



BANK OF SIERRA LEONE

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Review**

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BANK OF SIERRA LEONE

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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 June 2020 as output for beer & stout, cement and confectionery expanded, while paint, acetylene, oxygen and common soap recorded declines during the period. Beer and stout production rose by 7.35 percent to 73.00 thousand cartoons, Cement production increased by 20.93 percent to 29.75 metric tons and confectionery production grew by 0.78 percent to 299.06 thousand pounds. However, production levels declined for paint by 28.30 percent to 41.28 thousand gallons, acetylene by 11.74 percent to 31.88 thousand metric tons, oxygen by 3.95 percent to 39.90 thousand metric tons and common soap by 7.35 percent to 50.45 thousand metric tons. Production in the mining sector improved as evidenced in the production of diamond, rutile and Ilmenite. However, output for bauxite declined in the review period.

Headline inflation moderated to 14.36 percent in June 2020 from 15.47 percent in May 2020. The decrease in headline inflation was mainly driven by decrease in non-food inflation to 10.54 percent in June from 12.05 percent in May 2020. On the other hand, food inflation increased to 16.94 percent in June 2020 from 16.60 percent in May 2020.

Government budgetary operations in June 2020 on cash flow basis resulted in a deficit of Le960.11bn compared to a deficit of Le242.91bn in May 2020. The widened deficit was explained by the expansion in government expenditure which more than offset the growth in government revenue collected during the review period.

The Monetary Policy Rate of the Bank of Sierra Leone remained unchanged at 15.00 percent in June 2020. Similarly, the Standing Lending and Deposit Facility rates remained unchanged at 19.00 percent and 12.00 percent in June 2020, respectively. However, the interbank rate decreased from 17.91 percent in May 2020 to 17.73 percent in June 2020. The commercial banks' average lending and saving deposit rates remained unchanged at 21.35 percent and 2.38 percent, respectively in June 2020.

Trends in the growth of monetary aggregates were expansionary in June 2020, as exhibited in both Broad Money (M2) and Reserve Money (RM). Broad Money (M2) expanded by 5.76 percent in June 2020, relative to the growth of 1.44 percent in May 2020. The growth in M2 was on account of growth in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system. Reserve Money (RM) expanded by 18.97 percent in June 2020, relative to 7.98 percent growth recorded in May 2020. The growth in RM was mainly due to increase in the Net Domestic Assets (NDA) of the Central Bank, which more than offset the decrease in the Net Foreign Assets (NFA) of the Central Bank.

The gross foreign exchange reserves of the Bank of Sierra Leone improved significantly by 24.95 percent to US\$681.43mn in June 2020 from US\$545.35mn in May 2020, reflecting an increase in inflows of US\$164.35mn over outflows of US\$30.02mn and a resultant net inflow of US\$134.33mn.

The average monthly premium between the official and parallel rates widened by 0.83 percentage points to Le506.45/US\$1 in June, 2020 from Le426.57/US\$1 in May, 2020.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

Performance in the manufacturing sector was mixed, as production levels increased for beer & stout, cement and confectionery while paint, acetylene, oxygen and common soap recorded declines during the month of June 2020. Beer and stout production rose by 7.35 percent to 73.00 thousand cartoons, Cement production increased by 20.93 percent to 29.75 metric tons and confectionery production grew by 0.78 percent to 299.06 thousand pounds.

However, production declines occurred for paint by 28.30 percent to 41.28 thousand gallons, acetylene by 11.74 percent to 31.88 thousand metric tons, oxygen by 3.95 percent to 39.90 thousand metric tons and common soap by 7.35 percent to 50.45 thousand metric tons.

2.1.2 Agriculture

Production in the agricultural sector, represented by cocoa and coffee, was such that coffee production increased by 118.10 percent to 274.80 metric tons while cocoa production decreased by 51.02 percent to 52.90 metric tons in the review period.

