



BANK OF SIERRA LEONE

Monthly Economic Review

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BANK OF SIERRA LEONE

MONTHLY ECONOMIC REVIEW

August 2018

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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
SSL	-	Statistics Sierra Leone
WB	-	World Bank

1.0 Highlights

Macroeconomic performance in August 2018 continued to be mixed across key sectors of the economy. Annual headline inflation increased by 0.51 percentage point to 18.22 per cent in August 2018 from 17.71 per cent in previous month explained by increases in both food and non-food inflation and the pass-through effect of the exchange rate.

In August 2018, Government budgetary operations resulted in a surplus of Le2.47bn compared to a deficit of Le39.18bn recorded in the previous month. This development was on account of improved revenue generation (from Income tax and Non-tax sources) relative to government expenditure during the review period.

Developments in monetary aggregates were mixed in August 2018, as Broad Money (M2) expanded, while Reserve Money (RM) contracted. Broad money (M2) expanded by 0.90 per cent in August 2018, compared to a 1.96 per cent expansion recorded in July 2018. The growth in M2 reflected growth in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system.

During the review month, the monetary policy rate remained unchanged at 16.50 per cent since July 2018. The interbank rate declined slightly to 14.02 per cent in August 2018, from 14.28 per cent in July 2018, while the average lending and savings deposits rates of the commercial banks remained unchanged at 21.35 per cent and 2.38 per cent, respectively.

The stock of Gross Foreign Exchange Reserves as at end-August 2018 was US\$501.46mn, declining by 2.51 per cent from the level of US\$514.38mn in the preceding period. The decrease in reserves was due to an excess of outflows (US\$20.56mn) over inflows (US\$8.54mn) with a net outflow of US\$12.02mn during the review period. The average exchange rate of the Leone against the US dollar for the month of August, 2018 depreciated across all segments of the foreign exchange markets.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

The manufacturing sector recorded slight recovery during the review period. Production increases were recorded for beer and stout, cement, acetylene, oxygen, confectionery and common soap. Beer & stout production grew by 1.94 per cent to 155.84 thousand cartons, cement increased by 2.13 per cent to 27.32 thousand metric tons, acetylene and oxygen rose by 19.03 per cent to 24.33 thousand cubic feet and by 16.75 per cent to 24.05 thousand cubic feet respectively; confectionery and common soap production increased respectively by 1.14 per cent to 208.09 thousand pounds and by 8.77 per cent to 54.32 thousand metric tons.

On the other hand, production declines were recorded for maltina, soft drinks and paint. Maltina production slowed by 8.27 per cent to 26.51 thousand cartons; soft drinks production fell by 4.19 per cent to 91.54 thousand crates, while paint production dropped by 10.46 per cent to 48.53 thousand gallons.

2.1.2 Mining

In the mining sector, production performance was weak, explained by decreases in all mineral products except diamond. Bauxite production declined by 5 per cent to 149.03 thousand metric tons, rutile production decreased by 29.24 per cent to 9.17 thousand metric tons. Similarly, Ilmenite production dropped by 4.45 per cent to 5.15 thousand metric tons, while Gold production slumped to 30.05 ounces from 10,797.05 ounces last month. Diamond production grew by 7.97 per cent to 79.75 thousand carats comprising of 42.1 thousand carats of industrial and 37.65 thousand carats of gem.

