

Central Bank of Sudan Policies for 2007

Policies of the Central Bank of Sudan for the year 2007, have been formulated in the context of the macro-economic policies and in coordination and consultation with the Ministry of Finance and the concerned entities and taking into consideration the basic principles of the Comprehensive Peace Agreement (CPA) as stipulated in Item (14) of the Protocol of Wealth Sharing, regarding the banking and monetary policy, the currency, and the credit policy. These policies prescribed: adoption of the dual banking system (Islamic in the North and Conventional in the South), establishment of the Bank of Southern Sudan (BOSS) as a branch of the Central Bank to manage the conventional window in the South, issuance of one monetary policy by the Central Bank of Sudan, which will be obligatory on all banking and financial institutions, independence of the Central Bank in implementing the monetary policy, in addition to the responsibility of the Central Bank in maintaining stability of the prices and of the exchange rate, efficiency of the banking system and issuance of the currency.

Pillars

The circular covers the policies in the following pillars:

- 1. The monetary and finance policy pillar.**
- 2. The foreign exchange policies pillar.**
- 3. The banking policies pillar.**
- 4. The policies of issuing and managing the currency pillar.**

All operating banks in the country shall conduct their business according to this Circular and consider the Central Bank of Sudan policies Circular for the year 2006 dated 1st Thelkeda, 1426, corresponding to 31st December, 2005, as cancelled.

THE FIRST PILLAR

The Monetary and Finance Policy

The monetary policy for the year 2007 aims at achieving the macro objectives of the economic policies for the year 2007 which were represented in maintaining inflation rates in the limit of (8%) on average and realizing a real growth rate in Gross Domestic Product (GDP) of (10%), via targeting a nominal growth rate in money supply of (34%) together with maintaining stability and flexibility of the exchange rate.

For achieving the objectives of the monetary policy, the Central Bank of Sudan will manage the liquidity by concentrating on the indirect instruments of monetary policy which suit the dual system, the Islamic and the Conventional in the appropriate amount which achieves growth and meets the requirements of the economic activities in the North and South and avoid the creation of inflationary pressures. In addition to revising the rules and regulations of granting banking finance to include the conventional banks besides the necessity of continuing the co-ordination between the monetary and fiscal policies.

FIRST: Liquidity Management

1. The Statutory Reserve

- 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 not less than**

(13%) of the total deposits in local and foreign currencies in each bank, and 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 of their nature.

- 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 not less than (13%) of the total deposits in local and foreign currencies in each bank, and these deposits include (current deposits, saving 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.**
- 3. The Islamic and conventional banks may keep around (3%) of the Statutory balance in local currency in the form of the Central Bank Ijarah Certificates (Shihab).**

2. Internal Liquidity

- 1. The Islamic and conventional banks should maintain internal liquidity in the form of cash in all of their branches to meet the daily withdrawals of their clients at (10%) of the total current deposits and of their nature (as an indicator rate).**
- 2. 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.

- 3. The conventional banks may maintain liquid assets in the form of Treasury Bonds, Central Bank of Sudan Ijarah Certificates (Shibhab), Government Musharaka Certificates (GMCs) and other Government Sukouks.**

3. The Central Bank of Sudan Finance Windows

In the context of the role of the Central Bank of Sudan as a lender of the last resort:

- 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.**
- 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 commercial papers issued by the private sector and accepted by banks. The Bank of Southern Sudan (BOSS) is not permitted to discount Treasury Bonds and other financial papers issued by the Government of the Southern Sudan.**
- 3. The Central Bank of Sudan branch 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.**
- 4. 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-Bank Market

- 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.**
- 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.**
- 3. The Central Bank of Sudan shall encourage placing of deposits and finance among the Islamic banks in local and foreign currency, sale and purchase of financial papers and foreign exchange and discounting of financial papers. The Central Bank of Sudan shall assist in facilitating the dealing procedures.**
- 4. The Central Bank of Sudan shall encourage placing of deposits and finance among the conventional banks in local and foreign currency, sale and purchase of financial papers, foreign exchange and discounting of financial papers. The Central Bank Sudan shall assist in facilitating the dealing procedures.**

SECOND: Uses of Resources

In the context of the market mechanisms, the Central Bank, shall encourage banks to use their resources as follows:

1. The Islamic Banks

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

2. The Conventional Banks

- 1. Banks may use their resources to finance all the sectors and the activities, except the prohibited ones according to this circular.**
 - 2. Banks may extend medium term finance to productive projects, individually or in the form of portfolio.**
- 3. The Central Bank of Sudan shall encourages the Islamic and conventional banks to allocate finance to the micro finance sector and craftsmen at (12%) of the total portfolio fund at any time in the context of directing more resources to mitigate the severity of poverty.**

4. Sources of Finance in Foreign Exchange

1. The Islamic Banks

- Investment deposits and of their nature, of not more than (95%).**
- Current deposits, letters of credit margins and letters of guarantee in foreign exchange of not more than (40%).**

- **Credit facilities of foreign correspondents.**

☒ The Conventional Banks

- **Time and saving deposits of not more than 95%.**
- **Credit facilities of foreign correspondents.**

