



**BANK OF SIERRA LEONE**

**Monthly  
Economic Review**

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# **BANK OF SIERRA LEONE**

## **MONTHLY ECONOMIC REVIEW**

### **DECEMBER 2017**

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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 for the month of December 2017 continued to be mixed across key sectors of the economy. Inflationary pressures continued to subside during the month of December as headline inflation slowdown by 0.93 percentage point to 15.33 per cent in December 2017 from 16.26 per cent in November 2017. The deceleration in inflation emanated from both food and non-food inflation.

Government budgetary operations in December 2017 resulted in a deficit of Le44.15bn lower than Le78.66bn in November 2017, but was less than the projected surplus of Le28.79bn for the month. The decline in deficit was mainly the result of disbursement in external grants during the reporting period.

Monetary aggregates namely, Broad Money (M2) and Reserve Money (RM) continued to expand during the month of December 2017. Broad money (M2) grew by 5.07 per cent in December 2017, compared to a 3.14 per cent increase recorded in November 2017. The expansion in M2 was mainly driven by the Net Foreign Assets (NFA) of the banking system. Reserve money (RM) grew by 13.20 per cent in the month of December 2017, compared to 10.39 per cent increase in November 2017.

Gross Foreign Exchange Reserves of the Bank of Sierra Leone increased to US\$503.80mn in December 2017 from US\$489.41mn in November 2017. The improvement in reserves was explained by inflows of US\$53.90mn against a lower outflows US\$40.56mn, resulting in a net inflow of US\$13.34mn.

Consequently, the exchange of the Leone relative to the US dollar continued to be stable in the month of December, 2017, with the monthly average exchange rate depreciating moderately in all segments of the foreign exchange market.

## **2.0 Production and Prices**

### **2.1 Production**

#### **2.1.1 Manufacturing**

The manufacturing sector showed mixed production performance in December 2017. Production levels of Beer and Stout and Paint increased by 5.26 per cent to 166.76 thousand cartons and 186.20 per cent to 53.72 thousand gallons respectively. Similarly, Confectionery production increased by 24.62 per cent to 247.86 thousand

pounds, while Common soap production rose by 36.94 per cent to 49.12 thousand metric tons in the review month. However, production levels of Maltina and cement declined during the review period. Maltina production decreased by 20.32 per cent to 19.64 thousand cartons while cement production dropped by 4.32 per cent to 23.50 thousand metric tons.

### **2.1.2 Mining**

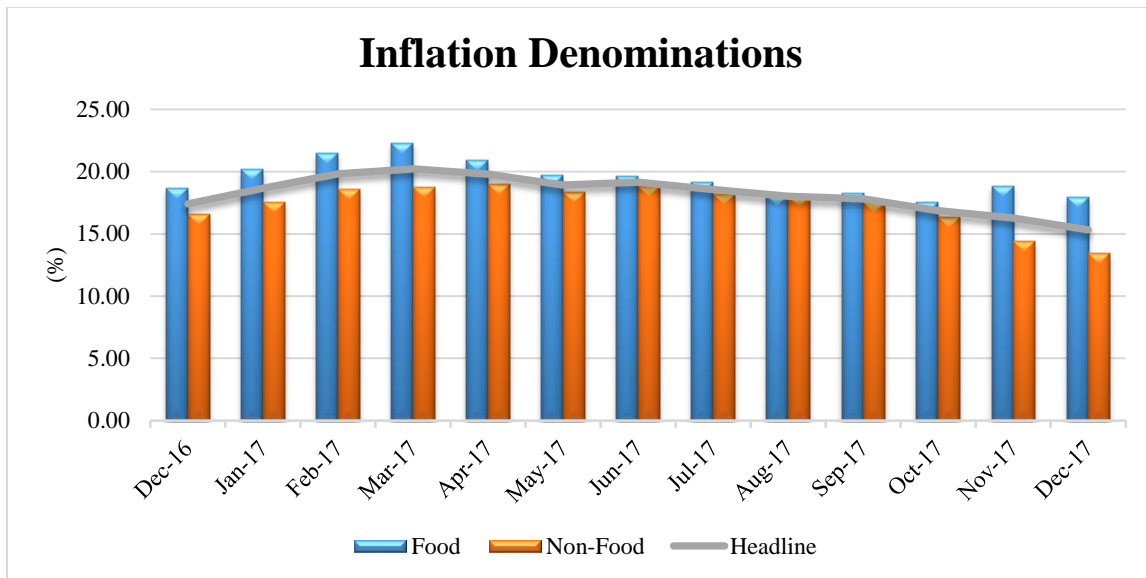
Production performance in the mining sector continued to be mixed during the month of December 2017. Production of diamond, bauxite and gold increased while rutile and ilmenite production declined in the reporting month. Diamond production increased significantly to 41.42 thousand carats in December 2017 from 9.44 thousand carats in November 2017. Bauxite production grew by 13.35 per cent to 160.70 thousand metric tons and gold production increased from 299.15 thousand ounce in November 2017 to 645.60 thousand ounces in December 2017. On the other hand, rutile production decreased by 31.04 per cent to 10.22 thousand metric tons, while ilmenite production declined by 21.84 per cent to 3.83 thousand metric tons.

