



BANK OF SIERRA LEONE

Monthly Economic Review

MER/07/2022

July 2022



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JULY 2022

The Monthly Economic Review (MER) is published by the Research and Statistics Department, Bank of Sierra Leone. The Department takes responsibility for opinions expressed in this review. Please forward any comments to res@bsl.gov.sl.

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Executive Summary

Activities in the agriculture sector improved in July 2022. Cocoa production increased significantly from 95.00 metric tons in June 2022 to 410.35 metric tons in July 2022. Also, coffee production rose from 40.00 metric tons in June 2022 to 132.06 metric tons in July 2022.

Performance in the mining sector was mixed in July 2022, as productions of gold (pure), ilmenite, zircon and other minerals increased, while production of diamond, bauxite, rutile, and iron-ore declined. Production activities in the manufacturing sector slowed down in July 2022. Production of maltina and cement decreased by 50.72 percent to 39.56 thousand cartoons and 49.86 percent to 8.53 thousand metric tons respectively. Confectionery and paint productions fell by 21.45 percent to 232.68 thousand pounds and 24.68 percent to 28.16 thousand of gallons respectively. Common soap production on the other hand decreased by 53.74 percent to 40.96 thousand metric tons. On the other hand, Beer and stout productions increased by 24.61 percent to 151.87 thousand cartoons.

Headline inflation (year-on-year) increased to 29.47 percent in July 2022 from 27.95 percent in June 2022. The hike reflected the impact of the Russian-Ukraine War, which triggered food and energy price increases. Food inflation edged-up to 30.58 percent in July 2022 from 28.49 percent in June 2022, whilst non-food inflation decreased to 25.90 percent in July 2022 from 28.66 percent in June 2022.

Government budgetary operations on a cash flow basis resulted in widened deficit of SLe289.28mn in July 2022, from a surplus of SLe5.52mn in June 2022. The widened fiscal deficit stemmed from the expansion of government expenditure, combined with contraction in government revenue collection. None the less, the deficit was entirely financed from domestic sources.

Developments in monetary aggregates recorded expansion in July 2022 as reflected by the growth in key monetary aggregates. Reserve Money (RM) and Broad Money (M2) grew by 2.50 percent and 3.08 percent in July 2022 respectively. The growth in Broad Money was due to increase in Net Domestic Assets (NDA), which outweighed the contraction of Net Foreign Assets (NFA) of the banking system. The contributions of net domestic assets and net foreign asset to the growth of broad money were 4.97 percent and -1.88 percent respectively.

Gross foreign exchange reserves (including swaps) of the Bank of Sierra Leone was US\$694.45 million at the end of July 2022, compared to US\$746.39 million at the end of June, 2022. Inflows recorded in July 2022 was US\$4.12 million, while outflows amounted to US\$49.02 million, resulting in a negative net inflow of US\$44.90 million, with a recorded revaluation adjustment of US\$7.92 million. The monthly average exchange rate of the leone against the US dollar depreciated in all foreign exchange markets in July 2022 on both the buying and selling sides. The premium between the official and parallel rates narrowed from 4.29 percent (Le0.56US\$1) in June 2022 to 1.52 percent (Le0.21/US\$1) in July 2022.

1. Introduction

The Monthly Economic Review (MER) is a publication of the Research and Statistics Department, Bank of Sierra Leone. The objective of this Economic Review is to analyse Sierra Leone's monthly macroeconomic developments, covering the four macroeconomic sectors- real, fiscal, monetary, and external sectors. This edition analyses performance in July 2022. In the real sector, developments in the production of key agricultural products for which regular monthly data is available are discussed. In the fiscal sector, data on revenue and expenditure on a cash-flow basis is analysed. The monetary sector analyses the growth of monetary aggregates, including broad money and reserve money, extending to the drivers of broad money and reserve money growth. Movements in interest rates are also discussed. In the external sector, movements in the exchange rate, inflows and outflows, and gross international reserves are analysed. The choice of data for analysis in the MER rests on the importance of the variables to monetary and financial policy formulation and implementation and in general, its importance to macroeconomic policy management in Sierra Leone and the availability of validated data on a timely basis.

The rest of the Economic Review is organised as follows: section 2 analyses developments in production and prices; section 3 analyses fiscal sector developments; section 4 analyses monetary sector developments; section 5 analyses the external sector developments and section 6 is the conclusion.

2. Production and Price Developments

2.1 Production

2.1.1 Agriculture

Performance of the agricultural sector, for which coffee and cocoa productions are proxies, was impressive in July 2022. Cocoa production increased from 95.00 metric tons in June 2022 to 410.35 metric tons in July 2022. In addition, coffee production rose significantly from 40.00 metric tons in June 2022 to 132.06 metric tons in July 2022.

2.1.2 Mining

In July 2022, performance in the mining sector was mixed. Production levels of gold pure, ilmenite, zircon and other minerals increased, whilst the production of diamonds, bauxite, rutile, and iron ore decreased. Gold (pure) and ilmenite increased by 20.48 percent to 551.38 ounces and 2.18 percent to 4.80 thousand metric tons respectively. Production of other minerals and zircon rose by 29.69 percent to 6.69 thousand metric tons, and 157.89 percent to 6.62 thousand metric tons respectively. Diamond production decreased by 35.02 percent to 48.79 thousand carats in July 2022. This comprised industrial diamond, amounting to 99.49 thousand carats and gem diamond production, amounting to 16.64 thousand carats. Iron ore production declined by 14.50 percent to 303.96 thousand metric tons.

