

SPEECH

BY

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GOVERNOR OF THE BANK OF SIERRA LEONE

AT THE

GOVERNOR'S ANNUAL DINNER

HELD AT THE

BANK OF SIERRA LEONE

STAFF RECREATIONAL COMPLEX

KINGTOM, FREETOWN

ON

FRIDAY, SEPTEMBER 9, 2005

**YOUR EXCELLENCY THE PRESIDENT**

**HONOURABLE VICE PRESIDENT**

**MR SPEAKER**

**MY LORD CHIEF JUSTICE**

**CABINET MINISTERS**

**HONOURABLE MEMBERS OF PARLIAMENT**

**YOUR WORSHIP THE MAYOR OF THE MUNICIPALITY OF  
FREETOWN**

**YOUR EXCELLENCY THE SPECIAL REPRESENTATIVE OF THE  
SECRETARY-GENERAL OF THE UN**

**UN SYSTEM REPRESENTATIVES**

**YOUR EXCELLENCIES MEMBERS OF THE DIPLOMATIC AND  
CONSULAR CORP**

**CHIEF EXECUTIVES AND BOARD DIRECTORS OF COMMERCIAL  
BANKS AND OTHER FINANCIAL INSTITUTIONS**

**REPRESENTATIVES OF THE PRIVATE SECTOR AND NGO'S**

**REPRESENTATIVES OF CIVIL SOCIETY ORGANISATIONS**

**MEMBERS OF THE FOURTH ESTATE**

**DISTINGUISHED LADIES AND GENTLEMEN**

One year has quickly sped by, since the celebration of our landmark 40<sup>th</sup> Anniversary last year.

On behalf of the Board of Directors, Management and Staff of the Bank of Sierra Leone, it is my singular honour and pleasure to once again extend a warm welcome to you and in particular to His Excellency the President, Alhaji Dr. Ahmad Tejan Kabbah

and the honourable Vice President Mr Solomon Berewa to our annual dinner.

About this time last year, I had the privilege and honour of hosting many of you at this same venue, to celebrate with us forty years of central banking in Sierra Leone.

Your Excellency, Distinguished Guests, the annual dinner has become not just a ritual, but an event that many Sierra Leoneans, not least the business community, look forward to with great expectation. This is because it provides a forum for dissemination of information and sharing our thoughts with you, on the nation's financial and economic performance. It also serves as a platform for review, analysis and evaluation of monetary and related fiscal policies, to ascertain their relevance, validity, appropriateness and impact, as well as reflect on, and chart the way forward.

On behalf of the Board of Directors, Management and staff of the Bank, I once again express my profound thanks to you all for honouring our invitation to this dinner, my second as Governor, and hope that you will find it worthwhile and a quality way of spending your Friday evening.

His Excellency the President, honourable Ministers, Your Excellencies, Distinguished Guests, the speech as is customary,

will focus on key global, regional and national economic development issues, over the past year. Please permit me to start with some household matters.

It is with great sadness that we recall the passing away of Mr Kaifen S T Kallay, who, until his death in September 2004, was a member of the Bank's Management team and Secretary to the Board. We also recall with sadness the death of Mr James K E Cole, who served the Bank in various capacities and retired as Deputy Governor, after many years of distinguished service to the Institution. We also note with sadness the passing away of Mrs Eileen Iscandry a former member of staff who on retirement joined WAMI. As we recall and acknowledge the invaluable contributions by these illustrious past members of staff, to the development and work of the Bank, we wish to extend our heartfelt sympathy to their respective families, and pray that their souls continue to rest in perfect peace.

Your Excellencies, Distinguished Guests,

Let me formally extend sincere congratulations to a distinguished Banker and colleague, the Managing Director of the Sierra Leone Commercial Bank, Alhaji Dr Abdulai Kakay who was last December awarded the degree of Doctor of Civil Laws (Honoris Causa) by our alma mater, Fourah Bay College, University of Sierra Leone, for exemplary service to the banking sector. Alhaji Dr Abdulai Kakay has been the Chief Executive of

the Sierra Leone Commercial Bank since 1998. We wish him well in his career.

His Excellency, the President, Distinguished guests, please permit me to now proceed with analysis of developments in the global, regional, sub-regional and national economies, over the past year. We are all aware that in spite of the tremendous strides that the Sierra Leone economy has made since the end of the war, enormous economic, monetary and fiscal challenges continue to confront our nation. These are influenced not only by domestic but also international developments, and I will attempt to put our present situation within that context, into perspective. The thesis of my presentation is that changes in the global, regional, and sub-regional economic environment have profound effect on domestic economic performance, and the wellbeing of our nation.

