BANK OF SIERRA LEONE

MONETARY POLICY REPORT

JUNE 2024

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF APPENDICES

ACRONYMS

AE	Advanced Economies
BOP	Balance of Payments
bbl	Per blue barrel
BSL	Bank of Sierra Leone
CAR	Capital Adequacy Ratio
CFC	Customers Foreign Currency
CIEA	Composite Index of Economic Activities
CPI	Consumer Price Index
CRR	Cash Reserve Requirement
dmt	Dry Metric Tons
ECB	European Central Bank
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
EMDEs	Emerging Market and Developing Economies
FSIs	Financial Soundness Indicators
FX	Foreign Exchange
GDP	Gross Domestic Product
GoSL	Government of Sierra Leone
GST	Goods and Services Tax
IMF	International Monetary Fund
M2	Broad Money
MoF	Ministry of Finance
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
NDA	Net Domestic Assets
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Assets
NPLs	Non-Performing Loans
ODCs	Other Depository Corporations
OIN	Other Items Net
OMO	Open Market Operations
OPEC	Organization of the Petroleum Exporting Countries
Q1	First Quarter
Q2	Second Quarter
Q3	Third Quarter
Q4	Fourth Quarter
QM	Quasi Money
REER	Real Effective Exchange Rate
RM	Reserve Money
ROA	Return on Assets
ROE	Return on Equity
SDF	Standing Deposit Facility

SLF	Standing Lending Facility
Stats SL	Statistics Sierra Leone
T-bills	Treasury Bills
WB	World Bank
WEO	World Economic Outlook
WTI	West Texas Intermediate

The Report

The June 2024 edition of the BSL Monetary Policy Report presents an assessment of global and domestic economic developments, mainly during the first quarter of 2024. The report also assesses current developments in the second quarter of 2024 for which data is available, as well as near-term prospects, with a view to implementing appropriate monetary policy consistent with the Bank's policy objectives.

BSL Monetary Policy Objectives

The primary objective of the BSL is to achieve and maintain overall price stability in the Sierra Leone economy. However, the Bank's mandate encompasses other important goals, including the stability of the financial system and financial market development, as well as supporting the general economic policy of the government to enhance overall macroeconomic stability.[1]

Monetary Policy Strategy

The BSL is the sole monetary authority in Sierra Leone with a statutory operational independence to conduct monetary policy in the country. The Bank uses appropriate policy instruments to achieve its stated objectives. They include: the Monetary Policy Rate (MPR), Open Market Operations (OMOs), Standing Lending and Deposit Facilities, Foreign Exchange Operations, and Cash Reserves Requirement.

Monetary Policy Process

The monetary policy of the Bank is formulated by the Monetary Policy Committee (MPC), which is a statutorily constituted body of seven members. The MPC includes the Governor of the Bank (who serves as the chairperson), the first Deputy Governor, responsible for Monetary Stability, the second Deputy Governor, responsible for Financial Stability, and four other experts with relevant professional experience in monetary policy and financial market operations nominated by the Governor and approved by the Board of Directors of the BSL. The MPC meets every quarter to assess recent global and domestic economic developments, as well as near-to-medium term prospects and inflation risks. Based on these assessments, a policy decision is made, mainly using the MPR to signal the Bank's monetary policy stance. During deliberations in the MPC meeting, each member proposes a preferred MPR decision supported by underlying reasons. Final decision takes place by vote, with the Chairman having the deciding vote in the occurrence of a tie. The final decision is then published in a monetary policy statement on the Bank's website, within two working days after the MPC meeting. In addition, the Governor and other authorized staff engage the public from time to time to explain the Bank's policy decisions and to clarify emerging economic issues, especially those affecting the conduct of monetary and exchange rate policies, among others.

---

[1] *Part I, Subsection 5 of the BSL Act 2019 states that the objective of the Bank shall be to: (b) achieve and maintain price stability. (c) contribute to fostering and maintaining a stable financial system. (d) support the general economic policy of the Government.*

EXECUTIVE SUMMARY

The global economy continues to be resilient, driven largely by improved economic activities in most Advanced Economies and Emerging Markets and Developing Economies. Therefore, in the IMF's April version of the World Economic Outlook (WEO), global growth is projected to remain strong at 3.2 percent in 2024 and 2025. Despite the resilient global growth, downside risks to the outlook still remain, including geopolitical tensions, elevated debt burdens and climate change crisis. Global inflation continues to ease in most countries, due to tighter monetary policy stance, softened labor market conditions, and diminishing effects of past global shocks. The resilient growth and steady decline in inflation in the global economy provide a favorable external environment for Sierra Leone in terms of trade and foreign direct investment flows. However, the increasing prices in the service sector and recent decision by the Organization of the Petroleum Exporting Countries (OPEC) and its Allies to extend production cuts could present an upside risk to global inflation.

In the domestic economy, real GDP growth in 2023 was 3.4 percent and is estimated to recover to 4.0 percent in 2024. The expected growth rebound is to be driven by increased activity in the agricultural, mining and services sectors. The BSL's Composite Index of Economic Activity (CIEA) recorded a faster increase in economic activity in 2024Q1 relative to 2023Q4, reflecting improved foreign trade.

Inflationary pressures have been easing since their peak in October 2023. Headline inflation decreased from 40.69 percent in March 2024 to 38.06 percent in April 2024 and further to 35.84 percent in May 2024. The decline in headline inflation was broad-based, reflecting reductions in both food and non-food inflation. Inflationary pressures softened due to several factors, including the continued implementation of tight monetary policy, relative stability in the exchange rate, declining global food and energy prices and increased food supply during the harvest season.

Sierra Leone's trade deficit with the rest of the world widened to US$142.4 million in 2024Q1 from US$111.3 million in 2023Q4, explained by high import bills which more than outweighed the receipts from exports. The gross foreign exchange reserves of the BSL declined in 2024Q1 relative to 2023Q4 and was equivalent to 2.3 months of import cover in 2024Q1 compared with 2.7 months cover in 2023Q4. The reduction in foreign exchange reserves was on account of increased debt service payments and payments for goods and services. The exchange rate has been relatively stable owing to policy measures adopted by the BSL to remove bottlenecks in foreign exchange transactions, thus restoring confidence in the domestic currency and limited speculative activities by market participants.

Developments in monetary aggregates showed that both Reserve Money (RM) and Broad Money (M2) growth declined in 2024Q1 relative to the previous quarter. On a year-on-year basis, both RM and M2 growth moderated, and were marginally above the program targets. Credit to the private sector by commercial banks expanded but was to a few sectors, including commerce and finance, construction and business services. Credit to the private sector grew more than the IMF/ECF program projection.

Liquidity conditions remained tight in the money market in 2024Q1, with the interbank market rate rising and remaining above the MPR, while the yield on the 364-day T-bills continued to increase.

In spite of the government's fiscal consolidation drive to address challenges with public finance, the overall fiscal balance recorded a deficit of NLe1.21 billion in 2023Q4, from a surplus of NLe0.39 billion in 2024Q1. This was due to the combined effects of increased expenditure and a decrease in total revenue. Even though domestic revenue increased, the significant reduction in foreign grants accounted for the decline in total revenue. The primary balance recorded a marginal surplus of NLe0.03 billion in 2024Q1, relative to a surplus of NLe0.28 billion recorded in 2023Q4 due to increased discretionary spending.

The banking sector continued to be stable and sufficiently capitalized. Most of the Financial Soundness Indicators (FSIs) remained within acceptable thresholds. The stability was further corroborated by satisfactory stress test results. Despite the stability in the financial system, there are inherent risks, including limited intermediation to support growth, and high reliance on earnings from government securities, which might adversely affect the banks' balance sheets in the event of reduced borrowing by the government.

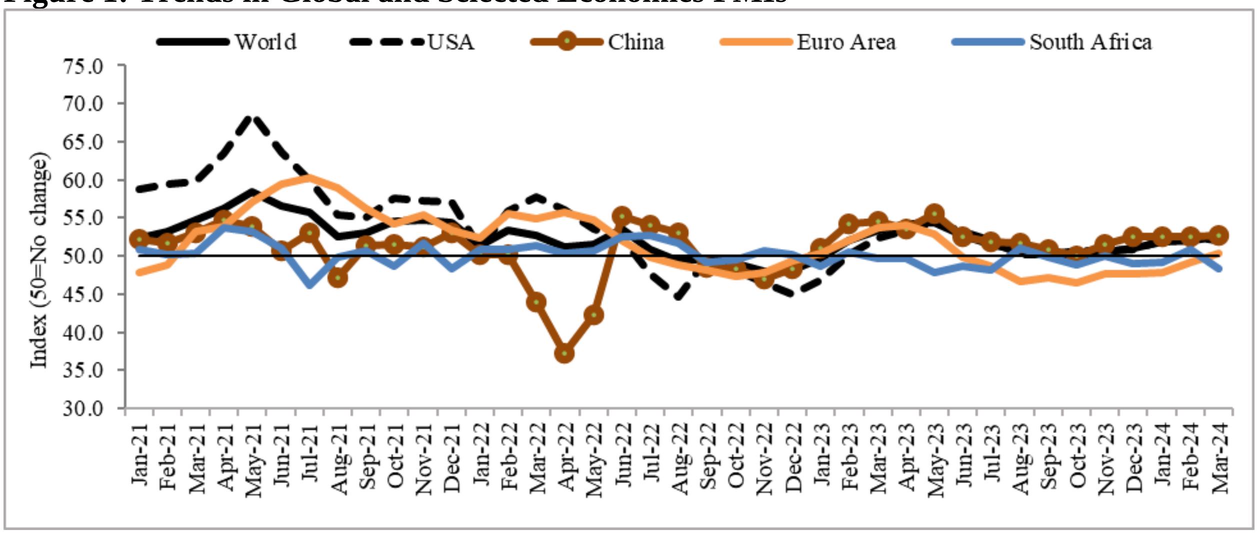
The report is structured as follows: The second section analyzes global economic developments, including global growth, inflation, commodity prices, and their implications for the Sierra Leone economy. The third section reviews domestic economic developments and outlook. The fourth section covers the conclusion and decision of the MPC during the June 2024 meeting.

1 GLOBAL ECONOMIC DEVELOPMENTS AND PROSPECTS

1.1 Global Output

The relatively strong global economic performance observed in the last quarter of 2023 (i.e., 2023Q4), continued into the first quarter of 2024 (i.e., 2024Q1), as indicated by the Composite Purchasing Managers' Indices (PMI)[2] of major global economies. The composite PMI for both the manufacturing and service sectors grew in 2024Q1. Despite tight financial conditions, the United States economy grew, supported by improving private sector activities. Similarly, improved economic sentiments supported resilience in the Euro Area, with the composite PMI moving further into expansionary territory in 2024Q1.

Figure 1: Trends in Global and Selected Economies PMIs

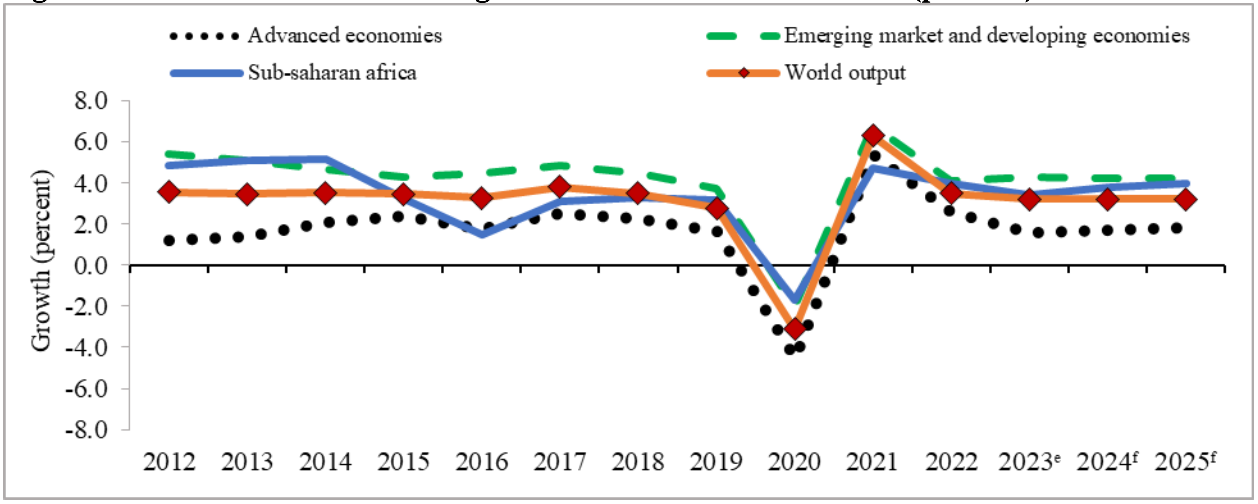


Data Source: Markit Economics, through Trading Economics April1, 2024. Note: PMIs above 50% signals expansion in economic activity; below 50% signals contraction.

However, global economic uncertainties continue to persist, with risks to global growth still firmly tilted to the downside, including higher interest rates, the cost-of-living crisis, climate change, growing geopolitical tensions in the Middle East, Ukraine-Russia war and US-China relationship. In line with these persistent global economic uncertainties, the IMF, in its April 2024 World Economic Outlook (WEO), projected global growth to remain at 3.2 percent in both 2024 and 2025, same as in 2023.

[2] The global composite Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors around the world. An index below 50 indicates contraction and above 50 indicates expansion

Figure 2: Trends in Global and Regional Real GDP Growth Rates (percent)



***Source**: IMF World Economic Outlook, April 2024 and January 2024 update; Note: e= estimate & **f** =forecast*

The growth projections for 2024 and 2025 were below the historical (2000-19) average of 3.8 percent, explained by low productivity growth, the tight monetary policy stance, as well as a halt in fiscal support. In the coming years, global growth will be largely driven by economic activity in emerging market economies including China, India and Brazil (see table 1).

1.1.1 Advanced and Emerging Market Economies

Tighter financial conditions continue to weigh on economic activities in Advanced Economies. However, growth in this group was projected to improve, albeit marginally, from 1.6 percent in 2023 to 1.7 percent and 1.8 percent in 2024 and 2025, respectively. The recent escalated geo-political tension in the Middle East could pose further risk to the economic outlook in these economies. Strong economic outturn in India and Russia, explained improved economic activity in Emerging Markets and Developing Economies. However, growth in the group is projected to decrease slightly from 4.3 percent in 2023 to 4.2 percent in 2024 and 2025, attributed to global trade tensions, geopolitical risks, tight monetary policy, structural challenges, and external shocks.

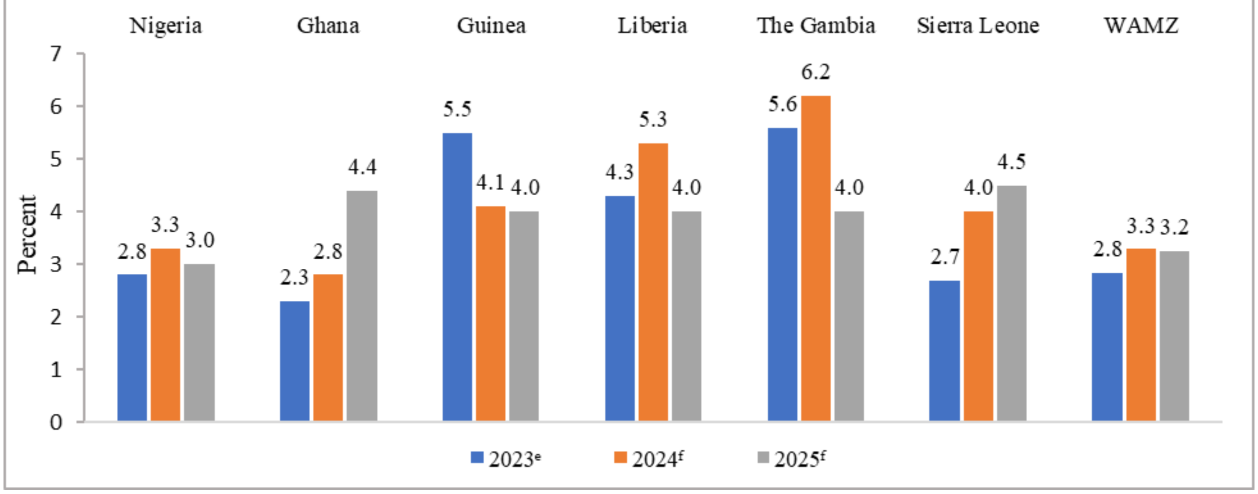
1.1.2 Sub-Saharan Africa

Growth in the region was expected to revamp to 3.8 percent in 2024, from 3.4 in 2023. This recovery trend is expected to continue beyond 2025, with growth projected at 4.0 percent by 2025. This development reflects the gradual recovery in Nigeria and South Africa, favorable commodity prices, strong domestic demand, stabilized public debt ratios, increased investment, and an improving global economic condition. However, risks to the growth outlook are tilted to the downside, including persistent inflationary pressures, high debt service cost, increasing unemployment, exchange rate depreciation, the threat of political instability in some countries, and unfavorable climate events.

1.1.3 West African Monetary Zone (WAMZ)

Growth in the WAMZ is estimated at 2.8 percent in 2023 but expected to rise to 3.3 percent in 2024 contingent on expected recovery across member states. However, high debt servicing costs and high risks of debt distress are weighing heavily on public finances. High cost of living and extreme weather conditions could also pose risks to economic performance in member states.

Figure 3: Real GDP Growth (Percent) in the WAMZ Economies



Source: IMF World Economic Outlook, January 2024 Update, and April 2024 update; Note: e=estimate and f =forecast

1.2 Global Commodity Prices and Inflation

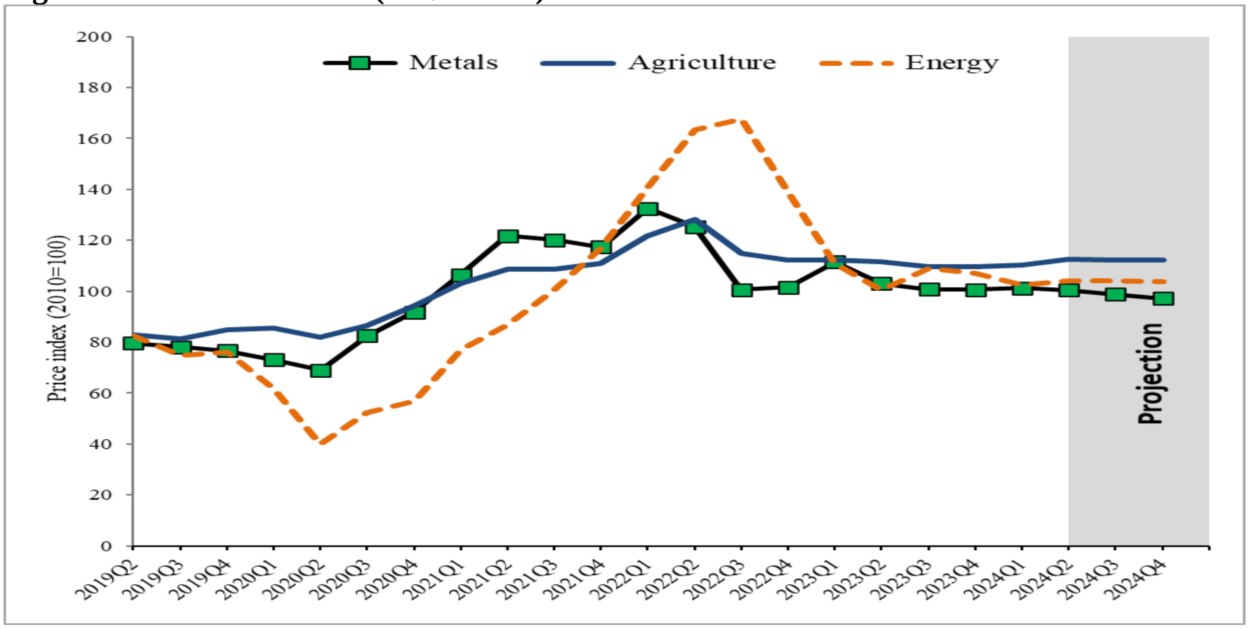
1.2.1 Global commodity prices

Global commodity prices showed diverse and intricate trends in 2024Q1. The energy sector continues to experience a modest drop, with the index marking a decrease to 102.55 points, suggesting a further stabilization after the previous quarter's significant drop. This could be attributed to a cautious optimism in market recovery, despite ongoing concerns over the global growth outlook. Metals continued their upward trajectory, reaching an index of 101.21 points, bolstered by improved industrial demand from key markets, including the United States. World Bank projections indicated that energy prices were expected to see a moderate rise, with agriculture and metals likely to experience a slight decline.

Crude Oil Prices

Crude oil prices continued to decrease in the early months of 2024, explained by a combination of both demand and supply dynamics. Global crude oil supply increased, bolstered by increased production in the U.S. and international Strategic Petroleum Reserve release programs. Consequently, average crude oil price decreased by 1.7 percent to US$80.59/bbl in 2024Q1, compared to US$82.05/bbl in 2023Q4.

