Bank of Sierra Leone

Deputy Governor's Office

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West Africa

MONETARY POLICY STATEMENT

The Q3 2016 Monetary Policy Committee (MPC) meeting was held on 28th September. In the absence of Governor, the meeting was chaired by the Deputy Governor, Dr. Ibrahim L Stevens. The MPC discussed recent developments, both domestic and global, and their implications for inflation and monetary management. The deliberations included the MPC's assessment of the outlook for the economy, in the short to medium term.

The MPC took note of the challenges to global growth and the downward revision of the projections for 2016. The global economy is expected to expand by 3.1 per cent in 2016, slightly lower than earlier projections, and by 3.4 per cent in 2017. Risks to the outlook, however, remain and include uncertainty regarding the impact of Brexit, weakness in aggregate demand and investment and low commodity prices.

In assessing the outlook for growth in the domestic economy, the MPC noted that despite the weak global environment, especially low commodity prices, real GDP growth is projected at 4.9 per cent in 2016, up from an earlier projection of 4.3 per cent. This is driven largely by increase in export receipts from iron ore and favourable developments in agriculture, construction, manufacturing, services and trade sectors. Notwithstanding these developments in real sector activities, the MPC noted that there is potential to further diversify the economy from ongoing investments in the agricultural sector, as domestic output was still below its potential.

The MPC discussed price developments in the domestic economy, for example those emanating from the second round effects of the depreciation of the exchange rate, and underscored the need for the Bank to continue to be proactive and use its policy instruments to contain inflation. Inflation increased from 8.77 per cent in March 2016 to 10.84 per cent in August 2016. The increase in inflation reflects increases in both food and non-food inflation. These increases are as a result of the pass-through effects of the depreciation in the exchange rate and lower supply of domestic food items during the rainy season. On the outlook for inflation, MPC members observed that the expectation that high inflation is becoming entrenched in the economy has increased the uncertainty about the short-term outlook for inflation.

In discussing monetary developments, the view of the MPC was that despite the subdued growth in monetary aggregates over the past half-year, risks to the outlook for inflation remain high. The MPC also discussed the introduction of the overnight deposit facility and the overnight lending facility. These facilities offer commercial banks the opportunity to place funds with the Bank and obtain funds from the Bank, on an overnight basis. In addition, the MPC noted that the introduction of the interest rate corridor system would enhance the Bank's monetary policy implementation framework. This corridor system will be supported by an active open market operation to contain the risks to price stability, due to money market liquidity and other monetary developments.

On balance, the MPC judged that given the likelihood of additional supply-side inflationary shocks as well as the need to moderate the pass-through effects of the depreciation of the exchange rate, a tightening of monetary policy is warranted. The MPC will continue to monitor developments in the economy and take appropriate actions, if necessary, towards attaining the medium-term inflation target of single digit. The MPC also weighed risks to the growth outlook and the assessment was that risks to the inflation outlook outweighed those to growth.

It was against this background that the MPC voted to increase the Monetary Policy Rate (MPR) by 100 basis points, from 9.5 per cent to 10.5 per cent. The corridor around the MPR will remain at 100 basis points above the MPR and 550 basis points below the MPR.

Hence effective today, Monday 3rd October 2016, the following rates are published for the information of the public.

- Monetary Policy Rate is 10.5%
- Standing Deposit Facility is 5%
- Standing Lending Facility is 11.5%

Ibrahim L. Stevens (Dr.)
Deputy Governor