



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

**SEPTEMBER 2022**

## TABLE OF CONTENT

ACRONYMS .....	4
LIST OF FIGURES .....	5
LIST OF TABLES (APPENDED) .....	6
1. EXECUTIVE SUMMARY .....	8
2. GLOBAL ECONOMIC DEVELOPMENTS AND PROSPECTS .....	11
2.1 Global Output.....	11
2.1.1 Advanced and Emerging Market Economies .....	12
2.1.2 Sub-Saharan Africa.....	12
2.1.3 West African Monetary Zone (WAMZ).....	13
2.2 Global Commodity Prices and Inflation .....	13
2.2.1 Global Commodity Prices .....	13
2.2.2 Global Inflation.....	18
2.3 Monetary Policy and Financial Market Developments.....	20
2.4 Implications for the outlook of the Sierra Leone economy.....	20
3. DOMESTIC ECONOMIC DEVELOPMENTS.....	21
3.1 Real Sector Developments .....	21
3.1.1 Real GDP Growth.....	21
3.1.2 Composite Index of Economic Activity (CIEA) .....	22
3.1.3 Inflation .....	23
3.1.4 Inflation Outlook .....	25
3.2 External Sector Developments .....	26
3.2.1 Trade Balance .....	26
3.2.2 Gross Foreign Exchange Reserves .....	28
3.2.3 Diaspora Remittances .....	29
3.2.4 External Vulnerability Ratios .....	29
3.2.5 External Sector Outlook .....	30
3.3 Exchange Rates and Foreign Exchange Market Developments.....	30
3.3.1 Exchange rate Movement .....	30
3.3.2 Exchange Rates Spread in Various Market Segments.....	32

3.3.3 Effective Exchange Rates .....	33
3.3.4 Domestic Foreign Exchange Market .....	34
3.3.5 Outlook for the Foreign Exchange Market.....	36
3.4 Fiscal Developments .....	36
3.4.1 Government Budgetary Operations .....	36
3.4.2 Government Revenues and Grants .....	37
3.4.3 Government Expenditures .....	38
3.4.4 Budget Deficit Financing.....	39
3.4.5 Outlook for the Fiscal Sector.....	39
3.5 Monetary Policy, Money and Financial Markets Developments .....	40
3.5.1 Monetary Policy Stance.....	40
3.5.2 Interbank Money Market Rate.....	40
3.5.3 Developments in Monetary Aggregates .....	41
3.5.4 Interest Rates Developments .....	43
3.6 Domestic Debt Developments.....	44
3.6.1 Primary Market Auction Outcomes.....	44
3.6.2 Stock of Government Securities .....	44
3.6.3 Distribution of the Stock of Government Securities by Sector .....	45
3.7 Financial Stability Analysis .....	46
3.7.1 Financial Soundness Indicators (FSIs) .....	46
3.7.2 Income Composition.....	47
3.7.3 Sources and Utilization of Funds.....	48
3.7.4 Trend in NPLs and Loan Loss Provisions .....	49
3.7.5 Challenges .....	49
3.7.6 Outlook.....	49
4. CONCLUSION AND DECISION OF THE MPC.....	50
4.1 Conclusion.....	50
4.2 Decision of the Monetary Policy Committee .....	51
Appendix.....	52

## 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

## LIST OF FIGURES

Figure 1: Trends in Global and Selected Economies PMIs .....	11
Figure 2: Trends in global and regional real GDP growth rates (%) .....	12
Figure 3: Trends in Real GDP Growth (%) in the WAMZ Economies .....	13
Figure 4: Trends in Global Commodity Price Indices .....	14
Figure 5: Crude Oil Prices (US\$/barrel) .....	14
Figure 6: Average Prices of Petroleum Products (US\$/gallon) .....	15
Figure 7: Trend in the Price of Iron Ore (US\$/dmt) .....	16
Figure 8: Trends in the Prices of Diamonds, Bauxite and Rutile.....	16
Figure 9: Cocoa and Coffee Prices (US\$/kg).....	17
Figure 10: FAO Food Price Indices .....	18
Figure 11: Trends in Global and Regional inflation .....	18
Figure 12: Inflation Trends in the WAMZ.....	19
Figure 13: Global Interest Rates .....	20
Figure 14: Real GDP growth Rates.....	21
Figure 15: Real GDP growth Rates Excluding Iron ore and Mining Sectors .....	22
Figure 16: Contributions to CIEA.....	23
Figure 17: Trend in Headline, Food and Non-food Inflation.....	23
Figure 18: Contributions to Headline Annual Inflation .....	24
Figure 19: Consumer Prices and Exchange rate .....	25
Figure 20: Headline inflation & Seasonally Adjusted inflation.....	25
Figure 21: Fan Chart .....	26
Figure 22: International Trade .....	27
Figure 23: Components of Import.....	27
Figure 24: Components of Export.....	28
Figure 25: Gross Foreign Exchange Reserves and Months of Import Cover .....	28
Figure 26: Diaspora Remittances into Sierra Leone .....	29
Figure 27: External Vulnerability Ratios .....	30
Figure 28: Exchange Rate Movement (Year-on-Year).....	32
Figure 29: Exchange Rate Movement (Month-on-Month) .....	32
Figure 30: Average monthly % spread in the different exchange rate markets .....	33
Figure 31: Percentage Contributions to the Change in REER .....	34
Figure 32: Selected Sectors of Purchases of Forex from Commercial Banks .....	35
Figure 33: Selected Sectors of Sales of Forex to Commercial Banks.....	35
Figure 34: Purchases and Sales of Forex by Commercial Banks.....	36
Figure 35: Trends in Fiscal Aggregates .....	37
Figure 36: Components of Domestic revenue.....	38
Figure 37: Components of Recurrent Expenditure .....	39
Figure 38: Trends in MPR, Interbank & Corridor rates.....	40
Figure 39: Volume of BSL Standing Facilities and Interbank Transaction .....	41
Figure 40: Trends in the Yields of Government Securities.....	43
Figure 41: Trends in Key Market Rates.....	44

Figure 42: Under/Oversubscription of Treasury Bills Auctions in the Primary Market.....	44
Figure 43: Stock of Marketable Government Securities by Tenure.....	45
Figure 44: Holdings of Marketable Government Securities by Sector .....	46
Figure 45: Key Financial Soundness Indicators (FSI's) .....	47
Figure 46: Income Composition for the banking sector.....	48
Figure 47: Trend in Deposits, T-bills and Gross Loans.....	48
Figure 48: Trend of NPLs and Loan Loss Provision .....	49

### **LIST OF TABLES (APPENDED)**

Table 1: Inflation and Monetary Policy Stance of Selected Central Banks .....	52
Table 2: Combined Inflation Projections .....	52
Table 3: Money supply and its Components.....	53
Table 4: Reserve Money and Components .....	53
Table 5: Interest Rates .....	53

## ***The Report***

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

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

*The primary objective of the Bank of Sierra Leone 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, Open Market Operations (OMOs), Standing Lending and Deposit Facilities, Foreign Exchange Operations, and Cash Reserves Requirement.*

## ***Monetary Policy Process***

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

---

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

## **1. EXECUTIVE SUMMARY**

The global economy experienced gloomy developments and more uncertainties in the review period, as risks identified in the April 2022 World Economic Outlook (WEO) began to materialize. The world economy already weakened by COVID-19 pandemic has been hit by several shocks including higher inflation worldwide than seen in several decades, especially in the US and major European countries triggering tighter financial conditions, a worse than anticipated slowdown in China due to outbreak of COVID-19 and the lockdown measures, and moreover, the negative spillovers from the war in Ukraine and the sanctions some western countries have imposed to force Russia to end the war. Accordingly, in the July 2022 WEO base line forecast, global growth has been downgraded to 3.2 percent for 2022, about 0.4 percentage point lower than the previous forecast (April 2022 WEO). Also, for 2023, global growth is projected to slow down to 2.9 percent, about 0.7 percentage point lower than earlier forecast (April 2022 WEO). The main drivers of the downward revisions for 2022 and 2023 are the downgrades for China and the US, as well as Euro Area.

Global inflationary pressure remained elevated during the review period, which is causing a cost-of-living crisis globally. The high inflation reflects the rising food and energy prices as well as the lingering supply-demand imbalances and global supply constraints. Higher food and energy prices, supply constraints, and the rebalancing of demand back toward services has hiked inflation in most economies. In effect, global inflation has been revised upward from 7.4 percent to 8.3 percent in 2022. However, given the ongoing synchronized monetary policy tightening and slowing demand around the world, inflationary pressures are anticipated to moderate to 5.7 percent in 2023, but could remain above targets in most economies.

On the domestic front, real GDP growth forecast remained unchanged at 3.6 percent for 2022 and 3.4 percent for 2023. The downward revisions for 2022 and 2023 earlier this year was a reflection of the lingering effects of COVID-19 pandemic, rising energy and food prices, high freight charges as well as the impact of Russia-Ukraine war. In addition, the BSL's CIEA estimate showed that economic activities improved in 2022Q2, after contracting in 2022Q1. Risks around the growth forecasts point to the downside, driven mainly by the tight financial conditions in most regions as economies normalize their monetary policies, Russia's invasion of Ukraine and the associated

sanctions on Russia by western countries, the lingering COVID-19 pandemic and the spillovers particularly to small open economies like Sierra Leone.

Domestic inflation remained elevated in the review period, as headline inflation increased from 22.06 percent in March 2022 to 27.95 percent in June 2022, and further to 29.47 percent in July 2022. However, headline inflation moderated to 28.15 percent in August 2022, mainly on account of reduction in non-food inflation. Food inflation on the other hand continued to increase in August 2022, even though global food prices receded, an indication of inelasticity of demand for food. Going forward, the downward trends in energy prices could lead to further downward revisions in domestic fuel pump prices. In addition, the expected increase in domestic supply of food during the harvest season, coupled with expected positive outcome of the BSL intervention in the forex market could help to further dampen inflationary pressures at least in the near term.

On the external front, the trade balance was in deficit in 2022Q2, reflecting increase in imports which outweighed the increase in exports. The stock of gross international reserves of BSL decreased during the review period but was adequate to cover 3.5 months of import of goods and services. Exchange rate pressures persisted with increased FX demand for importation of food and other essential items which contributed to the continued depreciation of the exchange rate in 2022Q2.

Government fiscal operations was also in deficit in 2022Q2. Although government revenues improved, but the increase in government expenditures surpassed that of revenues. In addition, the primary balance deteriorated further in 2022Q2. The budget deficit was financed through domestic, foreign and other sources.

The movements in monetary aggregates were mixed during the review period. On annual basis, Broad Money (M2) growth moderated in 2022Q2, and was below the IMF/ECF program target. On quarterly basis, M2 growth also slowed down in 2022Q2. This development mainly reflected the contraction in the Net Foreign Assets (NFA) of the BSL. Meanwhile, the Net Domestic Assets (NDA) of the banking system expanded. On annual basis, Credit to the Private Sector grew in 2022Q2, while on quarterly basis, credit to private sector increased.

RM grew in 2022Q2 and was above the IMF/ECF program target. However, RM contracted on quarterly basis reflecting the deterioration in the NFA of the BSL. NDA of the BSL however expanded in 2022Q2.

In the money market, the yields on the 364-day tenor continued to increase in 2022Q2, while the yield on the 182 and 91-day were mostly undersubscribed. There was tight liquidity conditions in the interbank market, as the market rate in the interbank increased during the review period.

The banking sector remained relatively stable as the key financial soundness indicators (FSIs) were above their minimum thresholds in 2022Q2. However, the Non-Performing Loans (NPLs) ratio, though decreased, remains above the prudential limit, and pose challenges for financial intermediation with negative implications for private sector growth.

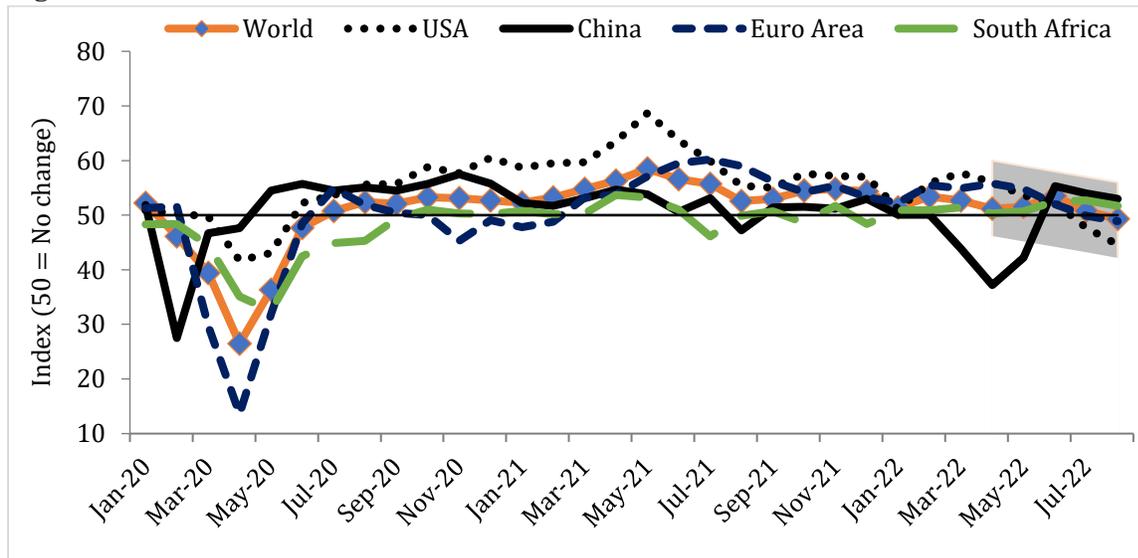
The rest of the report is organized as follows: The second section analyses recent global economic developments including global growth, global inflation, commodity prices and their implications for the Sierra Leone economy. The third section reviews domestic economic developments and outlook. Finally,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

## 2. GLOBAL ECONOMIC DEVELOPMENTS AND PROSPECTS

### 2.1 Global Output

The global economy continues to face steep challenges, following rapid interest rate hikes, growing geopolitical risks, a cost-of-living crisis caused by persistent and broadening inflation pressures, and the slowdown in China fueling fears of a global recession. This is evidenced in the global composite PMI<sup>2</sup>, which indicated only marginal expansion in economic activities during the past five months, mainly due to soft economic outturn in major economies including, the United States, Euro Area and China. The US economy registered the weakest economic performance since its recovery from the pandemic related downturn in 2020, reflecting subdued demand as rising interest rates and elevated inflation weigh on investor and consumer confidence. The Eurozone appears to be sliding into a recession, underscored by surging energy cost, higher inflation and restrained demand. Although China showed signs of a rebound on the back of easing zero-covid lockdowns in May, activities remain relatively soft and fragile (Figure 1).

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



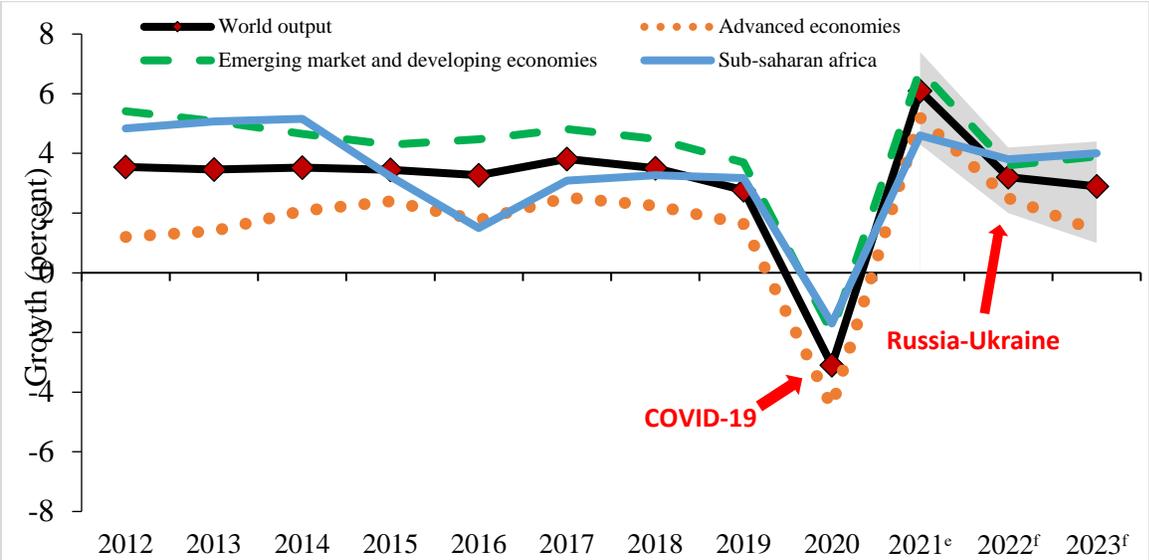
**Data Source:** Market Economics, through Trading Economics August 2022

Consequently, the IMF, in July 2022, further downgraded global growth forecast for 2022 by 0.4 percentage point to 3.2 percent and hinted of a bumpy 2023. This mirrors broad-based forecast

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

downgrades for advanced economies, as well as some emerging market and developing economies.

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



Source: IMF World Economic Outlook, July 2022 update; Note: *e* =estimate and *f* =forecast

Going forward, global economic growth is projected to further slowdown to 2.9 percent in 2023. Expected further policy rate hikes in major advanced economies (especially the United States), recurrent lockdowns in China, rising geopolitical risks, elevated food and energy prices, persistent demand-supply imbalances, and narrowing fiscal space remain major downside risks to the global growth outlook.

**2.1.1 Advanced and Emerging Market Economies**

Economic prospects continue to deteriorate across advanced and emerging market economies. The IMF has further downgraded the 2022 growth rates for both groups by 0.8 and 0.2 percentage points, respectively. Tightening monetary policy and spiking inflation continue to weigh on economic activities in advanced economies, while the projected slowdown in emerging markets and developing economies reflects weaker prospects for major economies in the group such as China and India.

**2.1.2 Sub-Saharan Africa**

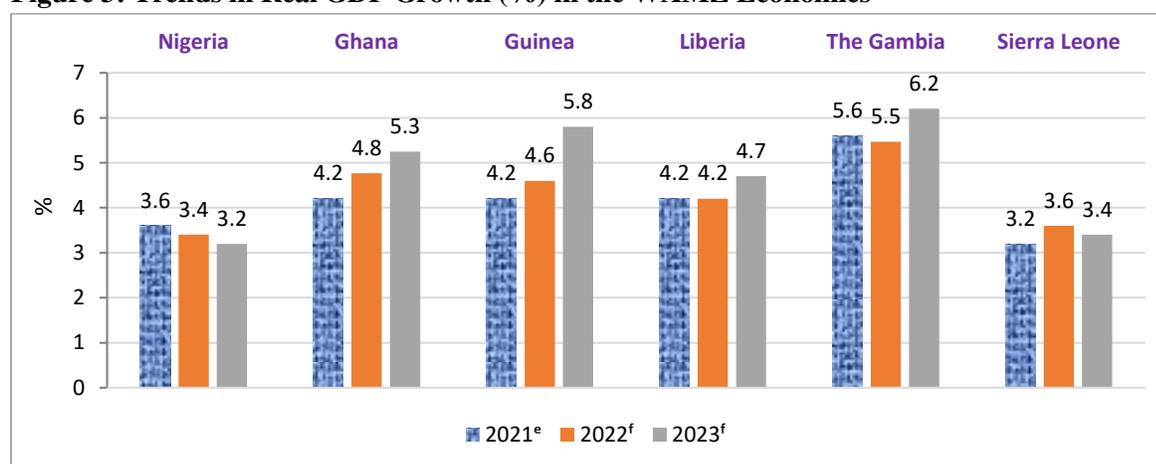
Sub-Saharan Africa is proving to be resilient, barring the adverse effects of the Russian-Ukraine war. Growth forecast for the region this year was left unchanged at 3.4 percent. However, major downside risks remain, including elevated price pressures exacerbated by the fallout from the war

in Ukraine, widening deficits, rising debt-to-GDP levels and currency depreciation pressures in some key economies in the region.

