



BANK OF SIERRA LEONE

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Review**

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BANK OF SIERRA LEONE

MONTHLY ECONOMIC REVIEW

JULY 2017

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CONTENTS

1.0 Highlights	1
2.0 Production and Prices	1
2.1 Production	1
2.1.1 Manufacturing	1
2.1.2 Mining	<u>2</u>
2.1.3 Electricity	<u>2</u>
2.2 Price Developments.....	2
3.0 Government Budgetary Operations.....	<u>4</u>
3.1 Revenues	<u>4</u>
3.2 Expenditures.....	4
3.3 Financing.....	<u>5</u>
4.0 Monetary Developments	5
4.1 Broad Money.....	5
4.2 Reserve Money.....	7
4.3 Interest rates	8
5.0 Exchange Rate Developments.....	9
6.0 Gross Foreign Exchange Reserves	10

List of Figures:

Figure 1: Annual Inflation Developments.....	3
Figure 2: Headline and Monthly Inflation.....	3
Figure 3: Government Revenue and Expenditure	5
Figure 4: Broad Money and its Sources	6
Figure 5: Reserve Money and its Sources	7
Figure 6: Monetary Policy Rate and Other Market Rates	8
Figure 7: Premium between the Official and Parallel Exchange Rate	10
Figure 8: Foreign Exchange Flow through the BSL (US\$ Million)	11

List of Tables:

Table 1: Broad Money and its Components.....	6
Table 2: Reserve Money and its Components.....	8
Table 3: Interest Rates (%).....	9

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 improved during the month of July 2017. Inflationary pressures continued to moderate in July 2017, as headline inflation decreased to 18.56 per cent in July 2017 from 19.14 per cent in June 2017.

Central government fiscal operations improved significantly as the deficit narrowed to Le38.75bn from a deficit of Le162.22bn recorded in June 2017.

Growth in monetary aggregates for the review month were contractionary, with both Broad Money (M2) and Reserve Money (RM) contracting by 5.23 per cent and 4.37 per cent respectively, in July 2017. The monetary policy rate remained unchanged at the June 2017 level of 13 per cent.

Gross International Reserves of the BSL improved to US\$508.56mn as at end July 2017 from US\$477.55mn recorded in June 2017. The accumulation of reserves during the reporting month was on account of inflows of US\$43.89mn, which outweighed outflows of US\$15.37mn, resulting to a net inflow of US\$28.52mn.

The exchange rate of the Leone against the United States dollar continued to be relatively stable during the month of July 2017. The stability in the exchange rate was largely explained by the tight liquidity conditions resulting in relatively subdued demand for foreign exchange.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

The manufacturing sector continued to record mixed trends in the reporting period. Production increases were recorded on all beverages. Soft drinks production increased by 1.21 per cent to 75.42 thousand crates, beer and stout by 15.44 per cent to 142.02 thousand cartons and maltina by 15.45 per cent to 28.40 thousand cartons. The increase in beverage production was explained by a rise in domestic demand for the products. Similarly, acetylene and oxygen experienced increases in their production levels, indicating increased welding activities during the month. Acetylene grew by 18.92 per cent to 22.00 thousand cubic feet, while oxygen went up by 45.71 per cent to 51.00 thousand cubic feet. On the other hand, confectionery fell by 7.36 per cent to 254.12 thousand

pounds and common soap dropped by 4.32 per cent to 34.13 thousand metric tons. Furthermore, Paint production declined by 20.16 per cent to 40.01 thousand gallons. The fall in production of these items was attributed to the limited availability of raw material inputs for production.

