



BANK OF SOUTH SUDAN (BSS)

Office of the Governor

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THE BANK OF SOUTH SUDAN MONETARY AND CREDIT POLICY 2016.

1. Introduction

The principal objective of the Bank of South Sudan (BSS) is to maintain price stability, fosters liquidity, solvency and achieves stable market based financial system.

Pursuant to these objectives, the Bank's monetary policy statement for 2016 is designed to achieve single digit inflation, stimulate economic growth and sustainable development. These policies are formulated in coordination with the Ministry of Finance & Economic Planning and other concerned entities in the context of the current macroeconomic reforms.

POLICY GUIDELINES

The Monetary policies are guided by the Government Approved Budget 2015/2016.

Policy Objectives:

The Bank of South Sudan monetary and credit policies pursues the following objectives:

- I. Maintaining price stability through achieving low inflation.
- II. Achieving higher growth in the Gross Domestic Product (GDP)
- III. Broadening and deepening of the banking and financial sectors' coverage in various states and in particular areas of production across South Sudan.
- IV. Encouraging the contribution of the private sector development to drive economic growth through diversified banking financing to all the economic sectors especially infrastructure, agriculture, energy and mining, etc.
- V. Promoting non-oil exports, and attracting foreign direct investment and building of international reserves.

2. PILLARS OF THE BANK OF SOUTH SUDAN POLICIES AND GUIDELINES.

The policies and guidelines are categorized into four main pillars as follows;

- I. The Monetary & Credit Policies
- II. The Foreign Exchange Policies
- III. The Banking & Supervisory Policies

IV. The Financial Markets, banking Operations and currency Policies

THE FIRST PILLAR: MONETARY AND CREDIT POLICIES

The Monetary and Credit Policies are in line with fiscal policy with the aim of achieving higher economic growth and maintain low inflation rate through targeting monetary aggregates. To achieve these policies, liquidity in the economy will be managed to meet the requirements of the general economic activities.

First: Liquidity Management Guidelines

I. The Reserve Requirement;

Each bank shall maintain cash balances at the Bank of South Sudan in form of statutory reserve ratio of twenty (20) percent on all local currency demand deposits, with remuneration rate of 0.01 percent per annum.

II. Foreign Exchange Exposure limits;

All banks shall maintain overall foreign exchange risk exposure position as measure using spot mid-rates short hand method not to exceed (+/-) 10 percent of core capital. Any excess to net open position shall be absorbed within the following two (2) days of business.

III. Internal Liquidity;

Each bank shall maintain an indicative internal liquidity of at least 10 percent of the total deposits in cash in their vaults to meet the daily withdrawal of clients,

IV. The Inter-Bank Market

The Bank encourages commercial banks to activate the inter-bank market through trading in treasury bills and foreign exchange among themselves before resorting to the central bank. Also, commercial banks may diversify risk by forming portfolios for financing different economic activities of large magnitude.

V. The Bank of South Sudan Discount Window

As the Lender of Last Resort the Bank may extend finances to support local banks which are experiencing temporary liquidity challenges subject to section 54 of the Bank's Act 2011.

Second: Credit Guidelines

(A) Uses of Resources: –

(1) The commercial banks shall use their resources in the context of the market based mechanisms and are encouraged to use their resources to finance all the sectors and activities, except the following:

- I. Financing of clients to purchase foreign currencies for the purpose of currency trading;
- II. Lending to foreign exchange companies;
- III. Financing the buying of shares and securities by their customers;
- IV. Financing of clients for repayment of outstanding loans;
- V. Financing the central, the state and local governments without prior consent of the Bank of South Sudan;

(B) The Cost of Finance

- I. Commercial banks are directed to charge reasonable interest/commission that is commensurate to the type and nature of business entered into.
- II. Commercial banks are directed to pay interest on savings and time deposits in local and foreign currency in order to promote savings culture.

THE SECOND PILLAR: FOREIGN EXCHANGE POLICIES

To 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 currency policies:

(1) THE EXCHANGE RATE REGIME:

The Bank in consultation with government adopted and implemented managed float exchange rate regime where the SSP vis-à-vis the US Dollar and other currencies are determined by market forces of demand and supply as stipulated in section 53 (1) of the Bank of South Sudan Act 2011.

(2) FOREIGN EXCHANGE RESERVES

In regards to foreign exchange reserves, the Bank shall build its international reserves cushion of at least three (3) months of import cover, to meet the country's Balance of Payments (BOP) requirements, preservation of the value of the domestic currency as well as mitigation of unforeseen shocks.

THE THIRD PILLAR: BANKING SUPERVISION AND REGULATORY POLICIES

(A) BANKING POLICIES:

- I. All banks are required to comply with the minimum paid-up capital requirement to build a safe and sound banking and financial system as follows;

(a) USD 15 Million equivalent in local currency (SSP) for local banks and USD 30 Million for foreign banks; (b) Local banks are encouraged to establish correspondents' relationships;

(c) The Bank encourages mergers and joint ventures among banks to boost their capacities.

II. Diversification of Banking Products:

The Bank encourages commercial banks to diversify their products.

III. Development of Microfinance Sector:

The Bank encourages the development of the Microfinance Sector as a mechanism for broadening banking services in the country.

(B) SUPERVISION POLICIES

- I. The Bank will adopt prudent and transparent licensing policies aimed at broadening and deepening of financial services including microfinance services delivery for optimal outreach;
- II. The Bank shall strengthen pro-active supervisory mechanisms compatible with international norms and standards capable of coping with dynamic and fast growing banking industry;
- III. The Bank shall from time to time review the capital structure of banks by encouraging implementation of supervisory collage developments in the region as well as adoption of the international Basel Statues;
- IV. The Bank encourages South Sudan Bankers Association (SSBA) to promote banking services awareness in the country;
- V. The Bank will encourage the regional financial integration into COMESA, EAC and payment and settlement system integration project (EAC/PSSIP) in order to enhance the development of the financial sector.

THE FOURTH PILLAR: THE FINANCIAL MARKETS, BANKING OPERATIONS AND CURRENCY MANAGEMENT POLICIES.

(A) THE FINANCIAL MARKETS GUIDELINES

OPEN MARKET OPERATION (OMO)

Treasury bills are one of the BSS monetary policy instruments deployed to ensure that the banking and financial systems operates smoothly. Currently BSS issues treasury bills to meet government domestic borrowing needs.

- I. The Bank of South Sudan issues government of South Sudan Treasury Bills (TBs) with maturity period of 90 days, 181days and 365 days, redeemable at maturity dates;
- II. All financial institutions licensed and supervised by BSS, non-financial institutions and the public are eligible bidders;
- III. The Bank of South Sudan encourages all banks to trade on TBs, (secondary market); and
- IV. Commercial banks may enter into Repurchase Agreements (Repos) with the BSS whenever they experience liquidity challenges.

(B) BANKING OPERATIONS AND CURRENCY MANAGEMENT GUIDELEINES

- I. The Bank shall develop the 'South Sudan payment and settlement system' as per the international standards;
- II. Clean Currency Guidelines.

The Bank of South Sudan may enforce its clean currency polices by:

- a. Replacing mutilated notes from circulation;
- b. Imposing severe penalties on banks which fails to sort currency before depositing; and
- c. Imposing heavy penalties for banks remitting counterfeit currencies.

Signed:.....



Kornelio Koriom Mayik

Governor & Chairman Board of Directors

Bank of South Sudan.