



BANK OF SIERRA LEONE

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BANK OF SIERRA LEONE

MONTHLY ECONOMIC REVIEW

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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
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

1.0 Highlights

The Sierra Leone economy continues to face challenging conditions as macroeconomic performance for May 2017 was mixed. The overall fiscal deficit in May 2017 widened to Le135.86bn from Le70.66bn in April 2017.

The national year-on-year inflation decreased to 18.91 per cent in May 2017 from 19.80 per cent in April 2017, mainly as a result of the increase in supply of domestically produced food products.

Developments in monetary aggregates showed mixed trends during the month of May 2017. Broad Money (M2) contracted by 3.83 per cent, from a growth of 2.97 per cent in April 2017, whilst Reserve Money (RM) expanded by 1.26 per cent, which was lower than the 4.77 per cent recorded in April 2017.

Monthly average exchange rate movement of the Leone to the U.S dollar remained relatively stable, though it exhibited mixed trends in all the foreign exchange market segments during the month of May 2017.

The stock of Gross Foreign Exchange Reserves as at end May 2017 stood at US\$440.84mn, which was 0.94 per cent lower than the stock level of US\$445.00mn recorded in April.

2.0 Real Sector Developments

2.1 Manufacturing

The manufacturing sector recorded mixed performances during the month of May 2017. Production of soft drinks, acetylene, oxygen and confectionery recorded increases, while cement, paint and common soap registered declines. Soft drinks production rose by 37.72 per cent to 74.67 thousand crates, oxygen output increased by 2.74 per cent to 52.50 thousand cubic feet, acetylene output grew to 67.49 thousand cubic feet while confectionery output grew by 9.34 per cent and 263.64 thousand pounds. These developments were explained by demand and supply fundamentals.

By contrast, cement production dropped by 3.59 per cent to 19.63 thousand metric tons, paint by 62.42 per cent to 52.23 thousand gallons and common soap by 0.9 per cent to 33.15 thousand metric tons.

