



BANK OF SOUTH SUDAN

MONETARY AND BANKING POLICIES

FOR THE YEAR 2017

1. INTRODUCTION

1.1 The principal objective of the Bank of South Sudan (Bank) is to maintain monetary and domestic price stability. The Bank is also mandated to foster liquidity, solvency, and to ensure the effective functioning of a stable market based financial system in the country.

1.2 Pursuant to these objectives, the Bank's monetary and banking policies for the year 2017 are designed to combat hyperinflation, consolidate the exchange rate reforms, promote financial & monetary stability, and provide optimum liquidity to support the targeted level of economic growth, in accordance with Ministry of Finance and Planning (MoFP) overall macroeconomic reform program, as stipulated in the 2016/2017 budget.

1.3 The monetary and banking policies are guided by the spirit of the Transitional Government of National Unity reforms program, peace implementation, and macroeconomic stabilization objectives of the national budget of 2016/2017 fiscal year.

2. POLICY OBJECTIVES:

2.1 In the context of the above, the Bank of South Sudan's Monetary and Banking Policies for 2017 will pursue the following specific objectives:

a. Maintenance of price stability through achieving reasonable and stable average inflation throughout the year,

- b. Broadening and deepening of the banking and financial sectors' coverage in various states and in particular areas of production across South Sudan
- c. Promotion of the private sector contribution and its role as key driver of economic growth, through the provision of financing to key economic sectors to achieve economic growth & development.
- d. Consolidation of the exchange rate reforms
- e. Building of international reserves to a reasonable level to support exchange rate and balance of payment

3. PILLARS OF BANK OF SOUTH SUDAN POLICIES

3.1 The Bank's policies and guidelines for 2017 are categorized into four main pillars as follows;

- a. The Monetary & Credit Policies,
- b. The Foreign Exchange Policies,
- c. The Banking & Supervision,
- d. Payments and Currency Policies.

4. FIRST PILLAR: MONETARY AND CREDIT POLICIES

4.1 Monetary Policies

a. Objectives and Targets: The Monetary and Credit Policies for 2017 are set with the aim of achieving real growth of about 7% in Gross National Product (GDP), and to curb inflation from the current high levels, and to maintain it within the range of mid-double digits, on average. The policy

intermediate target is to maintain nominal growth of base money at around 65%. To achieve this target, the Bank shall undertake the following measures:

- i. **Minimum Reserve Requirement:** Each bank shall maintain cash balances at the Bank of South Sudan in form of Minimum Reserve Requirement Ratio (RRR) of twenty percent (20%) on local and foreign currencies denominated deposits.
- ii. **Liquidity Ratio:** Each bank shall maintain liquidity ratio of at least ten percent (20%) of local and foreign currencies denominated deposits
- iii. **Discount Window of the Bank:** As lender of last resort, the Bank of South Sudan may extend financing to support commercial banks that may experience temporary liquidity challenges subject to section 54 of the Bank's Act 2011.
- iv. **The Inter-bank Market:** The Bank encourages commercial banks to trade among themselves before invoking the Central Banks' window of last resort. Also, commercial banks should diversify risk by forming consortium for financing mega economic activities.
- v. **Open Market Operations (OMOs):** Mindful about the detrimental impact of deficit finance and direct borrowing from the Central Bank, the BSS issues treasury bills on behalf of the government to meet an identified fiscal budget deficit. A clear domestic borrowing schedule, targeting certain amount to be financing through Treasury Bills, shall be communicated the Bank on each fiscal year. Such

information shall be made public to avoid liquidity strains and help potential investors plan beforehand. In this context:

1. The Bank of South Sudan will issue government of South Sudan Treasury Bills (TBs) with maturity periods of 91, 182, 364 days;
2. All financial institutions licensed and supervised by BSS, non-financial institutions and the public are eligible bidders;
3. The Bank of South Sudan encourages all banks to trade on TBs, (for secondary market development); and
4. Commercial banks may enter into Repurchase Agreements (Repos) with the Bank of South Sudan whenever they experience liquidity challenges.

5. Credit Guidelines

5.1 Uses of Resources:

- a. The commercial banks shall use their resources in the context of the market based mechanisms and are encouraged to use their resources to finance the key economic 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.

5.2 Cost of Finance

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

6. SECOND PILLAR: FOREIGN EXCHANGE POLICIES

6.1 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:

- a. **The Exchange Rate Regime:** The Bank shall continue to consolidate the exchange rate reforms and implementation of the managed float 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 occasional intervention to smoothen high volatility to stabilize the foreign exchange market.

b. **Foreign Exchange Reserves:** The Bank shall strive to build its international reserves level to 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.

c. **Gold Project:** The Bank shall endeavor to purchase, refine and sell gold in the world market as a way of building international reserves. The Bank shall work to ensure that it has the exclusive control of the gold dealings in the country.

d. **Offshore Banking Activities:** The Bank shall issue guidelines to organize the offshore banking activities and to curb underground trading in foreign exchange and ensure that resources contribute to the good of the economy.

e. **Foreign Exchange Exposure Limits:** All banks shall maintain overall foreign exchange exposure positions of (+/-) 10 percent of core capital.

7. THIRD PILLAR: BANKING SUPERVISION POLICIES

7.1 Banking Policies:

a. To insulate banks from recurrent economic crises, and striving 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:

- i. 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;
 - ii. Local banks are encouraged to establish correspondents' relationships with highly rated banks;
 - iii. Banks that cannot meet the capital requirement individually are encouraged to enter into mergers and joint ventures with other banks.
- b. **Deposit Insurance Fund:** The Bank shall establish Deposit Insurance Fund to protect depositors in the event of bankruptcy.
- c. **Diversification of Banking Products:** Commercial banks should diversify their products.
- d. **Development of Microfinance Sector:** The Bank encourages the development of the Microfinance Sector as a mechanism for broadening banking services in the country and in an effort to contribute to poverty reduction.

7.2 **Supervision Policies**

- a. The Bank will adopt prudent and transparent licensing policies aimed at broadening and deepening of financial services including microfinance services delivery for optimal outreach;
- b. The Bank shall strengthen pro-active supervisory mechanisms compatible with international norms and standards capable of coping with dynamic and fast growing banking industry;

- c. 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;
- d. The Bank encourages South Sudan Bankers Association (SSBA) to raise banking services awareness in the country;
- e. 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.

8. FOURTH PILLAR: PAYMENTS & CURRENCY POLICIES

8.1 The Bank shall develop the ‘South Sudan payment and settlement system’ as per the international standards; such system shall include the following payment components:

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

8.2 On operational level the Bank shall develop appropriate mechanism to coordinate and strictly implement recommendations consistent with cash management policy adopted by the Ministry of Finance as way of liquidity management.

8.3 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, in terms of 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 currency destruction centre;
 - iv. Raising public awareness about currency features and clean currency policy.

Signed:.....

Kornelio Koriom Mayik
Governor & Chairman Board of Directors
Bank of South Sudan.