BANK OF SIERRA LEONE

FINANCIAL STABILITY REPORT

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ABBREVIATIONS

ACH	Automated Clearing House
AfDB	African Development Bank
ADV ECONS	Advanced Economies
AFF	Agricultural Finance Facility
AFI	Alliance for Financial Inclusion
AFREXIMBANK	African Export and Import Bank
AFRITAC	Africa Technical Assistance
AML	Anti-Money Laundry
ATM	Automated Teller Machines
Bn	Billion
BOP	Balance of Payments
BSD	Banking Supervision Department
CAR	Capital Adequacy Ratio
CBs	Community Banks
CBN	Central Bank of Nigeria
CDD	Customer Due Diligence
CET	Common External Tariff
CFT	Combating the Financing of Terrorism
COMFIs	Credit Only Microfinance Institutions
COVID 19	Corona Virus Disease
CRB	Credit Reference Bureau
CRR	Cash Reserve Ratio
DB	Defined Benefit
DLT	Distributed Ledger Technology
DSTI	Directorate of Science, Technology and Innovation
DTMFIs	Deposit Taking Microfinance Institutions
EA	Euro Area
ECB	European Central Bank
ECOWAS	Economic Community of West African States
EFT	Electronic Funds Transfer
EMDES	Emerging Market Developing Economies
ETLS	ECOWAS Trade Liberalization Scheme
EU	European Union
EURO	European Currency
EVD	Ebola Virus Disease
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FMD	Financial Markets Department
FSA	Financial Services Association

FSD	Financial Stability Department
FSDP	Financial System Development Plan
FSIs	Financial Soundness Indicators
FSR	Financial Stability Report
FSSR	Financial System Stability Review
FX	Foreign Exchange
G2P	Government-to-Person
GDP	Gross Domestic Product
GFSR	Global Financial Stability Report
GIS	Geographic Information System
GSE	Ghana Stock Exchange
HHI	Herfindahl-Hirschman Index
HIPC	Highly Indebted Poor Countries
IADI	International Association of Deposit Insurers
IDA	International Development Association
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
Le	Leones
LIC	Low-Income Countries
LLP	Loan Loss Provision
LMAP	Liquidity Matching Assets Profile
LOD	Law Officers Department
LTAP	Long Term Asset Profile
LTD	Loan To Deposit
MDA	Ministries, Departments and Agencies
MFI	Micro-Finance Institutions
MFS	Mobile Financial Services
MIX	Microfinance Information Exchange
MMP	Mobile Money Providers
MPR	Monetary Policy Rate
MSME	Micro, Small, and Medium Enterprises
MTI	Ministry of Trade and Industry
NAC	National Approval Committee
NASSIT	National Social Security and Insurance Trust
NATCOM	National Telecommunications
NCCUA	National Cooperative Credit Union Association
NCRA	National Civil Registration Authority
NDA	Net Domestic Assets

NDIP	National Digital Identity Platform
NFA	Net Foreign Assets
NFLF	National Financial Literacy Framework
NGOs	Non-Governmental Organizations
No.	Number
NPL,	Non-Performing Loans
NSE	New York Stock Exchange
NSFI	National Strategy for Financial Inclusion
OFISD,	Other Financial Institutions Supervision Department
OSS	Operational Self Sufficiency
P2G	Person to Government
P2P	Person to Person
PAPSP	Pan African Payments And Settlement Platform
POS	Point of Sales
PPG	Public and Public Guaranteed
Proj aes	Projection of Advanced Economies
Proj EA	Projection of European Area
Proj EMDES	Projection of Emerging Market and Developing Economies
Proj W	Projection of the World
Q4	Quarter Four
QAERP	Quick Action Economic Recovery Programme
RM	Reserve Money
ROA	Return on Assets
ROE	Return on Equity
RTGS,	Real Time Gross Settlement
RWA	Risk Weighted Assets
SAR	Special Administrative Region
SDF	Standing Deposit Facility
SDR	Special Drawing Rights
SLDPS	Sierra Leone Deposit Protection Scheme
SLF	Standing Lending Facility
SLIACO	Sierra Leone Insurance Association of Compliance Officers
SLICOM	Sierra Leone Insurance Commission
SSA	Sub-Saharan Africa
TA	Technical Assistance
Trn	Trillion
TSA	Treasury Single Account
TSX	Toronto Stock Exchange
Txns	Transactions
UK	United Kingdom
UNCDF	United Nations Capital Development Fund

USA	United States of America
USD	United States Dollar
WAMI	West Africa Monetary Institute
WB	World bank
WBCMO	World Bank Commodity Market Outlook
WEO	World Economic Outlook

GOVERNOR'S FOREWORD

Bank of Sierra Leone (BSL) has the pleasure to present to the public, the third edition of the Financial Stability Report for Sierra Leone, which covers key developments in the financial system during 2019, including an elaboration on macro financial linkages and resilience of the banking sector under different stress test scenarios. The BSL's financial stability mandate is enshrined on the fact that a stable financial system is a necessary precondition for macroeconomic stability, employment creation, economic development and poverty reduction.

Despite the uncertainties (including those from the recent COVID-19 pandemic) in the global environment and domestic economic challenges, the financial system of Sierra Leone continues to grow and remain sound, profitable and stable. Total assets of the financial system increased by 11 per cent during 2019 representing 32.2 per cent of Gross Domestic Product (GDP). Domestic deposits continue to grow and remain the main source of banks' funding, which reduces the banking sector exposure to the international environment.

The banking sector which accounted for about 80 per cent of the total assets of the financial system as at end December 2019, concluded the year 2019 with solid performance as evidenced by key financial soundness indicators. The banking sector remained adequately capitalized, liquid and profitable. However, while the ratio of gross loans to total deposits continue to be low, the cost of financial intermediation remains high, with attendant impact for economic growth.

Furthermore, the banking sector remains highly concentrated on investments in government securities, and lending is mainly channeled to the commerce & finance and construction sectors. These sectors also account for the lion share of non-performing loans (NPLs), thus remaining a subject of intensive supervision.

The recently amended BSL Act 2019, Banking Act 2019, and the Borrowers and Lenders Act 2019 are expected to further strengthen BSL's mandate on financial stability, including risk-based supervision, macro prudential and resolution framework in line with best international practice. The BSL will soon establish its Financial Policy Committee, which will oversee the maintenance of a stable financial system and is also expected to enhance coordination amongst key stakeholders in the financial system, including Sierra Leone Insurance Commission (SLICOM) and the National Social Security and Insurance Trust (NASSIT) whose contributions to this report is highly appreciated. Furthermore, the ongoing Financial System Stability Review mission of the IMF, which started in the fourth quarter of 2019, is expected to help address most of the financial system challenges indicated in this report.

The BSL is confident that the current state of financial stability, accompanied by the overall macroeconomic developments, will result in further sustainable expansion of the financial system and its contribution to economic development. To safeguard the financial system stability of Sierra Leone, the BSL will continue to supervise and assess closely, developments related to financial system stability, invest in capacity building and strengthen financial system regulatory framework and infrastructure, while also increasing the frequency of its communication on financial stability issues.

Kelfala M. Kallon (Prof.)

Governor

EXECUTIVE SUMMARY

The world economy witnessed a decline in 2019 primarily as a result of far-reaching effects of the trade war between United States and China, including the impact of the past contraction in worldwide financial conditions and domestic flaws in some large upcoming market economies. This resulted to significant risks that inhibited consumers' preferences and have also transformed sentiments amongst investors and policy makers. The resultant effect of these hostilities was a decline in projected growth in global output from 3.6 per cent in 2018 to 2.9 per cent in 2019. The headwinds that characterised the global economy in 2019 showed signs of moderation, giving room to improved prospects for economic recovery. In effect, growth in output is expected to rebound of 3.3 per cent in 2020. However, the looming threat of the COVID 19 may reverse the growth prospects considerably.

The deceleration of growth in advanced economies in 2019 to 1.7 per cent from 2.2 per cent in 2018 was partly engendered by downward adjustments in growth in the United States, Euro area, United Kingdom, and in emerging and developing Asian economies due to Hong Kong Special Administrative Region (SAR) protests. The Euro area economic growth declined from 1.9 per cent in 2018 to 1.2 per cent in the 2019, representing the weakening of growth prospects with some economies on the verge of recession.

Sub- Saharan Africa's economic growth marginally declined from 3.4 per cent in 2018 to 3.2 per cent in 2019 as a result of on-going difficulties in the external market especially the severe drop in the demand for metals, which is Sub-Saharan Africa's major export commodity. This was evident in the decline of annual growth in global trade volumes from 5.7 per cent in 2018 to 1.1 per cent in 2019.

Gross domestic product (GDP) of the WAMZ member states increased slightly from 2.6 per cent in 2018 to 2.8 per cent in 2019, attributed mainly to lower than expected performance of the agriculture and services sector in some member countries. Sierra Leone's GDP grew by 5.4 per cent in 2019 from 3.5 per cent in 2018, despite challenges posed by the suspension of iron ore mining and decline in construction activities.

Total assets of Sierra Leone's financial system increased by 11 per cent in 2019, representing 32.2 per cent of GDP, mainly as a result of growth in the assets of the commercial banking sector followed by community banks (CB), credit only micro finance institutions (COMFI), pension fund and financial services associations (FSA). The growth in assets of the commercial banks was largely driven by increase in investment in government securities of 29 per cent and increase in other assets of 17.0 per cent.

The number of regulated financial institutions by the BSL remained largely unchanged in 2019, with the exception of one COMFI that suspended its operations in Q4 2019 due to lack of business opportunities. There were still 14 commercial banks, 17 community banks, 4 deposit taking micro finance institutions (DTMFIs), 31 COMFIs, 63 foreign exchange bureaus, 2 discount houses, 1 leasing company, capital market and 1 Apex bank. The number of pension fund also remained at 1 and 11 for insurance companies during 2019.

There was heavy reliance on government's short-term securities by the banking sector in Sierra Leone and this has continued to be the main source of income. Income from investment in treasury securities accounted for 45.8 of income of the banking sector. Excessive maturity transformation was a prominent risk to the banking sector, coupled with credit risk associated with non-performing loans. Foreign exchange risk accounted for depreciation (13.4 per cent year-on-year against the USD) of the Leones domestic currency over the period, with importers being main drivers of the magnitude of depreciation of Leone. The 2019 liquidity risk stress test results showed that the banking sector was resilient to shocks emanating from potential withdrawals of selected amounts of deposits. However, the resilience of the banking sector was largely dependent on the market liquidity for government securities and large depositors' behaviour.

The performance of other financial institutions (OFIs) showed improvements in most of the key financial health indicators. The insurance system was robust albeit challenges. Regulatory measures such as the Insurance Act and other supervisory measures put in place by Sierra Leone Insurance Commission (SLICOM) and National Social Security and Insurance Trust (NASSIT) have contributed to further strengthening of OFI's system.

The payment system has been efficient and effective, reflected by seamless settlement of transactions and increase in volumes and values of transactions. Furthermore, there has also been increases in the number of ATMs (48.6 per cent) and POS (30.3 per cent) to meet customers demand for money across the country over the period 2018 to 20

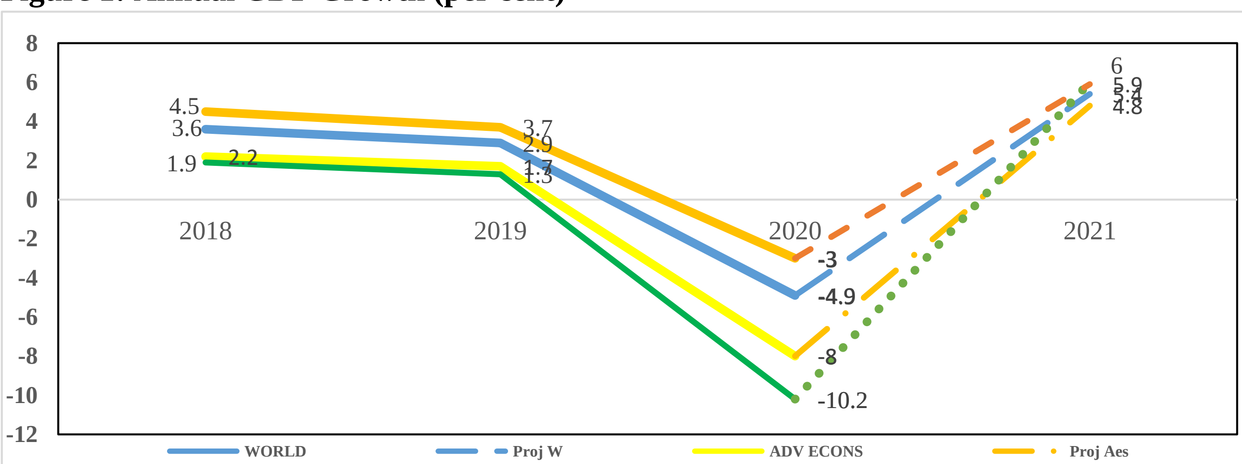
CHAPTER ONE

1.0 GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

1.1 Global Macroeconomic Developments

The global economy continued to slowdown in 2019, reflecting the broad effects of the trade war between the United States (US) and China, the impact of the past tightening in global financial conditions and domestic weakness in some large emerging market economies. The deepening of the trade conflict between the US and China, and challenges in Europe have created significant risks, dampened consumer demand, and have transformed sentiment among investors and policymakers. Persistent global trade tensions have resulted in lower projected output growth to 2.9 per cent in 2019, from 3.6 per cent in 2018. However, Output growth is projected to rebound to 3.3 per cent in 2020, on the back of moderation to the headwinds that characterized the global economy in 2019.

Figure 1: Annual GDP Growth (per cent)



Source: IMF, WEO June, 2020

Figure 1 shows the growth path across various regions and projections over the period 2020 and 2021. The sharp dip in projection for 2020 across the regions is largely driven by the expected impact of the COVID 19 pandemic. Meanwhile in 2021, it is expected that the COVID 19 would have eased but growth is projected to be gradually slow before catching up to the path of full economic recovery.

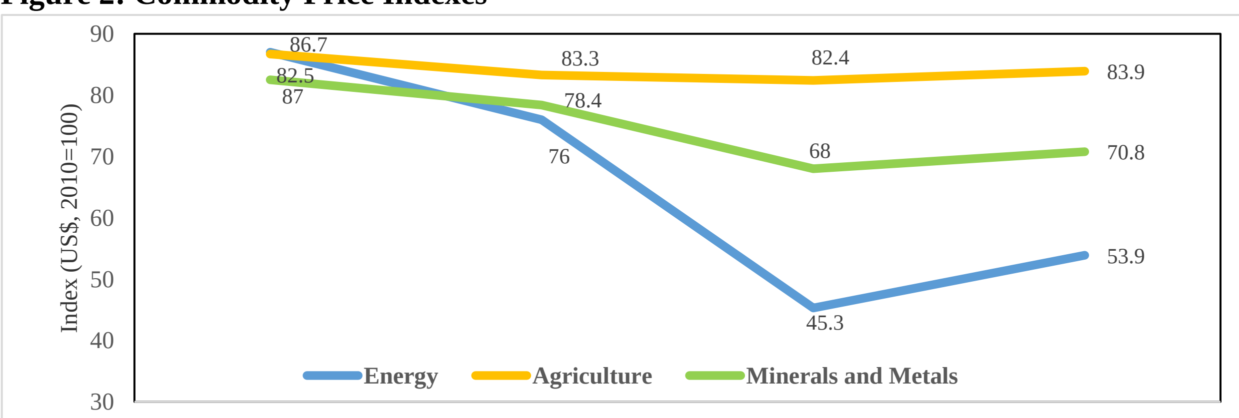
In advanced economies, growth declined to 1.7 per cent in 2019 from 2.2 per cent in 2018 mostly due to downward revisions for the United States, Euro area and the United Kingdom, and downgrades to other advanced economies in Asia, notably the continued Hong Kong SAR protests.

In the Euro area, there was a slowdown in economic growth from 1.9 per cent in 2018 to 1.2 per cent in the 2019, mirroring the weakening of growth prospects around the globe. The economic performance of the region was hampered by weaker external demand, subdued inflation, geo-political factors presented by the potential of a disorderly no-deal on Brexit, and country-specific factors relating to fragile public debt sustainability. These uncertainties also contributed to increased volatility in the region's financial markets. Nonetheless, domestic demand and consumption were underpinned by the European Central Bank (ECB)'s accommodative monetary policy, as well as favorable labor and housing market trends.

1.2 Recent Development in Commodity Prices

Development in commodity prices in 2019 was modest. In particular, energy prices weakened with the index declining by 11 percentage points from 87.0 per cent in 2018 to 76.0 per cent in 2019, driven by supply glut and underlying geo-political forces. The index was estimated to further decline in 2020 to 45.0 per cent and slightly increase to 53.9 per cent in 2021. Similarly, Metals and Minerals price indices declined by 4.1 percentage points in 2019 largely driven by trade tensions between U. S and China and the effect of a No-Brexit deal. The index is however estimated to further decrease by 10.4 percentage points in 2020 and slightly increase to 70.8 per cent in 2021. The Agriculture Price Index modestly decreased from 86.7 per cent in 2018 to 83.3 per cent in 2019 and this is not unrelated to the geo-political concerns as shown in figure 2.

Figure 2: Commodity Price Indexes



Source: World Bank Commodity Market Outlook April 2020

1.3. Global Financial Developments

In 2019, the US dollar and euro weakened slightly, while the pound appreciated relative to other currencies globally. The U.S. dollar contracted slightly in 2019 after strengthening in 2018. The nominal trade-weighted dollar stood at 0.7 per cent lower year-to-date at end-December 2019 due to deterioration in global risk appetite. The Japanese yen started the year at 109.6 against the USD and appreciated to 104.9 in August and weakened to 109.6 as at end December 2019. The pound was 4 per cent stronger against the dollar due to Brexit and slowing growth in Europe. The euro depreciated against the major currencies due to fears of slower growth in the euro area and political concerns, especially in Italy. By the tenth month of 2019, the euro had depreciated by 6.3 per cent against the Japanese yen, 5 per cent against the US dollar, 3.4 per cent against the franc Swiss, 1.0 per cent against the Chinese renminbi and 0.3 per cent against the British pound.

The global stock market recorded improved performance in 2019 compared with 2018, largely due to the expansionary monetary policies embarked upon by central banks such as the Fed and the massive purchases of treasury bonds by the Fed and the European Central Bank (ECB).

The European stock markets witnessed improved performance in 2019, after falling by 20 per cent in 2018. Despite the trade tensions with China, strong growth and jobs boosted the strength of the equity market in the US. The Dow Jones index stood at 22.01 per cent; the S&P 500 gained 28.5 per cent, while the Nasdaq soared 34.8 per cent after losing 4.6 per cent in 2018. The main stock markets in Latin America progressed considerably compare to 2018. Similarly, the equity market in Asia and stock exchanges in the Gulf countries posted good overall performances in 2019, whereas the stock exchanges in Africa experienced mixed performances. In sub-Saharan Africa, the stock markets of Zimbabwe, Kenya, Uganda, and South Africa closed the year with gains of 57.3 per cent, 18.5 per cent and 9.2 per cent and 8.2 per cent respectively. In contrast, the LUSE (Zambia), NSE ASI (Nigeria), GSE (Ghana) and BRVM composite (Abidjan) indices posted losses of 18.8 per cent, 14.6 per cent, 12.3 per cent and 7.6 per cent, respectively.

CHAPTER TWO

2.0 ECONOMIC AND FINANCIAL DEVELOPMENTS IN WAMZ

2.1 GDP and Inflation Developments in the WAMZ

Economic activity improved in all member States of the WAMZ at individual level. Gross domestic product (GDP) of the WAMZ increased slightly from 2.6 per cent in 2018 to 2.8 per cent in 2019. However, output contracted marginally in both The Gambia and Liberia. The fall in growth during the review period was largely related to weak performance of the agriculture and services sectors. Ghana's real GDP grew by 6.5 per cent in 2019 compared to 6.3 per cent in 2018, driven mainly by the performance of the service system. The GDP growth estimate for Guinea was 6.2 per cent in 2019, same as in 2018 and mainly driven by mining activities. In Liberia, real GDP growth contracted by 1.4 per cent in 2019 compared to a growth of 1.2 per cent recorded in 2018 and that was due to a lingering supply-side constraint together with a decline in external demand for the country's major export commodities. Nigeria's real GDP growth stood at 2.3 per cent in 2019 compared to 1.9 per cent in 2018 and it was mainly driven by manufacturing, agriculture, information and communication and the financial services sectors. Real GDP growth in Sierra Leone was at 5.4 per cent in 2019, compared to 3.5 per cent in 2018. Increased agricultural and mining output, supply of electricity, uptick in the services and manufacturing systems, and efficiency gains from ongoing policy reforms were the key drivers for such growth.

