



BANK OF SIERRA LEONE

Monthly Economic Review

March 2023

MER/03/2023

The Monthly Economic Review (MER) is prepared by the Research and Statistics Department, Bank of Sierra Leone. The Department takes responsibility for opinions expressed in this review. Please forward any comments to res@bsl.gov.sl.

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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 March 2023.

Executive Summary

Production performance of various sectors with available data was mixed in March 2023. Cocoa production decreased significantly while there was no coffee production. Mining sector performance however improved since the output of key minerals such as diamond, bauxite, zircon, iron ore, and other minerals increased, while the output of gold, rutile and ilmenite decreased. The performance of the manufacturing sector improved as the output of all manufacturing sector components increased, except for common soap output. Year-on-Year headline inflation decreased to 41.50% in March 2023 from 42.71% in February 2023 with food and non-alcoholic beverages inflation rising to 49.46% in March 2023 from 50.21% in February 2023. Non-food and alcoholic beverages inflation also rose to 35.84% in March 2023 from 37.46% in February.

Government's fiscal operations (on a cash-flow basis) resulted in a deficit of NLe521.44mn in March 2023, from NLe141.01mn in February. The deficit was driven by the increase in total expenditure, while domestic revenue expanded and there was no foreign grant.

Broad money (M2) grew by 7.14% while reserve money fell by 0.85%. The growth in M2 was driven by an increase in Net Domestic Assets (NDA) of the banking system, while Net Foreign Assets (NFA) fell slightly. Reserve money contracted 0.85%, which was due to the increase in NDA of the BSL, whilst NFA of BSL contracted slightly. The monetary policy rate (MPR), standing lending facility (SLF) and standing deposit facility (SDF) remained at their February rates in March 2023. The MPR was 18.25 %; the SLF rate was 21.25 %; and the SDF rate was 12.25 %. The interbank rate remained at 19.82 % in March 2023 as was in February 2023 and remained within the policy corridor. The commercial bank average lending rate increased to 20.18 % in March 2023 from 20.14 % in February 2023, while the average savings rates remain unchanged at 2.17 %. The yield on the 364-day and 182-day T-Bills increased in March 2023, while there was no market in the 91-day T-Bills market. The yield on the 364-day T-bills increased to 28.28% in March 2023, from 28.27% in February 2023 and was 13.43 % for the 182-day T-Bills in March 2023, while it was not traded in the previous month.

Gross foreign exchange reserves of the Bank of Sierra Leone was US\$575.59 million at the end of March 2023, representing a decrease of 2.44 percent from US\$590.01 million at the end of February 2023, with a net outflow of US\$21.05 million, compared to a net outflow of US\$13.94 million in February 2023. The Leone depreciated against the US dollar in March 2023 on both the buying and selling sides in all foreign exchange markets, except the bureau. With regards to the buying side, the Leone appreciated in the parallel market by 20.32% averaging NLe16.05 per US Dollar, and depreciated across commercial banks, and official markets by 3.81%, and 3.97%, averaging NLe20.45 per US Dollar, and NLe20.49 per US Dollar respectively. Bureau market however appreciated by 3.71% averaging NLe20.36 per US Dollar. Similarly, on the selling side the Leone depreciated in the parallel market by 3.78% averaging NLe12.35 per US Dollar, and depreciated in the bureau market, official market and commercial banks by 3.65%, 3.97%, 4.36%, averaging NLe20.55 per US Dollar, NLe20.69 per US Dollar and NLe20.86 per US Dollar, respectively. The premium between the Official and Parallel rates widened to 9.9% (NLe2.04 per US Dollar) in March 2023 from 2.08%, which was NLe0.41 per US Dollar in February 2023.

1. Real Sector Development

(i) Production

Agricultural sector performance deteriorated in March 2023 as cocoa production decreased significantly while there was no coffee production. The performance of the mining sector was mixed as the output of diamond, bauxite, zircon, iron ore, and other minerals increased, while gold, rutile and ilmenite recorded decreased output. The performance of the manufacturing sector improved, as the output of all manufacturing sector components increased, except for common soap.

