

## **Central Bank of Sudan Policies For the Year 2009**

### **Introduction :-**

The Central Bank of Sudan Policies for the year 2009 are hereby issued in a context of perceived full coherence with the macro-economic goals of the fiscal policy “the general national budget” and in accordance with the guidance of the five-years strategic plan of the central bank “2007-2011” that aims essentially at managing the overall volume of liquidity in the economy in a manner that adequately and prudently meet the economic sectors requirements to attain positive economic growth and monetary stability through applying indirect dual banking – friendly instruments which equally serve sustaining the efficiency and soundness of the banking system.

This policy also envisages positive contribution – in collaboration with the other concerned entities-in fostering the government efforts towards speeding-up the tempo of the “Comprehensive Agricultural revival programme” which planned to boost production and productively in the agricultural sector including its both sub sectors, namely; the farming and animal products.

Furthermore, this policy envisages fostering financing the operations of social dimensions namely; micro and meager micro-finance through setting-up novel subordinate financing units in the banks lacking them or promoting the currently operating ones. Also the policy encourages financing popular and rural housing operations, beside also encouraging financing development through the specialized banks.

A part from the afore-mentioned objectives, the policy also has taken into account the rampart developments of the current global financial crisis which its consequences anticipated to impact the overall national budget, the private sector and the banking sector, a situation that entails adopting congenial flexible measures to mitigate and contain that anticipated impacts.

With regard to the non-performing loans, which adversely affected several economic sectors, the Central bank will manage - through this policy- to sustain its already exerted robust efforts to resolve that problem. Accordingly, for that concern, the policy accommodated a host of measures that could curb the magnitude of those loans beside also incorporated the

visions to contain them within the conventionally known international ratios in the future.

The policy will also endeavour to keep up the efforts to contain the impacts of the enforced American Economic Embargo on Sudan through encouraging banking dealings with the strategic partners in the Arab and the African regions beside the East Asian Countries and the other emerging economies.

The policy also envisages assuming particular heed for deepening the Islamic banking through efforts including encouraging applying Islamic modes of finance other than the Murabaha, and adoption of additional novel modes of finance compatible with the dual banking regime.

**The Policy Guidelines:-**

Pursuant to the afore-mentioned broad dimensions of concern of the policy for the year 2009, accordingly the policy has been formulated in the context of achieving the bank's objectives of maintaining monetary and financial stability along with the soundness and efficacy of the dual banking regime in accordance with the following guidelines:-

- 1- Continuation in the implementation of the wealth-sharing protocol pertaining to financing, monetary and banking policies.
- 2- The broad goals of the five-years strategic plan of the Central bank of Sudan (2007 – 2011).
- 3- The General National budget of the year 2009.
- 4- Particular consideration for dealing with the local developments in the fronts of the non-performing loans and micro and meager micro finance and also with the International developments especially the current international financial crisis.

On the light of those guidelines, the strict objectives set for the Central bank policies for the year 2009 are the followings:-

- 1- Maintaining the monetary and financial stability.
- 2- The sustainability of the economic growth rate.
- 3- Securing adequate liquidity for the overall economy.

- 4- Promoting the efficiency of the dual banking regime through strengthening the financial positions of banks, enhancing their performance, assets quality and promoting their efforts towards addressing the problem of non-performing loans beside protecting them from the anticipated impacts of the international financial crisis.
- 5- Continuation in the participation in the government policy aiming at combating poverty through provision of micro-finance.

By virtue of these guidelines and the objectives thereof, and in accordance with the powers entrusted to it, the central bank of Southern Sudan "BOSS" will issue the necessary additional subordinate directives for activating the conventional banking window.

Hence, the Central bank of Sudan policies for the year 2009 include the following divisions:-

- 1- The monetary and financing policy.
- 2- The foreign exchange policy including the exchange rate and reserves.
- 3- The banking and supervision policies and the measures pertaining to the payment system promotion.
- 4- The currency management policy.
- 5- The financing policy envisaged for the operations of social dimensions.

