

The Central Bank of Sudan Policies for the Year 2008

Introduction:

The Central Bank of Sudan policies for the year, 2008 are formulated in the context of achieving the mission and objectives of the Bank in maintaining the financial and monetary stability. This is in addition to ensuring the potency and soundness of the banking system under the dual banking system and implementation of the Comprehensive Peace Agreement (CPA) as stipulated in item 14) of the Protocol of Wealth Sharing, with regard to the monetary, banking, currency and credit policy and according to the guidelines of the National Five-years Strategic Plan (2007-2011) and the State general budget for the year, 2008 and the full co-ordination between the monetary and fiscal policy.

In the context of these guidelines, the objectives of the Central Bank are represented in :

- Stimulating economic activity by providing more resources to the private sector for supporting the productive sectors and the priority sectors, particularly the agricultural sector, non-oil export sector and micro finance sector, in addition to the popular and rural housing sector,
- maintaining the stability of the exchange rate and building substantial foreign exchange reserves,
- strengthening and reinforcing of the banks financial positions and enhancing their efficiency,
- working towards the introduction of new instruments and modes of banking finance,
- activating of inter-banks market.

Pursuant to these policies, the Bank of Southern Sudan shall issue a circular to implement the part relating to the conventional system in the South according to the powers vested with it.

The Central Bank of Sudan policies for the year, 2008, include the following -:

- 1) Monetary and finance policy.
- 2) Foreign exchange policies.
- 3) Banking and supervision policies and development of payment systems.
- 4) Currency management policy.
- 5) Micro-finance policy.

(1) MONETARY AND FINANCE POLICY

The monetary and finance policy for the year, 2008, aims at achieving the macro-economic objectives for the year, 2008, represented in realizing a real growth rate in Gross Domestic Product (GDP) of 8 (%and maintaining the inflation rate in the range of (8%), on average, through targeting a nominal growth rate in money supply of (24.2 (%as an intermediate target, along with maintaining stability and flexibility of the exchange rate.

For achieving the objectives of the monetary policy, the Central Bank of Sudan will manage liquidity in a balanced manner such that it meets the requirements of the economic activity without creating inflationary pressures by focusing on the indirect instruments of monetary policy of the dual banking system .

FIRST: Liquidity Management:

1) The Statutory Reserve:

- a) 1. The Islamic banks should maintain cash balances with the Central Bank of Sudan in the form of statutory reserve in local and foreign currencies of (11 (%of the total deposits in local currencies and (11 (%of total deposits in foreign currencies. These deposits include (*current deposits, savings deposits, other deposits, margins on unconfirmed letters of credit and letters of guarantee*) as reflected in the report of the weekly position of deposits and finance in the bank, except investment deposits and their like. The percentage may be split to become (8 (%in cash and the remaining (3 (%in the form of Central Bank Ijarah Certificates (*Shihab*)).
- a) 2. The conventional banks should maintain cash balances with the Bank of Southern Sudan (BOSS) in the form of statutory reserve in local and foreign currencies of (11 (%of the total deposits in local currencies and (11 (%of total deposits in foreign currencies . These deposits include (*current deposits, saving deposits, other deposits, margins on un-confirmed letters of credit and letters of guarantee*) as reflected in the report of the weekly position of deposits and finance in the bank except time deposits and saving deposits. The percentage may be split to become (8 (%in cash and the remaining (3 (%in the form of Central Bank Ijarah Certificates (*Shihab*)).

2) Internal Liquidity:

- a) The Islamic and conventional banks should maintain (10 (%(*as an indicator rate*) of the total current deposits and their like in the form of internal cash liquidity to meet the daily withdrawals of their clients .
- b) 1. The Islamic banks may maintain liquid assets in the form of the Central Bank of Sudan *Ijarah* Certificates (*Shihab*), and Government *Musharaka* Certificates (GMCs), and other Government *Sukouks* according to the regulations determined by the Central Bank of Sudan.
- b) 2. The conventional banks may maintain liquid assets in the form of Government Bonds and Treasury Bonds, Central Bank of Sudan *Ijarah* Certificates (*Shihab*), Government *Musharaka* Certificates (GMCs) and other Government *Sukouks*.

