BANK OF SIERRA LEONE

MONETARY POLICY REPORT

SEPTEMBER 2024

TABLE OF CONTENTS

EXECUTIVE SUMMARY 7
1. GLOBAL ECONOMIC DEVELOPMENTS AND PROSPECTS 9
1.1 Global Output 9
1.1.1 Advanced and Emerging Market Economies 10
1.1.2 Sub-Saharan Africa (SSA) 10
1.1.3 West African Monetary Zone (WAMZ) 11
1.2 Global Commodity Prices and Inflation 11
1.2.1 Global Commodity Prices 11
1.2.2 Global Inflation 16
1.3 Monetary Policy and Financial Market Developments 17
1.4 Implications for the Outlook of the Sierra Leone Economy 18
2. DOMESTIC ECONOMIC DEVELOPMENTS 20
2.1 Real Sector Developments 20
2.1.1 Real GDP Growth 20
2.1.2 Composite Index of Economic Activity (CIEA) 21
2.1.3 Price Developments 22
2.2 External Sector Developments 24
2.2.1 Merchandise Trade 24
2.2.2 Gross Foreign Exchange Reserves 26
2.2.3 Diaspora Remittances 27
2.2.4 External Vulnerability Ratios 27
2.3 Exchange Rate and Foreign Exchange Market Developments 28
2.3.1 Exchange Rate Movements 28
2.3.2 Effective Exchange Rates 29
2.3.3 Foreign Exchange Market Turnover 29
2.3.4 Outlook of the Foreign Exchange Market 32
2.4 Fiscal Developments 32
2.4.1 Fiscal Policy Stance 32
2.4.2 Government Revenues and Grants 33
2.4.3 Government Expenditures 34
2.4.4 Financing 35
2.4.5 Fiscal Sector Outlook 35
2.5 Money Market Developments and Monetary Aggregates 36
2.5.1 Interest Rates Development 36
2.5.2 Liquidity in the Banking System 38
2.6 Monetary Aggregates 39
3. FINANCIAL STABILITY ANALYSIS 41
3.1 Financial Soundness Indicators (FSIs) 41
3.2 Income Composition 42

3.3 Sources and Utilisation of Funds 42
3.4 Sectoral Distribution of Gross Loans & Advances and NPLS 43
3.5 NPL Trends and Loan Loss Provisions 44
3.6 Risks and Vulnerabilities to the Stability of the Banking Sector 44
3.7 Banking Sector Outlook 45
4. CONCLUSION AND DECISION OF THE MPC 46
4.1 Conclusion 46
4.2 Decision of the MPC 46
5. APPENDIX 48

LIST OF FIGURES

Figure 1: Trends in Global and Selected Economies's PMI 9
Figure 2: Trends in Global and Regional Real GDP Growth Rates (Percent) 10
Figure 3: Trends in Real GDP Growth (%) in the WAMZ Economies 11
Figure 4: Trends in Global Commodity Price Indices 12
Figure 5: Crude Oil Prices (US$/Barrel) 12
Figure 6: Average Prices of Petroleum Products (US$/Gallon) 13
Figure 7: Trend in the Price of Iron Ore (US$/dmt) 13
Figure 8: Cocoa and Coffee Prices (US$/kg) 14
Figure 9: FAO Food Price Indices 15
Figure 10: BSL Global Food Price Indices 15
Figure 11:Trends in Global and Regional Inflation 16
Figure 12: Inflation Trends in the WAMZ 17
Figure 13: Selected Sovereign Bond Yields 18
Figure 14: Exchange Rates of Selected Major Global Currencies to the U.S. Dollar 18
Figure 15: Real GDP Growth 20
Figure 16: Contributions to CIEA 21
Figure 17: Business Sentiment Scores 21
Figure 18: Headline, Food and Non-food Inflation 22
Figure 19: Path of Monthly Inflation Within the Years of 2022-2024 23
Figure 20: Market and Regulated Goods and Services Inflation 23
Figure 21: Imported and Domestic Inflation 24
Figure 22: Depreciation and Inflation 24
Figure 23: Merchandise Trade 25
Figure 24: Components of Import 25
Figure 25: Components of Export 26
Figure 26: Gross Foreign Exchange Reserves and Months of Import Cover 26
Figure 27: Diaspora Remittances into Sierra Leone 27
Figure 28: External Vulnerability Ratios 27
Figure 29: Daily NLe/US$ Mid Rates in the Official and Parallel Market 28
Figure 30: Exchange Rate Movement (Year-on-Year %) 28
Figure 31: Percentage Contributions to the Change in REER 29
Figure 32: Purchases and Sales of Forex by Commercial Banks 29
Figure 33: Commercial Banks' Forex Purchases from Selected Sectors 30
Figure 34: Commercial Banks Sale of Forex to Selected Sectors 31
Figure 35: Receipts into CFC Accounts – Selected Sectors 31
Figure 36: Fiscal Deficit 32
Figure 37: Fiscal Indicators 33
Figure 38: Revenues and Expenditures in Real Terms 33

Figure 39: Components of Domestic Revenue in Real Terms....34
Figure 40: Components of Government Expenditure in Real Terms....35
Figure 41: Policy rates and Interbank rate....36
Figure 42: Yield on the 364-day T-bill and Interbank Rates....37
Figure 43: Snapshot of DMBs Liquidity Position....38
Figure 44: Holdings of Marketable Government Securities by Sector....39
Figure 45: Key FSI's Indicators....41
Figure 46: Income Composition for the Banking Sector....42
Figure 47: Trend in Deposits, T-bills and Gross Loans....43
Figure 48: Sectoral Distribution of Gross Loans and NPLS Share by Sector....44
Figure 49: Trend of NPLs and Loan Loss Provision....44
Figure 50: Combined Inflation Forecast....48
Figure 51: Scenario Forecast....48
Figure 52: Inflation Fan Chart....49

LIST OF TABLES (APPENDED)

Table 1: Summary of Global Growth Projections....50
Table 2: Monetary Policy Stance of Selected Central Banks....50
Table 3: Central Bank Survey....50
Table 4: Monetary Survey....51
Table 5: Interest Rates....51

ACRONYMS

AE	Advanced Economies
BOP	Balance of Payments
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 September 2024 edition of the BSL Monetary Policy Report provides an assessment of global and domestic economic developments during the second quarter of 2024. The report also reviews current developments in the third quarter of 2024, where data is available, and outlines near-term prospects with the aim of implementing appropriate monetary policy consistent with the Bank's 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,and 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), Deputy Governor for Monetary Policy, Deputy Governor 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 forty-eight hours after the MPC meeting. In addition, the Governor and other authorised. 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] *Section 7.A of the new BSL Act 2019 states: "(1) the objective of the Bank shall be to achieve and maintain price stability. (2) Without prejudice to subsection (1) the Bank shall contribute to fostering and maintaining a stable financial system. (3) Without prejudice to the attainment of the previous two objectives, the Bank shall support the general economic policy of the Government.*

EXECUTIVE SUMMARY

Global growth was estimated at 3.2 percent according to the April edition of the World Economic Outlook (WEO). Since then, the global economy has shown resilience, and the July edition of the WEO projected that global growth would remain at 3.2 percent. Growth is expected to slightly improve to 3.3 percent in 2025, to be driven by robust consumption in Advanced Economies (AEs) and continued resilience in emerging market economies. However, risks to the global growth outlook persist, including the geopolitical tensions in Ukraine and Russia, as well as ongoing tensions in the Middle East.

Global inflation is projected to decrease from 6.8 percent in 2023 to 5.9 percent in 2024, with a further reduction to 4.4 percent anticipated in 2025. This downward trend in global inflation is partly attributed to the sustained effects of tight monetary policies implemented by central banks, as well as lower inflation expectations. Nevertheless, the outlook remains clouded by upside risks, including potential oil production cuts by OPEC nations and ongoing supply chain disruptions due to geopolitical tensions in Europe and the Middle East.

In the domestic economy, following the rebasing of real GDP figures, the economy is estimated to have expanded by 5.7 percent in 2023, with growth expected to slow to 4.0 percent in 2024. This deceleration is largely attributed to weaker performance in the mining sector, alongside falling international iron ore prices. In the medium term, the economy is expected to be on a path to recovery with GDP projected to grow by 4.5 percent in both 2025 and 2026 and l further to 4.6 percent in 2027. This anticipated growth is due to expected expansion in agricultural activities, rebound in the mining sector, and continued macroeconomic stability. Meanwhile, the continuing risks of higher commodity prices, disruption to trade flows from developments in the middle east and other significant geopolitical uncertainties, fiscal slippages, and spillovers from ongoing global fragmentation are all risks to the domestic economy going forward.

The trade deficit slightly widened in the second quarter of 2024, compared to the first quarter, driven by increase in import costs relative to export earnings. Similarly, gross international reserves continued to deplete as outflows exceeded inflows, resulting in an import cover of 2.00 months as of the second quarter of 2024.

The anticipated disbursement from the IMF and other development partners, together with the rollout of the BSL's gold purchase programme, are expected to strengthen reserves. Over the past 12 months, the official exchange rate has remained relatively stable, supported by a tight monetary policy stance alongside significant policy reforms by the BSL aimed at curbing speculative activities among market participants. However, pressures arose in the parallel market in August 2024 due to substantial government disbursements to contractors and seasonal factors.

On the fiscal side, the deficit slightly widened due to an increase in total expenditure, which offset the rise in total revenues. Additionally, revenues improved and exceeded their quarterly target. However, fiscal slippages, spillovers from ongoing global fragmentation, and delays or shortfalls in international donor support present risks to the fiscal outlook.

In the monetary sector, the growth rates of both Reserve Money (RM) and Broad Money (M2) decelerated and remained within the proposed IMF-ECF program targets. The moderation in the growth of these monetary aggregates was primarily due to a decline in the foreign assets of both the BSL and commercial banks. Similarly, in real terms, the growth of monetary aggregates was negative, reflecting the lagged impact of the sustained tightening of the monetary policy rates. Conversely, credit to the private sector expanded and exceeded the proposed target for the new ECF program.

Regarding the money market, commercial banks' holdings of government securities increased during the review quarter. Yields on the 364-day T-bills continued their upward trend, averaging 41.27 percent in July and August 2024, compared with 40.88 percent in March 2024. Additionally, reflecting the tight liquidity situation, the interbank rate continued to rise, approaching the Standing Lending Facility (SLF) rate.

The assessment of the financial system revealed that most of the Financial Soundness Indicators (FSIs) remained above the regulatory thresholds set by the BSL, indicating continued stability in the banking system, particularly in terms of solvency and resilience. In addition, banks' total deposits increased in the quarter which could partly explain the increase in private sector credit. Non-Performing Loans (NPLs) also continued to decrease due to recoveries write-offs . However, there are risks threatening the stability of the financial system such as banks' high reliance on investments in government securities and increased fraud.

Inflationary pressures continued to ease, with headline inflation decreasing from 40.69 per cent in March 2024 to 25.49 per cent in August 2024. This reduction in inflation reflects a combination of factors, including the BSL's tight monetary policy stance, the relative stability of the exchange rate, tighter fiscal policies, and moderating global food prices. Looking ahead, inflation is projected to decline further through to the end of the year.

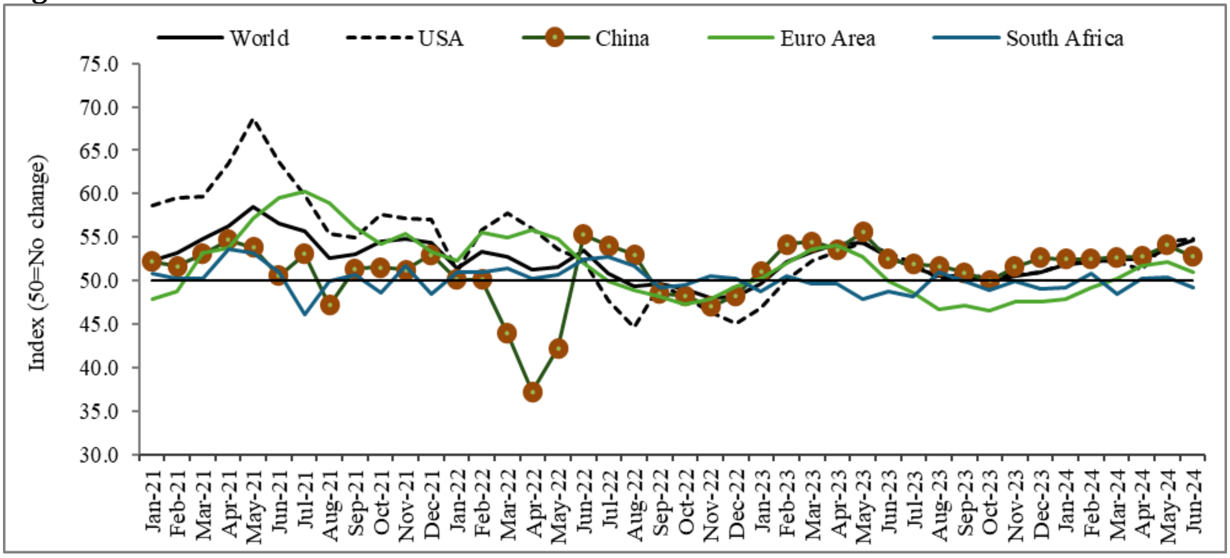
The rest of the report is organised as follows: the second section analyses recent global economic developments, including global growth, global inflation, commodity prices, and their implications for the Sierra Leone economy. The third section assesses domestic economic developments and outlook. The fourth section covers the conclusion and decision of the MPC during the September 2024 meeting.

1. GLOBAL ECONOMIC DEVELOPMENTS AND PROSPECTS

1.1 Global Output

The global economy remained resilient in the second quarter of 2024, as indicated by the improved global Composite Purchasing Managers' Indices (PMI). This outturn was primarily driven by strong performance in the services sector. In particular, the composite PMIs for the United States and the Euro Area showed strong economic activities, which accounted for the growth in Advanced Economies. Additionally, China's composite PMI further improved, reinforcing momentum in Emerging Markets and Developing Economies (EMDEs).

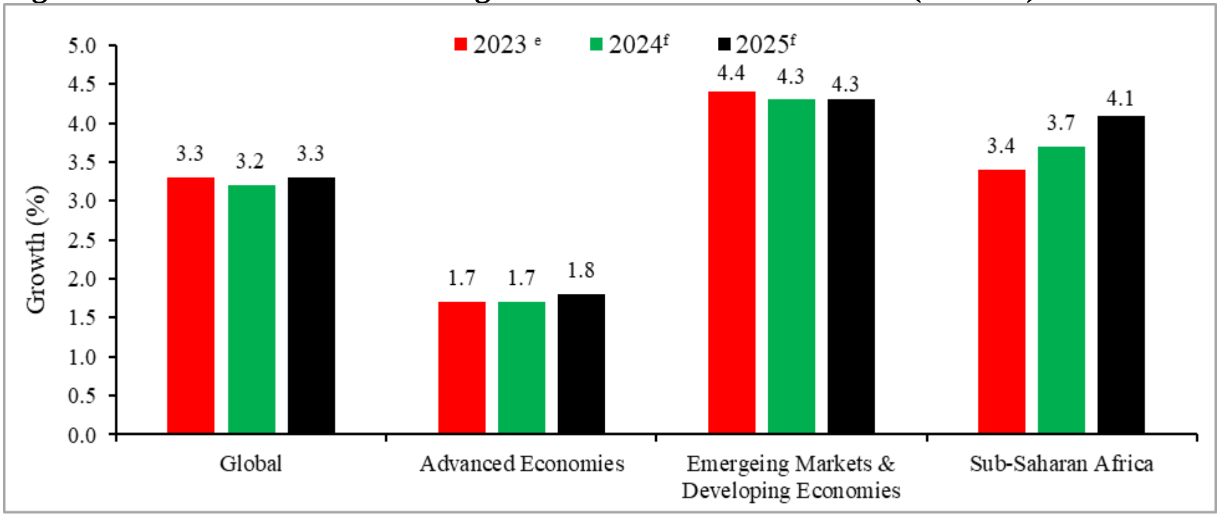
Figure 1: Trends in Global and Selected Economies's PMI



Source: Markit Economics, through Trading Economics August 4, 2024; Note: PMIs above 50% indicate expansion of the manufacturing sector; below 50% indicate contraction.

Despite navigating a complex phase marked by persistent challenges, the overall outlook for the global economy remains optimistic. Growth is expected to progressively strengthen as central banks adjust their monetary policies to stabilise inflation and support economic activities. According to the International Monetary Fund (IMF) in its July 2024 edition, the World Economic Outlook (WEO), the global growth projection for 2024 remains unchanged at 3.2 percent, whilst the 2025 growth projection has been upgraded by 0.1 percentage points to 3.3 percent.

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



Source: IMF World Economic Outlook, October 2023 database and January 2024 update; Note: e= estimate & f =forecast

However, there are both upside and downside risks to the global growth outlook. On the upside risks, potential boosts could arise from short-term fiscal measures tied to U.S. elections, a quicker easing of monetary policy, productivity gains from advancements in artificial intelligence, and strengthened structural reform momentum. Conversely, downside risks could include new spikes in commodity prices amid escalating regional conflicts, persistent inflation and financial tightening, disruptive fiscal adjustments, and potential debt distress.

1.1.1 Advanced and Emerging Market Economies

Economic activities in Advanced Economies (AEs) remained stable, despite the tight financial environment. Output growth projection in the group was left unchanged at 1.7 percent and 1.8 percent for 2024 and 2025, respectively. Short-term election related spending in the US and gradual recovery in the Euro area could increase growth momentum in the group. However, the downside risks from growing geopolitical conflicts, economic fragmentation and tight financial conditions remained.

Economic out-turn in EMDE have seen robust performance, particularly from India and Russia, along with China's recovery. Consequently, growth projections for both 2024 and 2025 have been upgraded by 0.1 percentage point each to 4.3 percent in both years.

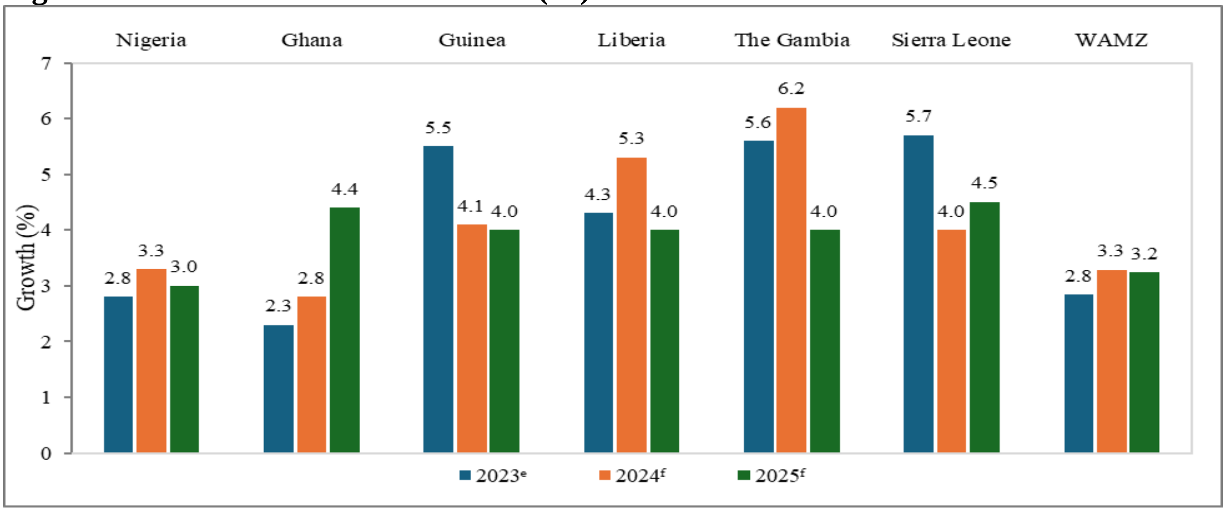
1.1.2 Sub-Saharan Africa (SSA)

The region is forecast to register output growth rates of 3.7 percent and 4.1 percent in 2024 and 2025, respectively. This is based on a steady recovery in South Africa and Nigeria, favorable export commodity prices, robust domestic demand, increased investment and improving conditions in the global f economy. The growth outlook is, nevertheless, vulnerable to some negative factors, such as ongoing inflationary pressures, high debt servicing costs, rising unemployment, currency depreciation, the possibility of political unrest in some nations, and adverse weather events.

1.1.3 West African Monetary Zone (WAMZ)

A modest recovery in Nigeria and Ghana is projected to drive growth in the WAMZ to 3.3 percent by 2024. However, high living costs and adverse weather conditions may undermine economic performance in these nations. Additionally, elevated debt servicing costs and significant debt distress risks are imposing a substantial strain on state resources.

