



**BANK OF SIERRA LEONE**

**Monthly Economic Review**

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## **BANK OF SIERRA LEONE**

### **Monthly Economic Review**

for

October, 2021

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## ABBREVIATIONS

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
RM	-	Reserve Money
SDF	-	Standing Deposit Facility
SLF	-	Standing Lending Facility
Y-o-Y	-	Year-on-Year

## Executive Summary

Cocoa production recorded an increase of 1,360.70 metric tons in October 2021 from 862.85 metric tons in September 2021. There was no available data on coffee production in October 2021. Performance in the mining sector improved for six out of the eight items in the review period.

Production performance in the manufacturing sector moderated in October 2021 due to reduction in production for all components except paint and oxygen, which increased by 4.36 per cent to 50.74 thousand gallons and 18.29 per cent to 35.19 thousand cubic feet respectively. The decline in production was highly prominent for Maltina and acetylene by 45.14 per cent to 3.32 thousand cartons and 21.12 per cent to 36.31 cubic feet respectively. Confectionary and Common Soap production also witnessed increased production by 0.33 per cent to 305.60 thousand pounds and 5.27 per cent to 55.90 thousand metric tons respectively.

Headline inflation (y-o-y) increased to 14.55 per cent in October 2021 from 11.63 per cent in September 2021, reflecting an increase in food and non-food inflation. Food inflation increased by 18.17 per cent in October 2021 from 13.28 per cent in September 2021, while non-food inflation also increased by 11.59 per cent in October 2021 from 10.21 per cent in September 2021.

Government fiscal operations (cash flow basis) in October 2021 witnessed a narrowing of deficit to Le6.48bn from Le185.05bn in September 2021. The narrowed deficit was attributable to an improvement in revenue generation combined with contraction in expenditure in the review period.

The Monetary Policy Rate (MPR) of the Bank of Sierra Leone (BSL) remained unchanged at 14.00 per cent in October 2021. Similarly, Standing Lending Facility and Standing Deposit Facility rates also remained unchanged at 17.00 per cent and 8.00 per cent respectively in October 2021. The interbank rate increased slightly from 14.29 per cent in September 2021 to 14.41 per cent in October 2021, and still remained within the Policy Corridor Rate. Commercial banks' average lending and saving deposit rates declined slightly at 19.77 per cent and 2.15 per cent in October 2021 respectively. Interest rate spread between average lending and savings deposit rate increased marginally from 17.41 per cent in September 2021 to 17.79 per cent in October 2021.

Development in monetary aggregates were mixed during the month of October 2021 as Broad Money (M2) expanded, while Reserve Money (RM) contracted. Broad Money increased by 1.94 per cent in October 2021, driven by the increase in Net Domestic Assets (NDA) of the banking system, while Net Foreign Assets (NFA) of the banking system declined. Reserve Money on the other hand contracted by 0.31 per cent in October 2021 attributable to a decrease in Net Foreign Assets (NFA) of the BSL, which more than offset the increase in Net Domestic Assets (NDA) of the BSL.

Gross foreign exchange reserves of the BSL at end October 2021 was US\$ 941.63 million, down by 0.82 per cent from US\$949.45million in September, 2021. Inflows recorded US\$24.33million in October 2021, while outflows amounted to US\$32.72 million, resulting in a net outflow of US\$8.38million, with a recorded revaluation loss of US\$0.57million. On the buying side, the Leone depreciated in the parallel market, commercial banks, official and bureau markets by 1.92 percent, 1.95 percent, 1.96 per cent and 1.92 percent, averaging Le11,480.00/US\$1, Le10,748.83/US\$1, Le10,575.93/US\$1 and Le10,504.88/US\$1 respectively. The premium between the Official and Parallel rates widened from 8.05 per cent in September 2021 to 8.25 per cent in October 2021.

## **1. Introduction**

The Monthly Economic Review (MER) is a publication of the Research and Statistics Department, Bank of Sierra Leone. The objective of the report is to analyse Sierra Leone's monthly macroeconomic developments, covering the four macroeconomic sectors- real, fiscal, monetary and external sectors. This edition analyses key trends for October, 2021, compared with the September, 2021, in order to gauge progress on economic performance within the year. In the real sector, developments in the production of key agricultural products for which regular monthly data is available is discussed. In the fiscal sector, data on revenue and expenditure on 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 growth and reserve money. Movements in interest rates are also discussed. In the external sector, movements in exchange rate 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 to macroeconomic policy management in Sierra Leone, as well as availability of validated data on a timely basis.

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

## **2. Real Sector**

### **2.1 Production**

#### **2.1.1 Agriculture**

Performance of coffee and cocoa production is used in this publication as a proxy for the performance of the agricultural sector. Cocoa production recorded an increase of 1,360.70 metric tons in October 2021 from 862.85 metric tons in September 2021. However, there was no coffee production during the review period.

### **2.1.2 Mining**

Performance in the mining sector improved in October 2021, with six out of eight minerals recording an increase during the review period. Diamond production increased by 29.34 per cent to 77.08 thousand carats. Of this amount, industrial diamond amounted to 66.62 thousand carats and gem diamond amounted to 10.46 thousand carats. Gold (pure) and bauxite production increased by 28.94 per cent to 430.83 ounces and 0.14 per cent to 141.22 thousand metric tons respectively. Zircom and iron ore production increased by 259.32 per cent to 6.02 thousand metric tons and 26.12 per cent to 226.66 thousand metric tons respectively. Other minerals rose by 79.94 per cent to 6.07 thousand dry ton. However, rutile and ilmenite productions fell by 4.70 per cent to 11.54 thousand metric tons, and 6.61 per cent to 4.96 thousand metric tons respectively.

