# BANK OF SIERRA LEONE

## MONETARY POLICY REPORT

## DECEMBER 2022

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## ACRONYMS

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

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***The Report***

*The December 2022 edition of the BSL Monetary Policy Report present an assessment of global and domestic economic developments, mainly during the third quarter of 2022. The report also assesses current developments in the fourth quarter of 2022 for which data is available, as well as near-term prospects, with a view of 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.*[1]

***Monetary Policy Strategy***

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

***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. Final decision takes place by vote, with the chairman having the deciding vote in the occurrence 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 authorized 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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[1] *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

Global economic challenges heightened with the IMF global output growth projection retained at 3.2 percent in the October 2022 World Economic Outlook (WEO), but further downgraded in the 2023 forecast to 2.7 percent compared with 2.9 percent in the WEO July 2022 forecast. Most of the regions recorded contraction in growth with advanced economies weighing heavily on them. Growth prospects for Sub Saharan Africa has also been significantly affected by the adverse impact of global economic developments. Similar situation is observed across the other regions, including the WAMZ region where growth was significantly revised downwards in Nigeria, Ghana, Liberia and Sierra Leone.

Global inflationary pressures persisted, with global inflation revised upward to 8.8percent in 2022 in the October 2022 WEO edition, compared to the initial projection of 8.1percent in the July 2022 WEO. Similarly, inflation is projected to increase for all regions in 2022 including Advanced, Emerging Markets and Sub-Saharan African Economies. Commodity prices also remained very high, with global oil prices generally projected to fall in the near term.

On the domestic front, economic prospects remain challenging with GDP growth revised to 2.8 percent, lower than 4.1 percent recorded in 2021. The subdued performance was mainly due to the impact of the war in Ukraine, rising commodity prices, high freight charges and the worsening economic conditions in major trading partner countries. Consistent with the downward revision in Real GDP growth, the CIEA index also indicates a slowdown in economic activities in 2022Q3.

Domestic inflationary pressures persisted during the review period, with headline inflation increasing from 27.95 percent in June to 29.10 percent in September, and further to 32.98 percent and 35.05percent in October and November 2022 respectively. In recent months, the increase in headline inflation has been mainly driven by food inflation and pass through effect of exchange rate depreciation.

On the outlook, inflation is projected to increase to 37.6 percent in December 2022 and to peak to 39.57 percent in February 2023, before moderating to 36.44 percent and 35.34percent in March and April 2023. The assessments showed that risks to the inflation outlook are tilted to the upside due to factors such as the effects of the Ukraine war, elevated energy and food prices, persistent depreciation of the Leone, deficit financing, high freight charges, and the ongoing Covid-19 crisis in China.

On the external front, the trade deficit widened in 2022Q3 relative to 2022Q2, mainly on account of the combined effects of significant reduction in exports proceeds and increase in import bills. Reflecting the worsening trade balance, the gross international reserves continued to decline in 2022Q3, but continued to be enough to cover 3 months of imports.

Exchange rate pressures remained high, with structural imbalance between the demand for, and supply of, foreign exchange. Consequently, the exchange rate depreciated significantly in 2022Q3, with depreciation pressures evident in all market segments.

In response to the exchange rate pressures, the BSL approved $40million as support to the market. Out of the $40 million, $24million was done through the BSL auction system, and the remaining $16million through direct support to Oil Marketing Companies (OMCs), considering the importance of energy for productive activities.

Provisional data on fiscal aggregates indicates that budgetary operations in 2022Q3 resulted in a widened deficit, due to an expansion in government spending, which outweighed the increase in revenues. Reflecting the fiscal deficit, the primary balance also deteriorated in 2022Q3.

For the monetary sector, monetary variables expanded during the review period and were above the ECF target. This mainly reflect increase in government borrowing which expanded the central bank balance sheet. Credit to the private sector also increased and was slightly above the program target. However, despite the increase, the level of credit to the private sector was still below the expected target and was mainly due to the heavy exposure of banks to the government, as well as the high interest rate charged by the banking sector.

The money market continued to record oversubscription, mainly supported by Central Bank secondary market operations. And as a result, the 364-days yield increased significantly followed by the 182-day T-bills. However, transactions in the 91-day T-bills remained subdued.

The banking sector remained relatively stable as most of the Financial Soundness Indicators (FSIs) were within the thresholds set by the BSL. Nevertheless, the NPL ratio, although marginally decreased in 2022Q3, remained above the regulatory limit of 10 percent.

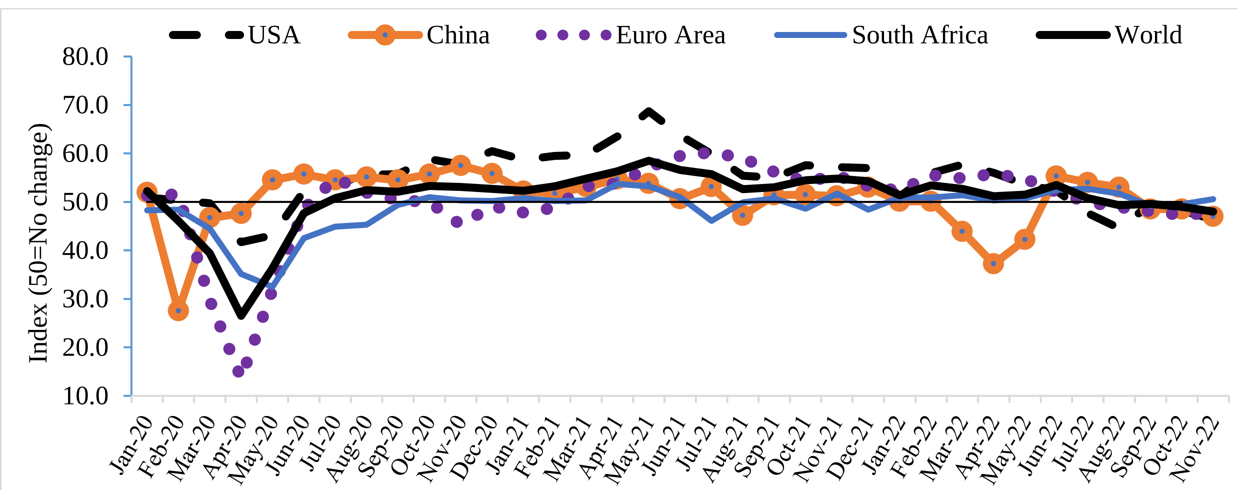
The rest of the report is structured as follows: The second section analyses the global economic developments including global growth, global inflation, commodity prices and their implications for the Sierra Leone economy. The third section reviews domestic economic developments and outlook. Finally, the fourth section covers the conclusion and decision of the MPC in December 2022.

## 2. GLOBAL ECONOMIC DEVELOPMENTS AND PROSPECTS

### 2.1 Global Output

Global economic challenges have intensified, underscored by the ongoing rapid interest rate hikes to cool off rigid inflationary pressures, a broadening Russian-Ukraine war causing disruptions in the energy market, persistent supply bottlenecks, and a slowing Chinese economy. The monthly global composite PMI[2], which gauges the direction of global economic activity, stalled during the review period, reflecting weak economic outturn in the United States, Euro Area and China. In the US, tightening financial conditions and elevated inflation continue to weigh on investment and consumption. Economic activity in the Euro area continue to be adversely affected by the worsening energy crisis and heightened uncertainties related to the war in Ukraine. Although the Chinese economy continues to exhibit signs of resilience, the COVID-19-related lockdowns and struggling property sector remain major setbacks for growth (Figure 1).

**Figure 1: Trends in Global and Selected Economies PMIs**

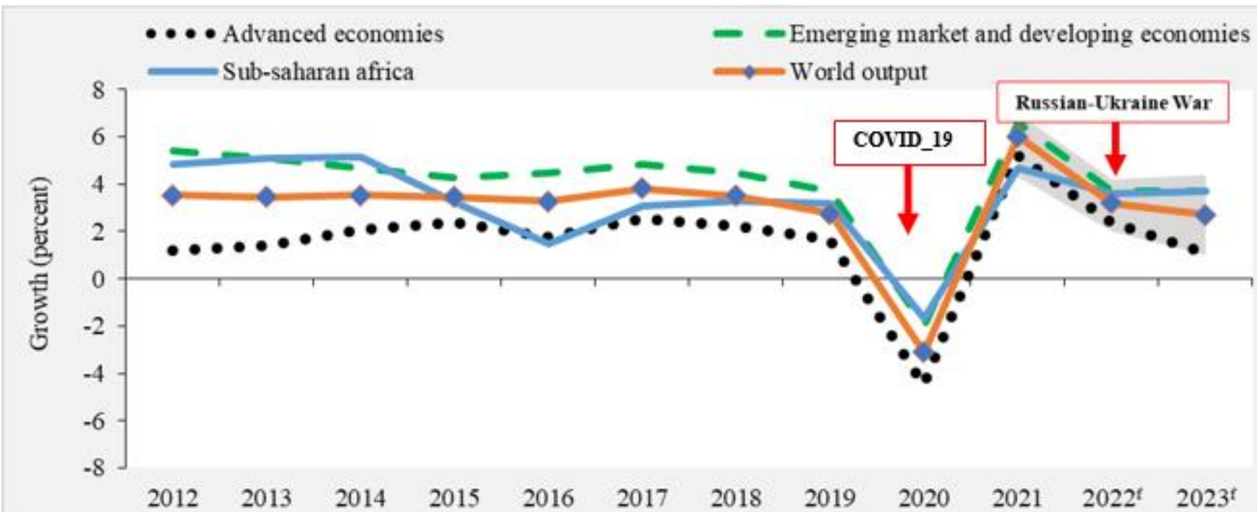



Data Source: Market Economics, December 2022

2 The global composite Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors around the world. An index below 50 indicates contraction and above 50 indicates expansion.

The current phase of the business cycle, coupled with elevated macroeconomic, geopolitical and policy uncertainty concerns, has led to downward revisions of global growth projections. Accordingly, the IMF (in its October 2022 World Economic Outlook) projected global growth to fall from 6.0 percent in 2021 to 3.2 percent in 2022 and further down to 2.7 percent in 2023. This new projections represents a 0.2 percentage point downgrade of global growth for 2023 compared with the 2.9 percent projection in July 2022. The worsening global economic prospects broadly reflected softening economic activities in both advanced and emerging markets economies.

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




Source: IMF World Economic Outlook, October 2022 database; Note: ***f*** =forecast

On the outlook, global growth prospects remain covered by a multilayered cloud of downside risks. Further tightening of international monetary and financial conditions, growing debt distress risks in many regions, the lingering war in Ukraine, and a likely pickup in energy prices due to production cuts by OPEC and its allies remain significant downside risks to global growth.

### 2.1.1 Advanced and Emerging Market Economies

Negative spillovers from the war in Ukraine and rapid monetary tightening are weighing heavily on economic activity in advanced and emerging market economies. The likelihood of recession has significantly increased for most of the economies in these groups. In effect, projections for both groups have been revised downwards, with pronounced downgrades for USA, China and India in 2022 and the euro area in 2023.

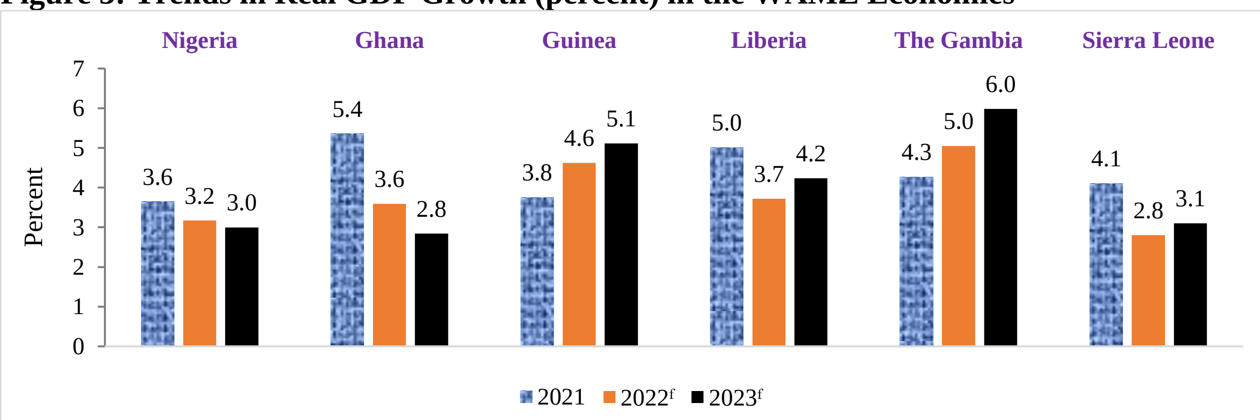
### 2.1.2 Sub-Saharan Africa

Sub-Saharan Africa has been significantly affected by the reverberations from the global economy. Growth projections for the region in 2022 and 2023 have been downgraded by 0.2 and 0.3 percentage points respectively. Major economies in the region including Nigeria, South Africa and Ghana are facing mounting economic challenges. Looking ahead, growth prospects in the region will largely depend on the dynamics in the global economy. Rising debt levels, limited fiscal space, growing sociopolitical tensions and extreme weather conditions are major downside risks to growth across the region.

### 2.1.3 West African Monetary Zone (WAMZ)

Economic prospects have also worsened across the WAMZ bloc. Growth projections for Nigeria, Ghana, Liberia and Sierra Leone have been significantly downgraded in 2022 and for all the six economies in 2023. The economies in the bloc are faced with major growth risks including rapid policy rate hikes in response to elevated inflationary pressures, weakening currencies, rising debt-to-GDP ratios, extreme weather conditions, as well as social unrest due to rising cost of living. These factors are adversely affecting private sector activity and consumer sentiments.

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



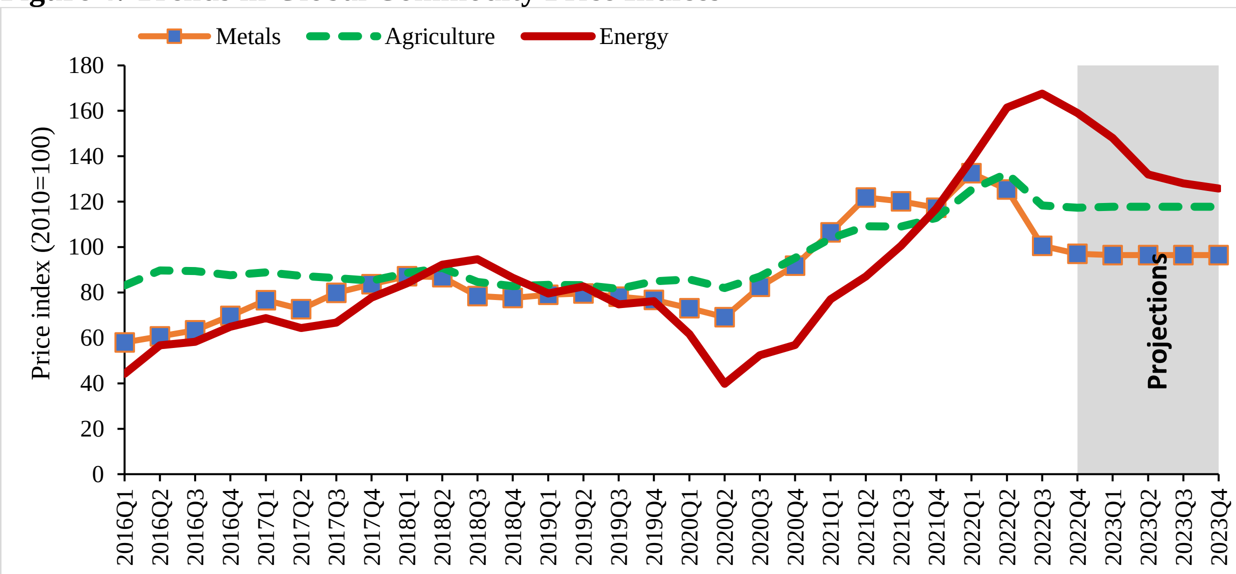

Source: IMF World Economic Outlook, October 2022 and Sierra Leone's Ministry of Finance Projection, November 2022; Note: ***f*** =forecast t

## 2.2 Global Commodity Prices and Inflation

### 2.2.1 Global Commodity Prices

The increasing probability of global economic recession next year is exerting downward pressures on commodity prices. Metal and agriculture prices decreased by 19.8 percent and 10.7 percent to indices of 100.58 and 118.30 points in 2022Q3, respectively. Although the overall energy price index increased by 3.8 percent to an index of 167.57 points in 2022Q3, it was largely due to a significant increase in non-oil energy prices, which outweighed a decrease in crude oil prices. On the outlook, general global commodity prices are expected to gradually soften as the global economy loses steam. However, energy prices could remain firm due to the significant role of Russia in the market and the announcement of OPEC+ to cut crude oil production on net to support prices (**see Figure 4**).

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

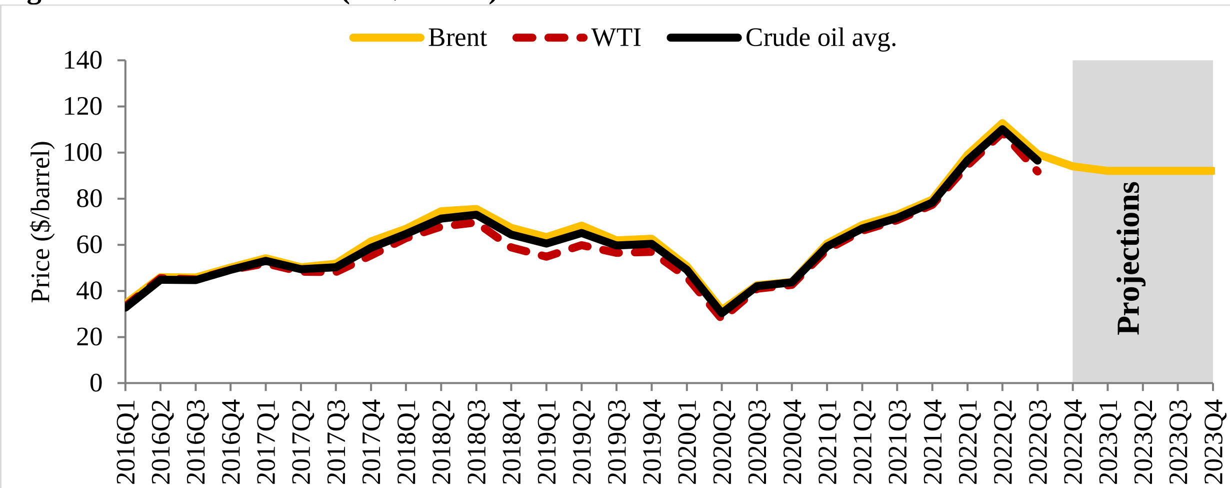



Source: World Bank Commodity Market Outlook database, November 2022

***Crude Oil Prices***

Crude oil prices softened during the review period amid growing concerns of a global recession in 2023 and tightening monetary and financial conditions. Average crude oil price fell by 12.4 percent to US$96.43/bbl in 2022Q3, relative to the price of US$110.10/bbl in 2022Q2. However, some gain in prices were observed in October 2022, following the announcement by OPEC+ to significantly cut production. Prices are projected to average above US$90/bbl in 2022, and to remain firm well into 2023.

