



BANK OF SIERRA LEONE

Monthly Economic Review

February 2023

MER/02/2023

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

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About the Monthly Economic Review (MER): The report analyses Sierra Leone's monthly macroeconomic developments, covering the four macroeconomic sectors- real, fiscal, monetary, and external sectors. This edition analyses economic performance in February 2023.

Executive Summary

Production performance of various sectors with available data was mixed. Cocoa production increased by 2782.18 % in February 2023, from 47.71 metric tons in January 2023 to 1,375 metric tons, whilst there was no data on coffee production during the review period. Performance of the mining sector improved, as the output of key minerals such as gold, bauxite, rutile, ilmenite, zircon, and iron ore increased, though the output of diamond and other minerals decreased. The performance of the manufacturing sector also improved, as the output of all its components increased, except for common soap, which experienced a decline. The year-on-year headline inflation rate rose to 42.96 % in February 2023, from 38.99 % in January 2023. This resulted from increases in both food and non-food inflation. Food inflation increased to 50.21 % in February 2023, from 47.51 % in January 2023, while non-food inflation increased to 37.46 % in February 2023 from 32.81 % in January 2023. Supply chain disruptions from the COVID-19 pandemic, the Russian-Ukraine war and exchange rate depreciation were core factors for the increase in inflation rate.

Government budgetary operations (on a cash flow basis) resulted in a surplus of NLe141.01mn in February 2023 while a deficit of NLe54.12mn was recorded in the previous month. The surplus was due to increase in non-tax revenue collection and the decline in government expenditure. While debt servicing increased by 44.62 % to NLe239.52mn, total expenditure fell by 5.44 % to NLe786.29mn in February 2023. The expenditure on wages and salaries decreased by 4.37 % to NLe313.12mn; and other expenditure decreased by 30.97 % to NLe233.65mn.

Both broad money and reserve money grew by 0.18 % and 3.69 %, respectively. The growth of broad money emanated from the 28.12 % increase in net foreign assets (NFA), while net domestic assets (NDA) decreased by 4.65 %. The monetary policy rate (MPR), standing lending facility (SLF) and standing deposit facility (SDF) remain unchanged in February 2023. Thus, the MPR was 18.25 % while the SLF and SDF were 21.25 % and 12.25 %, respectively in February 2023. The interbank rate increased slightly to 19.82 % in February 2023 from 19.47 % in January 2023 but remained within the policy corridor. The commercial bank average lending and the savings rates were unchanged at 20.14 % and 2.17 % respectively. As a result, the spread between the lending and savings rates was also unchanged at 17.97 % in February 2023.

Gross international reserves of the Bank of Sierra Leone (BSL) decreased from US\$612.10mn in January 2023 to US\$590.01mn in February 2023. This was associated with a net outflow of US\$13.94mn in February 2023, compared to a net outflow of US\$21.81 million in January 2023. The Leone depreciated against the US dollar on both the buying and selling sides in all foreign exchange markets. On the buying side, the Leone depreciated in the parallel market by 4.43 %, averaging NLe20.15 per US dollar and also depreciated in the commercial bank segment by 3.44 %, averaging NLe19.70 per US dollar. The Leone depreciated at the BSL published buying rate by 3.32 %, averaging NLe19.71 per US dollar. On the supply side, the Leone depreciated in the parallel market by 4.48 %, averaging NLe20.28 per US dollar, and depreciated in the commercial bank market by 3.50 %, averaging NLe19.99 per US dollar. It depreciated at the BSL published selling rate by 3.32 %, averaging NLe19.90 per US dollar and at the BSL published mid-rate, it depreciated by 3.32 % in February 2023, compared to 4.87 % in January 2023.

1. Real Sector Development

(i) Production

In February 2023, production performance of the various sectors was mixed. Cocoa production improved significantly by 2782.18 %, from 47.71 metric tons in January 2023 to 1,375 metric tons. Data was not available on other key agricultural products in February 2023. The performance of the mining sector improved, as there were increases in the output of key minerals, such as diamond (gen), gold, bauxite, zircon, and iron ore, though diamond (industrial) and other minerals productions decreased. Performance of the manufacturing sector improved in February 2023 given that there were increases in the output of the various components with the exception of common soap.

