



BANK OF SIERRA LEONE

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BANK OF SIERRA LEONE

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March 2018

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CONTENTS

Content.....	ii
List of Figures.....	iii
List of Tables.....	iii
List of Abbreviation.....	iv
1.0 Highlights	1
2.0 Production and Prices	2
2.1 Production.....	2
2.1.1 Manufacturing.....	2
2.1.2 Mining.....	2
2.1.3 Electricity Generation	2
2.2 Price Developments	2
3.0 Government Budgetary Operations	4
3.1 Revenues.....	4
3.2 Expenditures	4
3.3 Financing	5
4.0 Monetary Developments.....	5
4.1 Broad Money (M2).....	5
4.2 Reserve Money (RM)	7
4.3 Interest rates.....	8
5.0 Exchange Rate Developments	10
6.0 Gross Foreign Exchange Reserves	11

List of Figures:

Figure 1: Headline, Food and Non-Food Inflation.	3
Figure 2: Headline Inflation-Y-o-Y and Monthly.....	3
Figure 3: Government Revenue and Expenditure.....	5
Figure 4: M2 and its Sources	7
Figure 5: Reserve Money and its Sources.....	8
Figure 6: Monetary Policy Rate and Other Market Rates.....	9
Figure 7: Premium between Official and Parallel Exchange Rates	11
Figure 8: Foreign Exchange Flows through the Bank of Sierra Leone	12

List of Tables:

Table 1: Broad Money and its components	6
Table 2: Reserve Money and its components	8
Table 3: Interest Rates (%).	10

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 the review month continued to be mixed across key sectors of the economy. Annual headline inflation increased by 0.51 percentage point to 14.91 per cent in March 2018 from 14.40 per cent in February 2018. This price development was largely driven by non-food items, while the price of food items moderated.

Central Government's budgetary operations in March 2018 improved as the overall deficit narrowed to Le99.53bn from Le144.0bn recorded in the previous month. The improvement was on account of growth in revenue mobilization that surpassed the increase in expenditure recorded during the month. Total Government revenue amounted to Le268.81bn against Le200.41 recorded in the preceding month, representing an increase of Le68.40bn. Total Government expenditure in March 2018 increased to Le368.34bn and was explained by increased expenditures on personal emoluments and debt service payments.

Developments in monetary aggregates was mixed in the review period, evidenced by an increase in Broad Money (M2) and a decline in Reserve Money (RM). M2 moderated by 0.89 per cent in March 2018 compared to 4.21 per cent expansion recorded in the preceding month. The outturn was explained by a 2.37 per cent decrease in Net Domestic Assets (NDA) of the Banking System. Reserve money (RM) contracted by 7.01 per cent in March 2018 compared to the 2.76 per cent expansion in February 2018.

The Monetary Policy Rate remained unchanged at 14.50 per cent. The corridor around the policy rate remained unchanged with the Lending Facility Rate at 19.0 per cent and Deposit Facility Rate at 12 per cent. Reflecting the tight liquidity conditions in the banking system, the interbank rate increased to 13.53 per cent in March 2018 from 12.35 per cent in February 2018 and remained within the corridor.

Gross Foreign Exchange Reserves amounted to US\$506.07mn, marginally increasing by 0.44 per cent compared to US\$503.86mn recorded in the preceding month. Consequently, the average exchange rate of the Leone against the US dollar continued to be relatively stable in the review month.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

The production outcomes in the manufacturing sector were mixed in the review period. The production of bear & stout and maltina increased by 10.29 per cent to 153.67 thousand cartons and 8.14 per cent to 16.74 thousand cartons respectively. However, production of cement and paint fell by 4.94 per cent to 26.56 thousand metric tons and 15.41 per cent to 47.75 thousand gallons respectively. Acetylene and Oxygen production also decreased by 6.32 per cent to 24.62 thousand cubic feet and 6.46 per cent to 23.01 thousand cubic feet in that order. Confectionery production dropped by 2.38 per cent to 203.45 thousand pounds, while common soap production declined by 12.01 per cent to 43.61 thousand metric tons in the review period.

2.1.2 Mining

Activities in the mining sector deep during the reporting month. Diamond production fell by 65.17 per cent to 21.10 thousand carats, of which industrial diamond amounted to 13.37 thousand carats while gem diamond was 7.73 thousand carats. Bauxite and Rutile production decreased by 8.33 per cent to 198.18 thousand metric tons and 42.95 per cent to 4.25 thousand metric tons respectively. Gold production moderated by 70.79 per cent to 282.51 ounces in the reporting month. However, ilmenite production increased by 14.37 per cent to 3.82 thousand metric tons.

