



BANK OF SIERRA LEONE

**Monthly Economic
Review**

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Review**

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ABBREVIATIONS

AfDB	-	African Development Bank
BSL	-	Bank of Sierra Leone
GoSL	-	Government of Sierra Leone
Gw/hr	-	Gega Watts per hour
IMF	-	International Monetary Fund
M1	-	Narrow Money
M2	-	Broad Money
MER	-	Monthly Economic Review
MPR	-	Monetary Policy Rate
NDA	-	Net Domestic Assets
NFA	-	Net Foreign Assets
ODC	-	Other Depository Corporation
OPEC	-	Organization of Petroleum Exporting Countries
OFID	-	OPEC Fund for International Development
RM	-	Reserve Money
SDF	-	Standing Deposit Facility
SDR	-	Special Drawing Rights
SLF	-	Standing Lending Facility
Y-o-Y	-	Year-on-Year

1.0 Highlights

Production performance in the manufacturing sector continued to be mixed in the month of December 2019, as beer & stout, maltina, paint, acetylene and oxygen recorded increases in production. On the other hand, production volumes declined for cement, confectionery and common soap during the reviewed period. Performance in the mining sector recorded a strong growth as evidenced in the production of diamond, bauxite, rutile and ilmenite which recorded increases in production, except gold which declined during the reviewed period. Electricity generation declined due to low performance in hydro power generation during the reporting period.

Headline inflation moderately increased by 0.80 percentage point to 13.89 percent in December 2019 from 13.09 per cent in November 2019, largely driven by the uptick in food inflation. Food inflation rose to 5.38 percent in December 2019 from 3.62 percent in November 2019, while Non-food inflation decreased to 25.89 per cent in December 2019 from 27.49 per cent in November 2019.

Government fiscal operations on cash flow basis in December 2019 were expansionary as government expenditure increased outpacing the increase in revenue mobilization. This developments resulted in an overall deficit of Le258.86bn compared to a deficit of Le44.49bn in November 2019.

There was no policy change during the review period. Consequently, the Monetary Policy Rate (MPR) remained unchanged at 16.50 percent. However, the interbank market rate decreased slightly to 18.61 percent in December 2019. The commercial banks' average Lending and deposit rates remained unchanged at 21.35 percent and 2.38 percent, respectively.

Monetary aggregates during the month of December 2019 were expansionary as indicated in both Broad Money (M2) and Reserve Money (RM). Broad Money (M2) expanded by 2.34 percent in December 2019, compared to the 0.22 per cent contraction in November 2019. The expansion in M2 was mainly on account of the increase in Net Foreign Assets (NFA) of the banking system, as Net Domestic Assets (NDA) of the banking system recorded a moderate growth in the reviewed month. Similarly, Reserve Money (RM) expanded by 11.77 percent in December 2019, compared to a decline of 0.30 percent in November 2019. The increase in RM was driven by growth in both NFA and NDA of the BSL.

The gross foreign exchange reserves of the Bank of Sierra Leone decreased by 1.62 percent to US\$533.15mn in December 2019 from US\$524.66mn in November 2019, largely driven by increase in inflows of US\$34.72mn over outflows of US\$28.23mn, resulting to a net inflow of US\$6.49mn. The monthly average exchange rate movement of the Leone relative to the US dollar remained stable as reflected in the narrowing of the Premium between the Official and Parallel rates.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

Production in the manufacturing sector was mixed in the month of December 2019. Output of beer & stout, maltina, paint, acetylene and oxygen increased, while cement, confectionery and common soap declined in the review period. Beer and stout production increased by 1.56 percent to 188.54 thousand cartons. Production volume for maltina increased by 2.02 percent to 27.31 thousand cartons. Similarly, paint production increase marginally by 0.33 per cent to 66.12 thousand gallons. Acetylene and oxygen production increased by 1.65 per cent to 25.32 thousand cubic feet, and 4.22 per cent to 27.64 thousand cubic feet respectively.

However, cement and confectionery production declined by 6.43 per cent to 24.31 thousand metric tons and 0.14 per cent to 208.77 thousand pounds respectively. Common soap production also decreased by 11.46 per cent to 49.98 thousand metric tons.

