



Monthly Economic Review

December 2023

MER/12/2023

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 December, 2023.

Executive Summary

In December 2023, the agricultural sector experienced an increase in cocoa production, while the mining sector witnessed a decline in diamonds, bauxite and other mineral, whereas gold, rutile, ilmenite, zircon and iron ore saw an increase in production. Similarly, the manufacturing sector exhibited varied performance. While output for products like beer and stout and paint increased, there was a decline in the production of maltina, cement, confectionery and oxygen. Meanwhile, 1.99 thousand metric tons of common soap was produced in December 2023.

Annual headline inflation slightly decreased to 52.16% compared to 54.20% in November 2023, with food inflation at 57.21% and non-food inflation at 48.32%. Regional variations were notable, with the Southern region recording the highest inflation rate at 57.64%.

Government fiscal operations retained a deficit of NLe89.88mn. Revenue surged by 17.76% to NLe2,273.15mn, exceeding the budgeted target by 73.63%, mainly due to enhanced domestic tax revenue mobilization. Meanwhile, total expenditure grew by 27.29% in December 2023, attributed to increases in other expenditures, debt service payments and wages and salaries.

Key monetary aggregates displayed mixed movements. Broad money (M2) expanded by 7.04%, driven by a 91.99% increase in Net Foreign Assets (NFA) of the banking system. Commercial banks' credit to the private sector rose by 0.03%, while Net Domestic Assets (NDA) of the banking system declined by 5.67%. Reserve money increased by 13.16% in December 2023. The Monetary Policy Rate (MPR), Standing Lending Facility (SLF), and Standing Deposit Facility (SDF) rates increased by one (1) percentage point to 22.25%, 25.25% and 15.75% respectively.

In the foreign exchange market, the Leone depreciated against the US dollar across all market segments except that of the parallel market which appreciated across both the buying and selling sides. Both buying and selling rates saw decreases in the official, commercial banks, and bureau markets. The premium between official and parallel rates moderated to 4.4% in December 2023 from 7.56% in November 2023. The Bank of Sierra Leone's gross international reserves increased to US\$468.35 million, with net inflows for December 2023 totaling US\$20.59 million.

Real Sector Development

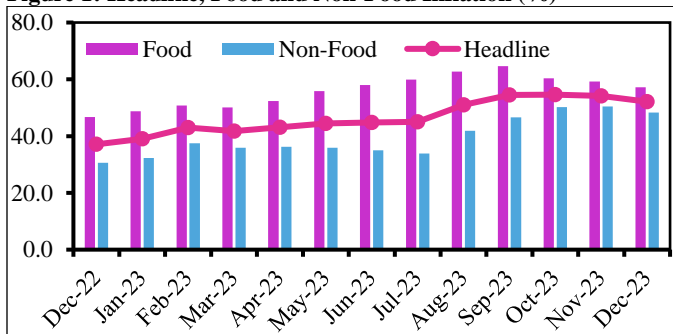
(i) Production

The performance of the agricultural sector in December 2023 was primarily centered on cocoa production, which experienced an increase in production. Within the mining sector, performance was mixed, with key minerals such as diamonds, bauxite and other minerals witnessing a decline in production, while gold, rutile, ilmenite, zircon and iron ore recorded an increase. In the manufacturing sector, there was a mixed performance as the output of beer and stout, and paint increased, while production of maltina, cement, confectionery and oxygen declined. Meanwhile, the production of common soap was 1.99 thousand metric tons in December 2023.

(ii) Price Development

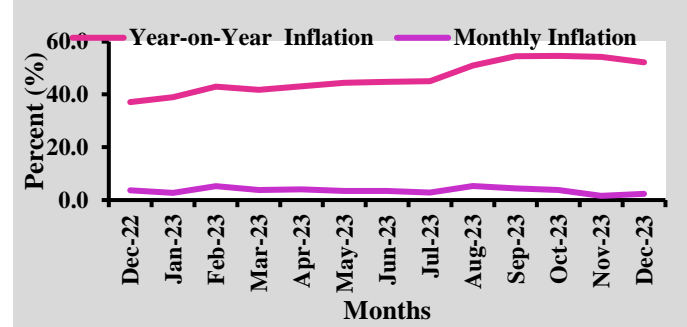
In December 2023, annual headline inflation decreased to 52.16% from 54.20% in November 2023, with food inflation declining to 57.21% and non-food inflation decreasing to 48.32%. The relative stability of the exchange rate, due to increased public confidence in the bank's ability to phase out the old currency and stabilize the inflation rate, was a key factor behind the marginal decline in inflation. Table 1 indicates that food and non-alcoholic beverages, health, clothing, transport, communication, recreation, hospitality and miscellaneous goods and services were major contributors to the moderation in headline inflation. Furthermore, monthly headline inflation increased to 2.30% in December 2023, up from 1.59% in November 2023. Figures 1 and 2 depict the inflation rates for December 2023 and the 12 months preceding December 2023.