2.1.3 Electricity Generation

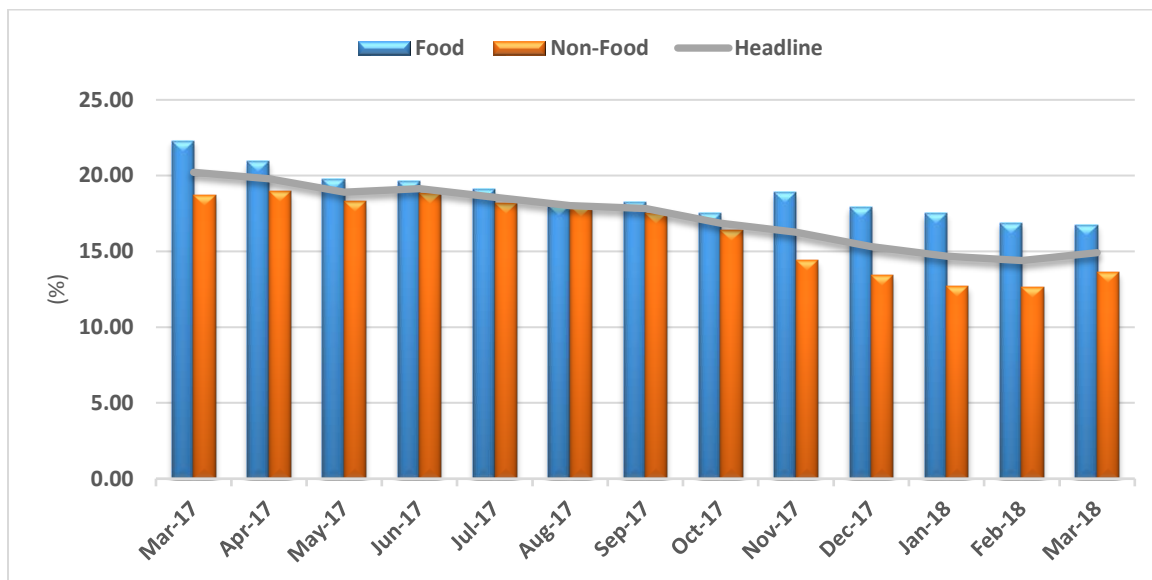
Electricity generation grew by 6.87 per cent to 24.35GW/hr, with 16.3GW/hr from thermal plants and 8.05GW/hr sourced from hydro power.

2.2 Price Developments

Annual headline inflation increased by 0.51 percentage point to 14.91 per cent in March 2018 from 14.40 per cent in February 2018. The price build up was largely on account of non-food items, while the price of food items moderated.

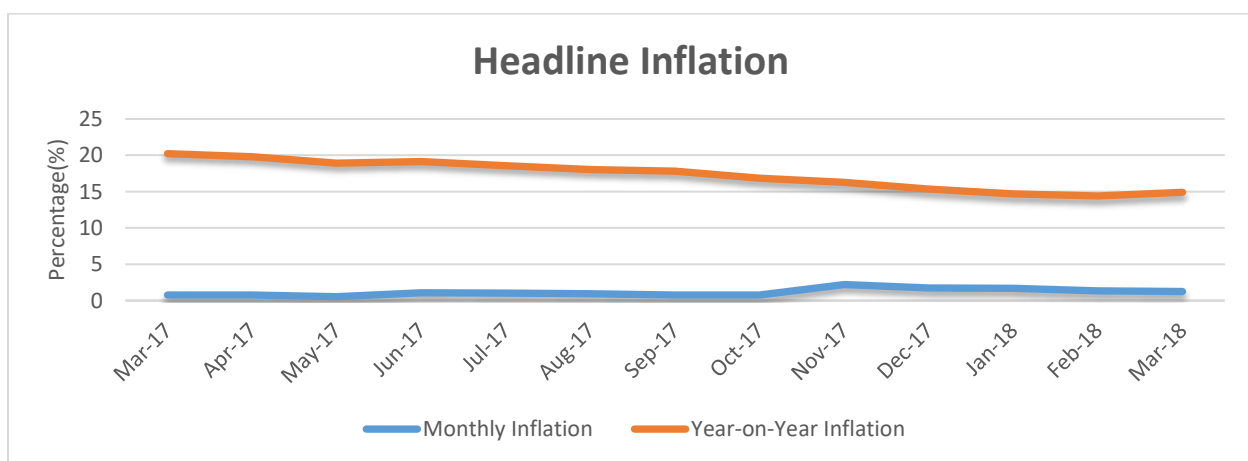
Non-Food inflation increased to 13.61 per cent in March 2018 from 12.61 per cent in February 2018.

