



**REPUBLIC OF SOUTH SUDAN**

**TRANSITIONAL GOVERNMENT OF NATIONAL UNITY**

**BUDGET SPEECH FY 2016/2017**

**Presented to Transitional National Legislature**

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## **INTRODUCTION**

- 1 Right Honourable Speaker and Honourable Members of the Transitional National Legislature; in accordance with article 88 (1) of the Constitution, please allow me to present the fiscal year (FY) 2016/2017 draft national budget to you. This draft budget proposal sets out our estimated resource inflows and our planned expenditures for 2016/17 fiscal year.
- 2 As required by the Public Financial Management and Accountability Act 2011, this draft budget proposal is accompanied by the draft Appropriation Bill for FY 2016/17, the draft Financial Bill for 2016/17 and a statement of the overall indebtedness of the Government of the Republic of South Sudan. I am also presenting you with the Taxation Amendment Bill 2016 as incorporated in the fiscal stabilization plan.

## **CONTEXT OF THE 2016/17 BUDGET**

- 3 Rt. Hon. Speaker, Hon. Members, the FY 2016/17 Budget has been prepared under extremely challenging circumstances under the theme to consolidate Peace, Unity and Economic Recovery. The reshuffle of the Cabinet in accordance with the Peace Agreement and the recent conflict has slowed the production of the National Budget. Also, as you know, I have only recently taken my position as Minister for Finance and Planning. It is in these circumstances, and with apologies, that the Draft Budget is presented to you three months into the 2016/17 fiscal year.
- 4 Unfortunately, we find ourselves in the midst of a severe economic crisis. The substantial decline in oil prices since July 2014 has significantly reduced government revenues and foreign exchange income.
- 5 The current crisis intensifies the effects of several large negative shocks experienced by South Sudan over the past few years. The oil shutdown, which began at the beginning of 2012, and the civil conflict which began at the end of 2013, both substantially reduced productive economic activity, and negatively impacted government revenues in real terms. In order to weather these two crises, the Government was forced to run down reserves and borrow, both domestically and internationally. Therefore, when the oil price sharply declined following July 2014, Government had no reserves and limited access to international credit markets.

- 6 Rt. Hon. Speaker, Hon. Members, it's impossible to overstate the gravity of our current situation. We just have to look at the suffering of our people to see the real everyday impacts of these events. The Ministry of Finance estimates that our Gross National Income per person has fallen by an estimated 70 percent since independence – among the largest income shocks recorded in any country - and by around a quarter in the past year alone.
- 7 The steep decline in oil prices ultimately necessitated the floating of the exchange rate, to help reduce the damage to the economy. As a government, we had run down our foreign reserves and savings, and we had limited ability to prevent the severe depreciation we have seen. Floating the currency did not cause either the depreciation or subsequent inflation, which were already underway, and which reflect the continuing high levels of expenditure, despite the loss of foreign exchange income.
- 8 Because the oil price shock severely reduced government revenues, and Government had no savings or access to international markets, we have borrowed domestically, mainly from the Bank of South Sudan, to ensure that we can pay salaries. Borrowing money from the Central Bank, however, is inflationary. This borrowing has contributed to the unprecedented level of inflation we are experiencing. Annual inflation over the year to August was around 730%. The pound has lost close to 80% of its value against the dollar during the year to August.
- 9 Since household incomes have not increased in line with the increase in prices, our people are suffering. The World Food Programme estimates that around a quarter of the population is experiencing severe food insecurity. As a Government, we need to address this economic and humanitarian crisis, in order to help our country and our people recover. If we do not take action, our people will continue to suffer. The start of the recovery process must begin with this Budget.
- 10 Rt. Hon. Speaker, Hon. Members, I believe that stabilization and recovery will require changes in three key areas. **First** and foremost, it requires Peace. Civil conflict is amongst the most economically destructive and disastrous shocks a country can suffer. Without peace, people cannot return to their homes and tend to their lands and communities. Without peace, people will not want to come and invest in South Sudan. That is why this Budget prioritizes the implementation of the Agreement for the Resolution of Conflict in South Sudan (ARCISS). It also prioritises the relocation of

Internally Displaced Peoples (IDPs), in order that communities can return home and begin producing.

- 11 **Second**, the country requires important economic reforms. We need to stop borrowing from the Bank of South Sudan, in order to bring inflation down and prevent further depreciation of the currency, and reduction of households' incomes. This will require increasing government revenue, reducing government expenditure, and finding other sources of Government financing. If implemented faithfully and transparently, this Budget can achieve a normalization of price levels.
- 12 In the medium-term, it is important that we diversify our economy, by making South Sudan a better place to invest. Improving security, transparency, and infrastructure will incentivize the development of our Mining, Forestry, and Agriculture sectors, which have potential to grow and help alleviate the crisis.
- 13 **Third and finally**, we also require external support, to help our country implement these difficult reforms, including assistance towards cutting expenditure. When countries experience large negative shocks, they often need financial and technical help, to make a return to a sustainable path. However, our international partners have made it clear that external support will not be offered without Peace and Economic Reforms.
- 14 So, this Budget provides allocations to continue the implementation of the Peace Agreement. Furthermore, it introduces reforms to achieve fiscal sustainability and improve our Public Financial Management. The Ministry of Finance has developed an Economic and Fiscal Measures Action Plan which has been approved by the Council of Ministers and is consistent with our discussions with the international community.
- 15 Rt. Hon. Speaker, the 2016/17 Budget is a lean budget which will use our limited resources to try to consolidate peace whilst keeping the Government running and providing core services. I wish to repeat that the achievement of peace, coupled with economic reforms, is the only way to return the country towards the sustainable pursuit of economic development. I hope the reforms within this Budget, combined with Peace and the expansion of international support, will lay the foundations for a recovery.