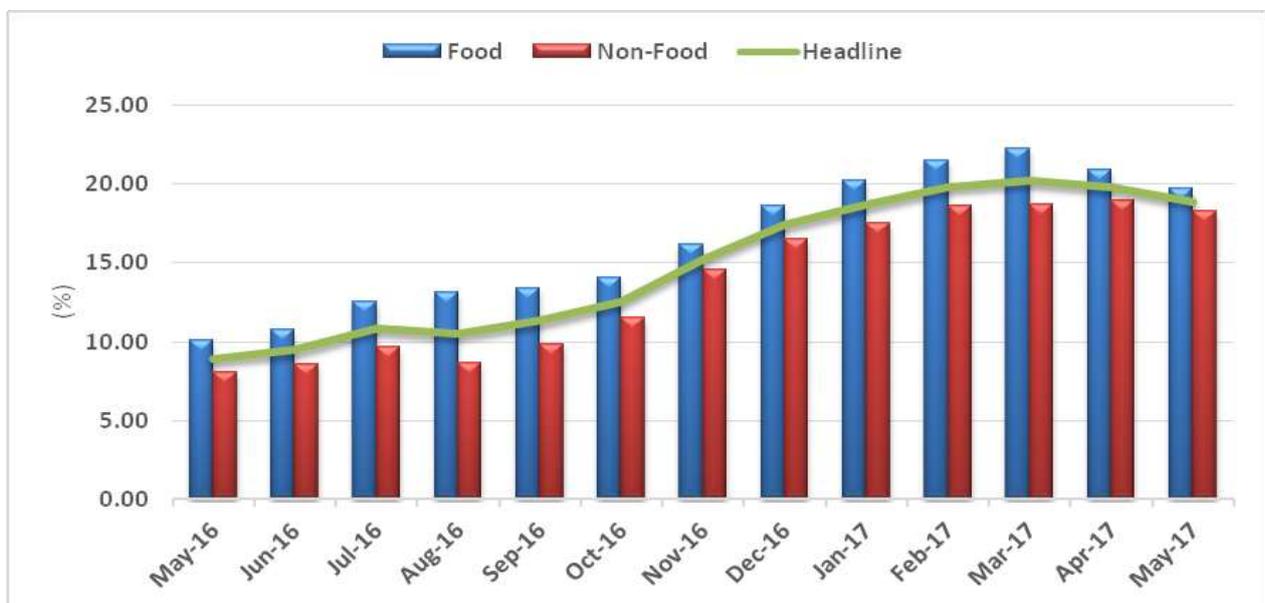
2.2 Mining

In the mining sector, bauxite production increased by 3.56 per cent to 168.9 thousand metric tons and zircom production by 24.80 per cent to 0.94 thousand metric tons. Rutile and ilmenite production fell by 0.29 per cent and 18.77 per cent to 13.81 thousand metric tons and 4.11 thousand metric tons respectively. Similarly, iron ore production dropped by 54.65 per cent to 565.59 thousand metric tons.

3.0 Price Developments

Price pressures continue to subside during the month of May 2017 as headline inflation slowed down by 0.89 percentage points to 18.91 per cent in May 2017 from 19.80 per cent in April 2017. The decrease in inflation emanated from both food and nonfood inflation.

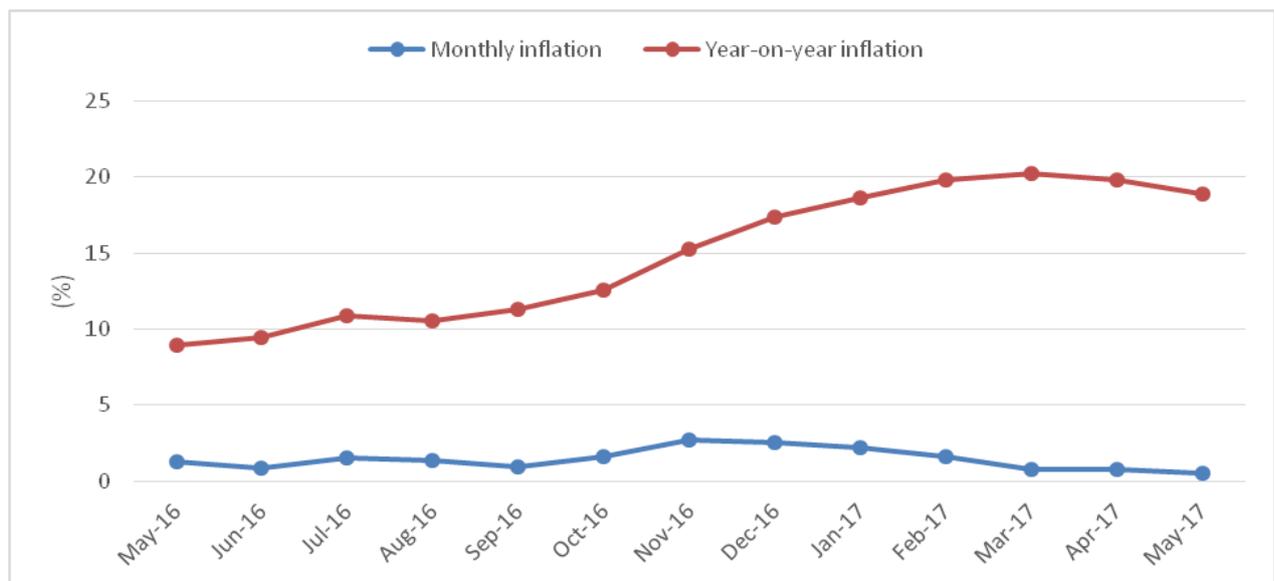
Chart 1: Food and Non Food Component of Inflation (year-on-year)



Source: Research Dept., Bank of Sierra Leone

Food inflation declined by 1.20 percentage point to 19.74 per cent in May 2017 from 20.94 per cent in April 2017. Similarly, non-food inflation declined by 0.67 percentage point to 18.31 per cent in May 2017 from 18.98 per cent in April 2017.