### **2.1.3 Electricity**

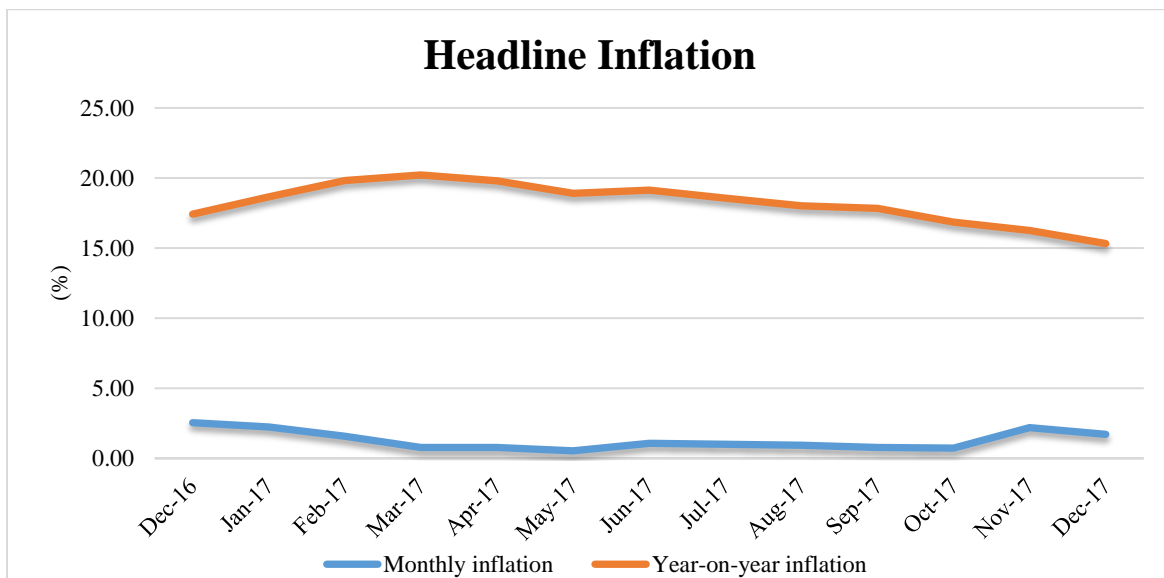
Electricity generated in December 2017 amounted to 29.5 Gw/hr, representing a decline of 3.28 per cent. The decline in electricity generation was mainly on account of subdued performance from hydro power generation. Hydro power generation fell to 20.59 Gw/hr in December 2017 from 28.94 Gw/hr in November 2017, while thermal plants generation increased to 8.91 gw/hr from 1.56 Gw/hr.

## **2.2 Price Developments**

Inflationary pressures continued to subside during the month of December as headline inflation slowdown by 0.93 percentage point to 15.33 per cent in December 2017 from 16.26 per cent in November 2017. The deceleration in inflation emanated from both food and non-food inflation.

**Figure 1: Headline, Food and Non-Food Inflation**

Food inflation decreased to 17.93 per cent in December 2017 from 18.87 per cent in November 2017. Similarly, non-food inflation declined to 13.45 per cent in December 2017 from 14.39 per cent in November 2017.

**Figure 2: Headline Inflation - YoY and Monthly Change**

Monthly inflation rate fell to 1.72 per cent in December 2017 from 2.20 per cent in November 2017.

On regional basis, year-on-year inflation declined in all the regions except Southern region. Northern region inflation decreased to 14.98 per cent in December 2017 from 16.44 per cent in November 2017; Eastern region inflation dropped to 16.62 per cent



in December 2017 from 17.51 per cent in November 2017 while Western Area inflation decelerated to 14.74 per cent in December 2017 from 16.45 per cent in November 2017. However, inflation in Southern region increased to 16.27 per cent from 14.59 per cent.

