



BANK OF SIERRA LEONE

**Monthly Economic
Review**

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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

Performance in the manufacturing sector were mixed in December 2020, with production increases recorded for beer & stout, maltina, paint, acetylene, and confectionery, while declines were recorded for cement and common soap. Beer and stout production rose by 13.46 percent to 130.34 thousand cartons; maltina production increased by 157.13 percent to 85.70 thousand cartons; paint production increased by 1.56 percent to 66.56 thousand metric tons; Acetylene and confectionery production rose by 28.75 percent to 35.60 thousand cubic feet and by 3.56 percent to 308.65 pounds respectively. Similarly, oxygen production rose by 11.08 percent to 38.60 thousand cubic feet.

In contrast, cement production fell by 3.86 percent to 30.90 thousand metric tons, while common soap production declined by 5.76 percent to 58.56 thousand metric tons. Furthermore, production performance in the mining sector were mixed as evidenced in decreases in the production of diamond and Bauxite, while out for Ilmenite, rutile and other minerals increased during the review period.

Inflationary pressures was subdued in the month of December 2020 as headline inflation (y/y) decreased slightly to 10.45 percent in December 2020 from 10.63 percent in November 2020, due to the fall in non-food inflation. Non-food inflation continued to decelerate to 2.63 percent in December 2020 from 2.78 percent in November 2020.

Government fiscal operations on cash flow basis recorded a deficit of Le1, 027.00bn in December 2020 compared to a deficit of Le301.57bn in November 2020. The widened deficit resulted from an expansion in government expenditure against a contraction in government revenue during the review period.

The Monetary Policy Rate (MPR) was reduced from 15.00 percent to 14.00 percent in December 2020. Similarly, the Standing Lending Facility and Deposit Facility rates were reduced in December 2020 from 19.00 percent to 17.00 percent and from 10.00 percent to 8.00 percent respectively. The interbank rate also decreased marginally from 10.79 percent in November 2020 to 10.49 percent in December 2020, while the commercial banks' average lending and deposit rates remained at 21.42 percent and 2.61 percent, respectively, in December 2020.

Trends in the growth of monetary aggregates were mixed in December 2020, as Broad Money (M2) increased, while Reserve Money (RM) contracted. Broad Money (M2) expanded by 4.13 percent in December 2020, from a growth of 2.73 percent in November 2020. The growth in M2 was due to increases in both the Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system.

Reserve Money (RM) contracted by 2.14 percent in December 2020, from an expansion of 6.97 percent in November 2020. The contraction in RM was primarily due to decrease in Net Foreign Assets of the Bank of Sierra Leone, which was moderated by the increase in Net Domestic Assets of the BSL.

The gross foreign exchange reserves of the Bank of Sierra Leone decreased by 3.55 percent to US\$705.92mn in December 2020 from US\$731.93 in November 2020, due to increased outflows which outweighed the amount of inflows during the review month.

The average monthly premium between the official and parallel rates narrowed by 6.29 percent to Le607.35/US\$1 in December 2020 from Le648.09/US\$1 in November 2020.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

In December 2020, performance in the manufacturing sector was mixed, with production increases recorded for beer & stout, maltina, paint, acetylene, and confectionery, while declines were recorded for cement and common soap. Beer and stout production rose by 13.46 percent to 130.34 thousand cartons; maltina production increased by 157.13 percent to 85.70 thousand cartons; paint production increased by 1.56 percent to 66.56 thousand metric tons; Acetylene and confectionery production rose by 28.75 percent to 35.60 thousand cubic feet and by 3.56 percent to 308.65 pounds respectively. Similarly, oxygen production rose by 11.08 percent to 38.60 thousand cubic feet.

In contrast, cement production fell by 3.86 percent to 30.90 thousand metric tons, while common soap production declined by 5.76 percent to 58.56 thousand metric tons.

2.1.2 Agriculture

Performance in the agricultural sector proxied by cocoa and coffee production experienced a sharp decline, from 5,527.95 metric tons in November 2020 to 1,999.77 metric tons in December 2020. Similarly, cocoa production plummeted to 1,999.77 metric tons in December 2020 from 5,527.95 metric tons in November 2020. There continued to be no production of coffee during the review period.

