



REPUBLIC OF SOUTH SUDAN

TRANSITIONAL GOVERNMENT OF NATIONAL UNITY

BUDGET SPEECH FY 2017/18

Presented to Transitional National Legislature

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INTRODUCTION

- 1 Right Honourable Speaker, Honourable Members of the Transitional National Legislature; in accordance with Article 88 (1) of the Constitution, please allow me to present the Fiscal Year 2017/18 Draft National Budget. This Draft National Budget proposal sets out our estimated revenues and our planned expenditures for FY 2017/18.
- 2 As required by the Public Financial Management and Accountability Act 2011, this Draft National Budget proposal is accompanied by the Draft Appropriation Bill for FY 2017/18, the Draft Financial Bill for 2017/18 and a Statement of the Overall Indebtedness of the Government of the Republic of South Sudan.

CONTEXT OF THE 2017/18 BUDGET

- 3 Rt. Hon. Speaker, the Fiscal Year 2017/18 Draft National Budget has been prepared under the theme; “**Continue the Necessary Reforms to Stabilize and Recover our Economy.**” It builds on and deepens the reforms we embarked on this year, in order to bring greater stability to our economy.
- 4 Rt. Hon. Speaker, our Gross National Income (GNI) has fallen by 80 percent since the beginning of the current crisis, and according to the IMF, by around a tenth in the past year alone. Part of this has been caused by the sharp decline in oil prices since 2014, as well as our maturing oil fields. But the conflict and natural factors such as drought and flooding have made the situation worse. Oil production has fallen further than it otherwise would have done and we have struggled to attract new investment into the oil sector, while trade has been significantly disrupted. Our oil revenues have fallen significantly, and our non-oil revenues have not been able to grow fast enough to cover the gap.
- 5 During the current financial year, in line with the reforms I presented to you in the FY 2016/17 Budget, we took significant steps towards aligning our expenditure with our income by limiting our borrowing from the Bank of South Sudan, which we knew to be inflationary. We have seen some fruits from this approach, as annual inflation has fallen from a peak of 549% in September 2016 to 362% as at June 2017. However, while economic conditions have worsened at a slower rate than last year, we must face the reality that until there is peace and security, economic recovery will remain challenging.
- 6 Rt. Hon. Speaker, the Ministry of Finance alone cannot deliver peace. However, this Budget does as much as it can within the Government’s limited resources to support the pathway towards peace. It provides allocations which contribute towards the

implementation of the Peace Agreement. Furthermore, it supports service delivery by increasing allocations to health, education and State transfers, and continues reforms towards fiscal sustainability and improving our Public Financial Management.

- 7 Critically, this Budget renews our commitment to limiting borrowing from the Bank of South Sudan and takes forward our commitment to reducing the current fuel subsidy, in order to reduce the budget deficit. We expect both these actions to support the exchange rate and reduce inflationary pressures in our economy in the long-run.
- 8 Rt. Hon. Speaker, in summary, the 2017/18 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, will lay the foundations for recovery.

REVIEW OF THE 2016/17 BUDGET

- 9 Rt. Hon. Speaker, before I lay out my plans for FY 2017/18 in full, let me give you a preliminary overview of our economic and fiscal performance during the first three quarters of 2016/17.
- 10 Rt. Hon. Speaker, as I have already mentioned, our economy is estimated to have shrunk by ten percent this fiscal year, as our productive capacity has been adversely affected by the conflict and natural factors such as drought and our oil fields are maturing. However, we have seen some signs of an improvement in inflation rates and currency stabilization over the fiscal year, particularly in recent months. Inflation has moderated from an average of twenty three percent per month between July and December 2016 to ten percent per month since January 2017. Exchange rate depreciation has moderated from thirteen percent per month between July and December 2016 to nine percent per month since January 2017. These improvements are largely due to our reduction in borrowing from the Central Bank. The IMF recently commended us for our commitment to macroeconomic stabilization in a very difficult fiscal environment.
- 11 Turning to our budget performance, total net revenues for the first nine months of 2016/17 amounted to twenty-one billion, four hundred and nineteen million Pounds (SSP 21,419 million), exceeding our budget estimate for the year as a whole by sixteen per cent (16%). We anticipate that by the end of the year, they will amount to around thirty-three billion Pounds (SSP 33,000 million).

