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MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) met on Thursday 15th June 2017. The meeting was chaired by Dr. Ibrahim L. Stevens, Deputy Governor, Bank of Sierra Leone (BSL). The Committee assessed developments in both the global and domestic economy to decide on the course of monetary policy.

The Committee noted that the International Monetary Fund recently revised global growth forecast for 2017, from 3.40 per cent to 3.50 per cent. The expected improvement in 2017, compared to a growth rate of 3.10 per cent in 2016, has raised optimism in global commodity markets, as shown in the recent pickup in prices of iron ore, which is our major export. The gradual recovery in prices of iron ore, if sustained over the medium-term, will improve the performance of the current account. This should support the Bank of Sierra Leone's efforts to accumulate foreign exchange reserves, maintain a stable foreign exchange market, and support low and stable prices.

Assessment of evolving trends in the domestic economy suggests that there were signs of recovery, especially in the mining, agriculture and services sectors. The Government's Post-Ebola Recovery Strategy and other measures adopted to accelerate the pace of economic diversification have triggered inflows of foreign direct investment in non-mining sectors such as agriculture, tourism and energy, which are expected to drive medium-term growth.

Pressures on domestic prices continue to build-up, partly as a result of the lagged effect of the depreciation of the Leone. Year-on-year headline inflation increased to 20.22 per cent in March 2017, up from 17.41 per cent in December 2016. In general, the rise in inflation emanated from pressures on both food and non-food items. Notwithstanding these challenges, there are signs of improvement in monthly inflation, suggesting that the year-on-year inflation is expected to start trending downwards, as reflected in the 19.80 per cent year-on-year inflation recorded in April 2017.

Monetary developments over the quarter suggest a subdued growth in monetary aggregates and credit to the private sector, implying that upside risks to inflation from money growth are likely to moderate over the medium-term. Despite these developments, easing monetary policy now would be premature and may reverse the gains already registered on inflation.

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The recent inflation outturn was significantly higher than the desired end year target of 12.00 per cent, although, as noted, there were signs that inflation pressures would moderate in the months ahead. This outlook is premised on the effects of tight monetary conditions and relative stability of the exchange rate, which is expected to dampen imported inflation. The Committee also observed that the BSL faces difficult challenges as the balance of risk remain tilted to prices and monetary policy continues to face demanding tradeoffs. The challenge of bringing down inflation to within target and sustained thereof remains significant. Considering these developments, the MPC is of the view that continuing with a tight monetary policy stance is appropriate and, subsequently decided on the following:-

a) increase the Monetary Policy Rate by 100 basis points, from 12.00 per cent to 13.00 per cent;

b) increase the Standing Deposit Facility, from 6.50 per cent to 9.00 per cent, by decreasing the band by 150 basis points, from 550 basis points to 400 basis points;

c) increase the Standing Lending Facility, from 13.00 per cent to 16.00 per cent, by increasing the band by 200 basis point, from 100 basis points to 300 basis points.

Therefore, effective Monday 19th June 2017, the following rates are published for the information of the public:-

- Monetary Policy Rate is 13.00 per cent
- Standing Deposit Facility is 9.00 per cent
- Standing Lending Facility is 16.00 per cent

Ibrahim L. Stevens (Dr.)
Deputy Governor
19th June 2017.