



BANK OF SIERRA LEONE
MONETARY POLICY
FRAMEWORK

July 2016

1.0 MONETARY POLICY OBJECTIVES

The Bank's primary monetary policy objective is to deliver price stability – low and stable inflation – and, subject to that, to support the Government's economic objectives including those for growth and employment. The Bank's mission therefore is to "formulate and implement monetary and supervisory policies to foster a sound economic and financial environment. To this end, the Bank aims build and maintain strong and efficient organization with highly motivated professional employees working in the best interest of Sierra Leone. Section 20(1) of the Bank of Sierra Leone Act 2011 stipulates that "in promoting price stability, the Bank shall pursue a monetary policy which serves the interest of Sierra Leone in accordance with the objective of the Bank". The Bank is accountable to parliament and the wider public. The legislation provides that monetary policy of Sierra Leone shall be formulated and implemented autonomously by the Bank.

It is acknowledged that monetary policy cannot contribute directly to economic growth and employment creation in the long run. However, by creating a stable financial environment, monetary policy fulfils an important precondition for economic development.

2.0 MONETARY TARGETING FRAMEWORK

The current Bank of Sierra Leone (BSL) monetary policy framework is monetary targeting regime that focuses on the growth rate of a chosen monetary aggregate. In the case of BSL, reserve money is the primary operating target. The intermediate target or nominal anchor is broad money. The monetary targeting framework is based on the premise that in the long term, price growth is affected by money supply growth.

3.0 MONETARY POLICY COMMITTEE

Section 21(1) of the Bank of Sierra Leone Act 2011 prescribes that there shall be a Committee of the Bank to be known as the Monetary Policy Committee (MPC) which shall have the responsibility of formulating the monetary policy and the policies for the conduct of monetary operations of the Bank. It consists of seven members: the Governor, the Deputy Governor, three persons appointed by the Governor and two others persons appointed by the Minister of Finance. The MPC meetings are chaired by the Governor of the Bank and are held quarterly.

4.0 MONETARY POLICY COMMUNICATION

The Bank is committed to a transparent monetary policy and in that regard, several initiatives have been undertaken to improve the communication of its monetary policy stance to the public.

At the conclusion of every MPC meeting, an MP Statement containing the decision on the MPR and its underpinning considerations is issued and published on the Bank's website, in the electronic and print media. Going forward a press conference will be held by the Governor of the Bank to explain the reasons for the MPC's decisions. It is expected that the press conference will be broadcasted live on national television.

5.0 MONETARY POLICY IMPLEMENTATION

The Financial Markets Department of the Bank chairs the Open Market Operations Committee responsible for the implementation of monetary policy.

6.0 INSTRUMENTS

The instruments of monetary operations include the following:

6.1 Repurchase agreement transactions (Repo)

Repo is a contractual relationship where the Bank sells eligible securities, such as the Sierra Leone Government securities to banks and at the same time and as part of the same operation, commits to repurchase the same securities on a specified date at a specified price which reflects the repo rate. Repo is used to temporarily absorb liquidity from the banking system, for a fixed period of time agreed between counterparties. Ownership title to the securities during the repo period transfers to the provider of resources (funds).

Reverse repo, similarly is a contractual relationship where the Bank buys eligible securities from banks, and at the same time as part of the same operation, commits to resell the same securities on a specified date at a specified price. The Bank uses reverse repo transactions to inject liquidity into the banking institutions.

6.2 Outright sale/purchase of Government securities

The Bank may purchase or sell eligible securities issued by the government or the Bank to inject or withdraw structural liquidity in the banking system.

An outright transaction implies a full transfer of ownership from the seller to the buyer with no reverse transaction as such the operations has a permanent effect on money market liquidity. The operational features of outright transactions could be summarized as follows:

- They can take the form of liquidity-injection where there is a structural deficiency (outright purchase) or liquidity- absorption where there is a structural excess liquidity (outright sale) operations.
- Their frequency is not predetermined but depends on the need.
- Their execution is conducted through an auction/tenders system as decided by the Open Market Implementation Committee of the Bank of Sierra Leone.

6.3 Standing Facilities

In the event of residual surpluses or shortages, the Bank makes available the overnight standing facility, at the instance of the commercial banks. Request for access to the standing facilities must be made by the interbank institutions by contacting the Bank before 4:30 p.m. Interbank institutions would access this facility when there are unforeseen factors that result in surpluses or shortages relative to their minimum reserve or settlement requirement, late in the day and cannot be covered via the normal money market transactions. To ensure active trading between interbank institutions beforehand and use these facilities only as final options, the interest paid on overnight deposits is the floor rate (x basis points below the MPR) while interest charged on overnight lending is the ceiling rate (x basis points above the MPR).

