



BANK OF SIERRA LEONE

Monthly Economic Review

MER/12/2022

December 2022



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December 2022

The Monthly Economic Review (MER) is published by the Research and Statistics Department, Bank of Sierra Leone. The Department takes responsibility for opinions expressed in this review. Please forward any comments to res@bsl.gov.sl.

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Executive Summary

Agricultural sector performance, measured by cocoa production, improved in December 2022, as cocoa production increased by 1.05 percent to 2,289.00 metric tons in December 2022 from 2,265.23 metric tons in November 2022 while there was no data on coffee output.

Performance in the mining sector was mixed as production levels for pure Gold, Zircon and Iron ore increased whilst Diamonds, Bauxite, Rutile, and Ilmenite productions fell in December 2022. Manufacturing sector performance was mixed in December 2022. Beer and Stout productions rose by 145.77 percent to 127.73 thousand cartoons. In addition, productions of Maltina and Oxygen increased by 366.83 percent to 91.76 thousand cartoons and 9.03 percent to 41.24 thousand cubic feet, respectively. However, Cement and Paint production fell by 33.51 percent to 16.90 thousand tons and 8.58 percent to 61.23 thousand gallons, respectively. Confectionary production fell by 17.92 percent to 220.34 thousand pounds from 268.44 thousand pounds.

Headline inflation (year-on-year) increased to 37.09 percent in December 2022, from 35.04 percent in November 2022. The rise in headline inflation emanated from increase in both food and non-food inflation rates. Food inflation rose to 46.70 percent in December 2022 from 43.62 percent in November 2022. Non-food inflation also increased to 30.60 percent in December 2022 from 29.38 percent in November 2022. Similarly, monthly headline inflation rose to 3.67 percent in December 2022 from 1.85 percent in November 2022.

Government budgetary operations (on a cash flow basis) in December 2022 recorded a surplus of NLE603.22million, compared to a deficit of NLE54.49million in November 2022. The budget surplus emanated from the expansion in government revenue owing to increased foreign inflows which outweighed increase in government expenditure.

Broad money (M2) expanded by 11.76 percent in December 2022, up from 3.84 percent in November 2022. Net Foreign Assets contributed 11.75 percent to this growth, from a negative contribution of 1.83 percent in November 2022 while Net Domestic Assets marginally contributed 0.01 percent in December 2022 from 5.67 percent in November 2022. The Monetary Policy Rate (MPR), Standing Lending Facility (SLF) and Standing Deposit Facility (SDF) remained the same in November 2022.

Gross foreign exchange reserves of the Bank of Sierra Leone was US\$626.97 million as at end December 2022, from US\$569.32 million in November 2022. Inflows in December 2022 was US\$276.37 million, whilst outflows amounted to US\$562.36 million, resulting in a net position of US\$285.99 million, with a recorded revaluation adjustment of US\$35.36 million. The monthly average exchange rate of the Leone against the US dollar depreciated in all foreign exchange markets in December 2022 on both the buying and selling sides. On the demand side, the Leone depreciated in the parallel market and depreciated across commercial banks, bureau market, parallel market and official market. On the supply side, the Leone depreciated in the parallel market and appreciated in the official market but depreciated in the bureau market and commercial banks.

1. Introduction

The Monthly Economic Review (MER) is a publication of the Research and Statistics Department, Bank of Sierra Leone. The objective of the Economic Review is to analyze Sierra Leone's monthly macroeconomic developments, covering the four macroeconomic sectors- real, fiscal, monetary, and external sectors. This edition analyses performance in December 2022. In the real sector, developments in the production of key agricultural products for which regular monthly data is available are discussed. In the fiscal sector, data on revenue and expenditure on a cash-flow basis is analyzed. The monetary sector analyses the growth of monetary aggregates, including broad money and reserve money, extended to the drivers of broad money growth and reserve money growth. Movements in interest rates are also discussed. In the external sector, movements in the exchange rate, inflows and outflows, and gross international reserves are analyzed. The choice of data for the analysis in the MER rests on the importance of the variables to monetary and financial policy formulation and implementation and in general, its importance to macroeconomic policy management in Sierra Leone and the availability of validated data on a timely basis.

The rest of the Economic Review is organized as follows: section 2 analyses developments in production and prices; section 3 analyses fiscal sector developments; section 4 analyses monetary sector developments; section 5 analyses the external sector developments and section 6 is the conclusion.

2. Production and Prices

2.1 Production

2.1.1 Agriculture

Owing to data availability, coffee and cocoa productions are used as proxies for analyzing the agricultural sector performance in this publication. Cocoa production rose slightly by 1.05 percent to 2,289.00 metric tons in December 2022 while there was no production data on coffee in December 2022.

2.1.2 Mining

In December 2022, performance in the mining sector was mixed as production levels for pure gold, zircon and iron ore increased whilst diamond, bauxite, rutile, and ilmenite productions fell in the review period. The production of gold (pure) increased by 108.26 percent to 878.25 ounces and

that of zircon increased by 128.62 percent to 5.78 thousand metric tons. Production of iron ore rose by 0.69 percent to 455.11 thousand metric tons.

On the other hand, diamond production decreased by 12.84 percent to 41.11 thousand carats, of which industrial diamond was 10.97 thousand carats, and gem diamond was 30.14 thousand carats. Bauxite production fell by 63.60 percent to 26.89 thousand metric tons. Rutile and ilmenite production declined by 18.55 percent to 10.28 thousand metric tons, and 20.78 percent to 4.08 thousand metric tons respectively. Other minerals' production stood at 2.60 thousand metric tons in December 2022, following no production in November 2022.