(ii) Price Development

Year-on-year (Y-o-Y) headline inflation decreased to 41.50 % in March 2023 from 42.71% in February 2023, with food inflation decreasing to 49.46% from 50.21 % in February 2023 and non-food inflation decreasing to 35.84% from 37.46 % in February 2023. The elevated headline inflation was attributed to the sticky evaporation of the supply-side constraints caused by the Russia-Ukraine war and post Covid-19 pandemic. The decline was however explained by some reprieve in supply-chain disruption, which was reflected in lower food and non-food inflation. Table 1 shows the year-on-year headline inflation rate and key components, which shows that furnishings, communication, miscellaneous and health are the major contributors to the increase in headline inflation.

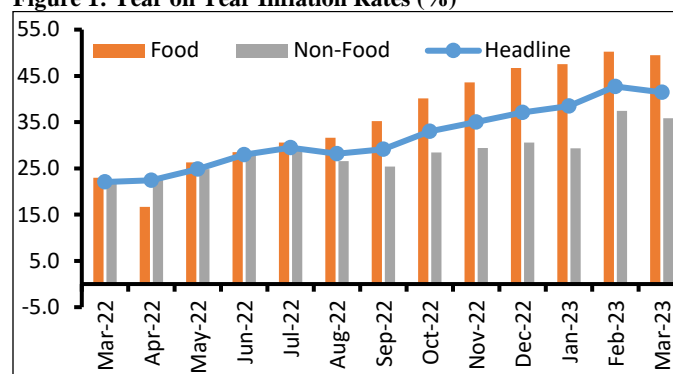
Table 1: Y-o-Y Inflation Rate by Component (%)

	Weight (%)	Feb-23	Mar-23	Change	Direction
Food	40.33	50.21	49.46	(0.75)	Down
Non-Food	59.67	37.46	35.84	(1.62)	Down
Alcohol Beverages & Tobacco	1.02	29.47	29.26	(0.21)	Down
Clothing	7.67	36.60	37.75	1.15	Up
Housing	8.86	31.65	29.36	(2.29)	Down
Furnishings	5.60	50.76	57.73	6.97	Up
Health	7.57	30.59	33.84	3.25	Up
Transport	8.59	43.53	22.05	(21.48)	Down
Communication	4.69	28.08	31.51	3.43	Up
Recreation	2.56	48.32	48.55	0.23	Up
Education	3.14	-9.82	-9.82	-	Constant
Hotels	6.08	54.54	56.45	1.91	Up
Miscellaneous	3.89	48.06	51.83	3.77	Up
All items	100.00	42.71	41.5	(1.21)	Down

Source: Statistics Sierra Leones

Monthly headline inflation continued to decline, reaching 3.78% in March 2023, from 5.43% in February, 2023. Figure 1 shows the inflation rates for March 2023 and the 12 months preceding it.

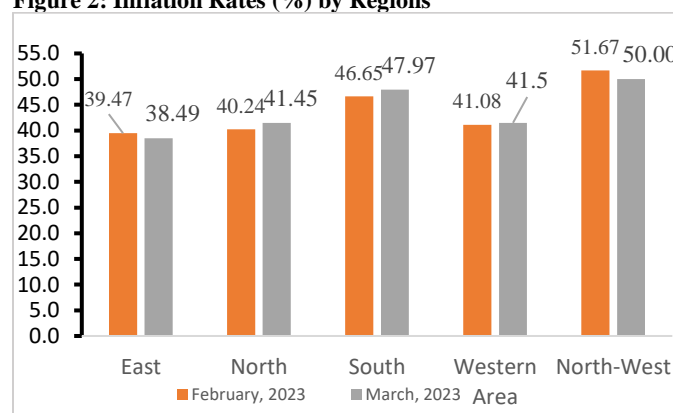
Figure 1: Year on Year Inflation Rates (%)



Source: Statistics Sierra Leone

On regional basis, annual inflation increased in Southern region and the Northern region but declined in the North-West region and the Eastern regions in March 2023, compared to February 2023. The North-West region had the highest inflation rate of 50.00%, followed by the Southern region at 47.97%. The Eastern region and Western region had inflation at 38.49% and 38.53% respectively while the Northern region had inflation rate of 41.45%. Figure 2 shows inflation rates by region.

