



BANK OF SIERRA LEONE

**Monthly Economic
Review**

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Review**

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

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ABBREVIATIONS

BSL	-	Bank of Sierra Leone
ECF	-	Extended Credit Facility
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
RM	-	Reserve Money
SDF	-	Standing Deposit Facility
SLF	-	Standing Lending Facility
Y-o-Y	-	Year-on-Year

1.0 Highlights

The production performance in the manufacturing sector was mixed in July 2019, as beer & stout, maltina, cement and common soap recorded increases in production, while output for paint, acetylene, oxygen and confectionery declined. In the mining sector, the production of diamond and ilmenite expanded, while that for bauxite and rutile declined. Electricity generation increased due to improved performance in hydropower generation during the reporting period.

Headline inflation increased to 14.89 percent in July 2019 from 14.65 percent in June 2019. This development was mainly driven by food inflation, while non-food inflation moderated during the month. Food inflation increased to 7.68 percent in July 2019 from 6.63 percent in June 2019. However, non-food inflation slowed to 23.08 percent in July 2019 from 25.32 percent in June 2019.

Government fiscal operations resulted in an overall deficit of Le280.98bn in July 2019 when compared to Le120.18bn in June 2019. The widening deficit was attributable to the combined effects of an expansion in government spending and a contraction in revenue mobilisation during the month.

Monetary Policy Rate (MPR) remained unchanged at 16.50 percent. The interbank rate decreased to 18.16 percent in July 2019 from 18.27 percent in June 2019. The commercial banks' average Lending rate and Savings deposit rates remained unchanged at 21.35 percent and 2.38 percent respectively.

Monetary aggregates expanded in July 2019. Broad Money (M2) grew by 1.13 percent in July 2019 when compared to the 1.12 percent growth in June 2019. The expansion in M2 was a reflection of an increase in the Net Domestic Assets (NDA), which was more than the decline in the Net Foreign Assets (NFA) of the banking system. Reserve Money (RM) grew slightly by 0.62 percent in July 2019 from the 0.47 percent decline in June 2019. The growth in Reserve Money was mainly attributed to the increase in Net Domestic Assets (NDA), which outweighed the decline in Net Foreign Assets (NFA) of the Central Bank.

The gross foreign exchange reserves of the Bank of Sierra Leone increased by 1.93 percent to US\$542.15mn in July 2019 from US\$531.86mn in June 2019. Total inflows was US\$31.65mn while outflows recorded US\$17.45mn, resulting to a net inflow of US\$14.20mn.

The average buying and selling exchange rate of the Leone against the US dollar (USD) depreciated in all foreign exchange markets in the month of July 2019. This development was reflected in the widening of the premium between the Official and Parallel rates.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

The production performance in the manufacturing sector was mixed in July 2019, as beer & stout, maltina, cement and common soap recorded increases in production, while output for paint, acetylene, oxygen and confectionery declined. Beer & stout and maltina rose by 16.23 percent to 154.33 thousand cartons and 4.50 percent to 26.71 thousand cartons respectively. Similarly, production of cement and common soap grew by 6.73 percent to 33.92 thousand metric tons and 11.95 percent to 59.96 thousand metric tons.

On the other hand, production of acetylene and oxygen declined by 9.53 percent to 24.98 thousand cubic feet and by 14.31 percent to 26.34 thousand cubic feet respectively. Production of confectionery also fell by 16.04 percent to 204.4 thousand pounds.

2.1.2 Mining Sector

In the mining sector, diamond production expanded by 38.06 percent to 80.74 thousand carats, and included 34.17 thousand carats of industrial and 46.57 thousand carats of gem. Bauxite and rutile production recorded declines by 27.4 percent to 121.82 thousand metric tons and by 11.8 percent to 10.4 thousand metric tons respectively. However, ilmenite production grew by 3.1 percent to 5.03 thousand metric tons, and gold production increased to 281.84 ounces in July 2019 from 36.51 ounces in June 2019.

