Bank of Sierra Leone

Governor's Office

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MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Sierra Leone (BSL) met on Thursday 14th December 2017. The meeting was chaired by the Governor, Dr. Patrick Saidu Conteh. In determining the stance of monetary policy, the MPC reviewed recent global and domestic economic developments and their implications for inflation and growth.

The MPC noted that global economic activity is expected to improve further in 2017 on account of recovery in advanced, emerging and developing economies. In its October 2017 World Economic Outlook (WEO), the IMF projected global growth to be higher by 0.1 percentage point for 2017 and 2018, at 3.6 per cent and 3.7 per cent respectively, compared to the projections made in April and July 2017. Growth in emerging markets and developing economies would be driven mainly by China. The improved growth forecast for China, a destination for Sierra Leone's main export, iron ore, is a positive signal for the Sierra Leone economy. The likely increase in export receipt from iron ore would narrow the trade deficit and stabilise the exchange rate.

On the domestic front, real economic activity was lower than expected, with mixed performances across key sectors of the economy. Consequently, domestic growth forecast for 2017 has been revised downwards to 5.6 per cent from an initial forecast of 6.0 per cent. This downward revision was on account of slowdown in public investment and weak aggregate demand in the domestic economy; which, together, continue to weigh down on non-iron ore growth.

In terms of outlook, the domestic economy is expected to recover in the medium term, largely supported by mining, agriculture, construction and services sectors.

Domestic price developments during the third quarter of 2017 were favourable. The year-on-year consumer price inflation slowed down further to 17.83 per cent in September 2017 from 19.14 per cent in June 2017. Both food and non-food inflation declined, attributable mainly to the tight monetary policy stance and the relative stability in the Leone exchange rate. As of October 2017, headline inflation fell further to 16.86 per cent, largely reflecting the stability in the exchange rate. Similar trends were observed in monthly inflation, which fell to 0.74 per cent in October 2017, from 1.07 per cent in June 2017.

Monetary conditions remained tight in the third quarter, evidenced by the contraction in money supply followed by the slowdown in growth of credit to the private sector. Borrowing by Government also reduced during the quarter. Similarly, liquidity conditions in the money market were tight, as the interbank rate continued to revolve around the monetary policy rate. To effectively meet liquidity needs of the market, the BSL embarked on proactive open market operations. In addition, a number of commercial banks accessed liquidity through the BSL Standing Lending Facility.

The MPC observed that though inflation is trending downwards, there are potential risks of inflationary pressures emanating from both domestic and external factors. These include the uncertainty in the global economy, upside risks to global commodity prices, and stronger stimulus to domestic demand from the public sector. In addition, energy prices are projected to rise in the near-term. This would have a one-off impact on domestic prices, with the possibility of a more persistent second round effect on inflation. Monetary policy therefore has to balance the current declining trend in inflation against the likelihood that inflationary pressures will surface over the medium term.

Having considered these developments and the outlook for the economy, the MPC resolved that a modest tightening of monetary policy is warranted. This policy stance would help to consolidate the gains made so far in reducing inflation, to ensure that it continues to trend towards a single digit, in the medium-term.

Furthermore, maintaining a tight monetary policy stance would entrench the stability of the exchange rate and reduce the need for intervention in the foreign exchange market, thereby allowing the Bank of Sierra Leone to accumulate foreign reserves required to mitigate any emerging external shocks.

Consequently, the MPC resolved to increase the Monetary Policy Rate (MPR) by 50 basis point to 14.5 per cent. The asymmetric corridor was fixed at +450 and -250 basis points around the MPR.

Therefore, effective Tuesday 19th December 2017, the following rates are published for the information of the public:

Monetary Policy Rate is 14.5 per cent

Standing Deposit Facility is 12 per cent

Standing Lending Facility is 19 per cent

Patrick S Conteh (Dr)

Governor