



BANK OF SIERRA LEONE

**Monthly Economic
Review**

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Review**

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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
MPR	-	Monetary Policy Rate
NDA	-	Net Domestic Assets
NFA	-	Net Foreign Assets
ODC	-	Other Depository Corporation
RM	-	Reserve Money
SDF	-	Standing Deposit Facility
SLF	-	Standing Lending Facility
Y-o-Y	-	Year-on-Year

1.0 Highlights

Production performance in the manufacturing sector were mixed in the month of February 2021, with production increases recorded for cement, acetylene and confectionary, while paint and oxygen production decreased during the review period. Cement production increased by 8.21 percent to 35.32 thousand metric tons, acetylene and confectionery production grew by 4.79 percent to 35.87 thousand cubic feet and 33.33 percent to 298.65 pounds respectively. Conversely, production volumes for paint and oxygen, dropped by 13.25 percent to 56.76 gallons and 8.57 percent to 35.65 thousand cubic feet respectively. Furthermore, production performance in the mining sector subsided in February 2021 as production levels for gold, bauxite, rutile and ilmenite decreased. Diamond production and other mineral production recorded some increases during the reporting period

Headline inflation (y/y) moderated to 10.87 percent in February 2021 from 11.50 percent in January 2021. The moderation in headline inflation was partly explained by the persistent decline in non-food inflation, while food inflation increased. Non-food inflation declined to 0.37 percent in February 2021 from 2.48 percent in January 2021, due to relative stability of the exchange rate. Food inflation, however increased from 18.88 percent in January 2021 to 19.59 percent in February 2021, explained by demand pressures among others.

Provisional data on government budgetary operations (on cash flow basis) recorded a surplus of Le40.03bn in February 2021, compared to a deficit of Le303.94bn in January 2021 and budgeted surplus of Le65.24bn. The surplus was on account of an improvement in revenue mobilization combined with a significant contraction in government expenditure during the month.

The Monetary Policy Rate remained the same at 14.0 percent in February 2021. Also the Standing Lending Facility and Deposit Facility rates remained unchanged at 17.0 percent and 8.0 percent in February 2021, respectively. The interbank rate increased from 9.81 percent in January 2021 to 9.83 percent in February 2021. The commercial banks' average lending rate decreased from 20.19 percent in January 2021 to 19.25 percent in February 2021. Similarly, the average deposits rate of commercial banks declined from 2.67 percent in January 2021 to 2.63 percent in February 2021.

During the Month of February 2021, developments in monetary aggregates were contractionary as evidenced by the decline in both Broad Money (M2) and Reserve Money (RM). Broad Money (M2) contracted by 1.13 percent in February 2021, compared to 0.15 percent growth recorded in January 2021, while Reserve Money (RM) contracted by 2.91 percent in February 2021, relative to the 9.51 percent contraction recorded in January 2021. The decrease in M2 was mainly on account of the decline in Net Domestic Assets (NDA) of the banking system, while the decrease in Reserve Money was attributed to the contraction in RM was primarily driven by decrease in the NDA of the BSL.

The gross foreign exchange reserves of the Bank of Sierra Leone marginally increased by 0.30 percent to US\$666.55mn in February 2021 from US\$664.54 in January 2021, due to increased inflows which outweighed the amount of outflows during the review month. Inflows recorded was US\$33.94mn, while outflows amounted to US\$33.43mn, resulting to a net inflow of US\$0.51. The average monthly premium between the official and parallel rates narrowed by 7.49 percent to Le150.09/US\$1 in February 2021 from Le162.24/US\$1 in January 2021.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

Production activities in the manufacturing sector recorded mixed trend in February 2021. Production volumes for cement, acetylene and confectionary increased, while paint and oxygen production volumes decreased during the review period. Cement production increased by 8.21 percent to 35.32 thousand metric tons, acetylene and confectionery production grew by 4.79 percent to 35.87 thousand cubic feet and 33.33 percent to 298.65 pounds respectively.

On the other hand, production volumes for paint and oxygen, dropped by 13.25 percent to 56.76 gallons and 8.57 percent to 35.65 thousand cubic feet respectively.

2.1.2 Agriculture

The agricultural sector proxied by cocoa and coffee production experienced a decline in production activities in February 2021. Cocoa production registered 622.02 metric tons in February 2021 reflecting a drop by 35.04 percent from 957.47 metric tons in January 2021, while there was no coffee production during the review period.

2.1.3 Mining Sector

The mining sector production activities subsided in February 2021 as production levels for gold, bauxite, rutile and ilmenite decreased. Production volumes for gold decreased by 3.60 percent to 3,917.80 ounces. Bauxite production volume fell by 0.14 percent to 108.29 thousand metric tons. Similarly, rutile and Ilmenite production volumes dropped by 12.62 percent to 8.00 thousand metric tons and 10.75 percent to 3.13 thousand metric tons respectively.