Figure 4: Crude Oil Prices (US$/barrel)

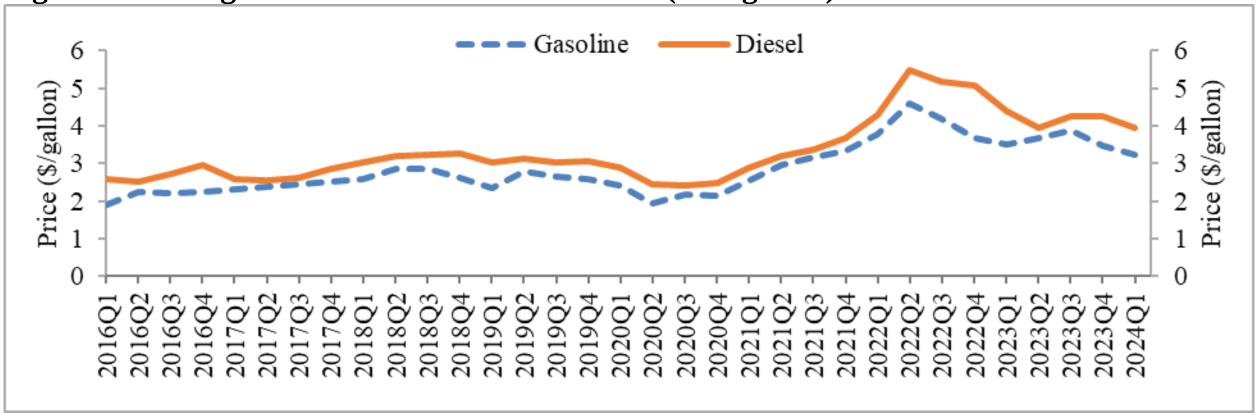


Source: World Bank Commodity Market Database April 2024

Petroleum Products (Retail Prices)

The average prices for both Gasoline and Diesel decreased to US$3.24/bbl and US$3.93/bbl in 2024Q1 from US$3.48/bbl and US$4.24/bbl in 2023Q4, respectively. This reflects the decrease in crude oil prices.

Figure 5: Average Prices of Petroleum Products (US$/gallon)

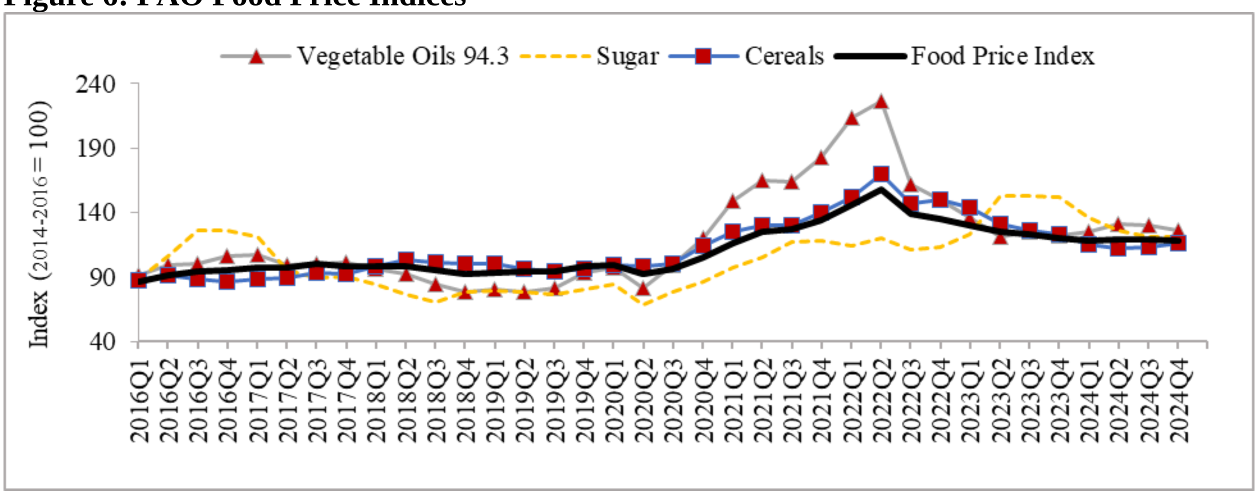


Source: U.S. Energy Information Administration, EIA (April 2024)

Food Price Index

Food Price Index declined to 118.1 points from 120.3 points in the preceding quarter. This decline can be attributed to improved supply conditions and a decrease in demand. Cereal prices saw a reduction to 115.0 points, suggesting a stabilization in prices for food commodities (including rice, wheat, and maize). The sugar index also decreased to 136.5 points from 151.6 points, aligning with the overall trend of softening food prices in 2024Q1. However, the index for vegetable oil rose slightly to 124.6 points from 122.1 points.

Figure 6: FAO Food Price Indices

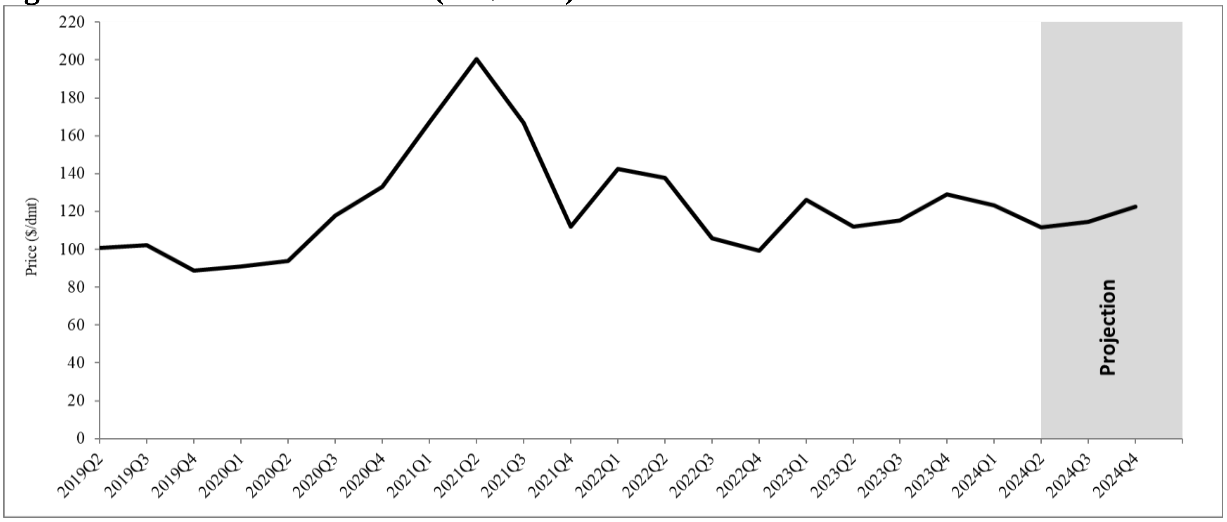


Source: FAO food price index database., April 2024

Iron Ore Price

The average price of iron ore decreased slightly to US$123.33 per metric ton (dmt) in 2024Q1, from the previous quarter's average of US$129.03, as expectations about Chinese demand were souring mainly on the back of protracted struggles in the Chinese construction sector. Demand outside China, especially increasing steel production in India may help to stabilize and even moderately price increases.

Figure 7: The Price of Iron Ore (US$/dmt)

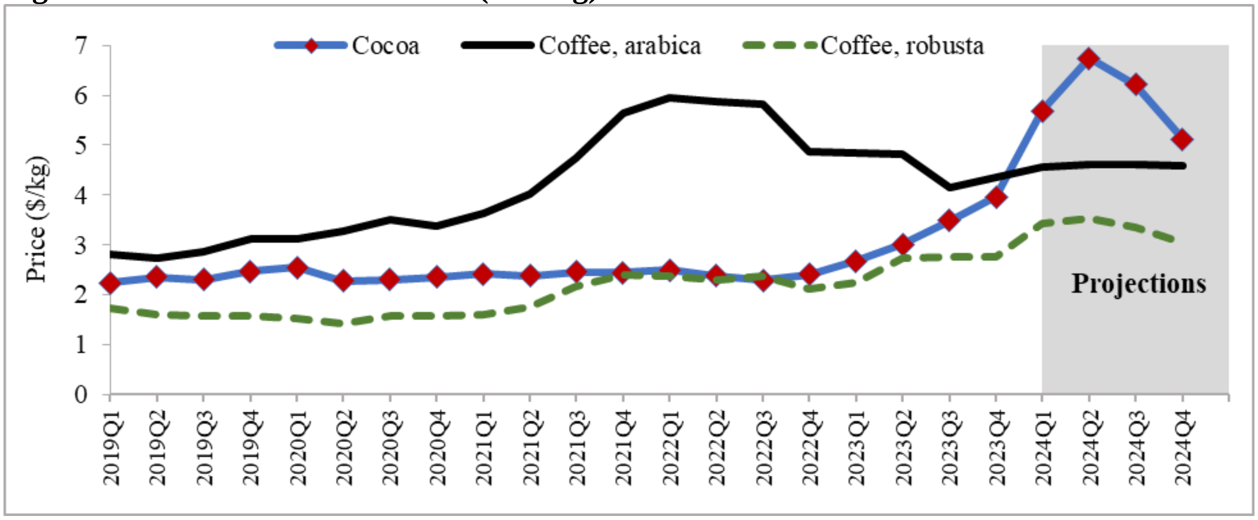


Source: World Bank Commodity Market Database April 2024

Cocoa and Coffee Prices

Coffee and cocoa prices continued to increase in 2024Q1. Cocoa prices increased to US$5.68/kg, from US$3.96/kg in the previous quarter, a reflection of persistent concerns over supply constraints and the impact of input shortages on West African production quantity. Similarly, coffee prices for both arabica and robusta also increased to US$4.56/kg and US$3.43/kg, respectively. Coffee and cocoa prices jumped due to supply constraints in key robusta producers like Indonesia and Bazil as well as Cote d'Ivoire and Ghana, which combined accounts for 55.0 percent of global cocoa supplies. However, these are expected to be temporary, as prices are expected to stabilize and then start decreasing in the second half of 2024.

Figure 8: Cocoa and Coffee Prices (US$/kg)

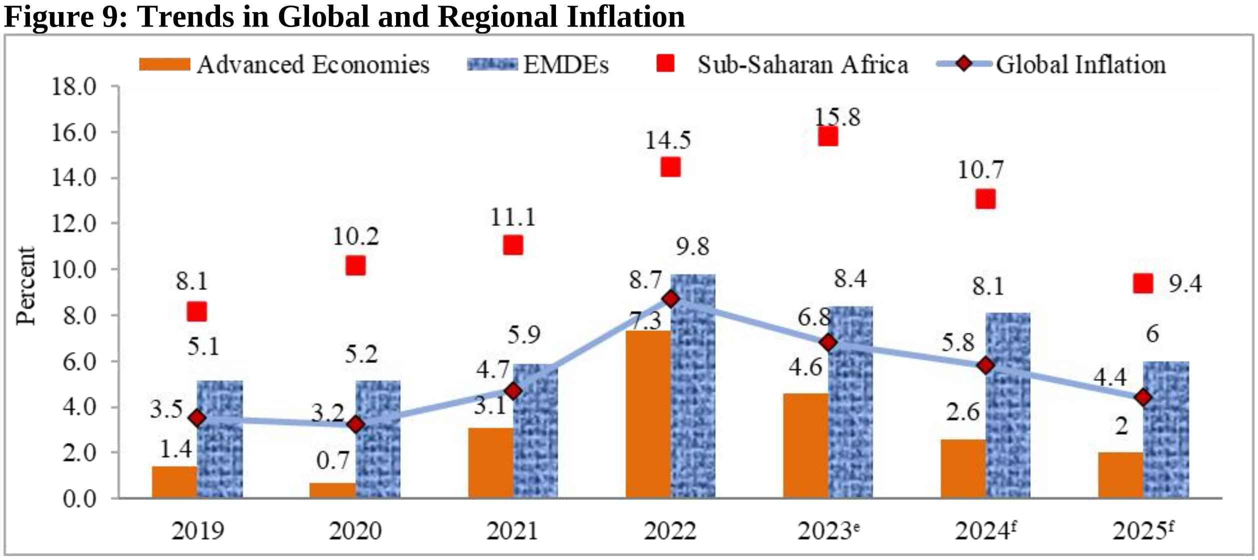


Source: World Bank Commodity Market Database April 2024

1.2.2 Global Inflation

Global headline inflation is expected to slow down from 6.8 percent in 2023 to 5.9 percent in 2024 and 4.5 percent in 2025, reflecting a broad-based decline in global core inflation in 2024. Core inflation is expected to fall by 1.2 percentage points after contracting by just 0.2 percentage point in 2023, mainly on account of lower fuel and food prices coupled with synchronized monetary policy tightening. As is the case for headline inflation, the fall in core inflation is faster for advanced economies, which is projected to decline by 2.0 percentage points in 2024.

Figure 9: Trends in Global and Regional Inflation



Source: IMF World Economic Outlook (WEO) January 2024 and April 2024 update.

This indicates a gradual stabilization of prices, due to the efforts of central banks and governments in managing economic growth and containing inflationary pressures. However, there are upside risks to the outlook including the conflict in Ukraine and OPEC's oil production decisions.

Sub-Saharan Africa (SSA) Inflation

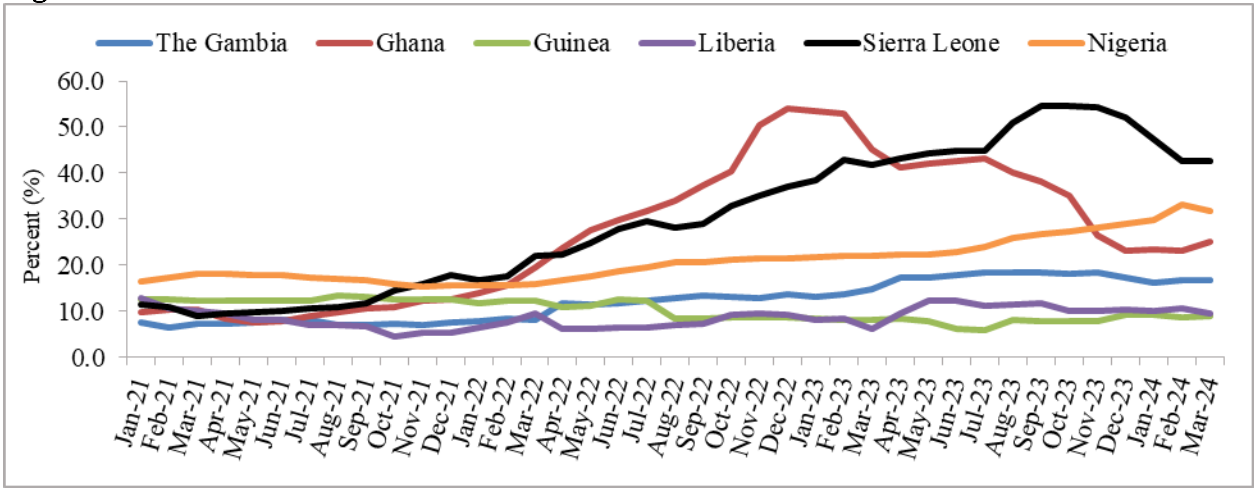
Inflation in Sub-Saharan Africa is significantly higher than the global average. In 2023, the region saw a staggering 15.8 percent, projected to decrease to 13.1 percent in 2024 and further to 9.4 percent by 2025. However, inflationary pressures will remain elevated and well above target in most countries in the region, underpinned by high import bills and currency depreciation. This trend suggests a gradual stabilization, but the high cost of living and economic hardship continue to affect the region.

Inflation in the WAMZ

Though easing, inflationary pressures remained high in the West African Monetary Zone (WAMZ). Ghana, Sierra Leone, and Nigeria continued to register record-high inflation numbers, reflecting the combined effects of exchange rate pass through, imported inflation and increases in international commodity prices.

However, Sierra Leone’s inflation has been trending downwards since November 2023. The inflation figures for most of the economies in the bloc are still above historical average. As at March 2024, Sierra Leone has the highest inflation (42.6 percent), followed by Nigeria (31.7 percent), and Ghana (25.0 percent). Guinea has the lowest inflation (9.0 percent), followed by Liberia (9.4 percent), and The Gambia (16.7 percent). In Ghana, inflation fell from levels above 50 percent to levels close to 20 percent, but the decline has recently stalled, and inflation started to increase again.

Figure 10: Inflation Trends in the WAMZ



Data Source: IMF World Economic Outlook, April 2024 and Central Banks via Trading Economics March 2023; note current inflation for Sierra Leone, Nigeria, Ghana and the Gambia, Guinea, Liberia are as at March 2024.

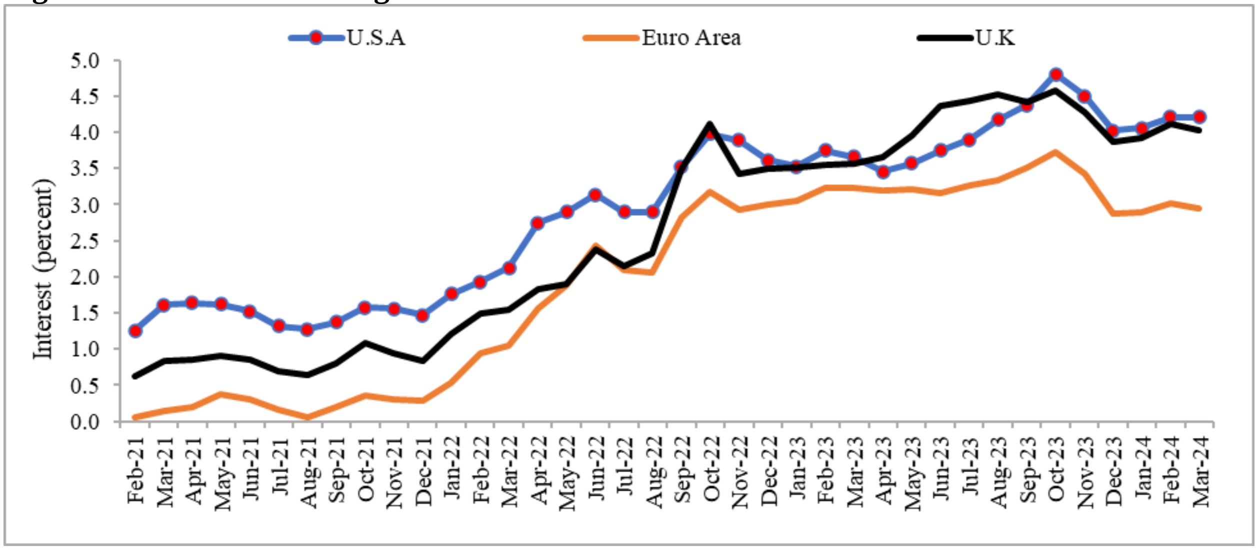
1.3 Monetary Policy and Financial Market Developments

Emerging market economies are grappling with high levels of inflation, while advanced economies are in a more stable situation. The USA, China, Euro Area, and UK are among the major economies that maintain relatively low monetary policy rates, whereas WAMZ countries are in a tightening phase, raising rates to fight inflation. Economies in the WAMZ are facing the challenge of controlling inflation without hampering growth, while major economies may currently focus on fighting inflation without harming growth.

1.3.1 Sovereign Bond Yield

Long-term interest rates in major global economies have been range-bound recently, as expectations of easing monetary policy proved pre-matured, and rate cut expectations were scaled back.

Figure 11: Selected Sovereign Bond Yields

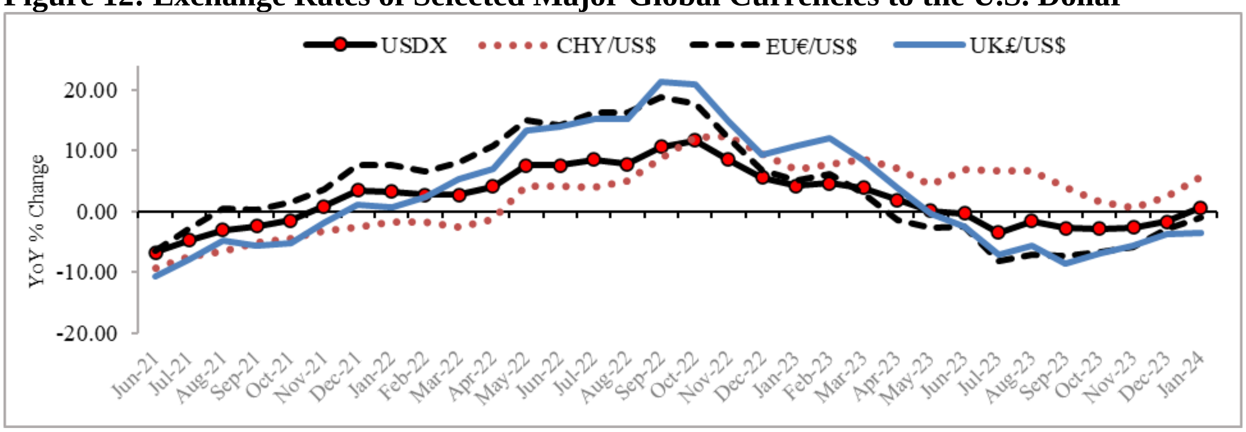


Source: Federal Reserve Economic Data (FRED) April 2024

1.3.2 Global Exchange Rates

The U.S dollar weakened against other major global currencies in 2024Q1 and on annual basis, the rate of depreciation of other major currencies relative to the U.S dollar slowed down so that the general dollar index was practically at the same level as a year before.