(ii) Price Development

Year-on-year headline inflation rate increased to 42.96 % in February 2023 from 38.99 % in January 2023, with food inflation increasing to 50.21 %, from 47.51 % in January 2023 and non-food inflation increasing to 37.46 %, from 32.30 % in January 2023. The increase in headline inflation was attributable to worsening global food supply chain caused by the Russia-Ukraine war, the Covid-19 pandemic and the depreciation of the Leone. Table 1 shows inflation rate by key components. The table reveals that recreation, hotels, transport and alcoholic beverages and tobacco were the major contributors to headline inflation.

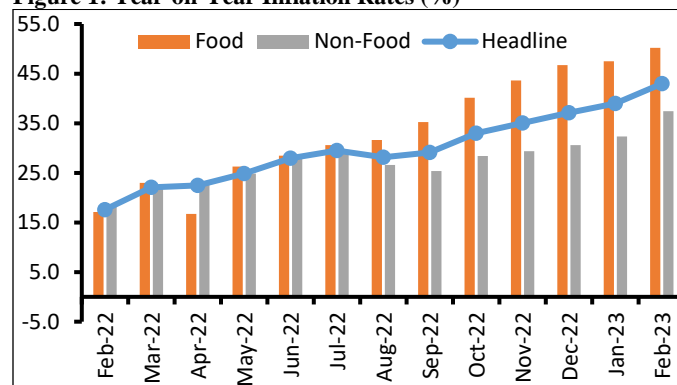
Table 1: Year-on-year Headline Inflation Rate by Component (%)

	CPI Weight (%)	Jan-23	Feb-23	Change	Direction
Food	40.33	47.51	50.21	2.70	Up
Non-Food	59.67	32.81	37.46	4.65	Up
Alcoholic Bev. & Tob.	1.02	20.71	29.47	8.76	Up
Clothing	7.67	32.97	36.60	3.63	Up
Housing	8.86	32.70	31.65	(1.05)	Down
Furnishings	5.60	44.81	50.76	5.95	Up
Health	7.57	30.92	30.59	(0.33)	Down
Transport	8.59	32.12	43.53	11.41	Up
Communication	4.69	23.92	28.08	4.16	Up
Recreation	2.56	35.56	48.32	12.76	Up
Education	3.14	-9.82	-9.82	-	Constant
Hotels	6.08	42.16	54.54	12.38	Up
Miscellaneous	3.89	42.79	48.06	5.27	Up
All items	100.00	38.99	42.96	3.97	Up

Source: Statistics Sierra Leones

Monthly headline inflation rose to 5.43 % in February 2023, from 2.39 % in January 2023. Figure 1 shows the inflation rates for February 2023 and the 12 months preceding it.

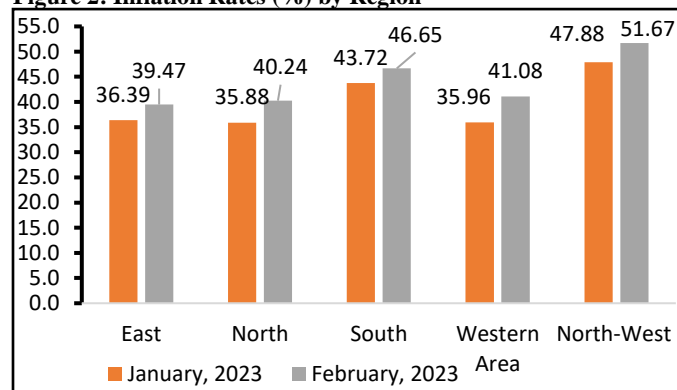
Figure 1: Year-on-Year Inflation Rates (%)



Source: Statistics Sierra Leone

On regional basis, inflation was high in all five geographical regions in February 2023, relative to January 2023. The North-western region had the highest inflation rate of 51.67 %, followed by the Southern Region at 46.65 %. The Western Area and Northern region had inflation at 41.08 % and 40.24 % respectively while the Eastern region had the lowest inflation rate of 39.47 %. Figure 2 shows inflation rates by region.

