



BANK OF SOUTH SUDAN

MONETARY AND BANKING POLICY

FOR THE YEAR 2023

**Research and Statistics Department
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1 Introduction

The Bank of South Sudan (BoSS) issues this Monetary and Banking Policy, for the year 2023 in accordance with the BoSS Act, 2011. This year Policy is directed at achieving and maintaining price stability to supports the government of South Sudan's objective of consolidating a lasting peace and attaining macroeconomic stability. This policy is to guide commercial banks and other stakeholders' operations during the year 2023.

The Monetary and Banking Policy document is organized into six sections. Section one introduces the document; while section two summarizes the direction of macroeconomic policy and monetary policy stance for 2023. Section three outlines the key monetary policy targets and instruments necessary to achieve the set objectives. Section four presents the credit guidelines for 2023; while section five defines the Bank's Exchange rate policy. Finally, section six presents the key financial stability plans and reforms to be adopted by the BoSS during 2023.

2 Direction and Objectives of Macroeconomic policy and Monetary Policy Stance for 2023

The Bank of South Sudan Monetary and other Banking policies, for the year 2023 are developed to support the macroeconomic policy objectives of the government. The 2023 policies are designed to provide optimal liquidity, while maintaining and consolidating gains of foreign exchange (FX) and public finance management (PFM) reforms undertaken by the government. These policies are also guided by the spirit of the signed Revitalized Agreement on the Resolution of the Conflict in the Republic of South Sudan (R-ARCSS), the South Sudan Vision 2040, the National Development Strategy (NDS), BoSS strategic plan 2023 - 2027 and the 2022/2023 fiscal budget objectives. In this context, the Bank of South Sudan Monetary and Banking Policies for the year 2023 will pursue the following objectives:

- a) to achieve **3%** projected growth of real GDP in 2023
- b) to maintain the headline inflation at **8%**
- c) to encourage commercial banks to increase lending to the private sector to **40 per cent** of their total deposits;
- d) to build international reserves equivalent to about **4.5 months of import cover**.

3 Monetary Policy Targets, Instruments and Communication

The mechanism through which the Bank of South Sudan intends to achieve monetary Policy Objective shall include: enhancing monetary and credit policies; foreign exchange policies; macro prudential policies and; National payment & settlement and currency policies:

3.1 Monetary Target:

Monetary and Credit Policies for 2023 are set in the context of supporting a projected growth in real GDP of about **3¹ percent** and the objective of maintaining inflation at about **8 percent** with a margin of (+/-) **1 percent**, by the end of 2023. The policy operational target is to maintain a nominal growth of broad money at around **11 percent**, with a margin of (+/-) **1 percent**. To achieve these targets, the Bank will utilize a set of policy instruments.

3.2 Monetary Policy Instruments

3.2.1 Minimum Reserve Requirement:

Each bank shall be required to maintain with Bank of South Sudan a Minimum Reserve Requirement Ratio (RRR) of **twenty percent (20 %)** on local and foreign currencies denominated deposits;

3.2.2 Open Market Operations (OMO):

The Bank of South Sudan will engage in Open Market Operations (OMO), involving trading in eligible securities to regulate the money supply and the credit conditions in the economy. In this regard, the Bank has recently introduced **Term Deposit Facilities (TDF)** for use as the Bank considers it desirable to offer longer term options. This deposit facility has tenors ranging from 28 to 84 days.

3.2.3 Central Bank Rate (CBR):

CBR provides the base for all monetary policy operations, as it signals changes in monetary policy stance. Movements in the CBR are transmitted to changes in short-term interest rates. As such, a reduction of the CBR signals an easing of monetary policy and a desire for market

¹ This figure is still preliminary

interest rates to move downwards. Lower interest rates encourage economic activity and thus growth. When interest rates decline, the quantity of credit demanded should increase. CBR also enhances clarity and certainty in monetary policy implementation. The Bank of South Sudan through the monetary policy committee has therefore agree to maintain the central bank rate (CBR) at **12% percent** for 2023 subject to regular review during the year 2023. CBR will consequently be the lowest acceptable rate to the Bank when it is injecting liquidity to the economy, through the buying back of T-Bill (Reverse Repo). Likewise, whenever the Bank wishes to withdraw excess liquidity, through the selling of T-Bills (Vertical Repo), the CBR will be the highest rate that the Bank will pay on any bid received.

