



BANK OF SIERRA LEONE

**Monthly Economic
Review**

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Review**

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ABBREVIATIONS

BSL	-	Bank of Sierra Leone
GoSL	-	Government of Sierra Leone
Gw/hr	-	Gega Watts per hour
IMF	-	International Monetary Fund
M1	-	Narrow Money
M2	-	Broad Money
MER	-	Monthly Economic Review
MoF	-	Ministry of Finance
MPR	-	Monetary Policy Rate
NDA	-	Net Domestic Assets
NFA	-	Net Foreign Assets
ODC	-	Other Depository Corporations
RM	-	Reserve Money
SDF	-	Standing Deposit Facility
SLF	-	Standing Lending Facility
Stats SL	-	Statistics Sierra Leone
Y-o-Y	-	Year-on-Year

1.0 Highlights

In July 2021, the manufacturing sector of Sierra Leone recorded decreases in production for beer & stout, cement, paint, confectionery and common soap by 24.22 percent, 6.97 percent, 9.90 percent, 0.81 percent and 9.05 percent, to 142.27 thousand cartons, 32.87 thousand metric tons, 52.65 thousand gallons, 320.24 thousand pounds and 56.50 thousand metric tons, respectively. However, maltina, acetylene, and oxygen production increased by 33.63 percent, 1.42 percent, and 4.72 percent, to 45.56 thousand cartoons, 31.34 thousand cubic feet, and 40.34 thousand cubic feet, respectively.

The mining sector recorded decreases in output for diamond, gold, bauxite, and iron ore, while rutile and ilmenite production increased. Both coffee and cocoa production also decreased in the review month.

Headline inflation (year-on-year) increased to 10.50 percent in July 2021 from 10.20 percent in June 2021, reflecting an increase in non-food inflation to 6.40 percent in July 2021 from 4.53 percent in June 2021. Conversely, food inflation moderated to 15.40 percent in July 2021 from 17.12 percent in June 2021.

Government budgetary operations (on cash flow basis) recorded a significant deficit of Le230.44 billion in July 2021, against a deficit of Le24.94 billion in June 2021. The large deficit was due to the combined effects of an increase in government expenditure and decrease in revenue during the review month

Monetary Policy Rate (MPR) of the BSL remained unchanged at 14.00 percent in July 2021. Similarly, the Standing Lending and Deposit Facility rates remained unchanged at 17.00 percent and 8.00 percent in July 2021, respectively. However, the interbank rate continued to trend upward, increasing from 14.45 percent in June 2021 to 14.77 percent in July 2021, but remained within the policy corridor. Commercial banks' average lending and savings deposit rates were 19.88 percent and 2.23 percent respectively.

Monetary aggregates were expansionary in July 2021. Broad Money (M2) grew by 1.02 percent in July 2021, relative to 0.39 percent growth in June 2021. Reserve Money (RM) expanded by 3.21 percent in July 2021, from a contraction of 1.89 percent in June 2021.

Gross foreign exchange reserves of the Bank of Sierra Leone at end July 2021 was US\$709.86 million, up by 5.91 percent from US\$670.27 million in June 2021. Inflows recorded in July was US\$54.82 million, while outflows amounted to US\$15.43 million, resulting to a net inflow of US\$39.39 million, with a recorded revaluation gain of US\$0.19 million.

The exchange rate of the Leone to the US dollar (Le/US\$) depreciated across the foreign exchange markets. Consequently, the premium between the Official and Parallel market rates widened by 74.78 percent to Le319.41/US\$1 in July, 2021 from Le182.75/US\$1 in June, 2021.

2.1 Production

2.1.1 Manufacturing Sector

In July 2021, the manufacturing sector of Sierra Leone recorded decreases in production of beer & stout, cement, paint, confectionery and common soap by 24.22 percent, 6.97 percent, 9.90 percent, 0.81 percent and 9.05 percent, to 142.27 thousand cartons, 32.87 thousand metric tons, 52.65 thousand gallons, 320.24 thousand pounds and 56.50 thousand metric tons, respectively. However, maltina, acetylene, and oxygen production increased by 33.63 percent, 1.42 percent, and 4.72 percent, to 45.56 thousand cartoons, 31.34 thousand cubic feet, and 40.34 thousand cubic feet, respectively.

2.1.2 Mining Sector

The mining sector recorded decreases in output for diamond, gold, bauxite and iron ore by 11.31 percent, 21.45 percent, 9.98 percent, and 0.45 percent to 57.77 thousand carats, 399.27 ounces, 115.59 thousand metric tons, and 140.32 thousand metric tons respectively, during the review month. Diamond comprised of 49.28 thousand carats of industrial diamond and 8.49 thousand carats of gem diamond in July 2021. However, rutile and ilmenite production increased by 20.90 percent and 0.19 percent to 12.32 thousand metric tons and 5.37 thousand metric tons, respectively during the review period.

