



REPUBLIC OF SOUTH SUDAN

TRANSITIONAL GOVERNMENT OF NATIONAL UNITY

BUDGET SPEECH FY 2019/2020

Presented to Transitional National Legislature

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INTRODUCTION

- 1 Right Honorable Speaker Sir, Honorable Members of the Transitional National Legislature; in accordance with Article 88 (1) of the Constitution, please allow me to present the Fiscal Year 2019/2020 Draft National Budget. This Draft National Budget proposal sets out our estimated revenues and our planned expenditures for FY 2019/2020.
- 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 2019/2020, the Draft Financial Bill for 2019/2020 and a Statement of the Overall Indebtedness of the Government of the Republic of South Sudan.

CONTEXT OF THE 2019/2020 BUDGET

- 3 Rt. Hon. Speaker Sir, Hon. Members, the Fiscal Year 2019/2020 Draft National Budget has been prepared under the theme; “Consolidating Peace and Continuing the Necessary Reforms to Stabilize our Economy.”
- 4 Rt. Hon. Speaker Sir, Hon. Members, we are beginning to see a rebound in our Gross Domestic Product (GDP) and according to the IMF, we may reach GDP growth level of about 3.4 percent by end of 2019. We anticipate a rise in oil production, with additional oil fields coming on line. The economic recovery process is also spurred by the Revitalized Agreement for Resolution of Conflict in South Sudan (R-ARCSS) signed in September 2018. We are optimistic that as more people return to their homes and engage in productive activities including agriculture, the economic recovery can be sustained. We need to do more to attract new investment into the oil sector, while improving trade, and for the first time, non-oil revenue is contributing about 23 % of the total resources.
- 5 During the current financial year, in line with the reforms I presented to you in the FY 2018/2019 Budget, we took significant steps towards aligning expenditure with income by limiting borrowing from the Bank of South Sudan, which is inflationary. This discipline enabled us to reduce inflation to under 40 percent by end of 2018. However, we are observing an upward trend in inflation and we need to do more to sustain the peace in order to keep a downward pressure on inflation. It is important to acknowledge that the economic stabilization and recovery process will be long and challenging.

- 6 Rt. Hon. Speaker Sir, Hon. Members, the Ministry of Finance alone cannot deliver the objectives we desire for 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 Revitalized Peace Agreement. It also builds on initial disbursements in the FY 2018/2019 budget to the National Pre-Transitional Committee (NPTC). Furthermore, the budget supports service delivery by increasing allocations to State transfers.
- 7 Critically, this Budget renews our commitment to limiting borrowing from the Bank of South Sudan. Due to the significant investment in infrastructure, we have a budget deficit of approximately SSP 77 Billion. We anticipate that the increase in oil production and favorable crude oil prices will enable us to finance the deficit. We expect both these actions, coupled with increased economic activity, to support the exchange rate and reduce inflationary pressures in our economy in the long-run.
- 8 Rt. Hon. Speaker Sir, Hon. Members, in summary, the 2019/2020 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.

APPRAISAL OF THE 2019/2020 BUDGET

- 9 Rt. Hon. Speaker Sir, Hon. Members, before I lay out my plans for FY 2019/2020 in full, let me give you a preliminary overview of our economic and fiscal performance during the first three quarters of 2018/2019
- 10 Rt. Hon. Speaker Sir, Hon. Members, as I have already mentioned, our economy is estimated to have expanded by 3.4 percent this fiscal year, as we begin to increase oil production and improve non-oil revenue mobilization. Inflation continued to reduce over the fiscal year, dropping to below 93 percent in December 2018. These improvements are largely due to 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 The South Sudanese Pounds depreciated against the United States Dollars from 142 in January - December 2018 compared to 115 recorded in January to December 2017.
- 12 Turning to our budget performance, total net tax revenues for the first nine months of 2018/2019 amounted to twenty billion, two hundred and fifty seven million South

Sudanese Pounds (SSP 20,257 million). We anticipate that by the end of the year, the amount will be around twenty seven billion South Sudanese Pounds (SSP 27,000 million). On the oil side, the revenue for the first nine months of the year amounted to five billion, seven hundred and thirty five million South Sudanese Pounds (SSP 5,735 million). Pre-financing amounted to about sixty eight billion, one hundred and eighty six million South Sudanese Pounds (SSP 68,186 million).

