



BANK OF SIERRA LEONE

**Monthly Economic
Review**

Volume 23| Issue 8

August, 2020



BANK OF SIERRA LEONE

**Monthly Economic
Review**

August 2020

Publisher: The Monthly Economic Review [MER] is published by the Research Department, Bank of Sierra Leone. The Department takes responsibility for opinions expressed in this review; queries should be forwarded to res@bsl.gov.sl

Address: Siaka Stevens Street, P O Box 30, Freetown, Sierra Leone.

CONTENTS

Contents.....	ii
List of Figures.....	iii
List of Tables.....	iii
List of Abbreviation.....	iv
1.0 Highlights	1
2.0 Production and Prices	2
2.1 Production.....	2
2.1.1 Manufacturing.....	2
2.1.2 Agriculture.....	2
2.1.3 Mining Sector.....	2
2.2 Price Development.....	2
3.0 Government Budgetary Operations	4
3.1 Revenues.....	4
3.2 Expenditures.....	5
3.3 Financing.....	5
4.0 Monetary Developments.....	5
4.1 Broad Money	5
4.2 Reserve Money	7
4.3 Interest Rates	8
5.0 Exchange Rate Developments.....	10
6.0 Gross Foreign Exchange Reserves.....	11

List of Figures:

Figure 1: Headline, Food and Non-Food Inflation.....	3
Figure 2: Headline Inflation-Y-o-Y and Monthly Inflation Rate.....	4
Figure 3: Government Revenue and Expenditure.....	5
Figure 4: Trends in M2, NFA and NDA.....	7
Figure 5: Trends in Reserve Money and its Sources.....	8
Figure 6: Monetary Policy Rate and Other Market Rates.....	9
Figure 7: Premium between Official and Parallel Exchange Rates.....	11
Figure 8: Foreign Exchange Flows.....	12

List of Tables:

Table 1: Broad Money and its Components.....	6
Table 2: Reserve Money and its Components	8
Table 3: Interest Rates (%).....	10

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

Performance in the manufacturing sector improved in the month of August 2020, as five out of eight items registered increases in production. Beer and stout production increased by 6.58 percent to 81.00 thousand cartoons; maltina production expanded by 22.73 percent to 27.00 thousand cartoons, cement production grew by 16.42 percent to 33.54 thousand metric tons, acetylene production increased by 1.93 percent to 35.43 thousand metric tons and common soap production increased by 16.01 percent to 51.22 thousand metric tons. However, production levels declined for paint by 13.44 percent to 56.76 thousand gallons, oxygen by 8.09 percent to 34.65 thousand metric tons, and confectionery by 12.30 percent to 301.87 pounds. Production performance in the mining sector contracted as evidenced in the decline in the production of diamond, rutile and ilmenite. However, output for bauxite increased in the review period

Headline inflation edged up slightly to 13.32 percent in August 2020 from 13.30 percent in July 2020. The marginal increase in headline inflation resulted from the uptick in both food and non-food inflation. Food inflation increased from 17.72 percent in July 2020 to 17.75 percent in August 2020, while Non-food inflation increased from 7.52 percent in July 2020 to 8.06 percent in August 2020.

Government budgetary operations in August 2020 (on cash flow basis) resulted in a narrowed deficit of Le 69.84bn compared to Le316.60bn in July 2020. The narrowed deficit was attributable to the contraction in both government revenue and government expenditure during the review period.

The Monetary Policy Rate (MPR) of the BSL remained unchanged at 15.00 percent in August 2020. Similarly, the Standing Lending and Deposit Facility rates remained unchanged at 19.00 percent and 12.00 percent in August 2020, respectively. However, the interbank rate decreased from 16.85 percent in July 2020 to 13.04 percent in August 2020. In the same vein, both the commercial banks' average lending and saving deposit rates decreased from 20.77 percent and 2.89 percent in July 2020, to 20.46 percent and 2.72 percent in August 2020, respectively.

Trends in the growth of monetary aggregates were mixed in August 2020, as Broad Money (M2) expanded, while Reserve Money (RM) contracted. Broad Money (M2) expanded by 1.57 percent in August 2020, relative to the growth of 6.59 percent in July 2020. The growth in M2 was mainly on account of the growth in Net Domestic Assets (NDA) of the banking system. RM contracted by 5.39 percent in August 2020, compared to the growth of 7.03 percent in July 2020. The contraction in RM was primarily driven by the contraction in the Net Domestic Assets (NDA) of Bank of Sierra Leone (BSL), which more than offset the growth in NFA of the BSL.

