



**BANK OF SIERRA LEONE**  
**MONETARY POLICY REPORT**

**MARCH 2023**

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## ACRONYMS

<b>AE</b>	Advanced Economies
<b>BOP</b>	Balance of Payments
<b>BSL</b>	Bank of Sierra Leone
<b>CAR</b>	Capital Adequacy Ratio
<b>CFC</b>	Customers Foreign Currency
<b>CIEA</b>	Composite Index of Economic Activities
<b>CPI</b>	Consumer Price Index
<b>CRR</b>	Cash Reserve Requirement
<b>dmt</b>	Dry Metric Tons
<b>ECB</b>	European Central Bank
<b>ECF</b>	Extended Credit Facility
<b>ECOWAS</b>	Economic Community of West African States
<b>EMDEs</b>	Emerging Market and Developing Economies
<b>FSIs</b>	Financial Soundness Indicators
<b>FX</b>	Foreign Exchange
<b>GDP</b>	Gross Domestic Product
<b>GoSL</b>	Government of Sierra Leone
<b>GST</b>	Goods and Services Tax
<b>IMF</b>	International Monetary Fund
<b>M2</b>	Broad Money
<b>MoF</b>	Ministry of Finance
<b>MPC</b>	Monetary Policy Committee
<b>MPR</b>	Monetary Policy Rate
<b>NDA</b>	Net Domestic Assets
<b>NEER</b>	Nominal Effective Exchange Rate
<b>NFA</b>	Net Foreign Assets
<b>NPLs</b>	Non-Performing Loans
<b>ODCs</b>	Other Depository Corporations
<b>OIN</b>	Other Items Net
<b>OMO</b>	Open Market Operations
<b>OPEC</b>	Organization of the Petroleum Exporting Countries
<b>Q1</b>	First Quarter
<b>Q2</b>	Second Quarter
<b>Q3</b>	Third Quarter
<b>Q4</b>	Fourth Quarter
<b>QM</b>	Quasi Money
<b>REER</b>	Real Effective Exchange Rate
<b>RM</b>	Reserve Money
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Equity
<b>SDF</b>	Standing Deposit Facility
<b>SLF</b>	Standing Lending Facility
<b>Stats SL</b>	Statistics Sierra Leone
<b>T-bills</b>	Treasury Bills
<b>WB</b>	World Bank
<b>WEO</b>	World Economic Outlook
<b>WTI</b>	West Texas Intermediate

## ***The Report***

*The March 2023 edition of the BSL Monetary Policy Report presents an assessment of global and domestic economic developments, mainly during the fourth quarter of 2022. The report also assesses current developments in the first quarter of 2023, for which data is available, as well as near-term prospects, with a view to implementing appropriate monetary policy consistent with the Bank's policy objectives.*

## ***BSL Monetary Policy Objectives***

*The primary objective of the BSL is to achieve and maintain overall price stability in the Sierra Leone economy. However, the Bank's mandate encompasses other important goals, including the stability of the financial system and financial market development, as well as supporting the general economic policy of the government to enhance overall macroeconomic stability.<sup>1</sup>*

## ***Monetary Policy Strategy***

*The BSL is the sole monetary authority in Sierra Leone with statutory operational independence to conduct monetary policy in the country. The Bank uses appropriate policy instruments to achieve its stated objectives. These include the Monetary Policy Rate (MPR), Open Market Operations (OMOs), Standing Lending and Deposit Facilities, Foreign Exchange Operations, and Cash Reserve Requirements.*

## ***Monetary Policy Process***

*The monetary policy of the Bank is formulated by the Monetary Policy Committee (MPC), which is a statutorily constituted body of seven members. The MPC includes the Governor of the Bank (who serves as the chairperson), Deputy Governor for Monetary Policy, Deputy Governor for Financial Stability, and four other experts with relevant professional experience in monetary policy and financial market operations nominated by the Governor and approved by the Board of Directors of the BSL. The MPC meets every quarter to assess recent global and domestic economic developments, as well as near-to-medium-term prospects and inflation risks. Based on these assessments, a policy decision is made, mainly using the MPR to signal the Bank's monetary policy stance. During deliberations in the MPC meeting, each member proposes a preferred MPR decision supported by underlying reasons. The final decision takes place by vote, with the chairman having the deciding vote in the event of a tie. The final decision is then published in a monetary policy statement on the Bank's website within forty-eight hours after the MPC meeting. In addition, the Governor and other authorised staff engage the public from time to time to explain the Bank's policy decisions and to clarify emerging economic issues, especially those affecting the conduct of monetary and exchange rate policies, among others.*

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<sup>1</sup> Section 7.A of the new BSL Act 2019 states: “(1) the objective of the Bank shall be to achieve and maintain price stability. (2) Without prejudice to subsection (1) the Bank shall contribute to fostering and maintaining a stable financial system. (3) Without prejudice to the attainment of the previous two objectives, the Bank shall support the general economic policy of the Government.

## **1. EXECUTIVE SUMMARY**

The global economy is expected to slow in 2023, despite improvements in the last quarter of 2022. China's reopening and resilience in the US and Euro Area paved the way for a nascent rebound towards the end of 2022. However, the surge in inflation, high interest rates, tight financial conditions, and the war in Ukraine continue to weigh down on global output. Accordingly, in its WEO updates in January 2023, the IMF projected global growth to slow from 3.4 percent in 2022 to 2.9 percent in 2023 before improving to 3.1 percent in 2024.

Global inflation showed improvement on the back of slowing economic activity and moderately declining commodity prices. Hence, the IMF projected global inflation to decrease from 8.8 percent in 2022 to 6.6 percent and 4.3 percent in 2023 and 2024, respectively. However, inflation is projected to remain high by historical standards.

Global commodity prices are poised to soften in 2023 relative to 2022, mainly due to weak global activity. Prices of commodities such as crude oil, petroleum products, and rice are expected to decline further.

At the domestic front, the Sierra Leone economy continues to be challenged by the impact of adverse global shocks, exchange rate depreciation pressures, and the associated rising cost of living as inflation continues to bite. As a result, domestic growth is estimated to have slowed from 4.1 percent in 2021 to 2.8 percent in 2022. However, the Bank's high-frequency tool for economic activity (CIEA index) signalled improved activity in the last quarter of 2022.

On the external sector, the trade deficit narrowed in the fourth quarter of 2022 mainly due to increased exports receipts, combined with decline in imports bills. In line with the improvement in the trade balance, the gross foreign exchange reserves also improved in the review period. Exchange rate depreciation persisted in 2022Q4, with depreciation pressures manifested in all market segments. Demand for forex continued to outweigh supply, which is partly associated with the effect of currency substitution on the back of rapid weakening of the Leone.

On the fiscal front, preliminary data shows that the fiscal deficit narrowed, mainly underscored by increase in grants. However, the primary balance continued to widen for the fourth consecutive quarter, implying tight fiscal space going forward.

Monetary aggregates were expansionary in the last quarter of 2022 and were above program targets. The expansion reflected increases in net foreign assets and net domestic assets of both the central bank and the banking system. Despite the increase in money supply, private sector credit growth decreased in 2022Q4 and was below program targets.

Government securities were oversubscribed on a net basis in 2022Q4, largely induced by BSL secondary market operations to support liquidity. Only the 364-day T-bills were traded, with no demand for 91- and 182-days T-Bills. The interbank market rate continued to increase during the review period, implying tight liquidity in the banking system.

The assessment of the banking sector showed that most of the Financial Soundness Indicators (FSIs) remained above the prudential thresholds stipulated by BSL, suggesting continued stability



in the banking sector in 2022Q4. The NPL ratio also decreased for the second consecutive quarter but remains above the statutory limit of 10 percent.

However, there are risks posing a threat to the financial system, including limited intermediation, over-reliance on investment in government securities, and an increase in foreign currency deposits, among others.

Headline inflation rose further from 29.10 percent in September 2022 to 37.09 percent in December 2022 and further accelerated to 38.48 percent and 42.71 percent in January and February 2023, respectively. The rise in headline inflation was driven by both food and non-food inflation. Looking ahead, inflation is forecasted to hover around 41 to 43 percent in the near term, with risks to the inflation outlook tilted to the upside.

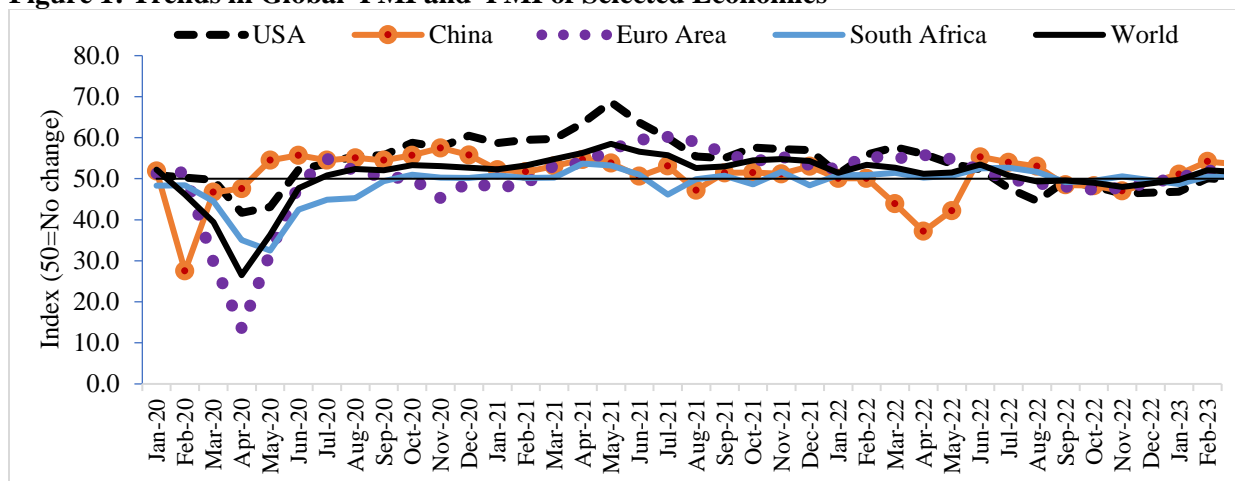
The rest of the report is organised as follows: the second section analyses recent global economic developments, including global growth, global inflation, commodity prices, and their implications for the Sierra Leone economy. The third section assesses domestic economic developments and outlook. Finally, the fourth section covers the conclusion and decision of the Monetary Policy Committee in March 2023.

## 2. GLOBAL ECONOMIC DEVELOPMENTS AND PROSPECTS

### 2.1 Global Output

Global economic activity in the last quarter of 2022 was stronger than anticipated, bolstered by the full reopening of the Chinese economy, coupled with economic resilience in the United States and the Euro Area. This relatively strong global economic performance has been observed to continue into the first two months of 2023, as indicated by the Composite Purchasing Managers' Indices (PMI) of major global economies. Following the removal of zero-COVID-related restrictions, economic output in China appears to be recovering quickly. The composite PMI for both the manufacturing and services sectors surged in January-February 2023. Despite tight financial conditions, the United States economy continued to perform resiliently, supported by improving private sector activities, as evidenced by the return of the composite PMI to expansionary territory. Similarly, in the Euro Area, improved economic sentiments supported resilience in the economy, with the composite PMI moving further into expansionary territory in February 2023. Figure 1 shows trends in the PMI of the world and selected economies.

**Figure 1: Trends in Global PMI and PMI of Selected Economies**



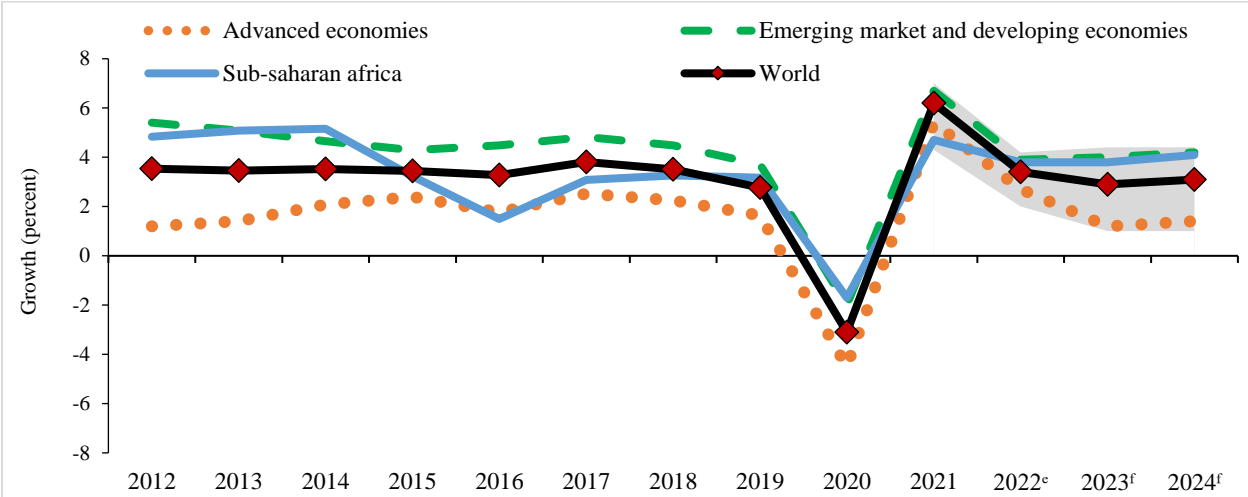
**Data Source:** Markit Economics, through Trading Economics March 1, 2023; **Note:** PMIs above 50% indicate expansion of the manufacturing sector; below 50% they indicate contraction

However, global economic uncertainties persisted, with risks to global growth still firmly tilted to the downside, including higher interest rates, the cost-of-living crisis, growing US-China tensions, and the on-going Russia-Ukraine war. Additionally, budding financial tensions sparked by the sudden collapse of Silicon Valley Bank (SVB) in the United States on March 10, 2023, and the

subsequent closure of two small banks and the demise of Credit Suisse could further increase global economic uncertainties.

In line with the persistent global economic uncertainties, the IMF, in its January 2023 World Economic Outlook update, projected global growth to slow from 3.4 percent in 2022 to 2.9 percent in 2023, then rebound slightly to 3.1 percent in 2024. In the medium-to-long term, economic activity in key emerging market economies, including China, India, and Brazil, is expected to make a larger contribution to global growth. Figure 2 shows the trends in global and regional real GDP growth.

**Figure 2: Trends in global and regional real GDP growth rates**



Source: IMF World Economic Outlook, October 2022 database and January 2023 update; Note: e= estimate & f =forecast

**2.1.2 Advanced and Emerging Market Economies**

Conditions in advanced economies remain challenging, despite the resilience observed in some member countries. Growth in the group is projected to slow considerably from 2.7 percent in 2022 to 1.2 percent and 1.4 percent in 2023 and 2024, respectively. High interest rates and tighter financial conditions continue to weigh on economic activities. The recent banking crisis in the United States could pose further risks to economic performance in the group.

Emerging market and developing economies are showing signs of improved economic activity, underscored by strong economic out-turns in India and Brazil, coupled with the nascent rebound

in China. Consequently, growth in the group is projected to increase from 3.9 percent last year to 4.0 percent and 4.2 percent this year and the next.

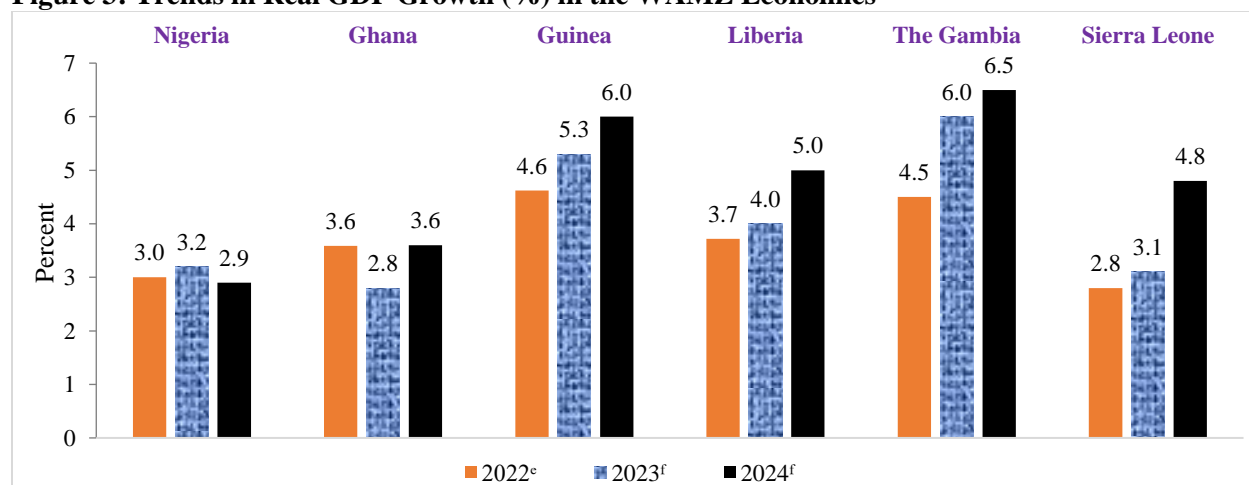
### 2.1.3 Sub-Saharan Africa

Overall, growth in Sub-Saharan Africa is expected to remain unchanged at 3.8 percent this year, the same as last year. The weak performance of Nigeria and South Africa, the two largest economies in the region, will weigh on regional growth this year, despite strong momentum observed elsewhere in the region. On the outlook, growth in SSA is expected to pick-up to 4.1 percent in 2024. Meanwhile, higher borrowing costs, elevated unemployment, exchange rate depreciation, and debt servicing costs are major risks to the growth outlook in the region.

#### 2.1.3 West African Monetary Zone (WAMZ)

The WAMZ economies are expected to be resilient in 2023 and to improve in 2024, except for Nigeria, which is projected to record weaker growth in 2024. However, major economic management challenges remain across these economies. Higher borrowing and debt servicing costs are weighing heavily on public finances and threatening debt sustainability. The higher cost of living and extreme weather events are also major risks to economic performance in these economies going forward.

**Figure 3: Trends in Real GDP Growth (%) in the WAMZ Economies**



Source: IMF World Economic Outlook, October 2022 and January 2023 update; Note: e=estimate and f=forecast t

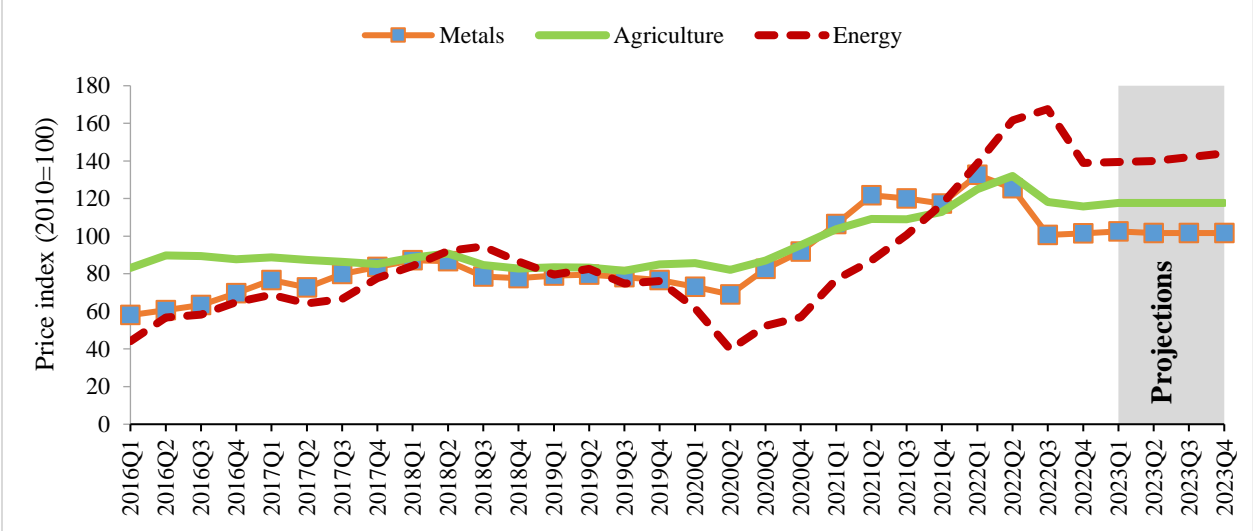
## 2.2 Global Commodity Prices and Inflation

### 2.2.1 Global Commodity Prices

Global commodity price developments were mixed during the review period. The energy price index plunged by 28.57 points to an index of 139.00 points in 2022Q4 due to the gloomy global

growth outlook. The agricultural price index also decreased slightly by 2.43 points to an index of 115.78 points in 2023Q4 as supply chains and output conditions improved. However, metal prices made some gains, buoyed by healthier industrial global demand prospects and positive economic data in the United States. Figure 4 shows Trends in Global Commodity Price Indices. Moreover, according to World Bank estimates, no major changes are foreseen in these commodity prices, with moderate increases in energy and flat to moderately decreasing prices in agriculture and metals.

**Figure 4: Trends in Global Commodity Price Indices**

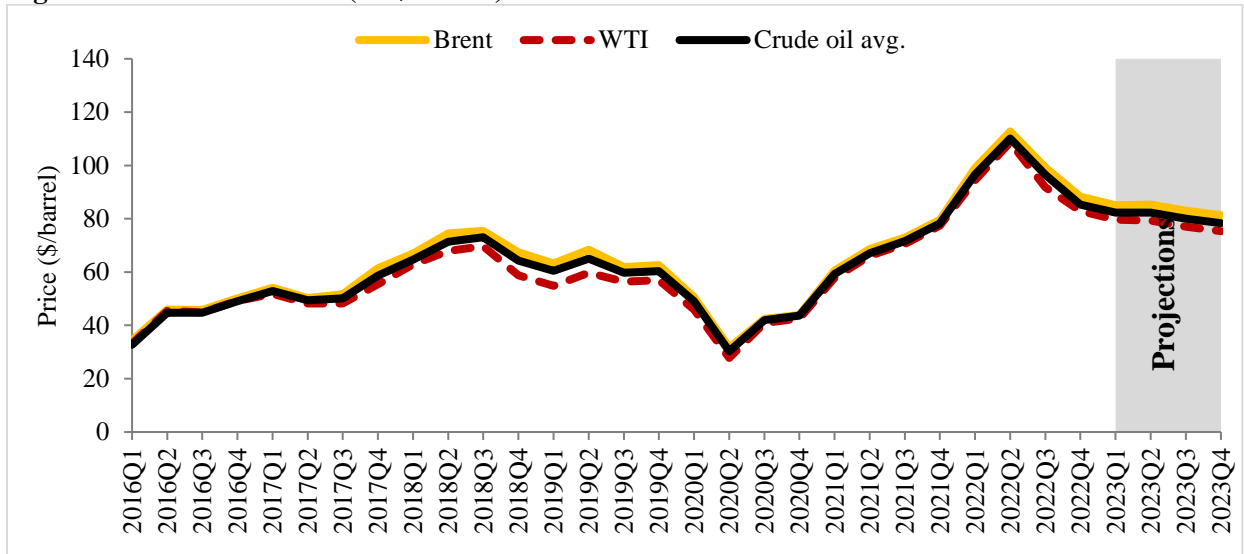


Source: World Bank Commodity Market Outlook database, February 2023

**Crude Oil Prices**

Crude oil prices continued to decrease during the review period due to a combination of demand and supply factors. Earlier concerns about a possible economic recession in 2023 weighed down demand. Global crude oil supply also increased in the review period, bolstered by increased production in the U.S. and international Strategic Petroleum Reserve release programs. Consequently, the average crude oil price decreased by 11.60 percent to US\$85.26/bbl in 2022Q4 compared to US\$96.43/bbl in 2021Q4. However, some gains in prices were observed in January-February 2023 following the reopening of China, which improved demand prospects. Notwithstanding, the World Bank forecast implies lower crude oil prices over the inflation forecast horizon.