### 2.1.3 West African Monetary Zone (WAMZ)

Economic prospects across the WAMZ appear to be relatively firm. However, all the member economies are faced with similar growth risks including policy rate hikes in response to elevated inflationary pressures, weakening currencies, rising debt-to-GDP ratios, extreme weather conditions, as well as social uprising due to rising cost of living. These factors could dampen private sector activity and consumer confidence.

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



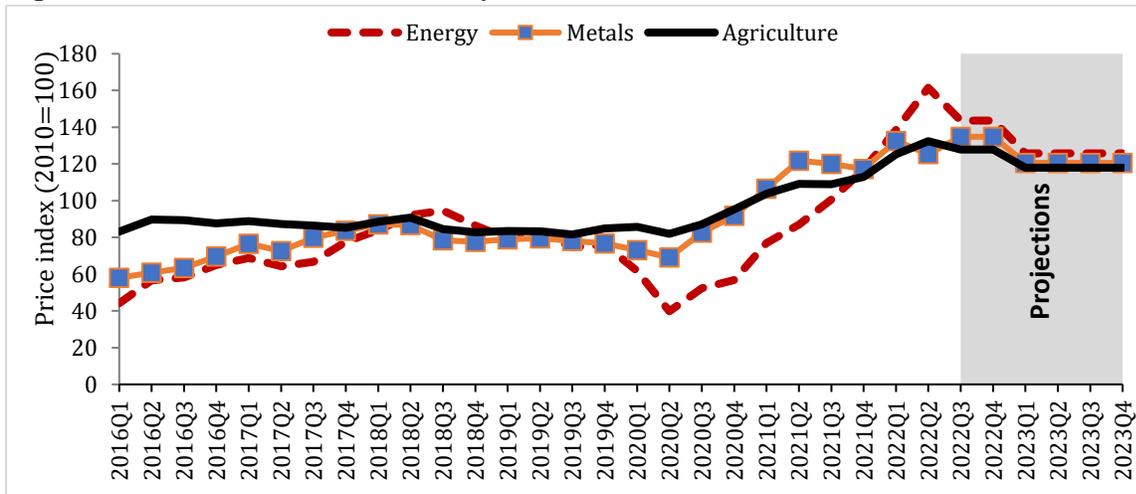
**Source:** IMF World Economic Outlook, July 2022; IMF Country Reports June-July 2022 and Trading Economics August 2022; Note: *e* =estimate and *f* =forecast

## 2.2 Global Commodity Prices and Inflation

### 2.2.1 Global Commodity Prices

Global energy and agriculture prices further strengthened in 2022Q2, spurred by the reverberations from the war in Ukraine and related sanctions on Russia (including the recently agreed EU ban on about 90 percent of Russian oils). However, the rate of price increases for both energy and agriculture receded to 16.2 percent and 5.8 percent in 2022Q2, relative to 18.5 percent and 10.9 percent in 2022Q1, respectively. Also, metal prices declined by 5.4 percent in 2022Q2, mainly due to subdued demand from China. Looking ahead, global commodity prices are expected to settle by the end of 2022 and may start retreating due to slowing demand amidst growing fears of a global recession (see **Figure 4**).

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

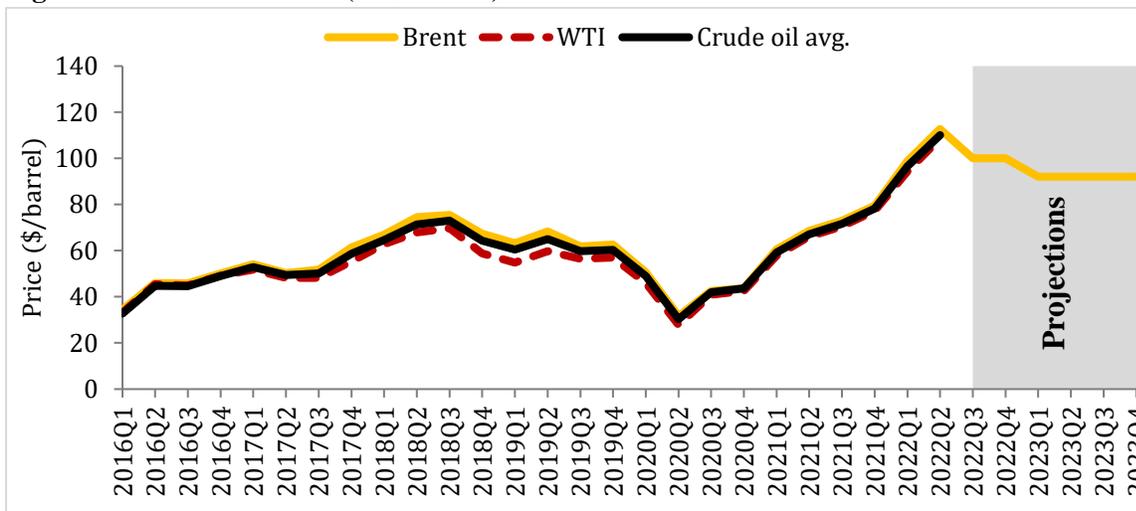


**Source:** World Bank Commodity Market Outlook database, August 2022

**Crude Oil Prices**

Following an agreement by the EU in May 2022 to ban most Russian oil amid growing crude oil demand, prices surged to an average of US\$110.10/bbl compared to US\$96.62/bbl in 2022Q1. However, crude oil prices are tipped to start cooling down by the end of the year, with the release of reserves by the International Energy Agency and prospects for sustained output increases by OPEC+ which could ramp-up supply, while the recurrent lockdowns in China and slowing global growth may subdue demand for crude oil.

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

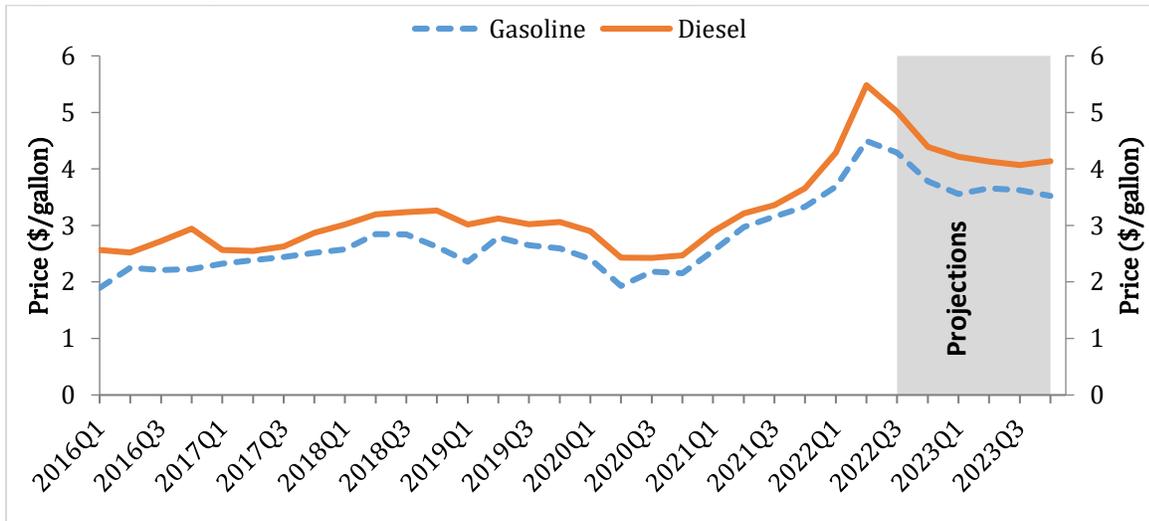


**Source:** World Bank Commodity Market Outlook database, August 2022

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

Retail prices for both petrol and diesel continue to track movement in crude oil prices, though at relatively high rates of increase. The stronger rates of increase mainly reflects slower global refinery to meet growing demand, amid low inventory levels. Going forward, prices are expected to start cooling by the end of the year as global activities are subdued by elevated inflation and interest rate hikes.

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

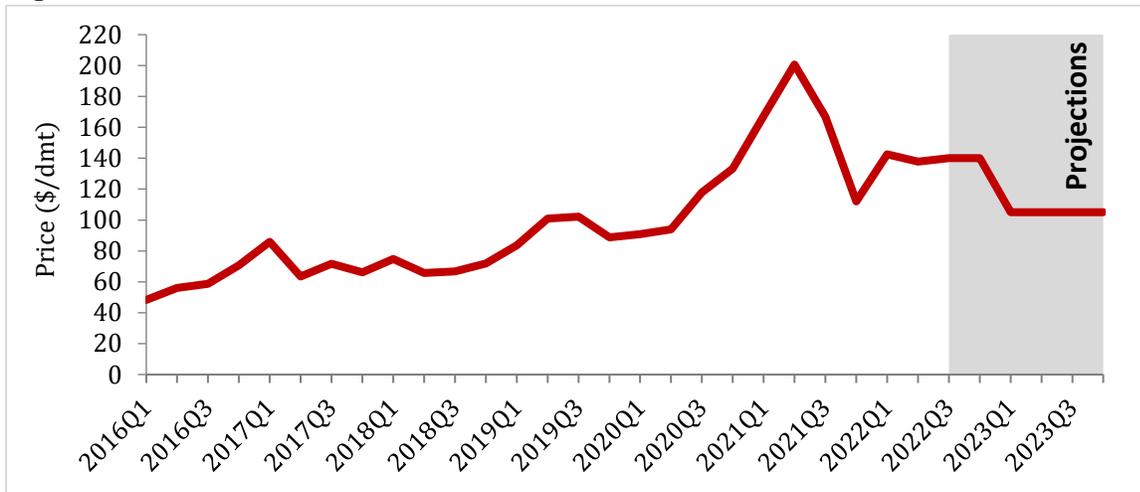


**Source:** U.S. Energy Information Administration, EIA (August, 2022)

### ***Iron Ore Price***

Iron ore price receded slightly in 2022Q2, selling at an average price of US\$137.73/dmt compared with US\$142.48/dmt in 2022Q1. This is mainly on account of suppressed demand from China, the world's largest consumer of the product, coupled with the waning global economic momentum. Iron ore prices are expected to remain around current levels by the end of this year, and may drop slightly in 2023 if the situation in China does not significantly improve.

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

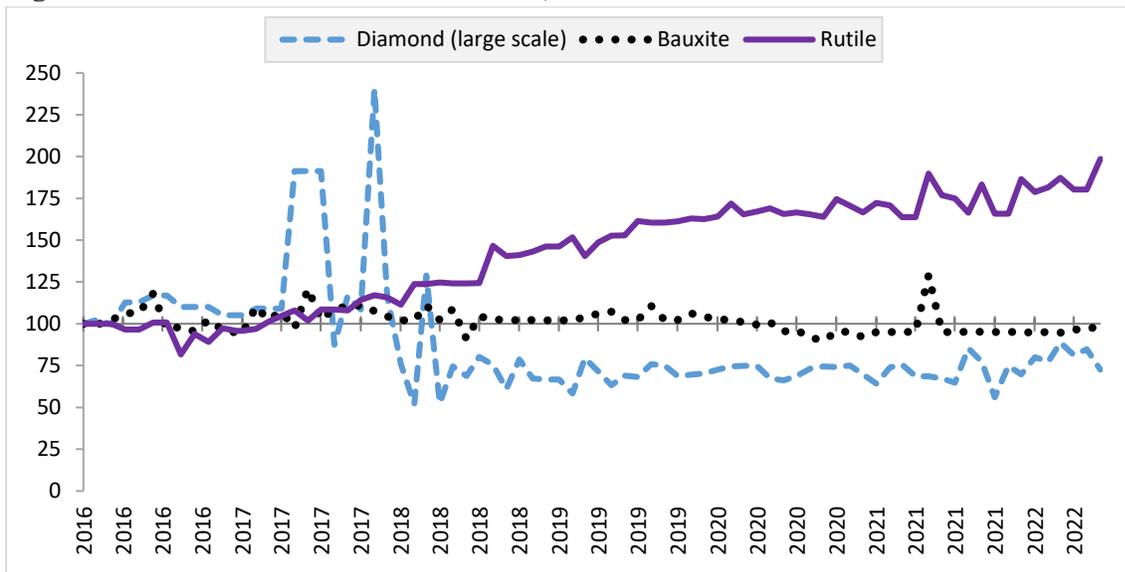


**Source:** World Bank Commodity Market Outlook database, August 2022

***Diamonds, Bauxite and Rutile***

Movement in prices of other key export minerals, including diamonds, bauxite and rutile varied over time. The prices for both diamonds and bauxite have been revolving around the same levels since 2018, with some improvement for diamonds in the first half of 2022. Conversely, rutile prices have generally trended upward over the same period.

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

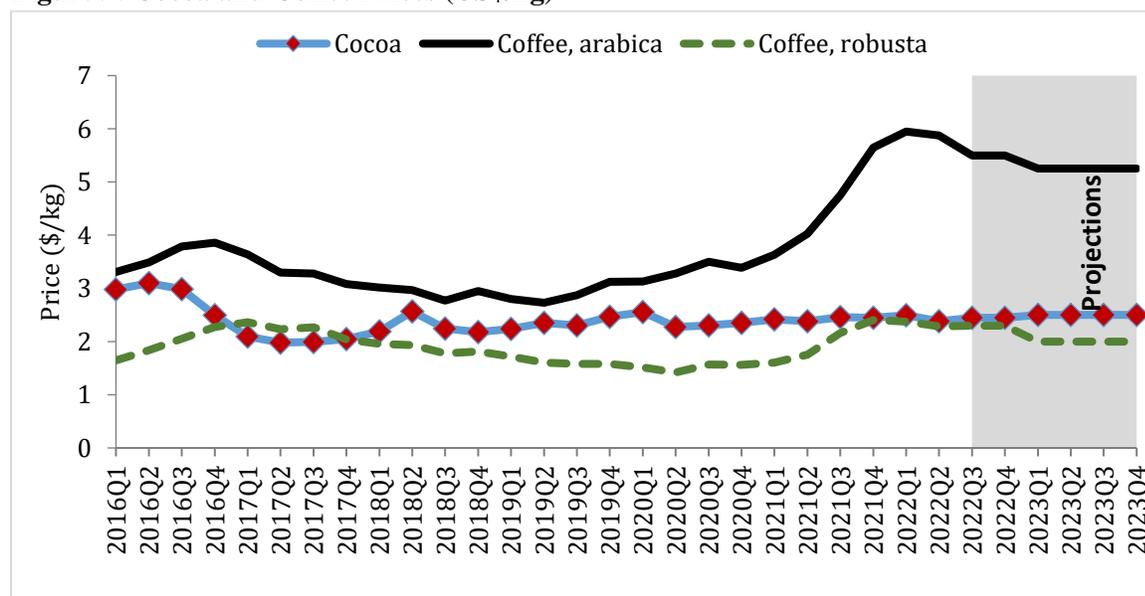


**Data Source:** BSL/NMA; Note: the price for diamonds is in US\$/carat while bauxite and rutile are priced in US\$/dmt

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

Cocoa and coffee prices retreated during the review period, mainly on account of an upbeat in supply prospects from Ghana, Ivory Coast and Brazil, coupled with gloomy demand prospects. Prices softened by 4.5 percent, 1.2 percent, and 3.8 percent averaging US\$2.39/kg, US\$5.88/kg, and US\$2.28/kg for cocoa, Arabica, and Robusta coffee in 2022Q2, respectively. However, coffee prices remained strong, while the average price for cocoa remained unchanged relative to the same period in 2021.

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

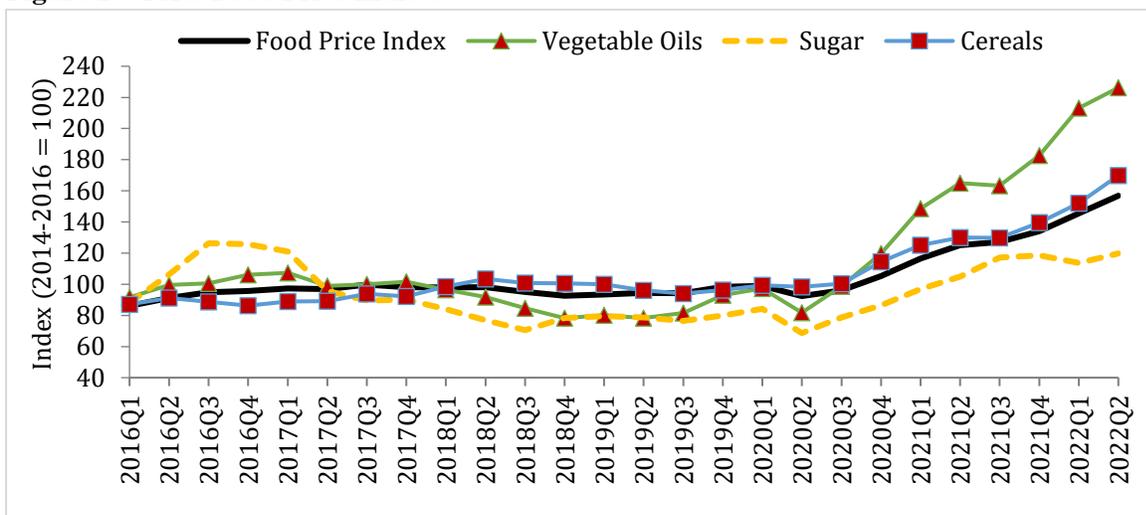


**Source:** World Bank Commodity Market Outlook database, August 2022

### ***Food***

Food prices further strengthened in the review period, spurred by continued supply constraints exacerbated by the war in Ukraine and sanctions on Russia. The FAO food price index averaged 156.90 points in 2022Q2, up by 7.8 percent from 145.5 points in 2022Q1. However, food prices are seen to recede in July-August 2022 and are expected to further soften going forward, based on improving supply backdrop occasioned by a deal signed between Russia and Ukraine for the resumption of grain exports through the black sea.

