



BANK OF SIERRA LEONE

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BANK OF SIERRA LEONE

MONTHLY ECONOMIC REVIEW

February 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
WB	-	World Bank

Highlights

Macroeconomic performance for the month of February 2018 continued to be mixed across key sectors of the economy. Inflationary pressures continued to recede, as headline inflation declined to 14.40 per cent in February 2018 from 14.69 per cent in January 2018. The decrease was attributed to both food and non-food inflation.

Government budgetary operations in February 2018 improved as the overall deficit narrowed to Le144.64bn from Le288.85bn in January 2018. The improvement was on account of slowdown in expenditures that surpassed the recorded decrease in revenues.

Monetary aggregates expanded in February, 2018, evidenced by an upward trend in both Broad Money (M2) and Reserve Money (RM). Broad Money grew by 4.21 per cent, while Reserve Money expanded by 2.76 per cent.

The Monetary policy rate, the BSL's Lending and Deposit Facility rates remained unchanged at 14.50 per cent , 19 per cent and 12 per cent respectively in February 2018. The interbank rate decreased slightly to 12.35 per cent in February 2018 from 12.94 per cent in January 2018. The commercial banks' average lending and savings deposits rates remained at 12.35 per cent and 2.38 per cent respectively. Yields across all tenors of government securities trended upwards during the review months.

Gross foreign exchange reserves of the Bank of Sierra Leone increased to US\$504.03mn in February 2018 from US\$504.03mn recorded in the preceding period. The improvement in reserves was on account of an inflows of US\$14.38mn which outpaced outflows of US\$9.62mn resulting in a net inflow of US\$4.76mn

The Leone continued to be relatively stable against the United States dollar in February 2018 but exhibited mixed outcomes across the different segments of the foreign exchange market. The official and commercial banks buying and selling rates continued to depreciate marginally, while the parallel market rate appreciated.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

Performance in the manufacturing sector were broadly positive in February 2018, as production in Beer & Stout, Maltina, Cement, Confectionary and Common Soap increased, while the production of acetylene and oxygen declined. Beer and Stout production increased by 34.68 per cent to 139.33 thousand cartons, Maltina and Cement increased by 22.76 per cent to 15.48 thousand cartons and 28.70 per cent to 27.94 thousand metric tons respectively. Common Soap production increased by 24.43 per cent to 49.61 thousand metric tons. However, Acetylene and Oxygen production fell by 5.47 per cent to 26.28 thousand cubic feet and 12.14 per cent to 24.60 thousand cubic feet respectively.

2.1.2 Mining

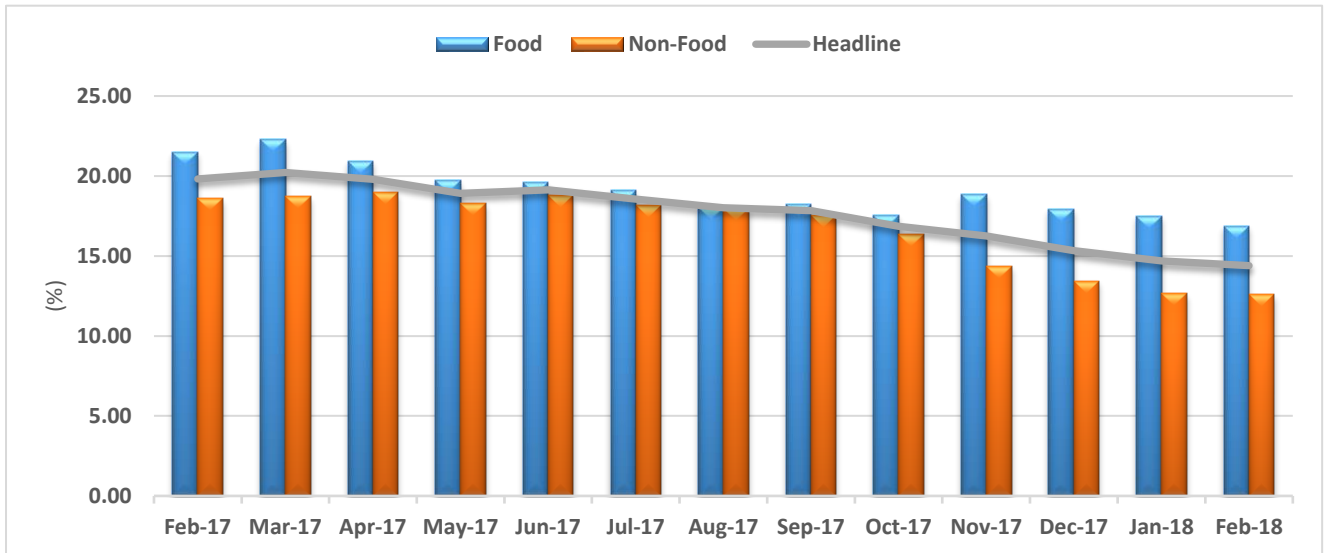
Performance in the mining sector were mixed as production of Diamond, Bauxite and Gold increased, while Rutile and Ilmenite recorded decreases. Diamond production grew by 35.95 per cent to 60.58 thousand carats. This amount included industrial diamond of 36.14 thousand carats and gem diamond of 24.44 thousand carats. Similarly, Bauxite and Gold production expanded by 0.91 per cent to 216.18 thousand metric tons and 302.79 per cent to 967.25 ounce respectively. Production of Rutile and Ilmenite decreased by 38 per cent to 7.45 thousand metric tons and 33.7 per cent to 3.34 thousand metric tons respectively.

