



BANK OF SIERRA LEONE

**Monthly Economic
Review**

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Review**

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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 |
| USD | - | United States Dollar |
| WB | - | World Bank |
| Y-o-Y | - | Year-on-Year |

1.0 Highlights

Production performance in the manufacturing and mining sectors were mixed in June 2019. Both the manufacturing and mining sectors recorded increases in Beer, Stout, Cement, Acetylene, Confectionery, rutile and ilmenite. On the other hand, decreases in production from both sectors were exhibited in items such as Maltina, Paint, Oxygen, Common soap, diamond, bauxite and gold. Electricity generation increased and this was as a result of the improved performance in hydropower generation during the reporting period.

Fiscal deficit narrow down during the month of June 2019. It reduced to Le120.18bn in June 2019 when compared to Le204.64bn in May 2019, and this was as a result of the fall in government expenditure, which more than out-weighed the decline in revenue generation during the review period.

Monetary policy rate in June 2019 remained unchanged at 16.50 per cent. The interbank rate increased from 18.12 per cent in May 2019 to 18.27 per cent in June 2019, but was within the Policy Corridor. The commercial banks' average Lending and Savings deposit rates remained unchanged at 21.35 per cent and 2.38 per cent respectively.

An expansion in monetary aggregate was experienced in June 2019, as Broad Money (M2) grew by 1.12 per cent relative to the 0.12 per cent increase in May 2019. The expansion in M2 was a reflection of increase in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system. Reserve Money (RM) growth moderated to 0.47 per cent in June 2019, from 0.94 per cent in May 2019. The growth in Reserve Money was mainly attributed to the increase in Net Foreign Assets (NFA) of the Bank of Sierra Leone, which was more than the decrease in Net Domestic Assets (NDA).

The gross foreign exchange reserves of the Bank of Sierra Leone decreased by 0.15 per cent to US\$531.86mn in June 2019, from US\$532.66mn recorded in May 2019. This was due to a net outflow of US\$2.55mn, with a revaluation gain of US\$1.75mn.

The monthly average exchange rate of the Leone against the US dollar in June 2019 depreciated in all foreign exchange markets. This developments was reflected in the widening of the premium between the Official and Parallel exchange rates.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

Performance in the manufacturing sector was mixed in June 2019, as production increases were recorded for Beer and Stout, Cement, Acetylene and Confectionery, while production declined for Maltina, Paint, Oxygen and Common soap. Beer and stout production rose by 9.06 per cent to 132.78 thousand cartons; Cement production grew by 1.34 per cent to 31.78 thousand metric tons; Acetylene was up by 6.19 per cent to 27.61 thousand cubic feet, and Confectionery production increased by 19.23 per cent to 243.45 thousand pounds.

On the other hand, Maltina production slowed by 10.03 per cent to 25.56 thousand cartons; paint production declined by 2.32 per cent to 50 thousand gallons, Oxygen dropped by 3.94 per cent to 30.74 thousand cubic feet, and Common soap decreased by 1 per cent to 53.56 thousand metric tons.

2.1.2 Mining Sector

In the mining sector, production increases occurred for Rutile and Ilmenite, while Diamond, Bauxite and Gold recorded declines in production during the month.

Diamond production fell by 43.34 per cent to 58.48 thousand carats, which comprised of 27.4 thousand carats of industrial and 31.08 thousand carats of gem. Similarly, Bauxite production dropped by 14.96 per cent to 167.75 thousand metric tons, and Gold production slowed by 80.15 per cent to 36.51 ounces. However, Rutile and Ilmenite production increased by 23.97 per cent to 11.79 thousand metric tons and 4.05 per cent to 4.88 thousand metric tons respectively.

2.1.3 Electricity

Electricity generation in June 2019 was 11.7Gw/hr, representing an increase of 32.8 per cent. The total generation comprised 0.95Gw/hr from thermal plants and 10.75Gw/hr from hydropower. The growth in the overall generation for the month was mainly driven by the hydropower plants which grew by 43.3 per cent, while thermal generation dropped by 27.4 per cent.

