



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

In October 2020, production performance in the manufacturing sector improved, as most items such as maltina, cement, paint, confectionary, and common soap recorded increases in levels. However, production for beer & stout, acetylene, and oxygen declined during the review period. Maltina production grew by 16.67 percent to 21 thousand cartons, cement production by 4.75 percent to 30.21 thousand metric tons, paint rose by 0.37 percent to 59.65 thousand gallons, confectionery by 0.7 percent to 300.87 thousand pounds and common soap production by 9.89 percent to 61.9 thousand metric tons. In contrast, beer & stout production declined by 2.17 percent to 100.76 thousand cartons, acetylene production dropped by 3.77 percent to 29.07 thousand cubic feet, and oxygen production decreased by 2.17 percent to 35.23 thousand cubic feet. Production performance in the mining sector was low, as evidenced in decreases in the production diamond, bauxite, rutile and ilmenite during the review period.

Headline inflation (y/y) decreased to 11.67 percent in October 2020 from 13.71 percent in September 2020. The drop in headline inflation was accounted for by the fall in food inflation to 13.60 percent in October 2020 from 17.8 percent in September 2020. However, non-food inflation increased to 9.2 percent in October 2020 from 8.6 percent in September 2020.

Government fiscal operations on cash flow basis recorded a deficit of Le 266.96bn in October 2020, compared to a surplus of Le271.55bn in September 2020. The fiscal outturn was a reflection of government expenditure overrun.

The Monetary Policy Rate (MPR) remained unchanged at 15.00 percent in October 2020. The Standing Lending Facility rate also remained unchanged at 19.00 percent, while the Standing Deposit Facility rate was reduced to 10.00 percent during the same period. The interbank rate increased marginally from 12.09 percent in September 2020, to 12.14 percent in October 2020. However, the commercial banks' average lending declined from 20.62 percent in September 2020, to 20.30 percent in October 2020, while the saving deposit rates declined from 2.72 percent to 2.71 percent during the same review period.

Developments in monetary aggregates in October 2020 were expansionary, as reflected in both Broad Money (M2) and Reserve Money (RM). M2 expanded by 4.16 percent in October 2020, from a growth 2.47 percent in September 2020. The growth in M2 stemmed from increases in Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system. RM growth slowed by 0.93 percent in October 2020, from an expansion of 7.71 percent in September 2020. The growth in RM was primarily due to increase in Net Foreign Assets (NFA) of the Bank of Sierra Leone (BSL), which was moderated by the decline in Net Domestic Assets (NDA) BSL.

The gross foreign exchange reserves of the Bank of Sierra Leone decreased by 1.26 percent to US\$728.77mn in October 2020 from US\$738.07mn in September 2020, mainly driven by an increase in outflows of US\$17.69mn relative to the inflows of US\$7.16mn, resulting into a net outflow of US\$10.53mn.

The premium between the official and parallel rates narrowed by 1.17 percentage points to Le703.43/US\$1 in October, 2020 from Le810.86/US\$1 in September, 2020.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

In October 2020, production performance in the manufacturing sector improved as most items recorded increases in output. Production increases occurred for maltina by 16.67 percent to 21 thousand cartons, cement by 4.75 percent to 30.21 thousand metric tons, paint by 0.37 percent to 59.65 thousand gallons, confectionery by 0.7 percent to 300.87 thousand pounds and common soap by 9.89 percent to 61.9 thousand metric tons.

In contrast, production declines were recorded for beer & stout by 2.17 percent to 100.76 thousand cartons, acetylene by 3.77 percent to 29.07 thousand cubic feet, and oxygen by 2.17 percent to 35.23 thousand cubic feet.

2.1.2 Agriculture

In the agricultural sector, cocoa production increased by 32.32 percent to 3,263.74 metric tons in October 2020. There was no production of coffee during the review period.

2.1.3 Mining Sector

Production performance in the mining sector declined, as all minerals recorded lower levels. Diamond production fell by 16.4 percent to 69.46 thousand carats, which comprised 55.76 thousand carats of industrial diamond and 3.70 thousand carats of gem diamond. Bauxite production dropped by 9.77 percent to 99.95 thousand metric tons, rutile slowed by 20.51 percent to 7.80 thousand metric tons and ilmenite production decreased by 4.08 percent to 3.74 thousand metric tons.