**Figure 5: Crude Oil Prices (US\$/barrel)**

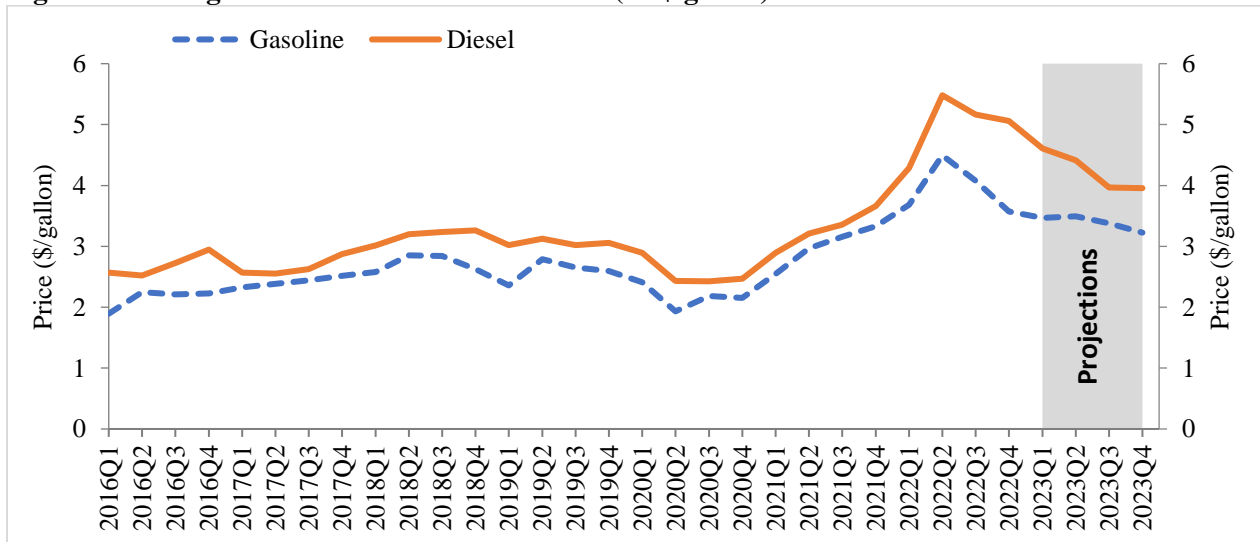


Source: World Bank Commodity Market Outlook database, February, 2023

**Petroleum Products (Retail Prices)**

Global retail prices for both petrol and diesel also continued to soften in the review quarter, mainly due to lower crude oil prices, weak demand, and a weaker U.S. dollar. Accordingly, the retail prices of gasoline and diesel decreased by 12.5 percent and 2.0 percent, selling at US\$3.57/gallon and US\$5.06/gallon, respectively, in 2022Q4. Retail prices of petroleum products are expected to continue to broadly reflect movements in global crude oil prices and the exchange rate of the U.S. dollar.

**Figure 6: Average Prices of Petroleum Products (US\$/gallon)**

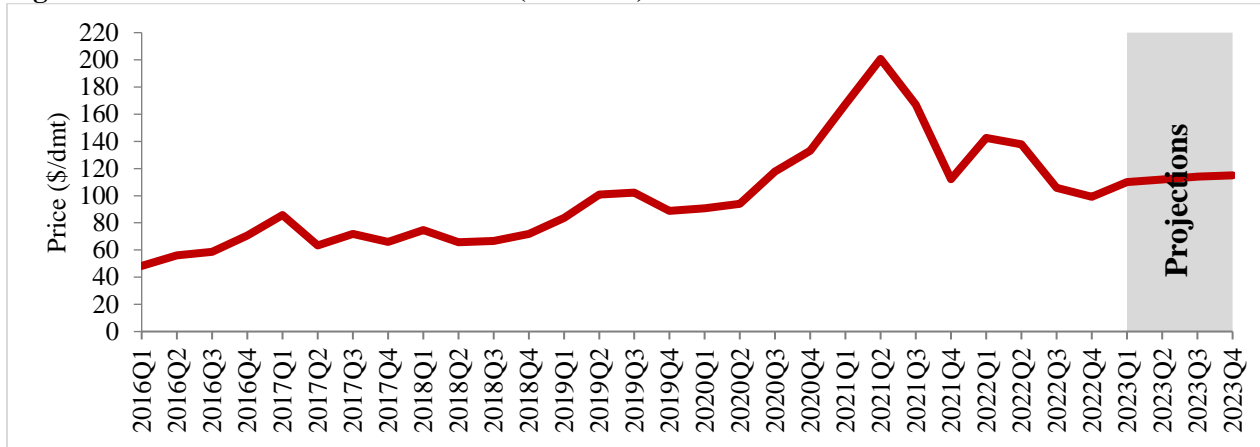


Source: U.S. Energy Information Administration, EIA (February, 2023)

### Iron Ore Price

Global iron ore prices decreased further by 6.1 percent to US\$99.25/dmt in 2022Q4 mainly due to weak demand. However, prices rebounded in January-February 2023 on the back of China's removal of zero Covid restrictions. Hence, the iron ore price is expected to move higher on average in 2023Q1 and increase gradually further over the course of the year.

**Figure 7: Trend in the Price of Iron Ore (US\$/dmt)**

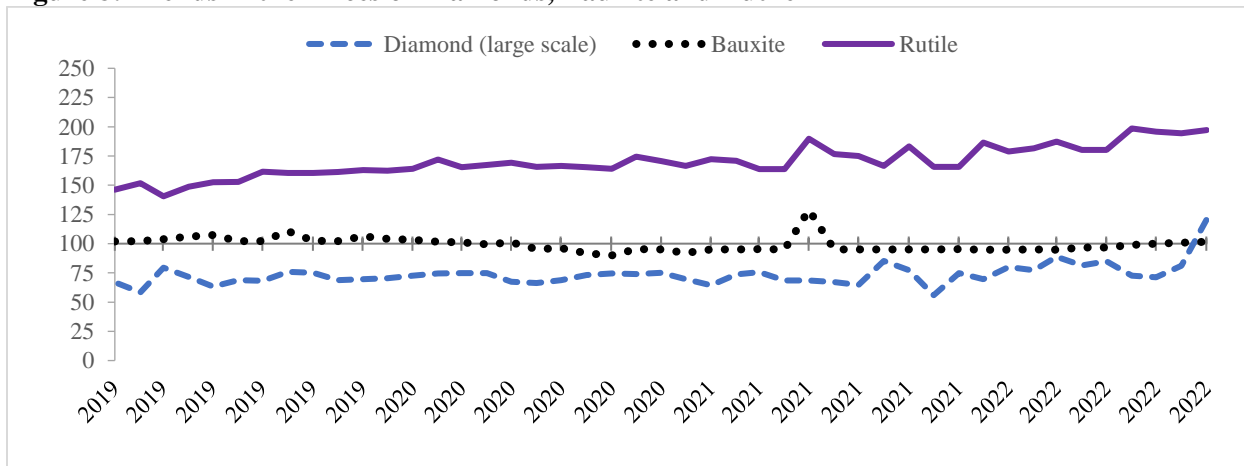


Source: World Bank Commodity Market Outlook database, February, 2023

### Diamonds, Bauxite and Rutile

Diamond and bauxite prices have been moving around their respective averages since 2019, with the price of bauxite increasing significantly in the last part of 2022, while the price of rutile has been trending upwards since 2018.

**Figure 8: Trends in the Prices of Diamonds, Bauxite and Rutile**

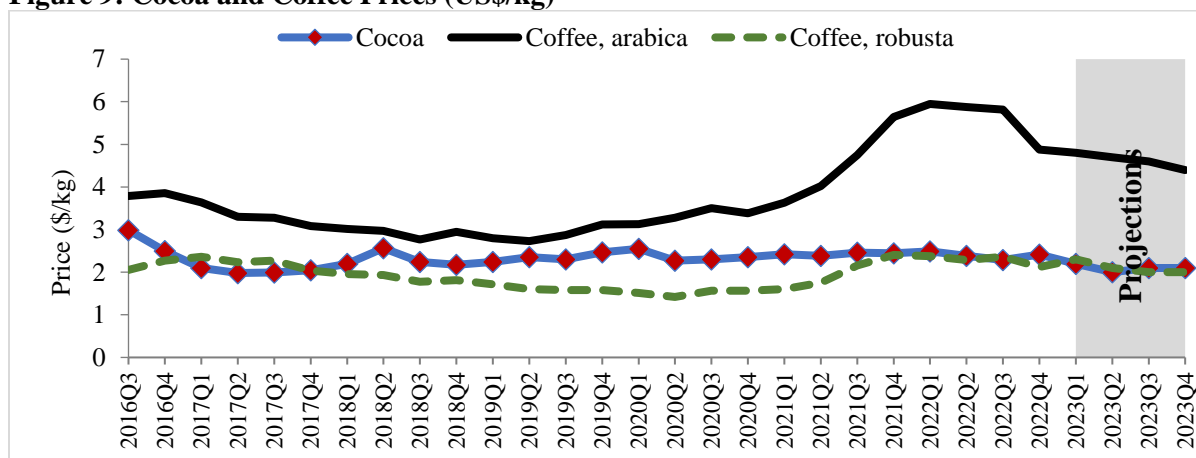


Data Source: BSL/NMA; Note: the price for diamonds is in US\$/carat; bauxite and rutile are priced in US\$/dmt

### ***Cocoa and Coffee Prices***

Cocoa prices increased by 5.4 percent to US\$2.41/kg in 2022Q4, underscored by gloomy supply prospects and mounting worries about the quality of some West African cocoa due to a deficit of fertilisers and pesticides. Conversely, arabica and robusta coffee prices decreased by 16.2 percent and 10.3 percent to US\$4.88/kg and US\$2.12/kg, respectively, in 2022Q4 due to favourable weather and higher inventories in Brazil. The World Bank projects prices of both coffee and cocoa to decline by the end of 2023.

**Figure 9: Cocoa and Coffee Prices (US\$/kg)**



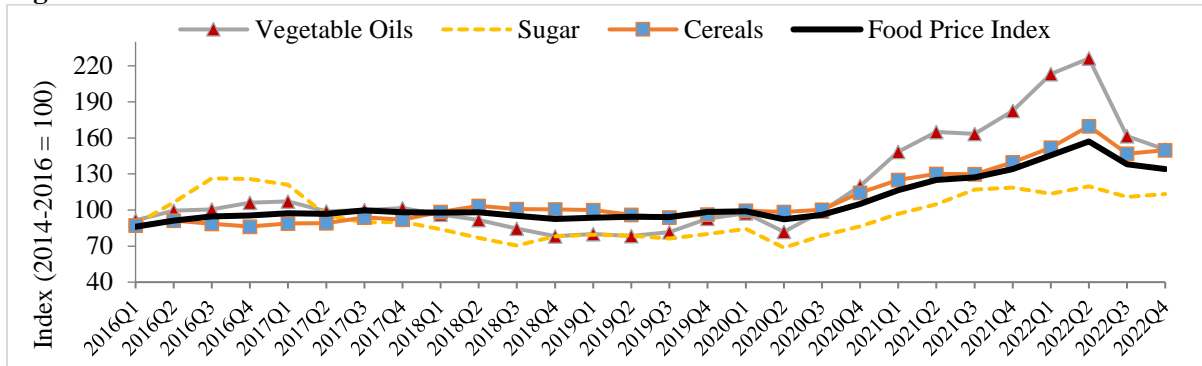
Source: World Bank Commodity Market Outlook database, February, 2023

### ***Food***

Food prices dropped for the second consecutive quarter, mainly on account of improved supply conditions and softer demand. The FAO food price index decreased by 12.1 percent to an average index of 134.1 points in 2022Q4. However, the sub-components exhibited mixed movement, with the prices for vegetable oils decreasing, while cereals (including rice, wheat, and maize) and sugar prices increased.

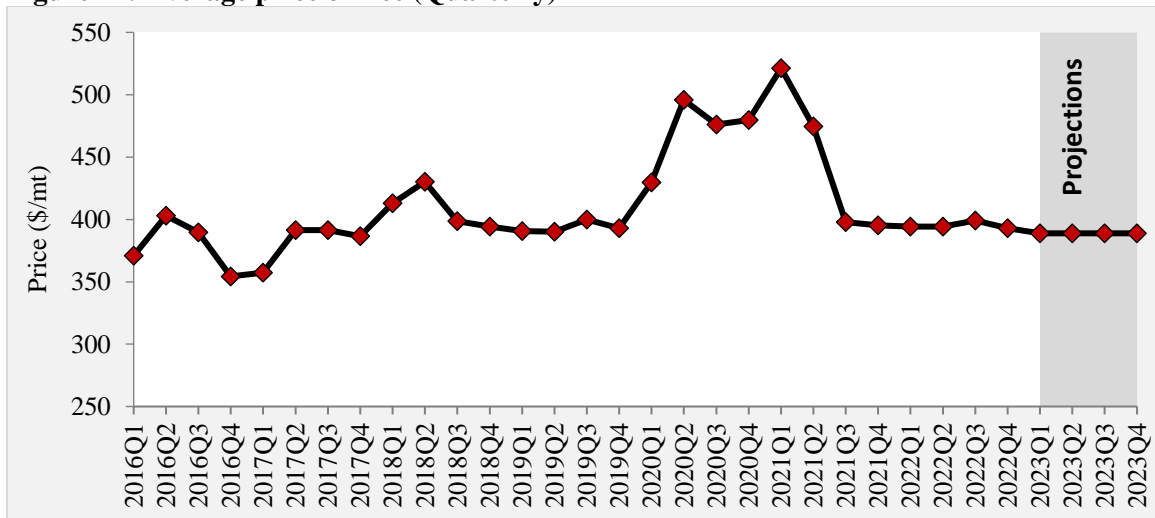


**Figure 10: FAO Food Price Indices**



Source: FAO food price index database, February 2023

**Figure 11: Average price of rice (Quarterly)**

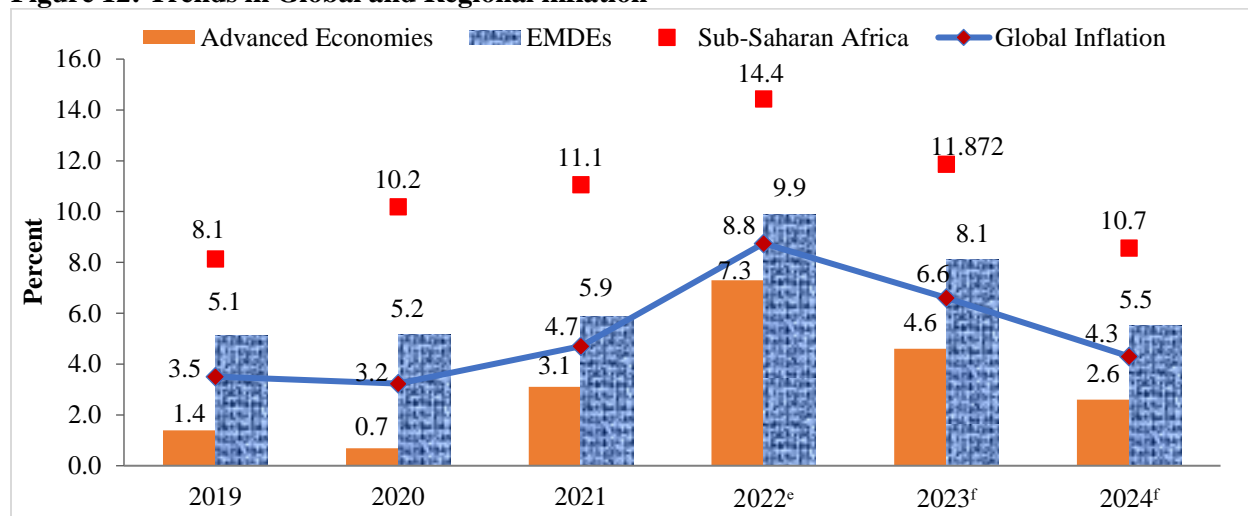


Source: World Bank Commodity Market Outlook database, February, 2023

### 2.2.2 Global Inflation

Global inflationary pressures are expected to ease in 2023 due to slowing economic activity and relatively low commodity prices. However, inflation will remain high compared to historical standards. The IMF projects that global inflation will decrease from 8.8 percent in 2021 to 6.6 percent and 4.3 percent in 2023 and 2024, respectively. The resilience of the global economy, the war in Ukraine, the monetary policies of major central banks, and OPEC’s oil production decisions are key factors that will affect global inflation outcomes going forward. Additionally, the recent sudden collapse of some banks in the United States and Europe could pose a significant threat to the fight against global inflation if the problem becomes more widespread.

**Figure 12: Trends in Global and Regional inflation**



Data source: IMF, World Economic outlook, October 2022 and January 2023

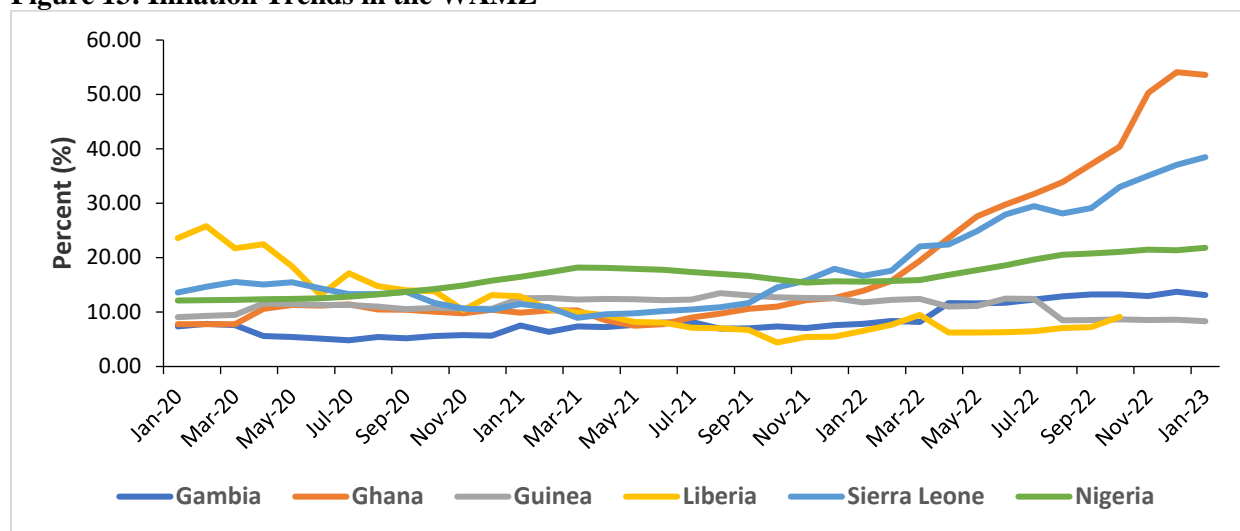
### ***Sub-Saharan Africa (SSA) Inflation***

Inflation in Sub-Saharan Africa is expected to gradually reduce from 14.4 percent in 2022 to 11.8 percent and 8.5 percent in 2023 and 2024 , respectively. However, inflationary pressures will remain elevated and well above target in most countries in the region, underpinned by high import bills and currency depreciation. Extreme weather events will be major upside risks to the inflation outlook in the region.

### ***Inflation in the WAMZ***

The inflation situation in the WAMZ during the review period is mixed. Ghana, Sierra Leone, and Nigeria continue to register record-high inflation numbers due to exchange rate depreciation pressures and the resultant pass-through to domestic prices. Inflation figures for most of the economies in the bloc are still above the historical average. In January 2023, Ghana had the highest inflation rate (53.6 percent), followed by Sierra Leone (38.4 percent) and Nigeria (21.8 percent). The high inflation rates in Ghana and SL point to much higher average inflation in 2023, which may continue in 2024.

**Figure 13: Inflation Trends in the WAMZ**



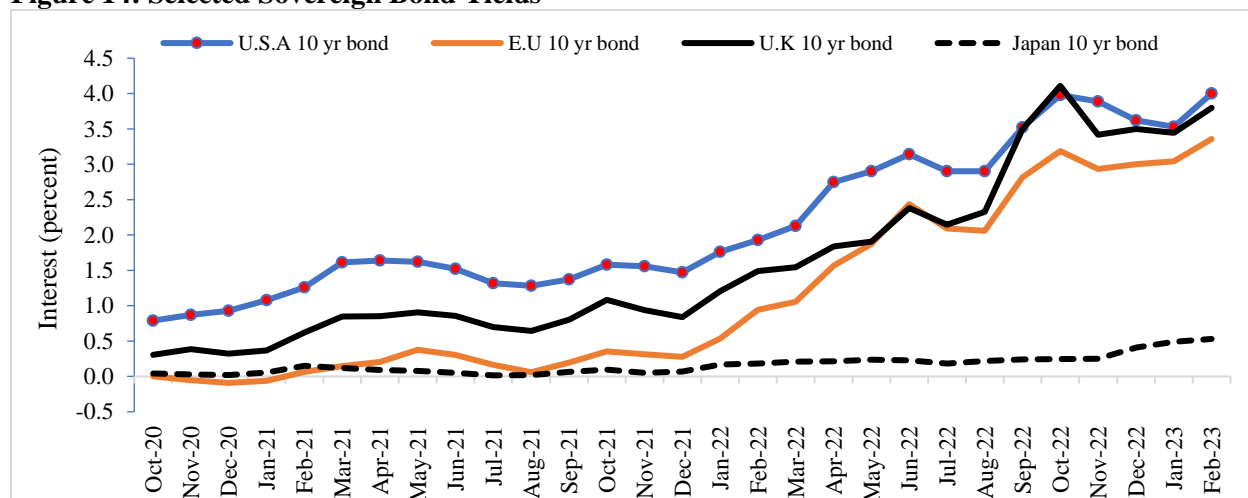
Data Source: Trading Economics

### 2.3 Monetary Policy and Financial Market Developments

During the review period, monetary policy and financial market conditions remained tight. Most central banks are tightening monetary policy to bring down inflation close to desired targets and better anchor expectations, although the pace of tightening seems to be gradually slowing. The Federal Reserve Bank of the United States reduced its policy rate increase to 25 basis points as inflation decreased slightly in January 2023. The European Central Bank and Bank of England increased rates by 50 basis points each in their last meetings. Going forward, a large part of the uncertainty surrounding global growth and inflation comes from the ongoing banking crisis. If it spreads further, central banks may stop tightening. Indeed, the Fed has already moved to smaller pace of tightening.

