Republic of South Sudan

Ministry of Finance and Planning (MoFP)

MINISTER's SPEECH

ON QUARTERLY ECONOMIC PERFORMANCE

(Q1 FY 2022/2023)

December, 2022

Your excellency
Your excellences
Honourable Speaker
Honourable Members
Good Morning /Afternoon

The quarter macroeconomic report was generated on the Key fiscal policies adapted within the year, the FY quarter one achievements, quarter one performance challenges and recommendations.

1. Key Fiscal Policy objectives of budget 2022/2023

A stable macroeconomic environment is vital for achieving rapid, broad-based and sustainable economic growth. Without macroeconomic stability, South Sudan will struggle to attract investment, increase employment, reduce poverty and diversify the economy. The government is therefore committed to delivering continuous **macroeconomic stability** for South Sudan. A stable economy is one with low levels of inflation, a stable exchange rate, a prudent, long-term fiscal policy featuring predictable government taxes and spending, low and stable interest rates, debt sustainability, a sound financial system, sustainable balance of payments, and sufficient foreign exchange reserves to cover imports.

Ensuring macroeconomic stability is a critical objective for the short- and medium-term, however to set our economy off on the right path, we must always keep an eye on the future. With this in mind, the second overarching objective is to achieve **long-run fiscal sustainability**. This will involve setting a level of public expenditure that is consistent with our long-run revenue estimates. During the 2022/23 fiscal year, the government is therefore committed to the following principles:

1.1. Government adapts Expansionary Fiscal Policy in 2022-23: The government's target was increasing government spending that will increase GDP growth by at least 5%. Additionally, fiscal policy expansion was meant to promote government and private sector development to boost employment to growing population.

1.2. Implementation of Public Finance Management and Accountability Act: The PFM has 11 priority areas that requires MoFP-led, inter-agency support to implement. This will create enabling environment for accountability, transparency, as well as substantial avoidance of debt manipulation, fiscal discipline and effective budget execution strategies.

1.3. Saving a significant proportion while oil revenues are high: Long-run fiscal sustainability and short run capacity constraints demand that a significant proportion of oil revenues are saved in the years to come. Although permanent mechanisms are not yet in place, we hope saving will take place within the fiscal year 2022-23 and be kept at a bank account held by the

BSS as stipulated in PRMA (the legal framework for the management of oil revenues is established).

1.4. Determining a fiscal rule for public expenditures: The oil revenue estimates, together with an assessment of the absorptive capacity of the economy and the government's ability to execute its budget in a sound and effective manner, shall provide the basis for developing a broad course for public expenditure over the medium term. The Government will explore various options for establishing a fiscal rule that shall act as a benchmark for the level of future public expenditure.

1.5. Establishing savings and stabilisation mechanisms; i.e., an Oil Revenue Stabilization Account and a Future Generation Fund. Whereas the virtues of an Oil Revenue Stabilization Account are to reduce volatility and park revenues until they can be wisely spent, the Future Generation Fund shall accumulate savings that can be drawn on when the petroleum resources are depleted. These mechanisms must be coherently integrated into the budget process, and the oil revenues shall be kept abroad until they are either transferred to the Consolidated Fund for domestic spending or to the Oil Revenue Stabilization Account or the Future Generation Fund, which are also held abroad.

1.6. Focusing on Development Partners Support on Key Areas: Enhance resilience to climate change effects, foster humanitarian support to refugees by government and partners, Private sector development -poverty reduction and Boost government accounts.

2. QUARTER ONE FISCAL YEAR 2022-2023 KEY ECONOMIC ACHIEVEMENT

2.1. Summary

- Q1 2022-23 fiscal space revenue higher than expenditures thus a surplus of SSP 63 billion about 71% improvement in Quarter deficit compare to target of SSP (214.4) billion.
- We have no borrowing from BSS and Commercial creditors thus improved on the stability of the exchange rate and prices in the market.
- PFM reforms of cash allocation plan to spending agencies reduced "Absorption capacity "by 24% compared to quarterly allocation. This has reduced inflation and enhanced exchange rates stability.
- The resumption of the IMF SMP programs with its policies improved the coordination and cooperation between Ministry and BSS on monetary and Fiscal Policies.
- We have used a portion of surplus in the budget to pay off our debt service and interest payments to our multilateral creditors thus reducing the debt service.

2.2. Q1 2022-2023 ECONOMIC PERFORMANCE

- South Sudan Nominal GDP amounts to SSP 2.53 trillion in FY2022-2023 with real GDP growth of 4.2% projection compare to SSP 1.83 trillion difference of SSP 7.04 billion about 39% increase in the same period. The growth in nominal GDP in FY 2022-23 projection was associated expected increase in oil price of 100 USD per barrels, Growth in nonoil revenue of about 5%, as well as devaluation of the official exchange rates projected at USD/SSP of 620.4.