3.0 Government Budgetary Operations

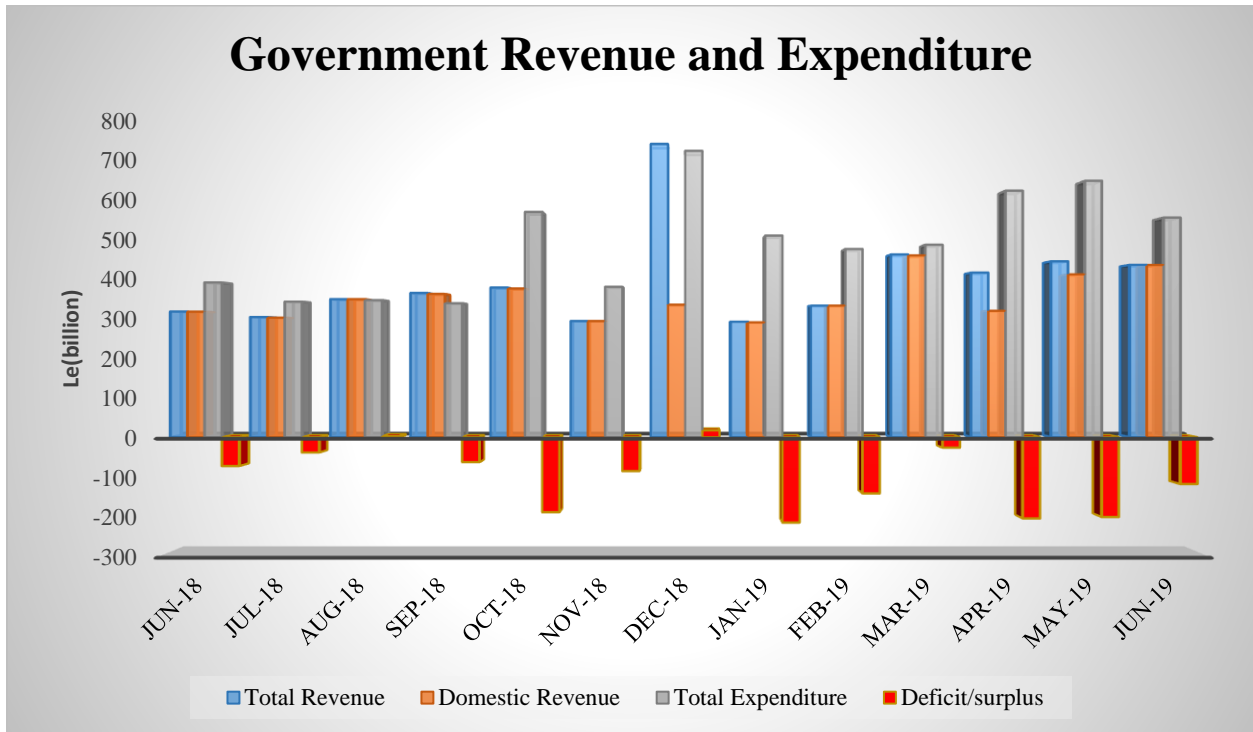
Government fiscal operations in June 2019 resulted in a deficit of Le120.18bn compared to Le204.64bn deficit in May 2019. The improvement in the fiscal deficit was a reflection of the fall in government expenditure, which more than offset the decline in revenue collection.

3.1 Revenues

Government total revenue (including grants) contracted by 2.02 per cent to Le 438.61bn, explained by a significant reduction in external grants from Le33.27bn in May 2019 to Le0.40bn in June 2019. On the other hand, domestic revenue expanded by 5.76 per cent to Le438.21bn, mainly driven by an increase in income tax collection and miscellaneous sources. Revenue from Income Tax Department grew by 31.86 per cent to Le185.05bn, while receipts from miscellaneous collection grew by 8.16 per cent to Le112.95bn.

On the other hand, receipts from customs and excise fell by 21.80 per cent to Le54.65bn, while revenue from goods and services tax declined by 14.18 per cent to Le85.56bn.

