



MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Sierra Leone (BSL) met on 24 June 2024. The Governor, Dr. Ibrahim L. Stevens, chaired the meeting. The MPC deliberated and assessed the recent global and domestic macroeconomic and financial market developments, and risks to the outlook for domestic inflation and growth. Following the deliberations, the MPC decided to increase the Monetary Policy Rate (MPR) by 1 percentage point to 24.25 percent. A summary of the assessments and key considerations that informed the Committee's decision on the monetary policy stance are as follows:

GLOBAL ECONOMIC DEVELOPMENTS

Global economic activity continues to be resilient amidst sustained tight monetary policy in most Advanced Economies and Emerging Markets and Developing Economies. According to the April 2024 International Monetary Fund (IMF) World Economic Outlook (WEO), global growth is projected to remain strong at 3.2 percent in 2024 and 2025.

Global inflation continues to ease, especially in advanced economies and some emerging markets and developing economies. It is projected to decline steadily due to tighter monetary policy stance, softening labor market conditions, and diminishing effects of past global shocks. The MPC noted that the resilient growth and steady decline in inflation in the global economy provide a favorable external environment for Sierra Leone in terms of trade and foreign direct investment flows.

However, downside risks to the global growth outlook remain, including from geopolitical uncertainties and elevated debt burdens. On the other hand, the potential increase in crude oil prices following the recent decision from the Organisation of Petroleum Exporting Countries and its Allies (OPEC+) to extend production cuts into 2025 and the increasing prices in the service sector present an upside risk to inflation.

DOMESTIC ECONOMIC DEVELOPMENTS

Growth Outlook

Real GDP growth is estimated to rebound to 4.0 percent in 2024 from a moderate growth of 3.4 percent in 2023. The expected growth is to be driven by increased activity in agriculture, mining, and services sectors. Furthermore, the BSL's Composite Index of Economic Activities (CIEA) recorded a faster increase in economic activity in 2024Q1, compared to 2023Q4. Growth is estimated to remain resilient in the medium term due to monetary and exchange rate stability and the government's continued effort to diversify the economy.



The MPC is of the view that despite the expected growth in GDP, there still remains fragility due to vulnerabilities from the external environment, including geopolitical tensions and higher international prices for food and energy, and domestic factors such as inadequate investment in critical productive sectors.

Inflation

Since the 2024Q1 MPC meeting, inflationary pressures have continued to soften. Headline inflation decreased from 40.69 percent in March 2024 to 38.06 percent in April 2024 and further to 35.84 percent in May 2024. The MPC noted that the decline in headline inflation was broad-based as there were reductions in the prices of both food and non-food items of the consumer basket. This decline was attributed to a combination of factors, including the sustained tight monetary policy stance characterized by successive well-calibrated increases in the monetary policy rate, the stability of the exchange rate which has restored confidence in the domestic currency, increased domestic food production due to the harvest season, expenditure rationalisation by the fiscal authorities, and decline in international food and energy prices.

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

External Sector Developments

Sierra Leone's trade deficit with the rest of the world widened to US\$142.4 million in 2024Q1 from US\$111.3 million in 2023Q4. The gross foreign exchange reserves of the BSL was equivalent to 2.3 months of import cover in 2024Q1 compared with 2.7 months cover in 2023Q4. The decline was mainly on account of debt service payments and payments for goods and services. The exchange rate has exhibited sustained stability due to policy measures implemented by the BSL to remove bottlenecks in foreign currency transactions. This, coupled with the demonstrably smooth transition to the New Leone, has restored confidence in the domestic currency and limited speculative activities by market participants.

The MPC welcomed the fact that as export earnings rise due to priority investment in the agriculture and mining sectors, and inflows from development partners, including the IMF and World Bank, materialise, the reserves position of the BSL will be strengthened. The Committee however noted that tight financial conditions, macroeconomic uncertainties and low productivity may adversely affect the external sector.

