



**BANK OF SIERRA LEONE**

**Monthly  
Economic Review**

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# BANK OF SIERRA LEONE

## Monthly Economic Review

September 2018

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**ABBREVIATIONS**

AfDB -	African Development Bank
BOP -	Balance of Payments
BSL -	Bank of Sierra Leone
CPI -	Consumer Price Index
GFER -	Gross Foreign Exchange Reserves
GoSL -	Government of Sierra Leone
GW/hr -	Giga-Watts Per Hour
HIPC -	Heavily Indebted Poor Countries
IDA -	International Development Association
IDB-	Islamic Development Bank
IMF -	International Monetary Fund
M2 -	Broad Money
MER -	Monthly Economic Review
MPC -	Monetary Policy Committee
MPR -	Monetary Policy Rate
NDA -	Net Domestic Assets
NMA -	National Minerals Agency
NFA -	Net Foreign Assets
ODC -	Other Depository Corporation
OFID -	OPEC Fund for International Development
OIN -	Other Items Net

OPEC -	Organization of the Petroleum Exporting Countries
RM -	Reserve Money
SLF -	Standing Lending Facility
SDF-	Standing Deposit Facility
SSL -	Statistics Sierra Leone
WB –	World Bank

## **1.0 Highlights**

Macroeconomic performance in September 2018 continued to be mixed across key sectors of the economy. Annual headline inflation increased by 1.01 percentage point to 19.23 per cent in September 2018 from 18.22 per cent in previous month explained by increases in both food and non-food inflation and the pass-through effect of the exchange rate

In September 2018, Government budgetary operations resulted in a deficit of Le63.90bn compared to a Surplus of Le2.47 bn recorded in the previous month. This deficit was explained by an increase in expenditure which outweighed the growth in revenue.

Developments in monetary aggregates was entirely contractionary in September 2018, as Broad Money (M2) and Reserve Money (RM) contracted by 0.34 per cent and 3.51 per cent respectively. Broad Money (M2) contracted by 0.34 per cent in September compare to a 0.90 per cent expansion in August 2018. The decline in M2 was a result of the fall in Net Foreign Assets (NFA) which more than offset the expansion of the Net Domestic Assets (NDA) of the banking system.

During the review month, the monetary policy rate remained unchanged at 16.50 per cent. The interbank rate increased from 14.02 per cent in August 2018 to 14.76 per cent as at September 2018, and remains within the corridor. The average lending and savings deposits rates remained at 21.35 per cent and 2.38 per cent, respectively.

The stock of Gross Foreign Exchange Reserves as at end-September 2018 was US\$493.56mn, declining by 1.57 per cent from the level of US\$501.45mn in the preceding period. The decrease in reserves was due to an excess of outflows (US\$15.56mn) over inflows (US\$7.37mn) with a net outflow of US\$8.19mn during the review period. Notwithstanding the decline in the reserves, the average exchange rate of the Leone against the US dollar continued to be relatively stable.

## **2.0 Production and Prices**

### **2.1 Production**

#### **2.1.1 Manufacturing**

The manufacturing sector recovered in September 2018, as output in beer & stout, maltina, soft drinks, cement, paint and acetylene recorded increases, while oxygen, confectionary and common soap declined. Beer and stout production grew by 17.43 per cent to 183 thousand cartons, while maltina and soft drinks rose by 5.62 per cent to 28 thousand cartons and by 7.91 per cent to 98.78 thousand crates respectively. Similarly, cement and paint production increased respectively by 2.89 per cent to 28.11 thousand metric tons and 26.54 per cent to 61.41 thousand gallons. Acetylene production also increased by 6.33 per cent to 25.87 thousand cubic feet. On the contrary, oxygen production decreased by 4.41 per cent to 22.99 thousand cubic feet, confectionery production declined by 3.43 per cent to 200.95 thousand pounds and common soap production slowed by 8.39 per cent to 49.76 thousand metric tons.

#### **2.1.2 Mining Sector**

Performance in the mining sector was slow, as diamond, bauxite and gold fell during the period. Diamond production declined by 76.02 per cent to 19.13 thousand carats. This quantity was made up of 7.57 thousand carats of industrial and 11.56 thousand carats of gem. Bauxite production fell by 0.7 per cent to 147.98 thousand metric tons, and gold recorded a decline by 92.69 per cent to 30.05 ounces. However, rutile and ilmenite production rose by 16.68 per cent to 10.7 thousand metric tons and by 15.15 per cent to 5.93 thousand metric tons respectively.