The gross foreign exchange reserves of the Bank of Sierra Leone decreased by 5.97 percent to US\$720.65mn in August 2020 from US\$766.39mn in July 2020, mainly driven by a total outflow of US\$54.91mn outweighing inflows of US\$5.99mn resulting to a net outflow of US\$48.92mn.

The average monthly premium between the official and parallel rates widened by 1.90 percentage points to Le976.58/US\$1 in August, 2020 from Le787.63/US\$1 in July, 2020.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

Performance in the manufacturing sector improved in the month of August 2020, as five out of eight items registered increases in production. Beer and stout production increased by 6.58 percent to 81.00 thousand cartoons; maltina production expanded by 22.73 percent to 27.00 thousand cartoons, cement production grew by 16.42 percent to 33.54 thousand metric tons, acetylene production increased by 1.93 percent to 35.43 thousand metric tons and common soap production augmented by 16.01 percent to 51.22 thousand metric tons. On the other hand, paint production decreased by 13.44 percent to 56.76 thousand gallons. Oxygen production fell by 8.09 percent to 34.65 thousand metric tons, and confectionery production dropped by 12.30 percent to 301.87 pounds.

2.1.2 Agriculture

Performance in the agricultural sector proxied by cocoa and coffee production deteriorated in August 2020. Coffee production decreased by 60.73 percent to 90.00 metric tons, while cocoa production fell by 76.81 percent to 190.00 metric tons.

2.1.3 Mining Sector

Production performance in the mining sector contracted. Diamond production declined by 1.87 percent to 43.61 thousand carats, of which industrial diamond amounted to 35.25 thousand carats, and gem diamond amounted to 8.36 thousand carats. Rutile production dropped by 7.59 percent to 10.22 thousand metric tons. Ilmenite production declined by 20.22 percent to 3.63 thousand metric tons. Other minerals production declined by 80.95 percent to 0.20 thousand dry metric tons. However, bauxite production increased by 1.54 percent to 105.79 thousand metric tons.

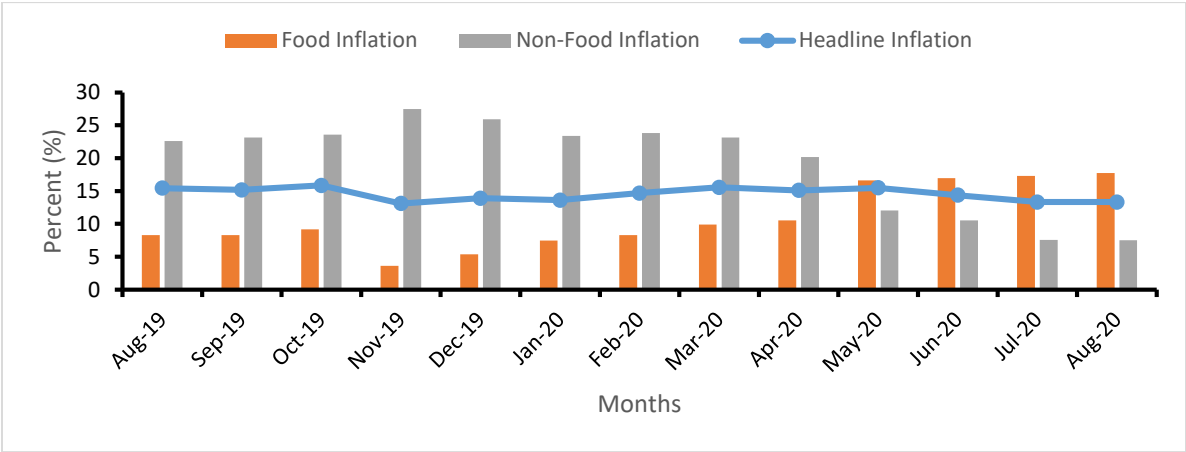
2.2 Price Development

Headline inflation (y/y) edged up slightly from 13.30 percent in July 2020 to 13.32 percent in August 2020. The marginal increase in headline inflation resulted from the uptick in both food and non-food inflation.

Food inflation increased from 17.72 percent in July 2020 to 17.75 percent in August 2020. Non-food inflation increased for the first time in the past eight months from 7.52 percent in July 2020 to 8.06 percent in August 2020.

On regional basis, inflation increased in three regions except Western Area in which inflation declined during the review period. Southern region inflation rose to 11.20 percent in August 2020 from 10.80 percent in July 2020; Eastern region inflation increased to 9.48 percent in August 2020 from 7.85 percent in July 2020; and Northern region inflation rose to 12.18 percent in August 2020 from 9.77 percent in July. However, Western Area inflation declined to 16.20 percent in August 2020 from 18.36 percent in July.

