



**BANK OF SIERRA LEONE**

**Monthly  
Economic  
Review**

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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
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
WB	-	World Bank

## 1.0 Highlights

Macroeconomic performance displayed mixed trends during the month of September 2017. Inflationary pressures continued to be moderate in September 2017, as annual headline inflation decreased further to 17.83 per cent in September 2017, from 18.01 per cent in August 2017. The slowdown in inflation was mainly due to a decline in non-food inflation.

Government fiscal operations improved considerably as the deficit narrowed to Le28.18bn in September 2017 from a deficit of Le153.10bn in August 2017. This outturn was attributed to increased revenue collections mainly through taxes and reduced expenditures during the review month.

Growth in monetary aggregates for the reporting month continued to be contractionary, with both Broad Money (M2) and Reserve Money (RM) contracting by 0.72 per cent and 2.39 per cent respectively, in September 2017. The monetary policy rate, lending and deposit facilities remained at 13 per cent, 16 per cent and 9 per cent respectively, at end September 2017, reflecting further tightening of the monetary policy stance by the Bank of Sierra Leone.

Responding to BSL's tight monetary policy stance, the interbank market rate increased marginally to 11.92 per cent in September 2017 from 11.15 per cent in August 2017, while the average lending and savings deposits rates of commercial banks continued to remain unchanged at 21.35 per cent and 2.38 per cent respectively in September 2017.

Gross International Reserves of the BSL declined further by 0.35 per cent from US\$490.02mn as at end August 2017 to US\$488.43mn as at end September 2017, on account of outflows of US\$8.82mn, significantly outweighing inflows of US\$3.81mn, resulting to a net inflow of US\$5.01mn.

The exchange rate of the Leone against the United States dollar in both the buying and selling fronts showed mixed trends during the month of September, 2017.

## **2.0 Production and Prices**

### **2.1 Production**

#### **2.1.1 Manufacturing**

Performance in the manufacturing sector remained mixed during the review period. Positive outturn were noted for oxygen and cement. On the downside, outputs in the paint and acetylene industries contracted. Cement production increased slightly to 22.16 thousand metric tons in September 2017 from 21.20 thousand metric tons in August 2017 while oxygen increased by 11.68 per cent to 18.65 thousand cubic feet in September 2017 from 16.70 thousand cubic feet in August 2017.

However, paint production decreased to 49.32 thousand gallons in September 2017 from 57.11 thousand gallons in August 2017 while acetylene production dropped by 35 per cent to 32.50 thousand metric tons in September 2017 from 50.0 thousand metric tons in August 2017.

#### **2.1.2 Mining**

The mining sector exhibited mixed performance during the reporting month. Diamond production increased by 25.93 per cent to 23.26 thousand carats in September 2017 from 18.47 thousand carats in August 2017. Of this, industrial diamond comprises 10.78 thousand carats while gem diamond consists of 12.48 thousand carats. Rutile and ilmenite production improved marginally while bauxite production dropped by 4.40 per cent 2017 to 132.41 thousand metric tons in September 2017 from 138.50 thousand metric tons in August 2017. The biggest drop in production is reflected in gold production which declined by 48.76 per cent to 178.06 ounces in September 2017 from 347.48 ounces in August 2017. Similar trend were reflected in iron ore production which drop by 18.62 per cent to 305.66 metric tons in September 2017 from 257.67 metric tons in August 2017.

