



# **BANK OF SIERRA LEONE**

## **Monthly Economic Review**

January 2023

MER/01/2023

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

**Address:** Siaka Stevens Street, P.O. Box 30, Freetown, Sierra Leone.

**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 January 2023.

## Executive Summary

Production performance of various sectors with available data was mixed. Cocoa production decreased by 97.90 % in January 2023, from 2289 metric tons in December 2022 to 47.71 metric tons, whilst there was no data on coffee production during the review period. Performance of the mining sector deteriorated since the output of key minerals such as gold, bauxite, rutile, ilmenite, zircon, and iron ore fell, while the output of diamond and other minerals rose. The performance of the manufacturing sector also deteriorated as the output of all the components of the manufacturing sector decreased, except for common soap. Year-on-year headline inflation rose to 38.99 % in January 2023, from 37.09 % in December 2022. This emanated largely from non-food price pressure. Food inflation increased to 47.51 % in January 2023, from 46.7 % in December 2022 while non-food inflation increased to 32.81 % in January 2023 from 30.60 % in December 2022.

Government budgetary operations (on a cash flow basis) resulted in a deficit of NLe54.12mn in January 2023 while a surplus of NLe603.22mn was recorded in the previous month. The deficit was due to the fact that grants fell by an amount that outweighed the increase in domestic revenue, leading to a fall in total revenue (including grant), though expenditure contracted. The deficit was financed entirely from domestic sources.

Broad money (M2) grew by 0.87 % while reserve money (RM) fell by 0.59 %. The growth of broad money originated from the 4.54 % increase in net domestic assets (NDA), while net foreign assets (NFA) decreased by 16.17 %. The monetary policy rate (MPR) was increased from the Monetary Policy Committee (MPC) decision at the MPC meeting held at the end of December 2022. Consequently, the Standing Lending Facility (SLF) and Standing Deposit Facility (SDF) also increased. The MPR increased from 17.00 % in December 2022 to 18.25 % in January 2023 while the SLF and STF increased from 20.00 % and 11.00 % respectively in December 2022 to 21.25 % and 12.25 % in January 2023.

Gross international reserves of the Bank of Sierra Leone decreased from US\$626.97 million in December 2022 to US\$612.10 million in January 2023. This was associated with a net outflow of US\$21.81 million in January 2023, compared to a net outflow of US\$285.99 million in December 2022. The Leone depreciated against the US dollar on both the buying and selling sides in all foreign exchange markets, except the Bureau. On the buying side, the Leone depreciated in the parallel market by 3.42 %, averaging NLe19.30 per US dollar and also depreciated in the commercial bank segment by 2.74 %, averaging NLe19.04 per US dollar. The official buying rate depreciated by 2.80 %, averaging NLe19.07 per US dollar. On the supply side, the Leone depreciated in the parallel market by 2.95 %, averaging NLe19.41 per US dollar, and depreciated in the commercial bank market by 2.77 %, averaging NLe19.31 per US dollar. The official selling rate depreciated by 7.00 %, averaging NLe19.26 per US dollar.

## 1. Real Sector Development

### (i) Production

Production performance of various sectors with available data was mixed. Available data shows that the output of cocoa decreased by 97.90% in January 2023, from 2289 metric tons in December 2022 to 47.71 metric tons. Data was not available on other key agricultural products in January 2023. Mining sector performance deteriorated since the output of key minerals such as gold, bauxite, rutile, ilmenite, zircon, and iron ore declined, while the output of diamond and other minerals increased. Manufacturing sector performance also deteriorated as the output of all manufacturing sector components decreased, except for common soap.

### (ii) Price Development

Year-on-year (Y-o-Y) headline inflation increased to 38.99% in January 2023 from 37.09% in December 2022, with food inflation rising to 47.51% and non-food inflation to 32.81%. The increase in headline inflation was attributed to supply-side constraints caused by the spillover effects of the Russia-Ukraine war and the lingering effects of Covid-19 pandemic, which worsened the global supply chain. Table 1 shows inflation rate by key components. Communication, clothing, alcohol and health were the major contributors to headline inflation.

