CHAPTER FIVE

THE SUDANESE MONETARY SYSTEM: STRUCTURE, PERFORMANCE AND MANAGEMENT

Financial Sector in the Sudan

BANK OF SUDAN (1960) [11 BRANCHES]

- Banks
  - Commercial Banks
    - **Government Owned**
      1. Bank of Khartoum Group
      2. EL–Nilien Industrial Development Bank
      3. Farmer's Commercial and Rural Development
      4. Animal Resources Bank
      5. Islamic Cooperative Development Bank
      6. Ivory Bank
      7. Omdurman National Bank
    - **Joint Ownership Banks**
      1. Al–Barakah Bank
      2. Sudanese French Bank
      3. Saudi Sudanese Bank
      4. Faisal Islamic Bank
      5. AL–Tadamon Islamic Bank
      6. Al–Gharb Islamic Bank
      7. National Bank of Sudan
      8. Al–Shamal Islamic Bank
      9. Blue Nile Bank
      10. Sudanese Islamic Bank
    - **Foreign Banks**
      1. National Bank of Abu Dhabi
      2. Al–Mashriq Bank
      3. Habib Bank
  - Investment Banks
    - (1) Financial Investment Bank
    - (2) Gadarif Investment Bank
  - Specialized Banks
    - (1) Agricultural Bank of Sudan (1957)
    - (2) Real Estate Bank, 1966
    - (3) Workers Bank
    - (4) Savings and Social Development Bank, 1999
- Non–Bank Financial Institutions
  - (1) Khartoum Stock Exchange
  - (2) Sudanese Development Corporation
  - (3) Rural Development Company
  - (4) Insurance Companies
  - (5) Deposits Guarantee Mutual Fund
  - (6) Social Fund

CHAPTER FIVE

THE SUDANESE MONETARY SYSTEM: STRUCTURE, PERFORMANCE AND MANAGEMENT

This chapter presents the structure, performance and management of the Sudanese Monetary System and, it is divided into several sections. The first section is concerned with the introduction. Section two gives an idea of monetisation in the Sudan. While the third section presents the historical background of Bank of Sudan (**BoS**), its functions under Bank of Sudan Act 1959 and Act 2000; and a discussion of the balance sheet of Bank of Sudan. The fourth section explains the balance sheets, sources and uses of funds of the commercial Banks and their density. The fifth section specifically, is concerned with the development banks and other financial institutions. Section six presents the Monetary-Credit Policy, its direct and indirect instruments along with the basic features and evaluation. Seventh section is concerned with the Financial Markets. Lastly, we discuss Financial System Reforms in the Sudanese context.

5.1 INTRODUCTION

Much of the economic development that had occurred at the national front in the last half century, substantially, owes to the existence and evolution of the central banking institution. Today economic growth is being, increasingly, considered to be the most important objective of monetary policy by almost all the developing countries. It is now generally believed that applying the process of financial planning can accelerate the economic growth. Several kinds of financial institutions can be distinguished on the basis of their nature of financial instruments[1] used by them, and that mainly lies on their main sources of income. Broadly, financial institutions can be classified into banking sector and non-banking financial institutions, central bank and commercial banks assume special responsibilities over economic and financial policy making in a developing economy.

The Sudanese traditional banking system was inherited from the Anglo-Egyptian condominium (1899-1955). When the National Bank of Egypt was opened in Khartoum in 1901, it obtained a privileged position as banker to and for the then government, a "*semi-official*" central bank. Other banks followed, but the National Bank of Egypt and Barclays Bank (England) were dominated and stabilised banking in the Sudan until after the World War II. Here, in this chapter we would like to discuss in detail the main elements in the structure of the monetary system of the Sudan, which composes of the financial sector with the central monetary authority namely, Bank of Sudan (**BoS**), along with the commercial banks: Three banks are owned by the government, ten banks jointly owned, three foreign banks, two investment banks; and four developmental banks as specialized banks. The open door policy, still in force, allows the foreign banks to join the financial sector once again, for purpose of encouraging foreign capital investment. As a part of the monetary system, also there are twenty-five non -banking financial institutions (**NBFIs**). Detailed account of Islamic banking and financing system follows in the next chapter independently.

5.2 MONETARY SYSTEM (MONETISATION)

In this section, we study the Sudan's monetary system ***(Monetisation)***, during 1980/81-2001, along with its brief history. We have seen and used those pieces of paper, which function as money because people accept them as money, as have faith in their purchasing power. Meier and Baldwin (1957)[2] say: "*The currency and credit system must be responsive to stimuli of development, but monetary and financial institutions in themselves cannot be the primary and active movers of development in a direct sense*", [*Meier and Baldwin 1957; p. 395*]. The monetary systems are nothing but different methods of limiting the total supply of money. Shapiro, Solomon andWhite (1968)[3] who have defined monetary system as: "*The monetary standards of a nation involves over-all set of laws and practices that control the quantity and quality of money in the system,*" [*Shapiro,* et al *1968; p.25*].

Monetary system in a broad sense is the economic system of modern capitalism. Economies of developed countries is a '*money economy*': scarce goods are produced by capitalists and marketed for money, then the money proceeds are exchanged for non-monetary goods put on sale by other specialists. Thus, where a transfer of money takes place in each and every transaction in the markets, such can be said to belong to the monetary system. Shaw (1950)[4] narrowly define monetary system:

> "*as one part of the economic system. It includes only the complex of institutions that have the capacity and authority to issue and retrieve money, to create and to destroy it, and to inflate the supply available for the public to deflate it.*" [*Shaw, 1950; p.6*].

There are three elements in the usual modem monetary system: Government, represented by ministry of finance and national economy (in case of the Sudan), Bank of Sudan, and the commercial banks. The tripartite structure of national monetary system is typical, and evaluation toward a more closely knit structure, is already evident. And each part of the monetary system can be described by its balance sheet [*Shaw, 1950; p. 7*].

The task of a good monetary system is to provide society with one adequate supply of money, which must command the confidence of the people so as to be freely acceptable, and must be large and flexible enough to meet the needs of trade and economic growth. Every country has its own monetary system, that consists of the country's unit of money 'two major standards, i.e. metallic (gold and silver) and inconvertible standards, [*Shapiro, et al, 1968; pp.25-28*]. The monetisation of an economy provides the potential to generate a real investible surplus in several ways. As fiat money replaces barter system in transactions, the demand for money relative to income raises that releases real resources of equal value, [*Thirlwall, 1999; p. 335*].[5] In growing economy (Sudanese case) monetary expansion is required to allow an increase in the volume of transactions to take place, and can be done appropriately by the government for development purposes.

In the case of the Sudan, the monetary system, the monetisation of the Republic reflects clearly its double orientation as well as its national history, to the extent that it was linked with Arab World; through that, with the Mediterranean sea and the Red sea trade. Coins seem to have been circulating in the Sudan during the Fung Dynasty (1504-1821).[6] During the Egyptian-Turkish conquests in 1821 the Ottoman and Egyptian coins were introduced in the country. From the years 1885-1916 there was a succession of various attempts at creating a domestic currency. During the siege of Khartoum, the then Governor General, Charles Gordon had issued notes, which he signed. Al-Mahdi and his successor the caliph, al-Khalifa Abdullahi struck coins of their own, the intrinsic value of which was higher than foreign coins also were in circulation. The Sudanese coins largely went out of circulation to be exported as gold ingots (Gresham's Law),[7] [*Jucker-Fleetwood 1962; pp.192-193*][8].

At present, there is no link between Sudan's domestic money system and the precious metals i.e. gold and silver. But, there were some historical connections: **(1) Metallic Standards**: the metallic monetary standard, under which the circulating paper money may be converted into metal (especially gold). In the case of our study gold currency was in used long back during Fung Dynasty '15th century' and even during the Anglo-Egyptian Condominium but, money of those currency disappeared. The Sudanese Pound (**LS**) was a convertible currency during independence time, since the British currency 'coins' were very much in circulation and the Sudanese monetary system was mainly referred to gold.

(2) Inconvertible Standard: the standard in which the money-paper cannot be converted into a metal (**gold or silver**) is called an inconvertible paper standard. This means that the government will maintain parity among different type of money but not between paper money and gold. It is known as the managed system, but now these days all the monetary standards are highly managed [*Horvitz, 1979; p. 21*].[9] The establishment of Anglo-Egyptian condominium led to the introduction of Egyptian and Turkish currency notes and British coins. The present monetary system in the Sudan is managed by **BoS** and is based on inconvertible paper currency for internal purposes. The Sudanese Pound (1957-1998), recently, replaced by the Sudanese Dinar (**SDD**), and there are Dinar notes as well as Piastres coins; the Dinar is convertible into so many other currencies of the world, while the present system of notes issued in the Sudan, under the minimum reserve system, and the bank can issue notes and coins up to any extent provided it keeps a statutory minimum reserve of gold and foreign securities.

5.3 BANK OF SUDAN A HISTORICAL BACKGROUND

Before the Sudan's independence, there had been no restrictions on movement of funds between Egypt and the Sudan, and the value of the currency used in the Sudan was tied to that of Egypt. This situation was unsatisfactory to an independent Sudan. Hence, the Sudan after the independence was in need for a central bank to replace all those institutions, which carried out its functions of regulating currency issuance and planning monetary and financial policies to serve economic sectors, and build a strong banking system capable of responding to the economic development needs in the country. A need for a central bank became exigent at that time when the government embarked upon grand scale economic programmes which necessitated effective monetary and financial policies that would cope with those ambitious Sudanese economic programmes. The Sudan was a de-facto member of the Sterling era until 1956; prior to introduction of the Sudanese Pound (**LS**) (*the Sudanese Pound was introduced in April 1957; and it was LS 1= US $ 3.87156 maintained ever for long time*). There was a transition period between the monetary administration during the Anglo-Egyptian condominium and the establishment of the central bank of the country, the Sudan Currency Board *(17 June 1956)* was necessitated and designed to serve only until: a central bank could be formed, issue the national currency "*Sudanese Pound and Coins (Piastres) issued in September 1956*" and exchanging the Sudanese notes and coins for the Egyptian currency note and British coins, that had been in circulation since 1899; and the task was completed in *April 1958,*[10] [Jucker-Fleetwood, 1962, p. 61].

The board was consisted of a British, Egyptian, Swedish and a Sudanese as members. To achieve those grandiose aims of economic development, a three-man commission of experts from the Federal Reserve Bank (USA) was set up on 1st December 1956; to look into the possibilities of establishing a central bank and the technical mission was assigned to study the monetary system of the Sudan. The technical mission consisted as follows:

(I) ***Mr. Oliver P. Wheeler***: Vice President, Federal Reserve Bank of San Francisco as Chairman.

(II) ***Mr. Allan R. Holmes***: Member Federal Reserve Bank of New York as a Member.

(III) ***Mr. Andrew Brimmer***: Member, Federal Reserve Bank of New York as a Member.

After completion of the task, the commission handed over their recommendation, which was followed by the promulgation of the Bank of Sudan Act 1959. The committee had recommended the operating of a central Bank, [*Brimmer, 1960; p. 23*].[11] The Bank of Sudan Act 1959, signalled the establishment of the central bank, (*with full-paid capital of LS 1.5 million*), thereafter, it commenced its functioning on 1st February 1960, as independent institution enjoying the status of a legal body entrusted with the powers to enter into contracts, sue or be sued in accordance with Article (5) with a great hope to help in the development process of the Sudan until today, the present regime only changed the Bank of Sudan Act 1959 by replacing it with new one i.e. the Bank of Sudan Ordinance 2000; under Act 90 (I) of the new constitution of the Republic of the Sudan (1998); with strict Islamic features. Thus, section 5 (2) of Bank of Sudan Ordinance 2000 provides that the Head Office (**HO**) of Bank Sudan is at Khartoum the capital city of the country, and twelve branch offices all over the country (*al-Fashir, al-Gadarif, al-Ubbiyyid, Atbara, Dongola, Juba, Kosti, Nyala, Port-Sudan, Wad Madani Wau*) Governor and Deputy Governor are appointed by the government for a term of six years.[12] **BoS** has fully paid capital of SDD 300,150,000 by the Sudanese government and it is an autonomous body by virtue of section 5(1). The administrative structure of **BoS** is composed of the higher administration and eleven general administrations, along with ten branches spread all over the country within different states shows the general administrations and their assisting administration departments.