2.1.3 Mining Sector

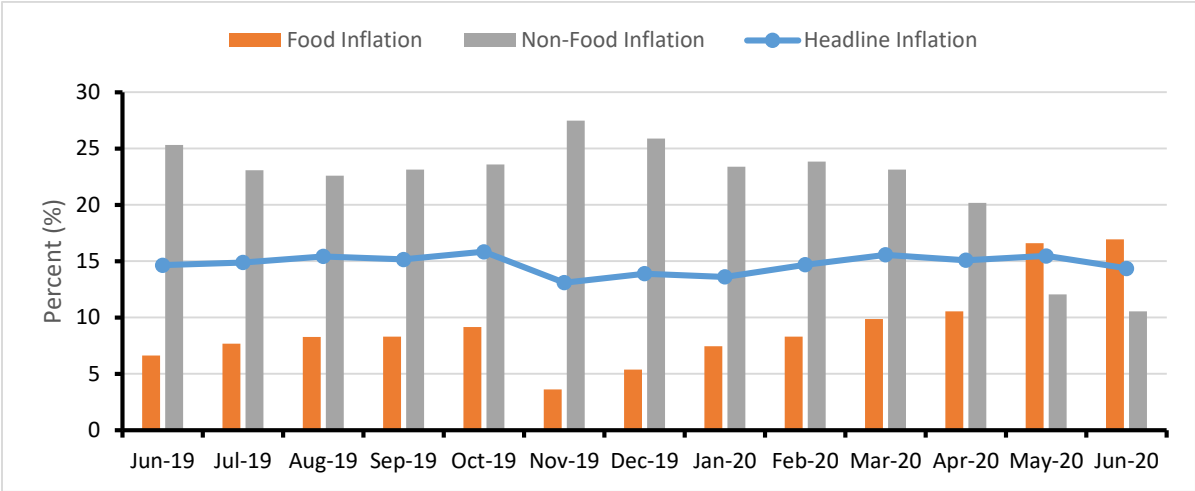
Production in the mining sector improved, with diamond recording growth by 16.84 percent to 65.88 thousand carats in the month of June 2020. This amount comprised of industrial diamond 56.53 thousand carats and gem diamond amounting to 9.35 thousand carats. Rutile production increased by 31.96 percent to 10.38 thousand metric ton, Ilmenite was up by 23.43 percent to 3.35 thousand metric tons. Conversely, bauxite production fell by 13.43 percent to 125.70 thousand metric tons during the review period.

2.2 Price Development

Annual headline inflation (y/y) moderated to 14.36 percent in June 2020 from 15.47 percent in May 2020, due to a decrease in non-food inflation to 10.54 percent in June from 12.05 percent in May 2020. On the other hand, food inflation increased to 16.94 percent in June 2020 from 16.60 percent in May 2020. The increase in food inflation was a reflection of the slowdown in the economy by measures to curtail the spread of COVID-19 across the country.

On regional basis, inflation decelerated in the Western Area to 17.29 percent in June 2020 from 20.00 percent in May 2020. Similarly, inflation in the southern region decreased to 13.54 percent in June 2020 from 14.59 percent in May 2020 and Eastern region to 12.32 percent in June 2020 from 13.22 percent in May 2020. However, Northern region inflation increased to 11.12 percent in June 2020 from 9.70 percent in May 2020.

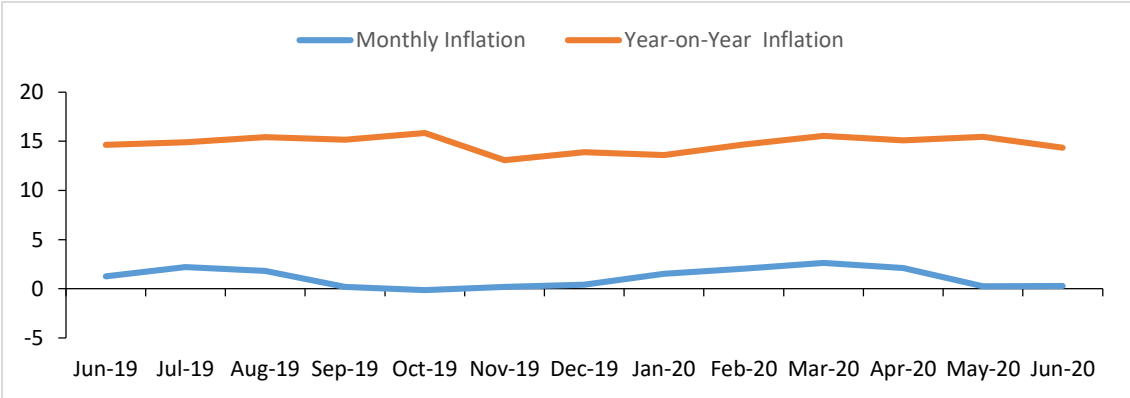
Figure 1: Headline, Food and Non-Food Inflation



Source: Statistics Sierra Leone and BSL

On monthly basis, headline inflation increased to 0.29 percent in June 2020 from 0.26 percent in May 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 budgetary operations in June 2020 (on cash flow basis) ended in a deficit of Le960.11bn compared to a deficit of Le242.91bn in May 2020. The widened deficit was explained by the expansion in government expenditure which more than offset the growth in government revenue collected during the review period.

