BANK OF SIERRA LEONE

Monthly Economic Review

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BANK OF SIERRA LEONE

MONTHLY ECONOMIC REVIEW

April 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 April 2018 continued to be mixed across key sectors of the economy. Annual headline inflation increased by 0.23 percentage point to 15.14 per cent in April 2018 from 14.91 per cent in March 2018.

Central government budgetary operations on cash flow basis improved in April 2018 with an overall surplus of Le3.80bn compared to a deficit of Le80.87bn recorded in March 2018. The development was on account of improvement in revenue mobilization which surpassed the decrease in expenditure recorded during the reporting month.

Development in monetary aggregates continued to be mixed in April 2018, evidenced by the increase in Broad Money (M2) and the decrease in Reserve Money (RM). Broad money (M2) expanded by 1.01 per cent in April 2018, compared to a 0.89 per cent growth recorded in March 2018. The growth in M2 was mainly due to increase in Net Domestic Asset (NDA) of the banking system, as the Net Foreign Asset (NFA) of the banking system contracted in the review month.

During the review month the Monetary Policy Rate (MPR) remained at 14.50 per cent, while the Lending and Deposit Facility rates remained at 19.00 per cent and 12.00 per cent respectively. The interbank rate however, fell marginally to 13.43 per cent in April 2018 from 13.53 per cent in March 2018. The commercial banks` average lending and saving deposit rates remained unchanged at 21.35 per cent and 2.38 per cent respectively.

Gross Foreign Exchange Reserves of the Bank of Sierra Leone declined to US$507.24mn from US$507.79mn recorded in March 2018. The decrease in reserves was on account of the combined effects of a revaluation loss of US$4.17mn and a net inflow of US$3.61mn.

The premium between the official and parallel rates narrowed by 0.44 percentage point to Le185.34/US$1 in April 2018 from Le217.97/US$1 in March, 2018, reflecting the relative stability in the exchange rate.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

The production levels in the manufacturing sector were mixed in the review period. The production of maltina and soft drinks increased by 22.70 per cent to 20.54 thousand cartons and 6.18 per cent to 90.78 thousand crates respectively. Similarly, the production of paint, acetylene and common soap increased by 13.80 per cent to 54.34 thousand gallons, 4.63 per cent to 25.76 thousand cubic feet and 16.79 per cent to 50.98 thousand metric tons respectively. However, production of beer & stout, oxygen and confectionery declined by 15.40 per cent to 130.0 thousand cartons, 9.17 per cent to 20.90 cubic feet, and 2.07 per cent to 199.24 thousand pounds respectively.

2.1.2 Mining

Activity in the mining sector were mixed during the reporting month. Diamond production increased significantly to 82.20 thousand carats from 21.10 thousand carats recorded in March 2018. Industrial diamond amounted to 48.98 thousand carats while gem diamond was 33.22 thousand carats. Bauxite production decreased by 6.52 per cent to 185.26 thousand metric tons, while Rutile production increased by 69.18 per cent to 7.19 thousand metric tons.

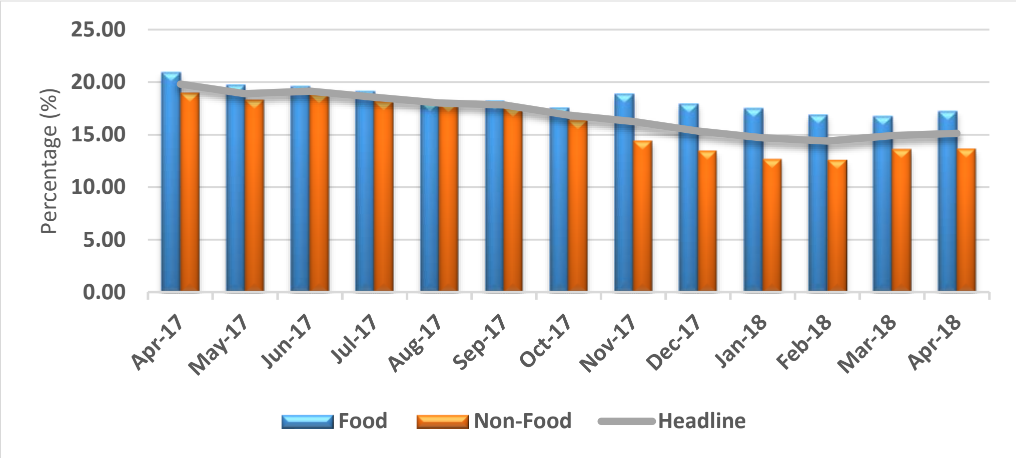
2.1.3 Electricity Generation

Electricity generation during the reporting month grew by 9.99 per cent to 26.79Gw/hr, comprising 7.18 Gw/hr from thermal plants and 9.61 Gw/hr sourced from hydro power.

