MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Sierra Leone (BSL) met on 28 March 2024. The Governor, Dr. Ibrahim L. Stevens, chaired the meeting. The MPC reviewed recent global and domestic macroeconomic and financial market developments, as well as an assessment of the risks to the outlook for domestic inflation and growth. Following the deliberations, the MPC decided to increase the Monetary Policy Rate (MPR) by 1 percentage point to 23.25 percent. The key considerations that informed the MPC's decision on the stance of monetary policy are summarised below:

GLOBAL ECONOMIC DEVELOPMENTS

More than anticipated, the global economy has been remarkably resilient to the impacts of recent shocks, due to strong macroeconomic fundamentals in most advanced and emerging market economies and robust consumer and government spending. Furthermore, labour markets have held up and supply chains are gradually returning to normal, coupled with decreasing food and energy prices. Consequently, global growth for 2024 is projected at 3.1 percent and to 3.2 percent in 2025, according to the January 2024 International Monetary Fund (IMF) World Economic Outlook (WEO). Global inflation continue to decline due to sustained tight monetary policy stance and lower food and energy prices.

The MPC noted that even though global inflation is decelerating, it remains high by historical standards in most regions. Moreover, the outlook may be shrouded with uncertainties, including geopolitical tensions involving the Israel-Palestine conflict and the Russia-Ukraine war, low productivity growth, high debt levels, renewed supply chain disruptions and increased shipping costs. The MPC also noted with concern the recent collapse of the Baltimore Key Bridge in Maryland, USA, and the potential adverse effect on global shipping and, ultimately, global economic outlook.

DOMESTIC ECONOMIC DEVELOPMENTS

Inflation

Inflationary pressures have been easing since October 2023. Headline inflation decreased from 54.59 percent in October 2023 to 52.16 percent in December 2023. Inflation further declined to 47.42 percent in January and then to 42.59 percent in February 2024 due to a decline in prices of both food and non-food components of the consumer basket.

The MPC is of the view that the ease in inflationary pressures reflects the tight monetary policy stance of the BSL, the relative stability of the exchange rate and moderating global commodity prices. Nonetheless, there are upside risks to the inflation outlook, including, the short-term impact of the proposed fiscal measures in 2024 Finance Act, through direct and indirect price effects, volatility in energy prices amidst the ongoing decrease in production by the Organization of the Petroleum Exporting Countries (OPEC), and high inflation expectations.

Growth Outlook

In the domestic economy, there is optimism, with real GDP growth projected to increase to 4.7 percent in 2024 and 5.2 percent in 2025, from a subdued growth of 2.7 percent in 2023. The projected expansion is to be driven by the expected increase in investment in agriculture, mining activities and a recovery in the services sector. Furthermore, the Bank's Composite Index of Economic Activities (CIEA) recorded positive growth in economic activity in 2023Q4 compared to a sharp contraction in 2023Q3.

In spite of the optimistic outlook, risks to the growth projections are tilted to the downside, associated with the likelihood of renewed geopolitical tensions, especially the on-going Israel-Palestine conflict, which might lead to new supply chain disruptions and higher international prices for food and energy.

External Sector Developments

The trade deficit narrowed by 50.9 percent to US$111.3mn in 2023Q4, from US$226.6mn in 2023Q3, due to the combined effects of an increase in exports receipts and a reduction in import bills. The gross foreign exchange reserves of the BSL increased, covering 2.7 months of imports compared to 2.3 months coverage recorded in 2023Q3. Inflows from development partners accounted for the boost in the reserve position in the period under review. Over the past nine months, the exchange rate has been relatively stable owing to some of the policy measures implemented by the BSL to remove bottlenecks in the foreign exchange market. Furthermore, market participants report a decline in speculative behaviour in the foreign exchange market and a reduction in the level of currency substitution, reflecting growing confidence in the BSL's policy actions.

