



BANK OF SIERRA LEONE

Monthly Economic Review

April 2023

MER/04/2023

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.

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 April 2023.

Executive Summary

Production performance of various sectors, as indicated by available data was mixed in April 2023. Cocoa production decreased while there was no coffee production during the period. Performance in the mining sector declined, primarily due to reduced output of key minerals such as diamond, gold, zircon, iron ore and other minerals. In contrast, the production of bauxite, rutile and ilmenite showed an increase. The performance of the manufacturing sector also decreased as the output of all manufacturing sector components declined, except for oxygen and common soap. The period saw an uptick in inflation with the year-on-year headline inflation increasing to 43.05% in April 2023 from 41.74% in March 2023. This upward trend was particularly evident in food and non-alcoholic beverages inflation rising to 52.33% in April 2023 from 50.05% in March 2023. Similarly, non-food and alcoholic beverages inflation rose, to 36.24% in April 2023, up from 35.84% in March 2023.

The Government's fiscal operations (on a cash-flow basis) showed a notable turnaround from a deficit of NLe719.06mn in March 2023 to a surplus of NLe247.75mn in April 2023. The surplus resulted from reduced total expenditure, while non-tax domestic revenue expanded.

Reserve money (RM) and broad money grew by 12.69% and 2.24%, respectively. The growth in RM was driven by an increase in Net Domestic Assets (NDA) of the banking system, while Net Foreign Assets (NFA) experienced a slight reduction. Broad money (M2) increased due to the increase in NDA of the Bank of Sierra Leone (BSL), while there was a marginal contraction in NFA of the BSL. The monetary policy rate (MPR) was increased by 0.50 percentage point, reaching 18.75 % in April 2023. Accordingly, the Standing Lending Facility (SLF) and Standing Deposit Facility (SDF) were adjusted to 21.75 % and 12.75 %, respectively. The interbank rate increased to 20.77% in April 2023, up from 20.26% in March 2023 and remained within the policy corridor. The average lending rate of commercial banks also increased to 20.45% in April 2023 from 20.18 % in March 2023. However, the average savings rate remained unchanged at 2.17 %. The yield on the 364-day T-Bill remained unchanged in April 2023 at 28.28%, whereas there was no activity in the 91-day and 182-day Treasury bills market.

Gross foreign exchange reserves held by the Bank of Sierra Leone amounted to US\$574.92 million at the end of April 2023. This reflected a slight decrease of 0.12 % from US\$575.59 million at the end of March 2023. In addition, there was a net outflow of US\$2.56million, in contrast to a net outflow of US\$21.05 million recorded in March 2023. The Leone depreciated against the US dollar in April 2023 on both the buying and selling sides in all foreign exchange markets. On the buying side, the Leone experienced a depreciation across various markets: the parallel market (37.68%), commercial banks (5.76%), official market (5.62%), and the bureau market (5.30%). The average rates were NLe22.10 per US Dollar, NLe21.62 per US Dollar, NLe21.64 per US Dollar and NLe21.44 per US Dollar, respectively. Similarly, on the selling side, the Leone depreciated in these markets: the parallel market (6.61%), commercial banks (5.71%), official market (5.62 %), and the bureau market (5.26 %). The average rates in the parallel, commercial banks, official market and bureau market stood at NLe22.44 per US Dollar, NLe22.05 per US Dollar, NLe21.86 per US Dollar and NLe21.63 per US Dollar, respectively. Consequently, a narrow premium emerged between the official and parallel rates, reducing to 2.40% (NLe0.52 per US Dollar) in April 2023, from a shift from a negative premium of 9.90% (NLe2.04 per US Dollar) in March 2023.

1. Real Sector Development

(i) Production

In April, the performance of the Agricultural sector continued to decline, primarily due to a significant decrease in cocoa production by 24.09%, while there was no coffee production during this period. For the mining sector, performance exhibited a mixed pattern. Diamond (gem), bauxite, rutile, and ilmenite outputs increased, while diamond (industrial), gold, zircom, iron ore, and other minerals recorded declines.. As for the manufacturing sector, it witnessed a decline in April 2023. This downturn can be attributed to decreases in the production of the various components with the exception of oxygen and common soap.