Figure 2: Inflation Rates (%) by Regions

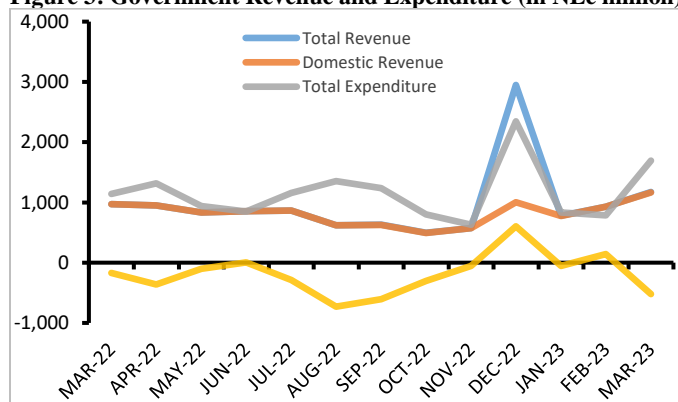


Source: Statistics Sierra Leone

2. Fiscal Sector Development

Government fiscal operations (on cash-flow basis) resulted in a deficit of NLe521.44mn in March 2023, compared to the previous month's surplus of NLe141.01mn. The deficit was due to fall in grants, which outweighed the increase in domestic revenue and the increase in total expenditure, as there was no foreign grant. Total revenue for March 2023 expanded by 26.20% to NLe1170.22mn, which was however lower than the budgeted target by 6.55%, mainly due to loss in foreign grants and a low domestic revenue mobilization from non-tax revenue. However, income tax, excise, customs and goods and services tax increased during the review period. Figure 3 shows the fiscal profile for March 2023 and the 12 months preceding it.

Figure 3: Government Revenue and Expenditure (in NLe million)



Source: Bank of Sierra Leone

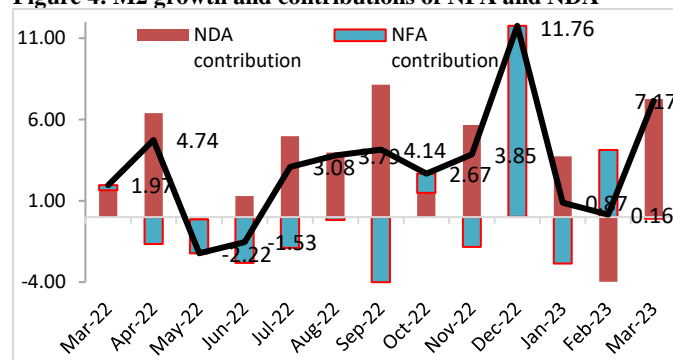
Government expenditure increased by 115.15%, resulting in a surplus of NLe905.37mn. In addition, the actual expenditure of NLe1691.66mn was higher than the budgeted ceiling of NLe783.82mn by 115.82%. The increase in expenditure was mainly due to increases in other expenditure and debt service payments, and expenditure on pension, wages, and salaries. The expenditure on debt service increased by 5.5% to NLe252.69mn, resulting from an increase in domestic debt interest payment by 13.83% from the target amount of NLe221.17mn.

3. Monetary Sector Development

(i) Monetary Aggregates

In March 2023, broad money (M2) grew by 7.14% while reserve money contracted by 0.85%. The growth in M2 was driven by increase in Net Domestic Assets (NDA) of the banking system, while Net Foreign Assets (NFA) of the banking system fell, though slightly. NDA grew by 8.93% while NFA contracted by 0.58%. The increase in NDA was due to the growth in the NDA of the ODCs. NFA of the banking system contracted due to decrease in NFA of the ODCs, which more than offset the increase in NFA of Bank of Sierra Leone. Credit to the private sector by commercial banks increased by 5.90% from 4.23 % in February 2023. Figure 4 shows the contributions of NDA and NFA to M2 growth.

