



RECENT MACROECONOMIC DEVELOPMENTS IN SIERRA LEONE (RMD)

About the RMD

The Recent Macroeconomic Developments (RMD) in Sierra Leone is prepared by the Research and Statistics Department, Bank of Sierra Leone. It provides a snapshot of recent monetary and external sector developments in Sierra Leone, leveraging on available validated data. Price stability is the core objective of monetary policy at the Bank, though financial stability is part of the mandate of the Bank and is addressed by the Bank's macro prudential and supervision frameworks. As price stability provides a conducive environment for economic growth, the RMD also presents recent developments in inflation and economic growth in Sierra Leone. Given the importance of fiscal-monetary linkage, fiscal developments on a cash-flow basis is also analysed. All analyses are based on the most recent available data on each sector.

I. INFLATION AND GROWTH

(i) Inflation

Inflationary pressures persisted in August 2023, with the year-on-year headline inflation rate surging to 50.94% in August 2023, up from 44.98% in July 2023. This increase in inflation was driven by upward price movements in both food and non-alcoholic beverages, constituting 40.33% of the overall basket, and non-food items, which account for the remaining 59.67%. Food and non-alcoholic beverages inflation rose to 62.75% in August 2023, up from 59.93% in July 2023, while non-food inflation increased to 41.90% in August 2023, up from 33.91% in July 2023. Non-food inflation had a higher contribution to inflation than food inflation. Several components within the non-food category, representing 46.29% of the basket, were the main drivers of the inflationary pressure. These components are: (i) Health (ii) Transport (iii) Housing, water, electricity, gas, and other fuels (iv) Recreation and culture (v) Restaurants and hotels (vi) Communication, and (vii) Clothing and footwear. The persistent inflationary pressure was influenced mainly by factors related to the economic repercussions of the Russia-Ukraine war, especially increase in energy price and depreciation of the Leone, while there was a relative stability in June and July 2023.

(ii) Real GDP Growth

The economy is projected to grow by 2.7 % in 2023, down from 3.6 % in 2022 and 4.1 % in 2021. The projected lower growth is due to the anticipated impact of the multiple supply-side shocks, uncertainties in mining output, and the spillover effects of the Russia-Ukraine war. However, in the medium term (2023 to 2025) the economy is expected to grow by an annual average of 4.2 %. This growth will be driven by anticipated improvements in agriculture, mining, tourism, and the general business and regulatory environment, facilitated by various structural reforms expected to contribute to economic expansion.

II. FISCAL SECTOR

Fiscal operations on a cash flow basis resulted in a surplus of NLe82.45 million in June 2023 compared to a deficit of NLe358.12 million in May 2023. The surplus resulted from an increase in total revenue, which surpassed total expenditure.

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Total revenue increased by 46.17 percent to NLe1,573.36 million in June 2023, which was 5.06 percent higher than the budgeted target of NLe1,497.55 million. The increase in total revenue was due to increase in both tax revenue and non-tax revenue.

Government expenditure increased by 3.93% to NLe1,490.91 million in June 2023, which surpassed the budgeted ceiling of NLe805.72 million by 85.04 percent. The increase in government expenditure was mainly due to increases in wages & salaries.

III. MONETARY SECTOR

(i) Reserve Money, Credit and Broad Money

In June 2023, reserve money expanded by 5.03 %, which was due to increase in net domestic assets (NDA) of BSL whilst net foreign assets (NFA) of BSL contracted. On the liability side, the rise in reserve money reflected increases in both currency issued by 5.70% and bank reserves by 0.29%. On a year-on-year basis, reserve money expanded by 57.29% in June 2023, up from 10.24% in June 2022, which was due to an increase in the NDA of the BSL whilst the NFA of the BSL contracted.