On a month-on-month basis, inflation declined slightly to 0.54 per cent in May 2017 from 0.77 per cent in April 2017.

Chart 2: Headline Inflation

Source: Research Dept., Bank of Sierra Leone

On regional basis, year on year inflation declined in all regions with the exception of the Eastern region. Western Region inflation decreased to 18.09 per cent in May 2017 from 19.81 per cent in April 2017; Northern Region inflation decreased to 19.71 per cent from 20.48 per cent while the Southern Region inflation decreased to 16.58 per cent from 16.95 per cent. Eastern Region inflation, by contrast increased to 23.15 per cent from 22.23 per cent.

4.0 Government Budgetary Operations

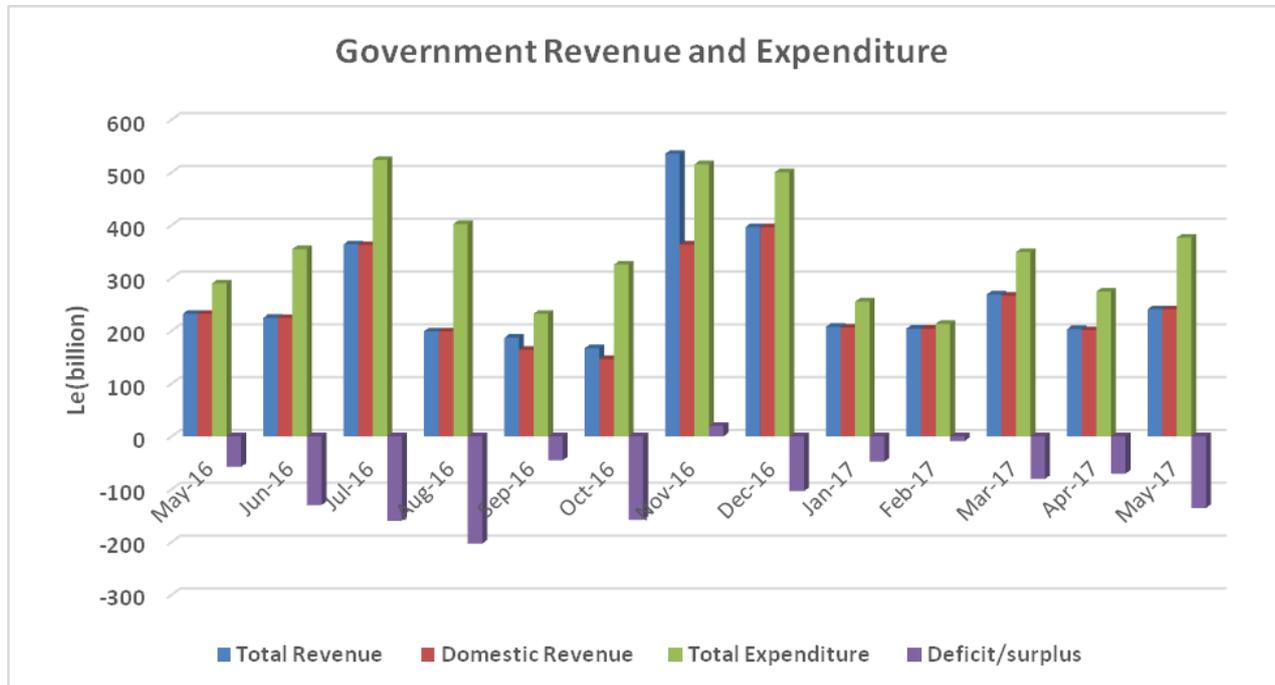
The government's budgetary operation in May 2017 deteriorated resulting in a deficit of Le135.86bn higher than the previous month's deficit of Le70.66bn and the budgeted deficit of Le12.21bn. This outturn was explained by increase in expenditure which more than offset the increase in revenue.

Total revenue during the month amounted to Le240.40bn compared to Le203.32bn in the previous month, reflecting an increase of Le 37.08bn. The increase emanated from domestic sources, as there no grants disbursement during the month.