## **REVIEW OF THE 2015/16 BUDGET**

- 16 Rt. Hon. Speaker, before I lay out my plans for FY 2016/17 in detail, let me give you an overview of our revenues and expenditures during the last fiscal year, and the challenges the Ministry faced in faithfully executing the agreed budget.
- 17 There were three major developments which impacted budget execution during the year, which meant that the Budget of 2015-16 was not implemented as planned.
- 18 First, the oil price was below forecast for the majority of the year, averaging just thirty five dollars (\$35) per barrel, instead of the forecasted fifty dollars (\$50). This led to gross oil revenues falling far short of budgeted levels, in dollar terms, and an inability to make full tariff, transit and Transitional Financial Agreement payments to Sudan, and transfers to oil producing states and communities.
- 19 Second, the floatation of the exchange rate in December 2015 increased the pound (SSP) value of all dollar denominated expenditure and revenue in the second half of the year. This resulted in outturns deviating from the budget considerably. Average year-on-year inflation through the year to August was around 270%, far higher than anticipated.
- 20 Third, the government introduced a new pay scale for all government employees and security and organized forces in February 2016, to increase their purchasing power. Implementation of the pay rise has been phased. Grades 10 or rank 1<sup>st</sup> Lieutenant and below received the pay rise from February onwards, increasing salary outturns relative to the budget. The second and third phases, for staff on higher grades, were not implemented in the fiscal year 2015/16, but are incorporated in the proposed budget.
- 21 The budget of 2015/16 estimated net oil revenues of one billion, five hundred and fifteen million pounds (SSP 1,515 million) for the fiscal year, after catering for our obligations to Sudan and oil-producing States and communities. Non-oil revenues were projected at five billion, three hundred and twenty eight million pounds (SSP 5,328 million), and we expected that we would be able to raise one hundred and twenty eight million pounds (SSP 128 million) in grants from donors.
- 22 The Assembly approved a budget which contained ten billion, six hundred and forty three million pounds (SSP 10,643 million) in agency spending. The difference between expenditure and revenues was to be funded by projected net new borrowing totaling

three billion, six hundred and seventy one million pounds (SSP 3,671 million), with no principal repayments.

- 23 Total actual revenues amounted to seven billion, five hundred and fifty three million pounds (SSP 7,533 million). This was 499% **above** the Budgeted estimates, when measured in pounds. However, the value of collections in US dollar terms was just three hundred and eighty one million dollars (\$381 million) - so revenues were 26% **below** budget when valued in dollars.
- 24 The dollar earnings shortfall stemmed, primarily, from the continued fall in oil prices. The Budget had projected an average price for Dar Blend of around 50 dollars (\$50) per barrel. However, by December, the price had fallen below 30 dollars (\$30) per barrel. As my Honourable Colleagues are aware, the result was that our oil revenues became so low, that we were unable to continue honouring our obligations to Sudan under the 2012 Cooperation Agreement. The Agreement states that we must pay 24 dollars (\$24) per barrel to Khartoum, irrespective of the global oil price. Due to non-payment, large arrears have built up, and negotiations with Sudan are ongoing about how to move forward with these payments.
- 25 Total actual expenditures amounted to seventeen billion, five hundred and twenty eight million pounds (SSP 17,528 million). This is an average of one billion, four hundred and sixty one million pounds a month (SSP 1,461 million). This means spending was more than 65% above the approved budget in SSP terms.
- 26 However, expenditure was far **under**-budget in dollar terms. Total actual expenditure was valued at eight hundred and eighty three million dollars (\$883 million), when converted at the average official exchange rate for the last fiscal year. However, the approved expenditure plan was valued at three billion, five hundred and ninety six million dollars (\$3,596 million) when approved. So, in dollar terms, actual expenditure was 75% **below** the value at approval. This underspending is primarily as a result of foreign exchange shortages.
- 27 Rt. Hon. Speaker, Hon. Members, given the extreme challenges we have faced in implementing the 2015/16 Budget, there were difficulties in meeting payment obligations. Both domestic payment arrears and arrears to Sudan increased through the year. We also struggled to pay salaries and transfers on time for much of 2016. In all, Government borrowed over five and a half billion pounds net (SSP 5,563 million)

from the Bank of South Sudan to finance expenditure over the fiscal year. In addition to this, we borrowed over three billion pounds net (SSP 3,222 million) from other sources, including two billion, three hundred and twenty one million pounds net value of oil advances, much of which will have to be repaid over the coming months. The ratio of actual net financing to actual expenditure was over 50%, which emphasizes the seriousness of the situation.

28 Rt. Hon. Speaker, Hon. Members, before I turn to the details of the 2016/17 Budget, let me say a little more about the exchange rate reform. The inflation and depreciation we have experienced last fiscal year, and are continuing to experience, were not caused by the exchange rate reform. In fact, depreciation and inflation started before the reform – it has been caused by the loss of dollar revenue; and extensive borrowing from the Bank of South Sudan. More recently, many foreigners have left South Sudan due to insecurity, which is further reducing the supply of foreign currency to the market.