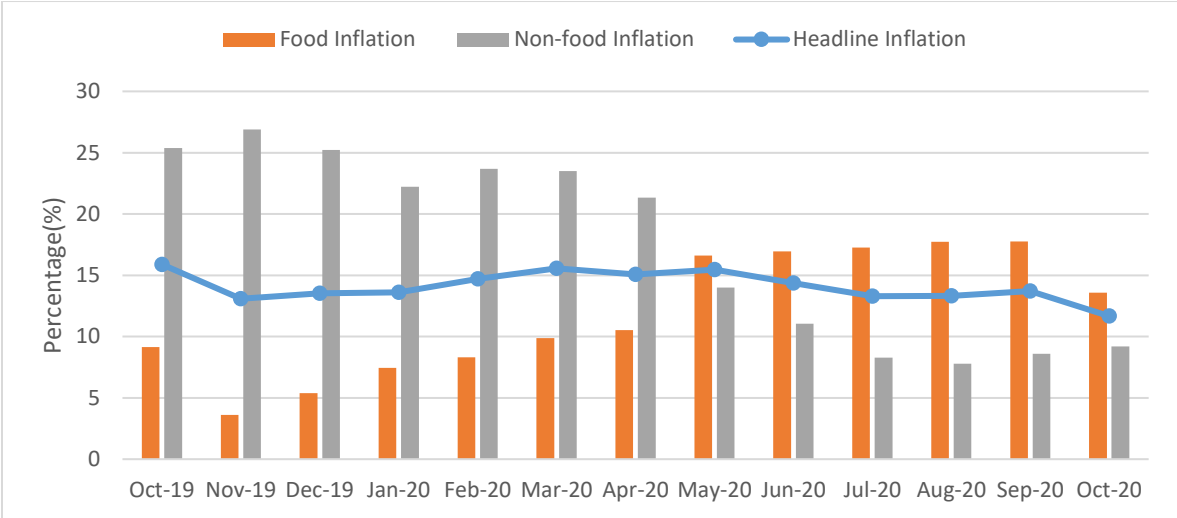
2.2 Price Development

Headline inflation (y/y) decreased to 11.67 percent in October 2020 from 13.71 percent in September 2020. The drop in headline inflation was accounted for by the fall in food inflation to 13.60 percent in October 2020 from 17.8 percent in September 2020. However, non-food inflation increased to 9.2 percent in October 2020 from 8.6 percent in September 2020.

On regional basis, inflation declined in the three regions. Southern region inflation declined to 10.10 percent in September 2020 from 11.12 percent in August, 2020; Eastern region inflation

decreased to 7.16 percent in September 2020 from 9.48 percent in August 2020; and Northern region inflation fell to 11.52 percent in September 2020 from 12.18 percent in August 2020. However, Western Area inflation increased to 18.81 percent in September 2020 from 16.20 percent in August 2020.

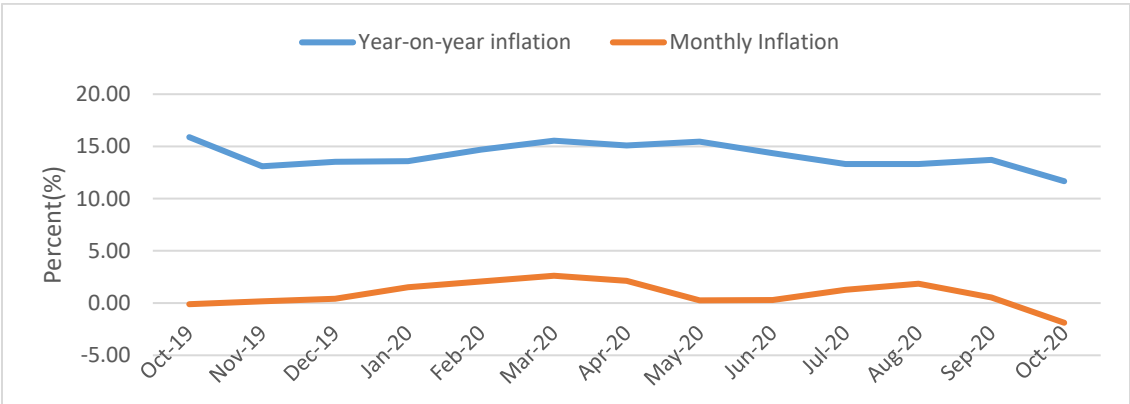
Figure 1: Trends in Headline, Food and Non-Food Inflation



