



Monthly Economic Review

August 2023

MER/08/2023

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 August, 2023.

Executive Summary

Agricultural sector performance in August 2023 was mainly in cocoa production which significantly decreased. Mining sector performance however contracted as key minerals such as diamond, bauxite, zircon, and other minerals productions recorded a decrease. Productions of iron ore increased. Manufacturing sector performance declined significantly as key output such as cement, paint, oxygen confectionaries, beer and stout all decreased. However, maltina marginally increased during the period. Year-on-Year headline inflation increased to 50.94% in August 2023 from 44.98% in July, 2023.

The government's fiscal operations (on cash flow basis) resulted in a deficit of NLe322.49mn in August 2023, compared to the previous month's deficit of NLe275.62mn. This was driven by the increase in pensions, wages and salaries and other expenditures that outstripped the miscellaneous items embedded in the domestic revenue generation. Government expenditure increased by 4.88%, resulting in a deficit of NLe322.49mn. The actual expenditure of NLe1,671.46mn remain higher than the budgeted ceiling of NLe769.07mn.

Broad Money (M2) grew by 1.34% while Reserve Money (RM) decreased by 2.40%. The growth in M2 was driven mainly by increase in Net Domestic Assets (NDA) of the banking system. Credit to the private sector by commercial banks increase by 2.64%. Narrow Money (M1) decreased by 0.94%, which was driven by a decreased in currency outside depository corporation by 1.84% while demand deposits marginally decreased by 0.04%. Quasi money increased by 3.30%, reflecting the growth in all components.

The gross international reserves of the Bank of Sierra Leone amounted to US\$472.26million in August 2023, from US\$ 554.55million in July 2023. Net outflows in July 2023 amounted to US\$46.92million.

The monthly average exchange rates of both the buying and selling sides of the Leone against the US dollar depreciated in all foreign exchange markets segments. With reference to the buying side, the Leone depreciated in the official market, bureau market and parallel market by 6.10%, 6.35% and 3.41% averaging NLe21.39/US\$1, NLe21.33/US\$1 and NLe23.20/US\$1 respectively.

Similarly, on the selling side the Leone depreciated in the official market, bureau market and parallel market by 6.10%, 6.44% and 4.41% averaging NLe21.60/US\$1, NLe21.52/US\$1 and NLe23.59/US\$1 respectively.

Real Sector Development

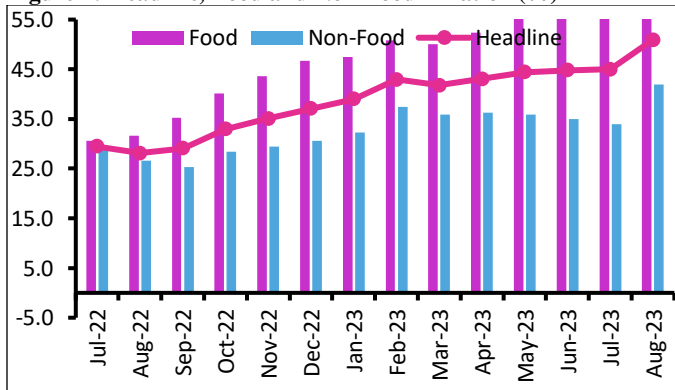
(i) Production

Agricultural sector performance in August 2023 was mainly in cocoa production which significantly decreased. Mining sector performance however contracted since key minerals such as diamond, bauxite, zircon, and other minerals productions recorded a decrease, as well as rutile, and ilmenite productions while iron ore increased. Manufacturing sector performance declined significantly as output of cement, paint, oxygen confectionaries, beer and stout all decreased. However, maltina marginally increased during the period.

Price Development

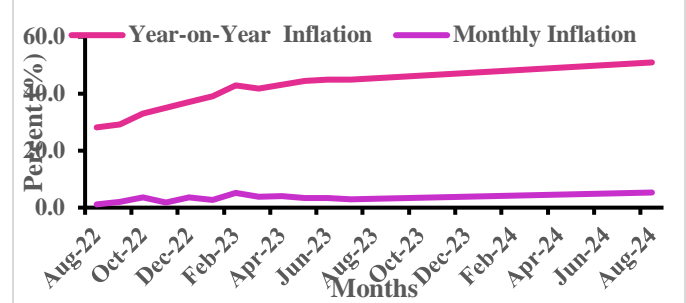
Annual headline inflation increased to 50.94% in August 2023 from 44.98% in July, 2023 with food inflation rising to 62.75% and non-food inflation also increasing to 41.90%. The persistent inflationary pressure was influenced mainly by factors related to the economic repercussions of the Russia-Ukraine war, especially increase in energy price and depreciation of the Leone. Table 1 shows that transportation, health, hotels, food and clothing, are the major contributors to headline inflation. Furthermore, monthly headline inflation continued to increase, reaching 5.31% in August 2023 from 2.86% in July, 2023. Figures 1 and 2 show the inflation rates for August 2023 and the 12 months preceding August 2023.