### **International Developments:**

Global economic recovery, displayed fluctuating tendencies over the reporting period; it peaked up to mid 2004, with an estimated average GDP growth of 5 per cent (the highest for nearly three decades), slowed down in the earlier part of the review period, but showed some signs of an upturn towards the latter part of 2004 and the first half of 2005. This was evident in the strong growth recorded in the developed economies, especially the United States, and the exceptionally rapid

expansion in emerging market economies, notably China. The expansion has been accompanied by a significant rise in industrial production and global trade, as well as accelerated private consumption growth. The general effect has been improved market conditions and an increase in foreign investments. From a regional perspective, the recovery has become increasingly broad based with some regions growing faster than others. A negative outcome of this strong growth has been the high demand for oil leading to the incredible rate at which oil prices have been rising, reaching the unprecedented peak of US\$66 per barrel in August this year. The devastating effects of Hurricane Katrina pushed oil price a further high level of US\$77 per barrel. The high oil prices are mainly responsible for the weakening in the momentum in global expansion and further weakening is projected if oil prices remain high. Against this background, it is estimated that world GDP growth will decline to an average of 4.3 per cent in 2005.

### **Regional Developments:**

Against the backdrop of global economic growth and high oil prices, Africa is currently experiencing its best economic performance in many years. The economies of many countries in the region are benefiting from global expansion, notably through increasing foreign direct capital investment, as a result of improved domestic macroeconomic management. The

economic recovery experienced in 2004 and the general rise in commodity prices gave a positive impetus to African oil and metal exports, with the continent also benefiting from a rise in official receipts.

His Excellency the President, Distinguished Guests, in the year under review, prudent macroeconomic policies adopted by most African countries have facilitated economic recovery. Despite increasing oil prices, inflation has remained at low levels overall. Low world- wide inflation benefited countries with pegged exchange rates, such as CFA franc countries, while prudent monetary policies played a key role in several floating-rate countries. The wind - fall gains from commodity prices have improved the public finances in the oil-exporting countries of the region.

The solid growth of the African economies is expected to continue in 2005 and 2006, although at a slightly lower rate. This positive outlook is however highly dependent on the continuous expansion of the global economy, an overall easing of regional conflicts and favourable weather conditions. However, in spite of the rosy picture and rising aid levels, the Millennium Development Goals (MDGs) remain grossly under-funded and progress on most of the eight goals set for 2015

remains limited. This is one of the major challenges for the international community.

Your Excellency, Distinguished Guests, this year, Africa has attracted the attention of the world. In the weeks leading to the G8 Summit held in Scotland in July, high expectations surrounded that event, where action was expected to be taken to provide total debt relief, underpin pro-poor trade liberalization and generate more aid for the continent. Two major reports were released prior to the summit, both focusing on the problems that Africa faces. The first from the United Nations Millennium Project, proposed a practical plan to achieve the Millennium Development Goals. The second was the Report of the Commission for Africa, launched in March. Both reports strongly advocated the need for substantial additional aid for Africa while emphasizing the need for improved governance in African countries.

The outcome of the Summit was a landmark debt relief deal, resulting in immediate write-off of the total debt of US\$40 billion owed by eighteen (18) HIPC countries, fourteen (14) from Sub-Saharan Africa. Twenty other countries including Sierra Leone could be eligible for debt relief, when they meet targets for good governance and addressing corruption, bringing the total package to more than US\$55 billion.

A second significant outcome of the G8 Summit was an approximate doubling of annual aid to the continent, to rise by US\$25 billion by 2010 and, subject to improvements in governance, a further US\$25 billion by 2015. Though welcome, this falls far short of expectations, especially those relating to debt cancellation.