Source: Statistics Sierra Leone and BSL

Headline inflation (m/m) trended downwards to -1.89 percent in October 2020 from 0.52 percent in September 2020

Figure 2: Trends in Year-on-year Inflation and Monthly Inflation



Source: Statistics Sierra Leone and BSL

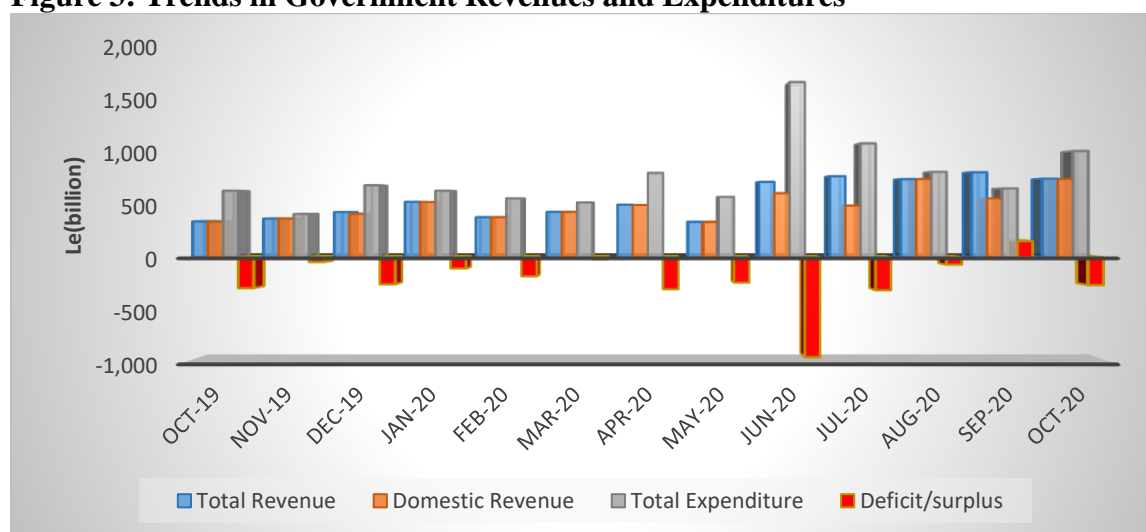
3.0 Government Budgetary Operations

Government budgetary operations on cash flow basis resulted in a deficit of Le 266.96bn in October 2020, compared to a surplus of Le271.55bn in September 2020. The fiscal outturn was a reflection of government expenditure overrun with a contraction in government revenue.

3.1 Revenue

Government revenues contracted by 19.02 percent to Le757.17bn, but was in excess of the target of Le635.76bn by 19.10 percent. There was no disbursement of foreign grants in the review period. Domestic revenues grew by 10.46 percent to Le754.22bn, and was 91.75 percent more than the target of Le393.34bn. The expansion in domestic revenues was on account of the increase in non-tax (miscellaneous) revenues. Meanwhile, customs and excise, income tax and goods and services tax contracted. Non-tax revenue grew by 40.49 percent to Le507.62bn. However, customs and excise receipts dropped by 15.30 percent to Le56.60bn, income tax revenue contracted by 34.89 percent to Le109.94bn; Goods and services tax dropped by 6.67 percent to Le80.06bn. HIPC Debt Relief fund amounted to Le2.95bn in October 2020.

Figure 3: Trends in Government Revenues and Expenditures



Source: Research Department, Bank of Sierra Leone

3.2 Expenditure

Government expenditures expanded by 54.35 percent to Le1, 024.13bn and missed the ceiling of Le578.82bn by 76.93 percent. The increase in other expenditures contributed to the expansion in

government expenditures. Pension, wages and salaries and debt services payments declined during the review period.

Expenditures on goods and services increased by 113.76 percent to Le747.48bn; pension, wages and salaries payments fell by 11.02 percent to Le207.81bn, while debt service payments decreased by 8.39 percent to Le68.84bn.

The overall deficit of Le266.96bn was financed from both domestic and foreign resources.

4.0 Monetary Developments

Monetary aggregates were expansionary in October 2020, as reflected in both Broad Money (M2) and Reserve Money (RM).