2.1.3. Manufacturing

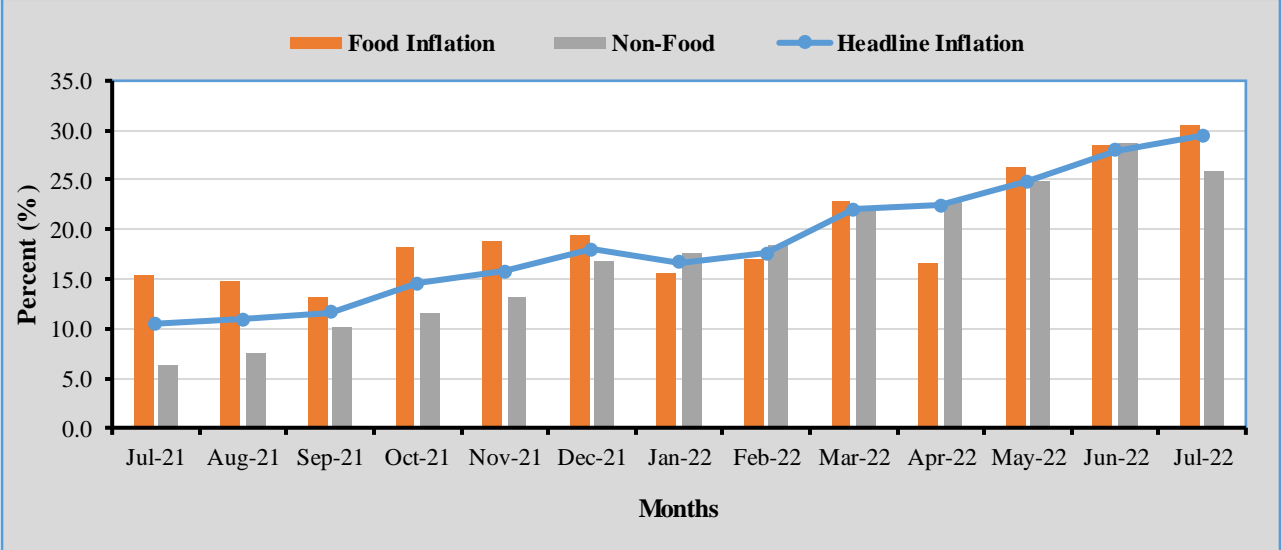
Manufacturing sector performance slowed in July 2022 as output of most of the manufacturing products declined. Beer and stout production increased by 24.61 percent to 151.87 thousand cartoons. Production of maltina and cement fell by 50.72 percent to 39.56 thousand cartoons and 49.86 percent to 8.53 thousand metric tons respectively. Confectionery and paint production decreased by 21.45 percent to 232.68 thousand pounds and 24.68 percent to 28.16 thousand gallons respectively. Common soap production also fell by 53.74 percent to 40.96 metric tons.

2.2 Price Developments

Headline inflation (year-on-year) increased to 29.47 percent in July 2022, from 27.95 percent in June 2022. The increase in inflationary pressure was driven by higher energy prices; caused by the Russian-Ukraine War, which translated into rise in transport cost, and higher food prices. Food inflation edged-up to 30.58 percent in July 2022 from 28.49 percent in June 2022. However, non-food inflation fell to 25.90 percent in July 2022 from 28.66 percent in June 2022.

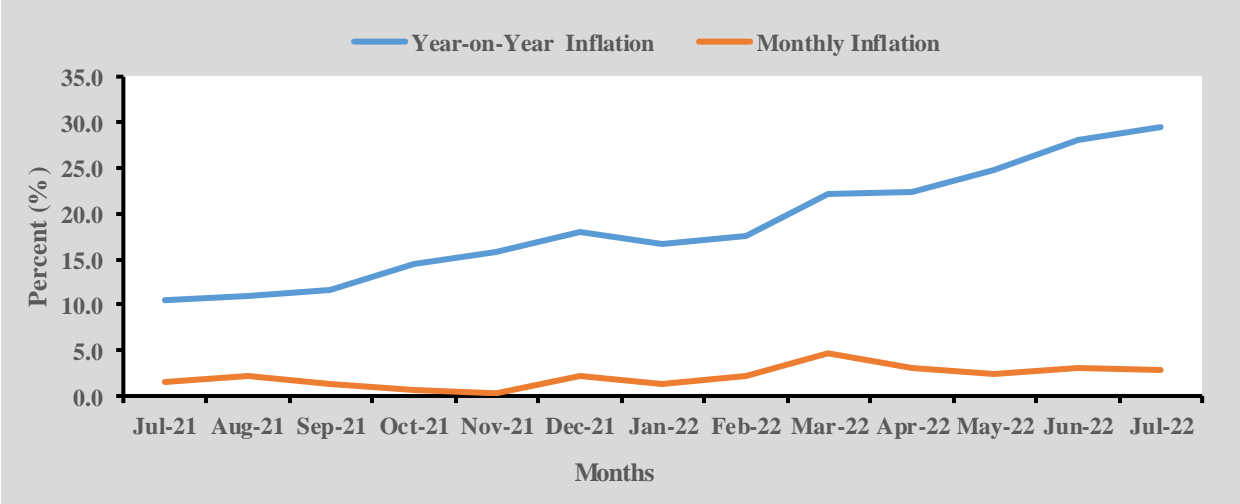
Monthly headline inflation however declined to 2.74 percent in July 2022 from 3.13 percent in June 2022. Figure 1 shows the trend of the year-on-year headline, food and non-food inflation rates while Figure 2 shows trend of the year-on-year and monthly inflation rates.

