

“Subsidies on Fuel Products will be Removed Gradually”, Interview

When he agreed to take up the top job at Central Bank, Dr. Mohamed Khair Al Zubair was fully aware that the economic challenges facing the country were great and hence there have been no surprises as far as he is concerned.

Dr. Al Zubair believes that the Sudanese economic woes stem from bad planning and that had the problem been properly addressed early in the nineties of the last century, things would not have reached the point where they are now.

In this interview, the CBOS boss speaks frankly about the day-to-day issues that concerns the ordinary man that have to be tackled.

Having worked before as top chief of planning ministry, the natural question would be: Will that portfolio help him implement his Emergency Program for bringing health back to the country's economy? Let us see.

Q: You have offered well-defined solutions for the economic crisis the country is facing, but the way you are suggesting for addressing the problem and the ability of the Sudanese economy to adjust to it are subject to many questions. We have those who say the programs for addressing the issues of enhancing non-petroleum exports are the same Programs that we have been hearing since the last ten years. Also you have been advocating government expenditures cuts but government expenditures are increasing. How then would you be able to implement such Program?

A: I agree with you that what counts at the end of the day is the implementation of what we advocate. However, I must tell you that the tripartite Program was a sincere effort on the part of the minister of finance to address the problem. The Program was built on a realistic reading of the causes of the imbalance in the economy. Moreover, the climate in which discussion took place regarding this matter was one of confidence and determination.

The minister of finance held meetings with former ministers and economists since the main objective of the Program has been to regain economic stability of the country gradually and in the shortest time possible. We were careful to address the issue in four areas, namely financial policies, monetary policies, real growth and social stability. We have agreed that real growth was the centerpiece and all other matters are just contributory to it.

The Program has focused on handling stability of currency rate of exchange as well as removing of subsidies gradually.

We were aware that for addressing such issues, costs will be involved and that somebody should bear such costs. So, we decided that for this time, government should bear such costs since citizens can no more bear such burdens.

Thus, the entire Program has been designed in such a way where the government would bear the greatest part of cost and this will start by reducing government expenditure by 25% and in the following year by 20%.

In addition, there will be a considerable reduction in current expenditures with development priorities to be reviewed.

We have also decided that we should concentrate on collective rather than individual decisions.

In other words, we shall concentrate on specific projects that are directed to productive sector. Our financial policies have been designed to reduce public budget deficit to attain economic stability.

In addition, we shall work to increase tax revenue by expanding financing base and introducing new taxes on telecommunication and financial services and these have already been implemented.

Moreover, the measures will include curbing the import of nonessential commodities and goods, such as furniture, and cars and we will review a decision on the cancellation of non-agricultural taxes. Moreover, we shall continue issuance of financial papers, seek external finance and borrow from Central Bank where we think there is extreme need for that.

Q: You always speak about subsidization, what type of subsidization are you speaking about apart from that on fuel?

A: Subsidization cause heavy burden on the government and the greatest part of it is that on fuels. A barrel of oil is sold now at US\$ 60 locally although it is sold at US\$100 externally.

In the past, we did not feel this difference and we did not think of the problem of subsidization since oil was abundant and subsidization formed lost revenue but now it means we pay from government treasury. We cannot continue to pay and there must be resources that cover such expenditures. This is why we have chosen to remove subsidization gradually.

To address this issue, we shall consider the effect of that on the living conditions of citizens and then we would take the necessary decision.

In fact, there are many things that we would address whereby our decisions would not affect the living conditions of citizens.

Q: What about monetary policies, particularly in the presence of many speculations regarding CBOS intention to take measures and apply penalties with respect to violation of expenditure polices against the background of scarce foreign currency?

A: As a matter of fact we target the achievement of stability in

commodities prices. What is important here is to apply flexible, unified and stable rate of exchange policy and to do away with black market gradually coincidentally with imports, foreign exchange transfer rationalization. We are also working to buildup local and foreign resources through banks for investment. These resources are intended for increasing productivity. This is the challenge that we face now. Moreover, monetary policies target financing the above items which are 8 major commodities, namely sugar, wheat seeds oil, cooking oil, drugs, cotton exports, gum Arabic, animal resources, gold and oil. The equation is as follows: increase productivity and decrease imports. The objective of foreign exchange rate policy is to go back to the conditions that prevailed in 2006 but the rate will be based on supply and demand. We will do this gradually as I said because it is easy to liberate foreign exchange rate but this will have dangerous consequences since there must be balance between the rate of exchange and financial policies. On the other hand, social stability is a major component of our policy in light of the current resources gap. We are working now according to subsidized flexible rate of exchange. It is true that such method is government-controlled and the matter is not left for the market. We acknowledge that there is defect in this policy.

Q: But management of exchange rate in this way means that government is in full control of the process?

A: No, I do not think that is the case. We have now left all export revenues to the banks for allocating them in the way they wish without the interference of CBOS. Not only that, but CBOS pumps from its revenues and reserves daily the amount of US\$2,600,000 to Foreign exchange companies for meeting travelers' foreign currency needs. In addition, banks can withdraw USD\$ 35 m every week to cover production inputs needs and to fight back pressures on currency from the black market.

The worst thing for an economy is to have two markets, one official and the other unofficial since such situation gives investors negative indicators: they would bring in their investments according to the official rate and when they try to send out they must pay at black market rates. This is extremely unusual situation which has been around since 2008. What we want to achieve now and as quickly as possible is a stable rate of exchange as determined by the Program and at the minimum cost.