### **2.1.3 Manufacturing**

Performance in the manufacturing sector moderated in October 2021. Production in all manufacturing components with available data decreased, with the exception of paint and oxygen. Beer & stout production fell by 38.40 per cent to 38.13 thousand cartons. Maltina and acetylene productions declined by 45.14 per cent to 3.32 thousand cartons and 21.12 per cent to 36.31 cubic feet respectively. Confectionary and Common Soap production dropped by 0.33 per cent to 305.60 thousand pounds and 5.27 per cent to 55.90 thousand metric tons respectively. On the other hand, paint and oxygen production increased by 4.36 per cent to 50.74 thousand gallons and 18.29 per cent to 35.19 thousand cubic feet respectively.

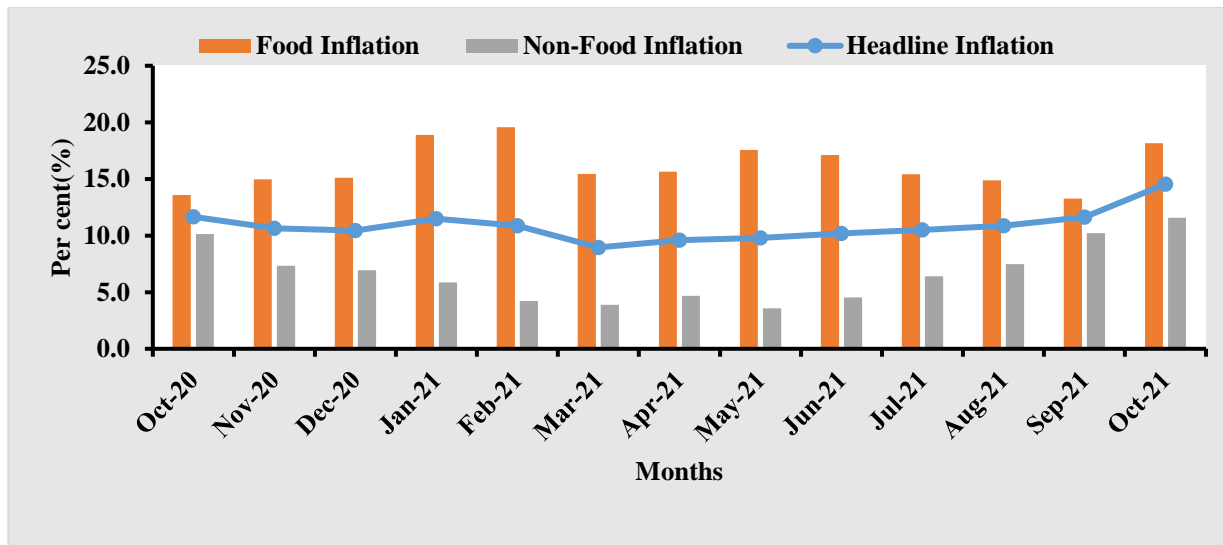
## **2.2. Price Development**

Annual headline inflation increased to 14.55 per cent in October 2021 from 11.63 per cent in September 2021. The increase in headline inflation was due to increase in both food inflation and non-food inflation during the review period. Food inflation elevated to 18.17 per cent in October 2021 from 13.28 per cent in September 2021. This reflected the impact of supply-side constraints as well as the emergence of new variant of COVID-19, which further worsened global supply chain. Non-food inflation increased to 11.59 per cent in October 2021 from 10.21 per cent in September 2021. Figure 1 shows the headline, food and non-food inflation rates for October 2021 and the 12 months preceding October 2021. Monthly headline inflation on the other hand



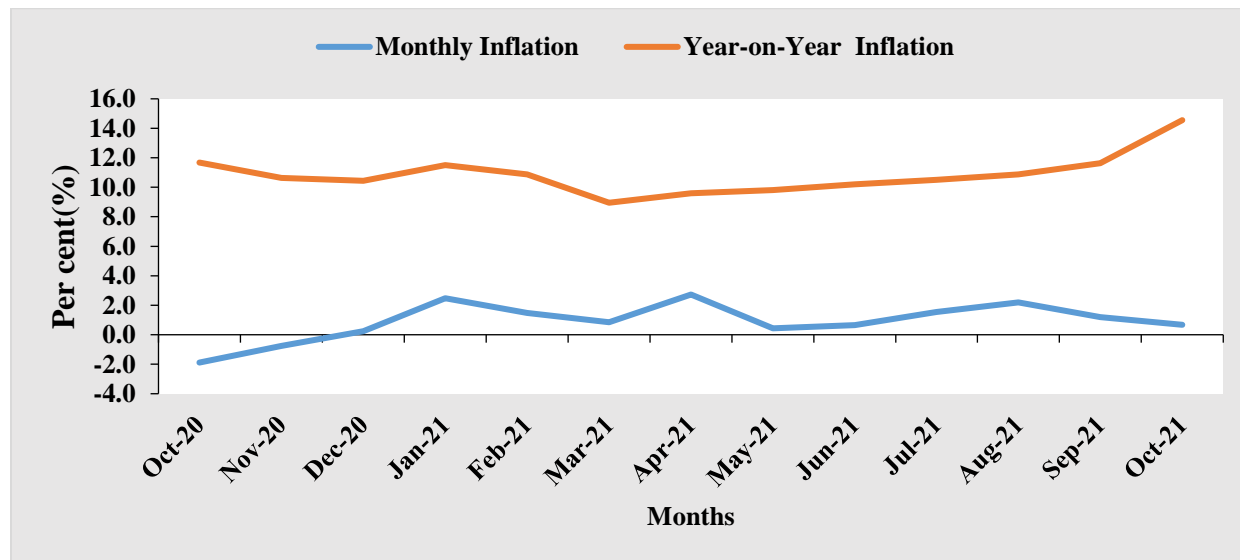
continued to decline, reaching 0.68 per cent in October 2021 from 1.21 per cent in September 2021. Figure 2 shows the year-on-year and monthly inflation rates.