- 13 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 remains only for the 8 percent of the profit oil amounting to seventeen billion, four hundred and forty seven South Sudanese Pounds (SSP 17,447 million).
- 14 After deducting payments to Sudan, NilePet and to the oil producing States and Communities, the net oil revenues amounted to one hundred and twenty five billion, five hundred and forty two million (SSP 125,542 million).
- 15 Total actual expenditures for the first nine months amounted to ninety four billion, one hundred and seventy eight South Sudanese Pounds (SSP 94,178 million). Expenditure as a whole for FY 2018/2019 is projected to about one hundred and twenty four billion South Sudanese Pounds (SSP 124,000 million) which is about forty three billion (SSP 43,000 million) above the approved Budget level of eighty one billion, five hundred and ninety million South Sudanese Pounds (SSP 81,590 million).
- 16 Operating expenditures amounted to fifty five billion, three hundred and thirty seven million South Sudanese Pounds (SSP 55,337 million) during the first nine months of the year.
- 17 Total capital spending was five billion, four hundred and thirty million South Sudanese Pounds (SSP 5,430 million) over the nine month period. This was below budget by 37 percent.
- 18 Rt. Hon. Speaker Sir, Hon. Members, 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 2019/2020 BUDGET

- 19 Rt. Hon. Speaker Sir, Hon. Members, allow me to address the priorities for the proposed 2019/2020 Budget. Our economic situation has improved marginally but continues to be extremely challenging. The economic and budgetary challenges we face today are largely a result of external economic shocks, particularly the fall in the oil prices in 2014. But the difficulties are severely aggravated by the conflict and its economic effects. Moreover, our failure to moderate expenditures, build up reserves and diversify the economy has created further challenges. We also neglected to develop our capacity to mobilize domestic revenues.
- 20 Rt. Hon. Speaker Sir, Hon. Members, maintaining budget discipline remains a challenging feature of our budget management. We have weak procurement practices, expenditures are not properly prioritized. We shall adhere to the Public Procurement and Disposal of Asset Act 2018. This will help to improve procurement practices and bring some discipline to our expenditures. The Ministry of Finance has also ensured that the FY 2019/2020 budget is based on agency plans aligned to the National Development Strategy (SSNDS).
- 21 Rt. Hon. Speaker Sir, Hon. Members, nevertheless, we are committed to continue 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 and development, towards fulfilling the hope that many people had for South Sudan at independence. With the help of this House, I believe there are initiatives we can implement in the coming fiscal year to lay the foundations for stronger budget management and greater fiscal sustainability. These measures are in consultation with the IMF following the Article IV discussions and build on the Economic and Fiscal Stabilization and Recovery Action Plan that I submitted to you last year.
- 22 Rt. Hon. Speaker Sir, Hon. Members, the Ministry of Finance and Planning and the Ministry of Petroleum are striving to curtail the pre-finance practice against crude oil. This practice comes with significant costs to the budget and deprives us the true value of our oil revenue.
- 23 Rt. Hon. Speaker Sir, Hon. Members, our efforts to increase non-oil revenue is yielding results. We are continuing to support the National Revenue Authority (NRA) to execute its mandate. We will continue to implement measures already set out in the 2016 Taxation Amendment Act, which are re-stated in the 2019/2020 Financial Bill that I am presenting to you today. The 2019/2020 Financial Bill also revises a number of the non-tax revenue rates that were included in the 2018 Financial Act. It is my sincere request to you that you accept the rates that we have proposed. 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.

- 24 Rt. Hon. Speaker Sir, Hon. Members, the Financial Bill 2019/2020 proposes changes to Personal Income Tax (PIT) as follows: all withholding charges and rates for Advanced Income Tax as stipulated in Schedule I of Financial Act 2018/2019 are repealed.
- 25 Rt. Hon. Speaker Sir, Hon. Members, we shall be putting considerable effort into improving our tax administration in 2019/2020. I am very pleased to inform you that the National Revenue Authority is on the path to becoming fully operational and the process to 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 is on course. We shall also be strengthening our customs management by introducing a stamp tracking system for imports, to reduce tax evasion.
- 26 Rt. Hon. Speaker Sir, Hon. Members, 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.
- 27 Rt. Hon. Speaker Sir, Hon. Members, this fiscal year, I introduced measures to limit non-priority operating expenditures and improve our cash management. I established a Cash Management Committee and 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.
- 28 In 2019/2020, I want to 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. I once again appreciate the House for passing 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.

29 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. We have encountered a number of challenges in ensuring effective cash management this financial year. We will have to be even more vigilant considering the deficit arising from our investment in infrastructure if we are to avail sufficient funds to make timely payment of salaries and state transfers.

30 However, we will still need to strengthen our controls on operating expenditures. 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 ensure that spending agencies do not exceed their budget allocations.

31 Rt. Hon. Speaker Sir, Hon. Members, when I presented the 2018/2019 Budget to you, I outlined plans for payroll cleansing. Since then, I have been studying how we can incorporate biometric data into our pay sheets, using the national ID numbers issued by the Ministry of Interior. This would be the most efficient way of reducing duplicate and ghost pay sheet entries. This exercise is still in progress.

