



BANK OF SIERRA LEONE

Monthly Economic Review

MER/06/2022

June 2022



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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

Activities in the agricultural sector slowed in June 2022. Coffee production dropped by 79.17 percent from 192.00 tons in May 2022 to 40.00 metric tons in June 2022. Cocoa production also dropped by 48.79 percent from 185.50 percent in May 2022 to 95 metric tons in June, 2022.

Mining sector performance was mixed in June 2022. Total diamond and iron ore production increased, whilst production of bauxite, rutile, Ilmenite, zircon and other minerals decreased. Performance in the manufacturing sector was also mixed in June 2022. The production of Beer and Stout and Maltina increased by 12.20 percent to 121.87 thousand cartons and 81.30 percent to 80.28 thousand cartons respectively. Cement and Paint production also decreased by 4.52 percent to 17.02 thousand metric tons and 28.71 percent to 37.39 thousand gallons respectively. However, Oxygen, Confectionery, and Common Soap production increased by 25.0 percent to 28.06 thousand cubic feet, 28.57 percent to 296.22 thousand pounds and 1722.42 percent to 88.53 thousand metric tons respectively.

Inflationary pressure persisted in June 2022, as annual headline inflation increased to 27.95 percent in June 2022 from 24.87 percent in May 2022. This was due to the continued impact of supply-side shocks related to the lingering effects of COVID-19 pandemic and the spillover effect of the Russian - Ukraine war, resulting in hike in the global prices of energy, food, and other commodities.. Food inflation rose to 28.49 percent in June 2022 and non-food inflation increased to 28.60 percent.

Government budgetary operations on a cash flow basis resulted in a surplus of Le5.52bn in June 2022, compared with a deficit of Le103.62bn in May 2022. The surplus emanated from expansion in government revenue mobilization which outweighed contraction in government expenditure.

In June 2022, developments in monetary aggregates contracted, as both broad money (M2) and reserve money growth declined by 1.53 percent and 4.23 percent respectively. The contraction in broad money (M2) resulted from huge decline in Net Foreign Assets (NFA), which outweighed the increase in Net domestic Assets (NDA) of the banking system. In particular, net foreign assets contributed -2.82 percent to the 1.53 percent decline in broad money, while net domestic assets contributed 1.29 percent to broad money.

As at end June 2022, the gross foreign exchange reserves (including swaps) of the Bank of Sierra Leone was US\$746.39 million. Inflows in June 2022 recorded US\$25.77million, while outflows amounted to US\$29.90million, resulting to a negative net outflow of US\$4.13million, with a recorded revaluation adjustment of US\$5.45million. The monthly average exchange rate of the Leone against the US dollar depreciated in all foreign exchange markets in June 2022 on both the buying and selling sides. With regards to the buying side, the Leone depreciated in the parallel market by 3.06 percent averaging Le13,633.33/US\$1, and also depreciated across commercial banks, official, and bureau markets by 2.16 percent, 2.17 percent and 2.66 percent, averaging Le13,127.67/US\$1, Le12,989.10/US\$1 and Le13,149.55/US\$1 respectively. Similarly, on the selling side, the Leone depreciated in the parallel market by 2.20 percent averaging Le13,733.33/US\$1, and depreciated in the bureau market, official market, and commercial banks by 1.24 percent, 2.17 percent and 2.16 percent, averaging Le13,426.11/US\$1, Le/US\$1 and Le13,369.46/US\$1 respectively.

1. Introduction

The Monthly Economic Review (MER) is a publication of the Research and Statistics Department, Bank of Sierra Leone. The objective of this Economic Review is to analyse Sierra Leone's monthly macroeconomic developments, covering the four macroeconomic sectors- real, fiscal, monetary, and external sectors. This edition analyses performance in June 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 analysed. The monetary sector analyses the growth of monetary aggregates, including broad money and reserve money, extending 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 analysed. The choice of data for 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 organised 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

Performance of the agricultural sector, for which Coffee and Cocoa productions are proxies, slowed in June 2022. Coffee production dropped by 79.17 percent from 192.00 tons in May 2022 to 40.00 metric tons in June 2022. Cocoa production also dropped by 48.79 percent from 185.50 percent in May 2022 to 95 metric tons in June, 2022.

2.1.2 Mining

Performance in the mining sector was mixed in June 2022. Total diamond production increased by 15.21 percent to 75.08 thousand carats, of which industrial diamond production amounted to 16.65 thousand carats and gem diamond production amounted to 58.43 thousand carats. Iron Ore production increased by 2.61 percent to 355.52 thousand metric tons. However, Bauxite and Rutile production decreased by 0.24 percent to 120.87 thousand metric tons and 28.51 percent to 10.01 thousand metric tons respectively. Also, Ilmenite and Zircon production declined by 8.42 percent to 4.69 thousand metric tons and 61.45 percent to 2.57 thousand metric tons respectively. Other Minerals' production deteriorated by 24.19 percent to 5.16 thousand metric tons.