2.1.3 Mining Sector

In the mining sector, diamond production decreased by 14.14 percent to 55.44 thousand carats, of which industrial diamond amounted to 45.34 thousand carats, and gem diamond amounted to 10.10 thousand carats. Bauxite production declined by 1.79 percent to 108.45 thousand metric tons.

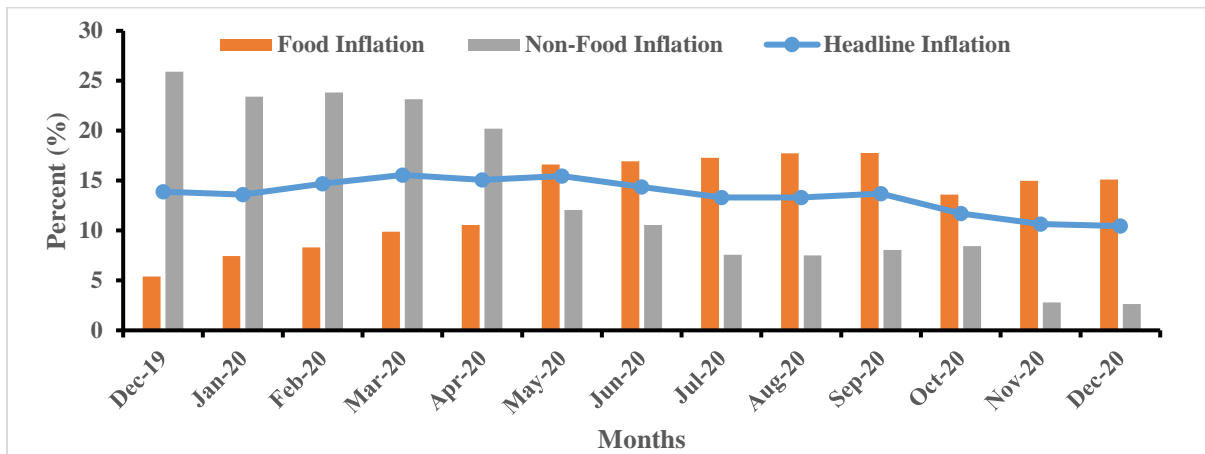
However, production increases were registered for Ilmenite, which rose by 1.32 percent to 3.07 thousand metric tons, rutile production grew by 39.37 percent to 9.24 thousand metric tons, and other minerals production rose by 27.38 percent to 1.07 thousand dry metric tons.

2.2 Price Development

Inflationary pressures was subdued in the month of December 2020 as headline inflation (y/y) decreased slightly to 10.45 percent in December 2020 from 10.63 percent in November 2020, due to the fall in non-food inflation. Non-food inflation continued to decelerate to 2.63 percent in December 2020 from 2.78 percent in November 2020.

Regional inflation trends were mixed in December 2020. Southern region inflation declined to 11.35 percent in December 2020 from 12.96 percent in November 2020 and Western Area inflation fell to 8.82 percent in December 2020 from 9.65 percent in November 2020. However, Eastern region inflation increased to 9.23 percent in December, 2020 from 8.08 percent in November, 2020; and Northern region inflation rose to 13.58 percent in December, 2020 from 12.31 percent in November 2020.

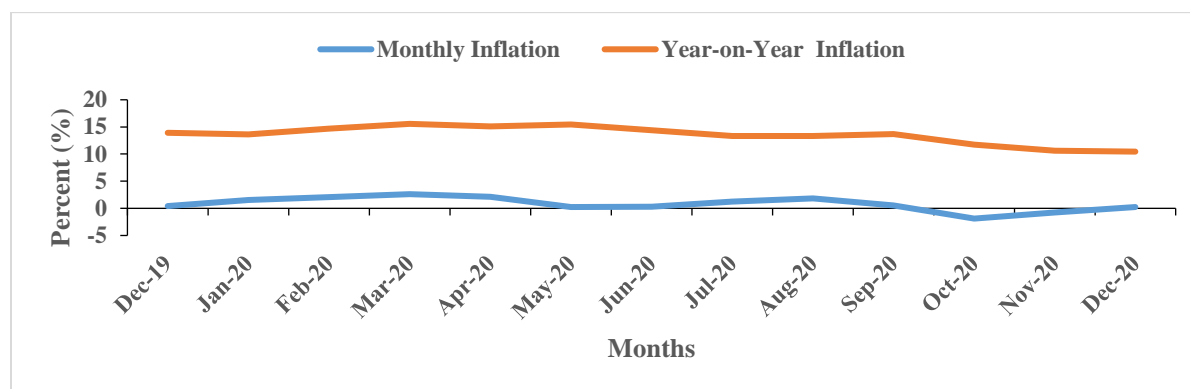
Figure 1: Headline, Food and Non-Food Inflation