- 12 On the oil side, the Budget estimates assumed an average Dar Blend price of thirty dollars (\$30) per barrel. However, global oil prices have continued to strengthen, and as a result the average price of Dar Blend over the first nine months of the year was forty two dollars (\$42) per barrel. Gross oil revenues therefore amounted to fifty-four billion, two hundred and thirty-one million Pounds (SSP 54,231 million) in the first three quarters of the year, exceeding the budget estimates for the year as a whole by seven billion, three hundred and ninety-eight million Pounds (SSP 7,398 million).
- 13 Our payments to Sudan during the first nine months of the year were in line with the Budget estimates, as we have provided them with twenty-eight thousand barrels of oil per day as an in-kind payment against our transitional financing obligations. However, oil revenues provided to Nilepet and paid directly to suppliers of refined products amounted to eleven billion, seven hundred and seven million Pounds (SSP 11,707 million) in the first nine months of the fiscal year compared to a Budget estimate for the whole year of just one billion, five hundred and twelve million Pounds (SSP 1,512 million).
- 14 After deducting for payments to Sudan, to Nilepet and suppliers of refined products and to oil producing States and Communities, our net oil revenues amounted to fourteen billion, one hundred and fifty-three million Pounds (SSP 14,153 million) in the first three quarters. This exceeded our budget estimate for the year as a whole by six billion, nine hundred and fifteen million Pounds (SSP 6,915 million).
- 15 Rt. Hon. Speaker, before I explain the performance of our non-oil revenues, I want to dwell further on this issue of the fuel price subsidy. The price of fuel is currently fixed at twenty two Pounds (SSP 22) per litre. In July 2016, at the start of the fiscal year, this was equivalent to fifty four US Cents (US \$0.54) per litre¹. Given that the unsubsidized price of fuel is around one dollar thirty (US \$1.30) per litre, this meant that Government was subsidizing almost sixty percent of the cost of fuel. The exchange rate has depreciated steadily over the course of the year, while the fuel price has remained unchanged at twenty two Pounds (SSP 22) per litre. As a result, at the end of March 2017, the price was equivalent to just twenty US Cents (US \$0.20) per litre², meaning that Government subsidy had risen to eighty five per cent of the cost of fuel. This is the reason why our payments to Nilepet and suppliers of refined products have been so much higher than budgeted.
- 16 Rt. Hon. Speaker, I do not think this level of subsidy is sustainable or desirable. The amount we provided to Nilepet and to suppliers of refined products in the first nine

¹ Calculated against the official indicative exchange rate

² Calculated against the official indicative exchange rate

months of the fiscal year was equivalent to six months of Government salary payments and transfers to States. Put another way, without the fuel price subsidy, we would not be struggling to pay salaries and transfers to States on time, as we have been this fiscal year. It makes no sense that the price of a litre of fuel should be less than the price of a bottle of water. It makes no sense that a subsidy that primarily benefits people who can afford to use transport and generators should come at the expense of timely payment of Government salaries and transfers. It is for this reason that Cabinet has agreed to unwind the subsidy in the forthcoming financial year, while maintaining targeted support to vulnerable groups.

