23rd March 2023

Press Release

The Monetary Policy Committee (MPC), of the Bank of South Sudan, chaired by the Governor Hon. Johnny Ohisa Damian held its ordinary meeting on Thursday 23rd of March 2023 at 10:00am at the Board of Directors Meeting Room. The meeting reviewed the monetary policy instruments in the light of the current economic situation and got updates on recent macroeconomic developments, with focus on the foreign exchange market, inflation as well as the condition of the monetary system. The meeting noted with concern the persistent depreciation of the South Sudanese Pound (SSP) against the US dollar and the subsequent increase in prices of the imported commodities and hence rising inflation, attributing it to the tight global and domestic financial conditions.

The global financial conditions remain tight following the Russia's war in Ukraine, Fed Reserve tightening of its monetary policy, and banking crises in the US. The US dollars strengthened sharply against major currencies including, but not limited to the South African Rand, Egyptian Pounds, Kenyan Shillings and South Sudan Pound. In addition, the increase in prices of imported goods elsewhere, and major trading partner like Uganda whose prices rose by more than 50 percent in the month of January (according to the permanent Secretary in the Ministry of Finance and Economic Planning), have a strong bearing on food prices in the market in Juba.

Domestically, the financial condition and in particular the exchange rate remains volatile. The demand for dollars for imports from the rest of the world, school fees and Easter seasons exerted upward pressure on exchange rate market. It is also observed that major institutional units (business entities and Household) buy dollars for precautionary motives to cushion themselves against currency depreciation and inflation. Analysis of the commercial banks' returns reveals that 77 per cent of deposits are denominated in US dollars. With respect to monetary system conditions, the banking sector is largely safe and sound, and remain resilient. The level of international reserve below the 4.5 months of import cover, a threshold required by the EAC conversion criteria. The recent IMF RCF food shock facility, TSA and proceed from the oil revenues will definitely boost the reserves to require levels.

Despite the exchange rate volatility, headline inflation remains elevated but at lower double digits on average of 14.4 percent and 13.4 percent in the months of January and February 2023, which is close to policy rate target of 8+/- 1 percent. The Private Sector Credit (PSC) growth was gradually picking up with total amount of loans in December 2022 recorded on average about SSP 43 billion compared to SSP 22 billion in 2021, supported by increased lending to domestic trade, restaurants, and hotels industries. As a result, The GDP growth rate is projected to average at 3.0 percent in 2023, driven mainly by oil and services sector, and government consumption and investment in physical infrastructure projects.

Measures taken:

To contain the currency depreciation and inflationary pressures, the fiscal and monetary authorities are working in close collaboration and are committed to implement the Public Financial Management (PFM) reforms aimed at restoring macroeconomic stability. Specifically, the Bank of South Sudan and the Ministry of Finance and Planning are collaborating in the operationalization of the Treasury Single Account (TSA) which allowed the Bank to automatically convert all US dollar denominated government revenues, including the proceed from oil sales into SSP. This will allow the Bank to build the much-needed international reserves. In addition, the international reserve position of the country has been boosted by $115m when the IMF Board approved the food shock a facility for South Sudan.

The Bank is taking additional swift and appropriate policy measures in tightening of the monetary policy condition by controlling growth in broad money. In the effect, the MPC unanimously resolved to:

1. Maintained zero deficit financing policy and enforcement of the TSA operations,

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2. Increase the amount of the Term Deposit Facility Auction from SSP 10b to 20.9b weekly to drain excess liquidity from the market,
3. Maintained growth in broad money at 11 +/-1 percent and headline inflation at 8 percent respectively,
4. The Bank of South Sudan to lift all restrictions on the frequency of the deposits by commercial banks with immediate effects,
5. Increase the central bank interest rate (CBR) by 300 points bases, from 12 percent to 15 percent,
6. Introduce with immediate effect, Cash-Based Auction whose proceed will be paid in cash rather than debiting book value. Eligible forex dealers will deposit physical cash into the central bank,
7. Maintained overall foreign exchange exposure limit of commercial banks at +/- 10 percent of core capital,
8. Maintained original target to build international reserve of 4.5 months of import cover,
9. The Bank to provide trade finance facility to major importers of strategic commodities such as fuel, food, and pharmaceuticals,
10. The Bank to continue intervention by auctioning of USD 5 million weekly to commercial banks and forex bureaus and will increase the amount when necessary.
11. The Bank will continue to monitor and review the situation and respond with appropriate measures, as the situation warrants.

Johnny Ohisa Damian
Governor,
Bank of South Sudan-Juba

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