Figure 2: Inflation Rates (%) by Region

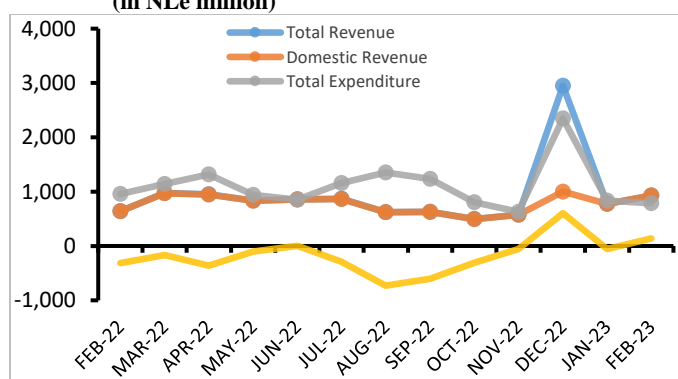


Source: Statistics Sierra Leone

2. Fiscal Sector Development

Government fiscal operations (on cash flow basis) resulted in a surplus of NLe141.01mn in February 2023, relative to a deficit of NLe54.12mn in January 2023. The surplus was due to the increase in non-tax revenue (miscellaneous) and decline in government expenditure. Non-tax revenue (miscellaneous) collection increased by 81.55 % in the review period. Total revenue expanded by 19.28 % to NLe927.30mn, but was lower than the budgeted target by 25.95 %, as a result of loss in tax revenue. Revenue from customs & excise tax, income tax, and goods & services tax fell, while revenue from miscellaneous income, in the form of non-tax revenue, increased during the review period. Figure 3 shows the fiscal profile for February 2023 and the 12 months preceding it.

Figure 3: Government Revenue, Expenditure and Fiscal Balance (in NLe million)



Source: Bank of Sierra Leone

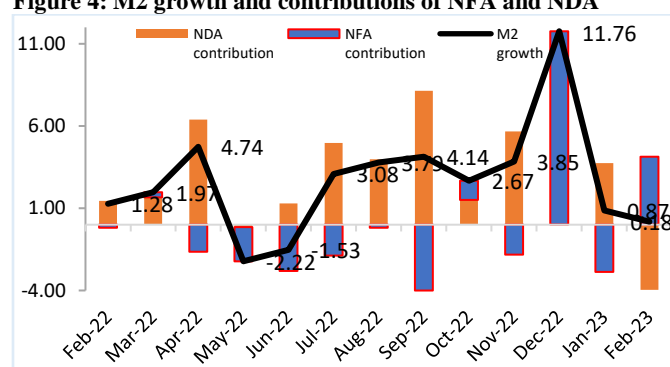
Government expenditure decreased slightly by 5.44 % in February 2023, compared to January 2023. Although actual expenditure of NLe786.29mn was lower than in the previous month, it was very close to the budgeted ceiling of NLe783.82mn. The reduction in expenditure was due to a fall in wages & salaries and other expenditures, by an amount that was more than increase in domestic debt servicing. Expenditure on wages and salaries decreased by 4.37 % to NLe313.12mn; other expenditure (goods and services) decreased by 30.97 % to NLe233.65mn; and debt servicing increased by 44.62 % to NLe239.52mn, all being for domestic debt interest payment.

3. Monetary Sector Development

(i) Monetary Aggregates

In February 2023, broad money (M2) grew by 0.18 % while reserve money (RM) rose by 3.69 %. The growth in M2 was driven by increase in net foreign assets (NFA) of the banking system, which was higher than the fall in net domestic assets (NDA). The NFA grew by 28.12 % due to expansion in NFA of Other Depository Corporations (ODCs), which more than offset the decrease in NFA of Bank of Sierra Leone. However, NDA contracted by 4.65 %, as the fall in net claims on Government by BSL outweighed the growth in the NDA of the ODCs. Credit to the private sector by commercial banks increased by 4.23 % in February 2023, from a negative growth of 0.15 % in January 2023. Figure 4 shows the contributions of NDA and NFA to M2 growth.