### **3.0 Government Budgetary Operations**

Government budgetary operations in December 2017 resulted in a deficit of Le44.15bn lower than Le78.66bn in November 2017, but was less than the projected surplus of Le28.79bn for the month. The decline in deficit was mainly the result of disbursement in external grants during the reporting period.

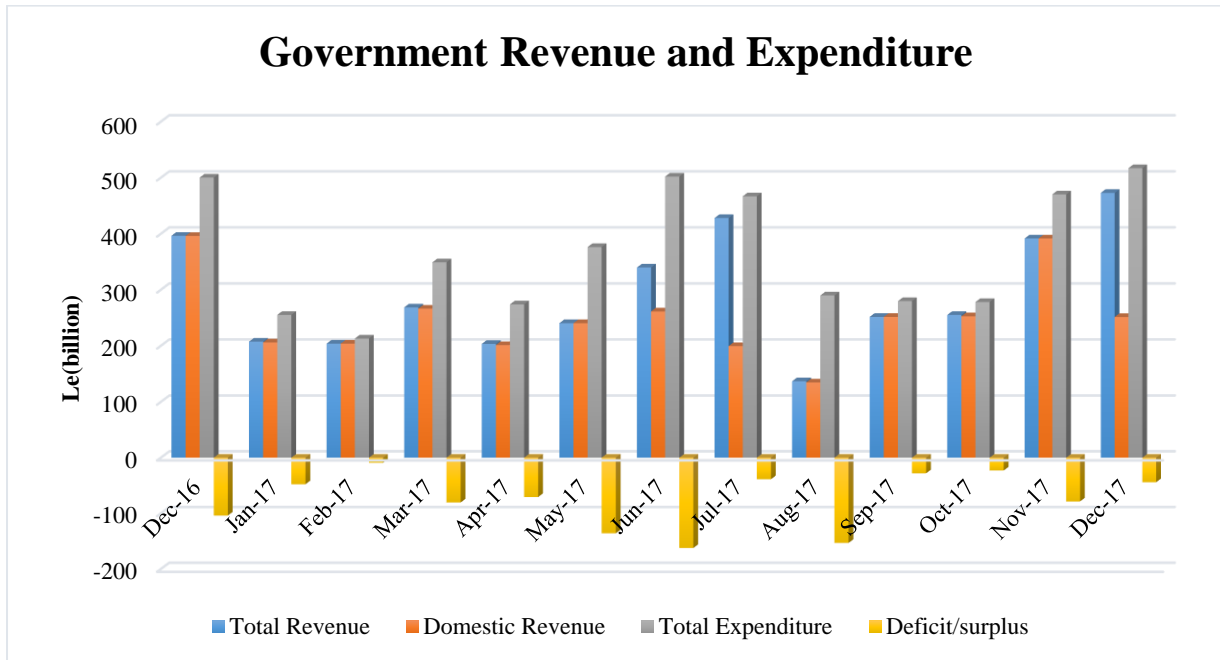
#### **3.1 Revenues**

Overall revenue including grants grew by 20.76 per cent to Le472.92bn and exceeded the target of Le442.74bn. The growth in overall revenue was on account of the increase in external grant. Domestic revenue declined by 35.81 per cent to Le251.37bn, and was 32.2 per cent short of the target of Le370.76bn. The fall in domestic revenue was attributed to the drop in generation from all the main tax categories but Customs and Excise. Receipts from Customs and Excise rose by 168.51 per cent to Le122.84bn and consequently exceeded the target by 18.79 per cent. However, receipts from all other categories slowed and missed their targets. Collection from Income Tax Department dropped by 44.9 per cent to Le42.94bn, receipts from Goods and Services Tax declined by 18.58 per cent to Le55.32bn, and miscellaneous collection slowed by 84.86 per cent to Le30.27bn.

The overall external grants disbursed during the month amounted to Le221.55bn and was 207.79 per cent in excess of the target of Le71.98bn. This amount was mainly on account of disbursements of Le136.73bn from the European Union and Le76.05bn from the World Bank.

### 3.2 Expenditures

Figure 3: Government Revenue and Expenditure



Total expenditure increased by 9.95 per cent to Le517.07bn and was 24.91 per cent in breach of the ceiling of Le413.95bn. The increase in expenditure was mainly explained by increases in pension, wages and salaries, debt services payments and treasury expenses for goods and services. Pension, wages and salaries grew by 3.17 per cent to Le162.65bn and overshot the ceiling of Le151.33bn by 7.48 per cent; Debt services payment increased by 37.11 per cent to Le116.07bn and breached the ceiling of Le106.86bn by 8.62 per cent; Treasury expenses rose by 20.18 per cent to Le245.86bn.