Your Excellency, Distinguished Ladies, and Gentlemen, the increased recent focus on Africa should not be viewed in isolation, but as a reaction to the efforts of African leaders to turn the continent around. The promotion of good governance, peace and security and economic development are at the heart of the strategies and programmes of the African Union (AU) and the New Partnership for African Development (NEPAD). In line with the Millennium Development Goals (MDGS) NEPAD hopes to achieve an average GDP growth rate of 7% per annum for the next 15 years, and significantly reduce poverty. Through these and other initiatives, African leaders have embraced a new vision for the continent's future, which recognizes the leading role of Africa in global peace, trade and access to global markets, addressing the problems of money laundering and terrorism as well as Africa taking its rightful place in the global arena, including permanent membership of the UN Security Council. It is important to note that as a result of this proactive

role of the continent's leadership, Africa has made tremendous progress in recent years evidenced by the following: -

- In the last five years more than two thirds of Africa south of the Sahara have had democratic elections
- Inflation is one fifth of levels ten years ago
- Over 4 per cent growth has been recorded in sixteen African countries in the last ten years
- Significant successes have been recorded in economic and monetary integration, culminating in the initiation and resuscitation of regional and sub-regional economic integration and monetary unions

### **Sub- Regional Developments:**

Your Excellency, Distinguished Guests, coming nearer home, growth in the West African sub-region accelerated during the period under review, although inflation rates were generally slightly higher than the levels in the preceding period. Domestic prices were also marginally up, due to the spiral effect of higher petroleum prices. The marginal growth, seen against increasing world prices of imports and very low export prices for cocoa, coffee, gold, bauxite and rutile, accounted mainly for the renewed vigour in the pursuit of market- friendly and growth-

oriented economic adjustment policy measures. Performance however varied on an individual country basis. In particular, Nigeria recorded strong growth as a result of higher oil production, while in the CFA zone countries growth was weak overall, due mainly to the crisis in the Ivory Coast and its impact on the sub-region.

Performance in the West African Monetary Zone (WAMZ) countries improved over the period, but was significantly below the requirements for establishing the monetary union, which had been proposed to take off in July 2005. As a result, the commencement of the Union has been rescheduled to December 2009. It is envisaged that by that time, member countries would have met the macroeconomic convergence criteria, and tremendous progress would have been made in the implementation of the structural benchmarks, including policy harmonization in respect of payments system development, banking supervision, statistical harmonization, free movement of people and goods, as well as trade and capital account liberalization. The Heads of States renewed their commitment in Banjul, to these ideals, and affirmed that the actions required to achieve the Union will be included in each country's economic plan and budget.

## Domestic Economic Developments:

Your Excellencies please permit me to now shift the analysis to developments in the Sierra Leone economy.

Your Excellencies, Ladies and Gentlemen, managing a post-conflict economy like ours, continues to pose considerable challenges. Key among these challenges are re-launching the economy, rehabilitation and resuscitation of the real sector of the economy, designing and managing sound macroeconomic and sectoral policies, strategies and programmes, maintaining sustained positive engagement of development partners, all of which exert considerable pressure on scarce resources. In spite of these challenges considerable progress has been recorded in implementation of economic policies and programmes, aimed at attaining macro-economic stability higher sustainable growth, jobs, poverty reduction, necessary for meaningful development. As a result of the confidence by donor partners, in economic management, the country has continued to receive programme and budgetary support from multilateral and bilateral partners, especially the World Bank, the International Monetary Fund, the European Union, the African Development Bank, Islamic Development Bank, DFID and the United Nations system organizations.

Your Excellency, Distinguished Guests, we have all received the encouraging news that the country successfully completed the Sixth and Final Review of the Poverty Reduction and Growth Facility (PRGF) Arrangement with the IMF, in June this year, and the Executive Board of the Fund approved the final disbursement of SDR14 million (about US\$20.8 million), in support of the economic recovery programme. This brings the total amount drawn under the PRGF arrangement, to SDR130.8 million (US\$194.3 million). An additional disbursement of SDR4 million (about US\$5.9 million), was approved as interim assistance, under the HIPC Debt Relief Initiative. Discussions are underway for a successor programme before the end of the year.

We look forward to reaching completion point under the HIPC Initiative in 2006, when Sierra Leone will benefit from maximum debt relief from its external creditors.

The country's three-year Poverty Reduction Strategy Paper (PRSP), was completed early this year, and received the required World Bank approval in May. A donor's conference to solicit financial support for the full implementation of the programme, is being negotiated for the end of the year. Technical Committees responsible for implementation of the five pillars of the PRSP, are now functional.

Your Excellency, Distinguished Guests, the cessation of hostilities in Liberia and commencement of democratic processes, will make a significant contribution to peace and security in Sierra Leone and the sub-region as a whole. This will further strengthen the government's efforts to redirect resources away from humanitarian relief and rehabilitation, towards productive activities and thereby enhance economic growth and poverty reduction.