Figure 1: Headline, Food and Non-Food Inflation



Source: Statistics Sierra Leone

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

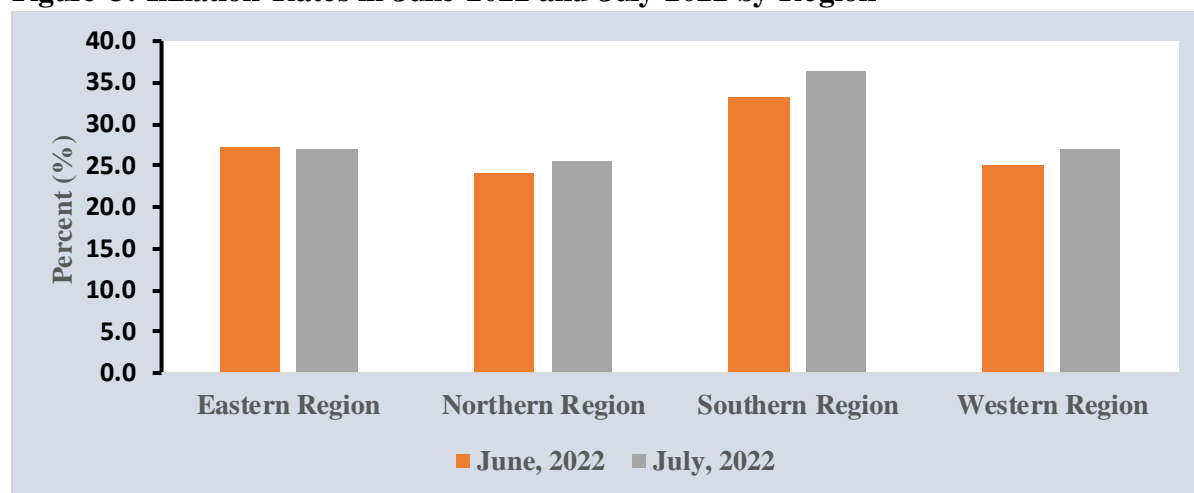


Source: Statistics Sierra Leone

On regional basis, inflation in July 2022 increased in three regions and declined in only one region, Eastern region. Western region inflation increased to 27.05 percent in July 2022 from 25.17 percent in June 2022; Southern region inflation increased to 36.47 percent in July 2022 from 33.16

percent in June 2022; and Northern region inflation rose to 25.47 percent in July 2022 from 24.17 percent in June 2022 while Eastern region inflation declined to 27.09 percent in July 2022 from 27.15 percent in June 2022. Figure 3 shows inflation rates by region.

Figure 3: Inflation Rates in June 2022 and July 2022 by Region



Source: Statistics Sierra Leone

3. Fiscal Developments

Government budgetary operations (on a cash flow basis) resulted in a widened deficit of SLe289.28mn in July 2022, from a surplus of SLe5.52mn in June 2022. The deficit emanated from the expansion of expenditure combined and a marginal increase in government revenue. The deficit was entirely financed by domestic sources.

3.1 Revenues

Government revenue increased slightly by 1.23 percent to SLe 866.58mn in July 2022, but was 16.22 percent lower than the target of SLe 1034.32mn. The revenue was only domestic revenue, as there was no disbursement of foreign grants. Domestic revenue increased by 1.03 percent to SLe 864.26mn in July 2022, and exceeded the target of SLe648.96mn. The expansion in domestic revenue was attributable to increase in revenue collections from goods & services tax and non-tax revenue (miscellaneous), whilst receipts from customs and excise and income tax declined in the review period.

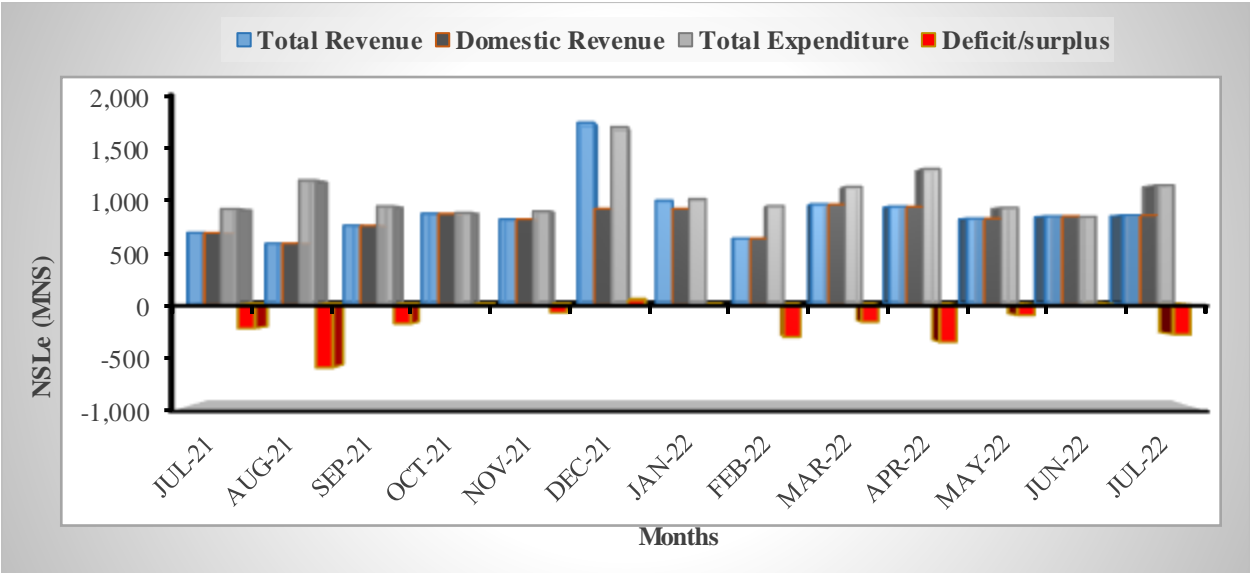
Non-tax revenue (miscellaneous) increased by 8.18 percent to SLe 458.61mn. Receipts from goods and services tax rose by 3.62 percent to SLe114.31mn. In contrast, receipts from customs and excise decreased by 25.58 percent to SLe 66.17mn. Revenue from income tax fell by 3.07 percent to SLe225.17mn. Figure 4 gives the trend in the fiscal profile from July 2021 to July 2022.