2.1.3 Manufacturing

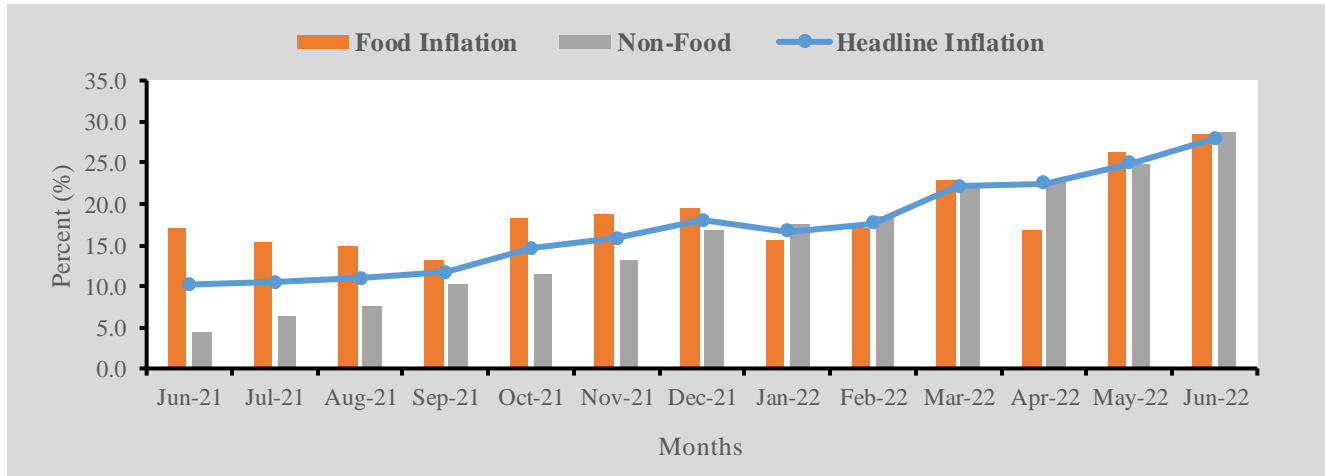
Manufacturing sector performance in June 2022 was also mixed. The production of Beer and Stout and Maltina increased by 12.20 percent to 121.87 thousand cartons and 81.30 percent to 80.28 thousand cartons respectively. Cement and Paint productions also decreased by 4.52 percent to 17.02 thousand metric tons and 28.71 percent to 37.39 thousand gallons respectively. However, Oxygen, Confectionery and Common Soap productions increased by 25.0 percent to 28.06 thousand cubic feet, 28.57 percent to 296.22 thousand pounds and 1722.42 percent to 88.53 thousand metric tons respectively.

2.2 Price Developments

Inflationary pressure persisted as annual headline inflation increased to 27.95 percent in June 2022 from 24.87 percent in May 2022. This was due to continued impact of supply-side shocks emanating from the lingering effects of COVID-19 pandemic and the Russian - Ukraine war, resulting in hike in the global prices of energy, food, and other commodities.. Subsequently, the effects of these shocks among others were reflected in the rise in both food and non-food prices. Food inflation rose to 28.49 percent in June 2022 from 26.29 percent in May 2022. Non-food inflation increased to 28.60 percent in June 2022 from 24.84 percent in May 2022. Monthly headline inflation increased to 3.13 percent in June 2022 from 2.43 percent in May 2022. Figure 1 shows the trend in year-on-year headline, food

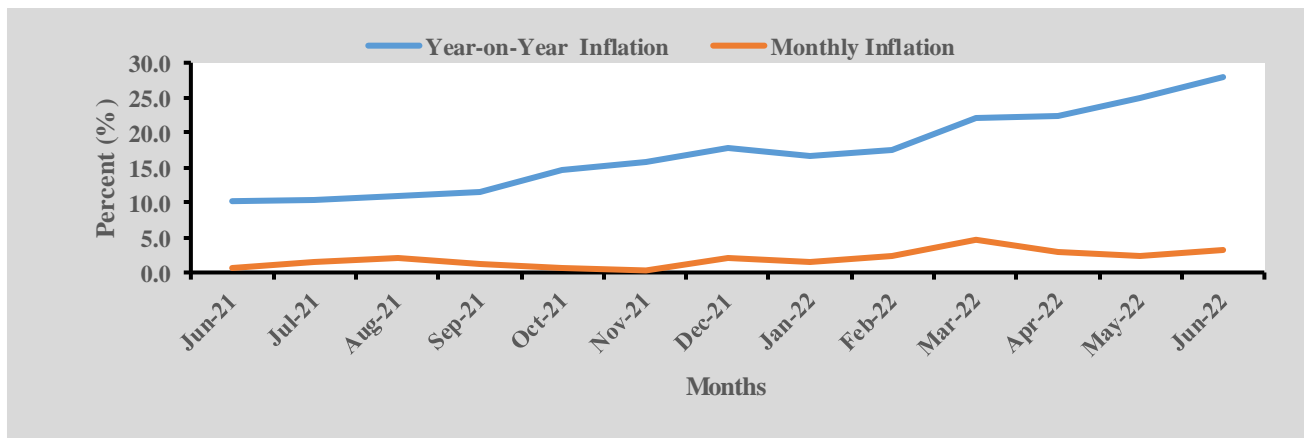
and non-food inflation rates while Figure 2 shows the trend in the year-on-year and monthly inflation rates.

