



BANK OF SIERRA LEONE

**Monthly Economic
Review**

Volume 21| Issue 2

February, 2019



BANK OF SIERRA LEONE

**Monthly Economic
Review**

February 2019

Publisher: The Monthly Economic Review [MER] is published by the Research Department, Bank of Sierra Leone. The Department takes responsibility for opinions expressed in this review; queries should be forwarded to res@bsl.gov.sl

Address: Siaka Stevens Street, P O Box 30, Freetown, Sierra Leone.

CONTENTS

Contents.....	ii
List of Figures.....	iii
List of Tables.....	iii
List of Abbreviation.....	iv
1.0 Highlights.....	5
2.0 Production and Prices.....	6
2.1 Production.....	6
2.1.1 Manufacturing.....	6
2.1.2 Mining Sector.....	6
2.2 Price Development.....	6
3.0 Government Budgetary Operations.....	8
3.1 Revenues.....	8
3.2 Expenditures.....	9
4.0 Monetary Developments.....	9
4.1 Broad Money.....	10
4.2 Reserve Money.....	12
4.3 Interest Rates.....	14
5.0 Exchange Rate Developments.....	16
6.0 Gross Foreign Exchange Reserves.....	17

List of Figures:

Figure 1: Headline, Food and Non-Food Inflation.....	7
Figure 2: Headline Inflation-Y-o-Y and Monthly Inflation Rate.....	8
Figure 3: Government Revenue and Expenditure.....	9
Figure 4: . Broad Money and its Components	12
Figure 5: Reserve Money and its Sources.....	14
Figure 6: Monetary Policy Rate and Other Market Rates.....	15
Figure 7: Premium between Official and Parallel Exchange Rates	16
Figure 8: Foreign Exchange Flows	17

List of Tables:

Table 1: Broad Money and its Components.....	11
Table 2: Reserve Money and its Components	13
Table 3: Interest Rates (%)	15

ABBREVIATIONS

BSL	-	Bank of Sierra Leone
GoSL	-	Government of Sierra Leone
IMF	-	International Monetary Fund
LFR	-	Lending Facility Rate
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
RM	-	Reserve Money
Y-o-Y	-	Year-on-Year

1.0 Highlights

Developments in the manufacturing sector were mixed in February 2019, as production declined for beer and stout, paint, acetylene, confectionery and common soap, while maltina, cement and oxygen recorded increases.

After falling for three consecutive months, inflationary pressures re-emerged as headline inflation increased by 11 basis point to 17.19 per cent in February 2019 from 17.08 per cent in January 2019. This was driven mainly by an increase in non-food prices due to the pass-through effect of exchange rate depreciation.

Fiscal operations on cash flow basis in February 2019 reflected a reduced deficit of Le144.01bn compared to the deficit of Le218.83bn in January 2019, which can be explained by the combined effects of an increase in government revenue mobilization and subdued expenditures.

Monetary policy rate in February 2019 remained unchanged at 16.50 per cent. The interbank rate increased from 17.08 per cent in January 2019 to 17.35 per cent in February 2019. The commercial banks' average lending and savings deposits rates remained unchanged at 21.35 per cent and 2.38 per cent, respectively.

Trends in monetary aggregates were mixed in February 2019. Broad Money expanded by 0.13 per cent in February 2019, relative to the 1.73 per cent growth in January 2019, while Reserve Money (RM) contracted by 4.73 per cent in February 2019, relative to 2.62 per cent in January 2019.

The gross foreign exchange reserves of the Bank of Sierra Leone declined by 1.23 per cent to USD494.11mn in February 2019 from USD500.27mn in January 2019. This development was driven by an increase in outflows of USD18.89mn over inflows of USD11.95mn, resulting in a net outflow of USD6.94mn.

The monthly average exchange rate of the Leone against the US dollar depreciated in February 2019 in all foreign exchange markets. However, the premium between the Official and Parallel rates narrowed by 0.06 percentage points to Le244.79/USD1 in February, 2019 from Le247.13/USD1 in January, 2019.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

Activities in the manufacturing sector slowed in February 2019, as production volumes declined for beer and stout, paint, acetylene, confectionery and common soap, while production levels for maltina, cement and oxygen increased.

Beer and Stout production declined by 27.18 per cent to 136.88 thousand cartons, while paint and acetylene production decreased by 3.77 per cent to 64.03 thousand gallons, and 6.53 per cent to 23.03 thousand cubic feet respectively. Confectionery and common soap production slowed by 2.83 per cent to 199.83 thousand pounds and 23.50 per cent to 41.77 thousand metric tons in that order.