3.1 Revenue

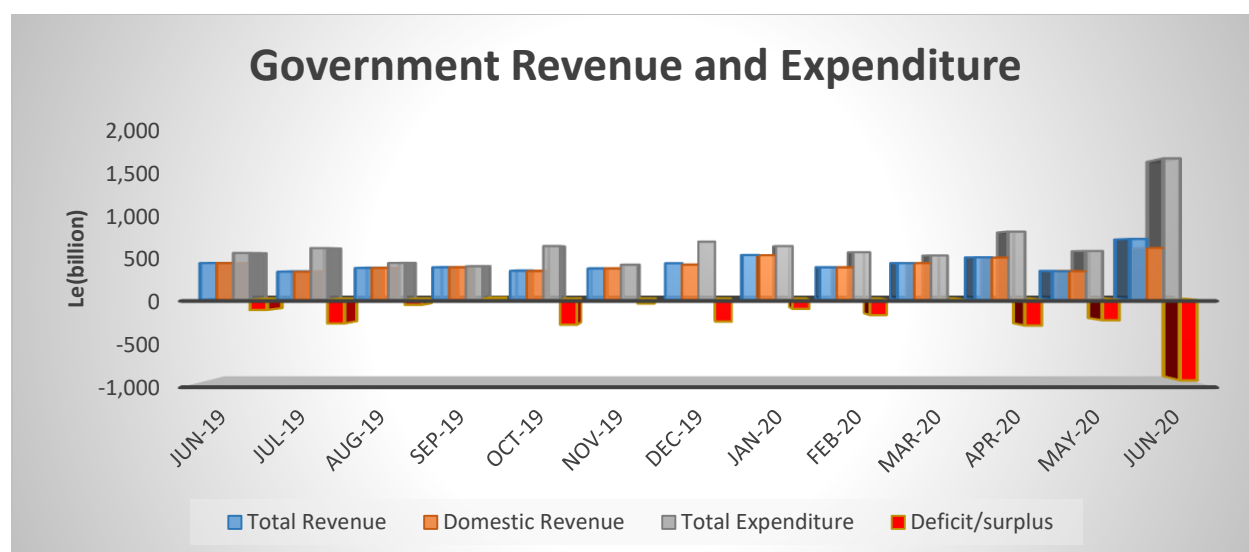
Government revenue expanded to Le726.75bn in June 2020 from Le339.62bn in May 2020, but lower than the target of Le866.42bn by 16.12 percent. The growth in government revenue was due to the expansion in both domestic revenue and foreign grants.

Domestic revenue increased to Le618.77bn from Le339.62bn last month, and was in excess of the target of Le417.30bn by 48.21 percent. The expansion in domestic revenue was due to the improvement in revenue collected from all its components with the exception of customs & excise duties which contracted.

Receipts from non-tax revenue increased to Le315.18bn from Le 115.21bn in the previous month. Revenue from income tax department expanded to Le173.86bn in June 2020 from Le95.44bn in May 2020. Receipts from Goods and Services tax grew slightly to Le74.76bn in June 2020 from Le73.31bn in May 2020. Nevertheless, customs and excise receipts contracted to Le54.66bn in June 2020 from Le55.66bn May 2020.

External grants support recorded an inflow of Le108.28bn in June 2020. Of this amount, Le107.85bn was disbursed by the European Union (EU), while Le0.44bn was HIPC Debt Relief Fund receipts during the review period.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditure

Government expenditure grew by 189.57 percent to Le1, 686.85bn, and yet, missed the ceiling of Le520.48bn by 224.09 percent. The increase in government spending was on account of the increase in all its main components. Pension, wages and salaries increased by 15.08 percent to Le 258.12bn. Other expenditure on goods and services increased by 348.71 percent to Le1, 338.12bn. Similarly, debt service payments rose by 50.99 percent to Le90.62bn, of which domestic debt service payments amounted to Le90.33bn, and foreign debt service payments amounted to Le0.29bn

3.3 Financing

The overall fiscal deficit of Le960.11bn was financed from both domestic and foreign sources.