Diamond production recorded 66.23 thousand carats, which comprised of 40.30 thousand carats of industrial and 25.93 thousand carats of gem diamond. Zircom production stood at 0.41 thousand metric tons, and other mineral production accounted for 0.43 thousand dry metric tons.

2.2 Price Development

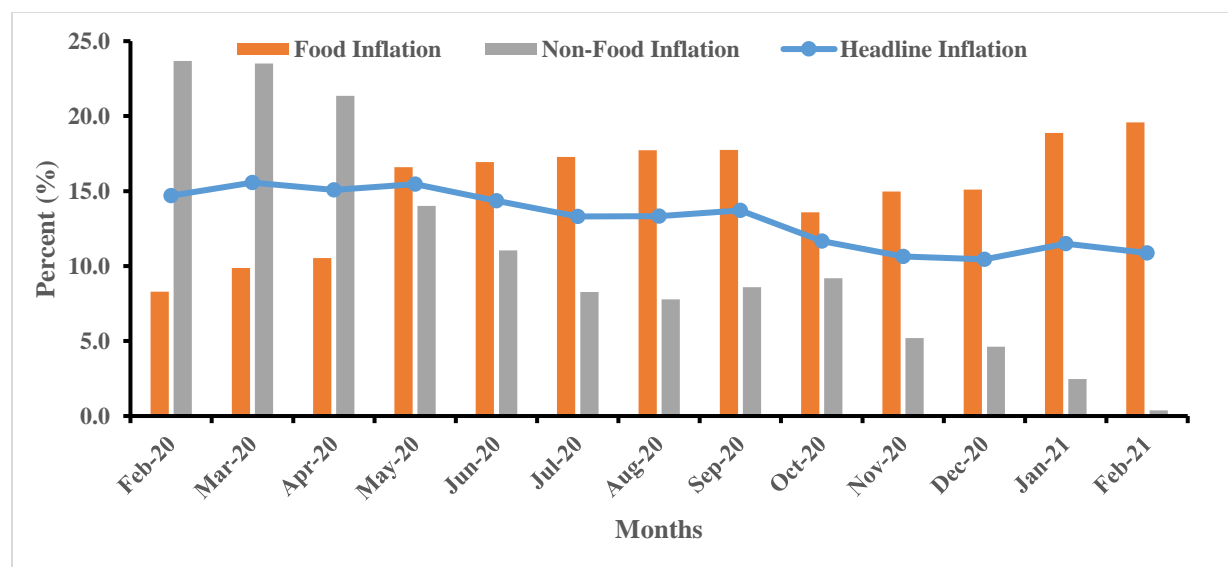
Annual headline inflation (y/y) moderated to 10.87 percent in February 2021 from 11.50 percent in January 2021. The moderation in headline inflation was partly explained by the continued decline in non-food inflation, while food inflation increased.

Non-food inflation declined to 0.37 percent in February 2021 from 2.48 percent in January 2021, due to relative stability of the exchange rate. Food inflation, however increased from 18.88 percent in January 2021 to 19.59 percent in February 2021.

Regional levels showed mixed trends in February 2021. Southern region inflation increased to 11.98 percent in February 2021 from 11.84 percent in January 2021; Eastern region inflation rose to 11.96 percent in February 2021 from 10.22 percent in January 2021.

On the other hand, Northern region inflation dropped to 15.64 percent in February 2021 from 16.14 percent in January 2021; Western Area inflation declined to 7.55 percent in February 2021 from 9.29 percent in January 2021.

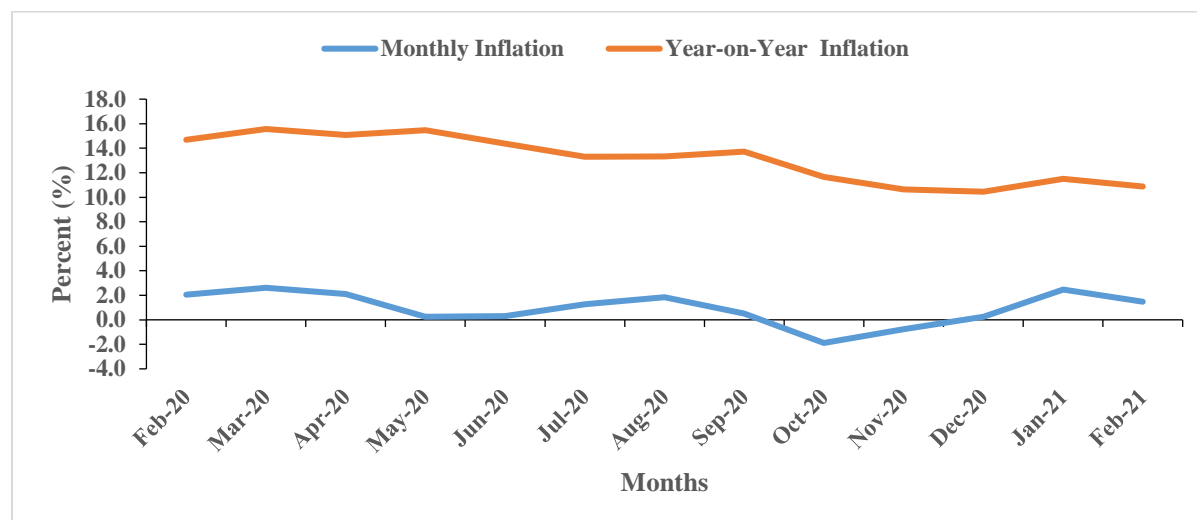
Figure 1: Headline, Food, and Non-Food Inflation