2.1.3 Electricity Generation

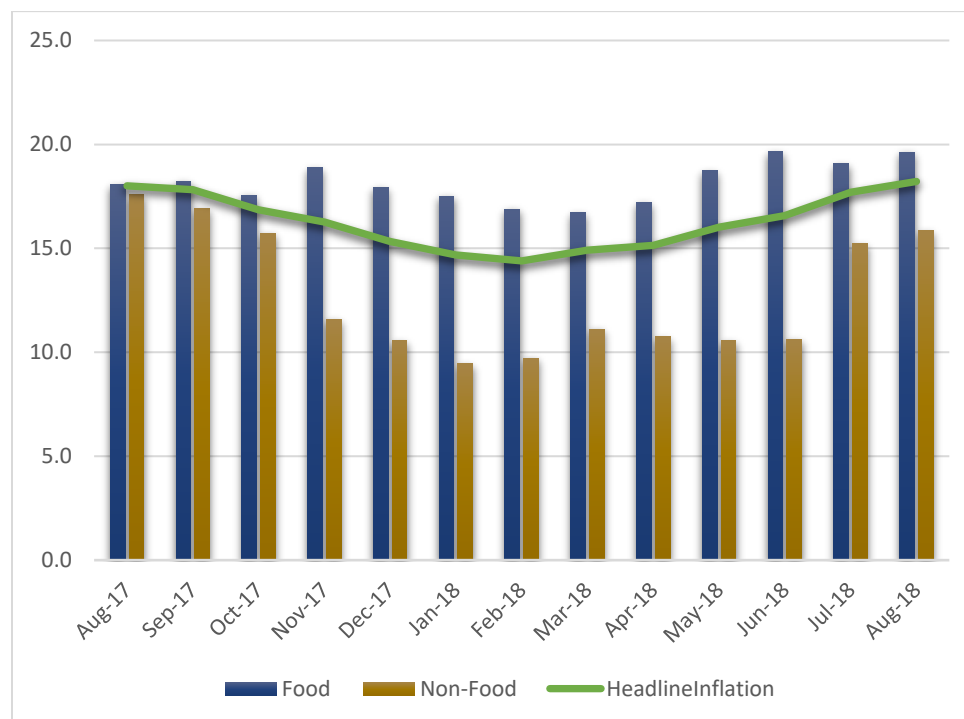
Electricity generation increased by 22.34 per cent to 29.66 Gw/hr in August 2018, explained by increased generation from the hydro power plants. Total hydro power generation for the reporting period was 28.37 Gw/hr, representing an increase by 25.64 per cent. Generation by the total thermal plants however declined by 22.29 per cent to 1.29Gw/hr, driven by the slow performance from the total provincial thermal plants.

2.2 Price Developments

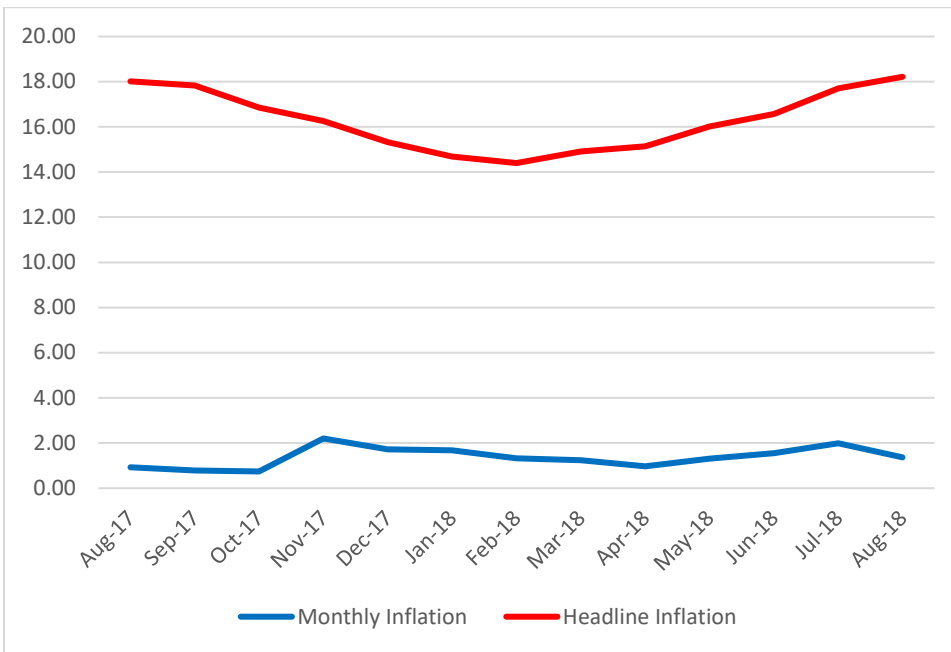
Inflationary pressures continued to mount as headline inflation increased to 18.22 per cent in August 2018 from 17.71 per cent in the previous month. The increase was attributed to both food and non-food inflation. Food inflation rose to 19.62 per cent in August 2018 from 19.07 per cent in July 2018, while non-food inflation increased to 15.87 per cent from 15.23 per cent last month.

Regional trend showed inflation increases in the Southern region to 20.53 per cent in August 2018 from 19.44 per cent in July 2018, and Western Area inflation rose to 19.18 per cent in August 2018 from 16.32 per cent in July 2018. On the other hand inflation decreases occurred in the Eastern region to 16.90 per cent in August 2018 from 17.09 per cent in July 2018 and in the Northern region to 19.18 per cent in August 2018 from 19.29 per cent in July 2018.