2.1.3 Agriculture Sector

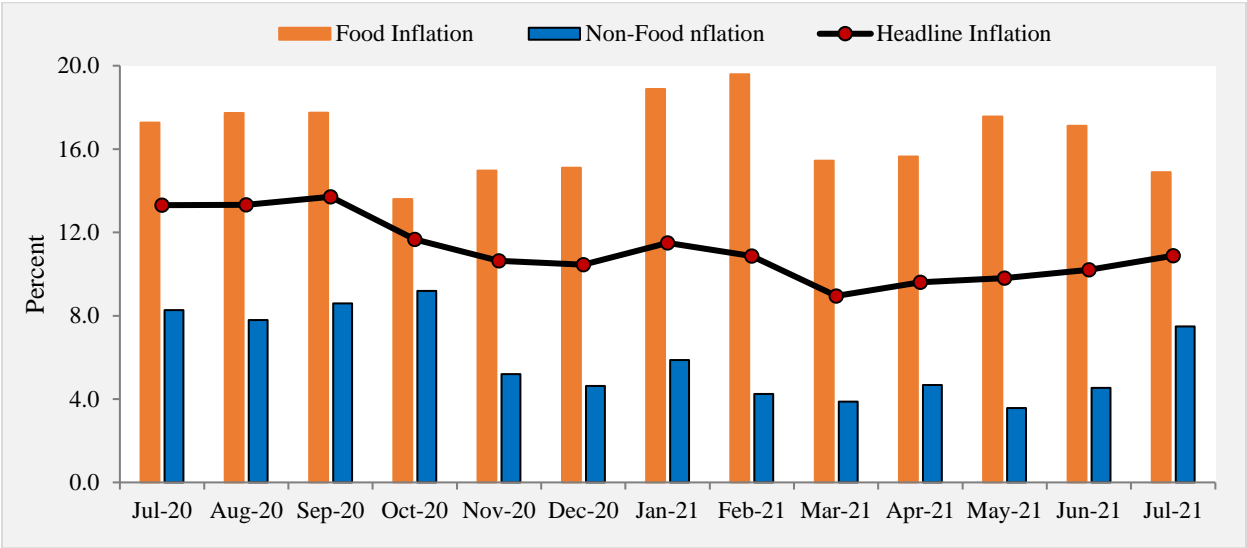
The agriculture sector, represented by cocoa and coffee production experienced a slow-down in July 2021. Coffee production dropped by 77.78 percent to 19.20 thousand metric tons, while Cocoa production, fell by 77.74 percent to 74.67 thousand metric tons in the review period.

2.2 Price Developments

Headline inflation (year-on-year) increased to 10.50 percent in July 2021 from 10.20 percent in June 2021, driven by an increase in non-food inflation to 6.40 percent in July 2021 from 4.53 percent in June 2021. Conversely, food inflation moderated to 15.40 percent in July 2021 from 17.12 percent in June 2021 (see **Figure 1**).

On regional basis, headline inflation in the Northern, Southern and Eastern regions increased to 10.63 percent, 13.73 percent, and 11.87 percent in July 2021 from 10.01 percent, 10.99 percent, and 9.66 percent respectively, in June 2021. However, inflation in the Western region decreased to 8.73 percent in July 2021 from 10.17 percent in June 2021.