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



Source: Statistics Sierra Leone

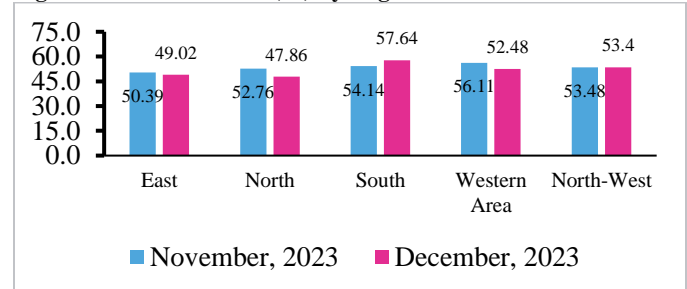
Figure 2: Year-on-year Inflation and Monthly Inflation Rates (%)



Source: Statistics Sierra Leone

In December 2023, annual inflation rose in the Southern region, while the North-West, Western, Northern and the Eastern regions experienced declines in annual inflation compared to November 2023. The Southern region had the highest rate at 57.64%, followed by the North-West at 53.4%. The Western, Eastern and Northern regions recorded rates of 52.48%, 49.02% and 47.86%, respectively, Figure 3 displays regional inflation rates.

Figure 3: Inflation Rates (%) by Regions



Source: Statistics Sierra Leone

Table 1: Monthly Inflation by Component (%)

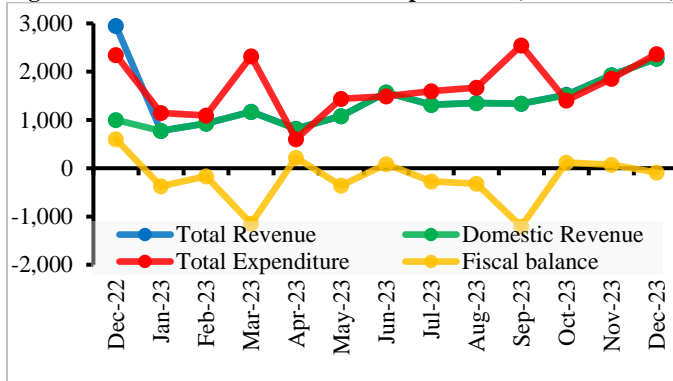
Column1	Weight (%)	Nov-23	Dec-23	Change	Direction
Food	40.33	59.18	57.21	-1.97	Down
Non-Food	59.67	50.38	48.32	-2.06	Down
Alcohol Beverages & Tobacco	1	45.59	46.59	1.00	Up
Clothing	7.7	41.87	38.61	-3.26	Down
Housing	8.9	34.58	35.95	1.37	Up
Furnishings	5.6	39	41.70	2.70	Up
Health	7.6	58.3	58.14	-0.16	Down
Transport	8.6	53.43	49.93	-3.50	Down
Communication	4.7	44.98	42.19	-2.79	Down
Recreation	2.6	61.37	59.93	-1.44	Down
Education	3.1	48.9	48.9	0	Unchanged
Hotels	6.1	79.31	71.17	-8.14	Down
Miscellaneous	3.9	47.22	42.65	-4.57	Down
All Items	100	54.20	52.16	-2.04	Down

Source: Statistics Sierra Leone

Fiscal Sector Development

In December 2023, the government's fiscal operations, based on cash flow, retained a deficit of NLe89.88mn, in contrast to the previous month's NLe73.73mn surplus. Despite the growth in total expenditure outpacing the growth in total revenue, the government maintained a surplus. Total revenue for December 2023 surged by 17.76% to NLe2,273.15mn, surpassing the budgeted target by 73.63%, primarily due to enhanced domestic revenue mobilization from various taxes including excise tax, customs tax, income tax, miscellaneous tax, and goods and services tax. Figure 4 illustrates the fiscal profile for December 2023 and the 12 preceding months.

Figure 4: Government Revenue and Expenditure (in NLe million)



Source: Bank of Sierra Leone

In December 2023, government expenditure surged by 27.29% to NLe2,363.02mn, exceeding the budgeted ceiling of NLe777.18mn by 204.05%. This rise was primarily attributed to increases in other expenditures, debt service payments and wages and salaries. Specifically, debt service expenditure rose to NLe382.94mn, driven by a 30.47% increase in domestic debt interest payments from the targeted amount of NLe236.99mn.