Figure 3: Trends in Real GDP Growth (%) in the WAMZ Economies[2]



Source: *IMF World Economic Outlook, January Update 2024 database and July 2024; Note: e= estimate & f =forecast*

1.2 Global Commodity Prices and Inflation

1.2.1 Global Commodity Prices

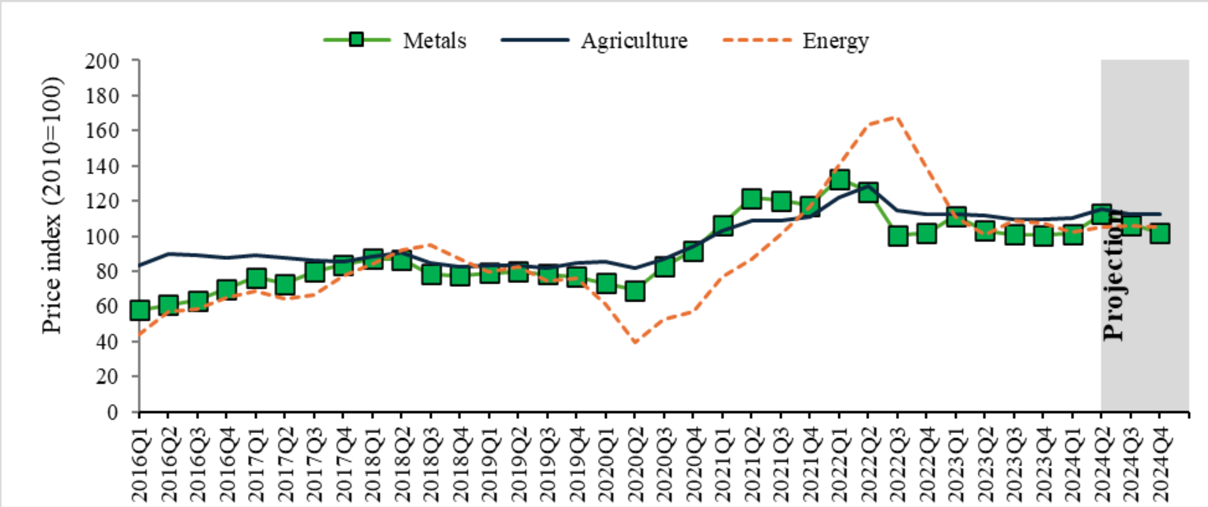
Global commodity prices continued to display a variety of complex patterns in the second quarter of 2024. The energy sector experienced a modest rise, with the index increasing to 105.32 points. This uptick was attributed to evolving oil markets activities, geopolitical developments, and supportive policies for renewable energy, particularly focusing on hydrogen and natural gas.

Metal prices also made gains, increasing from an index of 102.55 in the previous quarter to 112.60, bolstered by geopolitical concerns, supply disruptions, declining South American production, rising global nickel output, China's economic development, and declining interest rates.

[2] Note that the real GDP for Sierra Leone in 2023 was rebased

The World Bank projects energy prices to further rise moderately over the remainder of 2024, with a slight decline in prices expected for agriculture products and metals.

Figure 4: Trends in Global Commodity Price Indices

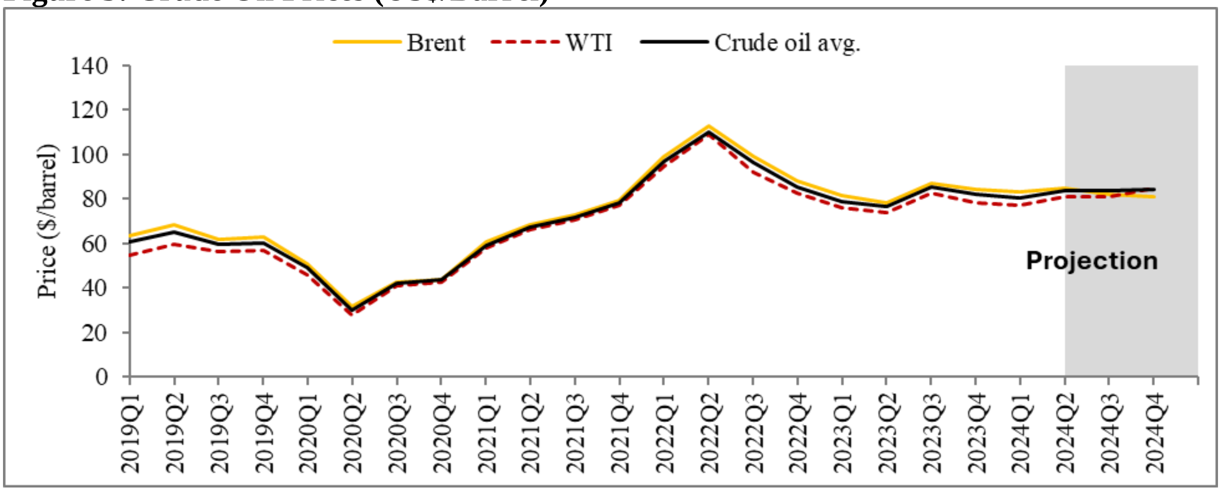


Source: World Bank Commodity Market Outlook database, August 2024

Crude Oil Prices

In the second quarter of 2024, the dynamics of supply and demand combined to drive up the price of crude oil. The world's oil stocks saw a fall in supply due to OPEC+ production cuts, which also resulted in a decrease in the availability of crude oil. Despite expectations of non-OPEC+ output rises, the voluntary production cutbacks by OPEC+ nations to support market stability resulted in a reduction in total supply. As a result, the average price of crude oil rose by 3.7 percent to US$83.55/bbl in the second quarter of 2024 from US$80.59/bbl in the first quarter of 2024.

Figure 5: Crude Oil Prices (US$/Barrel)

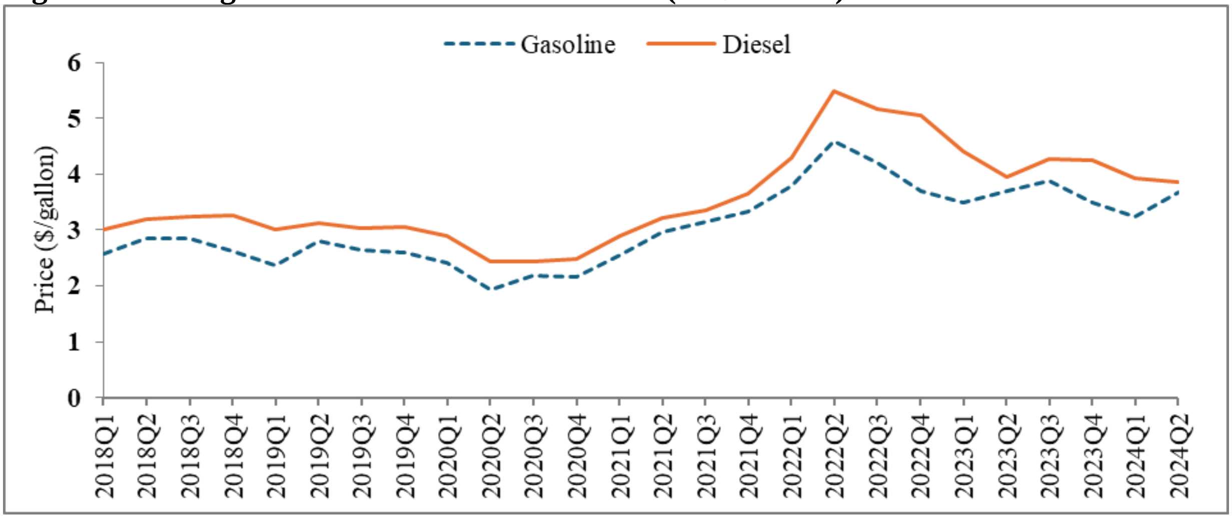


Source: World Bank Commodity Market Outlook database August 2024

Petroleum Products (Retail Prices)

Petrol prices increased, whilst diesel price slightly decreased during the second quarter of 2024. The increase in petrol prices was associated with the closure of refineries and increased production costs, inflation, and local demand. Additionally, the increase in the prices of petrol product was underpinned by increase in feedstock price, supply chain constraints, and adverse global events.

Figure 6: Average Prices of Petroleum Products (US$/Gallon)

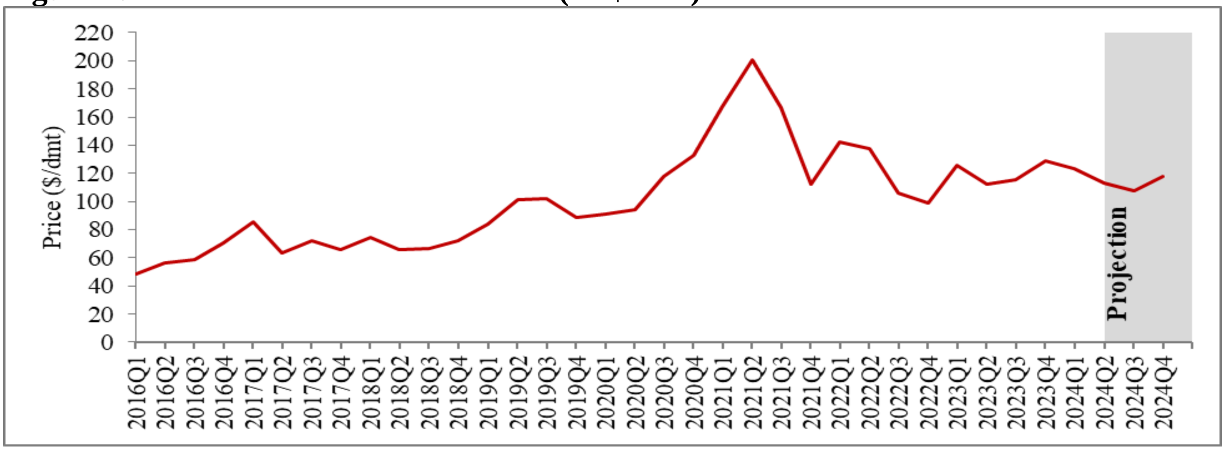


Source: U.S. Energy Information Administration, EIA (July 2024)

Iron Ore Price

In the second quarter of 2024, the average price of iron ore fell to US$113.03 per metric tonne (dmt) from US$123.33 in the prior quarter. This decrease is attributed to both reduced demand and increased supply, with China's property sector curtailing demand while Vale SA boosted production.

Figure 7: Trend in the Price of Iron Ore (US$/dmt)

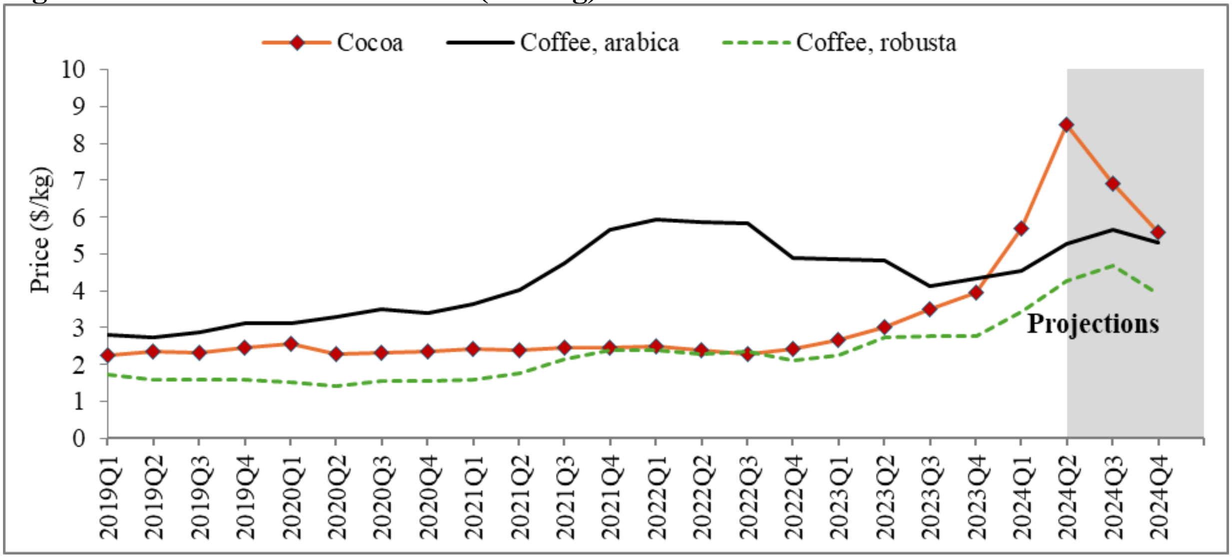


Source: World Bank Commodity Market Outlook database, August 2024

Cocoa and Coffee Prices

Cocoa and Coffee prices trended upward in the review quarter. Cocoa prices experienced an uptick to US$8.52/kg, a 49.9 percent increase from the previous quarter, a reflection of persistent concerns over supply constraints and the impact of input shortages on West African production quality. Similarly, coffee prices for both arabica and robusta increased to US$5.28/kg and US$4.26/kg in the second quarter of 2024 from US$4.56/kg and US$3.43/kg in the first quarter of 2024, respectively. This was attributed to adverse weather conditions, including insufficient rainfall in Vietnam and Brazil, leading to reduced harvests and plant deaths. Concurrently, a global increase in demand for coffee by the market, particularly from the Chinamarket intensified the pressure on prices.

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

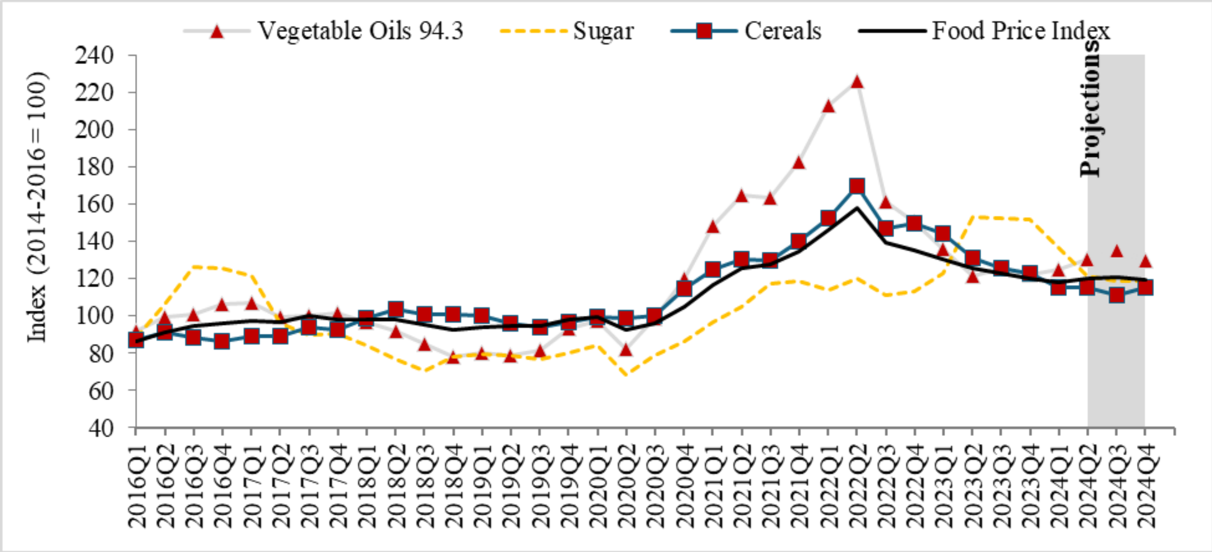


Source: World Bank Commodity Market Outlook database, August 2024

Food Price Index

The food price index increased from 118.1 points in the first quarter of 2024 to 120.3 points in the second quarter of 2024, reflecting climate-related catastrophes and supply chain disruptions. Cereal prices edged up slightly to an index of 115.2 points in the second quarter of 2024 from 115.0 points in the first quarter of 2024. Similarly, the index for vegetable oil also increased to 130.2 points in the second quarter of 2024, from 124.6 points in the first quarter of 2024.

Figure 9: FAO Food Price Indices

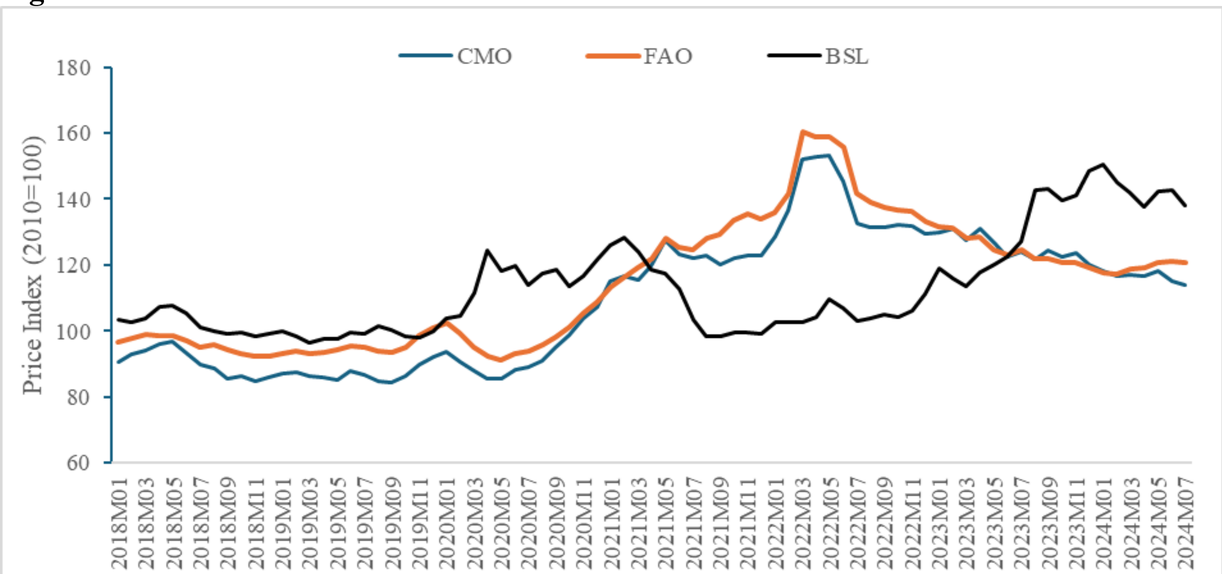


Source: FAO food price index database, August 2024

BSL Food Index

The BSL's estimated global Food Index recorded a decline to 140.77 points from the previous 145.79, reflecting the global trend of relative stability in food prices as reported by the Food and Agricultural Organisation (FAO) and Commodity Market Outlook (CMO) for the second quarter of 2024. Despite this general downtrend, there remains a notable volatility in the prices of food on a month-to-month basis. This fluctuation underscores the dynamic nature of the food market.

Figure 10: BSL Global Food Price Indices

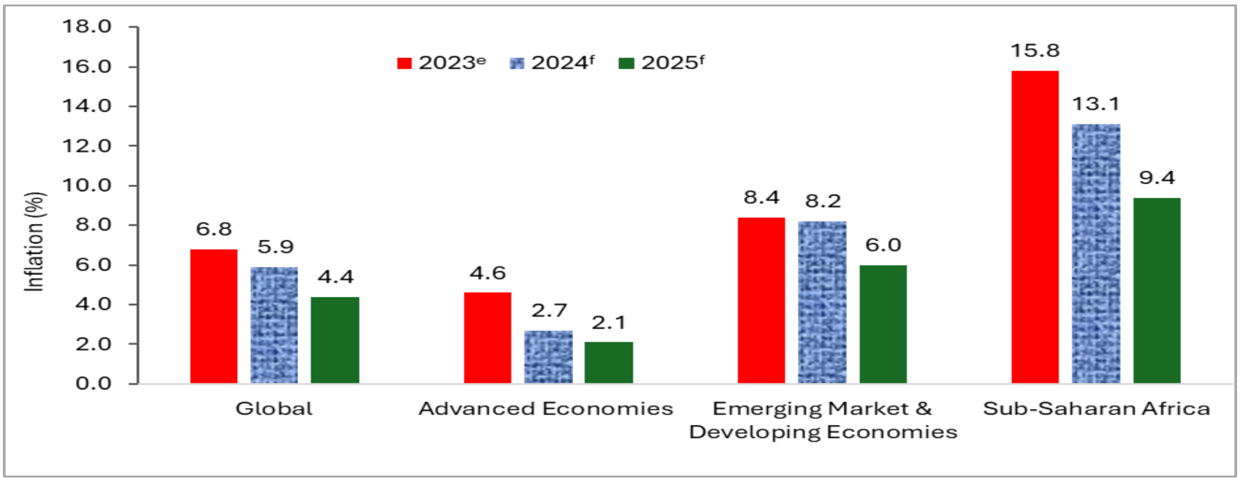


Source: BSL

1.2.2 Global Inflation

Global headline inflation continues to decline, with projections indicating a decrease from 6.8 percent to 5.9 percent in 2024, and further down to 4.4 percent by 2025. Core inflation is also expected to follow a downward trajectory, with a reduction of 1.2 percentage points in 2024, largely attributed to the easing of food and fuel prices. Advanced Economies are likely to experience a more rapid decrease in core inflation, with an anticipated reduction of 2.0 percentage points within the year.

Figure 11:Trends in Global and Regional Inflation



Source: IMF, World Economic outlook, April 2024 and July 2024 Update.

This indicates that global prices are gradually stabilising due to efforts by governments and central banks to control inflationary pressures and manage economic conditions. However, there are upward risks to the food price outlook, including the Russia-Ukraine conflict, tensions in the Middle East, and potential decisions by OPEC to cut oil supply.

Sub-Saharan Africa (SSA) Inflation

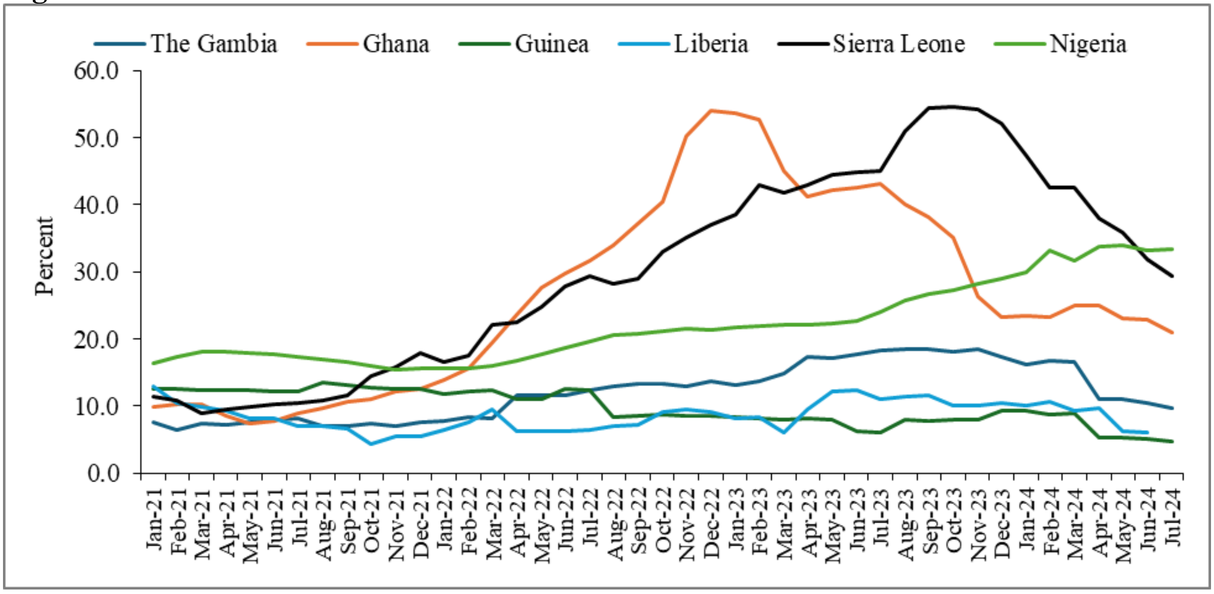
Sub-Saharan Africa (SSA) inflation is higher than the global average. However, it is forecast to drop from 15.8 percent in 2023 to 13.1 percent in 2024 and further to 9.4 percent in 2025. Despite this projected downward trend, inflation is expected to remain elevated and significantly above target levels in most countries across the region, driven by a combination of factors including high import costs and currency depreciation

Inflation in the WAMZ

In the West African Monetary Zone (WAMZ), inflation remains elevated due to a combination of factors, including imported inflation, exchange rate pass-through, and supply-side constraints. These elements have driven up fuel and food costs, resulting in record-high inflation figures for

Ghana, Sierra Leone, and Nigeria. However, in Sierra Leone, inflationary pressures have eased, while in most economies across the region, inflation rates remain above historical averages.