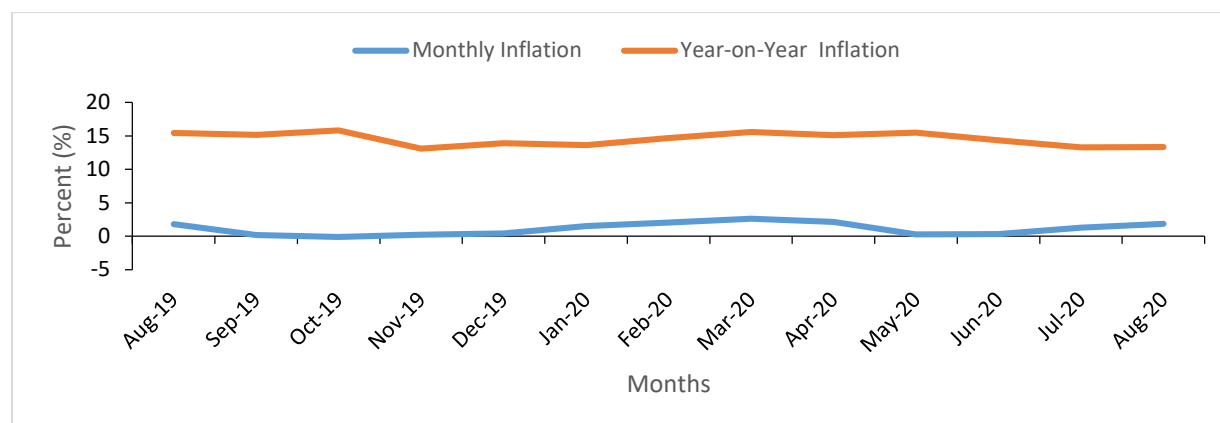
Figure 1: Headline, Food and Non-Food Inflation



Source: Statistics Sierra Leone and BSL

Headline inflation (m/m) increased from 1.26 percent in July 2020 to 1.84 percent in August 2020.

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



Source: Statistics Sierra Leone and BSL

3.0 Government Budgetary Operations

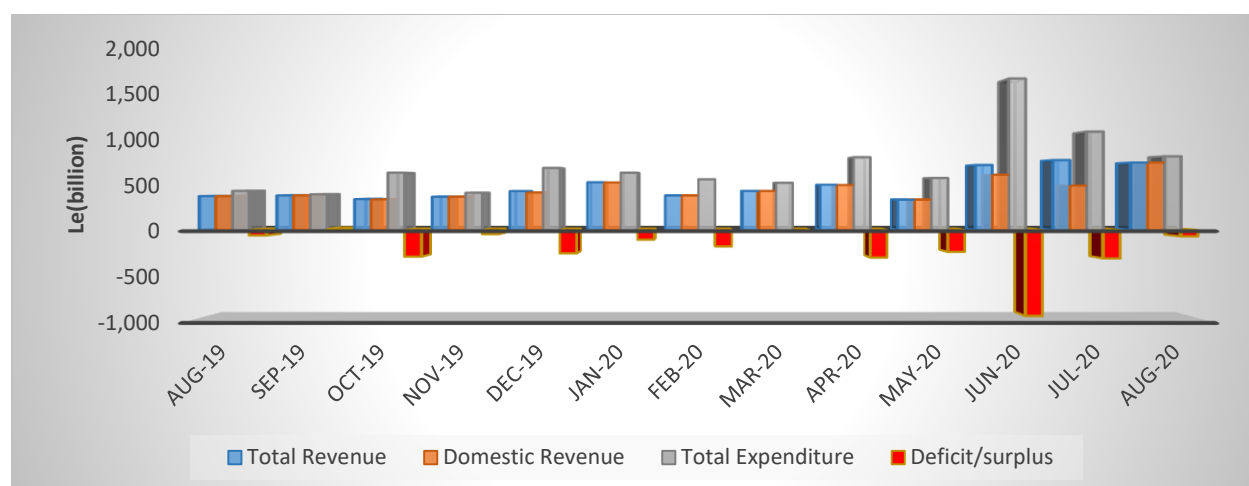
Government budgetary operations in August 2020 (on cash flow basis) resulted in a narrowed deficit of Le 69.84bn compared to Le316.60bn in July 2020. The deficit was attributable to the contraction in both government revenue and government expenditure during the review period.