2.1.3 Electricity Generation

Total electricity generated in February 2018 fell by 11.9 per cent to 22.79 Gw/hr, of which thermal plants accounted for 15.55GW/hr while hydro power contributed 7.24 GW/hr.

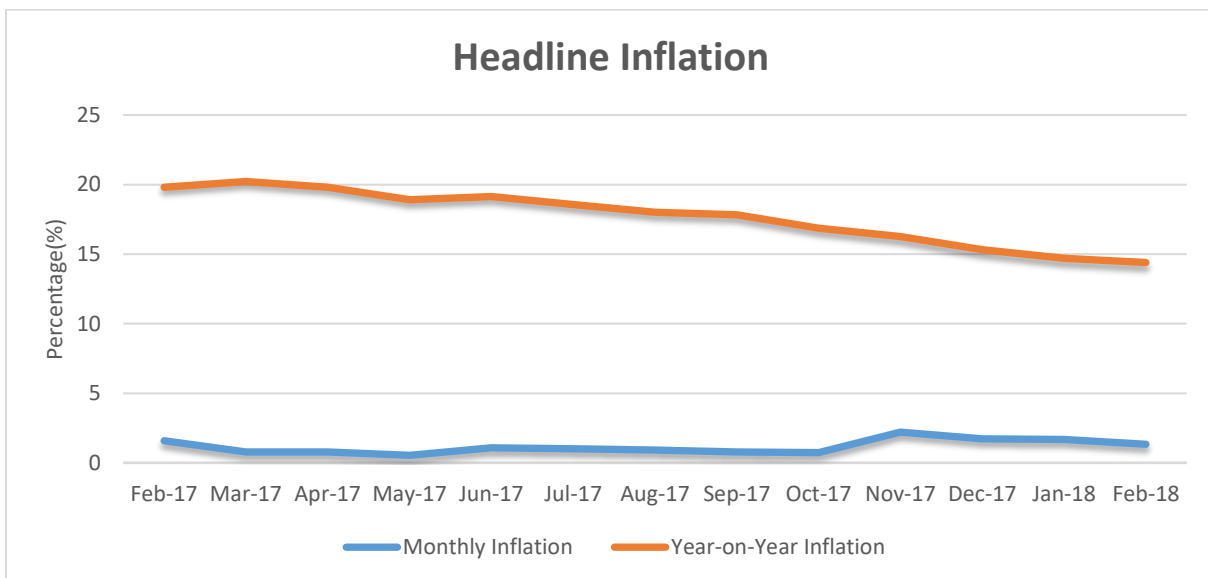
2.2 Price Developments

Inflationary pressures continued to recede as headline inflation declined to 14.40 per cent in February 2018 from 14.69 per cent in January 2018. The decrease was attributed to both food and non-food inflation. Food inflation declined to 16.88 per cent in February 2018 from 17.51 per cent in the preceding month, while non-food inflation decelerated to 12.61 per cent in February 2018 from 12.66 per cent in January 2018.

Figure 1: Headline, Food and Non-Food Inflation

Source: SSL & Research Department, Bank of Sierra Leone

On a month-on-month basis, inflation was 1.33 per cent in February 2018, lower than 1.68 per cent in January 2018. The development in prices during the month was reflected in increases in food and non-alcoholic beverages, clothing and footwear, housing, water, electricity, gas and other fuels, health and restaurant and hotels.

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

Source: SSL & Research Department, Bank of Sierra Leone

On regional basis, year-on-year inflation decelerated across the regions except southern region. Eastern region inflation fell to 14.96 per cent in February 2018 from 15.22 per cent in January 2018; Western region dropped to 12.62 per cent in February 2018 from 13.25 per cent January 2018; Northern region declined to 14.88 per cent in February 2018 from 15.20 per cent January 2018; while Southern region inflation increased to 17.79 per cent in February 2018 from 17.18 in January 2018.