4.1 Broad Money

Broad Money (M2) expanded by 4.16 percent in October 2020, from a growth 2.47 percent in September 2020. The growth in M2 stemmed from increases in Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system.

The NFA of the banking system expanded by 6.01 percent in October 2020, following the 7.09 percent increase in September 2020. This development was driven by increases in NFA of the Bank of Sierra Leone (BSL) and commercial banks. The NFA of the BSL increase by 6.72 percent in October 2020, compared to the 33.45 percent expansion in September 2020. The expansion in NFA of the BSL was partly explained by increase in SDR holdings, due to exchange rate depreciation, while that of commercial banks was due to growth in their overseas nostro accounts.

The NDA of the banking system grew by 3.42 percent in October 2020, compared to the increase of 0.74 percent in September 2020. This was mainly due to a 3.52 percent expansion in Net claims on government by commercial banks coupled with 0.98 percent growth in Private Sector Credit.

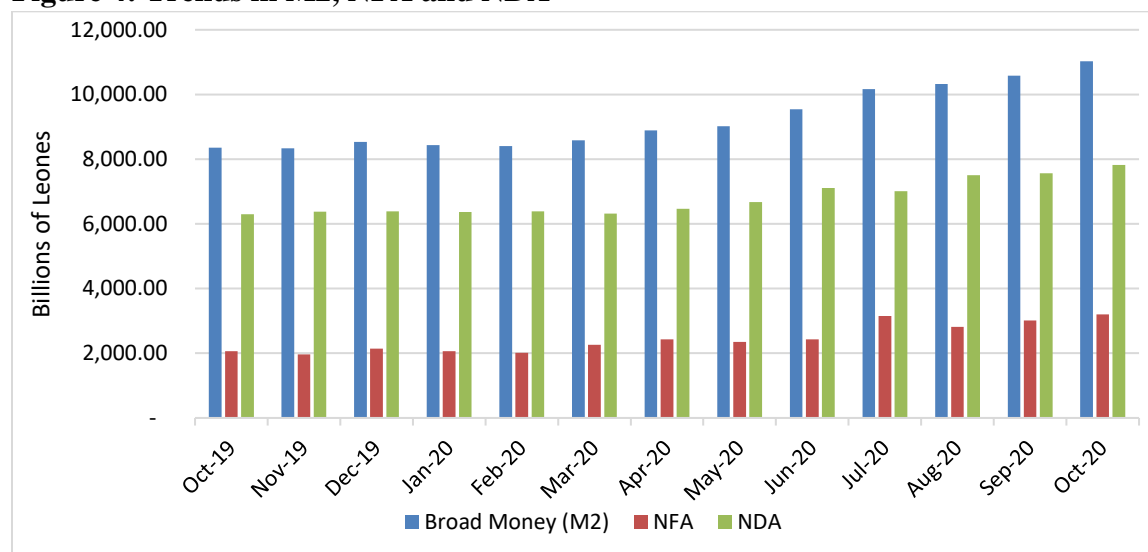
Private sector credit by commercial banks increased by 0.99 percent in October 2020, relative to a 0.21 percent growth recorded in September 2020.

Table 1: Broad Money and its Components

Billions of Leones	2020		Absolute Change		% Change	
	Sep-20	Oct-20	Sep-20	Oct-20	Sep-20	Oct-20
Reserve money	4,008.53	4,045.79	286.87	37.26	7.71	0.93
Broad Money (M2)	10,582.54	11,022.45	255.55	439.92	2.47	4.16
Narrow money (M1)	5,236.35	5,571.30	145.69	334.95	2.86	6.40
Currency outside banks	2,379.66	2,481.62	40.69	101.96	1.74	4.28
Demand deposit	2,856.69	3,089.68	105.00	232.98	3.82	8.16
Quasi money	5,346.18	5,451.15	109.86	104.97	2.10	1.96
o.w. Foreign currency deposit	2,462.30	2,544.34	(0.06)	82.04	(0.00)	3.33
Time and saving deposit	2,876.96	2,900.57	110.62	23.61	4.00	0.82
				-		
Net Foreign Asset	3,017.35	3,198.57	199.72	181.22	7.09	6.01
BSL	890.61	950.42	223.22	59.81	33.45	6.72
ODCs	2,126.74	2,248.14	(23.51)	121.40	(1.09)	5.71
Net Domestic Assets	7,565.19	7,823.88	55.83	258.70	0.74	3.42
Net Domestic Credit	10,094.11	10,275.72	122.62	181.61	1.23	1.80
Government (Net)	7,875.56	8,027.87	112.95	152.31	1.46	1.93
BSL	3,248.99	3,238.27	(143.53)	(10.72)	(4.23)	(0.33)
ODCs	4,626.57	4,789.59	256.48	163.02	5.87	3.52
Private Sector Credit	2,384.72	2,408.11	5.19	23.39	0.22	0.98
o.w ODC	2,353.85	2,377.16	4.91	23.31	0.21	0.99
Other Sectors (Net)*	(166.17)	(160.26)	4.48	5.91	(2.63)	(3.56)
Other Items (Net)	(2,528.92)	(2,451.83)	(66.78)	77.09	2.71	(3.05)
Money Multiplier	2.64	2.72				

