



BANK OF SIERRA LEONE

**Monthly Economic
Review**

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Review**

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CONTENTS

Contents.....	ii
List of Figures.....	iii
List of Tables.....	iii
List of Abbreviation.....	iv
1.0 Highlights	1
2.0 Production and Prices	2
2.1 Production.....	2
2.1.1 Manufacturing.....	2
2.1.2 Mining Sector.....	2
2.1.3 Electricity.....	2
2.2 Price Development.....	3
3.0 Government Budgetary Operations	4
3.1 Revenues.....	5
3.2 Expenditures	6
3.3 Financing	6
4.0 Monetary Developments.....	6
4.1 Broad Money	6
4.2 Reserve Money	9
4.3 Interest Rates	10
5.0 Exchange Rate Developments	11
6.0 Gross Foreign Exchange Reserves	12

List of Figures:

Figure 1: Headline, Food and Non-Food Inflation.....	3
Figure 2: Headline Inflation-Y-o-Y and Monthly Inflation Change.....	4
Figure 3: Government Revenue and Expenditure.....	5
Figure 4: Trends in M2, NFA and NDA.....	8
Figure 5: Reserve Money and its Sources.....	10
Figure 6: Monetary Policy Rate and Other Market Rates.....	10
Figure 7: Premium between Official and Parallel Exchange Rates	12
Figure 8: Foreign Exchange Flows	13

List of Tables:

Table 1: Broad Money and its Components.....	7
Table 2: Reserve Money and its Components	9
Table 3: Interest Rates (%)	11

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 were mixed in August 2019 as beer & stout, cement, common soap and confectionery recorded decreases in production. On the other hand, there were increases in the production of maltina, acetylene and oxygen. In the mining sector, the production of diamond, rutile and gold declined, while bauxite production increased during the review period. Electricity generation increased due to improved performance in both thermal plant and hydro power generation during the reporting period.

Headline inflation increased to 15.43 percent in August 2019 from 14.89 percent in July 2019, driven mainly by food inflation. Food inflation rose to 8.28 percent in August 2019 from 7.68 percent in July 2019, while non-food inflation fell slightly to 22.61 percent in August 2019 from 23.08 percent in July 2019.

Government fiscal operations resulted in a deficit of Le59.37bn in August 2019 when compared to Le280.98bn in July 2019. The narrowing deficit was attributable to the contraction in government spending combined with an improvement in domestic revenue mobilisation in the review month.

Monetary Policy Rate (MPR) remained unchanged at 16.50 percent. The interbank rate increased to 18.57 percent in August 2019 from 18.27 percent in July 2019. The commercial banks' average Lending and Savings deposit rates remained unchanged at 21.35 percent and 2.38 percent respectively.

Monetary aggregates during the month of August 2019 were mixed, as Broad Money expanded, while Reserve Money contracted. Broad Money (M2) expanded by 1.14 percent in August 2019 when compared to the 1.31 percent expansion in July 2019, while Reserve Money (RM) contracted by 2.58 percent in August 2019 from the 0.62 percent increase in July 2019. The expansion in M2 was reflected in increases in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system, while the decrease in Reserve Money was attributed to the contraction in BSL's holdings of Government securities and utilization of Ways and means Advances by the government.

The gross foreign exchange reserves of the Bank of Sierra Leone declined by 1.66 percent to US\$533.16mn in August 2019 from US\$542.166mn in July 2019. The total inflows recorded was US\$9.61mn, while outflows amounted to US\$18.00mn, resulting to a net outflow of US\$8.39mn, with a revaluation adjustment of US\$ 0.60mn for exchange rate loss.

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 August 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

Production performance in the manufacturing sector was mixed in August 2019, as beer and stout, cement, confectionary and common soap recorded decreases in production, while output for maltina, acetylene and oxygen increased. Beer and stout production fell by 2.31 percent to 150.76 thousand cartons, while cement production declined by 17.13 percent to 28.11 thousand metric tons. Similarly, production of confectionery and common soap declined by 2.33 percent to 199.63 thousand pounds and by 3.66 percent to 48.13 thousand metric tons respectively.

On the other hand, production of maltina grew by 8.76 percent to 29.05 thousand crates, while acetylene and oxygen rose by 5.36 percent to 26.32 thousand cubic feet and by 14.43 percent to 30.14 thousand cubic feet respectively.

2.1.2 Mining Sector

In the mining sector, diamond production declined by 0.09 percent to 71.95 thousand carats, and comprised 29.08 thousand carats of industrial and 42.88 thousand carats of gem. Similarly, production of rutile dropped by 6.15 percent to 9.76 thousand metric tons, while gold production decreased by 60.15 percent to 112.32 ounces. However, production increases were recorded in bauxite by 24.96 percent to 152.23 thousand metric tons.

