



BANK OF SIERRA LEONE

Monthly Economic Review

May 2023

MER/05/2023

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.

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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 May 2023.

Executive Summary

In May 2023, production performance across the various sectors exhibited a mixed pattern. Cocoa production decreased, while there was no coffee production. The mining sector showed improvement in performance, primarily driven by increased output in gold (pure), bauxite, ilmenite, zircon and other minerals. However, the production of diamonds (both industrial and gem), rutile and iron ore decreased during the review period. The performance of the manufacturing sector improved, as the output of key manufacturing sector components increased. However, notable exceptions were observed in the production of beer and stout, oxygen and common soap. Year-on-Year headline inflation increased to 44.43 percent in May 2023 from 43.05 percent in April 2023, with food inflation rising to 55.85 percent in May 2023 from 52.33 percent in April 2023. Non-food and alcoholic beverages inflation however decreased to 35.89 percent in May 2023, from 36.24 percent in April 2023.

Government budgetary operations (on a cash-flow basis) resulted in a deficit of NLe358.12mn in May 2023 while a surplus of NLe247.75mn was recorded in the previous month. The deficit was due to a decrease in non-tax revenue collection while government expenditure expanded, and no foreign grant was received.

Broad money (M2) increased by 1.95 percent in May 2023 while reserve money contracted by 0.67 percent. The growth in M2 was driven by an increase in Net Domestic Assets (NDA) of the banking system, while Net Foreign Assets (NFA) declined. Reserve money decreased due to reductions in both the NDA and NFA of the banking system. The monetary policy (MPR), standing lending facility (SLF) and standing deposit facility (SDF) rates remained at their April rates in May 2023. The MPR was 18.75 percent; the

SLF rate was 21.75 percent; and the SDF rate was 12.75 percent. The interbank rate experienced a slight increase, rising from 20.77 percent in April 2023 to 20.89 percent in May 2023, but remained within the policy corridor. The commercial bank average lending rate and average savings rate remained unchanged at 20.45 percent and 2.17 percent, respectively. Average yields on the 91-day and 182-day T-Bills were 4.11 percent and 10.49 percent, respectively, while average yield on the 364-day T-Bills declined from 28.28 percent in April 2023 to 28.24 percent in May 2023.

Gross foreign exchange reserves of the Bank of Sierra Leone stood at US\$542.30 million at the end of May 2023, representing a decrease of 5.68 percent from US\$574.92 million at the end of April 2023, with a net outflow of US\$26.26million, compared to a net outflow of US\$2.56 million in April 2023. The Leone depreciated against the US dollar in May 2023 on both the buying and selling sides across the various foreign exchange markets. On the buying side, the Leone depreciated by 5.27 percent in the bureau market, 4.98 percent in the parallel market, 4.54 percent in the commercial banks and 3.82 percent in the official market, with rates averaging NLe22.57 per US Dollar, NLe23.20 per US Dollar, NLe22.61 per US Dollar and NLe22.47 per US Dollar, respectively. On the selling side, similar depreciation occurred, with the Leone depreciating in the parallel market, bureau market, official market and commercial banks by 4.92 percent, 4.73 percent, 4.27 percent and 3.65 percent respectively, with rates averaging NLe23.55 per US Dollar, NLe22.66 per US Dollar, NLe22.79 per US Dollar and NLe22.85 per US Dollar, respectively. The premium between the official and parallel rates widened to 3.29 percent (NLe0.75 per US Dollar) in May 2023, up from 2.40 percent (NLe0.52 per US Dollar) in April 2023.

1. Real Sector Development

(i) Production

In May 2023, production performance across various sectors exhibited a mixed pattern. Cocoa production experienced a significant decline, plummeting by 71.35 percent from 558.7 metric tons in April 2023 to 160.08 metric tons in May 2023 while there was no coffee production during the period. The mining sectors were also mixed as the output of gold (pure), bauxite, ilmenite, zircom and other minerals increased while diamond (both industrial and gem), rutile and iron ore recorded decreased in output. The manufacturing sector, on the other hand, showed signs of improvement. There were increases in the output of various components, except for beer and stout, oxygen and common soap, which declined in output.

