



BANK OF SIERRA LEONE

**Monthly
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BANK OF SIERRA LEONE

MONTHLY ECONOMIC REVIEW

May 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 May 2018 continued to be mixed across key sectors of the economy. Annual headline inflation increased by 0.88 percentage point to 16.02 per cent in May 2018 from 15.14 per cent in April 2018. The price increase was on account of upward pressure in prices of food and non-food items.

Government's budgetary operations in May 2018 resulted in an overall deficit of Le2.90bn from a surplus of Le8.62bn in April 2018. The deficit was on account of increase in government expenditure which surpassed total revenue collected during the review month.

During May 2018, monetary aggregates namely, Broad Money (M2) and Reserve Money (RM) contracted, as reflected in the downward trend in both Broad Money (M2) and Reserve Money (RM). Broad money (M2) contracted by 1.53 per cent in May 2018, relative to a 1.01 per cent growth recorded in April 2018. On the asset side, the decline in M2 was mainly due to a decrease in Net Domestic Assets (NDA) of the banking system, as the increase in Net Foreign Asset was not enough to offset the decline in DNA of the banking system.

The Monetary Policy Rate was raised to 15.0 per cent, while the corridor around the policy rate remained unchanged with the Lending Facility Rate at 19.0 per cent and Deposit Facility Rate at 12 per cent respectively. Reflecting the tight liquidity conditions in the banking system, the interbank rate increased to 14.07 per cent in May 2018 from 13.43 per cent in April 2018 and remained within the corridor.

Monetary Policy Committee (MPC) met on the 14th May 2018 and decided to further tighten monetary policy stance by increasing the Monetary Policy Rate to 15.00 per cent from 14.50 per cent. The interbank rate increased to 14.07 per cent in May 2018 from 13.43 per cent in April 2018, while 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 as at end-May 2018 was US\$506.50mn, marginally decreasing by 0.14 per cent above the stock of US\$507.24mn recorded in April 2018.

The average exchange rate of the Leone against the US dollar depreciated marginally in May 2018. The development in the Leone was reflected across all segments of the foreign exchange market.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

The manufacturing sector recorded mixed outcomes in May 2018. The production of Paint decreased by 10.29 per cent to 48.75 thousand gallons; acetylene declined by 5.51 per cent to 24.34 thousand cubic feet and oxygen by 5.45 per cent to 19.76 thousand cubic feet respectively. Common soap production decreased by 6.53 per cent to 47.65 thousand metric tons; soft drinks dropped by 15.54 per cent to 76.67 thousand crates. The production of beer & stout increased by 11.78 per cent to 145.32 thousand cartons; while maltina increased by 15.77 per cent to 23.7 thousand cartons; confectionery increased by 5.28 per cent to 209.76 thousand pounds. 2018.

2.1.2 Mining

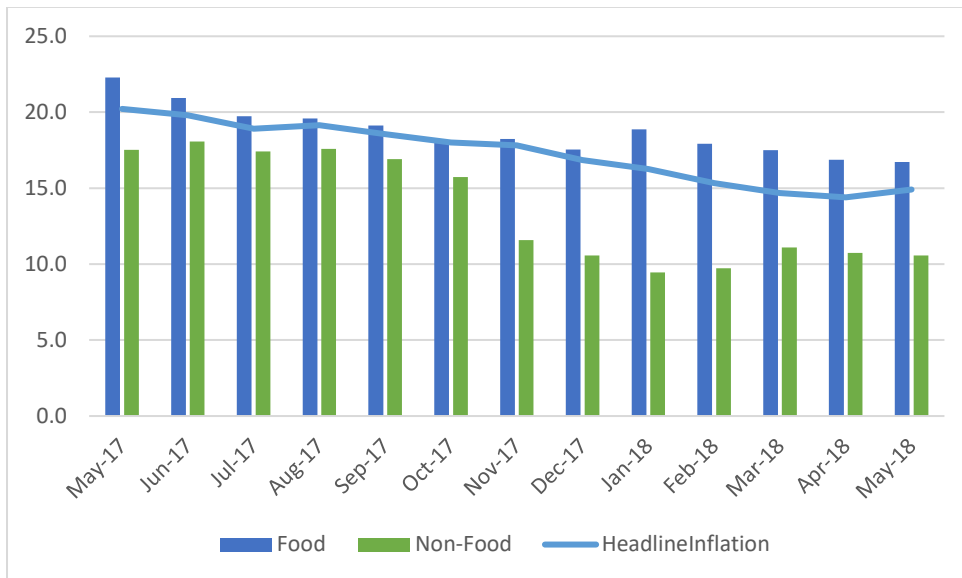
Activities in the mining sector were mixed during the reporting month. Diamond production increased by 19.29 per cent to 98.06 thousand carats, of which industrial diamond amounted to 58.84 thousand carats while gem diamond was 39.22 thousand carats. Bauxite and Rutile production increased by 0.10 per cent to 185.45 thousand metric tons in May 2018 from 185.26 thousand metric tons in April 2018 and 59.67 per cent to 11.48 thousand metric tons in May 2018 from 7.19 thousand metric tons in April 2018 respectively. Ilmenite production fell by 87.04 per cent to 5.63 thousand metric tons in the review month from 3.01 thousand metric tons in April 2018.