Q: Can you achieve such objective in light of the now well-known weakness of foreign currency position?

A: This is a good question but I am optimistic and confident that we shall regain balance if the Program is applied carefully, particularly when we know that the Sudanese economy enjoys good potentials. In fact we have faced the same circumstances in the nineties of the last century and at

that time we did not have oil resources. However, good policies were designed and the targeted balance was achieved in 2000. The same thing has happened again but this time with limited resources of oil.

Q: But the position is different now since the Sudanese society is now used to a particular way of life which makes austerity measures difficult to implement?

A: Yes and this very fact make our austerity measures difficult, particularly with respect to low-income citizens. However, we shall try to address the matter in a way that won't hurt anybody. We shall continue to work for controlling exchange rate since exporters have been adversely affected by uncontrolled exchange rate during the period of suspending the export incentive and this caused panic to everybody. We did that intentionally to confuse speculators and now speculators are no more active like before. We have decided now to remove the suspension of the incentive under agreement with exporters and this would provide more flexibility for controlling exchange rate according the competitiveness of export crops and not to a market based on speculation and unrealistic demand.

Q: Don't you think suspending the incentive has increased the panic since people say the Central Bank has chosen such path because there was no foreign exchange?

A: No. That is not the case. When we stopped the incentive, we introduced instead a mechanism between exporters and importers whereby we permitted exporters to sell the proceeds to local importers for calming sown the market. This policy has substantially affected currency speculation which is diminishing now.

Q: But such diminishing is not because of what you have mentioned but rather because you sought help from other countries resulting in that more foreign currency have been pumped into the market?

A: Yes. We did receive foreign currency and more will come. Very big resources will come to the country and this is why I am optimistic. We have depended on the increase of productivity and now we meet every Saturday at a committee headed by Dr. Awad Al jaz to handle cooking oil supply. We follow up the growing of oil seeds in quantities that are sufficient for the existing cooking oil factories. We shall fulfill cooking oil needs of the country. Now, we have grown cotton, sunflower at irrigated sector and next year we shall not import cooking oil. In addition, we have created a US\$ 200 m portfolio for the purchase of the crop for factories for manufacturing cooking oil.

Q: You have spoken of external resources. What are these resources?

A: Firstly, the hiring of the oil transmission pipe and we expect resources

from imposing transit fees and sovereign fees and most probably we shall reach an agreement on this matter. We have been patient for 4 months now which means we should receive about US\$ 1.800,000 000 which would fill great part of our foreign currency needs.

External resources also include what we have received as a result of the Sirte Agreement organized by the League of Arab States for supporting Sudan following the secession of South Sudan. Thus, some Arab countries, like Qatar, Saudi Arabia, UAE, Algeria and Iran, have all contributed funds.

This contribution greatly helped us and now the President is moving for more support of our balance of payments.

In addition, a number of Arab Funds have committed to finance the emergency program.

We have many projects, such as the electrification of irrigated projects, railways as means of supporting the production and manufacturing of the commodities set out at the program.

In addition, the mining of gold has greatly helped us as a resource for investment and the law allows us to trade in gold as a currency. Since April we started to buy and export gold. We have purchased and exported 156 tons of gold for US\$ 800 m, with these funds having been allocated to banks and the government. We expect that by the end of the year we will be able to export 200 tons for US\$ 1,000,000,000.

We have now contracted for the construction of a gold refinery and stopped gold smuggling operations. We shall continue this policy.

Q: You speak about production but as it is well known fact now, part of the government failure is attributed to financing policies. What is new now that makes banks support agricultural production?

A: What is new is that: firstly, agricultural financing must be in a quantity that merits financing and guarantees must be provided to ensure repayment.

We now concentrate on certain commodities as I have said and not on everything.

We have recently received offers for large external banking financing from our partners in Arab states and we have also contacts with our friends in China and Africa.

In addition, we have also banking facilities from the National Bank of Egypt, Abu Dhabi Islamic Bank, Qatar Islamic Bank and all these facilities will be directed to agriculture and industry.

Q: But many of the plans you mentioned in your Program would directly affect people?

A: The centerpiece of our program is the social side and hence we have taken into account the way and means of absorbing the cost that citizens will otherwise have to bear though the greatest part of it as I said will be

borne by government.

The social program will greatly ease living condition of people. We shall partially increase salaries to absorb inflation. Government employees' salaries will be reviewed, particularly those with low income.

For the poorer segments, we shall introduce alternative programs, such as Zakat and other methods. In addition, within three years, health insurance will be extended to cover all citizens 100%.

We shall also provide medical care, free education, microfinance. We have established guarantee mechanism for microfinance which is expected to amount to SDG 2.900,000,000 per year.

We shall first start with rationalizing government expenditure and external expenditure at our economic, security, defense, media and schools attached to our embassies.

Q: But, as far as we know, some companies belonging to certain bodies have impunities?

A: We don't have any impunity. Actions have been taken with respect to many companies that belong to the armed forces, security, and police. The Presidential decision of disassociating government from commercial business will continue.

Q: I think what you have said is a mere dream. I think you are optimistic since what all you have mentioned will have no meaning unless people feel it in their day-to-day living?

A: You are right. We monitor our Program carefully and we shall start with bread and cooking oil. We have started buying wheat from now for the next season. We are financially capable of getting rid of the "wheat bill" for one year and this applies to sugar and other commodities.