Source: Statistics Sierra Leone and BSL

Headline inflation (m/m) registered an inflation of 0.25 percent in December 2020 from a deflation of 0.77 percent in November 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

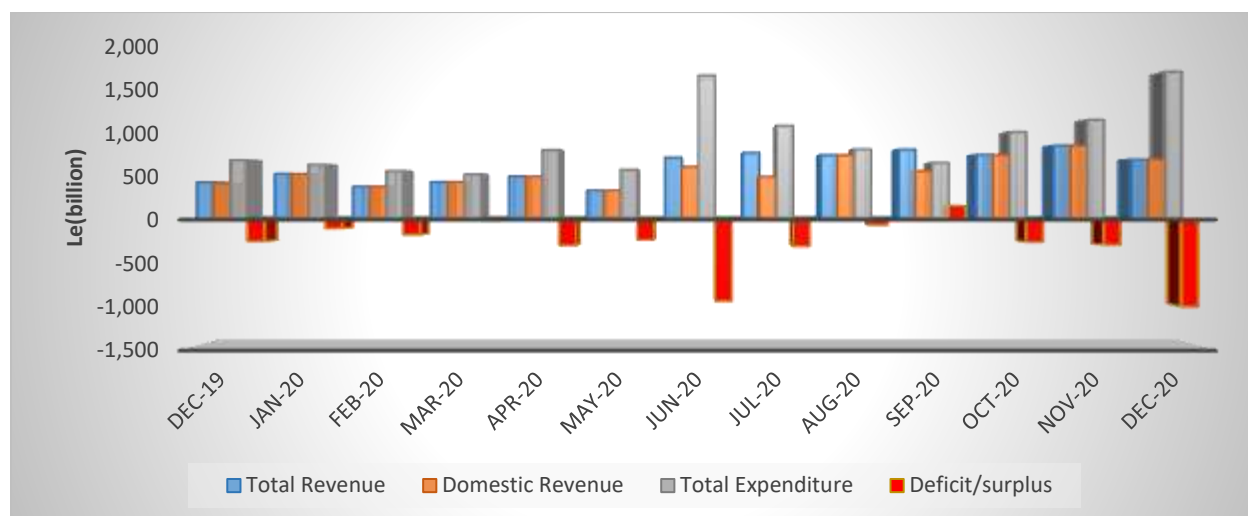
Government fiscal operations on cash flow basis recorded a deficit of Le1, 027.00bn in December 2020 compared to a deficit of Le301.57bn in November 2020. The widened deficit resulted from an expansion in government expenditure against a contraction in government revenue during the review period.

3.1 Revenue

Government revenue contracted by 18.71 percent to Le703.10bn, but exceeded the target of Le635.76bn by 10.59 percent in December 2020. The contraction in government revenue was due to a decline in domestic revenue. There was no foreign grant received, however HIPC Debt Relief amounted to Le0.50bn during the review period.

Domestic revenue fell by 18.77 percent to Le703.60bn but in excess of the target of Le393.34bn by 78.62 percent. Non-tax (miscellaneous) largely accounted for the contraction in domestic revenue, while income tax increased during the period. Non-tax tax revenue dropped by 44.05 percent to Le325.11bn. Customs and excise receipts decreased by 3.41 percent to Le72.60bn. Goods and services tax declined by 8.75 percent to Le94.01bn. Conversely, income tax grew by 99.47 percent to Le210.88bn during the review period.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditure

Government expenditure expanded by 48.31 percent to Le1, 730.10bn and overshoot the ceiling of Le578.82bn by 198.90 percent in December 2020. The expansion in government expenditure was driven by an uptick in debt services payment, mainly domestic debt services payment. Whereas the wage bill, and other expenditure contracted. Debt services payment amounted to Le959.13bn reflecting an 829.31 percent increase compared to Le103.21bn in November 2020, which was mainly domestic debt services payment. There was no foreign debt services payment during the review period.