(ii) Price Development

Year-on-year headline inflation increased to 44.43 percent in May 2023, up from 43.05 percent in April 2023, with food inflation increasing to 55.81 percent in May 2023 from 52.33 percent in April 2023 and non-food inflation decreasing to 35.89 percent from 36.24 percent in April 2023. The increase in headline inflation was attributable to significant economic challenges amplified by increases in global food prices, increased energy costs and the continuous depreciation of the Leone. Table 1 shows the year-on-year headline inflation rate and key components, which shows that hotels, communication and alcoholic beverages and tobacco were the major contributors to the overall increase in headline inflation.

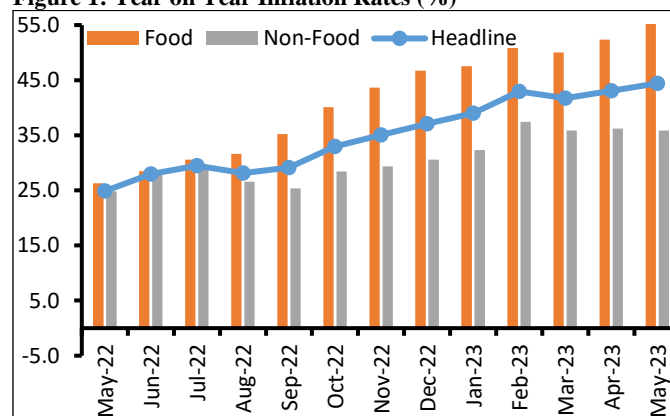
Table 1: Y-o-Y Inflation Rate by Component (%)

	Weight (%)	Apr-23	May-23	Change	Direction
Food	40.33	50.05	52.33	2.28	Up
Non-Food	59.67	36.24	35.89	-0.35	Down
Alcohol Beverages & Tobacco	1.02	32.85	36.53	3.68	Up
Clothing	7.67	38.81	33.92	-4.89	Down
Housing	8.86	28.82	26.78	-2.04	Down
Furnishings	5.6	60.72	53.69	-7.03	Down
Health	7.57	38.01	35	-3.01	Down
Transport	8.59	20.75	22.73	1.98	Up
Communication	4.69	30.34	34.83	4.49	Up
Recreation	2.56	49.01	50.6	1.59	Up
Education	3.14	-9.82	-9.82	0	Constant
Hotels	6.08	57.65	64.02	6.37	Up
Miscellaneous	3.89	43.43	42.78	-0.65	Down
All items	100	43.05	44.43	1.38	Up

Source: Statistics Sierra Leones

Monthly headline inflation decreased to 3.42 percent in May 2023, from 4.00 percent in April 2023. Figure 1 shows the inflation rates for May 2023 and the 12 months preceding it.

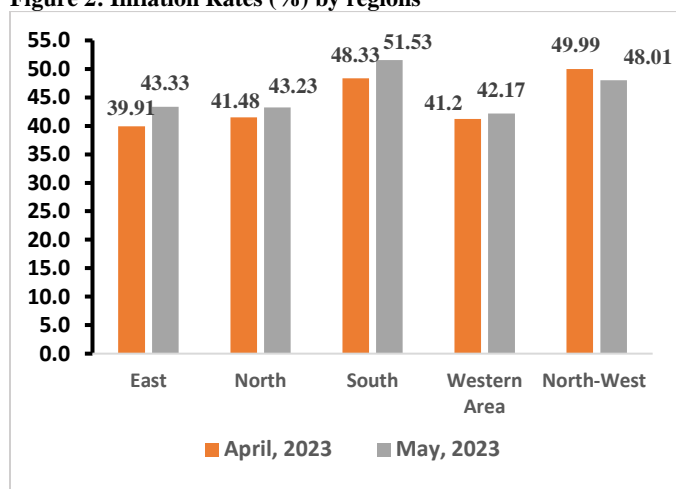
Figure 1: Year on Year Inflation Rates (%)



Source: Statistics Sierra Leone

On a regional basis, annual inflation increased in Southern, Eastern, Northern and Western regions but declined in the North-West region in May 2023, compared to April 2023. The Southern region saw the highest inflation rate at 51.53 percent, followed by the North-West region at 48.01 percent. The Eastern region recorded an inflation rate of 43.33 percent, Northern regions reported an inflation rate of 43.23 percent, while the Western-Area region had an inflation rate of 42.17 percent. Figure 2 shows inflation rates by region.

