



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

Production performance in the manufacturing sector was mixed in the month of July 2020 as output for beer & stout, maltina, acetylene and confectionery, while paint, cement, oxygen and common soap recorded declines during the review month. Beer and stout production rose by 28.81 percent to 76.00 thousand cartoons; maltina production grew by 57.14 percent to 22.00 thousand cartoons; acetylene production increased by 9.03 percent to 34.76 thousand metric; and confectionery production increased by 23.52 percent to 344.20 pounds. However, production levels declined for cement by 3.16 percent to 28.81 metric tons; paint by 9.01 percent to 65.57 thousand gallons; oxygen by 5.51 percent to 37.70 thousand metric tons and common soap by 12.49 percent to 44.15 thousand metric tons. Production in the mining sector was mixed as evidenced in the production of diamond, bauxite and ilmenite. However, output for rutile increased in the review period

Headline inflation moderated to 13.30 percent in July 2020 from 14.36 percent in June 2020. The decrease in headline inflation is explained by the continuous deceleration in non-food inflation from 10.54 percent in June 2020 to 7.57 percent in July 2020. However, food inflation grew from 16.94 percent in June 2020 to 17.27 percent in July 2020.

Government budgetary operations in July 2020 (on cash flow basis) resulted in a deficit of Le316.60bn compared to Le960.11bn in June 2020. The narrowed deficit resulted from an expansion in government revenue in line with a contraction in government expenditure during the review period.

The Monetary Policy Rate of the Bank of Sierra Leone remained unchanged at 15.00 percent in June 2020. Similarly, Standing Lending and Deposit Facility rates remained unchanged at 19.00 percent and 12.00 percent respectively. However, the interbank rate decreased from 17.73 percent in June 2020 to 16.85 percent in July 2020. The commercial banks' average lending rate increased from 20.51 percent in June 2020 to 20.77 percent in July 2020, while the Savings deposits rate decreased from 2.90 percent in June 2020 to 2.89 percent in July 2020.

Trends in the growth of monetary aggregates were expansionary in July 2020, as exhibited in both Broad Money (M2) and Reserve Money (RM). Broad Money (M2) expanded by 6.59 percent in July 2020, relative to the 5.76 percent increase in June 2020. This development was as a result of increase in Net Foreign Assets (NFA), which more than outweighed the decrease in Net Domestic Assets (NDA) of the banking system. Reserve Money (RM) expanded by 7.03 percent in July 2020, compared with 18.97 percent growth in June 2020. The growth in RM was due to increase in Net Foreign Assets (NFA), which was more than the decrease in Net Domestic Assets (NDA) of the Bank of Sierra Leone.

The gross foreign exchange reserves of the Bank of Sierra Leone increased by 12.46 percent to US\$766.38mn in July 2020 from US\$681.45mn in June 2020, reflecting an increase in inflows of (US\$108.63mn) over outflows (US\$31.15mn) with a resultant net inflow of US\$77.48mn.

The average monthly premium between the official and parallel rates widened by 2.86 percentage points to Le787.63/US\$1 in July, 2020 from Le506.45/US\$1 in June, 2020.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

Production performance in the manufacturing sector was mixed in July 2020. Production increases occurred for beer & stout, maltina, acetylene and confectionery, while paint, cement, oxygen and common soap recorded declines during the reporting month. Beer and stout production rose by 28.81 percent to 76.00 thousand cartoons; maltina production grew by 57.14 percent to 22.00 thousand cartoons; acetylene production increased by 9.03 percent to 34.76 thousand metric; and confectionery production increased by 23.52 percent to 344.20 pounds. On the other hand, cement production decreased by 3.16 percent to 28.81 metric tons; paint production declined by 9.01 percent to 65.57 thousand gallons; oxygen production dropped by 5.51 percent to 37.70 thousand metric tons and common soap production decreased by 12.49 percent to 44.15 thousand metric tons.

2.1.2 Agriculture

The agricultural sector proxied by cocoa and coffee production was mixed in July 2020. Coffee production declined by 16.59 percent to 229.20 metric tons, while cocoa production increased from 52.90 metric tons in June 2020 to 819.20 metric tons in July 2020.