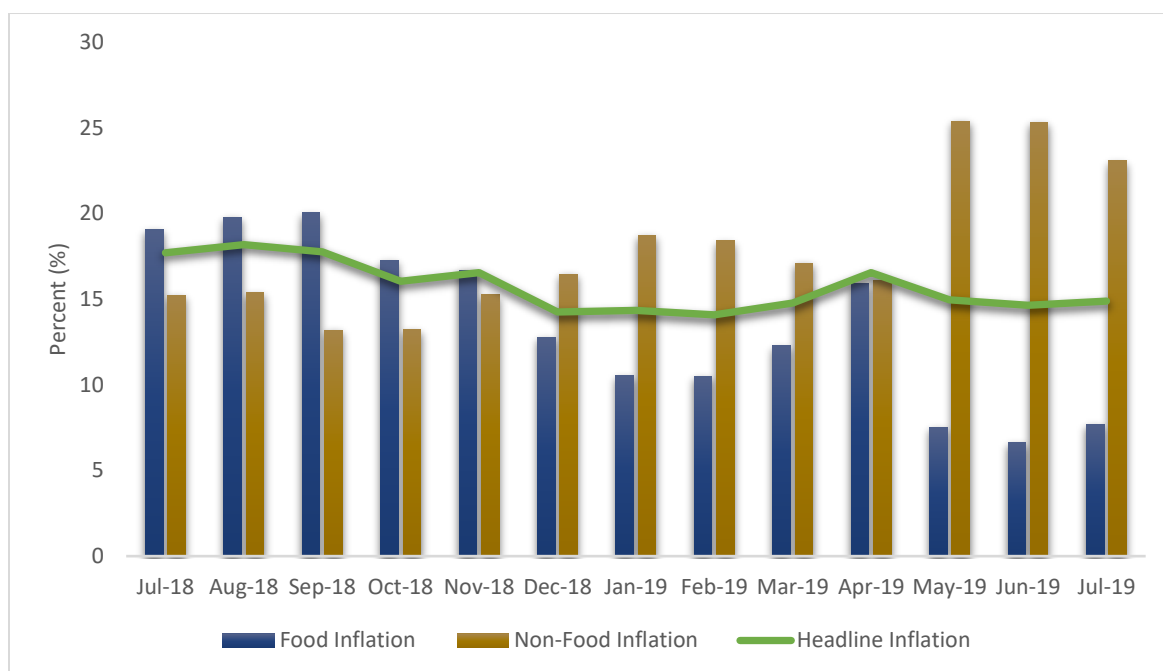
2.1.3 Electricity

Total electricity generated stood at 25.45 gw/hr, representing an increase in generation by 118.27 percent. The significant increase in generation was mainly driven by generation from hydro power, which rose to 24.7 Gw/hr from 10.75 Gw/hr last month. However, thermal power generation fell to 0.835 Gw/hr from 0.995 Gw/hr last month.

2.2 Price Development

Headline inflation increased to 14.89 percent in July 2019 from 14.65 percent in June 2019. This development was mainly driven by food inflation, while non-food inflation moderated during the month. Food inflation increased to 7.68 percent in July 2019 from 6.63 percent in June 2019. However, non-food inflation slowed to 23.08 percent in July 2019 from 25.32 percent in June 2019.

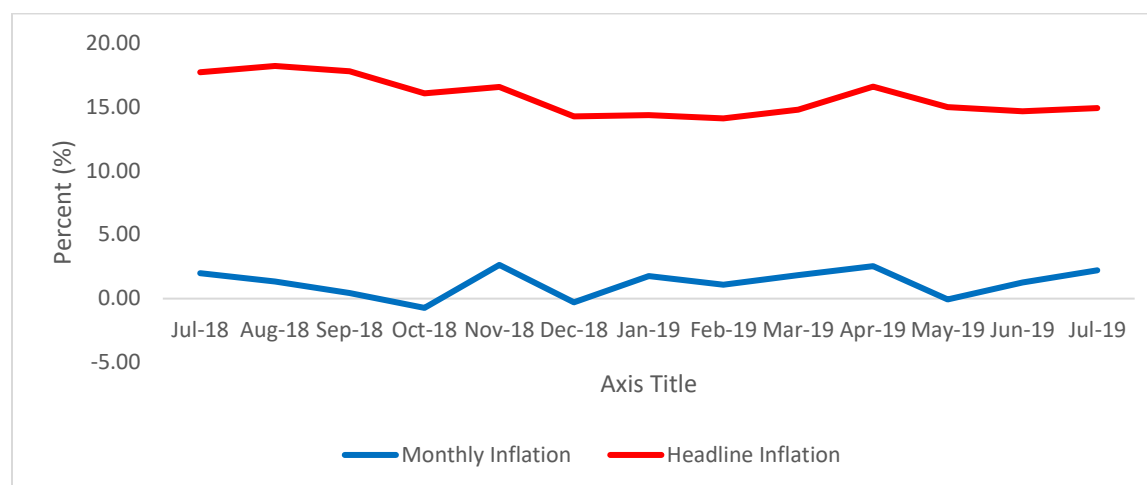
Figure 1: Headline, Food and Non-Food Inflation



Source: Research Department, Bank of Sierra Leone

On a month-on-month basis, consumer price inflation increased to 2.21 percent in July 2019 from 1.26 percent in June 2019, indicating price build-up.