#### **PRIORITIES FOR THE 2016-17 BUDGET**

29 And so, Rt. Hon. Speaker, let me turn to the proposed 2016-17 Budget. The situation that we face is difficult. But we should not attribute all the economic and budgetary challenges we face, to external shocks alone. The crises have exacerbated longer term challenges to the effective management of our budget. These challenges include: poor mobilisation of non-oil revenues; weak procurement practices; arrears accumulation; poor prioritisation of expenditure; weak budget discipline; and an excessively large payroll, given available resources.

30 Without reforms, we will not develop our country. I believe that - with the help of this House - there are a number of things we can do in the coming fiscal year, to lay the foundations for stronger budget management and greater fiscal sustainability. These measures together form the basis of the Economic and Fiscal Measures Action Plan, and the Budget I am presenting today.

31 The aim of the measures set out in the Economic and Fiscal Measures Action Plan and in this Budget is to reduce the fiscal deficit, and thereby relieve the pressure it is placing on domestic prices and the economy. The core of the Action Plan is a three-pronged attack. First, there are planned measures to increase revenue; second, we need to reduce expenditures; and third, we must improve cash management. Working

in conjunction with the Bank of South Sudan, urgent measures are also needed to strengthen monetary policy and the banking system.

- 32 Once the fiscal and monetary position is stabilized, the Government will be in a position to embark on longer-term reforms to public financial management, and to provide support to domestic production and economic diversification. It is also my hope that the faithful implementation of the Action Plan will prove our credibility and commitment to meaningful reform, which should help to bring international partners back to the table.
- 33 The first point of the action plan is to increase revenue. Non-oil revenue is the most reliable form of financing available to Government. Increasing non-oil revenue mobilization is an immediate priority. The Government's target is for monthly non-oil revenues collections to exceed one and a half billion pounds [SSP 1.5bn] by the end of FY 2016/17, which is sufficient to pay for monthly salaries and State transfers in full. This target can only be met if Government implements significant revenue reforms.
- 34 South Sudan's effective tax rates are modest, given that tax compliance is extremely low. Government therefore has scope to increase non-oil revenue by increasing tax rates, introducing taxes in new areas, and improving non-oil revenue administration. Government will therefore introduce a range of revenue raising measures in the FY 2016/17 budget, through the Financial Bill 2016/17.
- 35 Rt. Hon. Speaker, Hon. Members, the revenue measures I am outlining are expected to increase non-oil revenue by over three billion pounds (SSP 3,065 million) this fiscal year. This increase is incorporated in our revenue estimates.
- 36 We intend to enact rate increases and introductions of taxes in six areas:
- i. First, we plan to increase sales tax from 15% to 20%, which brings our rate closer to VAT rates in neighbouring countries, and is expected to raise two hundred and ninety four million pounds (SSP 294 million) annually.
  - ii. Secondly, we will increase excises on alcohol (from 50% to 100%) and tobacco (from 30% to 50%). This will tax luxury and harmful goods, may improve health, and is projected to raise an expected one hundred and thirty three million pounds (SSP 133 million).
  - iii. Thirdly, increasing excises on telecommunications services from 10% to 30% would bring the total tax burden on telecommunication services in line with



other countries in the region, and is expected to raise two hundred and sixty three million pounds (SSP 263 million).

- iv. Forth, imposing an 8% withholding tax on government contracts is also in keeping with practices in neighbouring countries, and is expected to raise an additional two hundred and eighty million pounds (SSP 280 million). Likewise, imposing a 10% withholding tax on technical fees paid to contractors is in keeping with the East African Community (EAC) Tax Treaty, and is expected to raise one hundred million pounds (SSP 100 million).
- v. Fifth, introducing a departure tax of 20 dollars (\$20) per person on international air travel, like those that exist in neighbouring countries, would bring in an estimated three hundred million pounds (SSP 300 million).
- vi. Finally, introducing a new Customs tariff schedule (adopting duty tariffs at 5%, 10% and 20%) and implementing the Harmonized System classification of goods will align our schedule with that of the EAC, is estimated to bring in an extra two hundred and sixty nine million pounds (SSP 269 million).

In addition, we will put in place a number of administrative measures to mobilise additional revenue and increase tax compliance. These include:

- i. Placing a moratorium on issuing new tax exemptions, and reviewing all existing Customs exemptions. Together, this will raise an estimated one hundred and seventy five million pounds (SSP 175 million).
- ii. Eliminating Business Profit Tax exemptions, which will raise an estimated four hundred million pounds (SSP 400 million).
- iii. Eliminating Personal Income Tax exemption for Constitutional Post Holders, is projected to raise an estimated two hundred and forty million pounds (SSP 240 million).
- iv. Updating the 2010 Customs valuation schedule to match it with that of the EAC, this will raise an estimated fifty four million pounds (SSP 54 million).
- v. Working with the Uganda Revenue Authority to identify low valuation claims at the border, which will raise an estimated forty five million pounds (SSP 45 million).
- vi. Lastly, new measures to strengthen revenue administration are being introduced, which will assist in raising revenue. Improving the information exchange between the Department of Taxation and the South Sudan Customs Services will raise an estimated one hundred and fifty million pounds (SSP 150 million). Cleaning the tax payer register, and ensuring that the Department of

Taxation receives operating funds on a monthly basis, will help increase revenues - by providing a more efficient, fairer service. As a final measure; enforcing payment of non-oil revenues through Commercial Banks; and enforcing weekly reporting and remittance by Commercial Banks; will better enable the Department to track and respond to revenue issues as they develop.

