



BANK OF SIERRA LEONE

**Monthly Economic
Review**

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Review**

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ABBREVIATIONS

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
OIN	-	Other Items Net
RM	-	Reserve Money
SLF	-	Standing Lending Facility
SDF	-	Standing Deposit Facility
SSL	-	Statistics Sierra Leone
WB	-	World Bank

1.0 Highlights

Inflationary pressures slowdown in November 2018, as annual headline inflation decelerated by 1.15 percentage point to 18.14 per cent from 19.29 per cent in October 2018. This decline in inflation was largely explained by increased supply of domestically produced food stuff, relative stability in the exchange rate and prudent monetary and fiscal policies.

Government budgetary operations in November 2018 resulted in reduction in fiscal deficit to Le 86.87bn from Le 192.26bn recorded in October 2018. This is attributed to the decline in payments of pensions, wages and salaries and other government expenditures.

Developments in the monetary aggregates exhibited mixed trends during the review month as Broad Money (M2) slightly increased, while Reserve Money (RM) marginally declined. The increase in M2 was mainly reflected in Net Domestic Assets (NDA) of the banking system, as Net Foreign Assets (NFA) of the banking system reduced.

The Monetary Policy Rate (MPR) remained unchanged at 16.50 per cent. The Standing Lending and Deposit Facilities rates also remained unchanged at 20.50 per cent and 13.50 per cent respectively. Similarly, the commercial banks' average lending and savings deposits rates remained at 21.35 per cent and 2.38 per cent respectively. However, the interbank rate increased from 14.51 per cent in October 2018 to 15.28 per cent in November 2018.

The stock of gross foreign exchange reserves of the Bank of Sierra Leone decreased by 3.33 per cent to USD 467.69mn at end-November 2018, from the level of USD 483.77mn recorded at end-October 2018. This development was on account of outflows of USD 24.67mn outweighing inflows of USD 8.58mn resulting in a net outflow of USD 16.09mn.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

The manufacturing sector recorded reduced performance in November 2018, as the production of most of the manufacturing products decreased in the review month. Maltina production declined by 2.97 per cent to 29.08 thousand cartons, while soft drinks decreased by 1.10 per cent to 97.68 thousand crates. Cement and acetylene production declined by 4.09 per cent to 25.56 thousand metric tons and by 6.57 per cent to 22.74 thousand cubic feet respectively, while common soap production declined by 17.49 per cent to 38.58 thousand metric tons. Conversely, beer and stout production increased by 1.55 per cent to 198.70 thousand cartons, while paint production rose by 10.28 per cent to 62.54 thousand gallons. Similarly, oxygen and confectionery production increased by 18.57 per cent to 25.67 thousand cubic feet and 6.82 per cent to 159.40 thousand pounds respectively.

