



BANK OF SIERRA LEONE

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BANK OF SIERRA LEONE

MONTHLY ECONOMIC REVIEW

MARCH 2017

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CONTENTS

1.0	Highlights	1
2.0	Real Sector Development	2
2.1	Mining	2
2.2	Manufacturing	2
2.3	Electricity Generation	2
3.0	Price Developments	3
4.0	Government Budgetary Operations	4
5.0	Monetary Developments	5
5.1	Broad Money	5
5.2	Reserve Money	7
5.3	Interest Rates	8
6.0	Exchange Rate Developments	9
7.0	Gross External Reserves	10

List of Charts

Chart 1: Food and Non Food Inflation Component of Inflation (year-on-Year)	3
Chart 2: Headline Inflation	3
Chart 3: M2 and its Sources	6
Chart 4: Reserve Money and its Sources	7
Chart 5: Monetary Policy Rate and other Market Rates	8

List of Tables

Table 1: Money Supply and its Components	6
Table 2: Reserve Money and Its Components	8
Table 3: Interest Rates	9

ABBREVIATIONS

AfDB	-	African Development Bank
BOP	-	Balance of Payments
BSL	-	Bank of Sierra Leone
CPI	-	Consumer Price Index
GoSL	-	Government of Sierra Leone
GW/hr	-	Giga-Watts Per Hour
HIPC	-	Heavily Indebted Poor Countries
IDA	-	International Development Association
IMF	-	International Monetary Fund
M2	-	Broad Money
MER	-	Monthly Economic Review
MPC	-	Monetary Policy Committee
MPR	-	Monetary Policy Rate
NDA	-	Net Domestic Assets
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
WB	-	World Bank

1.0 Highlights

The domestic economy continued on its recovery path, with economic activity remaining uneven across key sectors. Latest data indicates that real sector outturns remained largely mixed in March 2017.

The inflationary pressure continued during the month as national year-on-year inflation increased to 20.22 per cent at end March 2017 from 19.82 per cent at end February 2017, reflecting price pressures in both the food and non-food categories of the consumer basket. In response to the price development, the monetary Policy Committee (MPC) at its quarter one 2017 meeting increased the monetary policy rate to 12 per cent from 11 per cent in the previous quarter.

On the fiscal front, though total revenue collection and external grants received improved during the month of March 2017, the overall fiscal deficit on cash basis widened significantly to Le80.52bn from a deficit of Le9.01bn in February 2017, on account of a significant increase in total expenditure during the review month.

The gross external reserves of the Central Bank of Sierra Leone was recorded at US\$457.47mn at end March 2017, indicating a further decline of 3.98 per cent compared to US\$476.41mn recorded at end February 2017, attributed to total outflows of US\$30.48mn far outweighing total inflows of US\$7.10mn. The monthly average exchange rate movement of the Leone to the U.S dollar showed a mixed trend in all the foreign exchange channels in March 2017.

There were also some positive developments during the month aimed at improving the socio-economic environment.

- ECOWAS Commission, West African Monetary Agency (WAMA) and West African Monetary Institute (WAMI) conducted a Joint Multilateral Surveillance Mission to Sierra Leone from March 27 to April 3, 2017, to assess the country's macroeconomic developments and status of convergence in 2016 within the framework of the ECOWAS Monetary Cooperation Programme (EMCP).
- On Wednesday 22nd March 2017, the Kuwaiti Fund for Arab Economic Development signed a loan agreement of US\$17 million with the Government of Sierra Leone for the construction of the Lumley – Tokeh road.

- The World Bank Group, through its agency, the International Development Association (IDA) provided a grant of US\$270,000 to Audit Service Sierra Leone (ASSL), aimed at strengthening its professional capacity for quality public sector audit.
- The Minister of Finance, Hon. Momodu Lamin Kargbo, and the Dutch Coordinator for Develop 2 Build (D2B), Tamar Schrofer, signed a EU700,000 grant agreement on Wednesday 22nd March, 2017 at the Treasury Building in Freetown, to support a study for the Greater Freetown Water Supply and Sanitation Master Plan and Investment .