#### **First:- The Monetary and Financing Policy**

The monetary and financing policy for the year 2009 aims at achieving the macro- economic objectives for the year represented in attaining a real GDP growth rate of 6% and maintaining an average rate of inflation on the level of 8% through targeting a nominal growth rate in the money supply of 21%, as an intermediate target, beside maintaining the stability and flexibility of the exchange rate.

To achieve the above-mentioned monetary policy objectives, the overall level of the liquidity in the economy will be managed in a

balanced manner to meet the requirements of the economic activities for finance, without generating inflationary pressures, through focusing on applying dual banking-friendly indirect monetary policy instruments and measures as follows:-

**(1) The Monetary and Financing Policy for the Islamic Banking Regime:-**

**(A) Measures for Control and Regulation of Liquidity:-**

**1- The Statutory Reserve:-**

The Islamic banks shall maintain cash balances with the Central bank of Sudan as a statutory reserve in local and foreign currency of a ratio of 8% of total local currency deposits and 8% of total foreign currency deposits. The total deposits of the denominator of the ratio will include current deposits, saving deposits and the other deposits as reflected in the weekly report of the position of deposits and finance of each bank excluding the investment and the like deposits. The 8% ratio may be divided in 6% to be kept in cash and 2% in the form of the Central bank Ijara Certificates “Shihab”.

**2- The Internal Liquidity:-**

- a) Banks shall maintain -as indicative rate- 10% of the current and the like deposits as internal liquidity to meet the customers’ daily withdrawals for settlements of transactions via using the Real Time Gross Settlements System “RTGS” through the electronic-based clearing system.
- b) Banks may hold 30% -as indicative rate-of its overall outstanding investment portfolio in liquid assets including the Central bank Ijara Certificates “Shihab”, Government Musharaka Certificates “Shahama”, other Government Sukouks and non-government institutions’ sukouks traded in Khartoum stock Exchange.

**3- The Financing Windows of the Central Bank:-**

- a) The Central Bank of Sudan may provide financial support to the Islamic banks facing temporary liquidity problems through

purchasing financial papers “sukouks” from them in accordance with what the Central bank may decide.

- b) The Central Bank of Sudan may extend finance to the Islamic banks through its investment financing window to bridge their financing gaps.

#### **4- The Inter-Bank Market:-**

- a) It is permissible for any group of Islamic banks to establish a consortium investment funds for financing the various economic activities particularly the productive sectors after notifying the Banking Regulation & Development Department of the Central Bank, prior to the establishment of those consortium investment funds.
- b) The Central bank of Sudan shall encourage placement of deposits and extending finance in local and foreign currency and sale and purchase of financial papers and performing foreign exchange dealings among the Islamic banks through facilitating the transactions procedures for those operations.

#### **(B) The Usages of the Banks' Financial resources:-**

- 1- a) Except those sectors banned from finance in this policy, banks may use their loanable financial resources to finance all the sectors and activities particularly the agricultural sector.
- b) Banks may appropriate 50% -as indicative rate- of its total investment deposits for medium term finance “more than one year”.

#### **2- The Cost of Finance:-**

As an indicative rate, the profit margin for the Murabaha finance shall be around 9% per annum for all local and foreign currency financing operations.

#### **3- Modes of Islamic Finance:-**

##### **a) Murabaha:-**

- i- The percentage of finance to be extended through the Murabaha mode shall not exceed 30% of the overall financing portfolio of each bank at any time.
- ii- The finance extended via the Murabaha mode shall be in accordance with the Sharia-based guide for Murabaha issued by the Central Bank of Sudan. Accordingly, any Murabaha not executed in accordance with that guide will be considered a fictitious Murabaha.
- iii- On Murabaha financing operations, banks upon signing the Murabaha contract, must collect 10% of the amount of the Murabaha as first installment in the operations for financing agricultural and manufacturing inputs, medicines and exports, and collect 25% as first installment for the operations of other sectors. As regards the micro-finance and the meager micro-finance operations, the Musharaka finance shall be extended to them according to the rules regulating them.