High interest rates in major global economies continue to weigh on investor sentiment and global financial conditions. The interest rate on the 10-year government bonds in the United States, Euro Area, United Kingdom and Japan (seen as a proxy for global borrowing cost) appeared to have reached turning points in October 2022. However, rates still remain high and started increasing again in February 2023, indicating volatile and continued tightness in global financial markets.

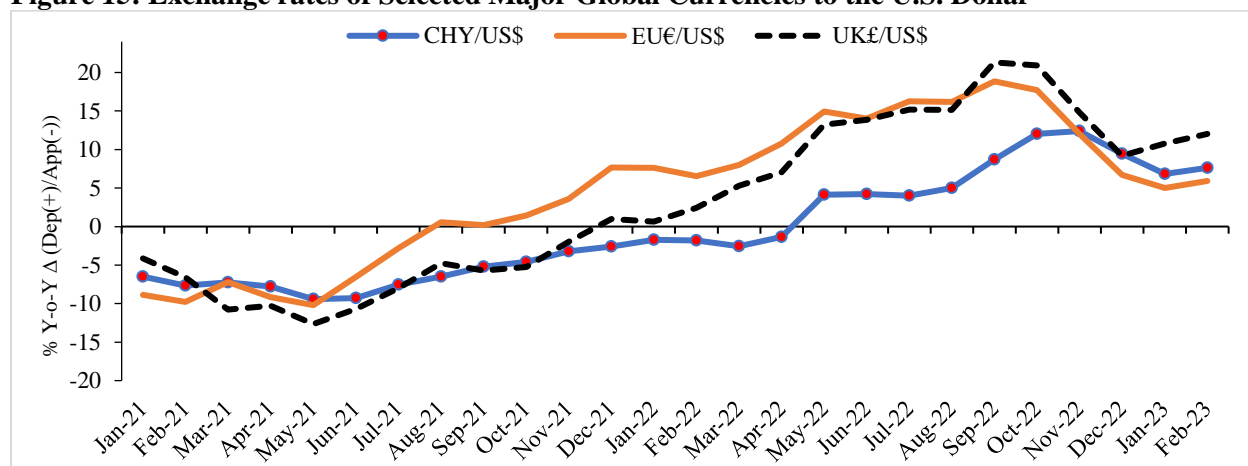
**Figure 14: Selected Sovereign Bond Yields**



Source: Federal Reserve Economic, FRED Data (March, 2023)

Meanwhile, monthly, the US dollar weakened against other major global currencies during the review period. On an annual basis, the rate of depreciation of other major currencies relative to the US dollar slowed down considerably (see Figures 14).

**Figure 15: Exchange rates of Selected Major Global Currencies to the U.S. Dollar**



Data Source: FRED (November 10, 2022). Note a positive change indicate depreciation against the U.S. dollar and a negative change indicates an appreciation against the U.S. dollar.

## 2.4 Implications for the outlook of the Sierra Leone economy

Slowing global growth presents a headwind for Sierra Leone but improving economic prospects in China, which is a major trading partner of Sierra Leone, could largely offset it. China will boost demand for the country's exports supporting GDP growth. The global weakening of the U.S. dollar may also dampen pressures in the domestic foreign exchange market. Similarly, moderating global inflation and commodity prices will lead to lower external pressure on domestic inflation.

Moreover, the continued tightness in global financial conditions could also slow down potential FDI flows into the country.

However, there are signs that China's growth after reopening could be faster than expected, which may push global oil prices upward, leading to higher petroleum import bills for Sierra Leone. In contrast, if the banking crisis in the US deepens or spreads further, it could pose a risk to global growth, which in turn may lead to lower commodity prices and less tight financial conditions.

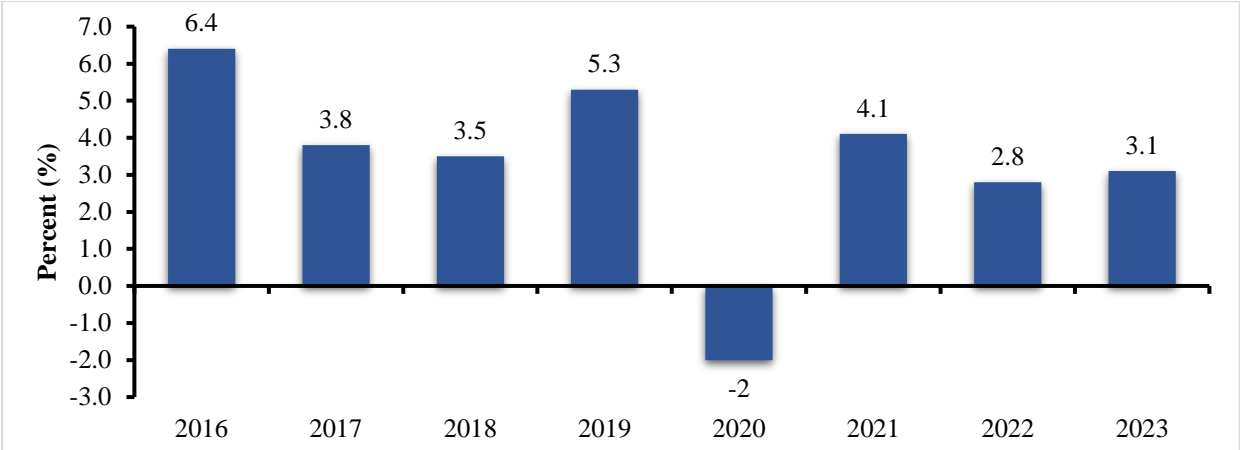
### 3. DOMESTIC ECONOMIC DEVELOPMENTS

#### 3.1 Real Sector Developments

##### 3.1.1 Real GDP Growth

The domestic economy continues to face challenges from the impact of adverse global shocks, supply side challenges, exchange rate depreciation pressures, and the associated rising cost of living. The impact of these negative shocks has resulted in a downward revision of real GDP growth to 2.8 percent in 2022, from an initial projection of 3.6 percent. Recent estimates also suggest a 3.1 percent growth in 2023, which is, however, below the pre-pandemic level.

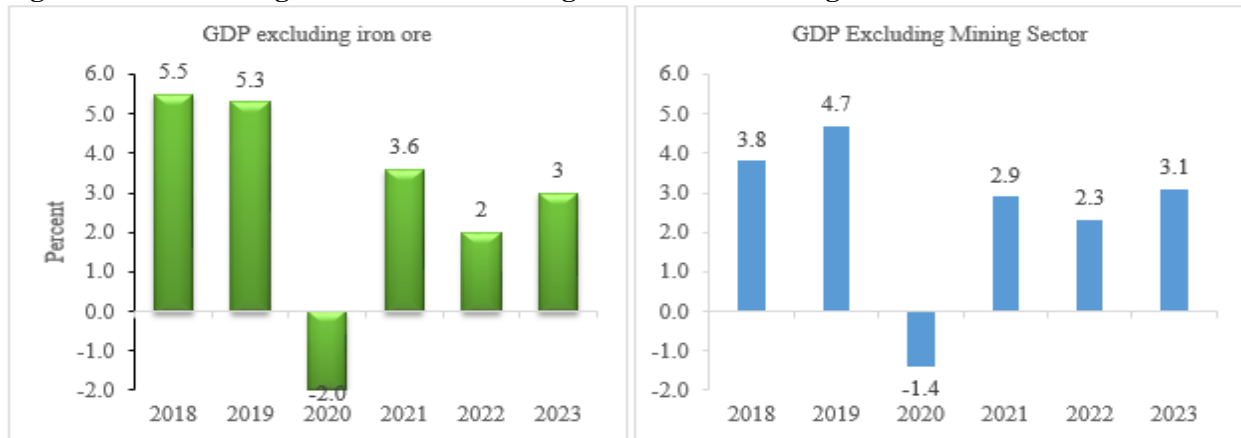
Figure 16: Real GDP growth Rates



Source: Statistics Sierra Leone & IMF

Real GDP growth, excluding the mining sector, is estimated to be 2.3 percent in 2022, compared to 2.9 percent in 2021. In 2023, real GDP growth, excluding the mining sector, is projected to be 3.1 percent. Excluding iron ore, real GDP growth is projected to decline to 2.0 percent in 2022 from 3.6 percent growth in 2021. However, in 2023, real GDP growth, excluding iron ore, is forecast to be 3.0 percent.

**Figure 17: Real GDP growth Rates Excluding Iron ore and Mining Sectors**

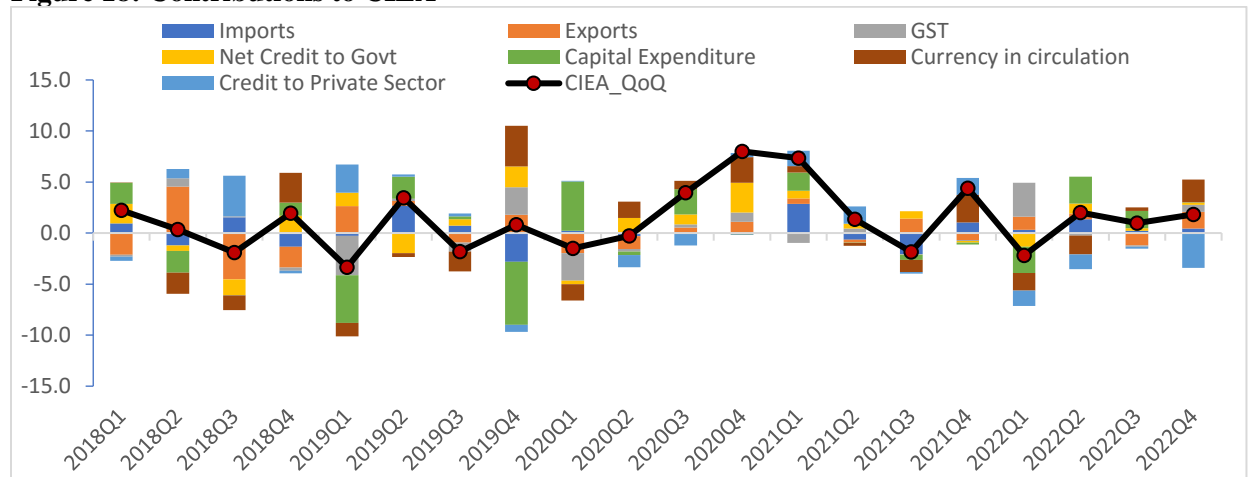


Source: Statistics Sierra Leone & IMF

### 3.1.2 Composite Index of Economic Activity (CIEA)

The Bank's analytical high-frequency indicator of economic activity showed an increase in domestic economic activity in the fourth quarter of 2022. The Composite Index of Economic Activity (CIEA) grew by 1.84 percent in 2022Q4, up from a growth of 0.97 percent in 2022Q3. Based on its input variables, the expansion in economic activity mainly reflected an increase in foreign trade (net exports), currency in circulation, and expansionary fiscal policy (net credit to the government and GST), while private sector activity (credit to the private sector) held it back.

**Figure 18: Contributions to CIEA**

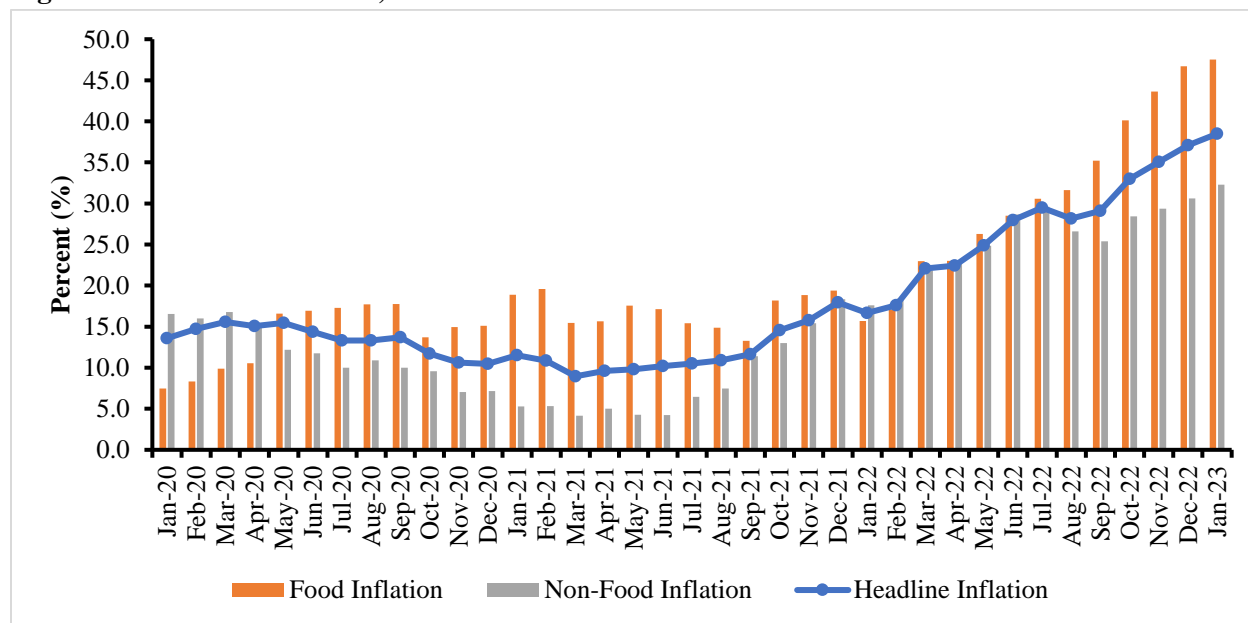


Source: Monetary Policy Department

### 3.1.3 Inflation

Inflationary pressures continued to accelerate in the fourth quarter of 2022, mainly driven by the pass-through effects of the exchange rate depreciation, increases in fuel and food prices as well as monetisation of the fiscal deficit. Headline inflation rose steadily from 17.9 percent in December 2021 to 37.09 percent in December 2022 and accelerated further to 38.5 percent in January and 42.7 percent in February 2023, respectively, driven by both food and non-food inflation. Food and non-food inflation remained elevated at 50.2 percent and 37.5 percent, respectively in February 2023.

**Figure 19: Trend in Headline, Food and Non-food Inflation**

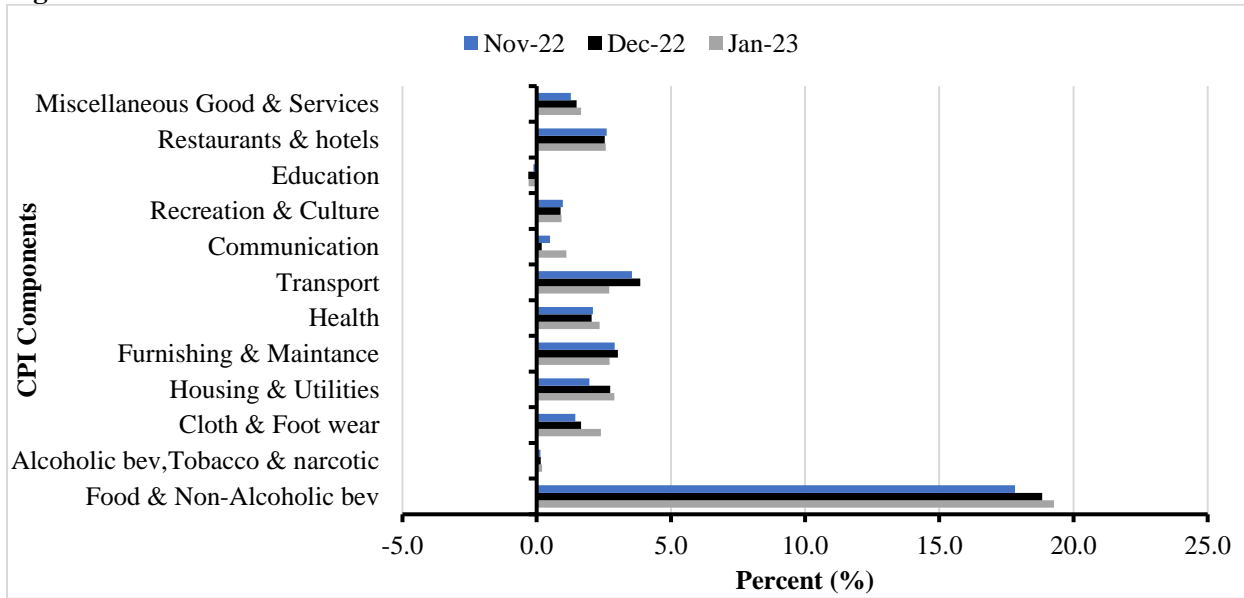


Source: Monetary Policy Department

#### *Contributions to headline inflation*

The main drivers of headline inflation in January 2023 in the CPI basket include food and non-alcoholic beverages, which carry about 40 percent of the weight in the basket, as well as housing and utilities, clothing and footwear, health, communication, and other miscellaneous components.

**Figure 20: Contributions to Headline Annual Inflation**

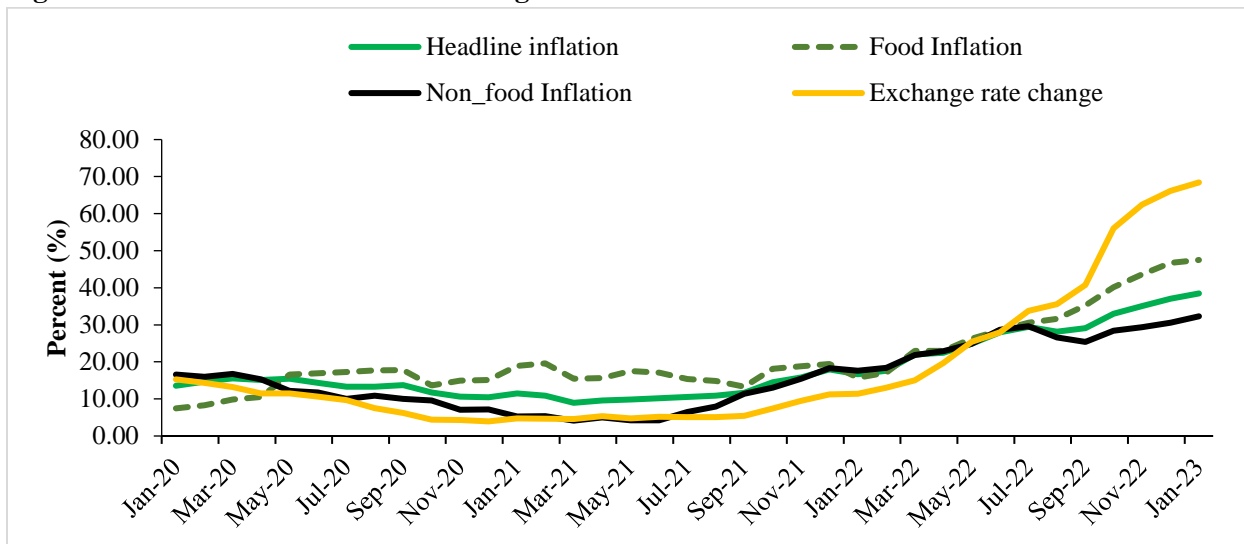


Source: Statistics Sierra Leone

***Exchange Rate and Inflation***

Graphical illustration shows a co-movement between exchange rate movement and inflation. Further analysis revealed a stronger co-movement between the exchange rate and food inflation. This essentially reflects the pass-through of exchange rate depreciation to domestic inflation.

**Figure 21: Consumer Prices and Exchange rate**



Source: Monetary Policy Department

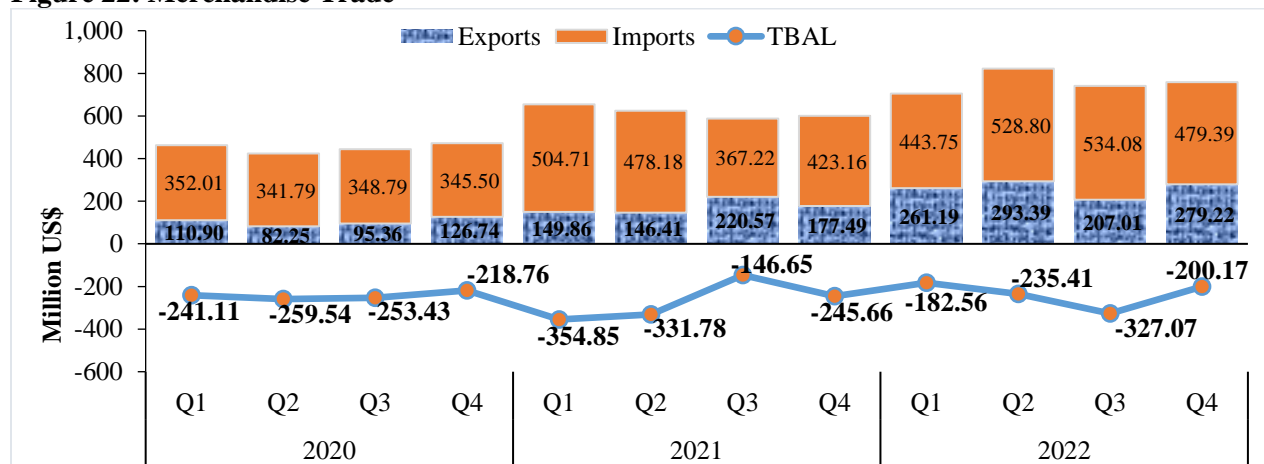


### 3.2 External Sector Developments

#### 3.2.1 Trade Balance

Following the improvement in global trade and supply chain conditions, supported by the reopening of China, exports improved in 2022Q4. The improvement in exports, coupled with a decrease in imports, led to a significant decrease in the country's merchandise trade deficit to US\$200.17mn from US\$327.07mn. Exports picked up again in 2022Q4 after falling in 2022Q3, mainly due to an increase in mineral exports. Conversely, imports decreased in 2022Q4 after increasing for the past four consecutive quarters (see Figure 21).