Figure 4: M2 growth and contributions of NFA and NDA

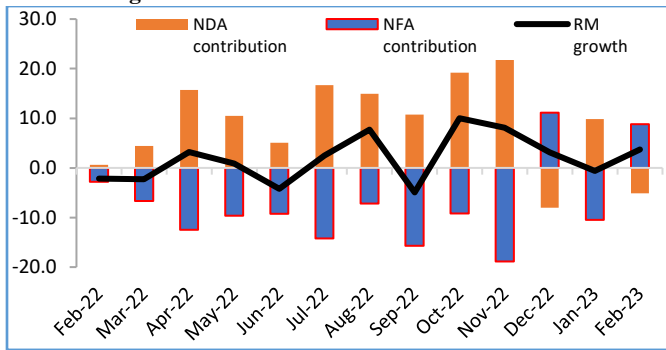


Source: Bank of Sierra Leone

In February 2023, there was a fall in narrow money (M1) by 1.64 %, which emanated from the contractions in demand deposits by 2.01 % and currency outside banks by 1.23 %, while Quasi money increased by 1.62 %, reflecting the growth in foreign currency deposit outstripping the fall in time & savings deposits and other deposits.

Reserve money (RM) expanded by 3.69 % in February 2023, due largely to improvement in NFA of BSL, whilst the NDA of BSL contracted slightly in the reporting month. On the liability side, the rise in reserve money reflected the increase in bank reserves outweighing the fall in currency issued. Figure 5 shows the contributions of NDA and NFA to reserve money growth.

Figure 5: Reserve money growth and contributions of NFA and NDA to the growth



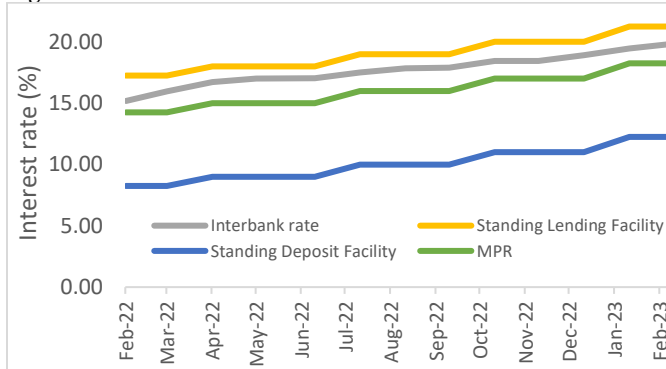
Source: Bank of Sierra Leone

(ii) Interest Rates

The Bank of Sierra Leone maintained its monetary policy rate (MPR), standing lending facility (SLF), and standing deposit facility rates (SDF) in February 2023. Hence, MPR was 18.25 %; the SLF rate was 21.25 %, while the SDF rate was 12.25 %. The interbank rate increased slightly to 19.82 % in February 2023 from 19.47 % in January 2023 but remained within the policy corridor.

The commercial bank average lending and the savings rates were unchanged at 20.14 % and 2.17 % respectively. As a result, the spread between the lending and savings rates was also unchanged at 17.97 % in February 2023. Figure 6 shows various interest rates for February 2023 and the 12 months preceding it.

Figure 6: Central Bank Interest Rates and the Interbank Rate



Source: Bank of Sierra Leone

Yields on the 364-day T-bills increased in February 2023. The yield on 364-day T-bills increased to 28.27 % in February 2023, from 28.26 % in January 2023. The yield

¹ Mid-rate is the average of the official selling and buying rates as published by the Bank of Sierra Leone.

on the 91-day T-bills was 8.44 % while it was not traded in January 2023. There was no trading of the 182-day T-bills in February 2023.