Your Excellency, Distinguished Guests, against the backdrop of expanding world growth, the Sierra Leone economy experienced significant increase in domestic output, with GDP growth estimated at 7.4% in 2004. Similar growth rate is projected for 2005, a reflection of the increasing levels of output in the manufacturing sector, new industries being established, some recovery in the production of our major export crops, coffee and cocoa, increased food production in line with the Government's policy of food security by 2007, as well as sustained upward performance of the diamond mining sector.

On the fiscal side, although domestic revenues increased with an expansion in economic activities, improved tax collection machinery and additional measures put in place by the NRA to

curb smuggling, performance has remained weak, in the face of increasing fiscal expenditures. Delays in donor inflows have also led to a significant increase in domestic borrowing, rapid broad money growth and inflationary and exchange rate pressures. The weekly foreign exchange auction by the Bank continues to augment supply and keep the exchange rate relatively stable. The exchange rate moved slightly from (Le2,697/US\$1) 2004 to (Le2,888/US\$1) in July 2005 an estimated 7% depreciation. The premium between the parallel market and official rate was less than 10%.

It is relatively more difficult to keep inflation levels within programme targets, as it recorded double digits for most of 2004 to end the year at 14.34%, being propelled by exogenous factors, mainly the oil price hike. Inflation however, moderated to 11.4 by June 2005 as a result of tight fiscal and monetary policies.

Against these extenuating circumstances, the Bank of Sierra Leone continued its use of open market operations as the primary instrument of monetary control, through a restrictive monetary policy stance. In addition it raised the reserve requirement ratio of commercial banks from 10 per cent to 12% in December.

Growth in Broad Money slowed somewhat from 26% in 2004 to 23% in 2005. The annual yield on Treasury Bills dropped from 27.31% in December 2004 to 24.68% in June 2005, while interest on Treasury Bearer Bonds, also dropped from 22% in December 2004 to 20% in June 2005. Private sector credit is on the increase to meet the growing demands of the sector, but at a slower rate than in 2004.

## **Corporate Responsibility**

Distinguished Ladies and Gentlemen, apart from our core mandate of promoting monetary stability and a sound financial structure, the Bank of Sierra Leone has also taken up the responsibility to address some of the needs of the community in which we operate.

The Bank in pursuit of its corporate social responsibility, has offered assistance to communities and organizations for diverse purposes ranging from humanitarian to educational and academic pursuits albeit, on an ad hoc basis through its "Good Causes" budget.

However, in a post conflict environment, the pressure on the budget has been quite heavy, making it necessary for the Bank to prioritize the growing and competing demands for assistance. The Bank's new approach is to focus on projects that are of a

developmental nature and provide support to disadvantaged groups and communities. This has provided a window of opportunity to work with deserving communities directly.

In line with this policy, the Bank as part of its 40<sup>th</sup> anniversary activities, in partnership with the Staff Association, supported in 2004, a project for the erection of perimeter fencing for a home for mentally retarded children, the Hosetta Abdullah Memorial Home.

This year, another project has been identified, for the Bank to provide safe drinking water and toilet facilities for a small settlement located near Hastings- Rogbangba village - identified as an extremely deprived community, lacking basic amenities for human survival. The Bank also provides, chairs, and one month food supply to the King George II Old People's Home.

In addition to actions taken under our Good Causes Budget, the Bank of Sierra Leone launched last year as part of its 40<sup>th</sup> anniversary celebrations, "The Bank of Sierra Leone Charity Trust Fund," established to assist deserving students to achieve academic success in their areas of study. The Bank in collaboration with De la Rue provided seed money for the Charity. In addition, commercial banks and other financial institutions have donated to the Fund and the Sierra Leone

American Friendship Association in Texas USA, intends to donate educational equipment and materials including computers and scientific equipment. The Commercial Banks have also agreed to make provision in their budgets for annual subvention to the charity. I sincerely hope that their management and Boards, will give careful consideration to what undoubtedly, will be a worthwhile cause. I want to use this opportunity to appeal to business houses and other private sector organizations to contribute to the Trust Fund.

It is with great pleasure that I announce that the Board of Trustees, charged with the responsibility of managing the charity, was officially unveiled on the 4<sup>th</sup> August 2005. Its membership is made up of distinguished Sierra Leoneans, who will no doubt ensure that the Charity fully meets its desired objectives.

One of the key elements in the Bank of Sierra Leone's strategy for the Financial Sector over the past two years, has been the drive to enrich and deepen the financial sector. Significant successes were recorded last year with the opening of the International Commercial Bank (SL) Limited in August 2004. This brings to seven the number of licensed commercial banks operating in the country. Three additional branches were

added to the existing network, bringing the total to 27 branches nation-wide.

