

# Bank of Sierra Leone

*Governor's Office*



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

## MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Sierra Leone met on 2 July 2020, under the Chairmanship of the Governor, Professor Kelfala M. Kallon, and decided to keep the Monetary Policy Rate (MPR) unchanged at 15 per cent. This decision was informed by its assessment of developments in the domestic and international environments, and their potential implications for price developments and financial stability in Sierra Leone. The justifications for the decision are as follows:

### **Inflation Outlook**

Based on its assessment, the MPC noted that inflationary pressures, after moderating in April 2020, picked up in May 2020, with headline inflation increasing to 15.5 per cent in May 2020 from 15.1 per cent April 2020. The increase in inflation was mainly driven by food prices, emanating from the impact of the COVID-19-related containment measures on the market for essential commodities. On the demand side, uncertainties about how long the curfews will last or whether the country will go into total lockdown for an extended period incentivized the hoarding of essential commodities due to expectations of shortages, which increased the demand for essential commodities. On the supply side, restrictions on the movement of people and commodities caused a decrease in the supply of especially food from the provinces to Freetown. The end result of both shocks was an increase in the rate of inflation.

However, the expected softening of domestic demand due to an expected decrease in economic activity, the relative stability in the exchange rate and the projected decline in global commodity prices, especially oil prices, are likely to contribute to dampen inflationary pressures in the months ahead.

### **Economic Growth**

#### **Domestic Economic Growth**

The COVID-19 Pandemic has, and is expected to, adversely impact economic activity. Thus, domestic economic growth is projected at -3.1 per cent in 2020, compared to the pre-COVID-19 projection of 4.1 per cent. This expected development in the domestic economy is largely influenced by the COVID-19 containment measures, which continue to weigh down on economic activity in critical sectors, including tourism and trade, mining and agriculture.

However, the MPC noted that the government has announced a package of measures under the Quick Action Economic Recovery Program (QAERP) that is aimed at mitigating the short-term impact of COVID-19 on the economy and setting in motion an economic recovery plan. Implementation of the QAERP, the easing of the inter-district lockdown, and the prospect for the resumption of cross-border trade are expected to support economic recovery in 2021. Accordingly, preliminary estimates suggest that the economy will recover to a 2.7 percent real GDP growth in 2021.

## **Global Economic Growth**

Global economic growth has been downgraded further to -4.9 per cent in 2020, from the April 2020 projection of -3.0 per cent. This reflects the disruptive impact of the global COVID-19 containment measures being implemented on the global supply chain and weakened global demand.

The MPC noted that risks to global economic outlook are tilted to the downside, amidst increased uncertainty and the possibility of a second wave of the spread of the COVID-19 infections. These developments are anticipated to continue to have adverse effects on Sierra Leone's growth, trade and the balance of payments in 2020.

## **External Sector**

The external sector was relatively weak in the First Quarter of 2020. As a result, the trade deficit widened to US\$179.65million during the First Quarter 2020 (from a deficit of US\$77.74 million in the Fourth Quarter of 2019), mainly due to the combined effects of an increase in import payments and a significant decline in export receipts. Notwithstanding the worsening external trade conditions, gross external reserves remained broadly unchanged, representing about 3.7 months of imports.

The Leone-US dollar exchange rate remained relatively stable, reflecting demand and supply conditions on the domestic market. The stability of the exchange rate may have also been influenced, to some extent, by the announcement effect of BSL's COVID-mitigation policy measures.

## **Fiscal Policy**

The fiscal deficit worsened in the First Quarter of 2020, reflecting increased COVID-19-related expenditures emanating from the implementation of proactive and innovative strategies to prevent the pandemic from entering the country, on the one hand, and minimize its spread after it entered the country, on the other hand. However, the MPC hopes and expects that the recent inflows from development partners to ease the fiscal pressures on the budget.

## **Money and Banking**

In line with the subdued economic activity in the real sector, the growth in monetary and credit aggregates moderated in the First Quarter of 2020. The moderate growth in broad money reflects the increase in foreign assets of the banking system. The MPC noted that the economic downturn arising from COVID-19 will expectedly continue to constrain credit growth. However, the Committee expects this to be moderated by the BSL Special Credit Facility for the production, procurement, and distribution of essential commodities, which is part of Pillar 1 of the QAERP. It was also observed that, though the monetary policy rate was reduced to 15 per cent in March 2020, interest rates charged by banks remain high. This has potential adverse implications for investment, consumer spending and, ultimately, economic growth.

Liquidity conditions in the money market eased in the First Quarter of 2020, which is evidenced by a decrease in the interbank rate and minimal access to the BSL Standing Lending Facility by commercial banks. The MPC noted that the government securities market was oversubscribed in the First Quarter of 2020, as banks increased their investments in the market.

The banking sector remains relatively stable. This is demonstrated by the improvement in all key Financial Soundness Indicators (except the Non-Performing Loan ratio, which increased and remained above the prudential limit).

**Conclusion**

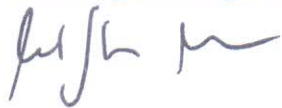
Given that the potential impact of the QAERP on the economy is yet to be felt to any significant degree, as most of its other pillars are yet to be implemented, the MPC resolved to keep its monetary policy stance unchanged at this moment. However, the Committee will continue to actively monitor domestic and global developments and act to promote and maintain macroeconomic and financial stability, if and when necessary.

Hence, effective Monday 6 July 2020, the following rates are published for the information of the public:-

**Monetary Policy Rate is 15.0 per cent**

**Standing Deposit Facility Rate is 12 percent**

**Standing Lending Facility Rate is 19.0 per cent**



**Professor Kelfala M. Kallon**  
**Governor**