



BANK OF SIERRA LEONE

**Monthly Economic
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 sector were mixed in May 2019. Both the manufacturing and mining sectors recorded a decrease in items like Beer and Stout, Maltina, Oxygen, Cement, Paints and Bauxite. On the other hand, there was an increase in production in both sectors for items like Acetylene, Confectionery, Oxygen, Common soap, Gold and Diamonds.

Electricity generation declined due to low performance in both thermal plants and hydropower generation in the reporting period.

Fiscal deficit narrowed during the month of May 2019. It reduced to Le204.64bn in May 2019 as compared to Le208.27bn in April 2019. This development was as a result of the marginal improvement in revenue generation, which more than outweighed the increase in government expenditure during the review period.

Monetary policy rate in May 2019 remained unchanged at 16.50 per cent. The interbank rate decreased marginally from 18.18 per cent in April 2019 to 18.12 per cent in May 2019, but was within the Policy Corridor. The average Lending and Savings deposit rates remained unchanged at 21.35 per cent and 2.38 per cent respectively.

Growth in monetary aggregates slowed down in May 2019. Broad Money growth moderated by 0.14 per cent as compared to the 3.54 per cent expansion in April 2019. The slowdown in M2 was as a result of the contraction of NDA in the banking system. Reserve Money (RM) expanded by 0.94 per cent in May 2019 and this was lower than the 4.59 per cent growth recorded in April 2019. On the assets side, the growth in Reserve Money was mainly attributed to increase in Net Foreign Assets (NFA), which was more than the decrease in Net Domestic Assets (NDA) of the Bank of Sierra Leone. The increase in NFA was mainly due to the receipt of US\$20.69mn from African Development Bank in respect of the budget support. On the liabilities side, the growth in RM reflected increases in both Banks' Reserves and Currency issued.

The gross foreign exchange reserves of the Bank of Sierra Leone increased by 3.88 per cent to US\$532.66mn in May 2019 from US\$512.79mn recorded in April 2019. This was due to a net inflow of US\$21.92mn, with a revaluation loss of US\$2.05mn.

In May 2019, the average exchange rate of the Leone against the US dollar depreciated in all foreign exchange markets, on both the buying and selling fronts. 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

Production performance in the manufacturing sector was mixed during May 2019 as production of beer and stout, maltina, cement and paint declined, while acetylene, oxygen, confectionery and common soap increased. Beer and stout production decreased by 26.89 per cent to 121.75 thousand cartons; maltina production fell by 2.17 per cent to 28.41 thousand cartons; cement production dropped by 6.78 per cent to 31.36 thousand metric tons, while paint production declined by 31.80 per cent to 51.19 thousand gallons.

On the contrary, acetylene and oxygen production increased by 62.50 per cent to 26.00 thousand cubic feet and 23.08 per cent to 32.00 thousand cubic feet respectively. Confectionery and common soap production rose by 9.66 per cent to 204.19 thousand pounds and 2.09 per cent to 54.10 thousand metric tons respectively.

2.1.2 Mining Sector

The mining sector registered improved production performance during the month of May 2019, as increased performance were recorded for all mineral sub categories, but for bauxite production which declined. Diamond production grew from 24.07 thousand carats in April 2019 to 103.21 thousand carats in May 2019. Of this amount, industrial diamond amounted to 48.57 thousand carats and gem diamond amounted to 54.64 thousand carats. Similarly, rutile and Ilmenite production expanded by 46.53 per cent to 9.51 thousand metric tons and 32.49 per cent of 3.54 thousand metric tons respectively. Gold production increased by 56.22 per cent to 183.96 ounces. On the other hand, bauxite production fell by 8.87 per cent to 197.26 thousand metric tons.

2.1.3 Electricity

Electricity generated declined by 5.54 per cent to 8.81 Gw/hr compared to April 2019. The fall in overall generation was explained by the low performance in both thermal plants and hydropower generation in the reporting period. Total generation from thermal plants fell by 23.10 per cent to 1.311 Gw/hr, while hydro power generation decreased slightly by 1.61 per cent to 7.5 Gw/hr.