3.1 Revenue

Government revenue contracted by 3.55 percent to Le753.64bn, and was 13.02 percent lower than the target of Le866.42bn in August 2020. There was no foreign grants received during the review period. On the contrary, domestic revenue expanded by 51.16 percent to Le753.64bn and exceeded the target of Le417.30bn by 80.60 percent. The growth in domestic revenue was largely explained by the expansion in non-tax revenue, while the taxable components decline during the review period.

Non-tax revenue expanded from Le222.81bn in July 2020 to Le507.59bn in August 2020 representing a 127.81 percent increase and was higher than the target of Le73.43bn. However, receipts from custom and excise fell by 27.57 percent to Le48.12bn. Revenue from income tax declined by 6.05 percent to Le115.90bn. Goods and services tax receipts dropped by 4.56 percent to Le82.04bn.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditure

Government expenditure contracted by 25.00 percent to Le 823.48bn and yet, it was 58.21 percent higher than the ceiling of Le520.48bn in August 2020. All expenditure components contracted during the review period. Pension, wages and salary decreased by 28.12 percent to Le265.25bn. Other expenditure fell by 19.34 percent to Le490.73bn. Debt service payment declined by 44.01 percent to Le67.50bn. This amount comprised of domestic debt service payment of Le65.65bn and foreign debt service payments amounted to Le1.85bn

3.3 Financing

The overall fiscal deficit of Le69.84bn was financed from both domestic and foreign sources.

4.0 Monetary Developments

Developments in monetary aggregates were mixed in August 2020, as Broad Money (M2) expanded, while Reserve Money (RM) contracted.

4.1 Broad Money

Broad Money (M2) grew by 1.57 percent in August 2020, relative to the growth of 6.59 percent in July 2020. The growth in M2 was mainly on account of the growth in Net Domestic Assets (NDA) of the banking system.

The NDA of the banking system increased by 7.11 percent in August 2020, relative to a decrease of 1.38 percent in July 2020. This was driven by increase in claims on government by both the Bank of Sierra Leone (BSL) and Other Depository Corporations (ODCs), by 5.44 percent in August 2020, from a decrease of 3.07 percent in July 2020.

The NFA of the banking system decreased by 10.73 percent in August 2020, compared to a growth of 29.92 percent in July 2020. This was primarily due to increase in commercial banks' nostro balances.

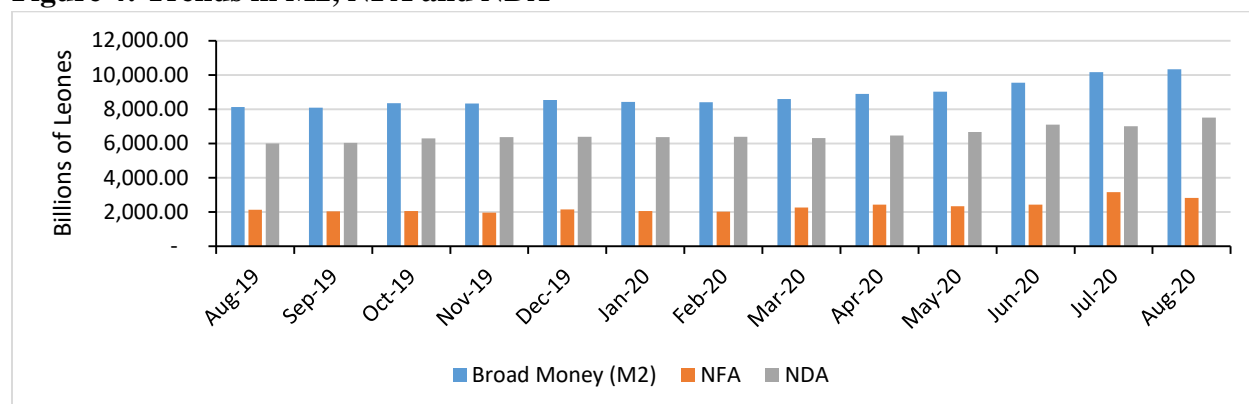
Credit to the private sector by the commercial banks grew marginally by 0.07 percent in August 2020, after recording a contraction by 0.87 percent in July 2020. The sluggish growth in private sector credit is in part explained by the impact of the Covid-19 pandemic on business activities.