Figure 1: Headline, Food and Non-Food Inflation



Source: Statistics Sierra Leone

Figure 2: Year-on-year Inflation and Monthly Inflation Change

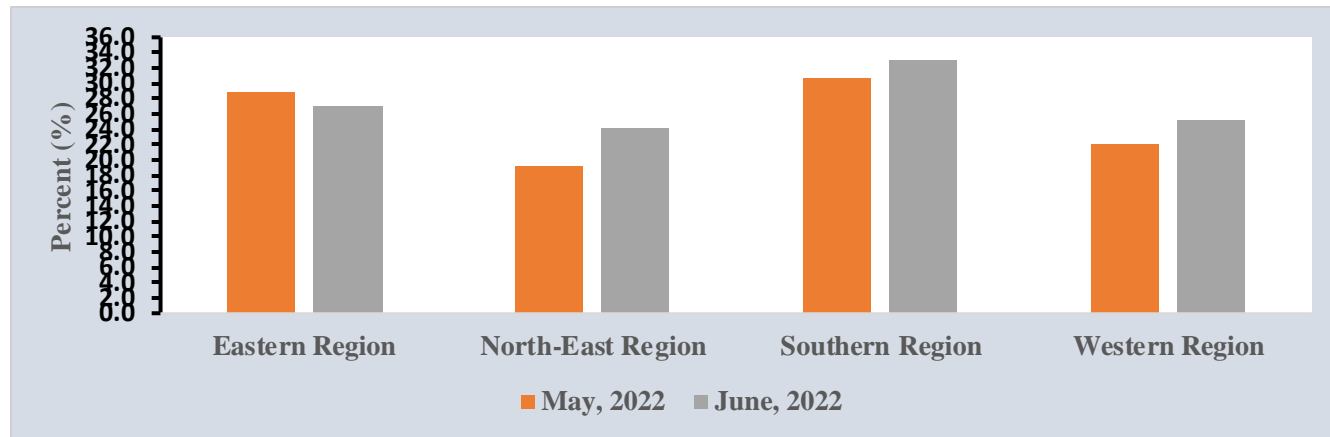


Source: Statistics Sierra Leone

Regional inflation analysis indicated a rise in inflation in three regions and declined in one. Western region inflation increased to 25.17 percent in June 2022 from 22.05 percent in May 2022; Southern region inflation rose to 33.16 percent in June 2022 from 30.58 percent in May 2022; North-East region's inflation increased to 24.17 percent in June 2022 from 19.24 percent in May 2022, while

Eastern region inflation declined to 27.15 percent in June 2022 from 28.83 percent in May 2022. Figure 3 shows inflation rates by region.

Figure 3: Inflation Rates in May 2022 and June 2022 by Region



Source: Statistics Sierra Leone

3. Fiscal Developments

Government budgetary operations in June 2022 resulted in a surplus of Le5.52bn (on a cash flow basis), compared with a deficit of Le103.62bn in May 2022. The surplus emanated from an expansion in government revenue which outweighed contraction in government expenditure.

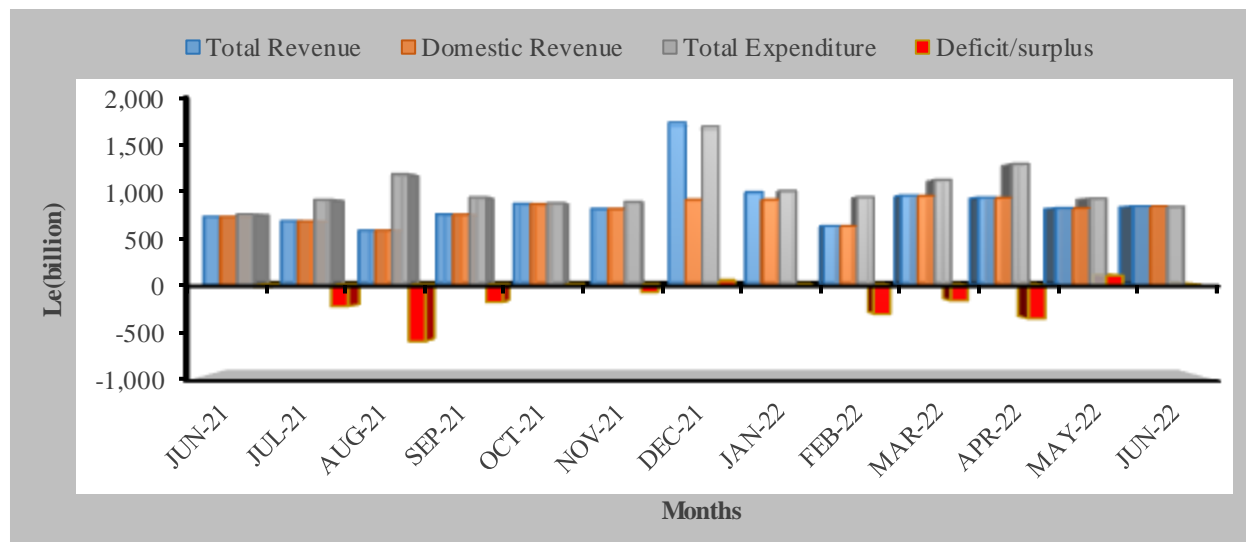
3.1 Revenues

Government revenue and grants increased by 1.32 percent to Le856.03bn in June 2022, although slightly short of the target of Le867.49bn due mainly to the expansion in domestic revenue. Domestic revenue increased by 2.44 percent to Le855.45bn in June 2022 and was 31.54 percent lower than the target of Le650.31bn. The increase in domestic revenue was attributable to increases in revenue collection from customs and excise duties, income tax and goods and services tax.

Non-tax (miscellaneous) revenue declined in the review period. In contrast, receipts from customs and excise increased by 15.98 percent to Le88.91bn. Revenue from income tax increased by 33.66 percent to Le232.31bn. Revenue from goods and services tax also increased by 9.57 percent to Le110.31bn. However, receipts from non-tax revenue (miscellaneous) decreased by 12.40 percent to

Le423.91bn. Highly Indebted Poor Countries’ (HIPC) Debt Fund increased to Le587.0bn in June 2022. Figure 4 presents the trend in the fiscal profile from June 2021 to June 2022.

Figure 4: Government Revenue and Expenditure



Source: Bank of Sierra Leone

3.2 Expenditures

Government expenditure declined by 9.39 percent to LeLe850.52bn in June 2022, which was 2.24 percent lower than the ceiling of Le869.98bn. The decline in government expenditure emanated from contraction in other expenditure, debt services and domestic interest payment. Wages and Salaries however increased by 142.84 percent to Le289.61bn, other expenditure decreased by 34.77 percent to Le465.96bn. Debt services payment also declined by 9.65 percent to Le94.95bn and domestic interest payments declined by 9.65 percent, to Le94.95bn.