Figure 2: Inflation Rates (%) by regions



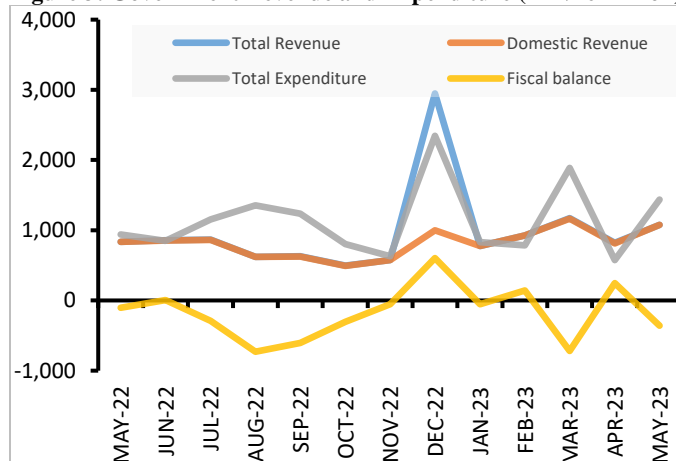
Source: Statistics Sierra Leone

Government expenditure increased significantly by 149.55 percent in May 2023, compared to April 2023. Actual expenditure reached NLe1434.49mn, surpassing the budgeted ceiling of NLe805.72mn. The expansion in expenditure was due to an increase in wages & salaries, other expenditures and domestic debt servicing. Expenditure on wages and salaries increased by 888.05 percent to NLe281.92mn. Other expenditure (goods and services) increased by 100.98 percent to NLe933.92mn; and debt servicing expenses surged by 167.86 percent to NLe218.66mn, all being for domestic debt interest payment.

2. Fiscal Sector Development

Government fiscal operations (on a cash-flow basis) resulted in a deficit of NLe358.12mn in May 2023, compared to the previous month's surplus of NLe245.00mn. The deficit was due to an increase in total expenditure. Total revenue for May 2023 increased by 31.29 percent to NLe1076.37, which, however, fell short of the budgeted target by 28.12 percent. The revenue shortfall was attributed to a decrease in foreign grant and low domestic revenue mobilization from non-tax sources. However, income tax, customs and excise and Goods and Services Tax (GST) increased during the review period. Figure 3 shows the fiscal profile for May 2023 and the 12 months preceding it.

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



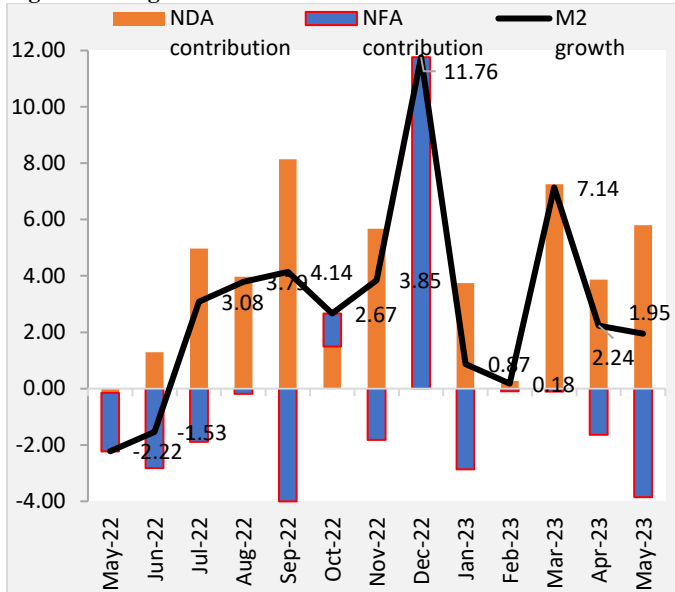
Source: Bank of Sierra Leone

3. Monetary Sector Development

(i) Monetary Aggregates

In May 2023, broad money (M2) increased by 1.95 percent while reserve money contracted by 0.67 percent. The growth in M2 was driven by increase in Net Domestic Assets (NDA) of the banking system, while Net Foreign Assets (NFA) of the banking system fell. NDA grew by 5.80 percent while NFA contracted by 3.86 percent. The increase in NDA was due to the growth in the NDA of Other Depository Corporations (ODCs), which outweighed the increase in the NDA of Bank of Sierra Leone (BSL). NFA of the banking system contracted due to decreases in both NFA of BSL and ODCs. Credit to the private sector by commercial banks decreased slightly by 0.52 percent in May 2023, compared to a decrease of 0.53 percent in April 2023. Figure 4 shows the contributions of NDA and NFA to M2 growth.