Table 1: Broad Money and its Components

Billions of Leones	2020		Absolute Change		% Change	
	Jul	Aug	Jul-20	Aug-20	Jul-20	Aug-20
Reserve money	3,933.76	3,721.66	258.40	(212.09)	7.03	(5.39)
Broad Money (M2)	10,167.14	10,326.99	628.87	159.85	6.59	1.57
Narrow money (M1)	5,015.82	5,090.66	358.58	74.84	7.70	1.49
Currency outside banks	2,405.01	2,338.97	174.69	(66.04)	7.83	(2.75)
Demand deposit	2,610.81	2,751.69	183.89	140.88	7.58	5.40
Quasi money	5,151.31	5,236.33	270.29	85.01	5.54	1.65
o.w. Foreign currency deposit	2,421.29	2,462.36	74.45	41.07	3.17	1.70
Time and saving deposit	2,723.93	2,766.34	196.13	42.42	7.76	1.56
Net Foreign Asset	3156.17	2817.63	726.93	(338.54)	29.92	(10.73)
BSL	1144.36	667.39	671.81	(476.97)	142.17	(41.68)
ODCs	2,011.81	2,150.24	55.12	138.43	2.82	6.88
Net Domestic Assets	7,010.96	7,509.35	(98.05)	498.39	(1.38)	7.11
Net Domestic Credit	9,602.13	9,971.49	(247.38)	369.36	(2.51)	3.85
Government (Net)	7,362.14	7,762.61	(233.29)	400.48	(3.07)	5.44
BSL	3,108.47	3,392.52	(476.43)	284.05	(13.29)	9.14
ODCs	4,253.66	4,370.09	243.13	116.43	6.06	2.74
Private Sector Credit	2,377.50	2,379.53	(20.17)	2.03	(0.84)	0.09
o.w ODC	2,347.42	2,348.94	(20.50)	1.53	(0.87)	0.07
Other Sectors (Net)*	(137.51)	(170.65)	6.08	(33.14)	(4.24)	24.10
Other Items (Net)	(2,591.17)	(2,462.14)	149.32	129.03	(5.45)	(4.98)
Money Multiplier						

*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

On the liabilities side, the expansion in M2 was reflected in both the Narrow Money (M1) and Quasi Money. M1 grew by 1.49 percent in August 2020, relative to the growth of 7.70 percent in July 2020. This was mainly as a result of increase in demand deposit (5.40 percent). Quasi Money increased by 1.65 percent in August 2020, compared to an increase of 5.54 percent in July 2020. This development reflected increase in both time & saving deposit (1.70 percent) and foreign currency deposits (1.56 percent).

4.2 Reserve Money

RM contracted by 5.39 percent in August 2020, compared to the growth of 7.03 percent in July 2020. The contraction in RM was primarily driven by the contraction in the Net Domestic Assets (NDA) of BSL, which more than offset the growth in NFA of the Central Bank.

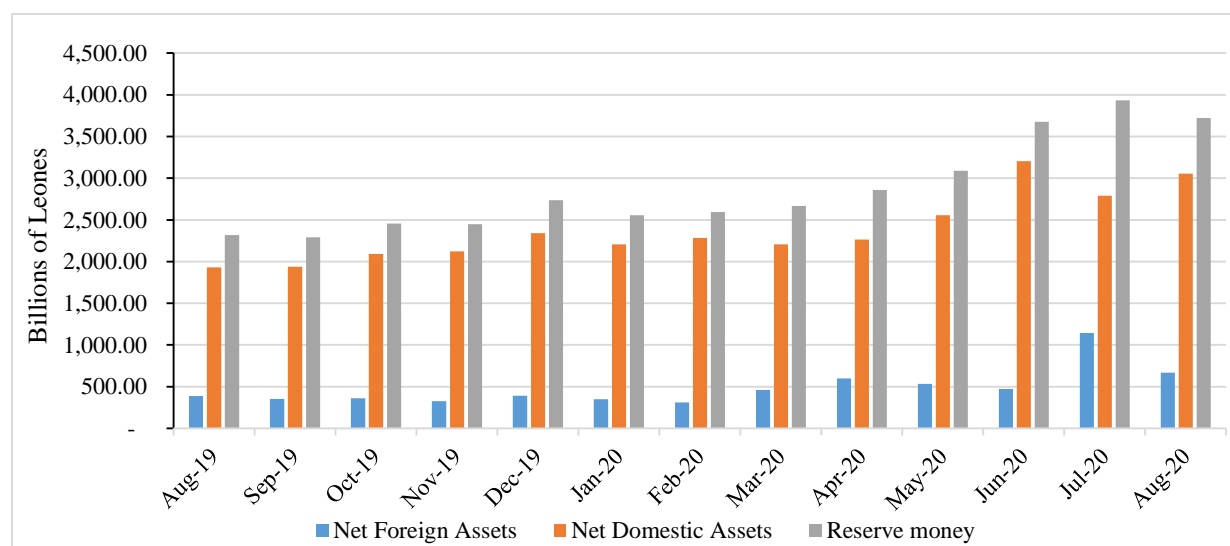
The NDA of the BSL grew by 9.50 percent in August 2020, due mainly to an increase in claims on Government by BSL. The NFA of the Central bank decreased by 41.68 percent in August 2020, after recording a growth of 142.17 percent in July 2020. This development was mainly due to increase in liabilities to nonresidents to the amount of Le54.61bn, on account of the use of Fund credit and increase in Other Foreign Liabilities.