3.0 Government Budgetary Operations

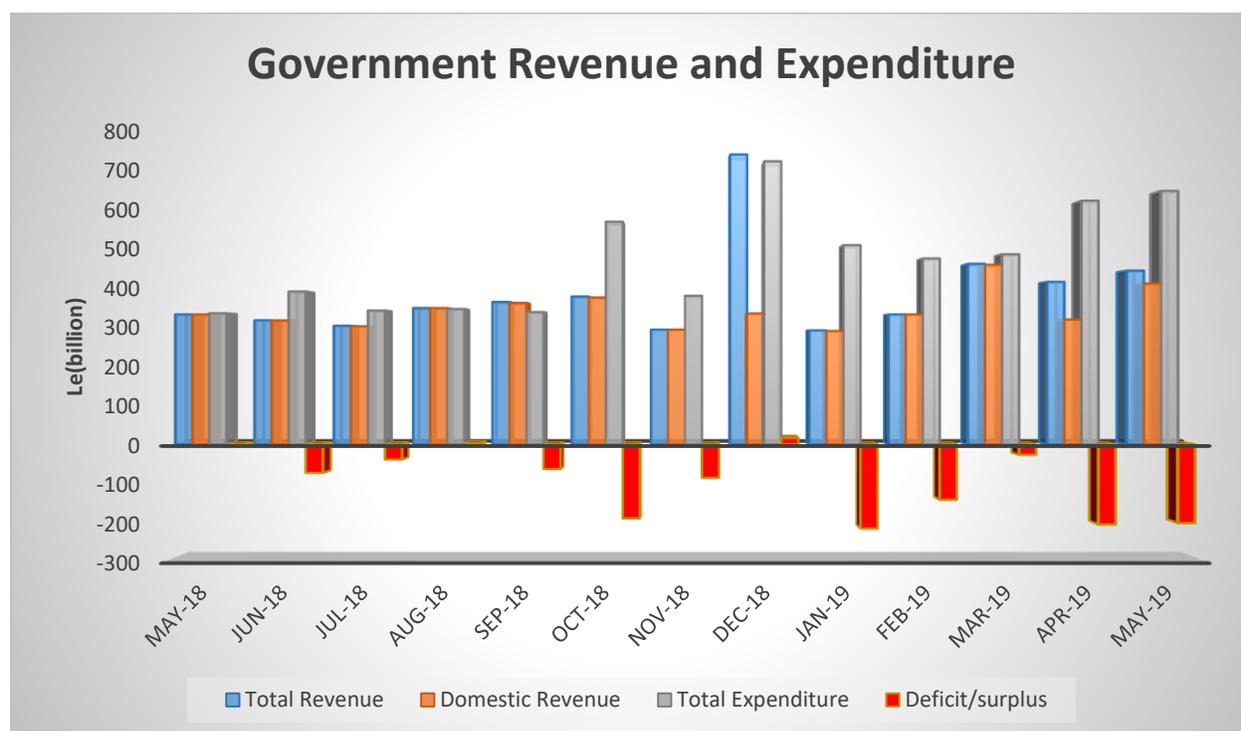
Outturns in government fiscal operations resulted in a slight reduction in the overall deficit of Le204.64bn in May 2019 from Le208.27bn in April 2019. The reduction in the overall deficit was due to an increase in revenue generation, which more than outweighed the increase in government expenditure during the review month.

3.1 Revenues

Total revenue and grants increased by 6.87 per cent to Le447.63.02bn. Domestic revenue collected rose by 28.78 per cent to Le414.36bn resulting from improved revenue collection from all components of domestic revenue streams. Receipts from customs and excise increased by 34.90 per cent to Le69.89bn. Income tax revenue expanded by 31.50 per cent to Le140.34bn. Revenue from goods and services tax improved by 33.17 per cent to Le99.70bn, while non-tax revenue rose by 18.19 per cent to Le104.43bn.

Foreign grants disbursed in May 2019 fell by 65.73 per cent to Le33.27bn. This amount was disbursed by the African Development Bank in respect of budgetary support to government.

Figure 1: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditures

Government expenditure increased slightly by 4.01 per cent to Le652.27bn due to the increase in other expenditure on goods and services. Other expenditure on goods and services rose significantly by 117.73 per cent to Le409.22bn. In contrast, pension, wages and salaries payments declined by 53.01 per cent to Le149.36bn, while total debt services payment dropped by 22.78 per cent to Le93.70bn of which domestic debt services payment amounted to Le69.53bn and foreign debt services payment amounting to Le24.17.

3.3 Financing

The overall deficit of Le204.64bn was largely financed from domestic resources.

