BANK OF SIERRA LEONE

MONETARY POLICY REPORT

DECEMBER 2024

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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
PMI	Purchasing Managers' Index
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 December 2024 edition of the BSL Monetary Policy Report reviews global and domestic economic trends from the third quarter of 2024. It also looks at the latest developments in the fourth quarter, where relevant data is available, and discusses short-term forecasts to help guide the implementation of appropriate monetary policies that align with the Bank's objectives.

BSL Monetary Policy Objectives

The main goal of the BSL is to ensure and uphold price stability in the Sierra Leone economy. However, the Bank also has other significant objectives, such as maintaining the stability of the financial system, fostering the development of financial markets, and supporting the government's broader economic policies to promote overall macroeconomic stability.[1]

Monetary Policy Strategy

The Bank of Sierra Leone (BSL) serves as the only monetary authority in Sierra Leone, possessing the legal independence necessary to implement monetary policy within the nation. To meet its objectives, the Bank employs various policy tools, including 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 Bank's monetary policy is crafted by the Monetary Policy Committee (MPC), which is made up of seven members as mandated by law. This committee includes the Bank's Governor, who acts as the chairperson, the Deputy Governor responsible for Monetary Stability, the Deputy Governor in charge of Financial Stability, and four other experts with relevant experience in monetary policy and financial markets. These experts are nominated by the Governor and must be approved by the Board of Directors of the BSL. The MPC convenes quarterly to evaluate recent global and domestic economic trends, as well as to consider short- to medium-term prospects and inflation risks. Based on these evaluations, the committee makes policy decisions, primarily using the Monetary Policy Rate (MPR) to indicate the Bank's stance. During the MPC meetings, each member presents their preferred MPR decision along with supporting reasons. The final decision is reached through a vote, with the chairperson casting the deciding vote in case of a tie. This decision is then published in a monetary policy statement on the Bank's website within forty-eight hours of the meeting. Additionally, the Governor and other authorized staff periodically engage with the public to explain the Bank's policy decisions and clarify emerging economic issues, particularly those related to monetary and exchange rate policies.

[1] *Part 1 item 5 (1) on page 3 of the BSL Act 2019 states that the objectives of the Bank shall be to (a) issue and manage the currency of Sierra Leone (b) achieve and maintain price stability (c) contribute to fostering and maintaining a stable financial system; and (d) support the general economic policy of the Government.*

EXECUTIVE SUMMARY

The global economy has shown remarkable resilience in the face of ongoing challenges, as major central banks have adjusted their monetary policies to manage inflation while fostering favorable growth conditions. In this context, the October 2024 edition of the World Economic Outlook (WEO) has kept the global growth forecast steady at 3.2 percent for 2024. However, the growth projection for 2025 has been revised down by 0.1 percentage point, now expected to be 3.2 percent instead of the previously anticipated 3.3 percent, due to factors such as monetary tightening, public debt issues, and persistent geopolitical tensions.

Global inflation is projected to ease to 5.8 percent in 2024, down from 6.7 percent in 2023, with further decline expected to 4.3 percent in 2025. This easing of inflationary pressures is partly due to the delayed effects of central banks' tight policies, lower energy prices, and decreasing inflation expectations. Nonetheless, the forecast carries significant upside risks, including the ongoing trade conflict between the US and its trading partners, OPEC's decisions regarding oil supply, and the geopolitical tensions in Ukraine and the Middle East.

In 2023, the domestic economy experienced a growth rate of 5.7 percent following the rebasing of GDP. For 2024, domestic growth was projected to slow to 4.0 percent, primarily due to underperformance in the mining sector and a decline in global iron ore prices. Growth is expected to rebound to 4.5 percent in 2025 and average around 4.7 percent in the medium term, supported by sectors such as agriculture and mining, along with sound macroeconomic policies. However, the outlook remains uncertain, with risks stemming from fluctuations in global commodity prices, geopolitical events, potential fiscal challenges, and possible disruptions in global supply chains.

Sierra Leone's trade deficit with the rest of the world expanded in the third quarter of 2024, reflecting a combination of decreased exports and imports, with the drop in exports surpassing the decline in imports. Additionally, gross international reserves fell to 1.8 months of import cover as foreign exchange outflows outpaced inflows.

Over the past year, BSL has rolled out several reforms and policies aimed at addressing the challenges and limitations impacting transactions on the foreign exchange market, which has helped boost confidence in the local currency. As a result, the exchange rate has remained relatively stable. However, in September 2024, a slight depreciation in the parallel market rate was noted, mainly attributed to an increase in demand for foreign currency for international travel and tuition payments.

On the fiscal side, policies in 2024Q3 were more expansionary compared to 2024Q2, as the fiscal deficit widened slightly because government spending outpaced revenue collection. Although government expenditure increased and surpassed the target for 2024Q3, total revenues experienced only a modest increase and fell short of expectations. This imbalance led to a larger fiscal deficit for the quarter.

Key monetary aggregates, such as Reserve Money (RM) and Broad Money (M2) expanded in 2024Q3. The increase in Reserve Money was due to an increase in the Net Domestic Assets (NDA) of the Central Bank, while the growth in Broad Money was as a result of NDA expansion within the banking system. In real terms, although the growth of monetary aggregates remained negative, there was a gradual improvement. Additionally, credit to the private sector recorded a slight increase during the review quarter.

Money market conditions in 2024Q3 were characterized by tight liquidity. The interest rate on 364-day Treasury bills held steady at 41.28 percent in both June and September 2024, remaining historically high due to the government's strong borrowing appetite. Likewise, the interbank rate continued to rise, nearing the Standing Lending Facility (SLF) rate.

The banking sector remained stable, with most key financial soundness indicators were within regulatory thresholds. However, Non-Performing Loans (NPLs) have increased from 7.52 percent in 2024Q2 to 9.84 percent in 2024Q3 getting closer to the limit of 10 percent. While the financial system remains stable, there are still inherent risks that pose threats to the sector's health. These risks include limited intermediation to support growth, a heavy reliance on government securities, and vulnerabilities related to fraud and cybersecurity, among others.

Inflation continued to moderate during the review period, following its peak in October 2023. Headline inflation steadily decreased from 31.56 percent in June 2024 to 15.41 percent in November 2024. This easing is attributed to stable exchange rates, falling global food and energy prices, increased domestic food production, and the implementation of effective monetary policy. Looking ahead, Inflation is projected to keep decreasing through December 2024, with a slight uptick anticipated in January 2025. Thereafter, inflation is projected to gradually ease till April 2025. The expected decline in inflation will likely be driven by a combination of factors, including the moderation of global food prices, relative exchange rate stability, a tight monetary policy stance, and fiscal consolidation efforts.

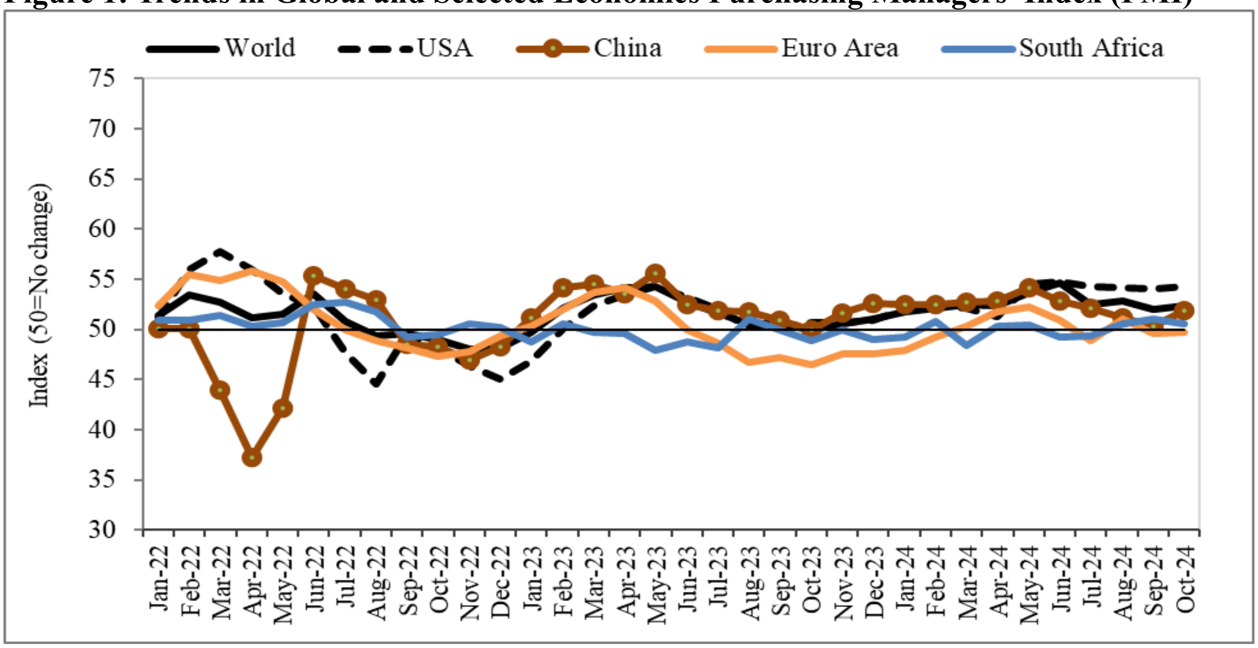
The remainder of this report is organized as follows: Section 2 discusses global economic and financial market developments, including growth and inflation trends, global commodity prices, developments in the global capital market and their implications for the domestic economy. Section 3 analyzes domestic economic developments and outlooks. The final section details the monetary policy decisions from the December 2024 MPC Meeting and concludes the report.

1. GLOBAL ECONOMIC DEVELOPMENTS AND PROSPECTS

1.1 Global Output

According to the Composite Purchasing Managers' Indices (PMI), the global economy exhibited strong performance in the third quarter of 2024. The services sector has been the main contributor to this positive trend, while the manufacturing sector has faced challenges from supply chain disruptions and fluctuating demand. In particular, the composite PMIs for the United States indicate a continued increase in economic activity, supporting growth in advanced economies. Additionally, an improvement in China's composite PMI has further enhanced momentum in Emerging Markets and Developing Economies (EMDEs).

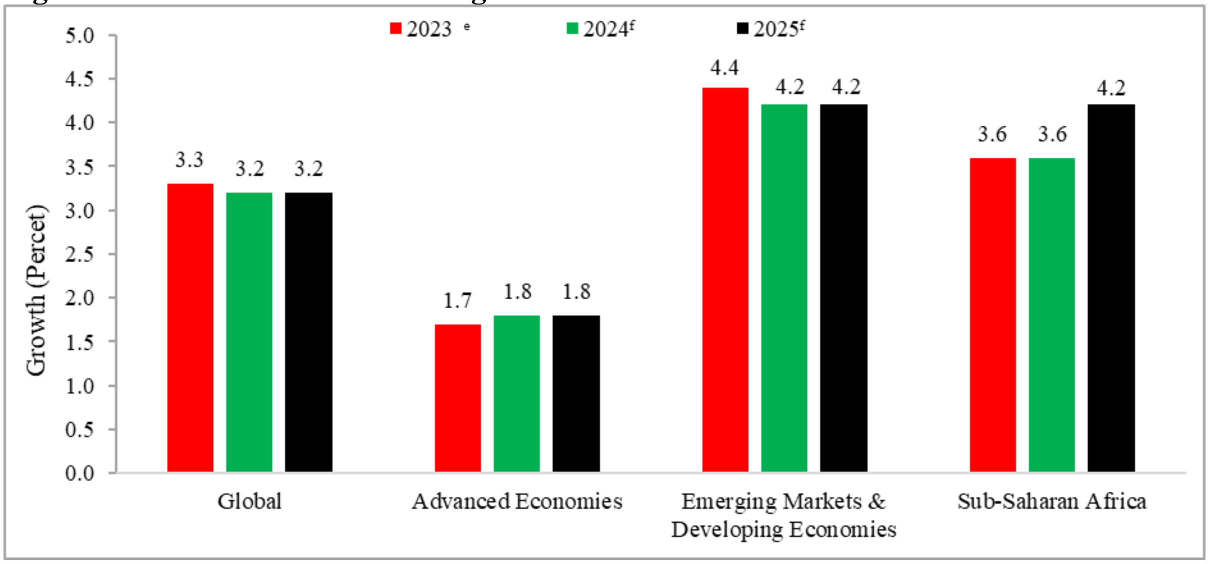
Figure 1: Trends in Global and Selected Economies Purchasing Managers' Index (PMI)



Source: Markit Economics, through Trading Economics November 20, 2024; Note: PMIs above 50% indicate expansion of the manufacturing sector; below 50% indicate contraction.

The global economy's general outlook is cautiously positive despite navigating a complicated phase characterized by enduring problems. As central banks modify their monetary policies to control inflation and boost economic activity, growth is anticipated to gradually improve. The International Monetary Fund (IMF) in its October 2024 issue of the World Economic Outlook (WEO), maintained global growth forecast for 2024 at 3.2 percent, while the growth projection for 2025 was downgraded by 0.1 percentage points to 3.2 percent from 3.3 percent.

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



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

However, there are risks associated with this economic expectation, both positive and negative. Short-term fiscal initiatives, a faster contraction of monetary policy, productivity benefits from artificial intelligence developments, and a stronger drive for structural transformation are all potential positives. The downside risks, on the other hand, include sustained inflation and financial tightening, disruptive budgetary adjustments, possible debt distress, and increases trajectory in commodity prices amid intensifying regional conflicts.

1.1.1 Advanced and Emerging Market Economies

Even though the financial climate was tight, activity in advanced economies remained steady. The regional growth forecast for 2024 has been raised by 0.1 percentage points, to 1.8 percent, and maintained same for 2025. The US elections have shifted economic expectations, with pro-growth policies, corporate tax cuts, and deregulation, strengthening of the US dollar and boosting US stock markets and improving investor confidence. Also, the Euro area's slow recovery could boost the regional growth momentum. This optimism is moderated by concerns about potential inflation, fiscal instability, and increasing geopolitical tensions

Emerging Markets and Developing Economies (EMDEs) have maintained strong and steady growth rates, more so with the Beijing monetary stimulus and property sector support measure. However, growth forecasts for 2024 and 2025 have been downgraded slightly by 0.1 percentage point each to 4.2 percent.

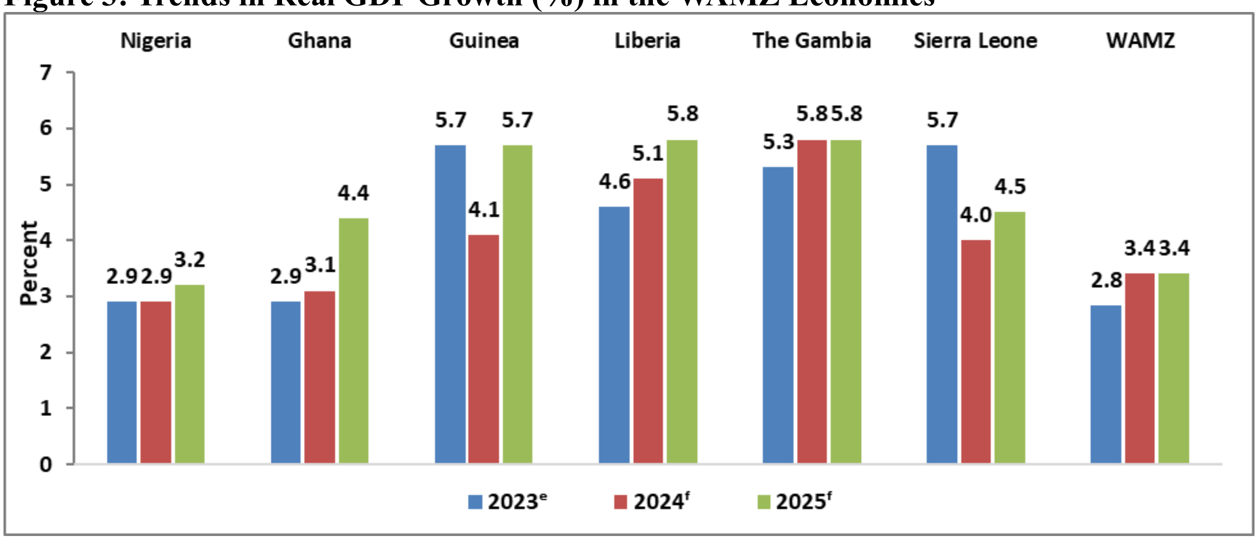
1.1.2 Sub-Saharan Africa (SSA)

The region is expected to record a modest growth rate of 3.6 percent in 2024, influenced by ongoing economic reforms, tight financing conditions, and the challenges of poverty and governance. The forecast for 2025 was revised upwards by 0.1 to 4.2 percent. This is predicated on a stable recovery in South Africa, Kenya, Ghana, and Nigeria, favorable export commodity prices, strong domestic demand, a rise in investment, and better global economic conditions. However, the growth outlook is vulnerable to several adverse factors, including persistent inflationary pressures, reliance on commodity exports, high debt servicing costs, rising unemployment, currency depreciation, the potential for political unrest in certain countries, and adverse weather events.

1.1.3 West African Monetary Zone (WAMZ)

The WAMZ region is expected to maintain stable growth at 3.4 percent, reflecting a slight rebound from 3.3 percent in 2024Q2. However, commodity price volatility, regional security concerns, high living expenses, and harsh weather could jeopardize economic performance in the WAMZ block. Also, high debt service cost and significant risks associated with debt distress are imposing a substantial strain on the resources of individual states

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



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

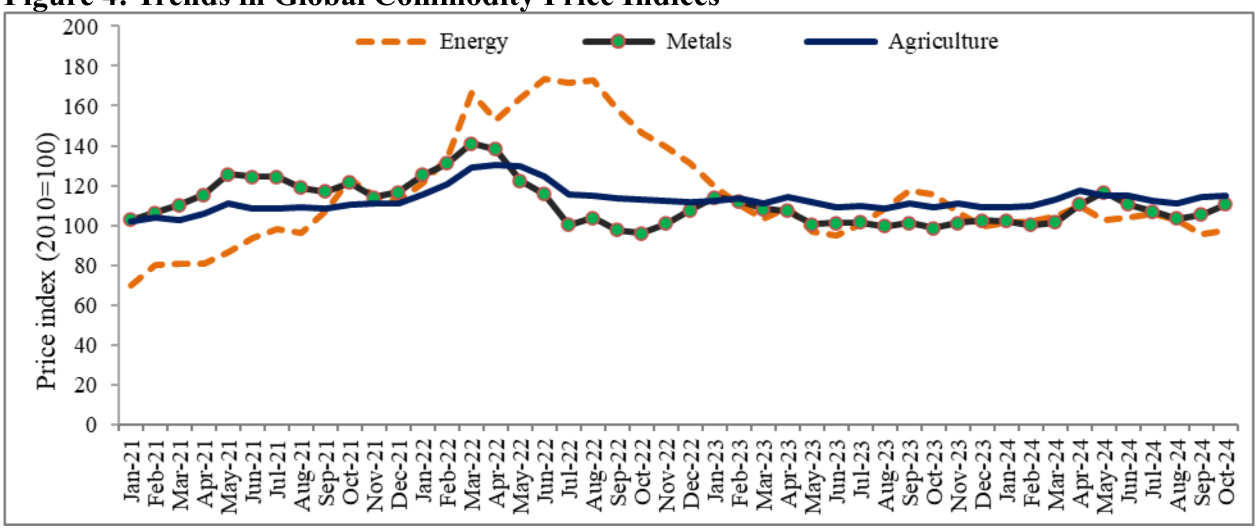
[2] Note that the real GDP for Sierra Leone in 2023 was rebased

1.2 Global Commodity Prices and Inflation

1.2.1 Global Commodity Prices

The global commodity market exhibited a declining trend in 2024Q3, with Energy, Metal, and Agricultural products declining to 101.31 points, 105.24 points, and 112.63 points respectively, when compared to 2024Q2. The month of October, however, recorded a recovery in energy prices to 97.70 points, metals to 110.65 points, and agriculture to 115.00 points, from 95.39, 105.39, and 114.19 points respectively in September 2024. The increase in the prices of energy, metals, and agricultural products suggests a consistent demand for these commodities alongside a reliable supply or production. In essence, the recovery in prices reflects ongoing consumer purchasing of these goods and indicates that production levels are sufficient to satisfy this demand. Energy prices are being affected by OPEC+'s recent decision to reverse production cuts, as well as the economic momentum seen in China.

Figure 4: Trends in Global Commodity Price Indices

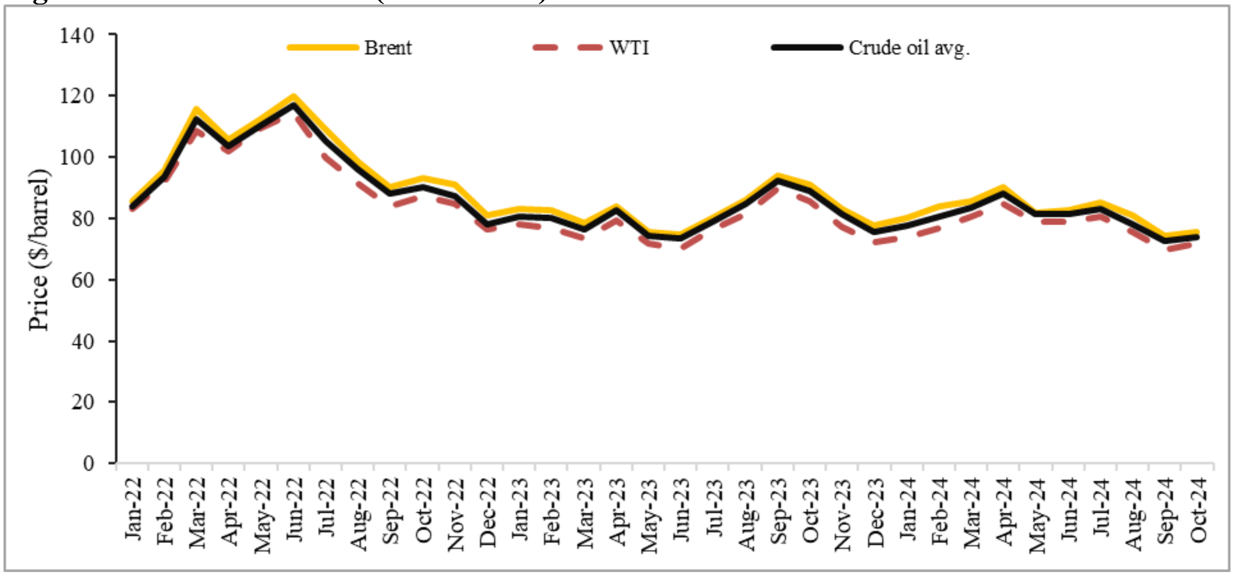


Source: World Bank Commodity Market Outlook database, October 2024

Crude Oil Prices

Average crude oil prices decreased slightly to US$77.93/bbl in 2024Q3 from US$83.55/bbl in 2024Q2, consistently showing a downward trajectory since July 2024. Crude oil prices, however, increased slightly in October 2024, averaging at US$73.97/bbl, from US$72.42/bbl in September 2024. This is consistent with corresponding increases in the prices of Brent crude and West Texas Intermediate (WTI) crude to US$75.66/bbl and US$71.60/bbl respectively in October 2024. This could be attributed to recent escalation in geopolitical tensions, supply chain disruptions, and market speculations.