2.0 Real Sector Developments

2.1 Mining

The mining sector recorded mixed developments during the reporting month. Production increases were realized in bauxite, rutile, iron ore and gold. Bauxite increased by 9.12 per cent to 164.12 thousand metric tons, rutile by 27.63 per cent to 14.18 thousand metric tons, iron ore by 30.28 per cent to 1,078.03 thousand metric tons and gold by 156.05 per cent to 241.63 ounces. However, diamond and ilmenite posted decreases in their production levels. Diamond production fell by 42.07 per cent to 23.45 thousand carats, comprising 12.89 thousand carats of gem diamonds and 10.56 thousand carats of industrial diamonds. Ilmenite production declined by 11.03 per cent to 3.47 thousand metric tons.

2.2 Manufacturing

The performance of the manufacturing sector was mixed during March 2017. Production increases were recorded for beer & stout, soft drinks, oxygen, confectionery and common soap, explained by demand and supply fundamentals. Output of beer & stout and soft drinks grew by 14.65 per cent to 81.37 thousand cartons and by 6.24 per cent to 83.81 thousand crates respectively.

Oxygen and confectionery increased by 5.16 per cent to 24.87 thousand cubic feet and by 3.93 per cent to 208.77 thousand pounds respectively. Similarly, common soap production grew by 2.76 per cent to 42.0 thousand metric tons. In the same period, production declines were recorded for maltina and acetylene, due to unavailability of raw material inputs. Maltina declined by 25.74 per cent to 27.94 thousand cartons, while acetylene dropped by 2.15 per cent to 18.66 thousand cubic feet.

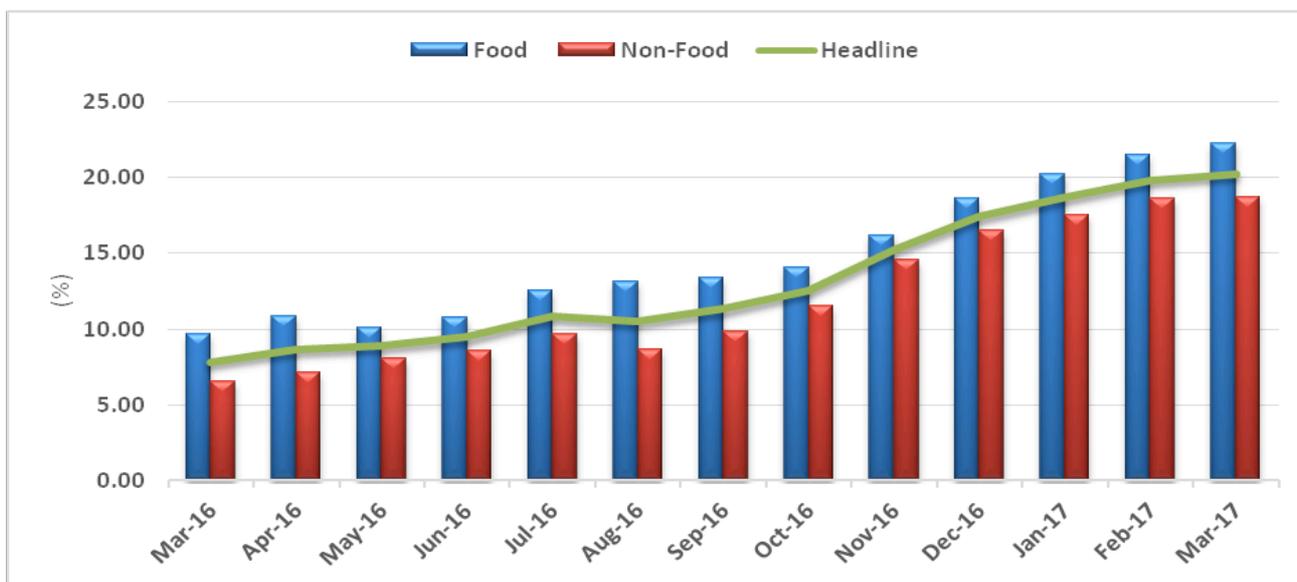
2.3 Electricity Generation

Electricity generated during the reporting month totalled 26.3 Gw/h, representing an increase of 8.4 per cent. This amount comprised 13.7 Gw/h from hydro plants and 12.6 Gw/h from thermal plants.