2.1.2 Mining Sector

Production activities in the mining sector recorded a strong growth in the month of December 2019. Production levels of all minerals increased, except gold which declined in the reviewed month. Diamond production increased significantly to 85.14 thousand carats in December 2019 from 6.55 thousand carats in November 2019. This amount comprised of industrial diamond of 50.83 thousand carats and gem diamond of 34.31 thousand carats. Similarly, bauxite production increased to 138.29 thousand metric tons in December 2019 from 109.92 thousand metric tons in November 2019. Rutile production increased to 14.27 thousand metric tons in December 2019 from 13.79 thousand metric tons in November 2019. Ilmenite production surged to 5.77 thousand metric tons in December 2019 from 5.22 thousand metric tons in November 2019. However, gold production declined to 50.86 ounces in December 2019 from 79.08 ounces in November 2019.

2.1.3 Electricity

Electricity generated in the month of December 2019 declined marginally by 0.34 percent to 31.48 Gw/hr compared to 31.59 Gw/hr in November 2019. This developments was mainly explained by the declined generation in hydro power, while thermal plant generation increased during the review

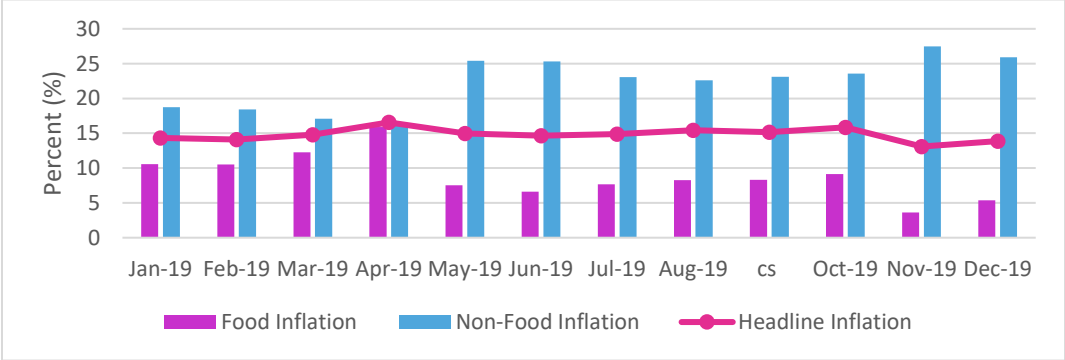
period. Thermal plant generation increased to 0.56 Gw/hr in December 2019 from 0.53 Gw/hr in November 2019. However, hydro power generation declined to 30.92 Gw/hr in December 2019 from 31.06 Gw/hr in November 2019.

2.2 Price Development

Headline inflation moderately increased by 0.80 percentage point to 13.89 percent in December 2019 from 13.09 per cent in November 2019. The increase in headline inflation was mainly driven by uptick in food inflation. Food inflation rose to 5.38 percent in December 2019 from 3.62 per cent in November 2019. Non-food inflation decreased to 25.89 per cent in December 2019 from 27.49 per cent in November 2019 due to relative stability in the exchange rate.

On regional basis, inflation increased in the three regions except the northern region which inflation declined in the reporting month. The western area inflation rose to 18.76 percent in December 2019 from 15.66 percent in November 2019. Inflation in the eastern region increased to 17.19 percent in December 2019 from 17.14 percent in November 2019 and Southern region inflation surged to 11.84 percent in December 2019 from 10.62 percent in November 2019. On the other hand, northern region inflation decreased to 5.43 percent in December 2019 from 8.21 percent in November 2019.