2.1.3 Mining Sector

Production in the mining sector was mixed in July 2020. Diamond production fell by 32.54 percent to 44.44 thousand carats. This amount comprised of industrial diamond of 35.05 thousand carats and gem diamond amounting to 9.40 thousand carats. Similarly, bauxite production decreased by 17.11 percent to 104.19 thousand metric tons. On the other hand, rutile production increased by 6.55 percent to 11.06 thousand metric tons, while ilmenite production grew by 35.82 percent to 4.55 thousand metric tons.

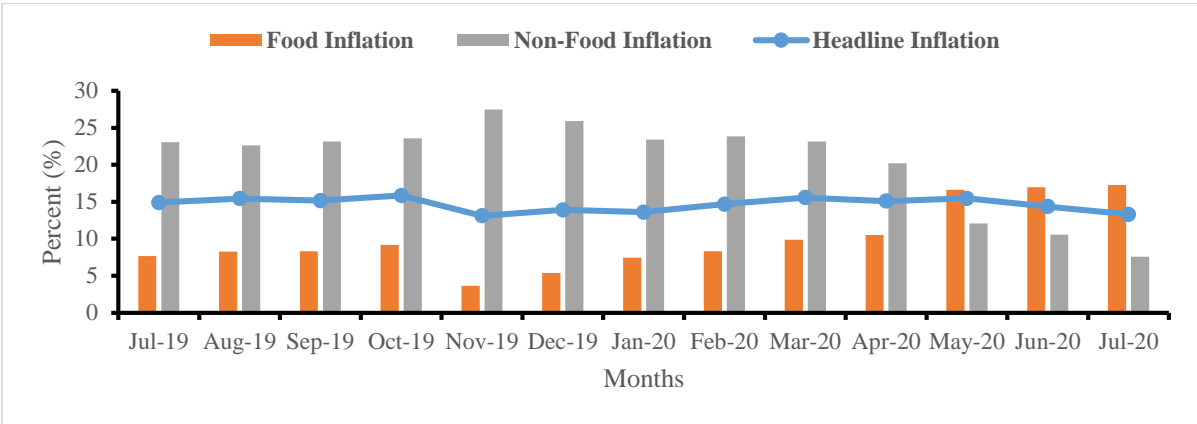
2.2 Price Development

Headline inflation (y/y) moderated to 13.30 percent in July 2020 from 14.36 percent in June 2020. The moderation in headline inflation is explained by the continuous deceleration in non-food inflation, while food inflation trending upwards. Non-food inflation fell from 10.54 percent in June

2020 to a single digit of 7.57 percent in July 2020. However, food inflation grew from 16.94 percent in June 2020 to 17.27 percent in July 2020.

On regional basis, inflation decelerated in three of the four regions. Southern region inflation decreased to 10.80 percent in July 2020 from 13.54 percent in June 2020; Eastern region inflation fell to 7.85 percent in July 2020 from 12.32 percent in June 2020; and Northern region inflation declined to 9.77 percent in July from 11.12 percent in June 2020. However, Western Area inflation declined to 18.36 percent in July from 17.29 percent in June 2020

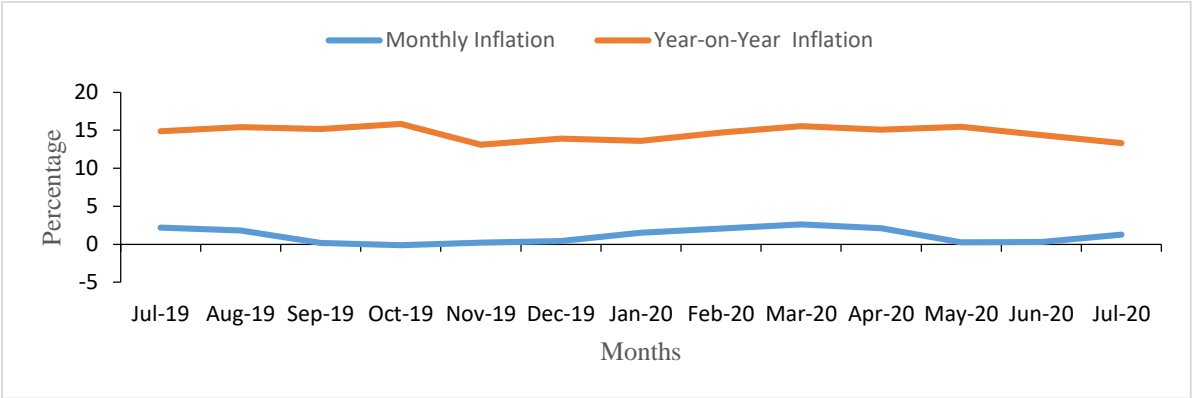
Figure 1: Headline, Food and Non-Food Inflation



