



BANK OF SIERRA LEONE

**Monthly Economic
Review**

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ABBREVIATIONS

BSL	-	Bank of Sierra Leone
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

Production performance in the Manufacturing sector improved in the month of September 2019 as four out of six components of the production volume increased. Output for cement, acetylene, confectionery and common soap increased, while production volume for paint, and oxygen declined. In the mining sector, the production of bauxite, rutile, ilmenite and gold expanded, except diamond which recorded a decrease in production. Electricity generation declined due to low performance in both thermal plant and hydro power generation during the reporting period.

Headline inflation moderated to 15.16 percent in September 2019 from 15.43 percent in August 2019. Food inflation increased slightly to 8.30 percent in September 2019 from 8.28 percent in August 2019, while non-food inflation increased to 23.13 percent in September 2019 from 22.61 percent in August 2019.

Government fiscal operations in September 2019 narrowed the deficit to Le12.30bn from Le59.37bn in August 2019. The narrowing deficit reflected contraction in government expenditure coupled with improvement in domestic revenue in the review period.

Monetary Policy Rate (MPR) remained unchanged at 16.50 percent. Similarly, the interbank rate remained unchanged at 18.57 percent in September 2019. The commercial banks' average Lending rate and Savings deposit rates remained unchanged at 21.35 percent and 2.38 per cent, respectively.

Monetary aggregates during the month of September 2019 contracted. Broad Money (M2) contracted by 0.46 percent in September 2019, relative to the 1.14 percent expansion in August 2019. This development was explained by the decline in Net Foreign Assets (NFA) which was more than the increase in Net Domestic Assets (NDA) of the banking system. Similarly, Reserve Money (RM) contracted by 1.07 percent in September 2019, compared to the 2.58 percent decrease in August 2019. The contraction in RM was due to decrease in Net Foreign Assets (NFA), which was more than the increase in Net Domestic Assets (NDA) of the Central Bank.

The gross foreign exchange reserves of the Bank of Sierra Leone declined by 1.20 percent to US\$526.75mn in September 2019 from US\$533.16mn in August 2019. The total inflows recorded was of US\$11.79mn, while outflows amounted to US\$18.15mn, resulting into a net outflow of US\$6.36mn.

The monthly average exchange rate movement of the Leone relative to the US dollar remained relatively stable as reflected in the narrowing of the Premium between the Official and Parallel rates.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

Manufacturing sector performance improved in the month of September 2019 as four out of six components of the manufacturing sector recorded increases in their output. Output of cement, acetylene, confectionery and common soap increased, while production volumes of paint, and oxygen declined. Cement and confectionery production improved by 2.24 percent to 28.74 thousand metric tons and 4.56 percent to 208.74 thousand pounds respectively. Similarly, common soap and acetylene production rose by 4.76 percent to 50.42 thousand metric tons, and 4.64 percent to 27.54 thousand cubic feet respectively. In contrast, paint and oxygen production fell by 4.46 percent to 50.32 thousand gallons, and 10.48 percent to 26.98 thousand cubic feet respectively.

2.1.2 Mining Sector

Performance in the mining sector broadly improved. Bauxite and rutile production grew by 4.28 percent to 158.75 thousand metric tons, and 35.45 percent to 13.22 thousand metric tons respectively. Ilmenite and gold production rose by 19.96 percent to 6.31 thousand metric tons, and 63.02 percent to 183.10 ounces respectively. However, diamond production declined by 4.13 percent to 68.98 thousand carats and was made up of industrial diamond of 27.47 thousand carats and gem diamond of 41.51 thousand carats.