- 37 I would like to emphasize that these revenue reforms are vital to increasing our revenue and reducing our deficit, and will help avoid resorting to borrowing from the Central Bank and the high inflation that is currently strangling our economy. Many of the reforms have been devised in consultation with colleagues from the IMF, and will bring South Sudan's tax policies in line with our regional partners.
- 38 These measures are expected to increase non-oil revenue mobilisation during the fiscal year. At the same time, following the enactment of the National Revenue Authority (NRA) Law, the Government will also commence longer-term reforms aimed at establishing the NRA and integrating Customs and Taxation administration. In the coming year, the Government will appoint the Board of the NRA; recruit and appoint a Commissioner General for the NRA; and bring South Sudan Customs Services under the operational authority of the Ministry of Finance and Planning.
- 39 These measures are to put in place a medium-term project to increase non-oil revenues, and so reduce our reliance on volatile oil revenues. But it is my hope that, with peace and investment, in the coming year, Government will work with the oil companies to resume production in the Ruweng and Northern Leich Oil Fields, and to increase output in the Eastern Nile Greater Paloch Oil Fields. The Government's target is for oil production to increase to one hundred and fifty thousand (150,000) barrels per day, by the end of June, 2017. In addition, Government will continue negotiations with the Government of Sudan to reschedule its obligations under the Transitional Financial Agreement, which is currently due to end on December 31st 2016, with all outstanding balances falling due on that date.
- 40 Unfortunately, Rt. Hon. Speaker, Hon. Members, these measures alone will not be enough to bring fiscal stability and an end to our economic crisis. Government spending also needs to be reduced and reprioritized. Rt. Hon. Speaker, Hon. Members, I am sure everyone in this room will agree – it is unacceptable to continue to waste public funds on unnecessary or extravagant purchases; particularly when so

many of our fellow country men and women are sick, hungry, and homeless. Our plan to reduce expenditure has three parts.

- 41 **First**, Government intends to institute immediate measures to reduce the civil servants payroll at national level and introduce biometric registration for the civil service and Organised Forces to eliminate ghost workers. Our target is to reduce overall payroll expenditures by ten percent (10%) by the end of fiscal year 2016/17. This will involve freezing all new recruitments in Government agencies, with the exception of newly established agencies under the peace agreement. It will require Government to put in place payroll screening committees to eliminate ghost workers from the civil service payroll. Payment of civil service salaries will be made direct to individual bank accounts and biometric registration will be introduced for civil servants, security staff and the Organised Forces. We will restrict medical referrals abroad and eliminate incentive, overtime and allowance payments that are not authorised by Public Service regulations, and incorporating those that are authorised in the payroll.
- 42 **Second**, the Government will take several steps to reduce discretionary operating expenditures. We will place an overall monthly limit on the amount that can be spent on foreign travel across Government, in line with foreign exchange availability and not exceeding one-twelfth of the amount budgeted for. We will enforce Public Service regulations with respect to travel allowances. Also, we will eliminate social assistance for civil servants and for any citizen seeking assistance from government.
- 43 These measures tackle some of the worst excesses we have seen, with some officials spending millions of pounds on single foreign trips and foreign medical bills, while we struggle to pay the wages of others. This must end.
- 44 **Third**, Government will take the following steps to limit its new contractual obligations and prevent the build-up of future arrears. A moratorium will be placed on all new capital contracts, with the exception of those related to urgent implementation of the peace agreement. Also, we will require all draft contracts, including for fuel and food supplies, to receive approval from the Ministry of Finance and Planning before being signed off by the Ministry of Justice.
- 45 Raising revenue and reducing expenditure will help reduce inflationary pressure. However, urgent reforms are also needed to ensure that only the most important

spending areas are prioritized. In the past, weak procedures for cash management within the Ministry of Finance have exacerbated the fiscal crisis. In an environment of scarce resources, payments have not been adequately controlled and prioritized. As a result, money has been spent on items that are not a priority, while many Spending Agencies have been unable to access funds for basic operating items, such as generator fuel. In addition, many cheques, worth billions of pounds, have been printed without any likelihood of them clearing the bank. This has created excessive pressure, and competition amongst vendors to get their cheques cleared.

- 46 To improve our ability to spend within our means, the Government, through the Ministry of Finance, will institute the procedures to improve **cash management**.
- 47 Rt. Hon. Speaker, Hon. Members, I have already taken a number of steps since taking office to address some of these issues. We have been operating a cash budget since I came into office, with strict expenditure prioritization. One of my first acts was to issue an Order cancelling all outstanding cheques issued for payments relating to last fiscal year, until we ascertain which cheques are based on claims for genuine services provided to the government. I have also cancelled overseas medical expense claims for civil servants, some of which ran to several million pounds for individual claims. And I have formulated a cash management committee, to make sure that only the most important expenditure claims are processed, when we cannot honour all our expenditure commitments.
- 48 The Cash Management Committee will prioritise payments on a monthly, weekly and daily basis, relative to cash availability. Priority will be given to debt service obligations, salary payments, and state transfers. All Spending Agencies will receive a minimum allocation for operating expenses; however small.
- 49 Our borrowing practices must also change. We propose to raise financing through the issuance of Treasury Bills to domestic Commercial Banks instead of borrowing directly from the Bank of South Sudan.
- 50 Finally, we will validate existing contractual payment arrears and prepare a repayment plan. We will have to work with the Ministry of Justice to validate contracts, document whether suppliers are registered and services rendered. Most importantly, this Budget should ensure that the stock of arrears no longer grows, and

that we begin to sustainably manage the down payments. It is clear at this point that it will take more than one fiscal year to pay down contractual arrears.