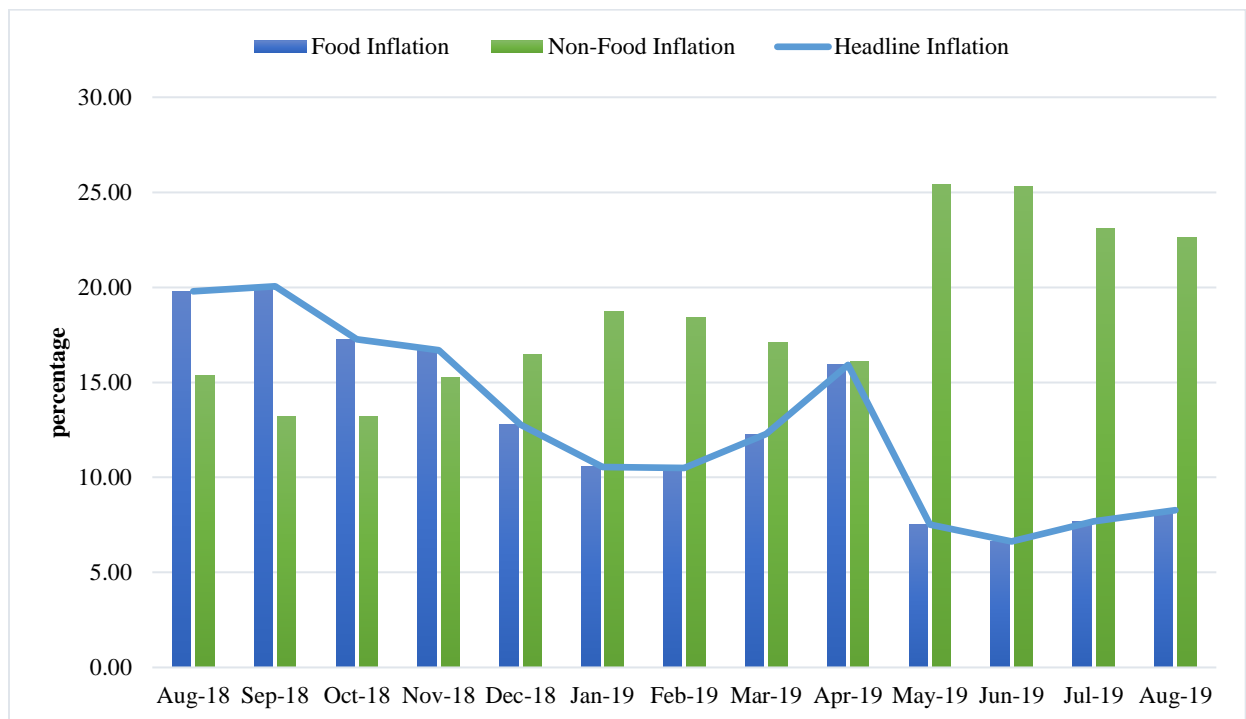
2.1.3 Electricity

Total electricity generation for August 2019 stood at 30.04Gw/hr, representing 18.04 percent increase in generation capacity during the review month. The increase in generation was a reflection of improved performance from both thermal plants and hydro power plants. Generation from thermal plants rose by 0.8 percent to 0.76Gw/hr, while hydro power generation grew by 18.54 percent to 29.27Gw/hr.

2.2 Price Development

Inflationary pressures remained elevated in August 2019 as headline inflation increased to 15.43 percent from 14.89 percent in July 2019. The development was mainly driven by increase in food prices, while non-food prices declined marginally.