3.2 Expenditures

Government expenditure expanded by 35.90 percent to SLe 1155.86mn in July 2022 and exceeded the ceiling of SLe 807.62mn by 43.12 percent. The expansion in government expenditure resulted mainly from the increased domestic debt servicing and other expenditures, whilst wages and salaries also increased during the review period.

Expenditure on pension, wages and salaries rose by 4.27 percent to SLe 301.97mn. Debt service massively rose by 120.41 percent to SLe 209.28mn, which was exclusively domestic interest payment, while expenditures on goods and services expanded by 38.34 percent to SLe 644.61mn.

Figure 4: Government Revenue and Expenditure



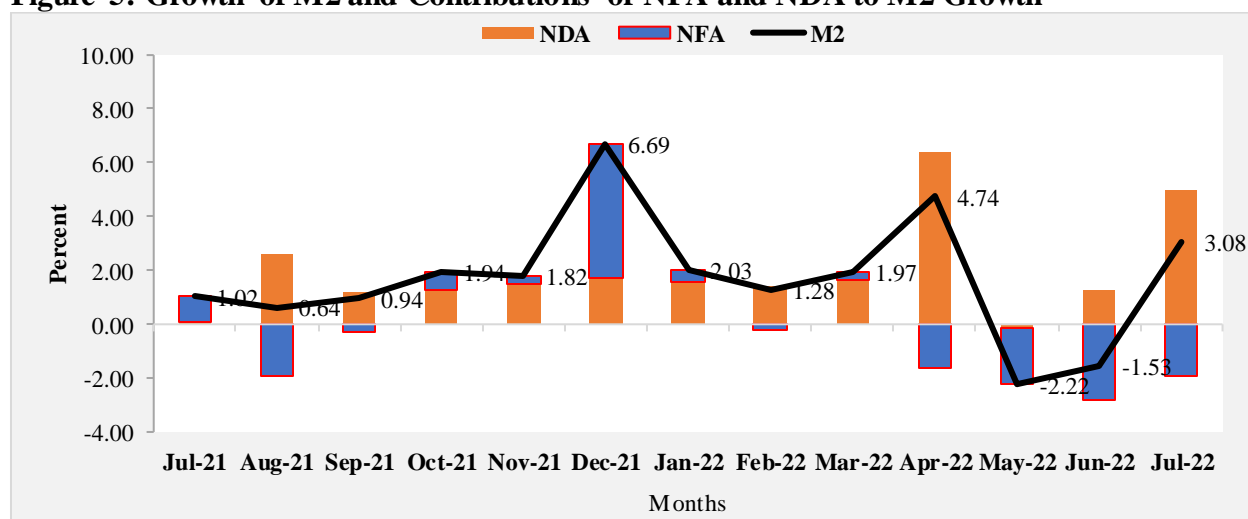
Source: Bank of Sierra Leone

4. Monetary Developments

4.1 Broad Money

In July 2022, Broad money (M2) grew by 3.08 percent from a decline of 1.53 percent in June 2022. The growth of broad money (M2) resulted mainly from increase in Net domestic Assets (NDA) which outweighed the decline in the Net Foreign Assets (NFA) of the banking system. Net foreign assets contributed -1.88 percent to the growth of broad money, while net domestic assets contributed 4.97 percent to the growth. Figure 5 shows the trend in the growth of broad money and the contributions of NDA and NFA to the growth of broad money from July 2021 to July 2022.

Figure 5: Growth of M2 and Contributions of NFA and NDA to M2 Growth



Source: Bank of Sierra Leone

Net domestic assets of the banking system grew by 5.96 percent in July 2022, relative to 1.60 percent in June 2022. The growth of NDA was mainly attributed to the increase in net claims on Government by the Bank of Sierra Leone (BSL) and private sector credit, which cumulatively outweighed the decline in the net claims on government by the other depository corporations (ODCs). Net claims on government by the BSL moderated to 3.76 percent in July 2022 relative to 4.52 percent in June 2022, private sector credit increased by 3.73 percent in July 2022 relative to 1.75 percent in June, whilst that of the other depository corporations declined by 4.72 percent in July 2022 from 1.32 percent decline in June 2022. Credit to the private sector by the other

depository corporations rose by 3.73 percent in July 2022, down from 1.75 percent in June 2022. Claims on other sectors' net dropped by 25.75 percent in July 2022, from 6.29 percent decline in June 2022.

NFA of the banking system contracted by 11.28 percent in July 2022, from 14.65 percent decline in June 2022. The contraction in NFA of the banking system was largely on account of exchange rate depreciation of domestic currency, whilst NFA of Other Depository Corporations expanded. NFA of the BSL declined by 30.26 percent, indicating a decline in the net foreign asset position of the BSL, which was negative SLe2.75mn in July 2022, from negative SLe2.11mn in June 2022. Conversely, NFA of Other Depository Corporations recorded an increase of 7.50 percent in July 2022, down from 0.07 percent in June 2022. Table 1 shows growth in selected monetary aggregates.

