



BANK OF SOUTH SUDAN (BSS)

Directorate of Supervision, Research & Statistics

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To: All Banks, Non-Banks Financial Institutions and other Stakeholders

Subject: Monetary and Exchange Rate Reforms

Reference to the provisions of Articles 11 and 52 of the Bank of South Sudan Act 2011 and Articles 5 of the Foreign Exchange Business Act 2012; and as part of our commitment to implementing the economic and financial reforms outlined in the Revitalized Agreement on the Resolution of the Conflict in the Republic of South Sudan (R-ARCSS), the Bank of South Sudan (BOSS) re-iterates its commitment to strengthen its monetary policy framework and to correct distortions in the foreign exchange market. In this regard, BOSS now issues the following guidelines to revitalize its exchange rate management and monetary policy framework:

Monetary Policy Measures

1. As a critical component of macro-economic reform, which is aimed at achieving price and exchange rate stability, BOSS is taking several measures to strengthen its monetary policy framework by undertaking the following actions:
 - a. BOSS will operationalize a monetary policy framework based on reserve money targets while preparing to transition to an interest rate-based monetary policy framework in the medium to long term.
 - b. Specifically, BOSS will target in the near term a base money growth consistent with this objective and will set quarterly targets

for reserve money. For 2021, BOSS will target a base money growth of about 10 percent and will disaggregate this into quarterly and monthly operational targets to guide its monetary policy discussions and related operations. The achievement of these reserve money targets will be facilitated by the government's commitment for prudent fiscal policy, including the continuation of the policy of no BOSS financing of the budget. BOSS will review its reserve money targets regularly to ensure that they remain consistent with its primary objective of maintaining monetary and domestic price stability.

- c. BOSS will take steps to operationalize its liquidity forecasting by:
 - i. establishing a liquidity unit and creating an inter-agency liquidity working group;
 - ii. BOSS will prepare a summary version of a daily liquidity monitoring table to allow the assessment of the evolution of liquidity and market conditions.
- d. BOSS will expand the range of its monetary policy instruments to facilitate the implementation of its reserve money targeting framework. The plan includes expanding the range of monetary instruments, such as introducing BOSS bills and term deposits.

Foreign Exchange Measures

- 2. BOSS recognizes that Foreign Exchange (FX) market reforms are necessary to reduce the significant current distortions. BOSS will therefore take the following steps to reform the FX market gradually:
 - a. BOSS will put in place institutional and operational requisites for a transition in the coming months to a unified market exchange rate,

aimed at building the capacity of market participants to manage exchange rate risks;

- b. BOSS will allow commercial banks to participate in its foreign exchange auctions;
- c. BOSS plans to gradually build international reserves, with a view to enhance foreign exchange policy's credibility and its ability to respond effectively to any future imbalances in the foreign exchange market;
- d. BOSS will enhance the transparency of monetary data and FX operations by publishing, starting in April 2021:
 - i. the main monetary aggregates every month; and
 - ii. the results of FX auctions before the end of the business day in the day of the auction.

3. Our FX market reforms' primary objective is to unify the official exchange rate with market-clearing rate (including the FX auctions rate). To this end, BOSS will facilitate FX market trading at the market-clearing rate, and will gradually adjust its official rate, with the ultimate goal of unifying the two rates.
4. With immediate effect, banks and exchange bureaus will be expected to trade at the market-clearing exchange rate in all of their FX transactions. The auction's weighted average exchange rate will serve as a guide for banks and forex exchange bureaus in setting their buying and selling rates. All economic agents will be permitted to trade with commercial banks and exchange bureaus at the market clearing rate. The indicative market-clearing exchange rate (the 'reference' rate) will be published every day by BOSS.

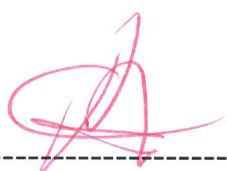


5. At the same time, the official rate set and published separately by the BOSS will continue to be used for transactions between the government, government ministries and agencies, and the BOSS. The BOSS will gradually and steadily adjust its official rate until it converges with the market-clearing 'reference' rate, with the objective of achieving such convergence in the near future.
6. Ultimately, a unified exchange rate will offer the following macro-economic advantages:
 - a. It is expected to support lower short-term exchange rate volatility, provide more reliable access to foreign exchange by the business community and members of the public, and help build buffers for the economy to deal with unanticipated shocks;
 - b. It will prevent rent-seeking behavior and enable the government to raise more revenue from the sale of its share of foreign exchange revenue, which it surrenders at the official rate;
 - c. It will contain the current perverse incentives in favor of the parallel or informal economy and avoid keeping the costly systems and procedures currently in place;
 - d. It will encourage foreign investment and job creation in the South Sudanese economy;
 - e. Improve the allocation of foreign exchange for imports and other purposes;
 - f. Allow the gradual modernization and liberalization of the foreign exchange market;



- g. Gradually harmonize South Sudan's foreign exchange market with those of the East African Community's countries;
 - h. Contribute to financial market development in South Sudan, particularly the development of an interbank foreign exchange market;
 - i. Allow the BOSS to focus on its core central banking activities in line with the best international practices.
7. The technical and regulatory features of the auction system are described in Auction Regulation that are being issued together with this circular.
8. BOSS will ensure strict implementation of supervisory measures needed to support the unified exchange rate and has introduced provisions in the regulations to allow for an efficient functioning of the foreign exchange market.

Bank of South Sudan



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