- 17 Rt. Hon. Speaker, during the first nine months of the year, our non-oil revenue collections amounted to seven billion, two hundred and fifty-nine million Pounds (SSP 7,259 million), as compared to the budget estimate for the year as a whole, which was nine billion, two hundred and fifty-six million Pounds (SSP 9,256 million). This was a creditable performance by our revenue collecting agencies in very difficult economic conditions. By the end of May, our revenue collections had surpassed ten billion Pounds (SSP 10,000 million), meaning that we have exceeded the Budget estimate for non-oil revenues this financial year. I am very proud of this performance, and intend to build on it further next financial year through the establishment of the National Revenue Authority.
- 18 Total actual expenditures amounted for the first nine months to twenty-one billion, four hundred and seventeen million pounds (SSP 21,417 million). Expenditure for the year as a whole is projected to amount to around thirty-three billion Pounds (SSP 33,000 million) which is around SSP five billion (SSP 5,000 million) below the approved Budget level of thirty eight billion, seventy four million Pounds (SSP 38,074 million).
- 19 Rt. Hon. Speaker, as you are aware, the 2016/17 Budget was passed with a funding gap of fifteen billion seven hundred and seventy one million Pounds (SSP 15,771 million). Our oil and non-oil revenue performance has exceeded the budget estimates but the increase has not been sufficient to bridge our funding gap, and we have been unable to raise new financing on net basis. The small amount we have managed to raise in Treasury Bills from domestic banks has been offset by the scale of our net repayments to oil companies who have previously provided us with advances. In line with my commitment to you in the 2016/17 Budget, we have not resorted to excessive borrowing from the Bank of South Sudan because we know that it increases inflation. As a result, Government spending for the financial year will be below budget.
- 20 Rt. Hon. Speaker, the shortfall in resources available to fund our budgeted expenditures, coupled with overspending in the operating budget has constrained our ability to pay

salaries and provide transfers to States. We are currently three months behind with salary payments for central government, four months behind with transfers to States, and up to six months behind for Foreign Affairs dollars salaries.

- 21 Operating expenditures amounted to eight billion, two hundred and forty-three Pounds (SSP 8,243 million) during the first nine months of the year, exceeding the budget estimates for the year as a whole by sixty-two percent (62%). Most of the operating expenditures were incurred by a few agencies; Office of the President, the SPLA, National Security, Organized Forces and Finance. The increasing cost of dollar expenditures in SSP terms was partly responsible for the high level of operating spending, together with urgent security-related expenditures. In addition, expenditures that have not been properly budgeted for continue to be charged against the Ministry of Finance.
- 22 Turning to capital budget execution, the overall execution rate against the annual budget was sixty percent (60%) in the first nine months of the year, below the expected execution level. Total capital spending was nine hundred and fifty-eight million Pounds (SSP 958 million) over the nine month period. The Presidency, Civil Aviation and Transport exceeded their capital budgets while several agencies, including the Roads Authority, did not receive any resources to execute their capital budgets.
- 23 Rt. Hon. Speaker, given our financing shortfalls, we have faced difficulties in meeting all our payment obligations. As well as being in arrears with salaries and transfers, we have also made little progress in clearing our stock of arrears for goods and services. Instead, we have accumulated more. The path back to stability will require further revenue and expenditure reforms, so that we can make ends meet, and execute our budget according to plan.

PRIORITIES FOR THE 2017/18 BUDGET

- 24 Rt. Hon. Speaker, let me turn to the proposed 2017/18 Budget. The situation that we face continues to be extremely challenging. The economic and budgetary challenges we face today are largely as a result of external economic shocks, particularly the fall in the oil price. But the difficulties are severely aggravated by the conflict and its economic effects. Moreover, we are reaping the fruits of indiscipline in years when our oil revenues were plentiful. Instead of moderating our expenditure and building up savings, we spent all that we had and more. We also neglected to develop our capacity to mobilize non-oil revenues.