5.3.1 FUNCTIONS OF BANK OF SUDAN

The **BoS** Act 1959 is part of this study, hence, a brief presentation of the functions (a heritage/ legacy by the British) of **BoS** that were enforced from 1st. February 1960 until it was replaced recently by the **BoS** Ordinance 2000. In this section, we highlight the objects of **BoS** Act 1959 as well as these of **BoS** Ordinance 2000. **BoS** as a central bank of the country has the main statutory obligations as provided under Bank of Sudan Act (60) of 1959; article 5, which read:

> "*The principal object of the bank shall be to regulate the issue of notes and coins, to assist in development and maintenance of sound monetary, credit, and banking system in the Sudan, with view to the orderly and balanced economic development of the country and the external stability of the currency, and to serve as a banker and financial advisor to the government*", [*Bank of Sudan, 1960*].

Therefore, the law has facilitated Bank of Sudan to carry out its assigned roles. Hence, the main functions of Bank of Sudan, which have been replaced were; (1) the issuance of paper currency and coins, (2) acts as a banker to the government by keeping government and different departments accounts, also acts as a financial advisor to the government with specific objects of warning the government of any threat to the value of foreign exchange, (3) managing the external and internal debts (4) managing the monetary policy (5) to conduct and carry out researches and special planning that concern with banking system and its development, (6) acts as banker to the banks, acts as a clearing house (administrates clearance operations of banks), keeps their reserves acts as the last lender of resorts, (7) managing the credit situation with a view of maintaining monetary stability in the country, determines the liquidity and credit ceiling to the macroeconomics sectors.

As each country adopts a particular economic system this may oblige the central bank to carry out certain roles that may fundamentally differ from other economic systems. It is worth mentioning that each central bank has special law that specifies those functions, and that can be amended, as necessity requires. There were other additional developmental and promotional functions. The Bank of Sudan Act 2002 has replaced the above-mentioned

Bank of Sudan Act 1959, which was implemented for the last four decades. In the next section, we highlight the Bank of Sudan Act 2000, which is slightly different than the outdated one; the current is one with Islamic characters.

5.3.2 FUNCTIONS OF BANK OF SUDAN ACCORDING TO ORDINANCE

After the Islamisation of the banking system, **BoS** continued to carry out its role to entrench Islamisation of banking system through the establishment of the Shariy'ah High Supervisory Board (**SHSB**) in the Bank in the year 1993. This was to ensure that then banking operations are free of traces of usury-like-practices. Bank of Sudan was continued to play its role as a banker to the federal and states governments and for the government and semi-government institutions, as it contributes into their capital formation, keeping their accounts in both domestic and foreign currencies. In addition to its role as a lender to government, and lender of last resort to commercial banks, **BoS** also carries out its administrative and banking control roles according to other laws like Banking Act, Companies Act etc., which have been amended several times to cope with the financial and economic policies of the country, the last of which was in 1993. Here, due to the foresaid Islamic laws, the government promulgated a new Act to replace the existing one and to cope with the Islamisation of the financial system.

Due to Act 90 (1) of the new constitution of the Sudan 1998; here, the President of the Sudan issued a temporary ordinance **BoS** i.e Ordinance 2000 (now Bank of Sudan Act 2002) to replace the Bank of Sudan Act 1959. The followings are the main function of the bank, according to Article (6):

(a) Bank of Sudan acts as currency authority to issue all kinds of currency, notes and coins, (Dinar and Piastre as a coin) according to Article 19; and administrates, regulates and supervises the currency.

(b) Issues and manages the monetary and credit policies in accordance with the achievement of national objectives of the national economy.

(c) Assists for the purpose of advance and development of a sound banking business and pick-up its efficiency for the achievement of equal socio-economic development and economic growth.

(d) Acts with purpose to obtain and maintain effective and stable exchange rate of the current Sudanese Dinar, which replaced the Sudanese Pound.

(e) Bank of Sudan acts as a banker, agent and advisor to the government in the business of monetary and fiscal policies.

(f) Bank of Sudan while performing its duties and objectives as well as supervising and using its power to the banking system, should strictly, adhere and follow the rule of Islamic Laws (Ahkam-al-Shariyy'ah al-Islamiyyah).

5.3.3 BALANCE SHEET OF BANK OF SUDAN

The chief elements of the Bank of Sudan's balance sheet bear the following relationship between the assets and liabilities. The financial position of the Bank of Sudan's assets and liabilities have increased from Sudanese Dinar 691,142 million in December 2000 to SDD 714,981 million in December 2001 of SDD 23,839 million i.e. by 3.4 %. In the analysis of the mentioned table 4:1 and in the liabilities side the currency (both notes and coins) in circulations registered the largest increase from SDD155, 485 million in December 2000 went up to SDD 166,637 million in December 2001 with increase of SD 11,152 million i.e. 7.2% shows clearly that the Bank's role as a supplier of currency, has increased accompanied with increase in other accounts, that went upto SDD 10,995 million or i.e. 4.63 % from SDD 226,562 million in December 2000 to SDD 239,557 million in December 2001. On the other hand, capital and reserves registered the largest change which increased from SDD 1,667 million in 2000 to SDD 2,726 million in the year 2001; an increase of SDD 1,059 million i.e. 63.52 %.

On the assets side, the largest increase was clearly in the other accounts which increased from SDD 476,249 million in December 2000 to SDD 498,383 million in December 2001 with an increase of SDD 13,422 million i.e. by 4.6 %. As well, the bank notes, cheques and bank balances decreased from SDD 71,721 million to SDD 36,784 million with negative SDD 34,937 million by negative 48.7 % in the same period, which may be to Bank of Sudan improvement in specific accounts; mainly foreign exchange position. We observe that the government total debt either temporary borrowing from SDD 8,000 to SDD 18,000 million or the long term loans remained the same at SDD 107,303 million.

5.4 THE COMMERCIAL BANKS

The modern commercial banks are naturally the extension of the old financial institutions, which used to accept money from individuals for the purpose of safety, and used to charge commission fees for that, and then changed to accept deposits and advance loans. There is no satisfactory definition of a bank; Oxford Dictionary (1991) defines bank as:

> *"a financial establishment which uses money deposited by customers for investment, pay it out when required, makes loans at interest, exchange currency etc.,"*[13]

However, other definitions from economists are as follows: (i) Crowther's (1959)[14] definition:

> *"the bankers business is to take the debts of other people to offer to his own in exchange, and thereby create money*", [*Crowther, 1959, p.81*].

(ii) Kent (1966),[15] a bank or financial institution is:

> *"an organisation whose principal operations is concerned with the accumulation of the temporary idle money of the general public for the purpose of advancing it to other for expenditure,*", [*Kent, 1966, p. 102*].

(iii) Sayers (1970)[16] gives a more detailed definition of a bank:

> *"ordinary banking business consists of charging cash for bank deposits an bank deposits for cash; transferring bank deposits from one person or corporation (one depositor') to another; giving bank deposits in exchange for bills of exchange, government bonds, the secured or unsecured promises of businessmens to repay, etc.,*", [*Sayers, 1970, p.22-23*].

(iv) Bank of Sudan's defines a bank to mean any bank established with a law or is registered according to rules of Companies' Laws of 1925, and the Banking Law 1991. Thus, a bank is an institution, which accepts deposits from the public and in turns gives loans.

The commercial banking system in the Sudan is similar in many respects to that in other developing countries, with slight differences due to the Islamic banking. There were many of foreign institutions, in the year 1970/71 all banks in the Sudan were nationalised and in 1974 foreign banks were allowed to open branches. There were moderate and direct control, deposit banking was rudimentary banking habit was unknown, financing only foreign trade before 1950 s and 1960s, [*Jucker-Fleetwood 1962; p. 25*]. The role of banks, as Thirlwall (1974)[17] mentioned in Africa and most of the developing countries had their origin in the banks of developed countries, which established their office-branches in developing countries for the purpose of financing external trade, by provide credit for financing the collection and export of primary commodities and to finance the distribution of consumer goods imports.[*Thirlwall, 1974; p. 111*].

On the other hand the commercial banking system in the Sudan has several distinguishing features which include the rapid growth of bank advances since 1951, 1960s, 1970s and 1980s, high proportion of loans and advances, new banks with branches all over the country, and finally, the strong competition among the bank for businesses attracting more than 51% of the savings by the Islamic banks in the late 1980s. The commercial banks perform various functions: (a) accepting deposits from the public (b) advancing loans to the public especially priority sectors (c) create and grant credit (d) financing foreign trade by accepting foreign bills and collecting them from foreign banks and, (e) act as agents for their customers in collecting and paying cheques, bills of exchange, drafts dividends etc., also buy and sell shares, etc. plus to that perform other services.

5.4.1 STRUCTURE OF COMMERCIAL BANKS' BALANCE SHEET

The most prolific resource in a country is multitude of a number of commercial banks. Each commercial bank belongs to the monetary system; yet its reason for being is to return on the stockholders' investment, [*Shaw, 1950; p.31*]. Hence, the consolidated commercial banks' balance sheet is built on the formula of identity between total assets and equities in assets. The equities are divided into claims of creditors and the residual interest of stockholders' i.e. into liabilities and net worth. A commercial bank's balance sheet is a snapshot of the bank's financial condition. It discloses the kind and amount of assets the bank has for paying debts and earning revenue. It discloses how the assets have been acquired: by incurring monetary liabilities; or other debt; or by operations that have raised assets relative to liabilities. The balance sheet also discloses the amount of monetary liabilities and how they have been incurred: to buy assets; to pay off non-monetary debt; or to reduce the stockholders' equity, this is the sort of information that the monetary authority wants. [*Shaw, 1950*].

The enormous growth of commercial banking has greatly transformed [*Trescott, 1971; p. 43*],[18] the monetary and credit situation in the country's banking situations are commonly analysed in terms of balance sheet or statement of its condition. There are two principles of banking:

> *"One of them is the principle of ratios, which encountered in the form of minimum ratio of cash to deposits permitted by laws or custom. The other principle is the equality of assets and liabilities. In a sense, latter principle is not peculiar to banking. Every balance-sheet balances, whether to be of the Midland Bank or that of a state club. But a bank's business is, in a very special sense, a balancing of assets and liabilities. A bank acquires assets by increasing its liabilities*" [*Growther, 1959, pp. 34-35*].

Now, we shall examine the balance sheet of the commercial banks to provide us with a picture of their functioning. The statement shows the structure of their assets and liabilities. Table 5:2 gives us in a simplified form and in broad term the consolidated assets and liabilities of the Sudanese commercial banks in the year 2000 and 2001. Rapid growth took place after the establishment of the Islamic banking and Islamic financial institutions that brought in a big amount of idle money of the conservative, pious, and orthodox people, for the investment purposes, leading to the immediate subsequent Islamisation of the whole banking system. From the analysis of table 5:2 and in the assets side, we see that all the items increased, the local currency holding decreased slightly from SDD 13,402 million in December 2000 to SDD 12,801 million in 2001 that is by SDD 601 million i.e. minus 4.5 %. Balances with the local banks decreased from SDD 5,941 million in 2000 to SDD 4,151 million in 2001, the decrease was SDD 1,790 million i.e. minus 30.1 %.

Commercial banks balances with **BoS** too have shown rising balances of SDD 863 million, i.e. from SDD 43,747 million in 2000 to SDD 44,610 million in 2001 i.e. 1.9 %, while the foreign correspondents raised by SDD 16,073 million i.e. 21.8 % the same year. Other assets accounts also increased from SDD 141,097 million in the year 2000 to SDD 192,716 million in the year 2001, that SDD 51,619 million i.e. 36.6%, and the advances item registered the largest percentage of changes amounted to 40.5%, it raised from SDD 79, 224 million by the end of the year 2000 to SDD 111,340 million by the end of the year 2001. On the monetary liabilities of the commercial banks may be filtered from the consolidated balance sheet and listed as in the table of the consolidated balance sheet of the commercial banks in the Sudan, the household and companies (private sector) deposits increased by SDD 78,645 million, from SDD 176,463 million in 2000 to SDD 255,108 million that grew by 44.6 % in the year 2001. The government deposits increased from SDD 7,697 million to SDD 8,482 million i.e. 10.2%. However, the public corporations deposits decreased by SDD 2,466 million i.e. -18.9% that is from SDD 13,607 million in the year 2000 to SDD 10,598 million in 2001, and other banks liabilities also decreased by a 24.5 %. The foreign components increased from SDD 3,814 million by end of the year 2000 to SDD 9,106 million at the end of 2001, i.e. SDD 5,292 (138.8%). Capital and Reserve account went up from SDD 32,200 million in 2000 to SDD 47,640 in 2001, that means increasing by SDD 15,440 million i.e. 47.9% this was due to the efforts of banks to meet the requirements of the banking system restructuring and reforms programme. Even though the obligations due to Bank of Sudan decreased from SDD 2,510 million in the year 2000 to SDD 2,506 million in the year 2001, that by SDD 4 million i.e. minus 0.2 %; other liabilities increased from SDD 119,629 million in 2000 to SDD 120,632 million in 2001 that is by SDD 1,001 million i.e. 0.8 %. Thus, the overall position of the commercial banks' total assets and liabilities increased from SDD 357,068 million in the year 2000 to SDD 455,348 million in the year 2001, that to say an increase of SDD 98,280 million i.e. 27.5 %.