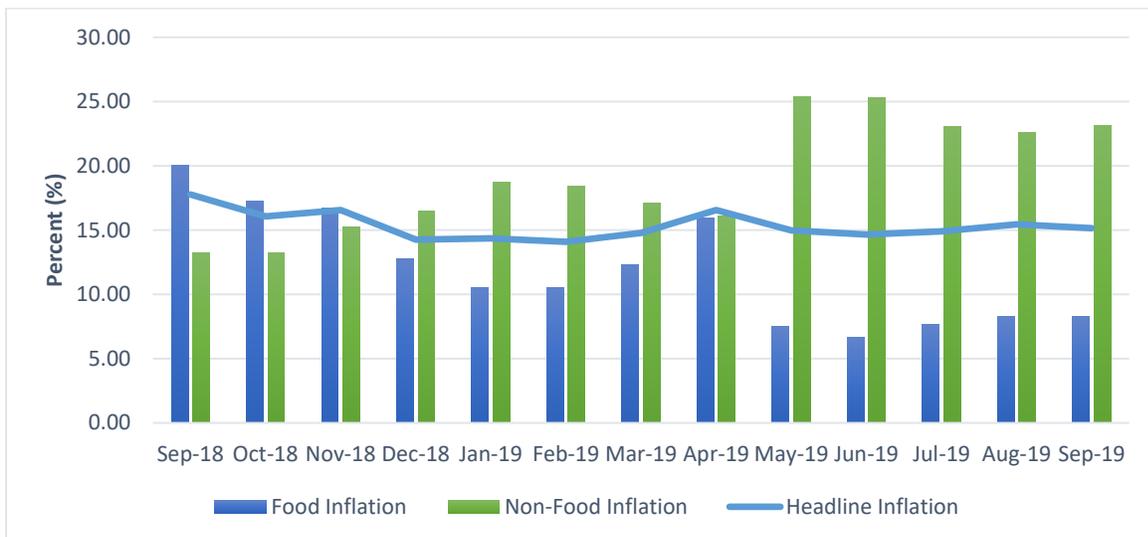
2.1.3 Electricity

Total electricity generated for the month of September 2019 fell by 0.98 percent to 29.74 Gw/hr. The decline in generation was attributable to the drop in generation from both thermal plant and hydro power. Thermal plant generation decreased to 0.70 Gw/hr from 0.76 Gw/hr in August 2019. Similarly, hydro power generation fell marginally to 29.04Gw/hr in September 2019 from 29.27 Gw/hr in August 2019.

2.2 Price Development

Headline inflation moderated to 15.16 percent in September 2019 from 15.43 percent in August 2019. On regional basis, inflation increased in the Eastern and Northern regions, while declined in the Southern and Western Area. In the Eastern region inflation increases from 21.17 percent in August 2019 to 21.79 percent in September 2019, and Northern region from 15.66 percent in August 2019 to 16.42 percent in September 2019. However, inflation declined in Southern region from 15.64 percent in August 2019 to 14.39 percent in September 2019 and Western Area from 13.41 percent in August 2019 to 12.59 percent in September 2019 respectively.

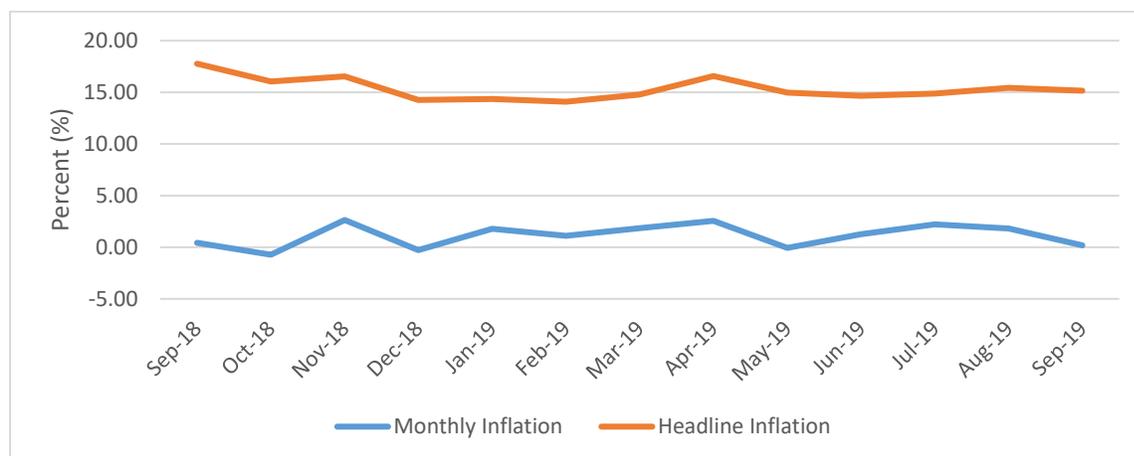
Figure 1: Headline, Food and Non-Food Inflation



Source: Statistics Sierra Leone

Similarly, month-on-month inflation decreased to 0.19 percent in September 2019 from 1.82 percent in August 2019.