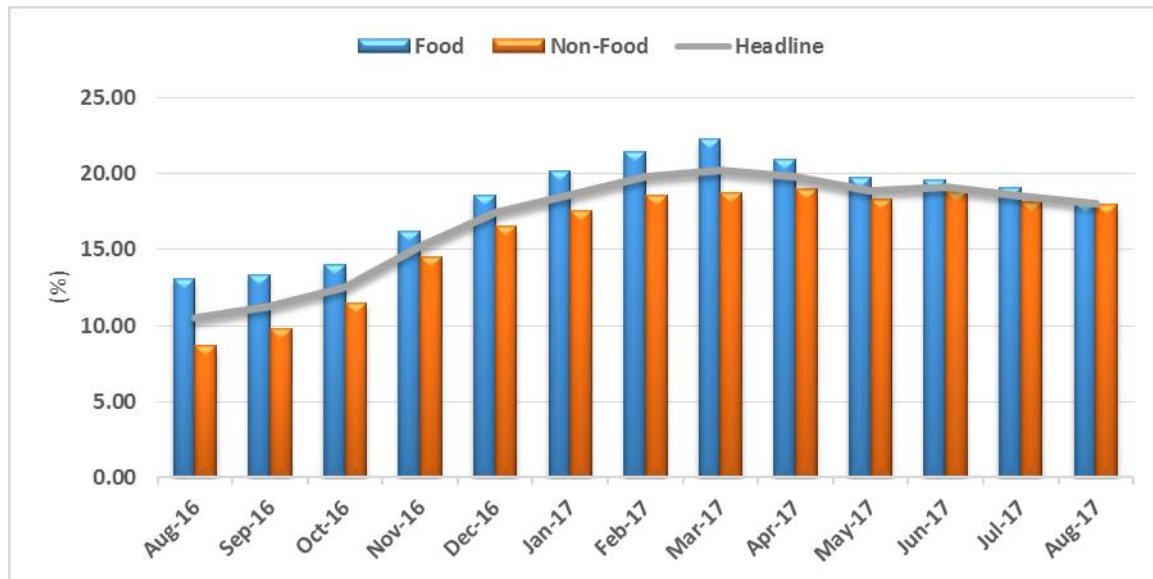
### **2.2 Price Developments**

Inflationary pressures during September 2017 eased further as headline inflation decelerated by 0.18 percentage points to 17.83 per cent from 18.10 per cent in the preceding month. The slowdown in inflation was due to a decline in non-food inflation.

Food inflation picked up by 0.19 percentage points to 18.24 per cent, reversing a five month downward trend that began in April 2017. Non-Food Inflation decelerated to 17.53 per cent in the review month from 17.99 per cent in the previous month.

The drop was largely explained by the relative stability in the prices of the major components of non-food inflation namely water, housing, electricity, gas and other fuel prices, reflective of the relative stability of the Leone against the United States dollar.

**Figure 1: Annual Inflation Developments**

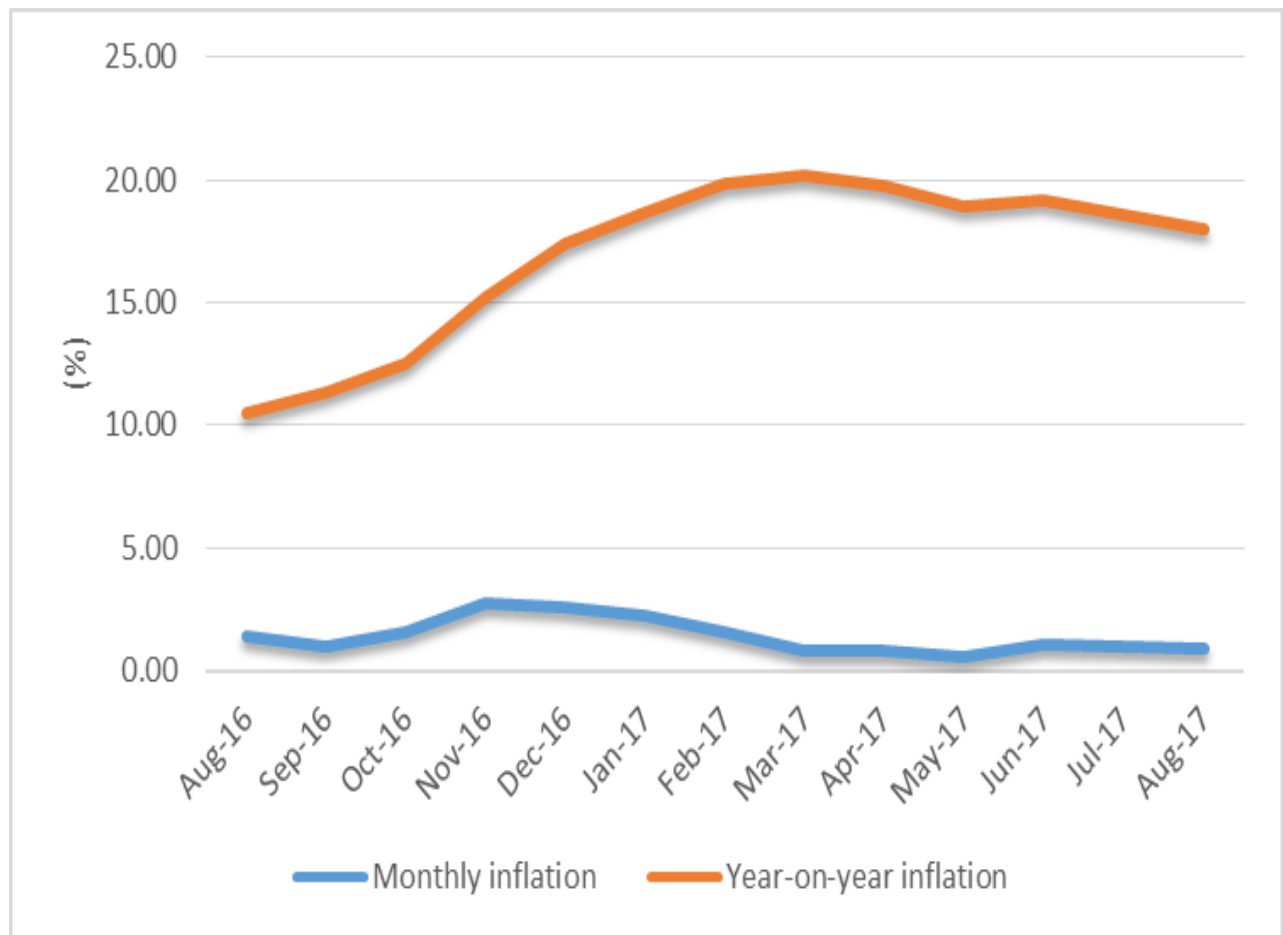


*Source: Statistics Sierra Leone*

The consumer price index (CPI) on a month-on-month basis decreased to 0.78 per cent in September 2017 from 0.92 per cent in the preceding month.

