



BANK OF SIERRA LEONE

**Monthly Economic
Review**

Volume 24| Issue 8

August 2021



BANK OF SIERRA LEONE

**Monthly Economic
Review**

August 2021

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.

TABLE OF CONTENTS

TABLE OF CONTENTS	ii
LIST OF FIGURES	iii
LIST OF TABLES.....	iii
ABBREVIATIONS	iv
1.0 Highlights	1
2.1 Production.....	2
2.1.1 Manufacturing Sector.....	2
2.1.2 Mining Sector.....	2
2.1.3 Agriculture Sector	2
2.2 Price Developments	2
3.0 Government Budgetary Operations	4
3.1 Revenue	4
3.2 Expenditure.....	5
3.3 Financing	5
4.0 Monetary Developments.....	5
4.1 Broad Money (M2).....	5
4.2 Reserve Money (RM)	7
4.3 Interest Rates	8
5.0 Exchange Rate and Reserves	9
5.1 Exchange Rate Developments	9
5.2 Gross Foreign Exchange Reserves	10

LIST OF FIGURES

Figure 1: Trends in Headline, Food and Non-Food Inflation	2
Figure 2: Trends in Annual (Y-o-Y) Inflation and Monthly Inflation.....	3
Figure 3: Trends in Government Revenue and Expenditure	4
Figure 4: Contributions of NDA and NFA to M2 Growth	7
Figure 5: Contributions of NDA and NFA to RM Growth.....	8
Figure 6: Trends in Monetary Policy Rate and Other Market Rates	8
Figure 7: Premium between Official and Parallel Exchange Rates	10
Figure 8: Foreign Exchange Flows	11

LIST OF TABLES

Table 1: Broad Money and Components	6
Table 2: Reserve Money and Components	7
Table 3: Trends in Interest Rates	9

ABBREVIATIONS

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
MoF	-	Ministry of Finance
MPR	-	Monetary Policy Rate
NDA	-	Net Domestic Assets
NFA	-	Net Foreign Assets
ODC	-	Other Depository Corporations
RM	-	Reserve Money
SDF	-	Standing Deposit Facility
SLF	-	Standing Lending Facility
Stats SL	-	Statistics Sierra Leone
Y-o-Y	-	Year-on-Year

1.0 Highlights

In August 2021, the manufacturing sector of Sierra Leone recorded decreases in output for beer & stout, maltina, cement, acetylene, oxygen and confectionery by 13.68 percent, 22.90 percent, 3.16 percent, 7.24 percent, 1.49 percent, and 0.48 percent, to 114.18 thousand cartons, 67.18 thousand cartons, 31.83 thousand metric tons, 29.07 thousand cubic feet, 39.74 thousand cubic feet, and 318.70 thousand pounds, respectively. However, paint and common soap production increased by 4.63 percent and 0.64 percent to 56.86 thousand metric tons and 55.09 thousand gallons, respectively.

The mining sector recorded increases in production of diamond, bauxite, and iron ore, whilst Gold, rutile, and ilmenite production decreased. Cocoa production also increased, but there was no coffee production during the review month.

Headline inflation (year-on-year) increased to 10.88 percent in August 2021 from 10.50 percent in July 2021, reflecting an increase in non-food inflation to 7.48 percent in August 2021 from 6.40 percent in July 2021. Conversely, food inflation further moderated to 14.88 percent in August 2021 from 15.40 percent in July 2021.

Preliminary government budgetary operations (on cash flow basis) recorded a wide deficit of Le611.41 billion in August 2021, compared to a deficit of Le230.44 billion in July 2021. The increase in deficit reflects the combined effect of an increase in government expenditure and a decrease in government revenue during the review period.

The Monetary Policy Rate of BSL, remained unchanged at 14.00 percent in August 2021. Similarly, the standing lending and deposit facility rates also remained unchanged at 17.00 percent and 8.00 percent in August 2021, respectively. The interbank rate continued to trend upward from 14.77 percent in July 2021 to 15.22 percent in August 2021. Commercial banks' average lending and savings deposit rates also remained unchanged at 19.88 percent and 2.23 percent in August 2021, respectively.

Developments in monetary aggregates were mixed in August 2021. Broad Money (M2) grew by 0.64 percent in August 2021, whilst Reserve Money (RM) contracted by 1.34 percent in August 2021.

Gross foreign exchange reserves of the Bank of Sierra Leone at end August 2021 was US\$972.45 million, up by 36.99 percent from US\$709.86 million in July 2021. Inflows recorded in August was US\$286.41 million, while outflows was US\$24.18 million, resulting to a net inflow of US\$262.23 million, with a recorded revaluation gain of US\$0.36 million.

The monthly exchange rate of the Leone to the US dollar (Le/US\$) depreciated across the foreign exchange markets. Consequently, the premium between the official and Parallel rates widened by 78.50 percent to Le570.51/US\$1 in August, 2021 from Le319.41/US\$1 in July, 2021.

