Memorandum of Economic and Financial Policies

Juba, Republic of South Sudan, January 9, 2023

A. Recent Economic Developments and Outlook

1. **Macroeconomic conditions have benefitted from the recovery of oil prices since mid-2021 but continue to reflect the devastating effects of consecutive years of flooding.** Severe floods that have hit South Sudan for the fourth year in a row are weighing on the economy and offsetting the positive effect from the recovery in global oil prices since the pandemic. The flooding has hampered oil production, which declined from 169 thousand barrels/day (bpd) in FY2020/21 to 156 thousand bpd in FY2021/22. The floods have also affected agricultural output, killed livestock, displaced communities, and have had a severe impact on people's access to essential services and humanitarian aid. As a result of these factors, real GDP is estimated to have contracted by 2.9 percent in FY2021/22. Oil production is expected to drop to around 150 thousand bpd in FY2022/23, which will more than offset the projected growth in agriculture, leading to an expected real-GDP contraction of 0.3 percent in FY2022/23.

2. **A weaker exchange rate and higher global commodity prices from recent geopolitical developments are contributing to higher inflation in South Sudan.** As a result of fiscal pressures there was a resumption of overdrafts from the Bank of South Sudan (BoSS) during March-August 2022 to reduce arrears on salaries and goods and services. This led to a large expansion in reserve money during this period, which triggered a significant exchange rate depreciation. Together with the increase in global food and fuel prices since Spring 2022, this led to a sharp increase in prices in Juba and other major cities in recent months. We have taken corrective actions by halting overdrafts from the BoSS, following which the exchange rate has stabilized. However, given that South Sudan relies heavily on imports for consumer goods—including refined fuel products, grains, and medicine—inflation is expected to remain elevated for several months. Absent further external shocks, the restoration of steady money growth below 10 percent per year is expected to contain inflation in the near term and gradually restore it to single digits.

B. Performance Under the SMP

3. **We have advanced significant economic reforms since the start of the SMP in March 2021.** Specifically, we liberalized the FX market and unified the exchange rates in the market since August 2021, eliminating a premium of over 200 percent between the official and parallel market exchange rate at the beginning of the SMP. In addition, we have eliminated all domestic salary arrears, which stood at 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. On fiscal operations, we have published budget implementation reports for FY2020/21, FY2021/22, and the first quarter of FY2022/23, as well as the audit reports from the Auditor General Office on the two disbursements under the Rapid Credit Facility. In addition, an international audit firm submitted in late-December 2022 a report with the results of a stocktake of our external debts, and the report will be published

as prior action for the RCF and PMB. On monetary operations, BoSS is releasing monthly monetary surveys that provide information on international reserves, BoSS claims on the government, and monetary aggregates, among others, and it publicizes the results of weekly auctions FX auctions to banks and FX bureaus.

4. **Performance under the quantitative targets under the SMP for end-August 2022 and on structural fiscal reforms has been mixed.** The floor on net international reserves and clearance of salary arrears have been met as we have eliminated all domestic salary arrears as of August] 2022. We are also taking steps to progressively reduce the salary arrears to our diplomatic personnel serving abroad. However, the ceilings on the central government cash deficit, borrowing from the central bank, contracting or guaranteeing non-concessional borrowing, and reserve money growth were missed (Table 1), as a result of the temporary resumption of overdrafts from the BoSS and a return to the use of oil advances for bridge financing of the budget. The reforms targeted under the structural benchmarks for the third review of the SMP have all been implemented or will be implemented as prior action for the RCF and PMB request (Table 2). In addition, we have started drafting an MOU between the MoFP and BoSS, expected to be completed by January 2023, which will set out the arrangement of the Treasury Single Account (TSA). With regard to cash management, which includes managing oil revenues, the Cash Management Unit (CMU) has updated the cash plans with assistance from TA provided by the IMF, and the Cash Management Committee (CMC) has started to have a monthly meeting to review and approve the updated cash plans and discuss any needed measures identified in those cash plans.