Figure 1: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditures

Government expenditure declined by 14.33 per cent to Le558.79bn driven mainly by contraction in payments for pensions, wages and salaries. Pensions, wages and salaries dropped by 17.70 per cent to Le122.92bn. However, treasury expenses for goods and services rose by 13.11 per cent to Le296.76bn.

In contrast, debt service payments expanded by 28.78 per cent to Le120.48bn, which was made up of Le70.75bn domestic debt service and Le49.73bn foreign debt services payments.

3.3 Financing

The overall deficit of Le120.18bn was largely financed from domestic resources.

4.0 Monetary Developments

Monetary aggregates were expansionary during the month of June 2019, as both Broad Money (M2) and Reserve Money (RM) increased.

4.1 Broad Money

Broad Money (M2) grew by 1.12 per cent in June 2019, relative to 0.12 per cent increase in May 2019. The expansion in M2 was as a reflection of increase in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system.

Growth in NFA of the banking system slowed down to 0.21 per cent in June 2019, which was less than the 7.21 per cent increase in May 2019. The marginal increase in NFA was mainly on account of receipt of funds from timber exports and interest earned by BSL from foreign investment.

NDA of the banking system expanded by 1.49 per cent in June 2019, compared with the 2.50 per cent decline recorded in May 2019. This development was mainly driven by increased borrowings from the banking system. Growth in Private Sector credit by commercial banks slowed down to 0.83 per cent in June 2019, from 2.11 per cent in May 2019.