2.1 Production

2.1.1 Manufacturing Sector

In August 2021, the manufacturing sector of Sierra Leone recorded decreases in output for beer & stout, maltina, cement, acetylene, oxygen and confectionery by 13.68 percent, 22.90 percent, 3.16 percent, 7.24 percent, 1.49 percent, and 0.48 percent, to 114.18 thousand cartons, 67.18 thousand cartons, 31.83 thousand metric tons, 29.07 thousand cubic feet, 39.74 thousand cubic feet, and 318.70 thousand pounds, respectively. However, paint and common soap production increased by 4.63 percent and 0.64 percent to 56.86 thousand metric tons and 55.09 thousand gallons, respectively.

2.1.2 Mining Sector

The mining sector recorded increases in production of diamond, bauxite, and iron ore by 26.64 percent, 2.10 percent, and 21.22 percent, to 73.16 thousand carats, 118.02 thousand metric tons, and 170.09 thousand metric tons respectively, during the review period. Diamond comprised of 61.39 thousand carats of industrial diamond and 11.77 thousand carats of gem diamond in August 2021. However, production of gold, rutile, ilmenite and other minerals in August 2021 decreased by 34.75 percent, 2.50 percent, 1.08 percent, and 66.81 percent, to 260.53 ounces, 12.01 thousand metric tons, 5.31 thousand metric tons, and 0.89 thousand dry metric tons respectively.

2.1.3 Agriculture Sector

Cocoa production increased in August 2021 by 7.37 percent to 625.88 thousand metric tons. However, there was no coffee production during the review month.

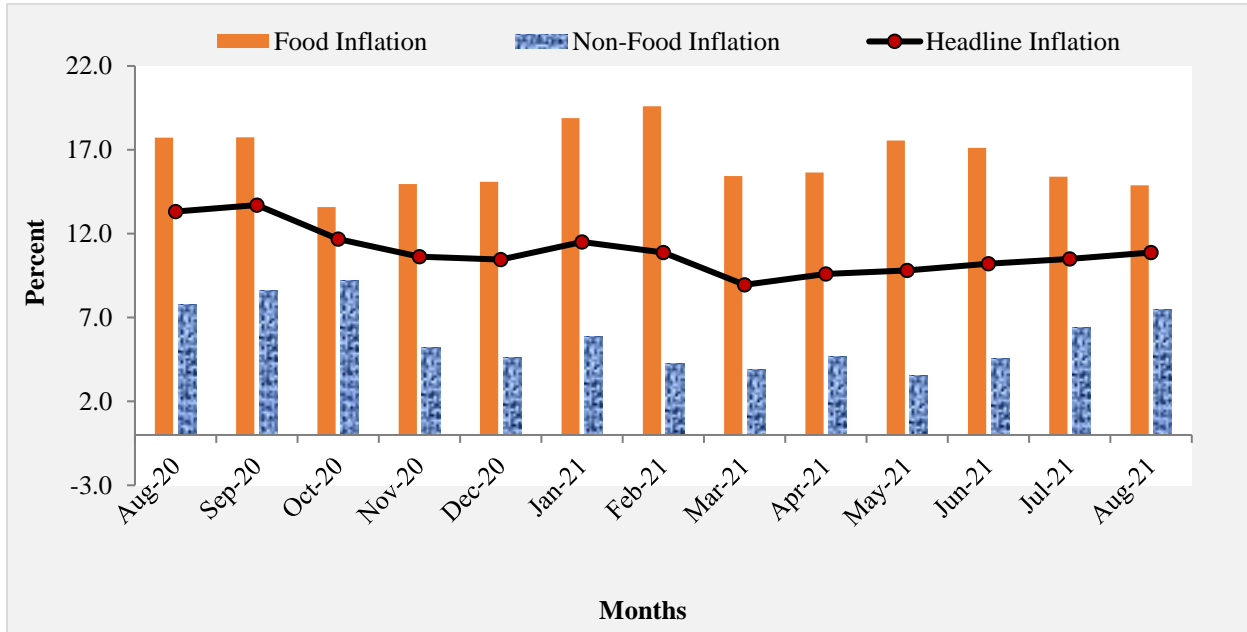
2.2 Price Developments

Headline inflation (year-on-year) increased to 10.88 percent in August 2021 from 10.50 percent in July 2021, reflecting an increase in non-food inflation to 7.48 percent in August 2021 from 6.40 percent in July 2021. Conversely, food inflation further moderated to 14.88 percent in August 2021 from 15.40 percent in July 2021 (see **Figure 1**).

On regional basis, headline inflation in the Southern, Eastern and Western regions increased to 14.23 percent, 14.00 percent, and 9.53 percent in August 2021 from 13.73 percent, 11.87 percent,

and 8.73 percent respectively, in July 2021. However, inflation in the Northern region decreased to 9.16 percent in August 2021 from 10.63 percent in July 2021.