4.0 Monetary Developments

The growth in monetary aggregates in May 2019 slowed down as evidenced in the growth of both Broad Money (M2) and Reserve Money (RM).

4.1 Broad Money

Broad Money (M2) growth moderated to 0.14 per cent in May 2019, compared to the 3.54 per cent expansion in April 2019. The slowdown in M2 growth reflected decrease in growth of Net Foreign Assets (NFA) and contraction in Net Domestic Assets (NDA) of the banking system.

The NFA of the banking system expanded by 7.27 per cent in May 2019, which was lower than the 19.67 per cent growth recorded in April 2019. The increase in NFA was mainly as a result of African Development Bank (ADB) disbursement in respect of budgetary support.

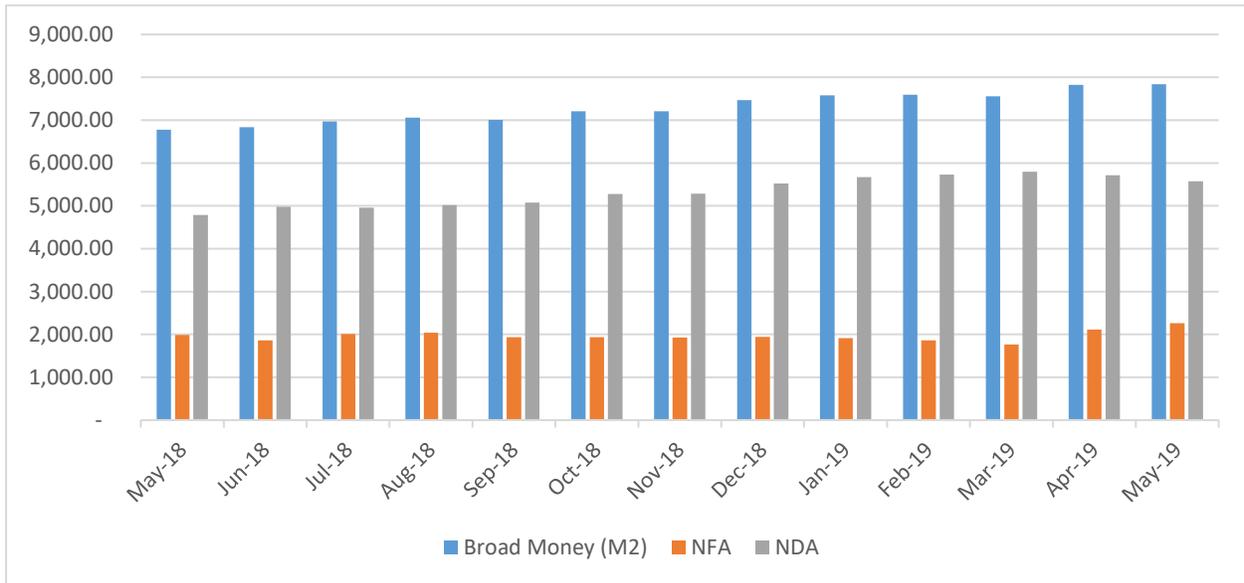
The NDA of the banking system contracted by 2.49 per cent in May 2019, relative to the 1.37 per cent contraction recorded in April 2019. This was mainly as a result of decrease in government borrowing from the banking system. Private Sector credit by commercial banks increased by 2.26 per cent in May 2019, compared to the 2.32 per cent growth in April 2019.

