



BANK OF SIERRA LEONE

Monthly Economic Review

June 2023

MER/06/2023

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 June 2023.

Executive Summary

Production across the various sectors showed mixed performance in June 2023. Cocoa production increased, but there was no coffee production. In the mining sector, key mineral outputs, such as gold (pure), bauxite, rutile, ilmenite, zircon, iron ore and other minerals, declined, while diamond production (both industrial and gem) increased. The manufacturing sector witnessed a decrease in output of all components, except for beer and stout production. Year-on-Year headline inflation increased to 44.81 percent in June 2023 from 44.43 percent in May 2023, with food and non-alcoholic beverages inflation rising to 57.99 percent in June 2023 from 55.81 percent in May 2023. Non-food and alcoholic beverages inflation however declined to 35.02 percent in June 2023 from 35.89 percent in May 2023.

The government's fiscal operations (on a cash-flow basis) resulted in a surplus of NLe82.45mn in June 2023, a significant improvement from a deficit of NLe358.12mn in May 2023. This surplus was driven by increased total revenue, especially domestic revenue from non-tax sources.

Broad money (M2) decreased by 1.62 percent in June 2023, while reserve money grew by 5.03 percent in June 2023. The decline in M2 was driven by decreases in both the Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system. Reserve money increased due to the increase in NFA of the BSL while the NDA of the BSL contracted significantly. The monetary policy rate (MPR), standing lending facility (SLF) and standing deposit facility (SDF) remained unchanged at their May rates in June 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 increased to 20.99 percent in June 2023 from 20.89 percent in May 2023 but remained within the policy corridor. The commercial bank average lending rate decreased while the average savings rate increased at 20.32 percent and 2.23 percent, respectively. The yields on the 182-day and 364-day T-Bills increased to 13.21 percent and 28.28 percent in June 2023 from 10.49 percent and 28.24 percent, respectively. There was no transaction for the 91-day T-Bills in June 2023.

Gross foreign exchange reserves of the Bank of Sierra Leone was US\$554.55 million at the end of June 2023, representing an increase of 2.26 percent from US\$542.30 million at the end of May 2023, with a net inflow of US\$10.69 million, compared to a net outflow of US\$26.26 million in May 2023. The Leone appreciated against the US dollar in June 2023 on both the buying and selling sides across all foreign exchange markets. As regards the buying side, the Leone appreciated by 8.31 percent in the bureau market, 7.25 percent in the commercial banks, 7.06 percent in the official market and 4.58 percent in the parallel market, with rates averaging NLe20.69 per US Dollar, NLe20.97 per US Dollar, NLe20.88 per US Dollar and NLe22.14 per US Dollar, respectively. On the selling side, similar appreciation occurred with the Leone appreciating in the bureau market, commercial banks, official market and parallel market by 11.69 percent, 7.61 percent, 7.47 percent, and 3.06 percent, averaging NLe20.01 per US Dollar, NLe21.12 per US Dollar, NLe21.09 per US Dollar and NLe22.82 per US Dollar, respectively. The premium between the official and parallel rates widened to 7.14 percent (NLe1.50 per US Dollar) in June 2023 from 3.29 percent (NLe0.75 per US Dollar) in May 2023.

1. Real Sector Development

(i) Production

In June, the Agricultural sector saw a significant improvement as cocoa production surged by 242.03 percent. However, there was no data on coffee production during the period. Conversely, the performance of the mining sector declined. Output of key minerals, including gold (pure), bauxite, rutile, ilmenite, zircon, iron ore and other minerals decreased. However, there was an increase in the production of diamonds (both industrial and gem). The performance of the manufacturing sector deteriorated as the output of all manufacturing sector components decreased, with the exception of beer and stout production.

(ii) Price Development

Year-on-year headline inflation increased to 44.81 percent in June 2023 from 44.43 percent in May 2023, with food inflation increasing to 57.99 percent from 55.81 percent in May 2023 while non-food inflation decreased to 35.02 percent from 35.89 percent in May 2023. The rise in headline inflation was primarily attributed to global food supply chain disruptions resulting from the Russia-Ukraine war and the impact of climate change. Table 1 presents the year-on-year headline inflation rate and key contributing components, highlighting hotels, communication, alcoholic beverages, and tobacco as the major contributors to the increase in headline inflation.