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

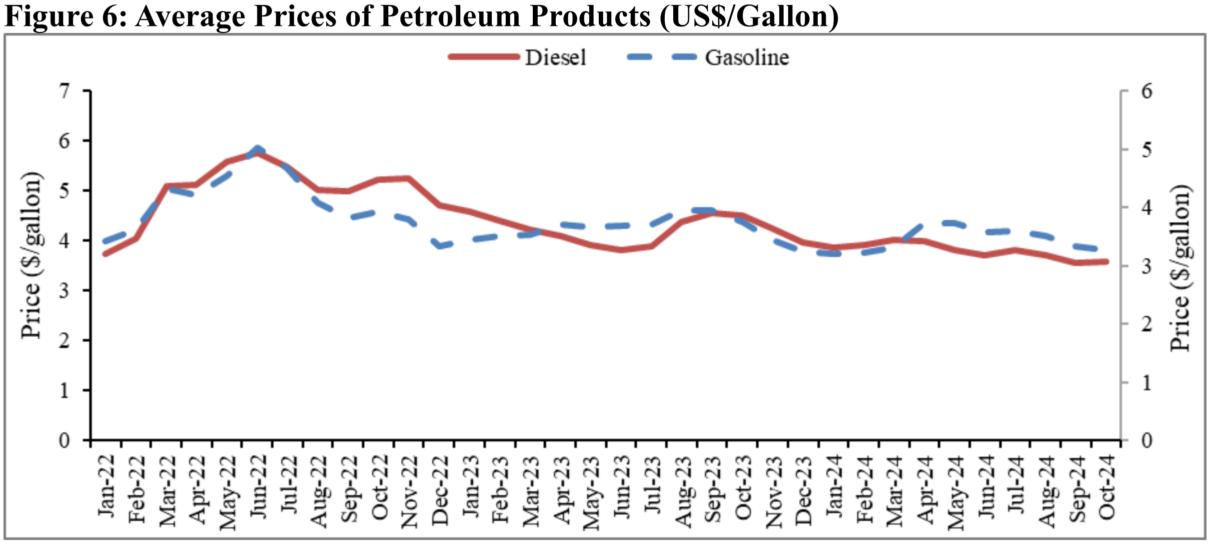


Source: World Bank Commodity Market Outlook database October 2024

Petroleum Products (Retail Prices)

The average price of petroleum products decreased slightly in 2024Q3. Gasoline has been decreasing consistently since July 2024 from US$3.60/gallon to US$3.26/gallon. Moreover, gasoline prices continue to drop in October at US$3.26/gallon, while diesel prices slightly edge at US$3.59/gallon. This could be attributed to the downward trend in the prices of crude oil in 2024Q3.

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

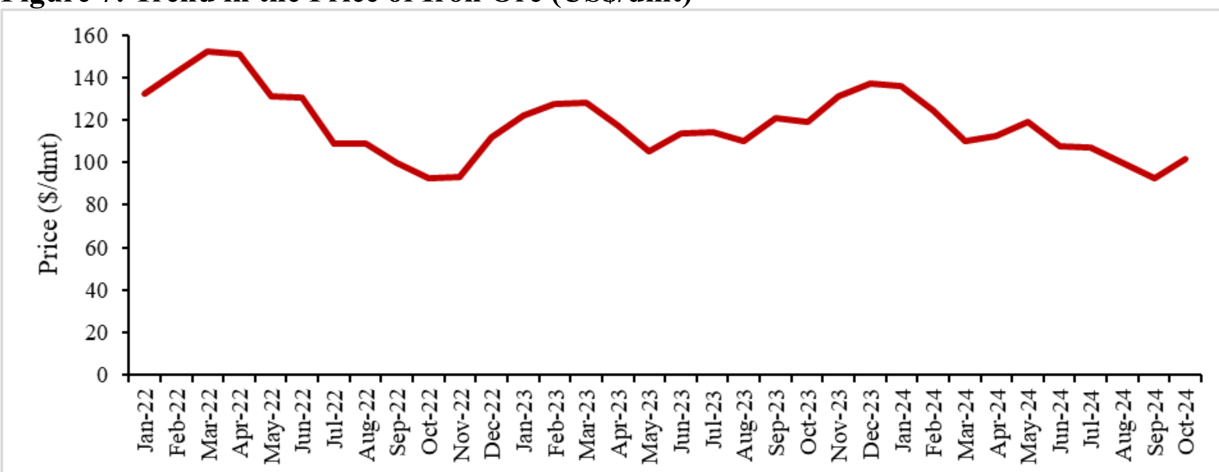


Source: U.S. Energy Information Administration, EIA (October 2024)

Iron Ore Price

Iron ore price dropped to an average of US$99.86/dmt in 2024Q3 from US$113.03/dmt in the previous quarter, reflecting China's property sector's reduction in demand, and Vale South Africa increased production. The price of iron ore, however, recorded a notable increase to US$101.39/dmt in October 2024, making a rebound from US$92.83/dmt in September 2024. This increase could be attributed to increased demand in China, and supply constraints. The price movement in October breaks the downward trend observed from May through September, indicating a potential shift in the market dynamics.

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

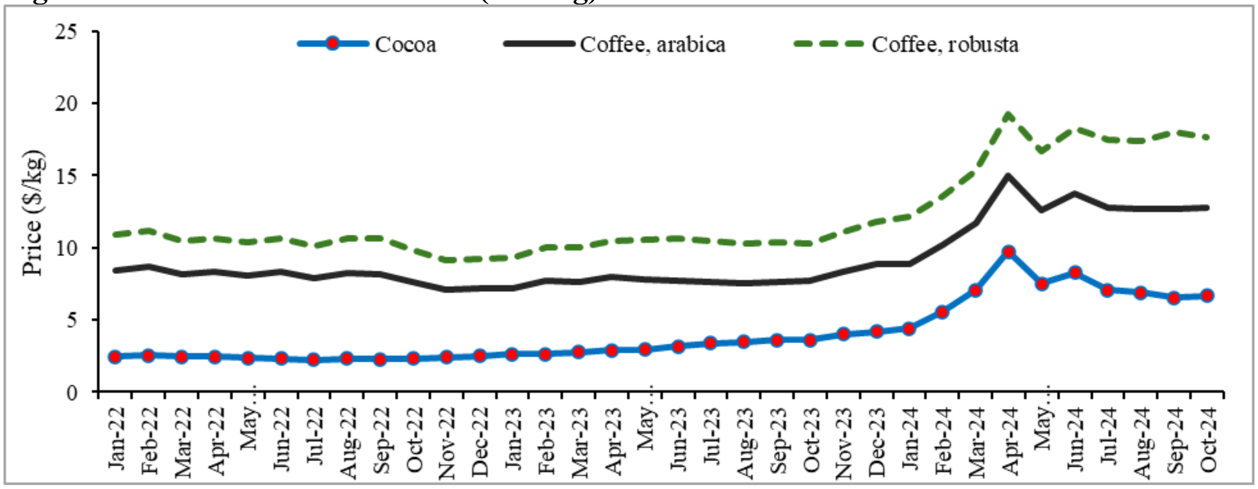


Source: World Bank Commodity Market Outlook database, October 2024

Cocoa and Coffee Prices

The world market price for cocoa decreased slightly to US$6.83/kg in 2024Q3 down from US$8.52/kg reported for the previous quarter. However, the prices for Arabica and Robusta coffee show relative stability in 2024Q3, with Arabica Coffee averaging at US$5.85/kg from US$5.28/kg in 2024Q2 and Robusta coffee at US$4.93/kg from US$4.26/kg reported in 2024Q2. This is attributed to enough rainfalls reported in Brazil and Vietnam resulting in higher yields.

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

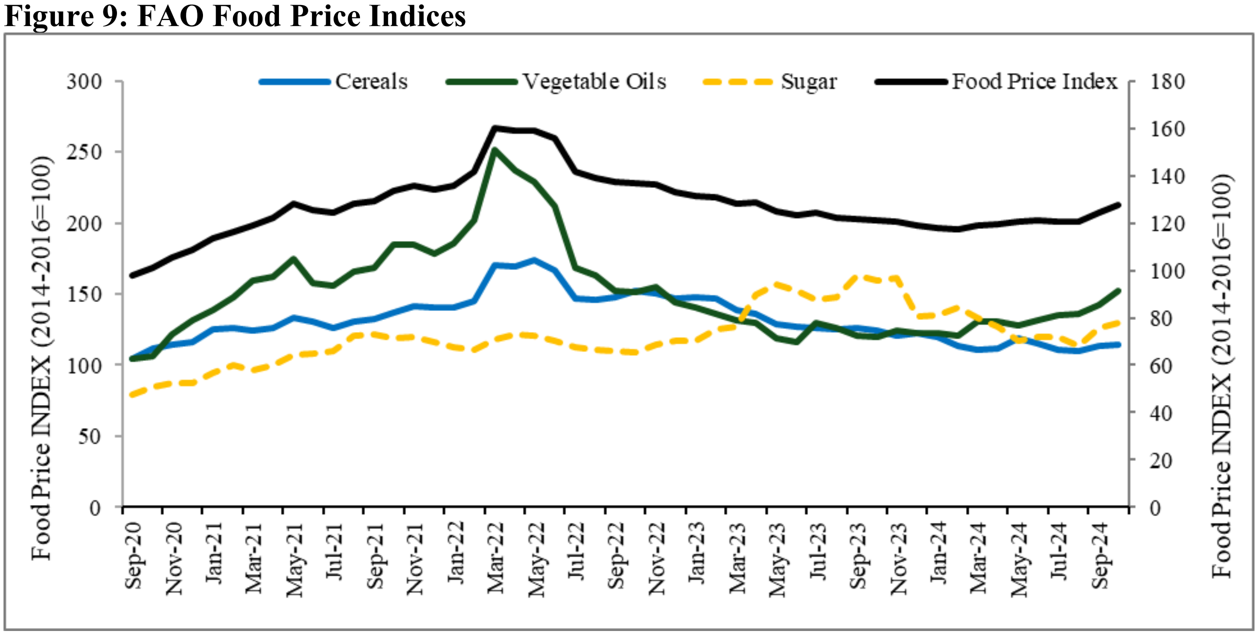


Source: World Bank Commodity Market Outlook database, October 2024

Food Price Index

The FAO Food Price index reported to a moderate increase in prices of food items, attributed to unfavourable weather conditions affecting winter crop sowing in several major northern hemisphere exporters, including the European Union, Russia and the US. This upward trend continues in October with an index of 127.40 reaching the highest level since April 2023 (128.66 points). This surge was primarily driven by significant rises in the prices of sugar and vegetable oils.

Figure 9: FAO Food Price Indices

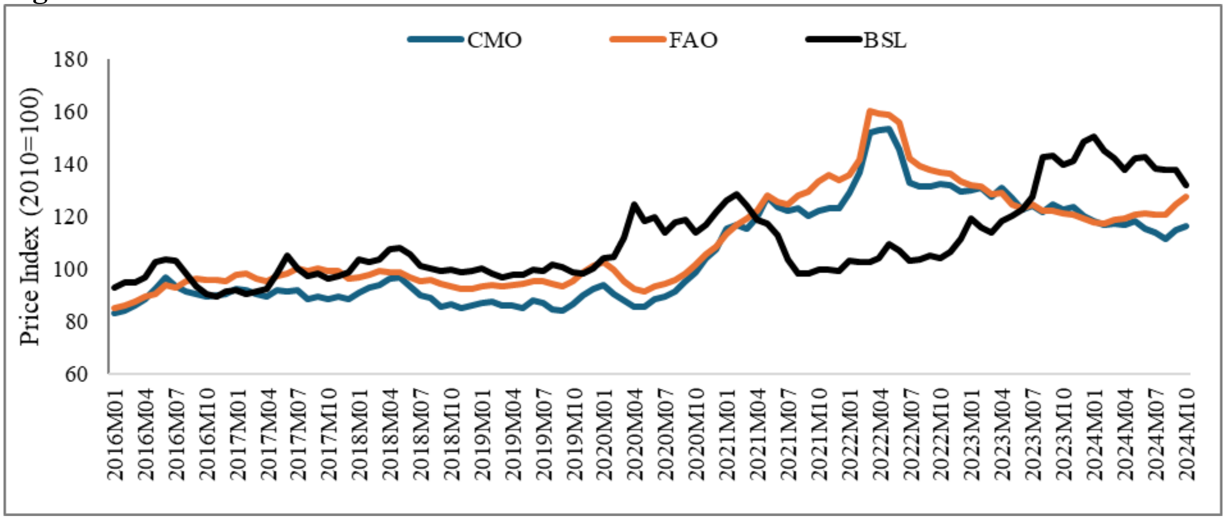


Source: FAO food price index database, October 2024

BSL Food Index

In 2024Q3, the World Bank's Commodity Price Index and the FAO Food Price Index both increased, driven primarily by adverse weather conditions in major commodity and food-exporting countries. However, the BSL's estimated Food Price Index recorded a decline during the same period, reflecting a moderation in global rice prices due to increased supply of rice from India and Pakistan.

Figure 10: BSL Global Food Price Indices

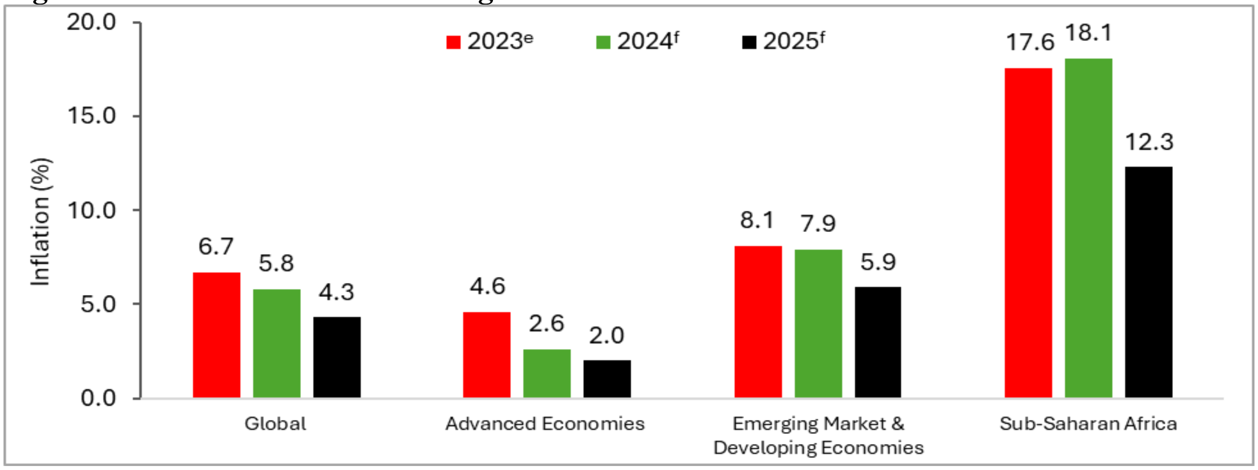


Source: BSL

1.2.2 Global Inflation

Global headline inflation is estimated to decrease from 6.7 percent in 2023 to 5.8 percent in 2024, and further to 4.3 percent in 2025. It is also anticipated that global core inflation will decline, falling to 1.2 percentage points in 2024, mostly as a result of lower food and energy prices. In advanced economies, core inflation is projected to drop by 2.0 percentage points this year, which is likely to happen more quickly.

Figure 11:Trends in Global and Regional Inflation



Source: IMF, World Economic outlook, July 2024 and October 2024.

Inflation is projected to fall across all the regions of the world. This underscores the progress achieved by governments and central banks around the world in mitigating inflationary pressures and promoting economic stability. However, the outlook remains fraught with upside risks, including geopolitical tensions in the Middle East and the Russia-Ukraine crisis, trade disputes between the US and its trading partners, as well as OPEC's decisions on oil supply.

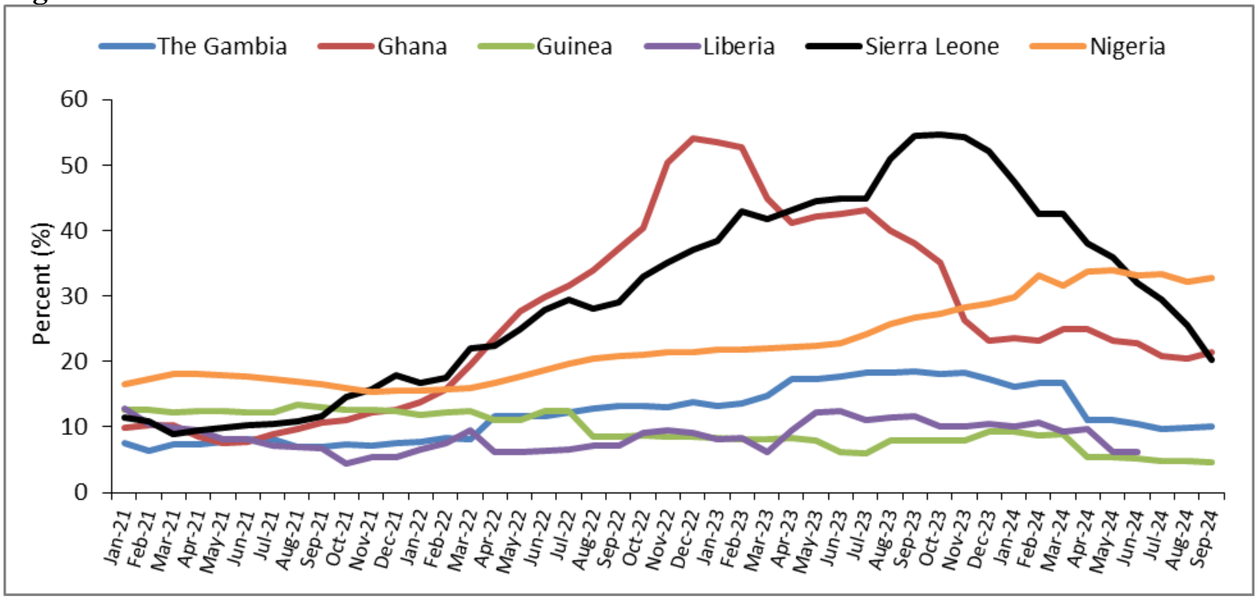
Sub-Saharan Africa (SSA) Inflation

Inflation in Sub-Saharan Africa (SSA) remains significantly above the global average. After a modest increase from 17.6 percent in 2023 to 18.1 percent in 2024, inflation is projected to decline to 12.3 percent by the end of 2025. Despite this downward trend, inflationary pressures are expected to persist at elevated levels across much of the region, driven by high import costs and ongoing currency depreciation. Additionally, the region continues to grapple with a high cost of living and enduring economic challenges.

Inflation in the WAMZ

Inflationary pressure in the West African Monetary Zone (WAMZ) remain elevated, although there has been a gradual decline. Nigeria and Ghana, the two largest economies in the bloc, continue to experience the highest inflation rates, driven by a combination of exchange rate pass-through effects, imported inflation, and foreign exchange market volatility. In contrast, Sierra Leone has maintained a steady downward trend in its inflation rate, while Guinea, The Gambia, and Liberia have recorded relatively stable inflation levels.

Figure 12: Inflation Trends in the WAMZ



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

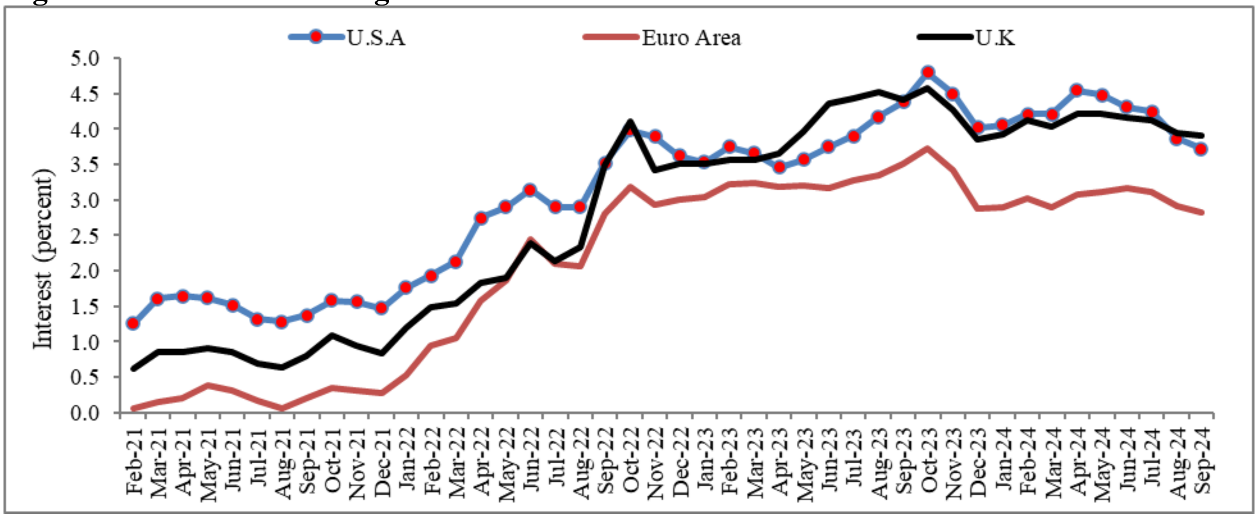
1.3 Monetary Policy and Financial Market Developments

Developed economies are experiencing greater economic stability, while emerging markets are gradually recovering from severe inflationary pressures. As inflation continues to decline, major central banks have begun reducing policy rates, which has contributed to buoyant asset prices and subdued financial market volatility. Among the world's largest economies—the United States, China, the Euro Area, and the United Kingdom—monetary policy rates remain relatively low, reflecting their advanced stages of economic stabilization. In contrast, countries within the WAMZ maintain comparatively high policy rates, underscoring their continued efforts to curb inflationary pressures. (See Table 2 in Appendix)

Sovereign Bond Yield

Global financial conditions remain tight despite recent reductions in policy rates by major central banks. The Federal Reserve, European Central Bank, and Bank of England have lowered their key policy rates based on assessments of the inflation outlook. However, these central banks have reiterated their commitment to maintaining restrictive monetary policies as long as necessary to support the disinflation process. Although long-term nominal bond yields in advanced economies initially declined following the rate cuts, they surged after the U.S. elections, driven by concerns that certain policy proposals from the incoming administration could heighten inflationary pressures.