**Figure 22: Merchandise Trade**

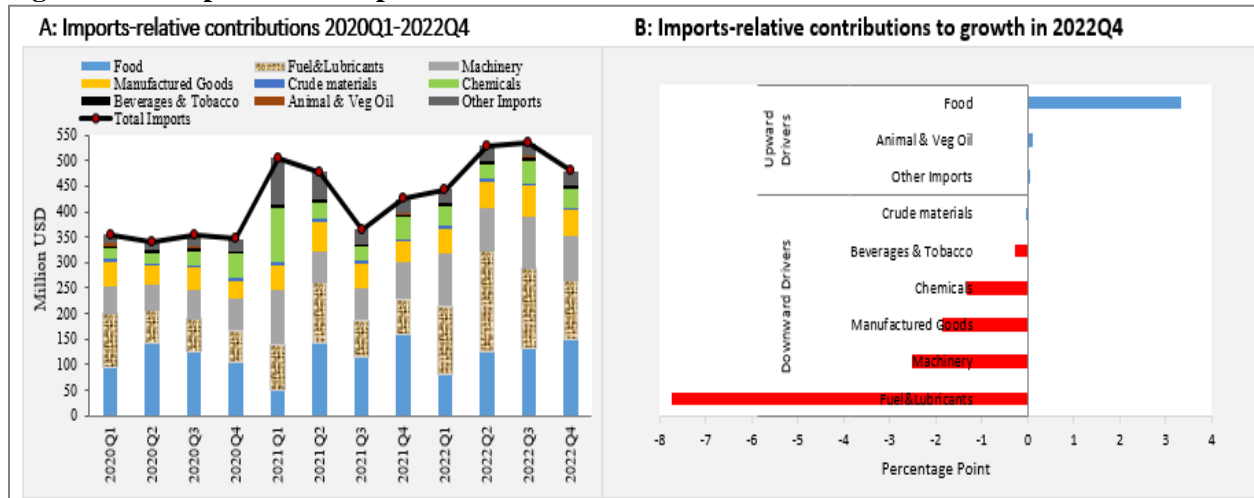


Source: NRA/Customs & BSL

#### *Components of Import*

Merchandise import was driven down by decreases in fuel, machinery, manufactured goods, and chemicals, which outweighed the increase in food. The significant decrease in fuel imports was mainly reflected in volumes. Total merchandise import was US\$479.39mn in 2022Q4, down by 10.24 percent compared to the US\$534.08mn in the preceding quarter (see Figure 22).

**Figure 23: Components of Import**

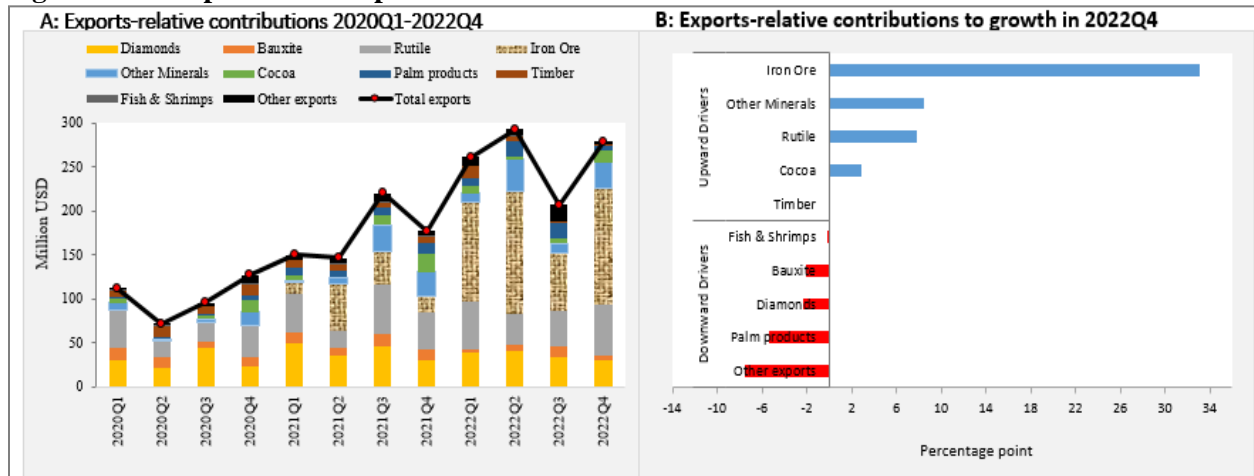


Source: NRA/Customs & BSL

**Components of Export**

Merchandise exports were boosted by an increase in iron ore, rutile, and cocoa exports, which more than offset the decrease in palm products, diamonds, and bauxite exports. The total value of merchandise exports increased by 34.88 percent to US\$279.22mn in 2022Q4 from US\$207.01mn in 2022Q3 (see Figure 23).

**Figure 24: Components of Export**



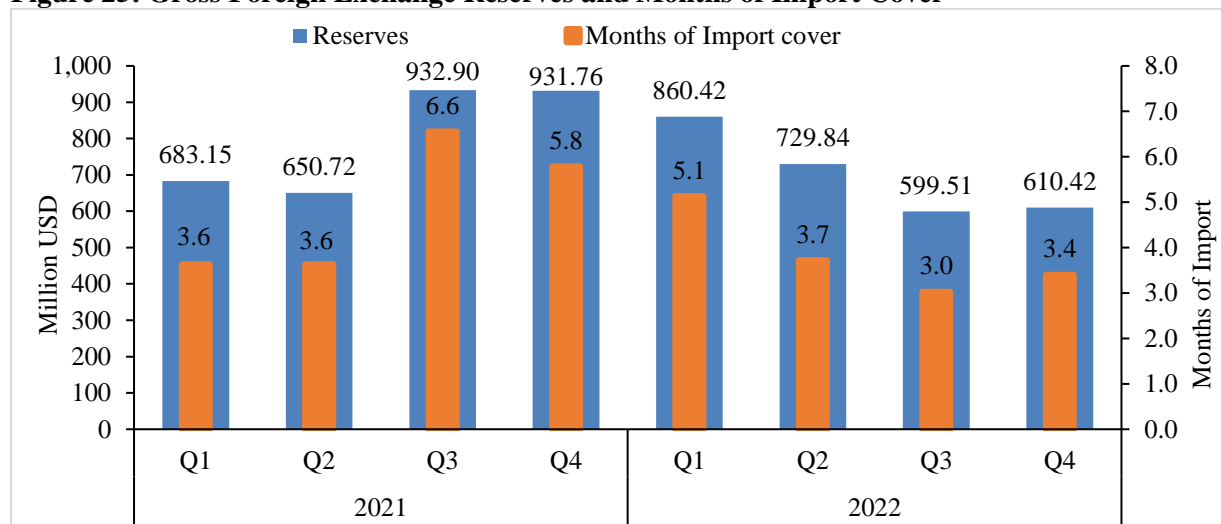
Source: NRA/Customs & BSL

**3.2.2 Gross Foreign Exchange Reserves**

The Gross Foreign Exchange Reserves of the Bank of Sierra Leone increased to US\$610.42mn in 2022Q4 relative to US\$599.51mn in 2022Q3, mainly due to a fiscal grant from the World Bank and IMF budget support. Consequently, import cover improved to 3.4 months in 2022Q4,

compared to 3.0 months in 2022Q3. However, the Gross Foreign Exchange Reserves (excluding swaps) declined to US\$595.55mn in January 2023 and further to US\$573.46mn in February 2023.

**Figure 25: Gross Foreign Exchange Reserves and Months of Import Cover**

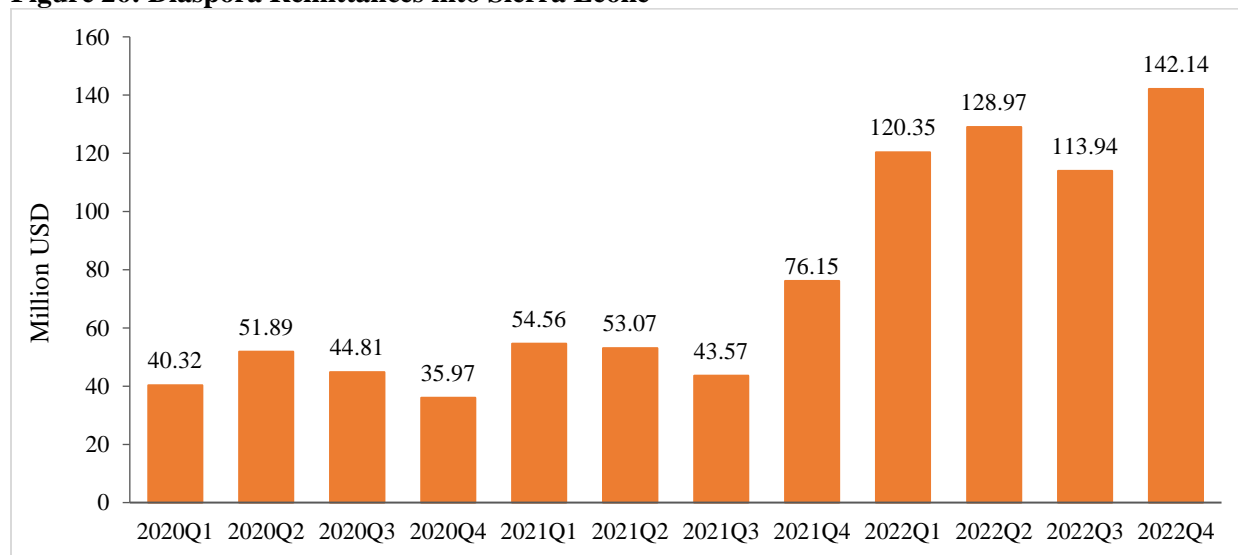


Source: BSL

### 3.2.3 Diaspora Remittances

Diaspora remittance inflows surged in 2022Q4 after a slight slowdown in 2022Q3, bringing total remittance inflows in 2022 to more than US\$500 million. We expect remittances to continue to stay elevated, which is expected to help reduce pressures in the foreign exchange market and continue to provide a lifeline for several households.

**Figure 26: Diaspora Remittances into Sierra Leone**

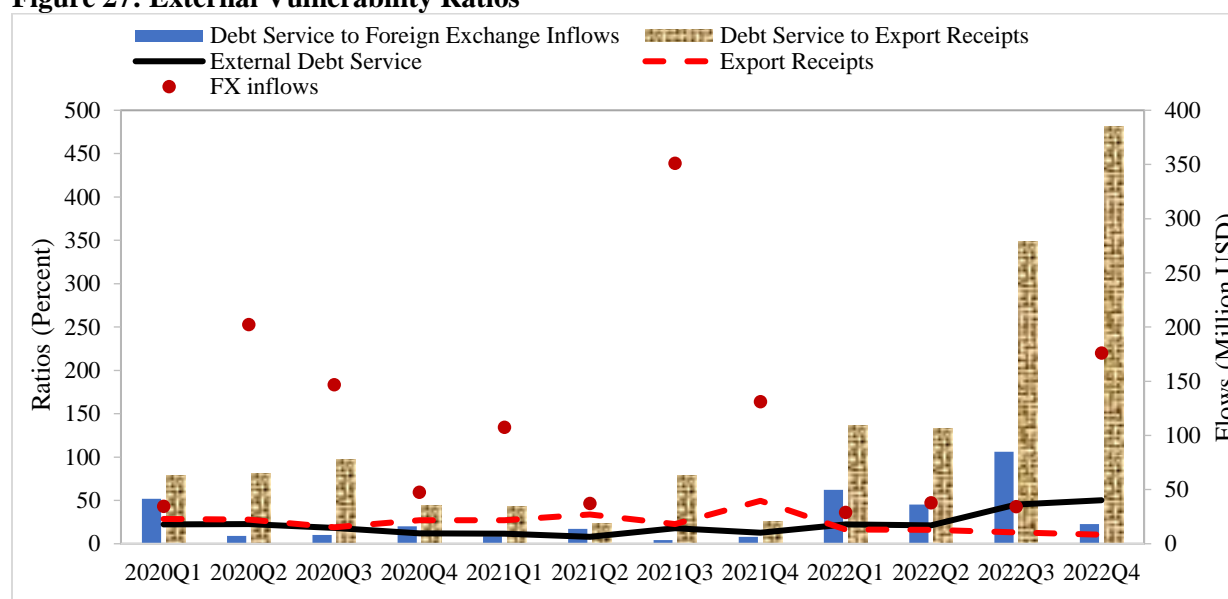


Source: BSL

### 3.2.4 External Vulnerability Ratios

External debt service payments increased significantly to US\$40.14mn in 2022Q4, compared to US\$36.12mn in 2022Q3. Similarly, forex inflows increased to US\$175.95mn in 2022Q4 from US\$34.00mn in 2022Q3, while tax receipts on exports decreased to US\$8.35mn in 2022Q4 from US\$10.36mn in 2022Q3. Consequently, the ratio of debt service payment to export tax receipts increased, while the ratio of debt service payment to FX inflows decreased.

**Figure 27: External Vulnerability Ratios**



Source: BSL

### 3.2.5 External Sector Outlook

In the very short term, the factors fueling exchange rate depreciation remain in place, but going forward, with the stabilization of the fiscal deficit and tighter liquidity conditions in the second half of 2023, the pace of exchange rate depreciation is expected to decrease markedly.

The looming high uncertainty and challenges in the global economy, as well as macroeconomic and financial vulnerabilities, will continue to weigh on the sector at least in the near term. Therefore, authorities should focus on preserving sufficiently large external buffers to cover at least three months of imports of goods and services to dampen the adverse effects of external shocks. In the near term, this could be helped by garnering support from both multilateral and bilateral development partners. Additionally, the supply of forex is also expected to increase in 2023, on account of strong tradable exports and diaspora remittances.

### 3.3 Exchange Rates and Foreign Exchange Market Developments

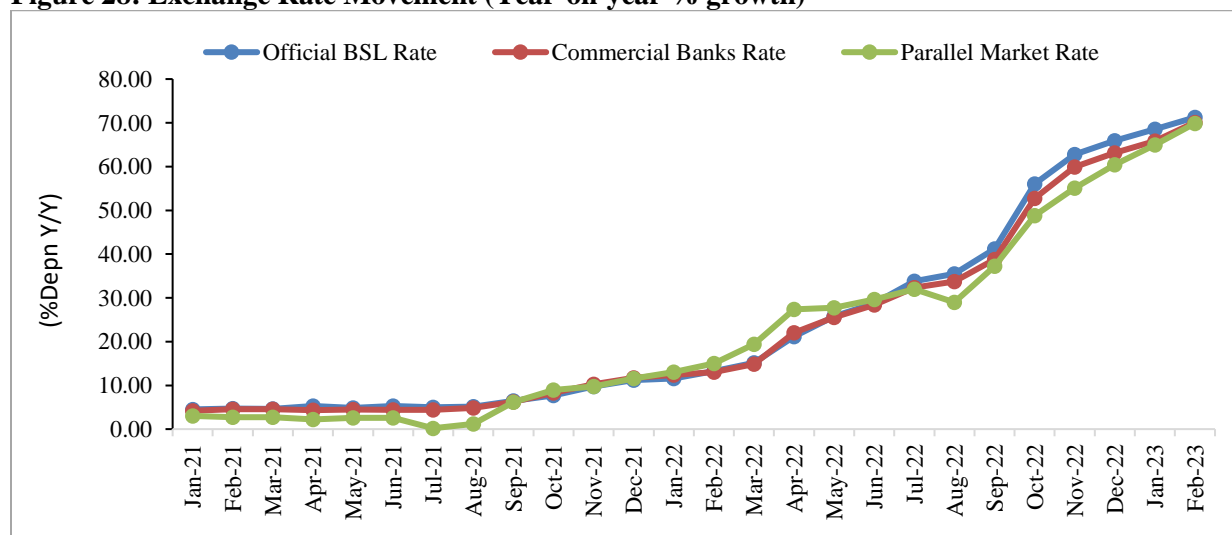
#### 3.3.1 Exchange Movements

The BSL's official Le/USD mid exchange rate depreciated by 18.91% to NLe18.84 as of the end of December 2022, from NLe15.84 at the start of October 2022, and the selling rate depreciated by 15.92% from NLe15.92/USD to NLE18.93/USD as of the end of December 2022. Since the start of 2022, the official Le/USD has depreciated by 68.17% from NLe11.26/USD at the start of January to NLe18.93 as of the end of December 2022.

The commercial bank's weighted average mid-rate depreciated by 18.92% to NLe18.84 as of the end of December 2022, from NLe15.84 at the start of October 2022, and the selling rate depreciated by 18.98% from NLe15.9455/USD to NLe18.97/USD as of the end of December 2022. Since the start of the year, the commercial bank's weighted average exchange rate has depreciated by 65.53% from NLe11.46/USD to NLe18.97/USD.

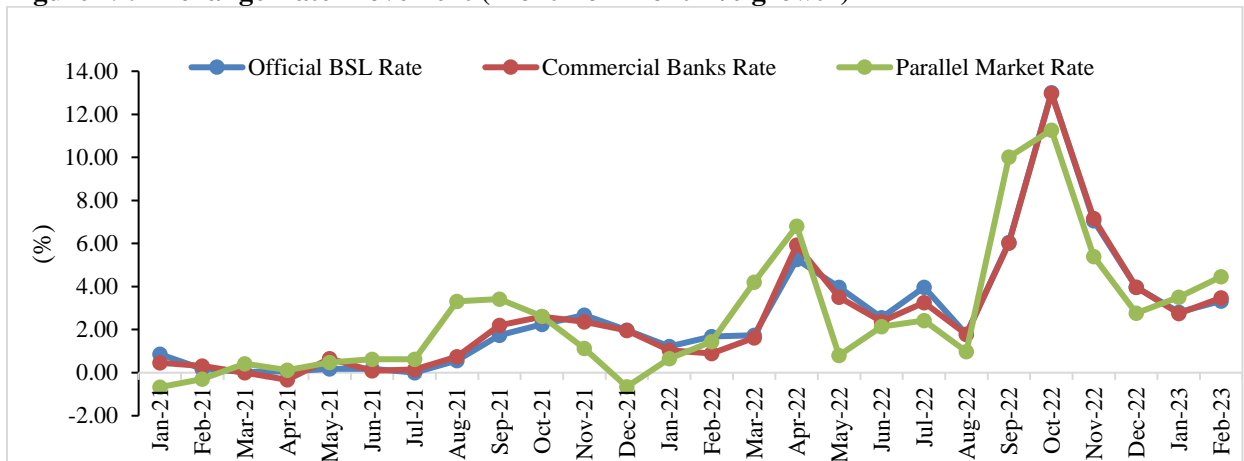
The parallel market's mid-exchange rate depreciated by 12.86% to NLe18.90/USD as of the end of December 2022, from NLe16.75/USD at the start of October 2022, and the selling rate depreciated by 11.76% from NLe17.00/USD to NLe19.00/USD as of the end of December 2022. Since the start of 2022, the parallel market's exchange rate has depreciated by 61.88% from NLe11.68/USD to NLe18.90/USD as of the end of December 2022.

**Figure 28: Exchange Rate Movement (Year-on-year % growth)**



Source: Financial Markets Department, BS

**Figure 29: Exchange Rate Movement (Month-on-month % growth)**

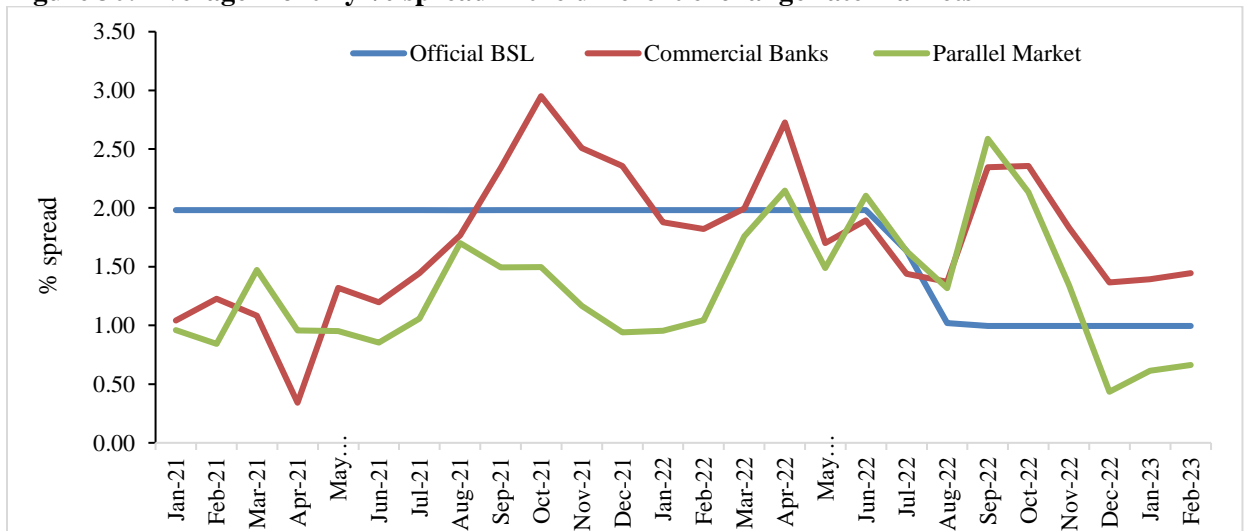


Source: Financial Markets Department, BSL

### 3.3.2 Exchange rate spread in various market segments

The percentage monthly spread as of the end of December 2022 for the official BSL rates was 1.00 percent. However, the spreads in the commercial banks and the parallel market were 1.37 percent and 0.43 percent, respectively, as of the end of December 2022. The percentage spread of the parallel market rate to the official rate is 3.68 percent.