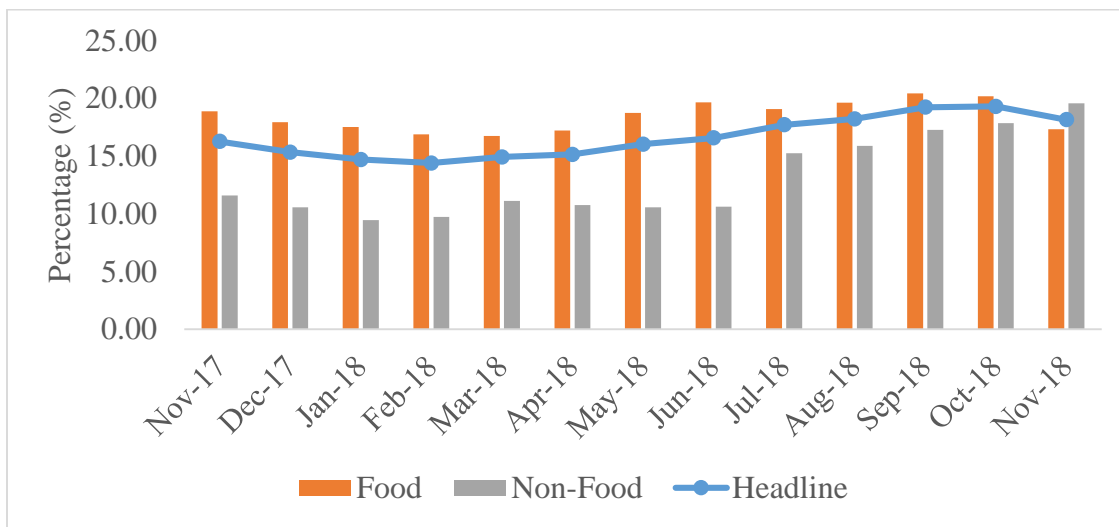
2.1.2 Mining Sector

Developments in the mining sector were mixed in November 2018. Diamond production increased by 48.65 per cent to 78.77 thousand carats in November 2018. Of the total diamonds produced, industrial diamond amounted to 33.67 thousand carats, while gem diamond amounted to 45.10 thousand carats, Bauxite production grew by 5.90 per cent to 122.04 thousand metric tons in the review period. Conversely, rutile and ilmenite production declined by 23.77 per cent to 6.19 thousand metric tons and 22.99 per cent to 3.33 thousand metric tons respectively. Zircom production fell by 22.99 per cent to 1.34 thousand metric tons.

2.2 Price Development

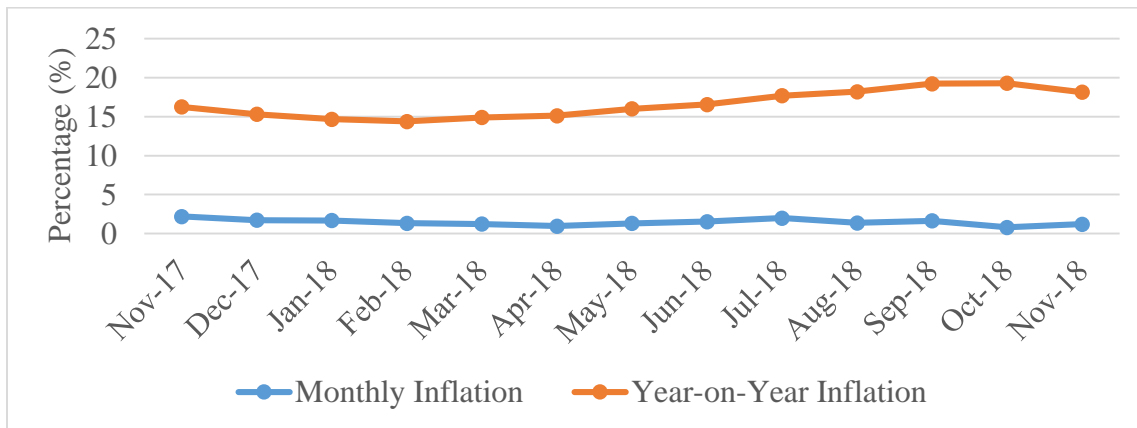
Inflationary pressures slowdown in November 2018, as annual headline inflation (yr-on-yr) decelerated to 18.14 per cent from 19.29 per cent in October 2018. The decrease in inflation was largely explained by increased supply of domestically produced food stuff, relative stability in the exchange rate and prudent monetary and fiscal policies. Food inflation declined to 17.32 per cent in November 2018 from 20.18 per cent in October 2018. Non-food inflation increased to 19.57 per cent in November 2018 from 17.86 per cent in October 2018.

Figure 1: Headline, Food and Non-Food Inflation



Source: Research Department, Bank of Sierra Leone

On a month-on-month basis, consumer price inflation increased to 1.22 per cent in November 2018 from 0.80 per cent in October 2018.

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

Source: Research Department, Bank of Sierra Leone

On regional basis, year-on-year inflation decelerated across all the four regions. Western Area inflation fell to 16.93 per cent in November 2018 from 18.11 per cent in October 2018; Eastern region inflation rate dropped to 18.35 per cent in November 2018 from 18.55 per cent in October 2018; Southern region inflation rate declined to 19.14 per cent in November 2018 from 21.29 per cent in October 2018; and Northern region inflation rate was 19.45 per cent in November 2018 from 20.40 per cent in October 2018.