5.4.2 DENSITY OF COMMERCIAL BANKS

Wai (1972)[19] has compared the extent of financial saving in developing countries (that is the acquisition of financial assets by non-financial sector) with extent of economic savings, and finds strong correlations [*Wai,1972, p. 146*], the average number of banks per million population was ten in developing countries compared to one hundred and eighty in developed countries. The purpose of this section is just to provide an over view of the operations of the Sudanese banking system and to consider what is considered to comprise the essential aspects of commercial banking. We would like to discuss the aspects of banking density, which can be measured by population served versus the number of bank branch-offices, table 4:3, which reveals that the density has gone up substantially.

These increases has a positive impacts i.e. increase in the banking services to public, increase in the number of branches covering many places and especially the small towns. Currently, the Sudanese banking system consists of commercial banks (public shareholders, joint ownership, Islamic development and foreign branches), which operate in the country. They had branch-banking offices decreased from 617 in the year 2000 to 571 branches by the end of the 2001.They are not only concentrated in the major cities and towns, but also in the remote rural areas and small towns though still it is not enough for the financial development, since so many towns have only few branches. This decrease was due to the efforts exerted by the commercial banks to meet the requirements of restructuring programmes, which was considered as a preparation stage to cope with developments in the international banking industry. However, until 1950s there was no Sudanese commercial bank started (the first, the Sudan Commercial Bank was established in 1960.), though the government had given approval to a group of businessmen to organise banks. The nationalisation in 1970/71 data in table 5:3 shows a remarkable growth of branch banking in the 1980s and 1990s. The branches in the year 2001 were more than twice to those in the year 1980. The gap of banking business in the past was partially, filled by some merchants who served as intermediaries between banks and producers in so many areas, thus, that sources of fund might be enlarged and stimulation given to the growth and wider distribution of credit services.

5.4.3 SOURCES AND USES OF BANKS FUNDS

Commercial banking in the Sudan is based on a pure financial intermediation model, whereby banks mainly borrow from savers and then lend to enterprises or individuals. They make their profit from the margin between the borrowing and lending rates of interest. They also provide banking services, like letters of credit and guarantees, and a proportion of their profit comes from the low-cost funds that they obtain through demand deposits. Commercial banks are prohibited from trading and their shareholding is severely restricted to a small proportion of their net worth. Because of the fractional reserve system, the commercial banks produce derivative deposits, which allow them to multiply their low-cost resources. The process of bank lending is, however, subject to some problems that can make it inefficient like borrowers holding back information from commercial banks, or using the loans they obtain for purposes other than those specified in the loan agreement, which expose banks to unknown risks. The ability of banks to secure repayment of loan from such fraudulent borrowers depends a great deal on whether the loan is effectively used for its purpose to produce enough returns for debt servicing. Even at government level, several countries have borrowed heavily from commercial banks and the borrowed money is used for unproductive purposes, which lead to serious debt problems. Hence, why the purpose for which the loan is given, plays a minimal role in commercial banking. It is the credit rating of the borrower that plays a more important role [al-*Jarhi and Iqbal, 2001*].[20]

In this section, we focus on the sources and uses of banks funds. Commercial banks in the Sudan have four main sources of funds i.e. private deposits, public deposits, paid-up capital and borrowings. The commercial banks in the country have been asked to raise additional paid up capital with minimum SDD three billions to be paid in full during 2000 to 2002 with **BoS**. The chief uses of these funds, is to forward them in the form of credit and advances to the producing units (investment purposes) in investment oriented projects, and recently, the commercial banks have been required to adhere to the Islamic modes of financing. The adopted procedures will achieve a complete liberalisation of banking activities in monetary policy area leading to increase of banks' advances. Table 5.4 shows the movements of credits from commercial banks to priority sectors. It is clear that finance extended by banks to non-government sector has increased from SDD 79,224 million by end of the year 2000 to SDD 111,340 million by the end of the year 2001 i.e. SDD 32,116 million (40.5%). It is worth mentioning that the large increase in finance was met by a good increase in deposits as we have already mentioned (39%). Previously, banks faced decrease in deposits, which meant that they resort to other sources, such as borrowing from Bank of Sudan and liquidation of foreign exchange deposits. The increases in total finance have reflected in the finance of some of the priority sectors, i.e. agricultural sectors (17.6%), industry (14.8%) and local trade (18.8%) in the year 2001.

5.05 FINANCIAL INSTITUTIONS

This part covers all specialised banks and non-banking financial institutions that are under control and supervision of Bank of Sudan, such as, insurance companies, and other national financial funds:

5.05.1 SPECIALISED DEVELOPMENTAL BANKS

The development banks particularly play an important role in the development process, because it is not the explicit function of the commercial banking system to have loans and advances, unless directed by the concerned government. Further, commercial banks are less suited in the field of long-term development financing. Specialised developmental banks, un like the commercial banks, they are specialised financial institutions which perform and can afford to have longer time horizons, provide medium-and-long-term finance to private entrepreneurs as well perform various promotional roles conducive to economic activities and development. These banks can take more risks, and pursue development objectives as well as focus on social profitability of lending. The specialised banks include Agriculture Bank of Sudan (**ABS**), Sudan's Estate Bank, Saving and Social Development Bank beside the recently established, Financial Investment Bank.

(i) Agriculture Bank is established in the year 1957; it has 110 braches all over the country. The Bank's assets (liabilities) increased from SDD 12,488 million in the year 2000 to SDD 15,784 million by the end of the year 2001 i.e. (26.4%). On the liabilities side all items registered a disparate degree of decreasing except other liabilities and accounts payable raised from SDD 10,106 million in 2000 to SDD 13,709 million in 2001 i.e. (35.7%). On the assets side, cash in bills registered an increase by 50.2%. Also foreign assets increased from SDD 224 million to SDD 399 million. On other hand, other assets increased from SDD 10,460 million to 13,087 million. The ban deposits decreased from SDD 3,477 to SDD 3,258 million. This happened despite of the bank's policy of spreading its branches all over the country with the aim of attaching more savings. The bank's paid up capital increased by 6.3% from SDD 337 million to SDD 424 million in 2001. This reflects the great importance of the agricultural sectors as the leading the pioneering sector of the economy.

(ii) Estate Bank is established in the year 1966 as specialised bank, but it covers specific cities. Total assets (liabilities) of the Sudan's Estate Bank stood at SDD 2,638 million in December 2001 as compared to SDD 2,825 million in December 2000 i.e. (negative 6.6%). The decrease is on the liabilities side was attributed to decrease of deposits (26%), which registered SDD 1,149.9 million in December 2001, when it was SDD 1553 million in December 2000, and on the assets side, cash in bills decreased by 45% compared with the previous year. This was mainly attributed to expectations of depositors that the privatisation programme of public institutions would include the Sudan's Estate Bank.

(iii) Saving and Social Development Bank was established in 1974, entirely for the purpose of social development. The total assets (liabilities) increased from SDD 4,999.2 million in 2000 to SDD 6,813 million by the end of the year 2001, i.e. 36.5%. This increase on liabilities side reflected in both capital accounts by 59.4% and profit 70.3%. Whereas, the assets side increases, are reflected in cash in bills and investments. Cash in bills increased from SDD 443.1 million in 2000 to SDD 1126.8 million in 2001, i.e., 154.3%, also investments increased by 24.7%.

(iv) Financial Investment Bank is a public share company specialised in dealing with general public corporations and companies through financial instruments. It is established in the year 1999 with capital of SDD one billion (65% private sector and public sector contribute with 35%), the paid-up capital stood at 3000 million at the end of 2001. The main aims of Financial Investment Bank are: to activate the stock exchange and promote marketing of public companies shares. It aims at deepening the financial market resources. Provides investment opportunities, technical financial advice, undertakes responsibility for restructuring the public and private companies, and conjoin with others in improving the environment for investment in the Sudan and encourage the inflow, with assets (liabilities) increased from SDD 928.8 million to SDD 4,008.5 million by December 2001, i.e., (331.6%), this was mainly attributed to the increase in both deposits (466.7%) and capital (520%). On the asset side the improvement was due to the increase in foreign assets (359.8%) and investments (288.7%).

5.5. 2 NON-BANKING FINANCIAL INSTITUTIONS

The insurance companies in the Sudan play an important role in the economy by providing risk coverage necessary to secure funds for investment the number of insurance and re-insurance companies operating in the Sudan reached 17 companies. They utilized their resources in buying securities, shares, acquiring investment deposits, extending collateralised loans and investing in real estates. Both gross and net insurance premium increased from SDD 8,257 million in 1999 to SDD 10,388 million in 2000 i.e. 25.8%, whereas, the premium on a net basis increased from SDD 4,624 million in 1999 to SDD 6,238 million in 2000 i.e. 34.9%. The total claims decreased from SDD 7,812 million in 1999 to SDD 6,804 million in 2000 i.e. 12.9%, where, the net claims increased from SDD, 2,191 million to SDD 3,289 million i.e. 50.1%.

5.6 MONETARY-CREDIT POLICY OF BANK OF SUDAN

In the post, World War **II,** period and in the recent years, there has been a revitalisation of monetary policy, and the economists are increasingly recognising its role in realising the objectives of price stability and full employment. The fact is that these objectives cannot be achieved merely by resorting to fiscal measures, monetary measures are also important. Therefore, fiscal policy must be used in conjunction with monetary policy if maximum benefits have to be derived as regards the efficacy of monetary policy to promote economic growth even now skepticism is pervasive [*Johnson 1962, p.365*].[21] In the following section, we are going to highlight the meaning and definition of monetary and credit policy. Monetary policy is often defined as being synonymous with money. Johnson (1962) has defined monetary theory and policy as:

> "*in order to isolate a field of study clearly enough demarcated to be usefully surveyed, it is necessary to define monetary theory as comprising the influence of the quantity of money in the economic system, and monetary policy as policy employing the central bank's control of the supply of money as an instrument for achieving the objectives of general economic policy*" [*Johnson, 196; p.335*].

As it is known, that the monetary policy is primary concerned with the management of changes (expansion or contraction) in the volume of money supply **(M^S)** [*Sayers, 1958; p. 213*],[22] or in a growing economy with managing with managing the rate of growth of money supply per period for specific purpose attaining one or more objectives [*Kent, 1966; p. 522*]. Two views are prevailing for managing the money supply: (a) through discretionary power with the authority and (b) through making policy responsive to predetermined rule [*Woodworth,.1972*].[23] The monetary policy can be defined best as a policy:

"which influences the public stock of money substitutes or public demand for such assets, or both that is the policy which influences the public's liquidity position", [*Hart, 1953; p. 303*].[24]

Meanwhile by credit policy, we mean the concerned with changes in supply of credit, always at the liabilities side [*Gupta, 2001; p.20*].[25] Credit means the finance, which is made available for lending, and borrowing, it can be a sanction by a person or a bank [*Gupta, 2001; p.19*]. According to Kent (1966):

"Credit may be defined as the right to receive payment or obligation to make payment on demand of at some future time on account of an immediate transfer of goods", [*Kent, 1966; p. 106*].

However, the commercial banks can be regarded as manufacturers of credit in modern economic society [*Kent, 1966; p. 523*]. The Keynesian monetary policy model emphasises on manipulability of the structure of rate of interest, the central bank is assumed to fix the supply of money, while the public demand for money depends upon income, and on manipulability of interest rate structure, (in our case study, the interest rate is replaced by profit through the Islamic financing modes). While, the monetarists' school's monetary policy emphasises the monetary authority, namely, the central bank has certain objectives, and specific instruments that are needed to be used so as to achieve these objectives. However, **BoS** defines monetary policy as the management and measures that to be taken by the central monetary authorities for the purpose to control the quantity and quality of the financing banking, and then the supply of money as a link goal to achieve the macroeconomic objectives. **BoS** also defines credit policy as direction to perform and implement with safety the allotment of funds with efficiency, the private and public sectors participate in it through operations of banks and financial institutions.