**Figure 30: Average monthly % spread in the different exchange rate markets**



Source: Financial Markets Department, BSL

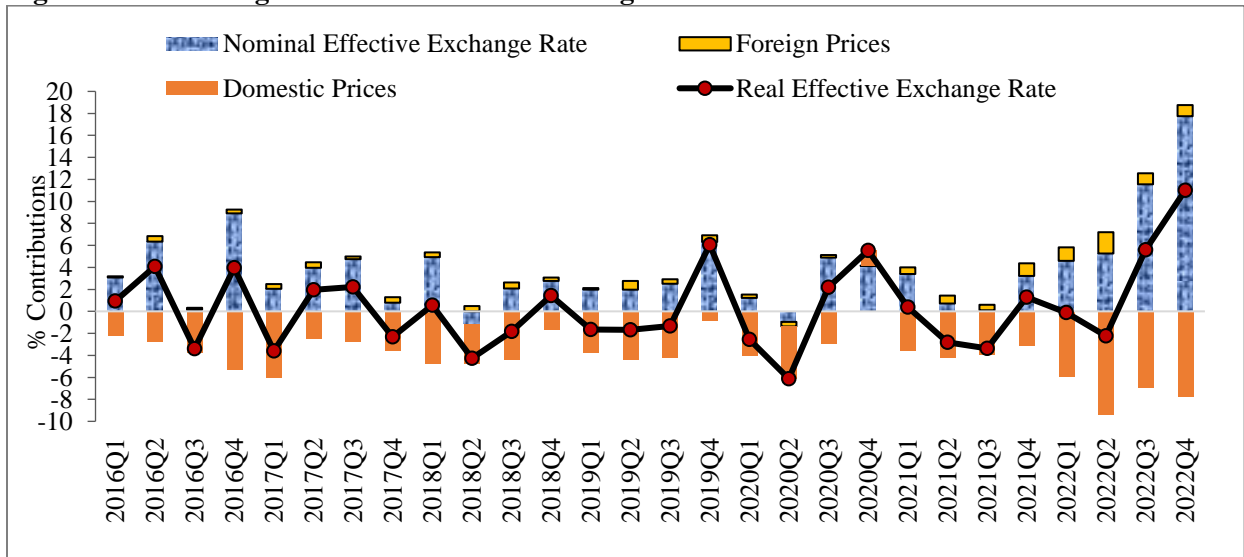
### 3.3.3 Effective Exchange Rates

The Nominal Effective Exchange Rate (NEER), which measures the relative strength of the Leone against the currencies of Sierra Leone’s trading partners, depreciated by 19.42 percent in the fourth

quarter of 2022. Bilaterally, the Leone depreciated against the Swiss franc (26.10 percent), US dollar (25.50 percent), British Pounds (25.11 percent), Chinese RMB (20.98 percent), and Euro (11.67 percent).

Similarly, the real effective exchange rate (REER), which measures the competitiveness of Sierra Leone’s traded goods relative to those of its trading partners, depreciated by 11.60 percent in the fourth quarter of 2022, driven by nominal depreciation.

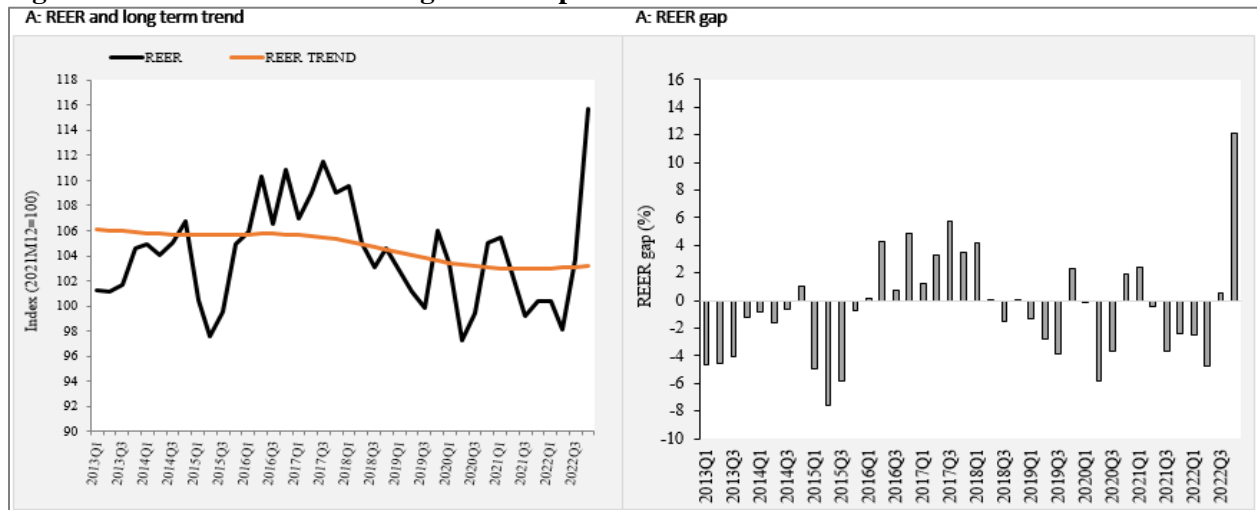
**Figure 31: Percentage Contributions to the Change in REER**



Source: BSL, staff estimation. Note: an increase in the NEER and REER denote depreciation and a decrease means appreciation

The sharp depreciation of the REER in 2022Q4 has likely pushed it deep into undervaluation territory, indicating that the weakening of the Leone is fueling inflation.

**Figure 32: Real Effective Exchange Rate Gap**



Source: BSL, staff estimation

### 3.3.4 Domestic Foreign Exchange Market

#### *Foreign Exchange flows*

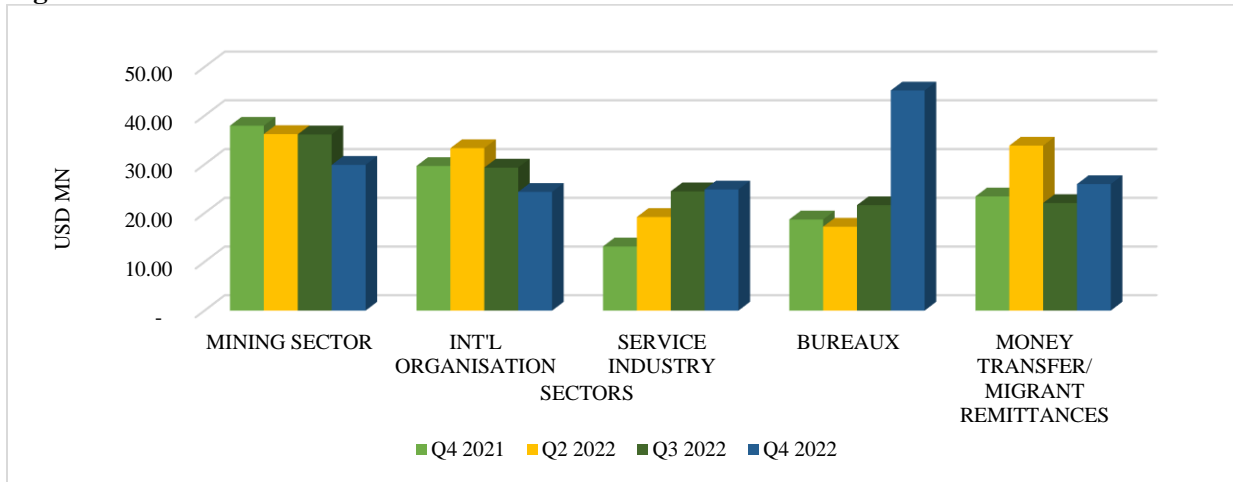
The total amount traded in the Foreign Exchange Market (Purchases and Sales) during 2022Q4 was USD396.23mn, up by 14.47 percent compared to USD346.13mn in the corresponding quarter of 2021. This represents a 1.34 percent increase from USD391.00mn in 2022Q3.

#### *Commercial Banks' Purchases of Forex*

Total purchases of foreign exchange by commercial banks increased by 8.92 percent to USD223.49mn in 2022 Q4 from USD205.18mn in 2022 Q3 due to increase in purchases made from bureaus, migrant remittances, and the service industry. It increased by 33.61 percent when compared to USD167.27mn recorded in the corresponding quarter of 2021 for the same reasons. In February 2023, the total purchases were USD60.75mn, which is 13.03% more than the USD53.75mn recorded in January 2023.



**Figure 33: Commercial Banks Forex Purchases from Selected Sectors**

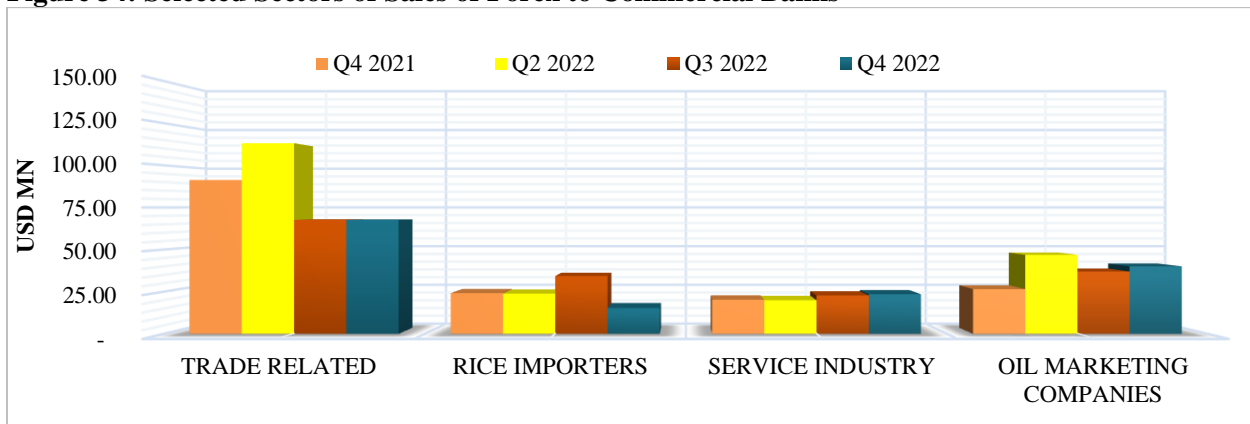


Source: Financial Markets Department, BSL

**Commercial Banks’ Sales of Forex**

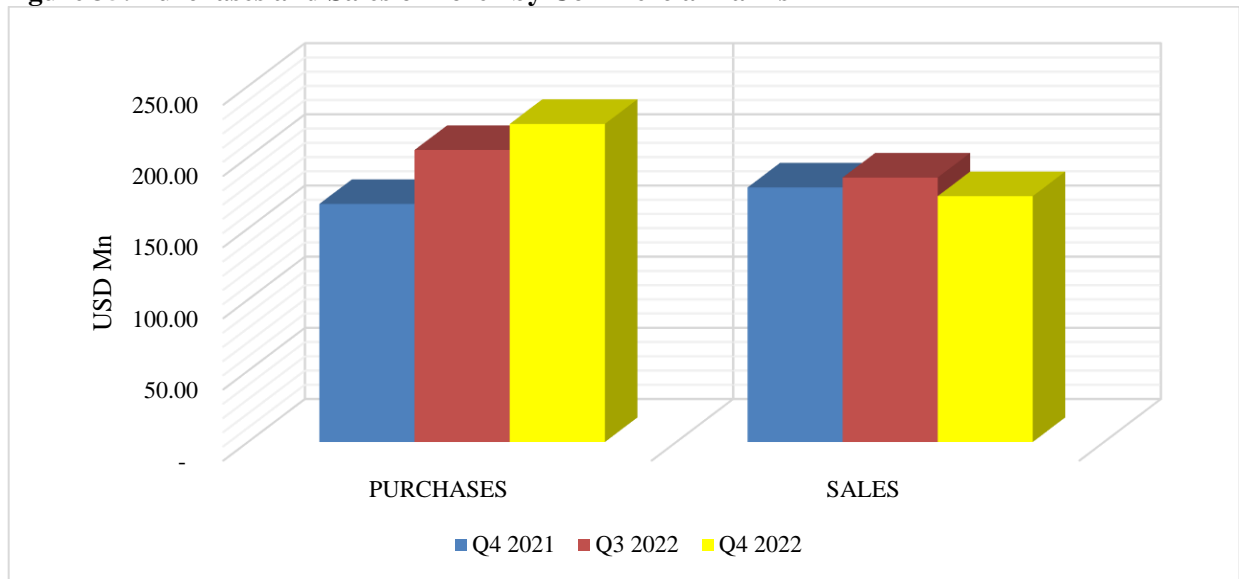
Total sales of foreign exchange by commercial banks in 2022 Q4 decreased slightly (by 3.42 percent) to USD172.74mn compared to USD178.86mn recorded in the corresponding period in 2021 Q4. The decrease in forex sales is mainly attributed to the decline in sales, particularly to importers, including rice importers. It decreased by 7.04 percent relative to 2022 Q3 (USD185.82mn), for the same reasons. In February 2023, total sales were USD46.47mn, 6.01 percent less than the USD49.44mn recorded in January 2023.

**Figure 34: Selected Sectors of Sales of Forex to Commercial Banks**



Source: Financial Markets Department, BSL

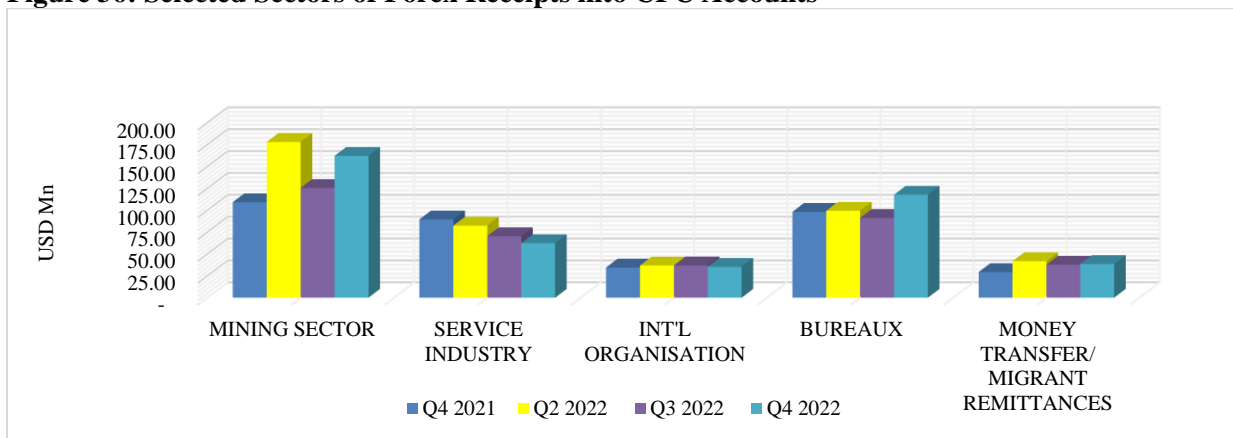
**Figure 35: Purchases and Sales of Forex by Commercial Banks**



Source: Financial Markets Department, BSL

Receipts into customers' foreign currency accounts increased by 11.57 percent to USD535.88mn in 2022 Q4 from USD480.29mn recorded in the corresponding period in 2021. The major contributors to the rise in receipts were the mining sector, service industry, NGOs, bureaux, and migrant remittances. Also, receipts into customers' foreign currency accounts increased by 15.62 percent from USD463.48mn in 2022 Q3, driven by the same reasons. In February 2023, total receipts were USD184.52mn, which is 24.74 percent more than USD147.92mn recorded in January 2023.

**Figure 36: Selected Sectors of Forex Receipts into CFC Accounts**

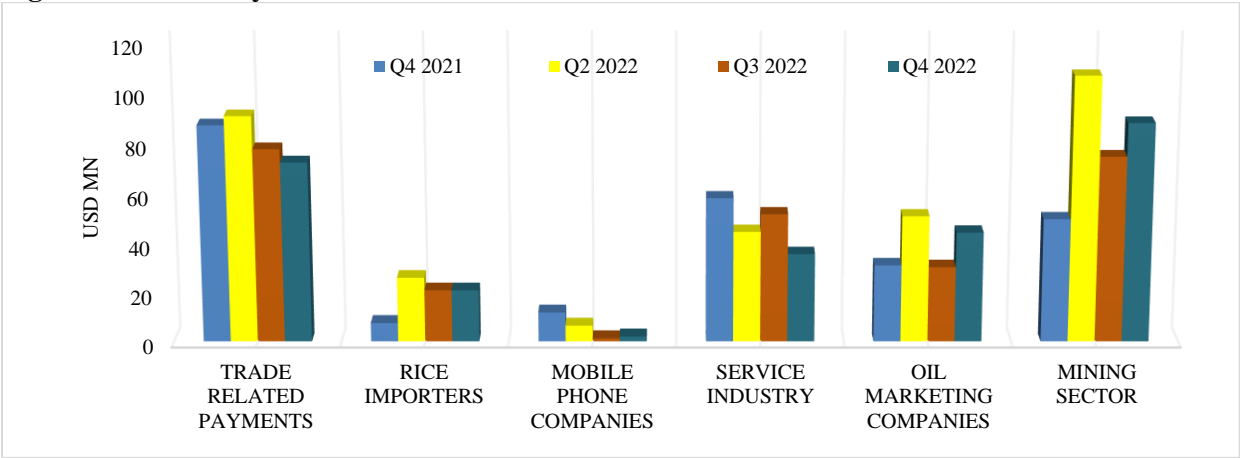


Source: Financial Markets Department, BSL

Payments from customer foreign currency accounts for Q4 2022 increased by 7.80 percent to USD330.50mn, compared to USD306.58mn recorded in the same period in 2021. The major contributors to the increase in payments from customer foreign currency accounts were mainly from the mining sector (Kingho Investment Co. Ltd), rice importation, and payments for oil-related products. However, there was a slight decrease of 0.32 percent from USD331.57mn in Q3 2022 when compared with USD330.50mn in Q4 2022 due to the decrease in trade-related imports, rice importation, and the service industry.

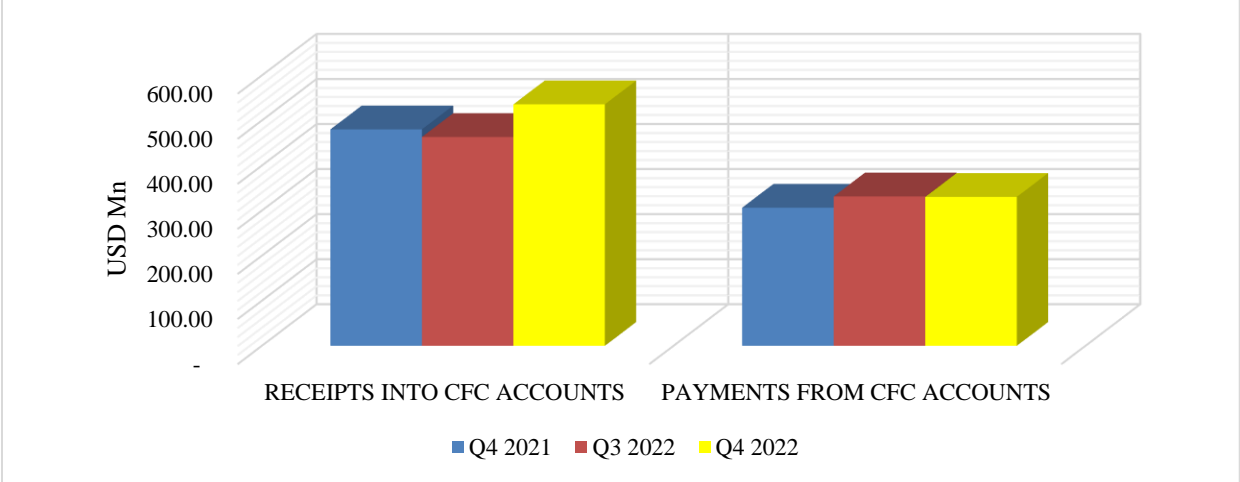
In February 2023, the total payments were USD106.11mn, which was 19.83 percent more than the USD88.55mn recorded in January 2023.

**Figure 37: Forex Payments from Selected Sectors**



Source: Financial Markets Department, BSL

**Figure 38: Receipts into and Payments from CFC Accounts**



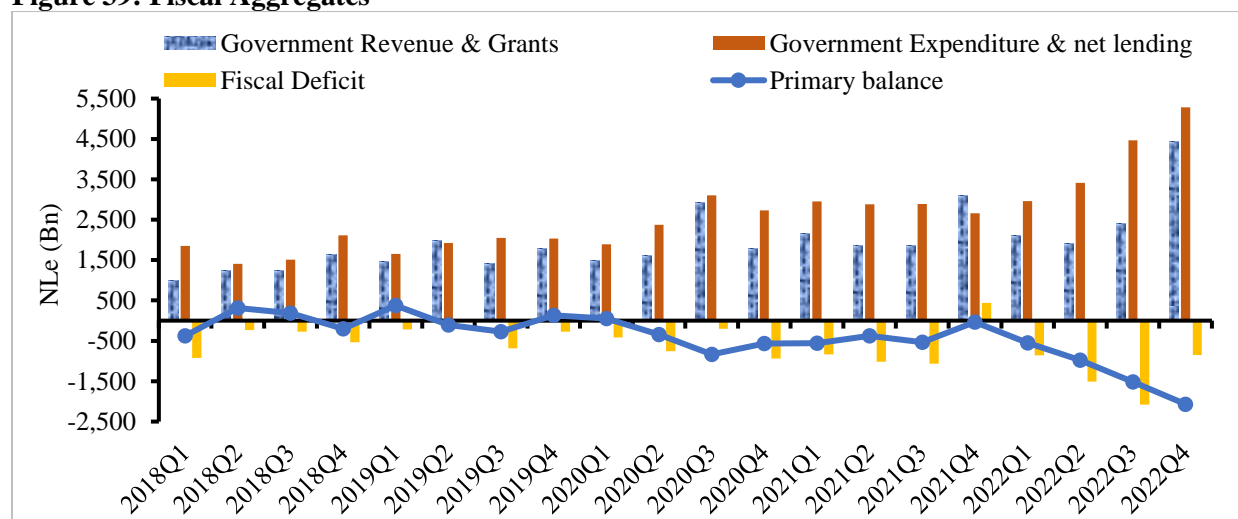
Source: Financial Markets Department, BSL

### 3.4 Fiscal Development

#### 3.4.1 Government Budgetary Operations

Over the past two years, and in the fourth quarter of 2022, the government has been facing challenges regarding the rise in food and energy prices, as well as the lingering impact of the COVID-19 pandemic. To mitigate these adverse effects and support the recovery of growth during this period, the government implemented an expansionary fiscal policy. As a result, preliminary data shows that the government's fiscal policy was expansionary in 2022 Q4, and throughout the year, as compared to the previous year. This reflects an increase in government discretionary spending, which led to the widening of the domestic primary deficit.