3.0 Government Budgetary Operations

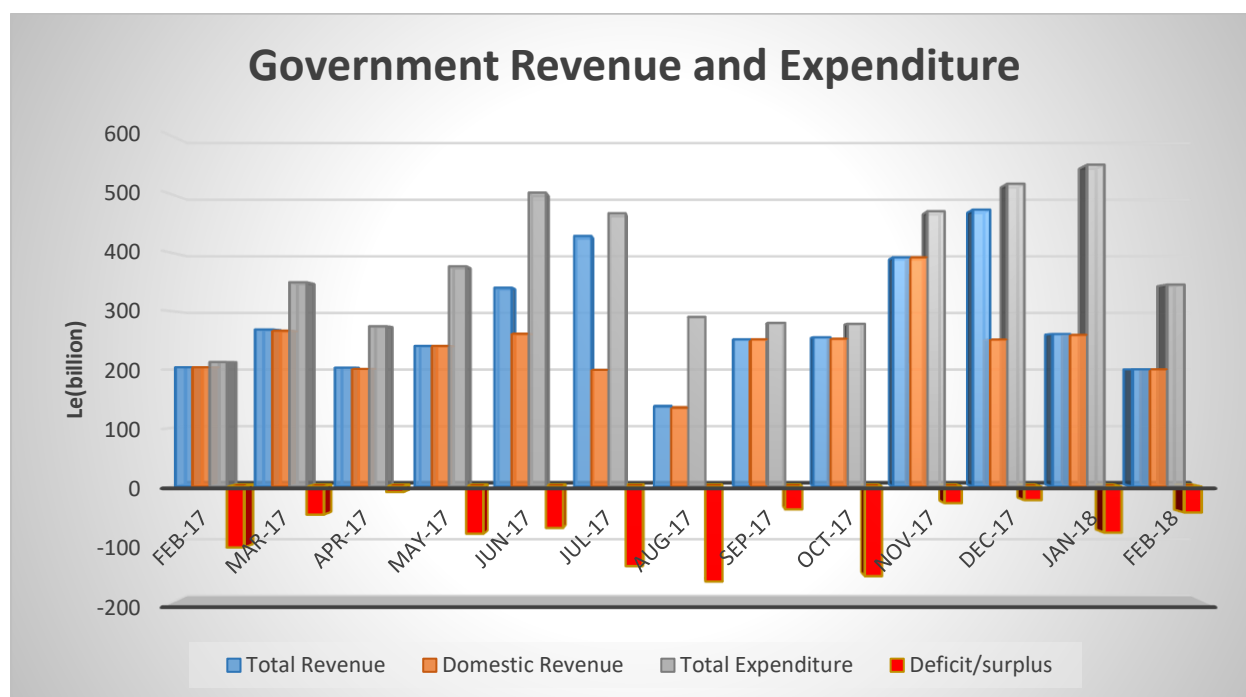
Government budgetary operations in February 2018 improved as the overall deficit narrowed to Le144.64bn from Le288.85bn in January 2018. The improvement was on account of slowdown in expenditures that surpassed the recorded decrease in revenues.

3.1 Revenues

Total revenue contracted by 22.72 per cent to Le200.41bn and was below the budgeted target of Le220.65bn. The decline in overall revenue was explained by decrease in domestic revenue mobilization coupled with the non-disbursement of foreign grants. Receipts from Customs & Excise decreased by 42.44 per cent to Le28.62bn, Income tax declined by 20.11 per cent to Le59.55bn, and Goods and Services tax declined by 35.83 per cent to Le48.15bn. Non-tax revenue however increased by 6.74 per cent to Le64.09bn.

3.2 Expenditures

Total expenditure declined by 37.22 per cent to Le345.05bn, but overshoot the ceiling of Le307.39bn. The decrease in total expenditure was reflected in both wages and salaries and goods and services. Payments for wages and salaries dropped by 40.94 per cent to Le96.86bn and was 38.04 per cent less than the targeted ceiling of Le156.34bn. Expenses for goods and services fell by 38.4 per cent to Le197.26bn. However, debt service payments increased by 17.59 per cent to Le76.94bn and exceeded the projected ceiling of Le28.84bn.

Figure 3: Government Revenue and Expenditure

Source: Research Department, Bank of Sierra Leone

3.3 Financing

The overall deficit of Le144.64bn was financed entirely from domestic resources.