Figure 1: Headline, Food and Non-Food Inflation



Month-on-month inflation slowed slightly to 1.37 per cent in August 2018 from 1.99 per cent in July 2018. The downward trend in the monthly inflation was driven by decreases in the prices of non-food items such as furniture, household equipment and household maintenance, housing, water, electricity, gas and other fuels, health, transport, and restaurants & hotels.

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

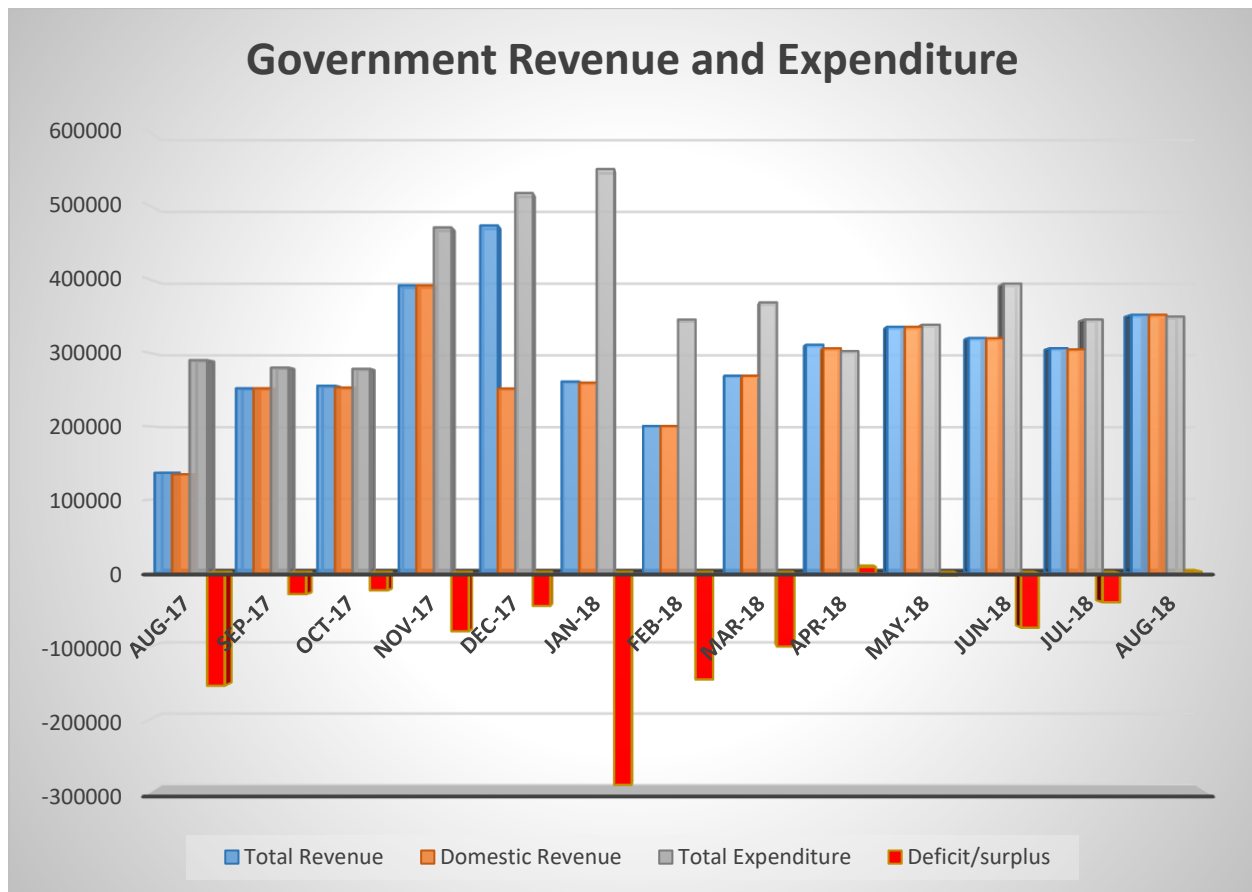
3.0 Government Budgetary Operations

In August 2018, Government budgetary operations resulted in a surplus of Le2.47bn compared to a deficit of Le39.18bn recorded last month.

3.1 Revenues

Government's domestic revenue grew by 15.44 per cent to Le351.58bn, on account of improved revenue generation from Income tax and Non-tax sources.

Income tax receipts increased by 3.4 per cent to Le109.89bn while non-tax collection expanded by Le60.95bn to Le105.68bn. Collection from Customs and Excise dropped by 19.43 per cent to Le57.43bn, and Goods & Services Tax fell by 4.47 per cent to Le78.58bn.