Figure 13: Selected Sovereign Bond Yields

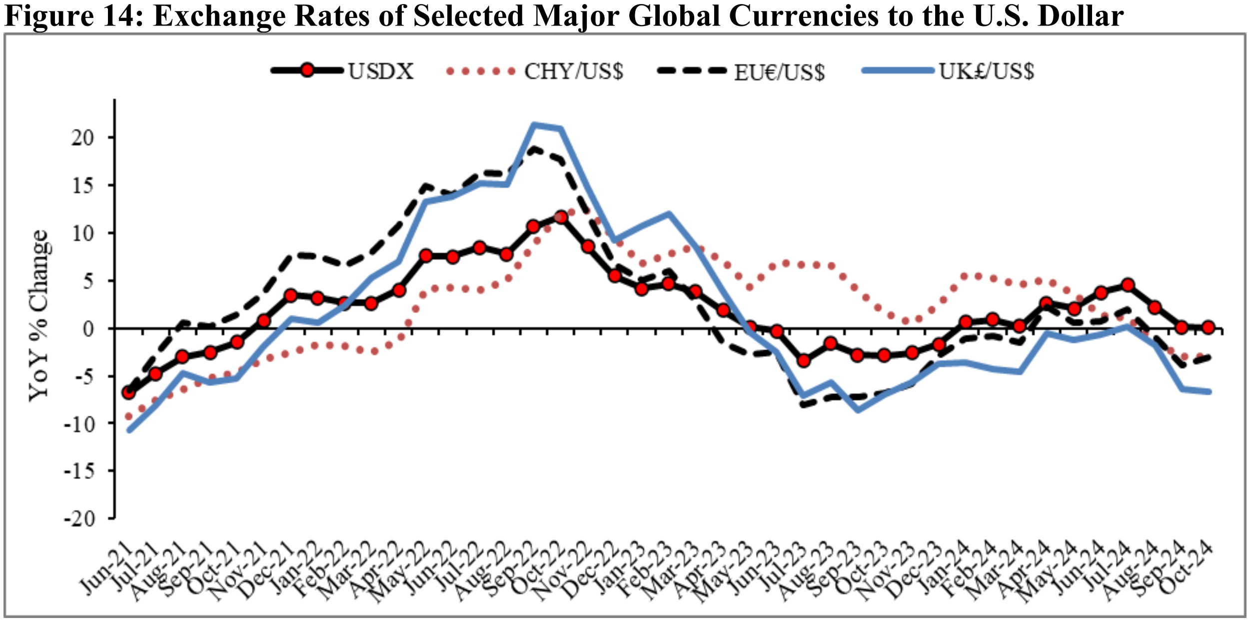


Source: Federal Reserve Economic, FRED Data (September 2024)

Exchange Rate

On an annual basis, major currencies experienced depreciation against the U.S. dollar in 2024Q3, although the dollar itself showed relative weakness. However, following the outcome of the U.S. elections, the dollar regained stability in November. Hence on monthly basis, the US dollar strengthened against other major world currencies while the Euro and Yuan fluctuated.

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



Source: FRED (October 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 of the Global Outlook for the Sierra Leone Economy

There is potential that Sierra Leone will benefit from stable global growth and declining inflation, which could lead to lower import costs and reduced external vulnerabilities. These favourable global conditions may ease economic pressures and support domestic stability. Additionally, the recent U.S. election victory of Donald Trump has sparked renewed optimism for a resolution to the Russia-Ukraine war. Such a development, if realized, could positively influence the global economy, with potential benefits for Sierra Leone through improved trade and financial conditions.

Given Sierra Leone's dependence on iron ore exports, the rebound in global iron ore prices and the expected continuation of this trend present a significant opportunity to boost export revenues. Increased foreign exchange inflows from iron ore exports could ease pressure on the Leone, strengthen external reserves, and support broader economic growth. Similarly, the decline in global crude oil prices offers potential relief for an oil-importing country like Sierra Leone. Lower energy costs may reduce inflation and improve the trade balance. A reduction in petroleum prices could also translate into lower domestic pump prices, triggering a downward ripple effect on overall price levels thereby reinforcing the downward trajectory of domestic inflation in Sierra Leone.

However, heightened global tensions pose significant risks. Escalating geopolitical conflicts could deter international investors, disrupt trade flows, and exacerbate Sierra Leone's economic vulnerabilities. Furthermore, the potential resurgence of a trade war between the United States and China—one of Sierra Leone's major trading partners—could destabilize global trade dynamics. Such disruptions may have adverse implications for Sierra Leone's export performance and broader economic prospects.

2. DOMESTIC ECONOMIC DEVELOPMENTS

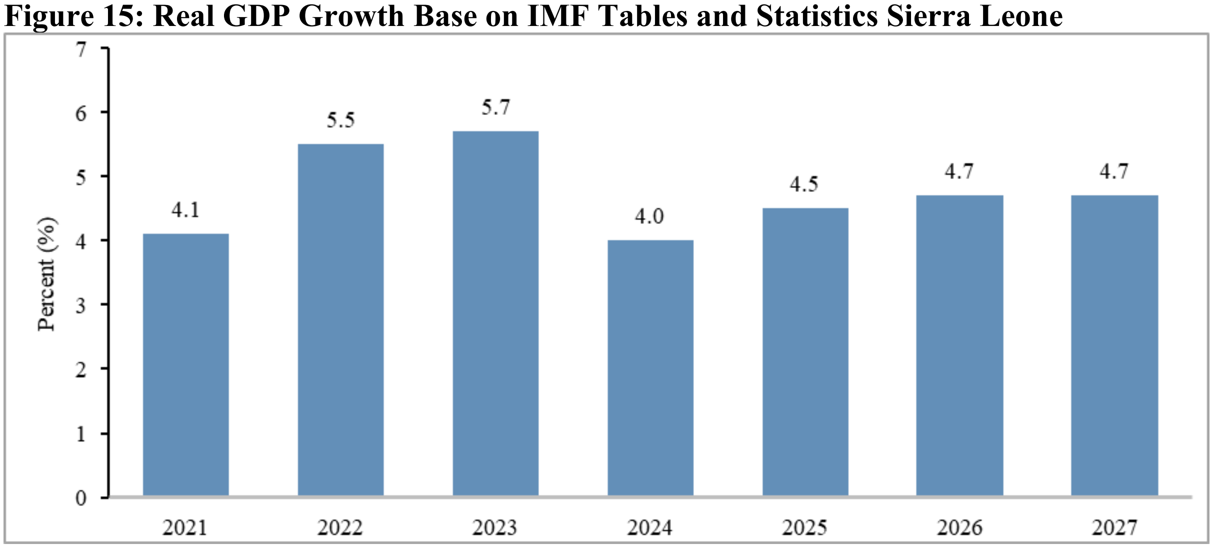
2.1 Real GDP Developments

2.1.1 Real GDP Growth

The recent rebasing of the real GDP (RGDP) showed that in 2023, the Sierra Leone economy experienced a growth rate of 5.7 percent, driven largely by strong activity in the mining sector. In 2024, growth is estimated to slow to 4.0 percent, reflecting underperformance in the mining sector and fall in global iron ore prices. The outlook for the economy is however positive, as RGDP is projected to rebound to 4.5 percent in 2025 and average 4.7 percent in the medium term. This optimistic outlook is based on the anticipated improvements in agricultural productivity, improved performance of the mining sector, and strong macroeconomic framework in line with the new IMF program.

Despite this favourable outlook, there are notable downside risks to the growth outlook including a likely resurgence in global food and energy prices, fiscal slippages, spillovers from the global fragmentation as well as deterioration of the security situation.

Figure 15: Real GDP Growth Base on IMF Tables and Statistics Sierra Leone

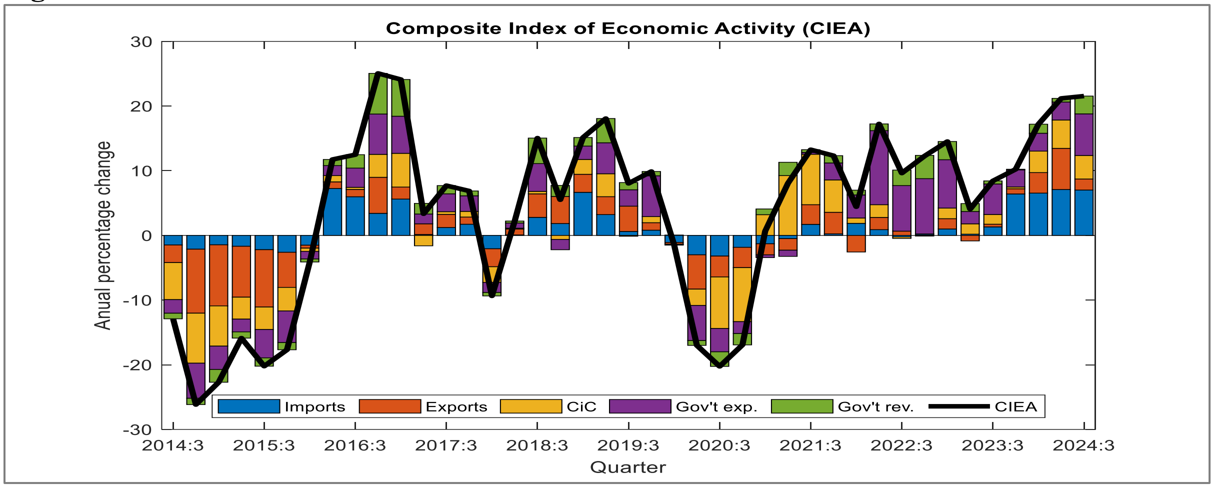


Source: Stats. SL & IMF

2.1.2 Composite Index of Economic Activity (CIEA)

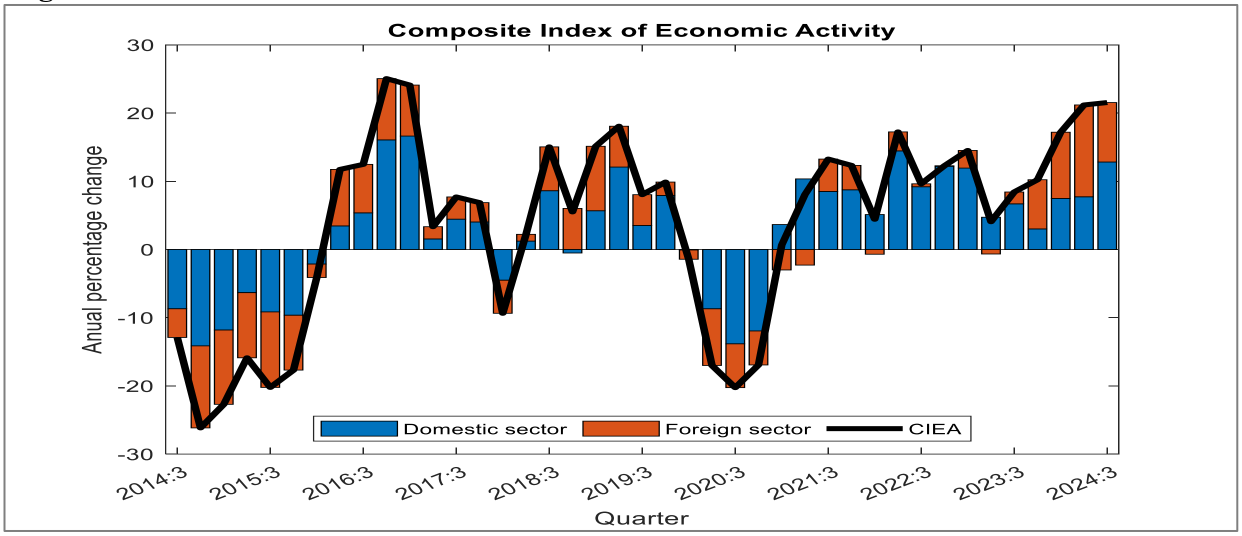
The high frequency proxy of economic performance, i.e. the Composite Index of Economic Activity (CIEA), indicates sluggish economic activity in 2024Q3, with slight increase in growth compared to 2024Q2. While government expenditures showed notable growth among the CIEA components, reflecting an expansionary fiscal stance in 2024Q3, the lack of improvement in other components resulted in a weak performance in economic activity during the quarter.

Figure 16: Contributions to CIEA



Source: BSL

Figure 17: Sectoral Contributions to CIEA

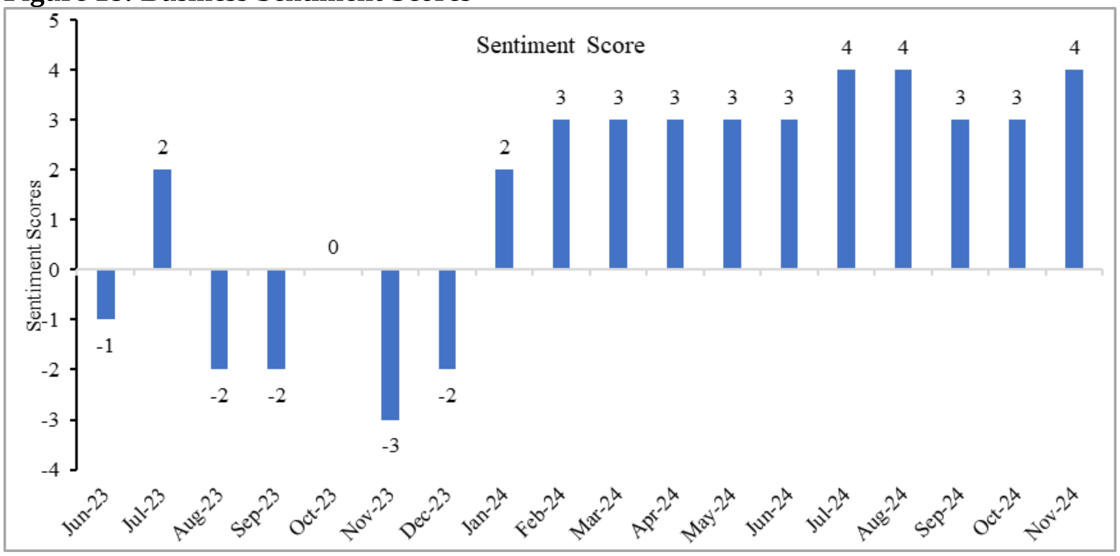


Source: BSL

Box 1: Business Sentiment[3]

Business sentiment continues to be positive in 2024, signalling growing confidence within the business community. Survey findings attribute this optimism to the sustained stability of the Leone over the past year and the gradual easing of inflationary pressures. These factors have provided businesses with greater predictability and assurance in their pricing decisions.

Figure 18: Business Sentiment Scores



Source: BSL

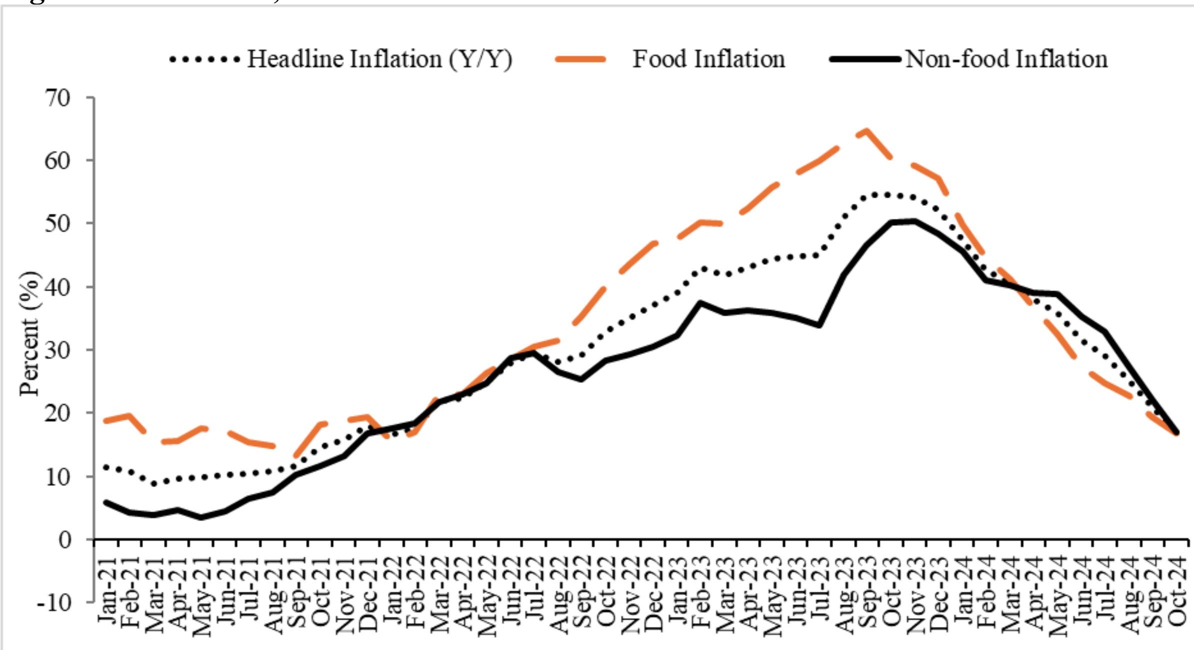
2.1.3 Price Developments

Inflation continued to trend downwards from its peak in October 2023. Headline inflation slowed from 31.56 percent in June 2024 to 20.91 percent in September 2024, before easing further to 16.92 percent in October 2024. Similarly, both food and non-food inflation have been moderating in tandem with headline inflation. Food inflation fell from 27.25 percent in June 2024 to 19.41 percent in September 2024, and further to 16.75 percent in October 2024. Non-food inflation also fell significantly, dropping from 35.30 percent in June 2024 to 22.22 percent in September 2024, and to 17.07 percent in October 2024.

The sustained decline in inflation is attributed to the impact of the continued tight monetary policy stance, relative stability of the exchange rate, and stable global food prices, which collectively contributed to easing price pressures across the Consumer Price Index (CPI) basket.

[3] The business sentiment is still experimental.

Figure 19: Headline, Food and Non-food Inflation

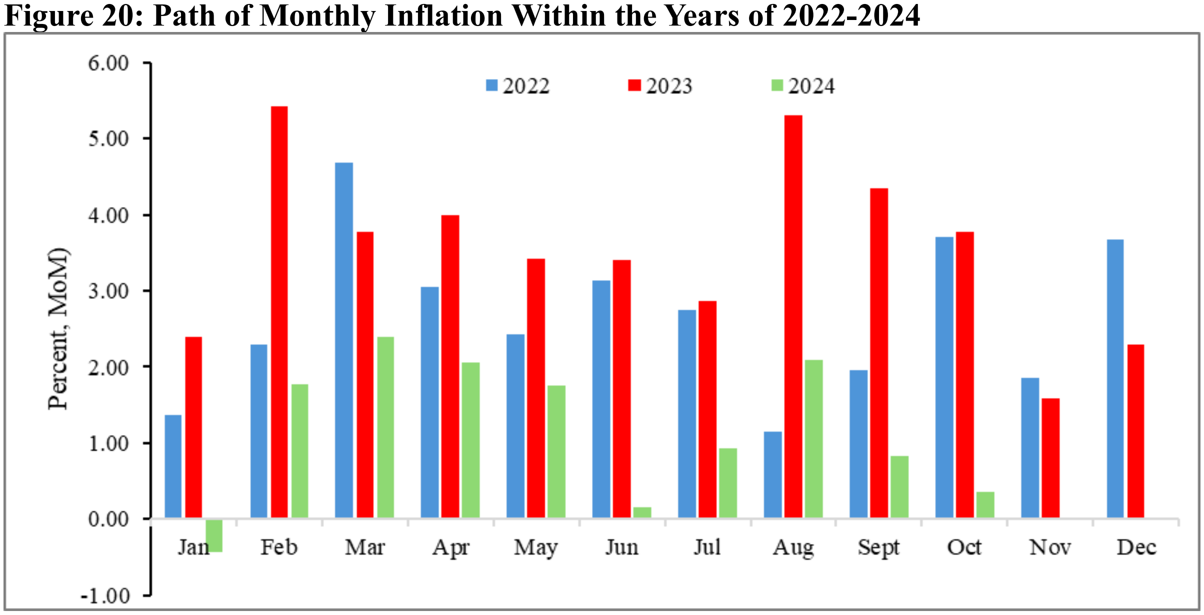


Source: Stats. SL

Monthly Inflation

In terms of month-on-month trend, headline inflation remains broadly lower on average in 2024 compared to 2023 and 2022. However, it rose slightly from 0.15 percent in June 2024 to 0.82 percent in September 2024, before easing to 0.35 percent in October 2024.

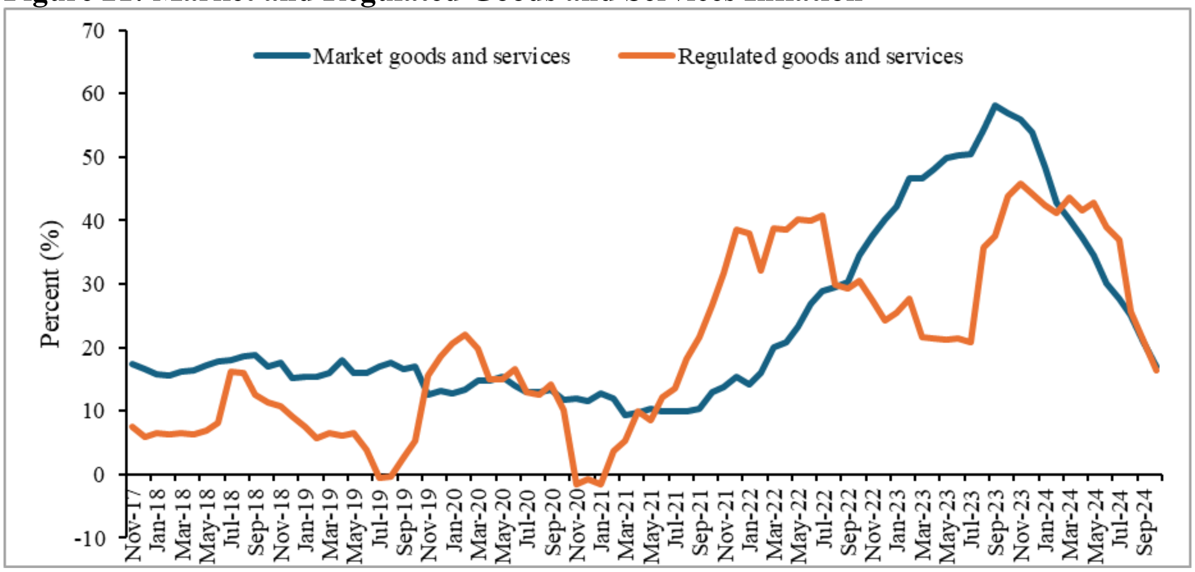
Figure 20: Path of Monthly Inflation Within the Years of 2022-2024



Source: Stats. SL

With headline inflation, the annual trend in both market-driven and regulated goods and services inflation continued to decline, largely reflecting the impact of tightened macroeconomic policies during the period.

