



BANK OF SIERRA LEONE

**Monthly Economic
Review**

Volume 23| Issue 5

May, 2020



BANK OF SIERRA LEONE

**Monthly Economic
Review**

May 2020

Publisher: The Monthly Economic Review [MER] is published by the Research Department, Bank of Sierra Leone. The Department takes responsibility for opinions expressed in this review; queries should be forwarded to res@bsl.gov.sl

Address: Siaka Stevens Street, P O Box 30, Freetown, Sierra Leone.

CONTENTS

Contents.....	ii
List of Figures.....	iii
List of Tables.....	iii
List of Abbreviation.....	iv
1.0 Highlights	1
2.0 Production and Prices	2
2.1 Production.....	2
2.1.1 Manufacturing.....	2
2.1.2 Agriculture.....	2
2.1.3 Mining Sector.....	2
2.2 Price Development.....	2
3.0 Government Budgetary Operations	4
3.1 Revenues.....	4
3.2 Expenditures.....	5
3.3 Financing.....	5
4.0 Monetary Developments.....	5
4.1 Broad Money	6
4.2 Reserve Money	8
4.3 Interest Rates	10
5.0 Exchange Rate Developments.....	12
6.0 Gross Foreign Exchange Reserves.....	13

List of Figures:

Figure 1: Headline, Food and Non-Food Inflation.....	3
Figure 2: Headline Inflation-Y-o-Y and Monthly Inflation Rate.....	4
Figure 3: Government Revenue and Expenditure.....	5
Figure 4: Trends in M2, NFA and NDA.....	8
Figure 5: Trends in Reserve Money (RM), NFA and NDA.....	10
Figure 6: Monetary Policy Rate and Other Market Rates.....	11
Figure 7: Premium between Official and Parallel Exchange Rates.....	12
Figure 8: Foreign Exchange Flows.....	13

List of Tables:

Table 1: Broad Money and its Components.....	7
Table 2: Reserve Money and its Components	9
Table 3: Interest Rates (%).....	11

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 May 2020 as output for paint, common soap and confectionery expanded, while Acetylene, cement and oxygen contracted during the period. Paint and common soap production increased by 59.30 percent to 57.57 thousand gallons, and 40.92 percent to 54.45 thousand metric tons respectively. Confectionery production increased by 7.10 percent to 296.75 thousand pounds. On the contrary, production levels for oxygen and acetylene decreased by 12.20 percent to 41.54 thousand cubic feet and 6.52 percent to 36.12 thousand cubic feet respectively. Cement production also dropped by 9.92 percent to 24.60 thousand metric tons. Production in the mining sector contracted marginally as evidenced in the production of diamond and Ilmenite. However, output for rutile expanded in the review period.

Headline inflation edged up to 15.47 percent in May 2020 from 15.08 percent in April 2020. The increase in headline inflation was mainly driven by increase in food inflation. Food inflation increased to 16.60 percent in May 2020 from 10.54 percent in April 2020. On the contrary, Non-food inflation declined to 12.05 percent in May 2020 from 20.19 percent in April 2020.

Government budgetary operations in May 2020 on cash flow basis resulted in a deficit of Le242.91bn compared to a deficit of Le306.56bn in April 2020. The narrowed deficit was on account of the contraction in government expenditure combined with a decline in revenue mobilization during the review period.

The Monetary Policy Rate (MPR) of the Bank of Sierra Leone remained unchanged at 15.00 in May 2020. Similarly, the Standing Lending and Deposit Facility rates remained unchanged at 19.00 percent and 12.00 percent in May 2020, respectively. The commercial banks' average lending and savings deposits rates remained unchanged at 21.35 percent and 2.38 percent, respectively. However, the interbank rate increased from 17.80 percent in April 2020 to 17.91 percent in May 2020,

Developments in monetary aggregates were mixed during the month of May 2020, as growth in Broad Money (M2) moderated, while Reserve Money (RM) expanded. Broad Money (M2) moderated by 1.44 percent in May 2020, relative to the 3.55 percent growth in April 2020. This development was mainly due to the decline in Net Foreign Assets (NFA) of the banking system, as Net Domestic Assets (NDA) of the banking system expanded in the review period. Reserve Money (RM) expanded to 7.98 percent in May 2020, relative to the 7.32 percent growth in April 2020. The growth in RM was mainly on account of the increase in Net Domestic Assets (NDA), which more than outweighed the decrease in Net Foreign Assets (NFA) of the Bank of Sierra Leone.

The gross foreign exchange reserves of the Bank of Sierra Leone decreased by 0.34 percent to US\$545.35mn in May 2020 from US\$547.21mn in April 2020, reflecting an increase in inflows of US\$11.94mn over outflows of US\$13.28mn and a resultant net outflow of US\$1.34mn.

