



Keynote address by Dr. Ibrahim Stevens  
Deputy Governor of the Bank of Sierra Leone,  
at the Bank of Sierra Leone International Monetary Fund conference on  
***“Financial stability in Sierra Leone – The Roadmap”***  
Freetown, 3 July 2017

*The Guest of Honour, Minister of Finance, Honourable Momodu L Kargbo;  
Honourable Cabinet Ministers;  
Senior Government Officials;  
Development Partners present;  
Directors and staff of the BSL;  
Captains of Industry and Commerce here present;  
Heads and Representatives of Financial Institutions;  
Distinguished Invited Guests;  
Members of the Press;  
Ladies and Gentlemen:*

Good Morning and welcome to this very important conference on the theme **“Financial Stability in Sierra Leone – The Roadmap”**. This conference is being jointly organized by the Bank of Sierra Leone and the Monetary and Capital Markets Department of the IMF, with support from First Initiatives. First, I would like to thank the Honourable Minister of Finance and Economic Development for gracing us with his presence and delivering a statement, which underscores the importance that the Government places on the stability of the financial system in Sierra Leone.

I would also like to take this opportunity to warmly welcome our guests; Ms. Iyabo Masha, the IMF Resident Representative in Sierra Leone, Ms. Cheryl Bruce, from AFRITAC West 2 in Accra, Mr. Gani Gerguri, IMF Resident Advisor at the Bank of Sierra Leone, Mr. Rebel Cole, IMF short term expert on stress testing and Mr. Bello Hassan, Deputy Director of the Banking Supervision Department of the Central Bank of Nigeria.

This conference is coming at the most opportune time because of the interest the subject has generated over the past couple of years in both developed and developing countries, and given recent experience with the resolution regime in Sierra Leone. It is now a known fact that costs of financial instability in terms of lost growth and foregone welfare can be huge and it is therefore right for regulatory reforms to give primacy to securing financial stability.

Indeed, following recent global financial crisis, financial stability is now top strategic priority both at the national level (we see countries adopting even special laws on financial stability) and at the international level - where we see an enormous work ongoing on global regulatory reform agenda as committed by G20 and by the Financial Stability Board. Globally and regionally, reports of international and regional financial institutions highlight progress in building the resilience of financial institutions. The safeness of banks is increasing as a result of more and better capital and liquidity buffers as well as enhanced supervision of the banking system. But, regarding regional developments, we are honored to hear from Ms. Masha, the IMF Resident representative for Sierra Leone.

In recognition of its critical importance, the issue of financial stability has moved up the BSL's policy agenda and has been identified as having a critical role to play in the economic diversification effort as envisaged in the Government's development blueprint. The objective of this conference is to facilitate strategic policy dialogue between the Bank of Sierra Leone, the financial sector and the private sector and create national awareness aimed at crafting a feasible framework for ensuring financial stability in Sierra Leone. We believe that it is important to sustain this dialogue to facilitate an inclusive strategy for financial sector development.

We have assembled a panel of experts who bring with them longstanding experience to help enrich our understanding of the concepts around financial stability. I have no doubt in my mind that the presentations and discussions during this conference will fill any existing knowledge gaps on these issues and help us together think through these vital and complex emerging concepts. The topics of this conference, as seen from the papers listed for presentation and discussion, will give us an opportunity to generate a developing economy perspective on issues of financial stability in the context of the post-crisis thinking.

*Ladies and Gentlemen*, without wishing to pre-empt the discussions, my remarks this morning will be divided into four parts.

Firstly, I will take this opportunity to provide an update on the current state of the Sierra Leone economy;

Secondly, I will seek to provide some insight into the link between Monetary Policy Micro-prudential and Macro-prudential policies;

Thirdly, I will share with you some of the recent policy initiatives the BSL have rolled out aimed at enhancing Financial System Stability; and

Finally, I will share my thoughts on the Way Forward for Financial Stability in Sierra Leone.

## **1. The current State of the Sierra Leone economy**

*Ladies and gentlemen*, allow me at this moment to briefly highlight the current state of the economy. Economic performance during the year 2017 has been encouraging as the economy continues to exhibit strong recovery. This recovery is supported by improved performance in the mining, agriculture and services sectors. The good performance is expected to continue, supported by stable macroeconomic environment, increased investments in infrastructure, tourism and energy, and increased investments in both public and private sector.

Headline inflation has consistently trended upwards in the year on account of the lag effects of the depreciation of the exchange rate and adjustments in the domestic pump price of petroleum products. Inflation peaked at 20.22 per cent in March 2017, but has since taken a downward trend registering 19.80 per cent in April 2017. Though declining, the inflation outturn for April 2017 is higher than the end year inflation target of 12.00 per cent. The Monetary Policy Committee in its quarter two meeting assessed that bringing down inflation to its desired target by the end of the year was a challenge and decided that, to anchor inflation expectation, continuing with a tight monetary policy stance was appropriate.