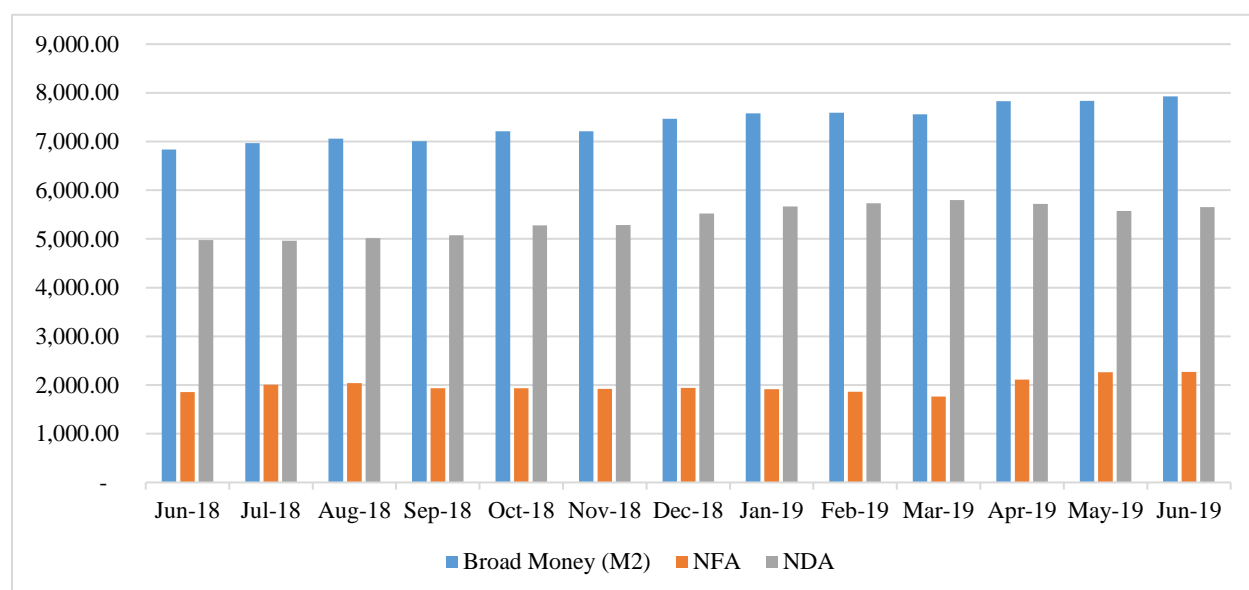
Table 1: Broad Money and its Components

| Billions of Leones | 2019 | | Absolute Change | | (% Change) | |
|--------------------------------|------------|------------|-----------------|---------|------------|--------|
| | May-19 | Jun-19 | May-19 | Jun-19 | May-19 | Jun-19 |
| Reserve Money | 2,352.88 | 2,363.96 | 21.93 | 11.08 | 0.94 | 0.47 |
| Broad Money (M2) | 7,836.86 | 7,924.48 | 9.13 | 87.62 | 0.12 | 1.12 |
| Narrow Money (M1) | 3,512.64 | 3,613.64 | (4.14) | 101.01 | (0.12) | 2.88 |
| Currency outside banks | 1,774.62 | 1,720.79 | 29.37 | (53.83) | 1.68 | (3.03) |
| Demand deposit | 1,738.02 | 1,892.85 | (33.51) | 154.83 | (1.89) | 8.91 |
| Quasi Money | 4,324.22 | 4,310.84 | 13.77 | (13.38) | 0.31 | (0.31) |
| o.w. Foreign currency deposits | 2,189.13 | 2,230.55 | (14.28) | 41.42 | (0.65) | 1.89 |
| Time and saving deposit | 2,130.89 | 2,076.04 | 28.05 | (54.85) | 1.33 | (2.57) |
| Net Foreign Asset | 2,263.38 | 2,268.17 | 152.13 | 4.79 | 7.21 | 0.21 |
| BSL | 443.17 | 458.83 | 175.31 | 15.66 | 65.45 | 3.53 |
| ODCs | 1,820.21 | 1,809.34 | (23.18) | (10.87) | (1.26) | (0.60) |
| Net Domestic Assets | 5,573.48 | 5,656.31 | (143.01) | 82.83 | (2.50) | 1.49 |
| Net Domestic Credit | 7,407.89 | 7,541.33 | (130.99) | 133.44 | (1.74) | 1.80 |
| Government (Net) | 5,306.05 | 5,416.82 | (187.18) | 110.77 | (3.41) | 2.09 |
| Private Sector | 2,163.07 | 2,180.71 | 43.23 | 17.65 | 2.04 | 0.82 |
| o.w. BSL | 32.63 | 32.53 | (0.86) | (0.10) | (2.57) | (0.31) |
| ODCs | 2,130.44 | 2,148.19 | 44.09 | 17.75 | 2.11 | 0.83 |
| Other Sectors (Net)* | (61.23) | (56.21) | 12.96 | 5.02 | (17.47) | (8.20) |
| Other Items (Net) | (1,834.41) | (1,885.01) | (12.02) | (50.61) | 0.66 | 2.76 |
| Money Multiplier | 3.33 | 3.35 | | | | |

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

Source: Research Department, BSL.

Figure 2: Trends in M2, NFA and NDA



Source: Research Department, BSL

From the liability side, the expansion in M2 was attributed to increase in Narrow Money (M1), which grew by 2.88 per cent in June 2019 compared with the 0.12 per cent decrease in May 2019. The growth in M1 was a reflection of 8.91 per cent increase in demand deposits, which more than outweighed the 3.03 per cent decline in currency outside banks. Quasi Money on the other hand contracted by 0.31 per cent in June 2019, relative to the 0.31 per cent increase in May 2019. The contraction of Quasi Money was as a result of the 2.57 per cent decline in Time and Savings deposits; while Foreign currency deposits increased by 1.89 per cent during the same period.

4.2 Reserve Money

Reserve Money (RM) growth moderated to 0.47 per cent in June 2019, from 0.94 per cent in May 2019. RM grew mainly as a result of increase in Net Foreign Assets (NFA) of the Bank of Sierra Leone, which was more than the decrease in Net Domestic Assets (NDA). NFA increased by 3.53 per cent, mainly driven by interest earned from foreign investment by BSL and funds from timber export. NDA contracted by 0.24 per cent due to decrease in BSL holdings of Government Securities.