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



Source: Statistics Sierra Leone

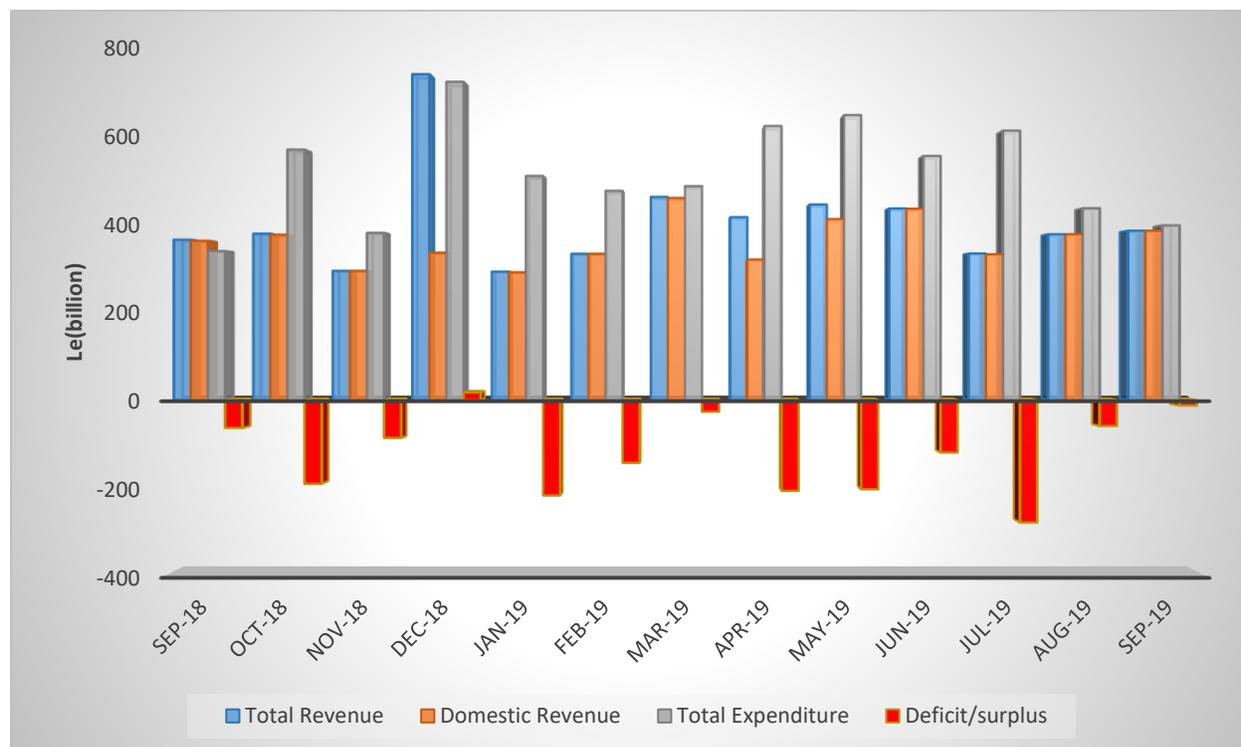
3.0 Government Budgetary Operations

Government fiscal operations on cash flow basis in September 2019 resulted in a deficit of Le12.30bn from a deficit of Le59.37bn in August 2019. The reduction in the deficit in the review period was reflected in the contraction in government expenditure coupled with growth in domestic revenue.

3.1 Revenue

Government revenue expanded by 2.10 percent to Le387.74bn, driven mainly by the increase in income tax collection by 33.81 percent to Le157.21bn. However, receipts from customs & excise and goods & services tax declined by 24.07 percent to Le47.79bn and 7.39 percent to Le79.57bn respectively. Similarly, non-tax (miscellaneous) revenue contracted by 9.04 percent to Le103, 17bn. There was no foreign grant disbursed during the review period.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditure

Total Government spending contracted by 8.90 percent to Le400.04bn, on account of a decline in payment for pensions, wages & salaries and treasury expenses for goods and services. Pensions, wages and salaries dropped by 25.00 percent to Le124.50bn, while treasury expenses for goods and services declined by 4.18 percent to Le178.40bn.