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

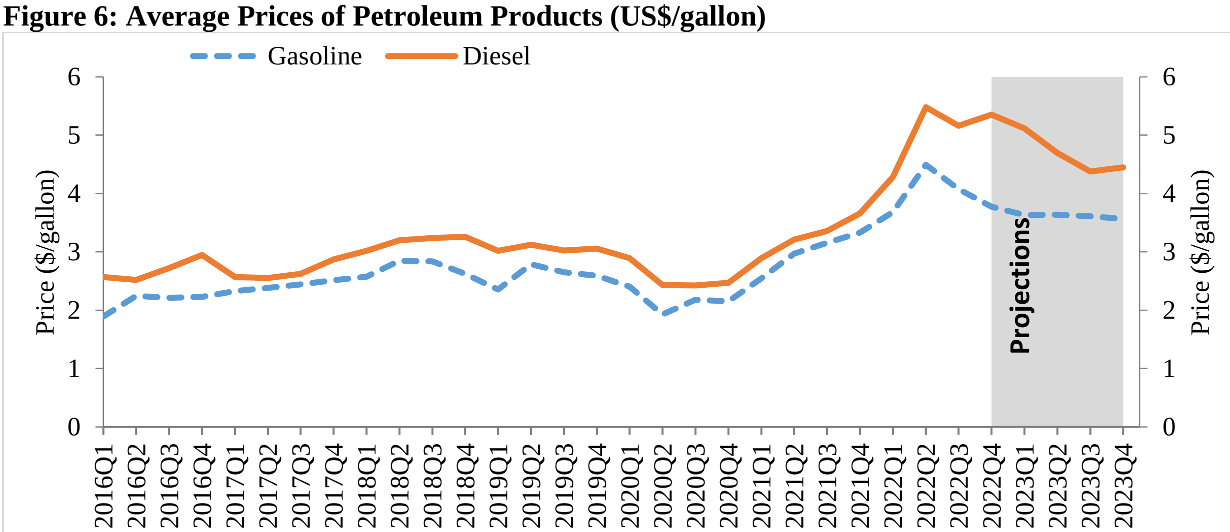



Source: World Bank Commodity Market Outlook database, November 2022

***Petroleum Products (Retail Prices)***

Following the fall in crude oil prices, the retail prices of diesel and gasoline also dropped by 5.8 percent and 9.2 percent, selling at US$5.16/gallon and US$4.08/gallon respectively, in 2022Q3. Retail prices of petroleum products are expected to continue to broadly follow movements in global crude oil prices.

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

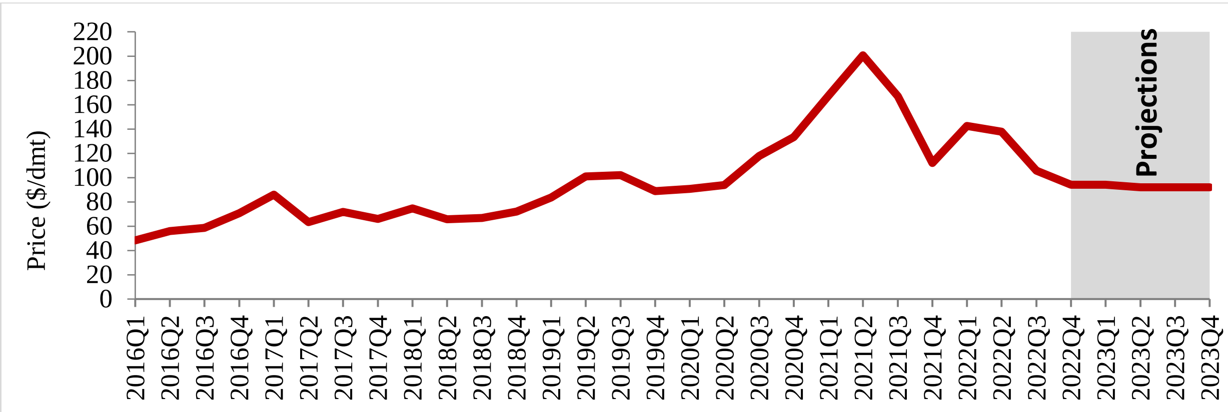



Source: U.S. Energy Information Administration, EIA (November, 2022)

***Iron Ore Price***

Iron ore prices plunged by 23.2 percent, averaging US$105.74/dmt in 2022Q3. The drop was mainly on account of reduced global demand for iron due to low steel production (especially in China), combined with excess supply from Brazil and Australia. Prices are expected to further soften in 2023 as speculations of a global recession intensify, coupled with significant inventory build ups in Brazil and Australia.

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

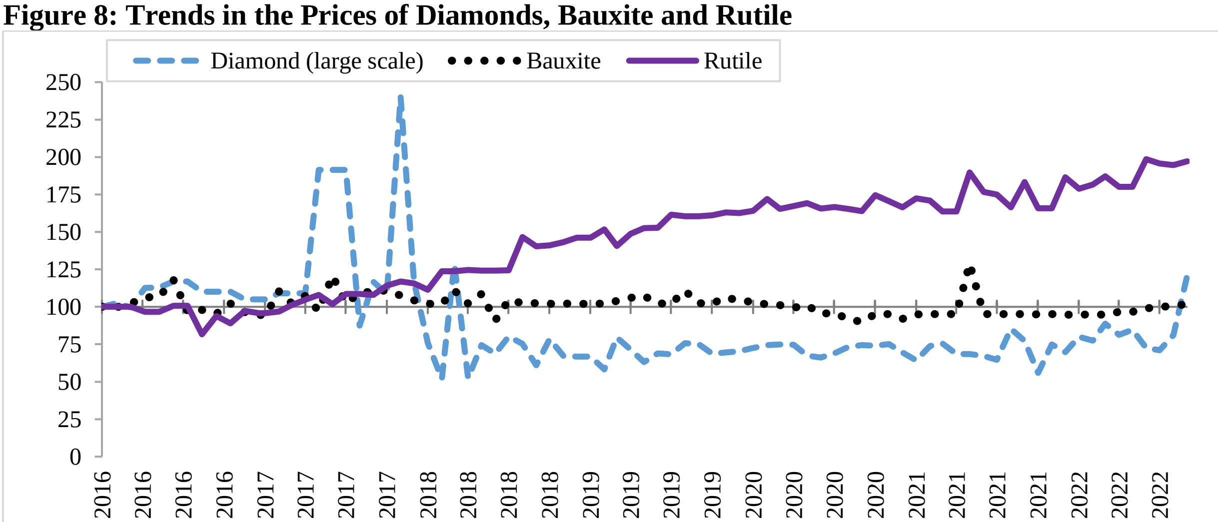



Source: World Bank Commodity Market Outlook database, November 2022

***Diamonds, Bauxite and Rutile***

Other key export minerals including diamonds, bauxite and rutile have exhibited mixed price developments over time. The prices for both diamonds and bauxite have been revolving around the same levels since 2018, with some improvement for diamonds in 2022. Conversely, rutile prices have generally trended upward over the same period.

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

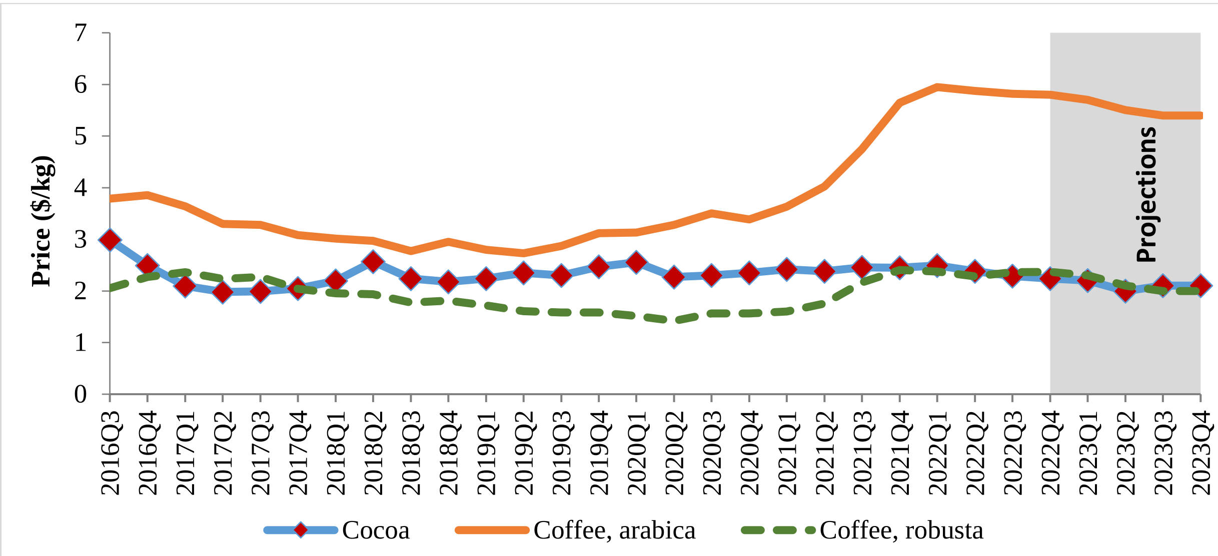



Data Source: BSL/NMA; Note: the price for diamonds is in US$/carat rutile are priced in US$/dmt

***Cocoa and Coffee Prices***

Cocoa and Arabica coffee prices further soften by 4.0 percent and 1.0 percent, selling at US$2.29/kg and US$5.82/kg respectively, in 2022Q3. The decline in prices reflected positive supply conditions in the market, combined with slowing demand. However, Robusta coffee prices increased by 3.4 percent to an average price of US$2.36/kg in 2022Q3, spurred by a rebalancing of demand as consumers tend to substitute Robusta for the more expensive Arabica coffee. Cocoa and coffee prices are tipped to remain around current levels in the near term, as aggregate global demand slows.

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

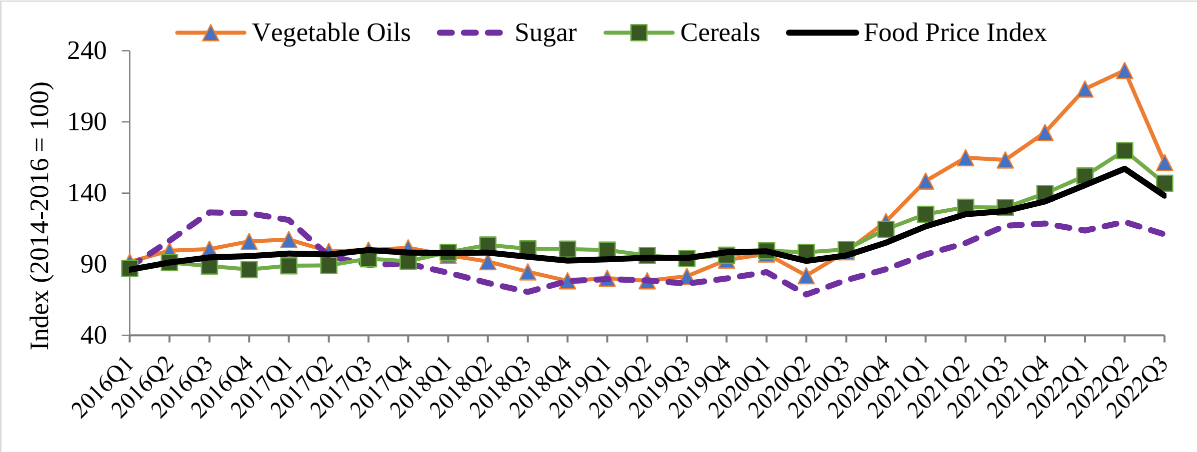



Source: World Bank Commodity Market Outlook database, November 2022

***Food***

Food prices dropped during the review period, largely on account of softer demand conditions. The FAO food price index averaged 138.1 points in 2022Q3, which was down by 12.1 percent from 2022Q2, but was 8.5 percent higher than in the same quarter last year. Similarly, the indices for cereals, vegetable oils and sugar also dropped during the review period. The general decrease in food prices was also supported by improved supply conditions following the resumption of food export through the black sea, which was blocked initially in the early stages of the Russian-Ukraine conflict. However, food prices are expected to remain well above pre-existing levels before the war in Ukraine.

**Figure 10: FAO Food Price Indices**

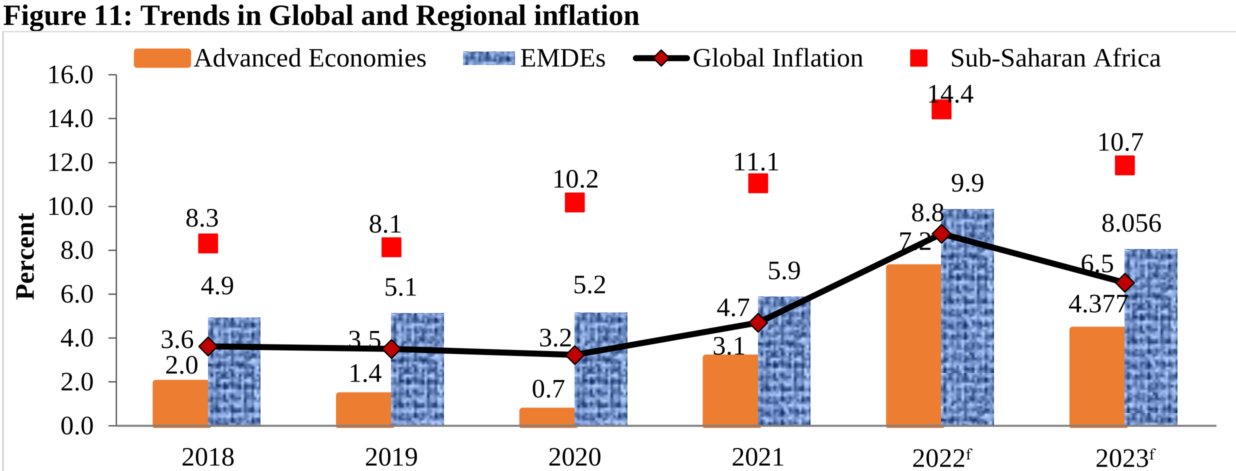



Source: FAO food price index database, November 2022

### 2.2.2 Global Inflation

The persistent uptick in inflation continued during the review period, reaching historical highs in many economies across the world. Global inflation is thus, projected to average 8.8 percent in 2022, up from 4.7 percent in 2021. Going forward, global inflation is expected to decline to 6.5 percent in 2023, and further to 4.1 percent in 2024, driven by an ebb in global demand, retreat in commodity prices and improving global supply conditions. However, inflation may remain above central bank targets for a longer period in most economies. The Russian-Ukraine war, worldwide monetary policy actions, OPEC+ production plans, the ongoing economic slowdown and climate related factors will largely shape global inflation outcomes in the short-to-medium term.

**Figure 11: Trends in Global and Regional inflation**




Data source: IMF, World Economic outlook, October 2022

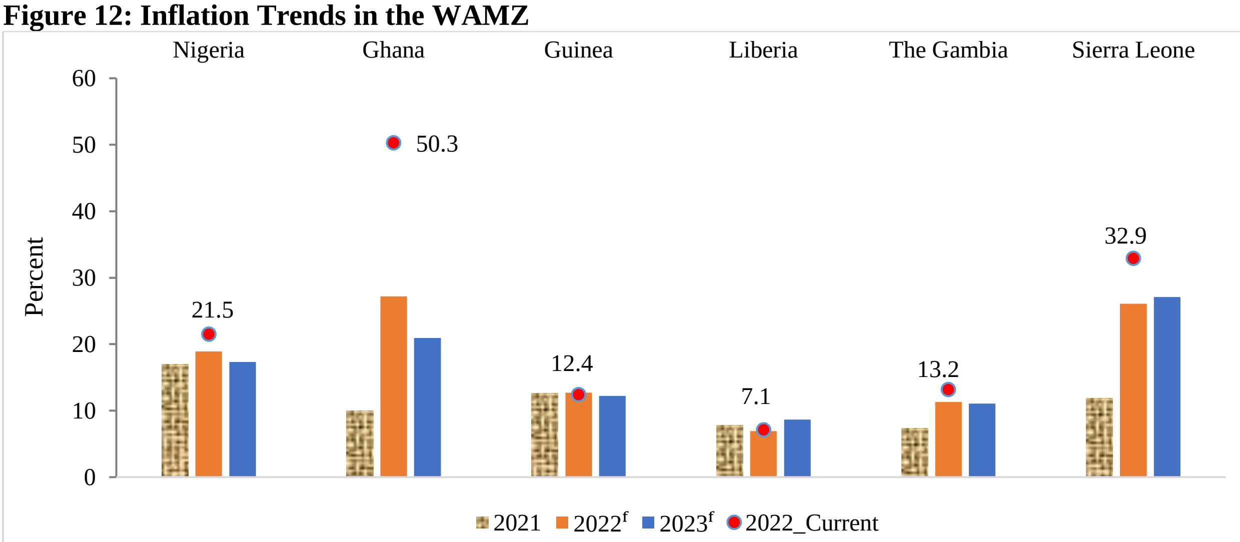
***Sub-Saharan Africa (SSA) Inflation***

Inflation in SSA has mirrored worldwide trends, but higher than in most regions. Elevated global fuel and food prices, combined with exchange rate depreciation continue to spur inflation in the region. Consequently, inflation in SSA is projected to average 14.4 percent in 2022, up from 11.1 percent in 2021. Looking ahead, SSA inflation is expected to moderate slightly to 8.1 percent in 2023. However, the balance of risks remain largely to the upside and include exchange rate depreciation pressures, elevated energy prices as OPEC+ cut production and fragile global supply conditions.

***Inflation in the WAMZ***

Across the WAMZ bloc, exchange rate depreciation and high prices of imported commodities (mainly fuel and food) are taking a toll on consumer incomes. Inflation rates for some WAMZ member countries reached historical levels, including Ghana, Sierra Leone and Nigeria. These elevated inflation rates have adverse implications for the ECOWAS regional integration process. Ghana is projected to record the highest annual average inflation in 2022 at 27.2 percent, followed by Sierra Leone (26.1 percent), Nigeria (18.9 percent), Guinea (12.7 percent) and The Gambia (11.3 percent). Liberia is projected to record the lowest inflation rate at 6.9 percent in 2022, which is supported by the relative stability of its currency. The country operates a dual currency system with both the Liberian dollar and U.S. dollar serving as legal tender. Overall, inflation is expected to remain high across the bloc in 2023 (see Figure 12).