Figure 12: Inflation Trends in the WAMZ



Source: IMF World Economic Outlook, July 2024 and Central Banks via Trading Economics August 2024; note: Inflation for Sierra Leone, Nigeria, Ghana and the Gambia, Guinea, Liberia are as of March 2024.

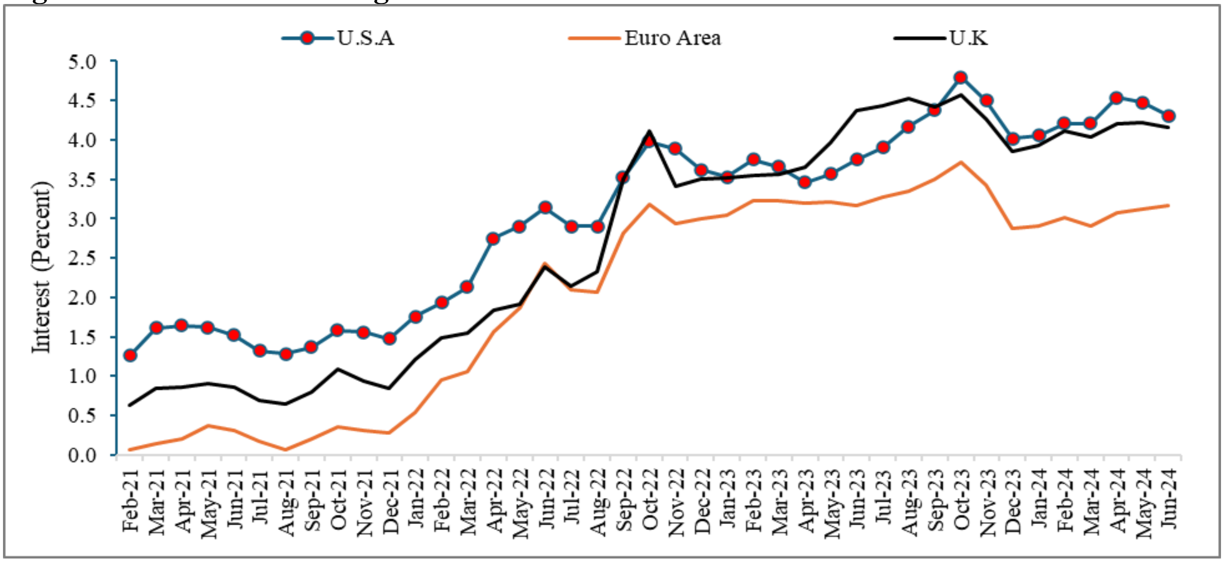
1.3 Monetary Policy and Financial Market Developments

Advanced economies are in a more stable era while emerging market economies struggle with high levels of inflation. Among the major global economies that keep relatively low monetary policy rates are the USA, China, the Euro Area, and the UK; in contrast, the WAMZ nations are in a tightening phase by -raising rates to combat inflation. With continued tightening, WAMZ nations have to contend with the tradeoff between tight monetary policies and growth. . Table 2 in the appendix shows the monetary policy stance and the latest inflation rates of selected central banks.

Sovereign Bond Yield

Although interest rate fluctuations in major global economies have been observed in previous quarters pause in interest rates hike during the review quarter is indicative of central banks' efforts to stimulate economic activity. This led to an increase in demand, investment, increased spending, leading to higher stock prices and increased investor confidence.

Figure 13: Selected Sovereign Bond Yields

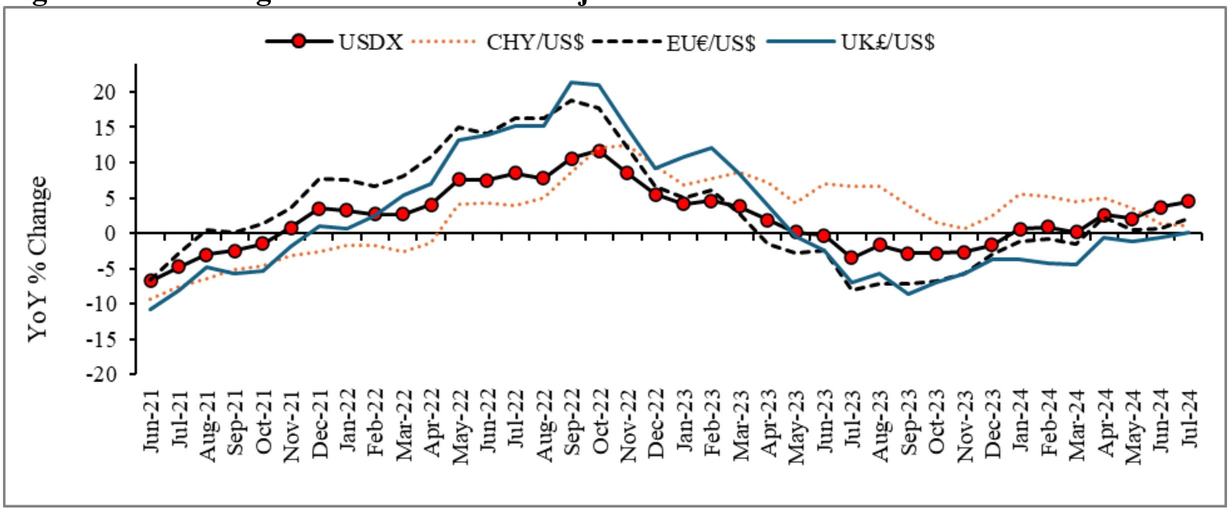


Source: Federal Reserve Economic, FRED Data (July 2024)

Exchange Rate

The US Federal Reserve has maintained relatively high interest rates compared to other central banks, making US assets more attractive to investors. This has led to the relative strengthening of the US dollar against other global currencies in recent months.

Figure 14: Exchange Rates of Selected Major Global Currencies to the U.S. Dollar



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

1.4 Implications for the Outlook of the Sierra Leone Economy

The dynamics of the global economy present implications for the outlook of a small open economy like Sierra Leone. These developments could potentially impact the Siera Leone economy through multiple channels, including export demand, commodity prices, capital flows, Foreign Direct Investment (FDI), supply chains, trade balance, and exchange rates.

Given the fluctuating global commodity prices, Sierra Leone, with its heavy reliance on commodities such as iron ore and agricultural products, faces significant variability in export earnings. The surge in cocoa and coffee prices could benefit farmers and exporters, boosting rural incomes and foreign exchange reserves. Conversely, a downturn in iron ore prices poses a risk to government revenues, particularly given the mining sector's pivotal role in contributing to the country's GDP.

The volatility in global food and energy prices continues to pose a significant upside risk to inflation, particularly for Sierra Leone, which relies heavily on imported food and fuel. Ongoing geopolitical conflicts could further complicate the outlook by threatening global supply chains, adversely impacting sectors in Sierra Leone dependent on external inputs. Additionally, heightened global tensions may deter investors and disrupt trade flows, thereby exacerbating economic vulnerabilities.

A sustained appreciation of the US dollar may place increased pressure on the Leone, worsening conditions in the foreign exchange market and leading to depreciation of the currency. However, the decline in global food prices could help lower the impact of higher import costs on domestic goods, which would ease pressure on domestic prices.

In addition, the potential lowering of interest rates by central banks in advanced economies could introduce capital flow fluctuations, potentially destabilising local investment patterns. However, as these economies gain greater control over inflation and stabilise their financial systems, Sierra Leone might find an opportunity to attract FDI by positioning itself as a stable investment destination in a less volatile global landscape. This could also contribute to enhanced exchange rate stability in Sierra Leone.

2. DOMESTIC ECONOMIC DEVELOPMENTS

2.1 Real Sector Developments

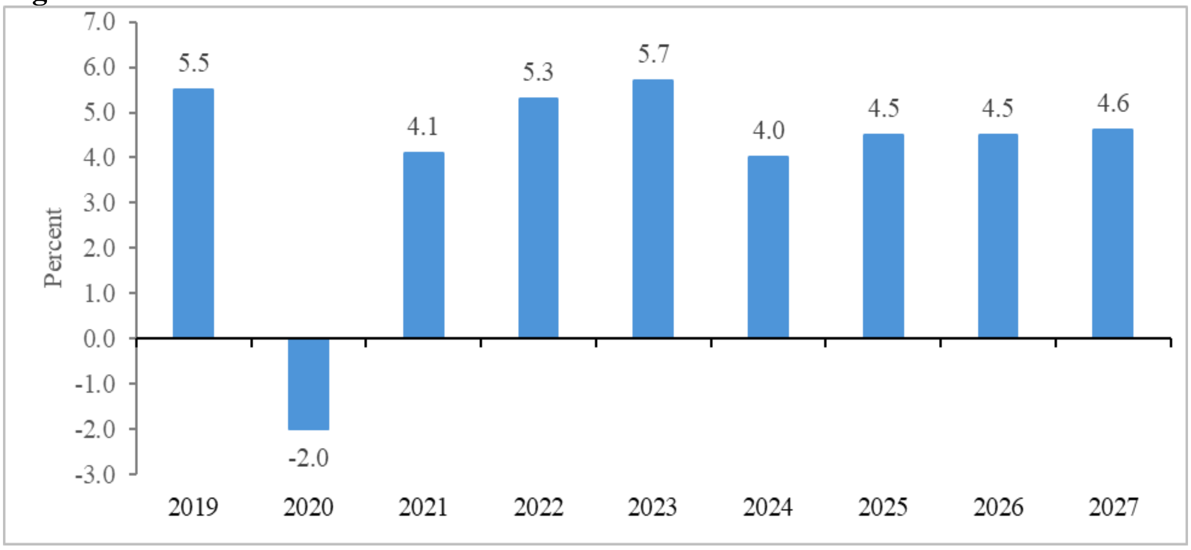
2.1.1 Real GDP Growth

Following the rebasing of real GDP figures, the economy grew by 5.7 percent in 2023, with growth projected to slow to 4.0 per cent in 2024. This deceleration is primarily attributed to weaker performance in the mining sector and declining international iron ore prices. However, the medium-term outlook suggests a recovery trajectory, with GDP forecasted to grow by 4.5 percent in both 2025 and 2026 and further increasing to 4.6 per cent in 2027. This anticipated growth reflects expected expansions in agricultural activities, a rebound in the mining sector, and sustained macroeconomic stability.

The rebasing, which shifted the GDP base year from 2006 to 2018, resulted in a higher real GDP growth rate for 2023, revised up from 3.4 per cent to 5.7 per cent. The updated base year accounts for recent economic activities and enhancements in the methodology used for estimating real GDP. Notably, the rebased GDP data now show that the services sector holds the largest share of real GDP.

Nevertheless, significant risks remain. These include potential increases in commodity prices, trade disruptions due to developments in the Middle East and other geopolitical uncertainties, fiscal slippages, and spillover effects from ongoing global fragmentation. Together, these factors pose ongoing challenges to the domestic economic outlook.

Figure 15: Real GDP Growth

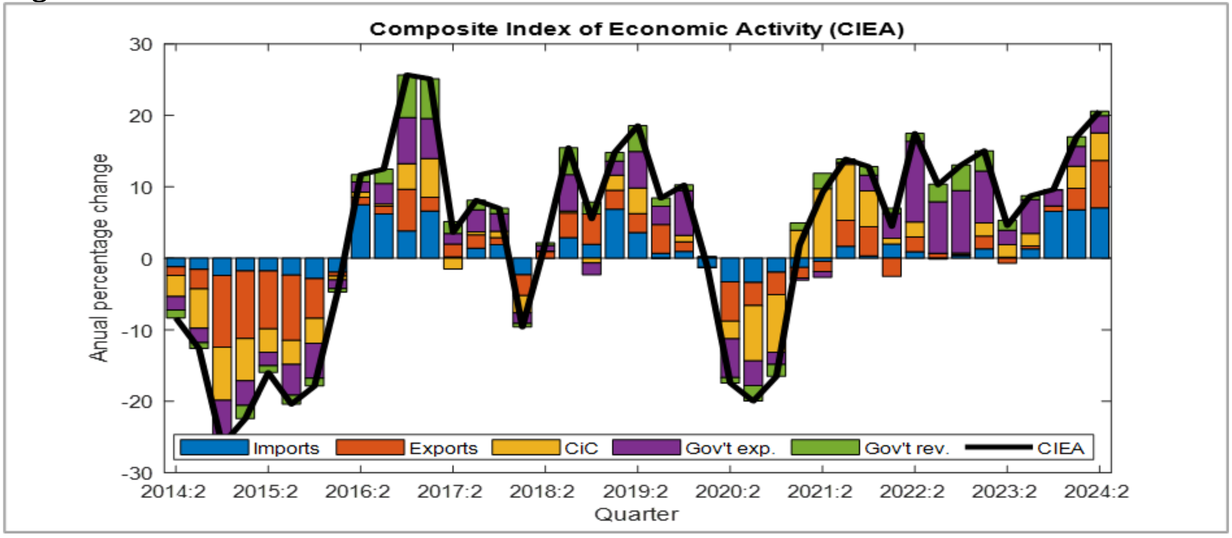


Source: Stats. SL & IMF

2.1.2 Composite Index of Economic Activity (CIEA)

The Bank's analytical high frequency indicator, the Composite Index of Economic Activities (CIEA) showed a slight improvement in economic activity in 2024Q2 relative to 2024Q1. CIEA growth is higher than the preceding quarter, driven by improvements in foreign trade (exports and imports), and an increase in financial transactions, as indicated by the rise in currency in circulation.

Figure 16: Contributions to CIEA

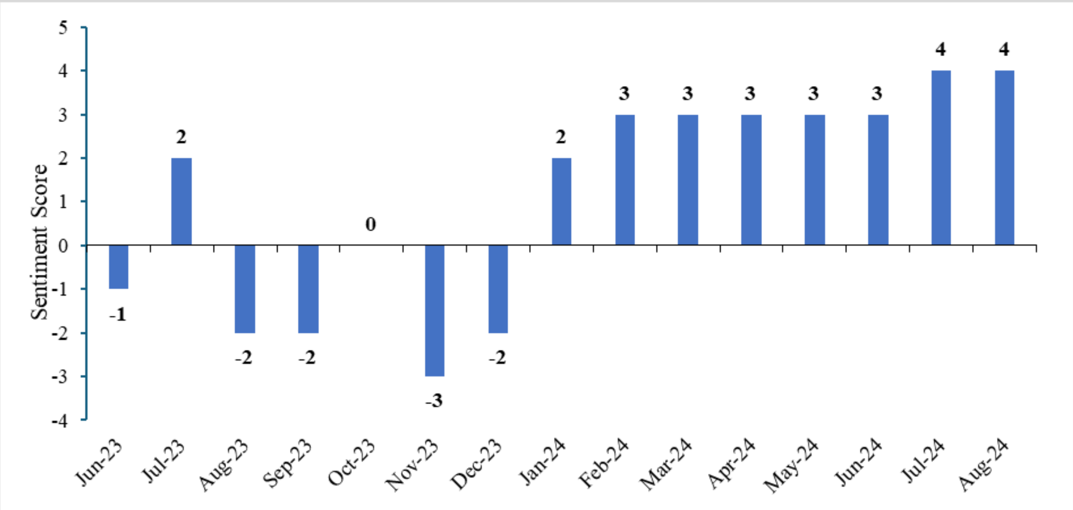


Source: BSL

Box 1: Business Sentiment[3]

Since the beginning of 2024, business sentiment scores have been positive, reflecting increasing optimism among the business community. This optimism, as highlighted in the survey, is attributed to the continued stability of the Leone over the past year and the steady decline in inflation. These developments have given businesses better foresight and confidence in setting their prices.

Figure 17: Business Sentiment Scores



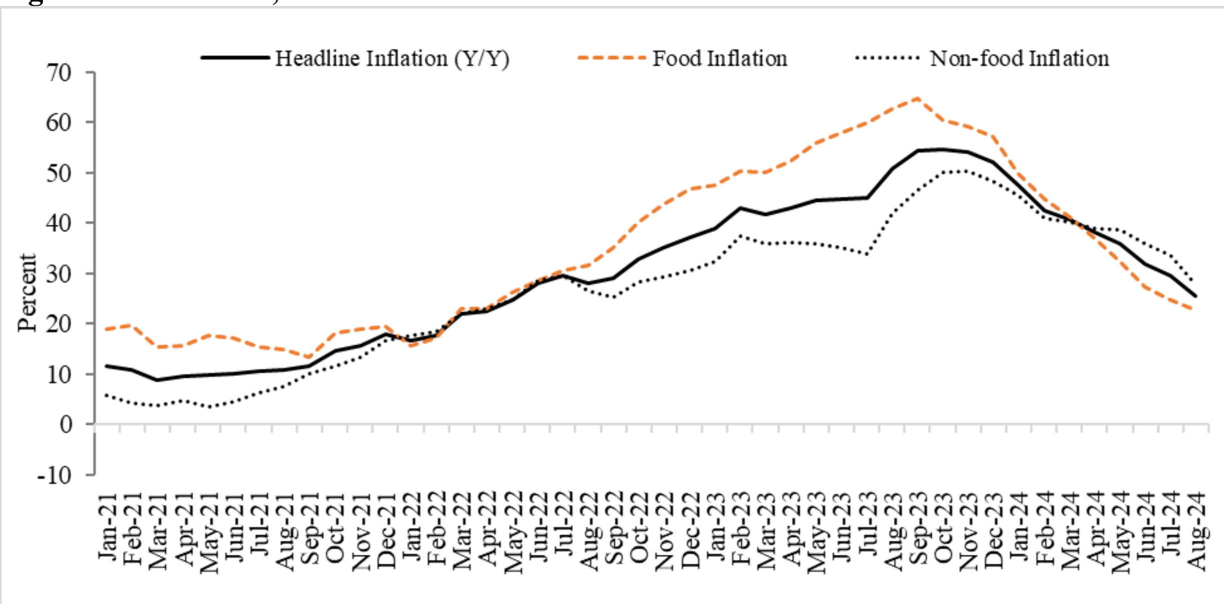
Source: BSL

[3] The business sentiment is still experimental.

2.1.3 Price Developments

Inflationary pressures eased significantly after the peak in the inflation rate in October 2023. Headline inflation decelerated by 8.8 percentage points from 40.7 percent in March 2024 to 31.9 percent in June 2024 and further fell to 25.5 percent in August 2024, The key drivers for the declining trend in headline inflation include tight monetary policy stance of the BSL, relative stability of the exchange rate, tighter fiscal policy and moderating global commodity prices. The decline in headline inflation was occasioned by the decline in the pace of increase of both food and non-food components in the consumer basket. Food inflation slowed from 41.3 percent in March 2024 to 27.3 percent in June 2024 and further to 22.8 percent in August 2024. Similarly, Non-food inflation moderated from 40.2 percent in March 2024 to 36.0 percent in June 2024 and further to 27.9 percent in August 2024.