2.1.2 Mining

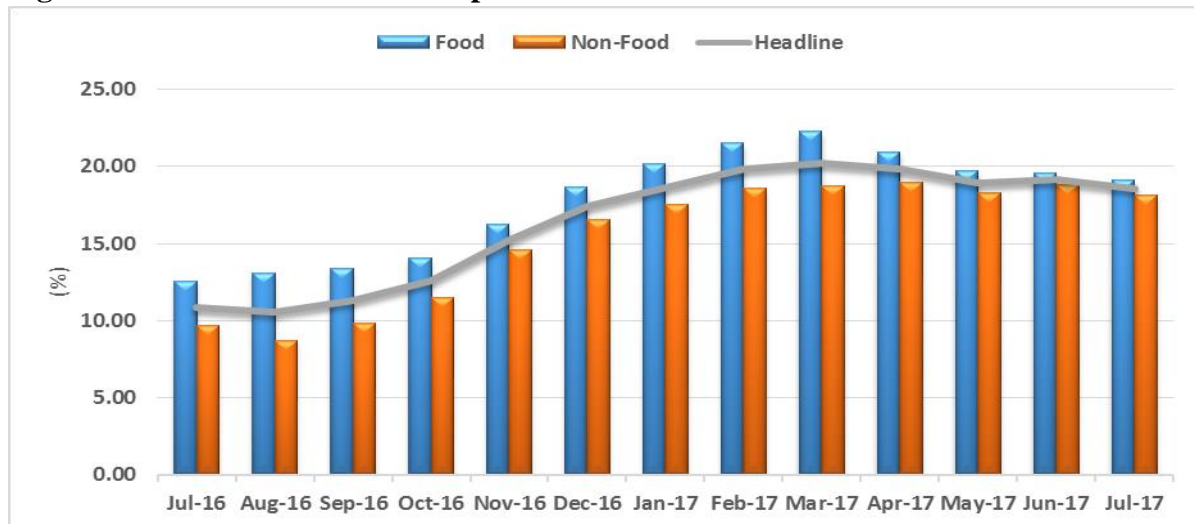
The mining sector indicated improved performance during the reporting period, with production increases recorded for all mineral items except diamond. This quantity comprised of 4.06 thousand carats of industrial diamond and 7.34 thousand carats of gem diamond. Bauxite and rutile production grew by 30.09 per cent to 182.54 thousand metric tons and 3.65 per cent to 15.35 thousand respectively. Similarly, zircon and gold production respectively increased by 1.71 per cent to 5.95 thousand metric tons and 71.99 per cent to 643.72 ounces. While iron ore production expanded by 73.25 thousand metric tons to 74 thousand metric tons. The growth in iron ore production during the reporting period was a reflection of stock piling. Diamond production on the other hand, experienced a decline by 30.15 per cent to 11.40 thousand carats.

2.1.3 Electricity

Electricity generation totaled 25.16 Giga Watt/ hour, representing an increase by 16.59 per cent. Of the overall generation for the month, hydro power accounted for 21.85GWh while thermal plants contributed 3.3GWh. Growth in the overall generation was mainly driven by the increase in hydro power generation specifically emanating from the Bumbuna hydro power. Hydro power rose by 64.16 per cent while generation from thermal plants dropped by 60 per cent.

2.2 Price Developments

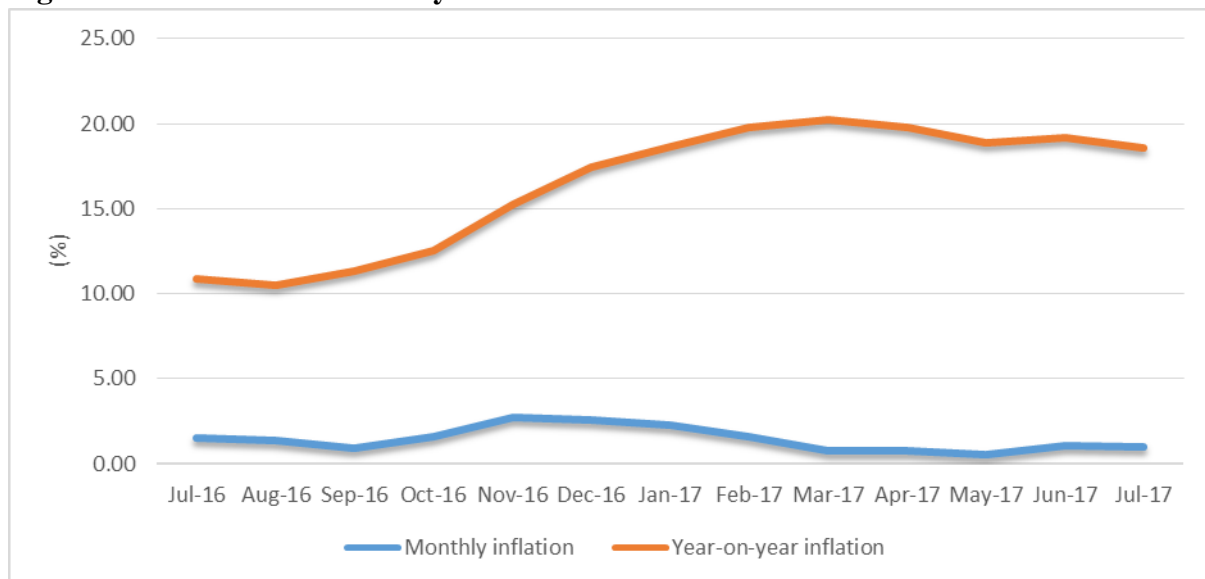
Inflationary pressures continued to abate during the month of July 2017, as headline inflation slowed down to 18.56 per cent from 19.14 per cent in June 2017. The main components from the CPI basket contributing to this inflation were food & non-alcoholic beverages, clothing and foot wear, transport, housing, water, electricity & gas, and furnishing, equipment & household maintenance. In terms of the broad categories, both food and non-food inflation recorded slight declines in the reporting period. Food inflation fell to 19.12 per cent from 19.60 per cent in June 2017, while non-food inflation slowed to 18.16 per cent from 18.81 per cent in June 2017.