**Figure 12: Inflation Trends in the WAMZ**




Data source: IMF WEO October 2022. Note: current inflation for Ghana and Nigeria is as at November 2022, Sierra Leone and The Gambia is as at October 2022, Liberia is as at August 2022, while Guinea is as at July, 2022

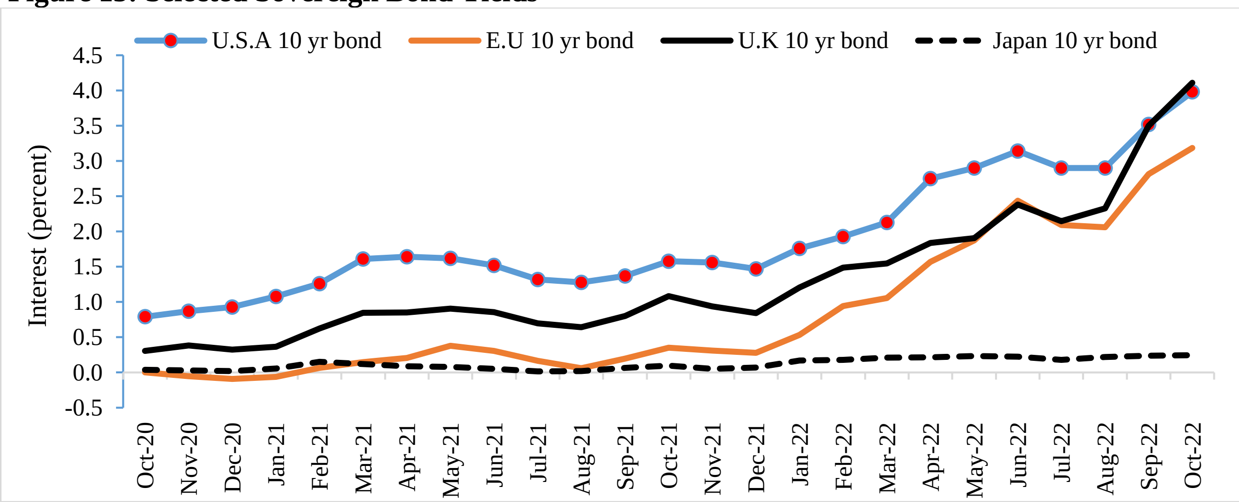
## 2.3 Monetary Policy and Financial Market Developments

Central banks across the globe continue to tighten monetary policy due to the persistent nature of inflation. After four consecutive hikes of 75 basis point, the Federal Reserve Bank of the United

States has slowed down the pace of its policy rate increase to 50 basis point as inflation decreased slightly in December, 2022. The European Central Bank and the Bank of England also took a similar path as inflation slows in December, 2022. In particular, central banks have hinted that they will continue to raise rates, especially in the near term to better anchor expectations and gradually bring down inflation to desired levels. Table 2 in the appendix section shows the monetary policy stance of selected Central banks.

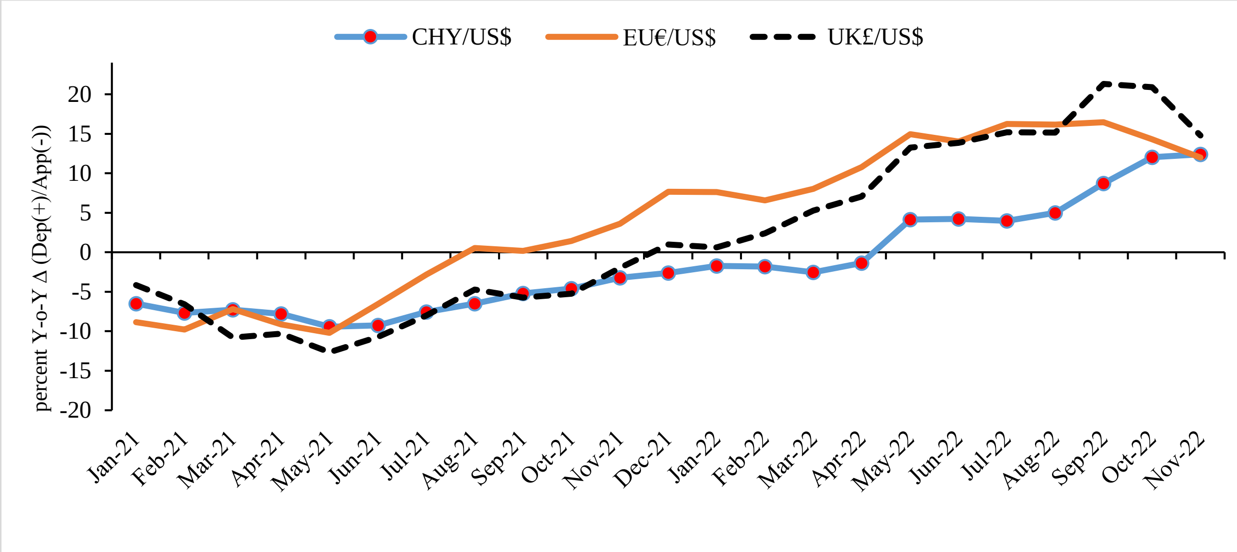
The rapid monetary tightening and expected further interest rate hikes in major advanced economies have rattled financial markets leading to tightening global financial conditions. Sovereign bond yields in most advanced economies have increased sharply since the beginning of 2022, resulting in the repricing of global equities and increasing yields for sovereign bonds. The U.S. dollar also appreciated against other major global currencies (see Figures 13 and 14).

**Figure 13: Selected Sovereign Bond Yields**




Data Source: FRED (December 16, 2022)

**Figure 14: Exchange rates of Selected Major Global Currencies to the U.S. Dollar**




Data Source: FRED (December 16, 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

The Sierra Leone economy has become increasingly integrated to the global economy due to significant reliance on international trade. Thus, the country's prospects are firmly tied to developments in the global economy at least in the near-to-medium term. The ongoing negative global impulse could affect the country through multiple channels. First, lower external demand could weigh on exports, dragging down overall domestic demand and growth. At the same time, weak global demand can soften global prices of major domestic export commodities while energy and fuel prices can stay relatively high due to supply cuts, leading to worsening terms-of-trade and pressure on the currency. Second, though global prices for imported commodities have started moderating, they still remain well above pre-pandemic level and may are fueling domestic inflationary pressures through direct and cost-push channels. Third, tight global financial conditions could weaken financial inflows, especially Foreign Direct Investment (FDI) and Official Development Assistance (ODA). This situation will eventually put downward pressure on gross foreign exchange reserves and the domestic currency, leading to higher external debt service burden.

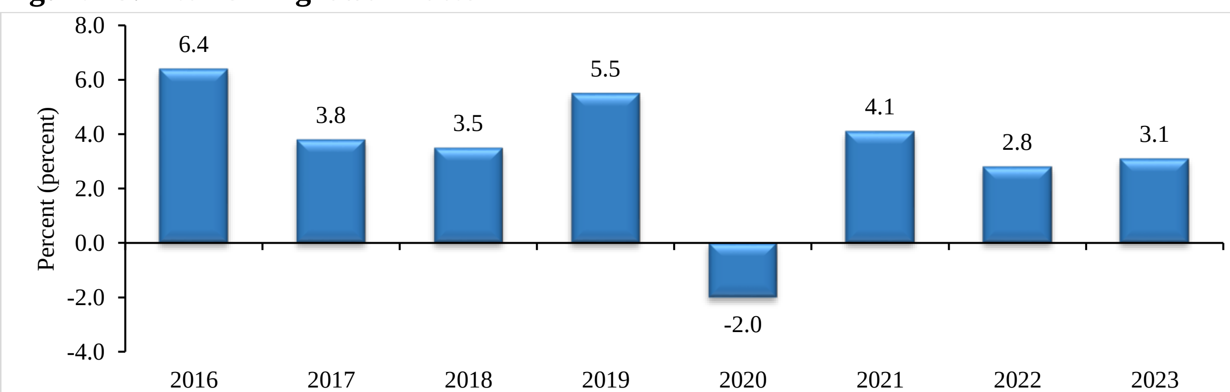
# 3. DOMESTIC ECONOMIC DEVELOPMENTS

## 3.1 Real Sector Developments

### 3.1.1 Real GDP Growth

The domestic economy was initially projected to grow at 5.9 percent in 2022, but has been downgraded in several steps to 2.8 percent, also lower than the 4.1 percent growth in 2021. The downward revision was underpinned by the reverberating effects of the Russian-Ukraine conflict, rising global energy and food prices, high freight charges as well as the lingering effects of the COVID-19 Pandemic. Together, these events have had large spillover effects on Sierra Leone as in the case of other developing countries. The outlook seems extremely uncertain as prospects are tied firmly to developments in the global economy, especially on events associated with the Russian-Ukraine War, the lingering effect of the COVID-19 pandemic, trade and supply chain disruptions and the extent of its spillovers to small open economies like Sierra Leone. Recent projections indicate that growth will not return to the pre-pandemic levels in 2023 but expected to increase to only 3.1 percent.

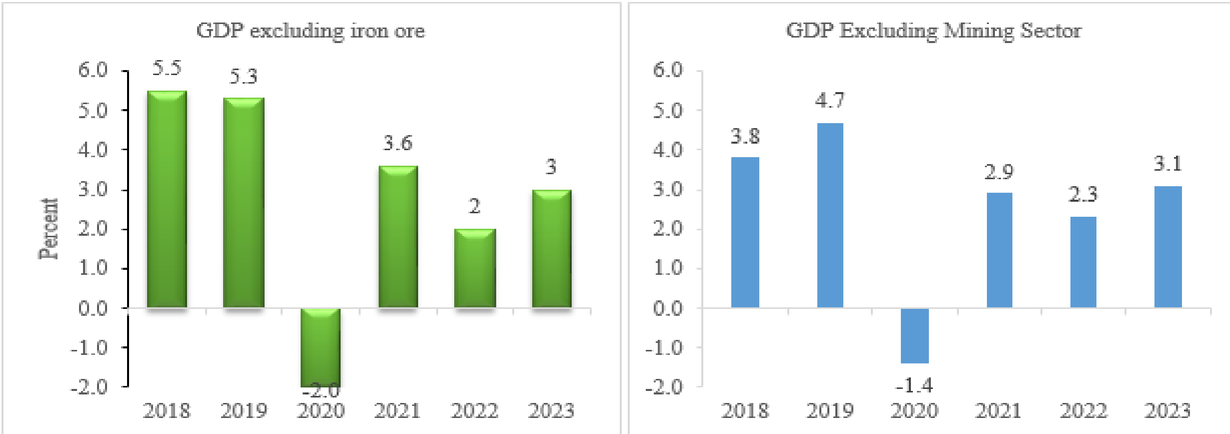
**Figure 15: Real GDP growth Rates**




**Source:** Statistics Sierra Leone & IMF

Excluding the mining sector, real GDP growth is estimated at 2.3 percent in 2022 compared to 2.9 percent in 2021. In 2023, real GDP growth excluding mining sector is projected to grow at 3.1 percent. Excluding iron ore, real GDP growth is anticipated to decline to 2.0 percent in 2022 from 3.6 percent growth in 2021, while in 2023, real GDP growth excluding iron ore is projected to grow at 3.0 percent. Figure 16 shows real GDP growth excluding iron ore and mining sector.

**Figure 16: Real GDP growth Rates Excluding Iron ore and Mining Sectors**

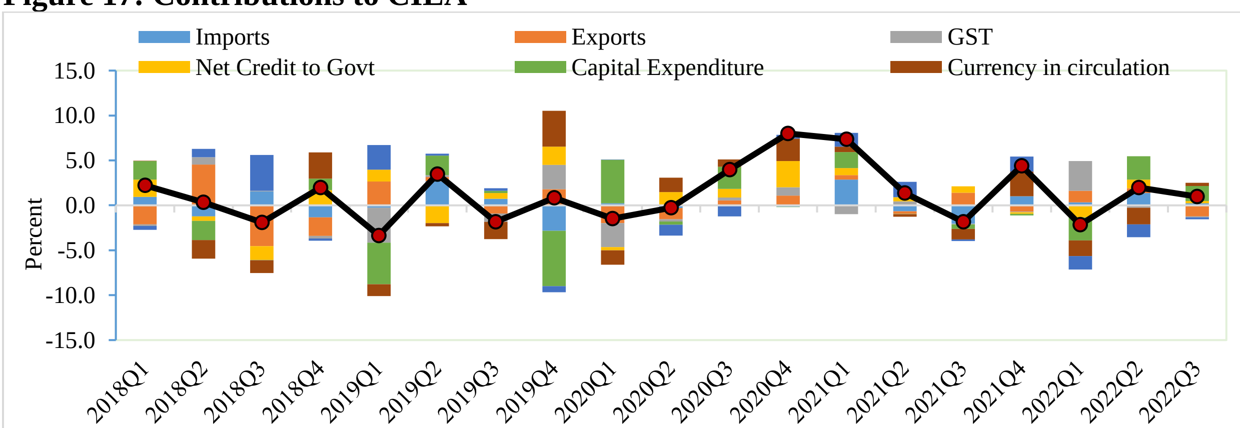



*Source: Statistics Sierra Leone & IMF*

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

The Bank's Composite Index of Economic Activity (CIEA), which serves as a high frequency proxy for economic activity in the economy, slowed down from a growth of 1.97 percent in 2022Q2 to a growth of 0.97 percent in 2022Q3. The moderation in the CIEA index mainly reflected a contraction in exports, combined with reductions in capital expenditure and credit to the private sector during the period.

**Figure 17: Contributions to CIEA**

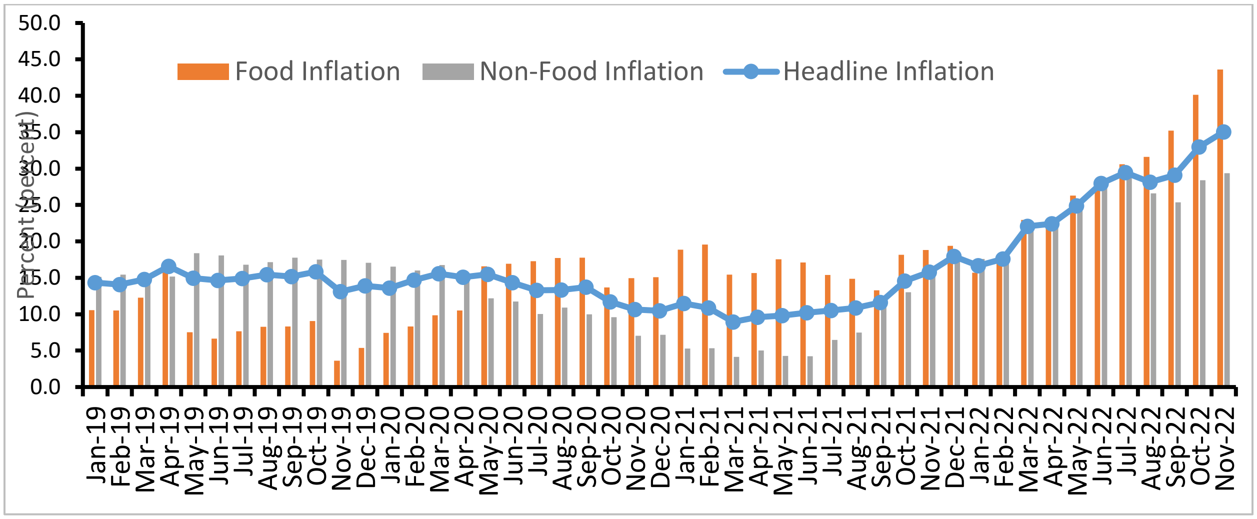



**Source:** Monetary Policy Department

### 3.1.3 Inflation

Headline inflation increased from 27.95 percent in June 2022 to 29.10 percent in September 2022 and further increased to 32.98 percent and 35.05 percent in October and November 2022, respectively. The increase in headline inflation in recent months has been fairly broad-based, driven by the rapid depreciation of the leone.

**Figure 18: Trend in Headline, Food and Non-food Inflation**

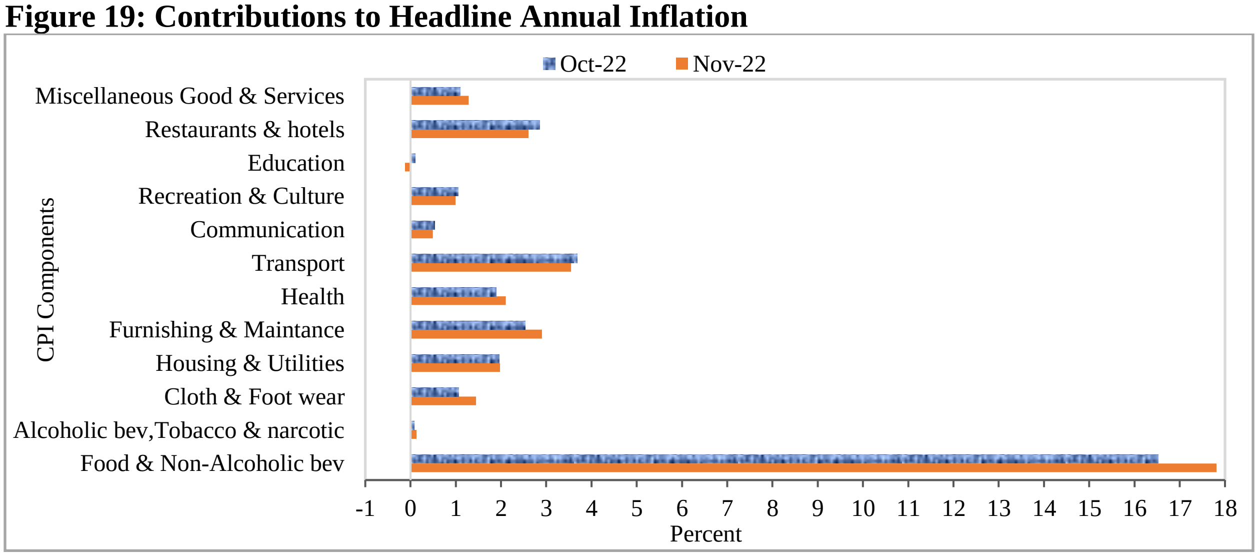



**Source:** Monetary Policy Department

***Contributions to headline inflation***

Major components in the CPI basket accounting for the rise in headline inflation in November 2022 were; food & non-alcoholic beverages, furnishing, clothing and footwear, health, alcoholic beverages, housing & utilities as well as miscellaneous components.

**Figure 19: Contributions to Headline Annual Inflation**



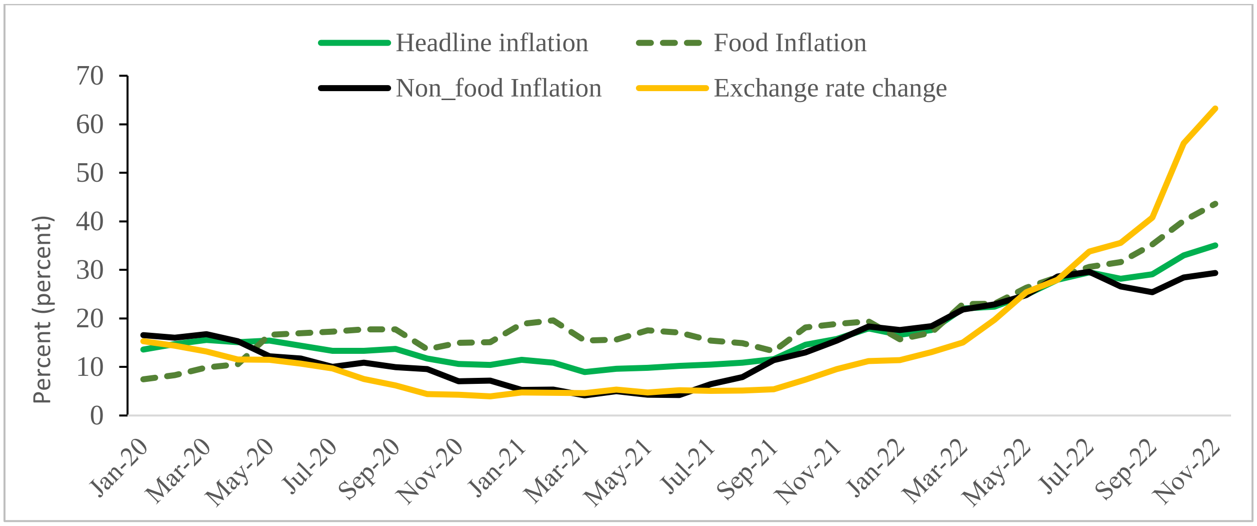

Source: Statistics Sierra Leone

Headline inflation (month-on-month) moderated to 1.85percent in November 2022, from 3.71 percent in October 2022.