Table 1: Growth of Selected Banking System Monetary Aggregates

Millions of New Leones	Actual Values		Absolute Change		% Growth	
	Jun-22	Jul-22	Jun-22	Jul-22	Jun-22	Jul-22
Broad Money (M2)	15.29	15.76	(0.24)	0.47	(1.53)	3.08
Narrow money (M1)	7.38	7.53	(0.00)	0.15	(0.03)	1.96
Currency outside banks	3.33	3.32	(0.09)	(0.01)	(2.52)	(0.31)
Demand deposit	4.06	4.21	0.08	0.15	2.11	3.83
Quasi money	7.91	8.23	(0.24)	0.32	(2.90)	4.13
o.w. Foreign currency deposit	4.54	4.81	(0.23)	0.27	(4.81)	5.99
Time and saving deposit	3.36	3.41	(0.01)	0.05	(0.21)	1.61
Other Deposits - BSL	0.01	0.01	0.00	0.00	10.78	4.17
Net Foreign Asset	2.55	2.27	(0.44)	(0.29)	(14.65)	(11.28)
BSL	(2.11)	(2.75)	(0.44)	(0.64)	26.01	30.26
ODCs	4.66	5.01	0.00	0.35	(0.07)	7.50
Net Domestic Assets	12.74	13.50	0.20	0.76	1.60	5.96
Net Domestic Credit	15.31	15.40	0.22	0.09	1.47	0.59
Government (Net)	12.25	12.13	0.14	(0.12)	1.17	(0.98)
BSL	5.40	5.60	0.23	0.20	4.52	3.76
ODCs	6.85	6.52	(0.09)	(0.32)	(1.32)	(4.72)
Private Sector Credit	3.39	3.52	0.06	0.13	1.75	3.73
o.w ODC	3.37	3.50	0.06	0.13	1.75	3.73
Other Sectors (Net)*	(0.33)	(0.24)	0.02	0.08	(6.29)	(25.75)
Other Items (Net)	(2.57)	(1.90)	(0.02)	0.67	0.87	(26.02)

Source: Bank of Sierra Leone

*Other sectors include Other Financial Corporations and Public Non-Financial Corporations.

^aODC is Other Depository Corporations, which includes Commercial Banks, Community Banks, Discount Houses, and Deposit Taking Microfinance Institutions.

Narrow money (M1) recorded 1.96 percent growth in July 2022, following 0.03 percent decline in June 2022. The growth of narrow money resulted mainly from an increase in demand deposit which outweighed the decline in currency outside depository corporations in July 2022. Demand deposits increased by 3.83 percent in July 2022, following 2.11 percent in June 2022, whereas, currency outside banks declined by 0.31 percent in July 2022 following a worsening position of 2.52 percent in June. Quasi money grew by 4.13 percent in July 2022, compared to decline of 2.90 percent in June 2022. The growth of quasi money was mainly attributed to the increase in foreign currency deposit and time and saving deposit, whereas other deposits by BSL moderated in July 2022. Particularly, foreign currency deposit increased by 5.99 percent in July 2022, relative to decline of 4.81 percent in June 2022, time and saving deposit increased by 1.61 percent in July 2022, relative to 0.21 percent decline in June 2022, and other deposits by BSL moderated by 4.17 percent in July 2022, relative to 10.78 percent in June 2022.

Reserve money (RM) grew by 2.50 percent in July 2022, relative to 4.23 percent decline in June 2022. The growth of reserve money was primarily due to the expansion in NDA of BSL, whilst NFA of the BSL deteriorated. NFA of the BSL deteriorated, which was largely due to the increase in liabilities of non-residents owing to the depreciation of the exchange rate. NFA of the BSL deteriorated by 30.26 percent to a negative position of SLe2.75mn in July 2022, relative to a negative position of SLe2.11mn in June 2022. On the other hand, NDA of BSL grew by 11.37 percent in July 2022, down from 3.72 percent growth in June 2022. Table 2 shows the growth of reserve money and its components.

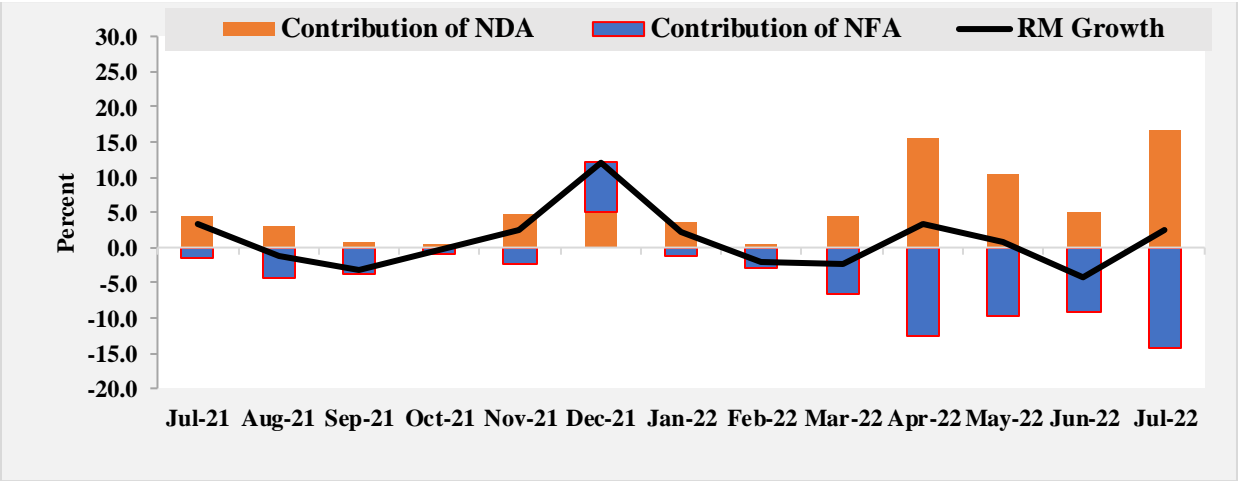
Table 2: Growth of Reserve Money and its Components

Millions of New Leones	Actual Values		Absolute Change		% Growth	
	Jun-22	Jul-22	Jun-22	Jul-22	Jun-22	Jul-22
Net Foreign Assets	(2.11)	(2.75)	(0.44)	(0.64)	26.01	30.26
Net Domestic Assets	6.60	7.35	0.24	0.75	3.72	11.37
Government Borrowing (net)	5.40	5.60	0.23	0.20	4.52	3.76
o.w. Securities	1.80	1.84	0.16	0.05	9.92	2.62
Ways and Means	0.01	0.43	(0.28)	0.43	(97.29)	5,505.73
GoSL/IMF /WB Budget financing	3.53	3.53	0.27	-	8.39	-
Reserve money	4.49	4.60	(0.20)	0.11	(4.23)	2.50
o.w. Currency issued	3.33	3.32	(0.09)	(0.01)	(2.52)	(0.31)
Bank reserves	0.74	0.65	(0.12)	(0.09)	(14.44)	(11.69)

Source: Bank of Sierra Leone

Net domestic assets contributed 16.71 percent to the growth in reserve money in July 2022, following 5.05 percent contribution in June 2022, whilst, net foreign assets contributed a negative of 14.20 percent to the growth of reserve money in July 2022, relative to a negative of 9.28 percent contribution in June 2022. Figure 6 shows the contributions of NFA and NDA to the growth of reserve money.

