



# **BANK OF SOUTH SUDAN**

## **MONETARY AND BANKING POLICIES**

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**FOR THE YEAR 2019**

**Research and Statistics Department**

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15

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## **1 Introduction**

The Bank of South Sudan (BSS) issues its Monetary and Banking Policies, for the year 2019, in accordance with the requirements of the BSS Act 2011. These year policies are directed at achieving and maintaining price stability and to support the government of South Sudan's objective of attaining lasting peace and macroeconomic stability. These policies are also intended to guide commercial banks and other stakeholders' operations during the year 2019.

The Monetary and Banking Policy document, for 2019, is organized into six sections. Section one introduces the document; while section two summarizes the direction of macroeconomic policy and the monetary policy stance for 2019. Section three outlines the key monetary policy targets and instruments necessary to achieve the objectives. Section four presents the credit guidelines for 2019; while section five defines the Bank's exchange rate policies. Finally, section six presents key financial stability plans and reforms to be adopted by BSS during 2019.

## **2 Direction and Objectives of Monetary and Banking Policy for 2019**

The Bank of South Sudan's Monetary and Banking policies for the year 2019 is developed to support the macroeconomic policy objectives of the government of the Republic of South Sudan. The design of these policies was guided by the spirit of the signed Revitalized Agreement on the Resolution of the Conflict in South Sudan (R-ARCSS), the vision 2040, the National Development Strategy (NDS), and the 2018/2019 budget objectives. In this context, the Bank of South Sudan's Monetary and Banking policies, for the year 2019 will endeavor to pursue the following specific objectives:

- a. to support achievement of the 5% projected growth of Real GDP in 2019;
- b. to reduce the headline inflation to low double digits of about 25 percent, with a margin of  $\pm 5$  percentage points;
- c. to encourage commercial banks to increase lending to the private sector to 20 percent of the total deposits;
- d. to build international reserves equivalent to about 1.5 months of import cover.

### **3 Monetary Policy Targets and Instruments**

The mechanism through which the Bank of South Sudan intends to achieve monetary policy objective shall include: enhancing monetary and credit policies; foreign exchange policies; supervision policies and; payment & settlement and currency policies.

#### **3.1 Monetary Targets**

Monetary and Credit Policies for 2019 are set in the context of supporting a positive growth in real Gross Domestic Product (GDP) of about 5%, and the objective of reducing inflation to low-double digit of about 25 per cent, with a margin of (+/-) 5 per cent, by the end of 2019. The policy operational target is to maintain nominal growth of base money at around 40.18%. To achieve this target, the Bank will utilize a set of policy instruments.

#### **3.2 Monetary Policy Instruments**

##### **3.2.1 Minimum Reserve Requirement (MRR)**

Each bank shall be required to maintain with Bank of South Sudan a Minimum Reserve Requirement Ratio (RRR) of twenty percent (20%) on local and foreign currencies denominated deposits;

##### **3.2.2 Open Market Operations (OMO)**

The Bank of South Sudan will engage in Open Market Operations (OMO), involving purchases and sales of eligible securities to regulate the money supply and the credit conditions in the economy. The Bank will also introduce Term Deposit Facilities (TDF) for use when the Bank considers it desirable to offer longer-term options. The Bank will seek to acquire deposits through a transfer agreement from commercial banks at an agreed auction price;

##### **3.2.3 Central Bank Rate (CBR)**

CBR provides the base for all monetary policy operations, as it signals changes in monetary policy stance. Movements in the CBR are transmitted to changes in short-term interest rates. As such, a reduction of the CBR signals an easing of monetary policy and a desire for market interest rates to move downwards, while the rise in the CBR signals a tightening of monetary policy. Lower interest rates encourage economic activity and thus growth. When interest rates decline, the quantity of credit demanded should increase. CBR also enhances clarity and



certainty in monetary policy implementation. The Bank of South Sudan through the monetary policy committee has therefore set the central bank rate (CBR) at 15 percent for 2019 subject to regular review during the year. CBR will consequently be the lowest acceptable rate to the Bank when it is injecting liquidity to the economy, through the buying back T-Bill (Reverse Repo). Likewise, whenever the Bank wishes to withdraw access liquidity, through the selling of T-Bills (Vertical Repo), the CBR will be the highest rate that the Bank will pay on any bid received. The bank can however raise interest rate of TDF above CBR to ensure flexibility and effectiveness of monetary policy operations in periods of markets volatility.