32 Rt. Hon. Speaker Sir, Hon. Members I remain committed to conducting the business of the Ministry of Finance and Planning in the most transparent way possible. All Budget documentation for 2018/2019 has been posted to the Ministry of Finance website. We intend to streamline these reports in 2019/2020 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.

33 Rt. Hon. Speaker Sir, Hon. Members, we have observed that dollarization is creating more problems for our economy, including putting enormous pressure on the exchange rate. For FY 2019/2020, I propose that we stick to utilizing the local currency for all payments, including medical referral, foreign travel, contractual obligations, etc. Beneficiaries can go to the market to purchase foreign exchange if they so desire.

34 Rt. Hon. Speaker Sir, Hon. Members I have outlined the priority revenue and expenditure management reforms that I intend to implement in 2019/2020. Now, please allow me to present the summary of the 2019/2020 budget estimates.

RESOURCE ESTIMATES FOR 2019/2020

35 Rt. Hon. Speaker Sir, Hon. Members, the resource projections for this year's budget is based on the Ministry of Finance's Macro-Fiscal Framework in consultation with National Revenue Authority, Ministry of Petroleum and other revenue collecting institutions.

36 Total net revenues and grants for 2019/2020 are estimated at One Hundred Thirty Billion Seven Hundred Twenty Nine Million South Sudanese Pounds only (SSP 130,729 million), compared to Eighty One Billion, Five Hundred Ninety Million Pounds only (SSP 81,590 million) for 2018/2019.

37 Gross oil revenues for 2019/2020 are estimated at Two Hundred Thirty Five Billion, Five Hundred Twenty Nine Million South Sudanese only (SSP 235,529 million) as compared to One Hundred Ninety One Billion, Two Hundred Sixty Five Million South Sudanese Pounds only (SSP 191,265 million) in the 2018/2019 Budget. The increase is due to the projected increase in oil production and the oil price, as well as the depreciation in the exchange rate. Total oil production is one hundred and seventy ten thousand (170,000) barrels per day, with the government profit share being forty two percent. The benchmark price for Dar Blend is fifty five dollars per barrel.

38 Seventeen billion, four hundred and forty four million Pounds (SSP 17,447 million) of our oil revenues will be provided to Nilepet and refined product suppliers, and six billion, six hundred and eight million Pounds (SSP 6,608 million) will be transferred to oil producing States and communities. Net oil revenues after payments to Sudan, Nilepet, share of profit oil and oil producing States and communities are therefore estimated at one hundred billion, eight hundred and eighty-eight million pounds (SSP 100,887 million).

39 Non-oil revenues are estimated at twenty-nine billion, eight hundred and fifty-two million Pounds (SSP 29,852 million) in 2019/2020. The non-oil revenue estimates reflect the operationalization of the Revenue Authority and improvements in projected collections based on immediate implementation of the measures incorporated in the Taxation Amendment Bill 2016 and 2019/2020 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.

40 We have not received information of any grants from donors, which we can report to the budget. As you know donors had shifted most of their support to humanitarian and relief efforts. With the signing of the Peace Agreement, the Ministry of Finance & Planning is engaging donors to begin programming support for development initiatives again.

RESOURCE ALLOCATIONS FOR 2019/2020

41 Rt. Hon. Speaker Sir, Hon. Members, I propose that total expenditure for the 2019/2020 fiscal year amounts to two hundred and eight billion, one hundred and fifty five million South Sudanese pounds (SSP 208,155 million). The difference between the resources available and planned expenditures is seventy seven billion South Sudanese Pounds (SSP 77 billion). We propose to manage the budget deficit through increase in oil production as well as positive difference between bench mark price and market price of crude oil. In addition, we will also explore external financing from the international market on favorable terms.

42 Total Government spending is estimated at Two Hundred Eight Billion, One Hundred Fifty Five Million South Sudanese pound (SSP 208,155 million), representing a nominal increase of One Hundred Twenty Six Billion Five Hundred Sixty Five South Sudanese Pounds (SSP 126,565 million) compared to the approved budget for 2018/19.

43 In terms of budget allocation by chapters, twenty six billion and seven hundred million South Sudanese pounds (SSP 26,700 million) will be allocated for the salaries of civil servants, including the Army and the Organized Forces. This is the third largest chapter, and accounts for twelve point eight percent (12.8%) of the domestically financed budget.

44 Seventeen billion Eight Hundred Thirty Six Million Sudanese Pounds (SSP 17,836 million) is allocated towards state and county transfers and international obligations.

45 Thirty Billion Two Hundred Fifty Five Million South Sudanese pounds (SSP 30,255 million) is allocated to operating expenditures. This is the second largest in terms of allocation by chapters after capital expenditure and it represents about fifteen percent (15%) of the budget.

46 One Hundred Eighteen Billion Nine Hundred Sixty Two Million South Sudanese Pounds (SSP 118,962 million) is allocated to capital expenditure especially for infrastructure. This is the largest allocation this fiscal year, representing fifty seven percent (57%) of the budget.