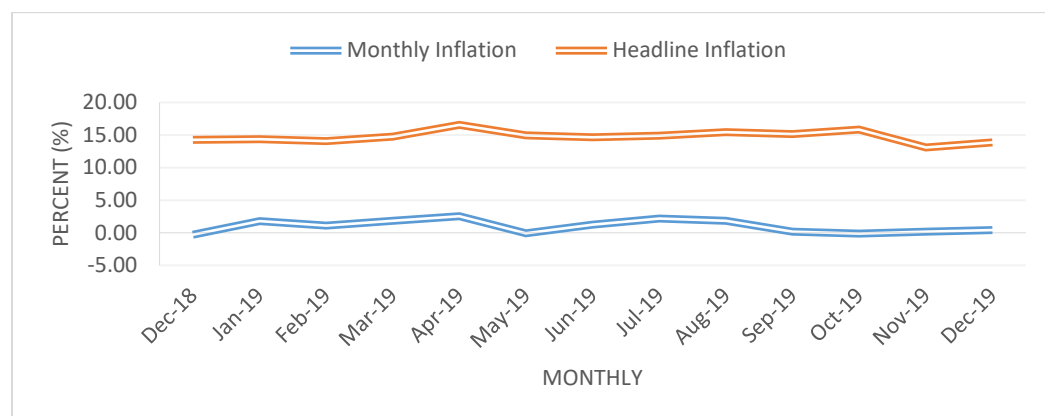
Figure 1: Headline, Food and Non-Food Inflation



Source: Statistics Sierra Leone and BSL

On monthly basis, consumer price inflation continued to trend upward. It recorded an increase of 0.41 per cent in December 2019 from 0.20 per cent in November 2019.

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



Source: Statistics Sierra Leone

3.0 Government Budgetary Operations

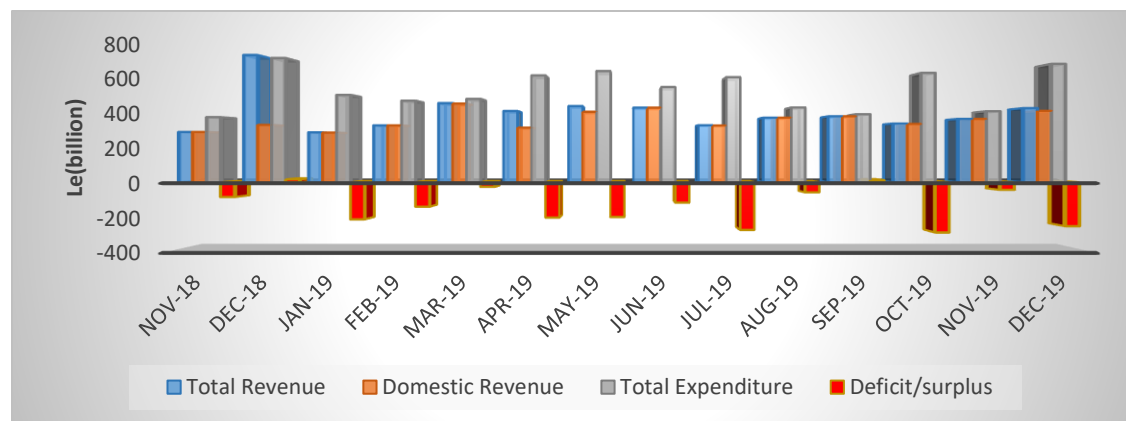
During the month of December 2019, government fiscal operations on cash flow basis were expansionary as government expenditure increased which morethan outweighed the increase in revenue mobilization. This resulted in an overall deficit of Le258.86bn compared to a deficit of Le44.49bn in November 2019.

3.1 Revenue

Government revenue amounted to Le435.74bn reflecting 16.85 percent increase, but was lower than the budgeted target of Le454.57bn by 4.14 percent in December 2019. The growth in government revenue in December 2019 was on account of the expansion in both domestic revenue collected and foreign grant inflows during the reviewed period. Domestic revenue mobilization expanded by 12.47 percent to Le419.40bn. The performance of domestic revenue ensued from increase in revenue collected from both income tax and non-tax (miscellaneous). Whereas, revenue from customs and excise duties and goods and services tax contracted in the reviewed month. Revenue from Income tax department increased by 95.47 percent to Le169.82bn, while Non-tax income increased by 6.60 percent to Le107.38bn. Conversely, receipts from Customs and Excise contracted by 38.66 percent to Le56.31bn, while revenue from Goods and Services declined by 8.11 percent to Le85.88bn.