Figure 1: Headline, Food and Non-Food Inflation (%)



Source: Statistics Sierra Leone

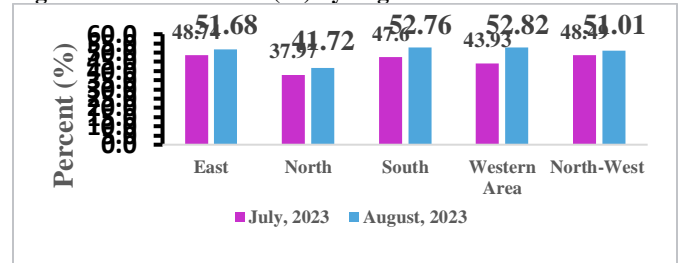
Figure 2: Year-on-year Inflation and Monthly Inflation Rates (%)



Source: Statistics Sierra Leone

On regional basis, annual inflation increased in all regions including the Western area in August 2023 compared to July 2023. The Western area, Southern, Eastern and North-West regions all have their inflations above 50%. The Western area region had the highest inflation rate of 52.82%, followed by the Southern region at 52.76%. The Eastern region and North-West region had inflation at 51.68% and 51.01% respectively while the Northern region had inflation rate at 41.72%. Figure 3 shows inflation rates by regions.

Figure 3: Inflation Rates (%) by Regions



Source: Statistics Sierra Leone

Table 1: Monthly Inflation by Component (%)

Column1	Weight (%)	Jul-23	Aug-23	Change	Direction
Food	40.30	59.93	62.75	2.82	Up
Non-Food	59.67	33.91	41.90	7.99	Up
Alcohol Beverages & Tobacco	1.00	37.09	36.02	(-1.07)	Down
Clothing	7.70	38.46	41.50	3.04	Up
Housing	8.90	26.50	28.97	2.47	Up
Furnishings	5.60	47.91	43.79	(-4.12)	Down
Health	7.60	43.10	46.44	3.34	Up
Transport	8.60	4.59	42.22	37.63	Up
Communication	4.70	38.46	42.39	3.93	Up
Recreation	2.60	47.48	50.28	2.8	Up
Education	3.14	-6.85	-6.85	0.00	Constant
Hotels	6.10	59.15	62.54	3.39	Up
Miscellaneous	3.90	49.41	49.74	0.33	Up

All Items 100.00 44.98 50.94 5.96 Up

Source: Statistics Sierra Leone

Fiscal Sector Development

The government's fiscal operations (on cash flow basis) resulted in a deficit of NLe322.49mn in August 2023, compared to the previous month's deficit of NLe275.62mn. This was driven by the increase in pensions, wages and salaries and other expenditures that outstripped the miscellaneous items embedded in the domestic revenue generation. Total revenue for August 2023 increased by 2.35% to NLe1,348.97mn, lower than the budgeted target by 13.82% mainly due to loss in foreign grants. However, income tax, excise, customs and goods and services tax increased during the review period. Figure 3 shows the fiscal profile for August 2023 and the 12 months preceding August 2023.

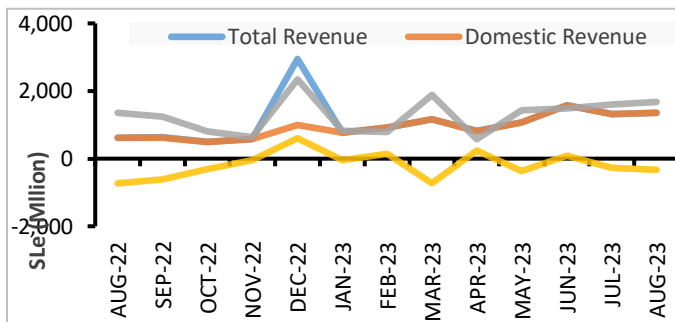


Figure 3: Government Revenue and Expenditure (in NLe million)