3) *The Central Bank of Sudan Finance Windows:*

- a) 1. **The Central Bank of Sudan may provide liquidity support to the Islamic banks which are confronted with temporary liquidity problems via sale and purchase of financial papers.**
- a) 2. **The Bank of Southern Sudan (BOSS) may provide liquidity support to the conventional banks which are confronted with temporary liquidity problems via sale and purchase of financial papers, discounting of commercial papers issued by the private sector which are acceptable by banks. It is not permitted to discount Treasury Bonds and Bills and other financial papers issued by the Government of Southern Sudan.**
- b) 1. **The Central Bank of Sudan may extend finance to the Islamic banks via the investment window to bridge the seasonal finance gaps and to support their capacities in meeting large finance requests.**
- b) 2. **The Bank of Southern Sudan (BOSS) may extend finance to the conventional banks via the investment window to bridge the seasonal finance gaps and to support their capacities in meeting large finance requests.**

4) *Inter-Banks Market:*

- a) 1. **Any group of Islamic banks may form portfolios for financing different economic activities, particularly the productive sectors, together with notifying the Central Bank of Sudan before commencing execution.**
- a) 2. **Any group of conventional banks may form portfolios for financing different economic activities, particularly the productive sectors, together with notifying the Bank of Southern Sudan (BOSS), before commencing execution.**
- b) 1. **The Central Bank of Sudan shall encourage preservation of deposits and finance among the Islamic banks in local and foreign currency, sale and purchase of financial papers and foreign exchange. The Central Bank of Sudan shall assist in facilitating the dealing procedures.**
- b) 2. **The Central Bank of Sudan shall encourage preservation of deposits and finance among the conventional banks in local and foreign currency, sale and purchase of *Sukouks*, Treasury Bonds and Bills, foreign exchange and discounting of financial**

papers. The Bank of Southern Sudan (BOSS) shall assist in facilitating the dealing procedures .

SECONDLY: Uses of Resources :

1-a) *The Islamic Banks :*

- i) The Islamic banks may use their resources to finance all the sectors and the activities, except those prohibited to be financed according to this Circular. It is not permitted to use the unrestricted *Mudaraba* mode in financing.
- ii) Banks may direct (50 (%of investment deposits to the total deposits (*as an indicator rate*) for medium term finance (*more than one year*).

1-b) *The Conventional Banks :*

- i) Banks may use their resources to finance all the sectors and the activities, except those prohibited to be financed according to this Circular.
- ii) Banks may extend medium term finance to the productive projects, individually or in the form of portfolio.

2) *Sources of Finance in Foreign Exchange :*

a) *For the Islamic Banks :*

1. Investment deposits and their like, of not more than (95.(%
2. Current deposits, margins of letters of credit and letters of guarantee in foreign exchange of not more than (50.(%
3. Credit facilities of foreign correspondents.

b) *For the Conventional Banks :*

1. Time and saving deposits of not more than 95.%
2. Current deposits, margins of letters of credit and letters of guarantee in foreign exchange of not more than (50.(%
3. Credit facilities of foreign correspondents.

3) *Cost of Finance :*

- a) A *Murabaha* profit margin at (10 (%per annum (*as an indicator rate*) for the local and foreign currency.

- b) An interest rate on advances at (10 (%per annum (*as an indicator rate*) for the local and foreign currency.

4) *The Islamic Modes of Finance :*

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a) *Murabaha Mode of Finance :*

1. The percentage of finance extended by each bank through the *Murabaha* mode of finance must not exceed (30 (%(*as an indicator rate*) of the total balance of finance of each bank at any time.
2. Finance shall be effected in accordance with the manual for *Murabaha* mode issued by the Central Bank of Sudan and the *Murabaha* will be considered as artificial if the bank does not abide by the manual.

b) *Musharaka Mode of Finance :*

Determination of the percentage of *Musharkas* and management margins shall be left for each bank.

c) *Mudaraba Mode of Finance :*

Determination of the share of *Al-Mudareb* in the profits in case of finance extended via the restricted *Mudaraba* mode shall be left for each bank.

- d) The Central Bank of Sudan shall encourage banks to use other Islamic modes of finance such as *Mogawalla*, *Istisna'a* and Crop Sharing.

THIRD : *The Sectors and Activities Barred from Financing by the Banks Operating in the Sudan :*

1) *Clients are barred from being financed for :*

- a) Purchase of foreign currencies for the purpose of trading in currency.
- b) Purchase of shares and financial papers.
- c) Repayment of outstanding financing operations or non-performing loans.

- d) Foreign exchange bureaus.
- 2) *All banks are prohibited from financing the following entities except with the prior consent of the Central Bank of Sudan :*
 - a) The Central Government, the Government of Southern Sudan, the States and Local Governments, directly or indirectly.
 - b) The Central and State Corporations, Institutions, and Organizations in which the State holds (20 % or more of their shares.

FOURTH: General Regulations and Guidelines
for the Banks Operating in the Sudan :

- 1) All banks shall fully adhere to the Central Bank of Sudan circulars and regulations of extending banking finance and the general banking regulations and guidelines.
- 2) Banks must observe that their banking tariffs are commensurate with the real cost of those services and abide by announcing and presenting them in a visible place in the headquarters and the branches together with dispatching a copy thereof to the Central Bank of Sudan and the Bank of Southern Sudan (BOSS) for the banks operating in the South.
- 3) Banks are required to request the presence of the owner personally in the case of real mortgage and no power of attorney should be accepted and banks shall ascertain the real state site.
- 4) Banks are permitted to accept Government Musharaka Certificates (GMCs) and Government Investment Certificates (GICs) and government securities as collateral for granting finance and only for the holder of the certificate.