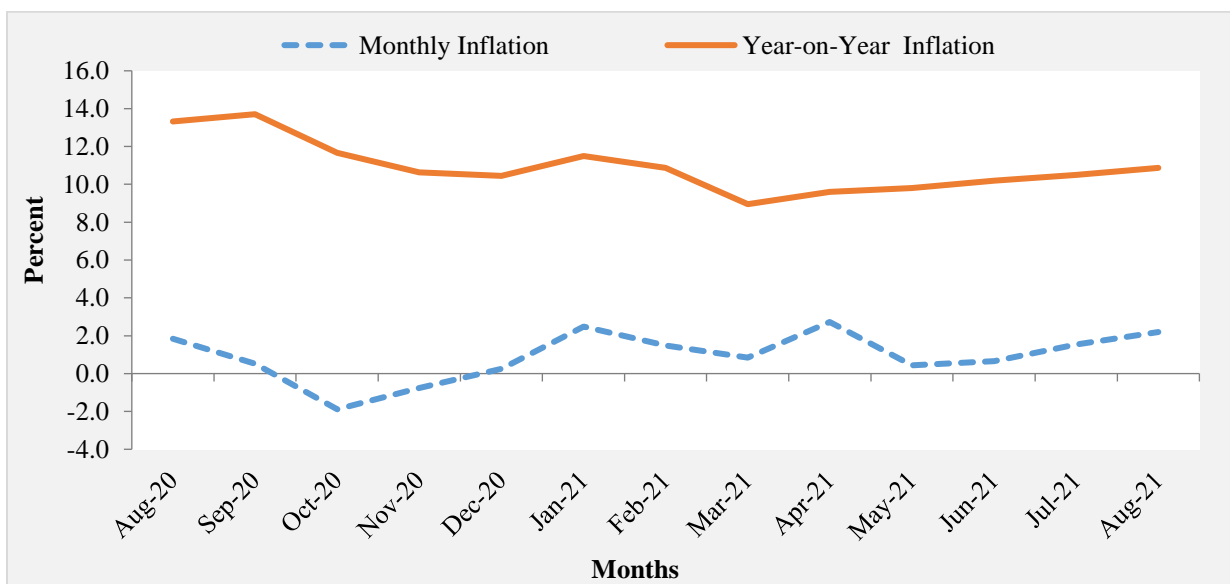
Figure 1: Trends in Headline, Food and Non-Food Inflation



Source: Stats SL

Monthly headline inflation increased to 2.19 percent in August 2021 from 1.53 percent in July 2021. **Figure 2** depicts the trends in both annual and monthly inflation.

Figure 2: Trends in Annual (Y-o-Y) Inflation and Monthly Inflation



Source: Stats SL

3.0 Government Budgetary Operations

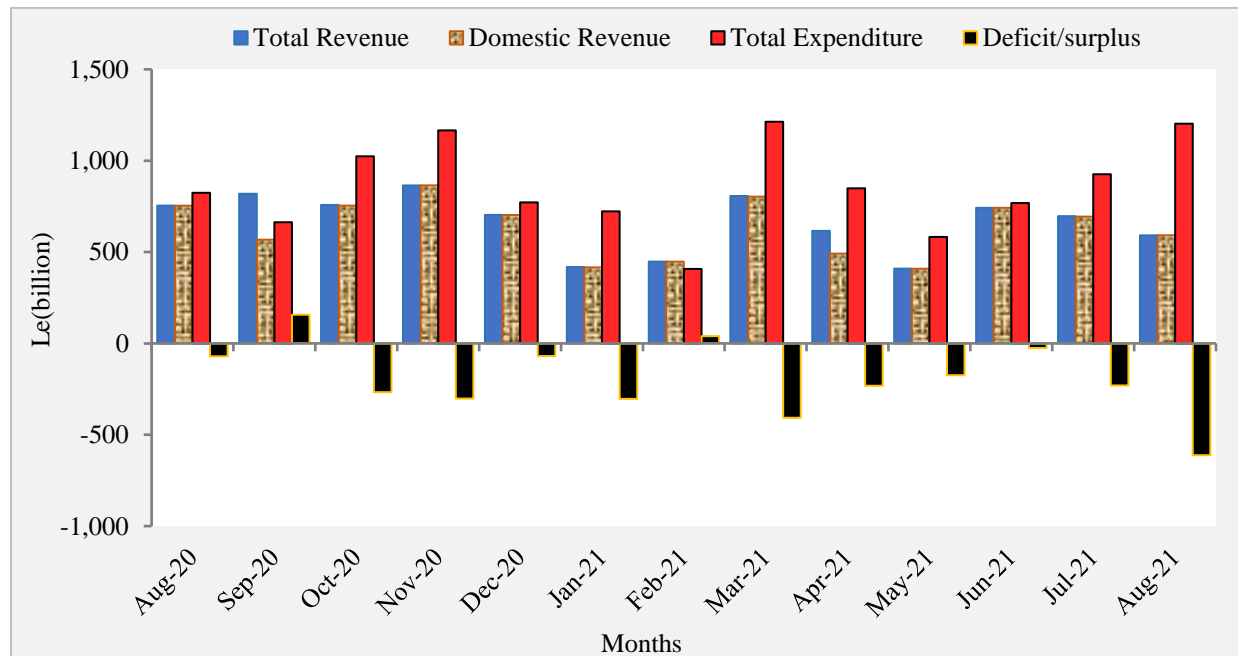
Preliminary government budgetary operations (on cash flow basis) recorded a deficit of Le611.41 billion in August 2021, compared to a deficit of Le230.44 billion in July 2021. The increase in the deficit reflects the combined effect of an increase in government expenditure and a decrease in government revenue during the review period (see **Figure 3**).

