



BANK OF SIERRA LEONE

Monthly Economic Review

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ABBREVIATIONS

AfDB	-	African Development Bank
BSL	-	Bank of Sierra Leone
GoSL	–	Government of Sierra Leone
Gw/hr	-	Gega Watts per hour
IMF	-	International Monetary Fund
M1	-	Narrow Money
M2	-	Broad Money
MER	-	Monthly Economic Review
MPR	-	Monetary Policy Rate
NDA	-	Net Domestic Assets
NFA	-	Net Foreign Assets
ODC	-	Other Depository Corporation
OPEC	-	Organization of Petroleum Exporting Countries
OFID	-	OPEC Fund for International Development
RM	-	Reserve Money
SDF	-	Standing Deposit Facility
SDR	-	Special Drawing Rights
SLF	-	Standing Lending Facility
Y-o-Y	-	Year-on-Year

1.0 Highlights

Production performance in the manufacturing sector slowed down in the month of March 2020, as output for all the commodities declined during the review period. Paint and oxygen production dropped by 48.11 percent to 40.69 thousand gallons, and 7.14 percent to 65.00 thousand cubic feet respectively. Common soap and confectionery production declined by 52.77 percent to 18.42 thousand metric tons, and 3.63 percent to 269.04 thousand pounds respectively. Similarly, Cement production decreased by 10.17 percent to 26.15 thousand metric tons, while Acetylene production amounted to 40.00 cubic feet in the review period. Electricity generation declined due to low performance in hydro power generation in the review period.

Headline inflation increased to 15.56 percent in March 2020 from 14.69 percent in February 2020. The increase in headline inflation was mainly driven by the increase in food inflation. Food inflation rose to 9.87 percent in March 2020 from 8.30 percent in February 2020. Non-food inflation moderated to 23.14 percent in March 2020 from 23.84 percent in February 2020.

Government budgetary operations on cash flow basis resulted in a deficit of Le91.90bn in March 2020 compared to a deficit of Le181.93bn in February 2020. The outturn in the fiscal deficit was on account of an improvement in revenue mobilization coupled with a contraction in government spending during the reviewed period.

The Monetary Policy Committee met on 18th March 2020 and resolved to reduce the Monetary Policy Rate by 150 basis points from 16.50 percent in February 2020 to 15.00 percent in March 2020. Similarly, the Standing Lending and Deposit Facility rates were also reduced by 150 basis points from 20.50 percent and 13.50 percent to 19.00 percent and 12.00 percent, respectively. However, the interbank rate increased from 18.77 percent in February 2020 to 18.50 percent in March 2020. The Commercial banks' average Lending and Savings Deposits rates remained unchanged at 21.35 percent and 2.38 percent, respectively.

The trends in monetary aggregate were expansionary during March 2020 as evidenced by increases in both Broad Money (M2) and Reserve Money (RM). Broad Money (M2) expanded by 2.12 percent in March 2020, compared with 0.32 percent contraction in February 2020. The expansion in M2 reflects increase in the Net Foreign Assets of the Banking System, which outweighed the decrease in the Net Domestic Assets of the Banking System. Similarly, Reserve Money (RM) expanded by 2.75 percent in March 2020, higher than the 1.44 percent growth in February 2020. The growth in RM was due to increase in Net Foreign Assets (NFA) of BSL which more than outweighed the decrease in Net Domestic Assets (NDA) of the Bank of Sierra Leone.

The gross foreign exchange reserves of the Bank of Sierra Leone increased by 2.27 percent to US\$533.77mn in March 2020 from US\$521.91mn in February 2020, reflecting an increase in inflows of US\$25.07mn over outflows of US\$10.73mn, with a net inflow of US\$14.34mn.

The monthly average premium between the official and parallel rates widened by 3.22 percent to Le338.14/US\$1 in March, 2020 from Le327.60/US\$1 in February, 2020.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

Production performance in the manufacturing sector slowed down in the month of March 2020, as output for all the commodities declined during the review period. Paint and oxygen production dropped by 48.11 percent to 40.69 thousand gallons, and 7.14 percent to 65.00 thousand cubic feet respectively. Common soap and confectionery production declined by 52.77 percent to 18.42 thousand metric tons, and 3.63 percent to 269.04 thousand pounds respectively. Similarly, Cement production decreased by 10.17 percent to 26.15 thousand metric tons, while Acetylene production amounted to 40.00 cubic feet in the review period.