Table 2: Reserve Money and its Components

Billions of Leones	2020		Absolute change		% Change	
	Jul	Aug	Jul-20	Aug-20	Jul-20	Aug-20
1. Net Foreign Assets	1,144.36	667.39	671.81	(476.97)	142.17	(41.68)
2. Net Domestic Assets	2,789.40	3,054.28	(413.41)	264.88	(12.91)	9.50
Government Borrowing (net)	3,108.47	3,392.52	(476.43)	284.05	(13.29)	9.14
o.w. Securities	1,235.43	1,167.57	(148.22)	(67.86)	(10.71)	(5.49)
Ways and Means	96.14	36.70	96.14	(59.43)	-	(61.82)
GoSL/IMF /WB Budget financing	2,598.16	2,598.16	-	-	-	-
3. Reserve money	3,933.76	3,721.66	258.40	(212.09)	7.03	(5.39)
o.w. Currency issued	2,674.52	2,663.67	153.31	(10.86)	6.08	(0.41)
Bank reserves	1,253.14	1,049.91	105.39	(203.23)	9.18	(16.22)

Source: Research Department, BSL

On the liabilities side, the decrease in RM reflected decrease in both banks' reserves (16.22 percent) and currency issued (0.41 percent), during the review period.

Figure 5: Reserve Money and its Sources

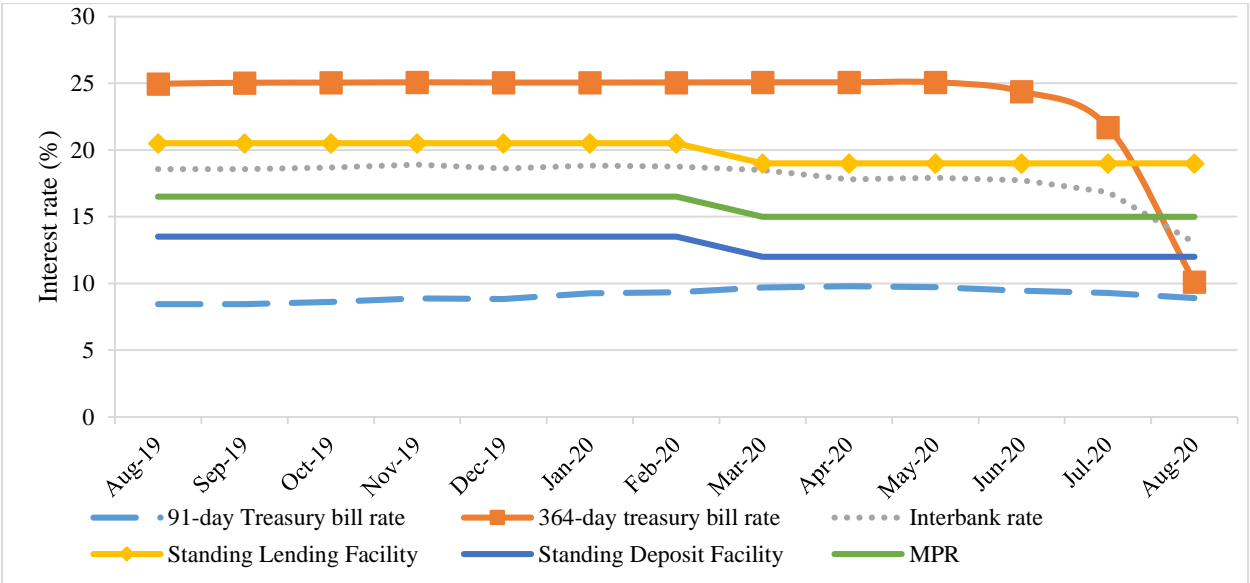
Source: Research Department, BSL

4.3 Interest Rates

The Monetary Policy Rate (MPR) of the BSL remained unchanged at 15.00 percent in August 2020. Similarly, the Standing Lending Facility and Standing Deposit Facility rates remained unchanged at 19.00 percent and 12.00 percent in August 2020, respectively. Reflecting excess

liquidity in the banking system, the interbank rate decreased from 16.85 percent in July 2020 to 13.04 percent in August 2020, but remained within the Policy corridor. Both the commercial banks' average lending rate and saving deposits rate decreased from 20.77 percent and 2.89 percent in July 2020, to 20.46 percent and 2.72 percent in August 2020, respectively.