### 3.3 Financing

The overall deficit of Le44.15bn was financed from both domestic and foreign sources.

### 4.0 Monetary Developments

Monetary aggregates namely, Broad Money (M2) and Reserve Money (RM) continued to expand during the month of December 2017.

#### 4.1 Broad Money (M2)

Broad money (M2) supply grew by 5.07 per cent in December 2017, compared to a 3.14 per cent growth recorded in November 2017. The expansion in M2 could be attributed to the 18.37 per cent growth in the Net Foreign Assets (NFA) of the banking system, but this was partly offset by the NDA that decreased marginally by 0.53 per cent from a growth of 6.17 per cent in the previous month. Growth in NFA was mainly on account of funds disbursed by development partners including EU and World Bank and foreign exchange purchase by the Bank of Sierra Leone through SWAP transactions with the commercial banks.

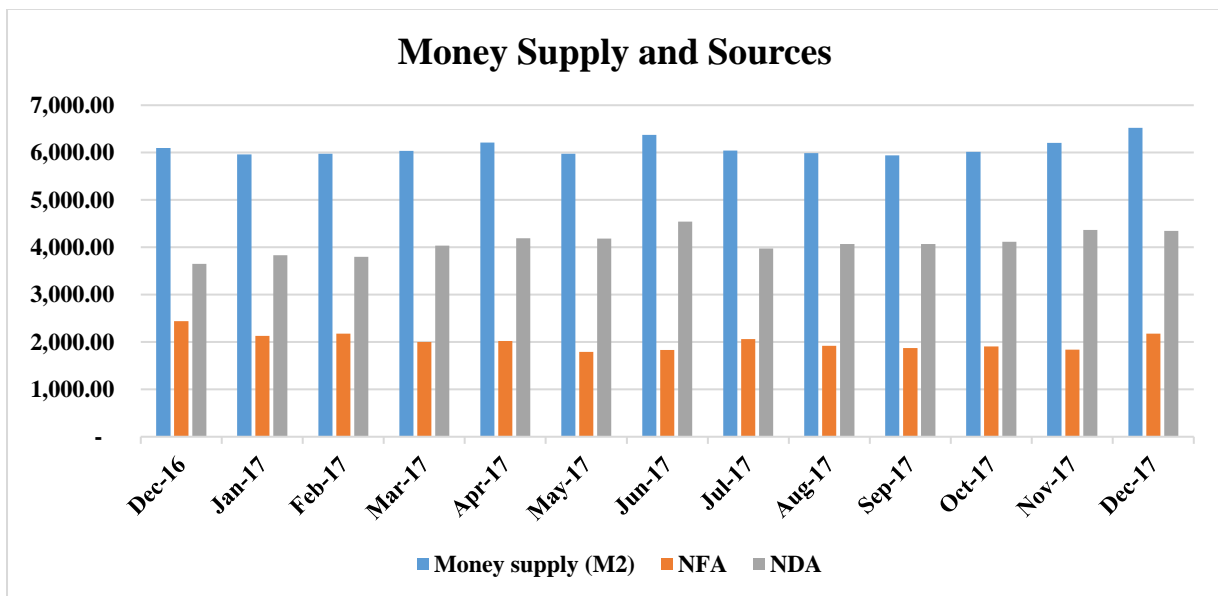
Private Sector credit continued to contract from 1.25 per cent in November 2017 to 4.52 per cent in December 2017. The contraction in private sector credit could be mainly attributed to the crowding-out effect of government borrowing, stemming from the attractive interest rates on the 364 days treasury bills which presented an alternative risk free option for the commercial banks.