Foreign grant disbursed in December 2019 in respect of budgetary support amounted to Le16.34bn. Of this amount, European Union (EU) grants was Le15.92bn, while Le0.42bn was HIPC debt relief.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditure

Government expenditure increased significantly by 66.42 percent to Le694.60bn in December 2019. The expansion in the government spending ensued from the upturn in the wage bill and other expenditure, while debt service payments fell during the reviewed period. Pension, wages and salaries expanded to Le451.28bn in December 2019 reflecting a 119.13 percent compared to Le205.94bn in November 2019. Similarly, expenditure on goods and services expand by 39.59 percent to Le175.11bn. Debt service payments amounted to Le68.21bn representing a 20.70 percent decrease compared to Le86.01bn in November 2019. This comprised of domestic debt service payments amounted to Le67.99bn and foreign debt service payments amounting to Le0.22bn.

3.3 Financing

The overall deficit of Le258.86bn was financed from both domestic and foreign sources.

4.0 Monetary Developments

Developments in monetary aggregates during the month of December 2019 were expansionary as indicated in both Broad Money (M2) and Reserve Money (RM).

4.1 Broad Money

Broad Money (M2) expanded by 2.34 percent in December 2019, compared to the 0.22 per cent contraction in November 2019. This development was mainly on account of the increase in Net Foreign Assets (NFA) of the banking system, as Net Domestic Assets (NDA) of the banking system recorded a moderate growth in the reviewed month.

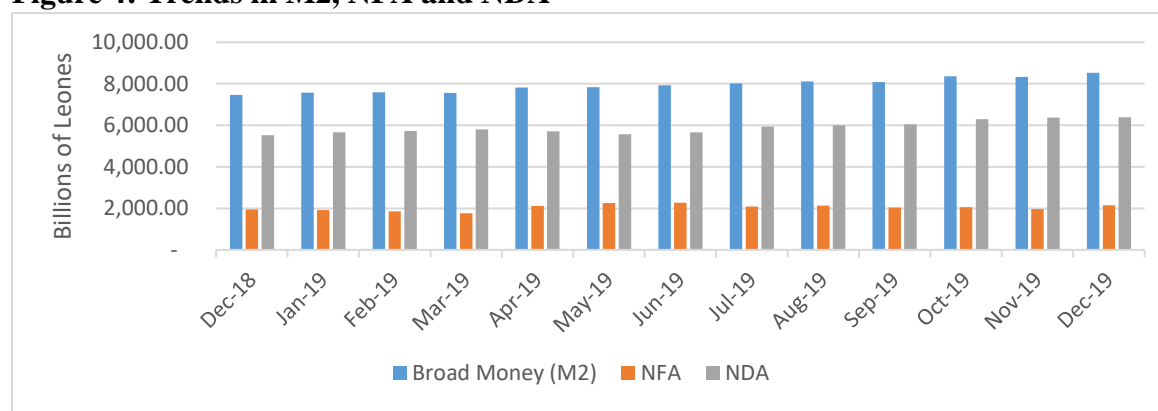
NFA of the banking system increased by 9.09 per cent in December 2019, compared to the 4.60 percent decrease in November 2019. The growth in NFA was due to increase in both NFA of the BSL and the commercial banks. The Growth in NFA of BSL reflected increases in deposits at the Federal Reserve Bank and the Bank for International Settlement, while growth in NFA of commercial banks was as a result of increases in the Nostro accounts balances of the commercial banks.

The NDA of the banking system slightly expanded by 0.26 percent in December 2019, compared to the 1.21 per cent growth in November 2019. The growth in NDA was due to increase in other items-net.