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



Source: Research Department, Bank of Sierra Leone

On regional basis, year-on-year inflation increased across all regions but the Western Area, in which inflation declined to 12.20 percent in July 2019 from 14.1 percent in June 2019. Inflation in the Eastern region went up to 20.54 percent in July 2019 from 17.74 percent in June 2019; Southern region inflation increased to 15.05 percent in July 2019 from 13.807 percent in June 2019; and Northern region inflation rate rose to 16.27 percent in July from 14.45 percent in June 2019.

3.0 Government Budgetary Operations

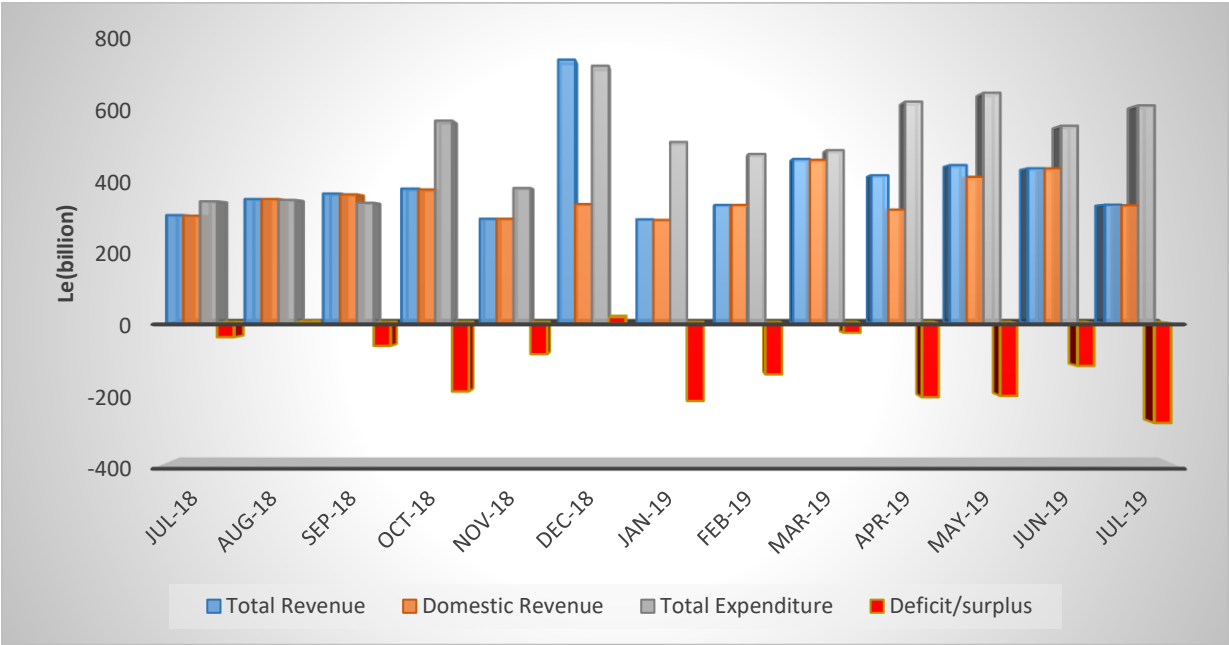
Government fiscal operations in July 2019 resulted in an overall deficit of Le280.98bn compared to Le120.18bn in June 2019. The widening deficit was attributable to the combined effects of an expansion in government spending and a contraction in revenue mobilisation during the period.

3.1 Revenues

Government revenue contracted by 23.5 percent to Le335.55bn and was 36.79 percent below the budgeted target of Le530.82bn mainly due to the decline in domestic revenue mobilization while there was no donor disbursement during the review period.

Domestic revenue fell by 23.80 percent to Le333.91bn, on account of a fall in collection from income tax, goods and services tax and miscellaneous sources (non-tax). Receipts from Income tax fell by 47.07 percent to Le97.94bn, Goods and Services tax slowed by 3.08 percent to Le82.92bn, and Non-tax revenue (miscellaneous) declined by 16.56 percent to Le94.24bn. On the other hand, receipts from Customs and Excise duties rose by 7.59 percent to Le58.8bn.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditures

Government expenditure expanded by 10.33 percent to Le616.53bn, due to increases in pensions, wages and salaries (wage bill) and debt services payments. Expenditure on Pensions, wages and salaries more than double to Le265.73bn. Debt services payments rose by 36.06 percent to Le163.92bn, of which domestic debt services amounted to Le74.46bn and foreign debt services

payment amounted to Le89.21bn. However, other expenditure declined by 40.75 percent to Le186.88bn.