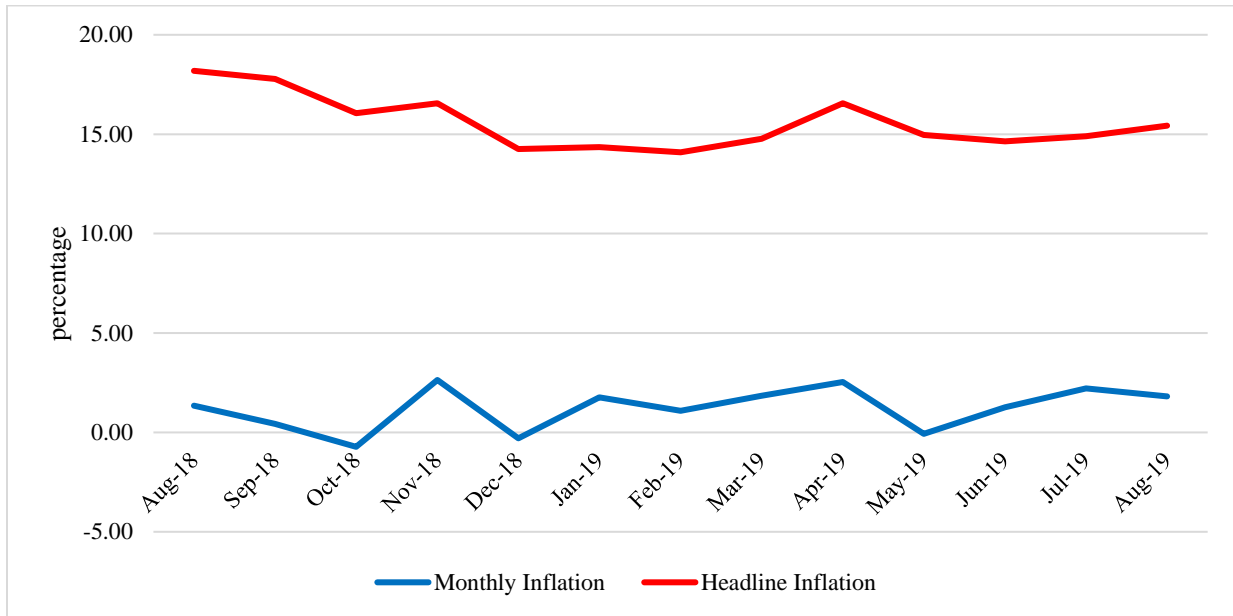
Figure 1: Headline, Food and Non-Food Inflation



Source: Research Department, BSL

Food inflation rose to 8.28 percent in August 2019 from 7.68 percent in July 2019, while non-food inflation fell slightly to 22.61 percent in August 2019 from 23.08 percent in July 2019.

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



Source: Research Department, BSL

On a month-on-month basis, consumer price inflation rate slowed to 1.82 percent in August 2019, from 2.21 percent in July 2019.

On regional basis, year-on-year inflation increased across all regions except in the Northern region. Inflation in the Western Area increased to 13.41 percent from 12.20 percent, Eastern region inflation increased to 21.17 percent from 20.54 percent, while Southern region inflation increased to 15.64 percent from 15.05 percent between July 2019 and August 2019. On the other hand, inflation in the Northern region fell to 15.66 percent in August 2019 from 16.27 percent in July 2019.