Figure 6: Reserve Money Growth and Contributions of NFA and NDA to Reserve Money Growth

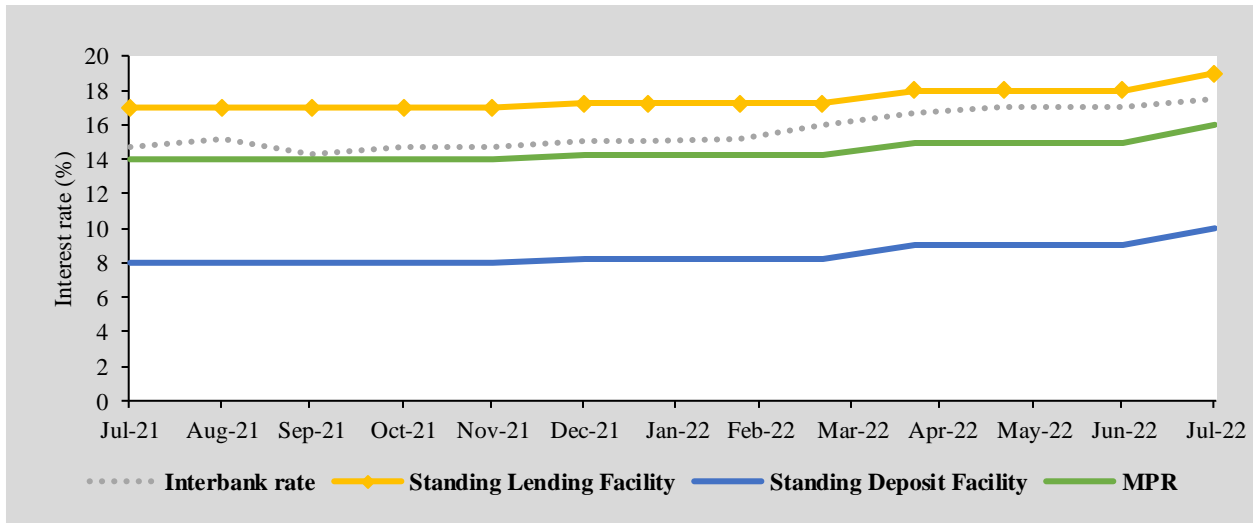


Source: Bank of Sierra Leone

4.3 Interest Rates

Following the Monetary Policy Committee Meeting in June 2022, the committee raised the rate by 100 basis points. Hence, the Monetary Policy Rate (MPR), Standing Lending Facility, and Standing Deposit Facility were increased to 16.00 percent, 19.00 percent, 10.00 percent respectively, relative to 15.00 percent, 18.00 percent, 9.00 percent respectively in June 2022. The interbank rate rose to 17.50 percent in July 2022 from 17.04 percent in June 2022. Figure 7 shows the trend in the Bank of Sierra Leone interest rates and the interbank rate.

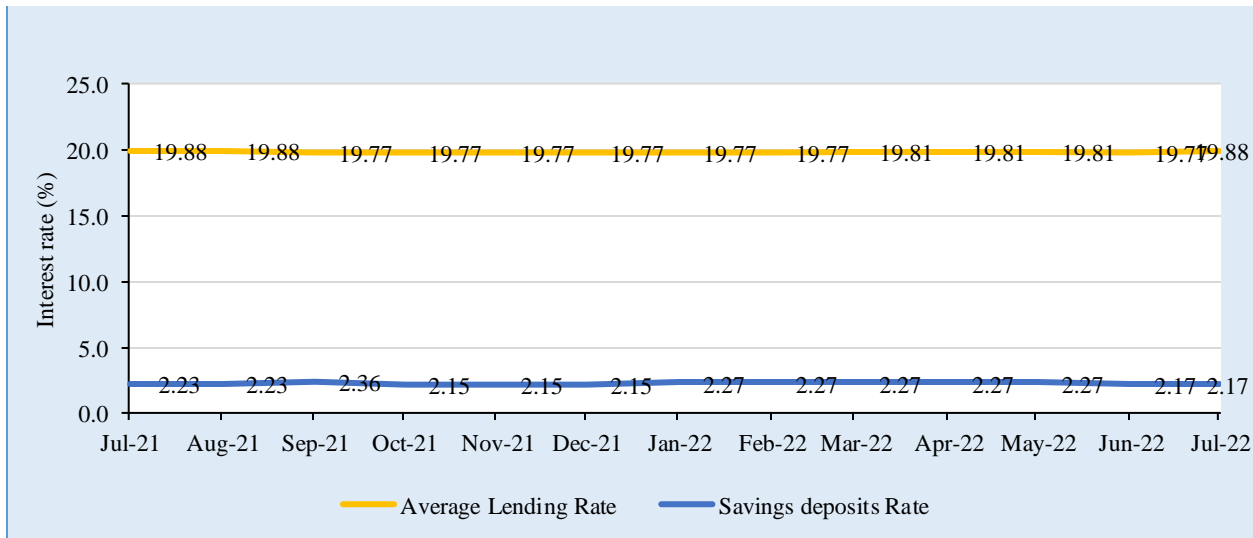
Figure 7: Bank of Sierra Leone Interest Rates and the Interbank Rate



Source: Bank of Sierra Leone

The commercial banks` average lending changed to 19.88 percent in July 2022, relative to 19.77 percent in June 2022. However, savings deposit rates remained unchanged at 2.17 in July 2022 as was in June 2022. Figure 8 shows the trend in average lending rate and average savings rate in July 2022.