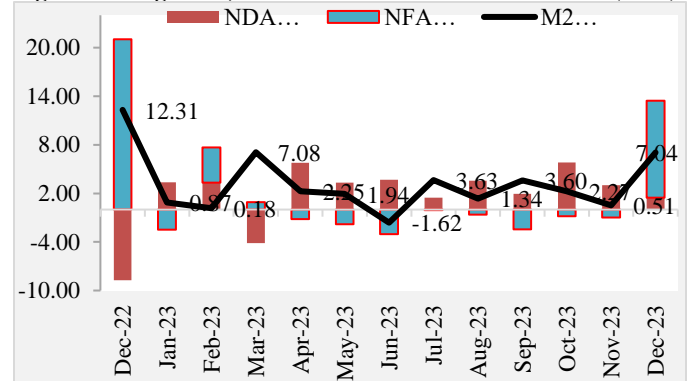
Monetary Sector Development

(i) Monetary Aggregates

In December 2023, key monetary aggregates showed mixed movement, with Broad Money (M2) expanding by 7.04%, an increase from November's 0.51%. M2 growth was primarily driven by a 91.99% increase in Net Foreign

Possessions (NFA) of the banking system, fueled by expansion of the NFA of the BSL and other depository corporations. The growth in the NFA outweighed the 5.67% decline in the Net Domestic Assets (NDA). Meanwhile, commercial banks' credit to the private sector declined by 0.03%. Figure 5 depicts M2 growth, NDA, and NFA for December 2023 and the preceding 12 months.

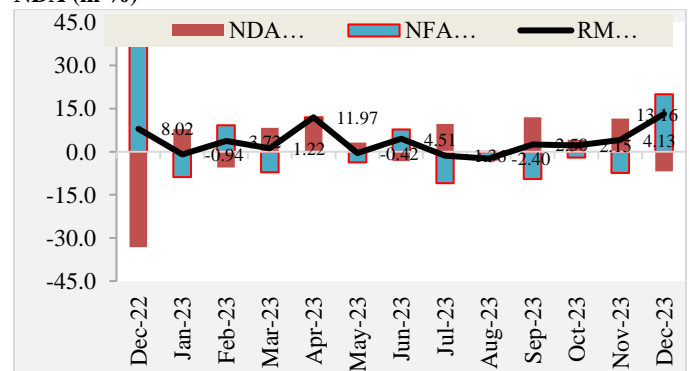
Figure 5: M2 growth, and contributions of NFA and NDA (in %)



Source: Bank of Sierra Leone

Additionally, Narrow Money (M1) rose by 6.92%, driven by a 9.01% increase in currency outside depository corporations, and a 4.78% increase in demand deposits. Quasi money saw a 7.13% increase, due to growth in foreign currency deposits, time and savings deposits and other deposits, which increased by 9.28%, 2.28%, and 48.19% respectively. On the liability side, reserve money increased by 13.16% in December 2023, compared to 4.13% in November 2023. Figure 6 illustrates the RM growth, NDA, and NFA of the Bank of Sierra Leone for December 2023 and the preceding 12 months.

Figure 6: Reserve Money growth and contributions of NFA and NDA (in %)

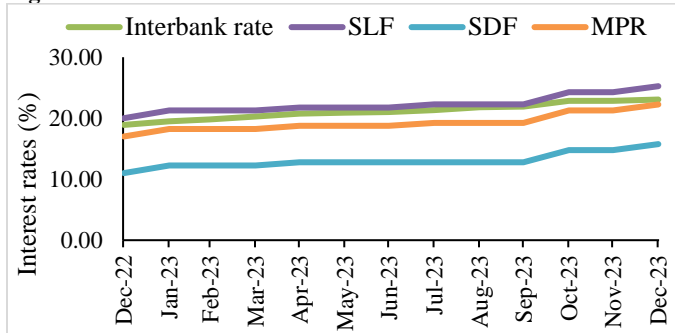


Source: Bank of Sierra Leone

(ii) Interest Rates

In December 2023, the Bank of Sierra Leone implemented an upward adjustment to its key interest rate. The Monetary Policy Rate (MPR) was 22.25%, Standing Lending Facility (SLF), was 25.25% and Standing Deposit Facility (SDF) rates was 15.75% respectively. These rates were 1.0 percentage points higher than their November values. The interbank rate slightly dropped to 23.06. but remained within the Policy Corridor Rate. Commercial bank prime lending (interest rate spread) rates were steady at 19.66% and 20.85%, while the savings rate remained at 2.23% during the same period.

Figure 7: Central Bank Interest Rates and the Interbank Rate



Source: Bank of Sierra Leone

In December 2023, the yield on the 364-day T-bill rose to 34.71% from 31.07% in November 2023, with no market for the 91-day tenor.