**Figure 10: FAO Food Price Indices**

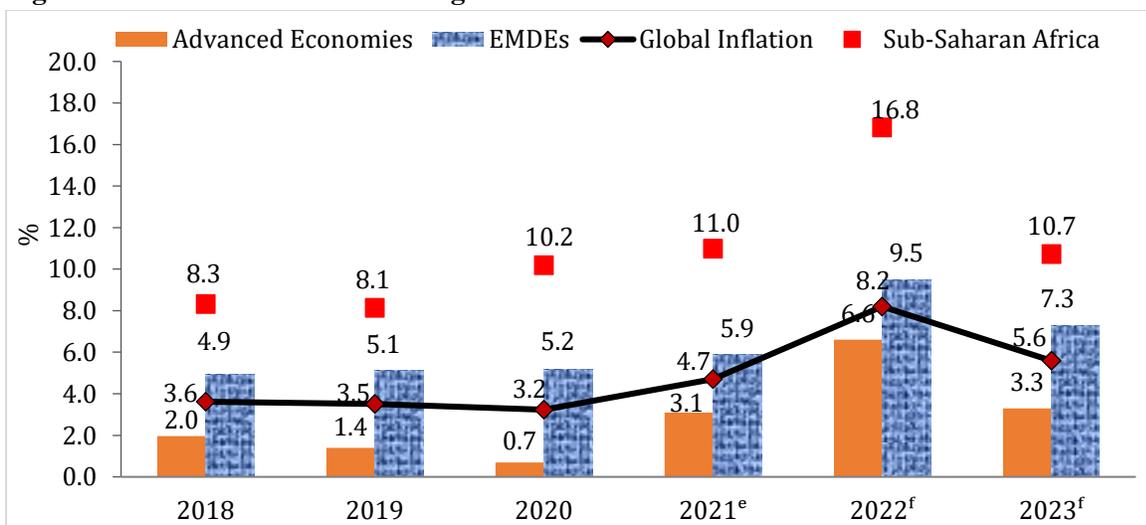


Source: FAO food price index database, July 2022

### 2.2.2 Global Inflation

Global inflationary pressures remained elevated during the review period, reflecting the sustained increase in food and energy prices, coupled with the recurring restrictions in China, further exacerbating global supply conditions. Consequently, global inflation for 2022 has been revised from an annual average of 7.4 percent to about 8.1 percent. However, given the ongoing synchronized monetary policy tightening and slowing demand around the world, inflationary pressures are anticipated to moderate in 2023, but could remain above targets in most economies.

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



Data source: IMF, World Economic outlook, July 2022 update

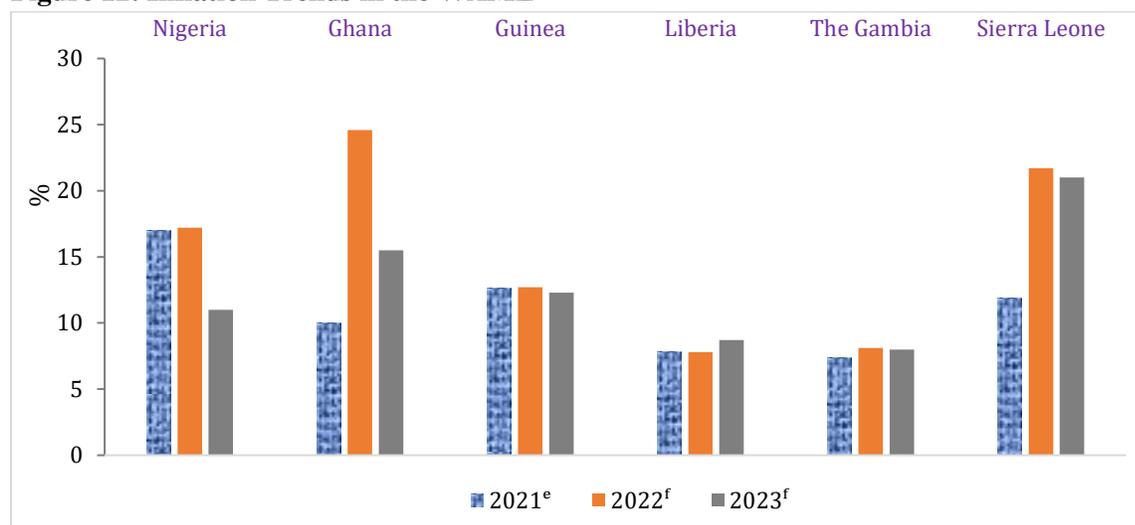
### *Sub-Saharan Africa (SSA) Inflation*

Food and transportation accounts for over 40 percent of the consumer price basket in most Sub-Saharan Africa countries. Thus, the elevated prices for agriculture commodities like fertilizer and grain, and for fuel continue to drive inflationary pressures in the region. Inflation in SSA is now projected at 16.8 percent in 2022 and 10.7 percent in 2023. Exchange rate depreciation pressures, lingering global supply issues and extreme weather are among the major downside risks to inflation outlook in the region. However, on the flip side, expectations of waning food and energy prices in the next quarter or so, and slowing global demand could help to dampen inflation in the medium term.

### *Inflation in the WAMZ*

Across the WAMZ, inflationary pressures have been worsened by the global supply shocks, exacerbated by the war in Ukraine and ensuing sanctions on Russia. High food and fuel prices, as well as exchange rate depreciation continue to drive inflation in the bloc, with significant implications for the monetary integration process (see **Figure 12**).

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



**Data source:** IMF WEO April 2022; IMF Country Reports June-July 2022 & Trading Economics August 2022

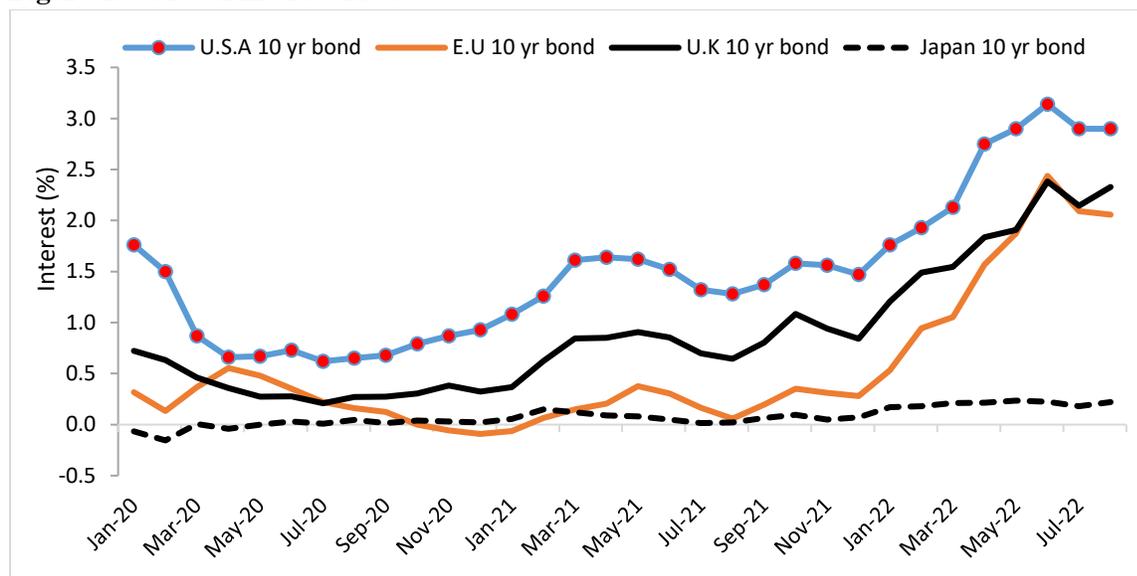
Note: current inflation for Nigeria & Ghana is at August 2022, the rest are as at July 2022

### 2.3 Monetary Policy and Financial Market Developments

Most major central banks around the world took a more aggressive approach by significantly hiking policy rates in an effort to curb surging inflation. Further hikes are anticipated in trying to bring inflation down to near target levels by 2023.

Further expected hikes in Central Banks' policy rates (especially in the United States), coupled with the growing uncertainties being brought about by the war in Ukraine have led to tightening global financial conditions. Also, long term (10-year) sovereign bond yields in the United States, Euro Area, United Kingdom and Japan rose further in the 2022Q2 due to high inflation expectations. However, yields appear to have reached a peak in June, with slight declines observed in July 2022 (Figure 13).

**Figure 13: Global Interest Rates**



Source: FRED (September 19, 2022)

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

The outbreak of the war in Ukraine, COVID-related recurrent lockdowns in China, and surging inflation continue to pose challenges for economic management across the globe. These headwinds have led to synchronized interest rate hikes in advanced economies, waning global economic activities, worsening trade conditions and rising inflationary pressures with adverse implications for small open economies including Sierra Leone (through trade, financial inflows and exchange rate developments). Higher fuel and food prices could continue to raise the import bill of the country. Conversely, weak economic activities in China and Europe – two of Sierra Leones major

trading partners - could lead to a drop in the country’s export. Additionally, tightening global financial conditions could lead to slower financial inflows especially in relation to foreign direct investment (FDI) and Official Development Assistance (ODA). A worsening trade balance and slower financial inflows could subsequently put pressures on gross foreign exchange reserves, with adverse implications for exchange rate stability.

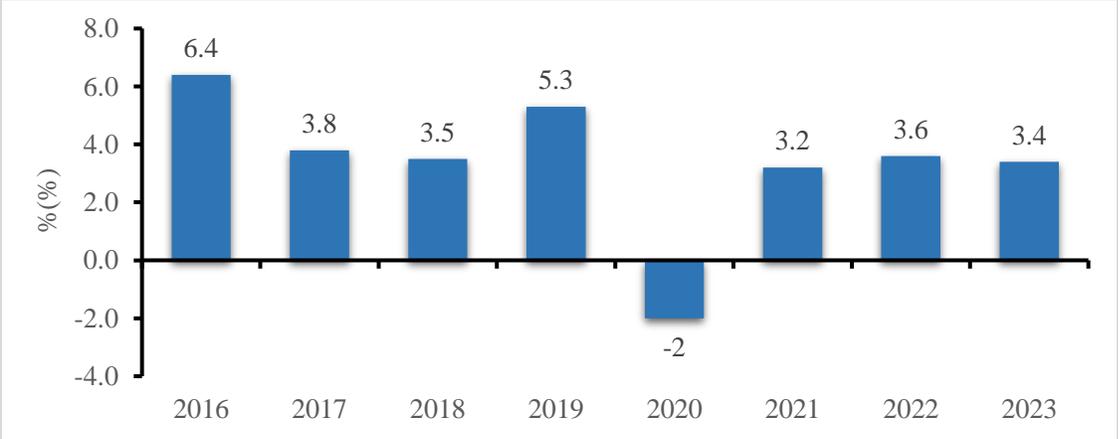
### 3. DOMESTIC ECONOMIC DEVELOPMENTS

#### 3.1 Real Sector Developments

##### 3.1.1 Real GDP Growth

The domestic economy was initially projected to grow at 6.0 percent, but was downgraded to 3.6 percent in 2022, higher than the 3.2 percent growth in 2021. The downward revision was in part explained by the effect of global uncertainties, renewed challenges and risk from the war between Russia & Ukraine and other supply-side shocks. Despite these challenges, diverse policy reforms in other sectors such as agriculture, tourism, trade and services sectors among others could support growth. Growth is expected to fall slightly to 3.4 percent in 2023. Figure 14 shows the real GDP growth rates.

**Figure 14: Real GDP growth Rates**

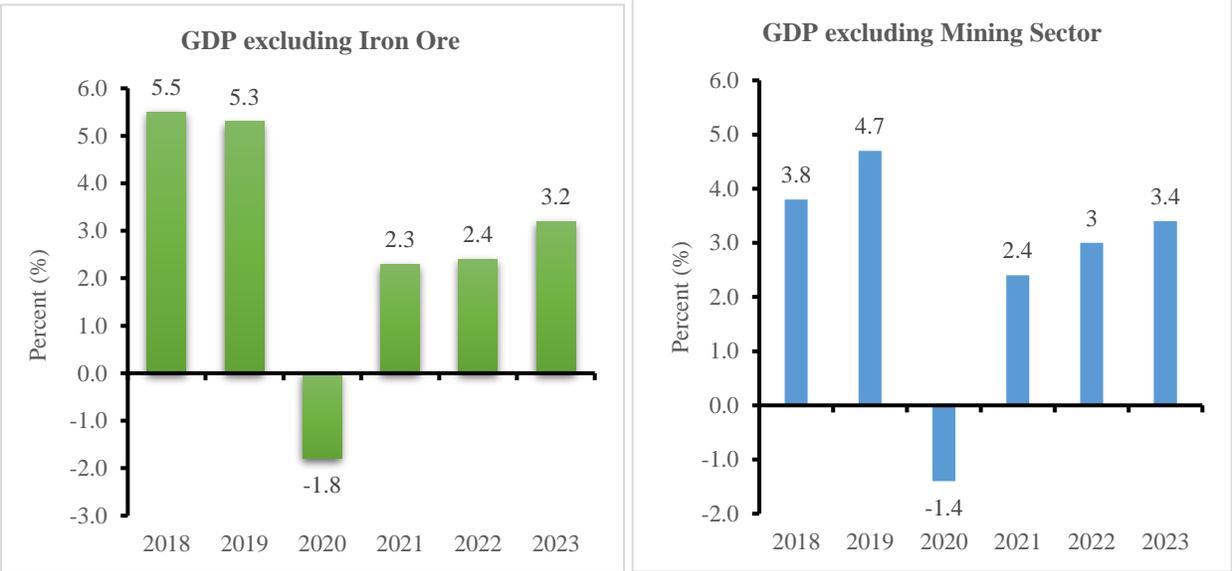


**Source:** Stats SL & IMF

Excluding the mining sector, real GDP growth is estimated at 3.0 percent in 2022 compared to 2.4 percent in 2021. Furthermore, real GDP growth excluding mining sector is expected to grow to 3.4 percent in 2023. Whereas, real GDP growth excluding iron ore is projected to grow at 2.4

percent in 2022 from 2.3 percent growth in 2021. In addition, real GDP growth excluding iron ore is expected to grow at 3.2 percent in 2023. Figure 15 shows real GDP growth excluding iron ore and mining sector.

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

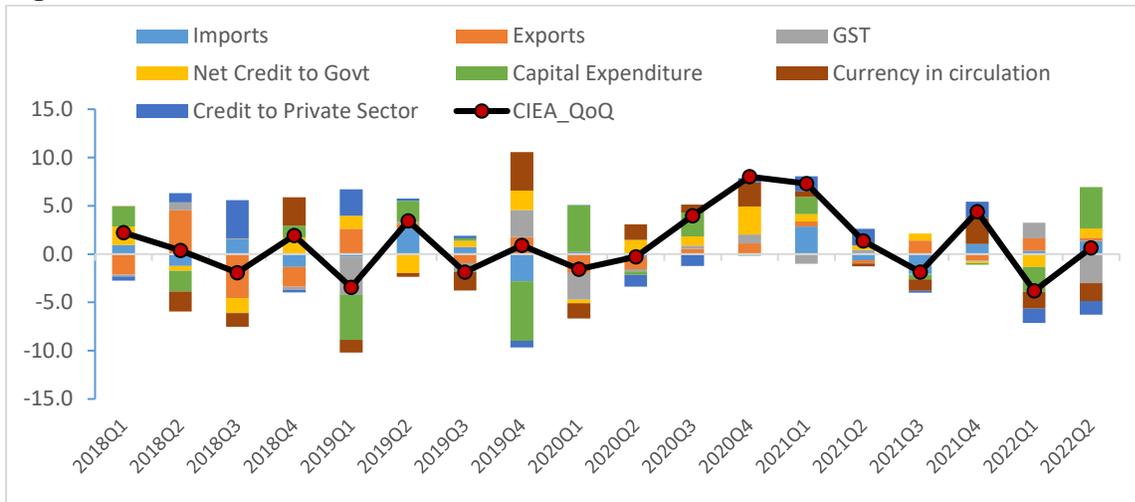


Source: Stats. SL & IMF

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

The Bank’s estimate of Composite Index of Economic Activity (CIEA) on a quarter-on-quarter basis showed that economic activities increased by 0.66 percent in 2022Q2, compared to a contraction in activities by 3.81 percent in 2022Q1. In particular, the CIEA index increased from 168.96 in 2022Q1 to 170.07 in 2022Q2. The increase in the index was mainly due to improvement in indicators such as; capital expenditure, net credit to government and imports in review period. Conversely, Exports, GST and currency in circulation declined during the period under review.

**Figure 16: Contributions to CIEA**

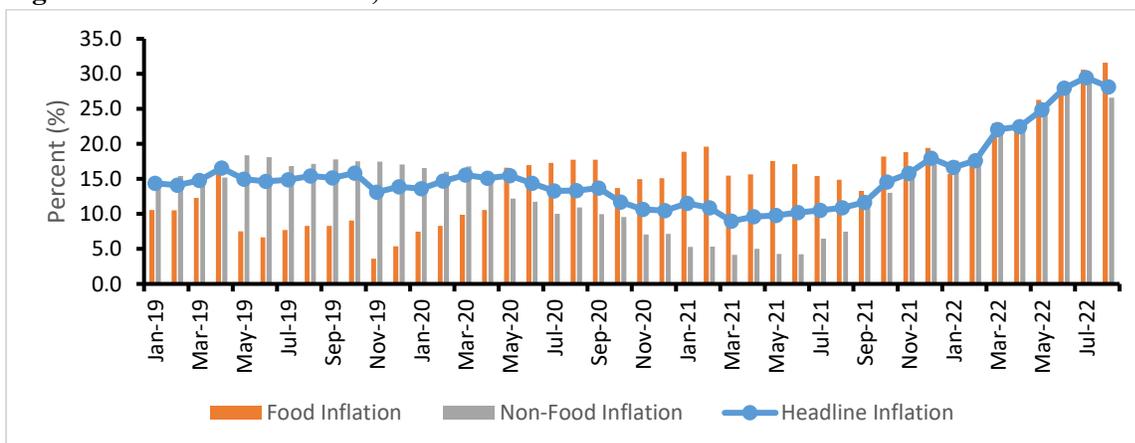


Source: BSL

### 3.1.3 Inflation

Headline Inflation (year-on-year) remained in double digits, declining to 28.15 percent in August 2022, from 29.47 percent in July 2022. This was mainly associated with the decrease in non-food inflation from 29.61 percent in July 2022 to 26.58 percent in August 2022, adjustment of energy price downward, exchange rate depreciation pass-through as well as the increase in the monetary policy rate from 75 basis point to 100 basis point. Food inflation on the other hand increase from 30.85 percent in July 2022 to 31.60 percent in August 2022. (See figure 17). Headline inflation had followed an increasing trend from 22.06 percent in March 2022 to 27.95 percent in June 2022 and 29.47 percent in July 2022 before moderating in August 2022

**Figure 17: Trend in Headline, Food and Non-food Inflation**



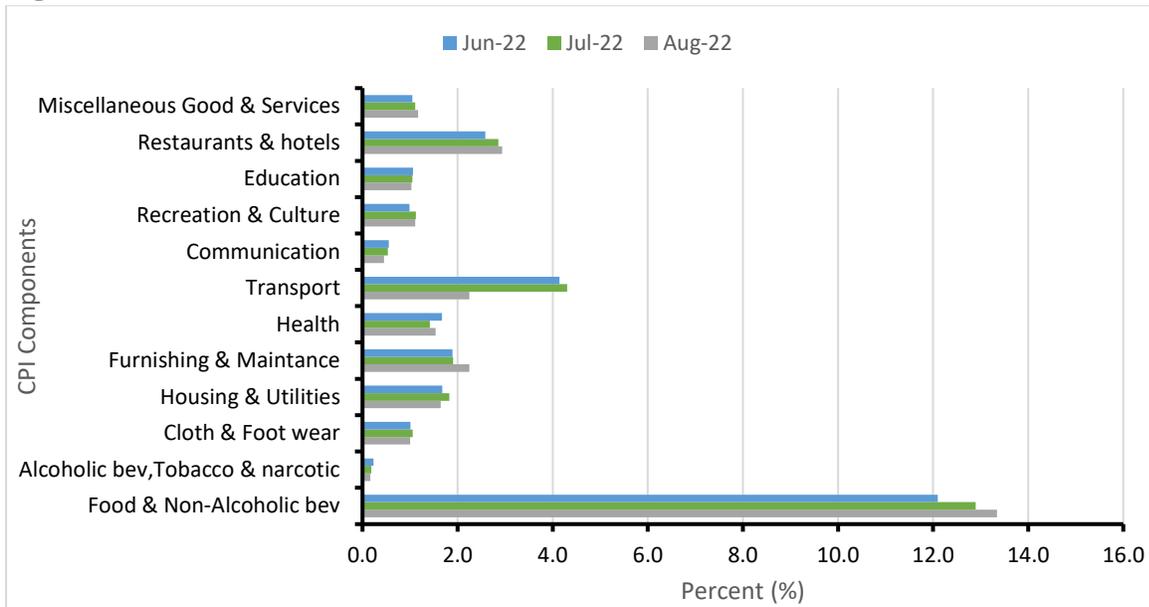
Source: Stat. SL

### ***Contributions to headline inflation***

Key drivers contributing to the rise in inflation in the CPI basket in August 2022 were: food & non-alcoholic beverages, Furnishing & maintenance, Health, restaurants & hotels, and miscellaneous goods.

