



BANK OF SIERRA LEONE

**Monthly Economic
Review**

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Review**

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ABBREVIATIONS

AfDB	-	African Development Bank
BSL	-	Bank of Sierra Leone
GoSL	-	Government of Sierra Leone
Gw/hr	-	Gega Watts per hour
IMF	-	International Monetary Fund
M1	-	Narrow Money
M2	-	Broad Money
MER	-	Monthly Economic Review
MPR	-	Monetary Policy Rate
NDA	-	Net Domestic Assets
NFA	-	Net Foreign Assets
ODC	-	Other Depository Corporation
OPEC	-	Organization of Petroleum Exporting Countries
OFID	-	OPEC Fund for International Development
RM	-	Reserve Money
SDF	-	Standing Deposit Facility
SLF	-	Standing Lending Facility
Y-o-Y	-	Year-on-Year

1.0 Highlights

Production performance in the manufacturing sector continued to be mixed in October 2019, as beer & stout, paint, acetylene, confectionery and common soap recorded increases in production. On the other hand, there were decreases in the production of maltina, cement and oxygen. In the mining sector, the production of diamond and rutile expanded, while bauxite, ilmenite and gold recorded decreases in production. Electricity generation increased due to improved performance in both thermal plant and hydro power generation during the reporting period.

Headline inflation increased to 15.85 percent in October 2019 from 15.16 percent in September 2019, largely due to the upturn in food inflation. Food inflation increased to 9.16 percent from 8.30 percent in September 2019, while non-food inflation increased marginally to 23.59 percent from 23.13 percent in September 2019.

Government fiscal operations on cash flow basis in October 2019 resulted in an overall deficit of Le337.86bn when compared to a deficit of Le12.30bn in September 2019. This outturn was attributed to the expansion in government expenditure coupled with a contraction in revenue mobilisation during the period.

There was no policy change during the review period. Consequently, the Monetary Policy Rate (MPR) remained unchanged at 16.50 percent. Similarly, the interbank rate remained unchanged at 18.57 percent in October 2019. The commercial banks' average Lending and Savings deposit rates remained unchanged at 21.35 percent and 2.38 percent, respectively.

Monetary aggregates during the month of October 2019 indicated expansion in both Broad Money (M2) and Reserve Money. Broad Money (M2) expanded by 3.39 percent in October 2019, relative to the 0.46 percent contraction in September 2019. The growth in M2 was largely reflected in Net Domestic Assets (NDA) of the Banking systems. Similarly, Reserve Money (RM) expanded by 7.06 percent in October 2019, compared to the 1.07 percent contraction in September 2019. The expansion in RM was due to increase in the Net Domestic Assets of the Bank of Sierra Leone.

The gross foreign exchange reserves of the Bank of Sierra Leone increased modestly by 0.23 percent to US\$527.97mn in October 2019 from US\$526.75mn in September 2019, mainly driven by an increase in inflows of US\$13.44mn over outflows of US\$12.22mn, resulting to a net inflow of US\$1.22mn.

The monthly average exchange rate movement of the Leone relative to the US dollar remained stable as reflected in the narrowing of the Premium between the Official and Parallel rates.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

Performance in the manufacturing sector continued to be mixed in October 2019. Output for beer & stout increased by 7.98 percent to 178.64 thousand cartons. Paint and acetylene production rose by 12.18 percent to 56.45 thousand gallons, and 4.43 percent to 28.76 thousand cubic feet respectively. Confectionery and common soap production increased by 1.42 percent to 211.71 thousand pounds, and 5.59 percent to 53.24 thousand metric tons respectively. However, output for maltina and cement declined by 3.15 percent to 26.78 thousand cartons, and 6.89 percent to 26.76 thousand metric tons respectively. Similarly, oxygen production declined by 4.89 percent to 25.66 thousand cubic feet.

2.1.2 Mining Sector

Activities in the mining sector were mixed in the month of October 2019. Diamond production increased by 37.13 percent to 94.59 thousand carats. This amount comprised of industrial diamond of 39.92 thousand carats and gem diamond of 54.67 thousand carats. Rutile production increased by 7.34 percent to 14.19 thousand metric tons. However, bauxite and ilmenite production declined by 9.80 percent to 143.20 thousand metric tons, and 14.74 percent to 5.38 thousand metric tons respectively. Gold production also fell by 9.53 percent to 165.65 ounces.