Figure 3: Government Revenue and Expenditure

Source: Research Department, Bank of Sierra Leone

3.2 Expenditures

Total government spending marginally grew by 1.12 per cent to Le349.11bn, explained exclusively by increased payment for pensions wages & salaries.

Debt services payments declined by 18.52 per cent to Le85.92bn, on account of decreased payments from both domestic and foreign debt services. Domestic debt service payments fell by 21.89 per cent to Le66.46bn while foreign debt service payments slowed down by 4.48 per cent to Le19.46bn.

4.0 Monetary Developments

Developments in monetary aggregates were mixed in August 2018, as Broad Money (M2) expanded, while Reserve Money (RM) contracted.

4.1 Broad Money

Broad money (M2) expanded by 0.90 per cent in August 2018, compared to a 1.96 per cent expansion recorded in July 2018. Growth in M2 was reflected in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system.

NFA of the banking system increased by 1.58 per cent in August 2018, compared to a growth of 8.06 per cent recorded in July 2018. This was primarily driven by the 6.88 per cent increase in NFA of Other Depository Corporations (ODCs) due to increase in their nostro accounts. However, NFA of BSL contracted by 27.61 per cent, from a growth of 6.84 per cent during the review period. This was due to increase in foreign liabilities by BSL arising from the use of funds credit and SDR allocation

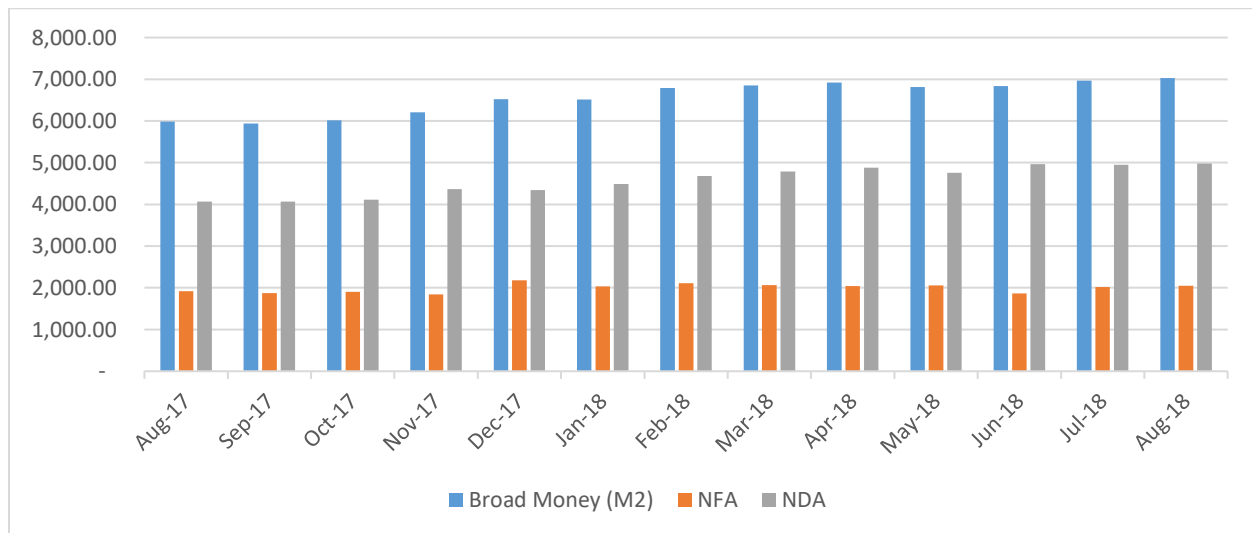
NDA of the banking system expanded slightly by 0.63 per cent in August 2018, compared to a contraction of 0.34 per cent in July 2018. This was mainly attributed to the 1.27 per cent growth in credit to the private sector by ODCs.