C. Economic Policies

5. **The government and the BoSS are strongly committed to deepening the economic reforms started under the SMP in support of the objectives for economic governance and development outlined in our Revitalized Peace Agreement.** Our focus will be on ensuring macroeconomic stability to create conditions for robust and inclusive growth. To that end, the focus of our economic reform program in the near term will be on improving revenue collection while continuing our policy of no BoSS financing of the budget. To avoid the re-emergence of domestic expenditure arrears we will contain spending within the available cash, while ensuring that budgetary allocations to social sectors (education, health and social assistance) are protected and, if possible, expanded. At the same time, we will continue with our reforms to strengthen governance. Our fiscal policy will focus on maintaining macroeconomic and public debt stability as well as re-enforcing transparency and discipline in budget execution.

Fiscal Policy

6. **We are deepening the revenue administration reforms that are yielding significant gains in non-oil revenue collection.** Non-oil revenue has increased progressively. It amounted to SSP 8.9 billion per year when the National Revenue Authority (NRA) was set up in FY2016/17, and reached SSP 83 billion in FY2021/22. Under unchanged policies, non-oil revenue is now expected to reach over SSP 150 billion in FY2022/23. This significant increase primarily reflects improved compliance following the introduction of an e-tax system in 2021 that provides a portal for online

registration, filing, and payment as part of the broader e-government drive. To support NRA's efforts in increasing revenue collection further, the Council of Ministers approved in September 2022 the first Strategic Plan for NRA that sets its direction for the next five years. This plan, which envisages an increase in the number of NRA staff and leveraging the use of information and communications technology to transform business processes, aims to increase non-oil revenue from 2 percent of GDP projected in FY2022/23 to 6.5 percent of GDP by FY2027/28. This will be achieved primarily by simplifying the tax regime to enhance tax compliance and improve the ease of doing business, introducing an integrated tax management system, and developing a framework to operationalize tax dispute resolutions, and appeals procedures including a tax appeals court. In addition, the NRA will seek to promote trade facilitation, including by modernizing its customs operations through automation, customs risk management, and post-clearance audits.

7. **Improved collection of non-oil revenue and higher oil prices have increased revenue projections relative to the FY2022/23 budget.** Total revenue during the first four months of this fiscal year (July-October 2022) has been much higher than projected at the time of the budget. This reflects both better non-oil revenue collection – which, at SSP 49 billion, was double the revenue collected in the same period last year – and higher oil prices than assumed in the budget. The latter have more than offset the significant decline in oil production, caused by extreme floods that have rendered many oil wells inoperable in recent months. As a result, we now project that overall revenue will reach SSP 1,587 billion in FY2022/23, compared to SSP 883 billion in the budget.

8. **Despite improved prospects for revenues, we project a significant financing gap under unchanged policies.** Several factors are constraining our fiscal space. These include the need to allocate additional resources for salaries of about SSP 21.8 billion to accommodate an increase in military personnel, as part of the gradual unification of government and former opposition armed forces. It also includes projected debt service and interest amounting to SSP 370 billion. In addition, Sudan continues to lift a sizeable portion of our share of profit oil in excess of agreed transit fees and without payment, despite the fact that South Sudan's obligations to Sudan under the Transitional Financial Agreement (TFA) ended in March 2022. The value of crude oil taken by Sudan in this manner since the end of the TFA amounted to over US$400 million as of end-October 2022. These factors together imply a financing gap of SSP 255 billion in FY2022/23 under unchanged policies.

9. **We are considering several steps to help close the fiscal financing gap, some of which will be part of a supplementary budget that we plan to table shortly to our National Assembly.**

- ***On the revenue side***, these include: (i) adjusting gradually the exchange rate being used for assessing taxes on imported goods from the current level 90 SSP/US$ compared to about 670 SSP/US$ in the market in a way that would raise customs revenue over time while containing the social impacts of an increase in the price of imported goods; (ii) increasing the custom duty rates for some products (consistent with our commitment to align our external tariffs with the rates prevailing in the East African Community, of which we are a member); (iii) expanding further the digitalization of the tax system; and (iv) reviewing the various tax exemptions that are at the discretion of the MoFP, with a view to rescind those that are not in compliance with the agreement set at the time these exemptions were granted, and to phase out the remaining ones. To be on the conservative side, we do not project additional revenues from these planned measures until we have more clarity on the specific changes.