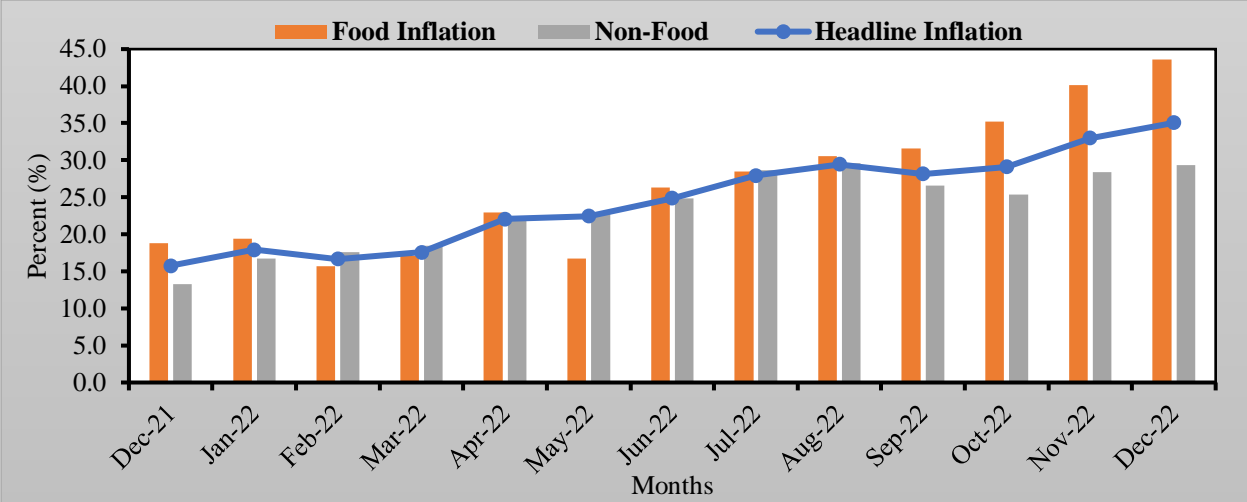
2.1.3 Manufacturing

Manufacturing sector performance was mixed in December 2022. Beer and stout production rose by 145.77 percent to 127.73 thousand cartoons. In addition, production of Malta and oxygen increased by 366.83 percent to 91.76 thousand cartoons and 9.03 percent to 41.24 thousand cubic feet, respectively. During the same review period however, cement and paint productions fell by 33.51 percent to 16.90 thousand tons and 8.58 percent to 61.23 thousand gallons, respectively. Confectionary output fell by 17.92 percent to 220.34 thousand pounds from 268.44 thousand pounds.

2.2 Price Developments

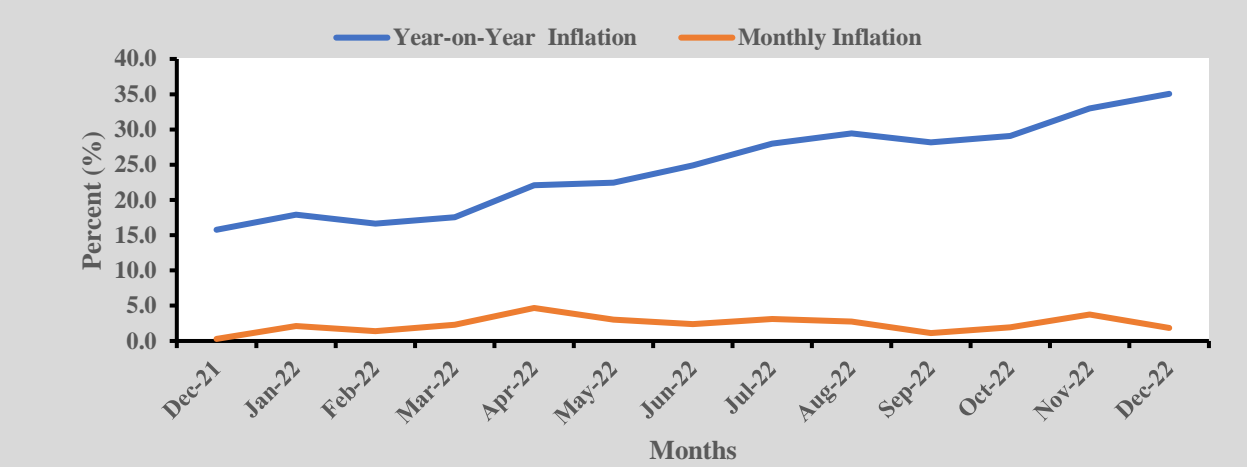
Headline inflation (year-on-year) increased to 37.09 percent in December 2022, compared to 35.04 percent in November 2022. The increase in headline inflation emanated from the increase in both food and non-food inflation rates. Food inflation rose to 46.70 percent in December 2022 from 43.62 percent in November 2022 and non-food inflation increased to 30.60 percent in December 2022 from 29.38 percent in November 2022. Monthly headline inflation rose to 3.67 percent in December 2022 from 1.85 percent in November 2022. Figure 1 shows the trend in year-on-year headline, food and non-food inflation rates while Figure 2 shows the trend in the year-on-year and monthly inflation rates.

