



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
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

Recent data on sectoral performance suggest that macroeconomic performance in October 2018 continued to be mixed. Inflationary continued during the month, as headline inflation increased slightly by 0.06 percentage points to 19.29 per cent in October 2018 from 19.23 per cent in previous month.

Government budgetary operations in October 2018 resulted in an overall deficit of Le192.26bn compared to the deficit of Le63.90bn in September 2018. This outturn was attributed to increased expenditures that outpaced revenues collected.

Developments in the monetary aggregates-Reserve Money (RM) and Broad Money (M2) - for the month of October 2018 were expansionary. Broad Money (M2) increased by 2.89 per cent in October 2018. The increase in M2 was as a result of an expansion in both Net Domestic Assets (NDA) and Net Foreign Assets (NFA) of the banking system. NDA increased from 1.70 per cent in September 2018 to 3.96 per cent in October 2018. Also, NFA of the banking system increased marginally by 0.07 per cent in October 2018 from a contraction of 5.30 per cent in September 2018.

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. 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 14.76 per cent in September 2018, to 14.51 per cent in October 2018.

The stock of gross foreign exchange reserves of the Bank of Sierra Leone as at end-October 2018 was US\$483.77mn, decreasing by 1.98 per cent from the level of US\$493.57mn that was recorded in the preceding month. This decline was due to the combined effects of a net outflow of US\$5.62mn and revaluation loss of US\$4.18mn.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

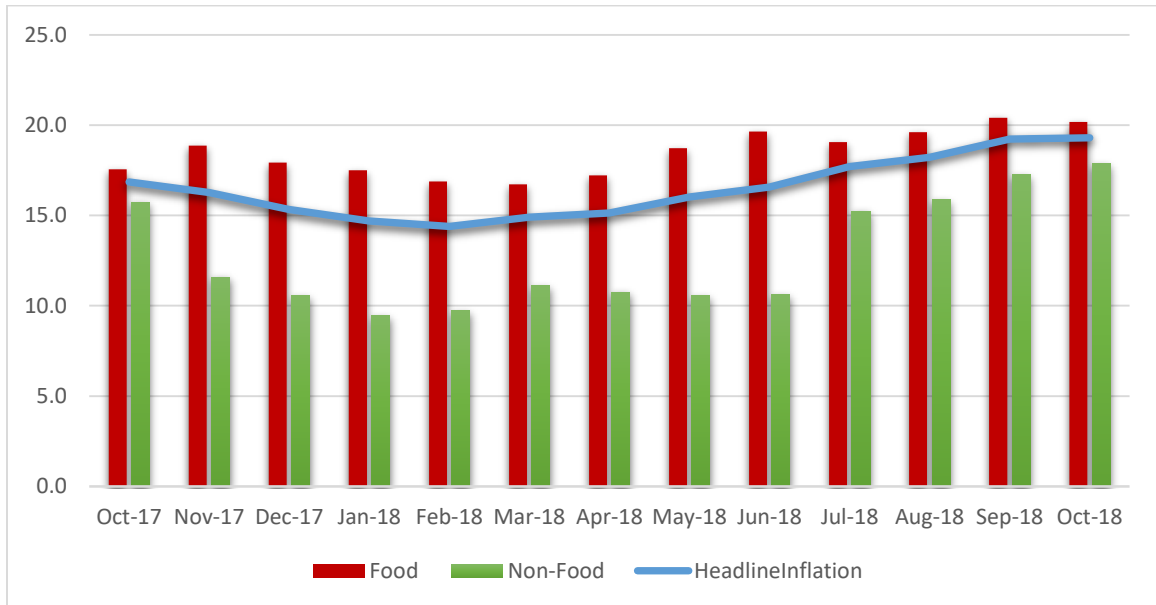
During the review month, performance in the manufacturing sector was generally modest. Beer & stout production grew by 6.92 per cent to 195.67 thousand cartons, while maltina increased by 7.04 per cent to 29.97 thousand cartons. Conversely, soft drinks production declined slightly by 0.01 per cent to 98.77 thousand crates, while cement production decreased by 5.19 per cent to 26.65 thousand metric ton. Similarly, paint production declined by 7.65 per cent to 56.71 thousand gallons; acetylene and oxygen production respectively declined by 5.91 per cent to 24.34 thousand cubic feet and by 5.83 per cent to 21.65 thousand cubic feet; while confectionery and common soap production respectively declined by 1.08 per cent to 198.78 thousand pounds and by 6.03 per cent to 46.76 thousand metric tons.