3.1 Revenue

Government revenue decreased by 14.95 percent to Le591.82 billion in August 2021, and fell short of the target of Le778.26 billion. This outcome was entirely due to the contraction in domestic revenue mobilization during the review month, as there was no external budgetary support recorded.

Domestic revenue decreased by 14.71 percent to Le591.82 billion in August 2021, reflecting a fall in all its major components. Receipts from customs and excise decreased by 17.78 percent to Le68.63 billion. Income tax fell by 7.29 percent to Le124.31 billion. Similarly, goods and services tax dropped by 21.30 percent to Le86.82 billion, and non-tax revenue collected declined by 14.75 percent to Le312.06 billion during the review period.

Figure 3: Trends in Government Revenue and Expenditure



Source: MoF

3.2 Expenditure

Government expenditure increased by 29.90 percent to Le1, 203.23 billion in August 2021, and breached the ceiling of Le560.94 billion. The expansion in government expenditure is reflected in the increase in other expenditure on goods and services by 85.18 percent to Le914.40 billion. However, pensions, wages & salaries and debt service payment decreased in the review month by 6.53 percent and 79.55 percent to Le256.52 billion and Le32.31 billion, respectively.

3.3 Financing

The overall deficit of Le611.41 billion was entirely financed from domestic sources.

4.0 Monetary Developments

Developments in monetary aggregates were mixed in August 2021, as Broad Money (M2) expanded whilst Reserve Money (RM) contracted.

4.1 Broad Money (M2)

Broad Money (M2) grew by 0.64 percent in August 2021, relative to 1.02 percent in July 2021. The growth in M2 reflects an increase in Net Domestic Assets (NDA) of the banking system which outweighed the decline in Net Foreign Assets (NFA) of the banking system.

NDA of the banking system grew by 3.36 percent in August 2021, compared to the 0.11 percent growth in July 2021. The expansion in NDA was as a result of increase in net claims on government by both the Bank of Sierra Leone (7.10 percent) and commercial banks (3.09 percent). Meanwhile, Credit to the private sector by commercial banks expanded by 1.83 percent in August 2021, from a contraction of 0.34 percent in July 2021. The NFA of the banking system contracted by 8.39 percent in August 2021, following an expansion of 4.18 percent in July 2021. This development was a reflection of decreases in the NFA of both the Bank of Sierra Leone (BSL) and commercial banks.

From the liability side, the growth in M2 mirrors the increase in narrow money (M1), which outweighs the decline in Quasi Money. M1 expanded by 2.27 percent in August 2021, from a contraction of 0.32 percent in July 2021. The increase in M1 was due to the 7.05 percent growth in demand deposits, which was more than the 2.92 percent decrease in currency outside banks. Quasi Money contracted by 1.02 percent in August 2021, relative to 2.42 percent expansion in July

2021. The contraction in Quasi Money was attributed to the decreases in foreign currency deposits and time and savings deposits by 1.97 percent and 0.03 percent, respectively. **Table 1** shows the evolution in the various components of broad money from July to August 2021.

