Bank of Sierra Leone

Governor's Office

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MONETARY POLICY STATEMENT

The Monetary Policy Committee of the Bank of Sierra Leone (BSL) met on 19th December 2019 under the Chairmanship of the Governor, Professor Kelfala M. Kallon, and decided to keep the Monetary Policy Rate unchanged at 16.5 per cent. The decision was based on the Committee's assessment of recent global and domestic macroeconomic developments and expected trends in key macroeconomic variables that are related to the BSL's core mandate of price and financial stability. The evidence underlying the Committee's decision are as follows.

Inflation Forecast

After peaking at 15.9 per cent in October 2019, inflationary pressures eased, with headline inflation moderating to 13.1 per cent in November 2019, slightly below the BSL's end year target. The decrease in domestic prices was largely attributed to the impact of a stronger than anticipated decline in food prices which was supported by increased domestic food production associated with seasonal factors.

The Bank of Sierra Leone's inflation forecast indicates that a downward trend will continue in the near-term. The Committee noted that softening of domestic demand and the projected decline in global commodity prices, especially crude oil prices are both likely to ease pressures on domestic prices in the near-term. Nonetheless, this outlook is subject to uncertainties related to Sierra Leone's weak external and internal balance positions.

Global Economic Growth

The global economic activity slowed down in the fourth quarter 2019, with the weak global growth performance exhibited across all regions. Growth weakened in both advanced and emerging market economies on account of softer trade and investment, coupled with weak manufacturing output. Consequently, global growth for 2019 has been revised downward to

3.0 per cent from the IMF earlier projection of 3.2 percent, the lowest annual rate since the global financial crisis.

Global growth is however expected to pick up to 3.4 per cent in 2020, though risks to the global economic outlook remain elevated, due to trade and geo-political tensions and the downward revision of China's growth prospects for the 2020. Because it could have a huge deflationary effect on world commodity demand and therefore prices, the projected slowdown in Chinese economic growth could have negative implications for Sierra Leone's near-term growth prospects and export receipts.

Domestic Economic Growth

Domestic real GDP growth is expected to rebound to 5.1 per cent in 2019 from 3.3 per cent in 2018, largely driven by improvements in mining and agricultural production, and continued growth in public investment in infrastructure and human capital. This prediction, however, largely rests on the resumption of iron ore production and export.

The BSL's Composite Index of Economic Activity (CIEA) suggests that economic activity slowed down in the third quarter of 2019. Though the outlook for domestic growth remains positive, the Committee observed that it was still below its long-run potential.

Fiscal Policy

Fiscal operations resulted in a larger budget deficit in the third quarter of 2019, due to government expenditures exceeding its target, even as revenue continued to outperform its target. The deficit was financed mainly by the domestic banking system.

The Committee noted that fiscal consolidation is being hugely constrained by huge debt arrears and the high debt service payments. In spite of this, it strongly advises Government to continue its fiscal consolidation efforts over the near-term in order to tame the fiscal deficit.

Money and Banking

Reflecting the increase in fiscal deficit and the tight liquidity conditions in the interbank market, broad money (M2) growth expanded but remained within the ECF program target.

The Committee noted that credit to the private sector increased and was slightly above the projected target. However, the allocation of loans remain largely skewed to the commercial, financial and construction sectors. Moreover, high lending rates remain a challenge for investment and growth.

Liquidity conditions in the money market continued to be tight, evidenced by the persistent undersubscriptions in the primary market for government securities and an increase in the interbank rate. Though the interbank rate continued to trend above the Monetary Policy Rate (MPR), it remains within the policy corridor.

The banking sector remains relatively stable, as evidenced by improvements in the key financial soundness indicators. Additionally, the non-performing loans ratio has continued to trend downward since the first quarter of 2019, even though it remains above the regulatory limit.

The External Sector

The trade deficit widened in the third quarter of 2019 due to the combined effects of an increase in imports and decline in exports. Major drivers of imports were food and intermediate inputs, while all sub-components with the exception of minerals contributed to the decline in exports. Consequently, the stock of gross international reserves declined slightly to US$526.8million at end September 2019 from US$531.86 million in June 2019.

Though at moderate level relative to the previous quarters, the Leone depreciated against major international currencies in the third and fourth quarters of 2019, reflecting the continued excess demand for foreign exchange. However, BSL's intervention in the market during the quarter coupled with the foreign exchange directives tamed the volatility in the exchange rate. Looking ahead, the Leone is expected to remain relatively stable against major international currencies on the back of expected increase in remittances during the festive season, coupled with the expected donor disbursement in the first quarter of 2020.

Conclusion

The Committee recognizes that the tight monetary policy stance of the Bank of Sierra Leone has yielded positive results in dampening inflationary and exchange rate pressures. Although inflation in November 2019 was slightly below the target for 2019 and is forecast to trend downward, the Committee noted that there remains uncertainty surrounding the inflation outlook, mainly due to possible external shocks emanating from the uncertainty in the global economy.

In light of the above developments, the desire to stimulate the real side of the economy convinced the Committee to hold the course for now, albeit on the expectation that fiscal consolidation will continue at a sustainable level. Accordingly, it decided to keep the Monetary Policy Rate (MPR), the Standing Lending Facility Rate (SLFR) and the Standing Deposit Facility Rate (SDFR) unchanged. The public is assured, however, that should any development adversely impact the inflationary outlook, the Committee will respond appropriately.

Hence, effective 23rd December 2019, the following rates are published for the information of the public:

Monetary Policy Rate is 16.5 per cent

Standing Deposit Facility Rate is 13.5 per cent

Standing Lending Facility Rate is 20.5 per cent

Kelfala M. Kallon
Governor