On the contrary, debt service payments expanded by 12.35 percent to Le97.13bn, and comprised domestic debt service payments of Le48.13bn and foreign debt service payments of Le48.07bn.

3.3 Financing

The overall deficit of Le12.30bn was largely financed from domestic sources.

4.0 Monetary Developments

Developments in monetary aggregates during the month of September 2019 were contractionary, as both Broad Money (M2) and Reserve Money (RM) contracted.

4.1 Broad Money

Broad Money (M2) contracted by 0.46 percent in September 2019, relative to the 1.14 percent expansion in August 2019. This development was explained by the decline in Net Foreign Assets (NFA) which was more than the increase in Net Domestic Assets (NDA) of the banking system.

NFA of the banking system decreased by 4.09 percent in September 2019, compared to the 1.63 percent growth recorded in August 2019. The contraction in NFA was mainly as a result of increase in liabilities to non-residents by the Bank of Sierra Leone coupled with decline in Nostro account balances of the commercial banks.

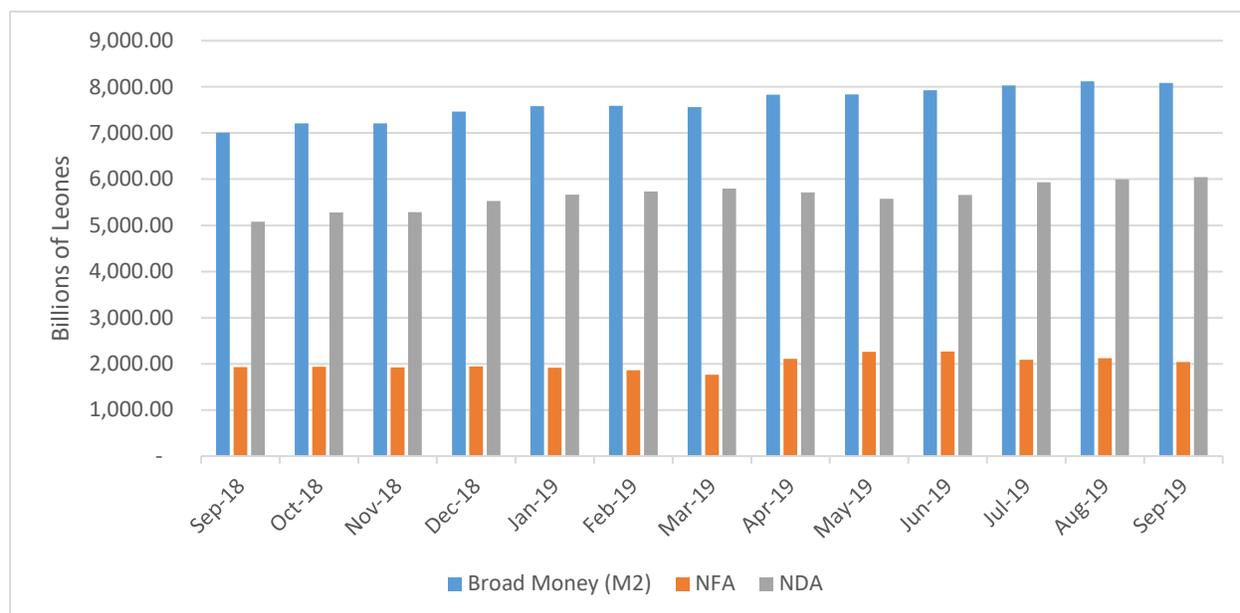
NDA of the banking expanded marginally by 0.82 percent in September 2019, from the 0.97 percent growth in August 2019. The growth in NDA in part reflect increase in credit to the private sector. Credit to the Private Sector by commercial banks also expanded by 2.98 percent in September 2019, compared to the 2.34 percent growth recorded in August 2019.

