



**BANK OF SIERRA LEONE**

**Monthly Economic  
Review**

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Review**

**January 2019**

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**Address:** Siaka Stevens Street, P O Box 30, Freetown, Sierra Leone.

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**ABBREVIATIONS**

BSL	-	Bank of Sierra Leone
DFR	-	Deposit Facility Rate
GoSL	-	Government of Sierra Leone
IMF	-	International Monetary Fund
LFR	-	Lending Facility Rate
M2	-	Broad Money
MER	-	Monthly Economic Review
MPR	-	Monetary Policy Rate
NDA	-	Net Domestic Assets
NFA	-	Net Foreign Assets
ODC	-	Other Depository Corporation
RM	-	Reserve Money
Y-o-Y	-	Year-on-Year

## **1.0 Highlights**

The manufacturing sector continued to record mixed performance in January 2019. Developments in the mining sector was broadly favorable, as all sub-sectors recorded increases in output.

Inflationary pressure continued to decelerate by 38 basis points to 17.08 per cent in January 2019 from 17.46 per cent in December 2018, driven mainly by decline in food prices, as non-food inflation continued to increase reflecting the pass-through effect of exchange rate pressure on domestic prices.

Fiscal operations in January 2019 resulted in a deficit of Le218.83bn compared to a surplus of Le17.44bn in December 2018 on account of a short fall in revenue generation.

There was no policy change in January 2019, as the monetary policy rate remained unchanged at 16.50 per cent. The interbank rate increased from 16.62 per cent in December 2018 to 17.08 per cent during January 2019. The commercial banks' average lending and savings deposits rates remained unchanged at 21.35 per cent and 2.38 per cent respectively.

Trends in monetary aggregates for January 2019 were mixed, as Broad Money (M2) expanded, while Reserve Money (RM) contracted. Broad Money (M2) expanded by 1.73 per cent in January 2019, which was lower than the 3.34 per cent growth recorded in December 2018. Reserve Money (RM), on the other hand, contracted by 2.62 per cent in January 2019, relative to the 12.07 per cent expansion recorded in December 2018.

The gross foreign exchange reserves of the Bank of Sierra Leone as at end-January 2019 stood at US\$500.28mn, declining by 0.49 per cent below US\$502.78mn recorded in December 2018. This development reflected an increase in outflows of US\$15.62mn when compared to inflows of US\$10.23mn, resulting in a net outflow of US\$5.39mn.

In January 2019, the average exchange rate of the Leone relative to the US dollar depreciated in all foreign exchange markets. The premium between the Official and Parallel rates narrowed by 0.09 percentage points to Le247.13/US\$1 in January, 2019 from Le254.51/US\$1 in December, 2018.

## **2.0 Production and Prices**

### **2.1 Production**

#### **2.1.1 Manufacturing**

The manufacturing sector recorded mixed performance during the period. Soft drinks production expanded by 2.04 per cent to 99.86 thousand crates; paint rose by 1.16 per cent to 66.54 thousand gallons; acetylene production improved by 4.19 per cent to 24.64 thousand cubic feet; confectionery production increased by 28.46 per cent to 205.65 thousand pounds, while common soap production rose by 19.06 per cent to 54.60 thousand metric tons.

On the contrary, output for beer and stout dropped by 5.87 per cent to 187.98 thousand cartons; maltina production contracted by 7.93 per cent to 25.65 thousand cartons; production levels for cement and oxygen fell by 5.79 per cent to 23.43 thousand metric tons and 13.83 per cent to 22.68 thousand cubic feet respectively.