Figure 4: M2 growth and contributions of NFA and NDA

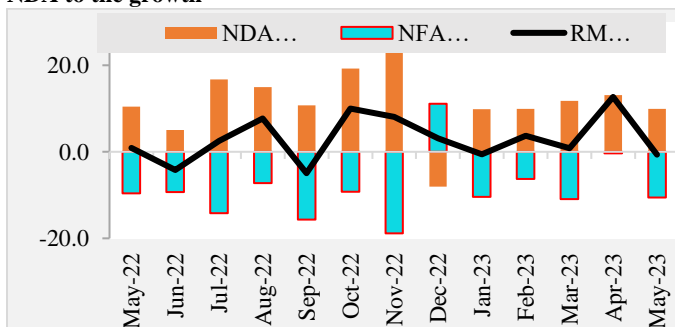


Source: Bank of Sierra Leone

Narrow Money (M1) increased by 5.60 percent, driven by the growth of both demand deposits, which increased by 6.69 percent, and currency outside banks, which grew by 4.55 percent. Quasi money, on the other hand, decreased by 0.89 percent, primarily reflecting a decrease in foreign currency deposits of 1.88 percent. Time and savings deposits of ODCs increased by 1.53 percent while other deposits of BSL remained unchanged.

Reserve money contracted by 0.67 percent, which was due to decreases in both the NFA and NDA of the BSL. On the liability side, the decline in reserve money resulted from the decrease in bank reserves, which outweighed the increase 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



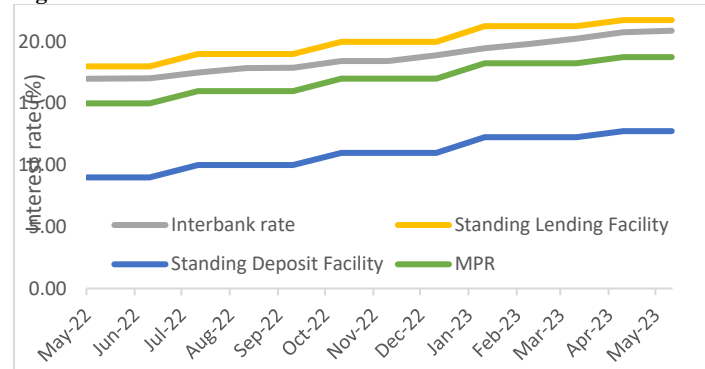
Source: Bank of Sierra Leone

(ii) Interest Rates

In May 2023, the Bank of Sierra Leone maintained its monetary policy rate (MPR) at 18.75 percent, the standing lending facility (SLF) at 21.75 percent, and the standing deposit facility rates (SDF) at 12.75 percent. The interbank rate increased slightly to 20.89 percent in May 2023, from 20.77 in April 2023 but remained within the policy corridor.

The commercial bank average lending and savings rates were unchanged at 20.45 percent and 2.17 percent, respectively. As a result, the spread between the average lending and savings rates remained unchanged at 18.28 percent in May 2023. Figure 6 shows various interest rates for May 2023 and the 12 months preceding it.

Figure 6: Central Bank Interest Rates and the Interbank Rate



Source: Bank of Sierra Leone

In May 2023, yield on 91-day and 182-day T-bills rose while yield on 364-day T-bills declined. The yield on the 91-day and 182-day increased to 4.11 percent and 10.49 percent respectively, while they were not traded in the previous month. The yield for 364-days decreased to 28.24 percent in May 2023 from 28.28 percent in April 2023.

4. External Sector Development

(i) Exchange Rate Development

In May 2023, the Leone depreciated against the US dollar in all foreign exchange markets, both on the buying and selling sides. On the buying side, the Leone depreciated in the parallel market and across commercial banks by

