



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

**DECEMBER 2023**

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## ACRONYMS

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

## **The Report**

*The December 2023 edition of the Bank of Sierra Leone (BSL) Monetary Policy Report presents an assessment of global and domestic economic developments, mainly in 2023Q3. The report also assesses current developments in 2023Q4 for which data is available, as well as near-term prospects, with a view to implementing appropriate monetary policy consistent with the Bank's policy objectives.*

### **BSL Monetary Policy Objectives**

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

### **Monetary Policy Strategy**

*The BSL is the sole monetary authority in Sierra Leone with 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 Stability, 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 at the MPC meetings, each member proposes a preferred MPR decision supported by underlying reasons. The final decision takes place by vote, with the chairman having the deciding vote in the 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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<sup>1</sup> Section 7.A of the new BSL Act 2019 states: "(1) the objective of the Bank shall be to achieve and maintain price stability. (2) Without prejudice to subsection (1) the Bank shall contribute to fostering and maintaining a stable financial system. (3) Without prejudice to the attainment of the previous two objectives, the Bank shall support the general economic policy of the Government.

## EXECUTIVE SUMMARY

The October 2023 IMF World Economic Outlook (WEO) projects global growth at 3.0 percent in 2023 and 2.9 percent in 2024, down from 3.5 percent in 2022. Weaker-than-expected growth in advanced countries and the impact of the property crisis in China, our major trading partner, have moderated the pace of global recovery. While global headline inflation has trended downwards, in many countries it remains higher than target. Commodity prices remain volatile amid climate-related and geopolitical shocks, representing a major risk to the downward trend in inflation.

On the domestic front, the economy is expected to grow moderately, by 2.7 percent in 2023, influenced by the uncertain global economic environment, coupled with high food and energy prices, which continue to weigh on economic growth. Real GDP growth is projected to recover to around 4.7 percent in 2024 and 5.2 percent in 2025, given the government's initiative to implement various sectoral reforms, including, for instance, the Feed Salone Programme, to boost agricultural productivity and inclusive economic growth.

The trade deficit widened in 2023Q3 due to reduced export receipts, outweighing the decrease in the import bill. Gross foreign exchange reserves of the BSL decreased, covering only 2.3 months of imports in 2023Q3 compared to a 2.8 month import cover in 2023Q2. The depreciation of the Leone moderated due to policy actions taken by BSL to remove bottlenecks in the foreign exchange market.

Fiscal policy remained expansionary in 2023Q3, reflecting increased expenditures outweighing revenue increases, primarily due to overruns in non-salary non-interest spending and the wage bill. Meanwhile, the primary balance also deteriorated.

Movement in key monetary aggregates was expansionary in 2023Q3. Reserve money (RM) growth was driven by growth in NDA of the BSL, while an increase in NDA of the Banking system influenced the growth in Broad Money (M2). Growth in credit to the private sector slowed and was below the program target.

In the money market, liquidity was tight during 2023Q3, leading to BSL interventions to support liquidity. Demand for government treasury bills continued to be skewed to the long end of the

market (the 364-day tenure), with deposit money banks being the primary participants. The interbank interest rate increased, moving close to the overnight lending rate.

The banking sector remained relatively stable, with most key Financial Soundness Indicators (FSIs) above their minimum thresholds, despite the challenging macroeconomic situation. However, the high level of NPLs poses a risk to financial system stability. Also, continued reliance on investment in treasury bills (T-bill) could adversely affect banks' profitability in the event of an unexpected fall in the T-bill rate.

In spite of the decreasing global inflationary pressures and improving supply conditions, domestic inflation rose from 44.8 percent in June 2023 to 54.5 percent in September and increased marginally to 54.6 percent in October 2023, on a year-on-year basis. The increase in the inflation rate mainly reflects imported inflation, domestic food supply shocks, and the very short-term effect of fiscal tightening, especially the regulatory price increases by the government. However, the fiscal measures, coupled with the relatively stable exchange rate, are expected to curb inflation significantly over the coming quarters.

In terms of the outlook, inflation is forecasted to increase further but stay between 54 – 57 percent in the near term. Upside risks include continued geopolitical tensions, domestic regulatory price increases, high inflation expectations, resurfacing exchange rate pressures, extreme climate events with the potential to amplify supply chain disruptions, and the build-up of uncertainties due to domestic political tensions. On the downside, inflation is expected to moderate due to increased domestic food production in line with the Feed Salone Program, medium-term fiscal consolidation measures, tightening of monetary conditions, and the expected retreat in commodity prices.

The rest of the report is organised 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 members in the MPC meeting held in December 2023.

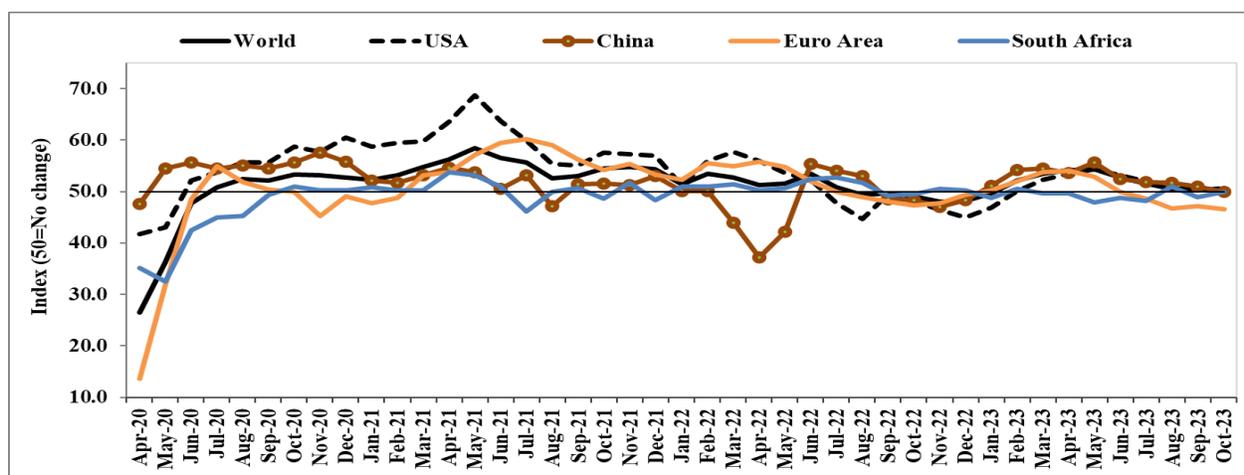
# 1. GLOBAL ECONOMIC DEVELOPMENTS AND PROSPECTS

## 1.1 Global Output

Global growth prospects continue to be subdued due to escalating geopolitical tensions, economic fragmentation, restrictive credit conditions, and limited fiscal space. The high-frequency global Composite Purchasing Managers' Index (PMI) indicates a slowdown in activity across key economies, with manufacturing weaknesses extending to the services sector. While private sector activity in the United States remains resilient, it is facing challenges due to tight financing conditions in the country.

In China, despite multiple rounds of economic easing, output growth remains weak. The composite PMI for the country has been on a downward trend since May 2023, reflecting poor performance in both the manufacturing and non-manufacturing sectors. The Euro Area's activity has been hampered by Germany's struggling industrial sector, higher interest rates, and persistent inflation. The composite PMI for the Euro Area has been in a contractionary territory since June 2023.

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



Data Source: Markit Economics, through Trading Economics November 14, 2023. Note: PMIs above 50% signals expansion in economic activity; below 50% signals contraction.

In line with the subdued signals indicated by the composite PMIs, the IMF has maintained its 2023 global growth projection at 3.0 percent but revised the 2024 growth projection downwards by 0.1 percentage points. Looking ahead to the medium term, the global economy's trajectory is expected to be influenced by on-going developments in the Ukraine conflict, weather-related events, and

the pace of disinflation, which could prompt shifts in monetary policies. The resumption of financial sector turbulence is possible if markets strongly react to additional policy tightening by central banks. China's growth may decelerate, partly due to lingering real estate issues, causing negative cross-border spillovers. Globally, sovereign debt distress could worsen, further dampening public consumption and investment. Additionally, the recent Israeli-Palestinian conflict in the Middle East, contributing to renewed volatility in global commodity prices, has added another layer to the existing intricate web of global economic challenges.

### **1.1.1 Advanced and Emerging Market Economies**

The growth projection for advanced economies remains stable at 1.5 percent and 1.4 percent in 2023 and 2024, respectively, indicating a notable decline from the 2.6 percent recorded in 2022. This downturn is primarily attributed to the balancing impact of robust momentum in the United States and subdued growth in the euro area. The contrasting performance in private consumption between the United States and the euro area is noteworthy. In the United States, private consumption has outpaced that of the euro area due to households receiving larger fiscal transfers early in the pandemic and promptly spending the associated savings. In response to these dynamics, the growth projection for the United States has been revised upward by 0.3 percentage points and 0.5 percentage points to 2.1 percent and 1.5 percent in 2023 and 2024, respectively. Conversely, the growth outlook for the Euro Area has been downgraded by 0.2 percentage points and 0.3 percentage points to 0.7 percent and 1.2 percent in 2023 and 2024, respectively.

In emerging markets and developing economies, growth is expected to remain broadly stable, mainly sustained by activity in Brazil and India. Growth projection for China has been downgraded by 0.2 percentage points and 0.3 percentage points to 5.0 percent and 4.2 percent in 2023 and 2024, respectively. The downward growth revision was due to continued challenges in the property sector of the economy, despite numerous economic easing actions by the government. In October 2023, Country Garden – the country's largest private housing developer, with around US\$ 200 billion in liabilities – warned that it was likely to default on its debt. A disorderly collapse of the company would pose risks to the property and financial sectors more broadly.

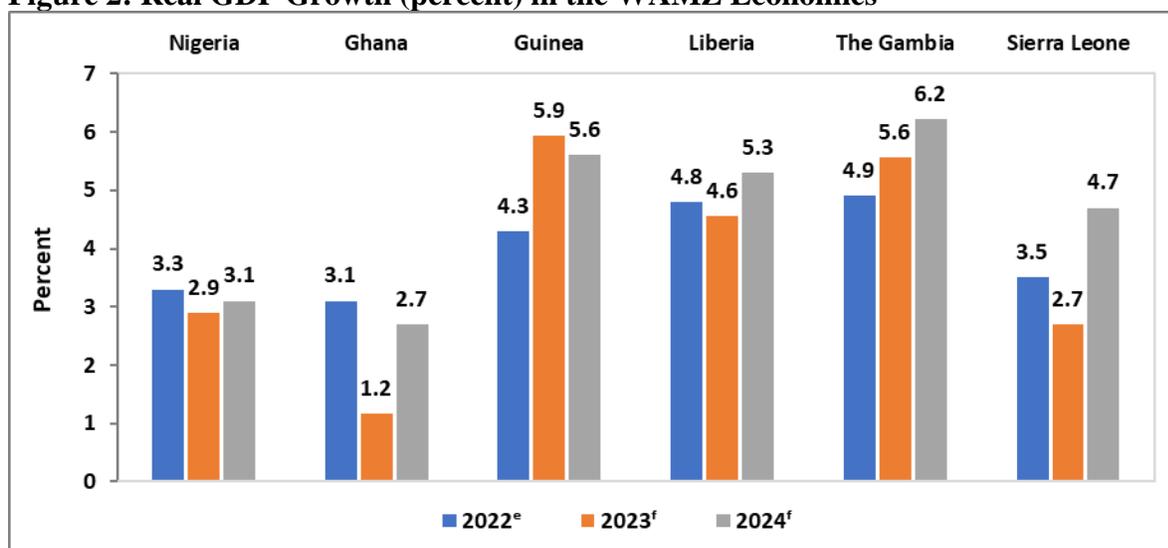
### **1.1.2 Sub-Saharan Africa**

Sub-Saharan African economies experienced challenges in 2023 due to both global and domestic factors. Continued socio-political instability, extreme weather conditions, elevated debt levels and weak currencies continue to weigh on the growth outlook in sub-Saharan Africa. Consequently, growth in 2023 is expected to fall to 3.3 percent from 4.0 percent in 2022. However, the region is expected to rebound to 4.0 percent growth rate in 2024, with strong performances in non-resource intensive countries. Macroeconomic imbalances are also improving, with inflationary pressures easing in most of the region, and public finances are gradually being put on a more sustainable footing. But the rebound is not guaranteed. A slowdown in reform efforts, a rise in political instability, or external downside risks (including China's real estate crisis) could undermine growth in the region.

### **1.1.3 West African Monetary Zone (WAMZ)**

Overall, economic performance in the West African Monetary Zone (WAMZ) is anticipated to moderate in 2023, primarily due to subdued outcomes in Ghana and Nigeria, which collectively contribute over 90 percent to the bloc's GDP. Sierra Leone, Nigeria, and Ghana grapple with challenges of exchange rate depreciation and record-high inflation rates, exerting downward pressure on investor sentiments. Additionally, the global economy's lackluster momentum will further limit economic growth within the bloc. Nigeria's new government has initiated various economic reforms, potentially impacting short-term growth before yielding positive gains in the medium-to-long term. On the other hand, Guinea and The Gambia are expected to maintain economic resilience, as these countries have successfully preserved stable exchange rates and kept inflation at bay. Looking ahead, there is optimism for a resurgence in economic activity across the WAMZ in 2024, contingent upon the alleviation of global economic headwinds and improved domestic performance.

**Figure 2: Real GDP Growth (percent) in the WAMZ Economies**



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

## 1.2 Global Trade Volume

Recent data indicates persistent weaknesses in global trade. The global manufacturing PMI for new export orders remained in contractionary territory in September for the nineteenth consecutive month. Subdued demand for goods has been a limiting factor in global supply chain pressures. In addition, the global services PMI for new export orders experienced further deterioration in September, contracting for the first time since February. This decline can be attributed, in part, to a sharp fall in export orders from advanced economies.

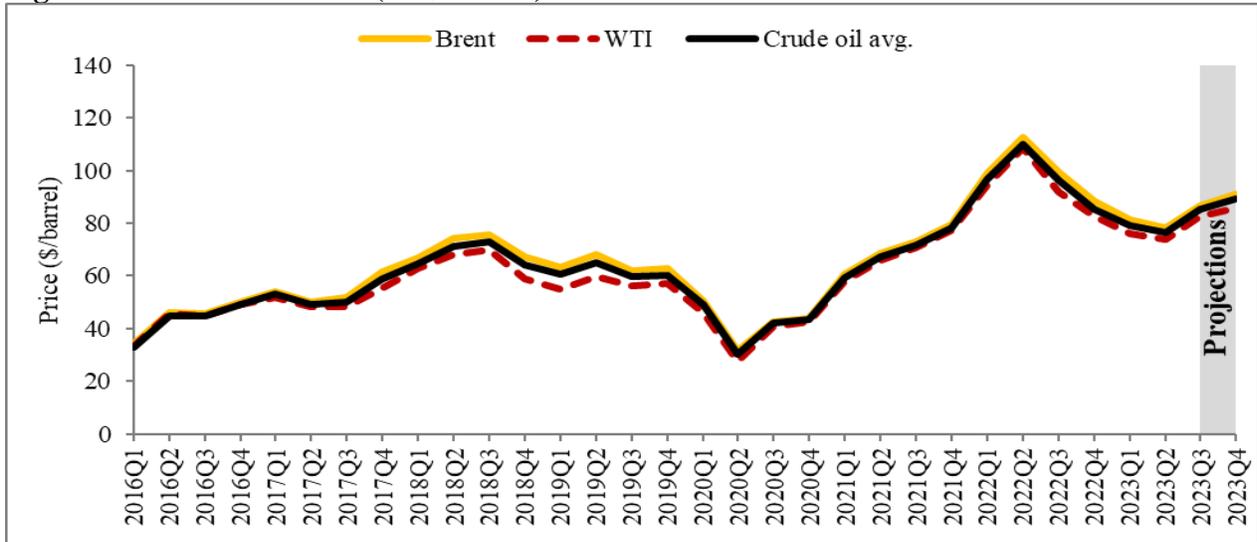
## 1.3 Global Commodity Prices and Inflation

### 1.3.1 Global commodity prices

#### *Crude oil prices*

Following the decision by OPEC+ to maintain voluntary output cuts until the end of the year, crude oil price increased by 11.3 percent to US\$85.3/bbl in 2023Q3, from US\$76.6/bbl in 2023Q2. Similarly, both Brent and WTI crude oil prices increased by 10.9 percent and 11.8 percent to US\$86.8/bbl and US\$82.5/bbl in 2023Q3, respectively. Moreover, the conflict in the Middle East presents a major upside risk for energy prices.

**Figure 3: Crude Oil Prices (US\$/barrel)**

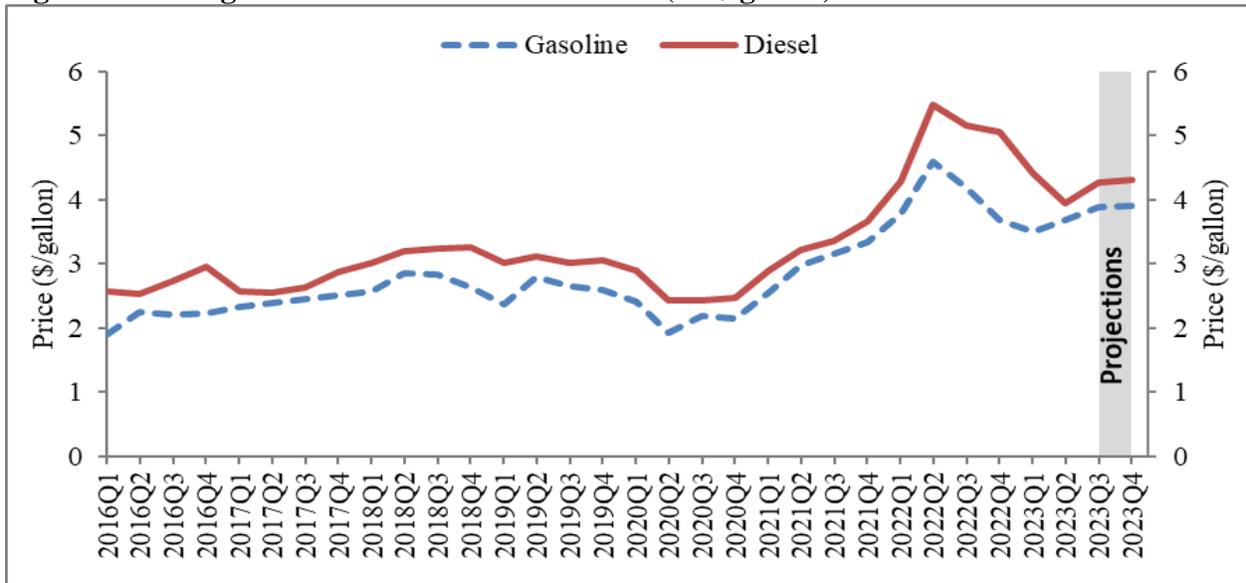


Source: World Bank Commodity Market Database November 2023

**Petroleum Products (Retail Prices)**

Movements in petrol and diesel prices continued to reflect the movement in crude oil prices. Petrol prices increased by 5.1 percent to US\$3.9/gallon in 2023Q3, from US\$3.7/gallon in 2023Q2. Similarly, diesel prices increased by 8.5 percent to US\$4.3/gallon, from US\$3.9/gallon in the preceding quarter.

**Figure 4: Average Prices of Petroleum Products (US\$/gallon)**

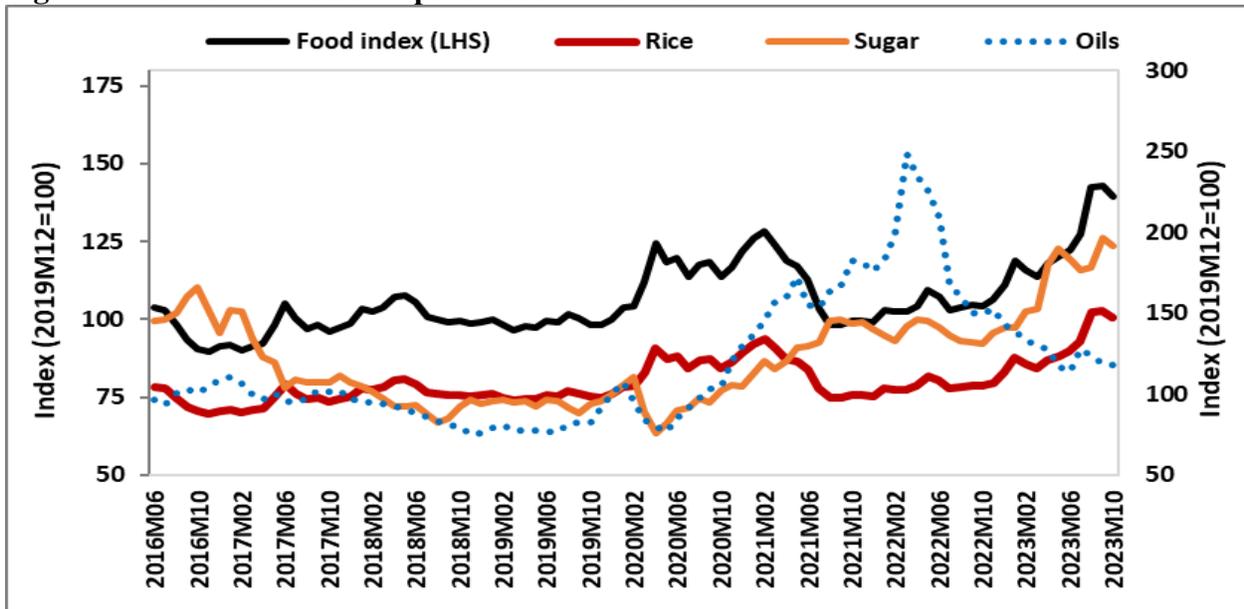


Source: U.S. Energy Information Administration, EIA (November 2023)

### Food Price Index

Despite the ongoing decrease in the FAO global food price index, the prices of food commodities imported into Sierra Leone continue to rise. The estimated import food price index by the Bank of Sierra Leone (BSL) has been consistently increasing since 2022, with a more noticeable acceleration recently, primarily due to rising prices of rice and sugar. Prices declined in October 2023; however, it is too early to say whether the increasing trend has turned.