- 25 Rt. Hon. Speaker, indiscipline is still a feature of our budget management. We have weak procurement practices, expenditures are poorly prioritized, and some agencies are able to disregard their budget while others receive nothing. The costs of indiscipline are immediate and real. When scarce resources are diverted to unplanned operating expenditures, we cannot pay salary and wages to about half a million employees on the government payroll.
- 26 Rt. Hon. Speaker, we are continuing with reforms. Although they are painful, and will meet resistance, there is no other way. Without reforms, we will not place our country on the road to prosperity, towards fulfilling the hope that many people had for South Sudan at independence. With the help of this House, I believe there are a number of initiatives we can implement in the coming fiscal year to lay the foundations for stronger budget management and greater fiscal sustainability. These measures build on the Economic and Fiscal Stabilization and Recovery Action Plan that I submitted to you last year.
- 27 Rt. Hon. Speaker, the single largest reform envisaged in 2017/18 is the reduction of the fuel price subsidy. At the moment, you will see in our Resource Envelope that we are anticipating that Nilepet and refined product suppliers will receive over twenty eight billion pounds of our revenues in 2017/18 to support the fuel price subsidy. This is almost equivalent to our entire annual budget for salaries and state transfers. At the same time, our budget funding gap will be just over fourteen billion pounds. Substantial removal of the fuel price subsidy will enable us to close our budget funding gap and operate a balanced budget.
- 28 Rt. Hon. Speaker, a balanced budget is good for the economy. It is also good for our budget management. Without a budget funding gap, and with adequate budget discipline, we should be in a position to pay salaries and make transfers to States on time. Cabinet has approved the removal of the fuel price subsidy in principle, and the Minister of Petroleum and I will shortly be presenting them with an implementation plan indicating how we will go about removing the subsidy. We intend to do it in a way that protects vulnerable groups through targeted support to hospitals, water tankers and public transport. We will also look at raising public sector salaries with some of the savings realized from the subsidy removal. Once the plan is approved by Cabinet, I will share it with the House, and request your full backing to it.
- 29 Rt. Hon. Speaker, our efforts to increase non-oil revenue will be continued through implementation of the measures already set out in the 2016 Taxation Amendment Act, which are re-stated in the 2017/18 Financial Bill that I am presenting to you today. The 2017/18 Financial Bill also revises a number of the non-tax revenue rates that were

included in the 2016 Financial Act and generated such controversy. It is my sincere request to you that you accept the rates that we have proposed, and do not increase them. Taxation must strike a balance between raising revenue for the State and encouraging private sector activity. If we discourage private sector activity by charging excessively high tax rates and operating fees, we are harming our own economic prospects and undermining future revenue generation.

- 30 Rt. Hon. Speaker, given that we still have considerable scope to implement the measures already set out in the 2016 Taxation Amendment Act, I am only introducing two new revenue measures today. These are: an increase in air departure tax from twenty dollars to thirty dollars, and an increase in sole proprietor personal income taxes from ten percent to fifteen percent, bringing this group in line with the top rate of ordinary personal taxes.
- 31 Rt. Hon. Speaker, we shall be putting considerable effort into improving our tax administration in 2017/18. I am very pleased to inform you that we have secured financial and technical support from the African Development Bank to establish the National Revenue Authority. We have already commenced the process of recruiting the Commissioner General. The National Revenue Authority will bring our customs and taxation operations into a single unified structure, enabling us to professionalize the workforce and align our practices to the East African Community as required for our participation in the Customs Union. We shall also be strengthening our customs management by introducing a stamp tracking system for imports, to reduce tax evasion.
- 32 Rt. Hon. Speaker, these measures are critical to improving our non-oil revenue mobilization. It should be our aim over the next two to three years to raise our non-oil revenues to levels where they can finance our salaries and transfers to states, so that we have greater fiscal predictability and are less reliant on oil revenues. However, this is a medium term aspiration. In the meantime, we also need to reform our expenditure management.
- 33 Rt. Hon. Speaker, this fiscal year, I introduced measures to limit non-priority operating expenditures and improve our cash management. I established a Cash Management Committee, I cancelled outstanding cheques, I closed Government bank accounts held in commercial banks, and I placed limits on medical and travel claims. In doing so, I encountered considerable resistance from a number of quarters. Although everyone complains about the current economic situation, few people want to accept economic stabilization reforms that will limit their own individual opportunity to access State resources.

