



BANK OF SIERRA LEONE

Monthly Economic Review

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BANK OF SIERRA LEONE

MONTHLY ECONOMIC REVIEW

July 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 July 2018 continued to be mixed across key sectors of the economy. Annual headline inflation increased to 17.71 per cent in July 2018 from 16.57 per cent in June 2018. The price increase was partly explained by the upward price adjustment of the petroleum products, the pass-through effect of exchange rate depreciation and monetary expansion during the review month.

Government's budgetary operations in July 2018 resulted in an overall deficit of Le39.18bn from Le73.86bn in June 2018. The reduction in deficit was mainly on account of decrease in government expenditure, which more than offset the fall in revenue generated during the review month.

Developments in monetary aggregates in July 2018 showed expansion in the main monetary aggregates, with broad money expanding by 1.96 per cent, compared to a 0.28 per cent expansion recorded in June 2018. Reserve money expanded by 0.18 per cent in July 2018, relative to a 2.13 per cent contraction in the review month.

The monetary policy rate was raised to 16.50 per cent in July 2018, from 15.0 per cent in June 2018. The lending and deposit facility rates were maintained at 20.5 per cent and 13.5 per cent in the review month respectively.

The average exchange rate of the Leone against the US dollar depreciated across all segments of the foreign exchange markets in July 2018. Gross Foreign Exchange Reserves of the Bank of Sierra Leone decreased by 0.27 per cent to US\$514.37mn in July 2018 from US\$515.75mn in June 2018. The decline was driven by higher outflows (US\$9.75mn) over inflows (US\$8.25mn) with a net position of US\$1.51mn during the period.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

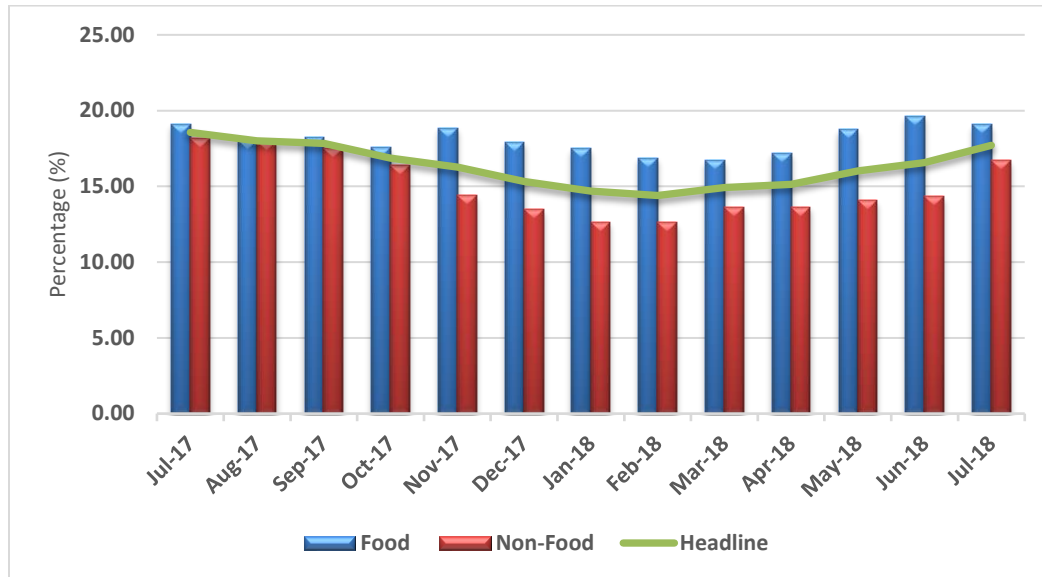
The manufacturing sector recorded mixed outcomes in July 2018. The production of beer and stout decreased by 2.09 per cent to 152.87 thousand cartons; cement and acetylene production decreased by 6.27 per cent to 26.75 thousand metric tons and 14.73 per cent to 20.44 thousand cubic feet respectively. The production of oxygen and confectionary declined by 16.43 per cent to 20.60 thousand cubic feet and 0.54 per cent to 205.75 thousand pounds respectively. Also, the production of common soap decreased by 12.36 per cent to 49.94 thousand metric tons. However, the production of maltina increased by 4.67 per cent to 28.90 thousand cartons. The production of paint also increased by 12.94 per cent to 54.20 thousand gallons.