2.1.2 Agricultural Sector

Production in the agricultural sector proxied by cocoa and coffee production improved in March 2020. Cocoa production increased by 13.10 percent to 682.00 metric tons in March 2020 compared to 603.00 metric tons in February 2020.

2.1.3 Mining Sector

Production activities in the mining sector were mixed in March 2020. Diamond production increased by 47.81 percent to 68.08 thousand carats in March 2020. This amount comprised of industrial diamond of 21.30 thousand carats and gem diamond amounting to 46.78 thousand carats. Bauxite production rose by 20.36 percent to 147.91 thousand metric tons. Other minerals¹ also increased by 52.09 percent to 40.00 thousand metric tons.

Conversely, gold production contracted to 4.59 ounces in March 2020 from 45.18 ounces in the previous month. Rutile production fell by 19.04 percent to 10.12 thousand metric tons. Similarly, Ilmenite production dropped by 60.66 percent to 4.26 thousand metric tons

¹Other Minerals comprised of Coltan and other tailings mined in small quantity

2.1.4 Electricity

Electricity generated in March 2020 declined by 15.65 percent to 8.15 Gw/hr compared to 9.66 Gw/hr in February 2020. The decrease in electricity generation was mainly driven by the decrease in hydro power, while thermal plant generation increased during the reporting period

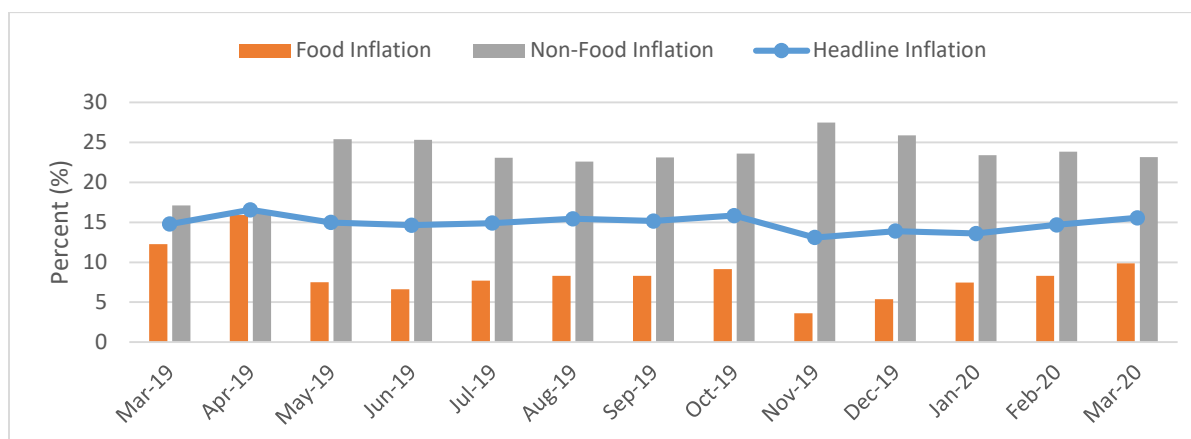
Thermal plant generation increased to 0.85 Gw/hr in March 2020 from 0.63 Gw/hr in February 2020. On the other hand, hydro power generation declined to 7.29 Gw/hr in March 2020 from 9.02 Gw/hr in February 2020.

2.2 Price Development

Annual headline inflation increased to 15.56 percent in March 2020 from 14.69 percent in February 2020. The increase in headline inflation was mainly driven by the increase in food inflation. Food inflation rose to 9.87 percent in March 2020 from 8.30 percent in February 2020. Non-food inflation moderated to 23.14 percent in March 2020 from 23.84 percent in February 2020.

On regional basis, inflation increased in the Northern and Southern region while it decreased in the Western Area and Eastern region in the reporting month. Northern region inflation increased to 12.92 percent in March 2020 from 10.09 percent in February 2020. The same hold for the Southern region inflation which increased to 12.74 percent in March 2020 from 10.43 percent in February 2020. On the other hand, Western Area inflation decreased to 18.42 percent in March 2020 from 18.79 percent in February 2020 and Eastern region inflation decreased to 15.00 percent in March 2020 from 15.66 percent in February 2020.