- 34 In 2017/18, I want tackle the problem of our arrears. Although unverified, our current stock of arrears certainly runs into billions of pounds. At the same time, we continue to build up new arrears as Spending Agencies continue to enter into new commitments that are not affordable. Arrears management is a complex process, and we will need to take action on several fronts. First, I appeal to the House to pass the Public Procurement Bill, so that we can strengthen our procedures for contracting. Second, I will be establishing an Arrears Management Committee, tasked with overseeing the process of taking stock of our existing arrears, developing an arrears clearance plan and recommending measures to prevent the accumulation of new arrears. I have requested the Auditor General to verify the arrears that are identified, so that we eliminate fake claims from our arrears stock and only plan to clear genuine arrears. I have already discussed this entire process with the IMF, and will be requesting their further technical assistance in this area.
- 35 I also intend to strengthen our expenditure management procedures. As you know, our objective is to prioritize payment of salaries, state transfers and debt service obligations. We also endeavor to ensure that all Spending Agencies are allocated funds for operating expenses, however small. We have encountered a number of challenges in ensuring effective cash management this financial year. If we succeed in reducing the fuel subsidy in 2017/18, then I anticipate that we will not be operating in a situation of budget deficit, and will have sufficient funds to make timely payment of salaries and state transfers.
- 36 However, we will still need to strengthen our controls on operating expenditures, otherwise there is a risk that whatever gains we realize from reduction of the fuel subsidy will be absorbed by rising operating costs. We will make better use of the functionality provided by our Integrated Financial Management Information System (IFMIS) to ensure that expenditures are limited according to cash availability. We will also make it harder for spending agencies to exceed their budget allocations, by bringing requests for supplementary expenditures to Parliament for approval.
- 37 Rt. Hon. Speaker, when I presented the 2016/17 Budget to you, I outlined plans for payroll cleansing. Since then, I have been studying how we can incorporate biometric data into our paysheets, using the national ID numbers issued by the Ministry of Interior. This would be the most efficient way of reducing duplicate and ghost paysheet entries. If possible, I intend to take these plans forward on a pilot basis in 2017/18.
- 38 Rt. Hon. Speaker, I remain committed to conducting the business of the Ministry of Finance and Planning in the most transparent way possible. All Budget documentation for 2016/17 has been posted to the Ministry of Finance website, and we have continued

to produce and publish quarterly budget execution reports. We intend to streamline these reports in 2017/18 and make them available on a more timely basis. We will also explore the possibility of producing simple monthly reports, so that everyone is kept up to date on our fiscal situation.

39 Rt. Hon. Speaker, I have outlined the priority revenue and expenditure management reforms that I intend to implement in 2017/18. Let me now turn to the details of the 2017/18 budget estimates.

RESOURCE ESTIMATES FOR 2017/18

40 Rt. Hon. Speaker, the resource projections for this year's budget is based on the Ministry of Finance's Macro-Fiscal Framework.

41 Total net revenues and grants for 2017/18 are estimated at forty billion two hundred and thirty one million Pounds (SSP 40,231 million), compared with eighteen billion, five hundred and thirty four million Pounds (SSP 18,534 million) for 2016/17.

42 Gross oil revenues for 2017/18 are estimated at one hundred and twenty seven billion, two hundred and thirty two million Pounds (SSP 127,232 million) as compared to forty six billion, eight hundred and thirty-three Pounds (SSP 46,833 million) in the 2016/17 Budget. The increase is due to the increase in the oil price and the depreciation in the exchange rate. Total oil production is one hundred and ten thousand (110,000) barrels per day, with the government profit share being forty two percent. The forecast price for Dar Blend is forty five dollars per barrel.

