



2023

BANK OF SIERRA LEONE

Monthly Economic Review

July 2023

MER/07/2023

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

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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 July, 2023.

Executive Summary

Production performance of various sectors was mixed in July 2023. Cocoa production declined significantly while there was little coffee production. Mining sector performance however improved, driven by key minerals such as diamond, bauxite, zircon, iron ore, and other minerals productions recorded an increase, as well as gold, rutile, ilmenite productions. Manufacturing sector performance was mixed as output of cement, paint, oxygen and confectionaries increased, while beer, stout and maltina production declined. Year-on-year headline inflation increased to 44.98 percent in July 2023 from 44.81 percent in June 2023, which was largely explained by the Russia-Ukraine war and post Covid-19 pandemic, which gradually assuaged the global supply chain.

The government's fiscal operations (on cash flow basis) resulted in a deficit of NLe275.62mn in July 2023, compared to the previous month's surplus of NLe82.45mn which was driven by the increase in other expenditures that outstripped the miscellaneous items embedded in the domestic revenue generation. The increase in government expenditure was mainly due to increases in other expenditure and debt service payments.

Broad Money (M2) grew by 3.66 percent, whilst Reserve Money (RM) decreased by 1.16 percent. The growth in M2 was driven by increase in Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system. Narrow Money (M1) increased by 4.34 percent, which was driven by the growth of demand deposits by 8.64 percent. The yield on 364-day T-bill increased marginally whilst there was no markets in 91 & 182-day tenors. On both the buying and selling fronts, the monthly average exchange rate of the Leone appreciated against the US dollar in all foreign exchange markets segments except the parallel market.

The gross foreign exchange reserves (including swaps) of the Bank of Sierra Leone was US\$510.86 million representing a decrease of 7.88 percent from US\$554.55 million in June 2023, with a net outflow of US\$46.92 million emanating from revaluation adjustment, compared to a net outflow of US\$10.69million in June 2023.

The monthly average exchange rate on both the buying and selling fronts of the Leone appreciated against the US dollar in all foreign exchange markets segments except the parallel market. However, the Leone depreciated against the US dollar in the parallel market and appreciated across commercial banks, bureau market and official markets by 4.72 percent, 3.08 percent and 3.46 percent, averaging NLe19.98/US\$1, NLe20.06/US\$1, and NLe20.16/US\$1 respectively.

Similarly, on the selling side the Leone depreciated in the bureau market by 1.03 percent averaging NLe20.22 /US\$1, and appreciated in the parallel market, official market and commercial banks by 1.00 percent, 3.46 percent, 2.48 percent, averaging NLe22.60/US\$1, NLe20.36/US\$1 and NLe20.59/US\$1 respectively.

Real Sector Development

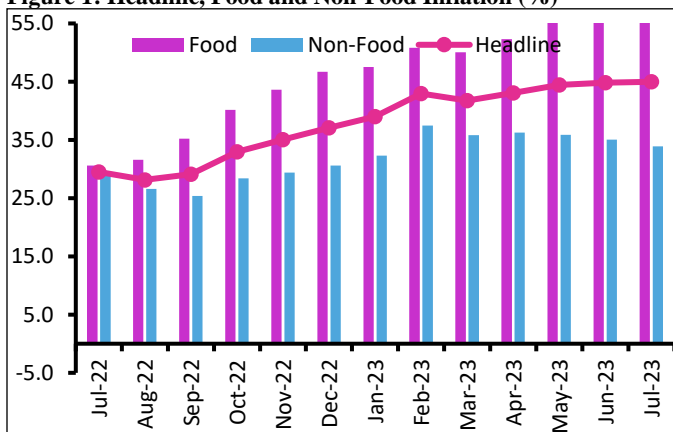
(i) Production

Agricultural sector performance was mixed in July 2023 as cocoa production decreased significantly while there was little coffee production. Mining sector performance however improved since key minerals such as diamond, bauxite, zircon, iron ore, and other minerals productions recorded an increase, as well as gold, rutile, ilmenite productions. Manufacturing sector performance was mixed as output of cement, paint, oxygen and confectionaries increased, whilst beer and stout, maltina declined.