2.2 Price Developments

Annual headline inflation increased by 0.23 percentage point to 15.14 per cent in April 2018 from 14.91 per cent in March 2018. The outturn in domestic prices was reflected in both food and non-food items. Non-food inflation increased moderately to 13.64 per cent in April 2018 from 13.61 per cent in March 2018, while food inflation increased to 17.21 per cent in April 2018 from 16.73 per cent in March 2018.

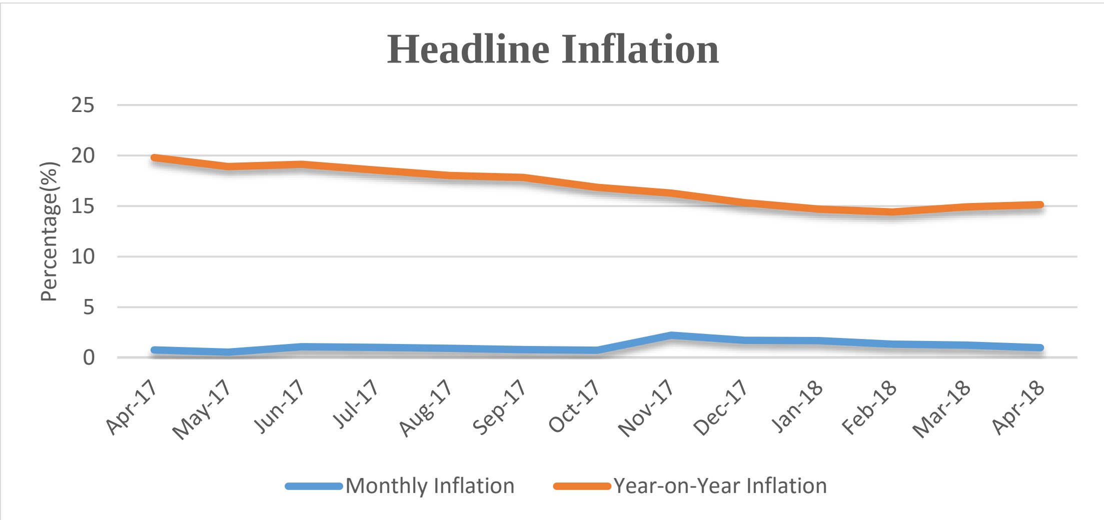
Figure 1: Headline, Food and Non-Food Inflation



Source: Statistics Sierra Leone & Bank of Sierra Leone

On a month-on-month basis, consumer price inflation moderated to 0.97 per cent in April 2018 from 1.24 per cent in March 2018.

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



Source: Statistics Sierra Leone & Bank of Sierra Leone

On regional basis, year-on-year inflation rates increased in the Eastern region and Northern region while Western Area and Southern region recorded a decline in inflation in the reporting month. Eastern region inflation increased to 16.05 per cent in April 2018 from 15.57 per cent in March 2018; Northern region inflation rose to 17.37 per cent in April 2018 from 15.88 per cent in March 2018. However, Western Area inflation dropped to 12.49 per cent in April 2018 from 12.76 per cent in March 2018; Southern region inflation fell to 17.98 per cent in April 2018 from 18.53 per cent in March 2018.

3.0 Government Budgetary Operations

Central government budgetary operations on cash flow basis improved in April 2018 with an overall surplus of Le3.80bn compared to a deficit of Le80.87bn recorded in March 2018. The development was on account of improvement in revenue mobilization and a decrease in expenditure recorded during the month.