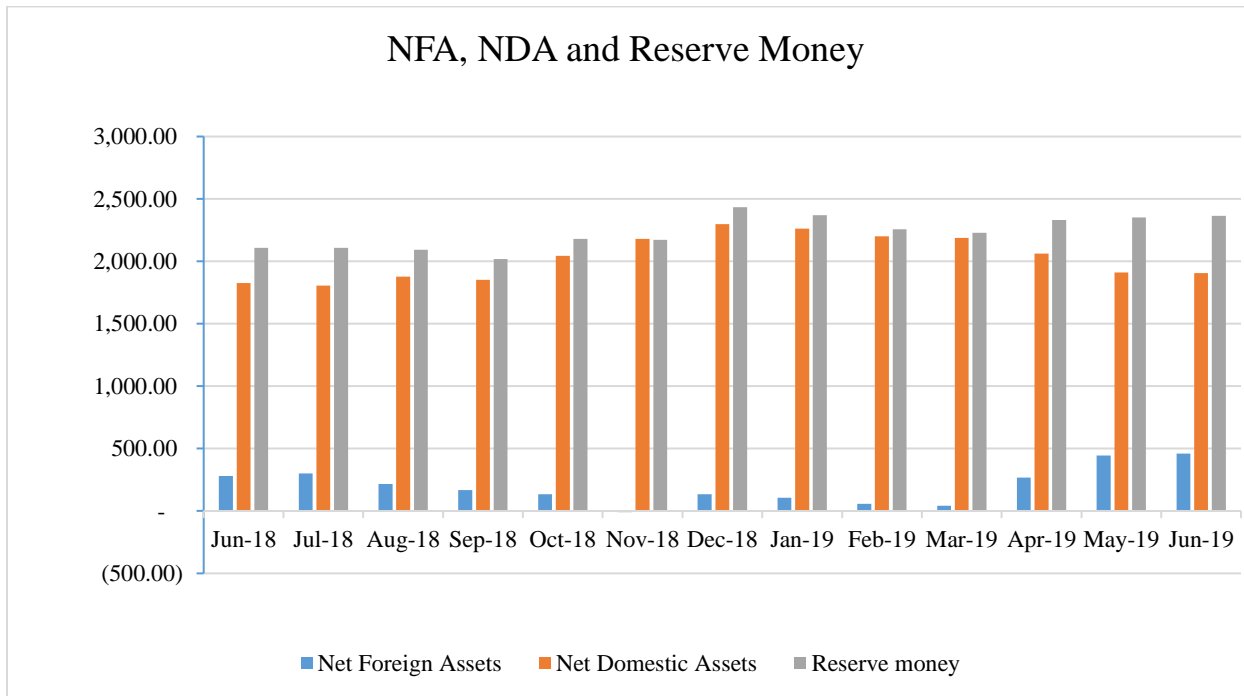
From the liabilities side, the growth in RM was due to expansion in both the Banks' reserves and Currency issued by 1.19 per cent and 0.33 per cent respectively.

Table 2: Reserve Money and its Components

| Billions of Leones | 2019 | | Absolute change | | (%) Change | |
|--------------------------------|-----------------|-----------------|-----------------|---------------|---------------|---------------|
| | May-19 | Jun-19 | May-19 | Jun-19 | May-19 | Jun-19 |
| 1. Net Foreign Assets | 443.17 | 458.83 | 175.31 | 15.66 | 65.45 | 3.53 |
| 2. Net Domestic Assets | 1,909.70 | 1,905.12 | (153.39) | (4.58) | (7.43) | (0.24) |
| 2.1 Government Borrowing (net) | 2,230.15 | 2,280.21 | (158.71) | 50.07 | (6.64) | 2.24 |
| o.w. 2.11 Securities | 1,137.76 | 1,119.19 | (17.22) | (18.57) | (1.49) | (1.63) |
| 2.12 Ways and Means | 120.60 | 185.13 | (9.10) | 64.53 | (7.02) | 53.51 |
| 2.13 GoSL/IMF Budget financing | 1,171.54 | 1,171.54 | (146.73) | 0.00 | (11.13) | 0.00 |
| 3. Reserve money | 2,352.88 | 2,363.96 | 21.93 | 11.08 | 0.94 | 0.47 |
| o.w. 3.1 Currency issued | 1,977.14 | 1,983.75 | 3.03 | 6.61 | 0.15 | 0.33 |
| 3.2 Bank reserves | 371.54 | 375.97 | 19.40 | 4.42 | 5.51 | 1.19 |

