



RECENT MACROECONOMIC DEVELOPMENTS IN SIERRA LEONE (RMD)

About the RMD

The Recent Macroeconomic Developments (RMD) in Sierra Leone is prepared by the Research and Statistics Department, Bank of Sierra Leone. It provides a snapshot of recent monetary and external sector developments in Sierra Leone, leveraging on available validated data. Price stability is the core objective of monetary policy at the Bank, though financial stability is part of the mandate of the Bank and is addressed by the Bank's macro prudential and supervision frameworks. As price stability provides a conducive environment for economic growth, the RMD also presents recent developments in inflation and economic growth in Sierra Leone. Given the importance of fiscal-monetary linkage, fiscal development on a cash-flow basis is also analyzed. All analyses are based on the most recent available data on each sector.

I. INFLATION AND GROWTH

(i) Inflation

Inflationary pressures remained high with the year-on-year headline inflation rate increasing to 54.48% in September 2023, up from 50.94% in August 2023. This uptick in inflation was attributed to increases in inflation from both food and non-alcoholic beverages, which account for 40.33 % of the basket; and non-food, which accounts for 59.67 %. Inflation from food and non-alcoholic beverages increased to 64.67% from 62.75% in August 2023. Non-food inflation increased to 46.63 percent in September 2023 from 41.90 percent in August 2023. Based on the weights and magnitudes of the increases in September 2023, non-food inflation contributed more to the upward movement of inflation than food inflation. The following components, which account for 31.9 % of the basket, were the major upward movers of non-food inflation: (i) Alcoholic beverages, tobacco, and narcotics (ii) Transport (iii) Housing, water, electricity, gas, and other fuels (iv) Recreation and culture (v) Restaurants and hotels and (vi) Communication. The economic spillover effects of the Russia-Ukraine war, including increases in energy prices, and the depreciation of the Leone, while there was relative stability in June and July, were key factors behind the persistent inflationary pressure.

(ii) Real GDP Growth

The economy is projected to grow by 2.7 % in 2023, down from 3.6 % in 2022 and 4.1 % in 2021. The projected lower growth is due to the anticipated impact of the multiple supply-side shocks, uncertainties in mining output, and the spillover effects of the Russia-Ukraine war. However, in the medium term (2023 to 2025) the economy is expected to grow by an annual average of 4.2 %. This growth will be driven by anticipated improvements in agriculture, mining, tourism, and the general business and regulatory environment, facilitated by various structural reforms expected to contribute to economic expansion.

II. FISCAL SECTOR

Fiscal operations on a cash flow basis resulted in a deficit of NLe275.62 million in July 2023, compared to a surplus of NLe82.45 million in June 2023. The deficit resulted from a decrease in total revenue, which surpassed total expenditure. Total revenue decreased by 16.23 % to NLe1,318.01 million in July

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2023, which was 15.80 % lower than the budgeted target of NLe1,565.26 million. The decrease in total revenue was due to decreases in both income tax and miscellaneous categories. Total Government expenditure however increased by 6.89 % to NLe1,593.63 million in July 2023, which surpassed the budgeted ceiling of NLe769.07 million by 107.22 percent. The increase in government expenditure was mainly due to increases in other expenditure and debt service payments.

III. MONETARY SECTOR

In July 2023, reserve money declined by 1.18 %, **down** from the growth of 5.03 % in June 2023, which was due to a decrease in net foreign assets (NFA) of BSL whilst net domestic assets (NDA) of BSL increased. On the liability side, the contraction in reserve money was as a result of decreases in both currency in circulation, by 3.39% and other deposits of other residents by 5.28% while bank reserves increased by 15.31%. On a year-on-year basis, reserve money expanded by 51.64% in July 2023, **up** from 9.48% in July 2022, which was due to an increase in the NDA of the BSL whilst the NFA of the BSL contracted.