3.1 Revenues

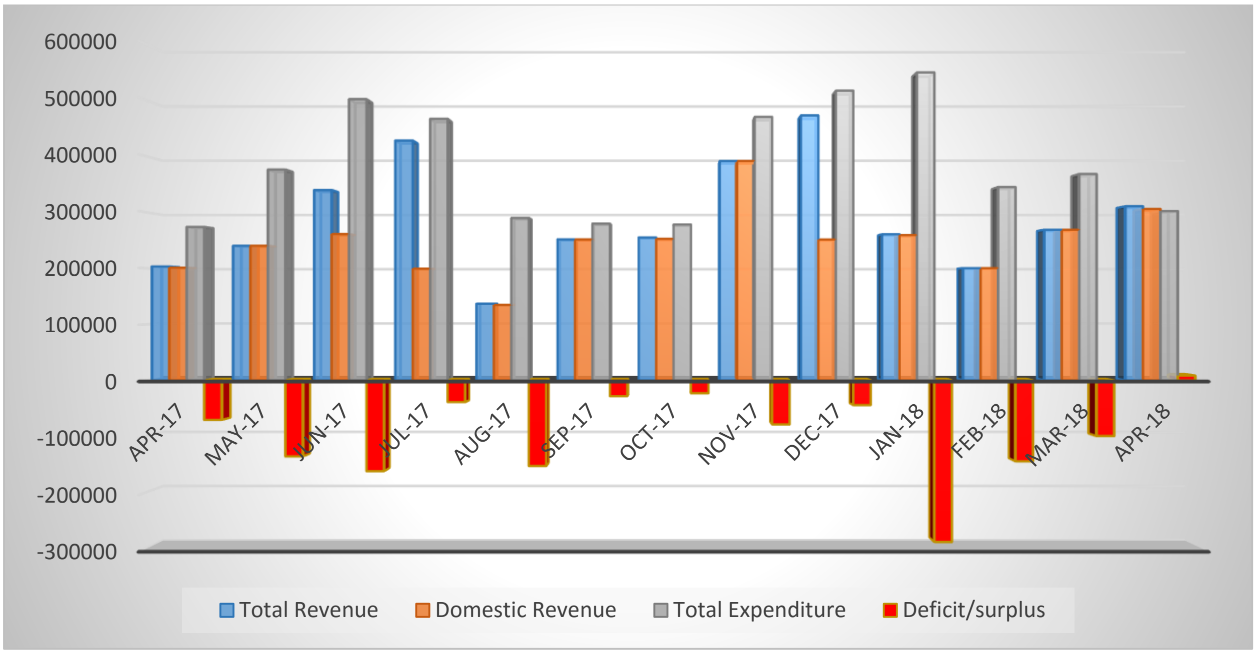
Total government revenue in April 2018 amounted to Le305.99bn against Le287.47bn recorded in the previous month, representing an increase of Le18.52bn. The increase in revenue was reflected in domestic revenue mobilization, as there was no disbursement of budgetary support during the month.

Domestic revenue increased to Le305.99bn in April 2018 from Le268.81bn in March 2018. The improvement in domestic revenue was reflected in both tax and non-tax revenues. Tax revenue mobilization improved to Le144.75bn in the reporting month from Le104.60bn in March 2018. The significant improvement in domestic tax revenue was reflected across all the major tax categories. Receipts from Goods and Services Tax increased by 34.50 per cent to Le73.35bn but was below the target of Le90.61bn. Collections from Customs and Excise receipts expanded to Le43.94bn but below the target of Le109.80bn. Receipts from non-tax revenue declined to Le43.95bn and was above the target of Le41.73bn.

3.2 Expenditures

Total government expenditure in April 2018 decreased to Le302.19bn. The decrease in total government spending was explained by other government expenditure and debt service payments, while expenditure on wages and salaries increased on other expenditure and Debt services. Other expenditures including expenses for goods and services slowed by 55.59 per cent to Le51.93bn in April 2018 from Le116.94bn in March 2018 and was below the ceiling of Le161.62bn. Debt services payment fell by 1.42 per cent to Le99.57bn in April 2018 from Le101.01bn in March 2018 and overshot the ceiling of Le76.83bn. The decrease in debt services payment was solely driven by foreign debt services payment of Le30.39bn, which was lower than the Le38.38bn paid in March 2018. Domestic debt services payment increased by 10.46 per cent to Le69.19bn in April 2018 from Le62.64bn in March 2018.