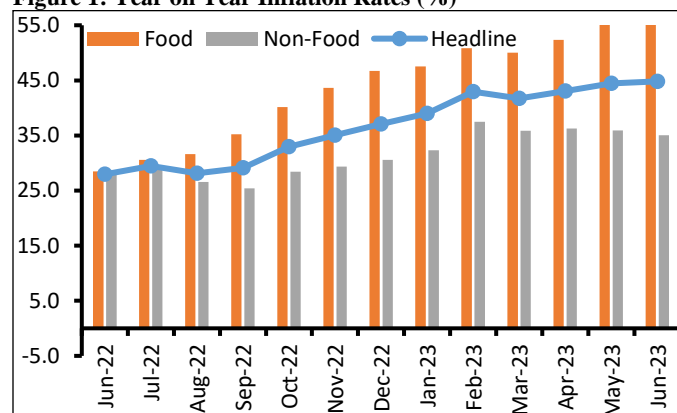
Table 1: Y-o-Y Inflation Rate by Component (%)

	Weight (%)	May-23	Jun-23	Change	Direction
Food	40.33	55.81	57.99	2.18	Up
Non-Food	59.67	35.89	35.02	-0.87	Down
Alcohol Beverages & Tobacco	1.02	36.53	37.63	1.1	Up
Clothing	7.67	33.92	37.82	3.9	Up
Housing	8.86	26.78	30.44	3.66	Up
Furnishings	5.6	53.69	53.29	-0.4	Down
Health	7.57	35	38.19	3.19	Up
Transport	8.59	22.73	9.56	-13.17	Down
Communication	4.69	34.83	34.6	-0.23	Down
Recreation	2.56	50.6	46.22	-4.38	Down
Education	3.14	-9.82	-6.85	2.97	Up
Hotels	6.08	64.02	60.93	-3.09	Down
Miscellaneous	3.89	42.78	47.63	4.85	Up
All items	100	44.43	44.81	0.38	Up

Source: Statistics Sierra Leone

Monthly headline inflation decreased to 3.41 percent in June 2023, from 3.42 percent in May 2023. Figure 1 shows the inflation rates for June 2023 and the 12 months preceding it.

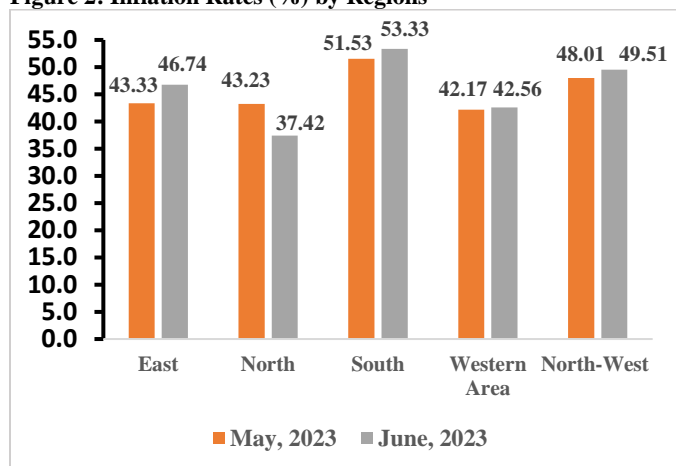
Figure 1: Year on Year Inflation Rates (%)



Source: Statistics Sierra Leone

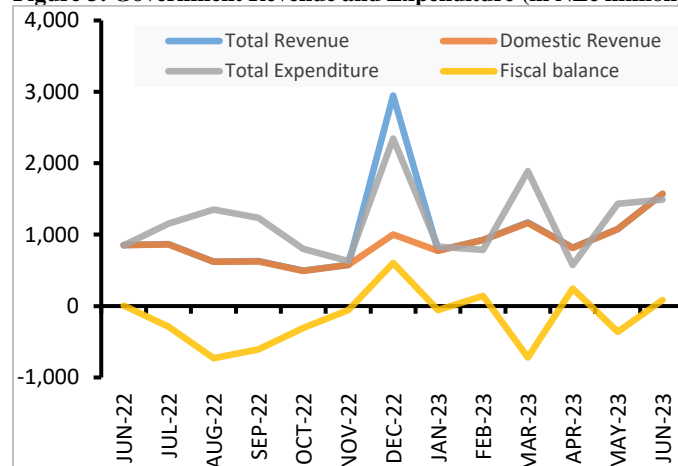
On a regional basis, annual inflation rate decreased in the Northern region and increased in the other three regions. The Southern region experienced the highest inflation rate, increasing to 53.33 percent in June 2023, followed by the North-West region with an inflation rate of 49.51 percent. The Eastern region recorded an inflation rate of 46.74 percent, and the Western-Area regions had an inflation rate of 42.56 percent, while the Northern inflation rate was 37.42 percent. Figure 2 shows inflation rates by region.