However, pension, wages and salaries spending contracted by 9.65 percent to Le249.26bn and other expenditure on goods and services dropped by 33.75 percent to Le521.71bn.

3.3 Financing

The overall fiscal deficit of Le1, 027.00bn was financed mainly from domestic resources.

4.0 Monetary Developments

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

4.1 Broad Money

Broad Money (M2) expanded by 4.13 percent in December 2020, from a growth of 2.73 percent in November 2020. The growth in M2 was due to increases in both the Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system.

The NFA of the banking system increased by 8.47 percent in December 2020 from a 7.63 percent contraction in November 2020. This development was driven mainly by a 26.15 increase in NFA of commercial banks in December, compared to the 8.98 percent contraction in November 2020. The expansion in NFA of commercial banks was partly attributed to growth in their overseas nostro accounts.

The NDA of the banking system grew by 2.60 percent in December 2020, compared to the 6.97 growth recorded in November 2020. The growth in NDA was a reflection of the 2.59 percent increase in net claims on government by commercial banks.

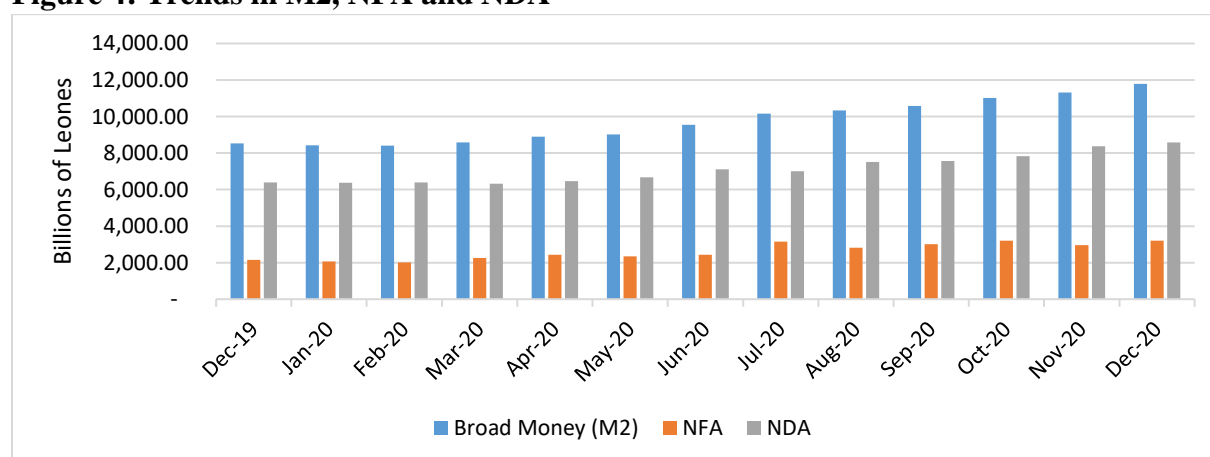
Credit to private sector by the commercial banks declined by 1.61 percent in December 2020, from a growth of 0.43 percent recorded in November 2020.

Table 1: Broad Money and its Components

Billions of Leones	2020		Absolute change		% Change	
	Nov	Dec	Nov-20	Dec-20	Nov-20	Dec-20
Reserve money	4,327.59	4,234.92	281.80	(92.68)	6.97	(2.14)
Broad Money (M2)	11,323.37	11,791.28	300.92	467.91	2.73	4.13
Narrow money (M1)	5,892.80	6,004.32	321.50	111.52	5.77	1.89
Currency outside banks	2,648.86	2,806.99	167.24	158.13	6.74	5.97
Demand deposit	3,243.94	3,197.32	154.26	(46.61)	4.99	(1.44)
Quasi money	5,430.57	5,786.97	-20.58	356.40	(0.38)	6.56
o.w. Foreign currency deposit	2,476.80	2,797.74	(67.54)	320.94	(2.65)	12.96
Time and saving deposit	2,948.20	2,966.90	47.63	18.70	1.64	0.63
Net Foreign Asset	2,954.53	3,204.76	(244.04)	250.24	(7.63)	8.47
BSL	908.17	623.19	(42.26)	(284.98)	(4.45)	(31.38)
ODCs	2,046.36	2,581.58	(201.78)	535.22	(8.98)	26.15
Net Domestic Assets	8,368.85	8,586.52	544.97	217.67	6.97	2.60
Net Domestic Credit	10,894.82	10,892.81	619.10	(2.01)	6.02	(0.02)
Government (Net)	8,631.75	8,682.96	603.88	51.21	7.52	0.59
BSL	3,506.22	3,557.53	267.95	51.31	8.27	1.46
ODCs	5,125.53	5,125.43	335.94	(0.10)	7.01	(0.00)
Private Sector Credit	2,418.40	2,379.92	10.30	(38.48)	0.43	(1.59)
o.w ODC	2,387.47	2,349.01	10.31	(38.46)	0.43	(1.61)
Other Sectors (Net)*	(155.33)	(170.07)	4.92	(14.74)	(3.07)	9.49
Other Items (Net)	(2,525.97)	(2,306.29)	-74.13	219.68	3.02	(8.70)
Money Multiplier	2.62	2.78				