The monthly average exchange rate movement of the Leone relative to the US dollar remained stable as reflected in the narrowing of the Premium between the Official and Parallel rates.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

Production in the manufacturing sector was mixed in May 2020. Output for paint, common soap and confectionery expanded, while output for Acetylene, cement and oxygen contracted during the period. Paint and common soap production increased by 59.30 percent to 57.57 thousand gallons, and 40.92 percent to 54.45 thousand metric tons respectively. Confectionery production increased by 7.10 percent to 296.75 thousand pounds. However, oxygen and acetylene production decreased by 12.20 percent to 41.54 thousand cubic feet and 6.52 percent to 36.12 thousand cubic feet respectively. Cement production dropped by 9.92 percent to 24.60 thousand metric tons.

2.1.2 Agriculture

Production in the agricultural sector proxied by cocoa and coffee, improved in May 2020. Coffee production increased to 126.00 metric tons from 38.40 metric tons in the previous month. Cocoa production stood at 108.00 metric tons in the review month.

2.1.3 Mining Sector

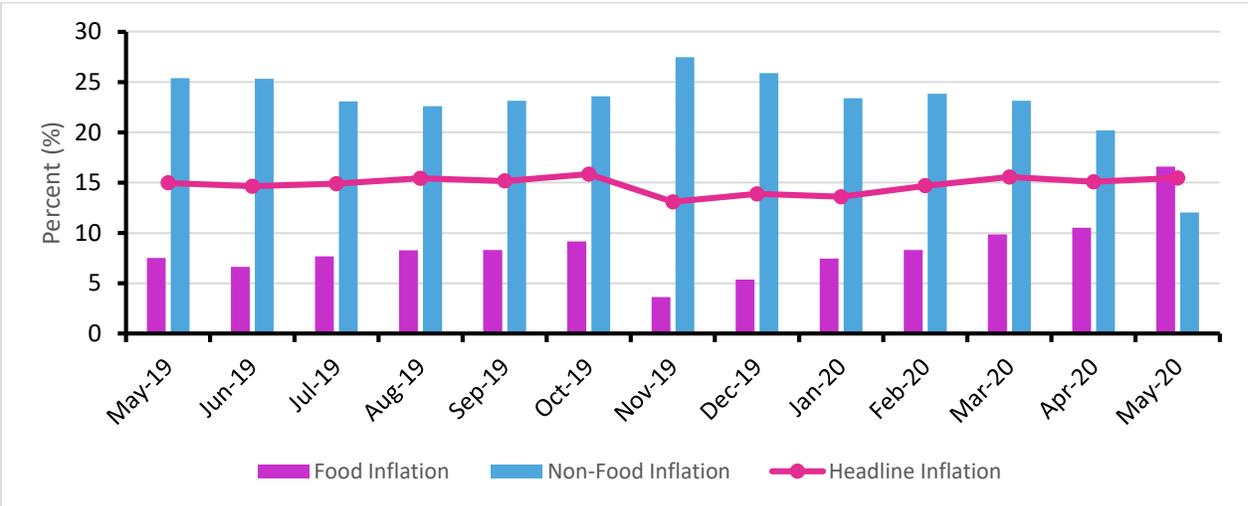
Activities in the mining sector especially diamond production contracted marginally by 0.34 percent to 56.39 thousand carats in May 2020 from 56.58 thousand carats in April 2020. This amount comprised of industrial diamond of 56.37 thousand carats, and gem diamond of 0.01 carats. Ilmenite production also declined slightly to 2.71 thousand metric tons in May 2020 from 2.74 thousand metric tons in April 2020. However, rutile production expanded by 4 percent to 7.87 thousand metric tons in May 2020 from 7.52 thousand metric tons in April 2020. Other minerals recorded an output of 0.03 thousand metric tons in May 2020.

2.2 Price Development

Annual headline inflation edged up to 15.47 percent in May 2020 from 15.08 percent in April 2020 due to the increase in food inflation. Food inflation increased to 16.60 percent in May 2020 from 10.54 percent in April 2020. Non-food inflation declined to 12.05 percent in May 2020 from 20.19 percent in April 2020.

On regional basis, inflation increased in Western Area and Southern region while both Eastern and Northern region inflation decelerated. Western Area inflation rose to 20.00 percent in May 2020 from 17.94 percent in April 2020; Southern region inflation increased to 14.59 percent in May 2020 from 11.62 percent in April 2020. On the other hand, Eastern region inflation slowed to 13.22 percent in May 2020 from 13.49 percent in April 2020; Northern region inflation decreased to 9.70 percent in May 2020 from 13.50 percent in April 2020.