#### **2.1.3 Electricity Generation**

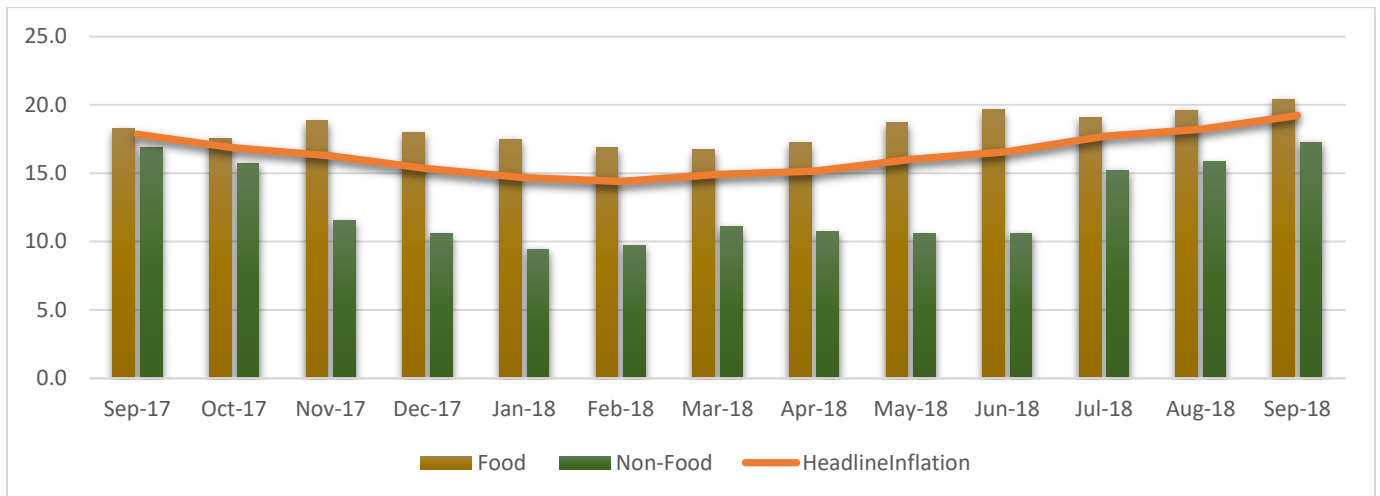
Total electricity generation for September 2018 stood at 29.66Gw/hr, representing a decrease by 4.51 per cent and was the result of decreased generation from hydro power plants. Generation from hydro plant declined by 5 per cent to 28.37Gw/hr. Thermal plants recorded marginal increase to 1.29Gw/hr from 1.2Gw/hr in August 2018, mostly due to the shut down in the plants at Blackhall Road and Kingtom power stations.



## 2.2 Price Development

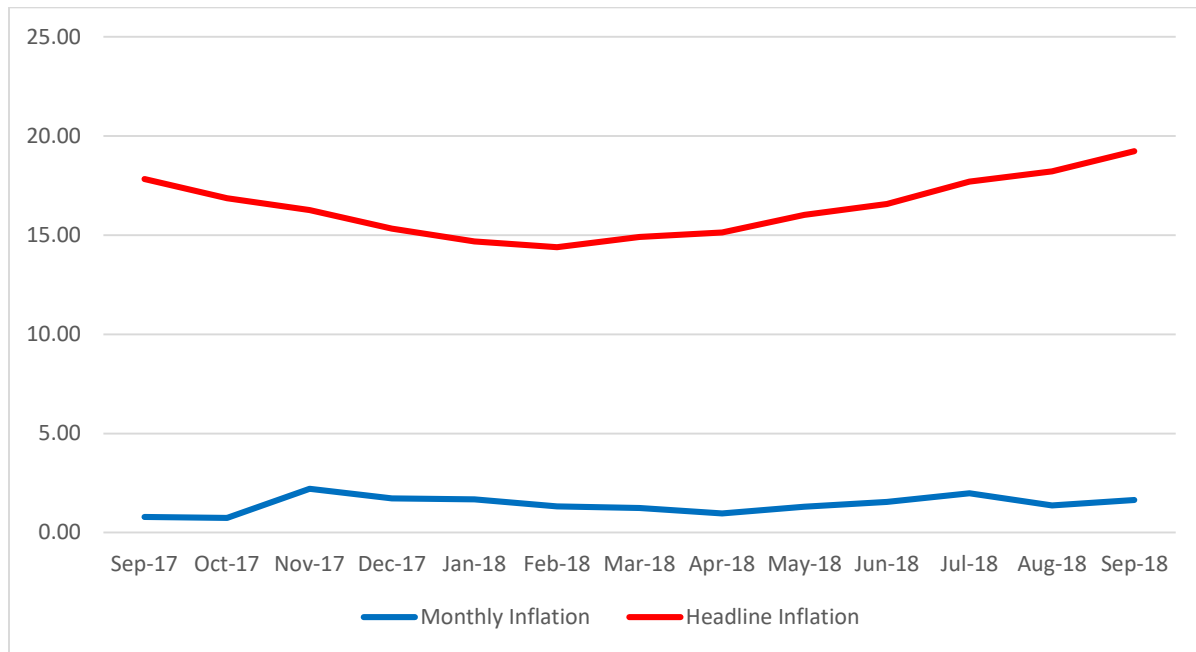
Inflationary pressures remained elevated in September 2018 as headline inflation reached 19.23 per cent from 18.22 per cent in August 2018. The main drivers of inflation were food and non-alcoholic beverages, housing & utilities and transportation.