Domestic revenue grew by 19.48 per cent to Le240.40bn, which exceeded the budgeted amount of Le230.86bn by 4.13 per cent. The growth in domestic revenue was the result of increased collections from the main revenue categories. Collections from Customs and Excise grew by 8.84 per cent to Le43.57bn, receipts from Income Tax Department grew by 48.20 per cent to Le80.05bn,

while receipts from Goods and Services tax increased by 12.61 per cent to Le60.10bn. Similarly, non-tax revenue increased by 5.36 per cent to Le56.68bn. Revenue collection from all the categories of tax and non-tax exceeded their targets for the month except for income tax.

Chart 3: Government Revenue and Expenditure



Source: Research Department., Bank of Sierra Leone

Total expenditure amounted to Le376.26bn, reflecting an expansion of 37.33 per cent and was 22.01 per cent in excess of the ceiling of Le308.38bn. The growth in government spending was mainly on account of the increase in expenses for goods and services, which increased by 10.42 per cent to Le107.69bn and pension, wages and salaries which edged up by 3.07 per cent to Le135.78bn. However, debt services payments declined by 49.46 per cent to Le47.80bn, of which domestic debt service payments amounted to Le36.89bn while foreign debt service payments amounted to Le10.91bn.

The overall deficit of Le135.86bn was financed entirely from domestic sources.

5.0 Monetary Developments

Developments in monetary aggregates in May 2017 were mixed as Broad Money (M2) contracted whilst Reserve Money (RM) expanded.

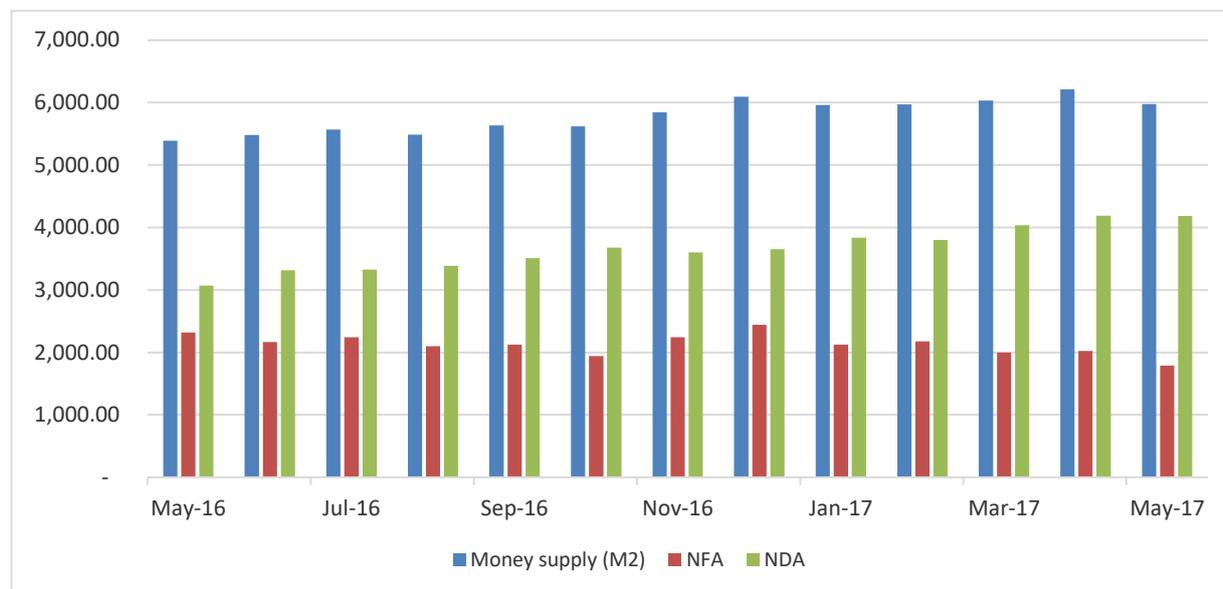
5.1 Broad Money (M2)