*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 growth in M2 reflected expansion in both Narrow Money (M1) and Quasi Money during the month of December 2020. M1 grew by 1.89 percent in December 2020 compared to the growth of 5.77 percent in November 2020. The growth in M1 was due to increase in currency outside banks by 5.97 percent, which outweighed the decrease in demand deposits (1.44%). Quasi Money increased by 6.56 percent, compared to a decline of 0.38 percent, mainly as a result of a 12.96 percent increase in foreign currency deposits and a 0.63 percent growth in time & saving deposits.

4.2 Reserve Money

Reserve Money (RM) contracted by 2.14 percent in December 2020, from an expansion of 6.97 percent in November 2020. The contraction in RM was primarily due to decrease in Net Foreign Assets of the Bank of Sierra Leone, which was moderated by the increase in Net Domestic Assets of the BSL. The NFA of BSL decreased by 31.38 percent in December 2020, from a contraction of 4.45 percent in November 2020.

The NDA of BSL decreased by 5.63 percent in December 2020 relative to the 10.47 percent growth recorded in November 2020. This was mainly on account of government repayment of the IMF/WB bridge loans.

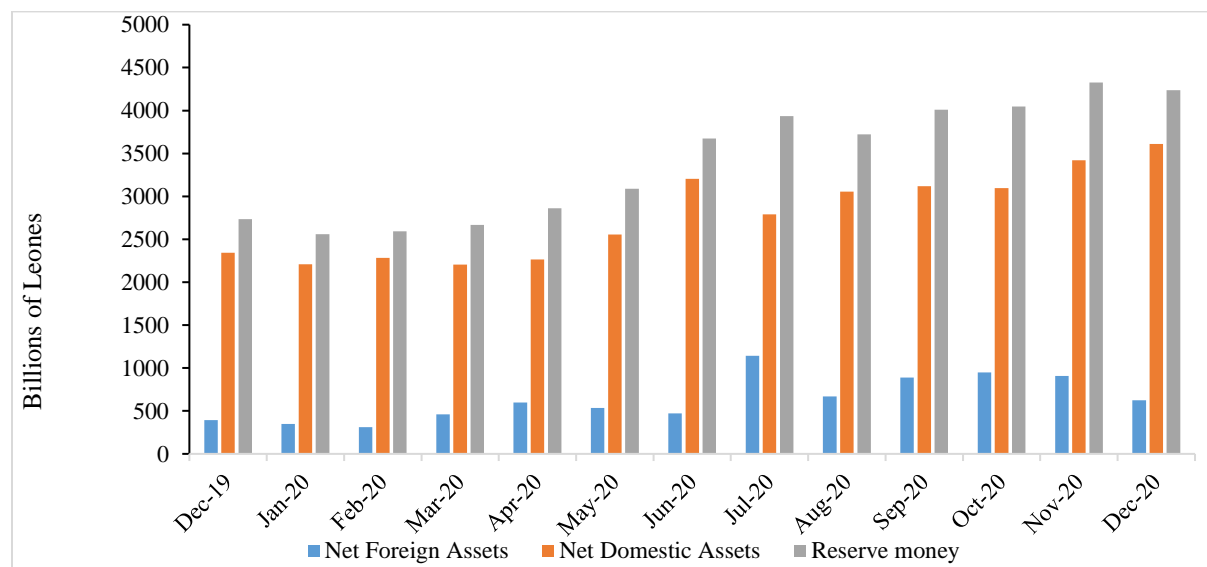
Table 2: Reserve Money and its Components