*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, the growth in M2 was reflected in both Narrow Money (M1) and Quasi Money in October 2020. M1 grew by 6.40 percent in October 2020, from an increase of 2.86 percent in September 2020, due to increases in demand deposits (8.16%) and currency outside banks (4.28%). Quasi Money increased by 1.96 percent, compared to a growth of 2.10 percent mainly as a result of 3.33 percent increase in foreign currency deposits and 0.82 percent growth in time & saving deposits.

4.2 Reserve Money

Reserve Money (RM) growth slowed by 0.93 percent in October 2020, from an expansion of 7.71 percent in September 2020. The growth in RM was primarily due to increase in Net Foreign Assets (NFA) of the Bank of Sierra Leone (BSL), which was moderated by the decline in Net Domestic Assets (NDA) BSL.

The NFA of BSL increased by 6.72 percent in October 2020, from a growth of 33.45 percent in September 2020, mainly as a result of growth in official reserves of BSL.

The NDA of BSL decreased by 0.72 percent, relative to an increase of 2.08 percent recorded in September 2020. The decline in NDA of the BSL was due to government repayment of its debts owed to the BSL following the disbursement of IMF debt relief under the Catastrophe Containment and Relief Trust (CCRT).

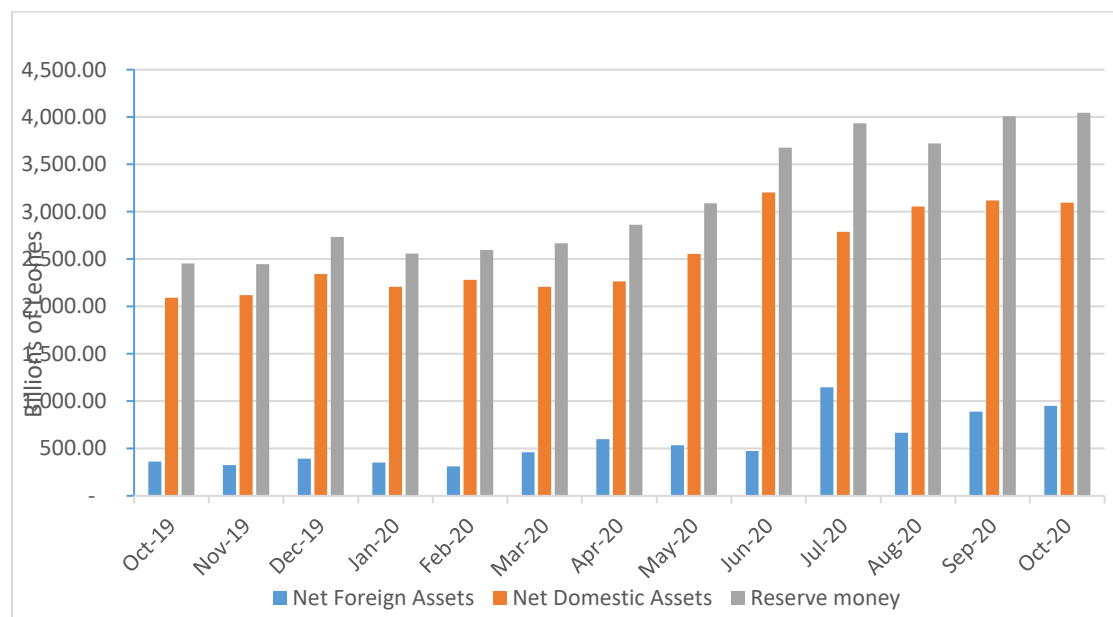
Table 2: Reserve Money and its Components