External Sector Development

(i) Exchange Rate Developments

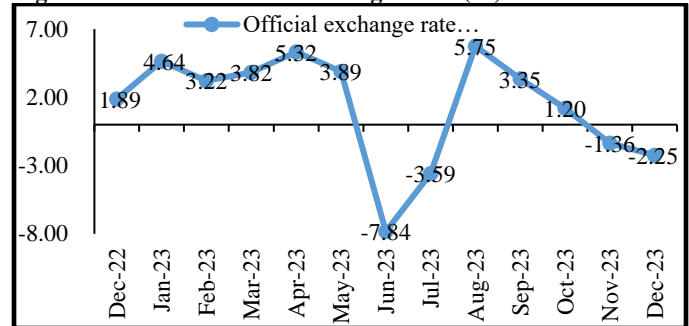
In December 2023, the monthly average exchange rates of the Leone against the US dollar depreciated in all foreign exchange market segments except that of the parallel markets which appreciated on both the buying and selling sides.

The Leone depreciated in the official, commercial banks and bureau markets, by 2.32%, 1.90% and 2.39% respectively on the buying side, with average rate of NLe22.61/US\$1, NLe22.53/US\$1 and NLe22.60/US\$1. Meanwhile, the Leone appreciated by 0.81% in the

parallel market with average buying rate of NLe23.55/US\$1.

On the selling side, the Leone depreciated in the official market, commercial banks market and bureau market, by 2.32%, 2.29% and 2.47% respectively, averaging NLe22.84/US\$1, NLe22.97/US\$1 and NLe22.82/US\$1. Meanwhile, the Leone appreciated by 0.55% in the parallel market with average selling rate of NLe23.89/US\$1. The premium between the Official and Parallel rates moderated to 4.4% (NLe1/US\$1) in December 2023 from 7.56% (NLe1.68/US\$1) in November 2023. Figure 8 shows the trend in the official exchange rate markets.

Figure 8: Trend in Official Exchange Rates (%)



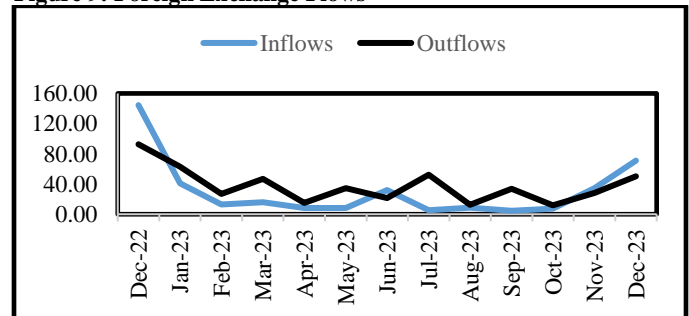
Source: Bank of Sierra Leone

*note: positive values for Off. exr. dep. denote depreciation

(ii) Gross Foreign Exchange Reserves

In December 2023, the Bank of Sierra Leone's gross international reserves reached US\$468.35 million, up from US\$446.23 million in November 2023. Net inflows for December amounted to US\$20.59 million; higher than November's net inflows of US\$6.27 million. Other changes in reserves were mainly due to revaluation adjustments.

Figure 9: Foreign Exchange Flows



Source: Bank of Sierra Leone

5. Conclusion

In December 2023, production across various sectors exhibited mixed performances. While cocoa production experienced an increase, the mining sector saw a combination of declines in diamonds, bauxite and other minerals, alongside increases in gold, iron-ore, rutile, zircon, and ilmenite. In the manufacturing sector, alcoholic beverages and paint output rose, but there were declines in cement, maltina, confectionery, and oxygen production. Headline inflation declined to 52.16% from November's 54.20%, attributed partly to the relative stability of the exchange rate and the BSL's efforts in stabilizing the inflation rate.

The government's fiscal operations returned a deficit of NLe89.88mn in December 2023, in contrast to the surplus of NLe73.73mn in the previous month. Total revenue expanded by 17.76% to NLe2,273.15mn, while government expenditure increased by 27.29%.

Broad Money (M2) grew by 7.04%, driven mainly by an increase in Net Foreign Assets (NFA), while Reserve Money (RM) increased by 13.16%. Narrow Money (M1) increased by 6.92%, fueled by a 9.01% rise in currency outside depository corporations and a 4.78% increase in demand deposits. In the short-term securities market, the 364-day T-bill yield rose to 34.71%.

The Leone depreciated against the US dollar across all foreign exchange market segments except the parallel market., with the premium between official and parallel rates narrowing to 4.4% in December 2023. In December 2023, the Bank of Sierra Leone's international reserves increased to US\$468.35 million, with net inflows of US\$20.59 million.