- ***On the expenditure side***, these include: (i) reducing the amount of crude oil allocated for the oil-for-infrastructure scheme from 20,000 to 15,000 barrels per day, which at current oil prices is projected to provide savings of about SSP 107.1 billion; (ii) not transferring the 10 percent and 15 percent share of oil revenue to, respectively, the Future Generation Fund and the Oil Stabilization Fund, which will reduce financing needs by about SSP 157 billion; and (iii) seeking intermediation from international partners to reach agreement with Sudan both on receiving payment for credits accumulated for the delivery of oil in excess of transit fees following the completion of the TFA, and on an equitable oil transit arrangement going forward. To ringfence spending on salaries and social sectors and avoid reemergence of arrears in these areas, we have allocated the proceeds of one oil cargo every month to salary payments and will include separate quantitative targets (floors) in the PMB on spending for salaries and for social spending (health, education, and social protection).
- ***On public salaries***, the Economic Cluster is exploring a strategy to raise public sector salaries, which are very low by regional standards and whose real value continues to be eroded by inflation. However, we intend for any wage increases to be fully offset by revenue and expenditures measures.

10. We remain committed to refraining from monetary financing and intend to execute the FY2022/23 budget without reliance on non-concessionary external financing. We are committed to avoiding any further non-concessional borrowing unless a very limited set of conditions are met. Specifically, we will not contract or guarantee new non-concessional loans for the duration of the PMB unless either: (i) debt management operations improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) loans finance critical investment projects with high social and economic returns that are integral to our national development program, and for which concessional financing is not available. In these cases, we will seek to avoid non-concessional borrowing with high effective interest rates due to hidden fees and short maturities. Consistent with the Cabinet of Ministers' Resolution of October 2020, we will continue to refrain from contracting oil-backed loans, and we will consult with the IMF staff prior to contracting or guaranteeing any new non-concessional debt. We will also build a buffer of at least one month of fiscal outlays to obviate the need to resort to rely on expensive oil advance payments to compensate for cash shortfalls.

Exchange Rate, Monetary, and Financial Sector Policies

11. We are taking steps to operationalize the reserve money targeting framework. Given the current state of development of South Sudan's financial sector and the policy levers at the disposal of BoSS, reserve money targeting remains the appropriate monetary policy framework for the time being. We will continue to implement this framework by targeting an annual reserve money growth rate of 10 percent or lower, as initiated in March 2021 under the SMP. We will also continue to conduct regular FX auctions to aid price discovery in relation to the exchange rate and publish auctions data on the BoSS website in a timely manner to foster confidence among market participants. We introduced in October 2022 a new term deposit facility, initially with 14-day and 28-day maturities, as a first step to expanding the monetary policy toolkit of BoSS. These instruments have attracted significant interest from banks. As of end-November 2022, we have mopped up about SSP 23.7 billion (about 30 percent of the outstanding stock of banks' excess reserves with the BoSS at end-September 2022). We intend to expand the range of maturities to 90 days, 3-months and 6-months based on interest expressed by banks, and will continue to refine this facility to develop it into a viable means of managing liquidity. We will coordinate closely with MoFP at the technical level, through the recently instated Liquidity Working Group, and at leadership level, through the CMC. This will improve our capacity for liquidity monitoring and forecasting, with a view to tracking market developments better and responding to them effectively, using the tools at our disposal.

12. We will address the undercapitalization of the domestic banking sector and take steps to improve banking supervision and financial inclusion. Our approach to addressing the undercapitalization of domestic banks will be to promote mergers where possible, and to enforce liquidation where needed. We have revoked the licenses of 2 inactive banks that exceeded the 6-month threshold to start operations after license issuance and, based on IMF TA, have prepared a strategy to review the licenses of banks that have ceased operations and to address undercapitalization in the domestic banking sector. This strategy will be approved by the BoSS Board by end-March 2023 (proposed structural benchmark).