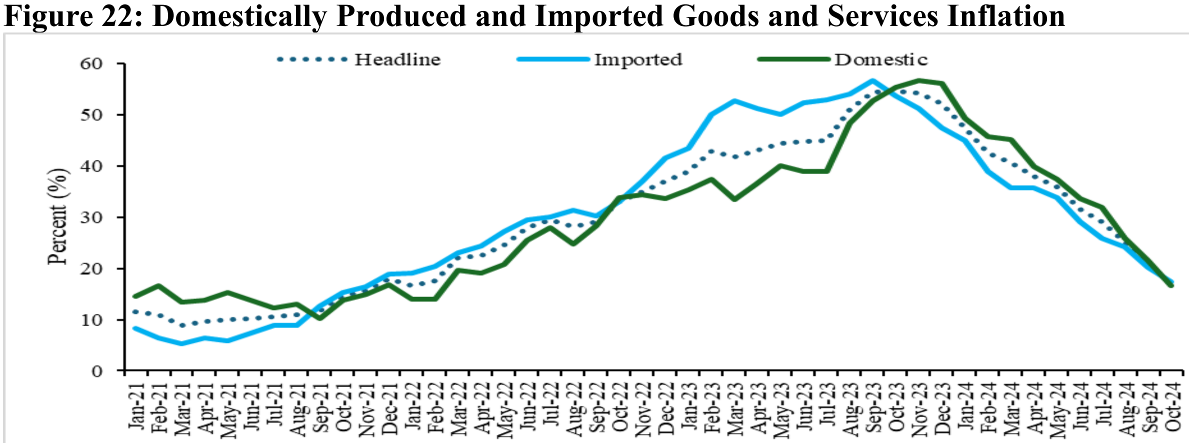
Figure 21: Market and Regulated Goods and Services Inflation



Source: BSL Staff Calculations

Similarly, consistent with the decline in headline inflation, both imported, and domestically induced inflation continued to ease as of October 2024. This reduction primarily reflects the overall fall in global food prices, an increase in domestic food supply, as well as the BSL's several reform policy initiatives introduced by BSL to address the challenges associated with transactions in the foreign exchange market.

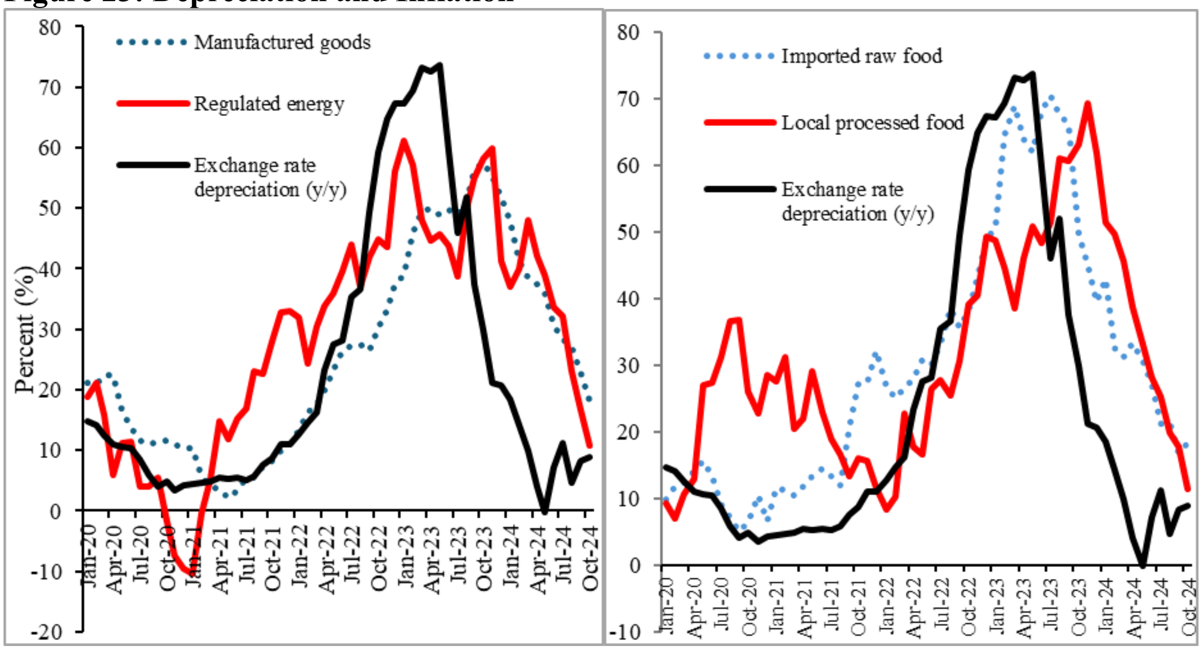
Figure 22: Domestically Produced and Imported Goods and Services Inflation



Source: Stats. SL & BSL

The observed reduction in inflation during the review period is partly due to a steady exchange rate, supported by the tight monetary policy stance. The prices of imported raw food, local food, manufactured goods, and regulated energy all saw a downward trend, broadly mirroring the stability of the exchange rate.

Figure 23: Depreciation and Inflation



Source: BSL Staff Calculations

Core Inflation

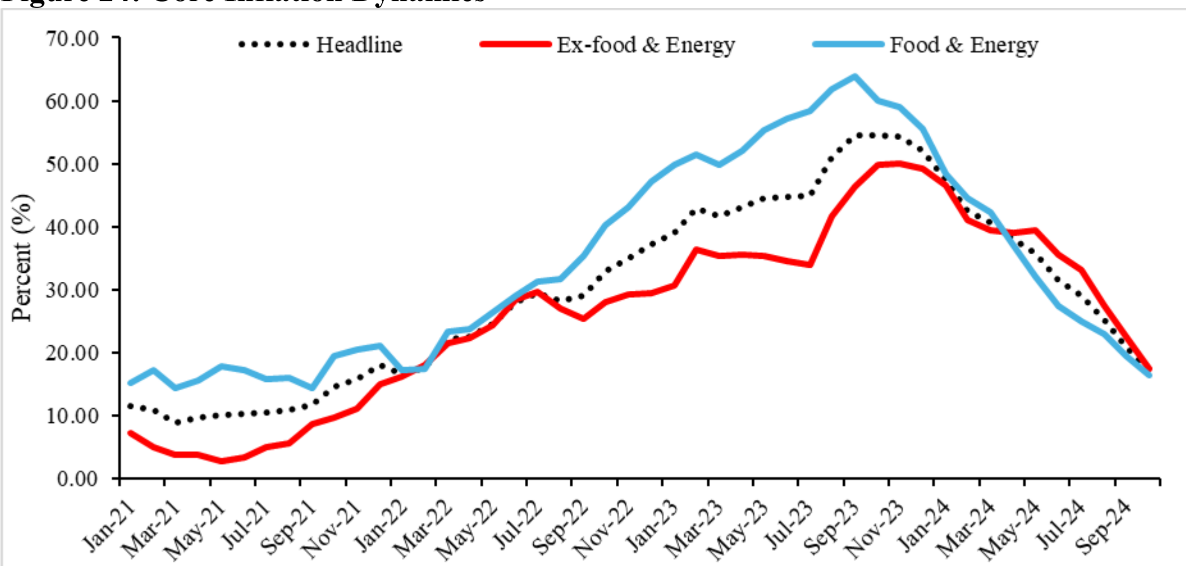
From 2021 to December 2023, core inflation (ex-food and energy) was consistently lower than both headline inflation and food & energy inflation. This trend highlights the disproportionate impact of volatile imported food and energy prices, exacerbated by exchange rate pressures.

Starting in January 2024, a convergence emerged between core inflation, food & energy inflation, and headline inflation. This shift can be attributed to the improved exchange rate stability which helped mitigate the pass-through effects from global prices.

Between May and October 2024, the convergence trend among the inflation measures persisted, but a subtle shift occurred. Core inflation began to slightly exceed both headline inflation and food & energy inflation. Core inflation declined from 39.4 percent in March 2024 to 35.6 percent in June 2024, easing further to 17.4 percent in October 2024. In comparison, headline inflation fell from 40.7 percent to 31.66 percent before reaching 16.9 percent over the same period. The marginal decline in food and energy prices during this period likely tempered headline inflation, causing core inflation to appear relatively higher.

From September and October 2024, all three inflation measures converged, underscoring the successful impact of the sustained efforts by the BSL to stabilize the exchange rate and control inflation.

Figure 24: Core Inflation Dynamics



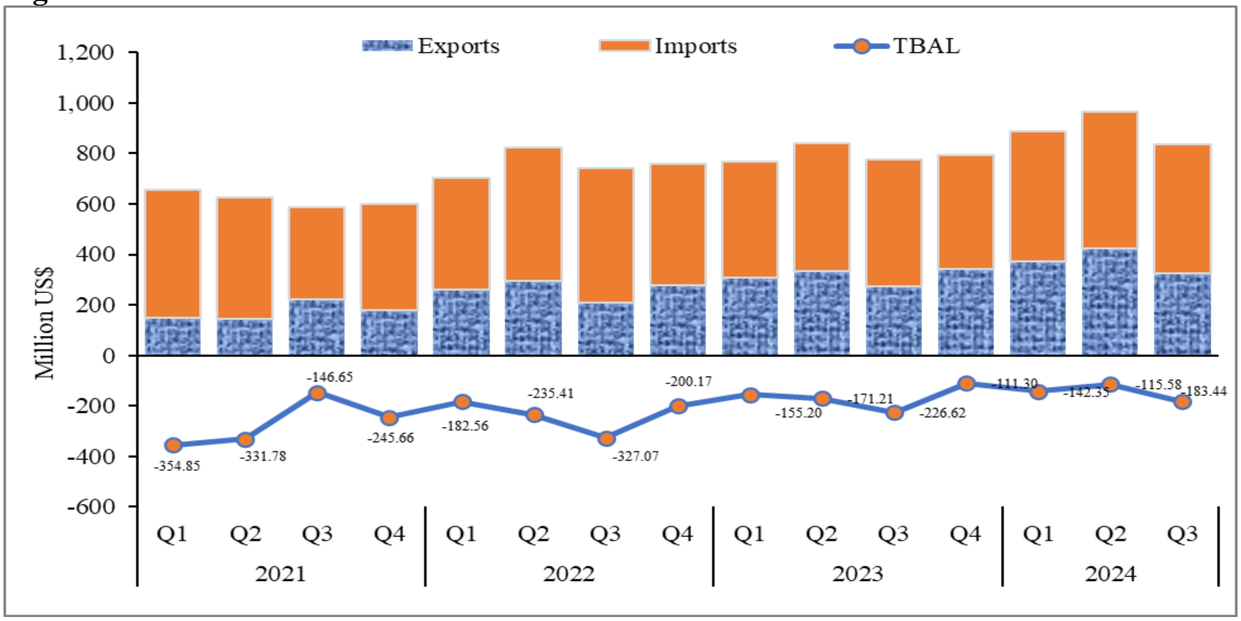
Source: Stats. SL

2.2 External Sector Developments

2.2.1 Merchandise Trade

Sierra Leone's trade deficit with the rest of the world deteriorated by 58.71 percent to US$183.44 million in 2024 Q3 from US$115.58 million in 2024 Q2. This reflects the combined effects of decreases in both exports and imports, with exports decreasing by a greater proportion (23.40 percent) than imports (5.84 percent).

Figure 25: Merchandise Trade



Source: NRA/Customs & BSL

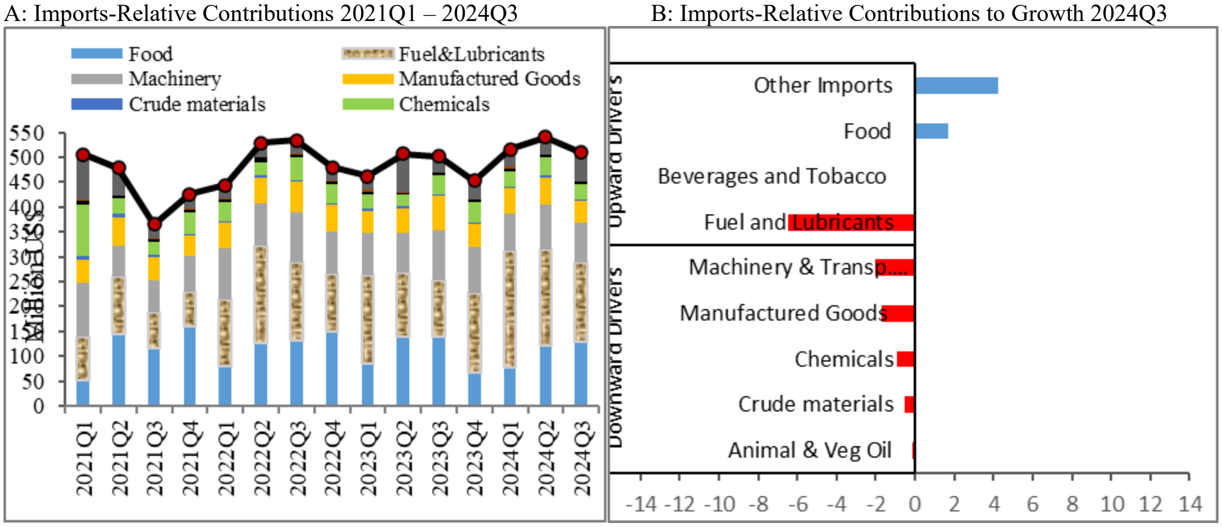
Components of Import

The total value of merchandise imports decreased by 5.84 percent to US$508.85 mn in 2024 Q3 from US$540.40 mn in 2024 Q2. The decrease in merchandise imports was driven mainly by fuel and lubricants, machinery and transport equipment, manufactured goods, and chemicals.

Figure 26: Components of Import

A: Imports-Relative Contributions 2021Q1 – 2024Q3

B: Imports-Relative Contributions to Growth 2024Q3



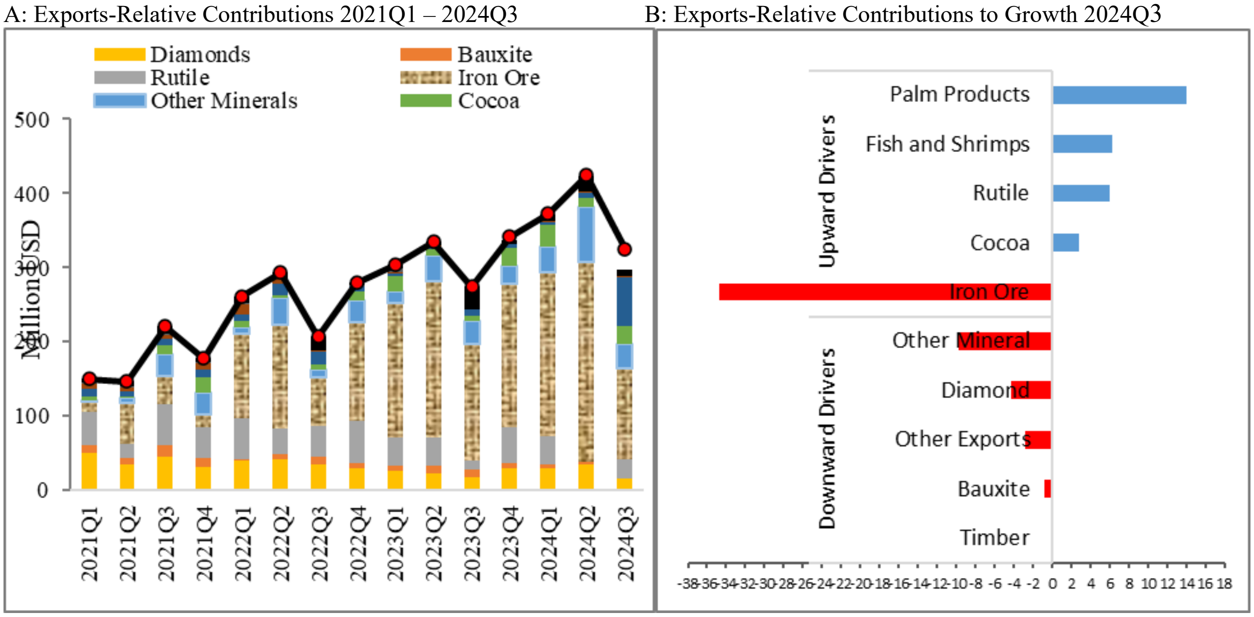
Source: NRA/Customs & BSL

Components of Export

The decrease in merchandise exports was driven mainly by a drop in receipts from iron ore, other minerals, diamonds, and other exports. The total value of merchandise exports decreased by 23.40 percent to US$325.41 million in 2024 Q3 from US$424.82 million in 2024 Q2.

Figure 27: Components of Export

A: Exports-Relative Contributions 2021Q1 – 2024Q3 B: Exports-Relative Contributions to Growth 2024Q3

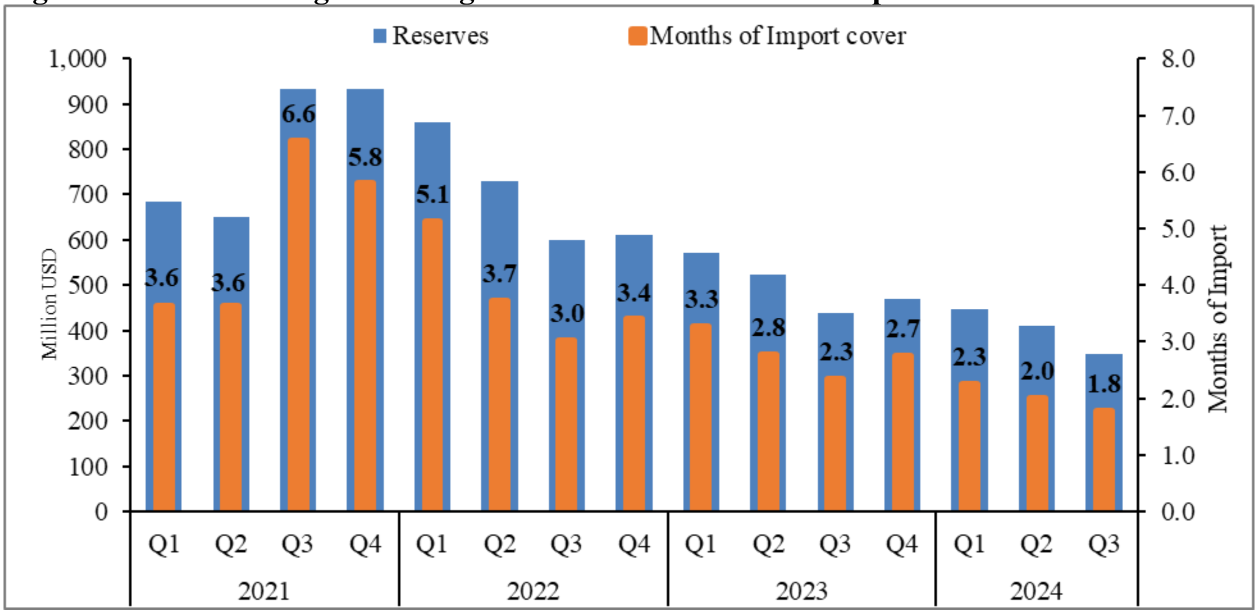


Source: NRA/Customs & BSL

2.2.2 Gross Foreign Exchange Reserves

Gross Foreign Exchange Reserves of BSL decreased by 15.48 percent to US$347.69 mn in 2024 Q3 from US$411.35 mn in 2024 Q2. Outflows were higher than inflows during the review quarter, mainly on account of payments for goods and services (notably government outlay, BSL outlay, embassy/mission payments, and interbank market operations), as well as debt service payments to the IMF, World Bank, EEC/EIB, OPEC/OFID, and other multilateral/bilateral organizations. Consequently, the reserve was only enough to cover 1.8 months of imports of goods and services in 2024 Q3, compared with 2.0 months of import cover in 2024 Q2.

Figure 28: Gross Foreign Exchange Reserves and Months of Import Cover

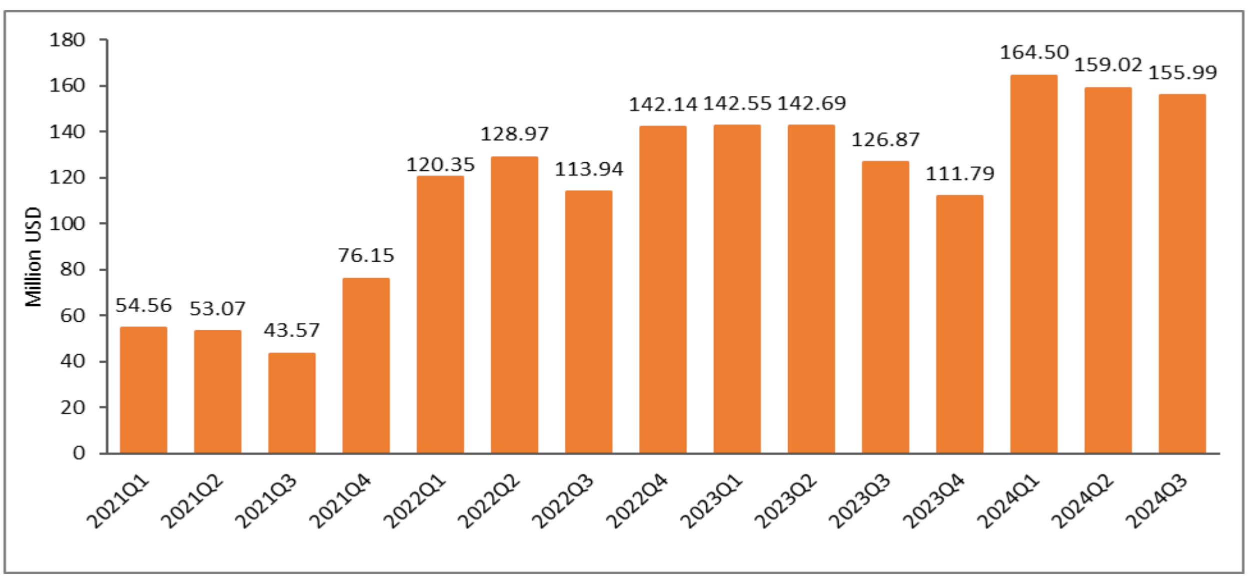


Source: BSL

2.2.3 Diaspora Remittances

Diaspora remittance inflows decreased marginally in 2024 Q3 by 1.90 percent to US$ 155.99 mn from US$ 159.02 mn in 2024 Q2. Diaspora remittances, however, remain strong when compared to corresponding periods in the last three years. Remittances are also expected to increase during the last quarter as our diaspora communities are expected to support relatives and friends during the end-of-year festive season.