Figure 12: Exchange Rates of Selected Major Global Currencies to the U.S. Dollar

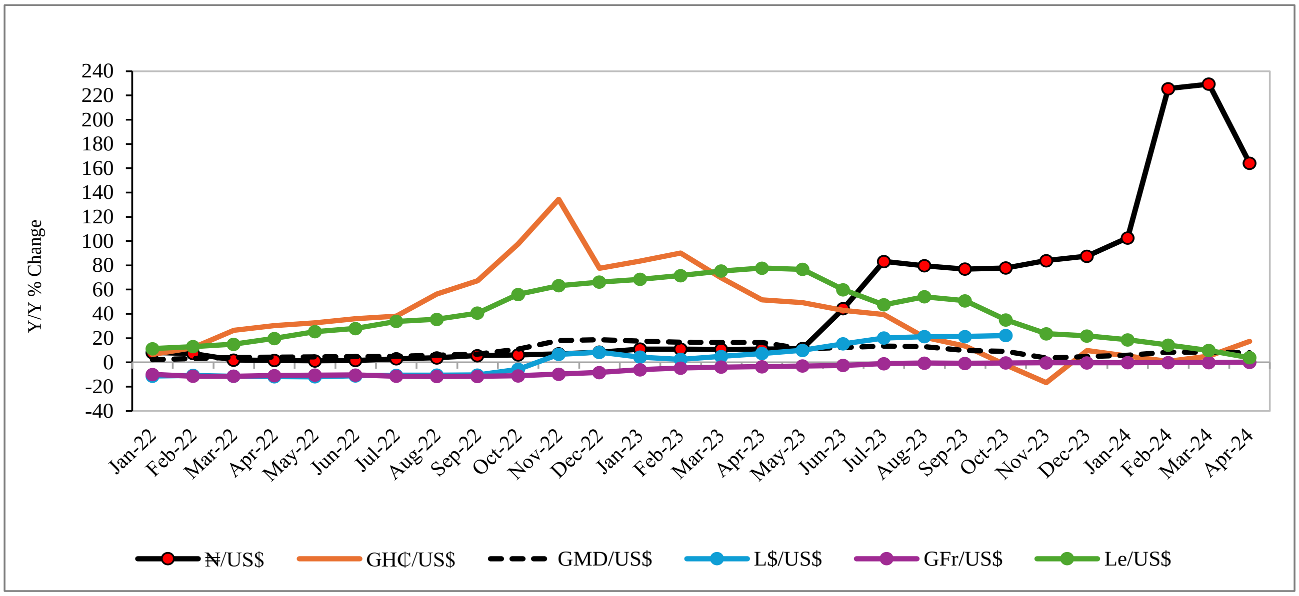


Data Source: FRED (January 2024) Note: a positive change indicate depreciation against the U.S. dollar and a negative change indicates an appreciation against the U.S. dollar.

1.3.3 Exchange Rates in the WAMZ Member Countries

Exchange rates are relatively stable in all the currencies in the WAMZ, except for the Naira. However, the pressure on the Naira eased in April 2024. In Ghana, the exchange rate has recently come under some pressure, especially in the forex bureaux market. Meanwhile, the exchange rates for Sierra Leone, Guinea and Liberia have been stable for long periods.

Figure 13: Exchange Rate of WAMZ Currencies Against the US$



1.4 Implications for the outlook of the Sierra Leone economy

The resilient global growth could maintain demand for Sierra Leone's exports and contribute to GDP growth. A weakening U.S. dollar globally may ease pressures on Sierra Leone's domestic foreign exchange market. Additionally, a decrease in global inflation and commodity prices could reduce external pressures on domestic inflation. On the whole, the resilient growth and steady decline in inflation in the global economy could provide a favorable external environment for Sierra Leone in terms of trade and foreign direct investment flows. However, subdued global growth and economic challenges in China could weigh on demand for the country's exports, adversely affecting Sierra Leone's export revenues, particularly revenues from its trade with China. Furthermore, ongoing tight global financial conditions might hinder potential FDI flows into Sierra Leone.

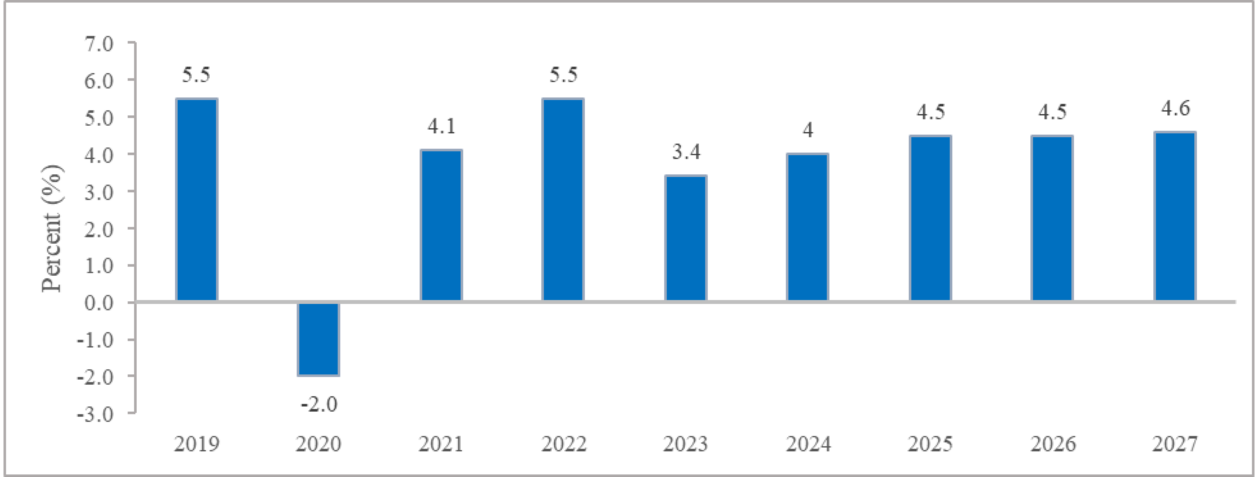
2 DOMESTIC ECONOMIC DEVELOPMENTS

2.1 Real Sector Developments

2.1.1 Real GDP Growth

Real GDP growth in 2023 was revised up to 3.4 percent from 2.7 percent and it was revised slightly downwards from an initial projection of 4.7 percent to 4.0 percent in 2024. The revisions mostly reflect the delay in fiscal tightening, which had a smaller effect in 2023 and a larger effect in 2024 than originally envisaged. Improving foreign trade has also contributed to higher growth in 2023. Nevertheless, 2024 growth will still show an improvement relative to 2023. The projected growth rebound is attributed to the expected strong performance in the agricultural and mining sectors, and investment in infrastructure, despite tight fiscal policy. Economic recovery is projected to continue over the medium-term with growth projected to rise to 4.5 percent in 2025.

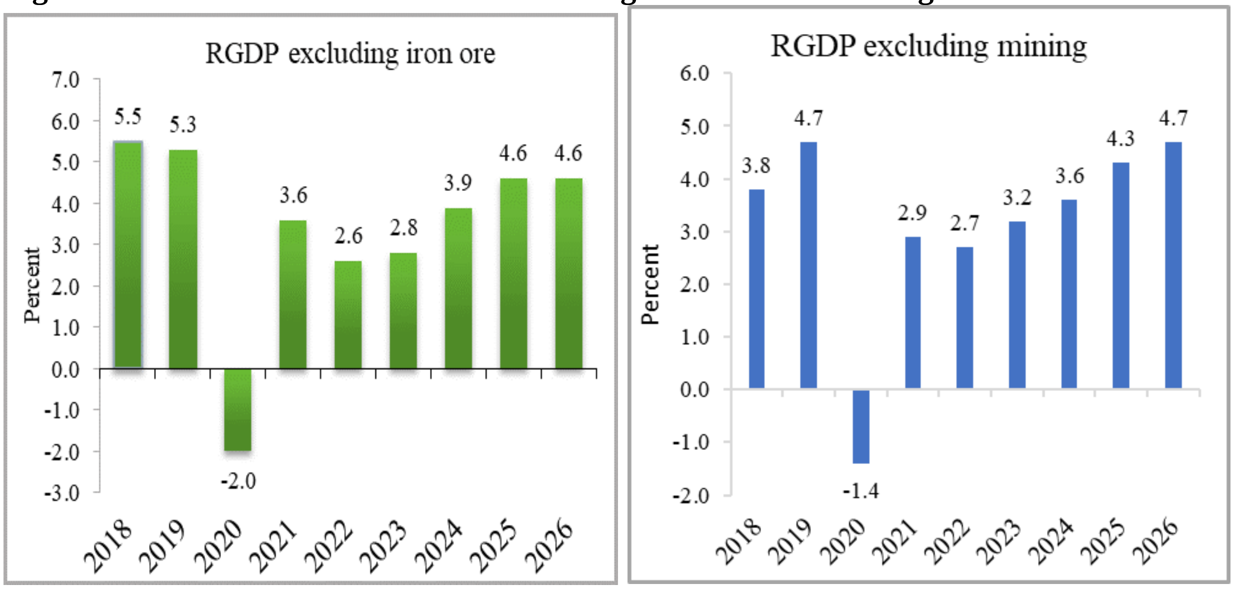
Figure 14: Real GDP Growth



Source: Statistics Sierra Leone & IMF

Excluding iron ore, GDP is projected to increase to 3.9 percent in 2024 from 2.8 percent in 2023, and it is projected to further increase to 4.6 percent in 2025. Excluding the mining sector, real GDP growth is projected to increase to 3.6 percent in 2024 from 3.2 percent in 2023, and further to 4.3 percent in 2025.

Figure 15: Real GDP Growth Rates Excluding Iron Ore and Mining Sectors



Source: Statistics Sierra Leone & IMF

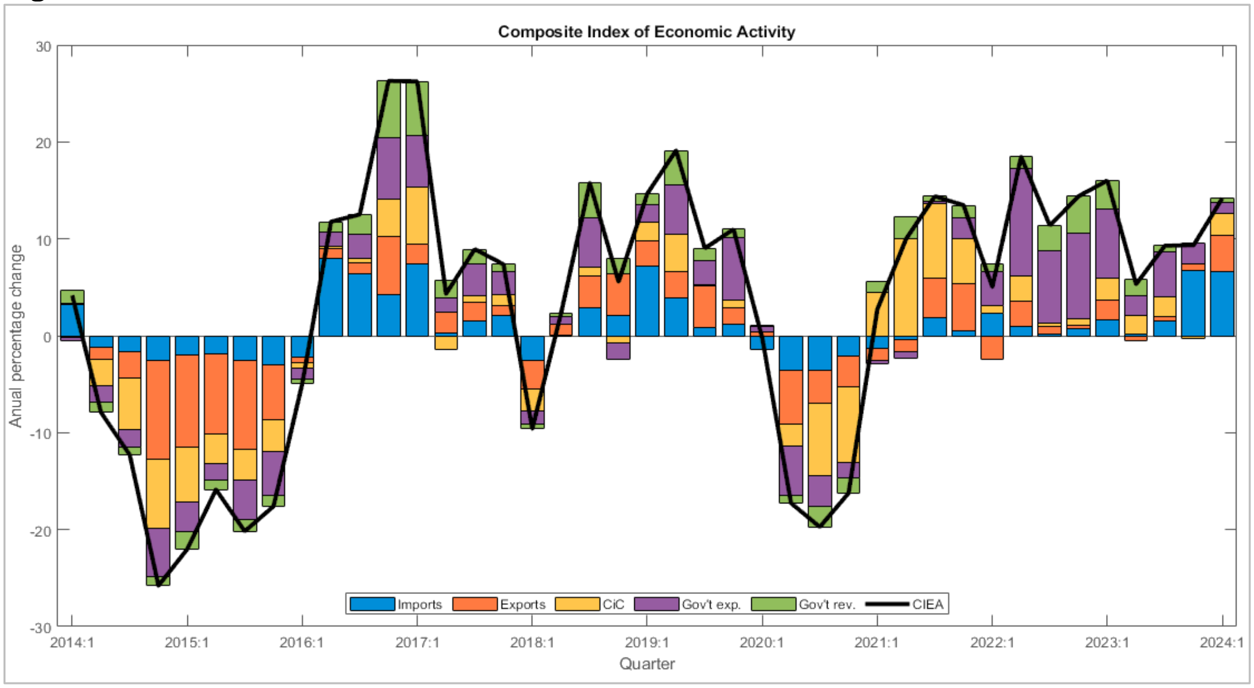
2.1.2 Composite Index of Economic Activity (CIEA)

The Bank's analytical high-frequency indicator, the Composite Index of Economic Activities (CIEA), recorded a faster increase in economic activity in 2024Q1, compared to 2023Q4. This was driven by increases in foreign trade (imports and exports) and a rise in currency in circulation. Although the domestic sector[3] contribution increased slightly, yet growth was largely driven by the foreign sector[4] in the review quarter.

[3] The domestic sector comprises of fiscal variables (.i.e. government revenue and expenditure) and currency-in-circulation.

[4] Foreign sector is the combination of imports and exports

Figure 16: Contributions to CIEA

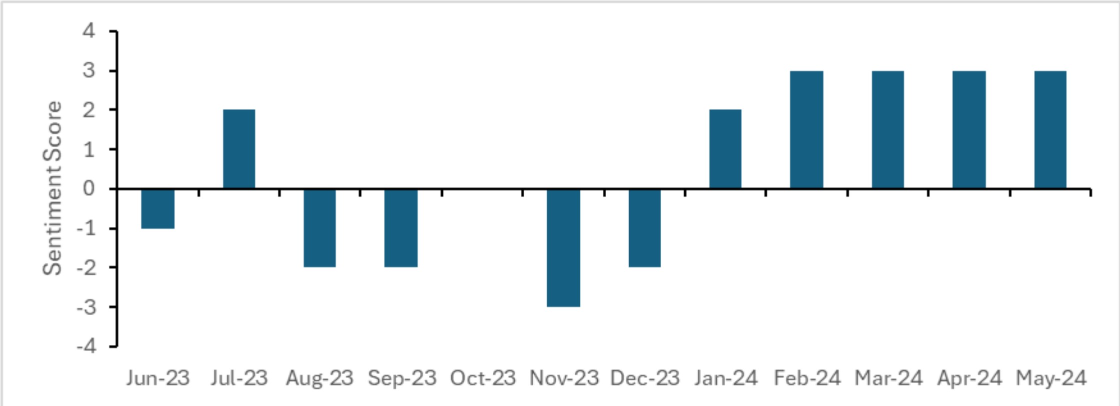


Source: BSL

Box 1: Business Sentiment[5]

Based on the surveys, the sentiment score from February 2024 to May 2024 is 3. This indicates that most businesses are optimistic about their current situation and the near future. In particular, this optimism within the business community reflects their confidence in the continued stability of the exchange rate and the sustained moderation of inflation in the near term.

Figure 17: Business Sentiment Scores



Source: BSL

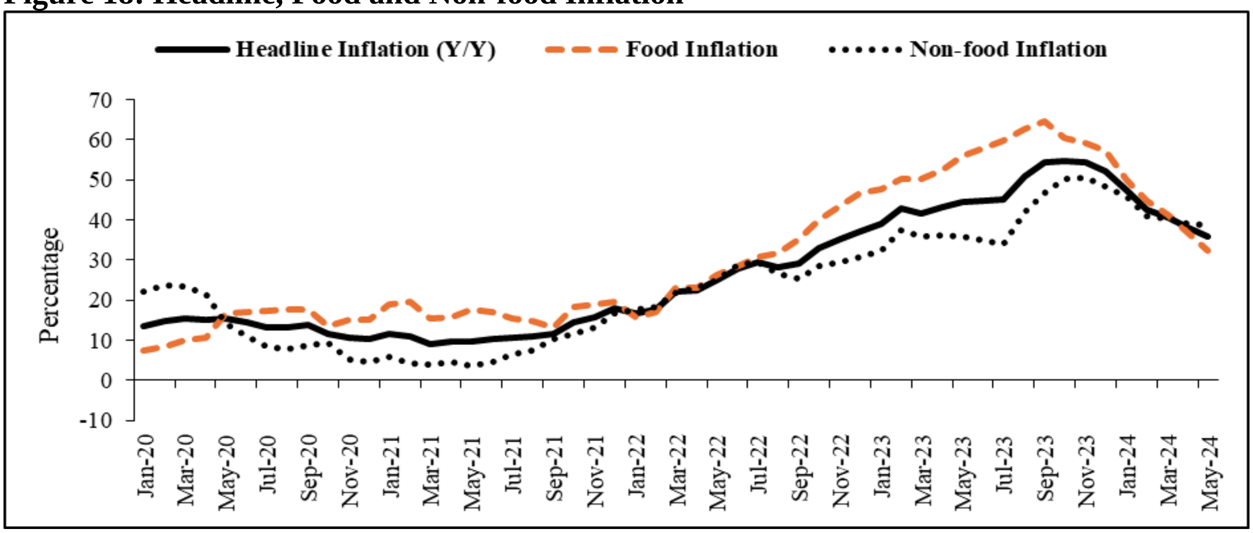
[5] The business sentiment is still experimental.

2.1.3 Price Developments

Headline inflation (year-on-year) has been declining since it peaked in October 2023. The deceleration in headline inflation was partly due to continued tight monetary policy, relative stability in the exchange rate, declining international food and energy prices, and an increase in food production owing to the harvest season and domestic policy. As a result, headline inflation decreased by 2.22 percentage points to 35.8 percent in May 2024, from 40.7 percent in March 2024, and 52.2 percent in December 2023. The decline in headline inflation was broad-based, reflecting a drop in both food and non-food inflation.

Food inflation declined to 32.4 percent in May 2024, from 42.1 percent in March 2024, and 57.2 percent in December 2023. Non-food inflation dropped to 38.8 percent in May 2024 from 41.3 percent in March 2024, and 48.3 percent in December 2023.

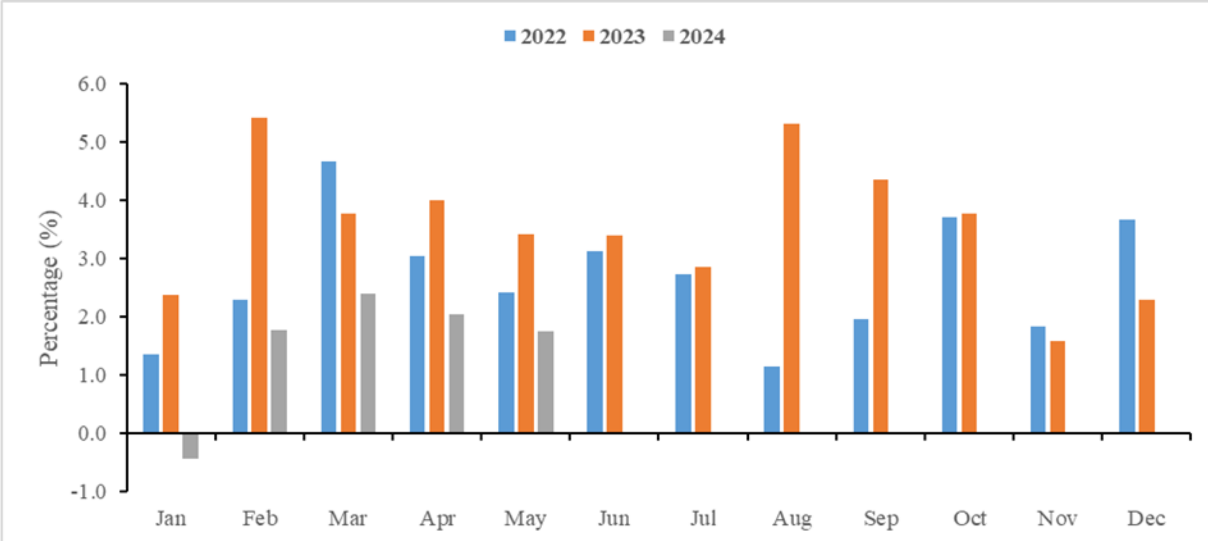
Figure 18: Headline, Food and Non-food Inflation



Source: Statistics Sierra Leone.

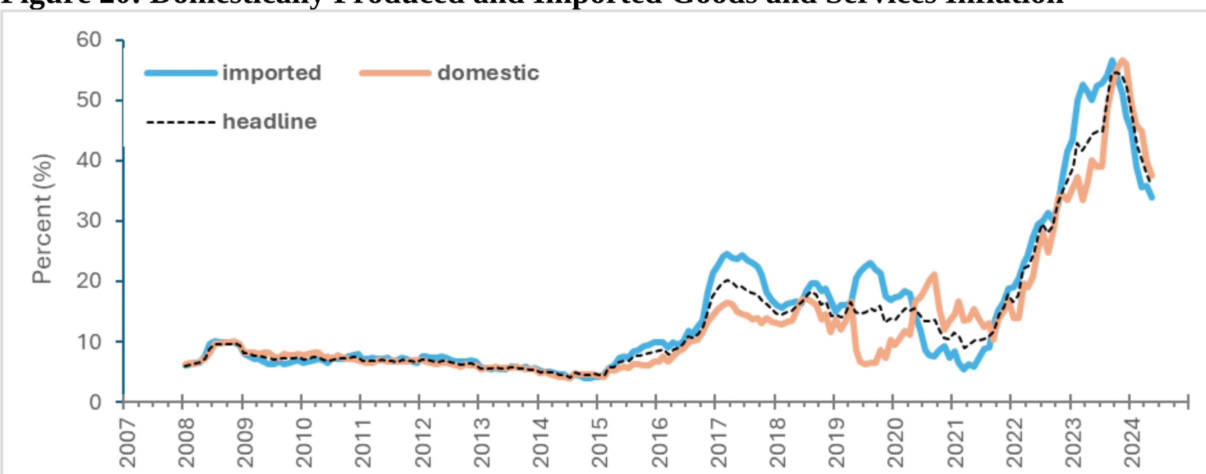
Monthly headline inflation in 2024 was consistently lower than in the respective months of either 2022 or 2023. Following a deflation of -0.43 percent in January 2024, monthly headline inflation averaged 2.0 percent in the February to May period, implying an annualized rate below 30 percent. On a year-on-year basis, the inflation of both regulated and market goods and services decreased in 2024Q1 and May 2024.

Figure 19: Path of Monthly Inflation Within the Years of 2022-2024



Source: Statistics Sierra Leone.