3.0 Price Developments

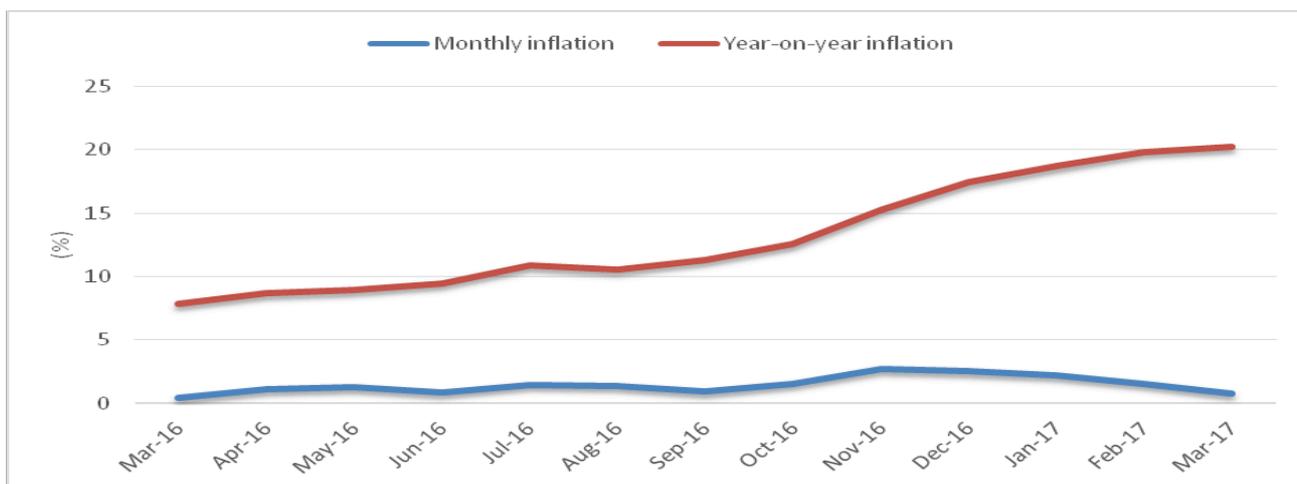
Inflationary pressures remained elevated in March 2017. Annual headline inflation increased to 20.22 per cent in March 2017 from 19.82 per cent in February, reflecting food supply shocks and the lag effect of the depreciation in the exchange rate on the prices of imported goods. Food supply shocks have been driven up by supply side shocks to agriculture, resulting in food inflation of 22.28 per cent in March from 21.5 per cent in February 2017. Similarly, non-food inflation rose to 18.74 per cent from 18.6 per cent.

Chart 1: Food and Non Food Component of Inflation (year-on-year)



Source: Research Dept., Bank of Sierra Leone

Chart 2: Headline Inflation



Source: Research Dept., Bank of Sierra Leone

Monthly inflation however dropped to 0.78 per cent in March from 1.59 per cent in February 2017.

On regional basis, annual headline inflation increased in all the regions. Inflation rose in the Western region to 20.16 per cent in March 2017 from 19.72 per cent in February 2017. Northern region to 21.61 per cent from 21.53 per cent, Eastern region to 22.08 per cent from 20.54 per cent and Southern region to 16.94 per cent from 16.36 per cent.

4.0 Government Budgetary Operations

Government budgetary operations culminated into a deficit of Le 80.52bn during the month of March 2017, wider than a deficit of Le9.01bn recorded in the previous month and the budgeted target of Le12.21bn.

Total revenue and grants increased by 31.68 per cent to Le268.51bn but was lower than the budgeted target of Le296.51bn by 9.34 per cent. The growth in total revenue in the review period was mainly attributable to an increase in domestic revenue. Domestic revenue grew by 30.64 per cent to Le266.38bn and was higher than the projected target of Le230.86bn by 15.39 per cent.