2.1.3 Electricity

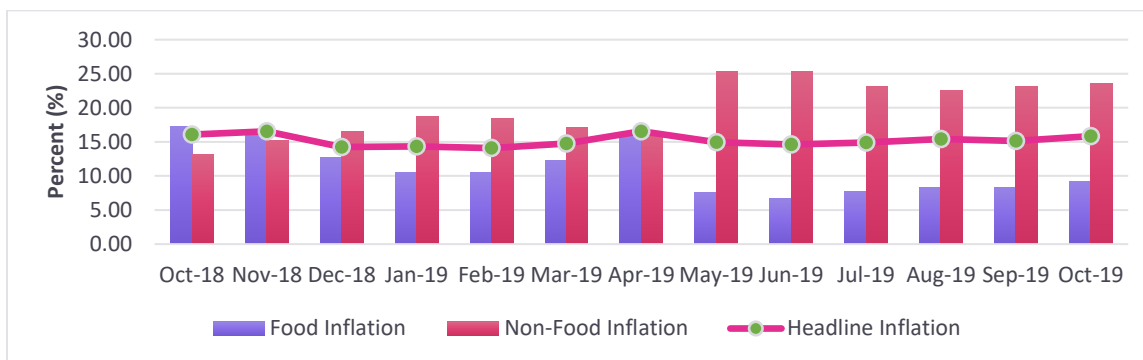
Electricity generated for the month of October 2019 was 32.18 Gw/hr reflecting 8.18 percent increase when compared to 29.74Gw/hr in September 2019. The improvement in electricity generation was on account of increased generation in both thermal plant and hydro power. Hydro power increased to 31.32 Gw/hr in October 2019 from 29.04 Gw/hr in September 2019. Similarly, thermal plant generation increased to 0.86 Gw/hr in October 2019 from 0.70 Gw/her in September 2019.

2.2 Price Development

Annual headline inflation increased to 15.85 percent in October 2019 from 15.16 percent in September 2019. The increase in the headline inflation was largely accounted for by the upturn in food inflation. Food inflation increased to 9.16 percent from 8.30 percent in September 2019, while non-food inflation increased marginally to 23.59 percent from 23.13 percent in September 2019.

Regional trends indicated that inflation decreased in both the Southern and Northern regions, while inflation increased in the Eastern and Western regions. Southern region inflation declined to 13.29 percent in October 2019 from 14.39 percent in September 2019, and Northern region inflation dropped to 13.24 percent in October 2019 from 16.42 percent in September 2019. However, inflation increased in Western Area to 15.96 percent in October 2019 from 12.59 percent in September 2019, and Eastern region to 23.51 percent in October 2019 from 21.79 percent in September 2019 respectively.

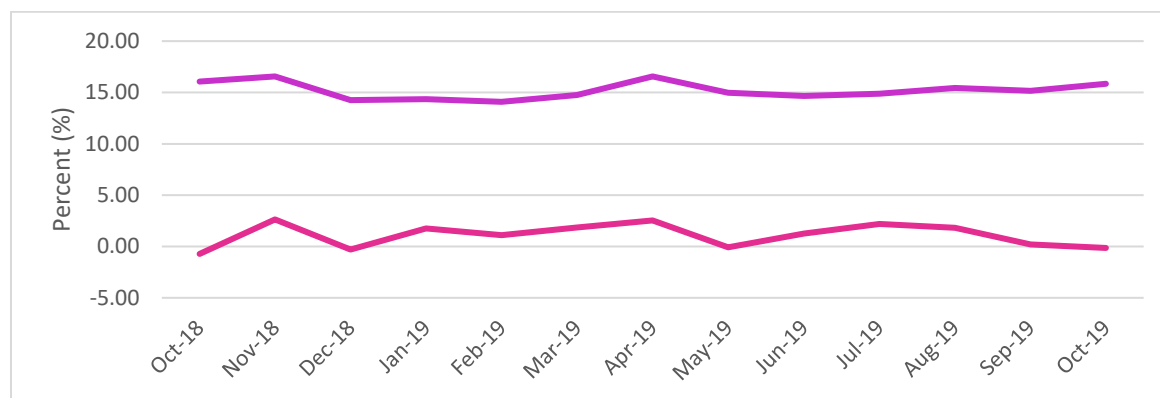
Figure 1: Headline, Food and Non-Food Inflation



Source: Statistics Sierra Leone

On a month-on-month basis, prices decelerated significantly with a monthly inflation of (-0.13) percent in October 2019 from 0.19 percent in September 2019.