On the other hand, Transport, Housing & Utilities, Communication, Recreation & Culture Education, and Alcoholic beverages, tobacco & narcotic declined during the review period. Figure 18 shows the contribution to headline inflation.

**Figure 18: Contributions to Headline Annual Inflation**



**Source:** Stat. SL

### ***Monthly Headline Inflation***

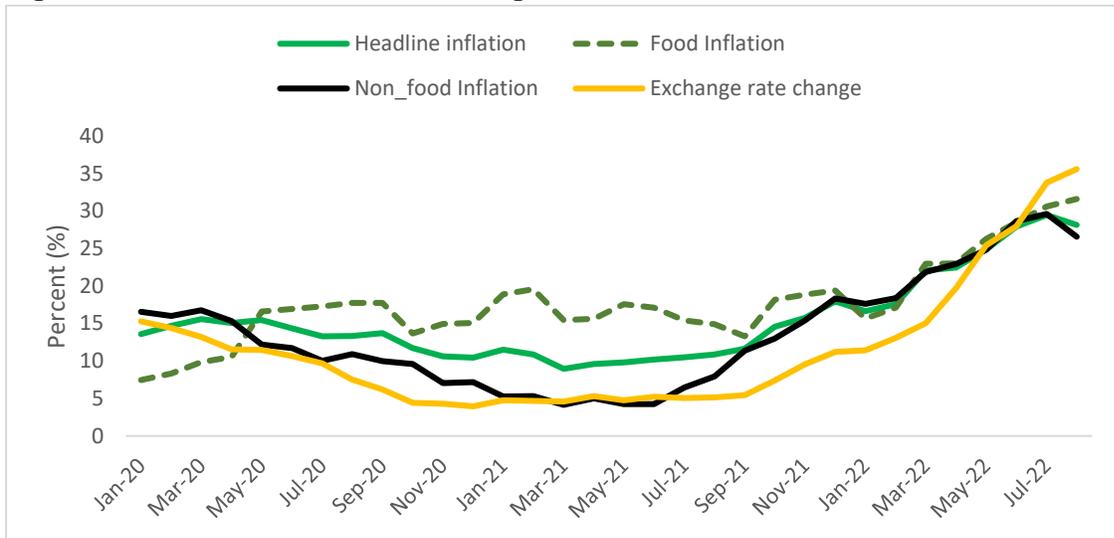
Monthly headline inflation moderated to 1.14 percent in August 2022 from 2.74 percent in July 2022, and 3.13 percent in June 2022.

The increase in inflation could partly be due with the depreciation of the exchange rate as well as other external factors

### ***Exchange Rate and Inflation***

In 2022Q2, headline inflation, food inflation, non-food inflation and exchange rate followed a similar upward trend. The increase in inflation could be attributed somewhat to exchange rate depreciation pass-through as well other externally induced factors. Figure 19 shows a strong correlation between exchange rate depreciation and the components of inflation

**Figure 19: Consumer Prices and Exchange rate**

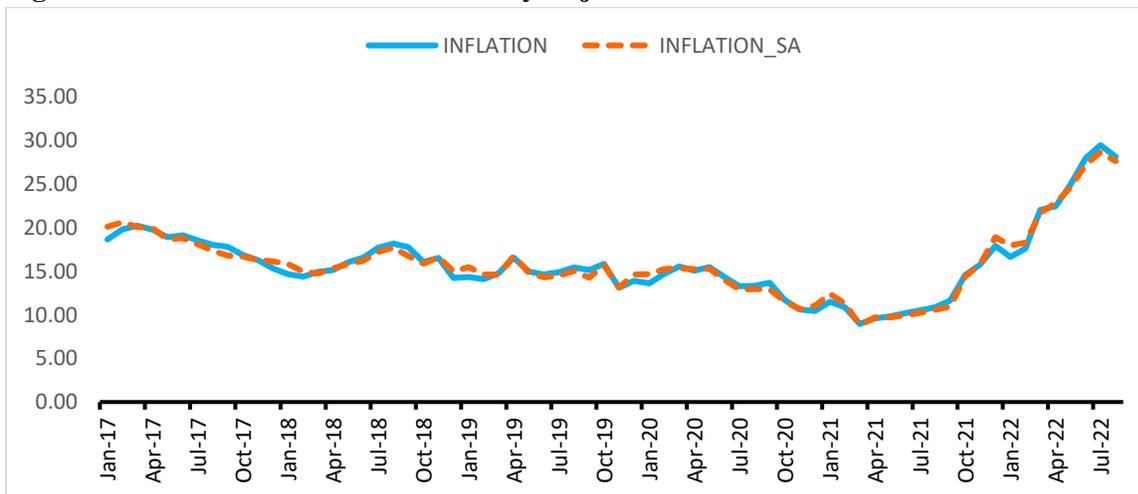


Source: BSL

***Inflation and Seasonally Adjusted Inflation***

In figure 20 below, both headline inflation and seasonally adjusted inflation are moving in the same direction, reflecting no significant effect of seasonality.

**Figure 20: Headline inflation & Seasonally Adjusted inflation**

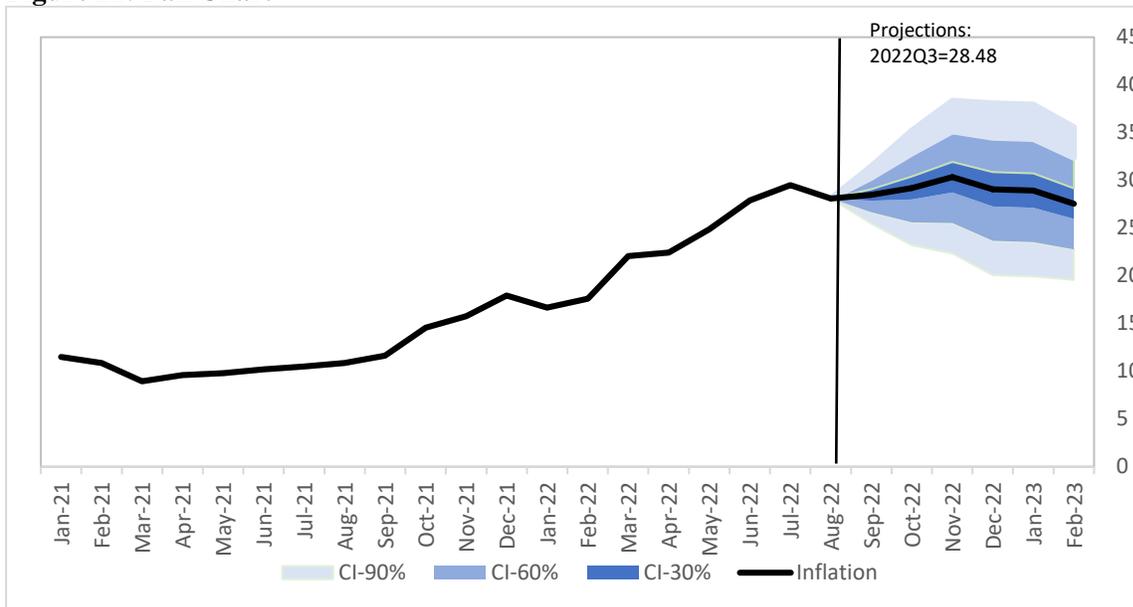


Source: BSL & Stat. SL

**3.1.4 Inflation Outlook**

Staff employed a suite of near term inflation models and the combined forecast suggests that inflation is expected to trend upward to 30.34 percent in November 2022, but likely to moderate to 29.06 percent in December 2022, and further to 27.55 percent in February 2022.

**Figure 21: Fan Chart**



**Source:** BSL

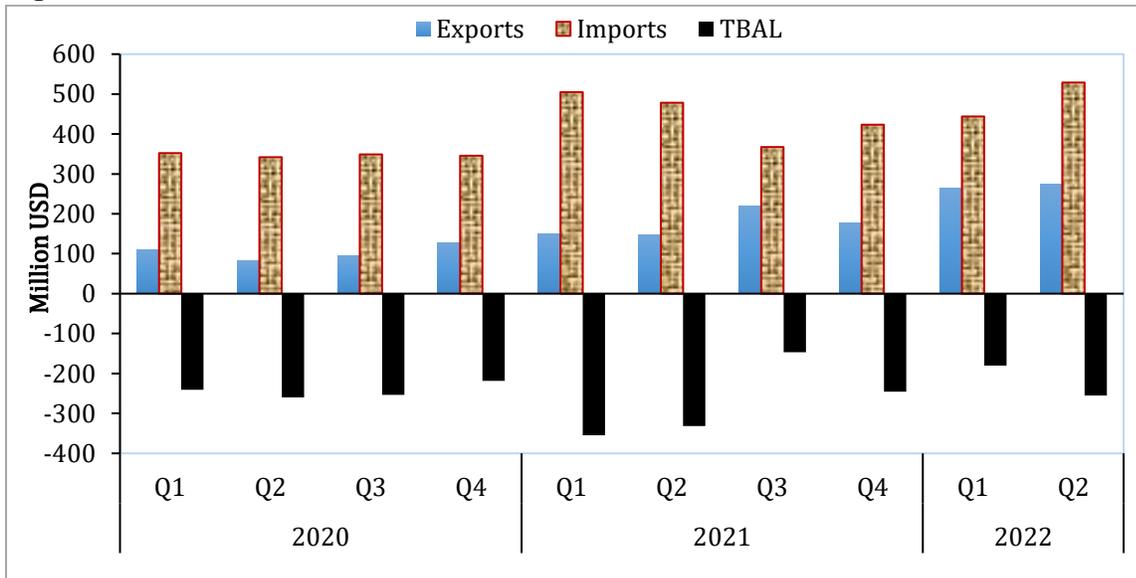
### 3.2 External Sector Developments

External sector performance was unimpressive in the review period, reflecting the negative reverberations from the global economy. The country’s trade deficit widened while the stock of gross international reserves of BSL decreased during the review period but was sufficient to cover 3.5 months of import of goods and services. Exchange rate pressures persisted with increased FX demand for importation of food and other essential items which contributed to the continued depreciation of the exchange rate in 2022Q2. Meanwhile the real effective exchange rate (REER) was found to be overvalued.

#### 3.2.1 Trade Balance

The deficit in the trade balance widened by 41.50 percent to US\$254.92mn in 2022Q2 from US\$180.16mn recorded in 2022Q1. The deterioration in trade balance stemmed mainly from higher increase in imports that outweighed the gains observed from exports receipts during the review quarter. The increase in imports was spurred by both prices and volume of food and fuel imports.

**Figure 22: International Trade**

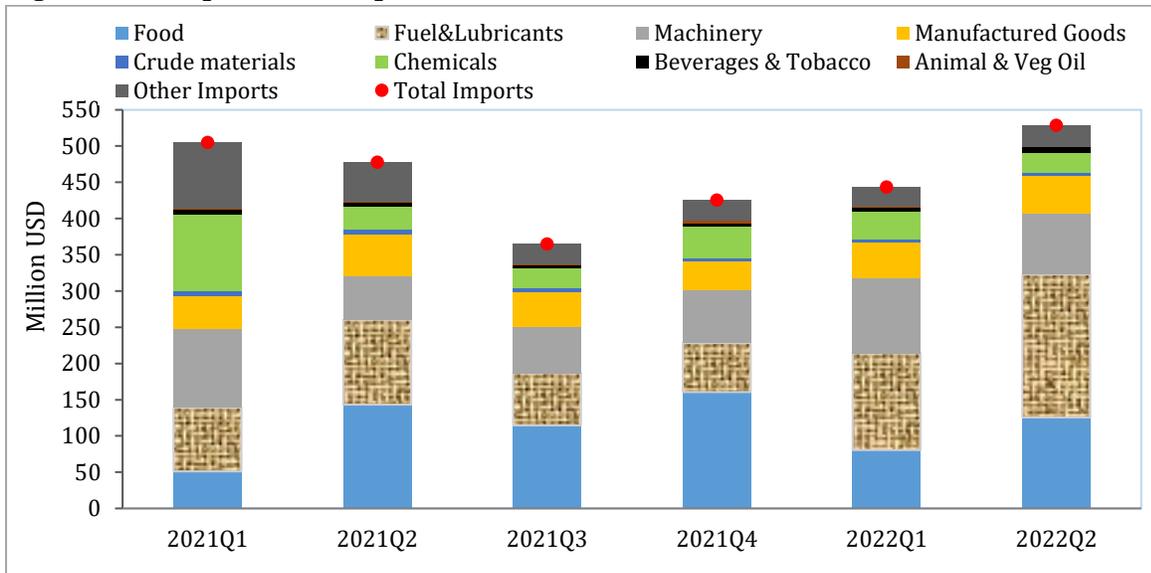


Source: NRA/Customs & BSL

**Components of Import**

Consistent with the elevated global food and fuel prices and freight cost, the import bills grew by 19.16 percent to US\$528.80mn in 2022Q2, compared with US\$443.75mn in the preceding quarter. The growth in import bill was reflected mainly in payment for food and petroleum products (see figure 23)

**Figure 23: Components of Import**

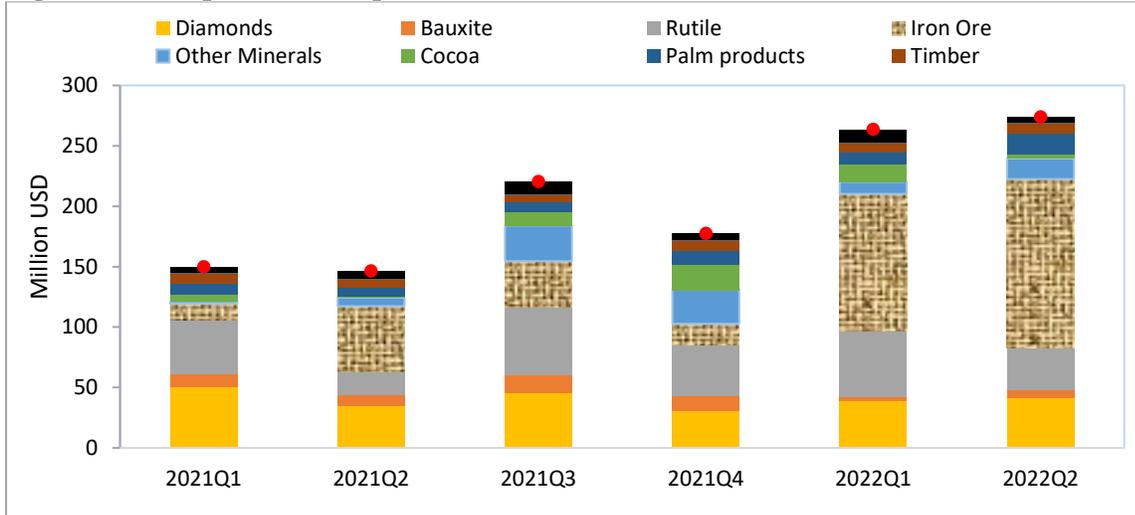


Source: NRA/Customs & BSL

### Components of Export

Exports also improved in 2022Q2, boosted by increased earnings from iron ore, rutile, diamonds, palm products and timber. Total export receipts rose to US\$273.87mn in 2022Q2, compared with US\$263.59mn in the preceding quarter (see figure 24).

**Figure 24: Components of Export**

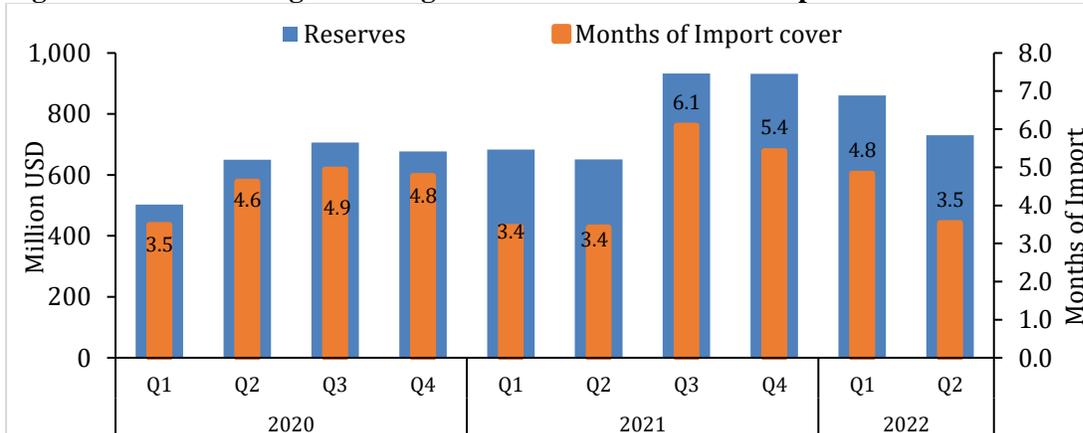


Source: NRA/Customs & BSL

### 3.2.2 Gross Foreign Exchange Reserves

The stock of gross foreign exchange reserves of the BSL at end 2022Q2 stood at US\$729.84mn providing cover for 3.5 months of imports of goods and services. Gross reserves declined when compared with US\$860.42mn recorded at end 2021Q1, equivalent to 4.8 months of imports cover. The decrease was due to a drawdown on reserves through sales of FX in the BSL wholesale forex auction and amount utilized in respect of electricity support.