On the other hand, production levels for maltina grew by 13.49 per cent to 25.65 thousand cartons, cement rose by 18.69 per cent to 27.81 thousand metric tons and oxygen edged up by 6.39 per cent to 24.13 thousand cubic feet.

2.1.2 Mining Sector

The mining sector recorded mixed performance in the review period. Diamond production improved by 32.59 per cent to 89.46 thousand carats, comprising 44.22 thousand carats of gem diamonds and 45.24 thousand carats of industrial diamonds. Gold production expanded by 23.52 per cent to 479.26 ounces. However, bauxite production fell by 2.32 per cent to 190.31 thousand metric tons. Outputs of rutile and ilmenite dropped by 16.21 per cent to 10.18 thousand metric tons and 11.94 per cent to 4.50 thousand metric tons respectively.

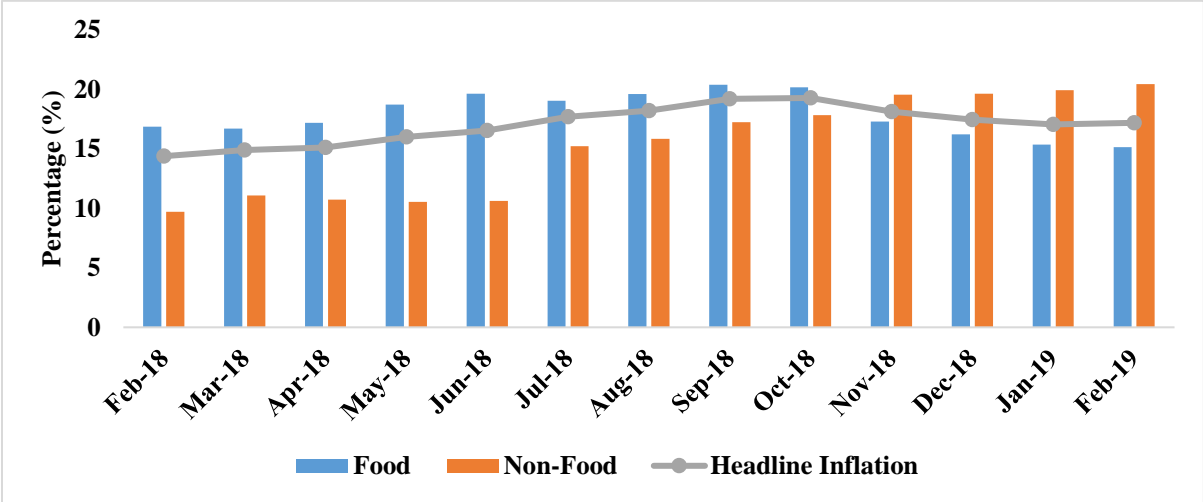
2.2 Price Development

Inflationary pressures re-emerged in February 2019 as headline inflation rose to 17.19 per cent from 17.08 per cent in January 2019. This was mainly due to the increase in non-food prices. Non-food inflation rose to 20.46 per cent in February 2019 from 19.95 per cent in January 2019, reflecting the pass-through effect of the depreciation of the exchange rate.

On the contrary, food inflation decline steadily to 15.15 per cent in February 2019 from 15.36 per cent in January 2019.

Inflationary trends across the regions were mixed, as inflation increased in the Western Area and Eastern region, but declined in both Northern and Southern regions. Inflation in Western Area rose to 17.15 per cent in February 2019 from 16.32 per cent in January 2019; Inflation in the Eastern region increased to 17.86 per cent in February 2019 from 17.50 per cent in January 2019. Inflation declined in the Southern region to 17.44 per cent in February 2019 from 17.51 per cent in January 2019 and in the Northern region to 16.74 per cent in February 2019 from 17.84 per cent in January 2019.