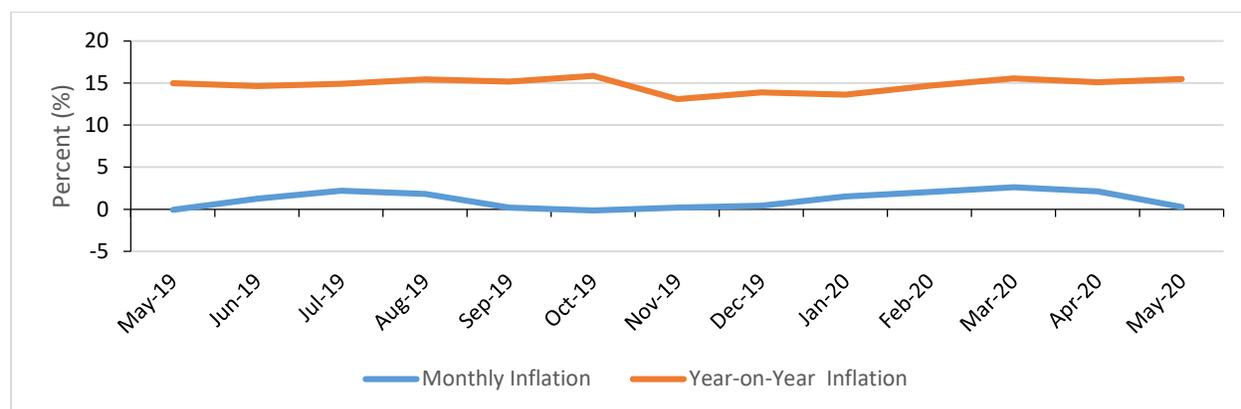
Figure 1: Headline, Food and Non-Food Inflation



Source: Statistics Sierra Leone and BSL

On monthly basis, consumer price inflation trend downwards reaching 0.26 percent in May 2020 from 2.12 percent in April 2020.

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



Source: Statistics Sierra Leone and BSL

3.0 Government Budgetary Operations

Government budgetary operations in May 2020 on cash flow basis resulted in a deficit of Le242.91bn compared to a deficit of Le306.56bn in April 2020. The narrowed deficit was on account of the contraction in government expenditure combined with a decline in revenue mobilization during the review period.

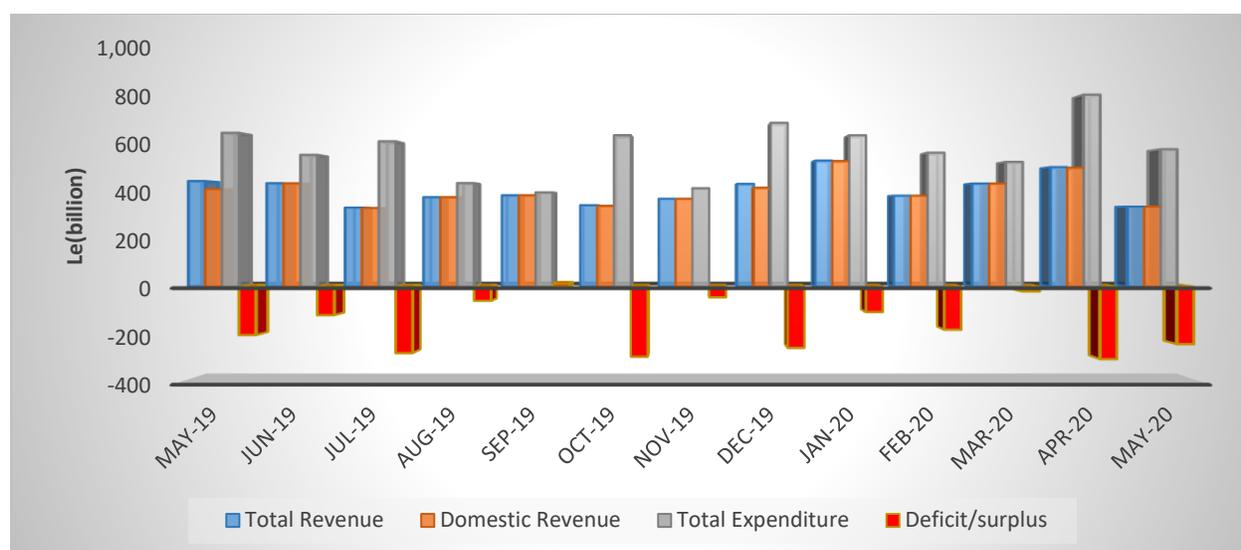
3.1 Revenue

Government revenue contracted by 33.01 percent to Le339.62bn, and was lower than the target of Le866.43bn by 60.80 percent. The contraction in government revenue was on account of decreased domestic revenue collection. There was no disbursement of external grants (budgetary support) in the month of May 2020.