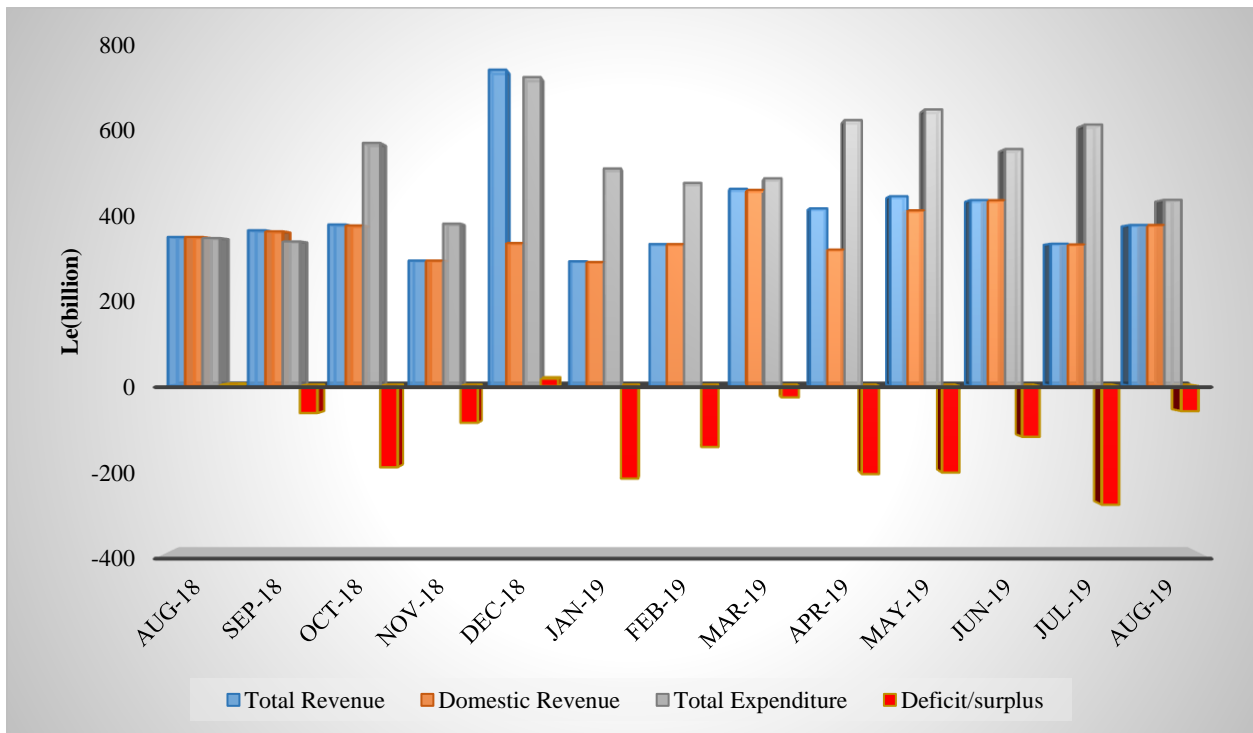
3.0 Government Budgetary Operations

In August 2019, government budgetary operations resulted in a deficit of Le59.37bn compared to Le280.98bn in July 2019. The narrowing deficit was attributable to the contraction in government spending, combined with an improvement in domestic revenue mobilization in the review month.

3.1 Revenues

Government revenue expanded by 13.18 percent to Le379.77bn, but was 16.46 percent lower than the budgeted target of Le454.57bn. This development was due to the improvement in revenue collected from all the components. Receipts from customs and excise duties grew by 7.05 percent to Le58.80bn, while revenue from income tax rose by 19.95 percent to Le117.49bn. Similarly, receipts from good and services tax increased by 3.61 percent to Le85.92bn and Non-tax revenue expanded by 20.35 percent to Le113.42bn.

Figure 3: Government Revenue and Expenditure



Source: Research Department, BSL

3.2 Expenditures

Government expenditure contracted by 28.77 percent to Le439.13bn, and was 7.64 percent within the ceiling of Le475.47bn. The reduction in government spending was due to decreases in the wage bill, other expenditure, and debt services payments. Pensions, wages and salaries expenditure fell by 37.53 percent to Le166.01bn, while expenditure on goods and services payments decreased by 0.11 percent to Le186.67bn. Debt services payments dropped by 47.26 percent to Le86.45bn of which, domestic debt services payments amounted to Le70.76bn and foreign debt services payments amounted to Le15.70bn.

3.3 Financing

The overall deficit of Le59.37bn was financed exclusively from domestic sources.

4.0 Monetary Developments

Developments in monetary aggregates were mixed during the month of August 2019, as Broad Money (M2) expanded while Reserve Money (RM) contracted

4.1 Broad Money

Broad Money (M2) expanded by 1.14 percent in August 2019 compared to the 1.31 percent expansion in July 2019. This development was attributed to increases in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system

NFA of the banking system expanded by 1.63 percent in August 2019, from 7.82 percent contraction in July 2019. The growth in NFA was partly due to receipts of funds from timber export, marine resources, International bank for Reconstruction and Development for post Ebola services and mining companies in respect of mineral license fees, royalties and lease.

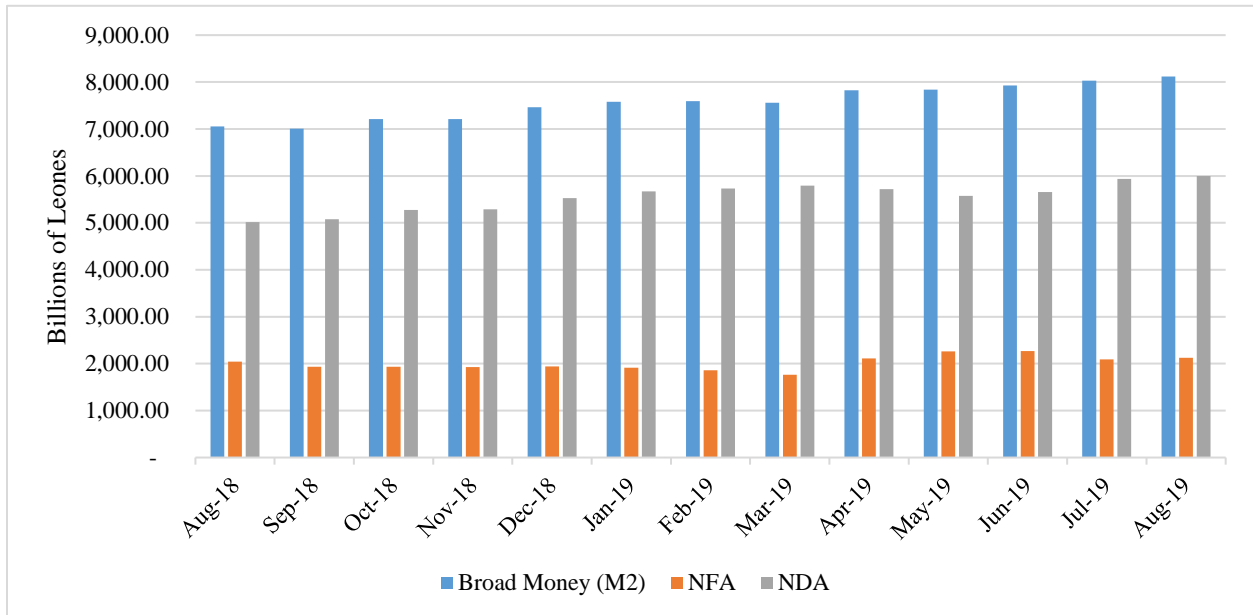
NDA of the banking system increased by 0.97 percent in August 2019 relative to the 4.97 percent expansion in July 2019. The growth in NDA was mainly on account of an increase in commercial banks' holdings of Government securities to support fiscal operations coupled with an increase in Credit to the Private sector by commercial banks. Credit to the Private Sector by commercial banks expanded by 2.34 percent in August 2019 compared to the flat growth recorded in July 2019.