Table 1: Broad Money and its Components

Billions of Leones	2019		Absolute Change		(% Change	
	Aug.-19	Sept.-19	Aug.-19	Sept.-19	Aug-19	Sept.-19
Reserve Money	2,317.31	2,292.58	(61.31)	(24.74)	(2.58)	(1.07)
Broad Money (M2)	8,120.09	8,082.66	91.82	(37.43)	1.14	(0.46)
Narrow Money (M1)	3,639.12	3,613.35	(20.06)	(25.76)	(3.19)	(0.71)
Currency outside banks	1,666.91	1,654.82	(8.38)	(12.08)	(0.50)	(0.72)
Demand deposit	1,972.21	1,958.53	(111.68)	(13.68)	(5.36)	(0.69)
Quasi Money	4,480.97	4,469.30	211.88	(11.67)	4.96	(0.26)
o.w. Foreign currency deposits	2,225.82	2,168.28	(181.64)	(57.54)	(7.54)	(2.59)
Time and saving deposit	2,250.65	2,296.38	393.35	45.73	21.18	2.03
Net Foreign Asset	2,124.84	2,037.98	34.07	(86.86)	1.63	(4.09)
BSL	386.26	353.01	(43.63)	(33.25)	(10.15)	(8.61)
ODCs	1,738.58	1,684.97	77.70	(53.61)	4.68	(3.08)
Net Domestic Assets	5,995.25	6,044.68	57.75	49.43	0.97	0.82
Net Domestic Credit	7,993.92	8,114.89	160.60	120.97	2.05	1.51
Government (Net)	5,804.10	5,846.65	128.89	42.54	2.27	0.73
Private Sector	2,229.45	2,294.64	50.24	65.19	2.31	2.92
o.w. BSL	30.89	30.51	(0.05)	(0.38)	(0.16)	(1.24)
ODCs	2,198.56	2,264.13	50.29	65.57	2.34	2.98
Other Sectors (Net)*	(39.64)	(26.39)	(18.53)	13.24	87.78	(33.41)
Other Items (Net)	(1,998.67)	(2,070.21)	(102.85)	(71.55)	5.43	3.58
Money Multiplier	3.50	3.53				

*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 liabilities side, M2 contracted as a result of decrease in both Quasi Money and Narrow Money (M1). M1 contracted by 0.71 percent in September 2019 relative to the 3.19 percent decline in August 2019. This was on account of decreases in currency outside banks (0.72%) and demand deposits (0.69 %). Quasi Money declined by 0.26 percent in September 2019, relative to the 4.96 percent increase in August 2019. The contraction in Quasi Money was mainly reflected by the 2.59 percent decrease in foreign currency deposits, while time and savings deposits increased by 2.03 percent during the same period

4.2 Reserve Money

Reserve Money (RM) contracted by 1.07 percent in September 2019, compared to the 2.58 percent decrease in August 2019. The contraction in RM was due to the decrease in Net Foreign Assets (NFA) which was more than the increase in Net Domestic Assets (NDA) of the Bank of Sierra Leone. NFA of the Bank of Sierra Leone contracted by 8.61 percent due to increase in foreign liabilities, following an increase in the use of Fund Credit and SDR allocation arising from exchange rate depreciation. However, NDA of Bank of Sierra Leone increased by 0.44 percent and was mainly attributed to the 7.88 percent increase in BSL's holdings of Government securities.

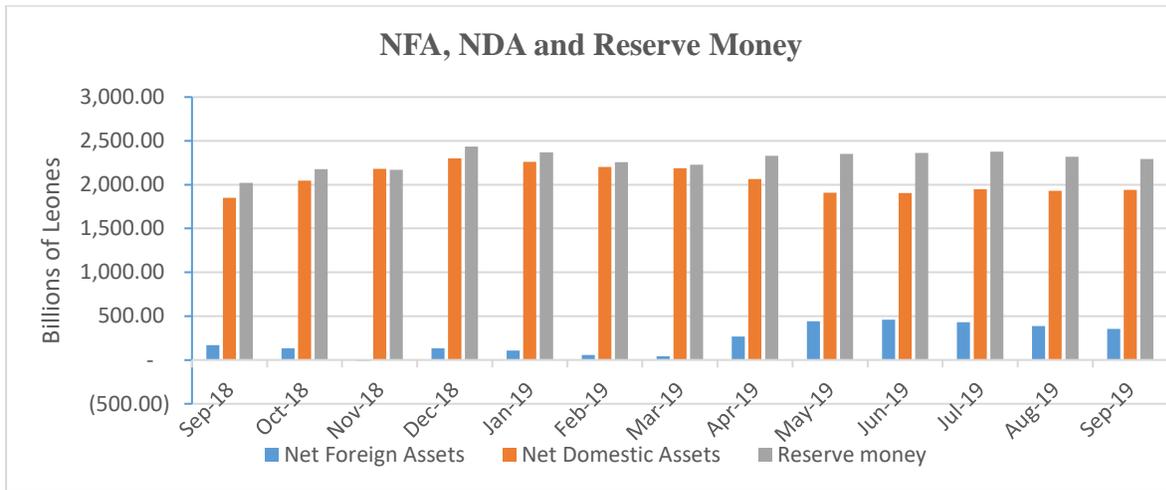
From the liabilities side of the balance sheet, the decline in RM was reflected in all its components as both Banks' reserves and Currency issued contracted by 5.09 percent and 0.17 per cent, respectively.