☒ Cost of Finance

- 1. The Islamic banks should apply Murabaha profit margin at (10%) per annum (as an indicator rate) for the local and foreign currency.**
- 2. The conventional banks should apply an interest rate on advances at (10%) per annum (as an indicator rate) for the local and foreign currency.**

☒ The Islamic Modes of Finance

The Islamic banks, in applying modes of finance should consider the following:

☒ Murabaha Mode of Finance

- **The percentage of credit extended by each bank through the Murabaha mode of finance must not exceed (30%) (as an indicator rate) of the total balance of credit of each bank at any time.**
- **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 artificial if the bank does not abide by the manual.**

☒ Musharaka Mode of Finance

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

☒ 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.

☒ The Central Bank of Sudan shall encourage banks to use other Islamic modes of finance such as Mogawalla and Istisna'a.

THIRD: The Sectors and Activities Barred from Financing by both the Islamic and the Conventional Banks

1. All banks are barred from financing the following

- Financing of clients to purchase foreign currencies for the purpose of currency trading.**
- Financing of foreign exchange bureaus.**
- Financing of clients for purchase of shares and financial papers issued by the Government.**
- Financing of clients for repayment of outstanding financing operations or non-performing loans.**

☒ All banks are prohibited from financing the following entities without the prior consent of the Central Bank

- 1. The Central Government, the Government of Southern Sudan, the States and Local Governments.**
- 2. The Central and State Corporations, Institutions, and Organizations in which the State holds (20%) or more of their shares.**

☒ All banks are prohibited from accepting Government Bonds whose maturities exceed two years from their date of issuance as collateral against granting finance according to the following regulations:

- 1. Not to discount bonds.**
- 2. Bonds shall not be accepted as collateral from the public sector corporations and institutions.**
- 3. The finance granted against the collateral of bonds shall be within the overall ceiling of the medium term finance which is fixed at (50%) of the investment deposits.**

FOURTH: General Regulations and Guidelines

for the Islamic and Conventional Banks:

- 1. All banks must comply with the proper application of the Central Bank of Sudan circulars and directives relating to the rules and regulations of granting banking finance and the general banking regulations.**
- 2. The Central Bank of Sudan circulars on the rules and regulations of granting banking finance shall apply on the finance accorded to foreign companies, partnerships and business names in which foreigners subscribe and which are registered in Sudan under the Companies Law for the year 1925. Finance to foreign individuals shall be made only after obtaining the approval of the Central Bank of Sudan or the Bank of Southern Sudan (BOSS) for banks in the South.**
- 3. All banks must insure that their banking tariffs are commensurate with the real cost of their banking services**

- and abide by announcing and presenting them to the public in a visible place in the headquarters and the branches together with dispatching a copy of them to the Central Bank of Sudan and the Bank of Southern Sudan (BOSS) for the banks in the South.**
- 4. Islamic banks must abide by the proper application of the financing modes specially the Murabaha mode in investment and services. The Sharia Supervisory Boards and Internal Audit Departments must monitor the implementation of this.**
 - 5. The banks are required to request the presence of the owner personally in case of real mortgage and no power of attorney should be accepted.**
 - 6. All banks, except those operating in the South, must dispatch all the returns requested by the Central Bank of Sudan from their headquarters in the form of electronic files via the Electronic Returns System and no paper returns shall be accepted with effect from January, 2007.**
 - 7. All banks operating in the South must dispatch by hand all returns requested by the Bank of Southern Sudan (BOSS) from their headquarters up till the operation of the Electronic System.**
 - 8. All banks – except those operating in the South – must request directly client finance data from the Electronic Data Base provided by the Central Bank of Sudan. The Bank shall not accept any written correspondence with effect from January, 2007.**

- 9. Banks operating in the South must enquire about client finance data from the Bank of Southern Sudan (BOSS) which will build up a data base about the clients of the conventional banks in the South.**

THE SECOND PILLAR

Foreign Exchange Policies:

To maintain the flexibility and the stability of the exchange rate, reinforce the building of foreign exchange, manage the resources optimally and complete, the setting up and standardization and liberalization of the foreign exchange market, the Central Bank of Sudan adopts the following policies.

FIRST: The Exchange Rate

- 1. The continuation of the policy of the managed flexible exchange rate.**
- 2. The introduction of a mechanism of managing the exchange rate through the forecast of the exchange rate in the medium term along with working towards the stability of the exchange rate around the range which assists in achieving the external and internal balance.**

SECOND: The Foreign Exchange Market

- 1. Continuing the measures of activating the foreign exchange market through the expansion of its activities, liberalizing the current account operations and the provision of adequate resources for its stability.**
- 2. Encouraging the inter-banks market. The Central Bank of Sudan will assist in facilitating the procedures of transactions.**

3. Lessening the impacts of merging the local foreign exchange market with the regional and international markets.

THIRD: Official Reserves

Continuing the build up of reserves and their investment in order to help in attaining the stability of the foreign exchange market and that of the exchange rate.

