



**REPUBLIC OF SOUTH SUDAN**

**REVITALIZED TRANSITIONAL GOVERNMENT OF NATIONAL UNITY**

**BUDGET SPEECH FOR THE FY 2021/2022**

**Presented to Revitalized Transitional National Legislature**

**By**

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## INTRODUCTION

- 1 Right Honorable Madam Speaker, Honorable Members of the Revitalized Transitional National Legislature; in accordance with Article 88 (1) of the Constitution, please allow me to present the Fiscal Year (FY) 2021/2022 Draft National Budget. This Draft National Budget sets out our estimated revenues and our planned expenditures for FY 2021/2022.
- 2 As required by the Public Financial Management and Accountability Act 2011, this Draft National Budget is accompanied by the Draft Appropriation Bill for FY 2021/2022, the Draft Financial Bill for 2021/2022 and a Statement of the Overall Indebtedness of the Government of the Republic of South Sudan. I have also added the National Development Strategy (NDS) document as a framework that guided the preparation of the proposed FY 2021/2022 budget.

## CONTEXT OF THE PROPOSED FY 2021/2022 BUDGET

- 3 Right Honorable Madam Speaker, Honorable Members of the Revitalized Transitional National Legislature, the proposed FY 2021/2022 budget has been prepared in the context of three critical episodes: conflict-induced fragility, climate change, and COVID-19 pandemic. These require sound and inclusive public policy underpinned by transparency and accountability for our country to move towards sustainable peace, economic growth, and poverty eradication. Hence the theme of this year's proposed Budget is to ***Consolidate Peace, Combat COVID-19 pandemic, and Stabilize the Economy***.
- 4 With relative peace, the economy has started to show signs of recovery. The economic recovery process is spurred by the Revitalized Agreement for Resolution of Conflict in South Sudan (R-ARCSS) signed in September 2018. I am glad to report to this august House that we have started since 2020 to implement the reforms stipulated in Chapter IV of R-ARCSS with tangible results in the form of our re-engagement with the international financial institutions (IFIs). We have, through our re-engagement with the International Monetary Fund (IMF), managed to downsize arrears on wages and salaries of the public sector employees; stabilized the foreign exchange market by unifying the official and parallel market exchange rates; embarked on a comprehensive Public Financial Management Reforms Strategy (PFMRS). These measures laid the foundations for economic recovery and inclusive growth.
- 5 We have also undertaken a review of the National Development Strategy (NDS) to better align with the revitalized Peace Agreement and to serve as an instrument for implementing the provisions of the Agreement. Using the NDS as our strategic planning

framework, we have provided resources towards the implementation of the Revitalized Peace Agreement and to support service delivery by increasing allocations to the social sector as well as State transfers.

- 6 Right Honorable Madam Speaker, Honorable Members, the proposed FY 2021/2022 budget, therefore, aims at stimulating economic recovery through practical and tangible fiscal and monetary measures to promote inclusive economic growth, maintain price stability, and facilitate private sector participation in the economy. The proposed Budget also enhances, despite constrained fiscal conditions, our social spending to prevent the worsening of poverty situation.

## **MACROECONOMIC OUTLOOK**

- 7 Right Honorable Madam Speaker, Hon. Members, although the global economy is projected to grow at about 5.6 percent in 2022, the economic prospects are projected to be lower, for most emerging and developing countries including South Sudan. This is mainly on account of the likelihood of the resurgence of COVID 19 pandemic, which would in turn lead to slowing down of global economic activities.
- 8 The recent recovery of global oil prices and PFM reforms are helping us to restore macroeconomic stability. South Sudan's economic outlook is, therefore, promising on these two accounts.