Regional developments indicates that year-on-year inflation rate decreased in all the regions except the Western Area. Year-on-year inflation rate in the Southern region decreased from 15.06 per cent in August 2017 to 14.90 per cent in September 2017. This downward trajectory was also envisaged in the Northern region with an increase of 18.81 per cent in the previous month to 18.11 per cent in September 2017. There was also a drop in inflation rate in the Eastern region, moving from 23.17 per cent in August 2017 to 21.99 per cent in September 2017. On the contrary, there was a surge in the Western Area where year-on-year inflation rate moved from 17.17 per cent in August 2017 to 17.56 per cent in the review month.



**Figure 2: Headline and Monthly Inflation**

*Source: Statistics Sierra Leone*

### 3.0 Government Budgetary Operations

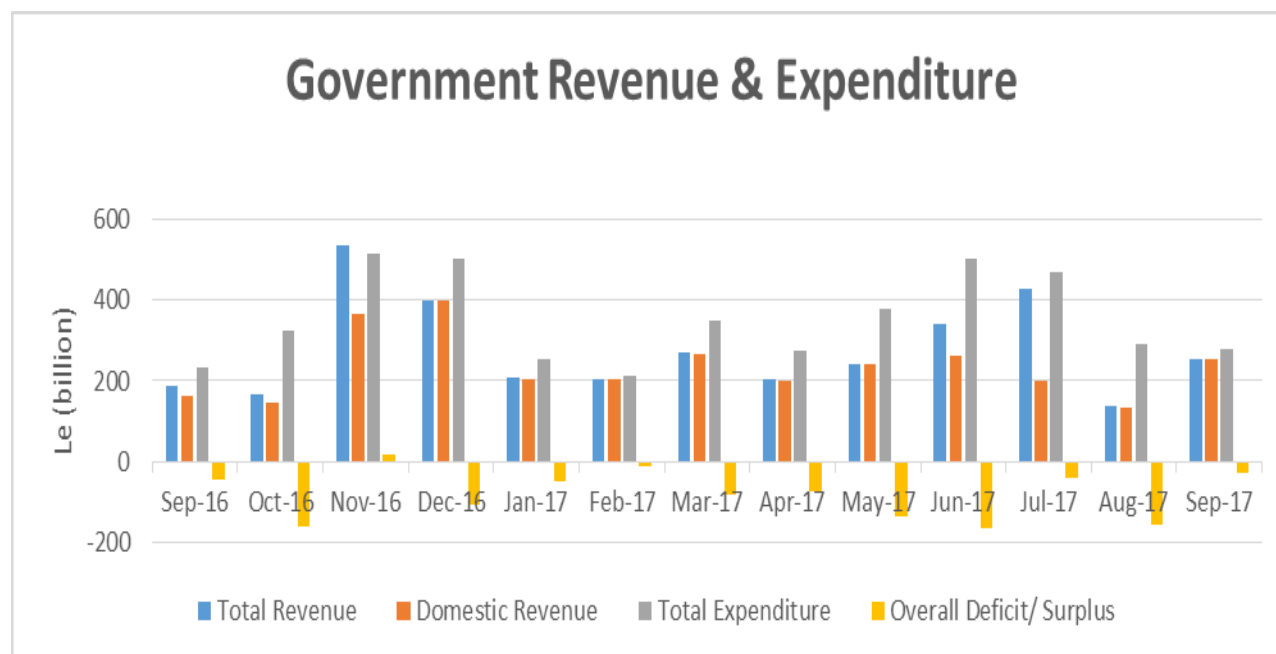
Government budgetary operations for the month of September 2017 resulted in a deficit of Le28.18bn which was below the previous month's deficit of Le153.10bn but was however above the budgeted deficit of Le1.12. This outturn was attributed to increased revenue collections mainly through taxes and reduced expenditures during the review month.

#### 3.1 Revenues

Total government revenue amounted to Le251.63bn against Le136.83bn recorded during the previous month, representing an increase of Le114.80bn. The increase was attributed to improvements in domestic revenues as no foreign grant was realized during the month. Domestic revenue amounted to Le251.63bn in September 2017 from Le134.59bn recorded in the preceding month. It was however below the monthly target of Le295.92bn. This improvement was attributable to increased performance across all the main tax revenue streams. Customs and excise

tax increased to Le41.42bn in September 2017 from Le22.83bn in August 2017, but was below the target of Le84.67bn by 51.08 per cent. Income tax moved to Le89.66bn in September 2017 from Le42.02bn in August 2017 but was below the target of Le99.00bn. Similarly, Goods and Services tax increased to Le56.72bn in September 2017 from Le34.61bn in August 2017, but was below the target of Le69.00bn by 17.80 per cent.

