

# **BANK OF SOUTH SUDAN**

## **MONETARY AND BANKING POLICIES**

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### **FOR THE YEAR 2018**

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## 1.0 Introduction

In accordance with the Bank of South Sudan Act, 2011, the Bank<sup>1</sup> issues this Monetary Policy, and other Banking Policies, for the year 2018. This Monetary Policy Stance has thus been formulated and specified to serve as a guide for the Bank on what it intends to adopt and achieve during 2018. Accordingly, the policy outlines the Monetary Policy targets for 2018 that are in line with the broader *macroeconomic stabilization objectives* of the government, Republic of South Sudan, as spelt out in the 2017/18 budget imperatives, to be achieved broadly through **price stability**, and via a multiplicity of measures that includes but not limited to: *combat inflation, achieve exchange rate stability, promote financial and monetary stability*, as well as *provide optimum liquidity* to support targeted level of economic growth. Meantime, these measures shall be guided by the spirit of the Transitional Government of National Unity reforms agenda, as well as on the continued efforts to restore a lasting peace in the country.

The Monetary Policy document is organized into five sections and the current section introduces the document. While Section Two reviews the *Direction of Macroeconomic Policy and Monetary Policy Stance for 2018*, Section Three focuses on the *Mechanism to Achieve Monetary Policy Objectives*. Furthermore, Section Four is a summary of *Policy Advice* that the Bank considers necessary to undertake in achieving the intended broader macroeconomic stabilization objectives, but which are not under the direct mandate of the Bank. And finally, Section Five is the Conclusion of this policy document.

## 2.0 Direction of Monetary Policy Stance for 2018

In order to support the macroeconomic policy objectives of the government, Republic of South Sudan, as enshrined in its 2017/2018 budget imperatives, the Bank of South Sudan's Monetary Policy, and other Banking Policies, for the Year 2018 shall be based on four broad policies, and shall endeavor to pursue the following objectives:

- (a) to promote positive growth in Real GDP, (the BSS forecast the growth rate of real GDP for 2018 at -4.5 per cent) ;

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<sup>1</sup> The Bank here refers to the Bank of South Sudan (BSS)



- (b) to reduce the headline inflation to mid double digits (specifically 50 per cent) with a margin of  $\pm 5$  percentage points;
- (c) to focus on growth rate of broad money at around 45.5<sup>2</sup> per cent;
- (d) to encourage commercial banks to increase lending to the private sector to 20 per cent of their total deposits; and
- (e) to build international reserves

### 3.0 Mechanisms to Achieve Monetary Policy Objectives

The mechanism through which the Bank of South Sudan intends to use to achieve Monetary Policy objectives shall include: monetary and credit policies; foreign exchange policies; supervision policies and; payments and currency policies:

#### 3.1 Monetary and Credit Policies

The monetary and credit policies shall be influenced by the following:

**(a) Minimum Reserve Requirement:** Commercial banks shall maintain their cash balances at the Bank of South Sudan in at a minimum *reserve requirement ratio* (RRR) of twenty percent (20%)<sup>3</sup> on local and foreign currencies denominated deposits.

**(b) Open Market Operations (OMO):** Mindful of the detrimental impact of deficit financing and direct borrowing by the government from the Bank, the Bank of South Sudan shall promote the issuance of Treasury Bills (T-Bills) on behalf of the government to meet identified government's fiscal budget deficit. A clear domestic borrowing schedule, targeting certain amounts to be financed through T-Bills, shall be communicated to the Bank. Such information shall be made public to avoid liquidity strains, as well as help potential investors plan beforehand. In this context:

<sup>2</sup> Currently, the growth rate in broad money as of October 2017 is 65.1%, but the target for growth in broad money for 2018 is set at 45.5%, with a margin of  $\pm 5\%$ . Using the relationship between growth in broad money, inflation, real GDP and assuming constant velocity of income, the target for growth in broad money is set by using this formula:  $\% \Delta M2 = \% \Delta P + \% \Delta Y$ , implying that  $\% \Delta M2 = 50 - 4.5 = 45.5\%$ .

<sup>3</sup> MPC will use this instrument to change liquidity condition in the market, by either increasing or reducing it

- (i) The Bank of South Sudan shall issue Government of South Sudan's T-Bills with maturity periods of 91, 182, 364<sup>4</sup> days;
- (ii) The Bank of South Sudan shall encourage commercial banks to trade in T-Bills, (and to promote the secondary market development to deepen short term security market in the country ); and
- (iii) Commercial banks may enter into Repurchase Agreements (Repos) with the Bank of South Sudan whenever they experience liquidity challenges.

#### **3.1.1 Private Sector Credit**

Lending to private sector is a key driver of economic growth. In this context, the BSS shall periodically revise policies and regulations that would encourage commercial banks to use their resources to finance key economic sectors' activities, except the following:

- (a) Financing of clients to purchase foreign currencies for the purpose of currency 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 the central, state and local governments without prior consent of the Bank of South Sudan.

#### **3.1.2 Cost of Finance**

- (a) Commercial banks are encouraged to charge reasonable interest/commission that is commensurate with the type and nature of business entered into.
- (b) Commercial banks are encouraged to increase payment of interest on savings and time deposits.

### **3.2 Foreign Exchange Policies**

To restore and maintain stability in the foreign exchange market, foreign reserves shall be prudently managed. The Bank of South Sudan shall develop and implement the following foreign exchange measures:

- (a) ***The Exchange Rate Regime:*** The Bank of South Sudan shall continue to consolidate the exchange rate reforms and implementation of the floating exchange rate regime, where

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<sup>4</sup> Different Maturity dates of Treasury Bills



the value of the South Sudanese Pound (SSP) against other convertible currencies is determined by the market forces of supply and demand, and that the Bank shall occasionally intervene to smoothen high volatility as a means to stabilize the foreign exchange market.