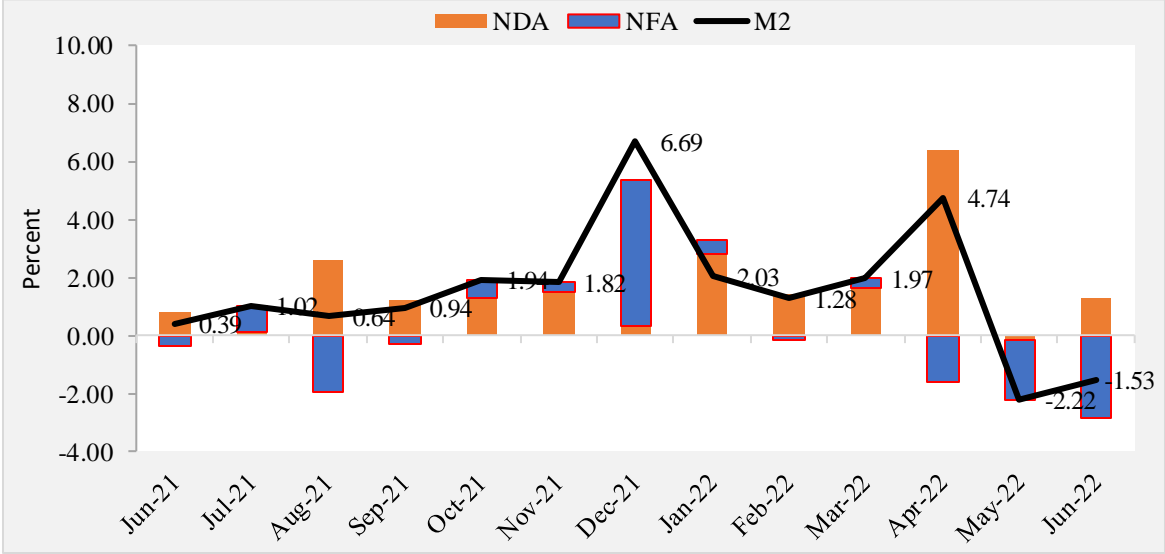
4. Monetary Developments

4.1 Broad Money

In June 2022, Broad money (M2) growth contracted by 1.53 percent from 2.2 percent decline in May 2022. The contraction in broad money (M2) resulted mainly from the decline in the Net

Foreign Assets (NFA), which outweighed the increase in Net domestic Assets (NDA) of the banking system. Net foreign assets contributed -2.82 percent to the growth of -1.53 percent, while net domestic assets contributed 1.29 percent. Figure 5 shows the trend in the contributions of NDA and NFA to the growth of broad money.

Figure 5 Growth of M2 and Contributions of NFA and NDA to M2 Growth



Source: Bank of Sierra Leone

Net domestic assets of the banking system grew by 1.60 percent in June 2022, compared to a decline of 0.19 percent in May 2022. The growth of NDA was mainly attributed to the increase in the net claims on Government by the Bank of Sierra Leone (BSL), which was more than the decline in the net claims on government by the other depository corporations (ODC). Net claims on government by the BSL increased by 4.52 percent in June 2022 compared to 6.78 percent expansion in May 2022, while that of the other depository corporations declined by 1.32 percent in June 2022 from 0.96 percent in May 2022. Credit to the private sector by the other depository corporations rose by 1.75 percent in June 2022 relative to 4.15 percent in May 2022. Claims on other sectors’ net dropped by 6.29 percent in June 2022, from an increase of 17.10 percent in May 2022

NFA of the banking system contracted by 14.65 percent in June 2022, from a decline of 9.93 percent in May 2022. The contraction in NFA of the banking system was largely on account of the deteriorating negative position of the NFA of the BSL, compared to the marginal decline in the NFA

of Other Depository Corporations (ODCs). The NFA of the BSL increased from a negative position by 26.01 percent in June 2022, compared to an increase of 36.44 percent in May 2022. The NFA of Other Depository Corporations decreased by 0.07 percent in June 2022 compared to a growth of 2.58 percent in May 2022. Table 1 shows the growth in monetary aggregates.

Table 1: Growth of Selected Banking System Monetary Aggregates

| Billions of Leones | Actual Values | | Absolute Change | | % Growth | |
|------------------------------|---------------|----------|-----------------|----------|----------|---------|
| | May-22 | Jun-22 | May-22 | Jun-22 | May-22 | Jun-22 |
| Broad Money (M2) | 15,528.06 | 15290.05 | (353.34) | (238.01) | (2.22) | (1.53) |
| Narrow money (M1) | 7,385.60 | 7383.32 | (592.58) | (2.28) | (7.43) | (0.03) |
| Currency outside banks | 3,414.19 | 3328.18 | (120.96) | (86.01) | (3.42) | (2.52) |
| Demand deposit | 3,971.41 | 4055.14 | (471.61) | 83.73 | (10.61) | 2.11 |
| Quasi money | 8,142.47 | 7906.73 | 239.24 | (235.74) | 3.03 | (2.90) |
| o.w. Foreign currency eposit | 4,770.25 | 4540.89 | 238.07 | (229.36) | 5.25 | (4.81) |
| Time and saving deposit | 3,366.94 | 3360.00 | 3.56 | (6.94) | 0.11 | (0.21) |
| Other Deposits - BSL | 5.27 | 5.84 | (2.39) | 0.57 | (31.19) | 10.78 |
| Net Foreign Asset | 2,991.33 | 2553.16 | (329.67) | (438.17) | (9.93) | (14.65) |
| BSL | (1,672.74) | -2107.83 | (446.79) | (435.08) | 36.44 | 26.01 |
| ODCs | 4,664.07 | 4660.99 | 117.12 | (3.08) | 2.58 | (0.07) |
| Net Domestic Assets | 12,536.73 | 12736.89 | (23.67) | 200.15 | (0.19) | 1.60 |
| Net Domestic Credit | 15,087.44 | 15309.82 | 338.83 | 222.38 | 2.30 | 1.47 |
| Government (Net) | 12,104.12 | 12246.33 | 260.47 | 142.21 | 2.20 | 1.17 |
| BSL | 5,166.98 | 5400.75 | 327.91 | 233.77 | 6.78 | 4.52 |
| ODCs | 6,937.13 | 6845.58 | (67.44) | (91.56) | (0.96) | (1.32) |
| Private Sector Credit | 3,331.02 | 3389.31 | 129.12 | 58.29 | 4.03 | 1.75 |
| o.w ODC | 3,315.18 | 3373.05 | 132.20 | 57.87 | 4.15 | 1.75 |
| Other Sectors (Net)* | (347.70) | -325.83 | (50.77) | 21.88 | 17.10 | (6.29) |
| Other Items (Net) | (2,550.71) | -2572.93 | (362.50) | (22.22) | 16.57 | 0.87 |