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

	2017		Absolute Change		(% ) Change	
	Nov-17	Dec-17	Nov-17	Dec-17	Nov-17	Dec-17
<b>Reserve money</b>	<b>2,017.83</b>	<b>2,284.26</b>	<b>189.87</b>	<b>266.43</b>	<b>10.39</b>	<b>13.20</b>
<b>Money supply (M2)</b>	<b>6,207.42</b>	<b>6,522.32</b>	<b>189.22</b>	<b>314.90</b>	<b>3.14</b>	<b>5.07</b>
<b>Narrow money (M1)</b>	<b>2,831.07</b>	<b>3,044.04</b>	<b>207.54</b>	<b>212.97</b>	<b>7.91</b>	<b>7.52</b>
Currency outside banks	1,339.45	1,530.46	75.55	191.01	5.98	14.26
Demand deposit	1,491.62	1,513.58	131.99	21.96	9.71	1.47
<b>Quasi money</b>	<b>3,375.85</b>	<b>3,477.71</b>	<b>(18.61)</b>	<b>101.86</b>	<b>(0.55)</b>	<b>3.02</b>
o.w. Foreign currency deposit	1,661.60	1,751.01	(49.35)	89.41	(2.88)	5.38
Time and saving deposit	1,714.25	1,726.70	30.74	12.45	1.83	0.73
<b>Net Foreign Asset</b>	<b>1,840.10</b>	<b>2,178.04</b>	<b>(64.53)</b>	<b>337.94</b>	<b>(3.39)</b>	<b>18.37</b>
BSL	139.19	438.46	169.92	299.27	(552.95)	215.01
ODCs	1,700.91	1,739.58	(234.45)	38.67	(12.11)	2.27
<b>Net Domestic Assets</b>	<b>4,367.32</b>	<b>4,344.28</b>	<b>253.75</b>	<b>(23.04)</b>	<b>6.17</b>	<b>(0.53)</b>
<b>Net Domestic Credit</b>	<b>5,739.24</b>	<b>5,871.02</b>	<b>150.19</b>	<b>131.78</b>	<b>2.69</b>	<b>2.30</b>
Government (Net)	4,108.80	4,374.20	139.90	265.40	3.52	6.46
Private Sector	1,478.25	1,412.99	(18.68)	(65.26)	(1.25)	(4.41)
o.w. BSL	35.03	35.00	(0.42)	(0.03)	(1.18)	(0.09)
ODCs	1,443.22	1,377.99	(18.25)	(65.23)	(1.25)	(4.52)
Other Sectors (Net)*	152.19	83.83	28.97	(68.36)	23.51	(44.92)
<b>Other Items (Net)</b>	<b>(1,371.92)</b>	<b>(1,526.74)</b>	<b>103.56</b>	<b>(154.82)</b>	<b>(7.02)</b>	<b>11.28</b>
<b>Monthly RM growth</b>	10.39	13.20				
<b>Monthly M2 growth</b>	3.14	5.07				
<b>Money Multiplier</b>	3.08	2.86				

**Source:** Research Department, BSL

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

**Figure 4: M2 and its Sources**

Source: Research Department, BSL

On the liability side, the growth in M2 reflected an expansion in all its components. Currency outside banks increased by 14.26 per cent in December 2017, relative to 5.98 per cent growth in November 2017; Demand Deposits also increased though moderately by 1.47 per cent in December 2017, compared to 9.71 per cent growth recorded in November 2017. Foreign currency deposits increased by 5.38 per cent in December 2017, from a contraction of 2.88 per cent in November 2017. Time and Saving Deposits also increased modestly by 0.73 per cent compared to 1.83 per cent growth in the same period.

#### 4.2 Reserve Money (RM)

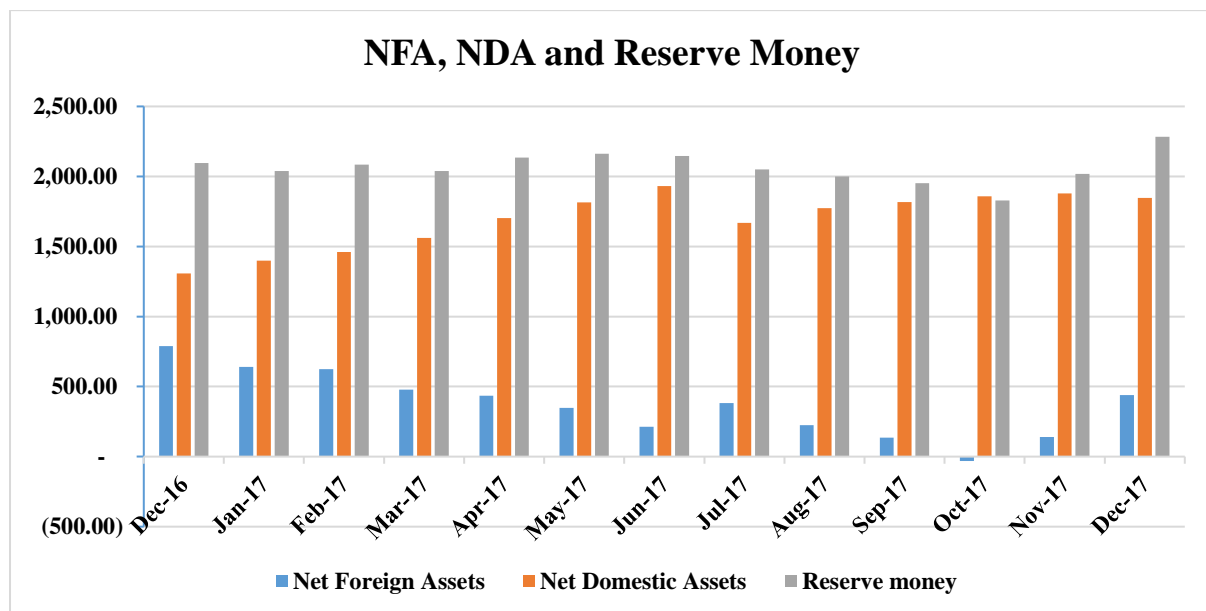
Reserve money (RM) grew by 13.20 per cent in the month of December 2017, compared to the 10.39 per cent increase in November 2017. The expansion in RM was mainly on account of monetary operations by the Bank of Sierra Leone to support liquidity conditions in the banking system.