Broad Money (M2) declined by 3.83 per cent in May 2017, from a growth of 2.97 per cent in April 2017. This development reflected a contraction in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system. NFA of the banking system contracted by 11.57 per cent in May 2017 from an expansion of 1.26 per cent in April 2017 mainly on account of the decline in the holdings of foreign currency and loans to non-residents by Commercial Banks together with transfers relating to Local Liquid Asset Requirement (LLAR) at the Central Bank. NDA contracted by 0.09 per cent from a growth rate of 3.82 per cent in April 2017 reflecting decrease in Net Domestic Credit which was however moderated by increase in Other Items Net. The contraction in Net Domestic Credit was the result of reduction in net government borrowing from the banking sector as well as credit to private and other sectors. Credit to the private sector recorded 1.89 per cent decrease relative to the 9.61 per cent increase in the preceding month.

Table 1: Money supply and its Components

	2017			Absolute Change		(% Change)	
	Mar	Apr	May	Apr	May	Apr	May
Reserve money	2,038.44	2,135.72	2,162.64	97.28	26.92	4.77	1.26
Money supply (M2)	6,033.41	6,212.85	5,975.07	179.44	(237.78)	2.97	(3.83)
Narrow money (M1)	2,573.71	2,732.23	2,648.75	158.52	(83.48)	6.16	(3.06)
Currency outside banks	1,251.70	1,251.30	1,259.09	(0.40)	7.79	(0.03)	0.62
Demand deposit	1,322.01	1,480.93	1,389.66	158.92	(91.27)	12.02	(6.16)
Quasi money	3,459.52	3,480.52	3,325.92	21.00	(154.60)	0.61	(4.44)
o.w. Foreign currency deposit	1,745.04	1,869.09	1,681.99	124.05	(187.10)	7.11	(10.01)
Time and saving deposit	1,714.48	1,611.43	1,643.93	(103.05)	32.50	(6.01)	2.02
Net Foreign Asset	1,997.78	2,022.90	1,788.89	25.12	(234.01)	1.26	(11.57)
BSL	477.96	433.62	348.64	(44.34)	(84.98)	(9.28)	(19.60)
ODCs	1,519.82	1,589.28	1,440.25	69.46	(149.03)	4.57	(9.38)
Net Domestic Assets	4,035.63	4,189.95	4,186.18	154.32	(3.77)	3.82	(0.09)
Net Domestic Credit	5,236.28	5,443.40	5,341.07	207.12	(102.33)	3.96	(1.88)
Government (Net)	3,675.89	3,760.77	3,694.38	84.88	(66.39)	2.31	(1.77)
Private Sector	1,326.33	1,453.85	1,426.32	127.52	(27.53)	9.61	(1.89)
Other Sectors (Net)*	234.06	228.78	220.37	(5.28)	(8.41)	(2.26)	(3.68)
Other Items (Net)	(1,200.65)	(1,253.45)	(1,154.89)	(52.80)	98.56	4.40	(7.86)
Monthly RM growth	-2.23	4.77	1.26				
Monthly M2 growth	1.01	2.97	-3.83				
Money Multiplier	2.96	2.91	2.76				