Figure 3: Government Revenue, Expenditure and Deficit



Source: Research Department, Bank of Sierra Leone

Wages & salaries expanded by 0.20 per cent to Le150.69bn in the reporting month from Le150.39bn in March 2018.

4.0 Monetary Developments

During the month of April 2018, monetary aggregates namely, Broad Money (M2) and Reserve Money (RM) exhibited mixed trends, as M2 expanded albeit marginally, whilst Reserve Money contracted (see Table 1).

4.1 Broad Money

Broad money (M2) expanded by 1.01 per cent in April 2018, compared to a 0.89 per cent growth recorded in March 2018. On the asset side, the increase in M2 was mainly due to increase in Net Domestic Asset (NDA) of the banking system, as the Net Foreign Asset (NFA) of the banking system contracted in the review month.

Net Domestic Assets (NDA) of the banking system expanded by 1.94 per cent in April 2018, compared to 2.37 per cent recorded in March 2018. This was mainly due to a Le362.49bn increase in claims on government by the Central Bank. Claims on government by the Other Depository Corporation (ODC) decreased by Le52.43bn, due to decrease in government securities holdings by the ODC. Growth in credit to the private sector also contributed to the growth in NDA of the banking system, which expanded by 1.25 per cent in April 2018, from a growth of 0.91 per cent in March 2018.

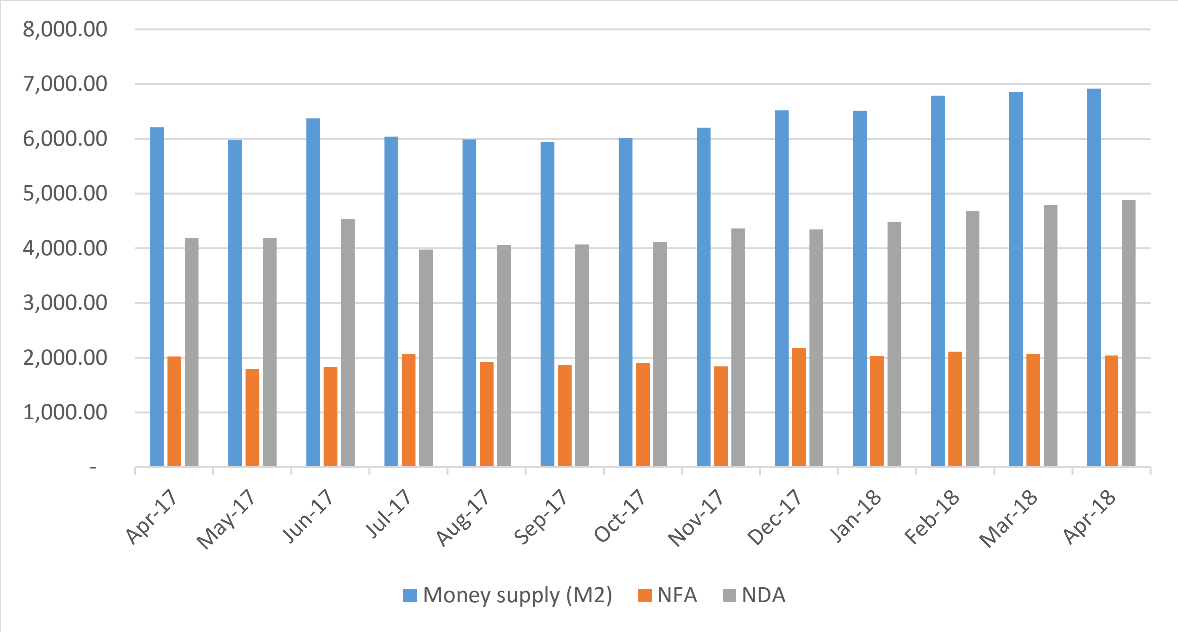
NFA of the banking system declined by 1.14 per cent in April 2018, compared to a contraction of 2.37 per cent in March 2018. The decline in NFA of the banking system, was mainly due to the settlement of foreign liabilities by the government.