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

	2017		Absolute change		(% Change	
	Nov-17	Dec-17	Nov-17	Dec-17	Nov-17	Dec-17
<b>1. Net Foreign Assets</b>	<b>139.19</b>	<b>438.46</b>	<b>169.92</b>	<b>299.27</b>	<b>552.95</b>	<b>215.01</b>
<b>2. Net Domestic Assets</b>	<b>1,878.64</b>	<b>1,845.80</b>	<b>19.95</b>	<b>(32.84)</b>	<b>1.07</b>	<b>(1.75)</b>
2.1 Government Borrowing (net)	2,094.37	2,082.11	40.65	(12.26)	1.98	(0.59)
o.w. 2.11 Securities	1,184.10	1,186.70	(30.50)	2.60	(2.51)	0.22
2.12 Ways and Means	111.08	120.02	(21.50)	8.94	(16.22)	8.05
2.13 GoSL/IMF Budge financing	988.95	988.95	-	-	-	-
<b>3. Reserve money</b>	<b>2,017.83</b>	<b>2,284.26</b>	<b>189.87</b>	<b>266.43</b>	<b>10.39</b>	<b>13.20</b>
o.w. 3.1 Currency issued	1,517.71	1,764.46	57.57	246.75	3.94	16.26
3.2 Bank reserves	499.62	519.24	132.02	19.62	35.91	3.93

Source: Research Department, BSL

From the liability perspective of RM, both currency issued and Banker`s reserves contributed to the growth in RM, increasing by 16.26 per cent and 3.93 per cent respectively, during the month under review.