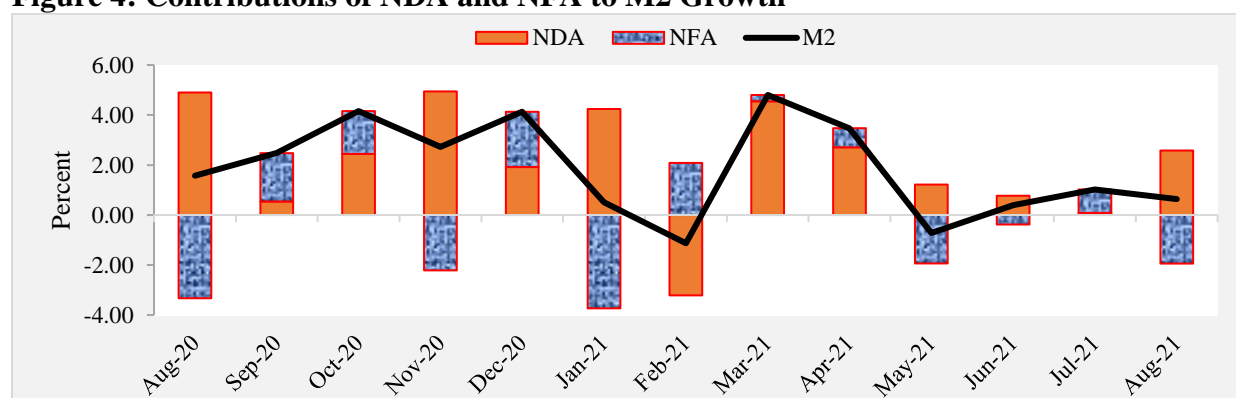
Table 1: Broad Money and Components

Billions of Leones	2021		Absolut Change		%Change	
	Jul-21	Aug-21	Jul-21	Aug-21	Jul-21	Aug-21
Reserve money	4,203.66	4,147.44	130.91	(56.22)	3.21	(1.34)
Broad Money (M2)	12,793.44	12,875.03	129.52	81.59	1.02	0.64
Narrow money (M1)	6,443.20	6,589.62	(20.56)	146.42	(0.32)	2.27
Currency outside banks	3,089.66	2,999.58	40.85	(90.08)	1.34	(2.92)
Demand deposit	3,353.54	3,590.04	(61.41)	236.50	(1.80)	7.05
Quasi money	6,350.24	6,285.41	150.08	(64.83)	2.42	(1.02)
o.w. Foreign currency deposit	3,201.91	3,138.87	189.52	(63.05)	6.29	(1.97)
Time and saving deposit	3,142.70	3,141.74	(39.49)	(0.96)	(1.24)	(0.03)
Net Foreign Asset	2,959.61	2,711.15	118.86	(248.46)	4.18	(8.39)
BSL	17.97	(168.39)	(56.29)	(186.36)	(75.80)	(1037.00)
ODCs	2,941.64	2,879.54	175.15	(62.10)	6.33	(2.11)
Net Domestic Assets	9,833.83	10,163.88	10.66	330.05	0.11	3.36
Net Domestic Credit	12,525.15	13,003.79	187.65	478.64	1.52	3.82
Government (Net)	9,885.12	10,355.97	196.12	470.84	2.02	4.76
BSL	4,115.38	4,407.70	149.92	292.33	3.78	7.10
ODCs	5,769.75	5,948.26	46.21	178.52	0.81	3.09
Private Sector Credit	2,814.84	2,865.29	(9.00)	50.45	(0.32)	1.79
o.w ODC	2,797.05	2,848.10	(9.47)	51.06	(0.34)	1.83
Other Sectors (Net)*	(174.81)	(217.46)	0.52	(42.65)	(0.30)	24.40
Other Items (Net)	(2,691.32)	(2,839.91)	(176.99)	(148.59)	7.04	5.52
Money Multiplier	3.04	3.10				

Note: Other Sectors (Net) includes State & Local, Other Financial Corporations and Public Non-Financial Corp.
Source: BSL

In terms of contributions, NFA and NDA of the Banking system contributed -1.94 percent and 2.58 percent to the growth in M2 respectively, in August 2021 (see **Figure 4**).

Figure 4: Contributions of NDA and NFA to M2 Growth



Source: BSL

4.2 Reserve Money (RM)

Reserve Money contracted by 1.34 percent in August 2021 reflecting a decrease in Net Foreign Assets (NFA) of the Bank of Sierra Leone (BSL) which more than offset the increase in Net Domestic Assets (NDA) of the BSL. NFA of the BSL contracted significantly in August 2021 compared to the contraction in July 2021. The significant decline in NFA of the BSL reflects the new SDR allocation of US\$281.00 million amidst drawdown in Foreign Reserves for the settlement of official foreign transactions. However, the NDA of the BSL expanded by 3.11 percent in August 2021 compared to 4.68 percent in July 2021.

From the liability side, RM contracted because of decrease in both banks' reserves (2.65 percent) and currency issued (0.97 percent) in August 2021.