2.1.2 Mining

Activities in the mining sector improved in July 2018. Diamond production expanded by 11.17 per cent to 73.86 thousand carats, of which industrial diamond amounted to 35.03 thousand carats while gem diamond amounted to 38.83 thousand carats. The production of Ilmenite and zircon increased by 46.28 per cent to 12.96 thousand metric tons and 19.51 per cent to 5.39 thousand metric tons respectively. The production of gold increased to 10,797.05 thousand ounces. The production of bauxite fell by 17.81 per cent to 156.88 thousand metric tons. Iron ore mining operations remained close in the review period.

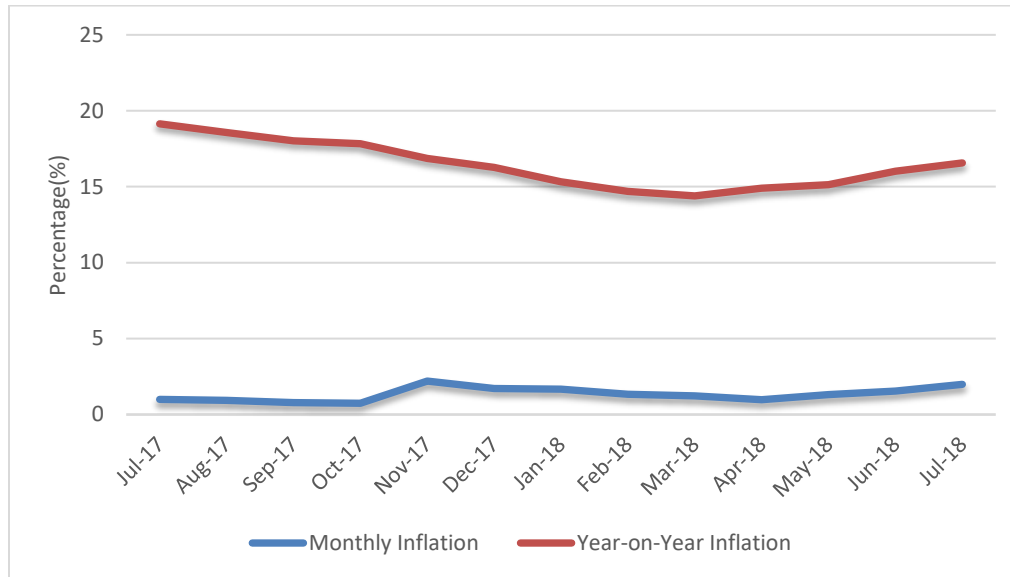
2.2 Price Developments

Annual headline inflation increased by 1.14 percentage points to 17.71 per cent in July 2018. The price increase was in part explained by the upward price adjustment of the petroleum products and the depreciation of the exchange rate. Food inflation decreased to 19.07 per cent in July 2018 from 19.67 per cent in June 2018. Non-food inflation increased to 15.23 per cent in July 2018 from 10.62 per cent in June 2018.

Figure 1: Headline, Food and Non-Food Inflation

Source: Stats SL and BSL

On a month-on-month basis, consumer price inflation increased to 1.99 per cent in July 2018 from 1.55 per cent in June 2018. The price buildup was attributable to increase in non-alcoholic beverages, household equipment, clothing, footwear, household maintenance, tobacco and furniture.

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

Source: Stats SL and BSL

On regional basis, year-on-year inflation increased across all the four regions. Western Area inflation increased to 16.32 per cent in July 2018 from 14.31 per cent in June 2018; Eastern region inflation increased to 17.09 per cent in July 2018 from 16.19 per cent in June 2018; Southern region inflation increased to 19.44 per cent in July 2018 from 19.07 per cent in June 2018; and Northern region inflation increased to 19.29 per cent in July from 19.06 per cent in June 2018.