**Figure 39: Fiscal Aggregates**



Source: Ministry of Finance

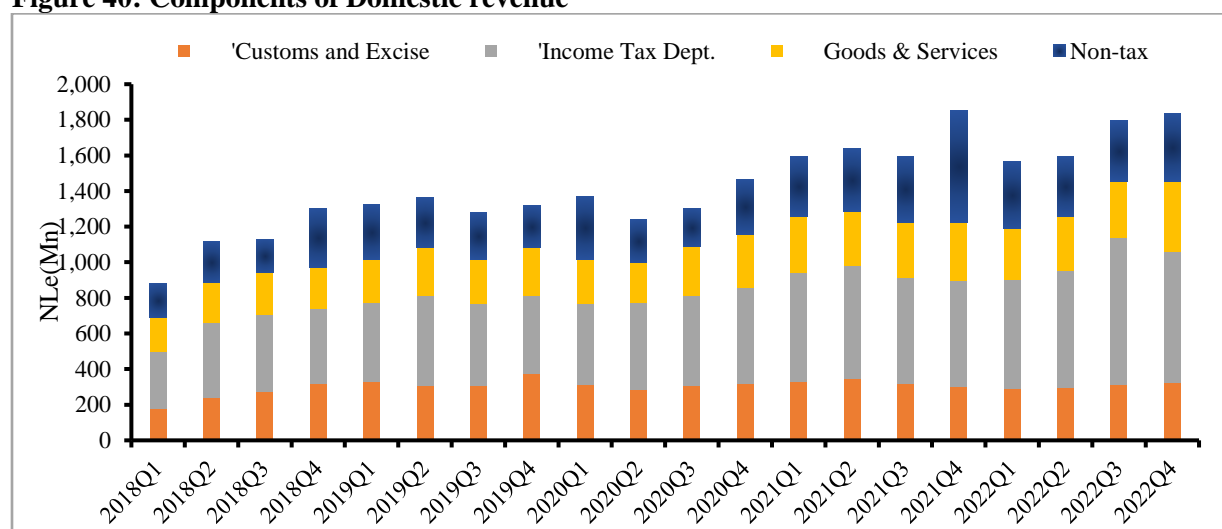
#### 3.4.2 Government Revenues and Grants

Government revenue and grants accumulated in the fourth quarter of 2022 increased by 84.76 percent to NLe4.44bn compared to NLe2.40bn in the third quarter of 2022 and exceeded the quarterly target of NLe4.42bn. The expansion of government revenue was largely driven by the increase in foreign grants relative to the increase in domestic revenue during the review period. Foreign grants received increased significantly in the fourth quarter of 2022 to NLe2.57bn from NLe572.63mn in the third quarter of 2022 because of external budgetary support received from the World Bank.

Domestic revenue mobilisation in 2022Q4 expanded slightly (by 2.08 percent) to NLe1.87bn, up from NLe1.83bn in 2022Q3, yet lower than the target of NLe2.22bn. The expansion in domestic revenue is attributable to the increase in customs and excise revenue, goods and services tax, and non-tax revenue, while income tax decreased in the quarter under review.

Receipts from goods and services tax surged to NLe395.94mn in 2022Q4 from NLe317.44mn in 2022Q3. Customs and excise tax revenue collected increased slightly to NLe321.94mn in 2022Q4 from NLe315.09mn in 2022Q3. Non-tax revenue mobilised improved to NLe382.32mn in 2022Q4 from NLe342.61mn in 2022Q3. On the other hand, revenue generated from income tax decreased in 2022Q4 to NLe736.13mn from NLe820.45mn in 2022Q3. Figure 40 shows components of domestic revenue in 2022Q4 and previous quarters.

**Figure 40: Components of Domestic revenue**



Source: Ministry of Finance

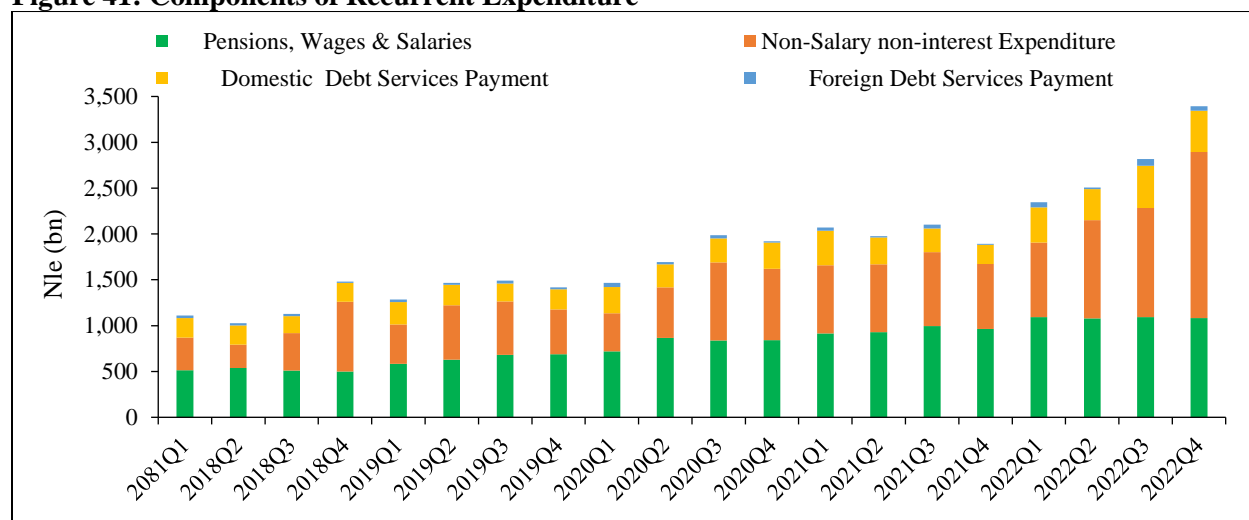
### 3.4.3 Government Expenditures

Total government expenditure and net lending of NLe5.28bn in the fourth quarter of 2022 was higher than NLe4.47bn in the third quarter of 2022 by 18.33 percent and exceeded the budgeted ceiling of NLe3.46bn. The expansion in government expenditure resulted from increases in both capital expenditure and recurrent expenditure during the quarter under review.

Recurrent expenditure surged to NLe3.39bn in 2022Q4, up from NLe2.82bn in 2022Q3, mainly due to an increase in non-salary non-interest expenditure. Conversely, the wage bill and total interest payments decreased during the review quarter.

Non-salary non-interest expenditure rose to NLe1.81bn in 2022Q4 from NLe1.19bn in 2022Q3. On the other hand, pension, wages, and salaries reduced slightly to NLe1.08bn in 2022Q4 from NLe1.09bn in 2022Q3. Likewise, total interest payments declined to NLe497.38mn in 2022Q4 from NLe536.31mn in 2022Q3, comprising domestic interest payments of Le448.33mn and foreign interest payments of NLe49.05mn in the quarter under review.

**Figure 41: Components of Recurrent Expenditure**



Source: Ministry of Finance

Capital expenditure and net lending expanded by 14.88 percent to NLe1.89bn in 2022Q4, up from NLe1.65bn in the preceding quarter, but was lower than the quarterly ceiling of NLe1.08bn. This expansion reflects an increase in foreign loans and grants, while domestic capital expenditure decreased in the review quarter. Domestic capital expenditure was almost flat at NLe1.037bn in 2022Q4 from NLe1.042bn in 2022Q3. On the other hand, foreign loans and grants expanded to NLe855.08mn in 2022Q4 from NLe605.33mn in 2022Q3.

### 3.4.4 Budget Financing

The budget deficit of NLe849.70mn in quarter four of 2022 was financed from domestic, foreign, and other sources. Domestic deficit financing amounted to NLe814.74mn, while foreign deficit financing resulted in a net repayment of NLe104.08mn, and other sources of financing were used to repay NLe236.98mn.

On the domestic front, deficit financing from the banking system decreased to NLe857.56mn in 2022Q4 from NLe1.99bn in 2022Q3, while non-bank financing resulted in a net repayment of NLe42.82mn in 2022Q4 from NLe178.26mn in 2022Q3. Meanwhile, borrowing from the BSL

decreased to NLe592.02mn in the review quarter from NLe1.36bn in 2022Q3. Similarly, borrowing from commercial banks dropped to NLe265.54mn in 2022Q4 from NLe630.26mn in 2022Q3.

### **3.4.5 Outlook for the Fiscal Sector**

Government fiscal operations in the fourth quarter of 2022 improved relative to the previous quarter. Total government revenue increased, exceeding its quarterly target. Likewise, government discretionary spending increased and is still above its projected target. The increase in government revenue far outweighed the increase in government discretionary spending, resulting in a narrowed budget deficit. However, the increase is overwhelmingly the result of foreign grants, implying a higher deficit in the first few quarters of 2023 when no such grants are expected. Going forward, there are still risks and challenges to government fiscal operations in the short and medium-term due to the fast depreciation and high inflation, which are putting pressure on social expenditures, the wage bill, and interest expenditures, while the deficit needs to be moderated. Also, there are continuous concerns about the accumulation of arrears in government spending. Finally, there are near-term risks to the fiscal outlook as the country prepares for its National Election to be held in mid-2023.

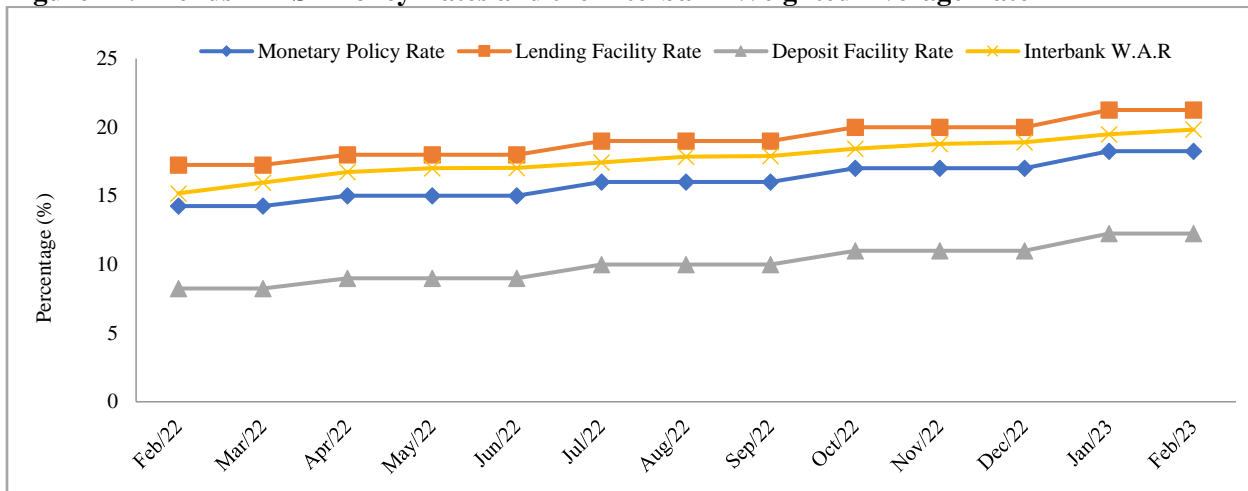
Nonetheless, with the implementation of adequate revenue reforms, government fiscal operations are expected to improve, coupled with the strengthening of expenditure management and controls.

## **3.5 Monetary Policy and Money Market Developments**

### **3.5.1 Monetary Policy Stance**

The Monetary Policy Committee (MPC) met in December 2022 and decided to raise the Monetary Policy Rate (MPR) by 125 basis points, from 17.0 percent to 18.25 percent. Consequently, the Standing Lending Facility rate and the Standing Deposit Facility rate were also increased by the same margin to 21.25 percent and 12.25 percent, respectively, in December 2022.

**Figure 42: Trends in BSL Policy Rates and the Interbank Weighted Average Rate**

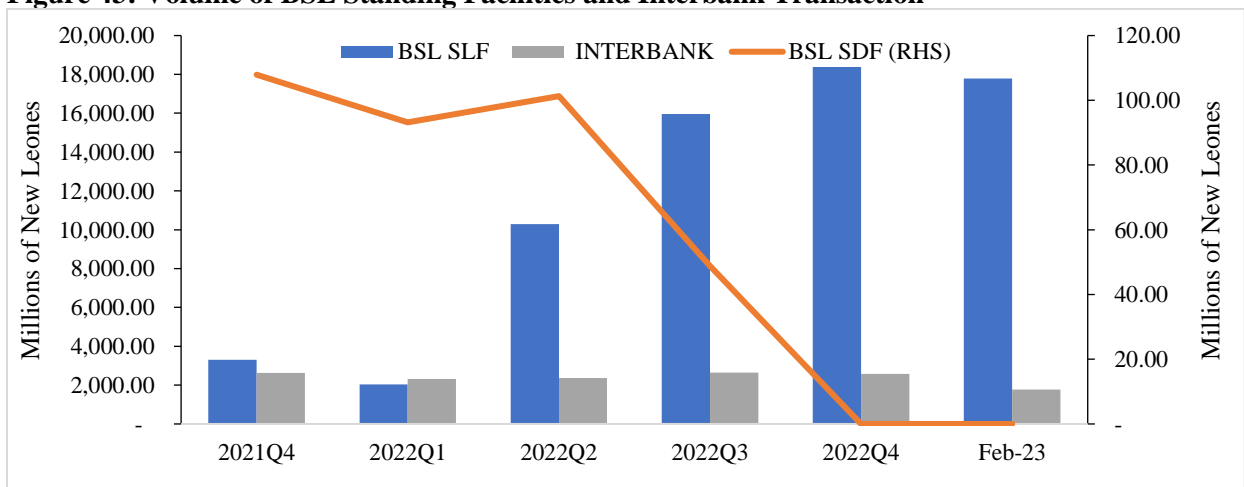


Source: Financial Markets Department, BSL

### 3.5.2 Interbank Money Market Rate

The level of intermediation in the interbank money market increased during the review period. The volume of interbank transactions increased by NLe53.25mn (2.07%) from NLe2,571.05mn in Q3 2022 to NLe2,624.30mn in Q4 2022, while the volume as at the end of February 2023 stood at NLe1,765.00mn. In the Standing Deposit Facility (SDF) window, the volume of transactions remained the same at NLe48.80mn in Q3 2022. No bank accessed the Deposit window in 2022 Q4 and up to the month of February 2023. There was increased access to the Standing Lending Facility (SLF) window by the banks, as the volume of transactions increased by NLe2,423.33mn (15.18%) from NLe15,961.17mn in 2022 Q3 to NLe18,384.50mn in 2022 Q4. As at the end of February 2023, the volume of transactions stood at NLe17,782.60mn.

**Figure 43: Volume of BSL Standing Facilities and Interbank Transaction**



Source: Financial Markets Department, BSL



### **3.5.3 Developments in Monetary Aggregates**

Developments in monetary aggregates during the fourth quarter of 2022 were expansionary, as both Broad Money (M2) and Reserve Money (RM) expanded.

#### ***Broad Money (M2)***

Broad Money (M2) expanded by 19.16 percent in 2022Q4, compared to the growth of 11.42 percent in 2022Q3. The increase in M2 was a result of growth in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system. The NFA of the banking system expanded by 127.36 percent in 2022Q4, after contracting by 38.07 percent in 2022Q3. The growth in the NFA of the banking system was mainly due to the 51.55 percent increase in the NFA of the commercial banks, coupled with the improvement in the NFA of the BSL.

The NDA of the banking system grew by 8.09 percent in 2022Q4, but at a slower rate than the 21.34 percent increase in 2022Q3. The moderation in NDA growth was mainly due to the slowdown in growth in net claims on the government by the banking sector, to 0.60 percent in 2022Q4 from 13.21 percent in 2022Q3, coupled with the contraction in credit to the private sector. The growth in net claims on government by the BSL slowed down to 7.15 percent in 2022Q4, compared to the 23.95 percent expansion in 2022Q3, which was mainly due to the partial payment of the GoSLWB/IMF Budget Financing Loan. Net claims on the government by commercial banks contracted by 5.51 percent in 2022Q4 following a growth of 4.73 percent in 2022Q3, mainly due to the decrease in their holdings of government securities. Credit to the private sector by commercial banks contracted by 2.03 percent in 2022Q4, compared to a growth of 6.64 percent in 2022Q3.

On a year-on-year basis, growth in credit to the private sector by commercial banks decreased to 12.05 percent in 2022Q4, relative to the 23.83 percent increase in 2022Q3, and this was below the IMF/ECF program target of 22.80 percent in 2022Q4.

Annually, M2 expanded by 41.05 percent in 2022Q4, compared to the 31.08 percent increase in 2022Q3, and this was above the IMF/ECF program target of 10.10 percent in 2022Q4.

From the liability side, M2 increased due to the growth in both Narrow Money (M1) and Quasi Money in 2022Q4. Narrow Money (M1) expanded by 10.13 percent in 2022Q4 following the 10.72 percent increase in 2022Q3, mainly due to the increase in currency outside banks (25.52 percent), which was greater than the contraction in demand deposits (1.85 percent). Quasi Money increased by 27.49 percent in 2022Q4, compared to the 12.07 percent growth in 2022Q3, and this was attributed to the expansion in both foreign currency deposits (42.91 percent) and time and savings deposits (4.44 percent).

### ***Reserve Money (RM)***

RM grew at a faster pace, increasing by 22.61 percent in 2022Q4, compared to a growth of 4.96 percent in 2022Q3. The expansion in RM reflects the growth in the Net Domestic Assets (NDA) of the Bank of Sierra Leone (BSL), coupled with improvements in the Net Foreign Assets (NFA) of the BSL. The NDA of the BSL increased by 21.64 percent in 2022Q4, compared to a growth of 29.87 percent in 2022Q3. This development was largely underpinned by an 83.20 percent increase in their holdings of government securities in 2022Q4, compared to a 12.27 percent increase in 2022Q3. The Net Foreign Assets (NFA) of the BSL improved mainly because of receipts from exports (US\$8.35mn) and funds from the IMF and World Bank for budgetary support (US\$106.14mn).

Annual growth in RM expanded by 25.55 percent in 2022Q4, up from a 17.22 percent increase recorded in 2022Q3, and was far above the IMF/ECF program target of 1.30 percent for 2022Q4.

From the liabilities side, the expansion in RM was attributed to increases in currency issued (20.36%) and banks' reserves (37.68%) in 2022Q4.

### **3.5.4 Interest Rates Developments**

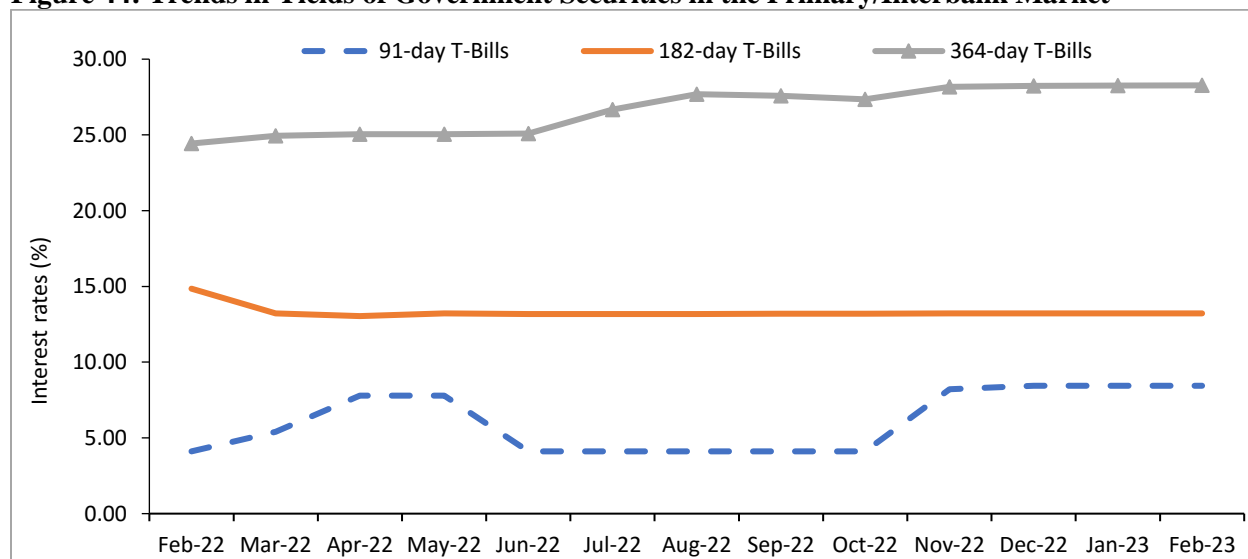
#### ***Treasury Bills and Interbank Rates***

During the review period, it was observed that the annual yield of the 364-day Treasury Bills increased by 64 basis points, from 27.59 percent in September 2022 to 28.23 percent in December 2022, and further increased by 4 basis points to 28.27 percent in February 2023. There was no

demand for the 91-day and 182-day T-bills, and their yields remained unchanged as of February 2023.

The interbank weighted average yield increased by 100 basis points, from 17.90 percent in September 2022 to 18.90 percent in December 2022, and increased further to 19.82 percent in February 2023. This increase could be attributed to the emergence of liquidity pressure in the banking system. Figure 46 shows the trends in the yields of Government securities in both the Primary and Interbank markets for the period February 2022 to February 2023.

**Figure 44: Trends in Yields of Government Securities in the Primary/Interbank Market**

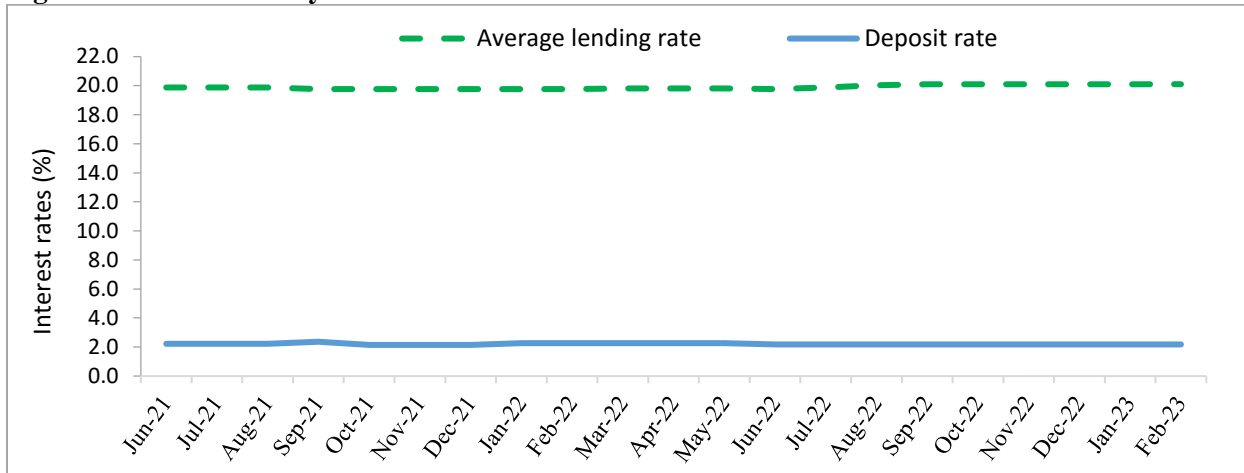


Source: Financial Markets Department, BSL

### ***Commercial Banks' Rates***

The average lending rate and savings rate of commercial banks remained unchanged at 20.10 percent and 2.17 percent, respectively.