**Figure 3: Government Revenue and Expenditure**



*Source: Research Department, Bank of Sierra Leone*

### 3.2 Expenditures

Total expenditure amounted to Le279.81bn from Le289.92bn recorded in August 2017. This was however below the target of Le304.14bn. The decline in total expenditure was attributed to a decline in Other Expenditures by 34 per cent to Le94.06bn in September 2017 from Le142.52bn in August 2017. This was however below the target of Le132.48bn. However, expenditures on pensions, wages and salaries and debt service payments increased by Le16.01bn and Le22.34bn respectively compared to the preceding month.

### 3.3 Financing

The overall fiscal deficit of Le28.18bn was financed entirely from domestic resources.

## 4.0 Monetary Developments

Developments in monetary aggregates in the month of September 2017 were contractionary as both Broad Money (M2) and Reserve Money (RM) declined.

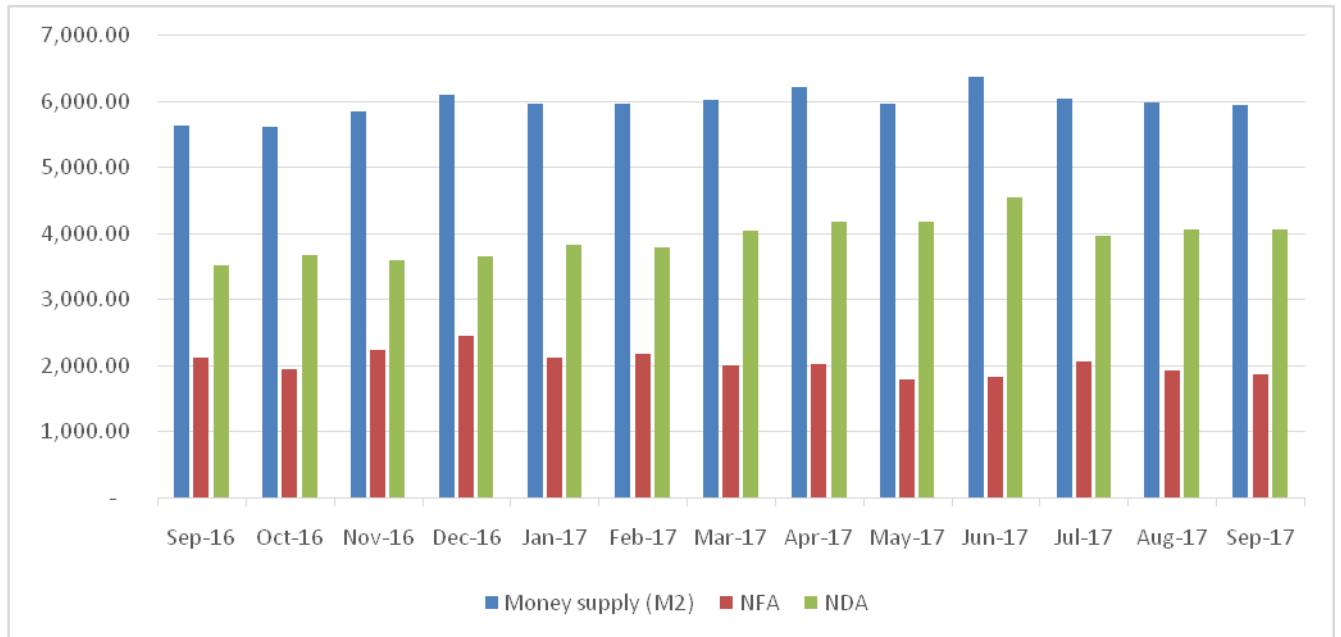
### 4.1 Broad Money (M2)

Broad Money supply contracted moderately by 0.72 per cent in September 2017, compared to the 0.89 per cent decline in the month of August 2017. The contraction in M2 reflects decrease in Net Foreign Assets (NFA) which more than offset the marginal growth in Net Domestic Assets (NDA) of the banking system. NFA contracted by 2.40 per cent in September 2017 from a contraction of 6.99 per cent in August 2017. The contraction of NFA was mainly due to increase in liability owed to the International Monetary Fund through Use of Fund Credit and SDR allocation. NDA grew marginally by 0.07 per cent in September 2017, compared to the 2.28 per cent growth recorded in August 2017. The growth in NDA was mainly as a result of utilization of Ways and Means, supported by 4.24 per cent increase in private sector credit.