Figure 1: Annual Inflation Developments

Source: Statistics Sierra Leone

In terms of trends in the regional centres, inflation decreased in the Northern region from 19.76 per cent in June, 2017 to 17.58 per cent in July, 2017, Southern region from 17.43 per cent to 17.12 per cent, and in Eastern region from 23.73 per cent to 22.96 per cent. Inflation in the Western Area increased from 18.07 per cent to 18.33 per cent.

Monthly inflation rate fell to 1.01 per cent in July 2017 from 1.07 per cent in June 2017, indicating slight moderation in prices during the reporting month.

Figure 2: Headline and Monthly Inflation

Source: Statistics Sierra Leone

3.0 Government Budgetary Operations

Government budgetary operations in July 2017 was the result of a deficit of Le38.75bn compared to Le161.87bn in the previous month and was significantly above the target of Le1.12bn.

3.1 Revenues

Total revenue including grants amounted to Le428.10bn, representing an increase by 25.87 per cent and was also 41.27 per cent in excess of the target of Le303.03bn. Domestic revenue fell by 23.64 per cent to Le199.54bn, and was consequently 32.57 per cent below the target of Le295.92bn. The decline in domestic revenue was mainly a reflection of the drop in the overall performance of tax receipts from the sub-components. Income tax collection fell by 38.96 per cent to Le65.70bn and it was 33.63 per cent below its target of Le99bn. In the same vain, revenue from GST fell by 13.65 per cent to Le55.52bn and was 19.54 per cent below its target of Le69bn. In addition, revenue declines were recorded for customs and excise and for miscellaneous revenues. Customs and excise receipts fell by 15.93 per cent to Le36.01bn and was below its target of Le84.67bn by 57.47 per cent; while miscellaneous revenue declined by 9.08 per cent to Le42.31bn and was 2.18 per cent below its target of Le43.25bn.

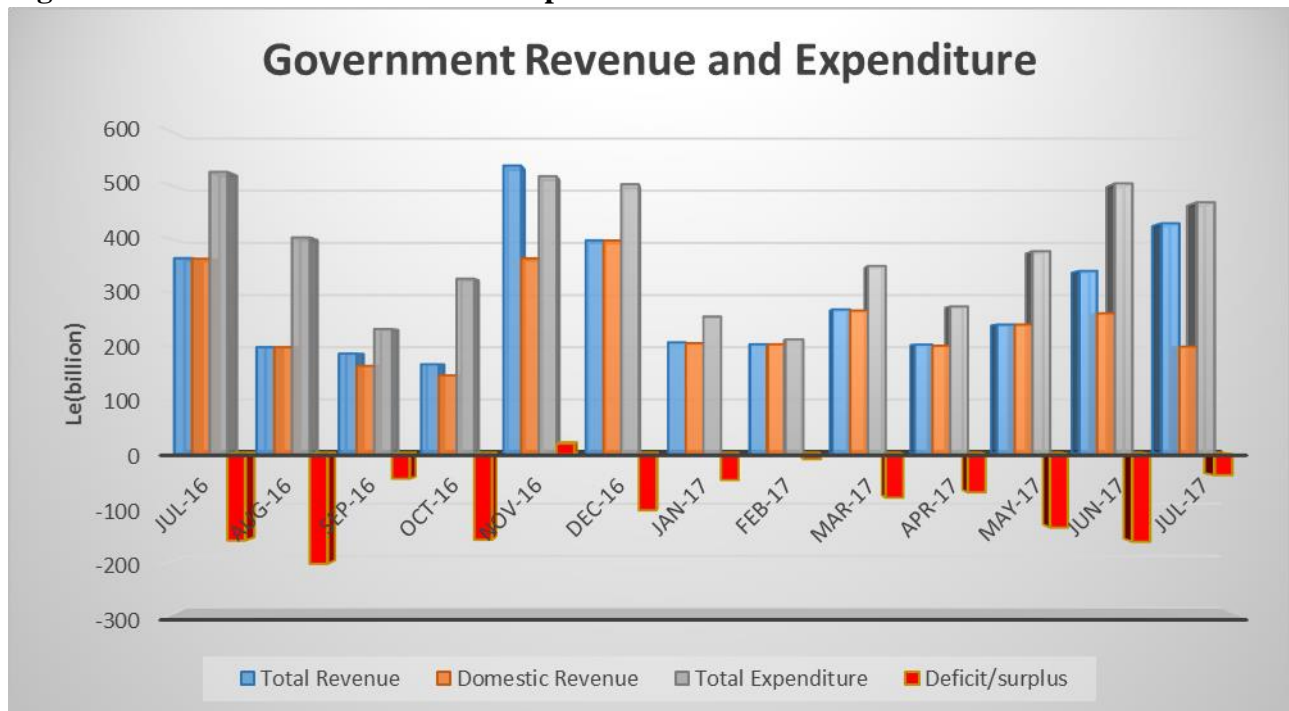
External grant received during the month amounted to Le228.56bn, representing an increase of Le149.75bn and exceeded the target of Le220.07bn by Le7.1bn. The overall grant was mostly disbursement from the World Bank for budgetary support.