Source: Research Dept. Bank of Sierra Leone

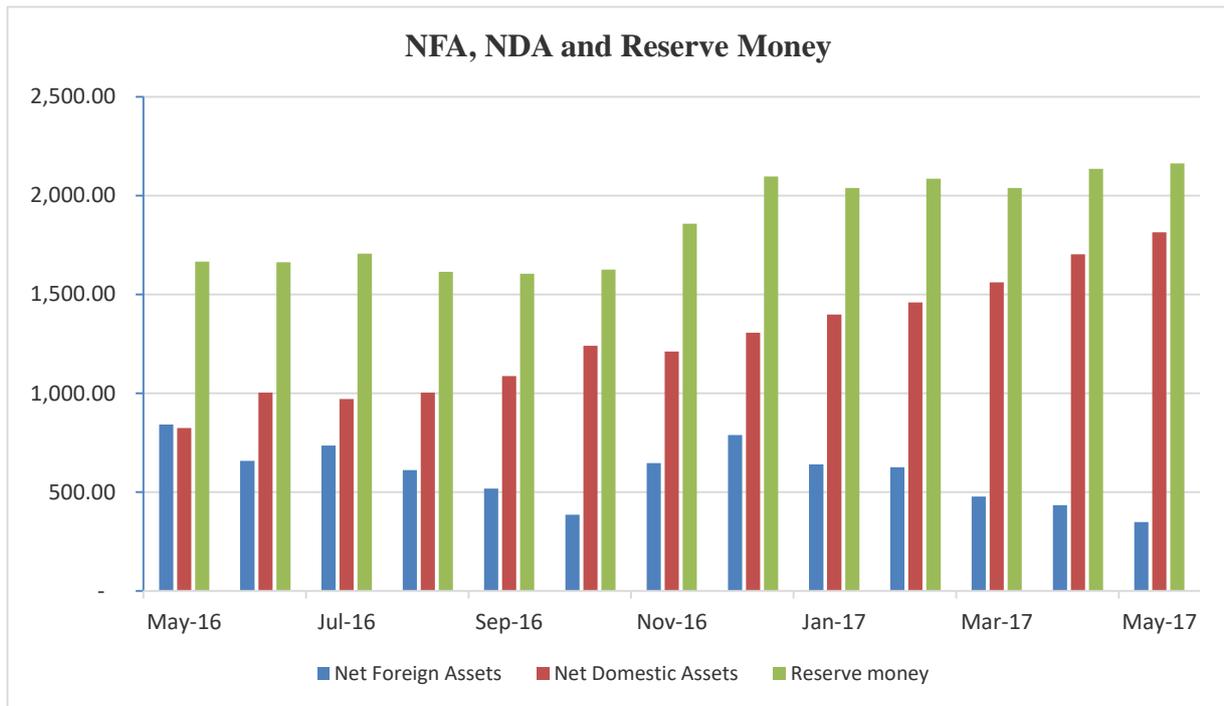
Chart 4: M2 and its Sources

Source: Research Dept., Bank of Sierra Leone

Both Narrow Money and Quasi Money contracted in May 2017 leading to the adverse contraction in M2. Narrow Money decreased by 3.06 per cent (Le83.48bn) in May 2017 compared to the 6.16 per cent (Le158.52bn) increase in April 2017 and was mainly due to the 6.16 per cent drop in Demand Deposits. By contrast, currency outside banks increased marginally by 0.62 per cent from a decline of 0.03 per cent in the preceding month. Quasi Money also contracted by 4.44 per cent relative to the increase of 0.61 per cent in April 2017 and this was driven by the 10.01 per cent decrease in foreign currency deposits. The latter contraction more than offset the 2.02 per cent increase in Time and Savings deposits from a decline of 6.01 per cent in April 2017.

5.2 Reserve Money

The growth in Reserve Money (RM) slowed down to 1.26 per cent in May 2017 from an increase of 4.77 per cent in April 2017 reflective of the 6.57 per cent (Le111.90bn) increase in Net Domestic Assets of the Central Bank. NDA of the Central Bank grew as a result of the 14.69 per cent (Le146.80bn) increase in its holdings of Government Securities which was periodically offset by the Le65.69bn (35.18 per cent) drop in Government Utilization of Ways and Means Advances in May 2017. By contrast, NFA of the Central Bank contracted by 19.60 per cent in May 2017 compared to the 9.28 per cent drop in April 2017.

Chart 5: Reserve Money and its Sources

Source: Research Dept., Bank of Sierra Leone

On the liability side, both currency issued and bank reserves expanded by 0.10 per cent and 3.70 per cent respectively.