Figure1: Headline, Food and Non-Food Inflation



Source: Statistics Sierra Leone

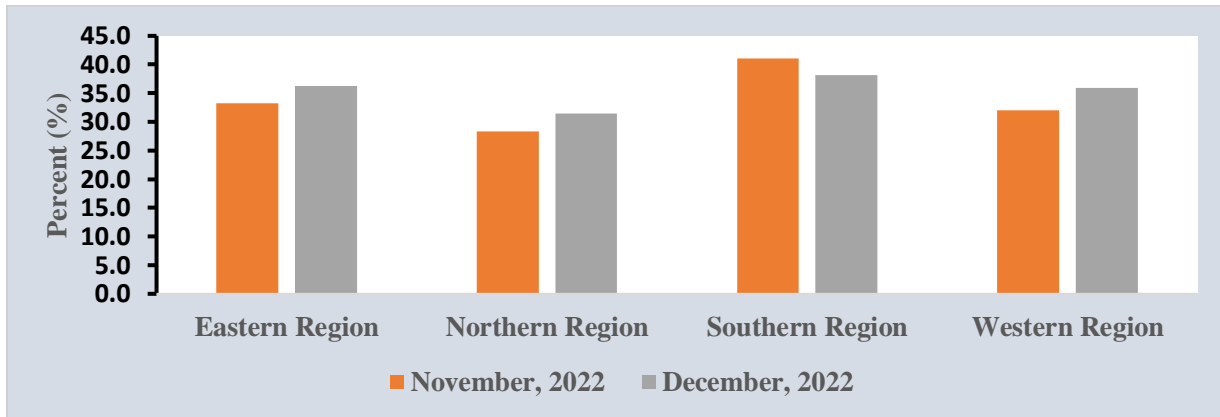
Figure2: Year-on-year Inflation and Monthly Inflation Change



Source: Statistics Sierra Leone

On a regional basis, inflation increased in three regions and declined in one region in December 2022. Western region inflation rose to 35.93 percent in December 2022 from 32.02 percent in November 2022; Northern region inflation increased to 31.45 percent in December 2022 from 28.34 percent in November 2022; and Eastern region saw inflation rising to 36.29 percent in December 2022 from 33.22 percent in November 2022. However, Southern region inflation fell to 38.2 percent in December 2022 from 41.09 percent in November 2022. It is also worth noting that inflation rate for North-West Region was produced for the first time in December 2022. The inflation rate was 47.31 percent, being the highest among all the five regions. Figure 3 shows inflation rates by region (excluding North-West due to limited data).

Figure 3: Inflation Rates in November 2022 and December 2022 by Region



Source: Statistics Sierra Leone

3. Fiscal Developments

Government budgetary operations (on a cash flow basis) in December 2022 recorded a surplus of NLE603.22 million, compared to a deficit of NLE54.49 million in November 2022. The budget surplus emanated mainly from the expansion of government revenue owing to increased foreign inflows which outweighed the increase in government expenditure.

3.1 Revenues

Government revenue rose significantly by 412.79 percent to NLE2,948.62 million in December 2022, and exceeded the target of NLE1,472.81 million by 100.20 percent, reflecting the expansion in both domestic revenue and foreign grants inflows. Domestic revenue increased by 74.07 percent to NLE1,000.92 million and was 34.97 percent above the target of NLE741.58 million. The increase in domestic revenue was due to an increase in income tax, and non-tax revenue (miscellaneous) receipts outweighing the fall in customs and excise duties and goods and services tax in the review period.

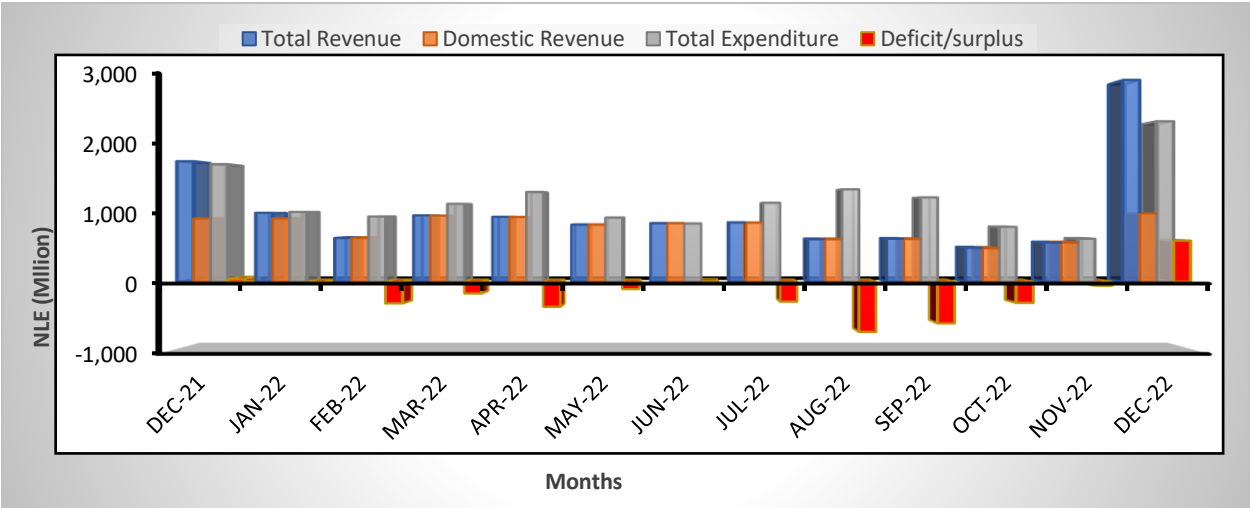
Revenue from income tax expanded by 62.03 percent to NLE285.52 million. Non-tax revenue (miscellaneous) also increased by 226.71 percent to NLE497.94 million. In contrast, receipts from customs and excise duties decreased by 23.92 percent to NLE82.63 million. Similarly, receipts from goods and services tax decreased slightly by 2.14 percent to NLE134.83 million.

