

Outline



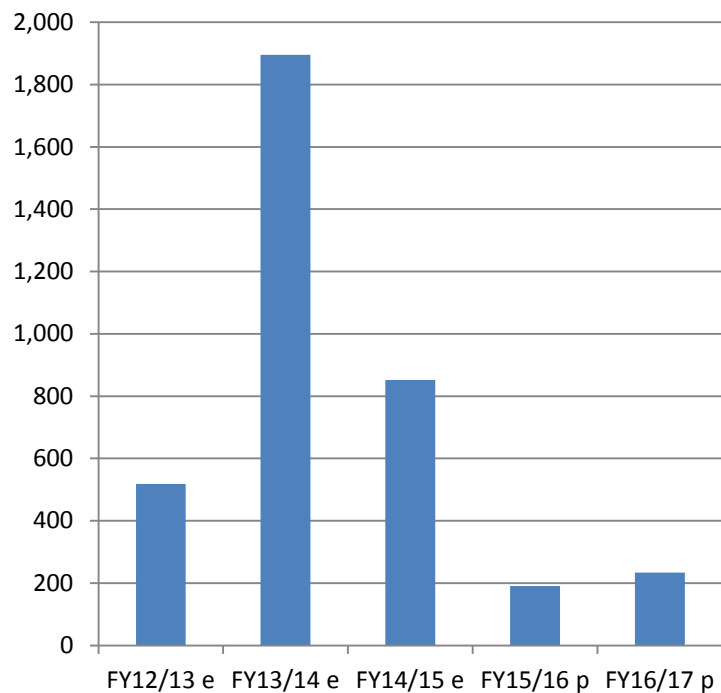
- Fiscal developments
- Developments in Monetary aggregates and Inflation
- Reserves position and exchange rate
- Fiscal policy adjustments to restore macroeconomic stability
- Proposed Tax Reform Strategy and PFM Action Plan
- Monetary policy and banking sector reforms
- Policies to replenish BSS international reserves



Oil revenue (from government oil share) and fiscal developments

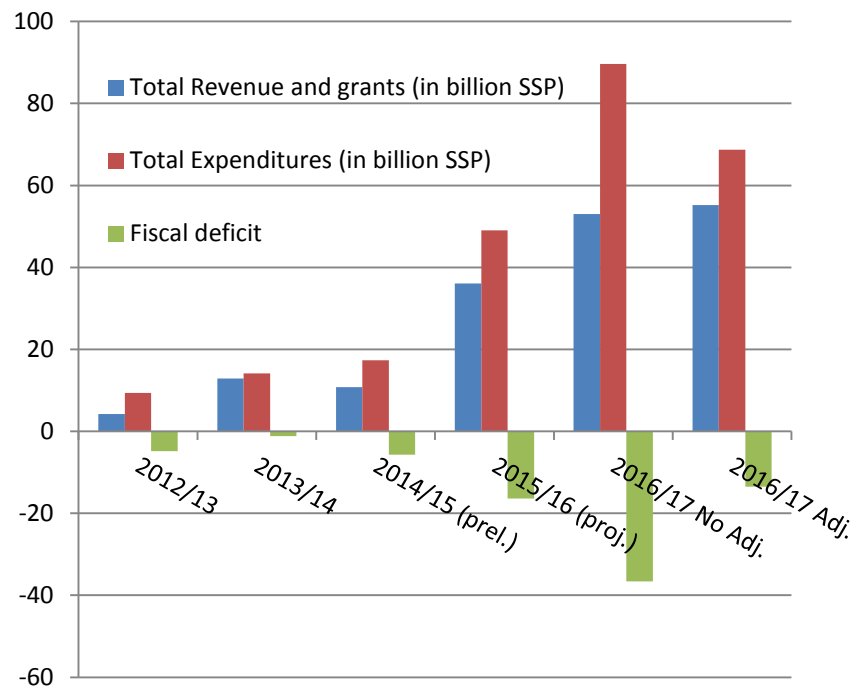
Government Oil revenue

South Sudan: Government Oil revenue (millions of US\$)