**Figure 5: BSL’s Estimated Import Food Price Index**

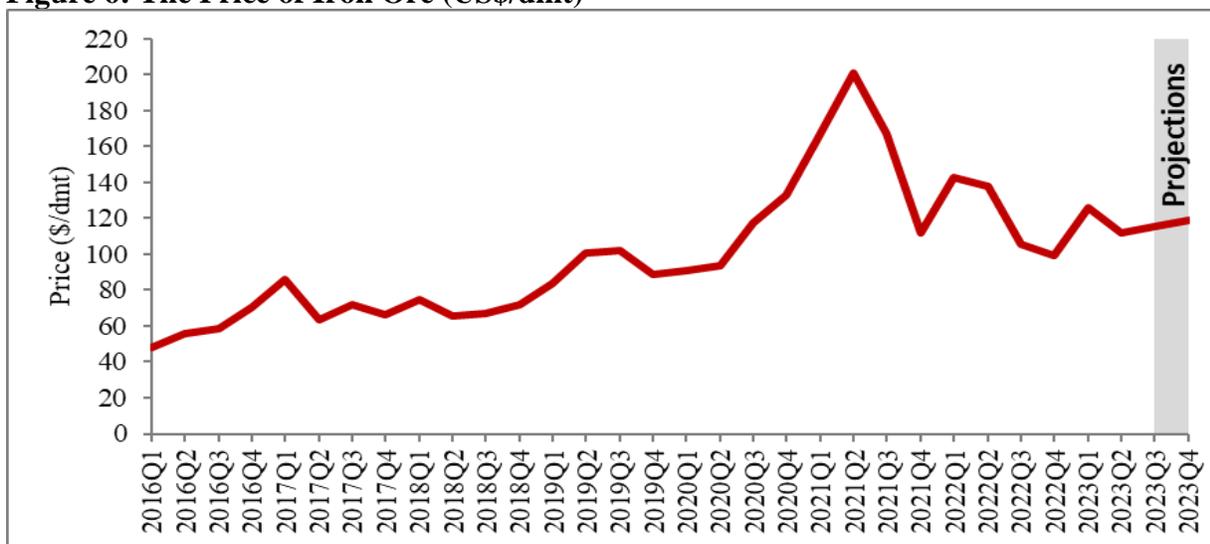


Source: BSL Staff estimation using data from the World Bank Commodity Market database, November 2023.

### Iron Ore Price

Iron ore prices grew by 2.9 percent to US\$115.2/dmt in 2023Q3, from US\$112/dmt in the preceding quarter driven by sustained demand from China and flooding in one of Brazil’s biggest iron ore mines. Prices are expected to remain strong over the remainder of 2023.

**Figure 6: The Price of Iron Ore (US\$/dmt)**

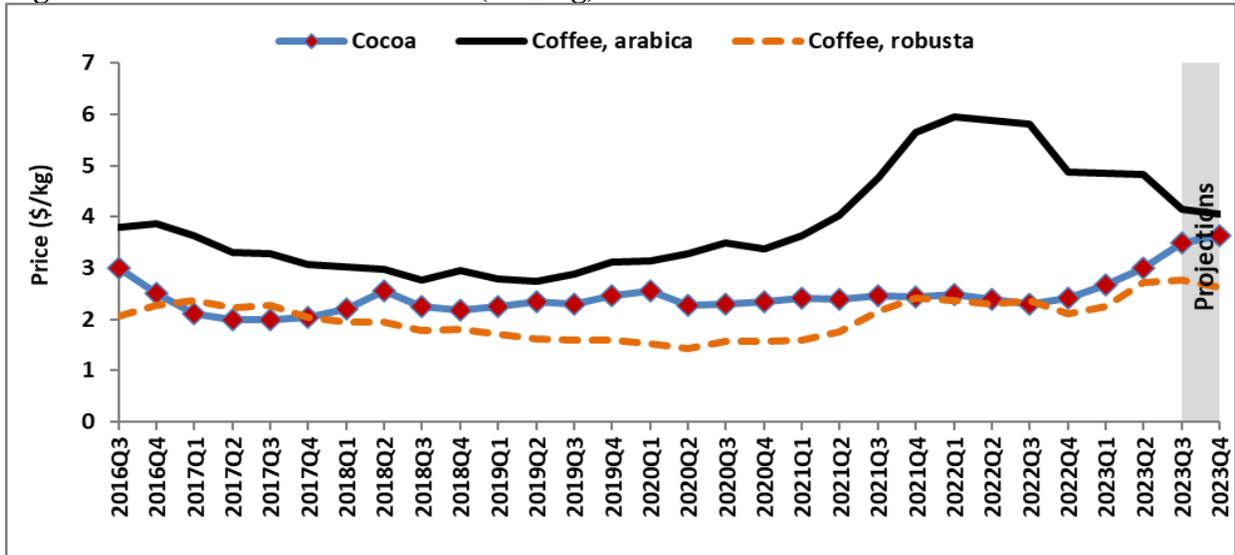


Source: World Bank Commodity Market Database November 2023

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

Cocoa and Robusta coffee prices increased by 15.9 percent and 1.5 percent to US\$3.5/kg and US\$2.8/kg in 2023Q3, respectively. The increase in prices was associated with poor growing conditions, including erratic rainfall and the spread of disease in West Africa-particularly in Côte d’Ivoire, which accounts for nearly half of global production. This development is expected to affect cocoa volumes from the Ivorian ports in 2023Q4. However, arabica coffee prices decreased by 14.2 percent to US\$4.1/kg in the review quarter. The stronger U.S. dollar and a recent upgrade in estimates for Brazilian arabica coffee output this year will likely weigh on prices over the last quarter.

**Figure 7: Cocoa and Coffee Prices (US\$/kg)**

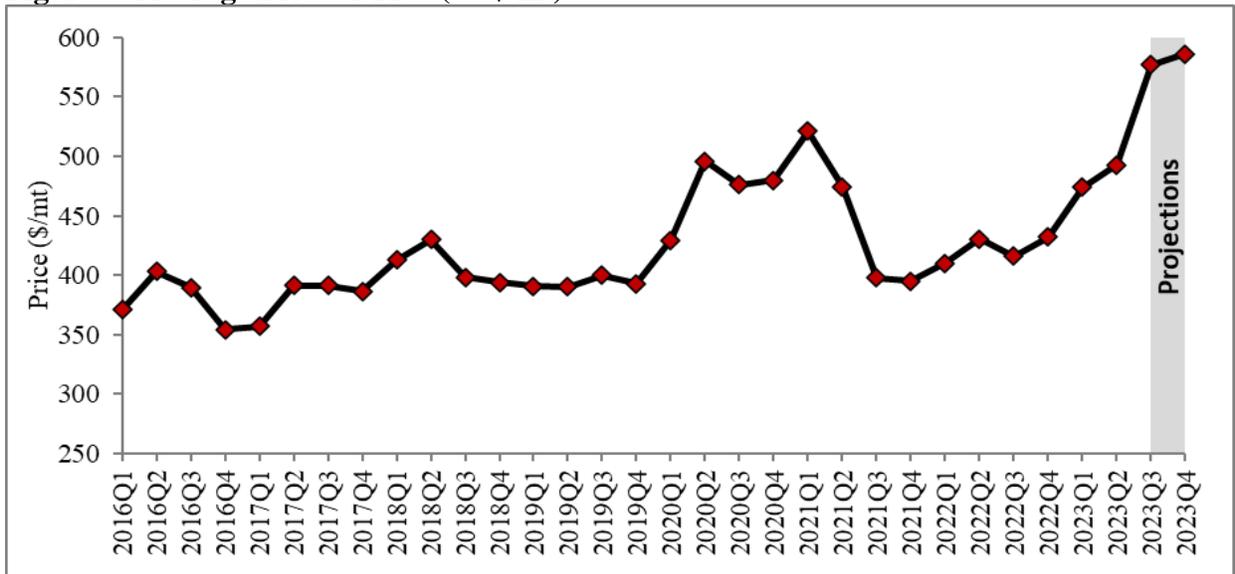


Source: World Bank Commodity Market Database November 2023

**Rice Prices**

Rice prices rose further, supported over the last quarter by unfavorable weather in Thailand and India’s recent decision to ban some rice exports. Rice prices averaged US\$576 per metric ton in 2023Q3, up by 17.1 percent from US\$492.6 per metric ton in 2023Q2.

**Figure 8: Average Price of Rice (US\$/mt)**



Source: World Bank Commodity Market Database November 2023

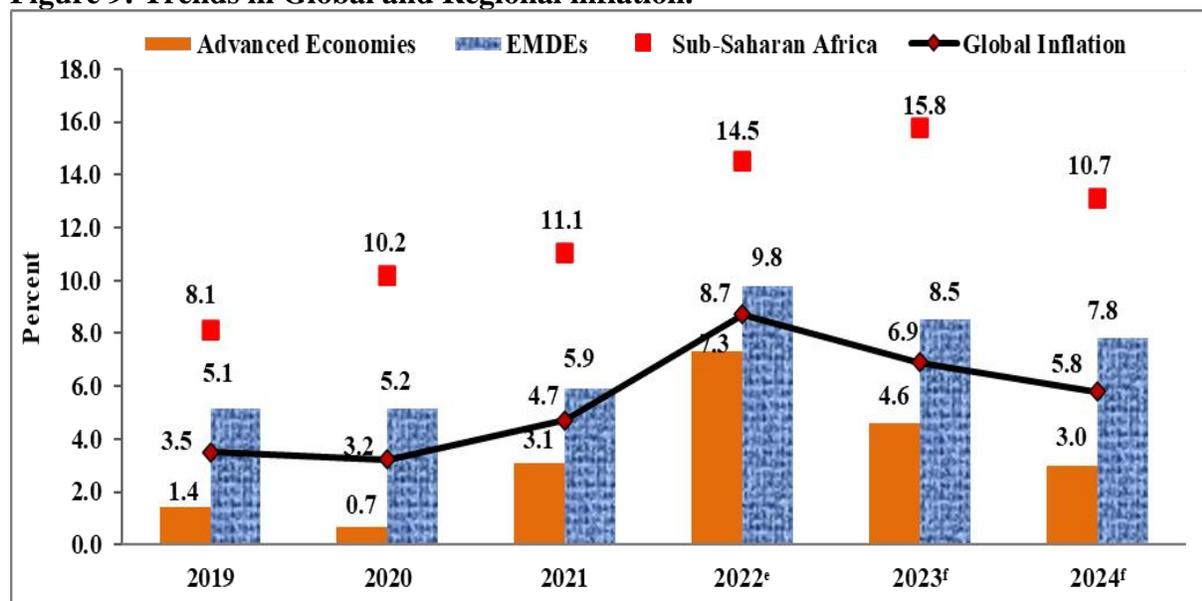
### 1.3.2 Global Inflation

Global inflationary pressures are easing from the record levels in 2022, but still relatively high. The slowdown in inflationary pressures is a reflection of slower economic growth, restrictive monetary conditions, and improvements in supply chains. However, there are divergent inflation trends both across and within regions, driven by variations in economic performance, labor markets, and energy markets.

The current projection anticipates a global deceleration in inflation from 8.7 percent in 2022 to 6.9 percent in 2023 and further to 5.8 percent in 2024. Notably, this remains above the target for most central banks worldwide. In advanced economies, inflation is expected to decrease from 7.3 percent in 2022 to 4.6 percent and 3.0 percent in 2023 and 2024, respectively. The U.S. is forecasted to reach an inflation rate of 2.4 percent in 2024, closely aligning with the Federal Reserve's target of 2.0 percent. However, some eurozone and emerging economies are expected to continue to experience relatively elevated inflationary pressures throughout 2023-2024.

For emerging markets and developing economies, marginal decreases in inflation are projected, moving from 9.8 percent in 2022 to 8.5 percent and 7.8 percent in 2023 and 2024, respectively.

**Figure 9: Trends in Global and Regional inflation.**



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

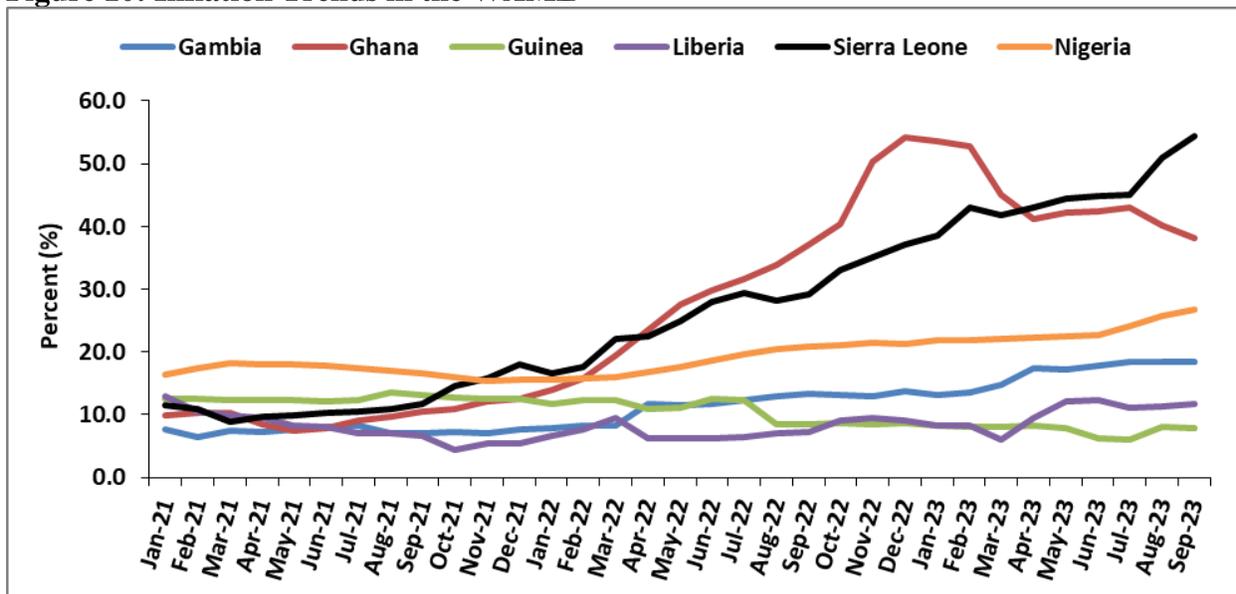
### *Sub-Saharan Africa (SSA) Inflation*

Inflation pressures in the Sub-Saharan Africa Region remain elevated, amid rising concerns of food security and currency weaknesses. Inflation in the region is projected to increase from 14.5 percent in 2022 to 15.8 percent in 2023, before moderating to 13.1 percent in 2024. Nigeria and South Africa, the two biggest economies in the region are registering record high inflation rates during the review period. The occurrence of El Niño and the collapse of the Black Sea grain deal could pose additional obstacles to the fight against inflation in the region.

### *Inflation in the WAMZ*

Consumer price inflation developments in the WAMZ region were mixed during the third quarter of 2023. Inflation continued to spike in Sierra Leone and Nigeria, driven by higher food and fuel pump prices. In Sierra Leone, electricity tariffs were also adjusted upwards contributing to the increased pressure on domestic prices and further fueling inflation. However, Ghana's inflation rate continues to recede at a faster pace, mainly supported by relative stability in the exchange rate and robust domestic food supply. Inflation in The Gambia, Guinea and Liberia was relatively stable during the review period.

**Figure 10: Inflation Trends in the WAMZ**



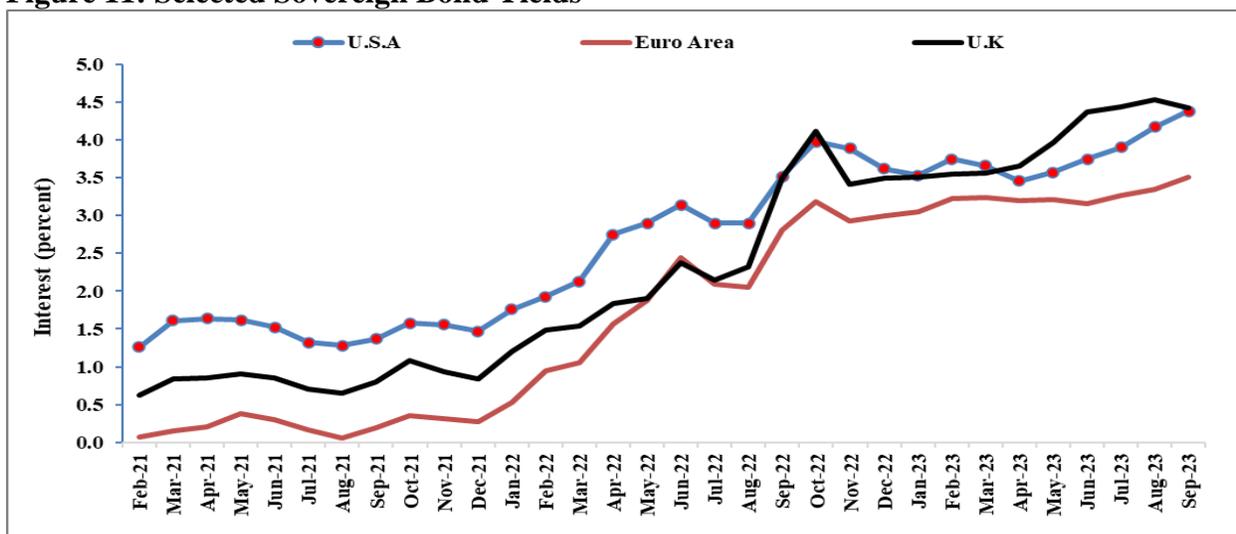
Data Source: Country Central Banks through Trading Economics

## 1.4 Monetary Policy and Financial Market Developments

Even though some advanced economies paused the hiking of interest rates to assess the impact of past increments on inflation and the economy, global financing conditions remain tight, reflecting still tight monetary policy stances globally. Most central banks expect policy rates to remain high for longer periods to fully dampen inflationary pressures, and as a result, long-term bond yields remain high.

Sovereign bond yields continued to trend upward, mainly driven by markets' perception of a reduced risk of recession. As a result, investors are demanding a higher premium for holding longer-maturity bonds.

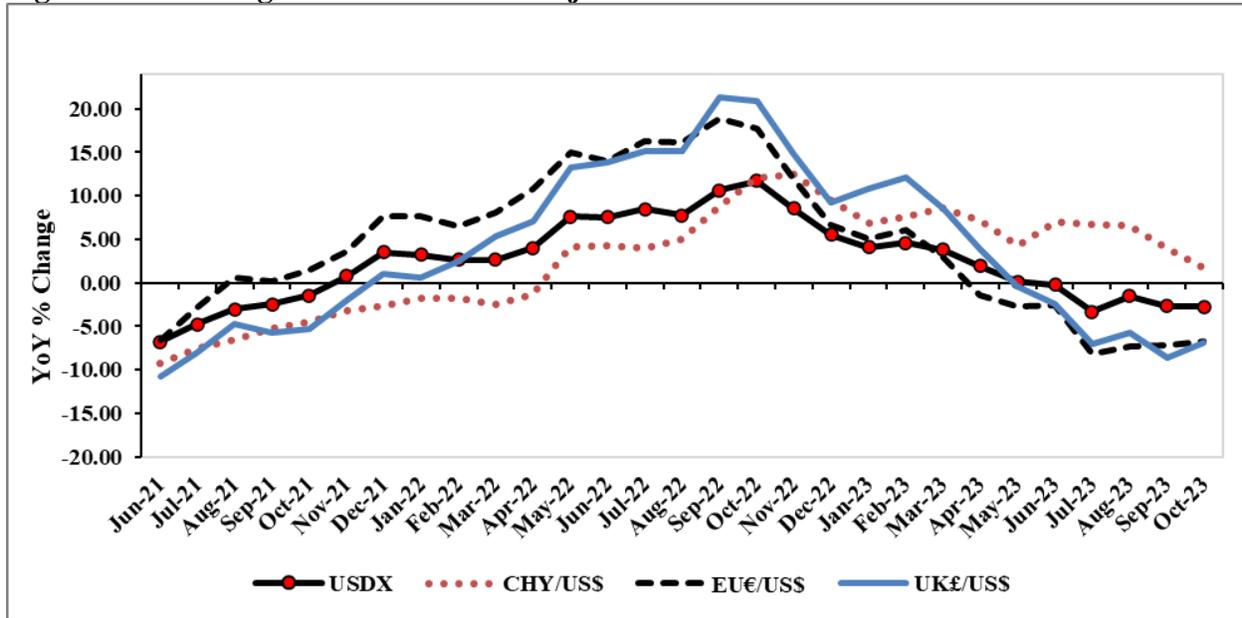
**Figure 11: Selected Sovereign Bond Yields**



Source: Federal Reserve Economic Data (FRED) November 2023

The US dollar continued to lose strength against other major global currencies in 2023, dampening depreciation pressures in EMDEs, including Sierra Leone. However, more recently, the US dollar has started to appreciate again, consequently making financial conditions tighter for most EMDEs.