Table 2: Reserve Money and its Components

Billions of Leones	2019		Absolute change		(%) Change	
	Aug-19	Sept-19	Aug-19	Sept-19	Aug-19	Sept-19
1. Net Foreign Assets	386.26	353.01	(43.63)	(33.25)	(10.15)	(8.61)
2. Net Domestic Assets	1,931.06	1,939.57	(17.74)	8.51	(0.91)	0.44
2.1 Government Borrowing (net)	2,315.48	2,361.96	(37.43)	46.48	(1.59)	2.01
o.w. 2.11 Securities	1,016.77	1,096.90	(29.41)	80.13	(2.81)	7.88
2.12 Ways and Means	174.70	136.34	(6.85)	(38.36)	(3.77)	(21.96)
2.13 GoSL/IMF Budget financing	1,294.80	1,294.80	0	0	0	0
3. Reserve money	2,317.31	2,292.58	(61.37)	(24.74)	(2.58)	(1.07)
o.w. 3.1 Currency issued	1,887.69	1,884.46	(49.74)	(3.24)	(2.57)	(0.17)
3.2 Bank reserves	425.12	403.47	(11.80)	(21.65)	(2.70)	(5.09)

Source: Research Department, BSL

Figure 5: Trends in Reserve Money (RM), NFA and NDA

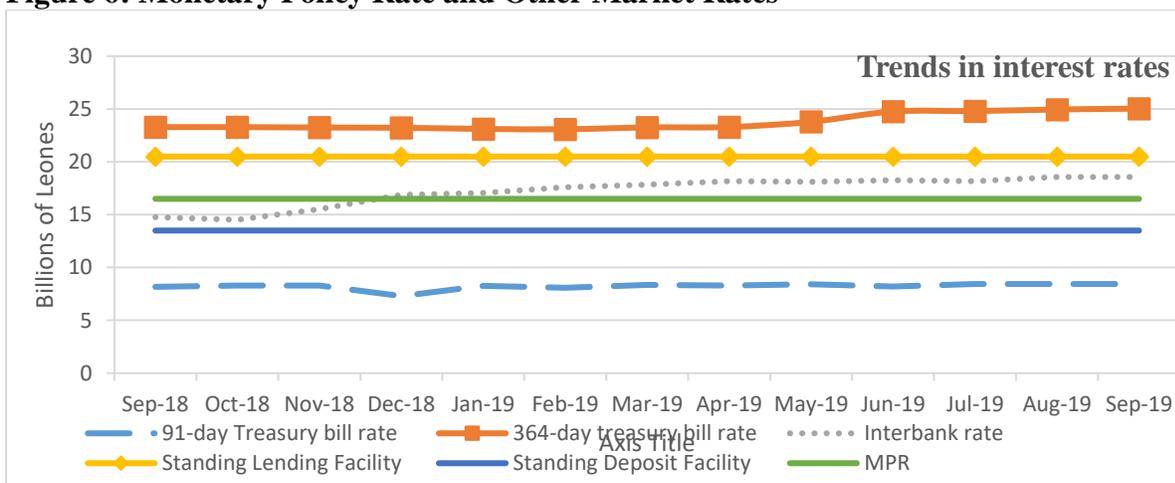


Source: Research Department, BSL

4.3 Interest Rates

The Monetary Policy Rate of the Bank of Sierra Leone remained unchanged at 16.50 percent in September 2019. Also, the Standing Lending and Deposit Facility rates remained unchanged at 20.50 percent and 13.50 percent respectively. Similarly, the interbank rate remained unchanged at 18.57 percent in September 2019, and was still within the policy corridor rate. The commercial banks' average Lending and Savings deposit rates remained unchanged at 21.35 percent and 2.38 per cent, respectively.