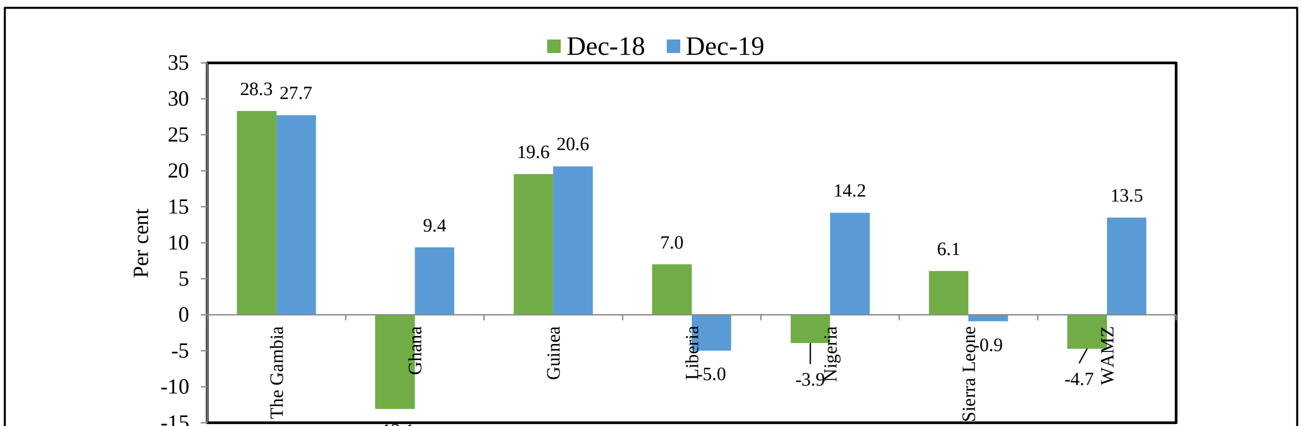
In the WAMZ, inflationary pressures eased slightly as the end-period inflation moderated to 11.2 per cent as at the end of December 2019 compared to 11.3 per cent in 2018. Factors that underpinned the inflation dynamics in the WAMZ include tight monetary policy stance, prudent fiscal management and the relative stability of exchange rate. As at the end of December 2019, The Gambia, Ghana and Guinea recorded a single inflation rate whilst Liberia and Sierra Leone recorded a double-digit inflation rate. In December 2019, The Gambia's end-period inflation rose to 7.7 per cent compared to 6.4 per cent recorded in the previous year as a result of the acceleration in both food and non-food consumer prices. Decreases in food and non-food inflation mainly influenced Ghana's inflation which continued to trend downward to 7.9 per cent at the end of December 2019, compared to 9.4 per cent recorded as at the end of December 2018. Annual end-period inflation for Guinea moderated to 9.1 per cent in December 2019, from 9.9 per cent in 2018 driven by a decline in food and transportation inflation. For most part in 2019, inflationary pressures remained elevated in Liberia but moderated significantly towards the end of the year. As at the end of December 2019, end-period inflation decreased to 20.2 per cent compared to 28.5 per cent as at the end of December 2018. As at the end of December 2019, Nigeria's inflation inched up to 12.0 per cent from 11.4 per cent in the corresponding period of the previous year attributed largely to seasonality effects and continued insurgency and herdsmen attacks in the country. Due to improved energy supply and increase food production during the year, Sierra Leones's inflation fell to 13.9 per cent as at end of December 2019 compared to 14.3 per cent in 2018.

2.2. Monetary Policy Stance in the WAMZ

Monetary policy stance across the WAMZ was mixed: The Gambia tightened its monetary policy stance at 12.5 per cent in 2019 compared to 13.5 per cent as at end-December 2018. Ghana also tightened its monetary policy stance to 16.0 per cent as at the end of December 2019, from 17.0 per cent in 2018, whereas Guinea and Sierra Leone kept their monetary policy stance unchanged at 12.5 per cent and 16.5 per cent, respectively. On the other hand, Liberia established it first monetary policy stance at 30.0 per cent.

2.3. Selected Financial System Developments in the WAMZ

Figure 3: Growth Rate of Total Bank Credit in WAMZ Region Countries

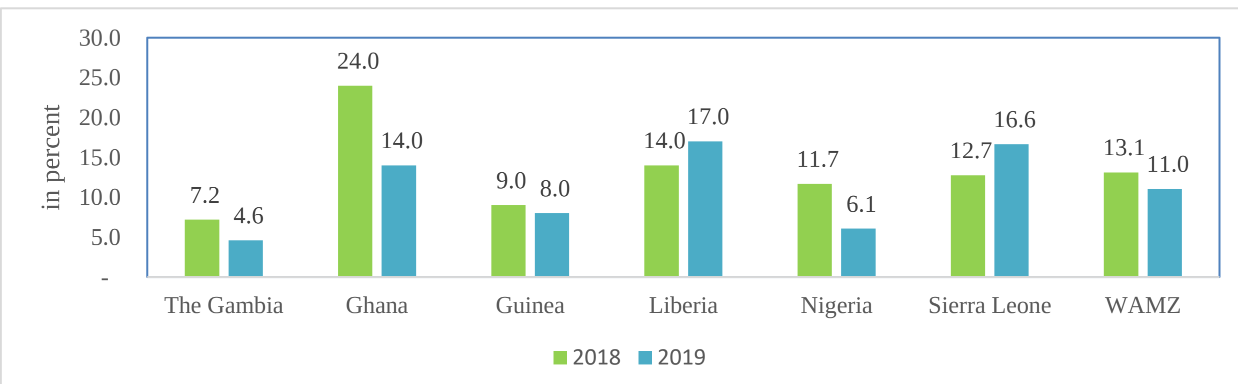


Source: WAMI FSR 2019

There was an increase by 13.51 per cent ($67.41) in the gross banking loans in WAMZ in 2019 as opposed to a 4.7 per cent in 2018. A lion share of this development was influenced by Nigeria, as it contributed about 84.90 per cent to the credit market in the region. The policy of the CBN on minimum loan to deposit ratio, coupled with the government diversification policy to revamp agriculture and infrastructure helped to improve credit delivery to rural areas. Therefore, at the end of 2019, there was growth in gross loans by 14.2 per cent in Nigeria as opposed to a 3.9 per cent growth in 2018. In the same vein, total credit recovery in Ghana improved from 13.1 per cent in 2018 to 9.4 per cent in 2019 mainly as a result of excess liquidity derived from recapitalization programme.

The growth in gross loan for The Gambia decreased to 27.7 percent in 2019, from 28.3 percent in 2018. This was in contrast to that of the Guinea whose growth rate of credit increased to 20.6 percent in 2019 from 19.6 percent in 2018. The decline of credit uptake in Liberia by 5.0 per cent and Sierra Leone by 0.9 per cent was as a result of currency transaction effect. In local currency terms, credit lines of banks, even though slowed, slightly improved by 13.3 per cent and 14.7 per cent in Liberia and Sierra Leone, respectively. Credit expanded in all member states in terms of local currency with the most growth experienced in The Gambia (32.7 per cent), followed by Ghana (25.6 per cent).The variance of Nigeria's credit expansion in dollar (14.2 per cent) and Naira (14.5 per cent) terms was insignificantly due to the stability of the Naira against the US dollar.

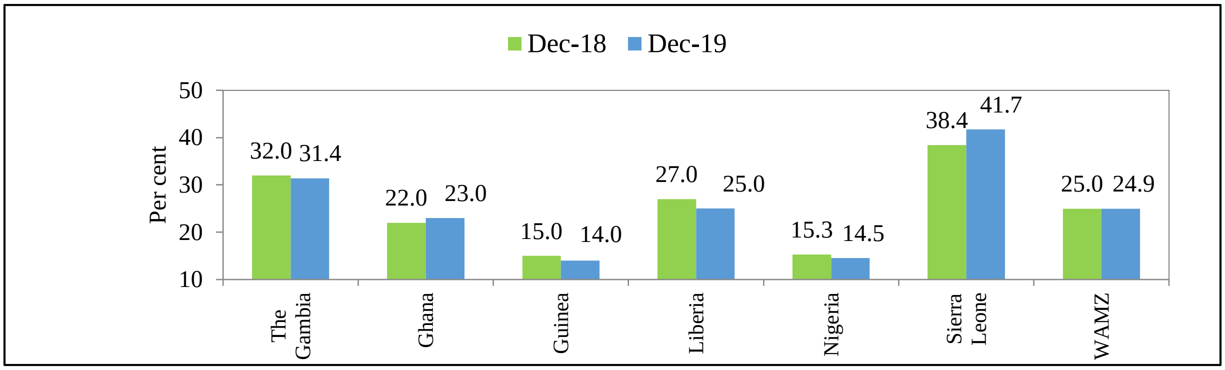
Figure 4: NPL to Total Loans Ratio in the WAMZ Region Countries



Source: WAMI FSR 2019

Over the period 2018 to 2019, NPL ratio in the WAMZ region countries increased in Liberia and Sierra Leone, but declined in The Gambia, Ghana, Nigeria and Guinea. In the WAMZ region, it also declined. The reduction in NPL ratio reflected aggressive loan write-offs, recoveries, and strong credit off-take

Figure 5: Average Capital Adequacy Ratio



Source: WAMI FSR 2019

The capital adequacy ratio (CAR) in term of the average loss absorption in the WAMZ region decreased from 25.0 per cent in 2018 to 24.9 per cent 2019. Excluding Ghana and Sierra Leone where the CAR increased by 1 and 3.3 percentage points respectively, the ratio dropped in the other WAMZ member countries. In 2019, the average CAR reduced in The Gambia, Guinea, Liberia and Nigeria by 0.6, 1, 2, and 0.8 percentage point respectively.

Elements like increase in the risk-weighted assets and the decline in qualifying capital as a result of additional impairment in December 2019 from the IFRS 9 transitional adjustment, worsening capital of outlier banks, and the newly licensed regional banks with CAR requirement of 10 per cent accounted for the deterioration in average CAR of banks in Nigeria. The CAR deteriorated significantly in Ghana, as credit rebounded after the recapitalization exercise. In Sierra Leone, CAR improved as banks commenced compliance with the upward revision to the minimum capital requirement. As shown in the Figure 5, Sierra Leone remains a leader in the region in terms of strong CAR (41.7 per cent in 2019) followed by The Gambia (31.4 per cent) and Liberia (25.4 per cent). Overall, the WAMZ banking sector was adequately capitalized as average CAR positions amongst WAMZ states were well above the separate regulatory minimum range of 10.0 per cent to 15.0 per cent.

2.4 Recent Developments in Sub Saharan Africa

Economic growth in Sub- Saharan Africa was 3.1 per cent for 2019, slightly below the 3.2 per cent registered in 2018 driven by developments in commodity prices and domestic policy adjustments. Sub – Saharan Africa faced an increasingly difficult external environment in 2019 as annual growth of global trade volumes slowed from 5.7 per cent in 2017 to 1.1 per cent in 2019, with an especially acute slowdown for metals and food, two of Sub- Saharan Africa's major export commodities. Sub – Saharan Africa's estimated overall growth masks significant cross-regional and cross-country variations. East Africa maintained its lead as the continent's fasted growing region with average growth estimated at 5.2 per cent in 2019 and Ethiopia, Rwanda and Tanzania taking the lead. North Africa is the second fasted, at 3.7 per cent largely influenced by the growth momentum of Egypt's vigorous implementation of economic reform programs and gas extraction in the Zohr field. West Africa's growth rose to 3.6 per cent in 2019 compared to 3.4 per cent in 2018. Top performers included Ghana, Cote d'Ivoire while Nigeria continued to recover gradually. Growth fundamentals have improved as its drivers gradually shift toward investment and net exports and away from consumption.

With notable variations across countries and economies, the average inflation rate for Sub-Saharan Africa inched up by 1.6 percentage points from 7.8 per cent in 2018 to 9.4 per cent in 2019. The inflation dynamics of sub-Saharan African economies reflects the relatively slow pace of recovery, some tightening of monetary policy or high agricultural production cost and, in many countries, the incomplete pass-through of higher oil prices. To manage domestic demands in the continent, central banks reacted by adjusting interest rate and in countries with downward inflationary pressures interest rates were reduced to encourage investment and spur growth. Weighted average deficit-to-GDP ratio in Africa declined from 5.9 per cent in 2017 to 4.7 per cent in 2019 hence causing fiscal balances to improve over the past two years. The stabilization in commodity prices and higher tax and non-tax revenues for large natural resource exporters was largely responsible for the decline.

CHAPTER THREE

3.0 DOMESTIC MACROECONOMIC DEVELOPMENTS

3.1 GDP Growth and Inflation

Domestic real GDP growth was 5.4 in 2019, a 1.9 percentage point increase from 3.5 per cent growth recorded in 2018, driven by the resumption of iron ore production and exports.

The rate of inflation declined to 13.9 per cent at end-December 2019, compared to 14.3 per cent in 2018. This fall was attributed to the increase in food production during the year, coupled with improved energy supply.

3.2. External Sector

The stock of gross foreign exchange reserves of the BSL increased by US$25.9mn from US$480.8mn as at end December, 2018 to US$506.6mn as at December, 2019 (market rate excluding swaps). This new reserves position was sufficient to cover 3.4 months of import of goods and services.

The average exchange rate of Leone to the US Dollar depreciated by 13.6 per cent between 2018 and 2019. This development was largely driven by weak export performance and increase demand for imports of essential commodities, putting pressure on the exchange rate. To smooth out volatility and complement the supply of foreign exchange to support essential commodities, the BSL had to intervene in the market through the wholesale foreign exchange auction.

The overall trade deficit expanded to US$957.1m (23.3 per cent of GDP) in 2019 from US$800.1m (19.6 per cent of GDP) in 2018 due to increase in imports, which more than outweigh the increase in exports.

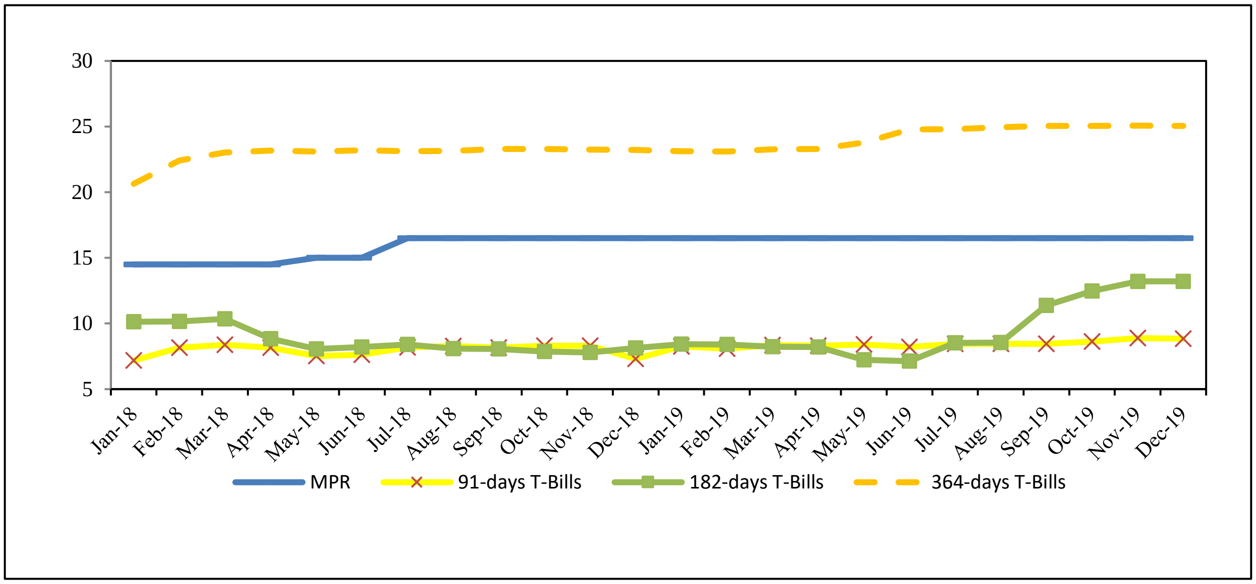
3.3 Monetary Policy Management

The thrust of monetary policy management in 2019 was tight monetary policy which mainly focused on price stability and achieving end year inflation target of 13.9 per cent, and also safeguarding the financial system stability to support growth and economic development.

Consistent with the contractionary monetary policy stance, the Monetary Policy Rate (MPR) of the BSL was kept at 16.5 per cent throughout 2019. Furthermore, the Standing Lending Facility

(SLF) and Standing Deposit Facility (SDF), which form the lower and upper band around the MPR remained unchanged at 20.5 per cent and 13.5 per cent respectively, for the same period. The interbank weighted average rate increased from 16.9 per cent in December, 2018 to 18.6 per cent in December, 2019 but remained within the Interest Rate Corridor

Figure 6: Monetary Policy Rate and T-bills Rates



Source: Research, BSL

CHAPTER FOUR

4.0 SYSTEMIC RISKS ASSESSMENT

4.1 Taxonomy of Salient Risks

The banking sector in Sierra Leone continues to rely on government securities (largely 364-days T-bills) as the source of income (45.8 per cent), thus depicting the excessive maturity transformation as a salient risk to the banking sector. For example, in a scenario that government decides to do no new borrowing then banks' profitability will be dampened by this action. Since most of the banks are risk averse, this limits their ability to underwrite long-term feasible projects with attractive returns.

Another salient risk is the credit risk associated with non-performing loans (NPL). Credit risk in simplest form depicts the fact that loans that banks made will not be repaid. Credit risk has been an endogenous risk and NPLs increased by 3.9 percentage points to 16.6 per cent in December 2019 from 12.7 per cent in December 2018, driven by the inability of some customers largely contractors to repay their loans during the review period.

A third potent risk is the foreign exchange risk that accounts for depreciation of the Leones against major currencies over the period. The driver for the magnitude of depreciation was the import-dominated nature of the economy, in that the demand for foreign exchange by importers far outweighed the available supply, hence this further compounded the depreciation of the Leone.

A fourth and common attendant risk in the banking sector is liquidity risk. The liquidity risk describes the likelihood that banks will not be able to meet short term obligations.

4.1.1 Stress Test Analysis of Attendant Risks

Stress tests are forward-looking exercises that aim to evaluate the impact of severe but plausible adverse scenarios on the resilience of banks. The stress test analysis for 2019 assesses various scenarios involving credit risk, liquidity risk, foreign exchange risk and interest rate risk which are potential sources of vulnerabilities. The stress test analysis was complemented by reverse stress test scenario.

4.1.2 Credit Risk

Stress test on Credit shocks was run to gauge the effect on banks' capital emanating from further deterioration in asset quality. The measurement criteria for credit risk is the ratio of NPLs to total loans. The credit risk gauges the shock absorbency of banks to four shocks including Under-provisioning, Proportional increase in NPLs, Systemic shocks to NPLs, and Large exposures, in 2019.

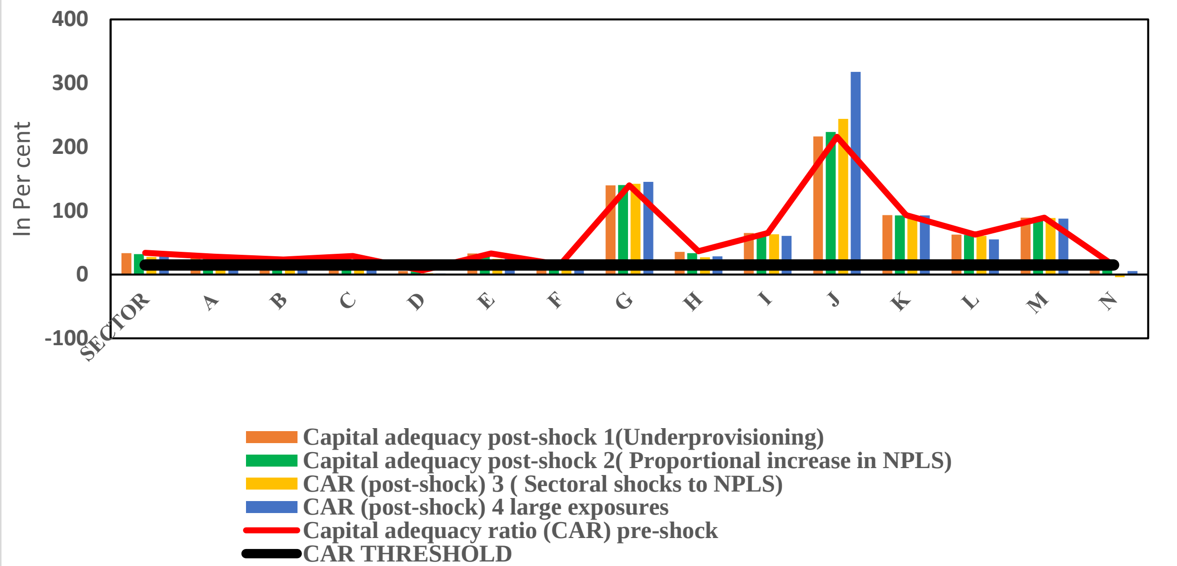
The assumptions supporting under-provisioning shock include pass loans are rated at 2 per cent, special mention loans 2 per cent, substandard loans 20 per cent, doubtful loans 50 per cent, loss loans 100 per cent and assumed haircut on collateral is 75 per cent. Subsequently, stress test results for shock to under-provisioning indicate that the system is absorbent to credit shock (except for two banks) and is above the prudential limit with CAR before and after the shock recording 33.9 per cent and 33.6 per cent, respectively.