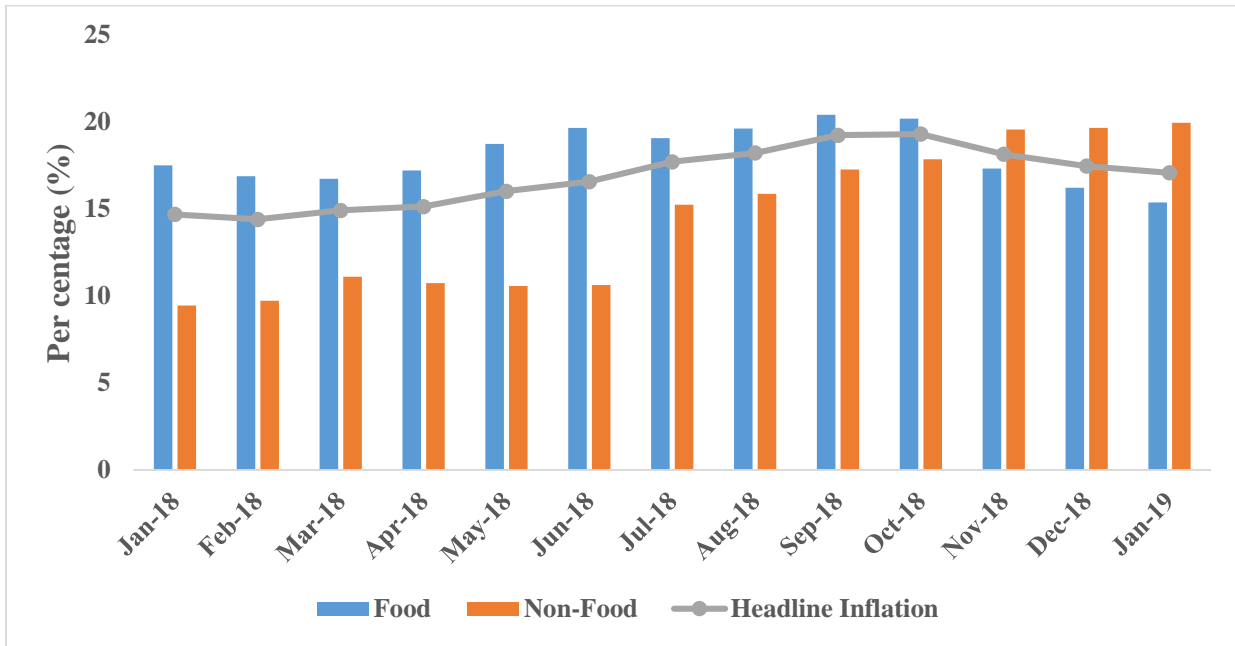
#### **2.1.2 Mining Sector**

Developments in the mining sector improved as diamond production rose by 5.18 per cent to 67.47 thousand carats, which comprised of industrial diamond amounting to 32.42 thousand carats and gem diamond amounting to 35.05 thousand carats. Bauxite production increased by 27.33 per cent to 194.83 thousand metric tons, rutile rose by 22.52 per cent to 12.15 thousand metric tons, while ilmenite edged up by 8.44 per cent to 5.12 thousand metric tons. Similarly, gold production expanded by 55.92 per cent to 388.00 ounces.

### **2.2 Price Development**

Headline inflation moderated by 38 basis points to 17.08 per cent in January 2019 from 17.46 per cent in December 2018, driven mainly by decline in food prices. Food inflation decreased to 15.36 per cent in January 2019 from 16.22 per cent in December 2018, while non-food inflation increased to 19.95 per cent in January 2019 from 19.65 per cent in December 2018 due to the pass-through effect of exchange rate pressure on domestic prices.

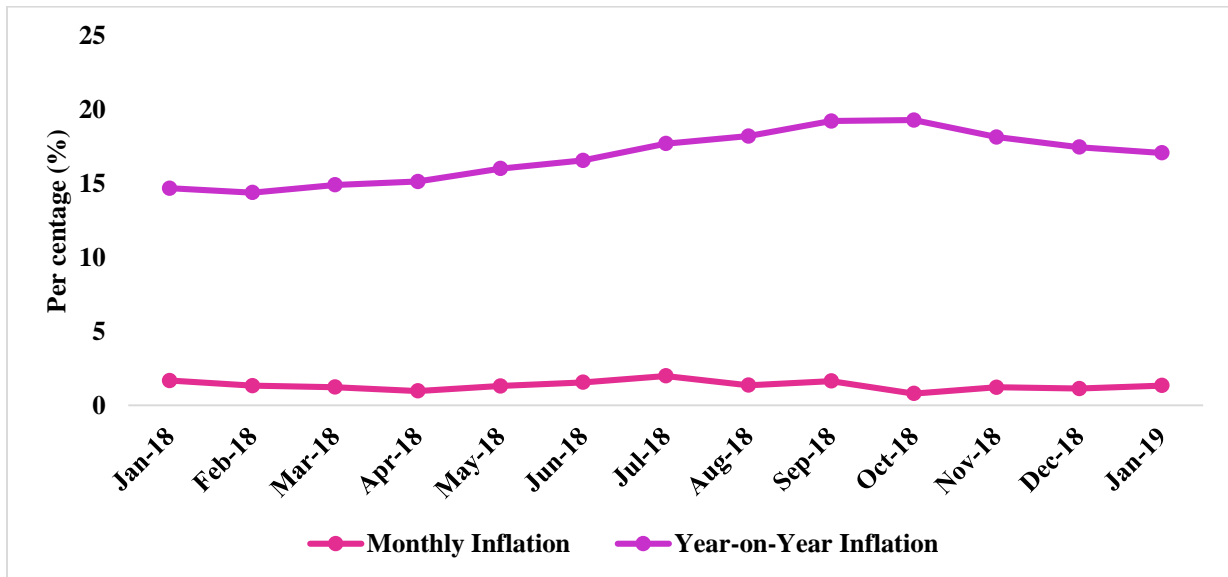
**Figure 1: Headline, Food and Non-Food Inflation**



Source: Research Department, BSL

On a monthly basis, consumer price inflation rose to 1.14 per cent in January 2019 from 1.02 per cent in December 2018.

