"COULD LACK OF CENTRAL BANK INDEPENDENCY RESULT INTO HYPERINFLATION?"

CASE STUDY: SOUTH SUDAN

By:

Modi Denis Elikana Pitia

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Department of Economics and Business
Central European University

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Supervisor:
Professor Julius Horvath

ABSTRACT:

South Sudan is one of the newest country in the globe and Africa's 55th nation that got its independence on 9, July 2011 after a long civil war that lasted for more than twenty-five years. After gaining independence South Sudan economy has been faced with a number of challenges as the government tries to implement its development objectives. On 11 November 2013, the Central Bank of South Sudan made changes to its official exchange rate which was initially pegged to United States dollar by devaluing its currency by 42% and further by 84% in 2015. This act resulted into general increase in the prices of goods and services since the country is import dependent to a large extent.

This research paper will try to understand whether the currency devaluation could be a lead cause towards the increased inflation and even hyperinflation in the country. Secondly, the research will also try to investigate the extent to which Central Bank is independent and how the lack of independence helped the emergence of hyperinflation in South Sudan.

The research will also try to analyze the inflationary historical aspects of the East African region based on the precolonial and postcolonial times so as to examine other factors that might have caused inflation in the region while addressing the economic growth challenges. The research will also take into consideration a theoretical overview of Sudan and South Sudan economy before and after independence since these two countries were once one.

The research paper will finally draw conclusion from different views while trying to investigate the impact of Central Bank independence and currency devaluation in relation to causes of hyperinflation in South Sudan. Suggested policy recommendation will be provided for policy makers.

Keywords: Lack of Central Bank Independency, Currency devaluation and Hyperinflation.

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Modi Denis Elikana Pitia.

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ACRONYMS:

BoSS - Bank of South Sudan

BS – Bank of Sudan

CB - Central Bank

EAC – East African Community

FDI – Foreign Direct Investment

GCI – Global Competitiveness Index

GDP – Gross Domestic Product

GoSS – Government of South Sudan

HDI – Human Development Index

IMF - International Monetary Fund

KPMG - Klynveld Peat Marwick Goerdeler (Professional service company)

MPRA – Munich Personal RePEc Archive

NIF - National Islamic Front

SD – Sudanese Pound

USD - United State Dollar

US - United State (America)

SSP - South Sudanese Pound

UNCTAD - United Nations Conference on Trade and Development

% - Percentage

CHAPTER ONE - INTRODUCTION

1.1. BACKGROUND:

Sudan's economy has been unstable since its independence on 1 January 1956 after both the British and the Egyptians jointly decided and recognized the independency of the Republic of Sudan. After political independence, Sudan embarked on monetary and financial autonomy which was initiated from the very start with the main objective to secure a balanced economy. This, however, turned out to be difficult because of the differences in the social, political, religious and cultural aspects among the people of Sudan (El Hadri, 1957).

Sudan's economy was basically dependent on agriculture before the start of onshore petroleum drilling in 1975 by the United States giant Chevron in South Central Sudan. By 1979, Chevron had already discovered oil in many parts of the country such as Abu Jabra on the border of Darfur and Kordofan, Western Upper Nile which is currently referred to as block 1 in Bentiu and later on found the two Southern Sudan huge oil fields in Unity and Heglig. Unfortunately, Chevron had to suspend its operations in the country effective from December 1985 after three of its expatriate staffs were killed by the Southern Anyanya rebels.[1]

The company dismantled its main operations by 1988 in Unity State and during this period there was no oil production from Sudan and the country's economy was at fall. As such, the International Monetary Fund (IMF) and the Sudan government by then tried to pressure Chevron to start operation. On the other hand, it was reported that the American government was not in support of Chevron operations in Sudan. By 1992, Chevron sold off its concession

[1] Ayanaya was one of the first rebel group formed in Sudan by Southern Sudanese after Sudan's independence in 1956.

to Concorp International which was a company owned by top government officials within the ruling party of Sudan, the National Islamic Front (NIF) and oil production resumed[2].

The entire financial system in Sudan was converted into an Islamic financial model in the 1990s which included the banking system in South Sudan. The signing of the Comprehensive Peace Agreement in 2005 as a measure to stop the long civil war in Sudan had a provision for dual banking system in the whole of Sudan within the interim period, as such the Central Bank of Southern Sudan (BoSS) was created as a branch of the main Central Bank of Sudan[3]. As conventional banking system was established in South Sudan, the Islamic financial system was still maintained in the Sudan. During the interim period from 2005 to 2010, one monetary policy was maintained by the Central Bank of Sudan while the Bank of Southern Sudan was managed as a conventional window of a dual banking system directly accountable for chartering and supervising the financial institutions in the Southern region (Amara & Jomana, 2012).

South Sudan after its independence had several economic concerns that required major solutions in its transitional process of becoming an independent nation. The country's economic performance has never picked up but rather deteriorated simply because of the continued civil war, global collapse in oil prices and sharp fall in oil production. It is worth mentioning that South Sudan inherited a historical unstable economy in the Southern region and by the fact that the oil was discovered in the region, the country became more dependent on only one source of revenue while abandoning other sources of income that could help stabilize the economy hence resulting in Dutch disease effects. (Nkamleu & Mugisha 2017).

[2] http://understandingsudan.org/Oil/OilResources/L2FS2-HistoryofOilinSudan.pdf
[3]https://calhoun.nps.edu/bitstream/handle/10945/40417/Amara_Development_of_the_Banking_2012.pdf?sequence=1&isAllowed=y

As an independent nation, South Sudan had to come up with its own institutions such as the Ministries and the Bank of South Sudan (BoSS) which is the Central Bank in this case with shared policies from Sudan. Most of the personnel involved in the formation and implementation of the new institutions and policies do not have adequate experiences since they were not largely involved in policy implementation during the previous regime and hence making it difficult for the respective institutions in the country to effectively design policies that can easily address the huge challenges faced by the new nation.

When the Bank of South Sudan got its independence from Sudan in 2011 to carry out its mandate of stabilizing prices and monitor policy implementation to achieve stable exchange rate, still the new country had to depend so much on its neighbors like Uganda and Kenya for both external and internal money transfers. The banking sector is limited to minimal geographical coverage with weak regulations and low expertise capacity in management, which partly explains the presence of dominant foreign own commercial banks in the country mainly from Kenya with limited services to only foreign exchange, deposits and cash withdrawals transactions (Bromley 2014).

Hyperinflation as the main subject of concern in this case will refer to the extremely fast increases in the prices of goods and services to a point where the inflationary concept becomes meaningless. Although the occurrence of hyperinflation is not considered common, it occurred in many countries such as Hungary, China, Argentina, Germany and Russia in the 20th century In association with depression, hyperinflation often happens in relation to high increase in money supply which occurs in isolation without increase in gross domestic product (GDP) which then results into an imbalance of money supply and demand within an economy, prices increase while the currency loses its value, the end result is hyperinflation.[4] Given the foreign dominant commercial banks in the country, unstable economy and the limited management expertise in the banking sector. The research paper will try and investigate the root cause of the hyperinflation while analyzing the impact of the Central Bank monetary and government fiscal policies implementation in South Sudan if conflict between the two existed.

[4] https://www.investopedia.com/terms/h/hyperinflation.asp

1.2. STATEMENT OF THE PROBLEM:

Like any other Central Bank, the Bank of South Sudan has its goals and objectives in providing better services through formulation and implementation of monetary policy that support economic growth, which was given priority from the start after the country's independence in 2011. The Bank of South Sudan had capacity building support for its staff from both the neighboring countries and other international monetary bodies such as the World Bank and International Monetary Fund (IMF) with an intention of ensuring better human resources to initiate efficiency and independency of the Central Bank from both the private and public institutions in the country as clearly stated in the 2011 Bank of South Sudan Act[5]. The Act states that, "the bank shall not be influenced by any other institution whether being public or privately owned while exercising its duties".

In 2013 and 2015, respectively, the Bank of South Sudan in collaboration with the Ministry of Finance and Economic Planning implemented currency devaluation when abandoning the peg with the hope of initiating economic stabilization through adopting black market exchange rate as official rate flouted and floating the country's currency as a measure to boost the economy.[6] As the Central Bank adopted the black-market rate, the black-market vendors increased their rates further which marked the start of the crisis.[7]

Despite all the efforts put to build the capacity of the bank management team, there is still limited management expertise within the banking sector in South Sudan and the small number of foreign owned commercial banks with limited financial transactions to only

[5]http://docs.southsudanngoforum.org/sites/default/files/201709/Bank%20of%20South%20Sudan%20Act%202011.pdf

[6] https://www.bloomberg.com/news/articles/2015-12-15/south-sudan-devalues-currency-by-84-as-dollar-peg-abandoned

[7] The black market continued to depreciate the South Sudanese pounds because few individuals buys hard currencies from the Central Bank at an official exchange rate which is lower than that in the black market and exchange the money at relatively higher rate to earn exchange rate gain.

foreign exchange, bank deposits and cash withdrawals have made it difficult for the central bank to exercise its policies, because most of the foreign commercial banks have got influence from their respective domestic monetary policy.

The absence of services such as financial loans and savings accounts transactions; and the existence of high bank charges have made it difficult for both individuals and the business community in fully utilizing the banking services in contributing towards economic growth. The adjustment of the official Central Bank exchange rate to that of the black market made it worse as the exchange rate raises further on the black market. One of the concerns is that most of the dollar allocations from the bank end up on black market other than being used to import goods. This happens because of the low credibility of the Central Bank.

In response to the above concerns, the research paper will try and investigate Central Bank independence in South Sudan and its reaction or relation towards the current hyperinflation in the country. Secondly, the research will try and investigate the influence of Ministry of Finance and economic planning on Central Bank policies in relation to currency devaluation.

In this case, should the "hyperinflation" persist, the goal of achieving economic stability may be difficult for the new nation. Therefore, a need arises to investigate why there is persistent "hyperinflation" despite all the efforts to reduce the inflation rate by the government of South Sudan and its development partners.

1.3. OBJECTIVE OF THE RESEARCH:

This research tries to investigate the main cause of the hyperinflation in South Sudan with specific analysis of Central Bank independence and the 2015 currency devaluation. In this case the research will try to understand in detail the extent to which Central Bank independence and currency devaluation contribute towards the cause of hyperinflation while taking into consideration the inflationary history of the East and Central African region. The research will further try to explore other factors contributing towards hyperinflation and possible policy recommendation will be provided at the end for policy makers to apply.

1.3.1 SPECIFIC OBJECTIVES:

The research specific objectives will be geared to elaborate on:

- ❖ An overview of Central Bank independence and currency devaluation definition as suggested by different authors.
- ❖ Elaborate on the inflationary history within the East and Central African region with specific reference to pre-colonial and post-colonial period.
- ❖ Provide a detailed theoretical overview of Sudan and South Sudan economy while taking into consideration the major challenges facing its economic.
- ❖ Identify main reasons as to why there is need for Central Bank independence and explore the pitfall resulting from lack of Central Bank independence in South Sudan.
- ❖ Understand the idea behind currency devaluation as a requirement towards economic stabilization.
- ❖ Recommend possible policy measures that can be taken by policy makers to control hyperinflation.

