They will report to IMF staff on the signing of any new external debt arrangements and the conditions pertaining to such debt.

Text Table 1. Republic of South Sudan: Data to be Reported for Program Monitoring

Reporting Agency	Data	Frequency	Submission Lag
MoFP	Table of government fiscal operations	Monthly	8 weeks
	Government tax and non-oil revenue	Monthly	8 weeks
	Oil production and revenue	Monthly	8 weeks
	Stock of salary arrears of the Central Government	Monthly	8 weeks
	Salary payments in total and by sector (including foreign mission and military/armed forces}	Monthly	8 weeks
	Budget execution report	Quarterly	8 weeks
	Disbursements of External Debt including Newly Contracted Debt of Government	Quarterly	8 weeks
	Projected external debt service	Quarterly	8 weeks
BoSS	BOSS balance sheet	Monthly	4 weeks
	Monetary Survey	Monthly	4 weeks
	Detailed FX Auction Results	Weekly	1 week
	List of guarantees issued by the BOSS	Monthly	1 week

Annex I. Guidelines on External Debt

Excerpt from Executive Board Decision No. 6230-(79/140) as revised on August 31, 2009 (Decision No. 14416-(09/91)):

- For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

  (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

  (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

  (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessee retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

- Under the definition of debt set out in this paragraph, arrears, penalties, and judicially-awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

May 20, 2024

STAFF REPORT 2023 ARTICLE IV CONSULTATION, AND FIRST AND SECOND REVIEWS UNDER STAFF-MONITORED PROGRAM WITH BOARD INVOLVEMENT—INFORMATIONAL ANNEX

Prepared By The African Department (in consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2024)

Membership status: Joined on April 18, 2012. Article XIV member.

General Resources Account	SDR Million	% Quota
Quota	246.00	100.00
Fund Holdings of Currency	246.00	100.00
Reserve Tranche Position	0.00	0.00

SDR Department	SDR Million	% Allocation
Net Cumulative Allocation	341.19	100.00
Holdings	9.10	2.67

Outstanding Purchases and Loans	SDR Million	% Quota
RCF Loans	246.00	100.00

Latest Financial Commitments

Outright Loans:

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Mar. 01, 2023	Mar. 03, 2023	86.10	86.10
RCF	Mar. 30, 2021	Apr. 01, 2021	123.00	123.00
RCF	Nov. 11, 2020	Nov. 13, 2020	36.90	36.90

Projected Payments to Fund (SDR million; based on current use of resources and present holdings of SDRs):

	Forthcoming				
	2024	2025	2026	2027	2028
Principal			19.68	31.98	40.59
Charges/Interest	10.21	13.64	13.64	13.64	13.65
Total	10.21	13.64	33.32	45.62	54.24

Exchange Rate Arrangement

South Sudan introduced its currency (the South Sudanese Pound) upon independence in July 2011. In September 2011, the Bank of South Sudan (BoSS) pegged the exchange rate at 2.95 SSP per U.S. dollar. The de jure exchange rate arrangement was a “conventional peg” against the U.S. dollar. In the first week of the new currency, after independence, the exchange rate was determined by a central bank auction. However, this system was abandoned after it resulted in a jump of the rate from 2.9 to 3.5 SSP/US$, and the exchange rate was fixed again at 2.96 SSP/US$. The exchange rate remained fixed to the US dollar from 2011 to mid-December 2015, even when foreign exchange receipts fell; first during the 2012 government's shutdown of oil production and then again when oil prices and production fell in 2014.

In mid-December 2015 the authorities introduced a de jure floating exchange rate regime, which led to an 84 percent depreciation of the exchange rate. Under the new regime, the BSS supplied foreign exchange to commercial banks in auctions and an indicative market rate was determined from the auction rate and the rate charged by commercial banks. All government transactions were carried out using the official (indicative) rate. The reform was successful in reducing the spread between the official (indicative) and parallel market rates. The reform also included the abolishment of exchange controls. However, excessive expansionary monetary policy continued to exert downward pressure on the exchange rate and undermined convergence of the official (indicative) and parallel market rates. Despite liberalization of the exchange rate regime towards the end of 2015, continued deterioration in the security and economic situation led the re-introduction of the multiple exchange rate system with the BoSS abolishing its foreign exchange auctions in 2017.

The BoSS introduced policies to reform the FX market and unify FX rates under a Staff Monitored Program (SMP) that was approved on March 30, 2021. The reform liberalized the FX markets, allowed all market participants to transact at market rates, re-introducing of the BoSS auction system with auctions taking place on a weekly basis, and gradually adjusting the official (indicative rate) until it was fully replaced by a market-based reference rate. The reform resulted in the convergence of parallel and official reference exchange rates by August 2021.

At the turn of 2024, the exchange rate started to depreciate sharply, driven by a severe disruption to oil production and export and subsequent monetary financing. Around the same time, the BoSS began awarding foreign currency at auctions to the lowest, rather than the highest, bidders. This has contributed to a widening of the gap with the parallel market rate, which stood at about 60 percent in late-April 2024, compared to an average of below 5 percent during August 2021–December 2023.

The de jure exchange rate arrangement is "floating," and the de facto exchange rate arrangement is classified as "other managed," reflecting the fact that BoSS varies the frequency and volume of FX auctions to lean against sharp changes in the exchange rate.

South Sudan maintains one exchange restriction under the transitional arrangements of Article XIV. The exchange restriction arises from imposing absolute ceilings on the availability of foreign exchange for certain invisible transactions (travel, remittances for living expenses of students and families residing abroad, transfers of salaries by foreign workers).

South Sudan also maintains one exchange restriction subject to Fund approval under Article VIII. The exchange restriction arises because of prioritization of foreign exchange allocation by the BoSS for external government payments and payments for certain essential commodities.

Article IV Consultation

The last Article IV consultation with South Sudan was concluded on July 29, 2022 (IMF Country Report No. 22/266).

Resident Representative

The Fund's Office in Juba, South Sudan, is headed by the current Resident Representative, Mr. Guy Jenkinson who was appointed in April 2022.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

The World Bank work program can be found on the following website:
http://www.worldbank.org/en/country/southsudan

The African Development Bank work program can be found on the following website:
https://www.afdb.org/en/countries/east-africa/south-sudan/

STATISTICAL ISSUES

Data provision has serious shortcomings that significantly hamper surveillance. With the exception of monetary and exchange rate data, other macroeconomic data have important weaknesses in terms of availability, quality, periodicity, and timeliness. Some progress with data quality and compilation has been made since the end of the civil war due to resumption of technical assistance.

Real Sector Statistics:

Prices: A monthly Consumer Price Index (CPI) covering Juba, Wau, and Malakal is compiled (data for Malakal have been imputed since 2014 because of the conflict), based on the 2009–10 Household Budget Survey. The CPI calculation and compilation methodology, however, is outdated and unreliable due to limited geographical coverage and lack of technical and financial resources. To ensure appropriate weights are used, a new household survey needs to be conducted. Monthly CPI figures are issued and published on the National Bureau of Statistics (NBS) website, albeit with lags and the results are of low quality.

National Accounts: NBS compiles GDP by expenditure but these have not been published regularly due to challenges with source data. Work on source data for GDP estimates is a priority which will require, several surveys and continued technical assistance. National accounts TA missions were provided in September 2020 and November 2021 on the estimation of GDP by expenditure and production. Progress on this area is seriously hampered by lack of resources both staff and financial resources. TA support on real sector statistics will be stepped up with an improvement in resources at the NBS.

Government Finance Statistics (GFS):

The authorities have made progress in compiling and reporting of GFS. In March 2024, the authorities disseminated GFS transactions data for budgetary central government (BCG) for financial years 2021/22 and 2022/23 through the IMF's annual GFS database. Several data challenges including limited institutional coverage, low levels of data granularity, inadequate source data and inconsistences between above-the-line and below-the-line transactions remain. STA together with AFRITAC East continue to support the authorities in strengthening the quality and coverage of GFS and PSDS. Recent GFS TA missions were conducted by AFRITAC East in July 2023 and March 2024.

Monetary and Financial Statistics:

The Bank of South Sudan (BSS) reports the Standardized Report Forms (SRFs) 1SR for the central bank, 2SR for the other depository corporations, 5SR for monetary aggregates, and 6SR for interest rates for publication in the IMF's *International Financial Statistics (IFS)* on monthly basis. Data for the other financial corporations (OFCs) are not available. STA will support BSS to expand MFS coverage to OFCs for improved macroeconomic analysis.

Financial Soundness Indicators (FSIs): With technical assistance from the IMF's Statistics Department, the BSS has compiled 11 of the 12 core FSIs and 6 of the 13 encouraged FSIs for deposit takers, with quarterly frequency. The BSS has published FSIs through December 31, 2021. STA is working with BSS to align the FSI compilation to the *2019 FSI Guide* methodology.
External Sector Statistics (ESS): The BSS submits balance of payments (BOP) standard report to STA once a year, though data are available on quarterly bases as well. In 2022, an IMF's technical assistance mission provided recommendations on the further improvement of BOP statistics and compilation of ESS stock indicators. However, IIP, external debt, and other ESS stock indicators are not currently being compiled which should be seen as a priority. Compilation of BOP heavily relies on International Transactions Reporting System (ITRS) data. The current ITRS system needs to be revamped, and the BSS staff is working on this issue with the support of the IMF and East African Community. External trade data are received from customs authorities regularly starting in 2023; however, data for previous years suffer from submission gaps. Gold extraction occurs in the form of artisanal mining, and the export is not captured in the official statistics. Pilot FDI survey is an important checkpoint in improving BOP statistics and compilation of ESS stock indicators. Some data on external debt were received from the Ministry of Finance and Economic Planning, but the format is not compatible for the ESS data calculations.
Data Standards and Quality South Sudan does not yet subscribe to the General Data Dissemination System (GDDS).