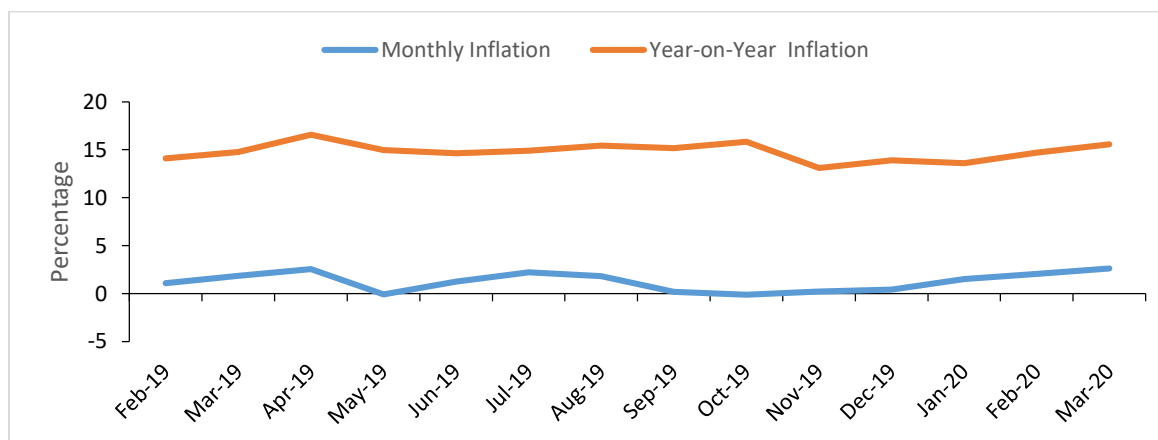
Figure 1: Headline, Food and Non-Food Inflation



Source: Statistics Sierra Leone and BSL

On monthly basis, consumer price inflation increased to 2.62 percent in March 2020 from 2.06 percent in February 2020.

Figure 2: Year-on-year Inflation-Y-o-Y and Monthly Inflation Change



Source: Statistics Sierra Leone

3.0 Government Budgetary Operations

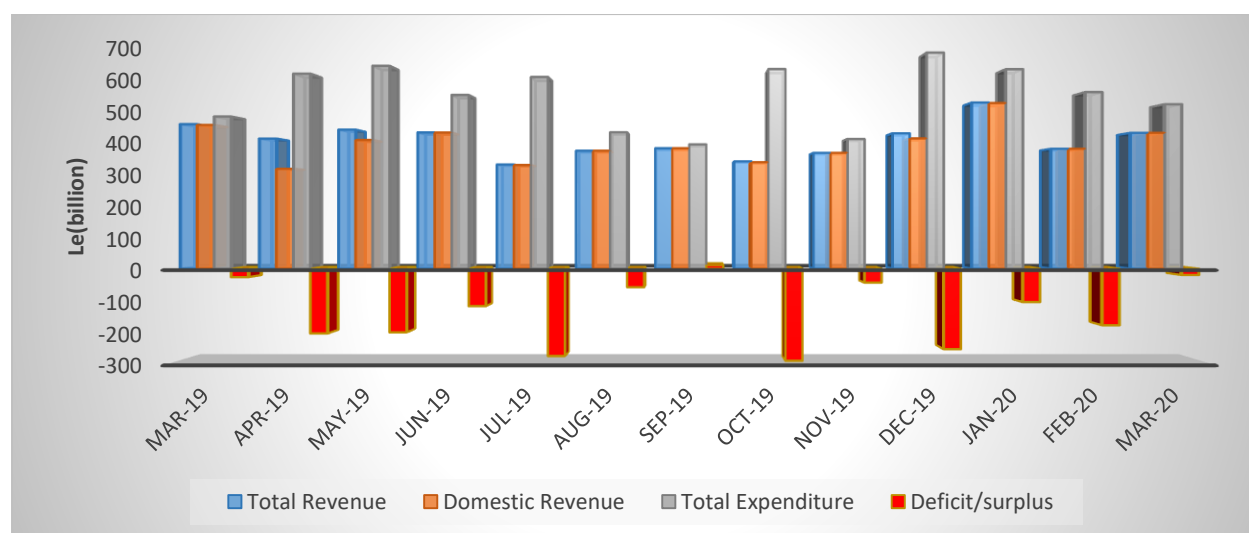
Government budgetary operations in March 2020 on cash flow basis resulted in a deficit of Le91.90bn compared to a deficit of Le181.93bn in February 2020. The reduction in the budget deficit was on account of an improvement in revenue mobilization coupled with a contraction in government spending during the reviewed period.