13. We are taking steps to improve banking supervision and financial inclusion. The BoSS has published audited financial statements through 2020 (the audited statements for 2021 are being finalized and will be published shortly) and will proceed to enforce the publication by April 2023 of audited financial statements by all commercial banks operating in South Sudan. In addition, we have requested all banks to supply BoSS with granular deposit data, to aid BoSS planning for the possible introduction of a deposit insurance scheme as part of our commitments towards further integration with the East African Community (EAC). With IMF assistance, we have compiled new quarterly Financial Soundness Indicators (FSIs) in line with current best practices. We have published on the BoSS website these FSIs for end-September 2022, and will continue to publish them at quarterly frequency within one month after the end of each quarter. In addition, we will shortly initiate the process for submitting the FSIs to the IMF Statistics Department on a regular basis for dissemination through the IMF's FSI database. In the medium term, we intend to reduce the cost of cash transactions by phasing out low denomination bank notes, and to reduce the cash reliance of the economy through supportive policies, including paying civil servants through bank accounts as discussed below.

Other Structural and Governance Reforms

14. We are committed to strengthening transparency in the management of oil revenues. The summary of oil sharing agreements under the three existing agreements—Greater Pioneer Operating Company (GPOC), SUDD Petroleum Operating Company Limited (SPOC), and Dar Petroleum Operating Company (DPOC)—are published in our annual Petroleum Reports, and on the Ministry of Petroleum (MoP) website (www.mop.gov.ss). The latest published annual report covers June 2020-May 2021 and the report for FY2021/22 will be published in the MoP website shortly. We intend to publish all three oil-sharing agreements in full, and we are currently in the process of discussing the possibility obtaining consent from investors, given contractual restrictions in relation to disclosure. We also plan to publish on the MoP website quarterly petroleum reports, including details on monthly oil output and revenues, starting from the first quarter of 2023 (proposed structural benchmark). In addition, we will submit by end-February 2023 a membership application to the EITI, as envisaged in the revised Road Map of the extended Revitalized Agreement on the Resolution of Conflict in South Sudan.

15. We are committed to implementing the recommendations in the Auditor General's reports on the use of RCF funds disbursed in November 2020 and March 2021. Consistent with one of the structural benchmarks for the third review of the SMP, we published in December 2022 the audit report regarding the use of funds under the second RCF disbursed in March 2021 (the audit report for the first RCF disbursed in November 2020 was published in September 2021). To address the findings and recommendations under the two reports, we are working with the Auditor General's office to provide additional documentation to address the discrepancies and mission information identified in the reports, and will adopt as a prior action for the PMB and the RCF request an action plan to implement the recommendations in the two Auditor General's reports. The latter includes commitments for: (i) a gradual rollout of payment of salaries for all central government employees through the commercial banks, aiming to complete the rollout by end-June 2023; and (ii) initiating the process of issuing biometric identifications to all central government employees and organized forces, which is being carried out by the Ministry of Public Service with support from World Bank technical support. The MoFP will provide monthly progress reports to the PFM Oversight Committee regarding the implementation of these reforms.

16. We have continued to strengthen our expenditure controls and to improve the transparency of government operations. To contain spending commitments within the cash available, the MoFP is authorizing spending based on cash projections prepared by the Cash Management Unit of the MoFP and approved by the CMC. To ensure that spending commitments are in line with the available resources, the spending limits in our upgraded IFMIS are now regularly made consistent with the cash plans approved by the CMC. In addition, starting with the FY2022/23 budget, all infrastructure spending, including those expenditures financed from the oil for infrastructure scheme, are being recorded in the appropriate IFMIS module. Consistent with one of the structural benchmarks for the third review of the SMP we have already published on the MoFP website budget execution reports for FY2020/21, FY2021/22, and the first quarter of FY2022/23. We will continue to publish such quarterly reports within three months after the end of each quarter to improve budget transparency.

17. We plan to operationalize the Public Procurement and Disposal Authority (PPA), which is one of our 11 PFM key priority areas. The PPA was established in 2018 by the PPA Act, but its Board has not yet been appointed. The absence of the PPA means that the Government is not fully able to exercise its oversight function over spending agencies in implementation of the budget, specifically, the procurement and asset disposal activities as required by the PPA Act. Pending a forthcoming decision from the political parties in the unity government on power-sharing in key government institutions, the Minister of Finance and Planning will make shortly a recommendation to the President of South Sudan with candidates for the PPA's Board of Directors, which will need to be appointed by the President of South Sudan per the PPA Act. The appointment of the PPA Board will allow it to adopt the Public Procurement Regulations and Standard Procurement Documents required to operationalizse the PPA, which have been prepared with World Bank assistance.