3.0 Government Budgetary Operations

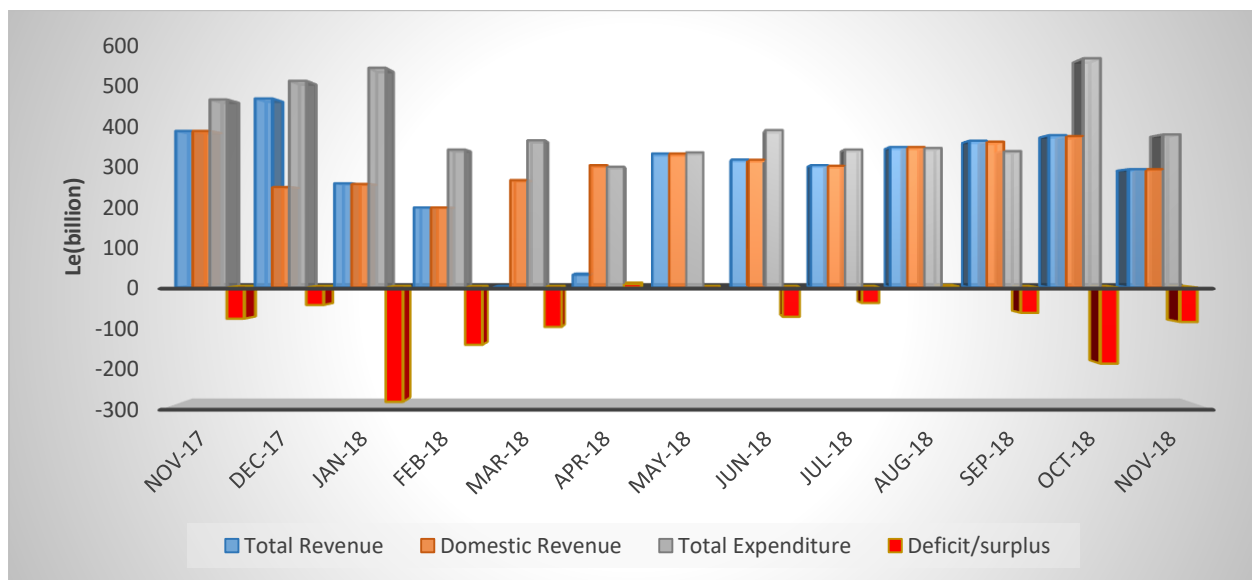
Developments in fiscal operations in November 2018 resulted in reduction in fiscal deficit to Le 86.87bn from the deficit of Le192.26bn recorded in October 2018. This was due to a 33.22 per cent decline in expenditure which was higher relative to the 21.82 per cent decline in revenue.

3.1 Revenues

Government's domestic revenue amounted to Le296.10bn, representing a decline by 21.82 per cent. This underperformance in domestic revenue was driven by decreases in receipts from all its main components.

Receipts from customs and excise duties declined by 2.68 per cent to Le55.08bn, while income tax revenue dropped by 22.82 per cent to Le86.88bn. Similarly, goods and services tax receipts declined by 19.53 per cent to Le69.57bn, while non-tax revenue decelerated by 31.33 per cent to Le84.45bn.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditures

Government spending in November 2018 declined by 33.22 per cent to Le382.88bn, driven mainly by a contraction in spending on pensions, wages and salaries and other expenditure on goods and services. Expenditure on pension, wages and salaries plummeted by 50.33 per cent to Le78.30bn while other expenditure on goods and services declined by 25.82 per cent to Le169.10bn.

Meanwhile, debt services payment increased by 60.03 per cent to Le135.48bn, which domestic debt services payment amounted to Le97.78bn and foreign debt services payment amounted to Le37.69bn.

3.3 Financing

The overall fiscal deficit of Le86.87bn was financed exclusively from domestic resources.

4.0 Monetary Developments

Developments in monetary aggregates were mixed in the review month, as Broad Money (M2) slightly increased, Reserve Money (RM) marginally declined.

4.1 Broad Money

Broad Money (M2) increased marginally by 0.01 per cent in November 2018, from an expansion of 2.89 per cent in October 2018. From the asset side, the expansion in M2 was attributed to the increase in Net Domestic Assets (NDA) of the banking system, which was somewhat moderated by decrease in Net Foreign Assets (NFA) of the banking system.

NDA of the banking system increased slightly by 0.18 per cent in November 2018, relative to 3.96 per cent in October 2018. This development mainly reflected increased utilization of Ways and Means advances by the government. Credit to private sector by commercial banks also 1.67 per cent growth in the review period.

