Bank of Sierra Leone

Governor's Office

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MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Sierra Leone (BSL) met on Friday 28th December 2018 under the Chairmanship of the Governor, Professor Kelfala Morana Kallon. Based on an assessment of international and domestic economic developments and their potential impact on the outlook for inflation in Sierra Leone, the MPC decided to maintain the Monetary Policy Rate (MPR) at 16.50 percent. The factors that informed this decision are discussed in the rest of this statement.

On the domestic front, real GDP growth is expected to drop to 3.7 percent in 2018—from the 3.8 percent recorded in 2017. This reflects the continued suspension of iron ore mining, which continues to weigh down on economic activity, coupled with subdued aggregate demand.

Since the last MPC, inflationary pressures continued to be elevated, with headline inflation increasing from 16.59 percent in June 2018 to 19.29 percent in October 2018. This development resulted primarily from an increase in food prices, which was compounded by a depreciation of the Leone and an upward adjustment in the domestic pump price of fuel. However, the MPC, noted that although the inflation rate remains high, there are signs that inflationary pressures are easing, as evidenced by a decrease in the inflation rate to 18.14 percent in November 2018, the stability in the exchange value of the Leone against major currencies, and an improved domestic food supply as we enter the harvest season.

On the money supply front, the broad money stock expanded by 2.53 percent in Q3 2018, compared to the contraction of 0.25 percent recorded in Q2 2018. This was largely explained by growth in net foreign assets and credit to the private sector.

Reflecting the government's fiscal consolidation efforts, net government domestic borrowing declined by 1.93 percent. In this regard, the expenditure control measures recently announced by Government in the 2019 Budget, which should reduce government borrowing and bring fiscal operations back to a sustainable path, represent a major step in restoring conditions for macroeconomic stability.

The money market remained tight, with some banks resorting to the collateralized discount window at the Bank of Sierra Leone. The tight liquidity condition in the money market caused the interbank rate to rise to 14.76 percent in Q3 2018—from 13.66 percent in Q2 2018. However, the MPC noted that liquidity conditions slightly improved in October and November 2018, following net injections from government to finance infrastructure projects.

The MPC was also encouraged by the fact that growth in bank credit to the private sector recovered strongly, rising from 6.60 percent in Q2 2018 to 17.65 percent in Q3 2018. Consequently, the yield across all tenors of government securities increased during the quarter. However, Government's fiscal consolidation efforts, which should lower its demand for loanable funds, are expected to lower those yields. This expected reduction in the government's appetite for loanable funds should provide incentives to the commercial banks and other financial institutions to increase private sector lending.

Regarding the exchange rate, the MPC notes that the Leone appreciated against the dollar slightly during Q3 2018. More significantly, its exchange value in terms of major currencies remained relatively stable during much of Q4 2018. This was mainly due to subdued demand for foreign exchange as a result of tight monetary conditions and the injection of foreign exchange by our development partners. This development, which the MPC expects to continue in the near future, should dampen inflationary pressures, especially through the exchange-rate effect on the pump-price of fuel.

The banking sector remained sound, well capitalized, and profitable. However, though on declining trajectory, the non-performing loans ratio remain slightly above 10 percent, which is mildly worrisome.

Global growth is expected to be firm, driven by strong growth in the United States and developing economies, and is projected to grow by 3.7 percent in 2018 and 2019. However, the escalating trade frictions among major economies and the uncertainties surrounding Brexit could undermine the growth momentum.

Real GDP growth is expected to pick up to 5.1 percent in 2019, supported by the resumption of iron ore production and exports, improved foreign direct investments in the agriculture and tourism sectors, public investments in infrastructure, supported by policy reforms. The MPC however, recognizes that continued economic recovery over the medium to long-term horizon depends on sustained macroeconomic stability and addressing underlying structural constraints, especially on the supply side.

On the inflation front, recent data confirm an emerging disinflationary trend. Therefore, the policy priority for the BSL in the coming months is to maintain that disinflationary momentum while allowing scope for a recovery of aggregate demand to push real GDP back towards its potential growth rate.

Based on the near-term outlook, the balance of risks as well as the need to await the impact of recent macroeconomic policies and structural reforms measures in the economy, the MPC resolved to keep the monetary policy stance unchanged.

Hence effective Monday December 31, 2018, the following rates are published for the information of the public:

Monetary Policy Rate is 16.5 percent
Standing Deposit Facility rate is 13.5 percent
Standing Lending Facility rate is 20.5 percent

Professor Kelfala M Kallon
Governor