**Figure 2: Headline Inflation-Year on Year (Y-o-Y) and Monthly Inflation Change**



Source: Research Department, BSL



On regional basis, year-on-year inflation increased in the western area and eastern region, while in the southern and northern regions, inflation decrease in January 2019. Western Area inflation rose to 16.32 per cent in January 2019 from 16.28 per cent in December 2018; Eastern region inflation rate trended upward to 17.50 per cent in January 2019 from 17.43 per cent in December 2018; Southern region inflation rate declined to 17.51 per cent in January 2019 from 18.41 per cent in December 2018; and Northern region inflation rate fell to 17.84 per cent in January 2019 from 18.90 per cent in December 2018.

### **3.0 Government Budgetary Operations**

Fiscal operations in January 2019 resulted in a deficit of Le218.83bn compared to a surplus of Le17.44bn recorded in December 2018 and a targeted surplus of Le88.88bn. The deficit emanated from government expenditure outweighing revenue.

### **3.1 Revenues**

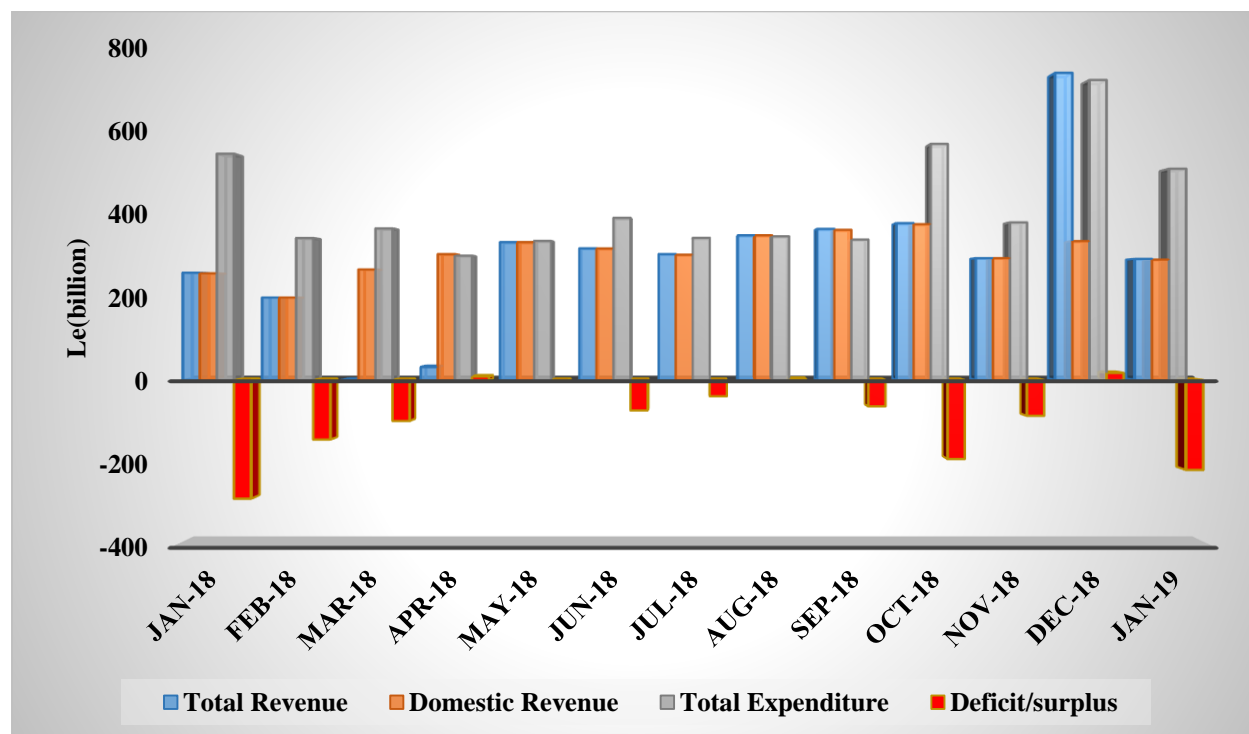
Total revenue declined by 60.56 per cent to Le294.18bn, mainly accounted for by a shortfall in domestic revenue.

Domestic revenue fell by 13.29 per cent to Le292.58bn, explained by the drop in collection from income tax and non-tax revenue.

Income tax collection decreased by 31.07 per cent to Le102.38bn and non-tax revenue dropped by 14.60 per cent to Le58.75bn. However, customs and excise duties increased by 4.36 per cent to Le51.24bn, and goods and services tax receipts improved by 12.95 per cent to Le80.21bn.