NFA of the banking system contracted by 0.44 per cent in November 2018, compared to an expansion of 0.07 per cent in October 2018. This was due to a fall in the NFA of BSL partly explained by payments including, foreign currency SWAP transactions with commercial banks, debt service payments and embassy payments. Exchange rate depreciation also contributed to increase in foreign liability of the BSL and reinforced the fall in the net foreign assets of the Banking system.

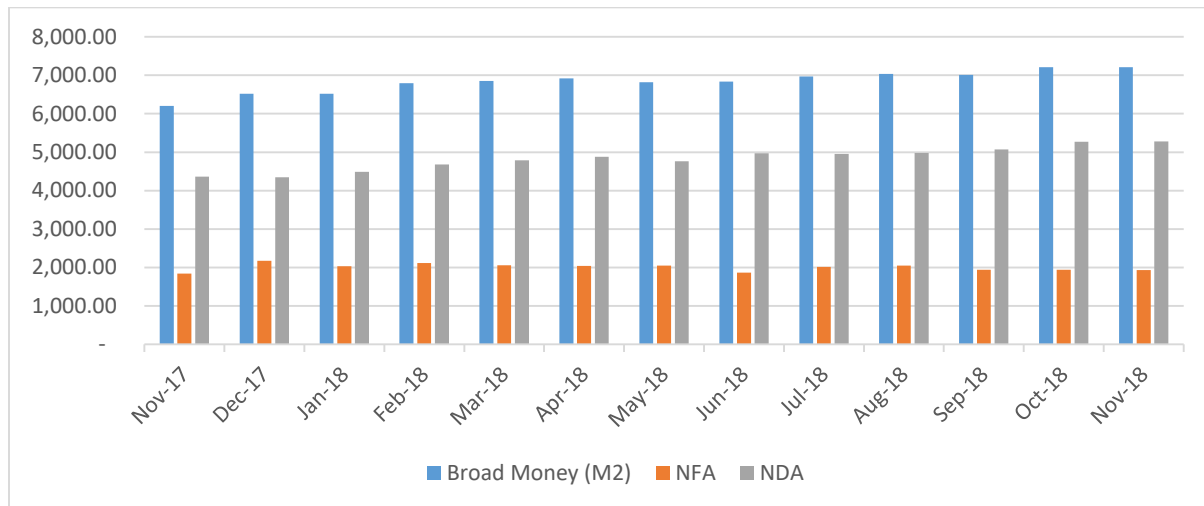
NFA of ODCs on the other hand increased by 7.43 per cent in November 2018, relative to the growth of 2.02 per cent in October 2018. This was mainly due to receipt of payment in respect of foreign currency SWAP transactions with the central Bank.

Table 1: Broad Money and its Components

Billions of Leones	2018		Absolute Change		(% Change)	
	Oct-18	Nov-18	Oct-18	Nov-18	Oct-18	Nov-18
Reserve money	2,178.90	2,171.22	159.24	(7.68)	7.88	(0.35)
Broad Money (M2)	7,210.40	7,211.11	202.32	0.71	2.89	0.01
Narrow money (M1)	3,162.55	3,133.04	108.00	(29.51)	3.54	(0.93)
Currency outside banks	1,485.78	1,565.29	1.50	79.51	0.10	5.35
Demand deposit	1,676.77	1,567.75	106.50	(109.02)	6.78	(6.50)
Quasi money	4,044.80	4,074.98	94.41	30.18	2.39	0.75
o.w. Foreign currency deposit	2,034.82	2,123.74	130.39	88.92	6.85	4.37
Time and saving deposit	2,009.98	1,951.24	(35.98)	(58.74)	(1.76)	(2.92)
Net Foreign Asset	1,941.69	1,933.09	1.45	(8.60)	0.07	(0.44)
BSL	142.72	0.45	(34.14)	(142.27)	(19.30)	(99.68)
ODCs	1,798.97	1,932.64	35.59	133.67	2.02	7.43
Net Domestic Assets	5,268.71	5,278.02	200.87	9.31	3.96	0.18
Net Domestic Credit	6,781.35	6,943.79	244.21	162.44	3.74	2.40
Government (Net)	4,946.60	5,063.88	268.73	117.28	5.74	2.37
Private Sector	1,814.59	1,844.27	(13.65)	29.68	(0.75)	1.64
o.w. BSL	33.70	33.56	0.10	(0.14)	0.30	(0.42)
ODCs	1,780.89	1,810.71	(13.75)	29.82	(0.77)	1.67
Other Sectors (Net)*	20.16	35.64	(10.87)	15.48	(35.03)	76.79
Other Items (Net)	(1,512.64)	(1,665.77)	(43.34)	(153.13)	2.95	10.12
Money Multiplier	3.31					