Table 2: Reserve Money and its Components

	2017			Absolute change		Change (%)	
	Mar	Apr	May	Apr	May	Apr	May
1. Net Foreign Assets	477.96	433.62	348.64	(44.34)	(84.98)	(9.28)	(19.60)
2. Net Domestic Assets	1,560.48	1,702.10	1,814.00	141.62	111.90	9.08	6.57
2.1 Government Borrowing (net)	1,788.18	1,932.31	2,014.23	144.13	81.92	8.06	4.24
o.w. 2.11 Securities	911.90	999.34	1,146.14	87.44	146.80	9.59	14.69
2.12 Ways and Means	167.29	186.71	121.02	19.42	(65.69)	11.61	(35.18)
2.13 GoSL/IMF Budget financing	880.82	880.82	880.82	-	-	-	-
3. Reserve money	2,038.44	2,135.72	2,162.64	97.28	26.92	4.77	1.26
o.w. 3.1 Currency issued	1,415.62	1,454.91	1,456.37	39.29	1.46	2.78	0.10
3.2 Bank reserves	622.76	680.71	705.87	57.95	25.16	9.31	3.70

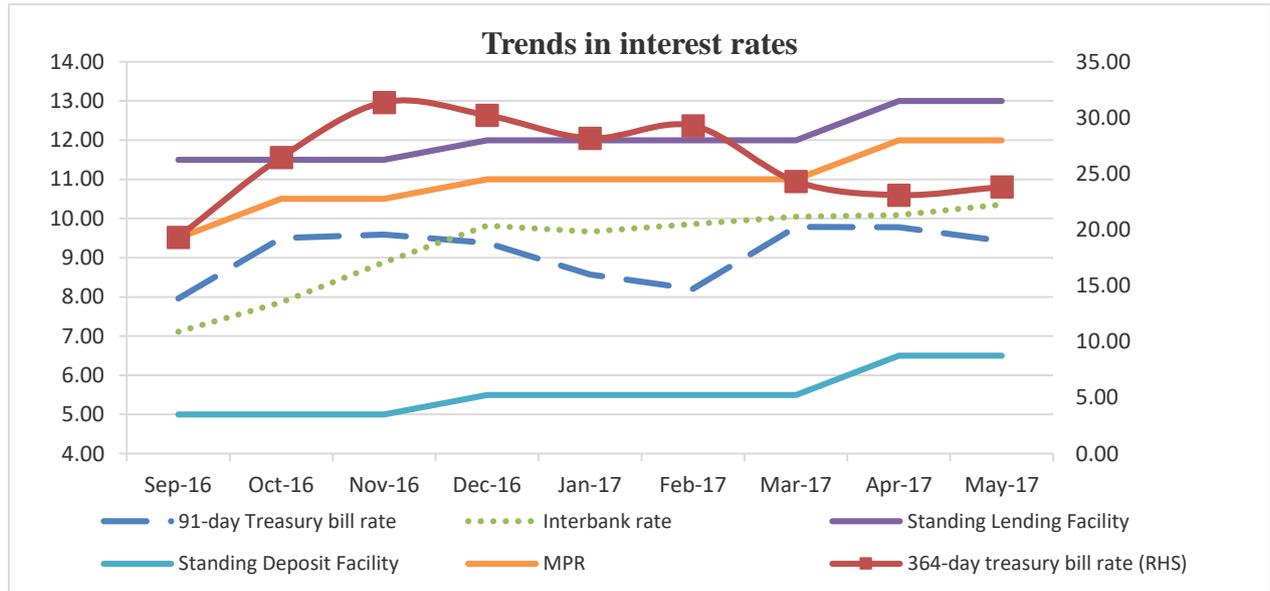
Source: Research Dept. Bank of Sierra Leone

5.3 Interest rates

There was no policy change in May 2017, as such, the Monetary Policy Rate (MPR) remained unchanged at 12 per cent and the Lending and the Deposit Facility rates at 13 per cent and 6.5 per cent respectively. The increased demand for liquidity in the banking system pushed the interbank market rate to 10.36 per cent in May 2017 from 10.09 per cent in April 2017. Meanwhile the

commercial bank's lending and savings rates maintained their preceding month's levels of 21.35 per cent and 2.38 per cent, respectively.

