BANK OF SIERRA LEONE

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BANK OF SIERRA LEONE

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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
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 for April**

Real sector activity continued to be mixed during the review month, as some sectors registered improved output levels, while others recorded contraction in their outputs.

Inflationary pressures eased in April 2017, as headline inflation decelerated to 19.80 per cent in April from 20.22 per cent in March 2017. The slowdown in domestic prices was reflected in food inflation, while non-food inflation continued on its upward trend.

Central government budgetary operation on cash flow basis improved, as the overall fiscal deficit narrowed to Le70.66bn in April 2017 from Le80.52bn in the previous month. This outturn was explained by decrease in government expenditures which morethan offset the decrease in domestic revenues as well as grants.

Growth in monetary aggregates were sustained in April 2017, as both Broad Money (M2) and Reserve Money (RM) recorded increases of 2.97 per cent and 4.77 per cent respectively.

The Leone continued to exhibit relative stability against the US dollars during April 2017.The gross external reserves of the Bank of Sierra Leone was recorded at US$440.81mn at end April 2017, indicating a further decline of 2 per cent from the US$449.82mn recorded at end March 2017.

2.0 **Real Sector Developments**

2.1 **Mining**

Output in the mining sector was mixed during the reporting month. Diamonds production as reported by National Minerals Agency (NMA) fell by 35.86 per cent to 15.04 thousand carats and was made up of 8.58 thousand carats of gem diamonds and 6.46 thousand carats of industrial diamonds. Bauxite and rutile production also declined with bauxite recording a 0.62 per cent drop in production to 163.1 thousand metric tons and rutile a 2.33 per cent drop to 13.85 thousand metric tons. Production of gold was 29.89 ounces in the reporting period indicating 87.63 per cent decline from the previous month. However, production level increased for ilmenite, zircon and iron ore. Ilmenite production rose by 45.82 per cent to 5.06 thousand metric tons, zircon by 163.16 per cent to 1.25 thousand metric tons and iron ore production increased by 15.68 per cent to 1247.04 thousand metric tons.

2.2 **Manufacturing**

The performance of the manufacturing sector continued to exhibit mixed outturn in April 2017. Maltina and soft drinks production declined by 14.70 per cent to 22.17 thousand cartoons and by 18.39 per cent to 54.22 thousand crates respectively. Also, acetylene and confectionery production declined by 16.13 per cent to 15.60 thousand cubic feet and by 13.46 per cent to 241.12 thousand pounds respectively. Common soap production dropped by 8.46 per cent to 33.45 thousand metric tons. However, production of beer and stout, and oxygen were higher relative to their levels in the preceding month. Beer & stout output grew by 17.04 per cent to 90 thousand cartons and oxygen by 12.31 per cent to 51.10 thousand cubic feet respectively.