4.0 Monetary Developments

Monetary aggregates expanded in February, 2018 evidenced by the upward trend in both Broad Money (M2) and Reserve Money (RM).

4.1 Broad Money (M2)

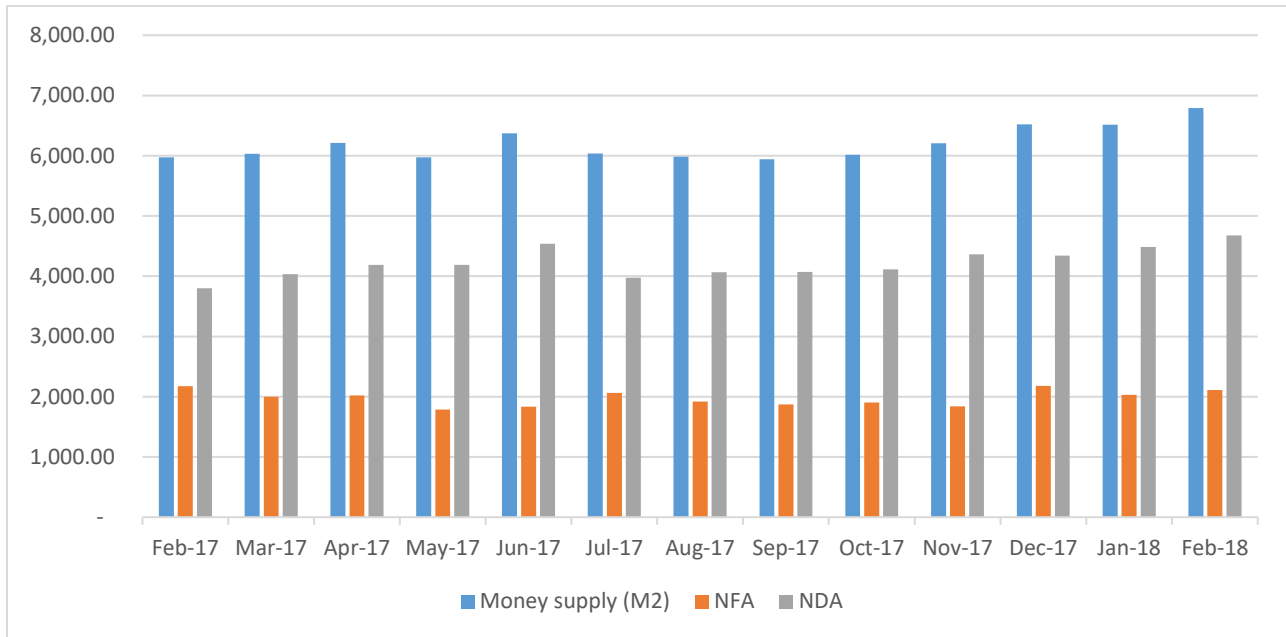
Broad money (M2) grew by 4.21 per cent in February 2018, relative to 0.08 per cent contraction recorded in January 2018. The growth in M2 was reflected in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system. NFA increased by 4.04 per cent in February 2018 against a decrease of 6.74 per cent in January 2018. The increase in NFA reflected inflows on interest income on BSL's overseas investment, BSL's Swap transactions with commercial banks, receipts of funds from Islamic Development Bank and increase in liquid local asset ratio (LLAR) by commercial banks with the BSL. NDA expanded by 4.29 per cent from an increase of 3.26 per cent in the preceding month. The development was on account of increases in Government borrowing from commercial banks to finance Government deficit. Credit to the Private Sector by commercial banks dropped by 0.07 per cent in February 2018 from an expansion of 2.99 per cent in January 2018.