Table 1: Broad Money and its Components

Billions of Leones	2019		Absolute Change		(% Change)	
	Jul-19	Aug-19	Jul-19	Aug-19	Jul-19	Aug-19
Reserve Money	2,378.69	2,317.31	14.73	(61.31)	0.62	(2.58)
Broad Money (M2)	8,028.27	8,120.09	103.79	91.82	1.31	1.14
Narrow Money (M1)	3,759.18	3,639.12	145.54	(120.06)	4.03	(3.19)
Currency outside banks	1,675.29	1,666.91	(45.51)	(8.38)	(2.64)	(0.50)
Demand deposit	2,083.89	1,972.21	191.05	(111.68)	10.09	(5.36)
Quasi Money	4,269.09	4,480.97	(41.75)	211.88	(0.97)	4.96
o.w. Foreign currency deposits	2,407.45	2,225.82	176.90	(181.64)	7.93	(7.54)
Time and saving deposit	1,857.30	2,250.65	(218.74)	393.35	(10.54)	21.18
Net Foreign Asset	2,090.77	2,124.84	(177.41)	34.07	(7.82)	1.63
BSL	429.89	386.26	(28.94)	(43.63)	(6.31)	(10.15)
ODCs	1,660.88	1,738.58	(148.46)	77.70	(8.21)	4.68
Net Domestic Assets	5,937.50	5,995.25	281.20	57.75	4.97	0.97
Net Domestic Credit	7,833.32	7,993.92	291.99	160.60	3.87	2.05
Government (Net)	5,675.21	5,804.10	258.39	128.89	4.77	2.27
Private Sector	2,179.21	2,229.45	(1.50)	50.24	(0.07)	2.31
o.w. BSL	30.95	30.89	(1.58)	(0.05)	(4.87)	(0.16)
ODCs	2,148.27	2,198.56	0.08	50.29	0.00	2.34
Other Sectors (Net)*	(21.11)	(39.64)	35.10	(18.53)	(62.45)	87.78
Other Items (Net)	(1,895.81)	(1,998.67)	(10.80)	(102.85)	0.57	5.43
Money Multiplier	3.38	3.50				

*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, the expansion in M2 was a reflection of expansion in Quasi Money, which was more than offset the decrease in Narrow Money (M1) in August 2019. Quasi Money grew by 4.96 percent in August 2019 compared to the 0.97 percent decrease in July 2019, which was mainly due to the 21.18 percent increase in time and savings deposits, while foreign currency deposits declined by 7.54 percent during the same period. M1 contracted by 3.19 percent in August 2019 from 4.03 percent growth in July 2019. The decline in M1 was as a result of decreases in demand deposits (5.36 %) and in currency outside banks (0.50%).

4.2 Reserve Money

Reserve Money (RM) contracted by 2.58 percent in August 2019, from the 0.62 percent increase in July 2019. RM declined on account of decreases in Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the Bank of Sierra Leone. NFA of the Bank of Sierra Leone contracted by 10.15 percent and was due to an increase in foreign liabilities. NDA declined by 0.91 percent and was mainly attributed to the contraction in the BSL's holdings of Government securities and utilisation of Ways and means Advances.