Source: Statistics Sierra Leone and BSL

On monthly basis, headline inflation increased from 0.29 percent in June 2020 to 1.26 percent in July 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 in July 2020 (on cash flow basis) resulted in a deficit of Le316.60bn compared to Le960.11bn in June 2020. The narrowed deficit resulted from an expansion in government revenue in line with a contraction in government expenditure during the review period.

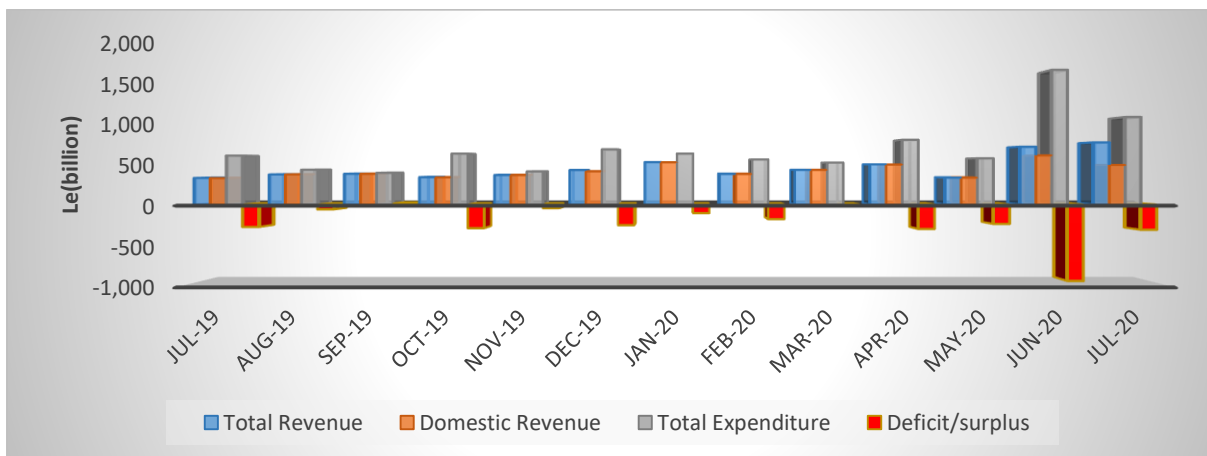
3.1 Revenue

Government revenue expanded by 7.52 percent to Le781.39bn in July 2020 from Le726.75bn in June 2020, and was below the target of Le866.42bn by 9.81 percent. Foreign grants exclusively accounted for the expansion in government revenue.

Domestic revenue contracted by 19.38 percent to Le498.58bn, driven by declines in both income tax and non-tax revenue. Income tax revenue dropped by 29.05 percent to Le123.36bn, while non-tax revenue fell by 29.31 percent to Le222.81bn. However, receipts from custom and excise duties expanded by 21.57 percent to Le66.44bn, while revenue from Goods and Services Tax (GST) expanded by 14.97 percent in Le85.96bn.