2.1.3 Electricity Generation

Electricity generation in May 2018 declined by 27.1 per cent to 19.54 Gw/hr, with 15.29 Gw/hr from hydro power and 4.11 Gw/hr sourced from thermal plants.

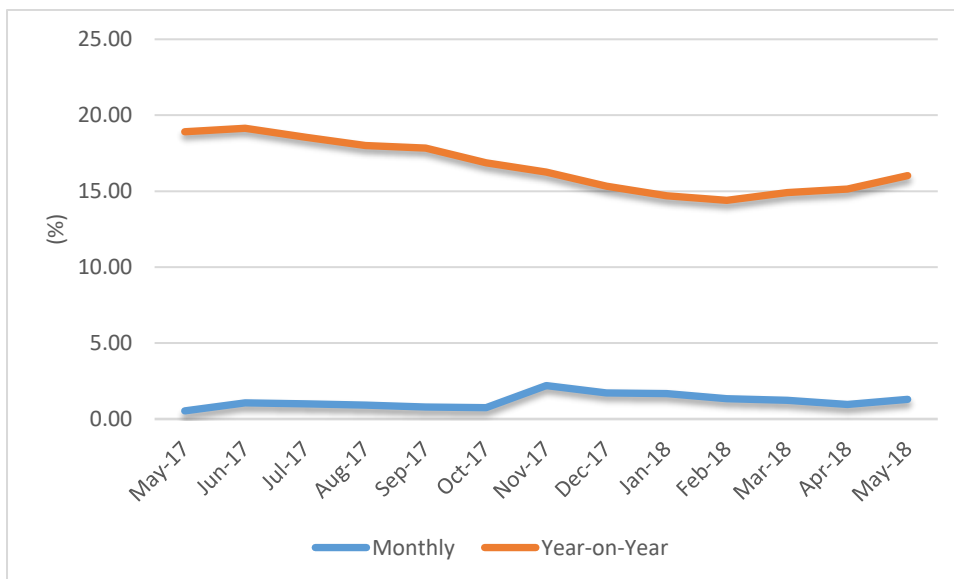
2.2 Price Developments

Annual headline inflation increased by 0.88 percentage point to 16.02 per cent in May 2018 from 15.14 per cent in April 2018. The price increase was registered in both food and non-food items. Food inflation increased to 18.73 per cent in May 2018 from 17.21 per cent in April 2018. Non-food inflation increased to 14.07 per cent to in May 2018 from 13.64 per cent in April 2018.

Figure 1: Headline, Food and Non-Food Inflation

Source: SSL & Research Department, Bank of Sierra Leone

On a month-on-month basis, consumer price inflation moderated to 1.31 per cent in May 2018 compared to 0.97 per cent in April 2018. Price development during the month was attributable to commodity shortages in the market due to election related uncertainties and the increased demand for food items during the month of Ramadan.