**Table 1: Broad Money and its Components**

	2017		Absolute Change		(% Change)	
	Aug-17	Sep-17	Aug-17	Sep-17	Aug-17	Sep-17
<b>Reserve money</b>	<b>1,998.89</b>	<b>1,951.03</b>	<b>(52.44)</b>	<b>(47.86)</b>	<b>(2.56)</b>	<b>(2.39)</b>
<b>Money supply (M2)</b>	<b>5,986.09</b>	<b>5,942.88</b>	<b>(53.53)</b>	<b>(43.21)</b>	<b>(0.89)</b>	<b>(0.72)</b>
<b>Narrow money (M1)</b>	<b>2,678.72</b>	<b>2,572.19</b>	<b>12.21</b>	<b>(106.53)</b>	<b>0.46</b>	<b>(3.98)</b>
Currency outside banks	1,246.53	1,249.25	23.58	2.72	1.93	0.22
Demand deposit	1,432.19	1,322.94	(11.37)	(109.25)	(0.79)	(7.63)
<b>Quasi money</b>	<b>3,307.10</b>	<b>3,370.50</b>	<b>(65.86)</b>	<b>63.40</b>	<b>(1.95)</b>	<b>1.92</b>
o.w. Foreign currency deposit	1,656.73	1,701.58	(65.07)	44.85	(3.78)	2.71
Time and saving deposit	1,650.37	1,668.92	(0.79)	18.55	(0.05)	1.12
<b>Net Foreign Asset</b>	<b>1,919.48</b>	<b>1,873.43</b>	<b>(144.30)</b>	<b>(46.05)</b>	<b>(6.99)</b>	<b>(2.40)</b>
BSL	224.88	134.37	(158.11)	(90.51)	(41.28)	(40.25)
ODCs	1,694.60	1,739.06	13.81	44.46	0.82	2.62
<b>Net Domestic Assets</b>	<b>4,066.61</b>	<b>4,069.45</b>	<b>90.77</b>	<b>2.84</b>	<b>2.28</b>	<b>0.07</b>
<b>Net Domestic Credit</b>	<b>5,639.62</b>	<b>5,571.41</b>	<b>125.68</b>	<b>(68.21)</b>	<b>2.28</b>	<b>(1.21)</b>
Government (Net)	3,950.11	3,930.78	130.34	(19.33)	3.41	(0.49)
Private Sector	1,473.76	1,536.28	(10.25)	62.52	(0.69)	4.24
Other Sectors (Net)*	215.75	104.35	5.59	(111.40)	2.66	(51.63)
<b>Other Items (Net)</b>	<b>(1,573.01)</b>	<b>(1,501.96)</b>	<b>(34.91)</b>	<b>71.05</b>	<b>2.27</b>	<b>(4.52)</b>
<b>Monthly RM growth</b>	(2.56)	(2.39)				
<b>Monthly M2 growth</b>	(0.89)	(0.72)				
<b>Money Multiplier</b>	2.99	3.05				

*Source: Research Department, BSL*

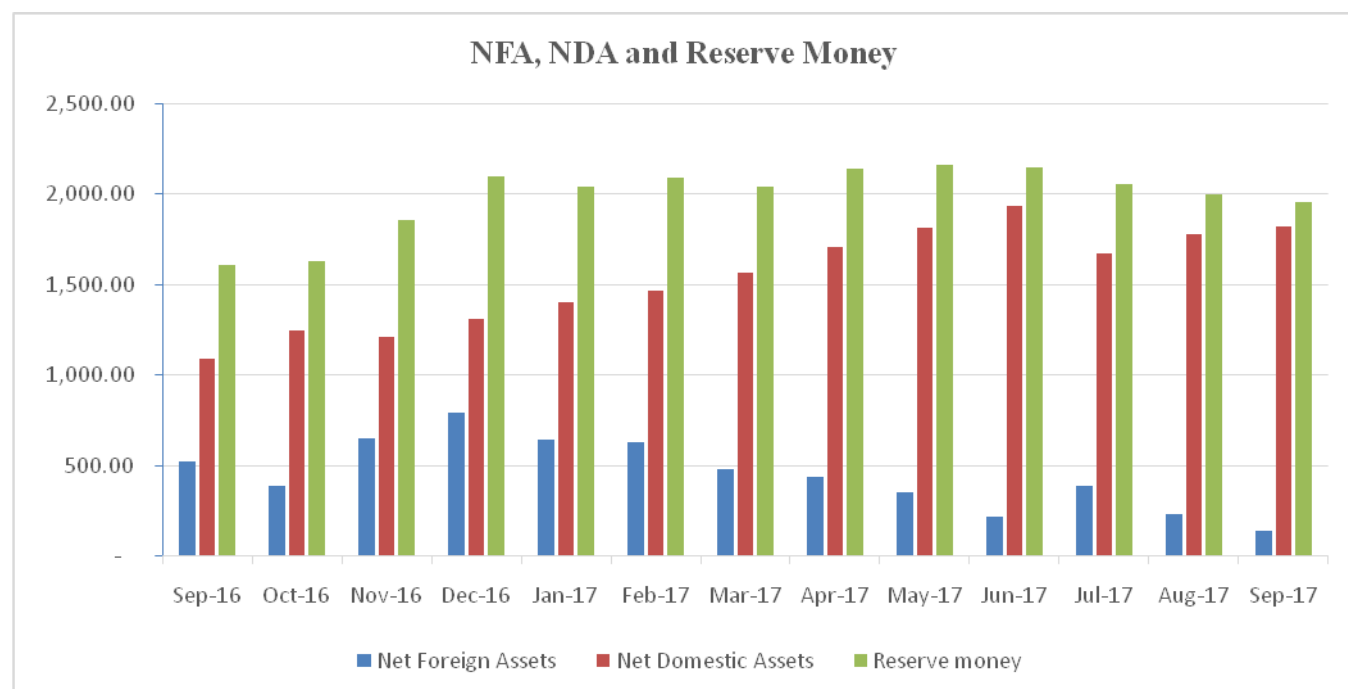
**Figure 4: Broad Money and its Sources**