Figure 18: Headline, Food and Non-food Inflation

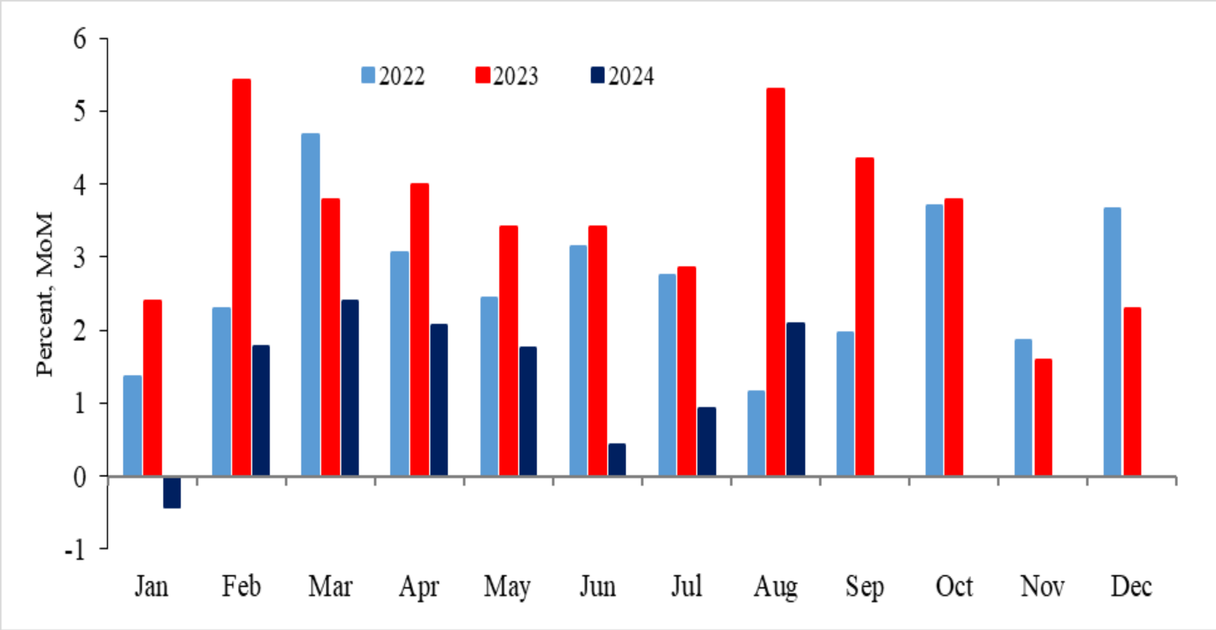


Source: Stats. SL

Monthly Inflation

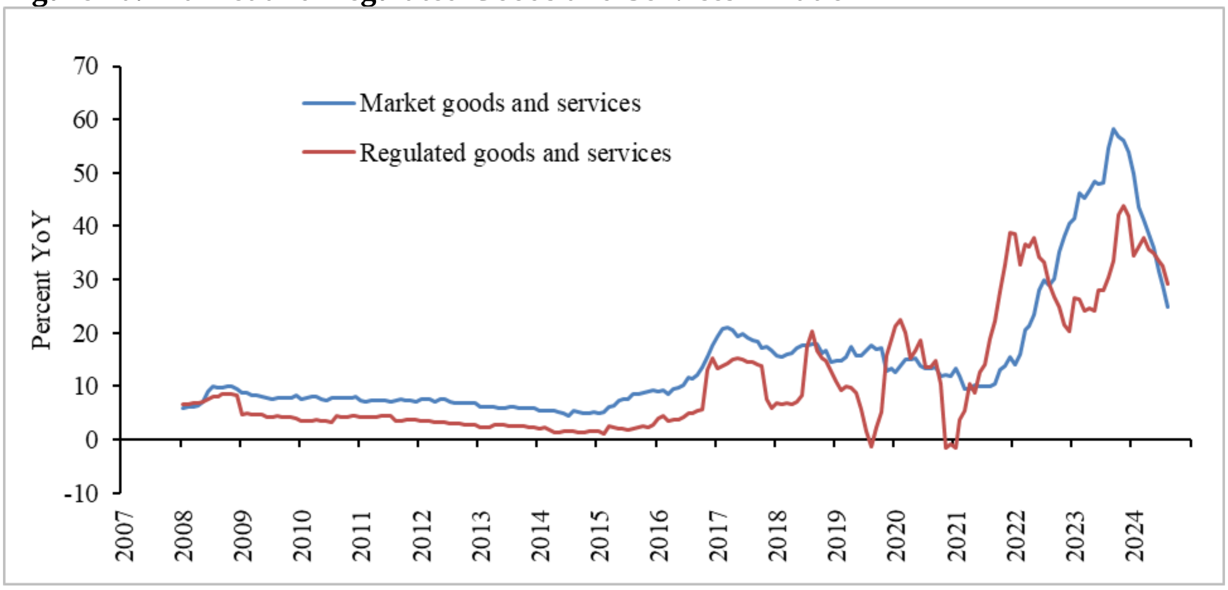
On a month-on-month basis, headline inflation on average was broadly lower in 2024 compared to 2023 and 2022. Monthly inflation declined from 2.4 percent in March 2024 to 0.4 percent in June 2024 broadly aligned with the downward trajectory of the year-on-year inflation. Despite the downward trend in monthly inflation during the first and second quarters, it began to increase in July 2024 to 0.9 percent and further to 2.1 percent in August 2024 partly due to the impact of unfavorable weather conditions and enforcement of tax compliance.

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



Source: Stats. SL

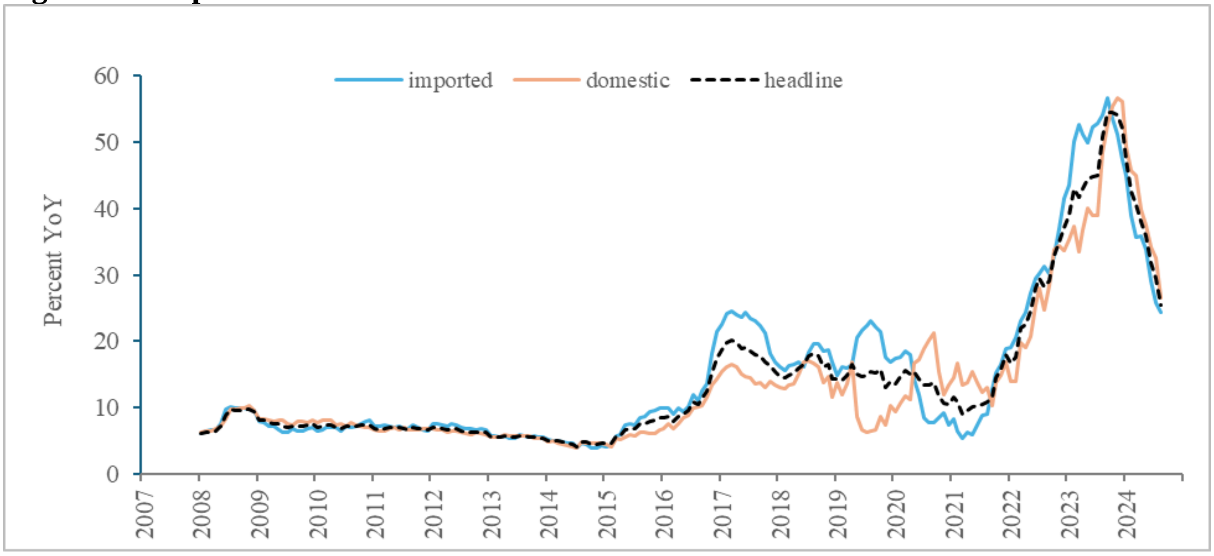
Figure 20: Market and Regulated Goods and Services Inflation



Source: BSL

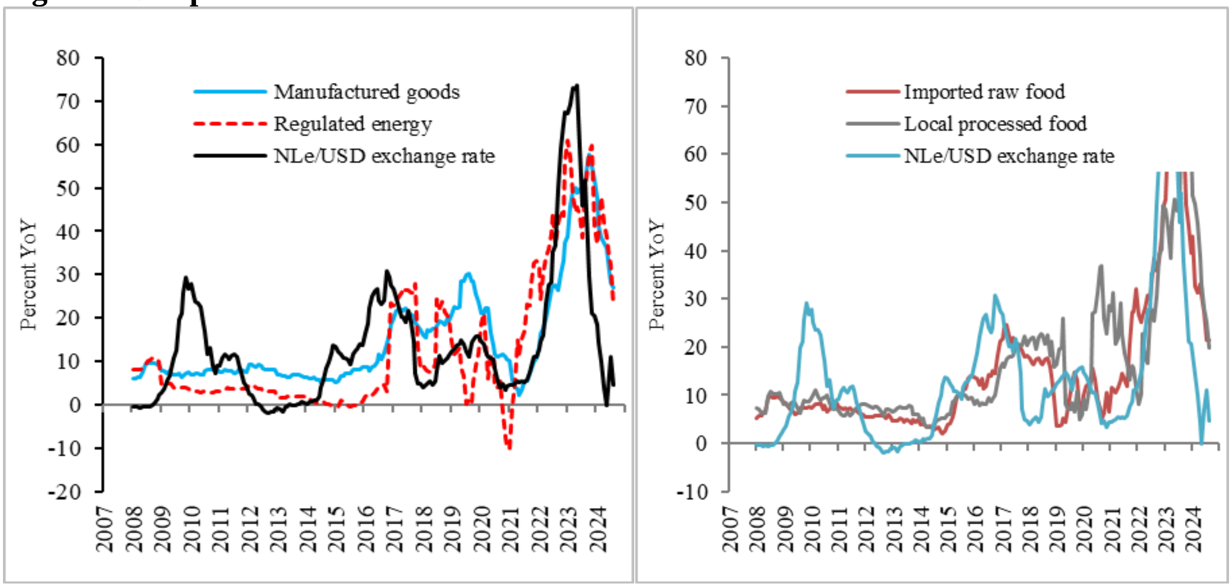
Analytical computation of inflation revealed a decline in both imported and domestic goods and services inflation in June 2024 and August 2024 compared to March 2024, which is consistent with the easing headline inflation. This downward trajectory reflected in part the impact of subdued global prices, BSL policies to remove bottlenecks in the foreign exchange markets as well as the increased food production during the review quarter.

Figure 21: Imported and Domestic Inflation



Source: Stats. SL

Figure 22: Depreciation and Inflation



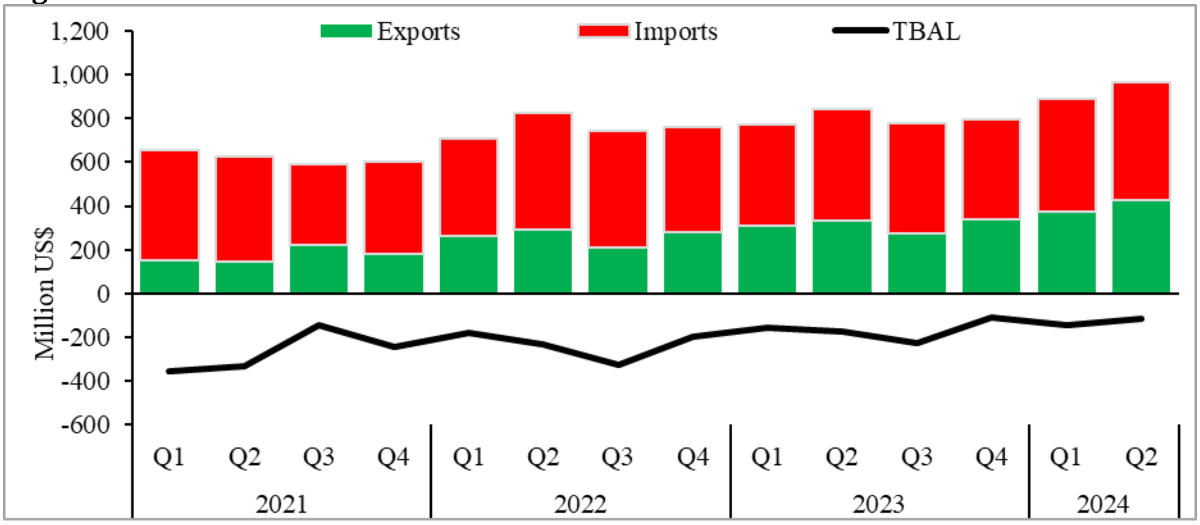
Source: BSL

2.2 External Sector Developments

2.2.1 Merchandise Trade

Sierra Leone’s trade deficit with the rest of the world narrowed by 18.81 percent to US$115.58 mn in 2024Q2 from US$142.35mn in 2024Q1, due to improvement in export receipts, which fully offset the increase in the import bills. Exports receipts increased by 13.89 percent which is relatively higher when compared with the 4.86 percent increase in import bills.

Figure 23: Merchandise Trade



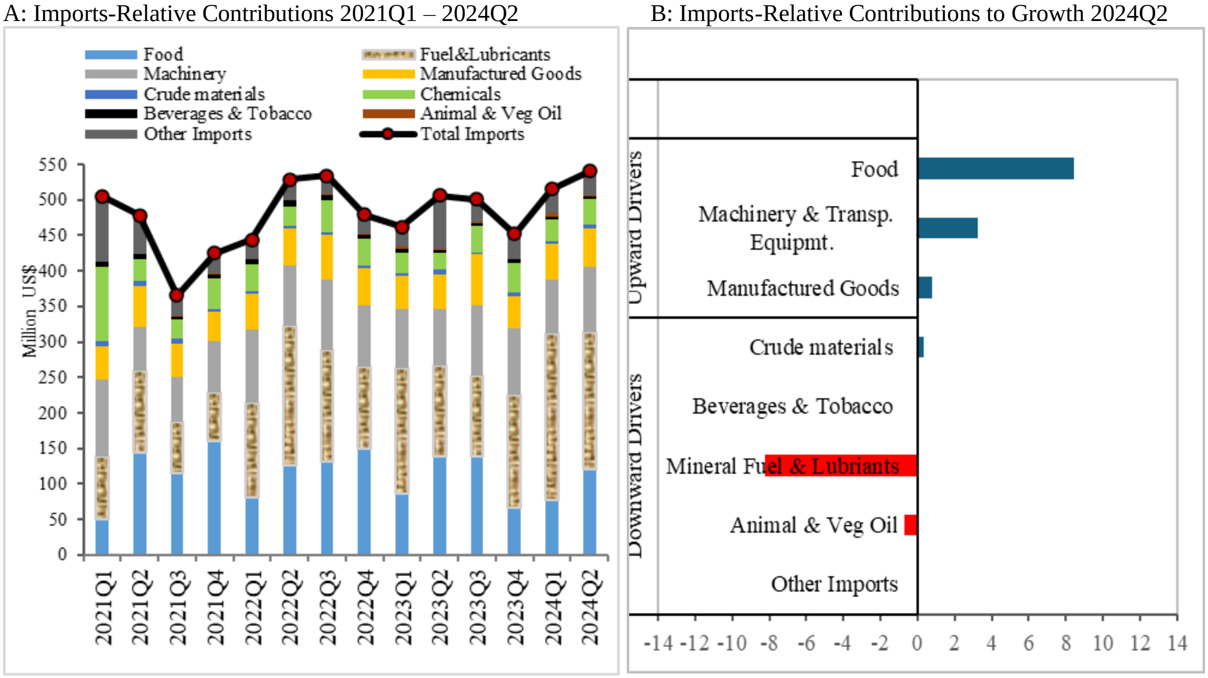
Source: NRA/Customs & BSL

Components of Import

Merchandise imports were driven by Food, Machinery & transport equipment, Manufactured goods, and crude materials. Merchandise imports valued at US$540.40mn increased by 13.89 percent in 2024Q2 from US$515.36mn in 2024Q1.

Figure 24: Components of Import

A: Imports-Relative Contributions 2021Q1 – 2024Q2 B: Imports-Relative Contributions to Growth 2024Q2



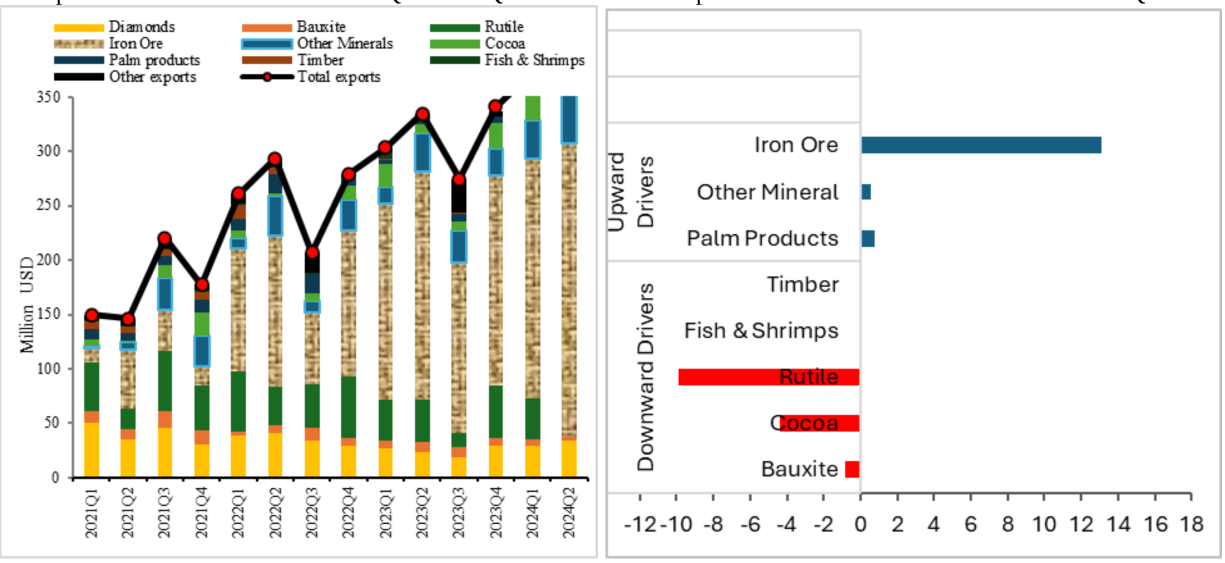
Source: NRA/Customs & BSL

Components of Export

The increase in Merchandise exports was driven mainly by Iron ore coupled with increased exports of palm products and other minerals. Total value of merchandise exports increased by 13.89 percent to US$424.82mn in 2024Q2 from US$373.01mn in 2024Q1.

Figure 25: Components of Export

A: Exports-Relative Contributions 2021Q1 – 2024Q2 B: Exports-Relative Contributions to Growth 2024Q2

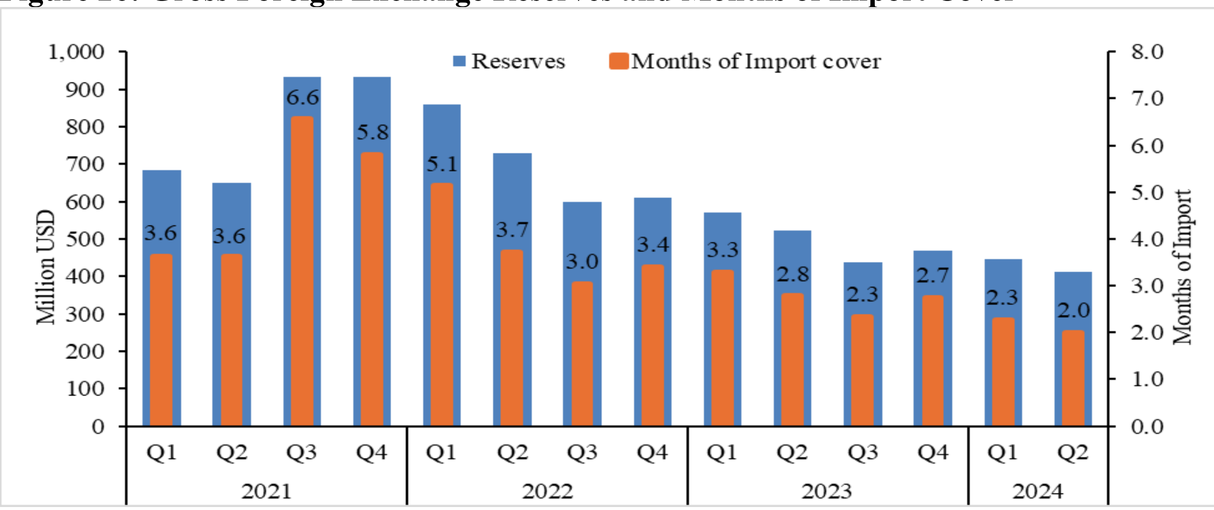


Source: NRA/Customs & BSL

2.2.2 Gross Foreign Exchange Reserves

Gross Foreign Exchange Reserves (GFR) of BSL decreased by 7.87 percent to US$411.35mn in 2024Q2 from US$446.50mn, in 2024Q1. The decrease in GFR to US411mn represents 2.0 months of import cover in 2024Q2 compared to the 2.3 months coverage recorded in 2024Q1. The decline in the gross foreign reserve position was mainly on account of outflows in respect of payments for goods and services (notably electricity support, government outlay, embassy/mission payments and printing of currency) and external debt service payments to bilateral/multilateral development partners including the IMF, World Bank, AfDB, IFAD, OPEC/OFID.

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

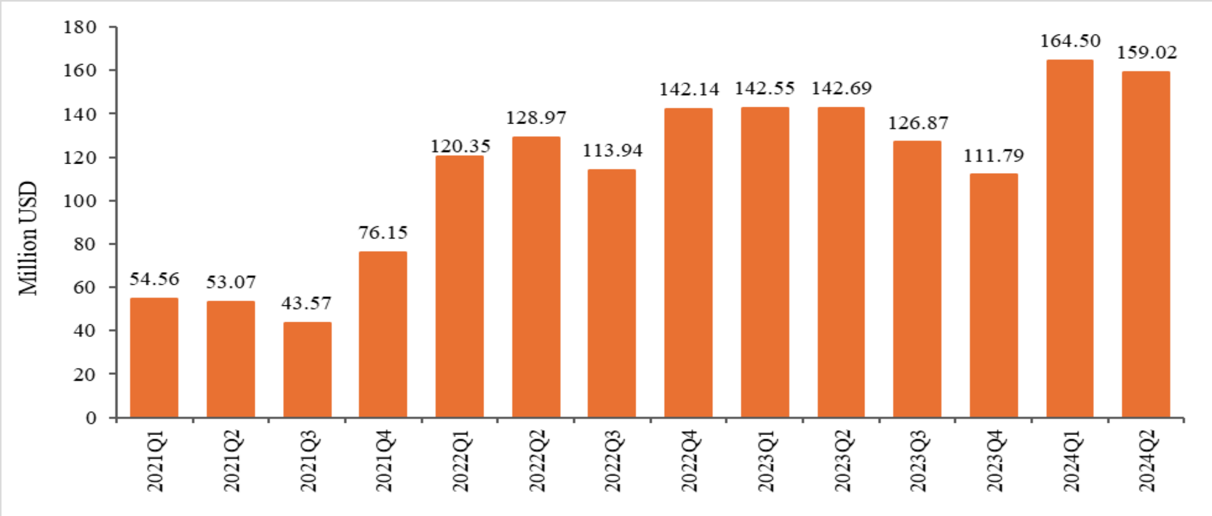


Source: BSL

2.2.3 Diaspora Remittances

Following an increase in diaspora remittance inflows reported in the last quarter, remittances decreased slightly in 2024Q2 by 3.33 percent to US$159.02mn from US$164.50mn in 2024Q1. However, remittances are expected to improve in the coming months, as Sierra Leoneans abroad typically provide financial support to family and friends, especially during the end-of-year festive season.