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



Source: Statistics Sierra Leone

3.0 Government Budgetary Operations

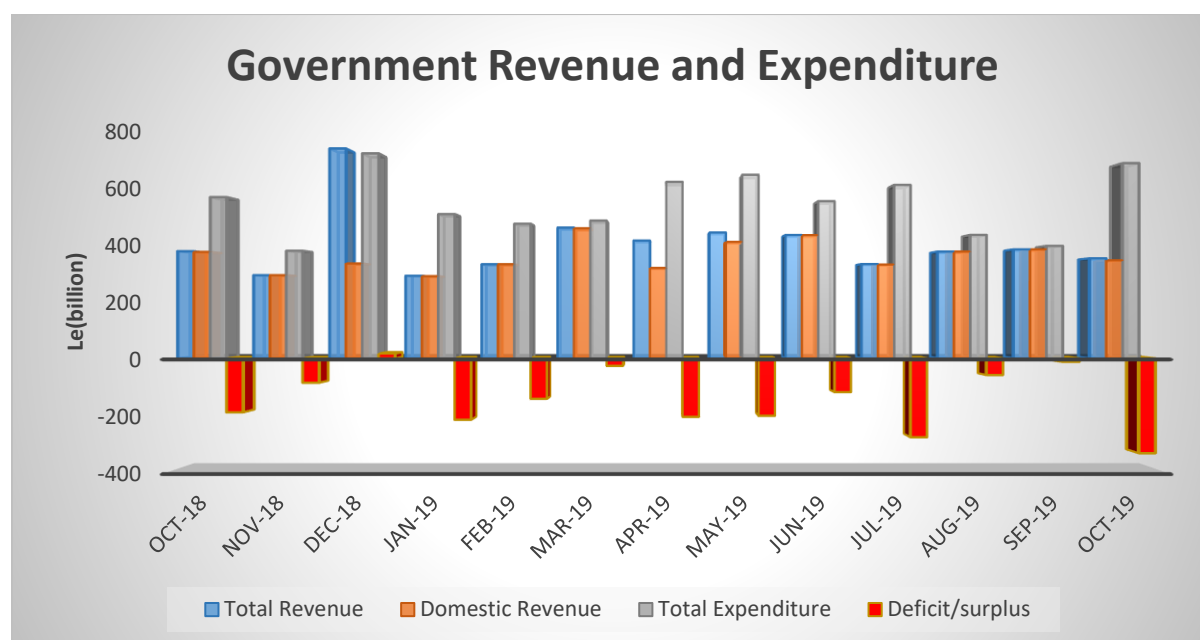
Government fiscal operations on cash flow basis in October 2019 resulted in an overall deficit of Le337.86bn compared to a deficit of Le12.30bn in September 2019. This outturn was attributed to the expansion in government expenditure coupled with a contraction in revenue mobilisation during the period.

3.1 Revenue

Government revenue contracted by 8.22 percent to Le355.86bn and was 21.72 percent below the projected target of Le454.57bn. The contraction in government revenue was mainly due to the decline in domestic revenue mobilization. There was no external budgetary support for the review period.

Domestic revenue declined by 10.09 percent to Le348.62bn. This decline was driven by a contraction in revenue collected from income tax and non-tax (miscellaneous). Receipts from Income tax contracted by 35.56 percent to Le101.30bn, while Non-tax revenue (miscellaneous) declined by 21.36 percent to Le81.80bn. However, receipts from Customs and Excise expanded by 28.41 percent to Le61.37bn, and Goods and Services tax improved by 5.65 percent to Le84.07bn.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditure

Government expenditure expanded by 73.41 percent to Le693.72bn in October 2019. This development was largely explained by increases in pensions, wages and salaries (wage bill) and other expenditure. Expenditure on pensions, wages and salaries increased by 80.63 percent to Le224.89bn. Similarly, other expenditure increased significantly to Le406.86bn in October 2019 from Le178.40bn in September 2019. Debt service payments declined by 36.21 percent to Le 61.97bn, of which domestic debt services amounted to Le42.17bn and foreign debt services payment amounted to Le19.79bn.