In a liquidity shortage scenario, all lending operations are conducted in the form of a repo. Eligible securities for these transactions are the government and/or central bank securities.

6.4 Foreign Currency (FX) Transactions

The Bank may conduct foreign currency wholesale auction transactions as another intervention means of smoothening volatility in exchange rate as well as absorbing or injecting liquidity. With wholesale FX transactions, the Bank may either purchase or sell foreign currency in the interbank market.

6.5 Statutory Reserve Requirement (SRR)

The Statutory Reserve Requirement (SRR) is an instrument used to limit monetary expansion as well as manage liquidity. Banking institutions are required by law to maintain a minimum balances equivalent to 12 per cent of their local currency deposit liabilities in their Statutory

Reserve Accounts (SRA) at BSL averaged over a maintenance period of one week. (a two week period recommendation is awaiting approval).

6.5.1 Reserve base

The reserve base of the commercial banks is composed of deposits denominated in Leones held in their current accounts at BSL plus cash holdings in their vaults.

6.5.2 Reserve ratio

The reserve ratio is 12 percent. Bank of Sierra Leone may raise the minimum reserve ratio to manage any significant build-up of liquidity which may result in financial imbalances and create risks to financial stability. Conversely, BSL may lower the minimum reserve requirement ratio if necessary to support intermediation.

6.5.3 Maintenance period of the minimum reserves

The holding period is averaged over a one week (7 days) period. It starts on a Monday and ends on a Sunday of the same week. To allow greater flexibility in liquidity management, the maintenance period may be increased.

6.5.4 Remuneration of reserves holdings

The Bank of Sierra Leone does remunerate required reserve holdings of commercial banks.

7.0 DAILY OPERATIONS

The Bank's daily monetary operations are conducted between **8:00am - 4:30pm**, executed via various combinations of monetary instruments. See attached **appendix 3**.

Liquidity forecast position is first established before conducting monetary operations. The forecast is based on analysis of various factors, including the maturity of previous securities issued by the Government/Bank, repo transactions, changes in currency-in-circulation and large payments in and out of government treasury accounts. Both the overnight deposit and lending facilities are made available to the interbank institutions in the evening to manage any surplus or deficit of liquidity in the system for the day. All approved interbank institutions are able to participate directly in open market operations (OMO) conducted by the Bank including standing facilities.

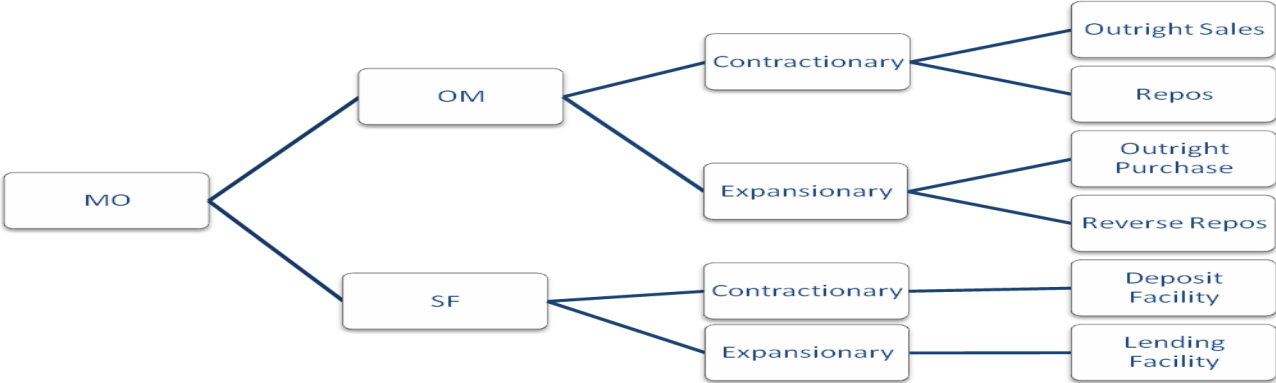
8.0 RISK MANAGEMENT

When the Bank lends in its operations, it does so against collateral of sufficient quality and quantity to protect itself from counter party credit risk. All interbank institutions are holders of eligible securities that are used as collateral in the money market. All collateral has a “haircut” applied. This is a discount to the value of assets to protect the bank against loss should a counterparty fail to repay. Currently a hair cut of 10% are applied on all eligible securities. As the market evolves the Bank will continue to review the breadth of collateral eligible for use in its facilities.