Source: Bank of Sierra Leone

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

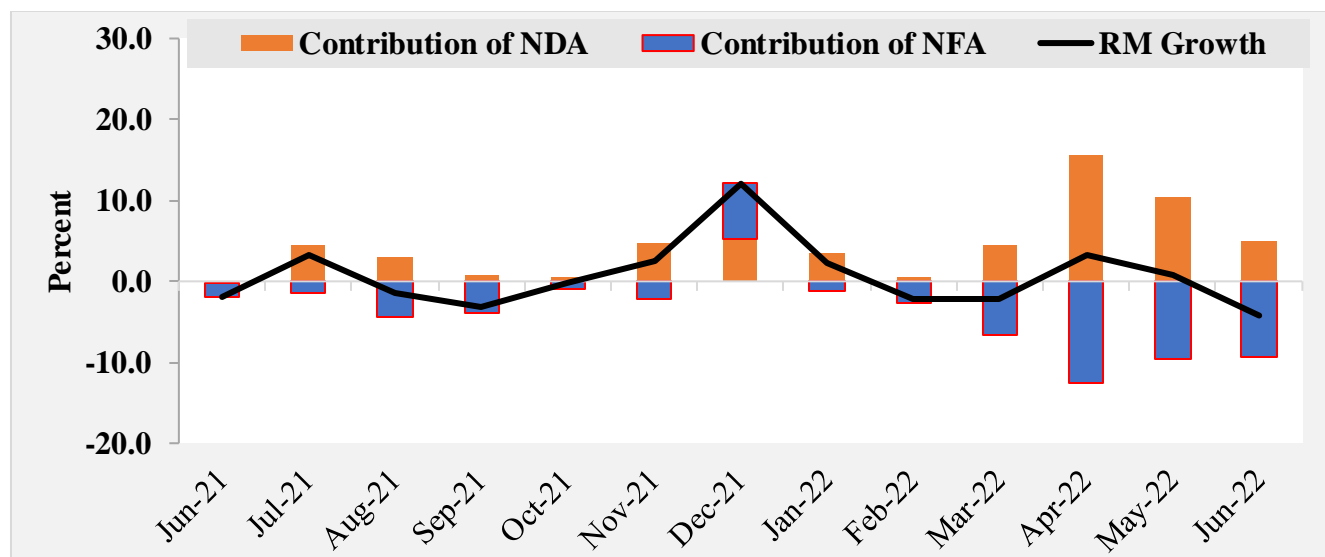
^aODC is Other Depository Corporations, which includes Commercial Banks, Community Banks, Discount Houses, and Deposit Taking Microfinance Institutions.

Narrow money (M1) contracted by 0.03 percent in June 2022, following 7.43 percent decline in May 2022. The contraction of narrow money resulted mainly from 2.52 percent fall in currency outside depository corporations in June 2022 relative to 3.42 percent decline in May 2022, which was greater than the increase in demand deposits. Demand deposits increased by 2.11 percent in June 2022, following 10.61 percent decline in May 2022. Quasi money declined by 2.90 percent in June 2022, compared to an expansion of 3.03 percent in May 2022. The decline of quasi money was mainly attributed to the decline in foreign currency deposits by 4.81 percent in June 2022, and time and

savings deposits by 0.21 percent, however other deposits (held by BSL) increased by 10.78 percent in the same period.

Reserve money (RM) contracted by 4.23 percent in June 2022, relative to an expansion of 0.86 percent in May 2022. The contraction in reserve money was primarily due to the deterioration of NFA position of the BSL, whilst NDA of BSL grew. NFA of the BSL deteriorated by 26.01 percent to negative Le2107.83bn in June 2022, compared to a negative position of 1672.74bn in May 2022. The deterioration was largely due to the increase in liabilities of non-residents owing to the depreciation of the exchange rate. On the other hand, NDA of BSL grew by 3.72 percent in June 2022 compared to 8.29 percent growth in May 2022. On the liability side, the contraction in reserve money reflected the fall in both currency issued and banks' reserves by 2.52 percent and 14.4 percent respectively. Figure 6 shows the contributions of NFA and NDA to the growth of reserve money.

Figure 6: Reserve Money Growth and Contributions of NFA and NDA to Reserve Money Growth



Source: Bank of Sierra Leone

In June 2022, the negative contribution of NFA outweighed the positive contribution of NDA to reserve money growth, thus, resulting in a fall in reserve money growth.