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



*Source: Research Department, Bank of Sierra Leone.*

Food inflation rose to 20.41 per cent in September 2018 from 19.62 per cent in August 2018. Similarly, non-food inflation grew to 17.26 per cent in September 2018 from 15.87 per cent in August 2018. On a month-on-month basis, consumer price inflation rate increased to 1.64 per cent in September 2018 from 1.37 per cent in August 2018. On regional basis, year-on-year inflation increased across all the four regions in September 2018. Western Area inflation rose to 18.01 per cent in September 2018 from 17.18 per cent in August 2018; Eastern region inflation rate went up to 17.80 per cent in September 2018 from 16.9 per cent in August 2018; Southern region inflation rate was 21.35 per cent in September 2018 from 20.53 per cent in August 2018; and Northern region inflation rate was 20.69 per cent in September from 19.18 per cent in August 2018.

**Figure 2: Headline Inflation-Y-o-Y and Monthly Inflation Change**

Source: Research Department, Bank of Sierra Leone.

### 3.0 Government Budgetary Operations

Government fiscal operations in September 2018 resulted in a deficit of Le63.90bn compared to a surplus of Le2.47bn in August 2018. The outturn in the budget deficit was mainly on account of an increase in expenditure which outpaced the marginal increase in revenues.

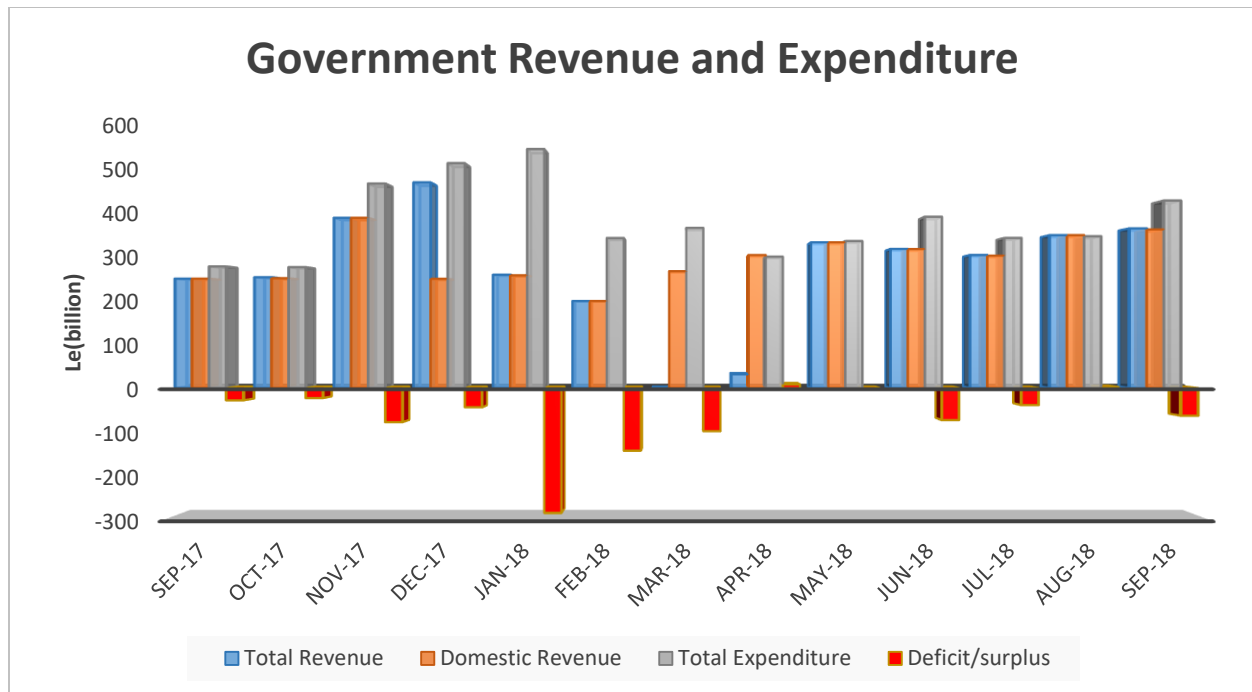
#### 3.1 Revenues

Total revenue including grants increased by 4.47 per cent to Le367.28bn, on account of the improvement in domestic revenue generation. Domestic revenue mobilization rose by 3.76 per cent to Le364.81bn driven mainly by receipts from income tax department and Customs and excise duties. Income tax receipt improved by 28.09 per cent to Le140.76bn, while receipts from customs and excise expanded by 35.26 per cent to Le77.67bn. In contrast, income from goods and services

tax declined by 1.68 per cent to Le77.26bn, while non-tax (miscellaneous) revenue fell by 34.60 per cent to Le69.11bn.

There was no budgetary support during the month.

