BANK OF SIERRA LEONE

FINANCIAL STABILITY REPORT 2024

NUMBER 08

Published by: Bank of Sierra Leone

Siaka Stevens Street, Freetown, Sierra Leone

Tel: +232 22 226501

Fax: +232 22 224764

Email: info@bsl.gov.sl

Website: www.bsl.gov.sl

TABLE OF CONTENTS

TABLE OF FIGURES

LIST OF TABLES

ACRONYMS

ABSL	Apex Bank Sierra Leone Limited
ACH	Automated Clearing House
AEs	Advanced Economies
AFREXIMBANK	African Export and Import Bank
AML/CFT	Anti Money Laundering and Combating Financial Terrorism
ATM	Automated Teller Machine
BN	Billion
BSD	Banking Supervision Department
BSL	Bank of Sierra Leone
CAR	Capital Adequacy Ratio
CBs	Commercial Banks
COMFIs	Credit-Only Microfinance Institutions
COVID	Corona Virus Disease
CRR	Cash Reserve Ratio
CPI	Consumer Price Index
CPF	Combating Proliferation Financing
CUs	Credit Unions
DHs	Discount Houses
DTMFIs	Deposit Taking Microfinance Institutions
EFT	Electronic Fund Transfer
ELA	Emergency Liquidity Assistance
EDMEs	Emerging Markets and Developing Economies
FEB	Foreign Exchange Bureaux
FMD	Financial Markets Department
FSAs	Financial Services Associations
FSD	Financial Stability Department
FSR	Financial Stability Report
FX	Foreign Exchange
G2P	Government-to-People
GDP	Gross Domestic Products
GS	Government Securities
HHI	Herfindahl Hirschman Index
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IMTOs	International Money Transfer Organizations
IPS	Instant Payment Service
LCY	Local Currency

LOLR	Lender of Last Resort
LR	Liquidity Ratio
MoF	Ministry of Finance
MFIs	Microfinance Institutions
MIX	Microfinance Information Exchange
MMOs	Mobile Money Operators
MPC	Monetary Policy Committee
MPD	Monetary Policy department
MPPF	Macroprudential Policy Framework
MPR	Monetary Policy Rate
NASSIT	National Social Security and Insurance Trust
NLe	New Leone
NOPs	Net Open Positions
NPLs	Non-Performing Loans
NPS	National Payment Switch
OFISD	Other Financial Institutions Supervision Department
OMO	Open Market operations
O/N	Over Night
OPEC	Organization of Petroleum Exporting Countries
OSS	Operational Self Sufficiency
PAPSP	Pan African Payment and Settlement Platform
PAPSS	Pan African Payment and Settlement System
PaR	Portfolio at Risk
POS	Point of Sales
PSP	Payment Service Providers
PP	Percentage points
Q4	Quarter Four
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement System
SaPs	Salone Payments System
SDF	Standing Deposit Facility
SLF	Standing Lending Facility
SLICOM	Sierra Leone Insurance Commission
SSL	Statistics Sierra Leone
SSSS	Scripless Securities Settlement System
T-Bills	Treasury Bills
T-Bonds	Treasury Bearer Bond
TSA	Treasury Single Account
US	United States
USD	United States Dollars
WAMZ	West African Monetary Zone
WEO	World Economic Outlook

GOVERNOR'S FOREWORD

It is with profound honour that I present the eighth edition of the Financial Stability Report (FSR) of the Bank of Sierra Leone (BSL). This edition offers a comprehensive evaluation of the current financial landscape, identifying potential systemic risks that could affect the stability of our financial system. Through this publication, we aim to increase awareness and foster greater understanding of evolving financial sector dynamics among policymakers, financial market stakeholders, and the general public.

Over the past year, Sierra Leone's financial system, particularly the banking sector, demonstrated notable resilience and continued on a path of measured growth. This performance was underpinned by subdued inflationary pressures, which stemmed from sound macroeconomic policies championed by the BSL and the fiscal authority, the Ministry of Finance (MoF). These policies, coupled with global reduction in food and energy prices, relative stability of the exchange rate, and increased domestic food production, contributed to a sustained downward trend in inflation.

While the banking sector remained largely robust, some vulnerabilities persisted. Though the majority of financial soundness indicators remained within acceptable regulatory bounds, concerns emerged in areas such as elevated Non-Performing Loans (NPLs) in certain banks, limited financial intermediation with credit concentrated in a few sectors, and excessive reliance on investments in government securities. These issues present systemic risks that warrant continuous oversight and intervention.

In response, the BSL has taken direct action to strengthen regulatory and supervisory frameworks for both bank and non-bank financial institutions. In 2024, significant guidelines and frameworks were published with the objective of reinforcing financial system resilience. Among these, the Guidelines on Lending in Foreign Currency empower commercial banks to extend foreign currency loans on a case-by-case basis, thereby fostering improved financial intermediation and supporting broader economic growth.

Furthermore, the BSL revised minimum paid-up capital requirements for commercial banks, Deposit Taking Microfinance Institutions, Credit-only Microfinance Institutions, Foreign Exchange Bureaux and Mobile Money Operators, and also introduced capital thresholds for entities that previously operated without such benchmarks. This initiative seeks to cultivate strong and healthy institutions capable of supporting an expanding economy. To complement this effort, existing licensing fees and charges were reviewed in light of Leone depreciation, inflation, and the need for sustainable institutional financing.

To bolster financial system oversight, the BSL published its Macro-Prudential Policy Framework (MPPF), which enhances the BSL's ability to fulfil its mandate of maintaining financial stability. As part of its role as lender of last resort, the BSL has developed an Emergency Liquidity Assistance (ELA) Framework. Additionally, the BSL approved the Framework on Domestic Systemically Important Banks (DSIBs), equipping the Bank to effectively identify and supervise institutions whose failure could pose widespread risk to the financial sector, often referred to as "too-big-to-fail".

Recognising the pivotal role of agriculture in Sierra Leone's development, the Bank of Sierra Leone (BSL) launched the second phase of the Agricultural Credit Facility (ACF) in March 2024, valued at NLe230 million (equivalent to US$10 million). This initiative is a continuation of the facility originally established during the COVID-19 pandemic. The low-interest facility aims to boost the production of essential commodities—such as rice, onions, and poultry—and supports a wide range of activities, including the provision of production inputs and the development of processing capabilities.

The enactment of the Anti-Money Laundering, Combating the Financing of Terrorism, and Counter-Proliferation Financing (AML/CFT and CPF) Act 2024 by Parliament addresses key risk exposures identified in the National Risk Assessment Report. Under the Sierra Leone Financial Inclusion Project, the successful implementation of the National Switch Project has significantly enhanced the interconnectivity and interoperability of retail financial systems. Furthermore, Phase II of the National Switch, the Instant Payment Service (IPS) began testing in a live environment in October 2024, with participation from seven banks and two Mobile Money Operators (MMOs).

While the banking sector continues to hold the majority of assets within the financial system, its composition has evolved. The exit of Standard Chartered Bank (SL) Ltd from selected markets in Africa and the Middle East resulted in the smooth and successful acquisition of its Sierra Leone operations by Access Bank (SL) Ltd, thereby reducing the number of licensed banks in the country.

Looking ahead, the Bank of Sierra Leone (BSL) remains firmly committed to safeguarding financial stability through the effective implementation of newly developed frameworks—

including the Macro-Prudential Policy Framework, the Domestic Systemically Important Banks Framework, and the Emergency Liquidity Assistance Framework—as well as the adoption of best practice approaches such as Risk-Based Supervision. These tools are designed to proactively address emerging challenges and mitigate potential crises. I trust that this report will be of great value to all stakeholders and will serve as a practical guide in navigating both the current and future financial landscape.

More broadly, the Bank of Sierra Leone (BSL) will continue to keep the public informed on financial stability matters through this Report and other communication platforms, thereby reinforcing transparency and fostering greater engagement within the financial sector.

Ibrahim L. Stevens, PhD
Governor, Bank of Sierra Leone

EXECUTIVE SUMMARY

Global Backdrop

Global growth is predicted to remain stable, with forecasts for 2025 and 2026 at 3.3 percent, below the historical average of 3.7 percent. However, the overall picture reveals divergent paths across economies and uncertainty has increased.

The US economy is projected to grow by 2.7 percent in 2025, a 0.5 percentage point increase from the October forecast, due to robust demand, less restrictive monetary policy, and supportive financial conditions. The Euro Area's (EAs) growth is expected to slow down due to geopolitical tensions, with a downward revision of growth to 1 percent in 2025. However, growth is predicted to rise to 1.4 percent in 2026, bolstered by stronger domestic demand and improved financial conditions. Emerging Markets and Developing Economies (EMDEs) are expected to experience growth similar to 2024, with China's 2025 growth revised upward to 4.6 percent due to a carryover from 2024 and a fiscal package. In 2026, growth is expected to remain stable at 4.5 percent due to reduced uncertainty in trade policy and a slowdown in labor supply.

Global headline inflation is predicted to decrease to 4.2 percent in 2025 and 3.5 percent in 2026, with Advanced Economies (AEs) reaching targets earlier than EMDEs. The disinflation is expected to continue, with minimal deviations from WEO forecasts. A cooling in labor markets and declines in energy prices is expected to keep inflation below central bank targets. US inflation is expected to remain above 2 percent in 2025, while EA inflation dynamics are expected to be subdued.

During 2024, global financial conditions remained accommodative, with equity valuations rising in AEs due to US business-friendly policies, while EMDEs' valuations remained subdued. The US dollar's strengthening due to new tariffs and higher interest rates has tightened financial conditions. Economic policy uncertainties, particularly in trade and fiscal areas, have led to differing trends across countries. Political instability in Asian and European countries has exacerbated uncertainty, while geopolitical tensions and global trade frictions remained high. The IMF's projections for 2025 assume current policies remained in place, with energy commodity prices expected to decline by 2.6 percent, gas prices to rise, and nonfuel commodity prices to increase by 2.5 percent.

Economic Developments in Sierra Leone

Sierra Leone's economy is expected to have slowed to 4.0 percent in 2024 due to a worsening mining sector performance and a decline in global iron ore prices. Nevertheless, the economy is predicted to recover by 4.5 percent in 2025 and average 4.7 percent growth over the medium term, reflecting expected improvements in mining sector performance and agricultural productivity.

Inflation has been on a downward trend since October 2023, falling especially rapidly in 2024 H2 from 31.6 percent in June to 13.8 percent in December. Food inflation has fallen particularly rapidly. The sustained decline in the growth in the Consumer Price Index (CPI) is attributed to the Bank's tight monetary policy stance, exchange rate stability, and stable global food prices.

The Banking Sector

The banking sector continued to account for the lion's share of the financial system, accounting for 83.6 percent of total assets, end 2024. The Pension Fund ranked second with 10.8 percent, slightly up from the previous year. The other sectors accounted for 5.7 percent. The banking sector consisted of 13 commercial banks, including two state-owned, two domestic privately-owned, and nine foreign owned, mainly Nigerian.

The banking sector continues to show resilience, supported by significant easing of inflationary pressures over the year, due to sound macroeconomic policies, declining global food and energy prices, exchange rate stability, and increased domestic food production. However, challenges in the sector included sluggish economic growth, the Russia-Ukraine conflict, and geopolitical tensions in the Middle East.

The sector remained well-capitalized, profitable, and liquid, largely due to its heavy reliance on Government Securities. Credit to the private sector relative to GDP remained low by both regional and international standards but did show some improvement over the review period.

The Non-Performing Loans (NPLs) ratio of the banks marginally increased from 8.8 percent in 2023 to 8.9 percent in 2024 but remained below the 10 percent prudential threshold. Asset quality varied across banks, with most reporting NPLs below the regulatory limit. The NPL net of provisions to regulatory capital rose to 19.5 percent in 2024. The Bank of Sierra Leone (BSL) expects further decline in NPLs as enhanced oversight is implemented for banks with elevated NPL levels.

At the end of December 2024, the banking industry's CAR was 41 percent, and its Tier 1 CAR was 30 percent, both much higher than the regulation minimums of 15 and 7.5 percent, respectively, with marginal decreases as compared to 2023 levels, fueled by accumulation of higher risk-weighted assets. The banking sector remained very profitable, with profits increasing by 48 percent, surpassing inflation rates.

The BSL is dedicated to ensuring stability and resilience of the banking and non-bank financial sectors through developing and implementing regulatory and supervisory frameworks. In 2024, the BSL published several Frameworks and Guidelines to achieve this goal. Frameworks on Macroprudential Policy, Domestic Systemically Important Banks and Emergency Liquidity Assistance were developed in the review period. Also, the Guidelines on Lending in Foreign Currency was introduced, and the Minimum Paid-up Capital for banks and non-banks were increased on a graduated basis to encourage stronger, healthier, and more resilient banks and financial institutions that can support a growing economy. The BSL approved an Agricultural Credit Facility (ACF) worth NLe230 million to support the agricultural sector in three prioritized activities, namely rice, onion and poultry. The facility will provide low interest loans at 10 percent to private sector participants in these activities, covering production, farm inputs, aggregation, processing, packaging, and rebranding. The Facility aims to increase domestic food production, reduce food importation, and conserve foreign exchange reserves.

The BSL conducted stress tests to assess the banking sector's resilience to future shocks. The tests evaluated the impact of severe, but plausible scenarios on banks' balance sheets and profit and loss accounts as of December 2024, aiming to identify risks and vulnerabilities in the sector. The tests assessed credit, liquidity, interest rate, and exchange rate risks on thirteen (13) commercial banks. The results indicated that the banking sector, and most banks within, was generally resilient to large adverse shocks, but a combination of such shocks could weaken the sector, though would not cause a full-blown crisis. The reason was that most banks had very high levels of CAR and liquidity emanating from their unique business models, which was based on large holdings of Government securities.

Non-Bank Financial Sector

In 2024, the Other Financial Institutions (OFIs) landscape saw a slight shift with an increase in Credit-Only Microfinance Institutions (COMFIs), by ten to 79.

During the review period, DTMFIs' assets, equity, deposits, and loans expanded, with the largest DTMFI accounting for 33.6 percent and the three largest at 97.2 percent of the sector's assets. DTMFIs' profits increased by 26 percent in October 2024, surpassing inflation rates, COMFIs' total assets and loans increased by 17.7 percent and 28.3 percent, respectively. However, only 39 out of 79 institutions submitted returns, and the BSL plans to impose sanctions or stringent measures on non-compliant institutions.

Overall, COMFIs made a profit of NLe43.7 million as of October 2024, but nine (9) COMFIs made losses when individual performances were considered. Community Banks' total assets increased by 2.3 percent due to growth in financial institution balances. The sector's concentration remained high, with the largest and three largest CBs accounting for 18.5 percent and 42.1 percent of total assets respectively. The CB sector's profitability increased by 9.2 percent, while the PaR increased by 4.4 percent, remaining above the minimum MIX standard of 4.8 percent. The Financial Services Associations' total assets and loans decreased by 5.2 percent and 26.4 percent, respectively, while loan portfolio quality slightly improved, with the PaR decreasing to 18 percent as of October 2024.

Mobile Money Operators experienced significant increases in their number of Agents, but decreases in the accounts, number and value of transactions.

In October 2024, the number of Credit Unions (CUs) remained constant at 25 from the previous year, but membership increased by 1,875 members to 18,369. The consolidated total assets of the sector increased by NLe10.5 million to NLe40.6 million, while total savings increased to NLe29.7 million.

The US dollar continued to be the dominant currency in the foreign exchange market, however, inward remittances of USD declined slightly in the review period to $39.7 million.

Financial Markets

The BSL's Monetary Policy Rate (MPR) increased by 250 basis points during 2024 to 24.75 percent. The Monetary Policy Committee (MPC) maintained a tight monetary policy stance during its September 2024 meeting, raising the MPR by 50 basis points to 24.75 percent. The overnight Standing Lending Facility (SLF) and Standing Deposit Facility (SDF) rates increased to 27.75 percent and 18.25 percent, respectively. The BSL effectively managed to increase banking sector liquidity in 2024 through its Open Market Operations (OMOs) and SLF. During the review period, access to the SLF window significantly increased, while there was no access to the SDF window owing to tight liquidity conditions in the banking system.

Payments System

The BSL is continuously monitoring and assessing the National Payments Switch's (NPS) performance to ensure safety and efficiency in the Financial Market Infrastructure, minimize risks, and achieve reliable, secure, cost-effective, universal, and integrated systems that meet the economy's needs. The BSL prioritizes financial inclusion, protecting the payments system, and collaborating with stakeholders.

On October 10, 2024, the Second Phase of the Instant Payment Platform was launched, involving seven banks and mobile operators, enabling instant payments between customers of different Payments Service Providers. The National Instant Payments Platform aims to integrate mobile money with mainstream banking, enabling instant payments from any wallet or bank account, regardless of the mobile network. This will encourage micro-merchants to accept payments for goods and services via instant payment, thereby improving financial inclusion.

1 MACROECONOMIC AND FINANCIAL DEVELOPMENTS

1.1 Global Macroeconomic Developments

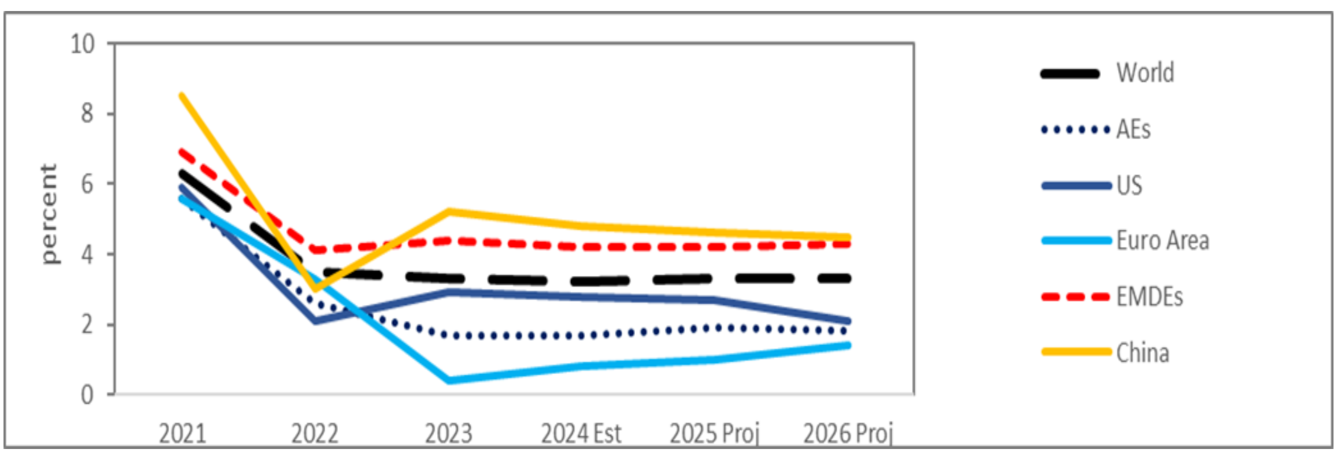
Global growth is predicted to remain stable, with forecasts for 2025 and 2026 at 3.3 percent, below the historical (2000-19) average of 3.7 percent. However, the overall picture reveals divergent paths across economies and a precarious global growth profile.

Among advanced economies (AEs), growth forecast revisions move in different directions. The United States (US) economy is projected to experience a 2.7 percent growth in 2025, a 0.5 percentage point increase from the October forecast. This is due to robust domestic demand, a less restrictive monetary policy, and supportive financial conditions. The growth is expected to match the potential output level in 2026, indicating a strong economy.

The Euro Area's (EA's) growth is expected to slow down, largely due to geopolitical tensions. The downward revision of growth to 1 percent in 2025 is due to weaker momentum in manufacturing and increased political and policy uncertainty. However, growth is predicted to rise to 1.4 percent in 2026, bolstered by stronger domestic demand and improved financial conditions.