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

Source: SSL & Research Department, Bank of Sierra Leone

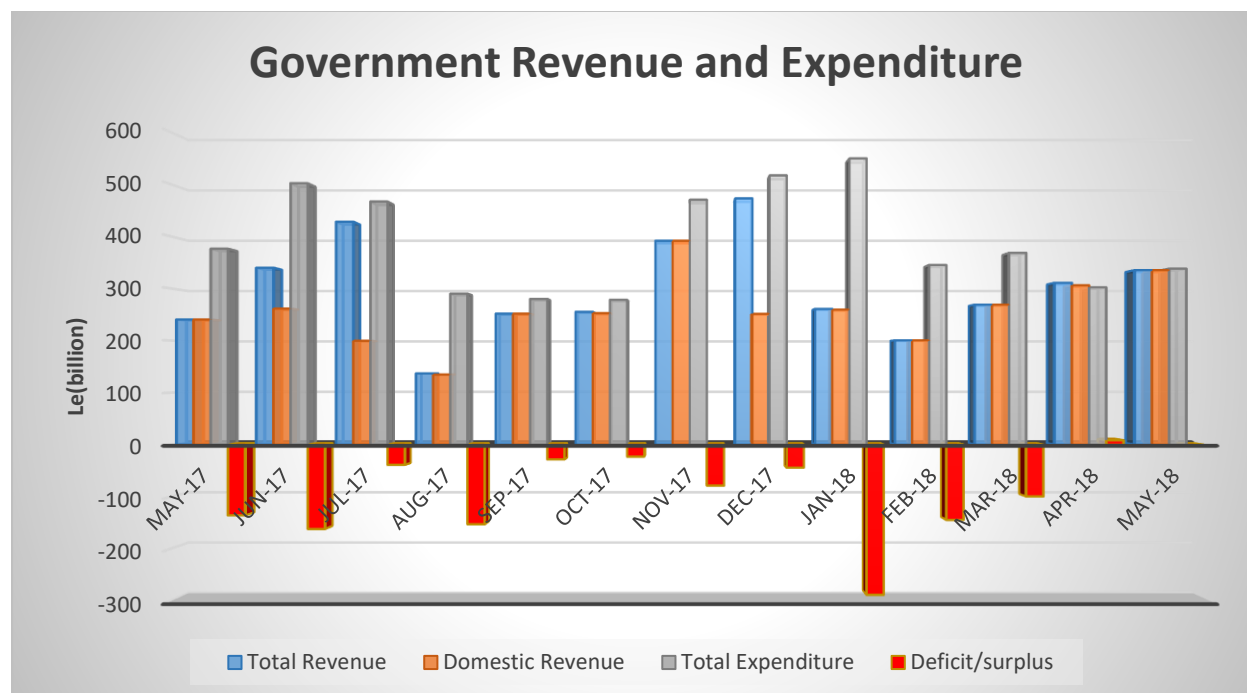
On regional basis, year-on-year inflation rates increased in the Western Area to 13.77 per cent in May 2018 from 12.49 per cent in April 2018; Southern region to 18.68 per cent in May 2018 from 17.98 per cent in April 2018 and Northern region to 18.28 per cent in May 2018 from 17.37 per cent in April 2018; while Eastern region inflation decreased to 15.8 per cent in May 2018 from 16.05 per cent in April 2018.

3.0 Government Budgetary Operations

Government's budgetary operations in May 2018 decreased, as overall deficit widened to Le2.90bn from a surplus of Le8, 62bn in April 2018. The deficit was on account of increase in government expenditure which surpassed total revenue collected during the review month.

3.1 Revenues

Government revenue amounted to Le335.15bn in May 2018 from Le310.81bn recorded in April 2018. The increase in total revenue was explained by growth in domestic revenue mobilization as there was no disbursement of external grants during the reporting period. Domestic revenue increased by 9.54 per cent to Le335.147bn in May 2018 from Le305.99bn in April 2018. The growth in domestic revenue was reflected in all the main components but for income tax receipts which declined during the review period. Customs and Excise receipts improved to Le 64. 80bn in May 2018 from Le43.94bn in April 2018. Goods and Services revenue increased to Le81.76bn in the reporting month from Le73.35bn in April 2018; Non-tax revenue expanded to Le94.90bn in May 2018 from Le43.95bn in April 2018. Receipts from Income tax declined to Le93.68bn in May 2018 from Le144.75bn in April 2018.

Figure 3: Government Revenue and Expenditure

Source: Research Department, Bank of Sierra Leone

3.2 Expenditures

Total government expenditure in May 2018 expanded by 11.86 per cent to Le338.04bn. The increase in total government spending was explained by increased spending on pensions, wages and salaries, other expenditure and debt services payments. Pension, wages and salaries payments increased by 3.18 per cent to Le155.47bn in May 2018 from Le150.69bn in April 2018. Other Expenditure on goods and services rose by 48.83 per cent to Le77.29bn in May 2018. Debt Services Payment increased by 5.73 per cent to Le105.28bn in May 2018 from Le99.57bn in April 2018. This amount constituted domestic debt services payment of Le73.23bn and foreign debt services payment of Le32.04bn in May 2018.

3.3 Financing

The overall deficit of Le2.90bn was financed from domestic sources.

4.0 Monetary Developments

During May 2018, monetary aggregates namely, Broad Money (M2) and Reserve Money (RM) contracted, as reflected in the downward trend in both Broad Money (M2) and Reserve Money (RM).