External grants fell sharply to Le1.60bn from Le408.46bn.

**Figure 3: Government Revenue and Expenditure**



Source: Research Department, BSL

### 3.2 Expenditures

Government expenditure contracted by 29.58 per cent to Le513.01bn due to declines in all its components. Expenditure on pension, wages and salaries fell by 35.43 per cent to Le149.16bn. Other expenditure on goods and services dropped by 28.03 per cent to Le257.69bn. Similarly, debt services payment decreased by 23.97 per cent to Le106.16bn, of which, domestic debt and foreign debt service payments amounted to Le78.81bn and Le27.35bn respectively.

### Financing

The overall fiscal deficit of Le218.83bn was financed exclusively from domestic sources.

#### **4.0 Monetary Developments**

During January 2019 trends in monetary aggregates were mixed, as Broad Money (M2) expanded, while Reserve Money (RM) contracted.

#### **4.1 Broad Money**

Broad Money (M2) expanded by 1.73 per cent during January 2019, which was lower than the 3.34 per cent growth recorded during December 2018. The development was due to growth in Net Domestic Assets (NDA) of the banking system which was however moderated by contraction in the Net Foreign Assets (NFA) of the banking system.

NDA of the banking system expanded by 2.85 per cent in January 2019, compared with the 4.26 per cent increase recorded in the previous month. The growth in NDA was as a reflection of increase in holdings of treasury securities by commercial banks coupled with growth in Credit to Private Sector. Credit to the Private Sector by commercial banks improved in January 2019, recording an increase of 5.29 per cent, compared with the 0.07 per cent growth recorded in December 2018.

NFA of the banking system contracted by 1.44 per cent, compared with the 0.83 per cent increase in the preceding period. The decline in NFA was mainly attributed to the increase in liabilities to non-residents which was a reflection of depreciation of the exchange rate.

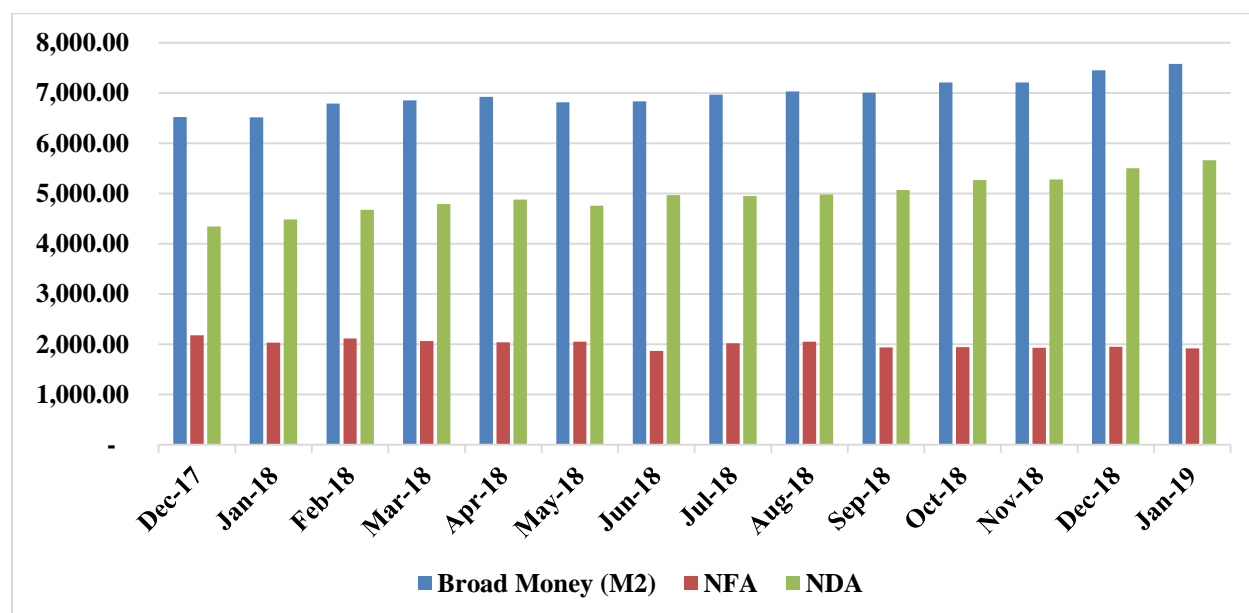
**Table 1: Broad Money and its Components**