4.0 Monetary Developments

Trends in the growth of monetary aggregates were expansionary in June 2020, as exhibited in both Broad Money (M2) and Reserve Money (RM).

4.1 Broad Money

Broad Money (M2) expanded by 5.76 percent in June 2020, relative to the growth of 1.44 percent in May 2020. The growth in M2 was on account of growth in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system.

The NFA of the banking system grew by 3.48 percent in June 2020, compared with a 3.18 percent decline recorded in May 2020. This development was mainly on account of an increase in the NFA of commercial banks which more than offset the contraction in the NFA of the Central Bank.

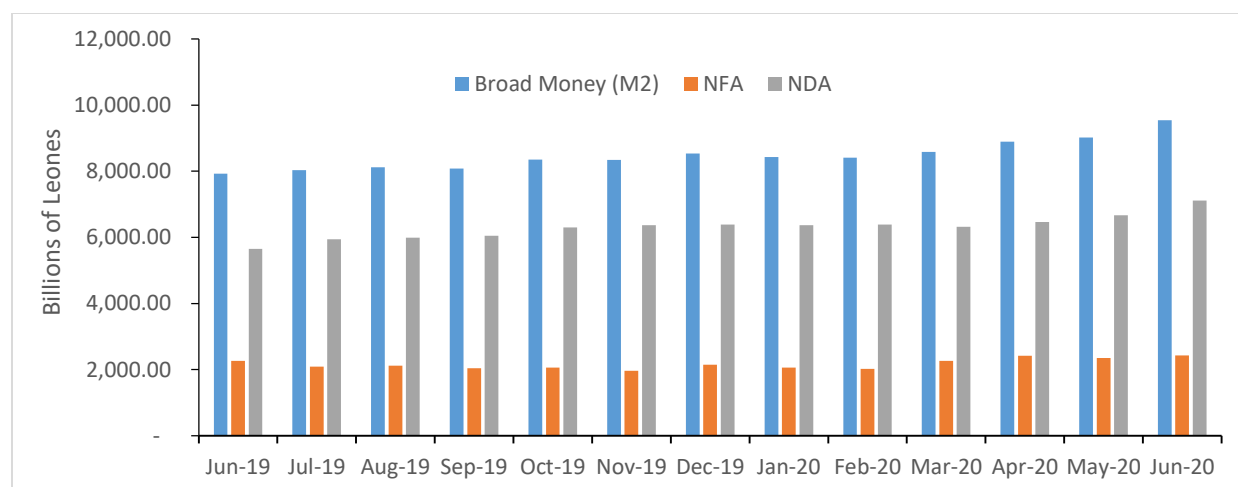
The NDA of the banking system expanded to 6.57 percent in June 2020, relative to the growth of 3.17 percent recorded in May 2020. This was largely explained by the impact of the IMF Rapid Credit Facility Funds on-lend to the Government. Credit to the private sector by commercial banks further contracted by 1.40 percent in June 2020, compared with a 0.14 percent contraction in May 2020. The decline in credit to the private sector could be in part attributed to the slowdown in economic activities arising from the effects of the COVID-19 crisis

