



MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Sierra Leone met on 30 March 2023. The Acting Governor, Dr. Ibrahim L. Stevens, chaired the meeting. The Committee reviewed recent macroeconomic and financial developments in the global and domestic environments and their implications for domestic inflation and growth. Following the deliberations, the MPC decided to increase the Monetary Policy Rate by 0.50 percentage points, to 18.75 percent. A summary of the assessment and key considerations that informed the Committee's decision on the stance of monetary policy is provided below: -

INFLATION OUTLOOK

Inflationary pressures persisted during the fourth quarter of 2022, with headline inflation rising by a higher margin due to both demand and supply shocks. Since the previous monetary policy committee meeting, headline inflation has increased further, from 37.1 percent in December 2022 to 42.7 percent in February 2023. Headline inflation continues to be largely driven by both food inflation and non-food inflation. The high inflation reflects the depreciation of the currency, the protracted effects of the Ukraine-Russia War, tight global liquidity conditions, domestic supply side constraints and high commodity prices. Going forward, these factors are expected to continue to weigh on inflation.

DOMESTIC ECONOMIC ACTIVITY

The domestic economy continues to be challenged by multiple supply side shocks, exchange rate depreciation pressures and the associated rise in prices. Consequently, growth in domestic economic activity was estimated at 2.8 percent in 2022, from 4.1 percent in 2021. However, economic activity is projected to increase to 3.1 percent in 2023. The high-frequency economic indicator (Composite Index of Economic Activity) produced by the Bank of Sierra Leone suggests a slight pickup in economic activity in the fourth quarter of 2022.

GLOBAL ECONOMIC DEVELOPMENTS

The IMF projects global growth to slow from 3.4 percent in 2022 to 2.9 percent in 2023, before improving to 3.1 percent in 2024. The Monetary Policy Committee noted the risk of global financial contagion from the failure of Silicon Valley Bank in the United States of America and the conditions around the purchase of Credit Suisse by UBS in Switzerland. The MPC discussed the potential implications of these developments for the domestic banking system.

Commodity prices are expected to remain stable or moderate slightly, but the Russia-Ukraine war continues to present risks to the commodities outlook, as supply chain bottlenecks persist.

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Furthermore, concerns about current geopolitical risks are likely to increase volatility in the oil market.

The subdued global activity may curb import demand for commodities produced by Sierra Leone, but this may be partially offset by China's reopening. Overall, recent global events have increased uncertainties about global growth, inflation and monetary policy going forward.

EXTERNAL SECTOR DEVELOPMENTS

The trade deficit narrowed to US\$200.17mn in the fourth quarter of 2022 relative to US\$327.07mn in the third quarter of 2022, due to a decline in imports and an increase in exports of iron ore, rutile, and cocoa. The gross external reserves of the Bank of Sierra Leone cover 3.4 months of import of goods and services. Exchange rate pressures remained, with the New Leone depreciating against the US dollar across all market segments during the fourth quarter of 2022. This development reflects the combined effect of global shocks, high inflation expectations and currency substitution.

FISCAL DEVELOPMENTS

The overall fiscal deficit narrowed to NLe0.85bn in the fourth quarter of 2022 from NLe2.08bn in the third quarter of 2022, mainly due to an increase in foreign grants. Despite this improvement, fiscal pressures remain high given the expected increase in government expenditure in 2023. The primary balance widened further during the review period.

MONEY AND BANKING

Monetary aggregates expanded in the fourth quarter of 2022, reflecting increase in both Broad Money (M2) and Reserve Money (RM). However, credit to the private sector contracted, partly due to high lending rates and low risk appetite by commercial banks amid high inflation and increasing uncertainties.

The MPC noted with concern that the dominance of the informal sector in the economy remains a critical challenge for the development of the banking sector, as well as the effectiveness of monetary policy. The MPC is of the view that commercial banks should intensify their outreach to the informal sector and increase incentives for placing deposits with the banks.

Liquidity conditions remained tight in the money market during the fourth quarter of 2022, with the interbank market rate rising and remaining above the Monetary Policy Rate. Additionally, the yields on Government Treasury Bills continued to increase, reflecting the tight liquidity conditions in the money market.

FINANCIAL SYSTEM STABILITY

The banking system is relatively stable, well capitalised, liquid, and profitable. The key Financial Soundness Indicators (FSIs) remain above minimum thresholds set by the Bank of Sierra Leone.

However, the MPC noted risks to the financial system, including high NPL ratios, limited intermediation, with credit concentrated to only a few sectors, and the overreliance on investment in government securities. There was also a noticeable increase in foreign currency deposits in commercial banks. The MPC encouraged the Bank to speed-up planned reforms to promote financial intermediation, including permitting lending in foreign currency where appropriate. These reforms are essential for deepening the banking sector. The MPC also underscored the importance of continued engagement of the private sector by the Bank, to reassure markets and to promote financial system stability.

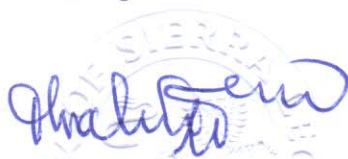
CONCLUSION

The MPC noted that inflation remained a significant problem, squeezing household real incomes, reducing the welfare of households, and posing a threat to macroeconomic stability. In the view of members, the continued upward risk to prices and the impact of exchange rate depreciation provides a compelling argument for an upward adjustment of the policy rate, albeit less aggressive. Consequently, based on its assessment of the risks to inflation and economic activity in the near-term and the need to strike a balance between low inflation, stable growth, and financial system stability, the MPC decided to increase the MPR by 0.50 percentage points to 18.75 percent and adjust the Standing Lending Facility Rate and the Standing Deposit Facility Rate upward by the same margin. Therefore, effective Monday 3 April 2023, the following rates are published for the attention of the public: -

- **Monetary Policy Rates (MPR): 18.75 percent**
- **Standing Deposit Facility Rates (SDFR): 12.75 percent**
- **Standing Lending Facility Rates (SLFR): 21.75 percent**

Furthermore, the MPC is of the view that complementary measures by other government agencies are vital to support the Bank's effort to contain inflation, including measures to boost investment in food production, enhancing fiscal and monetary policy coordination, and strategies to improve foreign currency mobilisation.

The Bank will continue to monitor developments in the domestic economy and will act appropriately, in line with its mandate to ensure price and financial system stability, in the interest of sustainable economic growth.



Ibrahim L. Stevens (Dr.)
Acting Governor