The second shock reflects the proportional increase in NPLs, and the underpinned assumptions comprise 10 per cent increase in NPLs, with existing performing loans, provisioning NPLs of 40 per cent and 100 per cent impact on the ratio of RWA to capital. The results indicate that the banking sector can withstand shock to proportional increase to NPLs (except for two banks) and is above the prudential limit with CAR before and after the shock recording 33.9 per cent, 32.1 per cent, respectively.

The third attendant shock is the systemic shock to NPLs and the underscored assumptions (which is the percentage of performing loans in the system becoming NPLs) include 25 per cent for Agriculture, Forestry & Fishing, 50 per cent mining and quarrying, 25 per cent manufacturing, 50 per cent construction, 25 per cent for electricity gas and water, 70 per cent import trade, 70 per cent export trade, 25 per cent financial services, 50 per cent other trade and tourism, 30 per cent communication, other services 25 per cent and miscellaneous 25 per cent. The results show that the banking sector can withstand shock to proportional increase to NPLs (except for three banks) and is above the prudential limit with CAR before and after the shock recording 33.9 per cent, 27.4 per cent, respectively.

The fourth potent shock is large exposures and the underpinning assumptions include number of large exposures becoming NPLs is one, and provisioning rate is 100 per cent. The results of this test indicate that the system is resilient to shock of large exposures (except for three banks) and is above the prudential limit with CAR before and after the shock recording 33.9 per cent, 30.6 per cent, respectively.

Figure 7: Credit Risk Stress Test Results

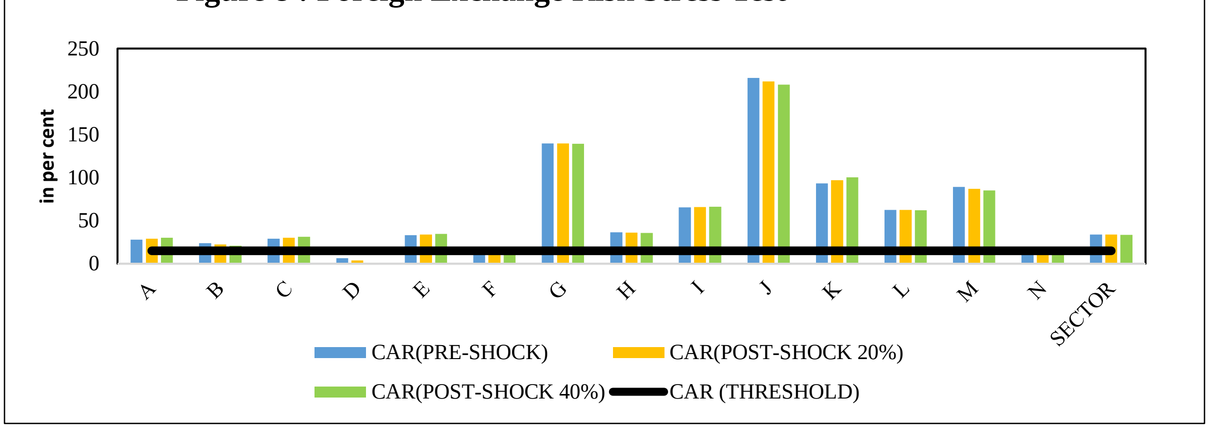


Source: BSD/FSD, BSL

4.1.3 Foreign Exchange Risk

The stress test on direct foreign exchange shock indicates that the banking sector's CAR was shock absorbent at 33.8 per cent and 33.6 per cent as the shock in foreign exchange reflected by depreciation of the Leone of 20 per cent and 40 per cent, respectively. However, two banks breached the threshold limit post shock of 20 per cent and post shock 40 per cent in turn.

Figure 8 : Foreign Exchange Risk Stress Test



Source: BSD/FSD, BSL

Box 1. Seasonal Exchange Rate Pressures Intensified in 2019.

Limited sources of foreign exchange (FX) and demand for essential imports saw the Leone depreciate by 13.4 percent year-on-year against the US dollar through December 2019. The parallel market spread temporarily approached 10 percent in August but has since declined to 3 percent. These pressures reflected a convergence of factors, including seasonal import-related FX needs toward the end of the rainy season and tourism services related to the annual Hajj, while the iron ore shutdown reduced the FX supply. In this context, the BSL issued three new guidelines on foreign exchange in August, which have created uncertainty in the broader economy. Against this backdrop, the Bank of Sierra Leone (BSL) issued three new foreign exchange (FX) directives in August 2019, emphasizing that theses directives are temporary in nature and are intended to help rationalize and make more predictable FX flows to the banking sector. These directives prohibit: Non-Governmental Organizations (NGOs) and their donors from offshore FX trading, and instruct them to channel all remittances through their accounts in banks operating in Sierra Leone.

Quoting prices and making/receiving payments for transactions undertaken in Sierra Leone in foreign currencies; and the holding and/or export of foreign currency more than a USD10,000 equivalent outside the banking sector. The BSL is monitoring the impact of these directives and where necessary provides clarifications as was done in September 2019. To this vein, the BSL initially faced, and resisted, pressures from market participants for preferential agreements that, if granted, would introduce economic distortions, and could potentially segment the market and result in multiple currency practices. More recently, the BSL issued another directive in March 2020, prohibiting foreign currency transactions by unlicensed operators (those that are not commercial banks and licensed FX bureaus). BSL will continue to monitor the directives, including assessing whether they give rise to capital flow management measures.

Source: Financial Markets Department (FMD)

4.1.4 Liquidity Risk

Liquidity risk stress test results indicate that the banking sector is resilient to shocks emanating from potential deposit withdrawals. Yet, the resiliency of the banking sector is largely reliant on the market liquidity for government securities and large depositors' behavior. The stress testing on liquidity risk considered whether the banking sector could meet unexpected demand for a large amount of cash withdrawal. Specifically, the test shows for each bank how many days it would withstand a liquidity drain before breaching internationally accepted liquidity ratio of 30 per cent. Essentially, commercial banks in Sierra Leone are subject to prudential minimum liquidity ratio of 40 per cent for demand deposits and 20 per cent for savings and time deposits. The liquidity stress test used a minimum liquidity ratio of 30 per cent. The stress test scenario assessed how shock absorbent banks are under a 10 per cent call on demand deposits, i.e., a 10 per cent daily withdrawal of demand deposits for five consecutive days. The stress test results indicate that all banks can withstand a sizable liquidity shock (a 10 per cent withdrawal per day of call deposits) for one day (except for one bank) breaching the threshold of 30 per cent. The result was the same after the fifth day of withdrawal, only one bank was illiquid after day five.

Table 1: Liquidity Stress Test Results

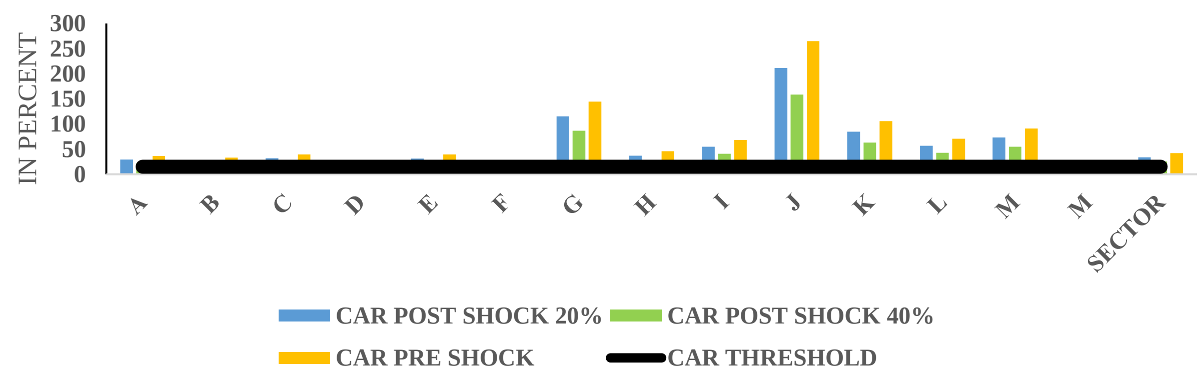
Shock: 10 per cent daily withdrawal of deposits for five days	Post Shock: Number of illiquid banks
After day 1	1
After day 2	1
After day 3	1
After day 4	1
After day 5	1

Source: FSD, BSL

4.1.5 Interest Rate Risk

The interest rate shock on government securities was conducted using average weighted interest rate of the 364-day T-bills, because most investors/commercial banks lock their funds into this tenor due to the attractive return. The stress test for interest rate shock results show that the banking sector's CAR is shock absorbent at 33.6 per cent and 25.2 per cent for the after-shocks of 20 per cent and 40 per cent, respectively. However, one bank breached the threshold limit post shock of 20 per cent and post shock 40 per cent in turn.

Figure 9: Interest Rate Stress Test Results



Source: BSD/FSD, BSL

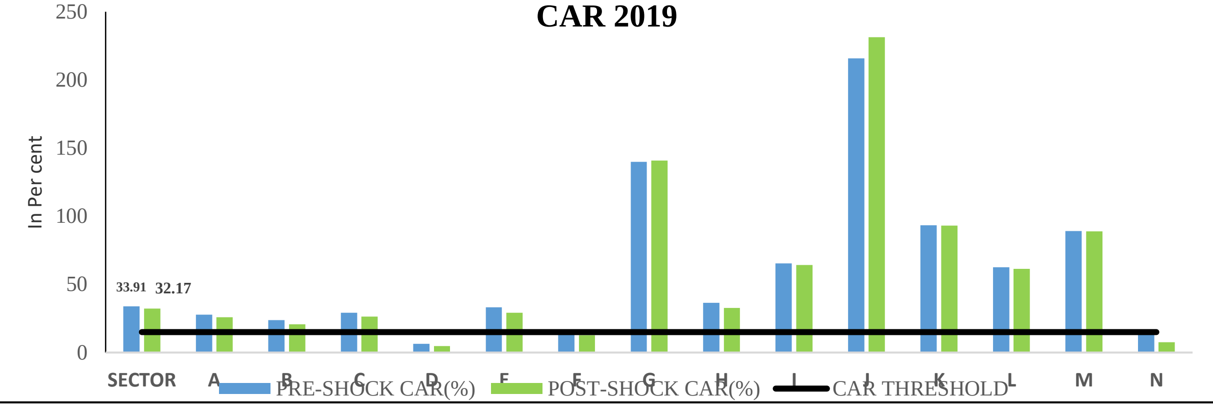
4.1.6 Reverse Stress Test

The reverse stress test was performed using the scenario such as what would be the NPL increase to the banking sector-wide CAR to decline to the threshold of 15 per cent. The assumptions underpinning scenario one include:

- System CAR threshold is 15 per cent
- Provision of additional NPLs is 40 per cent
- Ratio of impact on RWA to impact on Capital (%) is 100 per cent

The key point is how an impact of NPL increase will transmit via banks to the system wide level. The results show that the banking sector is resilient post shock of 32.8 per cent emanating from an implied increase in NPLs of 20 per cent. However, three banks were below the threshold CAR post shock.

Figure 10: Results of Reverse Stress Test NPLs on the Banking Sector CAR 2019



Source: FSD/BSD, BSL

Stress test concluding remarks consist of recommendations for the precautionary measures to: (i) encourage banks to diversify their funds with more lending to private sector; (ii) deepen interbank market lending activities; and (iii) encourage banks to build-up their capital base over time to increase shock absorbency.

CHAPTER FIVE

5.0 FINANCIAL SYSTEM DEVELOPMENTS

5.1. Structure of the Financial System

In 2019, the number of financial institutions licensed and regulated by the BSL remained the same as in 2018, except for one credit only micro finance institution (COMFI) that suspended its operations in Q4 2019 due to lack of business opportunities for the period under review. The number of commercial banks remained at 14, community banks at 17, deposit taking micro finance institutions (DTMFIs) at 4, COMFIs at 31, forex bureaus at 63, discount houses at 2, leasing company, capital market and Apex bank all at 1 each. The number of pension fund remained at one and 11 for insurance companies for the period under review.

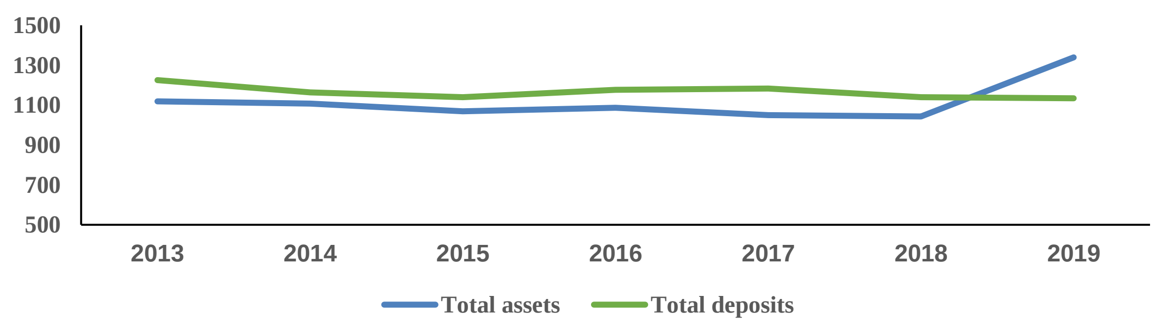
Box 2. Banking Sector Concentration

The Herfindahl-Hirschman Index (HHI) is used to describe sector concentration risk and can be used as an auxiliary tool for supervisory purposes and in the design of macroprudential measures. The HHI is employed to indicate the degree of sector concentration and its future tendencies.

For the five largest banks in the banking sector, the banking concentration level, in terms of deposits, has marginally declined by 0.2 percentage point from 68.6 per cent in 2018 to 68.4 per cent in 2019. In terms of asset share, banking concentration level increased by 7.8 percentage points from 65.1 per cent in 2018 to 72.9 per cent in 2019.The share of the three largest banks in total deposits remained at 46 per cent in 2019. However, in terms of total assets for the three largest banks, the share increased from 43 percent to 48 per cent.

The HHI index (see Figure 11) indicates that the total assets index value rose from 1043 in 2018 to 1339 in 2019 reflecting slight deterioration in the competitiveness of the banking sector. On the other hand, total deposits index value declined from 1139 in 2018 to 1134 in 2019, showing signs of slight improvement in the banking sector competitiveness.

Figure 11: Herfindahl-Hirschman Index



Source: FSD, BSL

5.2. Total Assets of the Financial System

Total assets of the financial system increased by 11 per cent during 2019 representing 32.2 per cent of GDP. The increase was mainly as a result of growth in the assets of the commercial banks followed by community banks, COMFIs, pension fund and financial services associations (FSAs). The growth in assets of the commercial banks was mainly driven by an increase in investment in government securities by 29 per cent and an increase in other assets recording 17 per cent.

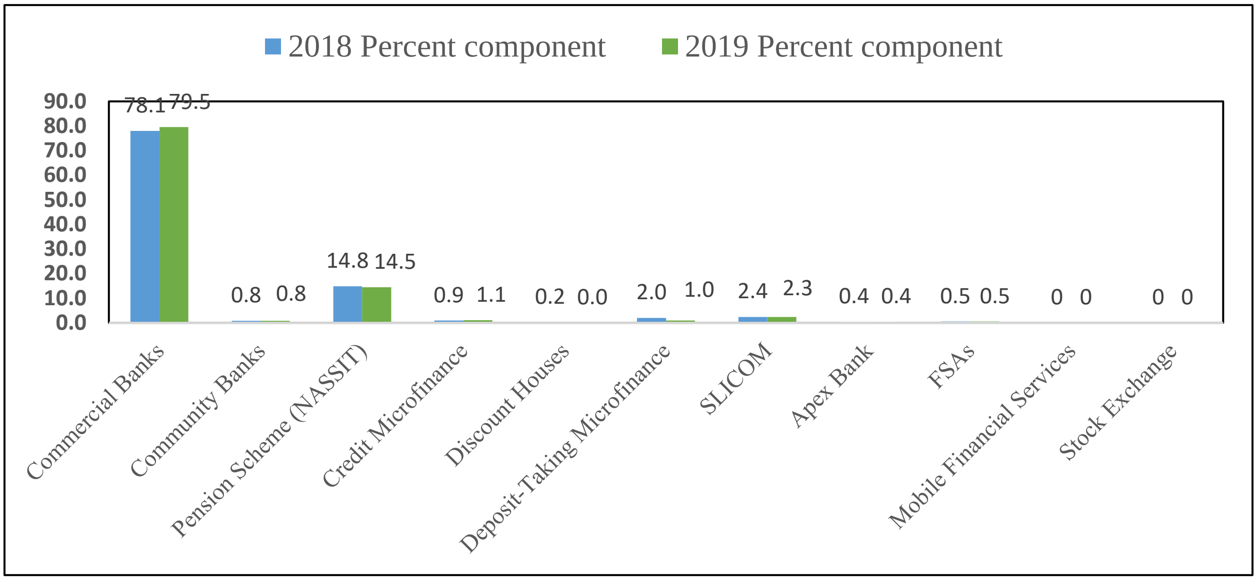
The financial system remains dominated by the banking sector which accounted for 79.5 per cent of the total financial system assets as at end December 2019. The pension fund ranked second with 14.5 per cent share followed by the Insurance sector and MFIs (COMFIs & DTMFIs which accounted for 2.3 and 2.1 per cent, respectively).

Table 2: Composition of Assets in the Financial System

Financial System	2018 (Le 'bn)	percentage share	2019 (Le 'bn)	percentage share	percentage growth
Commercial Banks	8,549.1	78.1	9,497	79.5	11.1
Community Banks	82.4	0.8	90.2	0.8	9.6
Pension Schemes	1,620.1	14.8	1,730	14.5	6.8
COMFIs	98.3	0.9	128.3	1.1	30.5
Discount Houses	17.9	0.2	0	0.0	0.0
DTMFIs	221.1	2.0	116.4	1.0	-47.3
SLICOM	261.9	2.4	275	2.3	5.0
Apex Bank	46.2	0.4	44.6	0.4	-3.4
FSAs	55.9	0.5	59.4	0.5	6.3
MFS	0.0	0.0	0.0	0.0	0.0
Stock Exchange	0.0	0.0	0.0	0.0	0.0
Total	**10,952.8**	**100.0**	**11,940.9**	**100.0**	**9.02**

Source: BSD/FSD, BSL

Figure 12: Composition of Assets in the Financial System, 2019



Source: BSD/FSD, BSL

5.3 Banking Sector Performance

The banking sector is composed of fourteen (14) Commercial Banks; two (2) state owned banks, two (2) domestic privately owned banks and ten (10) foreign owned subsidiaries mainly from Nigeria, all regulated under the Banking Act 2019.