Domestic revenue contracted to Le339.62bn reflecting 32.64 percent decline compared to Le504.21bn revenue in April 2020, The decline in domestic revenue was explained by contraction in income tax and non-tax, while customs & excise duties, and goods & services tax expanded during the reviewed period. Receipts from customs and excise duties increased by 16.21 percent to Le55.66bn. Revenue from Goods and Services tax expanded by 6.05 percent to Le73.31bn.

However, non-tax revenue contracted by 58.28 percent to Le 115.21bn, and receipts from income tax department declined by 14.05 percent to Le95.44bn.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditure

Government expenditure contracted by 28.39 percent to Le582.53bn in May 2020, but overshoot the ceiling of Le520.48bn by 11.92 percent. The contraction in government expenditure ensued from a decline in all its main components. Pension, wages and salaries contracted by 33.28 percent to Le 224.31bn, and other expenditure on goods and services declined by 21.72 percent to Le298.21bn. Debt service payments decreased by 37.72 percent to Le60.01bn, of which domestic debt service payments declined to Le60.01bn, and there was no foreign debt service payment.

3.3 Financing

The overall deficit of Le242.91bn was financed from both domestic and foreign sources.

4.0 Monetary Developments

Trends in the growth of monetary aggregates were mixed during the month of May 2020, as growth in Broad Money (M2) moderated, while Reserve Money (RM) expanded.

4.1 Broad Money

Broad Money (M2) grew by 1.44 percent in May 2020, relative to the 3.55 percent growth in April 2020. This development was mainly due to the decline in Net Foreign Assets (NFA) of the banking system, as Net Domestic Assets (NDA) of the banking system expanded in the review month.

The NDA of the banking system grew by 3.17 percent in May 2020, compared to the 2.32 percent increase in April 2020. This reflected an increase in net claims on Government by both the Bank of Sierra Leone and the commercial banks. Credit to the private sector by commercial banks declined by 0.14 percent in May 2020, compared with the 2.89 percent increase in April 2020. The contraction in private sector credit could be partly attributed to the slowdown in economic activities due to COVID-19 crisis.

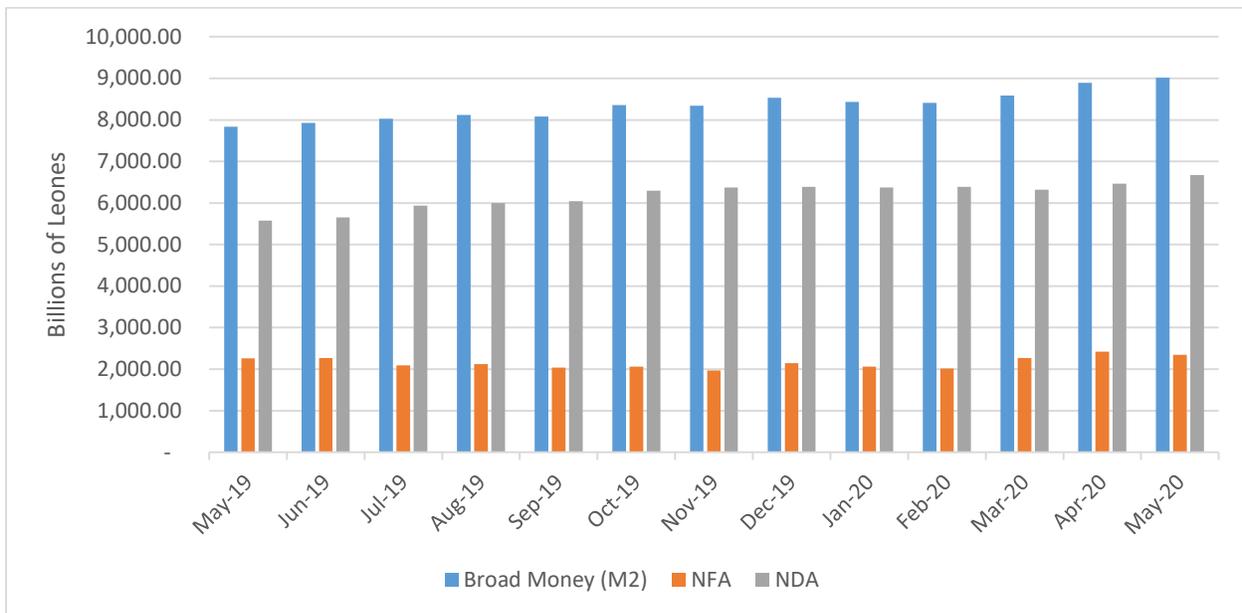
The NFA of the banking system contracted by 3.18 percent in May 2020, compared with the growth of 7.01 percent in April 2020. The NFA of both the Bank of Sierra Leone and commercial banks declined during the month of May 2020.