Food inflation declined to 16.73 per cent in March 2018 from 16.88 per cent in February 2018.

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

Source: SSL & Research Department, BSL

On a month-on-month basis, consumer price inflation moderated to 1.24 per cent in March 2018, slightly less than 1.32 per cent recorded in February 2018. This price development was mainly on account of commodity shortages in the market due to election related uncertainties.

Figure 2: Headline Inflation-Y-o-Y and Monthly.

Source: SSL & Research Department, BSL

On regional basis, year-on-year inflation rates increased across all four regions. Eastern region inflation rose to 15.57 per cent in March 2018 from 14.96 per cent in February 2018; Western region

inflation grew to 12.76 per cent from 12.62 per cent; Northern region increased to 15.88 per cent from 14.88 per cent; while Southern region inflation rose to 18.53 per cent from 17.79 per cent.

3.0 Government Budgetary Operations

Central Government's budgetary operations in March 2018 improved as the overall deficit narrowed to Le99.53bn from Le144.0bn recorded in the previous month. The improvement was on account of growth in revenue mobilization that surpassed the increase in expenditure recorded during the month.

3.1 Revenues

Total Government revenue amounted to Le268.81bn against Le200.41bn recorded in the preceding month, representing an increase of Le68.40bn. The increase in revenue was reflected in domestic revenue mobilization, as there was no foreign grant received during the period. Domestic revenue increased to Le268.81bn from Le200.41bn. The improvement in domestic revenue was reflected in both tax and non-tax revenues. Tax revenue mobilization improved to Le193.77bn in the review period from Le136.33bn recorded in the previous month. The significant improvement in domestic tax revenue was reflected across all the major tax categories.

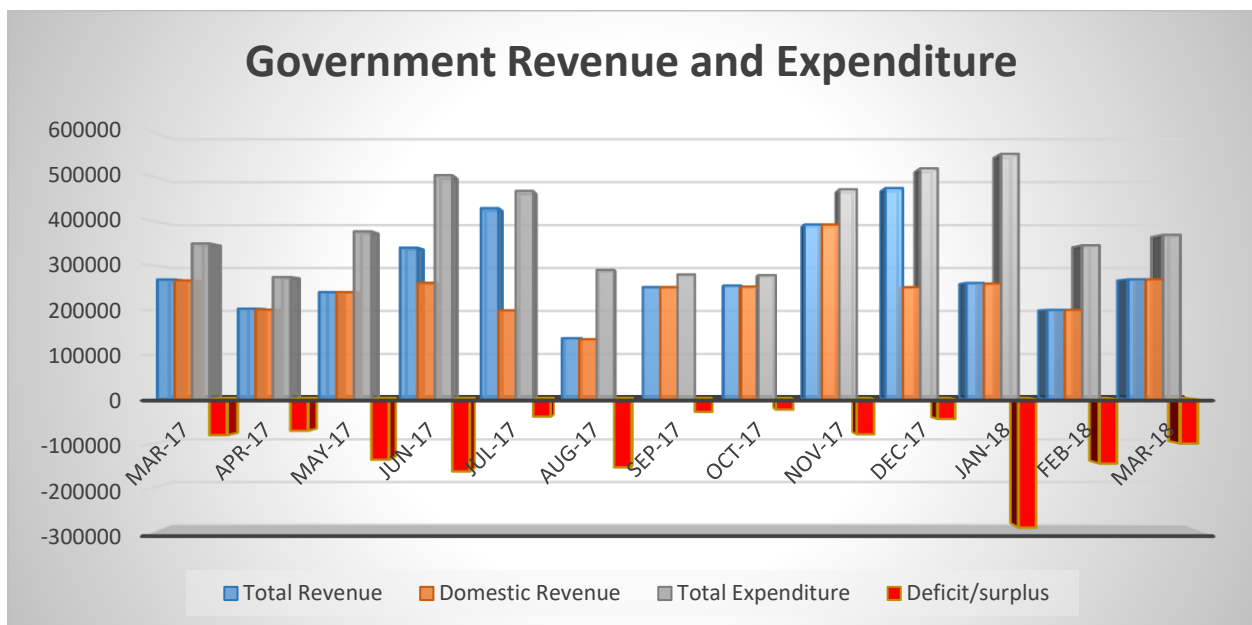
Receipts from Income Tax grew by 75.64 per cent to Le104.6bn and over shot the target of Le101.67bn. Collections from Goods and Services Tax increased by 13.27 per cent to Le54.54bn and surpassed the target of Le39.24bn. Collection from Customs and Excise expanded to Le34.63bn but below the target of Le39.67bn. Receipts from Non-tax sources increased to Le75.05bn, and was higher than the target of Le40.07bn.