- 51 And so, Rt. Hon. Speaker, Hon. Members, I have outlined the key measures included in the three-pronged Action Plan that will: increase revenues; reduce expenditures; and improve cash management. We have also included measures to improve the efficacy of monetary policy and the banking system, based on recommendations from monetary experts from the IMF. These recommendations have been shared with the Bank of South Sudan.
- 52 I am also committed to conducting the business of the Ministry of Finance and Planning in the most transparent way possible. This will allow Parliamentarians, Government Agencies, Development Partners and, most importantly of all, our public, to see that we are continuing to be committed to open and transparent Public Financial Management. The Budget documentation for the 2016/17 Budget will be made publically available on the Ministry of Finance website. Additionally, the Cash Management Committee will issue monthly spending limits to Spending Agencies, and publish the list of claims paid each month.
- 53 I also remain committed to submitting quarterly reports to Cabinet and the National Legislative Assembly, detailing revenues, expenditures and financing during the quarter. These reports will also be published on our website.
- 54 Many of the actions I have identified require political commitment rather than technical assistance. However, some of them undoubtedly require additional external technical assistance, particularly those relating to: payroll management; biometric registration; arrears validation; establishment of the National Revenue Authority; and the banking system. I therefore intend to engage in discussions with the international community, with a view to securing technical assistance in these areas.
- 55 Rt. Hon. Speaker, Hon. Members, the actions I have outlined represents the first steps that need to be taken to stabilize the Government of South Sudan's fiscal position. They need to be accompanied by measures to promote trade. We need in particular to develop South Sudan's potential for non-oil exports, in sectors such as Agriculture, Mining, and Forestry.

## **RESOURCE ESTIMATES FOR 2016/17**

- 56 Rt. Hon. Speaker, Hon. Members, let me now turn to the resource estimates for financing the 2016/17 Budget. The resource projections for this year's budget are based on the Ministry of Finance's Macro-Fiscal Framework.
- 57 Total resources for 2016/17 are estimated to be nominally higher than last fiscal year, at Twenty Two billion Three Hundred Four million South Sudanese pounds (SSP 22,304 million), compared with ten billion six hundred and forty two million pounds (SSP 10,642 million) for 2015/16. This is due to the impact of the higher exchange rate on oil revenues and customs, and the impact of inflation of other non-oil revenues. In dollar terms, resources are considerably lower, compared with 2015/16.
- 58 Net oil revenues in 2016/17 are forecast at seven billion, two hundred and thirty eight million pounds (SSP 7,238 million), which is five billion, seven hundred million pounds (SSP 5,700 million pounds) higher than was projected for 2015/16, due to the depreciation in the exchange rate. Total oil production from Eastern Nile Greater Paloch is expected to average one hundred and thirty thousand (130,000) barrels per day, with the government entitlement equal to 47%. Production in Ruweng and Northern Leich is not assumed to resume until the end of the 2016/17 fiscal year, at the earliest. The average exchange rate is forecasted to be 70 SSP per dollar, and the average oil price, accounting for Dar Blend, is forecast to be \$30 per barrel.
- 59 Deferral of payments to Sudan in 2015/16 led to an outstanding stock of arrears amounting to two hundred and ninety one million dollars (\$291 million) by the end of June 2016. However, oil revenues in 2016/17 will not be sufficient to enable repayment of these arrears. Instead, we will prevent the accumulation of new arrears, and negotiate with Sudan to reschedule the payment of arrears. During the fiscal year 2016/17, we will provide in-kind shipments to Sudan which will be accounted for against our payment obligations, and we will make up any difference between the in-kind shipments and our total obligations through payments in cash. This means total payment to Sudan is estimated at thirty seven billion, six hundred and twenty three million pounds (SSP 37,623 million) this fiscal year, of which twenty one billion, four hundred and sixty two million pounds (SSP 21,462 million) will be provided through in-kind shipments and sixteen billion, one hundred and sixty one million pounds (SSP 16,161 million) in direct payments. In addition, one billion, five hundred and twelve million pounds (SSP 1,512 million) is budgeted for Nile Petroleum Corporation – Nile

Pet for fuel supply, and four hundred and sixty one million pounds (SSP 461 million) is for transfers to oil producing states and communities.