Table 1: Broad Money and its Components

Billions of Leones	2020		Absolute Change		% Change	
	Apr	May	Apr-20	May-20	Apr-20	May-20
Reserve money	2,860.91	3,089.18	195.26	228.28	7.32	7.98
Broad Money (M2)	8,890.45	9,018.49	305.07	128.04	3.55	1.44
Narrow money (M1)	4,272.08	4,339.03	238.36	66.95	5.91	1.57
Currency outside banks	2,070.91	2,159.82	100.02	88.92	5.07	4.29
Demand deposit	2,201.17	2,179.20	138.34	(21.97)	6.71	(1.00)
Quasi money	4,618.37	4,679.46	66.71	61.09	1.47	1.32
o.w. Foreign currency deposit	2,255.36	2,212.96	30.75	(42.40)	1.38	(1.88)
Time and saving deposit	2,356.50	2,458.58	35.92	102.09	1.55	4.33
Net Foreign Asset	2,424.66	2,347.59	158.74	(77.07)	7.01	(3.18)
BSL	597.11	533.66	138.26	(63.45)	30.13	(10.63)
ODCs	1,827.55	1,813.93	20.47	(13.62)	1.13	(0.75)
Net Domestic Assets	6,465.79	6,670.90	146.35	205.11	2.32	3.17
Net Domestic Credit	9,145.59	9,472.87	173.06	327.27	1.93	3.58
Government (Net)	6,804.49	7,144.23	137.31	339.74	2.06	4.99
BSL	2,831.54	3,100.27	86.53	268.73	3.15	9.49
ODCs	3,972.95	4,043.96	50.78	71.01	1.29	1.79
Private Sector Credit	2,433.43	2,431.72	67.11	(1.71)	2.84	(0.07)
o.w ODC	2,404.82	2,401.52	67.53	(3.30)	2.89	(0.14)
Other Sectors (Net)*	(92.33)	(103.08)	(31.37)	(10.75)	51.46	11.65
Other Items (Net)	(2,679.80)	(2,801.97)	(26.71)	(122.17)	1.01	4.56
Money Multiplier	3.11	2.92				

*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 moderation in M2 growth was reflected in both the Narrow Money (M1) and the Quasi Money. M1 growth moderated to 1.57 percent in May 2020, relative to the 5.91 percent increase in April 2020. This development was mainly on account of the decline in demand deposit as currency outside banks expanded during the review month. Quasi Money growth moderated to 1.32 percent in May 2020, relative to 1.47 percent in April 2020. This development reflected a 1.88 percent decrease in foreign currency deposits, and a 4.33 percent increase in time and savings deposits.

4.2 Reserve Money

Reserve Money (RM) growth expanded to 7.98 percent in May 2020, relative to the 7.32 percent growth in April 2020. The growth in RM was mainly on account of the increase in Net Domestic Assets (NDA), which more than outweighed the decrease in Net Foreign Assets (NFA) of the Bank of Sierra Leone. The NDA of the Bank of Sierra Leone expanded by 12.89 percent in May 2020, compared with the 2.58 percent growth in April 2020. This was largely on account of World Bank / IMF on-lending to the Government, Bank of Sierra Leone holdings of government securities also increase during the month of May 2020. NFA of the Bank contracted by 10.63 percent in May 2020, compared with the 30.13 percent increase in April 2020, due primarily to increase in liabilities to Non-Residents by Bank of Sierra Leone.