3.1 Revenue

Government revenue expanded by 13.23 percent to Le437.14bn, and was below the ceiling of Le444.80bn by 1.72 percent. The expansion in government revenue was mainly driven by increased domestic revenue collection. There was no external budgetary support in the reporting month

Domestic revenue stood at Le437.14bn reflecting 13.23 percent increase compared to Le386.07bn revenue in February 2020, and exceeded the program target of Le415.19bn by 5.29 percent. The increase in domestic revenue was explained by expansion in customs & excise duties, income tax, and goods & services, while non tax declined during the period. Receipts from Customs and Excise expanded by 1.80 percent to Le49.26bn; revenue from income tax department increased by 63.51 percent to Le159.91bn and receipts from Goods and Services tax expanded by 9.71 percent to Le82.44bn. However, non-tax revenue declined by 11.66 percent to Le145.54bn.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditure

Although government expenditure contracted by 6.86 percent to Le529.04bn, but overshoot the ceiling of Le522.45bn by 1.26 percent in March 2020. The contraction in government expenditure

was due to the decline in other expenditure and debt service payments. Whereas, pension, wages and salaries increased in the review period.

Other expenditure on goods and services contracted by 30.24 percent to Le206.70bn. Debt service payments declined by 29.48 percent to Le77.16bn, of which domestic debt service payments amounted to Le76.38bn, and foreign debt service payment amounted to Le786bn. On the other hand, Pension, wages and salaries expanded by 51.09 percent to Le245.18bn.

3.3 Financing

The overall deficit of Le91.90bn was financed from both domestic and foreign sources.

4.0 Monetary Developments

The trends in monetary aggregate were expansionary during March 2020 as evidenced by increases in both Broad Money (M2) and Reserve Money (RM).

4.1 Broad Money

Broad Money (M2) expanded by 2.12 percent in March 2020, compared with 0.32 percent contraction in February 2020. The expansion in M2 reflects increase in the Net Foreign Assets of the Banking System, which outweighed the decrease in the Net Domestic Assets of the Banking System.

The NFA of the banking system grew by 12.24 percent in March 2020, relative to the 2.12 percent decline recorded in February 2020. This was due to a 47.34 percent expansion in the NFA of the BSL in March 2020, compared with a 11.14 percent contraction in February 2020, and a 5.83 percent increase in the NFA of the commercial banks in March, compared with a 0.27 percent decline in February 2020. The increasing trend of the NFA of the banking system reflects increased inflows from timber exports, mining-royalties and increased Nostro accounts of commercial banks.

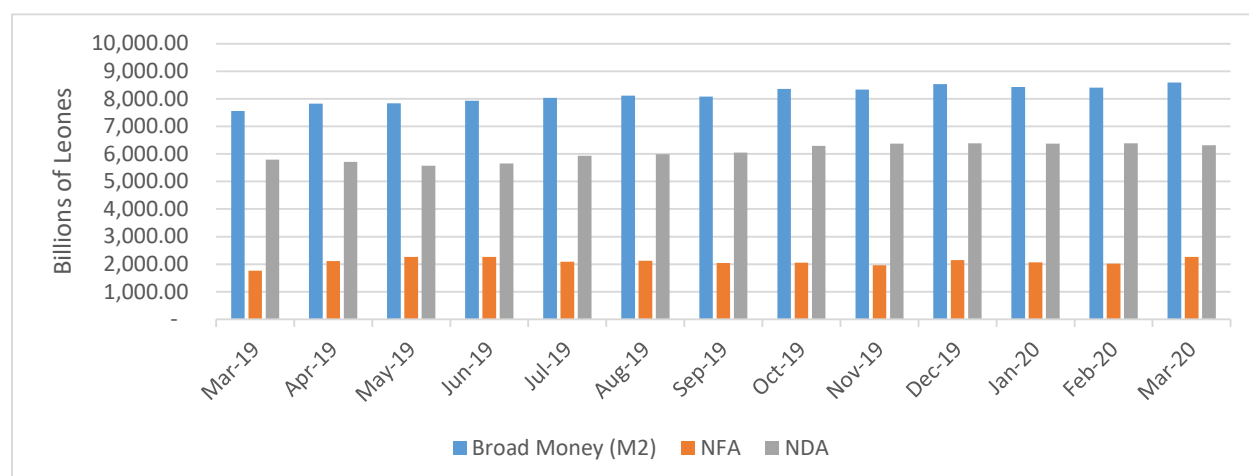
The NDA of the banking system contracted by 1.08 percent in March 2020, from a 0.27 percent growth recorded in February 2020. The decrease in NDA was mainly due to the 42.33 percent decline in claims on ‘other sectors’ which include state and local government agencies, public non-financial corporations, and other financial corporations. Although NDA contracted during the review period, Credit to the Private Sector by commercial banks expanded by 3.13 percent in March 2020 which was higher when compared with the 1.20 percent growth recorded in February 2020.