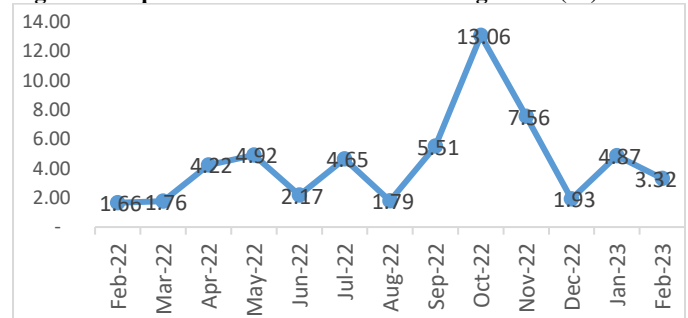
4. External Sector Development

(i) Exchange Rate Development

The monthly average exchange rates of the Leone against the US dollar depreciated on both the buying and selling sides in all foreign exchange markets in February 2023. With regards to the buying side, the Leone depreciated in the parallel market by 4.43 %, averaging NLe20.15 per US dollar, and depreciated in commercial bank segment by 3.44 %, averaging NLe19.70 per US dollar. The Leone depreciated also at the BSL published buying rate, by 3.32 %, averaging NLe19.71 per US dollar. This was the case also in the bureau market with a depreciation of 9.46 %, averaging NLe19.63 per US dollar.

Similarly, on the selling side, the Leone depreciated in the parallel market by 4.48 %, averaging NLe20.28 per US dollar, and in the bureau market by 9.48 %, averaging NLe19.83 per US dollar. The Leone depreciated at the BSL published selling rate and at the commercial bank selling rate, with a depreciation of 3.32 % and 3.50 %, respectively, averaging NLe19.90 per US dollar and NLe19.99 per US dollar respectively. At the BSL published mid-rate, the Leone depreciated by 3.32 %, from 4.87 % in January 2023. Figure 7 shows the trend of the depreciation rate of the Leone at the BSL mid-rate ¹.

Figure 7: Depreciation of the Official Exchange Rate (%)



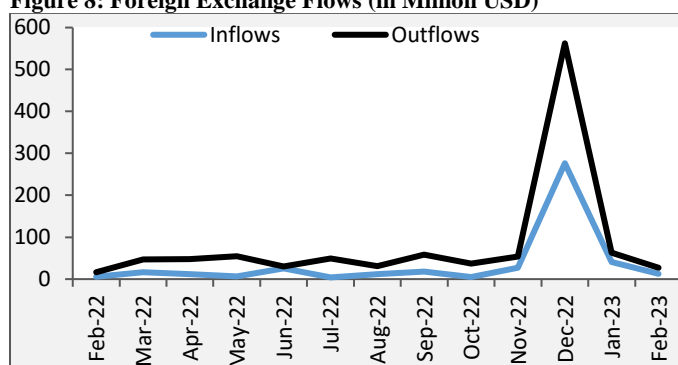
Source: Bank of Sierra Leone

The premium between the official and parallel rates widened to 2.08 % in February 2023, which was NLe0.41 per US dollar, from 0.97 %, which was NLe0.19 per US dollar in January 2023.

(ii) Gross Foreign Exchange Reserves

In February 2023, the gross foreign exchange reserves, which was at US\$612.10mn in January 2023 decreased to US\$590.01mn, reflecting a decrease of 3.61%, with a net outflow of US\$13.94mn and the rest was due to revaluation adjustment. Figure 8 shows foreign exchange flows for February 2023 and the 12 months preceding it.

Figure 8: Foreign Exchange Flows (in Million USD)



Source: Bank of Sierra Leone

5. Conclusion

Production performance of various sectors was mixed in February 2023. The production of cocoa experienced a significant increase. However, data on the output of other agricultural products was not available. Mining sector performance improved as the output of key minerals such as gold, bauxite, rutile, ilmenite, zircon, and iron ore increased, though the output of diamond and other minerals decreased. The performance of the manufacturing sector improved. Year-on-year headline inflation elevated in February 2023, which was attributed to higher food and non-food inflation, caused mainly by global supply chain disruptions and exchange rate depreciation.

Government budgetary operations (on a cash flow basis) resulted in a surplus in February 2023, while a deficit was recorded in the previous month. The surplus was due to increase in non-tax revenue collection and decrease in expenditure.

The monetary policy rate (MPR), standing lending facility (SLF) and standing deposit facility (SDF) remained unchanged in February 2023. Both broad money and reserve money increased. The yield on the 364-day T-Bills increased, while the 182-day T-Bills were not traded. The 91-day T-Bills which was not traded in January 2023, was traded in February 2023. The Leone depreciated against the US dollar on both the buying and selling fronts in all foreign exchange markets. Gross foreign exchange reserves recorded a decrease in February 2023.