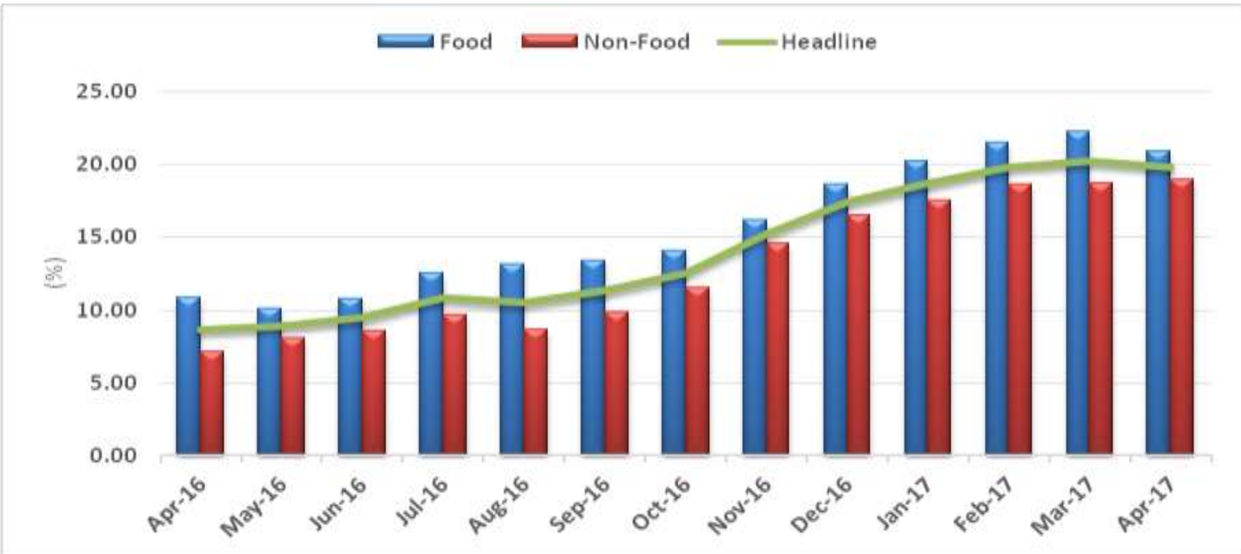
2.3 **Electricity Generation**

Electricity generated in April 2017 amounted to 21.9 Gw/h, representing a decline of 16.8 per cent compared to the previous month. The overall generation was made up of 12.3 Gw/h from thermal plants and 9.6 Gw/h from hydro plants, implying thermal plants contributed more to electricity generation than hydro plants.

3.0 **Price Developments**

The inflationary momentum eased in April 2017 as headline inflation decreased to 19.8 per cent in April from a peak of 20.22 per cent in March 2017. The deceleration in prices in the review month was reflected mainly in food inflation, as non-food inflation continued to accelerate.

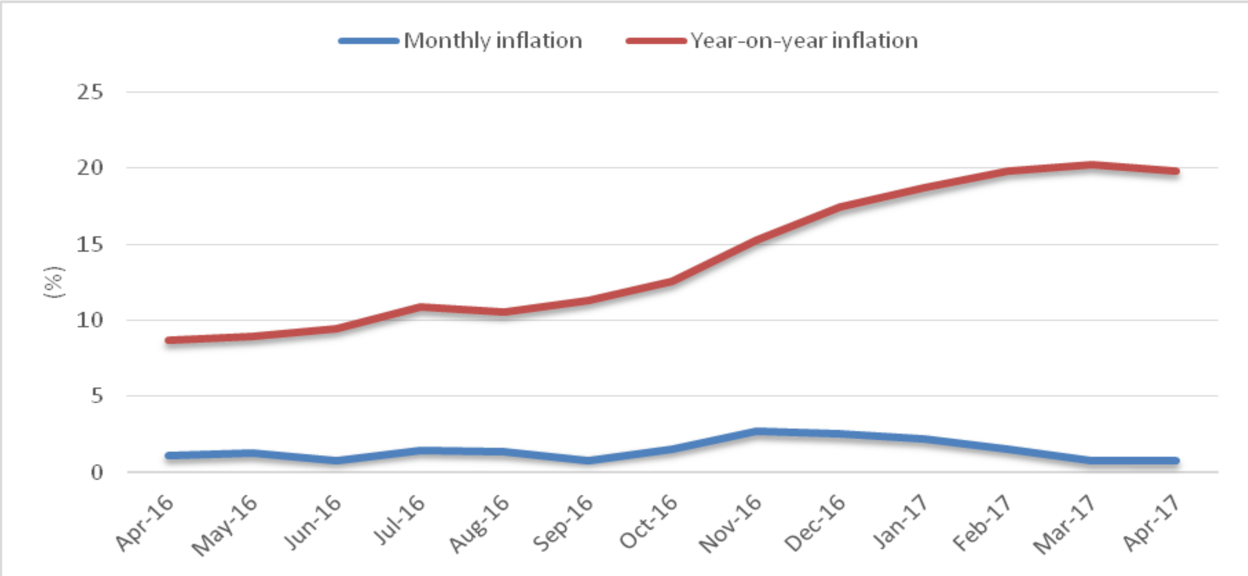
Chart 1: Food and Non Food Component of Inflation (year-on-year)



Source: Research Dept., Bank Sierra Leone

Food inflation declined from 22.28 per cent in March to 20.94 per cent in April 2017, while non-food inflation increased from 18.74 per cent to 18.98 per cent. Monthly inflation also dropped from 0.78 per cent in March to 0.77 per cent in April 2017.