#### **3.2.4 Foreign Exchange Operations (FEO)**

The Bank of South Sudan will also engage, from time to time, in foreign exchange intervention to inject or withdraw liquidity from the economy and to stabilize the market in the event of excess volatility. Participation of the Bank in this market will be determined by the need to build its foreign exchange reserves in line with the set targets. The Bank endeavors, over the short and medium term, to reach the level of foreign exchange reserves equivalent to four months' imports as required by the EAC convergence criteria on the minimum reserve levels.

#### **3.2.5 Borrowing from the Central Bank**

The Bank of South Sudan will ensure that government borrowing from the Central Bank is kept within the ceiling of 5 percent limit as required by the Bank of South Sudan Act 2011.

#### **3.2.6 Expansion of CPI Data Collection Centers**

The main objective of the BSS monetary policy is price stability, and the BSS will improve the collection of the Consumer Price Index (CPI) data. Current published inflation figures by the South Sudan National Bureau of Statistics (SSNBS) are based on data collected from only two major regional cities, namely Juba and Wau. The data from these two centers have been used for the CPI computation to generalize the inflation figures for the whole country, which may not be representative. As a result, the BSS, in collaboration with the SSNBS are planning to extend the coverage of CPI data to other towns in South Sudan. The BSS is also keen to continue its collaborative arrangements with the SSNBS, Ministry of Finance & Planning, and other key stakeholders concern with economic policy in the country.

### 3.2.7 Communication

To improve on the monetary transmission, the BSS will put in place mechanisms for enhancing communication with the market concerning monetary policy decisions, to help it make informed decisions based on the critical and reliable assessment of the economic outlook. Effective communication can help to avoid surprise interventions, thereby building the required trustworthiness of the BSS to effectively conduct monetary policy in a forward-looking, credible, accountable and dynamic manner. In this regard, the Bank will ensure regular interaction with Chief Executive Officers of banks to improve coordination and collaboration on policy development and implementation. The Bank will also engage in regular Press Conferences and also enhance the media understanding of monetary policy decisions. The Bank website will also provide an essential source of information about the economy, including interest rates, exchange rates, the result of auctions various securities, as well as the MPC releases. The Bank, therefore, commits itself to the following:

- a. Publish and issue a bi-annually Monetary Policy and Financial Stability Statement, and regular press releases on the outcome of the Monetary Policy Committee (MPC).
- b. Build the capacity of the BSS staff in different areas, particularly in economic & policy analysis and forecasting and policy analysis.
- c. Maintain close collaboration between the Ministry of Finances and the Bank of South Sudan by signing a Memorandum of Understanding (MoU) between the two institutions.



## **4 Credit Guidelines**

### **4.1.1 Uses of Resources**

Commercial banks are expected to use resources in the context of the market-based mechanisms and are encouraged to use resources to finance vital economic sectors and activities, except the following:

- a. Financing clients to purchase foreign currencies for trading;
- b. Lending to foreign exchange companies;
- c. Financing the buying of shares and securities by their customers;
- d. Financing of clients for repayment of outstanding loans;
- e. Financing of the central government, state and local governments without the prior consent of the Bank of South Sudan

### **4.1.2 Private Sector Credit**

Lending to the private sector is a critical driver of economic growth; in this context, BSS shall periodically revise policies and regulations that would encourage the commercial banks to use their resources to finance key economic sectors and activities, such as:

- a. Small and medium enterprises engaging in commercial productive activities that support the real sector;
- b. Agribusiness and small-scale industries;
- c. The Energy sector, transport, and logistics;
- d. Real Estate and construction sector;
- e. Health and Education.

### **4.1.3 Cost of Finance**

- a. Commercial banks are required to charge reasonable interest/commissions that are comparable to the type and nature of the business.
- b. Commercial banks are expected to pay reasonable interest on savings and time deposits, in local and foreign currency, in order to promote the culture of savings.

## **5 Foreign Exchange Policies**

To restore and maintain the stability of the foreign exchange market, resources shall optimally be managed. The Bank of South Sudan shall develop and implement the following foreign exchange measures to this respect:

### **5.1 The Exchange Rate Regime**

The Bank shall continue to consolidate the exchange rate reforms and implementation of flexible exchange regime where the value of the South Sudanese Pound (SSP) against other convertible currencies is determined by the market forces of supply and demand. The Bank of South Sudan shall conduct an occasional intervention to smoothen high volatility to stabilize the foreign exchange market.