Revenues, Expenditures and Fiscal deficit

Fiscal situation

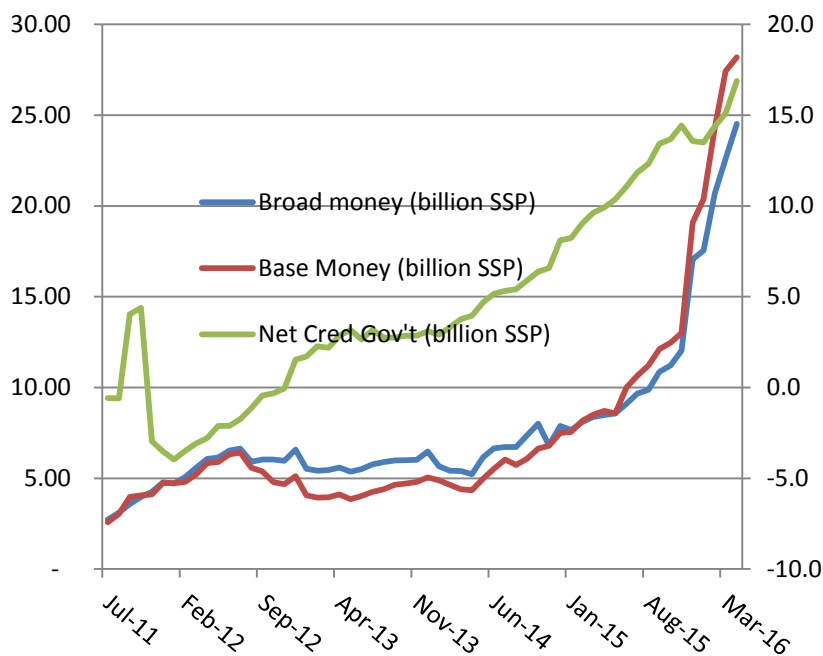




Developments in Monetary aggregates and Annual Inflation

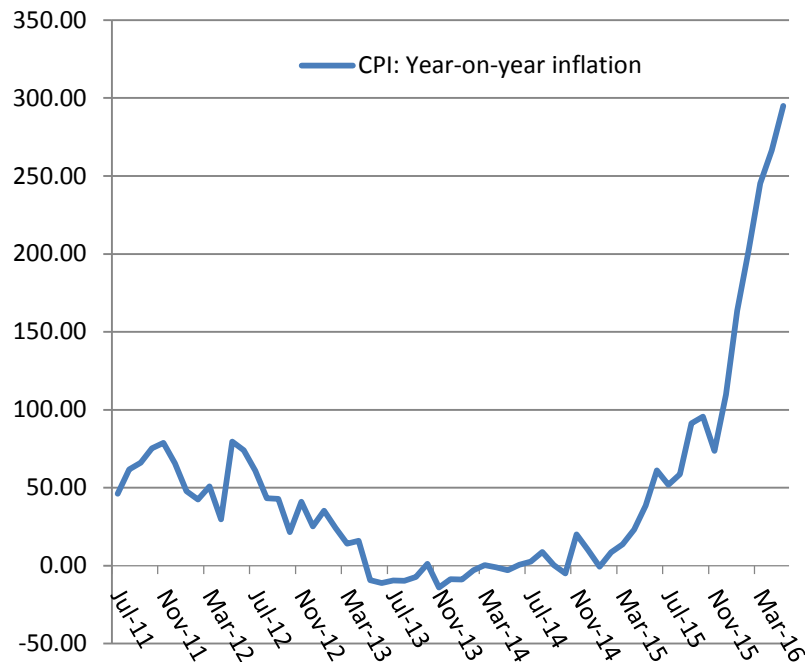
Monetary Aggregates

Broad money and base money have surged along with net credit to the government



CPI: Year-on-year Inflation

Inflation has surged to about 300% in recent months

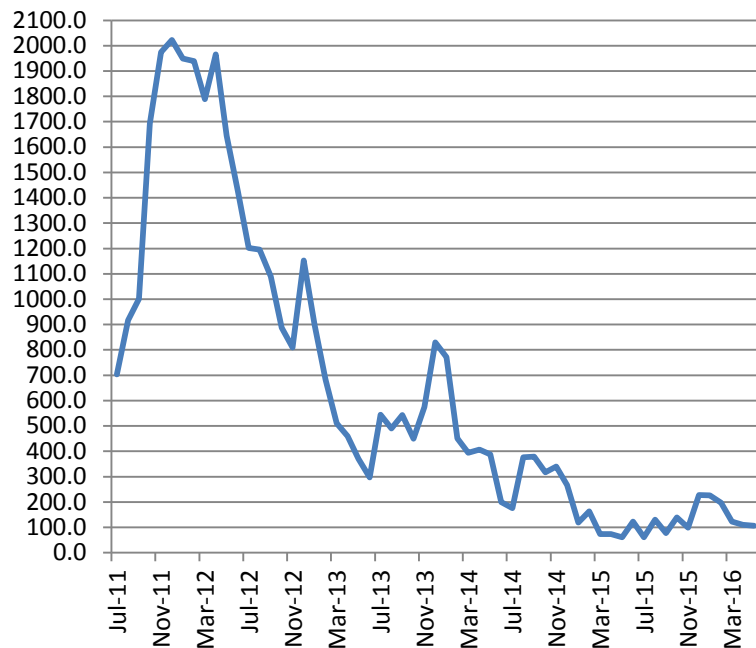




BSS Reserves position and exchange rate developments

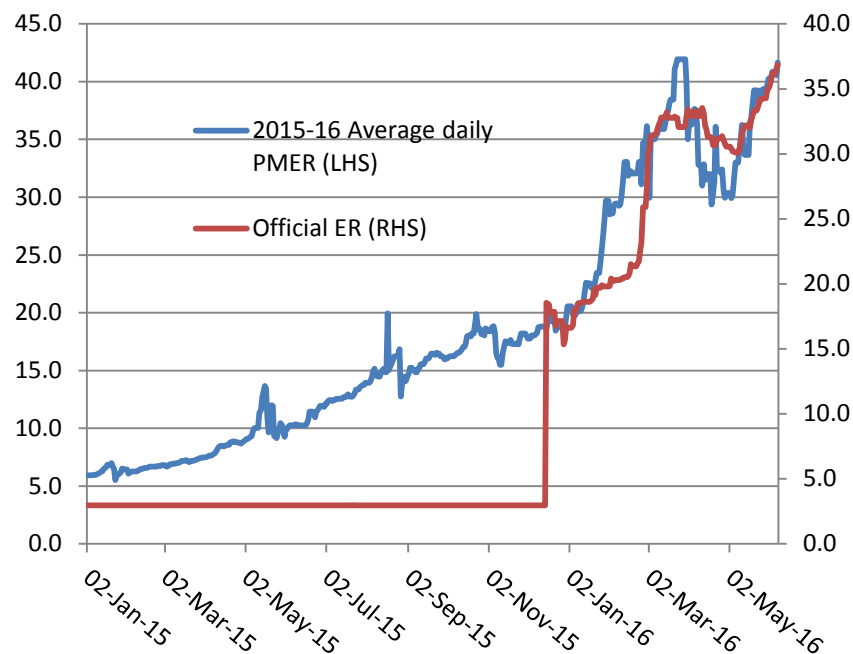
Bank of South Sudan: Monthly Int'l Reserves Position

BSS monthly gross reserves in mill. US\$



Daily Official and Parallel Exchange rates

Parallel market exchanged rate has depreciated significantly in recent months, following realignment in December 2015



South Sudan Fiscal gap with and without policy adjustments



South Sudan: Fiscal Gap 2016/17 (in SSP millions) without adjustments

	2016-2017	In US\$ Mill.	comments
Revenue	30.9		
Oil, gross	22.0		Base on production of 120, 000 bpd
Non-oil tax	8.3		Base on Jan-April 2016 collections
Other revenue	0.6		
Expenditure	64.6		
Salaries	12.5		Includes full adjustment
Operating	16.6		
Transfer to states	7.6		
Transfer to Sudan	15.0		Assumes \$24.1 pb to Sudan
Capital	6.0		
Peace implementation	5.0		
Others	1.9		
Balance	-33.7	-1123.0	
Domestic financing	2.5		
Foreign financing	-3.2		
Financing gap	-34.4	-1,145	

