



BANK OF SIERRA LEONE

Monthly Economic Review

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BANK OF SIERRA LEONE

MONTHLY ECONOMIC REVIEW

June 2018

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ABBREVIATIONS

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

1.0 Highlights

Macroeconomic performance in June 2018 continued to be mixed across key sectors of the economy. Annual headline inflation increased by 0.55 percentage point to 16.57 per cent in June 2018 from 16.02 per cent in May 2018. The price increase was triggered mainly by the increase in food prices exhibited during the Ramadan period and the pass-through effect of the exchange rate

Government's budgetary operations in June 2018 resulted in an overall deficit of Le73.86bn from a deficit of Le2.90bn in May 2018. The deficit was on account of increase in government expenditure which surpassed total revenue collected during the review month.

Developments in monetary aggregates were mixed in June 2018, as Broad Money (M2) expanded, though marginally, while Reserve Money (RM) contracted. Broad money (M2) expanded by 0.28 per cent in June 2018, compared to the 1.53 per cent decline recorded in May 2018. The growth in M2 was mainly as a result of the growth in Net Domestic Assets (NDA) of the banking system. Net Foreign Assets (NFA) of the banking system contracted in the review month.

During the review month, the Monetary Policy Rate (MPR) remained unchanged at 15.00 per cent. The interbank rate declined to 13.66 per cent in June 2018, from 14.07 per cent in May 2018, while the commercial banks' average lending and saving deposit rates remained unchanged at 21.35 per cent and 2.38 per cent respectively. The Prime lending rate remains within the range of 17.92 to 24.79.

Gross Foreign Exchange Reserves as at end-June 2018 was US\$515.75mn, decreasing by 3.62 per cent above the stock of US\$535.14mn recorded in May 2018. The average exchange rate of the Leone against the US dollar depreciated marginally in June 2018. The depreciation of the Leone was reflected across all segments of the foreign exchange market.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

The manufacturing sector recorded mixed outcomes in June 2018. The production of beer and stout increased by 7.45 per cent to 156.14 thousand cartons from 145.32 thousand cartons; maltina and oxygen increased by 16.11 per cent to 27.61 thousand cartons from 23.78 thousand cartons and 24.75 per cent to 24.65 thousand cubic feet from 19.76 thousand cubic feet respectively; Common soap production increased by 19.58 per cent to 56.98 thousand metric tons from 47.65 thousand metric tons. The production of paint and acetylene fell by 1.56 per cent to 47.99 thousand gallons from 48.75 thousand gallons and 1.52 per cent to 23.97 thousand cubic feet from 24.34 thousand cubic feet respectively. Production of confectionery decreased by 1.38 per cent to 206.87 thousand pounds from 209.76 thousand pounds.

2.1.2 Mining

Activities in the mining sector were broadly subdued as all minerals but bauxite recorded declines in their production levels in the reporting month. Diamond production fell by 32.25 per cent to 66.44 thousand carats, of which industrial diamond amounted to 39.86 thousand carats while gem diamond was 26.85 thousand carats. Rutile and ilmenite production decreased by 22.82 per cent to 8.86 thousand metric tons from 11.48 thousand metric tons and 19.89 per cent to 4.51 thousand metric tons from 5.63 thousand metric tons respectively. Gold production declined by 35.91 per cent to 336.80 ounces from 525.52 ounces. Bauxite production increased by 2.92 per cent to 190.87 thousand metric tons from 185.45 thousand metric tons.