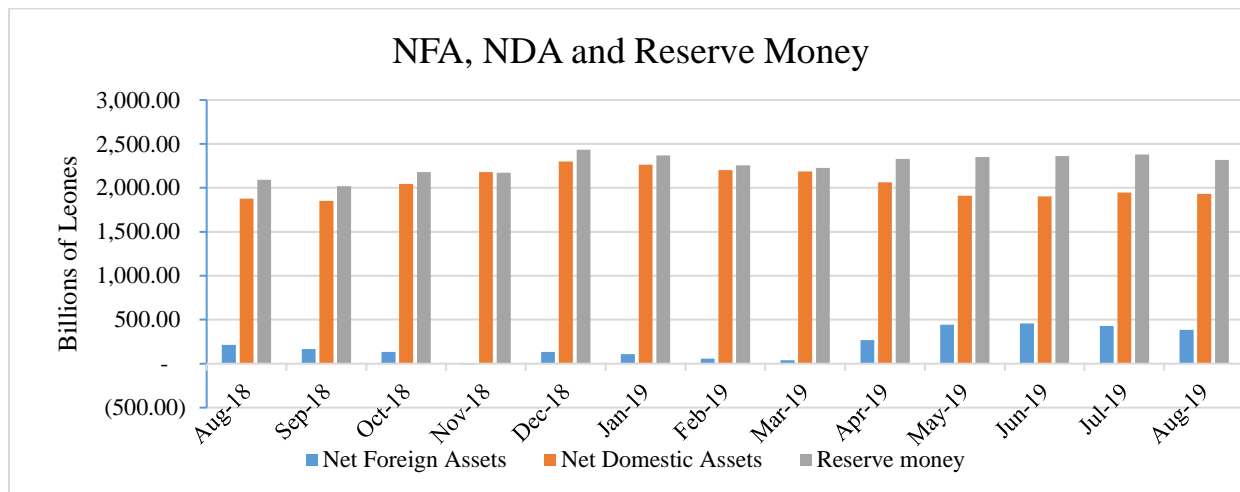
From the liability side of the balance sheet, the decline in RM was on account of decreases in all its component as both Banks' reserves and Currency issued contracted by 2.70 percent and 2.57 percent respectively.

Table 2: Reserve Money and its Components

Billions of Leones	2019		Absolute change		(%) Change	
	Jul-19	Aug-19	Jul-19	Aug-19	Jul-19	Aug-19
1. Net Foreign Assets	429.89	386.26	(28.94)	(43.63)	(6.31)	(10.15)
2. Net Domestic Assets	1,948.80	1,931.06	43.67	(17.74)	2.29	(0.91)
2.1 Government Borrowing (net)	2,352.91	2,315.48	72.69	(37.43)	3.19	(1.59)
o.w. 2.11 Securities	1,046.18	1,016.77	(73.02)	(29.41)	(6.52)	(2.81)
2.12 Ways and Means	181.55	174.70	(3.58)	(6.85)	(1.93)	(3.77)
2.13 GoSL/IMF Budget financing	1,294.80	1,294.80	123.26	0	10.52	0
3. Reserve money	2,378.69	2,317.31	14.73	(61.37)	0.62	(2.58)
o.w. 3.1 Currency issued	1,937.43	1,887.69	(46.32)	(49.74)	(2.33)	(2.57)
3.2 Bank reserves	436.92	425.12	60.96	(11.80)	16.21	(2.70)