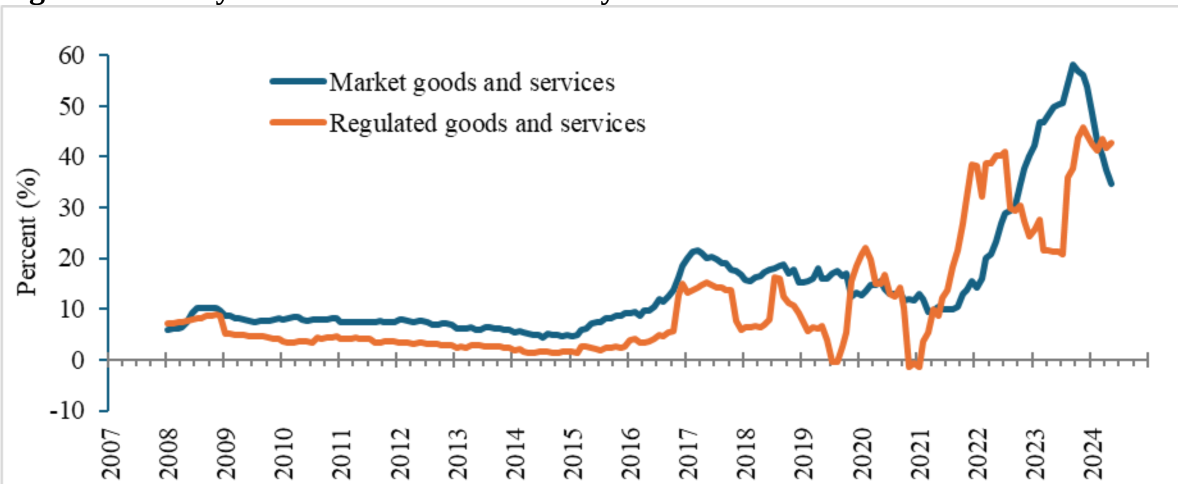
Figure 20: Domestically Produced and Imported Goods and Services Inflation



Source: Statistics Sierra Leone.

An analytical assessment of inflation showed that both imported, and locally produced goods and services inflation receded in 2024Q1 and May 2024. The ease in domestic inflationary pressures combined with the declining international prices contributed to the moderation in domestic and import induced inflation.

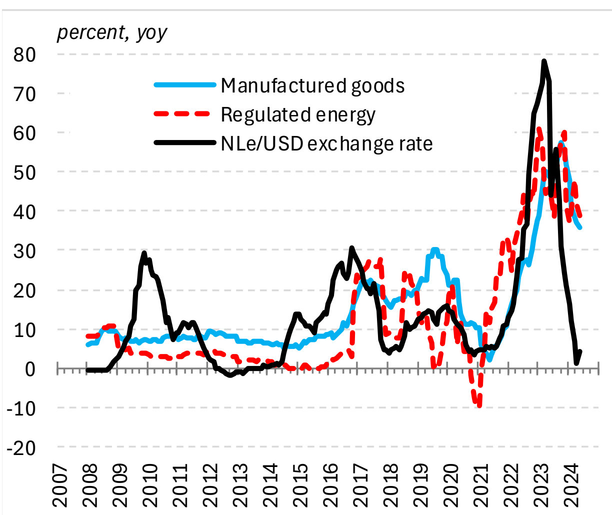
Figure 21: Analytical Breakdown of Monthly Inflation from 2007-2024

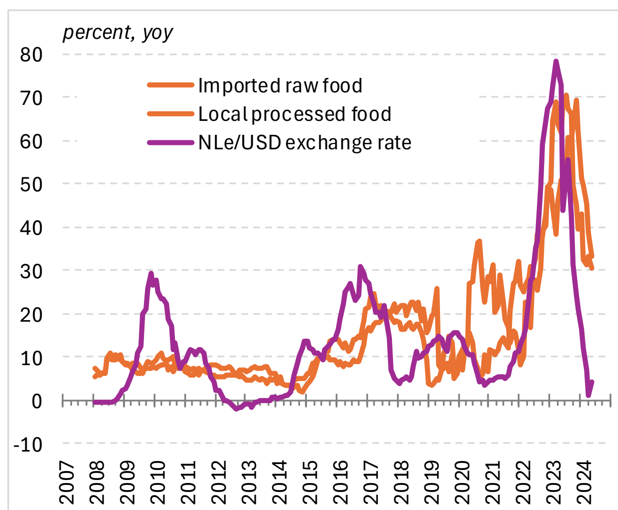


Source: Statistics Sierra Leone.

The major factor driving inflation lower is the stable exchange rate, supported by tight monetary and fiscal policies, as year-on-year depreciation practically fell to zero. Imported raw food, local food, manufactured goods and to some extent even regulated energy prices follow depreciation quite closely (*Figure 22*). As these groups make up nearly two-thirds of the CPI basket, the stable exchange rate is expected to have a significant effect on overall inflation as well.

Figure 22: Depreciation and Inflation





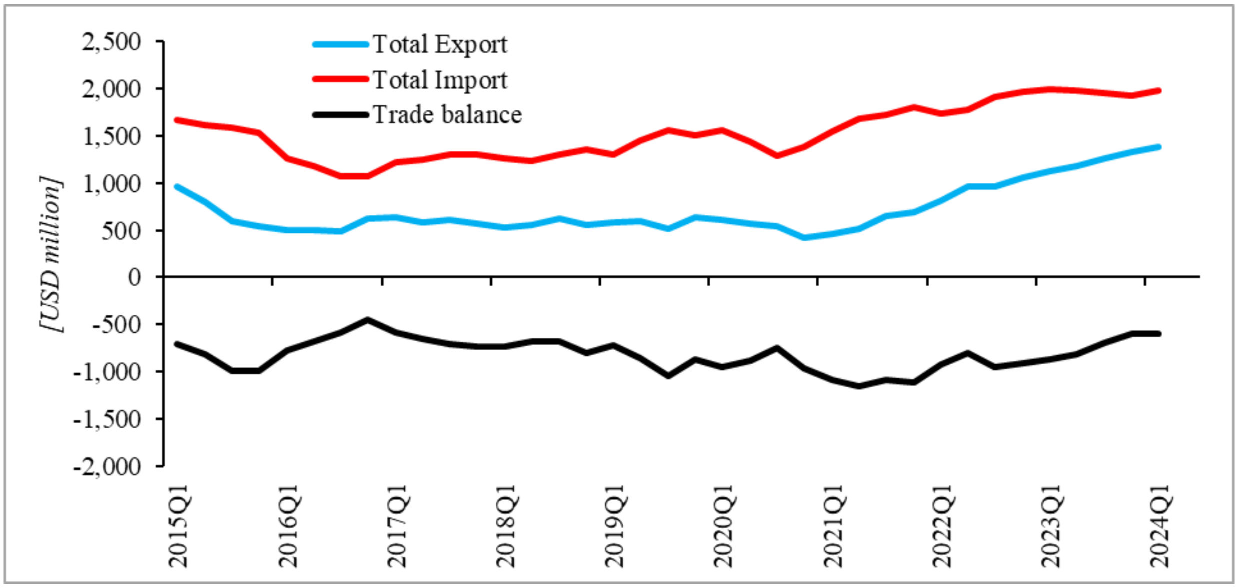
Source: Statistics Sierra Leone.
Note that the exchange rate used in this comparison is the end of period rate

2.2 External Sector Developments

2.2.1 Merchandise Trade

Sierra Leone's trade deficit with the rest of the world widened to US$142.4 million in 2024Q1 from US$111.3 million in 2023Q4, but the recent improving trend has not been broken. Exports increased and continued to exhibit strong growth along its trend but was offset by the increase in imports in 2024Q1.

Figure 23: Merchandise Trade

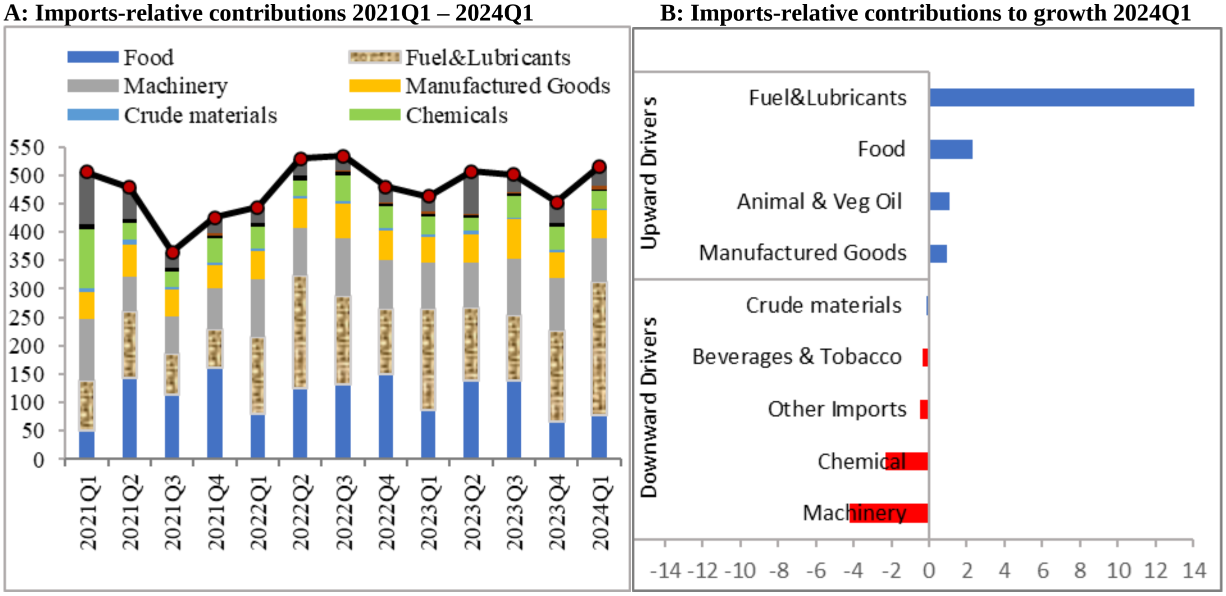


Source: NRA/Customs & BSL

Merchandise imports were mainly boosted by mineral fuel & lubricants. Merchandise imports increased by 13.9 percent in 2024Q1 from 2023Q4 to reach US$515.4mn.

Figure 24: Components of Import

A: Imports-relative contributions 2021Q1 – 2024Q1 **B: Imports-relative contributions to growth 2024Q1**

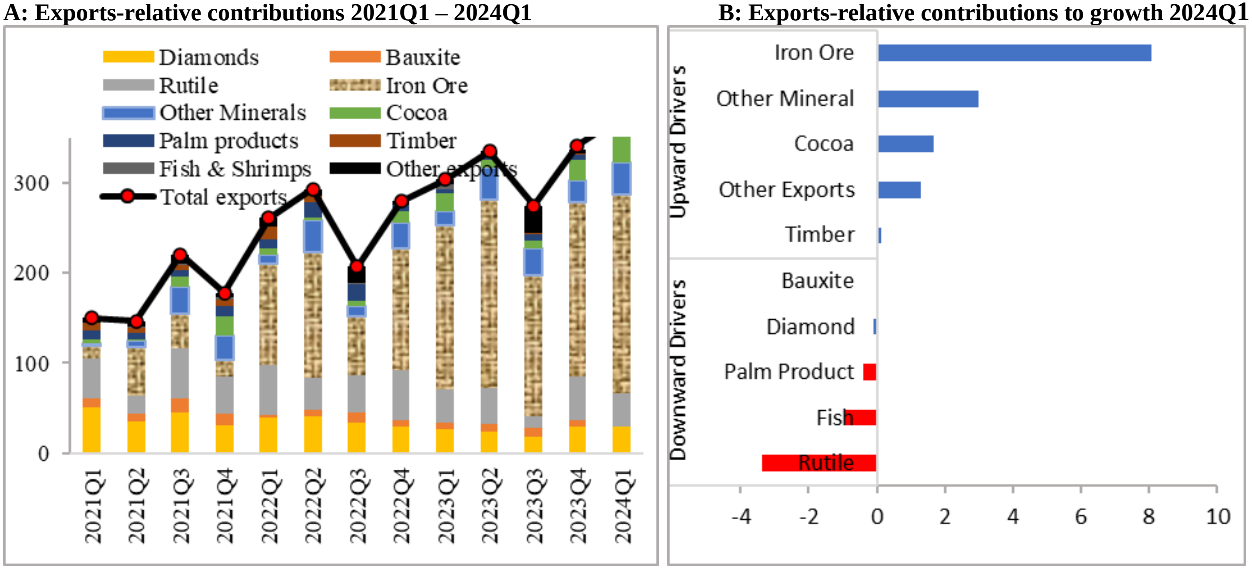


Source: NRA/Customs & BSL

The increase in merchandise exports was driven mainly by Iron ore, other minerals, Cocoa, and other exports. Total value of merchandise exports increased by 9.33 percent to US$373.01mn in 2024Q1 from US$341.19mn in 2023Q4.

Figure 25: Components of Export

A: Exports-relative contributions 2021Q1 – 2024Q1 **B: Exports-relative contributions to growth 2024Q1**

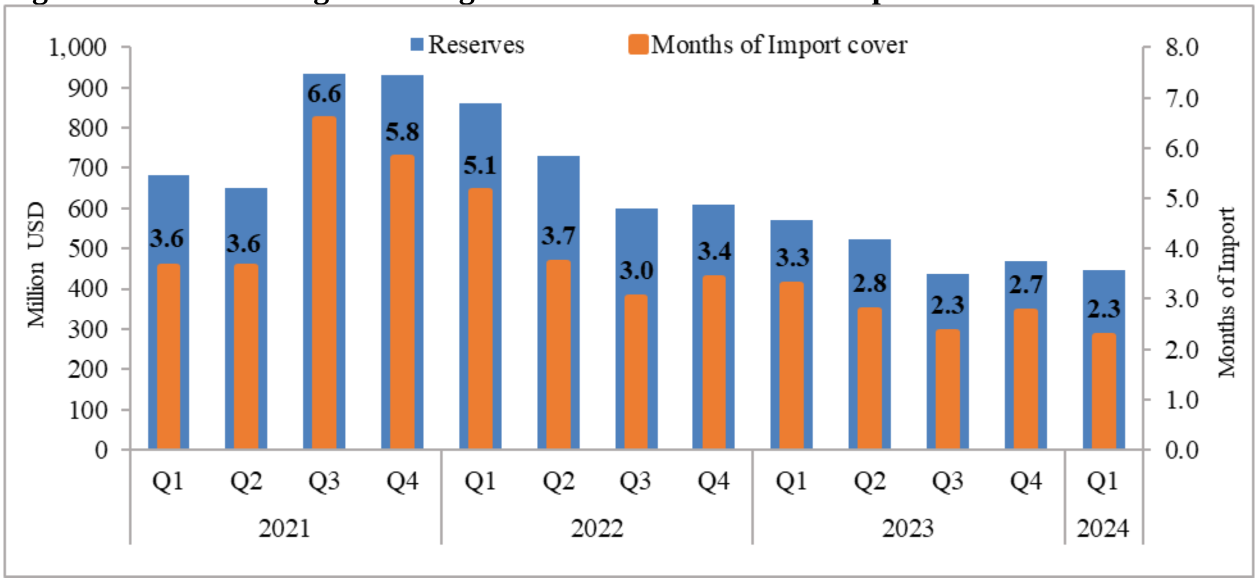


Source: *NRA/Customs & BSL*

2.2.2 Gross Foreign Exchange Reserves

Gross Foreign Exchange Reserves of the BSL decreased by 4.7 percent to US$446.5mn in 2024Q1 from US$468.4mn, in 2023Q4. Outflows were higher than inflows during the review quarter, mainly on account of payments for goods and services, as well as debt service payments to the IMF, World Bank, OPEC/OFID, and other multilateral/bilateral organizations. Consequently, the reserves was only enough to cover 2.3 months of imports of goods and services in 2024Q1, compared with 2.7 months of import cover in 2023Q4.

Figure 26: Gross Foreign Exchange Reserves and Months of Import Cover

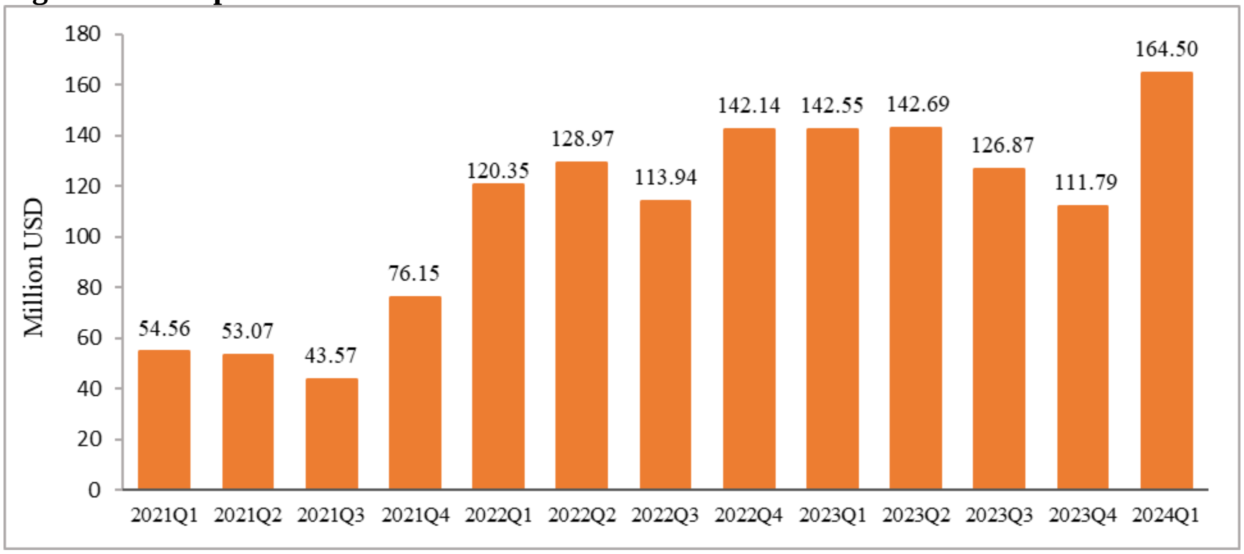


Source: BSL

2.2.3 Diaspora Remittances

Diaspora remittance inflows rebounded in 2024Q1, increasing by 47.2 percent to US$ 164.5mn from US$111.8mn in 2023Q4, as Sierra Leoneans in the diaspora lend support to families and friends back home in the run-up to the hajj and “Eid al-adha” festivities in June. Strong remittance inflows continued to support the relative stability in the foreign exchange market.

Figure 27: Diaspora Remittance into Sierra Leone

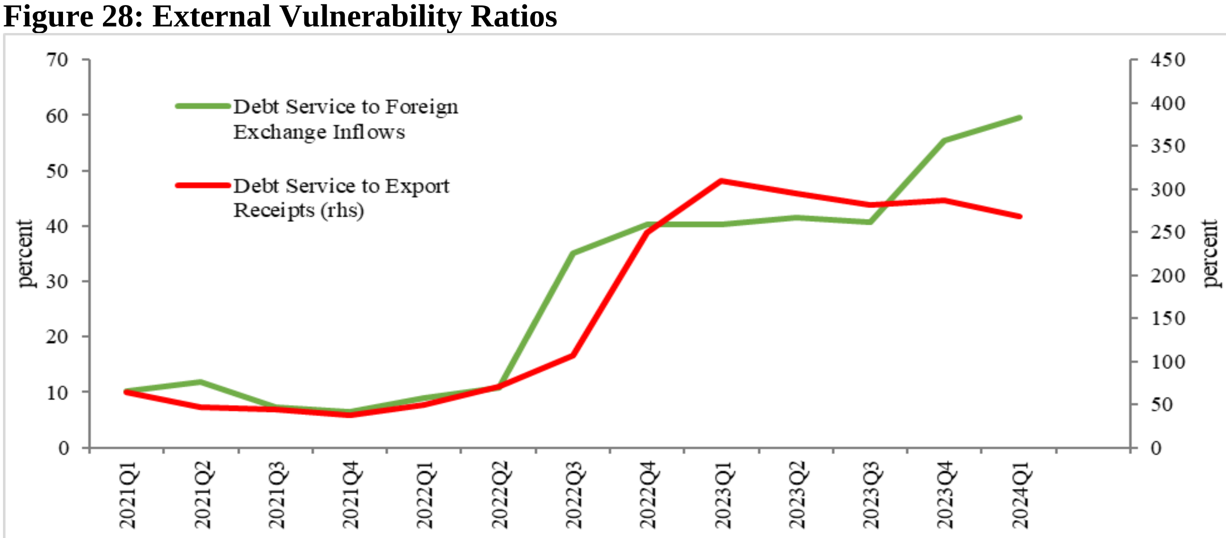


Source: BSL

2.2.4 External Vulnerability Ratios

External debt service payments decreased to US$25.94mn in 2024Q1 from US$53.93mn in 2023Q4. Similarly, forex inflows and export tax receipts also decreased to US$37.89mn and US$9.95mn in 2024Q1 from US$117.67mn and US$12.28mn respectively in 2023Q4. Accordingly, the ratio of debt service to export tax receipt decreased whiles that of debt service to FX inflows increased.

