Bank of Sierra Leone

Deputy Governor's Office

P.O. Box 30
Siaka Stevens Street
Freetown, Sierra Leone
West Africa

MONETARY POLICY STATEMENT

On Thursday 30th March, the Monetary Policy Committee (MPC) held its first meeting for 2017. The meeting was chaired by the Deputy Governor, Bank of Sierra Leone, Dr. Ibrahim L Stevens. The Committee reviewed developments in the global and domestic economies and their implications for inflation and monetary management.

The MPC noted that global economic activity recovered marginally in the fourth quarter of 2016, although growth remained broadly flat (3.1 per cent) over the year relative to 2015 (3.2 per cent). In 2017, the global economy is expected to record some improvement in growth, estimated at 3.4 per cent. Expected tax cuts and proposed increase in infrastructure spending in the United States of America and suggested fiscal stimulus in the Euro area account for most of the projected increase in growth.

In assessing developments in the domestic economy and outlook for growth, the MPC noted the strong economic recovery in 2016, as growth was estimated at 6.1 per cent compared to an earlier projection of 4.9 per cent. Domestic growth is projected to remain strong in 2017, sustained by the rebound in the primary sector, particularly the mining sub-sector. In addition, scheduled public investment programmes and signs of increase in business confidence are expected to further support domestic output in 2017.

On the external sector, the Committee noted that recovery in the global economy had a positive impact on Sierra Leone's trade balance as exports receipts improved significantly. Going forward, the continued recovery in commodity prices spurred by growth in China and India would contribute to improving Sierra Leone's foreign exchange reserves position.

The Committee noted the resilience of the banking system as reflected in the improvement of key financial sector soundness indicators such as capital adequacy, liquidity and profitability. However, though improving, the high ratio of non-performing loans in the banking system remains a regulatory concern, as it has contributed to the low credit to the private sector. With the range of reforms initiated by the Bank, including the collateral registry and the credit reference bureau, commercial banks should scale-up their lending to the private sector so as to consolidate the economic recovery process.

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On the fiscal situation, the Government is pursuing a number of tax reforms and revenue enhancing measures for effective budget execution. These measures would complement the implementation of monetary policy.

Consumer price inflation remained relatively high and exceeded the end year target of 9.5 per cent. Inflation increased from 11.3 per cent in September 2016 to 17.4 per cent in December 2016. Both food and non-food inflation increased and these increases were driven mainly by the persistent depreciation of the exchange rate and the upward adjustment to pump prices of fuel and electricity tariffs during 2016. The Committee considered the implication of these developments and noted that the threats to inflation were real. Consumer price inflation in January 2017 was 18 per cent.

Given these developments and consistent with the Bank's commitment to achieve single digit inflation by end December 2017, the Committee judged that further tightening of monetary policy was appropriate. The MPC therefore agreed to increase the Monetary Policy Rate (MPR) by 100 basis points from 11 per cent to 12 per cent. The Standing Deposit and Lending Facility rates are adjusted accordingly, to maintain the bands of the interest rate corridor.

Therefore, effective Tuesday 4th April 2017, the following rates are published for the information of the public:-

- Monetary Policy Rate is 12 per cent
- Standing Deposit Facility is 6.5 per cent
- Standing Lending Facility is 13 per cent

Ibrahim L. Stevens (Dr.)
Deputy Governor
4th April 2017