Chart 2: Headline Inflation



Source: Research Dept., Bank Sierra Leone

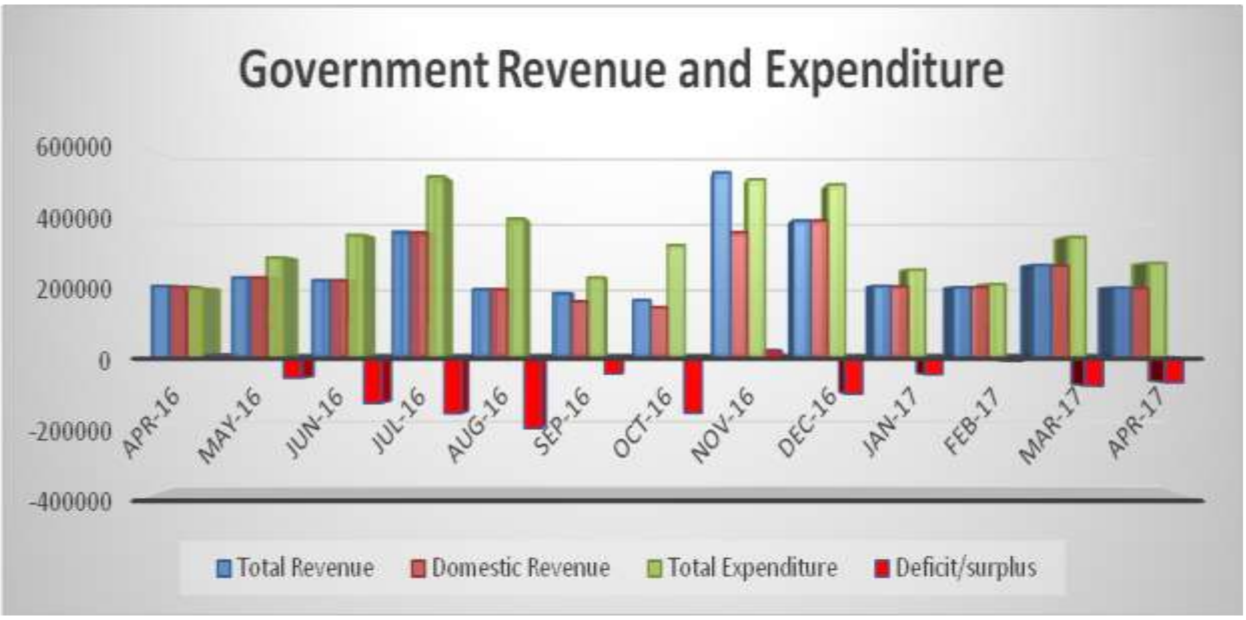
On a regional basis, headline inflation increased in Eastern region from 22.08 in March to 22.23 per cent in April, and in Southern region from 16.94 per cent to 16.95 per cent. Inflation decreases were however experienced in Western region from 20.16 per cent to 19.81 per cent and in Northern region from 21.61 per cent to 20.48 per cent.

4.0 Government Budgetary Operations

Central government fiscal operations on cash flow basis in April 2017 improved as the overall budget deficit narrowed to Le70.66bn from Le80.52bn deficit in March 2017 but was higher than the budgeted target of Le12.21bn.

Total revenue including grants amounted to Le203.32bn and was lower than the previous month's collection of Le268.51bn by 24.28 per cent and the target of Le296.17bn for April by 31.35 per cent. Domestic revenue declined by 24.47 per cent to Le201.21bn and was lower than the target of Le230.86bn by 12.84 per cent. The drop in domestic revenue mobilization was due to lower tax and non-tax revenue. Revenue from customs and excise declined by 11.24 per cent to Le40.03bn, income tax collection decreased by 42.76 per cent to Le54.02bn and taxes collected from goods and services decreased by 18.30 per cent to Le53.37bn. Similarly, on-tax revenue declined by 12.67 per cent to Le53.79bn.

Chart 3: Government Revenue and Expenditure



Source: Research Dept., Bank Sierra Leone

Total government expenditure declined by 21.50 per cent to Le273.99bn from Le349.02bn in March and lower than the target of Le308.38bn by 11.15 per cent. The slowdown in total spending was mainly driven by decline in payment for wages and salaries as well as goods and services. Spending on wages and salaries declined by 15.73 per cent to Le131.73bn while expenditure on goods and services dropped by 65.82 per cent to Le47.68bn. These outlays were below their targets for April by 18.28 per cent and 56.91 per cent respectively. Total debt service payments, however, increased by 77.73 per cent to Le94.57bn and exceeded the budgeted ceiling of Le36.51bn. Domestic debt service increased by 50.71 per cent and foreign debt service by 143.60 per cent. Both domestic and foreign debt service payments exceeded their targets for April 2017.