Table 1: Broad Money and its components

	2018		Absolute Change		(% Change)	
	Jan-18	Feb-18	Jan-18	Feb-18	Jan-18	Feb-18
Reserve money	2,372.09	2,437.46	87.83	65.37	3.85	2.76
Money supply (M2)	6,517.09	6,791.61	(5.23)	274.52	(0.08)	4.21
Narrow money (M1)	3,100.89	3,230.27	56.85	129.38	1.87	4.17
Currency outside banks	1,467.28	1,533.46	(63.18)	66.18	(4.13)	4.51
Demand deposit	1,633.61	1,696.81	120.03	63.20	7.93	3.87
Quasi money	3,412.51	3,557.04	(65.20)	144.53	(1.87)	4.24
o.w. Foreign currency deposit	1,665.40	1,717.36	(85.61)	51.96	(4.89)	3.12
Time and saving deposit	1,747.11	1,839.68	20.41	92.57	1.18	5.30
Net Foreign Asset	2,031.20	2,113.22	(146.84)	82.02	(6.74)	4.04
BSL	378.85	476.41	(59.61)	97.56	(13.60)	25.75
ODCs	1,652.35	1,636.81	(87.23)	(15.54)	(5.01)	(0.94)
Net Domestic Assets	4,485.89	4,678.39	141.61	192.50	3.26	4.29
Net Domestic Credit	6,043.59	6,224.48	172.57	180.89	2.94	2.99
Government (Net)	4,533.06	4,705.29	158.86	172.23	3.63	3.80
Private Sector	1,453.44	1,451.85	40.45	(1.59)	2.86	(0.11)
o.w. BSL	34.27	33.70	(0.73)	(0.57)	(2.09)	(1.66)
ODCs	1,419.17	1,418.15	41.18	(1.02)	2.99	(0.07)
Other Sectors (Net)*	57.09	67.34	(26.74)	10.25	(31.90)	17.95
Other Items (Net)	(1,557.70)	(1,546.09)	(30.96)	11.61	2.03	(0.75)
Money Multiplier	2.75	2.79				

Source: Research Department, BSL

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

Figure 4: M2 and its Sources

Source: Research Department, BSL

On the liability side, the growth in M2 was a reflection of increases in both Narrow Money and Quasi Money. Currency outside banks and Demand Deposits expanded by 4.51 per cent and 3.87 per cent in February 2018 from a decrease of 4.13 per cent and a growth of 7.93 per cent in January 2018 respectively. Foreign currency deposits expanded by 3.12 per cent in February 2018 relative to a decrease of 4.89 per cent in January 2018. Time and Savings Deposits also expanded by 5.30 per cent from an increase of 1.18 per cent.

4.2 Reserve Money (RM)

Reserve Money (RM) expanded by 2.76 per cent in February 2018 relative to the growth of 3.85 per cent in January 2018. The increase in RM was mainly explained by the 25.75 per cent expansion in Net Foreign Assets (NFA) which was more than the 1.61 per cent contraction of Net Domestic Assets (NDA) of the Central Bank.

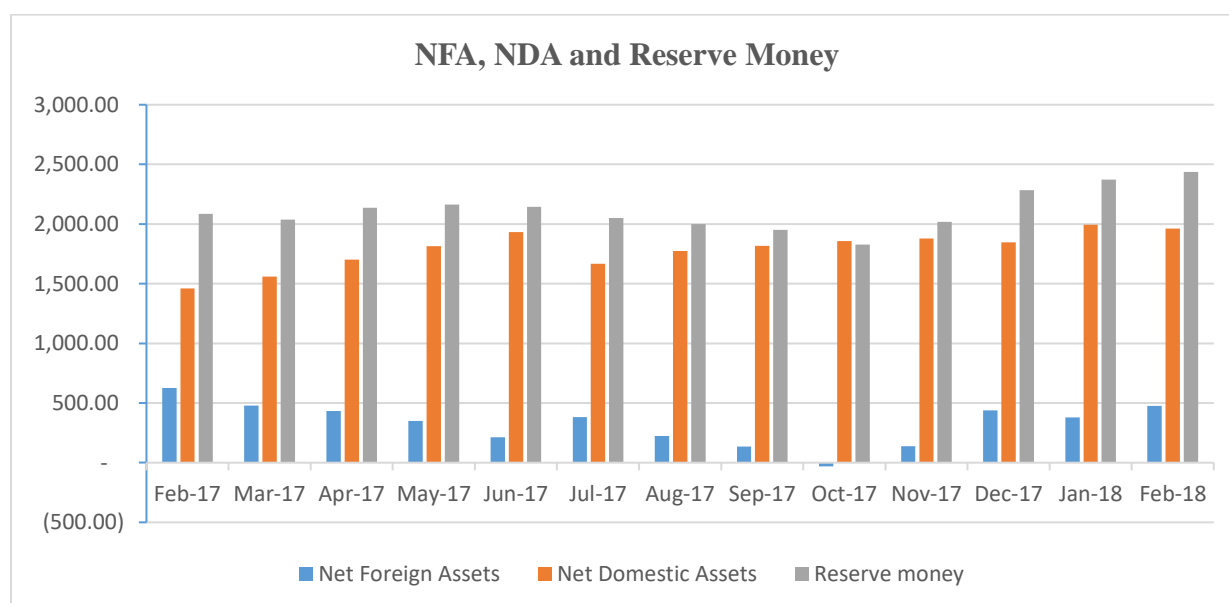
Table 2: Reserve Money and its components