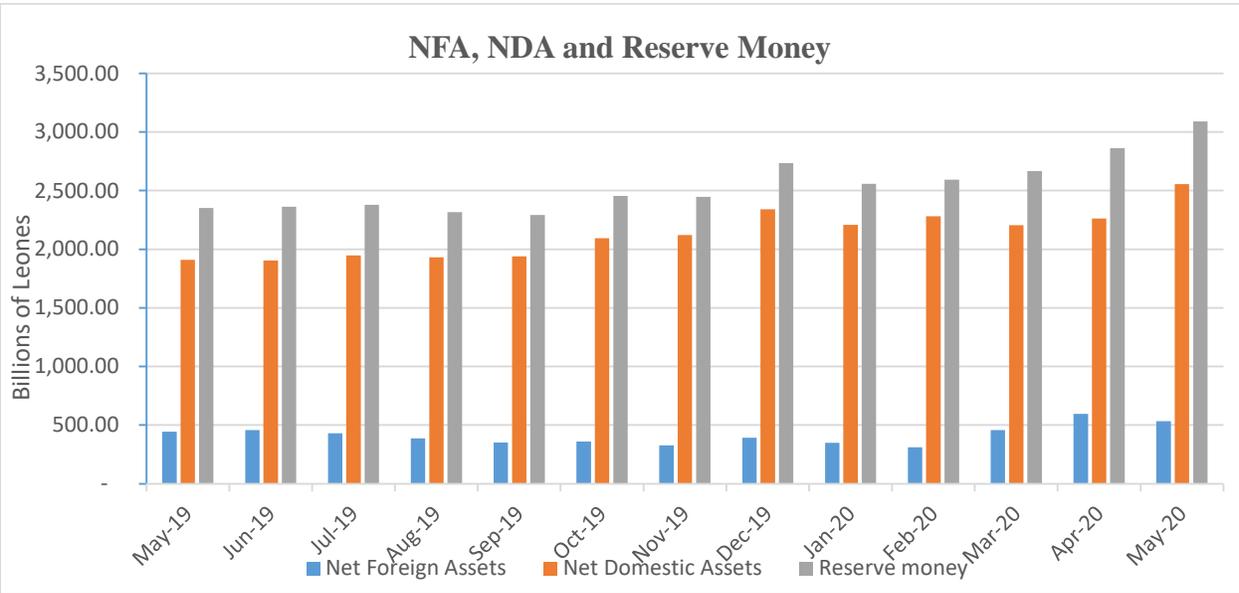
From the liability side, the expansion in RM was as a result of increase in both banks' reserves and currency issued, which increased by 13.92 percent and 6.55 percent respectively.

Table 2: Reserve Money and its Components

Billions of Leones	2020		Absolute Change		% Change	
	Apr-20	May-20	Apr-20	May-20	Apr-20	May-20
1. Net Foreign Assets	597.11	533.66	138.26	(63.45)	30.13	(10.63)
2. Net Domestic Assets	2,263.80	2,555.52	56.99	291.73	2.58	12.89
Government Borrowing (net)	2,831.53	3,100.27	86.53	268.73	3.15	9.49
o.w Securities	1,401.29	1,403.59	45.29	2.30	3.34	0.16
Ways and Means	110.56	96.41	(69.38)	(14.15)	(38.56)	(12.80)
GoSL/IMF /WB Budget financing	1,526.63	1,776.63	231.83	250.00	17.90	16.38
3. Reserve money	2,860.91	3,089.18	195.26	228.28	7.32	7.98
o.w. Currency issued	2,311.34	2,462.64	87.07	151.30	3.91	6.55
Bank reserves	543.05	618.62	108.15	75.57	24.87	13.92