Foreign grants in respect of budgetary support in December 2022 amounted to NLE1,947.70 million. This amount comprised NLE1, 946.90 million from the IDA/World Bank, and HIPC Debt Relief Assistance amounting to NLE0.80 million.

3.2 Expenditure

Government expenditure expanded by 272.58 percent to NLe2,345.40 million in December 2022 and was higher than the target of NLE793.09 million by 195.73 percent. The expansion in government expenditure was due to increases in wages and salaries, other expenditure, and debt servicing.

Expenditure on wages and salaries increased by 110.28 percent to NLE307.78 million, other expenditure on goods and services rose by 419.17 percent to NLE1,840.20 million. Debt service spending, which was exclusively domestic interest payments, also increased, by 53.41 percent to NLe197.42 million in December 2022. Figure 4 gives the trend in the fiscal profile from December 2021 to December 2022.



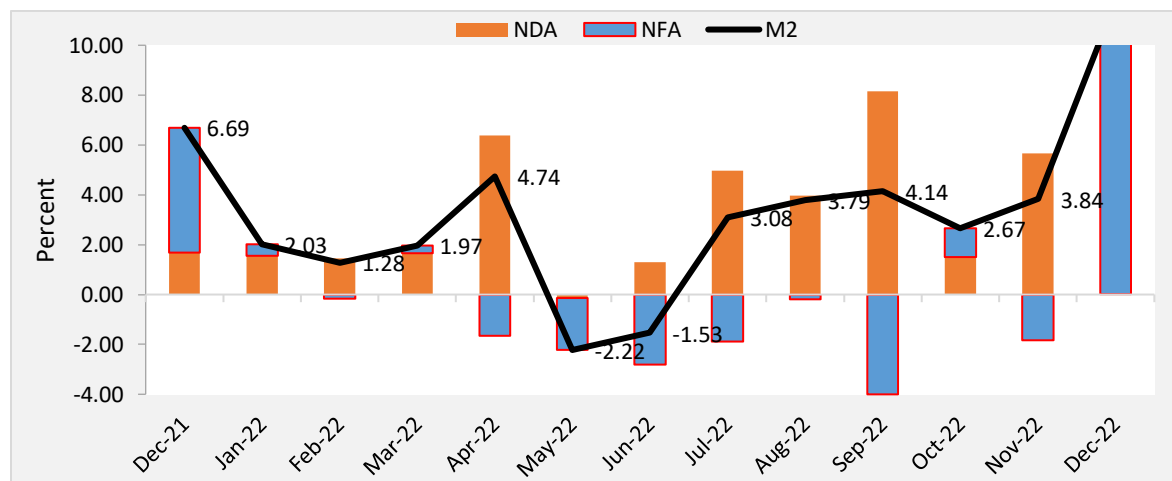
Source: Bank of Sierra Leone

4. Monetary Developments

4.1 Monetary Aggregates

Broad money (M2) expanded by 11.76 percent in December 2022, up from 3.84 percent in November 2022. The growth of broad money (M2) resulted mainly from increase in Net Foreign Assets (NFA) of the banking system, while Net Domestic Assets (NDA) of the banking system grew slightly in December 2022. Meanwhile, Net Foreign Assets contributed 11.75 percent to the growth of broad money, from a negative contribution of 1.83 percent in November 2022, while Net Domestic Assets contributed positively, though marginally at 0.01 percent, from 5.67 percent in November 2022. Figure 5 shows the trend in broad money growth and the contributions of NDA and NFA to broad money growth from November 2021 to December 2022.

Figure 4: Growth of M2 and Contributions of NFA and NDA to M2 Growth



Source: Bank of Sierra Leone

Growth of net domestic assets of the banking system moderated by 0.01 percent in December 2022, from 6.31 percent in November 2022. The moderation of the growth of NDA stemmed from the improvement in Other Items net, whilst net claims on Government by the Bank of Sierra Leone (BSL), net claims on Government by other depository corporations (ODCs) declined. Net claims on government by the BSL fell by 4.85 percent in December 2022, from an increase of 1.15 percent in November 2022. Similarly net claims on government by other depository corporations contracted by 1.53 percent in December 2022, from 0.44 percent in November 2022. Credit to the private sector by other depository corporations dropped by 0.21 percent in December 2022, from a growth of 0.52 percent in November 2022. Claims on other sectors' net fell by 17.06 percent in

December 2022, from a growth of 55.47 percent in November 2022. Table 1 shows the growth in key monetary aggregates.