3.2.4 Foreign Exchange Operations (FEO):

The Bank of South Sudan will also continue to engage, from time to time, in foreign exchange intervention to inject or withdraw liquidity from the economy and to stabilize the market in the event of excess volatility. Participation of the Bank in this market will be determined by the need to build-up its foreign exchange reserves in line with the set targets. The Bank endeavors, over the short and medium term, to reach the level of foreign reserves equivalent to **Four and a Half (4.5) Months** of imports cover as required by the EAC convergence criteria on the minimum reserve levels.

3.2.5 Government borrowing from the Central Bank:

The Bank of South Sudan shall make advances to the Government of South Sudan in accordance to Article 65 (1) and (2) a & b. which indicates that advances shall be given to government only in respect to:

- a. Temporary deficiencies in recurrent revenue;
- b. The amount outstanding should not exceed **5 percent** of gross recurrent revenue of government at all time; or
- c. **50 percent** of the Capital of Bank of South Sudan whichever is less.

3.3 Monetary Policy Communication:

To improve on the monetary transmission, the BoSS will put in place mechanisms for enhancing communication with the market concerning monetary policy decisions, to help it make informed

decisions based on the critical and reliable assessment of the economic outlook. Effective communication can help to avoid surprise interventions, thereby building the required trustworthiness of the BoSS to effectively conduct monetary policy in a forward-looking, credible, accountable and dynamic manner. In this regard, the Bank will ensure continued regular interaction with Chief Executive Officers of banks to improve coordination and collaboration on the policy development and implementation. The Bank will also engage in regular Press Conferences and also enhance the media understanding of monetary policy decisions. The BoSS website will also provide an important source of information about the economy, including interest rates, exchange rates, result of auctioning various securities, as well as the MPC releases. The Bank, therefore, commits itself to the following:

- a) Publish and issue a bi-annually Monetary Policy and Financial Stability Statement, and regular press releases on the outcomes of the Monetary Policy Committee (MPC) meetings.
- b) Build the capacity of the BoSS staff in different areas, particularly in economic and policy analysis and forecasting.
- c) Maintain close collaboration between the Ministry of Finances/ South Sudan National Revenue Authority and the Bank of South Sudan.

4 Credit Guidelines

4.1 Uses of Resources:

Commercial banks shall use resources in the context of the market based mechanisms and are encouraged to use resources to finance key economic sectors and activities, except the following:

- a) Financing clients to purchase foreign currency for 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 of the central government, state and local governments without prior consent of the Bank of South Sudan based on government resolution.

4.2 Private Sector Credit:

Lending to the private sector is a key driver of economic growth; in this context, BoSS shall periodically revise policies and regulations that encourage the commercial banks to use their resources to finance key economic sectors and activities, such as:

- a) Agribusiness and small scale industries;
- b) Small and medium enterprises (SMEs) engaged in commercial productive activities that supports the real sector;
- c) Energy sector, transport and logistics;
- d) Real Estate and construction sector;
- e) Health and Education,
- f) Storage (warehousing) construction, etc.

4.3 Cost of Finance:

- a) Commercial banks are required to charge reasonable interest/commissions that are commensurate to the type and nature of business entered into.
- b) In order to promote the culture of savings, commercial banks are expected to pay reasonable interest on savings and time deposits, in local and foreign currency.

5 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 exchange measures to this respect:

5.1 The Exchange Rate Regime:

The Bank shall continue to consolidate the exchange rate reforms and implementation of managed float exchange rate 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 stabilize the foreign exchange market.

5.2 Foreign Exchange Reserves:

To meet the country's external payment requirements, preserves the value of the South Sudanese Pound, as well as to mitigate unforeseen shocks, the Bank shall strive to build its international reserves to achieve levels that meet the East African Community (EAC)'s convergence criterion on reserves maintenance.

5.3 Gold Project:

The Bank shall endeavor to continue efforts to collaborate and partner with relevant government agencies and other institutions to develop Gold mining in the country. The Bank shall work to ensure that it has the exclusive control of the gold dealings in the country.

5.4 Foreign Exchange Exposure Limits:

All banks shall maintain overall foreign exchange exposure positions of **(+/-) 10 percent** of core capital.

6 Financial Stability

6.1 Banking Policies:

The Bank shall strengthen pro-active supervisory mechanisms compatible with international practices and standards capable of coping with the dynamic and fast-growing banking industry.