Table 1: Broad Money and its Components

Billions of Leones	2019		Absolute Change		(% Change)	
	Apr-19	May-19	Apr-19	May-19	Apr-19	May-19
Reserve Money	2330.95	2,352.88	102.29	21.93	4.59	0.94
Broad Money (M2)	7,827.73	7,838.99	267.57	11.26	3.54	0.14
Narrow Money (M1)	3,516.78	3,510.35	65.29	(6.43)	1.89	(0.18)
Currency outside banks	1,745.25	1,774.31	40.76	29.06	2.39	1.67
Demand deposit	1,771.53	1,736.05	24.53	(35.48)	1.40	(2.00)
Quasi Money	4,306.25	4,324.44	202.51	18.19	4.93	0.42
o.w. Foreign currency deposits	2,203.41	2,193.72	121.18	(9.69)	5.82	(0.44)
Time and saving deposit	2,102.84	2,130.72	81.33	27.88	4.02	1.33
Net Foreign Asset	2,111.25	2,264.68	347.02	153.43	19.67	7.27
BSL	267.86	443.17	227.21	175.31	558.94	65.45
ODCs	1,843.39	1,821.51	119.81	(21.88)	6.95	(1.19)
Net Domestic Assets	5,716.49	5,574.31	(79.43)	(142.18)	(1.37)	(2.49)
Net Domestic Credit	7,538.88	7,419.95	15.71	(118.93)	0.21	(1.58)
Government (Net)	5,493.23	5,315.03	17.84	(178.20)	0.33	(3.24)
Private Sector	2,119.84	2,166.15	47.07	46.31	2.27	2.18
o.w. BSL	33.49	32.63	(0.33)	(0.86)	(0.98)	(2.57)
ODCs	2,086.35	2,133.52	47.40	47.17	2.32	2.26
Other Sectors (Net)*	(74.19)	(61.23)	(49.20)	12.96	196.88	(17.47)
Other Items (Net)	(1,822.39)	(1,845.64)	(95.14)	(23.25)	5.51	1.28
Money Multiplier	3.36	3.33				

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

Figure 2: Trends in M2, NFA and NDA



Source: Research Department, BSL

From the liability side of the balance sheet, the growth in M2 also reflected an increase in Quasi Money, while Narrow Money (M1) decreased. Quasi Money expanded by 0.42 per cent in May 2019, which was lower than the 4.93 per cent growth recorded in April 2019. The marginal increase in Quasi money was mainly on account of a 1.33 per cent increase in Time and Savings deposits, as Foreign Currency deposits declined by 0.44 per cent in May 2019. Narrow Money contracted by 0.18 per cent in May 2019, compared to the 1.89 per cent increase recorded in April 2019, on account of decline in demand deposits by 2.00 per cent, while currency outside banks increased by 1.67 per cent.

4.2 Reserve Money

Reserve Money (RM) expanded by 0.94 per cent in May 2019, which was lower than the 4.59 per cent growth in April 2019. On the assets side, the growth in Reserve Money was mainly attributed to increase in Net Foreign Assets (NFA) of the Bank of Sierra Leone, which was more than the decrease in Net Domestic Assets (NDA) of the Bank of Sierra Leone. The increase in NFA was mainly due to the receipt of US\$20.69mn from African Development Bank in respect of budget

support. The NDA of the Bank of Sierra Leone declined by 7.43 per cent, in part due to the repayment of the bridge financing that was provided to government in anticipation of budget support, decline in Ways and Means advances to government and holdings of Government Securities.

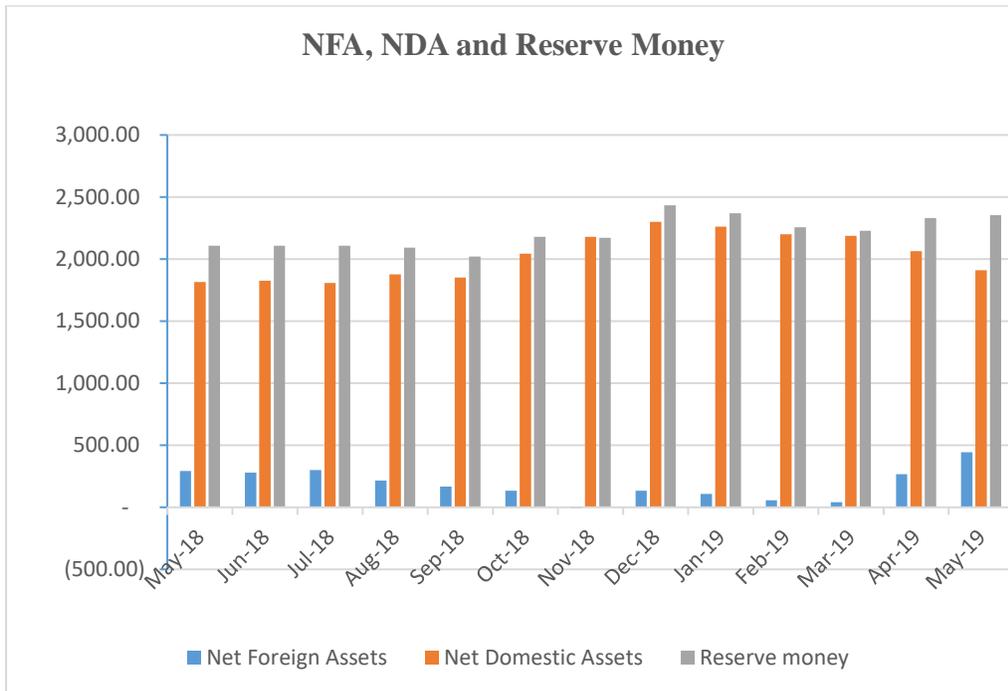
On the liabilities side, the growth in RM reflected increases in both Banks' Reserves and Currency issued by 5.51 per cent and 0.15 per cent respectively.