Table 1. Republic of South Sudan: Common Indicators Required for Surveillance

(As of May 2024)[1]

	Date of Latest Observation	Date Received	Frequency of Data	Frequency of Reporting	Frequency of Publication
Exchange Rates	Current	Current	D	M	M
International Reserve Assets and Reserve Liabilities[2]	Current	Current	D	D	M
Reserve/Base Money	Mar 2024	May 2024	M	M	M
Broad Money	Mar 2024	May 2024	M	M	M
Central Bank Balance Sheet	Mar 2024	May 2024	M	M	M
Consolidated Balance Sheet of the Banking System	Mar 2024	May 2024	M	M	M
Interest Rates	Mar 2024	May 2024	M	M	M
Consumer Price Index	Mar 2024	May 2024	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing—Central Government[3]	Dec 2023	Mar 2024	Q	Q	N/A
External Current Account	2018	Mar 2019	A	A	A
Exports and Imports of Goods and Services	2018	Mar 2019	A	A	A
GDP/GNP	2017	Oct 2018	A	A	A
Domestic Government Debt	N/A	N/A	N/A	N/A	N/A
Gross External Debt	Jun 2023	Dec 2023	A	A	A
International Investment Position	N/A	N/A	N/A	N/A	N/A

[1] Daily (D); Monthly (M); Quarterly (Q); Annually (A); Not Available (N/A).
[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately.
[3] Data on composition of financing not yet available.

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

May 20, 2024

STAFF REPORT 2023 ARTICLE IV CONSULTATION, AND FIRST AND SECOND REVIEWS UNDER STAFF–MONITORED PROGRAM WITH BOARD INVOLVEMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By:
Catherine Pattillo (IMF, AFR), Guillaume Chabert (IMF, SPR), and Manuela Francisco (WB, MTI) and Hassan Zaman (WB, IDA)

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

Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	No

The baseline in this Debt Sustainability Analysis update (DSA) reflects minor changes with respect to the previous DSA of February 2023, including updating the current year and first year of projections from 2022 to 2023 as well as updates in macroeconomic projections with respect to changes in global macroeconomic assumptions. The financing assumptions, including the debt agreements, are mostly unchanged. South Sudan's debt remains assessed to be sustainable with a high risk of debt distress for both external and overall public debt.[1] Three of the four key indicators of public and publicly guaranteed external debt breach the threshold in the short/medium term. The present value of overall debt-to-GDP ratio decreases below the benchmark starting in FY2028/29. The ratios of debt service-to-exports and to revenue continue to slightly exceed the threshold until FY2029/30. There are several downside risks to the sustainability assessment, including global external financing conditions, decreased oil revenues from drops in production due to climate-related disasters, the war in Sudan, damages to the oil pipeline, disruption in maritime traffic due to the Red Sea crisis, volatility in global oil prices, slow implementation of reforms, in particular on public financial management, and a breakdown in the peace process and the resumption of large-scale civil conflict.

[1] South Sudan's debt-carrying capacity remains rated "weak" with composite indicator score of 1.39 according to the latest vintage of World Economic Outlook (October 2023) and the Country Policy and the 2022 Institutional Assessment index of the World Bank.

BACKGROUND

1. The DSA is limited to central government debt, as data access and availability remains weak. Debt data collection and compilation present serious weaknesses in South Sudan. SOEs are omitted from the DSA as information about SOE debt and government guarantees is incomplete or unavailable.[2] External debt is defined using the currency criterion. The analysis for the contingent liability stress test includes SOE debt, financial market shocks, and a 5 percent shock to GDP to include the potential repayment of salary arrears to embassies' staff, and other potential arrears or financing shocks.

Text Table 1. Republic of South Sudan: DSA Coverage of Public Debt

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

1 The country's coverage of public debt	The central government, central bank			
	Default		Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0	percent of GDP	5.0	
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4 PPP	35	percent of PPP stock	0.0	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
Total (2+3+4+5) (in percent of GDP)			12.0	

1/ The default shock of 2% of GDP will be triggered for countries, whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

2. South Sudan's total public debt was estimated at US$3,722.9 million (51.2 percent of GDP) as of June 2023, with external public debt representing about two thirds of the total (Text Table 2). Debt to the World Bank amounted to US$93.2 million on IDA terms, while debt to the African Development Bank (AfDB) amounted to US$18.6 million. Debt to the IMF includes the three disbursements under the Rapid Credit Facility (RCF) of November 2020, April 2021 and March 2023, and the use of US$150 million from the SDR allocation for budget support in 2021 Q3.[3] The debt stock with Afrexim Bank was estimated at US$435.4 million. Bilateral creditors include China Exim Bank through two different facilities with a total remaining debt estimated at US$367 million.[4] Amongst commercial creditors, the outstanding liability to the Qatar National Bank

[2] Addressing the lack of coverage of SOE will require significant effort in terms of data gathering and possibly technical support. There are only a few SOEs in South Sudan with significant economic activity, the largest being Nilepet—the state-owned National Oil and Gas Company of South Sudan.

[3] The authorities used US$150 million from the SDR allocation to finance spending, mostly to reduce salary arrears. This amount, consistent with the Guidance Note of August 2021 on the treatment and use of SDR allocations, has been included in the external debt stock starting in FY2021/2022 for the purposes of this DSA.

[4] One facility with a remaining debt of US$135 million was included in the previous DSA. Another facility with a remaining debt estimated at US$237 million at end-December 2021 came to light during the debt stocktaking exercise conducted by an international auditing firm.

was estimated at US$540.8 million as of end-June 2023. The debt stock also included an outstanding debt of US$550 million owed to oil companies, and US$89 million owed to National Investment and Development Bank (NIDB) at the end of FY22/23. Domestic debt is mostly owed to the central bank but also includes a relatively small share of debt due to local commercial banks (around 20 percent).

Text Table 2. Republic of South Sudan: Decomposition of Public Debt by Creditor FY 22/23–FY 24/25[1/]

	Debt Stock (end of period)			Debt Service					
	FY2022/23			FY22/23	FY23/24	FY24/25	FY22/23	FY23/24	FY24/25
	(In US$ mn)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ mn)*			*(Percent GDP)*		
Total	3,722.9	100.0	51.2	233.8	336.3	653.4	3.7	6.8	9.7
External	2,528.6	67.9	34.8	209.9	330.3	647.3	3.3	6.7	9.6
Multilateral creditors[2]	1,070.6	28.8	14.7	1.3	211.7	209.7	0.0	4.3	3.1
IMF	523.5	14.1	7.2	0.2	13.7	18.3	0.0	0.3	0.3
World Bank	93.2	2.5	1.3	1.1	1.1	1.1	0.0	0.0	0.0
ADB/AfDB/IADB	18.6	0.5	0.3	0.0	3.0	3.0	0.0	0.1	0.0
Other Multilaterals	435.4	11.7	6.0	0.0	193.9	187.3	0.0	3.9	2.8
o/w: AFREXIM	435.4	11.7	6.0	0.0	193.9	187.3	0.0	3.9	2.8
Bilateral Creditors	367.0	9.9	5.0	0.1	23.7	23.7	0.0	0.5	0.4
Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Paris Club	367.0	9.9	5.0	0.1	23.7	23.7	0.0	0.5	0.4
o/w: EXIM-CHINA	367.0	9.9	5.0	0.1	23.7	23.7	0.0	0.5	0.4
Commercial creditors	1,090.9	29.3	15.0	208.5	94.9	414.0	3.3	1.9	6.1
o/w: QNB	540.8	14.5	7.4	0.0	82.0	79.4	0.0	1.7	1.2
o/w: Oil Companies	550.1	14.8	7.6	0.0	12.9	334.6	0.0	0.3	5.0
Other international creditors	0.0	0.0	0.0	208.5	0.0	0.0	3.3	0.0	0.0
Domestic	1,194.4	32.1	16.4	23.9	5.9	6.1	0.4	0.1	0.1
o/w: Held by residents, total	1,194.4	32.1	16.4	23.9	5.9	6.1	0.4	0.1	0.1
o/w: Held by non-residents, total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items:									
Collateralized debt[3]	1,526.3	41.0	21.0	...	...	...	...	...	...
Contingent liabilities[4]	na	na	na	...	...	...	...	...	...
Nominal FY GDP (US$ million)	7275.4	...	...	7,275.4	6,045.2	7,083.5	...	...	...

[1]As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

[2]Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

[3]Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

[4]Guaranteed debt is included in public debt.

3. **Preliminary information suggests that the domestic salary payments from November 2023 to April 2024 are in arrears, amounting to about 2.7 percent of GDP.** Accumulation of salary arrears reflect both cash constraints and changes in the procedure for salary payments that includes approval by special committees for every government agency in an effort to minimize payment to ghost workers. There are also outstanding payments to foreign missions, which amount to approximately USD 150 million (roughly 2 percent of GDP). Nevertheless, the Ministry of Finance and Planning (MoFP) is ensuring the payment of salaries for employees in foreign missions and is working towards settling these outstanding balances. An extra 5 percent of GDP has been allocated to the contingency liability test to accommodate the repayment of salary arrears to diplomats in foreign missions and other potential obligations, including the discovery of additional legacy debts or arrears related to goods and services.

4. **While the Transitional Financial Arrangement (TFA) between South Sudan and Sudan was concluded in February 2022, South Sudan continued to transfer the same quantity of crude oil or cash to Sudan as before, resulting in an accumulation of credit.** The amount of credit accumulated with Sudan reached about US$658.7 million as of end-June 2023 (about 9 percent of GDP), and the amount of oil lifted by Sudan without payment in excess of transit fees is projected to be about 5.2 percent of GDP in FY2023/24. The schedule for Sudan's repayment of the accrued credit is currently unknown.

5. **The Bank of South Sudan (BoSS) has been taking steps to develop the domestic financial market.** In the spring of 2022, BoSS introduced a term deposit facility (TDF). Following initial experiments and consultations with banks, the facility successfully absorbed 24 billion SSP in four consecutive auctions from early September to late November 2022, with average annualized interest rates below 10 percent. This uptake by banks indicates an improvement in private-sector confidence in the authorities' macroeconomic management, and there is significant interest in BoSS extending the range of maturities under the TDF beyond the 14-day and 28-day maturities. Accordingly, as of the first quarter of 2023, BoSS has begun the implementation of auctions with 84-day maturities. Furthermore, as of September 2023, the BoSS has introduced auctions with maturities of 336 days. This represents a crucial step toward reintroducing treasury bills as a potential source of domestic financing.