Table 1: Broad Money and its Components

Billions of Leones	2018		Absolute Change		(%) Change	
	Jul-18	Aug-18	Jul-18	Aug-18	Jul-18	Aug-18
Reserve money	2,107.72	2,093.20	3.71	(14.52)	0.18	(0.69)
Broad Money (M2)	6,968.73	7,031.71	133.75	62.98	1.96	0.90
Narrow money (M1)	3,144.70	3,092.10	(64.69)	(52.60)	(2.02)	(1.67)
Currency outside banks	1,458.00	1,482.19	(55.32)	24.19	(3.66)	1.66
Demand deposit	1,686.70	1,609.91	(9.37)	(76.79)	(0.55)	(4.55)
Quasi money	3,820.66	3,936.52	198.33	115.86	5.48	3.03
o.w. Foreign currency deposit	1,867.58	1,962.41	189.11	94.83	11.27	5.08
Time and saving deposit	1,953.08	1,974.11	9.22	21.03	0.47	1.08
Net Foreign Asset	2,016.90	2,048.78	150.48	31.88	8.06	1.58
BSL	309.75	224.22	19.84	(85.53)	6.84	(27.61)
ODCs	1,707.15	1,824.56	130.64	117.41	8.29	6.88
Net Domestic Assets	4,951.83	4,982.93	(16.73)	31.10	(0.34)	0.63
Net Domestic Credit	6,502.05	6,431.87	125.24	(70.18)	1.96	(1.08)
Government (Net)	4,755.37	4,682.90	(14.56)	(72.47)	(0.31)	(1.52)
Private Sector	1,737.14	1,758.53	177.91	21.39	11.41	1.23
o.w. BSL	33.87	33.59	0.09	(0.28)	0.27	(0.83)
ODCs	1,703.27	1,724.94	177.82	21.67	11.66	1.27
Other Sectors (Net)*	9.54	(9.56)	(38.11)	(19.10)	(79.98)	(200.21)
Other Items (Net)	(1,550.22)	(1,448.94)	(141.97)	101.28	10.08	(6.53)
Money Multiplier	3.31	3.36				

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

Source: Research Department, BSL

Figure 4: Trends in M2, NFA and NDA

Source: Research Department, BSL

On the liability side, the growth in M2 was due to a 3.03 per cent growth in Quasi money, from the 5.48 per cent growth recorded in July 2018. This reflected the increase in both foreign currency deposit (5.08 per cent) and time and saving deposit (1.08 per cent).

Narrow Money (M1) decreased by 1.67 per cent in the review period, compared to a 2.02 per cent decrease in the previous period. The contraction in M1 was due to a 4.55 per cent decrease in demand deposit.

4.2 Reserve Money

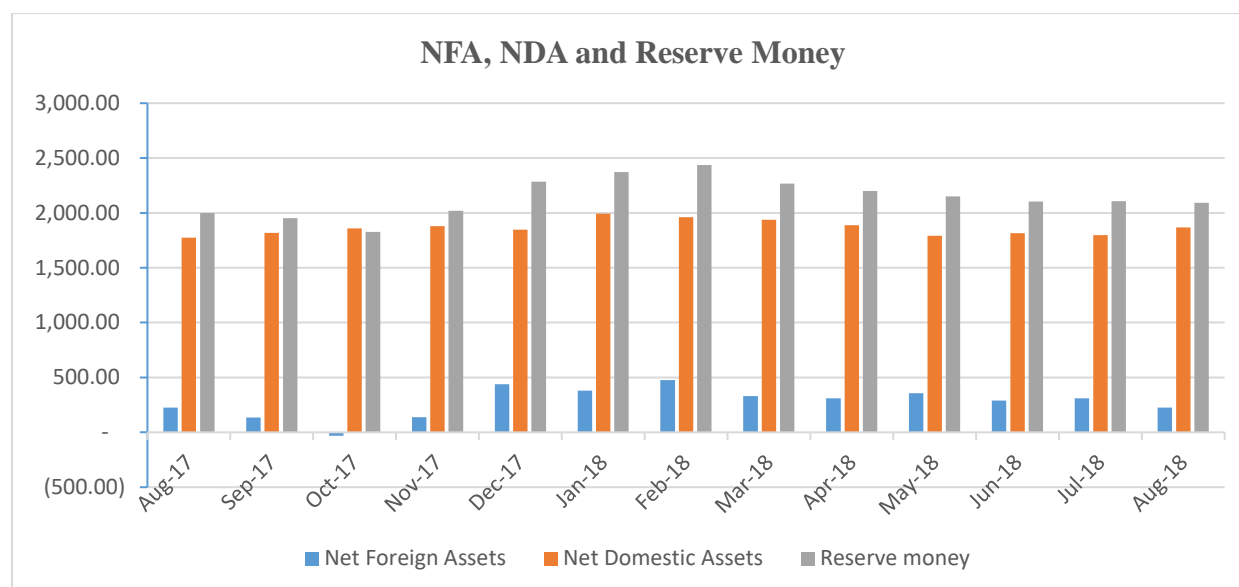
Reserve Money (RM) contracted by 0.69 per cent in August 2018, compared to a 0.18 per cent growth recorded in July 2018. The fall in RM was mainly on account of the decline in the NFA of BSL.