- 47 Others and donations under the Office President is allocated Three Hundred Million South Sudanese Pounds (300 million)
- 48 Rt. Hon. Speaker Sir, Hon. Members, you will notice that I have set aside Ten Billion South Sudanese pounds (SSP 10,000 million) for the implementation and consolidation of Peace. This represents just under five percent of domestically-financed expenditure. I expect this allocation to be devoted to humanitarian measures to repair damaged infrastructure; transport, feeding and return the displaced population and cantonment of forces. This allocation demonstrates that this Budget is serious about implementing peace, and returning displaced people to their homes.
- 49 Rt. Hon. Speaker Sir, Hon. Members, as you can see, agencies' budgets for operating and capital expenditure amount to One Hundred Forty Nine Billion Two Hundred Seventeen Million South Sudanese Pounds (SSP 149,217 million) which is about Seventy Two percent (72%) of the total budget).
- 50 Nonetheless, in spite of our current constraints, I am pleased that fifty seven percent (57%) of our budget is allocated to capital expenditure as per the government policy of allocating thirty thousand barrels of crude oil per day for infrastructure.
- 51 Rt. Hon. Speaker Sir, Hon. Members, based on the Council of Ministers' Resolution to allocate the 30 thousand barrels of crude oil per day for infrastructure development; I strongly recommend formation of a committee to monitor the transactions of this allocations. I suggest the committee should comprise of technocrats from the Office of the President, Ministry of Finance and Planning, Ministry of Roads and Bridges, Ministry of Petroleum and Ministry of Energy and Dams
- 52 I hope that the transfers to States which amount to six billion, five hundred and ninety four million Pounds (SSP 6,594 million) will enable State governments to finance their running costs and support county development. Conditional transfers will cater for teachers and health workers' salaries, and the costs of the Organized Forces at state levels.
- 53 Rt. Hon. Speaker Sir, Hon. Members, let me now turn to sectoral allocations. The figures presented here for the ten sectors are to implement the annual plans.
- 54 The Accountability sector will receive three billion, eight hundred and four million South Sudanese pounds in 2019/2020 (SSP 3,804 million) from Government's own resources.
- 55 The Economic Functions sector will receive three billion and six million South Sudanese Pounds in 2019/2020 (SSP 3,006 million) from Government's own resources.

- 56 Education Sector is allocated eleven billion, seven hundred and twenty million South Sudanese Pounds (SSP 11,720 million), from Government's own resources.
- 57 Health Sector is allocated two billion and three hundred and forty two million South Sudanese Pounds (SSP 2,342 million) from Government's own resources.
- 58 Infrastructure sector is allocated one hundred and thirteen billion three hundred and seventy eight million South Sudanese Pounds (SSP 113,378 million) from Government's own resources.
- 59 Natural Resources Sector is allocated one billion, five hundred thirty five South Sudanese Pounds (SSP 1,535 million) from Government's own resources.
- 60 Public Administration is allocated twenty billion, one hundred and thirty five South Sudanese Pounds (SSP 20,135 million) from Government's own resources.
- 61 Rt. Hon. Speaker Sir, Hon. Members, the Rule of Law Sector is allocated five billion, four hundred and seventy five million South Sudanese Pounds (SSP 5,475 million), funded by Government resources.
- 62 The Security Sector has been allocated twenty one billion, nine hundred and thirty two million South Sudanese Pounds (SSP 21,932 million), entirely funded from Government's own resources.
- 63 Finally, the Social and Humanitarian Affairs Sector has been allocated four billion, two hundred and twenty eight million South Sudanese Pounds (SSP 4,228 million) from Government's own resources.
- 64 Rt. Hon. Speaker Sir, Hon. Members, in addition to these sectoral allocations, ten billion Pounds (SSP 10 billion) is allocated for peace expenditures, as previously mentioned. We have also allocated one billion South Sudanese Pounds (SSP 1,000 million) for interest payment on our outstanding debts.
- 65 Three billion and seven million South Sudanese Pounds is also allocated as contingency for unforeseen circumstances.
- 66 Rt. Hon. Speaker Sir, Hon. Members, 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

67 Rt. Hon. Speaker Sir, Hon. Members, as of 31st March 2019, our total outstanding debt is One hundred seventy seven billion, six hundred and fifteen million South Sudanese Pounds (SSP 177,615 million) of which domestic is thirty three billion South Sudanese Pounds (SSP 33 billion) and foreign debt is nine hundred and thirty three million dollars (USD 933 million).

Conclusion

68 Rt. Hon. Speaker Sir, Hon. Members, in conclusion, allow me to table the draft 2019/2020 National Budget, the 2019/2020 Appropriation Bill, and the 2019/2020 Financial Bill for consideration and approval by this August House.

69 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.

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