Source: Statistics Sierra Leone and BSL

Headline inflation (m/m) dropped to 1.49 percent in February 2021 from 2.48 percent in January 2021.

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



Source: Statistics Sierra Leone and BSL

3.0 Government Budgetary Operations

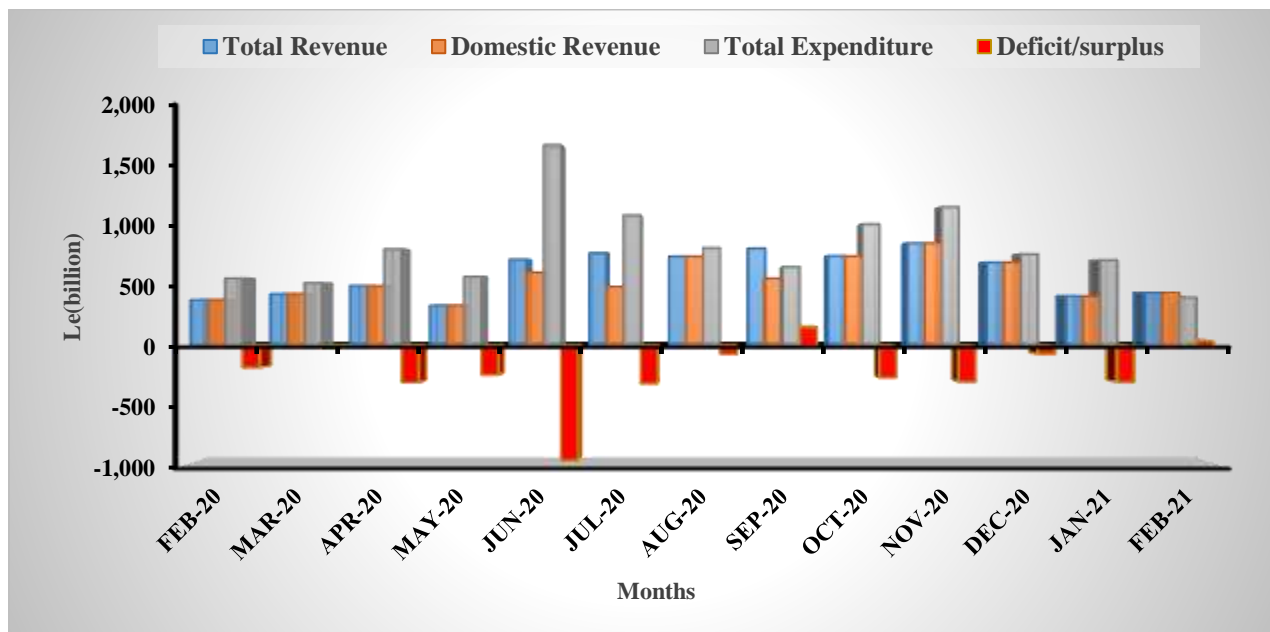
Based on provisional data, government budgetary operations (cash flow basis), recorded a surplus of Le40.03bn in February 2021, compared to a deficit of Le303.94bn in January 2021 and budgeted surplus of Le65.24bn. The surplus was on account of an improvement in revenue mobilization combined with a significant contraction in government expenditure during the month.

3.1 Revenues

Government revenue expanded by 7.03 percent to Le447.46bn, but was 32.99 percent lower than the programmed target of Le667.76bn. The expansion in government revenue was driven by improved revenue collection from customs & excise, goods & services and non-tax revenue.

Receipts from Customs and Excise increased by 15.87 percent to Le65.05bn. Goods and Services tax grew by 52.47 percent to Le117.72bn. Non-tax revenue rose by 7.91 percent to Le137.707bn. On the other hand, receipts from Income Tax declined by 18.17 percent to Le126.99bn. There was no budgetary support for the period under review.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditures

Government expenditure contracted by 43.57 percent to Le407.434bn, and was lower than the ceiling of Le602.52bn by 32.38 percent. The contraction was explained by a decrease in pension, wages & salaries, and other expenditures, while debt service payments expanded.