Table 2: Reserve Money and its Components

Billions of Leones	2018		Absolute change		(%) Change	
	Jul-18	Aug-18	Jul-18	Aug-18	Jul-18	Aug-18
1. Net Foreign Assets	309.75	224.22	19.84	(85.53)	6.84	(27.61)
2. Net Domestic Assets	1,797.97	1,868.98	(16.13)	71.01	(0.89)	3.95
2.1 Government Borrowing (net)	2,058.36	2,047.03	(18.56)	(11.33)	(0.89)	(0.55)
o.w. 2.11 Securities	1,094.51	1,106.56	(28.41)	12.05	(2.53)	1.10
2.12 Ways and Means	116.36	89.85	20.41	(26.51)	21.27	(22.78)
2.13 GoSL/IMF Budget financing	988.95	988.95	-	-	-	-
3. Reserve money	2,107.72	2,093.20	3.71	(14.52)	0.18	(0.69)
o.w. 3.1 Currency issued	1,678.84	1,701.25	(58.92)	22.41	(3.39)	1.33
3.2 Bank reserves	425.52	388.87	62.53	(36.65)	17.23	(8.61)

Source: Research Department, BSL

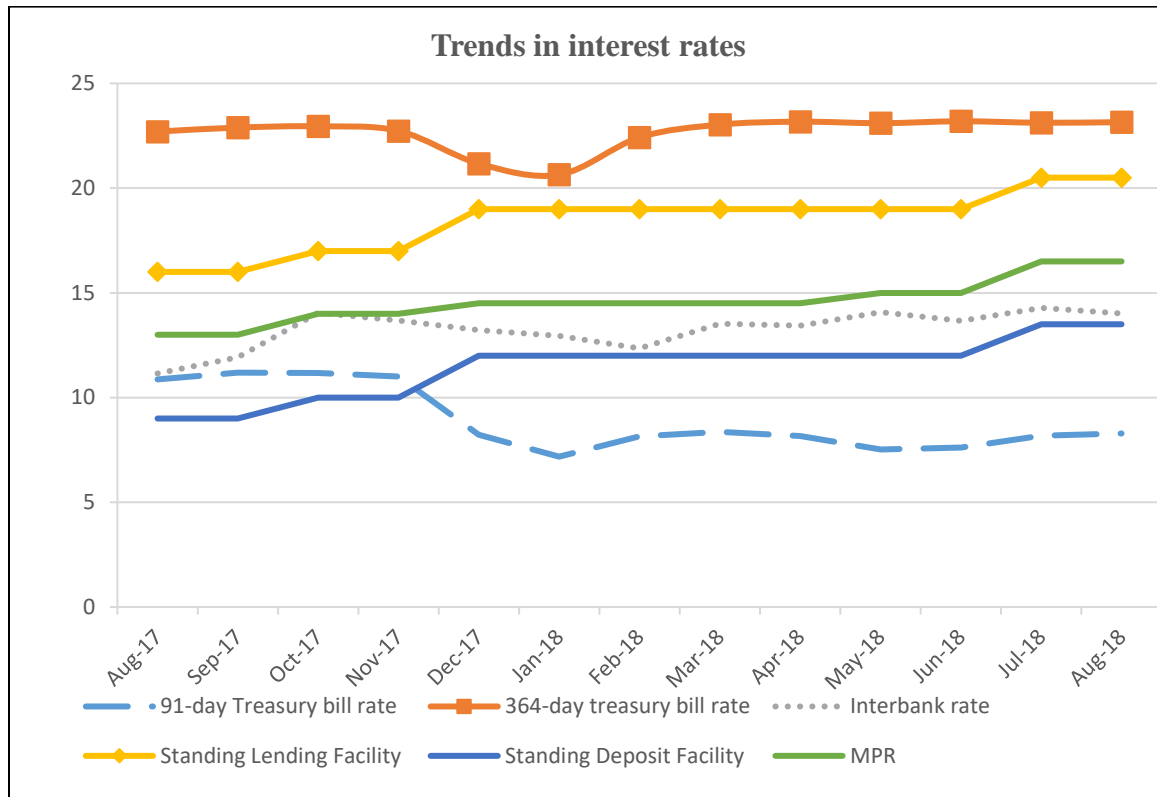
On the liability side, RM declined as a result of the decrease in Banks' reserves by 8.61 per cent in the review month, compared to the growth of 17.23 per in the previous month.