***Exchange Rate and Inflation***

During the review period, both inflation and exchange rates showed upward movements. The exchange rate depreciation could be partly attributed to the increase in all components of inflation, reflecting strong pass-through effect. As shown in figure 20, there is a broad co-movements between exchange rate depreciation and the inflation variables.

**Figure 20: Consumer Prices and Exchange rate**



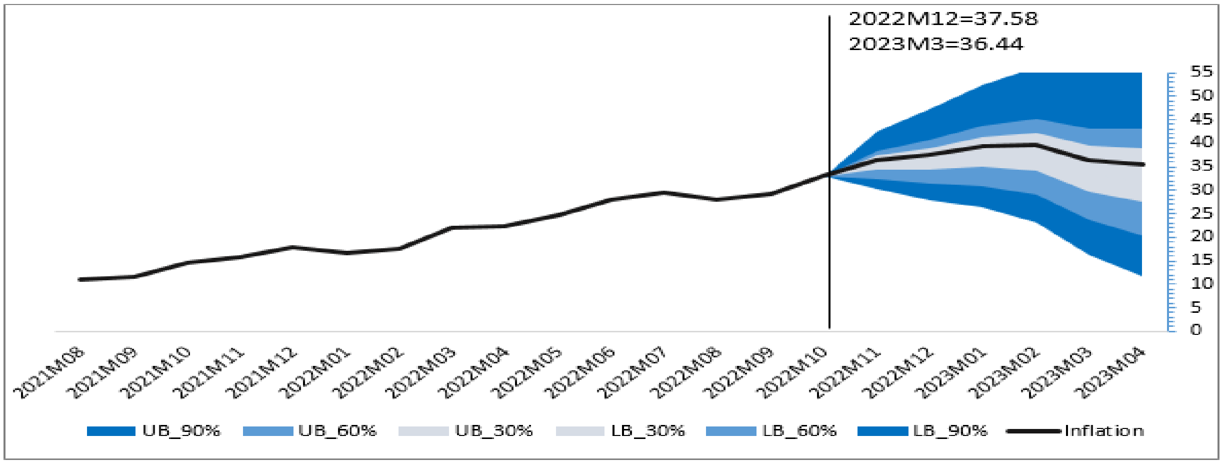

**Source:** Monetary Policy Department

### 3.1.4 Inflation Outlook

Using a suite of models, the BSL is projecting inflation to trend upward to 37.58 percent in December 2022 before peaking at 39.57 percent in February 2023. Inflation is projected to start moderating to 36.44 percent and 35.34 percent in March and April 2023, respectively.

Based on the fan chart, there are both upside and downside risks to the inflation outlook. However, staff assessment of the outlook shows that inflationary pressures are tilted to the upside and these include the effect of the war in Ukraine, elevated energy and food prices, persistent depreciation of the Leone, high freight charges, as well as the ongoing Covid-19 crisis in China.

**Figure 21: Inflation Forecast Fan Chart**



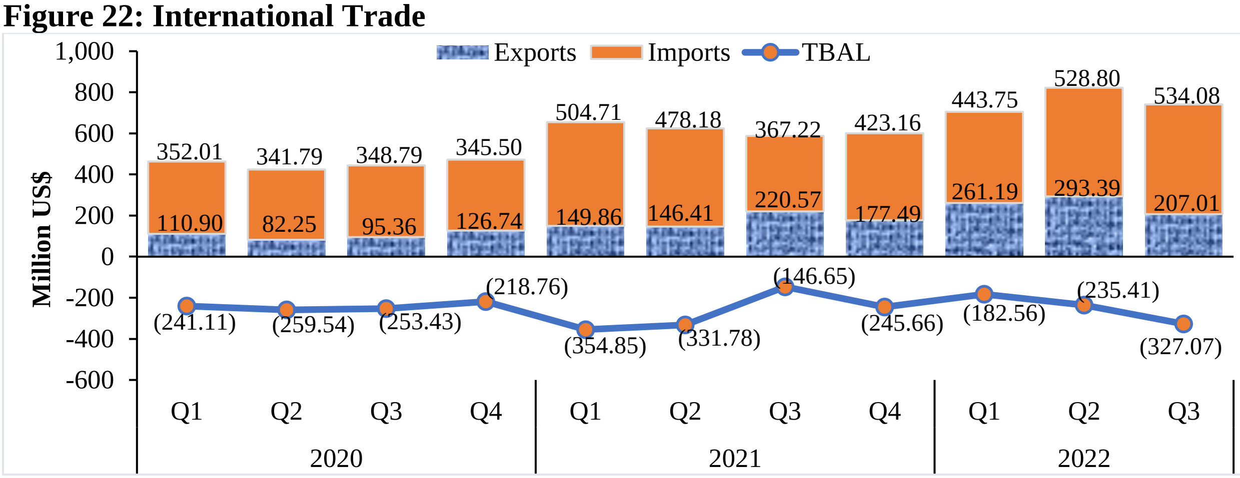

Source: BSL staff illustration

## 3.2 External Sector Developments

### 3.2.1 Trade Balance

On the back of persisting geopolitical tensions, flagging external demand and elevated fuel and food prices, merchandise trade balance further deteriorated during the review period. The country's trade deficit widened to US$327.07mn in 2022Q3, compared to US$235.41mn and US$146.65mn in 2022Q2 and 2021Q3, respectively. Earnings from merchandise export lost pace in 2022Q3 after remaining resilient during the first two quarters of the year. Conversely, the import bill increased for the fourth consecutive quarter buoyed by food, chemicals, machinery and manufactured goods.

**Figure 22: International Trade**

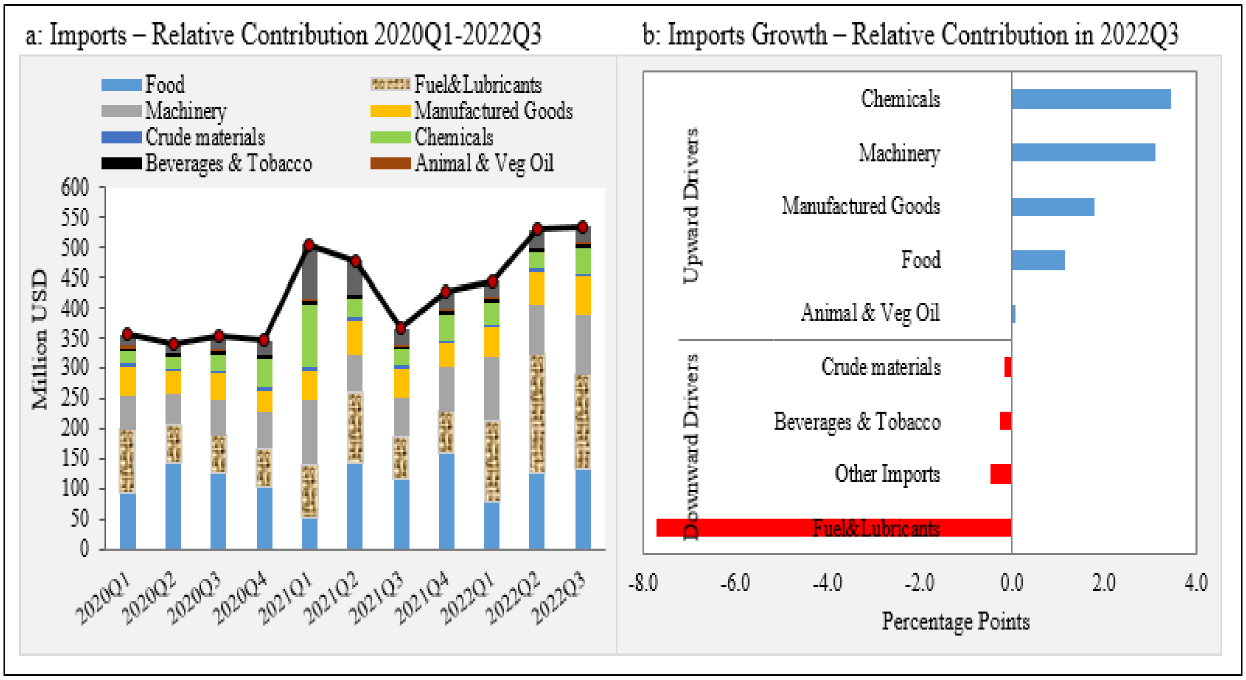



Source: NRA/Customs & BSL

### *Components of Import*

Merchandise imports were driven by chemicals, machinery, manufactured goods, food, animal and vegetable oils during the review period. Despite the decreases in the importation of fuel, beverages and tobacco, and crude materials, overall merchandise import bill rose to US$534.08mn in 2022Q3 from US$528.80mn in 2022Q2 as shown in figure 23 below.

**Figure 23: Components of Import**

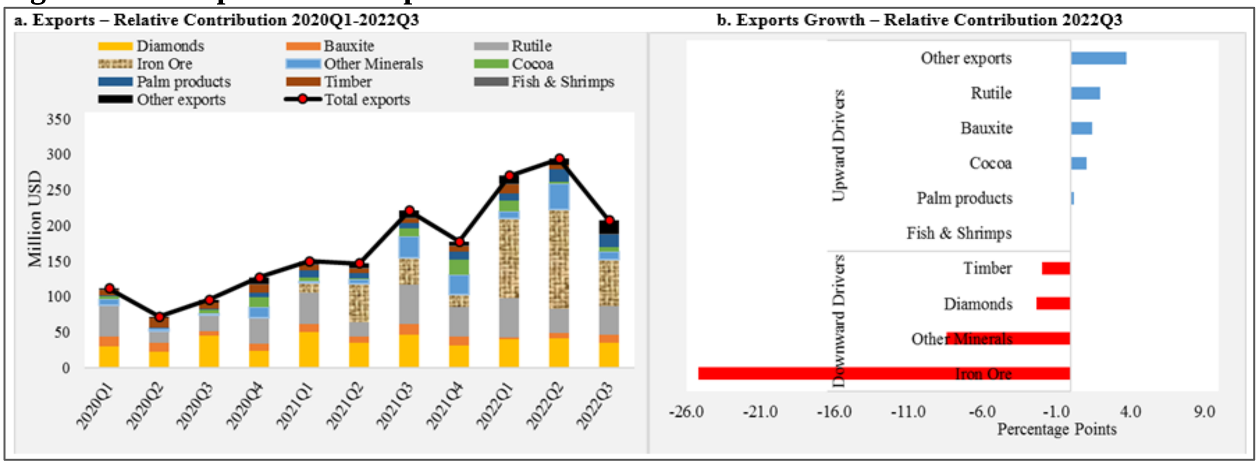



Source: NRA/Customs & BSL

### *Components of Export*

Receipts from merchandise exports were supported by rutile, bauxite, cocoa, palm products and marine products during the period under review. However, exports earnings for iron ore, diamonds and timber decreased significantly, dragging down overall merchandise exports by 29.44 percent to US$US$207.01mn in 2022Q3 from US$293.93mn in 2022Q2 (see Figure 24).

**Figure 24: Components of Export**

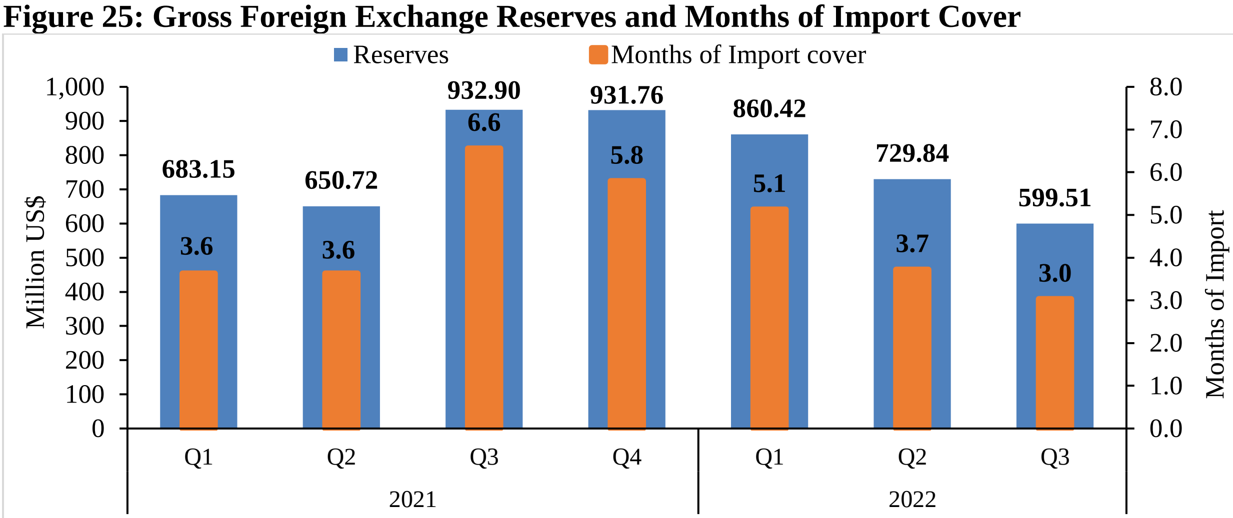



Source: NRA/Customs & BSL

### 3.2.2 Gross Foreign Exchange Reserves

The stock of gross foreign exchange reserves of the Bank of Sierra Leone at end-September 2022 stood at US$599.51mn, estimated to provide cover for about 3 months of imports of goods and services. This reserve is compared to US$729.84mn at end-June 2022, equivalent to 3.7 months of imports of goods and services. The drawdown on reserves mainly reflected the continued provision of forex by BSL to the private sector to facilitate the importation of essential commodities in the economy, coupled with significant external debt service payments during the review period. As of November 24, 2022, the stock of reserves was US$548.12mn, down by 8.57 percent relative to the position at end September 2022.

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

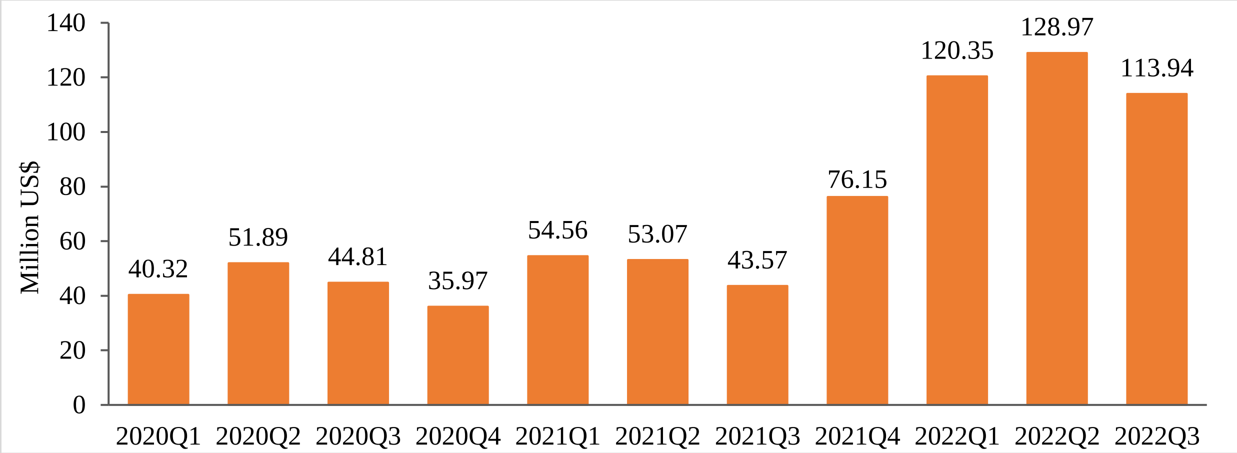



Source: BSL

### 3.2.3 Diaspora Remittances

The inflow of workers' remittances in the Sierra Leone economy remain relatively strong, despite a slight decrease during the review period. Remittances dropped to US$113.94mn in 2022Q3 from US$128.97mn in 2022Q2, but remain significantly higher than US$43.57mn recorded in 2021Q3.

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

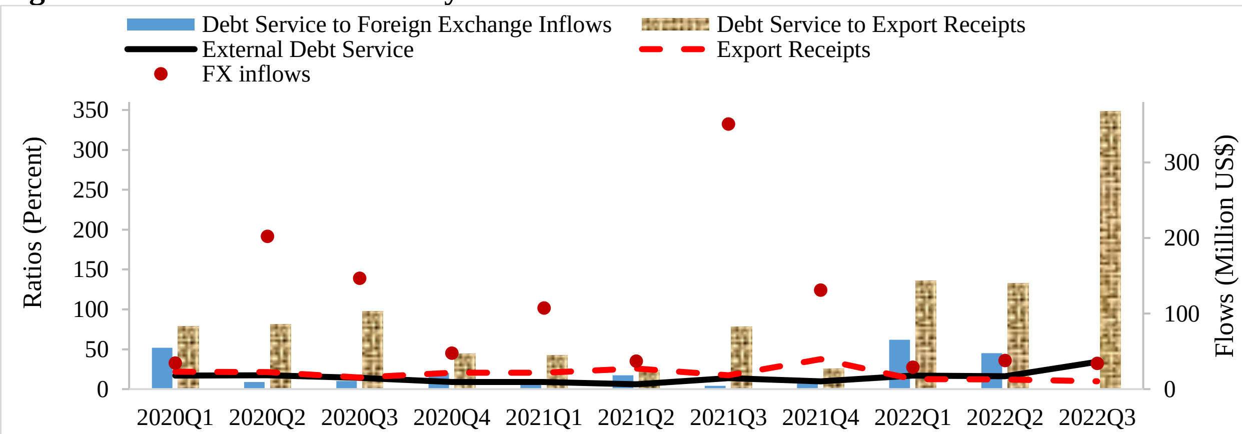



Source: BSL

### 3.2.4 External Vulnerability Ratios

External debt service payments increased significantly to US$36.12mn in 2022Q3, compared to US$16.96mn in 2022Q2. Conversely, forex inflows and export receipts decreased to US$34.00mn and US$10.36mn in 2022Q3 from US$37.61mn and US$12.79mn in 2022Q2, respectively. As a result, the ratios of both debt service payment to forex inflows and debt service payments to export receipts increased.

**Figure 27: External Vulnerability Ratios**




Source: BSL

### 3.2.5 External Sector Outlook

The external sector of Sierra Leone continues to reflect global economic dynamics. The looming high uncertainty and challenges in the global economy and macroeconomic vulnerabilities could continue to weigh on the sector at least in the near term. As we are edging closer to the end of the year, market intelligence indicates increased liquidity challenges for foreign currency and high demand for FX, especially by Oil Marketing Companies, rice importers and importers of other essential products.