3.3 Financing

The overall deficit of Le337.86bn was financed entirely from domestic sources.

4.0 Monetary Developments

Developments in monetary aggregates during the month of October 2019 indicate moderate expansion in both Broad Money (M2) and Reserve Money.

4.1 Broad Money

Broad Money (M2) expanded by 3.39 percent in October 2019, relative to the 0.46 percent contraction in September 2019. The growth in M2 was largely reflected in Net Domestic Assets (NDA) of the banking system, as Net foreign Assets (NFA) of the banking system recorded marginal increase during the review month.

NDA of the banking system grew by 4.16 percent in October 2019, relative to the 0.82 percent growth recorded in September 2019. NDA growth was mainly on account of bank financing of fiscal operations and growth in Credit to the private Sector. The financing of the central government by the banking system increased by 4.98 percent compared with 0.73 percent in the previous months. Credit to the Private Sector by commercial banks grew by 2.94 percent in October 2019, compared to 2.98 percent growth recorded in September 2019.

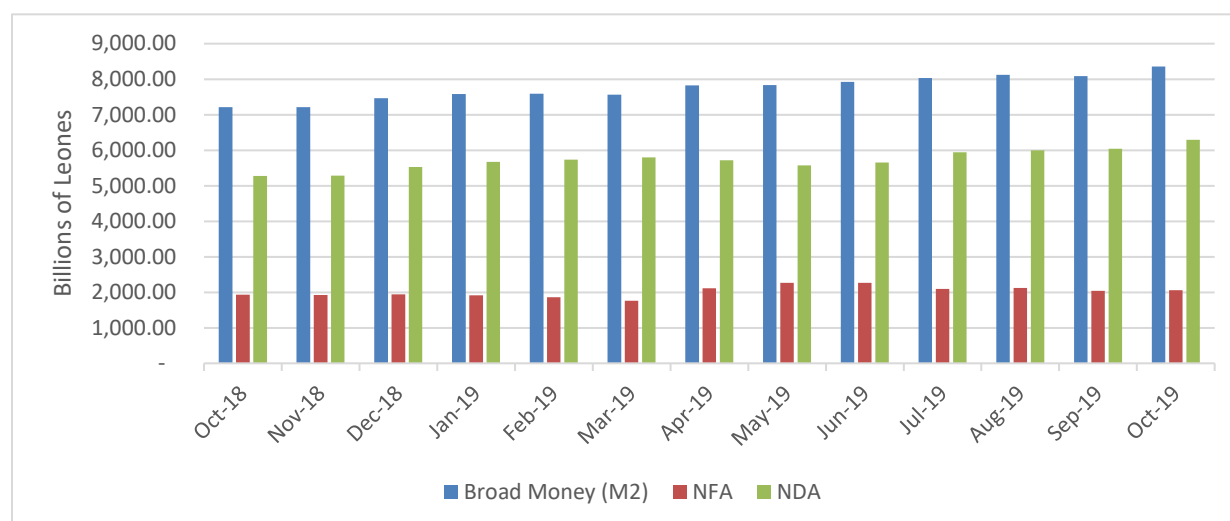
NFA of the banking system slightly increased by 1.11 percent in October 2019, compared with the 4.09 contraction recorded in September 2019. The marginal growth in NFA was due to combination of factors including, buildup in the Special Drawing Right (SDR) Holdings, increase in the Nostro accounts of commercial banks and royalties and export receipts from mining, marine resources and timber.