5.6.1 OBJECTIVES OF MONETARY-CREDIT POLICY

However, as it is noted earlier, that the main function of the central bank is to control and regulate the banking and monetary system of the country in general, and the monetary-credit policy in particular in coordination with the fiscal policy, and their role in determination with macroeconomic changes e.g. government revenues and expenditures, the targeted inflation rate and the balance of payments positions, in purpose to those estimates get through to determine relatively monetary stock, since the broad chief objectives of the macroeconomic policy in the Sudan have been to maintain stable domestic prices and stable foreign exchange rate, increase the economic growth rates, social justices imply more equitable distribution of wealth and national income. Therefore, the objectives of monetary policy are usually related to money credit control, price stabilisation and economic growth. Many consider price stability is the most important objective of monetary policy, [*Ghatak, 1981; p.101*].[26] Hence, all these objectives cannot be achieved, unless there is good coordination in between the monetary and fiscal policies. The monetary policy is the arm of economic policy, in the sense that the objectives of it are no different from the objectives of economic policy. In any discussion of policies, one must start with a clear notion of the ultimate objectives to be through [*Trescott, 1965; p. 513*].[27]

Our attention in this section will be concentrated on policy objectives, and how well the monetary policy can achieve them with the limited instruments, broadly, speaking the following are the main objectives of the monetary-credit policy of **BoS** during the period of our study: economic growth, development of the priority sectors of economy to reduce the sharp inflation (price stability), to achieve the equality (socially and economically) in distribution of wealth and national income geographically and sector-wise, and development and accumulation of resources, and its best uses by the participation of the bank's agents and clients with the part of their resources in financing the economic activities and thereby, to implement the macroeconomic policy of the government. The monetary authority has to ensure that no legitimate productive activity is retarded by shortage of finance but at the same time the funds shall not become excessive to cause inflation. It is in this sense that monetary policy adopted by **BoS**, it has come to be known as that controlled monetary expansion. Since its establishment in 1960 and up to 1984 (the year in which the Islamic laws were introduced), **BoS** continued to use both direct and indirect financial policy instruments that facilitate it to supervise the credit policy as it used to control the quantity of money through interest rates, charging the ratios of monetary reserves, directives by way of determining maximum levels of financing (credit ceilings) and through other supervisory measures. Here, we have to remember that the Sudan's government (**GoS**) ordered all banks operating in the country to stop payment or charging interest [*Wall Street, 1984*].[28]

5.6.2 DIRECT INSTRUMENTS OF MONETARY CREDIT POLICY

The uncertain connection of structural relationships action on instrumental variables with their ultimate targets and many important endogenous and exogenous variables enter into the structural relationships, and, the monetary authorities may find it useful to aim their policy intermediate targets that may be rates of interest, money supply credit availability or other variables. Pierce and Shaw (1979)[29] explain the targets in these words:

> *"If it is believe that change in the money supply bear a high stable causal relationship to the price level and stability in the level of price is the ultimate target of policy, then the prescription for policy is to adopt the money supply as intermediate target and aim policy at sharing that rate of change of the money supply that is through to be consistent with desired degree of price stability"*, [*Pierce and Shaw 1979, p. 428*].

There are qualitative and quantitative techniques, that the monetary authority is committed to deal with in regulating the earning assets of baking system Monetary control is concerned with the terms on which the monetary system (money creating) and hoarders (money hoarding) can be tapped by spenders for increments of active balances. Thus, central monetary authorities watch closely the behaviour of rate of return and other terms of lending [*Shaw, 1950; pp. 16-24*]. In implementing monetary policy a central bank can act directly (as credit ceiling) using its regulatory powers, or indirectly (market operations), using its influence on money market conditions as the issuer of reserve money i.e. currency in circulation and deposit balance with central bank, from the foresaid discussion, we can say that the controlled monetary expansion implies the direct instruments or the following variables:

(1) In the Sudanese context, interest rate structure, (that has been replaced by the profit/loss sharing system (***PLS***).
(2) The aggregate supply of money.
(3) The supply of credit.
(4) The financial institutions.

In a developing economy, money supply has to be expanded sufficiently to match the growth of real national income. Although it is difficult to say what relation the rate of increase in money supply should bear to the rate of growth of national income, more generally, the rate of increase in money supply has to be somewhat higher than projected rate of growth of real national income for two reasons:

(a) as income grown the demand for money as one of the components of saving tends to increase.

(b) an increase in money supply is also necessitated by the gradual reduction of non-monetised sector of the economy.

In the case of the Sudan, the rate of increase in money supply has been far in excess of the rate of growth in real national income. Restraint on the secondary expansion of credit, therefore, in the circumstances an important aim of monetary policy is to restrain the secondary expansion of credit. This indeed poses difficult problems since the general tendency in such a situation is for a marked expansion of credit for private sector also. While exercising restrain, care is taken that the legitimate requirements of production and trade are not affected adversely. Besides, the bank has to manage the public debt of the government in such a way as to ensure the raising of public debt at low interest rate, and at the same time, keeping interest rate attractive enough for promoting saving in the economy, the interest rate are replaced by the rate of real return, Bank of Sudan has also positive responsibility for channeling credit into desired priority sector, the fulfillment of the above goals requires: (a) a correct choice of instruments of monetary policy designed to regulate the flow of credit, (b) an effective credit planning.

BoS is empowered, under its status to use the usual instruments of monetary and credit policy such as the open market operations, the bank rate variables reserves ratios or requirements, and other selective credit controls that, can be used is limited however, by various environment factors like seasonality in demand for credit, the nature of money market, availability of black money, the gradual expansion of the monetised sector, inflationary financing of development and the existence of non-banking financial institutions. The instruments of monetary policy may be classified according to the area of their greatest initial impact, whether they operate principally on supply of money through changing either the stock of reserve money or multiplier, or on the demand for credit through cost and other influences.

5.6.3 INDIRECT INSTRUMENTS OF MONETARY CREDIT POLICY

In this section, we would like to discuss in brief the indirect instruments of the monetary policy that have been used by Bank of Sudan:

> *"In implementing monetary policy, a central bank can act directly, using its regulation powers, or indirectly, using its influence on money market conditions as the issuer of reserve money (currency in circulation and deposit balances with the central bank"* [*Alexander, et al, 1996; p.14*].[30]

These instruments are: open market operations, bank rate, variable reserve requirements, selective credit controls and moral suasion which are used by **BoS** indirectly so as to control the money and credit expansion; and to achieve the targeted objectives of monetary credit policy.

(A) Open Market Operations (OMOs)

The term open market operations stand for the purchase and sale of financial instruments (Government Securities) by the central monetary authority. In the Sudan, **BoS** buys and sells the Government Musharakah Certificates **(GMCs)** from and to the public and banks on its account (as banker to the government). The theory of open market operations as an instrument of monetary management is quite simple, every open market purchase by the central bank increases high-powered money (**H**) by equal amount; every sale decreases it. Thereafter, the money multiplier process takes over and affects the supply of money (lead to fall in money supply and contradiction) in developed countries, open market operations are regarded as technically the most efficient instrument of monetary policy, because they are highly flexible and can be used continuously in wide varying amount.

In the Sudan the open market operations of **BoS** (started in the year 1998) were not powerful instrument of monetary policy, but recently after the abolition of interest rate and the introduction of Central Bank Musharakah Certificate (**CMCs**) and Government Musharakah Certificate (**GMCs**) to finance the deficit finance, the open market operation seem to awake-up, but at last some conditions must be satisfied: (a) the market should be well-organised, (b) BS should have the capacity to buy and sell the certificates, all we can say the Sudanese open market is not developed and need a lot to be improved. It will take some time before the effects are well established and become noticeable.

(B) Bank Rate (BR)

The Bank Rate is the rate at which the Central Bank is willing to discount bills, and extends advances to the commercial banks. The term 'Bank rate' is English in origin, it is used to mean the rate, at which Bank of England charged for discounting bills or for stabilising the balance of payments, [*Ghatak, 1981; p.107*]. It is the rate of discount of the central bank, while market rate is the rate of discount prevailing in the money market among the other lending institutions. Since, Bank of Sudan is the only lender of the last resort, the bank rate was higher than the market rate, and in the absence of commercial bills, bank rate has no significance as a discount rate, its significance lies primarily as a rate on advances. Iengar describe **(BR)** as:

> *"The traditional primary of the bank rate (BR) as a weapon of the central bank rests on its effectiveness for regulating the movement of foreign short-terms funds and on its efficiency as a pace-setter for other market rate – on which the decisions to invest both fixed assets and inventories are supposed to depend.", [Iengar 1962, p.194].*[31]

The usefulness of bank rate is of greater significance in its impact on inventory accumulations, but in actual practice, however, it is extremely difficult to predict precisely the effect of a change in the bank rate. Bank rate has been used to influence the, (a) availability of credit, and (b) cost of credit, **BoS** used the bank rate till it has been stopped (in 1984) due to implementation of Islamic financing techniques, **BoS** used the murabahah margin rate i.e. profit-loss-scheme (**PLS**) rate of return. The effectiveness of the bank rate of the **BoS** has a limited number of institution and other constraints, such as the speculative dealings carry large premium of profits, the inflationary situation during the last decade, a large part of the commercial bank's credit is being advanced to the priority sectors of economy with a very low rate of return, the degree of commercial banks dependence on borrowed reserves, and now the Islamic financing reserves, some commercial banks reluctance to borrow from the central bank is uncertainty about the ground rules. Although the bank rate mechanism was originally thought to be the primary monetary and credit policy tool of the central bank, it has clearly become less important in the current situation.

As the Islamisation of banking has been completed, **BoS** got rid of the treasury bills and governments bonds instruments on which interest rates were applied; in their place Bank of Sudan issued financial certificates that conform to the Islamic system. Setting of minimum rates is used by the **BoS** as a tool to regulate the cost of borrowing during 1990s. Bank of Sudan sets the floor rate, rather than the ceiling, that is used mainly as a tool of moral suasion to signal the stance of monetary policy to banks, which are expected not to exceed the minimum rates significantly.

C. Variable Reserves Requirements (VRRs)

The variable reserves ratio (**VRR**) was first introduced by Federal Reserve Bank (USA) in 1935 when the bank was empowered to prescribe the minimum reserve requirements for commercial banks to counteract the impact of large inflow of gold and foreign exchange within the economy, [*Ghatak, 1981; p.109*]. The variable reserves requirements is that, they enhance the ability of the monetary authority to control the supply of money, and thus fulfill its responsibility for maintaining stable monetary conditions, oblige commercial banks to hold a specified part of their portfolio in reserves at the central bank, so as to restrict credit expansion. In a situation where commercial banks are acquiring large reserve that considerably increasing the liquidity and capacity to and, the central bank can use the variable reserve requirements measure to freeze the additional liquidity. [*Madan, 1961; p.32*].[32] This measure succeeded to some extend in reducing the excess liquidity of commercial banks' excess cash balance declined and build-up of government security portfolio also declined, [*Iengar 1962 p.197*] one of the variable reserve requirement is the margin requirement, that is the differences between the value of the collateral and amount lent, the flow of credit to particular sector may be encouraged or discouraged by decreasing or increasing the margin requirement, while credit ceiling is a fixing of maximum of the rediscounting facilities of commercial banks.

Variable reserve requirements directly link central bank and commercial banks liabilities, by forcing banks to hold a prescribed fraction of the public's deposits in the form of currency or deposits with the central bank. They can be used as a means of sterilising excess liquidity. However, in so far as unremunerated variable reserve requirements are equivalent to tax, they can lead to financial disintermediation. Variable reserve requirements lack flexibility; frequent large changes in these requirements would be disruptive and costly for bank. Aschheim believes that only variable reserve requirements may be preferred to open market operations. As the inflationary pressure built-up in the country the cash reserve ratio was raised several times and the variable reserve requirements has been found to be the most effective as anti inflationary measure.