Source: Research Department, BSL

Figure 3: Reserve Money and its Sources

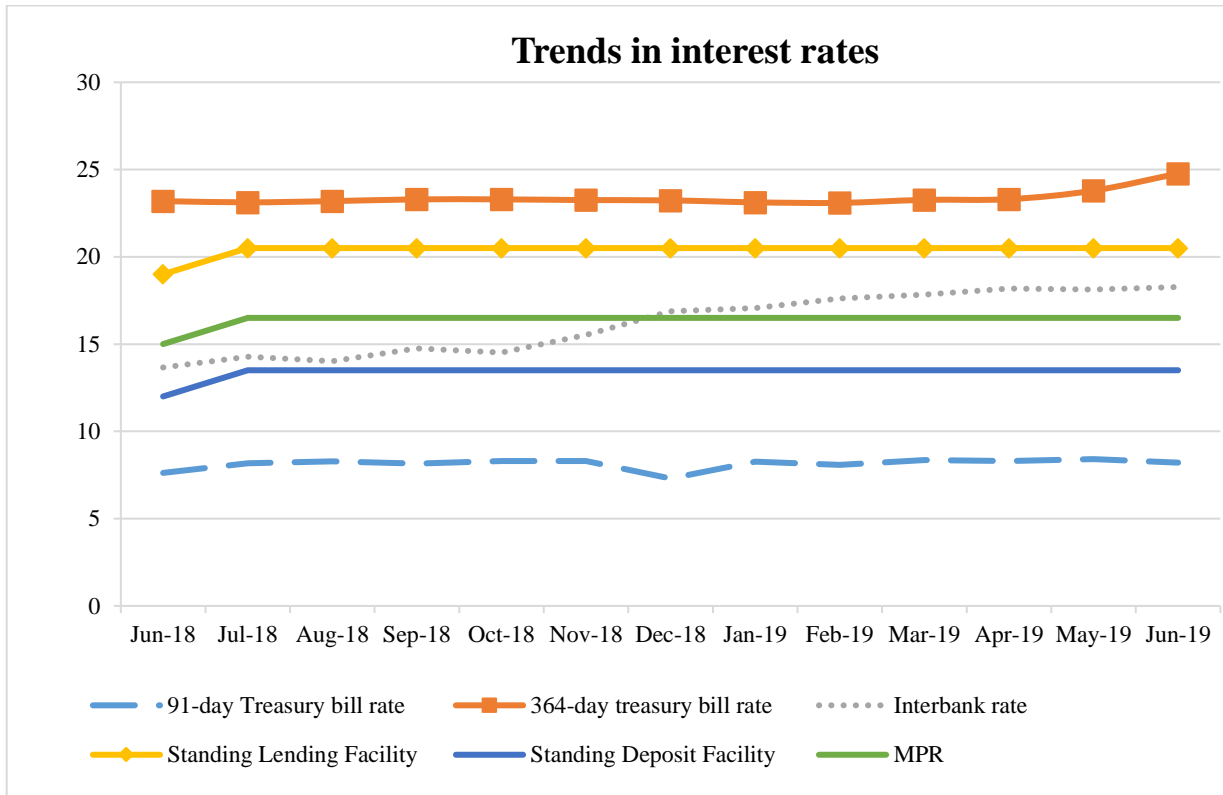


Source: Research Department, BSL

4.3 Interest Rates

The Monetary Policy rate of the Bank remained unchanged at 16.50 per cent in June 2019. The Standing Lending and Deposit Facility rates remained unchanged at 20.50 per cent and 13.50 per cent respectively. The interbank rate increased from 18.12 per cent in May 2019 to 18.27 per cent in June 2019, but was within the Policy Corridor. The commercial banks' average Lending and Savings deposit rates remained unchanged at 21.35 per cent and 2.38 per cent, respectively.

Figure 4: Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

The trends in the yields on government securities were mixed during the review period. The yields on the 91-days and 182-days Treasury bills decreased from 8.41 per cent and 7.23 per cent in May 2019, to 8.20 per cent and 7.13 per cent in June 2019 respectively. However, the yield on the 364-days Treasury bills increased from 23.79 per cent to 24.77 per cent during the same period.