Billions of Leones	2020		Absolute change		% Change	
	Sep-20	Oct-20	Sep-20	Oct-20	Sep-20	Oct-20
1. Net Foreign Assets	890.61	950.42	223.22	59.81	33.45	6.72
2. Net Domestic Assets	3,117.92	3,095.37	63.65	(22.56)	2.08	(0.72)
Government Borrowing (net)	3,248.99	3,238.27	(143.53)	(10.72)	(4.23)	(0.33)
o.w. Securities	1,049.27	928.24	(118.29)	(121.03)	(10.13)	(11.53)
Ways and Means GoSL/IMF /WB Budget financing	-	-	(36.70)	-	(100.00)	-
	2,598.16	2,525.22	-	(72.94)	-	(2.81)
3. Reserve money	4,008.53	4,045.79	286.87	37.26	7.71	0.93
o.w. Currency issued	2,701.74	2,786.75	38.07	85.02	1.43	3.15
Banks' reserves	1,299.41	1,252.33	249.50	(47.08)	23.76	(3.62)

Source: Research Department, BSL

From the liabilities side, growth in RM reflected a 3.15 percent increase in currency issued in October 2020, which was moderated by 3.62 percent decline in banks' reserves.

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

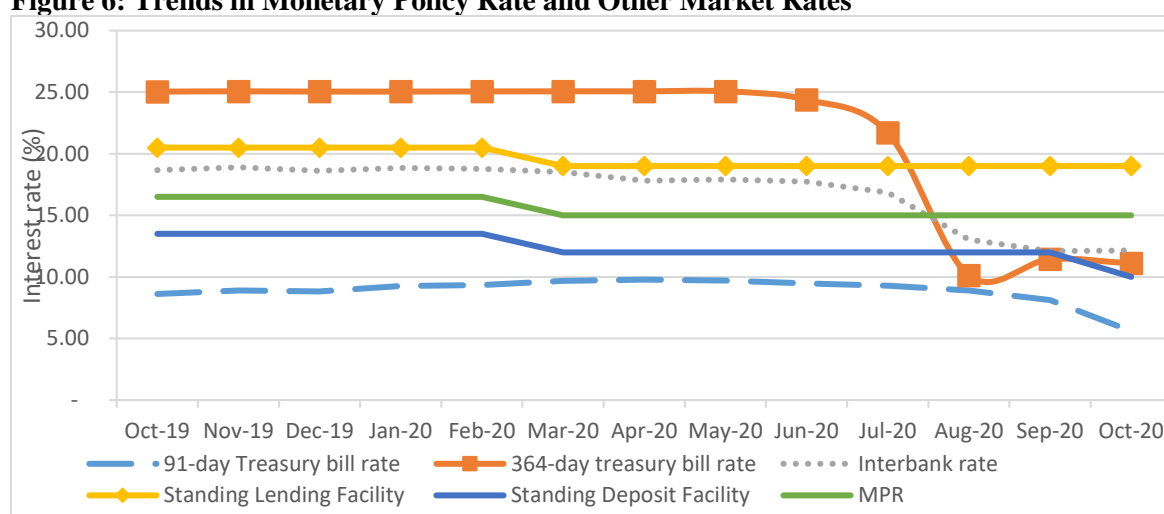


Source: Research Department, BSL

4.3 Interest Rates

The Monetary Policy Rate (MPR) remained unchanged at 15.00 percent in October 2020. The Standing Lending Facility rate also remained unchanged at 19.00 percent, while the Standing Deposit Facility rate was reduced to 10.00 percent during the same period. The interbank rate increased marginally from 12.09 percent in September 2020 to 12.14 percent in October 2020. The commercial banks' average lending rate declined from 20.62 percent in September 2020 to 20.30 percent in October 2020, while the saving deposit rate declined from 2.72 percent to 2.71 percent during the same comparative period.

Figure 6: Trends in Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

Yields on government securities decreased during the month of October 2020. The yields on 91-days T-bills, 182-days T-bills and 364-days T-bills decreased from 8.11 percent, 9.68 percent and 11.44 percent in September 2020 to 5.60 percent, 7.45 percent and 11.10 percent respectively in October 2020.