Price Development

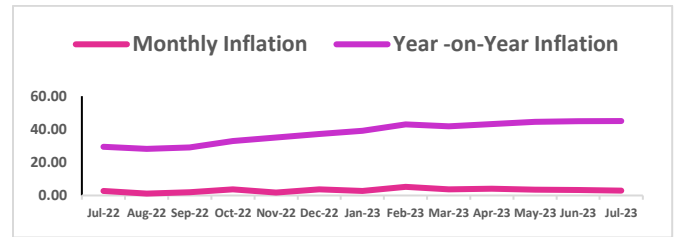
Year-on-year headline inflation increased to 44.98 percent in July 2023 from 44.81 percent in June 2023 with food inflation rising to 59.93 percent and non-food inflation declining to 33.91 percent in July 2023. The decrease in headline inflation was attributed to the tapering in supply-side constraints caused by the Russia-Ukraine war and post Covid-19 pandemic, which gradually assuaged the global supply chain. Table 1 shows that communication, clothing, alcohol and health are the major contributors to headline inflation. Figures 1 and 2 show the inflation rates for July 2023 and the 12 months preceding July 2023.

Figure 1: Headline, Food and Non-Food Inflation (%)



Source: Statistics Sierra Leone

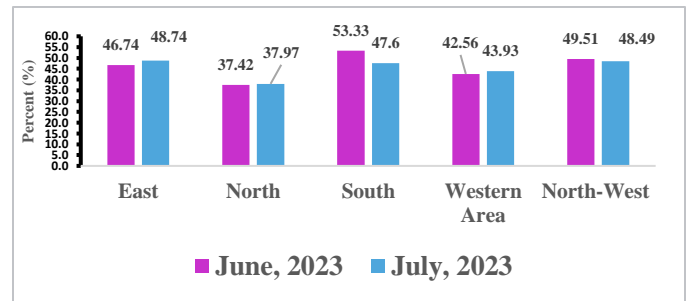
Figure 2: Year-on-year Inflation and Monthly Inflation Rates (%)



Source: Statistics Sierra Leone

On regional basis, annual inflation increased in Western Area, Eastern region and also the northern region but declined in the Southern region and north-west region in July 2023 compared to June 2023. The Eastern region had the highest inflation rate of 48.74 percent, followed by the North-West region at 48.49 percent. The Southern region and Western region had inflation at 47.60 percent and 43.93 percent respectively, while the Northern region had inflation rate of 37.97 percent. Figure 3 shows inflation rates by regions.

Figure 3: Inflation Rates (%) by Regions



Source: Statistics Sierra Leone

Table 1: Monthly Inflation by Component (%)

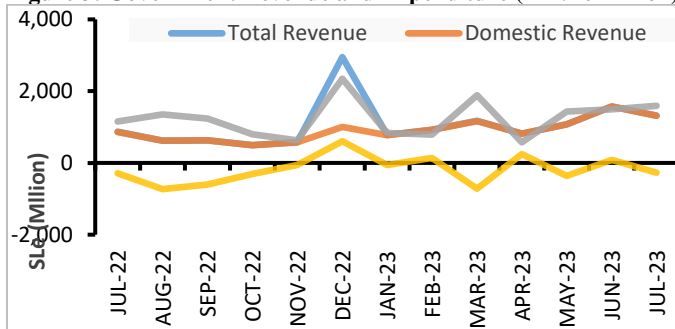
Column1	Weight (%)	Jun-23	Jul-23	Change	Direction
Food	40.33	57.99	59.93	1.94	Up
Non-Food	59.67	35.02	33.91	(1.11)	Down
Alcohol Beverages & Tobacco	1.02	37.63	37.09	(-0.54)	Down
Clothing	7.67	37.82	38.46	0.64	Up
Housing	8.86	30.44	26.50	(-3.94)	Down
Furnishings	5.60	53.29	47.91	(-5.38)	Down
Health	7.57	38.19	43.10	4.91	Up
Transport	8.59	9.56	4.59	(-4.97)	Down
Communication	4.69	34.60	38.46	3.86	Up
Recreation	2.56	46.22	47.48	1.26	Up
Education	3.14	-6.85	-6.85	0.00	Constant
Hotels	6.08	60.93	59.15	(-1.78)	Down
Miscellaneous	3.89	47.63	49.41	1.78	Up
All Items	100.00	44.81	44.98	0.17	Up