**Figure 1: Headline, Food and Non-Food Inflation**



Source: Statistics Sierra Leone and Bank of Sierra Leone

**Figure 2: Year-on-year (Y-on-Y) Inflation and Monthly Inflation Change**

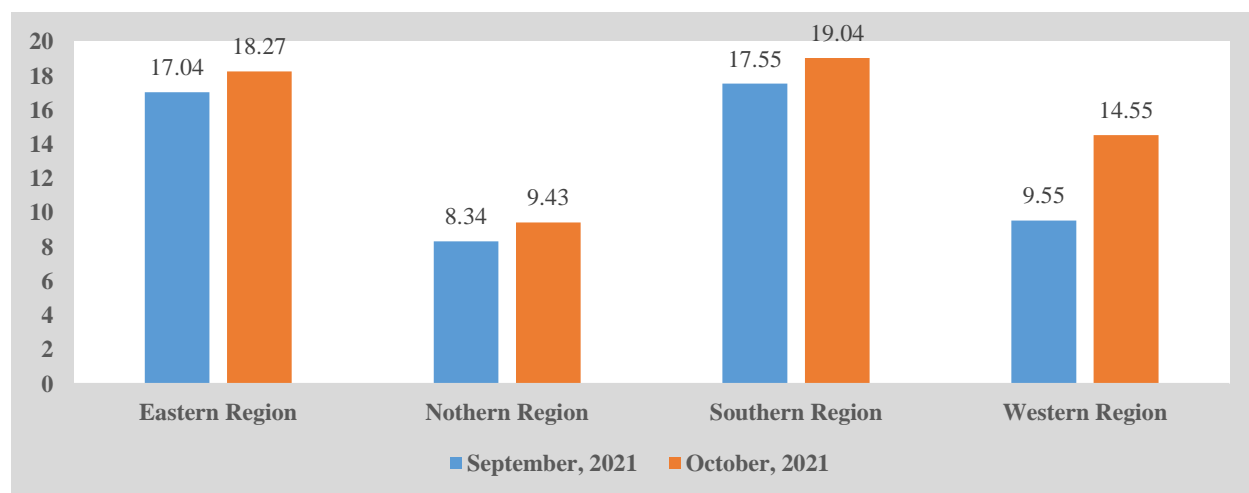


Source: Statistics Sierra Leone and Bank of Sierra Leone

On regional basis, inflation rate increased in all of the four regions in October 2021. Southern region inflation increased to 19.04 per cent in October 2021, from 17.55 per cent in September 2021. Eastern region inflation rose to 18.27 per cent in October 2021, from 17.04 per cent in

September 2021. Western region inflation elevated to 14.55 per cent in October 2021, from 9.55 per cent in September 2021 and Northern region inflation increased to 9.43 per cent in October 2021, from 8.34 per cent in September 2021. Figure 3 shows the inflation rates by regions.

**Figure 3: Inflation Rates in September and October 2021 by Regions**



### 3. Fiscal Developments

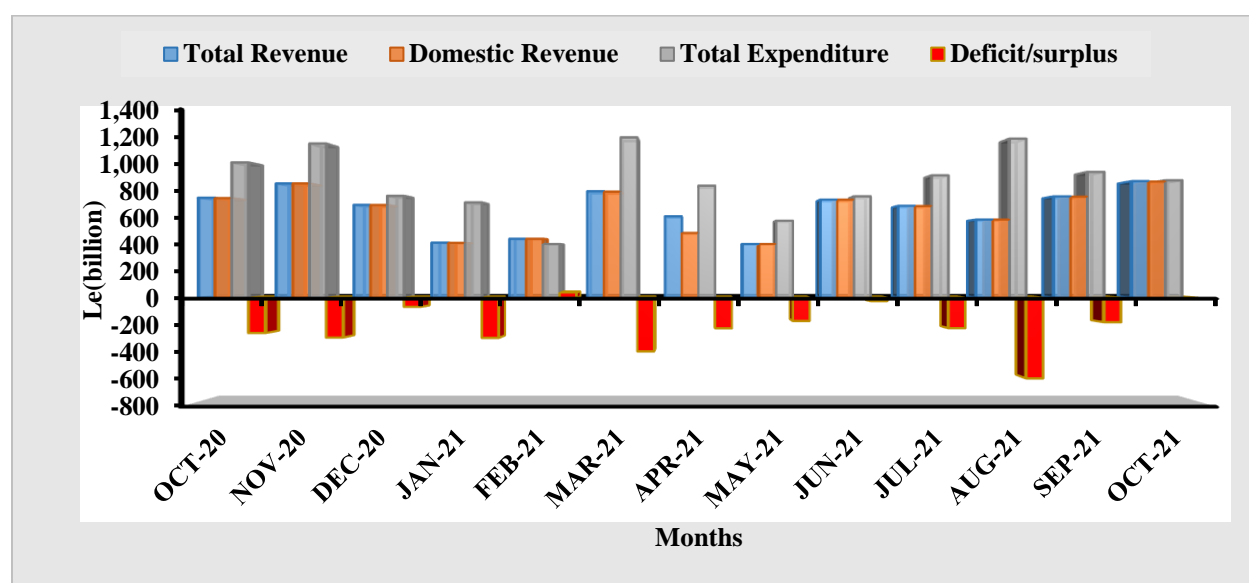
Government fiscal operations (on cash flow basis) in October 2021 resulted in narrowing fiscal deficit to Le6.48bn from Le185.05bn in September 2021. The narrowed deficit was a reflection of improvement in revenue generation combined with contraction in expenditure in the review period. The deficit was financed from domestic sources.