Authorities should therefore focus on preserving sufficient external buffers to cover at least three months of imports of goods and services to dampen adverse effects of external shocks. In the near term, this could be done by mainly garnering support from both multilateral and bilateral development partners.

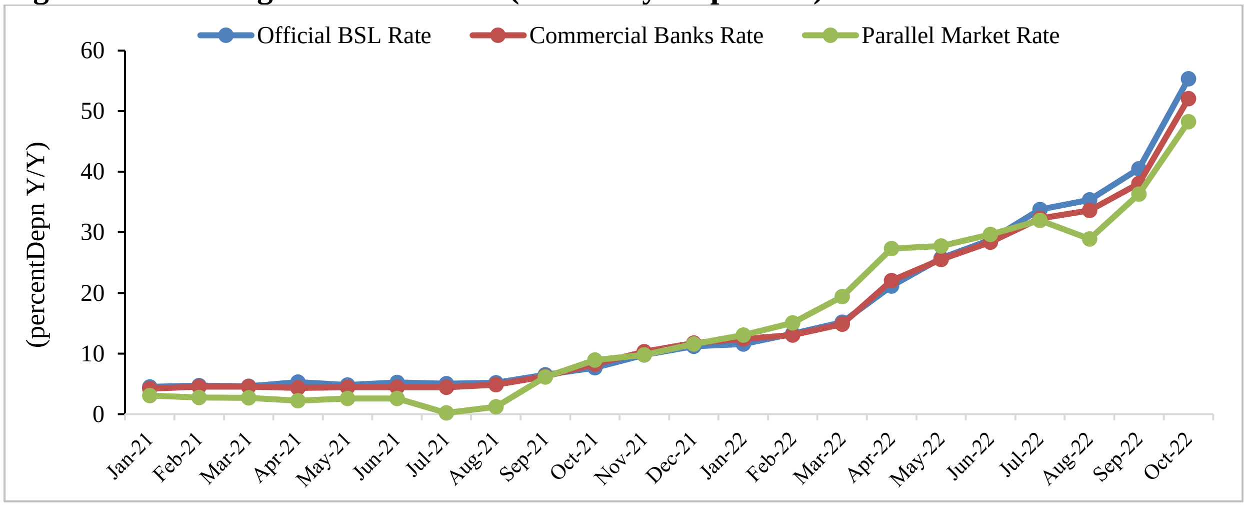
## 3.3 Exchange Rates and Foreign Exchange Market Developments

### 3.3.1 Exchange rate movements

The Bank, as part of the IMF benchmark, moved to daily computation of the SLL/US$ exchange rates on July 1, 2022, with two-days lag initially and as at September 2022, the SLL/US$ exchange rate is computed daily with one day lag.

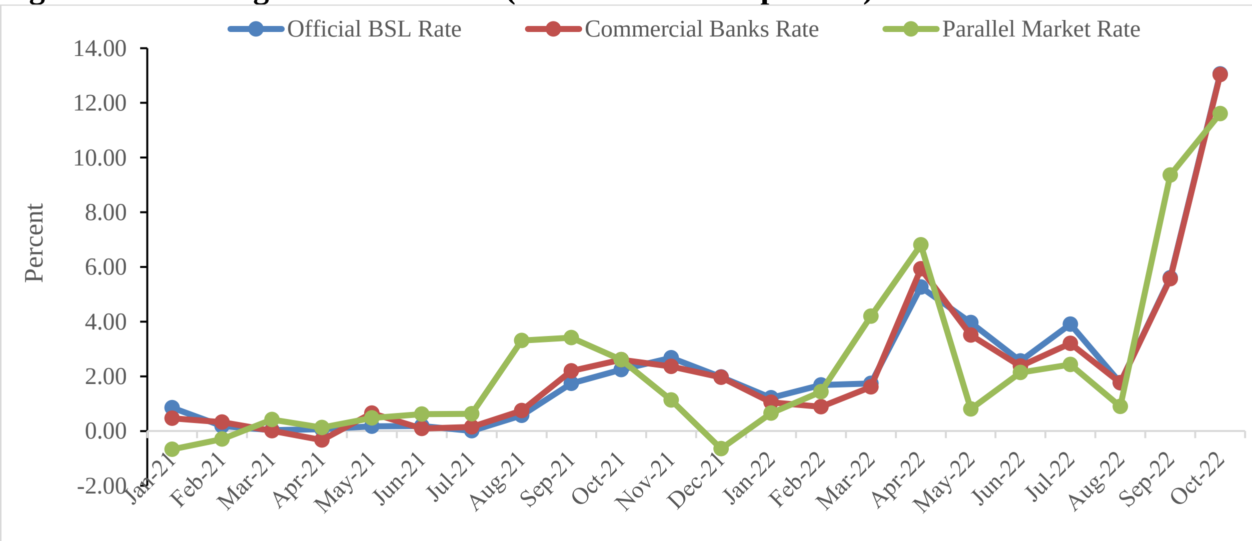
Challenges emerged in the foreign exchange market in 2022Q3, with the cyclical increase in demand for foreign currency during the raining season in order to satisfy higher import requirements for essential items, including food, school related materials associated with the reopening of schools in September for the new academic year.  Also, given the weak external position there is a reduction in export receipts, which could have provided the necessary supply of foreign currency. This exerted pressure on the exchange rate across the different market segments resulting into depreciation of the Leone against the US dollar.

**Figure 28: Exchange rate movement (Year-on-year percent)**




Source: Financial Markets Department, BSL

**Figure 29: Exchange rate movement (Month-on-month percent)**



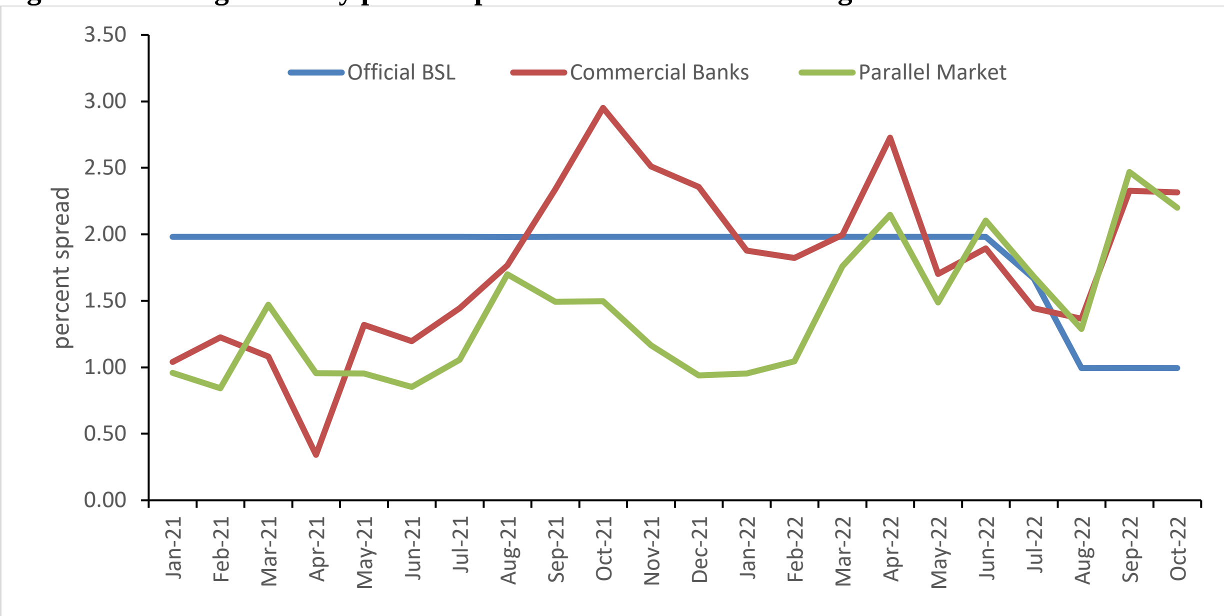

Source: Financial Markets Department, BSL

As a response to the persistent depreciation pressures, the BSL set aside US$40 million in September 2022, to support liquidity in the foreign exchange market. Of the total, the Bank conducted three weekly foreign exchange auctions (each US$8 million) totaling US$24 million. Given the increased pressures from the oil marketing companies, and considering the importance of energy for productive activities, the Bank stopped the weekly auction, and the remaining US$16 million was offered to oil marketing companies as direct sales to enhance the supply of fuel in the economy. This was an attempt to dampen speculations and stabilize the exchange rate. The outcome of the BSL's FX auction is shown in table 3 in the appendix section.

### 3.3.2 Exchange rates spread in various market segments

The percentage monthly spread as at end October 2022 for the official BSL rates was at 1.00 percent. However, spreads in the commercial banks and parallel market were 2.31 percent and 2.20 percent respectively, as at end October 2022.

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



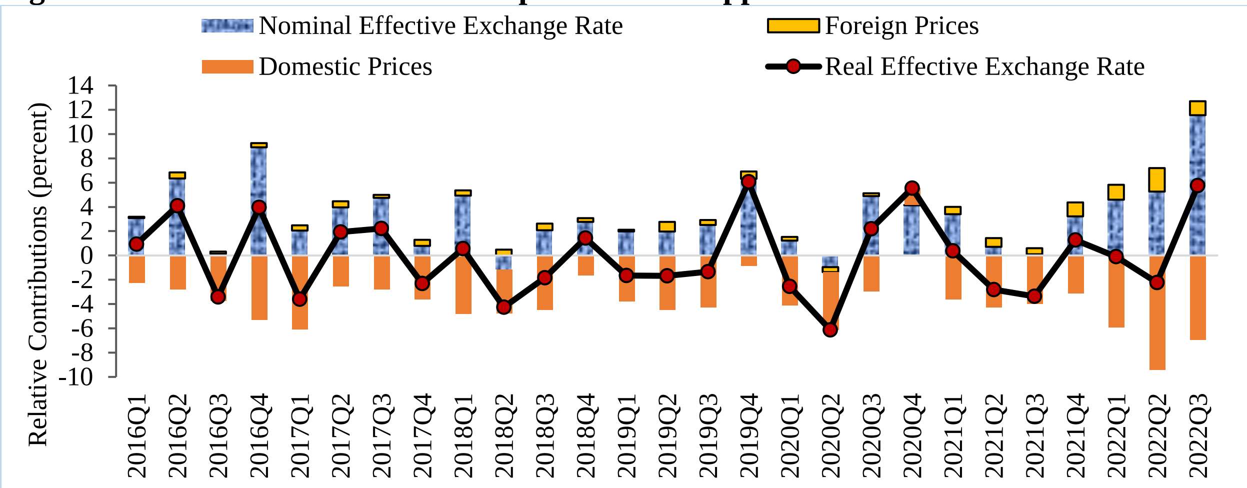

Source: Financial Markets Department, BSL

### 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 major trading partners depreciated by 12.25 percent quarterly to an index of 122.81 in 2022Q3. Bilaterally, the Leone depreciated against the Euro (19.61 percent), US dollar (11.13 percent), Swiss franc (10.94 percent), Chinese RMB (7.17 percent), and British Pounds (3.69 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 5.83 percent in 2022Q3 on account of nominal depreciation. The Leone has come under significant nominal depreciation pressure since the second half of 2021, amidst advanced economies interest rate hikes, tightening global financial conditions, deteriorating terms of trade and trade balance, coupled with the speculative behavior of market participants as economic uncertainties heightened.

**Figure 31: Contributions to REER Depreciation & Appreciation**




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

The REER was found to be above its equilibrium level in 2022Q3, an indication of undervaluation coming from persistent nominal depreciation.

### 3.3.4 Domestic Foreign Exchange Market

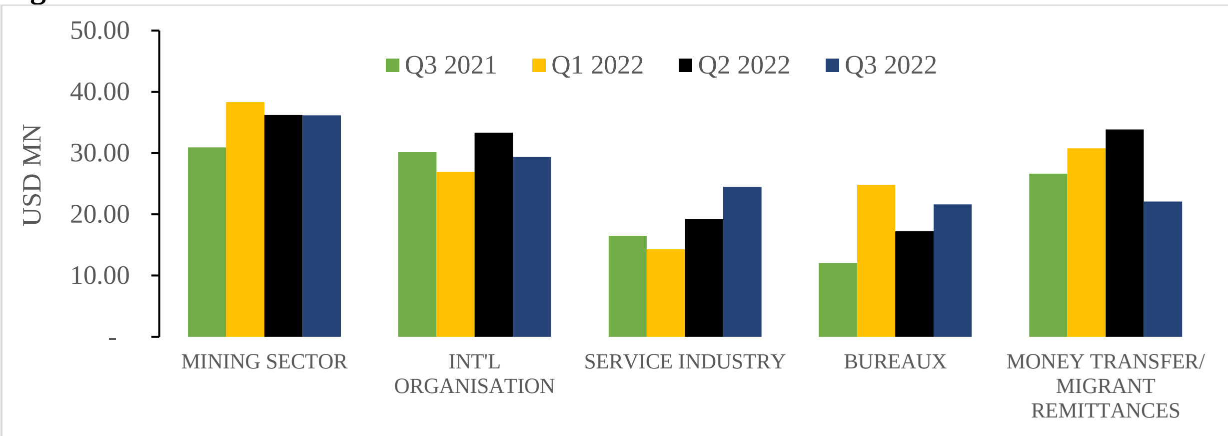
***Foreign Exchange Flows***

Total amount traded in the foreign exchange market (Purchases and Sales) during 2022Q3 was US$391.00mn, up by 10.34 percent relative to US$354.36mn realized in the corresponding quarter (2021Q3) and 14.78 percent below US$458.83mn recorded in 2022Q2.

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

Total purchases of foreign exchange by commercial banks decreased by 11.19 percent to US$205.18mn in 2022Q3 from US$231.03mn in 2022Q2 on account of decrease in purchases made from the mining sector, NGO's and migrant remittances. However, it increased by 21.44 percent when compared with US$168.95mn recorded in the corresponding quarter (2021Q3), which could be attributed to increase in purchases from the mining sector, service industry, and bureaux. In October 2022, total purchases recorded was US$63.24mn, 16.64percent more than US$54.22mn recorded in September 2022.

**Figure 32: Commercial Banks Forex Purchases from Selected Sectors**

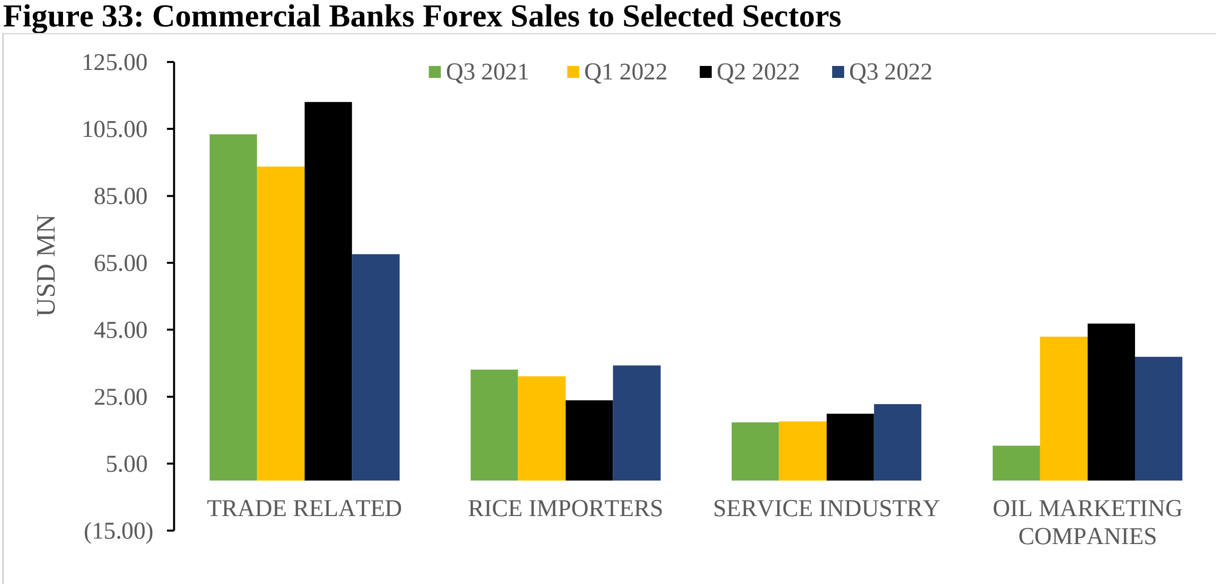



Source: Financial Markets Department, BSL

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

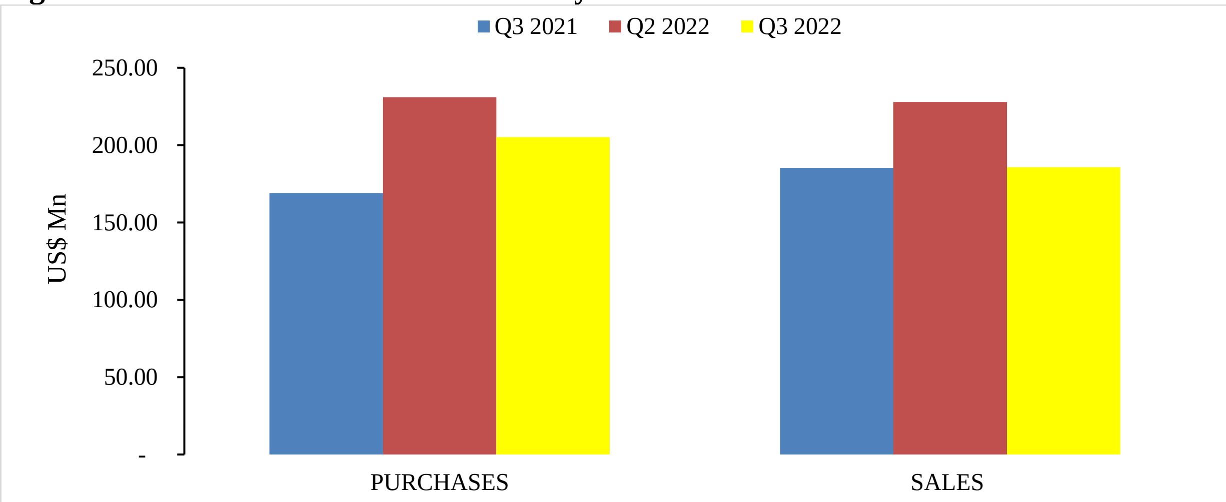
Total sales of foreign exchange by commercial banks for 2022Q3 increased slightly by 0.22 percent to US$185.82mn compared with US$185.41mn recorded in corresponding period in 2021Q3. The increase in forex sales is mainly attributed to increased sales essentially to Oil Marketing Companies, rice importers, and service industry. However, it decreased by 18.43 percent relative to US$227.80mn recorded in 2022Q2 largely due to decrease in FX sales for trade related imports and oil marketing companies. In October 2022, total sales was US$54.38mn, 17.39 percent more than US$46.32mn recorded in September 2022.