Reserve requirements have been applied by **BoS** through out the 1990s on current and savings deposits as well as the margins of letters of credit in local currency. In the early 1990s, Bank of Sudan set the reserve requirements at 20 percent and gradually has raised them to 25 percent in 1996 and 30 percent in 1997 before reducing them to 28 percent in 1998. the calculations of required reserves are based on deposits held in banks' branches in the State of Khartoum only, which are reported to Bank of Sudan within two working days after the 7th, 14th, 21st, and the last day of each month. Bank of Sudan adjusted banks' blocked accounts with the Bank of Sudan compulsorily to ensure each bank's compliance with reserve requirements, which are not remunerated. To control liquidity in the Sudanese economy, in the year 1999 Bank of Sudan ordered the commercial banks to maintain a minimum legal cash ratio of 28% in local currency, and 6% of foreign currency, of their total deposits, except investment deposits; and maintain internal liquidity of 10% of the current accounts and savings deposits, as well as 50% of certified cheques issued, since July 2000, Bank of Sudan unified reserve requirements on local and foreign currency deposits at 15 % and further to 12 % in the year 2001. The minimum capital requirement for each bank was decided to SDD 3 billions and fully paid during the period 2000-2002.

D. Selective Credit Controls (SCCs)

The central bank should take positive steps for the establishment and growth of sound structure of credit institutions to meet the requirements of the priority sector of economy, [*Iengar, 1962; p. 205*]. The main objectives of credit control are: (a) Reinforce factors which help in stabilisation of prices through control over advances i.e. increase margin requirement, to regulate the size of credit, control on bank credit against securities, and charging minimum rate of return; and (b) to prevent speculative hoarding of commodities. Plus to that the selective credit controls have been desired to correct the inflationary pressure [*Iengar 1962, pp.202-203*]. In the previous sections discussion of the monetary policy instruments are commonly known as quantitative methods of credit control. But as far as credit control is concerned, **SCCs** and credit rationing are the most powerful indirect instruments in the hand of the central monetary authority. The **SCCs** have been used by the central bank chiefly with a view to restrain excessive speculative stock-building of commodities (hoarding food grains and cash crops, real estate, stock exchange, speculation in land, etc.) in short supply either as a result of crop shortage, fall in production of manufactured goods due to material shortage. The underlying theory of such controls is very simple: if the availability of finance for purchasing and holding commodities is restricted the capacity of the businessmen or the trading community to keep their stock will get restricted and the market supply of these goods will be easier than otherwise and their prices will not rise as much as they would have done otherwise.

Thus stated, the degree of success of selective reserve controls will depend upon several factors: (a) the extent of effective credit control, (b) the availability of non-bank finance, and (c) the degree of shortfall in supply in relation to normal demand, [*Gupta 2001, pp. 367-368*]. In the Sudan, selective credit controls were introduced long back. Since then they have been expanded, and are focused chiefly on credit to traders for financing inventories, as well as exports. Since the total credit volume is related to high-powered money (**H**), Bank of Sudan has made frequent changes in its selective credit controls directive to bank keeping in mind the market conditions.

E. Moral Suasion

Moral suasion is a mix of persuasion during the periodical meetings of budget discussion; and request through formal letter; and pressures, that a Central Bank has used on banks. Hence, moral suasion refers to the advice or indication given by **BoS** generally to banks and financial institutions and particularly the errant banks. It has no legal backing; it is really a method to persuade bankers and businessman to follow policies, which the Central Bank believes are in the interest of the whole country [*Ghatak, 1981; p.113*]. Also in the matter of their lending and other operations with objective that they might implement or follow it, the central bank can urge banks to restrain credit against certain sensitive commodities or weaker section or give priority to certain sectors of economy. Bank of Sudan has found moral suasion techniques were suitable measure of liquidity control especially tocope with Islamic financing system, and such issues and discussions between **BoS** and commercial banks have been frequent for more than twenty years and good informal relations have been built-up. Moral suasion, backed as it is by **BoS**'s vast power of direct regulation, has proved quite useful. Therefore, the use of this instrument is facilitated by the concentration of banking business in a few big banks. The nationalisation of commercial banks (foreign as well as national) in 1970, and the merger of some banks in late 1990s should enhance the usefulness of this instrument. Moral suasion at its best is only a temporary device to influence economic decisions until more fundamental policy actions can be taken.

5.6.4 EVALUATION OF MONETARY-CREDIT POLICY

It has been generally acknowledged that monetary policy can play only a limited role in the developing countries. Several reasons are advanced to explain such a restrictive role. The existence of large, non-monetised sector, such as narrow size of the financial markets and limited array of financial stocks along with financial assets would clearly act as an impediment to the success of monetary policy. Currency comprises a major proportion of total money supply, which implies the relative insignificant of bank money in the aggregate supply of money, [*Ghotak, 1981, pp.113-114*]. Once we know how money behaves in economic system, we can think of utilizing money as an instrument for regulating the other variables in the system, We must know how money influences prices, income, employment and balance of payments, before we can think of using money in order to bring about desired changes in either prices, or income, or employment or balance of payments. Our knowledge should not only show that money has substantial influences over each of these factors, but we should assume that money is the strategic variable of the system which can be manipulated by policy in order to achieve certain desired results, From the foresaid brief historical sketch of the development of monetary policy. Here, in precise we would like to highlight the development of monetary-credit policy of Bank of Sudan from 1990 to 2000. As we have mentioned in the previous sections the objectives and instruments of the monetary and credit policy in general, we rewrite the objectives in brief, within the coordination in between the fiscal policy and monetary-credit policy jointly and their roles in the macroeconomic changes: (a) government revenues and expenditure, (b) the growth of national income, (c) the targeted rate of inflation, (d) balance of payments **(BOPs)** positions, and (e) and follows that the determination of the necessary monetary stock to achieve the goals of those targets. Here, come the objectives of the macroeconomic policy, i.e. (i) increase in the economic growth rate (ii) stable domestic prices and stable foreign exchange rate, and (iii) achieve of equal distribution of national income. All these objectives would not be achieved unless there is coordination between the fiscal and monetary policy.

5.6.5 BASIC FEATURES OF THE MONETARY-CREDIT POLICY

Major objective for, monetary policy, therefore, is not only past records but also future projection of this aggregate should form an important part of any monetary analysis. Since, the year 1983, **BoS** is issuing and following the monetary-credit policy, which were just directives and regulations maintaining the banking business in the Sudan. There were new basic changes took place, in planning, executing and preparing of monetary-credit policy, its objectives, instruments and frameworks, and future checking in the following points:

(1) (a) to develop the priority sectors of economy.
- (b) to reduce the sharp inflation rate.
- (c) to achieve equality in distribution of wealth and national income.
- (d) to develop assemble and accumulate the resources and its rationalised uses.

(2) Participation of all the concerned departments with monetary-credit policy, in its preparation, checking the shortcomings and to reduce the amendments during the time of execution.

(3) Expansion of credit to priority economic activities which include: transports, storage handicrafts, families and small producers, estate and housings, plus to that the agriculture, industry and exports sectors.

(4) the monetary-credit policy has to work and aim to perform and forward credit to priority sectors of economy in general, and the agriculture sector in particular, since this sector is pioneer and the soul in achieving economic growth, then large portion of credit should be released to it.

(5) introduction of Islamic financing techniques, instead of dealing through interest rates in banking business, and in accordance with Islamic laws.

The most important development in the monetary-credit policy in the Sudan, during 1990-2000 is summarised in the following points: In the year 1990, the rural financing was introduced, and 50% of its deposits used in the same area. Plus to that the determination of the agricultural sector's ceilings, then the appointment of specific organisation to perform the exports processes. The introduction of the economic liberalisation policy was in the year 1991-92, and along with that for the first time clear objectives of monetary-credit policy were introduced, plus to that basic expansion to the priority sectors of economy. In the year 1993; the government introduced and issued of new date of both, monetary and fiscal policy in January instead of July. Then the increasing of the percentage of credit to priority sectors up-to 90%, and increasing the credit to the agricultural sector from 40% to 50% of the total credit.

In the year 1994, a new objective of monetary-credit policy has been introduced, that is, the financial assistance to the weak banks so as to organise and adjust with the demand of the law of banking business; therefore, a reduction to the agricultural sector's credit from 50% to 40%. The determination of the margins of profits, besides that, banks were required to determine and keep liquidity in excess, which could be used to meet their daily withdrawal of currency by depositors, as well as clearing drains. The introduction of Islamic banking system at the Central Bank level in the year 1995, and the total abolition of the contemporary banking in the same year, plus to that the process of financing of registered public enterprises with Khartoum Stock Exchange (**KSE**), and prohibition of financing foreign exchangers.

In the year **1996**, the monetary policy has permitted the imports of medical and industrial instruments and tools and the concentration in solving the dues and debts of commercial banks and their problems and difficulties. The banks have been asked to keep legal cash reserves of foreign deposits in 1997; and increasing the percentage of credit to priority sectors from 90% to 95% of the total credit. The foreign banks (3 branch-offices) were permitted to accept financial deposits in domestic currency.

1998: The monetary policy has been concerned with the important of the supply of money side. Strengthen the objectives of liberalisation policy through reduction in credit within the framework of inflation, the beginning of usage of Islamic accounting measurements, and, prohibition of financing central as well as the states governments. **1999:** It has coincided with the first year of the national strategic programme in the years 1999-2002, which realising a real growth rate of 6.2% in **GDP**, reducing inflation rate to less than 14% and stabilising the foreign exchange rate. According to the macroeconomic objectives stated. Despite of the foresaid dilemma, monetary policy's role in macroeconomics management has significantly increased. The central monetary authority i.e. **BoS** has introduced reserve requirements, lending facilities to commercial banks to support its monetary policy actions. The indirect monetary policy instruments were started by the introduction of Central-Bank-Musharakah-Certificate (**CMC**); the expansion of the banking sector, direct lending to the Government utilising the Government-Musharakah-Certificate (**GMC**), to finance the budget deficit and the preparations for increased reliance on.

5.7.1 FINANCIAL MARKETS

Economists use the term 'Market' as referred to the place in which an exchange occurs and to the mechanism. A financial market is simply a place or a mechanism for exchange of assets, [*Henning, et al 1975; p.2*].[33] The financial markets play a vital role in allocating funds to the economic activities so as to achieve the highest rate of return. Therefore, they perform and reflect the underlying state of the economy, [*Auerbach, 1989; p. 264*].[34] Financial markets i.e. money and capital markets have two main functions, both of which were badly needed in the Sudan. They give more flexibility to the short-term credit structure, while on other hand they can promote the saving habit by making instruments available. Many financial institutions considered so far operating in an increasingly complex set of financial markets which create either new financial claims, or are concerned with buying and selling of financial claims, such markets as stock market. The financial markets consist of groups of financial institutions (**FIs**), which are homogenous groups, and non-bank financial institutions (**NBFIs**), which are heterogeneous group of financial institutions other than commercial banks. [*Hanson, 1983; p. 103*].[35] The Sudanese economy is currently passing through a state of historic transition, due to globalisation and international competition.

In the last few years of the 1990's significant policy initiatives have been taken in perspective of mining and manufacturing, agriculture, trade, exchange rate and direct foreign direct investment, after more than seven years of conflicts with the International Monetary Institutions, especially, **IMF**. The emerging market-orientation is aimed essentially at attaining competitive effects in the real sector of the economy. It is widely recognised that the process of liberalisation of the real sector needs to be complemented by a corresponding reforms of the financial sector. It is the financial sector that provides the necessary framework for mobilisation and allocation of savings in the economy. Financial institutions, instruments and markets, which constitute the financial sector, play a crucial role in financial development and economic growth. Here, structurally, the short-term credit market is divisible under organised and unorganized sector. The organised financial market comprises the Bank of Sudan, commercial banks and non-bank financial institutions, and called organised because Bank of Sudan systematically coordinates its parts. The unorganised financial market in the Sudan is largely made up of indigenous bankers and professional moneylenders and the authority does not systematically coordinate non-professionals of this market, [*Awad, 1971*].[36] In the following sections we would like to study the performance and functioning of various components of the financial markets in the Sudan, such as money, capital markets and Khartoum Stock Exchange.

5.7.2 MONEY MARKET

There have been major changes in the financial markets during the 1990s, with the massive increase in trading instruments such as repurchase agreements and the introduction of options and future contracts on financial assets. Financial markets are classified according to the maturity of the instruments traded. The money markets facilitate the borrowing and lending of short-terms funds and consist of the primary money market and others, [*Hanson, 1983; p. 127*]. Hence, many economists have defined money market as a market for short-term highly liquid, easily marketable, with little chance of less instruments that maturing in one year or less, which are used to finance the needs of consumer, business, agriculture and government. Crowther describes money market as:

> *"the collective name given to various forms and institutions that deal with the various grades of near money."* [C*rowther, 1959, p.66*].