#### 3.1 Revenue

Total revenue in October 2021 expanded by 15.0 per cent to Le882.39bn, which was more than the budgeted target of Le548.24bn by 60.95 per cent. This development was mainly attributed to the gains in domestic revenue mobilization. Domestic revenue improved by 14.94 per cent to Le879.27bn compared to the budgeted target of Le548.24bn by 60.38 per cent. This improvement was on account of increase in customs & excise and non-tax revenue. However, both income tax and goods and services tax declined during the review period. Receipts from customs and excise increased by 15.31 per cent to Le77.34bn while non-tax revenue grew by 56.08 per cent to Le602.43bn. On the other hand, revenue from income tax contracted by 49.37 per cent to

Le107.92bn, while receipts from goods and services tax decreased by 7.28 per cent to Le91.57bn. There was no disbursement of budgetary support, while HIPC Debt relief amounted to Le3.13bn during the review period. Figure 4 shows revenue and expenditure for October 2021 and the twelve months preceding October 2021.

**Figure 4: Government Revenue and Expenditure**



Source: Bank of Sierra Leone

### 3.2 Expenditure

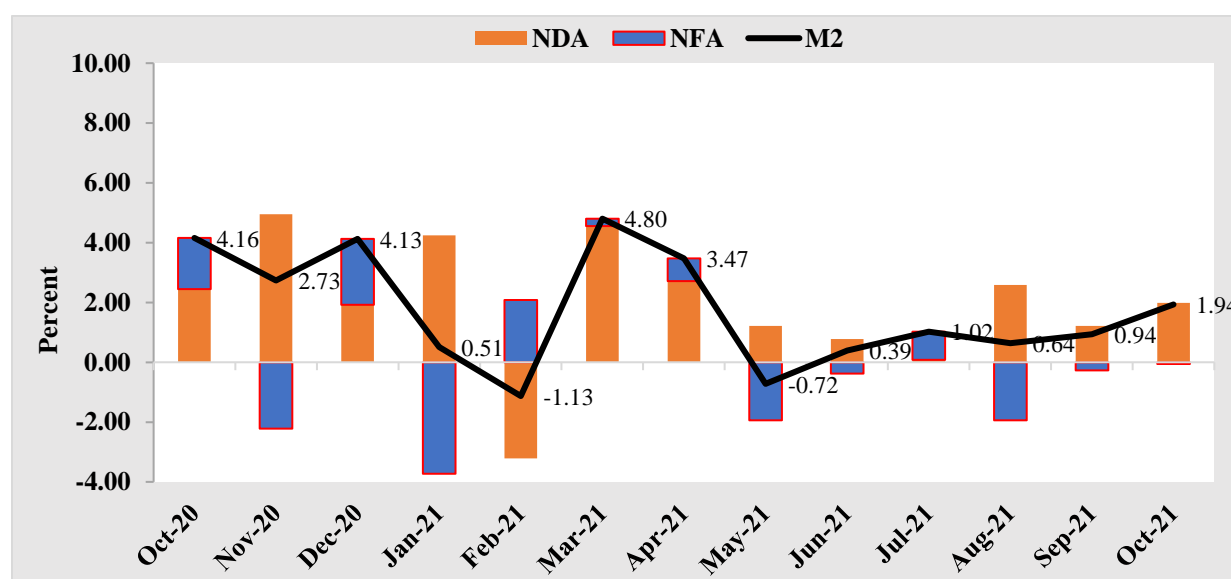
Government expenditure contracted by 6.66 per cent to Le888.87bn in October 2021, which was 50.36 per cent higher than the budgeted ceiling of Le591.18bn. The contraction in government expenditure emanated from decrease in other expenditure and debt service payments, whereas pension, wages and salaries increased during the review period. Expenditure on goods and services fell by 25.25 per cent to Le550.12bn, while debt service declined by 29.15 per cent to Le51.76bn. Domestic interest and foreign interest payments, which constitute debt service, amounted to Le42.29bn and Le 9.46bn respectively.

## 4. Monetary Developments

### 4.1 Monetary Aggregates

Movements in monetary aggregates were mixed in October 2021, as Broad Money (M2) expanded while Reserve Money (RM) contracted. Broad Money (M2) grew by 1.94 per cent in October 2021, up from the 0.94 per cent growth in September 2021. The growth was driven by increase in Net Domestic Assets (NDA) of the banking system, while Net Foreign Assets (NFA) of the banking system declined. Net domestic assets contributed to the growth of broad money while net foreign assets detracted from it, with relative contributions of 1.99 per cent and -0.05 per cent respectively. Figure 5 shows the contributions of NDA and NFA to the growth of broad money.

**Figure 5: M2 Growth and Contributions of NF and NDA to M2 Growth**



*Source: Bank of Sierra Leone*

Net domestic assets of the banking system grew by 2.50 per cent in October 2021, up from 1.53 per cent in September 2021. The increase in NDA was due to expansion in net claims on Government by Other Depository Corporations (an increase of 1.89%), as net claims on Government by the Bank of Sierra Leone declined (a decline of 1.80%). Credit to the private sector by commercial banks increased by 2.32 per cent in October 2021, from a 2.00 per cent increase in September 2021. NFA of the banking system contracted by 0.26 per cent in October 2021 from a contraction of 1.29 per cent in September 2021. The marginal contraction in NFA was attributed to the decrease in NFA of the Bank of Sierra Leone (BSL), which more than offset the increase in

NFA of Other Depository Corporations. Table 1 shows the growth of monetary aggregates in October 2021 and September 2021.