3.3 Financing

The overall deficit of Le280.98bn was financed entirely from domestic sources.

4.0 Monetary Developments

Developments in monetary aggregates were expansionary during the month of July 2019, as both Broad Money (M2) and Reserve Money (RM) increased marginally.

4.1 Broad Money

Broad Money (M2) expanded by 1.31 percent in July 2019, compared to the 1.12 percent growth in June 2019. The outturn was explained by an increase in Net Domestic Assets (NDA) of the banking system which was more than the decline in Net Foreign Assets (NFA) of the banking system.

NDA of the banking system expanded by 4.97 percent in July 2019, from 1.49 percent growth in June 2019. The increase in NDA was mainly on account of disbursement of IMF on lending to government coupled with commercial Banks' uptake of government securities to support fiscal operations. Meanwhile, Credit to the Private Sector remained flat.

NFA of the banking system contracted by 7.82 percent in July 2019, relative to the 0.21 percent increase in June 2019. The contraction in NFA was a reflection of settlement of foreign liabilities in respect of debt service payments, embassy payments and payments for various infrastructure projects.

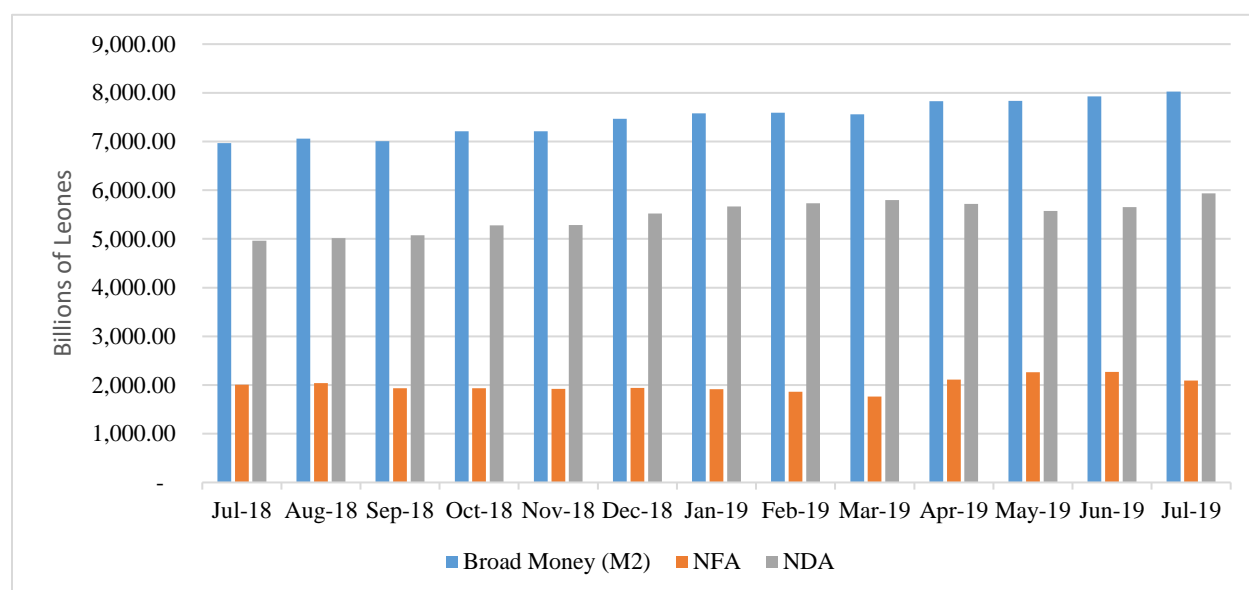
Table 1: Broad Money and its Components

Billions of Leones	2019		Absolute Change		(% Change)	
	Jun-19	Jul-19	Jun-19	Jul-19	Jun-19	Jul-19
Reserve Money	2,363.96	2,378.69	11.08	14.73	0.47	0.62
Broad Money (M2)	7,924.48	8,028.27	87.62	103.79	1.12	1.31
Narrow Money (M1)	3,613.64	3,759.18	101.01	145.54	2.88	4.03
Currency outside banks	1,720.79	1,675.29	(53.83)	(45.51)	(3.03)	(2.64)
Demand deposit	1,892.85	2,083.89	154.83	191.05	8.91	10.09
Quasi Money	4,310.84	4,269.09	(13.38)	(41.75)	(0.31)	(0.97)
o.w. Foreign currency deposits	2,230.55	2,407.45	41.42	176.90	1.89	7.93
Time and saving deposit	2,076.04	1,857.30	(54.85)	(218.74)	(2.57)	(10.54)
Net Foreign Asset	2,268.17	2,090.77	4.79	(177.41)	0.21	(7.82)
BSL	458.83	429.89	15.66	(28.94)	3.53	(6.31)