(2) FOREIGN EXCHANGE POLICIES

In the Area of Exchange rate and Reserves :

- 1) To continue maintaining the stability and flexibility of the exchange rate.
- 2) To continue in building and managing the reserves in a way that assist in maintaining the stability of the foreign exchange market.
- 3) Working towards changing the exchange rate system by linking the Sudanese pound to a basket of the main currencies.

In the Area of the Foreign Exchange Market :

- 1) To maintain the stability of the foreign exchange market.
- 2) To activate the inter-banks market and work towards introducing effective and appropriate instruments for that.
- 3) To lessen the impacts of merging the local foreign exchange market with the international markets.
- 4) It is not permitted to present the financial papers issued locally as collateral for any external finance or mortgage in favour of non-residents.
- 5) The gradual implementation of the plan for shifting from use of the American dollar as a main currency for foreign transactions to the Euro or any other stable currencies.

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**(3) BANKING AND SUPERVISION POLICIES
 AND
 DEVELOPMENT OF PAYMENT SYSTEMS**

FIRST: *In the Area of Restructuring the Banking System :*

- 1) To encourage the banks to reach the minimum targeted level by the end of the year, 2008 (SDG 50 million).
- 2) To commence the implementation of the banking merger program and formation of banking alliances through determination of heads of the groups and formulation of the framework and objectives of these groups.
- 3) To continue the policy of privatizing the public sector banks.

SECOND: *In the Area of Developing and Upgrading the Banking Infrastructure :*

The policy in this area aims at the following :

- 1) To enhance the efficiency of the employees in the banking system through intensifying training in the area of computer, (*Information Systems, Electronic Networks, the National Payment Switch System, the Electronic Clearing System etc.*)
- 2) To work towards implementing the Corporate Governance Circular (9/2005) with the aim of organizing the relationship between the board of directors and the executive management.

- 3) To set-up a code of conduct for the employees in the banking system and the financial institutions to ensure observation of the regulations organizing the business and adherence to them.
- 4) To continue the work of establishing Credit Information Agencies and encouraging the establishment of Credit Rating Agencies.
- 5) To prepare the required studies to establish finance guarantee fund or funds in collaboration with the Banks Union, Union of Businessmen and insurance companies.

THIRD: Working Towards Expanding the Banking Services through:

- 1) Amending the principles, rules and regulations organizing the banking business to absorb and meet the requirements of the conventional banking system in the South together with the necessity of providing adequate training for the employees of the Bank of Southern Sudan (BOSS).
- 2) Encouraging banks to expand their banking services base through the geographical spread and provision of Automated Teller Machines in the states and the introduction of Points of Sale.
- 3) Coordinating with the other supervisory authorities (*Insurance Controller and Ministry of Finance*) in the area of control, supervision and organization of the financial institutions.

FOURTH : In the Area of Banking Supervision:

- 1) To exert more efforts to treat the problem of non-performing loans or reducing them and lowering their percentage to the internationally accepted ones.
- 2) To ensure compliance of banks with the rules and regulations of granting finance through the mechanism of the field controller.
- 3) To reduce the finance concentration percentage of the clients and members of the board of directors.
- 4) To determine an overall lending limit for the clients from the banking system.
- 5) To work towards implementation of the risk management and capital adequacy standards.
- 6) To verify and unify the statements and financial reports of banks to be in conformity with the international Islamic standards.

- 7) To provide a banking supervision umbrella to encompass all the institutions practicing part of the banking business.
- 8) To work towards signing co-operation agreements to unify banking supervision across the border with the supervisory authorities in the Arab countries and countries of the COMESA.

FIFTH : *Technology and Development of the Banking Systems* :

- 1) Commencing the establishment of the Real Time Gross Settlement (RTGS) System.
- 2) Reducing the risks of electronic systems by developing security standards and the requirements of the continuity of the service.
- 3) The technological development of the SWIFT network according to the directives of the SWIFT International Company and working towards using it in domestic transfers.
- 4) Setting up of standards for developing the banking systems and reviewing their implementation.
- 5) Developing the electronic banking services via the Automated Teller Machines (ATMs).
- 6) Expanding the spread of the Automated Teller Machines (ATMs) and the Points of Sale (POS).
- 7) Expanding the use of the Electronic Clearing to include the States other than the State of Khartoum.