Table 1: Broad Money and its Components

Billions of Leones	2019		Absolute Change		% Change	
	Nov.-19	Dec.-19	Nov.-19	Dec.-19	Nov.-19	Dec.-19
Reserve money	2,447.07	2,735.19	(7.46)	288.12	(0.30)	11.77
Broad Money (M2)	8,337.76	8,533.02	(18.75)	195.26	(0.22)	2.34
Narrow money (M1)	3,813.28	4,005.91	(1.58)	192.63	(0.04)	5.05
Currency outside banks	1,853.07	2,039.90	109.62	186.83	6.29	10.08
Demand deposit	1,960.22	1,966.00	(111.20)	5.78	(5.37)	0.29
Quasi money	4,524.48	4,527.11	(17.17)	2.63	(0.38)	0.06
o.w. Foreign currency deposit	2,232.97	2,231.01	3.05	(1.96)	0.14	(0.09)
Time and saving deposit	2,287.13	2,290.91	(20.40)	3.78	(0.88)	0.17
Net Foreign Asset	1,965.67	2,144.44	(94.86)	178.77	(4.60)	9.09
BSL	326.38	393.12	(34.79)	66.74	(9.63)	20.45
ODCs	1,639.29	1,751.32	(60.07)	112.03	(3.53)	6.83
Net Domestic Assets	6,372.10	6,388.58	76.11	16.48	1.21	0.26
				(122.36)		
Net Domestic Credit	8,623.81	8,501.45	245.43)	2.93	(1.42)
Government (Net)	6,393.57	6,347.43	255.57	(46.14)	4.16	(0.72)
o.w. BSL	2,632.95	2,633.69	58.91	0.74	2.29	0.03
ODCs	3,760.62	3,713.74	196.66	(46.88)	5.52	(1.25)
Private Sector Credit	2,356.12	2,268.66	(4.97)	(87.46)	(0.21)	(3.71)
o.w ODC	2,326.44	2,238.15	(4.18)	(88.29)	(0.18)	(3.80)
Other Sectors (Net)*	(125.88)	(114.64)	(5.17)	11.24	4.28	(8.93)
		(2,112.87)				
Other Items (Net)	(2,251.71))	(169.32)	138.84	8.13	(6.17)
Money Multiplier	3.41	3.12				

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

Figure 4: Trends in M2, NFA and NDA

Source: Research Department, BSL

From the liability side, the growth in M2 reflected increases in both Narrow Money (M1), Quasi Money (QM). Narrow money increased by 5.05 percent in December 2019, relative to a decrease

of 0.04 percent in November 2019, due to growth in Currency outside banks (10.08 percent), and demand deposits (0.29 percent). Quasi Money recorded a marginal growth of 0.06 percent in the review month, after declining by 0.38 percent in November 2019. The increase in Quasi Money was due to a 0.17 percent growth in Time and Saving Deposits during the same period.

4.2 Reserve Money

Reserve Money (RM) expanded by 11.77 percent in December 2019, compared to a decline of 0.30 percent in November 2019. The increase in RM was driven by growth in both NFA and NDA of the BSL. NFA of the BSL increased by 20.45 percent in December 2019, relative to a contraction of 9.63 percent in November 2019, due to growth in BSL's foreign claims. The NDA of the BSL expanded by 10.44 percent, mainly on account of a 19.61 percent increase in holdings of government securities, relative to a 3.88 percent growth recorded in November 2019.

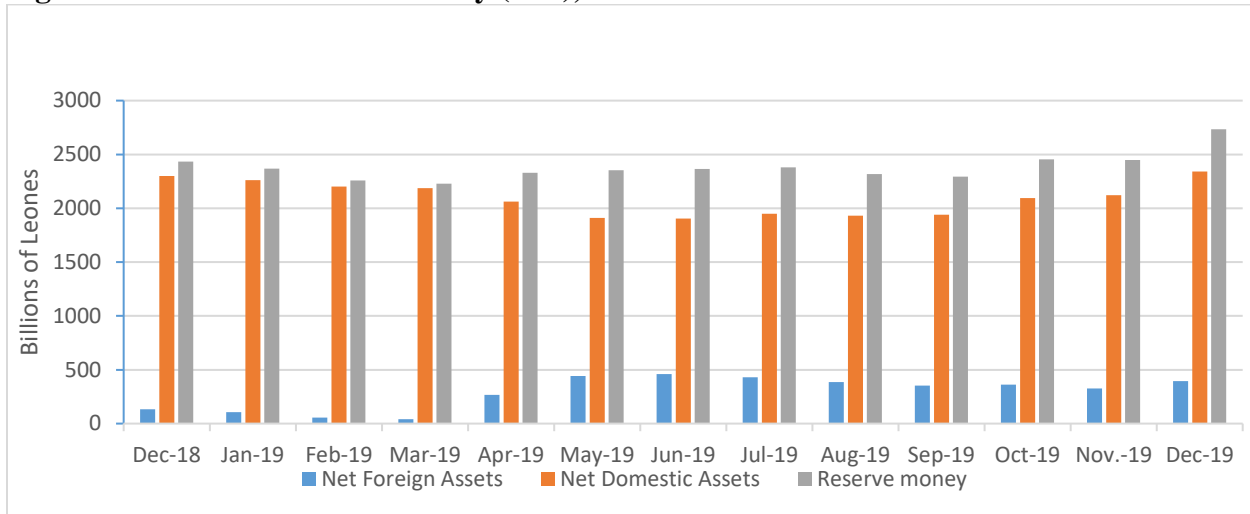
On the liability side, the growth in RM was reflected in both Currency issued (13.55 percent) and Banks' reserves (2.89 percent).