ODCs	1,809.34	1,660.88	(10.87)	(148.46)	(0.60)	(8.21)
Net Domestic Assets	5,656.31	5,937.50	82.83	281.20	1.49	4.97
Net Domestic Credit	7,541.33	7,833.32	133.44	291.99	1.80	3.87
Government (Net)	5,416.82	5,675.21	110.77	258.39	2.09	4.77
Private Sector	2,180.71	2,179.21	17.65	(1.50)	0.82	(0.07)
o.w. BSL	32.53	30.95	(0.10)	(1.58)	(0.31)	(4.87)
ODCs	2,148.19	2,148.27	17.75	0.08	0.83	0.00
Other Sectors (Net)*	(56.21)	(21.11)	5.02	35.10	(8.20)	(62.45)
Other Items (Net)	(1,885.01)	(1,895.81)	(50.61)	(10.80)	2.76	0.57
Money Multiplier	3.35	3.38				

Source: Research Department, Bank of Sierra Leone

*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 of the balance sheet, M2 growth was a reflection of expansion in Narrow Money (M1), while Quasi Money decreased in July 2019. M1 increased by 4.03 percent in July 2019 from 2.88 percent growth in June 2019. The growth in M1 was a reflection of the 10.09 percent increase in demand deposits which was moderated by the 2.64 percent decrease in currency outside banks. Quasi Money contracted by 0.97 percent in July 2019, relative to the 0.31 percent decrease in June 2019, mainly due to the 10.54 percent decline in Time and savings deposits, while Foreign currency deposits increased by 7.93 percent during the same period.

4.2 Reserve Money

Reserve Money (RM) grew marginally by 0.62 percent in July 2019, compared to the 0.47 percent increase in June 2019. The growth in RM was mainly attributed to an increase in Net Domestic Assets (NDA) of the Central Bank, which outweighed the decrease in Net Foreign Assets (NFA) of the Central Bank. NDA increased by 2.19 percent and was mainly due to disbursement of IMF on lending to government for budgetary support. NFA of the Central Bank contracted by 6.31 percent on account of increased outflows to settle foreign liabilities.

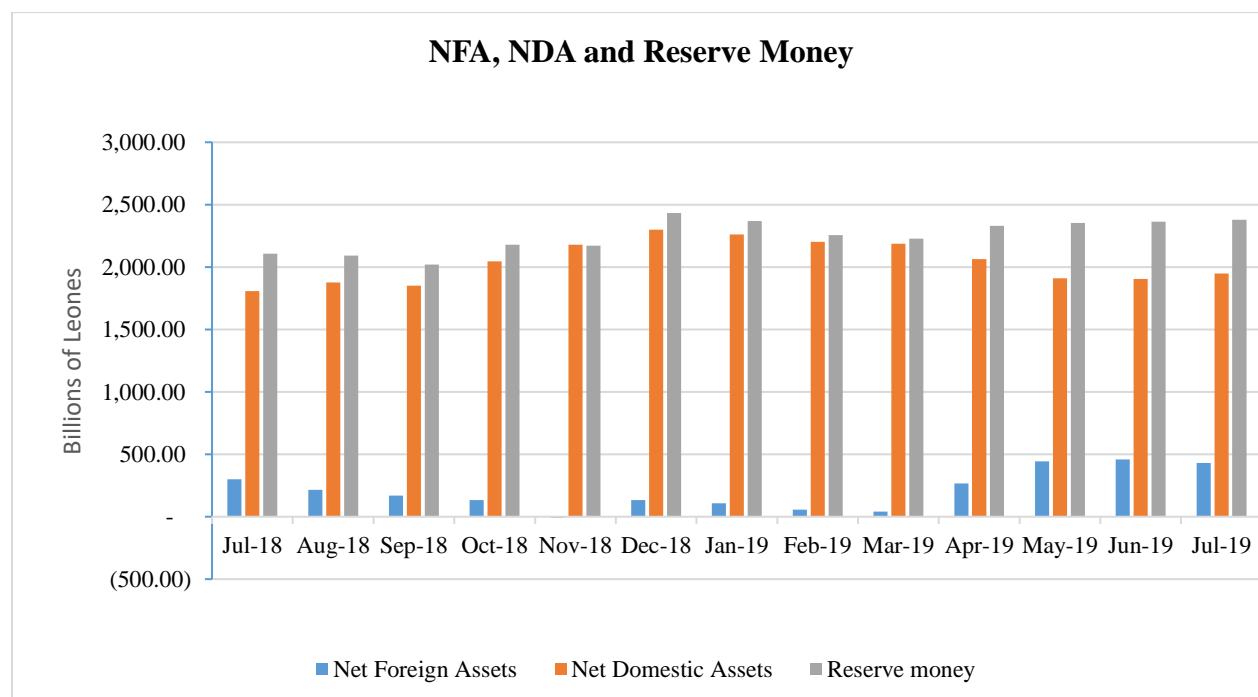
On the liability side of the balance sheet, RM grew on account of 16.21 percent increase in Banks' reserves which was more than the 2.33 percent decline in Currency issued.