Pension, wages & Salaries decreased by 68.18 percent to Le75.79bn due to delays in salary payments. Other expenditure on goods and services declined by 47.29 percent to Le196.84bn. On the other hand, debt service payments increased by 22.15 percent to Le134.80bn was exclusively domestic debt service payments.

4.0 Monetary Developments

During the Month of February 2021, developments in monetary aggregates were contractionary as evidenced by the decline in both Broad Money (M2) and Reserve Money (RM).

4.1 Broad Money

Broad Money (M2) contracted by 1.13 percent in February 2021, compared to 0.15 percent growth recorded in January 2021. The decrease in M2 was mainly on account of the decline in Net Domestic Assets (NDA) of the banking system.

The NDA of the banking system contracted by 4.19 percent in February 2021, relative to a growth of 5.82 percent recorded in January 2021. This development mainly reflects decrease in claims on government by the banking system. However, credit to the private sector by the commercial banks expanded by 5.03 percent in February 2021, compared to the 2.24 percent growth recorded in January 2021.

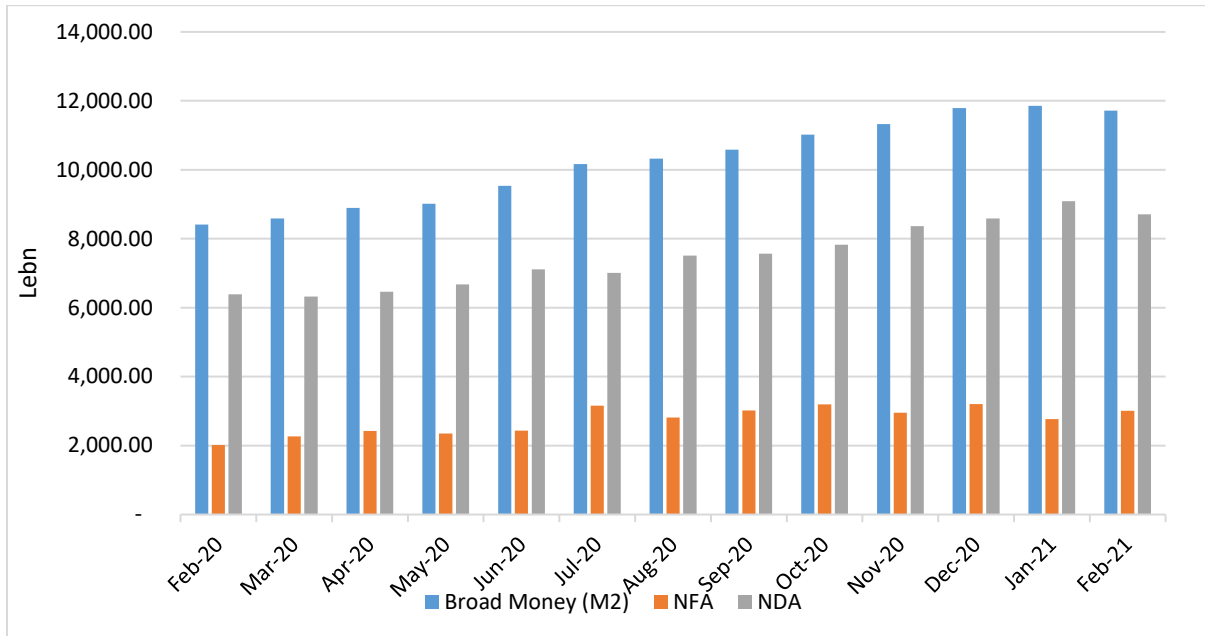
The NFA of the banking system increased by 8.93 percent in February 2021, from a contraction of 13.73 percent in January 2021. The expansion was due to build up in both the foreign assets of Central Bank (22.67%) and commercial Banks (7.98%).