**Figure 12: Exchange rates of Selected Major Global Currencies to the U.S. Dollar**

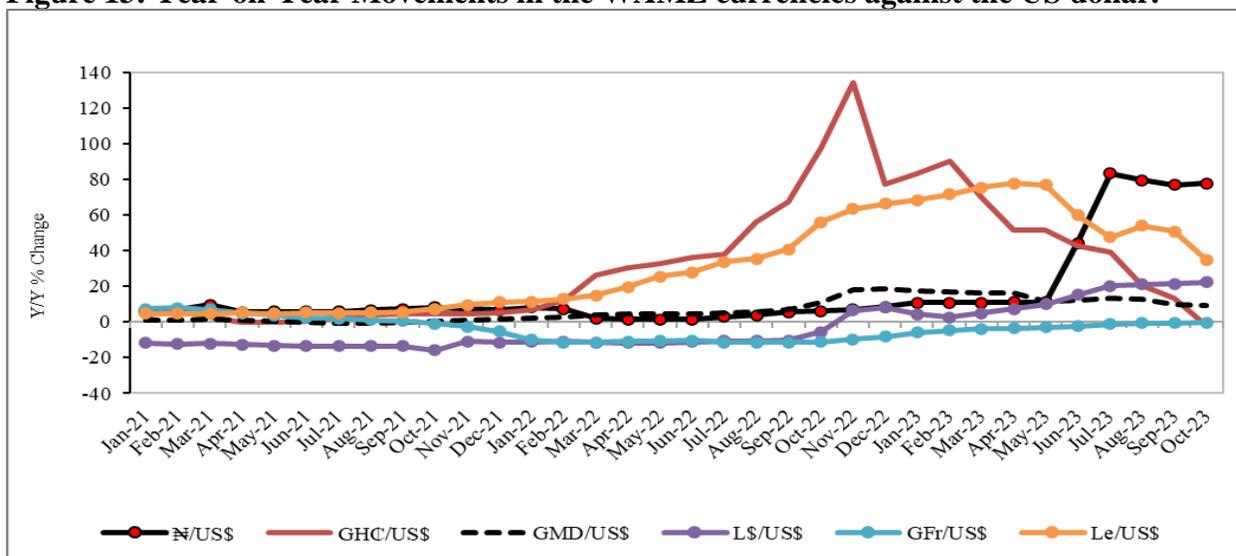


Data Source: FRED (September 2022) Note: a positive change indicate depreciation against the U.S. dollar and a negative change indicates an appreciation against the U.S. dollar.

### 1.5 WAMZ Exchange Rates

The currencies of Ghana and Sierra Leone, which have been the worst performers in the WAMZ bloc, remained relatively stable, mainly on account of a slowdown in demand for forex, prudent policy actions to remove bottlenecks in the forex market, as well as diminished speculative activities. The Gambian Dalasi and Guinea Franc remained broadly stable, though some pressures have been building up on the Guinea Franc recently. The naira recorded a sharp depreciation in the months of June and July 2023, due to radical reforms in the foreign exchange market after President Tinubu took over the reins of government in May 2023. However, the rate of depreciation appears to have flattened afterwards. The Liberian Dollar also experienced increased pressure on account of a slowdown in forex inflows and elections related uncertainty.

**Figure 13: Year-on-Year Movements in the WAMZ currencies against the US dollar.**



Source: Trading Economics

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

Developments in the global economy pose both challenges and opportunities for Sierra Leone. The moderation in global growth and trade weakness is likely to impact the country’s economy through reduced demand for its exports and potential disruptions in supply chains. As a country heavily reliant on imports, the rising global inflationary trends, particularly in food and energy prices, may lead to higher trade deficit, weaker exchange rate and increasing inflation pressures, exacerbating existing economic hardships for Sierra Leonean households, potentially leading to increased poverty levels.

On a more positive note, the recent stabilization of the exchange rate coupled with moderating global inflation helps to alleviate domestic inflation pressures. Additionally, the recent upward trend in iron ore prices, a significant export item for Sierra Leone, presents an opportunity for stronger growth and increased fiscal revenues.

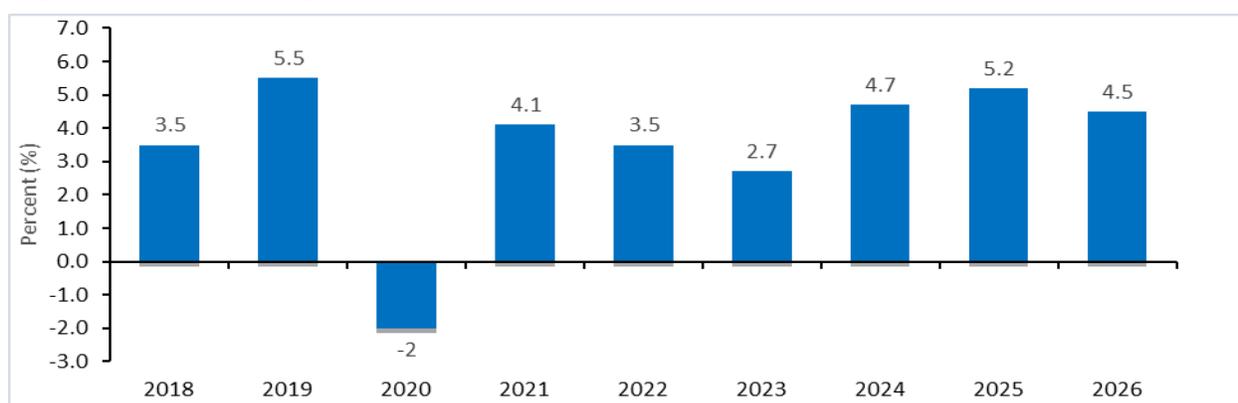
## 2. DOMESTIC ECONOMIC DEVELOPMENTS

### 2.1 Real Sector Development

#### 2.1.1 Real GDP Growth

Economic growth is estimated to have moderated owing to the lingering uncertainty in the global economic environment, domestic supply shocks and lower-than-expected output from key productive sectors, such as agriculture and mining. Hence, real GDP growth is estimated to grow by 2.7 percent in 2023 compared to 3.5 percent in 2022. Nonetheless, real GDP growth is projected to increase to 4.7 percent in 2024, and 5.2 percent in 2025, driven by increased investment in agriculture and mining activities, continued recovery in the services sector, investment in key infrastructure, support to private sector, and addressing climate change risks. Geopolitical uncertainties, further deterioration of the Chinese real estate crisis, the fall of the prices of our key export commodities could weigh on growth prospects. On the domestic front, the degree of political stability, reform measures and effectiveness of the government's economic agenda will affect domestic macroeconomic stability and resilience in the face of global uncertainties.

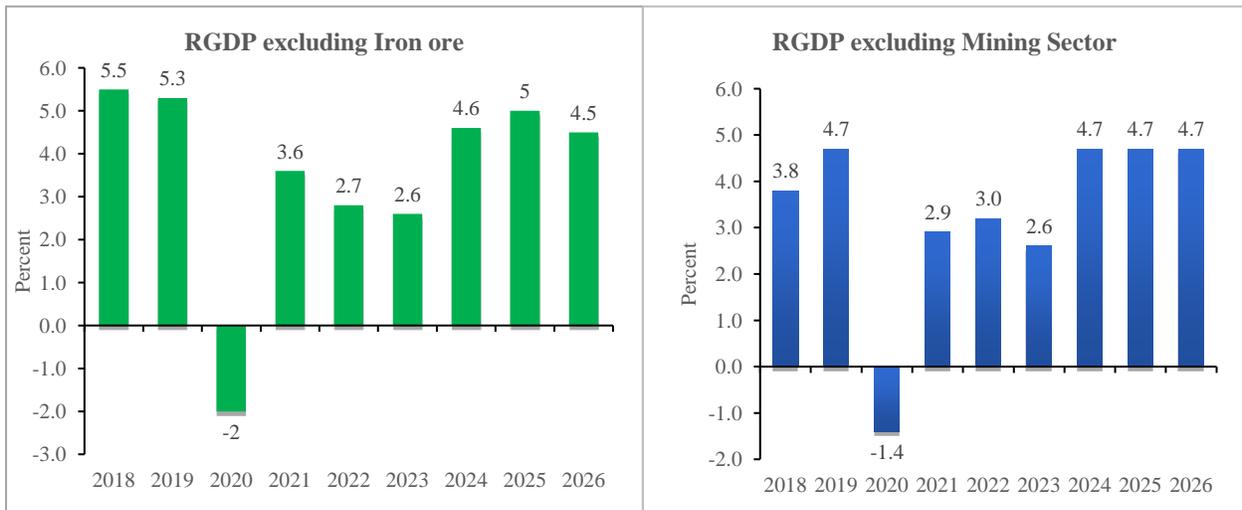
**Figure 14: Real GDP growth.**



Source: Statistics Sierra Leone & IMF

Real GDP growth in 2022 was 3.4 percent excluding the mining sector and 3.2 percent excluding iron ore. In both cases, real GDP growth is estimated to moderate to 2.6 percent in 2023, and to recover to an average of 4.7 percent over the medium term.

**Figure 15: Real GDP growth Rates Excluding Iron ore and Mining Sectors**

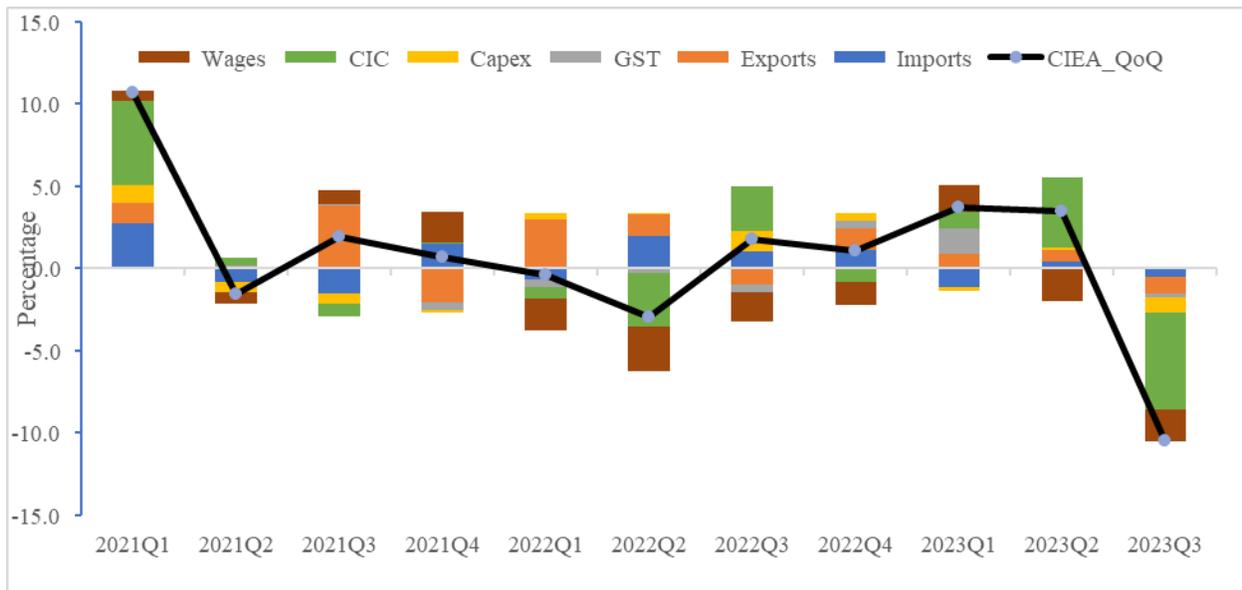


Source: Statistics Sierra Leone & IMF

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

The Bank’s analytical high frequency indicator, the Composite Index of Economic Activities (CIEA) showed a slowdown in economic activity in 2023Q3 compared to a growth in 2023Q2. The contraction in the CIEA growth resulted from a decrease in all the components.

**Figure 16: Contributions to CIEA**



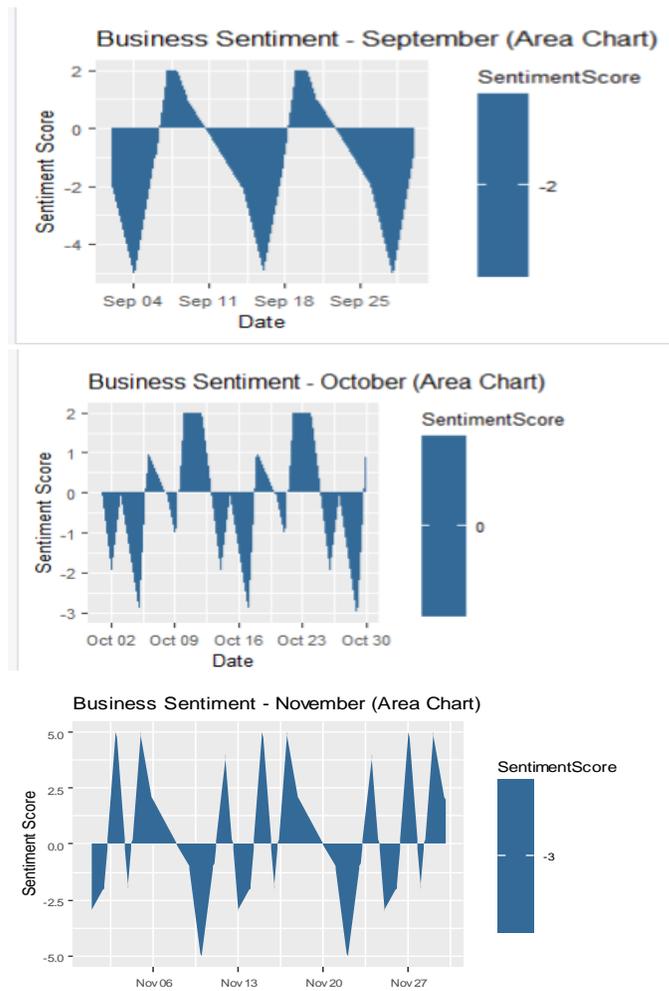
Source: Bank of Sierra Leone (BSL)

**Box 1: Business Confidence<sup>2</sup>**

The Bank conducted a comprehensive business perception survey for the months of September, October and November 2023. Questionnaires were distributed through Google Forms to businesses nationwide, resulting in a substantial and diverse response from various sectors across the country. The collected responses served as valuable input data for the AFINN-111 lexicon model using the R software to run the codes.

The sentiment scores were -2, 0 and -3 in the months of September, October and November respectively. These scores point to a negative business perception, indicating that businesses are generally pessimistic or cautious about their current situation and the near future.

**Figure 17: Business Sentiment Chart Grid**



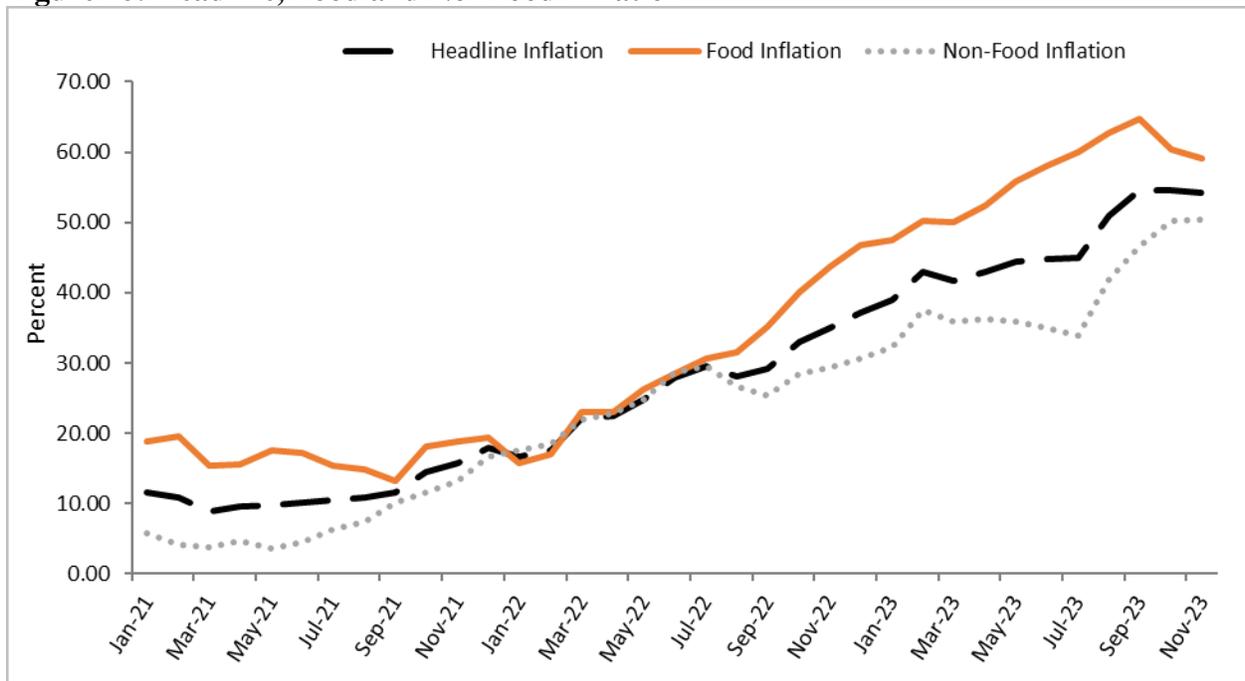
Source: BSL, staff calculation

<sup>2</sup> The business confidence is still experimental.

### 2.1.3 Price Developments

Inflationary pressures persisted, with headline inflation reaching 50.9 percent in August 2023 and edged further to 54.5 percent in September 2023. This development reflects the upward adjustment of the domestic fuel pump prices and electricity tariffs, coupled with low domestic production. However, inflation rose marginally to 54.6 percent in October 2023 and declined to 52.2 percent in November 2023. The easing of inflationary pressures could be attributed to the tight monetary policy stance adopted by the BSL as well as the relative stability in the exchange rate and government's effort to reduce the budget deficit and its borrowing requirement.

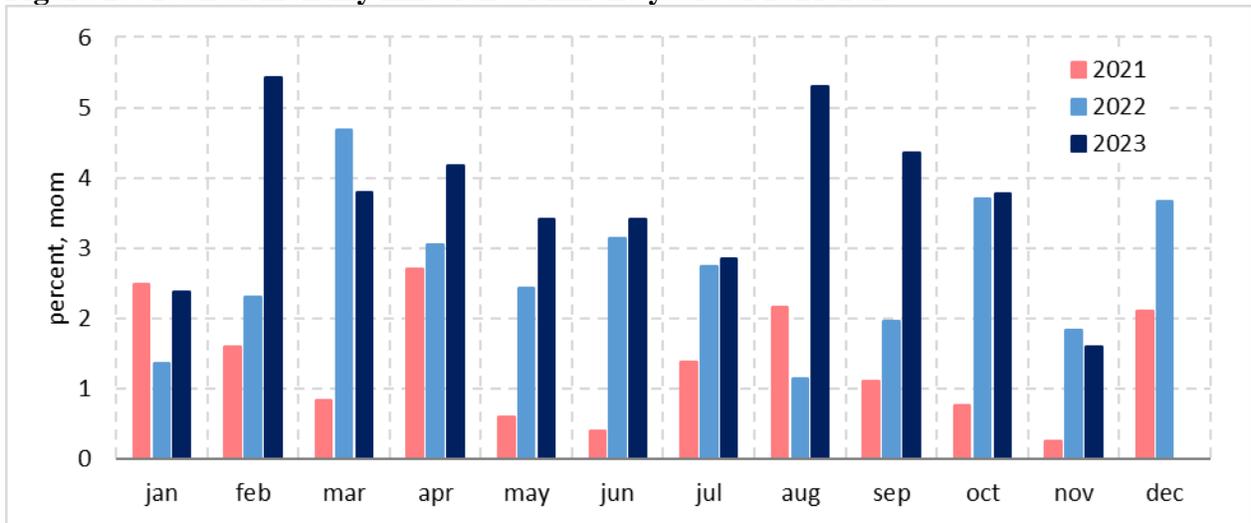
**Figure 18: Headline, Food and Non-food Inflation**



Source: Statistics Sierra Leone

Headline inflation (month-on-month) increased from 3.4 percent in June 2023 to 4.4 percent in September 2023. Until October, monthly inflation in 2023 was higher than in 2022 every month except for March. Monthly inflation was especially high in February, August, and September 2023, corresponding to significant increases in the year-on-year inflation (Figure 19). Food (mainly imported raw food), durable goods, and regulated energy contributed to the increase in monthly inflation. The high base going forward is also expected to help moderate year-on-year inflation.