Table 2 Growth of Reserve Money and its Components

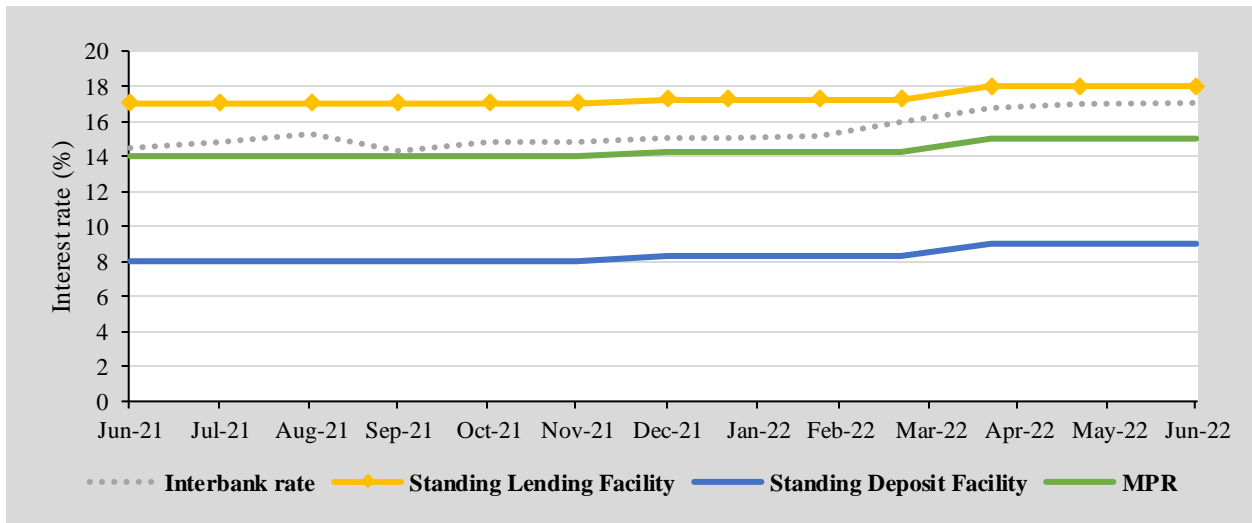
| Billions of Leones | Actual Values | | Absolute Change | | % Change | |
|-------------------------------|-----------------|-----------|-----------------|-----------------|---------------|----------------|
| | May-22 | Jun-22 | May-22 | Jun-22 | May-22 | Jun-22 |
| Net Foreign Assets | (1672.74) | (2107.83) | (446.79) | (435.08) | 36.44 | 26.01 |
| Net Domestic Assets | 6,360.91 | 6597.82 | 486.92 | 236.91 | 8.29 | 3.72 |
| Government Borrowing (net) | 5,166.98 | 5400.75 | 327.91 | 233.77 | 6.78 | 4.52 |
| o.w. Securities | 1,635.23 | 1797.38 | 201.47 | 162.16 | 14.05 | 9.92 |
| Ways and Means | 286.02 | 7.74 | 51.00 | (278.28) | 21.70 | (97.29) |
| GoSL/IMF /WB Budget financing | 3,257.33 | 3530.75 | - | 273.42 | - | 8.39 |
| Reserve money | 4,688.17 | 4489.99 | 40.13 | (198.17) | 0.86 | (4.23) |
| o.w. Currency issued | 3,414.19 | 3328.18 | (120.96) | (86.01) | (3.42) | (2.52) |
| Bank reserves | 862.04 | 737.54 | 50.42 | (124.50) | 6.21 | (14.44) |

Source: Bank of Sierra Leone

4.3 Interest Rates

In June 2022, the Monetary Policy Rate (MPR), Standing Lending Facility and Standing Deposit Facility rates remained unchanged. The Monetary Policy Rate was 15.00 percent, Standing Lending Facility rate was 18.00 percent, and Standing Deposit Facility rate was 9.00 percent in June 2022. Meanwhile the interbank rate rose to 17.04 per cent in June 2022 from 17.00 percent in May 2022. Figure 7 shows the trend in the Bank of Sierra Leone interest rates and the interbank rate.

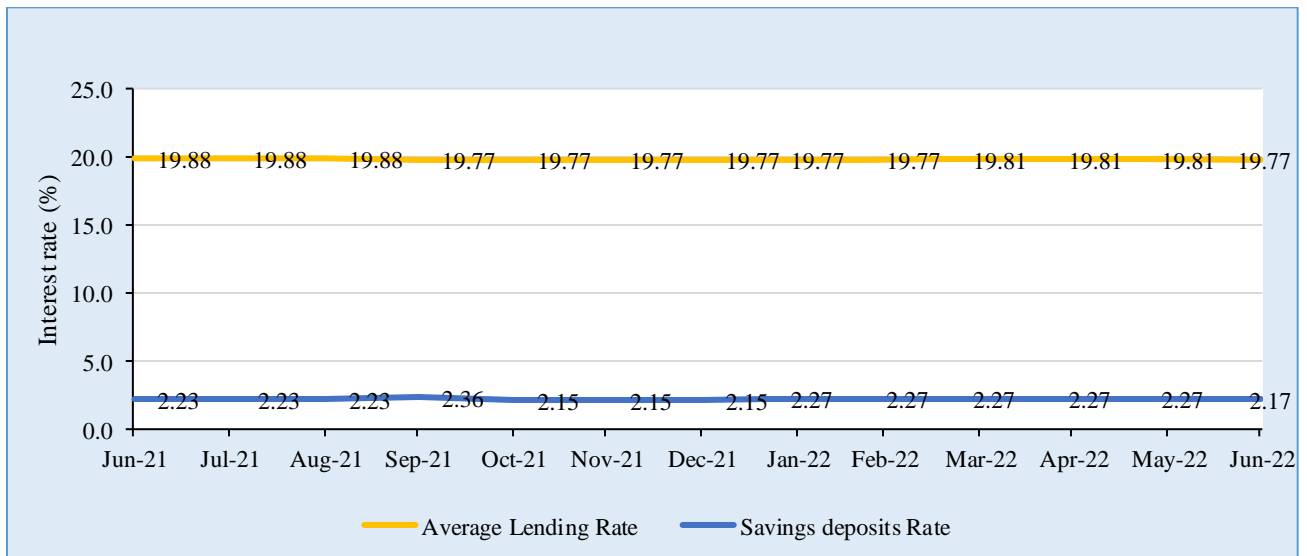
Figure 7: Bank of Sierra Leone Interest Rates and the Interbank Rate



Source: Bank of Sierra Leone

The commercial banks` average lending and savings deposit rates changed to 19.77 percent and 2.17 percent in June 2022 from 19.81 percent and 2.27 percent respectively in May 2022. Figure 8 shows the trend of average lending rate and average savings rate.