1.4. SCOPE OF THE RESEARCH:

This research paper will exclusively concentrate on investigating the extent to which Central Bank independence and currency devaluation has contributed towards hyperinflation in South Sudan. The research will also present specific examples from the inflationary history from East and Central African region. The research will further focus on analyzing specifically Sudan economy after independence from the period of 1956 to 2011 when South Sudan got its independence. Although the study will exclusively focus on the African region, brief discussion of some few inflationary cases will be derived from the European Union.

Further, the research will explore the requirements under the Bank of South Sudan Act in relation to the reality, if there are any differences.

1.5 SIGNIFICANCE OF THE RESEARCH:

The International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) have placed a high priority on Central Bank independence in both developing and developed countries. Central bank independence is highly emphasized in relation to economic polices implementation and positive measures against inflation to enhance economic stability. Moreover, currency devaluation is a better option for an exporting country than an import- dependent state.

South Sudan is an import-dependent nation with its Central Bank much dependent on the ruling party-political structure in line with the Ministry of Finance and Economic Planning for both policy formulation and implementation. Limited research has been carried out on the above specific concern, thus this study will basically analyze the challenges faced by South

Sudan in achieving its economic stability through the implementation of monetary policy and other various measures by the Central Bank. The research will further focus on investigating the need for central bank independence as opposed to lack of Central Bank independence and further analyze other policies that can be applied for better economic stability.

The analysis will be vital because suggested policy recommendations will be provided which are derived from different countries who managed to handle similar conditions that are happening in South Sudan. The results of this study will be relevant for further research in a related area of concern.

1.6 RESEARCH METHODOLOGY:

The research will be a combination of desk research and field research to be conducted in South Sudan to verify the primary and secondary data sources; and a comparative economic methodology from developed and developing countries. It will also employ qualitative economic approach to analyze the existing literature from different authors and researchers. The research will involve holding a meeting with the Central Bank of South Sudan and Ministry of Finance and Economic Planning representatives. The research will exclusively focus on a case study of South Sudan with reference to Sudan and the East African region with specific investigation on Central Bank independency and currency devaluation in relation to the current hyperinflation and any attempt by the government of South Sudan to achieve an independent Central Bank.

CHAPTER TWO – EAST AFRICAN REGIONAL INFLATIONARY HISTORY:

2.1 EAST AFRICAN ECONOMY FROM PRE-COLONIAL AND POST-COLONIAL TIMES:

For the purposes of this research, the East African economy will consist of the six countries namely, Kenya, Uganda, Tanzania, Rwanda, Burundi and South Sudan. These countries are located within the East African region (East African Protectorate) and they are the member states that form the East African community (EAC). Within the Horn of Africa region, there are other countries that are not members of the East African Community and such countries include, Djibouti, Eritrea, Ethiopia and Somalia. As results of colonial territories of British and German East Africa, the term East Africa is used in reference to basically three countries which include, Kenya, Tanzania and Uganda. However, this has not been the case in geographical references. Geographically, East Africa consists of more than three countries (Adar 2011).

2.1.1 EAST AFRICAN ECONOMY FROM PRE-COLONIAL ERA:

The history of the East African economy is traced back to thousand years and it involved intermixing of diverse groups of people in economic evolution, social, cultural and political setup. Hunting and agriculture were the main economic activities of the East African people during the precolonial era. There existed tribal institutions such as the initiation schools to pass on physical activities which were considered essential for warfare and hunting from one generation to another. During the pre-colonial time in the East African region, mobilization of rural masses was one of the key strategies used for the establishment of a self-reliant community (nation), in which there was maximum utilization of local resources such as land and labor. The key point behind this strategy was wider expansion of communal production units which involves people working and living together with common cultural and economic practices and communal land ownership (Taylor and Francis Group 2010).

Despite the assumptions that markets did not exist in the East African region in the precolonial era, in fact markets were developed rapidly with much success. The study shall discuss an overview of the market concept here in line with reciprocity and redistribution. In this case market will refer to the presence of buyers and sellers of given commodities at specified unit prices offered and paid. Market is referred to be "perfect" if buyers have got full knowledge, ability to take what sellers are demanding as well as sellers have got full knowledge and ability to take what buyers are willing to offer (Turyahikayo 1976).

One economic term difference that can be ascertained between modern and precolonial African markets is based on the fact that former markets served as allocative mechanisms of economic resources while the modern markets are mainly functioning as medium of exchange of goods and services. In the precolonial era, basic product exchange was not influenced by the market prices but rather product exchange was determined by other values in the market. Barter trade was one of the main determinant factors for exchange of goods and services, long distance trade and local exchange were the main aspects of trade within the respective communities in the precolonial East African region. Reciprocity and redistribution was widely operated in most of the African societies where developed market institutions did not exist (Turyahikayo 1976).

In the East Africa history and the rest of Africa, music and dance among other economic activities were much valued as a social activity, as well as a medium of education during many initiation functions within the different regions in the precolonial era. Before the arrival of the colonial masters, in the precolonial East African communities, barter trade and long-distance trade were the main activities in the market economy operated in exchange of goods and services. Dance among other activities was considered as a unifying factor among the different tribes and celebrating economic prosperity after achievements of a good harvest. (Taylor & Francis Group 2010).

2.1.2 EAST AFRICAN ECONOMY POST-COLONIAL ERA:

The first foreign settlers to arrive in the East African region were the Arabs who came in the eighth century. Upon their arrival, they introduced the Islam religion to the indigenous people within the East African region which was later on followed by intermarriages between the Arabs and the Africans along the coast hence, leading to the birth of Afro Arabs tribe. The Arabs came as business men and women but later on settled along the coast and other parts of Africa and this justifies the presence of Arab nations in Africa and marked the start of trade along the coast (Taylor and Francis Group 2010).

Roots of contemporary East African economic structure are clearly attached to the arrival of the first European settlers in Kenya during the 20th century when the British constructed the first railway line to access Uganda. One of the main purposes of the railway line construction was to connect the main three East African countries to facilitate trade and movement of people from one location to another. In the process, the British realized the potentials of profitable export production in Kenya highlands which later on resulted into their settlement along the highlands. The European settlers became the lead in the production sector (Holmquist, Weaver and Ford 1994).

Kenya became the main business center within the East African region given the presence of the white settlers. The British formed financial institutions within the region to support economic growth which later on resulted into the strong international market in the 1960's as evidenced by sound fiscal position of the respective states within the region. The extension of credit facility services to both small and large businesses became one way to empower the locals in the East African region by the colonial masters to support the export sector as well as create competition at all levels in the economy. As competition was created at the respective business levels, non-East African citizens (Asians) within the business sector were removed from the lower competition end commercial hierarchy to remain at the higher levels with the message, "up or out." During the post-colonial era, communal land ownership policy was changed to individualism whereby land was put into proper commercial use (Holmquist, Weaver and Ford 1994).

2.2 OVERVIEW OF THE CENTRAL BANK STRUCTURES WITHIN EAST THE AFRICA REGION:

The Central Banks in the East African countries are the monetary authorities in each country with common executive management structure which comprises of the Governor, Deputy Governors and heads of departments. The boards of directors are the supreme policy makers, chaired by the respective governors and sometimes the deputy in the absence of the

Governor. The Central Banks are guided by an Act which specifies the duties and powers of the board, hence the Act enables the board to be responsible for the day to day general management of the bank affairs. In East Africa, the Governors and the deputies of the Central Bank are appointed by the President of the country on the advice of the cabinet in most cases with a term limit of up to five years. However, in some countries within the region like Kenya, there is competitive process of recruiting a Central Bank Governor as opposed to appointments.[8]

Like in any other developing nations, in East Africa, the Central Banks' leading roles are seen in shaping and implementing monetary policy. The impact of the Central Bank within each country is realized through the success of private banks as exchange rate and interest rate are positively affected. As the world economy is becoming more globalized, it is important to note that international fund flows are essential for both developed and developing countries. When Central Banks are given a certain degree of independency then better policy making is realized as a measure in supporting monetary policy formulation to aid economic stability. According to vast research in investigating the autonomy of the Central Bank, it has been noted that most developed countries have more Central Bank autonomy as opposed to developing countries. Most developing countries have got better economic and financial policies which are not implemented in reality (Presnak 2005).

As a result of improved banking services in the region by the Central Bank, policies, financial access has been one of the most recent innovations in East Africa, as, banking over the last few years through which other channels of funds transaction has been established such as money transfers and payments through mobile phones. The mobile phone technology has

[8] http://www.unepfi.org/grt/2016/speakers/dr-patrick-njoroge/

played a great role in East Africa for example in Kenya, about 80% of both the urban and rural population has been able to make cash transactions over mobile phones while about 20% still insist on making transaction via bank accounts only.

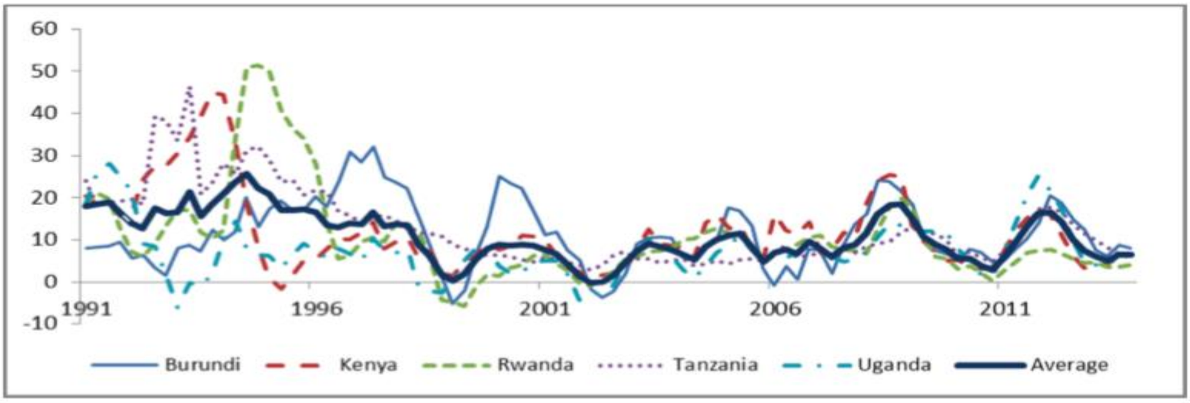
The mobile phone technology is currently connected to bank accounts and this has made the banking system easy and manageable within the region. The mobile phone technology has been able to connect the rural areas to the urban centres hence enabling a wider coverage of the banking sector not only to the urban areas but as well as to the rural. Uganda has also developed biometric national identification cards, making access to debit and credit facilities easier for the large population (Caruana 2011).

Given the flexibility in the current exchange rate as compared to the past, some of the central banks within the region are ready to allow the exchange rate to absorb the external shocks. The role of exchange rates as an anchor for inflation expectations was still judged to be important. In this regard, foreign exchange intervention and sterilization were seen as costly, though probably unavoidable, policy tools. In addition, Governors emphasized the importance of fiscal sustainability for dealing with the domestic consequences of capital flows (Caruana 2011).