**b) Musharaka:-**

It is optional for each bank to set the percentage of stakes of participation in the various Musharaka operations and also to set the management reward margins taking into consideration the governing rules and regulations of banks' finance.

**c) Mudaraba:-**

It is optional for each bank to determine the share of the Mudarib in the realized profit in restricted mode of Mudaraba finance and it is not permissible for banks to engage in any form of unconditional-absolute-Mudaraba operations.

**d) Other Modes of Finance:-**

The Central Bank of Sudan shall encourage banks to apply other Islamic financing modes such as Mugawala, Istisna'a, Crop-sharing...etc.

**( C ) Sectors and Activities Barred of Finance:-**

- 1- Financing the following activities is strictly banned by this policy:-
  - a. Purchase of foreign currencies.
  - b. Purchase of shares and financial papers.
  - c. Repayment of outstanding or non-performing finance operations.
  - d. Foreign Exchange bureaus and Financial services offices.
- 2- All banks are barred of extending direct finance to the following entities without having prior approval from the Central Bank of Sudan:-
  - a) The central government and the states and local governments.
  - b) The central and states' public companies, institutions and corporations in which the government holds 20% or more of its' total shares.

**(2) *The Monetary and Financing Policy for the Conventional Banking Regime:-***

**(A) *measures for Control and Regulation of liquidity:***

**1- *The Statutory Reserve:***

The conventional banks shall maintain cash balances with the Central Bank of Sudan as a statutory reserve in local and foreign currency of a ratio of 8% of total local currency deposits and 8% of total foreign currency deposits. The total deposits of the denominator of the ratio will include current deposits as reflected in the weekly report of the position of deposits and finance of each bank excluding time and saving deposits. The 8% ratio may be divided in 6% to be kept in cash and 2% in the form of the Central Bank Ijara Certificates "Shihab" or Certificates of deposits.

**2- *The Internal Liquidity:***

- a) Banks shall maintain- as indicative rate-10% of the current and the like deposits as internal liquidity to meet the customers' daily withdrawals for settlements of transactions via using the Real Time Gross Settlements

System "RTGS" through the electronic-based clearing system.

- b) Banks may hold 30% -as indicative rate- of it's overall outstanding investment portfolio in liquid assets including the Central Bank Ijara certificates "Shihab", certificates of deposits, government Musharaka certificates "Shahama", other government Sukouks and non-government institutions' Sukouks traded in Khartoum Stock Exchange.

**3- *The Financing Window of the Central Bank:-***

- a) The bank of Southern Sudan may provide financial support to the conventional banks facing temporary liquidity problems through purchasing from them financial papers including certificates of deposits and discounting for them negotiable acceptable commercial papers issued by the private sector, and it is not permissible to discount bonds, treasury bills, and other financial papers issued by the government of Southern Sudan.
- b) The bank of Southern Sudan may extend finance to the conventional banks through the investment financing window to bridge the seasonal financing gaps.

**4- *The Inter-Bank Market:-***

- a) It is permissible for any group of conventional banks to establish consortium investment funds for financing the various economic activities particularly the productive sectors after notifying the bank of southern Sudan prior to the establishment of the consortium investment funds.
- b) The Central bank of Southern Sudan shall encourage placement of deposits, and extending of finance in local and foreign currency and sale and purchase of certificates of deposits, Sukouks, government bonds, treasury bills and performing foreign exchange dealings and discounting financial papers among the conventional



banks through facilitating the transaction procedures for those operations.