Table 1: Growth of Monetary Aggregates

| Monetary Aggregates | Actual Values (Billion New Leones) | | Absolute Change (Billion New Leones) | | % Growth | |
|-------------------------------|---------------------------------------|--------|---|--------|----------|---------|
| | Nov-22 | Dec-22 | Nov-22 | Dec-22 | Nov-22 | Dec-22 |
| Broad Money (M2) | 18.16 | 20.30 | 0.67 | 2.14 | 3.84 | 11.76 |
| Narrow money (M1) | 8.09 | 9.00 | 0.20 | 0.91 | 2.55 | 11.26 |
| Currency outside banks | 3.78 | 4.49 | 0.27 | 0.71 | 7.74 | 18.78 |
| Demand deposit | 4.31 | 4.51 | (0.07) | 0.20 | (1.60) | 4.67 |
| Quasi money | 10.07 | 11.30 | 0.47 | 1.23 | 4.90 | 12.17 |
| o.w. Foreign currency deposit | 6.56 | 7.59 | 0.57 | 1.03 | 9.60 | 15.78 |
| Time and saving deposit | 3.51 | 3.70 | (0.10) | 0.19 | (2.84) | 5.41 |
| Other Deposits - BSL | 3.96 | 4.25 | (0.28) | 4.24 | (21.13) | 7.16 |
| Net Foreign Asset | 1.46 | 3.59 | (0.32) | 2.13 | (17.97) | 146.16 |
| BSL | (5.27) | (4.64) | (0.98) | 0.62 | 22.79 | (11.83) |
| ODCs | 6.73 | 8.24 | 0.66 | 1.51 | 10.84 | 22.46 |
| Net Domestic Assets | 16.70 | 16.70 | 0.99 | 0.00 | 6.31 | 0.01 |
| Net Domestic Credit | 17.71 | 17.27 | (0.02) | (0.43) | (0.11) | (2.45) |
| Government (Net) | 14.42 | 13.95 | 0.06 | (0.47) | 0.38 | (3.27) |
| BSL | 7.54 | 7.17 | 0.09 | (0.37) | 1.15 | (4.85) |
| ODCs | 6.88 | 6.77 | (0.03) | (0.11) | (0.44) | (1.53) |
| Private Sector Credit | 3.55 | 3.54 | 0.02 | (0.01) | 0.51 | (0.21) |
| o.w ODC | 3.53 | 3.52 | 0.02 | (0.01) | 0.52 | (0.19) |
| Other Sectors (Net)* | (0.26) | -0.21 | (0.09) | 0.04 | 55.47 | (17.06) |
| Other Items (Net) | (1.00) | (0.57) | 1.01 | 0.44 | (50.18) | (43.47) |

Source: Bank of Sierra Leone

*Other sectors include Other Financial Corporations and Public Non-Financial Corporations.

*ODC is Other Depository Corporations, which includes Commercial Banks, Community Banks, Discount Houses, and Deposit Taking Microfinance Institutions.

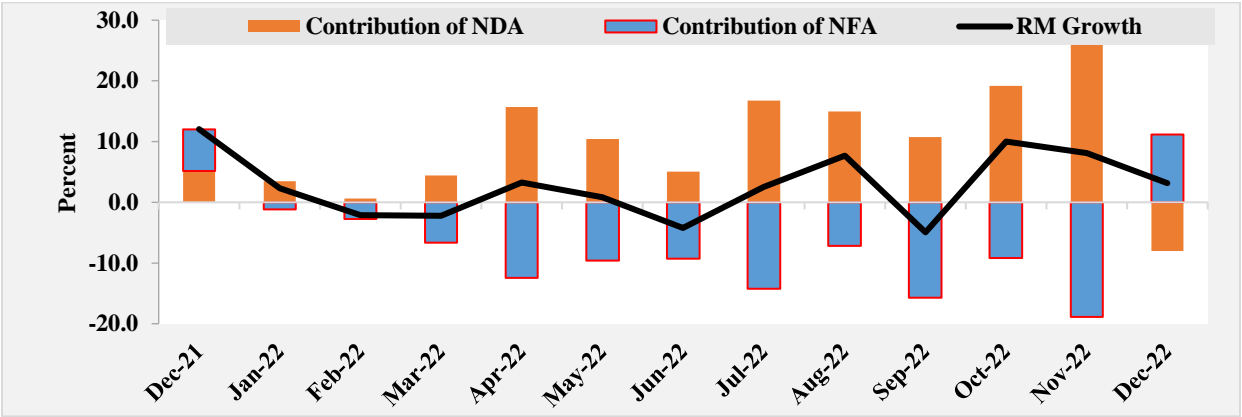
Net Foreign Assets (NFA) of the banking system increased by 146.16 percent in December 2022 from a contraction of 17.97 percent in November 2022. The increase in the NFA of the banking system resulted from increases in both NFA of the BSL and NFA of Other Depository Corporations. Equally, NFA of Other Depository Corporations rose by 22.46 percent in December 2022 from 10.84 percent in November 2022.

Narrow money (M1) grew by 11.26 percent in December 2022, up from 2.55 percent in November 2022. The growth of narrow money was mainly due to the increase in currency outside banks, while demand deposits marginally expanded in December 2022. Currency outside banks expanded by 18.78 percent in December 2022, up from 7.74 percent in November 2022, and demand deposits grew by 4.67 percent in December 2022 from a drop of 1.60 percent in November 2022. Quasi money increased by 12.17 percent in December 2022, up from 4.90

percent in November 2022, reflecting the growth in all its components- foreign currency, time and savings deposits and other deposits. Foreign currency deposits increased by 15.78 percent in December 2022, up from 9.60 percent in November 2022. Time and savings deposits increased by 5.41 percent in December 2022, from a decline of 2.84 percent in November 2022, and other deposits by BSL increased by 7.16 percent in December 2022, from a drop of 21.13 percent in November 2022.

Reserve money (RM) growth expanded by 3.11 percent in December 2022, relative to a growth 8.09 percent in November 2022. The growth of reserve money was due largely to increase in NFA of the BSL whilst in NDA of BSL contracted slightly. NFA of the BSL increased by 11.83 percent compared to 22.79 percent in November 2022. However, the NDA of BSL fell by 11.83 percent in December 2022, from a growth of 14.75 percent in November 2022. On the liability side, the growth of reserve money reflected the increase in currency issued, which increased by 18.78 percent in December 2022 from 7.74 percent in November 2022 while bank reserves decreased by 29.93 percent in December 2022 from a growth of 19.78 percent in November 2022. Figure 6 shows the contributions of NFA and NDA to the growth of reserve money.