Table 1: Broad Money and its Components

Billions of Leones	2019		Absolute Change		% Change	
	Sept.-19	Oct.-19	Sept.-19	Oct.-19	Sept.-19	Oct.-19
Reserve money	2,292.58	2,454.52	(24.74)	161.95	(1.07)	7.06
Broad Money (M2)	8,082.66	8,356.51	(37.43)	273.86	(0.46)	3.39
Narrow money (M1)	3,613.35	3,814.86	(25.76)	201.51	(0.71)	5.58
Currency outside banks	1,654.82	1,743.45	(12.08)	88.63	(0.72)	5.36
Demand deposit	1,958.53	2,071.41	(13.68)	112.88	(0.69)	5.76
Quasi money	4,469.30	4,541.65	(11.67)	72.35	(0.26)	1.62
o.w. Foreign currency deposit	2,168.28	2,229.92	(57.54)	61.65	(2.59)	2.84
Time and saving deposit	2,296.38	2,307.53	45.73	11.15	2.03	0.49
Net Foreign Asset	2,037.98	2,060.53	(86.86)	22.55	(4.09)	1.11
BSL	353.01	361.17	(33.25)	8.16	(8.61)	2.31
ODCs	1,684.97	1,699.36	(53.61)	14.39	(3.08)	0.85
Net Domestic Assets	6,044.67	6,295.99	49.43	251.31	0.82	4.16
Net Domestic Credit	8,114.89	8,378.37	120.98	263.48	1.51	3.25
Government (Net)	5,846.65	6,137.99	42.54	291.35	0.73	4.98
o.w. BSL	2,361.96	2,574.03	46.48	212.07	2.01	8.98
ODCs	3,484.68	3,563.96	(508.56)	79.28	(12.74)	2.28
Private Sector Credit (ODCs)	2,264.13	2,330.62	65.57	66.49	2.98	2.94
Other Sectors (Net)*	(26.39)	(120.71)	13.24	(94.32)	(33.41)	357.33
Other Items (Net)	(2,070.21)	(2,082.38)	(71.55)	(12.17)	3.58	0.59
Money Multiplier	3.53	3.40				

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

Figure 4: Trends in M2, NFA and NDA



Source: Research Department, BSL

From the liabilities side, the growth in M2 translated into expansion in both Narrow Money (M1) and Quasi Money (QM). M1 expanded by 5.58 percent, due to increases in both currency outside banks and demand deposits by 5.36 percent and 5.76 percent respectively. Quasi Money expanded by 1.62 percent mainly due to the 2.84 percent growth in foreign currency deposits.

4.2 Reserve Money

Reserve Money (RM) expanded by 7.06 percent in October 2019, compared to the 1.07 percent contraction in September 2019. The expansion in RM was due to an increase in both NDA and NFA of BSL. The NDA of BSL increased by 7.93 percent, on account of increased utilization of Ways and Means Advances coupled with bridge financing extended to the government in anticipation of the World Bank budget support. NFA of BSL marginally increased by 2.31 percent.

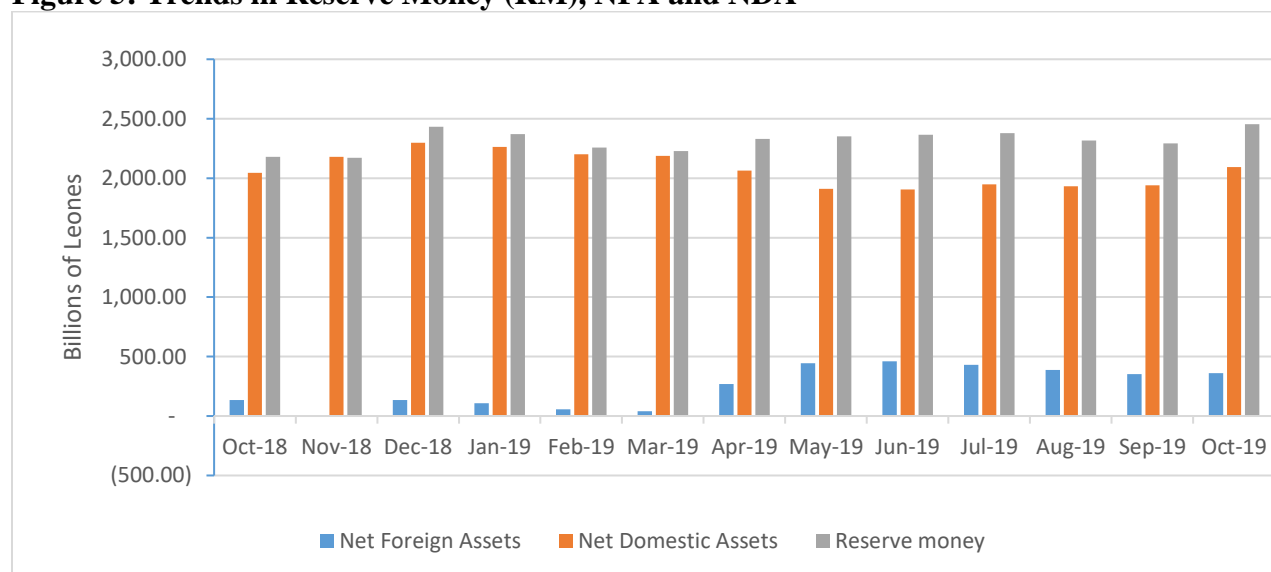
On the liability side, the growth in Reserve Money reflected increases in currency in circulation and banks' reserves by 4.00 percent and 21.57 percent respectively.