Figure 4: M2 growth and contributions of NFA and NDA

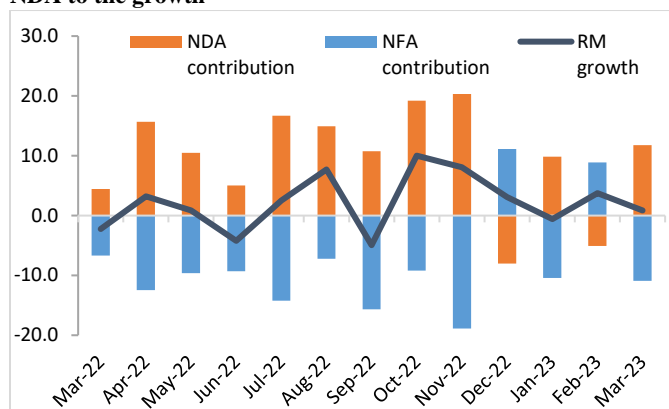


Source: Bank of Sierra Leone

Narrow Money (M1) increased by 6.30%, which was driven by the growth of both demand deposits, by 4.28%, and currency outside banks, by 8.47%. Quasi money increased by 7.79%, reflecting the growth in all but one component. The growth was reflected in the growth of foreign currency, time and savings deposits except other deposits.

Reserve money contracted by 0.85%, which was due to increase in NDA of the BSL whilst NFA of BSL contracted slightly. On the liability side, the growth in reserve money was driven by the increase in both currency issued and bank reserves. Figure 5 shows the contributions of NDA and NFA to reserve money growth.

Figure 5: Reserve money growth and contributions of NFA and NDA to the growth



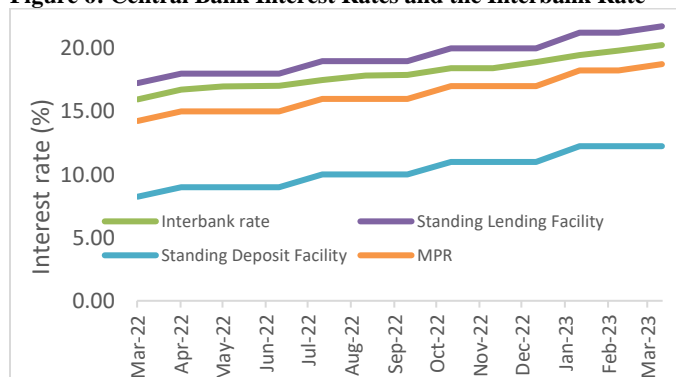
Source: Bank of Sierra Leone

(ii) Interest Rates

The Bank of Sierra Leone maintained its monetary policy rate (MPR), standing lending facility (SLF), and standing deposit facility rates (SDF) in March 2023. Hence, MPR was 18.25 %; the SLF rate was 21.25 %, while the SDF rate was 12.25 %. The interbank rate remained at 19.82 % in March 2023 as was in February 2023 and remained within the policy corridor.

The commercial bank average lending rate increased to 20.18 % in March 2023 from 20.14 % in February 2023 while the average savings rate remained unchanged at 2.17 %. As a result, the spread between the average lending and savings rates widened a little to 18.01 % in March 2023 from 17.97 % in February 2023. Figure 6 shows various interest rates for March 2023 and the 12 months preceding it.

Figure 6: Central Bank Interest Rates and the Interbank Rate



Source: Bank of Sierra Leone

¹ Mid-rate is the average of the official selling and buying rates as published by the Bank of Sierra Leone.

In March 2023, yield on the 364-day T-bills and yield on the 182-day T-bills rose whilst there was no market for the 91-day tenor. The yield on 364-day T-bills increased to 28.28% in March 2023, from 28.27% in February 2023. For the 182-day T-Bills the yield was 13.43% in March 2023, while it was not traded in the previous month.

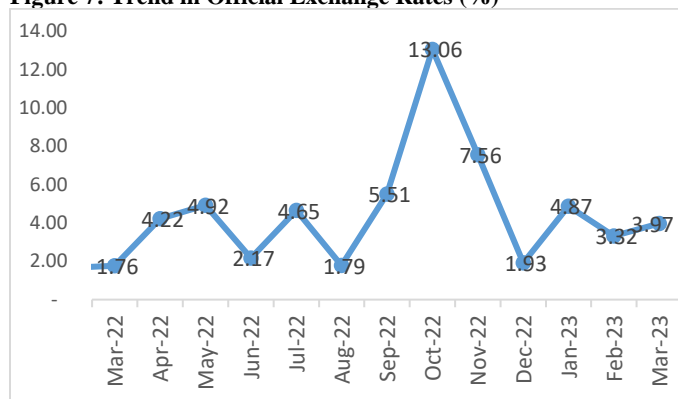
4. External Sector Development

(i) Exchange Rate Development

The monthly average exchange rate of the Leone against the US dollar depreciated on both the buying and selling sides in all foreign exchange markets in March 2023, except the Bureau. With regards to the buying side, the Leone appreciated in the parallel market by 20.32%, averaging NLe16.05 per US dollar, and depreciated across commercial banks by 3.81%, averaging NLe20.45 per US dollar. The Leone however depreciated in the bureau market by 3.71%, averaging NLe20.36 per US dollar. At the BSL published buying rate, the Leone depreciated by 3.97%, averaging NLe20.49 per U.S dollar.