Table 3: Interest Rates (%)

	2019			2020									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
91-day T-Bills	8.61	8.89	8.83	9.25	9.34	9.69	9.78	9.71	9.46	9.29	8.91	8.11	5.60
182-day T-Bills	12.46	13.21	13.21	13.21	13.21	13.21	13.21	13.21	13.21	13.20	9.42	9.68	7.45
364-day T-Bills	25.05	25.07	25.05	25.05	25.06	25.07	25.07	25.07	24.39	21.7	10.12	11.44	11.10
Interbank rate	18.68	18.9	18.61	18.84	18.77	18.50	17.80	17.91	17.73	16.85	13.04	12.09	12.14
SLF	20.50	20.5	20.50	20.50	20.50	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00

SDF	13.50	13.5	13.50	13.50	13.50	12.00	12.00	12.00	12.00	12.00	12.00	12.00	10.00
MPR	16.50	16.50	16.50	16.50	16.50	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Average Lending rate	21.35	21.35	21.35	20.49	20.49	20.49	20.49	20.51	20.51	20.77	20.62	20.62	20.30
	18.50	18.50	17.35	17.89	17.89	17.72	17.72	17.75	17.75	18.04	17.74	17.74	17.27
Lending (Prime)	-	-	-	-	-	-	-	-	-	-	-	-	-
	22.99	22.99	22.99	23.08	23.08	23.26	23.26	23.26	23.26	23.50	23.50	23.50	23.33
Savings deposits	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.89	2.72	2.72	2.71

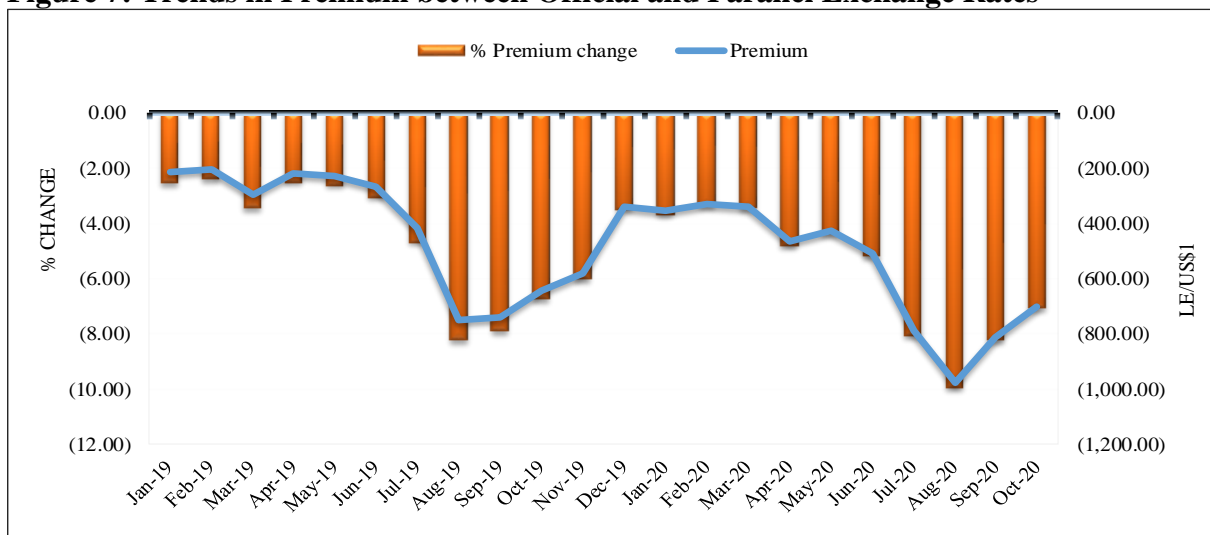
Source: Research Department, BSL

5.0 Exchange Rate Developments

In October 2020, movements in the average exchange rate of the Leone vis-à-vis the US dollar depreciated generally in all the foreign exchange markets. On the buying front, the Leone depreciated in the bureau, official and commercial banks by 1.33 percent, 1.09 percent and 0.69 percent, averaging Le9,771.30/US\$1, Le9,847.10/US\$1 and Le10,014.11/US\$1, respectively, while the parallel market rate remained unchanged at Le10,600.00/US\$1. Similarly, on the selling front, the Leone depreciated in the official, commercial banks and bureau by 1.09 percent, 0.91 percent and 0.83 percent, averaging Le10,046.03/US\$1, Le10,214.57/US\$1 and Le10,120.32/US\$1 respectively, while the parallel market rate remained unchanged at Le10,700.00/US\$1.