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

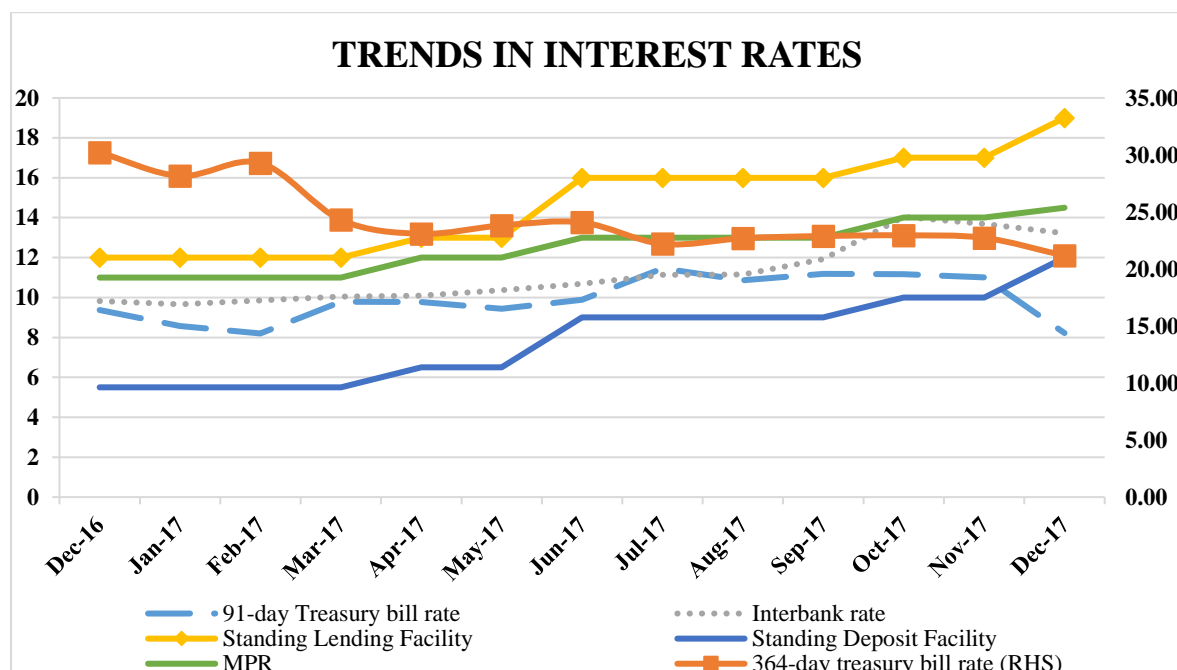
Source: Research Department, BSL

### 4.3 Interest rates

On the 14<sup>th</sup> of December 2017, the Monetary Policy Committee (MPC) met and decided to tightened monetary policy further by adjusting the policy rate upwards from 14.0 per cent to 14.50 per cent. The band around the policy rate was also widened, with the Lending and Deposit facilities rates raised to 19.00 per cent and 12.00 per cent from 17 per cent and 10 per cent respectively. The interbank rate fell

from 13.68 per cent in November 2017, to 13.22 per cent in December 2017, reflecting improved liquidity conditions in the banking system following foreign exchange SWAP transactions between the Bank of Sierra Leone and the Commercial Banks. The Commercial Banks' average lending and saving deposit 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, BSL

Yields on government treasury securities declined across all tenures during the month under review. The yield on the 91-days treasury bills fell from 11.01 per cent in November 2017, to 8.22 per cent in December 2017. The 182-days treasury bills also decreased from 10.62 per cent in the previous period, to 9.68 per cent in the current period. Similarly, the 364-days treasury bills dropped from 22.73 per cent to 21.17 per cent in the same period.

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

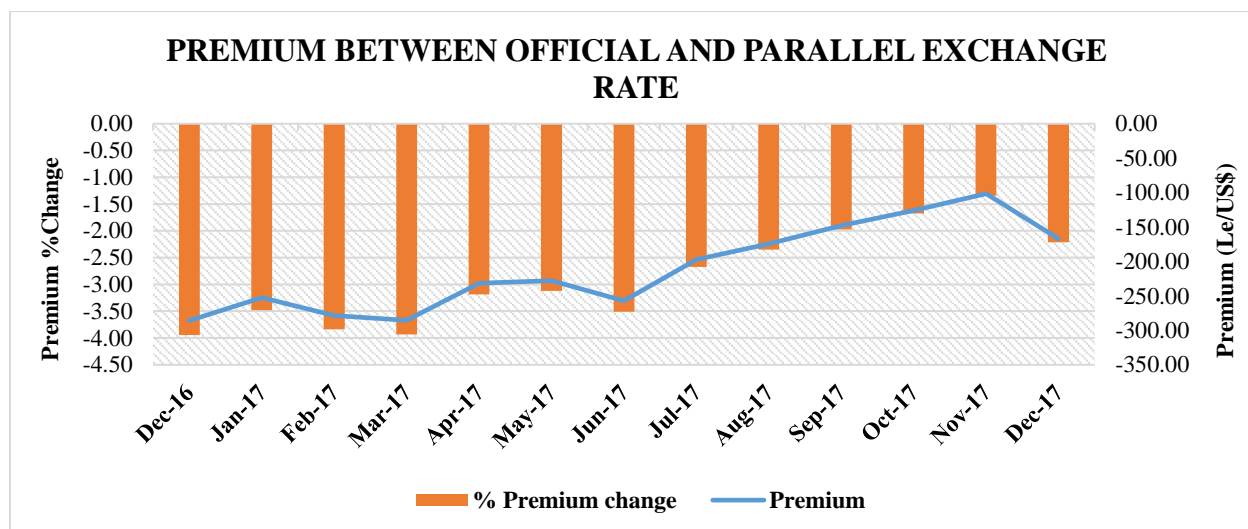
	2016	2017											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
91-day Treasury bill rate	9.38	8.57	8.20	9.79	9.78	9.43	9.88	11.46	10.87	11.19	11.17	11.01	8.22
182-day Treasury bill rate	16.17	15.68	15.51	13.54	11.73	9.11	15.31	15.18	14.97	13.91	12.43	10.62	9.68
364-day treasury bill rate	30.22	28.16	29.29	24.31	23.09	23.82	24.08	22.2	22.70	22.89	22.95	22.73	21.17
Interbank rate	9.82	9.66	9.86	10.05	10.09	10.36	10.69	11.14	11.15	11.92	14.04	13.68	13.22
Standing Lending Facility	12.00	12.00	12.00	12.00	13.00	13.00	16.00	16.00	16.00	16.00	17.00	17.00	19.00
Standing Deposit Facility	5.50	5.50	5.50	5.50	6.5	6.5	9.00	9.00	9.00	9.00	10.00	10.00	12.00
MPR	11.00	11.00	11.00	11.00	12.00	12.00	13.00	13.00	13.00	13.00	14.00	14.00	14.50
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
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