- The average monthly inflation rate in 2022/2023 was -3.3 per cent. Prices were falling due to improved agricultural activities that provided more food for consumption, private sector demand, and extensive reliance on humanitarian aid. From Aug 2022 to Sept 2022 South Sudan experienced deflation in most months. In September 2022, prices decreased by -4.1 per cent. During Q.1 FY 2022/2023 inflation was variable, ranging from -1.5 per cent in August to -4.1 per cent in September. The overall drivers have weakened exchange rates but are held back by weak domestic market demand.
- Q1 2022/23, official exchange Rate increased in average of 620.35 SSP per USD above the projection of 435 in same year budget while Parallel exchange rate stood at average of 636.59 per USD. The spread is as small as 16 SSP per two rates about USD depreciation of 37 per cent in the same quarter.
- Balance of payment position in current accounts for deficit which reflect South Sudan to debt vulnerability to other countries productive. Q1-2022-23 projected negative SSP 710 billion compare to negative SSP 641 billion in Q4 2021-2022. This was associated with high level of imports, service sector, primary balance registering negative position.
- Through Q1 2022-2023, oil production has been stable at around 162,000 bbls/day compare to 151,000 barrels per day projected in FY2022/2023. Due to flood oil production is expected to reduce to 147,000 per day, (about 5,000 barrels per day in the remain month of 2022).
- Q1 FY 2022-2023 South Sudan average oil price stood at 100.4 USD per barrels, above the bench budget price of 75 USD per barrel in the budget and further above the Brent price of about 85.16 USD/bbls about 15.22 USD differences within the quarter.
- Gross Non-oil revenues Q1 outturn amounted to SSP 38 billion compare to SSP 29 billion projected in Q1 FY 2022/2023, thus give a surplus of SSP 9 billion about 31% above the quarter target.
- Gross Oil revenues Q1 outturns amounted to SSP 529 billion compare to SSP 179 billion projected in FY 2022/2023, thus give a surplus of SSP 350 billion about 196% above the quarterly target. This increase does not mean increase in oil production but agreement with oil companies by advancing some barrels to the government in term of a loan.
- FY 2022-23 Government net revenue amounted to SSP 327.4 billion compare to SSP 134 billion Quarterly target. Thus give a surplus of SSP 194 billion about 45% above the target.

- Q1 of FY 2022/2023 outturns government expenditures amounted to SSP 264 billion compare to SSP 348 billion quarterly target with underspending of SSP 84 billion about 24% across the chapters.
- Therefore, Q1 FY 2022-2023 attend a surplus of SSP 63 billion compare to the deficit target of about SSP (214) billion in Q1 FY 2022-23. This large improvement in the budget deficits by 71% was accelerated by PFM reforms, advance oil loan from companies in barrels, improvement in average South Sudan oil prices as well as further depreciation in official exchange rate.
- The debt position excluding debt servicing at the end of September amounted to SSP 1,756 trillion, these comprises of domestic debt amounted, SSP 485.5 billion while external debt amounted to USD 2,050 Millions about SSP 1,271 trillion evenly split between different creditors of loans (Multilateral, Bilateral and Commercial) while interest rates repayment amounted to USD 80771.66 equivalent to SSP 50 billion.

2.3. Q1 2022-2023 CHALLENGES

- Resistance to implement the PFM reforms by government agencies eg cash allocation plan still not understood by MDAs.
- Much as nonoil revenue improved above the quarterly budget by about 31% still challenges in realignment of Custom exchange rate and Tax exemption is a concern.
- Huge transfers to Sudan in Q1 FY 2022-23 reduce net oil revenue for agencies spending and debt repayments by 449% as two countries failed to agree on the new OREOM.
- No Saving made on FGF and ORSA due to resistance from MoP on the matrix calculation within the quarter.
- Flood affect oil sector by reducing daily average oil production of about 5,000 barrels per day from September and October 2022.
- South Sudan economy still suffers from deflation (negative inflation)
- Accountability by states on government transfers (block transfers) and MDAs on monthly allocation

2.4. RECOMMENDATIONS.

- Government's implementation of the 11 PFM Reforms is a collective responsibility. It requires consistency and inter-governmental collaboration and coordination. Therefore, the Ministry of Finance and Planning urges the MDAs to adhere to PFM principles in their execution plans and support the Ministry in rapidly realizing such outstanding priorities as PPADA establishment. This will improve procurement frameworks and ensure that government only contracts entities that will deliver value to avoid resource misuse.
- Government to implement the Petroleum Revenue Management Act (PRMA) by monitoring the two Savings accounts (ORSA and FGF) to create buffers and improve reserves.
- Government to renegotiate with Sudan for the new OROEM and be steadfast in ensuring that Khartoum adheres to agreement surround TFA.
- Reduction on the absorptions capacity to avoid money multiplier effects by the government. This is very crucial in stabilizing exchange rate and inflation in the economy.
- Government to stick on concessional borrowing rather than commercial borrowing that yield higher interest rate.
- Widening the tax base rather than increasing the tax rates, review tax exemptions, Custom exchange rate realignment, implement policy of VAT than sales tax, to mention but few.
- Work harder to promote private sectors development to create jobs opportunities and growth.
- Adequate capitalization of non-systemic banks, and collaboration with relevant authorities to implement AML/CFT framework reforms, in coordination with the Financial Action Task Force.
- Empower the Anticorruption Commission to enable it follow up on cases and close loopholes to avoid illegal financial proceeds.
- The development partners should gradually move from humanitarian to supporting budget and developmental programs. Additionally, avenues need to be put in place to review and progressively shift from third party to government-led implementation of projects.