Growth in Emerging Markets and Developing Economies (EMDEs) in 2025 and 2026 is expected to be similar to 2024. China's 2025 growth is revised upward to 4.6 percent due to a carryover from 2024 and a fiscal package. In 2026, growth is expected to remain stable at 4.5 percent, driven by the dissipation in the uncertainty in trade policy and a slowdown in the labor supply.

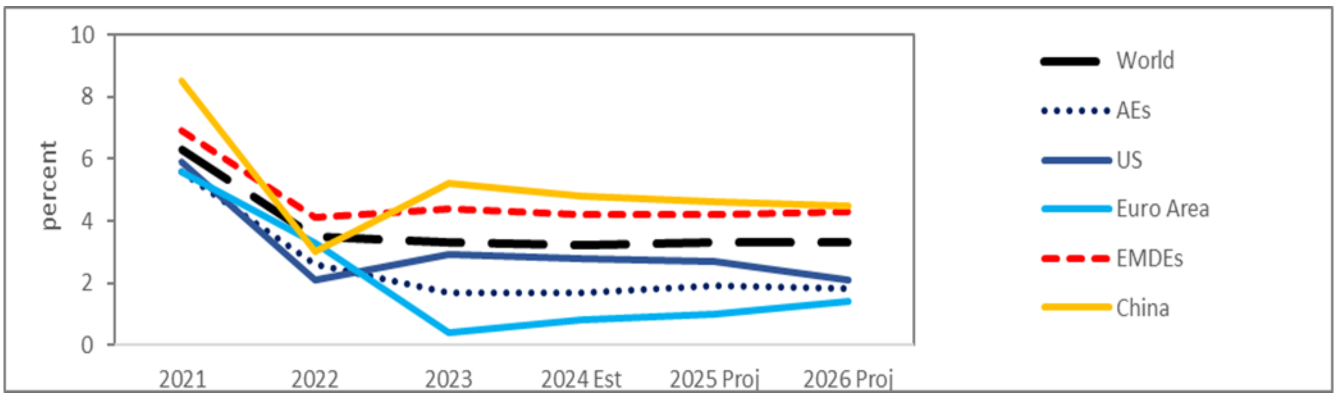
Figure 1.1: Annual Real GDP Growth (%)



Source: IMF, World Economic Outlook (WEO) October 2024 Update.

Global headline inflation is predicted to decrease to 4.2 percent in 2025 and then to 3.5 percent in 2026, with central banks in AEs expected, in general, returning to targets earlier than in EMDEs. Disinflation progress is expected to continue, with minimal deviations from October 2024 World Economic Outlook (WEO) forecasts. Labor market cooling and energy price decline are expected to keep inflation below central bank targets. However, US inflation is expected to remain above the 2 percent target in 2025, while EA inflation dynamics are expected to be subdued. Low inflation is projected to persist in China. Central banks are moving more cautiously in the easing cycle, monitoring activity, labor market indicators, and exchange rate movements. Some central banks in AEs are raising interest rates in response to rising inflation, indicating divergence in monetary policy.

Figure 1.2: Developments in Global and Regional Annual Inflation



Source: IMF, World Economic Outlook (WEO) January 2025 Update.

1.2 Global Financial Developments

Global financial conditions, as described in the WEO Report January 2025, remain accommodative, with some differences across jurisdictions. AEs' equity valuations have risen due to US business-friendly policies, while EMDEs' valuations have been subdued. The strengthening of the US dollar, driven by new tariffs and higher interest rates, has kept financial conditions tighter.

Economic policy uncertainty has arisen, particularly in trade and fiscal areas, resulting in differing trends across countries. Expectations of policy shifts under newly elected governments in 2024 have influenced financial market pricing. Political instability in Asian and European countries has exacerbated uncertainty, while geopolitical tensions, including those in the Middle East, and global trade frictions remain high.

The IMF's projections for 2025 assume current policies remain in place and consider recent market developments and trade policy uncertainty. Energy prices are expected to decline by 2.6 percent, driven by weak Chinese demand and strong supply of petroleum products from countries outside OPEC+. On the other hand, gas prices are projected to rise due to colder weather and supply disruptions. Nonfuel commodity prices are expected to increase by 2.5 percent as a result of upward revisions to food and beverage prices. Monetary policy rates of major central banks are projected to decline, reflecting expectations in growth and inflation outlook. Fiscal policy stance is expected to tighten in EAs and EMDEs during 2025-2026 as governments attempt to stabilise government debts which have increased in most countries since the Covid epidemic.

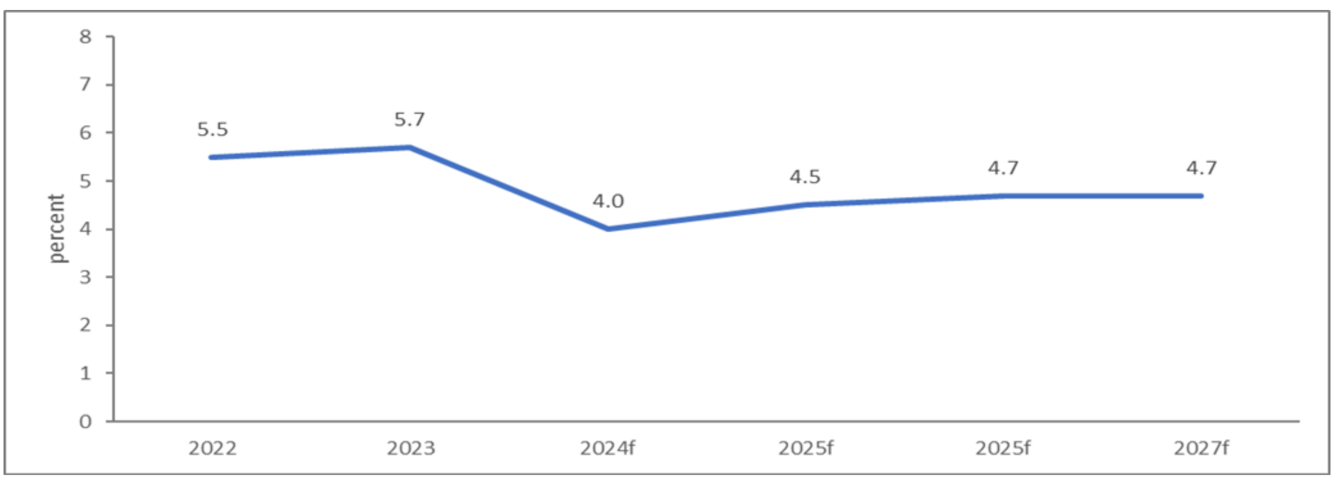
1.3 Domestic Macroeconomic Developments

1.3.1 GDP Growth and Inflation

The Sierra Leone economy grew by 5.7 percent in 2023, according to the most recent rebasing of real GDP, primarily due to robust mining activity. Growth is estimated to slow to 4.0 percent in 2024 due to poor mining sector performance and a decline in iron ore prices worldwide. However, GDP is predicted to recover to 4.5 percent in 2025 and average 4.7 percent over the medium term, indicating a positive outlook based on projections from SSL and the IMF. This positive outlook is reflective of the expected increases in mining performance, strong agricultural productivity, and robust macroeconomic policies consistent with the new IMF program.

Notwithstanding this positive forecast, there are significant risks to the growth outlook, such as the possibility of a rebound in global food and energy prices, fiscal lapses, and spillovers from global fragmentation.

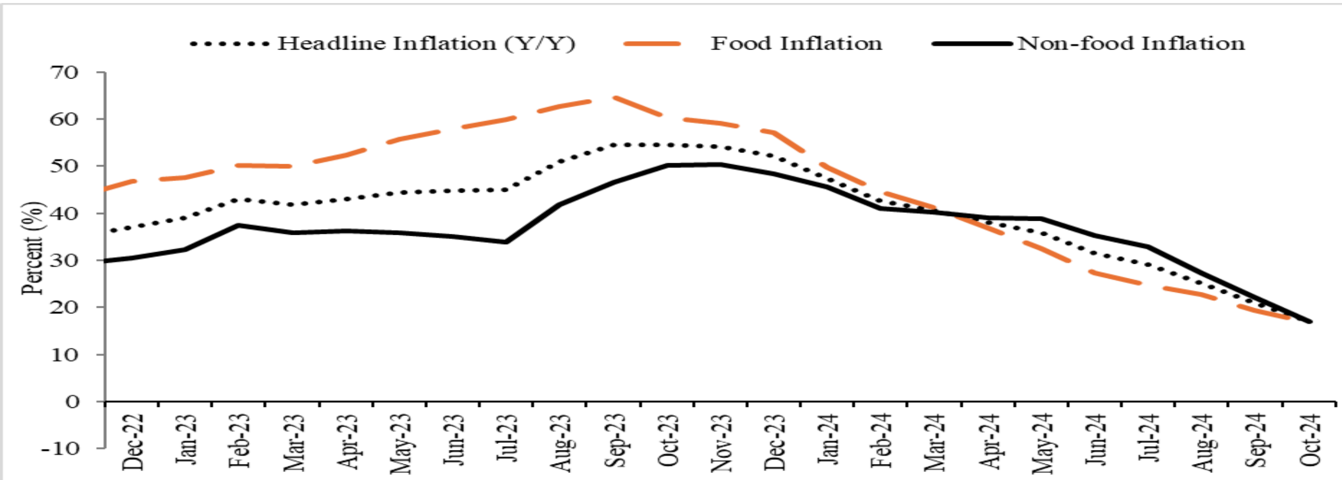
Figure 1.3: Real Annual GDP Growth in Sierra Leone



Source : Statistics Sierra Leone & IMF

Inflation peaked at 54.59 percent in October 2023 and has been on a declining trend since then. The headline inflation rate decreased from 31.6 percent in June 2024 to 20.9 percent in September 2024, and then to 13.8 percent in December 2024. This has been accompanied by a moderating trend in both food and non-food inflation. The rate of food inflation decreased during 2024 from 27.3 percent in June to 19.4 percent in September and then to 16.6 percent in October. Non-food inflation also declined sharply, from 35.3 percent in June to 22.2 percent in September and 17.1 percent in October (Figure 1.4). The sustained decline in inflation is attributed to the impact of the continued tight monetary policy stance of the Bank, relative stability of the exchange rate, and stable global food prices, which collectively contributed to easing price pressures across the Consumer Price Index (CPI) basket.

Figure 1.4: Headline, Food and Non-food Inflation



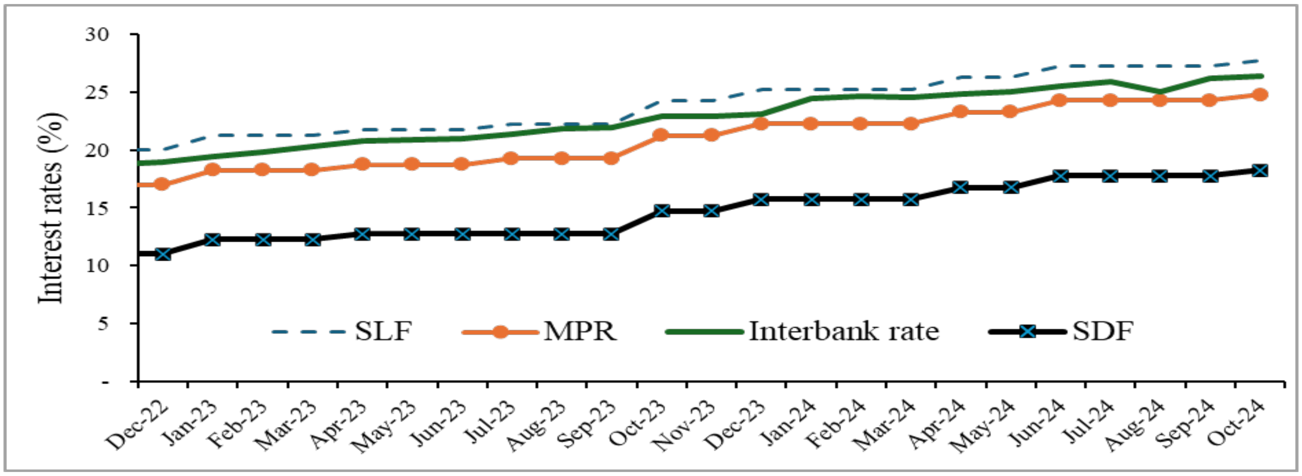
Source : MPD, BSL.

1.4 Monetary Policy Management

At the December 2024 meeting, the Bank of Sierra Leone's (BSL) Monetary Policy Committee (MPC) decided to maintain the tight monetary policy stance. The Monetary Policy Rate (MPR)was kept at 24.75 percent after MPC evaluated the risks to the inflation outlook and the latest financial and macroeconomic developments in the domestic and international economy. Furthermore, the rates for the Standing Deposit Facility (SDF) and the Standing Lending Facility (SLF) remained the same at 18.25 percent and 27.75 percent, respectively.

Between June 2024 and September 2024, the interbank weighted average interest rate rose from 25.5 percent to 26.2 percent and then to 26.4 percent in October 2024. In June 2024, commercial banks' average lending rate was 20.4 percent; by September 2024, it had risen to 22.3 percent. In September 2024, commercial banks' savings rate stayed at 2.2 percent. As a result, the difference between the average lending rate and savings rate of commercial banks rose from 18.2 percent in June 2024 to 20.0 percent in September 2024

Figure 1.5: BSL Policy Rates and Interbank Weighted Average Rate



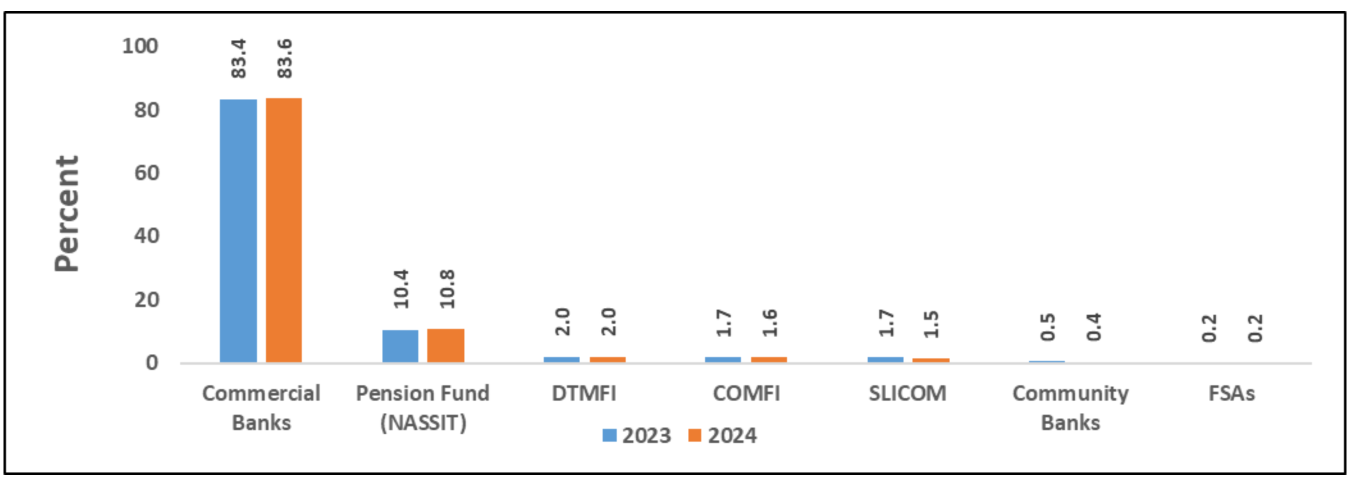
Note: MPR is the Monetary Policy Rate,
SDF and SLF is the overnight standing deposit facility and overnight standing lending facility rate, respectively. The SDF rate is the lower band, while the SLF rate is the upper band of the BSL's overnight interest rate corridor.
Source: FMD, BSL.

1.5 Structure of the Financial System

The Banking sector maintained its dominance in the financial system, accounting for 83.6 percent of the assets of the financial system as of December 2024, similar to December 2023 (83.4%). Pension funds was ranked second with 10.8 percent of the total financial system assets and showed a slight increase in share from the previous year. The other sectors of the financial system accounted for 5.7 percent of the total assets of the financial system.

At end 2024, the banking sector consisted of thirteen (13) commercial banks – one fewer than at end 2023 - including two state-owned, two domestic privately-owned and nine foreign-owned, mainly Nigerian.

Figure 1.6: Share of Financial System Assets by Sector



Source: BSL and NASSIT

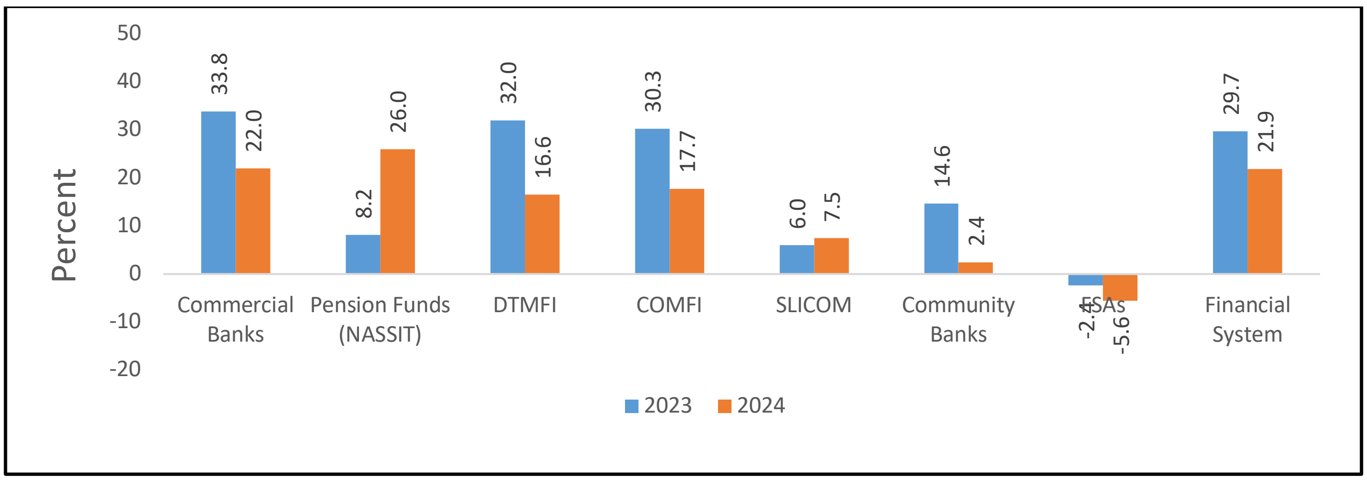
Box 1: Financial Institutions in Sierra Leone in 2024

The number of financial institutions in Sierra Leone increased in 2024 to 307. These include 13 commercial banks, 5 deposit-taking microfinance institutions (DTMFIs), 82 credit-only microfinance institutions (COMFIs), 17 community banks, 59 financial services associations (FSAs), 2 discount houses and 3 mobile money service providers. Also, the number of Foreign Exchange Bureaus increased from 94 as of December 2023 to 111 as of December 2024. The number of insurance companies regulated by SLICOM remained at 14 and there is one pension fund (NASSIT). However, the number of banking institutions declined with the acquisition of Standard Chartered Bank (SL) Limited by Access Bank (SL) Limited.

1.6 Total Assets of the Financial System

Total assets of the financial system grew by 22 per cent in 2024, lower than in the previous year (30 percent). The growth was comprehensive with three sectors driving the increase. Pension Funds (National Social Security and Insurance Trust-NASSIT) and Sierra Leone Insurance Commission (SLICOM) recorded, and the banking Sector recorded increases in their growth, while growth in the other sectors declined.