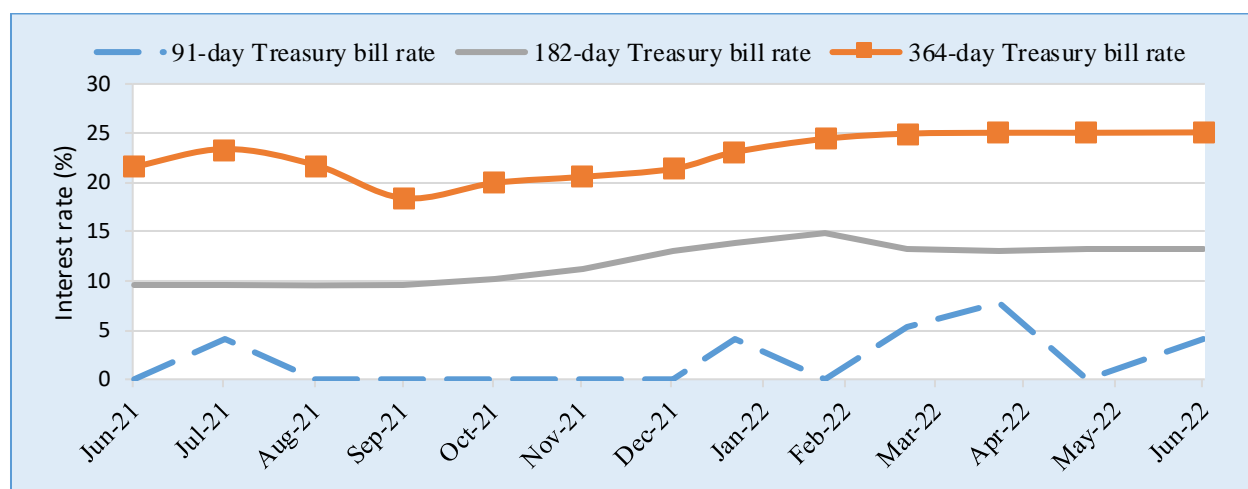
Figure 8: Average Lending and Savings deposit rates



Source: Bank of Sierra Leone

The yields on 91-day T-bills and 364-day T-bills increased in June 2022, while the yield on the 182-day T-bills declined slightly in the same period. The yield on 91-day T-bills rose to 4.11 percent in June 2022 from 0.00 percent in May 2022, and yield on 364-day T-bills increased to 25.08 percent in June 2022 from 25.04 percent in May 2022. However, yield on 182-day T-bills decreased slightly to 13.17 percent in June 2022 from 13.21 percent in May 2022. Figure 9 shows the trends of the yields on T-bills.

Figure 9: Yields on Treasury Bills



Source: Bank of Sierra Leone

5. External Sector

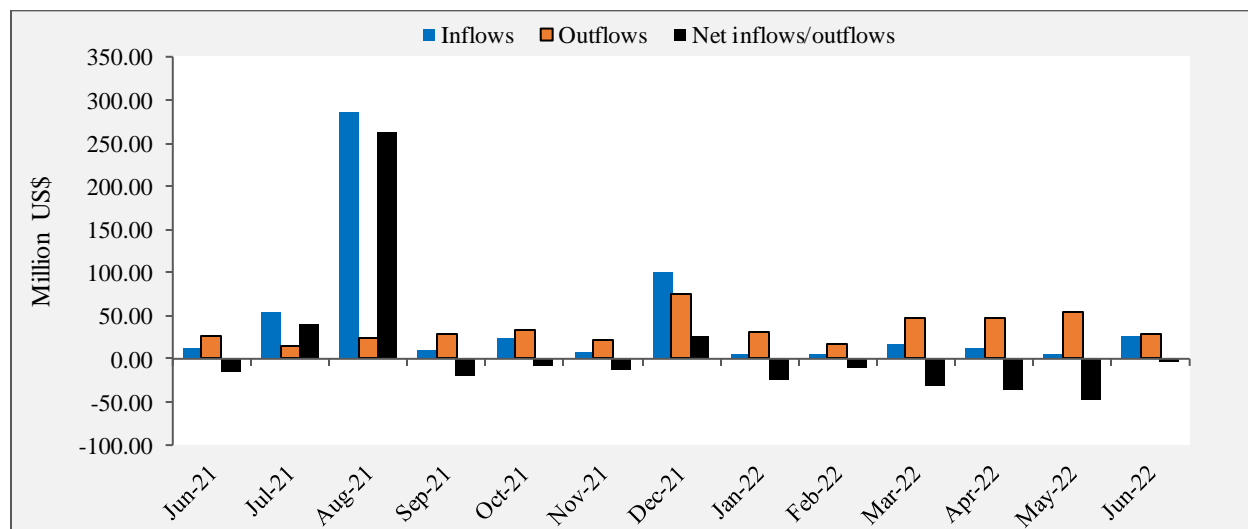
5.1 Foreign Exchange Flows and Gross Reserves

As at end June 2022, the gross foreign exchange reserves (including swaps) of the Bank of Sierra Leone was US\$746.39 million, which decreased by 1.27 percent from US\$755.97 million in May, 2022. Inflows recorded in June 2022 was US\$25.77million, while outflows amounted to US\$29.90million, resulting to a negative net outflow of US\$4.13million, with a recorded revaluation adjustment of US\$5.45million.

