Bank of Sierra Leone

MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Sierra Leone met on 30 September 2020, under the Chairmanship of the Governor, Professor Kelfala M. Kallon, and decided to keep the Monetary Policy Rate (MPR) unchanged at 15.0 percent. This decision was informed by its assessment of developments in the domestic and international environments, and their potential implications for price developments and financial stability in Sierra Leone. The justifications for the decision are as follows:

Inflation Outlook

The MPC noted that inflationary pressures moderated in the Second Quarter of 2020 and continue its downward trend up to August 2020. Headline inflation declined from 15.6 percent in March 2020 to 14.4 percent in June 2020, and further declined to 13.3 percent in August 2020. The stability of the exchange rate, lower fuel prices and subdued demand have contributed to the gradual dampening of inflationary pressures over the past few months.

The downward forecast of inflation in the next quarter is well anchored and supported by the expected continued stability of the exchange rate. Improvements in domestic food supply during the harvest season should moderate food prices, and thus contribute to dampen inflationary pressures in the coming months. Of course, exogenous shocks such as a possible second wave of COVID-19 pandemic in major trading partner countries, escalated trade tensions between the United States and China, and an unanticipated increase in domestic aggregate demand could pose upside risks for inflation during the fourth quarter.

Economic Growth

Domestic Economic Growth

Domestic economic growth is projected to contract by 3.0 percent in 2020, reflecting the impact of the COVID-19 pandemic, which continues to disrupt economic activities in key growth sectors of the economy. In spite of this, the MPC expects domestic economic growth to rebound to 3.1 percent in 2021—due to the ongoing fiscal and monetary policy measures in place, a possible continuation of the BSL Special Credit Facility to support the private sector, and the resumption of iron ore mining and export.

Global Economic Growth

Global economic activity continues to be constrained by the COVID-19 pandemic, which is negatively affecting all the growth sectors of the globe. The MPC noted that although the COVID-19 pandemic is somewhat easing in some parts of the globe, enabling some countries to gradually reopen, the pandemic is still hitting hard in a large number of countries, particularly those in advanced economies and emerging markets and developing economies.

Accordingly, global economic growth is expected to contract by 4.9 percent in 2020, with risks to global outlook tilted to the downside. These developments are expected to continue to negatively impact Sierra Leone's domestic economy, its balance of payments and exchange rate.

External Sector

The external sector performance was mixed in the Second Quarter of 2020. The trade deficit widened to US$318.2 million in the Second Quarter of 2020, compared to the deficit of US$229.1 million in the First Quarter of 2020. This development was mainly on account of the combined effects of an increase in import payments and a decrease in export receipts. Although the trade deficit widened, increased inflows from development partners caused Gross International Reserves to increase to US$681.5million from US$533.8million in the First Quarter of 2020, which was sufficient to cover 4.3 months of imports.

The exchange rate of the Leone in terms of the US dollar remained relatively stable, reflecting moderate demand and improved supply conditions in the foreign exchange market. The improved supply of foreign exchange during the quarter was on account of the large foreign exchange inflows from development partners to support the fight against the COVID-19 pandemic and the BSL Special Credit Facility to support foreign exchange market liquidity for the importation, production and distribution of essential commodities in the economy.

Fiscal Policy

Fiscal pressures eased during the Second Quarter of 2020, reflecting the significant inflows from development partners to mitigate the impact of the COVID-19 crisis on the budget. Moreover, the continued cessation of the inter-district lockdown may help to enhance domestic revenue mobilization, and coupled with expected donor supports, may further ease fiscal pressures on the budget.

Money and Banking

In line with the increase in donor inflows, the growth in monetary aggregates expanded during the Second Quarter of 2020. However, private sector credit remained subdued, reflecting reduced economic activity amidst increased uncertainty due to the COVID-19 pandemic. However, with the slowdown in the COVID-19 infection rate and the gradual pick up in domestic economic activity, the MPC expects private sector credit to gradually recover in the near term, supported by the BSL Special Credit Facility. The Committee also noted that interest rates charged by banks remains high, with potential adverse implications for investment, consumption and growth.

Liquidity conditions in the money market eased in the Second Quarter of 2020, evidenced by the decline in interbank rate and reduced commercial banks' access to the BSL Standing Lending Facility. The MPC expects that the increase in liquidity would enhance credit to the private sector to support growth.

The banking sector remains relatively stable, as indicated by improvement in key financial soundness indicators, supported by an enhanced supervisory and regulatory regime. However, non-performing loans ratio increased during the Second Quarter of 2020 and remained above the prudential limit, in part reflecting the impact of the COVID-19 crisis.

Conclusion

Given the uncertainty surrounding the inflationary outlook, and the need to support growth, the MPC resolved to keep the Monetary Policy Rate unchanged and reduce the Standing Deposit Facility by 200 basis points. The Committee will continue to closely monitor price developments and stand ready to take appropriate actions where necessary to maintain price and financial stability.

Hence, effective Monday, 5 October 2020, the following rates are published for the information of the public: -

Monetary Policy Rate is 15.0 percent
Standing Deposit Facility Rate is 10.0 percent
Standing Lending Facility Rate is 19.0 percent

Professor Kelfala M. Kallon
Governor