3.0 Government Budgetary Operations

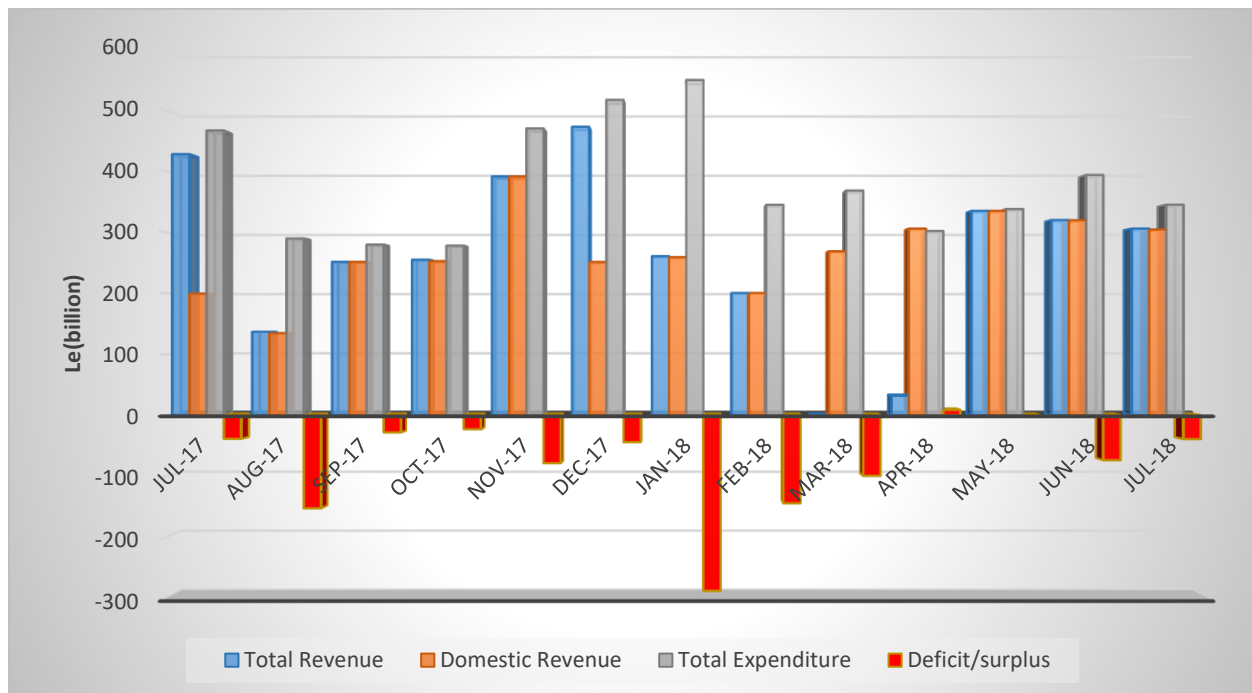
Government's budgetary operations in July 2018 resulted in a deficit of Le39.18bn from Le73.86bn in June 2018. The reduction in deficit was due to a decline in government spending which more than offset the fall in revenue generated during the period.

3.1 Revenues

Government revenue including grants declined by 4.38 per cent to Le306.06bn in July 2018. The decrease in total revenue was on account of the contraction in domestic revenue mobilization. Domestic revenue mobilization declined by 4.74 per cent to Le304.55bn. The decrease in domestic revenue was explained by the decline in revenue receipts from income tax department and non-tax revenue. Receipts from Income tax fell by 21.52 per cent to Le106.28bn, while Non-tax revenue (miscellaneous) declined by 13.73 per cent to Le44.73bn. On the other hand, income generated from Customs and Excise duties rose by 13.04 per cent to Le71.28bn, while receipts from Goods and Services Tax improved by 18.57 per cent to Le82.26bn.

External grants disbursed in respect of budgetary support amounted to Le1.51bn in the review period.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditures

Total government expenditure in July 2018 contracted by 12.36 per cent to Le345.24bn from Le393.93bn in June, 2018. The decline in total government spending was reflected in the wage bill and debt services payments. Expenditure on Pensions, wages and salaries dropped by 29.84 per cent to Le106.06bn. Debt services payments declined by 19.95 per cent to Le105.46bn, of which domestic debt services payment amounted to Le85.09bn and foreign debt services payment amounting to Le20.37bn. Other expenditure expanded by 20.44 per cent to Le133.72bn in the review month.

3.3 Financing

The overall deficit of Le39.18bn was financed by domestic resources.

4.0 Monetary Developments

Monetary developments shows expansion in the main monetary aggregates (Broad Money and Reserve money) in July 2018. The expansion in Broad Money (M2) was however higher than that of Reserve Money (RM).

4.1 Broad Money

Broad money (M2) expanded by 1.96 per cent in July 2018, compared to a 0.28 per cent expansion recorded in June 2018. On the asset side, M2 increased mainly as a result of the growth in Net Foreign Assets (NFA) of the banking system, as Net Domestic Assets (NDA) of the banking system contracted in the review month.

NFA of the banking system increased by 8.06 per cent in July 2018, compared to a 9.16 per cent contraction recorded in June 2018. This reflected increases in both NFA of the BSL and NFA of the Other Depository Corporations (ODCs). NFA of the BSL increased by 6.84 per cent in the review month, compared to a 18.89 per cent contraction in June 2018. The increase in NFA of the BSL was as a result of increased BSL holdings of Special Drawing Right (SDR) in respect of the

agreement on SDR acquisition with the Fund. The NFA of the ODCs increased by 8.29 per cent in July 2018, compared to a 7.11 per cent decline in the previous month. This was mainly attributed to increase in the nostro accounts of the ODCs.