3.2 Expenditures

Total expenditure fell by 7.00 per cent to Le466.85bn but was in breach of the ceiling of Le304.14bn by 53.50 per cent. The outturn in expenditure was reflected in almost all the expenditure components. Expenditure on pension, wages and salaries dropped by 9.12 per cent to Le128.9bn and was below the ceiling of Le150.33bn by 14.26 per cent. Debt services payment amounted to Le42.21bn, decreasing by 49.4 per cent and yet exceeded the ceiling of Le21.33bn by 97.51 per cent. The debt services payment was made up of domestic payment amounting to

Le35.79bn and foreign payment of Le6.34bn. Payments on Treasury Expenses amounted Le174.91bn, representing a decline by 36.65 per cent.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.3 Financing

Both domestic and foreign resources were used to finance the overall deficit during the month.

4.0 Monetary Developments

The outcome of monetary developments was contractionary as both Broad Money (M2) and Reserve Money (RM) contracted.

4.1 Broad Money (M2)

Broad Money supply declined by 5.23 per cent in the review period when compared to 6.66 per cent increase at the end of the preceding month. The contraction in M2 reflected decrease in Net Domestic Assets (NDA) which outweighed the increase in Net Foreign Assets (NFA) of the banking system. NDA contracted by 12.44 per cent compared to 8.47 per cent increase at the end of June 2017. This outturn was mainly explained by the build-up in deposits by the Government at both the Central Bank and commercial banks. The growth in Government deposits at the Central Bank was as a result of sales of Treasury bills, tax revenue from GST and Petroleum Unit. The

growth in Deposits by commercial banks emanated from deposits made by subvented agencies. NFA on the other hand expanded due to combination of factors including external budgetary support from World Bank, remittances in respect of UK Visas and increased claims on foreign counterparts by commercial banks. Credit to the Private Sector increased by 1.64 per cent but was lower relative to the 2.37 per cent increase in the preceding month.