Source: Statistics Sierra Leone

Fiscal Sector Development

The government's fiscal operations (on cash flow basis) resulted in a deficit of NLe275.62mn in July 2023, compared to the previous month's surplus of NLe82.45mn. This was driven by the increase in other expenditures that outstripped the miscellaneous items embedded in the domestic revenue generation. Total revenue for July 2023 contracted by 16.23 percent to NLe1318.01mn, lower than the budgeted target by 15.80 percent, mainly due to loss in foreign grants and a low domestic revenue mobilization from non-tax revenue. However, income tax, excise, customs and goods and services tax increased during the review period. Figure 3 shows the fiscal profile for July 2023 and the 12 months preceding July 2023.

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



Source: Bank of Sierra Leone

Government expenditure increased by 6.89 percent, resulting in a deficit of NLe275.62mn. Despite this increase, the actual expenditure of NLe1593.63mn was still higher than the budgeted ceiling of NLe769.07mn by 107.22 percent. The increase in expenditure was mainly due to increases in other expenditure and debt service payments. The expenditure on debt service increased by 103.00 percent to NLe286.16mn, resulting from an increase in domestic debt interest payment by 103.00 percent from the target amount of NLe260.64mn.

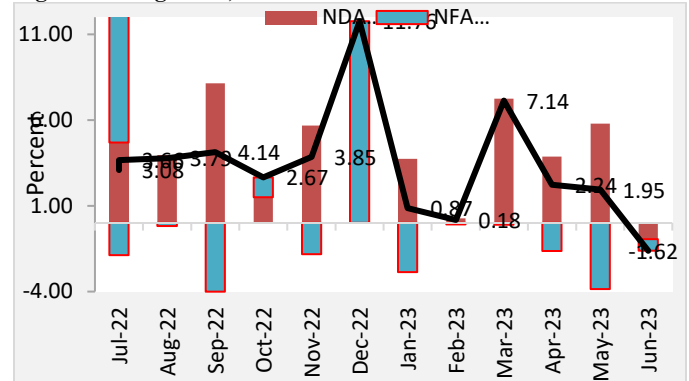
Monetary Sector Development

(i) Monetary Aggregates

In July 2023, there were mixed movement in key monetary aggregates as Broad Money (M2) grew by 3.66 percent while Reserve Money (RM) decreased by 1.16

percent. The growth in M2 was driven by increase in Net Domestic Assets (NDA) of the banking system, and Net Foreign Assets (NFA). NDA grew by 1.06 percent due to the expansion in domestic credit. Credit to the private sector by commercial banks increase by 2.3 percent. The NFA of the banking system increase due to the increase in NFA of the ODCs by 8.29 percent.

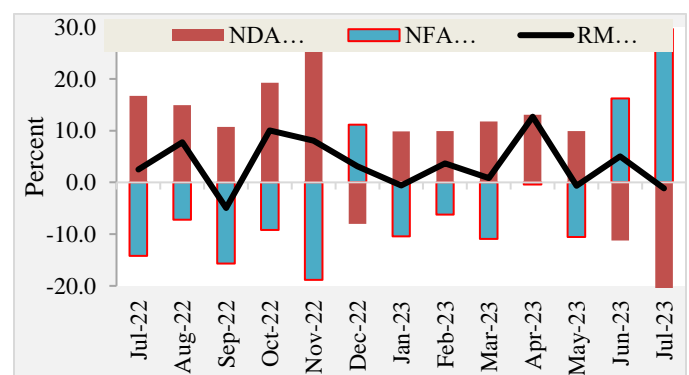
Figure 5: M2 growth, and contributions of NFA and NDA