Table 3: Interest Rates (%)

| | 2018 | | | | | | | 2019 | | | | | |
|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
| 91-day T-Bills | 7.62 | 8.18 | 8.28 | 8.16 | 8.30 | 8.30 | 7.30 | 8.26 | 8.08 | 8.35 | 8.30 | 8.41 | 8.20 |
| 182-day T-Bills | 8.20 | 8.40 | 8.09 | 6.04 | 7.86 | 6.22 | 8.14 | 8.42 | 8.40 | 8.23 | 8.20 | 7.23 | 7.13 |
| 364-day T-Bills | 23.19 | 23.12 | 23.19 | 23.29 | 23.29 | 23.25 | 23.23 | 23.12 | 23.09 | 23.26 | 23.30 | 23.79 | 24.77 |
| Interbank rate | 13.66 | 14.28 | 14.02 | 14.76 | 14.51 | 15.53 | 16.88 | 17.07 | 17.61 | 17.84 | 18.18 | 18.12 | 18.27 |
| Standing Lending Facility | 19.00 | 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 | 12.00 | 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 | 15.00 | 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 | 21.35 | 21.345 | 21.345 | 21.35 | 21.35 | 21.35 | 21.35 | 21.35 | 21.35 | 21.35 | 21.35 | 21.35 |
| Lending (Prime) | 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 | 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

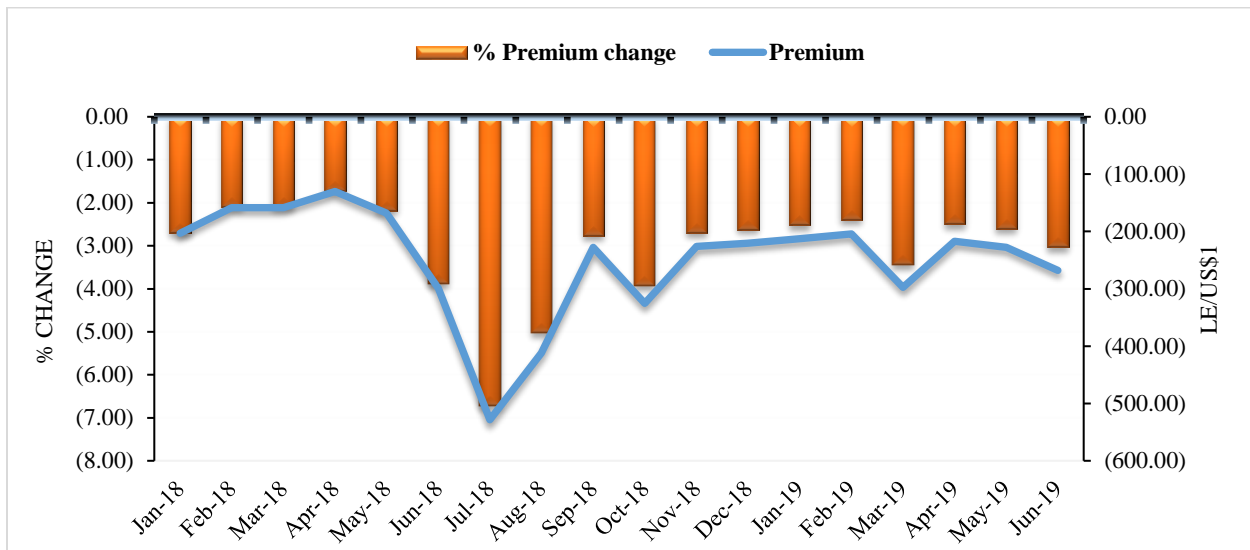
5.0 Exchange Rate Developments

The average exchange rate of the Leone against the US dollar in June 2019 depreciated in all foreign exchange markets. On the buying segment, the Leone depreciated in parallel, bureau, commercial banks and official markets by 0.97 per cent, 0.85 per cent, 0.74 per cent and 0.70 per cent, averaging Le9,055.26/US\$1, Le8,699.92/US\$1, Le8,880.68/US\$1 and Le8,738.57/US\$1 respectively.