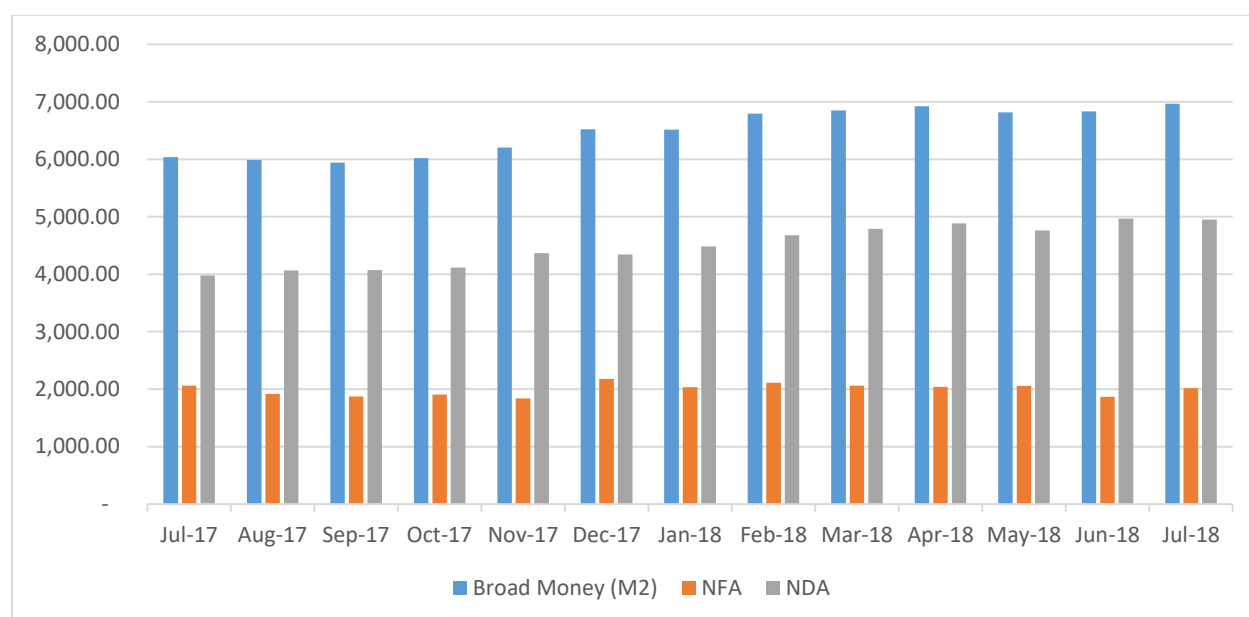
NDA of the banking system contracted marginally (0.34 per cent) in July 2018, compared to a 4.35 per cent expansion recorded in June 2018. This was due to the combine forces of decline in claims on government and increased liabilities to government by the other depository corporations in the review period. However, credit to the private sector grew by 11.66 per cent, relative to 2.32 per cent recorded in June 2018.

Table 1: Broad Money and its Components

Billions of Leones	2018		Absolute Change		(%) Change	
	Jun-18	Jul-18	Jun-18	Jul-18	Jun-18	Jul-18
Reserve money	2,104.01	2,107.72	(45.78)	3.71	(2.13)	0.18
Broad Money (M2)	6,834.98	6,968.73	19.13	133.75	0.28	1.96
Narrow money (M1)	3,209.39	3,144.70	(31.86)	(64.69)	(0.98)	(2.02)
Currency outside banks	1,513.32	1,458.00	(40.50)	(55.32)	(2.61)	(3.66)
Demand deposit	1,696.07	1,686.70	8.64	(9.37)	0.51	(0.55)
Quasi money	3,622.33	3,820.66	53.31	198.33	1.49	5.48
o.w. Foreign currency deposit	1,678.47	1,867.58	(16.34)	189.11	(0.96)	11.27
Time and saving deposit	1,943.86	1,953.08	69.65	9.22	3.72	0.47
Net Foreign Asset	1,866.42	2,016.90	(188.17)	150.48	(9.16)	8.06
BSL	289.91	309.75	(67.53)	19.84	(18.89)	6.84
ODCs	1,576.51	1,707.15	(120.64)	130.64	(7.11)	8.29
Net Domestic Assets	4,968.56	4,951.83	207.30	(16.73)	4.35	(0.34)
Net Domestic Credit	6,376.81	6,502.05	95.93	125.24	1.53	1.96
Government (Net)	4,769.93	4,755.37	56.75	(14.56)	1.20	(0.31)
Private Sector	1,559.23	1,737.14	34.73	177.91	2.28	11.41
o.w. BSL	33.78	33.87	0.12	0.09	0.36	0.27
ODCs	1,525.45	1,703.27	34.61	177.82	2.32	11.66
Other Sectors (Net)*	47.65	9.54	4.45	(38.11)	10.30	(79.98)
Other Items (Net)	(1,408.25)	(1,550.22)	111.37	(141.97)	(7.33)	10.08
Money Multiplier	3.25					