Billions of Leones	2018/2019		Absolute Change		(% Change	
	Dec-18	Jan-19	Dec-18	Jan-19	Dec-18	Jan-19
Reserve money	2,433.26	2,369.41	262.04	(63.85)	12.07	(2.62)
Broad Money (M2)	7,451.88	7,580.84	240.77	128.96	3.34	1.73
Narrow money (M1)	3,409.47	3,439.02	276.43	29.55	8.82	0.8
Currency outside banks	1,732.14	1,638.00	166.85	(94.14)	10.66	(5.43)
Demand deposit	1,677.33	1,801.02	109.58	123.69	6.99	7.37
Quasi money	4,039.45	4,135.99	(35.53)	96.54	(0.87)	2.39
o.w. Foreign currency deposit	2,057.20	2,097.14	(66.54)	39.94	(3.13)	1.94
Time and saving deposit	1,982.25	2,038.85	31.01	56.60	1.59	2.86
Net Foreign Asset	1,949.10	1,920.96	16.01	(28.14)	0.83	(1.44)
BSL	142.83	115.85	142.38	(26.98)	31,886.41	(18.89)
ODCs	1,806.27	1,805.11	(126.37)	(1.16)	(6.54)	(0.06)
Net Domestic Assets	5,502.78	5,659.88	224.76	157.10	4.26	2.85
Net Domestic Credit	7,146.86	7,525.89	203.07	379.03	2.92	5.30
Government (Net)	5,297.97	5,634.04	234.09	336.07	4.62	6.34
Private Sector	1,845.40	1,941.17	1.13	95.77	0.06	5.19
o.w. BSL	33.48	33.49	(0.08)	0.01	(0.24)	0.03
ODCs	1,811.92	1,907.68	1.21	95.76	0.07	5.29
Other Sectors (Net)*	3.49	(49.32)	(32.15)	(52.81)	(90.21)	(1,513.18)
Other Items (Net)	(1,644.08)	(1,866.01)	21.69	(221.93)	(1.30)	13.50
Money Multiplier	3.31	3.20				

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

Source: Research Department, BSL

**Figure 4: Broad Money**



Source: Research Department, BSL

M2 growth also reflected increases in both Quasi Money and Narrow Money (M1) during January 2019. Quasi Money expanded by 2.39 per cent relative to the 0.87 per cent contraction recorded in December 2018. The increase in Quasi money was due to increases in both Time and Savings Deposits and Foreign currency deposits increased by 2.86 per cent and 1.94 per cent respectively. M1 expanded by 0.87 per cent compared with the 8.82 per cent growth during December 2018. M1 growth was as a result of a 7.37 per cent increase in Demand Deposits, which is more than the 5.43 per cent decline in Currency outside banks.

#### **4.2 Reserve Money**

Reserve Money (RM) contracted by 2.62 per cent during January 2019, relative to the 12.07 per cent expansion recorded in the preceding month. This development was as a result of decreases in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the Central Bank. NFA contracted by 18.89 per cent due to increase in BSL foreign liability to the IMF attributed to exchange rate depreciation. NDA decreased by 1.61 per cent as a result of 8.97 per cent decrease in holdings of Government securities, coupled with the 8.10 per cent decline in utilization of Ways and Means Advances.

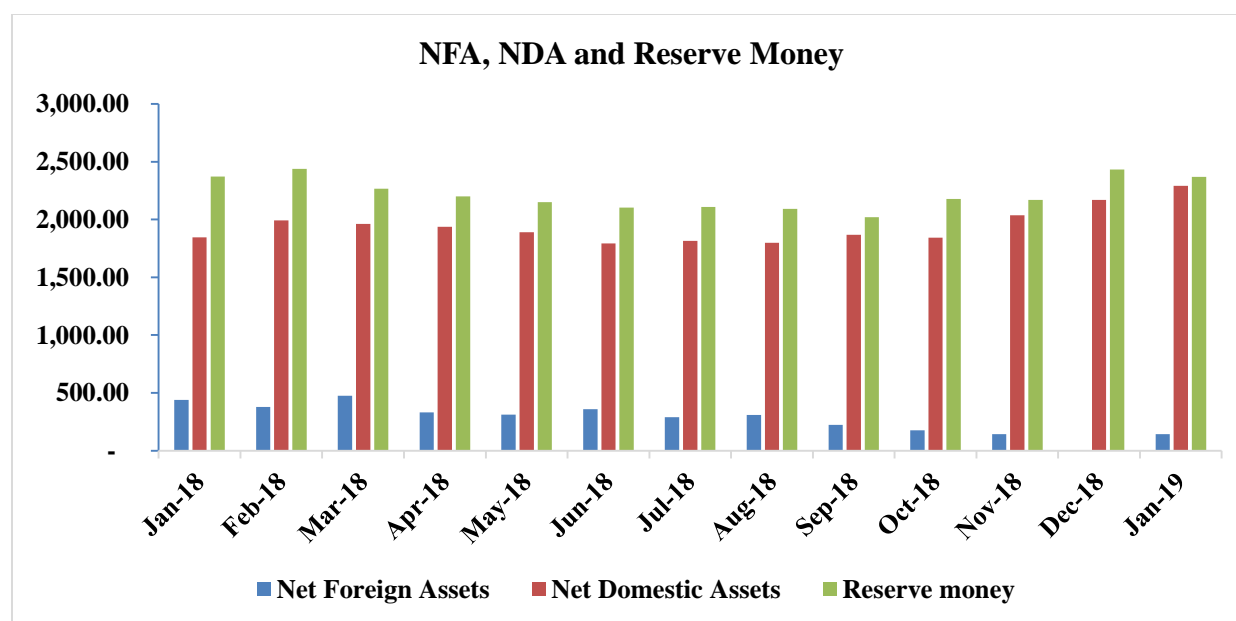
**Table 2: Reserve Money and its Components**