	2018		Absolute change		(% Change	
	Jan-18	Feb-18	Jan-18	Feb-18	Jan-18	Feb-18
1. Net Foreign Assets	378.85	476.41	(59.61)	97.56	(13.60)	25.75
2. Net Domestic Assets	1,993.24	1,961.05	147.44	(32.19)	7.99	(1.61)
2.1 Government Borrowing (net)	2,185.05	2,152.97	102.94	(32.08)	4.94	(1.47)
o.w. 2.11 Securities	1,141.58	1,077.08	(45.12)	(64.50)	(3.80)	(5.65)
2.12 Ways and Means	229.36	205.21	109.34	(24.15)	91.10	(10.53)
2.13 GoSL/IMF Budget financing	988.95	988.95	-	-	-	-
3. Reserve money	2,372.09	2,437.46	87.83	65.37	3.85	2.76
o.w. 3.1 Currency issued	1,700.68	1,775.20	(63.78)	74.52	(3.61)	4.38
3.2 Bank reserves	667.73	657.92	148.49	(9.81)	28.60	(1.47)

Source: Research Department, BSL

The increase in NFA of the Central Bank was due to SWAP transaction and accrued interest on investment by the Central bank. The contraction in NDA was explained by the decline in Government borrowing from the Central Bank.

From the liability side, RM grew on account of an increase in Currency issued which more than offset the contraction in Bank reserves. Currency issued grew by 4.38 per cent while Bank reserves contracted by 1.47 per cent.

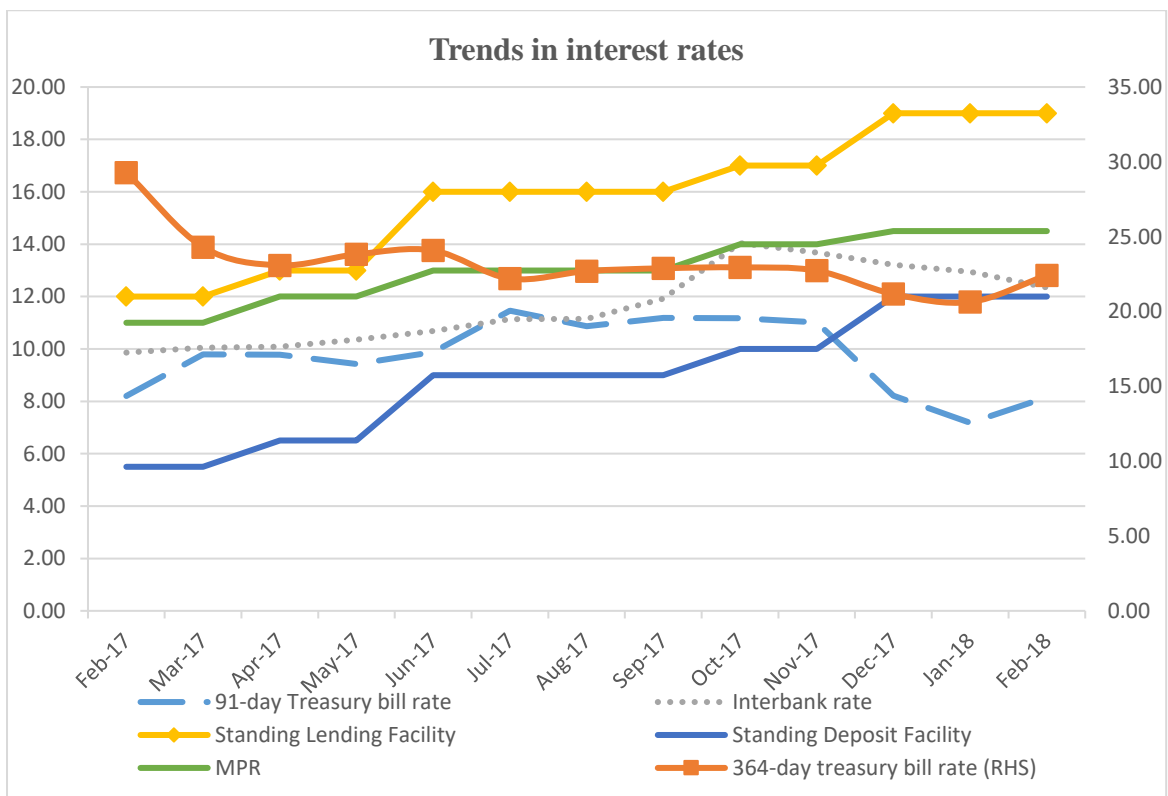
Figure 5: Reserve Money and its Sources

Source: Research Department, BSL

4.3 Interest rates

The monetary policy rate remained unchanged at 14.50 per cent. The band around the policy rate also remained unchanged with the Lending facility rate at 19.00 per cent and the Deposit Facility rate at 12 per cent. The interbank rate declined to 12.35 per cent in February 2018 from 12.94 per cent in January 2018. The average commercial banks' 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, BSL