Source: Bank of Sierra Leone

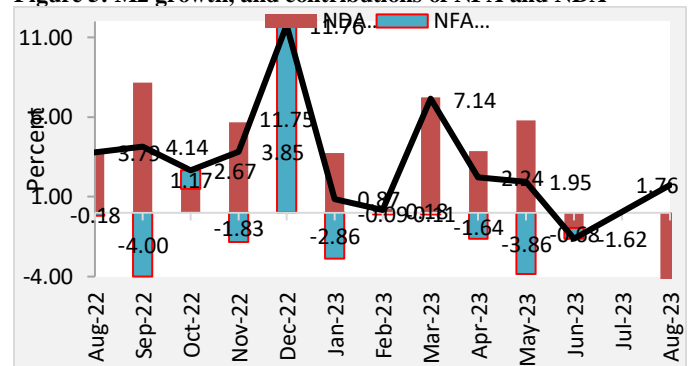
Government expenditure increased by 4.88%, resulting in a deficit of NLe322.49mn. The actual expenditure of NLe1,671.46mn remain higher than the budgeted ceiling of NLe769.07mn by 117.34%. The increase in expenditure was mainly due to increases in pensions, wages & salaries and other expenditure. The expenditure on debt service decreased by 104.38% to NLe12.53mn, resulting from a decrease in domestic debt interest payment by 104.38% from the target amount of NLe239.77mn.

Monetary Sector Development

(i) Monetary Aggregates

In August 2023, there were mixed movement in key monetary aggregates as Broad Money (M2) grew by 1.34% while Reserve Money (RM) decreased by 2.40%. The growth in M2 was driven mainly by increase in Net Domestic Assets (NDA) of the banking system. The NDA grew by 2.44% due to the expansion in domestic credit by 2.21%. Credit to the private sector by commercial banks increase by 2.64%. The NFA of the banking system decrease by 3.32%. However, the ODCs of the NFA increased marginally to 0.59%.

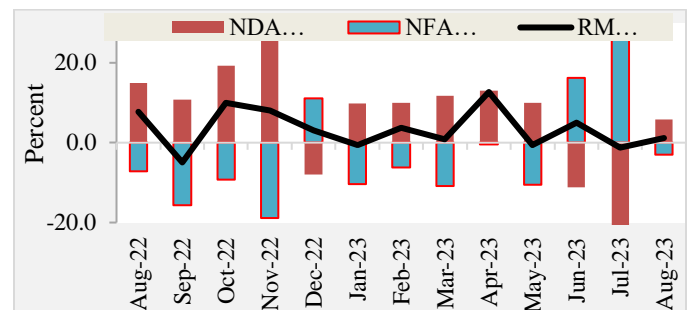
Figure 5: M2 growth, and contributions of NFA and NDA



Source: Bank of Sierra Leone

In addition, Narrow Money (M1) decreased by 0.94%, which was driven by a decreased in currency outside depository corporation by 1.84% while demand deposits marginally decreased by 0.04%. Quasi money increased by 3.30%, reflecting the growth in all components. The growth was reflected in foreign currency, time and savings deposits and other deposits. On the liability side, the contraction in reserve money was driven by the decrease in both currency issued and bank reserves.

Figure 6: Reserve money growth and contributions of NFA and NDA to the growth

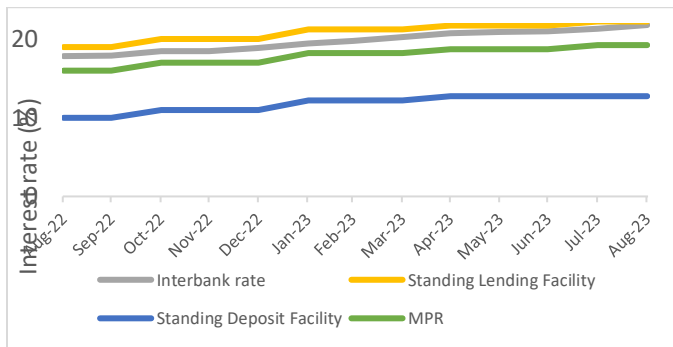


Source: Bank of Sierra Leone

(ii) Interest Rates

The Monetary Policy Rate, Standing Lending Facility, and Standing Deposit Facility rates all remained the same in August 2023. The interbank rate slightly increased but remained within the Policy Corridor Rate. The commercial bank prime lending (interest rate spread) however rose to 19.66% and 21.23% respectively while savings rate was unchanged at 2.23% in the same period.

Figure 7: Central Bank Interest Rates and the Interbank Rate



Source: Bank of Sierra Leone

In August 2023, there was markets for 91-day and 364-day T-bills. The yield on the 364-day T-bill increased marginally whilst there was no market for the 182-day tenor. The yield on 364-day T-bills increased to 29.03% in August 2023, from 28.40% in July 2023.