The growth in domestic revenue mobilization was reflected in all the tax categories with collection from customs and excise increasing by 19.26 per cent to Le45.10bn; receipts from income tax department by 47.51 per cent to Le94.37bn; income from goods and services tax by 12.10 per cent to Le65.32bn and non-tax revenue by 40.49 per cent to Le61.59bn. All the tax categories surpassed their respective budget targets except income tax department, which was below its target.

Foreign grants disbursed in respect of budgetary support from development partners in the review month amounted to Le2.12bn which was lower than the expected budgeted target of Le65.31bn by 96.75 per cent.

Government recurrent expenditure increased by 63.93 per cent to Le349.02bn and exceeded the ceiling of Le308.38bn by 13.18 per cent. The expansion in total spending was due to the increase in pension, wages and salaries from Le86.55bn to Le156.31bn, while other expenditure rose from Le68.83bn to Le139.50bn in the review period. Conversely, total debt services expenditure fell from Le57.52bn to Le53.21bn. Of this, domestic debt services reduced by 17.08 per cent to Le37.73bn while on the other hand, foreign debt services spending rose by 28.79 percent to Le15.48bn.

The overall fiscal deficit of Le 80.52bn was mainly financed from domestic resources.

5.0 Monetary Developments

The outcome of monetary developments was mixed in the month of March 2017.

5.1 Broad Money (M2)

Broad Money (M2) expanded by 1.01 per cent, reflecting growth in Net Domestic Assets (NDA) of the banking system which was however moderated by the contraction in Net Foreign Assets (NFA) of the banking system. NDA grew by 6.24 per cent and contributed 3.97 per cent to the growth in M2. On the other hand, NFA contracted by 8.12 per cent and decreased M2 growth by 2.96 per cent. The growth in NDA was mainly on account of a 4.95 per cent (Le170.58bn) extension of credit to government, coupled with a significant expansion of credit by 39.48 per cent (Le66.25bn) to other sectors including State and Local Government, Parastatals etc. However, outstanding credit to the private sector contracted by 1.72 per cent (Le23.22bn), partly attributed to the Le71.89bn liquidation of credit by some customers of commercial banks.

From the perspective of commercial banks, the contraction in NFA could be explained by the Le70.37bn increase in the foreign liabilities of commercial banks which more than outweighed the Le40.82bn increase in the foreign assets. The phenomenal growth in foreign liabilities of commercial banks emanated from the Le68.62bn foreign loan taken from their foreign counterpart banks. From the perspective of the central bank, the contraction in NFA could be partly attributed to the Le134.08bn drawdown in the foreign assets of the central bank in respect of settlement of foreign transactions including foreign exchange auction, transfers relating to Local Liquid Asset Requirement (LLAR), infrastructural investment etc.

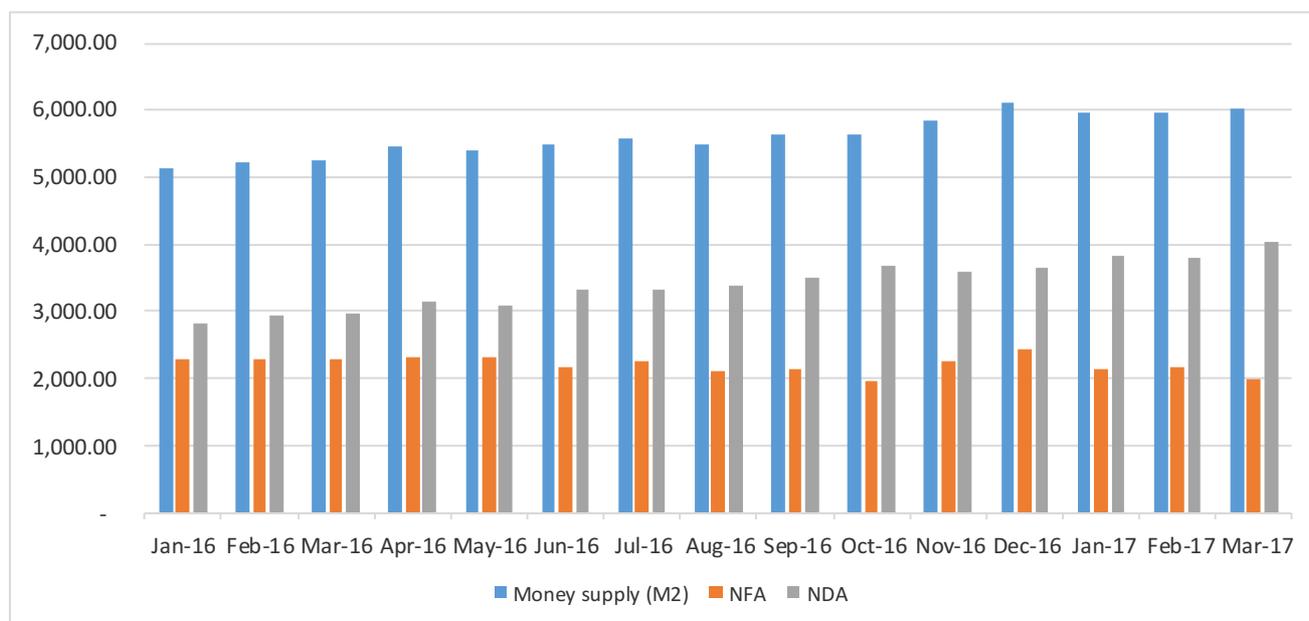
Table 1: Money Supply and its Components