Chart 6: Monetary Policy Rate and Other Market Rates



Source: Research Dept., Bank of Sierra Leone

Yields on short term treasury securities showed mixed trends in May 2017. The interest rate on 91-days treasury bills decreased to 9.43 per cent in May 2017 from 9.78 per cent in April 2017. The yield on the 182-days treasury bills rate declined to 9.11 per cent from 11.73 per cent while that on 364-days treasury bills rate increased to 23.82 per cent from 23.09 per cent.

Table 3: Interest rates (%)

	2016								2017				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
91-day Treasury bill rate	6.41	5.34	5.73	6.36	7.96	9.5	9.59	9.38	8.57	8.20	9.79	9.78	9.43
182-day Treasury bill rate	10.49	9.68	8.94	10.19	12.03	14.69	15.52	16.17	15.68	15.51	13.54	11.73	9.11
364-day treasury bill rate	24.97	17.51	17.89	17.29	19.34	26.47	31.38	30.22	28.16	29.29	24.31	23.09	23.82
Interbank rate	6.50	7.55	6.54	7.10	7.11	7.86	8.88	9.82	9.66	9.86	10.05	10.09	10.36
Standing Lending Facility	10.50	10.50	10.50	10.50	11.50	11.50	11.50	12.00	12.00	12.00	12.00	13.00	13.00
Standing Deposit Facility	10.00	10.00	10.00	10.00	5.00	5.00	5.00	5.50	5.50	5.50	5.50	6.5	6.5
MPR	9.50	9.50	9.50	9.50	9.50	10.50	10.50	11.00	11.00	11.00	11.00	12.00	12.00
Average Lending rate	21.54	21.54	21.54	21.54	20.69	20.86	21.35	21.35	21.35	21.35	21.35	21.35	21.35
Savings deposits	2.54	2.54	2.54	2.54	2.23	2.27	2.38	2.38	2.38	2.38	2.38	2.38	2.38

Source: Research Dept., Bank of Sierra Leone

6.0 Exchange Rate Developments

The monthly average exchange rate of the Leone against the United States Dollar depreciated in all the foreign exchange market segments on both the buying and selling fronts in May, 2017. On the buying front, the bureaux rate depreciated by 1.17 per cent to Le7,210.87/ US\$1; the commercial banks, official and parallel markets rates depreciated by 1.10 per cent to Le7,325.95/US\$1, 0.45 per cent to Le7,226.37/US\$1 and 0.29 per cent to Le7,477.27/US\$1, respectively.

On the selling front, both the bureau and parallel market rates depreciated by 0.48 per cent, averaging Le7,380.83/\$1 and Le7,577.27 respectively, while the official rate depreciated by 0.45 per cent to Le7,372.36/US\$1 and the commercial banks rate depreciated by 0.37 per cent to Le7,506.98/US\$1.

The premium between the Official and the Parallel rates narrowed by 0.17 per cent to Le250.91/US\$1 in May from Le261.75/US\$1 in April.

7.0 Gross Foreign Exchange Reserves

The Gross Foreign Exchange Reserves of the Bank of Sierra Leone as at end May 2017 stood at US\$440.84mn, falling by 0.94 per cent compared to US\$445.00mn recorded in April 2017. The decline in the reserve was mainly due to the combined effects of an outflow of US\$10.27mn which outweighed the inflows of US\$3.82mn resulting in a net outflow of US\$6.45mn. Nevertheless, inflows improved to US\$5.98mn from US\$3.82mn boosted by improvement in export earnings; while outflows declined to US\$10.27mn in May 2017 from US\$18.30mn in April as payments for goods and services dropped.

Major inflows included export receipts of US\$3.73mn of which, US\$1.12mn was in respect of mining and export licenses from smaller companies; and US\$1.12mn was in respect of payments for export of fish and transshipment from Sierra Leone Maritime Administration.

Notable outflows comprised US\$8.79mn, being payments for goods and services of which: US\$2.84mn in respect of other government expenses, US\$1.26mn in respect of embassies/missions, US\$1.08mn in respect of roads infrastructure and US\$2.00mn being utilized by the Bank of Sierra Leone in its weekly foreign exchange auction. Debt service payments to multilateral and bilateral auditors amounted to US\$1.48mn during the review period.