Table 1: Broad Money and Components

<i>Billions of Leones</i>			<i>Absolute change</i>		<i>% Change</i>	
	Jan-21	Feb-21	Jan.-21	Feb-21	Jan.-21	Feb-21
Reserve money	3,832.03	3,720.39	(402.52)	(111.64)	(9.51)	(2.91)
Broad Money (M2)	11,850.83	11,716.96	59.91	(133.87)	0.51	(1.13)
Narrow money (M1)	5,919.16	5,964.24	(84.80)	45.09	(1.41)	0.76
Currency outside banks	2,750.51	2,767.80	(56.49)	17.29	(2.01)	0.63
Demand deposit	3,168.65	3,196.44	(28.31)	27.79	(0.89)	0.88
Quasi money	5,931.67	5,752.71	144.70	(178.96)	2.50	(3.02)
o.w. Foreign currency deposit	2,894.06	2,721.79	96.32	(172.27)	3.44	(5.95)
Time and Saving deposit	3,027.82	3,023.45	60.92	(4.37)	2.05	(0.14)
Net Foreign Asset	2,764.61	3,011.59	(440.16)	246.99	(13.73)	8.93
BSL	180.26	221.11	(442.93)	40.86	(71.07)	22.67
ODCs	2,584.35	2,790.48	2.77	206.13	0.11	7.98
Net Domestic Assets	9,086.22	8,705.37	500.07	(380.86)	5.82	(4.19)
Net Domestic Credit	11,304.84	11,112.55	412.03	(192.29)	3.78	(1.70)
Government (Net)	9,010.52	8,716.77	327.56	(293.74)	3.77	(3.26)
BSL	3,573.68	3,379.71	16.15	(193.97)	0.45	(5.43)
ODCs	5,436.84	5,337.06	311.41	(99.77)	6.08	(1.84)
Private Sector Credit	2,433.35	2,539.16	53.43	105.81	2.24	4.35
o.w ODC	2,401.66	2,522.37	52.65	120.71	2.24	5.03
Other Sectors (Net)*	(139.02)	(143.38)	31.04	(4.36)	(18.25)	3.14
Other Items (Net)	(2,218.62)	(2,407.18)	88.04	(188.57)	(3.82)	8.50

*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 liability side, the contraction in M2 mainly reflected a decline in Quasi Money. Quasi Money decreased by 3.02 percent in February 2021 from a growth of 2.50 percent in the preceding month due mainly to decline in foreign currency deposits by 5.95 percent. Narrow Money (M1) increased by 0.76 percent in February 2021, compared to a contraction of 1.41 percent in January 2021. The growth in M1 was due to increase in both currency outside banks by 0.63 percent and demand deposits by 0.88 percent.

4.2 Reserve Money

Reserve Money (RM) contracted by 2.91 percent in February 2021, relative to the 9.51 percent contraction recorded in January 2021. The contraction in RM was primarily driven by decrease in the NDA of the BSL.

The NDA of the BSL declined by 4.18 percent in February 2021, from a 1.12 percent increase in January 2021. This development was mainly as a result of decrease in credit to Government by the BSL.

NFA of the BSL increased by 22.67 percent, relative to a contraction of 71.07 percent in January 2021. This development was on account of increase in claims non-residents by the BSL.