(ii) Price Development

The year-on-year headline inflation rose to 43.05 % in April 2023 from 41.74% in March 2023. This increase was mirrored in the food inflation, which rose to 52.33% from 50.05 % recorded in March 2023. Similarly, non-food inflation saw an uptick to 36.24% in April 2023, compared to 35.84 % in March 2023. The increase in headline inflation was attributed to significant economic challenges amplified by the Russia-Ukraine war, the lingering impacts of the post COVID-19 pandemic and the depreciation of the Leone. Table 1 shows the year-on-year headline inflation rate and key components, which reveals that alcohol beverages and tobacco, health, and furnishings were the major contributors to the increase in headline inflation.

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

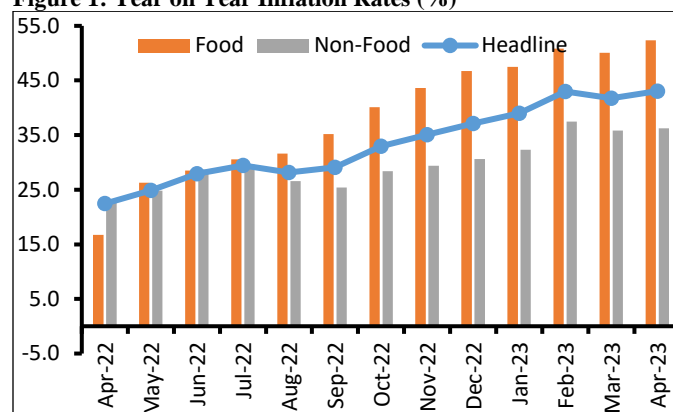
	Weight (%)	Mar-23	Apr-23	Change	Direction
Food	40.33	50.05	52.33	2.28	Up
Non-Food	59.67	35.84	36.24	0.4	Up
Alcohol Beverages & Tobacco	1.02	29.26	32.85	3.59	Up
Clothing	7.67	37.75	38.81	1.06	Up
Housing	8.86	29.36	28.82	-0.54	Down
Furnishings	5.60	57.73	60.72	2.99	Up
Health	7.57	33.84	38.01	4.17	Up
Transport	8.59	22.05	20.75	-1.3	Down
Communication	4.69	31.51	30.34	-1.17	Down
Recreation	2.56	48.55	49.01	0.46	Up
Education	3.14	-9.82	-9.82	0	Constant
Hotels	6.08	56.45	57.65	1.2	Up
Miscellaneous	3.89	51.83	43.43	-8.4	Down
All items	100.00	41.74	43.05	1.31	Up

Source: Statistics Sierra Leones

The monthly headline inflation increased to 4.00% in April 2023, from 3.78% recorded in March of the same

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

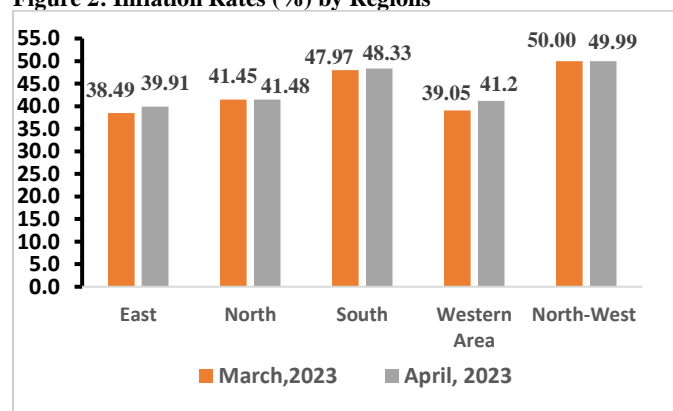
Figure 1: Year on Year Inflation Rates (%)



Source: Statistics Sierra Leone

On a regional basis, annual inflation exhibited mixed patterns across various regions. Inflation rose in Southern, Northern, Western and Eastern regions, while it experienced a decline in the North-West region in April 2023, compared to March 2023. The North-West region stood out with the highest inflation rate, reaching 49.99%, followed by the Southern region at 48.33%. Following these, the Northern region and Western Area registered inflation rates of 41.48% and 41.20%, respectively, while the Eastern region recorded a lower inflation rate of 39.91%. Figure 2 shows inflation rates by region.