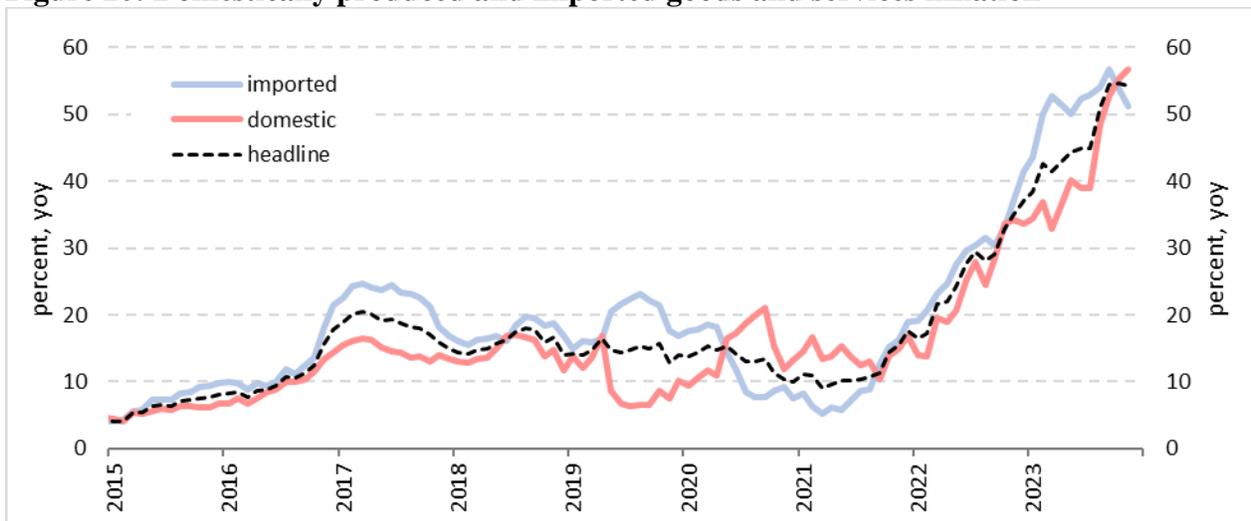
**Figure 19: Path of monthly inflation within the years of 2021-2023**



Source: Statistics Sierra Leone

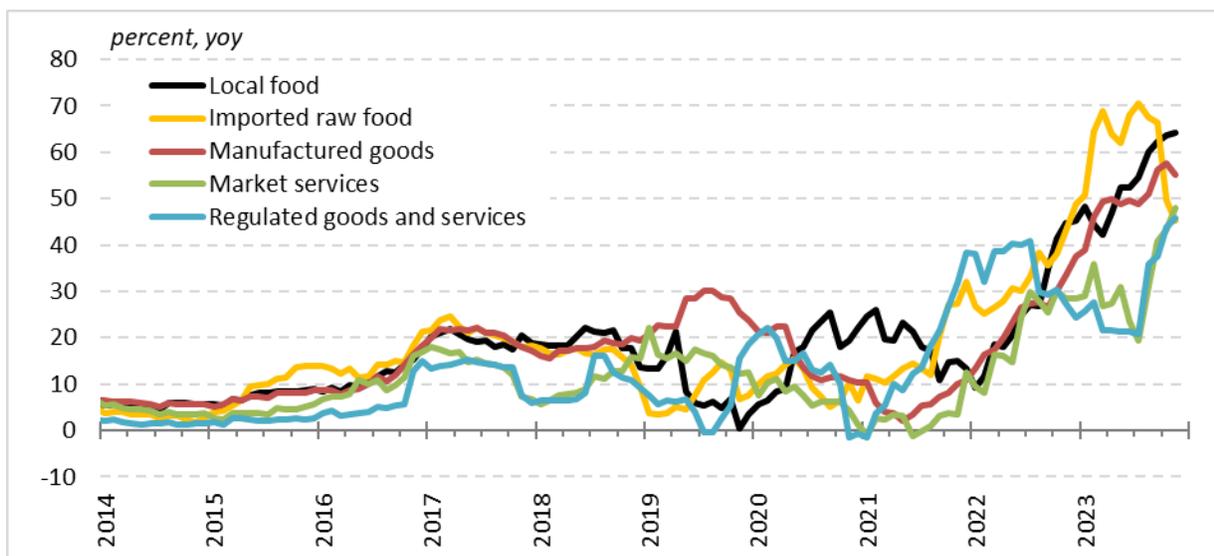
Domestically produced inflation continued to increase, reaching 55.4 and 56.7 percent in October and November, respectively, in contrast to 38.9 percent in June 2023. The significant jump in the August-October period was mainly due to the one-off large hikes in regulated energy prices. Imported goods inflation rose much less dynamically, from 52.4 percent in June to 56.7 percent in September 2023. However, imported raw food inflation declined considerably albeit from very high level.

**Figure 20: Domestically produced and imported goods and services inflation**



Source: Statistics Sierra Leone and BSL

**Figure 21: BSL Analytical breakdown of inflation.**



Source: Statistics Sierra Leone, BSL

The surge in market services, alcohol, tobacco and airfare, and regulated energy contributed the most to the increase in non-food inflation. The increase in market services inflation is mainly reflected in price increases in health services and the pass-through from the exchange rate via domestic transport services. Similarly, regulated energy inflation was mainly influenced by fuel and electricity prices.

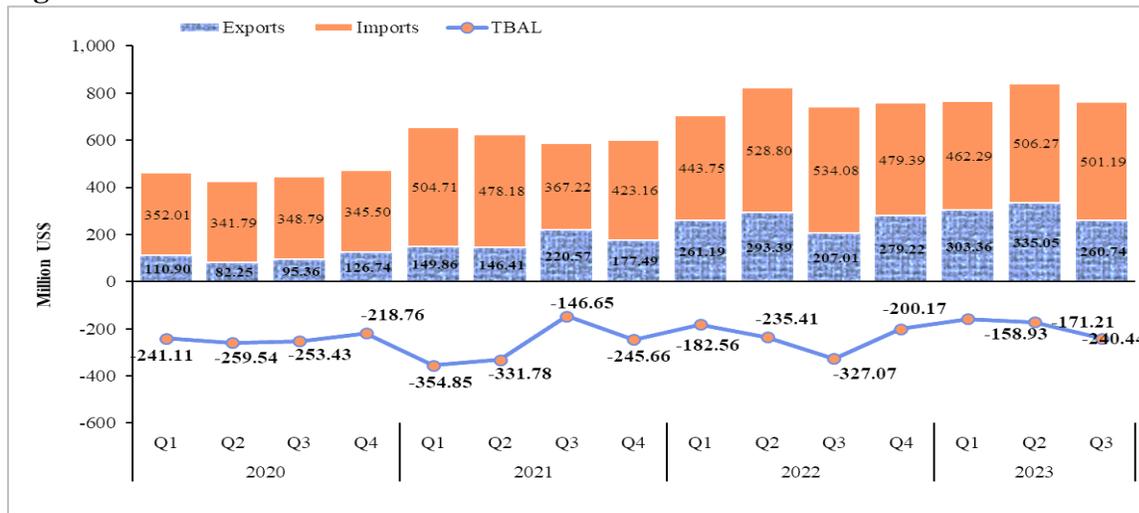
Inflation excluding food and energy, rose from 34.6 percent in June to 46.3 percent in September and further to 50.1 percent in November 2023. In contrast, food and energy inflation increased from 57.1 percent in June to 63.9 percent in September but then started to decline and fell to 59 percent in November.

## 2.1 External Sector Developments

### 2.1.2 Merchandise Trade

Sierra Leone's trade deficit with the rest of the world widened by 40.4 percent to US\$240.4mn in 2023Q3 from US\$171.2mn in the previous quarter, reflecting a reduction in export receipts, which more than outweighed the decrease in import bills. However, the deficit was still 26.5 percent lower than in the same quarter of 2022. The foreign trade balance continued to be better in each quarter of 2023 than the corresponding quarters of 2022, which amounted to a cumulative improvement of close to US\$175mn over the first three quarters of 2023.

**Figure 22: Merchandise Trade**



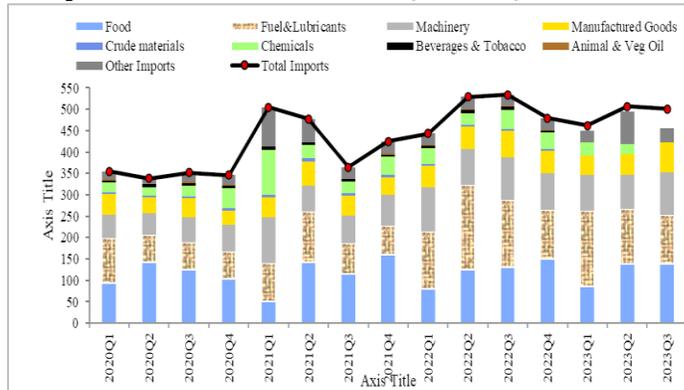
Source: NRA/Customs & BSL

**Components of Import**

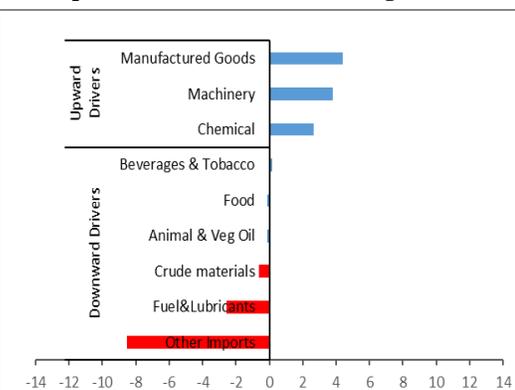
Merchandise imports were pulled down mainly by other imports and fuel and lubricants, but were offset in large part by manufactured goods, machinery and chemicals imports. Merchandise import value was US\$ 501.2mn in 2023Q3, decreasing marginally, by 1.0 percent when compared to 2023Q2, but showing a 6.2 percent decline vis-à-vis 2022Q3.

**Figure 23: Components of Import**

**A: Imports-relative contributions 2020Q1 – 2023Q3**



**B: Imports-relative contributions to growth 2023Q3**



Source: NRA/Customs & BSL

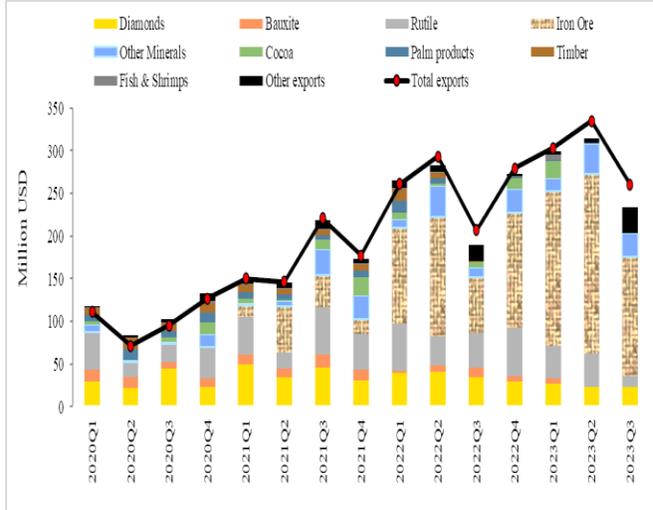
**Components of Export**

The total value of merchandise exports decreased by 22.2 percent to US\$260.7mn in 2023Q3 from US\$335.1mn in 2023Q2. The quarterly decrease in exports earnings reflected mainly the decline

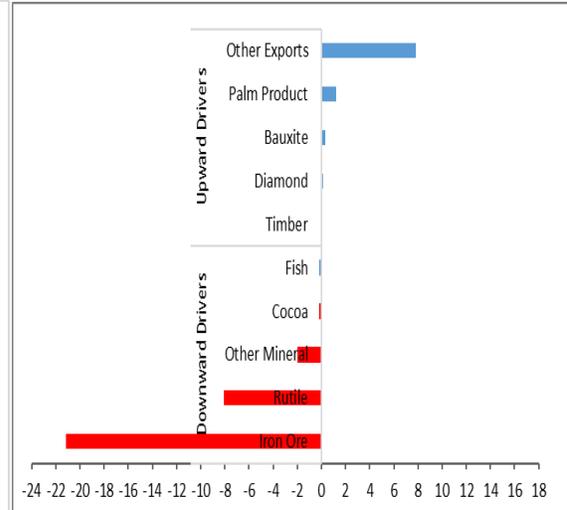
in receipts from iron ore and rutile, which dwarfed the increase in receipts from palm products and other exports. Total exports increased by 26.0 percent compared to 2022Q3.

**Figure 24: Components of Export**

**A: Exports-relative contributions 2020Q1 – 2023Q3**



**B: Exports-relative contributions to growth 2023Q3**

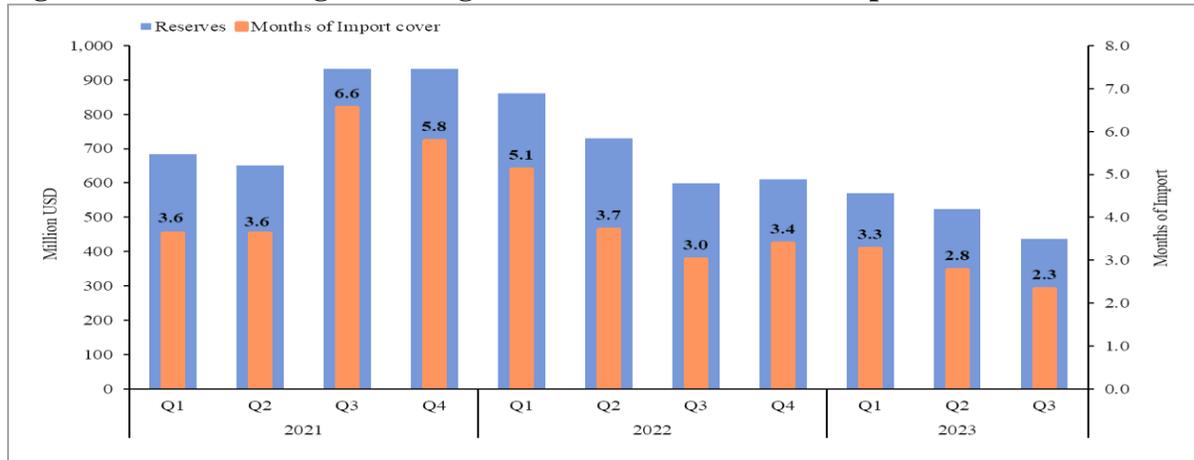


Source: NRA/Customs & BSL

### 2.1.3 Gross Foreign Exchange Reserves

The gross foreign exchange reserves of the Bank of Sierra Leone decreased to US\$437.5 million in 2023Q3 from US\$523.8 million in 2023Q2, mainly on account of excess outflows over inflows. Outflows amounted to US\$98.22mn, while inflows recorded was US\$18.44mn, resulting to a net outflow of US\$79.78mn. Payment for goods and services and debt service payments were mainly responsible for the significant decline in the gross foreign exchange reserves. Consequently, the reserve was only enough to cover 2.3 months of import of goods and services in 2023Q3, compared with 2.8 months of import cover in 2023Q2.

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

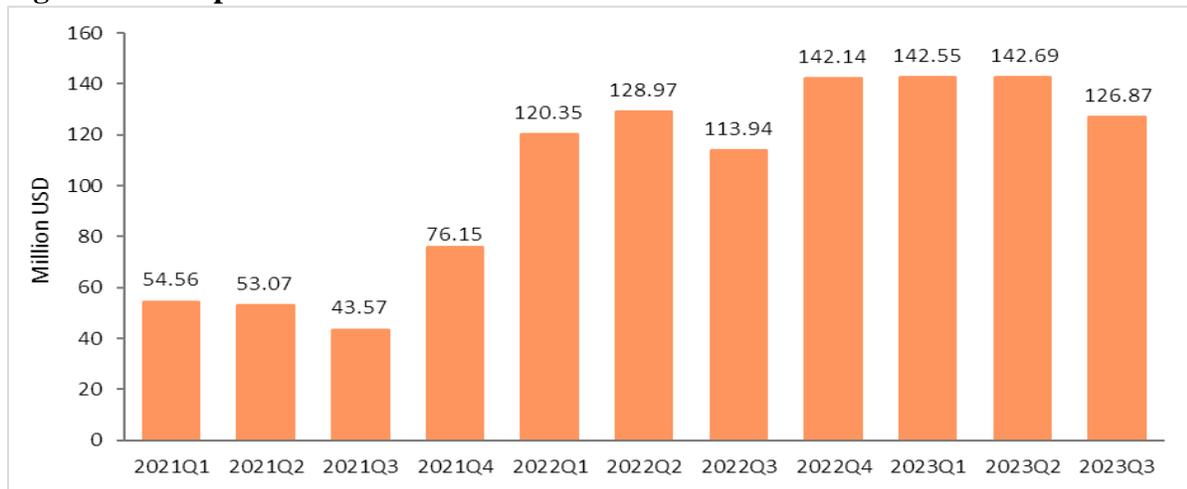


Source: Bank of Sierra Leone (BSL)

### 2.1.4 Diaspora Remittances

Diaspora remittance inflows decreased by 11.1 percent to US\$126.9 million in 2023Q3, from US\$142.7 million in the previous quarter, however, they were 11.3 percent higher than a year before. Remittances exhibit seasonality and are expected to recover in 2023Q4.

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

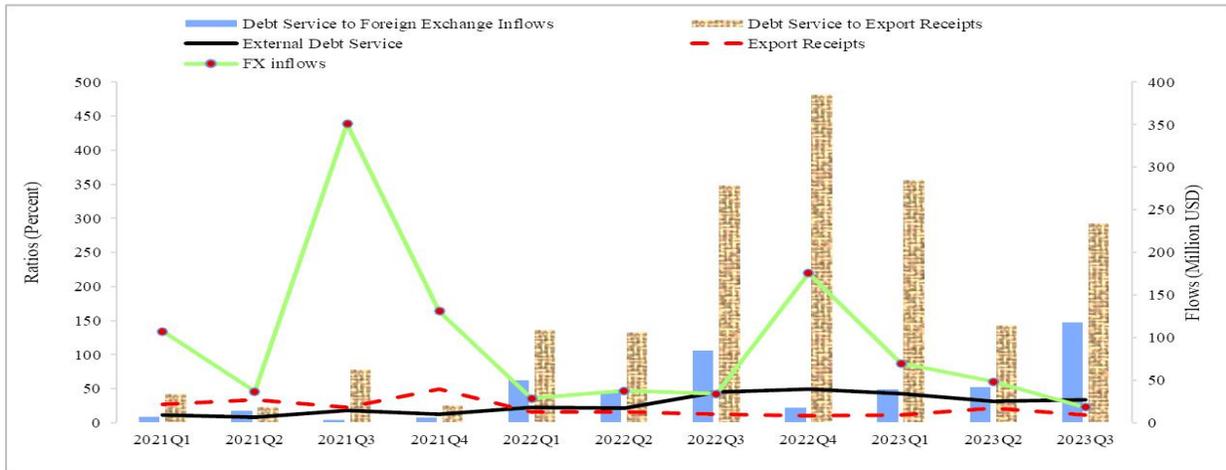


Source: Bank of Sierra Leone (BSL)

### 2.1.5 External Vulnerability Ratios

External debt service payments increased to US\$27.2mn in 2023Q3, from US\$25.5mn in 2023Q2. Conversely, forex inflows decreased to US\$18.4mn in 2023Q3 from US\$48.4mn in 2023Q2, while export receipts decreased to US\$9.3mn in 2023Q3 from US\$17.8mn in 2023Q2. Accordingly, both the ratios of debt service payment to export tax receipts as well as debt service payment to FX inflows increased.