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(4) CURRENCY MANAGEMENT POLICY

After the completion of the process of the currency replacement from the dinar to the Sudanese pound, the Bank shall start commencing this year (2008) implementation of the clean note policy through the following -:

- 1) To work towards the provision of a clean and sound currency in circulation to meet the requirements of the national economy with regard to the volume of currency, its structural composition and the appropriate time.

- 2) To work towards formulating or/and updating the rules and regulations concerning verification and sorting and specifying the principles for replacement and compensation of the damaged and mutilated currency.
- 3) To operate the Automated Center of the Currency Verification, Counting and Sorting (CVCS) to meet the requirements of the economy from the clean currency and the immediate withdrawal of the damaged and mutilated currency for destruction.
- 4) To review the possibility of licensing automated currency verification centers to provide complete services (*verification, counting, sorting, transporting and guarding*) to the banks and the other entities which deal in cash in huge quantities.
- 5) To urge the banks to give their clients clean notes.
- 6) To formulate or/and update the rules and regulations regarding transporting the currency between the banks and their branches and between the banks and the Bank.
- 7) To work towards training the staff dealing with cash in the banks, institutions and organizations, by enlightening them on the characteristics of the genuine notes, their security features and the principles of the currency verification and sorting.
- 8) To work towards raising the general awareness of the public by enlightening them on the characteristics of the genuine notes, their security features and the necessity of maintaining clean national currency and not to mutilated or misuse it.
- 9) To work towards establishing a currency museum for spreading the general awareness of the use of currency in the Sudan.

(5) MICRO-FINANCE POLICIES

In order to activate the future vision and the strategic plan to promote and develop the micro-finance sector, the Central Bank of Sudan established a Micro-finance Unit to encourage and develop the micro-finance industry in the Sudan in the context of the objectives designed for it. Hence, the guidelines and policies for achieving these objectives were formulated as follows -:

- 1) The Central Bank of Sudan shall encourage Islamic and conventional banks to allocate (12 (%as a minimum from their finance portfolios at any time to the micro-finance sector in the context of directing more resources to mitigate the intensity of poverty.

- 2) **Banks must establish departments or units for micro-finance in their head offices to prepare and present their annual micro-finance plans according to the regulations and guidelines indicated in the circular of the guidelines for micro-finance to the banks No .(18/2007) dated 20/10/2007.**
- 3) **Activating the role of banks in the finance of the micro-finance sector in order to create banking arms for micro-finance in banks, develop existing micro-finance units in some banks and reinforce them with qualified and trained manpower in the area of micro-finance.**
- 4) **Banks may establish autonomous micro-finance branches to provide micro-finance services after the approval of the Central Bank of Sudan.**
- 5) **Banks may establish subsidiary companies for micro-finance in accordance with the Regulation Governing Licensing and Business of Micro-finance Banks for the year, 2006 (*amendment 2007*).**
- 6) **Banks which desire to use the Mobile Banking to service their clients, must obtain the prior approval of the Central Bank of Sudan.**
- 7) **Building the capacities of individuals and institutions which undertake the implementation of micro-finance in co-ordination with the Micro-finance Unit together with laying down the supervisory and regulatory framework for these institutions.**
- 8) **Banks should formulate the internal rules and regulations which enable them to reduce the cost of micro-finance, provided that the regulations shall be submitted to the Micro-finance Unit in the Central Bank of Sudan for approval and to be adopted as an indicator to determine the services profits of micro-finance provided by banks.**
- 9) **Banks shall launch media coverage and enlightenment to the weak segments in order to combat poverty as a State policy for the year, 2008 and as a profitable activity for banks, in co-ordination with the Micro-finance Unit in the Central Bank of Sudan.**
- 10) **The Central Bank of Sudan shall encourage the establishment of an institution to guarantee financing the small sectors and to make use of the scope of the insurance services after being approved by the *Higher Sharia Board* and work towards attracting the services of the international credit guarantees.**
- 11) **Banks shall settle the returns from the accumulated and saved funds of members of the organizations of the local civil community through mobilization and investment of savings in an income generating mechanism during the period in which they are frozen as an investment deposit and partial collateral for the portfolio of finance.**
- 12) **Banks shall work towards simplifying the procedures, flexibility in the guarantees, search for alternatives for the conventional guarantees,**

expanding the scope of using guarantees of institutions as a third party through the organizations of the civil community, societies and workers unions.

- 13) Co-operation and co-ordination with the competent entities in the government, banks, private sector, regional and international institutions and to benefit from the external experiences in this area.

All operating banks in the Sudan shall work according to this Circular and consider the Circular of the Central Bank of Sudan policies for the year, 2007 dated 28/12/2006 corresponding to 7th The Elhija, 1427 as cancelled.

Dr. Sabir Mohamed Hassan
Governor,
Central Bank of Sudan