Table 2: Reserve Money and its Components

Billions of Leones	2019		Absolute Change		% Change	
	Nov-19	Dec-19	Nov-19	Dec-19	Nov-19	Dec-19
1. Net Foreign Assets	326.38	393.12	(34.79)	66.74	(9.63)	20.45
2. Net Domestic Assets	2,120.69	2,342.07	27.33	221.38	1.31	10.44
2.1 Government Borrowing (net)	2,632.95	2,633.70	58.92	0.75	2.29	0.03
o.w. 2.11 Securities	1,082.61	1,294.86	40.48	212.25	3.88	19.61
2.12 Ways and Means	186.25	192.40	(6.43)	6.15	(3.34)	3.30
2.13 GoSL/IMF /WB Budget fin.	1,502.11	1,502.11	-	-	-	-
3. Reserve money	2,447.07	2,735.19	(7.46)	288.12	(0.30)	11.77
o.w. 3.1 Currency issued	2,032.28	2,307.75	72.45	275.47	3.70	13.55
3.2 Bank reserves	410.42	422.26	(80.08)	11.84	(16.33)	2.89

Source: Research Department, BSL

Figure 5: Trends in Reserve Money (RM), NFA and NDA

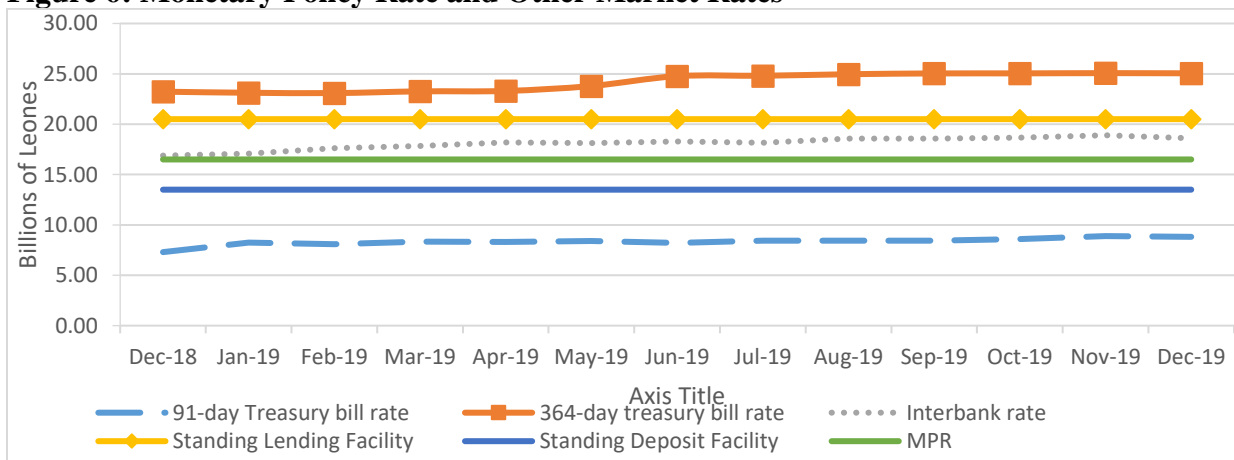


Source: Research Department, BSL

4.3 Interest Rates

The Monetary Policy Rate of the Bank of Sierra Leone remained unchanged at 16.50 per cent in December 2019. Accordingly, the Standing Lending and Deposit Facility Rates were maintained at 20.50 percent and 13.50 percent respectively. However, the interbank market rate decreased slightly from 18.90 percent in November 2019 to 18.61 percent in December 2019. The commercial banks’ average lending and deposit rates also remained unchanged at 21.35 percent and 2.38 percent respectively.