**Figure 45: Trends in Key Market Rates**



Source: Financial Markets Department, BSL

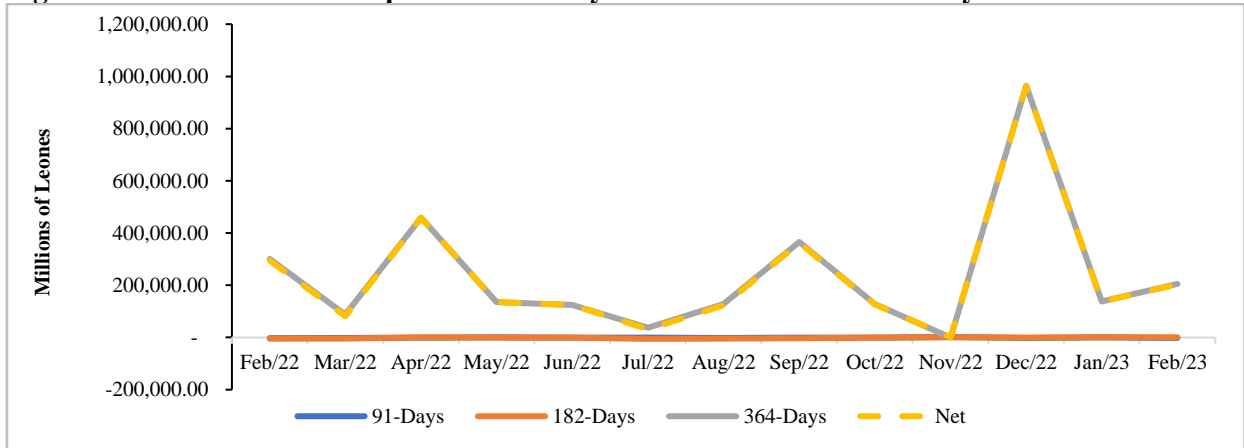
### 3.6 Domestic Debt Developments

#### 3.6.1 Primary Market Auction Outcomes

The primary market auctions for Government Securities during the review period were oversubscribed on a net basis. However, this required the BSL to provide liquidity to the banking sector through open market operations.

The 364-day tenure was largely oversubscribed, while the 182-day and 91-day tenures were undersubscribed in Q4 2022. A similar trend continued up to February 2023. The yields on 91-day and 182-day T-bills cannot be seen as reflecting underlying market expectations about the MPR or inflation.

**Figure 46: Under/Oversubscription of Treasury Bills Auctions in the Primary Market**



Source: Financial Markets Department, BSL

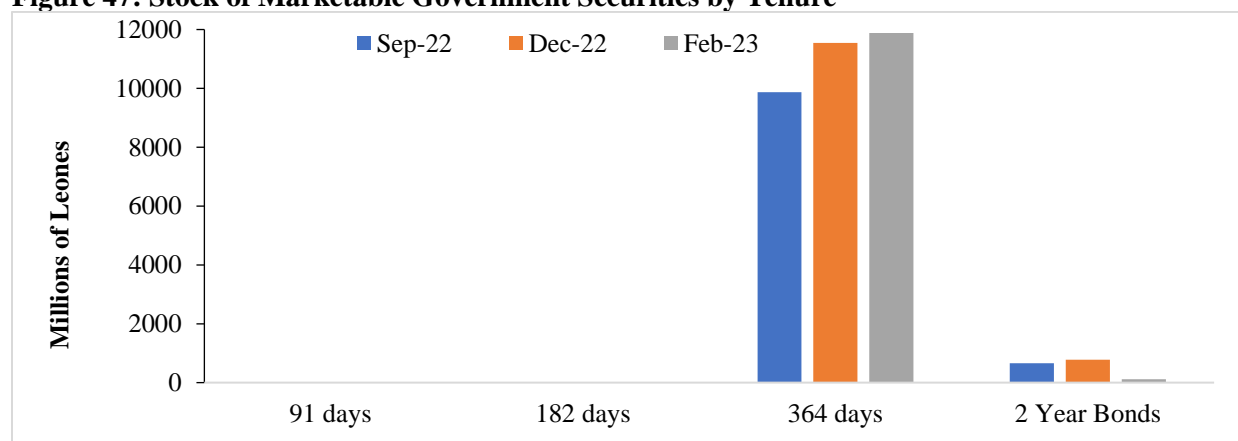
### 3.6.2 Stock of Government Securities

The total stock of Government securities increased by NLe1,848.70mn (15.51%) from NLe11,920.27mn as of end September 2022 to NLe13,768.97mn as of end December 2022 and further increased by NLe377.73mn (2.74%) to NLe14,146.70mn as of end February 2023. Marketable securities accounted for 89.49 percent of the total stock of Government securities, while non-marketable securities accounted for 10.51 percent for the two periods ending December 2022 and February 2023.

The stock of marketable securities increased by NLe1,782.91mn (16.92%) from NLe10,538.26mn as of end September 2022 to NLe12,321.17mn as of end December 2022 and further increased by NLe339.28mn (2.75%) to NLe12,660.45mn as of end February 2023. The issuance of new treasury securities during the review period was mainly to finance the budget. The stock of non-marketable securities increased by NLe65.79mn (4.76%) from NLe1,382.01mn as of end September 2022 to NLe1,447.80mn as of end December 2022, and further increased by Le38.45mn (2.66%) to NLe1,486.25mn as of end February 2023.

As of end December 2022, the proportion of 91-day, 182-day, and 364-day treasury bills to total marketable securities was 0.02 percent, 0.01 percent, and 93.65 percent, respectively, while that of the 2-year treasury bonds was 6.32 percent. Regarding non-marketable securities, the 3-year, 5-year, and 10-year treasury bonds accounted for 73.80 percent, 25.42 percent, and 0.78 percent, respectively.

**Figure 47: Stock of Marketable Government Securities by Tenure**



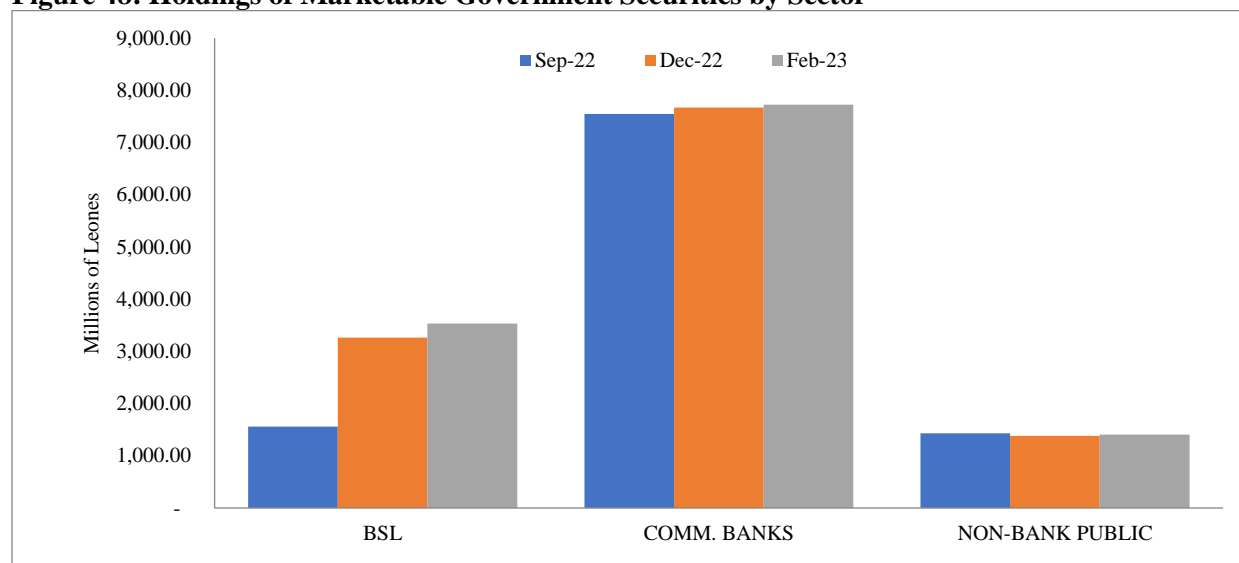
Source: Financial Markets Department, BSL

### 3.6.3 Distribution of the Stock of Government Securities by Sector

The holdings of marketable government securities increased in all sectors except for the non-bank public sector in Q4 2022 compared to Q3 2022. Between Q4 2022 and February 2023, the holdings of commercial banks, non-bank public, and BSL increased. This increase is largely attributed to increased outright purchase transactions by BSL to support banking sector liquidity.

The holdings of marketable government securities by commercial banks increased by NLe126.33mn (1.67%) from NLe7,546.30mn at the end of September 2022 to NLe7,672.63mn at the end of December 2022, and further increased by NLe49.63mn (0.65%) to NLe7,722.26mn at the end of February 2023. Non-bank holdings of marketable government securities decreased by NLe50.02mn (3.49%) from NLe1,433.63mn to NLe1,383.61mn, but increased by NLe21.27mn (1.54%) to NLe1,404.88mn at the end of February 2023. BSL holdings of marketable government securities increased by NLe1,706.60mn (109.51%) from NLe1,558.33mn at the end of September 2022 to NLe3,264.93mn at the end of December 2022, and further increased by NLe268.38mn (8.22%) to NLe3,533.31mn at the end of February 2023.

**Figure 48: Holdings of Marketable Government Securities by Sector**



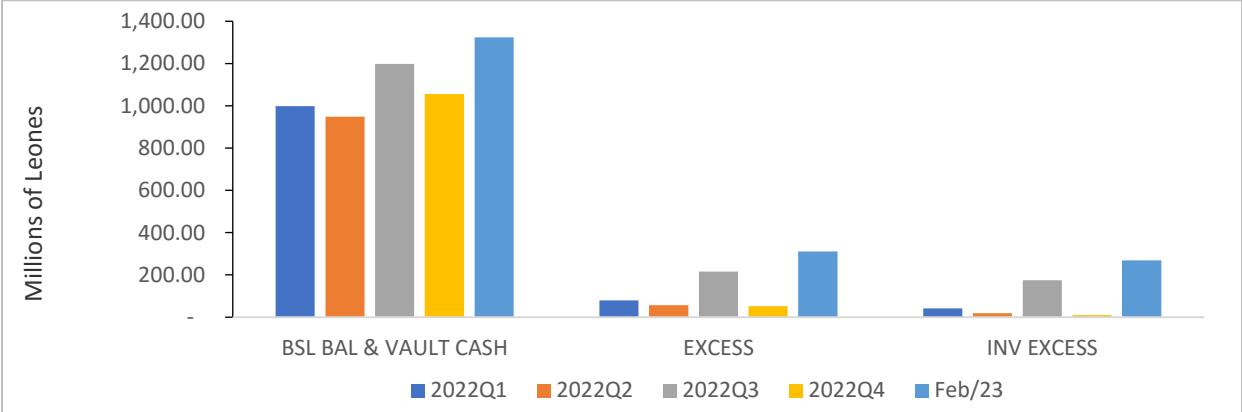
Source: Financial Markets Department, BSL

### 3.6.4 Snapshot of Liquidity in the Banking System

Total liquidity in the banking system decreased by NLe141.99mn from NLe1,197.62mn as at the end of Q3 2022 to NLe1,055.63mn as at the end of Q4 2022, but increased to NLe1,323.90mn as

at the end of February 2023. The aggregate volume of excess liquidity also decreased significantly within the review period from NLe215.58mn as at the end of Q3 2022 to NLe52.00mn as at the end of Q4 2022 but increased to NLe311.48mn as at the end of February 2023. The observed decrease in excess liquidity as at the end of Q4 2022 could be mainly attributed to a decrease in government expenditure from NLe3,151.51mn in Q3 2022 to NLe2,670.02mn in Q4 2022, coupled with huge customers' withdrawals from the banking system during the Christmas season.

**Figure 49: Snapshot of DMBs Liquidity position**



Source: Financial Markets Department, BSL

**3.7 Financial Stability Analysis**

The banking sector continued to be relatively stable, with all key Financial Soundness Indicators (FSIs) recorded above the minimum thresholds despite exchange rate challenges. The main reason for this continued stability is the overreliance of banks on investment in Treasury Bills operations, as income generated from this source accounts for the largest share of banks' total income, generating positive impacts on the key FSIs.

The proportion of Non-Performing Loans (NPLs) declined in Q4 2022, implying an improvement in asset quality. Government securities continued to be the largest asset of banks and therefore the main source of income, although Treasury bills decreased marginally in Q4 2022.

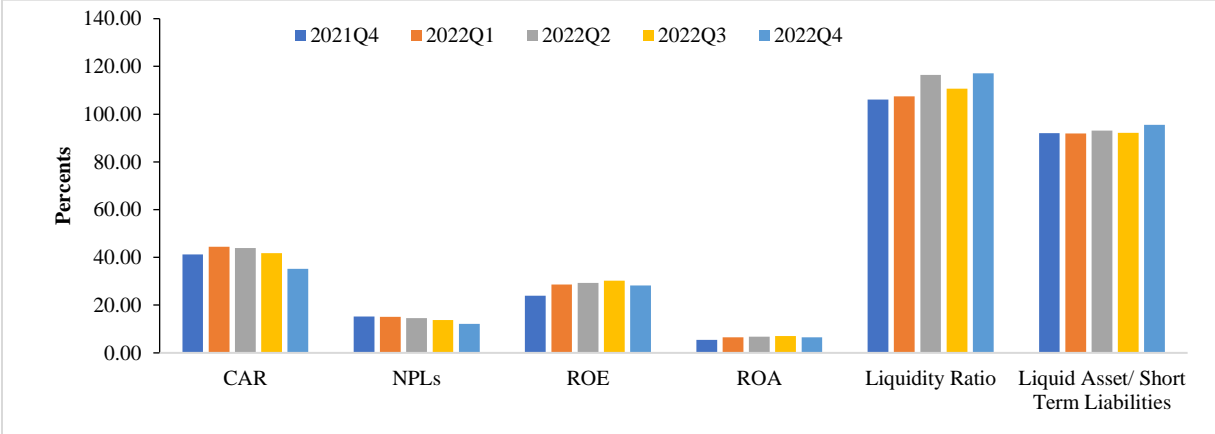
**3.7.1 Financial Soundness Indicators (FSIs)**

The banking sector continued to be stable and adequately capitalized, with most of the key Financial Soundness Indicators (FSIs) remaining above the minimum thresholds stipulated by

BSL. The system's regulatory capital to risk-weighted asset ratio, denoting the Capital to Asset Ratio (CAR), decreased by 15.8 percentage points to 35.2 percent in 2022 Q4 from 42.8 percent in 2022 Q3. However, the CAR position remained above the regulatory minimum capital, indicating adequate capital of banks to absorb losses. The drop in the CAR to 35.17 percent in 2022 Q4 from 42.21 in 2022 Q3 resulted from the further erosion of a negative capital base position of one of the banks, leading to an increase in the system's Risk-Weighted Assets. Additionally, the shareholders' funds of two (2) banks decreased between 2022 Q3 and 2022 Q4.

Asset quality improved in 2022 Q4 as the ratio of Non-Performing Loans to Total Loans decreased to 12.1 percent in 2022 Q4 from 13.8 percent in 2022 Q3. However, NPLs are still above the prudential limit of 10 percent, representing a 2.1 percentage points increase above the prudential threshold. Banks' profitability, however, deteriorated in the review period as both Return on asset (ROA) and Return on Equity (ROE) decreased to 6.5 and 28.2 percent, respectively, for 2022 Q4 compared to 7.0 and 30.3 percent, respectively, in 2022 Q3. The Liquidity Ratio in the banking sector increased in 2022 Q4 to 117.2 percent, relative to 110.6 percent in 2022 Q3, representing a 6.0 percentage point increase. Similarly, liquid asset to short-term liabilities also increased by 3.6 percentage points from 92.2 percent in 2022 Q3 to 95.5 percent in 2022 Q4. Figure 49 below shows the key FSIs of the banking sector.

**Figure 50: Key Financial Soundness Indicators (FSI's)**



Source: Banking Supervision & Financial Stability Departments

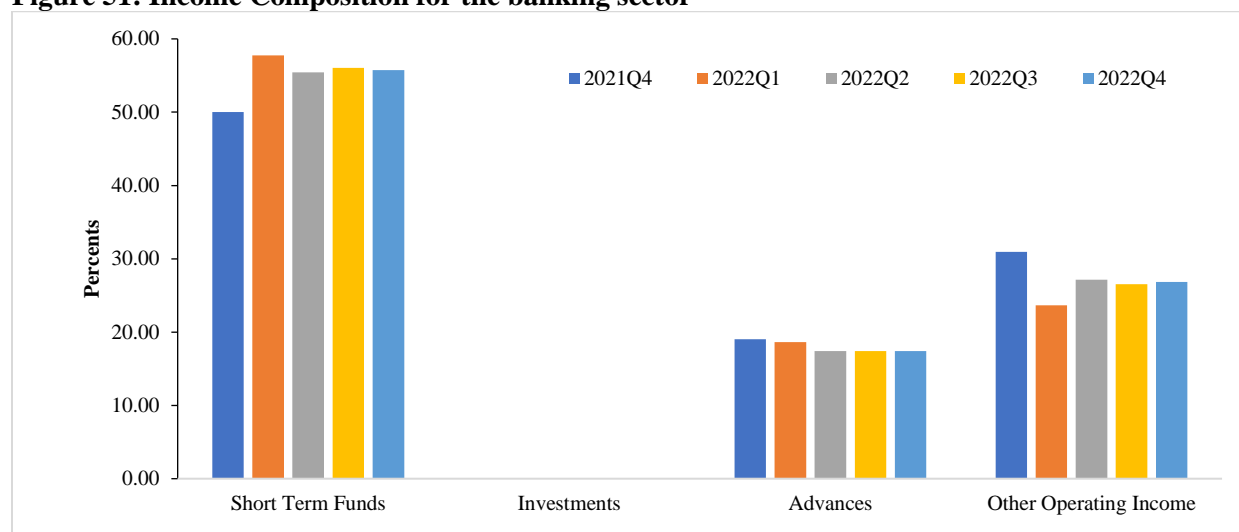
**3.7.2 Income Composition**

The banking sector continued to rely largely on government securities for its income. This is mainly because interest rates on government securities are high, and they have a zero percent risk rating. In 2022 Q4, the proportion of income from short term funds marginally decreased by 0.52



percentage points from 56.04 percent in 2022 Q3 to 55.75 percent in 2022 Q4. Income from advances also marginally decreased from 17.43 percent in 2022 Q3 to 17.41 percent in 2022 Q4. Other operating income, which consists mainly of commissions, fees, and profits on foreign exchange dealings, marginally increased by 1.2 percentage points from 26.53 percent in 2022 Q3 to 26.85 percent in 2022 Q4. The decrease in the proportion of income from short term funds may be attributed to a reduction in both bank holdings of government securities.

**Figure 51: Income Composition for the banking sector**



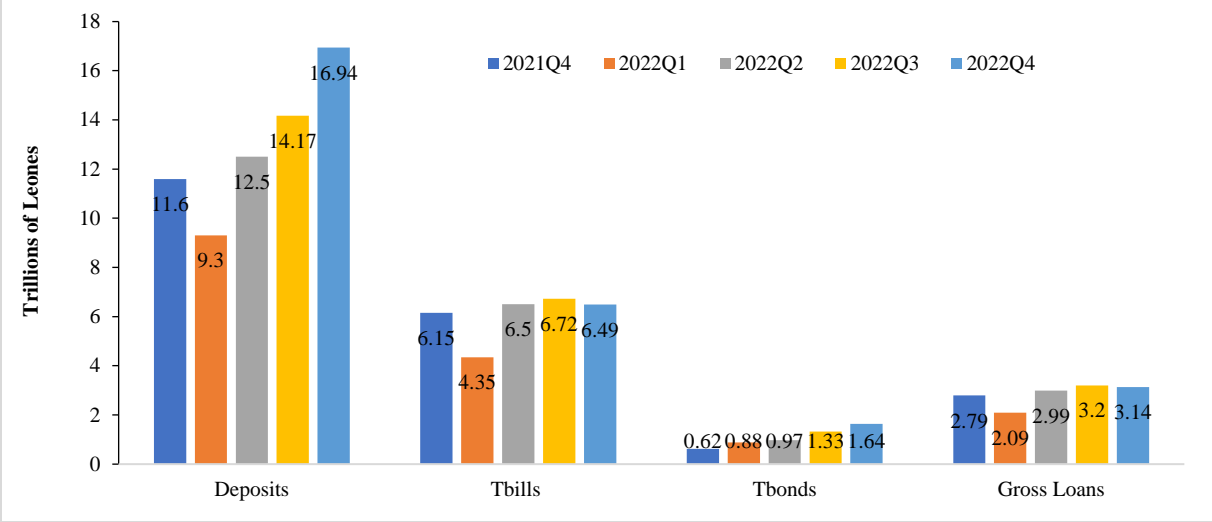
Source: Banking Supervision & Financial Stability Departments

### 3.7.3 Sources and Utilization of Funds

- Total Deposits, which are the main source of funds for banks, increased in 2022 Q4 by 19.52 percentage points from Le 14.17 trillion in 2022 Q3 to Le 16.94 trillion in 2022 Q4.
- Foreign currency-denominated deposit liabilities to total deposit liabilities progressively increased in 2022, from 29.5 percent in 2022 Q1, 31.4 percent in 2022 Q2, 32.8 percent in 2022 Q3, to 40.7 percent in 2022 Q4, representing a 24.1 percentage point increase between 2022 Q3 and 2022 Q4.
- T-bill holdings by the banking sector slightly decreased by 2.60 percent from Le 6.67 trillion in 2022 Q3 to Le 6.49 trillion in 2022 Q4, despite a slight increase in the average interest rate from 27.32 percent in 2022 Q3 to 27.92 percent in 2022 Q4.
- T-bond holdings by the banking sector increased by 18.42 percent from Le 1.38 trillion in 2022 Q3 to Le 1.64 trillion in 2022 Q4.