Figure 1: Trends in Headline, Food and Non-Food Inflation

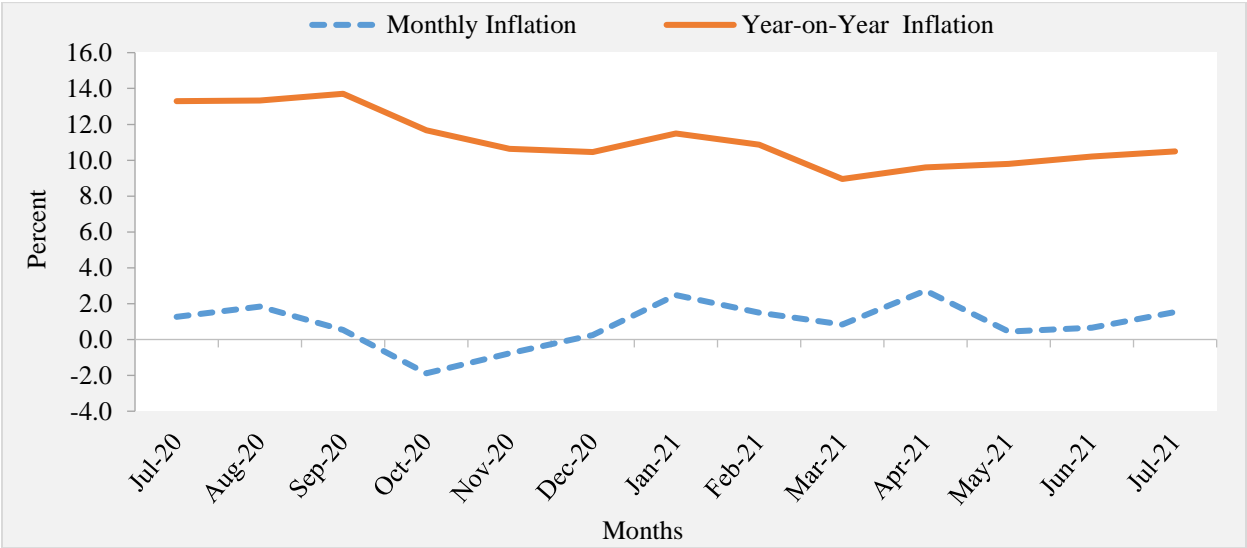


Source: Stats SL

Monthly headline inflation increased to 1.53 percent in July 2021 from 0.65 percent in June 2021.

Figure 2 depicts the trends in both annual and monthly inflation.

Figure 2: Trends in Annual (Y-o-Y) Inflation and Monthly Inflation



Source: Stats SL

3.0 Government Budgetary Operations

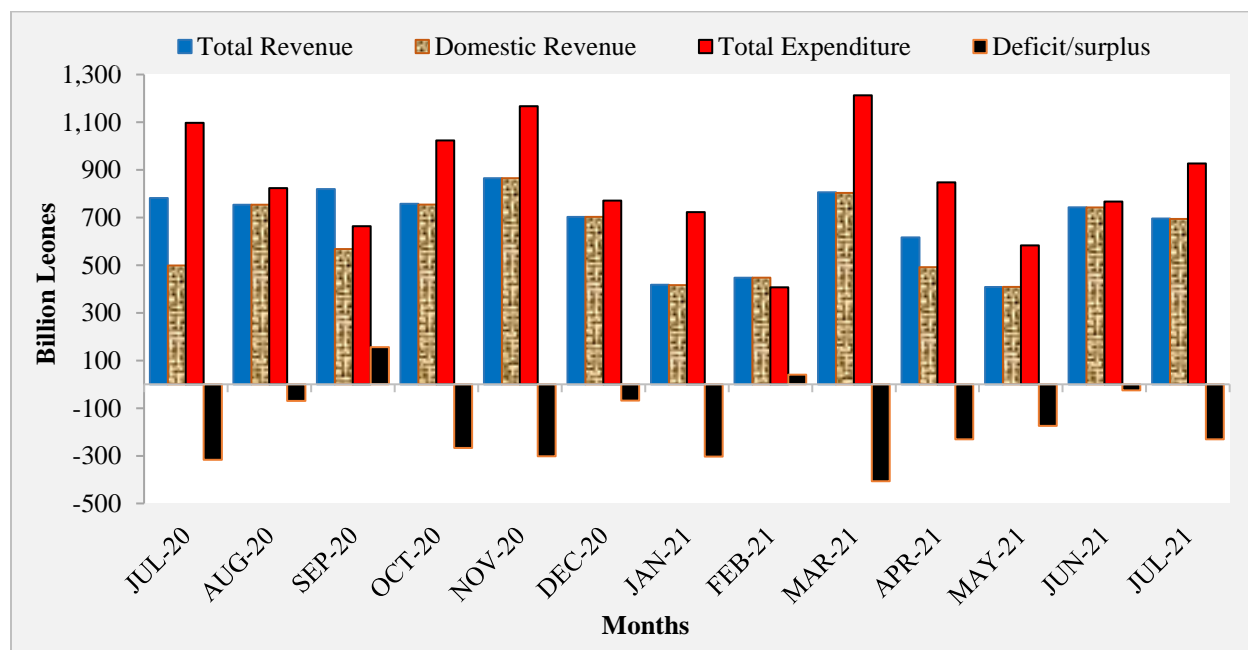
Government budgetary operations (on cash flow basis) recorded a significant deficit of Le230.44 billion in July 2021, against a deficit of Le24.94 billion in June 2021. The large deficit was due to the combined effects of an increase in government expenditure and decrease in revenue during the review month (see Figure 3).

3.1 Revenue

Government revenue decreased by 6.31 percent to Le695.81 billion in July 2021, and fell short of the programmed target of Le778.26 billion by 10.59 percent. This outcome was largely due to the contraction in domestic revenue mobilization.