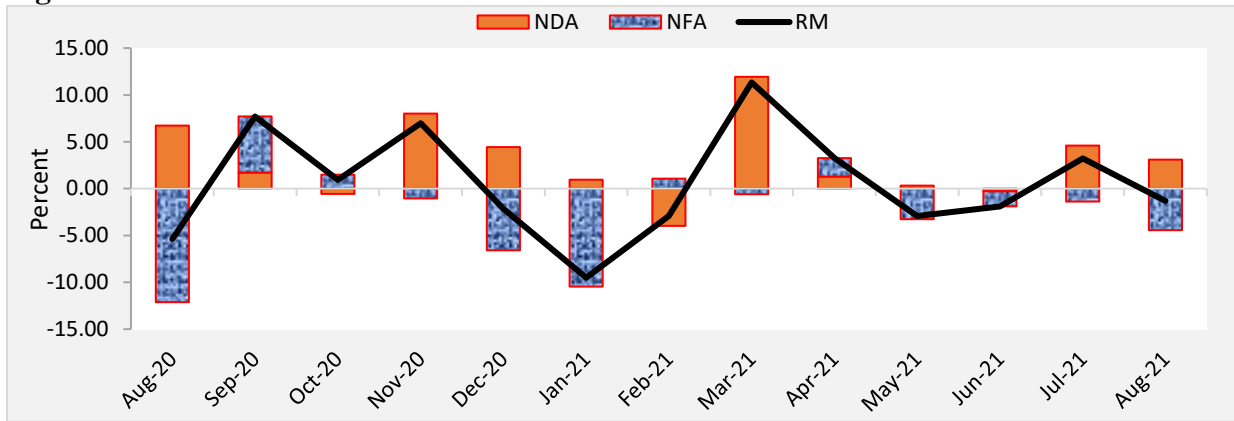
Table 2: Reserve Money and Components

Billions of Leones	2021		Absolute Change		% Change	
	Jul-21	Aug-21	Jul-21	Aug-21	Jul-21	Aug-21
Net Foreign Assets	17.97	(168.39)	(56.29)	(186.36)	(75.80)	(1,037.00)
Net Domestic Assets	4,185.69	4,315.82	187.19	130.13	4.68	3.11
Government Borrowing (net)	4,115.38	4,407.70	149.92	292.33	3.78	7.10
o.w. Securities	1,109.26	1,111.59	3.28	2.33	0.30	0.21
Ways and Means	-	77.56	(187.16)	77.56	(100.00)	-
GoSL/IMF /WB Budget financing	3,388.87	3,388.87	454.09	-	15.47	-
Reserve money	4,203.66	4,147.44	130.91	(56.22)	3.21	(1.34)
o.w. Currency issued	3,319.85	3,287.76	8.28	(32.09)	0.25	(0.97)
Bank reserves	878.18	854.88	122.58	(23.30)	16.22	(2.65)

Source: BSL

In terms of contributions, NFA and NDA of the BSL contributed -4.43 percent and 3.10 percent to the growth in RM respectively, in August 2021 (see **Figure 5**).

Figure 5: Contributions of NDA and NFA to RM Growth

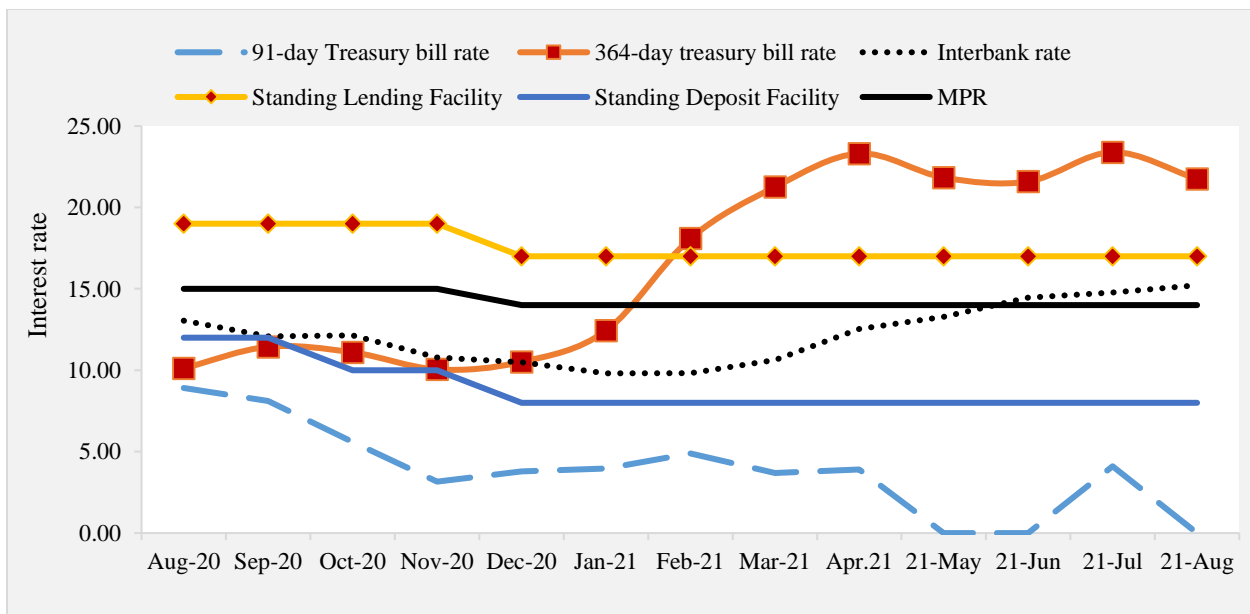


Source: BSL

4.3 Interest Rates

The Monetary Policy Rate, remained unchanged at 14.00 percent in August 202. Similarly, the standing lending and deposit facility rates also remained unchanged at 17.00 percent and 8.00 percent in August 2021, respectively. The interbank rate continued to trend upward from 14.77 percent in July 2021 to 15.22 percent in August 2021. Commercial banks’ average lending and savings deposit rates also remained unchanged at 19.88 percent and 2.23 percent in August 2021, respectively (see Figure 6).