On the external front, prices of Sierra Leone's key commodity export picked up, reflecting improved sentiments in global demand. This, coupled with moderated import growth, will positively impact Sierra Leone's current account. These developments should support BSL's efforts to accumulate foreign exchange reserves, maintain a stable exchange rate, and support low and stable prices.

**ECF program:** On June 5, 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) program for Sierra Leone for SDR161.778million (about US\$224.2million). In addition, the IMF Board commended the authorities for continued improvement in instituting sound macroeconomic policies and the progress made in implementing structural reforms.

*Ladies and Gentlemen*, let me now turn to some developments in the banking sector. The banking sector continue to show resilience, as the banks remained profitable, liquid and well-capitalized, thanks largely to the high interest rate environment that has persisted for some time now. The bank system's total regulatory capital position remains very sound at 31.56 per cent of risk weighted assets as at end of March 2017, which is above the statutory minimum of 15 per cent. Although banking sector continues to post solid figures, the persistently high non-performing loans (NPL) ratios continue to be regulatory concern. As at end March 2017, the NPL ratio was 20.7 per cent, down from 22.65 per cent in December 2016. Although the rates are on the downward trend, they are still high and we urge banks to implement the loan write-off policy, which require banks to write-off long outstanding loss accounts with 100 per cent provisioning.

## **2. Monetary policy, Micro-prudential and Macro-prudential policies**

*Ladies and Gentlemen*, prior to the financial crisis, most central bank mandates were focused on ensuring price and output stabilization which they thought was sufficient to ensure macroeconomic stability. The secondary mandate of ensuring the stability of the financial system was viewed strongly from the micro-prudential regulation standpoint.

The Bank for International Settlements also asserted that the combination of a price stability oriented monetary policy and a merely micro-prudential supervisory policy did not ensure the stability of the financial system as a whole. In this connection, a third tool was needed: a macro-prudential supervisory policy. The financial crisis has

further brought to the fore a clear need for central bankers and policy makers in general, to rethink their strategies in safeguarding the stability of the financial system.

Analysis of risks to the financial system may require two perspectives:

- Micro-prudential analysis, which focuses on the developments within individual institutions, and is concerned with limiting the distress of individual institutions, thereby protecting depositors. Macro-prudential analysis which focuses on the financial system as a whole, is aimed at limiting system-wide distress. An important concept here is systemic risk; the risk that liquidity or solvency problems in a bank may cause liquidity problems or insolvency in other institutions. Thus, correlation and common exposures across institutions are important in the macro-prudential approach.
- The second approach deals with risks originating from outside the financial system, that is risks of over exposure to certain sectors of the domestic economy and the external sector.

*Ladies and Gentlemen*, with these developments, financial stability has become one of the core objectives of many central banks in both developed and developing economies. This have engendered substantial overhaul in the regulatory frameworks on financial regulation and supervision.

### **3. Initiatives by BSL to enhance Financial System Stability**

*Ladies and Gentlemen*, the Financial Sector Assessment Program in 2006 highlighted a lot of weaknesses in the financial sector. To address these weaknesses, BSL over the last few years launched several initiatives aimed at fostering sound and competitive financial systems. Allow me to briefly highlight some of the key policy initiatives that the Bank of Sierra Leone has introduced:

**Regulatory reforms:** To align the regulatory environment with international best practice and to take into account emerging issues in the sector, the BSL has been continuously engaged in upgrading the Banking Act, Other Financial Institutions Act and prudential guidelines that supports the financial sector in its mission to efficiently allocate resources and maintain its stability. This has helped strengthened the regulatory framework of the financial sector by putting in place robust procedures for the licensing of financial institutions, addressing issues on corporate governance, as well as tightened the prudential requirements for credit concentration and mandatory corrective actions to be taken by the Bank of Sierra Leone on distressed banks.

**Anti-Money Laundering Initiatives:** There is available evidence in the literature to suggest that money laundering undermines the confidence of the financial system. In recognition of this impact on the financial system, the Bank of Sierra Leone took the bold initiative to promulgate the Anti-Money Laundering Act in 2005 and put together a comprehensive framework for dealing effectively with money laundering. These initiatives are aimed at safeguarding the integrity of the banking sector and preventing the misuse of the financial system in Sierra Leone for purposes of international money-laundering and related economic crimes or for facilitating the financing of terrorism. This will in turn foster the stability of the financial sector.

**Increase Minimum Paid-up Capital of Commercial Banks:** The banking sector can play a significant role in supporting investments in the economy. Low capital base has the twin effects of limiting the participation in the financing of investments in addition to increased vulnerability of the banking sector to shocks. Capital plays a pivotal role in banking. It provides incentives for bank owners to ensure sound management of their bank and it provides a buffer to protect depositors and other bank creditors against losses. In this regard, the BSL has consistently raised the minimum paid up capital of banks from Le6billion to Le15 billion and now to Le30 billion. This was done to enhance the resilience of the sector to both internal and external shocks by improving the quality and quantity of the capital available for commercial banks.

