



BANK OF SOUTH SUDAN

MONETARY AND BANKING POLICIES

FOR THE YEAR 2021

Research and Statistics Department
(December, 2020)

A handwritten signature in green ink, consisting of a stylized, cursive letter 'S' followed by a horizontal stroke.

TABLE OF CONTENTS

1	Introduction	4
2	Direction and objectives of Monetary and Banking Policies Stance for 2021.....	4
3	Monetary Policy Targets and Instruments	5
3.1	Monetary Target	5
3.2	Monetary Policy Instruments.....	5
3.2.1	Minimum Reserve Requirement:.....	5
3.2.2	Open Market Operations (OMO):.....	5
3.2.3	Central Bank Rate (CBR):	5
3.2.4	Foreign Exchange Operations (FEO):.....	6
3.2.5	Government borrowing from the Central Bank:	6
3.2.6	Expansion of CPI Data Collection Centers:.....	7
3.2.7	Communication:	6
4	Credit Guidelines.....	8
4.1	Uses of Resources	8
4.2	Private Sector Credit.....	8
4.3	Cost of Finance	8
5	Foreign Exchange Policies	9
5.1	The Exchange Rate Regime:	9
5.2	Foreign Exchange Reserves:.....	9
5.3	Gold Project:.....	9
5.4	Foreign Exchange Exposure Limits:	9
6	Financial Stability	10
6.1	Banking Policies:	10
6.1.1	Customer Due Diligence and Know Your Customer Guidelines	10
6.1.2	Liquidity Ratio:	10
6.1.3	Discount Window of the Bank:	10
6.1.4	Consortia/Syndicated Loans.....	11
6.1.5	Licensing and Product diversification	11
6.1.6	Minimum Capital Requirement:.....	11
6.1.7	Deposit Insurance Fund:.....	11

6.1.8	Microfinance Sector:	11
6.2	Payments & Currency Policies	12
6.2.1	Payment System:	12
6.2.2	Currency Management Policies:	12



1 Introduction

The Bank of South Sudan (BSS) issues these Monetary and Banking Policies, for the year 2021 in accordance with the BSS Act, 2011. These policies are directed at achieving and maintaining price stability to support the government of South Sudan's objective of consolidating lasting peace and attaining macroeconomic stability. These policies are also intended to guide commercial banks and other stakeholders' operations during the year 2021.

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 2021. Section three outlines the key monetary policy targets and instruments necessary to achieve the objectives. Section four presents the credit guidelines for 2021; while section five defines the Bank's Exchange rate policies. Finally, section six presents the key financial stability plans and reforms to be adopted by the BSS during 2021.

2 Direction and objectives of Monetary and Banking Policies Stance for 2021

The Bank of South Sudan Monetary and other Banking policies, for the year 2021 are developed to support the macroeconomic policy objectives of the government of the Republic of South Sudan. The design of these policies is guided by the spirit of the signed Revitalized Agreement on the resolution of the conflict in South Sudan (R-ARCSS), the vision 2040, the National Development Strategy (NDS), and the 2020/2021 budget objectives. In this context, the Bank of South Sudan's Monetary and Banking Policies for the year 2021 will endeavor to pursue the following objectives:

- a) to support the achievement of the **5%** projected growth of real GDP in 2021
- b) to reduce the headline inflation to single digit.
- c) to encourage commercial banks to increase lending to the private sector to **20 per cent** of their total deposits;
- d) to build international reserves equivalent to about **3 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 2021 are set in the context of supporting a positive growth in real GDP of about **5%** and the objective of reducing inflation to single digit of about **8** percent, with a margin of **(+/-) 1 per cent**, by the end of 2021. The policy operational target is to maintain a nominal growth of broad money at around **13%**, with a margin of **(+/-) 1 per cent**. To achieve this target, 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 purchases and sales of eligible securities to regulate the money supply and the credit conditions in the economy. The Bank will also introduce Term Deposit Facilities (TDF) for use when the Bank considers it desirable to offer longer term options. The Bank will seek to acquire deposits through a transfer agreement with commercial banks at an agreed auction price.

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 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 **15 per cent for 2021** as it was in 2020 subject to regular review during the course of the year 2021. 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. The bank can however raise interest rate of TDF above CBR to ensure flexibility and effectiveness of monetary policy operations in periods of markets volatility.

3.2.4 Foreign Exchange Operations (FEO):

The Bank of South Sudan will also 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 months' imports 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.

3.3 Monetary Policy Communication:

To improve on the monetary transmission, the BSS 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 BSS to effectively conduct monetary policy in a forward-looking, credible, accountable and dynamic manner. In this regard, the Bank will ensure 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 bank website will also provide 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 outcome of the Monetary Policy Committee (MPC).
- b) Build the capacity of the BSS staff in different areas, particularly in economic and policy analysis and, forecasting and policy analysis.
- c) Maintain close collaboration between the Ministry of Finances and the Bank of South Sudan by signing a Memorandum of Understanding (MoU) between the two institutions.

3.4 Expansion of CPI Data Collection Centers:

The BSS will continue to work in collaboration with the SSNBS and encourages the Bureau to expand the coverage of CPI data to ten state of South Sudan. The BSS is also keen to extend its collaborative arrangements with the SSNBS to other institutions like the Ministry of Finance and Planning, and other key stakeholders concerned with economic policy in the country.

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 currencies 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

4.2 Private Sector Credit

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

- a) Small and medium enterprises engaging in commercial productive activities that supports the real sector;
- b) Agribusiness and small scale industries;
- c) Energy sector, transport and logistics;
- d) Real Estate and construction sector;
- e) Health and Education,
- f) Storages (warehouses) 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) Commercial banks are expected to pay reasonable interest on savings and time deposits, in local and foreign currency, in order to promote the culture of savings.

5 Foreign Exchange Policies

To restore and 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 smoothen high volatility 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 norms and standard 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 commit to enforce application of Customer Due diligence and KYC guidelines in order to prevent the banks from being used by unidentifiable 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 promotes high ethical and professional standards including the following:

- a. Customer acceptance policy;
- b. Customer identification procedures;
- c. Ongoing monitoring of high risk 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 per cent (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. That is, 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 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 demands 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 a new level of SSP 5 billion (only five billion South Sudanese pounds);
- b) Commercial banks are encouraged to establish correspondents' 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 shall establish Deposit Insurance Fund to protect depositors in the event of bankruptcy.

6.1.8 Microfinance Sector:

The Bank encourages 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.

6.2 Payments & Currency Policies

6.2.1 Payment System:

The Bank will develop the 'South Sudan payment and settlement system' as per the international standards; such system will include the following payment components:

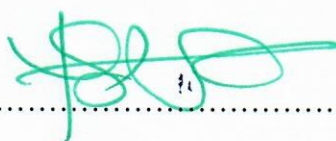
- a) Real Time Gross Settlement System;
- b) Electronic Clearance system;
- c) Electronic money.

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) Review, from time to time, the optimal structure of currency denominations that suits the prevailing economic environment;
- c) Promotion of the Clean Notes Policy, through:
 - i. Improving the quality of banknotes in circulation;
 - ii. Developing rules and guidelines for sorting banknotes and detecting counterfeits;
 - iii. Expand currency destruction centre;
 - iv. Raising public awareness about currency features and clean currency policy

Signed



15/1/2021

Hon. Dier Tong Ngor

Governor and Chairman, Board of Directors

Bank of South Sudan, Juba