Figure 2: Inflation Rates (%) by Regions

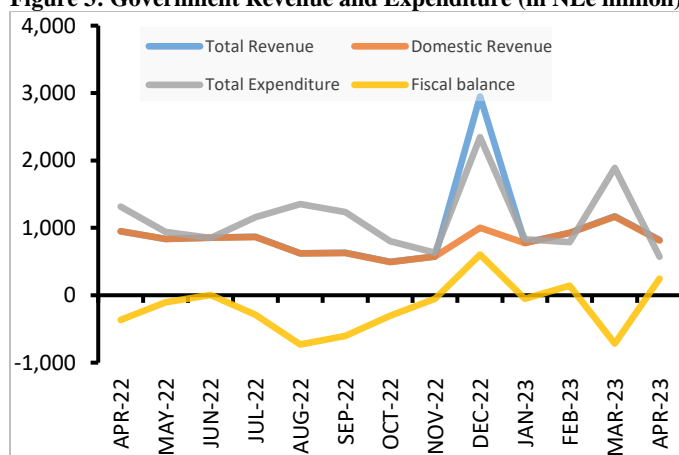


Source: Statistics Sierra Leone

2. Fiscal Sector Development

The government fiscal operations (on a cash-flow basis) yielded a surplus of NLe247.75mn in April 2023. This marked a significant improvement from a deficit of NLe719.06mn recorded in the prior month. The surplus was attributed to a fall in overall expenditure, accompanied by a slight uptick in foreign grants. During April 2023, total revenue declined by 29.94% to NLe819.84mn, which fell short of the budgeted target by 45.25%, mainly due to a low domestic revenue mobilization, particularly in income tax, Goods and Services Tax (GST), and customs & excise revenues. However, non-tax revenue and grant increased during the review period. Figure 3 shows the fiscal profile for April 2023 and the 12 months preceding it.

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



Source: Bank of Sierra Leone

Government expenditure decreased significantly by 69.72% in April 2023, compared to March 2023. The actual expenditure during this period amounted to NLe572.09.29mn, indicating a decrease from the previous month's spending and was below the budgeted ceiling of NLe805.72mn. The reduction in expenditure was due to a decrease in wages & salaries, other expenditures and domestic debt servicing. Specifically, expenditure on wages and salaries experienced a sharp drop by 93.55%, amounting to NLe28.53mn. Additionally, spending on other categories of expenses (goods and services) decreased by 53.37% to NLe464.68mn. Moreover, there was an 82.48% decrease in debt servicing, totaling NLe78.88mn, with this

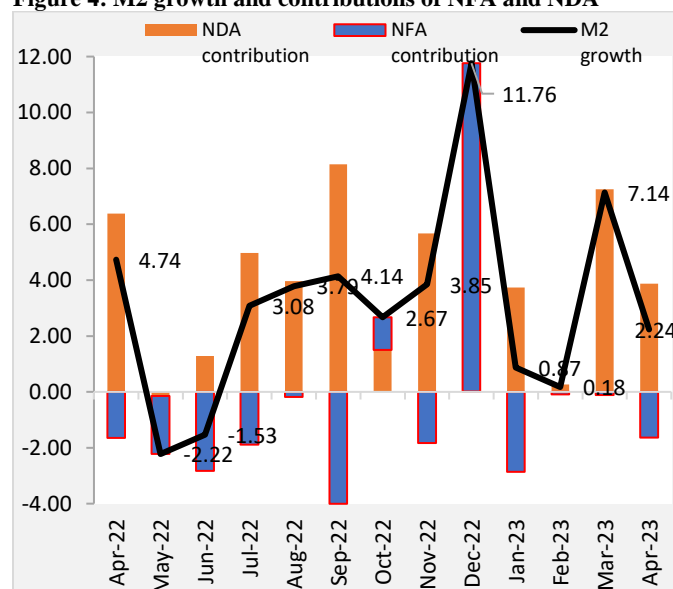
reduction exclusively concerning domestic debt interest payments.

3. Monetary Sector Development

(i) Monetary Aggregates

In April 2023, both broad money (M2) and reserve money experienced growth, with rates of 2.24% and 12.69%, respectively. The expansion in M2 was driven by increase in Net Domestic Assets (NDA) of the banking system, although the Net Foreign Assets of the banking system decreased slightly. Specifically, NDA grew by 3.87% while NFA contracted by 1.64%. The increase in NDA was attributed to the growth in the NDA of Other Depository Corporation (ODCs), which outweighed the growth in the NDA of the Bank of Sierra Leone (BSL). Conversely, the contraction of NFA of the banking system resulted from decreases in both NFA of BSL and ODCs. Credit extended to the private sector by commercial banks increased marginally by 0.53%, a slowdown from the 5.92% growth observed in March 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

Narrow Money (M1) observed an increase of 3.31% in April 2023, driven by the growth in both currency held outside of banks and demand deposits, which grew by 6.62% and 0.10%, respectively. Quasi money increased