2.1.2 Mining Sector

Activity in the mining sector continued to be mixed. Diamond production recorded 52.99 thousand carats in October 2018 from 19.13 thousand carats in September 2018, gold production rose to 297.31 ounces in October 2018 from 30.05 ounces in September 2018. The total diamond produced included 24.65 thousand carats of industrial and 28.34 thousand carats of gem. However, bauxite, rutile and ilmenite recorded production declines during the period. Bauxite fell by 22.12 per cent to 115.24 thousand metric tons, rutile slowed by 24.11 per cent to 8.12 thousand metric tons, while ilmenite declined by 26.48 per cent to 4.36 thousand metric tons.

2.2 Price Development

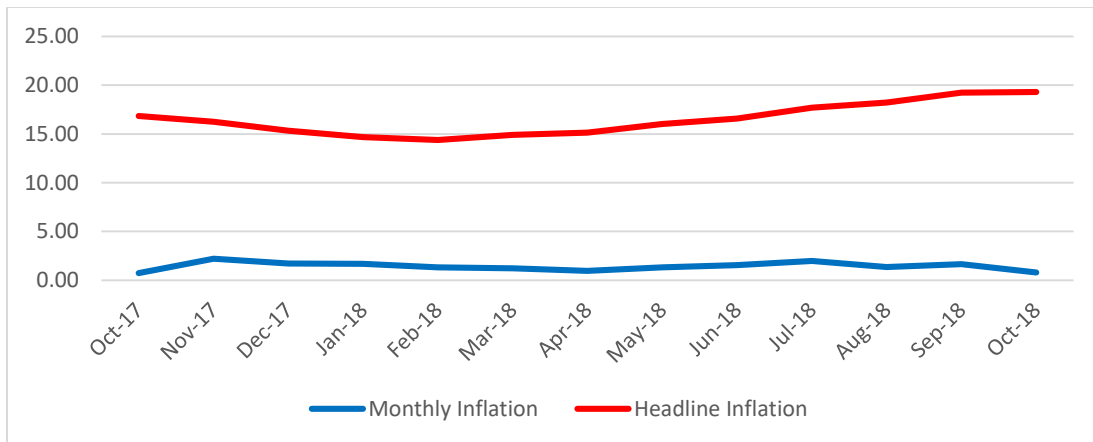
Inflationary pressures were elevated increased in October 2018, as headline inflation rose to 19.29 per cent from 19.23 per cent in September 2018. The price buildup in the review period was reflected in the non-food index, as food index recorded a decline. Food inflation fell slightly to 20.18 per cent in October 2018 from 20.41 per cent in September 2018, while non-food inflation slightly edged up to 17.86 per cent in October 2018 from 17.26 per cent in September 2018.

Figure 1: Headline, Food and Non-Food Inflation

Source: Research Department, Bank of Sierra Leone.

Regional trend exhibited increases in prices in the Western Area from 18.01 per cent in September to 18.11 per cent in October 2018 and in the Eastern region from 17.80 per cent in September 2018 to 18.55 per cent in October 2018. Inflation declined in the Southern region to 21.29 per cent in October 2018 from 21.35 per cent in September 2018 and in the Northern region to 20.40 per cent in October 2018 from 20.69 per cent in September 2018.

Month-on-month inflation registered a decline to 0.80 per cent in October 2018 from 1.64 per cent in September 2018.