Figure 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

In the money market, trends in the yields on government securities were mixed in the month of December 2019. The 91-days T-bills rate marginally declined from 8.89 percent in November 2019, to 8.83 percent in December 2019, while the 182-days T-bills rate remained unchanged at 13.21 percent for the review period. The 364 days T-bills rate decreased marginally from 25.07 percent in November 2019 to 25.05 percent December 2019.

Table 3: Interest Rates (%)

	2018	2019											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
91-day T-Bills	7.30	8.26	8.08	8.35	8.30	8.41	8.20	8.44	8.44	8.44	8.61	8.89	8.83
182-day T-Bills	8.14	8.42	8.40	8.23	8.20	7.23	7.13	8.53	8.54	11.38	12.46	13.21	13.21
364-day T-Bills	23.23	23.12	23.09	23.26	23.3	23.79	24.77	24.81	24.96	25.04	25.05	25.07	25.05
Interbank rate	16.88	17.07	17.61	17.84	18.18	18.12	18.27	18.16	18.57	18.57	18.68	18.90	18.61
SLF	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.5	20.5
SDF	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.5	13.5
MPR	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.5	16.5
Ave. 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	24.77	24.78
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

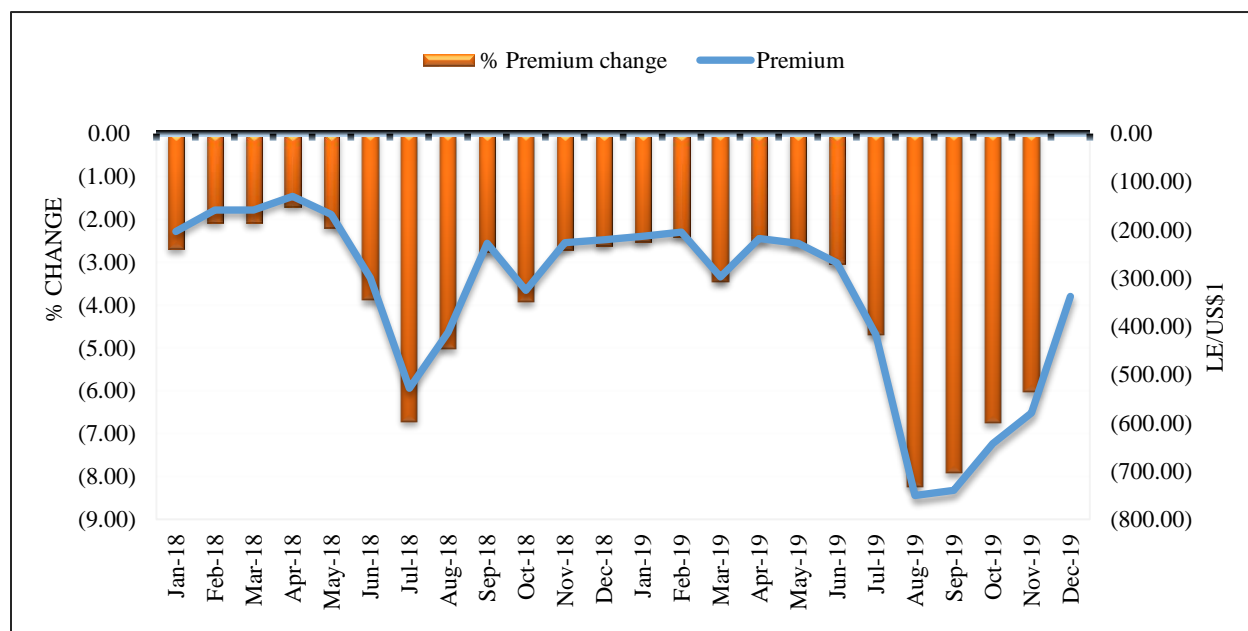
Source: Research Department, BSL

5.0 Exchange Rate Developments

In December 2019, the average exchange rate of the Leone vis-à-vis the US dollar depreciated in all foreign exchange markets except the parallel market rate which appreciated. On the buying front, the Leone depreciated in the official market, bureaux and commercial banks by 0.89 percent, 0.89 percent and 0.79 percent, averaging Le9,614.21/US\$1, Le9575.89/US\$1 and Le9,749.75/US\$1, while the parallel market appreciated by 1.72 percent averaging Le10,016.00/US\$1, respectively. Similarly, on the selling front, the Leone depreciated in the official, bureaux market and commercial banks by 0.89 percent, 0.51 percent and 0.25 averaging Le9,808.44/US\$1, Le9,850.43/US\$1 and Le9,856.04/US\$1 with the parallel market appreciating by 1.34 percent averaging Le10082.00/US\$1 respectively.