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

Source: Research Department, Bank of Sierra Leone

Figure 4: Trends in M2, NFA and NDA

Source: Research Department, Bank of Sierra Leone

On the liability side, the growth in M2 reflected a 0.75 per cent increase in Quasi Money, relative to a 2.39 per cent growth in October 2019. The increase in Quasi Money reflected a 4.37 per cent expansion in foreign currency deposits, whilst time and saving deposits declined. Narrow Money (M1) contracted by 0.93 per cent in the review period, compared to a growth of 3.54 per cent in the previous month. The fall in M1 was mainly due to a 6.50 per cent decrease in demand deposit, as currency issued expanded by 5.35 per cent in the review month.

4.2 Reserve Money

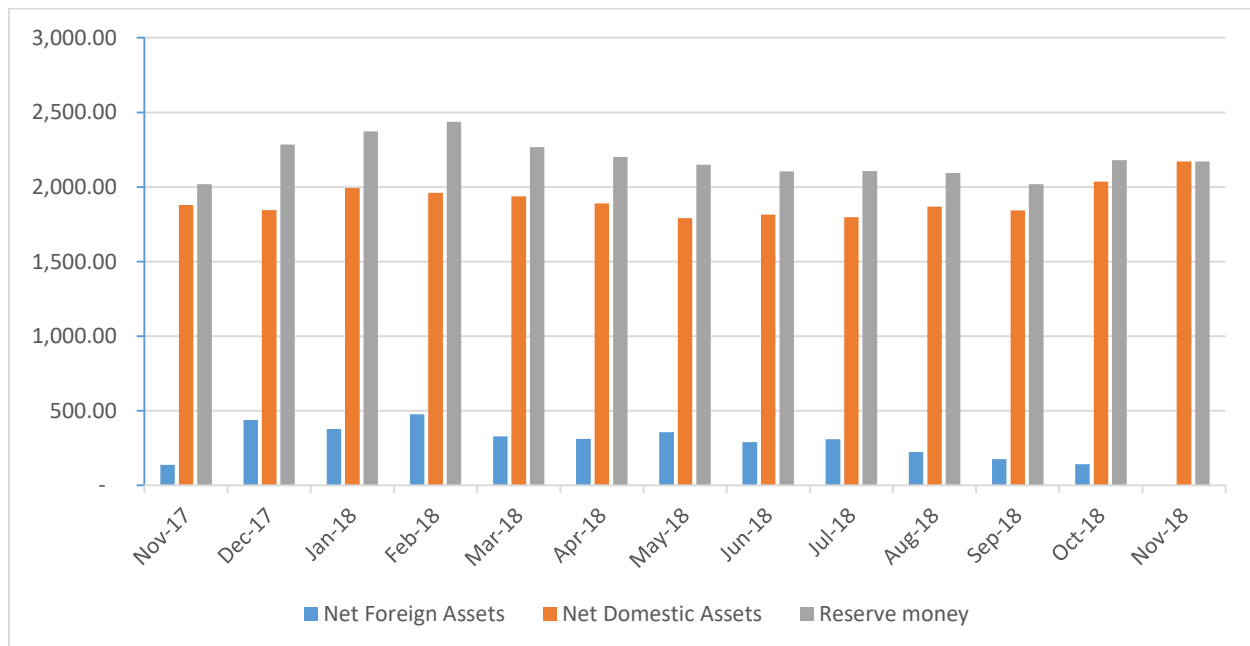
Reserve Money (RM) contracted slightly by 0.35 per cent in November 2018, relative to a growth of 7.88 per cent in October 2018.