- Gross loans and advances marginally decreased by 2.12 percent from Le 3.20 trillion in 2022 Q3 to Le 3.14 trillion in 2022 Q4.

**Figure 52: Trend in Deposits, T-bills and Gross Loans**

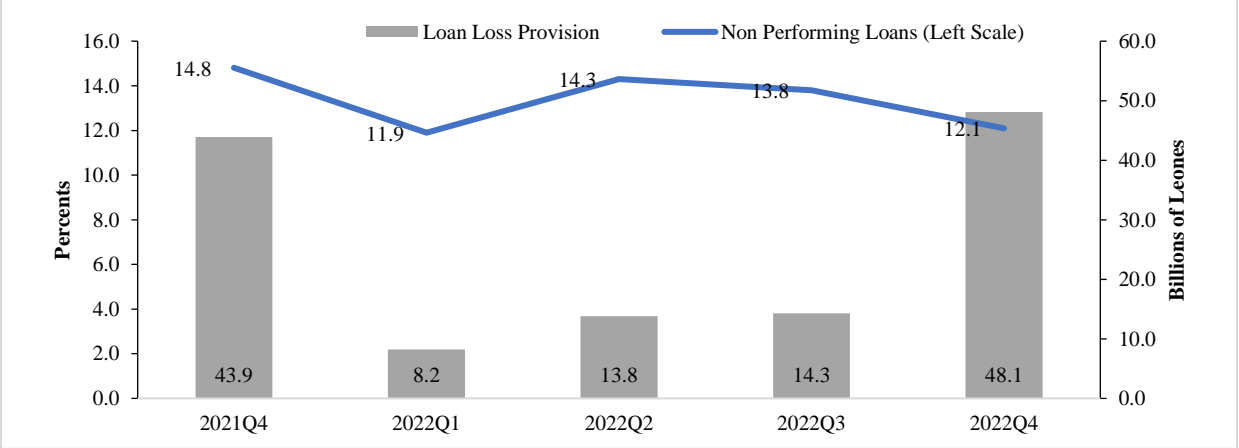


Source: Banking Supervision & Financial Stability Departments

**3.7.4 Trend in NPLs and Loan Loss Provisions**

The proportion of non-performing loans declined marginally within the review period of 2022Q4. The NPL ratio for 2022Q4 decreased by 1.81 percentage points from 13.40 percent in 2022Q3 to 11.59 percent in 2022Q4. However, loan loss provisions significantly increased by Le33.8 billion (237.2 percent) to Le48.1 billion in 2022Q4 from Le14.3 billion in 2022Q3.

**Figure 53: Trend of NPLs and Loan Loss Provision**



Source: Banking Supervision & Financial Stability Departments

### **3.7.5 Risks and vulnerabilities to the stability of the banking sector**

Despite the stability of the financial system, there are some risks and vulnerabilities that could pose threat to the banking sector as follows:

#### ***High level of NPLs poses a financial stability risk***

- Whilst the aggregate capital adequacy ratios appear strong and are comfortably above the minimum threshold, asset quality remains a concern.
- There is large variation in asset quality, with NPLs for the four (4) local banks above threshold.
- In total, half of the banks have NPL ratios above the limit.

#### ***Limited intermediation to support economic growth***

- Banks struggle to identify bankable projects in the private sector.
- Credit remains concentrated to few sectors.

#### ***Banking sector earnings are heavily reliant in government securities***

- Banks use deposits to fund their investments in Government securities.
- Reduction in government borrowing could adversely affect the profitability of the system.

#### ***Increase in foreign currency deposits***

- There has been continuous increase in foreign deposits since first quarter of 2022.
- Posing potential threat to the system, given the continuous depreciation of the Leone.

### **3.7.6 Challenges**

One of the key challenges to the financial sector is the supply chain disruptions following the Russia-Ukraine conflict, as well as the spillovers from sanctions imposed on Russia, and the lingering headwinds associated with the COVID-19 pandemic, which have led to an unprecedented increase in food and energy prices. Additionally, the continued depreciation of the Leone against the US Dollar is another challenge for the banking sector. The continued increase in inflation has forced low-income consumers to tighten their belts, crimping spending on other goods and slowing economic growth. This has caused a reduction in consumer sentiment, leading to low sales, increased cost of production, and lower household disposable income, all of which can have an impact on banks' NPLs.

High inflation can also increase the cost of government purchases, thereby reducing fiscal space, which can in turn lead to the accumulation of more arrears and implicitly contribute to the high NPLs of the banking sector.

### **3.7.7 Banking sector Outlook**

The banking sector is expected to remain stable going forward, as the majority of its assets are government securities and the government's appetite for borrowing is increasing. However, risks to the sector persist due to the Russia-Ukraine conflict, currency depreciation, and high inflation. The increased government borrowing will provide risk-free investment opportunities for banks, improving their risk-weighted assets. Interest from investments in government securities will continue to be the main source of income for banks. However, rising inflation and a depreciating Leone can reduce fiscal space, leading to the accumulation of arrears that may impact the NPLs of the banking sector.

## **4. CONCLUSION AND DECISION OF THE MPC**

### **4.1 Conclusion**

The domestic economy continues to face multiple supply-side shocks, exchange rate depreciation pressures, and associated price increases. Economic growth is estimated at 2.8 percent in 2022, down from 4.1 percent in 2021. However, growth is projected to increase to 3.1 percent in 2023. According to the Bank of Sierra Leone's Composite Index of Economic Activity, there was a slight pickup in economic activity in the fourth quarter of 2022.

Inflationary pressures persisted throughout the fourth quarter of 2022, with headline inflation rising due to both demand and supply shocks. Since the previous Monetary Policy Committee meeting, headline inflation has risen further from 37.1 percent in December 2022 to 42.7 percent in February 2023. Food and non-food inflation continue to be the major drivers of headline inflation. The high inflation reflects the currency depreciation, the prolonged effects of the Ukraine-Russia War, tight global liquidity conditions, domestic supply-side constraints, and high commodity prices. Going forward, these factors are expected to continue to weigh on inflation.

## **4.2 Decision of the Monetary Policy Committee**

The MPC noted that inflation remained a significant problem, squeezing household real incomes, reducing the welfare of households, and posing a threat to macroeconomic stability. In the view of members, the continued upward risk to prices and the impact of exchange rate depreciation provides a compelling argument for an upward adjustment of the policy rate, albeit less aggressive. Consequently, based on its assessment of the risks to inflation and economic activity in the near-term and the need to strike a balance between low inflation, stable growth, and financial system stability, the MPC decided to increase the MPR by 0.50 percentage points to 18.75 percent and adjust the Standing Lending Facility Rate and the Standing Deposit Facility Rate upward by the same margin.

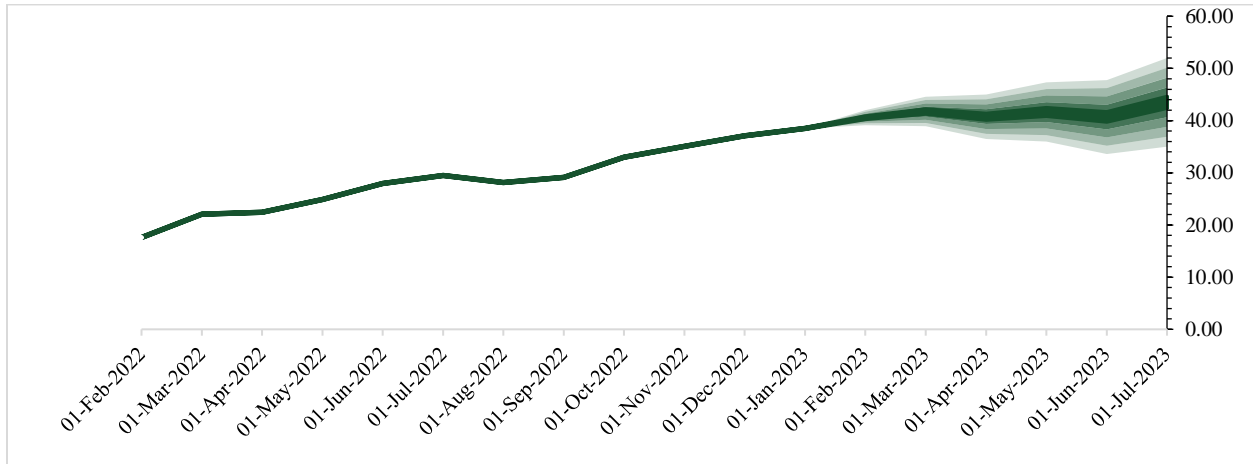
## APPENDIX

### Inflation Outlook

Staff assessments of the inflation outlook, using a combined forecast derived from a suite of near-term forecast models, suggest that inflation will increase slightly further and stay in the 40-45 percent range until July 2023. It is forecasted to be 40.64 percent in February 2023, and then it will accelerate further to 43.99 percent in July 2023.

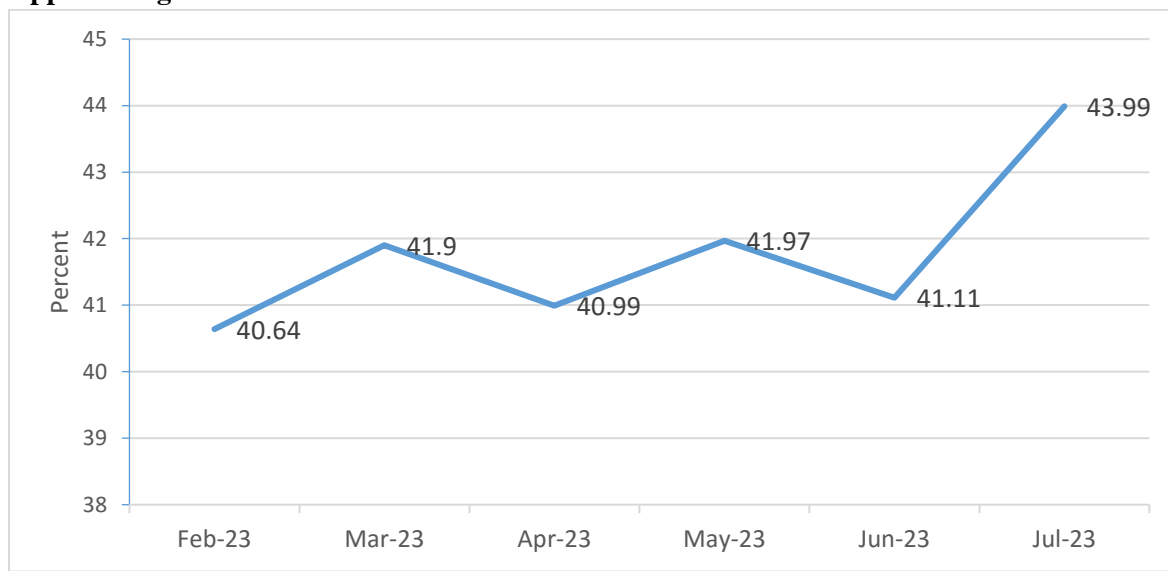
The fan chart in appendix figure 1 illustrates that the risks to the outlook are broadly balanced. In contrast, staff judgement of the inflation outlook suggests that the risks to the inflation forecast remain firmly tilted to the upside. This is mainly due to the persistent depreciation of the Leone, expansion in monetary aggregates, fiscal spending ahead of the national elections, demand pressures related to Ramadan, and signs of the build-up of high inflation expectations.

**Appendix figure 1: Inflation Forecast Fan Chart**



Source: BSL staff illustration

**Appendix figure 2: Inflation Forecast**



Source: BSL staff illustration

**Table 1: Summary of Global Growth Projections (percent)**

	2022	WEO October 2022 Projections		WEO January 2023 Projections		CHANGE IN Projections	
		2023	2024	2023	2024	2023	2024
<b>World Output</b>	<b>3.4</b>	<b>2.7</b>	<b>3.2</b>	<b>2.9</b>	<b>3.1</b>	<b>0.2</b>	<b>-0.1</b>
<b>Advanced Economies</b>	<b>2.7</b>	<b>1.1</b>	<b>1.6</b>	<b>1.2</b>	<b>1.4</b>	<b>0.1</b>	<b>-0.2</b>
<i>United States</i>	2.0	1.0	1.2	1.4	1.0	0.4	-0.2
<i>Euro Area</i>	3.5	0.5	1.8	0.7	1.6	0.2	-0.2
<i>United Kingdom</i>	4.1	0.3	0.6	-0.6	0.9	-0.9	0.3
<i>Japan</i>	1.4	1.6	1.3	1.8	0.9	0.2	-0.4
<b>Emerging Market and Developing Economies</b>	<b>3.9</b>	<b>3.7</b>	<b>4.3</b>	<b>4.0</b>	<b>4.2</b>	<b>0.3</b>	<b>-0.1</b>
<i>Brazil</i>	3.1	1.0	1.9	1.2	1.5	0.2	-0.4
<i>Russia</i>	-2.2	-2.3	1.5	0.3	2.1	2.6	0.6
<i>India</i>	6.8	6.1	6.8	6.1	6.8	0.0	0.0
<i>China</i>	3.0	4.4	4.5	5.2	4.5	0.8	0.0
<b>Sub-Saharan Africa</b>	<b>3.8</b>	<b>3.7</b>	<b>4.1</b>	<b>3.8</b>	<b>4.1</b>	<b>0.1</b>	<b>0.0</b>
<i>Nigeria</i>	3.0	3.0	2.9	3.2	2.9	0.2	0.0
<i>South Africa</i>	2.6	1.1	1.3	1.2	1.3	0.1	0.1

Source: IMF World Economic Outlook (WEO) October 2022 and January 2023 update.

**Table 2: Monetary Policy Stance of Selected Central Banks**

Country	Recent Inflation (%)		Monetary Policy Rates (%)				
			Current		Previous		Change
<b>WAMZ</b>							
Sierra Leone	38.4	Jan.23	18.25	Jan.23	17.00	Sep.22	1.25
Nigeria	21.8	Jan.23	17.50	Jan.23	16.50	Nov.22	1.00
Ghana	53.6	Jan.23	28.00	Jan.23	27.00	Nov.22	1.00
Guinea	8.6	Dec.22	11.50	Jan.23	11.50	Nov.22	0.00
Liberia	9.1	Oct.22	15.00	Jan.23	15.00	Nov.22	0.00
The Gambia	13.1	Jan.23	13.00	Jan.23	12.00	Dec.22	1.00
<b>Major Economies</b>							
USA	6.4	Jan.23	4.75	Feb.23	4.50	Dec.22	0.25
China	2.1	Jan.23	3.65	Feb.23	3.65	Jan.23	0.00
Euro Area	8.6	Jan.23	3.00	Feb.23	2.50	Dec.22	0.50
UK	10.1	Jan.23	4.0	Feb.23	3.50	Dec.22	0.50

Source: Central Banks through Trading Economics (March 2, 2023)

**Table 3: Money supply and its Components**

Billions of Leones	2022	2022	Absolute change		Quarterly % change		Yearly % change	
	Q3	Q4	2022Q3	2022Q4	2022Q3	2022Q4	2022Q3	2022Q4
<b>Reserve money</b>	<b>4.71</b>	<b>5.78</b>	<b>0.22</b>	<b>1.07</b>	<b>4.96</b>	<b>22.61</b>	<b>17.22</b>	<b>25.55</b>
<b>Broad money (M2)</b>	<b>17.04</b>	<b>20.30</b>	<b>1.75</b>	<b>3.26</b>	<b>11.42</b>	<b>19.16</b>	<b>31.08</b>	<b>41.05</b>
<b>Narrow money (M1)</b>	<b>8.17</b>	<b>9.00</b>	<b>0.79</b>	<b>0.83</b>	<b>10.72</b>	<b>10.13</b>	<b>23.60</b>	<b>19.40</b>
Currency outside banks	3.58	4.49	0.25	0.91	7.47	25.52	21.76	29.03
Demand deposit	4.60	4.51	0.54	(0.09)	13.38	(1.85)	25.08	11.15
<b>Quasi Money</b>	<b>8.86</b>	<b>11.30</b>	<b>0.95</b>	<b>2.44</b>	<b>12.07</b>	<b>27.49</b>	<b>38.83</b>	<b>64.89</b>
o.w. Foreign currency deposit	5.31	7.59	0.77	2.28	16.97	42.91	63.50	104.94
Time and saving deposit	3.54	3.70	0.18	0.16	5.49	4.44	13.28	17.80
			-	-				
<b>Net Foreign Asset</b>	<b>1.58</b>	<b>3.59</b>	<b>(0.97)</b>	<b>2.01</b>	<b>(38.07)</b>	<b>127.36</b>	<b>(40.92)</b>	<b>3.22</b>
BSL	(3.86)	(4.64)	(1.75)	(0.79)	82.93	20.46	1,078.90	2,643.26
ODCs	5.44	8.24	0.78	2.80	16.65	51.55	81.04	125.62
<b>Net Domestic Assets</b>	<b>15.45</b>	<b>16.70</b>	<b>2.72</b>	<b>1.25</b>	<b>21.34</b>	<b>8.09</b>	<b>49.75</b>	<b>53.13</b>
<b>Net Domestic Credit</b>	<b>17.28</b>	<b>17.27</b>	<b>1.97</b>	<b>(0.01)</b>	<b>12.88</b>	<b>(0.06)</b>	<b>30.69</b>	<b>30.25</b>
Government (Net)	<b>13.86</b>	<b>13.95</b>	<b>1.62</b>	<b>0.08</b>	<b>13.21</b>	<b>0.60</b>	<b>32.41</b>	<b>34.27</b>
o.w.BSL	6.69	7.17	1.29	0.48	23.95	7.15	52.16	62.76
ODCs	7.17	6.77	0.32	(0.40)	4.73	(5.51)	18.09	13.28
Private Sector	<b>3.61</b>	<b>3.54</b>	<b>0.22</b>	<b>(0.07)</b>	<b>6.61</b>	<b>(2.06)</b>	<b>23.65</b>	<b>11.93</b>
o.w. ODCs	3.60	3.52	0.22	(0.07)	6.64	(2.03)	23.83	12.05
Other Sectors (Net)*	(0.20)	(0.21)	0.13	(0.02)	(40.13)	10.20	15.33	(25.64)



<b>Other Items (Net)</b>	<b>(1.83)</b>	<b>(0.57)</b>	<b>0.75</b>	<b>1.26</b>	<b>(28.96)</b>	<b>(68.96)</b>	<b>(37.06)</b>	<b>(75.88)</b>
<b>Money Multiplier</b>	3.61	3.51						

Source: Monetary Policy Department

\*Other Sectors (Net) includes State and Local, Other financial Corporation, Public Non-Financial Corporation

**Table 4: Reserve Money and Components**

Billions of Leones	2022		Quarterly Change		Quarterly % Change		Yearly % Change	
	Q3	Q4	2022Q3	2022Q4	2022Q3	2022Q4	2022Q3	2022Q4
<b>Net Foreign Assets</b>	<b>(3.86)</b>	<b>(4.64)</b>	<b>(1.75)</b>	<b>(0.79)</b>	<b>82.93</b>	<b>20.46</b>	<b>1,078.90</b>	<b>2,643.26</b>
<b>Net Domestic Assets</b>	<b>8.57</b>	<b>10.42</b>	<b>1.97</b>	<b>1.85</b>	<b>29.87</b>	<b>21.64</b>	<b>97.10</b>	<b>118.44</b>
<b>Government Borrowing (net)</b>	<b>6.69</b>	<b>7.17</b>	<b>1.29</b>	<b>0.48</b>	<b>23.95</b>	<b>7.15</b>	<b>52.16</b>	<b>62.76</b>
o.w. 2.11 Securities	2.02	3.70	0.22	1.68	12.27	83.20	89.47	232.97
2.12 Ways and Means	-	0.12	(0.01)	0.12	(100.00)	#DIV/0!	(100.00)	(39.86)
2.13 GoSLWB /IMF								
Budget financing	4.79	3.53	1.26	(1.26)	35.67	(26.29)	41.34	4.91
<b>3. Reserve money</b>	<b>4.71</b>	<b>5.78</b>	<b>0.22</b>	<b>1.07</b>	<b>4.96</b>	<b>22.61</b>	<b>17.22</b>	<b>25.55</b>
o.w. 3.1 Currency issued	4.09	4.92	0.34	0.83	9.04	20.36	25.65	28.48
3.2 Bank reserves	0.62	0.86	(0.12)	0.23	(15.61)	37.68	(18.55)	11.28

Source: Monetary Policy Department

**Table 5: Interest Rates**

	2021	2022											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
91-day T-Bills	N/A	4.11	N/A	5.40	7.78	N/A	4.11	4.11	N/A	4.11	N/A	8.21	8.44
182-day T-Bills	13.13	13.82	14.85	13.21	13.04	13.21	13.17	N/A	N/A	13.19	13.19	13.21	13.21
364-day T-Bills	21.38	23.07	24.43	24.95	25.04	25.04	25.08	26.68	27.69	27.59	27.35	28.18	28.23
Interbank rate	15.01	15.03	15.18	15.96	16.73	17.01	17.04	17.50	17.85	17.90	18.44	18.77	18.90
SLF	17.25	17.25	17.25	17.25	18.00	18.00	19.00	19.00	19.00	20.00	20.00	20.00	21.25
SDF	8.25	8.25	8.25	8.25	9.00	9.00	10.00	10.00	10.00	11.00	11.00	11.00	12.25
MPR	14.25	14.25	14.25	15.00	15.00	15.00	16.00	16.00	16.00	17.00	17.00	17.00	18.25
Av. Lending rate	19.77	19.77	19.77	19.81	19.81	19.81	19.77	19.88	20.02	20.10	20.10	20.10	20.10
Lending (Prime)	19.03	19.03	19.03	19.11	19.11	19.11	19.11	19.26	19.60	19.60	19.60	19.60	19.60
Savings deposits	20.50	20.51	20.51	20.50	20.50	20.50	20.42	20.50	20.44	20.59	20.59	20.59	20.59
	2.15	2.27	2.27	2.27	2.27	2.27	2.17	2.17	2.17	2.17	2.17	2.17	2.17

Source: Monetary Policy Department

**Table 6: Combined Inflation Forecast**

<b>Months</b>	<b>Forecast</b>
February 2023	40.64
March 2023	41.90
April 2023	40.99
May 2023	41.97
June 2023	41.11
July 2023	43.99

Source: BSL Staff projections