FOURTH: Foreign Investments

1. Continuing the monitoring and supervision of the foreign exchange flows in order to lessen the risks resulting from them.
2. Simplifying the procedures of investors dealing with banks.

THE THIRD PILLAR

Banking Policies

FIRST: In the Area of Restructuring

the Banking System

1. Strengthening and reinforcing the financial position of banks through
 1. Commencing the implementation of the second phase of the program of increasing the minimum requirement of the paid up capital from SDD 3.0 billion to SDD 6.0 billion during the coming three years (2007 – 2009) for the amount of SDD 1 billion for each year.
 2. Commencing the preparation of the by-law of regulating and licensing of the business of credit rating agencies.

- 2. Commencing the implementation of the banking merger program and undertaking the formation of banking alliances as a start for the implementation of the project.**
- 3. Continuing the policy of privatizing the public sector banks.**
- 4. Encouraging the foreign investors to invest in the existing banks instead of establishing new banks.**
- 5. Continuing the licensing of conventional banks and the branches of foreign banks in the South.**

SECOND: In the Area of Development and Upgrading of the Banking Infrastructure

With the aim of developing and upgrading the supporting basic infrastructure for effective banking business which assists the banks to improve the standard of finance decision making and to enhance transparency, the programme for the year 2007 focuses on the following:

- 1. Working towards establishing the Credit Information Bureau.**
- 2. Commencing the preparation of the by-law regulating and licensing the business of National Credit Rating Agencies and the Credit Information and Evaluation Companies.**
- 3. Raising the percentage of utilizing banking finance via establishing loan guarantee funds in collaboration with the Banks Union, insurance companies, and the Union of Businessmen for studying the possibility of establishing such funds.**

4. Studying the formulation of the rules and regulations for enabling the Small and Medium Enterprises (SMEs) to benefit from banking finance.

THIRD: In the Area of Diversifying the Banking Institutions and Services

1. The Central Bank of Sudan adopted a future vision and strategic plan for establishing and developing the micro finance sector as a mechanism to alleviate poverty in the country through co-operation and co-ordination with the competent authorities in the Government, the Private Sector and the International and Regional Institutions involved in this domain.
2. To implement the vision and the strategy, a micro finance unit will be established at the beginning of 2007, in the Bank to undertake the responsibility of regulating micro finance institutions.
3. In the above framework a by-law for regulating and licensing of micro finance sector such as rural banks and micro finance institutions was prepared. A vision for the policies of the credit micro finance was also formulated.

FOURTH: In the Area of Banking Supervision

1. Endeavoring to sign agreements of co-operation, co-ordination and the standardization of the standards of banking supervision across the border with the supervisory authorities in the other countries specially with those that have economic and commercial regulations with Sudan such the countries of COMESA, Arabic Region and East Asia. This, in addition to reviewing the supervisory

- developments in the region and the developments relating to the adoption of the Basel standards.
2. Coordinating with the Council of Islamic Financial Services for the application of the Islamic Supervisory Standards which it issues.
 3. Working towards raising the capital adequacy ratio to (12%) in line with the implementation of the second program of raising the minimum paid up capital requirement.
 4. Assuming the function of preparing a vision for the rules, regulations and supervisory and control procedures of the activities of the stock exchange and the non banking financial institutions.
 5. Working towards developing and promoting the risk managements in banks.
 6. Upgrading and strengthening the risk management systems in the banking system though
 1. Developing and expanding the program of the data base of the clients risk and connecting the banks electronically with the data base.
 2. Working with the system of on-site supervision as a daily supervisory mechanism on the activities of the banks to lessen the risks.
 7. Preparing for the adoption of the new Basel standards.

FIFTH: Banking Technology

1. 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 availability 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 the standards to develop 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 Regions.**

THE FOURTH PILLAR

The Policies of Issuing and Managing

The Currency Pillar

- 1. In compliance with the Comprehensive Peace Agreement (CPA), the new national currency (the Sudanese pound) will be introduced throughout the country effective the beginning of 2007. The new banknote will consist of six denominations while the coins (piaster) consist of five denominations designed to express the contents of peace, unity, development, welfare, cultural dimension and future prospects.**

- 2. During the year 2007, the currencies that have been approved to be used as legal tenders in the Southern Sudan according to the Comprehensive Peace Agreement (CPA) shall be withdrawn. Thereafter, a declaration on the termination of their use as legal tenders will be made. These currencies are: Ugandan shilling, Kenyan shilling, Ethiopian birr and the old Sudanese pound.**
- 3. During the year 2007, the Sudanese pound and the Sudanese dinar will be circulating side by side. The Sudanese dinar will be gradually withdrawn through the banking sector during a specified period after the end of which the Sudanese dinar will be declared as an illegal tender.**
- 4. The Central Bank of Sudan shall commence, from the beginning of the year 2007, the adoption of the clean currency policy by taking a number of measures to remove the unfit or mutilated currency from circulation through withdrawing and destroying them.**

**Dr. Sabir Mohamed Hassan
Governor,
The Central Bank of Sudan
28/12/2006**