Domestic revenue fell by 6.50 percent to Le693.91 billion in July 2021, explained by the decrease in revenue collected from customs & excise and income tax by 6.05 percent and 43.26 percent to Le83.47 billion and Le134.09 billion respectively, in July 2021. However, goods & services tax and non-tax revenue increased 9.75 percent and 15.66 percent to Le110.32 billion and Le36.04 billion respectively, in July 2021. Additionally, HIPC Debt Relief Fund amounted to Le1.90 billion in the review month.

Figure 3: Trends in Government Revenue and Expenditure



Source: MoF

3.2 Expenditure

Total Government expenditure increased by 20.67 percent to Le926.25 billion in July 2021, and overshot the target ceiling of Le560.94 billion by 65.13 percent. The expansion in government expenditure was due to the increase in debt services payment and other expenditure by 69.73 percent and 30.39 percent to Le158.01 billion and Le493.80 billion respectively, in July 2021. Debt service payment comprised Le150.05 billion payments to domestic creditors and Le7.96 billion payments to foreign creditors. However, pension, wages and salaries contracted by 7.22 percent to Le274.44 billion in July 2021.

3.3 Financing

The overall deficit of Le230.44 billion was entirely financed from domestic resources.

4.0 Monetary Developments

Monetary aggregates were expansionary in July 2021, as both Broad Money (M2) and Reserve Money (RM) grew.

4.1 Broad Money (M2)

Broad Money (M2) grew by 1.02 percent in July 2021, relative to 0.39 percent growth in June 2021. The growth in M2 was reflected in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system.

The NFA of the banking system grew by 4.18 percent in July 2021, compared to 1.66 percent in June 2021. The growth in NFA was mainly due to the 6.33 percent increase in NFA of commercial banks, which more than offset the 75.80 percent decrease in NFA of the Bank of Sierra Leone (BSL).

NDA of the banking system grew by 0.11 percent in July 2021, compared to the growth of 1.00 percent in June 2021. NDA grew mainly as a result of increase in net claims on Government by both the Bank of Sierra Leone (3.78%) and commercial banks (0.81%). Credit to the private sector by commercial banks contracted by 0.34 percent in July 2021, from the growth of 3.28 percent in June 2021.

From the liability side, the growth in M2 was mainly attributed to the increase in Quasi money, which was more than the decline in Narrow Money (M1). Quasi Money grew by 2.42 percent in July 2021, relative to 0.04 percent in June 2021. The growth in Quasi Money was mainly due to

increase in foreign currency deposits by 6.29 percent, as time and savings deposits contracted by 1.24 percent. M1 contracted by 0.32 percent in July 2021, from a growth of 0.73 percent in June 2021. The contraction in M1 was as a result of 1.80 percent decrease in demand deposits, which was more than the 1.34 percent increase in currency outside banks. **Table 1** shows the evolution in the various components of broad money from June to July 2021.