Table 1: Broad Money and its Components

Billions of Leones	2020		Absolute Change		% Change	
	May	Jun	May-20	Jun-20	May-20	Jun-20
Reserve money	3,089.18	3,675.35	228.28	586.17	7.98	18.97
Broad Money (M2)	9,018.49	9,538.26	128.04	519.78	1.44	5.76
Narrow money (M1)	4,339.03	4,657.25	66.95	318.22	1.57	7.33
Currency outside banks	2,159.82	2,230.32	88.92	70.50	4.29	3.26
Demand deposit	2,179.20	2,426.93	(21.97)	247.72	(1.00)	11.37
Quasi money	4,679.46	4,881.02	61.09	201.56	1.32	4.31
o.w. Foreign currency deposit	2,212.96	2,346.84	(42.40)	133.88	(1.88)	6.05
Time and saving deposit	2,458.58	2,527.79	102.09	69.21	4.33	2.82
			-			
Net Foreign Asset	2347.59	2429.25	(77.07)	81.66	(3.18)	3.48
BSL	533.66	472.55	(63.45)	(61.11)	(10.63)	(11.45)
ODCs	1813.93	1956.70	(13.62)	142.77	(0.75)	7.87
Net Domestic Assets	6670.90	7109.01	205.11	438.11	3.17	6.57
Net Domestic Credit	9472.87	9849.51	327.27	376.64	3.58	3.98
Government (Net)	7144.23	7,595.43	339.74	451.20	4.99	6.32
BSL	3,100.27	3,584.90	268.73	484.63	9.49	15.63
ODCs	4,043.96	4,010.53	71.01	(33.43)	1.79	(0.83)
Private Sector Credit	2,431.72	2,397.67	(1.71)	(34.05)	(0.07)	(1.40)
o.w ODC	2,401.52	2,367.91	(3.30)	(33.60)	(0.14)	(1.40)
Other Sectors (Net)*	(103.08)	(143.59)	(10.75)	(40.51)	11.65	39.30
Other Items (Net)	(2,801.97)	(2,740.50)	(122.17)	61.47	4.56	(2.19)
Money Multiplier	2.92	2.60				

*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

On the liability side, the expansion in M2 reflected increase in both Narrow Money (M1) and Quasi Money by 7.33 percent and 4.31 percent respectively in June 2020, compared with the growth of 1.57 percent and 1.32 percent respectively in May 2020. The growth in M1 shows a 3.26 percent growth in Currency outside Banks and 11.37 percent growth in demand deposits, while the growth in Quasi Money reflects a 0.05 percent growth in savings deposits and a 2.82 percent growth in foreign currency deposits.

4.2 Reserve Money

Reserve Money (RM) expanded by 18.97 percent in June 2020, relative to 7.98 percent growth recorded in May 2020. The growth in RM was mainly due to increase in the Net Domestic Assets (NDA) of the Central Bank, which more than offset the decrease in the Net Foreign Assets (NFA) of the Central Bank.

The NDA of the Central Bank expanded by 25.33 percent in June 2020, relative to a growth of 12.89 percent recorded in May 2020. This was partly due to the impact of the IMF Rapid Credit Facility disbursement on central bank's balance sheet.

The NFA of the Central Bank decreased by 11.45 percent in June 2020, relative to a contraction of 10.63 percent in May 2020. This development mirrors the combined effects including, outflows to meet official commitments and the balance sheet impact of the liability of the IMF –BSL Rapid

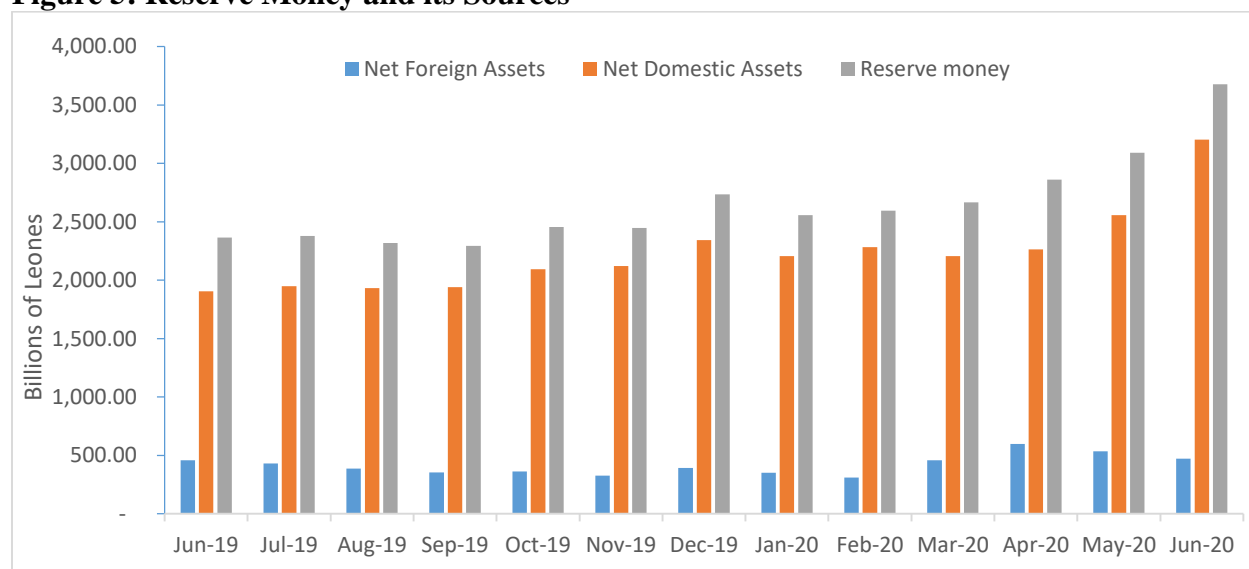
Credit Facility funds. On the liability side, the expansion in RM predominantly constitute a buildup in banks' reserves by 85.54 and an increase in Currency issued by 2.38 percent.