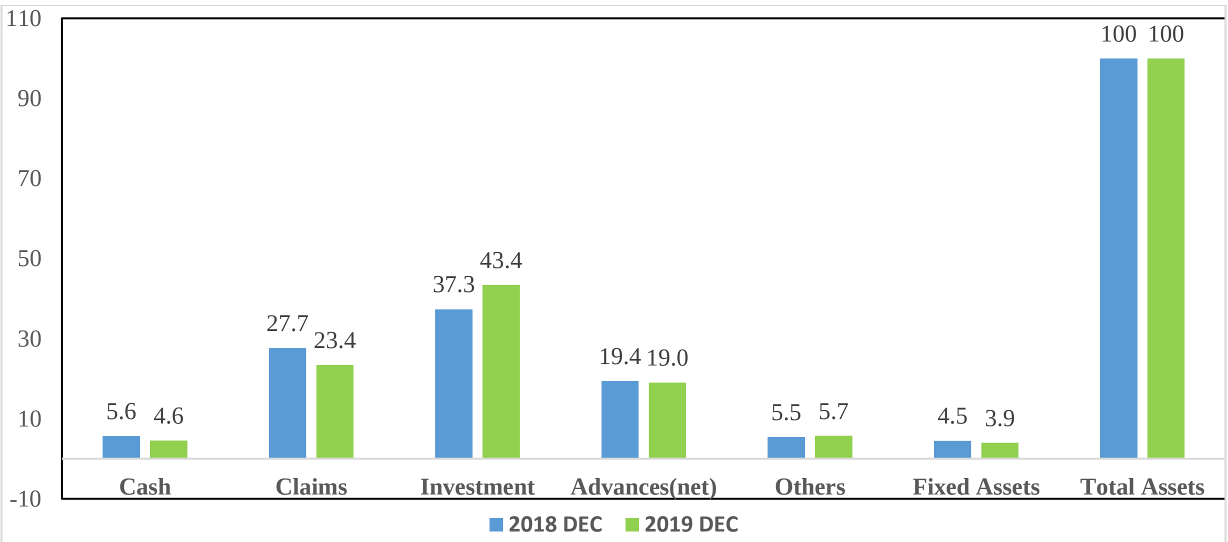
The banking sector's balance sheet grew by 11.1 per cent, to Le9.5trn in 2019 from Le8.5trn in 2018. The asset composition of the banking sector experienced minimal changes over the last year, with investments in government securities (Treasury Bills and Bearer Bonds) and loans accounting for 40.0 per cent (total investment 43.4 per cent) and 19 per cent of total banking sector assets, respectively, compared to 35.9 per cent (total investment 37.3 per cent) and 19.4 per cent in 2018. This reflects the preference over the years for higher holdings of government securities with a zero-risk weighting, which reduces the quantum of risky assets that improves banks capital base.

Table 3: Assets Composition in the Banking Sector 2018-2019

Banking sector	2018 (Lebn)	Percent Share	Percent change in 2018	2019 (Lebn)	Percent share	Percent change in 2019
Cash	482.1	5.6	18.0	432.6	4.6	-10.0.
Claims	2,363.9	27.7	5.0	2,220.8	23.4	-6.0
Investment	3,191.4	37.3	19.0	4,118.9	43.4	29.0
Advances (Net)	1,660.3	19.4	20.0	1,806.0	19	9.0
Others	466.5	5.5	29.0	544.8	5.7	17.0
Fixed Assets (Net)	384.9	4.5	15.0	373.8	3.9	-3.0
Total Assets	**8,549.1**	**100.0**	**15.0**	**9,497.0**	**100.0**	**11.0**

Source BSD/FSD, BSL

Figure 13: Assets Composition in the Banking Sector 2018-2019



Source: BSD/FSD, BSL

Selected FSIs show that the banking sector is stable, well capitalized, profitable and liquid. Capital adequacy ratio continued to improve, profitability as measured by return on equity (ROE) and return on assets (ROA) remained robust. At the end of 2019, the ROE reached 26.1 per cent, whereas ROA was 6.1 per cent. However, non-performing loans ratio (NPL) remains a challenge as it was recorded above the tolerable limit of 10 per cent.

Table 4: Financial Soundness Indicators, 2018 and 2019

Financial Soundness Indicators	Dec-18	Dec-19
Capital Adequacy Ratio		
Regulatory Capital Ratio 1/	38.4	41.7
Regulatory Capital Ratio 2/	29.6	33.9
Asset Quality		
Non-Performing Loans to Total Loans	12.7	16.6
Non-Performing Loans (Net of Provisions) to Regulatory Capital	9.9	7.2
Loan Loss Provisions to NPLs (Net of Accrued Interest)		
Earnings and Profitability		
Return on Assets	6.0	6.1
Return on Equity	28.6	26.1
Interest Spread 3		
Interest Margin to Gross Income	66.8	66.9
Liquidity		
Liquid Assets to Total Assets	69.2	68.4
Liquid Assets to Short term Liabilities	82.3	86.8
Foreign Currency Denominated Liabilities to Total Liabilities	30.8	27.9
Memorandum Items		
Number of Banks	14	14

Source: FSD, BSL

5.4 Capital Adequacy Ratio

The banking sector capital position continues to reflect high sustainability as all commercial banks met the capital adequacy requirements save one. The CARs of banks were boosted by capital injections and statutory reserves which outpaced the growth of risk weighted assets. The consolidated capital adequacy of the banking sector in 2019 reached 41.7 per cent, a 3.3 per cent higher than at the end of 2018. Minimum primary capital to total risk weighted assets for the sector was 33.9 per cent recording a surplus of 26.4 per cent above the prudential threshold of 7.5 per cent as at end December 2019.

The banking sector though recorded a negative retained earnings, registered a strong regulatory capital base as 81.3 per cent of its capital base is Tier 1 capital, largely resulting from high paid up capital and statutory reserves, an indication that banks will be resilient in absorbing shocks mainly within their activity. The retained earnings however improved by 18.3 per cent on a year-on-year basis from negative Le46.1bn in 2018 to negative Z Le37.7bn 2019. Seven (7) out of the fourteen (14) commercial banks recorded negative retained earnings for the reporting period while six (6) did in 2018. All commercial banks save one recorded regulatory minimum primary capital to total risk weighted assets above the prudential threshold of 7.5 per cent.

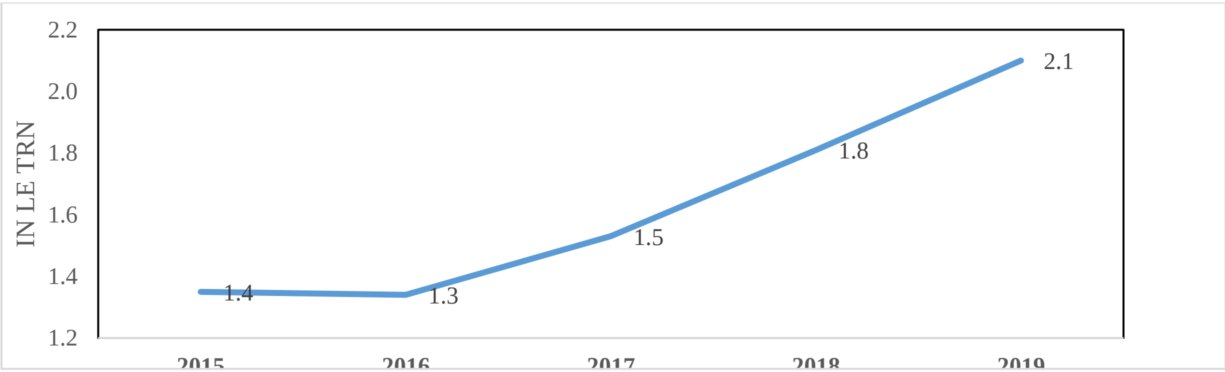
The increase in gross loans by 14.7 per cent to Le2.1trn in 2019 from Le1.8trn in 2018 led to increased system exposure to risk-weighted assets by 3.9 per cent. This however did not impact on the CAR, as the ratio also improved by 3.3 per cent. The latter came from the increase in both paid up capital and statutory reserves by 23.3 per cent and 12.8 per cent, respectively. The paid-up capital was increased due to the new regulatory directive which required all commercial banks to increase their minimum paid up capital from Le30bn to Le45bn in 2019.

5.5.1 Evolution of Credit Activity

The banking sector recorded an increase in gross loans by 14.7 per cent from 1.8 trillion in 2018 to 2.1 trillion in 2019. In the same vein, total deposits increased by 11.5 per cent to Le 6.8 trillion in 2019 from Le 6.1 trillion in 2018. Nevertheless, this trend in lending cannot be considered excessive as the loans to deposit ratio was 30.8 per cent, far below the prudential limit of 80 per cent. Lending though decreased by 5.3 per cent in the last quarter of 2019 but it improved on a year-on-year basis. However, the 14.7 per cent credit growth on a year-on-year basis did not have any impact on the balance sheet size as net loans to total balance sheet assets remained at 19 per cent.

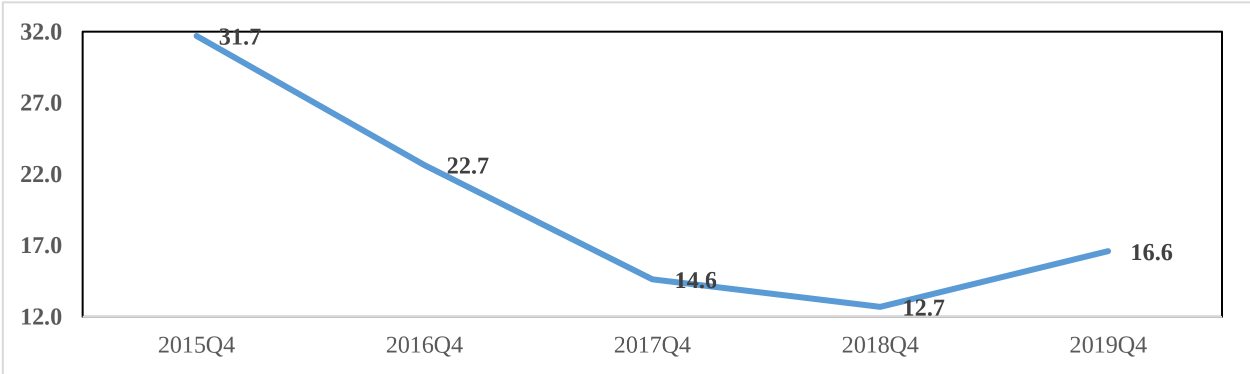
With regard to asset quality, the Non-Performing Loans (NPLs) ratio of commercial banks deteriorated in 2019, implying a rise in the proportion of bad loans to total loans. The NPLs ratio is a key financial stability indicator as it affects profits, solvency and liquidity of commercial banks. The NPL ratio deteriorated by 3.9 per cent to 16.6 per cent in 2019 compared to 12.7 per cent in 2018, mainly due to two banks recording significantly high NPL ratios following on–site examination exercises. On the positive side, nine banks including one state owned bank recorded NPLs ratio below the tolerable limits of 10 per cent amongst which two banks recorded zero per cent NPL ratio. Regulatory Directives to write offs loans categorized as 'loss' and including making full provisions from banks' balances within defined deadlines, were among the factors which influenced the reduction in NPLs for these banks.

Figure 14. Annual Growth of Loans



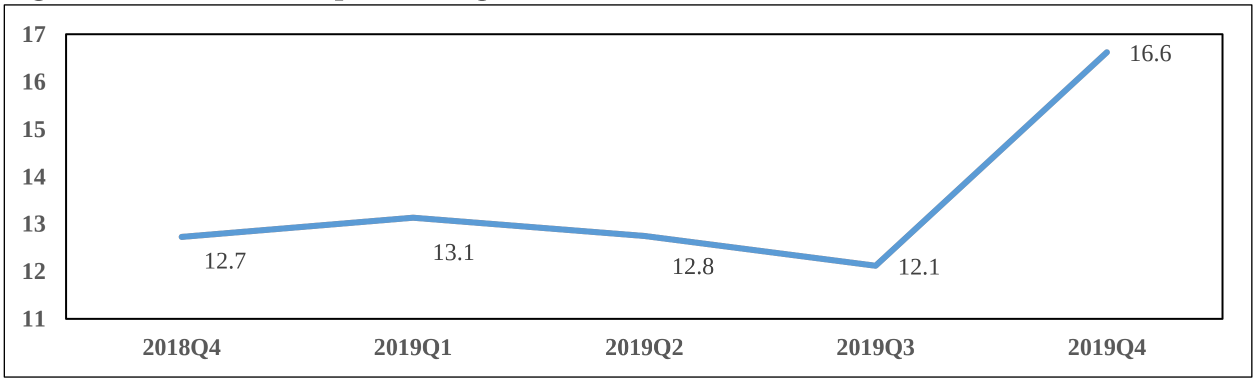
Source BSD/FSD, BSL

Figure 15. Annual Growth of Nonperforming Loans



Source BSD/FSD, BSL

Figure 16. Trend of Nonperforming Loans Ratio



Source: BSD/FSD, BSL

Loan loss provisioning improved over the review period reflective of the banks' ability to absorb losses that may occur. Banks' loan-loss coverage ratio increased from 48.7 per cent in December 2018 to 71.9 per cent in December 2019. In nominal value, banks' provisions increased from Le112.1bn in December 2018 to Le248.5bn in December 2019.The loan loss provision coverage ratio is an indicator of how well protected a bank is against future losses. A higher ratio therefore means that banks can withstand future losses better, including unexpected losses. One of the main reasons for the improvement in banks' position was as a result of the implementation of the IFRS9 effective January 2019 related provisions.

Box 3: Credit Reference Bureau (CRB)

On Credit Reference Bureau (Digital Identity Platform), KIVA, a Silicon Valley Company approached the Bank of Sierra Leone to help in automating the Credit Bureau as well as to provide a unique digital ID to solve the problem of identification. The digital identity verification platform will help financial institutions address the issue of customer identification for the mandatory Know Your Customer (KYC) and Customer Due Diligence (CDD). It would also serve as the unique identifier to provide access to Customers' credit report online after the completion of the project.

The project commenced in January 2019 with a feasibility study. The Project Implementation Team held several meetings with key stakeholders of the project including the National Civil Registration Authority (NCRA).

Kiva has since developed a digital identity verification platform, which is linked to the National Civil Registration Authority (NCRA) database.

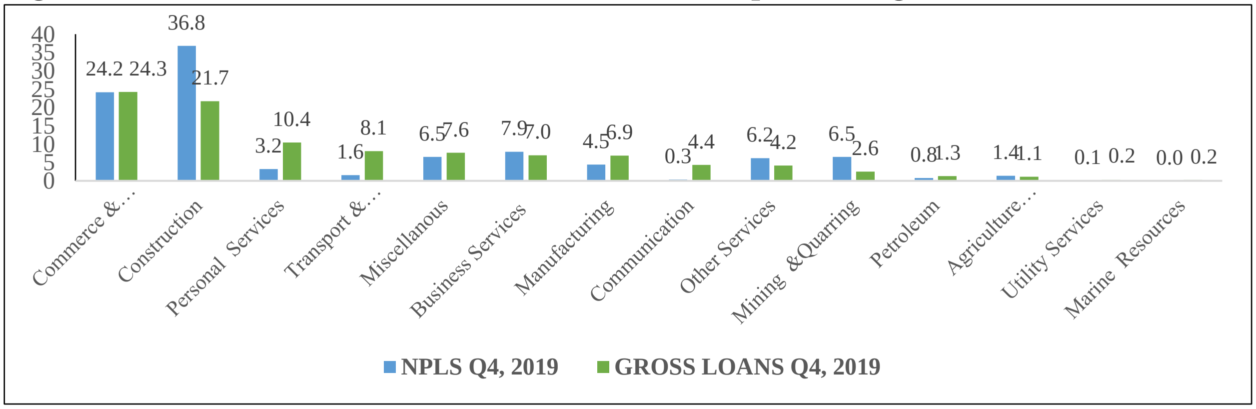
Source: BSD, BSL

5.5.2. Sectorial Allocation of Gross Loans

Systemic allocation of gross loans increased in 2019 relative to 2018 with commerce and finance, and construction leading the way. Banks' loan portfolio remains concentrated in the commerce and finance system which involved mostly importation, although this slightly reduced in December 2019 seconded by the construction sector. The share of commerce and finance loans in the total banking sector loans stood at 24.3 per cent. Loans to the construction sector stood at 21.7 per cent in December 2019, down from 30.0 per cent in December 2018, as it was observed that banks diversified their lending to transport and storage, personal services, and communication. The high systemic allocation of loans to commerce and finance system could be one of the major reasons for the Leone depreciation as most of the businesses in that sector are engaged in importation of goods and services, thus putting increasing pressure on the demand for foreign exchange. The high exposure to the commerce and finance sectors remains among the key risks facing the banking sector and by extension the financial system. With this structure, shocks to the foreign exchange market will adversely affect the general price levels that could affect the banking sector profitability. This will feed through to loss in the value of the Leone and banks may tend to switch to more appreciable forex thus engaging in big ticket deals to shore up their capital base.

On a positive note, the banking sector conscious of this risk has started to diversify its lending portfolios by increasing lending to other sectors of the economy. But, still the agriculture and forestry sector, which represents the most strategic system of the economy, was one of the least credited sectors with low credit allocation by banks with only 1.1 per cent of total credit. This has been the trend for the past three years with the sector recording 1.3 per cent and 1.3 per cent in 2018 and 2017, respectively.

Figure 17: Sectoral Allocation of Gross Loans and Nonperforming Loans in 2019



Source BSD/FSD, BSL

Credit growth significantly improved in communication and personal services sectors with each registering over a 100 per cent growth. Growth in the sectors were 196.2 per cent and 109.5 per cent, respectively. Other Services, Transport and Storage, Construction and Miscellaneous recorded 57.2 per cent, 42.9 per cent, 14.8 per cent and 13.6 per cent growth, respectively. The rest recorded less than 10 per cent growth in credit. However, Utility Services, Petroleum, Business Services all registered a decline in credit growth recording a fall of 51.9, 28.6 and 12.4 per cent, respectively. Commerce and Finance, Mining and Quarrying also recorded a decline in credit.

Sectorial allocation of NPLs increased and further indicated that construction, commerce and finance were the major drivers. Similarly, as with the sectorial loan allocation, the construction commerce and finance sectors continue to have the highest ratio of NPL, accounting for 61 per cent of total NPLs at end December 2019. The next highest sector is represented by business services with an NPL ratio of 7.9 per cent, then miscellaneous, mining and quarrying accounted for 6.5 per cent each. The rest of the other sectors accounted for only 18.1 per cent of the total NPLs in the banking sector**.**

Large Credit Exposures Stemmed by Regulatory and Supervisory Measures put in Place. The total 50 large credit exposure rate increased to 92.3 per cent in 2019 compared to 85.7 per cent in 2018, whilst the single largest borrower declined to 14.4 per cent in 2019 from 26.1 per cent in 2018. The decline over the year in the value of single borrower could be associated with regulatory increases in the minimum paid up capital from Le30bn in 2018 to Le45bn in 2019.

The level of the 50 largest borrowers of the banking sector has a higher sensitivity to the analysis of sustainability against possible shocks to large credit exposures. The outcomes of the failure scenario of ten and twenty largest borrowers in each bank and the industry by 20 per cent and 40 per cent shows that the system would be able to remain above the cap of the regulatory capital requirement except for one bank.

Box 4: Collateral Registry

With respect to Collateral Registry, a new Borrowers and Lenders Act, 2019 was enacted in June 2019. The new Act broadens the scope of the Registry to include the registration of immovable assets, in addition to the movable assets (as a one stop shop). The Act also enables individuals and non-incorporated entities not licensed and supervised by the BSL to be able to register their security interests.

Following the enactment of the new Borrowers and Lenders Act, 2019, the BSL has been engaging the Doing Business Secretariat and the World Bank Team for the implementation of Phase II of the Collateral Registry Project. The Phase II includes drafting and enactment of a new Borrowers and Lenders Regulation and the configuration of the Collateral Registry system in line with the new Borrowers and Lenders Act. The World Bank Group under the Sierra Leone Economic Diversification Project is in the process of recruiting an international legal expert in secured transactions (Consultant Registry) in line with International Best Practices and Support the Provisions of the Borrowers and Lenders Act, 2019.

As part of its enforcement mechanism, the BSL issued circulars to all licensed commercial banks, MFIs and community banks directing them to conduct regular searches on the collateral registry platform as part of their credit assessment and risk management processes. Furthermore, the BSL has requested financial institutions to submit monthly returns on all secured transactions. Additionally, the BSL has revised downwards the various fees charged for the use of the Sierra Leone Collateral Registry System as the objective of the Collateral Registry is to enable Micro, Small and Medium Enterprises have access to credit facilities.