Figure 29: Diaspora Remittances into Sierra Leone

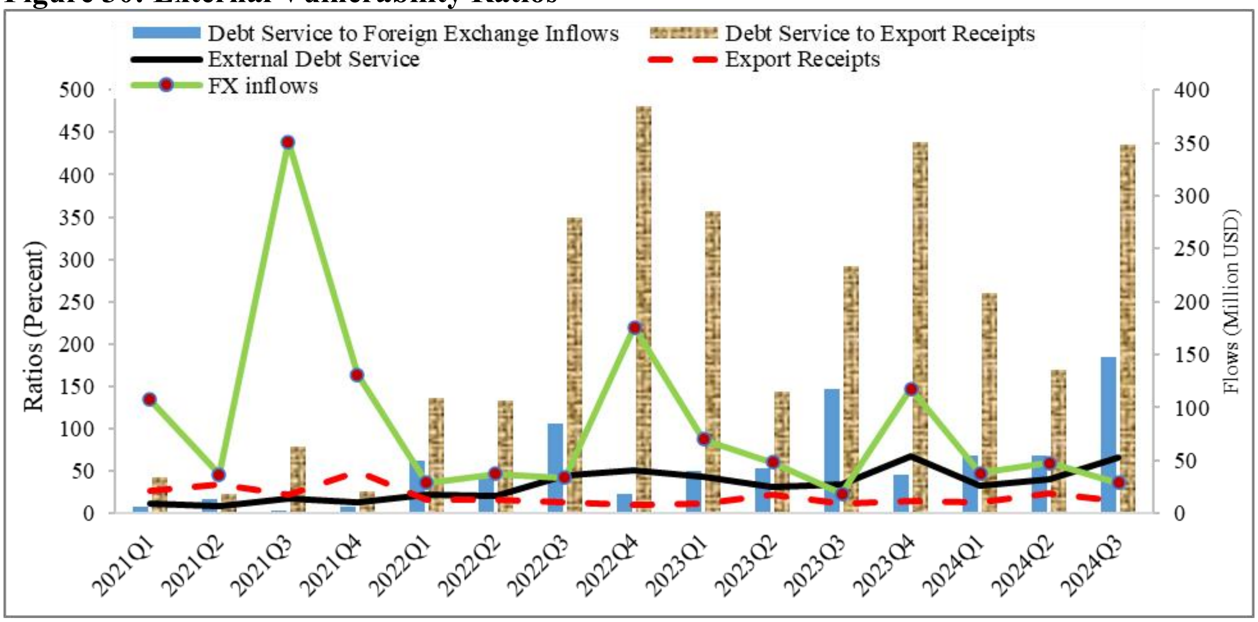


Source: BSL

2.2.4 External Vulnerability Ratios

External debt service payments increased by 65.42 percent to US$53.25 million in 2024Q3 from US$32.19 million in 2024Q2. Conversely, tax receipts from exports and forex inflows decreased by 35.80 percent to US$12.21 million and 39.36 percent to US$28.79 million in 2024Q3 from US$19.02 million and US$47.48 million respectively in 2024Q2. Consequently, the ratios of debt service to export tax receipts as well as that of debt service to forex inflows increased accordingly by 157.69 percent and 172.81 percent respectively.

Figure 30: External Vulnerability Ratios



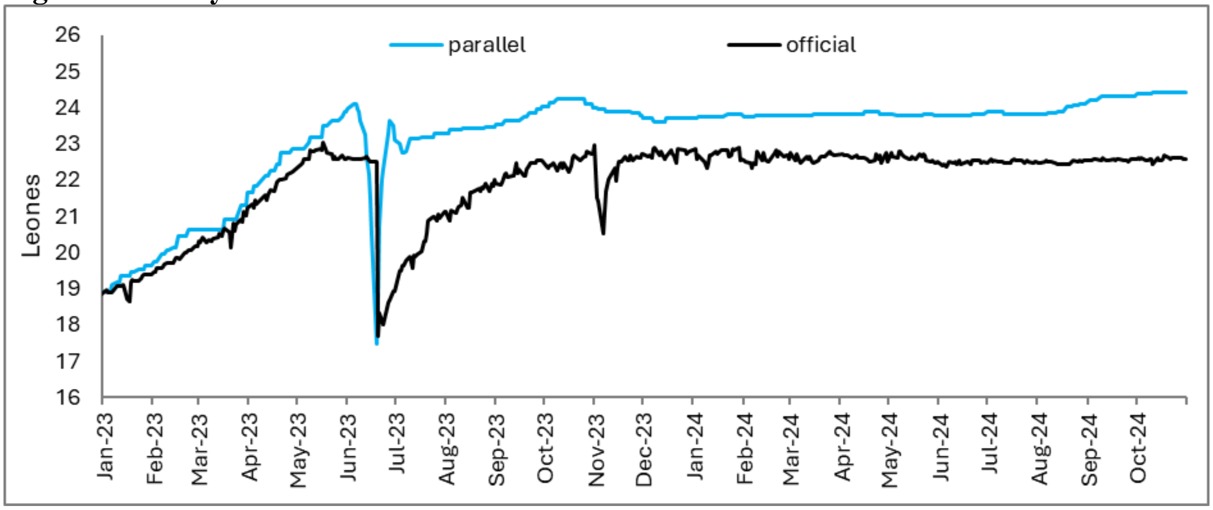
Source: BSL

2.3 Exchange Rates and Foreign Exchange Market Developments

2.3.1 Bilateral Rates and Foreign Exchange Market Developments

The official exchange rate has shown considerable stability since July 2023, primarily as a result of several policy initiatives aimed at addressing challenges in the foreign exchange market, thereby helping to rebuild public trust in the local currency. 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 rate. Furthermore, the renewed confidence in the local currency continues to reduce speculation in the FX market, and the reduced hedging activities by market participants continued during the reviewed period. However, there was a slight depreciation of the parallel exchange rate in September 2024 following government payments to contractors when increased demand for foreign currency was observed.

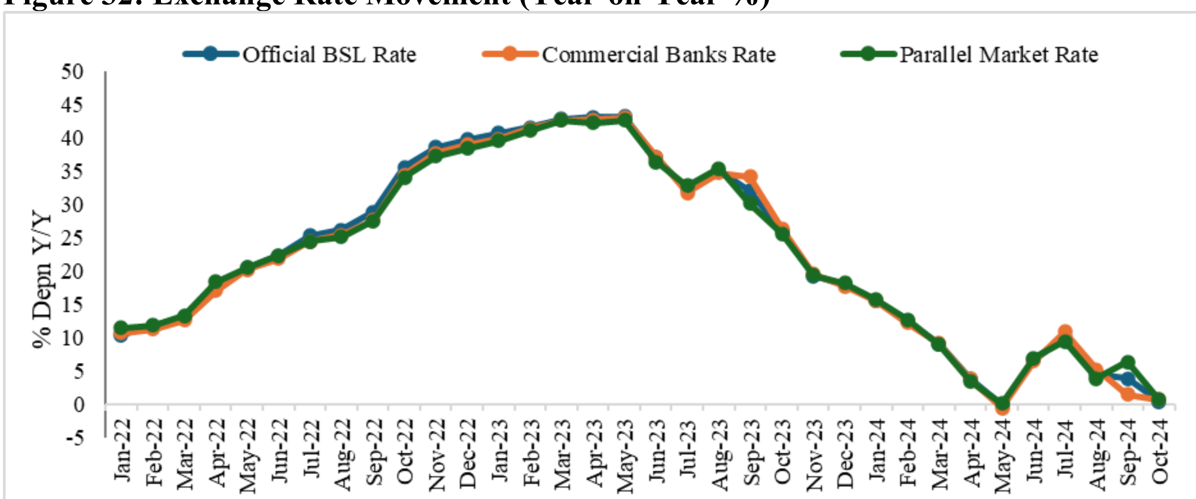
Figure 31: Daily NLe/US$ Mid Rates in the Official and Parallel Market



Source: BSL

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

Figure 32: Exchange Rate Movement (Year-on-Year %)

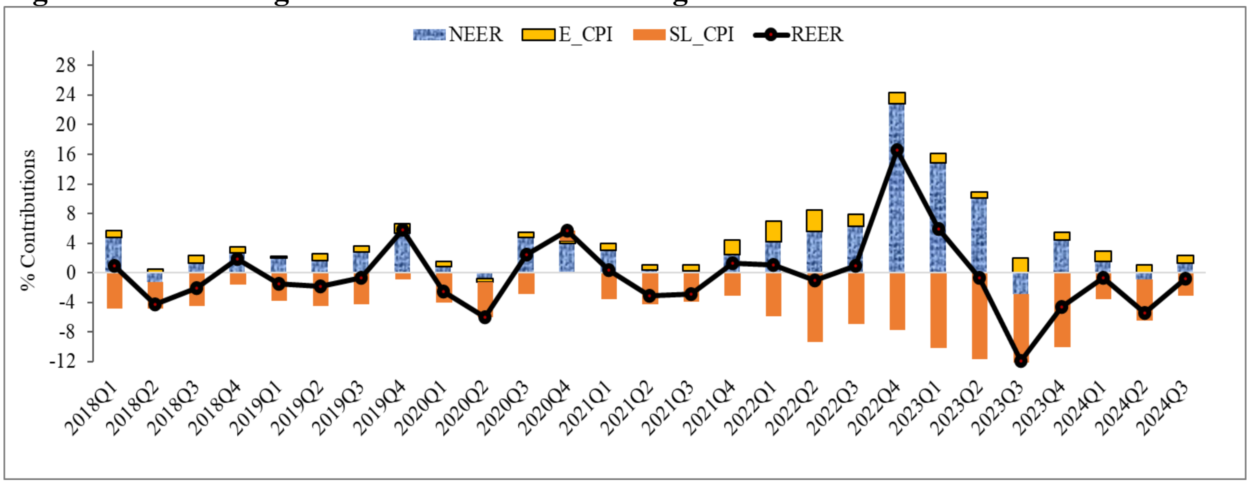


Source: BSL

2.3.2 Effective Exchange Rates

The Nominal Effective Exchange Rate (NEER) fell by 1.3 percent in the third quarter of 2024, a shift from the 0.9 percent increase seen in the second quarter. This drop in the NEER suggests that the Leone depreciated against the Euro, overshadowing any gains made against the US dollar. On the other hand, the Real Effective Exchange Rate (REER) rose by 0.8 percent in 2024Q3, following a more substantial increase of 5.3 percent in the previous quarter. This rise in the REER could signal a potential decline in competitiveness, as it indicates that Sierra Leone's domestic exports have become relatively more expensive in the global market during the third quarter of 2024. Consequently, this situation might reduce the attractiveness of the country's exports to international buyers, which could impact export revenues.

Figure 33: Percentage Contributions to the Change in REER

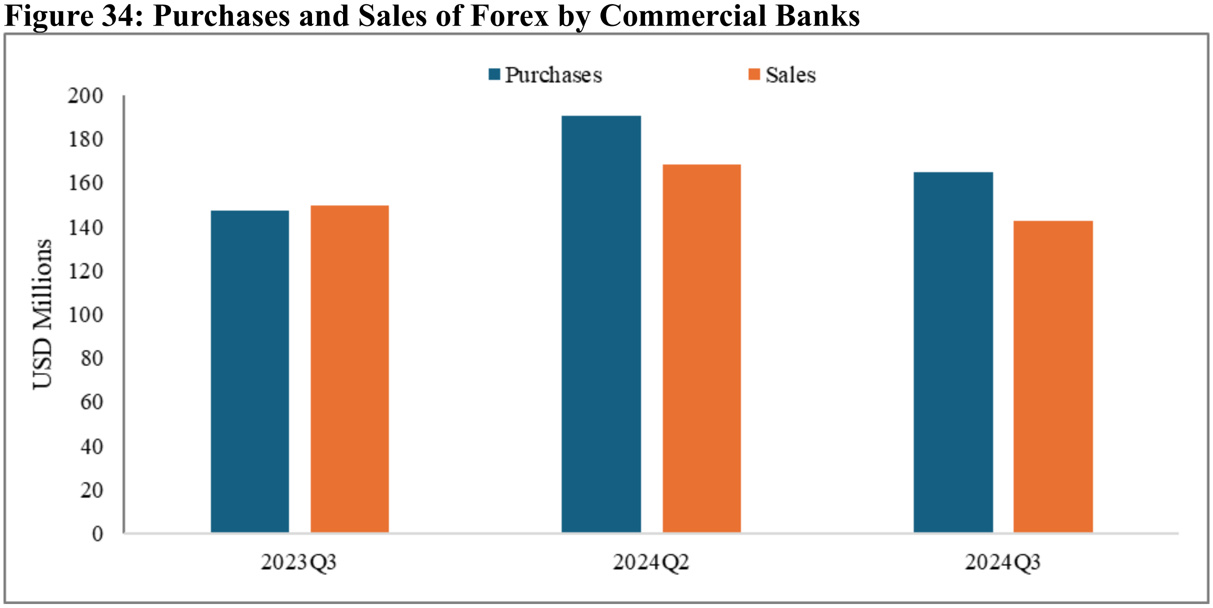


Source: World Bank, World Development Indicators, BSL Data Warehouse, Federal Reserve Economic Data

2.3.3 Foreign Exchange Market Turnover

Total amount traded in the Foreign Exchange Market (purchases and sales) during 2024Q3 amounted to USD 307.55 million, reflecting a 14.25 percent decrease compared to the USD 358.67 million recorded in 2024Q2. However, when compared to the corresponding quarter of the previous year (2023Q3), the total amount traded in 2024Q3 showed an increase of 3.63 percent.

Figure 34: Purchases and Sales of Forex by Commercial Banks

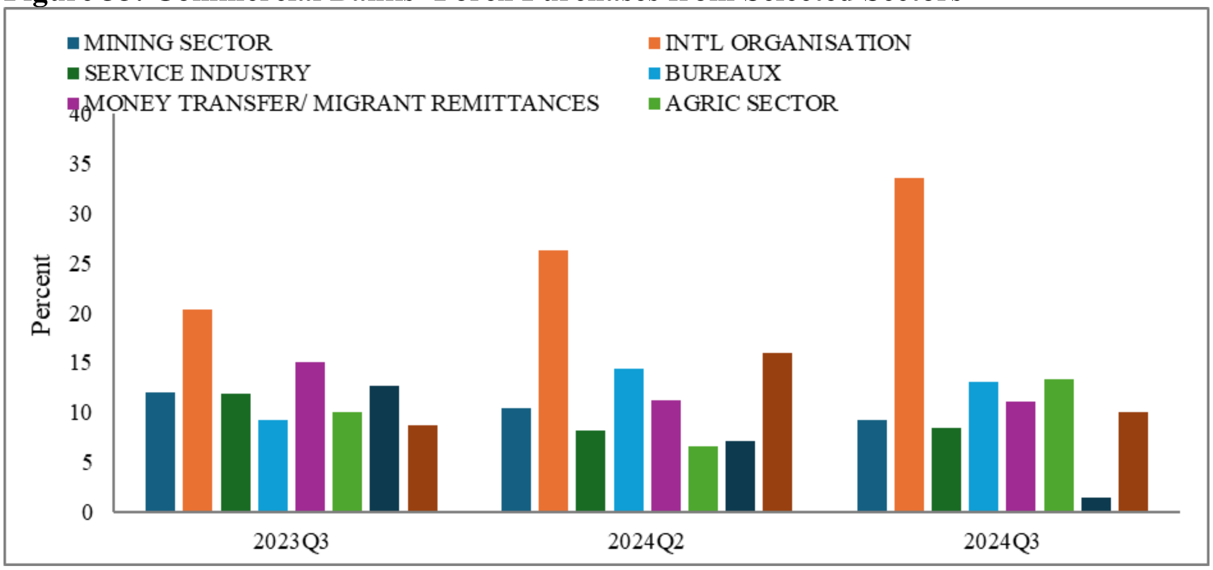


Source: BSL

Purchase of Forex by Commercial Banks

Commercial banks sourced foreign exchange from various sectors, with NGOs and international organizations accounting for the largest share at 33.52 percent. The agricultural sector followed, contributing 13.27 percent, while foreign exchange purchased from foreign exchange bureaus accounted for 13.11 percent. Migrant remittances contributed 11.03 percent, with additional contributions from other purchases (9.97 percent), the mining sector (9.18 percent), and the service sector (8.42 percent). Notably, foreign exchange from remittances is typically acquired directly from remittance companies or indirectly through foreign exchange.

Figure 35: Commercial Banks' Forex Purchases from Selected Sectors

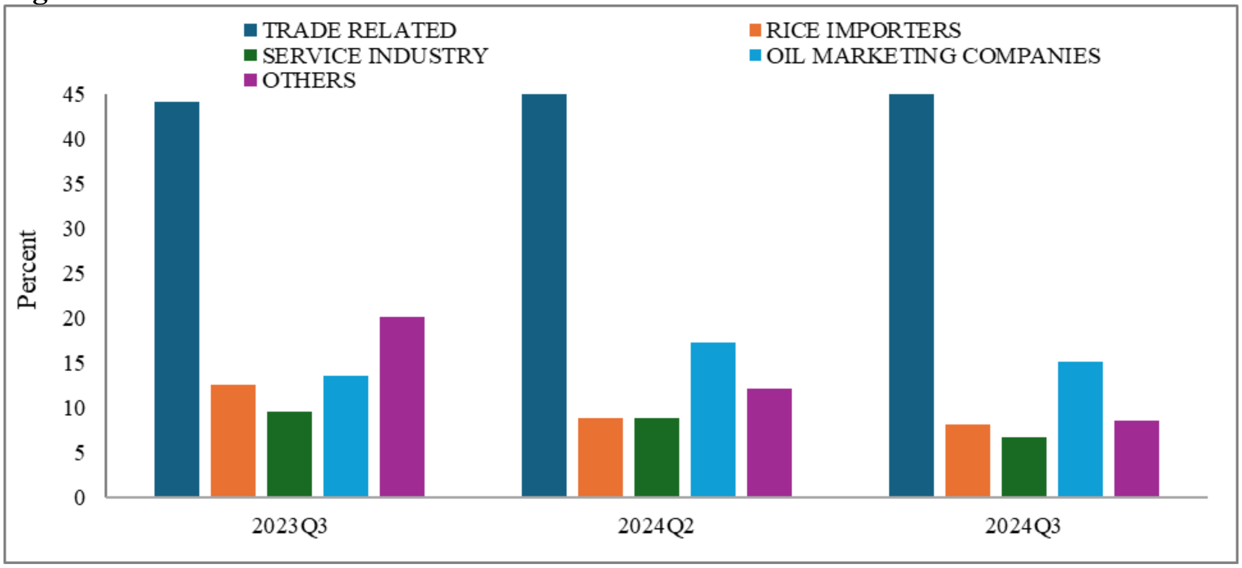


Source: BSL Note: Others include purchases from manufacturing sector, fishing companies, religious organizations, logistics & construction companies.

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. The majority of the forex sold by commercial banks during 2024 Q3 was for the importation of trade-related products (61.62 percent), followed by oil marketing companies (15.16 percent). Sales of FX to other sectors (which include telecommunication companies, fishing companies, personal payments, investment-related firms, logistics, and construction companies) accounted for 8.49 percent, whilst rice importers and the service industry received 8.07 percent and 6.65 percent, respectively.

Figure 36: Commercial Banks Sale of Forex to Selected Sectors

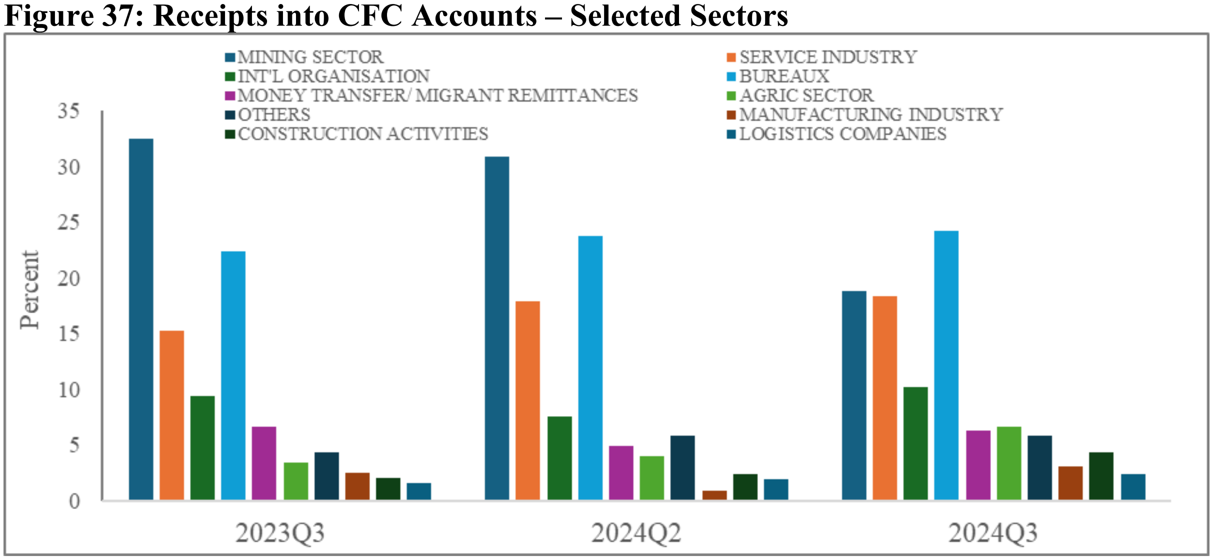


Source: BSL Note: Others include sale of forex to telecommunication companies, fishing companies, personal payments, investment related, logistics & construction companies.

Receipt of Forex by Commercial Banks

FX receipts into customers' foreign currency accounts decreased by 16.19 percent in 2024 Q3 relative to 2024 Q2. The major contributors to FX receipts were from FX bureaus (24.18 percent), the mining sector (18.85 percent), the service industry (18.31 percent), and NGOs/international organizations (10.18 percent).

Figure 37: Receipts into CFC Accounts – Selected Sectors



Source: BSLNote: 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

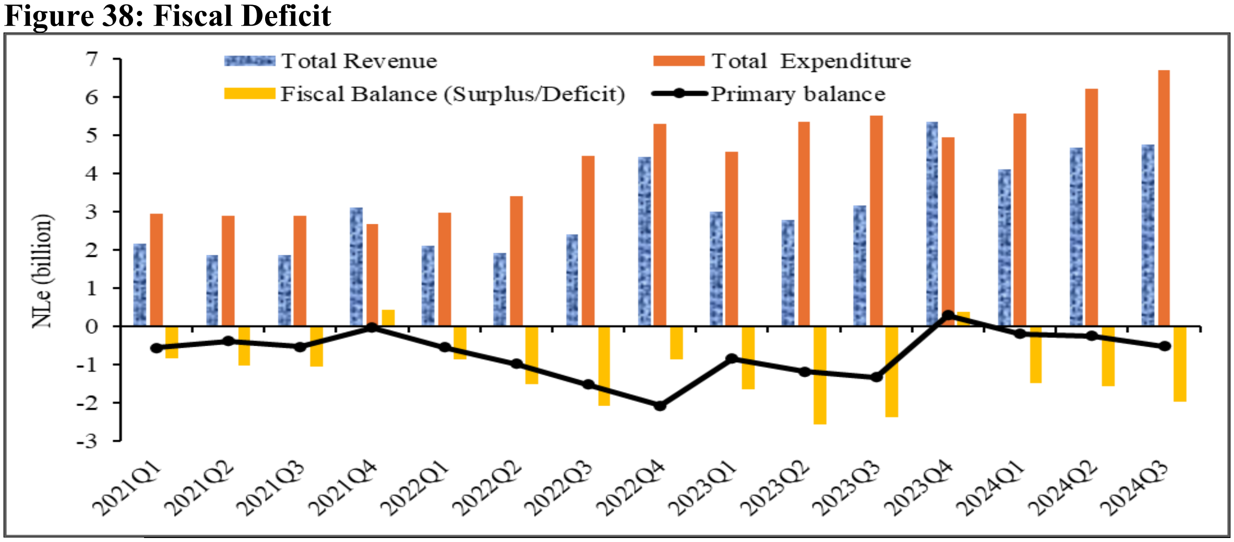
Given the current economic policies and external factors, the FX market is expected to remain relatively stable for the remainder of 2024. The government's fiscal consolidation efforts, coupled with the BSL's monetary tightening measures, will continue to support the exchange rate. However, potential vulnerabilities such as external debt obligations and global economic uncertainties could pose risks to currency stability. While policy interventions have contributed to the current stability in the FX market, ongoing monitoring of economic indicators and external factors is essential in assessing future trends.