Billions of Leones	2018/2019		Absolute change		(% ) Change	
	Dec-18	Jan-19	Dec-18	Jan-19	Dec-18	Jan-19c
<b>1. Net Foreign Assets</b>	142.83	115.85	<b>142.38</b>	<b>(26.98)</b>	<b>31,886.41</b>	<b>(18.89)</b>
<b>2. Net Domestic Assets</b>	<b>2,290.43</b>	<b>2,253.56</b>	<b>119.66</b>	<b>(36.87)</b>	<b>5.51</b>	<b>(1.61)</b>
2.1 Government Borrowing (net)	2,611.55	2,591.27	134.91	(20.28)	5.45	(0.78)
o.w. 2.11 Securities	1,347.42	1,226.53	29.89	(120.89)	2.27	(8.97)
2.12 Ways and Means	75.23	69.14	(15.77)	(6.09)	(17.33)	(8.10)
2.13 GoSL/IMF Budget financing	1,418.56	1,418.56	182.59	-	14.77	-
<b>3. Reserve money</b>	<b>2,433.26</b>	<b>2,369.41</b>	<b>262.04</b>	<b>(63.85)</b>	<b>12.07</b>	<b>(2.62)</b>
o.w. 3.1 Currency issued	1,983.64	1,859.03	245.51	(124.61)	14.12	(6.28)
3.2 Bank reserves	446.67	504.53	16.67	57.86	3.88	12.95

Source: Research Department, BSL

The contraction in RM also reflected decrease in currency issued by 6.28 per cent compared with the 14.12 per cent growth during December 2018. On the other hand, Bankers' reserves increased by 12.95 per cent compared with the 3.88 per cent growth during December 2018.

