

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 28th March 2019 under the Chairmanship of the Governor, Professor Kelfala M. Kallon, and decided to keep the Monetary Policy Rate (MPR) unchanged at 16.5 per cent. The justifications for the MPC's decision are provided below: -

Inflation Forecast

The decision of the MPC was informed by its assessment of developments in the domestic and international environments and their potential impact on inflation outlook for Sierra Leone. Based on its assessment, the MPC noted that after trending downward for three consecutive months, inflation increased slightly in February 2019, with headline inflation rate rising to 17.2 per cent, compared with 17.1 per cent in January 2019. This modest increase in inflation was driven by non-food prices triggered partly by the pass-through effects of the depreciation of the Leone. However, the outlook for inflation shows a downward trend in the remaining quarters of 2019, which is consistent with the end-year target.

Meanwhile, global inflationary pressures were broadly contained in 2018, thanks to lower commodity prices, especially crude oil prices and faltering global economic momentum. The expected downward trend in crude oil prices will contribute to the stability of the domestic prices.

Economic Growth

Domestic Economic Growth

Domestic economic growth momentum slowed down to 3.7 per cent in 2018, relative to 3.8 per cent in 2017, mainly due to the cessation of iron ore mining operations. However, the MPC was encouraged by the commencement of iron ore mining operations in the first quarter of 2019. As a result of this development, economic activity is expected to improve in 2019.

Global Economic Growth

The global economy grew by 3.7 per cent in 2018, but is expected to slow down to 3.5 per cent in 2019, before picking up moderately to 3.6 per cent in 2020. The MPC noted that although global growth prospect remains positive, it faces increased uncertainties owing mainly to the US-China trade policy tensions and tightening of financing conditions by major global central banks. This may have implications for the Sierra Leone economy, given that China is a major trading partner of Sierra Leone.

Fiscal Policy

Fiscal policy remained expansionary, which resulted in increased fiscal deficit in the 4th quarter of 2018, mainly due to the increase in government expenditure. The MPC noted that the outlook of fiscal position is expected to improve, supported by the resumption of iron ore mining operations coupled with the fiscal consolidation efforts of the government and expected inflows from development partners.

Money and Banking

The broad money supply (M2) expanded in the 4th quarter of 2018, but was within the targets set under the IMF ECF program. This was in part due to the BSL financing of fiscal deficit and the conduct of monetary operations to support liquidity of the banking system. Accordingly, credit to private sector grew at an annualized rate of 31.5 per cent in the 4th quarter of 2018, relative to the 19.6 per cent recorded in 3rd quarter of 2018. The MPC also noted that the cost of intermediation by banks remains high, with potential adverse implications for growth of small and medium size enterprises.

Money market conditions were tight in the 4th quarter of 2018, evidenced by the increase in commercial banks' access to the BSL's lending facility, as well as the increase of the interbank market rate above the MPR.

The banking system remains relatively stable, as evidenced by the improvement in all financial soundness indicators, except for the non-performing loan ratio, which though improving, is slightly above the prudential limit.

The Exchange Rate

The Leone depreciated against major international currencies in the 4th quarter of 2018, driven mainly by increased dollarization and speculative behavior of market participants. The MPC

believes that the current efforts of the authorities, coupled with expected inflows from foreign direct investments as well as inflows from development partners will contribute to the stability of the exchange rate.

Conclusion

Based on the assessment of the inflation outlook and the need to support growth, the MPC resolved to keep the monetary policy rate unchanged. The MPC stands ready to respond to any developments that may affect the outlook for inflation.

Hence, effective Monday 1st April 2019, the following rate are published for the information of the public: -

Monetary Policy Rate is 16.5 per cent

Standing Deposit Facility rate is 13.5 per cent

Standing Lending Facility rate is 20.5 per cent.



Professor Kelfala M. Kallon
Governor