## 5.0 Exchange Rate Developments

The monthly average exchange rate of the Leone relative to the US dollar depreciated moderately in all the foreign exchange markets in December, 2017. On the buying front, the Leone depreciated by 0.83 per cent to Le7,663.16/US\$1 in the parallel market, 0.43 per cent to Le7,454.01/US\$1 in the bureau market, 0.11 per cent to Le7,556.35/US\$1 in the commercial banks and 0.04 per cent to Le7,644.05/US\$1 in the official market.

Similarly, on the selling front, the parallel market, bureau, commercial banks and official exchange rates depreciated by 0.96 per cent to Le7,753.68/US\$1, 0.95 per cent to Le7,618.93/US\$1, 0.16 per cent to Le7,659.18/US\$1 and 0.04 per cent to Le7,616.88 respectively.

The premium between the Official and Parallel rates widened to Le196.11/US\$1 in December 2017 from Le137.01/US\$1 in November, 2017.

**Figure 7: Premium between Official and Parallel Exchange Rates**

*Source: Bank of Sierra Leone*

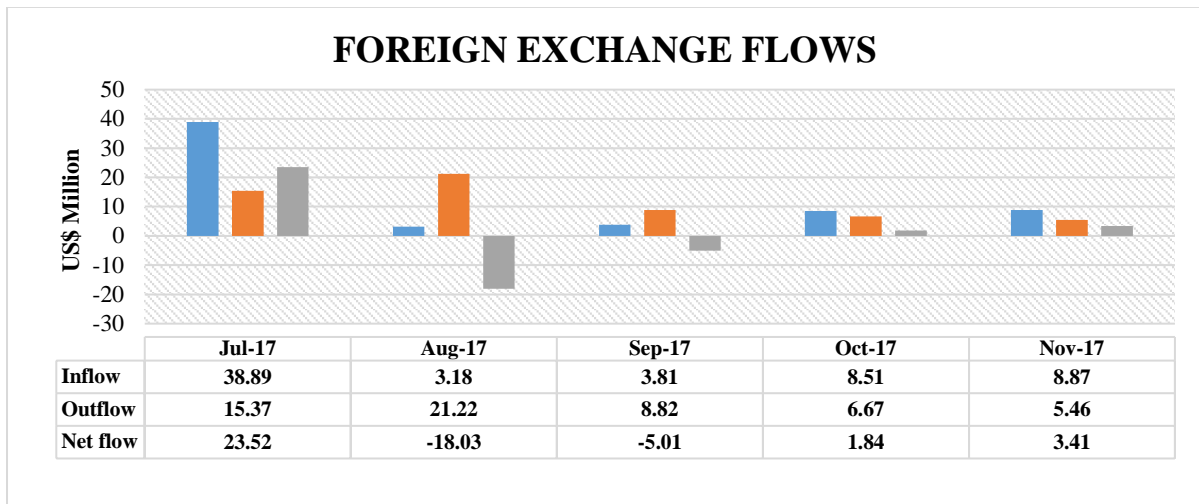
## 6.0 Gross Foreign External Reserves

Gross Foreign Exchange Reserves of the Bank of Sierra Leone increased to US\$503.80mn in December 2017 from US\$489.41mn in November 2017. The improvement in reserves was explained by inflows of US\$53.90mn against a lower outflows of US\$40.56mn, resulting in a net inflow of US\$13.34mn.

Significant inflows consisted of US\$18.16mn and US\$10.19mn being disbursements for budgetary support from the European Union and the World Bank respectively. Other inflows included; US\$10.00mn being SDR bought by the Bank of Sierra Leone; other government receipts amounting to US\$7.70mn and export receipts totaling US\$2.79mn.

Significant outflows comprised US\$27.80mn being payments for goods and services; government travel and other government expenditures totaling US\$7.49mn; embassy/mission payments amounting to US\$1.75mn; US\$1.27mn for road infrastructure and US\$1.05mn being subscription to international organizations. Debt service payment to various creditors amounted to US\$13.48mn.



**Figure 8: Foreign Exchange Flows**

*Source: Bank of Sierra Leone*