UNDERLYING ASSUMPTIONS

6. **This DSA presumes that financing gaps will be addressed through non-concessional external loans.** Representing a worst-case scenario[5] in which concessional financing does not materialize, this analysis projected non-concessional external borrowing throughout the projection period to fulfill financing requirements. From CY2023 onwards, this analysis projects new disbursements from bilateral, non-Paris Club lenders with an 8-percent interest rate, 7-year maturity, and 2-year grace period. Additionally, it is assumed that medium-long term domestic debt will be issued contingent upon maintained macroeconomic stability and an enhanced fiscal position. As seen in previous instances, the remaining financing gaps are assumed to be addressed using non-concessional loans with an 8-percent interest rate, 5-year maturity, and 1-year grace period. The assumptions regarding the terms of non-concessional borrowing from unidentified external sources align with existing debt instrument terms and the global tightening of borrowing conditions. Were non-concessional borrowing to be collateralized by future oil revenue, continued high volatility in oil production would adversely affect the terms and availability of future external borrowing.

7. **The medium-term outlook is for modest economic growth amidst elevated levels of uncertainty (Text Table 3).** Real GDP growth is forecast to contract by 8.5 percent in FY2023/24 as damages to the oil pipeline that transports South Sudan's crude oil exports through Sudan have reduced oil production since February 2024 to less than one-third relative to their previous level. This decline in oil production would more than offset the strong recovery in non-oil GDP, which is projected to grow by about 7.1 percent in real terms relative to FY2022/23, due to a continued expansion of the harvest

[5] The Program Monitoring with Board Involvement (PMB) has a zero target on new non-concessional external borrowing.

area after the historic floods in 2021–22. Growth from FY2024/25 onward will be driven by continued recovery in oil production once the pipeline gets repaired and better agricultural production as domestic security conditions improve.

Text Table 3. Republic of South Sudan: Key Macroeconomic Assumptions Comparison with the Previous Debt Sustainability Analysis

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
			Projection				
Real GDP growth (annual percentage change)							
May 2024 DSA	-8.0	-2.4	-8.5	21.1	5.2	5.1	5.4
Feb 2023 DSA	-2.9	-0.4	4.6	4.8	5.2	5.3	5.6
Real oil GDP growth (annual percentage change)							
May 2024 DSA	-14.8	-6.8	-16.6	30.9	3.5	3.0	2.9
Feb 2023 DSA	-7.4	-3.8	3.3	3.2	3.1	3.0	2.9
Current account balance (percentage of GDP)							
May 2024 DSA	-1.6	8.3	4.3	7.1	7.3	6.4	4.6
Feb 2023 DSA	-1.3	6.8	6.3	6.2	3.7	0.3	1.9
Exports of goods and services (percentage of GDP)							
May 2024 DSA	65.6	62.8	57.3	61.4	58.2	55.2	52.7
Feb 2023 DSA	68.0	65.8	63.5	61.7	58.1	54.8	51.9
Imports of goods and services (percentage of GDP)							
May 2024 DSA	-72.8	-64.8	-68.7	-69.2	-67.4	-65.7	-64.5
Feb 2023 DSA	-75.1	-68.6	-69.9	-69.8	-69.4	-69.7	-64.9
Primary balance (percentage of GDP)							
May 2024 DSA	-6.2	8.4	4.4	4.8	4.5	4.6	4.2
Feb 2023 DSA	-6.3	3.8	7.9	8.3	7.5	4.9	2.3
Revenue and grants (percentage of GDP)							
May 2024 DSA	30.5	33.7	31.0	33.0	31.7	30.5	29.7
Feb 2023 DSA	30.2	31.6	31.0	30.6	29.4	28.3	27.0
Primary non-interest expenditures (percentage of GDP)							
May 2024 DSA	36.7	25.3	26.6	28.3	27.1	26.0	25.5
Feb 2023 DSA	36.4	27.9	23.1	22.3	21.9	23.3	24.7
SSD oil price (US$/barrel)							
May 2024 DSA	86.5	88.5	79.6	76.1	72.1	69.6	69.4
Feb 2023 DSA	86.5	89.1	79.5	74.8	70.9	67.7	67.0

Sources: South Sudanese Authorities and IMF staff projections.

8. **Import projections are anticipated to be marginally lower in terms of GDP than previously estimated in the short term and continue to decline in the medium term.** The ongoing payments to Sudan exceeding the TFA agreement are expected to diminish the government's fiscal capacity in the short to medium term, affecting the resources accessible for supporting imports. This is further influenced by the Ukraine conflict's impact on international aid and the potential consequences of reduced aid on food and other commodity imports. Export levels, after reaching their peak in FY2024/25 due to increased forecasted oil prices, are expected to gradually decrease. This decline is attributed to the assumption of lower global oil prices in the medium term and outer years.

9. Oil price estimates have been adjusted slightly upwards compared to the previous DSA analyses, to align with the most recent oil market predictions. Over the medium term, oil prices are anticipated to be marginally higher, owing to a more favorable price for South Sudan's crude oil than previously projected. Prior estimations also assumed a discounted price for South Sudan's oil relative to global benchmarks.

10. Non-oil revenue estimates in FY2025/26 and FY2026/27 have been adjusted to be in line with the tax-to-GDP targets in the South Sudan Revenue Authority (SSRA) 5-year strategic plan. The SSRA recorded 4.1 percent tax-to-GDP ratio in FY2022/23, surpassing their 2.9 percent target. The ratio is projected to reach 5.8 percent in FY2023/24, which is one year earlier than the targeted year. The updated estimates assume that the SSRA targets will be achieved as planned by FY2026/27 and non-oil revenue grows at the pace of non-oil GDP growth from FY2027/28 onwards.

11. Inflation is anticipated to experience a temporary surge, rising to an average of 42.2 percent in FY2023/24, primarily due to the recent depreciation of the SSP. However, over the medium term, inflation is projected to gradually decline to single digits. This is contingent on the BoSS stabilizing money growth at below 10 percent per year, in line with proposed PMB quantitative targets and the stated BoSS policy.

12. The fiscal adjustment realism tool highlights the decline in the primary balance, with a three-year adjustment higher than 4 percentage points of GDP. This is partly due to decline in oil revenue as a share of GDP and recording of transfers to Sudan above the line as higher transit fee expenditure from FY2024/25 onwards. The oil-for-infrastructure project is assumed to continue until 2024/25, with other capital spending growing proportionally with nominal GDP. After the project's completion, budgetary capital spending is expected to increase and stabilize around 5 percent of GDP in the long run. Assumptions also include disbursements related to the peace process, although these expenditures are not expected to persist beyond 2024. Downside risks include the breakdown of the peace process and the resumption of large-scale conflict.

13. The fiscal multiplier realism tool suggests an upward trend in growth. This trajectory is expected to be slightly affected by fiscal adjustments since the enhancements in the primary balance are largely due to cutting down on low-multiplier spending. For instance, the reduction of excessive transfers to Sudan has been a significant factor in these improvements**.**

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TESTS

14. SSD's debt carrying capacity remains classified as weak (Text Table 4). The Composite Indicator (CI) score for South Sudan is currently assessed at 1.39, reflecting a slight increase from the previous score observed in the last vintage DSA update. The CI score is derived from a combination of factors, including the World Bank's Country Policy and Institutional Assessment (CPIA), real GDP growth, and foreign exchange reserves' import coverage. This most recent evaluation of South Sudan's CI score is based on data from the October 2023 World Economic Outlook (WEO) and 2022 CPIA.

Text Table 4. Republic of South Sudan: Debt Carrying Capacity and Thresholds

Country	South Sudan
Country Code	**733**

Debt Carrying Capacity	**Weak**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak 1.39	Weak 1.36	Weak 1.29

Note: Until the October 2018 WEO vintage is released, the previous vintage classification and corresponding score are based solely on the CPIA per the previous framework.

Applicable Thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

New framework				
	Cut-off values			
Weak	CI ≤	2.69		
Medium	2.69	< CI ≤	3.05	
Strong	CI >	3.05		

15. This DSA incorporates a tailored stress test for reduced oil prices and an additional 5 percent of GDP in the contingent liability test. The commodity price stress test involves a one standard deviation decrease in oil prices and a 6-year timeframe for closing the emerging financing gap. The market financing tailored test is not yet applicable to South Sudan and therefore not included in this DSA. The contingent liability stress test has been adjusted to incorporate an extra 5 percent of GDP to account for arrears owed to diplomats in foreign missions, estimated to be around US$150 million, and other potential obligations such as the discovery of more legacy debt or confirmation of arrears on goods and services (see ¶13). The arrears to diplomats and those on goods and services do not prompt an in-debt distress assessment: although a repayment schedule has not yet been confirmed, the government has begun clearing these arrears and is providing salaries to employees in foreign missions.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

16. The risk of external debt distress for South Sudan is assessed as high given the baseline projections with the current borrowing assumptions. The PV of external-debt-to-GDP ratio under the baseline scenario breaches the threshold until FY2027/28 when it falls below it (Figure 1, and Tables 1 and 3). The PV of debt-to-exports ratio remains below the threshold throughout the period in the baseline analysis. The debt service-to-revenue ratio and debt service-to-exports ratio indicators breach the thresholds in the medium term (Figure 1, and Tables 1 and 3). In the baseline scenario, the external debt service-to-exports ratio surpasses the threshold from FY2024/25 until FY2025/26 and continues to exceed the threshold from FY2028/29 until FY2029/2030. The debt service-to-revenue ratio remains above the threshold until FY2029/30.

17. The external debt indicators for South Sudan are highly sensitive to fluctuations in commodity prices and contingent liability shocks. The most severe shock within the tests is a decline in commodity prices, particularly the price of oil, which significantly impacts the South Sudanese economy. The debt-service-to-exports and debt-service-to-revenue indicators are the most vulnerable under this scenario, as the majority of exports and revenues are derived from oil. Moreover, the historical scenario surpasses the threshold in three out of four external debt indicators, emphasizing the importance of maintaining policies that ensure macroeconomic stability and promote strong, inclusive growth for South Sudan's debt sustainability. Indicators of external debt are also sensitive to the commodity price and contingent liabilities shocks.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

18. The risk of public debt distress for South Sudan is assessed as high. The PV of the total public debt-to-GDP ratio is projected to surpass the benchmark until FY2026/27 under the baseline scenario, as depicted in Figure 1 and Table 4. The indicator is anticipated to exceed the threshold at 71 percent in FY2022/23, before gradually declining to 37.5 percent in FY2026/27 and 32.8 percent in FY2027/28.