Table 2: Reserve Money and its Components

Billions of Leones	2019		Absolute change		(% Change	
	Jun-19	Jul-19	Jun-19	Jul-19	Jun-19	Jul-19
1. Net Foreign Assets	458.83	429.89	15.66	(28.94)	3.53	(6.31)
2. Net Domestic Assets	1,905.12	1,948.80	(4.58)	43.67	(0.24)	2.29
2.1 Government Borrowing (net)	2,280.21	2,352.91	50.07	72.69	2.24	3.19
o.w. 2.11 Securities	1,119.19	1,046.18	(18.57)	(73.02)	(1.63)	(6.52)
2.12 Ways and Means	185.13	181.55	64.53	(3.58)	53.51	(1.93)
2.13 GoSL/IMF Budget financing	1,171.54	1,294.80	0.00	123.26	0.00	10.52
3. Reserve money	2,363.96	2,378.69	11.08	14.73	0.47	0.62
o.w. 3.1 Currency issued	1,983.75	1,937.43	6.61	(46.32)	0.33	(2.33)
3.2 Bank reserves	375.97	436.92	4.42	60.96	1.19	16.21

Source: Research Department, BSL

Figure 5: Reserve Money and its Sources

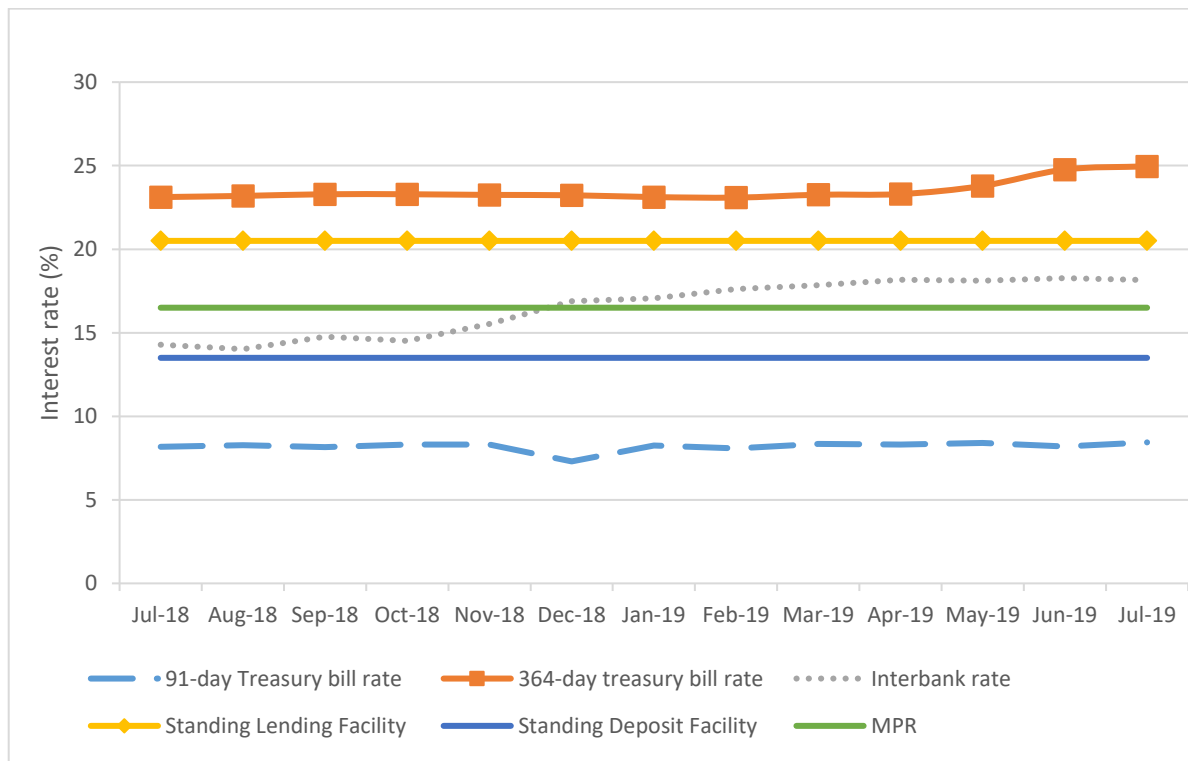


Source: Research Department, BSL

4.3 Interest Rates

The Monetary Policy rate of the Bank remained unchanged at 16.50 percent in July 2019. The Standing Lending Facility (SLF) and Standing Deposit Facility (SDF) rates remained unchanged at 20.50 percent and 13.50 percent respectively. The interbank rate at which commercial banks trade among themselves decreased to 18.16 percent in July 2019. The commercial banks' average Lending and Savings deposit rates remained unchanged at 21.35 percent and 2.38 percent, respectively.

Figure 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

Interest rate developments in the money market exhibited an upward trend during the review period. The yields on the 91-days, 182-days and 364-days Treasury bills increased from 8.20 percent, 7.13 percent and 24.77 percent in June 2019, to 8.44 percent, 8.54 percent and 24.96 in July 2019, respectively.