Source: Research Department, BSL

Figure 5: Reserve Money and its Sources

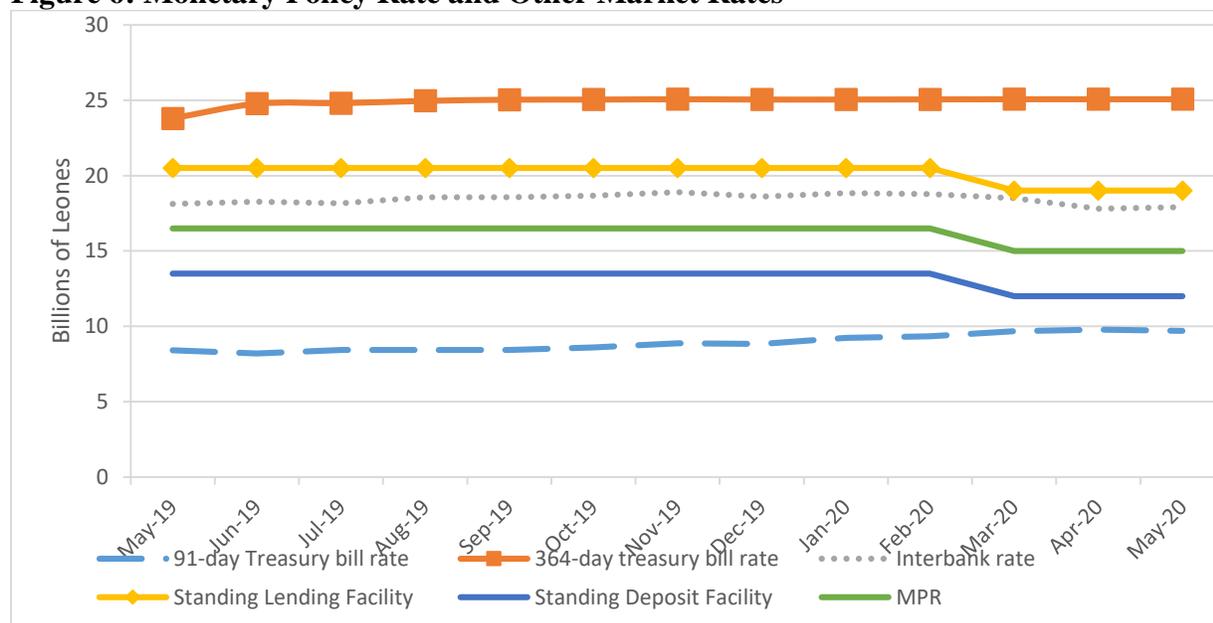


Source: Research Department, BSL

4.3 Interest Rates

The Monetary Policy Rate of the Bank of Sierra Leone remained unchanged at 15.00 in May 2020. Similarly, the Standing Lending Facility and Deposit Facility rates remained unchanged at 19.00 percent and 12.00 percent in May 2020, respectively. The interbank rate increased from 17.80 percent in April 2020 to 17.91 percent in May 2020, but remained within the Policy corridor. The commercial banks’ average lending and savings deposits rates remained unchanged at 21.35 percent and 2.38 percent, respectively.

Figure 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

In the money market, both 182-day T-bills rate and the 364-day T-bills rate remained unchanged at 13.21 percent and 25.07 percent respectively. However, the 91-day T-bills rate decreased slightly from 9.78 percent in April 2020 to 9.71 percent in May 2020.

Table 3: Interest Rates (%)

	2019										2020		
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
91-day T-Bills	8.41	8.20	8.44	8.44	8.44	8.61	8.89	8.83	9.25	9.34	9.69	9.78	9.71
182-day T-Bills	7.23	7.13	8.53	8.54	11.38	12.46	13.21	13.21	13.21	13.21	13.21	13.21	13.21
364-day T-Bills	23.79	24.77	24.81	24.96	25.04	25.05	25.07	25.05	25.05	25.06	25.07	25.07	25.07
Interbank rate	18.12	18.27	18.16	18.57	18.57	18.68	18.9	18.61	18.84	18.77	18.50	17.80	17.91
SLF	20.50	20.50	20.50	20.50	20.50	20.50	20.5	20.50	20.5	20.50	19.00	19.00	19.00
SDF	13.50	13.50	13.50	13.50	13.50	13.50	13.5	13.50	13.5	13.50	12.00	12.00	12.00
MPR	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.5	16.50	15.00	15.00	15.00
Ave. 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
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	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