19. The results of the bound tests highlight the need to shore up and diversify revenues. The most severe scenario amongst the bound tests is the primary balance scenario, in which the PV of debt-to-GDP ratio breaches the benchmark through FY2032/33.

RISK RATING AND VULNERABILITIES

20. South Sudan's debt remains assessed as sustainable, however there are substantial downside risks to the baseline scenario. Under the baseline scenario, all debt indicators are projected to fall below their respective thresholds after FY2029/30 in the external analysis. The external debt service-to-revenue ratio, which remains above the benchmark through FY2029/30, is partly attributable to the costly debt service repayments in the medium term and conservative assumptions regarding financing terms to address the estimated financing needs. The nation's debt financing outlook heavily relies on mobilizing non-concessional financing from external sources, presenting a significant risk in the context of increasing global borrowing costs, expanding risk premiums, and capital flow volatility. Efforts are currently underway to enhance debt management, public financial management practices, domestic revenue mobilization, and the development of a domestic market. This includes an external debt stock-take by an international auditor as a one-time exercise, with Fund and World Bank technical assistance supporting the strengthening of debt management within the MoFP. Authorities are recommended to conduct and publish an internal stock-take on a quarterly basis. These reforms are crucial to avoid high-cost loans, enable currently non-viable financing options such as domestic borrowing, and improve debt-carrying capacity over time. Furthermore, limiting the monetization of the deficit and maintaining prudent money growth is essential for gradually reducing inflation to single digits. Maintaining these reforms in the medium term, along with other ongoing macro-fiscal reforms to establish fiscal discipline, is critical for the debt sustainability assessment. Improvements in data quality will also be important due to continued weaknesses in data access and availability, as well as non-negligible residuals in projections.

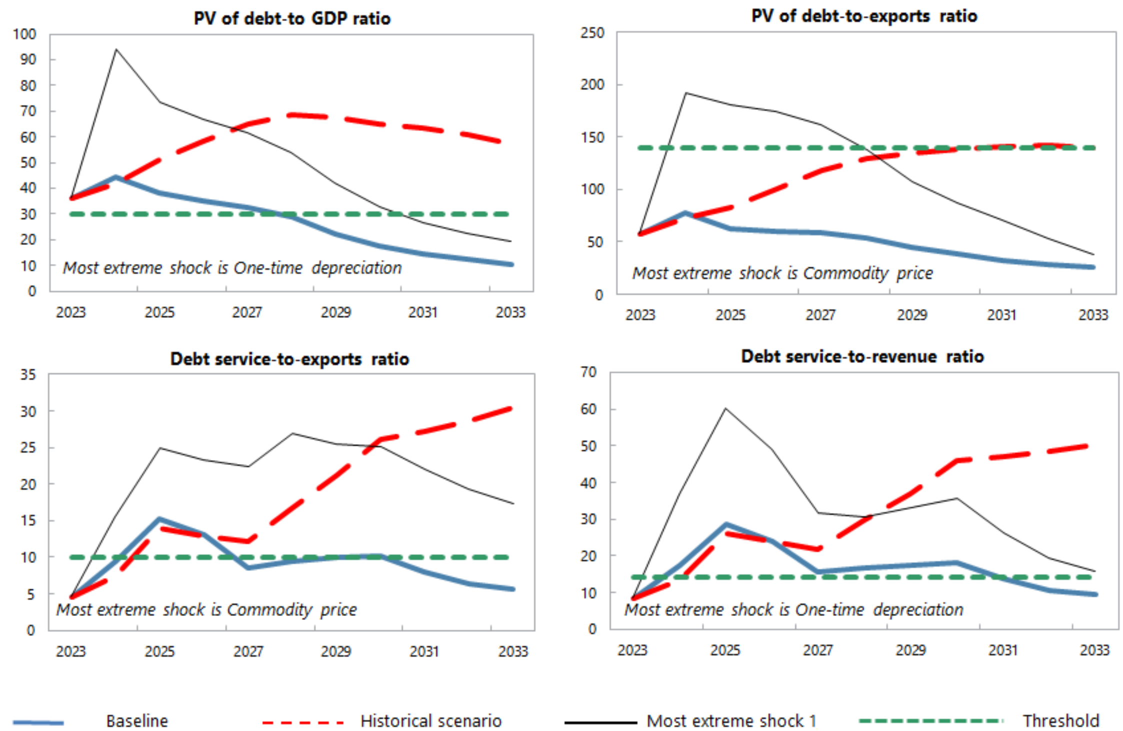
21. The deterioration in global conditions presents further challenges to South Sudan's debt sustainability. The ongoing conflicts in Ukraine and the Middle East have resulted in increased food and refined fuel prices, exacerbating the already precarious food access situation in the fragile nation. Furthermore, the wars in Ukraine and Middle East are likely to adversely impact international aid, which South Sudan heavily relies on, as donors may reallocate funds and reduce aid due to constrained domestic fiscal conditions. The conflict in Sudan poses a significant risk, as demonstrated by the damage since mid-February 2024 to oil pipeline that two-thirds of South Sudan's oil to international markets. A potential flaring up of the Red Sea crisis that has disrupted commercial shipping in recent months and has led to an increase in maritime rates, poses substantial risks for South Sudan oil exports. The tightening of global financial conditions could also create difficulties for South Sudan in obtaining external financing, consequently making debt service more costly. Alongside these factors, weak governance over reforms and expenditures, as well as climate-related natural disasters, heightens the potential for social unrest, civil conflict, and escalating violence. These elements are particularly concerning as South Sudan approaches its 2024 election process, which could be a critical juncture for the nation's stability and ongoing peace efforts. In summary, South Sudan has minimal capacity to withstand such shocks and remains at a high risk of debt distress.

AUTHORITIES' VIEWS

22. The authorities concurred with the DSA's evaluation. They acknowledged the significance of maintaining up-to-date debt payments, ceasing oil advances, steering clear of excessively non-concessional loans, and implementing prudent fiscal and monetary policies as outlined in the staff report to enhance South Sudan's debt sustainability.

Figure 1. Republic of South Sudan: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, FY2023–2033[1]

Figure 1. South Sudan: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2023-2033 1/



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices 2/	Yes	No
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	100%
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	6.7%	6.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	9	9
Avg. grace period	2	2

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

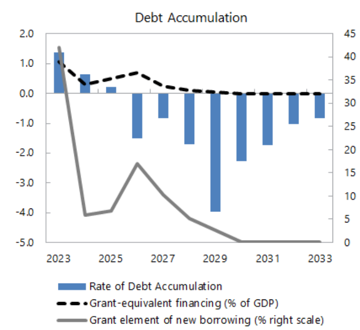
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

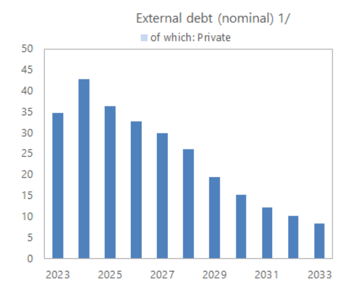
Table 1. Republic of South Sudan: External Debt Sustainability Framework, Baseline Scenario, FY2022–2043

(In percent of GDP, unless otherwise indicated)