Policy emphasis has also been on products diversifying resulting in commercial banks venturing into areas such as agriculture, mining and industry, hitherto considered as high risk areas.

To enable the Commercial Banks to effectively respond to the growing demand for credit, the Central Bank has decided to increase the minimum capital or net worth of the banks to Five Million US Dollars (US\$5,000,000), spread over a period of four years, starting with two million US Dollars (US\$2,000,000) in 2006. Significant growth has also taken place, in total assets, deposits, advances and performing loans of commercial banks.

Other developments during the period include the launching of the Capital Discount House in November 2004 with its official opening in April 2005.

Progress has also been made in the growth of Foreign Exchange Bureaux. Licences were granted to eight new foreign exchange bureaux in 2005 bringing the total to 46 Foreign Exchange Bureaux nationwide. Six licences were cancelled for non-compliance with regulations.

Significant strides have also been made in taking financial services to the doorstep of rural communities. Two community banks at Segwema and Mattru commenced operation in 2004, while construction work is underway for two additional Community Banks in Zimmi and Kabala, bringing the total to six Community Banks across the country. The rationale for Community Banks, as providers of financial technical and related services to rural communities, remains valid and relevant, and has become even more compelling, as they serve as facilitators for mobilizing huge idle rural savings, which will be redirected to productive activities, create jobs and wealth in rural communities, and thereby contribute directly to poverty reduction. An Apex Bank will soon be established to take responsibility for supervision and regulation of all community banks, while the Bank of Sierra Leone will supervise the Apex Bank.

The Central Bank continues to work with national and international partners to develop institutions and implement modalities for efficient delivery and management of micro finance, provided under the Micro Finance Investment Technical Assistance Facility (MITAF). Plans are underway for the proper registration, regulation and supervision of all micro finance units.

For the provision of longer-term funds, plans are well advanced for the establishment of a stock exchange which is expected to be operational before the end of the year. A consultant has been identified and should start work at the end of September 2005 to operationalize the capital market development plan. I would like to use this opportunity to thank the Commonwealth Secretariat and First Initiative for their invaluable support in our drive to establish the capital market.

Looking ahead, the future holds good for the Central Bank and the national economy. The major challenges in the near term include, recapitalization of the Bank, achieve monetary policy objectives of maintaining stable exchange rate, and low inflation consistent with high sustainable growth. The policy challenges for the medium to long term will focus on promoting the safe and sound development of the financial system, including the ability to be able to respond to the varying needs of users, as well as ensuring that financial intermediation reaches all corners of the country, with efficient service delivering. This will require striking a judicious balance between, on the one hand, the need to provide short-term credit to small businesses with little or no collateral, and on the other hand, providing long-term credit for more sustainable development.

Finally, there are challenges relating to the unpredictability and sometimes inordinately slow budgeted donor inflows, and the resultant need for Government's direct borrowing from the Central Bank; there are also challenges relating to deepening the financial market, managing external shocks, especially from spiraling oil prices, all of which contribute to making the execution of effective monetary and fiscal policy difficult.

Your Excellency, Distinguished Guests, our work would have been even more difficult, without support from many institutions and individuals, all of whom I cannot name here. I would however like to single out and thank His Excellency the President, the Honourable Vice President, the Minister of Finance, Mr Speaker and Honourable members of Parliament, without whose cooperation and support we would not have made much progress.

Distinguished Guests, I would certainly be remiss in my duty here tonight, if I fail to recognize the valuable co-operation and understanding demonstrated by the commercial banks, non-bank financial institutions, the business community and other economic operators, in spite of difficult circumstances imposed on their activities by the challenges of an emerging post-conflict economy.

We would also like to acknowledge and express sincere Thanks to our development partners, notably the International Monetary Fund, World Bank, African Development Bank, European Union, DFID, as well as bilateral and regional organizations for their continued commitment and provision of much needed financial and technical assistance. We believe that their sustained support and cooperation, will make a significant contribution to the country's economic turn around, poverty eradication and sustainable development.

His Excellency the President, Distinguished Guests, It is now obvious that as part of the global economy, developments outside our control will continue to impact on our economic wellbeing. In the final analysis however, the economic fortunes of the nation would be determined by sound national policies, strategies and programmes, built on our collective determination and commitment to create a strong and prosperous Sierra Leone. We at the Bank of Sierra Leone, once again renew our commitment to working with the Government and all partners to achieve this goal.

I thank you for your attention.