



Monthly Economic Review

September 2023

MER/09/2023

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

About the Monthly Economic Review (MER): The report analyses Sierra Leone's monthly macroeconomic developments, covering the four macroeconomic sectors- real, fiscal, monetary and external sectors. This edition analyses economic performance in September, 2023.

Executive Summary

Production performance of various sectors were mixed in September 2023. Cocoa production marginally increased. Mining sector performance improved driven by key minerals such as diamond, zircon, iron ore, and other minerals productions recorded an increase, as well as gold, rutile, and ilmenite productions. However, there was decreased in the production of bauxite. Manufacturing sector performance was mixed as output of paint, maltina, beer and stout increased, whilst, cement and confectionaries declined. Year-on-Year headline inflation increased to 54.48 % in September 2023 from 50.94% in August, 2023, which was largely explained by the economic spillover effects of the Russia-Ukraine war, including increases in energy prices, and the depreciation of the Leone.

The government's fiscal operations (on cash flow basis) remain at a deficit of NLe1,016.60mn in September 2023, resulting to an increase in previous month's deficit of NLe322.49mn. This was driven by the increase in other expenditures that outstripped the miscellaneous items embedded in the domestic revenue generation. Total revenue for September 2023 contracted by 0.74% to NLe1,338.97mn, while government expenditure increased by 40.93%.

Broad Money (M2) expanded by 3.60% in September 2023 compared to 1.34% in August 2023 while Reserve Money (RM) decreased by 2.50% in September 2023 compared to 2.40% in August 2023. The growth in M2 was driven mainly by increase in Net Domestic Assets (NDA) of the banking system. Narrow Money (M1) increased by 2.03%, which was driven by the growth of demand deposits by 3.79% and increase in currency outside banks by 0.24%. In September 2023, there was markets for 182-day and 364-day T-bills. The yield on the 364-day T-bill increased marginally whilst there was no market in 91-day tenor.

The gross international reserves of the Bank of Sierra Leone amounted to US\$437.28million in September 2023, from of US\$472.26million in August 2023. Net outflows in September 2023 amounted to US\$29.17million, compared to the net outflows of US\$3.88 million recorded in August 2023. The rest of the changes in reserves were primarily driven by revaluation adjustments.

The monthly average exchange rate on both the buying and selling fronts of the Leone depreciated against the US dollar in all foreign exchange markets segments. On the buying side, the Leone depreciated in the official market, bureau market and parallel market by 3.47%, 3.59% and 1.93% averaging NLe22.13/US\$1, NLe22.09/US\$1 and NLe23.64/US\$1 respectively and across commercial banks by 4.10% averaging NLe22.14/US\$1.

Similarly, on the selling side the Leone depreciated in the official market, bureau market and parallel market by 3.47%, 3.59% and 1.94% averaging NLe22.35/US\$1, NLe22.29/US\$1 and NLe24.05/US\$1 respectively and across commercial banks by 2.81% averaging NLe22.41/US\$1.

Real Sector Development

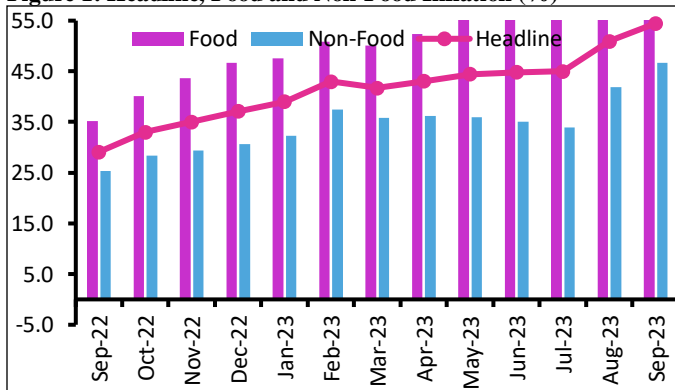
(i) Production

Agricultural sector performance in September 2023 was mainly in cocoa production which marginally increased. Mining sector performance largely improved since key minerals such as diamond, zircon, iron ore, and other minerals productions recorded an increase, as well as gold, rutile, ilmenite productions. However, there was decreased in the production of bauxite. Manufacturing sector performance was mixed as output of paint, maltina, beer and stout increased, whilst, cement and confectionaries declined.