- 60 Non-oil revenues are estimated at nine billion, two hundred and fifty six million pounds (SSP 9,256 million) during 2016/17. The non-oil revenue estimates reflect ambitious improvements in collections based on immediate implementation of the measures incorporated in the Taxation Amendment Bill 2016 and Financial Bill 2016/17, which I have already outlined to you. It is essential that the Honourable Transitional National Assembly passes these Bills alongside the Budget, so that we have a legal basis for our revenue estimates. Otherwise, if the Assembly does not pass these bills in time, or if it rejects any of the measures proposed, the revenue estimate in the Budget will need to be reduced accordingly.
- 61 Grants from donors supporting the Government budget are expected to amount to two billion, forty one million pounds (SSP 2,041 million) in 2016/17. These figures do not include thirty nine billion, sixty five million pounds (SSP 39,065 million) of estimated development grant support for 2016/17 from over 20 donors which will not pass through Government. Finally, anticipated humanitarian support from donors, which also does not pass through Government, is estimated at around one billion, four hundred million dollars (USD 1,400 million) for 2016/17.
- 62 Rt. Hon. Speaker, Hon. Members, in summary, taking the above budgeted items into account, the estimated resources available from our own revenues and donor grants during this fiscal year will amount to eighteen million five hundred and thirty five billion South Sudanese pounds (**SSP 18,535 million**). We also anticipate raising three billion, seven hundred and sixty nine million South Sudanese pounds (SSP 3,769 million) in new financing on a net basis. We intend to issue nine billion South Sudanese pounds (SSP 9,000 million) in Treasury Bills, and expect to receive two billion, six hundred and forty three million pounds (SSP 2,643 million), and equivalent to thirty seven million dollars (\$37 million) in donor project loans. In addition, we will also pay seven billion, eight hundred and seventy five million pounds (SSP 7,875 million), equivalent to one hundred and twelve million dollars (\$112 million), to oil companies in repayment for the advances they provided us in 2015/16.

## **RESOURCE ALLOCATIONS FOR 2016-17**

- 63 Rt. Hon. Speaker, Hon. Members, I propose that total expenditure for the 2016/17 fiscal year will be thirty eight billion, and seventy three million South Sudanese

pounds (SSP 38,073 million). The difference between the resources available to us, including new borrowings, and our planned expenditures is fifteen billion, seven hundred and sixty nine million South Sudanese pounds (SSP 15,769 million), equivalent to two hundred and twenty five million dollars (\$225 million).

- 64 Rt. Hon. Speaker, Hon. Members, it is imperative that the proposed revenue and expenditure measures I am proposing today are implemented immediately and in full, so that we limit the vast budget deficit facing us, and start to demonstrate our credibility to potential external financiers.
- 65 Total Government expenditure, excluding externally-funded spending, is estimated at thirty three billion, three hundred and eighty eight million South Sudanese pounds (SSP 33,388 million), representing a nominal increase of twenty three billion and eighty four million South Sudanese pounds (SSP 23,084 million). That is a 224% increase, compared with approved budget levels for 2015/16. Although this represents a large nominal increase compared with the 2015/16 budget, the value of expenditure in real terms has fallen by over half, due to inflation.
- 66 In terms of budget chapters, fourteen billion and ten million South Sudanese pounds (SSP 14,010 million) will be allocated for the salaries of Government employees, including the Army and the Organized Forces. This is the single largest chapter, and accounts for forty one percent of the domestically financed budget. Six billion four hundred and forty seven million South Sudanese pounds (SSP 6,447 million) will be allocated towards State transfers. Six billion three hundred and seventy three million South Sudanese pounds (SSP 6,373 million) will be allocated to operating, capital and other expenditures. One hundred and fifty five million pounds (SSP 155 million) will be set aside for interest payments on existing debts.
- 67 Rt. Hon. Speaker, Hon. Members, you will notice that I have set aside Five billion South Sudanese pounds (SSP 5 billion) for the implementation and consolidation of Peace. This represents 15% of domestically-financed expenditure, a sizeable amount. I expect this allocation to be devoted to humanitarian measures to repair damaged infrastructure; for transport, feeding and return our displaced population; for cantonment of forces. This allocation demonstrates that this Budget is serious about implementing peace, and returning Internally Displaced People to their homes.



68 Rt. Hon. Speaker, Hon. Members, as you can see, agencies' budgets for operating and capital expenditure amount to less than a fifth of the budget. This is not ideal. However, as I have explained, in these difficult times, we have to focus our efforts on reducing inflation, achieving peace, and keeping Government running at all levels. If our revenues increase over time and we reduce our arrears, we hope that we will be able to devote more of our budget to the development of South Sudan in future years. We also hope that, once peace is consolidated, we will be able to find the space for capital expenditures by reducing our payroll costs through a far-reaching demobilization programme for the army and Organized Forces, something we did not achieve before independence.

69 Nonetheless, in spite of our current constraints, I am pleased that 17% of our budget is allocated to transfers to state and counties. I hope the transfers, which amount to Six billion Four Hundred Forty Seven South Sudanese pounds (SSP 6,447 million) will enable State governments to finance their running costs and support County development, as well as cater for teachers and health workers' salaries, and the costs of the Organized Forces at State level. In addition, they will support the costs of education, water and health service delivery, by providing capitation grants to primary schools and operating transfers to county education, health and water departments. To this, the World Bank funded Local Government and Service Delivery Project will add transfers of nine hundred and six million South Sudanese pounds (SSP 906 million).

70 Rt. Hon. Speaker, Hon. Members, let me now turn to our sectoral allocations. Figures presented here for the ten sectors are rounded to the nearest million South Sudanese Pounds.