43 Total estimated deductions against gross oil revenues in 2017/18 amount to one hundred and one billion, four hundred and sixty-one million Pounds (SSP 101,461 million). Of this, seventy billion, three hundred and eight million Pounds (SSP 70,308 million) will be paid to Sudan by providing them with twenty-eight thousand barrels of oil per day as an in-kind payment against our transitional financing obligations. However, we still owe them substantial arrears from previous years in the region of four hundred million dollars (USD 400 million). We have not provided for clearance of these arrears in the 2017/18 Budget. As of April this year, Sudan has informed us that it will be taking one cargo of our oil every two months to pay off these arrears. This is not affordable, and we are currently in discussions with them to reach an amicable solution.

44 Twenty-eight billion, three hundred and seven million Pounds (SSP 28,307 million) of our oil revenues will be provided to Nilepet and refined product suppliers, and two billion, eight hundred and forty-six million Pounds (SSP 2,846 million) will be transferred to oil producing States and communities. Net oil revenues after payments to

Sudan, Nilepet, refined products suppliers and oil producing States and communities are therefore estimated at twenty five billion, seven hundred and seventy-one million pounds (SSP 25,771 million).

- 45 Rt. Hon Speaker, as previously mentioned, if we reduce the fuel price subsidy then the net oil revenues available to finance the 2017/18 budget will increase.
- 46 Non-oil revenues are estimated at fourteen billion and forty six million Pounds (SSP 14,046 million) in 2017/18. The non-oil revenue estimates reflect improvements in collections based on immediate implementation of the measures incorporated in the Taxation Amendment Bill 2016 and 2017/18 Financial Bill, which I have already outlined to you. It is essential that the House passes these Bills alongside the Budget, so that we have a legal basis for our revenue estimates.
- 47 Grants from donors supporting the Government budget in the Transport sector are expected to amount to four hundred and fourteen million pounds (SSP 414 million) in 2017/18.
- 48 Rt. Hon. Speaker, under normal conditions, our resources from revenues and grants would be supplemented by borrowings. We intend to raise eight hundred and thirty five million Pounds (SSP 835 million) from Treasury Bills on a net basis, and will receive two billion, one hundred and seventy two million Pounds (SSP 2,172 million) in donor project loans. However, we also need to repay eleven billion and ninety-three Pounds (SSP 11,093 million) in oil advances. Therefore on a net basis we will be repaying eight billion and eighty six million Pounds (SSP 8,086 million) to our lenders. The resources available to finance the 2017/18 Budget therefore amount to thirty two billion one hundred and forty five million pounds (SSP 32,145 million).

RESOURCE ALLOCATIONS FOR 2017/18

- 49 Rt. Hon. Speaker, Hon. Members, I propose that total expenditure for the 2017/18 fiscal year amounts to forty six billion, and five hundred, ninety three million South Sudanese pounds (SSP 46,593 million). The difference between the resources available to us, including new borrowings, and our planned expenditures is fourteen billion one hundred and thirty two million Pounds (SSP 14,132 million), equivalent to ninety-one million dollars (USD 91 million). .
- 50 Rt. Hon. Speaker, Hon. Members, as I have already mentioned, if we reduce the fuel price subsidy, we can close this gap entirely and consider awarding a pay rise to Government employees.

- 51 Total Government expenditure is estimated at forty three billion, six hundred and ninety one million South Sudanese pound (SSP 43,691 million), representing a nominal increase of ten billion, three hundred and two million South Sudanese pounds (SSP 10,302 million) compared to the approved budget for 2016/17. Although this represents a thirty one percent increase compared with the 2016/17 budget, the value of expenditure in dollar terms is forty-one percent lower, totaling two hundred and eighty two million dollars (USD 282 million).
- 52 In terms of budget chapters, twenty two billion and four hundred, ninety eight million South Sudanese pounds (SSP 22,498 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 fifty one percent of the domestically financed budget.
- 53 Eight billion, two hundred and sixteen million South Sudanese pounds (SSP 8,216 million) will be allocated towards international, state and county transfers.
- 54 Six billion, six hundred and twenty seven million South Sudanese pounds (SSP 6,627 million) will be allocated to operating expenditures.
- 55 One billion, six hundred and ten million pounds (SSP 1,610 million) is allocated to capital, while seven hundred and one million (SSP 701) million will be set aside for interest payments on existing debts. Other expenditures total thirty eight million (SSP 38 million).
- 56 Rt. Hon. Speaker, Hon. Members, you will notice that I have set aside four billion South Sudanese pounds (SSP 4,000 million) for the implementation and consolidation of Peace. This represents just under ten percent 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.
- 57 Rt. Hon. Speaker, Hon. Members, as you can see, agencies' budgets for operating and capital expenditure amount to just twenty-nine percent (29%) 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