	Actual	Projections												Average 8/	
Fiscal Year 9/	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2043	Historical	Projections
External debt (nominal) 1/	34.8	34.8	42.9	36.3	32.8	30.0	26.0	19.5	15.1	12.2	10.1	8.4	1.3	25.4	24.4
of which: public and publicly guaranteed (PPG)	34.8	34.8	42.9	36.3	32.8	30.0	26.0	19.5	15.1	12.2	10.1	8.4	1.3	15.6	24.4
Change in external debt	-10.1	0.0	8.1	-6.6	-3.5	-2.8	-4.0	-6.5	-4.4	-3.0	-2.1	-1.7	-0.2		
Identified net debt-creating flows	-11.1	-8.1	-2.6	-17.4	-11.2	-10.3	-8.8	-7.9	-5.5	-6.2	-5.5	-4.4	-1.4	-6.2	-8.0
Non-interest current account deficit	-0.3	-8.6	-5.0	-8.5	-8.6	-7.6	-5.8	-5.1	-3.2	-2.5	-0.5	0.4	-0.9	3.2	-5.0
Deficit in balance of goods and services	7.2	2.0	11.4	7.9	9.1	10.4	11.8	11.0	10.8	11.5	14.1	14.1	6.6	14.0	10.4
Exports	65.6	62.8	57.3	61.4	58.2	55.2	52.7	50.4	46.7	44.8	43.0	41.1	22.2		
Imports	72.8	64.8	68.7	69.2	67.4	65.7	64.5	61.4	57.5	56.4	57.1	55.2	28.8		
Net current transfers (negative = inflow)	-18.4	-22.8	-28.7	-25.4	-25.6	-24.6	-23.2	-21.4	-19.1	-17.7	-16.5	-15.5	-8.1	-23.7	-21.9
of which: official	-1.0	-1.4	-2.1	-1.6	-2.0	-1.9	-1.8	-1.6	-1.2	-1.0	-0.8	-0.7	-0.1		
Other current account flows (negative = net inflow)	10.9	12.1	12.3	9.0	7.9	6.6	5.6	5.4	5.1	3.7	1.9	1.7	0.6	12.9	6.5
Net FDI (negative = inflow)	-0.7	-0.6	-1.9	-2.5	-2.1	-2.3	-2.7	-2.5	-2.3	-3.6	-5.1	-4.7	-0.6	0.7	-2.8
Endogenous debt dynamics 2/	-10.1	1.1	4.2	-6.3	-0.5	-0.3	-0.3	-0.3	-0.1	0.0	0.0	0.0	0.1		
Contribution from nominal interest rate	1.9	0.3	0.7	1.4	1.4	1.3	1.2	1.0	0.9	0.8	0.6	0.5	0.1		
Contribution from real GDP growth	2.6	0.8	3.6	-7.7	-1.8	-1.6	-1.5	-1.4	-1.0	-0.8	-0.7	-0.6	-0.1		
Residual 3/	1.0	8.0	10.8	10.8	7.7	7.5	4.8	1.4	1.2	3.2	3.5	2.7	1.3	11.3	5.6
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators															
PV of PPG external debt-to-GDP ratio	34.8	36.2	44.3	38.0	35.2	32.6	28.6	22.4	17.7	14.6	12.4	10.5	2.1		
PV of PPG external debt-to-exports ratio	53.0	57.7	77.4	62.0	60.4	59.0	54.4	44.5	38.0	32.6	28.8	25.5	9.5		
PPG debt service-to-exports ratio	17.0	4.6	9.4	15.3	13.0	8.6	9.4	10.1	10.2	8.0	6.3	5.6	1.9		
PPG debt service-to-revenue ratio	36.6	8.5	17.4	28.5	23.9	15.6	16.7	17.5	18.0	13.8	10.7	9.3	2.5		
Gross external financing need (Million of U.S. dollars)	741.9	-459.9	-90.2	-116.0	-232.7	-399.2	-295.6	-230.7	-68.0	-289.7	-352.8	-280.0	-418.4		
Key macroeconomic assumptions															
Real GDP growth (in percent)	-8.0	-2.4	-8.5	21.1	5.2	5.1	5.4	5.7	5.7	5.8	5.9	6.0	6.3	5.0	5.0
GDP deflator in US dollar terms (change in percent)	48.6	2.3	-9.2	-3.2	-1.2	0.1	2.4	3.0	3.0	3.0	3.0	3.0	4.0	-2.7	0.6
Effective interest rate (percent) 4/	5.9	0.9	1.6	3.8	3.9	4.0	4.2	4.4	5.1	5.5	5.8	5.9	11.0	4.1	4.1
Growth of exports of G&S (US dollar terms, in percent)	31.1	-4.4	-24.2	25.5	-1.4	-0.1	2.9	5.3	5.2	5.2	5.2	5.1	0.0	265.9	2.2
Growth of imports of G&S (US dollar terms, in percent)	16.2	-11.0	-11.9	18.1	1.1	2.6	6.0	4.6	6.5	7.4	11.2	6.4	0.0	4.9	3.7
Grant element of new public sector borrowing (in percent)	...	42.1	5.9	6.9	17.0	10.3	5.2	2.6	0.0	0.0	0.0	0.0	0.0	...	8.2
Government revenues (excluding grants, in percent of GDP)	30.5	33.7	31.0	33.0	31.7	30.5	29.7	29.0	26.5	26.0	25.4	24.9	16.9	34.6	29.2
Aid flows (in Million of US dollars) 5/	0.0	182.8	34.9	67.0	94.6	35.8	16.1	7.5	0.0	0.0	0.0	0.0	0.0		
Grant-equivalent financing (in percent of GDP) 6/	...	1.1	0.3	0.5	0.7	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	...	0.3
Grant-equivalent financing (in percent of external financing) 6/	...	42.1	5.9	6.9	17.0	10.3	5.2	2.6	0.0	0.0	0.0	0.0	0.0	...	8.2
Nominal GDP (Million of US dollars)	7,284	7,275	6,045	7,083	7,362	7,750	8,368	9,205	10,452	11,455	12,577	13,830	39,402		
Nominal dollar GDP growth	36.7	-0.1	-16.9	17.2	3.9	5.3	8.0	10.0	13.5	9.6	9.8	10.0	11.0	1.8	6.4
Memorandum items:															
PV of external debt 7/	34.8	36.2	44.3	38.0	35.2	32.6	28.6	22.4	17.7	14.6	12.4	10.5	2.1		
In percent of exports	53.0	57.7	77.4	62.0	60.4	59.0	54.4	44.5	38.0	32.6	28.8	25.5	9.5		
Total external debt service-to-exports ratio	17.0	4.6	9.4	15.3	13.0	8.6	9.4	10.1	10.2	8.0	6.3	5.6	1.9		
PV of PPG external debt (in Million of US dollars)	2533.4	2634.4	2680.8	2694.4	2588.1	2527.6	2395.4	2062.7	1854.7	1672.5	1554.0	1450.9	835.0		
(PVt-PVt-1)/GDPt-1 (in percent)		1.4	0.6	0.2	-1.5	-0.8	-1.7	-4.0	-2.3	-1.7	-1.0	-0.8	0.0		
Non-interest current account deficit that stabilizes debt ratio	9.8	-8.6	-13.1	-1.9	-5.1	-4.9	-1.8	1.5	1.2	0.4	1.6	2.1	-0.7		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Current-year interest payments divided by previous period debt stock.
5/ Defined as grants, concessional loans, and debt relief.
6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).
7/ Assumes that PV of private sector debt is equivalent to its face value.
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.
9/ The fiscal year runs from July to June, i.e., 2021 refers to FY20/21 ending in June 2021.

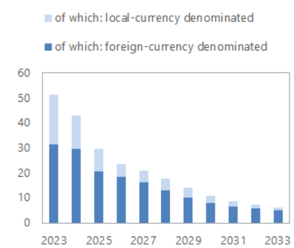
Table 2. Republic of South Sudan: Public Sector Debt Sustainability Framework, Baseline Scenario, FY2022–2043

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
Fiscal Year 7/	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	47.2	51.2	42.9	29.5	23.6	20.8	17.6	6.2	1.4	33.5	21.1
of which: external debt	34.8	34.8	38.0	25.3	19.9	17.6	14.9	5.2	0.6	22.9	17.3
Change in public sector debt	-8.6	3.9	-8.3	-13.3	-6.0	-2.8	-3.2	-1.1	0.6		
Identified debt-creating flows	-21.1	-8.3	8.7	-18.6	-0.5	-0.5	-0.8	-2.6	-1.1	5.6	-3.4
Primary balance	6.2	-8.4	-4.4	-4.8	-4.5	-4.6	-4.2	-2.4	-1.2	-2.0	-4.1
Revenue and grants	30.5	33.7	31.0	33.0	31.7	30.5	29.7	24.9	16.9	39.3	29.2
of which: grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Primary (noninterest) expenditure	36.7	25.3	26.6	28.3	27.1	26.0	25.5	22.5	15.7	37.3	25.1
Automatic debt dynamics	-27.3	0.1	7.5	-18.8	-0.6	-0.4	-0.8	-0.3	0.1		
Contribution from interest rate/growth differential	1.3	-4.6	-4.1	-10.9	-1.3	-0.7	-0.7	-0.2	0.1		
of which: contribution from average real interest rate	-3.5	-5.7	-8.8	-3.4	0.2	0.5	0.4	0.2	0.1		
of which: contribution from real GDP growth	4.9	1.2	4.8	-7.5	-1.5	-1.1	-1.1	-0.4	0.0		
Contribution from real exchange rate depreciation	-28.7	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	5.7	4.9	4.7	4.5	4.1	0.0	0.0	0.0	2.2
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	5.7	4.9	4.7	4.5	4.1	0.0	0.0		
Residual	12.5	17.0	-5.5	-2.6	-4.8	-2.0	-2.4	1.4	1.7	-2.2	0.4
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	55.8	71.1	79.3	44.3	40.7	37.5	32.8	12.1	2.4		
PV of public debt-to-revenue and grants ratio	183.2	210.7	255.4	134.1	128.5	122.9	110.4	48.4	14.0		
Debt service-to-revenue and grants ratio 3/	36.9	8.8	17.7	28.9	24.1	15.8	16.9	9.4	2.5		
Gross financing need 4/	17.4	-3.1	4.7	6.8	3.1	0.3	0.8	0.0	-0.8		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	-8.0	-2.4	-8.5	21.1	5.2	5.1	5.4	6.0	6.3	5.0	5.0
Average nominal interest rate on external debt (in percent)	5.9	0.9	1.6	4.2	5.6	6.6	7.2	9.8	25.3	3.5	6.5
Average real interest rate on domestic debt (in percent)	5.2	-0.6	-0.2	2.3	3.6	4.7	5.1	7.7	25.3	3.1	4.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-52.7	...	...	...	...	...	...	...	...	55.3	
Inflation rate (GDP deflator, in percent)	229.5	77.1	70.3	63.4	8.6	10.2	12.7	14.1	14.9	102.9	28.8
Growth of real primary spending (deflated by GDP deflator, in percent	-9.1	-32.6	-3.8	28.7	1.0	0.5	3.7	3.6	-4.7	107.8	1.2
Primary deficit that stabilizes the debt-to-GDP ratio 5/	14.8	-12.4	3.9	8.6	1.4	-1.8	-1.0	-1.3	-1.8	2.4	-0.4
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

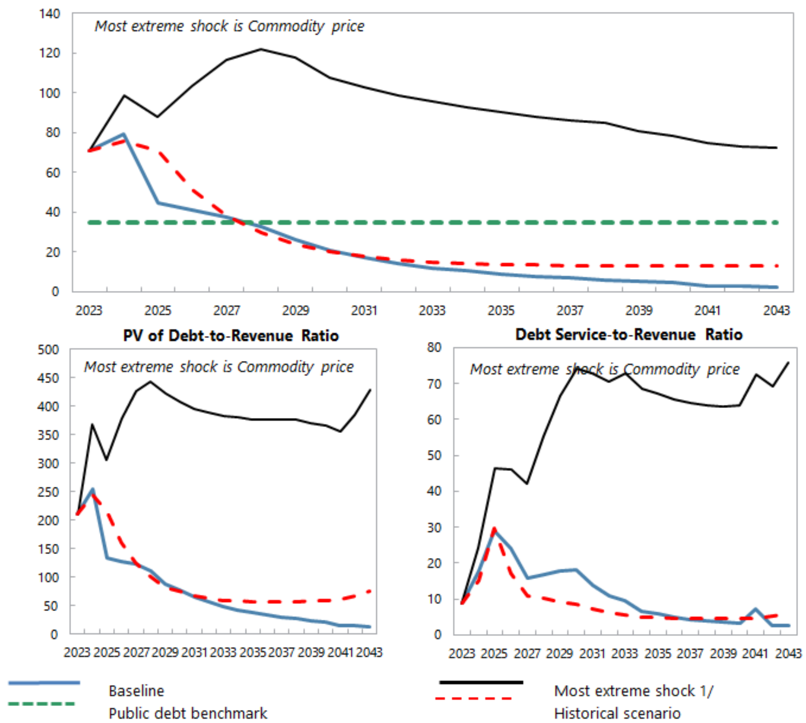
Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government, central bank. Definition of external debt is Currency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.
7/ The fiscal year runs from July to June, i.e., 2021 refers to FY20/21 ending in June 2021.