Table 1: Broad Money and its Components

	2018		Absolute Change		(%) Change	
	Mar-18	**Apr-18**	**Mar-18**	**Apr-18**	**Mar-18**	**Apr-18**
Reserve money	**2,266.64**	**2,200.55**	**(170.82)**	**(66.09)**	**(7.01)**	**(2.92)**
Money supply (M2)	**6,852.34**	**6,921.72**	**60.73**	**69.38**	**0.89**	**1.01**
Narrow money (M1)	**3,255.37**	**3,238.07**	**25.10**	**(17.30)**	**0.78**	**(0.53)**
Currency outside banks	1,633.53	1,570.17	100.07	**(63.36)**	6.53	**(3.88)**
Demand deposit	1,621.84	1,667.90	(74.97)	**46.06**	(4.42)	**2.84**
Quasi money	**3,593.26**	**3,680.30**	**36.22**	**87.04**	**1.02**	**2.42**
o.w. Foreign currency deposit	1,750.47	1,806.27	33.11	**55.80**	1.93	**3.19**
Time and saving deposit	1,842.79	1,874.03	3.11	**31.24**	0.17	**1.70**
Net Foreign Asset	**2,063.04**	**2,039.61**	**(50.18)**	**(23.43)**	**(2.37)**	**(1.14)**
BSL	330.08	311.34	(146.33)	**(18.74)**	(30.72)	**(5.68)**
ODCs	1,732.96	1,728.27	96.15	**(4.69)**	5.87	**(0.27)**
Net Domestic Assets	**4,789.30**	**4,882.11**	**110.91**	**92.81**	**2.37**	**1.94**
Net Domestic Credit	**6,234.03**	**6,287.53**	**9.55**	**53.50**	**0.15**	**0.86**
Government (Net)	4,736.98	4,761.80	31.69	**24.82**	0.67	**0.52**
Private Sector	1,464.31	1,486.36	12.46	**22.05**	0.86	**1.51**
o.w. BSL	33.29	37.42	(0.41)	**4.13**	(1.22)	**12.41**
ODCs	1,431.02	1,448.94	12.87	**17.92**	0.91	**1.25**
Other Sectors (Net)*	32.74	39.37	(34.60)	**6.63**	(51.38)	**20.25**
Other Items (Net)	**(1,444.73)**	**(1,405.42)**	**101.36**	**39.31**	**(6.56)**	**(2.72)**
Money Multiplier	3.02	3.15				

Source: Research Department, BSL

Figure 4: M2 and its Sources



Source: Research Department, BSL

On the liability side, the increase in M2 was mainly a reflection of the expansion in Quasi Money by 2.42 per cent in April 2018, relative to 1.02 per cent in March 2018. This was driven by the increases in foreign currency, Time and saving deposits. Narrow Money (M1) on the other hand declined by 0.53 per cent in April 2018, compared to a 0.78 per cent growth recorded in March 2018. The fall in M1 was mainly explained by a 3.88 per cent fall in Currency outside banks.

4.2 Reserve Money

Reserve Money (RM) contracted by 2.92 per cent in April 2018 relative to the 7.01 per cent decline in March 2018. RM declined as a result of contraction in both NFA and NDA of BSL by 5.68 per cent and 2.45 per cent respectively.

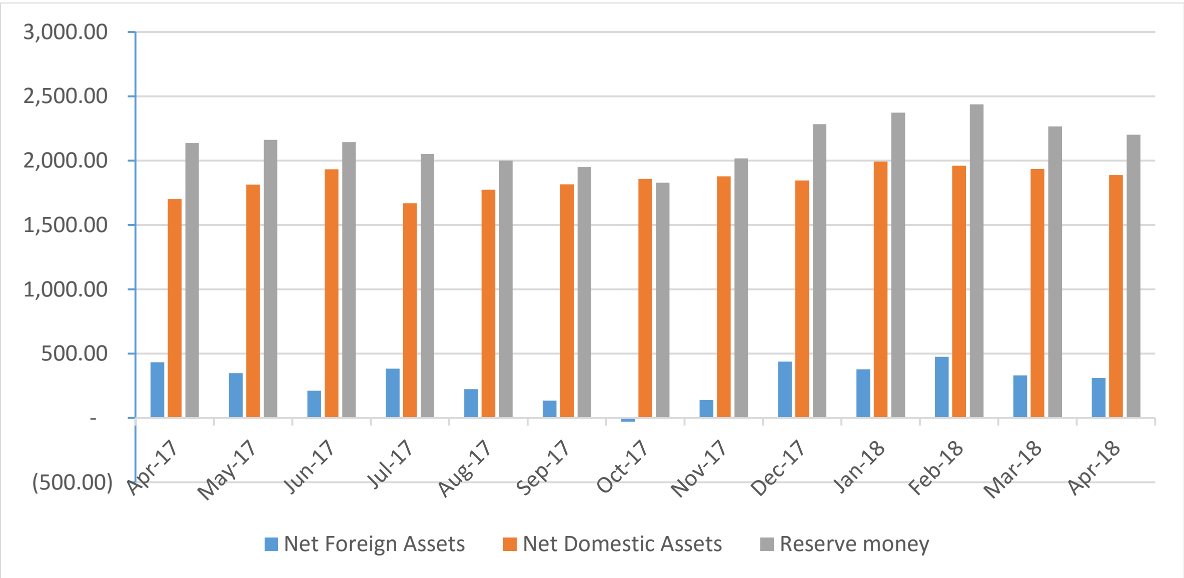
Table 2: Reserve Money and its Components