Figure 28: External Vulnerability Ratios



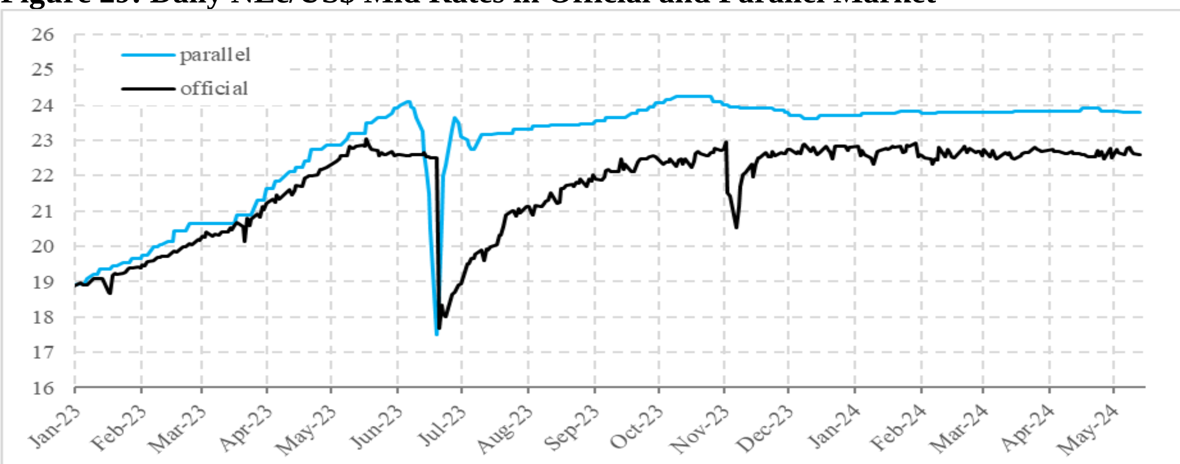
Source: BSL

2.3 Exchange Rates and Foreign Exchange Market Developments

2.3.1 Bilateral Rates and Foreign Exchange Market Developments

The exchange rate has been relatively stable since July 2023 owing to some of the policy measures implemented by the BSL to remove bottlenecks in foreign currency transactions. These measures included among others, the enforcement of existing export repatriation requirements and prohibiting offshore trading by international brokerage firms. Furthermore, because of restoration of confidence in the local currency, speculation in the FX market also subsided from 2023Q4 through to May 2024 thereby leading to reduced hedging activities by market participants.

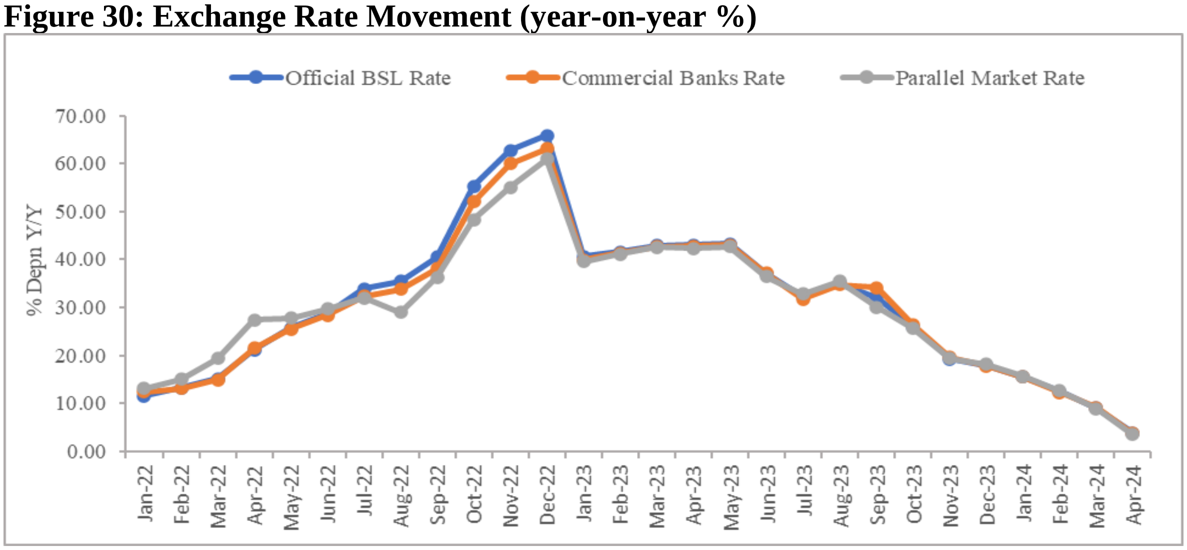
Figure 29: Daily NLe/US$ Mid Rates in Official and Parallel Market



Source: BSL

On a year-on-year basis, exchange rate depreciation continues to slowdown as reflected below.

Figure 30: Exchange Rate Movement (year-on-year %)



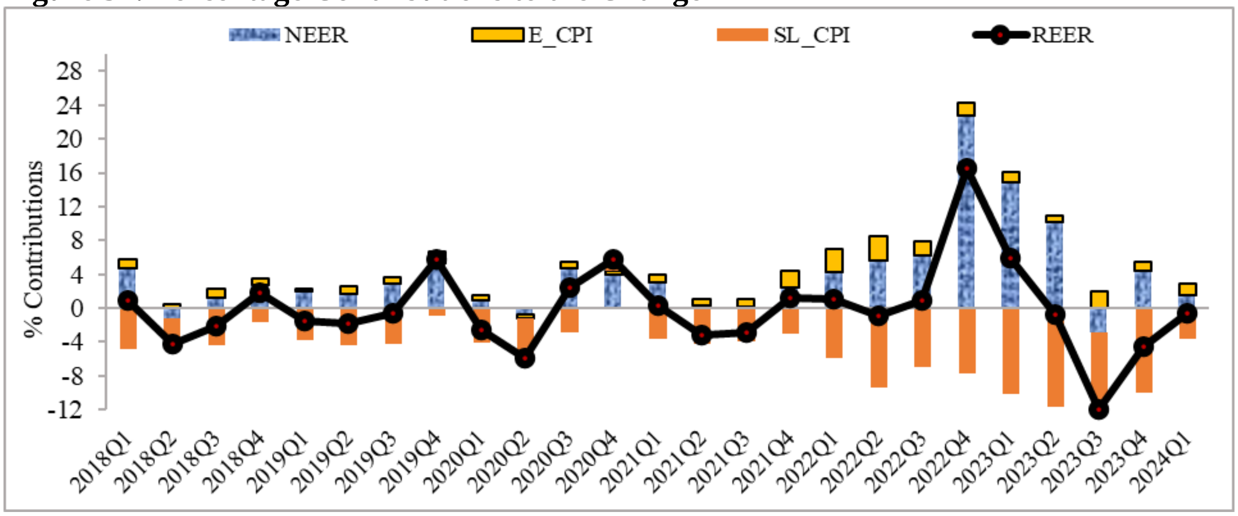
Source: Financial Markets Department

2.3.2 Effective Exchange Rates

The Nominal Effective Exchange Rate (NEER), which considers the bilateral exchange rates of Sierra Leone's trading partners, depreciated by 1.5 percent in 2024Q1, compared to a depreciation of 4.5 percent in 2023Q4. The slowdown in the pace of NEER depreciation reflects relative stability in the foreign exchange market during the review period.

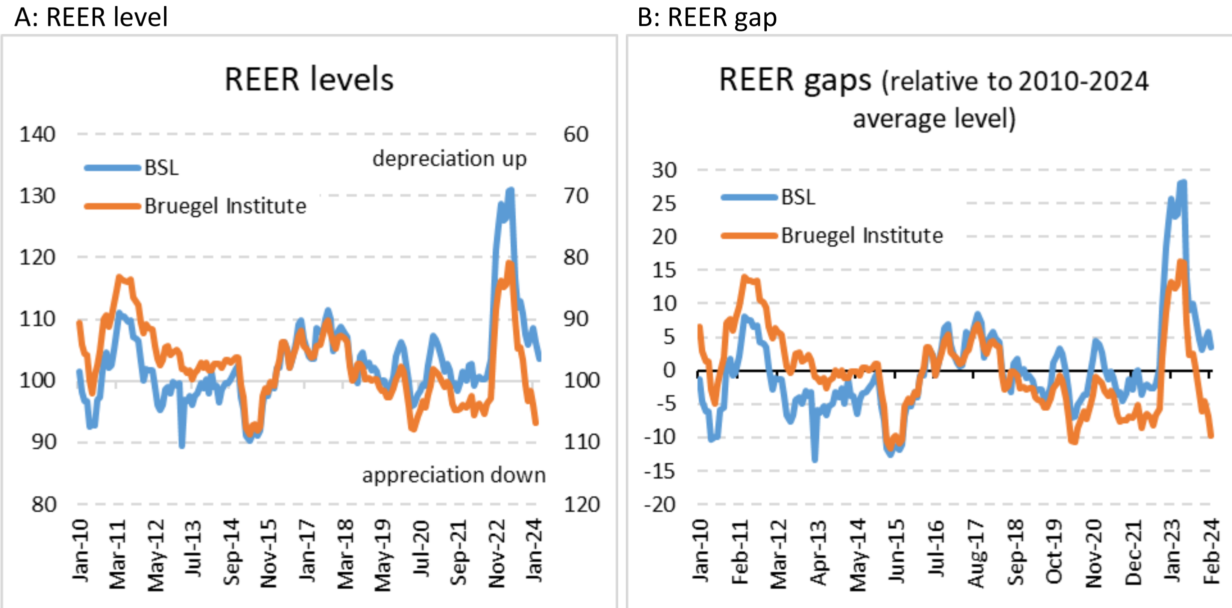
The Real Effective Exchange Rate (REER) of the BSL appreciated by 0.6 percent in 2024Q1, relative to the previous quarter, as nominal appreciation was offset by the inflation differential between Sierra Leone and its trading partners. The BSL REER implies that the real exchange rate gap is still positive (the Leone is undervalued), providing for additional space for nominal exchange rate stability.

Figure 31: Percentage Contributions to the Change in REER



Note: positive NEER and REER denote depreciation and negative means appreciation
Source: BSL, staff estimation.

Figure 32: Real Effective Exchange Rate Level and Gap

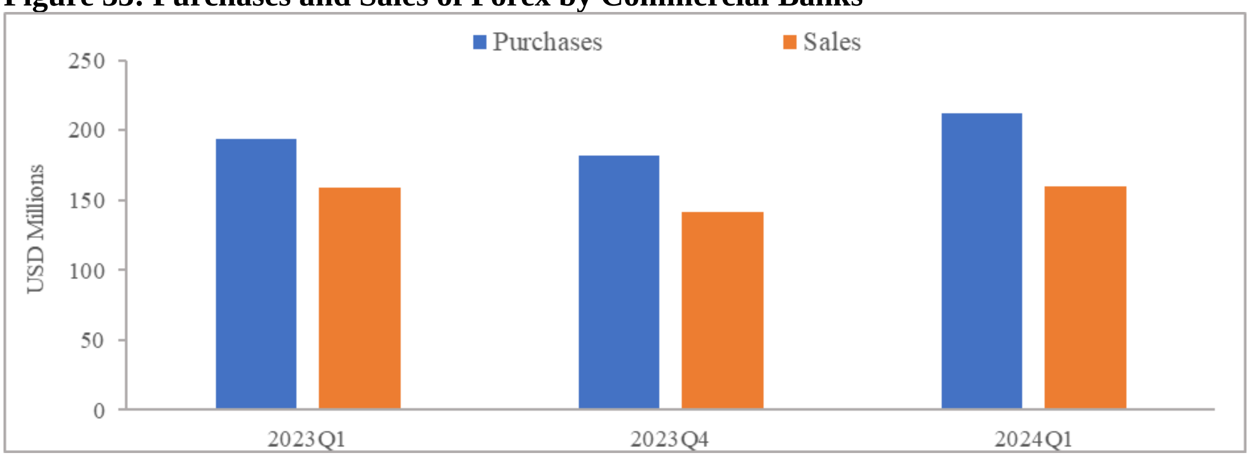


Source: BSL

2.3.3 Foreign Exchange Market Turnover

Total amount traded in the Foreign Exchange Market (purchases and sales) during 2024Q1 was US$371.8mn, which was a 14.8 percent increase relative to US$324.0mn recorded in 2023Q4. The total FX traded volume also moderately increased by 5.3 percent relative to the corresponding quarter (2023Q1).

Figure 33: Purchases and Sales of Forex by Commercial Banks

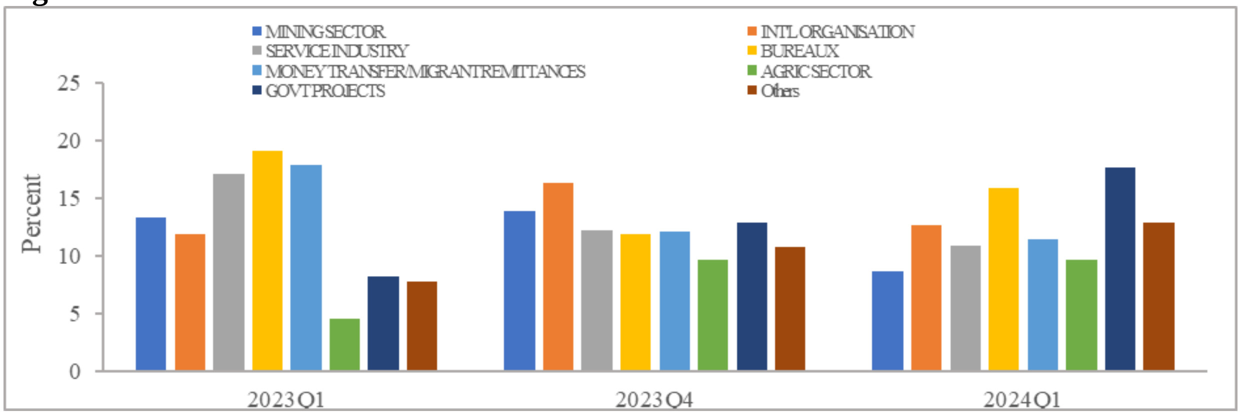


Source: BSL

Purchase of Forex by Commercial Banks

With regards to the purchase of forex by commercial banks, the forex purchased from government project accounts/MDAs accounted for 17.6 percent, followed by foreign exchange bureaus which contributed 15.9 percent. The NGOs/International Organizations contributed 12.7 percent, migrant remittances contributed 11.5 percent whilst the services sector, agricultural sector and the mining sector contributed 11.0 percent, 9.7 percent and 8.7 percent respectively.

Figure 34: Commercial Banks' Forex Purchases from Selected Sectors



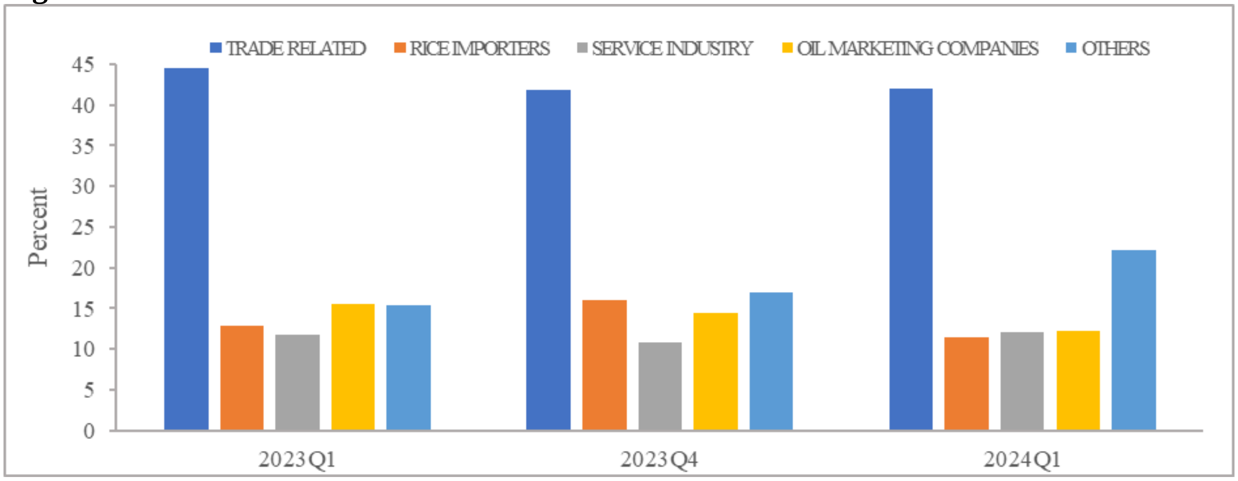
Source: BSL

Note: Others include purchases from manufacturing sector, int'l brokerage firms, religious organizations, logistics & construction companies

Sale of Forex by Commercial Banks

Banks traditionally provide foreign exchange to various entities, such as rice importers, oil marketing companies, and businesses in the service industry. Majority of the forex sold by commercial banks during 2024Q1 were for the importation of trade related product (42.0 percent) followed by other sectors (22.2 percent) which includes telecommunication companies, fishing companies, investment related firms, logistics and construction companies. Oil marketing companies, services industry and rice importers received 12.3 percent, 12.0 percent and 11.5 percent respectively from the sale of forex by commercial banks.

Figure 35: Commercial Banks Sales from Selected Sectors



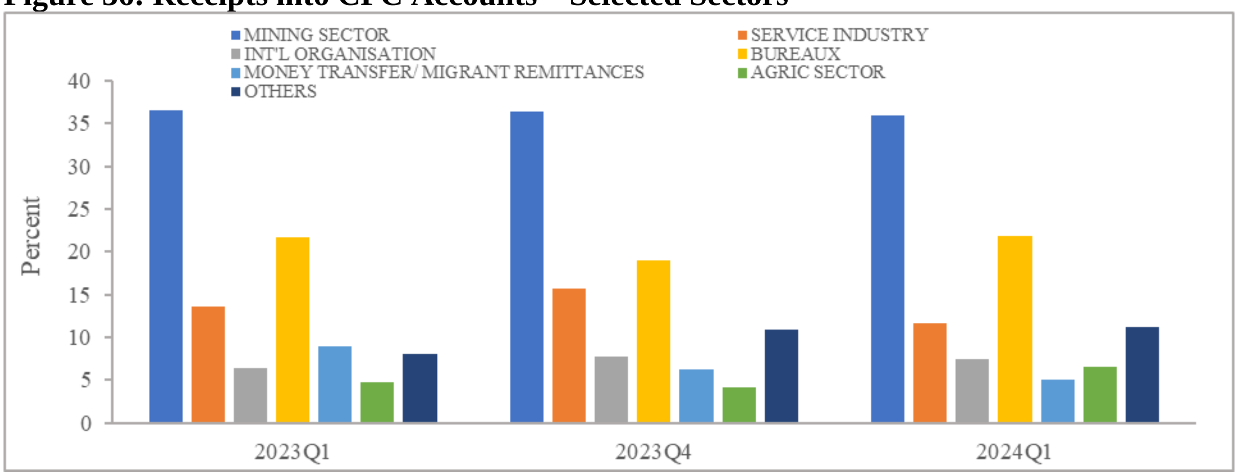
Source: BSL

Note: Others include sale of forex to telecommunication companies, fishing companies, investment related, logistics & construction companies.

Receipts of Forex by Commercial Banks

Receipts into the customers foreign currency accounts increased by 14.7 percent in 2024Q1 relative to 2023Q4. The major contributors to the increase in receipts were from the mining sector (36.0 percent), FX bureaus (21.9 percent), service industry (11.7 percent) and other industries (11.2 percent).

Figure 36: Receipts into CFC Accounts – Selected Sectors



Source: BSL

Note: Others include receipt of FX for fishing companies, telecommunication companies, int'l brokerage firms, religious organizations, manufacturing and construction companies.

2.3.4 Outlook of the Foreign Exchange Market

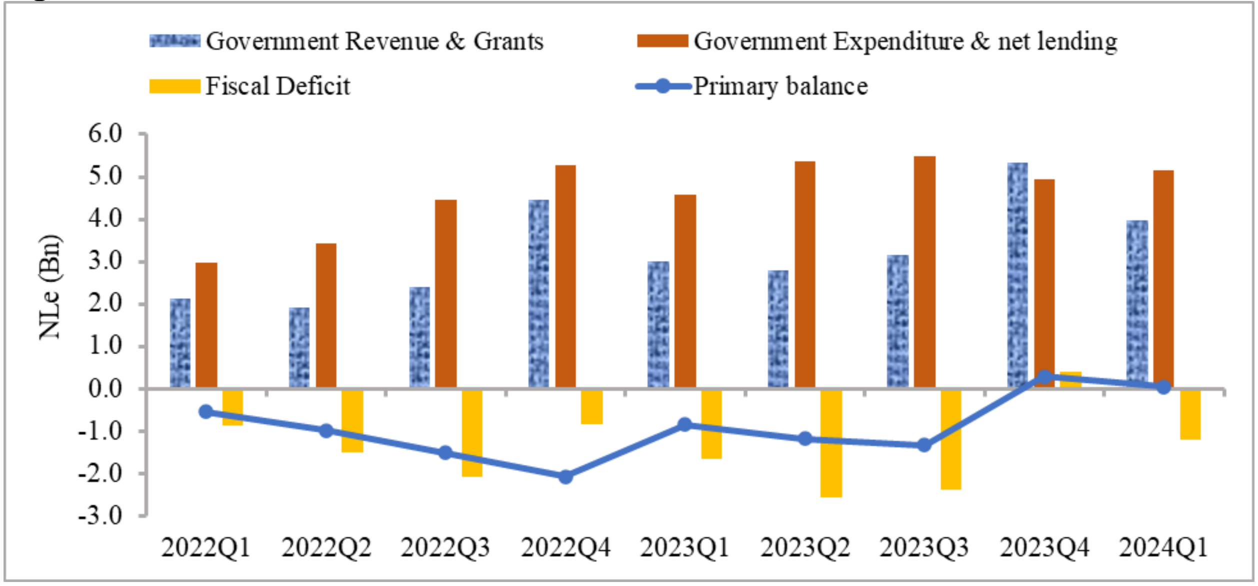
The demand for foreign exchange is expected to increase in the latter part of 2024Q2 due to Hajj pilgrims and the increasing importation of food items and goods associated with the rainy season. Furthermore, the stability of the exchange rate is expected to be challenged as we closely approach the lean period in the mining industry.