Table 2: Reserve Money and its Components

Billions of Leones	2018		Absolute change		(% Change	
	Oct-18	Nov-18	Oct-18	Nov-18	Oct-18	Nov-18
1. Net Foreign Assets	142.72	0.45	(34.14)	(142.27)	(19.30)	(99.68)
2. Net Domestic Assets	2,036.18	2,170.77	193.38	134.59	10.49	6.61
2.1 Government Borrowing (net)	2,350.06	2,476.64	267.38	126.58	12.84	5.39
o.w. 2.11 Securities	1,241.50	1,317.53	95.05	76.03	8.29	6.12
2.12 Ways and Means	47.51	91.00	(60.13)	43.49	(55.86)	91.54
2.13 GoSL/IMF Budget financing	1,235.97	1,235.97	247.02	-	24.98	-
3. Reserve money	2,178.90	2,171.22	159.24	(7.68)	7.88	(0.35)
o.w. 3.1 Currency issued	1,674.36	1,738.13	(19.11)	63.77	(1.13)	3.81
3.2 Bank reserves	501.48	430.00	178.43	(71.48)	55.23	(14.25)

Source: Research Department, Bank of Sierra Leone

On the liability side, the decline in RM was primarily driven by the 14.25 per cent reduction in Banker`s reserves, compared to a growth of 55.23 per cent in the previous month. Currency issued increased by 3.81 per cent, relative to a decrease of 1.33 per cent recorded in the previous month.

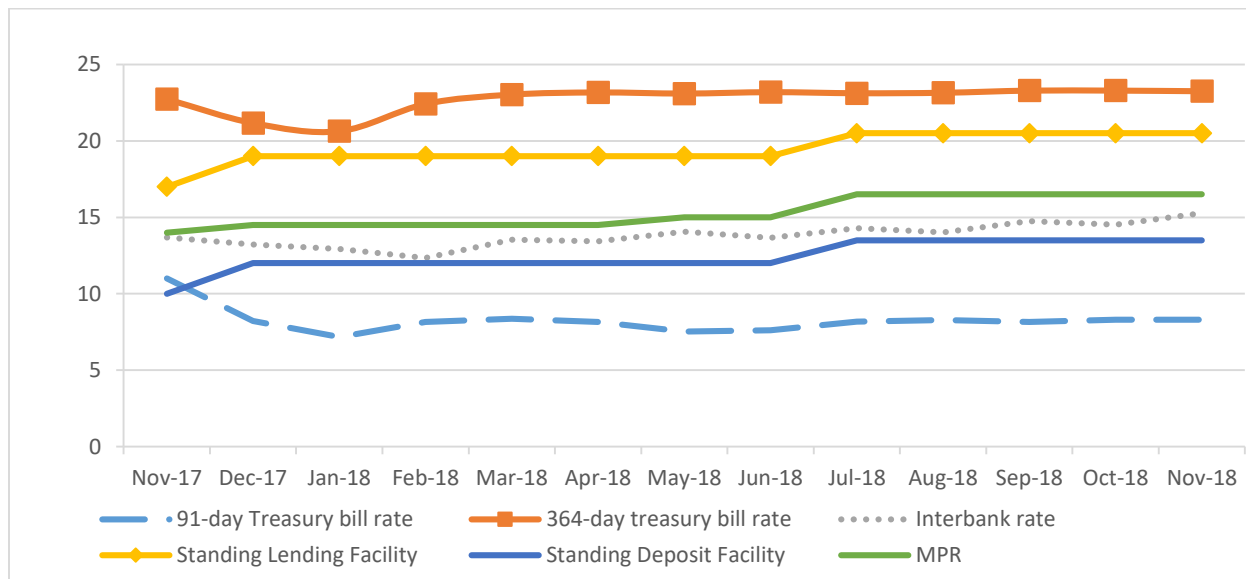
Figure 5: Reserve Money and Components

Source: Research Department, Bank of Sierra Leone

4.3 Interest Rates

The Monetary Policy Rate (MPR) remained unchanged at 16.50 per cent. The Standing Lending and Standing Deposit rates also remained unchanged at 20.50 per cent and 13.50 per cent respectively. The interbank rate increased from 14.51 per cent in October 2018 to 15.28 per cent in November 2018, but remained within the policy corridor. The Commercial Banks' average lending and savings deposits rates remained at 21.35 per cent and 2.38 per cent, respectively. The significant spread between the Lending and Deposits rate reflects the structural issues including the high operating cost of banks.