The overall fiscal deficit of Le70.66bn was financed from domestic sources.

5.0 Monetary Developments

Monetary developments during April 2017 were expansionary, as both Broad Money (M2) and Reserve Money (RM) increased.

5.1 Broad Money (M2)

Broad Money (M2) grew by 2.97 per cent in April 2017, exceeding the 1.01 per cent increase recorded in the preceding month. The growth in M2 was manifested in both NFA and NDA of the banking system. NFA grew by 1.26 per cent in April 2017, contributing 0.42 per cent to M2 growth. The growth in NFA was mainly due to increases in commercial banks balances held abroad. NDA increased by 3.82 per cent and contributed 2.56 per cent to the increase in M2. The increase in NDA was on account of growth in government borrowing of 2.31 per cent coupled with the 9.61 per cent increase in private sector credit in April 2017.

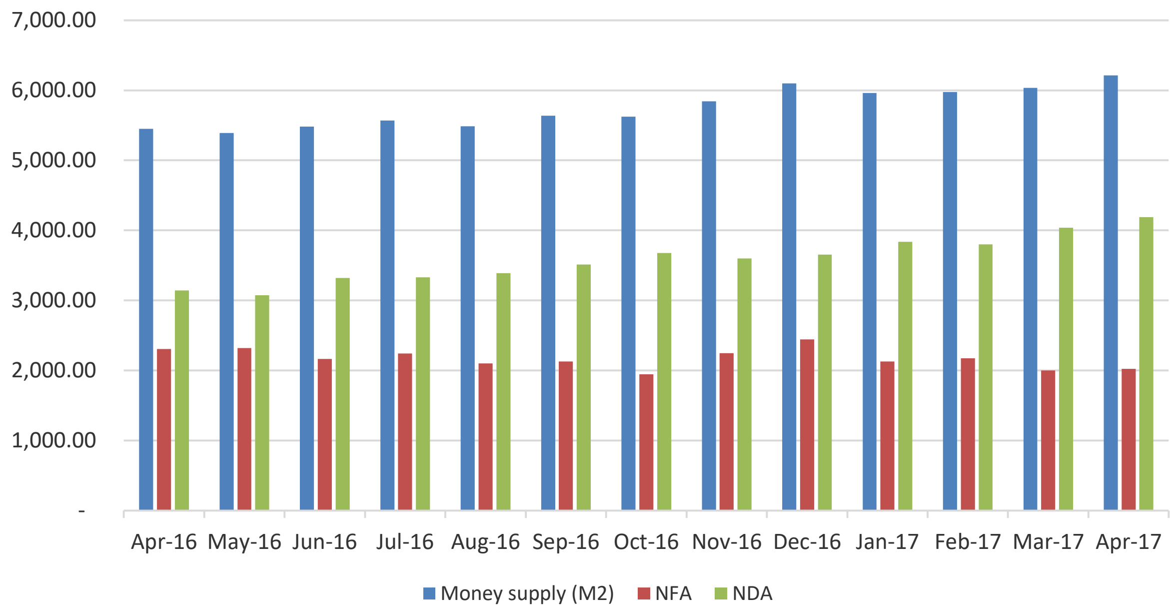
Table 1: Money supply and its Components