**Table 1: Growth of Monetary Aggregates**

Billions of Leones	Actual Values		Absolut Change		%Change	
	Sept-21	Oct-21	Sept-21	Oct-21	Sep-21	Oct-21
<b>Broad Money (M2)</b>	<b>12,996.07</b>	<b>13,247.63</b>	<b>121.04</b>	<b>251.56</b>	<b>0.94</b>	<b>1.94</b>
<b>Narrow money (M1)</b>	<b>6,613.54</b>	<b>6,724.36</b>	<b>23.92</b>	<b>110.82</b>	<b>0.36</b>	<b>1.68</b>
Currency outside banks	2,937.67	2,994.34	(61.90)	<b>56.66</b>	(2.06)	<b>1.93</b>
Demand deposit	3,675.86	3,730.02	85.82	<b>54.16</b>	2.39	<b>1.47</b>
<b>Quasi money</b>	<b>6,382.53</b>	<b>6,523.27</b>	<b>97.12</b>	<b>140.74</b>	<b>1.55</b>	<b>2.21</b>
o.w. Foreign currency deposit	3,248.74	3,396.46	109.87	<b>147.72</b>	3.50	<b>4.55</b>
Time and saving deposit	3,129.07	3,122.50	(12.67)	<b>(0.40)</b>	(1.24)	<b>(0.21)</b>
<b>Net Foreign Asset</b>	<b>2,676.25</b>	<b>2,669.38</b>	<b>(34.90)</b>	<b>(6.87)</b>	<b>(1.29)</b>	<b>(0.26)</b>
BSL	(327.08)	(453.62)	(158.69)	<b>(126.54)</b>	94.24	<b>38.69</b>
Other Depository Corporations (ODCs)	3,,003.33	3,123.00	123.79	<b>119.67</b>	4.30	<b>3.98</b>
<b>Net Domestic Assets</b>	<b>10,319.82</b>	<b>10,578.25</b>	<b>155.94</b>	<b>258.43</b>	<b>1.53</b>	<b>2.50</b>
<b>Net Domestic Credit</b>	<b>13,242.73</b>	<b>13,331.88</b>	<b>238.94</b>	<b>89.16</b>	<b>1.84</b>	<b>0.67</b>
Government (Net)	<b>10,489.61</b>	<b>10,506.09</b>	<b>133.64</b>	<b>35.48</b>	<b>1.29</b>	<b>0.34</b>
BSL	4,399.45	4,320.07	(79.38)	<b>10.75</b>	0.24	<b>(1.80)</b>
Other Depository Corporations (ODCs)	6,071.16	6,186.01	122.89	<b>114.86</b>	2.07	<b>1.89</b>
Private Sector Credit	<b>2,922.28</b>	<b>2,989.61</b>	<b>56.99</b>	<b>67.34</b>	<b>1.99</b>	<b>2.30</b>
o.w ODCs	2,904.98	2,972.32	56.88	<b>67.34</b>	2.00	<b>2.32</b>
Other Sectors (Net)*	(169.16)	(182.81)	48.31	<b>(13.65)</b>	(22.21)	<b>(8.07)</b>
<b>Other Items (Net)</b>	<b>(2,922.91)</b>	<b>(2,753.63)</b>	<b>(83.00)</b>	<b>(169.27)</b>	<b>(2.92)</b>	<b>(5.79)</b>

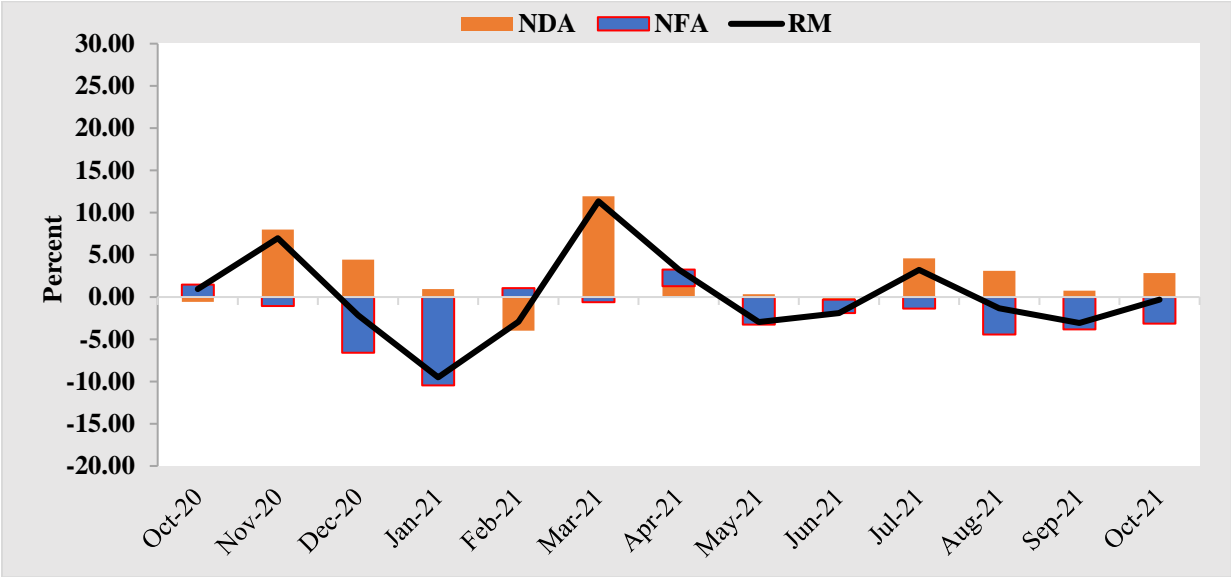
Source: Bank of Sierra Leone

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

On the liability side, the increase in M2 was reflected by growth in both Narrow Money (M1) and Quasi Money. M1 grew by 1.68 per cent in October 2021, up from 0.36 per cent in September 2021. The expansion in M1 was attributed to increase in currency outside banks by 1.93 per cent and a 1.47 per cent growth in demand deposits. Quasi Money grew by 2.21 per cent in October 2021, up from 1.55 per cent in September 2021. The growth in Quasi Money was due to increase in foreign currency deposits by 4.55 per cent, which was more than the decline in time and savings deposits (defined here as Quasi Money less foreign currency deposit) by 0.21 per cent.

