# MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Sierra Leone (BSL) met on 30 September 2024. The Governor, Dr. Ibrahim L. Stevens, chaired the meeting. The MPC assessed recent global and domestic macroeconomic and financial markets development and evaluated the risks to the outlook for domestic inflation and growth. Following the deliberations, the MPC recommended increasing the Monetary Policy Rate (MPR) by 0.50 percentage point to 24.75 percent, which was duly approved by the BSL Board of Directors at its 543rd meeting held on 30 September 2024. The key considerations that informed the MPC's recommendation on the stance of monetary policy are summarised below:

## GLOBAL ECONOMIC DEVELOPMENTS

Since the start of 2024, global economic activity has been resilient, partly due to improved global trade, favourable financial conditions, and relatively lower global inflation. Growth remained strong in most advanced economies and emerging markets and developing countries. Projections in the July 2024 edition of the International Monetary Fund (IMF) World Economic Outlook (WEO) suggests a broadly stable global economy, with real GDP growth unchanged at 3.2 percent in 2024, before edging up slightly to 3.3 percent in 2025. Global headline inflation continues to decline, and is projected to decrease to 5.9 percent in 2024, and further down to 4.4 percent in 2025.

The MPC welcomed the steady improvement in the global economic outlook and its favourable impact on the domestic economy. The Committee, however, noted that the persistent geopolitical and economic fragmentation due to Russia-Ukraine war, as well as the military conflict in the Middle East, continue to pose downside risks to the global growth outlook. The Committee is encouraged by the gradual decrease in global inflation, especially in advanced economies, which could contribute to further decline in domestic inflation as a result of the decrease in imported prices.

## DOMESTIC ECONOMIC DEVELOPMENTS

### Inflation

Over the past ten months, there has been a gradual moderation in inflationary pressures, evidenced by the downward trend in headline inflation. Headline inflation decreased by 29.10 percentage points, from 54.59 percent in October 2023 to 25.49 percent in August 2024, on account of a decline in the prices of both food and non-food items in the consumer price index basket. The MPC observed that the tight monetary policy stance of the BSL, the relatively stable exchange rate, prudent fiscal policy and moderating global commodity prices, were primary drivers for the ease in domestic inflationary pressures. This notwithstanding, the Committee noted possible upside risks to the inflation outlook, including potentially higher production costs arising from disruptions in supply chains due to geopolitical tensions, trade fragmentation, climate-related risks and an unanticipated depreciation of the local currency.

Going forward, the BSL should be relentless in its efforts to further decrease inflation, thereby reducing the cost of living and achieving its overarching goal of price stability. A low inflation environment enhances the economy's competitiveness and attracts international capital flows and investments.

**Growth Outlook**

Following the review of the composition (rebasing) of Sierra Leone's GDP, real GDP growth is expected to remain strong at 4.0 percent in 2024, though lower than the 5.7 percent recorded in 2023, reflecting uncertainties around mining sector output in 2024. In 2025, domestic economic growth is projected at 4.5 percent due to anticipated expansion in agricultural activities, a rebound in the mining sector, and continued macroeconomic stability. This promising outlook is supported by the Bank's assessment of business confidence and the Composite Index of Economic Activities (CIEA), which registered an improvement in 2024Q2 relative to 2024Q1.

While welcoming the positive prospects for economic growth, the MPC acknowledged vulnerabilities to the growth outlook. The possible disruption to trade flows associated with ongoing tensions in the Middle East and other notable geopolitical uncertainties were considered significant factors that could potentially weaken domestic economic activities.

**External Sector Developments**

Sierra Leone's trade deficit with the rest of the world narrowed to US$115.6 million in 2024Q2 from US$142.4 million in 2024Q1, reflecting improvements in export receipts, which more than offset the increase in the cost of imports. The gross foreign exchange reserves of the BSL covered 2.0 months of imports in 2024Q2, compared to the 2.3 months coverage recorded in 2024Q1. Outflows in respect of payment for goods and services and external debt service payments accounted for the decline in the gross foreign reserves position. The exchange rate continues to be relatively stable, largely supported by implementation of significant BSL policy reforms to remove bottlenecks in the foreign exchange market.