Figure 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, Bank of Sierra Leone

Yields on government securities exhibited mixed trends in the review month. The 91-days treasury bills remained the same at 8.30 per cent in November 2018. The 182- days also decreased from 7.86 per cent in the previous month to 6.22 per cent in the review month. Similarly, the 364-days treasury bills decreased from 23.29 per cent in October 2018 to 23.25 per cent in November 2018. These developments reflect the impact of fiscal consolidation efforts that to some extent led to a scale down in government borrowing from the banking system.

Table 3: Interest Rates (%)

	2017		2018										
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
91-day T-Bills	11.01	8.22	7.18	8.15	8.37	8.16	7.52	7.62	8.18	8.28	8.16	8.30	8.30
182-day T-Bills	10.62	9.68	10.12	10.16	10.34	8.83	8.05	8.20	8.40	8.09	8.05	7.86	6.22
364-day T-Bills	22.73	21.17	20.64	22.42	23.03	23.17	23.1	23.19	23.12	23.15	23.29	23.29	23.25
Interbank rate	13.68	13.22	12.94	12.35	13.53	13.43	14.07	13.66	14.28	14.02	14.76	14.51	15.28
Standing Lending Facility	17.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	20.50	20.50	20.50	20.50	20.50
Standing Deposit Facility	10.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	13.50	13.50	13.50	13.50	13.50
MPR	14.00	14.50	14.50	14.50	14.50	14.5	15.00	15.00	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
		17.92	17.92	17.92	17.92	17.92	17.92	17.92	17.92	17.92	17.92	17.92	17.92
Lending (Prime)	17.92 - 24.77	- 24.77	- 24.77	- 24.77	- 24.77	- 24.77	- 24.77	- 24.77	- 24.77	- 24.77	- 24.77	- 24.77	- 24.78
Savings deposits	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	3.38	3.38

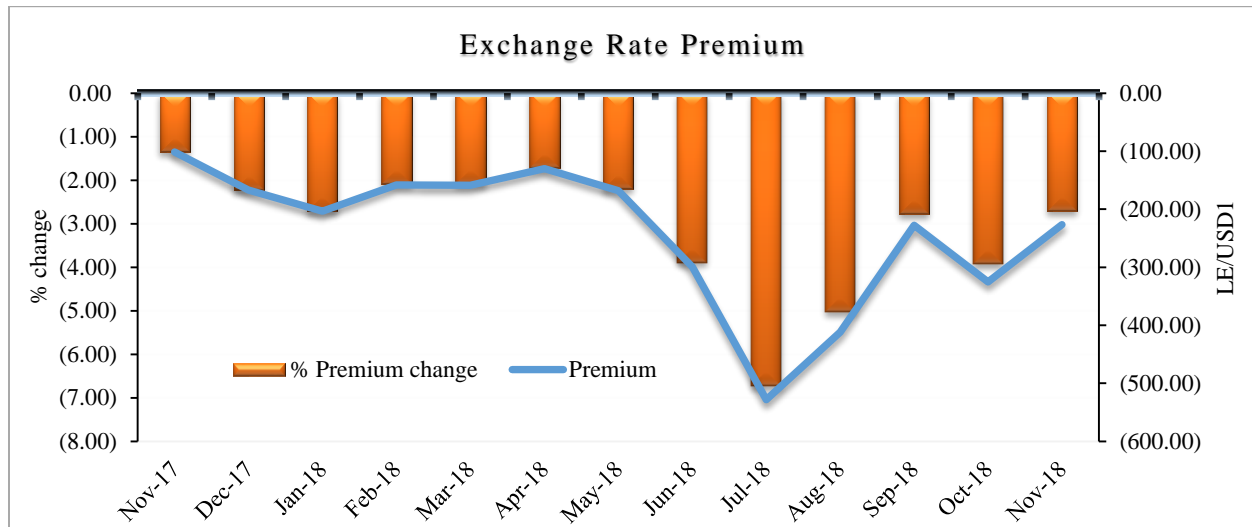
Source: Research Department, Bank of Sierra Leone

5.0 Exchange Rate Developments

The average buying and selling rates for the US dollar vis-à-vis the Leone was somewhat mixed in the various market segments. On the buying front, the official, commercial banks and bureau rates depreciated by 1.22 per cent, 1.00 per cent and 0.90 per cent, averaging Le8,309.09/USD1, Le8,438.71/USD1 and Le8,260.81/USD1 respectively; while the parallel market rate appreciated by 0.02 per cent, averaging Le8,576.19/USD1.