2.3 INFLATIONARY HISTORY IN THE EAST AFRICA REGION:

History has shown that in the early 1970s and 1980s, most East African countries had high inflationary rates and as a result of better macroeconomic management in the 1990s to 2000s, the high inflation rate was managed and brought under control. However, in the recent years there is fear of hyperinflation that is already emerging in different African countries due to several factors. Inflation rates among the East African countries are almost getting tripled over the past years.

Inflation in EAC Countries: 1990-2014 (%)



Sources: IMF calculations.

The above figure presents East African inflation rates from 1991 to 2011 for the five main countries before South Sudan became a member of the East African community in 2016. The standard of measurement is percentage change in consumer price index. The figure reflects substantial differentials of inflation during the 1990s with spikes in Rwanda, Kenya and Tanzania. In the late 1990s, inflation rates appear to be less volatile among the East African countries while getting closer towards the EAC average which hence suggest nominal convergence.

Average inflation (%) in East African Countries.

	Burundi	Kenya	Rwanda	Tanzania	Uganda	Average	Dispersion
Pre-2000	13.44	15.23	13.49	19.96	8.38	14.10	3.72
Post-2000	9.00	7.85	6.45	7.43	6.87	7.52	0.88

Source: International Monetary Fund (IMF).

The above statistical table confirms that in the pre-2000 era, inflation was high as compared to post 2000 era. But still the East African countries are anticipating a higher inflation in the nearest future which is due to several factors that are facing the economies.

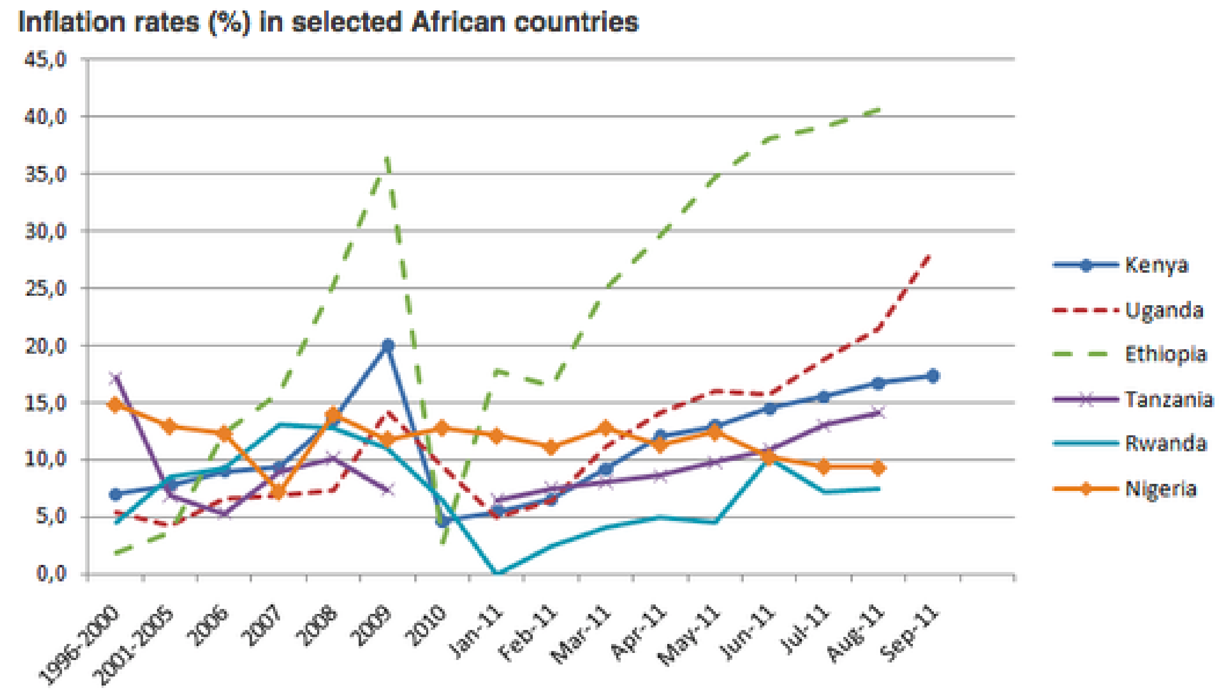
Drivers of Inflation and types of shocks (%).

	Burundi	Kenya	Rwanda	Tanzania	Uganda	EAC-Mean
Oil price, Food price, CPI	47.31	47.05	52.09	46.30	40.97	46.74
GDP, M, NIR, NEER	52.69	52.95	47.91	53.70	59.03	53.26

Note: Generalized forecast error variance decomposition over 10 quarters for inflation of each country. Last column shows the average across EAC countries.

Source: International Monetary Fund (IMF).

The above table provides some of the drivers of inflation which are based on the nature of shocks. In the table, oil and food price shocks are classified under one group while money supply, monetary variables and nominal effective exchange rate are in one group. The two groups of shocks are important in determining inflation as reflected in the table.



Source: Central Banks and National Statistical Offices.

From the above graph, there is an indication that inflation has been on the increase within the East African countries from 2000 to date and as such, this research paper will later on try to investigate the main causes of the increase in the inflation rate in comparison to the previous years. The inflation rate has been fluctuating among the East African member states within the region although efforts are being made to control and manage inflation.

2.4 SOUTH SUDAN IN THE EAST AFRICAN COMMUNITY:

South Sudan became the 6th member state of the East African Community (EAC) on 2nd March 2016 after a resolution was reached to admit South Sudan at the 17th Heads of State Summit held in Tanzania after five years reservation (wait). Some of the reasons behind the admission of South Sudan into the EAC block, include enhancing co-operation and integration with the EAC partner States, economic bloc expansion and provision of potential growth within the region.

The accession of South Sudan to the EAC brings with it many implications, which include both positive and negative policy impacts. The East African Community organs have to go into over-drive so as to fast-track South Sudan into the Community while balancing the design of regional integration strategies including the on-going peace initiatives. Questions have risen on what kind of pace and approaches EAC institutions will take from now on to accommodate South Sudan in hindsight of the political, economic and social challenges the country faces.

As a member of the East African Community, South Sudan is expected to comply with a number of laws and regulations including the following;

- Adopt the Customs Act, 2004 of the East African custom administration.
- Adopt the common External Tariff to determine import duty charges on imports.
- Adopt duty remissions regulation.
- Participate in Single Customs Territory system for both intra-regional imports and outside the community.

The EAC has currently reached the level of common market as well as implementing its strategy of a custom union. The EAC Customs union was established on 2 March 2004 after Kenya, Uganda and Tanzania heads of State signed a protocol, then later on joined by Burundi and Rwanda customs in 2008. The customs union was established with the main objectives of promoting production efficiency, liberalization of intra-regional trade among the member States, facilitate domestic foreign and cross border investment and promotion of economic development and diversification in industrialization.

The East African community has also formed a common market through the merger of its market territories which are represented by each member State. The protocol of the common market was established on 1 July 2010 as a result of ratification by the partner States. As such, South Sudan currently imports both its goods and services from the EAC common market which hence has got a great meaning to South Sudan as a country in the following ways.

- Free movement of goods, persons and labor accelerates economic growth and development for South Sudan as a new nation (Free movement of services and capital).
- Goods imported from other member States are not charged internal tariffs.
- Establishment of strong coordination and regulated economic and trade relationship among the member States.
- Economic activities expansion and sustenance among the member States and equal distribution of the benefits obtained among EAC partners.
- Promotion of nationalism and common understanding ideology for social and economic development among the partner States.

By joining the EAC, South Sudan is expected to implement the common market protocol to enjoy free trade with zero duty imposed on goods and services with common external tariff. As a means to promote fair trade, imports from other countries other than the EAC zone are entitled to the same tariff when such goods are sold to any EAC member State. The admission of South Sudan into the EAC is considered to be of both positive and negative benefit due to the following reasons: trade barriers are removed with other member States, Common external tariffs are harmonized to the EAC standard requirements hence leading to fairness in taxes payments, movement of goods and people becomes easy within the EAC, regional cooperation is easily accomplished and increased trade is realized both internally and externally (Karuiru, Kamau and Gaarlandt 2016).

South Sudan customs duty is still facing some significant challenges since there are no clear laws to guide imports. Joining the EAC is an opportunity for South Sudan to harmonize the duty rates and as such the EAC will support South Sudan to develop its own customs department.

CHAPTER THREE – THEORETICAL OVERVIEW OF SUDAN AND SOUTH SUDAN ECONOMY:

3.1. MAIN FACTORS THAT DROVE INFLATION IN SUDAN BEFORE SEPARATION:

Since independence in the early 1956, Sudan’s economy has been faced with a number of economic crises ranging from high inflation rate, worse budget balance, reduction in balance of payment and terms of trade. All the crises have been manifested through slow economic growth in the early 1970s (Salim 2015).

Sudan from the early 1970’s has experienced inflation rate of double digits. The inflation rate rose from zero in 1971 to about 24.6 per cent in 1981 and 123.6 per cent in 1991. This sub section will try to investigate and analyze the factors behind the rapid increase and fluctuation of the inflation rate in Sudan from the 1970s to 2010, the period before South Sudan got its independence. Research has shown that the domestic inflation rate in Sudan has been fueled by imported inflation and government borrowings from the banking sector. Depreciation of the free market exchange rate became another single influential variable that has greatly contributed towards the high inflation rate in Sudan (Gangi and Mahran 1996).

Sudan Inflation Rates 1990 – 2010.

Year	Inflation (%)
1990	67.4
1991	124.0
1992	118.0
1993	101.3
1994	115.5
1995	68.4
1996	133.0
1997	47.0
1998	17.1
1999	16.0
2000	8.0
2001	5.0
2002	8.3
2003	8.0
2004	8.4
2005	8.5
2006	7.2
2007	8.0
2008	14.3
2009	11.3
2010	13.0

Source: www.indexmundi.com/sudan/inflation_rate_(consumer_prices).html

Sudan Inflation Rate from 1985 to 2015

Source: [www.indexmundi.com/sudan/inflation_rate_(consumer_**prices).html**](www.indexmundi.com/sudan/inflation_rate_(consumer_prices).html)

As reflected above, Sudan experienced high inflation rate fluctuation ranging from two to three digits between 1990 to 1996 and among the many factors, monetization of the fiscal deficit and the successive domestic currency devaluations stood out as the main factors that contributed towards the development of inflation in the country through increased in the cost of imports and imported capital as well as intermediate inputs. Domestic currency devaluation is one of the measures adopted by developing countries to stabilize economic crisis with the hope of reducing inflation but in the case of Sudan it instead increased prices of imports as the country was largely import dependent in the early years from the 1990s (Suliman 2012).

It is worth mentioning that inflation in Sudan is determined and driven by the foreign prices and exchange rate in the long run, in this case any interference with the exchange rate and the foreign prices of imports will definitely result into inflation. Research has shown that an increase in the economic activities lowers the level of inflation, from the above table the high inflation rate reflects a decline in the economic activities in Sudan. The lower inflation in Sudan history from 1998 to 2010 is backed by the discovery and exportation of oil before South Sudan independence in 2011. The country's revenue had therefore increased hence stabilizing inflation to the lower side by the inflow of foreign currency (Suliman 2012).