*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 expansion in M2 mainly reflected a 5.48 per cent growth in Quasi Money, relative to the growth of 1.49 per cent recorded in June 2018. This was driven by the 11.27 per cent increase in foreign currency deposit. Narrow Money (M1) contracted by 2.02 per cent in the review period, compared to a 0.98 per cent in the previous period. M1 contracted on account of a 3.66 per cent decrease in currency outside banks.

4.2 Reserve Money

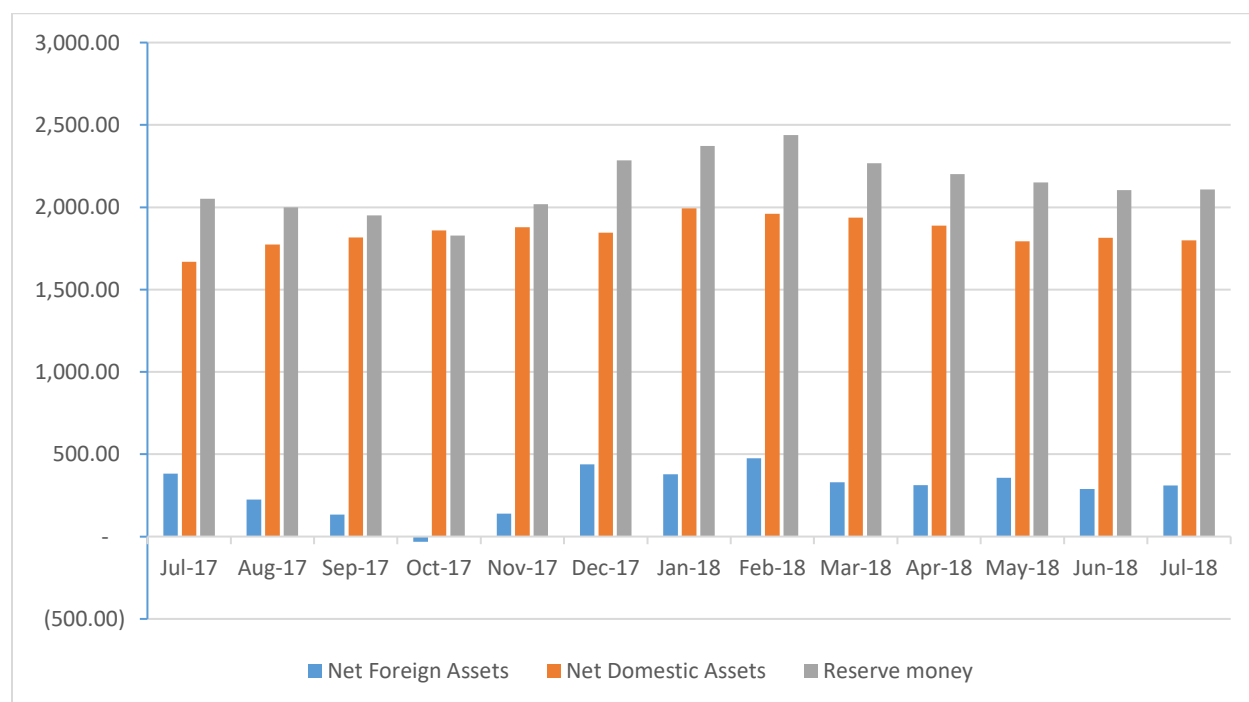
Reserve Money (RM) expanded marginally (0.18 per cent) in July 2018, relative to a 2.13 per cent contraction recorded in June 2018 (See Table 2). The decline in RM was mainly driven by the decrease in government securities holdings by the BSL.