South Sudan: Fiscal Gap 2016/17 (in SSP millions) with adjustments

	Additional revenue (in bill. SSP)	In US\$ Mill.	comments
Possible measures			
various non-oil revenue taxes	1.7		
Reduce customs duty exc	0.5		
Reduce payroll by 10% on average	1.3		
No domestic capital spen	6.0		
Reduce operational spending	10.6		bare minimum spending for Min. & Agencies
Travel			
Health care in \$			
Purchase of G+S			
Other			
Remove Nilepet subsidy	1.3		remove subsidy and raise pump price
Unwind 40% customs reduction	0.0		
Reduce transfer to states	1.5		
Total measures	22.9		
Financing gap after meas	-11.5	-383.00	
Memo items:			
Exchange rate (SSP/\$)	30.0		
GDP in SSP billions	149.0		

Proposed Tax Reform Strategy and Revenue Potential



Box 1. Outline of Proposed Tax Reform Strategy & Revenue Potential

Quick-impact revenue enhancement measures for FY2016/17 (over 1.3 percent of GDP):

- ✓ Implement the new HS classification regime and tariff schedule (+0.2 percent of GDP).
- ✓ Increase excise tax rate from 15 to 20 percent (+0.3 percent of GDP).
- ✓ Make the increased excise on alcohol and tobacco products permanent (+0.4 percent of GDP).
- ✓ Increase excises on telecommunication services from 10 to 30 percent (+0.2 percent of GDP).
- ✓ Impose eight percent withholding tax on government contracts (potential not estimated).
- ✓ Impose 10 percent withholding tax on technical fees paid to contractors (potential not estimated).
- ✓ Define business profit tax (BPT) brackets based on size of taxable income (revenue neutral).
- ✓ Define the term “food items” for purposes of the lower advance income tax as “basic food.”
- ✓ Strengthen tax administration (see specific measures in Section 4) (+0.2 percent of GDP).

Other short- to medium-term measures:

Tax policy:

- ✓ Review and rationalize the tax exemption/incentives regime following the proposed systematic approach.
- ✓ Update and consolidate tax laws in one document.



Proposed Tax Reform Strategy and Revenue Potential Cont...

Box 1. Outline of Proposed Tax Reform Strategy & Revenue Potential

Customs administration:

- ✓ Implement protocols for exchange of information between tax and customs.
- ✓ Update the existing 2010 prescribed values used for establishing the customs value of imported goods (could raise another 0.1 percent of GDP in revenue if updated by December 2016).
- ✓ Seek data from Uganda to address obvious low valuation amounts.
- ✓ Incorporate the valuation data into the proposed ASYCUDA World and accelerating its implementation.
- ✓ Implement an exemptions control plan.

Tax administration:

- ✓ Improve revenue reconciliation, accounting and updating of taxpayer accounts.
- ✓ Work with commercial bank to reduce data entry and taxpayer information errors.
- ✓ Clean the taxpayer register starting large and medium large taxpayers.
- ✓ Cross match data to recruit new taxpayer and provide compliance data about active taxpayers.
- ✓ Increase resourcing, including a simple call center desk to reinforce collection enforcement.
- ✓ Provide targeted taxpayer service and education focusing on new Taxation laws.

Revenue administration:

- ✓ Expand the mandate of the Revenue Modernization Steering Committee (RMSC).
- ✓ Establish a dedicated secretariat of the RMSC; a reform program office (RPO)/tax policy unit of the future.
- ✓ Update the NRA implementation plan, as a part of an all-encompassing tax reform program.