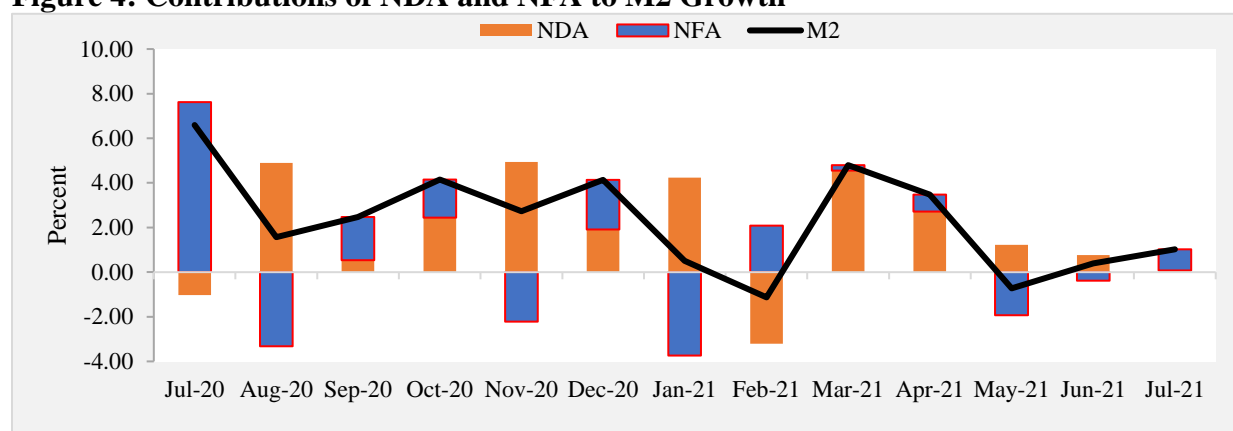
Table 1: Broad Money and Components

Billions of Leones	2021		Absolut Change		%Change	
	Jun-21	Jul-21	Jun-21	Jul-21	Jun-21	Jul-21
Reserve money	4,072.75	4,203.66	(78.60)	130.91	(1.89)	3.21
Broad Money (M2)	12,663.92	12,793.44	49.39	129.52	0.39	1.02
Narrow money (M1)	6,463.75	6,443.20	47.04	(20.56)	0.73	(0.32)
Currency outside banks	3,048.81	3,089.66	(31.51)	40.85	(1.02)	1.34
Demand deposit	3,414.94	3,353.54	78.55	(61.41)	2.35	(1.80)
Quasi money	6,200.17	6,350.24	2.35	150.08	0.04	2.42
o.w. Foreign currency deposit	3,012.39	3,201.91	(19.12)	189.52	(0.63)	6.29
Time and saving deposit	3,182.19	3,142.70	21.67	(39.49)	0.69	(1.24)
Net Foreign Asset	2,840.75	2,959.61	(47.89)	118.86	(1.66)	4.18
BSL	74.26	17.97	(66.67)	(56.29)	(47.31)	(75.80)
ODCs	2,766.49	2,941.64	18.78	175.15	0.68	6.33
Net Domestic Assets	9,823.17	9,833.83	97.29	10.66	1.00	0.11
Net Domestic Credit	12,337.50	12,525.15	144.98	187.65	1.19	1.52
Government (Net)	9,689.00	9,885.12	38.01	196.12	0.39	2.02
BSL	3,965.46	4,115.38	17.39	149.92	0.44	3.78
ODCs	5,723.54	5,769.75	20.62	46.21	0.36	0.81
Private Sector Credit	2,823.83	2,814.84	89.66	(9.00)	3.28	(0.32)
o.w ODC	2,806.51	2,797.05	89.01	(9.47)	3.28	(0.34)
Other Sectors (Net)*	(175.33)	(174.81)	17.31	0.52	(8.99)	(0.30)
Other Items (Net)	(2,514.33)	(2,691.32)	(47.70)	(176.99)	1.93	7.04
Money Multiplier	3.11	3.04				

Source: BSL

In terms of contributions, NFA and NDA of the Banking system contributed 0.94 percent and 0.08 percent to the growth in M2 respectively, in July 2021 (see **Figure 4**).

Figure 4: Contributions of NDA and NFA to M2 Growth



Source: BSL

4.2 Reserve Money (RM)

Reserve Money (RM) expanded by 3.21 percent in July 2021, from a contraction of 1.89 percent in June 2021. The growth in RM was mainly on account of the increase in Net Domestic Assets (NDA) of the BSL, which more than offset the decrease in Net Foreign Assets (NFA) of the BSL. NDA of the BSL grew by 4.68 percent in July 2021, compared to the 0.30 percent decline in June 2021. NFA of the BSL contracted by 75.80 percent in July 2021, after contracting by 47.31 percent in June 2021.

From the liability side, Reserve Money expanded due to increases in banks' reserves by 16.22 percent and currency issued by 0.25 percent in July 2021. **Table 2** shows the evolution of the various components of reserve money from June to July 2021.

