Bank of Sierra Leone

MONETARY POLICY STATEMENT

Since the 24th-25th June 2021 meeting of the Monetary Policy Committee (MPC) of the Bank of Sierra Leone, there has been a high degree of uncertainties due to the Third Wave of the COVID-19 pandemic, the emergence of more contagious variants of the virus, and, more recently, the political developments in the Republic of Guinea, our northern neighbour. The COVID-19 containment measures implemented by economies have disrupted global supply chains, which has resulted in an increase in commodity prices. This has raised concerns for developing economies like Sierra Leone, which rely heavily on imports of essential commodities including, food, medicine, energy and fuels, as well as intermediary products.

Accordingly, headline inflation, which moderated to 8.95 percent in March 2021, picked up to 10.20 percent in June 2021, and further to 10.50 percent in July 2021. This development was mainly on account of rising global commodities prices, reduced seasonal supply of domestic food items, shortages of imported food items emanating from disruption in the global supply chain, and the depreciation in the exchange rate. Going forward, the inflation path would be determined by uncertainties caused by global commodity-price inflation, higher freight charges, and the potential pass-through effect of exchange rate depreciation on domestic prices.

Compounding the global impact of COVID-19 on the availability of essential commodities in Sierra Leone is the recent coup d'etat in the Republic of Guinea, from where many imported goods enter Sierra Leone. Any negative impact of the Guinean development on the availability of essential commodities in Sierra Leone could further worsen the inflationary trend in the country.

With respect to the exchange rate, the MPC noted the cyclical increase in the demand for foreign currency during the rainy season in order to satisfy higher import requirements for essential items (including, food), as well as a reduction in exports, which lowers the supply of foreign currency. These two forces typically put pressure on the foreign exchange market, thereby causing the Leone to depreciate in June, July, and August of each year. Moreover, the containment measures for COVID-19, which increased the demand for foreign currency for the importation of COVID-related medical supplies, also put added pressure on the Leone, which caused it to depreciate by 2.17 percent against major foreign currencies between June and September, 2021. Compared to the 0.99 percent depreciation during the third quarter last year, this represents a relatively steep depreciation of the Leone.

Given the strong pass-through effects of exchange rate depreciation on domestic prices, the steep depreciation of the Leone has put an additional pressure on the price level. And because food-price inflation is a key contributing factor to headline inflation, as well as the fact that the poor spend a greater proportion of their incomes on food and other essential commodities, the resurgence of inflation has the potential to disproportionately impact the living standards of the poor, in addition to worsening the level of poverty in the country.

To address the uncertainties and risks highlighted above, the MPC met on 20th September 2021, and unanimously agreed on the following monetary policy measures: -

1. **Maintain the Monetary Policy Posture**

The MPC agreed to maintain its current monetary posture. Accordingly, effective Wednesday 22nd September 2021, the following rates are published for the information of the public: -

Monetary Policy Rate is 14.0 percent
Standing Deposits Facility Rate is 8.0 percent
Standing Lending Facility is 17.0 percent

2. **Subject to the approval of the Board, the Bank should offer a Second Round of Le500 billion BSL Special Credit Facility (SCF) to Finance the Production, Procurement and Distribution of Essential Goods and Services**

In readiness for possible uncertainties in the supply of essential goods in the country, the MPC recommends that the BSL to provide a Second Round of the Special Credit Facility (SCF) to the tune of Le500 billion to support the production, procurement and distribution of essential goods and services. Like the First Round SCF, this iteration will also be channeled through the commercial banks. However, unlike its predecessor, the all-inclusive interest rate charged on the current SCF shall be 5 percent, all of which shall accrue to the participating financial institutions. Otherwise, the rules that governed the First Round SCF shall apply to the second round.

The MPC will continue to closely monitor domestic and external developments and take all necessary monetary policy measures to promote economic growth and maintain price and financial system stability.

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Governor