**Figure 33: Commercial Banks Forex Sales to Selected Sectors**




Source: Financial Markets Department, BSL

**Figure 34: Purchases and Sales of Forex by Commercial Banks**



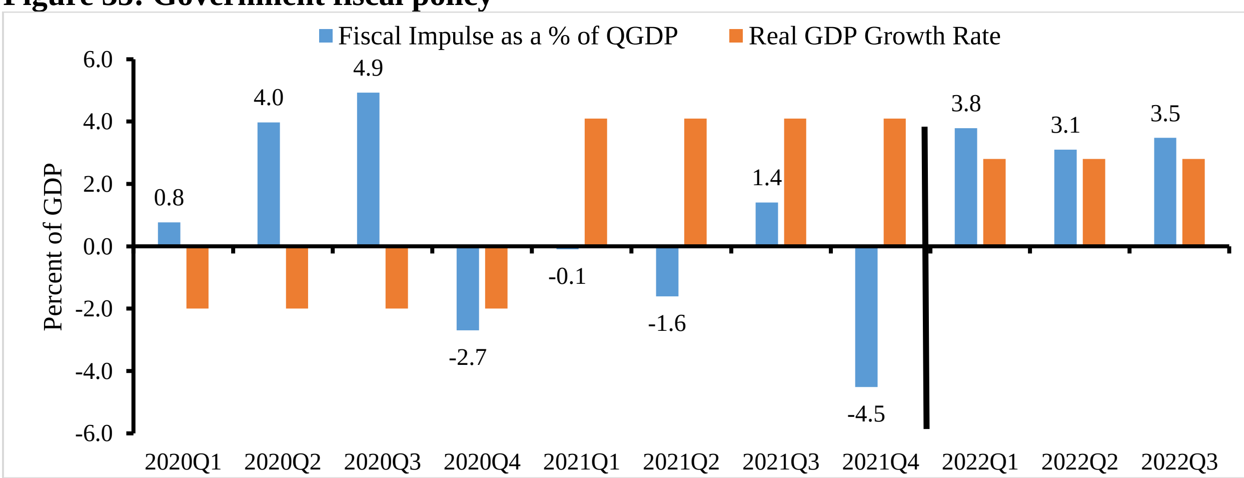

Source: Financial Markets Department, BSL

## 3.4 Fiscal Developments

### 3.4.1 Government Budgetary Operations

Based on preliminary data, estimate of the fiscal impulse showed continued expansionary fiscal operations in 2022Q3, underscored by significant increase in expenditures over revenues.

**Figure 35: Government fiscal policy**

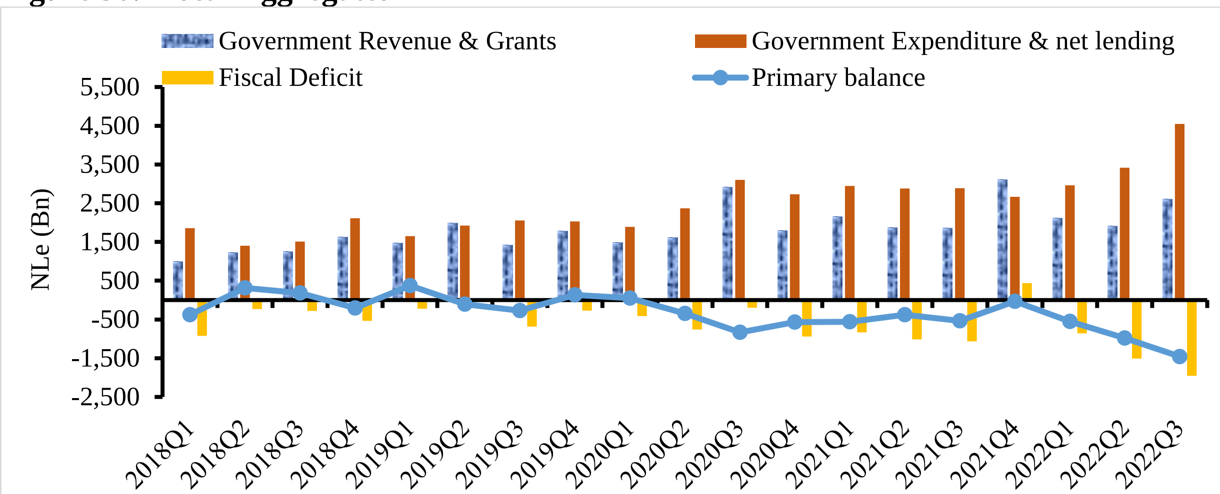



Sources: Ministry of Finance & BSL

### 3.4.2 Government Budgetary Operations

Provisional data indicates that budgetary operations in 2022Q3 resulted in a budget deficit of NLe1.96bn, above the programmed target of NLe404.23mn and higher than the deficit of NLe1.51bn in 2022Q2. The deficit ensued from an increase in government expenditure and net lending which offset the increase in total government revenue for the quarter under review. In effect, the primary deficit for 2022Q3 widened to NLe1.46bn compared to NLe978.90mn in 2022Q2. Figure 36 shows government revenue, expenditure, fiscal deficit and primary balance.

**Figure 36: Fiscal Aggregates**




Source: Ministry of Finance

### 3.4.3 Government Revenues and Grants

Total government revenue and grants received in 2022Q3 expanded by 36.6 percent to NLe2.61bn from NLe1.91bn in 2022Q2, yet below the quarterly target of NLe3.10bn. The recorded expansion in revenue was largely driven by increase in foreign grants, outweighing the increase in domestic revenue. Foreign grants received in 2022Q3 increased significantly to NLe782.89mn from NLe196.74mn in 2022Q2.

Domestic revenue collected in 2022Q3 increased by 7.02 percent to NLe1.83bn from NLe1.71bn in 2022Q2, but was below the programmed target of NLe1.95bn. The expansion in domestic revenue was driven by improvement in all its components with the exception of non-tax revenue which decreased in the review quarter.

Income tax revenue rose to NLe820.45mn in 2022Q3 from NLe698.31mn in 2022Q2. Receipts from goods and services tax in 2022Q3 increased slightly to NLe317.44mn from NLe303.90mn in 2022Q2. Similarly, receipts from customs and excise tax improved to NLe315.09mn in 2022Q3 from NLe298.66mn in 2022Q2. On the other hand, non-tax revenue collected fell to Le342.61mn in 2022Q3 from Le363.45mn in 2022Q2. Also, road user charges declined to NLe35.63mn in 2022Q3 from NLe48.09mn in 2022Q2. Figure 37 shows components of domestic revenue in 2022Q3 and preceding quarters.

**Figure 37: Components of Domestic revenue**


Source: Ministry of Finance

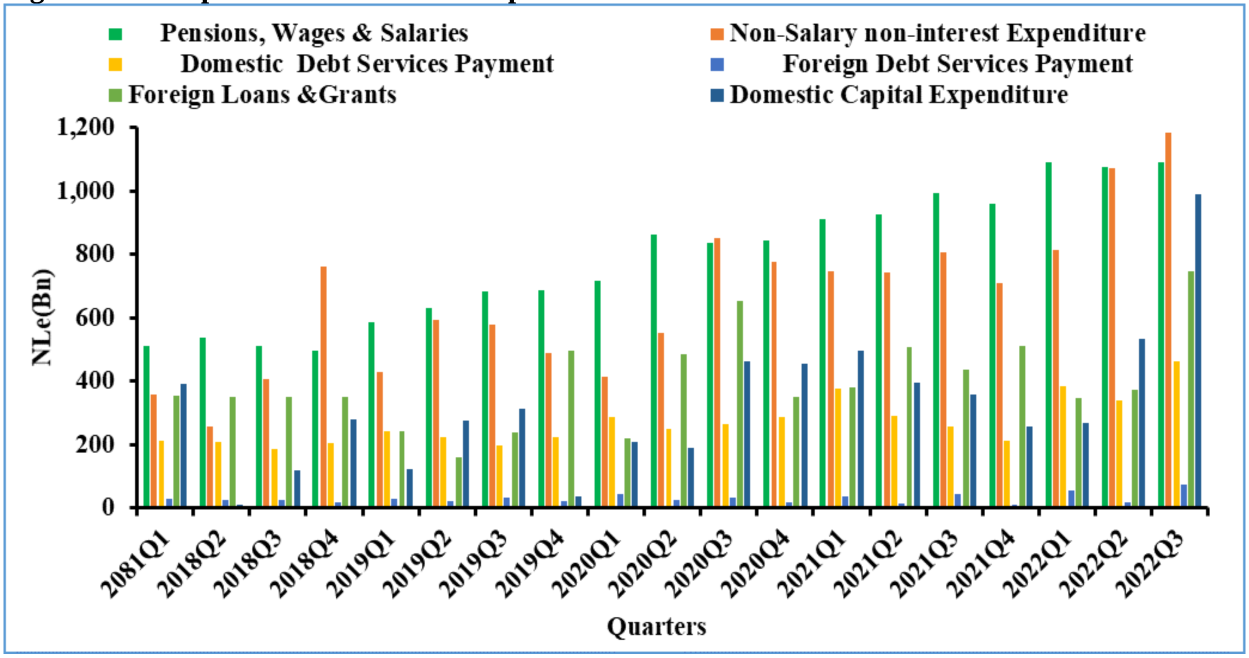
### 3.4.4 Government Expenditures

Total government expenditures and net lending for 2022Q3 was NLe4.55bn, 33.23 percent higher than NLe3.41bn recorded in 2022Q2, and above the budgeted target of NLe3.49bn. The expansion in government expenditures ensued from an increase in both capital expenditure and recurrent expenditure in the review quarter.

Recurrent expenditure increased by 12.21 percent to NLe2.81bn in 2022Q3 from NLe2.51bn in the previous quarter, resulting from increases in all the major components including non-salary non-interest expenditure, total interest payments and the wage bill.

Non-salary non-interest expenditure rose to NLe1.18bn in 2022Q3 from NLe1.07bn in 2022Q2, owing to the increase in the general price level and the depreciation effect of the exchange rate leading to overruns on goods and services expenditures and interest payments. Total interest payments increased to NLe536.31mn from Le356.39mn in 2022Q2. Of this amount, domestic interest payment amounted to NLe461.72mn from NLe337.52mn in 2022Q2, while foreign interest payment amounted to NLe74.59mn in 2022Q3 from NLe18.87mn in 2022Q2. Similarly, pension, wages and salaries slightly rose to NLe1.09bn in 2022Q3 from NLe1.08bn in 2022Q2.

**Figure 38: Components of Recurrent Expenditure**




Source: Ministry of Finance

Capital expenditure and net lending increased significantly by 91.34 percent in 2022Q3 to NLe1.73bn, up from NLe906.55mn in 2022Q2, reflecting increases in both domestic capital expenditure and foreign loans & grants. Domestic capital expenditures increased to NLe988.58mn in 20022Q3 from NLe533.29mn in 2022Q2. Likewise, foreign loans and grants expanded to NLe746.05mn in 2022Q3 from NLe373.26mn in 2022Q2.

### 3.4.5 Budget Deficit

The overall budget deficit of NLe1.96bn in 2022Q3 was financed through domestic, foreign and other sources. The deficit was mainly financed domestically, amounting to NLe2.17bn, while foreign deficit financing amounted to NLe163.69mn. Other sources of financing totaled NLe451.62mn.

Domestic deficit financing from the banking system amounted to NLe1.99bn, while non-bank financing amounted to NLe178.26mn in 2022Q3. Borrowing from BSL increased to NLe1.34bn in 2022Q3 from NLe871.94mn in 2022Q2. Similarly, borrowings from the commercial banks increased to NLe630.26mn in 2022Q3 from NLe282.22mn in 2022Q2. This development tends to fuel inflationary pressures.

### 3.4.6 Outlook for the Fiscal Sector

Despite the increase in government revenue, fiscal deficit worsened in 2022Q3, relative to the preceding quarter. It fell short of its quarterly target due to increased government discretionary spending. Going forward, there are risks and challenges to government fiscal operations in the near-term owing to global uncertainties, inflationary pressures, Russian-Ukraine war which have implications for debt sustainability. There are also concerns about the accumulation of arrears as well as expenditure overruns as the country prepare for its national election around mid-2023.

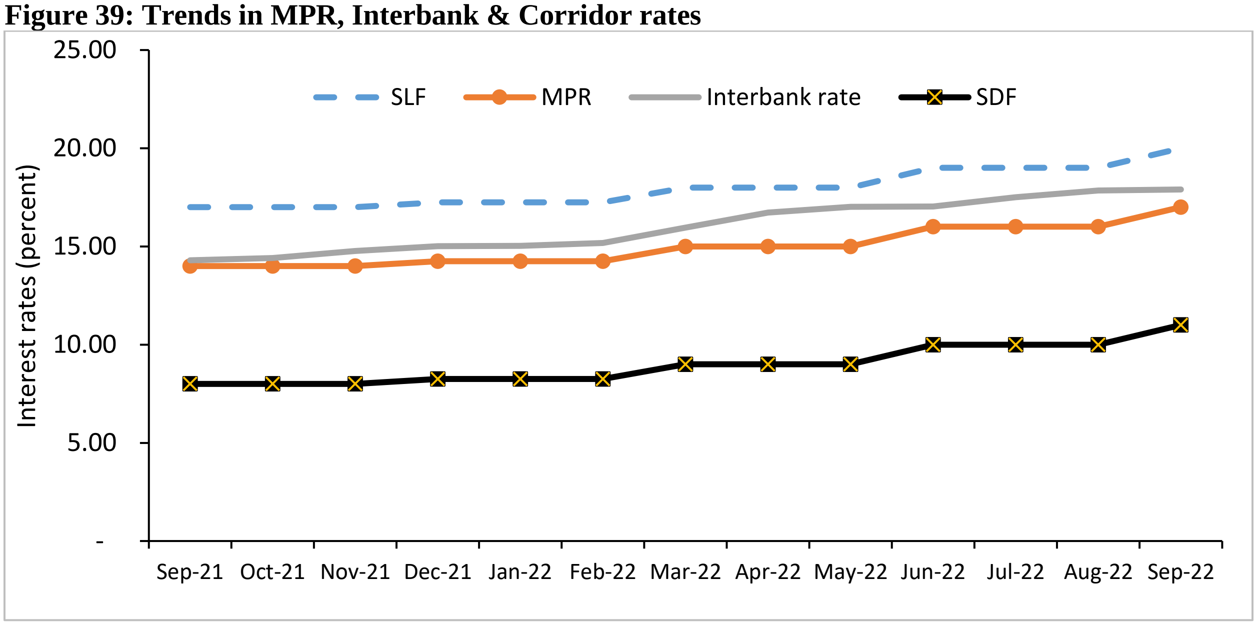
However, with the implementation of the on-going revenue reform measures, revenue is expected to improve in the medium-term coupled with the anticipated support from donor partners coupled with the need for a tighter fiscal policy.

### 3.5 Monetary Policy, Money and Financial Markets Developments

#### 3.5.1 Monetary Policy Stance

The Monetary Policy Committee (MPC) of the BSL met on 29th September 2022. After a thorough review of developments in the global and external economic environments, and their implications for growth and inflation outlook in the domestic economy, the MPC decided to raise the Monetary Policy Rate (MPR) by 100 basis points to 17.0 percent. Accordingly, both the Standing Lending Facility rate and the Standing Deposit Facility rates were symmetrically increased to 20 percent and 11 percent respectively.

**Figure 39: Trends in MPR, Interbank & Corridor rates**

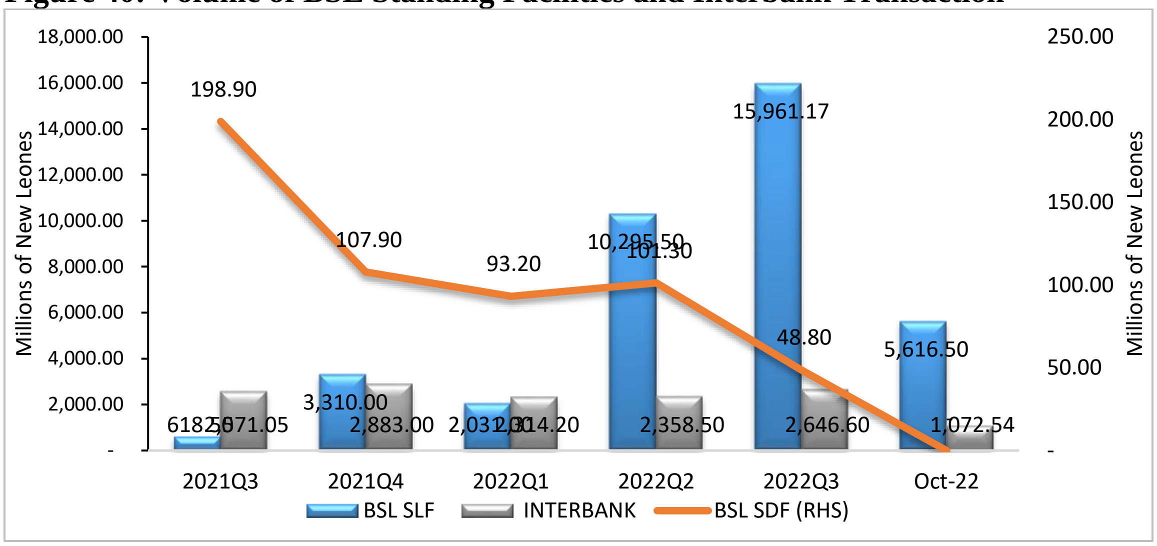



#### 3.5.2 Interbank Money Market Rate

The level of intermediation in the interbank money market decreased during the review period. The volume of interbank transactions declined by NLe75.55mn (2.85percent) from

NLe2,646.60mn in 2022Q2 to NLe2,571.05mn in 2022Q3, whilst the volume as at end October, 2022 stood at NLe1,072.54mn. In the Standing Deposit Facility (SDF) window, the volume of transactions decreased by NLe52.50mn (51.83percent) from NLe101.30mn in 2022Q2 to NLe48.80mn in 2022Q3. No bank accessed the Deposit window in October, 2022. There was increased access to the Standing Lending Facility (SLF) window as the volume of transactions increased by NLe5,665.67mn (55.03percent) from NLe10,295.50mn in 2022Q2 to NLe15,961.17mn in 2022Q3 and as at end October, 2022 stood at NLe5,616.50mn.

**Figure 40: 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 third quarter of 2022 were expansionary as evidenced by increase in both Broad Money (M2) and Reserve Money (RM).

***Broad Money (M2)***

Following a marginal increase of 0.84 percent in 2022Q2, M2 increased further by 11.42 percent in 2022Q3. The significant growth in M2 reflects the expansion of Net Domestic Assets (NDA) of the banking system which more than offset the contraction of Net Foreign Assets (NFA) of the banking system during the review period.

NDA of the banking system expanded by 21.34 percent in 2022Q3, relative to the 9.87 percent increase in 2022Q2. The expansion in NDA was primarily as a result of the 13.21 percent increase in net claims on government by the banking sector in 2022Q3 from a growth of 7.69 percent in

2022Q2. Net claims on government by the BSL grew by 23.95 percent in 2022Q3 compared to the 14.96 percent expansion in 2022Q2 which was largely driven by the increase in their holdings of government securities. Net claims on government by commercial banks grew by 4.73 percent in 2022Q3 from an expansion of 2.58 percent in 2022Q2, mainly as a result of the growth in their holdings of government securities. Growth in NDA of the banking system was also reinforced by increase in credit to the Private Sector by commercial banks, with credit to the private sector by commercial banks expanding by 6.64 percent in 2022Q3 from a growth of 5.56 percent in 2022Q2.