The average premium between the official and parallel rates narrowed by 2.54 percentage points to Le337.68/US\$1 in December, 2019 from Le579.44/US\$1 in November, 2019 (See figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

6.0 Gross Foreign Exchange Reserves

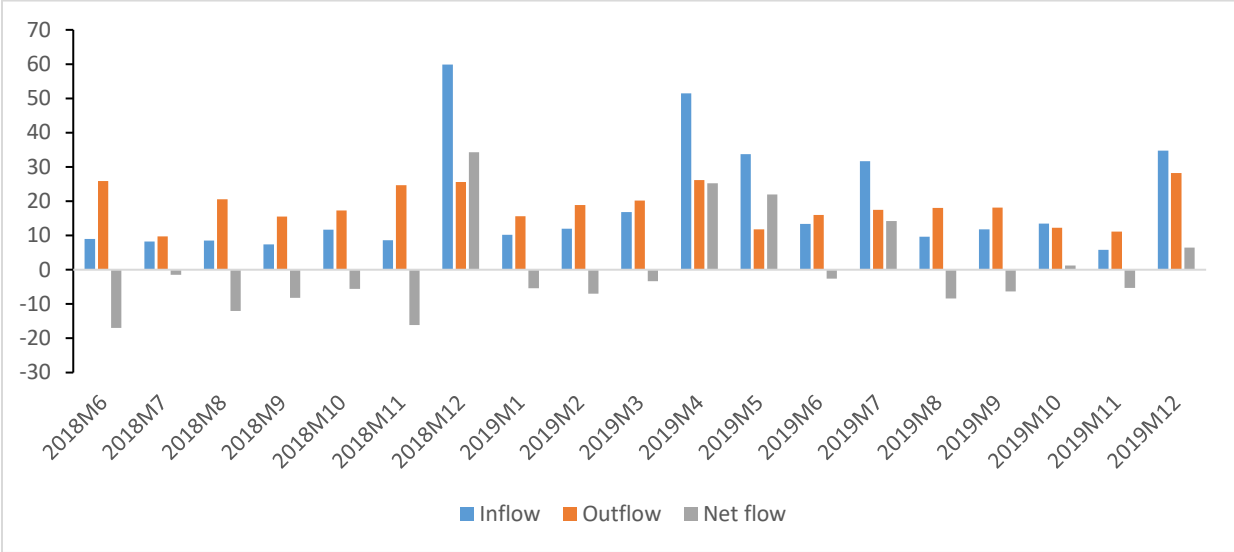
The gross foreign exchange reserves of the Bank of Sierra Leone decreased by 1.62 percent to US\$533.15mn in December 2019 from US\$524.66mn in November 2019, largely driven by an increase in inflows of US\$34.72mn over outflows of US\$28.23mn, resulting to a net inflow of US\$6.49mn.

Major inflows included budgetary support by European Union (US\$23.22mn), funding by IDB for various projects (US\$2.91mn), US\$0.27mn being AfDB loan, interest earned by BSL from investments abroad (US\$0.63mn) and other government receipts (US\$1.02mn). Other inflows comprised receipts from export (US\$6.42mn) of which: Rutile (US\$2.88mn), diamond exporter’s income tax (US\$0.92mn), fishing royalty/licenses (US\$0.54mn) and timber (US\$1.88mn).

Significant outflows included financing interbank market operations (US\$10.00mn), embassy and mission payments (US\$1.68mn), government travels (US\$0.49mn) and other government expenditures (US\$6.61mn). Other outflows were in respect of debt service payments (US\$9.19mn)

of which: IMF (US\$4.03mn), World Bank (US\$0.74mn), other multilateral and bilateral creditors (US\$2.45mn), EC/EIB (US\$1.41mn) and OPEC/OFID (US\$0.54mn).

Figure 8: Foreign Exchange Flows



Sources: Bank of Sierra Leone