The constant political instability in Sudan from 1956 immediately after its independence to 2005 when the Comprehensive Peace Agreement was signed has greatly contributed towards the high rate of inflation in the country in such a way that most of the economic activities were abandoned since many parts of the country were engaged in war and many citizens were forced out from their farm lands to the neighboring countries as refugees for over twenty-five years. Therefore, the revenue earned in Sudan was spent in military equipment instead of empowering activities such as agriculture and the manufacturing sector, as a result of civil war. other than empowering the economic activities such as agriculture and the manufacturing sector. Low agricultural and industrial or the manufacturing sector dragged the country into the fluctuation in the inflation rate (World Bank 2017).

Based on the Classical Quantity Theory of money, inflation is viewed as monetary phenomenon that originates and sustained by expansionary monetary policy. According to Friedman (1970), "Inflation is always and everywhere a monetary phenomenon and can be produced only by a more rapid increase in the quantity of money than output". As such inflation has been defined in terms of demand pull and cost push factors. Sustained shift in aggregate demand has been a result of demand pull inflation whereby output and prices constantly rise towards an upward direction. In the case of Sudan, excess demand over aggregate supply is one of the driving forces behind the spiral inflation in the country. It is worth mentioning that high demand backed with low aggregate supply can result into increased prices of goods hence leading into high inflation (Gangi and Mahran 1996).

Inflation in Sudan has been driven by several factors as mentioned above but not a single factor has resulted into the high inflation fluctuation in the country. It is therefore right to conclude that Sudan has been an inflationary country and this fact will enable this research paper to further move forward and investigate the basis of the current inflation in South Sudan after its independence on 9 July 2011 from Sudan.

3.2. SOUTH SUDAN ECONOMY AFTER INDEPENDENCE FROM SUDAN:

South Sudan economy is one of the most supported economies in East Africa by external donors as the country was getting towards its independence. The country had over 20 active donors in different projects ranging from education, health, agriculture and other developmental projects as reflected in the below table.

Top 12 Donors in South Sudan (2010) (US$).

	Donor Country	Total Funding	Total Expenditures	% Funding to Pooled Funds	% Committed Funds Spent
1	USA (inc. OFDA)	410,387,132	320,410,980	0%	78%
2	European Union (inc. ECHO)	118,910,898	100,952,701	19%	85%
3	Netherlands	101,937,552	67,019,952	68%	66%
4	UK	102,519,606	81,136,664	76%	79%
5	Norway	100,614,484	73,376,945	45%	73%
6	Canada	57,400,040	38,926,748	37%	68%
7	Denmark	50,252,585	30,005,750	10%	60%
8	Japan	37,082,761	19,077,074	0%	51%
9	Sweden	34,945,696	27,626,658	60%	79%
10	Global Fund	28,030,537	23,411,251	0%	84%
11	Spain	20,851,879	16,957,942	65%	81%
12	Germany	20,127,454	9,074,037	18%	45%
#	*Other Donors*	196,688,471	152,322,310		
Total:		1,279,749,094	960,299,010		

Figure 1: Donors to the Education and Health Sector (2011 Commitments as a Percentage of Total Funding)

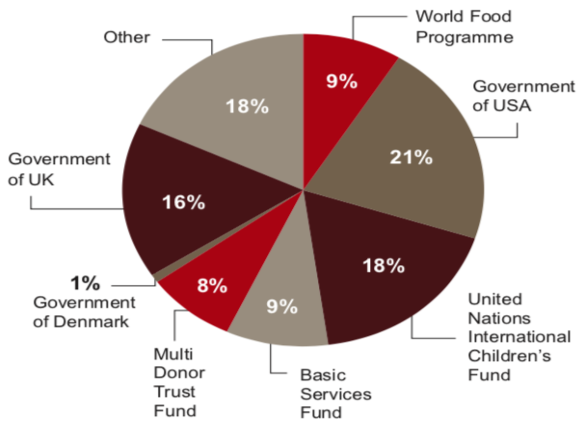
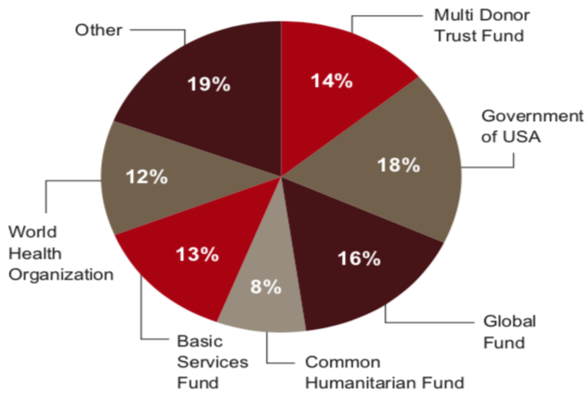


Figure 2: Donors to the Health Sector (2011 Commitments as a Percentage of Total Funding)



Source: GoSS Ministry of Finance and Economic Planning, 2010.

South Sudan after its independence on 9 July 2011 from Sudan, has never experienced a lasting peace after all the efforts from the above donor countries contribution, the economy of the youngest nation has gone through several crises ranging from political instability, inflation, currency devaluation as measure to fight economic challenges. South Sudan has been ranked as the 152^{nd} in nominal GDP country, hence making the country one of the poorest in Sub-Saharan Africa. Approximately, half of the South Sudanese population is living below the poverty line due to the prolonged civil war. The economy of South Sudan is based on small earnings from oil, agriculture and other natural resources which are not adequate enough to support its economy and sustain the long conflict.[9]

[9] http://www.leviathanjournal.org/single-post/2018/01/21/Economy-Behind-the-Civil-War-in-South-Sudan

The most recent event that has weakened the economy of South Sudan further is the current ongoing war that broke out in 2013 with several failed attempts to bring peace back in 2016.[10] As an impact of the war like in any other developing nation across the world, rebel soldiers fighting a civil war are not always paid and as such they had to find options of getting their income through looting, bribes and other illegal activities. The conflict in South Sudan has resulted into one of the worst humanitarian crises with over four million of the country's population displaced and approximately over fifty thousand people were killed with no much evidence reported due to low media coverage around the world (Wlodarski 2018).

As a result of the secession the Sudanese pounds and the South Sudanese pounds exchange rate witnessed a sharp and constant decline in comparison to foreign currencies. With effect from 2010 to 2012 the Sudanese pounds and South Sudanese pounds exchange rate against the dollar dropped from (1$=2.5 SD) 2010 to (1$=2.7 SD) in 2011 and (1$=3.0 SD) in 2012. As the Sudanese pounds was losing value, the same scenario was happening in South Sudan where the pounds kept on losing value until 2018, the South Sudanese pounds is at (1$=160 SSP) 2018 as compared to (1$=2.09 SSP) in 2011. The existence of the black-market exchange rate is one of the issues facing South Sudan in such a way that funds are channeled from the commercial banks to the black market with the hope of getting a higher exchange rate gain. As the practice continued in South Sudan, the gap between the official and black-market exchange rate widened effective from 2012 (Khalid 2013).

[10] http://theconversation.com/five-years-after-independence-violence-still-stalks-south-sudan-62510

As the pounds started losing value effective from 2012, prices of commodities increased since South Sudan is import dependent nation. Unfortunately, the loss of value in the pounds was not publically realized by the majority population until the outbreak of the civil war in 2013 when the government deviated most of the country's revenue to support the military budget and the country went into a budget deficit. At this point inflation came in full force into the country and the impact continued until 2018. It is important to note that South Sudan inflation did not only start after the outbreak of the civil war but inflation indirectly existed after the country's independence way back in 2011(Khalid 2013).

It is worth mentioning that, since Sudan already had an inflationary history from the 1970s and had been one country that later on split into two, it is justifiable to argue that the same trend of inflation has persisted in South Sudan until 2018. It is therefore suggested that, inflation could be one of the main reasons as to why the economy of South Sudan has never picked up after its independence on 9 July 2011 until 2018.

3.3. ECONOMIC COMPETENCIES OF SUDAN AND SOUTH SUDAN:

Both Sudan and South Sudan have got the potential of achieving a better economy in the absence of political instability given the presence of various natural resources, fertile soil favorable to support agriculture and above all the presence of able human labor.

A report of the World Bank indicates that the economy of Sudan went through three periods of distinct varying economic growth from 1988 to 2013[11]. As a result of growing labor and total factor of productivity (TFP) between 1989 and 1997, Sudan had an average growth of gross domestic product (GDP) of 4.9 percent points. From 1998 to 2007, as the oil exportation was booming with high revenue returns, the gross domestic product growth was at raise and economic activities increased by 6.1percent points. In this case physical capital became the main lead of the country's economy. As the secession process of South Sudan was to take place in 2011, the oil economy begun to decline in 2008 with negative total factor of production growth. South Sudan independence in 2011 finally became a heavy blow to Sudan's economy as much of its oil revenue reserves was lost[12]. According to Michael Geiger, a senior Economist and lead author, "Oil accounted for about 75 percent of Sudan's foreign currency earnings which at its peak in 2008 was around $8.3 billion."

After secession, Sudan embarked on agricultural production with the help of the river Nile as a source to facilitate irrigation schemes and other farm lands given the fact that Sudan is a

[11] World Bank (2016) "Realizing the potential for Diversified Development"
[12] http://www.worldbank.org/en/country/sudan/publication/diversification-the-key-to-unleashing-sudans-economic-potential

semi desert. The absence of oil revenue later on encouraged Sudan's economy to realize growth through exportation of agricultural products to its neighbors in which South Sudan became one of the importers before the second disagreement and closure of its borders in 2012. Sudan, however, after 2011, had to initiate economic diversification as a means to achieve success through management of other natural resources rents, creation of a business enabling environment and provision of public services although with some weaknesses.

Economic diversification became the only best strategy for Sudan after South Sudan's independence in 2011. Diversification became an option because the oil is located in the Southern region which constituted about 75 percent of Sudan revenue before. The fact that the oil pipe lines are owned by Sudan and pass via Sudan to the port Sudan for exportation, the country did not lose all its revenue to South Sudan but still got some rental fee for the oil pipe lines which was agreed at $25 per barrel.

South Sudan economy is composed of its revenue 98 percent from oil source, which has been the major component of the country's annual budget despite the global drop in the oil prices and the current political instability in the country. Research has shown that there are other oil wells in South Sudan that are not yet exploited and this indicates that the country still has high potentials of economic growth if political stability is achieved.[13]

The agriculture sector in South Sudan has got potential significance with about 90 per cent of its land arable and 50 per cent is prime agricultural land. This is a clear justification that the country has got capacity to develop and generate revenue from other sources other than oil and gas when peace is achieved. Having 90 per cent of arable land with the capacity to grow

[13] https://www.epmag.com/south-sudan-boosts-oil-output-1616196

crops is a clear sign that the economy of South Sudan can still attain growth despite the fluctuation in the global oil prices which currently determines its economic activities.[14]

In April 2016, South Sudan joined the East African Community, which has opened up a massive regional market for both imports and exports. By joining the East African Community, the country has gotten avenues for exports corridors to the South and other parts of the world. To achieve its business strategy, there is need to construct better roads and pipelines to Mombasa port in Kenya, developments which are currently being proposed with the financial support of international sources.

