

## Letter of Intent

Juba, Republic of South Sudan, January 9, 2023

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

Dear Ms. Georgieva:

Since the start of the Staff Monitored Program (SMP) in March 2021, we have advanced important economic reforms. This includes the enactment of a successful FX reform and improvements in public finance management (PFM). Specifically, we liberalized the FX market and unified the official and parallel exchange rates, eliminating a premium of over 200 percent between the two at the beginning of the SMP. In addition, we have eliminated all domestic salary arrears, which amounted to 5 months in January 2021, and have introduced revenue and customs administration reforms that have resulted in a significant increase in non-oil revenue collection. We have also increased the transparency of fiscal and monetary operations, including by publishing: budget implementation reports for FY2020/21, FY2021/22, and the first quarter of FY2022/23; the stock of external debt as of end-December 2021; monthly monetary surveys; regular FX auction reports; and the audit reports of the two disbursements under the Rapid Credit Facility.

We have taken corrective measures over the recent months to bring the SMP back on track following slippages against the monetary and fiscal targets for end-August 2022. Fiscal pressures in FY2021/22 proved greater than anticipated, reflecting mainly increased spending on peace-related sectors and continued lifting of crude oil by Sudan in excess of agreed transit fees, despite the end of the Transitional Financial Arrangement in March 2022. Simultaneously, oil resources earmarked for capital spending doubled to 20,000 bpd during the second half of the financial year. Together with large principal repayments, this created sizeable salary arrears and unanticipated financing needs, contributing to a temporary resumption of oil advances, and monetary financing in the second half of the fiscal year. Monetary financing led to a significant depreciation of the exchange rate that has put additional pressure on prices. We have taken several corrective measures, including halting monetary financing since August 2022. This has stabilized the exchange rate and is expected to restore inflation to single digits over the course of the fiscal year. We have also completed all the reforms targeted under the structural benchmarks for the third SMP review.

We face urgent balance of payments (BOP) needs. Recent devastating floods that have hit South Sudan for the fourth year in a row in conjunction with the impact from the latest global food and fuel shocks are exacerbating an already difficult humanitarian situation. The flooding has reduced oil production and agricultural output, displaced communities, and has had a severe impact on people's access to essential services and humanitarian aid. The challenging humanitarian

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situation has deteriorated further, with about two-thirds of the population estimated to experience severe food insecurity this year, the highest level since independence.

We are requesting emergency funding from the IMF under the food shock window of the Rapid Credit Facility (RCF) to finance our urgent BOP needs, amounting to SDR 86.1 million, or 35 percent of quota (about US\$[112.7] million). We expect these funds to be disbursed to the BoSS, which will create a separate monitored account at the Bank for International Settlements (BIS) or US Federal Reserve (Fed) to help ensure transparency and accountability. Considering the sizable expected fiscal gap in FY2022/23 – SSP 254 billion (about 5 percent of GDP) – we ask for about 60 percent of this support (US\$[67.6] million) to be made available to the budget by having it on-lent by the BoSS to the government on the same terms as obtained from the IMF, which will be credited to a dedicated account at the BOSS. We have already prepared, in consultation with Fund staff, a memorandum of understanding (MOU) between the Ministry of Finance and Planning (MoFP) and the BoSS, stipulating responsibilities for servicing in a timely manner the financial obligations to the IMF for this disbursement under the RCF. To help us mitigate the impact of food price and climate shocks on vulnerable groups, we will immediately transfer US\$15 million from the part of the RCF disbursement that goes to the budget to the World Food Programme (WFP), in line with government commitments to provide financial support to WFP in South Sudan, and another US\$5 million to the International Organization for Migration (IOM). The Government of South Sudan (GoSS) will sign separate MOUs with the WFP and IOM that will specify the programs to be funded by these transfers. The remainder of the part that goes to the budget will be used predominantly to finance spending by the Ministry of General Education and Instruction and the Ministry of Health through conditional transfers, which can be easily followed and reported, in line with the allocations made in the FY2022/23 budget adopted by the National Assembly.

We are committed to transparency in the use of these resources. We will ensure that all transactions carried out by the GoSS are recorded in the IFMIS. The Auditor General (AG) will complete by end-September 2023 an audit of all central government spending funded from this disbursement, and the final AG report will be published promptly on the MoFP website. In parallel with this, with assistance from the World Bank the MoFP will conduct a system's review of the expenditure chain in at least 3 States with a view to identifying measures to enhance compliance with the use of conditional transfers from the central government. The GoSS is also committed to conduct, jointly with the WFP and IOM, an assessment on the impact of the WFP and of the IOM programs financed by the envisaged transfer of part of the RCF disbursement discussed above, and to make public the findings of these assessments.

The government and the BoSS are strongly committed to deepening further the economic reforms started under the SMP, to put South Sudan on a path of sustainable and inclusive growth. To that end, the focus of our economic reform program in the near term will be on maintaining macroeconomic stability, strengthening the monetary policy framework, preserving exchange rate unification, and strengthening governance.

- *Restoring fiscal discipline and maintaining debt sustainability.* The FY2022/23 budget will be executed without recourse to monetary financing with a view to maintaining exchange rate



and price stability, while ringfencing social spending. This will be achieved via reforms to increase non-oil revenue further and containing spending within the resource envelope, while giving priority to spending on salaries, health and education spending, and peacebuilding. We will also refrain from contracting non-concessional debt, except for: (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, while avoiding excessive external borrowing, critical investment projects with a high social and economic return that are integral to our national development program, and for which concessional financing is not available. We will consult with the IMF staff prior to contracting any new non-concessional borrowing including oil presales and/or advances.

- *Strengthening the monetary policy framework and improving the functioning of the FX market.* We are committed to refraining from monetary financing and the BoSS will operationalize the monetary policy framework based on reserve money targeting. This will be achieved by setting quarterly reserve money targets and using FX interventions and the new term deposit facility (TDF) to steer reserve money consistent with the targets. We will continue regular FX auctions to facilitate price discovery in the market, and will expand our monetary policy toolkit, including by enhancing the newly introduced TDF.
- *Strengthening governance.* We have started to implement reforms aimed at strengthening our PFM systems, which are critical for supporting good governance and transparency, and for effectively delivering the essential goods and services on which citizens and economic development rely. Consistent with the Immediate Action Plan for PFM reforms, the focus of reforms in this area will be on: strengthening the macro-fiscal framework and budget process; making further progress towards the Treasury Single Account; improving cash management practices; establishing a public procurement and asset disposal authority; starting the rollout of the electronic payroll for government employees using the biometric system; and implementing the outstanding recommendations of the IMF safeguards assessment.

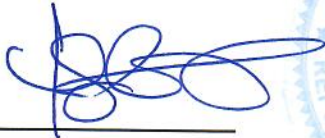
In support of our reform agenda and program, the GoSS requests an IMF Staff-Monitored Program with Board Involvement (PMB) from January 31 to October 31, 2023. We consider the PMB to be essential in supporting our macroeconomic and stabilization efforts, building a track record of sound policy towards a future Fund-supported program, and an indispensable further step towards deepening relations with the international community, including the mobilization of financial support for critical development and poverty-reduction measures on concessional terms. The enclosed MEFP and the Technical Memorandum of Understanding (TMU) provide comprehensive details of our reform agenda and program.

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


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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. The GoSS authorizes the IMF to publish this letter, the attached MEFP and TMU, and the related staff report, 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,



Mr. Dier Tong Ngor  
Minister, Ministry of Finance and Planning



Mr. Johnny Ohisa Damian  
Governor, Bank of South Sudan



Attachment

- I. Memorandum of Economic and Financial Policies