4.1 Broad Money

Broad money (M2) contracted by 1.53 per cent in May 2018, relative to a 1.01 per cent growth recorded in April 2018. On the asset side, the decline in M2 was mainly due to a decrease in Net Domestic Assets (NDA) of the banking system, as the increase in Net Foreign Asset was not enough to offset the decline in DNA of the banking system.

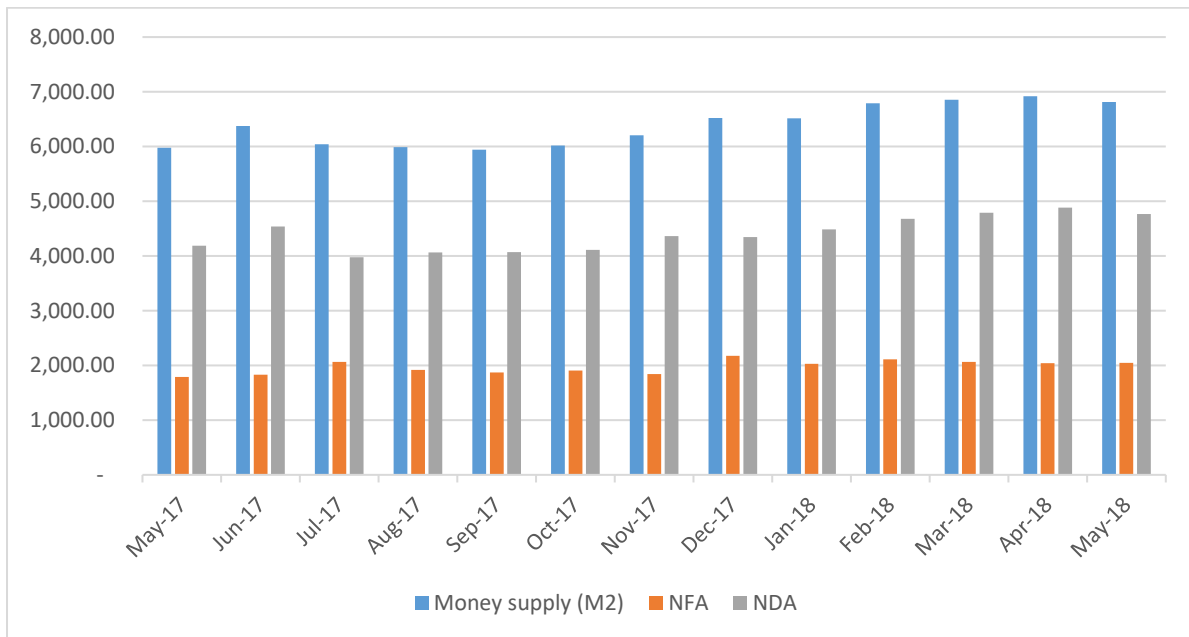
Net Domestic Assets (NDA) of the banking system contracted by 2.35 per cent in May 2018, compared to 1.94 per cent expansion in April 2018. This was mainly due to a Le91.83bn decrease in the holdings of government securities by the Central Bank. However, holdings of government securities by Other Depository Corporations (ODCs) increased by Le71.84bn in the review month. Credit to the Private Sector by ODCs grew by 2.89 per cent in May 2018 compared to the 1.25 per cent increase in April 2018.

NFA of the banking system increased marginally by 0.43 per cent in May 2018, compared to a contraction of 1.14 per cent in April 2018. The growth in NFA of the banking system, was on account of the contraction in Bank of Sierra Leone foreign liabilities as a result of use of Fund Credit and SDR allocation.