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

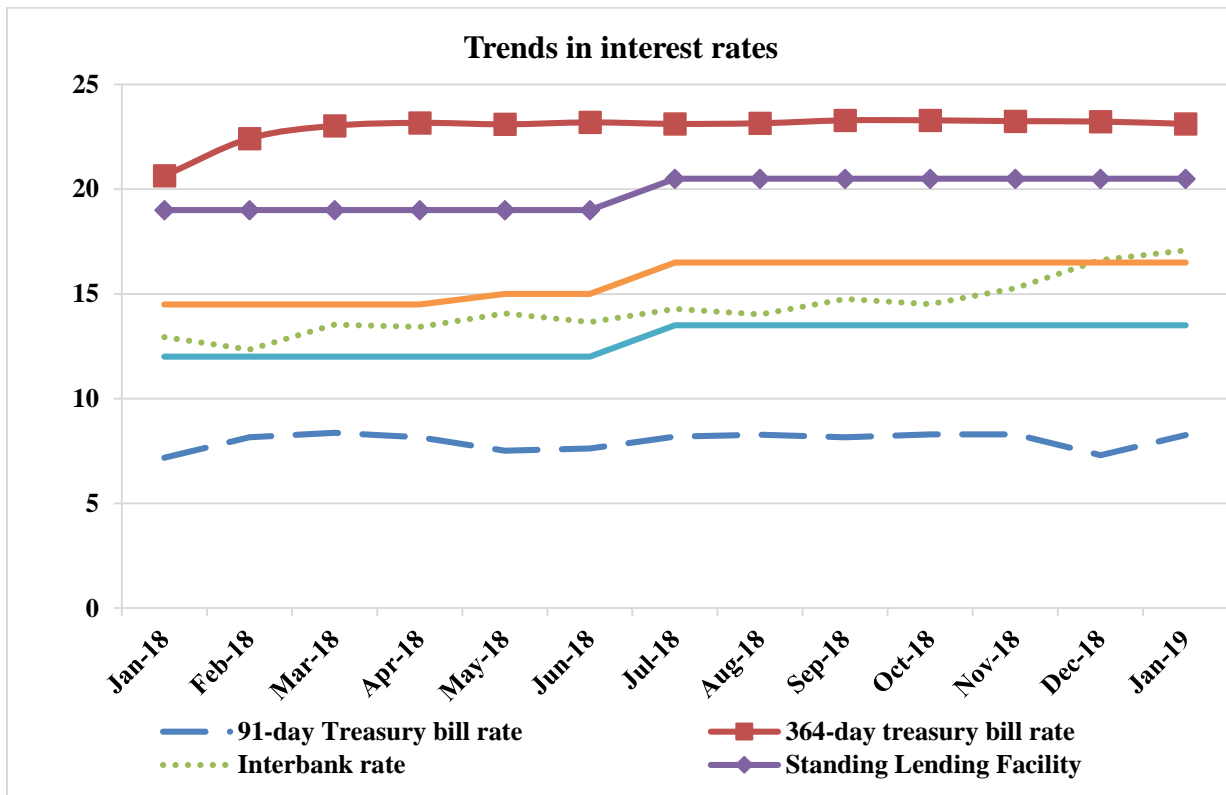


Source: Research Department, BSL

### 4.3 Interest Rates

There was no policy change in January 2019, as the monetary policy rate remained unchanged at 16.50 per cent. Consequently, the Standing Lending and Deposit Facility rates also remained unchanged at 20.50 per cent and 13.50 per cent respectively. The interbank rate increased from 16.62 per cent in December 2018 to 17.08 during January 2019. The commercial banks' average lending and savings deposits 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

Yields on government securities showed mixed trend during January 2019. The 91-days and 182-days treasury bills increased from 7.30 per cent and 8.44 per cent in December 2018, to 8.26 per cent and 8.42 per cent in January 2019 respectively. However, the 364-days treasury bills decreased from 23.23 per cent in December 2018 to 23.12 per cent in January 2019.

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

	2018												2019
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
91-day T-Bills	7.18	8.15	8.37	8.16	7.52	7.62	8.18	8.28	8.16	8.30	8.30	7.30	8.26
182-day T-Bills	10.12	10.16	10.34	8.83	8.05	8.20	8.40	8.09	8.05	7.86	6.22	8.14	8.42
364-day T-Bills	20.64	22.42	23.03	23.17	23.1	23.19	23.12	23.15	23.29	23.29	23.25	23.23	23.12
Interbank rate	12.94	12.35	13.53	13.43	14.07	13.66	14.28	14.02	14.76	14.51	15.28	16.62	17.08
Standing Lending Facility	19.00	19.00	19.00	19.00	19.00	19.00	20.50	20.50	20.50	20.50	20.50	20.50	20.50
Standing Deposit Facility	12.00	12.00	12.00	12.00	12.00	12.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50
MPR	14.50	14.50	14.50	14.5	15.00	15.00	16.50	16.50	16.50	16.50	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	21.35	21.35
Lending (Prime)	17.92 - 24.77	17.92 - 24.77	17.92 - 24.77	17.92 - 24.77	17.92 - 24.77	17.92 - 24.77	17.92 - 24.77	17.92 - 24.77	17.92 - 24.77	17.92 - 24.77	17.92 - 24.77	17.92 - 24.77	17.92 - 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, BSL