Similarly, on the selling side, the Leone depreciated in the parallel market by 3.78%, averaging NLe21.05 per US dollar and depreciated in the bureau market and commercial banks by 3.65% and 4.36% respectively, averaging NLe20.55 per US dollar, and NLe20.86 per US dollar respectively. At the BSL published selling rate, the Leone depreciated by 3.97%, averaging NLe20.69 per U.S dollar. Figure 7 shows the trend of the depreciation rate of the Leone, using the BSL mid-rate¹.

Figure 7: Trend in Official Exchange Rates (%)



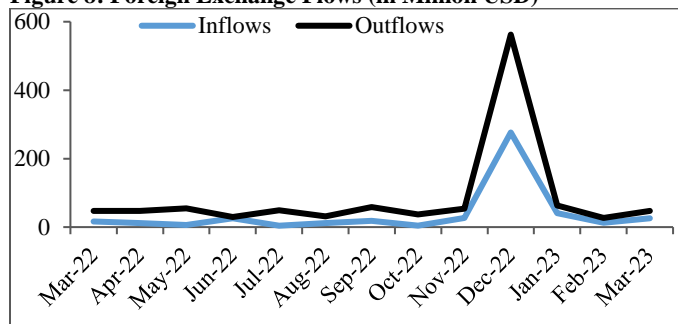
Source: Bank of Sierra Leone

The premium between the official and parallel rates widened to 9.9% (NLe2.04 per US dollar) in March 2023 from 2.08 %, which was NLe0.41 per US dollar in February 2023.

(ii) Gross Foreign Exchange Reserves

In March 2023, the gross foreign exchange reserves of the Bank of Sierra Leone was US\$575.59 million, representing a decrease of 2.44 percent from US\$590.01million in February 2023, with a net outflow of US\$21.05 million, compared to a net outflow of US\$13.94 million in February 2023, while the rest of the change in reserve was from revaluation adjustment. Figure 8 shows foreign exchange flows for March 2023 and the 12 months preceding it.

Figure 8: Foreign Exchange Flows (in Million USD)



Source: Bank of Sierra Leone

5. Conclusion

Production performance of various sectors with available data was mixed in March 2023. The production of cocoa experienced a significant decline. However, data regarding the production of other important agricultural products in March 2023 was unavailable. The performance of the mining sector was mixed as Diamond, bauxite, zircon, iron ore, and other minerals recorded increases in output, while gold, rutile, and ilmenite productions decreased. The manufacturing sector output increased as the output of all manufacturing sector components increased, except for common soap output.

Year-on-Year headline inflation declined in March 2023. The decline was largely explained by some reprieve in supply-chain disruption, which was reflected in lower food and non-food inflation.

Total expenditure expanded and domestic revenue increased, though total revenue (including grant) contracted, and government budgetary operations (on a cash flow basis) resulted in a deficit in March 2023. The deficit was due to fall in grants, which outweighed the increase in domestic revenue and the increase in total expenditure. The deficit was financed entirely from domestic sources.

The monetary policy rate (MPR), standing lending facility (SLF) and standing deposit facility (SDF) remained unchanged in March at their levels in February rates. The interbank rate remained within the policy corridor. The commercial banks’ average lending rate increased while the average savings rates remained unchanged. The spread between the average lending and savings rates widened, though slightly. The yield on the 364-day and 182-day T-Bills increased in March 2023, while there was no market in the 91-day T-Bills market.

Broad money (M2) grew in March 2023 and reserve money (RM) contracted. On both the buying and selling fronts, the Leone depreciated against the US dollar in all foreign exchange markets, except the bureau. Gross foreign exchange reserves recorded a decrease in March 2023 from its level in February 2023.