3.2 Expenditures

Total Government expenditure in March 2018 increased by 6.75 per cent to Le368.34bn. The increase in total government spending was explained by increased expenditures on personal emoluments and debt service payments. Personal emolument expanded by 55.26 per cent to Le150.39bn, but was below the ceiling of Le156.34bn. Debt services payment grew by 31.29 per cent to Le101.01bn and overshot the ceiling of Le31.52bn. The growth in debt services payment was exclusively driven by foreign debt services payment of Le38.38bn, which was higher than the Le7.49bn in February 2018.

Domestic debt services payment declined by 9.81 per cent to Le62.64bn. Other expenditures including expenses for goods and services slowed by 31.72 per cent to Le116.94bn and was below 2.17 per cent short of the ceiling of Le119.53bn.

Figure 3: Government Revenue and Expenditure.



Source: Research Department, Bank of Sierra Leone

3.3 Financing

The overall deficit of Le99.53bn was financed from domestic sources.

4.0 Monetary Developments

Development in monetary aggregates continued to be mixed in the review period, as evidenced by the increase in Broad Money (M2) and the decline in Reserve Money (RM).

4.1 Broad Money (M2)

Broad money (M2) growth moderated by 0.89 per cent in March 2018, compared to 4.21 per cent expansion recorded in February 2018. The outturn was explained by a 2.37 per cent decrease in Net Foreign Assets (NFA) and a 2.37 per cent slowdown in Net Domestic Assets (NDA) of the Banking System. The contraction in NFA was as a result of debt service payment, sales of foreign currency to banks, payment of prepaid meters and transfer of funds in respect of LLAR to commercial banks.

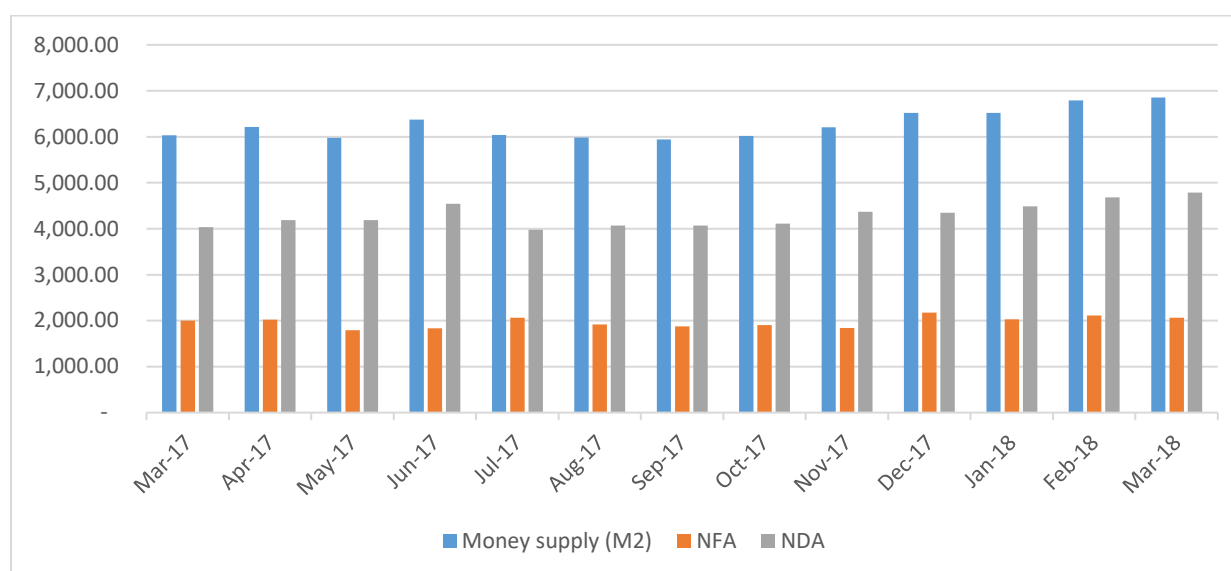
NDA of the banking system grew by 2.37 per cent on account of increase in Government borrowing from commercial banks in the government securities market to support fiscal operations. Credit to the Private Sector by commercial banks increased by 0.91 per cent in March 2018 from a decline of 0.07 per cent in February 2018.