	2017			Absolute change		% Change	
	Jan	Feb	Mar	Feb	Mar	Feb	Mar
Reserve money	2,037.70	2,085.01	2,038.44	47.31	(46.57)	2.32	(2.23)
Money supply (M2)	5,963.47	5,972.99	6,033.41	9.52	60.42	0.16	1.01
Narrow money (M1)	2,675.88	2,671.35	2,573.71	(4.53)	(97.64)	(0.17)	(3.66)
Currency outside banks	1,180.56	1,219.27	1,251.70	38.71	32.43	3.28	2.66
Demand deposit	1,495.32	1,452.08	1,322.01	(43.24)	(130.07)	(2.89)	(8.96)
Quasi money	3,287.59	3,301.64	3,459.52	14.05	157.88	0.43	4.78
o.w. Foreign currency deposit	1,551.61	1,666.14	1,745.04	114.53	78.90	7.38	4.74
Time and saving deposit	1,735.88	1,635.42	1,714.48	(100.46)	79.06	(5.79)	4.83
Net Foreign Asset	2,128.05	2,174.41	1,997.78	46.36	(176.63)	2.18	(8.12)
BSL	639.56	625.05	477.96	(14.51)	(147.09)	(2.27)	(23.53)
ODCs	1,488.49	1,549.36	1,519.82	60.87	(29.54)	4.09	(1.91)
Net Domestic Assets	3,835.42	3,798.58	4,035.63	(36.84)	237.05	(0.96)	6.24
o.w. Net Domestic Credit	4,974.70	4,966.79	5,180.40	(7.91)	213.61	(0.16)	4.30
Government (Net)	3,491.45	3,449.43	3,620.01	(42.02)	170.58	(1.20)	4.95
Private Sector	1,312.14	1,349.55	1,326.33	37.41	(23.22)	2.85	(1.72)
Other Sectors (Net)*	171.11	167.81	234.06	(3.30)	66.25	(1.93)	39.48
Other Items (Net)	(1,139.28)	(1,168.21)	(1,144.77)	(28.93)	23.44	2.54	(2.01)
Monthly RM growth	-2.76	2.32	-2.23				
Monthly M2 growth	-2.18	0.16	1.01				
Money Multiplier	2.93	2.86	2.96				

Source: Research Dept. Bank of Sierra Leone

* Other Sectors (Net) includes State & Local, Other Financial corporations, Public non-financial corp.