Table 1: Broad Money and its Components

	2018		Absolute Change		(% Change	
	Apr-18	May-18	Apr-18	May-18	Apr-18	May-18
Reserve money	2,200.55	2,149.79	(66.09)	(50.76)	(2.92)	(2.31)
Money supply (M2)	6,921.72	6,815.85	69.38	(105.87)	1.01	(1.53)
Narrow money (M1)	3,238.07	3,241.25	(17.30)	3.18	(0.53)	0.10
Currency outside banks	1,570.17	1,553.82	(63.36)	(16.35)	(3.88)	(1.04)
Demand deposit	1,667.90	1,687.43	46.06	19.53	2.84	1.17
Quasi money	3,680.30	3,569.02	87.04	(111.28)	2.42	(3.02)
o.w. Foreign currency deposit	1,806.27	1,694.81	55.80	(111.46)	3.19	(6.17)
Time and saving deposit	1,874.03	1,874.21	31.24	0.18	1.70	0.01
				-		
Net Foreign Asset	2,039.61	2,048.30	(23.43)	8.69	(1.14)	0.43
BSL	311.34	351.15	(18.74)	39.81	(5.68)	12.79
ODCs	1,728.27	1,697.15	(4.69)	(31.12)	(0.27)	(1.80)
Net Domestic Assets	4,882.11	4,767.55	92.81	(114.56)	1.94	(2.35)
Net Domestic Credit	6,287.53	6,280.88	53.50	(6.65)	0.86	(0.11)
Government (Net)	4,761.80	4,713.18	24.82	(48.62)	0.52	(1.02)
Private Sector	1,486.36	1,524.50	22.05	38.14	1.51	2.57
o.w. BSL	37.42	33.66	4.13	(3.76)	12.41	(10.05)
ODCs	1,448.94	1,490.84	17.92	41.90	1.25	2.89
Other Sectors (Net)*	39.37	43.20	6.63	3.83	20.25	9.73
Other Items (Net)	(1,405.42)	(1,513.33)	39.31	(107.91)	(2.72)	7.68
Money Multiplier	3.15	3.17				

Source: Research Department, BSL

Figure 4: M2 and its Sources

Source: Research Department, BSL

On the liability side, M2 contracted mainly as a reflection of the decrease in Quasi Money by 3.02 per cent in May 2018, relative to 2.42 per cent increase in April 2018. This was due to the 6.17 per cent decrease in foreign currency deposit. Narrow Money (M1) on the other hand increased by 0.10 per cent in May 2018, relative to a 0.53 per cent decline recorded in April 2018. The decrease in M1 was mainly as a result of the 1.04 per cent drop in Currency outside banks.

4.2 Reserve Money

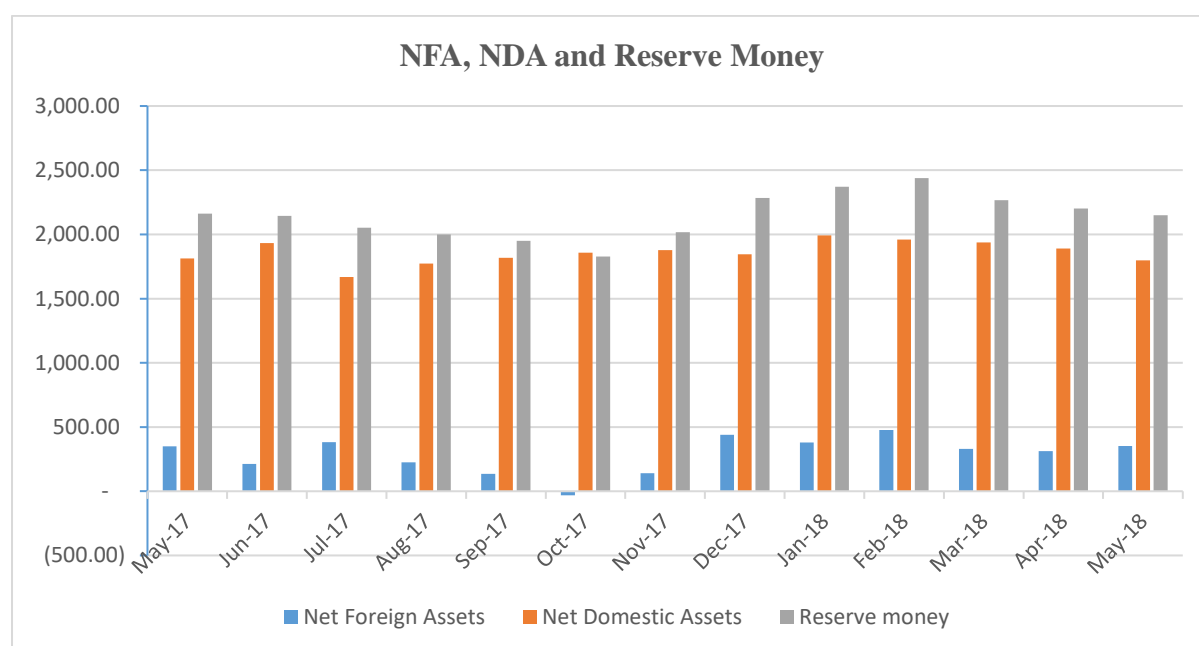
Reserve Money (RM) contracted by 2.31 per cent in May 2018 compared to the 2.92 per cent decline in April 2018. The decline in RM was attributed to the 4.79 contraction in NDA of BSL due to the decreases in Ways and Means advances of 7.83 per cent and holdings of government securities of 3.49 per cent.