The average premium between the official and parallel rates narrowed by 1.17 percentage points to Le703.43/US\$1 in October, 2020 from Le810.86/US\$1 in September, 2020 (See figure 7).

Figure 7: Trends in Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

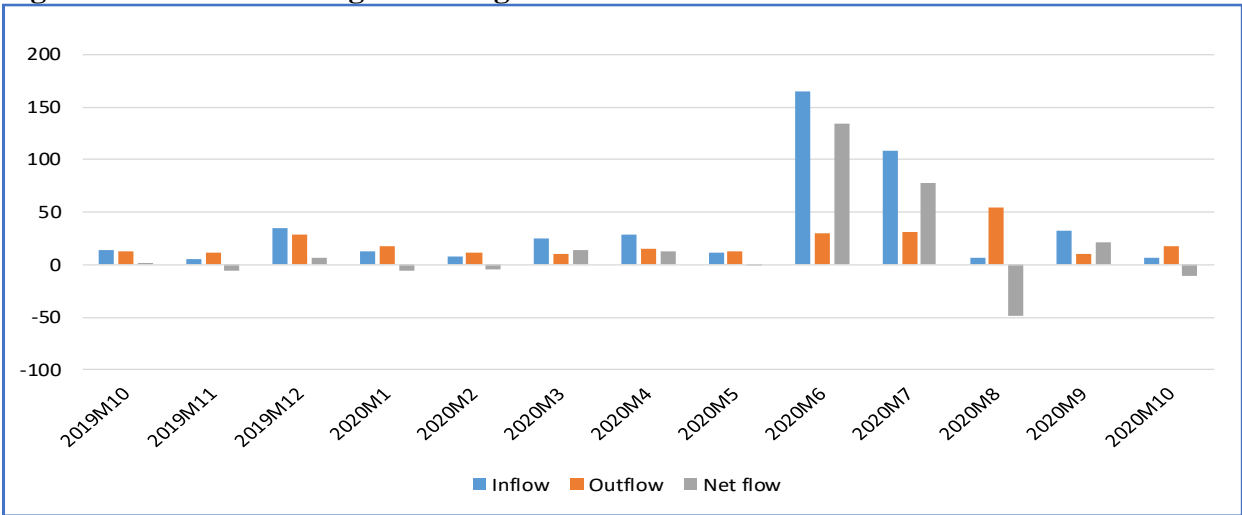
6.0 Gross Foreign Exchange Reserves

Gross foreign exchange reserves of the Bank of Sierra Leone decreased by 1.26 percent to US\$728.77mn in October 2020 from US\$738.07mn in September 2020, mainly driven by an increase in outflows of US\$17.69mn, relative to inflows of US\$7.16mn, resulting into a net outflow of US\$10.53mn and a revaluation gain of US\$1.24mn.

Major inflows included receipts from exports (US\$6.13mn) of which; royalties from rutile exports (US\$1.23mn), koidu holdings mining co. (US\$0.46mn), other mining receipts (US\$0.75mn), diamond license fees and exporters income tax (US\$1.32mn), fishing royalty and license (US\$0.35mn) and timber (US\$1.89mn). Other inflows included revenues for government infrastructure (US\$0.11mn), other government receipts (US\$0.64mn) and interest earned by BSL from investments abroad (US\$0.22mn).

Significant outflows included debt service payments (US\$1.28mn) of which: AfDB (US\$0.58mn), other multilateral & bilateral (US\$0.37mn) and OPEC/OFID (US\$0.34mn). Other outflows comprised embassy and mission payments (US\$1.49mn), BSL expense on renovation of the bank building (US\$0.24mn), printing of currency (US\$0.76mn), and other government outlays (US\$5.19mn), interbank market operations (US\$5.00mn) and drawdown on BSL Special Credit Facility to the private sector (US\$3.73mn).

Figure 8: Trends in Foreign Exchange Flows



Source: Bank of Sierra Leone