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

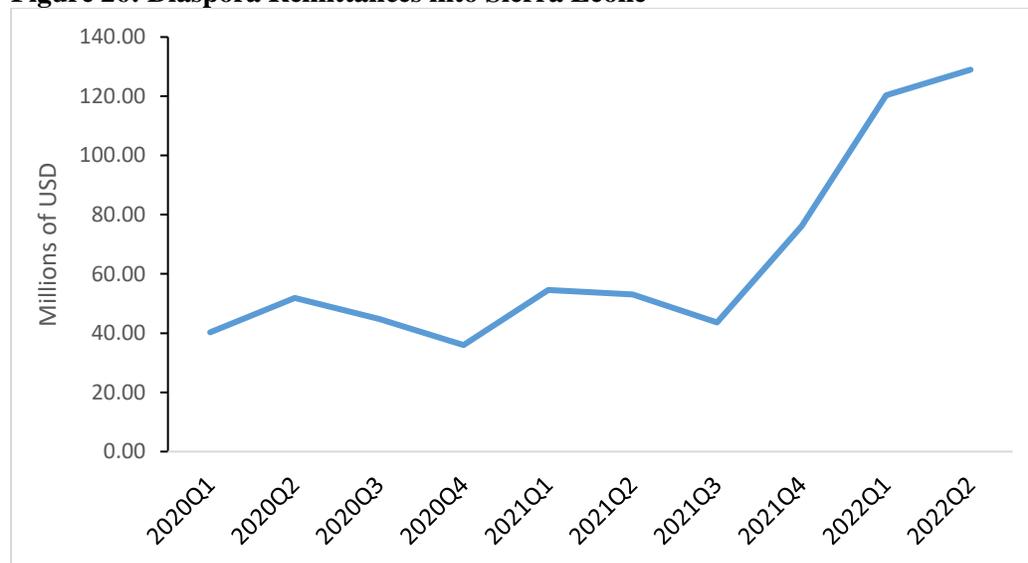


Source: BSL

### 3.2.3 Diaspora Remittances

The inflow of workers' remittances in the Sierra Leone economy continues to improve, providing a life line for a number of households in the country. Remittances reached a record high of US\$128.97mn in 2022Q2, up by US\$8.61mn and US\$75.90mn when compared to the level in the preceding and corresponding quarters, respectively. This improvement could also have positive implications for the country's current account.

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

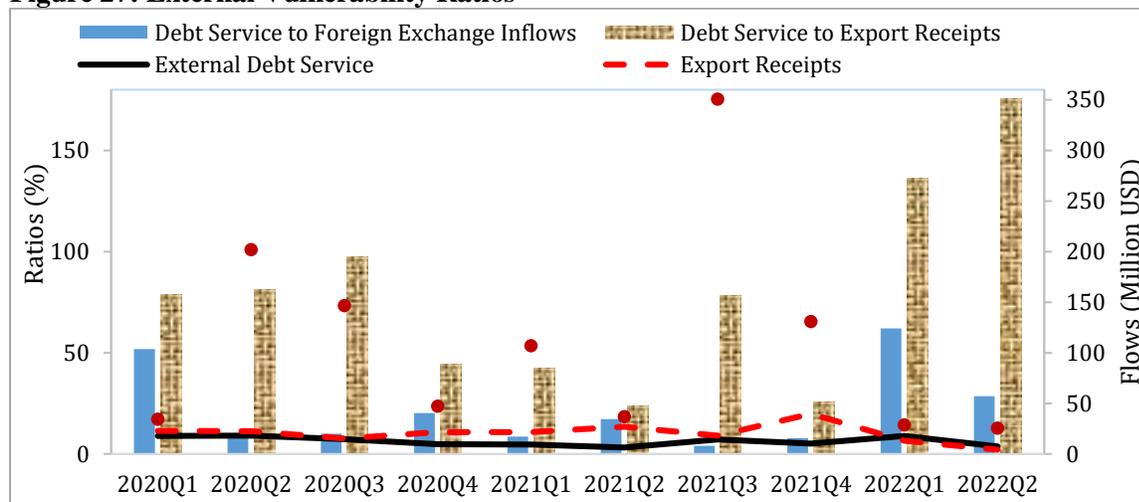


Source: BSL

### 3.2.4 External Vulnerability Ratios

External debt service payments decreased significantly to US\$7.35mn in 2022Q2, compared to US\$17.89mn in 2022Q1. Forex receipts and export receipts decreased to US\$25.77mn and 4.19mn in 2022Q2 from US\$28.82mn and US\$13.14mn in 2022Q1, respectively. However, the decrease in forex inflows was lower than that of debt service payment. As a result, the ratio of debt service payment to forex inflows decreased, while the ratio of debt service payment to export receipts increased.

**Figure 27: External Vulnerability Ratios**



Source: BSL

### 3.2.5 External Sector Outlook

External Sector remains weak, mainly reflecting the adverse spillovers from the global economy. Going forward, performance in the sector will largely continue to be dependent on the global economic dynamics. The looming high uncertainty and challenges in the global economy and macroeconomic vulnerabilities could continue to weigh on the sectors at least in the near term. However, high prices for export commodities – including rutile and diamonds – combined with growing diaspora remittances could help in dampening some of the negative reverberations in the external sector.

## 3.3 Exchange Rates and Foreign Exchange Market Developments

### 3.3.1 Exchange rate Movement

The volatility in exchange rate market remains a challenge in 2022Q2, given the increased demand of FX for the importation of food and other essential items. Also, the reduction in mining activities during the rainy season and the sluggish growth of the real sector are all having negative effect on the exchange rates. In addition, the increase in crude oil prices globally mainly as a result of the Russian – Ukrainian crisis which subsisted from the previous quarter continued to exert pressure on the exchange rate and contributing to the depreciation of the exchange rate.

In response to the persistent depreciation of the exchange rate, the Bank of Sierra Leone sustained its interventions in the foreign exchange by making available through direct sales of forex (US\$71.38mn as at 2022Q2) through the Special Facility for Food (SFF) and Reserve Facility for

Fuel (RFF) to commercial banks for onward sale to oil marketing companies and importers of rice of rice, sugar, and flour, and also the Special Credit Facility to importers of essential commodities through their respective commercial banks. This intervention was done to help cushion the liquidity constraints in the foreign exchange market and stabilize the exchange rates. The BSL has also commenced its weekly forex auction in September 2022 to help dampen the exchange rate pressure observed in the market.

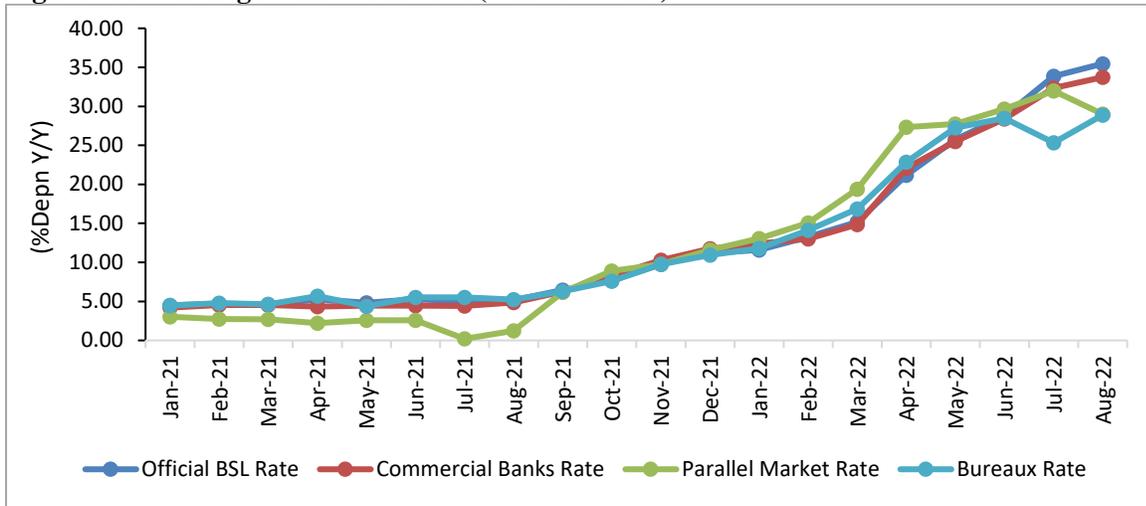
The quarterly average official BSL exchange rate of the Leone against the US\$ dollar depreciated by 10.84 percent, averaging NLe12.82/US\$1 in 2022Q2, relative to Le11.57/US\$1 in 2022Q1. It also depreciated by 25.22 percent when compared to Le10.24/US\$1 in the corresponding quarter of 2021.

The commercial bank's exchange rate depreciated by 10.76 percent, averaging NLe12.95/US\$1 in 2022Q2, relative to NLe11.69/US\$1 in 2022Q1. It also depreciated by 25.33 percent when compared to Le10.33/US\$1 in the corresponding quarter of 2021.

The bureaux rate depreciated by 10.94 percent, averaging to Le12.97/US\$1 in 2022Q2 from to Le11.69 in 2022Q1. Similarly, it depreciated by 26.20 percent when compared to Le10.28 in the corresponding quarter of 2021.

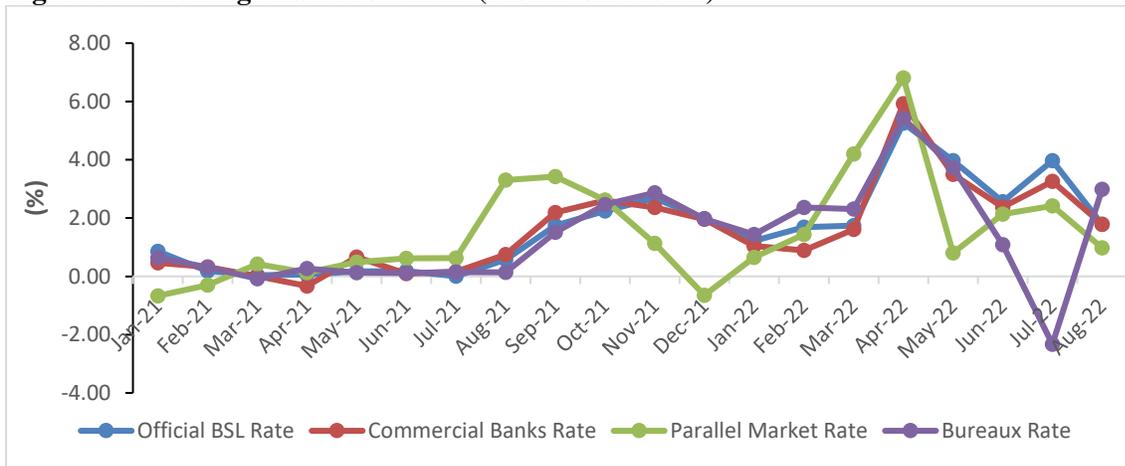
The Parallel market rate depreciated by 11.69 percent, averaging to Le13.41/US\$1 in 2022Q2, relative to Le12.01/US\$1 in 2022Q1. It also depreciated by 28.26 percent when compared to Le10.46/US\$1 in the corresponding quarter of 2021.

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



Source: BSL

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

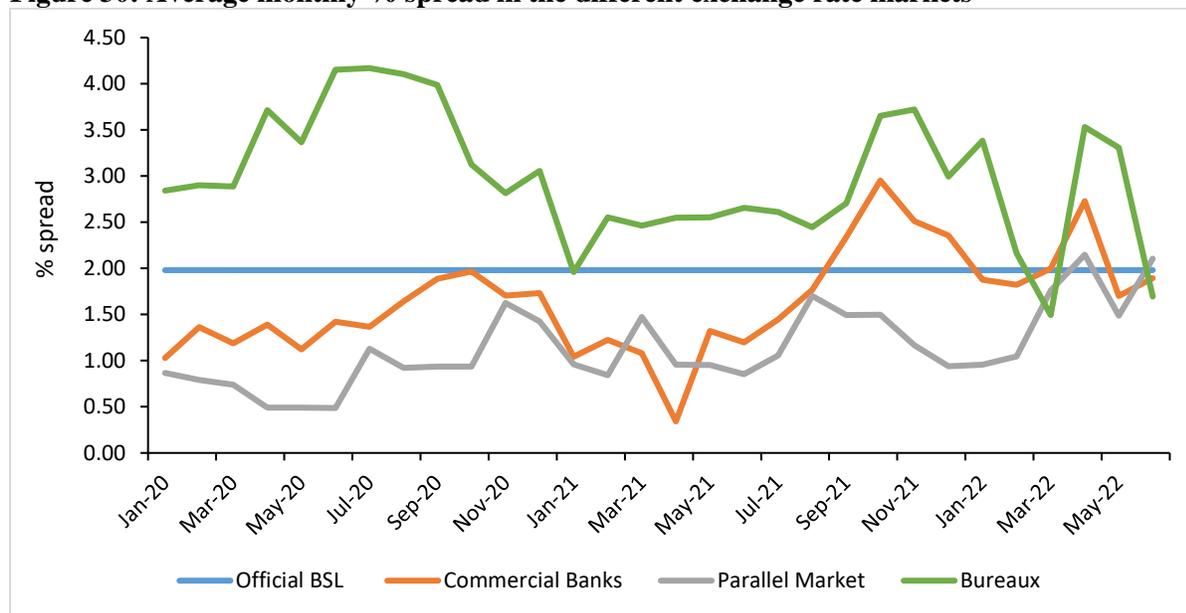


Source: BSL

**3.3.2 Exchange Rates Spread in Various Market Segments**

The percentage monthly spread as at end June 2022 for the official BSL rates was constant at 1.98 percent. However, spreads in the commercial banks, bureaus, and parallel market were 1.89 percent, 1.70 percent, and 2.10 percent respectively, as at end June 2022.

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



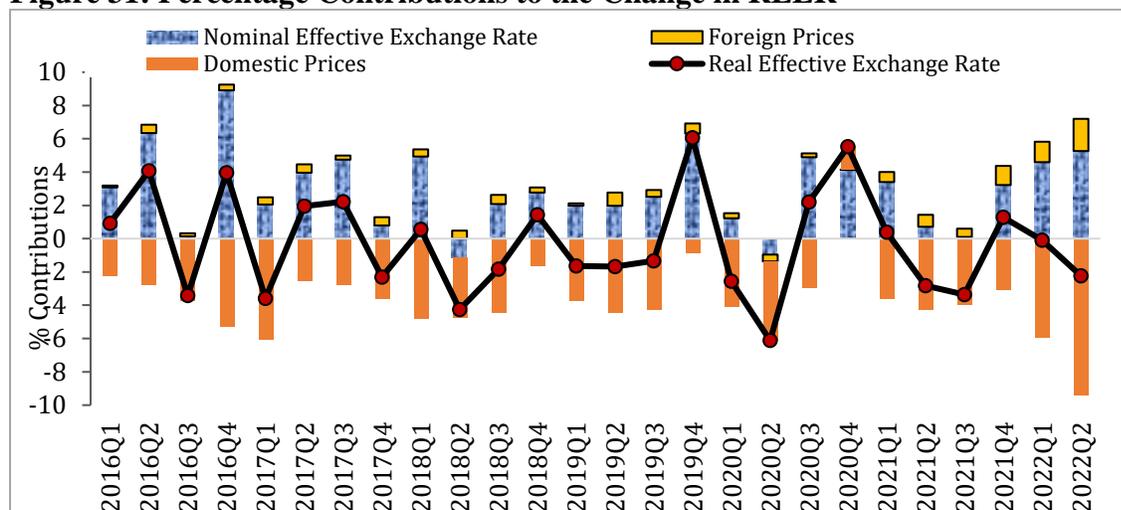
Source: BSL

### 3.3.3 Effective Exchange Rates

The Nominal Effective Exchange Rate (NEER), which measures the relative strength of the Leone against the currencies of Sierra Leone’s trading partners depreciated by 5.40 percent quarterly to an index of 109.41 in 2022Q2. Bilaterally, the Leone depreciated against the US dollar by 10.29 percent, Chinese RMB by 5.93 percent, Swiss franc by 5.55 percent, Euro by 4.81 percent and British Pounds by 3.56 percent in 2022Q2

However, the real effective exchange rate (REER), which measures the competitiveness of Sierra Leone’s traded goods relative to those of its trading partners appreciated slightly by 2.24 percent quarterly, to an index of 98.14 points in 2022Q2. The appreciation was mainly on account of significant increase in domestic prices relative to foreign prices, which outweighed the increase in NEER (Note: an increase in the NEER and REER denote depreciation and a decrease means appreciation).

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



Source: BSL

### 3.3.4 Domestic Foreign Exchange Market

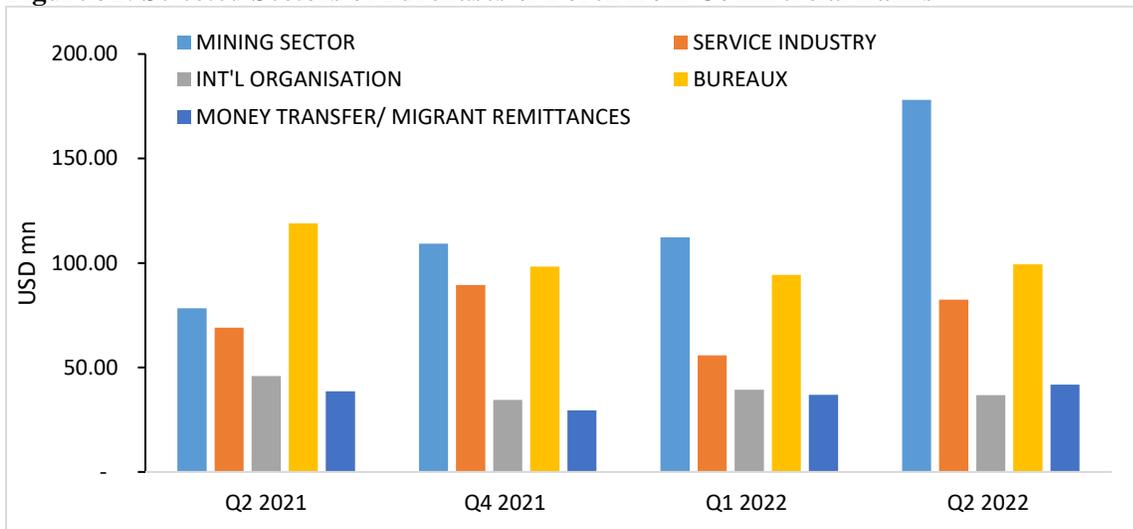
#### *Foreign Exchange Flows*

Total amount traded in the Foreign Exchange Market (Purchases and Sales) during 2022Q2 was US\$458.83mn, up by 11.01 percent relative to US\$413.32mn realized in the corresponding quarter 2021Q2 and 14.25 percent above US\$401.61mn recorded in 2022Q1.

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

Total purchases of foreign exchange by commercial banks increased by 21.56 percent to US\$231.56mn in 2022Q2, from US\$190.06mn in 2022Q1, on account of increased in purchases made from the service industry, NGO's and migrant remittances. It's also increased by 23.90 percent when compared with US\$186.46mn recorded in the corresponding quarter (2021Q2), which could be attributed to increase in purchases from the mining sector, service industry, NGO's/ International organisations, and migrant remittances. In July 2022, total purchases was US\$68.03mn, which is 13.22% less than US\$78.40mn recorded in June 2022.