71 The Accountability sector will receive One billion, Five hundred million South Sudanese pounds in 2016/17 (SSP 1,500 million) from Government's own resources, as well as four hundred and eighty seven million South Sudanese Pounds (487 million) of direct support from donors. The Accountability Sector comprises a wide range of activities, and next year, its budget allocations are expected, among other things, to pay the salaries and operating costs for Customs and Taxation, support the Auditor General's Chamber and the Anti-Corruption Commission, and support the collection and dissemination of statistics by the National Bureau of Statistics. These allocations are supplemented by one billion, three hundred and twenty four million South

Sudanese pounds (SSP 1,324 million) of donor support that does not pass through the budget.

72 The Economic Functions sector will receive Five Hundred and fourteen million South Sudanese pounds in 2016/17 (SSP 514 million) from Government's own resources, as well one billion two hundred and one million South Sudanese pounds (1,201 million) of direct support from the African Development Bank for rehabilitating and expanding the Juba Power Distribution System. This is expected to be supplemented by a further three hundred and fifty eight million South Sudanese pounds (SSP 358 million) of donor support that does not pass through the budget.

73 Turning to the Education Sector, it will receive One Billion Four hundred million South Sudanese pounds (SSP 1,400 million), from Government's own resources. The Sector plans to provide State transfers to pay the salaries of teachers at State level, provide capitation grants to primary schools, and support State and County education departments. It will provide direct support to the functioning of universities and provide teacher training. The Education Sector does not receive any direct donor financing through the budget, but we are grateful for the support of off-budget projects such as the Girl's Education South Sudan Project, funded by the UK to the value of one billion six hundred and twenty million South Sudanese pounds (SSP 1,620 million), which is providing capitation grants to 145 secondary schools, in tandem with the primary capitation grants provided through the budget. In total, the sector is estimated to receive four billion eight hundred million South Sudanese pounds (SSP 4,800 million) of donor support that does not pass through the budget.

74 The Health Sector will receive Five Hundred Eighty Eight million South Sudanese pounds (SSP 588 million) from Government's own resources. The Health Sector will provide State transfers to pay the salaries of health workers at State level; support State and County health departments; train health workers; and provide operating expenses for State hospitals. Health, like Education, does not receive any direct donor financing through the budget. However, the sector expected to benefit from ten billion two hundred and twenty eight million South Sudanese pounds (SSP 10,228 million) of off-budget donor support, including projects to tackle Malaria, HIV/AIDS, Midwifery, TB, and general health system strengthening.

75 The Infrastructure sector will receive Four Hundred and Sixty Six million South Sudanese pounds, (SSP 466 million) from Government's own resources. Out of this,

Three Hundred Thirty Six million South Sudanese pounds (SSP 336 million) is to support capital investments in key priority roads. The sector will receive six hundred and ninety four million South Sudanese pounds (SSP 694 million) in direct donor funding, including support for both transport and energy. In addition, the sector is expected to benefit from an estimated two billion five hundred and eighty eight million South Sudanese pounds (SSP 2,588 million) of donor support that does not pass through the budget. This includes substantial feeder road support delivered by UNOPS, and water and sanitation support from Germany.

- 76 The Natural Resources and Rural Development sector will receive Seven hundred fifty million South Sudanese pounds (SSP 750 million) from Government's own resources, more than half of which will cater for the salaries of Wildlife forces at national and state level. Direct donor funding will amount to four hundred and twenty one million South Sudanese pounds (SSP 421 million) including support for food security and agricultural development. Donor support not passing through the budget is projected to total five billion nine hundred and thirty one million South Sudanese pounds (SSP 5,931 million).
- 77 The Public Administration Sector is budgeted at Four billion Seven hundred Forty Nine million South Sudanese pounds (SSP 4,749 million) from Government's own resources. The sector will fund the salaries and operating costs of key Government institutions, including the Office of the President, the National Legislative Assembly, the Ministry of Cabinet Affairs, the Ministry of Foreign Affairs, the Constitutional Review Commission and the National Elections Commission. The sector is also expected to receive nine hundred and six million South Sudanese pounds (SSP 906 million) in direct donor funding, primarily support for Local Governance from the World Bank. In addition, donor support that does not pass through the budget is estimated at one billion nine hundred and eighty seven million South Sudanese pounds (SSP 1,987 million).
- 78 Rt. Hon. Speaker, Hon. Members, the Rule of Law Sector has an allocation of Three billion Six Hundred Eighty Eight million South Sudanese pounds (SSP 3,688 million), entirely funded by Government resources. Over eighty percent of this will be used to pay the salaries of personnel in the Police, the Prisons Service and the Fire Brigade at both national and state level. The sector also has Five Hundred Fifty million South Sudanese pounds (SSP 550 million) allocated to operating costs, and a further Seven

million five hundred Thousand South Sudanese pounds (SSP 7.5 million) allocated to capital. These new capital allocations will be used to construct police posts where possible. Donor support to this sector which does not pass through the budget is estimated at seven hundred and ten million South Sudanese pounds (SSP 710 million).

79 The Security Sector has the largest budget allocation of Eleven billion and Forty Five million South Sudanese pounds (SSP 11,045 million), entirely funded from Government's own resources, which accounts for 29 percent of our entire budget. The bulk of this will be used to pay salaries for the army and veterans, but we have also made an allocation of One billion Nine hundred eighty three million South Sudanese pounds (SSP 1,983 million) for operating costs and Three Hundred and Seven million South Sudanese pounds for new capital expenditures. Donors will provide off-budget support to assist with border security strengthening, reducing violence against women, and small arms control, estimated at Four hundred and Fifteen million South Sudanese pounds (SSP 415 million).