Table 2: Reserve Money and its Components

Billions of Leones	2020		Absolute Change		% Change	
	May	Jun	May-20	Jun-20	May-20	Jun-20
1. Net Foreign Assets	533.66	472.55	(63.45)	(61.11)	(10.63)	(11.45)
2. Net Domestic Assets	2,555.52	3,202.81	291.73	647.28	12.89	25.33
Government Borrowing (net)	3,100.27	3,584.91	268.73	484.64	9.49	15.63
o.w. Securities	1,403.59	1,383.65	2.30	(19.94)	0.16	(1.42)
Ways and Means	96.41	-	(14.15)	(96.41)	(12.80)	(100.00)
GoSL/IMF /WB Budget financing	1776.63	2,598.16	250.00	821.53	16.38	46.24
3. Reserve money	3,089.18	3,675.35	228.28	586.17	7.98	18.97
o.w. Currency issued	2,462.64	2,521.21	151.30	58.57	6.55	2.38
Bank reserves	618.62	1,147.75	75.57	529.14	13.92	85.54

Source: Research Department, BSL

Figure 5: Reserve Money and its Sources



Source: Research Department, BSL

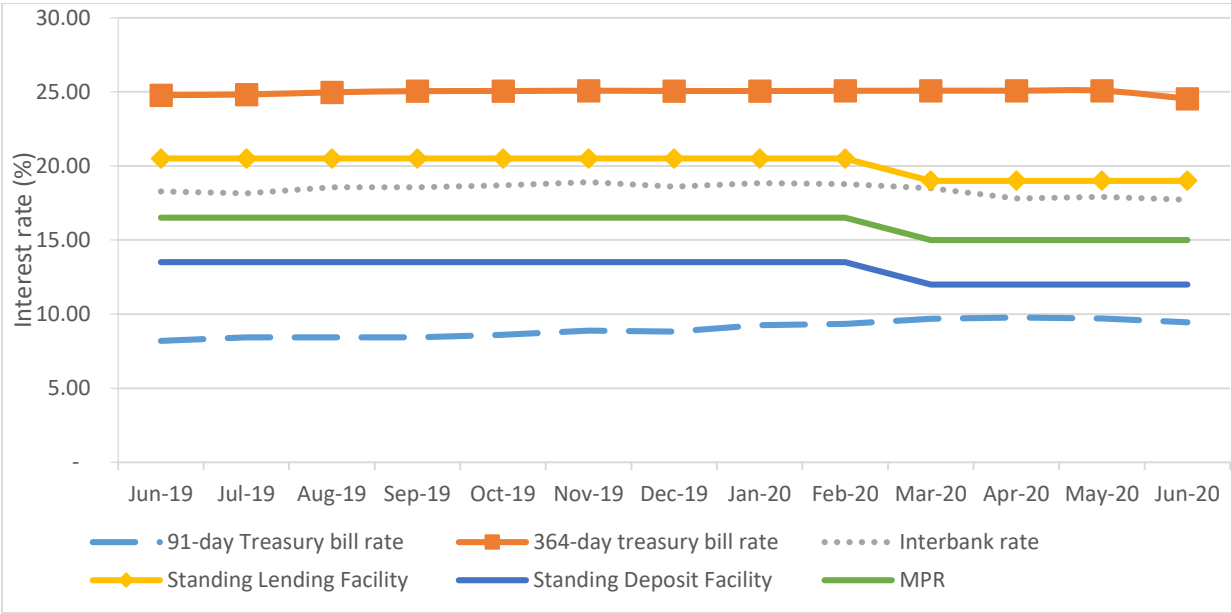
4.3 Interest Rates

The Monetary Policy Rate of the Bank of Sierra Leone remained unchanged at 15.00 percent in June 2020. Similarly, the Standing Lending Facility and Deposit Facility rates remained

unchanged at 19.00 percent and 12.00 percent in June 2020, respectively. The interbank rate decreased from 17.91 percent in May 2020 to 17.73 percent in June 2020, but remained within the Policy corridor. The commercial banks' average lending rate and saving deposit rates remained unchanged at 21.35 percent and 2.38 percent, respectively in June 2020.