Table 1: Y-o-Y Inflation Rate by Component (%)

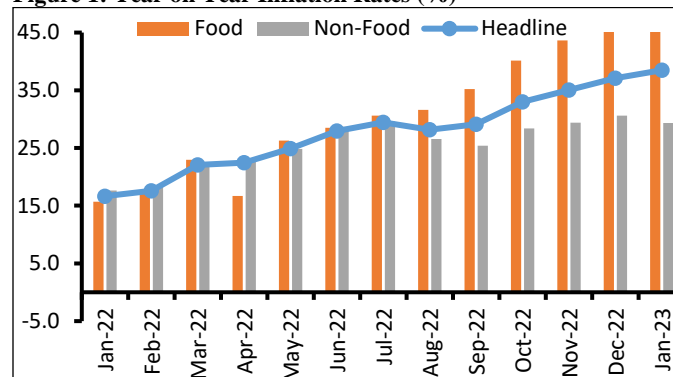
|                     | CPI Weight (%) | Dec-22       | Jan-23       | Change      | Direction |
|---------------------|----------------|--------------|--------------|-------------|-----------|
| <b>Food</b>         | 40.33          | 46.70        | 47.51        | 0.81        | Up        |
| <b>Non-Food</b>     | 59.67          | 30.60        | 32.81        | 2.21        | Up        |
| Alcohol Bev. & Tob. | 1.02           | 14.84        | 20.71        | 5.87        | Up        |
| Clothing            | 7.67           | 21.52        | 32.97        | 11.45       | Up        |
| Housing             | 8.86           | 30.89        | 32.70        | 1.81        | Up        |
| Furnishings         | 5.60           | 54.10        | 44.81        | (9.29)      | Down      |
| Health              | 7.57           | 26.98        | 30.92        | 3.94        | Up        |
| Transport           | 8.59           | 44.89        | 32.12        | (12.77)     | Down      |
| Communication       | 4.69           | 3.96         | 23.92        | 19.96       | Up        |
| Recreation          | 2.56           | 34.55        | 35.56        | 1.01        | Up        |
| Education           | 3.14           | -9.82        | -9.82        | -           | Constant  |
| Hotels              | 6.08           | 41.74        | 42.16        | 0.42        | Up        |
| Miscellaneous       | 3.89           | 38.39        | 42.79        | 4.40        | Up        |
| <b>All items</b>    | <b>100.00</b>  | <b>37.09</b> | <b>38.99</b> | <b>1.90</b> | <b>Up</b> |

Source: Statistics Sierra Leone

Monthly headline inflation continued to decline, reaching 2.39% in January 2023 from 3.67% in December 2022.

Figure 1 shows the inflation rates for January 2023 and the 12 months preceding it.

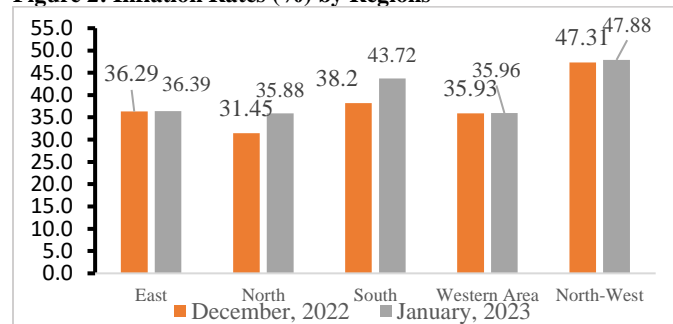
Figure 1: Year on Year Inflation Rates (%)



Source: Statistics Sierra Leone

On regional basis, inflation increased across all five regions in January 2023, compared to December 2022. The North-Western region had the highest inflation rate of 47.88%, followed by the Southern region with inflation rate of 43.71%. The Eastern region and Western region had inflation rates of 36.39% and 35.96% respectively, while the Northern region had the lowest inflation rate of 31.45%. Figure 2 shows inflation rates by region.