And in the words of Culbertson, it is a:

> *"network of markets that are grouped together because they deal in financial instruments that have similar function in the economy and are to some degree substitute from the point of view of holders." [Culbertson, 1972, p.99].*[37]

Thus, money market consists of call and noticed market, commercial bills and paper treasury bills; inter-bank market and certificate of deposit market is a wholesale market where large numbers of financial assets or instruments are traded. A money market is a mechanism through which short-term funds are loaned and borrowed and through which a large part of the financial transactions of a particular country or of the world are cleared. While the system of financial and credit in the Sudan is still rudimentary, it is also clear that it has been a fast growing system in recent years. Indeed, these years have witnessed what is now recognizable as a beginning to the creation of a local money market. A nucleus of an indigenous money market was created in the Sudan when, started working from November 1960 make it clear e.g. quarterly (three months) of Treasury bills and promissory notes. During the 1960 six foreign commercial banks operating in the country joined with the Sudanese Commercial Bank, which had begun operations on **5th November 1960**. Bank of Sudan had provided credit to commercial banks (@ **4$^{1}/_{2}$ % in 1960**) and permitted them to charge the same (according to section 41 of Bank of Sudan Act 1959), accept discount of bills and promissory notes. The establishment of Khartoum Bankers' clearing House on **28th December 1960** has cemented the money market in the Sudan. The banking clearance and settlements were completely a successful story with banks' clearance of SDD

134,680 million at a daily rate of 5,180 in October-December 2000, to a clearance of SDD 161,150 million at daily rate of 7,325 in October-December 2001. And total settlements of SDD 31,580 million with daily rate of 1,215 in the year 2000, while the total settlements have gone up to SDD 32,912 million at daily rate of 1,496 in October-December 2001.

The establishment of money market marks an important development in the economy. It provides a source from which the government can borrow money from the public. Secondly; it provides a place where idle funds can be invested locally which would otherwise have been invested abroad or remains idle and unused. Thirdly, the paper dealt within this market gives the commercial banks a suitable investment whereby they can seek accommodation from **BoS** should the need arise. This also means that Bank of Sudan serves as a clearinghouse for the commercial bank to discount their Treasury Bills, Promissory Notes and musharkah and udharabah Certificates wherever necessary. There is of course, a long way to go before a large and broad-based money market can be created. The markets are divided into modern segment and a traditional segment, each with an independent characteristic and apparently unrelated structure of rates of return (profit–loss-sharing scheme). There are still in the modern segment a few specialised institutions that are a feature well-developed money market. For instance, there was no stock of exchange until the year 1994, when Khartoum Stock Exchange was established to deal with equities in the 1990s. There was still little business of medium and long-term debt. In the next portion we examine the development of capital market in the Sudanese context.

5.7.3 DEVELOPMENT OF CAPITAL MARKET

Private savings have been hit by problems that haunted the monetary sector and the vital shortage of foreign exchange during the first half of 1990s. These problems manifested themselves in rising inflation rates, deterioration of the exchange rate and weaknesses of the banking sector. However the stability achieved in both the exchange rate and prices and the expansion that is taking place in investment and development shall eventually lead to improvement in the saving environment, enhancement of private saving opportunities and redirection of resources to the productive sectors. Repealing of financial, legal and administrative obstacles and the contraction of tertiary activities are necessary steps to be taken for a healthy environment. Capital market plays a fundamental role in the mobilisation of funds and the process of channelising them into productive investments for development of commerce and industry. The main function of financial markets is to transfer current purchasing power from savers to borrowers in exchange for promise of greater future purchasing power and to allocate those funds among potential users on the basis of return. The consequence of well-functioning financial markets is that more and better projects get financed.

The most international financial centres in the world are London, Tokyo and New York, and the developing countries Seoul, Kuala Lumpur, Mumbai etc. Also there is capital market, that is concerned the medium and long-term finance and credit to business enterprises [*Gupta, 2001; p. 47*]. The capital market supplies industry with fixed working capital and finance medium-term and long-term borrowings of the government. It deals in ordinary stocks, shares and debentures of corporations and bonds and securities of government. The capital market is sub-divided into primary market which is concerned with the issue of new financial claims, and secondary market that is dealing with the existing securities [*Hanson, 1983; p. 127*]. Hence, capital market is the market for all the financial instruments, medium and long-term as also commercial, industrial and government paper. The capital market should be capable of meeting the needs and requirements of credit and finance to the business community. The pace of economic development is conditioned, among other things, by the rate of long-term investment and capital formation that is conditioned by mobilisation, augmentation and channelisation of investible funds. Therefore, the capital market as financial intermediary serves a very useful purpose by pooling the capital resources of the country and making them available to the investors. A developed capital market can solve the problem of paucity of funds. The Sudanese money and capital markets have been experiencing metaphoric changes due to advent liberalisation.

5.7.4 KHARTOUM STOCK EXCHANGE

One pertinent issue, which has given these to blood of literature, is the role of financial deepening and widening of financial sector. These works are mainly refer to fast developing economies with well-organised financial system, but may also be considered relevant to the case of our study. Many economists and economic writers have contributed to the need of the financial markets, instruments and institutions in the countries, perhaps the empirical work of Goldsmith (1969)[38] promoted them. It was first Jucker-Fleetwood (1964) who advocated the establishment of stock market in African countries especially the Sudan. And among others, Arowolo (1971)[39] who discussed the role of capital markets in Africa in general and Kenya and Nigeria in particular, he concluded that all capital markets in Africa were due to presence of European communities with exceptional to Nigeria, where the participation by Nigerians in the share-issues was encouraging and well-maintained. Wai and Patrick (1973)[40] have put forward two measures to develop capital markets in less-developed countries: the first encouraging an appropriate general economic and political environment, and the second is setting specific measures that make it more attractive for investors to issue new securities and savers to purchase them. Drake (1977)[41] uses the narrow concept of securities than 'capital' market, whether or not evidenced by the creation of negotiable instruments. He justified introduction of measures to promote securities markets. In recent research that is done by Bart and Jovanovic (2001)[42] have studied the impact of the information technology on capital market and described the capital model that teaches us that technical change (**IT**) destroys old capital, in their words:

> *"the vintage capital market model teaches us that technological change destroys old capital. We have gone further and argued that major technological change-like the IT revolution-destroys old firms." [Bart and Jovanovic, 2001, p. 1219].*

The stock market is one of the most important components of the capital market. It deals in long-term securities, of course, also creates markets for the new short-term and long-term government bonds, [*Jucker-Fleetwood, 1964, 173*]. The stock market comprises several distinct markets one for corporate securities and another for government securities and it provides separate arrangements for the new issues of securities and for buying and selling of old securities, [*Gupta, 2001, p.59*]. But, Culbertson (1972) has given the definition of stock markets as follows:

> *"are the most conspicuous secondary markets for corporate equity securities. These are auction markets with complex institutionalized facilities for brokerage, for the auction execution of buy and sell orders from the public, for dealing, and for the operations of specialists who take a position in securities and thus contribute to the breadth of the market."* [*Culbertson, 1972, p. 101*].

But, the story of an infant stock market in the Sudan is somewhat different, here; we would like to study Khartoum Stock Exchange. The stock exchange is expected to effectively participate in the privatization process and raising the level of savings and investments. Khartoum stock exchange enables the private sector contributes in financing development projects, which required long-term financial resources. It is also organising and monitoring the issuing and dealing in financial securities, promoting investment awareness of public, and provides the necessary conditions to divert the private investment towards the financial securities. Right now there are forty-five companies trading in the stock of which, there is fifteen banks, nine insurance companies, seven commercial companies, four industries, two agriculture and eight other sectors.

The idea of establishing a securities market in the Sudan was first mooted in 1962; an Act for securities market was passed in 1982 after a gap of twenty years, and in 1990 serious steps was taken to bring the idea to fruition within the framework of the required liberalisation policies of the time. In November 1992 the government approved an amendment of the Securities Market Act of 1982. A new Act was prepared to establish the Khartoum Stock Exchange in June 1994, and finally became an independent entity. The working of the

Primary Market (Issue Market) started on 10th October 1994, and the Secondary Market (where shares are traded) started in 1995; the stock exchange operates on the basis of the directives of the Islamic laws (Shariy'ah), and its objectives as follow:[43]

(*) the organisation and supervision of the issue of securities.

(*) encouraging savings by ordinary citizens and raising capital for public companies.

(*) promoting and encouraging investment in securities.

(*) creating the necessary investment environment.

(*) establishing a code of conduct and fairness among various investors.

(*) guaranteeing equal opportunities for those dealing in securities in order to protect small investors.

Table: 5:6 shows that in the year 1996, the banking sector ranked first with SDD 82 million forming 83% of the first total treated shares. The second sector was the insurance sector with 8%, while the third was the industries sector with 5%. The number of executed contracts amounted to 1,249 contracts, of which 58% were those of the banking sector. A rise in total transactions in **KSE** valued from SDD 294 millions in 1995 to SDD 24,410.40 million in 2003, and with only two sharp traded decreases happened in 1996 and 1998. Number of traded shares amounted to 115, 726, 000 in 1995 increased to 9, 745, 456, 700.

5.8 BANKING POLICIES AND FINANCIAL REFORMS

The banking policies and financial reforms in the Sudan were intrrupted by the political interference. The financial system reached its ever-worst situation in 1980s and 1990s that left the **IMF** with only one option tha was to declare the Sudan as a non-cooperative member and subsequently suspended the

Repulic for almost seven years. The financial reform started gradually in the year 1970/71 when the government nationalised all the foreign and commercial banks. Recntly, and due to globalisation of economy and liberlisation process, and the application of Basle Committee's recommendations the **BoS** adopted the following steps to promote and develop a healthy banking system: (a) Development of Banking System and Financial Reform, (b) Foreign Exchange Market, (c) Finance, the Liquidity Management, (d) Banking Operations and Technology and, (e) Islamisation of Basnking Activities. In brief, we study and highlight these steps and policies.

(a) Development of Banking System and Financial Reform:

One of the major issues whose confronting the banking sector internationally, is how to strengthen the capital base of banks, and how to make them resilent to rising risk exposure. The financial reform is rightly categorised not as an event but as a process constantly evovling. Therefore, financial reform has to be built on intial conditions, which make for a different profile of the with emphasison its positive aspects of filling the gaps in human and information capital. Otherwise the linkage between the financial system and the real economy will be snapped. Financial reform should be interpreted only as withdrawal of government intervetion for economic reasons, [*Khatrkhate, ed, 1998, p. 18*].[44] The process of banking sector reforms, which initiated during the 1990s was pursued further to improve the competetiveness and operational efficiency of the banking sector. Thence, without large-scale financing units capable of withstanding the challenge of the international banking competetion in the contemporary era of economic globalisation, the economic growth of any developing country would not grow unless there is a sound banking system. Hence, certain steps must be taken aiming the improvement of the banking and financial sector.

Bank of Sudan offers the necessary technical assistance deciding the determiniants and indicators for the merger of groupings (mostly, public sector banks). Sample of major indicators in that banks of similar or unifrom goals or corporate ownership of capital could be merged togather. The results in this tregards, Unity Bank "(*Omdurman Commercial bank and Juba Commercial bank were nationalised in the year 1973 and named Unity Bank*)" was merged with another public undertaken bank i.e. Bank of Khartoum "(*formerly, known as state bank of foreign Trade till 1974*)" and now after the merged are named as Bank of Khartoum Group. The Sudanese Commercial Bank (1960) was merged with Farmer's Bank (1991) in the year 1998 and now is known as Farmer's Commercial Bnak with 7572 shareholders and twenty nine branches and, most of its business is related to trade and agricultural activities.

Thence, anotherr two big government undertaken banks were merged in the year 1997 "*Industrial Bnak od Sudan (1962) and El-Nilien Bank (1964)*" and named as El-Nilien Industrial Development Bank. Here, we observed that all these banks were weakand had been nationalised in the 1970/71, but their nationalisation served nothing and that due to the socialist sytem and political interverence. Also, there are new banks appear in the business system like Omdurman National Bank with twenty three braches that is established in the year 1993. Capital Adequacy Norms: for the commmercial banks to strengthening their positions in the context of the banking system restructuring and reform programme, bank of Sudan and in its position and role as a banker to the banks, it has decided to raise the minimum capital requirement to SD three billions and to be paid in full during the period 2000-2002. generally, commercial banks have complied with the prudential guidelines and accepted to raise their capital instead of to be merged with others.