Table 2: Reserve Money and its Components

Billions of Leones	2019		Absolute change		(%) Change	
	Apr-19	May-19	Apr-19	May-19	Apr-19	May-19
1. Net Foreign Assets	267.86	443.17	227.21	175.31	558.94	65.45
2. Net Domestic Assets	2,063.09	1,909.70	(124.92)	(153.39)	(5.71)	(7.43)
2.1 Government Borrowing (net)	2,388.86	2,230.15	(84.14)	(158.71)	(3.40)	(6.64)
o.w. 2.11 Securities	1,154.98	1,137.76	27.06	(17.22)	2.40	(1.49)
2.12 Ways and Means	129.70	120.60	11.41	(9.10)	9.65	(7.02)
2.13 GoSL/IMF Budget financing	1,318.27	1,171.54	(100.29)	(146.73)	(7.07)	(11.13)
3. Reserve money	2,330.95	2,352.88	102.29	21.93	4.59	0.94
o.w. 3.1 Currency issued	1,974.11	1,977.14	41.83	3.03	2.16	0.15
3.2 Bank reserves	352.14	371.54	60.69	19.40	20.82	5.51

Source: Research Department, BSL

Figure 3: Reserve Money and its Sources

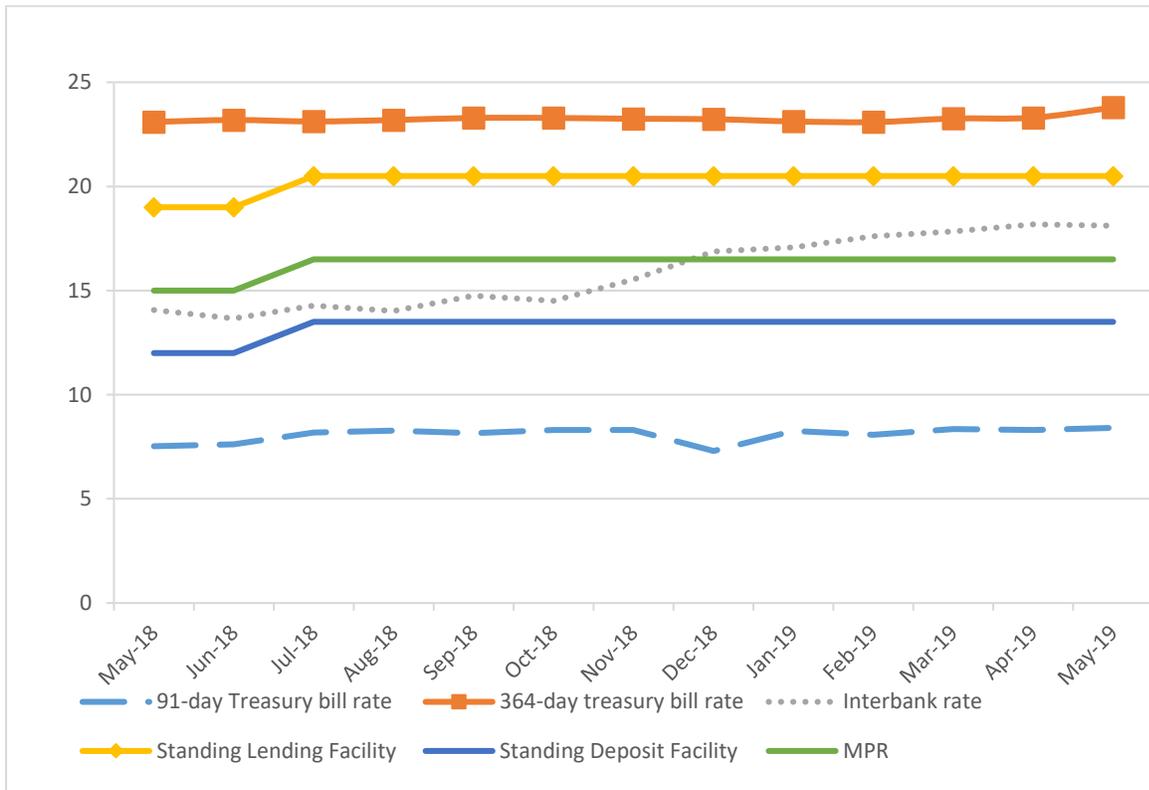


Source: Research Department, BSL

4.3 Interest Rates

The Monetary Policy rate of the Bank remained unchanged at 16.50 per cent in May 2019. The Standing Lending and Deposit Facility rates remained unchanged at 20.50 per cent and 13.50 per cent respectively. The interbank rate decreased marginally from 18.18 per cent in April 2019 to 18.12 per cent in May 2019. 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 364-days Treasury bills increased from 8.30 per cent and 23.30 per cent in April 2019, to 8.41 per cent and 23.79 per cent in May 2019 respectively. However, the yield on the 182-days Treasury bill decreased from 8.20 per cent to 7.23 per cent during the same period.