18. We are taking determined steps to improve the process of assessment, approval and contracting of external loans and guarantees. The appointed auditor has completed the stocktake of the external debt and guarantees and we will publish, as prior action for the RCF and the PMB, on the MoFP website its findings and recommendations. The debt stocktake confirmed broadly the external debt data as of end-2021 that we published earlier this year, and has updated the external debt stock to end-June 2022. The auditors are still working on the recommendations regarding the debt management system, which are expected in early 2023. Based on work we conducted with the external auditor on the external debt stocktake, we have established a consolidated database of all existing external debt obligations, including guarantees and oil advances. Going forward, we will maintain the database up-to-date, adopt the debt module in IFMIS, and publish a debt report on a quarterly basis on the Ministry of Finance website no later than 30 days following each quarter. In addition, we will take several steps to strengthen public debt management:

- First, the working methods and role chart of the Technical Loan Committee (TLC) will be set out in detail in a Ministerial Order of the Minister of Finance by end-March 2023. This will clarify, inter alia, that the TLC would be the driver for negotiating all loan contracts and guarantees, and appoint the Debt Management Unit (DMU) of the MoFP as the secretariat of the TLC and for providing analytical support to the TLC in evaluating borrowing proposals and eventually debt management strategies. This will strengthen the institutional role of the DMU and facilitate the flow of information on new loans to the DMU for their recording. The vetting process for all new loans and guarantees will include a risk assessment by the DMU before consideration from the TLC.
- Second, the BoSS should not be involved in issuing sovereign guarantees on behalf of the government. To codify this, the relevant provision in the BoSS Act that allows the BoSS to extend guarantees (Section 10(3)) is proposed to be removed as part of a broader revision of the BoSS Act aimed at bringing the South Sudan legislation in line with international best practices for central banking legislation and governance. The proposed package of changes to the BoSS Act has been tabled (as a prior action)] in the Constitutional Review Committee. In addition, the MoFP will send to the Council of Ministers an up-to-date list of all remaining valid guarantees issued by the BoSS, for the Council to determine whether these guarantees achieve a development purpose that justifies the implied contingent fiscal liabilities, and to rescind any guarantees that do not meet this standard. The register of all remaining valid guarantees containing the underlying transaction—including the borrower or procurer of goods and services, and the project to be supported—will be published on the BoSS website by June 2023.
- Third, with IMF support, including from a TA mission that took place in November 30-December 13 2022 to review the legal and institutional framework for debt

management, we will adopt by end-March 2023 an action plan to strengthen our debt management strategy (proposed structural benchmark).

19. **The BoSS is committed to implementing the recommendations made by the IMF's safeguards assessment.** Actions have been taken in the following areas: (i) as discussed in ¶13 above, the publication of the audited financial statements through 2020 and the audited statements for 2021 are being finalized and will be published shortly on the BoSS website; and (ii) signing in September 2022 of a Memorandum of Understanding between the BoSS and the Auditor General to ensure the appointment of an international audit firm to audit BoSS financial statements from CY2022 onwards. This meets one of the structural benchmarks for the third review of the SMP. Going forward, firms with experience in IFRS and central banking will be invited to render for multi-year appointments, as part of a competitive public tender process that will be launched shortly by the National Audit Chamber (NAC) based on terms of reference already agreed between the BoSS and NAC. Further, with IMF technical assistance, we plan to implement by end-March 2023 key recommendations from the safeguards assessment (proposed structural benchmark) related to currency operations, specifically: (i) developing a comprehensive strategy to address vulnerabilities and strengthen currency operations, including purchasing, storage, processing, and destruction activities; (ii) sending tender requests to reputable currency manufacturers, and conducting a review of bids vis a vis the tender criteria; and (iii) conducting a cost benefit analysis of replacing low denomination banknotes with coins. Separately, Terms of Reference are being drafted to engage an audit firm to co-source the internal audit activities. As per one of the recommendations, we are also committed to reinforcing our ex-ante controls and reporting practices by using a monitored account at the BIS or Fed for the IMF disbursements, validating transactions on the account at test dates by the auditors, and providing monthly statements of the account to the IMF. The BoSS will continue to provide IMF staff with access to its most recently competed audit reports and authorize the BoSS' external auditors, who are contacted by the National Audit Chamber, to hold discussions with IMF staff.