An analysis of the Business Environment in South Sudan.

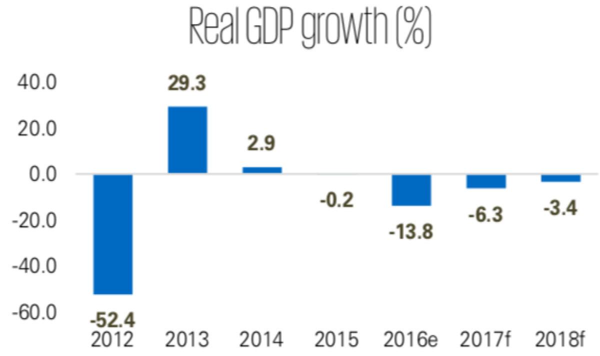
Business Environment									
Human Development Index (HDI) 2015		Index of Economic Freedom 2017		Global Competitiveness Index (GCI) 2017-18		Doing Business 2018		Corruption Perceptions Index 2016	
181st	out of 188 countries	n/a		n/a		187th	out of 190 countries	175th	out of 176 countries

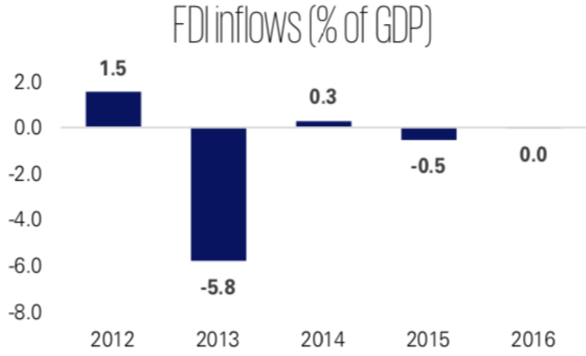
Sources: KPMG South Sudan Economic Snapshot H2, 2017.

The table reflects South Sudan position among many countries in the business environment, in the human development index 2015, South Sudan is number 181st out of 188 countries, number 187th out of 190 countries in doing business in 2018 and 175th out of 176 countries via corruption.

14 https://home.kpmg.com/content/dam/kpmg/za/pdf/2017/12/South-Sudan-2017H2.pdf

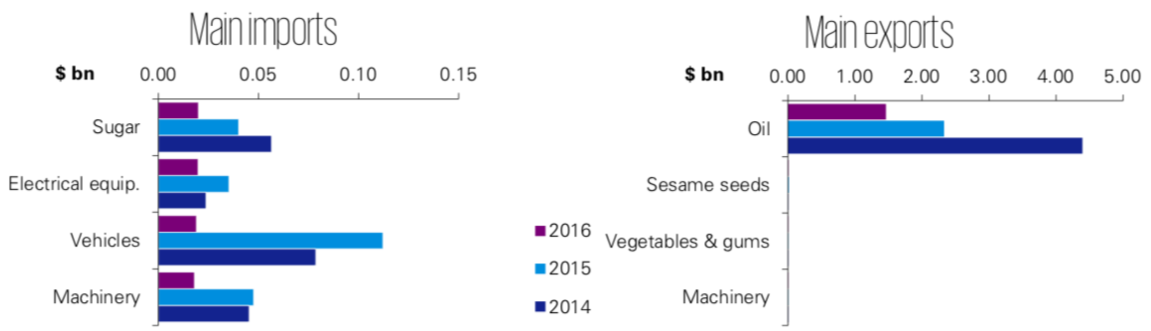
Reflection of South Sudan Real GDP growth (%) and FDI inflows (% of GDP).





Sources: IMF, United Nations Conference on Trade and Development (UNCTAD)

As reflected in the graph, foreign investment exited in 2015 with no new inflows records in 2016. One of the reasons behind the uncertainty was a result of a government that requested foreign workers to leave the country in 2014 but later on it was reversed. The increase in the cost of foreign workers permits added substantial pressure to foreign nationals.



Main Imports: % share of total	2014	2015	2016	Main Exports: % share of total	2014	2015	2016
Sugar	7.1%	6.5%	11.7%	Oil	99.5%	99.5%	98.9%
Electrical equipment	3.0%	5.7%	11.6%	Sesame seeds	0.1%	0.4%	0.5%
Vehicles	9.8%	18.1%	11.1%	Vegetables & gums	0.0%	0.0%	0.3%
Machinery	5.7%	7.7%	10.6%	Machinery	0.0%	0.0%	0.2%

Source: Trade Map

Source: IMF, United Nation Conference on Trade and Development (UNCTAD).

From 2014 – 2016 oil accounted for about 99 percent of South Sudan export revenues and sesame seeds is one of the significant other export commodity. There is expectation of South Sudan current account returning to large deficit by the end of 2018 simply because of the decline in oil production.

3.4. ANALYSIS OF SUDAN AND SOUTH SUDAN MONETARY AND FISCAL POLICIES:

Sudan and South Sudan were once a country and after their separation, they continue to maintain similar policies both in the banking sector and within the respective government operations. Sudan and South Sudan continued to use one currency until 18 July 2011 when South Sudan finally introduced the South Sudanese pounds after approval by Southern Sudan Legislative Assembly to replace the Sudanese pound. On the other hand, the Central Bank of Sudan which was a branch in Southern Sudan assumed full responsibility and became an independent Central Bank for South Sudan.

This subsection will focus on analyzing the monetary and fiscal policies of the two countries after 2011 and for the purpose of this research paper. Monetary policy will refer to the actions taken by the Central Bank, regulatory committee and currency board in determining the growth rate and the size of money supply and its impact on interest rates[15]. As stipulated in the Central Bank Act of the two countries, one of the key roles of the Bank is to maintain monetary policy through actions such as interest rate modification, exchange rate monitoring, buying and selling of government bonds and managing bank reserves as well as monitoring money in circulation.

Fiscal policy will refer to the actions taken by government to adjust its taxes and spending levels as a measure to influence its economy. Given the political instability in both Sudan and South Sudan, the two governments have invested much of the budget spending in military equipment to support the long conflicts and this partially justifies the reasons as to why the

[15] https://www.investopedia.com/terms/m/monetarypolicy.asp

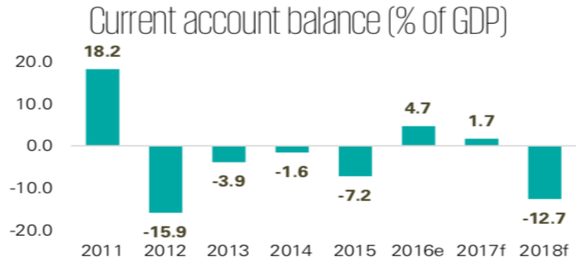
economy of South Sudan has remained the same without much progress after its independence in 2011.[16] The economic and financial cost of the ongoing conflict in South Sudan as of 2014 was estimated at about US$22 to $28 billion if the war is to continue for about five more years and which is true as per 2018 (Badreldin 2014).

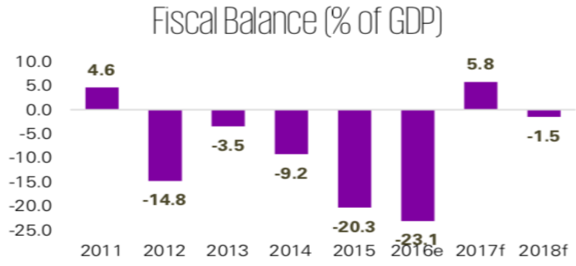
After 2011, Sudan witnessed remarkable decline in economic development as inflation and unemployment rate increased due to several factors. Since, Sudan adopted economic reforms through stabilization policies in consideration of the current five years (2015 – 2019) economic reform agenda for poverty reduction and economic growth, can only be achieved through stabilization of the macroeconomic indicators. The absence of proper strategies, lack of proper fiscal and monetary policies implementation in Sudan and South Sudan is evidenced by low levels of per capita income with the majority of the labor force involvement in agricultural activities. In order to promote effective transformation in the two countries, there is need for policy makers to adopt effective development policies.[17]

In a struggle over the past years by Sudan to recover back the economy that has been plagued with many challenges besides fiscal and monetary policies and failure to achieve potential rapid economic growth. Monetary policy is considered as one of the influential factors on productive sectors in the developing countries and contributes to the domestic gross product (GDP). In both Sudan and South Sudan, the productive sectors are affected by lack of financial and monetary policies. In order to achieve sustainable economic growth, the best

[16] https://www.frontier-economics.com/documents/2015/01/south-sudan-cost-war.pdf
[17] http://pyrexjournals.org/pjeif/pdf/2016/june/Elryah.pdf

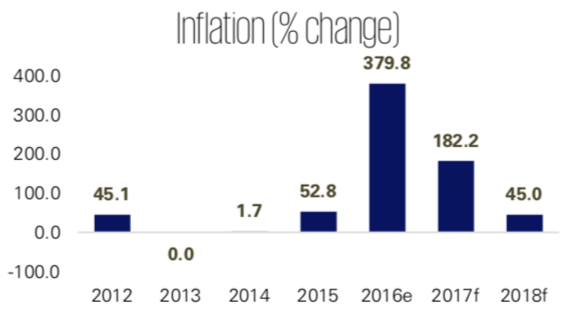
option for the two countries could be a combination of both structural and stabilization policies as a mechanism to achieve lower prices and inflation hence reduced budget deficits.

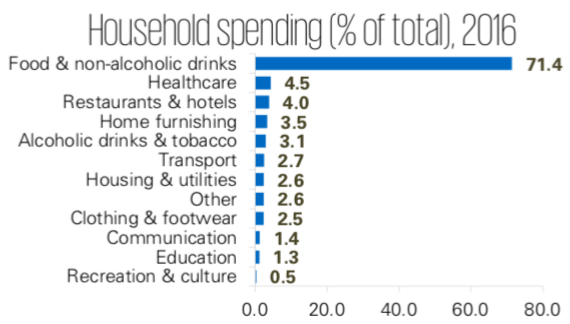




Source: IMF

Fiscal policy: After a small fiscal deficit in 2013, government finances deteriorated during 2014-2016. The country's struggles with oil production disruptions, internal conflict, drought and sporadic grant receipts resulted in pressure on revenues during the period. In contrast, expenditure increased markedly, with recurrent spending (including security costs) overshadowing infrastructure investment. As a result, the country's fiscal deficit widened to 23% of GDP in 2016. The Central Bank provided credit to plug the gap for the majority of the required financing. In essence, the Bank of South Sudan printed money in order to help the government finance its activities. At the same time, central bank reserves declined to less than $100 million by the start of 2017.





Source: IMF, BMI, country statistics agencies

Monetary policy - Between September 2011 and December 2015, the South Sudanese pound was pegged to the US dollar at SSP2.96/$. However, this official rate became unrealistic soon after implementation, with a government shutdown of oil production in 2012 and drop-in oil prices during 2014. This led to a dearth of foreign currency inflows required to sustain the peg. As a result, the parallel market rate increased from SSP4/$ in mid-2014 to SSP17/$ by late-2015, according to financial media reports. The Central Bank finally liberalized the exchange rate in December 2015 to a de jure floating exchange rate system.