Table 1: Broad Money and its components

	2018		Absolute Change		(%) Change	
	Feb-18	Mar-18	Feb-18	Mar-18	Feb-18	Mar-18
Reserve money	2,437.46	2,266.64	65.37	(170.82)	2.76	(7.01)
Money supply (M2)	6,791.61	6,852.34	274.52	60.73	4.21	0.89
Narrow money (M1)	3,230.27	3,255.37	129.38	25.10	4.17	0.78
Currency outside banks	1,533.46	1,633.53	66.18	100.07	4.51	6.53
Demand deposit	1,696.81	1,621.84	63.20	(74.97)	3.87	(4.42)
Quasi money	3,557.04	3,593.26	144.53	36.22	4.24	1.02
o.w. Foreign currency deposit	1,717.36	1,750.47	51.96	33.11	3.12	1.93
Time and saving deposit	1,839.68	1,842.79	92.57	3.11	5.30	0.17
				-		
Net Foreign Asset	2,113.22	2,063.04	82.02	(50.18)	4.04	(2.37)
BSL	476.41	330.08	97.56	(146.33)	25.75	(30.72)
ODCs	1,636.81	1,732.96	(15.54)	96.15	(0.94)	5.87
Net Domestic Assets	4,678.39	4,789.30	192.50	110.91	4.29	2.37
Net Domestic Credit	6,224.48	6,234.03	180.89	9.55	2.99	0.15
Government (Net)	4,705.29	4,736.98	172.23	31.69	3.80	0.67
Private Sector	1,451.85	1,464.31	(1.59)	12.46	(0.11)	0.86
o.w. BSL	33.70	33.29	(0.57)	(0.41)	(1.66)	(1.22)
ODCs	1,418.15	1,431.02	(1.02)	12.87	(0.07)	0.91
Other Sectors (Net)*	67.34	32.74	10.25	(34.60)	17.95	(51.38)
Other Items (Net)	(1,546.09)	(1,444.73)	11.61	101.36	(0.75)	(6.56)
Money Multiplier	2.79	3.02				

Source: Research Department, BSL

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

Figure 4: M2 and its Sources

Source: Research Department, BSL

Narrow Money (M1) expanded by 0.78 per cent due to the 6.53 per cent increase in Currency outside banks which more than outweighed the 4.42 per cent decrease in Demand Deposits. Quasi Money increase by 1.02 per cent, compared to the 4.24 per cent growth in February 2018. Foreign currency deposits grew by 1.93 per cent in March 2018 relative to 3.12 per cent in February 2018 while Time and Savings Deposits also expanded marginally by 0.17 per cent relative to 5.30 per cent increase in February 2018.

4.2 Reserve Money (RM)

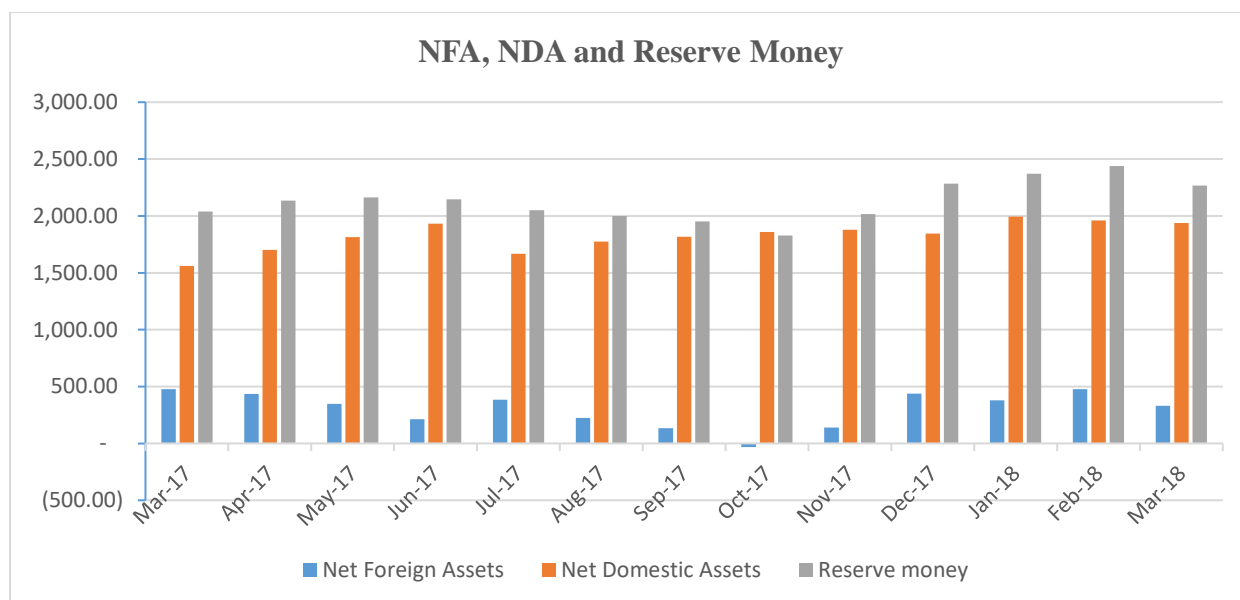
Reserve Money (RM) contracted by 7.01 per cent in March 2018 compare to the 2.76 per cent expansion in February 2018. From the assets side, the contraction in RM reflected a 30.72 per cent decrease in Net Foreign Assets (NFA) and a 1.25 per cent decline in Net Domestic Assets (NDA) of the Central Bank. The decrease in NFA of the Central Bank was due to foreign outflow to make payments of foreign transactions. The contraction in NDA was due to the decline in Government borrowing from the Central Bank.