## **PERFORMANCE OF THE 2020/2021 BUDGET**

- 9 Right Honorable Madam Speaker, Honorable Members of the Revitalized Transitional National Legislature, in spite of the budget implementation challenges caused by the impact of the COVID 19 pandemic and climate change, the FY2020/2021 Budget execution was broadly on track with preliminary figures showing a revenue over performance of 1.9 percent.
- 10 Total revenue collections during the FY 2020/2021 were SSP200.8 billion and were above the budget target of SSP197.09 billion by 1.9 percent. The over performance was on account of non-oil revenues, which recorded a total collection of SSP47.57 billion and was above the budget target of SSP44.41 billion by SSP3.17 billion which represent 7.1 percent. Oil revenues, on the other hand, were marginally below the budget target of SSP152.68 billion by SSP170 million which represent 0.1 percent.
- 11 Total expenditures on the other hand were below the budget by 9.5 percent mainly on account of capital expenditure with only SSP2.9 billion recorded as actual expenditure against the budget of SSP56.9 billion. This could be on account of some unrecorded

expenditures due to delays in receiving information on some of the capital expenditures that were financed directly during the period. Expenditure on wages and salaries was however higher than the budget by 65.9 percent mainly on account of payment of salary arrears which was financed from the IMF Rapid Credit Facilities, which the Government of South Sudan received in November 2020 and April 2021. As a result of this initiative, the Government managed to reduce the salary arrears for civil servants from 5 months to 1 month by end of the FY2020/2021 financial year, in June 2021.

- 12 Right Honorable Madam Speaker, in order to reduce the debt that South Sudan has to Sudan under the TFA arrangement, a total of SSP97.7 billion was transferred to Sudan against the budget of SSP60.8 billion and we are committed to finishing off the entire outstanding amount during this fiscal year to create fiscal space to implement the NDS and undertake poverty reduction programs for the benefit of South Sudanese.
- 13 Right Honorable Madam Speaker, operating expenditures amounted to SSP61.9 billion against the estimated budget of SSP90.7 billion. We were therefore below the budget by SSP28.8 billion which represent 31.7 percent.
- 14 Right Honorable Madam Speaker, with regard to borrowing, a total of SSP52.5 billion was borrowed out of which 20.9 billion was a commercial loan while the balance of SSP31.6 billion was a credit from the IMF Rapid Credit Facility which was used to pay salary arrears.

## **ECONOMIC AND SOCIAL POLICIES FOR FY 2021/2022**

- 15 Right Honorable Madam Speaker, Honorable Members of the Revitalized Transitional National Legislature, the recent recovery in the global oil prices and the PFM reforms we have embarked upon are helping, despite the decline in our oil production, in formulating policies underpinning Government's priority spending in the proposed FY 2021/2022 budget.
- 16 Against this background, the Government's macroeconomic policy objectives, within the broader framework of the National Development Strategy in FY 2021/2022 are to:
  - i) Continue with the implementation of the eleven priorities of the PFMRS;
  - ii) Achieve economic growth of at least 1 percent from the -5.4 percent in FY 2020/2021;
  - iii) Reduce inflation from 22.8 in FY 2020/2021 to 16.3 percent in FY 2021/2022.
  - iv) Diversify the economy by making agriculture the engine of inclusive growth and sustainable livelihoods for the poor and vulnerable households, and

- v) Allocate more resources for implementation of R-ARCSS and for human and physical capital formation.

**(a) Fiscal Policy for the FY 2021/2022**

17 Right Honorable Madam Speaker, Honorable Members of the Revitalized Transitional National Legislature, the overarching objective of the Government in FY2021/2022 is to continue to consolidate fiscal discipline through the following actions:

- i) Establishment of a Treasury Single Account (TSA);
- ii) Operationalization of the Cash Management Unit (CMU), which will in turn provide cash, on quarterly basis and in advance, to all the spending units in order to avoid unnecessary follow up of payments at the Ministry of Finance and Planning.
- iii) Full implementation of the biometric system for all the public sector employees who will in turn be required to open bank accounts with the commercial banks into which their monthly salaries will be deposited and, in this way, eliminate the pervasive problem of ghost employees and salary arrears.
- iv) Establishment of the Public Procurement and Asset Disposable Authority (PPADA), so as to put in place transparent and accountable procurement system in the FY2021/2022 budget and thereby reducing the trust gap between the Government on the one hand, and our development partners and our own citizens on the other;
- v) Review and verification of all the arrears on goods and services provided by the private sector to various government agencies;
- vi) Publish Quarterly Economic and Budgetary Review.
- vii) Continue to improve collection of non-oil revenues.
- viii) Maintain effective coordination between fiscal and monetary policies.