(b) Foreign Exchange Market:

The starting point of the foreign exchange market until the instablity in 1980s and finally got deterioted in 1990s and its cleared negative impact on the balance of payments of the county. Obviously, this market needs to be orgnised and reformed, hereafter, let us have an idea about the foreign exchange, and at later stage the steps that have been taken by Bank of Sudan to reform this market. Kindleberger (1958)[45] defines the foreign exchange market as:

> *"In the course of their business, exporters collect foreign currency which they could not use and therefore must exchange for domestic funds. Importers who start with a supply of domestic currency seek to acquire foreign currency in order to but goods from abroad. The unacceptability of foreign money for exports and local currency for imorts is the basic for a market in which foreign moneys are bought and sold. This is called foreign exchange market,"* [*Kindleberger, 1958, p. 44*].

Foreign exchange is the act of trading one national money for another at negotiated exchange rate. The term foreign exchange also refers to holdings of foreign currencies. As we know people and firms want to trade currencies for various reasons, exchange of goods and services and want to get and give up currencies that are of more interest to others, here, comes the needful of foreign exchange market which provides clearing services, helps the parties in setting their business transactions, and, helps other in hedge by getting rid of any net assets or liability commited to other currency. The foreign exchange market lets the business community and other to speculate, owning owning currecy and thus gambiling on the future of its price, [*Kindleberger, 1958*].

(c) Banks and Liquidity Management:

Commercial banks perform valuable activities on either side of their balance sheets, on assets side they make loans to difficult and illiquid borrowers, while on the liability side, thye provide liquidity on demand to depositors. But there seems to be a fundamental incompatibilty between two activities; the demands for liquidity by depositors may arrived at inconvenient time and force the first-scale liquidation of illiquid assets. To control liquidity in the ecnomy and in accordance with the comprehensive banking policy, Bank of Sudan has streeed the procedure in the use of Central Bank Musharakah Certificates (**CMCs**) as a monetary instruments and coordinates with Ministry of Finance and National Economy to issue Government Musharakah Certificates (**GMCs**) and use them as tools for liquidity management. Reducing the cost of finance to match the decrease in inflation rates and ensuring flow of banking finance to all priority sectors of the economy and social support programmes. In the year 2000 the central monetary authority continues applying the **GMCs** and **CMCs** for managing the liquidity and generating real financial resources to finance budget deficit as an alternative of borrowing from the banking system.

(d) Banking Operations and Technology:

Today, banks play an important role in payment and settlement system of financial transactions. The banks should be well-equiptped with the latest technology. Increasingly, computerisation is being applied in the daily banking operations worldwide. In the front of modernisation and automation of banking business, Bank of Sudan established a specialised administation for banking technology. It consists of two sub-administrations. One concerned with the task of automating the systems and operations of **BoS**, while the other one is responsible for following-up and supervising the processes of the other banks to automate and adopt their systems to the requirement of Bank of Sudan. Technology up-gradation is taking place in the public sector banks, started by **BoS** itself with its Head Quarter (**HQ**) office and two regional branches i.e. Wad Madani and Port-Sudan.

Morever, an electronic banking services company was established and owned jointly by Bank of Sudan, Sudanese Bankers Association and Tele-Communication Company. This company has achieved linking banks by the so-called **SWIFT** services through Shamikh Cenre in **BoS**. In addtion to that the arrengement for printing Magnic Ink Encoded Cheques (**MIEC**), its circulation and usage started from 30th June 2001. the effficient operations of the system needs the education of the staff on the information technology that should be given due importance as well as sharing experience on information technology should be sufficiently frequent enough to be effective. A robust management information system founded on data at individual bank is essential for implementing various regulartory guidelines. Computerisation of all banking transactions is necessary, banks should adopt widely used crytography processes to prevent data tampering as a matter of security.

(e) Islamisation of Basnking Activities:

The performance of few Islamic banks in the Sudan directly or indirectly, has attracted and led the political and monetary authorities to the concept of Islamisation of the whole banking system in the Sudan. These Islamic banks played a big role in the expansion and development of the banking system.

The comprehensive banking policy of the year 1999 has emphasised the continuity of the Islamisation processes on the banking activities that would be promoted through establishing a model for Islamic banking. The Shariyy'iah High Supervisory Board over banks and financial institutions was established in the year 1992 with main objectives of the board to oversee and to supervise that all the banks and financial institutions adhere to the Islamic methods and modes of operations, and the avoidance of applying usury practices in their financial transactions. In the year 2000 the board held so many meetings and discussed various matters submitted to it by **BoS** and other banks, and a number of edits and resolutions were issued. The board also reviewed and issued specimens of contracts for the Islamic modes of finance and a number of studies and training programmes related to them were organised.

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Chart: 5.2

Administrative Structure of Bank of Sudan:

General Administration	Assisting Administration
General Administration for Economic Research and Statistics:	Department of Economic Research. Department of Statistics.
General Administration for Legal Affairs	No assisting Department
General Administration for Banking Information Technology:	Department of Information Technology Department of Banking and Technology
General Administration for Foreign Exchange	Department of Foreign Exchange Department of Foreign Exchange
General Administration for Banking Business Control	Department of Banking Control. Department of Banking Development.
General Administration for Banking Supervision	Department of Supervisions. Department of Follow up and Information.
General Administration for Financial Affairs and Services.	Department of Service. Department of Financial Affairs. Department of Accounts.
General Administration for Main Branch (HQ)	Department of Accounts. Department of Treasury.
General Administration for Personnel.	Department of Training. Department of Personnel.
General Administration for Issuance and Financing	Department of Financing and Investment Department of Issuance.
General Administration for Internal Auditing.	No assisting Department.

Source: Bank of Sudan Annual Report (41st. – 2001).

Table No. 5:1

Bank of Sudan Balance Sheet for the Year 2000-2001

(millions of Sudanese Dinars)

	31/12/00	31/12/01	Change	%
Liabilities:				
Notes and coins in circulation	155,485	166,637	11,152	7.2
Sight liabilities:	75, 780	75,070	-715	-0.9
Federal Government	8,439	9,615	1,176	13.9
State & local Governments	4,807	5,002	195	4.1
Public Enterprises	8,749	5,369	-3,380	-38.6
Local Banks	53,785	55,084	1,299	2.4
Foreign correspondents	22,145	26,052	3,907	17.6
Time liabilities	181,256	195,147	13,891	7.7
Payments Agreements	24,616	19,637	-4,979	-20.2
Capital and reserves	1,667	2,726	1,059	93.5
Other Accounts	230,193	229,712	-481	-0.2
Total liabilities	691,193	714,981	23,839	
Assets:				
Bank Notes, and Balances	71,721	36,784	-34,937	-48.7
Foreign securities	702	3,796	3,094	437.9
Other Foreign Assets	406	412	6	1.5
Loans and Advances to Banks	6,070	8,532	2,462	40.6
Government Accounts	N.A	N.A	N.A	N.A
Temporary Advance to Government	8,000	18,000	10,000	125
Long-Term loans to Government	107,303	107,303	N.A	N.A
Advances under 57(A)	12,929	12,579	-350	-2.7
Participation in Bank's Capital	641	1,994	1,353	211.1
Other participations	7,121	227,198	20,077	281.9
Non- Transferable Treasury Bills	N.A	N.A	N.A	N.A
Other Assets	476,249	498,383	13,422	4.6
Total Assets	691,142	714,981	23,839	N.A

Source: Bank of Sudan Annual Report (2001), Khartoum- the Sudan.

Table No. 5:2

Commercial Banks Consolidated Balance Sheet

(millions of Sudanese Dinars)

	31/12/00	31/12/01	Change	%
Liabilities:				
Deposits:	197,224	274,188	76,964	39
Private sector	176,463	255,108	78,645	44.6
Government deposits	7697	8,482	785	10.2
Public corporation	13,064	10,598	-2,466	-18.9
Banks:	8,015	12,888	4,87 3	60.8
Bank of Sudan	2,510	2,506	-4	-0 2
Other Banks	1,691	1,276	-415	-24.5
Foreign correspondents	3,814	9,106	5,292	138.8
Capital and reserve	32,200	47,640	15,440	47.9
Other liabilities	119,629	120,632	1,001	0.8
Total liabilities	357,068	455,348	98,280	N.A
Assets:				
Local currency	13,402	12,801	-601	-4.5
Balances with Bank of Sudan	43,747	44,610	863	1.9
Balances with local Banks	5,941	4,151	-1,790	-30.1
Foreign correspondents	73,657	89,730	16,073	21.8
Advances	79,224	111,340	32,116	40.5
Other Assets	141,097	192, 716	51,619	36.6
Total Assets	357,068	455,348	98,280	N.A

Source: Bank of Sudan Annual Report (2001).

Table No. 5:3

Currency in Circulation

(millions of Sudanese Dinars)

End of Period	Currency held By Commercial Banks	Currency with the Public	Total Currency in Circulation
Dec.1981	N.A	N.A	N.A
Dec.1982	N.A	N.A	N.A
Dec.1983	N.A	N.A	N.A
Dec.1984	60.05	124.720	130.705
Dec.1985	78.39	194.586	202.425
Dec.1986	11.906	276.024	287.930
Dec.1987	23.024	362.479	385.503
Dec.1988	24.258	532.212	556.470
Dec.1989	43.099	924.030	967.129
Dec.1990	70.607	1,311.253	1,381.860
Dec.1991	147.3	2,166.3	2,313.60
Dec.1992	383.4	4,351.7	4,735.10
Dec.1993	563.2	9,454.0	10,017.20
Dec.1994	1,215.3	14,790	16,006
Dec.1995	2,254.2	24,863	27,117
Dec.1996	4,284.0	44,439	48,723
Dec.1997	5,123	58,494	63,617
Dec.1998	4,332	82,140	86,472
Dec.1999	5,800	108,108	113,908
Dec.2000	13,403	142,082	155,485
Dec.2001	12,801	153,836	166,637

N.A = not available

Source: Bank of Sudan Annual Reports

Table No.5:4

Analysis of Commercial Banks Advances 1993-2001 (In local Currency)

(SDD Millions)

End of Period	Agriculture	Industry	Exports	Imports	Local Trade	Others	Total
Dec.1989	34	125	172	16	32	114	494
Dec.1990	84	176	216	22	78	191	766.7
Dec.1991	373	277	257	28	193	275	1,403
Dec.1992	1,125	455	570	37	383	740	3,311
Dec.1993	1,865	827	1,155	43	318	1,065	5,273
Dec.1994	2,946	1,840	2,236	105	566	2,379	10,073
Dec.1995	3,579	2,618	3,947	1,227	419	2,726	14,515
Dec.1996	8,997	6,385	6,643	1,705	1,126	9,003	33,948
Dec.1997	12,522	7,284	8,387	858	1,738	10,767	41,556
Dec.1998	15,763	8,908	8,114	325	2.038	12,235	47,383
Dec.1999	14,833	7,164	8,359	1,519	2,816	14,021	48,732
Dec. **2000**	17,807	8,343	16,839	1,125	8,243	22,867	79,224
Dec. **2001**	19,605	16,445	21,832	4,107	20,900	28,450	111,339

Source: Bank of Sudan Annual Reports

Table No. 5:5

Distribution of Shares, Companies-wise (1995-2003)

Companies	1995	1996	1997	1998	1999	2000	2001
Banks	n.a	19,770	162642.702	n.a	86606.947	8.011	8764.716
Insurance	n.a	116	75.790	n.a	9.827	97	40
Industry	n.a	4,733	305.247	n.a	109.804	248	68
Agriculture	n.a	111	51.188	n a	214	46	00
Trade	n.a	___	1.2512.644	n.a	9.362.741	4.259	3.503
Others	n.a	179	487.381	n.a	2.450.480	1.521	4.635

N.A = not available

Sources: Bank of Sudan Annual Reports.