Figure 2: Inflation Rates (%) by Regions



Source: Statistics Sierra Leone

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



Source: Bank of Sierra Leone

2. Fiscal Sector Development

Government fiscal operations (on cash-flow basis) resulted in a surplus of NLe82.45mn in June 2023, which was a significant improvement from the previous month's deficit of NLe358.12mn. The surplus was attributed to increased domestic revenue and grants. Total revenue for June 2023 expanded by 46.17 percent to NLe1573.36, exceeding the budgeted target by 5.06 percent. The increase was primarily driven by robust domestic revenue mobilization from income tax and non-tax revenue sources. However, there was a decline in customs and excise revenue as well as goods and services tax during the review period. Figure 3 shows the fiscal profile for June 2023 and the 12 months preceding it.

Government expenditure increased by 3.93 percent in June 2023, compared to May 2023. The actual expenditure of NLe1490.91mn exceeded both the previous month's expenditure and the budgeted ceiling of NLe805.72mn. The expansion in expenditure was due to an increase in wages & salaries, which surged by 85.52 percent to NLe523.02mn. However, other expenditures on goods and services decreased by 11.46 percent to NLe826.92mn and domestic debt servicing costs decreased by 35.53 percent to NLe140.97mn, primarily related to domestic debt interest payments.

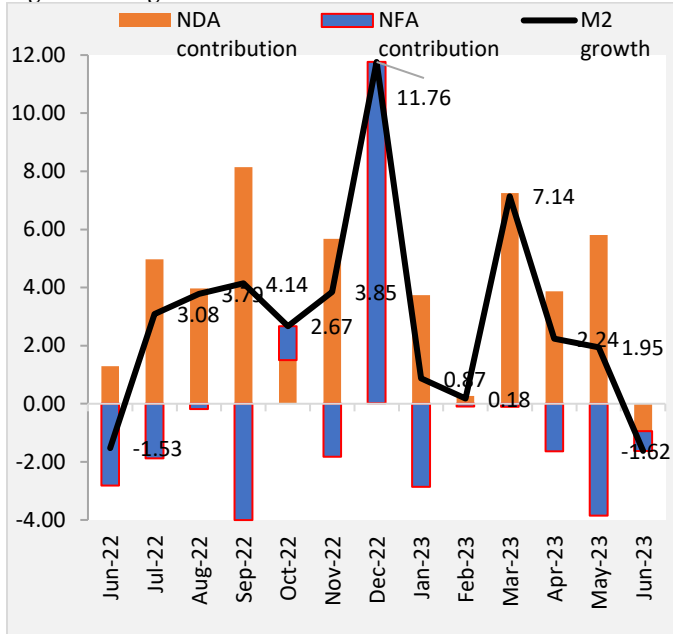
3. Monetary Sector Development

(i) Monetary Aggregates

In June 2023, broad money (M2) contracted by 1.62 percent, reflecting decreases in both Net Domestic Assets (NDA) and Net Foreign Assets (NFA) of the banking system. NDA and NFA declined by 0.94 percent and 0.68 percent, respectively. The contraction in NDA was driven by the decline in both the NDA of the Bank of Sierra Leone (BSL) and Other Depository Corporations (ODCs). NFA of the banking system decreased due to a decline in NFA of ODCs, offsetting the increase in NFA of the BSL. Credit to the private sector extended by commercial banks decreased by 0.28 percent in June 2023, compared to 0.52 percent in May 2023. Figure 4

shows the contributions of NDA and NFA to M2 growth. It shows that NDA contributed more to the contraction than NFA did.