Figure 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

Interest rate in the money market broadly increased generally during the review period. With the exception of the yields on the 91-days Treasury Bills which remained flat, yields on both the 182-days and 364-days Treasury Bills increased from 8.54 percent and 24.96 percent in August 2019, to 11.38 percent and 25.04 percent in September 2019, respectively.

Table 3: Interest Rates (%)

	2018				2019								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
91-day T-Bills	8.16	8.30	8.30	7.30	8.26	8.08	8.35	8.30	8.41	8.20	8.44	8.44	8.44
182-day T-Bills	6.04	7.86	6.22	8.14	8.42	8.40	8.23	8.20	7.23	7.13	8.53	8.54	11.38
364-day T-Bills	23.29	23.29	23.25	23.23	23.12	23.09	23.26	23.30	23.79	24.77	24.81	24.96	25.04
Interbank rate	14.76	14.51	15.53	16.88	17.07	17.61	17.84	18.18	18.12	18.27	18.16	18.57	18.57
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	21.345	21.35	21.35	21.35	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											
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

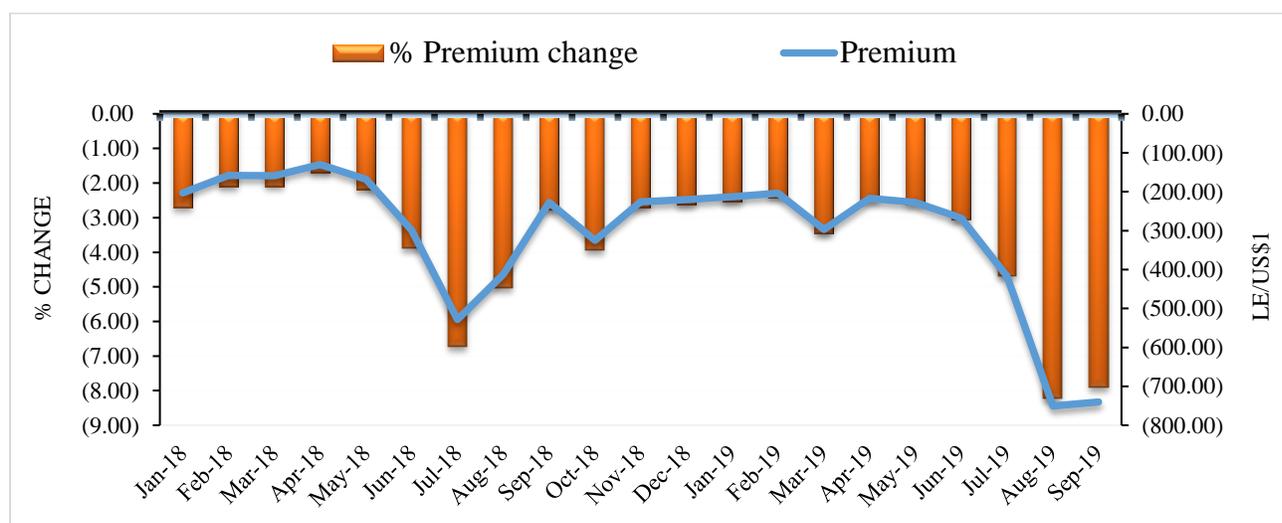
Source: Research Department, BSL

5.0 Exchange Rate Developments

In September 2019, the average buying and selling of the exchange rate of the Leone against the US dollar depreciated in all foreign exchange markets. On the buying front, the Leone depreciated in the bureaux market, commercial banks, official, and parallel markets by 2.72 percent, 2.62 percent, 2.61 percent and 2.50 percent, averaging Le9,155.22/US\$1, Le9,459.48/US\$1, Le9,263.89/US\$1 and Le10,069.05/US\$1, respectively. On the selling front, the Leone depreciated in the commercial banks, official, bureau and parallel markets by 2.71 percent, 2.61 percent, 2.60 percent and 2.11 percent, averaging Le9,621.26/US\$1, Le9,451.04/US\$1, Le9,341.41/US\$1 and Le10,126.19/US\$1 respectively.