**Figure 27: External Vulnerability Ratios**



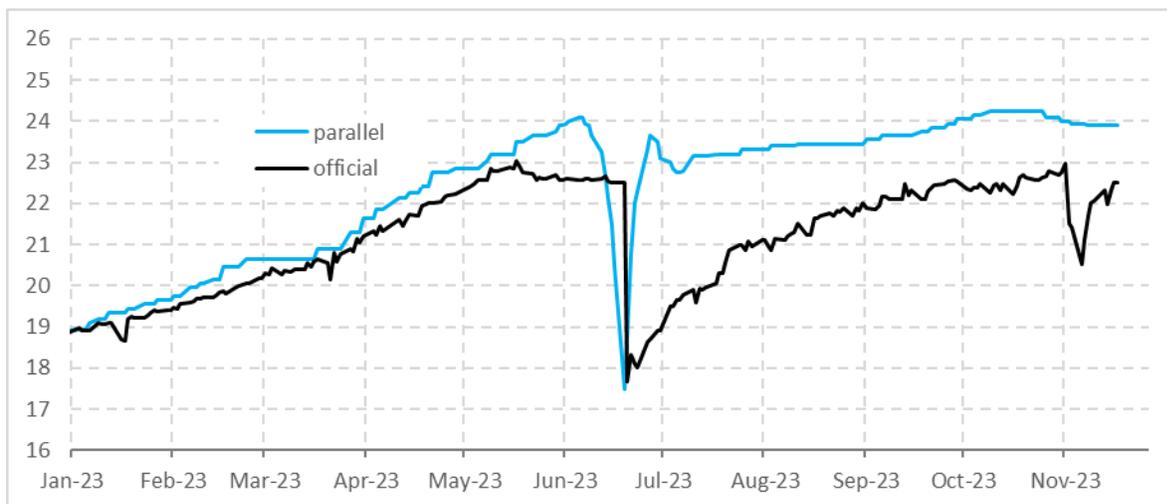
Source: Bank of Sierra Leone (BSL)

## 2.2 Exchange Rates and Foreign Exchange Market Developments

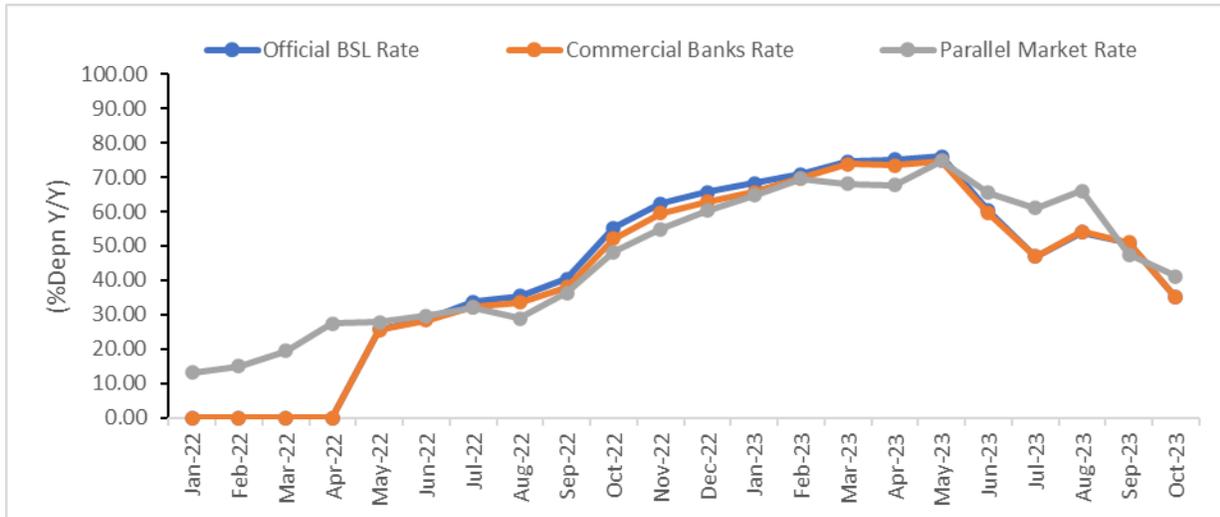
### 2.2.1 Exchange Rate Movements

The exchange rate has been relatively stable since July 2023, and in early December 2023 it still hovered around the same levels as in May 2023. This was due, in part, to policy actions taken by the BSL to remove bottlenecks in the foreign exchange markets, including the removal of administrative barriers, the amendment of the BSL Act 2019, to permit the use of currencies other than the Leone in selected transactions in the Country, and the amendment effect of the decision to permit lending in foreign currency by commercial banks, on case-by-case basis.

**Figure 28: Daily NLe/US\$ Mid Rates in the Official and Parallel Market in 2023**



**Figure 29: Exchange Rate Movement (Year-on-year %)**



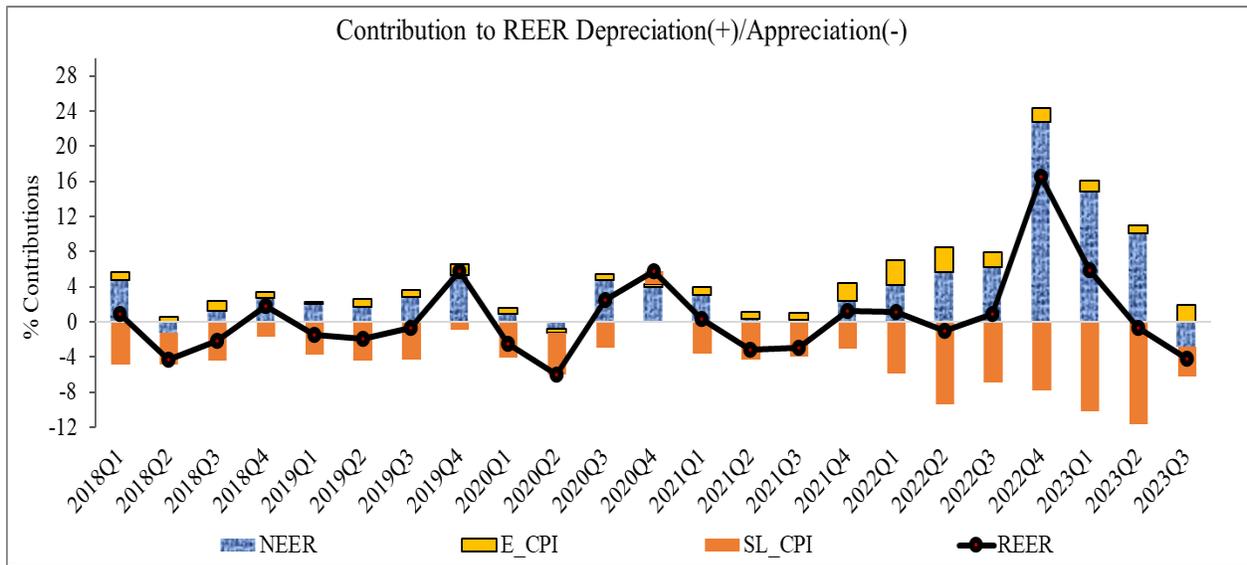
Source: Bank of Sierra Leone (BSL)

### 2.2.2 Effective Exchange Rates

The Nominal Effective Exchange Rate (NEER), which measures the relative strength of the Leone against the currencies of Sierra Leone’s trading partners, appreciated by 3.0 percent in 2023Q3 relative to the previous quarter.

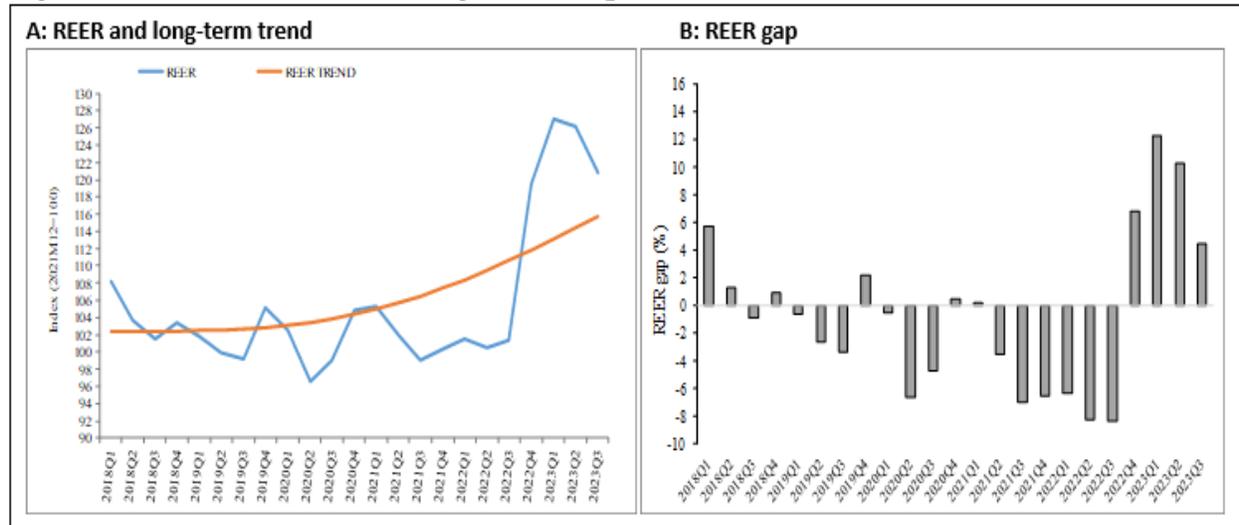
Similarly, the real effective exchange rate (REER), which measures the competitiveness of Sierra Leone’s traded goods relative to those of its trading partners, appreciated by 4 percent in 2023Q3 relative to 2023Q2. The REER appreciation was due to the combined effect of nominal appreciation and an increase in domestic prices over the increase in foreign prices. The real appreciation continued in October and November so that about three-quarter of the real depreciation between September 2022 and May 2023 has been reversed. The Leone is probably not far from its equilibrium value, and even if it is slightly undervalued, it does not fuel inflation.

**Figure 30: Percentage Contributions to the Change in REER**



Note: positive NEER and REER denote depreciation and negative means appreciation  
 Source: BSL, staff estimation.

**Figure 31: Real Effective Exchange Rate Gap**



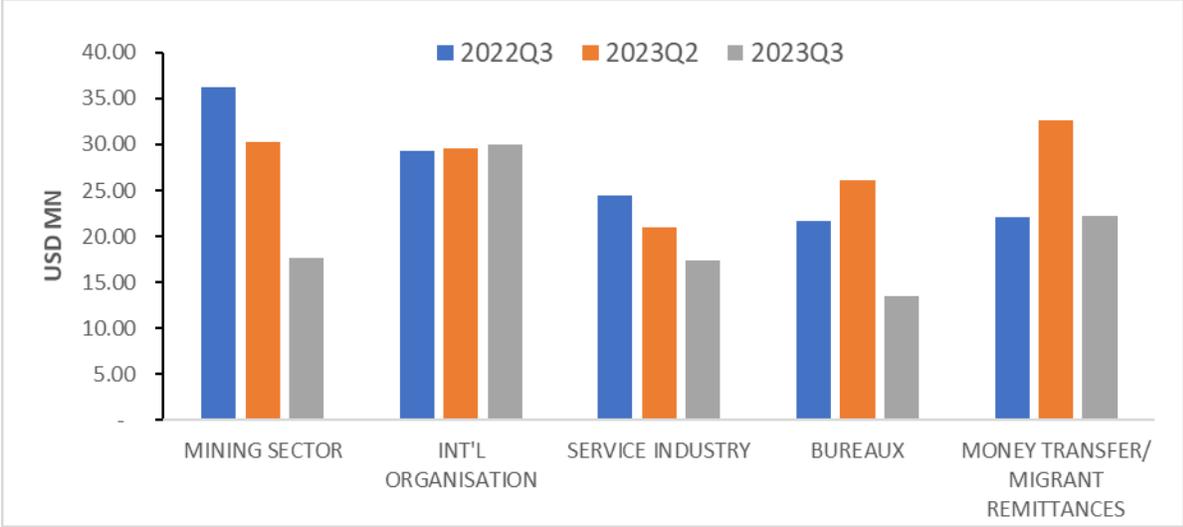
Source: BSL, staff estimation

### 2.2.3 Foreign Exchange Market Turnover

The turnover in the foreign exchange market (the sum of purchases and sales) during 2023Q3 was US\$303mn, down by 22.5 percent relative to US\$391mn realized in 2022Q3 and down by 12.9 percent from US\$348mn recorded in 2023Q2.

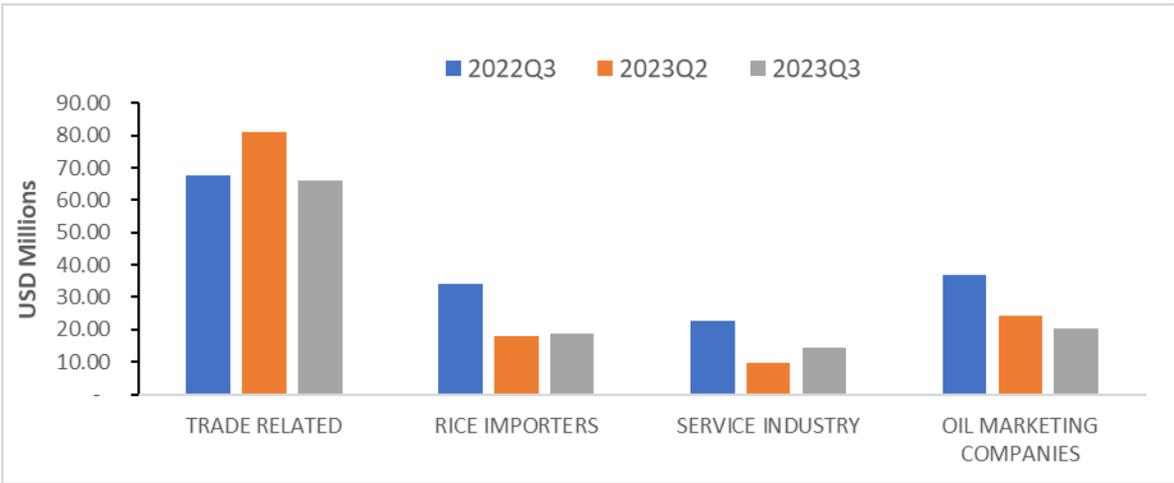
Commercial banks mainly purchase forex from the mining sector, international organizations (mostly NGO’s), foreign exchange bureaus, and the service industry. Foreign exchange from remittances is typically acquired either from remittance companies or indirectly from FX bureaus. Banks traditionally provide foreign exchange to various entities, such as rice importers, oil marketing companies, and businesses in the service industry.

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



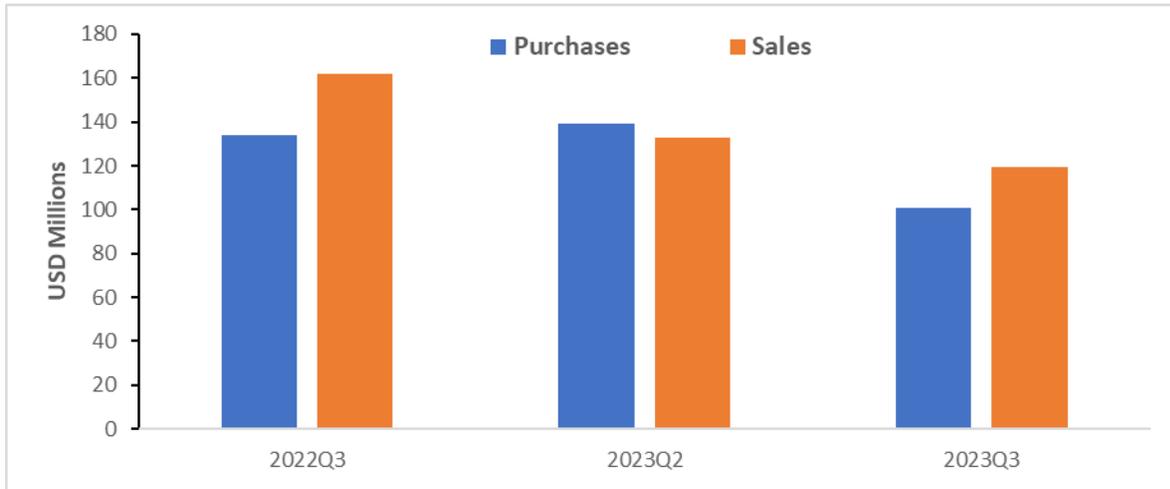
Source: Bank of Sierra Leone (BSL)

**Figure 33: Commercial Banks Sales from Selected Sectors**



Source: Bank of Sierra Leone (BSL)

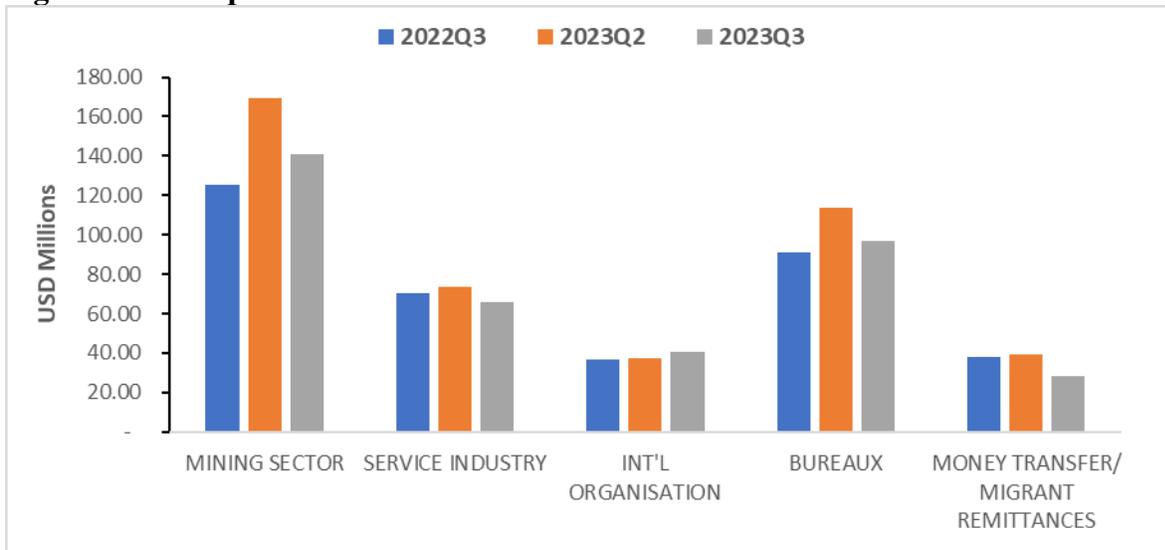
**Figure 34: Purchases and Sales of Forex by Commercial Banks**



Source: Bank of Sierra Leone (BSL)

Receipts into customer foreign currency accounts increased in 2023Q3 by 7.0 percent to US\$496mn from US\$463mn recorded in the corresponding period in 2022. The major contributors to the increase in receipts were the mining sector, the service industry, and the bureaux. However, receipts into customer foreign currency accounts decreased by 5.4 percent when compared to US\$524mn recorded in 2023Q2, mainly due to lower receipts from the mining sector, the bureaux, and migrant remittances. In October 2023, total receipts were US\$155mn, which is 5.7 percent less than US\$164mn recorded in September 2023.

**Figure 35: Receipts into CFC Accounts – Selected Sectors**



Source: Bank of Sierra Leone (BSL)

## 2.2.4 Outlook of the Foreign Exchange Market

The exchange rate is expected to remain stable in 2023Q4, as tighter monetary and fiscal policies continue to reduce the pressure on the exchange rate, which is assessed to be close to its equilibrium value.

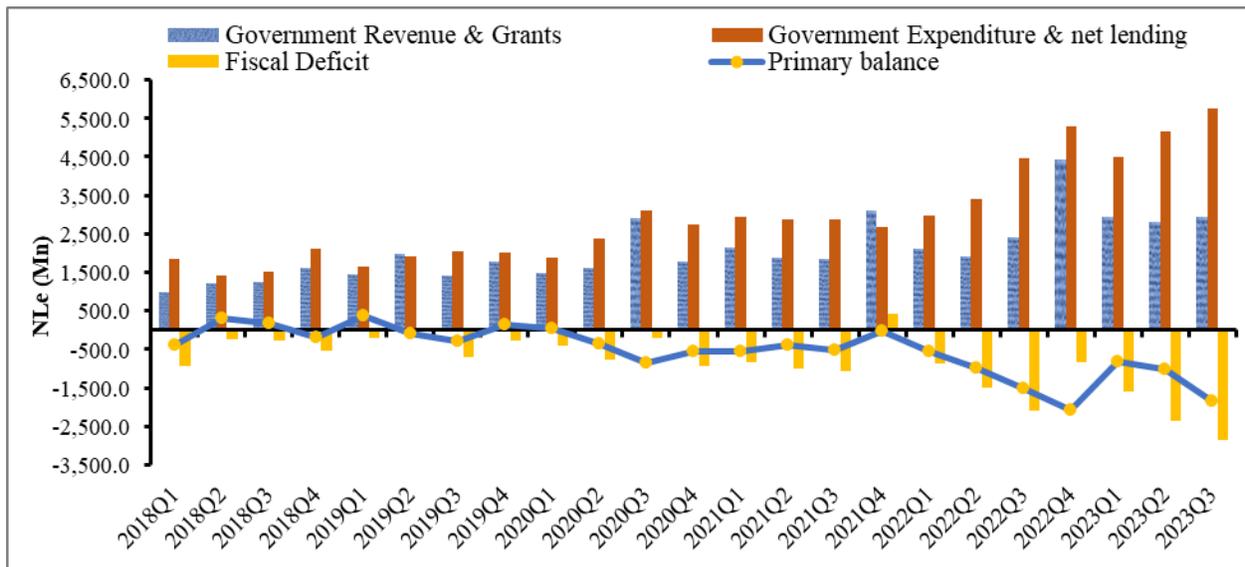
Furthermore, supply is expected to increase in the forex market in 2023Q4, on account of inflows from donor disbursements, a seasonal uptick in remittances and inflows from international organizations (NGOs).