Table 2: Reserve Money and its Components

Billions of Leones	2018		Absolute change		(%) Change	
	Jun-18	Jul-18	Jun-18	Jul-18	Jun-18	Jul-18
1. Net Foreign Assets	289.91	309.75	(67.53)	19.84	(18.89)	6.84
2. Net Domestic Assets	1,814.10	1,797.97	21.75	(16.13)	1.21	(0.89)
2.1 Government Borrowing (net)	2,076.92	2,058.36	36.52	(18.56)	1.79	(0.89)
o.w. 2.11 Securities	1,122.92	1,094.51	46.83	(28.41)	4.35	(2.53)
2.12 Ways and Means	95.95	116.36	7.91	20.41	8.98	21.27
2.13 GoSL/IMF Budget financing	988.95	988.95	-	-	-	-
3. Reserve money	2,104.01	2,107.72	(45.78)	3.71	(2.13)	0.18
o.w. 3.1 Currency issued	1,737.76	1,678.84	(35.15)	(58.92)	(1.98)	(3.39)
3.2 Bank reserves	362.99	425.52	(8.32)	62.53	(2.24)	17.23

Source: Research Department, BSL

On the liability side, RM declined as a result of the decrease in currency in circulation by 3.39 per cent relative to 1.98 per cent decline recorded in June 2018.

Figure 5: Reserve Money and its Sources

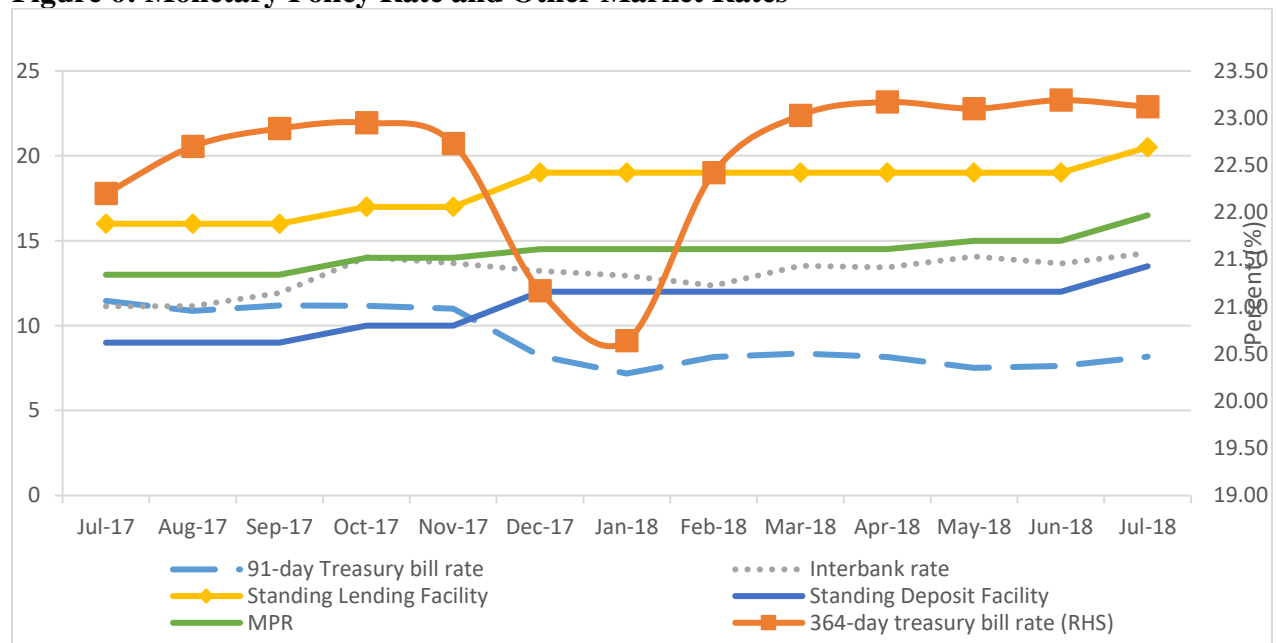
Source: Research Department, BSL

4.3 Interest Rates

During the review month, the Monetary Policy Rate (MPR) was raised by 150 basis points from 15.00 per cent in June 2018 to 16.50 per cent in July 2018. The Lending and Deposit Facility rates were fixed at 20.5 per cent and 13.50 per cent respectively. The increase in the MPR and the policy corridor rates followed from the decisions of Monetary Policy Committee (MPC) meeting held on 28th June 2018, which became effective on 2nd July 2018.