Figure 8: Average Lending and Savings deposit rates

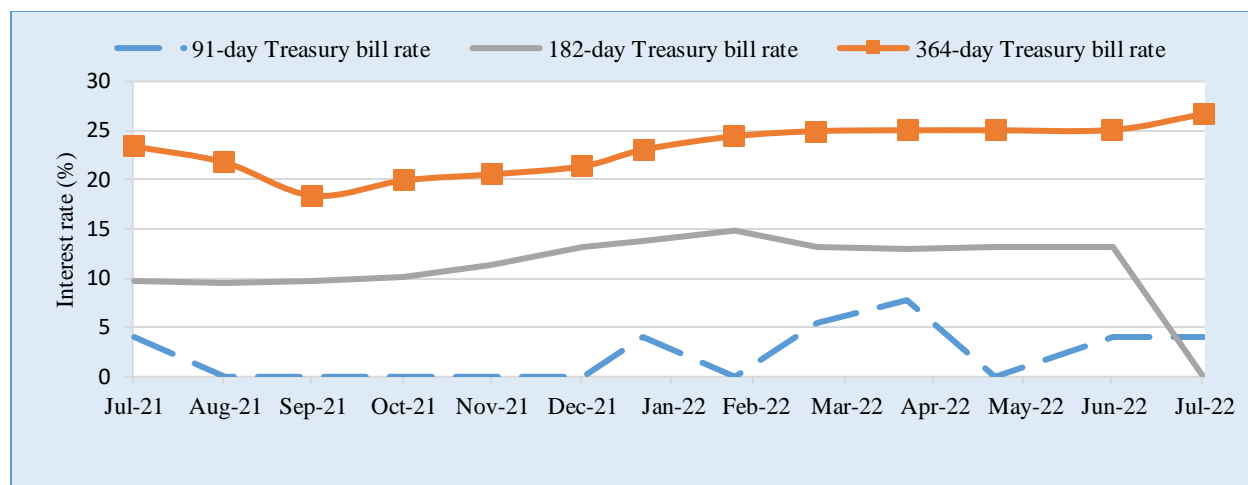


Source: Bank of Sierra Leone

The yield on 364-day T-bills increased in July 2022 while the yield on the 91-day T-Bills remained unchanged. The 182-day T-bills recorded no trading activities in June 2022. The yield on 364-day

T-bills increased to 26.68 percent in July 2022 from 25.08 percent in June 2022. The yield on 91-day T-Bills remained at 4.11 percent in July 2022, same as in June 2022. However, the yield on 182-day T-bills was 13.17 percent in June 2022, but it was not traded in July 2022. Figure 9 shows trend in the yields on T- bills.

Figure 9: Yields on Treasury Bills



Source: Bank of Sierra Leone

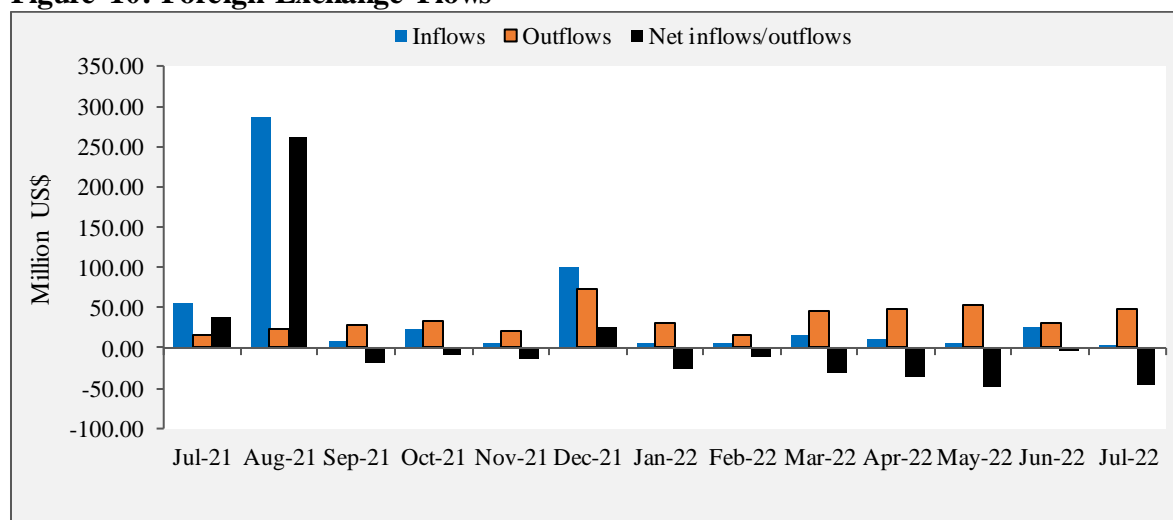
5. External Sector

5.1 Foreign Exchange Flows and Gross Reserves

As at end July 2022, the gross foreign exchange reserves (including swaps) of the Bank of Sierra Leone was US\$694.45 million, which was a decrease of 7.48 percent from US\$746.39 million in June, 2022. Inflows recorded in July 2022 was US\$4.12 million, while outflows amounted to US\$49.02 million, resulting to a positive net outflow of US\$44.90 million, with a recorded revaluation adjustment of US\$7.92 million.