Figure 5: Reserve Money Growth and Contributions of NFA and NDA to Reserve Money Growth



Source: Bank of Sierra Leone

Net domestic assets contributed negatively to the growth in reserve money in December 2022, with a value of -8.01, from a positive contribution of 26.96 percent in November 2022, whilst net foreign assets contributed 11.12 percent in December 2022, from a negative contribution of 18.87 percent in November 2022. Table 2 shows the growth of reserve money and its components.

Table 2: Growth of Reserve Money and its Components

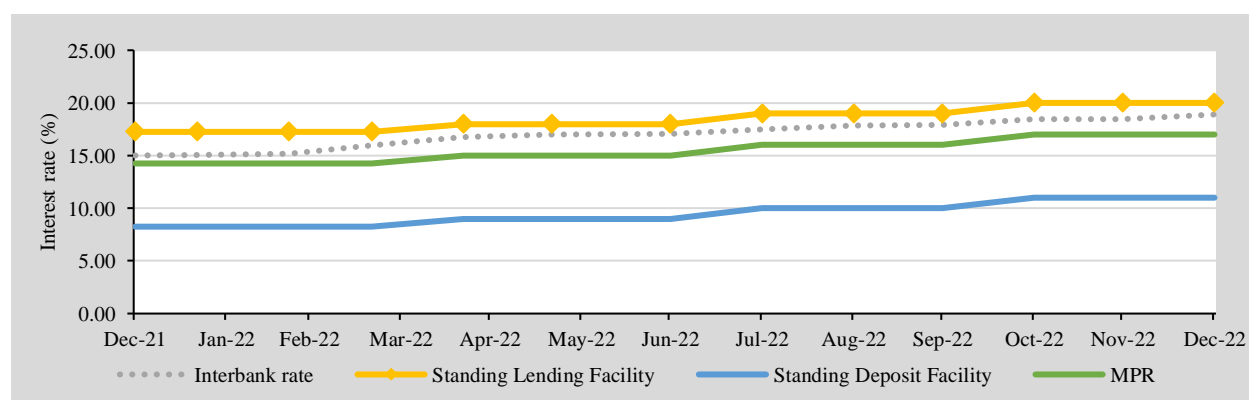
| Reserve Money Components | Actual Values (Billion New Leones) | | Absolute Change (Billion New Leones) | | % Growth | |
|-------------------------------|---------------------------------------|--------|---|--------|----------|---------|
| | Nov-22 | Dec-22 | Nov-22 | Dec-22 | Nov-22 | Dec-22 |
| Net Foreign Assets | (5.27) | -4.64 | (0.98) | 0.62 | 22.79 | (11.83) |
| Net Domestic Assets | 10.87 | 10.42 | 1.40 | (0.45) | 14.75 | (4.13) |
| Government Borrowing (net) | 7.54 | 7.17 | 0.09 | (0.37) | 1.15 | (4.85) |
| o.w. Securities | 2.57 | 3.70 | 0.16 | 1.12 | 6.61 | 43.73 |
| Ways and Means | 0.20 | 0.12 | (0.02) | (0.08) | (9.23) | (40.33) |
| GoSL/IMF /WB Budget financing | 3.53 | 3.53 | - | - | - | - |
| GOSL-MOFED Bridging Loan | 1.26 | 0.00 | - | (1.26) | - | - |
| Reserve money | 5.60 | 5.78 | 0.42 | 0.17 | 8.09 | 3.11 |
| o.w. Currency issued | 3.78 | 4.49 | 0.27 | 0.71 | 7.74 | 18.78 |
| Bank reserves | 1.22 | 0.86 | 0.20 | (0.37) | 19.78 | (29.93) |

Source: Bank of Sierra Leone

4.2 Interest Rates

The Monetary Policy Rate (MPR), Standing Lending Facility, and Standing Deposit Facility remained unchanged since the last Monetary Policy Meeting (MPC) in September 2022. Hence, the rates were 17.00 percent, 20.00 percent and 11.00 percent respectively in December 2022 respectively. The interbank rate increased to 18.90 percent in December 2022 from 18.44 percent in November 2022. Figure 7 shows the trend in the Bank of Sierra Leone’s interest rates and the interbank rate in December 2022.

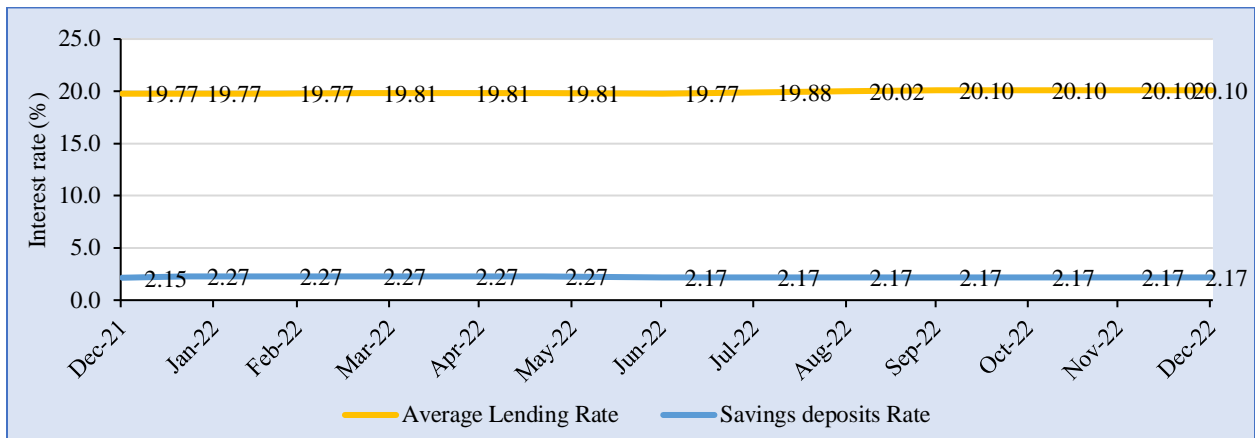
Figure 6: Bank of Sierra Leone Interest Rates and the Interbank Rate