***(B) The Usages of the Banks Financial Resources:-***

- 1- a) Except those sectors banned of finance in this policy, banks may use their loanable financial resources to finance all the sectors and activities particularly the agricultural sector.
- b) Banks may appropriate 50% -as indicative rate- of it's total time deposits for medium term finance of productive projects "more than one year" . Banks may use that ratio individually or through participating in collective consortium finance funds.

***2- The Cost of Finance :-***

As indicative rate, the interest rate against finance shall be around 9% per annum for all local and foreign currency financing operations.

***(C) Sectors and Activities Barred of Finance:-***

***1- Financing the following activities is strictly barred by this policy:-***

- a) Purchase of foreign currencies.
- b) Purchase of shares and financial papers.
- c) Repayment of outstanding, or non-performing finance operations.
- d) Foreign Exchange bureaus and financial services offices.

***2- All banks are barred of extending direct finance to the following entities without having prior approval from the bank of Southern Sudan:-***

- a) The central government and the states and local government.
- b) The Central and states' public companies, institutions and corporations in which the government holds 20% or more of its total shares.

**Secondly:- The Foreign Exchange Policy in the Area of The Exchange  
Rate and Reserves**

***(A) In the Area of the Exchange Rate and Reserves the Central Bank of Sudan will Manage to Pursue the Followings:-***

- 1- Continuation in maintaining the exchange rate stability and flexibility .
- 2- Continuation in managing the official reserves centrally in accordance with priorities of soundness of the reserves usages, adequacy of liquidity for meeting the needs of the economy and lucrative return on reserves investments.
- 3- Working robustly towards pegging the Sudanese pound to a basket of major foreign currencies.

***(B) In the Area of the Foreign Exchange market the Central Bank of Sudan will Work Towards Achieving the Followings:-***

- 1- Maintaining the stability of the foreign exchange market.
- 2- Activating the inter-bank market.
- 3- Minimizing the impacts of the integration of the local foreign exchange market with the external capital markets.
- 4- Gradual implementation for the action plan to switch from using the US dollars, as the main currency for the external dealings, to the Euro or any other stable currencies.
- 5- Encouraging the foreign exchange bureaus to exert efforts in mobilizing foreign exchange resources instead of relying considerably on the Central Bank of Sudan on resources.
- 6- It is not permissible to present and accept locally issued financial papers as guarantees for any external finance or as mortgage in favour of non-residents.

**Thirdly: The Banking and Supervision Policies**  
**and the Promotion of the Payment Systems**

***(A) In the Area of organizing and Developing the Banking System the Policy aims at Achieving the followings:-***

- 1- Continuing the restructuring programme envisaged to attain the ultimate stage of merger of banks.
- 2- Encouraging banks to engage in micro-finance operations to forcefully serve the government's policy of combating poverty and empowering the poor.
- 3- Working towards organizing the business of banks operating in the free zones so as to enable them pursue their activities in accordance with the stipulations of the banking regulation act.
- 4- Urging banks to meet their targeted required capital of SDG 60 million.
- 5- Commencing the implementation of the Electronic Coding System.
- 6- Continuing the efforts to address the problem of the non-performing loans to minimize its percentage to total loans to the internationally acceptable levels.
- 7- Developing the envisioned banks' alliances groups.

***(B) In the Area of Banking Supervision, the Policy Aims at Achieving the Following: -***

- 1- Continuation in implementing the standards of Supervision of the Islamic Financial Services Board and the Standards of Basel II.
- 2- Enhancing and promoting the role of the internal supervision in banks.
- 3- Strengthening and fostering the banking supervision process through implementing the recommendations of the technical missions of the international monetary fund.
- 4- Broadening the scope of transparency and disclosure in Banks' financial statements.
- 5- Coordinating with the Bank of Southern Sudan Branch in supporting and developing the banking supervision directorate in

the branch and in exchange of information between that directorate and the parent directorate in the Central Bank of Sudan.