Figure 4: M2 growth and contributions of NFA and NDA

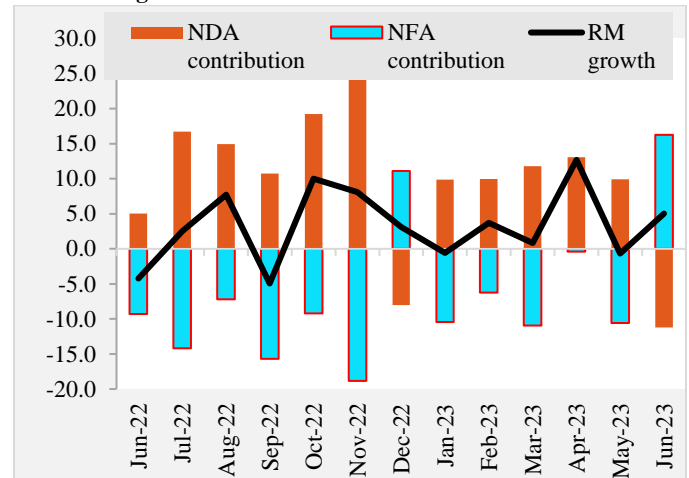


Source: Bank of Sierra Leone

Narrow Money (M1) increased by 1.81 percent in June 2023, primarily driven by the growth of currency outside banks, which surged by 7.04 percent, while demand deposits declined by 4.97 percent. Quasi-money contracted by 4.46 percent, reflecting a significant decline in foreign currency deposits, which dropped by 9.97 percent. Time and savings deposits registered an increase, coming from the ODCs while other deposits of BSL remained unchanged during the period.

Reserve money increased by 5.03 percent in June 2023, primarily due to an increase in NFA of the BSL, while NDA of the BSL contracted significantly. On the liability side, the growth in reserve money was driven by the increases in both currency issued and bank reserves. Figure 5 shows the contributions of NDA and NFA to reserve money growth, which shows that NFA contributed to the growth while NFA detracted from the growth.

Figure 5: Reserve money growth and contributions of NFA and NDA to the growth



Source: Bank of Sierra Leone

(ii) Interest Rates

In June 2023, the Bank of Sierra Leone maintained its monetary policy rate (MPR), standing lending facility (SLF), and standing deposit facility rates (SDF) at their existing levels at MPR (18.75 percent); the SLF rate at 21.75 percent, and the SDF rate at 12.75 percent. The interbank rate increased to 20.99 percent in June 2023 from 20.89 percent in May 2023, remaining within the policy corridor.

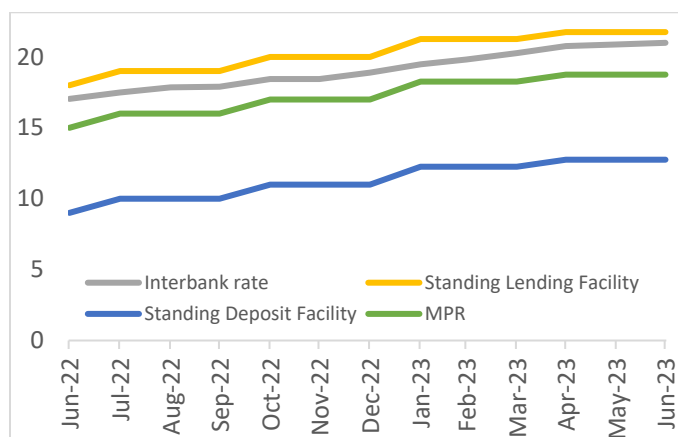
The commercial bank average lending rate decreased to 20.32 percent in June 2023 from 20.45 percent in May 2023. In contrast, the savings rate increased in June 2023 to 2.23 percent from 2.17 percent in May 2023. As a result, the spread between the average lending and savings rates contracted to 18.09 percent in June 2023 from 18.28 percent in May 2023. Figure 6 shows various interest rates for June 2023 and the 12 months preceding it.

BANK OF SIERRA LEONE MONTHLY ECONOMIC REVIEW

JUNE 2023

MER/06/2023

Figure 6: Central Bank Interest Rates and the Interbank Rate



Source: Bank of Sierra Leone

Yields on 182-day and 364-day T-bills increased to 13.21 percent and 28.28 percent from 10.49 percent and 28.24 percent, respectively, while no trading activity was reported for the 91-day T-bills.