Source: Bank of Sierra Leone

The commercial banks` average lending and savings rates remained unchanged at 20.10 percent and 2.17 percent in December 2022 as was in November 2022. Figure 8 shows the trend in the average lending rate and average savings rate.

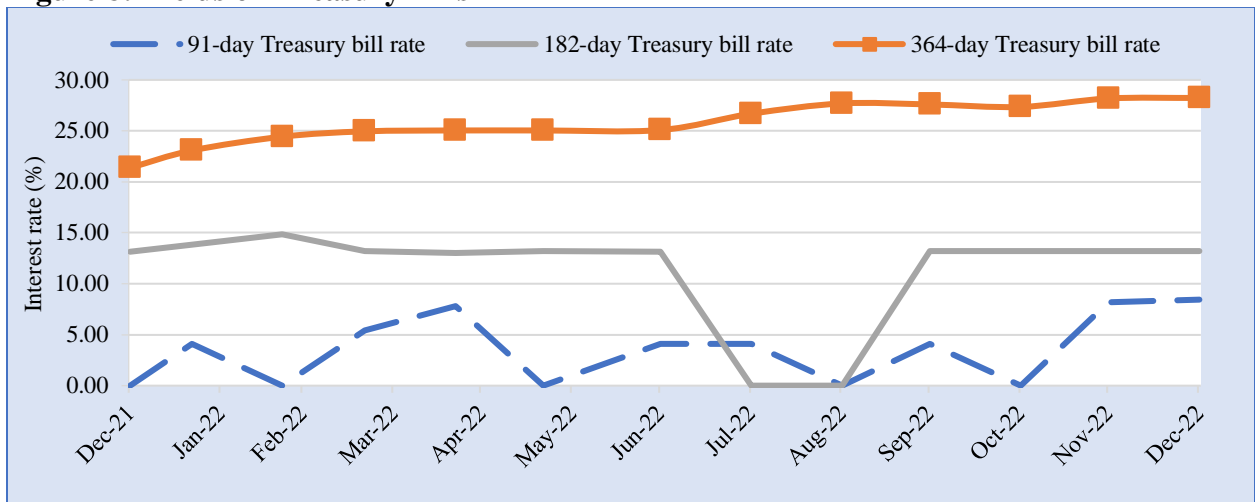
Figure 7: Average lending and Savings deposit rates



Source: Bank of Sierra Leone

The yield on 91-day T-Bills and 364-day T-Bills increased, while the yield on the 182-day T-Bills remained unchanged in December 2022. The yield on the 364-day T-bills and 91-day T-bills increased to 28.23 percent and 8.44 percent, respectively in December 2022, from 28.18 percent and 8.21 percent, respectively in November 2022. The yield on the 182-day T-Bills remained unchanged in December 2022. Figure 9 shows the trend in the yields on T-bills.

Figure 8: Yields on Treasury Bills



Source: Bank of Sierra Leone

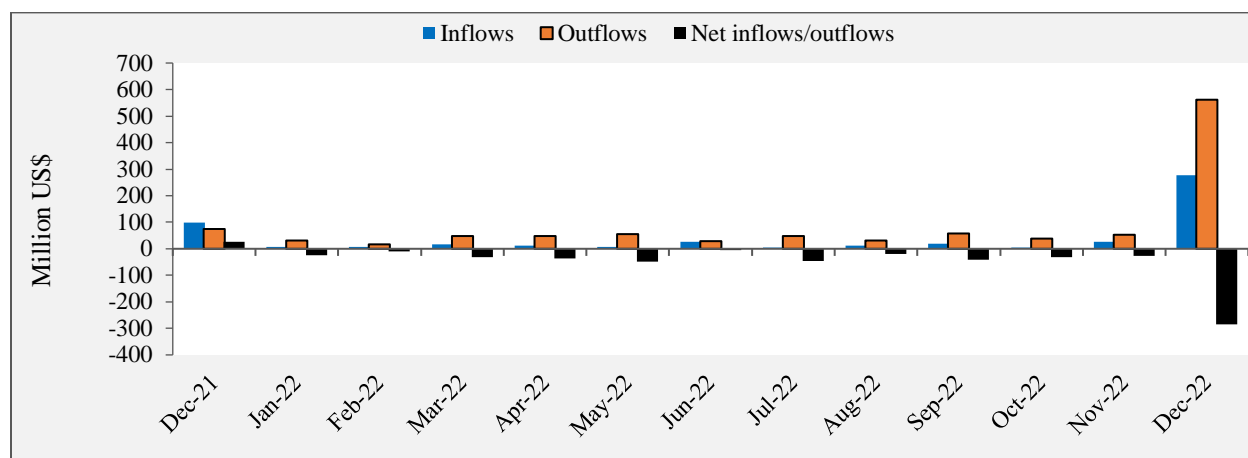
5. External Sector

5.1. Gross Foreign Exchange Reserves

As of December 2022, the gross foreign exchange reserve of the Bank of Sierra Leone was US\$626.97 million and increased by 10.13 percent from US\$569.32 million in November 2022. Inflows in December 2022 were US\$276.37 million whilst outflows amounted to US\$562.36 million resulting in a net outflow of US\$285.99 million, with a recorded revaluation adjustment of US\$35.36million.