*Source: Research Department, BSL*

On the liability side, the decrease in M2 was a reflection of decrease in Narrow money which outweighed the increase in Quasi money. Narrow money declined by 3.98 per cent in September 2017 compared to 0.46 per cent growth in August 2017, arising mainly from the 7.63 per cent decline in demand deposits. Quasi money on the other hand grew by 1.92 per cent relative to the 1.95 per cent decline in the preceding month. The growth in Quasi money was as a result of the growth in both foreign currency deposit as well as Time and Saving deposits by 2.71 per cent and 1.12 per cent respectively.

#### **4.2 Reserve Money (RM)**

Reserve Money declined by 2.39 per cent in September 2017 from a decline of 2.56 per cent in August 2017. The decline in reserve money was as a result of the 40.25 per cent decline in NFA of the Central Bank which was more than the 2.40 per cent increase in the NDA of the Central Bank. On the liability side, the decrease in Reserve Money was mainly due to 9.34 per cent decline in Bank reserves compared to 0.41 per cent growth in currency issued.

**Figure 5: Reserve Money and its Sources**

*Source: Research Department, BSL*

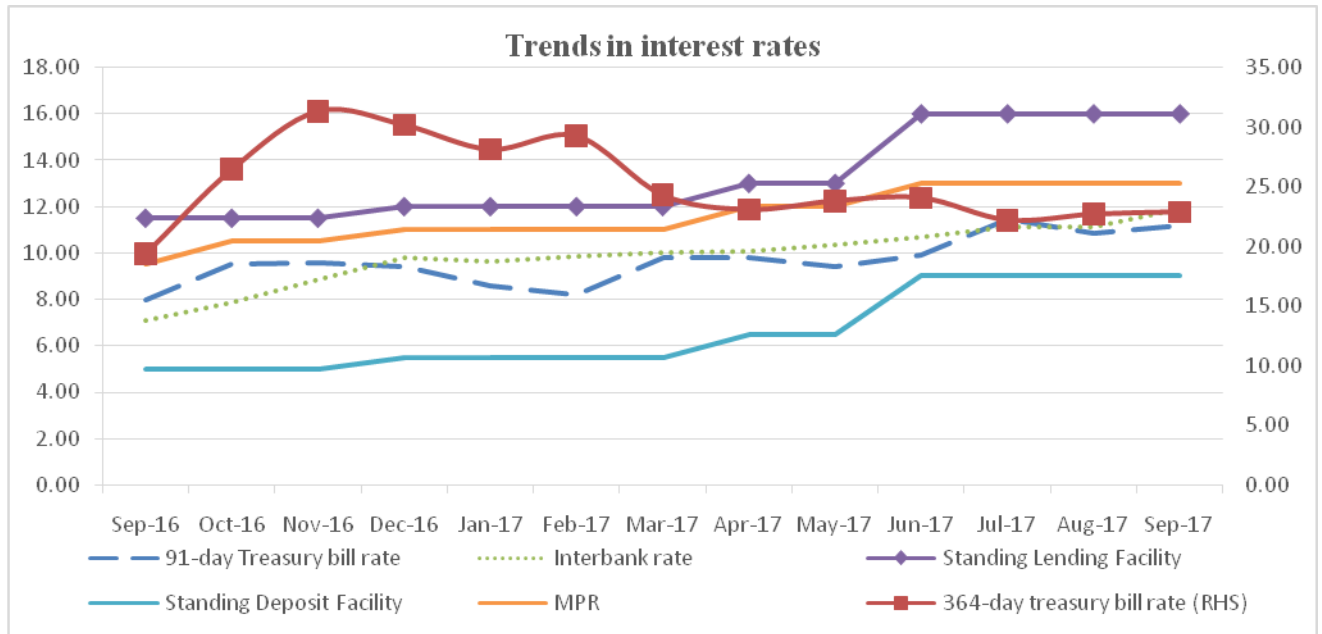
**Table 2: Reserve Money and its Components**