External Sector Development

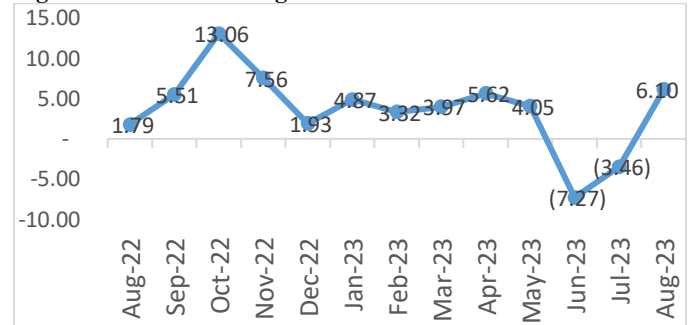
(i) Exchange Rate Developments

On both the buying and selling sides, monthly average exchange rates of the Leone against the US dollar depreciated in all foreign exchange markets segments. With reference to the buying side, the Leone depreciated in the official market, bureau market and parallel market by 6.10%, 6.35% and 3.41% averaging NLe21.39/US\$1, NLe21.33/US\$1 and NLe23.20/US\$1 respectively and across commercial banks by 6.46% averaging NLe21.27/US\$1.

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NLe21.52/US\$1 and NLe23.59/US\$1 respectively and across commercial banks by 5.85% averaging NLe21.80/US\$1. The premium between the Official and Parallel rates narrowed to 8.83% (NLe1.90/US\$1) in August 2023 from 11.13%, (NLe2.25/US\$1) in August 2023. Figure 8 shows the trend in the official exchange rate markets.

Figure 8: Official Exchange Rates

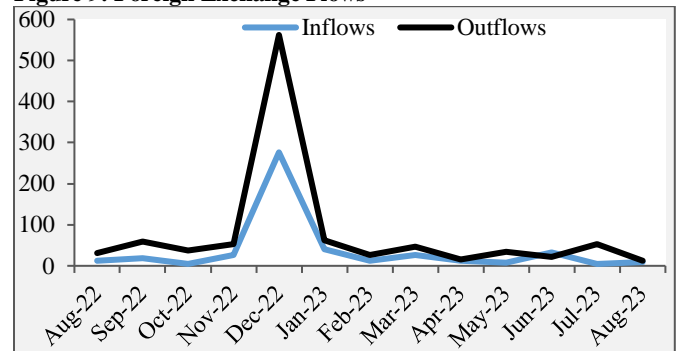


Source: Bank of Sierra Leone

(ii) Gross Foreign Exchange Reserves

The gross international reserves of the Bank of Sierra Leone amounted to US\$472.26million in August 2023, from of US\$ 480.11million in July 2023. Net outflows in August 2023 amounted to US\$3.88million, 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.

Figure 9: Foreign Exchange Flows



Source: Bank of Sierra Leone

5. Conclusion

Production performance of various sectors with available data was mixed in August 2023. The production of cocoa declined significantly. Mining sector performance however contracted as key minerals such as diamond, bauxite, zircon, and other minerals productions recorded a decrease. Productions of iron ore increased. Manufacturing sector performance declined significantly as key output including cement, paint, oxygen confectionaries, beer and stout all decreased. However, maltina marginally increased during the period. Year-on-Year Headline inflation increased to 50.94% in August 2023 from 44.98% in July, 2023 with food inflation rising to 62.75% and non-food inflation also increasing to 41.90%. The persistent inflationary pressure was influenced mainly by factors related to the economic repercussions of the Russia-Ukraine war, especially increase in energy price and depreciation of the Leone.

Total revenue for August 2023 increased by 2.35% to NLe1,348.97mn, lower than the budgeted target, mainly due to loss in foreign grants. Government expenditure increased by 4.88%, resulting in a deficit of NLe322.49mn. The actual expenditure of NLe1,671.46mn remain higher than the budgeted ceiling of NLe769.07mn. The increase in expenditure was mainly due to increases in pensions, wages & salaries and other expenditure.

Broad Money (M2) grew by 1.34% while Reserve Money (RM) decreased by 2.40%. The growth in M2 was driven mainly by increase in Net Domestic Assets (NDA) of the banking system. The NDA grew by 2.44% due to the expansion in domestic credit by 2.21%. Credit to the private sector by commercial banks increase by 2.64%. The NFA of the banking system decrease by 3.32%.

On both the buying and selling sides, monthly average exchange rates of the Leone against the US dollar depreciated in all foreign exchange markets segments.

With reference to the buying side, the Leone depreciated in the official market, bureau market and parallel market by 6.10%, 6.35% and 3.41% averaging NLe21.39/US\$1, NLe21.33/US\$1 and NLe23.20/US\$1 respectively.