Table 1: Broad Money and its Components

Billions of Leones	2020		Absolute Change		% Change	
	Feb.-20	Mar.-20	Feb.-20	Mar.-20	Feb.-20	Mar.-20
Reserve money	2,594.25	2,665.65	36.80	71.41	1.44	2.75
Broad Money (M2)	8,407.36	8,585.38	(26.57)	178.02	(0.32)	2.12
Narrow money (M1)	3,944.55	4,033.72	44.92	89.17	1.15	2.26
Currency outside banks	1,937.42	1,970.89	2.00	33.47	0.10	1.73
Demand deposit	2,007.13	2,062.83	42.92	55.69	2.18	2.77
Quasi money	4,462.81	4,551.66	(71.49)	88.85	(1.58)	1.99
o.w. Foreign currency deposit	2,166.71	2,224.61	(68.29)	57.90	(3.06)	2.67
Time and saving deposit	2,289.57	2,320.58	(2.11)	31.00	(0.09)	1.35
				-		
Net Foreign Asset	2,018.86	2,265.92	(43.68)	247.06	(2.12)	12.24
BSL	311.42	458.85	(39.03)	147.43	(11.14)	47.34
ODCs	1,707.44	1,807.07	(4.65)	99.63	(0.27)	5.83
Net Domestic Assets	6,388.51	6,319.45	17.12	(69.05)	0.27	(1.08)
Net Domestic Credit	8,623.56	8,972.54	120.14	348.99	1.41	4.05
Government (Net)	6,433.21	6,667.19	100.70	233.98	1.59	3.64
BSL	2,734.80	2,745.01	93.47	10.21	3.54	0.37
ODCs	3,698.41	3,922.18	7.23	223.77	0.20	6.05
Private Sector Credit	2,296.06	2,366.32	26.99	70.26	1.19	3.06
o.w ODC	2,266.40	2,337.29	26.82	70.89	1.20	3.13
Other Sectors (Net)*	(105.71)	(60.96)	(7.54)	44.75	7.68	(42.33)
Other Items (Net)	(2,235.05)	(2,653.09)	(103.02)	(418.04)	4.83	18.70
Money Multiplier	3.24	3.22				

*Other Sectors (Net) includes State & Local, Other Financial Corporations and Public Non-Financial Corp.

Figure 4: Trends in M2, NFA and NDA



Source: Research Department, BSL

From the liabilities side, the expansion in M2 was due to increase in both Narrow Money (M1) and Quasi Money. M1 grew by 2.26 percent in March 2020 due to increase in currency outside banks by 1.73% and demand deposits by 2.77 %. Quasi Money increased by 1.99 percent in March 2020 due to increase in foreign currency deposits by 2.67 percent and time and savings deposits by 1.35 percent during the same period.

4.2 Reserve Money

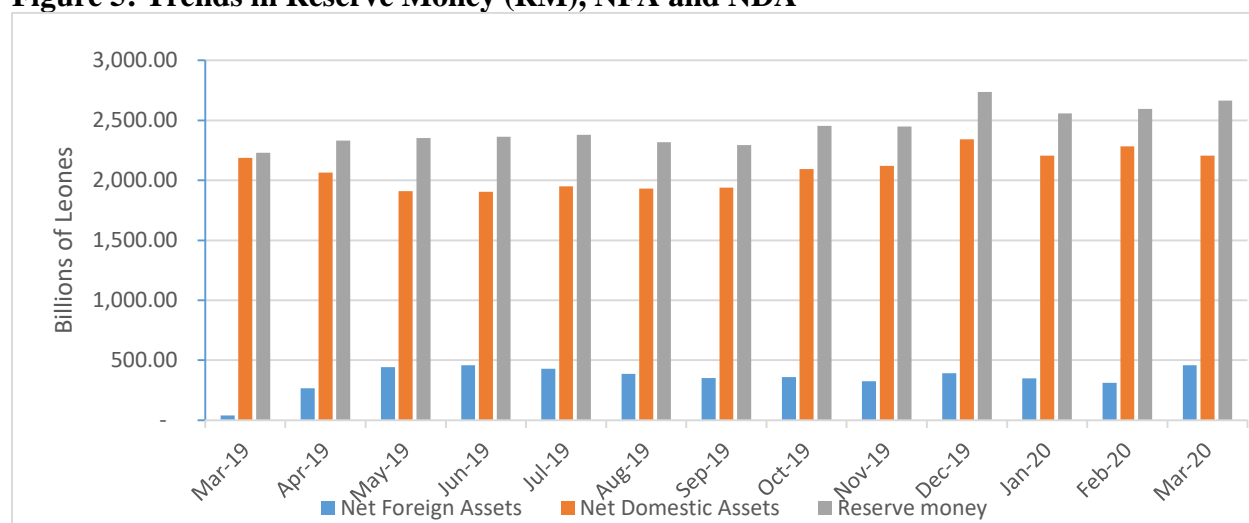
Reserve Money (RM) expanded by 2.75 percent in March 2020, higher than the 1.44 percent growth in February 2020. The growth in RM was due to increase in Net Foreign Assets (NFA) of BSL which more than outweighed the decrease in Net Domestic Assets (NDA) of the Bank of Sierra Leone. NFA of the Bank of Sierra Leone expanded by 47.34 percent in March 2020 compared with the 11.14 percent decrease in February 2020 mainly due to increased inflows from timber exports, mining royalties and government charges for terminal containers. The NDA of Bank of Sierra Leone decreased by 3.33 percent in March 2020 from 3.44 percent increase in February 2020 and was mainly attributed to the 43.92 percent repayment of Ways and Means Advances.