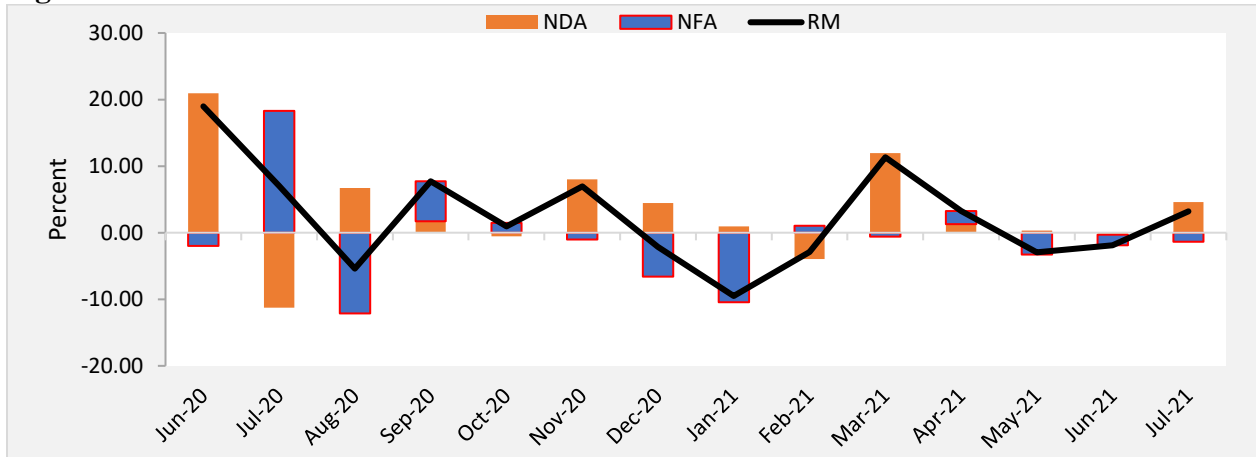
Table 2: Reserve Money and Components

Billions of Leones	2021		Absolute Change		% Change	
	Jun-21	Jul-21	Jun-21	Jul-21	Jun-21	Jul-21
Net Foreign Assets	74.26	17.97	(66.67)	(56.29)	(47.31)	(75.80)
Net Domestic Assets	3,998.50	4,185.69	(11.93)	187.19	(0.30)	4.68
Government Borrowing (net)	3,965.46	4,115.38	17.39	149.92	0.44	3.78
o.w. Securities	1,105.97	1,109.26	0.31	3.28	0.03	0.30
Ways and Means	187.16	-	11.23	(187.16)	6.38	(100.00)
GoSL/IMF /WB Budget financing	2,934.79	3,388.87	-	454.09	-	15.47
Reserve money	4,072.75	4,203.66	(78.60)	130.91	(1.89)	3.21
o.w. Currency issued	3,311.57	3,319.85	(2.75)	8.28	(0.08)	0.25
Bank reserves	755.60	878.18	(75.65)	122.58	(9.10)	16.22

Source: BSL

In terms of contributions, NFA and NDA of the BSL contributed -1.38 percent and 4.60 percent to the growth in RM respectively, in July 2021 (see Figure 5).

Figure 5: Contributions of NDA and NFA to RM Growth

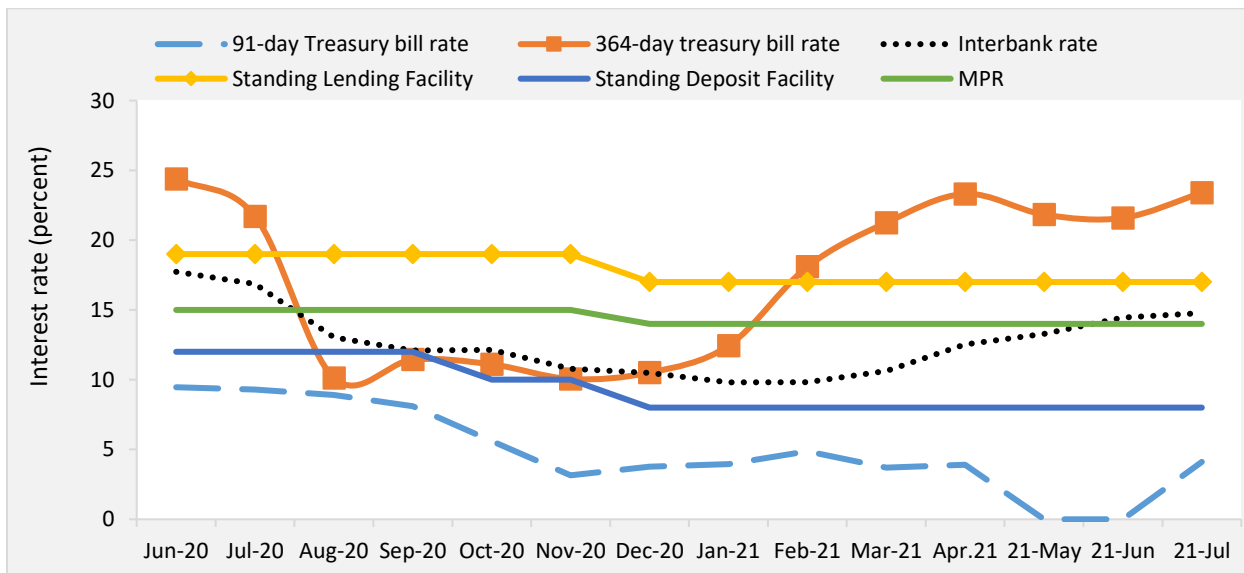


Source: BSL

4.3 Interest Rates

The Monetary Policy Rate was maintained at 14.00 percent in July 2021. Similarly, the Standing Lending and Deposit Facility rates remained unchanged at 17.00 percent and 8.00 percent in July 2021, respectively. The interbank rate continued to trend upward, increasing from 14.45 percent in June 2021 to 14.77 percent in July 2021 (see Figure 6).