Table 2: Reserve Money and its Components

Billions of Leones	2019		Absolute Change		% Change	
	Sept.-2019	Oct.-2019	Sept.-2019	Oct.- 2019	Sept.-19	Oct.-19
1. Net Foreign Assets	353.01	361.17	(33.25)	8.16	(8.61)	2.31
2. Net Domestic Assets	1,939.57	2,093.36	8.51	153.79	0.44	7.93
2.1 Government Borrowing (net)	2,361.96	2,574.03	46.48	212.07	2.01	8.98
o.w. 2.11 Securities	1,096.90	1,042.12	80.13	(54.78)	7.88	(4.99)
2.12 Ways and Means	136.34	192.69	(38.36)	56.35	(21.96)	41.33
2.13 GoSL/IMF /WB Budget financing	1,294.80	1,502.11	-	207.31	-	16.01
3. Reserve money	2,292.58	2,454.52	(24.74)	161.95	(1.07)	7.06
o.w. 3.1 Currency issued	1,884.46	1,959.83	(3.24)	75.38	(0.17)	4.00
3.2 Bank reserves	403.47	490.49	(21.65)	87.02	(5.09)	21.57

Source: Research Department, BSL

Figure 5: Trends in Reserve Money (RM), NFA and NDA

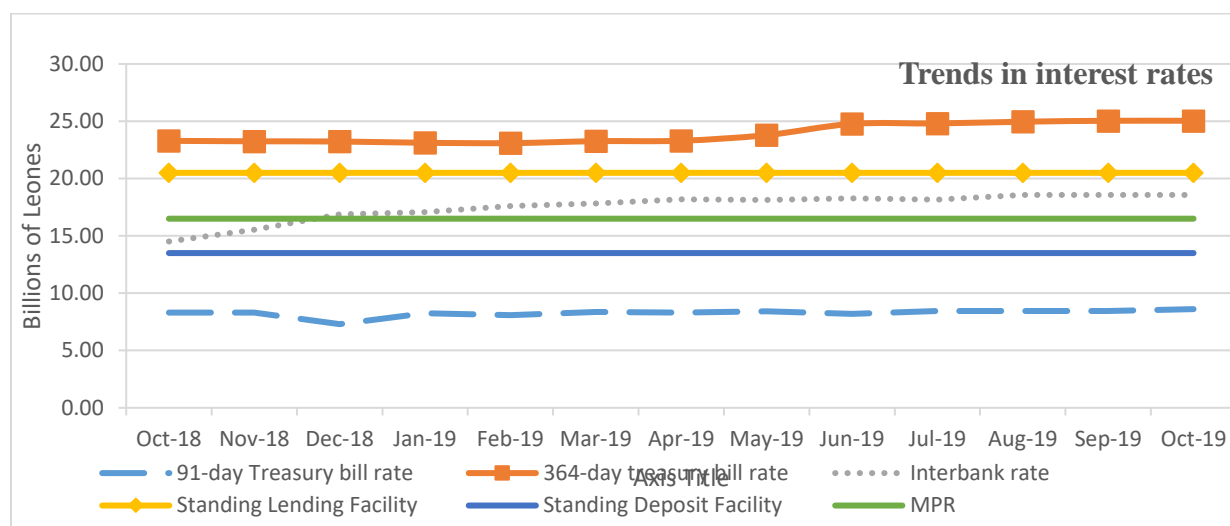


Source: Research Department, BSL

4.3 Interest Rates

The Monetary Policy Rate of the Bank of Sierra Leone remained unchanged at 16.50 percent in October 2019. The Standing Lending and Deposit Facility rates remained unchanged at 20.50 percent and 13.50 percent respectively. Similarly, the interbank rate remained unchanged at 18.57 percent in October 2019. The commercial banks' average Lending and Savings Deposit rates remained unchanged at 24.77 percent and 2.38 percent, respectively.