2.4 Fiscal Developments

2.4.1 Fiscal Policy Stance

Provisional data in 2024Q1 suggests that the budget deficit reached NLe1.21bn, compared to a surplus of NLe0.39bn recorded in 2023Q4. This reflects the combined effect of increased expenditure and a drop in total revenue. In spite of improvements in domestic revenue mobilization, the significant reduction in foreign grants resulted in a decline in total revenue The primary balance recorded a marginal surplus of NLe0.03bn in 2024Q1, somewhat lower than the surplus of NLe0.28bn recorded in 2023Q4.

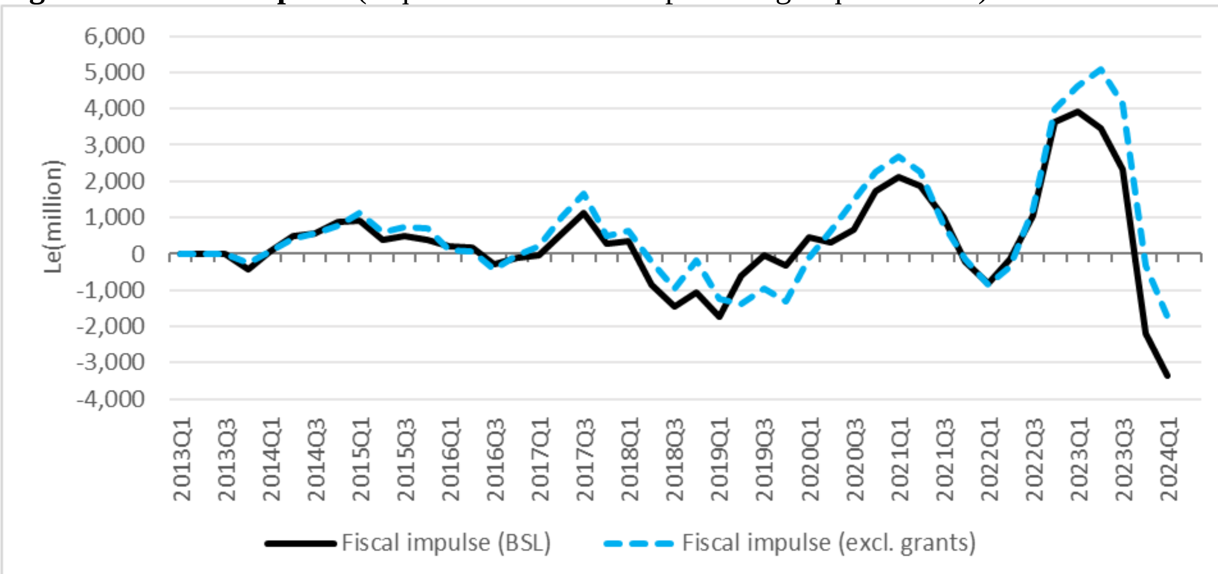
Figure 37: Fiscal Deficit



Source: MoF

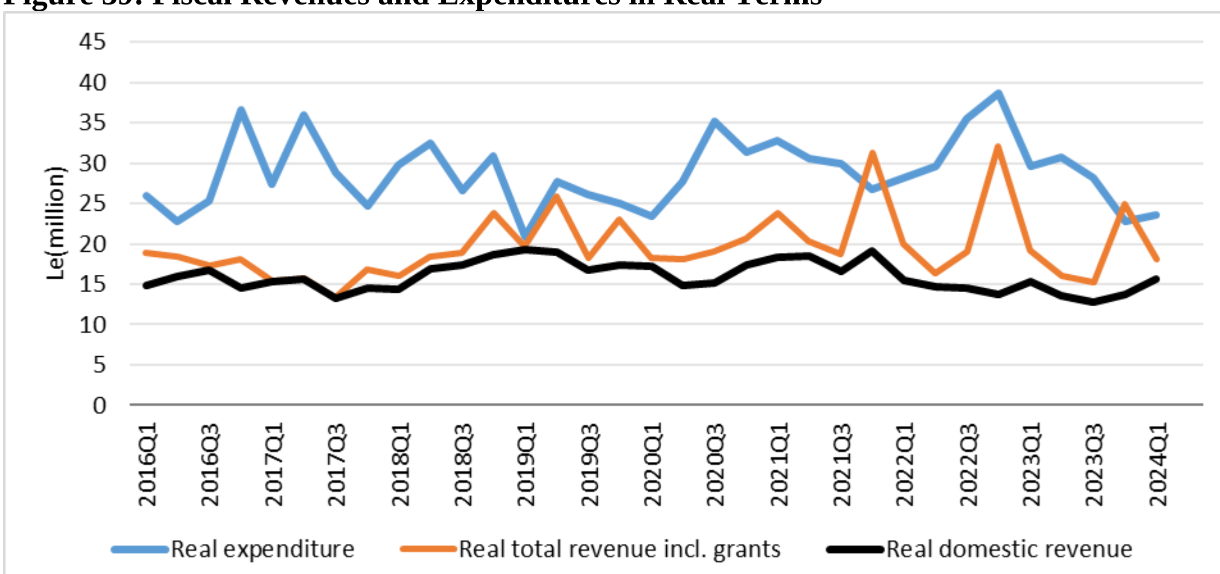
Fiscal policy continued to be tight in 2024Q1 after the significant expansion in the pre-election period. This is shown by the change in the 4-quarter primary balance over the preceding 4-quarter period, which smooths over noise and handles seasonality, as it continued to move deeper into negative territory. Fiscal tightening started sluggishly in 2023, and with the approval of the Finance Act 2024, most of the effect is felt in 2024.

Figure 38: Fiscal Impulse (4-quarter sum over the preceding 4-quarter sum)



Sources: MoF & BSL

Figure 39: Fiscal Revenues and Expenditures in Real Terms



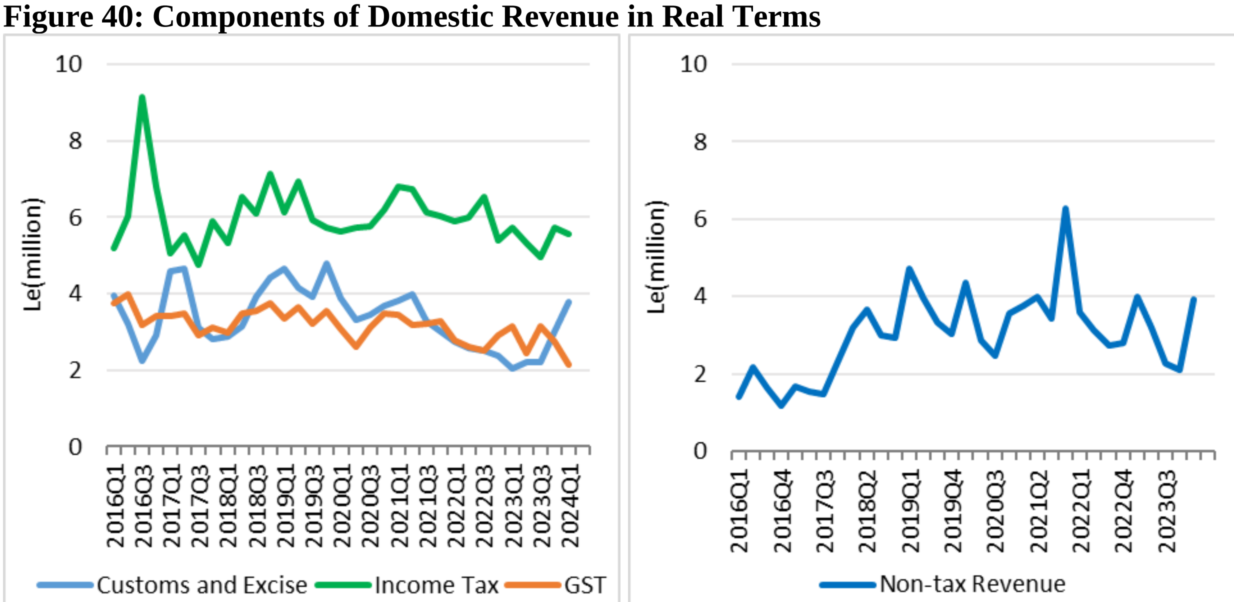
Sources: MoF & BSL

2.4.2 Government Revenues and Grants

Total revenue and grants fell to NLe4.0bn in 2024Q1 from NLe5.3bn in 2023Q4, and it was lower than the quarterly target of NLe4.4bn by 9.6 percent. The contraction in total revenue was mainly due to decline in foreign grants after the seasonal surge in 2023Q4, while domestic revenue improved. Total foreign grants received contracted by 77.9 percent to NLe0.53bn in 2024Q1, down from NLe2.4bn in 2023Q4 and it was lower than the quarterly target of NLe0.79bn. Domestic revenue increased to NLe3.4bn in 2024Q1, from NLe2.9bn in 2023Q4, yet it fell short of the quarterly target by 4.5 percent. In real terms, domestic revenue continued to grow in 2024Q1, and it was 2.3 percent higher than a year before.

The expansion in domestic revenue was broad-based, reflected by the increase in both tax and non-tax revenue. Despite their increase, tax revenues remained below the quarterly target by 12.5 percent. In real terms, customs and excise taxes drove the increase with an 84.3 percent growth over a year, while income taxes and the GST declined by 2.4 and 31.9 percent, respectively. Tax revenues increased mainly due to the implementation of the Finance Act 2024. Non-tax revenues exceeded the quarterly target by 27.0 percent. The increase in non-tax revenue was driven by revenue from TSA agencies, cargo tracking and royalties from rutile.

Figure 40: Components of Domestic Revenue in Real Terms

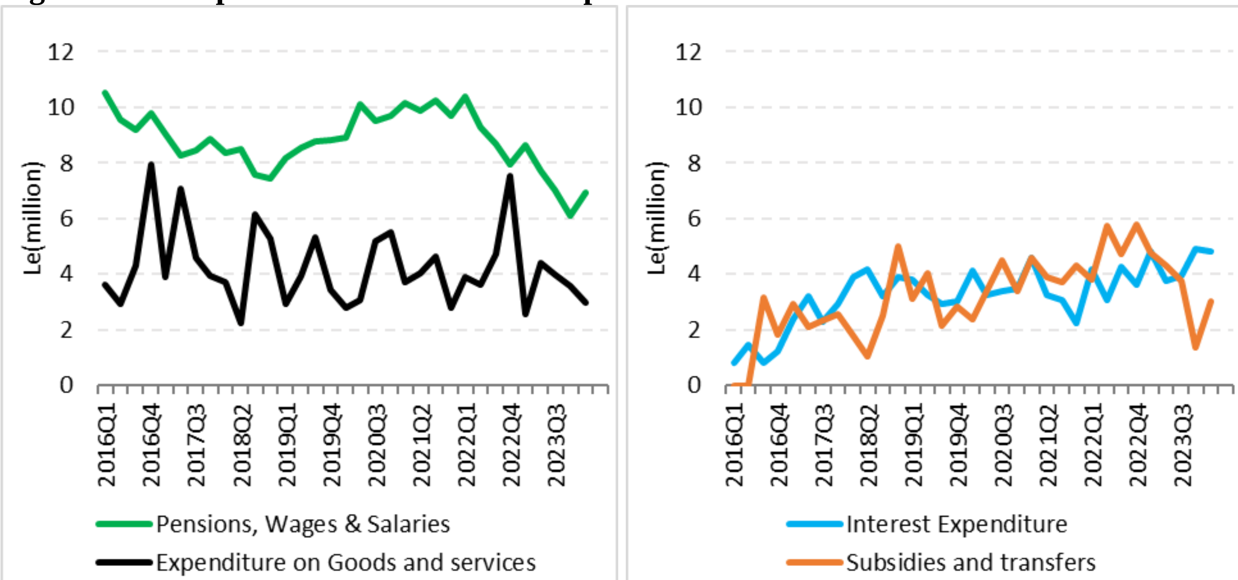


Source: MoF

2.4.3 Government Expenditures

Total government expenditure and net lending increased to NLe5.2bn in 2024Q1 from NLe4.9bn in 2023Q4, yet it remained lower than the quarterly target by 12.7 percent. The expansion in total expenditure reflected an increase in recurrent spending, while capital expenditure declined. In real terms, government expenditure increased moderately in 2024Q1 but was 20.5 percent lower than in the corresponding quarter in 2023.

Figure 41: Components of Government Expenditure in Real Terms



Source: MoF

Recurrent expenditure increased to NLe3.9bn in 2024Q1, up from NLe3.5bn in 2023Q4, but remained within the quarterly ceiling of NLe4.1bn. Both wages and salaries and non-salary, non-interest expenditure (NSNIE) stayed within their respective ceilings. The rise in social spending, in particular the school feeding program and transfers to TSA agencies drove the increase in NSNIE. Debt service payments increased slightly and breached the quarterly ceiling in 2024Q1 due to the surge in domestic debt service payments, while foreign debt service payment declined.

Capital expenditure declined to NLe1.3b in 2024Q1 from NLe1.4bn in 2023Q4 and was within the ceiling of NLe1.7bn. The fall was mainly driven by the decrease in foreign finance capital expenditure. Domestic capital expenditure on the other hand increased in 2024Q1.

In real terms, recurrent expenditure increased in 2024Q1 but was lower than a year earlier by 14.6 percent. Real capital expenditure declined both on a quarterly and on an annual basis, it was 34.3 percent lower than a year earlier.

Financing

The overall deficit of NLe1.2bn was mainly financed from domestic sources. Domestic deficit financing amounted to NLe1.99bn, while there was a repayment of NLe0.21bn to foreign financing sources and NLe0.57bn to other financing sources.

2.4.4 Fiscal Sector Outlook

Fiscal policy continued to remain tight in 2024Q1, which aligns well with the government's fiscal consolidation drive in order to maintain public debt on a sustainable path and secure a new IMF-ECF program. Revenue performance is expected to improve further through the implementation of tax policies and administrative measures highlighted in the Finance Act of 2024 and the medium-term revenue strategy (MTRS). Additionally, the government is expected to embark on expenditure rationalization to create space for priority spending in the near term. One important initiative is the development of a medium-term wage bill strategy to help strengthen payroll management and bring down wages to the government's target of 6 percent. The government is also expected to cut down on subsidies and transfers to create room for priority investment. The continued stability in the exchange rate and declining inflation will prove essential in reducing uncertainties in budget execution.

On the other hand, the increasing debt service, and growing discretional expenditures will challenge deficit reduction efforts. Similarly, lingering uncertainties associated with the global environment, continued geo-political tensions, could have a spillover effect on the domestic economy.

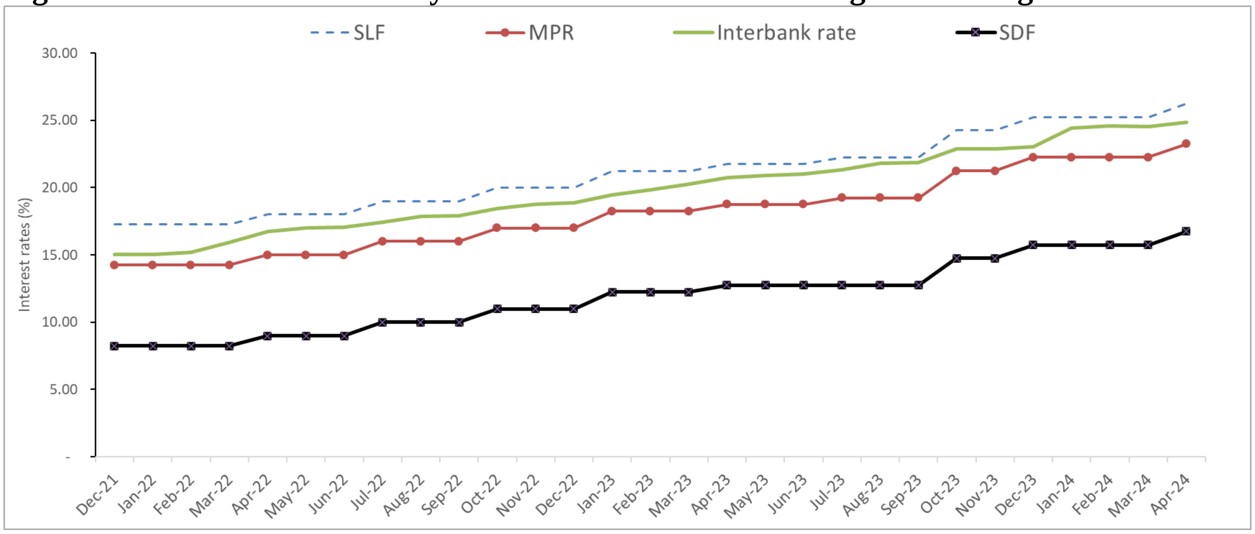
2.5 Money Markets Developments and Monetary Aggregates

2.5.1 Interest Rates Development

Monetary Policy Stance

At its meeting on March 28, 2024, the Monetary Policy Committee (MPC) raised the Monetary Policy Rate (MPR) by 100 basis points to 23.25 percent. This decision was based on the assessment of recent macroeconomic and financial developments in both the global and domestic economy and their implications for inflation and growth. Consequently, the Standing Lending Facility (SLF) rate was adjusted to 26.25 percent, and the Standing Deposit Facility (SDF) rate was set at 16.75 percent.

Figure 42: Trends in BSL Policy Rates and the Interbank Weighted Average Rates



Source: Financial Markets Department

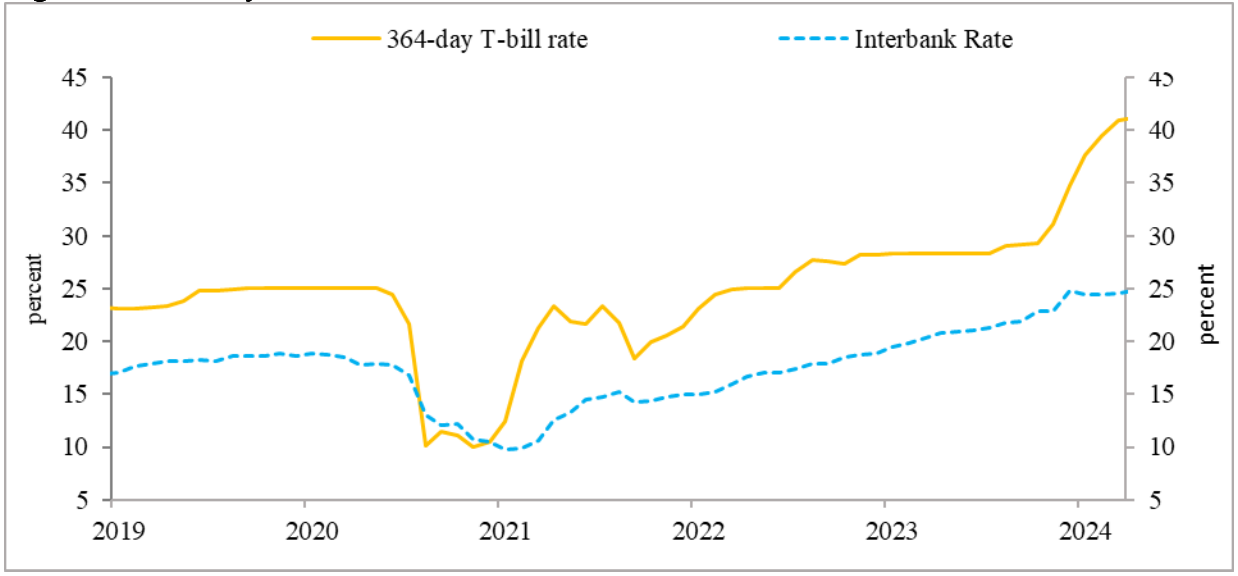
Treasury Bill Rates

The average interest rate on the 364-day treasury bills increased to 40.9 percent in March 2024 from 34.7 percent in December 2023, and further increased to 41.25 percent in May 2024. There was no issuance of 182-day treasury bills from November 2023 to February 2024. However, some 182-day treasury bills were traded in March 2024 with a yield of 29.2 percent. There was no trading of the 91-day treasury bill.

Interbank Money Market

The interbank weighted average interest rate increased from 23.1 percent in December 2023 to 24.5 percent in March 2024 and further to 24.8 percent in April 2024. Although the interbank rate remains within the policy corridor, it has moved very close to the standing lending facility rate suggesting tight liquidity conditions, as evidenced by the increased use of the BSL's overnight lending facilities by commercial banks.

Figure 43: 364-day Government T-bill Yield and Interbank Rates



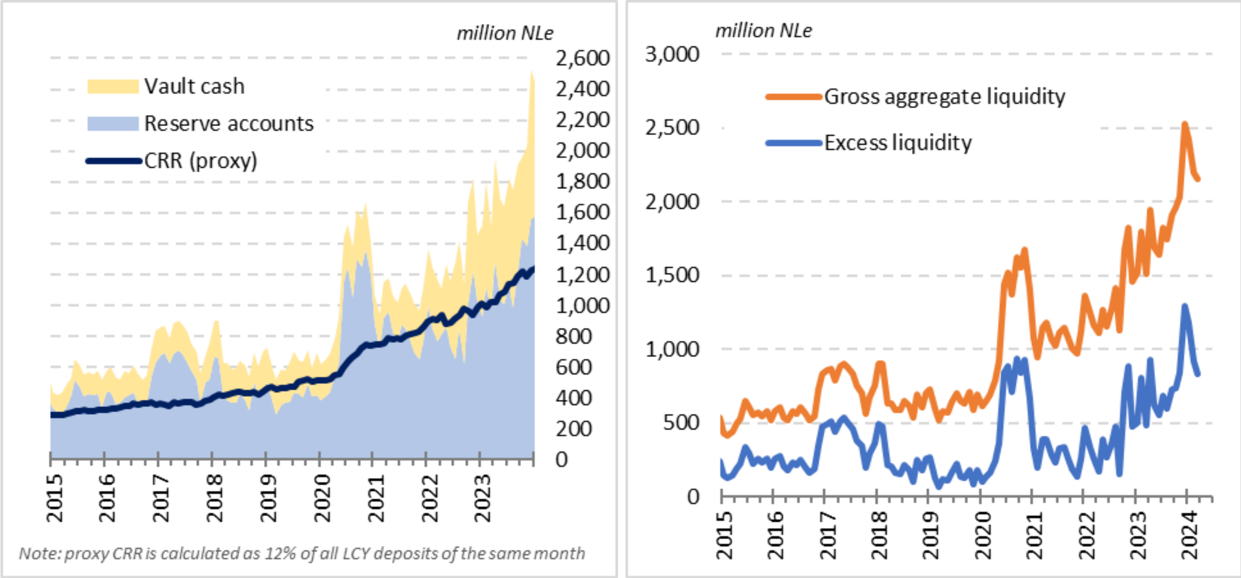
Source: BSL

2.5.2 Liquidity in the Banking System

Total liquidity in the banking system increased by 12.4 percent to NLe1,750mn as at end 2024Q1 from NLe1,557mn as at end 2023Q4, and then it decreased marginally to NLe1,742mn as at end April 2024. The aggregate volume of excess liquidity increased to NLe435mn in 2024Q1 from NLe331mn in 2023Q4. However, the excess liquidity in the banking system decreased by 10.67 percent to NLe388.56mn as at end April 2024. The observed decrease in excess liquidity in April 2024 could be attributed to decrease in government expenditure.