BANK OF SIERRA LEONE MONTHLY ECONOMIC REVIEW

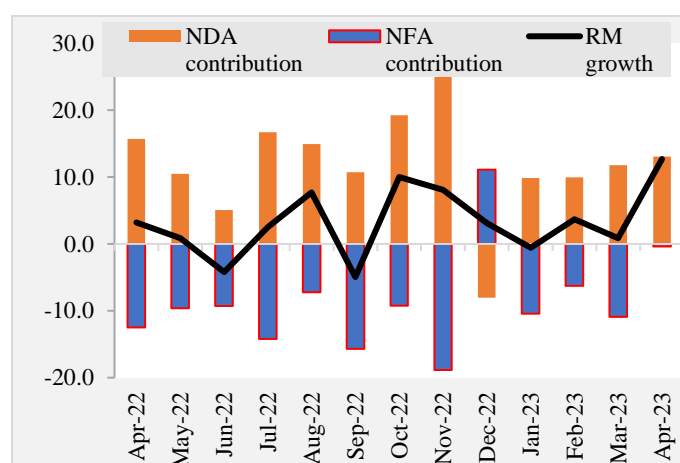
APRIL 2023

MER/04/2023

by 1.42%, reflecting increases in all components except for one. The growth was observed in foreign currency, time and savings deposits, while there was a decline in other deposits.

Reserve money registered an increase of 12.69%, primarily attributed to the increase in NDA of the BSL, despite a slight contraction in the NFA of the BSL. On the liability side, the growth in reserve money was driven by the increase in both currency issued and bank reserves. 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

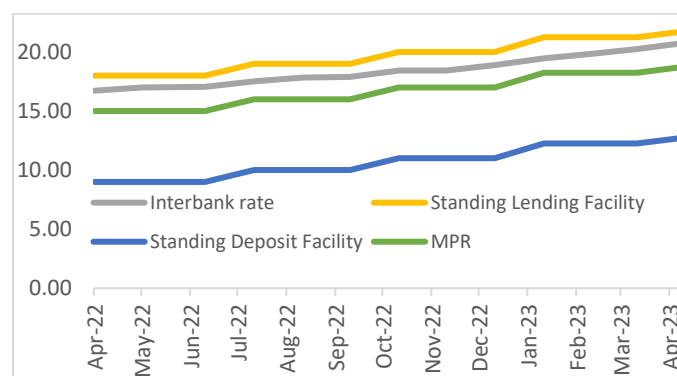
(ii) Interest Rates

In April 2023, the Bank of Sierra Leone implemented an upward adjustment to its key interest rates. The monetary policy rate (MPR) was 18.75 %, the Standing Lending Facility (SLF) rate was 21.75 %, and the Standing Deposit Facility (SDF) rate was 12.75 %. These rates were 0.5 percentage points higher than their March values. During this period, the interbank rate increased to 20.77 % compared to 20.26 in March 2023 and it remained within the policy corridor.

Within the commercial banking sector, the average lending rate increased to 20.45 % in April 2023, from 20.18 % in March 2023. Conversely, the average savings rate remained unchanged at 2.17 %. As a result, the spread between the average lending and savings rates widened to 18.28 % in April 2023, up from 18.01 % in March 2023.

Figure 6 shows various interest rates for April 2023 and the 12 months preceding it.

Figure 6: Central Bank Interest Rates and the Interbank Rate



Source: Bank of Sierra Leone

In April 2023, the yield on the 364-day T-bills remained unchanged at 28.28%. However, there was no activity in the market for 91-day and 182-day T-bills during this period.

4. External Sector Development

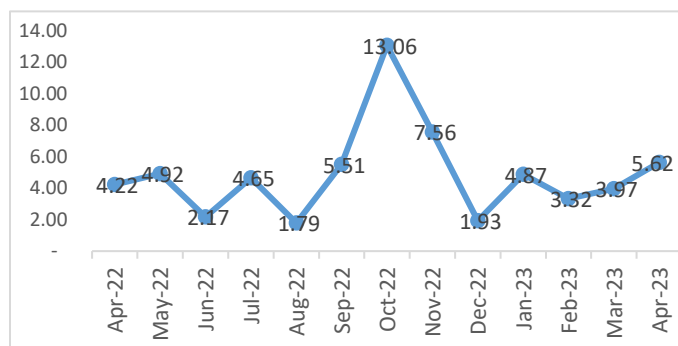
(i) Exchange Rate Development

In April 2023, the monthly average exchange rate of the Leone against the US dollar depreciated on both the buying and selling sides across all foreign exchange markets. Regarding the buying side, the Leone experienced a depreciation of 37.68% in the parallel market and a 5.76% depreciation in commercial banks, averaging NLe22.10 per US dollar and NLe21.62 per US dollar, respectively. In the bureau market, the Leone also depreciated by 5.30%, with an average exchange rate of NLe21.62 per US dollar. The Leone's buying rate published by the BSL showed a depreciation of 5.62%, averaging NLe21.64 per U.S dollar.