6.1.1 Customer Due Diligence and Know Your Customer (KYC) Guidelines:

Pursuant to Circular No. DSR/SD/1/2017 issued under Section 12 of Bank of South Sudan Act, 2011, Section 77 of the Banking Business Act, 2012 and Sections, 16 of the Anti-Money Laundering and Counter Financing of Terrorism Act 2012 (AML/CFT) and in exercise of oversight role, the Bank of South Sudan commits to enforce application of Customer Due diligence and KYC guidelines in order to prevent the banks from being used by fraudulent elements. Thus, all banks are required to comply with elements of KYC and AML/CFT and shall put in place adequate policies and procedures that promote high ethical and professional standards including the following:

- a. Customer acceptance policy;
- b. Customer identification procedures;
- c. Ongoing monitoring of high risk accounts such as dormant, clearing and inter-branch accounts;
- d. Risk management; and
- e. Submission of all types of reports and information on timely manner.

6.1.2 Liquidity Ratio:

To meet customers liquidity needs, each bank shall be required to maintain a liquidity ratio of at least **twenty percent (20%)** of local and foreign currencies denominated deposits;

6.1.3 Discount Window of the Bank:

As lender of last resort (LoLR), the Bank of South Sudan will be extending financing to support commercial banks that experience temporary liquidity challenges subject to the provisions of section 54 of the Bank of South Sudan Act 2011. These will be secured loans on an overnight basis extended at a penal rate above the CBR. Therefore, the Bank of South Sudan will charge banks an interest rate equivalent to CBR +1% when exercising this tool. Access to the Discount Window will be governed by rules and regulations, which shall be reviewed from time to time by the Bank of South Sudan. Commercial banks that use this facility more than twice in a week will be scrutinized closely and appropriate supervisory action will be taken. The Bank encourages commercial banks to trade among themselves (interbank trading) before invoking the Central Banks' window of last resort.

6.1.4 Consortia/Syndicated Loans:

To mitigate the risk of large exposure by single institutions, commercial banks are encouraged to diversify risk through the formulation of consortia/syndicated financing of economic activities in the country.

6.1.5 Licensing and Product diversification:

The Bank will adopt prudent and transparent licensing policies aimed at broadening and deepening financial services including microfinance and electronic money services, for optimal outreach. The Bank will also promote diversification of Banking Products.

6.1.6 Minimum Capital Requirement:

To insulate banks from recurrent economic crises, and to build resilient, safe and sound financial system in the country, all banks must comply with circular number DSR/SD/4//2020 on minimum paid-up capital requirement for banks, amended 2020, which requires that:

- a) The minimum capital requirement for all locally incorporated and locally owned banks including subsidiaries/branches of foreign banks and banks established by foreign shareholders has been raised to **SSP 5 billion** (only five billion South Sudanese pounds);
- b) Commercial banks are encouraged to establish correspondent relationships with highly rated banks;
- c) Banks that cannot meet the capital requirement individually are encouraged to enter into mergers and joint ventures with other banks.

6.1.7 Deposit Insurance Fund:

The Bank is in the process of establishing Deposit Insurance Fund to protect depositors in the event of bankruptcy.

6.1.8 Other Financial Institutions:

The Bank encourages the development of the Microfinance, Insurance companies, SACCOs etc as a mechanism for broadening banking services in the country and in an effort to contribute to poverty reduction.

6.2 Payments & Currency Policies

6.2.1 Payment Systems:

The Bank is currently establishing the 'South Sudan National Payment, Security and Settlement System' as per the international standards; such system will include the following payment components:

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

In line with the National Payment System (NPS) standard and legal groundings, the following are the regulations/rules being developed by the NPS legal and regulatory framework consultant;

- 1) Regulations on security standard payment cards,
- 2) Payments channel including internet banking
- 3) Regulations/rules for mobile banking,
- 4) Regulations/rules for Automated Teller Machines (ATMs), Point of Sale (POS) and mobile payment.
- 5) Regulations/rules for governing remittance services.
- 6) Regulations/rules for payment gateways
- 7) Regulation/rules on RTGS operations.
- 8) Regulation/rules on automated clearing house
- 9) Oversight policy framework.
- 10) Vision and strategic framework for National Payment systems.

6.2.2 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, regarding making available the required banknotes and coins in the system;

- b) Reviewing, from time to time, the optimal structure of currency denominations that suits the prevailing economic environment;
- c) Promotion of the Know Your Currency and Clean Notes Policy, through:
 - i. Improving the quality of banknotes in circulation;
 - ii. Developing Policies, rules and guidelines for sorting banknotes and detecting counterfeits;
 - iii. To establish currency processing and destruction centers;
 - iv. Comprehensive and aggressive public awareness campaigns about currency features and clean currency policy

Signed



Johnny Ohisa Damian

Governor and Chairman, Board of Directors

Bank of South Sudan, Juba