Table 3: Interest Rates (%)

	2018								2019				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
91-day T-Bills	7.52	7.62	8.18	8.28	8.16	8.30	8.30	7.30	8.26	8.08	8.35	8.30	8.41
182-day T-Bills	8.05	8.20	8.40	8.09	6.04	7.86	6.22	8.14	8.42	8.40	8.23	8.20	7.23
364-day T-Bills	23.10	23.19	23.12	23.19	23.29	23.29	23.25	23.23	23.12	23.09	23.26	23.30	23.79
Interbank rate	14.07	13.66	14.28	14.02	14.76	14.51	15.53	16.88	17.07	17.61	17.84	18.18	18.12
Standing Lending Facility	19.00	19.00	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	12.00	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	15.00	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	21.35	21.345	21.345	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	24.77
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

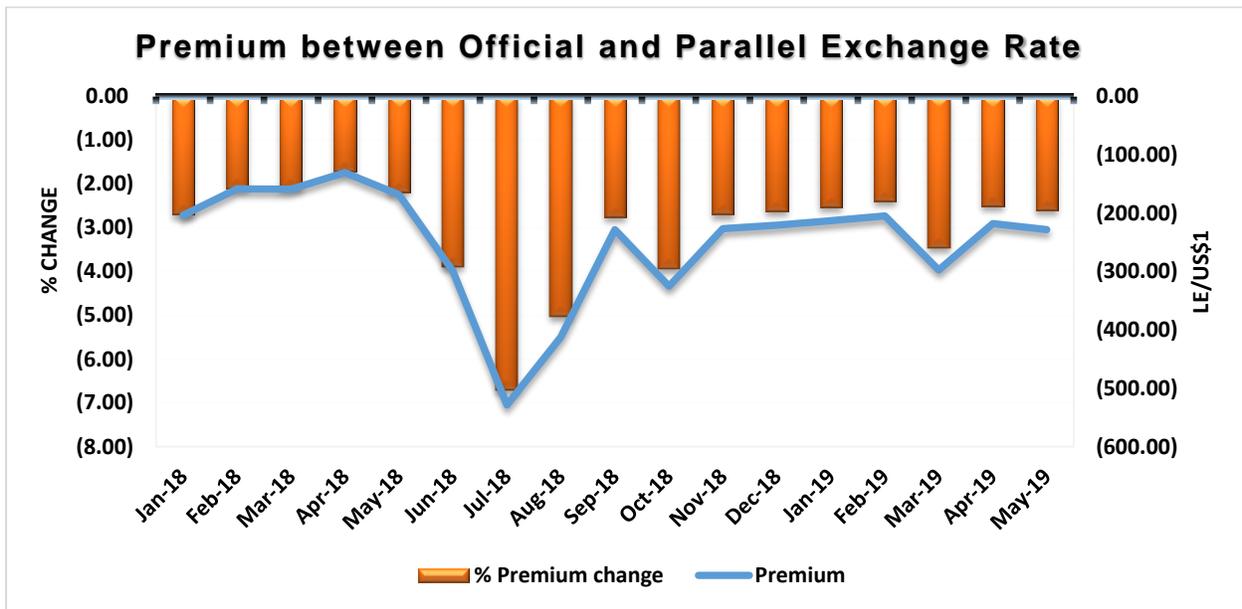
5.0 Exchange Rate Developments

In May 2019, the average exchange rate of the Leone against the US dollar depreciated in all foreign exchange markets on both the buying and selling fronts. On the buying front, the Leone depreciated in the parallel market, official, bureaux and commercial banks by 1.08 per cent, 0.78 per cent, 0.68 per cent and 0.66 per cent averaging Le8,968.18/US\$1, Le8,677.71/US\$1, Le8,627.00/US\$1 and Le8,815.63/US\$1, respectively.

