

Bank of Sierra Leone

Deputy Governor, Monetary Stability



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MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Sierra Leone (BSL) met on 25 March 2021. The MPC decided to maintain the Monetary Policy Rate (MPR) at 14.0 percent. This decision was informed by the MPC's assessment of developments in the domestic and international economies, and their implications for both monetary and financial system stability in Sierra Leone. A summary of the issues discussed and rationales for the decision are as follows:

1. INFLATION OUTLOOK

The inflation rate moderated to 10.45 percent at end-December 2020 - from 13.71 percent in September 2020. This was below both the end-December 2020 target of 15 percent and the pre-COVID-19 Pandemic level. However, the MPC noted mixed price developments in the first two months of 2021, with inflation rate increasing to 11.50 percent in January 2021 from 10.45 percent in December 2020, before decelerating to 10.87 percent in February 2021. Price developments in recent months have been largely driven by food inflation, while non-food inflation continues to be subdued.

Looking ahead, risks to the inflation outlook are muted with the exception of the possibility of higher food prices as we approach the lean season. However, this food supply shock is expected to be temporary and to wane in the fourth quarter of 2021. In addition, the BSL's support to the agriculture sector through the establishment of the Agriculture Credit Facility will expectedly help to mitigate any emerging food supply shock in the near-term.

II. ECONOMIC GROWTH

A. Domestic Economic Growth

Domestic economic growth is estimated at -2.2 percent in 2020, which was a less severe contraction than the previously estimated level of -2.7 percent. The improvement was due to the stimulatory impact of the COVID-19 Pandemic

mitigation measures put in place by the Bank and the Government on economic activity. The indicators monitored by the BSL suggest that economic activity picked up in the fourth quarter of 2020 and is set to continue through the second quarter of 2021.

Accordingly, domestic economic growth is projected to rebound to 3.0 percent in 2021 and the medium term outlook for growth is also promising. The MPC expects that the improvement in global economic outlook, coupled with the anticipated roll-out of the COVID-19 vaccines globally, and in Sierra Leone in particular, should enhance business and consumer confidence and thus stimulate economic activities. However, the uncertainty surrounding the third wave of the COVID-19 pandemic may pose downside risks to the domestic growth outlook.

B. Global Economic Growth

According to the January 2021 edition of the IMF *World Economic Outlook*, the global economy should have contracted by 3.5 percent in 2020, which is less severe than the 4.4 percent projected in the October 2020 edition. The improvement was due to the on-going fiscal and monetary policy support measures and the easing of the COVID-19-pandemic-related restrictions.

In 2021, the global economy is expected to significantly recover to a positive growth of 5.5 percent. Relative to the contraction of 3.5 percent recorded in 2020, this is impressive. This projected growth is premised upon improved economic activity, resulting from the expected additional fiscal policy support measures from some advanced economies in order to deal with the health and economic challenges brought about by the pandemic and the envisaged effective rollout of the Covid-19 vaccination programmes. The expected recovery in the global economy in 2021 will go a long way in boosting global demand and, therefore, prices, particularly of primary commodities. These being the key exports for Sierra Leone suggest that the expected commodity price movements should have a positive impact on the domestic economy.

III. EXTERNAL SECTOR

External sector performance improved during the fourth quarter of 2020, as trade deficit narrowed to US\$114.23million in 2020Q4 from US\$209.67million in 2020Q3. This development was as a result of the combined effects of a decline in import payments and an increase in export receipts. Gross external reserves of the Bank of Sierra Leone are currently sufficient to cover 4.9 months of import of goods

and services, which is above standard benchmarks. Consequently, the BSL was able to conduct targeted monetary policy operations to support foreign exchange liquidity in the banking system.

The Leone-US dollar exchange rate remains relatively stable, with the exchange rate in all market segments maintained within the band of ± 2 percent. This development, which was partly due to the impact of the administrative measures put in place by the BSL and its Special Credit Facility for the importation of essential goods and services, has led to reduced uncertainty in the foreign exchange market.

IV. FISCAL POLICY

Fiscal pressures re-emerged in the fourth quarter of 2020, reflecting a more than proportionate drop in government revenues relative to government expenditures. The drop in revenues was mainly due to a decline in external grants, as domestic revenues improved in 2020Q4. Accordingly, the budget deficit widened to Le935.70 billion in 2020Q4, from Le202.49 billion in 2020Q3. The MPC noted that the removal of the Inter-District Lockdown, the lifting of the Night Curfew, and the resumption of iron-ore mining operations will help to enhance revenue mobilization. Furthermore, the disbursement of the second Rapid Credit Facility by the IMF and the expected inflows from development partners may ease fiscal pressures on the budget in the near future.

V. MONEY AND BANKING

In line with the fiscal stimulus and complementary monetary policy measures to mitigate the impact of the COVID-19 pandemic, monetary aggregates expanded in 2020Q4. However, credit to private sector contracted, in part due to the high bank lending rates and increased risks aversion by commercial banks in the face of a COVID-inspired uncertainty in the business environment. It is hoped that the easing of the Inter-District Lockdown, the lifting of the Night Curfew, and increased COVID-vaccination of the population would improve business confidence and thus help to enhance private sector credit in the near-term.

Liquidity in the money market remained high in 2020Q4, leading to declining trends in the interbank market rate and Treasury Bill rates. However, the pickup in Treasury Bill rates in the first two months of the year, due to increase in government borrowing in the money market, has begun to reverse the trend in these rates. The MPC expects that the disbursement of the IMF Rapid Credit Facility and other

expected donor inflows could somewhat moderate government exposures in the money market in the near-term.

VI. FINANCIAL SYSTEM STABILITY

The financial sector has remained resilient to the economic disruption associated with the COVID-19 pandemic, and most financial institutions have maintained adequate capital and liquidity buffers to absorb the shock. Moreover, the non-performing loans (NPLs) ratio improved significantly to 12.7 percent in December 2020 from 18.5 percent in September 2020, due to Government's payment of arrears to contractors who then paid their debts to the banks.

VII. CONCLUSION

Based on its assessment of the current economic conditions, the outlook of the economy in the near-term, and the need to continue to support economic recovery, the MPC resolved to maintain the Monetary Policy Rate at 14.0 percent and the asymmetric corridor rates at +300/-600 basis points around the MPR.

Therefore, effective Monday 29 March 2021, the following rates are published for the information of the public:

Monetary Policy Rate (MPC): 14.0 percent

Standing Deposit Facility Rate (SDFR): 8.0 percent

Standing Lending Facility Rate (SLFR): 17.0 percent



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