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

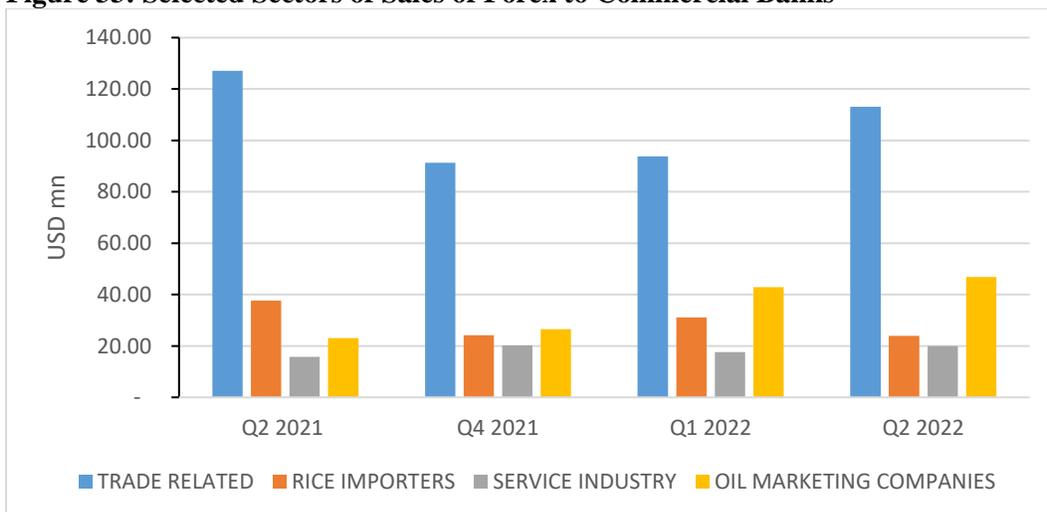


Source: BSL

**Commercial Banks' Sales of Forex**

Total sales of foreign exchange by commercial banks in 2022Q2 slightly increased by 0.41 percent to US\$227.80mn compared with US\$226.86mn recorded in corresponding period in 2021Q2. The increase in forex sales is mainly attributed to the incline in sales essentially for oil related products imports and service industry. It also increase by 7.68 percent relative to US\$211.55mn recorded in 2022Q1 largely due to increase in forex sales for trade related imports, service industry and oil marketing companies. In July 2022, total sales was US\$66.94mn, 20.18 percent less than US\$83.87mn recorded in June 2022.

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



Source: BSL

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



Source: BSL

### 3.3.5 Outlook for the Foreign Exchange Market

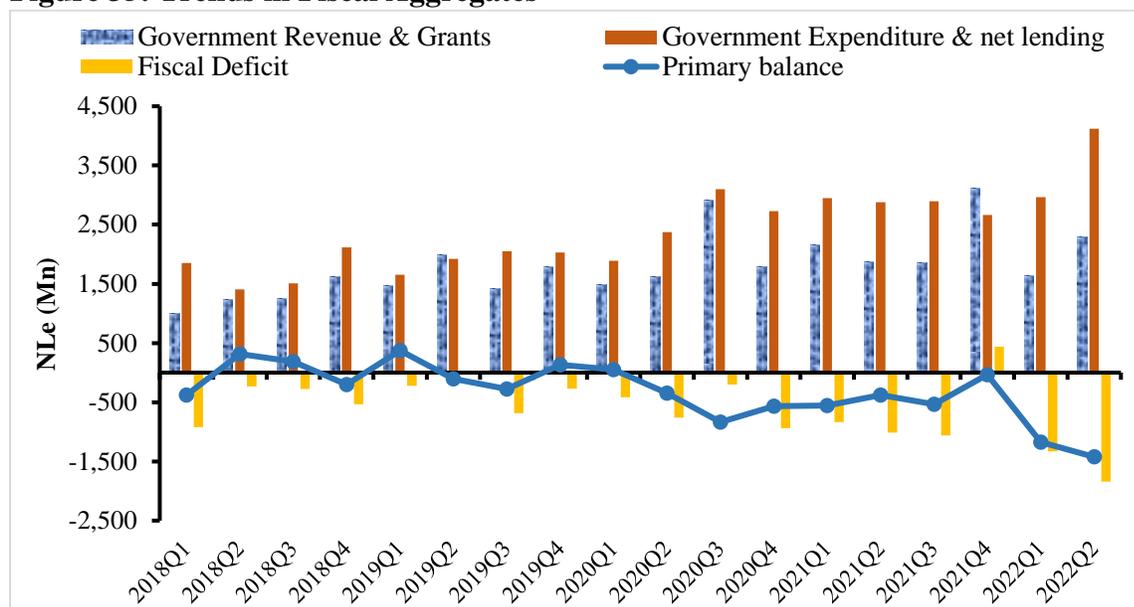
The volatility in the exchange rates is expected to continue at least in the near term in part due to the lean period. However, the commencement of forex intervention by the BSL, coupled with expected higher inflows from remittances as well as donor partners could help to moderate exchange rate pressures in the market.

## 3.4 Fiscal Developments

### 3.4.1 Government Budgetary Operations

Government fiscal operations in 2022Q2, recorded an overall budget deficit of NLe1.84bn compared to NLe1.33bn in 2022Q1. This was higher than the target of NLe1.55bn for 2022Q2. The expansion of the fiscal deficit in 2022Q2 was due to increased government expenditure which outweighed the increase in government revenues. The primary balance also recorded a deficit of NLe1.42bn in 2022Q2, from NLe1.17bn in 2022Q1.

**Figure 35: Trends in Fiscal Aggregates**



Source: MOF

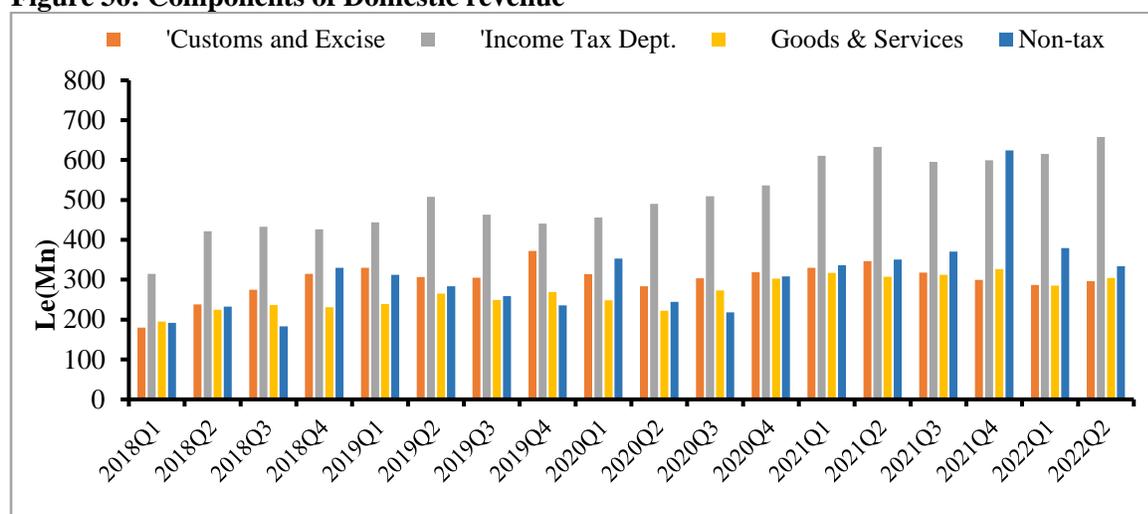
### 3.4.2 Government Revenues and Grants

Total government revenues improved to NLe2.29bn in 2022Q2 compared to NLe1.64bn in 2022Q1, and the target of NLe2.60bn for 2022Q2. This outturn represented 39.34 percent above the revenues for 2022Q1, but 12.05 percent below the quarterly revenue target for 2022Q2.

Domestic revenue increased slightly to NLe1.64bn in 2022Q2, from NLe1.62bn in 2022Q1, reflecting a 1.05% increase during the period. It was lower than the projected amount of NLe1.95bn. This marginal rise in domestic revenue was attributed to the increase in income tax revenue, customs & excise and goods & services tax. Non-tax revenue declined in the review quarter.

Revenue generated from income tax amounted to NLe657.88mn in 2022Q2 from NLe615.80mn in 2022Q1. Receipts from GST increased to NLe304.37mn in 2022Q2 from NLe285.08mn in 2022Q1. Customs and excise tax revenue also increased to NLe296.00mn in 2022Q2 from NLe286.75mn in 2022Q1. However, non-tax revenue decreased to NLe334.03mn in 2022Q2 from NLe379.66mn in 2022Q1. Foreign grants increased substantially by NLe651.53mn in 2022Q2, compared to NLe22.31mn in 2022Q1.

**Figure 36: Components of Domestic revenue**



Source: MOF

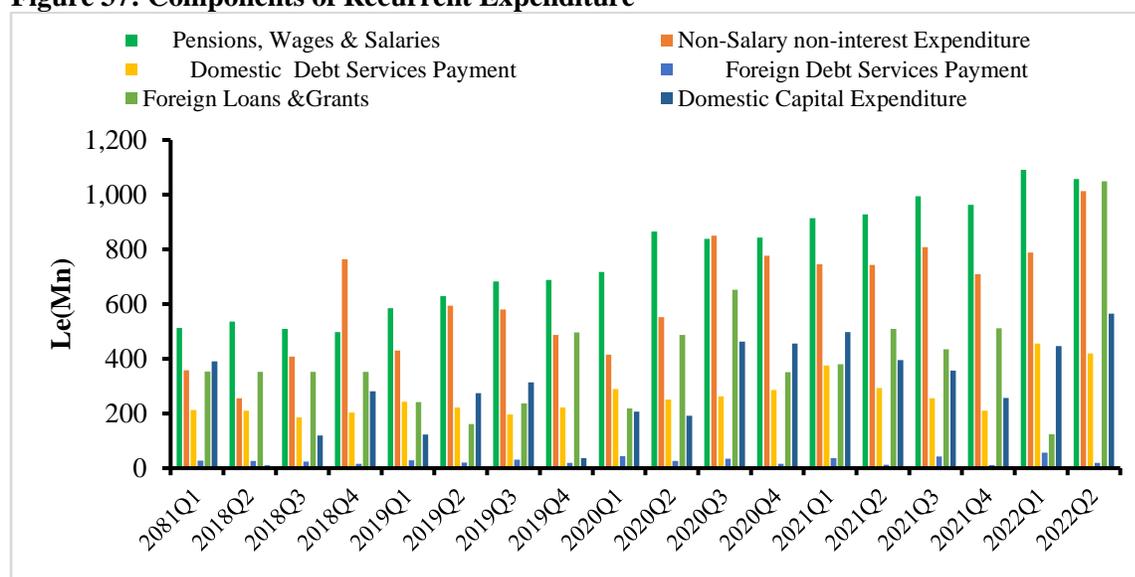
### 3.4.3 Government Expenditures

Total government expenditure and net lending increased by 39.1 percent to NLe4.12bn, compared to NLe2.96bn in 2022Q1, and the budgeted target of NLe4.02bn. The expansion in government expenditure was as a result of increase in both capital expenditure and recurrent expenditure.

Recurrent expenditure rose by 4.87 percent to NLe2.51bn in 2022Q2 from NLe2.39bn in 2022Q1. This was largely driven by the recorded increase in non-salary non-interest expenditures. Meanwhile, total interest payments and the wage bill fell during the review quarter.

Non-salary non-interest expenditure increased to NLe1.01bn in 2022Q2 from NLe788.78mn in 2022Q1, but was slightly below the target of NLe1.11bn for 2022Q2. However, total interest payments decreased to NLe438.10mn in 2022Q2, from NLe511.60mn in 2022Q1. Of this amount, domestic interest payment amounted to NLe419.23mn; and foreign interest payment amounted to NLe18.87mn in 2022Q2. Similarly, pension, wages and salaries reduced to NLe1.06bn in 2022Q2 from NLe1.09bn in 2022Q1.

**Figure 37: Components of Recurrent Expenditure**



Source: MOF

Capital expenditure and net lending increased significantly to NLe1.61bn in 2022Q2 from NLe571.26mn in 2022Q1; of which domestic capital expenditure increased to NLe564.98mn from NLe446.82mn in 2022Q1. Similarly, expenditure on foreign loans and grants expanded substantially to NLe1.05bn from NLe124.44mn in 2022Q1.

### 3.4.4 Budget Deficit Financing

The overall budget deficit of NLe1.84bn was financed through domestic, foreign and other sources. Domestic deficit financing amounted to NLe456.46mn while foreign deficit financing amounted to NLe280.52mn, and other sources of financing recorded NLe650.90mn in 2022Q2.

Domestic financing from the banking system totaled NLe370.42mn in 2022Q2, while non-bank financing amounted to NLe86.04mn in 2022Q2. Deficit financing by the BSL increased to NLe289.16mn in 2022Q2 from NLe158.79mn in 2022Q1. Commercial bank financing reduced drastically to NLe81.26mn in 2022Q2 from NLe678.41mn in 2022Q1.

### 3.4.5 Outlook for the Fiscal Sector

Fiscal deficit worsened in 2022Q2, largely as a result of an expansion in government discretionary spending reinforced by challenging macroeconomic conditions resulting from the Russia-Ukraine war and its spill-over effects on the domestic economy.

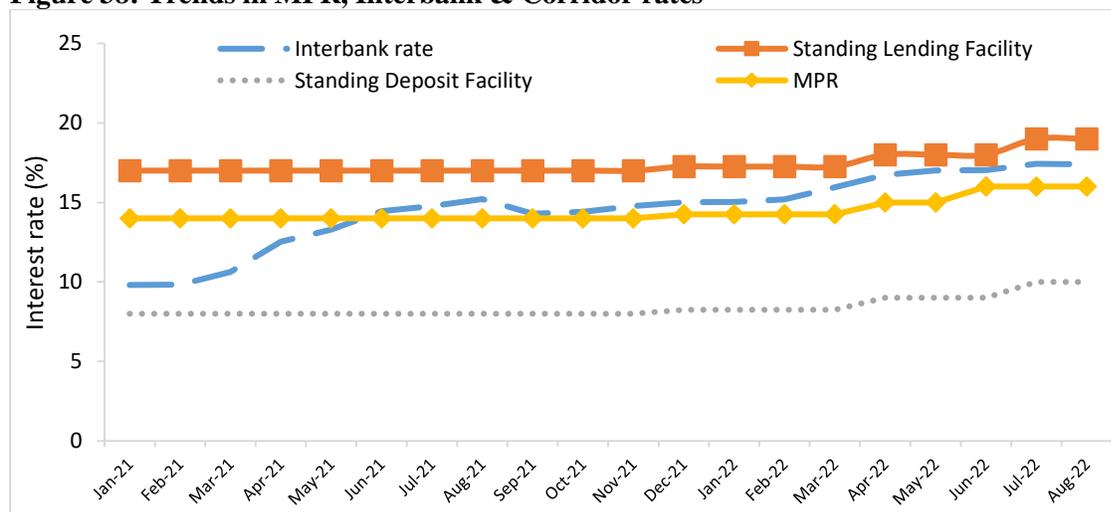
Going forward, fiscal operations is expected to remain challenged at least in the near term as expenditure pressures intensify in a bid to support economic recovery as well as financing of the general elections in 2023, given the limited revenue space. However, the implementation of ongoing revenue reforms coupled with expected inflows from development partners could help to dampen fiscal pressures going forward.

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

#### 3.5.1 Monetary Policy Stance

The Monetary Policy Committee (MPC) met on 30<sup>th</sup> June 2022 and after thoughtful review of global, regional and domestic economic and financial-market developments, decided to raise the Monetary Policy Rate (MPR) by 100 basis points from 15.0 percent to 16.0 percent as a short-term anti-inflationary measure. It also decided to adjust the Standing Lending Facility Rate and the Standing Deposit Facility rate upward by the same margin the Policy corridor - the Standing Lending Facility rate and the Standing Deposit Facility rate were increased by the same margin to 19.0 percent and 10.0 percent , respectively.

**Figure 38: Trends in MPR, Interbank & Corridor rates**



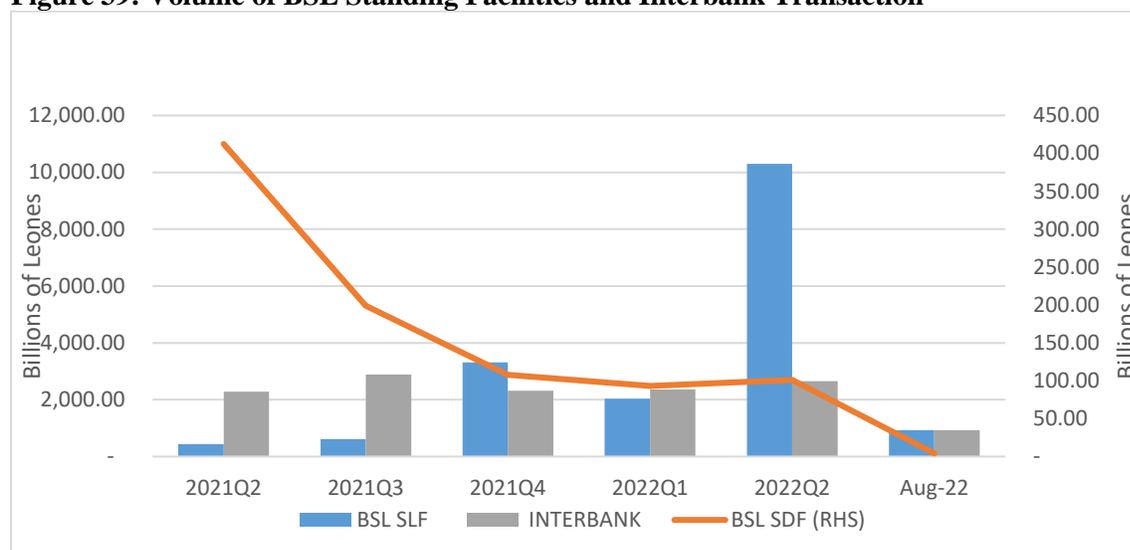
Source: BSL

#### 3.5.2 Interbank Money Market Rate

The level of intermediation in the interbank money market increased during the review period. The volume of interbank transactions increased from NLe2.36bn in March 2022 to NLe2.39bn in in June 2022, and at stood at NLe1.29bn in August 2022. In the Standing Deposit Facility (SDF) window, the volume of transactions increased from NLe93.20mn in March 2022 to NLe101.30mn

in June 2022, and was NLe31.30mn August 2022. There was increased access to the (SLF) window as the volume of transactions significantly increased from NLe2.03bn in March 2022 to NLe10.30tn in June 2022, and stood at NLe11.20bn in August 2022.

**Figure 39: Volume of BSL Standing Facilities and Interbank Transaction**



Source: BSL

### 3.5.3 Developments in Monetary Aggregates

Developments in monetary aggregates during the second quarter of 2022 were mixed, as Broad Money (M2) expanded whilst Reserve Money (RM) contracted.

#### *Broad Money (M2)*

The pace of growth in Broad Money (M2) slowed down to 0.84 percent in 2022Q2, relative to the 5.36 percent increase in 2022Q1. The significant moderation in M2 growth was largely as a result of the deterioration in the Net Foreign Assets (NFA) of the banking system which outweighed the growth in Net Domestic Assets (NDA) of the banking system.