	2016/2017			Absolute Change		(%) Change	
	Feb-17	Mar-17	Apr-17	Mar-17	Apr-17	Mar-17	Apr-17
Reserve money	**2,085.01**	**2,038.44**	**2,135.72**	**(46.57)**	**97.28**	**(2.23)**	**4.77**
Money supply (M2)	**5,972.99**	**6,033.41**	**6,212.85**	**60.42**	**179.44**	**1.01**	**2.97**
Narrow money (M1)	**2,671.35**	**2,573.71**	**2,732.23**	**(97.64)**	**158.52**	**(3.66)**	**6.16**
Currency outside banks	1,219.27	1,251.70	1,251.30	32.43	(0.40)	2.66	(0.03)
Demand deposit	1,452.08	1,322.01	1,480.93	(130.07)	158.92	(8.96)	12.02
Quasi money	**3,301.64**	**3,459.52**	**3,480.52**	**157.88**	**21.00**	**4.78**	**0.61**
o.w. Foreign currency deposit	1,666.14	1,745.04	1,869.09	78.90	124.05	4.74	7.11
Time and saving deposit	1,635.42	1,714.48	1,611.43	79.06	(103.05)	4.83	(6.01)
Net Foreign Asset	**2,174.41**	**1,997.78**	**2,022.90**	**(176.63)**	**25.12**	**(8.12)**	**1.26**
BSL	625.05	477.96	433.62	(147.09)	(44.34)	(23.53)	(9.28)
ODCs	1,549.36	1,519.82	1,589.28	(29.54)	69.46	(1.91)	4.57
Net Domestic Assets	**3,798.58**	**4,035.63**	**4,189.95**	**237.05**	**154.32**	**6.24**	**3.82**
Net Domestic Credit	**5,015.54**	**5,236.28**	**5,443.40**	**220.74**	**207.12**	**4.40**	**3.96**
Government (Net)	3,498.18	3,675.89	3,760.77	177.71	84.88	5.08	2.31
Private Sector	1,349.55	1,326.33	1,453.85	(23.22)	127.52	(1.72)	9.61
Other Sectors (Net)*	167.81	234.06	228.78	66.25	(5.28)	39.48	(2.26)
Other Items (Net)	**(1,216.96)**	**(1,200.65)**	**(1,253.45)**	**16.31**	**(52.80)**	**(1.34)**	**4.40**
Monthly RM growth	2.32	-2.23	4.77				
Monthly M2 growth	0.16	1.01	2.97				
Money Multiplier	2.86	2.96	2.91				

Source: Research Dept. Bank of Sierra Leone

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

Chart 4: M2 and its Sources



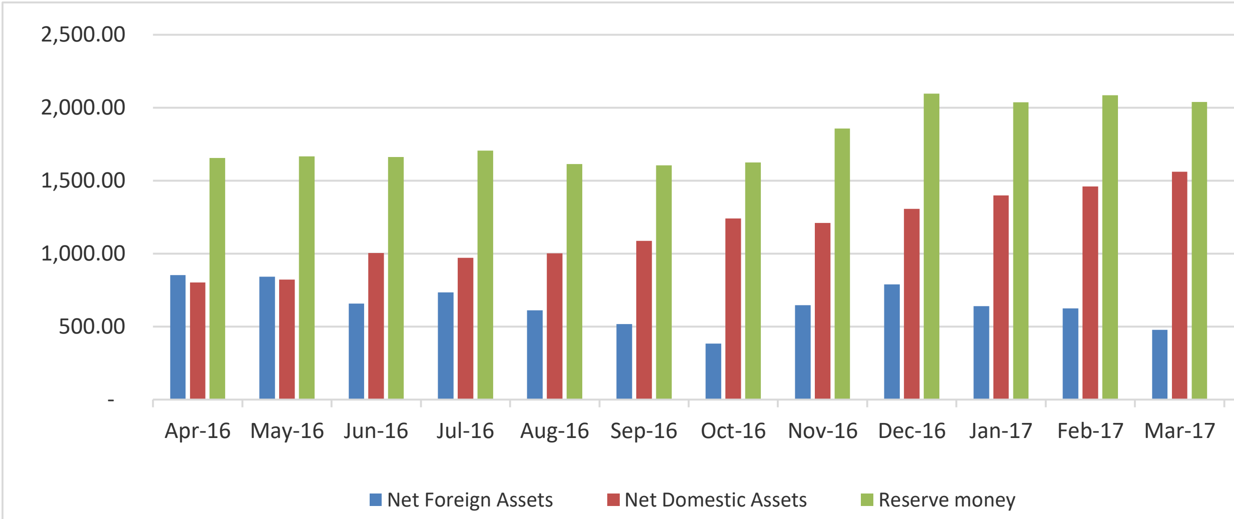
Source: Research Dept., Bank Sierra Leone

On the liability side, the increase in M2 was reflected in both Narrow Money and Quasi Money. Narrow Money increased by 6.16 per cent in April 2017 from a decline of 3.66 per cent in March 2017. The increase was due to the 12.02 per cent increase in Demand Deposits. Quasi Money increased marginally by 0.61 per cent when compared to 4.78 per cent increase in March 2017 and was driven by the 7.11 per cent increase in foreign currency deposits. However, time and savings deposits decreased by 6.01 per cent from a increase of 4.83 per cent in March 2017.