### **5.2 Foreign Exchange Reserves**

To meet the country's external payment requirements, preserves the value of the South Sudanese Pound, as well as to mitigate unforeseen shocks, the Bank shall strive to build its international reserves to achieve levels that meet the East African Community's (EAC) convergence criterion on reserves maintenance.

### **5.3 Gold Project**

The Bank shall endeavor to continue efforts to collaborate and partner with relevant government agencies and other institutions to develop Gold mining in the country. The Bank shall work to ensure that it has the exclusive control of the gold dealings in the country.

### **5.4 Foreign Exchange Exposure Limits**

All banks shall maintain overall foreign exchange exposure positions of (+/-) 10 percent of core capital.



## **6 Financial Stability**

### **6.1 Banking Policies**

The Bank shall strengthen pro-active supervisory mechanisms compatible with international norms and standards capable of coping with the dynamic and fast-growing banking industry

#### **6.1.1 Liquidity Ratio**

Each bank shall be required to maintain a liquidity ratio of at least twenty percent (20%) of local and foreign currencies denominated deposits;

#### **6.1.2 Discount Window of the Bank**

As lender of last resort (LoLR), the Bank of South Sudan will be extending financing to support commercial banks that experience temporary liquidity challenges subject to the provisions of section 54 of the Bank of South Sudan Act 2011. This will be secured loans on an overnight basis extended at a penal rate above the CBR. Access to the Discount Window will be governed by rules and regulations, which shall be reviewed from time to time by the Bank of South Sudan. Commercial banks that use this facility more than twice in a week will be scrutinized closely, and appropriate supervisory action will be taken. The Bank encourages commercial banks to trade among themselves before invoking the Central Banks' window of last resort.

#### **6.1.3 Consortia/Syndicated Loans**

Commercial banks are encouraged to diversify risk through the formulation of consortia/syndicated financing of economic activities;

#### **6.1.4 Licensing and Product Diversification**

The Bank will adopt prudent and transparent licensing policies aimed at broadening and deepening financial services including microfinance and electronic money services, for optimal outreach. The Bank will also promote diversification of Banking Products.

#### **6.1.5 Minimum Capital Requirement**

To insulate banks from recurrent economic crises, and to build resilient safe and sound financial system in the country, all banks must comply with circular number 1/2013 on minimum paid-up capital requirement, which demands that:

- a. The minimum capital requirement be USD 15 Million or its equivalent in local currency (SSP) for local banks and USD 30 Million for foreign banks;
- b. Commercial banks are encouraged to establish correspondents' relationships with highly rated banks;
- c. Banks that cannot meet the capital requirement individually are encouraged to enter into mergers and joint ventures with other banks.

#### **6.1.6 Deposit Insurance Fund**

The Bank shall establish the Deposit Insurance Fund to protect depositors in the event of bankruptcy.

#### **6.1.7 Microfinance Sector**

The Bank encourages the development of the Microfinance Sector, as a mechanism for broadening banking services, and contributes to poverty reduction.

### **6.2 Payments & Currency Policies**

#### **6.2.1 Payment Systems**

The Bank will develop the 'South Sudan payment and settlement system' as per the international standards; such system will include the following payment components:

- a. Real Time Gross Settlement System;
- b. Electronic Clearance system;
- c. Electronic money.

#### **6.2.2 Currency Management Policies**

The Bank of South Sudan commits to improve and develop the currency management system, through:

- a. Meeting the liquidity needs in the economy, regarding making available the required banknotes and coins in the system;





- b. Review, from time to time, the optimal structure of currency denominations that suits the prevailing economic environment;
- c. Promotion of the Clean Notes Policy, through:
  - i. Improving the quality of banknotes in circulation;
  - ii. Developing rules and guidelines for sorting banknotes and detecting counterfeits;
  - iii. Setting up a currency destruction center;
  - iv. Raising public awareness about currency features and clean currency policy



Signed .....

8/JAN/2019

**Dier Tong Ngor**  
Governor and Chairman of Board of Directors  
Bank of South Sudan