Table 2: Reserve Money and its Components

	2018		Absolute change		(% Change	
	Apr-18	May-18	Apr-18	May-18	Apr-18	May-18
1. Net Foreign Assets	311.34	351.15	(18.74)	39.81	(5.68)	12.79
2. Net Domestic Assets	1,889.21	1,798.64	(47.35)	(90.57)	(2.45)	(4.79)
2.1 Government Borrowing (net)	2,114.25	2,040.40	(13.07)	(73.85)	(0.61)	(3.49)
o.w. 2.11 Securities	1,167.47	1,076.09	88.05	(91.38)	8.16	(7.83)
2.12 Ways and Means	147.28	88.04	(31.27)	(59.24)	(17.51)	(40.22)
2.13 GoSL/IMF Budget financing	988.95	988.95	-	-	-	-
3. Reserve money	2,200.55	2,149.79	(66.09)	(50.76)	(2.92)	(2.31)
o.w. 3.1 Currency issued	1,815.67	1,772.91	(36.56)	(42.76)	(1.97)	(2.36)
3.2 Bank reserves	381.53	371.31	(29.17)	(10.22)	(7.10)	(2.68)

Source: Research Department, BSL

On the liability side, the decrease in RM was driven by decreases in both Currency Issued (2.36%) and Banker`s reserves (2.68%) during the month under review.

Figure 5: Reserve Money and its Sources

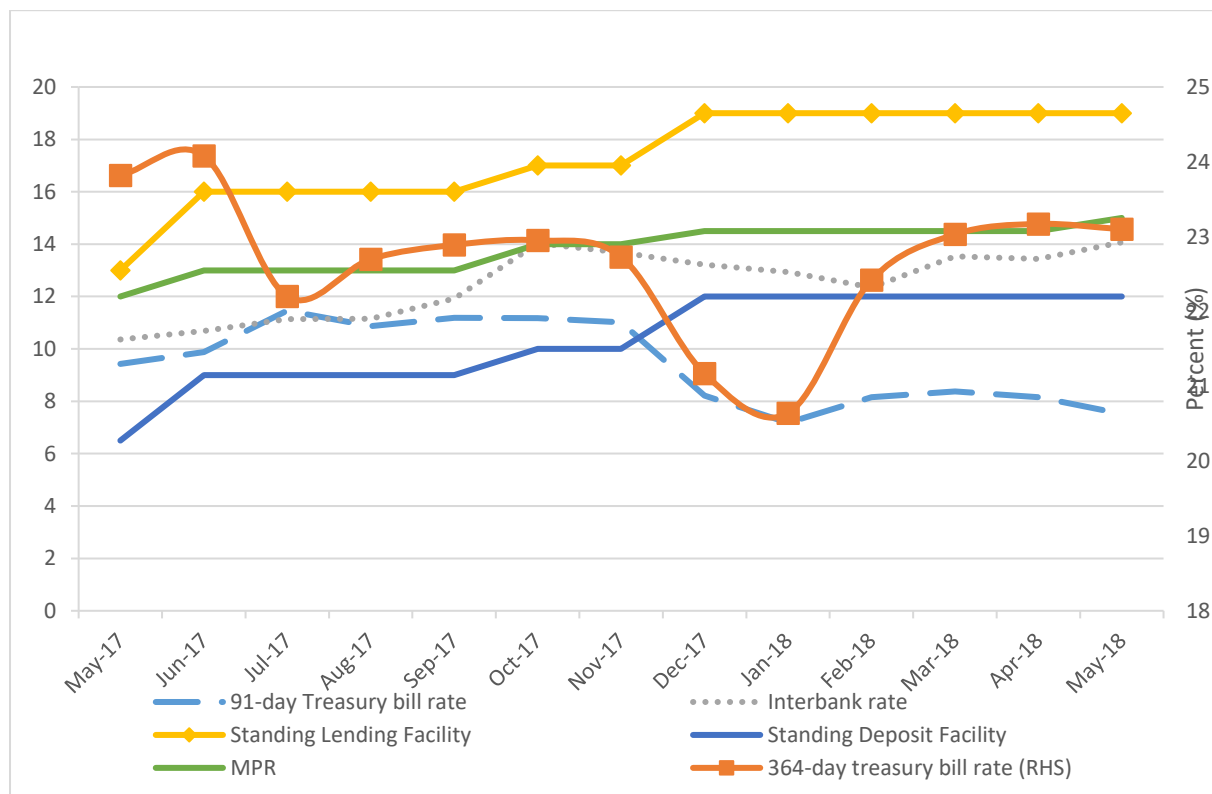
Source: Research Department, BSL

4.3 Interest Rates

Monetary Policy Committee (MPC) met on the 14th May 2018 and decided to further tighten monetary policy stance by increasing the Monetary Policy Rate to 15.00 per cent from 14.50