Inflows recorded in November 2022 was US\$26.80million, while outflows amounted to US\$53.56million, resulting to a net outflow of US\$26.76million, with a recorded revaluation adjustment of US\$9.80million. Figure 9 shows trend of foreign exchange flows.

Figure 9: Foreign Exchange Flows



Source: Bank of Sierra Leone

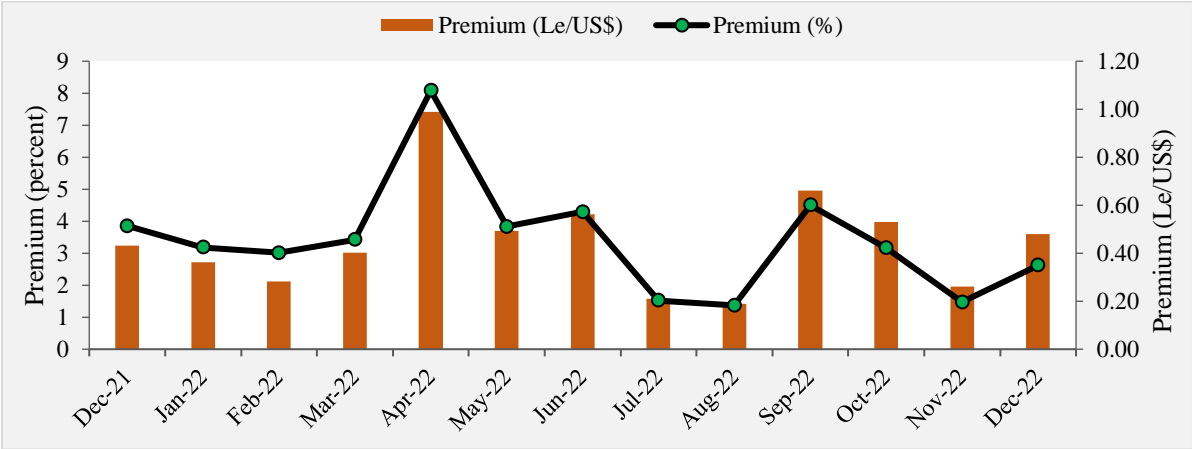
5.2 Exchange Rate Developments

The monthly average exchange rate of the Leone against the US dollar depreciated in all foreign exchange markets in December 2022 on both the buying and selling sides. With regards to the buying side, the Leone depreciated in the parallel market by 3.23 percent, averaging Le18.07/US\$1, and depreciated across commercial banks, bureau markets, parallel markets and official markets by 4.22 percent, 1.58 percent and 3.98 percent, averaging Le18.53/US\$1, Le18.24/US\$1, Le18.66 /US\$1 and Le18.55 /US\$1 respectively.

Similarly, on the selling side, the Leone depreciated in the parallel market by 2.94 percent, averaging Le 18.86/US\$1, and appreciated in the official market, depreciated in bureau markets and commercial banks by (0.10) percent, 1.92 percent, 3.73 percent, averaging Le18.00/US\$1, Le18.51/US\$1 and Le18.79/US\$1 respectively.

The premium between the Official and Parallel rates, which was Le0.26/US\$1 in November 2022, widened from 1.47 percent to 2.62 percent, amounting to Le0.48/US\$1 in December 2022. Figure 10 shows the trend in the parallel and official exchange rate markets.

Figure 10: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

6. Conclusion

Activities in the agricultural sector, measured by production of cocoa, expanded in December 2022 as cocoa production increased, while there was no data on production of coffee in December 2022. Performance in the mining sector was mixed in December 2022, as gold (pure), Iron ore and zircon increased, while production total diamond, bauxite, rutile, and ilmenite decreased. Manufacturing sector activities remained mixed in December 2022, as Beer & Stout, Maltina and Oxygen increased, while Cement, Paint and Confectionery production declined.

Headline inflation (year-on-year) elevated in December 2022, partly explained by supply shocks and the depreciation of the Leone against the US dollar. This reflected increases in both food and non-food inflation in the review month. Government budgetary operations (on a cash flow basis) recorded a surplus in December 2022. The budget surplus emanated mainly from the expansion of

government revenue owing to increased foreign inflows which outweighed the increase in government expenditure.

The Monetary Policy Rate (MPR), Standing Lending Facility (SLF) and Standing Deposit Facility (SDF) remained unchanged after the last Monetary Policy Committee (MPC) meeting in September 2022 and the rates were 17.00 percent, 20.00 percent and 11.00 percent, respectively. Development in monetary aggregates expanded as both Broad Money (M2) and Reserve Money (RM) expanded in December 2022. The yield on 91-day T-Bills and 364-day T-Bills increased, while the 182-day T-Bill rate remained unchanged in December 2022. The monthly average exchange rate of the Leone against the US dollar depreciated in all foreign exchange markets in December 2022 on both the buying and selling fronts. Gross foreign exchange reserves recorded a decrease in December 2022.