	2018		Absolute change		(%) Change	
	Mar-18	Apr-18	Mar-18	Apr-18	Mar-18	Apr-18
1. Net Foreign Assets	**330.08**	**311.34**	**(146.33)**	**(18.74)**	**(30.72)**	**(5.68)**
2. Net Domestic Assets	**1,936.56**	**1,889.21**	**(24.49)**	**(47.35)**	**(1.25)**	**(2.45)**
2.1 Government Borrowing (net)	2,127.32	2,114.25	(25.65)	(13.07)	(1.19)	(0.61)
o.w. 2.11 Securities	1,079.42	1,167.47	2.34	88.05	0.22	8.16
2.12 Ways and Means	178.55	147.28	(26.66)	(31.27)	(12.99)	(17.51)
2.13 GoSL/IMF Budget financing	988.95	988.95	-	-	-	-
3. Reserve money	**2,266.64**	**2,200.55**	**(170.82)**	**(66.09)**	**(7.01)**	**(2.92)**
o.w. 3.1 Currency issued	1,852.23	1,815.67	77.03	(36.56)	4.34	(1.97)
3.2 Bank reserves	410.70	381.53	(247.22)	(29.17)	(37.58)	(7.10)

Source: Research Department, BSL

On the liability front, the decline in RM reflected decreases in both Currency Issued and Banker`s reserves, which decreased by 1.97 per cent and 7.10 per cent respectively during the month under review.