4. External Sector Development

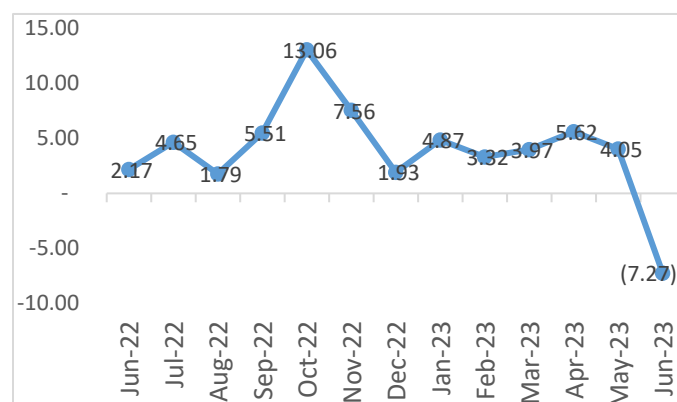
(i) Exchange Rate Development

In June 2023, the Leone's exchange rate against the US dollar showed significant appreciation on both the buying and selling sides in various foreign exchange markets. With regard to the buying side, the Leone appreciated in the bureau market by 8.31 percent and across commercial banks by 7.25 percent, with rates averaging NLe20.69 per US dollar and NLe20.97 per US dollar, respectively. The Leone also appreciated in the parallel market by 4.58 percent, averaging NLe22.14 per US dollar. Considering the BSL's published buying rate, the Leone appreciated by 7.06 percent, averaging NLe20.88 per U.S dollar.

Similarly, on the selling side, the Leone appreciated in the bureau market by 11.69 percent, averaging NLe20.01 per US dollar and across commercial banks and parallel

market by 7.61 percent and 3.06 percent respectively, averaging NLe21.12 per US dollar and NLe22.82 per US dollar, respectively. The BSL selling rate showed that the Leone appreciated by 7.47 percent, averaging NLe21.09 per U.S dollar. Figure 7 shows the trend of the appreciation 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 7.14 percent (NLe1.50 per US dollar) in June 2023 from 3.29 percent (NLe0.75 per US dollar) in May 2023.

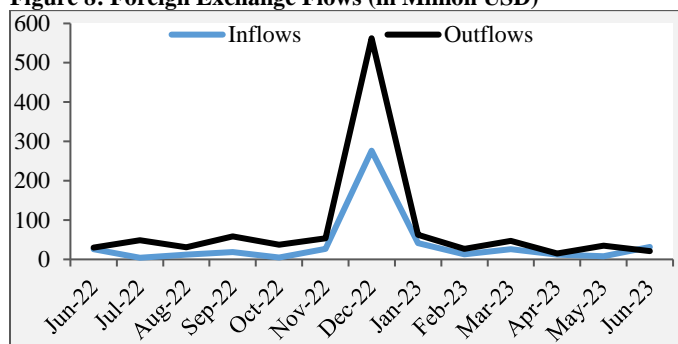
(ii) Gross Foreign Exchange Reserves

In June 2023, the gross foreign exchange reserves of the Bank of Sierra Leone increased by 2.26 percent to reach US\$554.55 million, up from US\$542.30million in May 2023. This increase was primarily driven by a net inflow of US\$10.69 million, in contrast to a net outflow of US\$26.26 million observed in May 2023, while a portion of the change in reserves was attributed to revaluation adjustments. Figure 8 shows foreign exchange flows for June 2023 and the 12 months preceding it.

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

appreciated against the US dollar in all foreign exchange markets, both in buying and selling activities. Gross foreign exchange reserves recorded an increase in June 2023 compared to May 2023.

Figure 8: Foreign Exchange Flows (in Million USD)



Source: Bank of Sierra Leone

5. Conclusion

In June 2023, the production performance of various economic sectors exhibited mixed patterns. Notably, the production of cocoa experienced a significant increase while data on coffee production was unavailable. In contrast, the mining sector experienced a decline in output for all components except diamonds (both industrial and gem). Similarly, the manufacturing sector reported decreased output across all components, except for beer and stout.

Year-on-Year headline inflation showed an elevated in June 2023, primarily attributed to persistent supply-chain disruptions, which was reflected in higher food inflation.

Government budgetary operations, on a cash flow basis, resulted in a surplus in June 2023, a turnaround from the deficit recorded in the previous month. The surplus was driven by increased government revenue, particularly from non-tax sources and grants.

The monetary policy rate (MPR), standing lending facility (SLF) and standing deposit facility (SDF) remained unchanged in June 2023 at their May 2023 levels. The interbank rate remained within the policy corridor. While the commercial banks' average lending rate declined, average savings rates increased, leading to a narrowing of the spread between the two rates. The yields on the 182-day and 364-day T-Bills increased in June 2023, while there was no trading activity for the 91-day T-Bills.

Broad money (M2) contracted in June 2023, while reserve money experienced growth. The Leone