Figure 2: Inflation Rates (%) by Regions



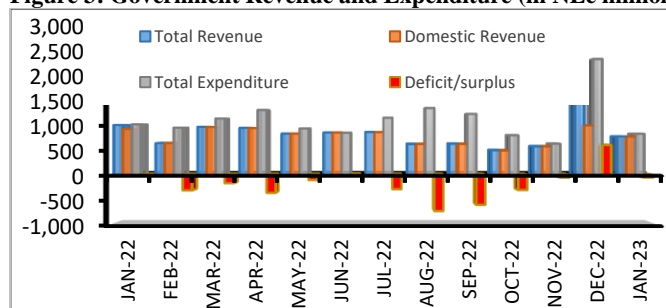
Source: Statistics Sierra Leone

## 2. Fiscal Sector Development

Government fiscal operations (on cash flow basis) resulted in a deficit of NLe54.12mn in January 2023, from a surplus of NLe603.22mn in December 2022. The deficit was due to the fact that grants fell by an amount that outweighed the increase in domestic revenue, leading to a fall in total revenue (including grants), though expenditure contracted. The deficit was financed entirely

from domestic sources. Total revenue for January 2023 contracted by 73.64 % to NLe777.42mn, which was lower than the budgeted target by 37.92 %, mainly due to loss in foreign grants and a low domestic revenue mobilization from non-tax revenue. However, revenue from customs & excise tax, and goods & services tax increased while revenue from income tax, and miscellaneous income declined during the review period. Figure 3 shows the fiscal profile for January 2023 and the 12 months preceding it.

**Figure 3: Government Revenue and Expenditure (in NLe million)**



Source: Bank of Sierra Leone

Government expenditure decreased by 64.55 % in January 2023. Despite this reduction, the actual expenditure of NLe831.55mn was higher than the budgeted ceiling of NLe783.82mn by 6.09 %, resulting in an expenditure overrun of NLe47.73mn. The reduction in expenditure was mainly due to a decrease in other expenditures and debt service payments, while expenditure on pension, wages, and salaries rose. The expenditure on goods and services fell by 81.61 % to NLe338.48mn, and debt service declined by 16.10 % to NLe165.62mn, which resulted from a decline in domestic debt interest payment by 25.11 %, from the target of NLe221.17mn.

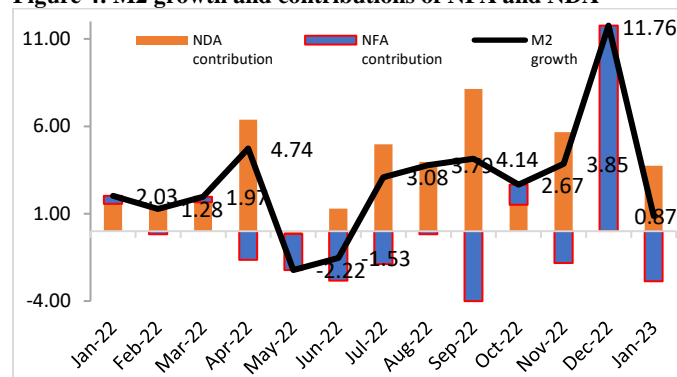
### 3. Monetary Sector Development

#### (i) Monetary Aggregates

In January 2023, broad money (M2) grew by 0.87 % while reserve money (RM) fell by 0.59 %. The growth in M2 was driven by increase in net domestic assets (NDA) of the banking system, while net foreign assets (NFA) fell slightly. Net domestic assets of the banking system grew by 4.54 % due to expansion in net claims on Government by Other Depository Corporations (ODCs). However, NFA of the banking system contracted by 16.17 % due to decrease in NFA of the ODCs, which more than offset the

increase in NFA of Bank of Sierra Leone. Credit to the private sector by commercial banks decreased by 0.15 %, compared to a decrease of 0.21 % in December 2022. Figure 4 shows the contributions of NDA and NFA to M2 growth