per cent. The band around the policy rate however remained unchanged with the Lending and Deposit Facility rates at 19.00 per cent and 12.00 per cent respectively. The interbank rate increased to 14.07 per cent in May 2018 from 13.43 per cent in April 2018, while 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 a declining trend across all tenures in May 2018. The yield on the 91-days treasury bills declined from 8.16 per cent in April 2018 to 7.52 per cent in May 2018. The 182-day treasury Bills contracted from 8.83 per cent to 8.05 per cent. The yield on the 364-day treasury bills decreased from 23.17 per cent to 23.10 per cent in the same period.

Table 3: Interest Rates (%)

	2017								2018				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
91-day Treasury bill rate	9.43	9.88	11.46	10.87	11.19	11.17	11.01	8.22	7.18	8.15	8.37	8.16	7.52
182-day Treasury bill rate	9.11	15.31	15.18	14.97	13.91	12.43	10.62	9.68	10.12	10.16	10.34	8.83	8.05
364-day treasury bill rate	23.82	24.08	22.2	22.70	22.89	22.95	22.73	21.17	20.64	22.42	23.03	23.17	23.1
Interbank rate	10.36	10.69	11.14	11.15	11.92	14.04	13.68	13.22	12.94	12.35	13.53	13.43	14.07
Standing Lending Facility	13.00	16.00	16.00	16.00	16.00	17.00	17.00	19.00	19.00	19.00	19.00	19.00	19.00
Standing Deposit Facility	6.5	9.00	9.00	9.00	9.00	10.00	10.00	12.00	12.00	12.00	12.00	12.00	12.00
MPR	12.00	13.00	13.00	13.00	13.00	14.00	14.00	14.50	14.50	14.50	14.50	14.50	15.00
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