NFA of the banking system contracted by 38.07 percent in 2022Q3, from a decline of 28.50 percent in 2022Q2. The contraction in the NFA of the banking system was account of a deterioration in the NFA of BSL which dominated the 16.65 percent increase in the NFA of the commercial banks.

Monetary aggregates also exhibited expansion from year-on-year perspective. For instance, M2 grew by 31.08 percent in 2022Q3 compared to the 20.74 percent increase in 2022Q2. The year-on-year expansion of M2 was in breach of the IMF/ ECF program target of 20.00 percent in 2022Q3. Furthermore, credit to the private sector by commercial banks grew by 23.83 percent in 2022Q3 relative to the 20.19 percent increase in 2022Q2. Similarly, the year-on-year expansion of credit to the private sector by commercial banks was in breach of the IMF/ECF program target of 6.90 percent in 2022Q3.

From the perspective of the liability side of the monetary survey, M2 grew as a result of growth in both Narrow Money (M1) and Quasi Money during the review period. M1 expanded by 10.72 percent in 2022Q3 from 3.19 percent contraction in 2022Q2 mainly reflecting increases in both demand deposits (13.38percent) and currency outside banks (7.47percent). Quasi Money expanded by 12.07 percent in 2022Q3 relative to the 4.91percent growth in 2022Q2, driven by increases in both foreign currency deposits (16.97percent) and time and savings deposits (5.49percent).

***Reserve Money (RM)***

RM expanded by 4.96 percent in 2022Q3, relative to a contraction of 0.30 percent in 2022Q2. The expansion in RM was on account of growth in Net Domestic Assets (NDA) of the BSL, which outweighed the deterioration in the NFA of the BSL. NDA of the BSL expanded by 29.87 percent in 2022Q3 from 27.68 percent in 2022Q2. This development mainly reflected the 12.27 percent increase in their holdings of government securities and 35.67 percent increase in GoSL/IMF/WB budget financing Bridge Loan. On the other hand, NFA of the BSL deteriorated by 82.93 percent as a result of increased foreign liabilities.

RM also expanded on a year-on-year basis. Reserve money grew by 17.22 percent in 2022Q3 from a 10.24 percent expansion recorded in 2022Q2. The year-on-year expansion of RM was in breach of the IMF/ECF program target of 13.40 percent for 2022Q3.

From the liabilities side of the balance sheet of the Central Bank, the expansion in RM was as a result of the 9.04 percent increase in currency issued, which more than offset the 15.61 percent contraction in banks' reserves in 2022Q3.

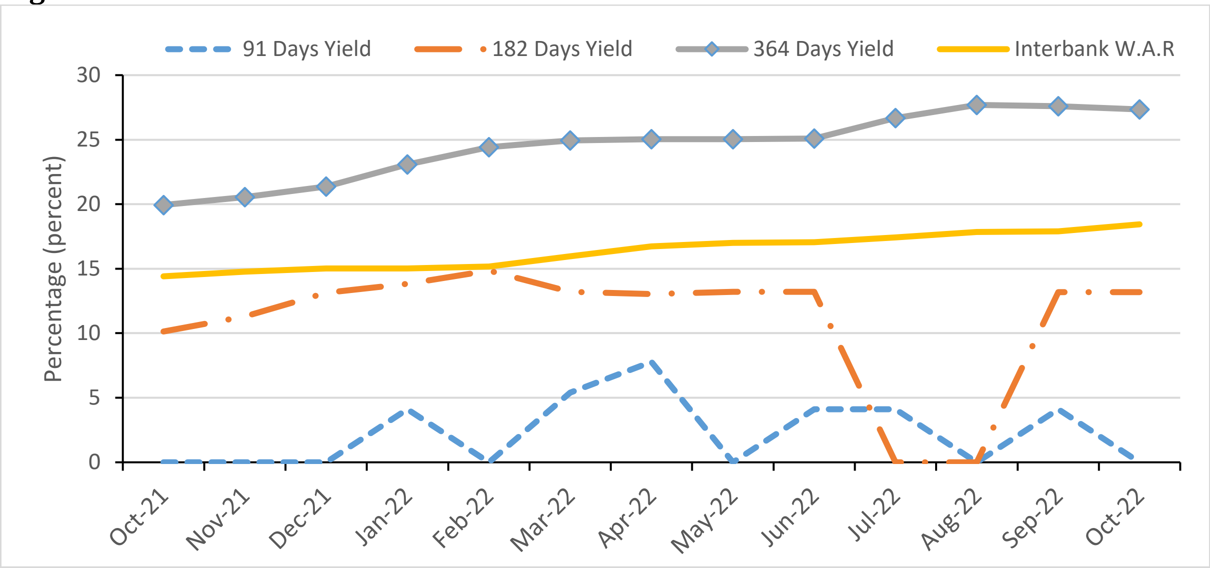
### 3.5.4 Interest Rates Developments

***Treasury Bills and Interbank Rates***

During the review period, it was observed that the average annual yield of the 364-days T-bills increased by 251 basis points from 25.08percent in June, 2022 to 27.59percent in September, 2022, but declined by 24 basis points to 27.35percent in October, 2022. The average annual yield of the182-days T-bills declined by 2 basis points from 13.21percent in June, 2022 to 13.19percent in September, 2022 and remained at 13.19percent in October, 2022. The average annual yield of the 91-days T-bills in September, 2022 remained at 4.11percent, same as in June, 2022. There was no demand for the 91-day tenure in October, 2022.

The interbank weighted average yield further increased by 86 basis points from 17.04percent in June, 2022 to 17.90percent in September, 2022, and further increased to 18.44percent in October, 2022. This increase could be attributed to the increase in the MPR, coupled with the emergence of liquidity pressure in the banking system. Commercial banks' average lending rate increased from 19.77 percent in June 2022 to 20.06 percent in October 2022, while the savings deposits rate remained the same at 2.17 percent in October 2022. Figure 41 shows the trends in yields of government securities.

**Figure 41: Trends in Yields of Government Securities**

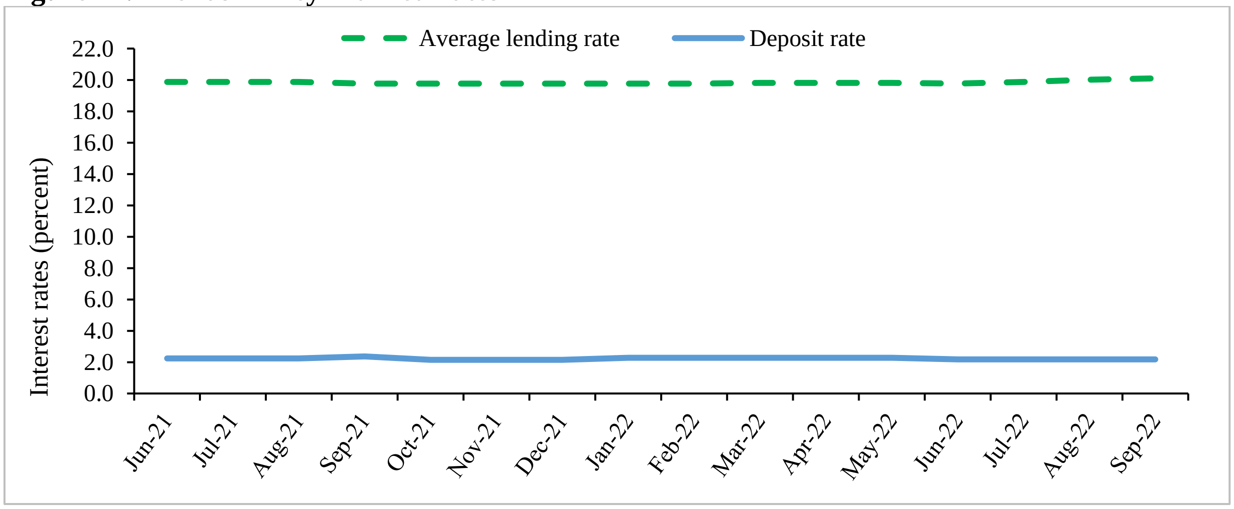



Source: Financial Markets Department, BSL

### *Commercial Banks' Rates*

Commercial banks' average lending rate increased from 19.77 percent in June 2022 to 20.06 percent in October 2022, while the savings deposits rate remained the same at 2.17 percent in October 2022.

**Figure 42: Trends in Key Market Rates**



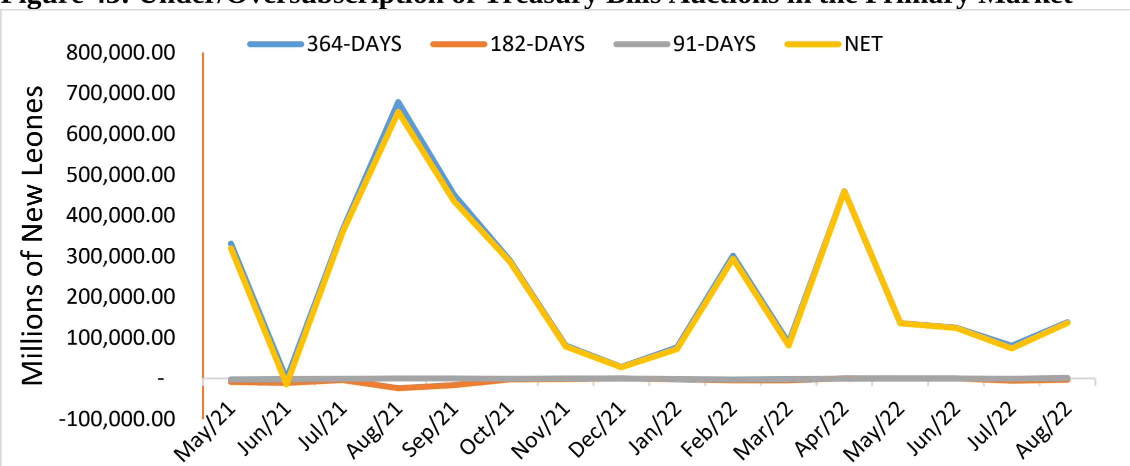

Source: Financial Markets Department, BSL

### 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 net basis. The 364-days tenure was largely oversubscribed, whilst the 182-days and the 91-days tenures were undersubscribed in 2022Q3. Similar trend continued up to October, 2022.

**Figure 43: Under/Oversubscription of Treasury Bills Auctions in the Primary Market**




**Source:** BSL

#### 3.6.2 Stock of Government Securities

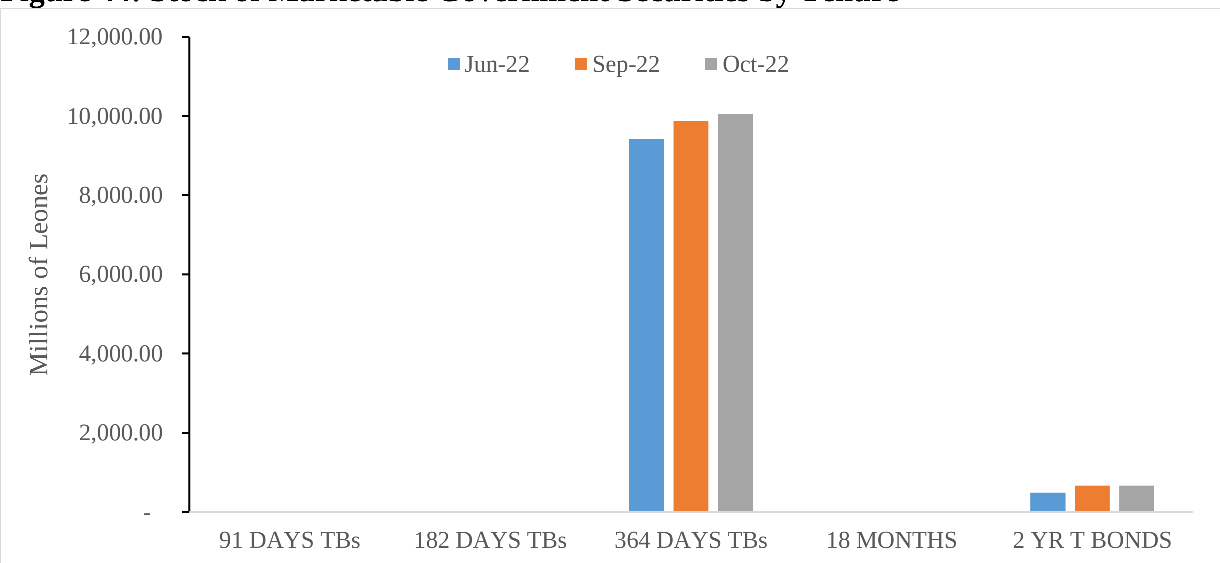
The total stock of Government securities increased by NLe942.55mn (8.59percent) from Nle10,977.72mn as at end June, 2022 to NLe11,920.27mn as at end September, 2022 and further increased by NLe177.56mn (1.49percent) to NLe12,097.83mn as at end October, 2022. Marketable securities accounted for 88.41 percent and 88.52 percent of the total stock of Government securities, whilst non-marketable securities accounted for 11.59 percent and 11.48 percent as at end September, 2022 and end October, 2022 respectively.

The stock of marketable securities increased by NLe630.50mn (6.36percent) from NLe9,907.76mn as at end June, 2022 to NLe10,538.26mn as at end September, 2022 and further increased by NLe170.31mn (1.62percent) to NLe10,708.57mn as at end October, 2022. The issuance of new treasury securities during the review period was mainly to finance the budget. The stock of non-marketable securities increased by NLe312.05mn (29.16percent) from

NLe1,069.96mn as at end June, 2022 to NLe1,382.01mn as at end September, 2022, and further increased by NLe7.25mn (0.52percent) to NLe1,389.26mn as at end October, 2022.

As at end September, 2022, the proportion of 91-days, 182-days and 364-days treasury bills to total marketable securities was 0.02 percent, 0.01 percent and 93.70 percent respectively, while that of the 2-year treasury bonds was 6.27 percent. With regards non-marketable securities, the 3-year, 5- year and 10-year treasury bonds accounted for 72.29 percent, 26.63 percent and 1.09 percent respectively.

**Figure 44: Stock of Marketable Government Securities by Tenure**




Source: Financial Markets Department, BSL

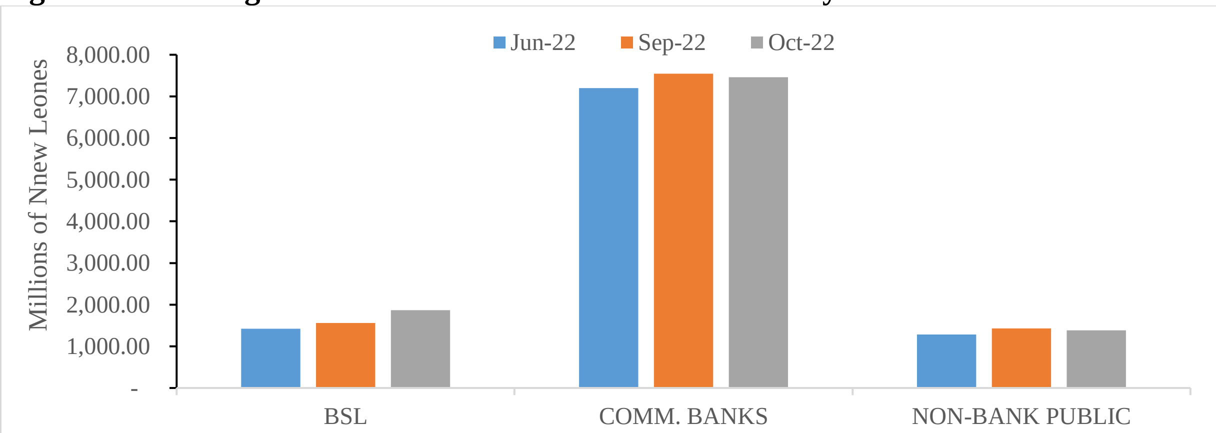
### 3.6.3 Distribution of the Stock of Government Securities by Sector

The holdings of Government securities in all sectors increased in 2022Q3 relative to 2022Q2. During the review period, holdings of commercial banks and non-bank public sectors declined, whilst that of BSL increased. This increase could be attributed to increased outright purchase transactions by BSL for liquidity management purposes.

The holdings of marketable Government securities by commercial banks increased by NLe350.01mn (4.86percent) from NLe7,196.29mn as at end June, 2022 to NLe7,546.30mn as at end September, 2022 but declined by NLe88.43mn (1.17percent) to NLe7,457.87mn as at end October, 2022. Non-bank holdings of marketable Government securities increased by NLe147.03mn (11.43percent) from NLe1,286.60mn to NLe1,433.63mn, but decreased by

NLe48.74mn (3.40percent) to NLe1,384.89mn for the same period above. BSL holdings of marketable Government securities increased by NLe133.46mn (9.37percent) from NLe1,424.87mn as at end June, 2022 to NLe1,558.33mn as at end September, 2022, and further increased by NLe307.48mn (19.73percent) to NLe1,865.81bn as at end October, 2022.

**Figure 45: Holdings of Marketable Government Securities by Sector**




Source: Financial Markets Department, BSL

### 3.7 Financial Stability Analysis

The banking sector remained relatively stable as all key Financial Soundness Indicators (FSIs) were above the minimum thresholds in spite of the exchange rate challenges. The main reason for this is that banks continue to rely on T-bills and income generated from this market has positive impacts on the key FSIs.

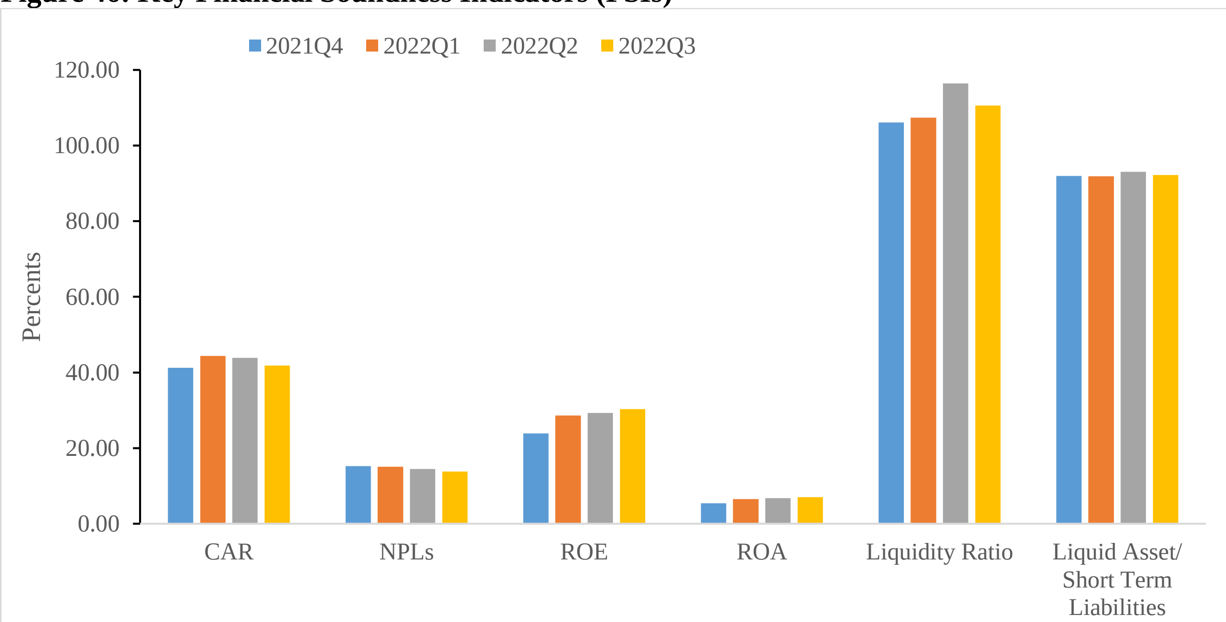
The proportion of Non-performing Loans (NPLs) declined in 2022Q3, implying an improvement in asset quality. Government securities continued to be the largest asset of banks and therefore the main source of income for banks. Gross loans and T-bills increased marginally in 2022Q3, financed by increased deposits to the banking system. Treasury bills rates continued to remain relatively high and increased for the most part of the quarter.