	2017		Absolute change		(% Change	
	Aug-17	Sep-17	Aug-17	Sep-17	Aug-17	Sep-17
<b>1. Net Foreign Assets</b>	<b>224.88</b>	<b>134.37</b>	<b>(158.11)</b>	<b>(90.51)</b>	<b>(41.28)</b>	<b>(40.25)</b>
<b>2. Net Domestic Assets</b>	<b>1,774.01</b>	<b>1,816.66</b>	<b>105.67</b>	<b>42.65</b>	<b>6.33</b>	<b>2.40</b>
2.1 Government Borrowing (net)	1,920.90	1,963.23	27.84	42.33	1.47	2.20
o.w. 2.11 Securities	1,022.19	1,102.13	(41.37)	79.94	(3.89)	7.82
2.12 Ways and Means	128.28	143.03	81.37	14.75	173.46	11.50
2.13 GoSL/IMF Budget financing	988.95	988.95	-	-	-	-
<b>3. Reserve money</b>	<b>1,998.89</b>	<b>1,951.03</b>	<b>(52.44)</b>	<b>(47.86)</b>	<b>(2.56)</b>	<b>(2.39)</b>
o.w. 3.1 Currency issued	1,423.91	1,429.79	(1.55)	5.88	(0.11)	0.41
3.2 Bank reserves	574.71	521.05	(51.02)	(53.66)	(8.15)	(9.34)

*Source: Research Department, BSL*

### 4.3 Interest rates

The Monetary Policy Rate (MPR) remained unchanged at 13.00 per cent in September 2017. The interbank market rate increased marginally from 11.15 per cent in August 2017 to 11.92 per cent in September 2017, reflecting the tight liquidity conditions in the market. The commercial banks' average lending and saving deposit rates stood at 21.35 per cent and 2.38 per cent respectively.

**Figure 6: Monetary Policy Rate and Other Market Rates**

*Source: Research Department, BSL*

Yields on treasury securities showed mixed trend in September 2017. The yield on the 91-days and 364-days treasury bills increased to 11.19 per cent and 22.89 per cent in September 2017 from 10.87 per cent and 22.70 per cent in August 2017, while that on 182-days treasury bills decreased to 13.91 per cent from 14.97 per cent during the same period.

**Table 3: Interest Rates (%)**

	2016				2017								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
91-day Treasury bill rate	7.96	9.5	9.59	9.38	8.57	8.20	9.79	9.78	9.43	9.88	11.46	10.87	11.19
182-day Treasury bill rate	12.03	14.69	15.52	16.17	15.68	15.51	13.54	11.7	9.11	15.31	15.18	14.97	13.91
364-day treasury bill rate	19.34	26.47	31.38	30.22	28.16	29.29	24.31	23.1	23.82	24.08	22.2	22.70	22.89
Interbank rate	7.11	7.86	8.88	9.82	9.66	9.86	10.05	10.1	10.36	10.69	11.14	11.15	11.92
Standing Lending Facility	11.50	11.50	11.50	12.00	12.00	12.00	12.00	13.00	13.00	16.00	16.00	16.00	16.00
Standing Deposit Facility	5.00	5.00	5.00	5.50	5.50	5.50	5.50	6.5	6.5	9.00	9.00	9.00	9.00
MPR	9.50	10.50	10.50	11.00	11.00	11.00	11.00	12.00	12.00	13.00	13.00	13.00	13.00
Average Lending rate	20.69	20.86	21.35	21.35	21.35	21.35	21.35	21.4	21.35	21.35	21.35	21.35	21.35
Savings deposits	2.23	2.27	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*