program for the army and Organized Forces, something we did not achieve before independence.

- 58 Nonetheless, in spite of our current constraints, I am pleased that sixteen percent (16%) of our budget is allocated to transfers to States and Counties, while one billion, one hundred and thirteen million Pounds (SSP 1,113 million) is set aside for essential membership and participation in international organizations.
- 59 I hope that our transfers to States and Counties, which amount to seven billion, one hundred and three million Pounds (SSP 7,103 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 are intended to 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, with substantial increases detailed below. To this, the World Bank funded Local Government and Service Delivery Project will add transfers of two billion, one hundred and seventy-two million South Sudanese pounds (SSP 2,172 million), funded by the project loan included in our financing estimates.
- 60 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.
- 61 The Accountability sector will receive two billion, four hundred and eighty-nine million South Sudanese pounds in 2017/18 (SSP 2,489 million) from Government's own resources. The Accountability Sector comprises a wide range of activities, and its budget allocations are expected 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. Audit has received a large increase (more than two hundred and fifty million pounds (SSP 250 million)) to enable it to function fully. National Revenue Authority has received one hundred and eighty-six million Pounds (SSP 186 million), allocated in line with international standards. Rt. Hon Speaker, these are investments for our future.
- 62 The Economic Functions sector will receive five hundred and thirty-seven million South Sudanese pounds in 2017/18 (SSP 537 million) from Government's own resources. This includes a more-than-doubling of operating resources to states' and counties' water resources departments. This is a vital area of investment which aims to increase resilience in increasingly desperate conditions.

- 63 Turning to the Education Sector: it will receive one billion, eight hundred and seventy million South Sudanese pounds (SSP 1,870 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. I am particularly pleased to announce that we have increased resources intended for the frontline of Basic Education from fifty-nine million Pounds (SSP 59 million) last year to one hundred and seventy-eight million Pounds (SSP 178 million) this year, as well as providing monitoring allocations under the operating chapter, to help ensure that the resources are spent and reach their destination.
- 64 The Health Sector will receive one billion and forty-seven million Pounds (SSP 1,047 million) from Government's own resources, and a fifty-seven percent (57%) increase on last year's budget. 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. Community and Public Health resources for the front line have increased from twenty-one million pounds (SSP 21 million) in last year's Budget to two hundred and eighty-two million Pounds (SSP 282 million) in this year's Budget, to contribute towards keeping facilities open and keeping health workers in place. Executing these increases is not without challenges, so additional resources have been provided to the central ministry to enable them to do their work.
- 65 The Infrastructure sector will receive two hundred and ninety-four million pounds (SSP 294 million) from Government's own resources. Out of this, one hundred and fifty million Pounds (SSP 150 million) is to support capital investments through the Roads Authority in key priority roads.
- 66 The Natural Resources and Rural Development sector will receive eight hundred and twenty million Pounds (SSP 820 million) from Government's own resources, more than half of which will cater for the salaries of wildlife forces at national and state level.
- 67 The Public Administration Sector is budgeted at twelve billion, twenty-seven million Pounds (SSP 12,027 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.
- 68 Rt. Hon. Speaker, Hon. Members, the Rule of Law Sector has an allocation of three billion, nine hundred and eighty one million South Sudanese pounds (SSP 3,981

million), 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 three hundred and seven million South Sudanese pounds (SSP 307 million) allocated to operating costs, and a further sixty million South Sudanese pounds (SSP 60 million) allocated to capital. These new capital allocations will be used to purchase firefighting equipment for the fire service.