Figure 27: Diaspora Remittances into Sierra Leone

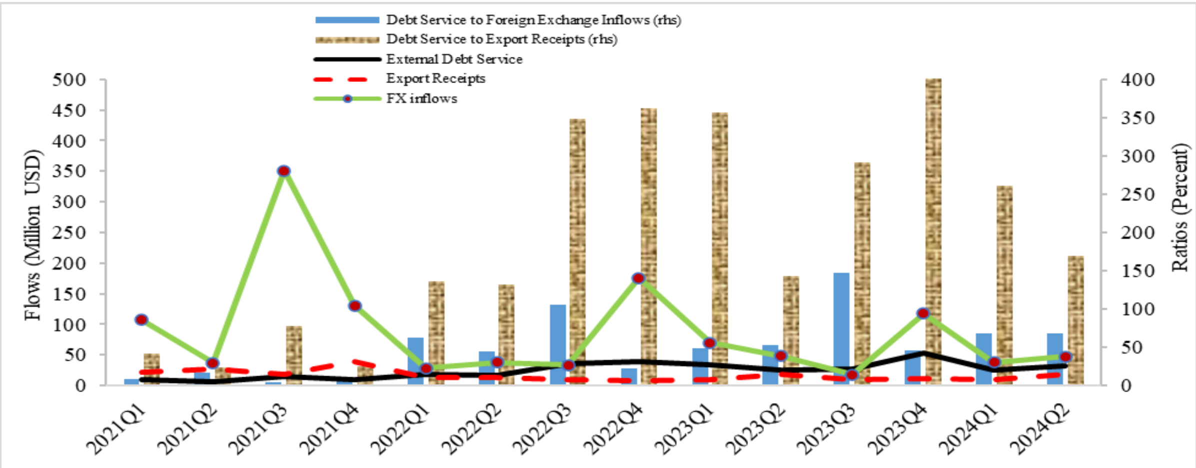


Source: BSL

2.2.4 External Vulnerability Ratios

External debt service payments increased by 24 percent to US$32.19mn in 2024Q2 from US$25.94mn in 2024Q1. Similarly, Receipts from Exports and Forex Inflows also increased by 91.2 percent to US$19.02mn and 25.3 percent to US$47.48mn in 2024Q2 from US$9.95mn and US$37.89mn respectively in 2024Q1. However, both export receipts and Forex inflows increased by greater proportion than the increase in external debt service.

Figure 28: External Vulnerability Ratios



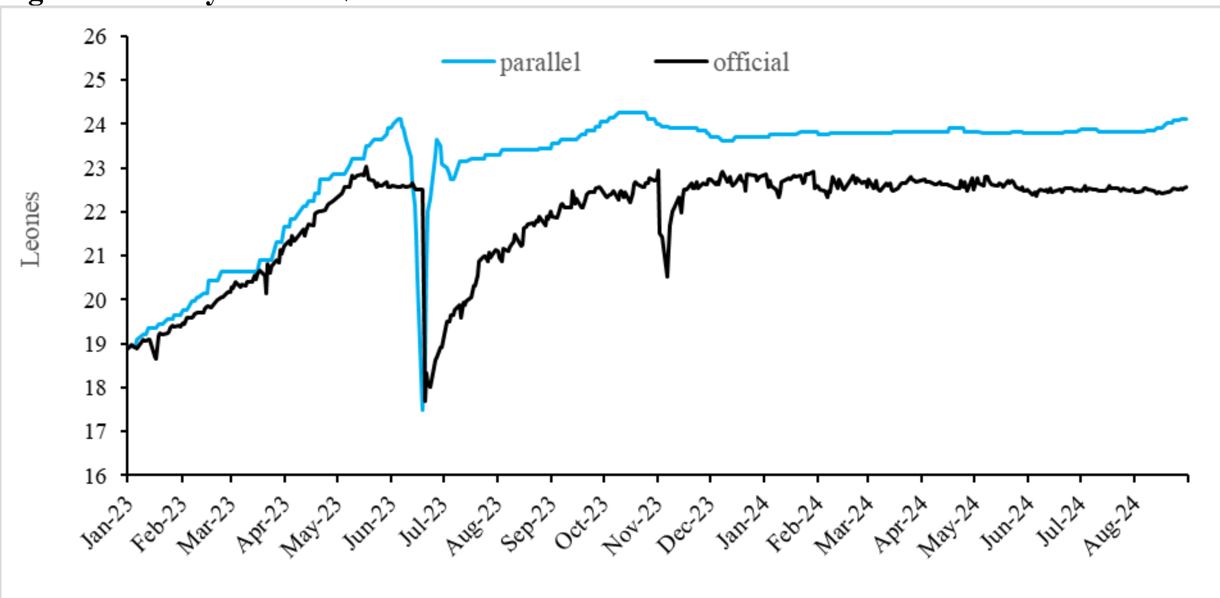
Source: BSL

2.3 Exchange Rate and Foreign Exchange Market Developments

2.3.1 Exchange Rate Movements

The exchange rate has been relatively stable since July 2023, thanks to the policy measures implemented by the BSL aimed at reducing excess volatility and restoring public confidence in the New Leone. These measures include the enforcement of existing export repatriation requirements and mandating all international brokerage firms to trade funds disbursed by development partners using the official mid exchange rateAdditionally, renewed confidence in the local currency resulted in decreased speculation in the FX market from Q4 2023 through to August 2024, consequently reducing hedging activities among market participants.

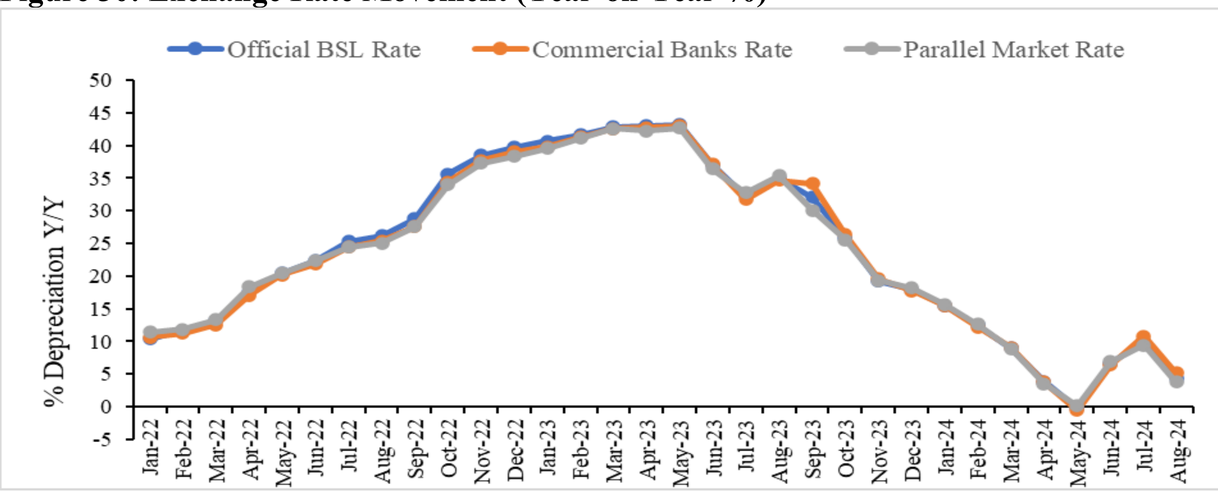
Figure 29: Daily NLe/US$ Mid Rates in the Official and Parallel Market



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 %)



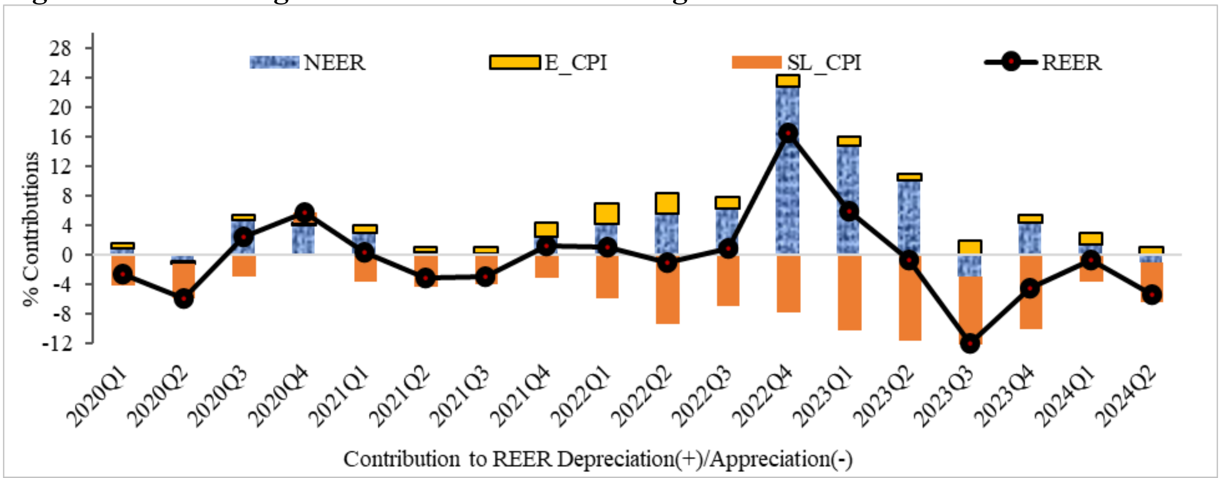
Source: BSL

2.3.2 Effective Exchange Rates

The Nominal Effective Exchange Rate (NEER), appreciated by 1.0 percent in 2024Q2, compared to a depreciation of 1.5 percent in 2024Q1. The appreciation of NEER reflects relative stability in the foreign exchange market in 2024Q2.

The Real Effective Exchange Rate (REER), appreciated by 5.3 percent in 2024Q2, relative to an appreciation of 0.6 percent in 2024Q1. A stronger REER also suggests reduced competitiveness, indicating that Sierra Leone's domestic exports are relatively more expensive in the international market, making them less attractive to international buyers.

Figure 31: Percentage Contributions to the Change in REER

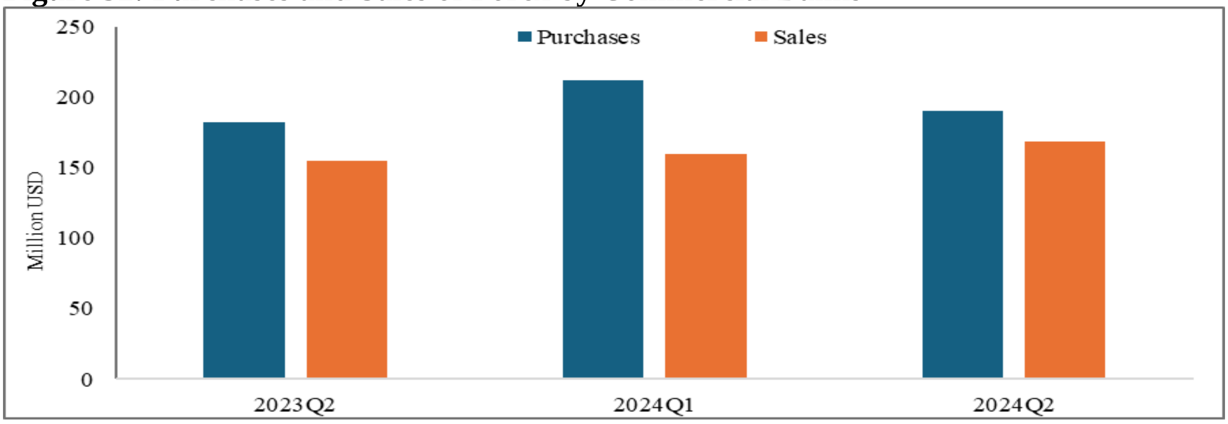


Source:World Bank, World Development Indicators, BSL Data Warehouse, Federal Reserve Economic Data

2.3.3 Foreign Exchange Market Turnover

Total amount traded in the foreign exchange market (purchases and sales) during 2024Q2 was USD358.67mn, a decrease by 3.54 percent relative to USD371.84mn traded in the previous quarter (2024Q1). However, on a year-on-year basis, there was an increase of 6.26 percent in the total amount traded in 2024Q2 when compared to the corresponding quarter (2023Q2).

Figure 32: Purchases and Sales of Forex by Commercial Banks

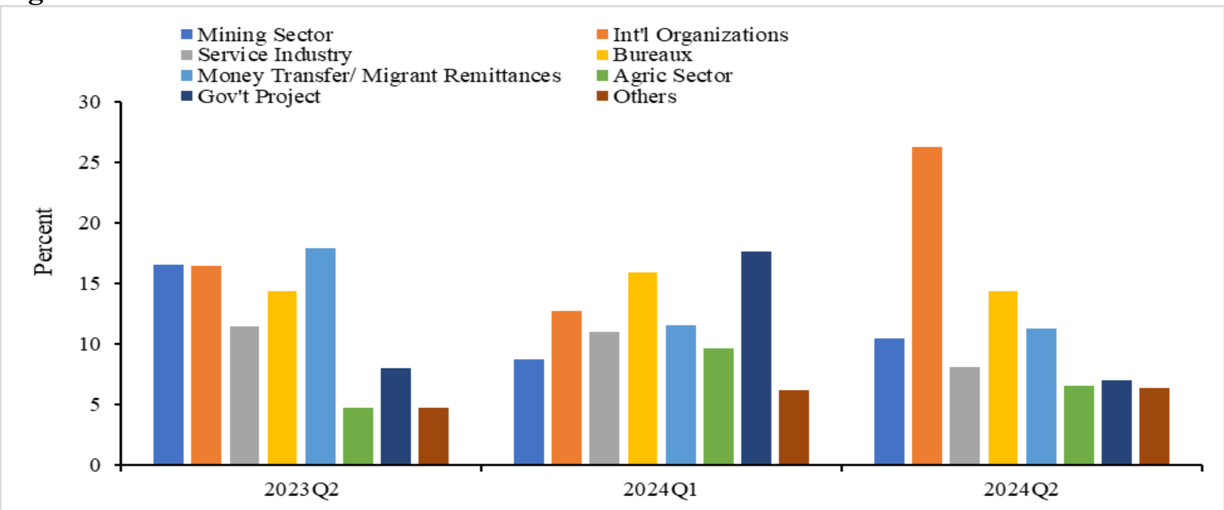


Source: BSL

Purchase of Forex by Commercial Banks

Commercial banks' foreign exchange purchases were primarily sourced from NGOs and international organisations, accounting for 26.26 percent of the total foreign exchange acquired by commercial banks. This was followed by foreign exchange bureaus, contributing 14.38 percent. Purchases from migrant remittances made up 11.25 percent, with the mining sector contributing 10.44 percent. Additionally, international brokerage firms, the service sector, government projects, and the agricultural sector contributed 9.53 percent, 8.13 percent, 7.05 percent, and 6.57 percent, respectively. Foreign exchange from remittances is typically acquired either directly from remittance companies or indirectly through FX bureaus.

Figure 33: Commercial Banks' Forex Purchases from Selected Sectors



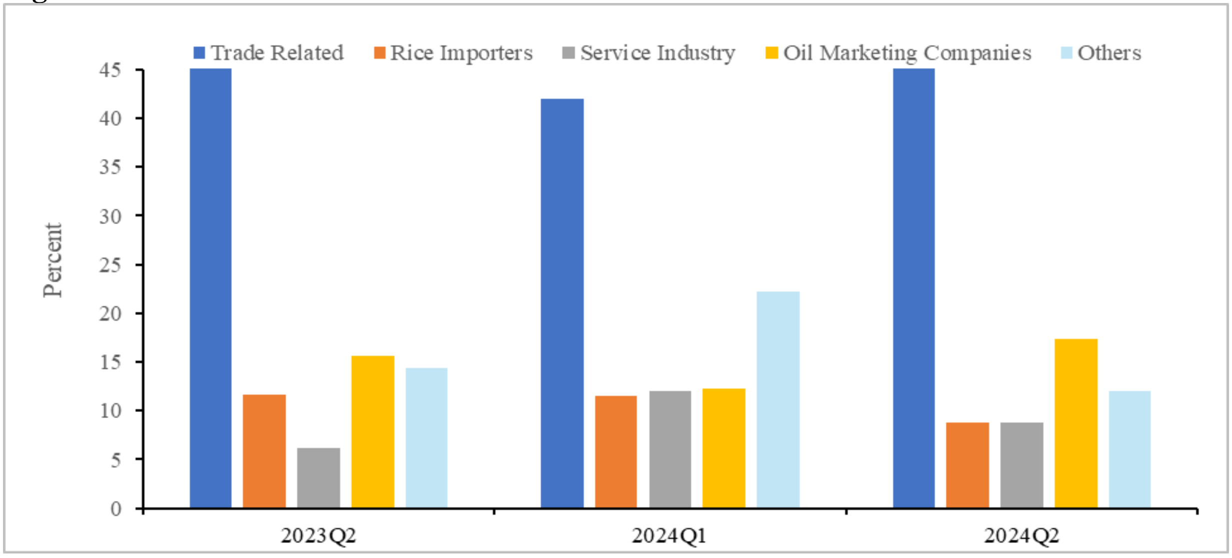
Source: BSL

Note: Others include purchases from manufacturing sector, 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. Much of the forex sold by commercial banks during 2024Q2 were for the importation of trade related product (53.03 percent), followed by oil marketing companies (17.33 percent). Sale of FX to other sectors (which includes telecommunication companies, fishing companies, investment related firms, logistics and construction companies) accounted for 12.06 percent whilst rice importers and the service industry received 8.80 percent and 8.79 percent respectively.

Figure 34: Commercial Banks Sale of Forex to Selected Sectors



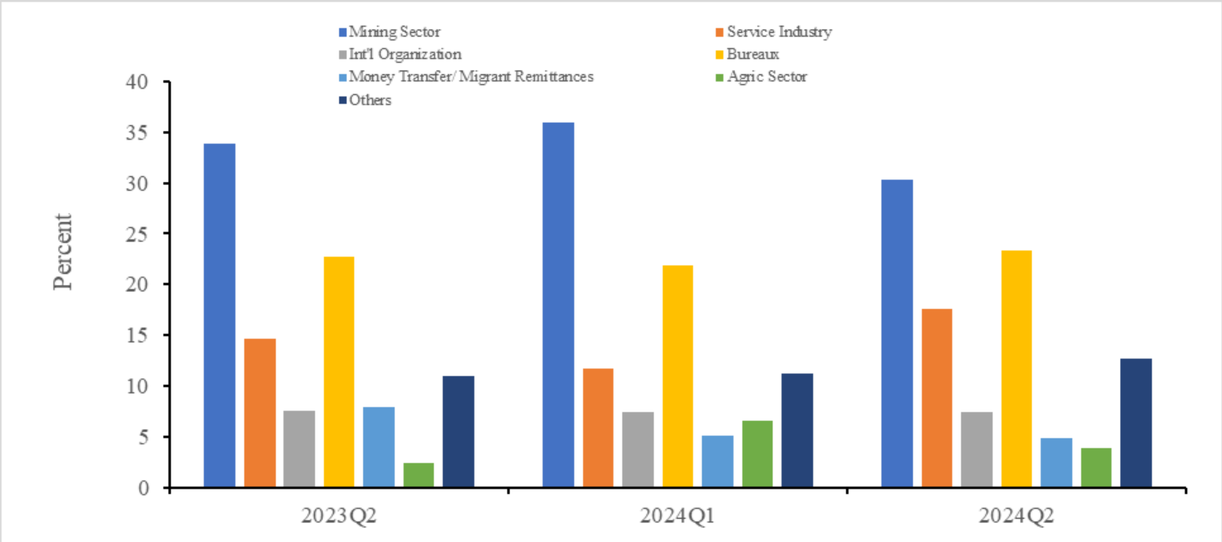
Source: BSL

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

Receipt of Forex by Commercial Banks

FX receipts into customers' foreign currency accounts decreased by 7.56 percent in 2024Q2 from USD634.89mn in 2024Q1 to USD586.89 in 2024Q2. The major contributors to FX receipts by commercial banks include FX receipts from the mining sector, FX bureaus, service industry and other industries.

Figure 35: 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

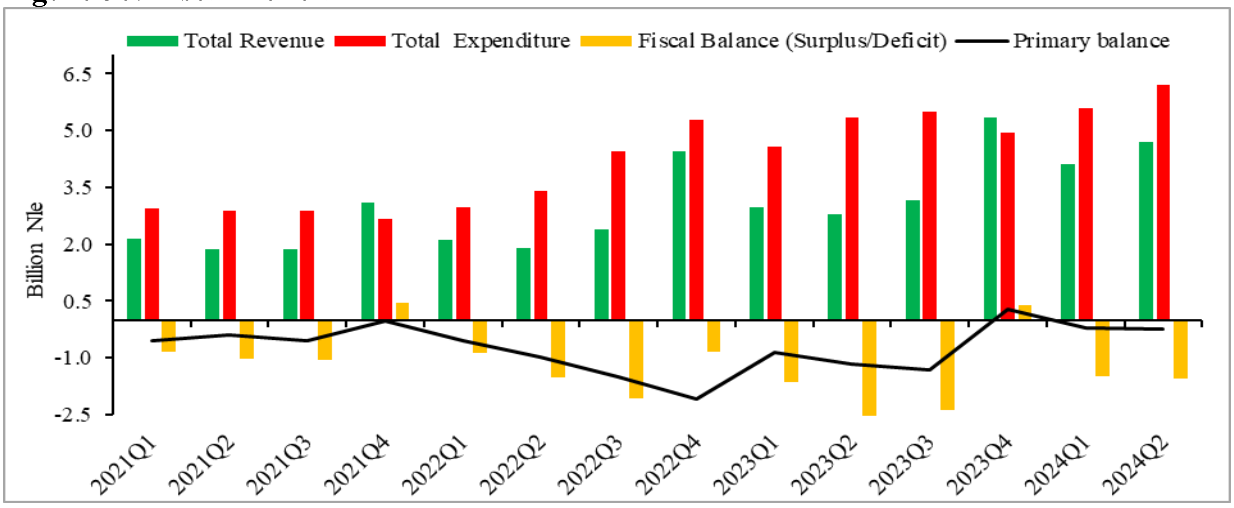
The stability of the exchange rate is expected to be challenged as we are now in the lean period in terms of production of minerals coupled with increased demand for the importation of food items and other essential commodities. Notwithstanding the outlook for the coming months, it is however anticipated that the supply of forex in the market will increase towards the end of the year on account of expected inflows from donor disbursements.