Source: BSL

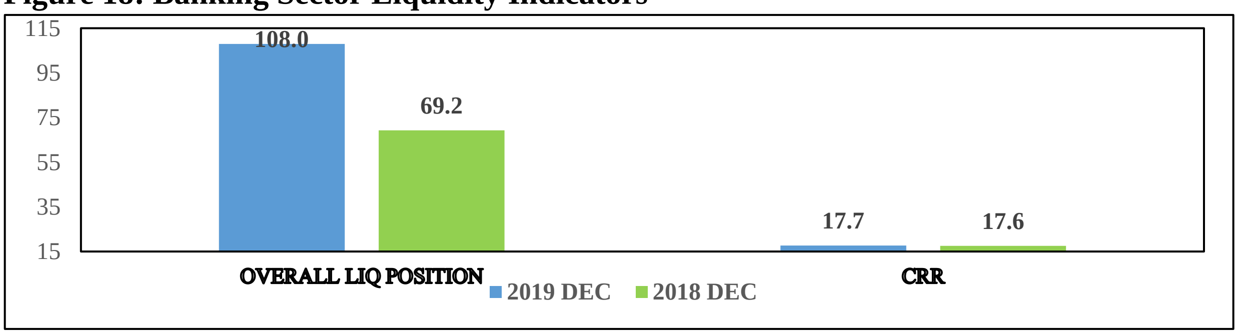
5.6 Liquidity Indicators

The banking sector remained sufficiently liquid. The Liquidity Coverage Ratio (LCR) which indicates the proportion of commercial banks' total liquid assets to their short-term obligations stood at 108 per cent as at end December 2019, against the minimum prudential requirement of 29.7 per cent.

Similarly, the cash reserve ratio (CRR) which indicates the proportion of commercial banks' total cash and balances with the central bank to total local deposits stood at 17.7 per cent as at end December 2019, against the minimum prudential requirement of 12 per cent. Consequently, liquid assets remained at healthy levels with the ratio of liquid assets to total assets recorded at 46.2 per cent and 48.5 per cent at end December 2019 and 2018, respectively.

Banks continued to rely on stable sources of funds in the form of customer deposits. Deposits were mainly from residents, and accounted for 96.0 per cent of total deposits in 2019. Global experience indicates that resident deposits constitute stable funds compared to nonresident deposits that are highly sensitive to market conditions .As at December 2019, interbank and foreign financing represented other sources of financing for banks, at 2.4 per cent of total assets and 14.9 per cent of total assets, respectively. Banks used the interbank funds mainly for short-term liquidity management, rather than for investment purposes.

Figure 18: Banking Sector Liquidity Indicators



Source BSD/FSD, BSL

Box 5: Deposit Protection Fund

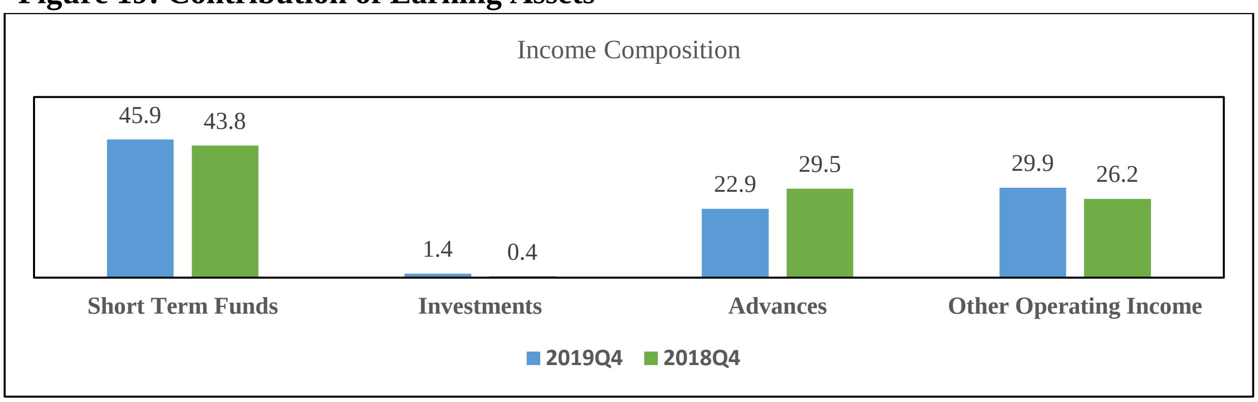
The BSL has set up a Project Implementation Team to facilitate the development of the Sierra Leone Deposit Protection Scheme (SLDPS), following the Board's approval in May 2018. The BSL has also put in place a Steering Committee, which supervises the Project Implementation Team.
A US Treasury Department consultant is assisting BSL in establishing the Deposit Protection Scheme. Important milestones have been achieved so far. A series of presentations on the International Association of Deposit Insurers (IADI) Core Principles were made to various stakeholders, including BSL Board and Management, commercial banks and MFIs. Also, a draft Depositor Protection Bill, has been reviewed by stakeholders. The draft has since been forwarded to the Ministry of Finance together with an explanatory note to facilitate onward transmission to the Law Officers Department (LOD) and Parliament. Finally, a model to determine the size of the Deposit Protection fund and the level of coverage for the depositors has also been developed.

Source: BSD, BSL

5.7 Earnings

The main earning assets for banks were investments in government securities and loans and advances. Analysis revealed that income from these two activities accounted for 68.7 per cent of total income composition as at end December 2019 with investment in government securities accounting for the highest proportion (45.9 per cent). Commercial banks continued to increase their share of holdings of government securities as opposed to lending to the private sector (crowding out effect). The asset structure of commercial banks demonstrated that investment in government securities continued to be the banks' main business model, which in itself was one of the major risks facing the banking sector and the financial system at large. Advances on the other hand contributed 22.9 per cent, while other operating income contributed 29.9 per cent over the review period.

Figure 19: Contribution of Earning Assets



Source BSD/FSD, BSL

5.8 Profitability

The banking sector profit picked-up as income expanded more, in absolute terms, than expenses. The profit after tax grew by 12.7 per cent from Le338.6bn earned in December 2018 to Le381.8bn in 2019, which could be attributed to the growth in net interest income by 14.4 per cent to Le927. 4bn in 2019 compared to Le810.6bn in 2018.

Total operating expenses increased by 14.8 per cent to Le800bn in 2019 from Le696.6bn in 2018, mainly driven by 15.7 per cent in depreciation, 12.8 per cent increase in staff cost and 11.7 per cent increase in administrative expenses in 2019.

The increase in profits of the banking sector though not significantly high supported its stability by increasing the capital base, through reduction in its negative retained earnings balance. Profits of banks were also weighed-up by an improvement in non-interest income which rose by 15.3 per cent to Le459.6bn in 2019 from Le398.8bn in 2018, largely due to revenue from commission and fees (non-interest income), which accounted for 28.9 per cent of banks' total income as at end December 2019. A breakdown of non-interest income of banks, indicated that during the period under review, commission and fees accounted for 61.5 per cent of the total non-interest income and 18.4 per cent of the total income, while foreign exchange income accounted for 28.9 per cent of the total non-interest income and 8.63 per cent of the total income5.9 Dynamics of Risk Assessment

The banking sector is still over reliant on short term funds that constrain them to finance long-term investments with minimal risk. Deposits represent around 71.2 per cent of total liabilities of the banking sector as of December 2019. Around 64.3 per cent of total banks' deposits were demand deposits - funds that can be withdrawn without given advance notice or without notice. Although maturity transformation is part of the normal business of banks, excessive maturity transformation could be a risk to the banking sector. Additionally, for risk averse banks, short-term resources could limit their ability to underwrite long-term feasible projects with higher returns.

Concentration of loans and advances to the 50 largest borrowers was another key risk facing the banking sector in Sierra Leone. As at end December 2019, the total outstanding gross loans and advances to this group stood at Le1.9trn, accounting for 76.4 per cent of the industry's gross loans and advances of Le2.5trn (including off balance sheet exposures of Le434.3bn) and 142.6 per cent of the industry's capital base. Additionally, banks seem to compete for the same borrowers in the 50 largest categories. This indicated that the banking loan portfolio was highly concentrated and as a result the returns on the underlying assets could be correlated, implying that a shock to any of these customers in this group would pose significant distress on the banking sector and the financial system at large since the system is a dominant player in the Sierra Leone economy.

Conscious of this risk, the Banking Act 2019 and other prudential regulations on credit concentration requires that maximum limit of banks total exposure to a single counterparty or to a group of connected counterparties should not exceed 25 per cent of its net owned funds. As at end December 2019, all banks save two complied with the single obligor limit and the industry's limit stood at 14.4 per cent.

Despite this prudential measure established by the BSL, there is still need for the sector to diversify their clientele by designing products, services and channels that suit their conditions. Competition of a few corporate clients in the 50 largest borrowers group, limits growth of the banking sector, and also opens them to potential risks.

The banking sector though recorded a 10 per cent growth, financial intermediation did not deepening as measured by the industry's gross loans to total deposits, i.e. loan to-deposit ratio (LTD), which is just about 30.8 per cent and 29.7 per cent for end 2019 and 2018, respectively. Despite the marginal increase of 1 per cent, the LTD ratio is still far below the prudential limit of 80 per cent. This indicated a very little financial intermediation which could constraint economic growth.

Another area of potential risk was deposit concentration in the industry as the 20 largest depositors accounted for 31 per cent of the total industry's deposits amongst which individual banks recorded as high as 82 per cent. Eight out of the fourteen commercial banks recorded above 40 per cent of their 20 largest depositors to total deposit liabilities. A surge in withdrawals by any of these depositors has a potential of creating a liquidity shock both on a solo and system basis.

Further diversification of the banking sector loan portfolio and deposits is important for safety and stability of the system and the system at large.

CHAPTER SIX

6.0 NON-BANKS FINANCIAL INSTITUTIONS

6.1 Non-Bank Financial Institutions (MFIs, CBs, FSAs & MMPs)

6.1.1 Other Financial Institutions

The landscape of other financial institutions remains relatively unchanged between 2018 and 2019. Deposit-Taking Microfinance Institutions (DTMFIs), Community Banks (CBs), Financial Services Associations (FSA) and Mobile Money Providers (MMPs) remained the same at four (4), seventeen (17), fifty-nine (59) and two (2) respectively in 2019. Credit-Only Microfinance Institutions (COMFIs) increased to 28 in 2019 from 25 in 2018. While the ownership structure (foreign vs domestic) and concentration ratio remained almost the same as in 2018, the number of branches increased for both the DTMFIs and the COMFIs to 43 in 2019 from 40 in 2018, and to 113 in 2019 from 110 in 2018 respectively.

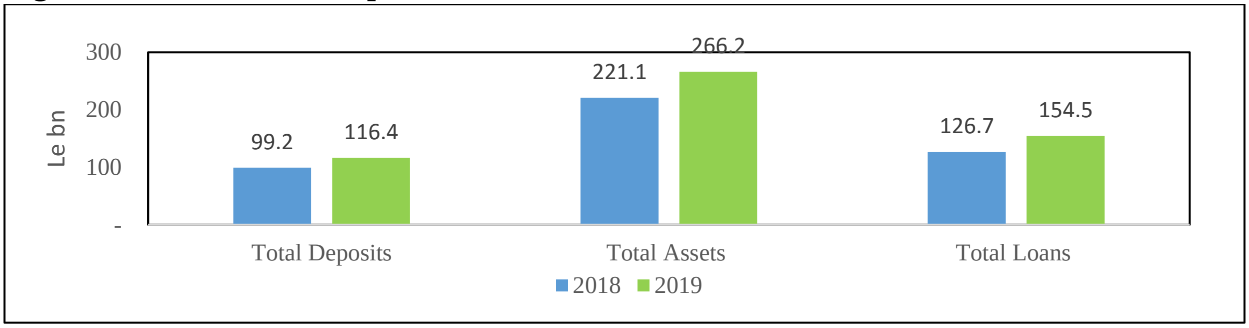
Regarding the number of employees in 2019, an increase is observed with DTMFIs, COMFIs and FSAs, while a slight decrease was observed with Community Banks and Mobile Money Providers.

6.1.1.2 DTMFIs

6.1.1.3 Activity of DTMFIs:

There was a significant increase of 20.4 per cent in the resource base of the DTMFIs from Le221.1bn in 2018 to Le266.2 bn in 2019. The equity of the DTMFIs increased by 41 per cent a major contribution to the increase in the resource base from Le43.3 bn in December 2018. The DTMFIs' gross loans and total deposits were Le154.5 bn and Le116.4 bn respectively, while investment in government securities was Le33.5 bn as at December 2019.

Figure 20: Evolution in Deposits and Assets



Source: OFISD, BSL

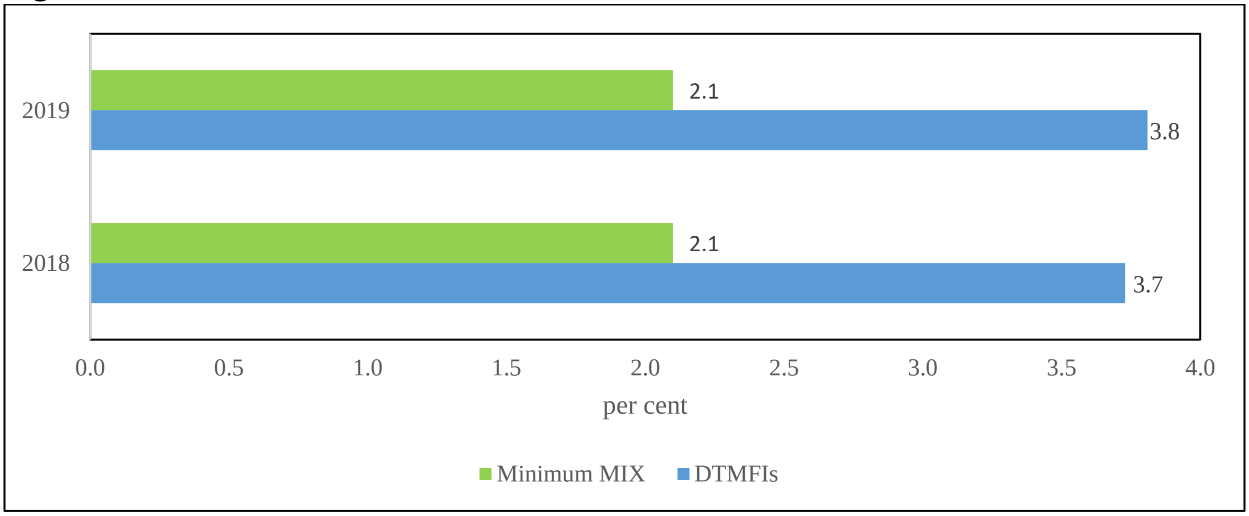
The increase in both the deposits and loans of the DTMFIs in 2019 was driven by increase in number of depositors and equity, when compared to 2018. However, there was no change in the cost of financial intermediation by DTMFIs in 2019, as the spread remained very high.

6.1.1.4 Performance of DTMFIs:

Operational Self Sufficiency (OSS). The DTMFIs have been successful in generating revenues to cover their operating costs. Except for one, all DTMFIs met the MIX requirement of 112 per cent.

Return on Assets (ROA). Overall, the DTMFIs' ROA increased to 3.8 per cent in 2019 from 3.7per cent recorded in 2018, indicating increasing efficiency in the use of assets in generating income. However, two out of four DTMFIs did not meet the minimum MIX requirement of 2.1 per cent.

Figure 21: ROA of DTMFIs

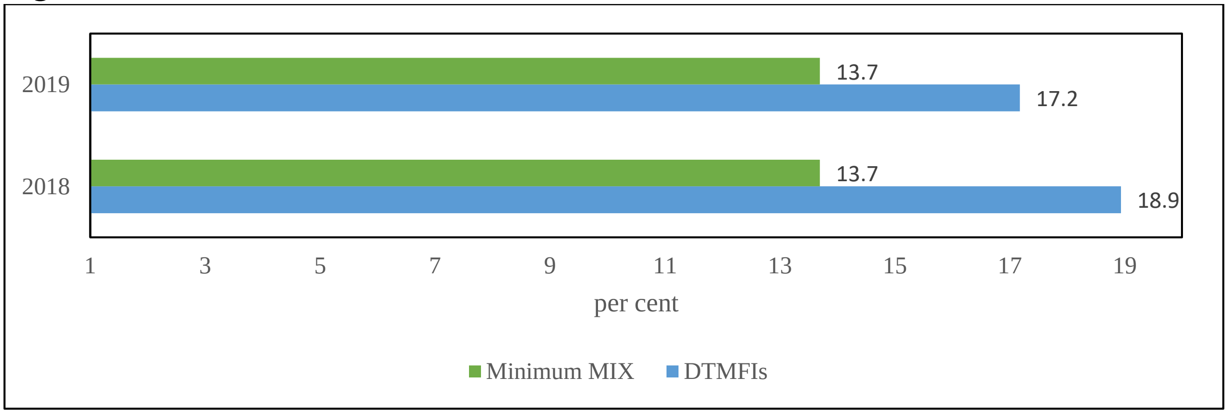


Source: OFISD, BSL

DTMFIs portfolio to assets stood at 58.0 per cent, slightly higher when compared to 2018 which was 57.3 per cent.

Portfolio at Risk (PaR) ≥ 30 days. Overall, in 2019, the DTMFIs' portfolio at risk ratio stood at 6.7 per cent, which is above the required MIX standard of 4.8 per cent. Two DTMFIs failed to meet this MIX standard implying the need for substantial improvement in credit management and loan recovery strategy.

Figure 22: ROE of DTMFIs



SSource: FISD, BSL

6.1.2 COMFIs

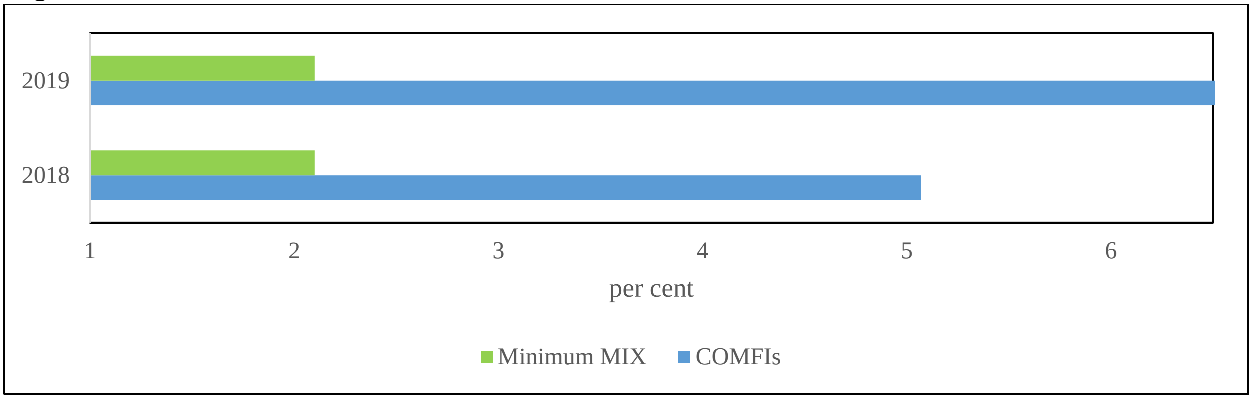
6.1.2.1 Activity of COMFIs

The resource base of the COMFIs in 2019 increased to Le148.8bn from Le98.3 bn in 2018. As one of the key drivers of the increase in the resource base, equity rose by 37.4 per cent to Le71.5 bn from Le52.0 bn in 2018. This increase was as a result of huge increases reported in the current year profit by 127.9 per cent to Le16.5 bn from Le7.3 bn in 2018. The increase in the resource base was due to expansion in operations as the number of borrowers increased significantly by 47.8 per cent compared to 2018. Consequently, gross loans rose by 53.1 per cent to Le128.3 bn in 2019 from Le83.8 bn in 2018. However, the interest rate on loans remained very high.

6.1.2.2 Performance of COMFIs

Operational Self Sufficiency. Five out of thirteen COMFIs met minimum MIX requirement of 112 per cent. *Return on Assets (ROA)*. Five out of thirteen COMFIs met the minimum MIX benchmark of 2.1 per cent. The yearly consolidated ROA increased to 6.5 per cent in 2019 from 4.7per cent in 2018.