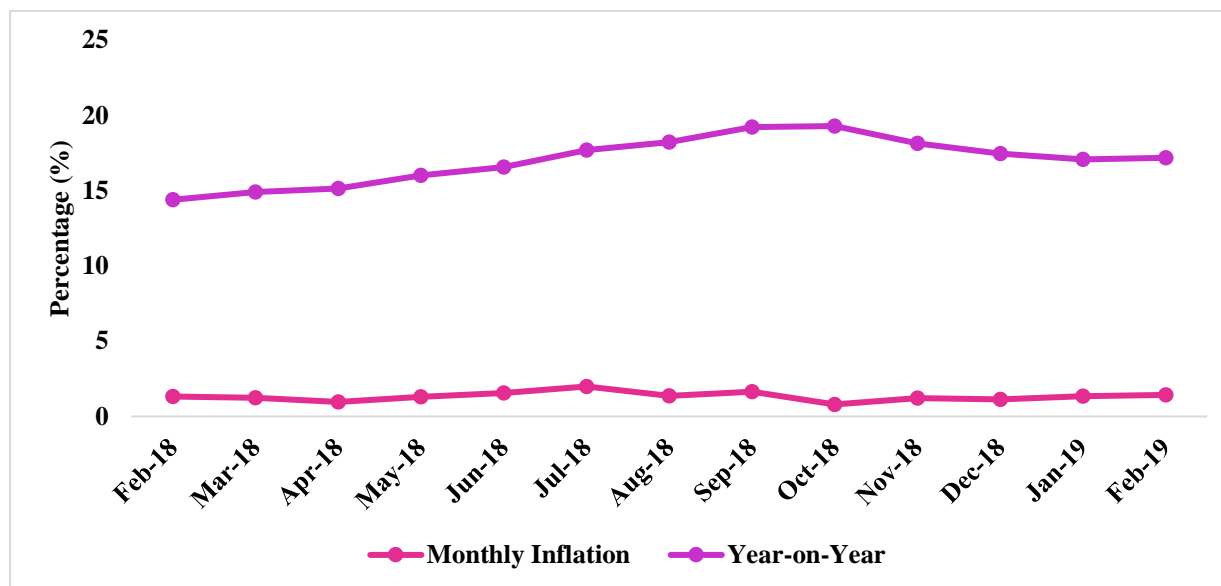
Figure 1: Headline, Food and Non-Food Inflation



Source: Research Department, BSL

Month-on-month inflation depicted price build up as inflation edged up to 1.43 per cent in February 2019 from 1.34 per cent in January 2019.

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



Source: Research Department, BSL

3.0 Government Budgetary Operations

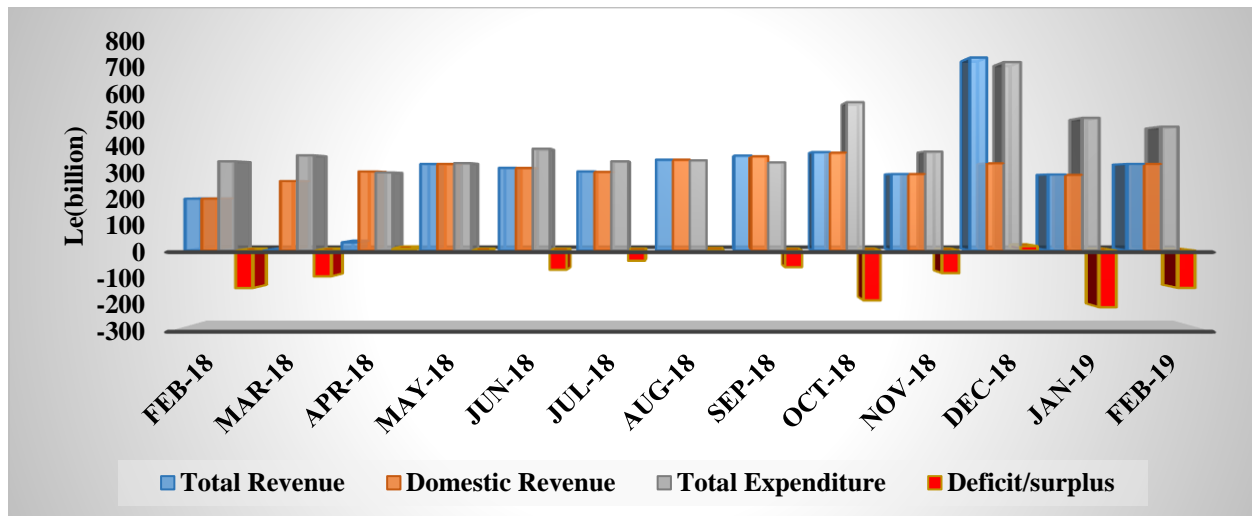
The outturn in government fiscal operations in February 2019 resulted in a deficit of Le144.01bn from Le218.83bn in January 2019. The contraction in deficit was explained by the increase in government revenue which more than offset the fall in government spending.

3.1 Revenues

Domestic revenue increased by 14.46 per cent to Le334.90bn occasioned by improvements in custom and excise tax and non-tax collections. Receipts from Customs and Excise duties rose by 30.05 per cent to Le66.64bn, while non-tax revenue grew significantly by 68.80 per cent to Le99.18bn.