Source: Research Department, BSL

Figure 5: Reserve Money and its Sources

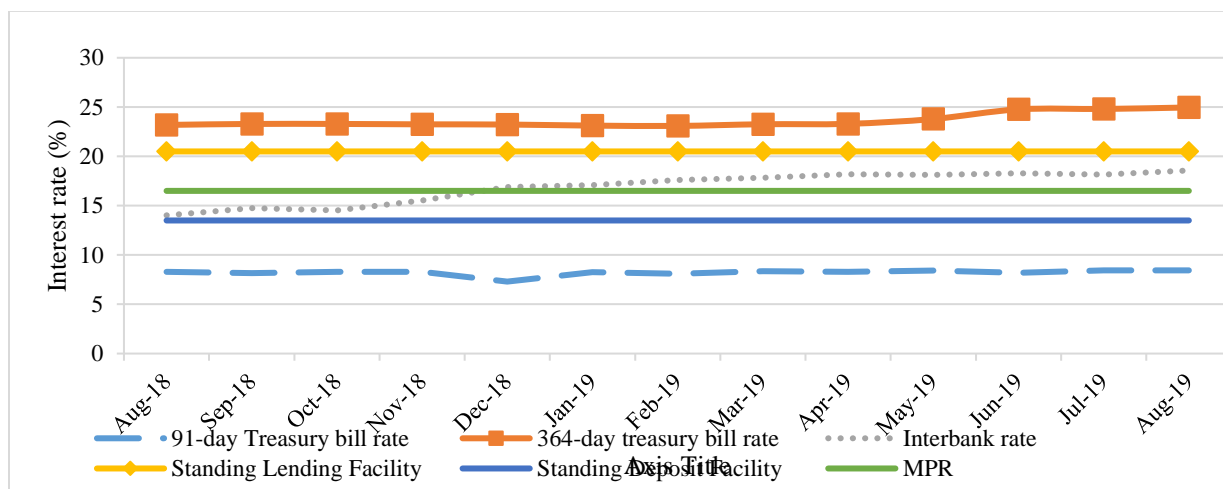


Source: Research Department, BSL

4.3 Interest Rates

The Monetary Policy rate of the Bank remained unchanged at 16.50 percent in August 2019. Also, the Standing Lending Deposit Facility rates remained unchanged at 20.50 percent and 13.50 percent respectively. The interbank rate at which commercial banks lend among themselves increased from 18.27 percent in July 2019 to 18.57 percent in August 2019, but was within the policy corridor rate. The commercial banks' average Lending and Savings deposits 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 were mixed. 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 8.53 percent and 24.81 percent in July 2019 to 8.54 percent and 24.96 percent in August 2019, respectively.

Table 3: Interest Rates (%)

	2018					2019							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
91-day T-Bills	8.28	8.16	8.30	8.30	7.30	8.26	8.08	8.35	8.30	8.41	8.20	8.44	8.44
182-day T-Bills	8.09	6.04	7.86	6.22	8.14	8.42	8.40	8.23	8.20	7.23	7.13	8.53	8.54
364-day T-Bills	23.19	23.29	23.29	23.25	23.23	23.12	23.09	23.26	23.30	23.79	24.77	24.81	24.96
Interbank rate	14.02	14.76	14.51	15.53	16.88	17.07	17.61	17.84	18.18	18.12	18.27	18.16	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	21.345	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	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

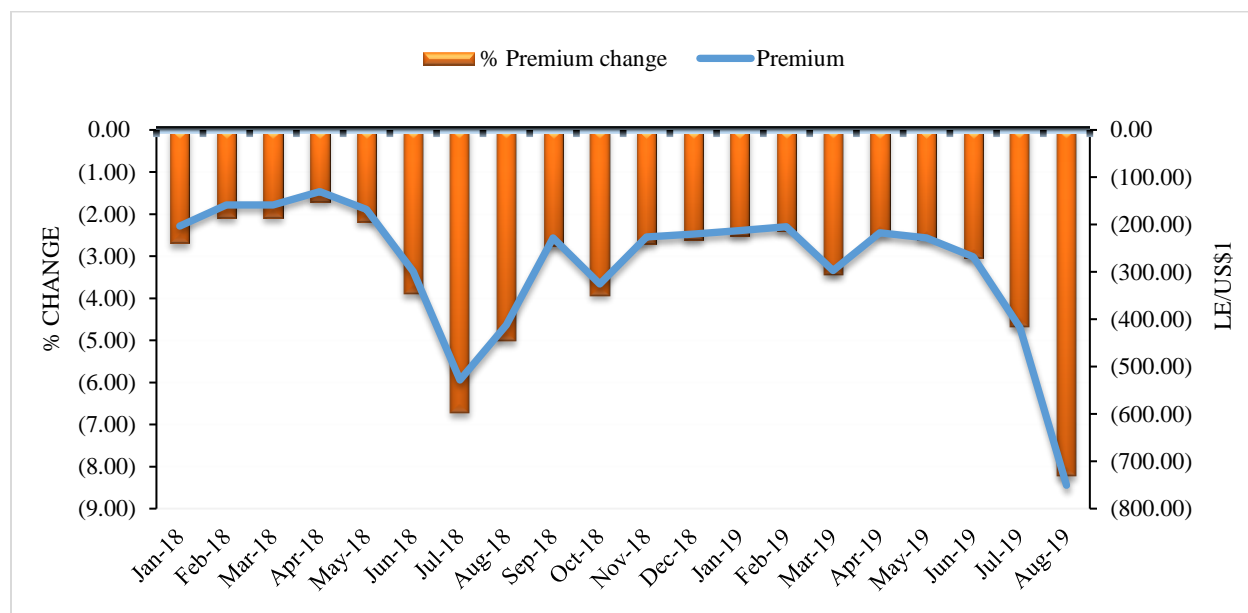
5.0 Exchange Rate Developments

In August 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 front, the Leone depreciated in the parallel, commercial banks, official and bureau markets by 5.48 percent, 2.91 percent, 2.39 percent and 1.57 percent, averaging Le9,823.81/US\$1, Le9,218.09/US\$1, Le9,028.52/US\$1 and Le8,912.82/US\$1 respectively.