Yields across all tenors of government securities trended upwards during the review months. The yields on the 91-days treasury bills increased from 7.18 per cent in January 2018 to 8.15 per cent in February 2018. The 182-days treasury bills also expanded from 10.12 per cent in the preceding month to 10.16 per cent in February 2018. Also, the 364-days treasury bills increased from 20.64 per cent to 22.42 per cent.

Table 3: Interest Rates (%)

	2017											2018	
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
91-day Treasury bill rate	8.20	9.79	9.78	9.43	9.88	11.46	10.87	11.19	11.17	11.01	8.22	7.18	8.15
182-day Treasury bill rate	15.51	13.54	11.73	9.11	15.31	15.18	14.97	13.91	12.43	10.62	9.68	10.12	10.16
364-day treasury bill rate	29.29	24.31	23.09	23.82	24.08	22.2	22.70	22.89	22.95	22.73	21.17	20.64	22.42
Interbank rate	9.86	10.05	10.09	10.36	10.69	11.14	11.15	11.92	14.04	13.68	13.22	12.94	12.35
Standing Lending Facility	12.00	12.00	13.00	13.00	16.00	16.00	16.00	16.00	17.00	17.00	19.00	19.00	19.00
Standing Deposit Facility	5.50	5.50	6.5	6.5	9.00	9.00	9.00	9.00	10.00	10.00	12.00	12.00	12.00
MPR	11.00	11.00	12.00	12.00	13.00	13.00	13.00	13.00	14.00	14.00	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

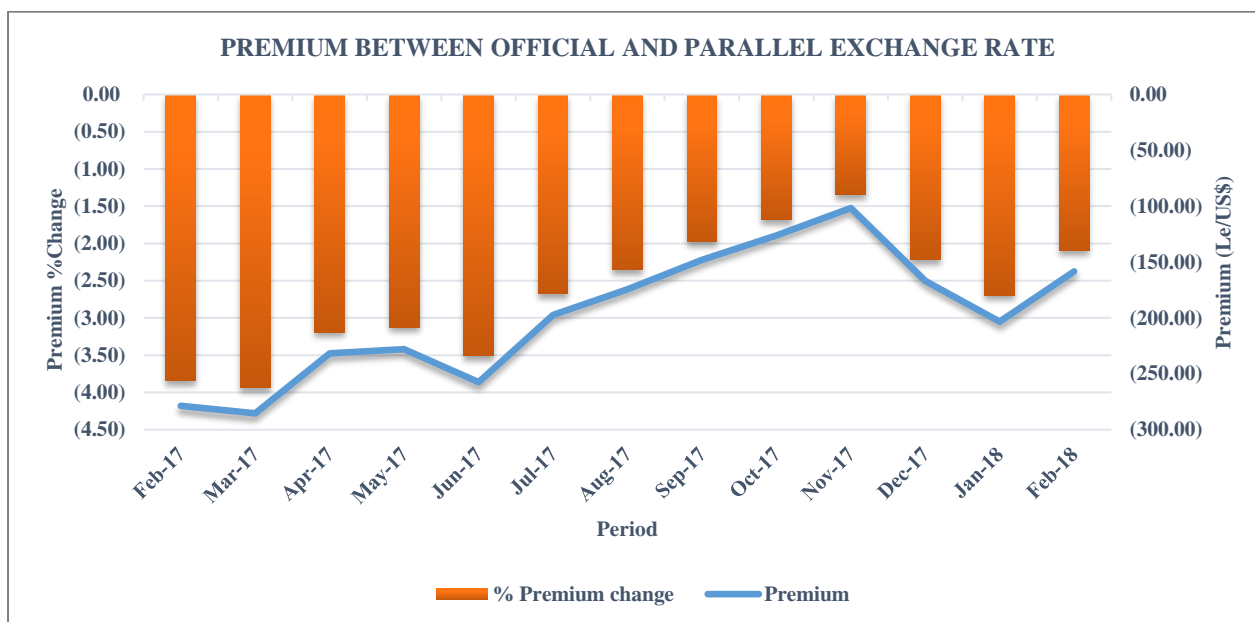
Source: Research Department, BSL

5.0 Exchange Rate Developments

The monthly average exchange rate movement of the Leone to the US dollar continued to be mixed across all the different segments of the foreign exchange markets in February 2018. On the buying front, the official, bureaux and commercial banks average exchange rates depreciated by 0.47 per cent, 0.46 per cent, and 0.42 per cent averaging Le7,499.40/US\$1, Le7,490.75/US\$1 and Le7,595.06/US\$1 respectively; while the parallel market rate appreciated slightly by 0.18 per cent averaging Le7,700.00/US\$1