Table 2: Reserve Money and its components

	2018		Absolute change		(%) Change	
	Feb-18	Mar-18	Feb-18	Mar-18	Feb-18	Mar-18
1. Net Foreign Assets	476.41	330.08	97.56	(146.33)	25.75	(30.72)
2. Net Domestic Assets	1,961.05	1,936.56	(32.19)	(24.49)	(1.61)	(1.25)
2.1 Government Borrowing (net)	2,152.97	2,127.32	(32.08)	(25.65)	(1.47)	(1.19)
o.w. 2.11 Securities	1,077.08	1,079.42	(64.50)	2.34	(5.65)	0.22
2.12 Ways and Means	205.21	178.55	(24.15)	(26.66)	(10.53)	(12.99)
2.13 GoSL/IMF Budget financing	988.95	988.95	-	-	-	-
3. Reserve money	2,437.46	2,266.64	65.37	(170.82)	2.76	(7.01)
o.w. 3.1 Currency issued	1,775.20	1,852.23	74.52	77.03	4.38	4.34
3.2 Bank reserves	657.92	410.70	(9.81)	(247.22)	(1.47)	(37.58)

Source: Research Department, BSL

From the liability side, the decline in RM was as a result of the 37.58 per cent drawdown in Bankers' Reserves. However, Currency issued grew by 4.34 per in March 2018 relative to the 4.38 per cent in February 2018.