5.2 **Reserve Money**

Reserve Money (RM) expanded by 4.77 per cent in April 2017 from a contraction of 2.23 per cent recorded in March 2017. The growth in reserve money was on account of 9.08 per cent (Le141.62bn) increase in Net Domestic Assets of the Bank of Sierra Leone, which was driven by the Le87.44bn increase in holdings of government securities and Le19.42bn utilization of Ways and Means Advances by the Government. However, NFA of BSL declined by 9.28 per cent in April 2017 compared to 23.53 per cent drop in March 2017.

Chart 5: Reserve Money and its Sources



Source: Research Department. Bank Sierra Leone

On the liability side, the expansion in reserve money was reflected in currency issued and bankers' reserves as currency issued increased by Le39.29bn and bankers' reserves by Le57.95bn.

Table 2: Reserve Money and its Components

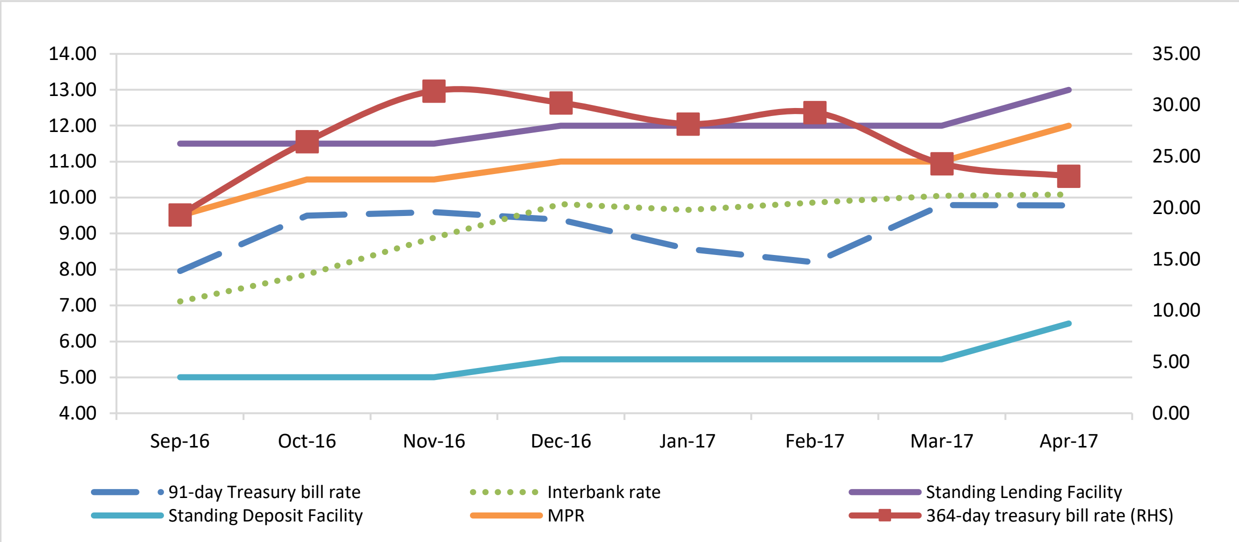
	2017			Absolute change		Change (%)	
	Feb-17	Mar-17	Apr-17	Mar-17	Apr-17	Mar-17	Apr-17
1. Net Foreign Assets	**625.05**	**477.96**	**433.62**	**(147.09)**	**(44.34)**	**(23.53)**	**(9.28)**
2. Net Domestic Assets	**1,459.96**	**1,560.48**	**1,702.10**	**100.52**	**141.62**	**6.89**	**9.08**
2.1 Government Borrowing (net)	1,714.81	1,788.18	1,932.31	73.37	144.13	4.28	8.06
o.w. 2.11 Securities	815.34	911.90	999.34	96.56	87.44	11.84	9.59
2.12 Ways and Means	177.37	167.29	186.71	(10.08)	19.42	(5.68)	11.61
2.13 GoSL/IMF Budget financing	880.82	880.82	880.82	-	-	-	-
3. Reserve money	**2,085.01**	**2,038.44**	**2,135.72**	**(46.57)**	**97.28**	**(2.23)**	**4.77**
o.w. 3.1 Currency issued	1,393.90	1,415.62	1,454.91	21.72	39.29	1.56	2.78
3.2 Bank reserves	691.17	622.76	680.71	(68.41)	57.95	(9.90)	9.31