From the liabilities side, the increase in RM reflected expansion in the bank's reserves by 5.91 percent and Currency issued by 2.17 percent.

Table 2: Reserve Money and its Components

Billions of Leones	2020		Absolute Change		% Change	
	Feb.-20	Mar.-20	Feb.-20	Mar.-20	Feb.-20	Mar.-20
1. Net Foreign Assets	311.42	458.85	(39.03)	147.43	(11.14)	47.34
2. Net Domestic Assets	2,282.83	2,206.80	75.83	(76.03)	3.44	(3.33)
Government Borrowing (net)	2,734.80	2,745.01	93.47	10.21	3.54	0.37
o.w. Securities	1,303.19	1,356.00	28.35	52.81	2.22	4.05
Ways and Means	320.88	179.94	61.40	(140.94)	23.66	(43.92)
GoSL/IMF /WB `Budget financing	1,294.80	1,294.80	-	-	-	-
3. Reserve money	2,594.25	2,665.65	36.80	71.41	1.44	2.75
o.w. Currency issued	2,177.08	2,224.27	16.65	47.19	0.77	2.17
Bank reserves	410.63	434.90	21.24	24.27	5.45	5.91

Source: Research Department, BSL

Figure 5: Trends in Reserve Money (RM), NFA and NDA

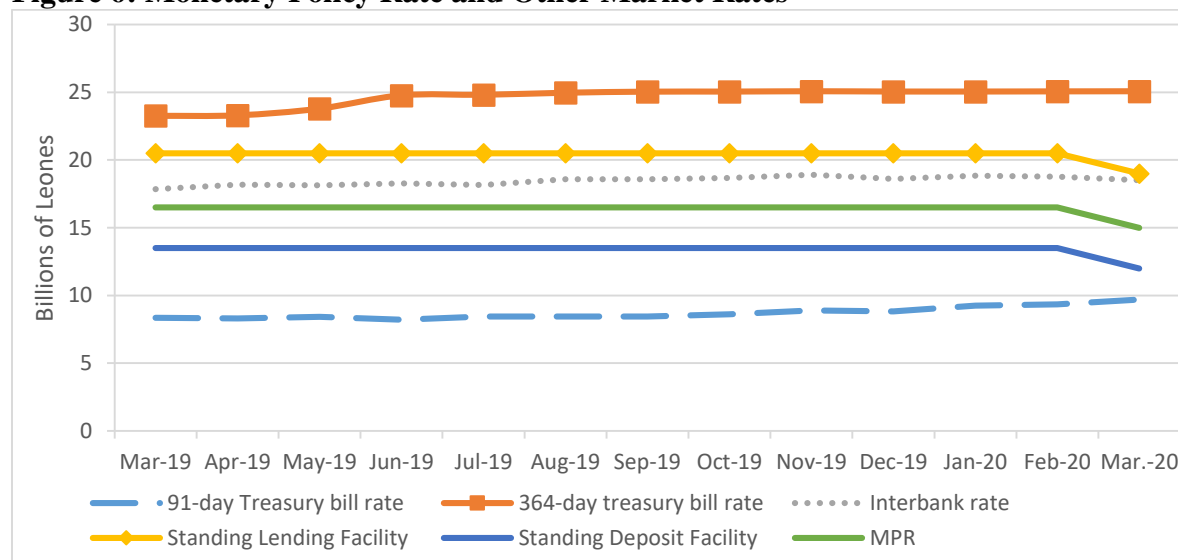
Source: Research Department, BSL

4.3 Interest Rates

The Monetary Policy Committee met on 18th March 2020 and resolved to reduce the Monetary Policy Rate by 150 basis points from 16.50 percent in February 2020 to 15.00 percent in March 2020. Similarly, the Standing Lending and Deposit Facility rates were also reduced by 150 basis points from 20.50 percent and 13.50 percent to 19.00 percent and 12.00 percent, respectively. The interbank rate increased from 18.77 percent in February 2020 to 18.50 percent in March 2020. The

Commercial banks' average Lending and Savings Deposits rates remained unchanged at 21.35 percent and 2.38 percent, respectively.

Figure 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

With the exception of the yields on the 182-days Treasury Bills which remained flat at 13.21 percent, yields on 91-days and 364-days Treasury Bills marginally increased during the review period. Yields on both the 91-days and 364-days Treasury Bills increased from 9.34 percent and 25.06 percent in February 2020, to 9.69 percent and 25.07 percent respectively in March 2020.

Table 3: Interest Rates (%)

	2019										2020		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
91-day T-Bills	8.35	8.30	8.41	8.20	8.44	8.44	8.44	8.61	8.89	8.83	9.25	9.34	9.69
182-day T-Bills	8.23	8.20	7.23	7.13	8.53	8.54	11.38	12.46	13.21	13.21	13.21	13.21	13.21
364-day T-Bills	23.26	23.3	23.79	24.77	24.81	24.96	25.04	25.05	25.07	25.05	25.05	25.06	25.07
Interbank rate	17.84	18.18	18.12	18.27	18.16	18.57	18.57	18.68	18.9	18.61	18.84	18.77	18.50
SLF	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.5	20.50	20.5	20.50	19.00
SDF	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.5	13.50	13.5	13.50	12.00
MPR	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.5	16.50	15.00
Ave. Lending rate	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35
Lending (Prime)	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77
Savings deposits	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38