2.4 Fiscal Developments

2.4.1 Fiscal Policy Stance

Outcome of government fiscal operations in 2024 Q3, based on provisional data, resulted in a deficit of NLe 2.0bn, compared to NLe 1.6bn in 2024 Q2. This reflects increased government expenditure and net lending, outweighing the increase in total revenue generated in the quarter. The primary balance also recorded a deficit of NLe 0.50bn in 2024 Q3, from NLe 0.3bn in 2024Q2.

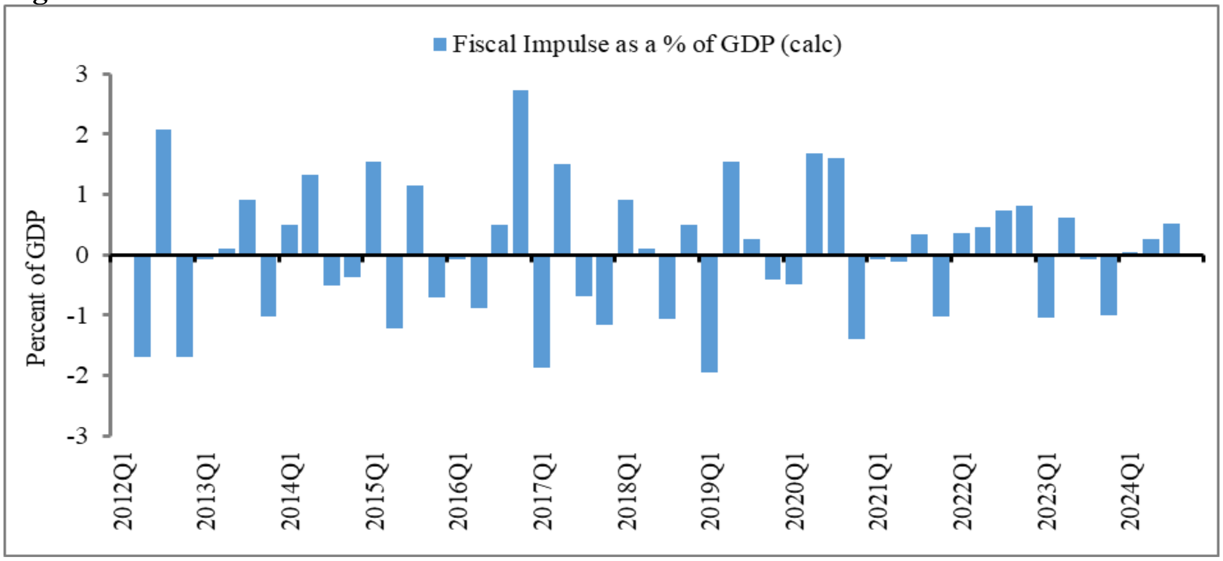
Figure 38: Fiscal Deficit



Source: MoF

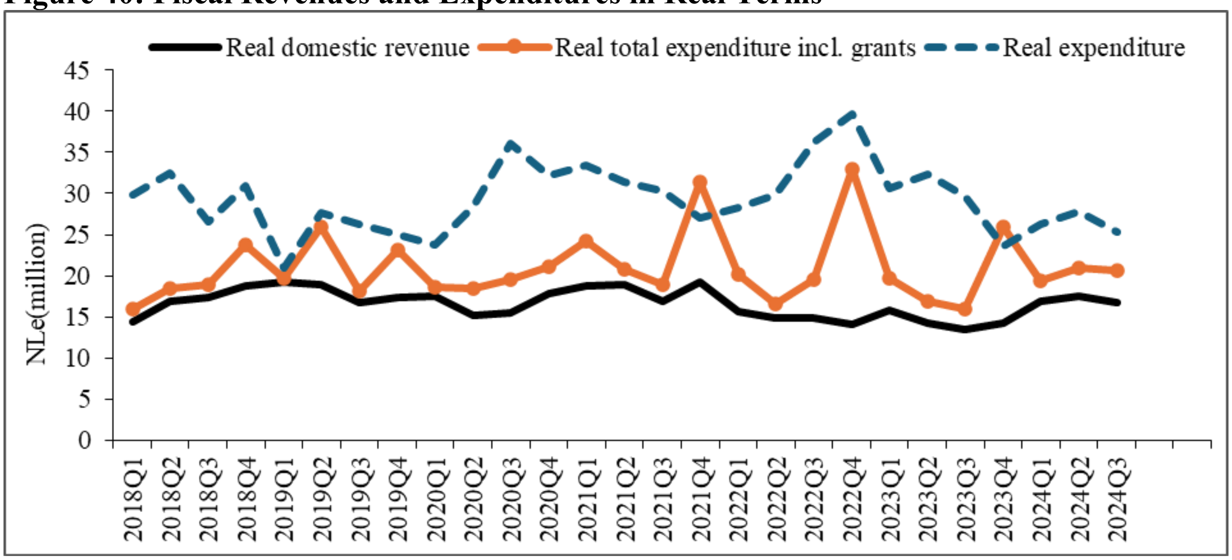
Fiscal policy in 2024Q3 continued to be expansionary relative to 2024 Q2, owing to the increase in government capital outlays amidst contraction in domestic revenue mobilization. In real terms, domestic revenue also underperformed, while expenditures moderated owing to the government's consolidation efforts.

Figure 39: Fiscal Indicators



Sources: MoF & BSL

Figure 40: Fiscal Revenues and Expenditures in Real Terms



Sources: MoF & BSL

2.4.2 Government Revenues and Grants

In 2024Q3, total revenue and grants increased marginally by 1.2 percent to NLe4.74bn, up from NLe4.69bn in 2024Q2, and exceeded the target of NLe4.98bn by 4.8 percent. The increase in total revenue was primarily driven by a significant rise in foreign grants, while domestic revenue registered a decline. Total foreign grants received during the quarter amounted to NLe1.49bn, representing a substantial 93.7 percent increase compared to NLe0.77bn in the previous quarter.

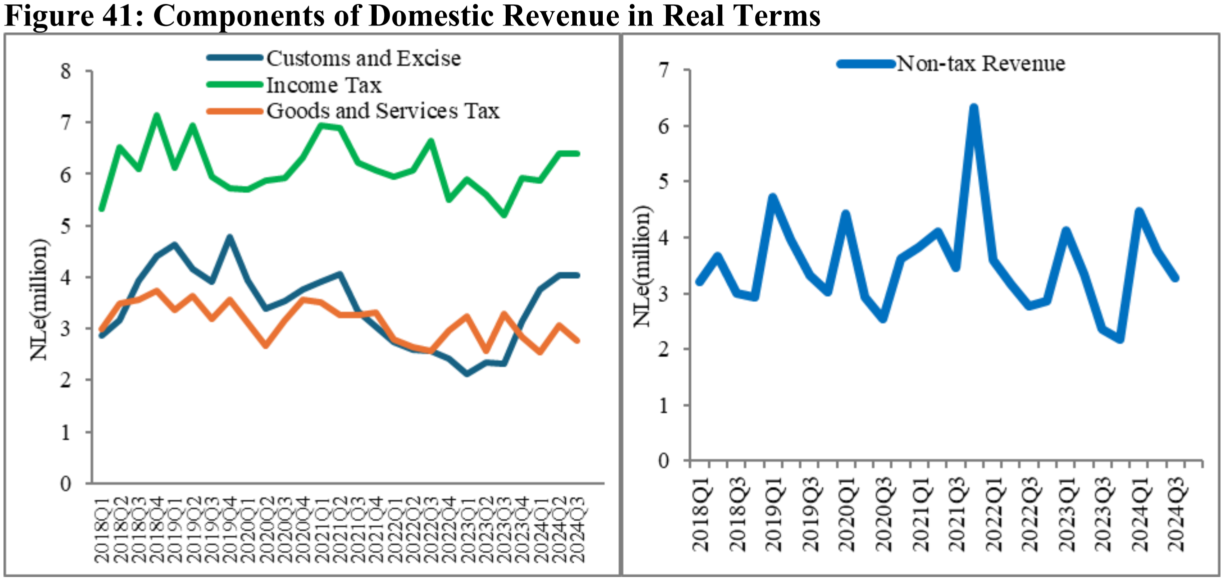
This growth in foreign grants was largely attributed to contributions from other project partners, which significantly boosted the overall grant inflows.

Domestic revenue mobilization in 2024 Q3 declined by 16.9 percent to NLe 3.25bn, compared to NLe 3.92bn in 2024 Q2, and fell short of the budgeted target of NLe 3.50bn. This decline was driven by decreases in both tax and non-tax revenue during the review quarter. Tax revenue fell by 11.8 percent to NLe 2.67bn, down from NLe 3.02bn in the previous quarter, marginally below the quarterly target of NLe 2.67bn. The underperformance in tax revenue was primarily due to lower-than-expected collections from goods and services tax, customs and excise duties, and income tax receipts.

Non-tax revenue also recorded a sharp decline, dropping to NLe0.53bn in 2024Q3 from NLe0.84bn in 2024Q2, and significantly below the quarterly target of NLe0.77bn. Additionally, receipts from road user charges and vehicle licenses fell to NLe0.51bn in 2024Q3, compared to NLe0.55bn in the previous quarter.

In real terms, collections from customs and excise duties as well as income tax remained stable, but goods and services tax revenue experienced a notable decline. The overall downturn in domestic revenue highlights the need for enhanced strategies to strengthen revenue mobilization and reduce fiscal pressures.

Figure 41: Components of Domestic Revenue in Real Terms

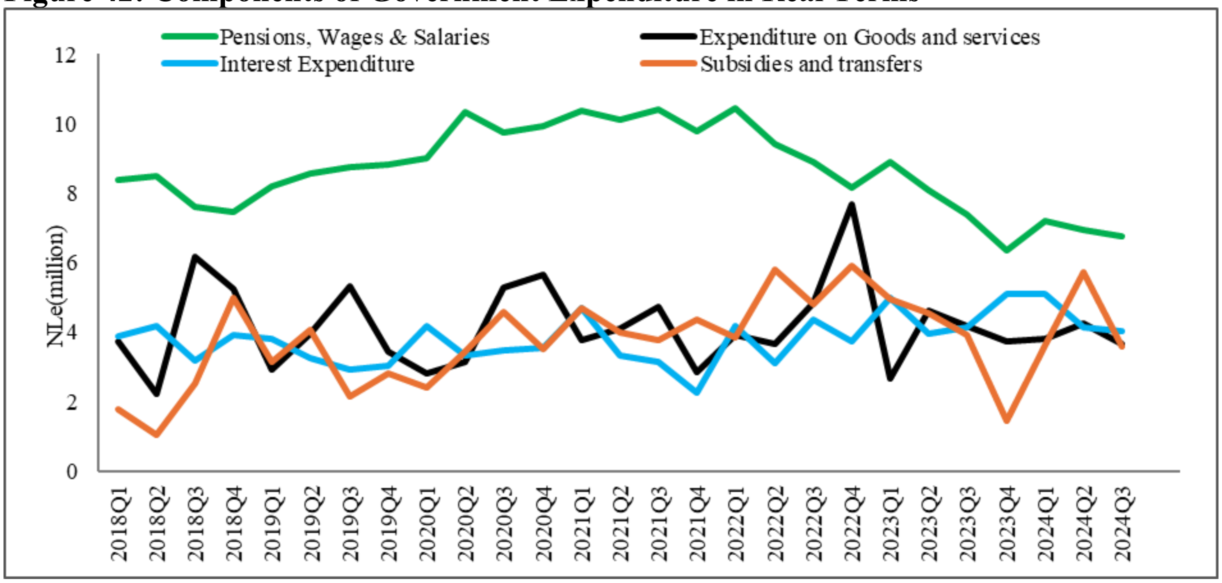


Source: MoF

2.4.3 Government Expenditures

Total government expenditure and net lending in 2024Q3 amounted to NLe6.70bn, representing an 8.0 percent increase from NLe6.20bn in 2024Q2 and exceeding the quarterly ceiling of NLe6.59bn by 1.9 percent. This expansion in total government spending was primarily driven by an increase in capital expenditure, while recurrent spending declined during the review period. However, in real terms, most expenditure components experienced declines, leading to a reduction in government spending when adjusted for inflation. These trends underscore the continued fiscal pressures and the challenges of balancing increased capital investments with maintaining fiscal discipline.

Figure 42: Components of Government Expenditure in Real Terms



Source: MoF

Recurrent expenditure decreased by 8.66 percent in 2024Q3, amounting to NLe4.29bn compared to NLe4.69bn in 2024Q2, and fell short of the target of NLe4.42bn. This decline was primarily driven by a reduction in non-salary, non-interest expenditure (NSNIE), which dropped to NLe1.52bn in 2024Q3 from NLe2.22bn in the previous quarter and was below the budgeted target of NLe1.66bn. The reduction in NSNIE reflects a moderation in spending on goods and services. Conversely, wages and salaries expenditure increased by 3.9 percent to NLe1.61bn in 2024Q3, up from NLe1.55bn in 2024Q2. Total debt service payments also rose during the review quarter, amounting to NLe1.16bn in 2024Q3, up from NLe0.92bn in 2024Q2, due to higher payments on both foreign and domestic debt.

Capital expenditure and net lending saw significant growth, increasing by 59.9 percent to NLe2.42bn in 2024Q3 from NLe1.51bn in 2024Q2. This figure exceeded the ceiling of NLe2.12bn, reflecting notable increases in both domestically funded capital expenditure and foreign-financed capital expenditure during the review period.

2.4.4 Financing

The overall deficit of NLe 2.0bn was largely financed by domestic sources. Domestic deficit financing summed up to NLe 3.4bn. Foreign deficit financing recorded a repayment of NLe 0.4bn, and other sources of deficit financing amounted to a repayment of NLe 1.1bn.

2.4.5 Fiscal Sector Outlook

Despite the government’s fiscal consolidation efforts, fiscal policy in 2024 Q3 was more expansionary compared to 2024 Q2. Going forward, the implementation of the new IMF-ECF program, alongside the continued enforcement of tax compliance measures and anticipated budgetary support from development partners in 2024 Q4, is expected to enhance revenue performance. At the same time, the sustained implementation of expenditure control measures and adherence to the conditionalities of the IMF-ECF program could help contain discretionary government spending. However, risks to the government’s fiscal rationalization efforts persist. These include the high spending appetite, potential accumulation of arrears, and delays in transferring payments to government agencies, which could undermine fiscal discipline.

2.5 Money Markets Developments and Monetary Aggregates

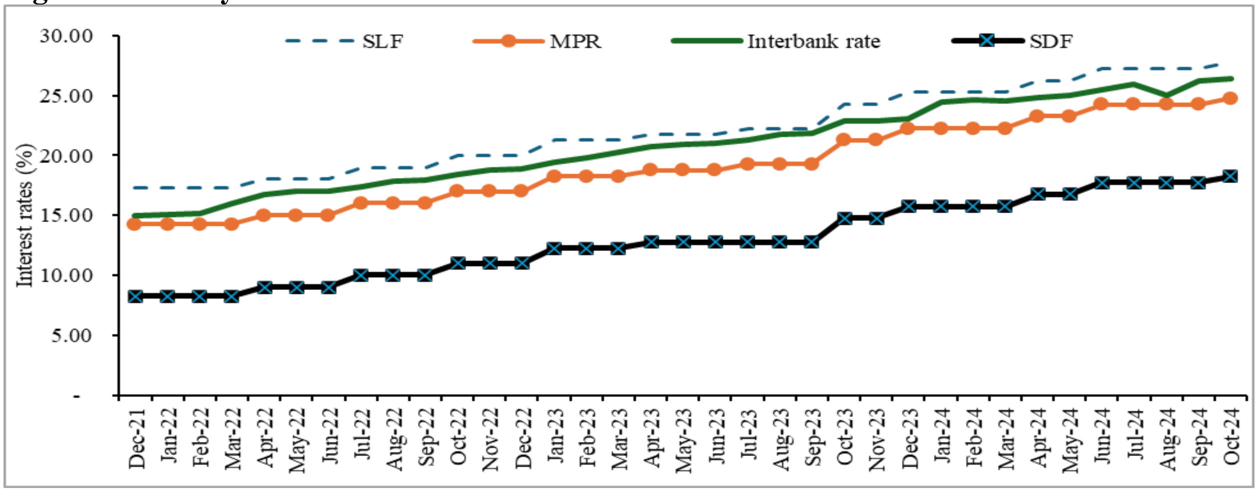
2.5.1 Interest Rates Developments

Monetary Policy Stance

In its September 2024 meeting, the Bank's Monetary Policy Committee (MPC) decided to maintain a strict monetary policy stance. After carefully assessing the risks related to the inflation outlook and recent macroeconomic and financial trends, both globally and domestically, the Committee raised the Monetary Policy Rate (MPR) by 50 basis points, bringing it to 24.75 percent.

Additionally, the rates for the Standing Lending Facility (SLF) and the Standing Deposit Facility (SDF) were increased to 27.75 percent and 18.25 percent, respectively.

Figure 43: Policy Rates and Interbank Rate

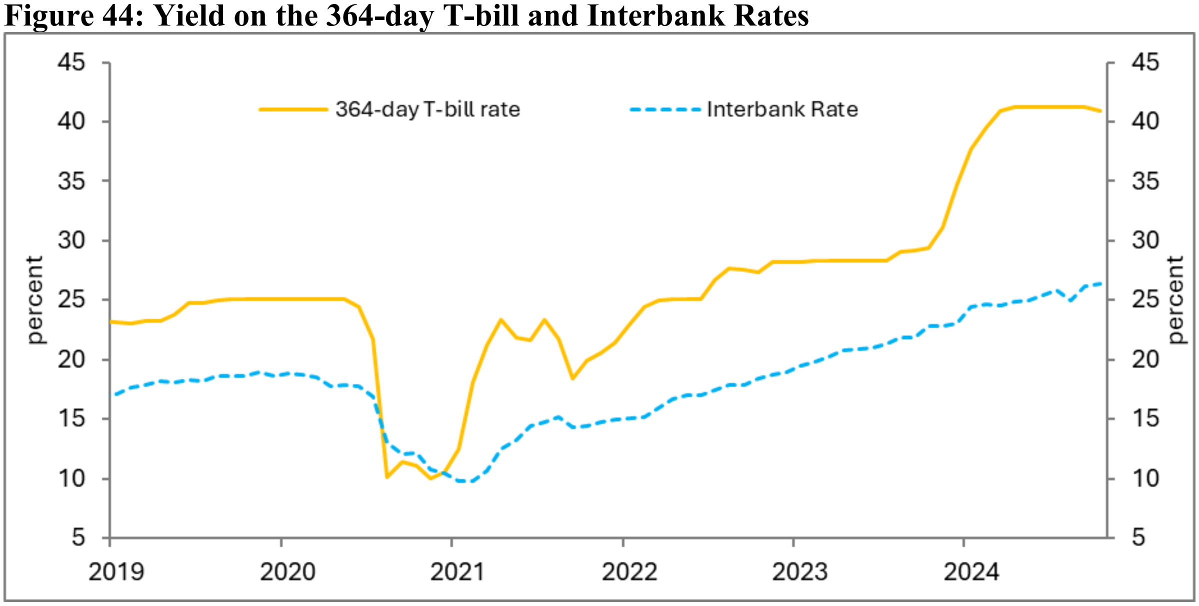


Source: BSL

Treasury Bill (T-bills) Rates

The yield on the 364-day T-bills was noted at 41.28 percent in June 2024, remaining steady through September 2024 before dipping slightly to 40.94 percent in October 2024. There were no issuances of 182-day T-bills from November 2023 to February 2024; however, trading picked up again from March to October 2024, with the average yield hitting 29.31 percent in October. In contrast, the 91-day T-bill market showed considerable illiquidity, with yields not accurately reflecting the current economic and financial landscape**.**

Figure 44: Yield on the 364-day T-bill and Interbank Rates



Source: BSL

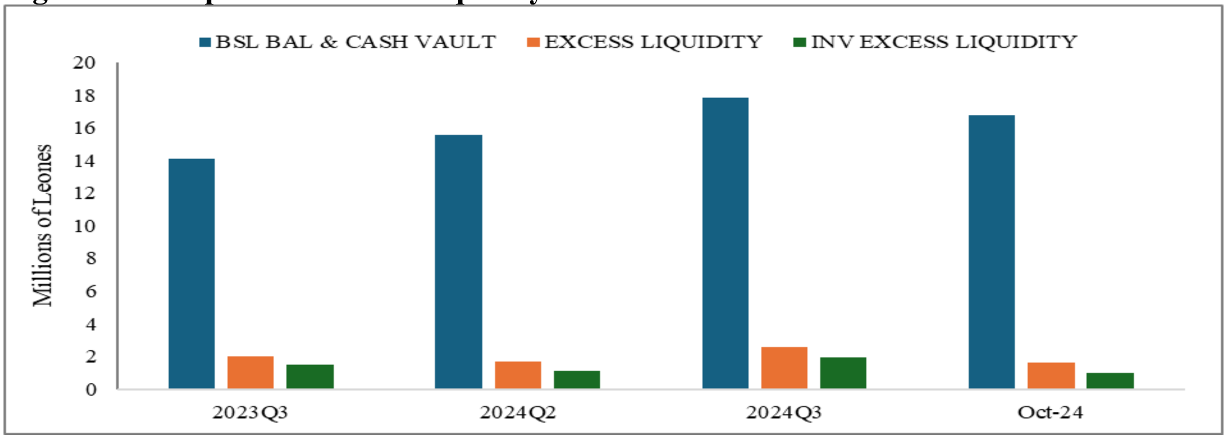
Interbank Money Market

The interbank weighted average interest rate increased from 25.46 percent in June 2024 to 26.17 percent by September 2024, and it further rose to 26.39 percent in October 2024. Meanwhile, the average lending rate of commercial banks went up from 20.38 percent in June 2024 to 22.27 percent in September 2024. The savings rate offered by commercial banks stayed the same at 2.23 percent in September 2024. Consequently, the difference between the average lending rate and the savings rate of commercial banks grew from 18.15 percent in June 2024 to 20.04 percent in September 2024. There was a significant increase in intermediation levels in the interbank money market during the review period. The total volume of interbank transactions rose by NLe1,845.30 million, marking a 262.30 percent increase, from NLe703.50 million in the second quarter of 2024 to NLe2,548.80 million by the end of the third quarter of 2024. By the end of October 2024, the transaction volume in this segment reached NLe598.70 million. Throughout the year up to the end of October 2024, no banks made use of the SDF window. Furthermore, access to the BSL SLF decreased, suggesting a reduction in liquidity constraints within the banking sector. The transaction volume in this window dropped by NLe3,619.50 million, or 6.45 percent, falling to NLe52,477.50 million in the third quarter of 2024, down from NLe56,097.00 million at the end of the second quarter.