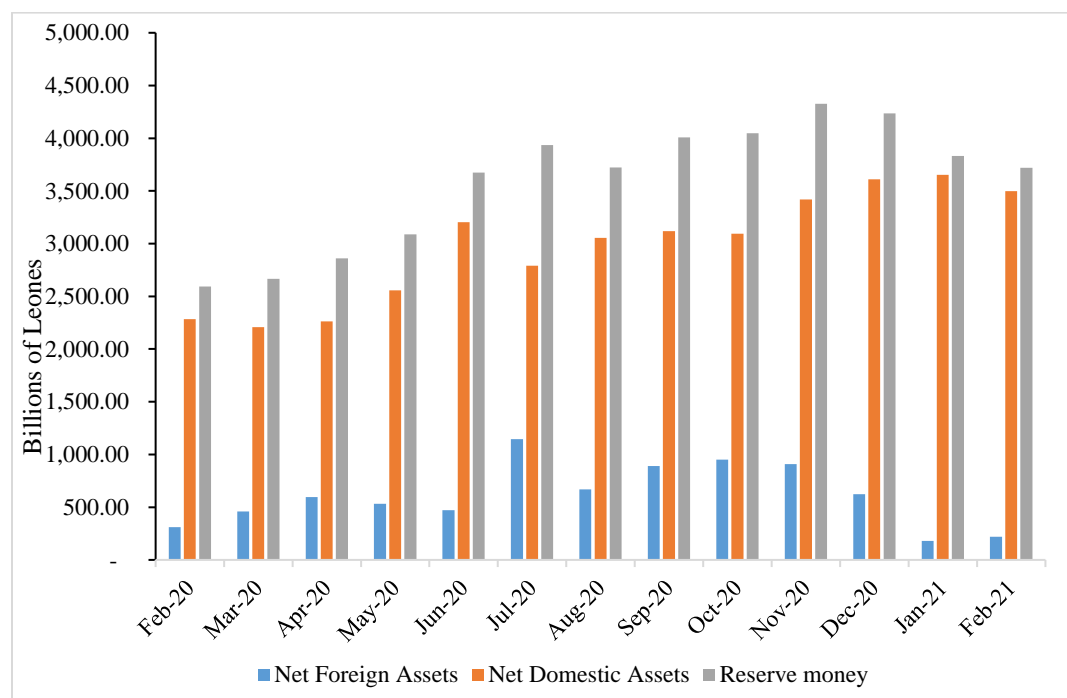
Table 2: Reserve Money and Components

Billions of Leones	Jan-21	Feb-21	Absolute Change		% Change	
			Jan-21	Feb-21	Jan-21	Feb-21
1. Net Foreign Assets	180.26	221.11	(442.93)	40.86	(71.07)	22.67
2. Net Domestic Assets	3,651.77	3,499.28	40.41	(152.49)	1.12	(4.18)
Government Borrowing (net)	3,573.68	3,379.71	16.16	(193.97)	0.45	(5.43)
o.w. Securities	970.03	1,054.74	(41.40)	84.71	(4.09)	8.73
Ways and Means	173.46	172.77	(40.11)	(0.69)	(18.78)	(0.40)
GoSL/IMF /WB Budget financing	2,525.22	2,525.22	-	-	-	-
3. Reserve money	3,832.03	3,720.39	(402.52)	(111.64)	(9.51)	(2.91)
o.w. Currency issued	2,938.27	2,992.10	(70.87)	53.83	(2.36)	1.83
Bank reserves	883.15	720.00	(319.93)	(163.15)	(26.59)	(18.47)

Source: Research Department, BSL

From the liability side, the contraction in RM was as a result of 18.47 percent decrease in banks' reserves, which outweighed the 1.83 percent increase in currency issued.

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

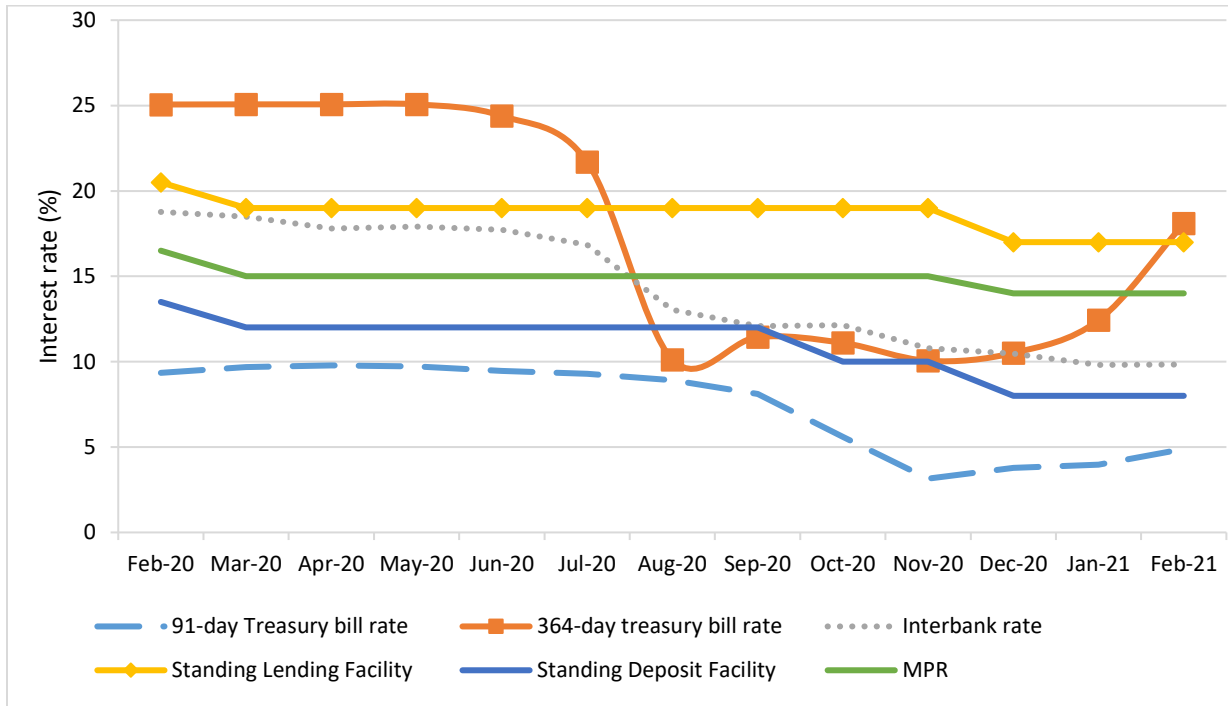


Source: Research Department, BSL

4.3 Interest Rates

Since the MPC met on December 17, 2020, the Monetary Policy Rate remained the same at 14.0 percent in February 2021. Also the Standing Lending Facility and Standing Deposit Facility rates remained unchanged at 17.0 percent and 8.0 percent in February 2021, respectively. The interbank rate increased from 9.81 percent in January 2021 to 9.83 percent in February 2021. The commercial banks' average lending rate decreased from 20.19 percent in January 2021 to 19.25 percent in February 2021. Also the average deposits rate of commercial banks declined from 2.67 percent in January 2021 to 2.63 percent in February 2021.