Significant inflows include aid disbursement and BOP Support (US\$20.79million) and receipts from exports recorded US\$4.19million.

Major outflows comprised payments for goods and services (US\$22.54 million), of which BSL Special Credit Facility FX operations accounted for (US\$14.34million). Figure 10 shows the trend of foreign exchange flows.

Figure 10: Foreign Exchange Flows



Source: Bank of Sierra Leone

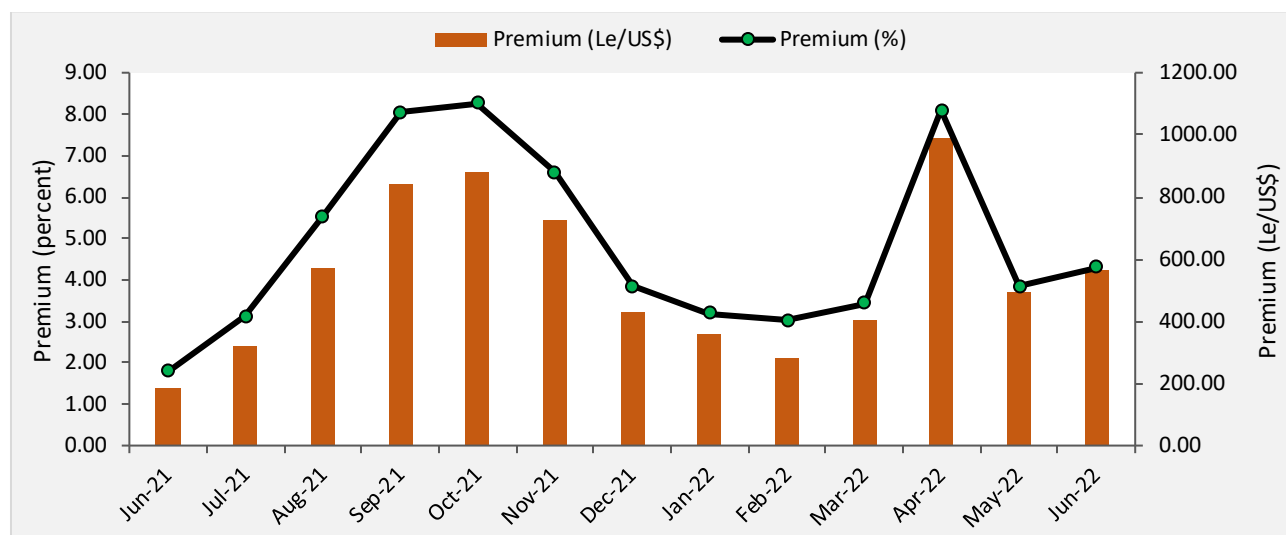
5.2 Exchange Rate Developments

The monthly average exchange rate of the Leone against the US dollar depreciated in all foreign exchange markets in June 2022 on both the buying and selling sides. With regards to the buying side, the Leone depreciated in the parallel market by 3.06 percent averaging Le13, 633.33/US\$1. Also, it depreciated across commercial banks, official, and bureau markets by 2.16 percent, 2.17 percent and 2.66 percent respectively, averaging Le13,127.67/US\$1, Le12,989.10/US\$1 and Le13,149.55/US\$1 respectively.

Similarly, on the selling side, the Leone depreciated in the parallel market by 2.20 percent averaging Le13,733.33/US\$1, and depreciated in the bureau market, official market, and commercial banks by 1.24 percent, 2.17 per cent and 2.16 percent respectively, averaging Le13,426.11/US\$1, Le13,251.50/US\$1 and Le13,369.46/US\$1 respectively.

The premium between the official and parallel rates widened from 3.83 percent (Le491.72/US\$), in May 2022 to 4.29 per cent (Le563.03/US\$) in June 2022. Figure 11 shows the trend in the premium between the parallel and official exchange rates.

Figure 11: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

6. Conclusion

Performance in the agricultural sector, measured by production of Coffee and Cocoa slowed in June 2022 as both coffee and cocoa productions dropped significantly. Performance in the mining sector was mixed in June 2022. Total diamond and iron ore production increased, whilst bauxite, rutile, ilmenite, zircon, and other minerals' production declined. Manufacturing sector activities in June 2022 was also mixed as production increased for beer and stout, oxygen, maltina confectionery and common soap, whereas cement, paint production decreased.

Inflationary pressures persisted as annual headline inflation increased in June 2022. This was due to continued impact of supply-side shocks emanating from the lingering effects of COVID-19 pandemic and the spillover economic effects of the Russian - Ukraine war.

Government budgetary operations on a cash flow basis resulted in a surplus in June 2022, owing to the expansion in government revenue mobilization, which outweighed contraction in government expenditure. In June 2022, the Monetary Policy Rate (MPR), Standing Lending Facility and Standing Deposit Facility rates remained unchanged. The Monetary Policy Rate was 15.00 percent, Standing Lending Facility rate was 18.00 percent, and Standing Deposit Facility rate was 9.00 percent in June 2022. Meanwhile the interbank rate rose to 17.04 percent in June 2022 from 17.00 percent in May 2022. Monetary aggregates contracted as both broad money and

reserve money decline in June 2022. The yield on 91-day T-bills and 364-day T-bill increased in June 2022, while the yield on the 182-day T-bills declined slightly in the same period. The monthly average exchange rate of the Leone against the US dollar depreciated in all foreign exchange markets in June 2022 on both the buying and selling sides. As at end June 2022, the gross foreign exchange reserves (including swaps) of the Bank of Sierra Leone decreased.