Table 3: Interest Rates (%)

	2018						2019						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
91-day T-Bills	8.18	8.28	8.16	8.30	8.30	7.30	8.26	8.08	8.35	8.30	8.41	8.20	8.44
182-day T-Bills	8.40	8.09	6.04	7.86	6.22	8.14	8.42	8.40	8.23	8.20	7.23	7.13	8.54
364-day T-Bills	23.12	23.19	23.29	23.29	23.25	23.23	23.12	23.09	23.26	23.30	23.79	24.77	24.96
Interbank rate	14.28	14.02	14.76	14.51	15.53	16.88	17.07	17.61	17.84	18.18	18.12	18.27	18.16
Standing Lending Facility	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50	20.50
Standing Deposit Facility	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50
MPR	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50
Average Lending rate	21.35 17.92	21.345	21.345	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35	21.35
Lending (Prime)	- 24.77	17.92 -24.77	17.92 -24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 24.77	17.92- 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

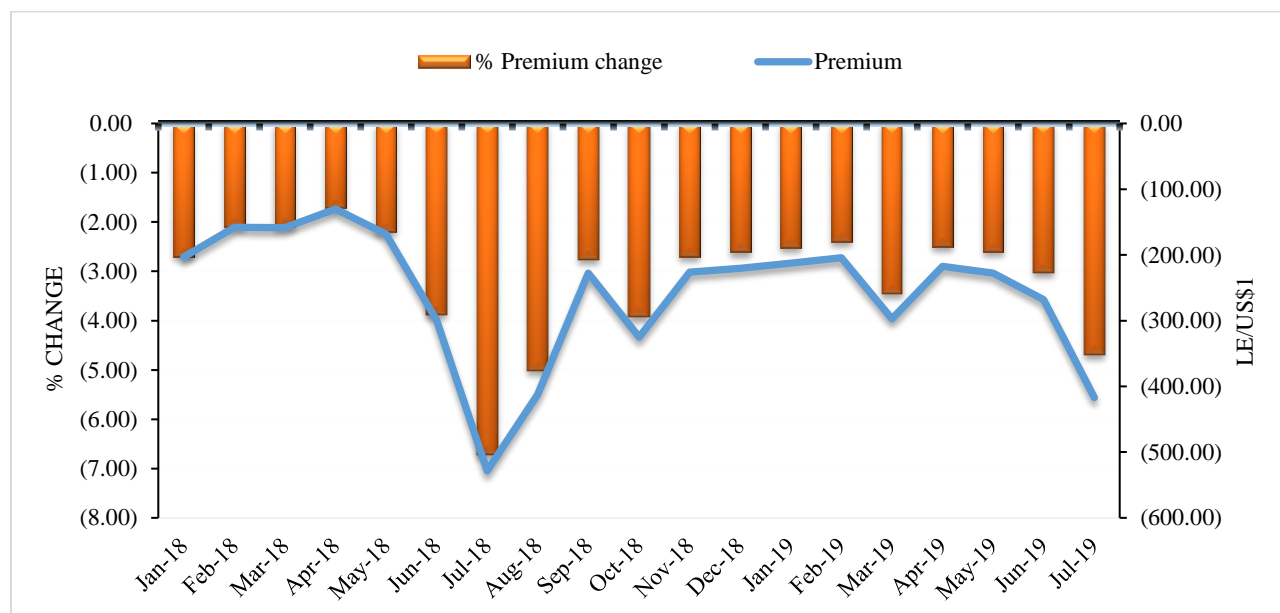
5.0 Exchange Rate Developments

In July 2019, the average buying and selling exchange rates of the Leone vis-à-vis the US dollar, depreciated in all foreign exchange markets. On the buying segment, the Leone depreciated in parallel, official, commercial banks and bureau markets by 2.85 percent, 0.91 percent, 0.86 percent and 0.86 percent averaging Le9,313.04/US\$1, Le8,817.72/US\$1, Le8,957.26/US\$1 and Le8,774.77/US\$1, respectively.