Foreign grants received grew to Le282.81bn in July 2020 compared to Le108.28bn in June 2020. Of this amount, Le281.02bn was disbursed by the World Bank (WB), while Le1.78bn was HIPC Debt Relief Assistance during the review period.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditure

Government expenditure contracted by 34.91 percent to Le 1, 097.98bn and over shot the ceiling of Le520.48bn by 110.96 percent. Other expenditure accounted for the contraction in government expenditure, while the wage bill and debt services payment increased during the reporting month. Other expenditure fell by 54.53 percent to Le608.41bn. On the other hand, pension, wages and salary increased by 42.97 percent to Le369.03bn. Debt service payment expanded by 33.03 percent to Le120.54bn, all of which accounted for by domestic debt services payment.

3.3 Financing

The overall fiscal deficit of Le316.60bn was financed from both domestic and foreign sources.

4.0 Monetary Developments

Developments in monetary aggregates were expansionary in the month of July 2020, as exhibited in both Broad Money (M2) and Reserve Money (RM).

4.1 Broad Money

Broad Money (M2) expanded by 6.59 percent in July 2020, relative to the 5.76 percent increase in June 2020. This development was as a result of increase in Net Foreign Assets (NFA), which more than outweighed the decrease in Net Domestic Assets (NDA) of the banking system.

The NFA of the banking system expanded by 29.92 percent in July 2020, compared to the 3.48 percent growth recorded in June 2020. The expansion in NFA was mainly as a reflection of receipts of funds from World Bank for budgetary support.

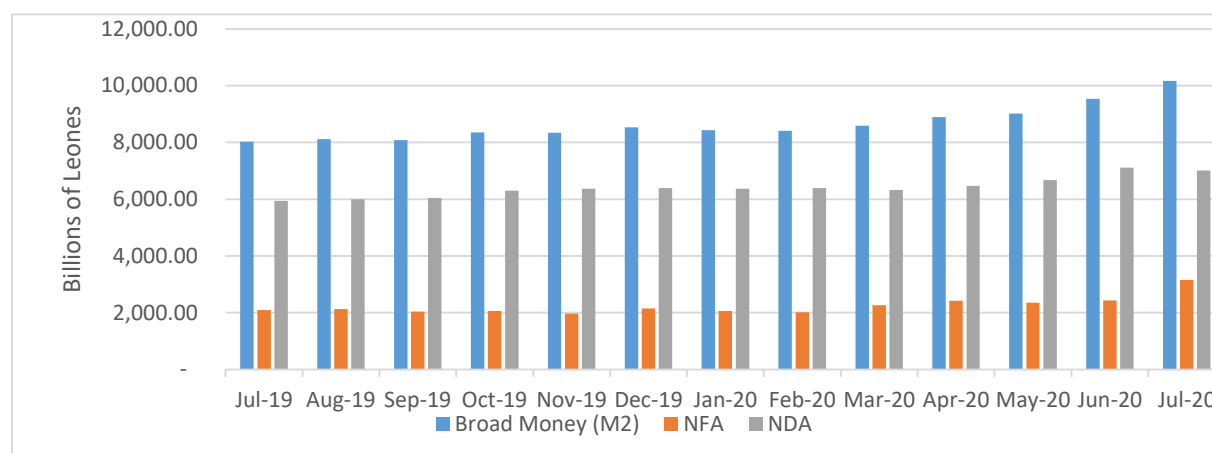
The NDA of the banking system contracted by 1.38 percent in July 2020, from the 6.57 percent increase in June 2020. This was mainly as a result of decrease in government borrowing. Credit to the Private Sector by commercial banks contracted by 0.87 percent in July 2020, compared with the 1.40 percent decline in June 2020.