Figure 6: Trends in Monetary Policy Rate and Other Market Rates



Source: BSL

The 182-day T-bills and 364-day T-bills yields decreased from 9.67 percent and 23.39 percent in July 2021 to 9.54 percent and 21.75 percent in August 2021, respectively (see Table 3).

Table 3: Trends in Interest Rates

	2020					2021							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
91-day T-Bills	8.91	8.11	5.60	3.15	3.78	3.96	4.88	3.69	3.90	0.00	0.00	4.11	0.00
182-day T-Bills	9.42	9.68	7.45	5.48	5.17	5.98	8.22	10.00	10.03	10.13	9.61	9.67	9.54
364-day T-Bills	10.12	11.44	11.10	10.05	10.51	12.43	18.09	21.25	23.31	21.83	21.59	23.39	21.75
Interbank rate	13.04	12.09	12.14	10.79	10.48	9.81	9.83	10.64	12.53	13.28	14.45	14.77	15.22
SLF	19.00	19.00	19.00	19.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00
SDF	12.00	12.00	10.00	10.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
MPR	15.00	15.00	15.00	15.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Ave. Lending rate	20.62	20.62	20.30	21.42	21.42	20.19	19.25	19.33	19.74	19.74	19.88	19.88	19.88
Lending (Prime)	17.74 - 23.50	17.74 - 23.50	17.27 - 23.33	18.64 - 24.20	18.64 - 24.20	18.70- 21.67	18.70- 19.80	18.02- 20.64	18.83- 20.64	18.83- 20.64	19.11- 20.64	19.11- 20.64	19.11 - 20.64
Savings deposits	2.72	2.72	2.72	2.72	2.61	2.67	2.35	2.23	2.23	2.23	2.23	2.23	2.23

Source: BSL

5.0 Exchange Rate and Reserves

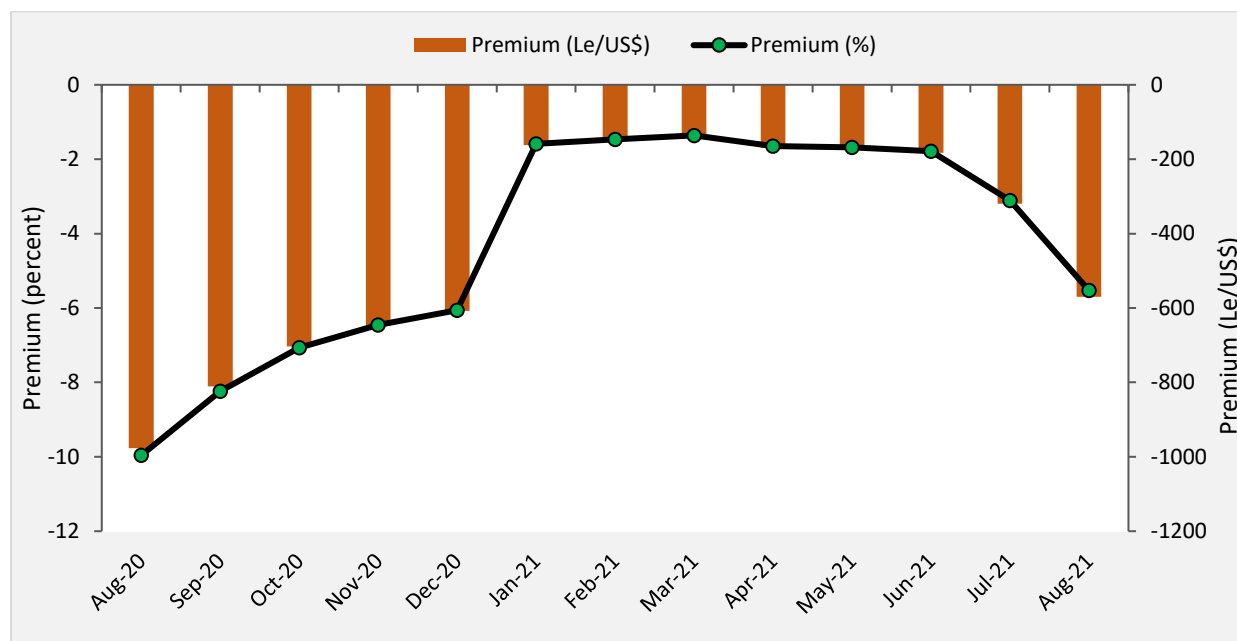
5.1 Exchange Rate Developments

The monthly average exchange rate of the Leone to the US dollar (Le/US\$) in August 2021, depreciated on the buying front in the parallel market, commercial banks, official market and bureau market by 2.42 percent, 0.44 percent, 0.42 percent and 0.19 percent, averaging Le10, 788.64/US\$1, Le10, 351.34/US\$1, Le10, 204.05/US\$1 and Le10, 186.09/US\$1 respectively.