Reserve Money contracted by 0.31 per cent in October 2021, compared to a contraction of 3.06 per cent in September, 2021. The contraction was attributed to decrease in Net Foreign Assets (NFA) of the Bank of Sierra Leone (BSL) which more than offset the increase in Net Domestic Assets (NDA) of the BSL. NDA and NFA contributed -3.15 and 2.84 per cent respectively to the growth of reserve money in October 2021, compared to 0.76 per cent and -3.82 respectively in September 2021. Figure 5 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

NFA of the BSL decreased by 38.69 per cent in October 2021 compared to a decline of 94.24 per cent in September, 2021 while NDA of the BSL increased by 2.63 per cent in October 2021 compared to 0.73 per cent in September 2021. Table 2 shows growth of reserve money and its components

**Table 2: Growth of Reserve Money and its Components**

Billions of Leones	Actual Values		Absolute Change		% Change	
	Sep-21	Oct-21	Sep-21	Oct-21	Sep-21	Oct-21
<b>Net Foreign Assets</b>	<b>-327.08</b>	<b>-453.62</b>	<b>(158.69)</b>	<b>(126.54)</b>	<b>94.24</b>	<b>38.69</b>
<b>Net Domestic Assets</b>	<b>4,347.41</b>	<b>4,461.54</b>	<b>31.58</b>	<b>114.14</b>	<b>0.73</b>	<b>2.63</b>
Government Borrowing (net)	<b>4,399.45</b>	<b>4,320.07</b>	<b>10.75</b>	<b>(79.38)</b>	<b>0.24</b>	<b>(1.80)</b>
o.w. Securities	1,065.03	1,118.18	<b>(46.56)</b>	<b>53.17</b>	<b>(4.19)</b>	<b>4.99</b>
Ways and Means GoSL/IMF /WB	176.60	60.39	<b>99.03</b>	<b>(116.21)</b>	<b>127.68</b>	<b>(65.80)</b>
Budget financing	3,388.87	3,365.50	-	<b>(23.37)</b>	-	<b>(0.69)</b>
<b>Reserve money</b>	<b>4,020.33</b>	<b>4,007.93</b>	<b>(127.11)</b>	<b>(12.40)</b>	<b>(3.06)</b>	<b>(0.31)</b>
o.w. Currency issued	3,251.52	3,311.55	<b>(36.25)</b>	<b>60.03</b>	<b>(1.10)</b>	<b>1.85</b>
Bank reserves	764.08	692.06	<b>(90.79)</b>	<b>(72.02)</b>	<b>(10.62)</b>	<b>(9.43)</b>

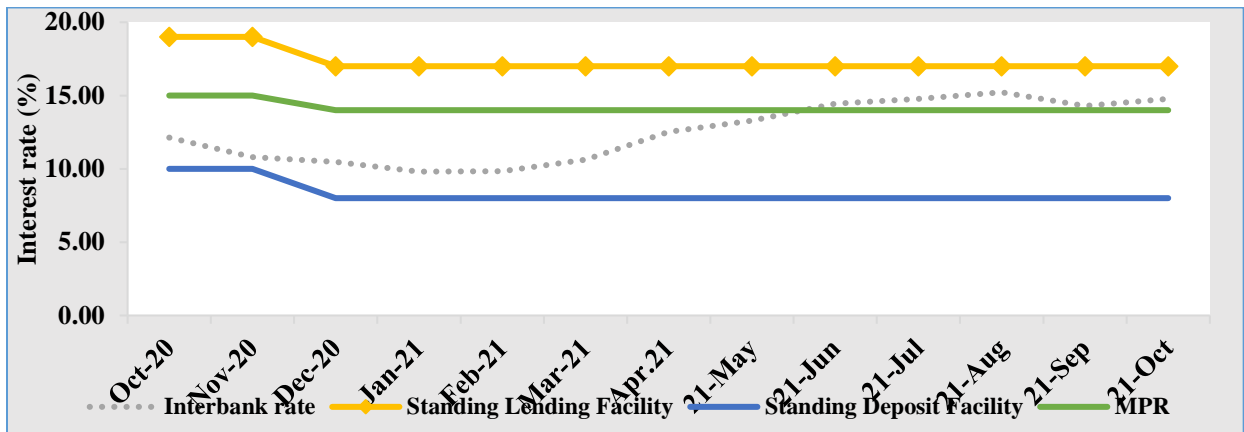
*Source: Bank of Sierra Leone*

On the liability side, reserve money decreased due to the contraction of banks' reserves by 9.43% in October 2021, while currency issued expanded by 1.85%.

## 4.2 Interest Rates

The Monetary Policy Rate (MPR) of the BSL remained unchanged at 14.00 per cent in October 2021. The Standing Lending Facility and Standing Deposit Facility rates also remained unchanged at 17.00 per cent and 8.00 per cent in October 2021, respectively. The interbank rate increased in October 2021, but remained within the Policy Corridor Rate. It increased from 14.29 per cent in September 2021 to 14.41 per cent in October 2021. Figure 6 shows the trend in the Bank of Sierra Leone interest rates and the interbank rate.