Billions of Leones	2020		Absolute Change		% Change	
	Nov	Dec	Nov-20	Dec-20	Nov-20	Dec-20
1. Net Foreign Assets	908.17	623.19	(42.26)	(284.98)	(4.45)	(31.38)
2. Net Domestic Assets	3,419.43	3,611.73	324.06	192.30	10.47	5.62
Government Borrowing (net)	3,506.21	3,557.52	267.94	51.31	8.27	1.46
o.w. Securities	828.66	1,011.43	(99.58)	182.77	(10.73)	22.06
Ways and Means	138.96	213.57	138.96	74.60	-	53.69
GoSL/IMF /WB Budget fin.	2,775.22	2,525.22	250.00	(250.00)	9.90	(9.01)
3. Reserve money	4,327.59	4,234.92	281.80	(92.68)	6.97	(2.14)
o.w. Currency issued	2,958.62	3,009.15	171.87	50.52	6.17	1.71
Bank reserves	1,362.94	1,203.08	110.61	(159.86)	8.83	(11.73)

Source: Research Department, BSL

From the liabilities side, the decline in RM growth reflected a 11.73 percent decline in banks' reserves, which more than offset the 1.71 percent increase in currency issued.

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

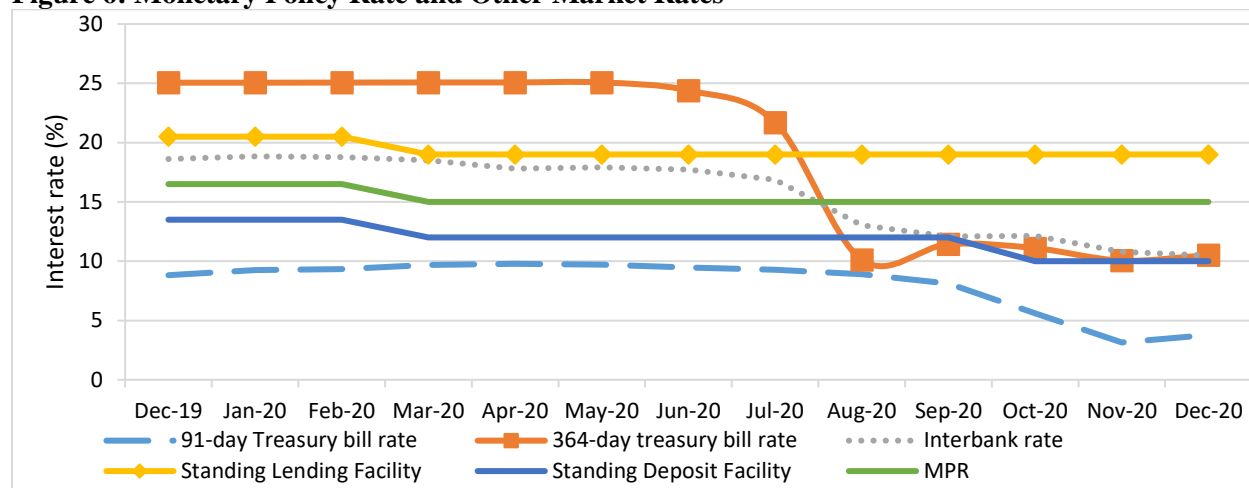


Source: Research Department, BSL

4.3 Interest Rates

The Monetary policy Committee (MPC) met in December 2020, and reduced the Monetary Policy Rate (MPR) from 15.00 percent to 14.00 percent. Accordingly, the MPC reduced the Standing Lending Facility rate from 19.00 percent to 17.00 percent, and the Standing Deposit Facility rate from 10.00 percent to 8.00 percent. The interbank rate decreased marginally from 10.79 percent in November 2020 to 10.49 percent in December 2020, while the commercial banks' average lending and saving deposit rates remained at 21.42 percent and 2.61 percent, respectively, in December 2020.