Source: Bank of Sierra Leone

In addition, Reserve Money (RM) contracted by 1.13 percent, while NFA of BSL increased slightly. Narrow Money (M1) increased by 4.34 percent, which was driven by the growth of demand deposits by 8.64 percent. Currency outside banks decreased by 5.01 percent, while Quasi money increased by 10.23 percent, reflecting the growth in all components. The growth was reflected in foreign currency, time and savings deposits and other deposits. On the liability side, the contraction in reserve money was driven by the decrease in both currency issued and bank reserves.

Figure 6: Reserve money growth and contributions of NFA and NDA to the growth

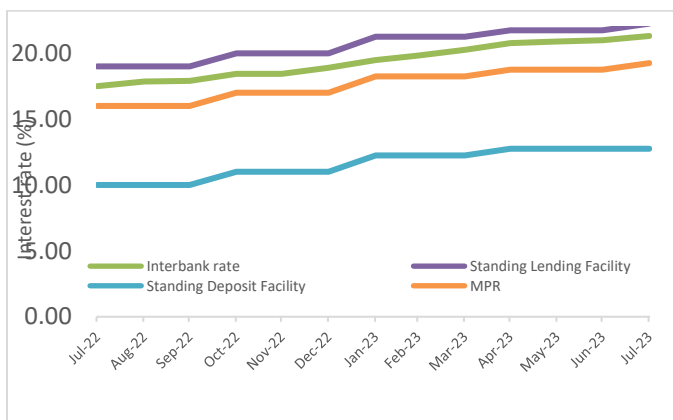


Source: Bank of Sierra Leone

(ii) Interest Rates

The Bank of Sierra Leone increased its Monetary Policy Rate but Standing Lending Facility, and Standing Deposit Facility rates remained the same in July 2023. The interbank rate slightly increased but remained within the Policy Corridor Rate. The commercial bank prime lending (interest rate spread) however rose to 19.66 percent and 21.23 percent respectively while savings rate was unchanged at 2.23 percent in the same period.

Figure 7: Central Bank Interest Rates and the Interbank Rate



Source: Bank of Sierra Leone

In July 2023, yields on the 364-day T-bills increased marginally whilst there was no market in 91 & 182-day tenors. The yield on 364-day T-bills increased to 28.44 percent in July 2023, from 28.28 percent in June 2023.

External Sector Development

(i) Exchange Rate Developments

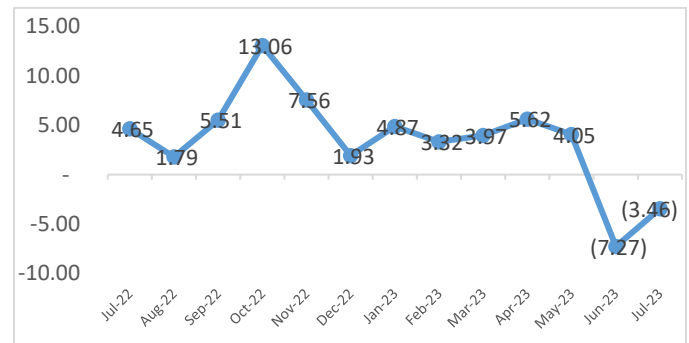
On the buying side, monthly average exchange rate of the Leone against the US dollar appreciated in all foreign exchange markets segments except the parallel market. Whilst on the selling side, the monthly average exchange rate of the Leone against the US dollar appreciated in all foreign exchange markets segments except the bureau market in July 2023.

With regards to the buying side, the Leone depreciated in the parallel market by 1.30 percent averaging NLe22.43/US\$1, and appreciated across commercial banks, bureau market and official markets by 4.72 percent, 3.08 percent and 3.46 percent, averaging

NLe19.98/US\$1, NLe20.06/US\$1, and NLe20.16/US\$1 respectively.