Figure 2. Republic of South Sudan: Indicators of Public Debt Under Alternative Scenarios, FY2023–2043



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	6.7%	6.7%
Avg. maturity (incl. grace period)	9	9
Avg. grace period	2	2
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	2.0%
Avg. maturity (incl. grace period)	1	5
Avg. grace period	0	3
Domestic short-term debt		
Avg. real interest rate	0%	0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Republic of South Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, FY2023–2043

(in percent)

	Projections 1/																				
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
PV of debt-to GDP ratio																					
Baseline	**36.2**	**44.3**	**38.0**	**35.2**	**32.6**	28.6	22.4	17.7	14.6	12.4	10.5	9.0	7.8	6.9	6.1	5.4	4.6	4.0	2.6	2.4	2.1
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2023-2043 2/	**36.2**	**41.9**	**51.1**	**58.5**	**65.1**	**68.5**	**67.6**	**64.9**	**63.2**	**60.9**	**57.2**	**53.3**	**49.7**	**46.7**	**44.4**	**42.7**	**41.1**	**38.4**	**35.1**	**32.8**	**30.0**
B. Bound Tests																					
B1. Real GDP growth	**36.2**	**47.5**	**47.4**	**43.8**	**40.6**	**35.7**	27.9	22.0	17.9	15.0	12.7	10.9	9.5	8.4	7.5	6.8	5.9	5.2	3.2	3.0	2.7
B2. Primary balance	**36.2**	**54.9**	**62.4**	**64.8**	**67.2**	**66.9**	**59.5**	**52.6**	**48.5**	**45.3**	**42.5**	**40.0**	**37.8**	**35.8**	**34.0**	**32.3**	29.8	28.2	25.8	24.7	23.6
B3. Exports	**36.2**	**63.9**	**66.3**	**63.6**	**59.9**	**52.4**	**42.1**	**33.7**	27.1	21.7	17.1	13.6	11.6	9.9	8.6	7.5	6.3	5.5	3.5	3.1	2.8
B4. Other flows 3/	**36.2**	**57.2**	**60.0**	**57.7**	**54.0**	**47.1**	**37.9**	**30.3**	24.2	19.3	15.0	12.1	10.2	8.7	7.5	6.5	5.5	4.8	3.0	2.7	2.4
B5. One-time 30 percent nominal depreciation	**36.2**	**93.9**	**73.3**	**67.0**	**61.5**	**54.0**	**41.8**	**32.7**	26.6	22.6	19.5	17.4	15.2	13.6	12.3	11.1	9.7	8.6	5.4	4.9	4.5
B6. Combination of B1-B5	**36.2**	**64.8**	**80.9**	**78.4**	**73.4**	**64.0**	**51.7**	**41.4**	**33.0**	26.0	19.8	15.8	13.2	11.3	9.6	8.3	7.0	6.0	3.8	3.4	3.0
C. Tailored Tests																					
C1. Combined contingent liabilities	**36.2**	**55.4**	**51.0**	**53.2**	**55.3**	**55.2**	**48.2**	**42.0**	**38.2**	**35.3**	**32.7**	**30.6**	28.6	27.0	25.5	24.1	22.1	20.8	18.7	17.9	17.0
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**36.2**	**66.7**	**76.6**	**75.2**	**71.0**	**61.9**	**50.2**	**39.6**	**30.6**	22.5	15.2	10.2	7.1	4.7	2.8	1.3	-0.4	-2.0	-4.6	-5.6	-6.3
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**
PV of debt-to-exports ratio																					
Baseline	57.7	77.4	62.0	60.4	59.0	54.4	44.5	38.0	32.6	28.8	25.5	23.1	20.9	19.3	17.8	16.5	15.2	14.0	9.6	9.6	9.5
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2023-2043 2/	57.7	73.1	83.3	100.4	117.9	130.0	134.1	139.0	**141.0**	**141.8**	139.3	135.8	132.8	130.6	130.2	131.4	136.2	133.9	128.5	133.2	135.2
B. Bound Tests																					
B1. Real GDP growth	57.7	77.4	62.0	60.4	59.0	54.4	43.9	35.8	30.1	26.2	23.0	20.7	18.7	17.2	15.9	14.8	13.4	12.3	8.0	8.0	8.1
B2. Primary balance	57.7	95.8	101.7	111.3	121.6	127.0	118.1	112.6	108.3	105.5	103.4	102.1	101.0	100.3	99.8	99.3	98.9	98.4	94.6	100.2	106.2
B3. Exports	57.7	104.3	116.8	117.9	117.3	107.5	89.4	74.0	61.6	51.2	41.8	34.7	30.5	27.2	24.5	22.1	19.4	17.4	11.5	11.2	11.1
B4. Other flows 3/	57.7	99.9	97.7	99.0	97.7	89.4	74.4	61.5	51.0	42.1	33.9	28.4	25.0	22.2	19.9	17.9	15.7	14.1	9.3	9.1	8.9
B5. One-time 30 percent nominal depreciation	57.7	77.4	56.4	54.3	52.6	48.4	38.7	31.3	26.4	23.3	20.9	19.3	17.5	16.3	15.2	14.3	13.0	12.0	7.7	7.8	7.9
B6. Combination of B1-B5	57.7	126.6	110.4	**141.1**	139.2	127.2	106.3	88.0	72.7	59.4	47.0	38.9	33.9	29.9	26.6	23.7	20.7	18.4	12.2	11.8	11.6
C. Tailored Tests																					
C1. Combined contingent liabilities	57.7	96.7	83.1	91.3	100.1	104.8	95.6	89.8	85.1	82.1	79.6	77.9	76.5	75.5	74.8	74.0	73.3	72.6	68.6	72.5	76.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	57.7	**192.6**	**180.4**	**174.5**	**161.7**	137.3	107.7	87.9	70.3	53.7	37.7	26.3	19.0	13.1	8.1	3.8	-1.1	-6.4	-15.2	-20.5	-25.5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**
Debt service-to-exports ratio																					
Baseline	4.6	9.4	**15.3**	**13.0**	8.6	9.4	**10.1**	**10.2**	8.0	6.3	5.6	4.1	3.7	3.1	2.8	2.7	2.5	2.3	5.5	1.9	1.9
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2023-2043 2/	4.6	7.4	**14.0**	**13.0**	**12.1**	**16.7**	**21.2**	**26.0**	**27.1**	**28.6**	**30.4**	**30.1**	**29.9**	**29.0**	**28.2**	**27.9**	**28.7**	**29.2**	**34.1**	**30.3**	**31.6**
B. Bound Tests																					
B1. Real GDP growth	4.6	9.4	**15.3**	**13.0**	8.6	9.4	**10.1**	**10.2**	7.9	6.1	5.2	3.7	3.2	2.6	2.3	2.1	2.0	2.0	5.2	1.5	1.5
B2. Primary balance	4.6	9.1	**16.3**	**15.1**	**14.2**	**19.1**	**21.3**	**22.9**	**22.5**	**21.8**	**22.7**	**20.5**	**19.0**	**19.1**	**19.1**	**18.7**	**19.0**	**19.2**	**22.5**	**19.9**	**21.0**
B3. Exports	4.6	**10.8**	**20.0**	**18.9**	**15.5**	**20.1**	**20.7**	**20.6**	**17.5**	**14.9**	**13.5**	9.7	6.3	5.3	4.6	4.0	3.6	3.3	7.1	2.4	2.3
B4. Other flows 3/	4.6	9.4	**16.5**	**15.4**	**13.8**	**16.9**	**17.4**	**17.3**	**14.7**	**12.7**	**11.4**	7.7	5.3	4.4	3.8	3.3	3.0	2.7	5.7	1.9	1.8
B5. One-time 30 percent nominal depreciation	4.6	9.4	**15.3**	**12.6**	8.2	8.2	8.9	9.0	6.8	5.1	4.2	2.7	2.9	2.3	2.0	1.9	1.9	1.9	5.1	1.4	1.4
B6. Combination of B1-B5	4.6	**10.8**	**21.3**	**20.4**	**19.9**	**24.5**	**25.0**	**24.8**	**21.5**	**18.8**	**17.1**	**11.1**	7.5	6.3	5.4	4.7	4.1	3.7	7.4	2.6	2.5
C. Tailored Tests																					
C1. Combined contingent liabilities	4.6	9.1	**16.3**	**14.4**	**10.7**	**12.1**	**13.3**	**13.5**	**11.3**	9.7	9.5	6.0	5.1	3.8	2.8	2.0	1.8	1.6	4.8	1.1	1.0
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	4.6	**15.5**	**25.0**	**23.3**	**22.5**	**26.9**	**25.5**	**25.2**	**22.0**	**19.3**	**17.3**	**10.9**	6.0	4.3	2.9	1.7	0.8	-0.1	2.7	-2.3	-3.3
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**
Debt service-to-revenue ratio																					
Baseline	8.5	**17.4**	**28.5**	**23.9**	**15.6**	**16.7**	**17.5**	**18.0**	13.8	10.7	9.3	6.6	5.8	4.8	4.2	3.8	3.5	3.1	7.1	2.4	2.5
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2023-2043 2/	8.5	13.6	**26.0**	**23.8**	**21.9**	**29.6**	**36.9**	**45.9**	**46.9**	**48.4**	**50.2**	**48.5**	**46.9**	**44.3**	**42.0**	**40.4**	**39.6**	**39.1**	**44.4**	**39.4**	**41.6**
B. Bound Tests																					
B1. Real GDP growth	8.5	**18.6**	**35.4**	**29.7**	**19.5**	**20.7**	**22.0**	**23.6**	**18.0**	13.7	11.5	8.0	6.9	5.5	4.7	4.4	4.1	3.9	10.0	3.0	3.0
B2. Primary balance	8.5	**16.8**	**30.3**	**27.7**	**25.7**	**33.8**	**37.0**	**40.5**	**38.9**	**36.9**	**37.4**	**32.9**	**29.7**	**29.1**	**28.4**	**27.1**	**26.3**	**25.7**	**29.2**	**26.0**	**27.6**
B3. Exports	8.5	**21.4**	**34.5**	**32.2**	**26.0**	**33.0**	**33.6**	**35.5**	**29.6**	**24.9**	**22.1**	**15.7**	10.0	8.2	7.0	6.1	5.4	4.9	10.3	3.5	3.4
B4. Other flows 3/	8.5	**17.4**	**30.7**	**28.3**	**25.0**	**30.0**	**30.5**	**32.2**	**27.0**	**22.9**	**20.3**	13.4	9.0	7.4	6.2	5.4	4.8	4.3	8.9	3.1	3.0
B5. One-time 30 percent nominal depreciation	8.5	**36.8**	**60.2**	**49.0**	**31.5**	**30.7**	**33.0**	**35.6**	**26.3**	**19.3**	**15.8**	10.0	10.5	8.3	7.2	6.7	6.4	6.2	**16.7**	4.8	4.9
B6. Combination of B1-B5	8.5	**17.9**	**37.9**	**35.7**	**34.4**	**41.5**	**41.9**	**44.0**	**37.5**	**32.3**	**28.9**	**18.5**	12.2	10.1	8.5	7.3	6.4	5.6	11.0	3.9	3.8
C. Tailored Tests																					
C1. Combined contingent liabilities	8.5	**16.8**	**30.4**	**26.5**	**19.4**	**21.4**	**23.0**	**23.8**	**19.5**	**16.3**	**15.6**	9.6	8.0	5.8	4.1	2.8	2.5	2.2	6.2	1.5	1.3
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	8.5	**20.1**	**37.0**	**36.8**	**36.2**	**44.0**	**42.5**	**42.8**	**36.9**	**31.9**	**28.1**	**17.4**	9.4	6.6	4.4	2.6	1.1	-0.1	3.9	-3.3	-4.9
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**