Table 1: Broad Money and its Components

Billions of Leones	2020		Absolute Change		% Change	
	Jun	July	Jun-20	Jul-20	Jun-20	Jul-20
Reserve money	3,675.35	3,933.76	586.17	258.40	18.97	7.03
Broad Money (M2)	9,538.26	10,167.14	519.78	628.87	5.76	6.59
Narrow money (M1)	4,657.25	5,015.82	318.22	358.58	7.33	7.70
Currency outside banks	2,230.32	2,405.01	70.50	174.69	3.26	7.83
Demand deposit	2,426.93	2,610.81	247.72	183.89	11.37	7.58
Quasi money	4,881.02	5,151.31	201.56	270.29	4.31	5.54
o.w. Foreign currency deposit	2,346.84	2,421.29	133.88	74.45	6.05	3.17
Time and saving deposit	2,527.79	2,723.93	69.21	196.13	2.82	7.76
Net Foreign Asset	2429.25	3156.17	81.66	726.93	3.48	29.92
BSL	472.55	1144.36	(61.11)	671.81	(11.45)	142.17
ODCs	1956.70	2011.81	142.77	55.12	7.87	2.82
Net Domestic Assets	7109.01	7010.96	438.11	(98.05)	6.57	(1.38)
Net Domestic Credit	9849.51	9602.13	376.64	(247.37)	3.98	(2.51)
Government (Net)	7,595.43	7,362.14	451.20	(233.29)	6.32	(3.07)
BSL	3,584.90	3,108.47	484.63	(476.43)	15.63	(13.29)
ODCs	4,010.53	4,253.67	(33.43)	243.14	(0.83)	6.06
Private Sector Credit	2,397.67	2,377.50	(34.05)	(20.17)	(1.40)	(0.84)
o.w ODC	2,367.91	2,347.42	(33.60)	(20.50)	(1.40)	(0.87)
Other Sectors (Net)*	(143.59)	(137.51)	(40.51)	6.08	39.30	(4.24)
Other Items (Net)	(2,740.50)	(2,591.17)	61.47	149.32	(2.19)	(5.45)
Money Multiplier	2.60	2.58				

*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, M2 expanded as a result of increase in both Narrow Money (M1) and Quasi Money. M1 increased by 7.70 percent in July 2020 compared with the 7.33 percent increase in June 2020. This development was on account of increases in currency outside banks by 7.83 percent and demand deposits by 7.58 percent. Quasi Money expanded by 5.54 percent in July 2020, from 4.31 percent increase in June 2020. Quasi Money grew as a result of the increases in foreign currency deposits (3.17%) and time and savings deposits (7.76%) during the same period

4.2 Reserve Money

Reserve Money (RM) grew by 7.03 percent in July 2020, compared with 18.97 percent growth in June 2020. The growth in RM was due to increase in Net Foreign Assets (NFA), which was more than the decrease in Net Domestic Assets (NDA) of the Bank of Sierra Leone.

The NFA of the Bank of Sierra Leone expanded by 142.17 percent in July 2020, relative to the 11.45 percent decline in June 2020. This development was mainly due to the receipts of funds from World bank for budgetary support.

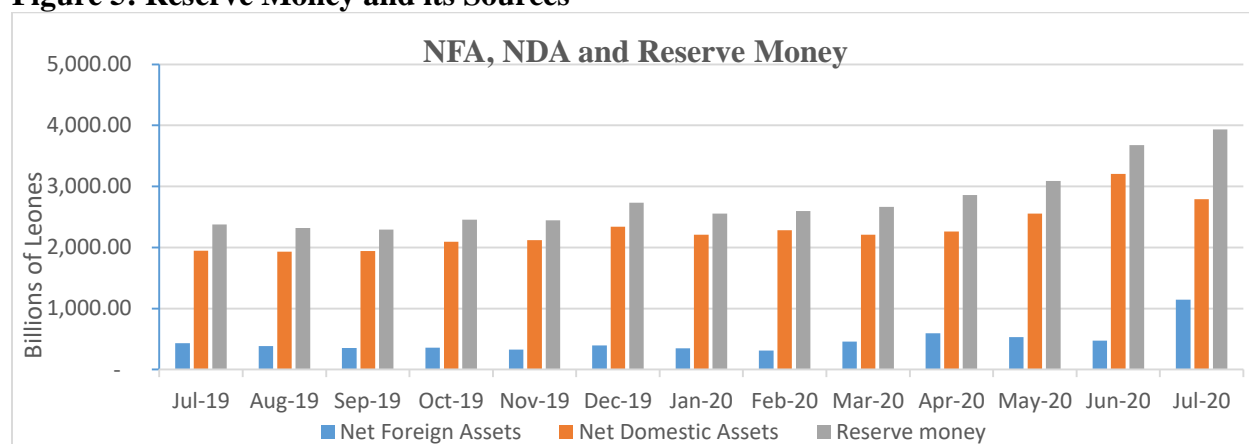
The NDA of Bank of Sierra Leone decreased by 12.91 percent in July 2020 compared to the 25.33 percent expansion in June 2020. The contraction in NDA was mainly attributed to the decrease in the holdings of government securities.