**Figure 4: M2 growth and contributions of NFA and NDA**

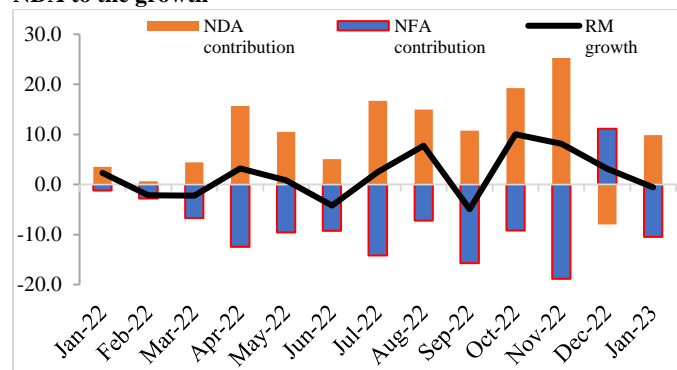


Source: Bank of Sierra Leone

Narrow money (M1) increased by 1.00 %, which was driven by the growth of demand deposits by 4.61 %, while currency outside banks fell by 2.64 %. Quasi money increased by 0.78%, reflecting the growth in all its components, which are foreign currency, time and savings deposits and other deposits.

Reserve money contracted slightly by 0.59 %, which was due to a decrease in NFA of the BSL whilst NDA of BSL expanded slightly. On the liability side, the contraction of reserve money reflected the decrease in both bank reserves and currency issued. Figure 5 shows the contributions of NDA and NFA to RM growth.

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



Source: Bank of Sierra Leone

#### (ii) Interest Rates

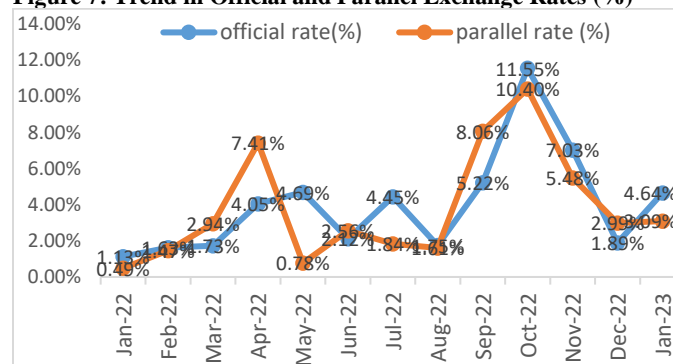
**4. External Sector Development**

**(i) Exchange Rate Development**

In January 2023, the Leone depreciated against the US dollar on both the buying and selling sides in all foreign exchange markets, except the bureau. With regards to the buying side, the Leone depreciated in the parallel market by 3.42 %, averaging NLe19.30 per US dollar, and depreciated in the commercial bank segment by 2.74 %, averaging NLe19.04 per US dollar. The official buying rate depreciated by 2.80 %, averaging NLe19.07 per US dollar. In the bureau market however, the Leone appreciated by 1.67 %, averaging NLe17.94 per US dollar.

On the selling side, the Leone depreciated in the parallel market by 2.95 %, averaging NLe19.41 per US dollar while it appreciated in the bureau market by 2.18 %, averaging NLe18.11 per US dollar. It depreciated in the commercial banks segment by 2.77%, averaging NLe19.31 per US dollar whilst it depreciated at the official rate by 7.00 %, averaging NLe19.26 per US dollar. Figure 7 shows the trend of the depreciation rate of the Leone, using the mid rates<sup>1</sup>, in the parallel and official exchange rate markets.

**Figure 7: Trend in Official and Parallel Exchange Rates (%)**



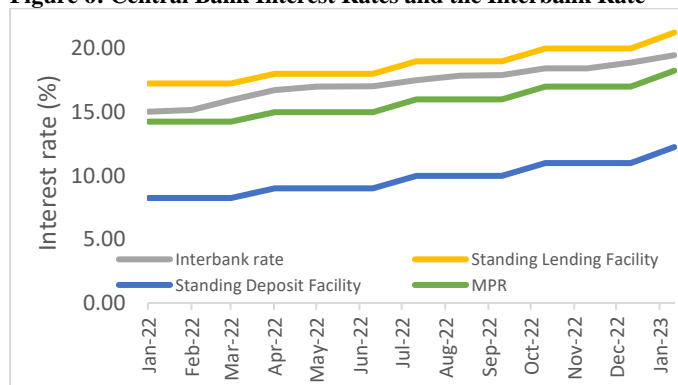
Source: Bank of Sierra Leone

The premium between the Official and Parallel rates narrowed to 0.97 %, which was NLe0.19/US\$1, in January 2023 from 2.62 %, which was NLe0.48/US\$1, in December 2022.