**Figure 3: Government Revenue and Expenditure**



Source: Research Department, Bank of Sierra Leone

### 3.2 Expenditures

Total government spending surged by 23.51 per cent to Le431.18bn, driven by increased payment on goods and services and other expenditure. Spending on other expenditure expanded significantly by 117.74 per cent to Le240.25bn in the review month. However, expenditure on pensions, wages and salaries fell by 24.02 per cent to Le116.13bn. Similarly, debt services payments declined by 12.95 per cent to Le74, 80bn, of which domestic debt services amounted to Le30.07bn and foreign debt services payment amounted to Le44.73bn.

### **3.3 Financing**

The overall deficit of Le63.90bn was financed by domestic means.

### **4.0 Monetary Developments**

Monetary aggregates, namely Reserve Money (RM) and Broad Money (M2) were contractionary in September 2018, reflecting tight monetary policy stance. RM contracted by 3.51 per cent, while Broad Money (M2) contracted by 0.34 per cent.

#### **4.1 Broad Money**

Broad Money (M2) declined by 0.34 per cent in September 2018, from an expansion of 0.90 per cent in August 2018. On the asset side, the fall in M2 was driven by decrease in the Net Foreign Assets (NFA) of the banking system, which more than offset the expansion in Net Domestic Assets (NDA) of the banking system.

NFA of the banking system contracted by 5.30 per cent in September 2018, in contrast to a growth of 1.58 per cent in August 2018. This reflected fall in both NFA of BSL and NFA of Other Depository Corporations (ODCs). NFA of BSL decreased by 21.12 per cent in the review month, relative to a contraction of 27.61 per cent in the previous month, mainly as a result of the sale of foreign currency in the foreign exchange auctions market to support private sector imports, debt service payment as well as settlement of other international commitments. NFA of ODCs contracted by 3.35 per cent in September 2018, from a growth of 6.88 per cent recorded in August 2018.

NDA of the banking system increased by 1.70 per cent in September 2018, relative to a growth of 0.63 per cent in August 2018. This development mainly reflected increase in claims on government by BSL.

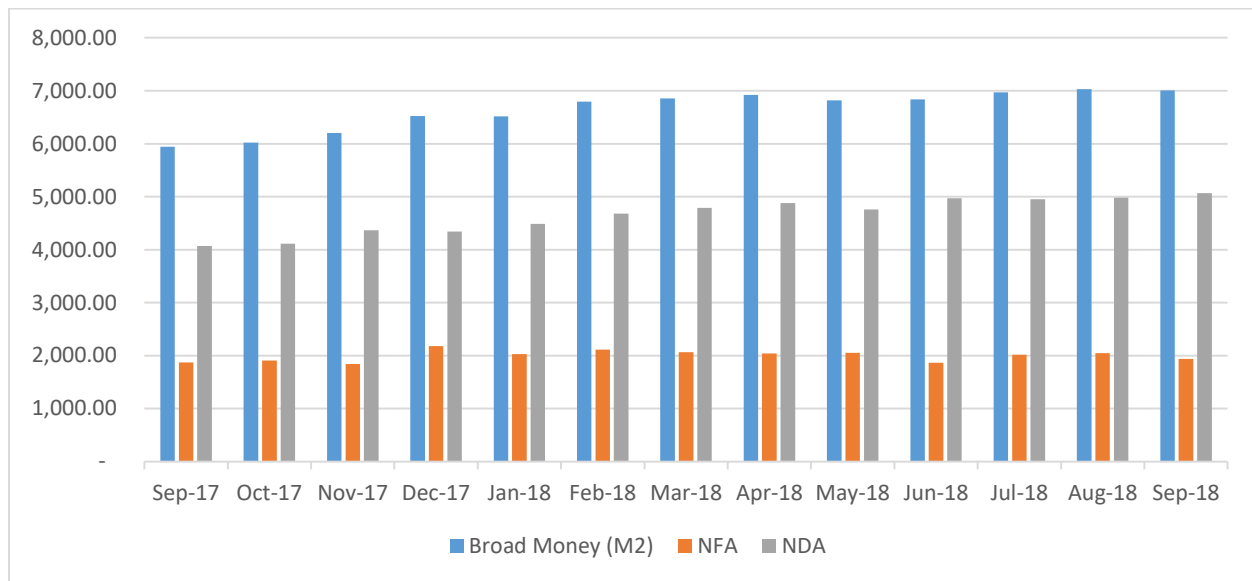
Credit to private sector by ODCs expanded by 4.04 per cent in the review period, relative to a growth of 1.27 per cent in the previous period. The growth in Private sector credit also contributed to the increase in NDA of the banking system.