Similarly, on the selling segment, the Leone depreciated in the parallel market, bureau, official and commercial banks by 1.29 per cent, 1.24 per cent, 0.70 per cent and 0.68 per cent, averaging Le9,134.21/US\$1, Le8,853.15/US\$1, Le8,915.12/US\$1 and Le8,992.90/US\$1 respectively.

The premium between the Official and Parallel rates widened by 0.44 percentage points to Le267.89/US\$1 in June, 2019 from Le227.82/US\$1 in May, 2019 (See figure 5).

Figure 5: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

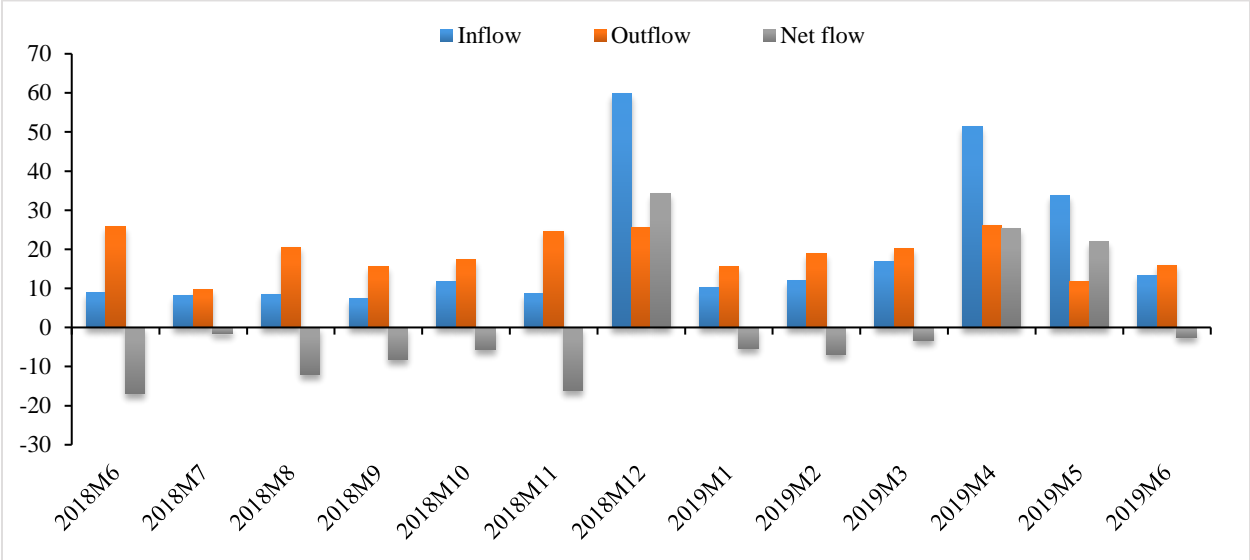
6.0 Gross Foreign Exchange Reserves

The gross foreign exchange reserves of the Bank of Sierra Leone as at end-June 2019 was US\$531.86mn, declining by 0.15 per cent from the US\$532.66mn recorded in May 2019. Inflows amounted to US\$13.41mn, while outflows totaled US\$15.96mn, reflecting a net outflow of US\$2.55mn with a revaluation gain of US\$1.75mn.

Significant inflows included exports' receipts US\$11.26mn, of which, US\$5.63mn, US\$1.13mn and US\$0.66mn being royalty payments from Sierra Rutile, Shandong and Koidu Holdings mining companies respectively; US\$ 3.23mn being receipts from timber exports and other receipts amounting to US\$2.15mn, comprising other government receipts (foreign travel tax, GST/PAYE from KPMG and African Railway Port Service charges (US\$1.48mn)) and interest earned on BSL investments abroad.

Significant outflows comprised payments for goods and services of US\$5.90mn of which, US\$2.81mn was payments to embassies/missions, US\$1.09mn was government travel and US\$1.00mn was expenditure on electricity, water and energy infrastructure projects. Total debt service payments for the period was US\$10.06mn.

Figure 6: Foreign Exchange Flows



Source: Bank of Sierra Leone