From the liability side, RM expanded on account of increase in both Banks' reserves (9.18%) and Currency issued (6.08%).

Table 2: Reserve Money and its Components

Billions of Leones	2020		Absolute Change		% Change	
	Jun	Jul	Jun-20	Jul-20	Jun-20	Jul-20
1. Net Foreign Assets	472.55	1,144.36	(61.11)	671.81	(11.45)	142.17
2. Net Domestic Assets	3,202.81	2,789.40	647.28	(413.41)	25.33	(12.91)
Government Borrowing (net)	3,584.91	3,108.47	484.64	(476.43)	15.63	(13.29)
o.w. Securities	1,383.65	1,235.43	(19.94)	(148.22)	(1.42)	(10.71)
Ways and Means GoSL/IMF /WB Budget	-	96.14	(96.41)	96.14	(100.00)	-
financing	2,598.16	2,598.16	821.53	-	46.24	-
3. Reserve money	3,675.35	3,933.76	586.17	258.40	18.97	7.03
o.w. Currency issued	2,521.21	2,674.52	58.57	153.31	2.38	6.08
Bank reserves	1,147.75	1,253.14	529.14	105.39	85.54	9.18

Source: Research Department, BSL

Figure 5: Reserve Money and its Sources

Source: Research Department, BSL

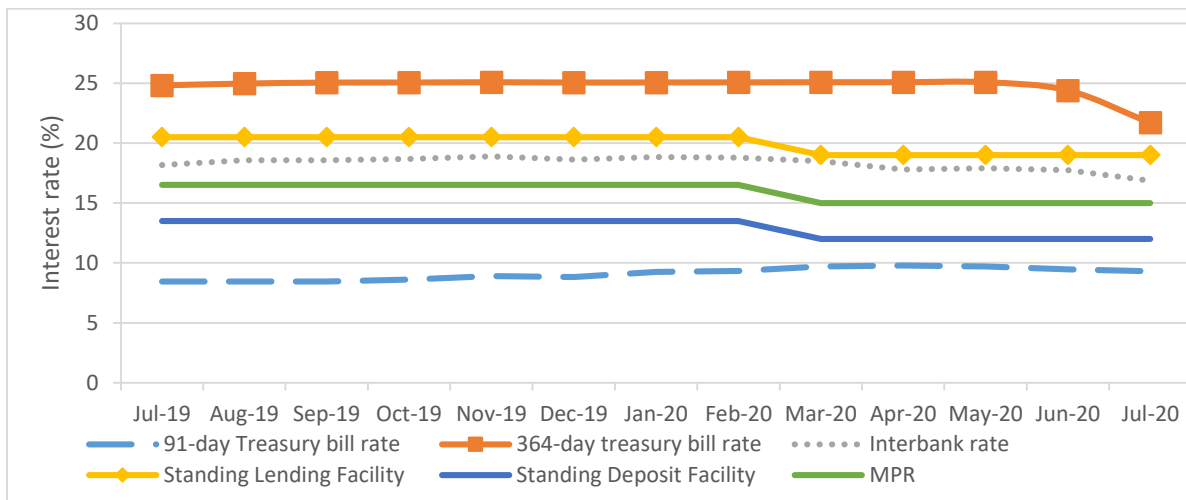
4.3 Interest Rates

The Monetary Policy rate of the Bank of Sierra Leone remained unchanged at 15.00 percent in July 2020. Also the Standing Lending and Deposit Facility rates remained unchanged at 19.00 percent and 12.00 percent respectively. The interbank rate (at which commercial banks lend among themselves) decreased from 17.73 percent in June 2020 to 16.85 percent in July 2020, but was within the Policy corridor. The commercial banks' average lending rate increased from 20.51

percent in June 2020 to 20.77 percent in July 2020, while the Savings deposits rate decreased from 2.90 percent in June 2020 to 2.89 percent in July 2020.