2.4 Fiscal Developments

2.4.1 Fiscal Policy Stance

In 2024Q2, preliminary data suggest a moderately widened fiscal outcome relative to the preceding quarter, despite improved revenue performance. This development reflects the surge in government outlays, particularly due to the increase in subsidies and transfer payments, stemming from the ongoing clearance of electricity arrears. Hence, fiscal deficit increased to NLe1.6bn in 2024Q2, up from NLe1.5bn in 2024Q. Similarly, the primary balance deficit deteriorated to NLe0.3bn in 2024Q2, from NLe0.2bn in 2024Q1.

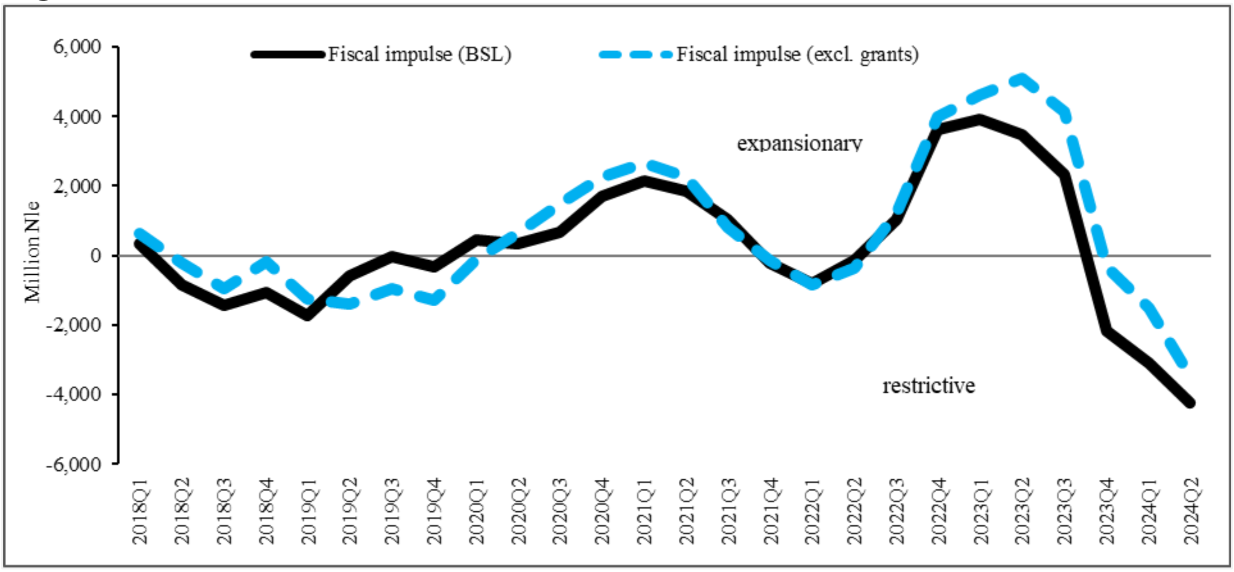
Figure 36: Fiscal Deficit



Source: MoF

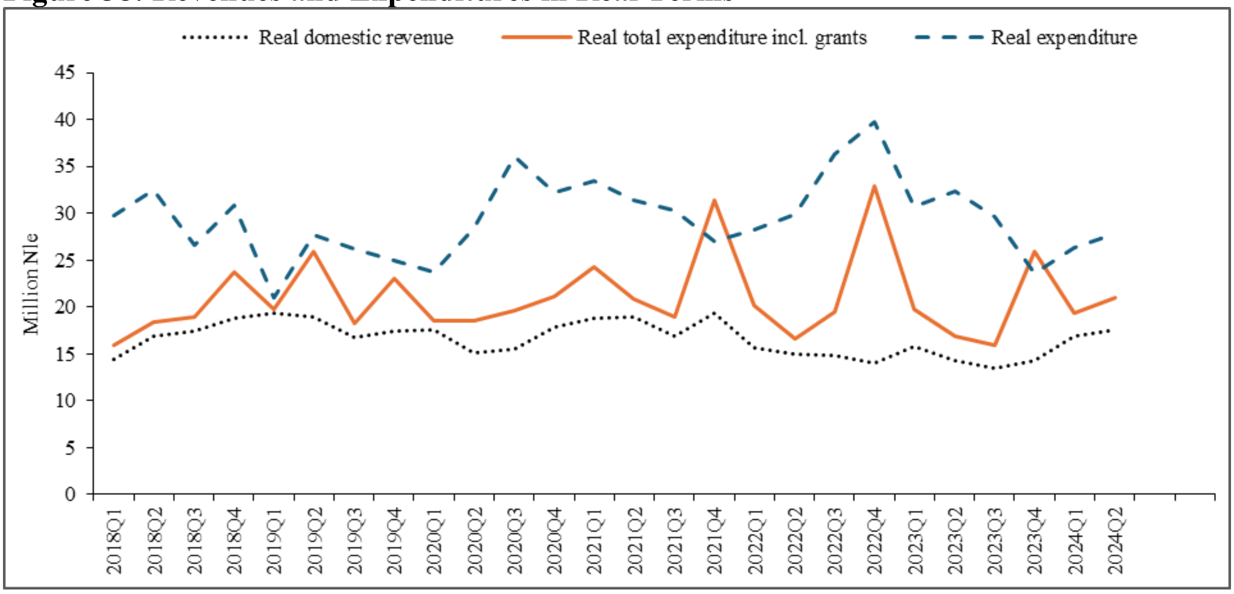
Fiscal policy was expansionary in 2024Q2 relative to an almost neutral stance in 2024Q1, partly largely driven by an increase in government discretionary spending alongside improvements in domestic revenue mobilisation. This rise in spending was mainly directed toward arrears clearance and security sector needs. Despite the increase in discretionary spending, the government remained aligned with available resources and its fiscal consolidation goals. In real terms, domestic revenue performance improved, though expenditures also rose due to newly identified government priorities.

Figure 37: Fiscal Indicators



Source: MoF & BSL

Figure 38: Revenues and Expenditures in Real Terms



Source: MoF & BSL

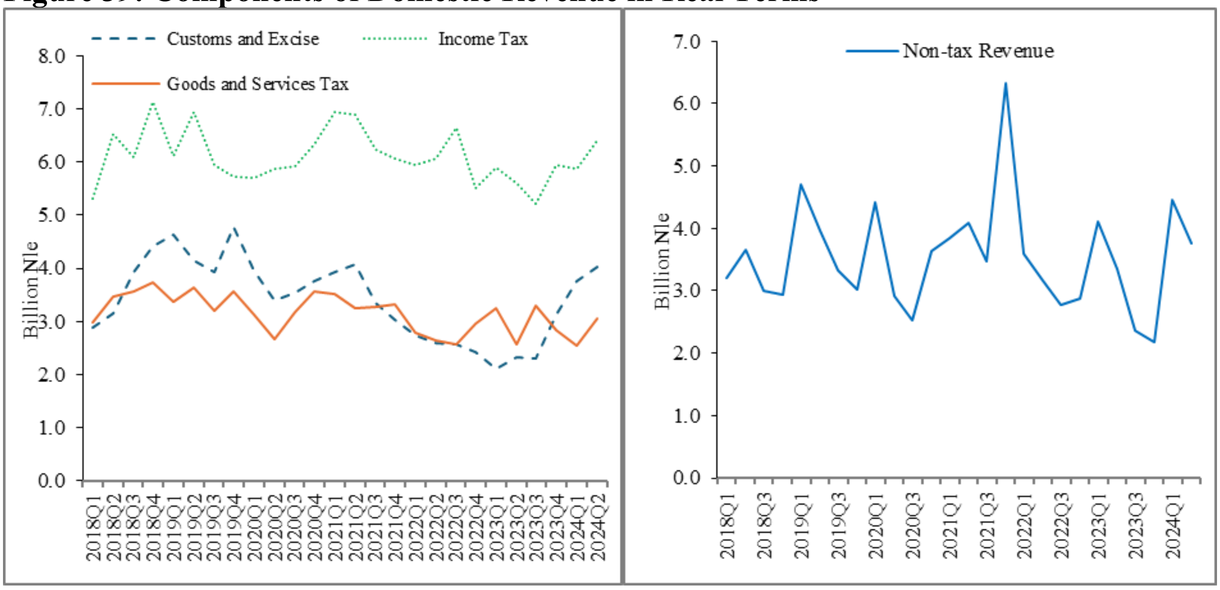
2.4.2 Government Revenues and Grants

Total revenue and grants in 2024Q2 amounted to NLe4.7 bn, reflecting a 13.9 percent increase from NLe4.1 bn in the previous quarter and surpassing the quarterly target of NLe4.3 bn by 9.3 percent. The improved revenue performance was attributed to the increase in both foreign grants and domestic revenue mobilised. Foreign grants rose by 43.8 percent to NLe0.77 bn in 2024Q2, up from NLe0.53 bn in 2024Q1, exceeding the target of NLe0.65 bn.

Domestic revenue mobilisation also expanded by 9.4 percent, reaching NLe3.9bn in 2024Q2 from NLe3.6 bn in the previous quarter, surpassing the target of NLe3.7bn. The boost in domestic revenue collection was mainly attributed to the increase in tax revenue, while non-tax revenue contracted in the review quarter. Tax revenue increased to NLe3.0bn in 2024Q2, from NLe2.6bn in 2024Q1 and exceeded the quarterly target of NLe2.8bn. This development in tax revenue collection reflects improved tax administration and compliance by the National Revenue Authority.

In contrast, non-tax revenue declined to NLe0.83bn in 2024Q2, down from NLe0.94 bn in the preceding quarter, and fell short of the target of NLe0.84bn. This contraction was largely due to reduced collections from other departments, including lower receipts from the TSA and dividends from parastatals. However, receipts from road user charges and vehicle licenses increased to NLe0.55bn in 2024Q2, compared to NLe0.50bn in 2024Q1.

Figure 39: Components of Domestic Revenue in Real Terms

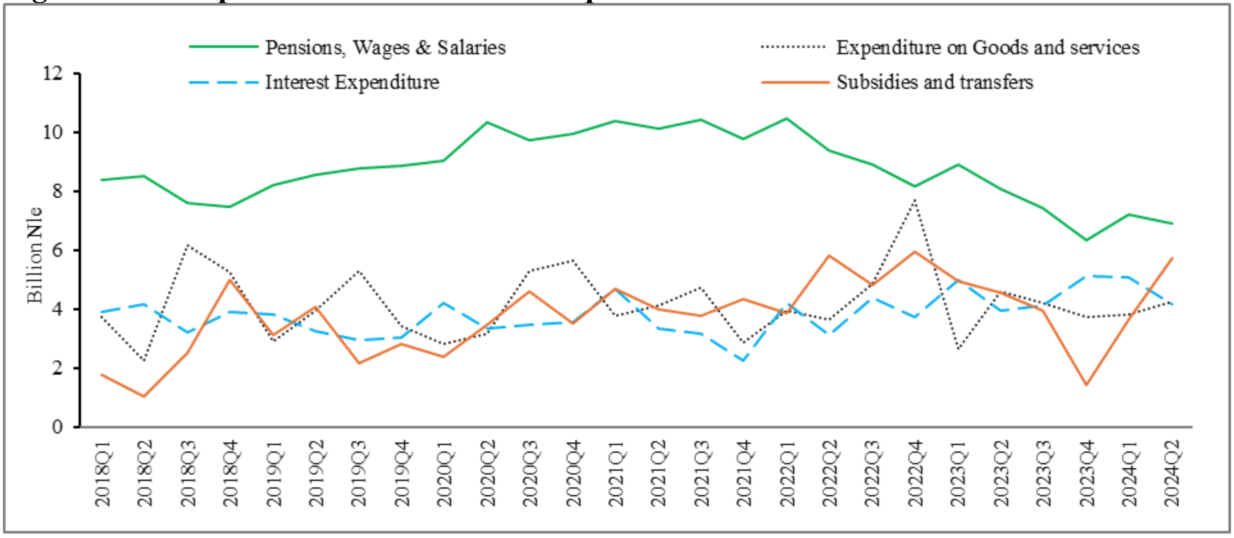


Source: MoF

2.4.3 Government Expenditures

Total government expenditure and net lending increased by 11.27 percent to NLe6.2bn in 2024Q2, from NLe5.6bn in 2024Q1, overshooting the ceiling of NLe6.1bn by 1.63 percent. This increase reflects expansion in both recurrent spending and capital expenditure during the review period. However, in real terms, most expenditure components trended downward, irrespective of the sharp pickup in subsidies and transfer payments, leading to a 14 percent drop in government expenditure in 2024Q2 compared to the corresponding 2023Q2.

Figure 40: Components of Government Expenditure in Real Terms



Source: MoF

Recurrent expenditure expanded to NLe4.7bn in 2024Q2, from NLe4.2bn in 2024Q1 and overshot the target of NLe4.5bn by 3.78 percent due to overrun in non-salary, non-interest spending. Non-Salary, Non-Interest expenditure (NSNIE) increased by 41.65 percent to NLe2.2bn in 2024Q2, from NLe1.6bn in 2024Q1, and in breach of the ceiling of NLe1.7bn by 27.78 percent. The overrun in NSNIE resulted from the increase in goods & services expenditure, and subsidies & transfer payments. Wages and salaries expenditure marginally increased to NLe1.55bn in 2024Q2, from NLe1.52bn in 2024Q1, and was within the ceiling of NLe1.6bn. On the other hand, debt services payments reduced to NLe0.9bn in 2024Q2 from NLe1.1bn in 2024Q1 by 14.33 percent and below the quarterly target of NLe1.2bn owing to the decrease in both foreign and domestic debt service payments during the review quarter.

Capital expenditure expanded to NLe1.5bn in 2024Q2 from NLe1.4bn in 2024Q1, staying within the ceiling of NLe1.6bn. This growth was primarily driven by an increase in foreign capital expenditure, while domestic capital expenditure declined during the review period.

2.4.4 Financing

The overall deficit of NLe1.6bn was largely financed by domestic and foreign sources. Domestic deficit financing amounted to NLe1.7bn, while foreign deficit financing amounted to NLe0.2mn. Other sources of deficit financing amounted to a repayment of NLe0.14bn.

2.4.5 Fiscal Sector Outlook

Looking ahead, revenue is expected to increase with the ongoing implementation of tax measures and anticipated inflows from development partners. Furthermore, the government's efforts to rationalise expenditures, alongside new disciplinary measures—such as requiring MDAs to obtain Parliamentary approval for exceeding budget allocations or requesting additional resources—could support balanced budget maintenance. However, potential risks to budgetary operations may arise from emerging expenditure pressures associated with delayed payments and arrears clearance in the forthcoming quarters.

2.5 Money Market Developments and Monetary Aggregates

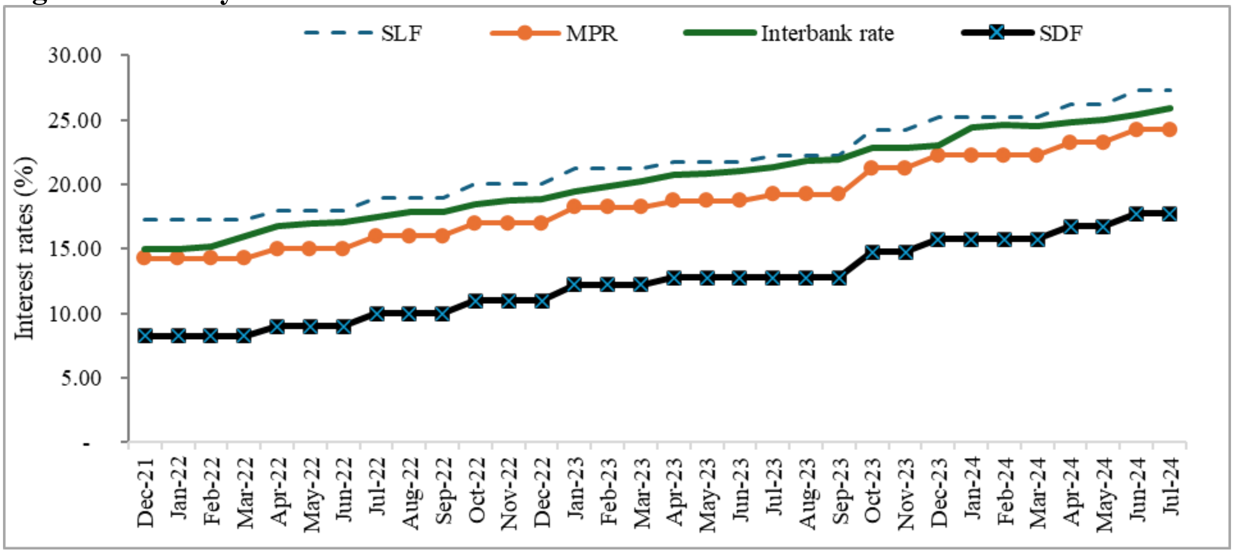
2.5.1 Interest Rates Development

Monetary Policy Stance

Following the June 2024 meeting, the monetary policy stance was tightened further by hiking the MPR by 100 basis points to 24.25 percent. Accordingly, the SLF and the SDF rates were adjusted to 27.25 percent and 17.75 percent, respectively.

The interbank weighted average interest rate rose by 0.92 percent, from 24.54 percent in March 2024 to 25.46 percent in June 2024, and further increased by 0.43 percent to reach 25.89 percent in July 2024. Similarly, the average lending rate of commercial banks edged up by 0.12 percent, from 20.26 percent in March 2024 to 20.38 percent in June 2024. However, the savings rate of commercial banks remained steady at 2.23 percent from March through June 2024. Consequently, the spread between the average lending rate and savings rate of commercial banks increased slightly by 0.72 percent, from 18.03 percent in March to 18.75 percent in July 2024.

Figure 41: Policy rates and Interbank rate



Source: BSL

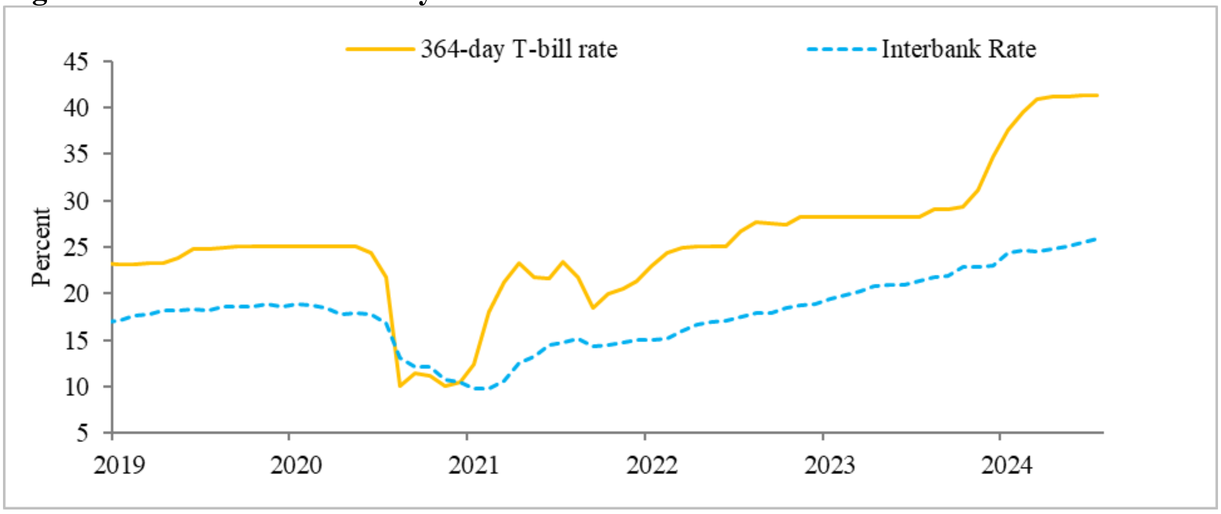
Treasury Bill Rates

During the review period, the primary market auctions for Government Securities showed mixed results. While the 91-day and 182-day tenures were generally undersubscribed, the 364-day tenure was consistently oversubscribed. This dynamic was reflected in the yields, with the interest rate on the 364-day T-bill rising by 0.4 percent from 40.88 percent in March 2024 to 41.28 percent by June 2024 but remaining unchanged since then through to August 2024. However, there were no trading activities for the 182-day T-bills from November 2023 through February 2024. But there were trading activities for the 182 T-bills from March to August 2024, with an average yield of 29.22 percent recorded as of August 2024. Meanwhile, the market for the 91-day T-bill remained highly illiquid.

Interbank Money Market

There was a significant decrease in the level of intermediation in the interbank money market during the review period. The volume of interbank transactions decreased by 58.62 percent (NLe996.50mn) from NLe1,700mn in 2024Q1 to NLe703.50mn at end 2024Q2. At end-July 2024, the volume of transactions in this window further decline to NLe309.80mn. Whilst no commercial bank accessed the SDF window during the first half of 2024, banks actively utilised the BSL SLF window suggesting tight liquidity conditions in the banking system. The volume of transactions in this window by banks increased by 68.37 percent (NLe22,779.50mn) to NLe56,097.00mn in 2024Q2, from NLe33,317.50mn at end 2024Q1.