Figure 5: Reserve Money and its Sources

Source: Research Department, BSL

4.3 Interest Rates

The monetary policy rate remained unchanged at 16.50 per cent since July 2018. Similarly, the band around the policy rate remained unchanged with the Lending facility rate at 20.50 per cent and the Deposit Facility rate at 13.50 per cent. The interbank rate dropped slightly to 14.02 per cent in August 2018, from 14.28 per cent in July 2018. The average lending and savings deposits 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

The trend in the yields on government securities were mixed during the review period. The 91-days and 364-days treasury bills increased marginally from 8.18 per cent and 23.12 per cent in July 2018, to 8.28 per cent and 23.15 per cent in August 2018. However, the yield on the 182-days treasury bills decreased from 8.40 per cent to 8.09 per cent during the same period.

Table 3: Interest Rates (%)

	2017					2018							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
91-day Treasury bill rate	10.87	11.19	11.17	11.01	8.22	7.18	8.15	8.37	8.16	7.52	7.62	8.18	8.28
182-day Treasury bill rate	14.97	13.91	12.43	10.62	9.68	10.12	10.16	10.34	8.83	8.05	8.20	8.40	8.09
364-day treasury bill rate	22.70	22.89	22.95	22.73	21.17	20.64	22.42	23.03	23.17	23.1	23.19	23.12	23.15
Interbank rate	11.15	11.92	14.04	13.68	13.22	12.94	12.35	13.53	13.43	14.07	13.66	14.28	14.02
Standing Lending Facility	16.00	16.00	17.00	17.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	20.50	20.50
Standing Deposit Facility	9.00	9.00	10.00	10.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	13.50	13.50
MPR	13.00	13.00	14.00	14.00	14.50	14.50	14.50	14.50	14.5	15.00	15.00	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	22.35
	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

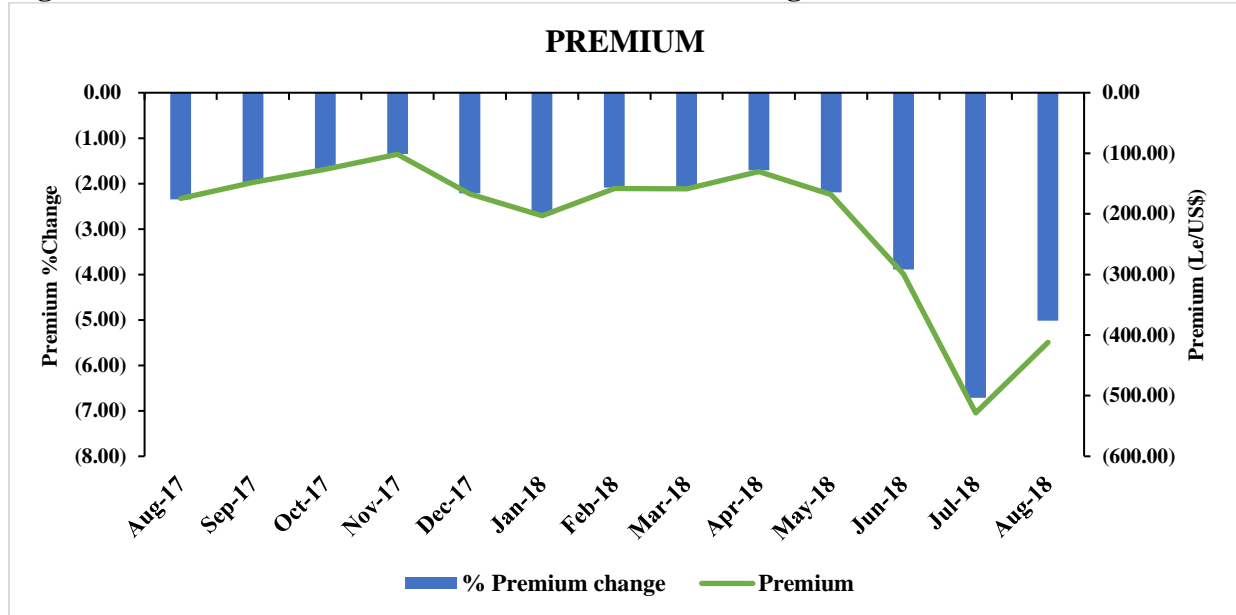
Source: Research Department, BSL

5.0 Exchange Rates Developments

The average buying and selling exchange rates of the Leone to the US dollar depreciated in all foreign exchange markets for the month of August 2018. On the buying front, the commercial banks, official, bureaux and parallel rates depreciated by 4.69 per cent, 4.35 per cent, 3.79 per cent and 2.45 per cent, averaging Le8,283.26/US\$1, Le8,130.84/US\$1, Le7,996.57/US\$1 and Le8,568.18/US\$1 respectively.