Similarly, on the selling front, the Leone depreciated in the parallel market, commercial banks, official and bureau markets by 6.23 percent, 3.16 percent, 2.39 percent and 2.24 percent averaging Le9,916.67/US\$1, Le9,367.22/US\$1, Le9,210.91/US\$1 and Le9,104.29/US\$1 respectively.

The average premium between the Official and Parallel rates widened by 3.55 percentage points to Le750.52/US\$1 in August, 2019 from Le417.23/US\$1 in July, 2019 (See Figure 7).

Figure 7: Premium between Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

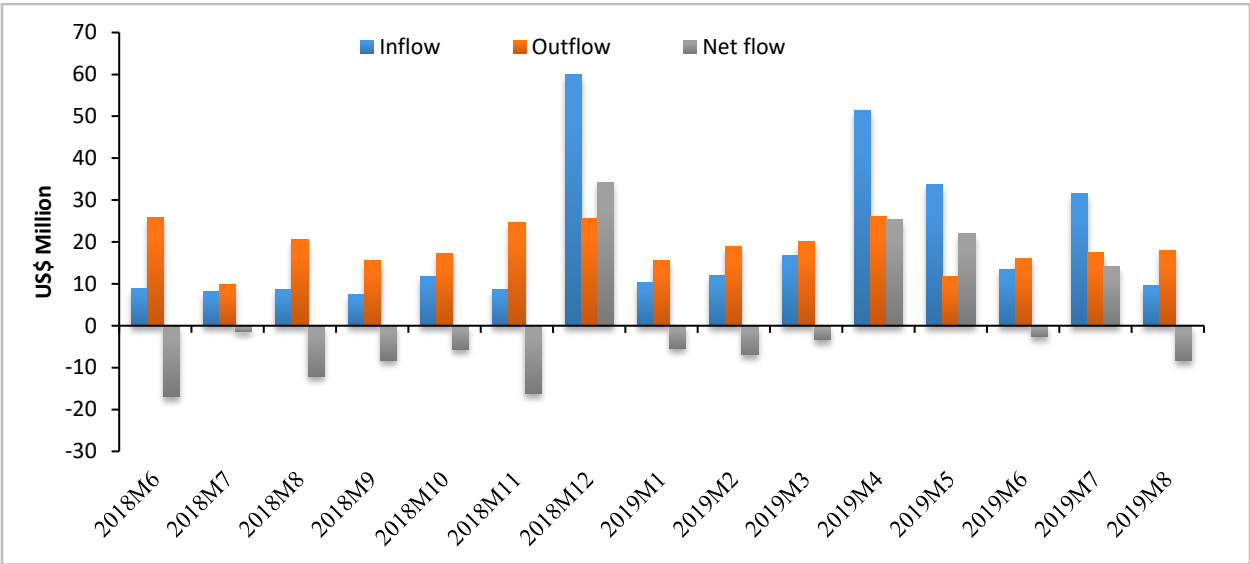
6.0 Gross Foreign Exchange Reserves

The gross foreign exchange reserves of the Bank of Sierra Leone declined by 1.66 percent to US\$533.16mn in August 2019 from US\$542.166mn in July 2019. Total inflows recorded was US\$9.61mn, while outflows amounted to US\$18.00mn, resulting to a net outflow of US\$8.39mn, with a revaluation adjustment of US\$ 0.60mn for exchange rate loss.

Significant inflows included export receipts of US\$6.91mn of which: receipts from timber exports (US\$1.98mn), royalty payments from Sierra Rutile (US\$1.42mn), Bauxite (US\$0.72mn), Koidu Holdings (US\$0.57), other mining receipts (US\$1.13mn) and fishing license fees (US\$0.89mn). Other government receipts (US\$1.02mn), while US\$1.33mn was interest earned on BSL's investments abroad.

Significant outflows comprised payments for goods and services totaling US\$16.28mn, of which: utilisation of funds in respect of interbank market operations amounted to US\$11.22mn, embassies/missions payments amounted to US\$1.55mn), BSL's expenditures amounted to US\$0.83mn, government travel and other government expenditures totaled US\$2.26mn. Other outflows consisted of debt service payments owed to World Bank (US\$0.48mn), EC/EIB (US\$0.73mn), AfDB (US\$0.32mn) and other multilateral and bilateral creditors (US\$0.20mn).

Figure 8: Foreign Exchange Flows



Source: Bank of Sierra Leone