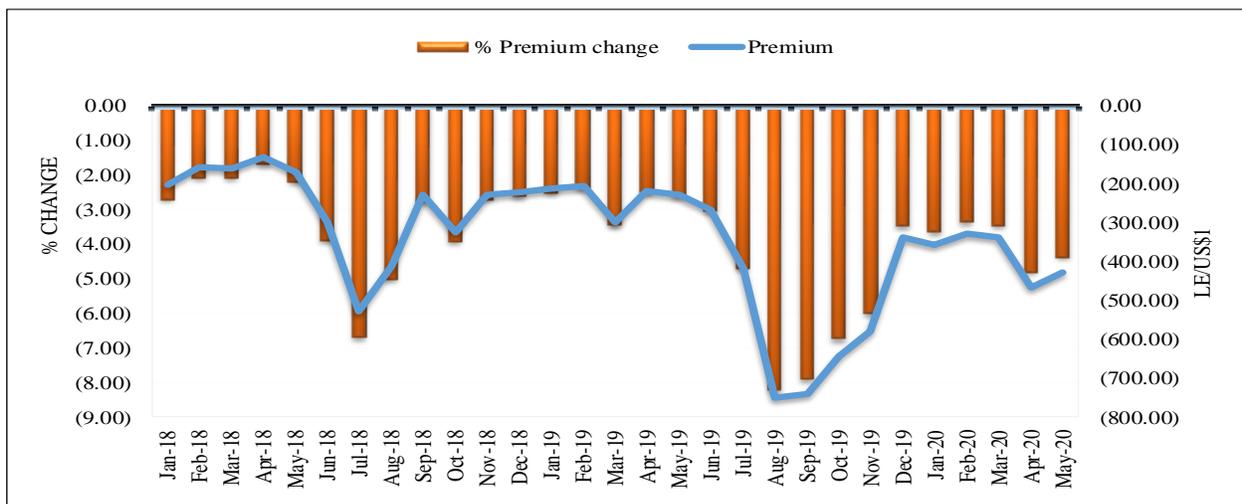
Source: Research Department, BSL

5.0 Exchange Rate Developments

In May 2020, the average exchange rate of the Leone vis-à-vis the US dollar depreciated in all foreign exchange markets fronts. On the buying front, the Leone depreciated in the bureau, commercial banks, official and parallel markets by 1.70 percent, 0.63 percent, 0.60 percent and 0.23 percent averaging Le9,698.86/US\$1, Le9,855.55/US\$1, Le9,674.24/US\$1 and Le10,173.53/US\$1, respectively. Similarly, on the selling front, the Leone depreciated in the bureau, official, commercial banks and parallel, markets by 1.09 percent, 0.72 percent, 0.31 percent and 0.23 percent, averaging Le10,015.02/US\$1, Le9,869.68/US\$1, Le9,961.29/US\$1 and Le10,223.53/US\$, respectively.

The average monthly premium between the official and parallel rates narrowed by 0.45 percentage points to Le426.57/US\$1 in May, 2020 from Le467.10/US\$1 in April, 2020 (See figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

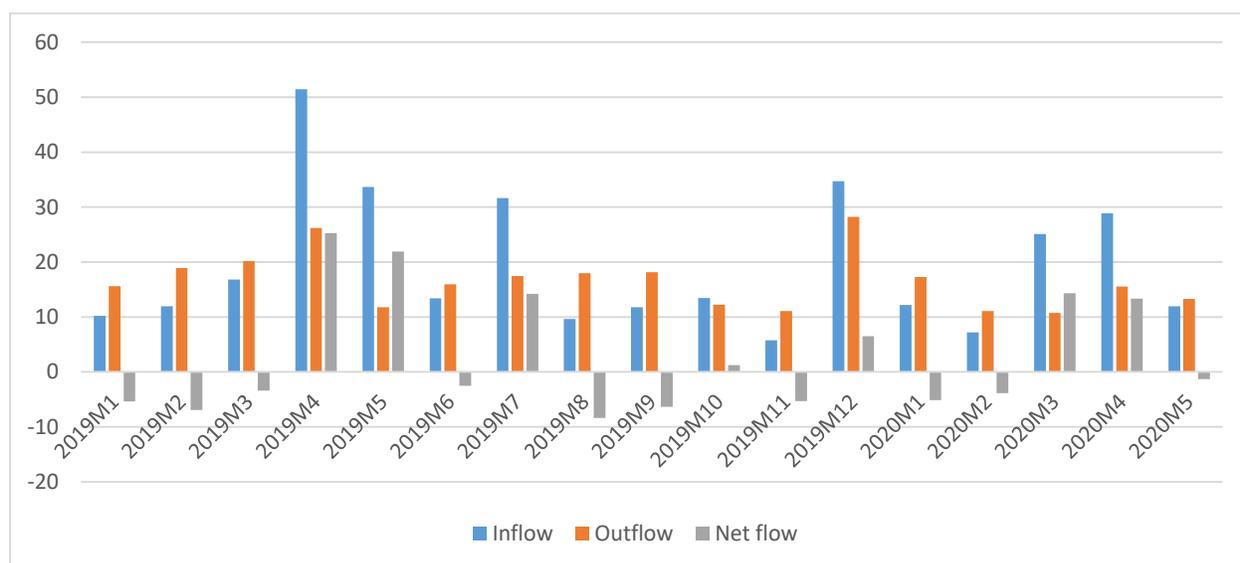
6.0 Gross Foreign Exchange Reserves

The gross foreign exchange reserves of the Bank of Sierra Leone decreased by 0.34 percent to US\$545.35mn in May 2020 from US\$547.21mn in April 2020, reflecting an increase in inflows of US\$11.94mn over outflows of US\$13.28mn and a resultant net outflow of US\$1.34mn.

Major inflows include receipts from export (US\$8.32mn) of which; rutile export (US\$2.72mn), bauxite (US\$1.00mn), fishing royalties and license (US\$1.72mn) and timber (US\$2.85mn). Other inflows include: interest earned by BSL from investment abroad (US\$0.44mn) and inflows from transaction with commercial banks (US\$3.03mn).

Significant outflows comprised expense on interbank market operations (US\$5.00mn), embassy and mission payments (US\$2.16mn), BSL expense on renovation of bank building (US\$0.12mn), various infrastructure projects (US\$0.51mn) and other government outlays (US\$2.08mn). Other outflows consist of debt service payments (US\$3.36mn) of which: other multilateral & bilateral (US\$2.77mn) and OPEC (US\$0.46mn).

Figure 8: Foreign Exchange Flows



Source: Bank of Sierra Leone