However, Income tax receipts decreased by 5.20 per cent to Le97.05bn, and income from Goods and Services tax declined by 10.20 per cent to Le72.03bn.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditures

Government recurrent spending contracted by 6.65 per cent to Le478.90bn due to drop in pensions, wages and salaries and other expenditure on goods and services. Pension, wages and salaries expenditure fell by 5.91 per cent to Le140.34bn. Other expenditure on goods and services declined by 16.52 per cent to Le215.12bn. Meanwhile, debt services payment increased by 16.28 per cent to Le123.44bn. This amount comprised domestic debt services payment amounting to Le92.64bn and foreign debt services payment amounting to Le30.80bn.

The overall deficit of Le144.01bn was financed from domestic resources.

4.0 Monetary Developments

Trends in monetary aggregates were mixed in February 2019 as Broad Money (M2) expanded, while Reserve Money (RM) contracted.

4.1 Broad Money

Broad Money (M2) increased by 0.13 per cent in February 2019, relative to the 1.73 per cent growth in January 2019. The growth in M2 was on account of the increase in Net Domestic Assets (NDA) of the banking system, which more than offset the decline in Net Foreign Assets (NFA) of the banking system.

NDA of the banking system grew by 1.10 per cent in February 2019, compared to the 2.85 per cent growth in January 2019. The growth in NDA was as a result of increased claims on government by the banking system to support fiscal operations. Growth in Private Sector Credit by commercial banks was however slower to 3.36 per cent in February 2019 compared to 5.29 per cent in January 2019.

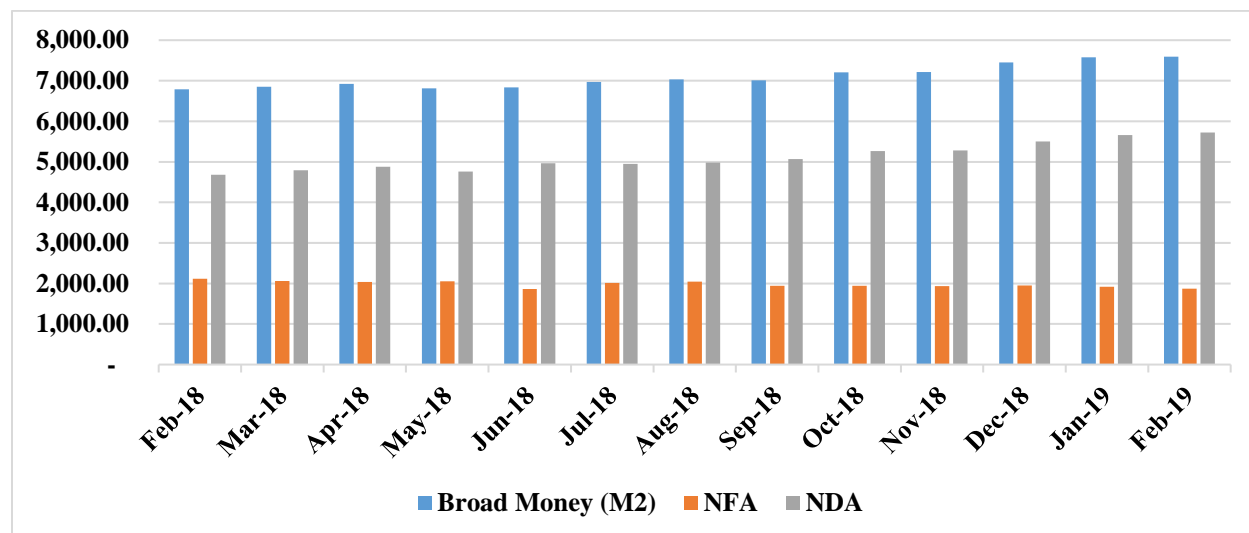
NFA of the banking system declined by 2.75 per cent in February 2019, relative to the 1.44 per cent contraction in January 2019. The decline in NFA was mainly attributed to the increase in liabilities to non-residents, due to depreciation of the exchange rate and debt service payment.