Interest rate in the money market decreased during the review period. Yields on the 91-days, 182-days and 364-days Treasury Bills decreased from 9.46 percent, 13.21 percent and 24.39 percent in June 2020, to 9.29 percent, 13.20 percent and 21.70 percent in July 2020, respectively.

Figure 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

Table 3: Interest Rates (%)

	2019						2020						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
91-day T-Bills	8.44	8.44	8.44	8.61	8.89	8.83	9.25	9.34	9.69	9.78	9.71	9.46	9.29
182-day T-Bills	8.53	8.54	11.38	12.46	13.21	13.21	13.21	13.21	13.21	13.21	13.21	13.21	13.20
364-day T-Bills	24.81	24.96	25.04	25.05	25.07	25.05	25.05	25.06	25.07	25.07	25.07	24.39	21.70
Interbank rate	18.16	18.57	18.57	18.68	18.90	18.61	18.84	18.77	18.50	17.80	17.91	17.73	16.85
SLF	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	19.00	19.00	19.00	19.00	19.00
SDF	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	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	16.50	15.00	15.00	15.00	15.00	15.00
Average Lending rate	20.75	20.75	20.75	20.75	20.75	20.17	20.49	20.49	20.49	20.49	20.51	20.51	20.77
	18.50	18.50	18.50	18.50	18.50	17.35	17.89	17.89	17.72	17.72	17.75	17.75	18.04
Lending (Prime)	22.99	22.99	22.99	22.99	22.99	22.99	23.08	23.08	23.26	23.26	23.26	23.26	23.50
Savings deposits	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.89

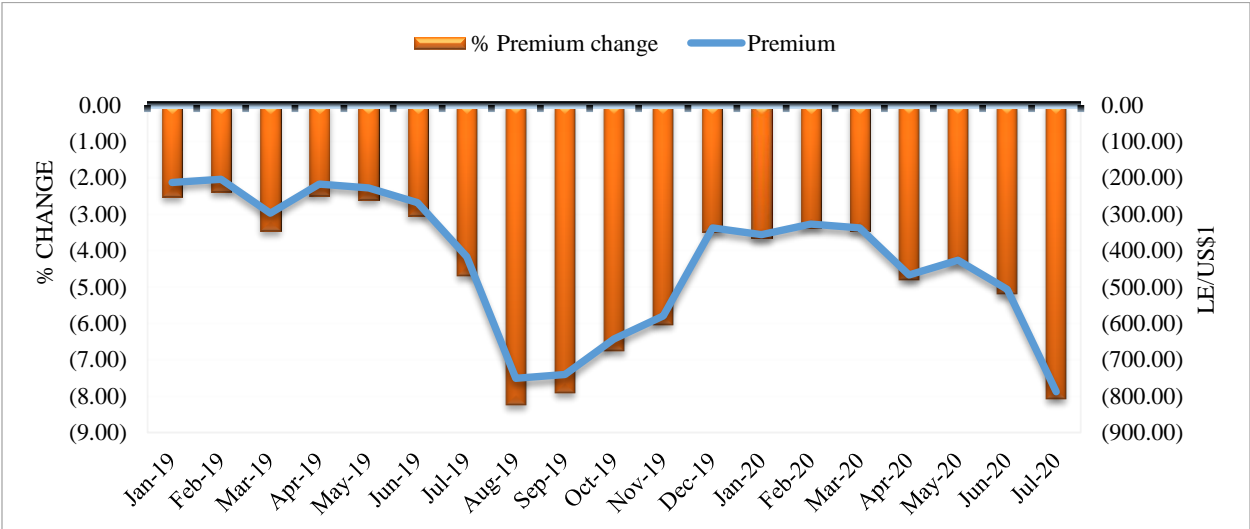
Source: Research Department, BSL

5.0 Exchange Rate Developments

In July 2020, the average exchange rate of the Leone relative to 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, official, commercial banks and Bureaux by 2.83 percent, 0.27 percent, 0.20 percent and 0.16 percent averaging Le10,504.55/US\$1, Le9,671.50/US\$1, Le9,869.20/US\$1 and Le9,555.81/US\$1, respectively. Likewise, on the selling front, the Leone depreciated in the parallel, official, bureau and commercial banks by 3.18 percent, 0.27 percent, 0.16 percent and 0.09 percent averaging Le10,609.09/US\$1, Le9,866.88/US\$1, Le9,973.70/US\$1 and Le10,002.20/US\$1, respectively.