Figure 5: Reserve Money and its Sources

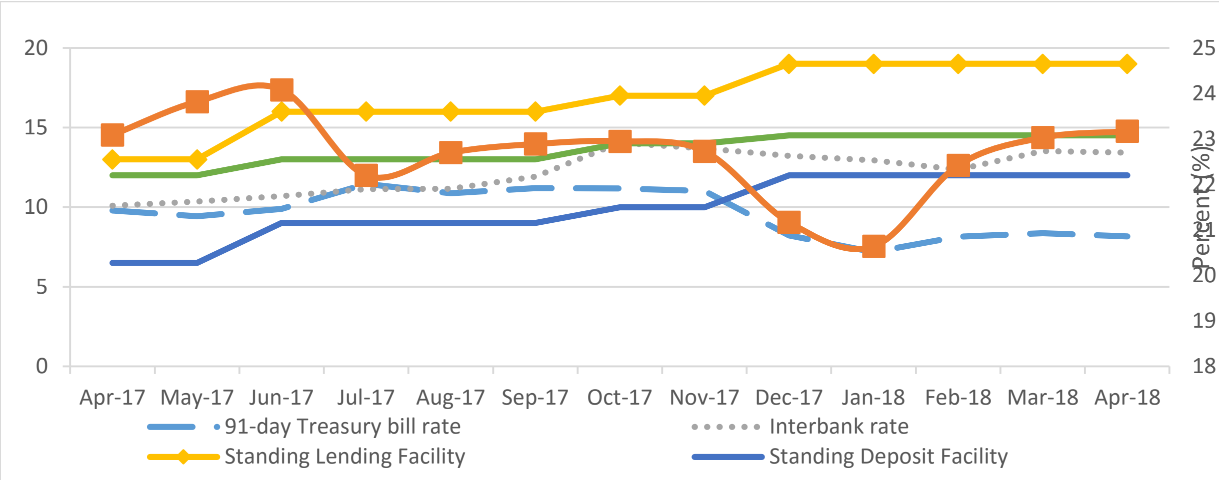


Source: Research Department, BSL

4.3 Interest Rates

During the review month the Monetary Policy Rate (MPR) remained at 14.50 per cent, while the Lending and Deposit Facility rates remained at 19.00 per cent and 12.00 per cent respectively. The interbank rate however, fell marginally to 13.43 per cent in April 2018 from 13.53 per cent in March 2018. The commercial banks` average lending and saving deposit rates remained unchanged at 21.35 per cent and 2.38 per cent respectively.

Figure 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

The yields on government treasury securities exhibited mixed trends in April 2018. The yield on the 91-day and 182-day treasury Bills fell from 8.37 per cent and 10.34 per cent in March 2018, to 8.16 per cent and 8.83 per cent in April 2018 respectively. However, the yield on the 364-day treasury bills increased slightly from 23.03 per cent to 23.17 per cent in the same period. The demand in the government treasury securities market continue to be skewed towards the 364-day treasury Bills.

Table 3: Interest Rates (%)

	2017									2018			
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
91-day Treasury bill rate	9.78	9.43	9.88	11.46	10.87	11.19	11.17	11.01	8.22	7.18	8.15	8.37	8.16
182-day Treasury bill rate	11.73	9.11	15.31	15.18	14.97	13.91	12.43	10.62	9.68	10.12	10.16	10.34	8.83
364-day treasury bill rate	23.09	23.82	24.08	22.2	22.70	22.89	22.95	22.73	21.17	20.64	22.42	23.03	23.17
Interbank rate	10.09	10.36	10.69	11.14	11.15	11.92	14.04	13.68	13.22	12.94	12.35	13.53	13.43
Standing Lending Facility	13.00	13.00	16.00	16.00	16.00	16.00	17.00	17.00	19.00	19.00	19.00	19.00	19.00
Standing Deposit Facility	6.5	6.5	9.00	9.00	9.00	9.00	10.00	10.00	12.00	12.00	12.00	12.00	12.00
MPR	12.00	12.00	13.00	13.00	13.00	13.00	14.00	14.00	14.50	14.50	14.50	14.50	14.50
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	21.35	21.35
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, BSL