In the money market, both the 91-day T-bills and 364-day T-bills rates decreased from 9.71 percent and 25.07 percent in May 2020, to 9.46 percent and 24.53 percent in June 2020 respectively. However, the 182-day T-bills rate remained unchanged at 13.21 percent in June 2020.

Figure 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

Table 3: Interest Rates (%)

	2019							2020					
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
91-day T-Bills	8.20	8.44	8.44	8.44	8.61	8.89	8.83	9.25	9.34	9.69	9.78	9.71	9.46
182-day T-Bills	7.13	8.53	8.54	11.38	12.46	13.21	13.21	13.21	13.21	13.21	13.21	13.21	13.21
364-day T-Bills	24.77	24.81	24.96	25.04	25.05	25.07	25.05	25.05	25.06	25.07	25.07	25.07	24.53
Interbank rate	18.27	18.16	18.57	18.57	18.68	18.9	18.61	18.84	18.77	18.50	17.80	17.91	17.73
SLF	20.50	20.50	20.50	20.50	20.50	20.5	20.50	20.50	20.50	19.00	19.00	19.00	19.00
SDF	13.50	13.50	13.50	13.50	13.50	13.5	13.50	13.50	13.50	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	16.50	15.00	15.00	15.00	15.00
Av. Lending rate	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35
											17.92	17.92	17.92
Lending (Prime)	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	-	-	-
Savings deposits	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38