On the other hand, inflows recorded in June 2022 was US\$25.77million, whilst outflows recorded US\$29.90 million, resulting to a net outflow of US\$4.13million, with a recorded revaluation of adjustment of US\$5.45 million. Significant inflows included aid disbursement and BOP support (US\$20.79 million) and receipts from exports recorded US\$4.19 million. Figure 10 shows the trend of foreign exchange flows.

Figure 10: Foreign Exchange Flows



Source: Bank of Sierra Leone

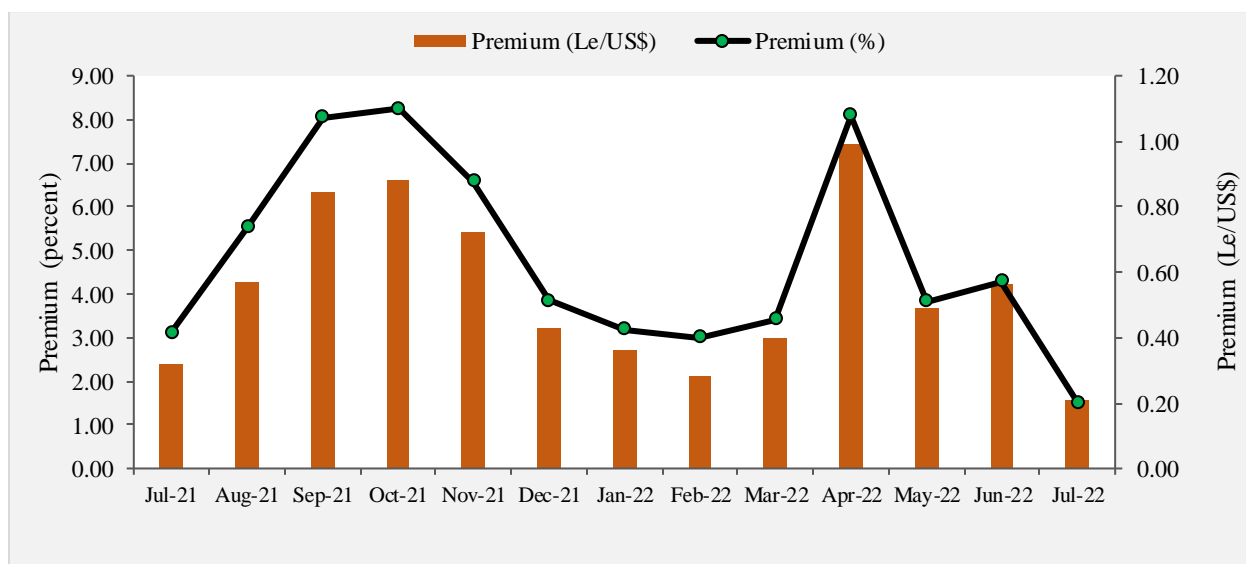
5.2 Exchange Rate Developments

The monthly average exchange rate of the Leone against the US dollar depreciated in all foreign exchange markets in July 2022 on both the buying and selling sides. With regards to the buying side, the Leone depreciated in the parallel market by 1.85 percent averaging Le13.89/US\$1, and also depreciated across commercial banks, and official and bureau markets by 3.89 percent, 4.84 percent and 2.44 percent, averaging Le13.64/US\$1, Le13.62/US\$1 and Le13.47/US\$1 respectively.

Similarly, on the selling side, the Leone depreciated in the parallel market by 1.91 percent averaging Le 14.00 /US\$1, and depreciated in the bureau market, official market and commercial banks by 4.39 percent, 4.47 percent and 3.50 percent, averaging Le14.02/US\$1, Le13.84/US\$1 and Le13.84/US\$1 respectively.

The premium between the Official and Parallel rates narrowed from 4.29 percent, which was Le0.56US\$1, in June, 2022 to 1.52 percent (Le0.21/US\$1) in July 2022. Figure 11 shows the trend in the parallel and official exchange rates.

Figure 11: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

6. Conclusion

Activities in the agricultural sector, measured by production of cocoa and coffee, improved in July 2022, as both cocoa and coffee production increased. Performance in the mining sector was mixed in July 2022 as production levels of bauxite, gold pure, ilmenite, zircon and other minerals increased, whilst production of diamond, bauxite, rutile, and iron-ore decreased. Activities in the manufacturing sector slowdown, with Maltina, Cement, Paint, Confectionery, and Common Soap production declining, while production of Beer and Stout increased.

Headline inflation (year- on-year) increased in July 2022 driven by higher energy prices caused by the Russian-Ukraine War . This translated also into higher food inflation rate, whereas non-food inflation rate declined. Meanwhile, monthly inflation rate declined in July 2022, relative to June 2022.

Government fiscal operations resulted in widened fiscal deficit in July 2022, indicating an expansion in expenditure combined with a moderate increase in revenue, and the deficit was financed domestically. The Monetary Policy Rate (MPR), Standing Lending Facility and Standing Deposit Facility rates were adjusted upwards to reflect recent price pressures in July 2022 as the Monetary Policy Rate (MPR), Standing Lending Facility and Standing Deposit Facility were

increased by 100 basis points. Hence, Monetary Policy Rate (MPR), Standing Lending Facility and Standing Deposit Facility rates which were 15.00 percent, 18.00 percent and 9.00 percent in June 2022 respectively increased to 16.00 percent, 19.00 percent and 10.00 percent in July 2022. The interbank rate increased to 17.50 percent in July 2022 from 17.04 percent in June 2022. Movements in monetary aggregates recorded an expansion as both broad money and reserve money increased in July 2022. The yield on 364-day T-bills increased whilst 91-day T-bills remained the same. However, the 182-day T-bills recorded no trading activities in July 2022. Average monthly exchange rate for July 2022 depreciated on both the buying and selling fronts and gross foreign exchange reserves decreased.