Figure 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

The yields on government securities exhibited mixed trend during the month of December 2020. The 91-day T-bills, and 364-day T-bills increased from 3.15 percent, 10.05 percent in November to 3.78 percent and 10.51 percent respectively, in December 2020. On the other hand, the 182-day T-bills decreased from 5.48 percent in November 2020 to 5.17 percent in December 2020.

Table 3: Interest Rates (%)

	2019	2020											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
91-day T-Bills	8.83	9.25	9.34	9.69	9.78	9.71	9.46	9.29	8.91	8.11	5.60	3.15	3.78
182-day T-Bills	13.21	13.21	13.21	13.21	13.21	13.21	13.21	13.20	9.42	9.68	7.45	5.48	5.17
364-day T-Bills	25.05	25.05	25.06	25.07	25.07	25.07	24.39	21.7	10.12	11.44	11.10	10.05	10.51
Interbank rate	18.61	18.84	18.77	18.50	17.80	17.91	17.73	16.85	13.04	12.09	12.14	10.79	10.48
SLF	20.50	20.50	20.50	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00
SDF	13.50	13.50	13.50	12.00	12.00	12.00	12.00	12.00	12.00	12.00	10.00	10.00	10.00
MPR	16.50	16.50	16.50	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Ave. Lending rate	21.35	20.49	20.49	20.49	20.49	20.51	20.51	20.77	20.62	20.62	20.30	21.42	21.42
	17.35	17.89	17.89	17.72	17.72	17.75	17.75	18.04	17.74	17.74	17.27	18.64	18.64
Lending (Prime)	-	-	-	-	-	-	-	-	-	-	-	-	-
	22.99	23.08	23.08	23.26	23.26	23.26	23.26	23.50	23.50	23.50	23.33	24.20	24.20
Savings deposits	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.89	2.72	2.72	2.72	2.61	2.61

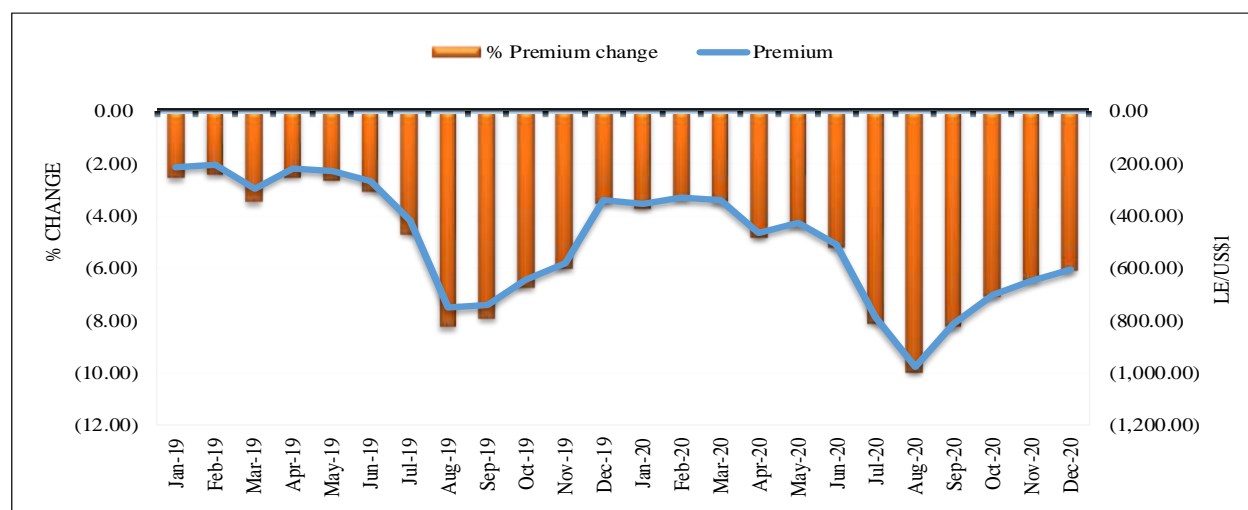
Source: Research Department, BSL

5.0 Exchange Rate Developments

In December 2020, movement in the foreign exchange market showed that the average exchange rate of the Leone vis-à-vis the US dollar depreciated generally on both the buying and selling fronts. On the buying front, the Leone depreciated in the bureau, official, parallel and commercial banks by 0.62 percent, 0.57 percent 0.49 percent and 0.44 percent averaging Le9,979.37/US\$1, Le9,993.97/US\$1, Le10,652.27/US\$1 and Le10,135.87/US\$1, respectively. Likewise, on the selling front, the Leone depreciated in the bureau , official, commercial banks by 1.14 percent, 0.57 percent and 0.57 percent averaging Le10,289.31/US\$1, Le10,195.87/US\$1, and Le10,322.08/US\$1, respectively. On the other hand, the Leone appreciated in the parallel market by 0.18 percent, averaging Le10,752.27/US\$.