**Business continuity and contingency planning:** The global space is littered with threats that has the tendency of disrupting work process. As the regulator of the financial systems and with a mandate to safeguard the payment systems infrastructure, the BSL developed a range of tactical steps, aimed at strengthening real-time data backup, through the setting up of disaster recovery site equipped to support work process should there be a disaster at the headquarters. We urge commercial banks and other financial institutions to take steps to improve their own preparedness and business continuity planning.

**Joint Supervision with the Central Bank of Nigeria:** The structure of our banking sector suggests that the banking sector has become more interdependent with most being subsidiaries of regional banks. Thus, the possibility of contagion across borders is real. Cross-border banks are complex and often part of an even more complex financial conglomerate. To forestall any contagion effect in the future, BSL has initiated supervisory cooperation and information-sharing with other regional central banks. The Bank entered into Memoranda of Understanding (MoUs) with the Central Bank of Nigerian. Through this MOU, BSL and CBN have been conducting joint on-site supervision of some commercial banks in Sierra Leone.

#### **4. The Way Forward for Financial Stability**

*Ladies and Gentlemen,* despite the progress in embedding modern standards of supervision over a couple of years, BSL is committed to keep pushing forward the Sierra Leone's financial sector reforms agenda aiming at its suitable convergence with best international regulatory and supervisory principles and practices.

Going forward, as elaborated in our Strategic Plan 2014-2019, we are committed to develop a financial sector, which offers the full range of financial products and services to all economic sectors, particularly small and medium enterprises (SMEs), to achieve broader economic goals of our country. Indeed, today's conference demonstrates that BSL has a well-planned and an ambitious agenda for financial sector development and reforms.

As a priority, we plan to strengthen further the regulatory framework related to licensed banks and other non-bank financial institutions that are under the responsibility of the BSL. In this regard, the BSL has already started consultation process regarding the amendments of the existing BSL's Act that among other things

will bring more clarity about financial stability objective as well reinforcement of the BSL's enforcement powers for any potential violations of the Act and the Guidelines issued under it. Certainly, in this process, we will work closely with the banking system as well.

Aimed to preserve financial stability in our country and in line with regulatory and supervisory reforms, the BSL has already started investing in further strengthening of its supervisory function. Accordingly, alongside enhancement of the bank examination methodology, the BSL has also started with preparations for introduction of the risk-based supervision framework, using a mix of quantitative and qualitative indicators.

Aimed to further strengthening the resilience of licensed banks, we are working on strengthening capital and liquidity position of the banking system in line with best international requirements and standards.

Located within the Research Department of the BSL, the Financial Stability Analysis Section (FSAS) is being strengthened to watch carefully on the developments in the financial sector as a whole and as such it represents a first step towards building a robust BSL's institutional framework for macroprudential surveillance, which includes: -

- single database on macroeconomic and financial data;
- utilization of the banking supervision V-Reg.COSS software, particularly to identify risks from the interconnectedness within and between financial institutions; and
- enhancing the early warning framework with a focus on stress tests and financial sector stability indicators, to identify and assess systemic risks and vulnerabilities to ensure design and implementation of proactive macroprudential policies to safeguard financial stability.

Going forward, the BSL's roadmap to secure the stability of the financial sector includes: (1) capacity building for the FSAS; (2) publication of the FSR for Sierra Leone, including quarterly financial sector reviews; (3) establishment of the BSL's Financial Stability Advisory Committee; (4) establishment of the National Financial Stability Council; and (5) adoption of a robust Crisis Preparedness Plan, and Recovery and Resolution Framework.

At the same time, the BSL will continue with its efforts to strengthen the payment and settlement infrastructure of the country as a vital precondition for the financial stability and effective financial inclusion. In this regard, under the leadership of the BSL, a set of activities are in progress such as introduction of the National Switch, introduction of digital banking guidelines and security standards, call for innovative solutions for digital payments (recently launched FinTech competition), review of the payments system legislation, enhancement of the oversight function for payments system, and strengthening policy and actions on Anti-Money Laundering and Countering the Financing of Terrorism.

In a nutshell, I want to assure you that BSL's financial stability analysis and policy framework will focus on providing relevant stakeholders with a good prospect to act

on identified vulnerabilities and risks. To achieve this, the BSL will promote forward-looking risk identification system and culture that enables to address challenges regarding macroeconomic conditions, financial sector itself, and external, i.e. challenges of financial globalization.

*Ladies and gentlemen*, as I mentioned the BSL has established the section for financial stability analysis that is located within the Research Department, which is currently outlining a concrete plan for promotion of this strategic function of the BSL. I strongly believe that this conference and its content will add a lot of value to our roadmap to promote and maintain financial stability in Sierra Leone.

The management and I will be motivating and empowering the financial stability section to come up with its first analysis within a short period. Having said that, we expect to publish the first edition of the Financial Stability Report of Sierra Leone, within six months.

As I conclude, allow me to thank the presenters for accepting to facilitate our deliberations at this conference. I urge all delegates to engage fully in these discussions so that we can collectively develop pragmatic roadmap for financial stability in Sierra Leone.

Thank you very much.