Similarly, the selling rates depreciated in the parallel market, commercial banks, official and bureau markets by 2.20 percent, 0.97 percent, 0.90 percent and 0.58 percent averaging Le9,334.78/US\$1, Le9,079.94/US\$1, Le8,995.65/US\$1 and Le8,904.84/US\$1 respectively.

The average premium between the official and parallel rates widened by 1.65 percentage points to Le417.23/US\$1 in July, 2019 from Le267.89/US\$1 in June, 2019 (See figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: Research Department, BSL

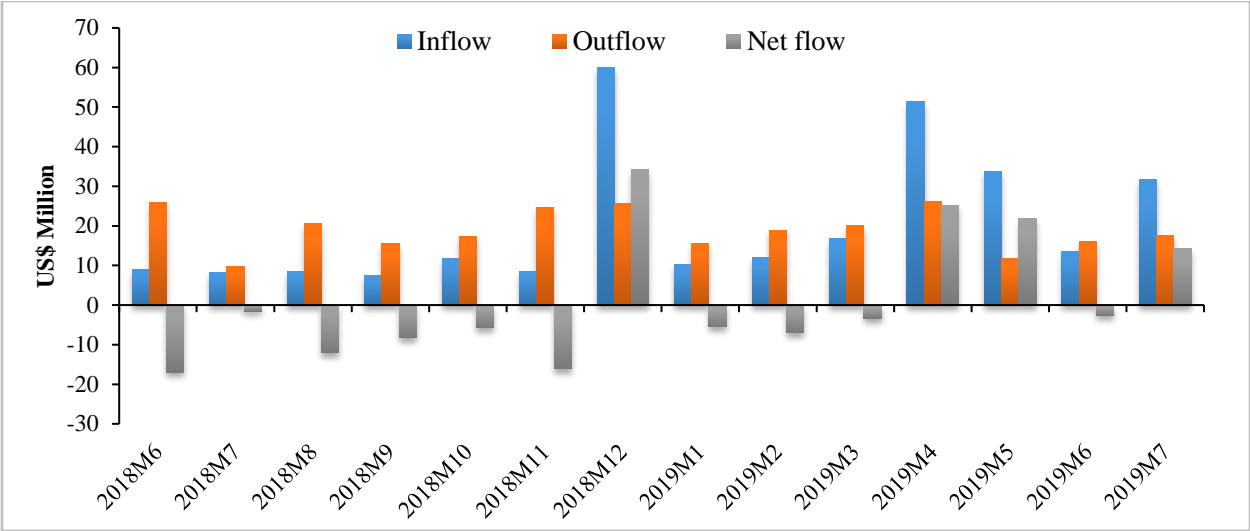
6.0 Gross Foreign Exchange Reserves

The gross foreign exchange reserves of the Bank of Sierra Leone increased by 1.93 percent to US\$542.15mn in July 2019 from US\$531.86mn in June 2019. Total inflows was US\$31.65mn while outflows recorded US\$17.45mn, resulting to a net inflow of US\$14.20mn.

Significant inflows consisted mainly IMF BOP support and budget financing (US\$21.55mn), exports receipts (US\$6.81mn) of which; royalty payment from Sierra Rutile (US\$1.98mn), Timber exports (US\$1.71mn), Koidu holdings (US\$0.97mn, diamond license fees (US\$0.55mn) and other mining receipts (US\$0.65mn). Other inflows include interest earned by BSL from investment abroad (US\$0.98mn), other government receipts (US\$1.36mn) and receipts of funds by order of Sierra Rutile, Iluka investment BVI and SLMA (US\$0.68mn).

Significant outflows comprised payments for goods and services of totaling US\$10.37mn, of which; interbank market operations (US\$3.00mn), embassies/missions (US\$2.44mn), other government payments (US\$3.81mn) and government travel (US\$0.63mn). Other outflows included debt service payments mainly to IMF (US\$2.30mn) and other bilateral and multilateral creditors (US\$4.45mn).

Figure 8: Foreign Exchange Flows



Source: Research Department, BSL