There was a significant increase in the level of intermediation in the interbank money market during the review period. This is evidenced by the doubling of the volume of interbank transactions from NLe828mn in 2023Q4 to NLe1,700mn in 2024Q1. On a monthly basis, the volume of transactions in the interbank market declined by 32.9 percent in April 2024 compared to March 2024 to NLe302.5mn.

Figure 44: DMBs Liquidity Position



Source: BSL

No bank accessed the SDF window in 2024Q1. Access to the BSL SLF remained high, reflecting the tight liquidity condition in the banking system. The outstanding volume of SLF borrowing reached a record high NLe1,092mn at end April 2024.

Figure 45: Outstanding Amount of Overnight Borrowing from the BSL SLF

Source: BSL

2.6 Monetary aggregates

Reserve Money (RM) and Broad Money (M2) growth declined in 2024Q1 relative to 2023Q4, and both has stayed on a declining trend on an annual basis. Also, both reserve money and broad money stayed on track to meet their respective targets by the end of 2024.

Reserve Money (RM)

On a year-on-year-basis, RM growth moderated to 33.1 percent in 2024Q1 from an expansion of 39.8 percent in 2023Q1. The slowdown in RM growth was due to a smaller positive contribution of NDA and a bigger negative effect of NFA. The annual growth in RM was close but slightly above the end-March 2024 indicative program target of the previous IMF/ECF program. However, RM remained on track to meet the end-of-2024 target.

From the liability side, the slowdown in RM growth was mainly supported by the slowing growth of currency in circulation which offset the substantial increase in growth of commercial banks' reserves at the central bank.

Broad Money (M2)

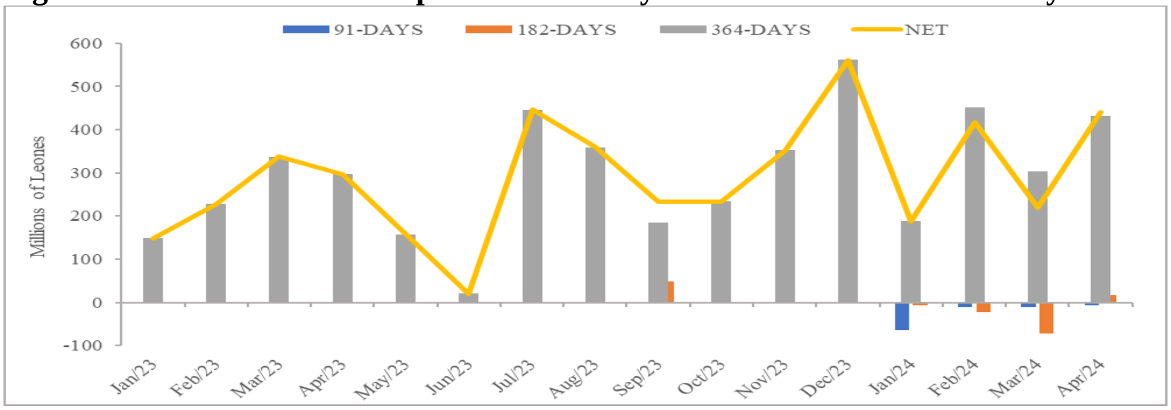
On a year-on-year basis, M2 growth moderated to 23.8 percent in 2024Q1 compared to the 45.6 percent expansion recorded in 2023Q1. The annual slowdown in M2 growth was on account of the contraction in the NFA of the banking system while the NDA of the banking system increased marginally. The annual growth in M2 was slightly above the IMF/ ECF program target of 23.4 percent as at end March 2024. Credit to the private sector by commercial banks expanded by 31.7 percent year-on-year in 2024Q1, an acceleration from the 21.5 percent increase in 2023Q1. Credit to the private sector grew faster than envisaged by the IMF/ ECF program. In real terms, M2 decreased by 12 percent.

From the liability side, the moderation in M2 growth was reflected in the slowdown in Narrow Money (M1) growth coupled with contraction in quasi money. M1 growth slowed to 29.0 percent year-on-year in 2024Q1 from 31.6 percent in 2023Q4 as both currency outside banks and demand deposits grew at a slightly lower rate. Quasi money slowed down considerably as foreign currency deposits contracted in nominal terms so that their growth rate fell significantly to 15.5 percent in 2024Q1 from 40.3 percent in 2023Q4. Growth in time and saving deposits increased to 29.9 percent from 20.6 percent.

2.7 Domestic Debt Market

The auctions for government securities were largely oversubscribed on a net basis during the review period (including secondary market operations by BSL). The 364-day tenure was mostly oversubscribed whilst the 182-day and the 91-day tenures were largely undersubscribed. The demand for government treasury bills continued to be skewed to the 364-day tenure, with deposit money banks being the primary participants.

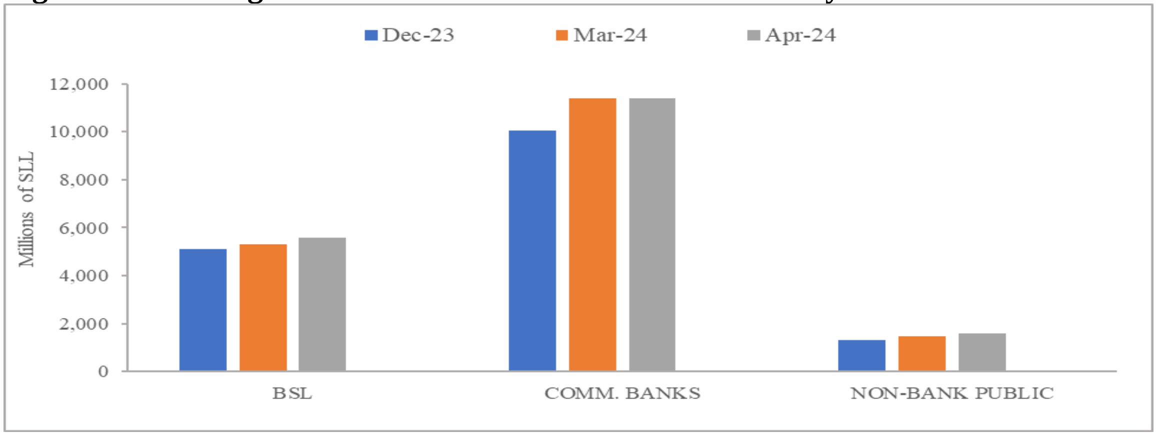
Figure 46: Under/Oversubscription of Treasury Bills Auctions in the Primary Market



Source: BSL

The total stock of government securities increased by 9.2 percent over 2024Q1 and by an additional 2.8 percent in April 2024. Marketable securities accounted for 90.1 percent of the total stock of government securities. The stock of marketable securities reached NLe18,558mn as at end April 2024. The issuance of new treasury securities was mainly to finance the budget. The stock of non-marketable securities increased to NLe2,176mn as at end April 2024, mainly on account of new issuance of 3-year Treasury bonds.

Figure 47: Holdings of Marketable Government Securities by Sector



Source: Financial Markets Department

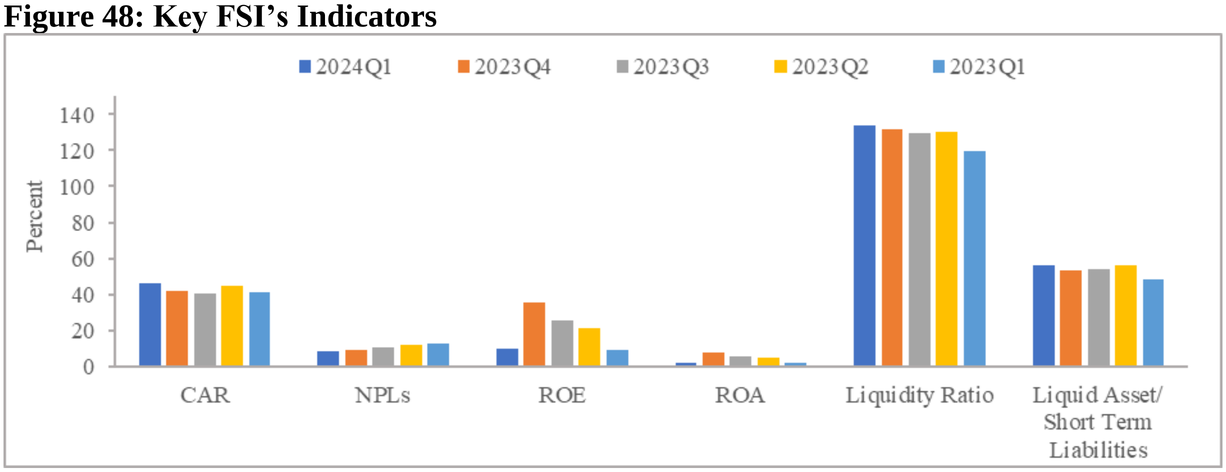
3 FINANCIAL STABILITY ANALYSIS

3.1 Financial Soundness Indicators (FSIs)

The banking sector continued to be stable and sufficiently capitalised. Most of the key FSIs remained within acceptable thresholds stipulated by BSL. The regulatory capital to risk-weighted asset denoted by the Capital Adequacy Ratio (CAR) increased to 46.24 percent in 2024Q1 from 41.65 percent in 2023Q4. The CAR position remained comfortably above the regulatory minimum of 15.0 percent, indicating the accumulation of sufficient capital by banks to absorb losses.

Asset quality further improved in 2024Q1 as the ratio of Non-Performing Loans (NPLs) to gross loans declined to 8.28 percent in 2024Q1 from 8.76 percent in 2023Q4 and remained below the maximum limit of 10.0 percent. Banks continued to be profitable with the system's profitability indicators such as Return on Asset (ROA) and Return on Equity (ROE) recording good profit margins in 2024Q1. The Liquidity Ratio in the banking sector further increased to 133.51 percent in 2024Q1 relative to 131.83 percent in 2023Q4. Liquid assets to short term liabilities increased by 3.48 percentage points from 52.99 percent in 2023Q4 to 56.46 percent in 2024Q1 indicating that banks continued to be highly liquid. Loans to deposits ratio marginally improved in 2024Q1 to 22.59 percent from 22.37 percent in 2023Q4 and remained far below the regulatory threshold of 80.0 percent, thus indicating low level of financial intermediation by commercial banks to support economic growth.

Figure 48: Key FSI's Indicators

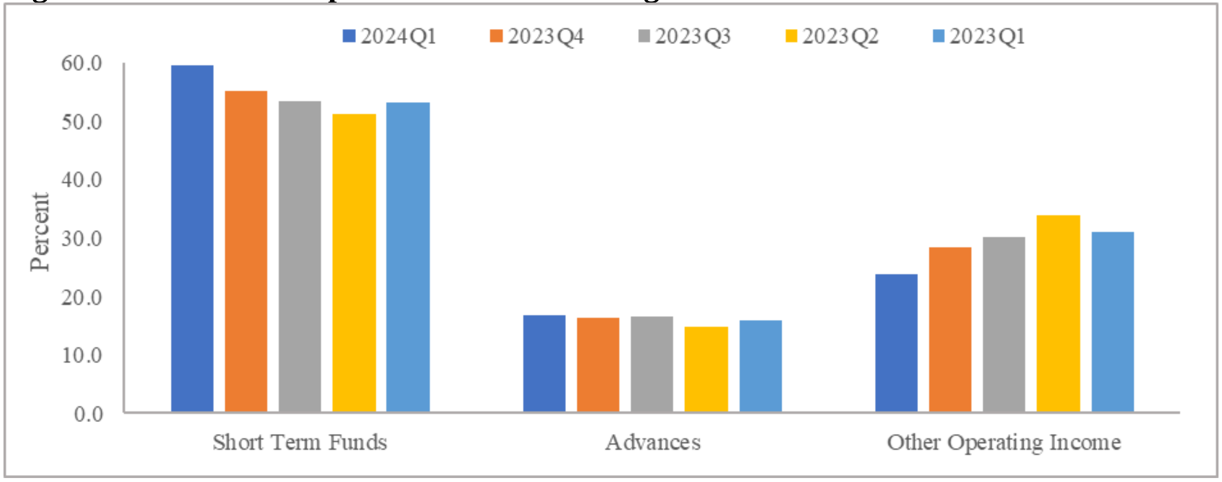


Source: BSL

3.2 Income composition

The banking sector continued to rely primarily on government securities as its main source of income. This was mainly due higher interest rate on government securities to the tune of 40.88 percent with zero risk, compared to the average lending rate of 19.66 percent. The proportion of income from short-term funds marginally increased to 59.6 percent in 2024Q1 from 53.20 percent in 2023Q1. On the other hand, income from loans and advances marginally increased to 16.7 percent in 2024Q1 from 15.82 percent in 2023Q1. Other operating incomes, which consist mainly of commissions, fees and profits on foreign exchange dealings also increased by 12.28 percent to 23.73 percent in 2024Q1 from 30.98 percent in 2023Q1 of total income.

Figure 49: Income Composition for the Banking Sector



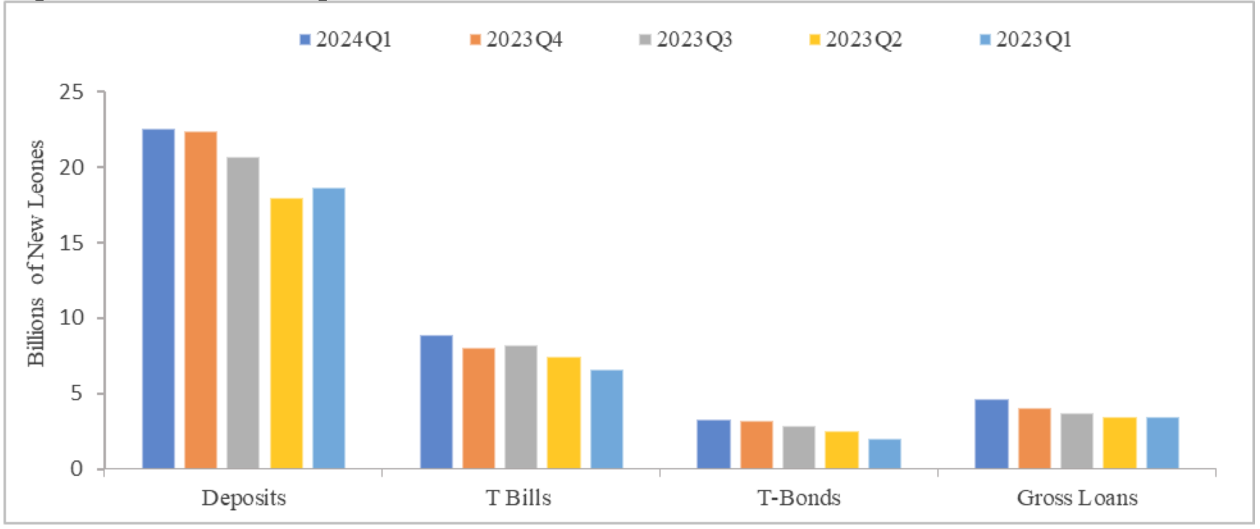
Source: BSL

3.3 Sources and utilization of funds

- Total Deposits, which is the main source of funds for banks increased by 0.97 percent to NLe22.59bn in 2024Q1 from NLe22.37bn in 2023Q4 of which demand, savings and time deposits accounted for 76.94 percent, 19.28 percent, and 3.78 percent, respectively.
- T-bills holdings by the banking sector marginally increased by 10.59 percent from NLe8.03mn in 2023Q4 to NLe8.88mn in 2024Q1 due to tight liquidity in the interbank market.
- T-bonds holdings by the banking sector increased by 2.75 percent from NLe3.16 bn in 2023Q4 to NLe3.25 bn in 2024Q1.

- The loans to deposits ratio marginally increased in 2024Q1 to 20.54 percent from 18.06 percent in 2023Q4 and remained far below the prudential threshold of 80.0 percent, suggesting there is low intermediation in the banking system.
- Gross loans and advances increased by 14.91 percent from NLe4.04 bn in 2023Q4 to NLe4.64 bn in 2024Q1.

Figure 50: Trend in Deposits, T-bills and Gross Loans



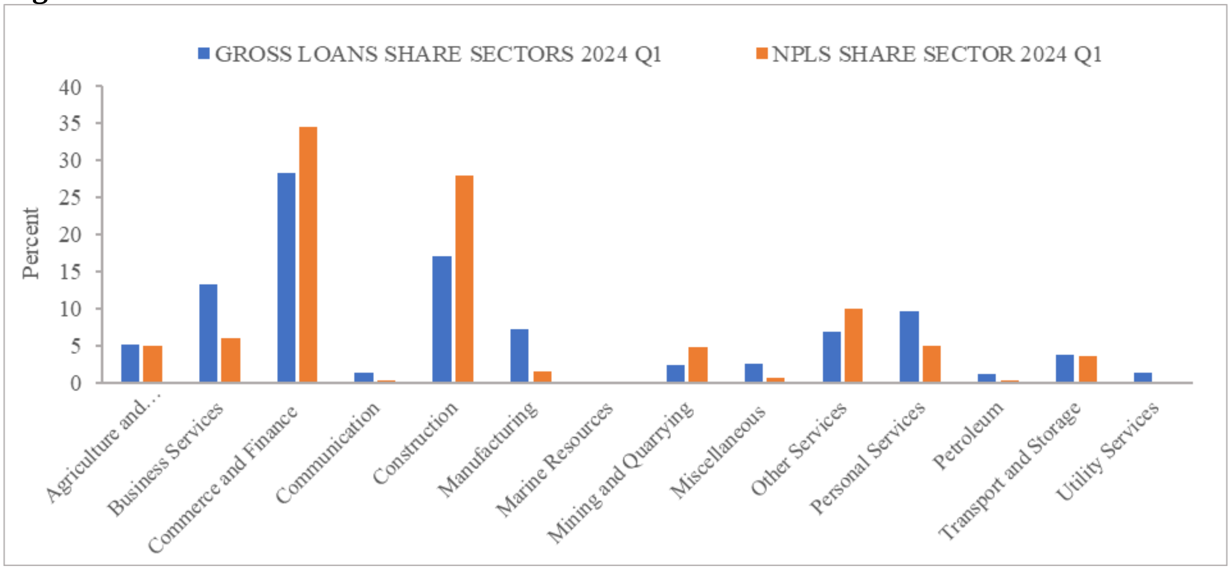
Source: BSL

3.4 Sectoral distribution of gross loans & advances and NPLs

The Commerce and Finance, Business Services, Personal Services and Other Services dominated the loan portfolios of the banking sector in 2024Q1. These four sectors accounted for 58.18 percent of gross loans in 2024Q1.

Similarly, commerce and finance, construction and personal services sectors contributed the most to NPLs. In terms of sectoral NPLs, the commerce and finance sector had the highest NPL ratio accounting for 34.5 percent of the total NPL`s of the banking sector. This is partly due to supply chain disruptions and domestic macroeconomic challenges as most of the clients in that sector are importers. Fluctuations in the exchange rates could have an adverse effect on their businesses that can lead to higher costs. Construction and the Personal Services sectors also had high NPL ratios of 28 percent and 5.1 percent respectively in 2024Q1.

Figure 51: Sectoral Share of Gross Loans

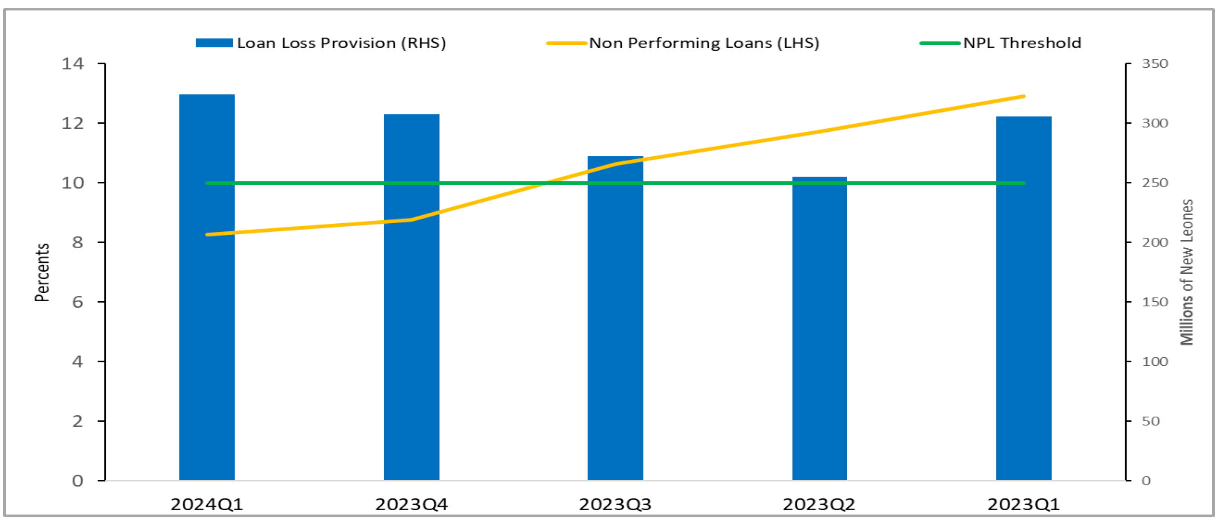


Source: BSL

3.5 NPL Trend and Loan Loss Provisions

The proportion of NPLs to gross loans fell within the review period of 2024Q1. The NPLs ratio for 2024Q1 decreased by 0.48 percent from 8.76 percent in 2023Q4 to 8.28 percent. However, loan loss provisions increased by 5.45 percent to NLe324.62mn in 2024Q1 from NLe307.85mn in 2024Q4.