Figure 1.7: Growth of Assets in Sierra Leone's Financial System by Sector



Source: BSL and NASSIT

2 BANKING SECTOR ASSESSMENT

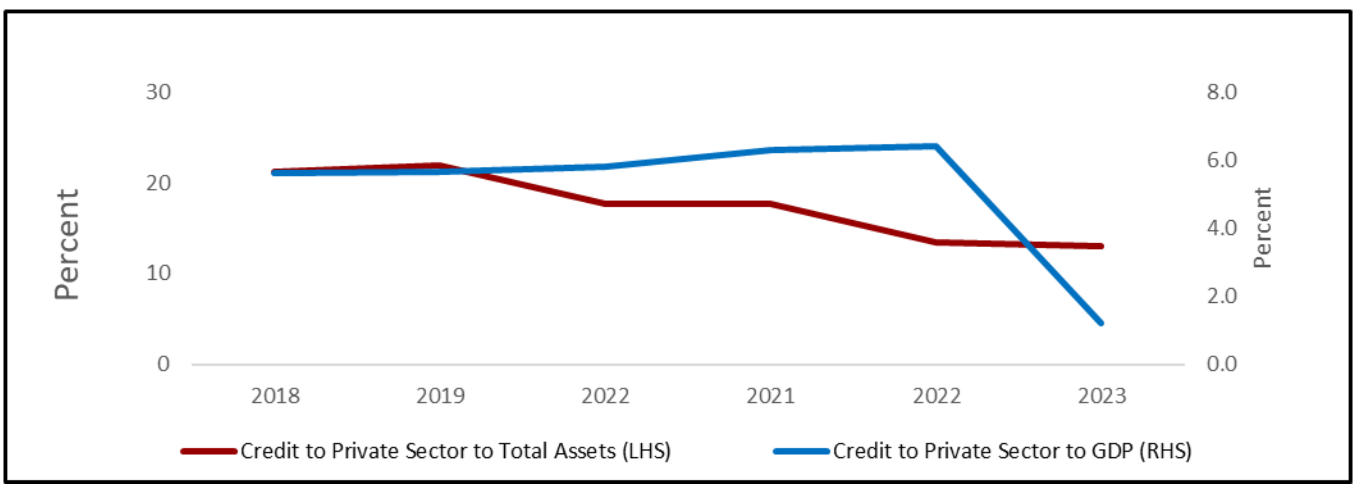
2.1 Summary

The banking sector continued to expand but remained resilient, supported by a significant easing of inflationary pressures over the past year. The improvement in the latter was attributed to sound macroeconomic policies implemented by the Bank of Sierra Leone (BSL) and the Ministry of Finance and, declining global food and energy prices, exchange rate stability, and increased domestic food production. However, the sector continued to face challenges, including sluggish economic growth and the lingering effects of the Russia-Ukraine conflict and geopolitical tensions in the Middle East.

Despite these challenges, most banks remained well-capitalized, profitable, and liquid. However, these favorable financial indicators largely reflect the sector's heavy reliance on Government Securities (GS), which offer attractive nominal returns and benefits from a zero percent regulatory risk rating. Consequently, credit to the private sector relative to GDP remained exceptionally low by both regional and international standards although it did show some improvement over the review period (Figure 2.1).

To improve customer service, the sector has embraced a hybrid model that integrated in-person interactions with remote service delivery, enhancing accessibility. Additionally, the sector's asset quality improved, driven by BSL's loan write-off directive and the effective use of the credit reference bureau and the collateral registry.

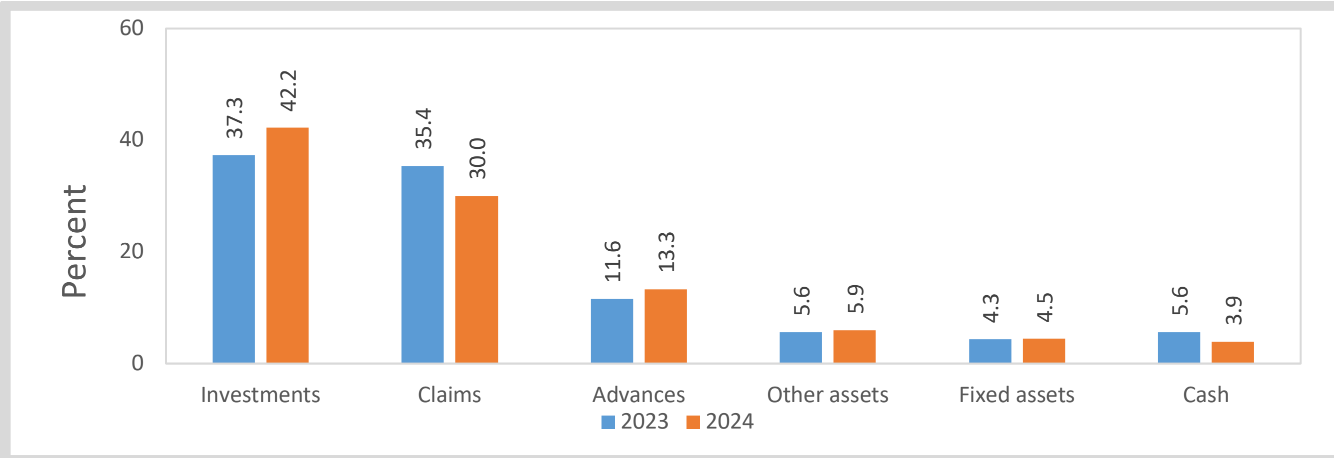
Figure 2.1: Gross Loans and Advances to GDP and Total Assets



Source: FSD, BSL

The banking sector's total assets grew by 22 percent in 2024, a lower growth than the 34 percent recorded in 2023 in nominal terms. Investments continued to remain the dominant share of total assets of the banking sector, comprising 42.2 percent, followed by claims, with 30 percent. The share of claims in the review period, however, declined by 5.4 percent when compared to the previous year of 2023.

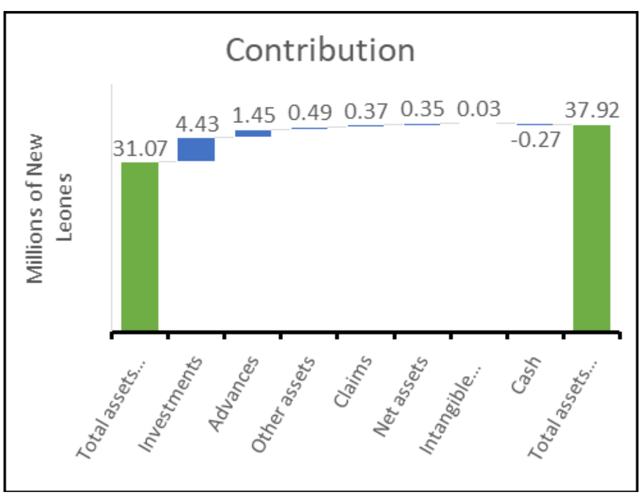
Figure 2.2: Share of Banking Sector Assets by Type

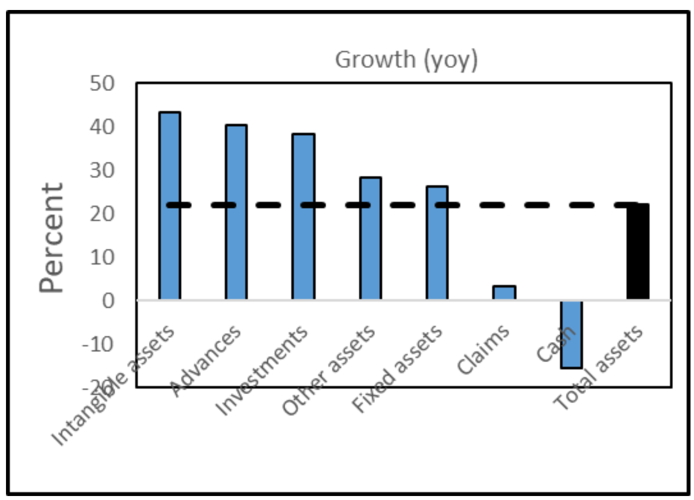


Source: BSD, FSD, BSL

Most asset classes recorded real growth during the review period, as their nominal growth rates exceeded the rate of inflation. Assets growth was primarily driven by investments in GS (T-bills and T-bonds), which increased by 34 percent, significantly outpacing the overall asset growth rate of the banking sector which was 22. percent. Net loans and advances grew by 40 percent, while claims registered a modest increase of 3.4 percent, constrained by the stable exchange rate which moderated the rise in the value of foreign currency placements. Fixed assets and other assets grew by 26 percent and 28 percent respectively, whereas banks' vault cash declined by 15 percent.

Figure 2.3: Contribution to Growth and Growth Rate of Banking Sector Assets





Source: BSD, FSD, BSL

Claims were largely driven by placements with foreign banks abroad, as banks currently face limited alternatives within the country to effectively manage foreign exchange risk. As a result, they were constrained to mainly hold foreign currency cash, placing funds with foreign banks, creating limited foreign currency loan facilities or maintaining placements with the BSL. This trend was noticeable in 2023, but by 2024, foreign currency cash in vaults decreased by 20.4 percent, while foreign currency placements with the BSL abroad dropped by 32.6 percent, primarily due to the stable exchange rate. Conversely, other foreign assets on the banking sector's balance sheet experienced substantial growth, rising by 73 percent.

The number of commercial banks declined from 14 to 13 in 2024.The subsidiary of Standard Chartered in Sierra Leone, along with a number of its other subsidiaries in sub-Saharan Africa, was sold to Access Bank (PLC).

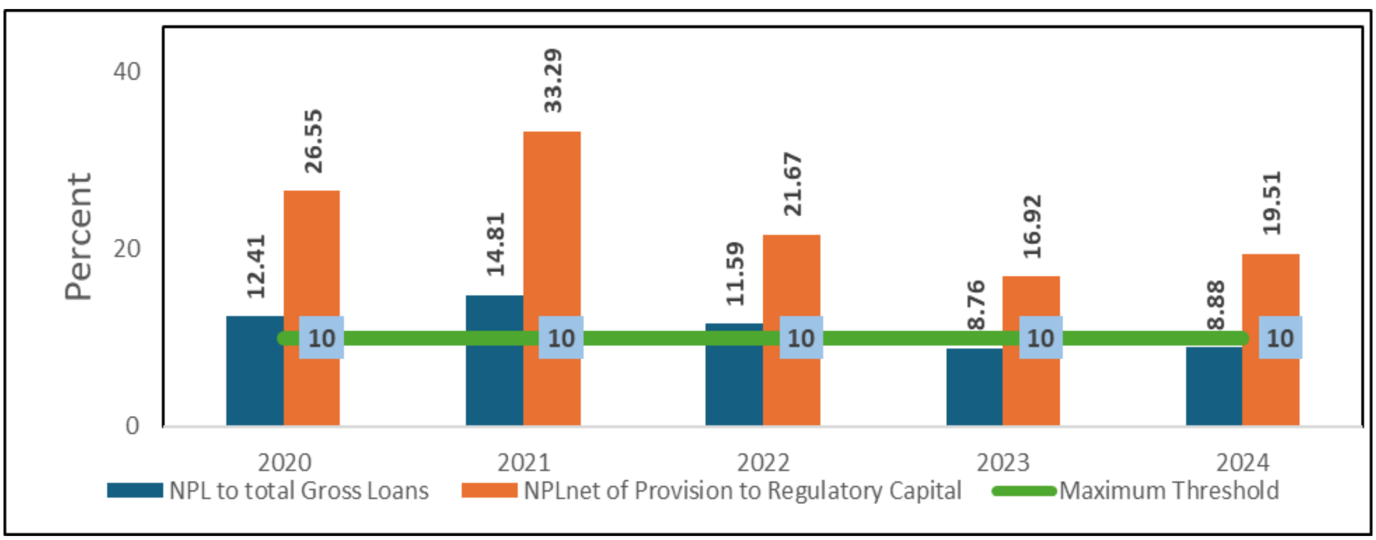
2.2 Credit Risk and Asset Quality

2.2.1 Non-Performing Loans (NPLs) and Provisioning

The Non-Performing Loans (NPLs) ratio of banks increased marginally from 8.8 percent in 2023 to 8.9 percent in 2024 but remained below the prudential threshold of 10 percent. Asset quality showed limited variation across banks, as most banks reported NPLs below the regulatory limit. The banking sector's NPL net of provisions to regulatory capital rose to 19.5 percent in 2024, compared to 16.9 percent in 2023.

Despite this, the banking sector's capacity to extend credit and absorb potential losses from NPLs improved. The BSL expects further declines in NPLs as enhanced oversight is implemented for banks with elevated NPL levels.

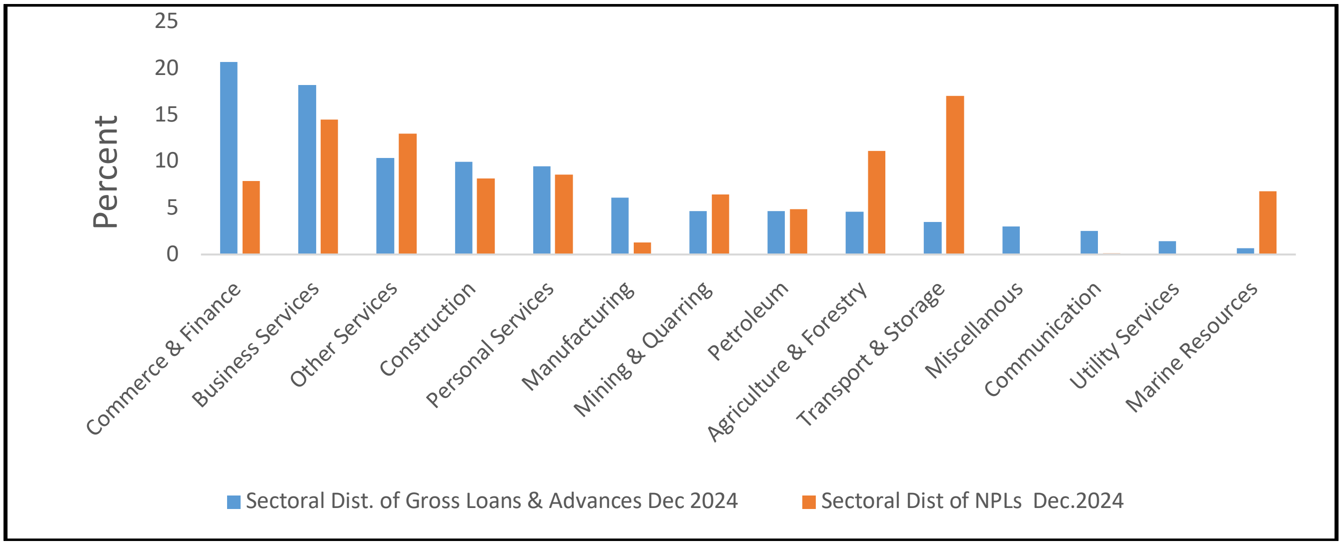
Figure 2.4: Asset Quality Indicators of the Banking Sector



Source: BSD, FSD, BSL

The sectors with the highest contributions to total NPLs were Transport and Storage (17.1 percent), Business Services (14.5 percent), Other Services (13.0 percent) and Agriculture & Forestry (11.1 percent). In contrast, the largest portions of bank loans were allocated to Commerce and Finance, Business Services, Other Services, Personal Services, and Construction. Even though Commerce and Finance and Business Services sectors remained particularly vulnerable to supply chain disruptions and global economic shocks, their NPLs were relatively low due to the stability of the Leone and limited supply chain disruptions during the year.

Figure 2.5: Sectoral Contribution of Banks' Gross Loans and Advances and NPLs



Source: BSD, FSD, BSL

2.2.2 Credit Risk

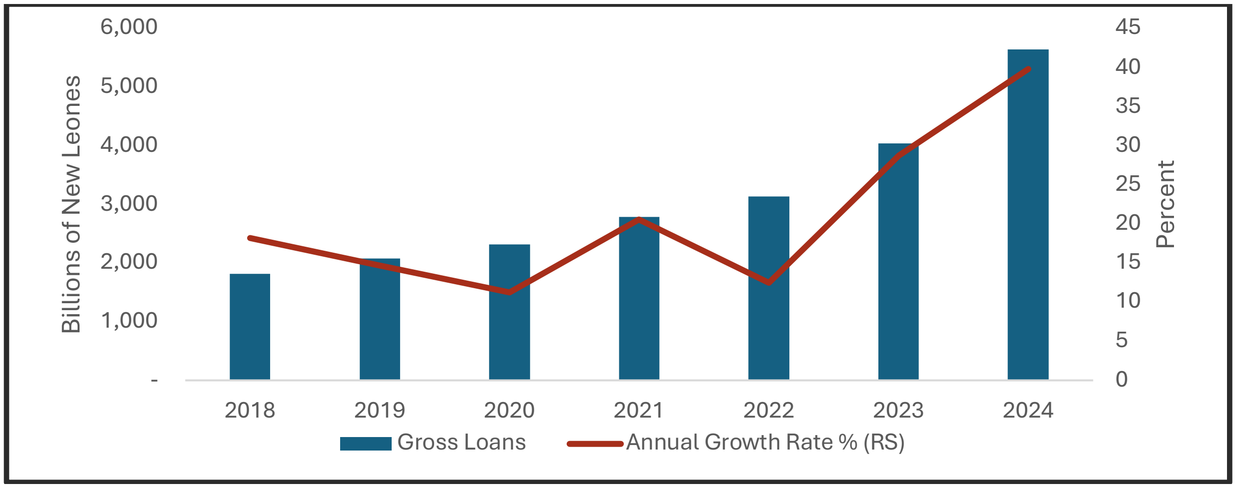
As of December 2024, gross loans and advances grew by 40.2 percent, a faster pace of growth than in 2023 and much higher than the inflation rate1. The proportion of gross loans to total assets increased slightly to almost 15 per cent (14.9 percent) in 2024 from 13 percent in 2023. Total investment in GS increased. The primary cause appears to be limited projects in Sierra Leone with suitable risk-return characteristics that banks would be prepared to fund as an alternative to investing in GS with attractive rates.

The banks' local currency loan-to-local deposit ratio increased modestly in 2024, rising to 44 percent from 39 percent in 2023. However, it remained well below the regulatory ceiling of 80 percent, largely because a significant portion of deposits mobilized by banks were invested in government securities.

[1] **Gross Loans and Advances** refer to the total amount of funds lent by financial institutions, including both principal and any accrued interests.
On the other hand, **credit to the private sector** encompasses a broader range of financial instruments, including gross loans extended to the private non-financial sector as well as debt securities issued by private non-financial corporations.

The BSL is currently working on establishing a floor on Loan-to-Deposit ratio which will encourage lending to the private sector and to diversify banks' portfolio as a form of mitigating concentration risks.

Figure 2.6: Level and Growth of Gross Loans and Advances

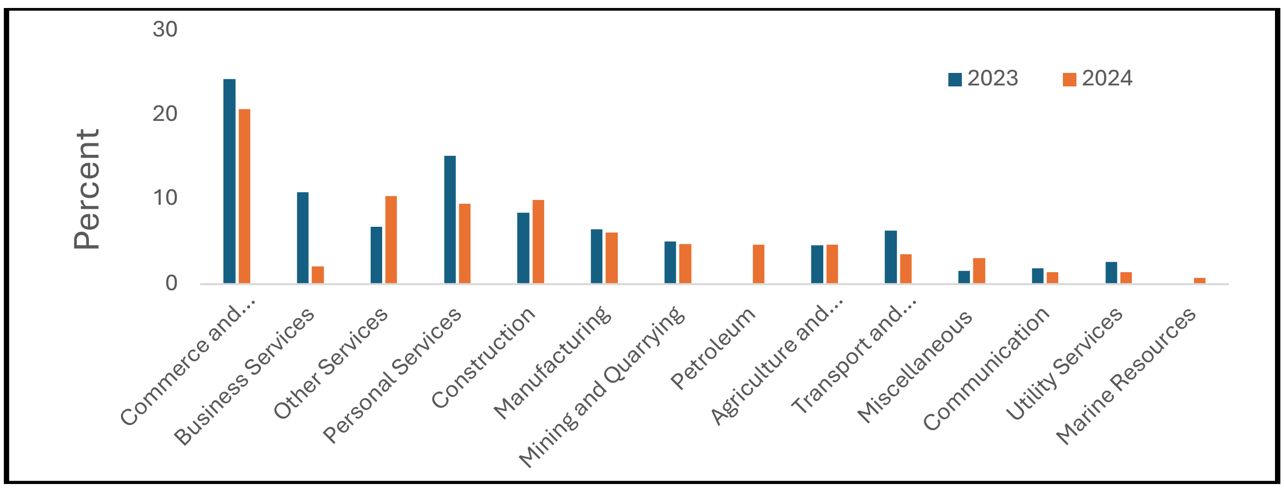


Source: BSD, FSD, BSL

2.2.3 Credit Risk from Sectoral Shocks

As of the end of 2024, commerce and finance, business services, other services, personal services and construction received the bulk of all bank loans (68.8 per cent). The commerce and finance sector alone accounted for 20.7 percent of all loans although this was lower than 2023 (*Figure 2.7*).