**Table 1: Broad Money and its Components**

Billions of Leones	2018		Absolute Change		(% Change)	
	Aug-18	Sep-18	Aug-18	Sep-18	Aug-18	Sep-18
<b>Reserve money</b>	<b>2,093.20</b>	<b>2,019.66</b>	<b>(14.52)</b>	<b>(73.54)</b>	<b>(0.69)</b>	<b>(3.51)</b>
<b>Broad Money (M2)</b>	<b>7,031.71</b>	<b>7,008.08</b>	<b>62.98</b>	<b>(23.63)</b>	<b>0.90</b>	<b>(0.34)</b>
<b>Narrow money (M1)</b>	<b>3,092.10</b>	<b>3,054.55</b>	<b>(52.60)</b>	<b>(37.55)</b>	<b>(1.67)</b>	<b>(1.21)</b>
Currency outside banks	1,482.19	1,484.28	24.19	2.09	1.66	0.14
Demand deposit	1,609.91	1,570.27	(76.79)	(39.64)	(4.55)	(2.46)
<b>Quasi money</b>	<b>3,936.52</b>	<b>3,950.39</b>	<b>115.86</b>	<b>13.87</b>	<b>3.03</b>	<b>0.35</b>
o.w. Foreign currency deposit	1,962.41	1,904.43	94.83	(57.98)	5.08	(2.95)
Time and saving deposit	1,974.11	2,045.96	21.03	71.85	1.08	3.64
<b>Net Foreign Asset</b>	<b>2,048.78</b>	<b>1,940.24</b>	<b>31.88</b>	<b>(108.54)</b>	<b>1.58</b>	<b>(5.30)</b>
BSL	224.22	176.86	(85.53)	(47.36)	(27.61)	(21.12)
ODCs	1,824.56	1,763.38	117.41	(61.18)	6.88	(3.35)
<b>Net Domestic Assets</b>	<b>4,982.93</b>	<b>5,067.84</b>	<b>31.10</b>	<b>84.91</b>	<b>0.63</b>	<b>1.70</b>
<b>Net Domestic Credit</b>	<b>6,431.87</b>	<b>6,537.14</b>	<b>(70.18)</b>	<b>105.27</b>	<b>(1.08)</b>	<b>1.64</b>
Government (Net)	4,682.90	4,677.87	(72.47)	(5.03)	(1.52)	(0.11)
Private Sector	1,758.53	1,828.24	21.39	69.71	1.23	3.96
o.w. BSL	33.59	33.60	(0.28)	0.01	(0.83)	0.03
ODCs	1,724.94	1,794.64	21.67	69.70	1.27	4.04
Other Sectors (Net)*	(9.56)	31.03	(19.10)	40.59	(200.21)	(424.58)
<b>Other Items (Net)</b>	<b>(1,448.94)</b>	<b>(1,469.30)</b>	<b>101.28</b>	<b>(20.36)</b>	<b>(6.53)</b>	<b>1.41</b>
<b>Money Multiplier</b>	3.36	3.47				

\*Other Sectors (Net) includes State & Local, Other Financial Corporations, Public Non-Financial Corp.

Source: Research Department, Bank of Sierra Leone

**Figure 4: Trends in M2, NFA and NDA**

Source: Research Department, Bank of Sierra Leone

On the liability side, the contraction in M2 was mainly on account of a 1.21 per cent fall in Narrow Money (M1), relative to a 1.67 per cent decrease in August 2018. This was as a result of a 2.46 per cent drawdown in demand deposits. Quasi Money expanded by 0.35 per cent in the review period, from a growth of 3.03 per cent in the previous period, and was on account of a 3.64 per cent increase in Time and Saving Deposit.

## 4.2 Reserve Money

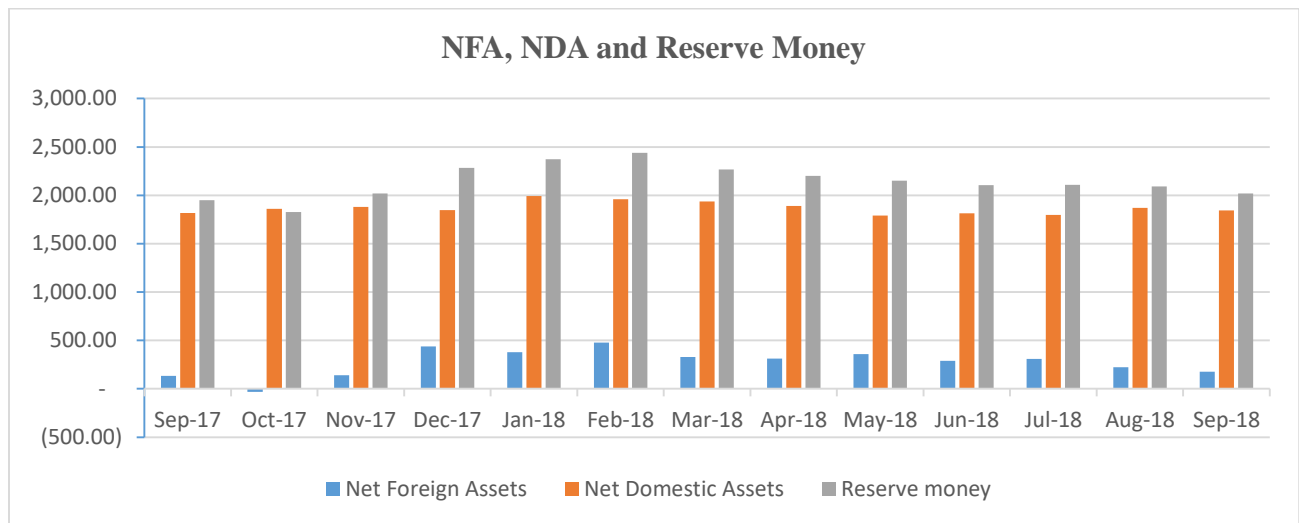
Reserve Money (RM) also contracted by 3.51 per cent in September 2018, from a decline of 0.69 per cent in August 2018.