- (b) **Foreign Exchange Reserves:** The Bank shall continue to build its international reserves to meet the East African Community (EAC) conversion criteria, and also to meet the country's Balance of Payments (BOP) requirements, preservation of the value of the domestic currency, the SSP, as well as mitigation of unforeseen shocks. In implementing this objective, the BSS shall do its best to strengthen its regulatory capacity to enhance and improve the special account operations<sup>5</sup>.
- (c) **Gold Project:** The Bank shall work with its stakeholders to promote gold business by undertaking comprehensive feasibility study in a bid to diversify its reserves portfolio.
- (d) **Special Account Activities:** The Bank shall continue to strengthen regulatory guidelines to promote the implementation of special accounts policy.
- (e) **Foreign Exchange Exposure Limits:** All banks shall maintain an overall foreign exchange exposure limits of (+/-) 10 per cent of core capital.

### 3.3 Supervision Policies

In an attempt to insulate commercial banks from recurrent economic crises, and in efforts to build resilient safe and sound financial system in the country, the Bank's *Supervision Policies* shall work to enforce the following:

- (a) **Minimum capital requirement** in South Sudanese Pounds equivalent of USD15 million for local banks, and South Sudanese Pounds equivalent of USD30 million for foreign banks;

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<sup>5</sup> Special accounts operations are transactions that the BSS established with commercial banks to regulate foreign currency trading between commercial banks and foreign diplomatic missions, UN agencies, and offices of other organizations established by international and regional treaties, International NGOs (INGOs), Oil and Mining companies, and the accounts of projects funded by international and regional partner bodies.

- (b) **Local commercial banks** are encouraged to establish correspondents' relationships with highly rated banks across the region and overseas;
- (c) **Commercial banks** that individually cannot meet and/or comply with the capital requirements are encouraged to enter into mergers and/or joint ventures with other banks;
- (d) **The Bank** shall adopt prudent and transparent licensing policies aimed at broadening and deepening of financial services, including microfinance service delivery for optimal outreach;
- (e) **The Bank** shall strengthen pro-active supervisory mechanisms, compatible with international norms and standards, capable of coping with dynamic and fast growing banking industry;
- (f) **The Bank** shall, from time to time, review the capital structure of banks by encouraging the implementation of Supervisory Colleges' developments in the region, as well as the adoption of international Basel Statues;
- (g) **The Bank** encourages South Sudan Bankers' Association (SSBA) to take the lead in raising banking services' awareness in the country;
- (h) **The Bank** shall encourage the national financial sector to opt for regional financial integration into EAC, COMESA, and other regional bodies in order to enhance the development of the country's financial sector;
- (i) **Deposit Insurance Fund:** The Bank shall establish a Deposit Insurance Fund to protect depositors and bolster confidence in the financial system in the unpredictable events of bankruptcy;

- (j) **Diversification of Banking Products:** Commercial banks shall diversify their products and continue to innovate and invest in an efficient and appropriate technology;
- (k) **Development of Microfinance Sector:** The Bank shall encourage 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; and
- (l) **Financial Inclusion:** The bank shall formulate policies that ensure inclusiveness of financial services.

### 3.4 Payments and Currency Policies

The Bank shall develop the 'South Sudan payment and settlement system' as per the international standards. Such a system shall include the following payment components:

- (a) Real Time Gross Settlement System;
- (b) Electronic Clearance System;
- (c) Electronic Money.

At the 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 and Planning, as a way of liquidity management.

#### 3.4.1 Currency Management Policies

The Bank of South Sudan is committed to the improvement and development of 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 clean banknote 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 facilities;
- iv. Raising public awareness about currency features and clean currency policy.

## 4.0 Policy Advice

In view of the underlying challenges facing the economy, emphasis shall be given to the development of key sectors of the economy in order to promote macroeconomic stability, and that the Bank of South Sudan shall provide advice in relation, but not limited, to the following key areas:

- Agricultural sector.
- Increasing oil production.
- Extractive industries, e.g. gold and other minerals mining.
- Promotion of exports.
- Rationalization of imports.
- Encouragement of small scale industries and the use of intermediate technology<sup>6</sup>.

## 5.0 Conclusion

The Monetary and Banking Policies, is an attempt to lay down a solid foundation and formulate appropriate policies that would enable the country achieves an equitable economic growth and macro-economic stability in the short term after reversing the downward trends of key economic indicators.

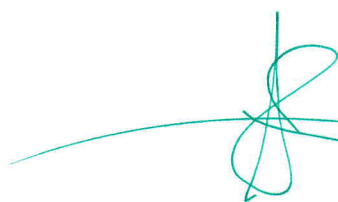
As the South Sudan's economic outlook is expected (BSS forecasted) to be negative in 2017, it would require a sound policy intervention at all levels. But more specifically, the concerted efforts to reform the monetary and financial sector should be seen as a major step in the right direction. Thus, the policy measures provided in this document have therefore been meant to serve as a catalyst to restore economic recovery.

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<sup>6</sup> A home grown way of doing things (producing goods and services) using local resources, and taking into account the prevailing economic conditions in the country

Finally, the Bank of South Sudan in coordination with the Ministry of Finance and Planning, and other key stakeholders shall continue to revisit the interim economic reform policies with the intention to achieve financial stability and economic growth.

Signed Under my Hand in Juba this 22<sup>nd</sup> Day of the month of Dec In the Year 2017



Hon. Othom Rago Ajak  
Governor and Chairman, Board of Directors  
Bank of South Sudan  
Juba