Figure 2.7: Sectoral Distribution of Gross Loans



Source: BSD, FSD, BSL

2.2.4 Large Exposure Risk

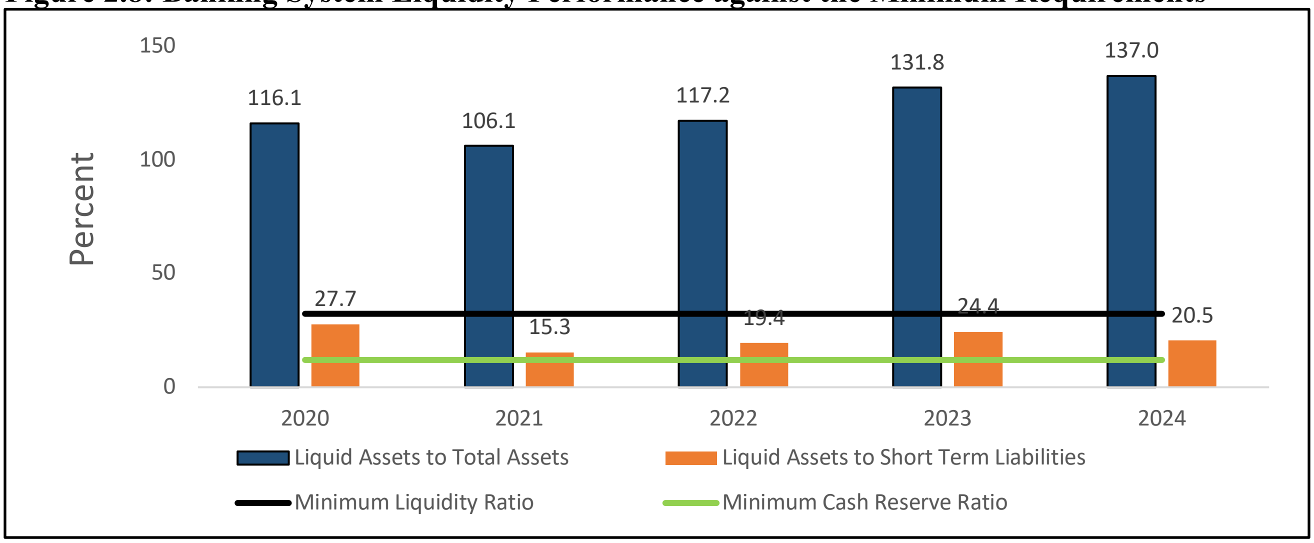
At the end of 2024, the banking sector's 50 largest credit exposures accounted for 89 percent of the sector's total balance sheet exposures and 99 percent of its capital base. The sector's largest borrower accounted for 11 percent and 14.5 percent of aggregate exposures and an equivalent share of the sector's capital base respectively. The data continues to underscore the high level of concentration in loan portfolios, indicating that the banking sector was heavily reliant on a few large borrowers, which may have adverse consequences for the banks if these customers were to run into any difficulty.

2.3 Liquidity Risk

2.3.1 Liquidity Assets

The banking sector remained well equipped to meet its short and long-term commitments with high core liquidity metrics (*Figure 2.8*)

Figure 2.8: Banking System Liquidity Performance against the Minimum Requirements



Source: BSD, FSD, BSL

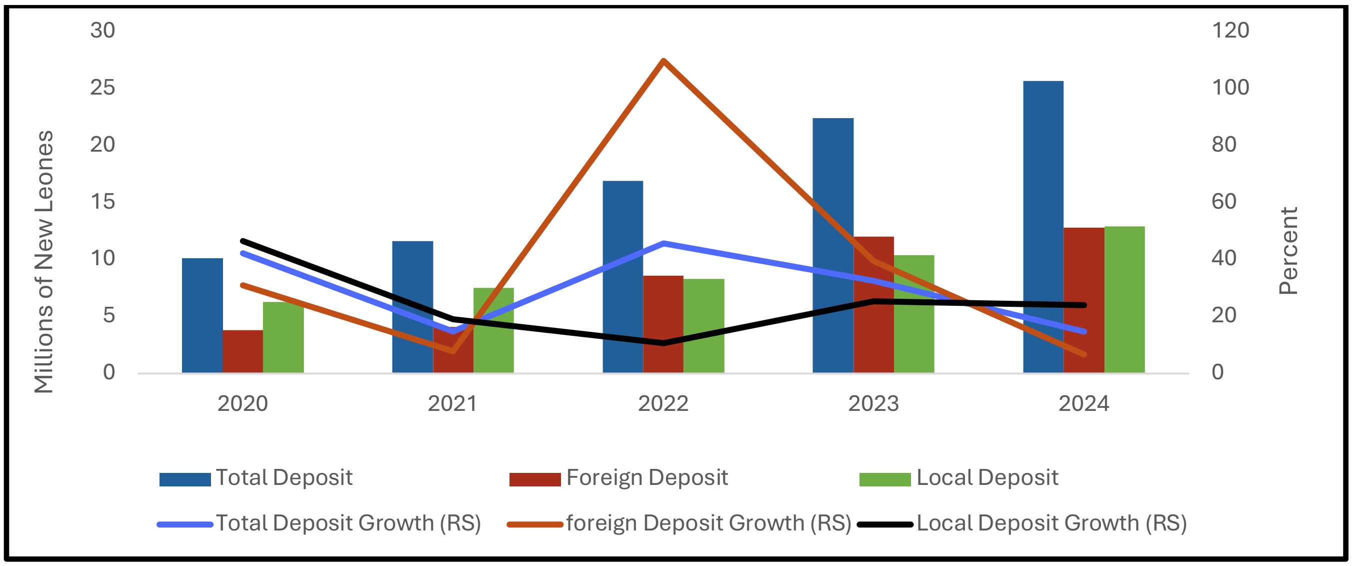
The liquidity ratio (LR) and cash reserve ratio (CRR) also indicated that banks were liquid. The CRR stood at 20.5 percent in 2024, well over the minimum threshold of 12 percent. Similarly, the LR increased further, from 131.8 percent in 2023 to 137.0 percent in 2024, far above the required minimum of 32.3 percent. This resulted from the banking sector's substantial holdings of GS which, as in other countries, are treated for regulatory purposes as liquid assets (although there is not a deep and liquid secondary GS market in Sierra Leone). The liquidity of GS derives from their eligibility for use as collateral for the BSL's Standing Lending Facilities (SLF) and the general understanding that GS can always be sold to BSL at market value if necessary.

2.3.2 Sources of Funding

Customer deposits continued to be the primary source of funding for the banking sector as well as shareholders. However, there was slower deposit growth of 14.8 percent in 2024, compared to 32.1 percent in 2023, which could be attributed to several factors. High inflation, though declining throughout the year reduced real returns and may have discouraged savings. Slower economic growth and reduced Government spending also limited household and business liquidity, further impacting deposit levels. Additionally, some depositors diversified into higher-yielding investments like GS especially given the high returns on T-Bills, which matched the inflation rate.

The share of nominal foreign currency deposits declined to 50 per cent in 2024, down from 53.5 percent in 2023.

Figure 2.9: Composition of Banking Sector Deposits



Source: BSD, FSD, BSL

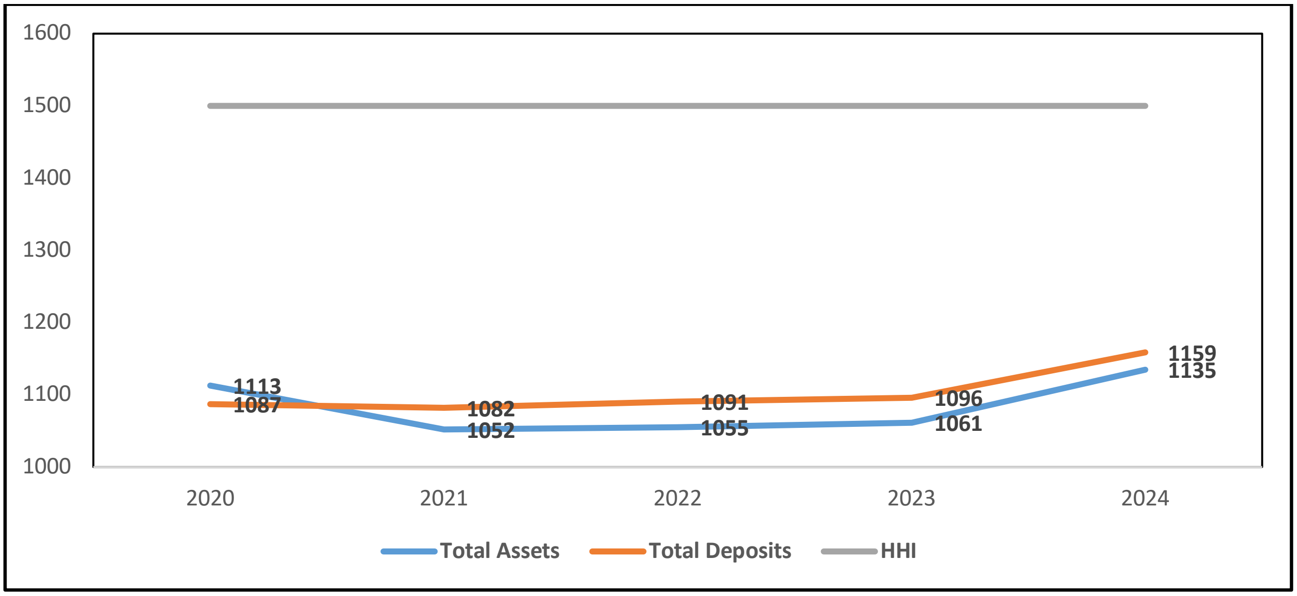
There was a decline in deposit concentration among the top 20 depositors from 28.5 percent in 2023 to 25 percent in 2024, along with a reduction in the share held by the single largest depositor from 8 percent in 2023 to 6.5 percent in 2024, which reflected improved depositor distribution.

Nonetheless, banks still remain exposed to unexpected withdrawals by large depositors that could pose a significant threat to financial stability. This highlights the importance of further diversifying the deposit base and enhancing liquidity management practices.

2.3.3 Risk of Contagion

Concentration in the banking sector increased slightly with the five biggest banks accounting for 67.2 percent and 67.6 percent of total assets and deposits respectively at end 2024, suggesting a continued high levels of concentration. That said, according to the more comprehensive Herfindahl-Hirschman Index (HHI) the market remained competitive *(Figure 2.10*).

Figure 2.10: Herfindahl-Hirschman Index



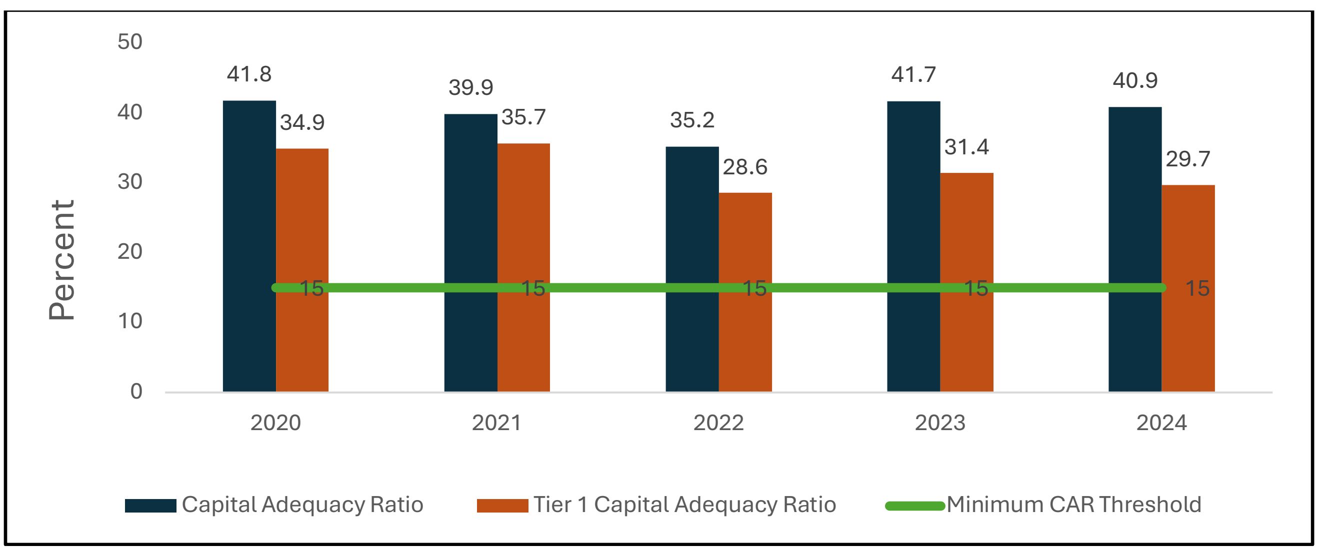
Note: Theoretically, a HHI of less than 1500 is considered a competitive market.
Source: BSD,FSD, BSL.

2.4 Resilience

2.4.1 Capital Adequacy Ratio

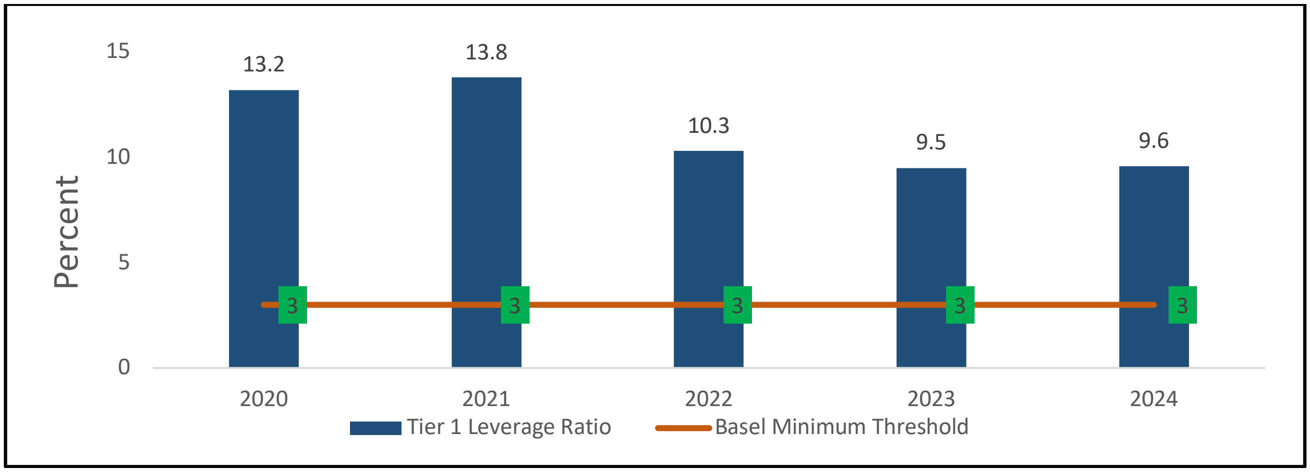
The banking sector remained highly solvent, with a CAR of 41 percent and a Tier 1 CAR of 30 percent at end 2024. This is slightly lower than one year previously but still well above the regulatory minimum of 15 percent and 7.5 percent respectively. However, one of the banks recorded CAR below the minimum 15 percent ratio. Appropriate regulatory measures were applied to address their situation.

Figure 2.11: Capital Adequacy Ratios of the Banking Sector



Source: FSD, BSL

Figure 2.12: Banking Sector Tier 1 Leverage Ratio



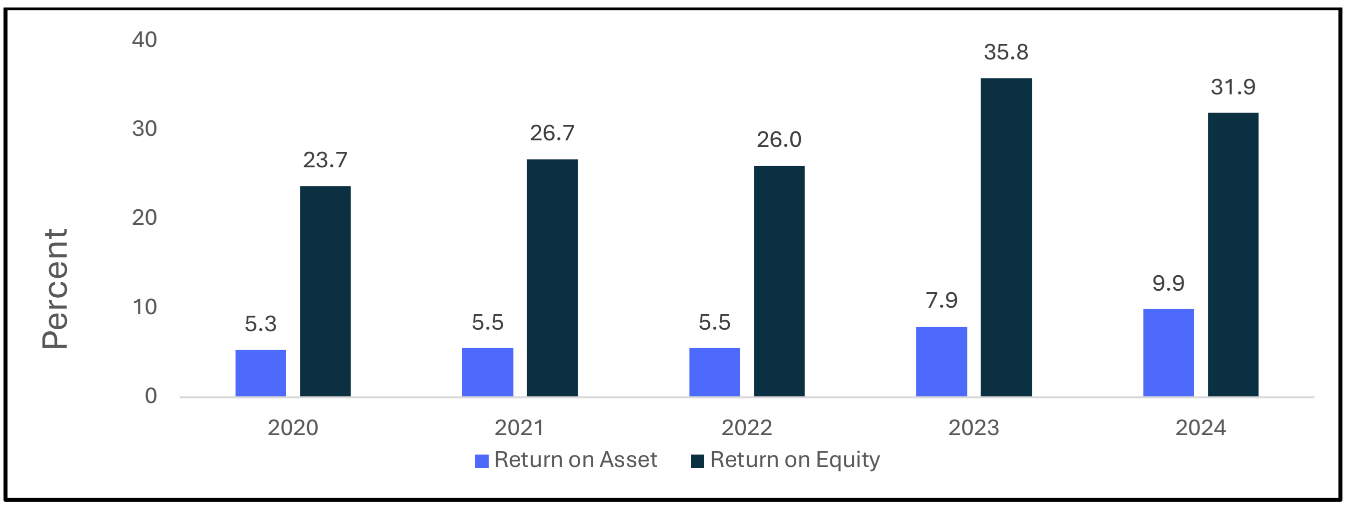
Source: FSD, BSL

The Tier 1 Leverage Ratio remained well above the Basel III minimum level of 3 percent, indicating a well-capitalized banking sector. It increased marginally to 9.6 percent in 2024, from 9.5 percent in 2023.

2.4.2 Profitability

The banking sector remained very profitable, despite the moderate decline in the Return on Equity (ROE).