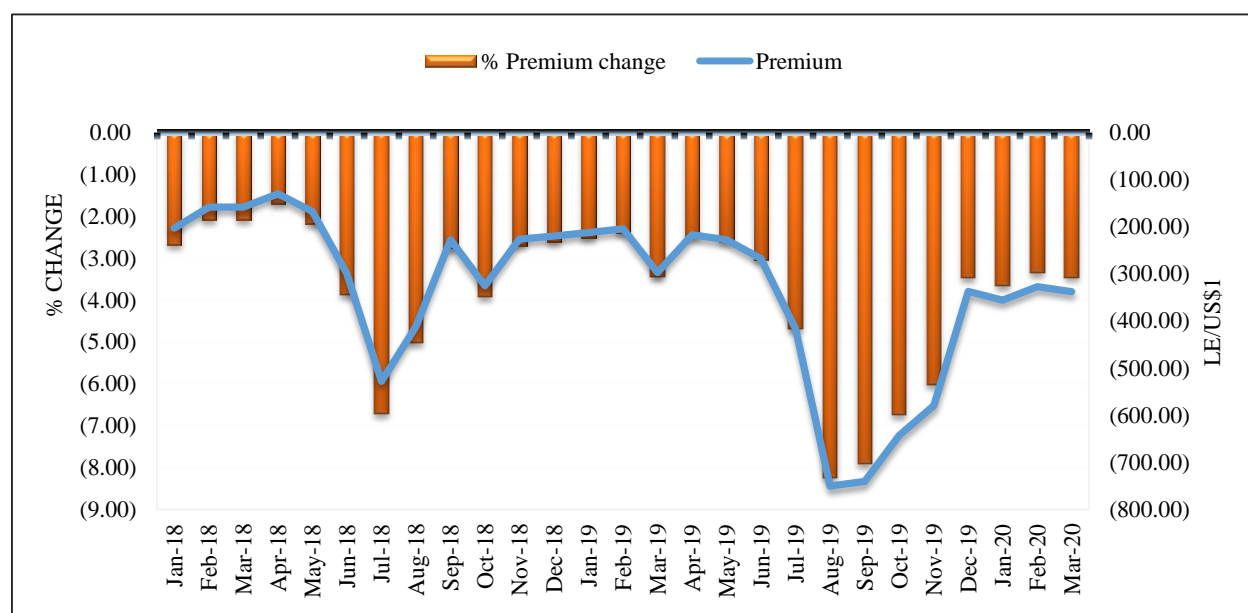
Source: Research Department, BSL

5.0 Exchange Rate Developments

In March 2020, the average exchange rate of the Leone to the US dollar remained relatively stable. On the buying front, the Leone depreciated in the parallel, bureau, official and commercial banks markets by 0.19 percent, 0.14 percent, 0.11 percent and 0.10 percent, averaging Le10,069.05/US\$1, Le9,642.40/US\$1, Le9,665.42/US\$1 and Le9,810.79/US\$1 respectively. On the selling front, the Leone depreciated in the parallel and official markets by 0.24 percent and 0.11 percent, averaging Le10,133.33/US\$1 and Le9,860.68/US\$1 respectively, while appreciating in the commercial bank and bureau markets by 0.13 percent and 0.02 percent, averaging, Le9,928.68/US\$1 and Le9,923.59/US\$, respectively.

The monthly average premium between the official and parallel rates widened by 3.22 percent to Le338.14/US\$1 in March, 2020 from Le327.60/US\$1 in February, 2020 (See figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

6.0 Gross Foreign Exchange Reserves

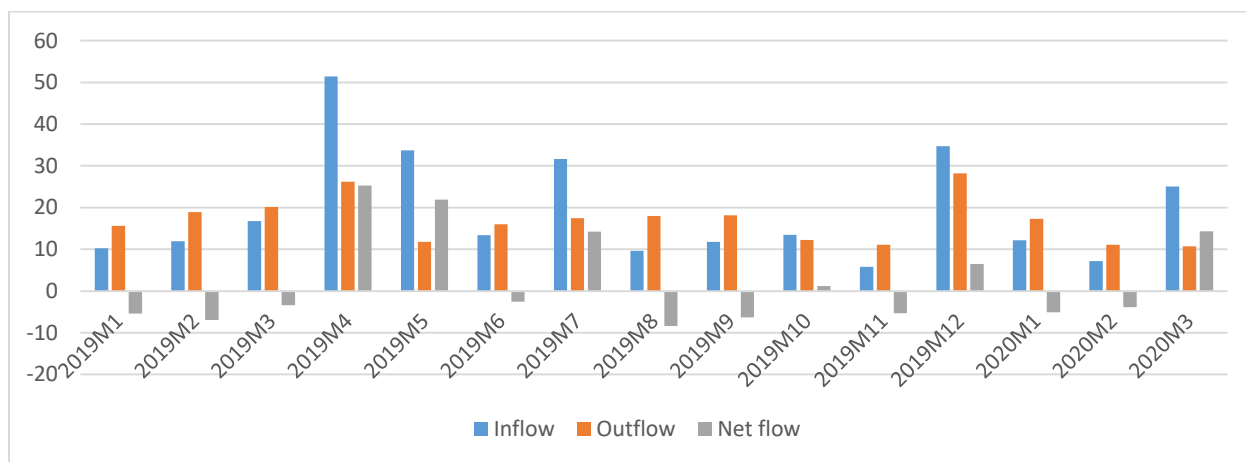