20. **We will continue implementing the reforms contained in our action plan on AML/CFT.** We have made some progress implementing the AML/CFT reforms, including establishing the Financial Intelligence Unit (FIU) and becoming a member of the Eastern and Southern Africa Anti-Money Laundering Group in November 2022. The FIU has been provided with a budget and premises, staff has increased to 29 and we are providing training to strengthen their capacity to perform supervisory responsibilities. However, our progress has been limited in terms of the FATF action plan. We have started discussions with the FATF to update our action plan with a new timeline. In the meantime, to address the legal issues in the action plan, including to draft a revised AML/CFT Act to incorporate the current FATF Standards, we will immediately resume engagement with the TA team from the IMF Legal Department, to facilitate a diagnostic mission in early 2023. In addition, to address operational aspects in our action plan, we are requesting TA from donors on structuring the fully independent and operational FIU and conducting the national risk assessment.

Table 1. Republic of South Sudan: Quantitative Targets Under the Staff-Monitored Program

	End-Jun 2021 SMP	End- June 2021	End-Oct 2021 SMP	End-Oct 2021	End-Aug 2022	End-Aug 2022
	Target	Actual	Target	Actual	Target	Prel.
Central government's primary cash budget deficit (ceiling: in billions of SSP)[1]	10.0	25.9 (Not met)	35.9	32.0 (Met)	25.0	73.4 (Not met)
Central bank net credit to the central government (ceiling: in billions of SSP)[2]	0.0	0.0 (Met)	0.0	25.0[3] (Not met)	25.0[4]	312.9 (Not met)
Contracting or guaranteeing of non-concessional borrowing (continuous ceiling: in millions of U.S. dollars)[5]	0.0	650.0 (Not met)	0.0	0.0 (Met)	0.0	450 (Not met)
Average net international reserve (floor: in millions of U.S. dollars)[6]	85.0	131.0 (Met)	284.0	406.0 (Met)	170.0	266.7 (Met)
Clearance of salary arrears (floor: in billions of SSP)[7]	7.3	14.5 (Met)	14.5	10.6 (Not met)	18.2	18.2 (Met)
Average reserve money growth (ceiling: in percentage points)[8]	5.0	-2.6 (Met)	10.0	-5.4 (Met)	15	105 (Not met)

[1] Numbers are cumulative from March 30, 2021 for June and October 2021 and cumulative from June 30, 2022 for August 2022.

[2] Numbers are cumulative changes from March 30, 2021. NCG should be zero in at least half of the quarter and never higher than 5 percent of quarterly revenue.

[3] Breach of the ceiling on NCG arose from clearance of salary arrears out of MoFP FX deposits with BoSS, without an increase in the government overdraft.

[4] Ceiling adjusted up to allow for on-lending of the remaining portion of the SDR allocation to be used for budget support, as agreed under the SMP.

[5] 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 or for critical COVID-related spending, and for which concessional financing is not available. The MoFP entered into an agreement for an external non-concessional loan in April 2021 for an amount of US$650 million without prior consultation with Fund staff, and the BoSS issued a sovereign guarantee related to this loan agreement in July 2021. This loan and associated guarantee were canceled in October 2021.

[6] Targets on NIR for end-June and end-October 2021 and end-August 2022 are defined as the cumulative changes of the average stock of daily NIR balances during, respectively, June and October 2021 and August 2022..

[7] Cumulative from end-March 2021.

[8] Limits on reserve money growth for end-June, end-October 2021, and end-August 2022 are defined as the cumulative changes of the average reserve money during, respectively, June 2021, October 2021, and August 2022 relative to the reserve money stock at end-March 2021.