Chart 3: M2 and its Sources



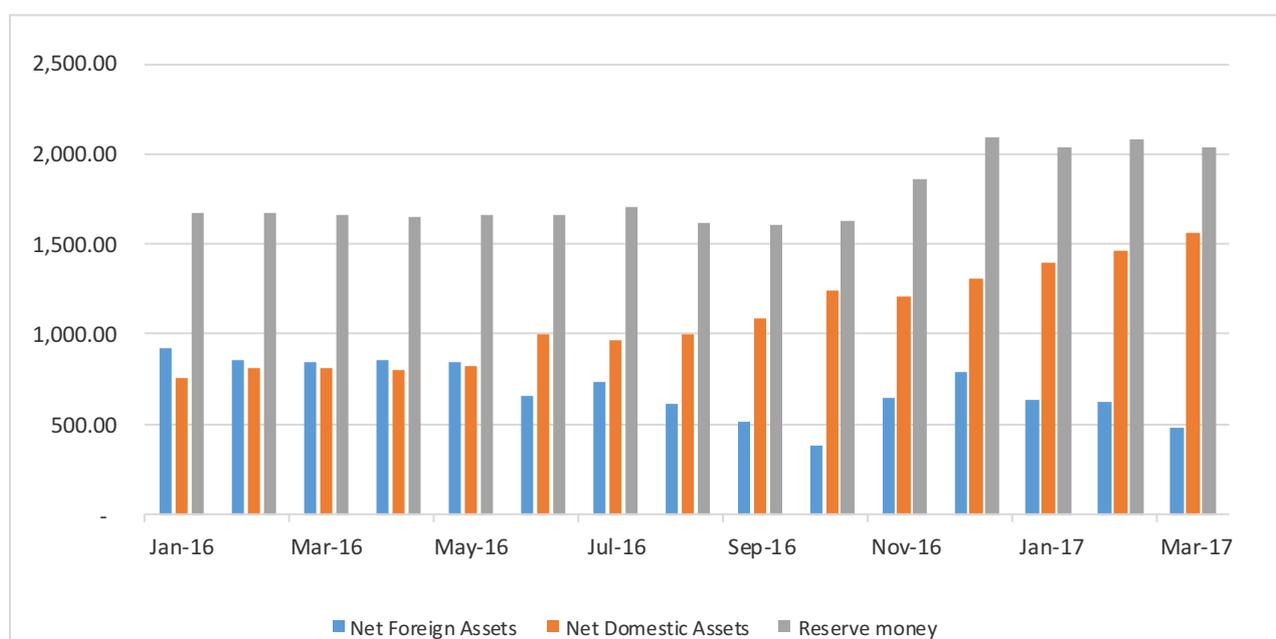
Source: Research Dept., Bank of Sierra Leone

On the liability side of the monetary survey, the growth in M2 was translated into a 4.78 per cent expansion in quasi money underpinned by growth in foreign currency deposit (4.74%), as well as time and saving deposit (4.83%). Although narrow money contracted by 3.66 per cent due to the 8.96 per cent decrease in demand deposit, currency outside banks increased by 2.66 per cent. The growth in currency outside banks, coupled with growth in quasi money suggests that there was increase in demand for money to support increase consumer and investment activities in the economy.

5.2 Reserve Money

Reserve Money contracted by 2.23 per cent in March 2017 from an initial growth of 2.32 per cent in the preceding month. The decrease in reserve money was mainly on account of the continued decline in the NFA of the BSL, contracting by 23.53 per cent (Le147.09bn) in March 2017, from 2.27 per cent in the preceding month. The contraction in NFA could be attributed to payments of foreign obligations, expenditures on infrastructural developments and wholesale foreign exchange auction. However, NDA of the BSL increased by 6.89 per cent from a growth of 4.42 per cent in February 2017. The growth in NDA was mainly as a result of the 11.84 per cent (Le96.56bn) growth in the holdings of government securities to finance fiscal operations.

Chart 4: Reserve Money and its Sources



Source: Research Dept., Bank of Sierra Leone

On the liability side, the contraction in reserve money translated into a 9.90 per cent (Le68.41bn) drawdown in Banks' reserves which outweighed the 1.56 per cent (Le21.76bn) increase in currency issued in the review period.