The MPC noted with concern that despite the improvement in the level of reserves, it remains below the indicative threshold of at least 3 months of imports cover. However, the MPC is hopeful that the government's initiative to revamp agriculture, mining and services sectors of the economy, complimented by the BSL's Agricultural Credit Facility (ACF) to support the agricultural sector, and official inflows from development partners and private transfers, will increase the level of gross reserves in the near-to-medium term. The authorities are also commencing negotiations with the IMF for a new Extended Credit Facility (ECF) program, which, when successfully concluded, will boost confidence in the economy, ensure provision of balance of payments support and catalyse disbursements of financial resources from other development partners.

Fiscal Developments

Government fiscal operations recorded a surplus of NLe0.4bn in 2023Q4 from a deficit of NLe2.4bn in 2023Q3 and NLe2.6bn in 2023Q2. The improvement in fiscal outturn was on account of increased foreign grants, improved revenue collection and a reduction in expenditure. Accordingly, the primary balance recorded a surplus of NLe0.3bn in 2023Q4 compared to a deficit of NLe1.3bn in 2023Q3. Despite this improvement, the MPC noted that fiscal pressures remain high in the face of mounting priority spending needs of the government.

Monetary Developments

Reserve Money (RM) and Broad Money (M2) increased in nominal terms in 2023Q4 relative to 2023Q3. RM grew due to increase in Net Domestic Asset (NDA) of the BSL, while the growth in BM was on account of the increase in NDA of the Banking System. The growth in the NDA was driven by increased holdings of government securities by the BSL. However, RM and M2 declined in real terms, reflecting the impact of the tight monetary policy stance of the BSL. Credit to the private sector by commercial banks also expanded in nominal terms in 2023Q4, relative to 2023Q3. The MPC noted that while credit to the private sector increased, it remains skewed to a few sectors, and called for commercial banks to diversify their credit portfolio to other productive sectors to enhance financial intermediation and promote growth.

The yield on the 364-day T-bills continued its upward trend in 2023Q4, while the 91-day and 182-day T-bills markets remained illiquid or dysfunctional. The demand for government treasury bills continued to be skewed towards the 364-day tenure, with deposit money banks being the primary participants. The interbank market rate increased, moving closer to the overnight lending facility rate, signaling liquidity tightness. The MPC expressed concern about the continuous increase in the yield for the 364-day T-bills and its associated debt burden on government and underscored the need for urgent action by both the Ministry of Finance and the BSL.

Financial System Stability

The banking sector remained relatively stable with most Financial Soundness Indicators (FSIs) within acceptable thresholds. The MPC is of the view that the continued stability is on account of BSL's strengthened regulatory and prudential oversight and the strong banking system profitability generated from the significant investment in government securities. Despite the stability in the financial system, there are inherent risks, including high level of non-performing loans (NPLs), the over-reliance on government securities for banking sector earnings and cyber security threats. A sudden and large drop of T-bills rates presents a significant risk to banks' profitability and capital position. The MPC urges the BSL to sustain its surveillance and ensure compliance of banks with existing regulatory and prudential guidelines.

CONCLUSION

The MPC noted that in spite of the recent ease in inflationary pressures, inflation remains high. While the Committee expects the downward trend to continue, it acknowledged the upside risks to the outlook, including an increase in volatility of commodity prices, especially energy and food prices, and high inflation expectations. Hence, the need for the BSL to continue with monetary policy firmly focused on taming inflation, without hindering productive investment and economic growth.

Consequently, based on its assessments of the risk to inflation, growth and financial system stability and the need to strike a balance between low inflation, strong growth and financial system stability, the MPC decided to increase the MPR by 1 percentage point to 23.25 percent and to adjust the Standing Lending Facility and Standing Deposit Facility rates by the same margin. Therefore, effective Tuesday 2 April 2024, the following rates are published for the attention of the public: -

- **Monetary Policy Rate (MPR): 23.25**
- **Standing Lending Facility Rate (SLFR): 26.25**
- **Standing Deposit Facility Rate (SDFR): 16.75**

The MPC will continue to monitor developments in the global and domestic economy to ensure that inflation expectations are anchored to restore and maintain macroeconomic stability[1].

The next MPC meeting will be held on Thursday 27 June 2024.

Ibrahim L. Stevens, PhD
Governor

[1] The full dataset underpinning the analysis in this statement will be available in the Monetary Policy Report to be published by 30 April 2024.