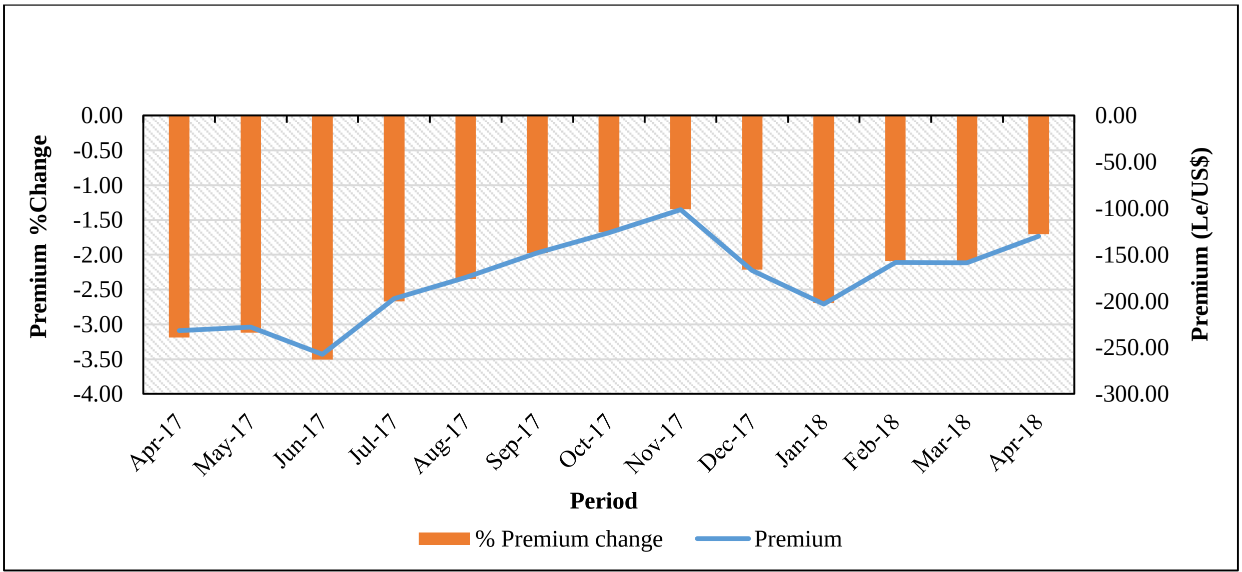
5.0 Exchange Rate Developments

The average exchange rate of the Leone against the US dollar for April 2018 exhibited mixed outcomes across all foreign exchange market segments. On the buying front, the bureaux, commercial banks and official channels depreciated by 0.55 per cent, 0.40 per cent and 0.38 per cent, averaging Le7,558.51/US$1, Le7,660.64/US$1 and Le7,564.66/US$1 respectively, while the parallel market rate appreciated by 0.05 per cent, averaging Le7, 750.00/US$1.

On the selling front, the commercial banks, bureaux, official and parallel rates depreciated moderately by 0.55 per cent, 0.39 per cent, 0.38 per cent and 0.07 per cent, averaging Le7,785.32/US$1, Le7,728.50/US$1, Le7,717.49/US$1 and Le7,792.63/US$1 respectively.

The premium between the official and parallel rates narrowed by 0.44 percentage point to Le185.34/US$1 in April 2018 from Le217.97/US$1 in March, 2018.

Figure 7: Premium between Official and Parallel Exchange Rates



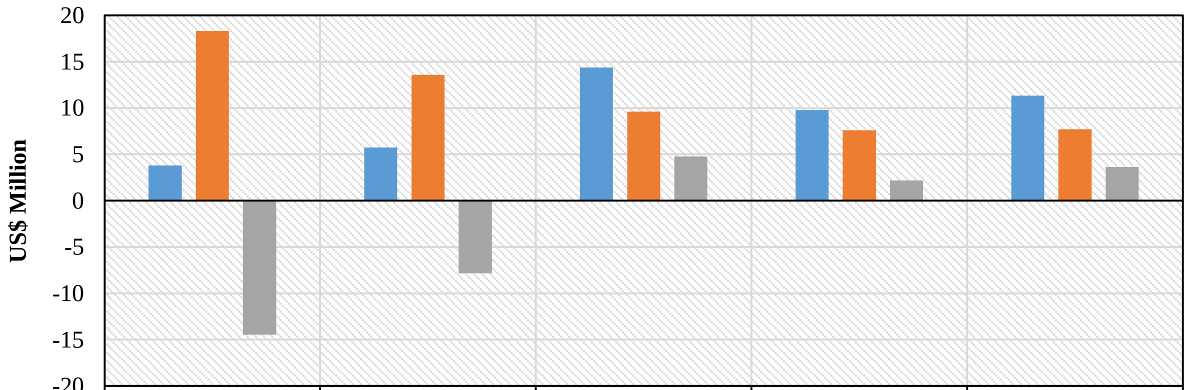
Source: Bank of Sierra Leone

6.0 Gross Foreign Exchange Reserves

Gross Foreign Exchange Reserves of the Bank of Sierra Leone declined to US$507.24mn from US$507.79mn recorded in March 2018. The decrease in reserves was on account of the combined effects of a revaluation loss of US$4.17mn and a net inflow of US$3.61mn. Significant inflows during the period comprised US$11.33mn of which US$6.25mn being export receipts, US$4.83mn was income tax from Sierra Rutile and US$3.05mn was other government receipts mainly in relation to telecom License payments.

Significant outflows comprised US$7.71mn- of which US$5.03mn being payments for goods and services and US$2.83mn was embassy/mission payments, while US$1.21mn was in respect of government travel and other government expenditures. Debt service payments to various creditors amounted to US$2.68mn.

Figure8: Foreign Exchange Flows through the Bank of Sierra Leone



	2017M4	2018M1	2018M2	2018M3	2018M4
Inflow	3.82	5.75	14.38	9.79	11.33
Outflow	18.3	13.57	9.62	7.61	7.71
Net flow	-14.48	-7.82	4.76	2.18	3.62

Source: Bank of Sierra Leone