Figure 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

Yields in all tenures of government securities decreased during the review month. The 91-day T-bills decreased from 9.29 percent in July 2020, to 8.91 percent in August 2020. The 182-day T-bills decreased from 13.21 percent to 9.42 percent. Similarly, the 364-day T-bills decreased from 21.70 percent in July 2020, to 10.12 percent in August 2020. The decrease in the yields on government securities reflected the excess liquidity in the banking system.

Table 3: Interest Rates (%)

	2019					2020							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
91-day T-Bills	8.44	8.44	8.61	8.89	8.83	9.25	9.34	9.69	9.78	9.71	9.46	9.29	8.91
182-day T-Bills	8.54	11.38	12.46	13.21	13.21	13.21	13.21	13.21	13.21	13.21	13.21	13.21	9.42
364-day T-Bills	24.96	25.04	25.05	25.07	25.05	25.05	25.06	25.07	25.07	25.07	24.39	21.70	10.12
Interbank rate	18.57	18.57	18.68	18.9	18.61	18.84	18.77	18.50	17.80	17.91	17.73	16.85	13.04
SLF	20.50	20.50	20.50	20.5	20.50	20.50	20.50	19.00	19.00	19.00	19.00	19.00	19.00
SDF	13.50	13.50	13.50	13.5	13.50	13.50	13.50	12.00	12.00	12.00	12.00	12.00	12.00
MPR	16.50	16.50	16.50	16.50	16.50	16.50	16.50	15.00	15.00	15.00	15.00	15.00	15.00
Av. Lending rate	21.35	21.35	21.35	21.35	21.35	20.49	20.49	20.49	20.49	20.51	20.51	20.77	20.46
Lending (Prime)	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.89- 23.08	17.89- 23.08	17.72- 23.26	17.72- 23.26	17.75- 23.26	17.75- 23.26	18.04- 23.5	17.41- 23.5
Savings deposits	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.89	2.72

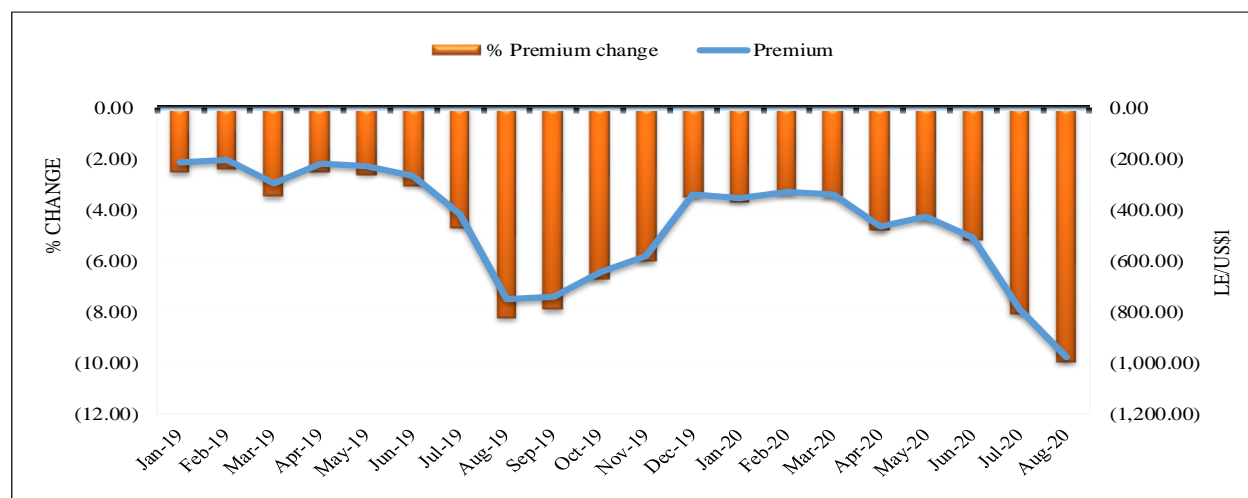
Source: Research Department, BSL

5.0 Exchange Rate Developments

In August 2020, the average exchange rate of the Leone vis-à-vis the US dollar depreciated in all foreign exchange markets on both the buying and selling fronts. On the buying front, the Leone depreciated in the parallel market, official, bureau and commercial banks respectively, by 2.18 percent, 0.38 percent, 0.38 percent and 0.18 percent averaging Le10,733.33/US\$1, Le9,708.69/US\$1, Le9,592.18/US\$1 and Le9,887.00/US\$1. Similarly, on the selling front, the Leone depreciated in the parallel markets, commercial banks, official and bureau markets by 2.11 percent, 0.49 percent, 0.38 percent and 0.28 percent, averaging Le10,833.33/US\$1, Le10,051.24/US\$1, Le9,904.82/US\$1 and Le10,001.96/US\$1, respectively.

