

Bank of Sierra Leone

Governor's Office



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MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) met on Wednesday, June 22, 2016 under the Chairmanship of the Governor, Bank of Sierra Leone, Dr Kaifala Marah, to assess current and prospective macroeconomic and financial developments and their implications for monetary policy.

The Committee noted the continuing slow pace of global recovery with low commodity prices, particularly iron ore, which has adverse implications for both fiscal revenue and foreign exchange inflows. The contraction in China's growth, a key trading partner, was particularly considered to have negative impact on the country's balance of payments position and overall growth prospects.

On the domestic front, the Committee noted gradual but sustained recovery in the real sector, driven mainly by growing Foreign Direct Investment (FDI) flows into agribusiness, which is expected to positively impact food production and non-iron ore GDP growth. When combined with Government investment in tourism, construction and transport, it holds the prospect for improvement in real sector growth. Similarly, in iron ore mining, the Committee noted the resumption of mining activity by Shandong Iron and Steel Group (SISG) and welcomed a potential resumption by Timis Corporation (former London Mining Company), the impact of which is yet to be buoyant.

The Committee recognised that Consumer Price Inflation during the first half of 2016 rose from 8.85 percent in December 2015 to 9.28 percent in April 2016, which was within the target limit of 9.5 percent stipulated under the IMF supported Extended Credit Facility (ECF) program. This was driven mainly by non-food inflation generated by the pass-through effect of the exchange rate depreciation of the Leone against the US Dollar. The outlook for inflation remains optimistic particularly so that monetary growth has been weak.

The Bank will continue to implement reforms in the monetary policy framework through the introduction of a new facility, known as the corridor system that will provide overnight deposit and lending facilities to commercial banks. This reform when fully implemented will engender greater efficiency in the conduct of monetary policy and enhance the Bank's capacity to respond swiftly to contain

inflationary pressures that will be generated either by currency depreciation or excessive monetary expansion.

The Committee therefore encouraged the Bank that while it continues with its intervention policy in the wholesale foreign exchange market to smoothen volatility in the exchange rate, it must remain vigilant and proactive in containing any inflationary pressures that will be generated due to further exchange rate depreciation.

The Committee underlined the need for continued fiscal and monetary policy coordination in an effort to obviate revenue mobilization challenges confronting the fiscal authorities. To this end, the Bank remains committed to supporting Government's treasury securities operation by providing liquidity through open market operations.

The Committee noted that notwithstanding the relative stability of the financial sector, the Bank must continue to exercise strengthened regulatory and supervisory roles in order to sustain financial sector stability.

Against the background of the foregoing macroeconomic developments and the need to strike a balance between output variation and price stability, the Committee agreed that the Bank of Sierra Leone continues to signal support for real output growth particularly so when monetary expansion remains modest during the quarter. The Monetary Policy Committee therefore decided to hold the Monetary Policy Rate (MPR) unchanged at 9.5 percent and maintain the corridors for the repurchase and standing facility at 50 and 100 basis points respectively, above the MPR.

Hence, effective Monday, 27th June 2016, the following rates are published for the information of the public: -

- ❖ Monetary Policy Rate is 9.5%
- ❖ Reverse Repo Rate is 10% (50 basis points above the MPR)
- ❖ Standing Facility Rate is 10.5% (100 basis points above the MPR)



Kaifala Marah (Dr)
Governor