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

Source: Research Department, Bank of Sierra Leone

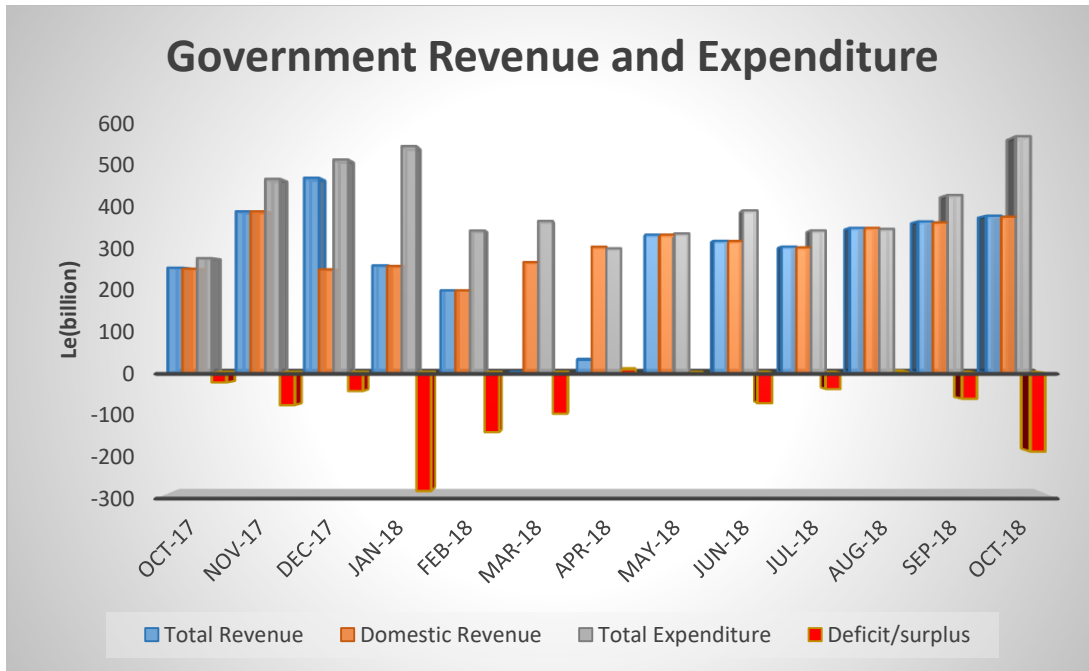
3.0 Government Budgetary Operations

Government budgetary operations in October 2018 resulted in an overall deficit of Le192.26bn compared to the deficit of Le63.90bn in September 2018. This outcome was attributed to increased expenditures that outpaced revenues collected.

3.1 Revenues

Total government revenue increased by 3.75 per cent to Le381.06bn, reflecting increase in domestic revenue mobilization. Domestic revenue rose by 3.79 per cent to Le378.65bn. The growth in domestic revenue was mainly driven by increase in revenue collected from non-tax and goods and services.

Receipts from non-tax expanded by 78.0 per cent to Le123.02bn, while goods and services tax rose by 11.90 per cent to Le86.45bn. On the other hand, revenue generated from customs and excise duties declined by 27.13 per cent to Le56.60bn; whereas revenue from income tax fell by 20.02 per cent to Le112.58bn.

Figure 3: Government Revenue and Expenditure

Source: Research Department, Bank of Sierra Leone

3.2 Expenditures

Government recurrent expenditure increased by 32.97 per cent to Le573.32bn due to expansion in spending on wages and salaries and other expenditure on goods and services. Pensions, wages and salaries grew by 35.08 per cent to Le156.86bn, while other expenditure on goods and services rose by 40.28 per cent to Le337.03bn. Debt services payment grew by 6.19 per cent to Le79.43bn of which domestic debt services payment amounted to Le44.97bn and foreign debt services payment amounted to Le34.46bn.

3.3 Financing

The fiscal deficit of Le192.26bn was financed from domestic resources.

4.0 Monetary Developments

Monetary aggregates, namely Reserve Money (RM) and Broad Money (M2) were expansionary in October 2018.