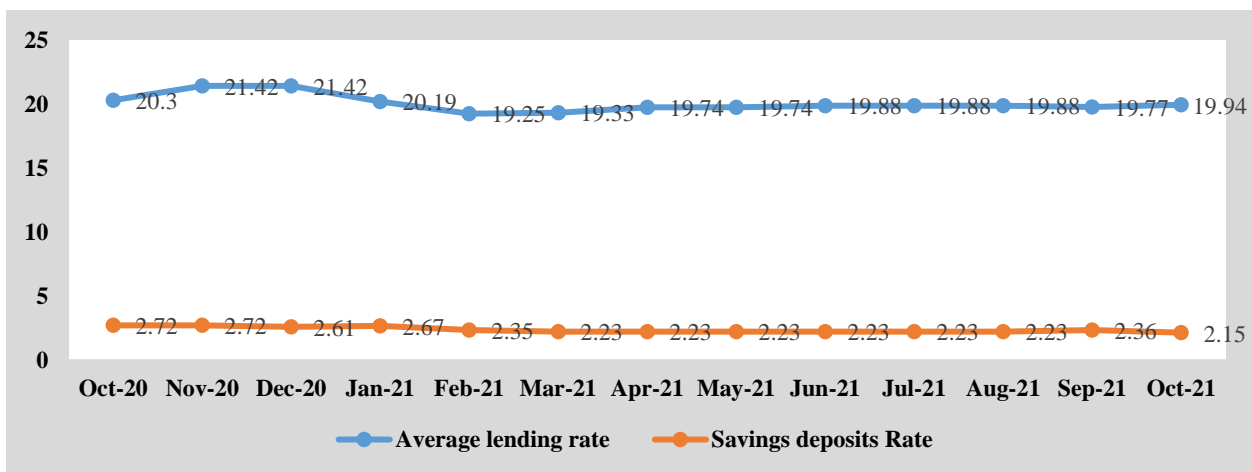
**Figure 7: Central Bank Interest Rates and the Interbank Rate**



Source: Bank of Sierra Leone

Commercial banks’ average lending rate increased slightly from 19.77 per cent in September 2021 to 19.94 per cent in October 2021, while the average savings deposit rate declined marginally from 2.36 per cent in September 2021 to 2.15 per cent in October 2021. Figure 7 shows the average lending rate and average savings rate in October 2021 and the twelve months preceding it. Interest rate spread between the average lending and average savings deposit rate increases from 17.41 per cent in September 2021 to 17.79 per cent in October 2021.

**Figure 8: Average lending and Savings deposit rates**

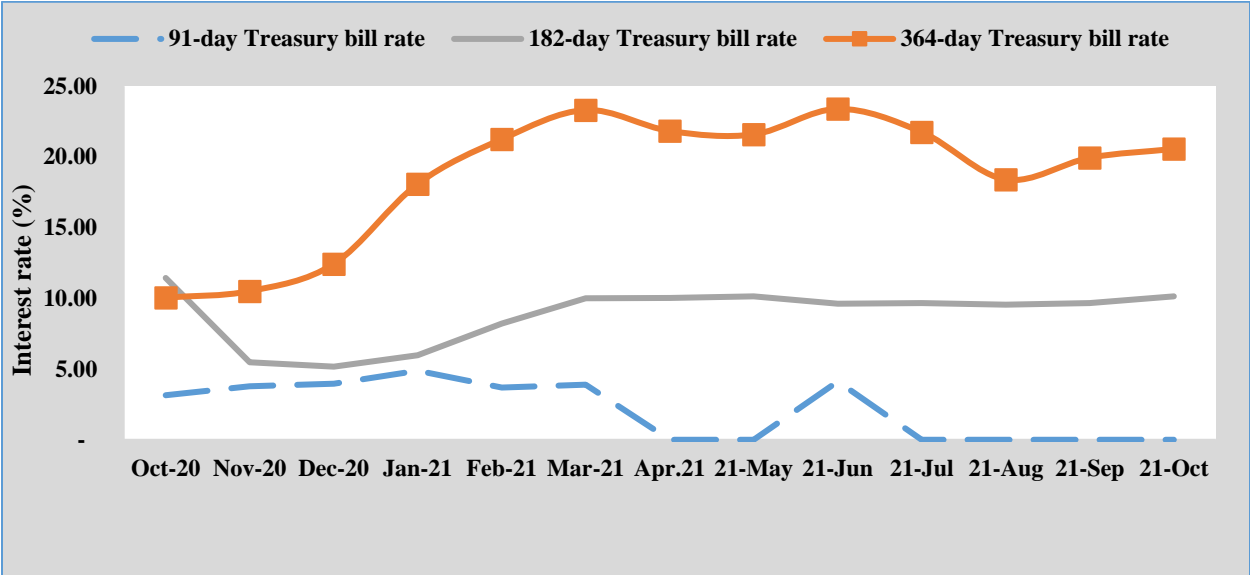


Source: Bank of Sierra Leone



Yields on the 182-day T-bills and 364-day T-bills continued in the upward trend which started in August 2021, while the 91-day T-bills remained flat since August 2021. The 182-day T-bills and 364-day T-bills increased from 9.67 per cent and 21.75 per cent respectively in September 2021 to 10.14 per cent and 19.94 per cent respectively in October 2021, respectively. Figure 8 shows the yields on the T-bills.