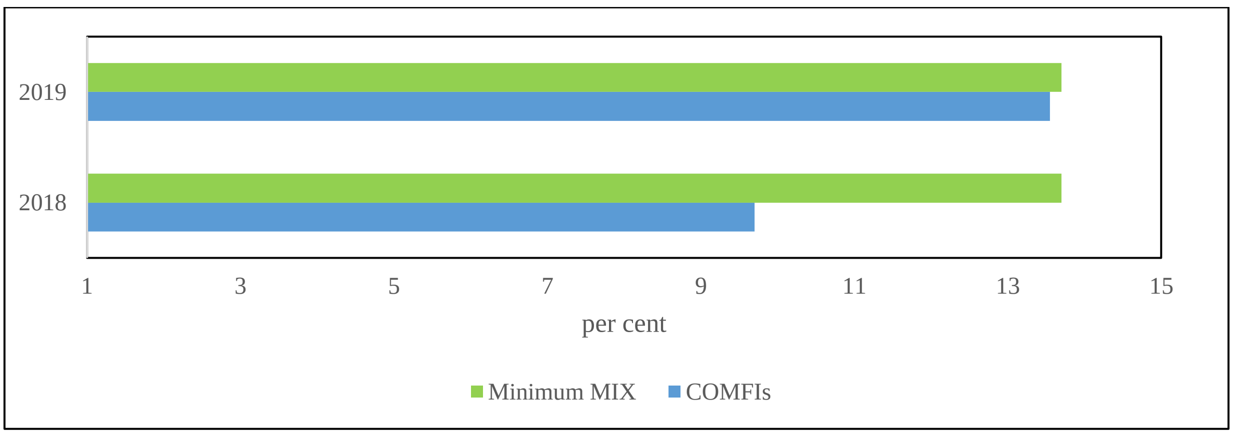
Figure 23: ROA of COMFIs



OFISource: OFISD, BSL

Return on Equity (ROE). Four out of thirteen COMFIs met the minimum MIX requirement of 13.7 per cent. Consolidated ROE for 2019 increased to 13.5 per cent from 9.0 per cent in 2018, which indicated an increase in the yearly yield on shareholders' equity. However, it was below the MIX requirement of 13.7 per cent.

Figure 24: ROE of COMFIs



Source: OFISD, BSL

Average Outstanding Loan. The industry average outstanding loan size was satisfactory as it recorded Le0.9 mn in 2019. However, one out of thirteen recorded a high outstanding loan of Le 10.1 mn indicating inefficient loan administration and management.

Yield on Gross Loans. Consolidated yield on gross loans was satisfactory and accounted for 26.4 per cent in 2019 as against 24.9 per cent in 2018.

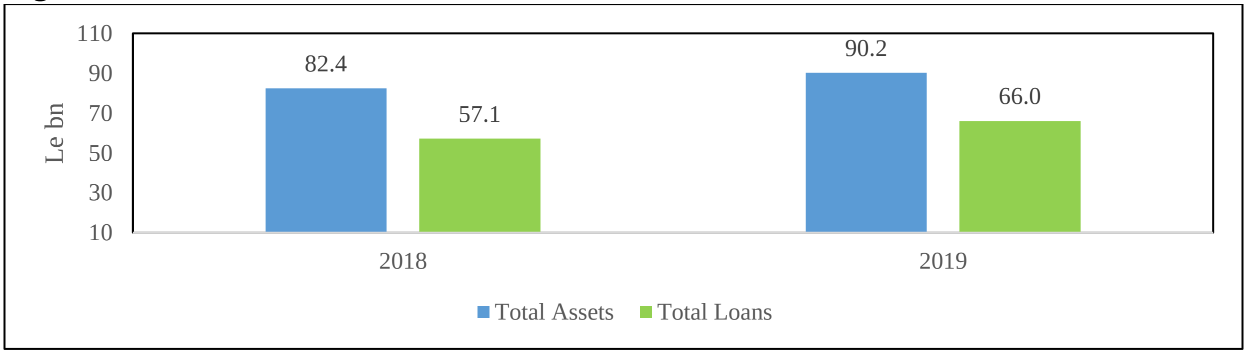
Portfolio at Risk ≥ 30 days. Consolidated Portfolio at Risk (PaR) for all thirteen COMFIs covered in this report was 3.7 per cent in 2019 and met the MIX requirement of 4.8 per cent. Individually, five out of thirteen COMFIs covered in this report met the MIX requirement.

6.1.3 Community Banks (CBs)

6.1.3.1 Activity of CBs

The CBs recorded a resource base of Le90.2 bn in 2019, compared to Le82.4 bn recorded in 2018. Three CBs had the largest proportion of the resource base of 37.2 per cent in 2019. The increase in the resource base was attributed to deposit mobilization which increased by 0.4 per cent to Le 42.9 bn in 2019 from Le42.8bn recorded in 2018. Also, the total equity of the community banking sector showed further improvements mainly as a result of an increase of 32.8 per cent in paid up capital recording Le7.8 bn in 2019 as against Le5.9 bn in 2018.

Figure 25: Total Assets and Loans of CBs



Source: OFISD, BSL

The increase of Le8.9 bn in the total loans disbursed was substantiated by the significant increase in its number of clients by 360 per cent. Yet, interest rate on loans remain unchanged and high.

6.1.3.2 Performance of CBs

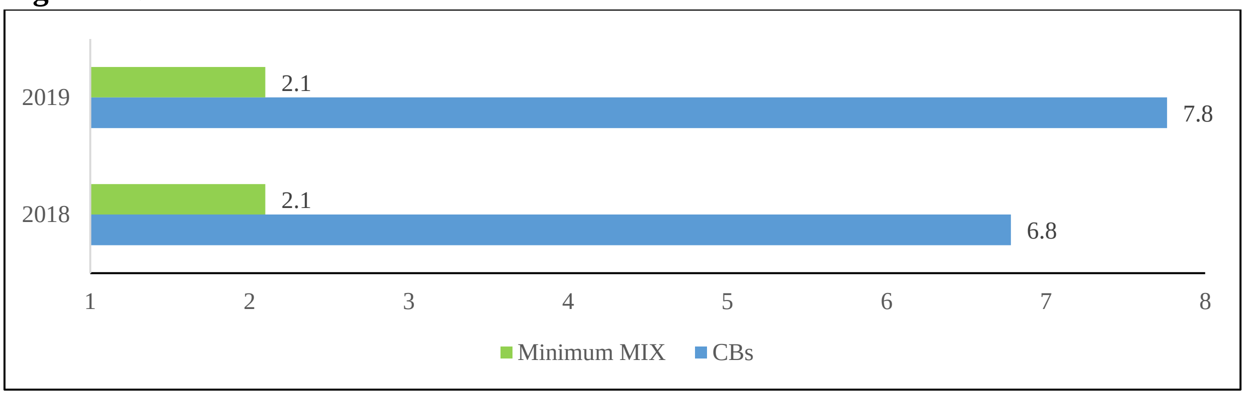
Profitability. The consolidated pre-tax profit as at end 2019 stood at Le7.0 bn. All CBs made profit in 2019, except for one that recorded a loss of Le0.1 bn. Year-on-year analysis showed an increase in operating performance of Le1.4 bn (25.5 per cent) from Le5.6 bn in 2018. The profitability of

CBs increased partly due to increase in interest income and income from other financial services during the period. However, operating expenses also increased by 26.4 per cent recording Le11.7bn as at 2019.

Operational Self Sufficiency (OSS). Six (6) out of seventeen (17) community banks covered in this report met the MIX standard of 112 per cent.

Return on Assets (ROA). The ROA ratio was 7.8 per cent in 2019, a slight increase compared to its level in 2018 (6.8 per cent) and above the MIX minimum of 2.1 per cent. Overall, the community banking sector satisfactorily maximized the utilization of its assets in revenue generation over the one-year period.

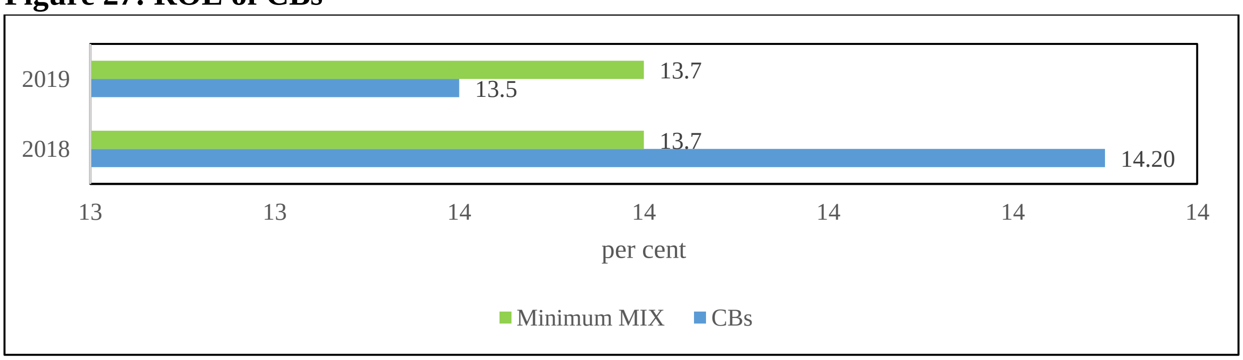
Figure 26: ROA of CBs



OSSource: OFISD, BSL

Return on Equity (ROE). Five out of seventeen CBs met the MIX standard of 13.6 per cent, indicating an efficient utilization of shareholders equity, and some community banks may not be able to pay dividend to shareholders.

Figure 27: ROE of CBs



OFISource: OFISD, BSL

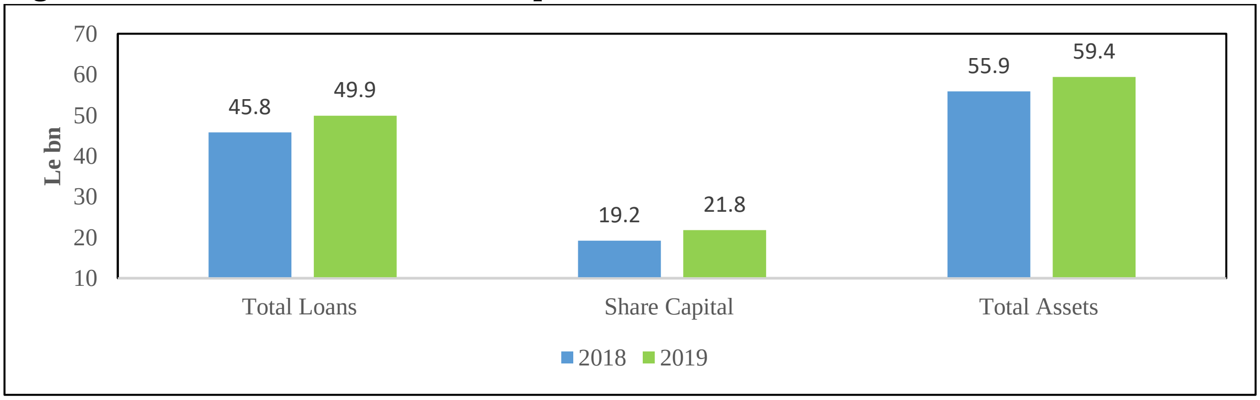
PaR≥30 days. All CBs except one recorded PaR≥30 days far above the tolerable limit of 4.8 per cent, implying that the loan portfolio of these CBs is at a higher risk and there is a high potential for future losses.

6.1.4 Financial Services Associations (FSAs)

6.1.4.1 Activity of FSAs.

The resource base of FSAs, in 2019, increased by Le3.6 bn to Le59.4 bn from Le55.9 bn in 2018. The increase in the resource base was driven by an increase in share capital by Le2.6 bn to Le21.8 bn from Le19.2 bn in 2018. This increase was also due to increase in loan portfolio which rose to Le49.9 bn from Le45.8 bn (up to Le4.1 bn). Interest rate on loans also increased to 30 per cent in 2019 from 27 per cent in 2018. Total number of clients of the FSAs increased by 0.03 per cent in December 2019.

Figure 28: Assets, Loans and Share Capital



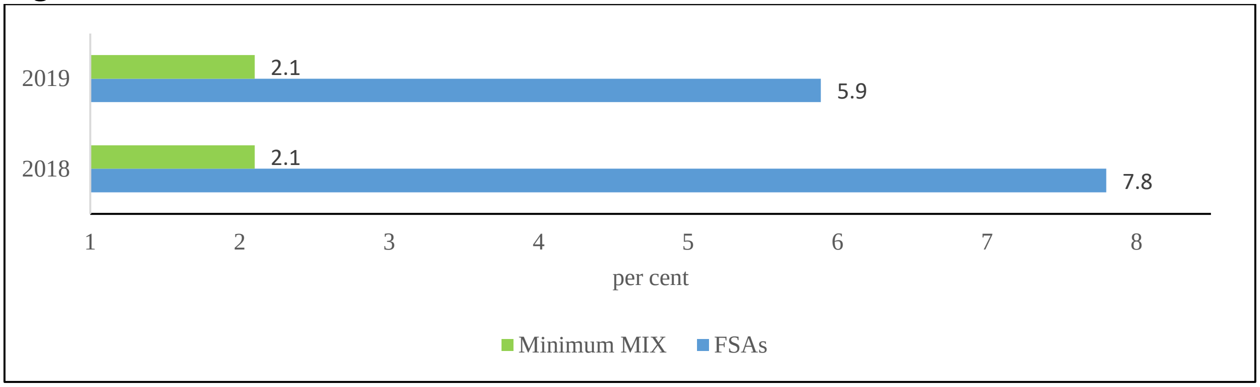
Source: OFISD, BSL

6.1.4.2 Performance of FSAs

The interest income of FSAs as at 2019 decreased by 4.1 per cent to Le10.4 bn from Le10.9 bn in 2018. The decline was mainly due to decreases in loan recovery. Interest expense decreased by 9.2 per cent to Le0.2 bn in 2019 from Le0.2 bn in 2018. On the other hand, personnel and administrative expense rose by 8.1 per cent to Le7.2 bn in 2019 from Le6.6 bn in 2018.

Return on Assets (ROA). The Consolidated ratio of the ROA for FSAs in 2019 was 5. 9 per cent, a decrease of 1.9 per cent from 7.8 per cent in 2018, showing a reduction in yield from the use of assets. However, it met the MIX standard of a minimum of 2.1 per cent.

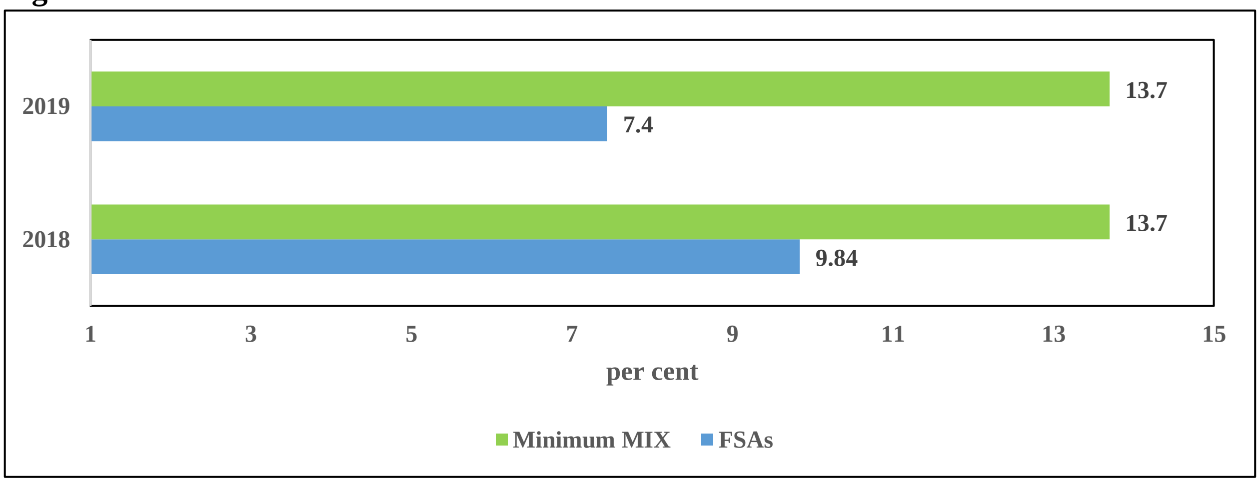
Figure 29: ROA of FSAs



OSource: OFISD, BSL

Return on Equity (ROE). The consolidated ratio of the RoE decreased by 2.4 per cent to 7.4 per cent in 2019, from 9.8 per cent in 2018 and was below the minimum MIX requirement of 13.7 per cent, thus indicating unsatisfactory returns on shareholders' equity.

Figure 30: ROE of FSAs



Source: OFISD, BSL

Non-Performing Loan (NPL). The FSAs did not meet the MIX standard of 4.8 per cent in 2019 recording 9.8 per cent from 7.2 per cent in 2018 indicating a need for improvement in credit management and administration

6.1.5 Mobile Money Providers (MMPs)

6.1.5.1 Activity of MMPs

There are two licensed mobile money financial service providers in the country- Orange Money and Africell Money. Significant increases were recorded in the activity of the Mobile Money

Providers as number of agents, accounts, transactions, and value of transactions all increased over the year.

Table 5: Activity of MMP

Activity of Mobile Money Providers		
Activity	**2018**	**2019**
Number of Agents	10,378	18,266
Number of Accounts	5,305,336	5,944,912
Number of Active Accounts	597,505	1,256,118
Number of Transactions	29,765,563	42,704,985
Value of Transactions (Le trn)	4.7	5.5

Source: OFISD, BSL

6.2 Pension Scheme (NASSIT)

6.2.1. Activity of the NASSIT

The National Social Security and Insurance Trust (NASSIT) operates a long-term defined-benefit social insurance scheme that covers 237,954 workers as at December 2019. The Trust recorded significant achievements in key operational areas in 2019. These areas include membership registration, contribution collection, benefit payments, investment performance and general administration of the scheme.

A total of 2,208 new establishments were registered in 2019, representing a 6.9 per cent increase over the 2,756 in 2018. The total number of registered establishments increase by 15.0 per cent from 14,754 in 2018 to 16,962 as at end December 2019.

Active membership of the scheme grew by 8.7 per cent in 2019 from its 2018 figure of 218,824 to 237,954 as at end December 2019. About 19,130 new members were registered in 2019 compared to the 9,643 registered in 2018.

The NASSIT Pensions Payroll increased by 4.4 per cent in 2019 for both Retirement and Survivors benefits. As at December 2019, the pension's payroll stands at 26,291 with over 47 per cent of the pensioners receiving above the national minimum wage. Benefit payments grew by an estimated

79.0 per cent in 2019 for the various categories of benefits. Also, the Social Security Court was launched on the 9th December 2019 to enforce social security compliance, which has been a challenge for the scheme over the years.

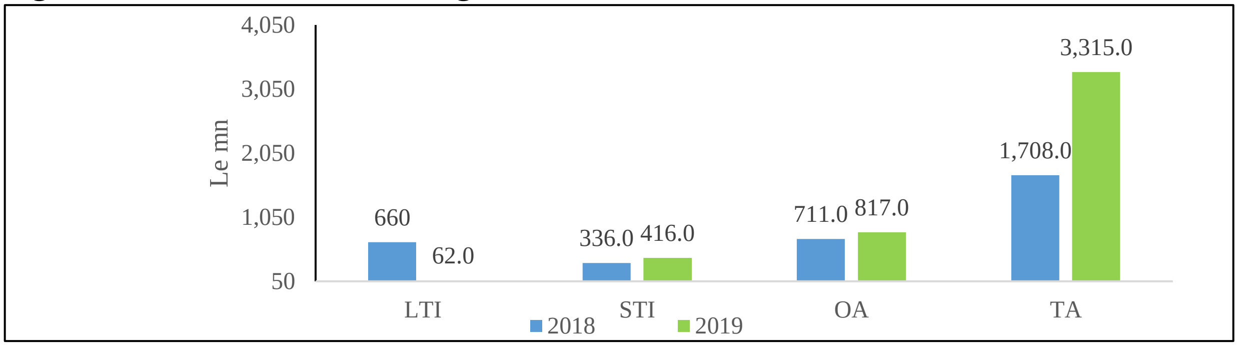
The internal actuarial assessment of the scheme conducted for the period ending 2019 suggests that the scheme is actuarially sound and that the current contribution rate is sufficient over the equilibrium period of 20 years, based on the accumulation of a reserve of 3 times annual expenditures of the previous year.

The NASSIT accounts for 14.3 per cent of the assets of the financial system making a growth of 6.8 per cent between 2018 and 2019. The NASSIT remain the second largest contributor to the financial system deepening, after the banking sector, and it promotes the accumulation of savings from the members for long term investments, mostly in the financial system, and stimulate the capital markets development.

As at December 2019, the NASSIT (both public and private) assets remain a key long-term sources funds to the financial system, mainly banking sector. In the same period, 16.4 per cent of the Trusts' Liquidity Matching Assets Profile (LMAP) were instruments with commercial banks and 23.3 per cent with government, whilst 60.3 per cent was long term asset profile (LTAP) investment portfolio (Figure 33).

Consequently, the penetration rate of pension system (the size of assets over GDP), that gives the indication wealth accumulated by the system remained low and at 6.8 per cent in December 2019.