Figure 2.13: Profitability Indicators of the Banking Sector



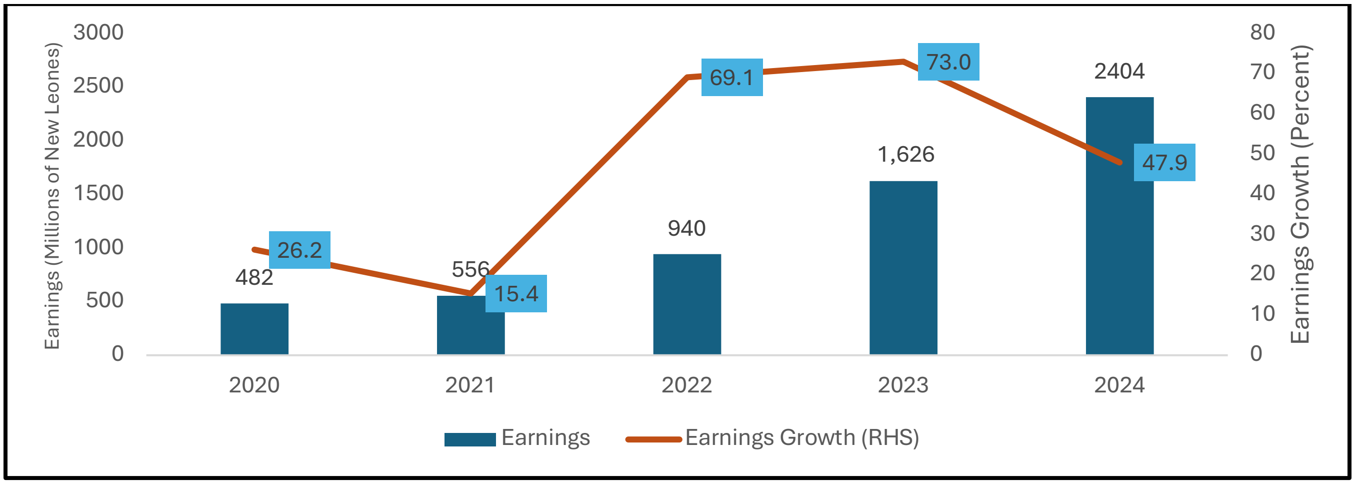
Source: FSD, BSL

The banking sector's pre-tax nominal profit increased by 48 percent in 2024, more than the rate of inflation. Earnings growth reduced from 73 percent in 2023 to 48 percent in 2024. The return on short-term investments in GS accounted for most of the earnings in 2024 (63 percent), indicating that almost two-thirds of the overall income generated by the banking sector was from short-term investments. The share of interest income from loans and advances fell slightly to 16 percent in 2024, from 16.5 percent in 2023, while the share of other operating income decreased from 28.5 percent to 20.5 percent during the year.

Commissions and fees, as well as the profit on FX deals drove the other operating income, contributing 13.5 percent and 6 percent respectively to total earnings in 2024.

Since the growth in earnings remained faster than the growth in costs, the banking sector's cost-to-income ratio fell from 52 percent in 2023 to 50 percent in 2024.

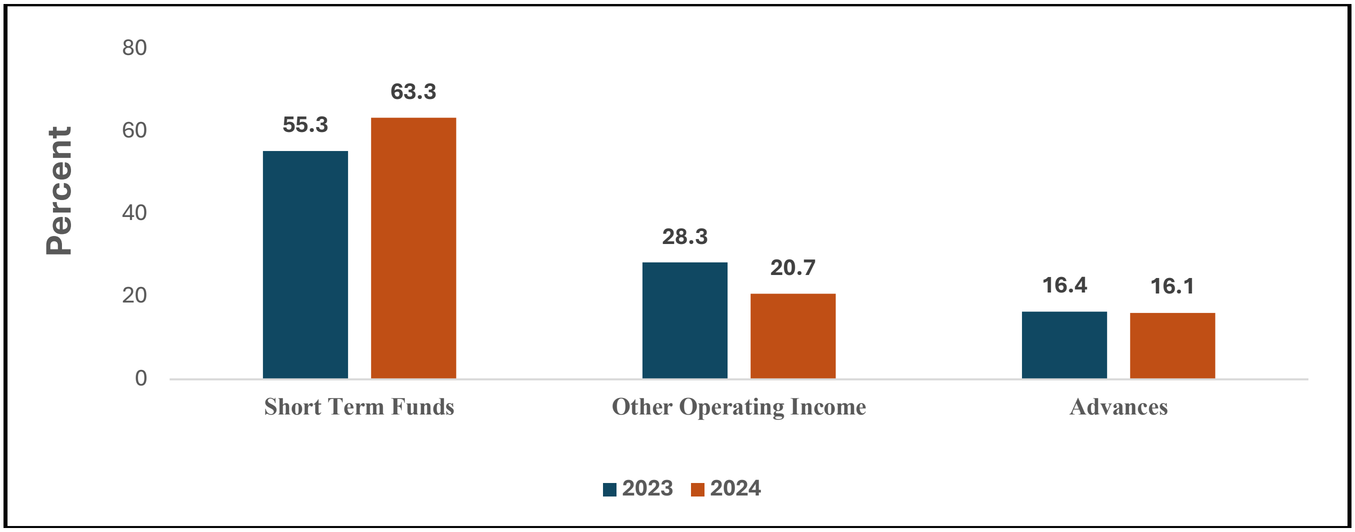
Figure 2.14: Earnings and Earnings Growth, 2020-2024



Source: BSD, FSD, BSL

The banking sector's long-term business viability may face challenges by relying primarily on revenue from GS. There is the possibility that the nominal interest rate could drop as Government strengthens its fiscal position and inflation declines, which would imply a slower increase in the supply of GS. The risk of financial repression that lowers yields on Government assets also exists, according to historical data trends. Regardless of the reasons, a large drop in GS yields will continue to crowd out the private sector and pose a huge risk to banks' revenues and profitability, and if maintained over longer period, will even affect their capital adequacy.

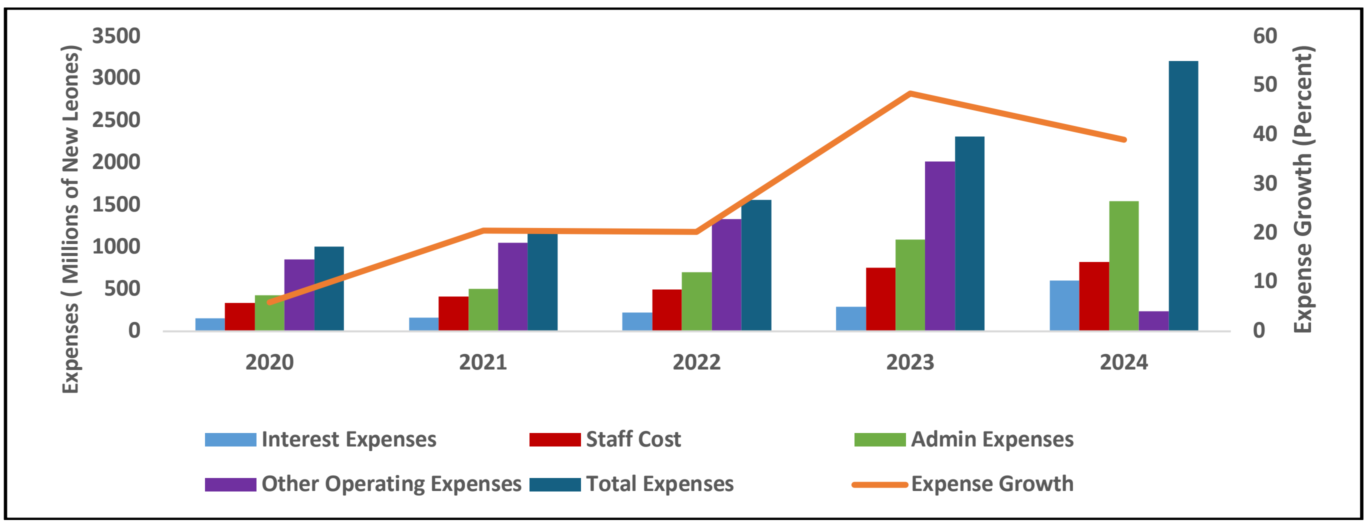
Figure 2.15: Composition of Banking Sector Income



Source: BSD, FSD, BSL

Expenditures in the banking sector increased by 39 percent in 2024. Administrative and personnel expenses continued to be the main forces behind the growth.

Figure 2.16: Breakdown and Growth of Total Expenses



Source: FSD, BSL

2.5 Sources of Key Risks and Vulnerabilities

2.5.1 Non-performing Loans (NPLs) and Concentration Risks

Credit concentration remained significant, with the 50 largest debtors accounting for 74 percent of aggregate exposures. Deposit concentration was also pronounced, with the top 20 clients holding 25 percent of total deposits. These are expected to remain so in the medium term. Concentration risk, however, varied among banks, with over half of them reporting more than 7 percent concentration in a single borrower.

2.5.2 Viability of business models over the medium-term

The banking sector faces medium-term challenges due to the continued limited financial intermediation. Lending to the private sector (relative to GDP) remains very low, both in absolute terms and compared to peer countries, with investments in GS crowding out lending to the private sector. Net loans made up only 13.3 percent of total banking sector assets and these were concentrated in only a few sectors.

The banking sector's profitability too was heavily reliant on GS, which accounted for three quarters of total assets and yielded significant spreads and was primarily funded by customers' deposits. A reduction in interest rates on these securities could reduce profitability and weaken the sector's resilience. High credit and deposit concentration amplify risks, exposing the sector to potential liquidity and credit shocks. To mitigate these risks, banks should diversify their loan books and explore alternative revenue sources, while addressing structural issues that could undermine financial stability and economic growth over the medium term.

2.5.3 Currency Substitution

During 2024, the percentage of total deposits in foreign currency (FX) decreased slightly from 53 percent to 50 percent. The banking sector is more vulnerable to credit, liquidity, and market risks due to its significant proportion of FX liabilities and assets. Short Net Open Positions (NOPs) pose difficulties in controlling these positions. Out of thirteen (13) banks, eight (8) had short FX positions and five (5) had long positions, with two (2) breaching their NOP limit.

2.6 Financial Sector Regulatory and Supervisory Developments

The BSL is committed to providing robust regulatory and supervisory oversight of the banking and non-bank financial sectors, through the development and rollout of regulatory and supervisory frameworks, guidelines and directives governing the sector. To achieve its financial stability objective of fostering and maintaining a stable financial system, the BSL has established the Financial Policy Committee (FPC) to advise its Governor and the Board of Directors on all policy issues relating to financial stability, micro and macroprudential supervision, crisis management and resolution, financial literacy and inclusion and financial market infrastructure. In 2024, BSL published several Frameworks and Guidelines to achieve this goal. Frameworks on Macroprudential Policy, Domestic Systemically Important Banks and Emergency Liquidity Assistance were developed and discussed at the FPC meetings prior to approval by the Board of the BSL. Also, the Guidelines on Lending in Foreign Currency were introduced, and the Minimum Paid-up Capital for banks and non-bank financial institutions were increased on a graduated basis to encourage stronger, healthier, and more resilient banks and financial institutions that can support a growing economy. These documents were extensively discussed at FPC meetings prior to their final approvals by the Board of BSL. The BSL also launched the second phase of the Agricultural Credit Facility (ACF) in March 2024 of NLe230 million (the equivalent of $10 million), a rollover of the Facility that was created during the COVID-19 Pandemic. This low-interest Facility supports the production of essential commodities such as rice, onions, and poultry, and covers a broad range of activities including production inputs and processing. The Facility provided low interest loans at 10 percent to private sector participants in these activities, covering production, farm inputs, aggregation, processing, packaging, and rebranding. The Facility aims to increase domestic food production, reduce food importation, and conserve foreign exchange reserves.

3 SYSTEMIC RISKS ASSESSMENT

3.1 Stress Tests of the Banking Sector

The BSL carried out its regular stress tests as one of its macroprudential tools to assess the banking sector's resilience to potential future shocks. The tests evaluated the impact of severe, but plausible scenarios on banks' balance sheets and profit and loss accounts as of December 2024, aiming to identify risks and vulnerabilities in the sector. The tests assessed credit, liquidity, interest rate and exchange rate risks on the thirteen commercial banks. The stability of the banking sector is crucial for overall financial stability, as it controls a significant portion of total financial sector assets.

To test the banks' capital buffers, five scenarios were simulated, including a baseline and scenarios with varying degrees of severity, involving a decline in the government's appetite for domestic borrowing, a recession, liquidity squeeze, and a combination of these factors. Although the scenarios were based on possible future shocks, historical events served as a guide for their creation.

Credit risk stress tests involved three shock scenarios: proportional increase in aggregate NPLs, sectoral shocks to NPLs, and shocks to large exposures. Interest rate stress tests assessed changes in Treasury bills yields whilst liquidity risk measured the impact on banks' ability to meet short-term obligations during a liquidity squeeze.

3.2 Risk Scenarios for Stress Testing

3.2.1 Baseline

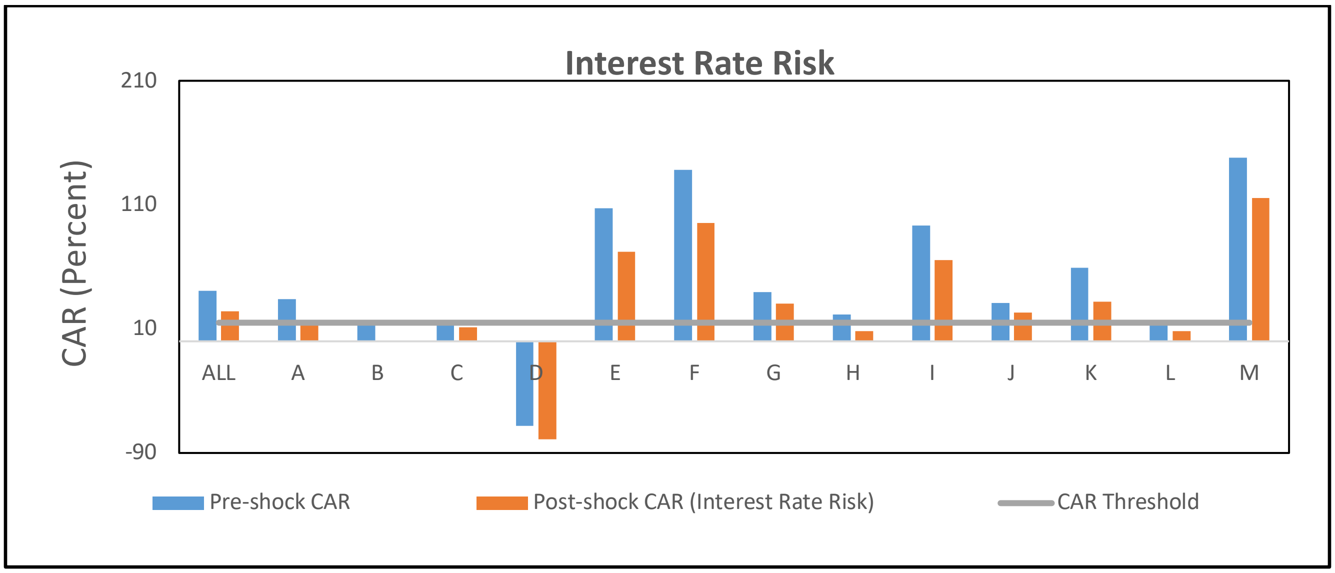
The baseline scenario, which is based on BSL's current forecasts, reflects a slowdown in GDP to 4 percent in 2024 and recovery to 4.5 percent and 4.7 percent in 2025 and 2026 respectively. Annual inflation declined to 14 percent in December 2024, and it is expected to decline further to single digits by end December 2025. The Leone was assumed to remain stable, with an annual depreciation of 4 percent.

3.2.2 Interest Rate Risk: Reduced Local Currency Borrowing of the Government.

The interest rate risk scenario assumes a significant reduction in nominal interest rates, particularly in T-bills yields, which would lower the banks' interest revenue and profit. Given that commercial banks mostly invest in 364-day T-bills because of the relatively high yield, a 20-percentage point decline in rates was assumed. The size of the shock is based on historical evidence. In the past, even bigger falls were experienced for a couple of months, but at that time the BSL did not have an overnight interest rate corridor in place, which can serve as a floor for market interest rates.

The result of the stress test indicates that the banking sector was still resilient to this interest rate shock, even though the post-shock CAR was significantly lower. The banking sector's CAR declined to 24 percent from the pre-shock ratio of 41 percent but remained above the prudential threshold of 15 percent. From a micro perspective, five banks fell below the prudential CAR regulatory minimum although one of these had already breached the threshold before the shock (*Figure 3.1*).

Figure 3.1: Results of Interest Rate Shock: 20 Percentage Point Decline in 1 Year Treasury Bonds



Source: FSD, BSL

In the above interest rate stress test, we tested the resilience of the banking sector to direct interest rate risk. Direct interest rate risk is the risk incurred by banks when there is a mismatch between the volumes of interest rate sensitive assets and liabilities. The test does not consider indirect interest rate risk although banks are exposed to it.[2]

3.2.3 Credit Risk: Recession

This scenario assumes an adverse situation where the Sierra Leonean economy slips back into recession.

[2] Indirect interest rate risk is the risk arising from the impact of interest rate changes on the creditworthiness and ability of borrowers to repay their debts. As the relevant risk is a big fall in interest rates, the indirect effect should act positively on banks' profits and thus capital.

A recession would have negative effect on the credit risk of banks' loan portfolio. Three sub-scenarios were investigated to assess the impact of higher credit risk on banks' financial positions, a proportional increase in NPLs across all sectors, a sectoral shock and a large exposure shock.

Credit Risk Stress Test Scenarios

1. The NPLs increase uniformly across all banks and reached 40 percent of existing performing loans in aggregate of total loans.
2. The sectors are affected in different ways, summarized in Table 3.1 below.

Table 3.1: Assumed Sectoral Increase in NPL Ratio*

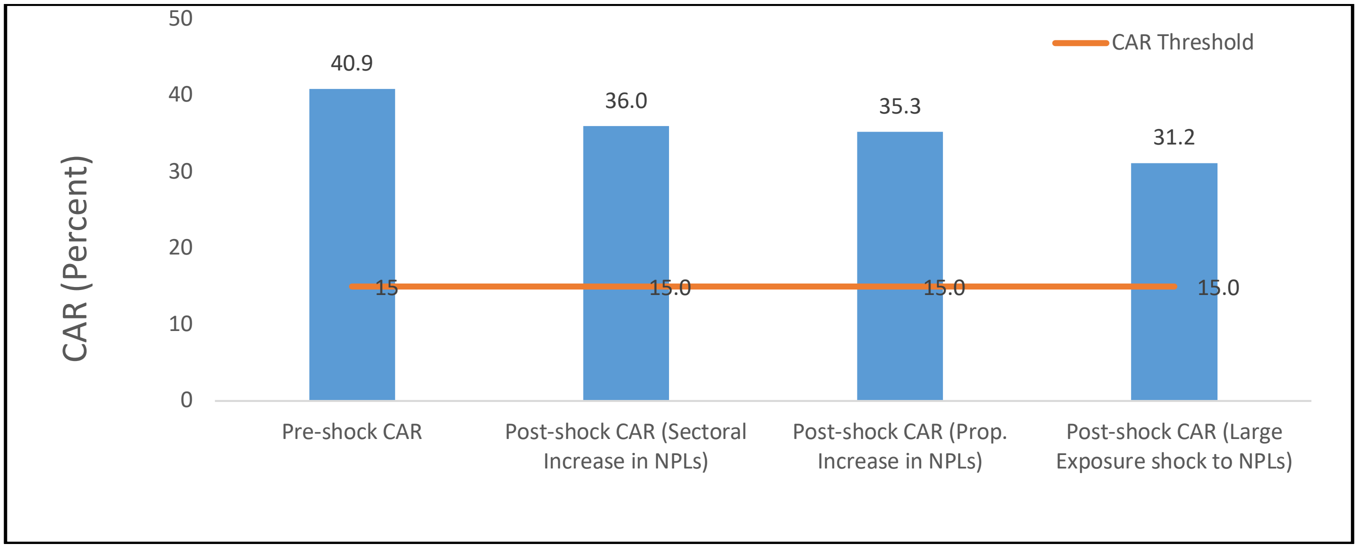
Sector	NPLs as of Dec 2024	Shock
Commerce and Finance	7.9	50
Construction	8.2	45
Business Services	14.5	40
Personal Services	8.6	30
Manufacturing	1.3	30
Agriculture and Forestry	11.1	30
Transport and Storage	17.1	20
Utility Services	0.0	20
Communication	0.1	20
Petroleum	4.9	20
Others	3.7	20

** Note: percentage of Performing Loans in the Sector Becoming NPLs*
Source: FSD, BSL

3. The 10 biggest loan of each bank defaults. Even though the international practice involves a lower number of defaulting loans, in Sierra Leone, some of the large lenders borrow from several banks at the same time. If one of the top five largest customers of a bank defaults, it is likely that the same customer will default on its other loans, which usually represent a top 10 loan for another bank.