Restoring Integrity of PFM System: Summary of Key Actions and Proposed Time Line



Recommendations		Responsibility	TA Needs	Deadline
A. Budget Preparation				
1	Validate FY16/17 Budget revenue projections externally	MoFEP	Remote (IMF)	May 16
2	Separately provision for arrears clearance in FY16/17 Budget	MoFEP		Jun 16
3	Include Contingency Reserve in FY16/17 Budget of >5%	MoFEP	Remote (IMF)	Jun 16
4*	Table FY16/17 Budget before end-June	MoFEP		Jun 16
5	Establish MoU for monthly Oil Revenue Data Sharing	MoFEP, MoP, BoSS	Remote (IMF)	Jul 16
6	Regularly adjust cash limits in light of receipts and inflation	MoFEP		Aug 16
B. Budget Execution				
1*	Remit all government revenues to the Consolidated Fund	MoFEP		Jun 16
2	Record all expenditure commitments and payments on FMIS	MoFEP	STX (IMF)	Jul 16
3*	Publish criteria for payment prioritization and all payments	MoFEP		Aug 16
4*	Register all public servants (inc. military) on payroll system	MoL	STX (???)	Sep 16
5	Reduce MoFEP bank accounts to 7 revenue, 2 expenditure	MoFEP, BoSS	Mission (IMF)	Sep 16
6	Launch payroll audit	MoL, NAC	LTX (???)	Oct 16
7*	Complete stocktaking and verification of non-salary arrears	MoFEP, NAC	STX (???)	Dec 16
8	Weekly recording of revenue in FMIS	MoFEP		Dec 16
9	Authorize all overspending via Supplementary Budget	MoFEP		Dec 16
10*	Pay non-salary arrears to suppliers of verified claims	MoFEP		Jan 17
11*	Approve Procurement Bill and supporting regulations	MoFEP	LTX (???)	Feb 17
12*	Cleanse payroll of ghost workers and demobilized military	MoL	STX (???)	Mar 17
13*	Pay salary arrears to staff registered on payroll system	MoFEP		Apr 17
14*	Establish Treasury Single Account structure	MoFEP, BoSS	Mission (IMF)	Jun 17
15	Give read-only access to FMIS to all SAs	MoFEP	STX (???)	Jul 17



Restoring Integrity of PFM System: Summary of Key Actions and Proposed Time Line Cont.....

C. Accounting and Fiscal Reporting				
1*	Improve periodicity of fiscal report to monthly	MoFEP		Sep 16
2*	Introduce additional integrity checks in fiscal reports	MoFEP	STX (IMF)	Oct 16
3*	Begin publishing interim audit of quarterly fiscal report	NAC	STX (???)	Nov 16
4	Add trial balance of Nilepet to quarterly fiscal reports	MoFEP, MoP		Jan 17
5	Reconcile quarterly fiscal report and monetary survey	MoFEP	Remote (IMF)	Mar 17
6*	Enact regulations supporting PFM legislation	MoFEP	Remote (IMF)	May 17
7	Publish audited annual GoSS FY16/17 financial statements	MoFEP, NAC	STX (???)	Dec 17
8	Update Chart of Accounts	MoFEP	STX (IMF)	Mar 18

* = *Critical Milestone*

Gear monetary policy toward reducing inflation



- ✓ Continue the policy of not lending to the government; the latter should issue limited amount in T-bills for financing (SSP 2.5 billion)
- ✓ Government should issue T-bills whose proceeds will be kept in a blocked account for future monetary policy purposes (BSS and MOFEP to sign a MoU in this respect)
- ✓ Shift to targeting reserve money as an immediate policy reference.
- ✓ strengthen the technical capacity of the central bank. Moreover, it strongly advises that
- ✓ Audit the financial statement of the BSS from 2013 to 2015 by an international reputable firm.

Arrest the decline in BSS international reserves



- ✓ Prioritize fiscal cuts on spending in foreign exchange.
- ✓ Maintain BSS FX auction amounts at US\$3-5 million; auctions should continue to help as a reference for the price setting on the FX market. More frequent auctions with lower amounts are preferable to fewer auctions with larger amounts.
- ✓ Renegotiate BSS FX sales schedule with QNB.
- ✓ Enforce net open positions for foreign exchange, legal reserve requirements and liquidity requirements at commercial banks.
- ✓ Eliminate costly cash settlement of FX auction purchases.



Thank you