Figure 31: Asset Growth, Coverage and Penetration Rate



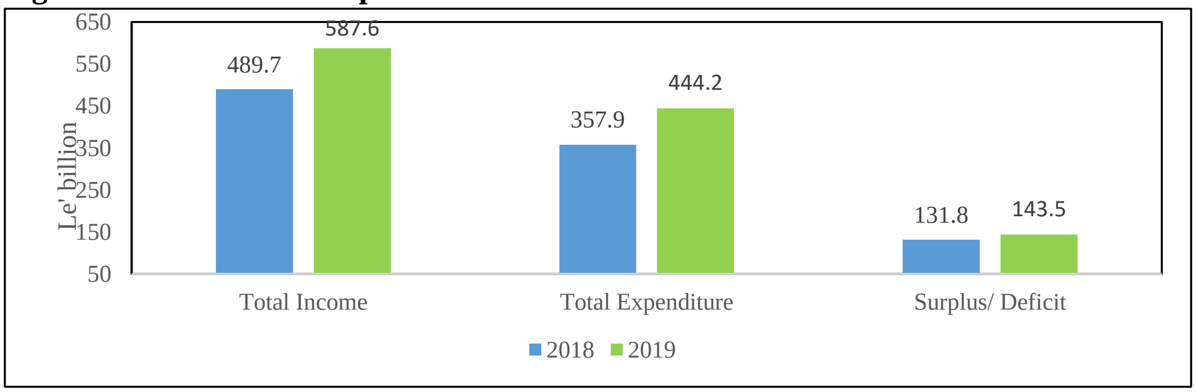
Source: NASSIT, SL

6.2.1.1 Profitability of NASSIT

Total income generated by the NASSIT in 2019 was Le587.6 bn compared to the 2018 figure of Le489.7 bn. About 82.5 per cent of the 2019 income came from contribution income and 13.6 per cent from investment income.

Total expenses for 2019 was Le444.2 bn compared to the 2018 figure of Le357.9 bn (Figure 32). About 63.5 per cent of the 2019 expenditure was payment of benefits and the rest was on general administration, including salaries.

Figure 32: Income and Expenditure of NASSIT

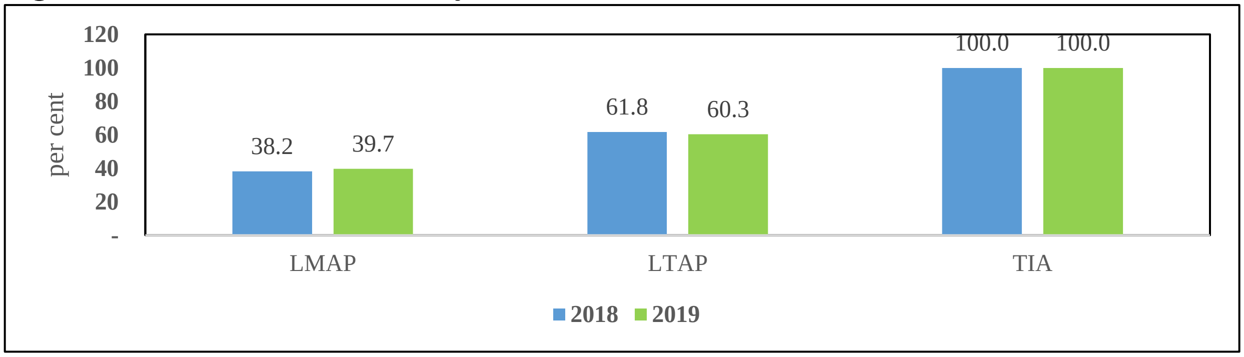


Source: NASSIT, SL

6.2.2 NASSIT Investment Portfolio

The investment portfolio of NASSIT has a composition of liquidity matching Asset profile (LMAP) and long term Assets profile (LTAP). The LTAP accounted for 60.3 per cent of the NASSIT's Investment portfolio in 2019 which is lower than that of 61.8 per cent recorded in 2018. The LMAP recorded an income to 39.7 per cent in 2019 from 38.2 per cent in 2018 (Figure 33) with an indication that the NASSIT had more instruments with government in the form of investment than those with commercial banks. The majority of investment held with government is accounted for by government arrears that were converted to serial bonds.

Figure 33: NASSIT Investment by Asset



Source: NASSIT, SL

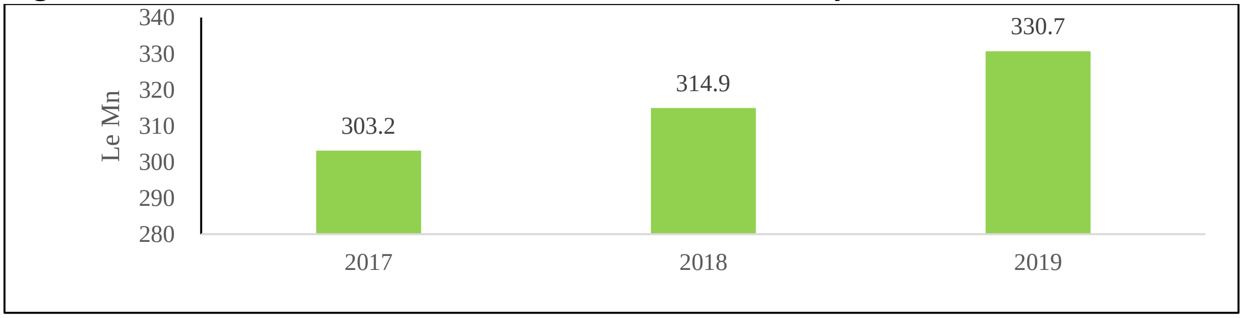
6.3 Insurance Sector

The Insurance Act 2016 gives Sierra Leone Insurance Commission (SLICOM) the power to ensure effective administration, supervision, regulation and monitoring of the business of insurance in Sierra Leone. During 2019, there were 11 insurance companies and 11 brokering firms operating in Sierra Leone.

6.3.1 Activity of the Insurance System

The total assets of the insurance industry in Sierra Leone continues to grow. The total assets of the insurance industry at the end of 2019 amounted to Le330.7bn, representing an annual increase of 5 per cent compare to 2018 and 9 per cent compare to 2017 (Figure 34).

Figure 34. Evolution of Total Assets of the Insurance Industry in Sierra Leone 2017-2019

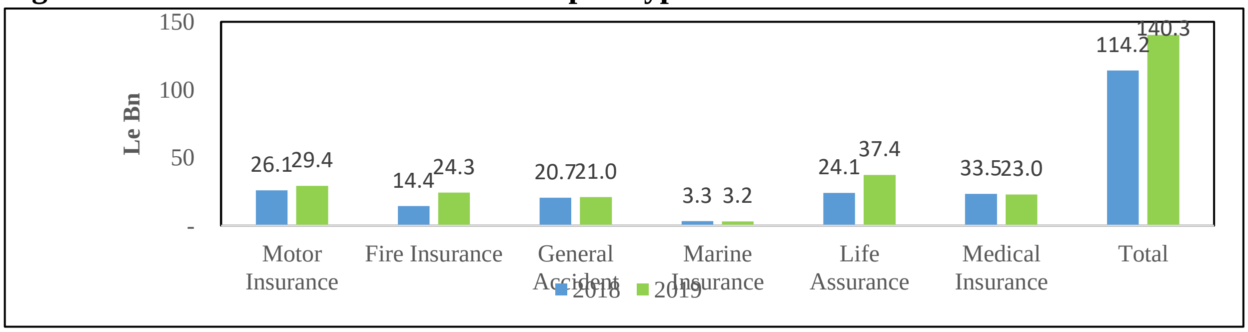


Source: SLICOM

6.3.2 Evolution of Premium

In 2019, the total premium for all types of insurance increased by 23 per cent compare to 2018. Except for the premium of marine insurance and medical insurance that declined by 4 per cent and 2 per cent, respectively, all other insurance classes have realized an increase in premium, with the premium on fire insurance and life insurance having highest increase by 69 per cent and 55 per cent, respectively (see Figure 35). Consequently, the premium of fire insurance and life insurance represents 45 per cent of total premiums in 2019, whereas the share of premium for motor insurance, medical insurance and general accident have been lowered to 21 per cent, 17 per cent, and 15 per cent, respectively.

Figure 35. Evolution in Premium Paid as per Types of Insurance 2018 – 2019

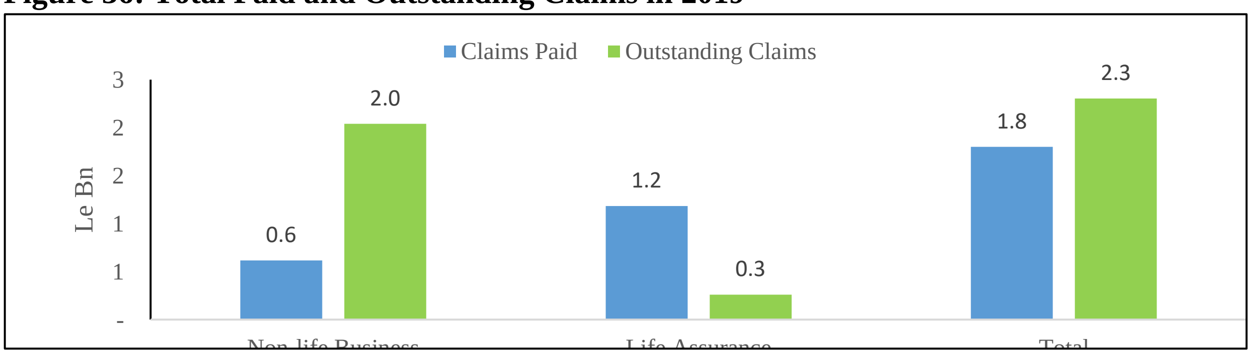


Source: SLICOM

6.3.3 Paid and Outstanding Claims

As shown in the Figure 16, the total claims paid in 2019 amounted at Le17.9bn which were dominated by claims paid for life assurance (65.8 per cent). During the same year, the total outstanding claims amounted at Le23.0bn, dominated by non-life business assurance (88.7 per cent).

Figure 36: Total Paid and Outstanding Claims in 2019

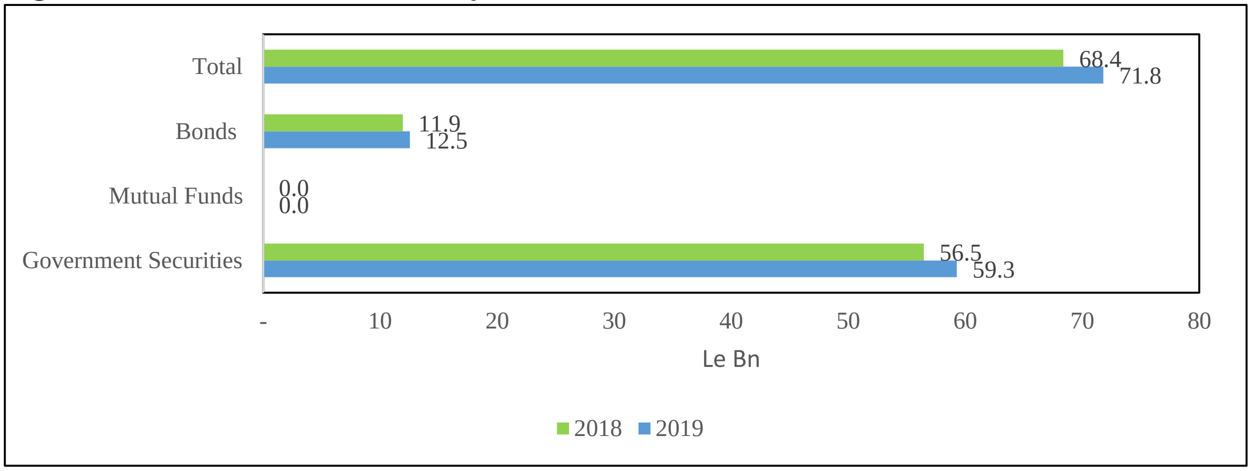


Source: SLICOM

6.3.4 Investment Made by General Insurance System

As shown in the Figure 36, in 2019, the general insurance system total investment in government securities and bonds amounted at Le71.8bn, which is an increase by 5 per cent compare to 2018. In 2019, the rate of increase in the investment in government securities and bonds was the same (5 per cent), and the share of government securities (83 per cent) and bonds (17 per cent) in total investment remained was similar to their share in 2018.

Figure 37. Classes of Investment by Insurance Sector 2018-2019



Source: SLICOM

6.3.5. Challenges, Policy Prescription and Outlook

The SLICOM is currently challenged in terms of financing. It does not have the authority to keep its resources and this has caused the SLICOM not been able to adequately meet its responsibilities.

Pipeline activities of the SLICOM that require resource include:

- Popularization and enforcement of the Compulsory insurance products.
- Launching of the automatic Brown Card Scheme.
- Research on micro-insurance especially agricultural insurance,
- Decentralization of the SLICOM into the provinces.
- SLICOM building project.
- SLICOM should own its budget, one that is sufficient to enable it to conduct effective supervision

As a result of the COVID-19 pandemic the SLICOM has recently requested all Insurance Operators-Insurers and Brokers to submit their Business Continuity Plans to ensure that Insurance services continue to be offered to all in these very challenging and uncertain times

6.3.6. Insurance Industry Risks

Key risks that insurance industry is facing are as following:

- Reputational Risk - there is still a challenge in the public confidence as regards Insurance especially in the payment of claims. The SLICOM will continue to nudge all insurance to settle all genuine claims promptly and equitable.
- Credit Risk: This is the non-payment of the premium by the Insuring public, the "No premium, No Cover regime in the Insurance Act 2016 will be evoked to mitigate the said risk.
- Market Risk: Currency devaluation and inflationary trends will affect the industry in terms of reinsurance transactions overseas and payment of claims. Unfavorable interest rates will also impact the Insurance system.
- Price Risk: Generally premium charged by insurers should be commensurate to the risk they carry. However, there are exceptional occasions wherein Insurers would experience an inadequate price and as a result will impact their operations. Currently the Life and Motor Insurance Business are affected by pricing risk. However, the SLICOM in collaboration with the Insurers and Government are working together with a view to stabilize the situation and revise the relevant tariffs.
- Financial Crime and terrorism Risk: The SLICOM is working closely with the Financial Intelligent Unit (FIU) to ensure that Insurance Companies and Intermediaries follow regulation set by the Financial Action Task Force. (FATF)
- On money laundering and terrorism financing: A series of training for the Insurance Industry and SLICOM personnel have been undertaken. The SLICOM facilitated the appointment of Compliance Officers on money laundering and terrorism financing by insurers and also the formation of the Sierra Leone Insurance Association of Compliance Officers (SLIACO).

CHAPTER SEVEN

7.0 PAYMENTS SYSTEM

7.1. National Payments System Landscape

The country's payments system continues to be dual with the coexistence of cash and non-cash based transactions. The latter are further categorized into retail and large value transactions based on the value and the interbank systems that support the transactions which form the basis of this section of the report: Developments in the National Payment System Landscape and Real Time Gross Settlement (RTGS) system. The Real Time Gross Settlement (RTGS) is an electronic funds transfer system that settles large value payments across the country. Through the RTGS, funds can be transferred between participating financial institutions virtually promptly.

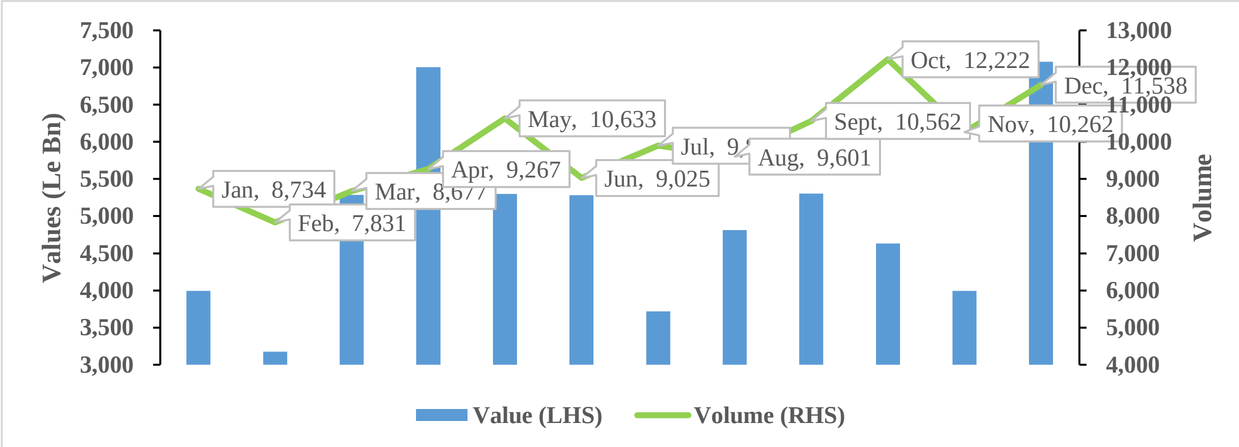
Table 6: RTGS Transactions 2019

Months	Volumes	Values (Le Bn)
Jan	8,734	3,992.9
Feb	7,831	3,176.0
Mar	8,677	5,288.1
Apr	9,267	7,004.6
May	10,633	5,297.7
Jun	9,025	5,281.1
Jul	9,895	3,717.0
Aug	9,601	4,810.3
Sep	10,562	5,301.3
Oct	12,222	4,632.3
Nov	10,262	3,992.3
Dec	11,538	7,078.2

Source: Banking Department, BSL

Table 6 above shows RTGS transactions for the period January to December 2019. Despite slight fluctuations, the trend indicates general acceptability of the system for the interbank transactions. This is also shown in figure 38.

Figure 38: The Volume and Value of RTGS Transactions



Source: Banking Department, BSL

The volume and value of RTGS transactions reveals a seasonality pattern, in that quarter four 2019, was a period of high demand for money reflected by total volumes of 34,022 whilst average value of transaction soared to Le15, 702.7bn. Furthermore, quarter one 2019 indicated a reflow of funds into the banking sector represented by decline in payment transactions relative to quarter four, 2019. Quarter two and quarter three starts the cycle of gradual increase in payment transactions.

7.2 ACH Transactions (Jan – Dec 2019)

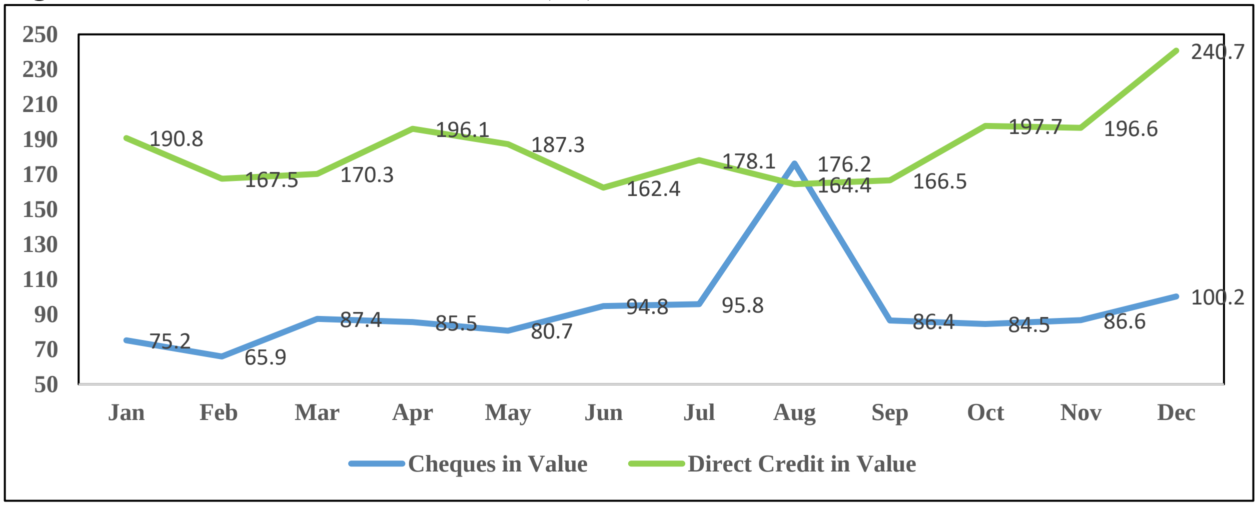
The Automated Clearing House (ACH) is the retail payment system through which a vast number of payment items (both paper-based and electronic) are cleared. These are mainly low-value (Not more than fifty million Leones), high-volume retail payment cheques.