Similarly, on the selling side, the Leone depreciated by 6.61% in the parallel market, averaging NLe22.44 per US dollar. The bureau market and commercial banks saw depreciations of 5.26% and 5.71% respectively, with average rates of NLe21.63 per US dollar, and NLe22.05 per US dollar, respectively. The BSL's published selling

rate displayed a depreciation of 5.62%, with an average rate of NLe21.86 per U.S dollar. Figure 7 shows the trend of the monthly depreciation rate of the Leone, using the BSL mid-rate¹.

Figure 7: Trend in Official Exchange Rates (%)



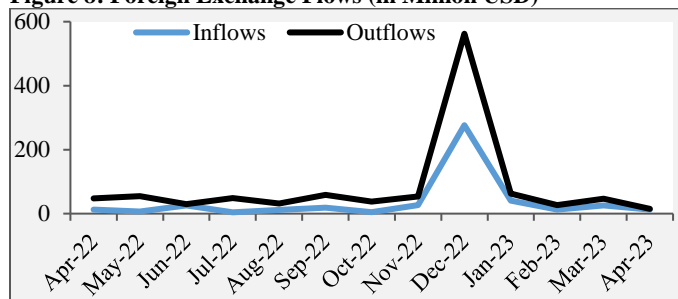
Source: Bank of Sierra Leone

The premium between the official and parallel rates narrowed to 2.40% (NLe0.52 per US dollar) in April 2023, a shift from a negative premium of -9.9 % (NLe2.04 per US dollar) observed in March 2023.

(ii) Gross Foreign Exchange Reserves

In April 2023, the gross foreign exchange reserves held by the Bank of Sierra Leone totaled US\$574.92 million, which represented a slight decrease of 0.12 % from the US\$575.59million recorded in March 2023. During this period, there was a net outflow of US\$2.56 million, as opposed to a net outflow of US\$21.05 million in March 2023, while the remaining change in the reserve was attributed to revaluation adjustments. Figure 8 shows foreign exchange flows for April 2023 and the 12 months preceding it.

Figure 8: Foreign Exchange Flows (in Million USD)



Source: Bank of Sierra Leone

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

5. Conclusion

The performance across various sectors in April 2023 was mixed. While the production of cocoa experienced a decline, data for other important agricultural products during the same period was unavailable. In the mining sector, output exhibited a varied pattern: bauxite, rutile and ilmenite recorded increases, whereas diamond, gold, zircom, iron ore and other minerals experienced decreases in production. Similarly, the manufacturing sector witnessed a decrease in output, driven by declines in almost all manufacturing components except for oxygen and common soap.

Year-on-year headline inflation surged in April 2023, driven by both food and non-food inflation. These increases were primarily influenced by disruptions in global supply chains, driven by the Russian-Ukraine war, and exchange rate depreciation.

Government budgetary operations (on a cash flow basis) resulted in a surplus in April 2023, contrasting the previous month’s deficit. The surplus was due to a significant reductions in government expenditure, mostly on wages and salaries, coupled with expanded non-tax domestic revenue.

In April 2023, the central bank policy rates were adjusted upwards. The monetary policy rate (MPR), standing lending facility (SLF) and standing deposit facility (SDF) rates were increased by 0.50 percentage point. The interbank rate remained within the set policy corridor. The commercial banks average lending rate increased while the average savings rate remained unchanged. This led to a slight widening of the spread between the average lending and savings rates. During the period, the yield on the 364-day T-Bills remained unchanged, with no activity observed in the 91-day and 182-day T-Bills market.

Broad money (M2) and reserve money grew in April 2023. Across various foreign exchange markets, the Leone depreciated against the US dollar in both the buying and selling transactions. Gross foreign

BANK OF SIERRA LEONE MONTHLY ECONOMIC REVIEW

APRIL 2023

MER/04/2023

exchange reserves recorded a decrease in April 2023 from its level in March 2023.