Despite of the slowdown in investments in South Sudan, the government went ahead to make amendments in the tax policy by increasing excise tax rates of the following goods which are imported from the neighboring countries;

- Soft drinks and juices 10%
- Beers and wine 50%
- Spirits 250%
- Tobacco products 100%
- Transports and charters 20%
- Motorcycles 50%

Adjustment in the taxes of the above goods made so many traders to withdraw from importing the above goods and which in return made prices to shoot up because all the above goods are not manufactured locally but imported from the nearby countries. The government was intending to discourage imports but on the other hand taxes reduced simply because many importers could not afford to pay the high taxes and the amendment of the tax policy affected the tax reform because at the end citizens have to pay high prices for the limited goods in the market.[18]

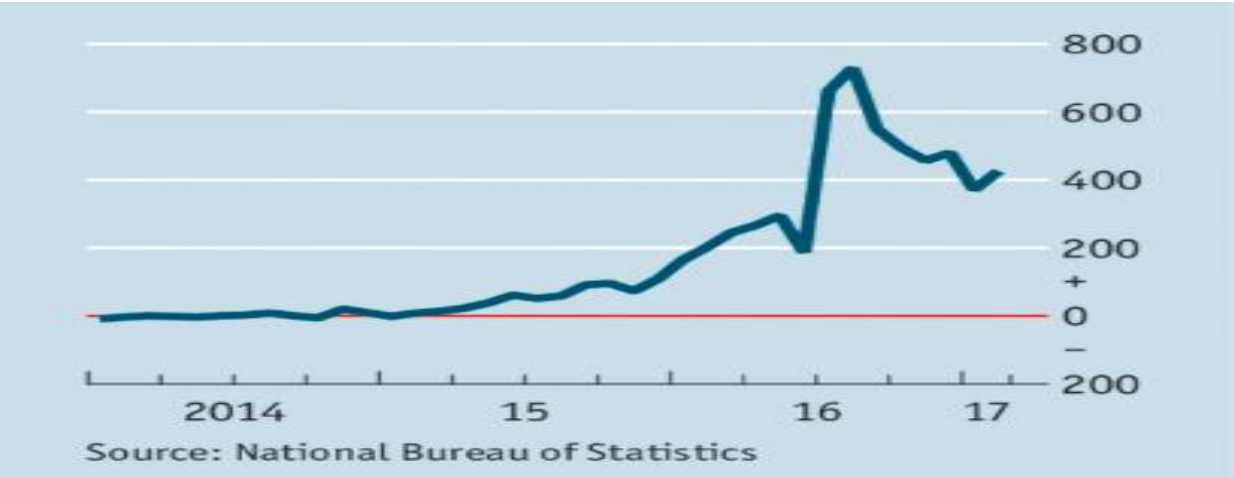
[18]http://www.ey.com/Publication/vwLUAssets/South_Sudan_releases_Taxation_Amendment_Act_2016/$FILE/2017G_00828-

CHAPTER FOUR - STATE OF CENTRAL BANK INDEPENDENCY AND CURRENCY DEVALUATION IMPACT TO HYPERINFLATION:

4.1. EVIDENCE OF HYPERINFLATION IN SOUTH SUDAN:

In October 2016, after several analyses of the country's economic situation, the World Bank commented on South Sudan as a hyperinflationary nation. The United Nations in December of the same year affirmed the statement of the World Bank when the country reached an inflationary peak of 835.7 percent in October 2016 before falling to 457.2 percent in the month after. According to Trading Economics, South Sudan inflation rate of 457.2 percent still stands out as the highest world official inflationary rate.[19]

South Sudan Inflationary rates 2013-2017 (%)



Source: South Sudan National Bureau of Statistics.

The above graph reflects South Sudan trend of inflation from 2013 when the economic instability started throughout 2014 to 2017, the country implemented a policy of currency devaluation in 2013 when the exchange rate was fixed for about a period of two years from 2011 to 2012. The decision to implement devaluation as shown in the graph has caused

[19] http://www.blog.kpmgafrica.com/south-sudan-records-africas-sixth-hyperinflation-episode

constant increases in the inflationary rate from 2014 until October 2016 to a peak of 800 percent and a drop in the inflation rate was experienced to about 400 percent in 2017.

South Sudan Exchange Rate fluctuation as of 2017 to 2018.

Source: South Sudan National Bureau of Statistics.

From the above graph, one can observe that there is fluctuation in the exchange rate between 2017 and 2018. However, there is a decline experienced in 2018 as compared to early 2017. Meaning that the exchange rate has dropped further to about 112.7 in 2018, Due to the inflow of donor support in form of foreign currencies into the economy.

According to Steve Hanke, hyperinflation normally happens when the consumer basket increases by more than 50 percent from one month to the other. South Sudan official price index was about 77.7% from June to July 2016 respectively, it went above 50% and this was a clear indication that hyperinflation already exist within the country. Although there are limited research publications to date due to the political instability in the country and limited access to inflation information by researchers. This explains the reason as to why South Sudan hyperinflationary history has not been known much by the rest of the world (World Bank and IMF).

Inflation is referred to as a chronic disease in both developed and developing countries in many parts of the world with an estimated rate of 11.9% in developed countries which later declined to 1.4% in 2013, while the average inflation rate reached 12.7% in 1981 among the less developed economies and later a down record of 4.6% in 2013 was witnessed (World Bank, 2014b). The financial sector and the whole economic activities can easily be disrupted with the evolution of any inflationary rate and this justifies the current economic situation in South Sudan.

South Sudan Inflation Rates and Inflation Determinants Chart March 2018.

South Sudan Prices	Last	Previous	Highest	Lowest	Unit	
Inflation Rate	161.20	112.70	835.70	-14.00	percent	[+]
Food Inflation	110.70	124.70	1002.20	-17.77	percent	[+]
Consumer Price Index Cpi	7298.46	6349.07	7298.46	53.49	Index Points	[+]
CPI Transportation	3262.42	2896.37	3599.68	42.05	Index Points	[+]

Sources: National Bureau of statistics, South Sudan.

South Sudan inflation rate is determined by a broad rise and fall in the prices paid for a standard basket of goods by consumers as shown above, based on the latest update, the inflation rate in South Sudan was recorded at 161.20 percent as of March 2018 which is still higher above 100 percent.

South Sudan Inflation Rate latest update March 2018.

Actual	Previous	Highest	Lowest	Dates	Unit	Frequency
161.20	112.70	835.70	-14.00	2008 - 2018	percent	Monthly

Sources: National Bureau of statistics, South Sudan

The above table reflects the actual inflationary rate in South Sudan which stands at 161.20%

with the previous figure of 112.70%, with the highest ever rate of 835.70% and -14% as the lowest inflationary rate ever in the country.

For purposes of this research paper, the author will mainly focus on lack of Central Bank independence and currency devaluation as policy concerns towards the current hyperinflation in South Sudan. However, there are other factors which are closely connected to the research variables that have clearly dragged the country into hyperinflation. The other factors include discrepancy that has grown between the official exchange rate and the black-market rate, the adverse effect of low production of staple foods below the required average on the domestic stocks market and consumers demand, internal conflicts and its impact on movement of goods and services provision and closure of the major roads that connect the country to the neighboring countries. These are some of the reasons that can be pointed out in relation to the current status of hyperinflation in South Sudan (Bromley 2014).

Prior to South Sudan's hyperinflation, some countries in Africa had already experienced the same situation such as Angola (1994 – 1997), Democratic Republic of Congo (1991 – 1992, 1993 – 1994 and 1998), Zimbabwe (2007 – 2008). Over the past century, there are records of 56 verifiable hyperinflation episodes but the case of South Sudan is closely comparable to the situation in DRC in 1998. From the current record, South Sudan inflation rate figure of 457 percent in November 2016 has been so far, the highest with more than double digits in comparison with 180.9 percent record of Venezuela in December 2016.

The above analyses have the justification that South Sudan went through hyperinflation with the highest record in 2016 hence providing bases for this research paper to continue and investigate Central Bank independence and the currency devaluation as the main variables of concern.

4.2. RESEARCH TRIP TO SOUTH SUDAN:

The research involved travel from Hungary to South Sudan for data collection and verification with a specific target of meeting the Governor of the Central Bank of South Sudan, World Bank office and Ministry of Finance and Economic Planning and other respondents. The main variables considered for this research are hyperinflation, Central Bank independence and currency devaluation. The research intends to examine how hyperinflation can be caused by lack of Central Bank independence and currency devaluation in the case of South Sudan.

I developed the following questions to facilitate the meetings and one on one interviews during the research.

- ❖ What are the key roles played by the Central Bank of South Sudan in its Economic Stabilization? a). Central Bank roles as required by law b). Practical reality of the Central Bank roles
- ❖ How does the other government institutions such as the Ministry of Finance and Economic Planning contribute towards economic stability in the country?

- ❖ What is the relationship between the Central Bank of South Sudan and the Ministry of Finance and Economic Planning or the Government in policy implementation?
- ❖ Do you see any conflicting roles between the Central Bank of South Sudan and other government institutions along policy implementation?
- ❖ Can you kindly explain as to why the South Sudanese currency was devalued, "Adjustment of the exchange rate in 2013 and the major devaluation in 2015?"
- ❖ Was the devaluation a surprise or expected and who are the main actors during the currency devaluation process in South Sudan?
- ❖ How would you describe the state of the Central Bank of South Sudan's independence?
- ❖ South Sudan has been referred to as a hyperinflationary Country, how true is this assumption?
- ❖ If yes, what could be the main factors responsible for such hyperinflation in South Sudan.? If no, give reasons why?
- ❖ Is there any correlation between the currency devaluation and the hyperinflation in South Sudan?
- ❖ Are there any roles played by the Central Bank of South Sudan towards the current inflationary state?
- ❖ What is your recommendation (s) for the policy makers in the current economic state in South Sudan? (Steps to be taken to stop hyperinflation).
- ❖ How is the inflation measured in South Sudan?

Before my travel to South Sudan, I had already made arrangements for meetings with the respective offices but unfortunately, upon my arrival, the Governor of South Sudan Central

Bank whom I was supposed to meet was sacked three days before and replaced by his first deputy hence this made it difficult for me to get access to information from the Central Bank since meeting the new Governor would require fresh request for appointments which was not possible within thirteen days. Secondly due to the peace talks that were ongoing in Ethiopia, most of the government officials were engaged in several consultative meetings and getting the time to meet the key government decision makers was very difficult.

According to first-hand information on ground and the media sources during the visit, one of the reasons given for firing the South Sudan Central Bank Governor was failure to manage the high consumer prices that nearly tripled in 2017. However, the government of South Sudan is struggling to stabilize an economy that has contracted in the past three years after an outbreak of a civil war in 2013 and the global drop in the oil prices which has affected the government's main source of revenue. According to International Monetary Fund (IMF), inflation forecast is estimated to reach more than double digits in 2018 and 2019 respectively.[20]

South Sudan being a new country with less than ten years of existence, not much has been written about its economic situation and set up, even if the country's inflationary rate amounts to more than 100%. The rest of the world is not aware of the current status of the economy of South Sudan and this has strongly given the author courage to carry out this

[20] https://www.businesslive.co.za/bd/world/africa/2018-05-11-south-sudan-president-fires-central-bank-governor-over-high-consumer-prices

research as an additional effort in making the current economic status of South Sudan known and encourage other researchers in the same area.