The interbank rate increased to 14.28 per cent in July 2018, from 13.66 per cent in June 2018, while the commercial banks' average lending and saving deposit rates remained unchanged at 21.35 per cent and 2.38 per cent respectively. The Prime lending rate remains within the range of 17.92 per cent to 24.80 per cent.

Figure 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

Yields on government securities recorded mixed trend during July 2018. The 91-days treasury bills increased from 7.62 per cent in June 2018 to 8.18 in July 2018. The yield on the 182-days treasury bills increased from 8.20 per cent in June 2018 to 8.40 per cent in July 2018. However, the 364-days treasury bills decreased from 23.19 per cent in June 2018 to 23.12 per cent in July 2018.

Table 3: Interest Rates (%)

	2017						2018						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
91-day Treasury bill rate	11.46	10.87	11.19	11.17	11.01	8.22	7.18	8.15	8.37	8.16	7.52	7.62	8.18
182-day Treasury bill rate	15.18	14.97	13.91	12.43	10.62	9.68	10.12	10.16	10.34	8.83	8.05	8.20	8.40
364-day treasury bill rate	22.2	22.70	22.89	22.95	22.73	21.17	20.64	22.42	23.03	23.17	23.1	23.19	23.12
Interbank rate	11.14	11.15	11.92	14.04	13.68	13.22	12.94	12.35	13.53	13.43	14.07	13.66	14.28
Standing Lending Facility	16.00	16.00	16.00	17.00	17.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	20.50
Standing Deposit Facility	9.00	9.00	9.00	10.00	10.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	13.50
MPR	13.00	13.00	13.00	14.00	14.00	14.50	14.50	14.50	14.50	14.5	15.00	15.00	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	21.35
	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	24.78	24.80
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

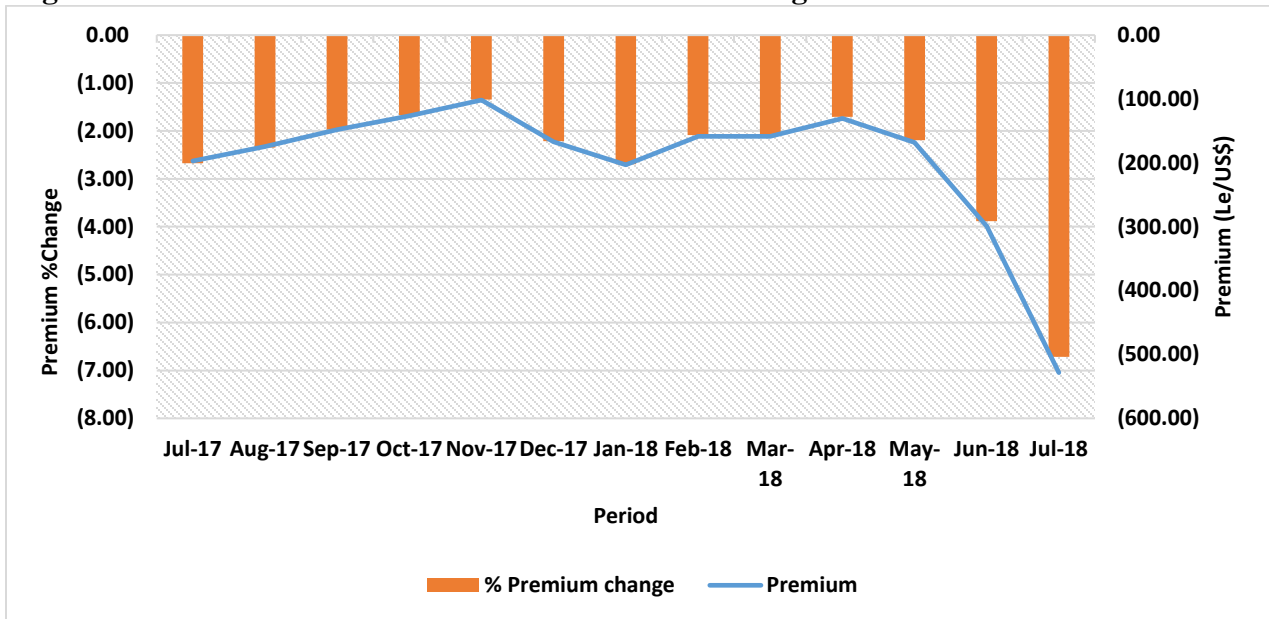
Source: Research Department, BSL

5.0 Exchange Rates Developments

The average exchange rate of the Leone against the US dollar depreciated in July 2018. The development in the Leone was reflected across all segments of the foreign exchange markets. On the buying front, the Leone depreciated by 5.24 per cent in the parallel market, 2.43 per cent in the commercial banks, 1.31 per cent in the bureau segment and 2.27 per cent in the official segment, averaging Le8,363.64/US\$1, Le7,912.26/US\$1, Le7,704.72/US\$1 and Le7,791.79/US\$1 respectively.