The Committee is encouraged by the improvement in the country's trade balance and remains confident of a significant increase in gross foreign exchange reserves, following the recent staff-level agreement between the Government of Sierra Leone and the IMF for a new Extended Credit Facility (ECF) programme. The expected approval of the new ECF programme by the IMF Board is catalytic and would have a positive impact on our engagement with other development partners.

There are also ongoing negotiations with development partners on climate-related financing for the Sierra Leone economy. Further, the signing of the Millennium Challenge Corporation (MCC) Compact for Sierra Leone on 27 September 2024 is also noteworthy for its potential impact on the economy in the coming years.

**Fiscal Developments**

Domestic revenue mobilisation improved by 9.4 percent in 2024Q2, compared to 2024Q1. There was a marginal increase of NLe0.1bn in the overall deficit due to government discretionary spending during the reporting period. The primary deficit, which excludes net interest payments on public debt, also slightly deteriorated to NLe0.3bn in 2024Q2, from NLe0.2bn in 2024Q1.

The MPC acknowledged the fiscal authority's efforts to improve domestic revenue mobilisation and maintain a tight fiscal stance, which it considers critical to support the BSL's disinflation objective. The Committee highlighted the importance of continued fiscal consolidation to strengthen the fiscal position and reduce public debt to a sustainable level.

**Monetary Developments**

Key monetary aggregates were contractionary during the second quarter of 2024, reflecting a decline in Reserve Money (RM) and Broad Money (M2). The decrease in RM was on account of a reduction in Net Foreign Asset (NFA) of the BSL, while the contraction in M2 was due to the decline in the NFA of the Banking System. Credit to the private sector by commercial banks increased slightly in 2024Q2, relative to 2024Q1.

The MPC is encouraged by the fact that the BSL met the reserve money growth target for 2024Q2, an important indicator of effective monetary management. Despite the increase in private sector credit, bank lending rates remained high, posing challenges for private sector investment and growth. The current high yield on government securities, despite the decline in inflation, is a concern and has implications for debt sustainability. A concerted policy coordination by the fiscal and monetary authorities is critical to reduce the yield on government securities and address the domestic debt overhang.

**Financial System Stability**

An assessment of the performance of key Financial Soundness Indicators (FSIs) suggests that the banking system continues to be safe, sufficiently capitalised and profitable. Asset quality further improved in 2024Q2, with the Non-performing Loans (NPLs) ratio staying well below the maximum statutory limit of 10 percent.

The MPC welcomed the continued stability of the financial system but highlighted potential risks to the system. The high dependence of banks on government securities for income could impact profitability and undermine financial system stability in the event of a sharp decline in the yield on these securities. Moreover, the Committee recognised the fact that reliance by the banks on government securities crowds out lending to the private sector, thereby constraining growth. Other risks include cybercrimes and the incidence of fraud in the banking system. Therefore, the BSL should further strengthen its regulatory and supervisory oversight of the system.

## CONCLUSION

Despite the decline in inflationary pressures, inflation is still high by historical standards. The MPC is mindful of the adverse effects of high prices on households and businesses, and would therefore maintain its tight monetary policy stance to bring inflation under control, a commitment to the Bank's price stability mandate.

Following an assessment of the risks to the inflation outlook and financial system stability, the Committee proposed to moderately tighten its policy stance relative to the previous quarter. Consequently, the MPC recommended to the Board of Directors of the BSL to increase the MPR by 0.50 percentage point to 24.75 percent and adjusted the Standing Lending Facility and Standing Deposit Facility rates upwards by the same margin, which was duly approved. The Board remains optimistic that headline inflation will moderate to the desired level in the short to medium term

Therefore, effective Tuesday, 1 October 2024, the following rates are published for the attention of the public:

- **Monetary Policy Rate (MPR): 24.75**
- **Standing Lending Facility Rate (SLFR): 27.75**
- **Standing Deposit Facility Rate (SDFR): 18.25**

The next MPC meeting will be held on 19 December 2024.

**Ibrahim L. Stevens, PhD**
**Governor**