2.5.2 Liquidity in the Banking System

Total liquidity in the banking system increased by 14.70 percent (NLe228.51 million), reaching NLe1,783.19 million at the close of the third quarter of 2024, up from NLe1,554.68 million at the end of the second quarter. However, it later dropped to NLe1,675.23 million by the end of October 2024. During this same timeframe, the total volume of excess liquidity rose to NLe257.29 million at the end of the third quarter of 2024, compared to NLe169.88 million at the end of the second quarter, before falling to NLe98.69 million at the end of October 2024

Figure 45: Snapshot of DMBs Liquidity Position

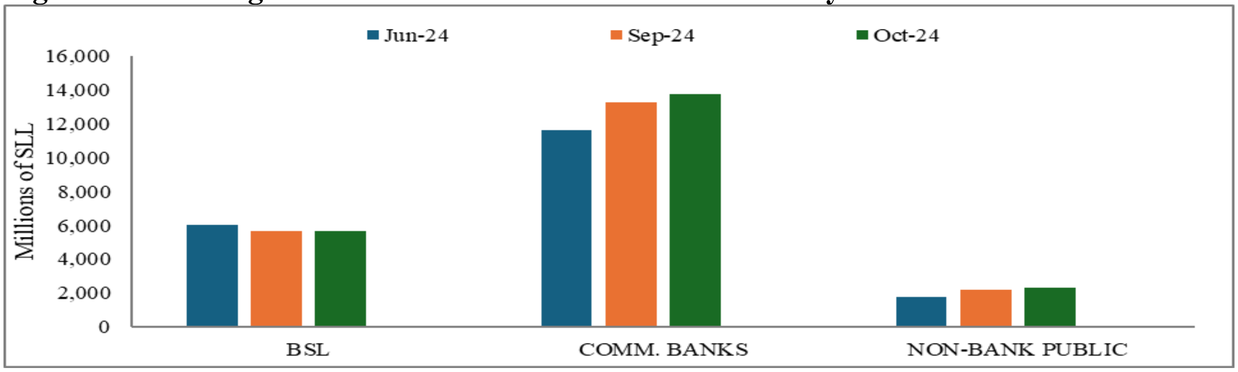


Source: BSL

Holdings of government securities

The overall inventory of government securities increased by NLe1,798.75 million (8.32 percent), reaching NLe23,421.96 million by the end of the third quarter of 2024, compared to the second quarter of the same year. This figure further climbed by NLe592.69 million (2.53 percent) to NLe24,421.65 million by the end of October 2024. Marketable securities accounted for 90.35 percent of the total government securities, while non-marketable securities comprised the remaining 9.65 percent. The marketable securities segment grew by NLe1,713.75 million (8.81 percent), rising from NLe19,446.84 million at the end of the second quarter to NLe21,160.59 million at the end of the third quarter of 2024. This segment continued to expand by NLe592.69 million (2.80 percent) to NLe21,753.28 million by the end of October 2024. The issuance of new treasury securities during this time was mainly aimed at supporting budget financing. In contrast, the stock of non-marketable securities saw an increase of NLe85.00 million (3.91 percent), moving from NLe2,176.37 million at the end of the second quarter to NLe2,261.37 million at the end of the third quarter. This growth was largely attributed to the issuance of 3-year treasury bonds. However, the total amount of non-marketable securities remained unchanged by the end of October 2024.

Figure 46: Holdings of Marketable Government Securities by Sector



Source: BSL

2.6 Monetary Aggregates

Monetary aggregates experienced expansionary trends in the third quarter of 2024, with both Reserve Money (RM) and Broad Money (M2) showing growth.

Reserve Money (RM).

Reserve Money (RM) experienced a growth of 6.86 percent in the third quarter of 2024, contrasting with a contraction of 4.80 percent in the second quarter of the same year. This increase in RM was largely driven by a rise in the Net Domestic Assets (NDA) of the BSL, which effectively counterbalanced the decline in the Net Foreign Assets (NFA) of the BSL. The NDA of the BSL rose by 14.27 percent in 2024Q3, compared to a modest increase of 0.65 percent in 2024Q2. This growth in NDA was primarily attributed to a significant 51.03 percent rise in bridge loans from the GoSL, IMF, and World Bank, along with a slight 0.12 percent increase in government securities holdings. Conversely, the NFA of the BSL fell by 26.31 percent in 2024Q3, following a 10.98 percent decrease in the previous quarter. This decline in NFA was indicative of net withdrawals from foreign assets to meet government foreign obligations, coupled with limited foreign inflows. The increase in RM can be attributed primarily to a significant rise in the reserves held by commercial banks at the central bank, which grew by 23.90 percent, along with a 4.07 percent increase in the currency issued during the review period. In the third quarter of 2024, the annual growth rate of RM rose to 17.79 percent, up from 8.77 percent in the second quarter. This 17.79 percent growth in RM aligns with the targets set under the ECF-IMF program, which aimed for a 24.30 percent increase in 2024Q3.

Broad Money (M2).

Broad Money (M2) grew by 7.77 percent in the third quarter of 2024, marking a significant recovery from the 0.36 percent decline seen in the second quarter. This rise in M2 was mainly driven by a substantial increase in the Net Domestic Assets (NDA) of the banking sector, which more than offset the drop in the Net Foreign Assets (NFA).

Broad Money (M2) grew by 7.77 percent in the third quarter of 2024, marking a significant recovery from the 0.36 percent decline seen in the second quarter. This rise in M2 was mainly driven by a substantial increase in the Net Domestic Assets (NDA) of the banking sector, which more than offset the drop in the Net Foreign Assets (NFA). The NDA of the banking system jumped by 13.26 percent in 2024Q3, compared to a modest 0.81 percent growth in the previous quarter. This increase is linked to a rise in net claims on the government from both the Bank of Sierra Leone (BSL) and commercial banks. Specifically, net claims on the government by the BSL surged by 18.40 percent in 2024Q3, a significant rise from the 1.53 percent growth recorded in 2024Q2. Likewise, commercial banks reported a 12.63 percent increase in net claims on the government, up from 8.90 percent in the prior quarter. Additionally, credit to the private sector from banks grew by 4.34 percent in 2024Q3, slightly exceeding the 4.16 percent increase noted in 2024Q2. On the other hand, the NFA of the banking system fell by 21.38 percent in 2024Q3, following a 6.12 percent decline in the previous quarter. This drop was primarily due to a 26.31 percent decrease in the NFA of the BSL, which overshadowed the 3.99 percent growth in the NFA of commercial banks during the same period. On the liabilities side, the growth in M2 was bolstered by increases in both Narrow Money (M1) and Quasi Money. M1 experienced a 10.40 percent increase in 2024Q3, recovering from a contraction of 1.13 percent in 2024Q2. This growth was driven by a 17.30 percent rise in demand-deposits and a 3.39 percent increase in currency outside banks. Meanwhile, Quasi Money rose by 5.60 percent in 2024Q3, up from a mere 0.29 percent growth in the previous quarter, largely fueled by a 7.57 percent increase in foreign currency deposits and a 1.66 percent increase in other deposits.

In the third quarter of 2024, M2 growth saw a slight year-over-year decline, coming in at 19.13 percent, down from 20.27 percent in the second quarter of 2024. Despite this drop, the figure still exceeded the IMF's target of 18.70 percent. Similarly, the annual growth rate of credit provided to the private sector by commercial banks fell to 35.55 percent in 2024 Q3, down from 37.51 percent in the previous quarter. However, this growth rate remained above the IMF's target of 30.00 percent for the quarter.

3. FINANCIAL STABILITY ANALYSIS

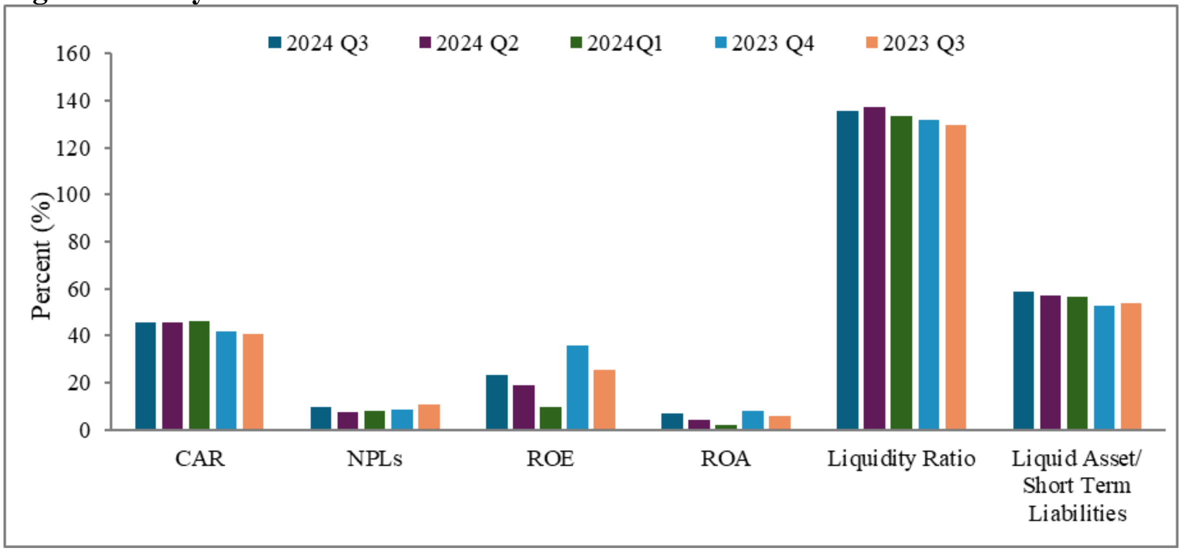
3.1 Financial Soundness Indicators (FSIs)

The banking sector remained stable and well-capitalized in 2024Q3, with key Financial Soundness Indicators (FSIs) staying within the prudential thresholds set by the BSL. The Capital Adequacy Ratio (CAR), which measures regulatory capital to risk-weighted assets, increased slightly to 45.90 percent in 2024Q3, from 45.45 percent in 2024Q2. This level remained significantly above the BSL’s regulatory minimum of 15.0 percent, reflecting the banking sector’s robust capital position to absorb potential losses.

Asset quality, as measured by the ratio of NPLs to gross loans, showed some deterioration, rising to 9.84 percent in 2024Q3 from 7.52 percent in 2024Q2. However, this remained within the prudential maximum of 10.0 percent, indicating manageable credit risk. Profitability indicators demonstrated strong performance. The sector's Return on Assets (ROA) improved to 6.99 percent in 2024Q3, up from 4.42 percent in 2024Q2, while the Return on Equity (ROE) rose to 23.46 percent from 18.69 percent over the same period. These gains underscore the banking system’s ability to generate sustainable earnings.

The liquidity position of the banking sector remained robust, albeit with a slight decline in the overall Liquidity Ratio, which fell to 135.75 percent in 2024Q3 from 137.06 percent in 2024Q2. Liquid assets to short-term liabilities improved, rising by 1.44 percentage points to 58.67 percent in 2024Q3, up from 57.22 percent in 2024Q2, reinforcing the sector's high liquidity levels. The loan-to-deposit ratio marginally declined to 20.45 percent in 2024Q3 from 21.39 percent in 2024Q2, significantly below the regulatory threshold of 80.0 percent. This continued to reflect a low level of financial intermediation by commercial banks, signalling a constrained role in supporting broader economic growth through lending activities.

Figure 47: Key FSI's Indicators



Source: BSL

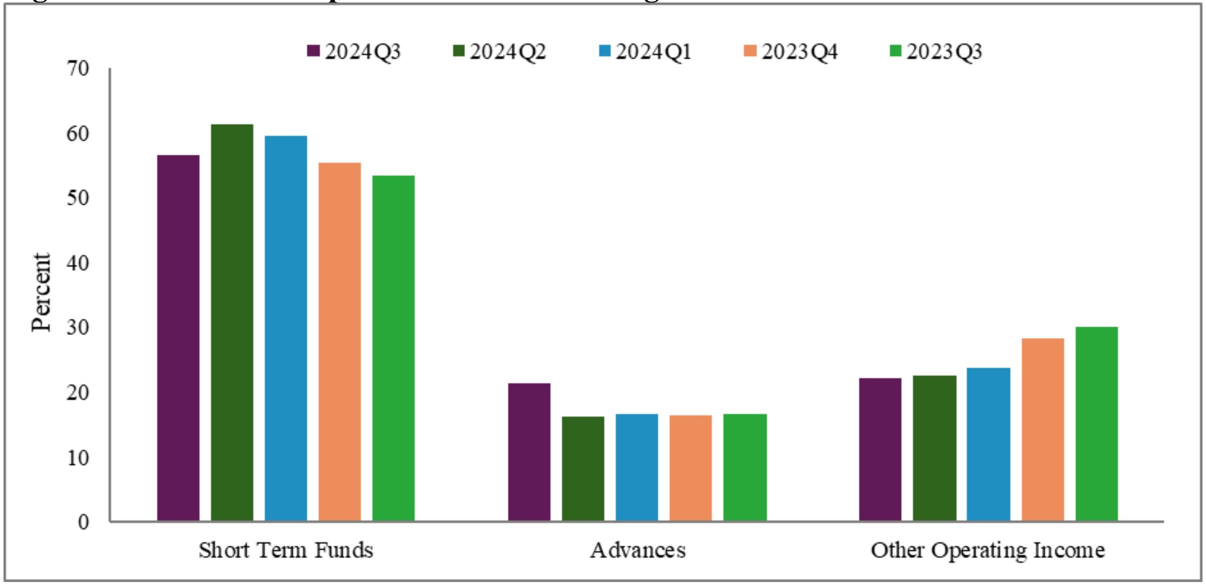
3.2 Income Composition

The banking sector continued to rely predominantly on government securities as its principal source of income. This preference continues to be driven by the higher returns on government securities, which averaged 41.28 percent, compared to the average lending rate of 20 percent, coupled with the zero-risk nature of investing in government securities.

The share of income derived from short-term funds marginally declined to 56.56 percent in 2024Q3, down from 61.26 percent in 2024Q2. Conversely, income from loans and advances saw a slight increase, rising to 21.38 percent in 2024Q3 from 16.29 percent in 2024Q2. This growth was underpinned by a notable 62.33 percent increase in interest income over the period, reflecting improved lending activity.

Other operating income, which primarily includes commissions, fees, and profits from foreign exchange transactions, edged lower, accounting for 22.07 percent of total income in 2024Q3, compared to 22.45 percent in 2024Q2.

Figure 48: Income Composition for the Banking Sector

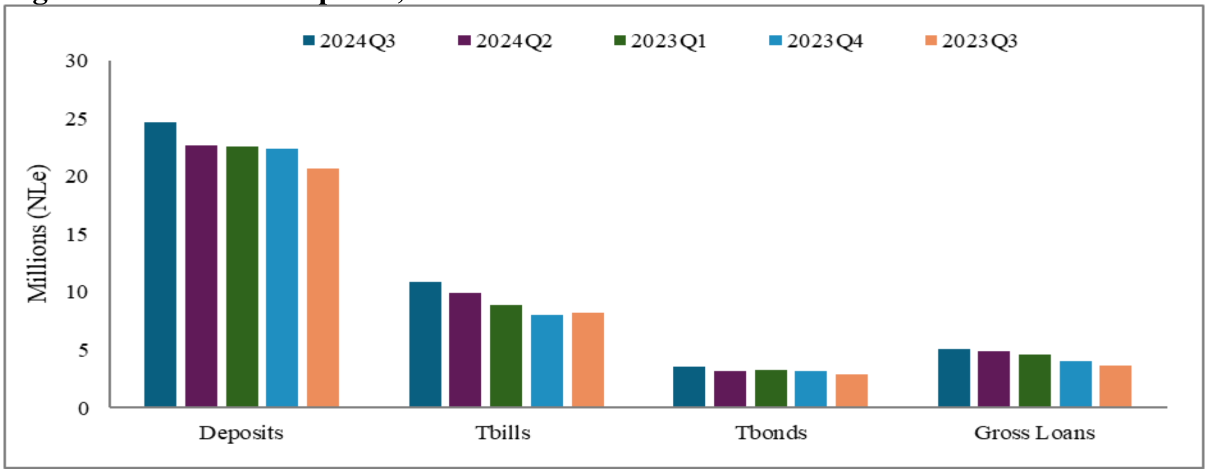


Source: BSL

3.3 Sources and Utilization of Funds

- Total Deposits, the primary source of funding for banks, increased by 8.69 percent in 2024Q3 to NLe24.64bn, up from NLe22.67bn in 2024Q2. In 2024Q3, demand deposits accounted for 77.20 percent, savings deposits for 19.45 percent, and time deposits for 3.35 percent of total deposits, compared to 75.88 percent, 19.67 percent, and 4.45 percent, respectively, in 2024Q2.
- T-bills holdings by the banking sector rose by 9.36 percent, from NLe9.91bn in 2024Q2 to NLe10.84bn in 2024Q3. This increase was driven by the continued rise in interbank market interest rates during 2024.
- T-bonds holdings by the banking sector increased by 10.03 percent from NLe3.2 bn in 2024Q2 to NLe3.52 bn in 2024Q3.
- The loans to deposits ratio declined slightly to 20.45 percent in 2024Q3 from 21.39 percent in 2024Q2, remaining significantly below the prudential threshold of 80.0 percent. This indicates persistently low financial intermediation within the banking system.
- Gross loans and advances increased by 3.95 percent from NLe4.85 bn in 2024Q2 to NLe5.04 bn in 2024Q3.

Figure 49: Trend in Deposits, T-bills and Gross Loans

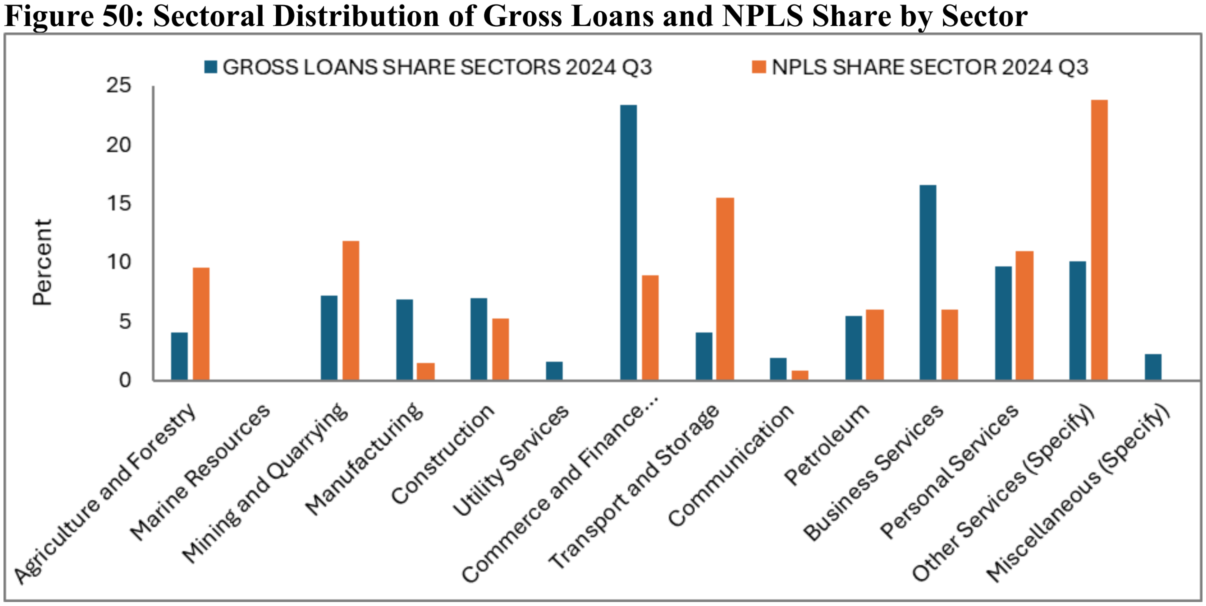


Source: BSL

3.4 Sectoral Distribution of Loans & Advances and Non-Performing Loans (NPLs)

Commerce and Finance, Business Services, Personal Services and Other Services dominated the loan portfolios of the banking sector in 2024Q3. These four sectors accounted for 59.76 percent of gross loans in 2024Q3. On the contrary, Other Services, Transport, Storage & Communication, Mining & Quarrying and Personal Services sectors contributed the most to NPLs. In terms of sectoral NPLs, the Other Services sector had the highest NPL ratio accounting for 23.77 percent of the total gross loans of the banking sector. Transport, Storage & Communication, Mining & Quarrying and the Personal Services sectors also had high NPL ratios of 16.25 percent, 11.82 percent and 10.91 percent respectively in 2024Q3.

Figure 50: Sectoral Distribution of Gross Loans and NPLS Share by Sector

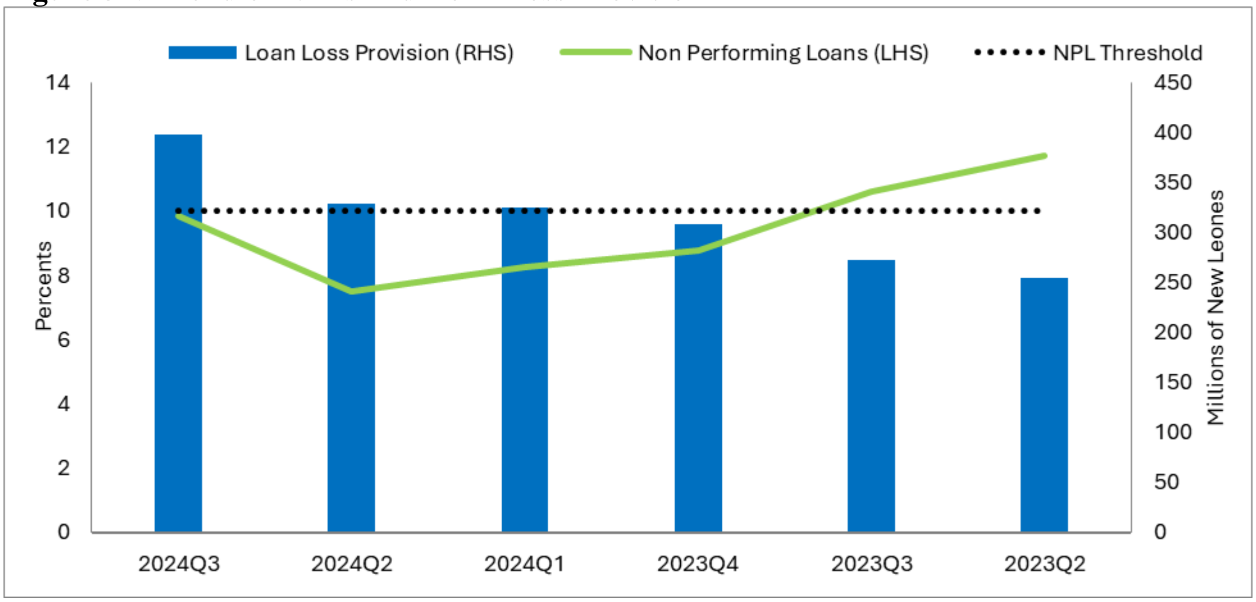


Source: BSL

3.5 Non-Performing Loans (NPLs) Trends and Loan Loss Provisions

The proportion of NPLs to gross loans increased within the review period of 2024Q3. The NPLs ratio for 2024Q3 increased by 2.32 percent to 9.84 percent. from 7.52 percent in 2024Q2. Similarly, Loan loss provisions increased by 21.06 percent to NLe397.75 million in 2024Q3 from NLe328.56 million in 2024Q2.