On the selling front, the Leone depreciated in the parallel market, official market and bureau market by 3.13 percent, 0.42 percent and 0.15 percent, averaging Le10,965.91/US\$1, Le10,410.20/US\$1 and Le10,447.77/US\$1 respectively, while it appreciated in the commercial banks by 0.02 percent, averaging Le10,444.04/US\$1.

The premium between the Official and Parallel rates widened by 78.50 percent to Le570.51/US\$1 in August, 2021 from Le319.41/US\$1 in July, 2021 (See Figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: BSL

5.2 Gross Foreign Exchange Reserves

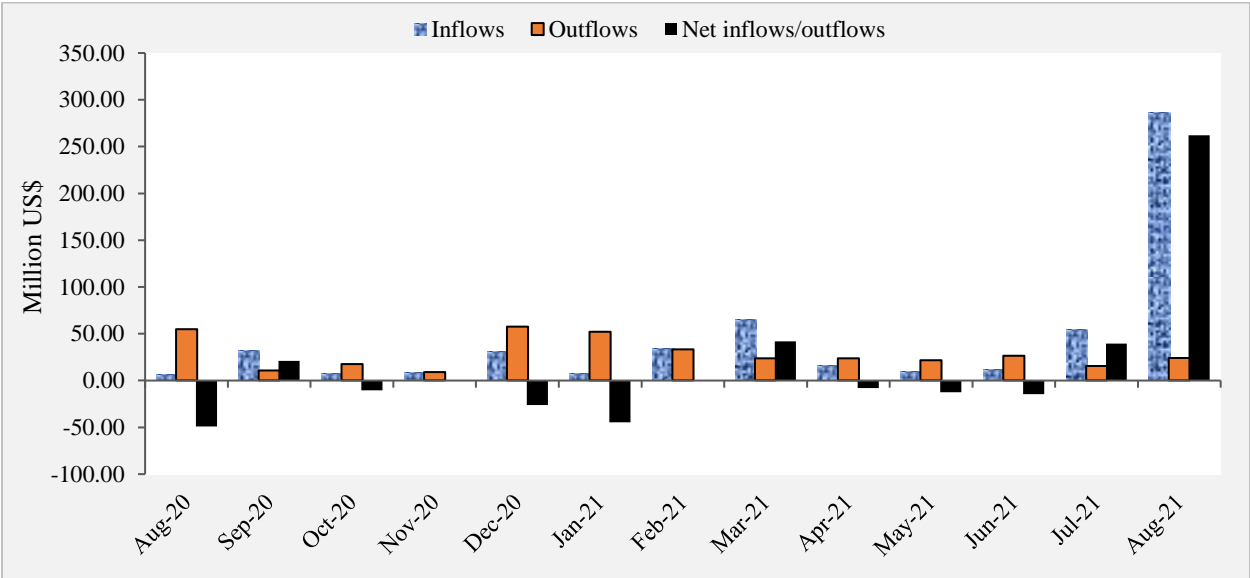
As at end August 2021, the gross foreign exchange reserves of the Bank of Sierra Leone was US\$972.45 million, up by 36.99 percent from US\$709.86 million in July 2021. Inflows recorded in August was US\$286.41 million, while outflows was US\$24.18 million, resulting to a net inflow of US\$262.23 million, with a recorded revaluation gain of US\$0.36 million.

Significant inflows comprised new Special Drawing Right (SDR) allocation from the IMF (US\$281.52 million), receipts from timber export (US\$1.68 million), royalty payments from Kingho Investment Company (US\$0.60 million), Sierra Rutile (US\$0.44 million), interest earned by BSL from investments abroad (US\$0.43 million), royalty payments from Koidu Holdings mining company (US\$0.28 million), Fishing Royalty and license (US\$0.26 million), aide disbursement from IDB in respect of its support to the on-going projects in the country (US\$0.12 million), other mining receipts (US\$0.66 million), and other government receipts (US\$0.27 million).

Major outflows included government outlays (US\$7.93 million), amount utilized in respect of interbank market operations (US\$3.50 million), embassy and mission payments (US\$3.32

million), road infrastructure projects (US\$1.88 million), BSL Special Credit Facility FX operations (US\$1.37 million), subscription to international organizations (US\$0.37 million), water and energy related projects (US\$0.19 million) and currency printing cost (US\$0.14 million). External debt service payments in August 2021 amounted to US\$5.43 million of which, payments to the World Bank (US\$1.20 million), AfDB (US\$0.39 million) and other multilateral and bilateral creditors (US\$3.89 million). **Figure 8** illustrate the flow trends leading to the changes in the stock of gross foreign exchange reserves.

Figure 8: Foreign Exchange Flows



Source: BSL