Table 1: Broad Money and its Components

Billions of Leones	2018/2019		Absolute Change		(% Change	
	Jan-19	Feb-19	Jan-19	Feb-19	Jan-19	Feb-19
Reserve money	2,369.41	2,257.25	(63.85)	(112.16)	(2.62)	(4.73)
Broad Money (M2)	7,580.84	7,590.51	128.96	9.67	1.73	0.13
Narrow money (M1)	3,439.02	3,545.82	29.55	106.80	0.8	3.11
Currency outside banks	1,638.00	1,653.94	(94.14)	15.94	(5.43)	0.97
Demand deposit	1,801.02	1,891.88	123.69	90.86	7.37	5.04
Quasi money	4,135.99	4,039.56	96.54	(96.43)	2.39	(2.33)
o.w. Foreign currency deposit	2,097.14	2,007.80	39.94	(89.34)	1.94	(4.26)
Time and saving deposit	2,038.85	2,031.76	56.60	(7.09)	2.86	(0.35)
Net Foreign Asset	1,920.96	1,868.22	(28.14)	(52.74)	(1.44)	(2.75)
BSL	115.85	65.07	(26.98)	(50.78)	(18.89)	(43.83)
ODCs	1,805.11	1,803.15	(1.16)	(1.96)	(0.06)	(0.11)
Net Domestic Assets	5,659.88	5,722.29	157.10	62.41	2.85	1.10
Net Domestic Credit	7,525.89	7,546.97	379.03	21.08	5.30	0.28
Government (Net)	5,634.04	5,607.39	336.07	(26.65)	6.34	(0.47)
Private Sector	1,941.17	2,005.51	95.77	64.34	5.19	3.31
o.w. BSL	33.49	33.65	0.01	0.16	0.03	0.48
ODCs	1,907.68	1,971.86	95.76	64.18	5.29	3.36
Other Sectors (Net)*	(49.32)	(65.93)	(52.81)	(16.61)	(1,513.18)	33.68
Other Items (Net)	(1,866.01)	(1,824.68)	(221.93)	41.33	13.50	(2.21)
Money Multiplier	3.20	3.36				

Source: Research Department, BSL

Figure 4: Broad Money and its Components



Source: Research Department, BSL

The growth in M2 also reflected an expansion in Narrow Money (M1), while Quasi Money contracted during the same period. M1 expanded by 3.11 per cent compared to the 0.87 per cent growth recorded in January 2019. This development was due to an increase in both Demand Deposits of 5.04 per cent and Currency outside banks of 0.97 per cent. Quasi Money contracted by 2.33 per cent compared with the 2.39 per cent increase recorded in January 2019. The decrease in Quasi Money was as a result of decline in both Foreign Currency Deposits and Time and Savings Deposits by 4.26 per cent and 0.35 per cent, respectively.

4.2 Reserve Money

Reserve Money (RM) contracted by 4.73 per cent in February 2019, compared with the 2.62 per cent decrease recorded in January 2019. The contraction in RM was reflected in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the Central Bank. NFA contracted by 43.83 per cent due to increase in BSL foreign liabilities to the IMF, attributed to exchange rate depreciation coupled with settlement of the build-up in foreign commitments. NDA declined by 2.72 per cent as a result of 5.33 per cent decrease in holdings of government securities.

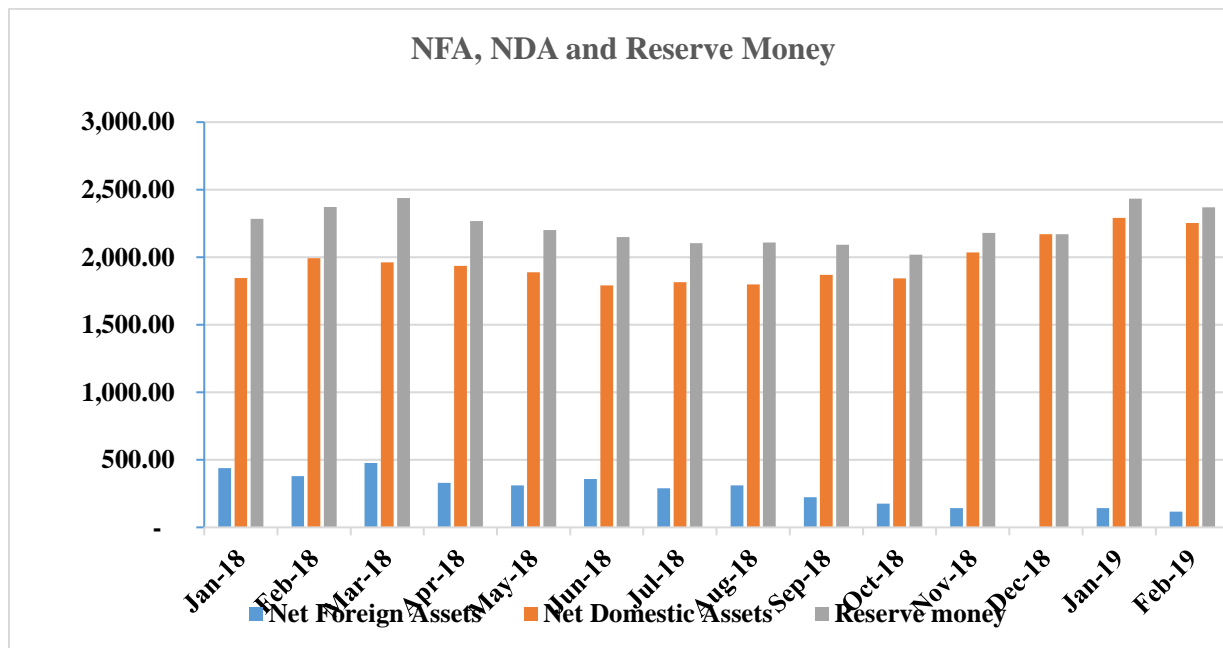
Table 2: Reserve Money and its Components