Figure 51: Trend of NPLs and Loan Loss Provision



Source: BSL

3.6 Risks and Vulnerabilities to the Stability of the Banking Sector.

Despite the overall stability of the financial system, certain risks and vulnerabilities persist, which could pose potential threats to the banking sector:

High levels of NPLs pose a Financial Stability Risk

While aggregate capital adequacy ratios remain robust, comfortably exceeding the regulatory minimum, and non-performing loans (NPLs) are below the 10.0 percent threshold at the sectoral level, significant disparities in asset quality persist. Notably, five banks reported NPLs significantly above the maximum threshold, with four of these being local banks. Furthermore, specific sectors including Other Services, Transport, Storage & Communication, Mining & Quarrying, and Personal Services are particularly susceptible to elevated NPL levels, underscoring potential vulnerabilities in these areas.

Limited Intermediation to Support Economic Growth

Banks continue to exhibit low levels of lending to the private sector, partly due to the crowding-out effect of increased investment in government securities, which offer attractive returns with minimal risk. Additionally, lending activity is highly concentrated in a few sectors and among a limited number of large borrowers within the economy. Of the fourteen commercial banks, only six had a loan-to-deposit ratio exceeding 25 percent, highlighting the limited breadth of credit distribution across the banking system.

Banking Sector Earnings Heavily Reliant on Government Securities Investments

The banking sector's earnings remain predominantly driven by investments in government securities. This strong preference for government securities, often at the expense of lending to the private sector, poses a potential risk to earnings. A decline in T-bills yields or a reduction in the government's borrowing appetite in the securities market could result in significant income losses for banks, underscoring the need for greater diversification of revenue sources and enhanced credit allocation to the private sector.

Cybersecurity Threats in the Evolving Banking Landscape

The transition from traditional banking to technology-driven operations has introduced cybersecurity challenges. The increasing reliance on digital platforms and online services has been accompanied by a rise in fraud and cybercrime cases within the banking sector. These threats underscore the urgent need for robust cybersecurity measures, enhanced monitoring systems, and continuous investment in advanced security technologies to safeguard the integrity of the banking system and protect customers' assets.

3.7 Banking Sector Outlook

The potential for rising NPLs remains a concern if effective credit management practices and robust internal controls are not consistently maintained. While bank profitability is projected to increase, this outlook is largely contingent on the continuation of high interest rates on government securities, where banks have significant investments.

A Prudential Committee has been established to address the increasing incidents of fraud within the banking sector. This committee is made up of a technical team that includes representatives from both the Central Bank and Commercial Banks. Members include personnel from the Banking

Supervision Department, Financial Stability Department, Chief Risk Officers, Internal Auditors, Chief Compliance Officers, and Information Security Officers from Commercial Banks. The committee's role is to ensure compliance with internal controls and to strengthen regulatory oversight. This initiative aims to ensure compliance with established standards, enhance financial integrity, and restore confidence in the banking sector. By conducting rigorous assessments and enforcing robust safeguards, the committee seeks to mitigate fraud risks effectively.

Regulatory efforts are focused on bolstering governance and risk management frameworks, particularly for systemically important banks. These initiatives include strengthening guidelines to stabilize the sector and enhance its resilience. Furthermore, the continuous stress testing of the banking sector will play a critical role in evaluating the capacity of systemically important banks to absorb losses under adverse conditions, thereby reinforcing the stability of the financial system.

In addition, findings from a recent study revealed the strategic benefits of implementing Supervisory Technology (SUPTECH) in enhancing supervisory processes including improved data quality, enhanced analytical capabilities, greater operational efficiency, and strengthened collaboration with stakeholders. However, the implementation of SUPTECH presents challenges, such as potential resistance to change and the need for capacity building. To mitigate these risks, the Bank must prioritize staff training and actively engage financial institutions and stakeholders throughout the implementation process to ensure a smooth transition and effective adoption.

4. CONCLUSION AND DECISION OF THE MONETARY POLICY COMMITTEE (MPC)

4.1 Conclusion

Inflationary pressures have notably eased over the past year, with headline inflation falling from a high of 54.59 percent in October 2022 to 15.41 percent in November 2023. This reduction is primarily due to effective macroeconomic policies, decreasing global food and energy prices, stable exchange rates, and improved domestic food production.

Even with this progress, inflation is still in double digits, leading the Monetary Policy Committee (MPC) to stress the importance of the Bank of Sierra Leone (BSL) maintaining its focus on achieving a medium-term goal of single-digit inflation through careful monetary management. The MPC also recognized BSL's efforts to enhance its capacity and liquidity management to regulate money supply growth in line with inflation targets. Furthermore, the MPC acknowledged the fiscal authorities' initiatives aimed at consolidating public finances, reducing the budget deficit, and limiting domestic bank financing, all of which support BSL's efforts to control inflation.

However, potential risks such as rising global energy and food prices driven by trade protectionism, geopolitical tensions, and climate-related challenges necessitate close monitoring to ensure economic stability. Real GDP is expected to grow by 4.0 percent in 2024, with an average growth rate of 4.6 percent projected from 2025 to 2027, fueled by increased activity in agriculture, mining, and a recovering services sector. The Composite Index of Economic Activity (CIEA) shows signs of improvement, and positive business sentiment surveys bolster the economy's growth outlook. Nevertheless, the MPC emphasized that sustained economic stability and growth will hinge on the implementation of strong macroeconomic policies and structural reforms.

In conclusion, the notable drop in inflation from 54.59 percent to 15.41 percent in the last year underscores the success of macroeconomic policies and better domestic conditions. However, the Monetary Policy Committee stresses the importance of ongoing vigilance and robust policy execution to reach the medium-term target of single-digit inflation and to maintain economic stability and growth.

4.2 Decision of the MPC

The Committee recognized the beneficial effects of BSL's stringent monetary policy, the relative stability of the exchange rate, and the rise in domestic food production in alleviating inflationary pressures. The inflation rate of 15.41 percent recorded in November 2024 was below the 2024 target of 21.00 percent established under the new IMF-ECF program and is expected to continue decreasing. Nevertheless, the Committee highlighted uncertainties in the inflation forecast, including ongoing geopolitical tensions and related supply chain disruptions, which could threaten the achievement of the medium-term inflation target.

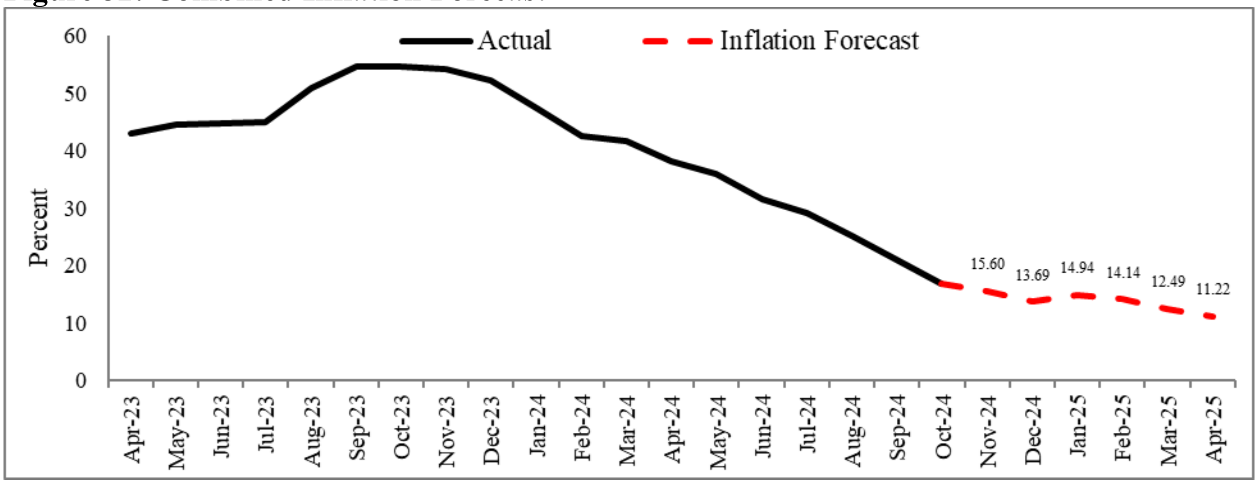
Given the current situation, the Committee recommended that the existing monetary policy stance remains unchanged while highlighting the need for improved liquidity management and stronger fiscal consolidation efforts from the fiscal authorities. Additionally, the BSL plans to implement macroprudential measures to support its monetary policy goals aimed at achieving price stability. Consequently, the Committee suggested maintaining the MPR, SLF, and SDF rates at 24.75 percent, 27.75 percent, and 18.25 percent, respectively. This recommendation was subsequently approved by the Board. The public can be assured that the MPC is vigilant and ready to respond to any changes that could impact on the inflation outlook.

5. APPENDIX

Inflation forecast

Inflationary pressures are expected to ease in the coming period. The combined forecast indicates a continued moderation of inflation, with rates projected to decrease to 13.69 percent by December 2024. A slight increase is expected in January 2025, followed by a steady moderation until the end of the forecast period in April 2025, when inflation is anticipated to reduce to 11.22 percent.

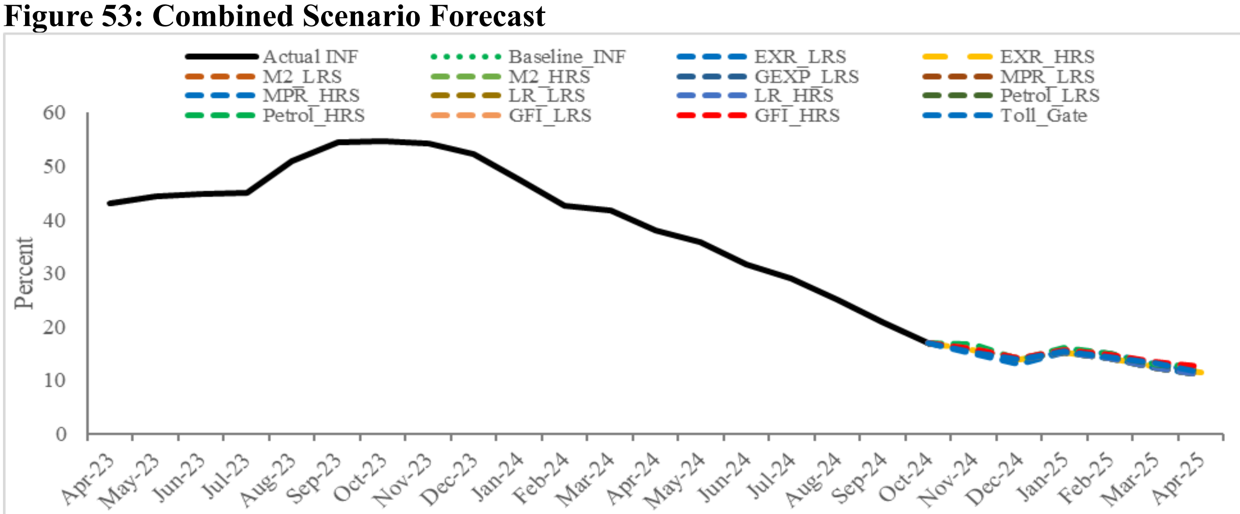
Figure 52: Combined Inflation Forecast



Source: BSL

In high-risk scenarios, key factors such as food and energy prices are anticipated to significantly impact the upper range of the inflation forecast if such shocks materialize. Conversely, the tightening of the Monetary Policy Rate (MPR) is expected to act as a counterbalance to inflationary pressures, contributing to stabilizing the broader economy.

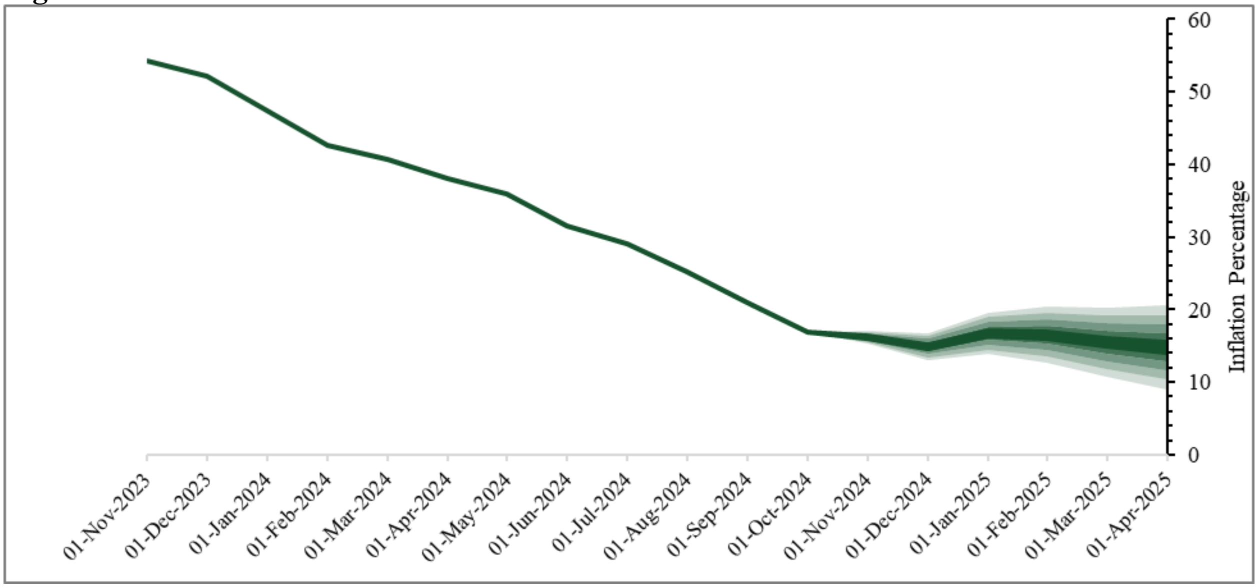
Figure 53: Combined Scenario Forecast



Source: BSL

The fan chart displays a 90 percent confidence interval for inflation forecasts, indicating that inflation is expected to vary between 21.53 percent and 9.02 percent over the forecast period.

Figure 54: Inflation Fan Chart



Source: BSL Staff calculations

Table 1: Summary of Global Growth Projections (Percent)

		Est.	WEO July 2024 Projections		WEO October 2024 Projections		CHANGE IN Projections	
	2022	**2023**	**2024**	**2025**	**2024**	**2025**	**2024**	**2025**
World Output	**3.5**	**3.3**	**3.2**	**3.3**	**3.2**	**3.2**	**0.0**	**-0.1**
Advanced Economies	**2.6**	**1.7**	**1.7**	**1.8**	**1.8**	**1.8**	**0.1**	**0.0**
United States	1.9	2.9	2.6	1.9	2.8	2.2	0.2	0.3
Euro Area	3.4	0.4	0.9	1.5	0.8	1.2	-0.1	-0.3
United Kingdom	4.3	0.3	0.7	1.5	1.1	1.5	0.4	0.0
Japan	1.0	1.7	0.7	1.0	0.3	1.1	-0.4	0.1
Emerging Market and Developing Economies	**4.1**	**4.4**	**4.3**	**4.3**	**4.2**	**4.2**	**-0.1**	**-0.1**
Brazil	3.0	2.9	2.1	2.4	3.0	2.2	0.9	-0.2
Russia	-1.2	3.6	3.2	1.5	3.6	1.3	0.4	-0.2
India	7.2	8.2	7.0	6.5	7.0	6.5	0.0	0.0
China	3.0	5.2	5.0	4.5	4.8	4.5	-0.2	0.0
Sub-Saharan Africa	**4.0**	**3.6**	**3.7**	**4.1**	**3.6**	**4.2**	**-0.1**	**0.1**
Nigeria	3.3	2.9	3.1	3.0	2.9	3.2	-0.2	0.2
South Africa	1.9	0.7	0.9	1.2	1.1	1.5	0.2	0.3

Source: International Monetary Fund, World Economic Outlook (WEO) July 2024 Projection, and WEO October 2024.

Table 2: Monetary Policy Stance of Selected Central Banks

Country	Recent Inflation (%)		Monetary Policy Rates (%)				
			Current		Previous		Change
WAMZ							
Sierra Leone	16.92	Oct.24	24.75	Nov.24	24.25	Sep.24	1.00
Nigeria	33.88	Oct.24	27.50	Nov.24	27.25	Sep.24	0.50
Ghana	22.1	Oct.24	27.00	Nov.24	29.00	Sep.24	0.00
Guinea	4.70	Sep.24	11.00	Nov.24	11.00	Sep.24	0.00
Liberia	6.15	Jun.24	17.50	Nov.24	20.00	Sep.24	2.50
The Gambia	10.00	Sep.24	17.00	Nov.24	17.00	Sep.24	0.00
Major Economies							
USA	2.6	Oct.24	4.75	Nov.24	5.00	Aug.24	0.50
China	0.3	Oct.24	3.10	Nov.24	3.35	Aug.24	0.10
Euro Area	2.0	Oct.24	3.40	Nov.24	3.65	Aug.24	0.60
UK	2.3	Oct.24	4.75	Nov.24	5.00	Aug.24	0.25

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

Table 3: Interest Rates

	2023				2024									
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
91-day Treasury bill rate	0	0	0	0	0	0	0	0	20.28	20.28	0	21.55	21.53	
182-day Treasury bill rate	14.44	0	18.2	0	0	0	29.22	29.22	29.22	29.22	29.13	29.22	29.21	
364-day treasury bill rate	29.13	29.35	31.07	34.71	37.67	39.50	40.88	41.21	41.25	41.28	41.27	41.28	41.28	
Interbank rate	21.89	22.87	22.86	23.06	24.43	24.60	24.54	24.84	25.02	25.46	25.89	25.01	26.17	26.39
Standing Lending Facility	22.25	24.25	24.25	25.25	25.25	25.25	25.25	26.25	26.25	27.25	27.25	27.25	27.25	27.75
Standing Deposit Facility	12.75	14.75	14.75	15.75	15.75	15.75	15.75	16.75	16.75	17.75	17.75	17.75	17.75	18.25
MPR	19.25	21.25	21.25	22.25	22.25	22.25	23.25	23.25	23.25	24.25	24.25	24.25	24.25	24.75
Average Lending rate	20.45	20.45	20.45	20.26	20.26	20.26	20.26	20.38	20.38	20.38	20.975	21.10	22.27	
Lending (Prime)	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	20.78- 21.42	21.22- 23.31	
Savings deposits	2.23	2.23	2.23	2.23	2.17	2.23	2.23	2.23	2.23	2.23	2.23	2.23	2.23	
Interest rate spread	18.22	18.22	18.22	18.03	18.09	18.03	18.03	18.15	18.15	18.15	18.75	18.87	20.04	

Source: BSL

Table 4: Monetary Survey

Millions of Leones	2023	2024		Quarterly % Change		Yealy % Change	
	2023Q3	2024Q2	2024Q3	2024Q2	2024Q3	2024Q2	2024Q3
Reserve money	**7,239.09**	**7,979.28**	**8,527.04**	**(4.80)**	**6.86**	**8.77**	**17.79**
Broad Money (M2)	**24,627.05**	**27,222.74**	**29,337.07**	**(0.36)**	**7.77**	**20.27**	**19.13**
Narrow money (M1)	**10,921.88**	**12,287.71**	**13,565.91**	**(1.13)**	**10.40**	**15.28**	**24.21**
Currency outside banks	5,321.61	6,094.01	6,300.75	**(1.98)**	**3.39**	**7.15**	**18.40**
Demand deposit	5,600.26	6,193.69	7,265.16	**(0.28)**	**17.30**	**24.58**	**29.73**
Quasi money	**13,705.17**	**14,935.03**	**15,771.16**	**0.29**	**5.60**	**24.72**	**15.07**
o.w. Foreign currency deposit	9,421.08	9,893.59	10,642.96	**(2.24)**	**7.57**	**25.47**	**12.97**
Time and saving deposit	4,277.79	5,031.26	5,114.54	**5.69**	**1.66**	**23.23**	**19.56**
Net Foreign Asset	**3,738.12**	**4,318.08**	**3,394.94**	**(6.12)**	**(21.38)**	**(3.60)**	**(9.18)**
BSL	(4689.31)	(4908.63)	(6200.08)	**10.98**	**26.31**	**62.69**	**32.22**
ODCs	8427.43	9226.71	9595.02	**2.26**	**3.99**	**23.08**	**13.85**
Net Domestic Assets	**20,888.92**	**22,904.66**	**25,942.14**	**0.81**	**13.26**	**26.16**	**24.19**
Net Domestic Credit	**23,626.33**	**26,887.99**	**30,473.12**	**4.46**	**13.33**	**26.19**	**28.98**
Government (Net)	19,714.81	21,864.50	25,216.72	**5.32**	**15.33**	**24.82**	**27.91**
BSL	9937.48	10237.81	12122.06	**1.53**	**18.40**	**19.47**	**21.98**
ODCs	9777.33	11626.69	13094.66	**8.90**	**12.63**	**29.94**	**33.93**
Private Sector Credit	4116.71	5352.32	5582.15	**4.19**	**4.29**	**37.56**	**35.60**
o.w ODC	4099.82	5326.05	5557.30	**4.16**	**4.34**	**37.51**	**35.55**
Other Sectors (Net)*	(205.20)	(328.83)	(325.75)	**110.84**	**(0.94)**	**229.90**	**58.75**
Other Items (Net)	**-2,737.40**	**-3,983.33**	**-4,530.98**	**31.88**	**13.75**	**26.31**	**65.52**
Money Multiplier	**3.40**	**3.41**	**3.44**				

Source: BSL

Table 5: Central Bank Survey

Millions of Leones	2023	2024		Quarterly % Change		Yearly % Change	
	2023Q3	2024Q2	2024Q3	2024Q2	2024Q3	2024Q2	2024Q3
1. Net Foreign Assets	**(4,689.31)**	**(4,908.63)**	**(6,200.08)**	**10.98**	**26.31**	**62.69**	**32.22**
2. Net Domestic Assets	**11,928.40**	**12,887.90**	**14,727.12**	**0.65**	**14.27**	**24.49**	**23.46**
Government Borrowing (net)	**9,937.48**	**10,237.81**	**12,122.06**	**1.53**	**18.40**	**19.47**	**21.98**
o.w. Securities	4,190.85	5,680.23	5,686.81	**7.26**	**0.12**	**39.74**	**35.70**
Ways and Means	267.76	389.50	-	(16.77)	**(100.00)**	**60.70**	**(100.00)**
GoSL/IMF /WB Budget financing	4,874.75	4,177.47	6,309.06	**-**	**51.03**	**4.56**	**29.42**
3. Reserve money	**7,239.09**	**7,979.28**	**8,527.04**	**(4.80)**	**6.86**	**8.77**	**17.79**
o.w. Currency issued	6,002.65	6,861.59	7,141.16	**0.11**	**4.07**	**8.61**	**18.97**
Bank reserves	1,230.14	1,107.50	1,372.21	**(26.93)**	**23.90**	**9.53**	**11.55**

Source: BSL