Broad money (M2) expanded by 3.65% in July 2023, compared to 1.62 % in June 2023. This was driven by an increase in NDA, which outweighed the decrease in NFA of the banking system. On a year-on-year basis, broad money increased by 48.19% in July 2023 compared to 23.20% in July 2022, which was due to increases in both the NDA and NFA of the banking system. Net domestic assets of the banking system expanded by 4.62% in July 2023 from 1.86% in June 2023, due to an increase in net claims on Government by both BSL and Other Depository Corporations (ODC) by 8.96%. Net Foreign Assets of the banking system contracted by 0.31% in July 2023, from a contraction of 13.62 % in June 2023, which was due to the decrease in the NFA of the BSL while NFA of Other Depository Corporations increased.

Credit to the private sector by commercial banks declined by 0.65% in July 2023 from a decrease of 0.28% in June 2023. On a year-on-year basis, credit to the private sector increased by 9.98 % in July 2023, from 14.83% in June 2023 and 25.09% in July 2022.

(i) Interest rates

At the second quarter Monetary Policy Committee (MPC) meeting, following a comprehensive assessment of macroeconomic developments at domestic and international levels, and in light of the Bank's projected inflation outlook for the upcoming quarters of the year, the MPC opted to implement a 0.50 percentage point increase in both the monetary policy rate (MPR) and the Standing Lending Facility (SLF) rate. Consequently, the MPR was increased to 19.25% in July 2023, from 18.75% in June 2023 and the SLF rate was also raised to 22.25% from 21.75% in June 2023 while the Standing Deposit Facility (SDF) rate was maintained at the June rate of 12.75%.

In July 2023, the interbank rate saw a marginal uptick to 21.31% from 20.99% in June 2023, although it remained within the policy corridor. The average lending rate of commercial banks rose to 20.45% in July 2023, up from 20.32% in the preceding month. In contrast, the savings rate held steady at 2.23% during the same period. Consequently, this shift resulted in a widening spread between lending and savings rates, which increased from 18.09% in June 2023 to 18.22% in July 2023.

The 91-day Treasury bills were not traded in July 2023 as was the case in June 2023. Also, the 182-day Treasury bills were not traded in July 2023, while they were traded in June 2023 at an average yield of



13.21%. The 364-day Treasury bills displayed relatively stable yields, with rates ranging from 28.24% to 28.28% in the first half of 2023 and in July 2023, the 364 Treasury bills were traded at 28.40% relative to 28.28% in June 2023.

IV. EXTERNAL SECTOR

(i) Trade

Provisional estimates indicate that during the third quarter of 2023, the trade deficit widened to US\$198.05 million compared to US\$160.73 million in the second quarter of 2023, driven by a combination of decreased export earnings and increased imports.

(ii) Exchange Rate Development

During August 2023, the monthly average exchange rate of the Leone against the US dollar depreciated on both the buying and selling sides in all foreign exchange markets. Regarding the buying side, the Leone depreciated by 3.41 % in the parallel market, averaging NLe23.20 per US dollar. In the commercial bank segment, it saw a depreciation of 6.46 %, with an average rate of NLe21.27. The BSL published buying rate also depreciated by 6.10 %, averaging NLe21.39 per US dollar. A depreciation was also observed in the bureau market, with the Leone depreciating by 6.35 %, averaging NLe21.33 per US dollar. On the selling side, the Leone depreciated by 4.41 % in the parallel market, with an average rate of NLe23.59 per US dollar. In the bureau market, the depreciation was 6.44 %, averaging NLe21.52 per US dollar. The BSL official selling rate and the commercial bank selling rate also experienced depreciation of 6.10 % and 5.85 %, respectively, with average rates of NLe21.60 and NLe21.80 per US dollar respectively. The premium between the official and parallel rates however narrowed to 8.83 % (NLe1.90 per US dollar) in August 2023. On an annual basis, the Leone depreciated by 35.1% in August 2023, from 32.2% in July 2023 and 25.6% in August 2022.

(iii) Gross Foreign Exchange Reserves

The gross international reserves of the Bank of Sierra Leone amounted to US\$472.26 million in August 2023, reflecting a decrease of 1.64 % from the level of US\$ 480.11 million recorded in July 2023 and a decline of 8.00% in July 2023. This decline can be attributed to moderated net outflows experienced during the month. Specifically, net outflows in August 2023 amounted to US\$3.88 million, compared to the net outflows of US\$46.92 million recorded in July 2023. The rest of the changes in reserves were primarily driven by revaluation adjustments.