



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 development 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) Headline Inflation

Inflationary pressure remains high in June 2023, though headline year-on-year inflation increased only slightly, to 44.81 %, from 44.43 % in May 2023. The increase in inflation emanated from inflation from food and non-alcoholic beverages, which increased to 57.99 %, from 55.81 % in May 2023, while non-food inflation decreased slightly to 35.02 %, from 35.89 % in May 2023. The increase in inflation in June 2023 is associated with the lingering effects of the Covid-19 pandemic and the adverse effects of the Russia-Ukraine war on global food supply chain and annual Leone depreciation were drivers of the inflation rate, though on a monthly basis, an appreciation of the Leone was observed.

(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 NLe247.75 million in April 2023, compared to a deficit of NLe719.06 million in March 2023. The surplus resulted from a decrease in government expenditure, as total revenue contracted. Total revenue contracted by 29.94 percent to NLe819.84 million, which was 45.25 percent lower than the budgeted target. The fall in total revenue was due to a decline in tax revenue, while there was a 31.50 % increase in non-tax revenue. Government expenditure decreased by 69.72% to NLe572.09 million, compared to the budgeted ceiling of NLe805.72mn. This reduction was attributed to declines in wages &



salaries, other expenditures (goods and services), and domestic debt servicing, primarily due to reduced domestic debt interest payments.

III. MONETARY SECTOR

(i) Reserve Money, Credit and Broad Money

In April 2023, reserve money expanded by 12.69 %, which was driven by 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 the increase in currency issued, which outweighed the increase in bank reserves. Broad money (M2) grew by 2.24 % in April 2023, driven by an increase in net domestic assets (NDA) of the banking system, which was higher than the fall in net foreign assets (NFA). Net domestic assets grew by 4.69 %, due to increase in net claims on Government by both BSL and Other Depository Corporations (ODCs). Net foreign assets of the banking system contracted by 9.36 %, which was due to decline in NFA of both the BSL and the ODCs. Credit to the private sector by commercial banks increased by 0.53 % in April 2023, down from the growth of 5.92 % in March 2023.

(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 increased to 19.25 %; the SLF rate increased to 22.25 %; while the SDF rate remained at 12.75 %.

The interbank rate increased slightly to 20.88 % in May 2023 from 20.77% in April 2023 but remained within the policy corridor. The commercial bank average lending rate remained unchanged at 21.23 % in May 2023 similarly with the savings rate at 2.17 %. As a result, the spread between the lending and savings rates also remained unchanged at 19.06 % in May 2023.

Average yield on government securities showed a relatively mixed trend over the period January to May 2023. While the 91-day Treasury bills were not traded in January, March and April, 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 was 10.49 % in May 2023, while it was not traded in January, March, and April 2023. On average, the 364-day Treasury bills remained relatively stable with the yield ranging from 28.24% to 28.28% during the period January to May and was 28.24% in May 2023.

IV. EXTERNAL SECTOR

(i) Trade

During the first quarter of 2023, the trade deficit narrowed to US\$159.53 million compared to US\$200.17 million in the fourth quarter of 2022, which was due to the combination of enhanced export earnings and a decrease in imports. The trade deficit is expected to narrow further in the rest of the quarters in 2023,



driven by the reopening of China after stringent COVID-19 restrictions and improvements in global supply chain conditions.

(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 June 2023. With regards to the buying side, the Leone appreciated in the parallel market by 4.58 %, averaging NLe22.14 per US dollar and appreciated in the commercial bank segment by 7.25 %, averaging NLe20.97. The BSL published buying rate also appreciated by 7.06 %, averaging NLe20.88 per US dollar. This was the case also in the bureau market with an appreciation of 8.31 %, averaging NLe20.69 per US dollar. On the selling side, the Leone appreciated in the parallel market by 3.06 %, averaging NLe22.82 per US dollar and in the bureau market, it appreciated by 11.69%, averaging NLe20.01 per US dollar. The BSL official selling rate and the commercial bank selling rate also appreciated by 7.47 % and 7.61 % respectively, averaging NLe21.09 per US dollar and NLe21.12 per US dollar, respectively. The premium between the official and parallel rates however widened to 7.14 % (NLe1.50 per US dollar) in June 2023, from 3.29 %, (NLe0.75 per US dollar) in May 2023.

On a year-on-year basis, the Leone experienced a depreciation in June 2023, depreciating at the BSL mid-rate by 50.4 %, from 54.6 % in May 2023, compared to a depreciation of 21.9 % in June 2022 and 20.3 % in May 2022.

(iii) Gross Foreign Exchange Reserves

The gross international reserves of the Bank of Sierra Leone was US\$554.55mn in June 2023, reflecting an increase of 2.26 %, from the level of US\$ 542.30mn in May 2023. Net inflows in June 2023 was US\$10.69mn, while a net outflow of US\$26.26mn was recorded in May 2023 and the rest of the change in reserves was due to revaluation adjustment.