Table No. 5:6

Vomlume of Trading in Khartoum Stock Exchange
(1995-2004):
(millions of Sudanese Dinars)

Year	Number of Shares	Volume of Deals
1995	115,726,000	0294
1996	024,909,000	0099
1997	164,817,952	0569.70
1998	11,673,970	0237.40
1999	98,540,013	1,551.80
2000	14,169,188	5,831.60
2001	08,772,964	15,362.60

Sources· Bank of Sudan **Annual Reports.**

Table No. 5:7

Khartoum Banks' Clearings House

(in millions of Sudanese Dinars)

Period	Clearing		Settlements	
	Total	Daily Rate	Total	Daily Rate
Oct – Dec 1980	276.1	N.A	N.A	N.A
Oct – Dec 1981	393.4	N.A	N.A	N.A
Oct – Dec 1982	557.5	N.A	N.A	N.A
Oct – Dec 1983	851.3	N.A	N.A	N.A
Oct – Dec 1984	1,088.4	N.A	N.A	N.A
Oct – Dec 1985	1,514.9	N.A	N.A	N.A
Oct – Dec 1986	N.A	N.A	N.A	N.A
Oct – Dec 1987	N.A	N.A	N.A	N.A
Oct – Dec 1988	N.A	N.A	N.A	N.A
Oct – Dec 1989	5550	230	1730	070
Oct – Dec 1990	9514	380	2671	108
Oct – Dec 1991	34376	1399	6766	257
Oct – Dec 1992	65438	2552	12710	486
Oct – Dec 1993	83501	3343	22768	936
Oct – Dec 1994	175748	6792	41964	01554
Oct – Dec 1995	422435	16555	72900	2954
Oct – Dec 1996	603864	24055	140718	05493
Oct – Dec 1997	82450	3294	15942	0638
Oct – Dec 1998	99309	3899	23557	0927
Oct – Dec 1999	121328	4494	26531	0983
Dec 2000	134680	5180	31580	1215
Dec 2001	161150	7325	32912	1496

N.A = not available

Source: (1) International Financial Statistics (IMF).

(2) Bank of Sudan Annual Reports.

Table No. 5:8

El–Neilin Industrial Development Bank: Credit to Industrial Sector 1993–2001

Year	Total Credit	Industrial Financing	%
1993	1.0	0.3	32%
1994	1 4	0.5	34%
1995	2.5	1	39%
1996	4 4	1.6	36%
1997	6.4	2.5	39%
1998	10	3.1	31%
1999	5.2	1.9	36%
2000	4.6	1.45	33%
2001	6.7	2.5	37%

Source: Bank of Sudan Annual Reports.

Table No. 5:9

Credit by Agricultural Bank of Sudan

(500 millions)

1990 – 2001

Year	Short Term	Medium Term	Total	Growth Rate
1990	28	14	42	116%
1991	263	61	325	667%
1992	395	197	592	82%
1993	542	257	710	19%
1994	577	249	827	16%
1995	837	188	1025	24%
1996	2327	242	2569	150%
1997	5045	219	5263	100%
1998	4539	151	4690	(11)%
1999	4805	148	4954	6%
2000	4780	81	4861	(2)%
2001	5505	362	5867	21%

Source: Bank of Sudan Annual Reports.

Table No. 5:10

Development of Required Reserve Ratio and Bank Rate
1980/81 - 2001

Year	Required Reserve Ratio	Bank Rate
1980/81	N.A	8 6
1981/2	N.A	10.5
1983	10	13.5
1984	12.5	13.5
1985	12.5	16
1986	12.5	16
1987	20	19
1988	20	20
1989	18	22
1990	18	29
1991	20	28
1992	20	32
1993	20	27
1994	30	27
1995	25	28
1996	30	36
1997	26	34
1998	26	30
19999	28	24
2000	25	21
2001	12	18

N.A = not available

Source: Bank of Sudan Annual Reports.

Table No.: 5.11

Assets and Liabilities of the Bank of Sudan

(In millions of Dinars)

Liabilities

End of Period	Currency in circulation	Government Accounts	Banks Accounts	Banks CMC	Other accounts	Payment agreements	Other Sight Liabilities	Time Liabilities	Capital Reserves	Others	Total
Dec.1985	202.5	122.3	148.0	N.A	296.7	N.A	25.8	103.7	2.2	56	712.3
Dec.1986	287.9	247.5	209.9	N.A	34.3	N.A	25.1	109.7	3.3	62.6	793.8
Dec.1987	385.5	427.5	284.5	N.A	515.1	36.9	30.0	166.2	5.9	77.9	1,074.8
Dec.1988	584.4	547.1	275.2	N.A	573.9	73.4	37.1	178.0	7.3	107.6	1,289.8
Dec.1989	967.1	469.2	685.3	N.A	717.7	101.6	40.2	190.2	7.5	125.7	2,239.3
Dec.1990	1,381.9	368.0	772.0	N.A	1,603.7	288.2	38.3	234.4	24.5	197.8	4,022,8
Dec.1991	2,313.6	565.1	2,746.1	N.A	11,543.8	804.8	82.4	892.8	35.8	347.1	7,434,1
Dec.1992	4,735.1	1,238.6	3,733.5	N.A	19,171.8	1,452.6	563.2	6,785.3	38.9	1,947.1	31,051,1
Dec.1993	10,005.5	601.4	3,461.1	N.A	35,678.2	2,160.7	1,038.7	9,786.6	69	3,706.6	50,429,6
Dec.1994	16,006	676	3,461	N.A	35,678	4,192	911	20,194	103	7,448	88,669
Dec.1995	27,117	260	6,833	N.A	73,382	8,366	1,433	42,901	162	13,978	174,432
Dec.1996	48,723	7,028	13,370	N.A	131,419	14,476	4,471	80,707	243	24,010	324,447
Dec.1997	63,617	8,591	20,939	N.A	146,891	17,004	2,863	96,441	678	24,693	383,718
Dec.1998	86,472	3,012	23,419	N.A	203,558	23,299	2,343	135,508	1,044	41,124	519,779
Dec.1999	113,908	4,019	33,308	N.A	230,381	24,913	2,516	170,706	1,251	51,519	632,521
Dec.2000	155,485	6,807	42,055	N.A	228,562	24,616	4,260	181,256	1,667	46,434	691,142
Dec.2001	166,637	9,615	55,084	5,340	239,557	19,637	3,687	195,147	2,726	17,551	714,981

Source:Bank of Sudan Annual Reports

Table No.: 5.12

Assets and Liabilities of the Bank of Sudan

(In millions of Dinars)

End of Period	Foreign Notes, Cheques and Banks B/S	Other External Assets	Govt. Main A/C	Loans & Adv.	GMCs And CMCs	Temp. Adv.	Long-term To Govt. U/S (57)	Advan. Under (57)	Foreign Sec.	Parti.In Banks	Other Parti.	Non-Trans. Treasury Bill	Other A/C	Total
Dec.1986	11.7	0.2	N.A	33.2	N.A	N.A	173	165	N.A	11.2	1.0	291.3	102.8	793.8
Dec.1987	2.6	0.3	N.A	13.8	N.A	N.A	173	228.3	N.A	13.6	1.0	312.2	328.7	1,074.8
Dec.1988	5.0	0.1	N.A	14.3	N.A	113.8	173	272.4	N.A	15.5	1.0	312.2	379.1	1,289.8
Dec.1989	4.1	0.4	N.A	19.8	N.A	150.9	932	356.8	N.A	21.2	1.5	593	161.7	2,239.3
Dec.1990	40.4	1.1	1,479.6	10.6	N.A	150.9	932	388.8	N.A	24.2	1.5	593	388.9	4,022.8
Dec.1991	67.1	24.1	3,037.6	116.4	N.A	150.9	932	269.8	N.A	24.2	1.5	593	2,342.6	7,434.1
Dec.1992	451.9	23.8	6,125	490.7	N.A	2,021	932	204.1	N.A	24.2	1.5	593	20,450	31,071
Dec.1993	1,099.0	603.5	6,125	328.8	N.A	6,751	932	217	N.A	28.5	1.5	593	34,166	50,430
Dec.1994	3,082	604	6,125	329	N.A	9,891	932	217	1.9	28.5	1.5	593	66,865	88,669
Dec.1995	8,587	1,208	6,125	310	N.A	19,247	932	217	10.5	45.5	1.5	593	137,155	174,432
Dec.1996	18,537	565	6,125	310	N.A	51,677	932	217	10.5	191	42	593	245,436	324,447
Dec.1997	14,036	575	6,125	2,198	N.A	59,577	932	217	10.5	191	42	593	299,222	383,718
Dec.1998	21.446	794	6.125	5.621	N.A	68,577	932	217	100	523	4.261	593	410,590	519,779
Dec.1999	48,534	406	0	6,660	N.A	12,000	95,080	3,453	100	548	6,303	0	459,437	632,521
Dec.2000	71,721	406	0	6,070	N.A	8,000	107,303	12,929	702	641	7,121	0	476,249	691,142
Dec.2001	36,784.3	412.4	0	10,590	21,256.5	18,000	107,303	13,571	2,500	1,993	1,240	0	496,629	714,981

Source:Bank of Sudan Annual Reports

Table No.: 5.13

Consolidated Balance sheet of Commercial Banks

(In millions of Dinars)

End of period	Local currency	Bank of Sudan	Others	Foreign Assets	Claim on Central Govt.	States Govt.	Public Enterprises	Private sectors and Financial Institutions	Other Accounts	Total
Dec.1986	11.9	257.6	4.3	123.5	6.0	N.A	N.A	263.8	70.3	737.3
Dec.1987	23.0	305.3	1.6	159.5	6.0	N.A	N.A	379.3	113.7	988.3
Dec.1988	24.3	296.1	0.8	225.1	6.0	N.A	N.A	450.9	198.9	1,202.0
Dec.1989	43.1	682.7	0.8	242.9	24.8	N.A	N.A	493.7	251.2	1,739.2
Dec.1990	70.6	760.9	1.8	277.6	1.0	N.A	N.A	766.7	425.1	2,303.7
Dec.1991	147.2	861.3	5.7	898.9	2.2	N.A	N.A	1,402.7	1,165.7	4,483.7
Dec.1992	383.4	3,351.2	8.4	4,664.2	N.A	N.A	N.A	3,310.8	2,952.8	14,671
Dec.1993	563.2	4,058.4	375.4	9,732.6	303.5	N.A	N.A	5,272.7	21,279	41,585
Dec.1994	1,215	4,082	339	10,804	208	25	1,224	8,824	30,908	57,628
Dec.1995	2,245	5,760	277	16,869	164	132	1,190	13,193	63,681	103,520
Dec.1996	4,284	9,988	210	29,981	121	157	1,668	32,124	82,912	161,444
Dec.1997	5,123	22,949	104	44,499	32	168	1,677	39,711	123,245	237,508
Dec.1998	4,332	26,292	738	63,922	132	54	2,566	44,764	185,376	328,176
Dec.1999	5,800	32,109	2,688	68,566	159	72	4,723	43,937	266,794	424,848
Dec.2000	13,40	43,747	5,941	73,657	4,216	5	5,647	73,571	136,882	357,068
Dec.2001	12,801	44,609	4,151	89,730	7,332	526	9,056	101,757	185,386	455,348

Source: Bank of Sudan Annual Reports

Table No.: 5.14
Consolidated Balance Sheet of Commercial Banks
(In millions of Dinars)

Liabilities								
End of Period	Deposits	Public Institut. & Private Deposits	Bank of Sudan	Other Banks	Foreign Banks	Capital Account	Other Account	Total
Dec.1986	68.8	444.8	1.16	1.8	41.5	77.3	101.9	737.4
Dec.1987	112.1	604.7	1.0	1.1	53.6	84.7	131.1	988.3
Dec.1988	109.9	1,200.7	1.1	1.7	50.8	126.2	162.2	1,202.1
Dec.1989	110.9	1,581.8	1.4	1.3	49.8	152.1	222.2	1,739.1
Dec.1990	121.6	2,814.2	1.5	4.2	58.2	172.0	364.4	2,303.7
Dec.1991	171.6	9,208.7	8.4	10.0	159.9	242.2	1,077.3	4,453.6
Dec.1992	235.9	16,095	5.8	22.6	904.8	1,370.5	2,922.5	14,670
Dec.1993	639.0	22,630	66.6	315.5	1,495.2	1,688.1	21,285.8	41,585
Dec.1994	23,436	N.A	100	247.5	1,512.5	3,864.0	28,286	57,628
Dec.1995	41,642	N.A	752.4	367.8	2,814.1	5,469.6	52,474	103,520
Dec.1996	67,793	N.A	82.4	784.0	4,304.6	11,145	77,335	161,444
Dec.1997	96,754	N.A	109.0	168.7	4,413	14,768	121,295	237,508
Dec.1998	120,113	N.A	319	678	4,722	20,338	182,006	328,176
Dec.1999	145,519	N.A	3,015	1,402	3,443	24,464	247,005	294,848
Dec.2000	179,224	N.A	2,510	1,691	3,814	32,200	116,929	354,368
Dec.2001	274,188	N.A	2,506	1,276	9,106	47,640	120,632	455,348

Source: Bank of Sudan Annual Reports

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