Table 7 ACH Transactions (Jan – Dec 2019)

Months	Direct Credit Volume	Direct Credit Value (In Le Bn)	Cheques Volume	ChequesValue (In Le Bn)
Jan	14,085	75.2	15,575	190.8
Feb	15,029	65.9	14,564	167.5
Mar	20,048	87.4	15,069	170.3
Apr	17,730	85.5	15,958	196.1
May	18,136	80.7	15,925	187.3
Jun	20,257	94.8	13,464	162.4
Jul	18,567	95.8	15,918	178.1
Aug	16,742	176.2	16,324	164.4
Sep	19,147	86.4	14,452	166.5
Oct	20,792	84.5	16,823	197.7
Nov	19,352	86.6	15,538	196.6
Dec	21,972	100.2	17,708	240.7

Source: Banking Department, BSL

Figure 39: Value of ACH Transactions (Le)



Source: Banking Department, BSL

Table 7 shows ACH transactions for the period January to December 2019. The table shows that the use of cheque still remains higher than direct credit as a means of transactions. However, the level of acceptability of electronic means of interbank transactions is sustained and has a potential to create efficiency in the delivery of financial services reflecting confidence and trust in the system.

7.2.1 Other Retail Payment Systems 2015-2019

The performance in the value of direct credit transactions as in table 7 above is reflected in the growth of other forms of electronic retail payment systems such as ATM and POS transactions. In table 8, it is revealed that the value of ATM transactions increased by 154 per cent (from Le154.4bn to Le392.0bn) over the period 2015 to 2019 while the value of POS transactions grew by some 179 per cent (from Le25.9bn to Le72.0bn) from 2015 to 2019. This further points to the gradual acceptability of electronic means of processing transactions.

Table 8: ATMs and POSs

Year	**2015**	**2016**	**2017**	**2018**	**2019**
No. of ATMs	51	71	94	72	107
No. of POSs	110	50	243	231	301
Vol. of ATM Txns	730,803	370,726	530,342	1,204,162	2,199,500
Vol. of POS Txns	11,509	23,981	6,773	30,537	40,815
Value of ATM Txns (Le Bn)	154.4	69.5	102.1	267.2	392.0
Value of POS Txns (Le Bn)	25.9	34.4	5.7	44.1	72.0

Source: Banking Department, BSL

In line with financial inclusion Tables 9 and 10 below display regional spread of ATMs and POSs Notwithstanding the gains made by the BSL in ensuring public acceptability of electronic means of transactions processing, the spread of these financial services indicate that most of these facilities are deployed in the Western Area accounting for 89.0% of POSs and 71.0% for ATMs in 2019.

Table 9: Regional Spread of ATM

Regions	2015	2016	2017	2018	2019
Northern Province	8	16	14	8	16
Southern Province	4	4	6	6	9
Eastern Province	2	5	5	9	6
Western Area	37	46	69	49	76
Total	**51**	**71**	**94**	**72**	**107**

Source: Banking Department, BSL

Table 10: Regional Spread of POS

Regions	2015	2016	2017	2018	2019
Northern Province	10	9	14	6	17
Southern Province	1	1	16	11	14
Eastern Province	1	2	4	3	2
Western Area	98	138	209	211	268
Total	**110**	**150**	**243**	**231**	**301**

Source: Banking Department, BSL

This indicates that there is an uneven distribution of these payment services thereby financially excluding a very good number of the population. The above scenario is worthy of note in the midst of plans to implement digital financial services that would ensure smooth flow of funds especially from Government to people (G2P).

7.3 Ongoing Reforms in the Payment System

7.3.1 National Payment Switch

This targets the establishment of interconnectivity and interoperability of all retail payment infrastructure for efficiency in the financial system. Sierra Leone has signed a loan agreement with the World Bank to fund a National Financial Inclusion Project, which includes a National Payment Switch. The implementation of this project is currently at the procurement stage.

7.3.2 AFREXIMBANK – Pan African Payments and Settlement Platform (PAPSP)

Following the automation of the National Payment Systems in Gambia, Guinea, Liberia and Sierra Leone to the levels of Ghana and Nigeria, WAMI as well as ECOWAS have been faced with the challenge of interconnecting and interoperating the national payment systems within WAMZ and subsequently ECOWAS so as to promote regional trade.

Primary of these challenges was the cost of establishing a centralized clearing and settlement platform. Following a feasibility study, this cost was estimated at around USD33 mn. The second challenge was that of the country with the requisite infrastructure to host the centralized clearing and settlement platform.

In search of a more efficient solution, Afreximbank was approached by WAMI and they offered to provide the settlement solution. Following series of workshops to showcase their solution, Afreximbank in 2018 embarked on a country-by-country presentation of their solution. This solution was found to be a better, cheaper and more reliable one than that prescribed after the initial feasibility study. Furthermore, the solution comes with no cost to central banks of member states. The solution is now at the stage of signing of agreement between member central banks and Afreximbank. Sierra Leone has already signed the agreement and now await deployment.

7.3.3 Payment System Oversight

With increases in public acceptability of electronic payment systems especially in the Western Area, and in the midst of a series of issues surrounding security of financial transactions, the need to develop an oversight system with robust security system on financial markets infrastructures is becoming increasingly important and this area will be developed with the support of development partners including the TA from AFRITAC West 2.

7.3.4 Electronic Funds Transfer (EFT)

The Banking Department is working in collaboration with the Ministry of Finance for the implementation of the EFT, which will improve on delivery of financial services by government to its clients.

7.3.5 Treasury Single Account (TSA)

The Banking Department is also working with the Ministry of Finance for the automation of TSA for better public financial management.

7.4. The State of Access to Financial Services in Sierra Leone

To achieve the goal of the National Strategy for Financial Inclusion (2017-2020), important activities were undertaken by the BSL. With respect to The Sierra Leone Fintech Challenge 2019. The second edition of the Sierra Leone Fintech Challenge was launched in March 2019 and focuses on supporting financial technology innovations for domestic resource mobilization. The two winners/fintechs (Innovation Sierra Leone and Cellulant Nigeria Limited) having each received US$20,000 to develop their minimum viable product, are currently awaiting approval to start piloting their products. Preparations to formally announce the first set of winners (Cellulant and Innovation) and award them the grant is ongoing. Piloting of their solutions/products is expected to commence soon.

Regarding BSL's Regulatory Sandbox, at present, there are four (4) participants. In addition to the development of a sandbox program, the BSL has also developed a Sandbox Regulatory Framework, which provides guidance to applicants, to help align their proposed business models or solutions with prevailing laws and regulations. The Sandbox Program is being managed by a dedicated Sandbox Team which provides technical support and a Sandbox Committee which provides oversight and policy direction.

With respect to Digitization Payments to Government Workers and vulnerable segments of the population, the BSL in 2019 commenced the implementation of a G2P and P2P Project focused on creating digital products for the vulnerable segments of the population by promoting G2P and P2G payments and providing meaningful financial education. The national project coordinator was recently appointed.

In connection with the National Financial Literacy Framework (NFLF), The BSL over the years has engaged in a series of financial literacy campaigns. The Bank in 2019 launched the National Financial Literacy Framework (2020-2024), which sets out initiatives that will help transfer financial knowledge to the population, especially potential consumers of financial services. The NFLF is currently available on the BSL's website.

In order to promote coordinated actions in the implementation of the National Strategy for Financial Inclusion, the BSL has signed MoUs with the following institutions:(i) National Telecommunications Commission (NATCOM), aimed to enhance joint regulation and supervision of communication companies and/or their subsidiaries that offer financial services or operate designated payment system in order to ensure among others affordable access to financial services and protection of consumers; (ii) The Directorate of Science, Technology and Innovation (DSTI), aimed at providing expert technical advice, guidance and where possible assistance, on issues which relate to the use of technology in the financial system; (iii) FSD Africa, aimed to developing a strong working relationship to drive financial system development; (iv) National Civil Registration Authority (NCRA), aimed to leverage on the NCRA's National Digital Identity Platform (NDIP) for supporting electronic Know Your Customer (e-KYC) and Credit Reporting within the financial system; and (v)The Financial Intelligence Unit (FIU), aimed to further improve joint efforts to combat money laundering and financing of terrorism.

Also, the BSL has established the following remaining four working groups consistent with the six intervention areas in the National Strategy for Financial Inclusion: (i) Responsive Policy Regulations and Coordinated Actions; (ii) Client-centric Products and Services; (iii) Access to Finance for MSMEs in Growth Systems; and (iv) Data and Measurement. The Digital Financial Services Working Group and the Financial Literacy, Education and Consumer Protection Working Groups were established in previous years. The main objective of the working groups is to provide technical support in the implementation of the NSFI. The BSL is also in the process of establishing a National Financial Inclusion Steering Committee to provide overall strategic/policy direction to the implementation of the NSFI.

On the Assessment of Smallholder Farmers, the BSL in collaboration with UNCDF and EU has started implementing recommendations of this Assessment. Currently, the BSL is exploring a product development approach targeting low income household and MSMEs and the project will be piloted with some financial service providers in the market.

With regards to Development of Digital Identity Card to facilitate lending by Financial Institutions, the BSL is also working with the National Civil Registration Authority (NCRA) to develop a well-functioning credit reference system by leveraging on technology and civil registration data. This will enhance the operations of the Credit Reference Bureau to cover financial services providers like the Microfinance Institutions that deal with the vulnerable segments of the population.

With respect to Development Policy Instruments to Enhance Access to Finance, the Bank has developed a Tired Know Your Customer (KYC) Framework. The framework is intended to overcome some the stringent consumer onboarding requirements in opening an account. It categorizes potential customers to low, medium and high income. Potential low-income customers are required to provide a simple identification while the high-income customers are subjected to enhanced KYC.

Furthermore, the BSL also drafted (i) consumer protection framework/guidelines to protect consumers of banking and other financial services regulated by the BSL; (ii) agency guidelines to promote the use of agents as a channel for delivery of financial services and at the same time ensure consumer protection safeguards; and (iii) e-money guidelines to encourage a safe and secure system for e-money.

In addition, the Bank has amended the Banking Act 2011, the Other Financial Institutions Act 2001, the Anti Money Laundering and Combating of Financing of Terrorism 2012, the Finance Leasing Guidelines and Borrowers and Lenders Act 2014. In the connection with the Agency Guidelines, Borrowers and Lenders Act, Banking Act, Anti Money Laundering and Combating of Financing of Terrorism Act and Finance Leasing Guidelines have been concluded, while the other documents are in their final draft stage. The finalized documents can be accessed on the BSL's website.

7.5 BSL Regulatory Sandbox Program

The BSL Regulatory Sandbox Program was set up to enable innovative FinTech products, services, and solutions to be deployed and tested in a live environment, within specified parameters and timeframes prior to launching in the market. The sandbox help facilitate the BSL's understanding of emerging FinTech and supports evidence-based approaches that advance the goals of financial inclusion and maintaining financial stability.

The mandate of the regulatory Sandbox is derived from the Banking Act (2011) and from the Other Financial Services Act (2001) which gives the BSL the authority to issue regulations and guidelines. Hence, BSL Regulatory Sandbox framework stipulates eligibility criteria, licenses and regulatory requirements for the participation in the Sandbox. Participant must be tested and licensed or rejected licensing within the testing period. At the expiration of their licenses, the products were assessed and granted a six-month's extension effective October 1 2019, to continue testing. Upon the expiration of the extension period, the products will be reassessed to determine whether they are fit to market or discontinue testing and exit the Sanbox

Organizationally, the BSL Regulatory Sandbox is managed by a Sandbox Steering Committee consisting of representatives from the following departments: banking supervision, other financial institutions supervision, financial stability, legal affairs division, and financial system development unit. The Sandbox Steering Committee provides policy direction and oversight of the Sandbox Program, including recommendations to the Governor on granting or rejecting licensing of projects accepted in the Sandbox. The Sandbox Steering Committee is supported by a project implementation team called the Sandbox Team, which consists of experts from banking supervision, financial stability and other financial institutions supervision departments. The Sandbox Team is housed in the Other Financial Institutions supervision department, but all its internal and external correspondences are channeled through the chairman of the BSL Regulatory Sandbox Committee (Director of Other Financial Institutions Supervision Department of the BSL) who reports to management and Governor of the BSL on regular basis. As need arises, the Sandbox Team may invite experts from other department within the BSL as well as from outside the BSL

As the Sandbox operates in a live environment (i.e. involving actual customers using the product), test failures may result in financial loss or other risk to participants, their customers and the financial system. Thus the Sandbox incorporate appropriate safeguards such as: Issuance of licences for a period of twelve (12) months to identify and manage potential risks and contain the consequences of failure; Conducting a thorough '' Fit and Proper Persons' assessment on all world – be Board Members and top management staff to ascertain their integrity, sources of funds and suitability to manage Fintechs within the Sandbox; Requesting participants to sign a written agreement with their service providers and a disclosure to their customers that the solutions offered to them are being tested in the Sandbox; and Requiring Sandbox participant to get the consent of customers before they would use their personal data in order to protect consumer's privacy.In light of these, a monitoring tracker and testing plan is being used in assessing the risks and measures put in place to mitigate risk and the impact to customers that may arise from any test failures, FinTech development, Regulatory requirements to be relaxed or modified, Testing methodology, Control boundaries; key metrics and outcome indications; and Data security requirements, KYC processes and AML/CFT Safeguards. Currently, three participants were granted licenses to test four products up to 30th September 2019. At the expiration of their licenses their products will be assessed to determine whether they are fit to be launched in the market or granted extension to continue testing.

CHAPTER EIGHT

8.0 OUTLOOK

Global output is forecast to recede to -4.9 per cent in 2020 from 2.9 per cent in 2019 largely driven by the severe consequences of the COVID-19 pandemic.

The Sierra Leone economy is projected to contract by 3.0 per cent in 2020, reflecting the negative impact of the COVID-19, which continues to disrupt economic activities in key growth systems. Furthermore, Sierra Leone's economy is expected to rebound to 3.1 per cent, driven by the fiscal and monetary measures put in place, a likely extension of BSL Special Credit Facility to enable the private system thrive, and facilitate resumption of iron-ore mining and export.

The Financial System's outlook is positive, as evidenced by positive trend in most of the key Financial Soundness Indicators buttressed by enhanced supervisory and regulatory regimes. In particular, the amended legislation (Banking Act 2019, BSL Act 2019, Borrowers and Lenders Act 2019, Directives of Tiered KYC, and Guidelines on Agents) is expected to boost the overall performance of bank and non-bank institutions. However, when taking into account the impact of COVID-19 pandemic, it is realistic to expect that non-performing loans stay above the prudential threshold of 10 per cent.

Looking ahead the outlook for OFIs is buoyant as evident by improvement in financial health indicators and this will feed through to sustain financial system stability. More specifically, insurance and pensions institutions are expected to thrive and be resilient to any shocks going forward.

On financial inclusion, the expectation is that it will continue to improve given BSL's continued innovative activities such as the FinTech products, services, and solutions amongst others, to boost the financial inclusion drive.

The IMF's FSSR has further strengthened the crafting of financial system stability measures from both micro-prudential supervision and macroprudential surveillance of the BSL. This has enabled BSL to address some of the challenges in the banking sector, thereby contributing to safeguards of financial system stability.

The payments system transformation initiatives of the BSL are expected to further enhance efficiency and security of transactions in the financial system. The National Payment Switch installation is expected to be completed soon and the gains anticipated include establishment of interconnectivity and interoperability of all retail payment infrastructure for efficiency in the financial system.

8.1 Implications of Covid-19 Pandemic on the Economy and Financial System of Sierra Leone

While the Sierra Leonean economy has great potential, the immediate outlook is overshadowed by the rapidly unfolding global COVID-19 pandemic. Based on programmed policies, growth was projected to average around 4½ per cent over the medium term. However, prospects for the remainder of 2020 are subject to considerable uncertainty. The magnitude of the impact will depend heavily on the extent of vital prevention and containment measures—nationally, regionally and globally—and the associated economic spillovers. With the fragile Sierra Leonean economy still recovering from the Ebola health crisis and past lax macroeconomic policies, the COVID-19 shock will add to the country's vast development challenges, requiring further support from development partners. More specifically, the projection for real GDP growth is a contraction of -3.1 per cent in 2020 driven by the negative impact of COVID-19 on the economy.

With regards to the impact of COVID-19 on the agricultural system, growth on the agricultural system is now revised downwards to 3.1 per cent, from pre- COVID-19 projection of 4.2 per cent. The industry system (including mining, construction and manufacturing) is forecast to decline to 4.5 per cent in 2020 from 7.6 per cent in 2019, driven by disturbances in mining and weak manufacturing activity as commodity prices decline and world supply chains are disturbed. In connection to the growth of the services system, it is projected to contract by 12.6 per cent to 16 per cent in 2020. The services system is the hardest hit given that travel restrictions, flight cancellations and quarantine measures have dampened tourist arrivals and hotel occupancy levels to near zero, resulting to a contraction in trade and tourism.

The negative impact of COVID-19 pandemic has fed through to downward projection of domestic revenue by Le1.1 trillion (US$110 mn) mobilization. This is due to decline in domestic private consumption, businesses closure, and drop in employment levels translating to lower-than expected corporate and personal income tax, and reduced mineral royalties and fuel taxes. On the expenditure side, COVID-19 pandemic akin expenditure is forecast at Le1.38 trillion in 2020. This translated into widening the budget deficit excluding grants to 8.2 per cent of GDP relative to pre-COVID19 forecast of 7.4 per cent. The deficit including grants is expected to widen to 8.2 per cent of GDP relative to pre-COVID19 projection of 3.3 per cent.

In terms of the COVID-19 impact on the banking sector, private system credit remained subdued, interest rates charged by banks remains high with potential adverse implications for investment, consumption and growth; liquidity conditions in the money market eased evident by decline in interbank rate and reduced banks access to the BSL Standing Lending Facility, and it is expected to provide reprieve for private system credit to support growth. Accordingly banking sector remains stable as indicated by improvement in key financial soundness indicators, underpinned by enhanced regulatory and supervisory regimes, though NPLs ratio remained above the prudential threshold driven by the COVID-19 crisis.

The Government of Sierra Leone proactive measures against COVID-19 is encapsulated by the Quick Action Economic Response Plan (QAERP) which aims to shield livelihoods from the crisis. It targets ensuring a stable supply of essential commodities, including to address food security concerns; ramping up social protection; and providing support to the private system, in particular to affected small and medium enterprises.

The Bank of Sierra Leone put in place measures to safeguard financial system stability against the COVID-19 pandemic. These measures include creation of Le500 bn Special Credit Facility to finance the production procurement and distribution of essential goods and services; providing forex resources to the private system for the importation of essential commodities; and liquidity support to the banking sector via extension of the reserve maintenance period; and reducing the monetary policy rate to encourage lending by banks.

STATISTICAL APPENDICES

Appendix 1: Global Economic Outlook

Year	World	Proj World	Adv. Econs.	Proj. AES	EURO Area	Proj. EA	EMDES	Proj. EMDES
2018	3.6		2.2		1.9		4.5	
2019	2.9		1.7		1.3		3.7	
2020	-4.9	-4.9	-8.0	-8.0	-10.2	-10.2	-3.0	-3.0
2021		5.4		4.8		6.0		5.9

Source: IMF. 2020. WEO, Washington, DC, June.

Appendix 2: Commodity Price Indexes

Commodity Prices	Nominal U.S Dollars (2010=100)			
Years	**2018**	**2019**	**2020-Est**	**2021-Est**
Energy	87.0	76.0	45.3	53.9
Agriculture	86.7	83.3	82.4	83.9
Minerals and Metals	82.5	78.4	68.0	70.8

Source: WBCMO, 2020

Appendix 3: NPL to Total Loans Ratio in the WAMZ Region Countries

Countries	Dec-17	Dec-18	Dec-19
The Gambia	9.3	7.2	4.6
Ghana	22.0	24.0	14.0
Guinea	9.0	9.0	8.0
Liberia	16.0	14.0	17.0
Nigeria	14.8	11.7	6.1
Sierra Leone	14.6	12.7	16.6
WAMZ	**14.3**	**13.1**	**11.1**

Source: WAMI (December 2019), FSR

Appendix 4: Average Capital Adequacy Ratio

Countries	Dec-17	Dec-18	Dec-19
The Gambia	12.2	15.8	15.3
Ghana	19.0	18.0	20.0
Guinea	17.0	23.0	23.0
Liberia	1.6	7.0	14.0
Nigeria	19.6	22.3	25.8
Sierra Leone	25.6	27.3	28.2
WAMZ	15.8	18.9	21.1

Source: WAMI (December 2019), FSR