Figure 52:Trend of NPLs and Loan Loss Provision



Source: BSL

3.6 Risks and Vulnerabilities to the Stability of the banking sector

Despite the stability of the financial system, there are some risks and vulnerabilities, which could pose threats to the banking sector as follows:

High levels of NPLs pose a Financial Stability Risk

- Whilst the aggregate capital adequacy ratios appear strong and comfortably above the minimum threshold with NPLs below 10.0 percent, asset quality remains a concern as there are large variations in asset quality, with three banks recording NPLs far above the maximum threshold with two of those banks being local banks. In addition, two sectors (Commerce & Finance and Construction) are particularly vulnerable to NPLs.

Limited Intermediation to Support Economic Growth

- Banks are not lending enough to the private sector partly because of the crowding out effect of investment in government securities and lending is also concentrated in a few sectors and few big customers in the economy. Out of fourteen commercial banks, there were only five banks whose lending in relation to their total deposits exceeded 25 percent (Vista Bank, Access Bank, Skye Bank Zenith Bank and Commerce and Mortgage Bank).

Banking Sector Earnings are Heavily Reliant on Government Securities

- Banks use customers' deposits to fund investments in government securities. Banks' excessive preference for government securities at the expense of credit to the private sector could expose them to significant loss in earnings in the event of a fall in interest rates and reduction in Government appetite to borrow funds in the securities market. In addition, this may be a potential source of cash challenges for banks.

Fraud, Cyber Security and Information Technology Threat

- Potential threats to cyber security due to shift from traditional banking to more technology driven banking. There has been an increase in fraud and cybercrime cases in the banking system.

3.7 Banking Sector Outlook

The banking sector is expected to be relatively stable going forward given that most of the banking sector assets are government securities. Increased government borrowing will continue to provide risk-free investment opportunities for banks thereby improving the risk weighted assets of the banking sector. Interest from investments in government securities will continue to be the main source of income for banks as long as Government appetite for funds remain elevated.

The continuous stress testing process of the banking sector will enhance the supervision of systemically important banks and assess their capacity to absorb losses during stressful conditions. The completion and application of the NPLs Strategy by Bank of Sierra Leone will help improve credit performance in the banking sector.

4 CONCLUSION AND DECISION OF THE MPC

4.1 Conclusion

Real GDP growth is projected to rebound to 4.0 percent in 2024 from a moderate growth of 3.4 percent in 2023. This anticipated growth will be driven by increased activity in the agriculture, mining, and services sectors. Additionally, the BSL's Composite Index of Economic Activities (CIEA) indicated a faster increase in economic activity in the 2024Q1 compared to 2023Q4. Growth is expected to remain resilient in the medium term due to monetary and exchange rate stability, as well as the government's ongoing efforts to diversify the economy.

However, the MPC acknowledges that despite the expected GDP growth, there are inherent vulnerabilities. These include external factors such as geopolitical tensions and higher international prices for food and energy, as well as domestic factors like inadequate investment in critical productive sectors.

In terms of price developments, inflationary pressures have continued to soften since the last MPC meeting in March 2024. Headline inflation decreased from 40.69 percent in March 2024 to 38.06 percent in April 2024, and further to 35.84 percent in May 2024. The MPC noted that the decline in headline inflation was broad-based, with reductions in the prices of both food and non-food items in the consumer basket. This decline was attributed to a combination of factors, including the sustained tight monetary policy stance characterized by successive well-calibrated increases in the monetary policy rate, the stability of the exchange rate which has restored confidence in the domestic currency, increased domestic food production due to the harvest season, expenditure rationalization by the fiscal authorities, and a decline in international food and energy prices.

The Committee welcomed the downward trajectory in headline inflation, which has recorded 18.75 percentage points reduction since its recent peak in October 2023. It however underscored the upside risks to the inflation outlook, including crude oil production cuts, geopolitical tensions, and potential spikes in global commodity prices.

4.2 Decision of the Monetary Policy Committee

The MPC noted with cautious optimism the declining trend in headline inflation from November 2023 to May 2024. This decline is attributed to the tight monetary policy stance of the BSL, measures to alleviate foreign exchange market bottlenecks, and the government's fiscal consolidation efforts. However, the MPC pointed out that inflation, at 35.84 percent in May 2024, remains elevated and concerning, as it is still significantly above the medium-term target within the current macroeconomic framework.

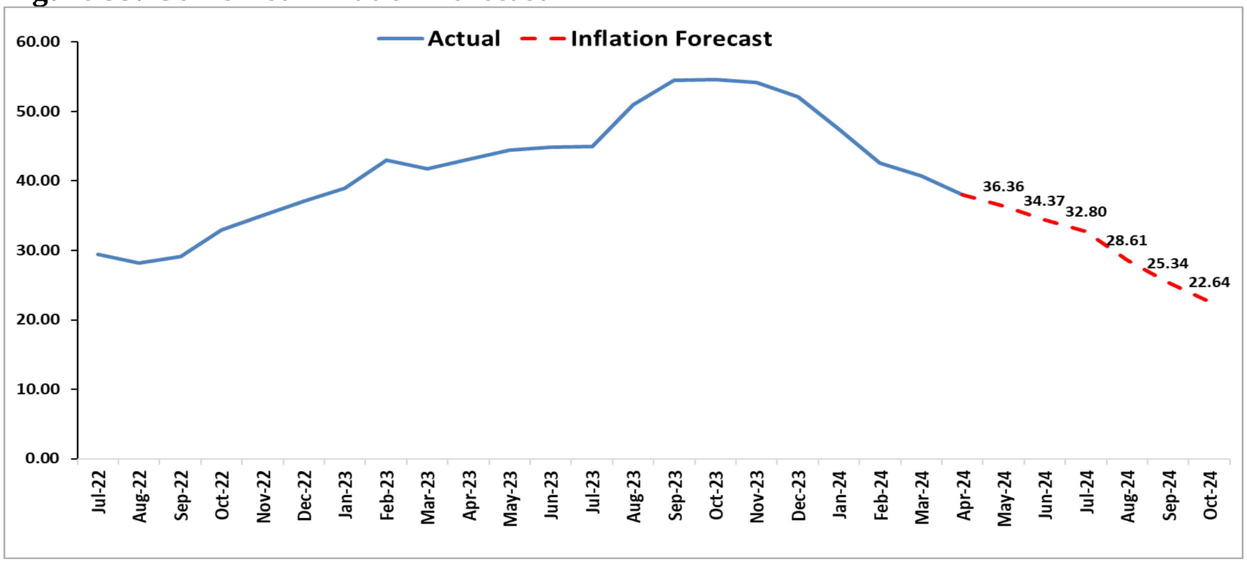
As a result, after a thorough evaluation of the risks to the near-term inflation outlook, the MPC finds the balance of risks favoring further monetary policy tightening. In recognition of the BSL's mandates to ensure price stability and financial system stability, while also fostering economic growth, the MPC decided to increase the MPR by one percentage point to 24.25 percent and to also raise the Standing Lending Facility rate and the Standing Deposit Facility rate by the same margin.

5 INFLATION OUTLOOK

5.1 Combined Inflation Forecast

Inflationary pressures are projected to decrease in the near term. Using a suite of forecast models, the combined forecast indicates that inflation will continue to moderate, reaching 22.64 percent by the end of October 2024.

Figure 53: Combined Inflation Forecast

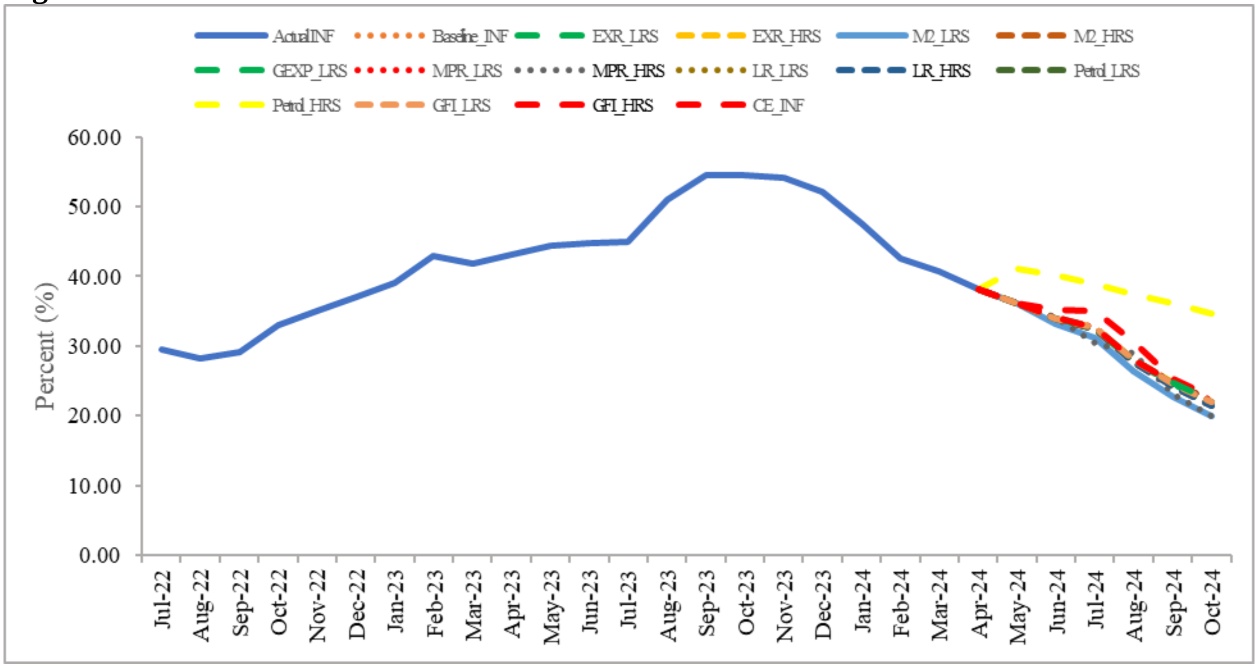


Source: BSL

5.2 Scenario forecast

The scenario analysis shows that increase in food as well as energy prices are projected to exert pressure on prices. On the other hand, contraction in money supply and high lending rate could have a higher effect in slowing down inflation.

Figure 54: Combined Scenario Forecast



Source: BSL

In addition to the inflation forecast, staff expert judgement suggests that the risks to inflation are predominantly on the downside. Factors such as improved revenue mobilization from the 2024 Finance Act, approval of the new IMF-ECF program, expenditure rationalization, and relative exchange rate stability may lead to a moderation in inflation. However, upside risks include increased discretionary spending, limited international donor support, and uncertainties surrounding global food prices due to geopolitical tensions.

APPENDICES

Appendix 1: Summary of Global Growth Projections

		Est.	WEO January 2024 Update		WEO April 2024 Projections		CHANGE IN Projections	
	2022	**2023**	**2024**	**2025**	**2024**	**2025**	**2024**	**2025**
World Output	**3.5**	**3.2**	**3.1**	**3.2**	**3.2**	**3.2**	**0.1**	**0.0**
Advanced Economies	**2.6**	**1.6**	**1.5**	**1.8**	**1.7**	**1.8**	**0.2**	**0.0**
United States	1.9	2.5	2.1	1.7	2.7	1.9	0.6	0.2
Euro Area	3.4	0.4	0.9	1.7	0.8	1.5	-0.1	-0.2
United Kingdom	4.3	0.1	0.6	1.6	0.5	1.5	-0.1	-0.1
Japan	1.0	1.9	0.9	0.8	0.9	1.0	0.0	0.2
Emerging Market and Developing Economies	**4.1**	**4.3**	**4.1**	**4.2**	**4.2**	**4.2**	**0.1**	**0.0**
Brazil	3.0	2.9	1.7	1.9	2.2	2.1	0.5	0.2
Russia	-1.2	3.6	2.6	1.1	3.2	1.8	0.6	0.7
India	7.2	7.8	6.5	6.5	6.8	6.5	0.3	0.0
China	3.0	5.2	4.6	4.1	4.6	4.1	0.0	0.0
Sub-Saharan Africa	**4.0**	**3.4**	**3.8**	**4.1**	**3.8**	**4.0**	**0.0**	**-0.1**
Nigeria	3.3	2.9	3.0	3.1	3.3	3.0	0.3	-0.1
South Africa	1.9	0.6	1.0	1.3	0.9	1.2	-0.1	-0.1

Source: *IMF World Economic Outlook (WEO) January and April 2024 update.*

Appendix 2: Monetary Policy Stance of Selected Central Banks

Country	Recent Inflation (%)		Monetary Policy Rates (%) Current		Previous		Change
WAMZ							
Sierra Leone	38.06	Apr.24	23.25	Apr.24	22.25	Dec.23	1.00
Nigeria	31.70	Mar.24	24.75	Mar.24	22.75	Feb.24	2.00
Ghana	25.80	Apr.24	29.00	Apr.24	29.00	Feb.24	0.00
Guinea	9.0	Mar.24	11.00	Apr.24	11.00	Jan.24	0.00
Liberia	10.0	Jan.24	20.00	Apr.24	20.00	Jan.24	0.00
The Gambia	16.66	Mar.24	17.00	Apr.24	17.00	Jan.24	0.00
Major Economies							
USA	3.2	Mar.24	5.50	May.24	5.50	Jan.24	0.00
China	0.1	Apr.24	3.45	Apr.24	3.45	Jan.24	0.00
Euro Area	2.4	Apr.24	4.50	Apr.24	4.50	Jan.24	0.00
UK	3.4	Mar.24	5.25	Apr.24	5.25	Jan.24	0.00

Source: Central Banks through Trading Economics (February 2024)

Appendix 3: Central Bank Balance Sheet

Millions of Leones	2022	2023		2024	Quarterly % Change		Yearly % Change	
	2022Q1	2023Q1	2023Q4	2024Q1	2023Q4	2024Q1	2023Q1	2024Q1
1. Net Foreign Assets	**(664.21)**	**(3,383.83)**	**(3,837.24)**	**(4,446.81)**	**(18.17)**	**15.89**	409.46	31.41
2. Net Domestic Assets	**5,167.48**	**9,679.11**	**12,550.90**	**12,827.97**	**5.22**	**2.21**	87.31	32.53
Government Borrowing (net)	4,697.75	7,629.42	9,896.82	10,085.19	**(0.41)**	**1.90**	62.41	32.19
o.w. Securities	1,256.00	4,004.87	5,324.74	5,295.79	**27.06**	**(0.54)**	218.86	32.23
Ways and Means	244.38	208.18	186.02	467.99	**(30.53)**	**151.58**	(14.81)	124.81
GoSL/IMF /WB Budget financing	3,257.33	3,530.75	4,224.70	4,177.47	**(13.34)**	**(1.12)**	8.39	18.32
3. Reserve money	**4,503.28**	**6,295.28**	**8,713.66**	**8,381.16**	**20.37**	**(3.82)**	39.79	33.13
o.w. Currency issued	3,731.93	5,305.37	7,148.62	6,855.30	**19.09**	**(4.10)**	42.16	29.21
Bank reserves	764.30	982.42	1,557.30	1,514.16	**26.59**	**(2.77)**	28.54	54.13

Source: BSL

Appendix 4: Monetary Survey

Billions of Leones	2022	2023		2024	Quarterly % Change		Yearly % Change	
	2022Q1	2023Q1	2023Q4	2024Q1	2023Q4	2024Q1	2023Q1	2024Q1
Reserve money	**4,503.28**	**6,295.28**	**8,713.66**	**8,381.16**	**20.37**	**(3.82)**	**39.79**	**33.13**
Broad Money (M2)	**15,163.12**	**22,072.08**	**27,095.82**	**27,321.83**	**10.02**	**0.83**	**45.56**	**23.78**
Narrow money (M1)	**7,626.27**	**9,602.47**	**11,978.43**	**12,429.36**	**9.67**	**3.76**	**25.91**	**29.44**
Currency outside banks	3,330.65	4,778.72	6,178.16	6,218.52	**16.10**	**0.65**	**43.48**	**30.13**
Demand deposit	4,295.61	4,823.74	5,800.27	6,210.85	**3.57**	**7.08**	**12.29**	**28.76**
Quasi money	**7,536.85**	**12,469.62**	**15,117.39**	**14,892.47**	**10.30**	**(1.49)**	**65.45**	**19.43**
o.w. Foreign currency deposit	4,272.91	8,764.79	10,647.59	10,120.49	**13.02**	**(4.95)**	**105.12**	**15.47**
Time and saving deposit	3,256.90	3,697.34	4,462.05	4,760.28	**4.31**	**6.68**	**13.52**	**28.75**
Net Foreign Asset	**3,570.92**	**5,847.37**	**6,323.56**	**4,575.77**	**69.16**	**(27.64)**	**63.75**	**(21.75)**
BSL	-664.21	(3383.83)	(3837.24)	(4446.81)	**(18.17)**	**15.89**	**409.46**	**31.41**
ODCs	4235.12	9231.20	10160.80	9022.58	**20.57**	**(11.20)**	**117.97**	**(2.26)**
Net Domestic Assets	**11,592.20**	**16,224.72**	**20,772.26**	**22,746.06**	**(0.56)**	**9.50**	**39.96**	**40.19**
Net Domestic Credit	**14,268.79**	**18,676.76**	**23,853.56**	**25,742.74**	**0.96**	**7.92**	**30.89**	**37.83**
Government (Net)	11,371.44	14,957.76	19,610.06	20,761.47	**5.84**	**5.87**	**31.54**	**38.80**
BSL	4,697.75	7629.42	9896.82	10085.19	**(0.41)**	**1.90**	**62.41**	**32.19**
ODCs	6,673.69	7328.33	9713.24	10676.28	**(0.66)**	**9.91**	**9.81**	**45.68**
Private Sector Credit	3,213.36	3901.51	4423.83	5137.22	**7.46**	**16.13**	**21.42**	**31.67**
o.w ODC	3,195.24	3883.31	4404.75	5113.10	**7.44**	**16.08**	**21.53**	**31.67**
Other Sectors (Net)*	(316.01)	(182.51)	(180.33)	(155.96)	**(12.12)**	**(13.51)**	**(42.25)**	**(14.55)**
Other Items (Net)	**(2,676.59)**	**(2,452.05)**	**(3,081.29)**	**(2,996.68)**	**12.56**	**(2.75)**	**(8.39)**	**22.21**
Money Multiplier	3.37	3.51	3.11	3.26				

Source: BSL

Appendix 5: Interest Rates

	2023										2024		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
91-day Treasury bill rate	0	0	4.11	0	0	4.11	0	0	0	0	0	0	0
182-day Treasury bill rate	13.43	0.00	10.49	13.21	0.00	0.00	14.44	0	18.2	0	0	0	29.22
364-day treasury bill rate	28.28	28.28	28.24	28.28	28.44	29.03	29.13	29.35	31.07	34.71	37.67	39.5	40.88
Interbank rate	20.26	20.77	20.89	20.99	21.31	21.80	21.89	22.87	22.86	23.06	24.43	24.60	24.54
Standing Lending Facility	21.25	21.75	21.75	21.75	22.25	22.25	22.25	24.25	24.25	25.25	25.25	25.25	25.25
Standing Deposit Facility	12.25	12.75	12.75	12.75	12.75	12.75	12.75	14.75	14.75	15.75	15.75	15.75	15.75
MPR	18.25	18.75	18.75	18.75	19.25	19.25	19.25	21.25	21.25	22.25	22.25	22.25	23.25
Average Lending rate	20.18	20.445	20.445	20.32	20.45	20.45	20.45	20.45	20.45	20.26	20.26	20.26	20.26
Lending (Prime)	19.62 - 20.74	19.66 - 21.23	19.66 - 21.23	19.41 - 21.23	19.66 - 21.23	19.66 - 21.23	19.66 - 21.23	19.66 - 21.23	19.66 - 21.23	19.66-20.85	19.66-20.85	19.66-20.85	19.66-20.85
Savings deposits	2.17	2.17	2.17	2.23	2.23	2.23	2.23	2.23	2.23	2.23	2.17	2.23	2.23
Interest rate spread	18.28	18.28	18.09	18.09	18.22	18.22	18.22	18.22	18.22	18.03	18.09	18.03	18.03

Source: BSL

Appendix 6: Combined Inflation Forecast and Actuals

	Forecast	Actual	Forecast Error
24-Feb	43.16	42.59	-0.57
24-Mar	40.27	40.69	0.42
24-Apr	38.00	38.06	0.06
24-May	36.36	35.84	-0.52
24-Jun	34.37		
24-Jul	32.80		
24-Aug	28.61		
24-Sep	25.34		
24-Oct	22.64		

Source: BSL