Price Development

Annual headline inflation increased to 54.48 % in September 2023 from 50.94% in August, 2023 with food inflation rising to 64.67% and non-food inflation also increasing to 46.63%. The economic spillover effects of the Russia-Ukraine war, including increases in energy prices, and the depreciation of the Leone were key factors behind the persistent inflationary pressure. Table 1 shows that alcoholic beverages, tobacco, transportation, housing, water, electricity, gas, and other fuels, restaurants and hotels, and communication, are the major contributors to headline inflation. Furthermore, monthly headline inflation decreased to 4.35% in September 2023 from 5.31 % in August, 2023. Figures 1 and 2 show the inflation rates for September 2023 and the 12 months preceding September 2023.

Figure 1: Headline, Food and Non-Food Inflation (%)



Source: Statistics Sierra Leone

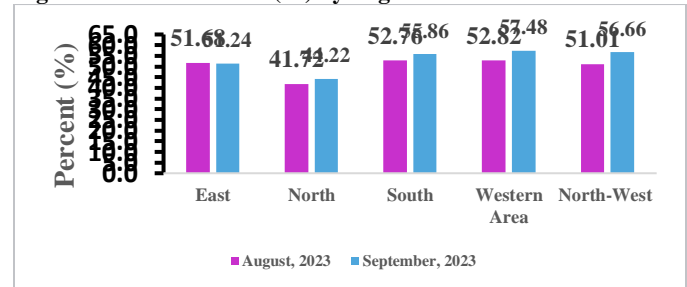
Figure 2: Year-on-year Inflation and Monthly Inflation Rates (%)



Source: Statistics Sierra Leone

On regional basis, annual inflation increased in four regions excluding the Eastern region in September 2023 compared to August 2023. The Western area, Southern, Eastern and North-West regions all have their inflations above 50%. The Western area region had the highest inflation rate at 57.48%, followed by the North-West region at 56.66%. The Southern region and Eastern region had inflation at 55.86% and 51.24% respectively while the Northern region had inflation rate at 44.22%. Figure 3 shows inflation rates by regions.

Figure 3: Inflation Rates (%) by Regions



Source: Statistics Sierra Leone

Table 1: Monthly Inflation by Component (%)

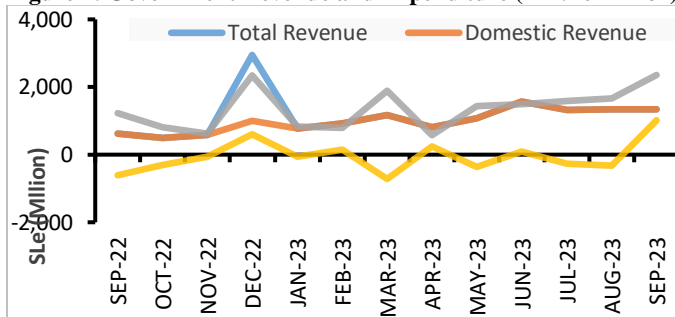
Column1	Weight (%)	Aug-23	Sep-23	Change	Direction
Food	40.33	62.75	64.67	1.92	Up
Non-Food	59.67	41.90	46.63	4.73	Up
Alcohol Beverages & Tobacco	1.00	36.02	54.48	18.46	Up
Clothing	7.70	41.50	41.00	(-0.5)	Down
Housing	8.90	28.97	32.11	3.14	Up
Furnishings	5.60	43.79	45.91	2.12	Up
Health	7.60	46.44	47.37	0.93	Up
Transport	8.60	42.22	51.78	9.56	Up
Communication	4.70	42.39	46.56	4.17	Up
Recreation	2.60	50.28	56.82	6.54	Up
Education	3.10	-6.85	-6.85	0.00	Constant
Hotels	6.10	62.54	71.94	9.40	Up
Miscellaneous	3.90	49.74	51.92	2.18	Up
All items	100.00	50.94	54.48	3.54	Up

Source: Statistics Sierra Leone

Fiscal Sector Development

The government's fiscal operations (on cash flow basis) remain at a deficit of NLe1,016.60mn in September 2023, resulting to an increase in previous month's deficit of NLe322.49mn. This was driven by the increase in other expenditures that outstripped the miscellaneous items embedded in the domestic revenue generation. Total revenue for September 2023 contracted by 0.74% to NLe1,338.97mn, lower than the budgeted target by 14.46%, mainly due to loss in foreign grants and a low domestic revenue mobilization from non-tax revenue. However, Excise, customs and goods and services tax all decrease while income tax, increased during the review period. Figure 4 shows the fiscal profile for September 2023 and the 12 months preceding September 2023.