Billions of Leones	2018/2019		Absolute change		(%) Change	
	Jan-19	Feb-19	Jan -19	Feb-19	Jan-19	Feb-19
1. Net Foreign Assets	115.85	65.07	(26.98)	(50.78)	(18.89)	(43.83)
2. Net Domestic Assets	2,253.56	2,192.18	(36.87)	(6138)	(1.61)	(2.72)
2.1 Government Borrowing (net)	2,591.27	2,556.18	(20.28)	(35.09)	(0.78)	(1.35)
o.w. 2.11 Securities	1,226.53	1,161.17	(120.89)	(65.36)	(8.97)	(5.33)
2.12 Ways and Means	69.14	131.95	(6.09)	62.81	(8.10)	90.84
2.13 GoSL/IMF Budget financing	1,418.56	1,418.56	-	-	-	-
3. Reserve money	2,369.41	2,257.25	(63.85)	(112.16)	(2.62)	(4.73)
o.w. 3.1 Currency issued	1,859.03	1,865.35	(124.61)	6.32	(6.28)	0.34
3.2 Bank reserves	504.53	386.76	57.86	(117.77)	12.95	(23.34)

Source: Research Department, BSL

The decline in RM was also on account of decrease in Banks' reserves by 23.34 per cent relative to the 12.95 per cent growth during January, 2019. On the other hand, Currency issued increased by 0.34 per cent compared with the 6.28 per cent decline during January 2019.