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

Billions of Leones	2018		Absolute change		(% Change)	
	Aug-18	Sep-18	Aug-18	Sep-18	Aug-18	Sep-18
<b>1. Net Foreign Assets</b>	<b>224.22</b>	<b>176.86</b>	<b>(85.53)</b>	<b>(47.36)</b>	<b>(27.61)</b>	<b>(21.12)</b>
<b>2. Net Domestic Assets</b>	<b>1,868.98</b>	<b>1,842.80</b>	<b>71.01</b>	<b>(26.18)</b>	<b>3.95</b>	<b>(1.40)</b>
2.1 Government Borrowing (net)	2,047.03	2,082.68	(11.33)	35.65	(0.55)	1.74
o.w. 2.11 Securities	1,106.56	1,146.45	12.05	39.89	1.10	3.60
2.12 Ways and Means	89.85	107.64	(26.51)	17.79	(22.78)	19.80
2.13 GoSL/IMF Budget financing	988.95	988.95	-	-	-	-
<b>3. Reserve money</b>	<b>2,093.20</b>	<b>2,019.66</b>	<b>(14.52)</b>	<b>(73.54)</b>	<b>(0.69)</b>	<b>(3.51)</b>
o.w. 3.1 Currency issued	1,701.25	1,693.47	22.41	(7.78)	1.33	(0.46)
3.2 Bank reserves	388.87	323.05	(36.65)	(65.82)	(8.61)	(16.93)

Source: Research Department, Bank of Sierra Leone

On the liability side, the decline in RM was primarily driven by the 16.93 per cent fall in Banker`s reserves in the review period, from an 8.61 per cent decrease in the previous period. Currency issued also declined by 0.46 per cent, from a growth of 1.33 per cent during the same period under review.

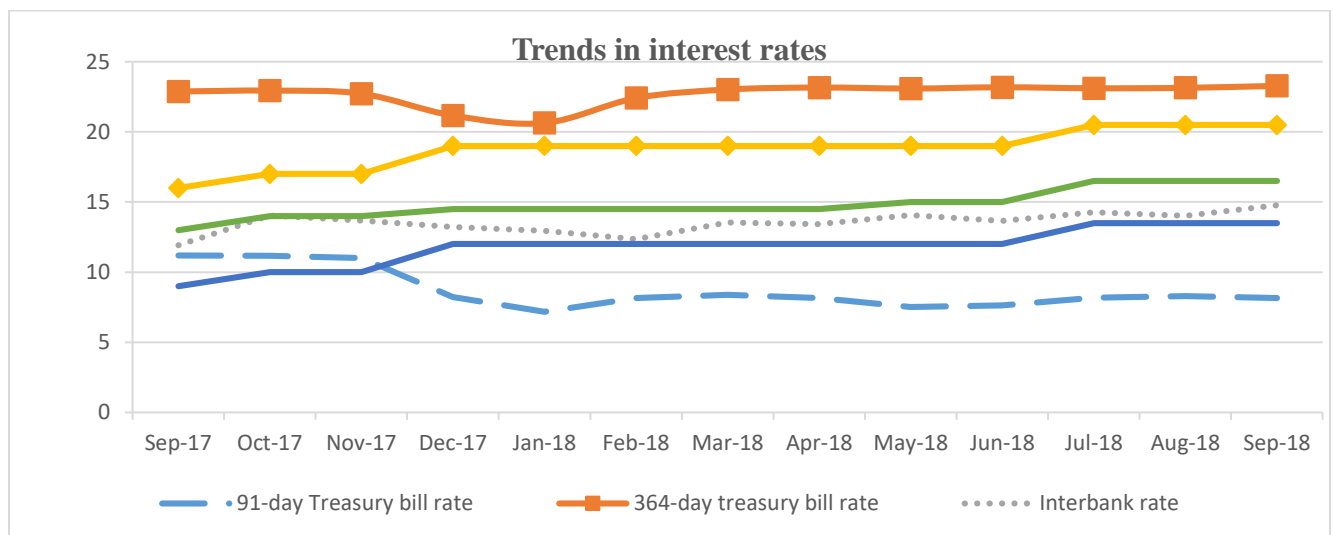
**Figure 5: Reserve Money and its Sources**

Source: Research Department, Bank of Sierra Leone

### 4.3 Interest Rates

The Monetary Policy Rate (MPR) remained unchanged at 16.50 per cent since July 2018. Similarly, the standing lending and standing deposit rates also remained unchanged with the rates at 20.50 per cent and 13.50 per cent respectively. The interbank rate increased from 14.02 per cent in August 2018, to 14.76 per cent in September 2018, but remains within the corridor. The average lending and savings deposits rates remained at 21.35 per cent and 2.38 per cent, respectively.