Source: Research Dept. Bank of Sierra Leone

5.3 Interest rates

The Monetary Policy Committee (MPC) at its end March 2017 meeting increased the MPR from 11.00 per cent to 12.00 per cent, which became effective in April 2017. Interest rate on BSL's Standing Deposit Facility (SDF) and Standing Lending Facility (SLF) also increased to 6.5 per cent and 13.00 per cent respectively. The monthly average interbank market rate increased marginally to 10.09 per cent in April 2017 from 10.05 per cent in March 2017 and but was within the interest rate corridor band set by BSL. However, the average lending rate and savings deposits rate of commercial banks remained unchanged. The interest rate on savings stood at 2.38 per cent while the average lending rate remained at 21.35 per cent in April 2017.

Chart 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, Bank Sierra Leone

Yields across all tenors of government treasury bills declined in April 2017. The yield on the 364-day treasury bills, which accounts for over 80 per cent of the total stock of government securities decreased to 23.09 per cent in April 2017 from 24.31 per cent in March 2017. The 182-day treasury bills rate decreased to 11.73 per cent from 13.54 per cent in March 2017 while that on 91-day dropped to 9.78 per cent from 9.79 per cent during the same period.

Table 3: Interest rates (%)

	2016									2017			
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
91-day Treasury bill rate	6.82	6.41	5.34	5.73	6.36	7.96	9.5	9.59	9.38	8.57	8.20	9.79	9.78
182-day Treasury bill rate	10.18	10.49	9.68	8.94	10.19	12.03	14.69	15.52	16.17	15.68	15.51	13.54	11.73
364-day treasury bill rate	23.48	24.97	17.51	17.89	17.29	19.34	26.47	31.38	30.22	28.16	29.29	24.31	23.09
Interbank rate	4.88	6.50	7.55	6.54	7.10	7.11	7.86	8.88	9.82	9.66	9.86	10.05	10.09
Standing Lending Facility	10.50	10.50	10.50	10.50	10.50	11.50	11.50	11.50	12.00	12.00	12.00	12.00	13.00
Standing Deposit Facility	10.00	10.00	10.00	10.00	10.00	5.00	5.00	5.00	5.50	5.50	5.50	5.50	6.5
MPR	9.50	9.50	9.50	9.50	9.50	9.50	10.50	10.50	11.00	11.00	11.00	11.00	12.00
Average Lending rate	21.54	21.54	21.54	21.54	21.54	20.69	20.86	21.35	21.35	21.35	21.35	21.35	21.35
Savings deposits	2.54	2.54	2.54	2.54	2.54	2.23	2.27	2.38	2.38	2.38	2.38	2.38	2.38

Source: Research Dept. Bank of Sierra Leone

6.0 **Exchange Rate Developments**

The monthly average exchange rate of the Leone vis-à-vis the US dollar exhibited mixed performances across all the foreign exchange market segments. On the buying front, the parallel and commercial banks rates appreciated by 0.47 per cent to Le7,455.88/US$1 and 0.06 per cent to Le7,246.20/US$1 respectively. Marginal depreciations of 0.22 per cent and 0.09 per cent were observed in the official and bureaux market segments respectively.

On the selling front, the parallel rate appreciated by 0.54 per cent averaging Le7,541.18/US$1, while the bureaux, official and commercial banks rates depreciated by 0.62 per cent to Le7,345.68/US$1, 0.22 per cent to Le7,339.47/US$1 and 0.18 per cent to Le7,479.51/US$1 respectively.

The premium between the official and parallel rates narrowed by 0.71 per cent from Le312.40/US$ in March 2017 to Le261.75/US$1 in April 2017, reflecting the relative stability of the Leone against the US dollar.

7.0 **Gross Foreign Exchange Reserves**

The stock of Gross Foreign Exchange Reserves as at end April 2017 stood at US$440.81mn, decreasing by 2 per cent when compared to the stock level of US$449.82mn recorded in March 2017. This development was on account of total outflows of US$18.30mn which outpaced the total inflows of US$3.38mn during the month.

Significant inflows comprised; US$ 2.76mn being receipt from exports and royalties and license fees amounting to US$1.35mn.Significant outflows included; US$7.50mn being support to the private sector through the Bank of Sierra Leone weekly foreign exchange auction, embassies/missions payment amounting to US$1.96mn, US$1.65mn being payments for government’s infrastructure projects and debt service payments to various creditors totaling US$5.24mn.