As a result of South Sudan steep currency devaluation in 2013 and 2015 effectively, the citizens lost hope and confidence simply because prices of basic goods such as food and fuel kept on increasing on a daily basis and the South Sudanese pounds depreciated to a very low value. Despite all the high prices and the valueless South Sudanese pounds, the government in response went ahead to print more money and provide more liquidity with the hope of stabilizing the economy. However, this action only exacerbates the problem. The government of South Sudan resorted to printing more money as a measure to meet its dire financial situation, because there were high accumulated civil servant arrears, large accumulated contingent liabilities in government balance sheet, deficit financing sources had dried up due to the high spending on security equipment to support the war (World Bank 2017).

To a large extent the monetization of the fiscal deficit justifies the high inflationary rate in South Sudan, although there are indications of limited borrowing from the Central Bank in 2018. The annual Consumer Price Index (CPI) in 2016 increased by 480 percent and by 155 percent between July 2016 to June 2017 as derived from the official statistics. Reports have clearly shown that very high inflation in the country has put both the urban and the rural households in a very difficult position of not even able to afford the minimum food basket in a day.[21]

[21] https://openknowledge.worldbank.org/handle/10986/28560?locale-attribute=en

In this regard, hyperinflation is a man-made disaster that is created when the right economic policies both fiscal and monetary are not correctly implemented hence resulting into instability and as such distorting the country's economic ability to engage in productive activities.

4.3. SOUTH SUDAN CENTRAL BANK STRUCTURE:

This subsection will focus on analyzing the organization and administration of the Central Bank as stipulated in the South Sudan Bank Act 2011 and further try to understand the objectives of the South Sudan Bank as required by law. The subsection will continue and present the independency of the Bank of South Sudan as required by law then try to analyze the practical reality of how the Central Bank operates and conclusion shall be derived at the end by determining if the Bank follows its mandate as required by law.

The Central Bank of South Sudan Act was designed based on the provision of Article 55(3)(b) in collaboration with Article 85(1) of the Transitional Constitution of the Republic of South Sudan 2011. The organization and the administration of the Bank of South Sudan shall be headed by Board of directors as the highest policy makers, a Governor, two Deputy Governors and three Directors who are charged with the task of policy implementation and management of the Bank as approved by the Board. Among other staff the Bank consist of an Internal Auditor who is responsible with assessing the internal controls system and annual internal audit, Chief Financial officer and Head of Financial Supervisor (Bank of South Sudan Act.2011).

The Bank of South Sudan board is composed of nine voting members which includes the Governor as the Chairman of the Board, the two Deputy Governors who are designated by the Governor as 1st and 2nd, six non-executive members who shall not be the Bank employees. The Central Bank Governor and the two deputies shall be appointed by the President, the Board members are proposed by the Governor and the two deputies, the final appointment is done by the President. The Governor and the Deputy Governors shall serve for a specified term limit of five years. The non-executive voting members of the boards will serve for seven years term (Bank of South Sudan Act.2011).

The Central Bank board perform a supervision functions of the administration and operations of the Central Bank through adoption of principal policies of the Bank, the board also carry out assessment of the monetary and economic situation of the country through reports submitted by the Governor and other senior management staff within the Bank.

On the other hand, the board has powers to adopt all regulations and orders that are applicable and to be issued by the Bank, approval of reports and recommendation to the government, decide on the Central Bank participation in international organization, determine the design and face value of banknotes in consultation with the government minister of Finance with President approval, determine the Central Bank reserve kept from time to time, appoint the Internal Auditor of the Bank, approve the appointments of other senior staffs and the director general of the Bank, the operational budget of the Bank and determine the accounting and financial policies of the Bank. These are some of the powers given to Central Bank of South Sudan among many others.

4.3.1. OBJECTIVES OF THE CENTRAL BANK OF SOUTH SUDAN:

The Central Bank of South Sudan has a primary function to maintain monetary and domestic price stability in the country. The other roles are to foster the liquidity, solvency and effective functionality of a stable market which is based on best financial practices in promotion of safe, and effective national payment strategy with an overall aim of maintaining stable financial system. The Bank also promotes sustainable economic development through supporting the economic policies of the Government (Bank of South Sudan Act.2011).

The Central Bank shall be in a position to adopt and implement policies that are meant to ensure monetary stability, determine the banknotes features in collaboration with the Council of Ministers, manage the foreign exchange reserve of the country, monitor the development of effective payment systems and transfers of securities issued by the Bank or Government, minimum bank reserve establishment and enforcement as required by law, the Central Bank acts as an adviser and banker at the same time to the government and the public as a whole, supervise other regulated entities and commercial banks (Bank of South Sudan Act 2011).

Furthermore, at the request of the government and on the banks own behalf, the Central Bank shall perform foreign exchange operations, debt securities issuance and finally the Central Bank shall perform the role of representing the country at international affairs as stipulated in the Act.

4.3.2. INDEPENDENCE OF BANK OF SOUTH SUDAN:

Reference to South Sudan Bank Act 2011, the Central Bank shall not be influenced while exercising its duties and power by any member of the board, Bank officials, Ministerial instructions and public institutions. The Bank of South Sudan shall not work to serve a specific interest of either an individual or an institution that is not in line with the Act and interferes with the execution of its best practices.

The Central Bank management including the board members, officials, agents and employees shall have the responsibility to promote the reputation of the Bank as an independent institution that has a common objective of serving the whole of South Sudan as a nation in collaboration with its international and regional partners.

The Act also states very clearly that members of the board, management team and Internal Auditor shall not engage into political activities. The Act further prohibit the Bank from granting financial support or guarantee whether in form of direct loan or purchasing a loan, except otherwise authorized by the Act (Bank of South Sudan Act 2011).

The Act of the Central Bank of South Sudan is very clear and positive with the independence of the Bank as stated above. For the case of South Sudan, the board is consulted on proposals that are in line with matters that relate to its objective and field of competence before submission to the National Assembly for discussion and final approval. From the research response, the Central Bank of South Sudan has not fully executed the requirements of the Act in its day to day operations and this will be the next discussion on how the Act has fallen short in really aspects of its operations as reflected from the economic performance and policies implementation in South Sudan.

4.3.3. THE STATUS OF THE CENTRAL BANK OF SOUTH SUDAN IN REALITY:

Economists on several occasions emphasize and agreed on the fact that a good Central Bank in any given nation is built on three main pillars which includes among others, independence in decision making and policies implementation, accountability and transparency. As such to achieve any objective of macroeconomic stability, the form of governance adopted by Central Bank will highly determine the output (Siklos 2003).

According to one respondent during my research trip: “South Sudan has got very clear Central Bank Act but unfortunately most of the requirements by the Act are not applied into practicality, for example the Act prohibits the bank’s management and administrators from political interference but on the opposite, most of the top Bank’s management and the board are people who are loyal and in support of the ruling party and always serve to please the government political wing than focusing on their required duties.”

On 11 November 2013, the Bank of South Sudan came up with a proposal of devaluation/ liberalization of the exchange rate policy. The fixed exchange rate had several implications which include, growth of shallow banks with no conventional banking products, but rather benefited from the foreign currency, allocation of hard currencies to commercial banks and bureaus that created inequality and injustices since the allocation did not take into consideration the best practices required in the banking sectors, allocation of hard currencies on non-market model institutionalized rent and medical facilities seeking and finally the fixed exchange rate was not sustainable by the Central Bank. The allocation of the hard currencies by the Bank was based on both government and private institutions recommendations, which is contrary to the Bank of South Sudan Act, hence Central Bank independence is tempered (Garang 2017).

Another argument in support of lack of Central Bank independence is reflected when a fiscal policy dominates and steers away the Central Bank from its macroeconomic stability objective. In 2014, the government of South Sudan increased the number of States,[22] from 10 to 28 States in December 2015 and to 32 States respectively in January 2017. However, this act interfered with the 2016/2017 budget as such there was reduction in the State budget allocation to only about 3%. On the contrary, the 2015/2016 and 2016/2017 government budgets had been financed through deficit financing hence increasing money supply in the economy. This impacted seriously by accelerating inflation which is now hyperinflation (Garang 2017).

Although the Central Bank is referred to as the lender of last resort in many countries, its activities are still limited by law or by the Central Bank Act in the case of South Sudan. The Bank can finance up to 10% through deficit financing based on previous audited government's income. On the contrary, the Bank of South Sudan is implementing more of fiscal policy instead of taking the lead in its monetary role as a measure to stabilize the

[22] States are geographical administrative regions within the government of South Sudan that are headed by Governors who reports to the President.

economy, evidenced by the creation of many States by the government. As such, the Bank in collaboration with the Ministry of Finance had to fund the annual budget through deficit financing. This act undermines the Central Bank credibility.

Recruitment process of personnel is one of the ways through which Central Bank independence can be manifested. An independent and transparent recruitment process in the banking sector brings in intellectuals who have better knowledge and understanding of the best monetary practices within the sector as practised in other developed and developing countries, Governors and other administrative and management staff are recruited via a competitive professional process. However, in South Sudan, some of the top management staff are appointed by the without involvement of the cabinet. In many countries, removal of such top senior management staff involves the process of investigation and the parliament other than an individual decision that can be wholly handpicked by one person as it is happening in South Sudan.[23]

There is dependency of the Central Bank of South Sudan on treasury for its operational budget other than its own sources. In most countries, a financially independent bank has got external sources of raising money from seed capital and other operational avenues and in cases of cash deficit then the parliament will be required to approve additional funding. The scenario of Central Bank of South Sudan raising its own funds has not yet been effected hence there is a clear absence of the Central Bank independence. Good management of a Central Bank is required to achieve financial stability and independence within the system for example, the United States of America reserve bank made its initial profits in 1915 and Nederlandsche bank in 1984 (Fischer 1995).

[23] https://www.ecb.europa.eu/careers/pdf/staff_rules_fixedterm.pdf

After the global crisis, most Central Banks got more powers with their new responsibilities and powers closely connected to the political contentious areas of policy, requirement to work closely with the government and other public institutions. With an effort to reflate their economies, many Central Banks have embarked on to undershot their inflation targets over an extended period. As a result of the coordination with government and other public institutions, the Central Banks in many countries have become too powerful and unaccountable hence neglecting the main monetary roles that they are supposed to implement in stabilizing the economy. The same fact has been experienced in South Sudan and this partially justifies why many Central Banks are not independent in many countries (Balls, Howat and Stansbury 2016).

There are further worries that the broader responsibilities and tools of the Central Bank in core monetary policy function will undermine its independence given the expansion of the bank mandates towards financial stability, banks are forced to work in more political contentious areas such as housing policies. Allocation of more responsibilities and tools is one of the concerns believed to be behind the distraction of the institution from its monetary policy focus and undermining its effectiveness and bureaucracy.