Bank of Sierra Leone

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Appendix 1: Proposed Layout of Monetary Operations of Bank of Sierra Leone



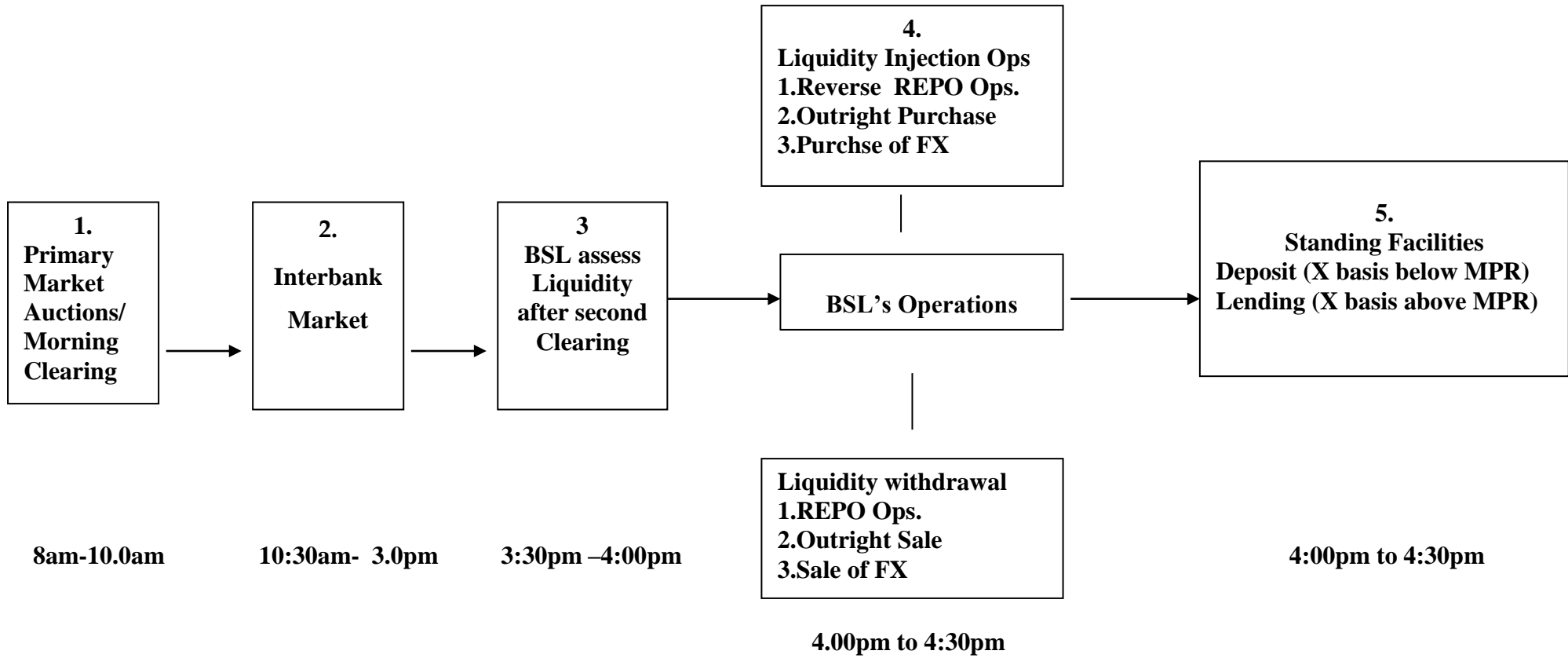
Where:-

- MO - Monetary Operations**
- OM - Open Market**
- SF - Standing Facilities**

Appendix 2: Description of Standing Facilities

| Description | Deposit Facilities | Lending Facilities |
|---------------------------|--------------------|--------------------|
| Liquidity Impact | Tighten liquidity | Expand liquidity |
| Frequency of transactions | Daily/Regular | Daily/Regular |
| Tenor | Overnight | Overnight |
| Minimum Bid Amount | Le1,000,000 | Le1,000,000 |
| Multiples of Bid Amount | Le5.0mn | Le5.0mn |
| Settlement | DVP | DVP |
| Bidders | Commercial banks | Commercial banks |

Appendix 3: Schedule of Daily Operations



Commercial banks are encouraged to Rediscount bills from their customers and transfer into their portfolio. However the Central Bank stands ready to re discount any bills on behalf of the general public.