The results indicate that the banking sector is resilient to credit risk based on all three tests. The current strong capital base of the banking sector was robust enough to absorb the impact of the shocks. In addition, the impact of the shock itself is relatively small because of the low levels of banks' loans relative to total assets. That said, the rise in NPLs varies quite a lot under these sub-scenarios especially under the large exposure scenario.

Figure 3.2: Impact of Shocks on the Banking Sector CAR Ratio

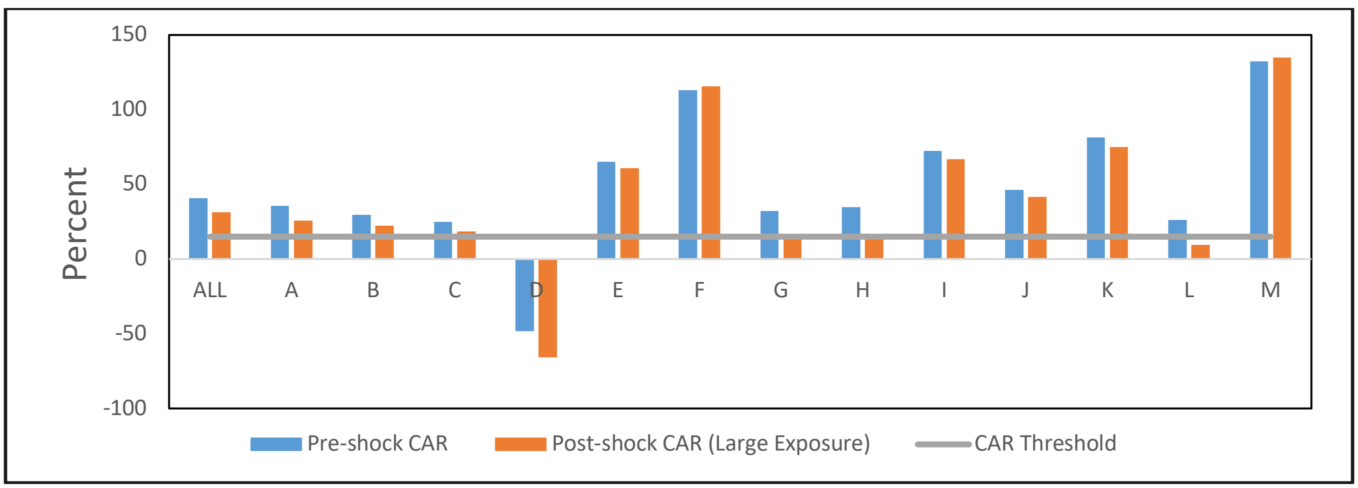


Source: FSD, BSL

3.2.3.1 Results of Large Exposure Stress Test

The large exposure scenario has a significant impact, but the banking sector CAR still remained well above the prudential threshold of 15 percent at 31.2 percent. However, the CARs of three more banks fell below the prudential threshold.

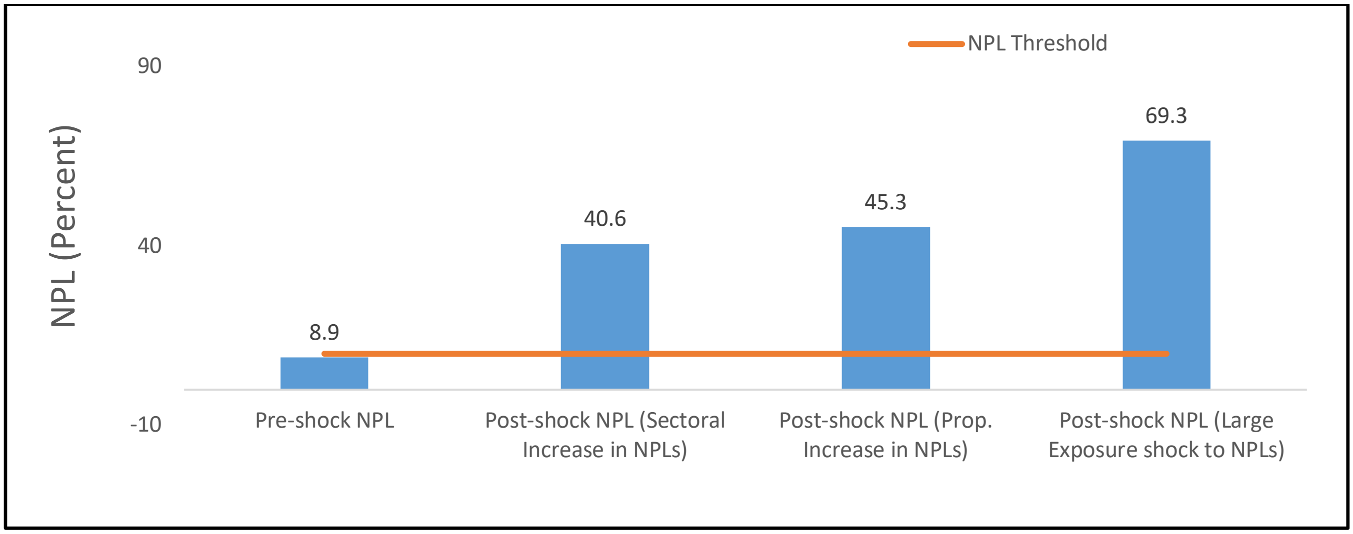
Figure 3.3: Impact on Individual Banks' CAR of the Ten Large Exposures becoming NPLs



Source: FSD, BSL

However, the impact on the banking sector's NPLs of the large exposure scenario was significant, causing the NPLs to increase to 69 per cent, with all the thirteen banks recording NPLs far above the 10 percent prudential limit.

Figure 3.4: Impact of Large Exposure Shocks on the Banking Sector NPL Ratio



Source: FSD, BSL

3.2.4 Foreign Exchange Rate Risk: Large Depreciation

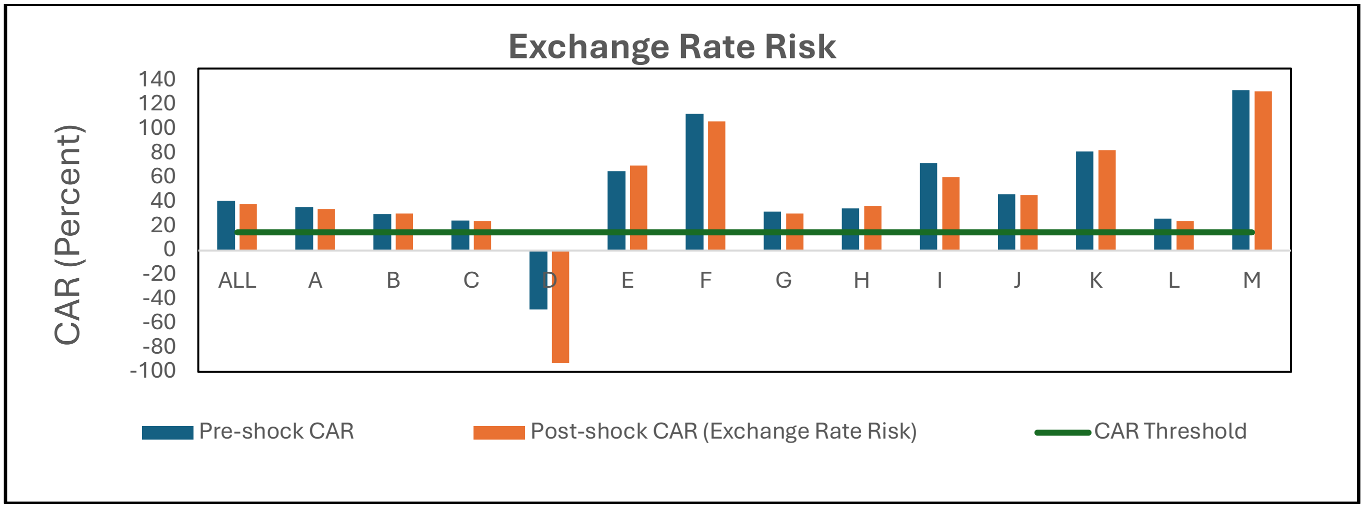
Foreign exchange risk is the risk that exchange rate changes affect the local currency value of financial institutions' assets, liabilities, and off-balance sheet items. The scenario assumes there is a 60 per cent Leone depreciation (against the dollar) over a 6-month period.

In this test, the direct solvency risk arising from banks' net open positions (NOP) in foreign currency is assessed. Banks' indirect solvency risk arising from the impact on the creditworthiness of foreign exchange loan borrowers was not considered since banks are only allowed to lend in foreign currency to naturally hedged borrowers as set out in the Guidelines on Lending in Foreign Currency. The Leone depreciation will have a positive impact on banks that have a long (positive) NOP in foreign currency and a negative impact on banks that have a short (negative) NOP.

3.2.4.1 Results of the Exchange Rate Stress Test

The results show that the impact of the foreign exchange shock on the resilience of the banking sector was minimal given that in aggregate the sector had close to zero NOP. The banking system CAR declined only marginally to 40 percent. But individual banks' NOP differed significantly since eight recorded a long position and six reported a short position. Nonetheless, even for banks with a short position beyond the regulatory minimum, the impact of Leone depreciation is relatively small.

Figure 3.5: Impact on Individual Banks' CAR of 60 Percent Leone Depreciation



Source: FSD, BSL

3.2.5 The Combined Scenario: Recession and Financial Repression

This unfavourable scenario combines the recession scenario with the negative impact of fiscal policy tightening and exchange rate depreciation (against the dollar). It assumes that:

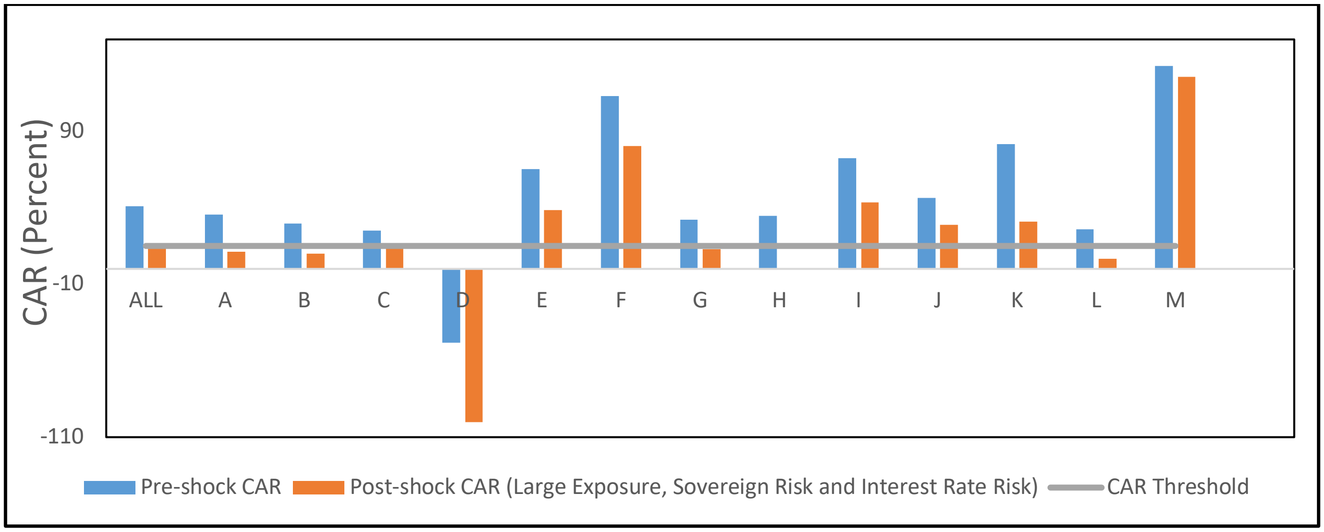
- 5 largest exposures in the banking sector default, yields on GSs fall by 10 percent and the Leone depreciates by 30 percent (against the dollar).

3.2.5.1 Results of the Combined Stress Test (Recession and Financial Repression)

The test added up the impacts of multiple shocks to arrive at an aggregate impact on the CAR of the banking sector. The combined scenario is a low probability, but still a conceivable event.

The results indicate that the banking sector, as a whole, marginally withstood the combined shocks with the aggregate CAR falling to 16.8 percent. But six banks recorded CARs below the 15 percent regulatory threshold with one recording a negative CAR which was the case before the test. The CAR of seven banks remained above the regulatory limit of 15 percent. Still, the key takeaway was that such a combined adverse shock although weakening the banking sector would not cause a full-blown crisis.

Figure 3.6: Impact on Individual Banks' CAR of the Combined Stress Scenario Test



Source: FSD, BSL

3.2.6 Liquidity Risk

Two different liquidity stress scenarios are used in the stress testing exercise. The impact of the liquidity stress scenarios is calculated for each bank in terms of the number of days it would be able to survive without resorting to liquidity from the interbank market (other banks or the central bank). Of course, in practice, the BSL may very well choose to intervene through its lender-of-last-resort function.

Liquidity Scenarios

First scenario: It affects all banks in the system proportionally (similar run on all banks) depending on their volumes of demand and time deposits. The scenario assumes that banks endure a daily withdrawal from LCY demand deposits, FX demand deposits, LCY time deposits and FX time deposits of 25, 15, 25 and 5 percent, respectively.

Second scenario: It stands for "flight to safety," where the liquidity drain starts in the smallest or weakest banks and the stress test shows how this can affect the larger or stronger banks. The stress test investigates three possible measures of "bank safety": (i) total assets; (ii) total assets, with a premium for state ownership; and (iii) the public assessment of the banks' quality, proxied by the BSL's own internal rating. In the first case, depositors perceive bank safety as linked to the size of the bank, approximated by total assets. In the second case, they also perceive state-owned banks safer than privately-owned banks (because of an explicit or implicit government guarantee in the former case). In the third case, depositors' perceptions of bank safety are correlated with the banks' recent financial performance proxied during the stress testing exercise by the BSL's own rating.

The second scenario assumes that banks endure a daily deposit withdrawal from LCY demand deposits, FX demand deposits, LCY time deposits and FX time deposits ranging from 0 to 25, 15, 25 and 5 percent, respectively. For each bank, the size of the withdrawal within that range depends on its perceived safety.

For both scenarios, on any given day, banks can utilize 75 percent of their outstanding liquid assets and 1 percent of their non-liquid assets. The liquidity scenarios are evaluated over a five-day horizon, corresponding to a week in calendar terms.

3.2.6.1 Liquidity Stress Test Results

The simple test models a liquidity drain that affects all banks proportionally, depending on their volumes of demand and time deposits (see the Box above for details). This assumes that customers do not switch deposits from one bank to another but rather reduce deposits from all domestic banks. The result of the simple liquidity stress test indicates that no bank will be illiquid after the first day, two banks after the second and third days, four banks after the fourth day and five banks after the fifth day. As the assumed liquidity drain is extremely large and, in practice, the BSL's liquidity facilities would be available to the banks, the results suggest only a moderate overall liquidity risk. However, the affected banks should take action to improve their liquidity positions.

The flight to safety test is based on "liquidity contagion" and assumes that a relatively large liquidity drain starts in the smallest and/or weakest banks and the impact of this effect on the larger or stronger banks is tested. That is, banks' customers consider stronger banks as safer than weaker banks. According to the flight to safety liquidity test, only two banks will become illiquid on the third day. The number of illiquid banks increased to five and seven on the fourth and fifth days respectively. As the liquidity drain assumptions are even more severe than in the case of the simple test and as the liquidity drain affects the weaker banks disproportionally more under this scenario, the results are in line with expectations. However, the affected banks should take action to improve their liquidity positions.

Table 3.2: Simple Liquidity Stress Test Results

Days after Shock	Number of illiquid Banks	
	Run on all banks	Flight to safety/contagion
After day 1	0	0
After day 2	2	0
After day 3	2	2
After day 4	4	5
After day 5	5	7

Note: The assumed shock is 25 percent daily withdrawals of deposits for five days
Source: FSD, BSL

3.3 Conclusion and Recommendations

In summary, the stress tests show that the banking sector was generally resilient to large adverse shocks that might emerge in the future. A combination of such large shocks would certainly weaken the banking sector but would not be expected to result in a full-blown crisis. None of the individual macro shock scenarios considered would cause the banking sector's overall CAR to fall below the 15 percent minimum threshold. The reason for this is that most banks are starting with very high levels of CAR emanating from their unique business models, which is based on large holdings of government securities that are considered for regulatory purposes as risk free and provide very high returns. Therefore, even with extreme shocks to credit risk, the banking sector's CAR continued to remain adequate. However, the BSL will consider placing a higher weight on alternative financial stability indicators, such as the leverage ratio, as the risk-weighted assets is significantly biased by the large government securities portfolios of the banks, which may not be sustainable over the long run.

Vulnerabilities do currently exist in the banking sector, which arise mainly from a few weak banks in the sector. However, these banks are already under enhanced supervision. The BSL will consider whether additional banks should be put under enhanced supervision. Thus, the following recommendations are proffered to strengthen the banking sector and reduce its vulnerabilities.

- Prompt steps should be taken to strengthen the bank that has already breached the regulatory capital threshold.

- The BSL will prepare new rules on credit reporting so that banks will need to provide more details when reporting credit information. It will be of great value if a breakdown is also provided on borrowing by the government, individuals, non-profit organizations, corporate and non-corporate businesses etc.
- BSL encourages banks to improve their capital base over time to increase resiliency to shocks, as they diversify their asset portfolio. The BSL will use its available tools for this purpose.
- Even though the stress test results show that the impact of an exchange rate shock is minimal, foreign exchange risk can easily transform into credit risk once banks start lending in foreign currency to their customers whose original hedged position may change substantially over time. Therefore, the Financial Policy Committee of the Bank should consider the introduction of additional macroprudential tools to manage foreign exchange risks.

At the end of 2024, the banking sector remained stable and well-capitalized despite a slight reduction in regulatory capital. High regulatory capital as well as profitability and liquidity ratios were attributed to the sector's significant holdings of GS. Tier 1 leverage ratio has been on a downward trend in recent years but remains well above regulatory minimum. All but one bank met the existing capital requirements, but banks must raise additional capital to meet the phased in higher requirements by end 2027.

However, the banks' current business model focusing heavily on GS is considered unsustainable in the medium to long term.

The sector's strong capitalization and liquidity position demonstrated resilience to short-term shocks, but over-reliance on GS poses structural risks. Meeting phased capital requirements may enhance stability but may constrain banks that have weak profits and/or high NPLs.

Despite a decline in share, the size of FX deposits resulting from currency substitution, poses additional challenges. Banks may face reduced flexibility to invest in local currency instruments, potentially affecting liquidity and profitability. Unlike Leone deposits foreign currency deposits needs to be matched by investments in foreign assets rather than local currency assets which would be more beneficial to the local economy. To address these risks, banks need to adopt a more diversified and sustainable business model, enhance risk management practices for FX positions, and strategically allocate resources to support private sector development. Failure to adapt could limit the sector's contribution to economic growth and exacerbate systemic vulnerabilities. The introduction of a minimum loans to deposit ration may help to address this issue by encouraging more loans and presumably mobilizing more local deposits.