Figure 6: Trends in Monetary Policy Rate and Other Market Rates



Source: BSL

The yield on 182-day T-bills increased from 9.61 percent in June 2021 to 9.67 percent in July 2021. The yield on 364-day T-bills increased from 21.59 percent in June 2021 to 23.39 percent in July 2021. The yield for the 91-day T-bills was 4.11 percent in July 2021. Commercial banks' average lending and savings deposit rates were 19.88 percent and 2.23 percent respectively (see Table 3).

Table 3: Trends in Interest Rates

	2020						2021						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
91-day T-Bills	9.29	8.91	8.11	5.60	3.15	3.78	3.96	4.88	3.69	3.90	0.00	0.00	4.11
182-day T-Bills	13.20	9.42	9.68	7.45	5.48	5.17	5.98	8.22	10.00	10.03	10.13	9.61	9.67
364-day T-Bills	21.7	10.12	11.44	11.10	10.05	10.51	12.43	18.09	21.25	23.31	21.83	21.59	23.39
Interbank rate	16.85	13.04	12.09	12.14	10.79	10.48	9.81	9.83	10.64	12.53	13.28	14.45	14.77
SLF	19.00	19.00	19.00	19.00	19.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00
SDF	12.00	12.00	12.00	10.00	10.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
MPR	15.00	15.00	15.00	15.00	15.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Ave. Lending rate	20.77	20.62	20.62	20.30	21.42	21.42	20.19	19.25	19.33	19.74	19.74	19.88	19.88
Lending (Prime)	18.04 - 23.50	17.74 - 23.50	17.74 - 23.50	17.27 - 23.33	18.64 - 24.20	18.64 - 24.20	18.70- 21.67	18.70- 19.80	18.02- 20.64	18.83- 20.64	18.83- 20.64	19.11- 20.64	19.11- 20.64
Savings deposits	2.89	2.72	2.72	2.72	2.72	2.61	2.67	2.35	2.23	2.23	2.23	2.23	2.23

Source: BSL

5.0 Exchange Rate and Reserves

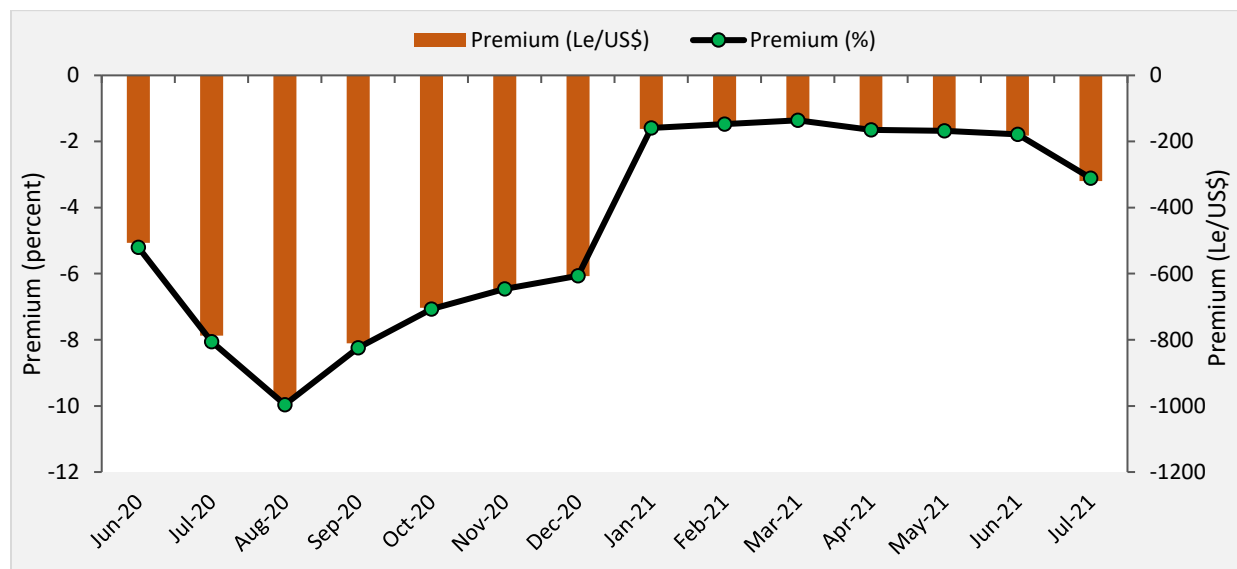
5.1 Exchange Rate Developments

The monthly average exchange rate of the Leone to the US dollar (Le/US\$) in July 2021, depreciated in all foreign exchange markets on both the buying and selling fronts. On the buying front, the Leone depreciated in the parallel market, bureau market, official market and commercial banks, and by 1.28 percent, 0.20 percent, 0.12 percent and 0.07 percent, averaging Le10,533.33/US\$1, Le10,166.76/US\$1, Le10,161.28/US\$1 and Le10,305.50/US\$1, respectively.