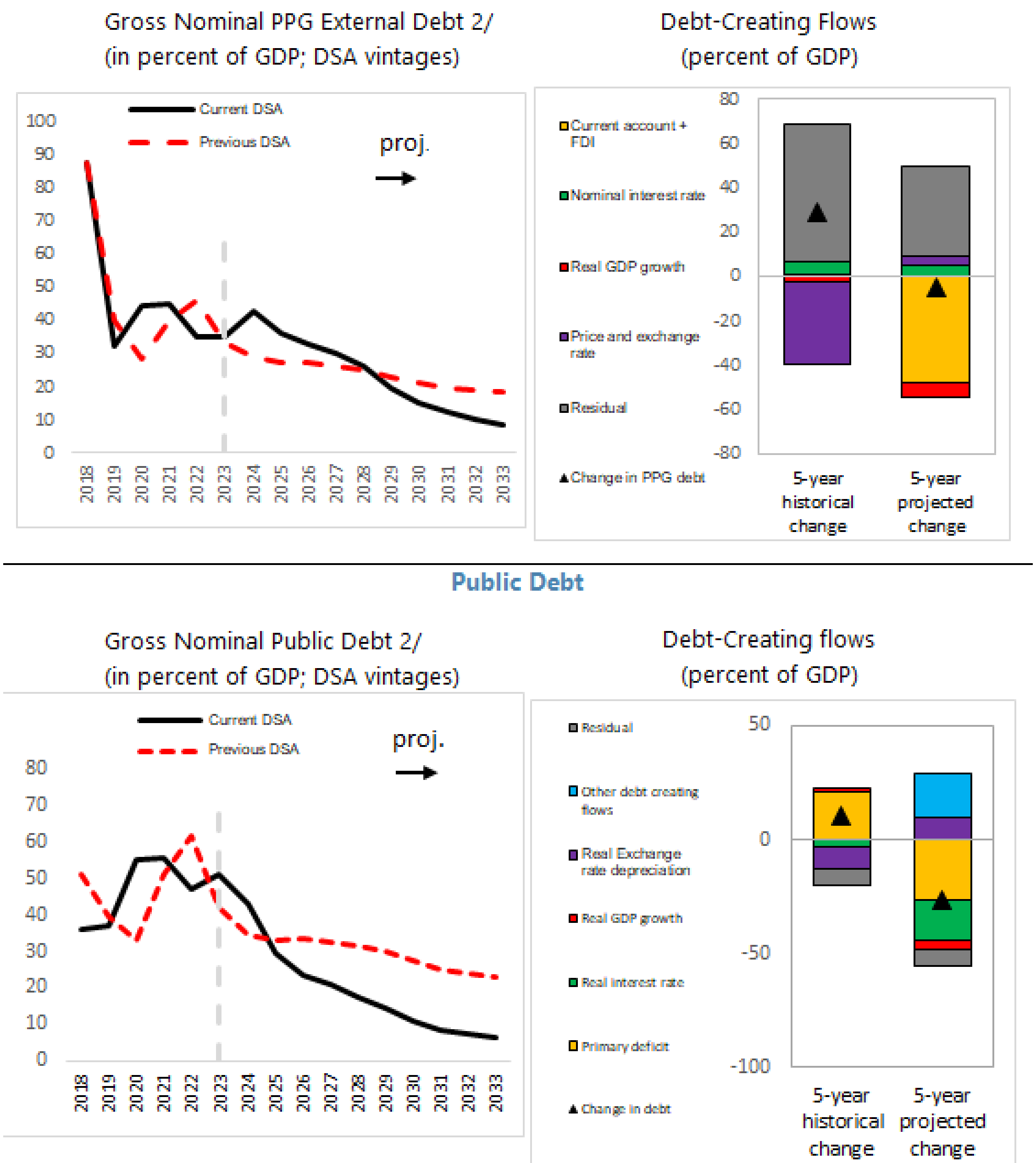
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Republic of South Sudan: Sensitivity Analysis for Key Indicators of Public Debt FY2023–2033

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to-GDP Ratio											
Baseline	**71**	**79.3**	**44.3**	**40.7**	**37.5**	32.8	25.8	20.5	16.8	14.2	12.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 2/	**71**	**76**	**71**	**51**	**38**	30	24	20	18	16	15
B. Bound Tests											
B1. Real GDP growth	**71**	**90**	**75**	**70**	**65**	**59**	**51**	**44**	**39**	**36**	33
B2. Primary balance	**71**	**88**	**76**	**73**	**71**	**66**	**60**	**53**	**50**	**47**	**44**
B3. Exports	**71**	**91**	**64**	**61**	**58**	**50**	**40**	31	25	20	15
B4. Other flows 3/	**71**	**100**	**67**	**64**	**60**	**52**	**42**	32	25	20	16
B5. One-time 30 percent nominal depreciation	**71**	**95**	**65**	**59**	**53**	**46**	**37**	29	24	19	15
B6. Combination of B1-B5	**71**	**97**	**74**	**60**	**50**	**40**	28	23	20	17	15
C. Tailored Tests											
C1. Combined contingent liabilities	**71**	**89**	**65**	**62**	**59**	**54**	**48**	**42**	**39**	**36**	34
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**71**	**99**	**88**	**103**	**116**	**122**	**118**	**108**	**103**	**99**	**95**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
PV of Debt-to-Revenue Ratio											
Baseline	210.7	255.4	134.1	128.5	122.9	110.4	88.9	77.3	64.9	55.9	48.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 2/	211	244	214	161	125	100	82	76	68	63	60
B. Bound Tests											
B1. Real GDP growth	211	248	173	167	162	151	133	125	115	107	99
B2. Primary balance	211	285	231	232	232	223	206	201	191	183	176
B3. Exports	211	295	195	194	189	169	138	116	95	77	62
B4. Other flows 3/	211	322	204	203	196	176	143	121	98	80	63
B5. One-time 30 percent nominal depreciation	211	306	197	187	174	155	126	110	91	75	60
B6. Combination of B1-B5	211	313	225	189	165	135	98	88	77	68	61
C. Tailored Tests											
C1. Combined contingent liabilities	211	287	196	194	192	183	165	160	150	142	135
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	211	369	307	377	426	443	422	407	396	388	383
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	8.8	17.7	28.9	24.1	15.8	16.9	17.7	18.3	14.0	10.8	9.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 2/	9	15	30	17	11	10	9	9	7	6	6
B. Bound Tests											
B1. Real GDP growth	9	17	29	23	17	20	23	26	23	20	20
B2. Primary balance	9	17	31	28	26	34	37	41	39	37	37
B3. Exports	9	18	30	28	23	29	29	29	24	20	18
B4. Other flows 3/	9	18	31	29	25	30	30	31	26	22	19
B5. One-time 30 percent nominal depreciation	9	23	36	29	20	24	27	29	25	21	19
B6. Combination of B1-B5	9	19	33	28	18	19	20	21	16	12	11
C. Tailored Tests											
C1. Combined contingent liabilities	9	17	31	27	20	22	23	24	20	16	16
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	9	24	46	46	42	55	67	74	73	70	73
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 3. Republic of South Sudan: Drivers of Debt Dynamics—Baseline Scenario[1]

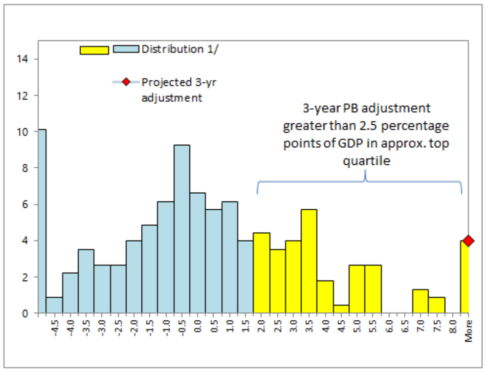


1/ Analyses on unexpected changes in debt are unavailable due to the lack of data.

2/ The current DSA assumes more external financing for peace process than the previous DSA, which makes its Gross Nominal PPG External Debt and Gross Nominal Public Debt larger than the previous DSA.

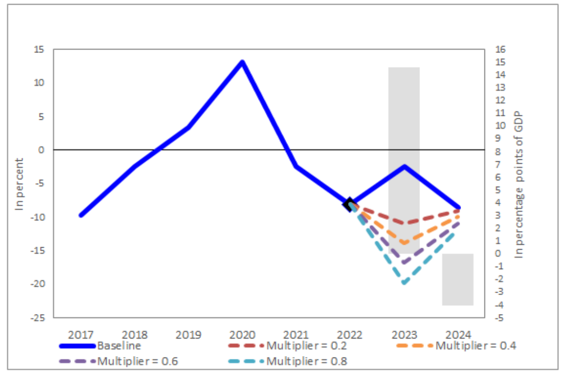
Figure 4. Republic of South Sudan: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Statement by Mr. Willie Nakunyada and Mr. Morekwa Esman Nyamongo
on Republic of South Sudan Executive Board Meeting
June 7, 2024

Introduction

1. Our South Sudanese authorities appreciate the constructive engagements with Fund staff during the 2023 Article IV Consultations, and the mission for the first and second reviews under Staff-Monitored Program with Board Involvement (PMB). They broadly share the staff's assessment of macroeconomic developments and policy priorities. The authorities also appreciate the provision of emergency support under the Food Shock Window (FSW) that helped avert a humanitarian crisis.

