THE SUDD INSTITUTE
RESEARCH FOR A PEACEFUL, JUST AND PROSPEROUS SOUTH SUDAN
P. O. Box 34, Juba, South Sudan • Tel: +211 (0)956 305 780
Email: thesudd.institute@gmail.com • www.suddinstitute.org

WEEKLY REVIEW

November 17, 2013

Devaluation of South Sudanese Pound: A Sound Economic Policy in Unsound Economic Environment

Adel Sandrai

On Tuesday 12th of November 2013, South Sudanese woke up to what some people referred to as a shocking reality. The exchange rate of South Sudanese Pound has been declared as 4.5 to 1 US Dollar. The move by the Bank of South Sudan to devalue the currency was met with dismay. The National Legislative Assembly immediately summoned the Governor of the Bank of South Sudan, Kornelio Koriom, to explain the reason behind the move. But when Mr. Koriom requested to be given more time to prepare for the explanation that the legislative body demanded, the MPs rejected the decision and directed the Governor to revoke the decision with immediate effect. Speaking to the media after the ordeal, the bank chief said that the central bank together with the Ministry of Finance agreed to devalue the South Sudanese Pound.

Judged by the response of the parliament, it is apparent that the decision to adjust the exchange rate upward was not shared by concerned government institutions. The exasperations of the public could not be hidden. Many South Sudanese were on the media demanding to know how this is going to affect their lives.

Although the decision to devalue the currency at this moment given the economic circumstance of South Sudan can at best be described as poor, the central bank, as an independent institution, has the full mandate to take decisions that will stabilize national economy, including the harmonization of the exchange rate. This means that the bank does not have to seek the approval of any other governmental institution to make its decisions.

The market has already started behaving nervously towards the exchange rate reforms in the country. Prices of basic commodities immediately increased, the fuel disappeared from the market, and the South Sudanese Pound was traded at 4.8 to a dollar in some exchange bureaus and in the black market the dollar was even higher.

The Sudd Institute this week takes a look at the effect of the devaluation of the South Sudanese Pound on the economy and citizens. It will also explore the possible factors that might have necessitated such a decision to be made at this particular time.

Devaluation of a currency is normal in any economy and this is the responsibility of the central bank of any country. It does come with both losses and benefits to the national economy. A weaker South Sudanese Pound could, in an ideal economic environment, encourage local production and discourage import of manufactured goods. Importers would need more South Sudanese pounds to bring in goods from abroad. Business people would require more of the local currency to purchase dollars if they want to repatriate their income. As a result, both importers and business people would seek to invest in local economy that would, eventually, create jobs and put more income in the pockets of the local people.

It is no secret that people who own banks and exchange bureaus are making phenomenal profit by buying dollars from the central bank cheaply and then pushing them out to the market at a higher rate and most of the times through the black market. It is actually good to close the gap between the official exchange rate and the commercial rate. But with the current institutional loopholes and central bank officials being linked to owning exchange bureaus, this measure makes for an unstable intervention.

The role of the central bank in any country is often viewed as one of keeping inflation in check and in creating jobs. The outcry from the cross section of the citizens of South Sudan about the decision to devalue the currency is not so much about the legitimacy of the Bank of South Sudan to take such actions or the lack of economic benefits accruing there from, but rather about the consequences of the decision on the local citizens, given the current economic situation in the country.

People think that the timing of adjusting the exchange rate in an effort to harmonize it with the prevailing market rate is not right. The fact that the Bank of South Sudan was not able to control how a dollar is exchanged in the black market, fueled the speculations and fears that this was just another insider's plan driven by illegal profit motive to make money through the black market. Indeed, the black market exchange rate jumped from 4.4 to 5 SSP per 1 US dollar. The prices of basic commodities skyrocketed and the business people in the oil industry decided to suspend operations for fear of losses.

Harmonizing official exchange rate with the black market rate makes economic sense, although the circular issued by the head of the central bank does not explain how this will be achieved. Uniting the two rates could, perhaps be realized if the market demand for dollar is matched by sufficient supply. Since almost everything South Sudan consumes are produced in foreign countries, the demand for dollars has always been above what the country could supply.

Therefore, for this policy reform to be successful, the bank needs to ensure that the dollar is readily accessible at the commercial banks and exchange bureaus. The bank also needs to put in place stringent measures to ensure that the market players are not given the chance to manipulate the financial market. Suspected hoarding by central bank officials has also been blamed for fueling the black market. It is important that the bank investigates it and puts an end to this malpractice. In the absence of sound regulations it will be difficult for the bank to achieve parity between the official and the market rate.

The reasons that the bank advanced to support the decision are good. But announcing that the SSP is to be devalued by 34% of its value and especially after the national budget was passed by the parliament, was incomprehensible to many citizens. The government employees in particular would want to see their salaries adjusted to absorb the resultant upward surge in prices of commodities in the market.

The reaction from the civil servants who depend on monthly salary is that their purchasing power is wiped out because they get paid in South Sudanese pound and that without increasing their salaries, they will not be able to buy food for themselves or afford to pay school fees for their children. Increasing their salary to accommodate the effect of the devaluation would allay their fears. How the change was going to affect the implementation of the national budget was left wholly unexplained.

In conclusion, harmonizing the official exchange rate of the South Sudanese pound to the same level with the market rate is a good economic policy to pursue. But given the current state of the South Sudanese economy, it only makes the country vulnerable and in the process lose a lot of money because of poor regulations. Given the experience of how the currency exchange business is done in South Sudan, this decision will only make the black market thrive, encourage high prices in the market and strain the pockets of already cash strapped South Sudanese. For the central bank to achieve its goal of harmonizing the official rate with the market, it needs to make dollars available to meet the demand. Measures should also be put in place to ensure that the quantity of the dollar allocated to the market actually reaches it in order to avoid the middlemen from channeling it to the black market.

Even though the decision of the central bank to devalue the currency is overturned by the National Legislative Assembly, eventually, the central bank has to harmonize the exchange rate to avoid extreme volatility and to stop government from losing lots of money to the unconventional market. Because as it stands now, the government makes only 296,000 South Sudanese pounds from every 100,000 US dollars that it sells while the black market makes 450,000 pounds. However, the central bank has to put strict measures in place to enable it to effectively control the financial market.

About Sudd Institute

The Sudd Institute is an independent research organization that conducts and facilitates policy relevant research and training to inform public policy and practice, to create opportunities for discussion and debate, and to improve analytical capacity in South Sudan. The Sudd Institute's intention is to significantly improve the quality, impact, and accountability of local, national, and international policy- and decision-making in South Sudan in order to promote a more peaceful, just and prosperous society.

About the Author

Adel Sandrai is the Director for Communications at Sudd Institute. Adel was born and grew up in South Sudan. He studied in Egypt, Lebanon and the United Kingdom and holds Master's of Science Degree in Development, Training and Education from the Centre for International Development and Training (CIDT) at the University of Wolverhampton. He has extensive knowledge in programs/projects management, organizational leadership, management of governmental institution and training. His research interests are in education, economic development and government and states structures and operations.