Figure 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

Interest rate in the money market exhibited an upward trend in October 2019. Yields on 91-days, 182-days and 364-days Treasury Bills increased from 8.44 percent, 11.38 percent and 25.04 percent percent in September 2019 to 8.61 percent, 12.46 percent and 25.0 percent in October 2019, respectively.

Table 3: Interest Rates (%)

	2018			2019									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
91-day T-Bills	8.30	8.30	7.30	8.26	8.08	8.35	8.30	8.41	8.20	8.44	8.44	8.44	8.61
182-day T-Bills	7.86	6.22	8.14	8.42	8.40	8.23	8.20	7.23	7.13	8.53	8.54	11.38	12.46
364-day T-Bills	23.29	23.25	23.23	23.12	23.09	23.26	23.3	23.79	24.77	24.81	24.96	25.04	25.05
Interbank rate	14.51	15.53	16.88	17.07	17.61	17.84	18.18	18.12	18.27	18.16	18.57	18.57	18.68
SLF	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50
SDF	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50
MPR	16.50	16.50	16.50	16.50	16.50	16.50	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
		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	24.77
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

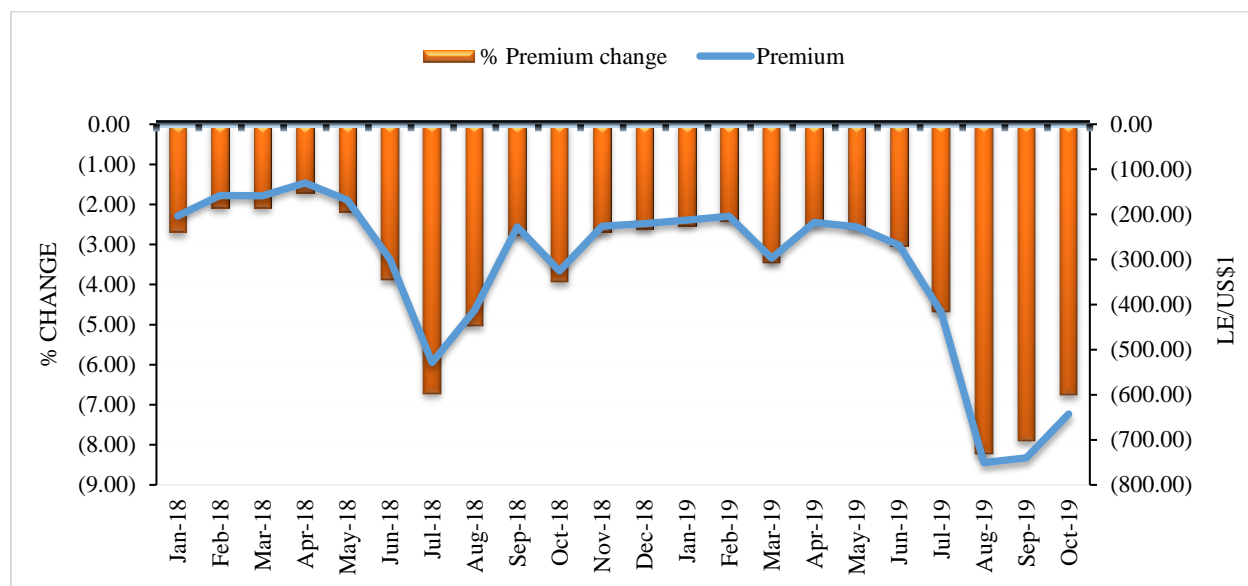
Source: Research Department, BSL

5.0 Exchange Rate Developments

In October 2019, the average exchange rate of the Leone vis-à-vis the US dollar depreciated in all foreign exchange markets. On the buying front, the Leone depreciated in the bureaux market, official, commercial bank, and parallel markets by 2.24 percent, 1.80 percent, 1.34 percent and 0.61 percent, averaging Le9,360.18/US\$1, Le9,430.51/US\$1, Le9,586.55/US\$1 and Le10,130.43/US\$1, respectively. Similarly, on the selling front, the Leone depreciated in the bureaux market, official, commercial bank, and parallel markets by 3.00 percent, 1.80 percent, 1.50 percent and 0.79 percent, averaging Le9,621.77/US\$1, Le9,621.03/US\$1, Le9,765.40/US\$1 and Le10,206.52/US\$1 respectively.