The Bank of Sierra Leone increased its Monetary Policy Rate (MPR), Standing Lending Facility (SLF), and Standing Deposit Facility (SDF) rates in January 2023, which came from the Monetary Policy Committee (MPC) decision from the MPC meeting held on December 29, 2022. Hence, MPR was raised from 17.00 % to 18.25 % and the SLF rate consequently increased from 20.00 % in December 2022 to 21.25 % in January 2023, while the SDF rate increased from 11.00 % in December 2022 to 12.25% in January 2023. The interbank rate increased slightly to 19.47 % from 18.90 % but remained within the policy corridor rate in the same review period.

The commercial bank lending rose to 20.14 % from 20.10 % in December 2022, while the savings rate was unchanged at 2.17 %. The spread between the lending and savings rates therefore rose to 17.97 % in January 2023 from 17.93 % in December 2022. Figure 6 shows various interest rates for January 2023 and the 12 months preceding it.

**Figure 6: Central Bank Interest Rates and the Interbank Rate**



Source: Bank of Sierra Leone

In January 2023, yields on the 364-day T-bills increased, while there was no trading in the 182-day and 91-day T-bills. The yield on 364-day T-bills increased to 28.26 % in January 2023, from 28.23 % in December 2022. The December 2022 yields on the 91-day and 182-day T-Bills were 8.44 % and 13.21 % respectively.

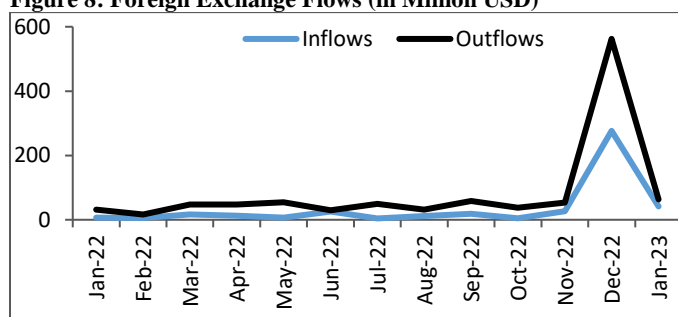
<sup>1</sup> Mid-rate is calculated as the simple average of the selling and buying rates.

**(ii) Gross Foreign Exchange Reserves**

In January 2023, the gross foreign exchange reserve of the Bank of Sierra Leone decreased to US\$612.10mn from US\$626.97mn in December 2022. Foreign exchange operations during the review period resulted in a net outflow of US\$21.81mn, compared to a net outflow of US\$285.99mn in December 2022. Revaluation adjustment was US\$6.95mn in January 2023 while it was negative in December 2022, amounting to US\$ 35.36mn. Figure 8 shows foreign exchange flows for January 2023 and the 12 months preceding it.

Following the Monetary Policy Committee (MPC) meeting in December 2022, the monetary policy rate (MPR), standing lending facility (SLF) and standing deposit facility (SDF) increased. Developments in monetary aggregates in January 2023 show that broad money (M2) grew while reserve money (RM) fell. The yield on the 364-day T-Bills increased, while the 91-day T-Bills and 182-day T-Bills were not traded in January 2023. On both the buying and selling fronts, the Leone depreciated against the US dollar in all foreign exchange markets, except the bureau. Gross foreign exchange reserves recorded a decrease in January 2023.

**Figure 8: Foreign Exchange Flows (in Million USD)**



Source: Bank of Sierra Leone

**5. Conclusion**

Production performance of various sectors with available data was mixed in January 2023. The production of cocoa experienced a significant decline. However, data regarding the production of other important agricultural products in January 2023 was unavailable. Mining sector performance deteriorated since the output of key minerals such as gold, bauxite, rutile, ilmenite, zircon, and iron ore declined, while the output of diamond and other minerals increased. Manufacturing sector output also deteriorated. Year-on-Year Headline inflation elevated in January 2023, which was largely explained by supply-chain disruption and the depreciation of the Leone, which reflected in higher food and non-food inflation.

Though expenditure contracted, government budgetary operations (on a cash flow basis) resulted in a deficit in January 2023 while a surplus was recorded in the previous month. The deficit was due to fall in grants, which outweighed the increase in domestic revenue and the deficit was financed entirely from domestic sources.