Table 2: Reserve Money and its Components

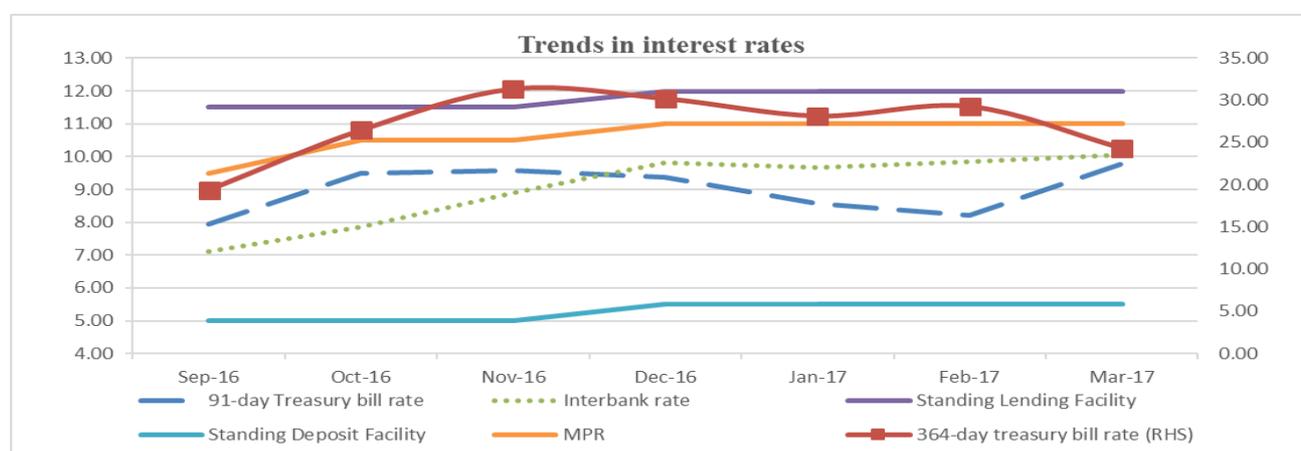
	2017			Absolute change		% Change	
	Jan	Feb	Mar	Feb	Mar	Feb	Mar
1. Net Foreign Assets	639.56	625.05	477.96	(14.51)	(147.09)	(2.27)	(23.53)
2. Net Domestic Assets	1,398.14	1,459.96	1,560.48	61.82	100.52	4.42	6.89
2.1 Government Borrowing (net)	1,686.80	1,714.81	1,788.18	28.01	73.37	1.66	4.28
o.w. 2.11 Securities	770.72	815.34	911.90	44.62	96.56	5.79	11.84
2.12 Ways and Means	183.24	177.37	167.29	(5.87)	(10.08)	(3.20)	(5.68)
2.13 GoSL/IMF Budget financing	880.82	880.82	880.82	-	-	-	-
3. Reserve money	2,037.70	2,085.01	2,038.44	47.31	(46.57)	2.32	(2.23)
o.w. 3.1 Currency issued	1,363.69	1,393.90	1,415.62	30.21	21.72	2.22	1.56
3.2 Bank reserves	674.11	691.17	622.76	17.06	(68.41)	2.53	(9.90)

Source: Research Dept. Bank of Sierra Leone

5.3 Interest Rates

The Monetary Policy Committee (MPC) at its Q1 meeting held on 30th March 2017, agreed to increase the Monetary Policy Rate (MPR) to 12 per cent from 11 per cent. The rates on the Standing Lending and Deposit facilities were 13 per cent and 6.50 per cent respectively. Reflecting liquidity tightness, the interbank market rate increased to 10.05 per cent in March 2017 from 9.86 per cent in February 2017, but was within the interest rate corridor of the BSL. However, commercial banks' lending and deposit rates continue to be irresponsive to the monetary policy rate. The rate on savings stood at 2.38 per cent and the average lending remains sticky downward at 21.35 per cent since November 2016.

Chart 5: Trends in Interest Rates



Source: Research Dept., Bank of Sierra Leone

Yields on government securities exhibited mixed trends. The yield on the 91-day treasury bill increased to 9.79 per cent in March 2017 from 8.20 per cent in February 2017. On the other hand, the yield on the 182-day treasury bills declined from 15.51 per cent in February 2017 to 13.54 per cent in March 2017. Similarly, the yield on the 364-day treasury bill decreased from 29.29 per cent in February 2017 to 24.31 per cent in March 2017.