Broad money (M2) contracted by 1.62% in June 2023, driven by decrease in net foreign assets (NFA) of the banking system. Net domestic assets expanded by 1.86% in June 2023 from 4.99% in May 2023, which was due to increase in net claims on Government by both BSL and Other Depository Corporations (ODCs) by 17.52%. Net foreign assets of the banking system contracted by 13.62 %, which was due to decline in NFA of the BSL. On a year-on-year basis, broad money increased by 47.38% in June 2023 compared to 20.74% in June 2022, which was due to increases in both the NDA and NFA of the banking system.

Credit to the private sector by commercial banks decreased by 0.28% in June 2023, from the contraction of 0.52 % in May 2023. On a year-on-year basis, credit to the private sector grew by 14.83% in June 2023, from 17.16% in May 2023 and 20.19% in June 2022.

(ii) Interest Rate

Following a review of the recent international and domestic macroeconomic developments and taking the BSL inflation forecast for the second quarter of 2023 and the rest of the year into consideration, at the second quarter Monetary Policy Committee meeting of the Bank, the Bank increased its monetary policy rate (MPR) and standing lending facility (SLF) rate by 0.50 percentage point, while the standing deposit facility rate (SDF) remained unchanged. Hence, the MPR was increased to 19.25 %; the SLF rate was increased to 22.25 %; while the SDF rate remained at 12.75 %.

The interbank rate increased slightly to 20.99 % in June 2023 from 20.88% in May 2023 but remained within the policy corridor. The commercial bank average lending rate remained unchanged at 21.23 % in June 2023 while the savings rate moderately increased to 2.23% from 2.17% in May, 2023. As a result, the spread between the lending and savings rates declined slightly to 19.0 % in June 2023 from 19.06% in May 2023.



The 91-day Treasury bills were not traded in June while the average yield moved down from 8.44 percent in February to 4.11 percent in May 2023. For the 182-day Treasury bills, the average yield increased from 10.49 % in May 2023 to 13.21% in June 2023. Also, the average yield on the 364-day Treasury bill increased, from 28.24% in May 2023 to 28.28% in June 2023.

IV. EXTERNAL SECTOR

(i) Trade

Provisional estimates indicate that during the second quarter of 2023, the trade deficit widened to US\$160.73 million compared to US\$148.67 million in the first quarter of 2023, which was due to the combination of decreased export earnings and increased imports.

(ii) Exchange Rate Development

The monthly average exchange rates of the Leone against the US dollar appreciated on both the buying and selling sides in all foreign exchange markets in July 2023. With regards to the buying side, the Leone appreciated in the parallel market by 1.29 %, averaging NLe22.43 per US dollar and appreciated in the commercial bank segment by 4.95 %, averaging NLe19.98. The BSL published buying rate also appreciated by 3.57 %, averaging NLe20.16 per US dollar. This was the case also in the bureau market with an appreciation of 3.14%, averaging NLe20.06 per US dollar. On the selling side, the Leone appreciated in the parallel market by 0.97 %, averaging NLe22.60 per US dollar, while in the bureau market, it depreciated by 1.04%, averaging NLe20.22 per US dollar. The BSL official selling rate and the commercial bank selling rate also appreciated by 3.59 % and 2.57 % respectively, averaging NLe20.36 per US dollar and NLe20.59 per US dollar, respectively. The premium between the official and parallel rates however widened to 2.62 % (NLe2.24 per US dollar) in July 2023, from 7.14 %, (NLe1.50 per US dollar) in June 2023. The Leone appreciated in July 2023 by 3.46% at the BSL mid-rate down from the 7.27% appreciation observed in June 2023.

On a year-on-year basis, the Leone experienced a depreciation in July 2023, depreciating at the BSL mid-rate by 32.20%, compared to a depreciation of 34.06% in June 2023 and 25.20 % in July 2022.

(iii) Gross Foreign Exchange Reserves

The gross international reserves of the Bank of Sierra Leone amounted to US\$554.55million in July 2023, reflecting an increase of 2.26 %, from the level of US\$ 542.30million in June 2023. Net outflows in July 2023 amounted to US\$46.92million, while a net inflow of US\$10.69million was recorded in June 2023. The rest of the change in reserves was due to revaluation adjustment.