## 2.3 Fiscal Developments

### 2.3.1 Fiscal Policy Stance

Fiscal policy was expansionary in 2023Q3, relative to 2023Q2. The outturn in government budgetary operations in 2023Q3 resulted in an expansion of the overall fiscal deficit to NLe2.9bn from NLe2.4bn in 2023Q2, reflecting the increase in government expenditure which outweighed the increase in revenue. The primary deficit also deteriorated to NLe1.8bn in 2023Q3 compared to NLe1.0bn in 2023Q2 (Figure 35).

**Figure 36: Fiscal deficit**

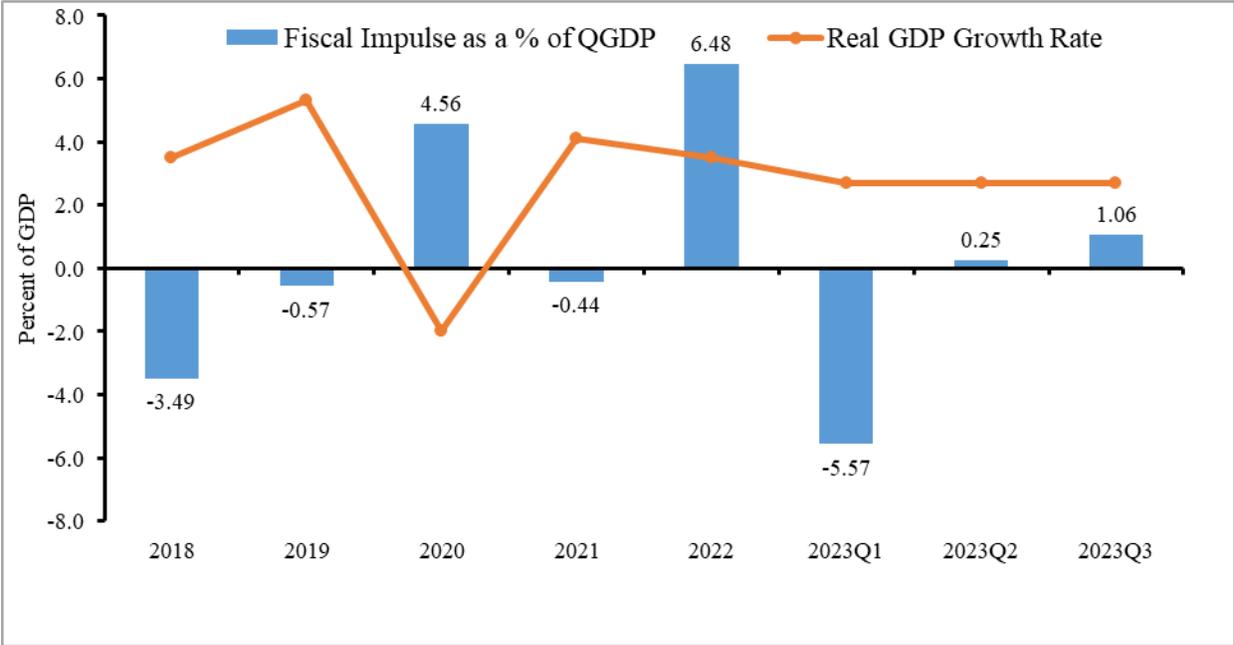


Source: Ministry of Finance (MOF)

The deterioration of the primary balance was largely due to increase in discretionary government spending, including overruns in non-salary-non-interest spending and the wage bill in respect of

the start-up of newly established MDAs, security sector allocations, and support to the presidential initiatives on climate change, renewable energy and food security. Additionally, the increase in payments for energy subsidy and transfers to EDSA to cover payments for the independent power providers (IPPs) - Karpower and CLSG - as well as the lagged impact of exchange rate depreciation reinforced fiscal pressures. All of these pressures, are expected to ease in the coming quarters as the government cut energy subsidies, settled outstanding debts to IPPs and the exchange rate has stabilized.

**Figure 37: Fiscal Indicators**



Sources: Ministry of Finance & Bank of Sierra Leone

**2.3.2 Government Revenues and Grants**

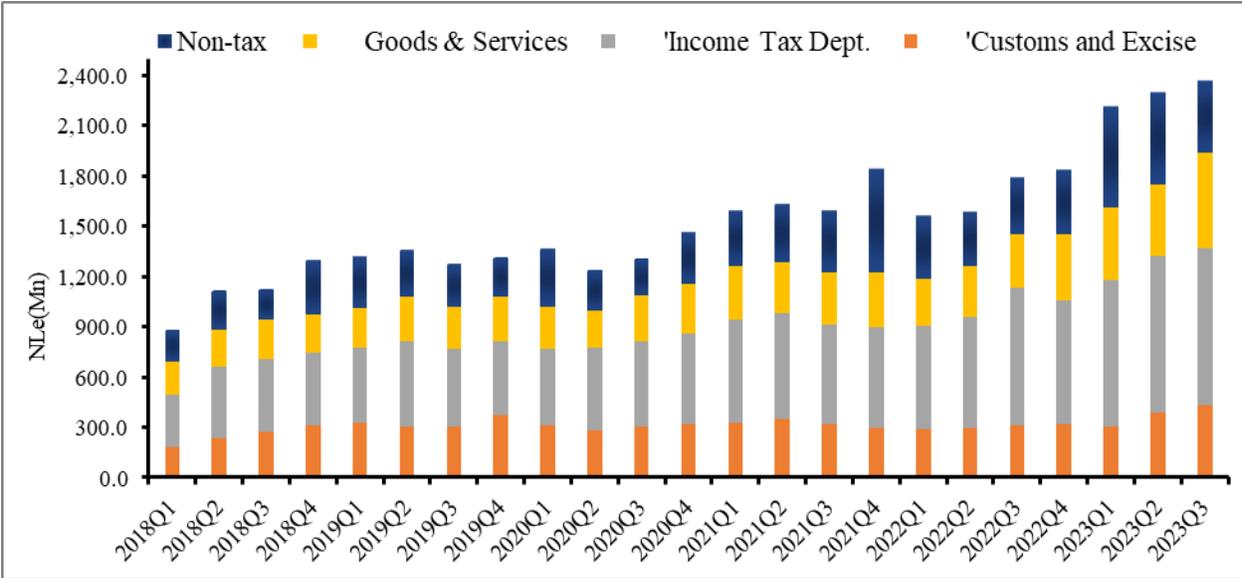
Total revenues and grants increased to NLe2.9bn in 2023Q3 compared to NLe2.8bn in 2023Q2 but were significantly lower than the quarterly target of NLe4.7bn. The expansion in total revenue was due to an improvement in domestic revenue mobilisation and the increase in foreign grants received.

Domestic revenue improved to NLe2.42bn in 2023Q3 from NLe2.36bn in 2023Q2. However, it fell short of the target of NLe2.59bn. Improvements in revenue collections of all the tax components accounted for the increase in domestic revenue. Tax revenue rose to NLe1.9bn in

2023Q3 from NLe1.7bn in 2023Q2. The increased tax revenue reflected the full implementation of the 2023 Finance Act by the revenue collection authority. Non-tax revenue, however, fell to NLe0.43bn in 2023Q3 from NLe0.55bn in 2023Q2, reflecting the decline in royalties from the diamond, gold, and other department receipts.

Foreign grants received also increased to NLe0.52bn in 2023Q3 compared to NLe0.44bn in 2023Q2 but were below the quarterly target of NLe2.1bn. This was exclusively foreign grants in respect of government capital projects.

**Figure 38: Components of Domestic Revenue**

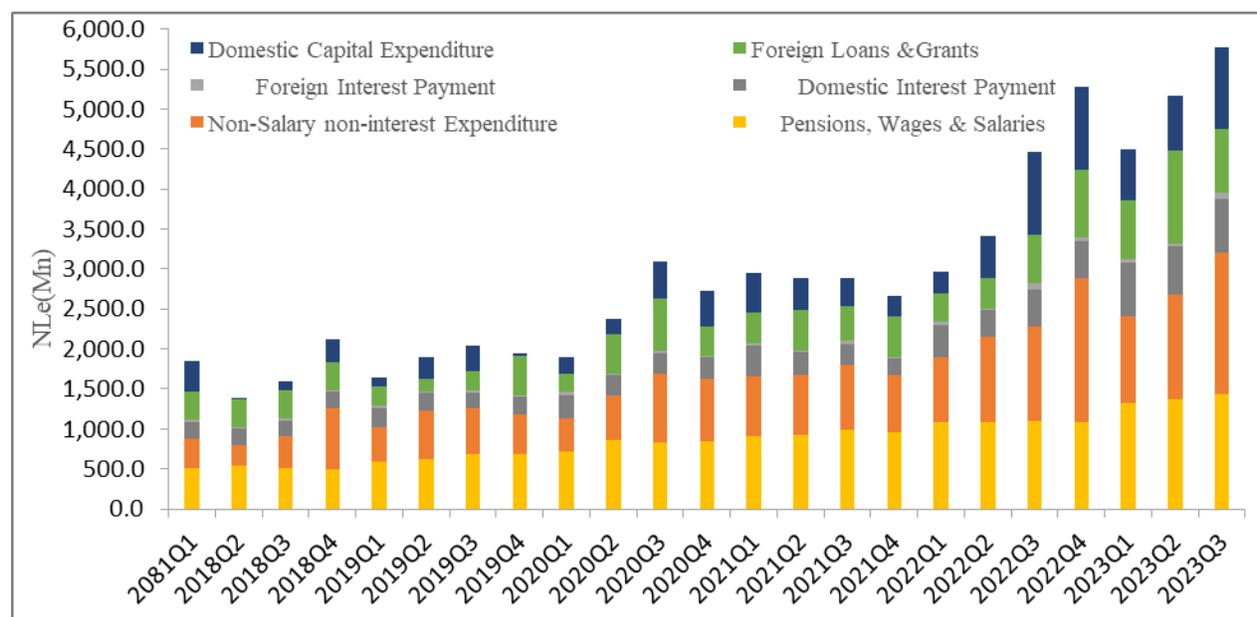


Source: Ministry of Finance (MOF)

**2.3.3 Government Expenditures**

Total government expenditure expanded to NLe5.77bn in 2023Q3 relative to NLe5.17bn in 2023Q2, and in breach of the quarterly ceiling of NLe4.44bn. The increase in government expenditure was mainly driven by an expansion in recurrent spending.

**Figure 39: Components of Government Expenditure**



Source: Ministry of Finance (MOF)

Recurrent expenditure increased to NLe3.95bn in 2023Q3 from NLe3.31bn in 2023Q2 and exceeded the quarterly target of NLe3.26bn. The overrun in recurrent spending reflected an increase in wages and salaries, non-salary, non-interest expenditures, and debt service. Both the wage bill and non-salary non-interest expenditure were above their quarterly targets while debt service remained within the target.

Capital expenditure, on the other hand, declined to NLe1.81bn in 2023Q3 from NLe1.85bn in 2023Q2 but was higher than the quarterly target of NLe1.18bn. The drop in capital expenditure resulted mainly from the decline in foreign loans and grants to finance capital projects.

### 2.3.4 Financing and Public Debt Analysis

The overall fiscal deficit was mainly financed from domestic sources. Domestic deficit financing stood at NLe2.3bn, while foreign financing resulted in a net repayment of NLe0.19bn. Other financing sources amounted to NLe0.28bn.

### 2.3.5 Fiscal Sector Outlook

Going forward, the government is committed to reduce the budget deficit from 10.5 percent of GDP in 2022 to 5.8 percent of GDP in 2023. This is in line with the revenue measures outlined in

the MTRS 2023-2027. The move to strengthen revenue administration, containing overruns in expenditure, and prudent debt management may create fiscal space for the ensuing expanded expenditure to support various government programs and projects. Hence, the full implementation of the 2023 Finance Act measures, combined with the additional revenue-enhancing policies in the 2024 Finance Act, is consistent with the IMF program.

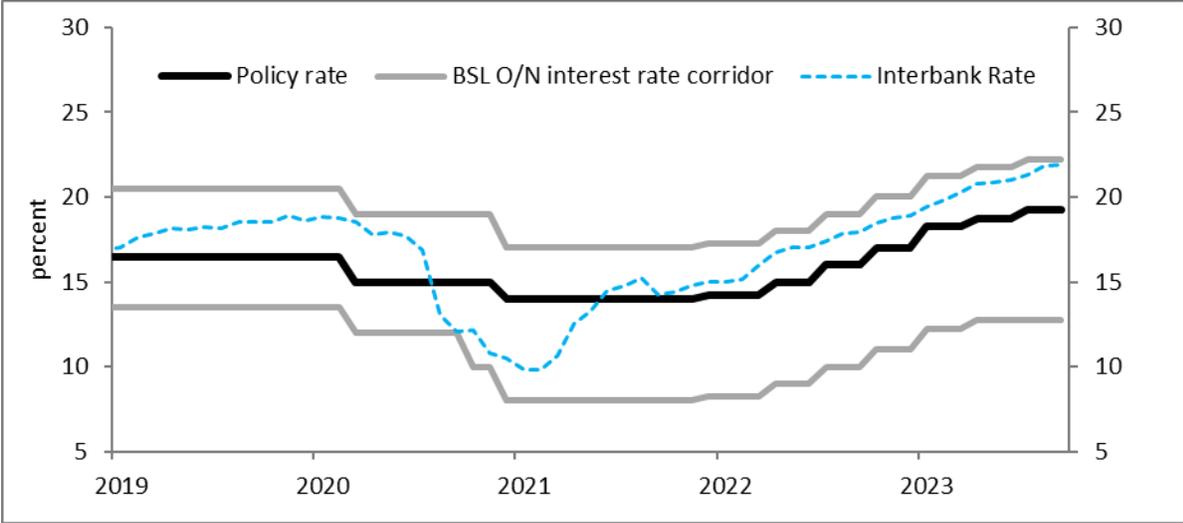
On the other hand, uncertainties in the global economy, geopolitical tensions, and economic fragmentation may lead to weaker growth while keeping inflation high, which together with a decline in budgetary support could challenge budget execution in the next quarters.

**2.4 Monetary Policy and Money Markets Developments**

**2.4.1 Monetary policy stance**

During the MPC meeting on December 14th, 2023, the Monetary Policy Rate (MPR) was increased by 1.0 percentage point to 22.25 percent. Both the standing lending facility and the standing deposit facility rates were adjusted by the same margin to 25.25 percent and 15.75 percent respectively.

**Figure 40: Trends in BSL Policy Rates and the Interbank Weighted Average Rates**



Source: Bank of Sierra Leone (BSL)

Key monetary aggregates were expansionary on year-on-year basis, but the outcome was mixed on quarterly basis.

## 2.4.2 Interest Rates Development

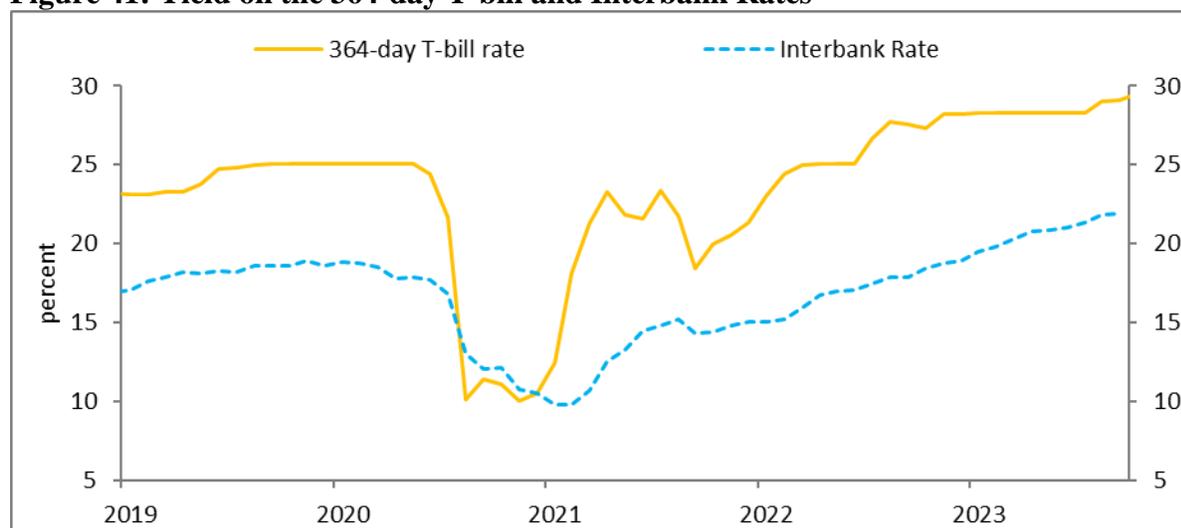
### *Treasury Bill Rates*

The interest rate on the 364-day treasury bills, which had remained flat at 28.28 percent up to July 2023, increased slightly to 29.13 percent in September 2023 and then to 31.07 percent in November 2023. Meanwhile, the 182-day and 91-day treasury bill markets remained highly illiquid, with their yields not reflecting the underlying economic and financial environment.

### *Interbank Money Market*

The level of intermediation in the interbank money market increased in 2023Q3. The volume of interbank transactions increased by NLe187mn (4.2 percent) over 2023Q3 to NLe3,480mn at end September 2023. No bank accessed the standing deposit facility (SDF) window during the third quarter of 2023. The interbank weighted average yield increased by 0.9 percentage point from 20.99 percent in June 2023 to 21.89 percent in 2023 Q3. This increase was largely in line with the change in the monetary policy rate (MPR) and it signaled continued liquidity tightness in the money market.

**Figure 41: Yield on the 364-day T-bill and Interbank Rates**

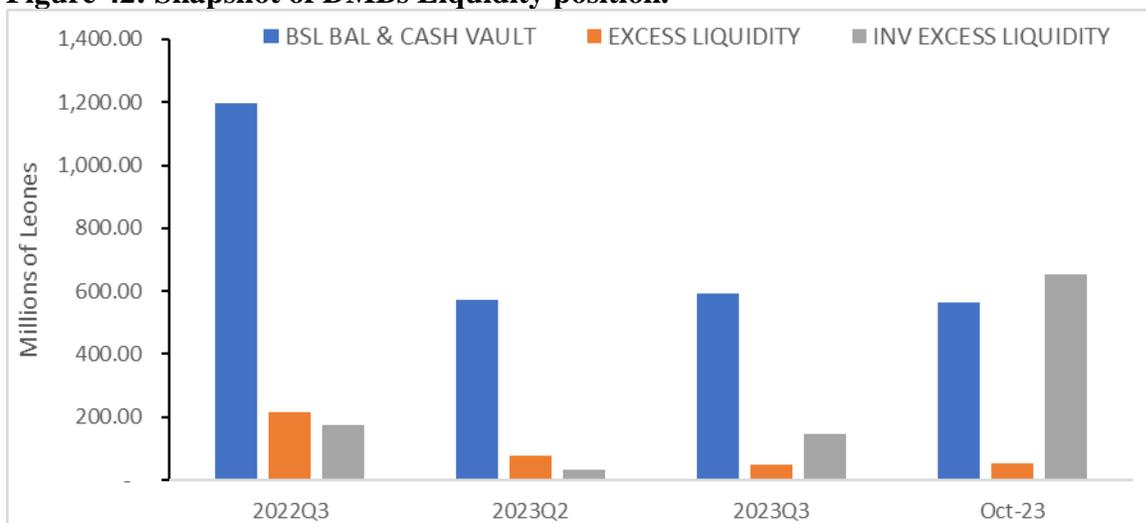


Source: Bank of Sierra Leone (BSL)

## 2.4.3 Liquidity in the Banking System

Total liquidity in the banking system increased by NLe325.7mn over 2023Q3 to NLe1,410.7mn as at end September 2023. The observed increase in liquidity could be attributed mainly to an increase in total expenditure by the government during the review period.

**Figure 42: Snapshot of DMBs Liquidity position.**



Source: Bank of Sierra Leone (BSL)

## 2.5 Monetary Aggregate

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

On a year-on-year basis, RM grew by 48.1 percent in September 2023. The growth of RM was due to an increase in the net domestic assets (NDA) of the BSL, which outweighed the decline in net foreign assets (NFA).

On a quarterly basis, RM contracted by 1.2 percent in 2023Q3, following a growth of 17.2 percent in 2023Q2. The contraction in RM was due to a deterioration in NFA, coupled with a lower volume of transactions in the repo market. On the liability side, the contraction was due to the 5.1 percent decline in currency issued, which outweighed the 27.6 percent increase in commercial banks' reserves at the BSL.