Figure 4: Government Revenue and Expenditure (in NLe million)



Source: Bank of Sierra Leone

Government expenditure increased by 40.93%, resulting in a deficit of NLe1,016.60mn. Despite this increase, the actual expenditure of NLe2,355.57mn was still higher than the budgeted ceiling of NLe769.07mn by 206.29%. The increase in expenditure was mainly due to increases in other expenditure and debt service payments. The expenditure on debt service increased to NLe237.91mn in September, resulting from an increase in domestic debt interest payment by 0.78% from the target amount of NLe239.77mn.

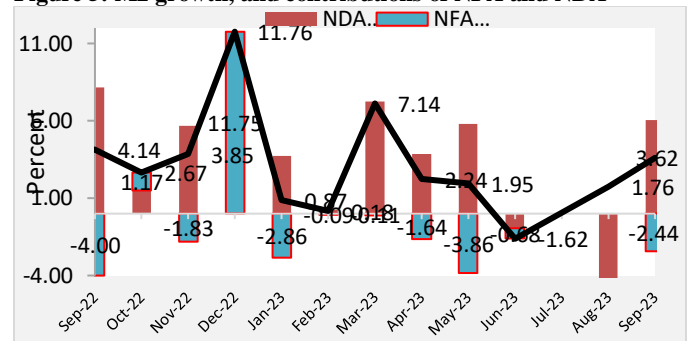
Monetary Sector Development

(i) Monetary Aggregates

In September 2023, there were mixed movement in key monetary aggregates as Broad Money (M2) expanded by 3.60% in September 2023 compared to 1.34% in August

2023. The growth in M2 was driven mainly by increase in Net Domestic Assets (NDA) of the banking system. NDA grew by 7.38% due to the expansion in domestic credit. Credit to the private sector by commercial banks increase by 3.80%. However, the NFA of the banking system decrease by 13.41%. Figure 5 shows the M2 growth, NDA and NFA for September 2023 and the 12 months preceding September 2023.

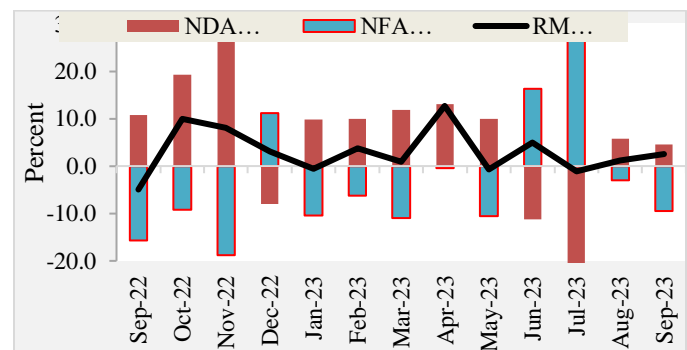
Figure 5: M2 growth, and contributions of NFA and NDA



Source: Bank of Sierra Leone

In addition, Narrow Money (M1) increased by 2.03%, which was driven by the growth of demand deposits by 3.79% and increase in currency outside banks by 0.24%. Quasi money increased by 4.89%, reflecting the growth in all components. The growth was reflected in foreign currency, time and savings deposits and other deposits. On the liability side, reserve money decreased by 2.50% in September 2023 compared to 2.40% in August 2023. Figure 6 shows the RM growth, NDA and NFA for September 2023 and the 12 months preceding September 2023.

Figure 6: Reserve money growth and contributions of NFA and NDA to the growth

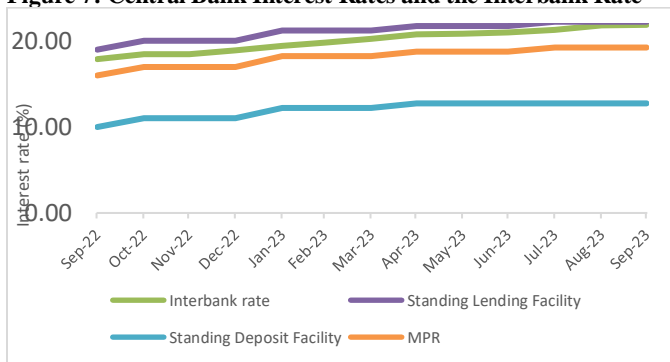


Source: Bank of Sierra Leone

(ii) Interest Rates

The Monetary Policy Rate, Standing Lending Facility, and Standing Deposit Facility rates all remained the same in August 2023. The interbank rate slightly increased but remained within the Policy Corridor Rate. The commercial bank prime lending (interest rate spread) however rose to 19.66% and 21.23% respectively while savings rate was unchanged at 2.23% in the same period.