Similarly, on the selling front, the parallel market, commercial banks, official and bureau rates depreciated by 4.88 per cent, 3.76 per cent, 2.28 per cent and 0.90 per cent, averaging 8,434.09/US\$1, Le8,177.31/US\$1, Le7,949.20/US\$1 and Le7,790.30/US\$1 respectively.

The premium between the official and the parallel rates widened by 3.02 percentage points to Le571.85/US\$1 in the reporting month from Le328.98/US\$1 in June 2018

Figure 7: Premium between Official and Parallel Exchange Rates

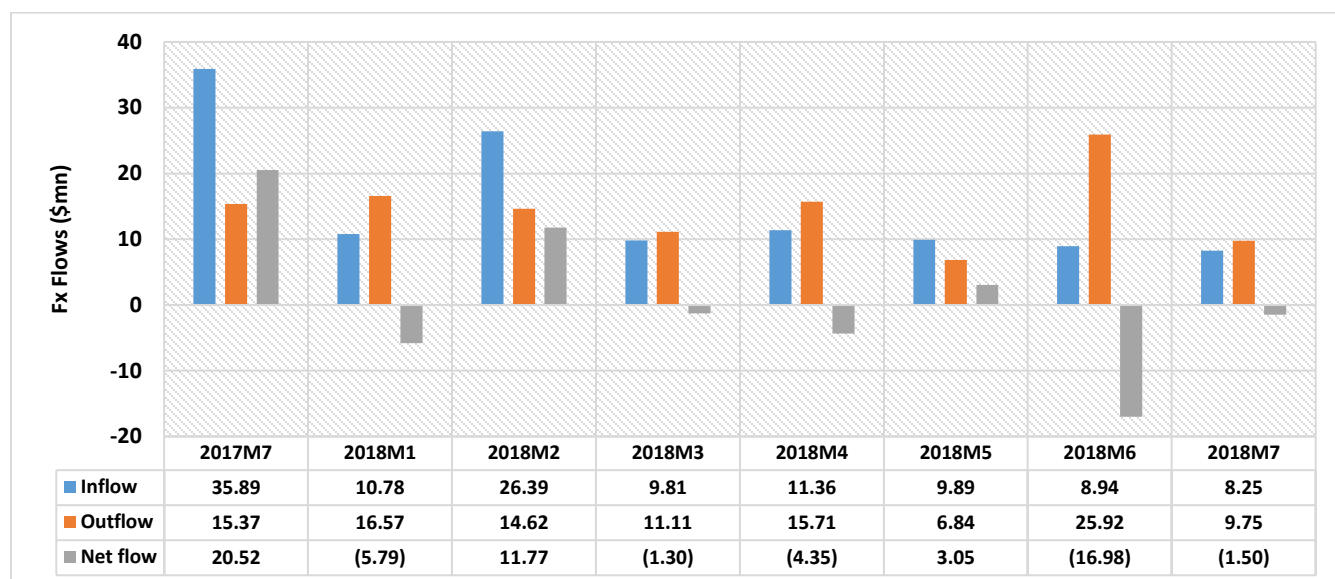
Source: Bank of Sierra Leone

6.0 Gross Foreign Exchange Reserves

Gross Foreign Exchange Reserves of the Bank of Sierra Leone decreased by 0.27 per cent to US\$514.37mn in July 2018 from US\$515.75mn in June 2018. The decline was driven by an excess of outflows (US\$9.75mn) over inflows (US\$8.25mn) with a net position of US\$1.51mn during the period.

Inflows during the period amounted to US\$4.90mn, being export receipts, of which, US\$1.34mn was fishing royalty, US\$1.19mn was royalty payment from Sierra Rutile and US\$1.03mn was an aggregate of other mining receipts; US\$1.2mn was aid disbursement, of which, US\$1.00mn was World Bank loan for pay reform.

Major outflows amounted to US\$5.03mn, being payments for goods and services of which, US\$2.25mn was Bank of Sierra Leone utilization on its activities, and US\$2.12mn was Embassy/mission payments. Debt service payments amounted to US\$4.72mn.

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

Source: Bank of Sierra Leone