On the selling front, the exchange rate depreciated by 1.22 per cent, 1.05 per cent, 0.76 per cent and 0.07 per cent in the official, commercial banks, bureaux and parallel markets, averaging Le8,476.95/USD1, Le8,546.58/USD1, Le8,446.40/USD1 and Le8,662.38/\$1, respectively.

The premium between the Official and Parallel rates narrowed by 1.28 percentage point, to Le267.10/USD1 in November 2018, from Le369.03/USD1 in the preceding month.

Figure 7: Premium between Official and Parallel Exchange Rates

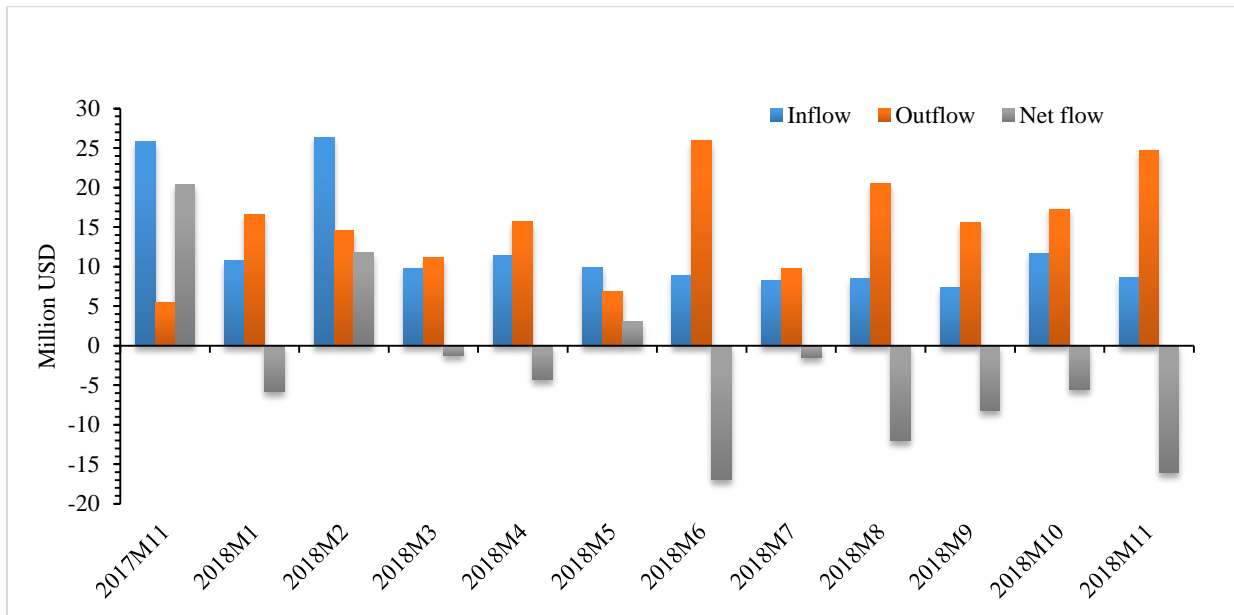
Source: Research Department, Bank of Sierra Leone

6.0 Gross Foreign Exchange Reserves

The stock of gross foreign exchange reserves of the Bank of Sierra Leone decreased by 3.33 per cent to USD467.69mn at end-November 2018, from the level of USD483.77mn recorded at end-October 2018. This development was on account of outflows of USD24.67mn outweighing inflows of USD8.58mn resulting in a net outflow of USD16.09mn.

Significant inflows during the period comprised USD5.58mn being export receipts of which USD1.61mn was receipts from timber exports and USD1.24mn was royalty payment by Sierra rutile; USD1.43mn being interest earned from the investment of reserves by the bank of Sierra Leone; while USD1.20mn was in respect of other government earnings.

Significant outflows comprised USD19.90mn, being payments for goods and services of which USD17.00mn was in relation to interbank market operations and USD1.64mn was embassy/missions payments; while debt service payment for the period amounted to USD4.78mn.

Figure 8: Foreign Exchange Flows

Source: Research Department, Bank of Sierra Leone