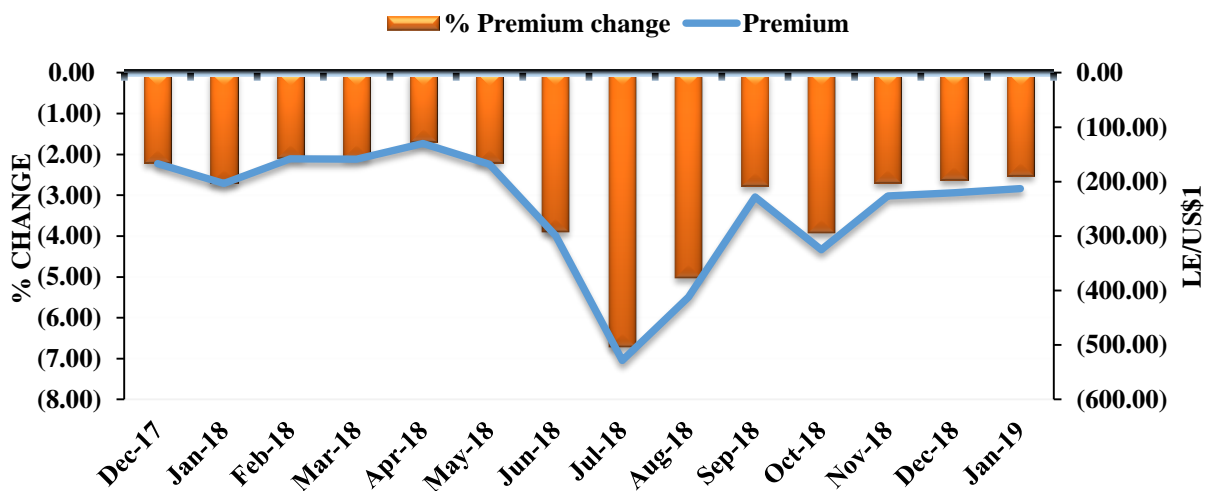
## 5.0 Exchange Rate Developments

In January 2019, the average exchange rate of the Leone relative to the US dollar depreciated in all foreign exchange markets. On the buying front, the Leone depreciated in the bureau, commercial banks and official markets by 0.36 per cent, 0.23 per cent, and 0.09 per cent averaging Le8,343.05/US\$1, Le8,493.05/US\$1 and Le8,352.87/US\$1 respectively. However, the parallel market rate remained unchanged at Le8,600.00/US\$1.

Similarly, on the selling front, the Leone also depreciated in the bureau, commercial banks and official markets by 0.32 per cent, 0.14 per cent and 0.09 per cent averaging Le8,513.10/US\$1, Le8,624.58/US\$1 and Le8,521.61/US\$1 respectively. However, the parallel market rate remained unchanged at Le8,700.00/US\$1.

The premium between the Official and Parallel rates narrowed by 0.09 per centage points to Le247.13/US\$1 in January, 2019 from Le254.51/US\$1 in December, 2018 (figure 1).

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



Source: Research Department, BSL

## 6.0 Gross Foreign Exchange Reserves

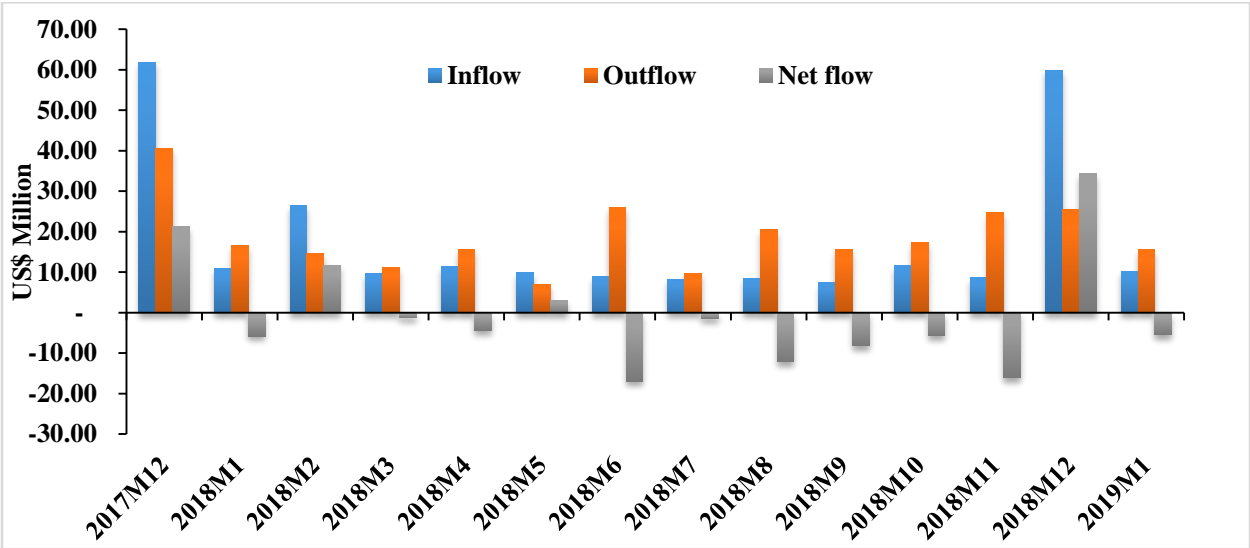
The gross foreign exchange reserves of the Bank of Sierra Leone as at end-January 2019 was US\$500.28mn, declining by 0.49 per cent from US\$502.78mn recorded in December 2018.

This development reflected increased outflows of US\$15.62mn over inflows of US\$10.23mn, resulting in a net outflow of US\$5.39mn.

Significant inflows included exports’ receipts of US\$5.14mn, of which, US\$1.85mn was in respect of royalty payment from Sierra Rutile and US\$2.14mn was receipts from timber exports. Other receipts amounted to US\$5.09mn, of which, other government receipts amounted to US\$4.14mn.

Significant outflows comprised payments for goods and services of US\$6.34mn, of which, US\$2.23mn was payments to embassies/missions, US\$1.87 was government expenditure and US\$1.53mn was expenditure on road infrastructure projects. Total debt service payments for the period was US\$9.27mn.

**Figure 8: Foreign Exchange Flows**



Source: Research Department, BSL