The average monthly premium between the official and parallel rates widened by 1.90 percentage points to Le976.58/US\$1 in August, 2020 from Le787.63/US\$1 in July, 2020 (See figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

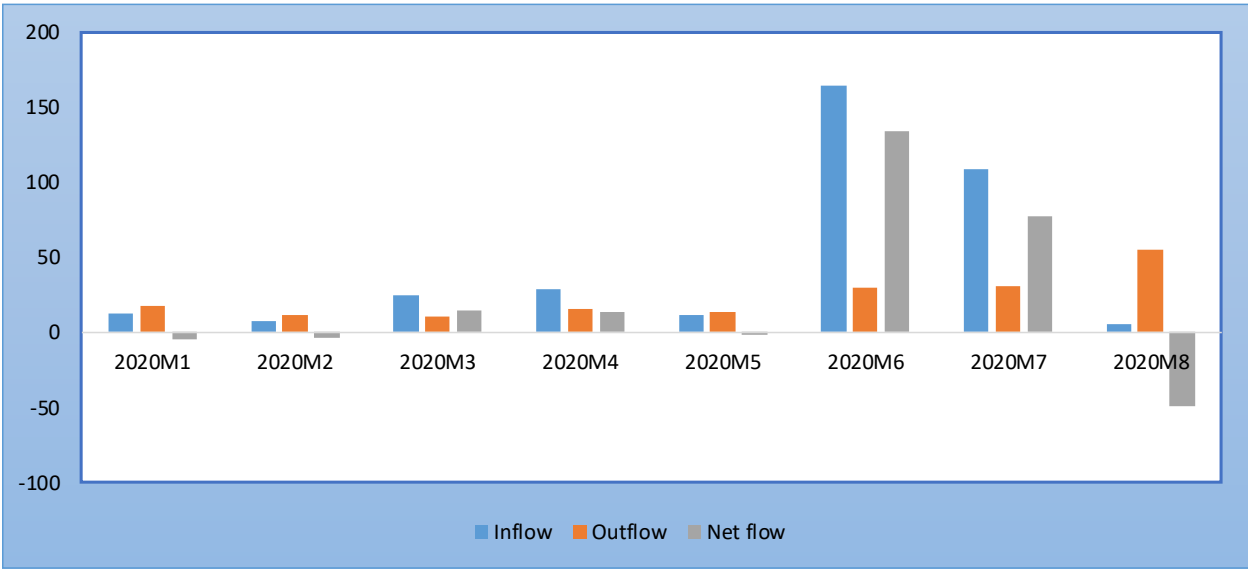
6.0 Gross Foreign Exchange Reserves

The gross foreign exchange reserves of the Bank of Sierra Leone decreased by 5.97 percent to US\$720.65mn in August 2020 from US\$766.39mn in July 2020, mainly driven by a total outflow of US\$54.91mn outweighing inflows of US\$5.99mn resulting to a net outflow of US\$48.92mn with a revaluation adjustment of US\$3.19mn.

Major inflows included royalty payment in respect of rutile export (US\$1.15mn), Koidu Holding mining co. (US\$0.65mn), diamond exporter’s income tax (US\$0.12mn), fishing royalties and license (US\$0.51mn) and timber exports (US\$1.62mn). Other inflows comprised: interest earned by BSL from investment abroad (US\$0.62mn), maritime administration (US\$0.14mn), other government receipts (US\$0.43mn) and disbursement for BOP support by multilateral & bilateral creditors (US\$0.60mn).

Significant outflows comprised; drawdown on BSL special credit facility (US\$17.86mn), interbank market operations (US\$12.80mn), government travel and other government outlays (US\$14.21mn), embassy/mission payments (US\$3.80mn), subscription to international organizations (US\$0.54mn). Other outflows consisted of debt service payments (US\$5.71mn) of which: World Bank (US\$2.19mn), AfDB (US\$0.35mn), EC/EIB (US\$1.25mn) and other multilateral & bilateral creditors (US\$1.93mn).

Figure 8: Foreign Exchange Flows



Source: Bank of Sierra Leone