- 6- Promoting the supervisory role over the non-bank financial institutions and the micro-finance institutions.
- 7- Promoting the central bank relationships and cooperation, in supervision concerns, with the similar entities in the countries with which we have economic and financial relations such as the countries of COMESA, and the Arab region.

***(C) The Payment System:-***

***As for the Payment Systems Arrangements, the Policy Aims at the Following:-***

- 1- Continuing the on-going work in the Real Time Gross Settlement System “RTGS”.
- 2- Promoting and enhancing the efficiency of the present operating payment systems through approving the settlement of government services via the electronic systems, beside that the policy also aims at ameliorating the services of the ATMs and the sales points along with broadening the scope of awareness on banking business technology in the areas of the electronic cards and the plastic money.
- 3- Expanding the coverage of the electronic clearing services to include the other states of the country beside Khartoum state.
- 4- Coding the payment instruments other than the cheques to enable dealing with them electronically.
- 5- Working out a special act for organizing the operations of the payment systems.
- 6- Promoting the standards of security for the payment systems and securing the necessary requisites for the continuity of the services of those systems and for the sustainability of the implementation reviewing process over them.
- 7- Formulating the necessary standards and specifications for sound banking arrangements to ensure their conformity with the international standards.

***(D) General Regulations and Guidelines for Banks:-***

- 1- All Islamic banks shall strictly adhere to the directives and circulars of the Central Bank of Sudan pertaining to the rules and regulations of provision of finance and the other general banking regulations and guidances.
- 2- All conventional banks shall strictly adhere to the directives and circulars of the Bank of Southern Sudan Branch pertaining to the rules and regulations of provision of finance and the other general banking regulations and guidances.
- 3- Banks must observe that their tariffs charges against their banking services are commensurate with the real cost of these services, and they must periodically publish those tariffs in the media beside dispatching copies of them to the Central Bank of Sudan and Bank of Southern Sudan Branch.
- 4- Banks must ask for the presence of the owner of a real estate in person in cases of demanding finance against real estate mortgage. Accordingly mortgaging a real estate by proxy is totally banned. Furthermore, banks must be ascertained of the genuine existence of the real estate through visiting its location.
- 5- Banks may accept Government Musharaka Certificates “Shahama” and Government Investment Certificates “Sarah” as collateral against provision of finance only for the bearer of those certificates.
- 6- Islamic and conventional banks may accept Government bonds as guarantees for providing finance.

***Fourthly:- The Currency Monitoring Policy***

During the year 2009, the Central bank of Sudan envisages to develop and improve the currency monitoring arrangements through the following:-

- 1- Adequately securing the needs of the economy for banknotes and coins, beside maintaining the components of the approved mix-up of the denominations of the issued currency.
- 2- Implementing “the clean currency policy” to ensure improving and sustaining the quality of the circulating banknotes through the following:-

- Detecting and withdrawing the mutilated and unfit banknotes from circulation and destroying them after replacing them by clean banknotes in accordance with the rules and regulations governing sorting and classifying the mutilated and unfit banknotes currency.
- Exerting efforts for facilitating and broadening the scope of the exchange of banknotes and coins Currencies in circulations.
- Developing the system of damaging and destroying the unfit banknotes through applying automated techniques of destruction.
- Considering possibilities of prolonging the life span of the banknotes in circulation.
- Considering adoption of effective measures to protect the currency from forgery and counterfeiting through coordinating efforts with the other relevant related entities.
- Providing the necessary training and orientational programmes to the employees of banks and their customers to acquaint them with the specifications of the genuine and unblemished clean currency.
- Carrying out media-based raising awareness campaign for informing the public by the specifications of the genuine and unblemished currency and those mutilated and blemished ones beside urging them to observe keenness and care for sustaining the cleanness and quality of the currency during circulation.
- Commencing the work for establishing the currency museum.