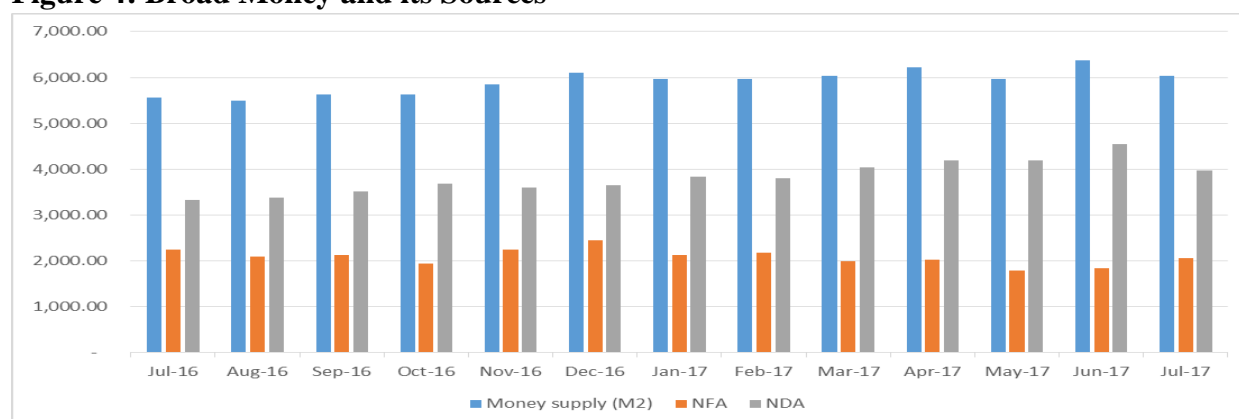
Table 1: Broad Money and its Components

	2017			Absolute Change		(% Change)	
	May-17	Jun-17	Jul-17	Jun-17	Jul-17	Jun-17	Jul-17
Reserve money	2,162.64	2,145.10	2,051.33	(17.54)	(93.77)	(0.81)	(4.37)
Money supply (M2)	5,975.07	6,372.91	6,039.62	397.84	(333.29)	6.66	(5.23)
Narrow money (M1)	2,648.75	2,680.57	2,666.51	31.82	(14.06)	1.20	(0.52)
Currency outside banks	1,259.09	1,268.31	1,222.95	9.22	(45.36)	0.73	(3.58)
Demand deposit	1,389.66	1,412.26	1,443.56	22.60	31.30	1.63	2.22
Quasi money	3,325.92	3,691.62	3,372.96	365.70	(318.66)	11.00	(8.63)
o.w. Foreign currency deposit	1,681.99	2,008.41	1,721.80	326.42	(286.61)	19.41	(14.27)
Time and saving deposit	1,643.93	1,683.21	1,651.16	39.28	(32.05)	2.39	(1.90)
Net Foreign Asset	1,788.89	1,832.33	2,063.78	43.44	231.45	2.43	12.63
BSL	348.64	212.76	382.99	(135.88)	170.23	(38.97)	80.01
ODCs	1,440.25	1,619.57	1,680.79	179.32	61.22	12.45	3.78
Net Domestic Assets	4,186.18	4,540.58	3,975.84	354.40	(564.74)	8.47	(12.44)
Net Domestic Credit	5,341.07	5,628.45	5,513.94	287.38	(114.51)	5.38	(2.03)
Government (Net)	3,694.38	3,975.86	3,819.77	281.48	(156.09)	7.62	(3.93)
Private Sector	1,426.32	1,460.08	1,484.01	33.76	23.93	2.37	1.64
Other Sectors (Net)*	220.37	192.51	210.16	(27.86)	17.65	(12.64)	9.17
Other Items (Net)	(1,154.89)	(1,087.87)	(1,538.10)	67.02	(450.23)	(5.80)	41.39
Monthly RM growth	1.26	-0.81	-4.37				
Monthly M2 growth	-3.83	6.66	-5.23				
Money Multiplier	2.76	2.97	2.94				

Source: Research Dept. Bank of Sierra Leone

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

Figure 4: Broad Money and its Sources



Source: Research Dept., Bank of Sierra Leone

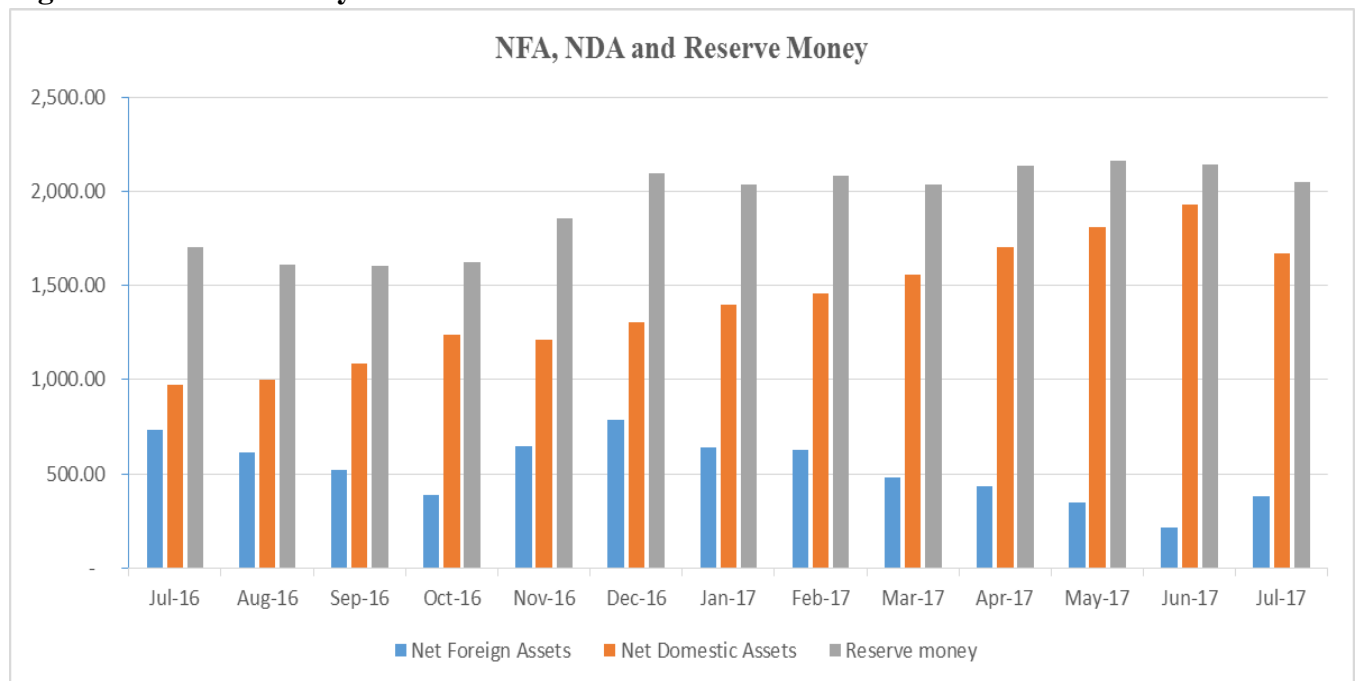
On the liability side, the decrease in M2 was reflected in its components as both Narrow Money and Quasi Money decreased. Narrow Money contracted by 0.53 per cent in July 2017 and was in contrast to the 1.20 per cent increase in June 2017. The contraction in Narrow Money was translated into 3.58 per cent decrease in Currency outside banks and 2.11 per cent decrease in currency issued by the Central Bank to commercial banks. Quasi Money decreased by 8.65 per cent arising from the 14.27 drawdown in Foreign Currency Deposits and the 14.27 per cent decrease in Time and Savings Deposits.