Similarly, on the selling front, the Leone depreciated in the parallel market, commercial banks, official market and bureau market by 1.58 percent, 0.20 percent, 0.12 percent and 0.04 percent, averaging Le10,633.33/US\$1, Le10,445.72/US\$1, Le10,366.56/US\$1 and Le10,432.37/US\$1 respectively.

The premium between the Official and Parallel rates widened by 74.78 percent to Le319.41/US\$1 in July, 2021 from Le182.75/US\$1 in June, 2021 (See Figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: BSL

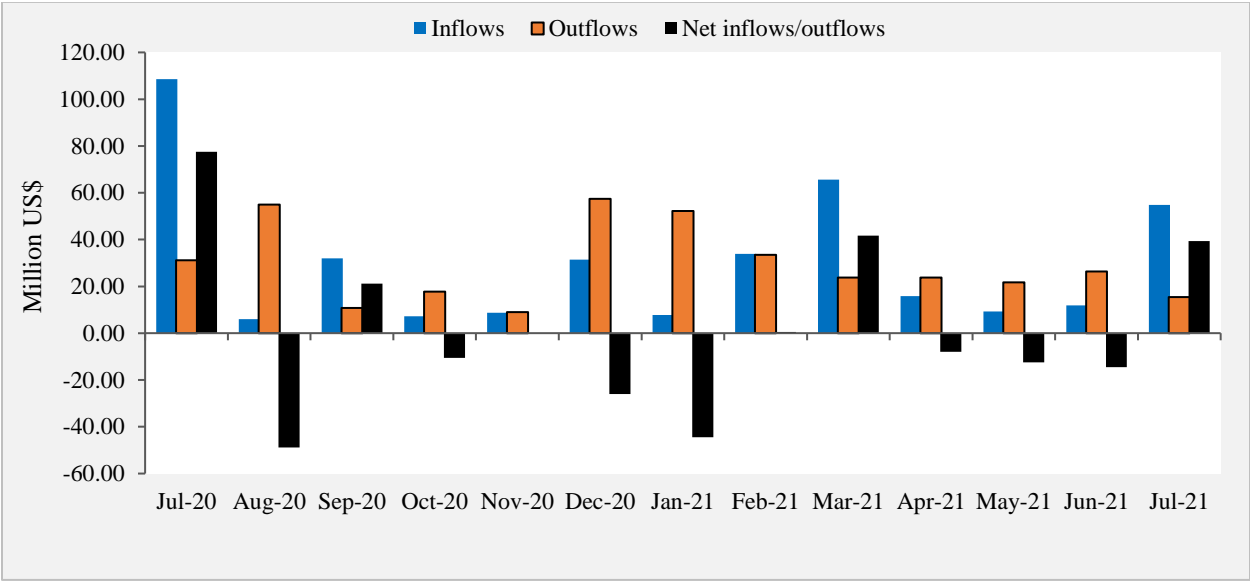
5.2 Gross Foreign Exchange Reserves

As at end July, 2021 the gross foreign exchange reserves of the Bank of Sierra Leone was US\$709.86 million, up by 5.91 percent from US\$670.27 million in June 2021. Inflows recorded in July was US\$54.82 million, while outflows amounted to US\$15.43 million, resulting to a net inflow of US\$39.39 million, with a recorded revaluation gain of US\$0.19 million.

Significant inflows comprised budget support from the IMF under the Extended Credit Facility (ECF) program (US\$44.24 million), receipt from timber exports (US\$3.02 million), royalty payments from Sierra Rutile (US\$1.73 million), Koidu Holdings mining company (US\$0.99 million), Kingho Investment Company (US\$0.88 million), Bauxite/Vimetco (US\$0.10 million) and other mining receipts (US\$1.88 million). Other inflows included transactions with commercial banks (US\$1.00 million), interest earned by BSL from investments abroad (US\$0.21 million), receipts from maritime administration (US\$0.19 million) and other government receipts (US\$0.31 million).

Major outflows comprised amount utilized in respect of interbank market operations (US\$3.50 million), external debt service payments (US\$3.11 million), government outlays (US\$2.84 million), BSL outlays (US\$2.42 million), cost for printing of currency (US\$1.42 million), embassy and mission payments (US\$1.08 million), electricity support (US\$1.04 million) (see **Figure 8**).

Figure 8: Foreign Exchange Flows



Source: BSL