NDA of the banking system expanded by 9.87 percent in 2022Q2, compared with the 6.27 percent increase in 2022Q1. The expansion in NDA was primarily driven by the 7.69 percent increase in net claims on government by the banking sector. Net claims on Government by the BSL grew by 14.96 percent in 2022Q2 which was more than the 6.59 percent expansion in 2022Q1 mainly as a reflection of increase in their holdings of government securities. Net claims on government by commercial banks grew marginally by 2.58 percent in 2022Q2 from an expansion of 11.59 percent

in 2022Q1 largely as a result of growth in their holdings of government securities. Growth in NDA was also supported by improved Credit to the Private Sector by commercial banks.

NFA of the banking system contracted by 28.50 percent in 2022Q2, relative to the 2.53 percent increase in 2022Q1. The contraction in the NFA of the banking system was largely on account of increase in foreign liabilities in the NFA of the Bank of Sierra Leone. Meanwhile, NFA of the commercial banks expanded by 10.06 percent.

On a year-on-year basis, the growth in M2 reduced to 20.74 percent in 2022Q2 following a 23.49 percent increase in 2022Q1, and was below the IMF/ ECF program target of 21.30 percent in 2022Q2.

From the liability side, Narrow Money (M1) contracted by 3.19 percent in 2022Q2 from 1.15 percent growth in 2022Q1 mainly due to decreases in both demand deposits (5.60%) and currency outside banks (0.07%). Quasi Money expanded moderately by 4.91 percent in 2022Q2 relative to the 10.01 percent growth in 2022Q1. The moderate expansion in quasi money was influenced by increases in both foreign currency deposits (6.27%) and time and savings deposits (3.17%).

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

On quarterly basis, RM contracted by 0.30 percent in 2022Q2, compared to a contraction of 2.15 percent in 2022Q1. The contraction in RM was as a result of the continuous deterioration of the Net Foreign Assets (NFA) of the Bank of Sierra Leone (BSL) in the face of increased foreign liabilities. Net Domestic Assets (NDA) of the BSL expanded by 27.68 percent in 2022Q2 from 8.30 percent in 2022Q1. This development was largely driven by the 43.10 percent increase in holdings of government securities and 8.39 percent growth in GoSL/IMF budget financing loan.

On annual basis, RM increased to 10.24 percent in 2022Q2 from 8.74 percent in 2022Q1 and was above the IMF/ECF program target of 9.80 percent for 2022Q2.

From the liabilities side, the contraction in RM was underpinned by the decline in banks' reserves by 3.50 percent while currency issued increased by 0.39 percent in 2022Q1.

#### ***Private Sector Credit***

On annual basis, growth in Credit to the Private Sector moderated to 20.19 percent in 2022Q2 relative to the 24.83 percent increase in 2022Q1, but was above the IMF/ECF program target of

14.10 percent in 2022Q2. On quarterly basis, credit to the private sector increased by 5.56 percent in 2022Q2, relative to 1.59 percent in 2022Q1 reflecting improvement in economic activity as indicated by the increase in the CIEA index.

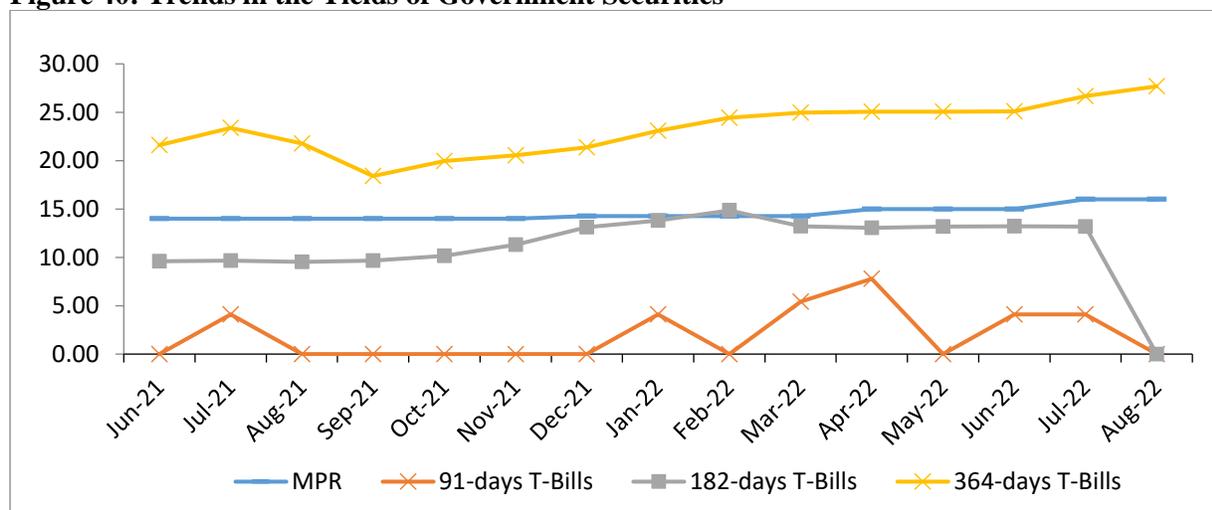
### 3.5.4 Interest Rates Developments

#### *Treasury Bills and Interbank Rates*

Developments in interest rates showed mixed trends across the spectrum of government instruments during the review period. The yields on 182-day T-bills decreased slightly from 13.21 percent in March 2022 to 13.17 percent in June 2022, while the 364-day T-bills increased from 24.95 percent in March, 2022 to 25.08 percent in June, 2022 and further to 27.69 percent in August 2022.

The interbank weighted average yield increased by 104 basis points from 15.96% in March, 2022 to 17.04% in June, 2022, and increased to 17.85% in August, 2022. This increase could be attributed to the emergence of liquidity pressure in the banking system. Figure 40 shows the trends in yields of Government securities in both the Primary and Interbank markets.

**Figure 40: Trends in the Yields of Government Securities**

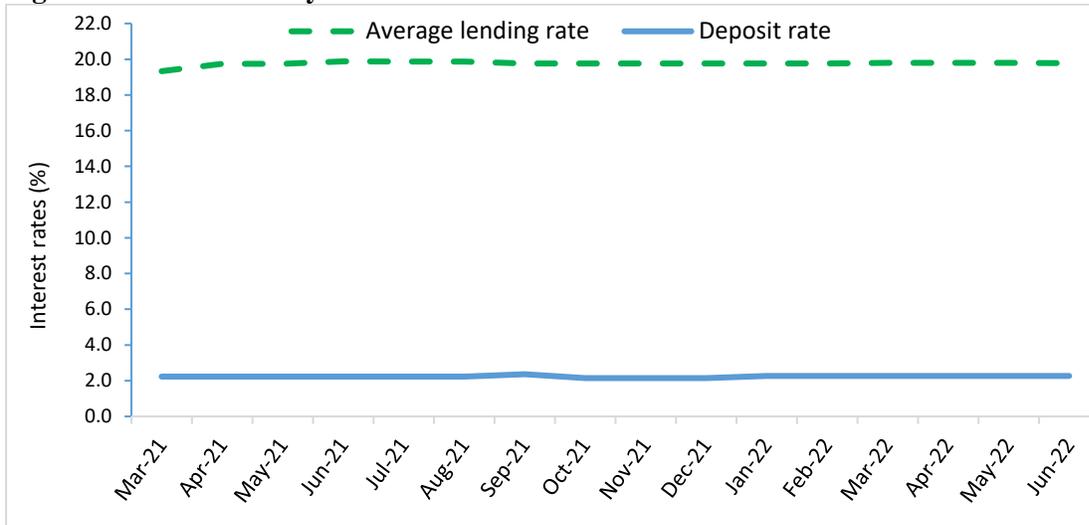


**Source:** BSL

#### *Commercial Banks' Rates*

Commercial Banks' average lending rate decreased slightly from 19.81 percent in March 2022 to 19.77 in June 2022. Meanwhile, the saving rate remained unchanged at 2.27 percent in 2022Q2. Consequently, the spread between the lending and rate and saving rate remains high.

**Figure 41: Trends in Key Market Rates**



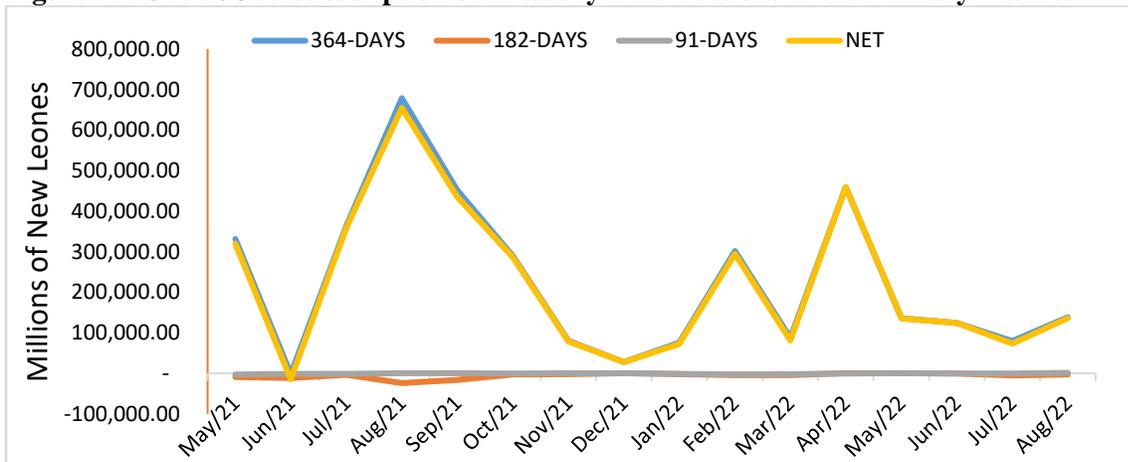
Source: BSL

### 3.6 Domestic Debt Developments

#### 3.6.1 Primary Market Auction Outcomes

The primary market for Government Securities was oversubscribed on net basis during the review period. The 364-day tenure was largely oversubscribed, while the 182-day tenure and the 91-day tenure were undersubscribed in 2022Q2. Similar trend continued in August 2022.

**Figure 42: Under/Oversubscription of Treasury Bills Auctions in the Primary Market**



Source: BSL

#### 3.6.2 Stock of Government Securities

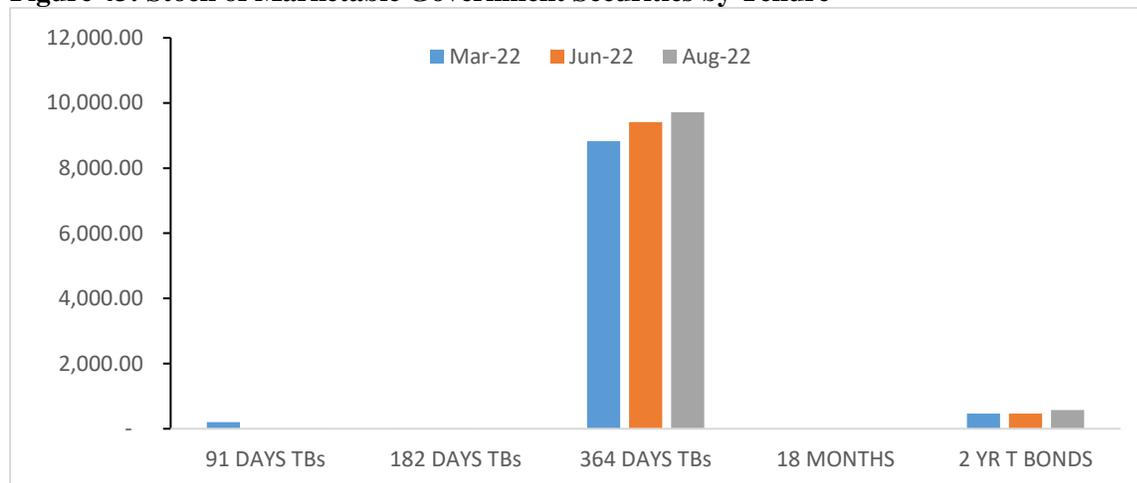
The total stock of Government securities increased from NLe10.32bn March 2022 to NLe10.98bn in June 2022 and further to NLe11.52bn as at end August 2022. Of the total stock of securities, marketable securities accounted for 90.23 percent at end June 2022, and 89.37 percent in August

2022, while non-marketable securities accounted for 9.77 percent in June 2022, and 10.63 percent in August, 2022.

The stock of marketable securities increased from NLe9.50bn in March 2022 to NLe9.91bn at end June 2022, and further to NLe10.29bn in August 2022. The stock of non-marketable securities increased from NLe811.53mn in March 2022 to Le1.07bn in June 2022, and further to Le1.23bn August, 2022.

As at end June 2022, the proportion of 91-days, 182-days and 364-days treasury bills to total marketable securities was 0.02 percent, 0.05 percent and 95.02 percent respectively, while that of the 2-year treasury bonds was 4.91 percent. With regards non-marketable securities, the 3-year, 5-year and 10-year treasury bonds accounted for 63.98 percent, 34.27 percent and 1.75 percent respectively.

**Figure 43: Stock of Marketable Government Securities by Tenure**

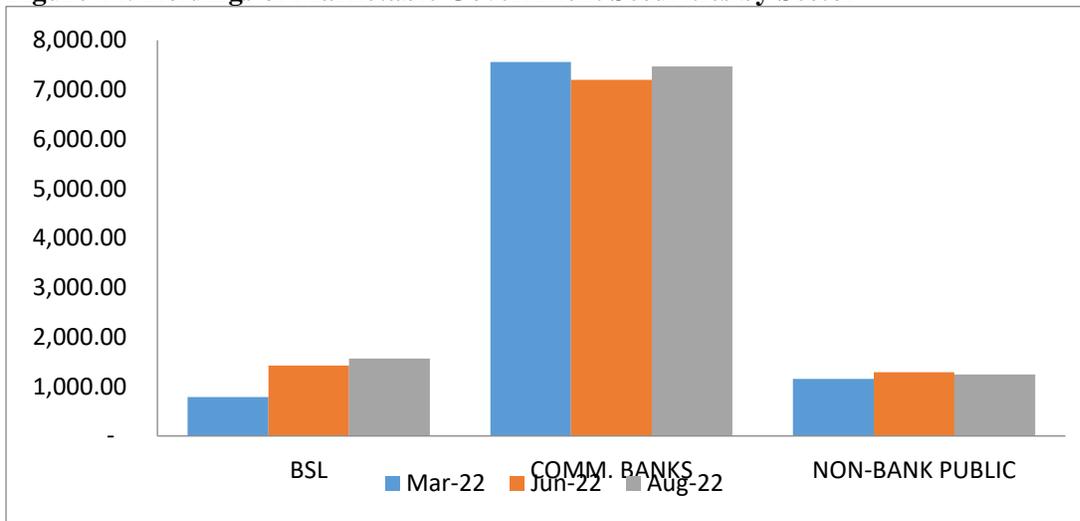


Source: BSL

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

The holdings of marketable Government securities by commercial banks decreased from NLe7.56bn in March 2022 to Le7.20bn in June 2022, but increased to NLe7.49bn in August 2022. Non-bank holdings of marketable Government securities increased from NLe1.16bn to NLe1.29bn, but decreased to NLe1.24bn in August 2022. BSL holdings of marketable Government securities increased from NLe787.90mn in March 2022 to NLe1.43bn in June 2022, and further to NLe1.56bn as at end August, 2022.

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



**Source:** BSL

### 3.7 Financial Stability Analysis

The Banking sector continued to be relatively stable as all key Financial Soundness Indicators (FSIs) are above the minimum thresholds, though asset quality remains a challenge. The proportion of Non-performing Loans decreased marginally in 2022Q2 but it remained above the prudential limit. However, the banking sector is profitable and liquid. Government securities continued to be the largest asset of banks and therefore the main source of income for banks. Gross Loans and investment in T-bills improved in 2022Q2, financed by increased deposits to the banking system. Treasury bills rates continued to increase during the quarter and continues to be higher than the rate of other risk assets of the banking sector.

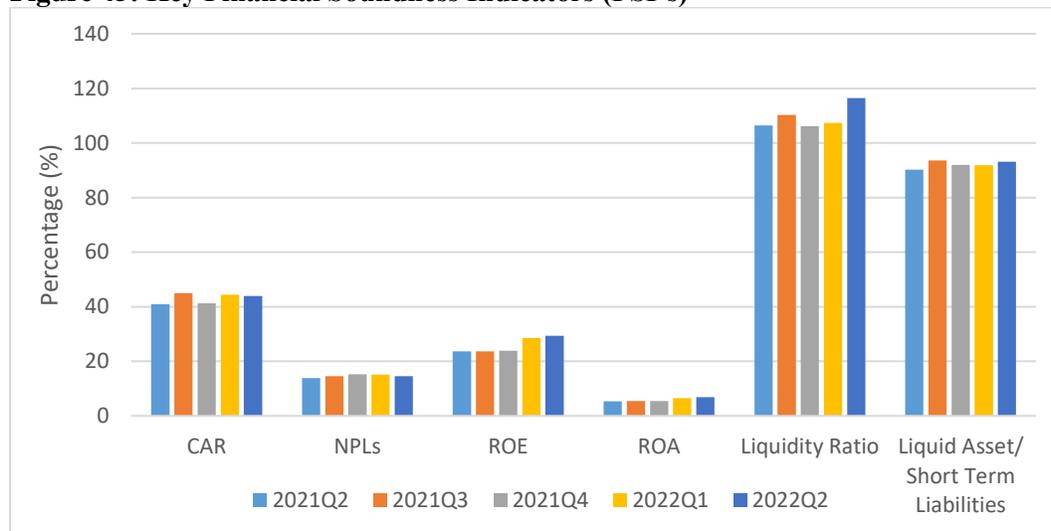
#### 3.7.1 Financial Soundness Indicators (FSIs)

The key FSIs indicate that the banking sector continued to be stable and adequately capitalised, though challenged by high NPLs. The banking sector is solvent throughout the review period. However, the regulatory capital to risk-weighted asset decreased to 43.9 per cent in Q2 2022 from 44.4 per cent in Q1 2022, though CAR is still above the prudential threshold of 15 per cent.

Asset quality improved marginally in 2022Q2 as the ratio of non-performing loans to total loans decrease to 14.5 per cent in Q2 2022 from 15.1 per cent in Q1 2022. However, the banking sector profitability improved. The Return on Asset (ROA) and Return on Equity (ROE) were recorded at 6.8 and 29.3 per cent respectively for Q2 2022 as compared to 6.5 and 28.6 in Q1 2022. Liquid

Asset to Short Term Liabilities and the Liquidity Ratios of the Banking Sector also increased in the banking sector as shown in figure 45 below.