**(b) Monetary Policy for the FY 2021/2022**

18 Right Honorable Madam Speaker, Honorable Members of the Revitalized Transitional National Legislature, in April 2021, we started implementing an exchange rate reform aimed at liberalizing the foreign exchange market. We also committed to refrain from monetary financing of the budget deficit, in compliance with the Resolution of the Council of Ministers' Meeting No. 04/2020 held on Friday 23<sup>rd</sup> October 2020. These measures have helped not only to stabilize our exchange rate, but also to reduce inflation from 70 percent in January 2021 to 16.3 percent end FY 2021/22.

19 Right Honorable Madam Speaker, while noting these achievements, the monetary policy for the FY 2021/2022 will continue to focus on supporting macroeconomic stability, through the following actions:

- i Reduce the inflation from 22.8 in FY 2020/21 to 16.3 in FY2021/22;
- ii Consolidate the current exchange rate reforms through the commitment of the Bank of South Sudan to conduct occasional interventions in the foreign exchange market, when there is undesirable volatility in the foreign exchange market;
- iii Build our international reserves to the equivalent of 3 months of import cover to enable South Sudan meet its external payment requirements, preserves the value of the South Sudanese Pounds, and mitigate against unforeseen shocks;
- iv Strengthen the supervisory capacity, impose the capital adequacy requirements to develop stable, resilient, safe and sound financial sector in the country capable to withstands shocks and recurrent economic crises;
- v The Bank of South Sudan will establish Deposit Issuance Funds and promote the development of microfinance sector as a mechanism for fostering the provision of financial services in the country and to contribute to poverty reduction;
- vi Development of the national payment system, which includes Real Time Gross Settlement (RTGS), Automated Clearing House (ACH), and Central Securities Depository (CSD), as well as the development of electronic and mobile payment systems.

**(c) Debt and Aid Policies for FY 2021/2022**

20 Right Honorable Madam Speaker, Honorable Members of the Revitalized Transitional National Legislature, the Government's long-term debt management objective will be to raise adequate levels of financing at minimum cost and risk. In addition, we will pursue strategies to ensure that the national public debt is maintained at sustainable levels over the medium to long term.

21 Right Honorable Madam Speaker, with respect to domestic debt, the Government will not borrow any money from the domestic market during this fiscal year, including borrowing from the Bank of South Sudan. On the external debt front, the Government's strategy will be to source external funds, when required, on concessional terms and ensure that any new borrowing does not undermine debt sustainability. We will also intensify efforts to consolidate the legal framework governing the contraction of debt and its management.

- 22 With regard to aid, the Government will work on revising the *National Aid Strategy with the Objective of Ensuring* that the country has a clear, systematic and well co-ordinated approach to acquire, utilize and manage aid. We will also ensure regular reporting, monitoring and evaluation of the aid to ensure effective implementation of our development plans. We plan to convene, during the Spring Meetings of the IMF/World Bank in 2022, a high-level donors' meeting on South Sudan with the aim of mobilizing more resources for development.

#### **(d) Structural Reforms in FY 2021/2022**

- 23 Right Honorable Madam Speaker, Honorable Members of the Revitalized Transitional National Legislature, in November 2021, the Council of Ministers approved the National Development Strategy (NDS). The NDS framework calls for diversification of our economy and reduce dependency on oil. With the support of the World Bank we have begun the process of structural reforms as by way of achieving this call for diversification of the economy. We have allocated more resources to the social sector in the proposed FY2021/2022, with the aim of increasing our investment in human capital. We have begun discussions with the World Bank on the following priority areas:

- i) Agriculture: Transforming agriculture from Humanitarian Aid to Development Oriented Growth Path;
- ii) Energy: Pathways to Electricity Access Expansion;
- iii) Health Sector: Integrated Service Delivery for Human Development and Empowering girls and women in South Sudan through investment in human capital;
- iv) Social Protection: Productive Safety-Net for Socioeconomic Opportunities, which will lay the foundation for a nation-wide social security in line with the National Social Protection Policy Framework;
- v) Infrastructure: Assessment for roads, railways, inland waterways transportation, inland dry ports and aviation, with national freight flow model being developed to provide forward and backward linkages between transport and agriculture as the engine of economic growth and sustainable livelihoods; and
- vi) Fragility and Water Security: Strengthening resilience to fragility and climate shocks.

