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MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Sierra Leone (BSL) met on 27th June 2019 under the Chairmanship of the Governor, Professor Kelfala M. Kallon, and decided to keep the Monetary Policy Rate (MPR) unchanged at 16.5 per cent. This decision was based on the MPC's analysis of current macroeconomic performance, both global and domestic, and its forecast of the trend in key macroeconomic variables that are related to the Bank of Sierra Leone's core mandate of maintaining price and financial-sector stability. These key macroeconomic variables that informed the Committee's decision are discussed below: -

Inflation Forecast

The decision of the MPC was informed by its assessment of the domestic and global economic developments and their potential impact on inflation outlook for Sierra Leone. The Committee noted that inflationary pressures remain elevated, with headline inflation rising from 17.2 per cent in February 2019 to 17.5 per cent in March 2019. This was mostly driven by non-food-price inflation, partly reflecting the impact of the exchange rate pass-through.

However, the expected slowdown in the global economy in 2019, due to uncertainties resulting from the ever-increasing Sino-American trade tensions, should dampen global commodity demand. This should depress global commodity prices (for especially crude oil and PLATT), thereby dampening domestic inflationary pressures.

Finally, the MPC also expects government's fiscal consolidation activities to continue unabated. The expected reduction in aggregate demand as the fiscal deficit shrinks is also expected to have a dampening effect on the domestic price level. Therefore, in spite of the observed inflationary spike in March 2019, the MPC expects inflation to decline in the next two quarters.

Global Economic Growth

As noted above, global economic activity is expected to remain subdued through the rest of the year. Consequently, global economic growth for 2019 was revised downward to 3.3 per cent, from the earlier projection of 3.5 percent. It is, however, expected to rebound to 3.6 percent in 2020, even though escalating Sino-American trade tensions could further derail this growth projection. Because China is a major trading partner of Sierra Leone, adverse shocks to her economy invariable have negative implications for the Sierra Leonean economy.

Domestic Economic Growth

Under the Extended Credit Facility with the IMF, domestic real GDP growth is projected to increase from 3.3 per cent in 2018 to 5.1 per cent in 2019. Despite the slowdown in economic activity in the first quarter of 2019, as indicated by the composite index of economic activity, the MPC remains confident that the 2019 projected growth of 5.1 percent will materialize, largely driven by improvements in iron ore mining, agricultural production and public investments.

Fiscal Policy

The fiscal deficit contracted in the first quarter of 2019, due to the fiscal consolidation efforts of the government. This is expected to continue throughout the rest of the year, with domestic revenues exceeding its targeted value and government expenditures falling below its target. However, government revenue should increase following an expected increase in earnings from iron ore mining/export and increased inflows from our development partners. Consequently, government can (and is expected to) scale up its expenditures and still remain within its budget projection. This should boost aggregate demand and income, without any appreciable impact on inflation.

Money and Banking

Following the slowdown in fiscal operations and weak aggregate demand, broad money supply (M2) moderated and it remains within the target under the ECF program with the IMF. The MPC noted that although credit to the private sector continues to recover, it is still below its projected value. Moreover, the cost of financial intermediation borne by commercial banks remains high. This has potential adverse implications for investment and growth, especially in the small- and medium-size enterprises (SMEs).

As in the first quarter of 2019, the money market remained tight in the second quarter of 2019 also, as evidenced by the persistent undersubscription in the Primary Market for government securities, which led to relatively high interest rates. Furthermore, although the interbank rate remained within the interest rate corridor, it continued to trend above the MPR, also demonstrating a tight money market.

The banking sector remains relatively stable, as demonstrated by improvements in the key financial soundness indicators. The lone exception was Non-Performing Loans (NPL) ratio, which, despite significant decline in the past few quarters, is slightly above the prudential limit.

The Exchange Rate

Despite marginal depreciation during the first quarter of 2019, the exchange rate remained relatively stable, albeit with small step-like depreciations. However, the increase in foreign exchange inflows expected from the resumption of iron-ore exports, foreign direct investments and our development partners is expected to produce marginal appreciation in the value of the Leone against major international currencies.

Conclusion

Based on the expected declining inflation during the rest of the year and the need to support economic growth, the MPC decided to keep key interest rates (the Monetary Policy Rate, Standing Lending Facility rate, and Standing Deposit Facility rate) unchanged. However, should any developments adversely impact its inflationary expectations, the Committee will respond appropriately.

Hence, effective Monday 1st July 2019, the following rates are published for the information of the public: -

Monetary Policy Rate is 16.5 percent
Standing Deposit Facility rate is 13.5 percent
Standing Lending Facility is 20.5 percent

Professor Kelfala M Kallon
Governor