#### 3.7.1 Financial Soundness Indicators (FSIs)

The banking sector continued to be stable and adequately capitalised. Most of the key FSIs remained above the minimum thresholds stipulated by BSL. The regulatory capital to risk-weighted asset decreased to 41.8 percent in 2022Q3 from 43.9 per cent in 2022Q2. The main reason for the decrease in the CAR is largely attributed to the increase in gross loan by 7.28 percent in 2022Q3.

Asset quality improved in 2022Q3 as the ratio of NPLs to total loans decreased marginally to 13.8 per cent in 2022Q3 from 14.5 per cent in 2022Q2. However, NPLs are still above the prudential limit of 10 percent by 3.8 percentage points. Banks profitability continue to improve as both Return on Asset (ROA) and Return On Equity (ROE) increased to 7.0 and 30.3 per cent respectively for 2022Q3, compared to 6.8 and 29.3 in 2022Q2. The Liquidity Ratio in the banking sector declined marginally in 2022Q3 to 110.62 percent relative to 116.4 percent in 2022Q2. Similarly, liquid assets to short term liabilities also declined marginally though relatively high. Figure 46 below shows the key FSIs of the banking sector.

**Figure 46: Key Financial Soundness Indicators (FSIs)**

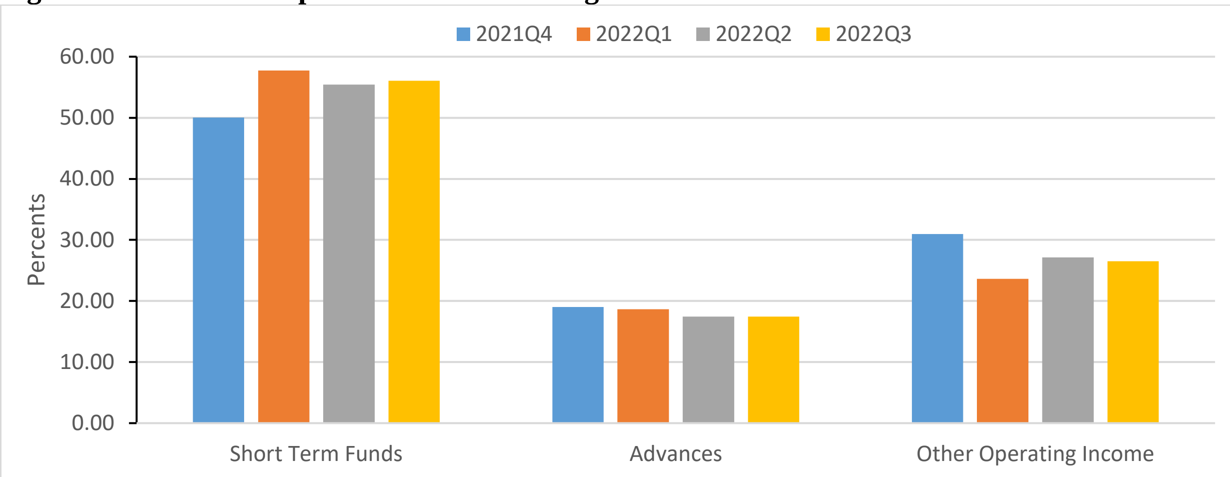



Source: Banking Supervision & Financial Stability Departments

### 3.7.2 Income Composition

The banking sector continued to rely primarily on government securities for its income. This is mainly because the rates on government securities are high and the risk of the investments are nil. In 2022Q3, the proportion of income from short term funds increased by 0.62 percentage points from 55.42 percent in Q2, 2022. However, income from advances remained the same at 17.43 percent in 2022Q3, but other operating income declined by 0.62 percentage points from 27.15 percent in 2022Q2. The increase in the proportion of income from short term funds may be attributed to the increase in both bank holdings of government security and the increase in the yield of 364-days in 2022Q3. Other operating income consist mainly of commission, fees and profit on foreign exchange dealings.

**Figure 47: Income Composition for the banking sector**

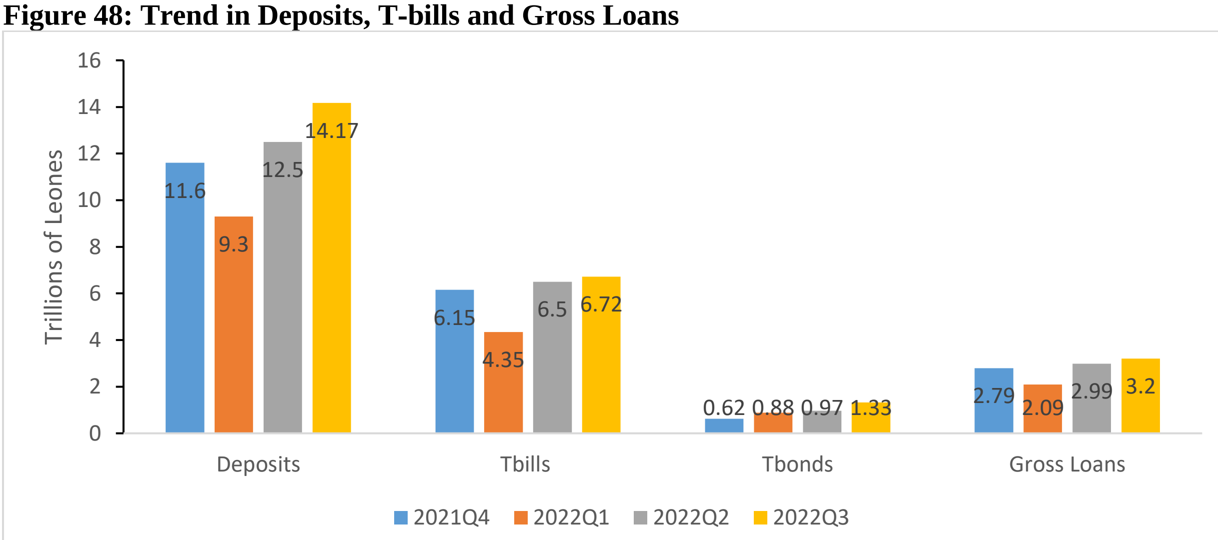



Source: Banking Supervision & Financial Stability Departments

### 3.7.3 Sources and Utilization of Funds

Total Deposits, which is the main source of funds for banks, increased in 2022Q3 by 13.36 percent from NLe 12.5 trillion in 2022Q2 to NLe 14.17 trillion in 2022Q3. T-bills holding by the banking sector increased by 3.38 percent from NLe6.5 trillion in 2022 Q2 to NLe6.72 trillion in 2022Q3. T-bond holding by the banking sector increased by 37.11 percent from NLe0.97 trillion in 2022Q2 to NLe1.33 trillion in 2022Q3. Gross loans and advances also increased by 7.02 percent from NLe2.99 trillion in 2022Q2 to Le3.2 trillion in 2022Q3.

**Figure 48: Trend in Deposits, T-bills and Gross Loans**

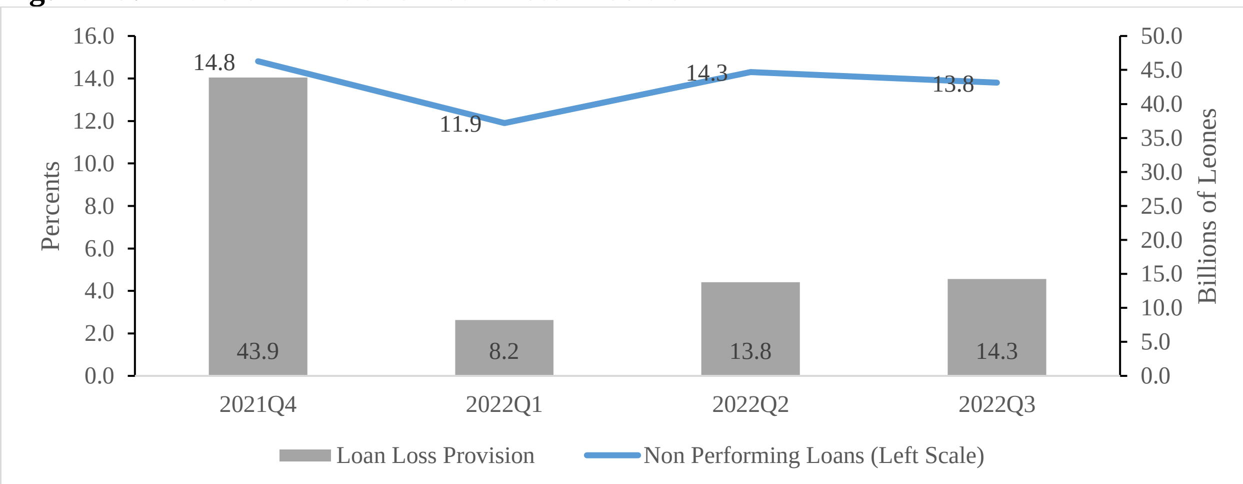



Source: Banking Supervision & Financial Stability Departments

### 3.7.4 Trend in NPLs and Loan Loss Provisions

The proportion of NPLs declined marginally within the review period of 2022Q3. The NPL ratio for 2022Q3 decreased by 0.5 percentage points from 14.3 percent in 2022Q2 to 13.8 percent in 2022Q3. However, Loan loss provision increased by NLe 0.47 billion to NLe 14.27 billion in 2022Q3 from NLe13.80 billion in 2022Q2.

**Figure 49: Trend of NPLs and Loan Loss Provision**




Source: Banking Supervision & Financial Stability Departments

### 3.7.5 Challenges

The ongoing Russia-Ukraine war and its related effects poses a threat to financial system stability. Global financial conditions have tightened further, reflecting in large part the aggressive policy rate increases across the globe to tame the persistent rise in inflation. The US dollar has strengthened, and longer-term bond yields have risen sharply because of sustained policy tightening in response to high inflation concerns. This has triggered currency pressures across Emerging Markets and Developing Economies, including Sierra Leone. Together, these events poses risks to the stability of the financial system.

### 3.7.6 Outlook

The assessments shows that the banking sector will continue to be relatively stable going forward. However, the Russia-Ukraine war coupled with currency depreciation and high inflation continues to be a risk to the banking sector. Increased government borrowing will continue to provide risk free investment opportunities for banks, thereby improving the risk weighted assets of the banking sector. Interest from investment in government securities will continue to be the main source of income for banks. Moreover, rising inflation and depreciating Leones can impact the fiscal space, leading to the accumulation of arrears which can impact the NPLs of the banking sector.

# 4. CONCLUSION AND DECISION OF THE MPC

## 4.1 Conclusion

Sierra Leone's economic prospects remained challenging during the review period, largely reflecting the effects of negative supply shocks to short-run aggregate supply, which have produced stagflation. Accordingly, real GDP growth for 2022 has been revised downward to 2.8 percent, from its earlier estimate of 3.6 percent. Recent projections also suggest a 3.1 percent real GDP growth in 2023, which will be below its pre-pandemic level.

The subdued output growth is also reflected in the Bank's Composite Index of Economic Activity (CIEA), which shows that domestic economic activity slowed down to 0.97 percent in the third quarter, from a growth of 1.97 percent in the second quarter. The moderation in the CIEA mainly reflected the contraction in exports and capital expenditures.

Inflationary pressures remained elevated in the review period, and is expected to remain on its elevated path in the next few quarters before moderating later in 2023. The continuous increase in inflation is driven mainly by exchange rate depreciation pass-through, elevated food and energy prices, disruptions in the global supply chains and high freight charges. Furthermore, the effects of the Russia-Ukraine War, the accompanying sanctions imposed by western countries to force Russia to end the war, and the tight monetary policies implemented by advanced economies to reduce inflation to a desirable level have led to tight financial conditions, all of which are fueling inflation in small open economies like Serra Leone. Additionally, the uncertainties induced by the resurgence of the COVID-19 pandemic in China and the response of western countries to require negative COVID-19 test results from travelers from China could further constrain global supply chains, thereby creating adverse implications for global inflation.

The MPC is acutely aware of the adverse impact of high inflation on the purchasing power of especially the poor, and its pernicious adverse welfare implications. Taking cognizance of the fact that price- and financial-system stability are the Bank's two core mandates, the MPC therefore concludes that fiscal and monetary policy coordination is required to tame the extant stubbornly high inflation rate.

Furthermore, because the currently high domestic inflation is mainly supply-side driven coupled with exchange pass-through to prices, induced largely by the effects of the overlapping global crises. The MPC is of the view that containing inflation to its Pre-COVID-19 level should be the Bank's main focus. This requires a combination of a tight monetary policy and a tight fiscal policy. Furthermore, reform measures in the productive sectors of the economy (in particularly the agricultural sector) are also needed to boost domestic production and productivity in order to reduce the currently large supply gap.

### 4.2 Decision of the Monetary Policy Committee

The MPC noted that inflationary pressures remained elevated in the review period, and it is expected to remain so in 2023. This is due mainly to supply-side factors, exchange rate depreciation pressure, higher freight charges, disruption in the global supply chain and, uncertainty surrounding the COVID-19 pandemic and the Ukraine war. The MPC noted with concern the high domestic prices and their likely effect on the welfare of particularly the poor.

The Committee also noted that the economy remains in an environment of stagflation, and that policy reform measures in its productive sectors, particularly the agricultural sector, to support aggregate supply growth remain vital to low-inflationary growth and development. Consequently, mindful of the BSL's responsibility for safeguarding price and financial-system stability, while supporting economic growth, the MPC decided to raise the Monetary Policy Rate (MPR) by 125 basis points to 18.25 percent and adjust the Standing Lending Facility Rate and the Standing Deposit Facility Rate upward by the same margin.

## APPENDIX

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

| | | WEO July 2022 Projections | | WEO Oct. 2022 Projections | | CHANGE IN Projections | |
|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 |
| **World Output** | **6.0** | **3.2** | **2.9** | **3.2** | **2.7** | **0.0** | **-0.2** |
| **Advanced Economies** | **5.2** | **2.5** | **1.4** | **2.4** | **1.1** | **-0.1** | **-0.3** |
| *United States* | 5.7 | 2.3 | 1.0 | 1.6 | 1.0 | -0.7 | 0.0 |
| *Euro Area* | 5.2 | 2.6 | 1.2 | 3.1 | 0.5 | 0.5 | -0.7 |
| *United Kingdom* | 7.4 | 3.2 | 0.5 | 3.6 | 0.3 | 0.4 | -0.2 |
| *Japan* | 1.7 | 1.7 | 1.7 | 1.7 | 1.6 | 0.0 | -0.1 |
| **Emerging Market and Developing Economies** | **6.6** | **3.6** | **3.9** | **3.7** | **3.7** | **0.1** | **-0.2** |
| *Brazil* | 4.6 | 1.7 | 1.1 | 2.8 | 1.0 | 1.1 | -0.1 |
| *Russia* | 4.7 | -6.0 | -3.5 | -3.4 | -2.3 | 2.6 | 1.2 |
| *India* | 8.7 | 7.4 | 6.1 | 6.8 | 6.1 | -0.6 | 0.0 |
| *China* | 8.1 | 3.3 | 4.6 | 3.2 | 4.4 | -0.1 | -0.2 |
| **Sub-Saharan Africa** | **4.7** | **3.8** | **4.0** | **3.6** | **3.7** | **-0.2** | **-0.3** |
| *Nigeria* | 3.6 | 3.4 | 3.2 | 3.2 | 3.0 | -0.2 | -0.2 |
| *South Africa* | 4.9 | 2.3 | 1.4 | 2.1 | 1.1 | -0.2 | -0.3 |
| *Angola* | 0.8 | 3.1 | 3.3 | 2.9 | 3.4 | -0.2 | 0.1 |

Source: IMF World Economic Outlook (WEO) October 2022.

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

| Country | Recent Inflation (%) | | Monetary Policy Rates (%) | | | | |
|---|---|---|---|---|---|---|---|
| | | | Current | | Previous | | Change |
| **WAMZ** | | | | | | | |
| Sierra Leone | 32.9 | Oct.22 | 17.00 | Sep.22 | 16.00 | Jun.22 | 1.00 |
| Nigeria | 21.5 | Nov.22 | 16.50 | Nov.22 | 15.50 | Sept.22 | 1.00 |
| Ghana | 50.3 | Oct.22 | 27.00 | Nov.22 | 24.50 | Oct.22 | 2.50 |
| Guinea | 12.4 | Jul.22 | 11.50 | Nov.22 | 11.50 | Aug.22 | 0.00 |
| Liberia | 7.1 | Aug.22 | 15.00 | Nov.22 | 15.00 | Oct.22 | 0.00 |
| The Gambia | 13.2 | Oct..22 | 12.00 | Sep.22 | 11.00 | June22 | 1.00 |
| **Major Economies** | | | | | | | |
| USA | 7.1 | Nov.22 | 4.50 | Dec.22 | 4.00 | Nov.22 | 0.50 |
| China | 1.6 | Nov.22 | 3.65 | Nov.22 | 3.65 | Oct.22 | 0.00 |
| Euro Area | 10.1 | Nov.22 | 2.50 | Dec.22 | 2.0 | Oct.22 | 0.50 |
| UK | 10.7 | Nov.22 | 3.50 | Dec.22 | 3.00 | Oct.22 | 0.50 |

Source: Country Central Banks December 21, 2022

**Table 3: Outcomes of FX auction**

| | 21st Sep (121) | 28th Sep (122) | 5th Oct (123) |
|---|---|---|---|
| Amount offered US$‘000 | 8,000 | 8,000 | 8,000 |
| Total demand US$’000 | 9,000 | 11,000 | 10,800 |
| Auction rate (Le) | 14.99 | 15.48 | 16.24 |
| BSL Selling rate (Le) | 15.02 | 15.57 | 16.06 |
| Parallel Selling rate (Le) | 16.2 | 16.9 | 17 |
| Commercial Bank Selling rate (Le) | 15.16 | 15.72 | 16.13 |
| Spread btw Auction rate/comm bank rate | 1.13 | 1.50 | 0.68 |
| Spread btw Auction rate/Parallel Market rate | 7.47 | 8.39 | 4.47 |

Source: Financial Markets Department, BSL

**Table 4: Combined Inflation Forecast**

| Months | Forecast |
|---|---|
| December 2022 | 37.58 |
| January 2023 | 39.29 |
| February 2023 | 3957 |
| March 2023 | 36.44 |
| April 2023 | 35.34 |

Source: BSL Staff projections