#### **FY 2021/2022 BUDGET**

- 24 Right Honorable Madam Speaker, Honorable Members of the Revitalized Transitional National Legislature, the Government proposes to spend a total of SSP 287.0 billion which represent 12.8 percent of the GDP estimated at SSP 2.241.0 trillion. Of this

amount, SSP 169.3 billion or 7.5 percent will be financed by domestic revenues while SSP 77.4 billion which represent 3.5 percent will be through credit (i.e. concessional loans) from our cooperating partners. The balance of SSP 40.3 billion, which represent 1.8 percent is the financing gap in the budget which we propose to finance through commercial borrowing.

**(a) Revenues Estimates and Measures**

- 25 Right Honorable Madam Speaker, Honorable Members of the Revitalized Transitional National Legislature, gross domestic revenues for FY 2021/2022 are estimated at SSP 647.4 billion which represent 28.9 percent of GDP. Of this amount SSP 589.1 billion which represent 91.0 percent is oil revenues while the remainder of SSP 58.3 billion which represent 9.0 percent is non-oil revenue. Total oil production is projected at 156,000 barrels per day in FY2021/2022 down from 170,000 barrels per day in the FY 2020/2021. The projected reduction in oil production is due to depletion of some oil wells as well as the effects of floods experienced in 2020. Government profit share in the oil production is 42 percent while the benchmark price for Dar Blend is projected at US\$ 63 per barrel.
- 26 Out of the gross oil revenues of SSP 589.1 billion, the Government has provided for direct transfers or mandatory payments of SSP 478.1 billion leaving a balance of SSP 111.0 billion to support the FY 2021/2022 budget. The SSP 478.1 billion mandatory transfers are accounted for by Transfers to Sudan of SSP 63.8. billion for processing, transportation and transit fees, transfers to oil producing states and communities of SSP26.3 billion, and transfers to Ministry of Petroleum of SSP 15.8 billion. Other mandatory/direct transfers are for the oil for roads projects of SSP 184 billion and debt service of SSP 188.2 billion.
- 27 Non-oil revenues are projected at SSP 58.2 billion in FY 2021/2022, an increase of 13.8 billion which represent 31.1 percent from SSP 44.4 billion in FY 2020/2021. The projected increase in non-oil revenues is on account of the tax administration reforms that we are implementing at the National Revenue Authority, which include digitization of tax collections, broadening the tax base and the proposal to fully deploy National Revenue Authority staff in all the non- tax revenue collecting institutions. In addition, we have proposed some adjustments in the fees structure for some of the non-oil revenue categories. These proposals are included in the Financial Bill for the FY 2021/2022. It is essential, therefore, that the House passes the Financial Bill alongside the Budget, so that we have a legal basis for our revenue estimates.

## **(b)Expenditure Measures**

- 28 Right Honorable Madam Speaker, Hon. Members, total expenditure proposed for the FY 2021/2022 is SSP 287.0 billion. Of this amount, 84.1 billion which represent 29.3 percent is proposed to go to wages and salaries, SSP 82.9 billion which represent 28.9 percent for Use of Goods and Services, SSP 46.5 billion which represent 16.2 percent is earmarked for other capital expenditures while SSP 15.0 billion which represent 5.2 percent of the budget has been earmarked to go towards peace implementation and SSP 6.4 billion which represent 2.2 percent is for contingency for unforeseen circumstances.
- 29 Right Honorable Madam Speaker, other proposed expenditures by Chapter are Transfers to States and other international obligations at SSP 51.9 billion which represent 18.1 percent of the budget, and other expenditures of SSP 231.7 million which represent 0.1 percent of the budget respectively.
- 30 In terms of functional classification or expenditure by sector, the FY 2021/2022 budget proposes increased allocations to the social sector (education, health, and social & Humanitarian Affairs). Allocation to the social sectors has increased to SSP 80.2 billion from SSP 31.2 billion in FY 2020/2021 which represent an increase of 157.1 percent from last year. As a share of total budget, expenditure allocation to the social sectors is 27.9 percent of the budget compared to 14.2 percent in FY2020/2021. This increase is an indication of Government's commitment to addressing the socio-economic challenges to improve service delivery to the people of South Sudan.
- 31 Right Honorable Madam Speaker, allocation to the education sector is allocated SSP 49.2 billion with an increase of SSP 24.7 billion which represent 100.8 percent compared to the FY 2020/2021 allocation of SSP 24.5 billion. Similarly. Allocation to the health sector of SSP 27.7 billion (of which SSP 9.0 billion is earmarked to combat COVID 19 pandemic) is significant policy shift to enhance health service delivery. The provision of SSP 27.7 billion to the health sector interprets to an increase of 575.6 percent compared to the SSP 4.1 billion allocation in the FY 2020/21 budget. Even the budget allocation to social and humanitarian Affairs sector of SSP 3.3 billion has increased by 26.9 percent compared to the FY2020/2021 allocation or SSP 2.6 billion.
- 32 Right Honorable Madam Speaker, Hon. Members, let me now run through the sectoral allocations:
- (a) The Accountability sector will receive SSP 1.8 billion which represent 0.6 percent of the budget.