**Fifthly: The Financing Policy for the Activities of Social Dimensions**

To formulate and materialize a future vision and a strategic plan to develop and promote the micro-finance, the Central Bank of Sudan established specialized micro-finance unit to assume the task of encouraging and fostering the micro-finance activities in Sudan in accordance with the objectives drawn for it. Accordingly, the guidelines, policies, rules and regulations set for achieving the objectives of the micro finance are including the following:-

- 1- The Central Bank of Sudan shall encourage, in his circulars which will be issued later, the Islamic and conventional banks to allocate a minimum ratio of not less than 12% of its finance portfolio -at any time- to the micro-finance and meager micro-finance activities pursuant to the move towards directing more resources to the sectors that serve minimizing the intensity of poverty and fostering development.
- 2- Banks must establish specialized departments or units for micro-finance in their headquarters, and those entities shall assume the task of working out -and submitting to the Central Bank- annual plans for micro-finance of banks according to the circular of regulations and guidelines for micro-finance addressed to banks No. (18/2007) dated (20/10/2007).
- 3- Activating the roles of banks in providing micro-finance through promoting the specialized operating departments or units in banks and encouraging establishing new units or departments in the banks which still lacking them, beside encouraging them to recruit qualified and well trained personnel in the field of micro-finance in those units.
- 4- Banks may establish separate micro-finance branches to provide micro-finance services after obtaining the approval of the Central Bank of Sudan.
- 5- Banks may establish subsidiary companies for micro-finance in accordance with the regulations governing the licensing and organizing the business of micro-finance for the year “2006” amended “2007”.
- 6- Banks willing to apply the mobile banking units to serve their clients in micro-finance must obtain prior approval for that service from the Central Bank of Sudan.
- 7- Continuation in building the capacities of personnel and strengthening the institutions undertaking the implementation of the micro-finance operations in coordination with the micro-finance unit of the Central bank of Sudan, beside working towards setting-up the supervisory and regulatory frameworks for those institutions.
- 8- Banks must carryout media-based awareness raising programmes to inform the vulnerable segments by the various aspects of micro-

finance so as to properly serve combating poverty in the context of the overall general macro-economic policy of the government and on the light of the nature of that finance, as also being lucrative rewarding activity for banks. Such efforts should be carried out by banks in collaboration with the micro-finance unit of the Central Bank of Sudan.

- 9- The Central Bank of Sudan will consider establishing an institution to guarantee the finance provided to the small activities, and will also consider benefiting from the insurance services-coverage after being approved by the Higher Sharia Supervisory Board, beside also working towards attracting the services of the international credit guarantees.
- 10- Banks shall assume the task of simplifying the procedures and observing flexibility in demanding guarantees against micro-finance and consider searching for alternatives for the conventional guarantees and expanding the scope of accepting the guarantees offered by the civil society organizations and the workers' associations and unions.
- 11- Encouraging the establishment of micro-finance consortium financing funds through the participation of banks, the social funds and the civil society organizations.
- 12- The Central Bank of Sudan will encourage the banks operating in micro-finance not to restrict their activities to the micro-finance operations only, and to diversity their financial products to include savings and remittances operations.
- 13- The Central Bank of Sudan encourages banks to perform the micro-finance business through the sales-agents in the traditional informal sector to facilitate and encourages its integration into the formal sector.
- 14- The Central bank of Sudan encourages banks with specialized expertise to serve the segments and sectors related to its specialization, and also encourages it to select and approve the projects of developmental advantages
- 15- The Central Bank of Sudan encourages banks operating in micro-finance to engage in arrangements with the tele-communication



companies -as third party- to facilitate, through it, executing this savings and remittances operations.

All the operating banks in Sudan shall pursue their operations in accordance with this circular as from January,01,2009.

Accordingly the circular of the Central Bank of Sudan policies for the year 2008 issued on 26/12/2007 corresponding to 18<sup>th</sup> of the Elhija, 1428 deem repealed.

***Dr. Sabir Mohamed Hassan***  
***Governor***  
***Central Bank of Sudan***