Similarly, On the selling front, the official, bureau, commercial banks and parallel rates depreciated by 4.35 per cent, 4.21 per cent, 3.56 per cent and 2.94 per cent, averaging Le8,295.10/US\$1, Le8,118.37/US\$1, Le8,468.20/US\$1 and Le8,681.82/US\$1 respectively.

The premium between the official and parallel rates narrowed by 1.96 per cent point from Le571.85/US\$1 in July to Le437.34/US\$1 in the review period (Figure 1).

Figure 7: Premium between Official and Parallel Exchange Rates

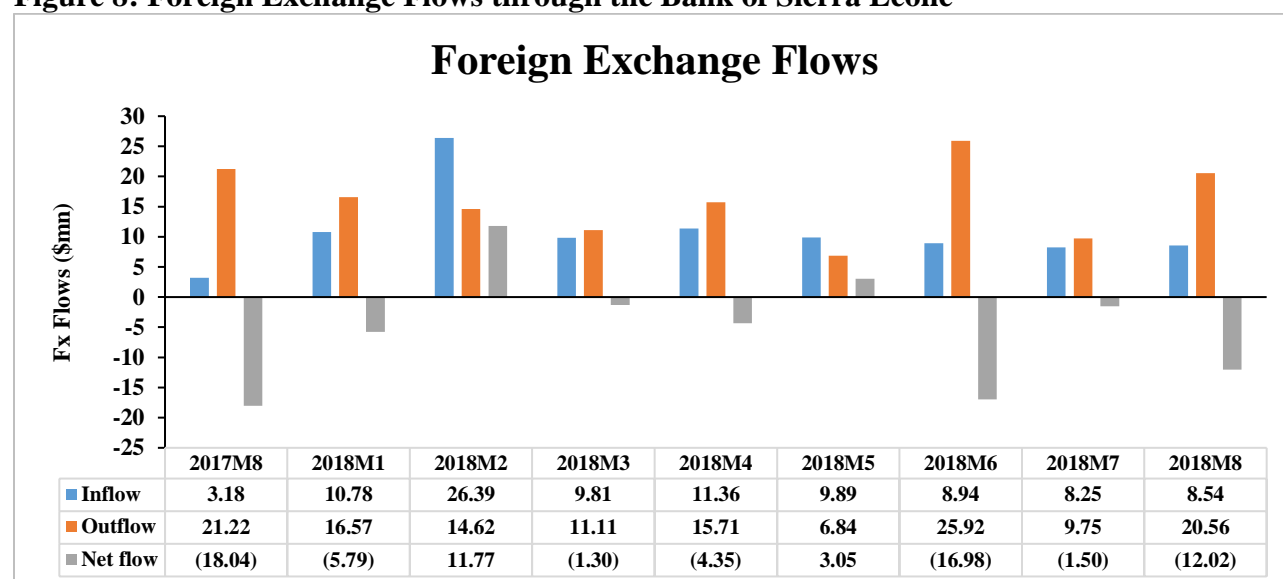
Source: Bank of Sierra Leone

6.0 Gross Foreign Exchange Reserves

Gross Foreign Exchange Reserves of the Bank of Sierra Leone as at end-August 2018 was US\$501.46mn, declining by 2.51 per cent from the level of US\$514.38mn in the preceding period. The decrease in reserves was on account of an excess of outflows (US\$20.56mn) over inflows (US\$8.54mn) with a net outflow of US\$12.02mn during the review period (see figure 2).

Significant inflows during the month comprised; US\$6.83mn being export receipts – of which US\$2.63mn was mining royalties from Sierra rutile and Vimetco; and US\$1.96mn was receipt from the export of timber.

Significant outflows comprised US\$19.68mn, being payments for goods and services – of which US\$13.70mn was in respect of interbank market operations, US\$1.98mn was payments for the printing of currency and US\$1.57mn was embassy/missions payments. Debt service payments for the period amounted to US\$0.88mn.

Figure 8: Foreign Exchange Flows through the Bank of Sierra Leone

Source: Bank of Sierra Leone