The average monthly premium between the official and parallel rates narrowed by 6.29 percent to Le607.35/US\$1 in December 2020 from Le648.09/US\$1 in November 2020 (See figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

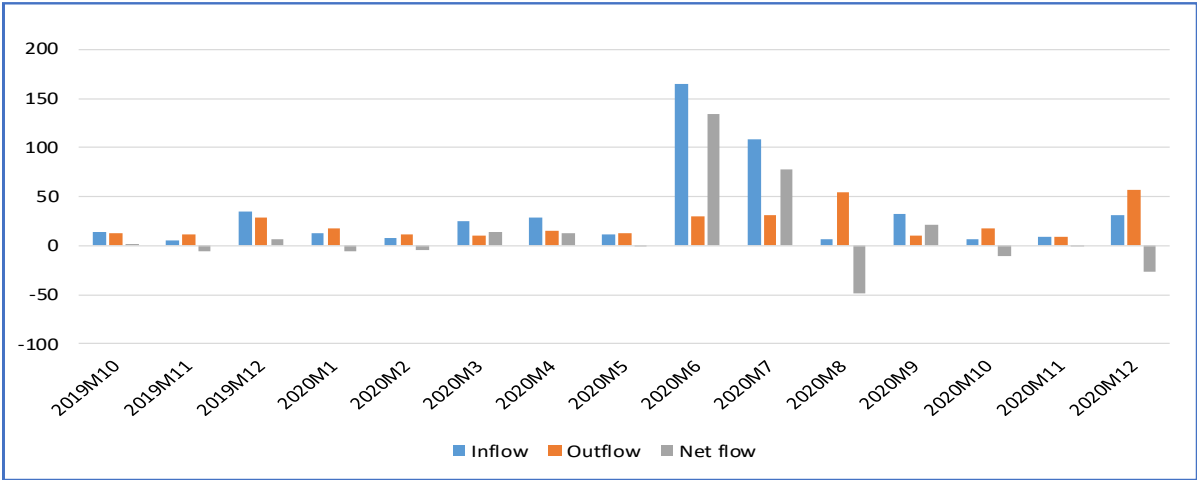
6.0 Gross Foreign Exchange Reserves

The gross foreign exchange reserves of the Bank of Sierra Leone decreased by 3.55 percent to US\$705.92mn in December 2020 from US\$731.93 in November 2020, due to increased outflows which outweighed the amount of inflows during the review month. Inflows recorded was US\$31.44mn, while outflows amounted to US\$57.44mn, resulting to a net outflow of US\$26.00.

Major inflows comprised royalties from rutile export (US\$1.48mn), bauxite (US\$0.31mn), Koidu holdings (US\$1.87mn), other mining receipts (US\$0.11mn), fishing royalty and license (US\$0.91mn) and timber (US\$2.48mn). Other inflows included transactions with commercial banks (US\$3.00mn), interest earned by BSL from investments abroad (US\$0.32mn), other government receipts and aid disbursement/BOP support from international donor partners of which; EU budget support (US\$18.16mn), IDB to fund various projects (US\$ 0.50) and other multilateral and bilateral creditors (US\$ 0.16mn).

Significant outflows included amount utilized in respect of interbank market operations (US\$37.60mn), drawdown on BSL Special Credit Facility to the private sector (US\$2.47mn), embassy and mission payments (US\$2.02), cost for printing of currency (US\$0.24mn) and BSL payments (US\$0.13mn). Other outflows were in respect of subscription to international organisations (US\$0.21mn), other government outflows (US\$7.02mn), and debt service payments to international donor partners of which; EC/EIB (US\$1.46mn), OPEC/OFID (US\$0.58mn) and other multilateral and bilateral creditors (US\$ 5.70mn).

Figure 8: Foreign Exchange Flows



Source: Bank of Sierra Leone