80 Finally, the Social and Humanitarian Affairs Sector has an allocation of One Hundred Seventy Seven million South Sudanese pounds (SSP 177 million) from Government's own resources. It will be used to support salaries and operating expenses in the sector, enabling the sector to undertake its policy and advocacy functions in support of gender mainstreaming, youth development and protection of vulnerable groups; the sector will also be key to delivering peace. Direct donor support through the budget is estimated at sixty nine million South Sudanese pounds (SSP 69 million). Additional off-budget donor support is estimated at Four billion One hundred and forty six million pounds (SSP 4,146 million).

81 Rt. Hon. Speaker, Hon. Members, in addition to these sectoral allocations, Five billion pounds (SSP 5 billion) is allocated for peace expenditures, as previously mentioned. We have also allocated one billion four hundred and four million pounds (SSP 1,404 million) for contingencies and one hundred and fifty five million pounds (SSP 155 million) for payment of interest on our outstanding debts. Procedures for accessing the peace budget and the contingency fund are laid out in the Appropriation Bill.

82 I have completed my overview of our budget allocations, and now wish to turn to the issue of debt and financing.

## GOVERNMENT DEBT POSITION

- 83 Rt. Hon. Speaker, Hon. Members, as of 30<sup>th</sup> June 2016, our total indebtedness was provisionally estimated at thirty five billion, three hundred and seventeen million pounds (SSP 35,317 million). This includes one billion, seven hundred and fifty nine million pounds (SSP 1,760 million) of borrowing from domestic banks and fourteen billion, nine hundred and thirteen million pounds (SSP 14,913 million) of direct borrowing from the Bank of South Sudan. It includes an outstanding recapitalization claim to the BSS of one billion nine hundred and seventeen million (SSP 1,917 million) but it does not include any additional recourse to recapitalize BSS that might materialize in future. The figure also includes oil advance sales equivalent to eleven billion, four hundred and ten million pounds (SSP 11,410 million) and external loans of five billion, three hundred and eighteen million pounds (SSP 5,318 million), which are denominated in US dollars and converted at the exchange rate of 30<sup>th</sup> June. These debts will, unfortunately, increase in SSP value as the currency depreciates.
- 84 Rt. Hon. Speaker, Hon. Members, details of the total indebtedness of the Government is included in the draft National Budget Plan document. The total stock of debt of thirty five billion, three hundred and seventeen million pounds (SSP 35,317 million) has increased substantially in nominal terms. It was thirteen billion, three hundred and forty seven million pounds (SSP 13,347 million) at the start of the 2015/16 fiscal year. Net financing this year amounted to eight billion, seven hundred and eighty four million pounds (SSP 8,784 million), and realignment of our debts due to depreciation increased the stock of our debt by thirteen billion one hundred and eighty five million (SSP 13,185 million).
- 85 The total stock of debt of thirty five billion, three hundred and seventeen million (SSP 35,317 million) is already extremely high – especially for a young country. We are struggling to simply pay salaries, and so such a high debt burden is challenging and problematic. This total excludes domestic arrears or arrears to Sudan. Our debt has increased at an alarming rate, due to depreciation and further borrowing to finance the deficit.
- 86 That is why, in this Budget, I propose a limited amount of borrowing, amounting to eleven billion, six hundred and forty four million (SSP 11,644 million) of new borrowing combined with seven billion, eight hundred and seventy five million of principal repayments (SSP 7,875 million), resulting in net financing of just three billion,

seven hundred and sixty nine million (SSP 3,769 million). Most of the new borrowing will hopefully come from commercial banks – we will attempt to issue nine billion pounds (SSP 9,000 million) of new Treasury Bills over the next Fiscal Year.

87 The situation we face is not an easy one. If revenue measures fail to be enacted in a timely manner, and without an abrupt change in expenditure patterns, to fully finance our Budgeted Expenditures, we are likely to risk putting pressure on financing beyond what we have budgeted for. Bigger borrowing causes higher inflation and loss of purchasing power, which is destroying our economy and our country. We must rein in our borrowing, and start trying to live within our means by implementing important revenue-raising measures, cost-reducing reforms, and prudent cash management. This is why it is so vital that the Honourable Members of the National Assembly join us in our attempt to alleviate this crisis, by implementing the Budget and the Fiscal Stabilization Strategy quickly and in full.

## **Conclusion**

88 Rt. Hon. Speaker, Hon. Members, I have taken a lot of your time. However, I thought it was important to explain the economic crisis we find ourselves in, and the rationale and details of our Budget and Stabilization Action Plan. I wanted to explain the measures I am instituting, so that my Honourable Colleagues and Friends in the National Assembly can lend their wise counsel on the proposed course of actions. The scope and depth of our crisis is great, and it requires equally great measures to overcome it. I believe that if the Government and the Transitional National Legislature work hard and cooperatively to implement this Fiscal Stabilization Action Plan quickly and in full, we can begin to heal our suffering nation. We so desperately need the things this Budget prioritizes – that is, Peace, and an economic recovery.

89 Rt. Hon. Speaker, Hon. Members, in conclusion, allow me to table the draft 2016/17 National Budget, the 2016/17 Appropriation Bill, the 2016/17 Financial Bill and the 2016 Taxation Amendment Bill fiscal stabilization action plan for consideration and approval by this August House.

90 I commend it to you. Thank you for your kind attention.