4.1 Broad Money

Broad Money (M2) increased by 2.89 per cent in October 2018, from a contraction of 0.34 per cent in September 2018. On the asset side, the increase in M2 reflected in both Net Domestic Assets (NDA) and Net Foreign Assets (NFA) of the banking system.

NDA of the banking system increased by 3.96 per cent in October 2018, relative to a growth of 1.70 per cent in September 2018. This development was mainly due to increase in net claims on government by the BSL on account of bridging financing extended to government in anticipation of disbursement of the World Bank budget support. Credit to the private sector by commercial Banks decreased by 0.77 per cent in the review period, relative to a growth of 4.04 per cent in the previous period.

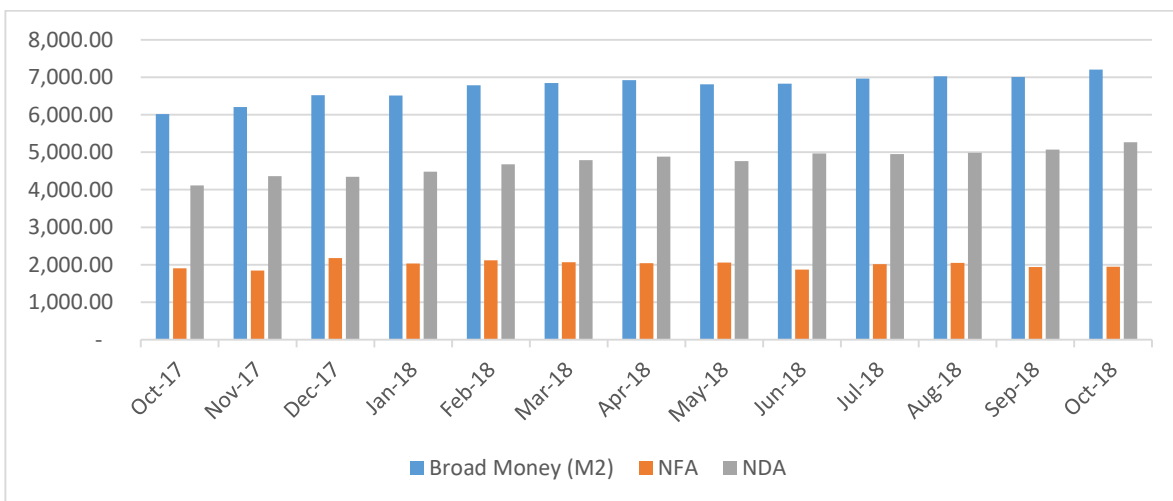
NFA of the banking system increased marginally by 0.07 per cent in October 2018, in contrast to a contraction of 5.30 per cent in September 2018.

Table 1: Broad Money and its Components

Billions of Leones	2018		Absolute Change		(% Change	
	Sep-18	Oct-18	Sep-18	Oct-18	Sep-18	Oct-18
Reserve money	2,019.66	2,178.90	(73.54)	159.24	(3.51)	7.88
Broad Money (M2)	7,008.08	7,210.40	(23.63)	202.32	(0.34)	2.89
Narrow money (M1)	3,054.55	3,162.55	(37.55)	108.00	(1.21)	3.54
Currency outside banks	1,484.28	1,485.78	2.09	1.50	0.14	0.10
Demand deposit	1,570.27	1,676.77	(39.64)	106.50	(2.46)	6.78
Quasi money	3,950.39	4,044.80	13.87	94.41	0.35	2.39
o.w. Foreign currency deposit	1,904.43	2,034.82	(57.98)	130.39	(2.95)	6.85
Time and saving deposit	2,045.96	2,009.98	71.85	(35.98)	3.64	(1.76)
Net Foreign Asset	1,940.24	1,941.69	(108.54)	1.45	(5.30)	0.07
BSL	176.86	142.72	(47.36)	(34.14)	(21.12)	(19.30)
ODCs	1,763.38	1,798.97	(61.18)	35.59	(3.35)	2.02
Net Domestic Assets	5,067.84	5,268.71	84.91	200.87	1.70	3.96
Net Domestic Credit	6,537.14	6,781.35	105.27	244.21	1.64	3.74
Government (Net)	4,677.87	4,946.60	(5.03)	268.73	(0.11)	5.74
Private Sector	1,828.24	1,814.59	69.71	(13.65)	3.96	(0.75)
o.w. BSL	33.60	33.70	0.01	0.10	0.03	0.30
ODCs	1,794.64	1,780.89	69.70	(13.75)	4.04	(0.77)
Other Sectors (Net)*	31.03	20.16	40.59	(10.87)	(424.58)	(35.03)
Other Items (Net)	(1,469.30)	(1,512.64)	(20.36)	(43.34)	1.41	2.95
Money Multiplier	3.47	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 was due to increase in both Narrow Money (M1) and Quai Money. M1 expanded by 3.54 per cent in the review period, relative to a 1.21 per cent decrease in September 2018, driven mainly by demand deposits which increase by 6.78 per cent . Quasi Money also expanded by 2.39 per cent in the review period, from a growth of 0.35 per cent in the previous period, and was on account of a 6.85 per cent increase in Foreign Currency Deposit.