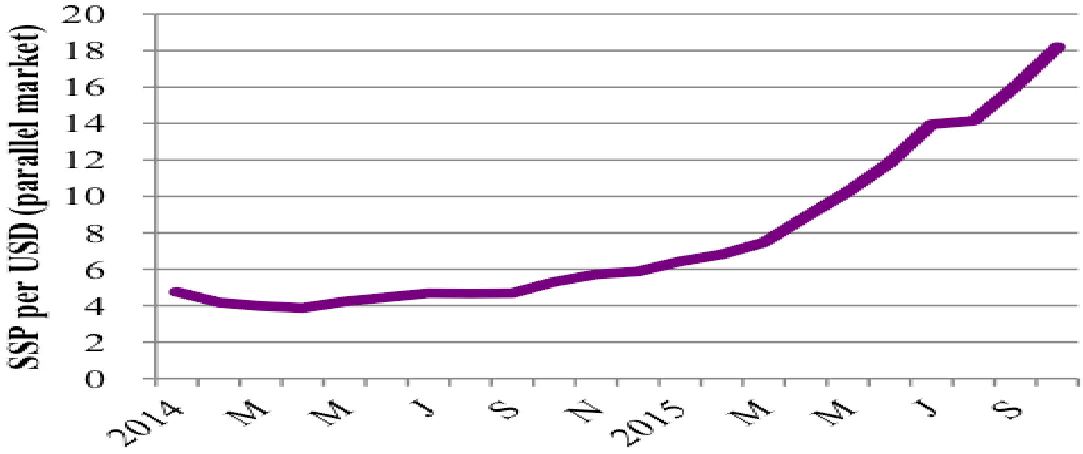
Another strategy to undermine central bank independence is influence of the monetary policy by politicians through filling important positions at the central banks with individuals whom they know and recommend for appointment in the case of South Sudan, such individuals will always work to fulfil the expectation of the people who recommend them for such position and this is one of the ways through which even central bank that have high level of independence always fail to perform because of conflict of interest (De Haan and Eijffinger 2016).

From the above situation, it is clear that the Bank of South Sudan financed a political decision that later impacted negatively on its main objective of macroeconomic stability. As a custodian of public finance, it is in order for the Central Bank to have a clear distinction between its monetary policy role and its support in facilitating government fiscal policy, but in the case of South Sudan, the bank seems to be more of implementing fiscal policy than monetary policy. This practice has reflected a clear violation of the Central Bank Act in line with its independence. The argument here is that, lack of Central Bank Independence in the above cases strongly fuel the high inflation which was already in existence and accelerating it further to hyperinflation.

4.4. REASONS FOR CURRENCY DEVALUATION AND ITS IMPACTS:

On 12th November 2013, the Central Bank of South Sudan in collaboration with the Ministry of Finance and Economic Planning devalued the South Sudanese pounds by declaring a raise in the fixed exchange rate of 2.09 to 4.5 meaning that 1US dollar = 4.5 SSP. This move was a shock to many South Sudanese. In response, the National Legislative Assembly summoned the Central Bank Governor for explanation and justification but unfortunately, the Governor requested more time to prepare to face the Legislative Assembly. To many policy makers the absence of the Governor for immediate explanation became a frustrating factor because the citizens wanted to understand the reasons behind the devaluation (Sandrai 2013).

Trend of South Sudanese Pounds depreciation against USD.



Sources: National Bureau of statistics, South Sudan.

The table above indicates the trend on how the South Sudanese pounds depreciated against USD effective from 2014 to date, it is very clear in the above graph that the South Sudanese pounds value has never appreciated until 2018.

South Sudanese Pounds Exchange Rates update as at March 2018.

Actual	Previous	Highest	Lowest	Dates	Unit	Frequency
137.21	136.64	137.36	2.09	2008 - 2018		Daily

Sources: National Bureau of statistics, South Sudan.

From the above table the actual exchange rate of 137.21 is as at March 2018, the previous, highest and the lowest refers to the period between 2008 and 2018.

As a result of failure to understand the reasons behind the currency devaluation, the market started to respond nervously towards the exchange rate reforms through immediate increase in the prices of basic commodities and fuel, which are highly dependent on foreign currency, disappeared on the market. South Sudanese pounds started to trade at 4.8 SSP = 1 US dollar in the exchange bureaus while the black-market exchange rate went as far as 5.0 SSP = 1 US dollar within the same week November 2013.

Devaluation of the currency of a country is normal in any developing economy and an independent Central Bank has got all the mandate to implement its monetary policy without the influence of any institution. Devaluation comes with both positive benefits and negative impacts into the national economy. The ideal economic perception was to improve and encourage local production as a mechanism to discourage imports of goods into the country by creating a situation whereby importers will require more South Sudanese pounds to buy foreign currencies for importing goods from abroad. As such, this strategy will enable both importers and business people to invest in the local economy which will in turn create jobs and improve the standard of living (Sandrai 2013).

In South Sudan, it is not a secret that owners of commercial banks and forex bureaus make high profits through buying of hard currencies at a lower exchange rate from the Central Bank then selling in the market (Black market) at a higher exchange rate. In this case devaluation is one of the best options to close the gap between the official and the black-market rate but given the institutional loopholes whereby most of the Central Bank staff are linked to owning forex bureaus and having outlets in the black market, makes it hard for such policies to succeed.

Exchange rate harmonization between the official Central Bank rate and the black-market rate in the case of devaluation in South Sudan makes some economic sense. The concern with this policy in South Sudan is that, the Bank of South Sudan did not give a clear explanation on how this strategy will be achieved. Secondly, the bank did not have enough foreign currency reserve to implement the policy. If there is sufficient dollar supply in the economy, the efforts to unify the two-exchange rate could be possible in the case of South Sudan since the country is import dependent. For the currency policy devaluation to be effective, there is need for adequate hard currency supply into the economy to minimize the black-market pressure.

The devaluation that many governments resorted to implement made a positive impact by reducing the real wage in some countries hence lower institutional unemployment was experienced.[24] This form of devaluation was considered successful as it prevented the upheaval of the increasing unemployment among the populations, devaluation was able to work within a short time because the prestige of unionism was not impaired but rather unionism popularity was left untouched. Today many policy makers aim at increasing real wage rates, thus the usefulness of devaluation as a measure to reduce institutional unemployment has worn out (Ludwig 1998).

One of the reasons behind devaluation is to encourage more foreign tourists and investors into the domestic economy and making it more expensive for the country's citizen from visiting other foreign nations. This condition could be applicable in the case of South Sudan

[24] https://mises.org/library/human-action-0/html/pp/888

but the timing was not right by the policy makers simply because the currency devaluation happened when the country was still getting established and needed more support from both internal and external investors. By depreciating the South Sudanese pounds, most investors were scared to commit their capital into the economy because the country did not have much to offer in return for capital investment.

The main challenge of the currency devaluation lies in both the short and long term, inflation remains at its highest peak as South Sudan has to import a lot of goods such as fuel and food (both manufactured and agricultural products). Although the country exports oil, as a landlocked nation, South Sudan lacks functioning refineries and as such fuel is imported from its neighboring countries which has made the situation worse.[25]

Devaluation on its own as a monetary policy when applied correctly will serve the best purpose of achieving economic stability but in the case of South Sudan, the currency devaluation was not well calculated to target the right objective and as such the credibility of the Bank of South Sudan went on question. More especially, the failure of the Central Bank Governor to give explanation regarding the reasons behind the devaluation when requested by the National Legislative Assembly was a clear indication that the decision taken to devalue the currency was not his own alone as an independent Central Bank but rather a decision influenced by the Ministry of Finance and Economic Planning which is contrary to the requirements in the Bank of South Sudan Act 2011.

[25] https://www.brookings.edu/blog/africa-in-focus/2015/12/18/the-implications-of-south-sudans-decision-to-float-its-currency

CHAPTER FIVE. CONCLUSION AND RECOMMENDATIONS:

5.1. CONCLUSION:

The analyses and the research trip has shown that, the Central Bank of South Sudan is legally independent as presented by the Act, but on practical reality there exist lack of Central Bank independence as expressed by the responses and different authors. To a larger extent, lack of Central Bank independence in the country has greatly contributed towards the current hyperinflation. However, there are also other factors that have contributed to the hyperinflation in South Sudan as expressed above.

The establishment of an independent Central Bank in South Sudan is very clearly stipulated in the Bank of South Sudan Act but in reality, as manifested from the research findings and other researchers, most of the requirements by the Act are not fully implemented, simply due to interference from other government institutions and politicians. Failure to implement the mandates of the Act means failure in performance of the Central Bank monetary policy hence weak economy which is exposed to any shocks such as inflation.

The existence of uncontrolled black market in South Sudan from 2011 after the country's independence is one of the factor that has put the Central Bank credibility on question because all the money exchange in the black market have their sources connected to either Central Bank staff or other key political leaders. The continuation of this huge forex business in the black market has resulted into high exchange rates which are determined by speculations and high exchange gains expectation hence loss of confidence by the public on the central bank independency. As the exchange rates are increased on daily basis, prices of commodities as well increase hence inflation. In some countries, it is a criminal act for central bank staff to facilitate black market forex.

Appointment of senior staff of Central Bank as opposed to competitive recruitment has made the top management not to only follow the professional duties and responsibilities of the bank as required by law but rather serve to maintain their position through working hard to meet the requirements of the ruling government hence reflecting inadequate Central Bank independency. Kenya as an example initiated a competitive recruitment process of their central bank Governor, this initiative has been reflected in the country's better economy.

As a consequence of all the above, Central Bank independency in South Sudan has been tempered despite the fact that there are other factors that have resulted into hyperinflation such as the current political instability, the main cause of the hyperinflation in South Sudan as a reflected by the research is mainly centered within lack of Central Bank independency which has been fueled by failure in monetary policies implementation.

5.2. RECOMMENDATION:

In order to establish an Independent Central Bank, separation of powers should be initiated between the government and the Bank and this can easily be through alerting the political leaders about the importance of the Central Bank and its responsibilities as an independent entity that can promote economic stability. Most of the politicians in South Sudan requires sensitization and exposure to learn from other countries on how good governance verse economic sustainability can be achieved through cooperation and working within their limits.

Dollarization could be another recommendation, given the hyperinflation in South Sudan and the fact that the country is import dependent that requires hard currencies to acquire goods from abroad and most of the country's citizens requires hard currencies to afford better medical facilities and education for children in the neighboring countries. Adopting the United State dollars as the main currency for the country can be an immediate solution. In this case inflation target rates and calendar dates can be used as performance measures but all depends on how much the actual inflation rate varies from the targeted level, adding liquidity to the economy and cutting lending rates could be the immediate action to be taken.

Professional transparency in the recruitment process in the Central Bank as opposed to appointment of senior staff as provided in the Bank of South Sudan Act, is one of the areas of concern that has caused much influence from politicians into the Central Bank independent practices as mentioned earlier on in the case of South Sudan. Appointment of the top senior management team should be done by a committee of independent team other than one individual.

Inflation targeting as a policy of revolving around to meet a preset, publicly displayed annual inflation rate targets is one of the measures that Central Bank of South Sudan can resort to implement so as to reduce the hyperinflation in the country to a manageable level as well as regaining its credibility. This can be achieved through the use of price index of a basket of consumer goods, such as the consumer price index in United States dollars as a benchmark.

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