Figure 5: Reserve Money and its Sources

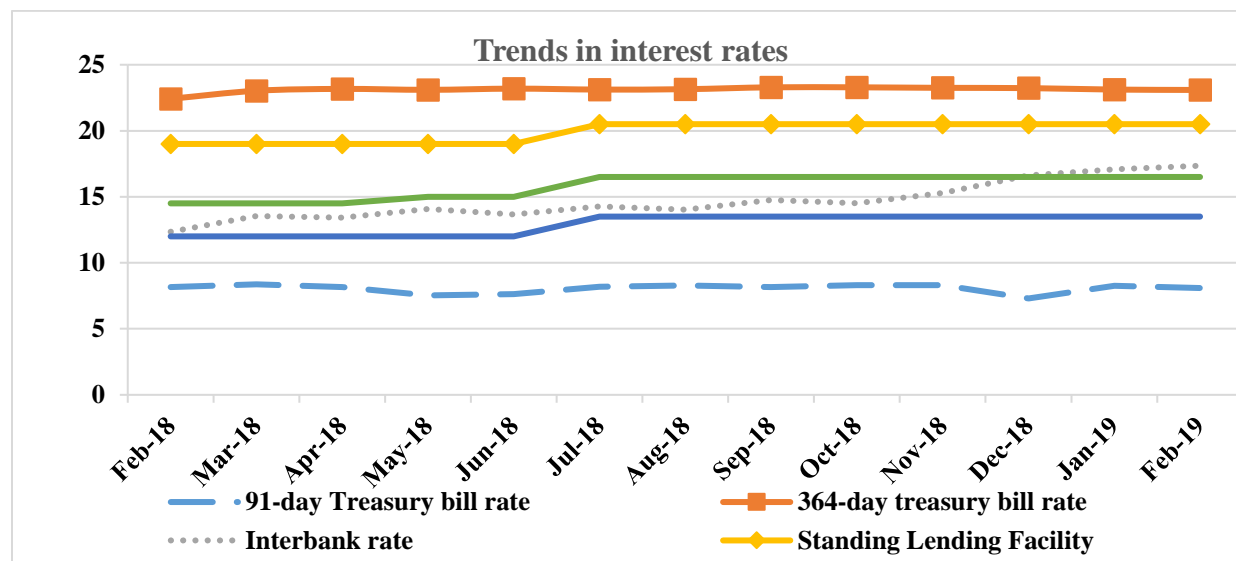


Source: Research Department, BSL

4.3 Interest Rates

The monetary policy rate remain unchanged at 16.50 per cent. The band around the policy rate also remain unchanged, with the Lending Facility rate at 20.50 per cent and the Deposit Facility rate at 13.50 per cent. The interbank rate increased from 17.08 per cent in January 2019 to 17.35 in February 2019. The commercial banks' average lending and savings deposits rates remained unchanged 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 across all tenures showed downward trend during February 2019. The 91-days, 182-days and 364-days treasury bills decreased from 8.26 per cent, 8.42 per cent and 23.12 per cent in January 2019, to 8.08 per cent, 8.40 per cent and 23.09 per cent in February 2019, respectively

Table 3: Interest Rates (%)

	2018							2019		
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
91-day T-Bills	7.52	7.62	8.18	8.28	8.16	8.30	8.30	7.30	8.26	8.08
182-day T-Bills	8.05	8.20	8.40	8.09	8.05	7.86	6.22	8.14	8.42	8.4
364-day T-Bills	23.1	23.19	23.12	23.15	23.29	23.29	23.25	23.23	23.12	23.09
Interbank rate	14.07	13.66	14.28	14.02	14.76	14.51	15.28	16.62	17.08	17.35
Standing Lending Facility	19.00	19.00	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50
Standing Deposit Facility	12.00	12.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50
MPR	15.00	15.00	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50
Average Lending rate	21.35	21.35	21.35	21.345	21.345	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
Lending (Prime)	-	-	-	-	-	-	-	-	-	-
	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

Source: Research Department, BSL

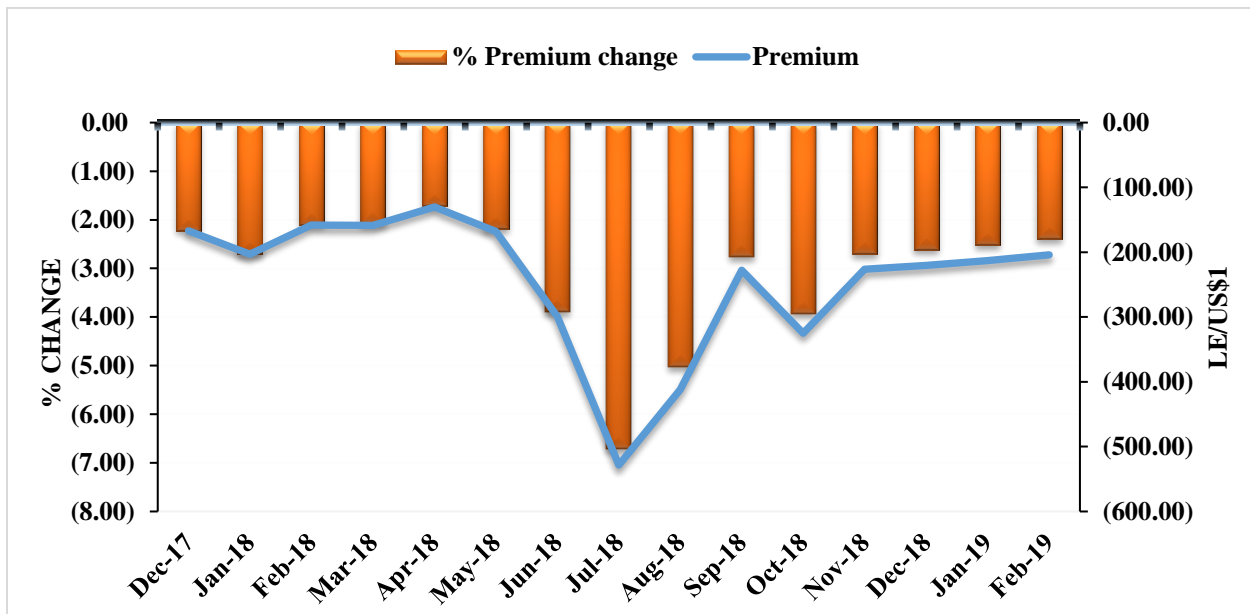
5.0 Exchange Rate Developments

The monthly average exchange rate of the Leone against the US dollar in February 2019, depreciated in all foreign exchange markets. On the buying front, the Leone depreciated in the official, parallel, commercial banks and bureau markets by 1.04 percent, 0.98 percent, 0.95 per cent and 0.58 per cent averaging Le8,439.42/US\$1, Le8,684.21/US\$1, Le8,573.35/US\$1 and Le8,391.60/US\$1, respectively.