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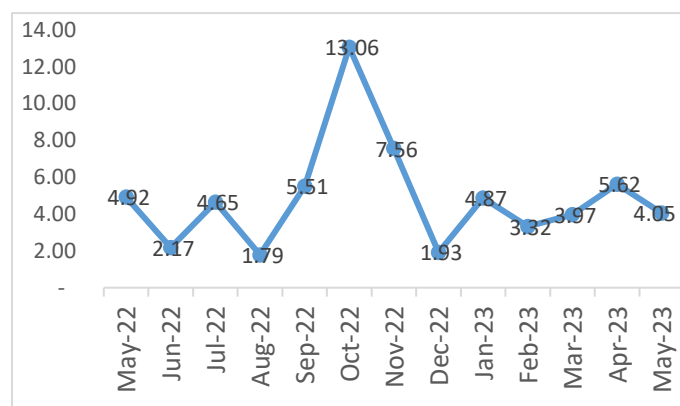
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4.98 percent, averaging NLe23.20 per US dollar, and 4.54 percent, averaging NLe22.61 per US dollar, respectively. The Leone also depreciated in the bureau market by 5.27 percent, averaging NLe22.57 per US dollar. Considering the BSL published buying rate, the Leone depreciated by 3.82 percent, averaging NLe22.47 per U.S dollar.

Similarly, on the selling side, the Leone depreciated in the parallel market by 4.92 percent, averaging NLe23.55 per US dollar and in the bureau market and commercial banks by 4.73 percent and 3.65 percent, averaging NLe22.66 per US dollar, and NLe22.85 per US dollar, respectively. Looking at the BSL published selling rate, the Leone depreciated by 4.27 percent, averaging NLe22.79 per U.S dollar. Figure 7 shows the trend of the depreciation rate of the Leone, using the BSL mid-rate¹.

Figure 7: Trend in Official Exchange Rates (%)



Source: Bank of Sierra Leone

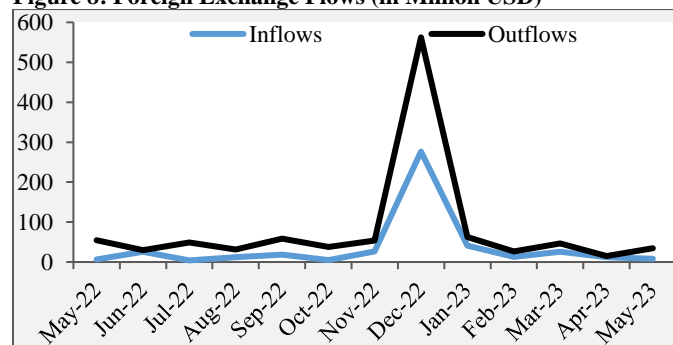
The premium between the official and parallel rates widened to 3.29 percent (NLe0.75 per US dollar) in May 2023, which marked an increase from the previous month when the premium was at 2.40 percent (NLe0.52 per US dollar).

(ii) Gross Foreign Exchange Reserves

In May 2023, the gross foreign exchange reserves of the Bank of Sierra Leone decreased to US\$542.30 million, representing a 5.68 percent decline from the US\$574.92million recorded in April 2023. During the period, there was a net outflow of US\$26.26 million,

compared to a net outflow of US\$2.56 million in April 2023, while the rest of the change in reserve was attributable to revaluation adjustments. Figure 8 shows foreign exchange flows for May 2023 and the 12 months preceding it.

Figure 8: Foreign Exchange Flows (in Million USD)



Source: Bank of Sierra Leone

5. Conclusion

Production across the various sectors showed mixed performance in May 2023. The production of cocoa experienced a decline, but data on the production of other important agricultural products was unavailable. In the mining sector, gold (pure), bauxite, ilmenite, zircon and other minerals recorded increased output, while diamonds (both industrial and gem), rutile and iron ore production declined. The components of the manufacturing sector grew, except for beer and stout, oxygen and common soap production.

Year-on-year headline inflation increased in May 2023 due to supply-chain disruptions, reflected in higher food and non-food inflation.

Government budgetary operations (on a cash flow basis) resulted in a deficit in May 2023, driven by increased expenditure, particularly on wages and salaries, and decreased domestic revenue from non-tax sources.

Broad money (M2) increased in May 2023 while reserve money contracted. The monetary policy rate (MPR), standing lending facility (SLF) rate and standing deposit facility (SDF) rate remained unchanged in May 2023, at the same rates in April 2023. Though the interbank rate increased it remained

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

within the policy corridor. Commercial banks' average lending rate and average savings rates remained flat, and the spread between them remained unchanged. The yield on the 91-day and 182-day T-Bills increased in May 2023, while the yield on 364-day T-Bills declined.

On both the buying and selling fronts, the Leone depreciated against the US dollar in all foreign exchange markets. Gross foreign exchange reserves recorded a decrease in May 2023 from its level in April 2023.