4 NON-BANK FINANCIAL SECTOR

4.1 Other Financial Institutions

4.1.1 Landscape

The Other Financial Institutions' (OFIs) landscape changed slightly during 2024 with the number of Credit-Only Microfinance Institutions (COMFIs) increasing slightly to 79 by end-October (*Table 4.1*)

Table 4.1: Structure of Other Non-Bank Financial Institutions

Institutions	Number		Foreign owned		Number of branches		Number of employees		Concentration ratio* (%)	
	Dec 2023	Oct 2024	Dec 2023	Oct 2024	Dec 2023	Oct 2024	Dec 2023	Oct 2024	Dec 2023	Oct 2024
Deposit Taking Microfinance Institutions	5	5	2	2	67	67	789	807	98	98
Credit-Only Microfinance Institutions**	69	79	2	2	128	128	1,247	1,597	74	77
Community Banks***	17	17	Nil	Nil	23	23	169	173	29	42
Financial Services Associations	59	59	Nil	Nil	59	59	198	189	14	18
Mobile Money****	3	3	3	3	72,454	89,979	105	137	N/A	N/A
Discount Houses (DHs)	2	2	Nil	Nil	2	2	30	32	60	63

* *Concentration = Assets of 3 largest /Total Assets, (DHs: Assets of 1 large/Total Assets)*
** *39 out of 69 COMFIs submitted returns as of October 2023*
*** *17 Community Banks plus 6 Cash Points*
**** *Mobile Money = No. of Agents, not branches.*
Source: OFISD, BSL

4.2 Deposit-Taking Microfinance Institutions (DTMFIs)

There were continued expansions in DTMFIs' assets, equity, deposits, and loans in the review period (*Table 4.2*). The sector continued to exhibit significant concentration, as the single largest DTMFI accounted for 34 percent, and the three largest DTMFIs accounted for 97 percent of the sector's assets at the end of October 2024.

DTMFIs' profits increased by 26 percent in the year through to October 2024, much higher than the rate of inflation. ROA increased slightly to 3 percent - exceeded the minimum MIX standard of 2.1 percent - but on an individual basis, three (3) of the five (5) DTMFIs did not meet the minimum standard. ROE on a consolidated basis increased to 14.3 percent, slightly above the MIX benchmark of 13.6 percent, but three (3) of the five (5) DTMFIs recorded ROE below the MIX benchmark.

The Portfolio at Risk (PaR) ratio decreased to 11 percent during the year to October, but all DTMFIs remained above the maximum MIX standard (4.8 percent). The BSL will continue to engage with the

DTMFIs to help improve their credit management practices and loan recovery strategies to reduce their PaR.

Table 4.2: Activities of the DTMFIs

	Dec 2023	Oct 2024
Total Assets (NLe million)	761	887
Total Deposits (NLe million)	255	256
Total Loans (NLe million)	370	464
Total Equity (NLe million)	157	187
Interest Rate on Loans (average) Percent	30	30
Interest rate on Deposits (average) Percent	3-5	3-5
Number of Clients (000s)	66	67

Source: OFISD, BSL

Table 4.3: Selected Performance Indicators of DTMFIs

	Dec 2023	Oct 2024
Income:		
Interest Income (NLe million)	107	122
Expenditures:		
Interest Expense (NLe million)	36	47
Personnel and Administrative Expenses (NLe million)	102	108
Net Profit		
ROA (Net Income/Total Assets), in %	2.4	3.0
ROE (Net Income/Capital), in %	11.6	14.3
Non-Performing Loans (NPL), in % (PaR)	13.1	10.9

Source: OFID, BSL

The Portfolio at Risk (PaR) ratio increased to 13 percent with all DTMFIs failing to meet the maximum MIX standard of 4.8 percent. The BSL will continue to engage the DTMFI's to help improve their credit management practices and loan recovery strategy to decrease their PaR. Also, more attention will be given to on-site examinations for institutions that are recording higher PaR above the industry average.

4.3 Credit-Only Microfinance Institutions (COMFIs)

During the year to October 2024, the total assets and loans of reporting COMFIs increased by 18 percent and 28 percent respectively *(Table 4.4)*. However, only one-half of institutions in the industry submitted returns. The BSL will continue to levy sanctions or consider stringent measures on the non-complying institutions to enforce compliance.

Overall, COMFIs made a profit in the year to October 2024, but nine (9) COMFIs made losses when individual performances were considered *(Table 4.5)*.

Table 4.4: Activities of COMFIs*

	Dec 2023	Oct 2024
Total Assets *(NLe million)*	634	746
Total Loans *(NLe million)*	453	581
Total Equity *(NLe million)*	153	199
Interest Rate on Loans (Average) *percent*	30-35	30-35
Number of Borrowers (000s)	506	534

Source: OFISD, BSL.
**Note: The figures across years are not comparable as 39 out of 69 institutions reported in 2023, while 39 out of 79 COMFIs submitted returns in October 2024. Also, not all institutions that reported in December 2023 may have reported for October 2024.*

Table 4.5: Selected Performance Indicators of COMFIs

	Dec 2023	Oct 2024
Income:		
Interest Income (NLe million)	207	222
Expenditure		
Interest Expense (NLe million)	28	33
Personnel and Administrative Expenses (NLe million)	185	159
Net profit/Loss		
ROA (Net Income/Total Assets, in Percent	(2.7)	5.9
ROE (Net Income/Capital), in Percent	(9.7)	21.9
Non-Performing Loans (NPL), in Percent (PaR)	7.2	9.8

Source: OFISD, BSL

4.4 Community Banks (CB)

The CBs' total assets increased marginally during the year to October 2024, reflecting mainly growth in balances held with financial institutions. Concentration remained high in the sector with the single largest and three largest CBs accounting for 19 percent and 42 percent of total assets respectively.

CBs' ROE and ROE fell during the year to October whilst the PaR increased further to 18.4 *(Table 4.7)* – well above the minimum MIX standard of 4.8 percent.

Table 4.6: Activities of Community Banks

	Dec 2023	Oct 2024
Total Assets (*NLe million*)	186	191
Total Loans *(NLe million*)	104	89
Total Deposits (*NLe million*)	84	98
Total Equity (*NLe million*)	78	75
Interest Rate on Loans (*Average*; *Percent)*	30	30
Number of borrowers (000s)	42.3	35.1
Number of depositors (000s)	113.8	92.5

Source: OFISD, BSL

Table 4.7: Selected Performance Indicators of Community Banks

	Dec 2023	Oct 2024
Income:		
Interest Income (NLe million)	25	28
Expenditures:		
Interest Expense (NLe million)	0.6	0.6
Operating Expenses (NLe million)	21	17
Net Profit:		
ROA (Net Income/Total Assets), in Percent	7.6	6.8
ROE (Net Income/Capital), in Percent	13.6	12.9
Non-Performing Loans (NPL), in Percent (PaR)	14.0	18.4

Source: OFISD, BSL

4.5 Financial Services Associations (FSAs)

FSAs' total assets and total loans fell by 5.2 percent and 26.4 percent respectively during the nine months to October (Table 4.8). But the loan portfolio quality improved slightly with the PaR decreasing to 18 percent *(Table 4.9)*.

Total income fell significantly by 36.2 percent during the period, driven mainly by a decline in interest income. With total income decreasing more rapidly, profitability decreased by 16 percent.

Table 4.8: Activities of the Financial Services Associations (FSAs)

	Dec 2023	Oct 2024
Total Assets *(NLe million)*	90	85
Share Capital *(NLe million)*	30	32
Total Loans *(NLe million)*	58.9	44.1
Number of Active Loan Clients (000s)	28.5	27.2

Source: OFISD, BSL

Table 4.9: Selected Performance Indicators of FSAs

	Dec 2023	Oct 2024
Income:		
Interest Income on Loan *(NLe)*	13.3	8.9
Expenses:		
Financial Expense *(NLe million)*	1.4	0.3
Admin Expenses and Personnel Expenses *(NLe million)*	10.2	6.5
Efficiency Ratios:		
ROA (Net Income/Total Assets) Percent	3.9	3.5
ROE (Net Income/Capital) Percent	6.9	5.8
Non-Performing Loans (NPL) Percent	26.7	18.0

Source: OFISD, BSL

4.6 Mobile Money Operators (MMOs)

MMOs experienced significant increases in their number of agents, but decreases in accounts, number and value of transactions (*Table 4.10*).

Table 4.10: Activities of the Mobile Money Providers

	Dec 2023	Oct 2024
Number of Agents (000s)	72.4	89.9
Number of Accounts (millions)	8.2	7.8
Number of Active Accounts (millions)	1.8	1.9
Number of transactions (millions)	128.6	67.5
Value of transactions (NLe billions)	39.2	32.1

Source: OFISD, BSL

4.7 Discount Houses (DHs)

Total assets of DHs almost halved during the year through to October (Table 4.11). But operating income, ROA and ROE significantly increased during the period (*Table 4.12)*.

Table 4.11: Activities of DHs

Discount Houses	Dec 2023	Oct 2024
Total Assets *(NLe millions)*	53.0	32.7
Placement (Deposits) *(NLe millions)*	0.8	3.6
Share Holders Funds *(NLe millions)*	11.2	9.3
Investment in Gov't Securities (*NLe millions*)	6.6	8.5
Loan (Repo) (*NLe millions*)	1.7	1.6

Source: OFISD, BSL

Table 4.12: Selected Performance Indicators of DHs

Discount Houses	Dec 2023	Oct 2024
Income:		
Discount Income (NLe million)	0.9	1.7
Operating Income (NLe million)	2.1	2.5
Expenses:		
Interest Expense (NLe'000)	0.002	0.0009
Operating Expenses (NLe'000)	1.7	1.4
Earnings:		
Current year profit (NLe'000)		
ROA (Net Income/Total Assets, in Percent	1.1	4.3
ROE (Net Income/Capital), in Percent	2.5	12.1
Operating Expenses/Operating Income (Percent)	138	177

Source: OFISD, BSL

4.8 Credit Unions (CUs)

Although the number of CUs remained unchanged, the number of members increased by 10 percent during the year through to October. Consolidated total assets increased by 35 percent over the period.

4.9 Foreign Exchange Bureaux (FEB)

The US dollar continued to be the dominant currency in the foreign exchange market (*Table 4.13).*

Table 4.13: Purchases and Sales of Major Foreign Currencies for FXBs

Details	Dec-22		Dec-23	
	Purchases	Sales	Purchases	Sales
USD ($), 000s	3,092	1,735	1,381	1,361
GBP (£), 000s	129	19	62	81
EURO (€), 000s	25	22	2	-

Source: OFISD, BSL

Currently, there are twelve (12) Foreign Exchange Bureaux operating as Super Agents dealing directly with International Money Transfer Organizations (IMTOs). However, twenty-three Foreign Exchange Bureaux have been granted a "No Objection" to do inward remittances.

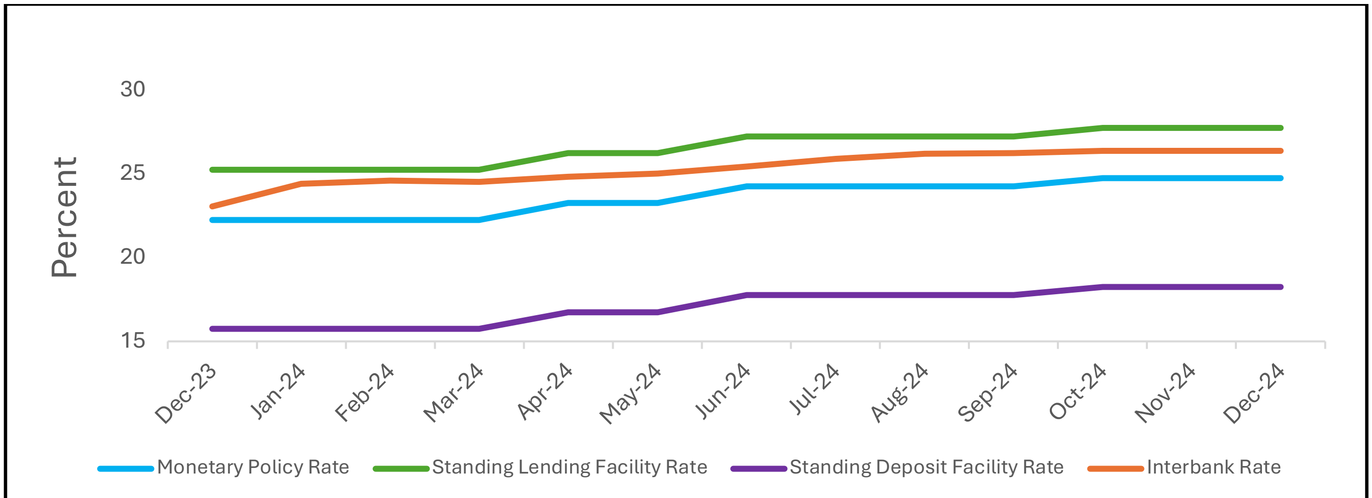
Total inward remittances of USD slightly declined in the year to $39.7 million. This decline could be attributed to a slowdown in economic activity due to the political instability that took place towards the end of the year.

5 DEVELOPMENTS IN MONETARY POLICY IMPLEMENTATION AND THE MONEY MARKET

5.1 BSL Liquidity Operations

The Monetary Policy Rate (MPR) increased by 250 basis points during 2024, to 24.75 by the year end. The Bank's Monetary Policy Committee (MPC) tightened policy further in its September 2024 meeting, raising the MPR by 50 basis points to 24.75 percent. The overnight (O/N) Standing Lending Facility (SLF) and Standing Deposit Facility (SDF) rates, which serve as the upper and lower limits respectively of the BSL's O/N interest rate corridor were adjusted to 27.75 percent and 18.25 percent, respectively at the same time.

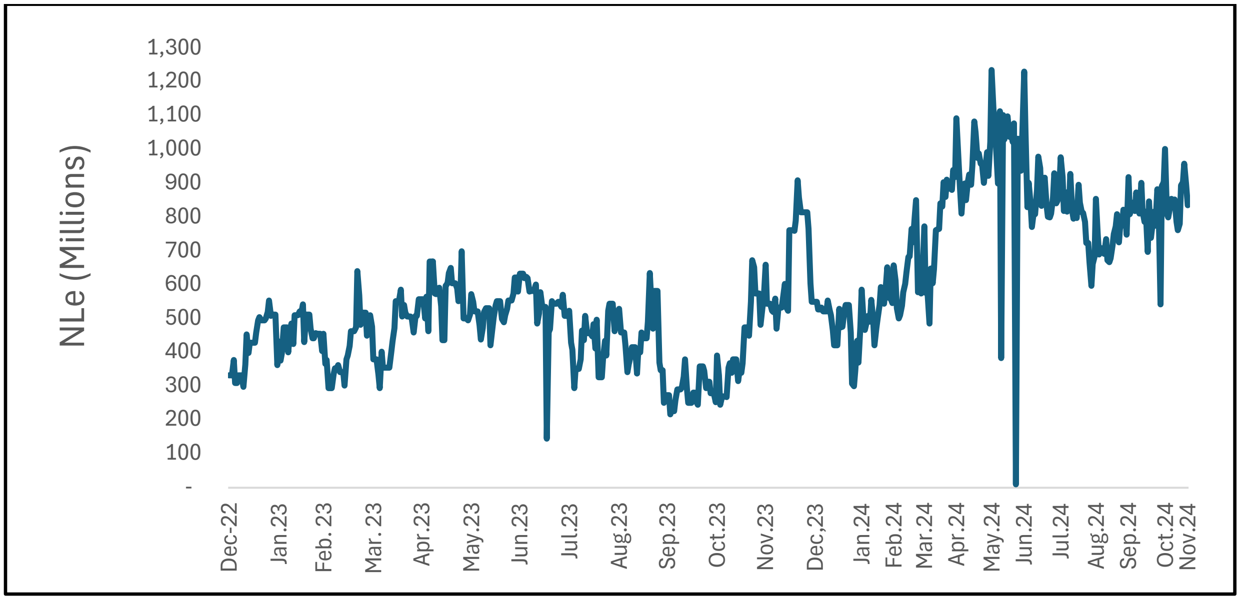
Figure 5.1: BSL Policy Rates and Interbank Weighted Average Rate (monthly)



Source: FMD, BSL

The BSL managed aggregate banking sector liquidity in 2024 mainly through its open market operations (OMOs) and its O/N SLF. Access to the SLF window increased in the first half of 2024 and started to trend downwards after June 2024. The banks did not access the O/N standing deposit facility (SDF) window, consistent with the continued tight liquidity situation.

Figure 5.2: Outstanding Stock of the BSL's O/N SLF (daily)



Source: FMD, BSL

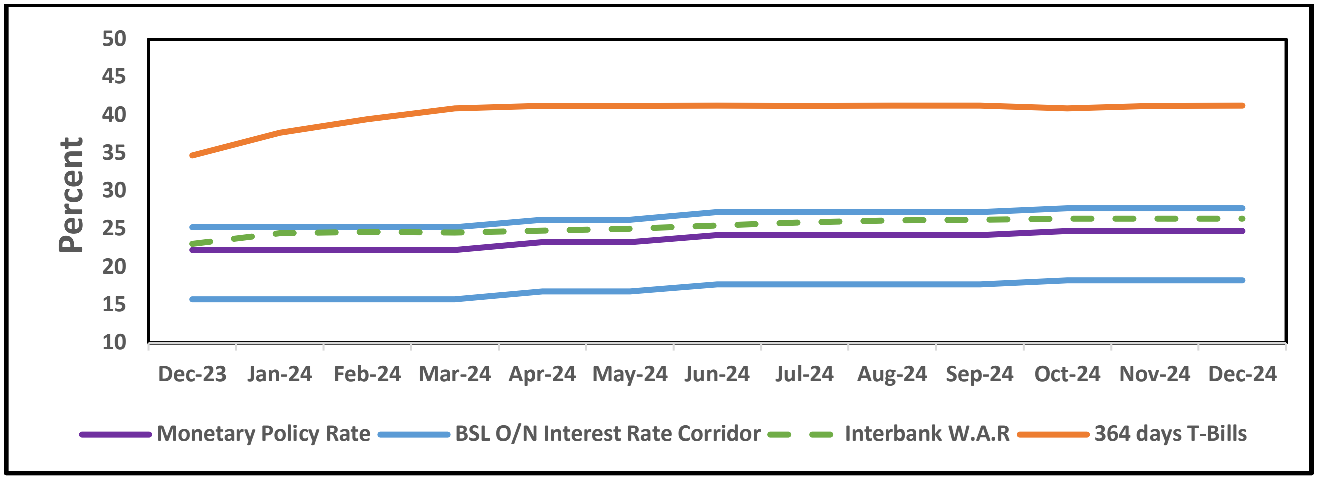
The BSL's outright purchases of Treasury bills, on the other hand, rose by 30 percent during the year.

5.2 Interbank Market

The Sierra Leone interbank money market serves as a secured marketplace for banks to deal with excess and short liquidity situations, mostly through repurchase agreements. BSL's strict monetary policy stance was primarily responsible for the 3.3 percent increase in the interbank weighted average yield in 2024 to 26.4 percent.

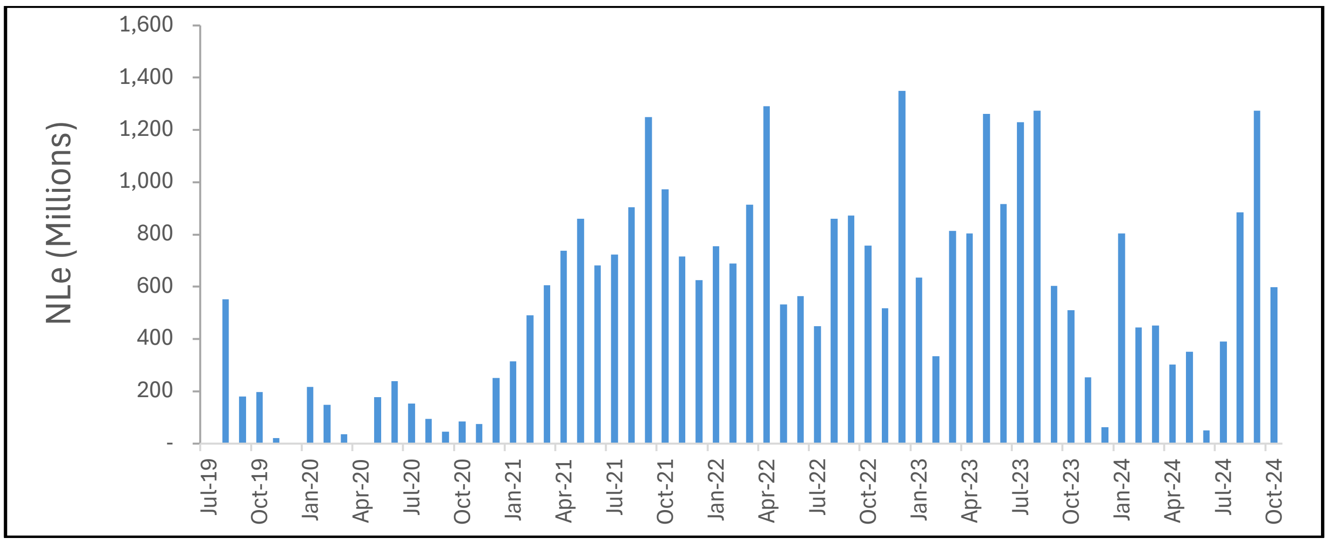
There were fluctuations in the monthly interbank market turnover during the year, but the transaction volume reached a peak in real terms in September.