In terms of program performance, the annual expansion in RM was well above the IMF's end-September 2023 program target of 30.3 percent.

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

On an annual basis, M2 grew by 44.0 percent in September 2023 and was well above the IMF/ ECF program target of 26.6 percent. On a year-on-year basis, credit to the private sector increased by 14.0 percent and remained below the IMF/ ECF program target of 16.5 percent.

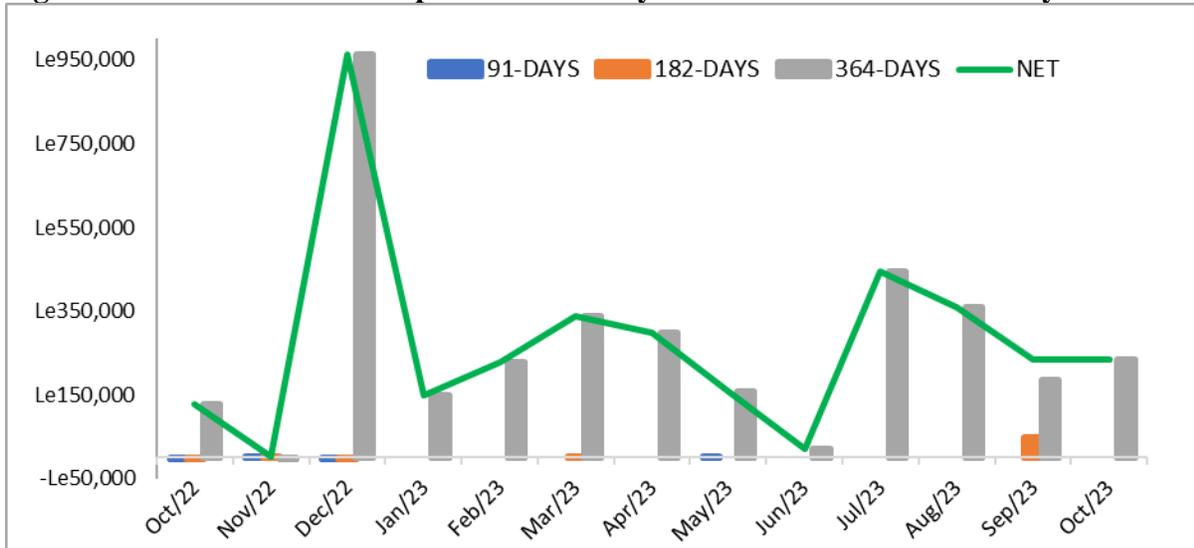
On a quarterly basis, M2 grew by 8.9 percent in 2023Q3, relative to the 2.6 percent increase recorded in 2023Q2. The growth in M2 was mainly due to the 15.1 percent growth in the NDA of the banking system, which fully offset the 16.6 percent contraction in their NFA. The NDA grew largely on account of the 12.6 percent increase in net claims on government, while credit to the private sector expanded by 5.9 percent. The contraction in the NFA of the banking system was largely underpinned by a deterioration in the NFA of the BSL.

From the liability side, the increase in broad money reflected an increase in both narrow money (M1) and quasi money. M1 expanded by 2.5 percent over 2023Q3, due to the 12.7 percent growth in demand deposits, which more than outweighed the 6.5 percent contraction in currency outside banks. Quasi money expanded by 14.5 percent, mainly driven by increases in foreign currency deposits (19.5%) and time and saving deposits (4.8%).

## **2.6 Domestic Debt Market**

The primary market auctions for Government Securities were largely oversubscribed on a net basis, during the review period. The 364-days tenure was oversubscribed for the months of January to May 2023, but was undersubscribed for the month of June 2023, whilst the 182-days and the 91-days tenures were undersubscribed throughout the first half of 2023. Similar trend continued up to the third quarter of 2023. As such, the demand for government treasury bills continued to be skewed to the long end of the market (the 364 days tenure), with deposit money banks being the primary participants. However, the non-bank public remained the dominant participant in the 91-days and 182-days tenures of the Treasury bills auctions.

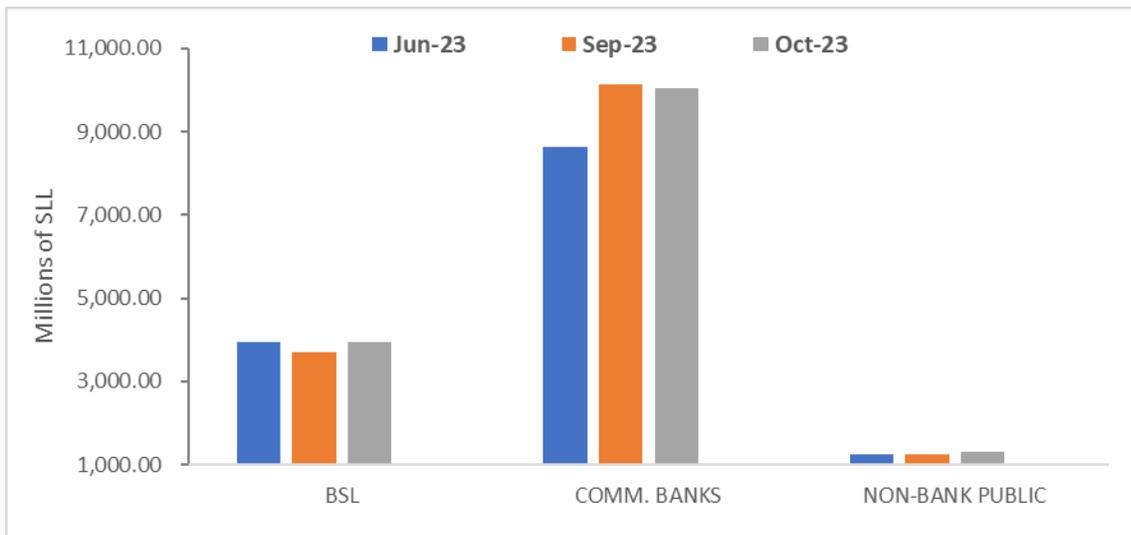
**Figure 43: Under/Oversubscription of Treasury Bills Auctions in the Primary Market**



Source: Bank of Sierra Leone (BSL)

The total stock of government securities increased by 8.7 percent over 2023 Q3. It further increased by 1.5 percent (to NLe17,177mn) as at end October 2023. Marketable securities accounted for 89.1 percent of the total stock of government securities, whilst non-marketable securities accounted for the remainder. The issuance of new treasury securities was mainly to finance the budget. The stock of non-marketable securities increased 5.9 percent over 2023Q3, on account of the new issuance of the 3-year treasury bond. The stock of non-marketable securities increased further by 1.8 percent over the month of October 2023.

**Figure 44: Holdings of Marketable Government Securities by Sector**



Source: Bank of Sierra Leone (BSL)

## 3 FINANCIAL STABILITY ANALYSIS

### 3.1 Overview of banking sector developments

The Banking sector remained relatively stable as all key Financial Soundness Indicators (FSIs) were within acceptable thresholds, despite the current macroeconomic challenges. Commercial bank's appetite for government paper remains strong, a key source, that is accounting for the largest share of the bank's total income. Treasury bills rates, especially the 364 days T-bills, continued to remain relatively high and increased for the most part of the quarter. Income generated from this source continued to impact positively on the key FSIs.

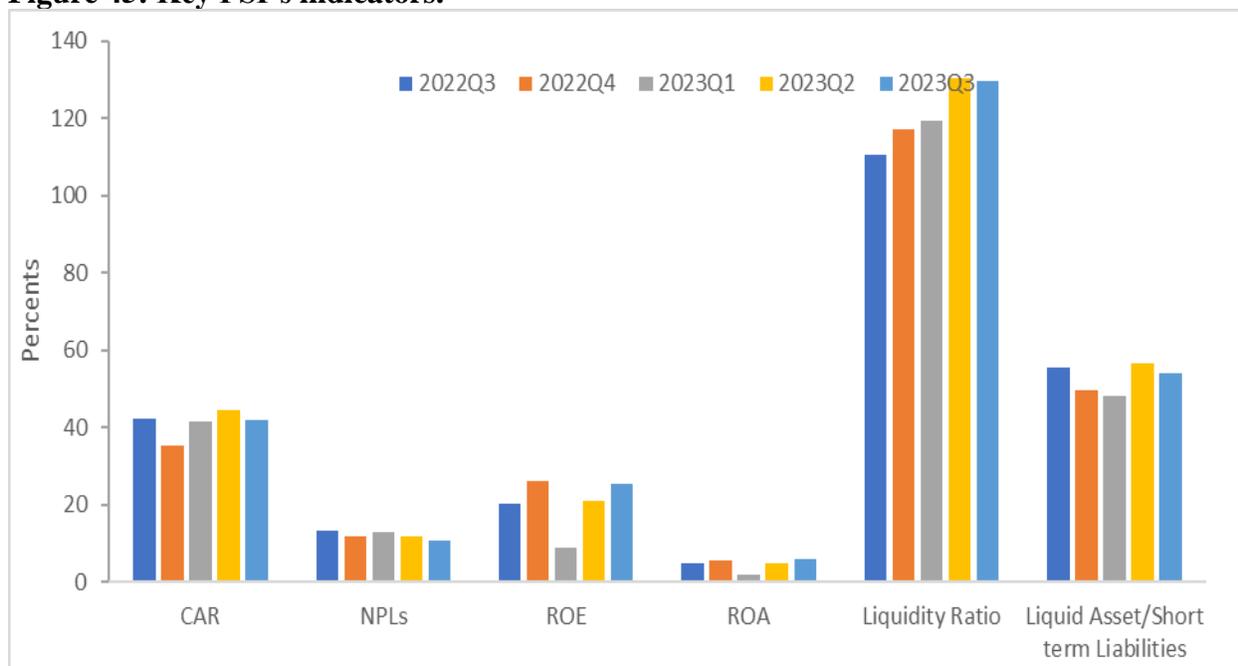
The proportion of Non-Performing Loans (NPLs) dropped marginally in 2023Q3 implying a slight improvement in asset quality.

### 3.2 Financial Soundness Indicators (FSIs)

The banking sector was relatively stable and adequately capitalised. Most of the key FSIs remained above the minimum thresholds stipulated by BSL. The system's regulatory capital to risk-weighted asset, denoted by the Capital adequacy Ratio (CAR) decreased by 2.66 percentage point to 41.72 percent in 2023Q3 from 44.38 per cent in 2023Q2. The CAR position remained above the regulatory minimum capital, indicating the accumulation of adequate capital by banks to absorb losses. The decrease in the CAR resulted from an increase in the Risk Weighted Assets and a slight increase in the capital base position of banks.

Asset quality improved slightly in 2023Q3 as the ratio of non-performing loans to total loans decreased to 11.0 per cent from 12.1 per cent in 2023Q2. However, NPLs remain above the prudential limit of 10 percent. Banks' profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE) recorded 5.70 and 25.47 percent respectively for 2023Q3 compared to 4.64 and 20.87 percent, respectively for 2023Q2 signaling increased earnings in 2023Q3. The Liquidity Ratio of the Banking Sector decreased to 129.61 percent in 2023Q3 relative to 130.28 percent in 2023Q2, representing a 0.68 percentage point decrease. Liquid assets to short term liabilities decreased by 2.60 percentage points from 56.41 percent in 2023Q2 to 53.81 percent in 2023Q3. **Error! Reference source not found.** below shows the key FSIs of the banking sector.

**Figure 45: Key FSI's indicators.**

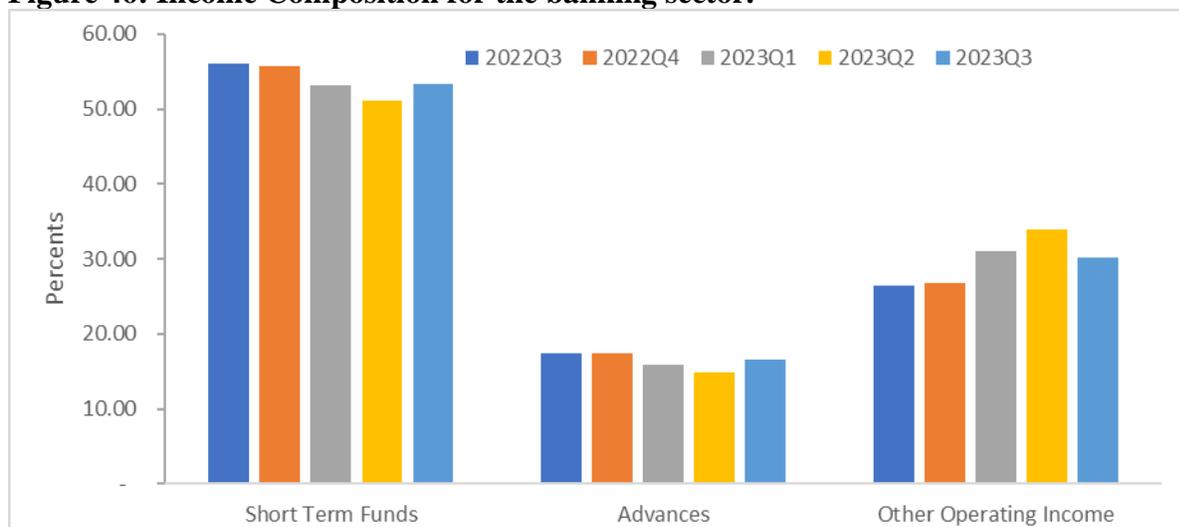


Source: Bank of Sierra Leone (BSL)

### 3.3 Income composition

The banking sector continued to rely largely on government securities for its income, attracted mainly by the high interest rates and the zero percent risk rating. In 2023Q3 the proportion of income from short term funds increased by 2.19 percentage points from 51.17 percent in 2023Q2 to 53.36 percent in 2023Q3. Income from advances also increased marginally from 14.90 percent in 2023Q2 to 16.52 percent in 2023Q3. Other operating income which consists mainly of commission, fees and profit on foreign exchange dealings decreased by 3.81 percentage points from 33.93 percent in 2023Q2, to 30.12 percent in 2023Q3.

**Figure 46: Income Composition for the banking sector.**

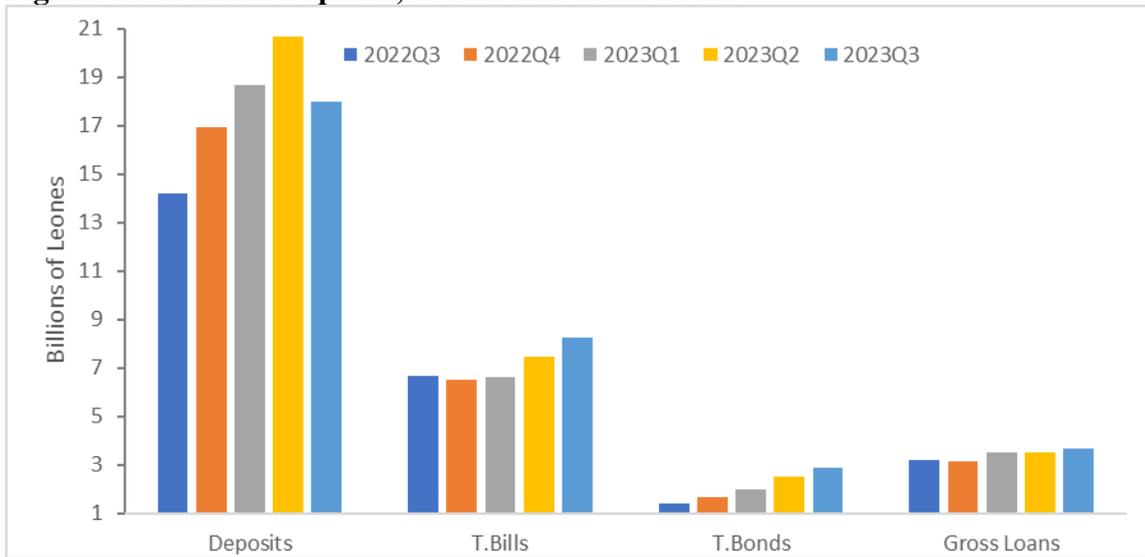


Source: Bank of Sierra Leone (BSL)

### 3.4 Sources and utilization of funds

- Total Deposits, which is the main source of funds for banks, increased in 2023Q3 by 14.86 percentage points from NLe17.99 billion in 2023Q2 to NLe20.67 billion in 2023Q3.
- T-bills holdings by the banking sector increased by 10.44 percent from NLe7.46 billion in 2023Q2 to NLe8.24billion in 2023Q3. The average interest rate moved from 28.28 percent in 2023Q2 to 30.12 percent in 2023Q3.
- T-bond holdings by the banking sector increased by 15.17 percent from NLe2.48billion in 2023Q2 to NLe2.86 billion in 2023Q3.
- Gross loans and advances increased marginally by 5.57 percent from NLe3.48 billion in 2023Q2 to NLe3.68 billion in 2023Q3.

**Figure 47: Trend in Deposits, T-bills and Gross Loans**



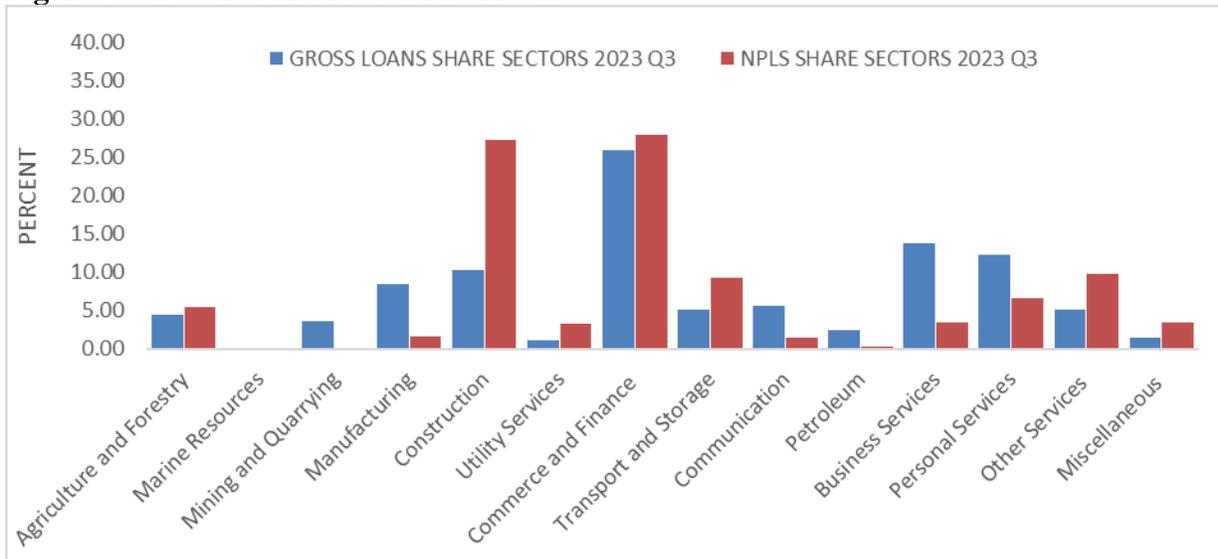
Source: Bank of Sierra Leone (BSL)

### 3.5 Sectoral distribution of gross loans & advances and NPLs

Commerce and Finance, Business Services, Personal Services, and Construction dominated the loan portfolios of the banking sector in the third quarter of 2023. These four sectors accounted for 62.46 percent of gross loans in 2023Q3.

Similarly, Commerce and Finance, Construction, and Other Services sectors contributed the most to NPLs. In terms of sectoral NPLs, the Commerce and Finance sector has the highest NPL ratio and holds the highest share of the total gross loans of the banking sector. Construction and Other Services sectors also have high NPL ratios and were 27.21 percent and 9.81 percent respectively in 2023Q3. Figure 47: Sectoral Share of Gross Loans below shows details of the sectoral distribution of gross loans and NPL share by sector.