4.2 Reserve Money

Reserve Money contracted by 4.37 per cent in July 2017 and was higher than the 0.81 per cent decrease in June 2017. Reserve Money declined as a result of the 10.70 per cent decline in NDA of the Central Bank, which more than outweighed the 12.63 per cent growth in NFA of the Central Bank.

From the liability perspective, both components of RM declined, Currency Issued decreased by 2.11 per cent and Banks' Reserves contracted by 9.08 per cent.

Figure 5: Reserve Money and its Sources



Source: Research Department, BSL

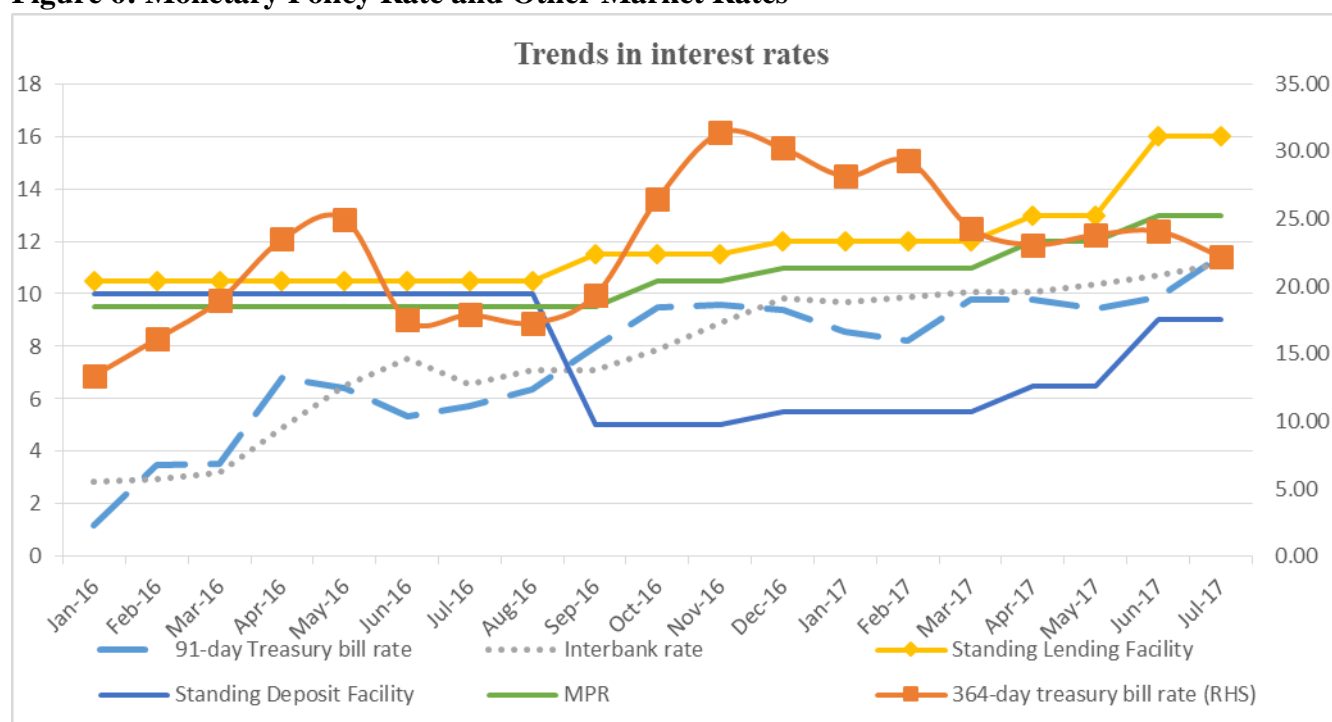
Table 2: Reserve Money and its Components

	2017			Absolute change		(% Change)	
	May-17	Jun-17	Jul-17	Jun-17	Jul-17	Jun-17	Jul-17
1. Net Foreign Assets	348.64	212.76	382.99	(135.88)	170.23	(38.97)	80.01
2. Net Domestic Assets	1,814.00	1,932.34	1,668.34	118.34	(264.00)	6.52	(13.66)
2.1 Government Borrowing (net)	2,014.23	2,117.53	1,893.06	103.30	(224.47)	5.13	(10.60)
o.w. 2.11 Securities	1,146.14	1,096.84	1,063.56	(49.30)	(33.28)	(4.30)	(3.03)
2.12 Ways and Means	121.02	122.36	46.91	1.34	(75.45)	1.11	(61.66)
2.13 GoSL/IMF Budget financing	880.82	1,108.95	988.95	228.13	(120.00)	25.90	(10.82)
3. Reserve money	2,162.64	2,145.10	2,051.33	(17.54)	(93.77)	(0.81)	(4.37)
o.w. 3.1 Currency issued	1,456.37	1,456.15	1,425.46	(0.22)	(30.69)	(0.02)	(2.11)
3.2 Bank reserves	705.87	688.24	625.73	(17.63)	(62.51)	(2.50)	(9.08)