Figure 5: Reserve Money and its Sources

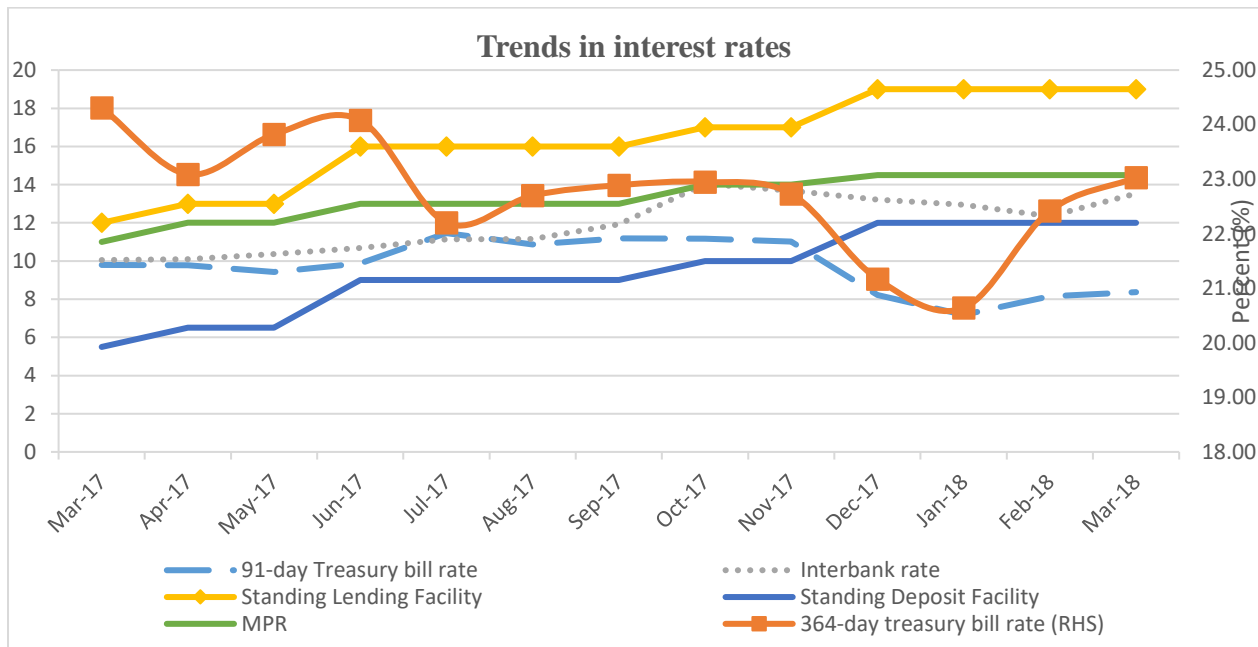
Source: Research Department, BSL

4.3 Interest rates

The monetary policy rate remained unchanged at 14.50 per cent since December 2017. The corridor around the Monetary Policy Rate also remained unchanged with the Lending Facility Rate at 19.00 per cent and the Deposit Facility Rate at 12 per cent.

Reflecting the tight liquidity conditions in the banking system, the interbank rate increased to 13.53 in March 2018 from 12.35 per cent in February 2018 but remained within the policy rate corridor. The commercial banks' average lending and savings 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 securities exhibited an increase across all tenures in March 2018. The yields on the 91-days treasury bills increased from 8.15 per cent in February 2018 to 8.37 per cent in March 2018. The 182-days treasury bills also expanded from 10.16 per cent in the preceding month to 10.34 per cent in March 2018. The 364-days treasury bills increased from 22.42 per cent to 23.03 per cent.

Table 3: Interest Rates (%)

	2017										2018		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
91-day Treasury bill rate	9.79	9.78	9.43	9.88	11.46	10.87	11.19	11.17	11.01	8.22	7.18	8.15	8.37
182-day Treasury bill rate	13.54	11.73	9.11	15.31	15.18	14.97	13.91	12.43	10.62	9.68	10.12	10.16	10.34
364-day treasury bill rate	24.31	23.09	23.82	24.08	22.2	22.70	22.89	22.95	22.73	21.17	20.64	22.42	23.03
Interbank rate	10.05	10.09	10.36	10.69	11.14	11.15	11.92	14.04	13.68	13.22	12.94	12.35	13.53
Standing Lending Facility	12.00	13.00	13.00	16.00	16.00	16.00	16.00	17.00	17.00	19.00	19.00	19.00	19.00
Standing Deposit Facility	5.50	6.5	6.5	9.00	9.00	9.00	9.00	10.00	10.00	12.00	12.00	12.00	12.00
MPR	11.00	12.00	12.00	13.00	13.00	13.00	13.00	14.00	14.00	14.50	14.50	14.50	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

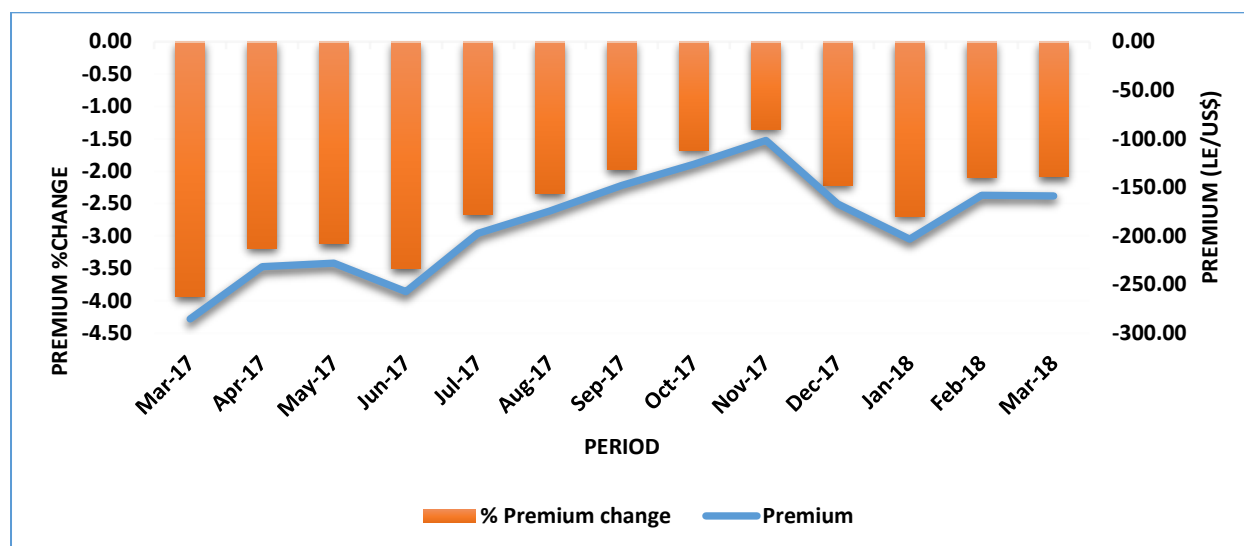
Source: Research Department, BSL

5.0 Exchange Rate Developments

The average exchange rate of the Leone against the US dollar for March 2018 depreciated marginally in all foreign exchange markets on both the buying and selling fronts. On the buying front, the parallel, official, commercial banks and bureaux channels depreciated by 0.70 per cent, 0.48 per cent, 0.46 per cent and 0.35 per cent, averaging Le7,753.68/US\$1, Le7,535.72/US\$1, Le7,630.01/US\$1 and Le7,516.95/US\$1 respectively.