**Figure 6: Monetary Policy Rate and Other Market Rates**

Source: Research Department, Bank of Sierra Leone

The yields on government securities moved marginally across all tenures. The 91-days treasury bills decreased from 8.28 per cent in August 2018 to 8.16 per cent in September 2018. The 182-days also decreased from 8.09 per cent in the previous month to 8.05 per cent in the review month. However, the 364-days treasury bills increased from 14.02 per cent in August 2018 to 14.76 per cent in September 2018.

**Table 3: Interest Rates (%)**

	2017				2018								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
91-day Treasury bill rate	11.19	11.17	11.01	8.22	7.18	8.15	8.37	8.16	7.52	7.62	8.18	8.28	8.16
182-day Treasury bill rate	13.91	12.43	10.62	9.68	10.12	10.16	10.34	8.83	8.05	8.20	8.40	8.09	8.05
364-day treasury bill rate	22.89	22.95	22.73	21.17	20.64	22.42	23.03	23.17	23.1	23.19	23.12	23.15	23.29
Interbank rate	11.92	14.04	13.68	13.22	12.94	12.35	13.53	13.43	14.07	13.66	14.28	14.02	14.76
Standing Lending Facility	16.00	17.00	17.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	20.50	20.50	20.50
Standing Deposit Facility	9.00	10.00	10.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	13.50	13.50	13.50
MPR	13.00	14.00	14.00	14.50	14.50	14.50	14.50	14.5	15.00	15.00	16.50	16.50	16.50
Average Lending rate	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	22.35	23.35
	17.92	17.92	17.92	17.92	17.92	17.92	17.92	17.92	17.92	17.92	17.92	17.92	17.92
Lending (Prime)	-	-	-	-	-	-	-	-	-	-	-	-	-
	24.77	24.77	24.77	24.77	24.77	24.77	24.77	24.77	24.77	24.77	24.77	24.77	24.77
Savings deposits	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38

Source: Research Department, Bank of Sierra Leone

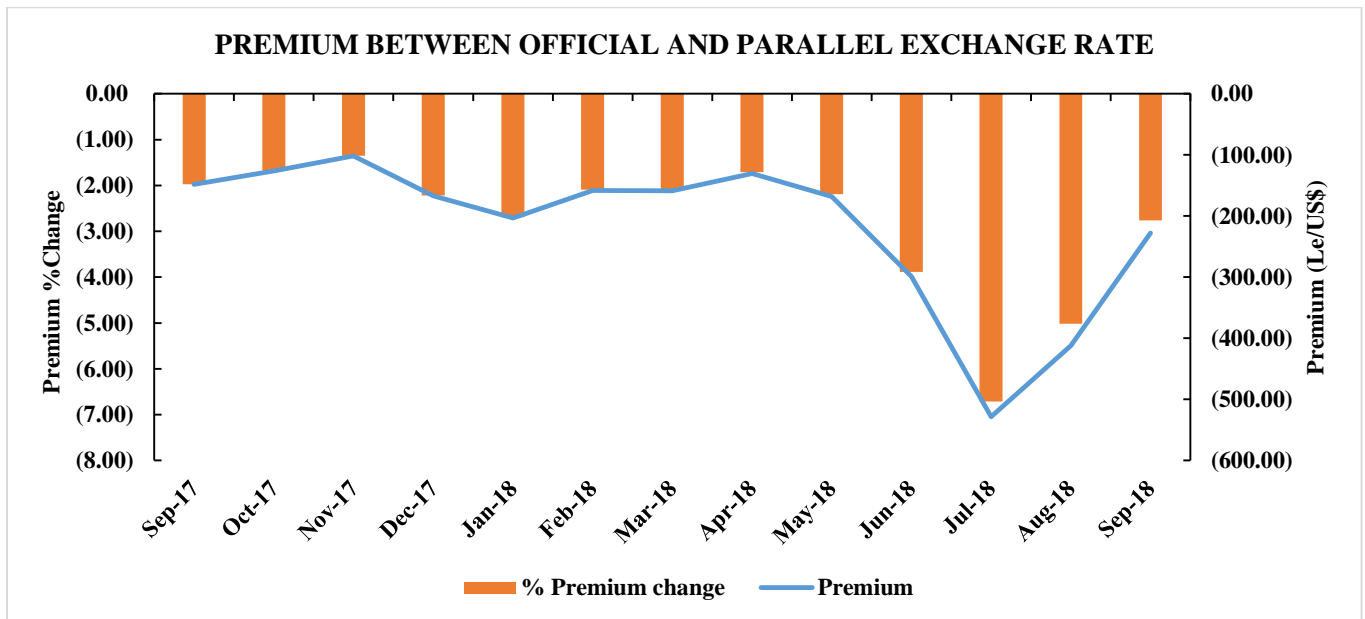
### 5.0 Exchange Rate Developments

The monthly average exchange rate movement of the Leone against the US dollar for the month of September, 2018 was mixed. On the buying front, the Leone relative to the U.S dollar, depreciated by 2.60 per cent in the bureaux market, 0.45 per cent in the official channel and 0.42 per cent in the commercial banks averaging Le8,204.17/US\$1, Le8,167.13/US\$1 and Le8,317.67/US\$1 respectively. The Parallel market rate on the other hand appreciated by 1.64 per cent averaging Le8,427.50/US\$1.