2. South Sudan is facing significant macroeconomic challenges compounded by the spillovers from the conflict in Sudan and adverse climate shocks. Specifically, oil pipeline damages, and difficult oil export conditions owing to the disruption of the Red Sea shipment services, have severely undermined fiscal and export earnings and created sizeable financing gaps. At the same time, the country is hosting over 650,000 refugees and returnees from Sudan, further straining the social service delivery system, and worsening the already dire humanitarian situation, in the context of food shortages occasioned by 5 consecutive years of adverse climate events. Against this background, the authorities are grappling with fiscal and external imbalances, persistent currency pressures on the back of depleted reserve buffers, and the resurgence of inflation. Despite these unanticipated challenges, the authorities have made determined efforts to keep the PMB on track and view continued Fund support and flexibility as indispensable in tackling the complex set of challenges. Importantly, they continue to uphold the September 2018 Revitalized Agreement on the Resolution of the Conflict in the Republic of South Sudan (R-ARCSS), brokered by Intergovernmental Authority on Development (IGAD), to preserve an enabling political environment.

Performance Under the PMB

3. Program performance under the PMB arrangement, which was initially strong, encountered headwinds from the repercussions of conflict spillovers. Nonetheless, the authorities kept the program on track and met seven quantitative targets (QTs) for end-March and end-June 2023. However, the QT on the floor on social spending was missed, while the one on reserve money growth was missed by a small margin.

4. Several structural benchmarks (SBs) were met with a delay against the backdrop of challenging circumstances. Nevertheless, following management approval of two extensions to the program the following three SBs, which are prior actions for the completion of the first and second reviews, were met: (i) an audit of the FSW-financed expenditure was finalized and published in April 2024; (ii) the Board of the Bank of South Sudan (BoSS) has adopted the external audit for the BoSS financial statements for FY2021; and (iii) budget execution reports for the first two quarters of FY2023/24 have been completed and published. However, the SB on publication of all signed oil production sharing agreements with oil extracting companies was not met because oil companies consider it a breach of contractual obligations.

5. Considering that the authorities have kept the PMB arrangement on track under exceptionally difficult circumstances, and met prior actions, they seek Executive Board support in completion of the combined first and second reviews. They also request a 6-month extension of the PMB to enable them to implement the outstanding reforms and fortify the foundations for a UCT-quality arrangement. Going forward, the authorities plan to deepen Fund engagement through a 3-year arrangement under the Extended Credit Facility (ECF) that would effectively tackle their protracted BOP challenges and catalyze additional donor support. They view the envisaged transition to a UCT-quality program, as essential to support key priorities on public financial management and governance reforms. Reform priorities under a Fund financial arrangement would also include increased oil-sector transparency, strengthening the debt management framework and expenditure controls, regular reporting on debt and fiscal operations, and enhancing the AML/CFT framework to ensure financial integrity.

Recent Economic Developments and Outlook

6. Real GDP growth is projected to contract by 8.5 percent in FY2023/24, largely reflecting the oil export disruptions as well as unfavorable weather conditions which affected agriculture production. Going forward, economic activity is expected to rebound to 21.1 percent in FY2024/25, before averaging 5.4 percent in the medium-term against the backdrop of the resumption of oil exports through the Red Sea, and strong growth in agricultural output. That said, the growth outlook remains intricately bound to the evolution of the conflict in Sudan and the developments in the Red Sea. A further escalation could delay timely completion of repairs to the pipeline which transports oil through Sudan while continued attacks on international shipping in the Red Sea could also further disrupt oil exports. However, higher than projected global oil prices could improve export earnings and public finances.

7. Meanwhile, inflation, which stood at 25.3 percent in FY2022/23, is expected to accelerate to 42.2 percent in FY2023/2024 mainly driven by significant depreciation of the exchange rate. The exchange rate continues to depreciate mostly by disruptions to oil production and exports from the wars in Sudan and the Middle East. Against the background of weak export performance, reserve buffers remain low at 0.7 months of import cover in FY2023/24.

Fiscal Policy and Debt Management

8. Despite the challenging macroeconomic environment, the authorities remain committed to prudent fiscal management underpinned by domestic revenue mobilization efforts and restraint on spending and contracting of non-concessional external debt. To this end, the authorities exercised prudence in the execution of the FY2023/24 budget, supported by higher than anticipated oil, and non-oil revenues, and curtailed expenditures, resulting in an increase in the primary surplus. The authorities also made notable progress on increasing revenues under their 5-year plan, although non-oil revenue remains significantly below potential. They plan to continue efforts on tax and customs reforms, which include the introduction of VAT over the medium term and further strengthening of revenue administration.

9. On the expenditure front, the authorities plan to contain non-priority spending to accommodate higher spending on health, education, and other social and humanitarian support. To this end, the authorities acknowledge that containment of non-priority spending would entail moderation of outlays earmarked for the oil-for-roads initiative, given the limited fiscal space. Relatedly, they plan to make issuance of sovereign guarantees by the BoSS subject to the same approval process as specified in the PFM Act for external loans, consistent with the amended BoSS Act. That said, the war in Sudan has significant effects on the budget, with the authorities continuing to reallocate spending away from non-critical areas to facilitate provision of food and shelter for returning refugees, in cooperation with international aid agencies.

10. Notwithstanding the primary surplus realized, significant financing needs remain. The financing gap, estimated at 5.3 percent of GDP in FY2023/24, follows a significant decline in revenue due to pipeline damages and large negative external financing. Although the significant increase in salaries exerted additional pressure on the budget, the authorities consider this as important to reverse the erosion of real public sector wages in recent years, which had left public salaries at exceptionally low levels. The wage bill as a share of GDP had fallen from about 5.5 percent of GDP in FY2017/18 to about 3.1 percent of GDP in FY2022/23, as nominal wage adjustments fell below inflation during this period. While this increase would bring the wage bill as a share of GDP to the FY2017/18 level, the pay for most public servants remains well below regional and international standards.

11. The authorities reiterate their commitment to ensuring medium-term debt sustainability. South Sudan's debt is assessed to be sustainable with a high risk of debt distress for both external and overall public debt. Notwithstanding the downside risks to the debt outlook, the authorities are committed to maintaining up-to-date debt service payments, ceasing oil advances, steering clear of excessively non-concessional loans, and implementing prudent fiscal and monetary policies in line with staff recommendations. In this vein, they adopted a strategy for avoiding non-concessional borrowing except in the context of debt management operations to improve liquidity or solvency indicators without adversely affecting the risk rating; and taking up loans to finance critical investment projects with high social and economic returns that are embedded in the national development program, and for which concessional financing is unavailable.

Monetary, Exchange Rate, and Financial Sector Policies

12. To curtail monetary growth and thaw down inflationary pressures, the authorities continue to operationalize the reserve money targeting framework. Given the lack of a well-functioning interbank FX market, and the low reserve levels, the authorities view the reserve money targeting framework as appropriate. In this context, the authorities continue to target an annual single digit reserve money growth rate. They endeavor to pause the regular conduct of FX auctions as a liquidity management tool and do so on a need basis to support price discovery while publishing auction data on the BoSS website in a timely manner to foster market confidence.

13. The BoSS reaffirms its commitment to strengthen the monetary and operational framework. Accordingly, the central bank is committed to containing money supply growth and managing liquidity consistent with the overarching objective to restore price stability. The BoSS is also committed to enhancing coordination with the Ministry of Finance and Planning (MoFP), including on cash management, and stands ready to take appropriate actions should the impact of higher salary payments to civil servants, generate macroeconomic instability. The MoFP also plans to improve the auditing framework and implement the new national payment system in the near term. At the same time, they plan to roll out their action plan on the modernization of the monetary policy framework once it is endorsed by the Council of Ministers.

Data for Surveillance and Capacity Development

14. While data provision for surveillance remains a challenge, our authorities have remained open to the technical assistance from the IMF and other institutions. We note that the staff acknowledged that monetary and exchange rate data are sound notwithstanding weaknesses in the other datasets.

15. The authorities appreciate that continued Fund CD and TA support remains vital to support reform implementation. The capacity development needs in South Sudan are significant, spanning many sectors notably, PFM, fiscal governance, revenue administration, monetary operations, and macroeconomic statistics. To this end, our authorities appreciate the leading role of the IMF in providing physical and virtual TA from HQ, AFRITAC East, and coordinated support with other organizations such as the World Bank. Relatedly, they acknowledge that data provision continues to have serious shortcomings that hamper surveillance, but they are committed to improving its quality, periodicity, and timeliness. Specifically, our authorities endeavor to provide crucial information for surveillance on oil production, revenues, and debt to development partners through the PFM Oversight Committee, as well as budget execution.

Structural and Governance Reforms

16. Structural reforms continue to rank high on the authorities' agenda to ensure a gender-inclusive and greener growth. The authorities place a high premium on. Specifically, they are working closely with the Fund on building resilience to climate change, enhancing financial inclusion, and promoting gender-inclusive growth. In this connection, the country's climate agenda remains guided by the analysis contained in the 2022 Article IV report, which

emphasized the importance of consolidating macroeconomic gains and building reserve buffers, to create the fiscal space to cushion volatility from natural disasters or commodity shocks. In addition, the authorities recognize the need to strengthen governance and improve the transparency of government revenue and spending, particularly in the oil-for-infrastructure scheme. They are also taking steps to appoint an external audit firm with experience in central bank audits to conduct an audit on the BoSS financial statements for FY2022 and FY2023. On financial inclusion, the authorities are focusing on banking sector reforms, while gender-inclusive and growth-friendly reforms are being implemented under various government programs.

Conclusion

17. Our South Sudanese authorities reaffirm their commitment to implement sound macroeconomic policies to achieve program objectives. They look forward to Executive Directors' support in completion of the 2023 Article IV Consultation as well as the First and Second reviews under PMB. They also look forward to further support to transition to an ECF arrangement in future to support economic recovery and resolve underlying BOP challenges.