Similarly, On the selling front, the official, commercial banks, bureaux and parallel channels depreciated by 0.48 per cent, 0.45 per cent, 0.29 per cent and 0.26 per cent, averaging Le7,687.95/US\$1, Le7,743.03/US\$1, Le7,698.10/US\$1 and Le7,787.37/US\$1 respectively.

The premium between the official and parallel rates widened by 0.22 percentage point from Le200.60/US\$1 in February to Le217.97/US\$1 in the review period (Figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates

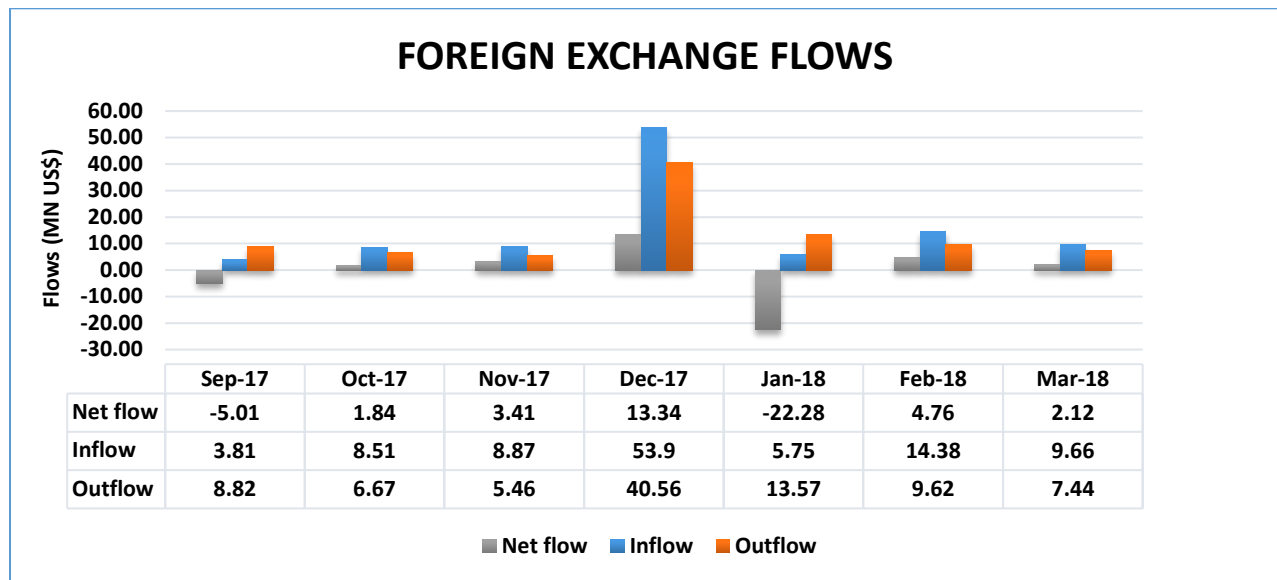
Source: Bank of Sierra Leone

6.0 Gross Foreign Exchange Reserves

Gross Foreign Exchange Reserves as at end-March 2018 stood at US\$506.07mn, increasing by 0.44 per cent over US\$503.86mn recorded in February, 2018. The increase in reserves was on account of inflows of US\$9.66mn which outpaced outflows of US\$7.44mn, resulting in a net inflow of US\$2.21mn.

Significant inflows during the period comprised US\$6.66mn being export receipts – of which US\$1.93mn was royalty receipt from Vimetco; US\$1.91mn was other mining receipts; and US\$1.47mn was fishing royalty/license, and aid disbursement/BOP support of US\$1.75mn – of which US\$1.00mn was loan/grant by the African Development Bank (AfDB).

Significant outflows comprised US\$2.65mn, being payments for goods and services – of which US\$1.73mn was in relation to government expenses, and US\$4.79mn being debt service payment to Multilateral and Bilateral organizations (Figure 8).

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

Source: Bank of Sierra Leone