Similarly, on the selling front, the Leone depreciated in the official, commercial banks, parallel and bureau markets by 1.04 percent, 0.88 percent, 0.85 per cent and 0.24 per cent averaging Le8,609.91/US\$1, Le8,700.70/US\$1, Le8,773.68/US\$1 and Le8,533.25/US\$1 respectively.

The premium between the official and parallel rates narrowed by 0.06 percentage points to Le244.79/US\$1 in February, 2019 from Le247.13/US\$1 in January, 2019 (Figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: Research Department, BSL

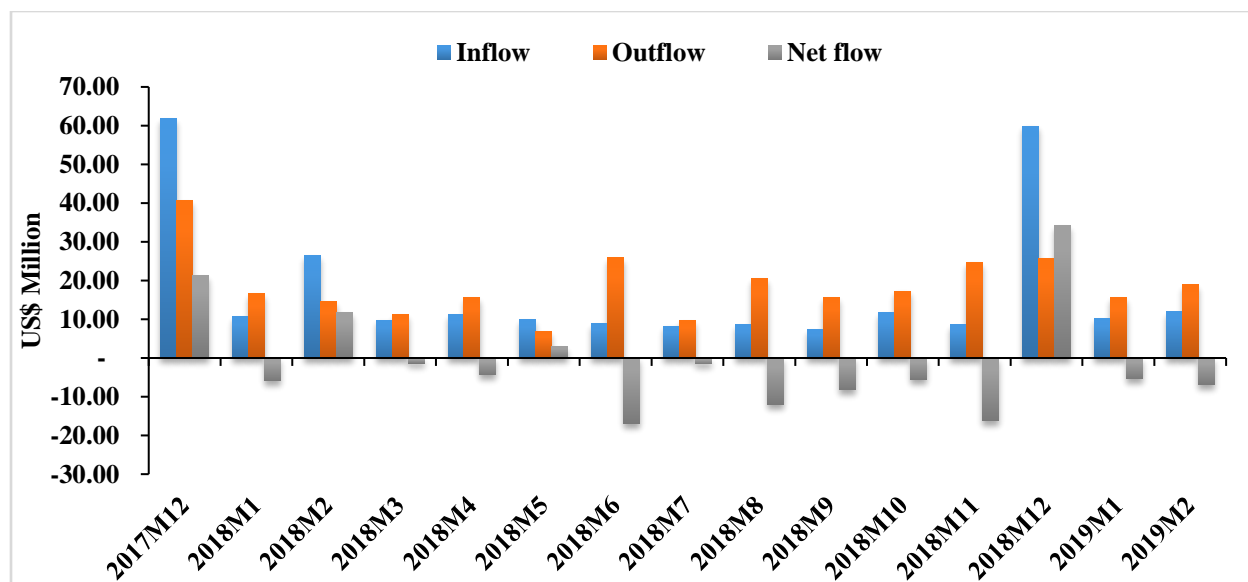
6.0 Gross Foreign Exchange Reserves

The gross foreign exchange reserves of the Bank of Sierra Leone declined by 1.23 per cent to US\$494.11mn in February 2019 from US\$500.27mn in January 2019. This development was driven by the increase in outflows of US\$18.89mn over inflows of US\$11.95mn, resulting in a net outflow of US\$6.94mn.

Significant inflows comprised exports' receipts of US\$9.87mn, of which, US\$3.66mn was receipt from fishing royalties & licenses, US\$2.57mn was royalty payment from Sierra Rutile and US\$2.00mn was receipt from timber exports. Other receipts amounted to US\$2.08mn, comprising receipts from the mineral resource, income tax and marine resource treasury accounts, as well as interest earned by BSL on various matured repos.

Significant outflows comprised US\$15.29mn, being payments for goods and services, of which, US\$8.00mn was in respect of interbank market operations, US\$1.80mn was payments to embassies/missions, expenditure on various infrastructure projects amounted to US\$2.67mn, government travels & other expenditures amounted to US\$1.28mn and US\$1.04mn was subscription to various international organisations. Total debt service payments for the period was US\$3.60mn.

Figure 8: Foreign Exchange Flows



Source: Research Department, BSL