**Figure 48: Sectoral Share of Gross Loans**

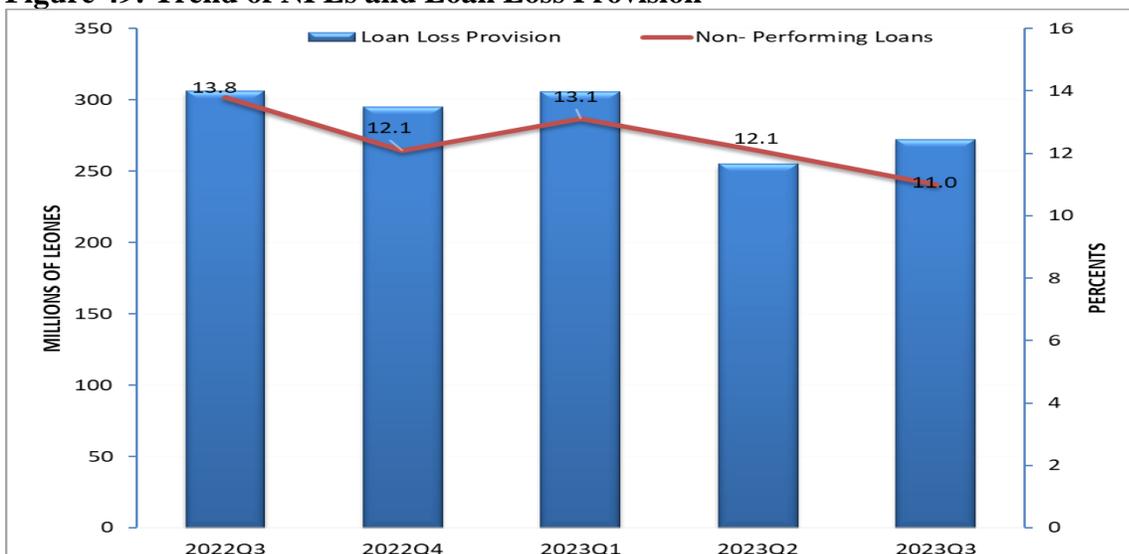


Source: Bank of Sierra Leone (BSL)

### 3.6 NPL Trend and Loan Loss Provisions

The proportion of Non-Performing Loans decreased marginally within the review period of 2023Q3. The NPL ratio for 2023Q3 decreased by 1.10 percentage points from 12.1 percent in 2023Q2 to 11.0 percent in 2023Q3. However, loan loss provision significantly increased by NLe17.26 million (6.77percentage points) to NLe272.20million in 2023Q2 from NLe254.94 million in 2023Q3.

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



Source: Bank of Sierra Leone (BSL)

### **3.7 Risks and Vulnerabilities to the Stability of the banking sector**

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

*Elevated levels of NPLs present a risk to financial stability.*

- Asset quality remains a concern in the banking sector, although the aggregate Capital Adequacy Ratio (CAR) appears strong and was above the minimum threshold.

*Banks' profitability could be threatened by factors such as:*

- The global crisis and exchange rate pressures.
- Banks' continued dependence on T-Bills could adversely affect their profitability in the event of a fall in T-Bills rates.

*Limited intermediation to support growth.*

- Banks have resorted to using their deposits to fund investments in the government securities. This has resulted to limited banking sector intermediation to the private sector to support economic growth.

### **3.8 Banking Sector Outlook**

The banking sector is expected to be relatively stable going forward. 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. However, solvency challenges in commercial banks and strengthening crisis management frameworks and the safety net will be critical in maintaining financial stability. Also, the uncertain global financial environment, the ongoing Russia-Ukraine crisis, currency depreciation pressures and high inflation will remain a threat to the banking sector.

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

### **4.1 Conclusion**

Real GDP continues to face challenges due to both global and domestic factors. These include domestic supply shocks, lower-than-expected output from key productive sectors, such as agriculture and mining, and lingering uncertainty in the global environment. GDP is estimated to grow by 2.7 percent in 2023 compared to 3.5 percent in 2022. The BSL's Composite Index of Economic Activity (CIEA) indicates a slowdown in economic activity in 2023Q3, compared to 2023Q2.

However, given the government's initiative to implement various sectoral reforms, including, for example, The Feed Salone Programme, to ensure increased agricultural productivity and inclusive economic growth, the MPC is of the view that the economy will be resilient over the medium-term to long-term. Faster growth of mining output is also expected to support GDP growth.

Inflationary pressures have been persistently high since the 2023Q3 MPC meeting. Inflation increased significantly from 45.0 percent in July to 50.9 percent in August 2023 and edged further to 54.5 percent in September 2023, reflecting the upward adjustment of domestic fuel prices. Inflation rose marginally further in October 2023 but declined to 54.2 percent in November 2023. The easing of inflationary pressures could be attributed to the tight monetary policy stance adopted by the BSL to bring down inflation, supported by the relative stability of exchange rate. The MPC notes that the receding global inflation, tight fiscal and monetary policies, coupled with efforts by the government to enhance the supply of food and other essential commodities, as well as the relative stability in the exchange rate, could help to further moderate inflationary pressures in the near-term.

### **4.2 Decision of the Monetary Policy Committee (MPC)**

Mindful of the objective of maintaining price and financial system stability while also supporting investment and growth, the MPC decided to raise the MPR by 1.0 percentage point to 22.25 percent and to adjust the Standing Lending Facility and Standing Deposit Facility rates by the same margin.

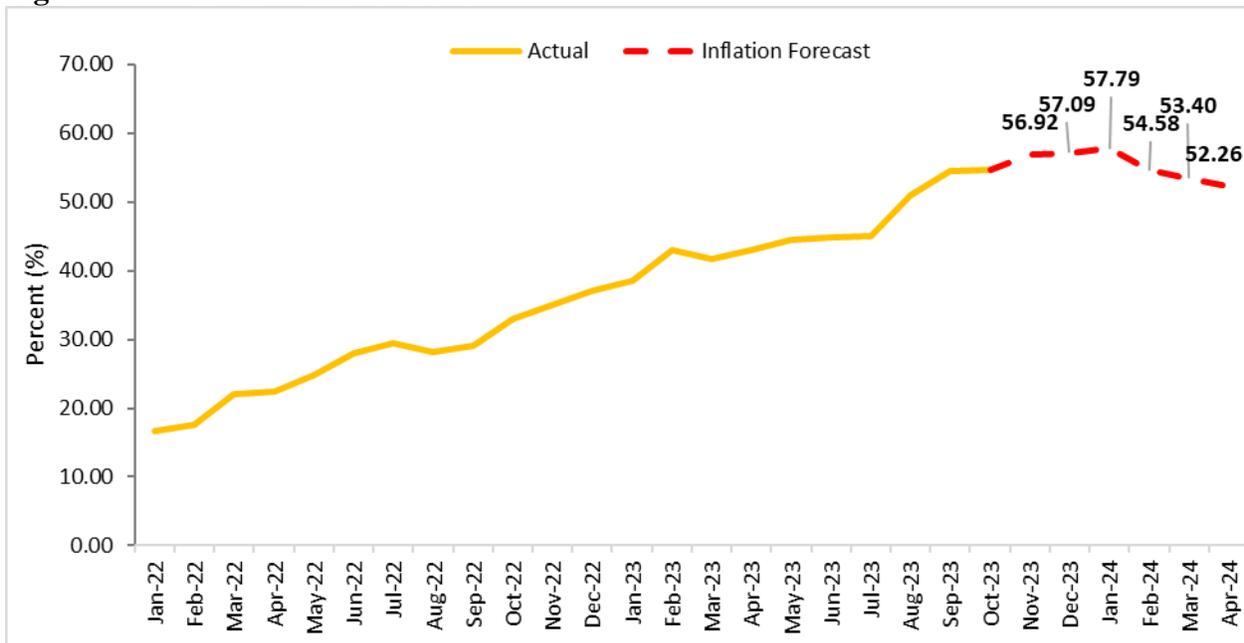
## 5 APPENDIX

### Inflation Outlook

Inflation is projected to remain elevated throughout the forecast horizon. The combined forecast indicates that inflation will peak in January 2024 at 57.79%, but then moderate through April 2024.

It is noteworthy that the preceding forecast, as presented during the September 2023 MPC meeting, demonstrated a high level of accuracy. The forecast errors observed over the initial three months were minimal in comparison to the actual data published by Statistics Sierra Leone.

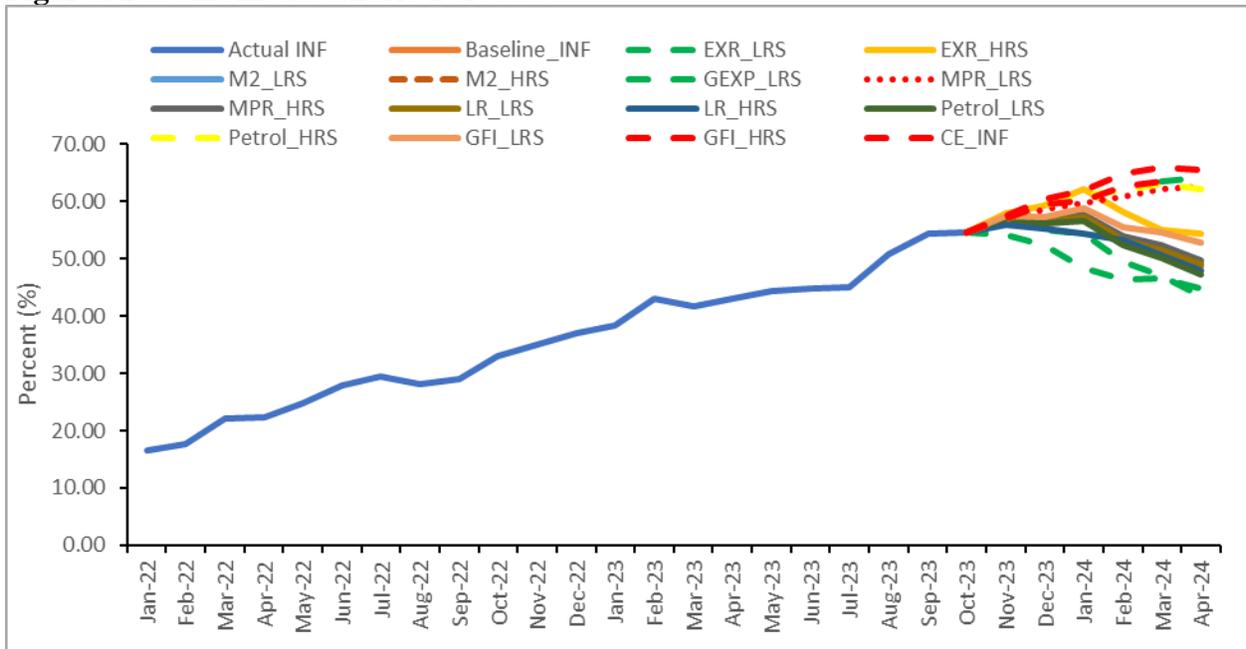
**Figure 50: Combined Inflation Forecast**



Source: BSL Staff Calculations

Scenario analysis shows that variables such as energy prices, customs and excise taxes, exchange rates, global food index, and money supply are projected to contribute to inflationary pressures. On the other hand, reduction in government expenditure would result in a decline in inflation. The inflation forecast showing the scenario analysis is presented in the figure below.

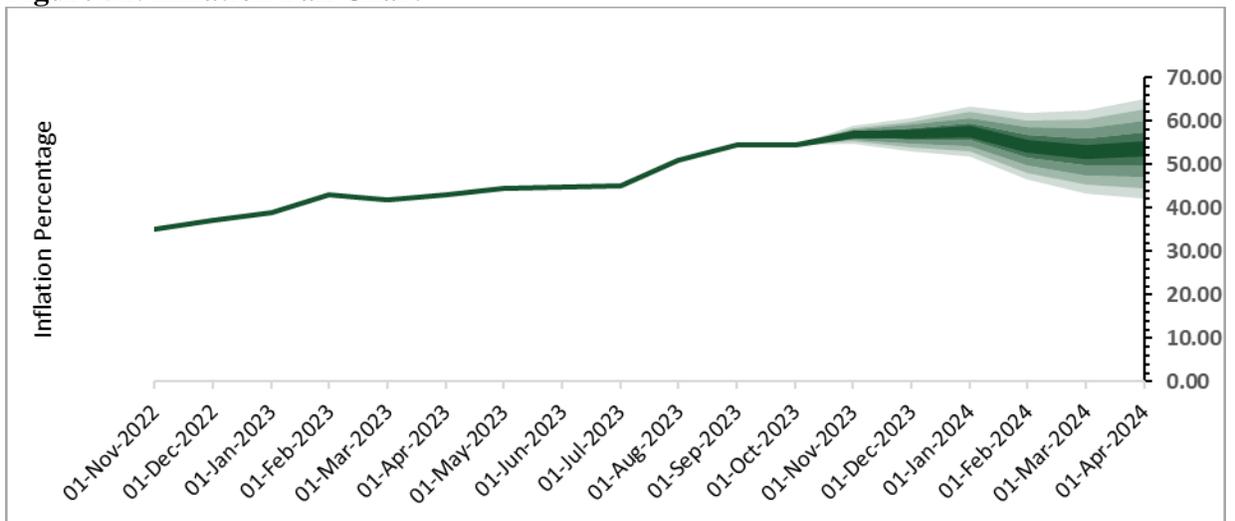
**Figure 51: Combined Scenario Forecast**



Source: BSL Staff Calculations

The resulting Fan Chart shows that there is a 90% confidence interval for inflation to stay within the 42% to 65% range over the forecast horizon.

**Figure 52: Inflation Fan Chart**



Source: BSL Staff Calculations

Risks to the inflation outlook are largely tilted to the upside due to factors such as:

1. Continued geopolitical tensions, including the ongoing Russia-Ukraine war and the Israel-Palestine conflict could increase global food and energy prices, with adverse consequences for domestic prices.
2. Domestic regulatory price increases
3. High inflation expectations and exchange rate pressures
4. Extreme climate events amplifying supply chain disruptions and inflationary pressures.
5. Continued domestic political tensions.

However, on the downside, the continued tight monetary policy stance, and fiscal consolidation in line with the IMF-ECF program and the expected retreat in commodity prices could soften inflation pressure in the medium term.

**Table 1: Summary of Global Growth Projections**

	2022	WEO July 2023 Projections		WEO October 2023 Projections		CHANGE IN Projections	
		2023	2024	2023	2024	2023	2024
<b>World Output</b>	<b>3.4</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>2.9</b>	<b>0.0</b>	<b>-0.1</b>
<b>Advanced Economies</b>	<b>2.6</b>	<b>1.5</b>	<b>1.4</b>	<b>1.5</b>	<b>1.4</b>	<b>0.0</b>	<b>0.0</b>
<i>United States</i>	2.1	1.8	1.0	2.1	1.5	0.3	0.5
<i>Euro Area</i>	3.3	0.9	1.5	0.7	1.2	-0.2	-0.3
<i>United Kingdom</i>	4.1	0.4	1.0	0.5	0.6	0.1	-0.4
<i>Japan</i>	1.0	1.4	1.0	2.0	1.0	0.6	0.0
<b>Emerging Market and Developing Economies</b>	<b>4.1</b>	<b>4.0</b>	<b>4.1</b>	<b>4.0</b>	<b>4.0</b>	<b>0.0</b>	<b>-0.1</b>
<i>Brazil</i>	2.9	2.1	1.2	3.1	1.5	1.0	0.3
<i>Russia</i>	-2.1	1.5	1.3	2.2	1.1	0.7	-0.2
<i>India</i>	7.2	6.1	6.3	6.3	6.3	0.2	0.0
<i>China</i>	3.0	5.2	4.5	5.0	4.2	-0.2	-0.3
<b>Sub-Saharan Africa</b>	<b>4.0</b>	<b>3.5</b>	<b>4.1</b>	<b>3.3</b>	<b>4.0</b>	<b>-0.2</b>	<b>-0.1</b>
<i>Nigeria</i>	3.3	3.2	3.0	2.9	3.1	-0.3	0.1
<i>South Africa</i>	1.9	0.3	1.7	0.9	1.8	0.6	0.1

*Source: IMF World Economic Outlook (WEO) October 2023 and July 2023 update.*

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

Country	Recent Inflation (%)		Monetary Policy Rates (%)				
			Current		Previous	Change	
<b>WAMZ</b>							
Sierra Leone	54.5	Sep.23	21.25	Oct.23	19.25	Jul.23	2.00
Nigeria	26.7	Sep.23	18.75	Jul.23	18.50	May.23	0.25
Ghana	38.1	Sep.23	30.00	Jul.23	29.50	May.23	0.50
Guinea	7.9	Sep.23	11.00	Oct.23	11.50	Aug.23	0.50
Liberia	11.7	Sep.23	20.00	Oct.23	20.00	Jul.23	0.00
The Gambia	18.5	Sep.23	17.00	Aug.2	16.00	Jul.23	1.00
<b>Major Economies</b>							
USA	3.3	Oct.23	5.50	Nov.23	5.50	Sep.23	0.00
China	(0.2)	Oct.23	3.45	Nov.23	3.45	Jul.23	0.00
Euro Area	4.3	Sep.23	4.50	Oct.2	4.25	Sep.23	0.25
UK	6.7	Sep.23	5.25	Nov.23	5.25	Nov.23	0.00

Source: Trading Economics (November 2023)

**Table 3: Central Bank Survey**

Millions of Leones	2023		Quarterly % Change		Yearly % Change	
	2023Q2	2023Q3	2023Q2	2023Q3	2023Q2	2023Q3
<b>1. Net Foreign Assets</b>	<b>(3,043.17)</b>	<b>(4,715.37)</b>	<b>(10.81)</b>	<b>54.95</b>	<b>44.38</b>	22.29
<b>2. Net Domestic Assets</b>	<b>10,105.29</b>	<b>11,693.07</b>	<b>7.09</b>	<b>15.71</b>	<b>53.16</b>	36.46
Government Borrowing (net)	8,569.19	9,937.48	27.41	15.97	58.67	48.45
o.w. Securities	4,064.78	4,190.85	1.50	3.10	126.15	107.69
Ways and Means	242.37	267.76	16.43	10.48	3,029.59	#DIV/0!
GoSL/IMF /WB Budget financing	3,995.16	3,995.12	13.15	(0.00)	13.15	(16.58)
<b>3. Reserve money</b>	<b>7,062.12</b>	<b>6,977.69</b>	<b>17.23</b>	<b>(1.20)</b>	<b>57.29</b>	<b>48.06</b>
o.w. Currency issued	6,218.44	5,903.36	19.45	(5.07)	65.97	44.50
Bank reserves	836.73	1,068.03	3.21	27.64	13.45	71.60

Source: Bank of Sierra Leone (BSL)

**Table 4: Monetary Survey**

Billions of Leones			Quarterly % Change		Yearly % Change	
	2023Q2	2023Q3	2023Q2	2023Q3	2023Q2	2023Q3
<b>Reserve money</b>	<b>7,062.12</b>	<b>6,977.69</b>	<b>17.23</b>	<b>(1.20)</b>	<b>57.29</b>	<b>48.06</b>
<b>Broad Money (M2)</b>	<b>22,534.55</b>	<b>24,527.76</b>	<b>2.56</b>	<b>8.85</b>	<b>47.38</b>	<b>43.98</b>
<b>Narrow money (M1)</b>	<b>10,559.54</b>	<b>10,822.59</b>	<b>11.12</b>	<b>2.49</b>	<b>43.02</b>	<b>32.39</b>
Currency outside banks	5,588.00	5,222.33	19.42	(6.54)	67.90	46.00
Demand deposit	4,971.54	5,600.26	3.06	12.65	22.60	21.80
<b>Quasi money</b>	<b>11,975.01</b>	<b>13,705.17</b>	<b>(3.97)</b>	<b>14.45</b>	<b>51.45</b>	<b>54.67</b>
o.w. Foreign currency deposit	7,885.34	9,421.08	(10.03)	19.48	73.65	77.37
Time and saving deposit	4,082.71	4,277.79	10.42	4.78	21.51	20.69
<b>Net Foreign Asset</b>	<b>4,453.10</b>	<b>3,712.06</b>	<b>(23.48)</b>	<b>(16.64)</b>	<b>74.42</b>	<b>134.76</b>
BSL	(3043.17)	(4715.37)	(10.81)	54.95	44.38	22.29
ODCs	7496.28	8427.43	(18.79)	12.42	60.83	55.00
<b>Net Domestic Assets</b>	<b>18,081.45</b>	<b>20,815.70</b>	<b>11.94</b>	<b>15.12</b>	<b>41.96</b>	<b>34.69</b>
<b>Net Domestic Credit</b>	<b>21,260.65</b>	<b>23,578.61</b>	<b>14.12</b>	<b>10.90</b>	<b>38.87</b>	<b>36.43</b>
Government (Net)	17,517.15	19,714.81	17.11	12.55	43.04	42.20
BSL	8569.19	9937.48	12.31	15.97	58.67	48.45
ODCs	8947.96	9777.33	22.10	9.27	30.71	36.37
Private Sector Credit	3890.87	4116.70	(0.27)	5.80	14.80	13.93
o.w ODC	3873.29	4099.82	(0.26)	5.85	14.83	13.97
Other Sectors (Net)*	(147.37)	(252.89)	(35.99)	71.60	(54.77)	29.63
<b>Other Items (Net)</b>	<b>(317.17)</b>	<b>(2,762.91)</b>	<b>(194.26)</b>	<b>771.11</b>	<b>(87.67)</b>	<b>51.16</b>
<b>Money Multiplier</b>	3.19      3.52					

Source: Bank of Sierra Leone (BSL)

**Table 5: Combined Inflation forecast and Actuals.**

Months	Forecast	Actuals	Forecast Error
Aug-23	49.15*	50.94	1.79
Sep-23	54.17*	54.48	0.31
Oct-23	54.74*	54.59	-0.15
November	56.9	-	-
December	57.09	-	-
Jan-24	57.79	-	-
Feb-24	54.58	-	-
Mar-24	53.4		
Apr-24	52.26		

\* denotes the inflation forecast from the Q2 MPC meeting

Source: BSL Staff projections