69 The Security Sector has the largest budget allocation of twelve billion, nine hundred and sixty-three million South Sudanese pounds (SSP 12,963 million), entirely funded from Government's own resources, which accounts for thirty percent (30%) 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, six hundred and sixty-six million pounds (SSP 1,666 million) for operating costs and two hundred million pounds (SSP 200 million) for new capital expenditures.

70 Finally, the Social and Humanitarian Affairs Sector has an allocation of one hundred and seventy two million Pounds (SSP 172 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.

71 Rt. Hon. Speaker, Hon. Members, in addition to these sectoral allocations, four billion pounds (SSP 4 billion) is allocated for peace expenditures, as previously mentioned. We have also allocated seven hundred and two million Pounds (SSP 702 million) for interest payment on our outstanding debts. Procedures for accessing the peace budget and National Dialogue are laid out in the Appropriation Bill.

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

GOVERNMENT DEBT POSITION

73 Rt. Hon. Speaker, Hon. Members, as of 31th March 2017, our total outstanding debt was provisionally estimated at fifty-four billion, seven hundred and sixty-seven million pounds (SSP 54,767 million). This includes two billion, two hundred and twelve million pounds (SSP 2,212 million) of borrowing from commercial banks, and nineteen billion, nine hundred and seventy million Pounds (SSP 19,970 million) of direct borrowing from the Bank of South Sudan. It also includes an outstanding recapitalization claim to the BSS of two billion, one hundred and sixty five million (SSP 2,165 million). The figure

also includes outstanding oil advances equivalent to eighteen billion, two hundred and eighty-nine million pounds (SSP 18,289 million) and external loans to the World Bank and China of fourteen billion, two hundred and ninety six million pounds (SSP 14,296 million).

- 74 Our outstanding debt stock of fifty four billion Pounds (SSP 54 billion) is equivalent to twenty five percent (25%) of GDP. However, this figure excludes domestic arrears, which are estimated to run into the billions, and arrears to Sudan, which are estimated at over four hundred million dollars (USD 400 million). Once these figures are included, our debt level can be expected to rise to around sixty percent of GDP (60%).
- 75 Rt. Hon. Speaker, we cannot allow our debt to continue accumulating. That is why, in this Budget, I propose a limited amount of borrowing, amounting to two billion, one million Pounds (SSP 2,172 million) of new concessional borrowing plus eight hundred and thirty-five million Pounds in net Treasury Bill borrowing, combined with eleven billion, ninety three million of principal repayments (SSP 11,093 million), resulting in net financing of negative eight billion, and fifty six million (SSP 8,086 million). Some of the new borrowing will hopefully come from commercial banks – we will attempt to issue three billion pounds (SSP 3,000 million) of new Treasury Bills over the next fiscal year for a net total of eight hundred and thirty-five million (SSP 835 million).
- 76 The situation we face is not an easy one. If we do not remove the fuel price subsidy, and there is no meaningful change in expenditure patterns, we will remain with an unfunded budget deficit and are likely to risk putting pressure on financing beyond what we have budgeted for. Higher borrowing causes higher inflation and loss of purchasing power, which is destroying our economy and our country. We must 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 Honorable Members of the National Assembly join us in our attempt to alleviate this crisis, by passing the 2017/18 Budget.

Conclusion

- 77 Rt. Hon. Speaker, in conclusion, allow me to table the draft 2017/18 National Budget, the 2017/18 Appropriation Bill, the 2017/18 Financial Bill for consideration and approval by this August House.
- 78 I commend it to you. The 2011 Public Financial Management And Accountability Act provides you with forty-five days in which to pass it. Thank you for your kind attention.