4.2 Reserve Money

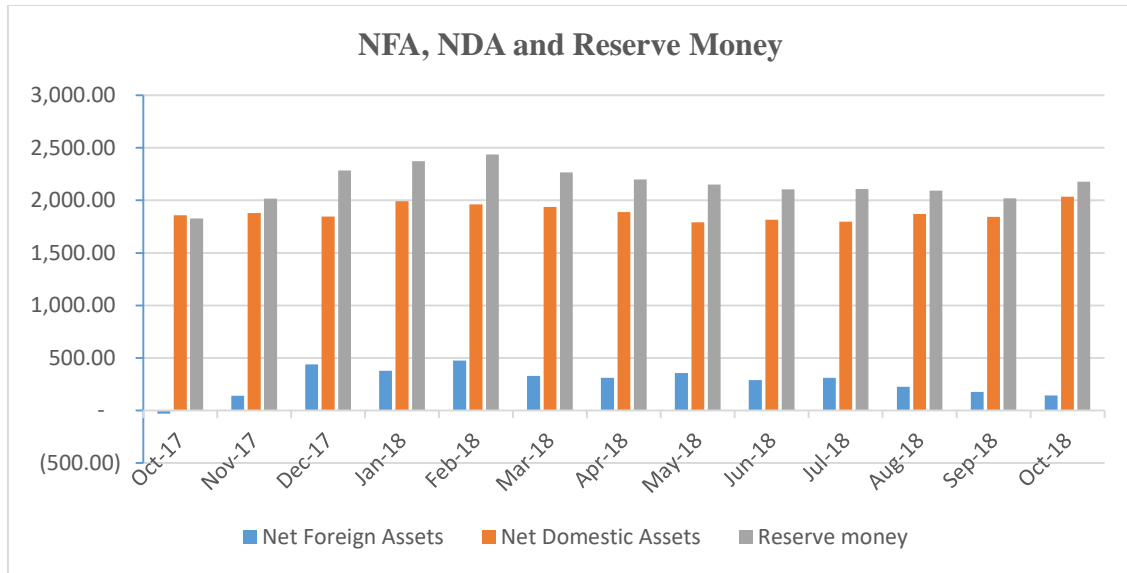
Reserve Money (RM) also expanded by 7.88 per cent in October 2018, from a contraction of 3.51 per cent in September 2018.