Table 3: Interest rates (%)

	2016												2017		
	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
91-day Treasury bill rate	1.21	3.51	3.51	6.82	6.41	5.34	5.73	6.36	7.96	9.5	9.59	9.38	8.57	8.20	9.79
182-day Treasury bill rate	2.57	4.12	9.21	10.18	10.49	9.68	8.94	10.19	12.03	14.69	15.52	16.17	15.68	15.51	13.54
364-day treasury bill rate	13.41	16.12	18.96	23.48	24.97	17.51	17.89	17.29	19.34	26.47	31.38	30.22	28.16	29.29	24.31
Interbank rate	2.86	2.93	3.21	4.88	6.50	7.55	6.54	7.10	7.11	7.86	8.88	9.82	9.66	9.86	10.05
Standing Lending Facility	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	11.50	11.50	11.50	12.00	12.00	12.00	12.00
Standing Deposit Facility	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	5.00	5.00	5.00	5.50	5.50	5.50	5.50
MPR	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	10.50	10.50	11.00	11.00	11.00	11.00
Average Lending rate	21.46	21.46	21.54	21.54	21.54	21.54	21.54	21.54	20.69	20.86	21.35	21.35	21.35	21.35	21.35
Savings deposits	2.54	2.54	2.54	2.54	2.54	2.54	2.54	2.54	2.23	2.27	2.38	2.38	2.38	2.38	2.38

Source: Research Dept. Bank of Sierra Leone

6.0 Exchange Rate Developments

The monthly average exchange rate of the Leone to the U.S dollar on both the buying and selling fronts showed a mixed trend in all the foreign exchange channels in March 2017. The Leone stabilized in the review period on the backdrop of subdued demand pressures. On the buying front, the Leone appreciated against the U.S dollar in the bureau market by 0.14 per cent to Le7,121.30/US\$1 and the official channel by 0.03 per cent to Le7,178.51/US\$1. However, it depreciated in the commercial banks and parallel market channels by 0.16 per cent and 0.12 per cent to Le7,250.27/US\$1 and Le7,490.91/US\$1 successively.

Similarly on the selling front, the Leone appreciated by 0.03 per cent to Le7,323.53/US\$1 in the official channel while it depreciated in the auction, forex bureau and commercial banks channels by 0.45 per cent to Le7,365.50/US\$1, 0.30 per cent to Le7,300.26/US\$1 and 0.08 per cent to Le7,466.22/US\$1, respectively. The parallel market rate however remained unchanged at its level of Le7, 581.82/US\$1 in the review period.

The premium between the official and parallel market rates widened by 0.16 per cent from Le301.04/US\$1 in February 2017 to Le312.40/US\$1 in the review period.

7.0 **Gross External Reserves**

The stock of external reserves at end-March 2017 declined by 3.98 per cent to US\$457.47mn from the level of US\$476.41mn recorded in the preceding month. This development reflects a three uninterrupted monthly depletion in the stock position which is largely attributed to the increased intervention by the Bank of Sierra Leone in the foreign exchange market through the weekly foreign exchange auctions. Despite the increase in inflows in the review period, the rise in outflows was more than proportionate to offset the effect of foreign exchange inflows for the period.

Major inflows during the month included privatization receipts of US\$3.41mn and export receipts of US\$2.94mn, in respect of royalty payments and license fees from Rutile (Sierra Rutile), Fishing Royalties/license and other mining Receipts of US\$1.00mn and US\$0.68mn respectively.

Major outflows comprised payments for goods and services of US\$25.70mn, of which, US\$12.00mn and US\$4.41mn being amounts used by BSL in the weekly foreign exchange auction and the settlement of banking related issues successively. Other payments included: other government expenditures (US\$3.37mn); embassies/missions payments (US\$2.75mn) and printing of currency (US\$1.41mn), respectively. Additional outflows include debt service payments of US\$2.32mn, of which, World Bank accounted for US\$1.18mn, OPEC/OFID (US\$0.89mn) and IFAD (US\$0.20mn), respectively.