Figure 42: Yield on the 364-day T-bill and Interbank Rates

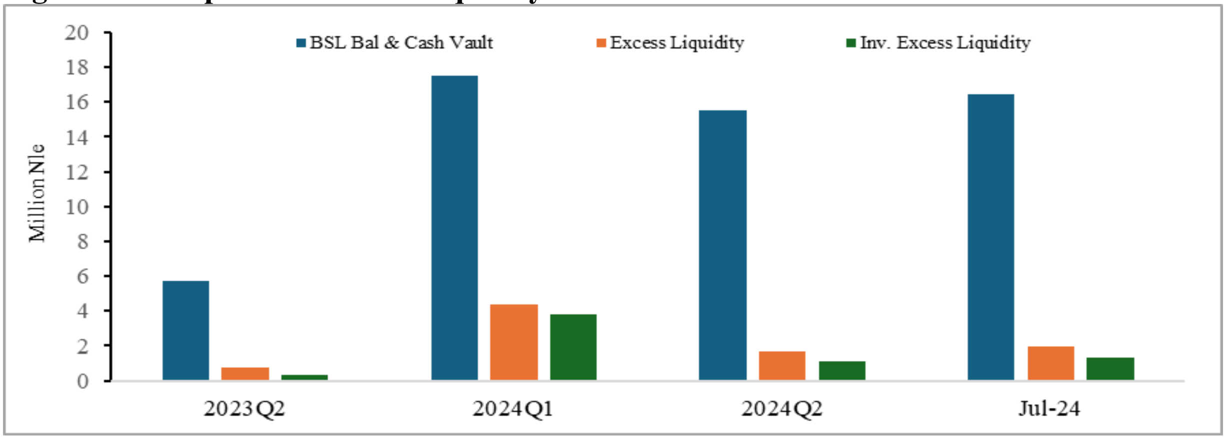


Source: BSL

2.5.2 Liquidity in the Banking System

Total liquidity in the banking system declined by 11.18 percent (NLe195.79mn), from NLe1,750.47mn at the end of 2024Q1 to NLe1,554.68mn at the end of 2024Q2. But it then rose by 5.79 percent to NLe1,644.69mn as of the end of July 2024. The aggregate volume of excess liquidity dropped significantly by 60.94 percent, from NLe434.96mn at the end of 2024Q1 to NLe169.88mn by the end of 2024Q2, before increasing by 14.18 percent to NLe193.98mn at the end of July 2024.

Figure 43: Snapshot of DMBs Liquidity Position

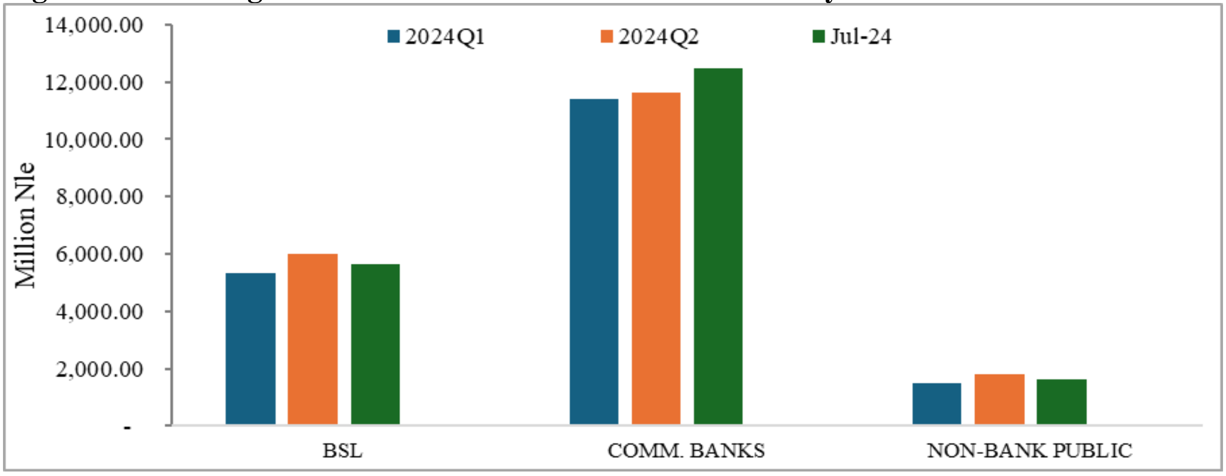


Source: BSL

Holdings of government securities

The total stock of government securities grew by 7.2 percent in 2024Q2, compared to 2024Q1, reaching NLe21.62 billion. As of July 2024, it increased slightly further to NLe21.92 billion. Marketable securities made up the bulk of this total, while non-marketable securities accounted for a smaller share. The increase in marketable securities was largely driven by the need to finance the national budget, and the stock of non-marketable securities grew due to the issuance of 3-year Treasury bonds. By the end of July 2024, the total stock of non-marketable securities remained unchanged.

Figure 44: Holdings of Marketable Government Securities by Sector



Source: BSL

2.6 Monetary Aggregates

Developments in key monetary aggregates were contractionary during the second quarter of 2024, as evident by decline in both Reserve Money (RM) and Broad Money (M2).

Reserve Money (RM)

Reserve Money (RM) contracted by 4.80 percent in 2024Q2, compared to the 3.82 percent decline in the preceding period. The contraction in RM was due to deterioration in the Net Foreign Assets (NFA) of the BSL, which outweighed the moderate growth in Net Domestic Assets (NDA) of the BSL. NFA of BSL deteriorated by 10.92 percent, mainly due to a fall in the gross international reserves.

From the liability side, the contraction in RM was mainly driven by the 26.96 percent decrease in commercial banks' reserves deposited at the central bank, which more than offset the 0.11 percent increase in currency issued during the review period.

On a year-on-year basis, RM grew although lower when compared to the previous period. RM grew by 8.77 percent in 2024Q2, from the yearly expansion of 63.38 percent in 2024Q1. In terms of program performance, the expansion in RM of 8.77 percent was within the 25.1 percent proposed target with the IMF for the reviewed quarter.

Broad Money (M2)

Broad Money (M2) also contracted by 0.36 percent in 2024Q2, following an increase of 0.83 percent recorded in 2024Q1. The contraction in M2 emanated from decline in the Net Foreign assets. Asset (NFA) of the banking system. The decrease in the NFA of the banking system fully offset the slight growth in the Net Domestic Assets (NDA) of the banking system. The NFA of foreign assets of the banking system contracted by 6.15 percent in 2024Q2, compared to the 28.38 percent decrease in 2024Q1. This was primarily on account of deterioration in the NFA of the BSL which outweighed the growth in the NFA of commercial banks.

The NDA of the banking system grew moderately by 0.81 percent in 2024Q2, following a growth of 9.85 percent in 2024Q1. This growth was underpinned by an increase in credit to the government by the banking sector coupled with increased credit to the private sector. Credit to government by the BSL recorded an increase of 1.53 percent in 2024Q2 from 1.89 percent expansion in 2024Q1. Similarly, claims on the government by the commercial banks grew by 8.90 percent, following a 9.91 percent rise in the previous quarter. Meanwhile, the growth in credit to the private sector slowed on quarterly basis, from 16.08 percent in 2024Q1 to 4.16 percent in 2024Q2.

From the liability side, the moderation in the growth of M2 was mirrored by the decline in Narrow Money (M1) which more than offset the increase in Quasi Money. M1 contracted by 1.13 percent in 2024Q2, following a 3.76 percent increase in 2024Q1. The contraction in M1 was induced from decreases in currency outside banks (1.98%) and demand deposits (0.28%). On the other hand, Quasi Money expanded by 0.29 percent in 2024Q2 compared to the 1.49 percent contraction in 2024Q1. The expansion in Quasi Money was mainly because of the 5.69 percent increase in time and saving deposits. Meanwhile foreign currency deposits contracted by 2.24 percent during the same period.

On a year-on-year basis, M2 growth also moderates when compared to the previous period's growth rate. M2 grew by 20.28 percent relative to the 48.03 percent expansion recorded in 2023Q2. However, the year-on-year growth of M2 was within the 26.1 percent proposed target with the new IMF-ECF program.

On a year-on-year basis, credit to the private sector expanded by 37.51 percent in 2024Q2 relative to the 14.83 percent increase in the corresponding quarter of 2023. In addition, private sector credit growth was also above the 10.1 percent proposed target with the IMF-ECF program.

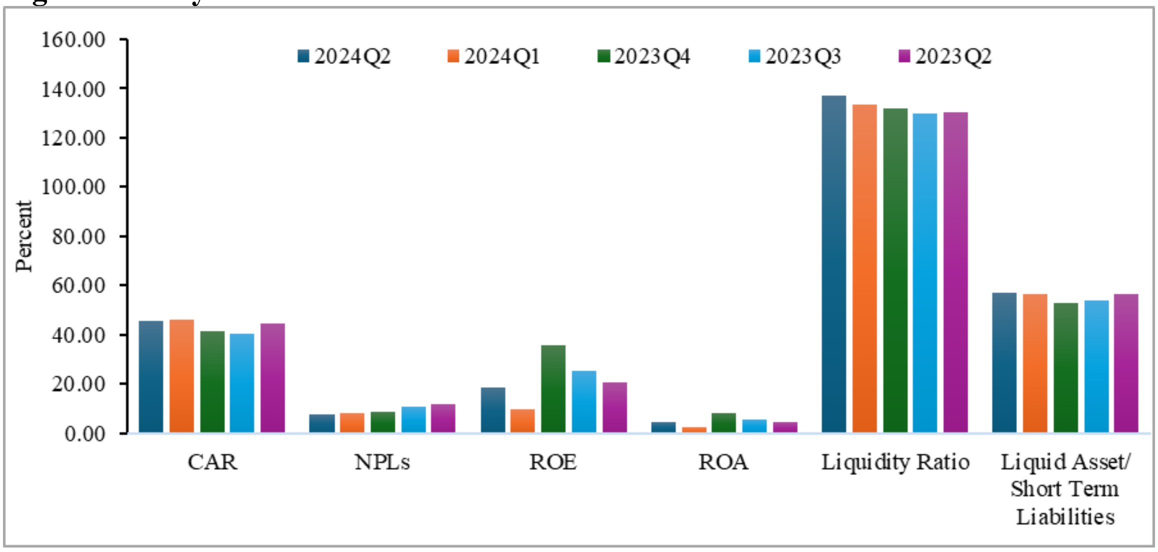
3. FINANCIAL STABILITY ANALYSIS

3.1 Financial Soundness Indicators (FSIs)

The banking sector continued to be stable and sufficiently capitalised. Most of the key Financial Soundness Indicators (FSIs) remained within the minimum tolerable limits stipulated by BSL. The regulatory capital to risk-weighted asset denoted by the Capital Adequacy Ratio (CAR) decreased to 45.45 percent in 2024Q1 from 46.02 percent in 2024Q1. The CAR position, however, remained comfortably above the regulatory minimum of 15.0 percent, indicating the accumulation of sufficient capital by banks to absorb losses.

Asset quality further continued to improve in 2024Q2 as the ratio of non-performing loans to gross loans declined to 7.52 percent in 2024Q2 from 8.28 percent in 2024Q1 and remained below the maximum limit of 10.0 percent. Banks continued to be profitable as the sector's profitability indicators such as Return on Asset (ROA) and Return on Equity (ROE) were recorded at 4.42 percent and 18.69 percent, respectively in 2024Q2. These were recorded at 2.18 percent and 9.46 percent, respectively in 2024Q1. The Liquidity Ratio in the banking sector further increased in 2024Q2 to 137.06 percent relative to 133.51 percent in 2024Q1. Liquid assets to short term liabilities marginally increased by 0.76 percentage points from 56.46 percent in 2024Q1 to 57.22 percent in 2024Q2 indicating that the banks continued to be highly liquid. Loans to local deposits ratio marginally improved in 2024Q2 to 42.50 percent from 41.65 percent in 2024Q1 and remained far below the regulatory threshold of 80.0 percent, indicating low level of financial intermediation by commercial banks to support economic growth.

Figure 45: Key FSI's Indicators

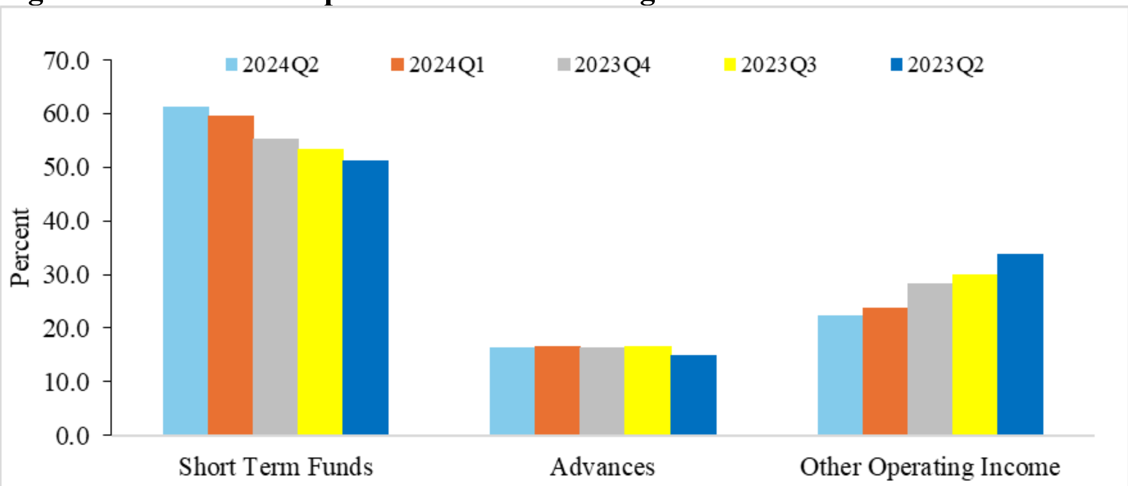


Source: BSL

3.2 Income Composition

The banking sector continued to rely heavily on government securities as its primary source of income, primarily because yields on government securities remained elevated at 41.29 percent as of June 2024, coupled with the zero-risk nature of these investments. The proportion of income from short-term funds to total income marginally increased to 61.26 percent in 2024Q2 from 59.57 percent in 2024Q1. On the other hand, the proportion of income from loans and advances to total income marginally decreased to 16.29 percent in 2024Q2 from 16.71 percent in 2024Q1. Other operating incomes, which consist mainly of commissions and fees, and profits/loss on foreign exchange dealings also decreased to 22.45 percent in 2024Q2 from 23.73 percent in 2024Q1.

Figure 46: Income Composition for the Banking Sector



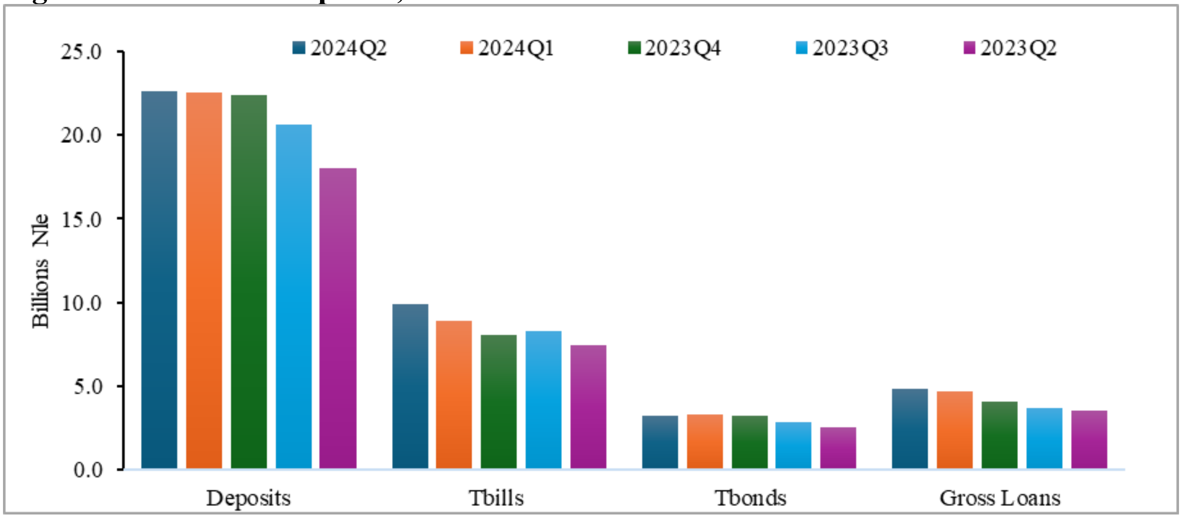
Source: BSL

3.3 Sources and Utilisation of Funds

- Total deposits, which serve as the primary funding source for banks, saw a modest increase of 0.35 percent in 2024Q2, rising to NLe22.67mn from NLe22.59mn in 2024Q1. In terms of composition, demand deposits made up the largest share, followed by savings and time deposits. Specifically, demand deposits accounted for 76.94 percent in 2024Q1, slightly decreasing to 75.88 percent in 2024Q2. Meanwhile, savings deposits increased from 19.28 percent to 19.67 percent, and time deposits rose from 3.78 percent to 4.45 percent over the same period.
- The banking sector's holdings of T-bills rose by 11.64 percent, from NLe8.88mn in 2024Q1 to NLe9.91mn in the previous quarter. This increase was driven by tight liquidity in the interbank market, despite a continuous rise in interest rates throughout 2024.

- The banking sector's holdings of T-bonds saw a slight decline in 2024Q2, falling by 1.46 percent from NLe3.25mn in the first quarter to NLe3.20mn.
- The loans-to-local-deposits ratio increased slightly in 2024Q2, rising to 42.50 percent from 41.65 percent in 2024Q1. This figure remains well below the prudential threshold of 80.0 percent, indicating limited lending activity within the banking sector.
- Gross loans and advances increased by 4.43 percent from NLe4.64mn in 2024Q1 to NLe4.85mn in 2024Q2.

Figure 47: Trend in Deposits, T-bills and Gross Loans

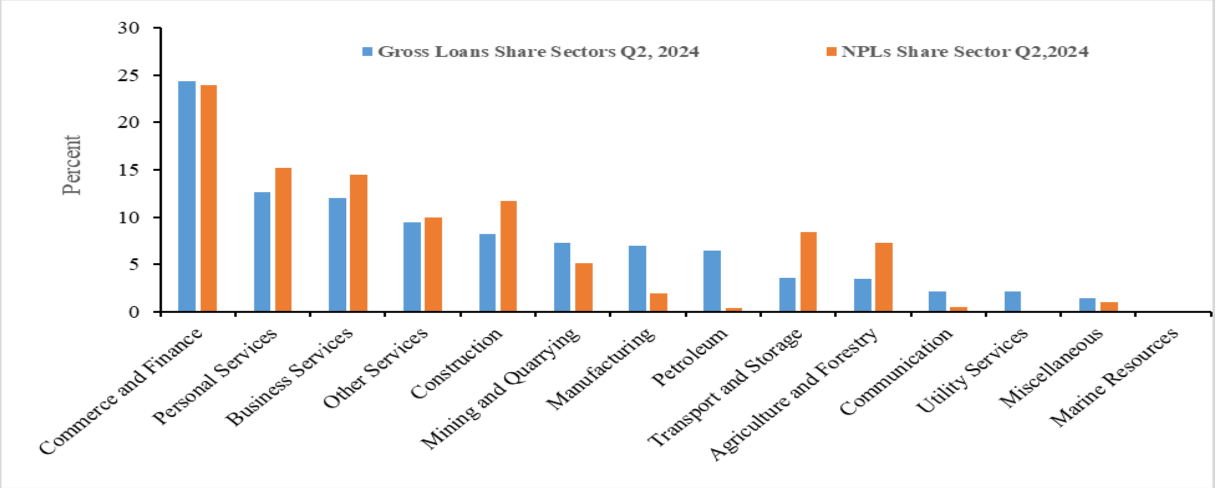


Source: BSL

3.4 Sectoral Distribution of Gross Loans & Advances and NPLS

Commerce and Finance, Personal Services, Business Services and Other Services dominated the loan portfolios of the banking sector in 2024Q2. These four sectors accounted for 58.49 percent of gross loans in 2024Q2. Similarly, commerce and finance, Personal Services and Business Services sectors contributed the most to NPLs. In terms of sectoral NPLs, the Commerce and Finance sector had the highest NPL ratio accounting for 23.90 percent of the total NPLs of the banking sector. This is partly related to the challenges posed by supply chain disruptions, as majority of clients in that sector are engaged in importing. The Personal Services and Business Services sectors also had high NPL ratios of 15.22 percent and 14.51 percent respectively in 2024Q2.

Figure 48: Sectoral Distribution of Gross Loans and NPLS Share by Sector

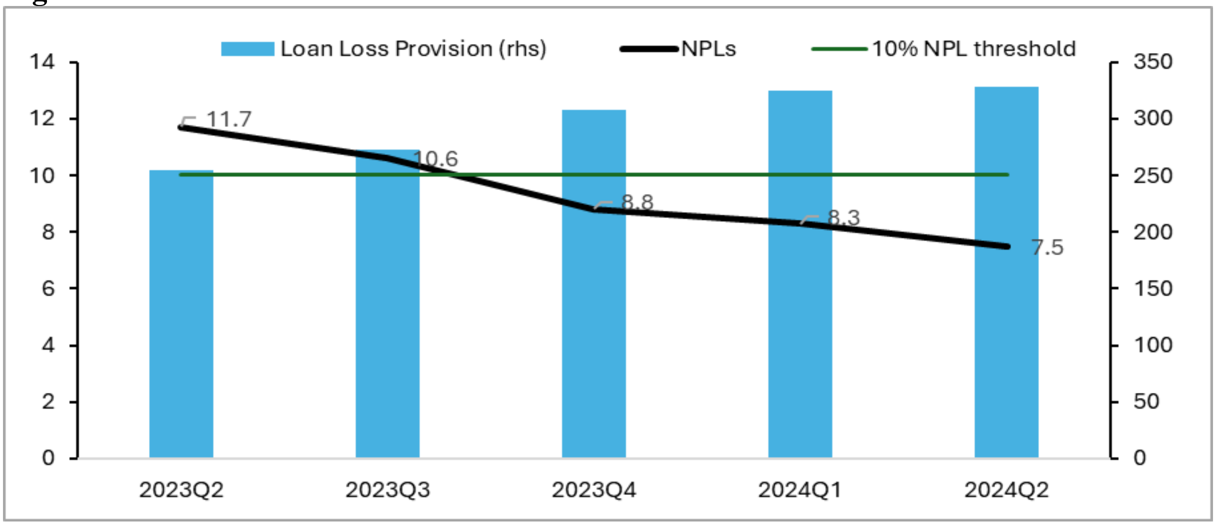


Source: BSL

3.5 NPL Trends and Loan Loss Provisions

During the reviewed period, the ratio of NPLs to gross loans showed improvement, decreasing from 8.28 percent in 2024Q1 to 7.52 percent in 2024Q2. This indicates a positive trend in loan performance. However, there was a rise in loan loss provisions, which increased to NLe328.56mn in 2024Q2, up from NLe324.62mn in 2024Q1.