The premium between the average Official and Parallel market rates narrowed by 0.32 percentage points to Le740.15/US\$1 in September, 2019 from Le750.52/US\$1 in August, 2019 (See figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

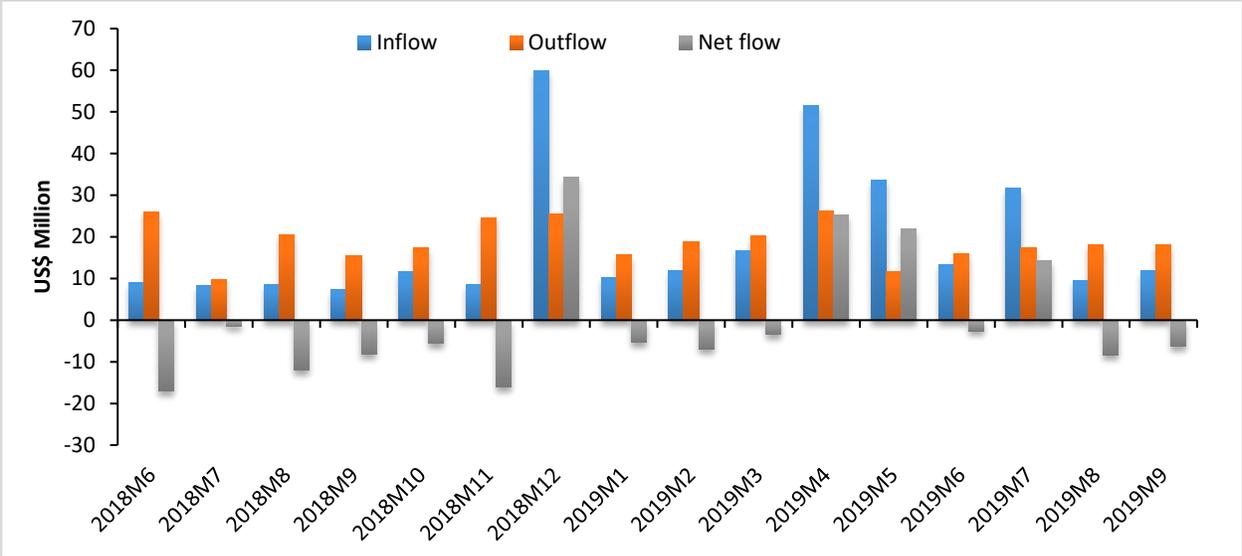
6.0 Gross Foreign Exchange Reserves

The gross foreign exchange reserves of the Bank of Sierra Leone declined by 1.20 percent to US\$526.75mn in September 2019 from US\$533.16mn in August 2019. The reduction in reserves was mainly on account of an increase in outflows of US\$18.15mn relative to inflows of US\$11.79mn, resulting into a net outflow of US\$6.36mn.

Significant inflows comprised receipts from export (US\$7.00mn) of which; receipts from Sierra Rutile (US\$3.28mn), bauxite (US\$1.10mn), Koidu Holdings Mining co. (US\$0.74mn), other mining receipts (US\$0.58mn) and timber (US\$1.11mn). Other inflows included receipts from transactions with commercial banks (US\$3.00mn), other government receipts (US\$1.09mn), and interest earned by BSL from investments abroad (US\$0.56mn).

Significant outflows consisted of payments for goods and services (US\$12.63mn), of which: US\$3.75mn being BSL's auction to support the importation of essential goods and services, embassy mission payments (US\$3.46mn), other government expenditures (US\$3.11mn), subscriptions to international organizations (US\$0.77mn), government travels (US\$0.67mn), and payments for various infrastructure projects (US\$0.56mn). Other outflows included debt service payments to IMF (US\$0.61mn), AfDB (US\$0.58mn) and OPEC/OFID (US\$0.34mn).

Figure 8: Foreign Exchange Flows



Source: Bank of Sierra Leone