Similarly, on the selling front, the Leone depreciated in the commercial banks, official, parallel market and bureaux by 0.84 per cent, 0.78 per cent, 0.67 per cent and 0.39 per cent averaging Le8,932.31/US\$1, Le8,853.02/US\$1, Le9,018.18/US\$1 and Le8,744.41/US\$1 respectively.

The premium between the Official and Parallel rates widened by 0.10 per centage points to Le2227.82/US\$1 in May, 2019 from Le217.32/US\$1 in April, 2019 (figure 5).

Figure 5: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

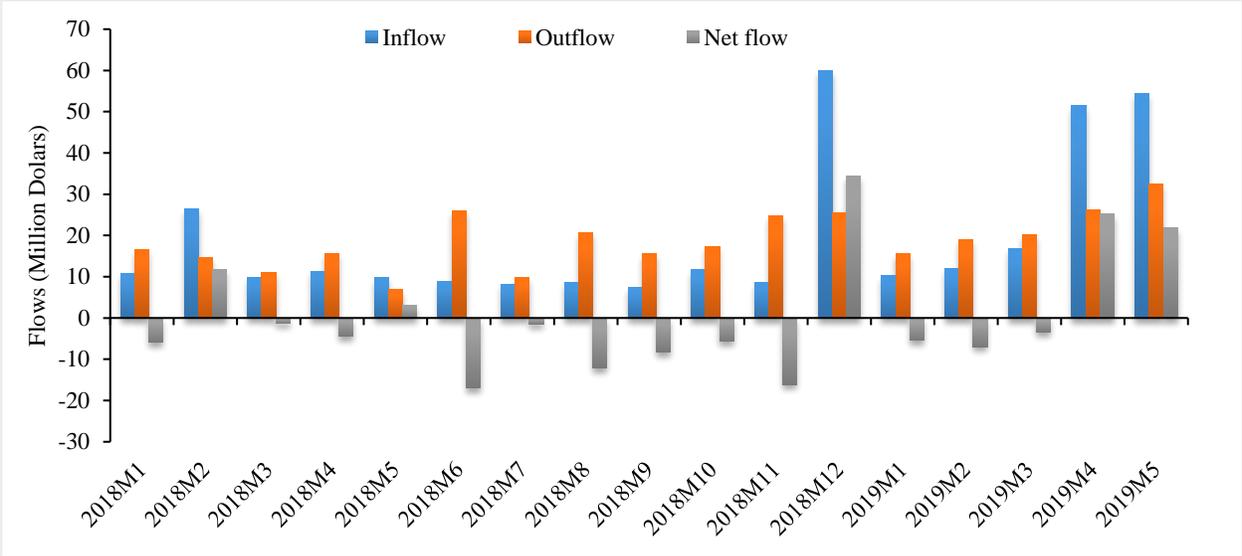
6.0 Gross Foreign Exchange Reserves

As at end-May 2019, the gross foreign exchange reserves of the Bank of Sierra Leone increased by 3.88 per cent to US\$532.66mn from US\$512.79mn as at end-April, 2019.

Significant inflows include aid disbursements/BOP support of US\$22.57mn, comprising US\$20.70mn being grant from AfDB for budgetary support and US\$1.37mn, being disbursement from other multilateral and bilateral organisations; export receipts amounting to US\$8.85mn, of which, US\$3.41mn was receipts from timber exports and US\$3.03mn was in respect of royalty payments from Sierra rutille and vimetco.

Major outflows comprised payments for goods and services of US\$7.66mn, of which, US\$3.73mn was payments for government travel and other government expenses, US\$1.97mn was payments to embassies/missions, and US\$1.32mn was expenditure on road infrastructure projects. Total debt service payments for the period was US\$2.74mn.

Figure 6: Foreign Exchange Flows



Source: Bank of Sierra Leone