The gross foreign exchange reserves of the Bank of Sierra Leone increased by 2.27 percent to US\$533.77mn in March 2020 from US\$521.91mn in February 2020. Inflows amounted to US\$25.07mn while outflows recorded US\$10.73mn, resulting to a net inflow of US\$14.34mn.

Major inflows include receipts from export (US\$7.91mn) of which: royalties from rutile (US\$3.29mn), bauxite (US\$0.36mn), other mining receipts (US\$0.54mn) and timber (US\$3.58mn). Other inflows include maritime administration (US\$0.21mn), other government receipts (US\$0.54mn), interest earned by BSL from investments abroad (US\$0.98mn), transaction with commercial banks (US\$10.00mn), privatization receipts (US\$4.91mn), and disbursements from IDB for various project (US\$0.50mn).

Significant outflows comprised debt service payments (US\$6.92mn) of which: IMF (US\$0.60mn), World Bank (US\$1.03mn), AfDB (US\$0.12mn), IFAD (US\$0.47mn), other multilateral & bilateral creditors (US\$3.36mn) and OPEC (US\$1.34mn). Other outflows comprised embassy and mission payments (US\$1.86mn), BSL expense on renovation of the Bank building (US\$0.25mn),

government travels (US\$0.27mn), other government expenditure (US\$0.19mn) and subscription to Intl organization (US\$1.24mn).

Figure 8: Foreign Exchange Flows



Source: Bank of Sierra Leone