

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 Monday 14th May 2018 under the Chairmanship of the Governor, Dr. Patrick Saidu Conteh. Based on assessment of recent domestic and international economic developments and their implications for domestic inflation, the MPC decided to increase the monetary policy rate (MPR) by 50 basis points to 15 per cent.

In its discussions, the MPC noted that the rate of economic recovery observed in 2016 was not sustained in 2017, as evidenced by the decrease in GDP growth, from 6.3 per cent in 2016 to 3.5 per cent in 2017, which was attributed mainly to the lower than expected production of iron ore and the slow pace of economic diversification. Similarly, non-iron ore GDP growth was 3.4 per cent in 2017, compared to 4.3 per cent in 2016.

Over the past few months, there is evidence that domestic inflationary pressures continued to decline. Inflation declined from 17.83 per cent in Q3 2017, to 15.33 per cent in Q4 2017. In January 2018, inflation declined to 14.69 per cent and further to 14.40 per cent in February 2018, reflecting decrease in both food and non-food inflation, underpinned by a decrease in the volatility of the exchange rate. However, there was a slight increase in inflation (14.91 per cent) in March 2018.

The nominal exchange rate remained relatively stable in Q1, 2018, while real effective exchange rate appreciated, an indication of a strengthening of the Leone against the basket of currencies for the country's major trading partners.

In the banking sector, the level of Non-Performing Loans (NPLs) remains a threat to Financial System Stability. However, profitability and liquidity indicators suggest that, in aggregate, the banking sector is relatively stable as at end Q1, 2018.

Despite the MPC's tight monetary policy stance, monetary aggregates expanded in Q4, 2017 and also in Q1, 2018 due to increased BSL monetary operations, including foreign currency swap with commercial banks, aimed at supporting liquidity in the banking sector. Yields on Treasury bills increased over the period from Q4, 2017 to Q1, 2018, suggesting an increase in inflation expectations.

On the global outlook, the Committee noted that growth will continue to strengthen as global GDP is projected to increase from 3.8 per cent in 2017 to 3.9 per cent in 2018 and 2019, supported by an increase in global trade and commodity prices coupled with improved economic sentiments. The Sierra Leone economy is likely to benefit from the global outlook. However, the projected increase in specific commodity prices (fuel and rice) and ongoing technical difficulties in the operations of domestic iron ore companies would increase domestic economic uncertainty. In addition, the price of iron ore is projected to decline in 2018 and 2019.

The key threat to inflation is the expected increase in the prices of the country's imports (especially fuel and rice), which is likely to negatively impact the trade balance, with potentially adverse implications for the exchange rate. Over the next few months, additional inflationary pressures may come from the expected pick up in domestic aggregate demand and the seasonal effects of the raining season, especially the reduction in domestic food production.

Ongoing fiscal consolidation efforts by the new government would complement the MPC's tight monetary policy stance, as these efforts would help to dampen aggregate demand pressures. Over the medium term, economic growth is expected to improve due to increase in investor confidence and potential new Foreign Direct Investments (FDIs) in the agriculture and tourism sectors, among others.

Based on the developments highlighted, the Committee is of the view that despite the noticeable downward trend in inflation, inflationary pressures remain. Also, there are downside risks to the macroeconomic outlook. Therefore, to sustain the gains made so far in bringing down inflation, the Committee decided to continue with a modest tightening of monetary policy to ensure price stability.

Consequently, the Monetary Policy Committee resolved to increase the Monetary Policy Rate by 50 basis points to 15 per cent. The asymmetric corridor is fixed at +400 and -300 basis points around the MPR.

Effective Thursday 17th May 2018, the following rates are published for the information of the public: -

Monetary Policy Rate is 15 per cent
Standing Deposit Facility is 12 per cent
Standing Lending Facility is 19 per cent



Patrick S. Conteh (Dr.)
Governor