Source: Research Dept. Bank of Sierra Leone

4.3 Interest rates

During the review month, the Monetary Policy Rate remained unchanged at its June 2017 level of 13 per cent. The rates on Lending and Deposit facilities also remained unchanged at their June levels of 16.0 per cent and 9.0 per cent, respectively. The interbank market rate increased to 11.14 per cent in July 2017 from 10.69 per cent in June 2017. The average lending rate and commercial banks' Savings Deposits rate stood at 24.77 per cent and 2.38 per cent respectively in July 2017.

Figure 6: Monetary Policy Rate and Other Market Rates

Source: Research Department, BSL

Yields on treasury securities showed mixed trend. The yield on 91-days and 364-days Treasury Bills increased to 11.46 per cent from 9.88 per cent. The yield on 182-days and 364-days Treasury Bills decreased to 15.18 and 22.20 per cent in July from 15.31 per cent and 24.08 per cent respectively during June 2017.

Table 3: Interest Rates (%)

	2016						2017						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
91-day Treasury bill rate	5.73	6.36	7.96	9.5	9.59	9.38	8.57	8.20	9.79	9.78	9.43	9.88	11.46
182-day Treasury bill rate	8.94	10.19	12.03	14.69	15.52	16.17	15.68	15.51	13.54	11.73	9.11	15.31	15.18
364-day treasury bill rate	17.89	17.29	19.34	26.47	31.38	30.22	28.16	29.29	24.31	23.09	23.82	24.08	22.2
Interbank rate	6.54	7.10	7.11	7.86	8.88	9.82	9.66	9.86	10.05	10.09	10.36	10.69	11.14
Standing Lending Facility	10.50	10.50	11.50	11.50	11.50	12.00	12.00	12.00	12.00	13.00	13.00	16.00	16.00
Standing Deposit Facility	10.00	10.00	5.00	5.00	5.00	5.50	5.50	5.50	5.50	6.5	6.5	9.00	9.00
MPR	9.50	9.50	9.50	10.50	10.50	11.00	11.00	11.00	11.00	12.00	12.00	13.00	13.00
Average Lending rate	21.54	21.54	20.69	20.86	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35
Savings deposits	2.54	2.54	2.23	2.27	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38

Source: Research Dept. Bank of Sierra Leone

5.0 Exchange Rate Developments

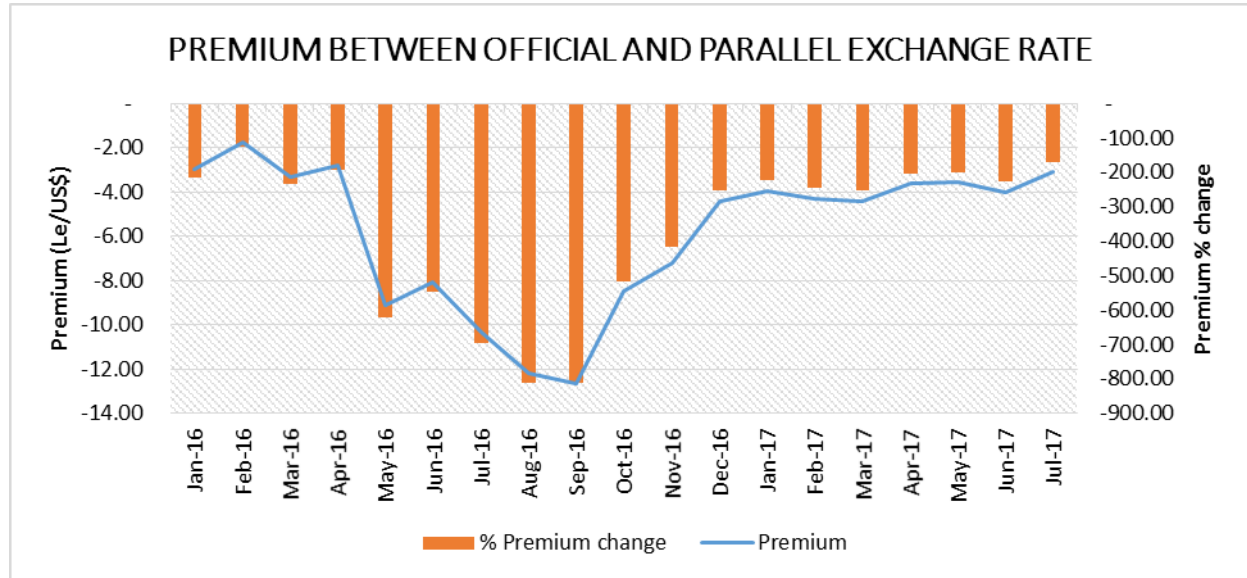
The monthly average exchange rate of the Leone to the US dollar for July 2017 depreciated in all foreign exchange markets, with the exception of the parallel market which recorded marginal appreciation.