Table 2: Reserve Money and its Components

Billions of Leones	2018		Absolute change		(%) Change	
	Sep-18	Oct-18	Sep-18	Oct-18	Sep-18	Oct-18
1. Net Foreign Assets	176.86	142.72	(47.36)	(34.14)	(21.12)	(19.30)
2. Net Domestic Assets	1,842.80	2,036.18	(26.18)	193.38	(1.40)	10.49
2.1 Government Borrowing (net)	2,082.68	2,350.06	35.65	267.38	1.74	12.84
o.w. 2.11 Securities	1,146.45	1,241.50	39.89	95.05	3.60	8.29
2.12 Ways and Means	107.64	47.51	17.79	(60.13)	19.80	(55.86)
2.13 GoSL/IMF Budget financing	988.95	1,235.97	-	247.02	-	24.98
3. Reserve money	2,019.66	2,178.90	(73.54)	159.24	(3.51)	7.88
o.w. 3.1 Currency issued	1,693.47	1,674.36	(7.78)	(19.11)	(0.46)	(1.13)
3.2 Bank reserves	323.05	501.48	(65.82)	178.43	(16.93)	55.23

Source: Research Department, Bank of Sierra Leone

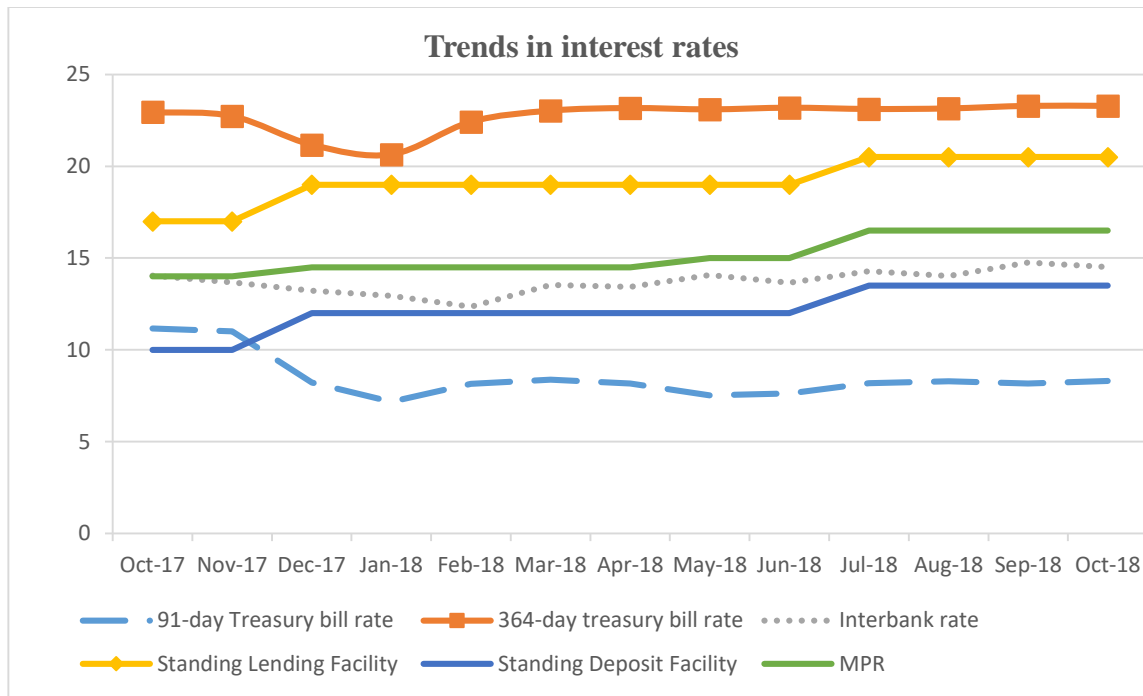
On the liability side, the increase in RM was primarily driven by the 55.23 per cent growth in Banker`s reserves in the review period, from a contraction of 16.93 per cent in the previous period. Currency issued declined by 1.13 per cent, from a decrease of 0.46 per cent during the same period under review.

Figure 5: Reserve Money and its Sources

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 Deposit Facilities rates also remained unchanged at 20.50 per cent and 13.50 per cent respectively. The interbank rate decreased from 14.76 per cent in September 2018, to 14.51 per cent in October 2018. The commercial banks' average 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, Bank of Sierra Leone

The yields on government securities recorded mixed trend during the review period. The 91-days T-Bills increased from 8.16 per cent in September 2018 to 8.30 per cent in October 2018. The 182- days T-Bills decreased from 8.05 per cent to 7.86 per cent in the review period. However, the 364-days T-Bills remained unchanged at 23.29 per cent during the reporting period.