Figure 49: Trend of NPLs and Loan Loss Provision



Source: BSL

3.6 Risks and Vulnerabilities to the Stability of the Banking Sector

Although the financial system remains stable, certain risks and vulnerabilities could threaten the banking sector, as outlined below.

- ***High levels of NPLs pose a Financial Stability Risk:*** Although the overall capital adequacy ratios are robust and well above the required minimum, with NPLs below 10.0 percent, concerns about asset quality persist. There are significant discrepancies in asset quality, with four banks reporting NPLs that exceed the maximum threshold, two of which are local banks. Furthermore, the Commerce & Finance and Personal Services sectors are especially susceptible to NPLs.

- ***Limited Intermediation to Support Economic Growth:*** Banks' lending to the private sector remain low, partly due to the crowding-out effect from investments in government securities. Additionally, lending was heavily focused on a limited number of sectors and a few large customers within the economy. Of the fourteen commercial banks, only eight had loan-to-deposit ratios exceeding 40 percent.
- ***Banking Sector Earnings were Heavily Reliant on Investment in Government Securities:*** Banks utilize customer deposits to finance investments in government securities. Their strong preference for these securities over lending to the private sector could lead to substantial earnings losses if interest rates decline and the government's demand for borrowing in the securities market diminishes. Furthermore, this situation may create potential liquidity challenges for the banks.
- ***Fraud, Cyber Security, and Information Technology Threat:*** There are potential cyber security threats arising from the transition from traditional banking to a more technology-driven approach. This shift has led to a rise in incidents of fraud and cybercrime within the banking system.

3.7 Banking Sector Outlook

The banking sector is expected to remain relatively stable in the near-term, primarily because a significant portion of banking sector assets consists of government securities. Continued government borrowing will offer banks risk-free investment opportunities, thereby enhancing their risk-weighted assets. As long as the government maintains a high demand for funds, interest from investments in government securities will likely remain the primary source of income for banks.

However, with the staff-level agreement for a new ECF program in place, the government's appetite for borrowing may decrease, potentially threatening the profitability of banks. Meanwhile, the continuous stress testing process of the banking sector will enhance the supervision of systemically important banks and evaluate their ability to absorb losses in challenging conditions. Additionally, the implementation of the NPL Strategy by the BSL will contribute to enhancing credit performance within the banking sector.

4. CONCLUSION AND DECISION OF THE MPC

4.1 Conclusion

Over the past ten months, inflationary pressures have gradually eased, as indicated by the steady decline in headline inflation. Headline inflation dropped by 29.10 percentage points, falling from 54.59 percent in October 2023 to 25.49 percent in August 2024, driven by lower prices in both food and non-food categories in the CPI. The MPC attributed this reduction in inflation to several key factors, including the BSL's tight monetary policy, stability in the exchange rate, prudent fiscal measures, and moderating global commodity prices. However, the Committee highlighted potential risks that could push inflation higher, such as rising production costs due to supply chain disruptions from geopolitical conflicts, trade fragmentation, climate risks, and unexpected depreciation of the currency.

On the outlook, the BSL must remain focused on reducing inflation further to lower living costs and achieve its primary goal of price stability. A low inflation environment enhances the country's competitiveness and attracts foreign investment and capital flows.

Following the rebasing of Sierra Leone's GDP, real GDP growth is forecasted to remain robust at 4.0 percent in 2024, although slightly lower than the 5.7 percent recorded in 2023, reflecting uncertainties in mining sector performance. Growth in 2025 is projected to increase to 4.5 percent, driven by anticipated expansion in agriculture, a rebound in the mining sector, and continued macroeconomic stability. This positive outlook is supported by improved business confidence and the CIEA, which continued to improve in the second quarter of 2024 compared to the first quarter.

While the outlook for economic growth is encouraging, the MPC noted potential risks to the growth forecast. Ongoing geopolitical tensions in the Middle East and other significant uncertainties could disrupt trade flows and weaken domestic economic activity.

4.2 Decision of the MPC

Despite the easing of inflationary pressures, inflation remains high by historical standards. The MPC remains concerned about the impact of elevated prices on households and businesses and will maintain a tight monetary policy stance to control inflation. This decision reaffirms the MPC’s commitment to the Bank’s mandate of price stability. The MPC is optimistic that headline inflation will continue to moderate further as monetary policy gains traction, alongside recent measures by the fiscal authority aimed at sustaining the downward trend in inflation. After assessing inflation risks, the downside risk to output growth recovery, and the need to balance low inflation, stable growth, and financial sector stability, the MPC opted for a moderate tightening of its policy stance compared to the previous quarter.

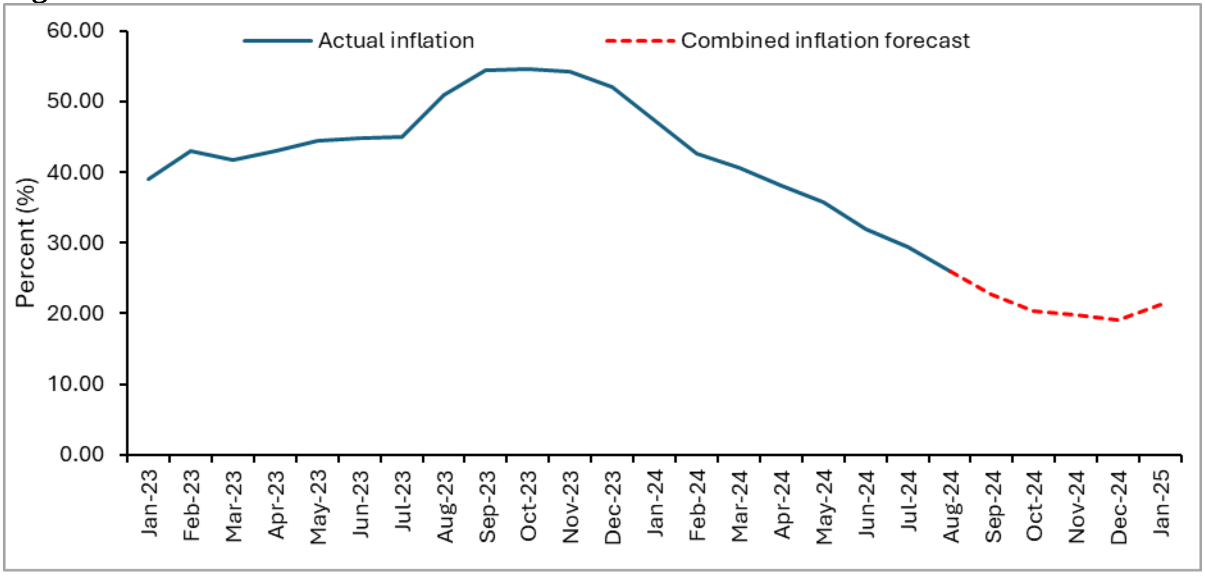
Following a meeting with the Board of Directors of the BSL, the MPC recommended an increase in the MPR by 0.50 percentage points, bringing it to 24.75 percent. Additionally, the MPC proposed raising both the Standing Lending Facility and Standing Deposit Facility rates by the same margin. This stance reflects a strategic decision aimed at reinforcing the Bank's commitment to managing inflationary pressures effectively.

5. APPENDIX

Inflation forecast

Inflationary pressures are projected to continue moderating in the near term, based on the combined inflation forecast. The combined forecasts suggest that inflation will continue moderating to around 19.11 percent by December 2024, followed by a slight uptick in January 2025.

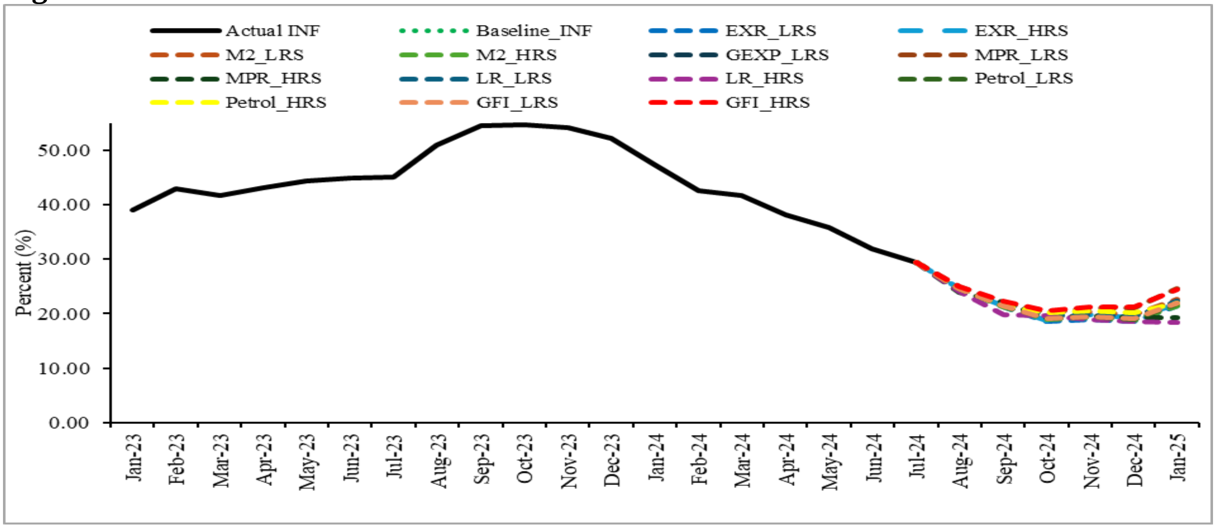
Figure 50: Combined Inflation Forecast



Source: BSL

Scenario assessments indicate that a sudden rise in global food and energy prices could exert upward pressure on inflation beyond the projected values in the forecast horizon. On the other hand, a hike in the MPR as well as more restrictive lending policies could put downward pressure on inflation, below the projected values.

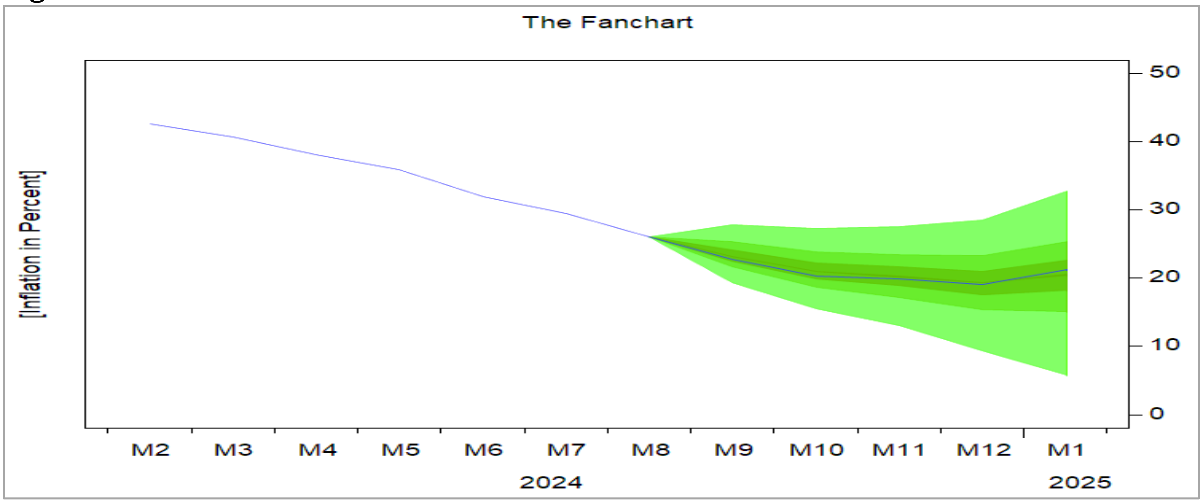
Figure 51: Scenario Forecast



Source: BSL

The fan chart indicates that inflation is projected to vary between 33.41 percent and 7.21 percent at the 90 percent confidence interval over the forecast horizon. It also suggests that inflation could fall between 25.12 percent and 15.23 percent at the 60 percent confidence level. Meanwhile, at the 30 percent confidence level, inflation is projected to fall between 22.53 percent and 18.23 percent, over the forecast horizon.

Figure 52: Inflation Fan Chart



Source: BSL

Aside from the inflation forecast produced by the different models, the subjective assessment of the outlook by staff also concludes that the risks are tilted to the downside. Factors that underpin the downside risks to the inflation outlook include the continued stability in the exchange rate, the restrictive monetary policy stance, the new IMF-ECF program, Fiscal consolidation efforts and decrease in global food and energy prices. However, few upside risks cloud the outlook including an unexpected depreciation of the exchange rate, fluctuation in global food and energy prices and supply chain disruptions occasioned by the geopolitical tensions.

Table 1: Summary of Global Growth Projections

		Est.	WEO April 2024 Projections		WEO July 2024 Projections		CHANGE IN Projections	
	2022	2023	2024	2025	2024	2025	2024	2025
World Output	**3.5**	**3.3**	**3.2**	**3.2**	**3.2**	**3.3**	**0.0**	**0.1**
Advanced Economies	**2.6**	**1.7**	**1.7**	**1.8**	**1.7**	**1.8**	**0.0**	**0.0**
United States	1.9	2.5	2.7	1.9	2.6	1.9	-0.1	0.0
Euro Area	3.4	0.5	0.8	1.5	0.9	1.5	0.1	0.0
United Kingdom	4.3	0.1	0.5	1.5	0.7	1.5	0.2	0.0
Japan	1.0	1.9	0.9	1.0	0.7	1.0	-0.2	0.0
Emerging Market and Developing Economies	**4.1**	**4.4**	**4.2**	**4.2**	**4.3**	**4.3**	**0.1**	**0.1**
Brazil	3.0	2.9	2.2	2.1	2.1	2.4	-0.1	0.3
Russia	-1.2	3.6	3.2	1.8	3.2	1.5	0.0	-0.3
India	7.2	8.2	6.8	6.5	7.0	6.5	0.2	0.0
China	3.0	5.2	4.6	4.1	5.0	4.5	0.4	0.4
Sub-Saharan Africa	**4.0**	**3.4**	**3.8**	**4.0**	**3.7**	**4.1**	**-0.1**	**0.1**
Nigeria	3.3	2.9	3.3	3.0	3.1	3.0	-0.2	0.0
South Africa	1.9	0.7	0.9	1.2	0.9	1.2	0.0	0.0

Source: IMF, WEO April 2024 Projection, and WEO July 2024.

Table 2: Monetary Policy Stance of Selected Central Banks

Country	Recent Inflation (%)		Monetary Policy Rates (%)				
			Current		Previous		Change
WAMZ							
Sierra Leone	29.45	Jul.24	24.25	Aug.24	23.25	Apr.24	1.00
Nigeria	33.40	Jul.24	26.75	Aug.24	24.75	Mar.24	2.00
Ghana	20.90	Jul.24	29.00	Aug.24	29.00	Apr.24	0.00
Guinea	4.80	Jul.24	11.00	Aug.24	11.00	Apr.24	0.00
Liberia	6.15	Jun.24	20.00	Aug.24	20.00	Apr.24	0.00
The Gambia	9.70	Jul.24	17.00	Aug.24	17.00	Apr.24	0.00
Major Economies							
USA	2.90	Jul.24	5.50	Aug.24	5.50	May.24	0.00
China	0.50	Jul.24	3.55	Aug.24	3.45	Apr.24	0.10
Euro Area	2.60	Aug.24	4.25	Aug.24	4.50	Apr.24	0.25
UK	2.20	Jul.24	5.00	Aug.24	5.25	Apr.24	0.25

Source: Country Central Banks Via Trading Economics data pool. (August 2024)

Table 3: Central Bank Survey

Millions of Leones	2022	2023	2024		Quarterly % Change		Yearly % Change	
	2022Q2	2023Q2	2024Q1	2024Q2	2024Q1	2024Q2	2023Q2	2024Q2
1. Net Foreign Assets	**(2,107.83)**	**(3,017.11)**	**(4,445.21)**	**(4,930.84)**	**17.92**	**10.92**	**43.14**	**63.43**
2. Net Domestic Assets	**6,597.82**	**10,352.91**	**12,826.37**	**12,910.12**	**2.75**	**0.65**	**56.91**	**24.70**
Government Borrowing (net)	5,400.75	8,569.19	10,083.59	10,237.81	1.89	1.53	58.67	19.47
o.w. Securities	1,797.38	4,064.78	5,295.79	5,680.23	(0.54)	7.26	126.15	39.74
Ways and Means	7.74	242.37	467.99	389.50	151.58	(16.77)	3,029.59	60.70
GoSL/IMF/WB Budget financing	3,530.75	3,995.16	4,177.47	4,177.47	(1.12)	-	13.15	4.56
3. Reserve money	**4,489.99**	**7,335.81**	**8,381.16**	**7,979.28**	**(3.82)**	**(4.80)**	**63.38**	**8.77**
o.w. Currency issued	3,746.61	6,317.72	6,855.30	6,863.09	(4.10)	0.11	68.62	8.63
Bank reserves	737.54	1,011.13	1,514.16	1,106.00	(2.77)	(26.96)	37.09	9.38

Source: BSL

Table 4: Monetary Survey

Millions of Leones	2022	2023	2024		Quarterly % Change		Yearly % Change	
	2022Q2	2023Q2	2024Q1	2024Q2	2024Q1	2024Q2	2023Q2	2024Q2
Reserve money	**4,489.99**	**7,335.81**	**8,381.16**	**7,979.28**	**(3.82)**	**(4.80)**	**63.38**	**8.77**
Broad Money (M2)	**15,290.05**	**22,633.84**	**27,321.83**	**27,224.24**	**0.83**	**(0.36)**	**48.03**	**20.28**
Narrow money (M1)	**7,383.32**	**10,658.83**	**12,429.36**	**12,289.21**	**3.76**	**(1.13)**	**44.36**	**15.30**
Currency outside banks	3,328.18	5,687.29	6,218.52	6,095.51	0.65	(1.98)	70.88	7.18
Demand deposit	4,055.14	4,971.54	6,210.85	6,193.69	7.08	(0.28)	22.60	24.58
Quasi money	**7,906.73**	**11,975.01**	**14,892.47**	**14,935.03**	**(1.49)**	**0.29**	**51.45**	**24.72**
o.w. Foreign currency deposit	4,540.89	7,885.34	10,120.49	9,893.59	(4.95)	(2.24)	73.65	25.47
Time and saving deposit	3,360.00	4,082.71	4,760.28	5,031.26	6.68	5.69	21.51	23.23
Net Foreign Asset	**2,553.16**	**4,479.17**	**4,577.37**	**4,295.86**	**(28.38)**	**(6.15)**	**75.44**	**(4.09)**
BSL	(2107.83)	(3017.11)	(4445.21)	(4930.84)	17.92	10.92	43.14	63.43
ODCs	4660.99	7496.28	9022.58	9226.71	(11.20)	2.26	60.83	23.08
Net Domestic Assets	**12,736.89**	**18,154.67**	**22,744.46**	**22,928.38**	**9.85**	**0.81**	**42.54**	**26.29**
Net Domestic Credit	**15,309.82**	**21,308.36**	**25,741.14**	**26,887.99**	**7.91**	**4.46**	**39.18**	**26.19**
Government (Net)	12,246.33	17,517.15	20,759.88	21,864.50	5.86	5.32	43.04	24.82
BSL	5,400.75	8569.19	10083.59	10237.81	1.89	1.53	58.67	19.47
ODCs	6,845.58	8947.96	10676.28	11626.69	9.91	8.90	30.71	29.94
Private Sector Credit	3,389.31	3890.89	5137.22	5352.32	16.13	4.19	14.80	37.56
o.w ODC	3,373.05	3873.29	5113.10	5326.05	16.08	4.16	14.83	37.51
Other Sectors (Net)*	(325.83)	(99.68)	(155.96)	(328.83)	(13.51)	110.84	(69.41)	229.90
Other Items (Net)	**(2,572.93)**	**-3,153.69**	**-2,996.68**	**-3,959.61**	**(4.84)**	**32.13**	**22.57**	**25.55**
Money Multiplier	**3.41**	**3.09**	**3.26**	**3.41**				

Source: BSL

Table 5: Interest Rates

	2023						2024						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
91-day Treasury bill rate	0	4.11	0	0	0	0	0	0	0	0	20.28	20.28	20.28
182-day Treasury bill rate	0.00	0.00	14.44	0	18.2	0	0	0	29.22	29.22	29.22	29.22	29.13
364-day treasury bill rate	28.44	29.03	29.13	29.35	31.07	34.71	37.67	39.50	40.88	41.21	41.25	41.28	41.27
Interbank rate	21.31	21.80	21.89	22.87	22.86	23.06	24.43	24.60	24.54	24.84	25.02	25.46	25.89
Standing Lending Facility	22.25	22.25	22.25	24.25	24.25	25.25	25.25	25.25	25.25	26.25	26.25	27.25	27.25
Standing Deposit Facility	12.75	12.75	12.75	14.75	14.75	15.75	15.75	15.75	15.75	16.75	16.75	17.75	17.75
MPR	19.25	19.25	19.25	21.25	21.25	22.25	22.25	22.25	23.25	23.25	23.25	24.25	24.25
Average Lending rate	20.45	20.45	20.45	20.45	20.45	20.26	20.26	20.26	20.26	20.38	20.38	20.38	20.98
Lending (Prime)	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	19.91-20.85	19.91-20.85	19.91-20.85	20.53-21.42
Savings deposits	2.23	2.23	2.23	2.23	2.23	2.23	2.17	2.23	2.23	2.23	2.23	2.23	2.23
Interest rate spread	18.22	18.22	18.22	18.22	18.22	18.03	18.09	18.03	18.03	18.15	18.15	18.15	18.75

Source: BSL