Figure 5.3: BSL Policy Rates, the Interbank Rate and the 364-day T-bill rate (monthly)



Source: FMD, BSL

Figure 5.4: Monthly Turnover in the Interbank Money Market



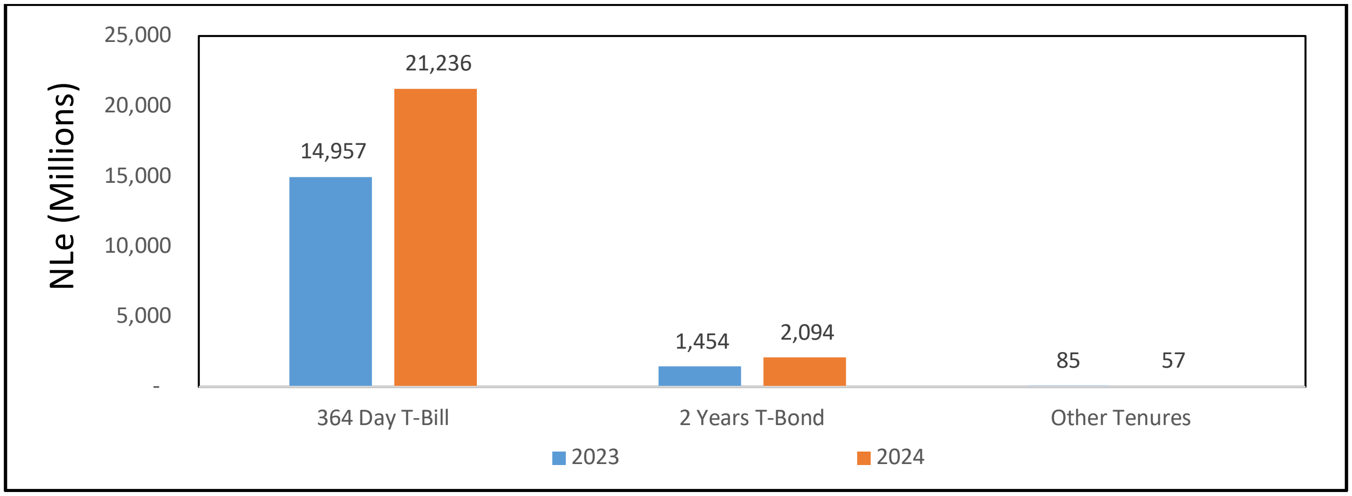
Source: FMD, BSL

5.3 Government Securities Market

Most investors in Sierra Leone usually hold Government Securities until they mature, hence the secondary market for GS remains illiquid.

The primary market of GS comprises weekly auctions of 91-day, 182-day and 364-day T-bills. The 91-day and 182-day T-bill auctions were unattractive and are usually significantly undersubscribed, with often no single bid submitted. On the other hand, the 364-days tenure was mostly oversubscribed with commercial banks being the main buyers. Less frequently, there were also auctions for longer term government bonds.

Figure 5.5: Stock of Marketable Government Securities by Tenure



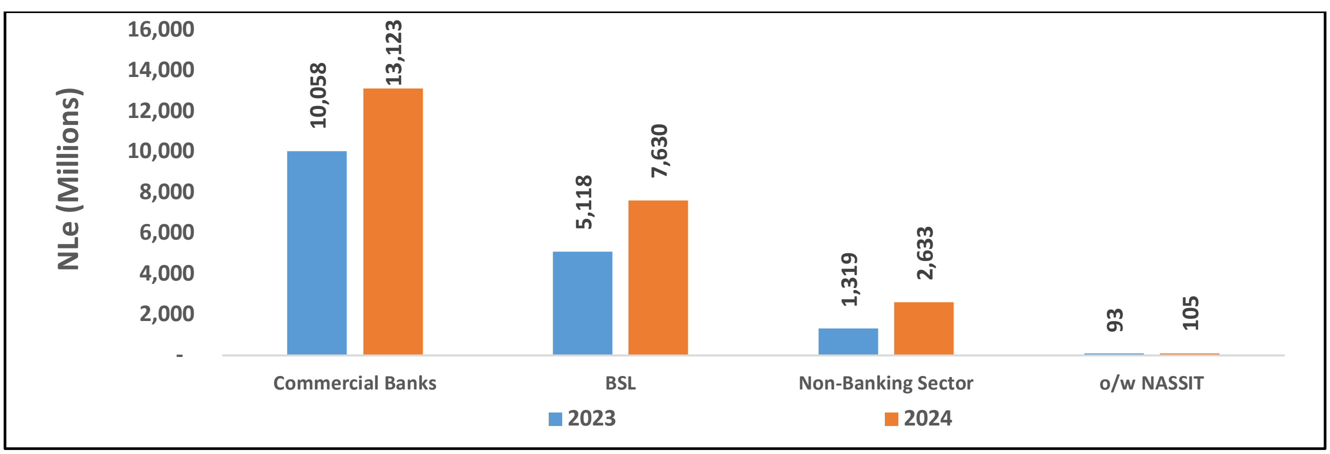
Source: FMD, BSL

The total stock of GS increased by 39 percent during the year. The 364 Day-T-bills, which grew by 42 percent, accounted for 83 percent of the total GS holdings and the other marketable securities accounted for 8 percent. These marketable securities mainly served to finance the Government budget. The non-marketable securities (T-bonds) accounted for 9 percent of GS holdings and are used mainly to finance specific infrastructural projects.

Commercial banks and the BSL expanded their holdings of marketable GS by 30 percent and 49 percent, respectively during the year. BSL's outright purchases of T-bills from commercial banks to support aggregate liquidity in the money market were a major factor in the growth of its holdings.

Although the non-bank public sector's holdings doubled during the year, this was from a low base (*Figure 5.6*).

Figure 5.6: Holdings of Marketable Government Securities by Sector (in Millions of New Leones)



Source: FMD, BSL

The yield on 364-days T-bills increased to 41 percent by the year end, significantly above the rate of inflation (13.8 percent), hence providing highly positive real returns for investors. The Sierra Leone interbank money market serves as a secured marketplace for banks to deal with excess and short liquidity situations, mostly through repurchase agreements. BSL's strict monetary policy stance was primarily responsible for the 3.3 percent increase in the interbank weighted average yield in 2024 to 26.4 percent.

There were fluctuations in the monthly interbank market turnover during the year, but the transaction volume reached a peak in real terms in September.

Figure 5.3).

5.4 Implications for Financial Stability

Financial stability was significantly impacted by changes in the monetary policy and money market operations of BSL. To control inflation and stabilize the exchange rate, the monetary policy rate (MPR) was raised during the year. This tightening in policy helped keep inflation under control and stabilized the Leone. However, the increase in borrowing costs resulted in some commercial banks increasing their holdings of GS at the expense of cash and subsequently lower lending, whilst the frequency of accessing the BSL window increased for settlement purposes.

BSL acted swiftly to manage banking liquidity through open-market operations (OMOs) and SLF. Reduction in SLF access in some months of the year showed improved self-sufficiency in banks but highlighted existing liquidity constraints. The lack of activity in the SDF indicated limited excess liquidity, which could pose liquidity risks for certain banks, possibly leading to more interbank borrowing or asset sales to cover funding needs.

The government securities market was largely illiquid and skewed mainly to the 364-day Treasury bills, which were often oversubscribed by commercial banks. This reliance could pose liquidity risks and affect the market's role in stabilizing financial stress. As discussed earlier, this concentration of GS holdings by commercial banks may expose the banks themselves to interest rate risks and more broadly constrain economic growth through crowding out credit to the private sector.

6 NATIONAL PAYMENTS SYSTEM

6.1 Introduction

The BSL continued to monitor and assess the performance of the National payment Switch to ensure safety and efficiency in the Financial Market Infrastructure, so as to minimize payment, clearing, and systematic risks, while achieving reliable, secure, cost-effective, universal, and integrated systems that can meet the need of the economy.

6.2 National Payments System Landscape

6.2.1 Developments in the National Payments System Landscape

The Sierra Leone payments and settlement landscape constitute:

- **Real Time Gross Settlement (RTGS) System:** This is used as a wholesale settlement platform and for the transfer of funds among participating financial institutions.

- **The Automated Clearing House (ACH):** This is the retail payments system through which a vast number of payment items (both paper-based and electronic) are cleared.

- **Scripless Securities Settlement System (SSSS):** This platform is used for transactions in Government Securities (Treasury Bills and Treasury Bonds).

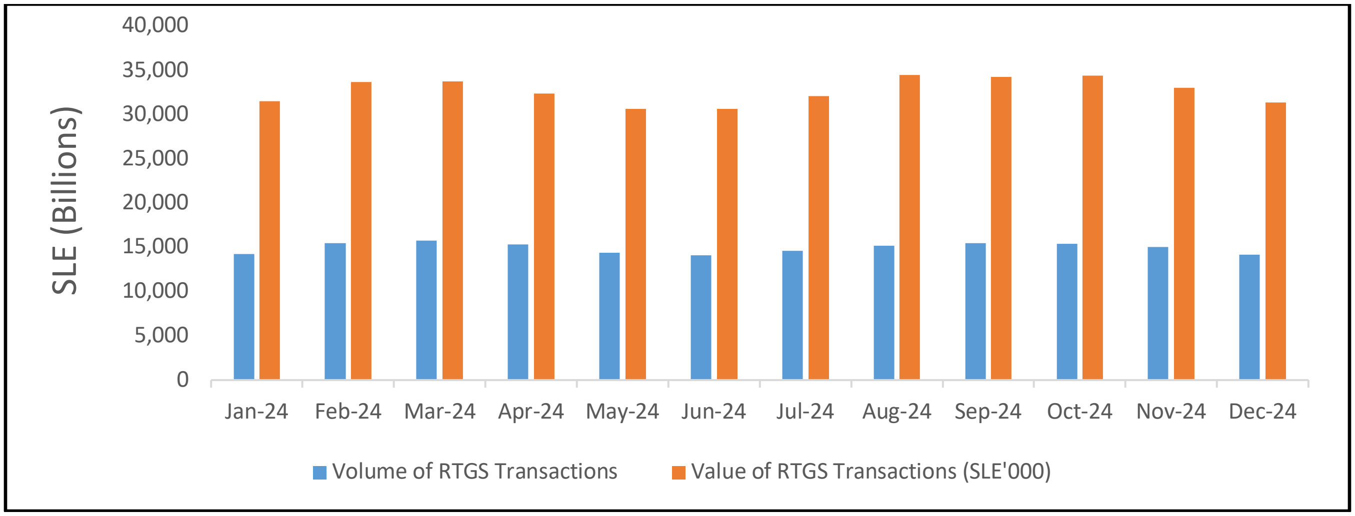
- **National Switch:** This platform ensures the establishment of interconnectivity and interoperability of all retail payments infrastructure for efficiency.
- **Electronic Funds Transfer (EFT):** This system connects the BSL's Core Banking Application (T24) to the Accountant General Department's Integrated Financial Management Information System (IFMIS) software, to eradicate the manual processing of payments through cheques and letters.
- Small value transactions systems such as ATM/Point of Sales (POS)
- Mobile banking has also begun to experience stronger growth.

6.2.2 Real Time Gross Settlement (RTGS)System

The RTGS is a nationwide electronic funds transfer system that facilitates swift and efficient payment settlements between participating financial institutions.

In as much as there were fluctuations in the value and volume of transactions, the trend indicated general use of the system for interbank transactions.

Figure 6.1: Volume and value of RTGS Transactions January-December 2024



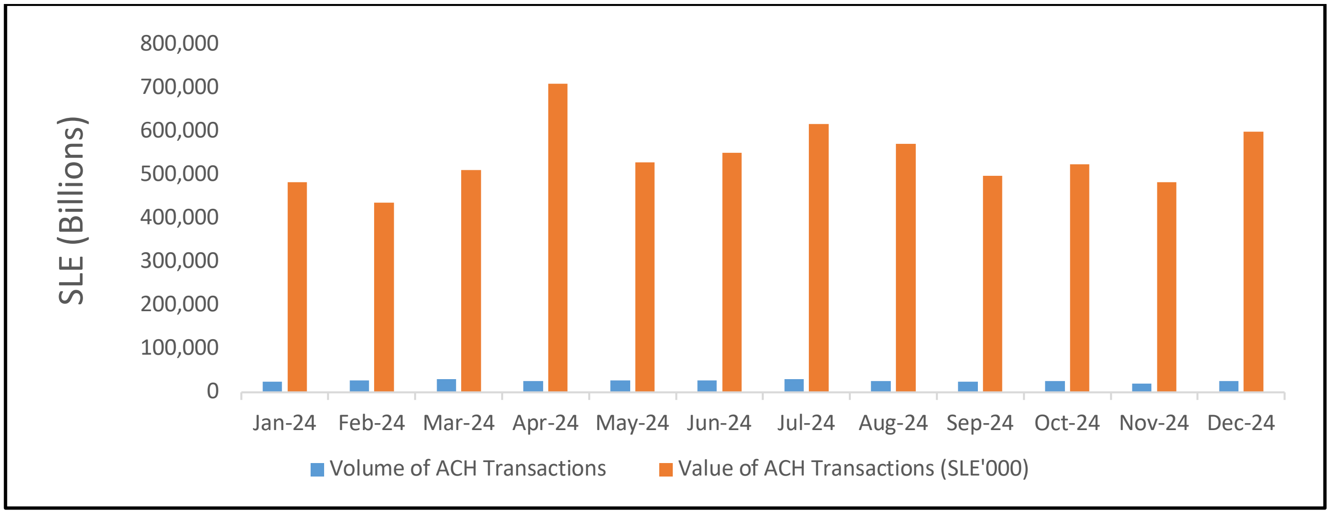
Source: Banking and Payments System Department, BSL

Even though the amount and value of transactions fluctuated throughout the year, the trend revealed that the system was generally used for interbank transactions.

6.2.3 Automated Clearing House (ACH)

The ACH payments system handles various retail payments, including both paper and electronic. Prior to the redenomination of the Leone, transactions were primarily low-value, high-volume cheques. The limit on cheques was removed after the redenomination to discourage over-the-counter cash transactions. The ACH transactions during 2024 showed that cheque usage remained higher than direct credit, but direct credit usage was sustained and may rise going forward.

Figure 6.2: Direct Credit (SLE) Transactions January-December 2024



Source: Banking and Payments System Department, BSL

Table 6.1. Cheque Transactions (January 2024 – December 2024)

MONTHS	CHEQUES VOLUME		CHEQUES VALUE	
	OLD SERIES (694)	NEW SERIES (925)	OLD SERIES SLL (Bn)	NEW SERIES SLE (Mn)
Jan	793	9,613	121	845
Feb	509	10,641	142	991
Mar	456	9,726	78	1,122
Apr	380	9,855	110	1,080
May	376	10,741	27	1,147
Jun	331	10,621	34	5,407
Jul	325	10,511	38	1,155
Aug	-	9,384	11	1,034
Sep	-	8,741	1	1,178
Oct	273	9,690	21	984
Nov	155	8,770	7	1,076
Dec	191	9,345	25	1,349

Source: Banking and Payments System Department, BSL.

6.2.4 Other Retail Payments System

BSL has made progress in increasing the public acceptability of electronic transaction processing, but most facilities were deployed in the Western Area, accounting for 70 percent of ATMs and 92 percent for POS, indicating an uneven geographical distribution of these payment services, thus financially excluding a large number of the population. This is worthy of note amid plans to implement a digital financial service that could ensure smooth flow of funds, especially from Government to People (G2P).

Table 6.2: Regional Spread of ATMs

Province	2022	2023	2024
Northern Province	16	24	25
Southern Province	10	20	19
Eastern Province	7	9	11
Western Area	114	131	132
Total	**147**	**184**	**187**

Source: Banking and Payments System Department, BSL.

Table 6.3: Regional Spread of POS

Province	2022	2023	2024
Northern Province	9	14	15
Southern Province	8	3	5
Eastern Province	3	4	4
Western Area	188	268	258
Total	**208**	**289**	**282**

Source: Banking and Payments System Department, BSL

6.3 Established Systems and Developments

BSL has gone live with full implementation of the Treasury Single Account (TSA).

The Ministry of Finance funded a project to improve the interoperability between the Bank of Sierra Leone's Core Banking Application T24 and the Accountant General's Integrated Financial Management Information System (IFMIS), aiming to eliminate manual payment processing. Local payments have been implemented, but foreign payments are still manual.

6.4 Financial Inclusion Projects

The National Payments Switch (NPS) is a World Bank-funded project which aims to improve retail payment infrastructure interconnectivity and interoperability, enhancing financial system efficiency and rural connectivity. It includes market growth, increased value transactions across the switch, government payments, POS terminals, and account ownership, promoting participant connectivity and increased transaction volume.

Phase one (1) of the NPS went live on April 29, 2023, with 6 banks. The number of banks has now increased to 10 banks. Phase one was the Card Switch, where the NPS interconnects participating banks to allow inter-bank ATM transactions and inter-bank debit and prepaid card payments in store (POS.). This service becomes important when multiple local banks have deployed Automated Teller Machines (ATMs) and issue debit cards to account holders so that those customers can make balance enquiries, withdraw cash and undertake other banking businesses at ATMs without visiting a branch.

The phase two (2) went live on October 10, 2024, with seven (7) banks and two (2) Mobile Money Operators (MMOs). Phase two (2) is the Instant Payment Platform, where the NPS connects banks and mobile operators together to allow instant payments between customers of different Payments Service Providers (PSP).

The national instant payments platform services will take instant payment to the next level, allowing full integration of mobile money with mainstream banking. This platform enables instant payments from any wallet or bank account, regardless of the mobile network. It also enables instant payments from any current bank account to any account or wallet. This will encourage micro-merchants to accept payments for goods and services via instant payment and help improve financial inclusion.

Table 6.4 Summarized Salone Payments System Performance Report (Volume) January 2024- December 2024

Transaction Summary	ATM	POS	TOTAL
Successful Transactions	527	49	576
Unsuccessful Transactions	297	108	405
Reversals	20	Nil	20
Total	844	157	1001

Source: Banking and Payments System Department, BSL.

Table 6.5 Summarized Salone Payments System Performance Report (Value) January 2024- December 2024

Transaction Summary	ATM (NLe 000s) Successful Transaction	POS (NLe 000s) Successful Transaction	Total (NLe 000s)
Value	237	70	307

Source: Banking and Payments System Department, BSL.

6.5 AFREXIMBANK – Pan African Payments and Settlement System (PAPSS)

Afreximbank and West Africa Monetary Zone (WAMZ) Central Banks are developing a payment and settlement platform to address cross-border payments issues in the region. BSL has been collaborating with PAPSS to create an instant payment solution for local currency transactions in the sub-region to promote regional trade. 1 bank has already gone live, and 8 other banks are working with PAPSS to start operations. Some commercial banks have also been granted "No-Objection" to participate in the PAPSS initiative.

6.6 Challenges

The downside risks to these developments include the following:

(i) Network connectivity, as in most cases, has resulted to a lot of failed transactions due to banks network downtime (ii) service providers are unable to meet the expected timeline to deliver on projects and (iii) slow adaptation by the commercial banks to participate in the process.

6.7 Conclusion

The country's acceptance of the electronic payments system has led to the need to enhance market infrastructures and establish or deepen the payments system landscape.