Fiscal Developments

Fiscal policy remained tight as the government sought to pursue fiscal consolidation to address challenges with public finances. However, the overall fiscal balance registered a deficit of NLe1.21 billion in 2024Q1 compared to a surplus of NLe0.39 billion recorded in 2023Q4, driven mostly by debt service payments. In spite of improvements in domestic revenue mobilization, the significant



reduction in foreign grants resulted in a decline in total revenue. The primary balance recorded a surplus of NLe0.03 billion in 2024Q1, compared to the surplus of NLe0.28 billion recorded in 2023Q4, on account of increased discretionary spending.

The MPC acknowledges the government's fiscal consolidation drive but noted that the increasing debt service payments is a challenge to reduction of the fiscal deficit. It is, however, of the view that continued stability in the exchange rate and the declining inflation will prove essential in reducing uncertainties in budget execution.

Monetary Developments

Reserve Money (RM) and Broad Money (M2) growth declined in 2024Q1 relative to 2023Q4. The slowdown in RM growth was due to decline in Net Domestic Assets of the BSL, while the slowdown in M2 was on account of the contraction in the Net Foreign Assets of the banking system. Credit to the private sector by commercial banks expanded but was skewed to a few sectors, including commerce and finance, construction and business services. In real terms, both RM and M2 contracted, which is attributed to the impact of the tight monetary policy stance of the BSL. Liquidity conditions remained tight in the money market in 2024Q1, with the interbank market rate rising and remaining above the MPR, while the yield on the 364-day T-bills continued to increase.

The MPC noted with concern that the continued increase in government borrowing crowds out lending to the private sector, and the income earned from the yields on government securities may mask structural weaknesses in the banking sector. The MPC is of the view that if T-bill yields fail to decline in tandem with inflation, the snowballing debt service payment obligations will complicate budget execution.

Financial System Stability

The banking sector continues to be relatively stable, profitable, liquid, and adequately capitalized, with all key Financial Soundness Indicators (FSIs) within acceptable thresholds. This stability was further validated by the BSL's assessment of regulatory returns submitted by commercial banks.

While welcoming the resilience of the banking sector, the MPC observed that income from government securities constituted the largest portion of banks' earnings, and a potential decline in yields in the event of lower borrowing by government poses severe risk to the sector. Moreover, the MPC is concerned about the spread between banks' lending rates and deposit rates which remained significantly high and undermines the transmission of monetary policy.

CONCLUSION

The MPC acknowledged with cautious optimism the downward trend in headline inflation from November 2023 to May 2024, reflecting the tight monetary policy stance of the BSL, policy measures to remove bottlenecks in the foreign exchange market and the government's fiscal consolidation efforts. However, the MPC noted that at 35.84 percent in May 2024, inflation



remains high and a cause for concern, given that it is still well above the medium-term target within the current macroeconomic framework.

Consequently, following an extensive review of the risks to the near-term inflation outlook, the MPC assesses the balance of risks in favour of further tightening of monetary policy. Cognizant of the BSL's mandates of price stability and financial system stability, while also supporting economic growth, the MPC decided to raise the MPR by one percentage point to 24.25 percent and to also increase the Standing Lending Facility rate and the Standing Deposit Facility rate upward by the same margin.

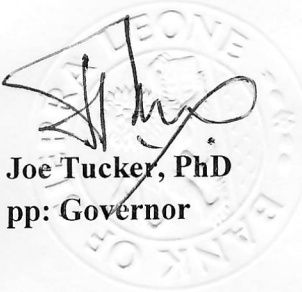

Hence, effective 26 June 2024, the following rates are published for the attention of the public: -

- **Monetary Policy Rate (MPR): 24.25**
- **Standing Lending Facility Rate (SLFR): 27.25**
- **Standing Deposit Facility Rate (SDFR): 17.75**

The MPC is however mindful of the potential negative impact of a tight monetary policy stance on investment and growth prospects, and thus will remain extremely watchful of this link and the trade-offs, going forward, as inflation rate continues to decelerate. The Committee underscored the need for greater focus on the potential structural factors driving inflation. It considers a better understanding of the price setting behaviour of financial market participants and the peculiarities of the monetary policy transmission mechanism pivotal in maintaining the current downward trajectory of inflation.

The MPC will nonetheless continue to monitor developments in the global and domestic economy to guide policy and ensure that inflation expectations are adequately anchored.

The next MPC meeting is scheduled for Thursday September 26 2024.



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