Table 3: Interest Rates (%)

	2017			2018									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
91-day T-Bills	11.17	11.01	8.22	7.18	8.15	8.37	8.16	7.52	7.62	8.18	8.28	8.16	8.30
182-day T-Bills	12.43	10.62	9.68	10.12	10.16	10.34	8.83	8.05	8.20	8.40	8.09	8.05	7.86
364-day T-Bills	22.95	22.73	21.17	20.64	22.42	23.03	23.17	23.1	23.19	23.12	23.15	23.29	23.29
Interbank rate	14.04	13.68	13.22	12.94	12.35	13.53	13.43	14.07	13.66	14.28	14.02	14.76	14.51
Standing Lending Facility	17.00	17.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	20.50	20.50	20.50	20.50
Standing Deposit Facility	10.00	10.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	13.50	13.50	13.50	13.50
MPR	14.00	14.00	14.50	14.50	14.50	14.50	14.5	15.00	15.00	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	17.92
	-	-	-	-	-	-	-	-	-	-	-	-	-
Lending (Prime)	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	2.38	3.38

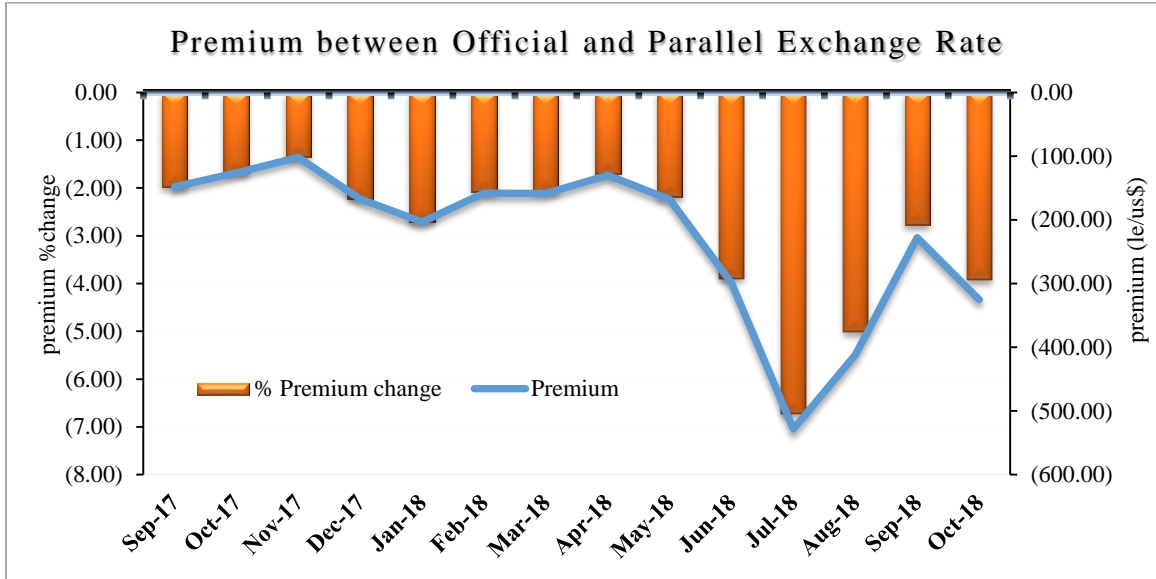
Source: Research Department, Bank of Sierra Leone

5.0 Exchange Rate Developments

In October 2018, the average exchange rate of the Leone against the US dollar depreciated across all the foreign exchange markets, with the exception of the bureaux market where the buying rate appreciated marginally. On the buying front, the Leone depreciated by 1.79 per cent, 0.52 per cent and 0.45 per cent in the parallel, official and commercial banks markets, averaging Le8,578.26/US\$1, Le8,209.23/US\$1 and Le8,355.48/US\$1 respectively. However, the bureaux market rate appreciated by 0.21 per cent averaging Le8,187.16/US\$1.