The average premium between the official and parallel rates narrowed by 1.16 percentage points to Le642.70/US\$1 in October, 2019 from Le740.15/US\$1 in September, 2019 (See figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

6.0 Gross Foreign Exchange Reserves

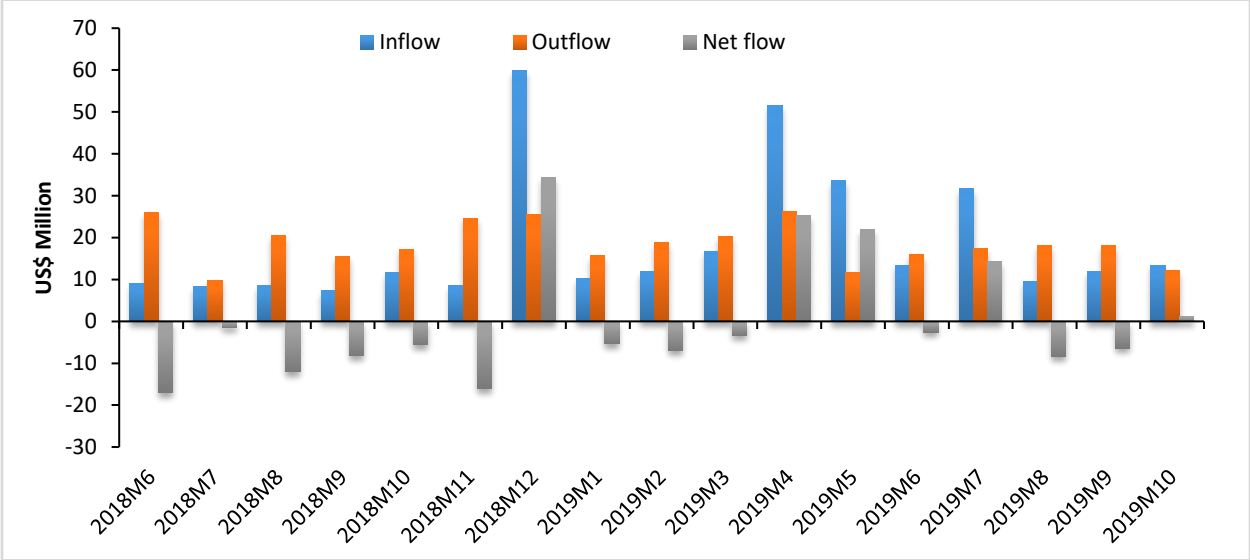
The gross foreign exchange reserves of the Bank of Sierra Leone increased modestly by 0.23 percent to US\$527.97mn in October 2019 from US\$526.75mn in September 2019, mainly driven by an increase in inflows of US\$13.44mn over outflows of US\$12.22mn, resulting to a net inflow of US\$1.22mn.

Significant inflows included receipts from export (US\$4.80mn) of which; receipts earned from Sierra Rutile (US\$1.64mn), timber (US\$1.28mn), Koidu Holdings Mining co. (US\$0.71mn), and other mining receipts (US\$0.52mn). Other inflows comprised receipts from swap arrangement with commercial banks (US\$6.50mn), interest earned by BSL from investments abroad (US\$0.95mn), and other government receipts (US\$0.88mn).

Significant outflows comprised payments of goods and services (US\$10.43mn), of which: embassy and mission payments (US\$1.97mn), government travels (US\$0.78mn) and other government expenditure in respect of transfer of funds to Wimmat publication limited for the purchase of text books for the free education program, payments for server and website maintenance and overseas medical fees for government officials (US\$7.15mn). Other outflows

were in respect of debt service payments to IMF (US\$0.61mn), AfDB (US\$0.58mn), OPEC/OFID (US\$0.34mn) and other multilateral and bilateral creditors (US\$0.26mn).

Figure 8: Foreign Exchange Flows



Source: Bank of Sierra Leone