Similarly, on the selling side the Leone depreciated in the bureau market by 1.03 percent averaging NLe20.22 /US\$1, and appreciated in the parallel market, official market and commercial banks by 1.00 percent, 3.46 percent, 2.48 percent, averaging NLe22.60/US\$1, NLe20.36/US\$1 and NLe20.59/US\$1 respectively. The premium between the Official and Parallel rates widened to 11.13 percent (NLe2.25/US\$1) in July 2023 from 7.14 percent, which was NLe1.50/US\$1 in June 2023. Figure 8 shows the trend in the official exchange rate markets.

Figure 8: Official Exchange Rates



Source: Bank of Sierra Leone

(ii) Gross Foreign Exchange Reserves

In July 2023, the gross foreign exchange reserves (including swaps) of the Bank of Sierra Leone was US\$510.86 million representing a decrease of 7.88 percent from US\$554.55 million in June 2023, with a net outflow of US\$46.92 million emanating from revaluation adjustment, compared to a net outflow of US\$10.69million in June 2023.

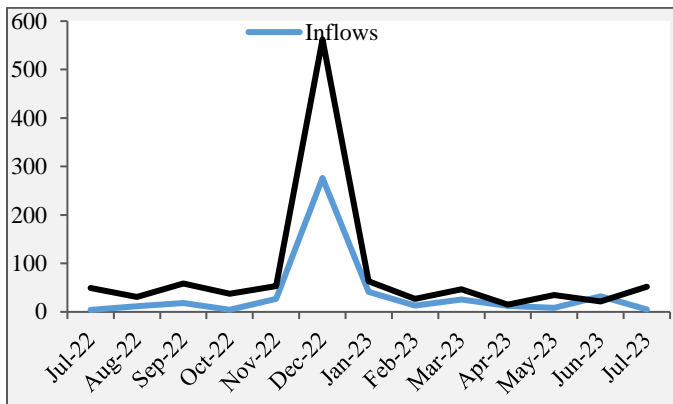
Figure 9: Foreign Exchange Flows

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standing deposit facility (SDF) remained the same. Broad money (M2) grew in July 2023 while reserve money (RM) decreased. The yield on 364-day T-bill increased marginally whilst there was no markets in 91 & 182-day tenors.

On both the buying and selling fronts, the monthly average exchange rate of the Leone appreciated against the US dollar in all foreign exchange markets segments except the parallel market. However, the Leone depreciated against the US dollar in the parallel market and appreciated across commercial banks, bureau market and official markets.

5. Conclusion

Production performance of various sectors with available data was mixed in July 2023. The production of cocoa declined significantly while there was little coffee production. Mining sector performance however improved since key minerals such as diamond, bauxite, zircon, iron ore, and other minerals productions recorded an increase, as well as gold, rutile, ilmenite productions. Manufacturing sector performance was mixed as output of cement, paint, oxygen and confectionaries increased, whilst beer and stout, maltina declined. Year-on-Year Headline inflation increased to 44.98 percent in July 2023 from 44.81 percent in June 2023, which was largely explained by the Russia-Ukraine war and post Covid-19 pandemic, which gradually assuaged the global supply chain.

Government expenditure increased by 6.89 percent, resulting in a deficit of NLe275.62mn. The increase in expenditure was mainly due to increases in other expenditure and debt service payments. However, the government's fiscal operations (on cash flow basis) resulted in a deficit of NLe275.62mn in July 2023, compared to the previous month's surplus of NLe82.45mn which was driven by the increase in other expenditures that outstripped the miscellaneous items embedded in the domestic revenue generation.

Broad Money (M2) grew by 3.66 percent while Reserve Money (RM) decreased by 1.16 percent. The growth in M2 was driven by increase in Net Domestic Assets (NDA) of the banking system, and Net Foreign Assets (NFA). From the Monetary Policy Committee (MPC) meeting in June 2023, the monetary policy rate (MPR) increased whilst the standing lending facility (SLF) and