Figure 6: Monetary Policy Rate and Other Market Rates



Yields on Government securities increased during the month of February 2021. The 91-day T-bills increased from 3.96 percent in January 2021 to 4.88 percent in February 2021. The 182-day T-bills increased from 5.98 percent in January 2021 to 8.22 percent, in February 2021, while the 364-day T-bills increased from 12.43 percent in January 2021 to 18.09 percent in February 2021.

Table 3: Monthly movement in Interest Rate for the period February 2020 to February 2021

	2020											2021	
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
91-day T-Bills	9.34	9.69	9.78	9.71	9.46	9.29	8.91	8.11	5.60	3.15	3.78	3.96	4.88
182-day T-Bills	13.21	13.21	13.21	13.21	13.21	13.20	9.42	9.68	7.45	5.48	5.17	5.98	8.22
364-day T-Bills	25.06	25.07	25.07	25.07	24.39	21.7	10.12	11.44	11.10	10.05	10.51	12.43	18.09
Interbank rate	18.77	18.50	17.80	17.91	17.73	16.85	13.04	12.09	12.14	10.79	10.48	9.81	9.83
SLF	20.50	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	17.00	17.00	17.00
SDF	13.50	12.00	12.00	12.00	12.00	12.00	12.00	12.00	10.00	10.00	8.00	8.00	8.00
MPR	16.50	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	14.00	14.00	14.00
Ave. Lending rate	20.49	20.49	20.49	20.51	20.51	20.77	20.62	20.62	20.30	21.42	21.42	20.19	19.25
Lending (Prime)	17.89 - 23.08	17.72 - 23.26	17.72 - 23.26	17.75 - 23.26	17.75 - 23.26	18.04 - 23.50	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
Savings deposits	2.90	2.90	2.90	2.90	2.90	2.89	2.72	2.72	2.72	2.72	2.61	2.67	2.63

Source: Research Department, BSL

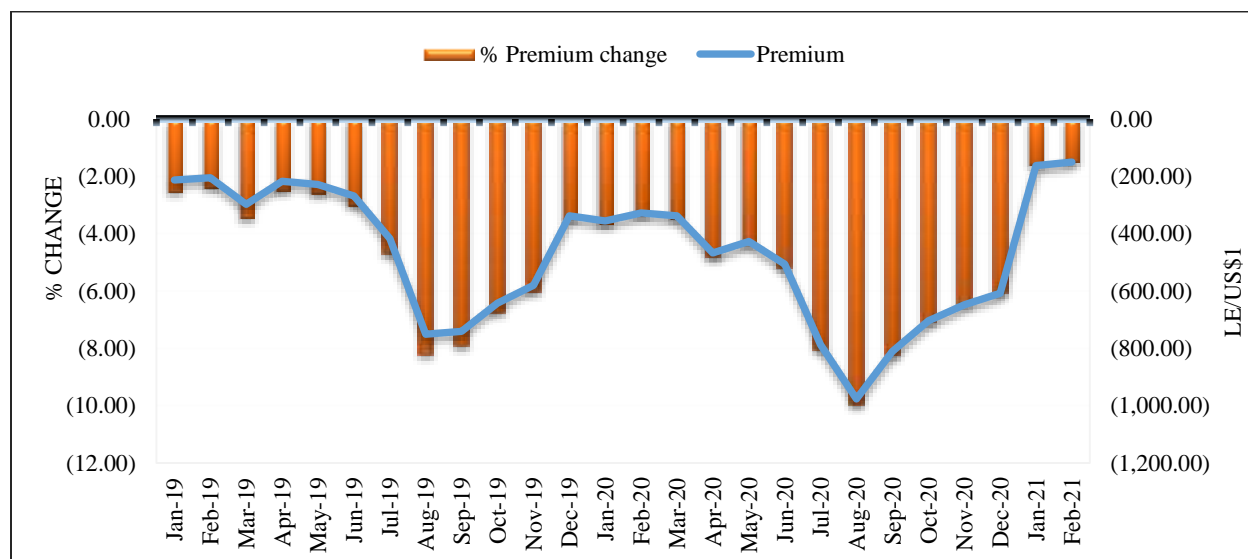
5.0 Exchange Rate Developments

In February 2021, developments in the foreign exchange market showed that the average exchange rate of the Leone to the US dollar was mixed on both the buying and selling fronts. On the buying front, the Leone depreciated in the commercial banks and official markets, by 0.23 percent and 0.20 percent averaging Le10,252.26/US\$1 and Le10,105.73/US\$1, respectively. The bureau market on the other hand appreciated by 0.52 percent averaging Le10, 106.26/US\$1. Meanwhile, the parallel market remained unchanged, averaging Le10,300.00/US\$1.

