



BANK OF SOUTH SUDAN (BSS)

Office of the Governor

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Press Statement

**By Hon. Dier Tong Ngor, Governor of the Bank of South Sudan
on
Policy Reforms and the Disbursement of US\$ 174.2 Million by the IMF**

Background

1. The drop in the international oil price coupled with the impacts of COVID-19 and the flooding that hit part of the country; all have had a severe negative effect on South Sudan's economy. These factors have resulted in fiscal deficit and created a considerable balance of payment needs. These challenges forced the country, in the past, to finance the deficit through monetization, which, often, translates into high inflation and exchange rate deterioration.
2. To respond to these challenges, and as part of our commitment to implement the economic and financial reforms outlined in the revitalized peace agreement, the Bank of South Sudan (BOSS) has embarked on strengthening its monetary policy framework and correcting distortions in the foreign exchange market. To this end, BOSS started a series of reforms aimed at restoring macroeconomic stability.
 - a. We have stopped deficit financing;
 - b. We have introduced a foreign exchange auction by selling USD 2 million to forex bureaus every week. These actions have helped stabilize the exchange rate.
3. **In support of these reforms, the IMF announced its approval of USD 174.2 million Rapid Credit Facility (RCF). Half of the amount will be**

used to support the budget, and the other half will be used to meet the balance of payments needs.

4. To further sustain and deepen the reforms, which we have started, the BOSS is taking several further measures to strengthen its monetary policy and foreign exchange operations:

Monetary Policy Measures

5. 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.
6. 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.
7. BOSS will take steps to operationalize liquidity forecasting by:
 - a. establishing a liquidity unit and creating an inter-agency liquidity working group;
 - b. BOSS will prepare a summary version of a daily liquidity monitoring table to assess the evolution of liquidity and market conditions.
8. BOSS will expand the range of its monetary policy instruments to facilitate the implementation of its reserve money targeting framework. The plan includes increasing the capacity of monetary instruments, such as introducing BOSS bills and term deposits.

Foreign Exchange Operations:

9. BOSS recognized that Foreign Exchange (FX) market reforms are necessary to reduce the significant current distortions. To this end, our FX market reforms' **primary objective is to unify the official exchange rate**

with the market rate. BOSS will therefore take several steps to achieve this objective:

- a. BOSS will put in place institutional and operational requisites in the coming months, aimed at developing the market exchange market;
 - b. BOSS will allow commercial banks to participate in its foreign exchange auctions. An amount of USD 3 million will be auctioned to eligible commercial banks every week. This is in addition to the USD 2 million that is auctioned to forex bureaus every week;
10. With immediate effect, banks and exchange bureaus will be expected to trade at the market exchange rate in all of their FX transactions. The reference market exchange rate will be published every day by BOSS, based on commercial banks' daily reports on exchange rate.
11. The official exchange rate will continue to be published separately by the BOSS for transactions between the government, government ministries and agencies, and the BOSS.

Other Measures

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

Benefits of a Unified Exchange Rate

14. A unified exchange rate will offer 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/reference 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.



Hon. Dier Tong Ngor
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Bank of South Sudan