- (b) The Economic Functions sector has been allocated SSP 73.0 billion which represent 25.4 percent of the budget.
- (c) The Education sector will receive SSP 49.2 billion which represent 17.1 percent of the budget.
- (d) The health sector will receive SSP 27.7 billion which represent 9.6 percent of the budget.
- (e) The infrastructure sector will receive SSP 10.4 billion which represent 3.6 percent of the budget. This is in addition to the oil for roads projects of SSP 184 billion under mandatory transfers.
- (f) Natural Resources Sector has been allocated SSP 15.1 billion which represent 5.3 percent of the budget.
- (g) Allocation to the Public Administration sector is SSP 44.3 billion which represent 15.4 percent of the budget.
- (h) Allocation to the Rule of Law sector is SSP 18.9 billion which represent 6.6 percent of the budget.
- (i) The security sector will receive SSP 43.4 billion which represent 15.1 percent of the budget; and
- (j) The Social and Humanitarian Affairs sector will receive SSP 3.3 billion which represent 1.2 percent of the budget.

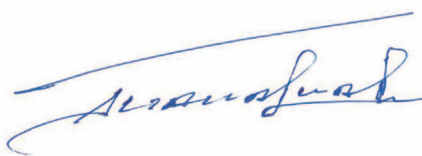
#### **GOVERNMENT DEBT POSITION**

- 33 Right Honorable Madam Speaker, Honorable Members of the Revitalized Transitional National Legislature, outstanding public debt as of 30<sup>th</sup> June 2021 stood at USD2.7 billion which represent 48.7 percent of GDP. Of this debt amount, USD2.2 billion which represent 82.1% is external debt while the balance of USD 489.45 million which represent 17.9 percent is domestic debt.
- 34 Right Honorable Madam Speaker, Honorable Members, of the USD 2.2 billion external debt, USD 1.1 billion which represent 50.9 percent is commercial debt, USD 622.5 million which represent 27.8 percent is oil advances, USD 326.9 million which represent 14.6 percent is debt owed to multilateral institutions while the balance of USD 150 million or 6.7 percent is bilateral debt.
- 35 Right Honorable Madam Speaker, Honorable Members, as can be noted from the figures above, commercial debt and oil advances take up almost 65 percent of the country's public debt both of which are very expensive with terms and conditions that make debt service very costly. In this regard, Government policy going forward will be to avoid any further contraction of commercial debts and oil advances unless a very limited set of

conditions are met. In addition, we will start to build capacity in debt contraction and management in MoFP so that any future debt contraction is properly analyzed to inform any decision to contract such debt.

## Conclusion

- 36 In summary, the proposed FY2021/2022 Budget is a lean budget which will use our limited resources to consolidate peace, combat COVID-19 pandemic, increase investment on physical infrastructure. This will, in turn, create a more conducive environment for investment and diversification of our economy. The PFMRS will ensure efficiency, equity, and effectiveness in the use of our scarce resources.
- 37 Right Honorable Madam Speaker, Hon. Members of the Revitalized Transitional National Legislature, in conclusion, allow me to table the draft FY2021/2022 National Budget, the FY2021/2022 Appropriation Bill, the FY2021/2022 Financial Bill, and the National Development Strategy (NDS) document for consideration and approval by this august House. And the Public Financial Management and Accountability Act, 2011, provides for forty-five days in which this august House is to pass the Budget.
- 38 I submit it to you, with the accompanying documents, the FY2021/2022 proposed budget. I thank you and May God Bless our beloved country.



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