Table 2. Republic of South Sudan: Quantitative Targets Under the Proposed PMB

	End-Nov 2022 Actual	End-Mar 2023 Proposed	End-Jun 2023 Proposed
Non-oil primary balance (floor: in billions of SSP)[1]	...	-830.0	-996.0
Central bank net credit to the central government (ceiling: in billions of SSP)[1,2]	178.0	178.0	178.0
Contracting or guaranteeing of non-concessional debt by the central government (continuous ceiling: in millions of U.S. dollars)[1,3]	0.0	0.0	0.0
Average net international reserve (floor: in millions of U.S. dollars)[4]	97.5	141.5	151.5
Reserve money growth (ceiling: in percent)[5]	...	5.0	7.5
Salary payments to central government workers (floor: in billions of SSP)[1]	...	106.7	142.3
Priority social spending (floor: in billions of SSP)[1,6]	...	112.1	149.4

[1] Number is cumulative from June 30, 2022.

[2] 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.

[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.

[5] 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.

[6] 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 3. Republic of South Sudan: Structural Benchmarks for the Third Review of the SMP and for the Proposed PMB

Measures	Target Date[1]	Current Status/Rationale
SMP		
1. Publish findings and recommendations of the audit of the spending of the April 2021 RCF disbursement	Aug-22	Not met. Implemented with a delay in December 2022
2. BoSS to sign an MoU with the Auditor General to ensure the timely appointment of an international external audit firm for the audits of the BoSS financial statements from CY2022 onwards	Oct-22	Met.
3. Publication of budget execution reports for FY2020/21 and FY2021/22	Oct-22	Not met. Implemented with a delay in January 2022
4. Completion of an audit by an independent external auditor to take stock of all outstanding external loan agreements and guarantees and publish the results of the audit	Nov. 15, 2022	Not met. The external auditor submitted the report the authorities in December 2022 and the report will be published as prior action for the RCF and PMB (see item 3 below)
PMB		
1. Adopt action plan for the implementation of the recommendations in the Auditor General's audit report of the two RCF disbursements (MEFP ¶15). Proposed	Prior action	Improve governance
2. Submit to the Constitutional Review Committee proposed revisions, drafted in consultation with Fund staff, to the BoSS Act, including to remove Section 10(3) of the Act so that the BoSS cannot issue sovereign guarantees on behalf of the government (MEFP ¶18). Proposed	Prior action	Improve governance
3. Publish the audit report submitted by the external auditor in December 2022 (MEFP ¶3). Proposed.	Prior action	Enhance transparency
4. 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. (MEFP ¶18). Proposed	Mar-23	Maintain debt sustainability
5. BoSS to adopt an action plan to implement recommended action items on banking sector reform developed in August 2022 by BoSS staff with MCM (MEFP ¶12). Proposed	Mar-23	Support financial stability
6. BoSS to implement the outstanding recommendations of the safeguards assessment mission in collaboration with FIN (MEFP ¶19). Proposed	Mar-23	Improve governance
7. Publish all signed oil production sharing agreements with oil-extracting companies as well as quarterly reports on the oil sector (MEFP ¶14). Proposed	Jun-23	Enhance transparency
8. Completion and publication of an audit of the spending of the new RCF disbursement under the FSW (LOI ¶5). Proposed	Sep-23	Ensure transparency and accountability in the spending of emergency resources

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

Technical Memorandum of Understanding

Juba, Republic of South Sudan, January [9], 2022

1. This Technical Memorandum of Understanding (TMU) defines the quantitative targets and structural benchmarks for monitoring the performance of South Sudan under a 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 PMB will be monitored based on seven quarterly quantitative targets (QTs) and five 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 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 665 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). 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 665 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, 1.04 and 1.20 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. Foreign currency salary payments, such as foreign mission salaries, will be valued at the program exchange rate of 665 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 the test period and the reserve money stock

at end-Sep 2022, adjusting foreign-currency components for exchange-rate changes between the two periods.

PROGRAM MONITORING AND REPORTING REQUIREMENTS

10. The monitoring of quantitative targets and structural benchmarks will be the focus of the quarterly assessment report to be prepared by the authorities at the end of each quarter. 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.

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	4 weeks
	Government tax and non-oil revenue	Monthly	4 weeks
	Oil production and revenue	Monthly	4 weeks
	Stock of salary arrears of the Central Government	Monthly	4 weeks
	Salary payments in total and by sector (including foreign mission and military/armed forces}	Monthly	4 weeks
	Budget execution report	Quarterly	4 weeks
	Disbursements of External Debt including Newly Contracted Debt of Government	Quarterly	4 weeks
	Projected external debt service	Quarterly	4 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.