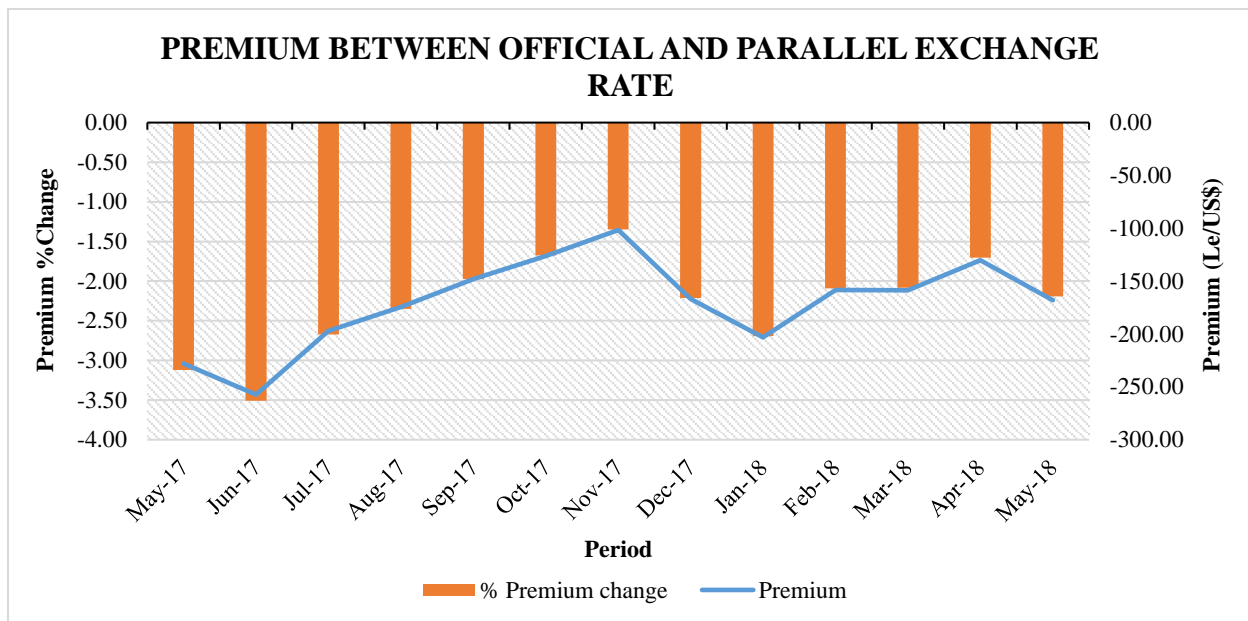
Source: Research Department, BSL

5.0 Exchange Rate Developments

The average exchange rate of the Leone against the US dollar depreciated marginally in May 2018. The development in the Leone was reflected across all segments of the foreign exchange market. On the buying front, the Leone depreciated by 0.79 per cent in the parallel market, 0.39 per cent in the commercial banks, 0.39 per cent in the official segment and 0.23 per cent in the bureau segment, averaging Le7,811.36/US\$1, Le7,690.27/US\$1, Le7,594.23/US\$1 and Le7,576.19/US\$1 respectively.

Similarly, on the selling front, the parallel market, commercial banks, official and bureau exchange rates depreciated by 0.95 per cent, 0.43 per cent, 0.39 per cent and 0.22 per cent, averaging Le7,866.82/US\$1, Le7,818.82/US\$1, Le7,747.65/US\$1 and Le7,745.32/US\$1 respectively.

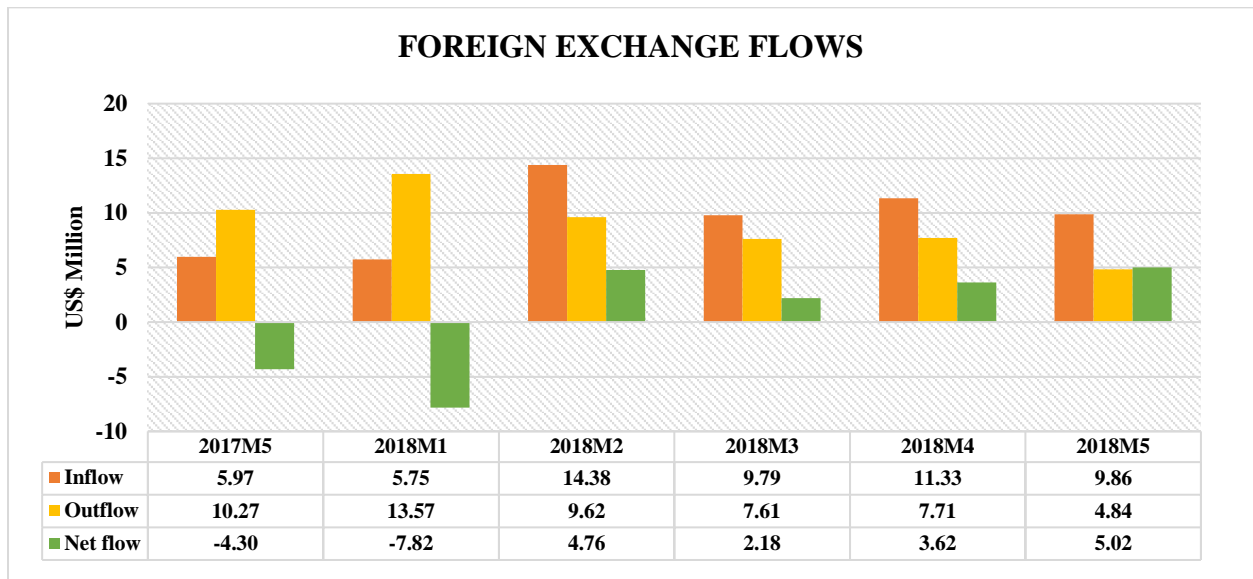
The premium between the Official and Parallel rates widened by 0.41 percentage point to Le217.13/US\$1 in May 2018 from Le185.34/US\$1 in April, 2018.

Figure 7: Premium between Official and Parallel Exchange Rates

Source: Research Department, Bank of Sierra Leone

6.0 Gross Foreign Exchange Reserves

Gross Foreign Exchange Reserves of the Bank of Sierra Leone stood at US\$506.50mn in May 2018 from US\$507.24mn recorded in April 2018. The marginal decline in reserves was mainly driven by the combined effects of a revaluation loss of US\$5.76mn and a net inflow of US\$5.02mn in the review month. Inflows during the period amounted to US\$9.86mn, comprising export receipts of US\$5.74mn; US\$2.35mn being other government receipts; and US\$1.12mn being funds from Petroleum Resources Unit. Outflows amounted to US\$4.84mn, comprising US\$2.21mn of payments for goods and services and US\$2.64mn being debt service payments to various creditors.

Figure 8: Foreign Exchange Flows

Source: Research Department, Bank of Sierra Leone