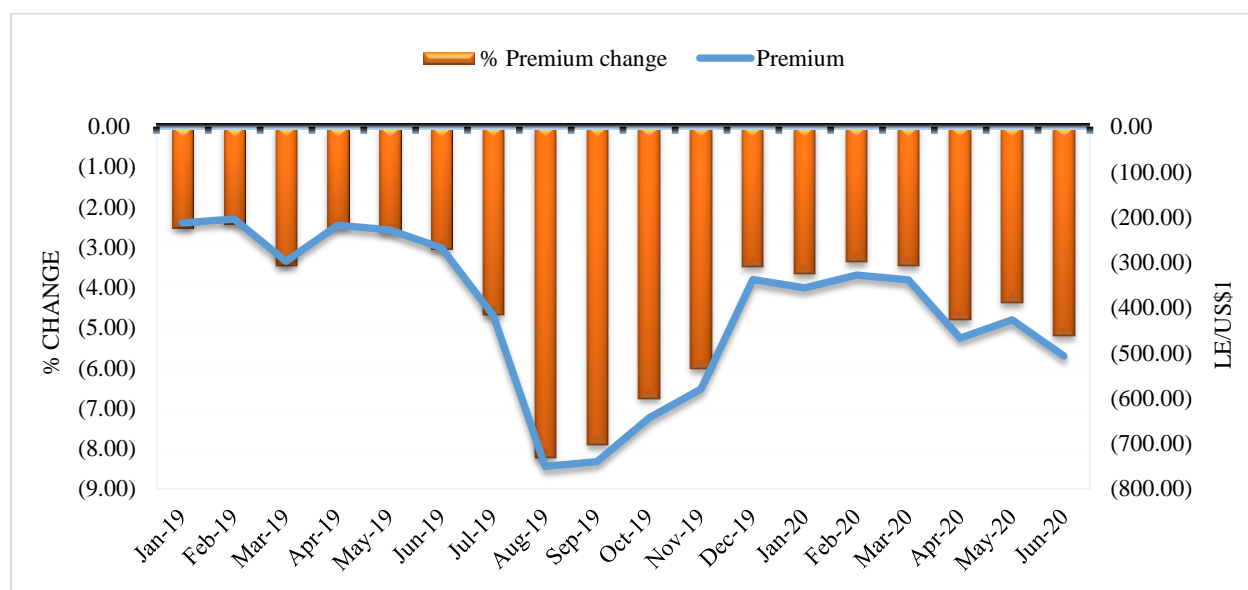
Source: Research Department, BSL

5.0 Exchange Rate Developments

The average exchange rate of the Leone to the US dollar for the month of June, 2020 was mixed. On the buying front, the Leone appreciated in the bureaux, official and commercial banks by 1.64 percent, 0.30 percent and 0.06 percent averaging Le9,540.27/US\$1, Le9,644.99/US\$1 and Le9,849.33/US\$1, respectively, while it depreciated slightly in the parallel market by 0.42 percent averaging Le10,215.91/US\$1. On the selling front, the Leone appreciated in the bureaux and official channels by 0.57 percent and 0.30 percent averaging Le9,957.58/US\$1 and Le9,839.84/US\$1, respectively, while it depreciated in the parallel and commercial banks by 0.57 percent and 0.32 percent averaging Le10,281.81/US\$1 and Le9,993.37/US\$1, respectively.

The average monthly premium between the official and parallel rates widened by 0.83 percentage points to Le506.45/US\$1 in June, 2020 from Le426.57/US\$1 in May, 2020 (see figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

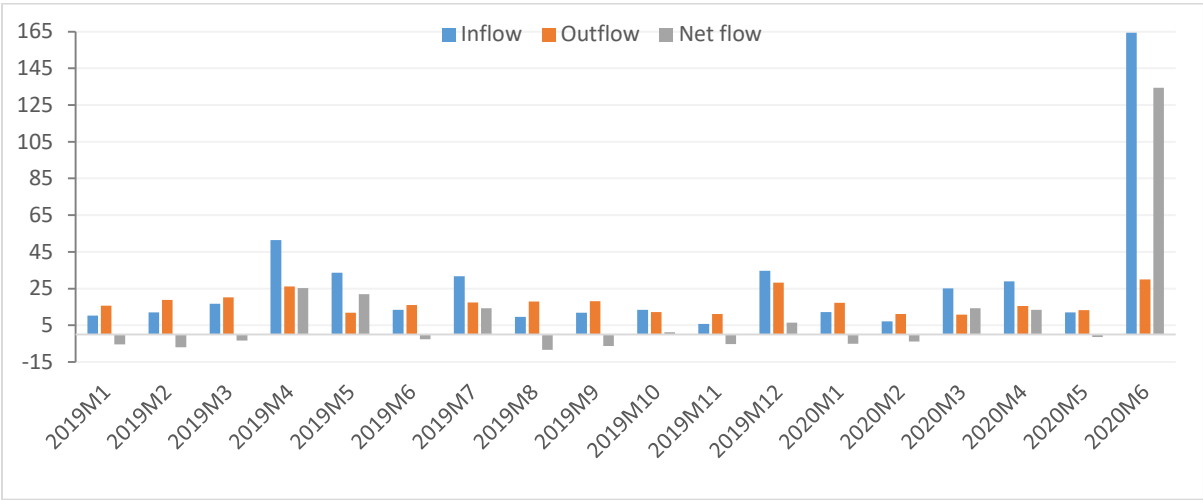
6.0 Gross Foreign Exchange Reserves

The gross foreign exchange reserves position of the Bank of Sierra Leone improved significantly by 24.95 percent to US\$681.43mn in June 2020 from US\$545.35mn in May 2020, reflecting an increase in inflows of US\$164.35mn over outflows of US\$30.02mn and a resultant net inflow of US\$134.33mn.

Significant inflows included IMF disbursement under the Rapid Credit Facility in response to COVID-19 (US\$142.69mn), EU budget support for Sierra Leone’s COVID-19 economic response (US\$11.21mn), export receipts, being royalties from rutile (US\$2.84mn), bauxite (US\$0.50mn), other mining receipts (US\$0.54mn), fishing royalties and license (US\$0.25mn) and timber (US\$3.79mn). Other inflows relate to earnings from BSL’s investment abroad (US\$0.21mn), privatization receipts (US\$0.40mn) and other government receipts (US\$1.70mn).

Major outflows comprised various infrastructure projects (US\$7.69mn), embassy and mission payments (US\$1.98mn), other government outlays (US\$8.98mn) and funds utilized to finance interbank market operations (US\$3.00mn). Other outflows consisted of debt service payments to different bilateral and multilateral creditors (US\$7.93mn) and OPEC/OFID (US\$0.77mn).

Figure 8: Foreign Exchange Flows



Source: Bank of Sierra Leone