Figure 7: Central Bank Interest Rates and the Interbank Rate



Source: Bank of Sierra Leone

In September 2023, there were markets for 182-day and 364-day T-bills. The yield on the 364-day T-bill increased marginally whilst there was no market in 91-day tenor. The yield on 364-day T-bills increased to 29.13% in September 2023, from 29.03% in August 2023.

External Sector Development

(i) Exchange Rate Developments

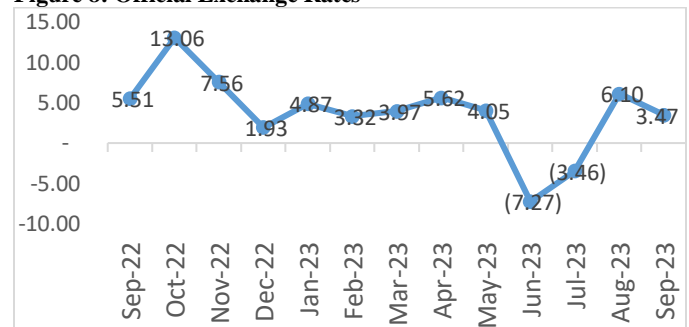
On both the buying and selling sides, monthly average exchange rates of the Leone against the US dollar depreciated in all foreign exchange markets segments.

With reference to the buying side, the Leone depreciated in the official market, bureau market and parallel market by 3.47%, 3.59% and 1.93% averaging NLe22.13/US\$1, NLe22.09/US\$1 and NLe23.64/US\$1 respectively and across commercial banks by 4.10% averaging NLe22.14/US\$1.

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across commercial banks by 2.81% averaging NLe22.41/US\$1. The premium between the Official and Parallel rates narrowed to 7.22% (NLe1.61/US\$1) in September 2023 from 8.83%, (NLe1.90/US\$1) in August 2023. Figure 8 shows the trend in the official exchange rate markets.

Figure 8: Official Exchange Rates

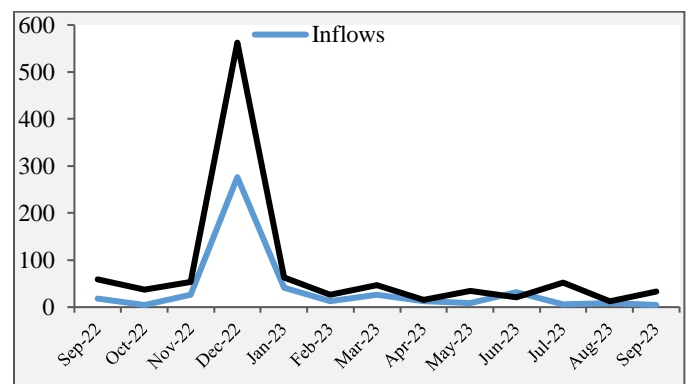


Source: Bank of Sierra Leone

(ii) Gross Foreign Exchange Reserves

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Figure 9: Foreign Exchange Flows



Source: Bank of Sierra Leone

5. Conclusion

Production performance of various sectors were mixed in September 2023. Cocoa production marginally increased. Mining sector performance improved driven by key minerals. Other minerals productions recorded an increase, as well as gold, rutile, and ilmenite productions. However, there was decreased in the production of bauxite. Manufacturing sector performance was mixed as output of paint, maltina, beer and stout increased, whilst, cement and confectionaries declined. Year-on-Year headline inflation increased to 54.48 % in September 2023 from 50.94% in August, 2023, which was largely explained by the economic spillover effects of the Russia-Ukraine war, including increases in energy prices, and the depreciation of the Leone.

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The monthly average exchange rate on both the buying and selling fronts of the Leone depreciated against the US dollar in all foreign exchange markets segments. Parallel rates narrowed to 7.22% (NLe1.61/US\$1) in September 2023 from 8.83%, (NLe1.90/US\$1) in August 2023.