Similarly, on the selling front the commercial banks, bureaux and official average exchange rates depreciated by 0.53 per cent, 0.47 per cent and 0.47 per cent averaging Le7,708.52/US\$1, Le7,676.06/US\$1 and Le7,650.90/US\$1 respectively; while the parallel market rate again, appreciated marginally by 0.08 per cent averaging Le7,766.84/US\$1.

The premium between the official and the parallel rates narrowed by 0.66 percentage point to Le200.60/US\$1 in the reporting month from Le249.03/US\$1 in the preceding month

Figure 7: Premium between Official and Parallel Exchange Rate

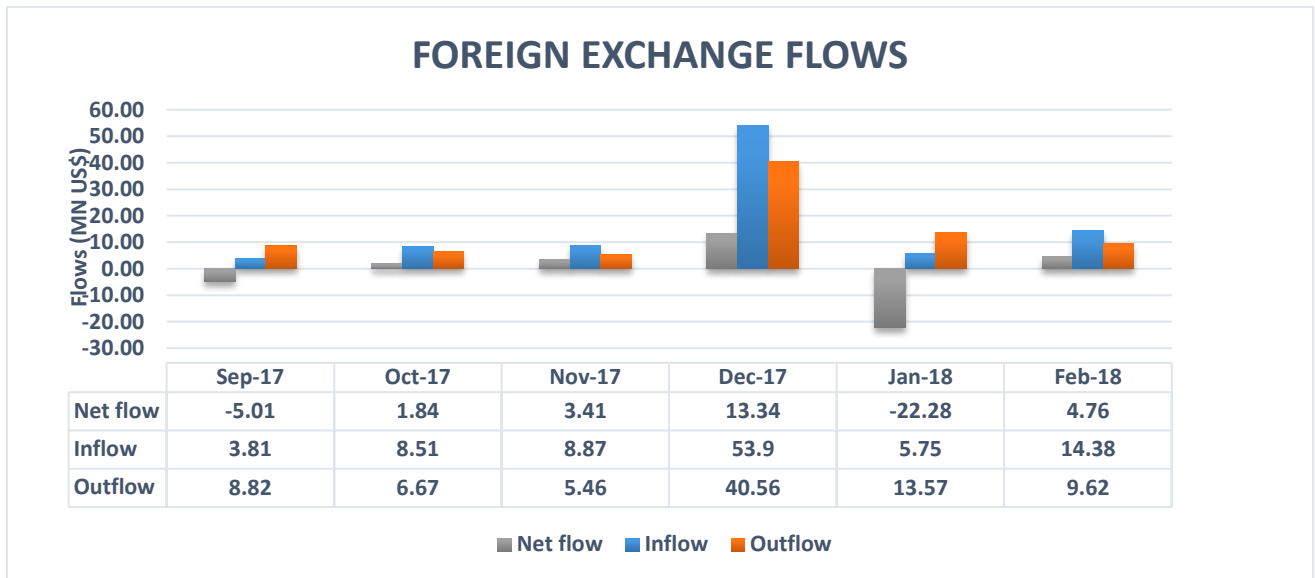
Source: Bank of Sierra Leone

6.0 Gross Foreign Exchange Reserves

Gross foreign exchange reserves of the Bank of Sierra Leone increase to US\$504.03mn in February 2018 from US\$504.03mn recorded in the preceding period. The improvement in reserves was on account of an inflows of US\$14.38mn which outpaced outflows of US\$9.62mn resulting in a net inflow of US\$4.76mn

Significant inflows during the period included: US\$5.10mn being concession fees in favor of the National Commission for Privatization; US\$4.32mn being receipts from exports, of which, 1.99mn was in respect of fishing royalty/license and US\$1.40mn was royalty payment from Sierra Rutile; Other government receipts amounted to US\$2.59mn and Aid disbursement totaling US\$1.77mn .

Significant outflows comprised US\$7.34mn being payments for goods and services of which government travel and other government expenses amounted to US\$4.0mn, Embassy/mission payments was US\$1.65mn, while Debt service payments for the period amounted to US\$2.28mn.

Figure 8: Foreign Exchange Flows through the Bank of Sierra Leone

Source: Bank of Sierra Leone