Similarly, on the selling front, the exchange rate depreciated by 2.70 per cent and 0.45 per cent in the bureaux and Official channels, averaging Le8,337.33/\$1 and Le8,332.12/\$1 respectively; while the parallel market and commercial banks rates appreciated by 1.78 per cent and 0.26 per cent, averaging Le8,527.50/US\$1 and Le8,446.45/\$1 respectively.

The premium between the Official and Parallel rates continued to narrow by 2.19 percentage point, from Le437.34/US\$1 in August 2018 to Le260.37/US\$1 in the review period.

**Figure 7: Premium between Official and Parallel Exchange Rates**



Source: Research Department, Bank of Sierra Leone

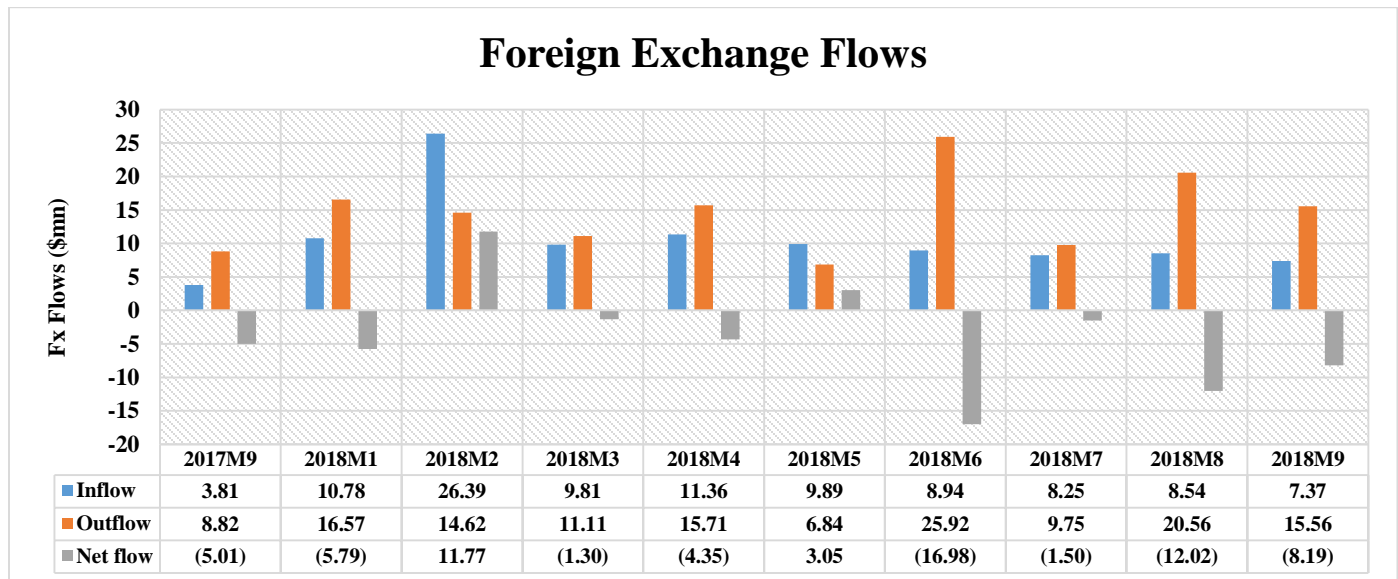
### 5.1 Gross Foreign Exchange Reserves

The stock of gross foreign exchange reserves of the Bank of Sierra Leone decreased by 1.57 per cent to US\$493.56mn in September 2018, from the US\$501.45mn recorded in the preceding period. This development is on account of a cumulative outflows of US\$15.56mn outweighing cumulative inflows of US\$7.37mn, resulting in a net outflow of US\$8.19mn.

Significant inflows during the period comprised export receipts of US\$5.48mn, of which US\$1.70mn and US\$1.39mn were royalty payments from Sierra Rutile and Koidu Holdings Co. respectively; and US\$1.32mn was receipts from timber export.

Significant outflows included Bank of Sierra Leone's sales of foreign exchange in the interbank market amounting to US\$6.75mn; government expenditure of US\$1.56mn; whereas debt service payment to various creditors amounted to US\$5.66mn.

**Figure 8: Foreign Exchange Flows**



Source: Research Department, Bank of Sierra Leone