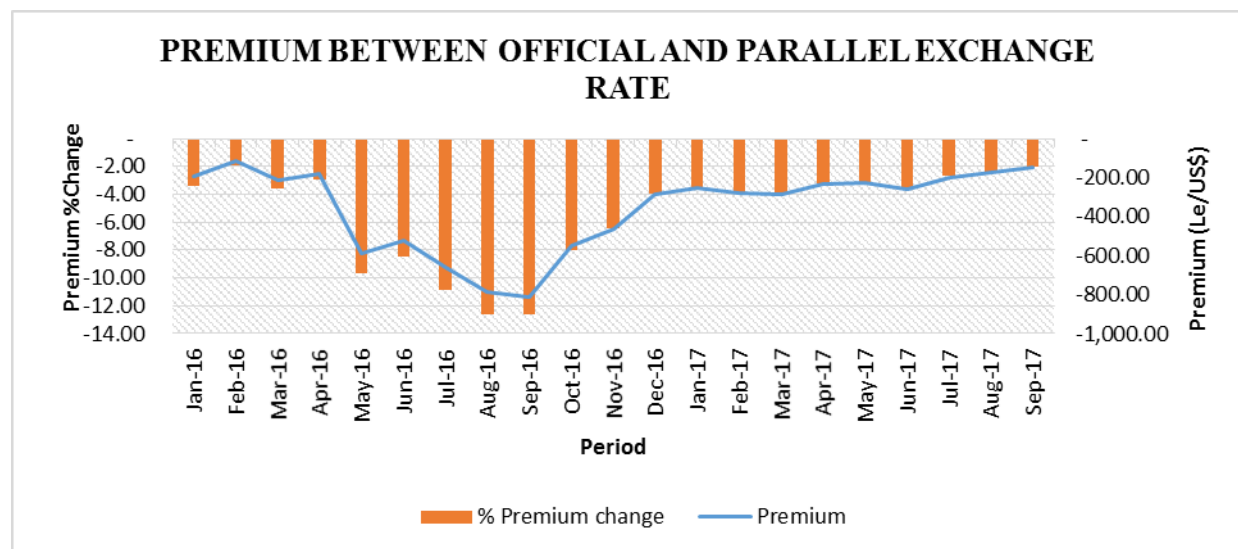
## 5.0 Exchange Rate Developments

The monthly average exchange rate of the Leone to the US dollar for the month of September, 2017 was mixed. On the buying front, the official, commercial banks and bureau rates depreciated marginally by 0.69 per cent to Le7,426.91/US\$1, 0.71 per cent to Le7,512.51/US\$1 and 0.43 per cent to Le7,366.57/US\$1 respectively. The parallel market rate remained unchanged at Le7,600.00/US\$1.

On the selling front, the official, commercial banks and parallel rates depreciated by 0.69 per cent, 0.54 per cent and 0.65 per cent to Le7,576.95/US\$1, Le7,629.40/US\$1 and Le7,700.00/US\$1 respectively; while the bureau rate appreciated by 0.28 per cent, to Le7,486.79/US\$1

The premium between the official and parallel rates narrowed by 0.71per cent to Le173.09/US\$1 in September 2017 from Le223.91/US\$1 in August 2017.

**Figure 7: Premium between the official and Parallel Exchange Rate**



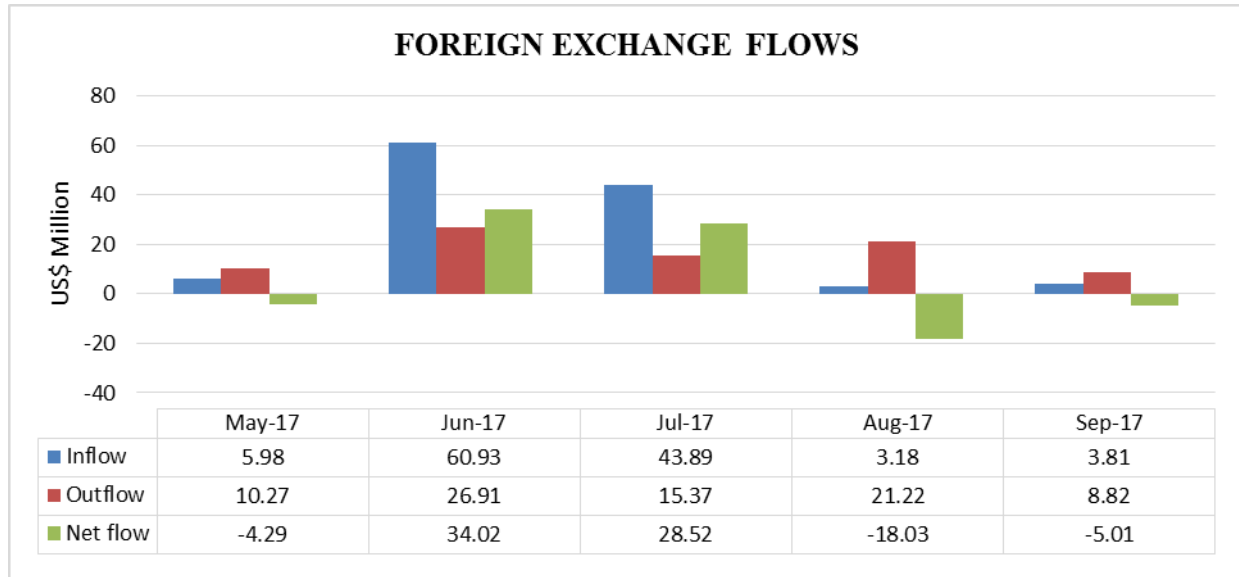
*Source: Research Department, BSL*

## 6.0 Gross Foreign Exchange Reserves

Gross foreign exchange reserves of the BSL at end September 2017 was US\$488.43mn compared to US\$490.02mn recorded in the preceding month, reflecting a marginal decrease of US\$1.59mn during the month. The decline in reserves was mainly on account the combined effects of an increase in outflows of US\$8.82mn which morethan offset the inflows ofUS\$3.81mn, resulting in a net outflow of US\$5.02mn.

Significant inflows during the period were in respect of export receipts amounting to US\$2.96mn. Significant outflows consisted of US\$5.33mn, being payments for goods and services of which; US\$1.68mn was in respect payments for various infrastructure projects, US\$1.46mn being Embassy/missions. Debt service payments to various creditors amounted to US\$3.49mn.

**Figure 8: Foreign Exchange Flow through the BSL (US\$ Million)**



*Source: Research Department, BSL*