On the buying front, the bureaux rate depreciated the highest by 1.29 per cent to Le7,324.54/US\$1, followed by the official rate, 0.66 per cent to Le7,307.57/US\$1 and the commercial banks rate by 0.21 per cent to Le7,387.64/US\$1; while the parallel markets rate appreciated by 0.16 per cent to Le7,538.10/US\$1.

Similarly, on the selling front, the bureaux rate depreciated by 1.32 percent to Le7,506.31/US\$1, the official rate by 0.85 per cent to Le7,455.20/US\$1 and commercial banks rate by 0.39 per cent to Le7,564.54/US\$1; while the parallel market rate appreciated by 0.16 per cent to Le7,619.05/US\$1.

The premium between the official and parallel rates narrowed by 0.84 per cent from Le290.17/US\$1 in June 2017 to Le230.53/US\$1 in the review month.

Figure 7: Premium between the Official and Parallel Exchange Rate



Source: Research Department, BSL

6.0 Gross Foreign Exchange Reserves

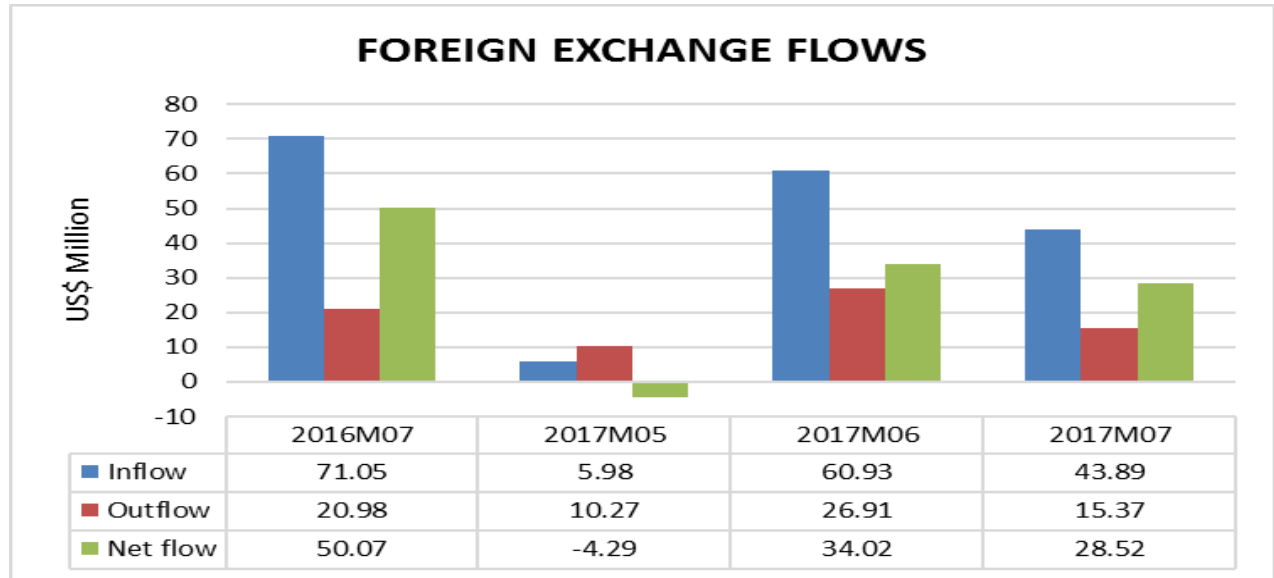
The Gross Foreign Reserves at end July 2017 stood at US\$508.56mn, increasing by 6.49 per cent over US\$477.55mn recorded in June 2017. This improvement in reserves was mainly driven by the increase in inflows (US\$43.89mn) over outflows (US\$15.37mn), indicating a net inflow of US\$28.52mn.

Significant inflows comprised US\$30.93mn being World Bank loan/grant in respect to budgetary support; US\$8.31mn being receipts from government foreign exchange transactions; US\$2.07mn being receipts from exports; and US\$2mn being IDB disbursement for on-going projects.

Notable outflows consisted of US\$12.40mn, being payments for goods and services of which; US\$5.58mn was for roads infrastructure, US\$2.90mn being government travel and other

government expenditures, Embassies/Mission payments was US\$1.48mn and US\$1.24mn being subscription to international organizations. Debt service payments to various international organisations amounted to US\$2.97mn, of which US\$2.31mn was paid to the IMF.

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



Source: Research Department, BSL