On the selling front, the exchange rate depreciated by 1.51 per cent, 0.54 per cent, 0.52 per cent and 0.14 per cent in the Parallel, Bureaux, Official and Commercial Banks markets, averaging Le8,656.52/\$1, Le8,382.74/\$1, Le8,375.07/US\$1 and Le8,457.92/US\$1 respectively.

The premium between the Official and Parallel rates widened by 1.31 percentage point, to Le369.03/US\$1 in October, 2018 from Le260.37/US\$1 in the preceding period.

Figure 7: Premium between Official and Parallel Exchange Rates

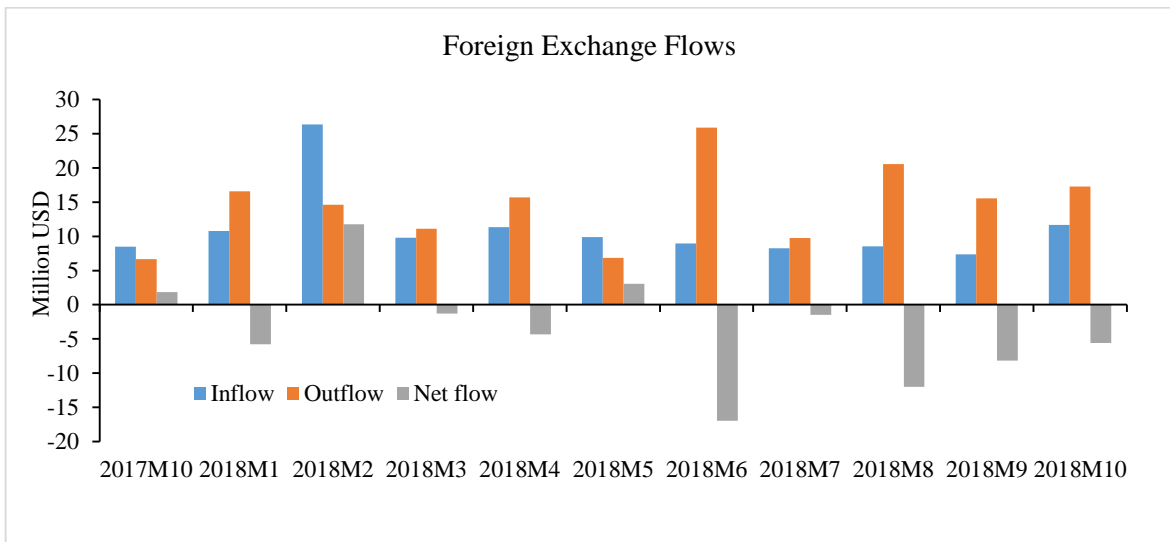
Source: Research Department, Bank of Sierra Leone

6.0 Gross Foreign Exchange Reserves

The stock of gross foreign exchange reserves of the Bank of Sierra Leone stood at US\$483.77mn at end-October 2018, decreasing by 1.98 per cent from the level of US\$493.57mn recorded in the preceding month. This was on account of the combined effects of a net outflow of US\$5.62mn and revaluation loss of US\$4.18mn.

Aggregate inflows during the period amounted to US\$11.67mn comprising mainly export receipts of US\$6.63mn – of which US\$2.38mn was receipts from timber export, US\$1.78mn was royalty payments from Sierra Rutile and US\$1.62mn was other mining receipts; and US\$2.43mn being returns on Bank of Sierra Leone’s investment abroad; while US\$2.17mn was in respect of other government receipts.

Aggregate outflows for the period amounted to US\$17.28mn, consisting of US\$13.71mn being payments for goods and services of which, Bank of Sierra Leone’s sales of foreign exchange in the interbank market amounted to US\$8.70mn; embassy/mission payments was US\$2.13mn; expenditure on government travels was US\$1.28mn; and debt service payment to various international creditors amounted to US\$3.58mn.

Figure 8: Foreign Exchange Flows

Source: Research Department, Bank of Sierra Leone