On the selling front, the Leone depreciated in the commercial, official and parallel markets by 0.41 percent, 0.20 percent and 0.15 percent averaging Le10,378.15/US\$1, Le10,309.88/US\$1 and Le10,415.79/US\$1, respectively. On the contrary, the bureau market rate appreciated by 0.72 percent, averaging Le10, 386.89/US\$1.

The average premium between the official and parallel rates narrowed by 7.49 percent to Le150.09/US\$1 in February 2021 from Le162.24/US\$1 in January 2021 (See figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

6.0 Gross Foreign Exchange Reserves

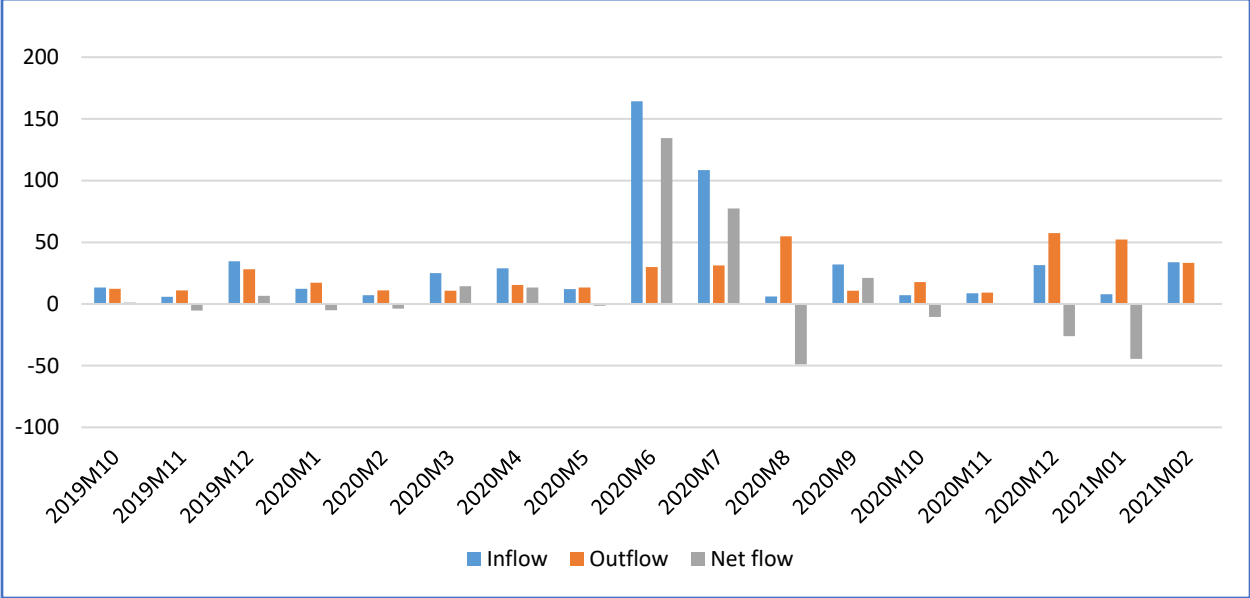
The gross foreign exchange reserves of the Bank of Sierra Leone increased marginally by 0.30 percent to US\$666.55mn in February 2021 from US\$664.54 in January 2021, due to increased inflows which outweighed the amount of outflows during the review month. Inflows recorded was US\$33.94mn, while outflows amounted to US\$33.43mn, resulting to a net inflow of US\$0.51.

Major inflows comprised receipts from bauxite export (US\$0.33mn), Koidu holding mining co. (US\$0.69mn), timber (US\$3.69mn), rutile (US\$1.25mn), diamond exporter's income tax (US\$0.36mn) and fishing royalty and license fees (US\$0.14mn). Other inflows included World Bank budgetary support (US\$26.47mn), other government receipts (US\$0.70mn) and interest earned by BSL from investments abroad (US\$0.18mn).

Significant outflows included amount utilized in respect of interbank market operations (US\$21.25mn), drawdown on BSL Special Credit Facility to the private sector (US\$0.46mn), cost for printing of currency (US\$2.95mn) and subscription to international organizations (US\$1.27mn). Other outflows were in respect of other government outlays (US\$3.88mn), BSL payments (US\$1.23mn), Debt service payments to international donor partners of which; World

Bank(US\$1.27mn), other multilateral and bilateral creditors(US\$0.56mn), OPEC/OFID (US\$0.21mn) and AfDB (US\$0.36mn).

Figure 8: Foreign Exchange Flows



Source: Bank of Sierra Leone