**Figure 45: Key Financial Soundness Indicators (FSI's)**



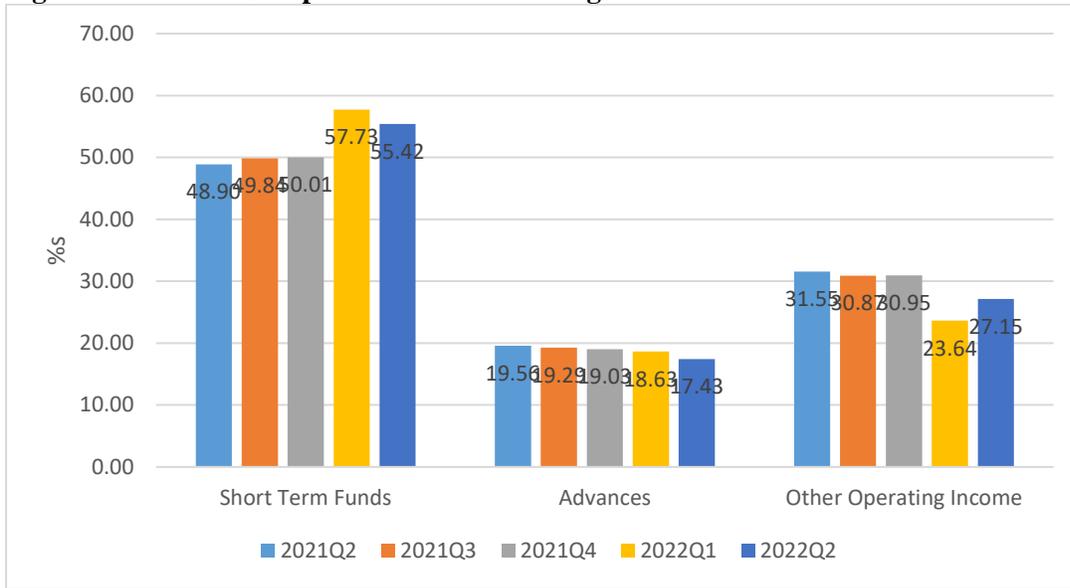
**Source:** BSL

### 3.7.2 Income Composition

The banking sector continued to rely primarily on government securities for its income. This is mainly because rates of government securities are high and the risk of the investments are nil. In 2022 Q2, the proportion of income on short term funds and advances declined by 2.3 percentage points and 1.2 percentage points respectively to 55.42 percent and 17.43 percent as at 2022 Q2 from 57.73 percent and 18.63 percent as at end 2022 Q1. The drop in the proportion of income from short term funds may be attributed to the collapse in the rate of T-bills in the first half of 2021 Q1. Though the rates have since recovered in 2022 Q2, it will have a lagged effect on income of Banks in the second half of 2022.

However, the shortfall from the above sources was compensated by the increase in other operating income whose proportion increased by 3.5 percentage points from 23.64 percent as at 2022 Q1 to 27.15 percent as at 2022 Q2. Other operating income was mainly driven by Commission and Fees.

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

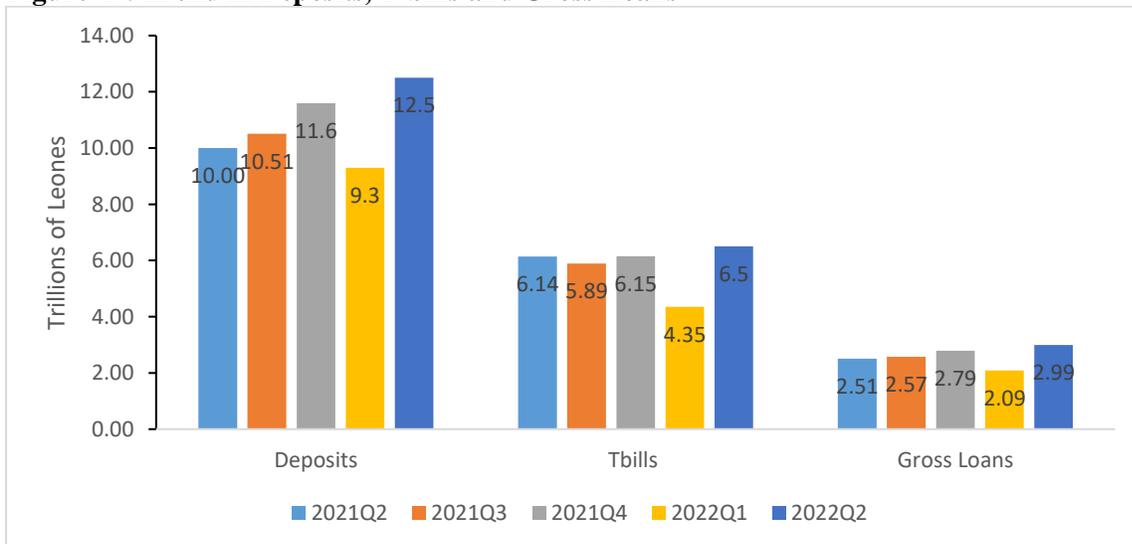


Source: BSL

### 3.7.3 Sources and Utilization of Funds

Total Deposits, which is the main source of funds for banks, increased in 2022 Q2 by 34.4 percent to Le 12.5 trillion in 2022 Q2 from Le 9.3 trillion in 2022 Q1. Treasury bills holding by the banking sector increased by 49.4 percent to Le 6.5 trillion in 2022Q2 from Le 4.35 trillion in 2022 Q1, largely driven by investment in 364-day T-bills. Gross loans and advances also increased by 43.1 percent to Le2.99 trillion in 2022 Q2 from Le 2.09 trillion in 2022Q1.

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

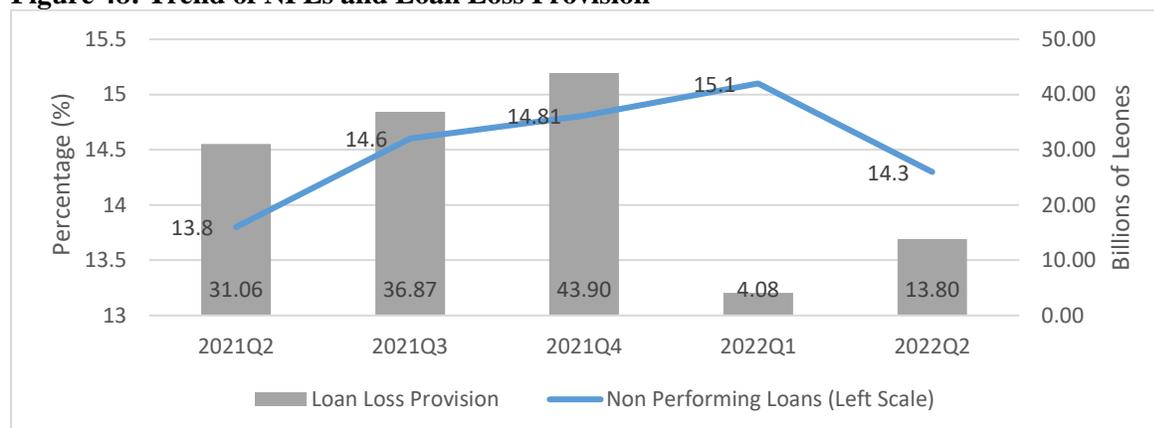


Source: BSL

### 3.7.4 Trend in NPLs and Loan Loss Provisions

The NPL ratio for 2022 Q2 decreased by 0.6 percentage points from 15.1 percent in 2022 Q1 to 14.5 percent in 2022 Q2. Loan loss provision on the other hand increased by Le9.72 billion from Le 4.08 billion in 2022 Q1 to Le 13.80 billion in 2022 Q2.

**Figure 48: Trend of NPLs and Loan Loss Provision**



**Source:** BSL

### 3.7.5 Challenges

The war in Ukraine is still raging and further escalation will be a major risk to the stability of the banking sector. Global financial conditions could deteriorate, and the dollar strengthen further, should turmoil in financial markets erupt, pushing investors towards safe assets. This would add significantly to inflation pressures and financial fragilities in the rest of the world, especially emerging markets and developing economies. In addition, the rise in energy prices and supply chain disruption will continue, leading to low business performance and consequently affecting loan repayment abilities of firms. This will further lead to surge in commodity prices, disruptions to global trade, and financial market volatility. The prices of other energy-intensive goods will increase exacerbating the risk of high inflation. Delays in the payment of government arrears may also deteriorate the quality of asset portfolio of affected banks. The volatility in the foreign exchange market is also a challenge to the banking sector

### 3.7.6 Outlook

Though the banking sector remained relatively stable, the war in Ukraine with its uncertainties continue to pose a threat to financial market stability and a risk to the effective operations of the banking system. However, 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. And banks will be better placed to withstand future challenges with the improvement in the CAR. However, rising prices in the construction sector may disrupt construction contracts increasing the risk of increased NPL in the banking sector.

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

##### **4.1 Conclusion**

Domestic economic activities remained subdued during the review period, and it is expected to remain so in 2023. Consequently, real GDP growth is projected at 3.6 percent and 3.4 percent in 2022 and 2023, respectively. The projected subdued economic performance largely reflects the effects of the same factors that have fueled inflationary pressures, namely, Russia's war on Ukraine, rising energy and food prices, high freight charges as well as the lingering effects of the COVID-19 Pandemic. Risks to the 3.6 percent growth forecast are skewed to the downside, depending largely on the duration of the war in Ukraine and the extent of its spillovers to small open economies like Sierra Leone.

The BSL's high frequency CIEA shows that economic activity improved by 0.7 percent in the second quarter of 2022, after having contracted by 3.8 percent in the first quarter. The MPC encourages Government to implement policy reforms in key productive sectors in order to nudge this nascent growth.

Inflationary pressures remained elevated in the review period, although it declined marginally in August 2022. As in the previous periods since the advent of COVID-19, the observed elevated inflation during the current review period was driven mainly by disruptions in the global supply chain, increased freight charges, all of which are consequences of the COVID-19 Pandemic. The Russian-Ukraine War and the resultant sanctions imposed on Russia by some Western countries, including the United States, have induced significant increases in commodity prices (particularly food and energy prices). Furthermore, the global economic uncertainty created by the Pandemic and the Russian-Ukraine War provided incentives for economic agents to "fly to safety" by holding United States dollar (USD) denominated assets, thereby increasing the global demand for dollars relative to supply. Additionally, the tight monetary policies implemented by advanced economies, especially the United States, and the resultant increase in United States interest rates has further

made USD-denominated assets even more attractive, thereby increasing the demand for USD even more.

The net result of the increased demand for USD has been a rapid depreciation of global currencies against the dollar. Consequently, small open developing economies like Sierra Leone, whose debts are typically denominated in USD, must now acquire even more USD to service those debts, whose interest costs rise with the interest rate on USD-denominated assets. This has further put additional pressure on the currencies of these economies. The pass-through effect of the rapid depreciation of the currencies of these countries to prices has resulted in broad-based inflationary pressures in small-open economies like Sierra Leone.

The MPC noted that domestic prices remained largely driven by supply-side factors. Accordingly, it holds that policy reform measures in the productive sectors of the economy (in particularly the agriculture sector) are needed to boost domestic production and productivity in order to reduce the large supply gap.

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

The MPC noted that inflationary pressures remained elevated, and it is expected to remain high throughout the remaining months of 2022. This is due mainly to supply-side factors including rising global commodity prices, higher freight charges, disruption in the global supply chain, uncertainty surrounding COVID-19 pandemic and the Ukraine war.

The Committee noted with concern the high domestic prices and the likely effects on the welfare of particularly the poor. The Committee also noted that the economy remains in an environment of stagflation, and that policy reform measures in the productive sectors of the economy particularly the agriculture sector to support aggregate supply remain vital to support growth and development.

Consequently, mindful of the BSL's responsibility for safeguarding price and financial-system stability, while supporting economic growth, the MPC decided to raise the Monetary Policy Rate (MPR) by 100 basis points to 17.0 percent and adjust the Standing Lending Facility and the Standing Deposit Facility rates upward by the same margin. The MPC will continue to monitor developments in the global and domestic macroeconomic and financial environment and stands ready to take appropriate actions should they adversely impact price and financial-system stability.

## Appendix

**Table 1: Inflation and Monetary Policy Stance of Selected Central Banks**

Country	Recent Inflation (%)		Monetary Policy Rates (%)				
			Current		Previous	Change	
<b>WAMZ</b>							
Sierra Leone	29.5	July22	16.00	June22	15.00	Mar22	1.00
Nigeria	20.5	Aug22	14.00	July22	13.00	May22	1.00
Ghana	33.9	Aug22	22.00	Aug22	19.00	May22	3.00
Guinea	12.4	July22	11.50	Aug22	11.50	May22	0.00
Liberia	6.5	July22	15.00	Aug22	20.00	May22	-5.00
The Gambia	12.4	July22	12.00	Sep22	11.00	June22	1.00
<b>Major Economies</b>							
USA	8.3	Aug22	2.50	July22	1.75	June22	0.75
Euro Area	9.1	Aug22	1.25	Sep22	0.50	July22	0.75
China	2.5	Aug22	3.65	Aug22	3.70	June22	-0.05
UK	9.9	Aug22	1.75	Aug22	1.25	June22	0.50

Source: Central Banks June-September 2022, collected from Trading Economics September 19, 2022

**Table 2: Combined Inflation Projections**

Months	Forecast
Sept. 2022	28.48
Oct.2022	29.19
Nov.2022	30.34
Dec. 2022	29.06
Jan. 2023	28.93
Feb. 2023	27.55

Source: BSL

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

Billions of Leones	2022	2022	Quarterly % change		Yearly % change	
	Q1	Q2	2022Q1	2022Q2	2022Q1	2022Q2
<b>Reserve money</b>	<b>4,503.28</b>	<b>4,489.99</b>	<b>(2.15)</b>	<b>(0.30)</b>	<b>8.74</b>	<b>10.24</b>
<b>Broad money (M2)</b>	<b>15,163.12</b>	<b>15,290.05</b>	<b>5.36</b>	<b>0.84</b>	<b>23.49</b>	<b>20.74</b>
<b>Narrow money (M1)</b>	<b>7,626.27</b>	<b>7,383.32</b>	<b>1.15</b>	<b>(3.19)</b>	<b>22.52</b>	<b>14.23</b>
Currency outside banks	3,330.65	3,328.18	(4.28)	(0.07)	11.50	9.16
Demand deposit	4,295.61	4,055.14	5.80	(5.60)	32.68	18.75
<b>Quasi Money</b>	<b>7,536.85</b>	<b>7,906.73</b>	<b>10.01</b>	<b>4.91</b>	<b>24.49</b>	<b>27.52</b>
o.w. Foreign currency deposit	4,272.91	4,540.89	15.36	6.27	43.33	50.74
Time and saving deposit	3,256.90	3,360.00	3.64	3.17	6.22	5.59
<b>Net Foreign Asset</b>	<b>3,570.92</b>	<b>2,553.16</b>	<b>2.53</b>	<b>(28.50)</b>	<b>17.42</b>	<b>(10.12)</b>
BSL	(664.21)	(2,107.83)	292.29	217.35	(434.10)	(2,938.52)
ODCs	4,235.12	4,660.99	15.97	10.06	49.01	68.48
<b>Net Domestic Assets</b>	<b>11,592.20</b>	<b>12,736.89</b>	<b>6.27</b>	<b>9.87</b>	<b>25.49</b>	<b>29.66</b>
<b>Net Domestic Credit</b>	<b>14,268.79</b>	<b>15,309.82</b>	<b>7.61</b>	<b>7.30</b>	<b>21.68</b>	<b>24.09</b>
Government (Net)	11,371.44	12,246.33	9.47	7.69	22.04	26.39
o.w.BSL	4,697.75	5,400.75	6.59	14.96	18.78	36.19
ODCs	6,673.69	6,845.58	11.59	2.58	24.44	19.60
Private Sector	<b>3,213.36</b>	<b>3,389.31</b>	<b>1.63</b>	<b>5.48</b>	<b>24.68</b>	<b>20.03</b>
o.w. ODCs	3,195.24	3,373.05	1.59	5.56	24.83	20.19
Other Sectors (Net)*	(316.01)	(325.83)	9.31	3.11	87.36	85.84
<b>Other Items (Net)</b>	<b>(2,676.59)</b>	<b>(2,572.93)</b>	<b>13.80</b>	<b>(3.87)</b>	<b>7.54</b>	<b>2.33</b>
<b>Money Multiplier</b>	3.37	3.41				

Source: BSL

**Table 4: Reserve Money and Components**

Billions of Leones	2022	2022	Quarterly % Change		Yearly % Change	
	Q1	Q2	2022Q1	2022Q2	2022Q1	2022Q2
<b>Net Foreign Assets</b>	<b>(664.21)</b>	<b>(2,107.83)</b>	<b>292.29</b>	<b>217.35</b>	<b>(434.10)</b>	<b>(2,938.52)</b>
<b>Net Domestic Assets</b>	<b>5,167.48</b>	<b>6,597.82</b>	<b>8.30</b>	<b>27.68</b>	<b>31.07</b>	<b>65.01</b>
<b>Government Borrowing (net)</b>	<b>4,697.75</b>	<b>5,400.75</b>	<b>6.59</b>	<b>14.96</b>	<b>18.78</b>	<b>36.19</b>
o.w. 2.11 Securities	1,256.00	1,797.38	13.13	43.10	7.79	62.52
2.12 Ways and Means	244.38	7.74	24.56	(96.83)	158.25	(95.86)
2.13 GoSL/IMF Budget financing	3,257.33	3,530.75	(3.21)	8.39	7.40	20.31
<b>3. Reserve money</b>	<b>4,503.28</b>	<b>4,489.99</b>	<b>(2.15)</b>	<b>(0.30)</b>	<b>8.74</b>	<b>10.24</b>
o.w. 3.1 Currency issued	3,731.93	3,746.61	(2.49)	0.39	16.01	13.14
3.2 Bank reserves	764.30	737.54	(0.74)	(3.50)	(16.70)	(2.39)

Source: BSL

**Table 5: Interest Rates**

	2021							2022					
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
91-day T-Bills	0.00	4.11	0	0	0	0	0	4.11	0	5.40	7.78	0.00	4.11
182-day T-Bills	9.61	9.67	9.54	9.67	10.14	11.3	13.13	13.82	14.85	13.21	13.04	13.21	13.17
364-day T-Bills	21.59	23.39	21.75	18.4	19.94	20.56	21.38	23.07	24.43	24.95	25.04	25.04	25.08
Interbank rate	14.45	14.77	15.22	14.29	14.41	14.77	15.01	15.03	15.18	15.96	16.73	17.01	17.04
SLF	17.00	17.00	17.00	17.00	17.00	17.00	17.25	17.25	17.25	17.25	18.00	18.00	19.00
SDF	8.00	8.00	8.00	8.00	8.00	8.00	8.25	8.25	8.25	8.25	9.00	9.00	10.00
MPR	14.00	14.00	14.00	14.00	14.00	14.00	14.25	14.25	14.25	14.25	15.00	15.00	16.00
Av. Lending rate	19.88	19.88	19.88	19.77	19.77	19.77	19.77	19.77	19.77	19.81	19.81	19.81	19.77
Lending (Prime)	19.11-20.64	19.11-20.64	19.11 - 20.64	19.03 - 20.50	19.03 - 20.50	19.03 - 20.50	19.03 - 20.50	19.03 - 20.51	19.03 - 20.51	19.11-20.50	19.11-20.50	19.11-20.50	19.11 - 20.42
Savings deposits	2.23	2.23	2.23	2.36	2.15	2.15	2.15	2.27	2.27	2.27	2.27	2.27	2.27

Source: BSL