**Figure 9: Yields on Treasury Bills**



Source: Bank of Sierra Leone

**5. External Sector**

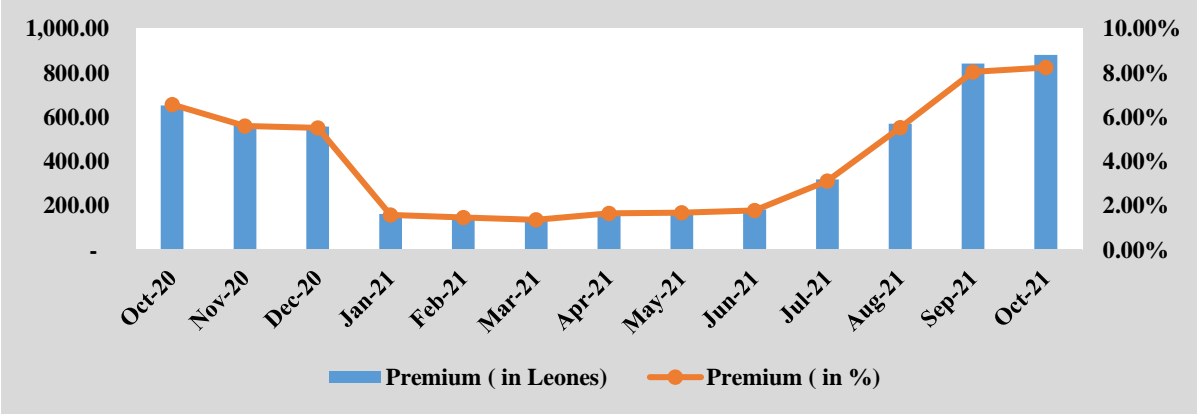
**5.1 Exchange Rate Developments**

The monthly average exchange rate of the Leone against the US dollar depreciated in all foreign exchange markets in October 2021 on both the buying and selling sides. With regards to the buying side, the Leone depreciated in the parallel market, commercial banks, and official and bureau markets by 1.92 percent, 1.95 percent, 1.96 per cent and 1.92 percent, averaging Le11,480.00/US\$1, Le10,748.83/US\$1, Le10,575.93/US\$1 and Le10,504.88/US\$1, respectively.

Similarly, on the selling side, the Leone depreciated in the foreign exchange bureau market, parallel market, official market and commercial banks by 2.83 percent, 2.38 percent, 1.96 per cent and 2.96 percent respectively, averaging Le10,885.83/US\$1, Le11,647.50/US\$1, Le10,789.58/US\$1 and Le11,064.31/US\$1 respectively.

The premium between the Official and Parallel market rates widened from 8.05 per cent (that is, Le843.19/US\$1) in September 2021 to 8.25 per cent (that is Le881.00/US\$1) in October 2021. Figure 6 shows the premium between the official and parallel market rates.

**Figure 10: Premium between Official and Parallel Exchange Rates**



Source: Bank of Sierra Leone

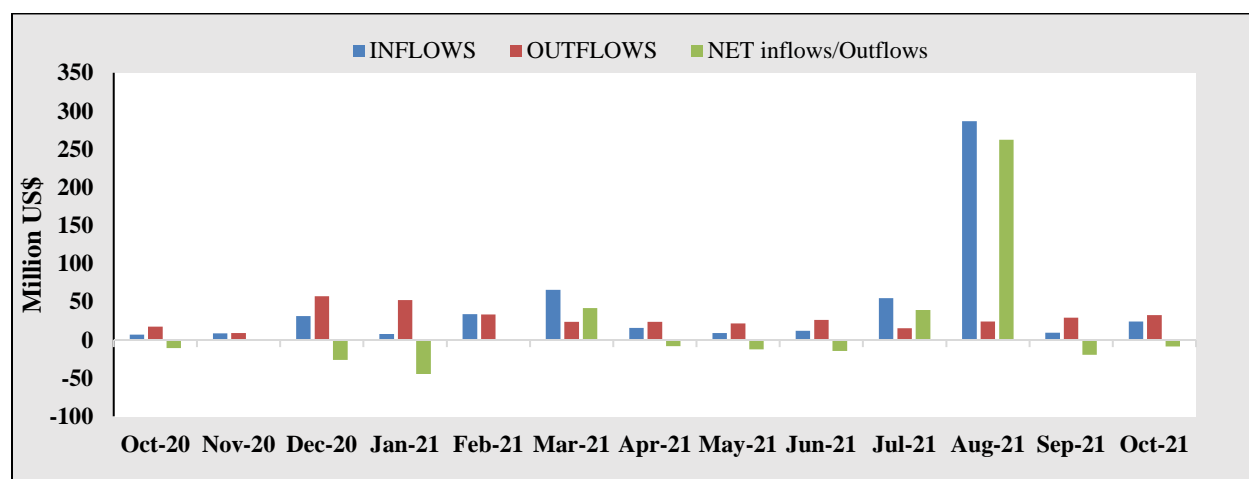
**5.2. Gross Foreign Exchange Reserves**

As at end October 2021, the gross foreign exchange reserves of the Bank of Sierra Leone (including swaps) was US\$ 941.63 million, down by 0.82 per cent from US\$949.45million in September, 2021. Inflows recorded in October 2021 was US\$24.33million, while outflows amounted to US\$32.72 million, resulting to a net outflow of US\$8.38million, with a recorded revaluation loss of US\$0.57million.

Significant inflows incorporate other mining receipts (US\$10.00million), transactions with commercial banks (US\$8.00million) and timber mining (US\$1.51million). Other inflows include aid disbursements by IDB with respects to its ongoing projects in the country (US\$0.63million) and funds from petroleum resources unit (US\$0.17million).

Major outflows comprise amount used in respect of interbank market operations (US\$9.41million), currency printing cost (US\$9.08million), payment for electricity support (US\$5.04million), debt service (US\$3.31million) and embassy and mission (US\$1.97million).

**Figure 11: Foreign Exchange Flows**



Source: Bank of Sierra Leone

## 6. Conclusion

The performance of cocoa production, which was the agricultural product with available data in October 2021, improved compared with production in September 2021. There was improved performance in the mining sector, while performance moderated in the manufacturing sector. Year-on-Year headline inflation rate elevated in October 2021, relative to the rate in September 2021. This was driven by rise in both food and non-food inflation. However, monthly headline inflation in October 2021 moderated.

Government fiscal operations resulted in narrowing fiscal deficit, compared to September 2021, which was due to both increase in revenue and contraction in expenditure. Broad money grew at a rate that was higher than its growth in September 2021, driven by increase in net domestic assets while net foreign assets declined. Reserve money contracted, driven by contraction in net foreign assets of the Bank of Sierra Leone. The monetary policy rate, Standing Lending Facility and Standing Deposit Facility remained unchanged in October 2021. Average lending rate increased slightly while average savings deposit rate declined slightly. Interest rates on both the 182-day Treasury bill and the 364-day Treasury bill increased while interest rate on the 91-day Treasury bill remained unchanged at the September 2021 rate. The average monthly exchange rate depreciated against the U.S dollar and gross international reserves increased.