The average monthly premium between the official and parallel rates widened by 2.86 percentage points to Le787.63/US\$1 in July, 2020 from Le506.45/US\$1 in June, 2020 (see figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

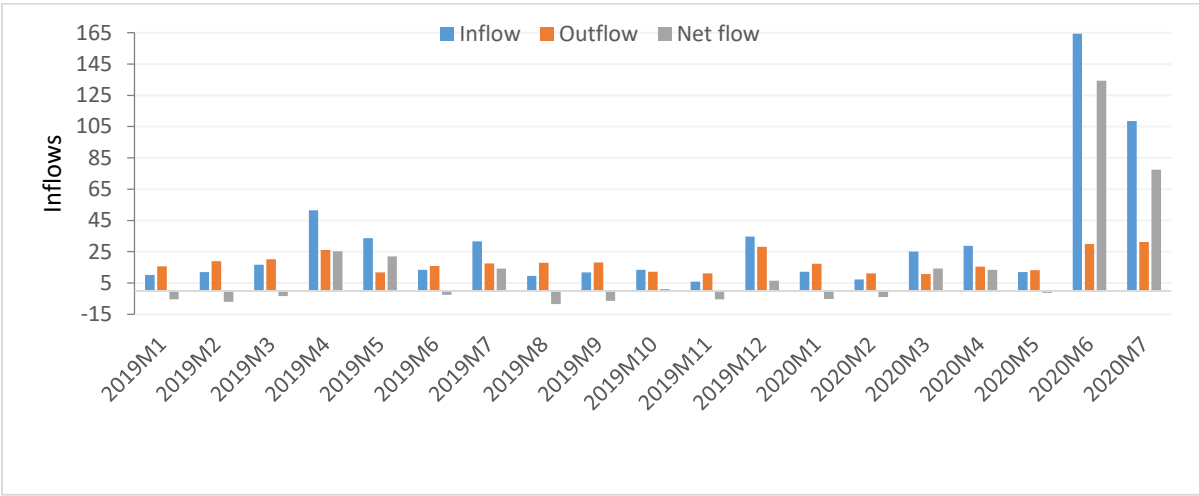
6.0 Gross Foreign Exchange Reserves

The gross foreign exchange reserves of the Bank of Sierra Leone at end-July, 2020 stood at US\$766.38mn, increasing by 12.46 percent over the US\$681.45mn reported at end-June 2020. The increase in gross reserves was boosted by an excess of inflows (US\$108.63mn) over outflows (US\$31.15mn) with a resultant net inflow of US\$77.48mn.

Major inflows comprised World Bank budgetary support (US\$101.56mn), exports receipts (US\$5.74mn) of which was: royalties from Koidu Holdings mining company (US\$1.75mn), rutile (US\$1.27mn), bauxite (US\$0.27mn) and timber export (US\$1.71mn). Other inflows relate to earnings from BSL’s investments abroad (US\$0.20mn), maritime administration (US\$0.27mn) and other government receipts (US\$0.67mn).

Significant outflows included BSL Special Credit Facility response to COVID-19 (US\$9.80mn), embassy/missions (US\$3.55mn), various infrastructure projects (US\$3.45mn), subscription to international organisations (US\$1.04mn) and other government expenditure (US\$8.05mn). Other outflows were in respect of debt service payment to OPEC/OFID (US\$1.02mn) and other multilateral and bilateral creditors (US\$4.19mn).

Figure 8: Foreign Exchange Flows



Source: Bank of Sierra Leone