2.1.3 Electricity Generation

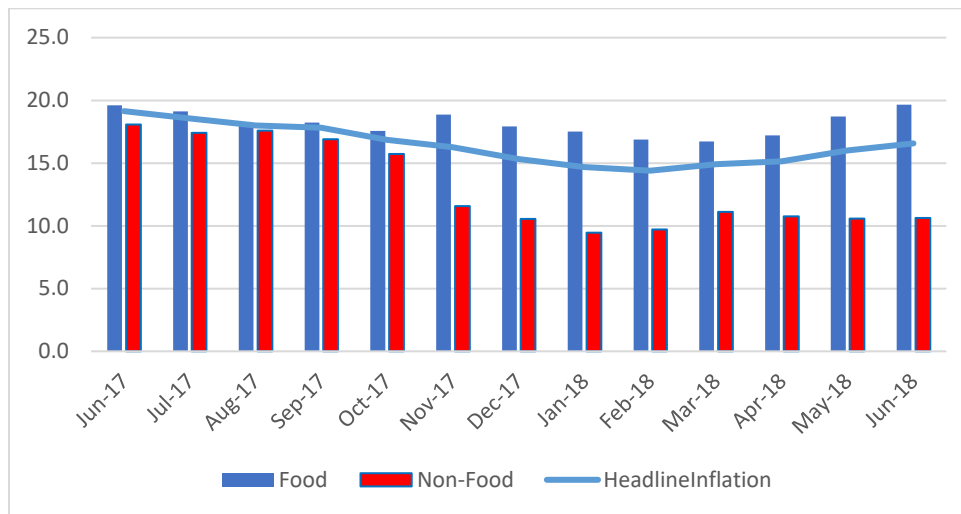
Electricity generation in June 2018 decreased by 44.47 per cent to 10.78 GW/hr, with 5 GW/hr from thermal plant and 5.77 GW/hr from hydro power.

2.2 Price Developments

Annual headline inflation increased by 0.55 percentage point to 16.57 per cent in June 2018 from 16.02 per cent in May 2018. The price increase was triggered mainly by the increase in food items.

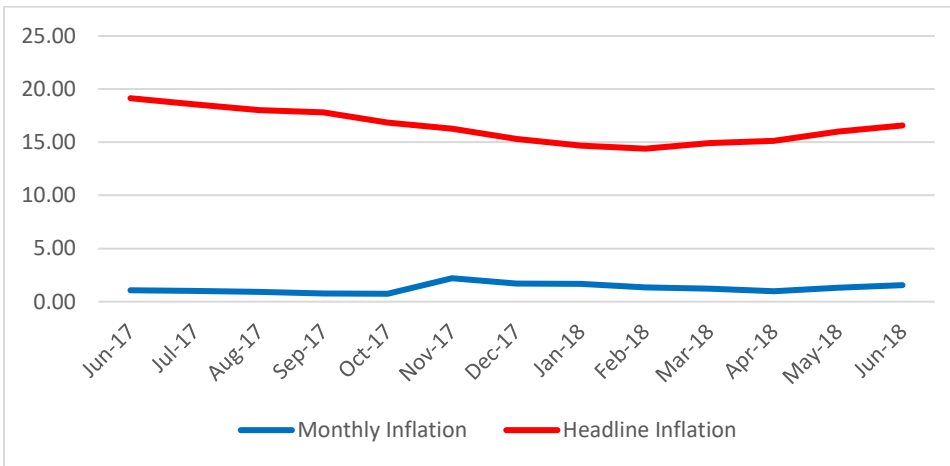
Food inflation increased to 19.65 per cent in June 2018 from 18.73 per cent in May 2018. The rise in food prices resulted from demand pressure for food items exhibited in the Ramadan period and the pass through effect of the exchange rate. Non-food inflation increased to 10.62 per cent in June 2018 from 10.57 per cent in May 2018.

Figure 1: Headline, Food and Non-Food Inflation



Source: SSL & Research Department, Bank of Sierra Leone

On a month-on-month basis, consumer price inflation increased to 1.55 per cent in June 2018 from 1.31 per cent in May 2018. The price development was on account of the rise in the prices of food and non-alcoholic beverages, alcoholic beverages and tobacco and furniture, household equipment and household maintenance, clothing and footwear etc.

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

Source: SSL & Research Department, Bank of Sierra Leone

On regional basis, year-on-year inflation rates increased in the Western Area to 14.31 per cent in June 2018 from 13.77 per cent in May 2018; Eastern region inflation increased to 16.19 per cent in June 2018 from 15.8 in May 2018; Southern region inflation increased to 19.07 per cent in June 2018 from 18.68 per cent in May 2018 and Northern region inflation increased to 19.06 per cent in June 2018 from 18.28 per cent in May 2018.

3.0 Government Budgetary Operations

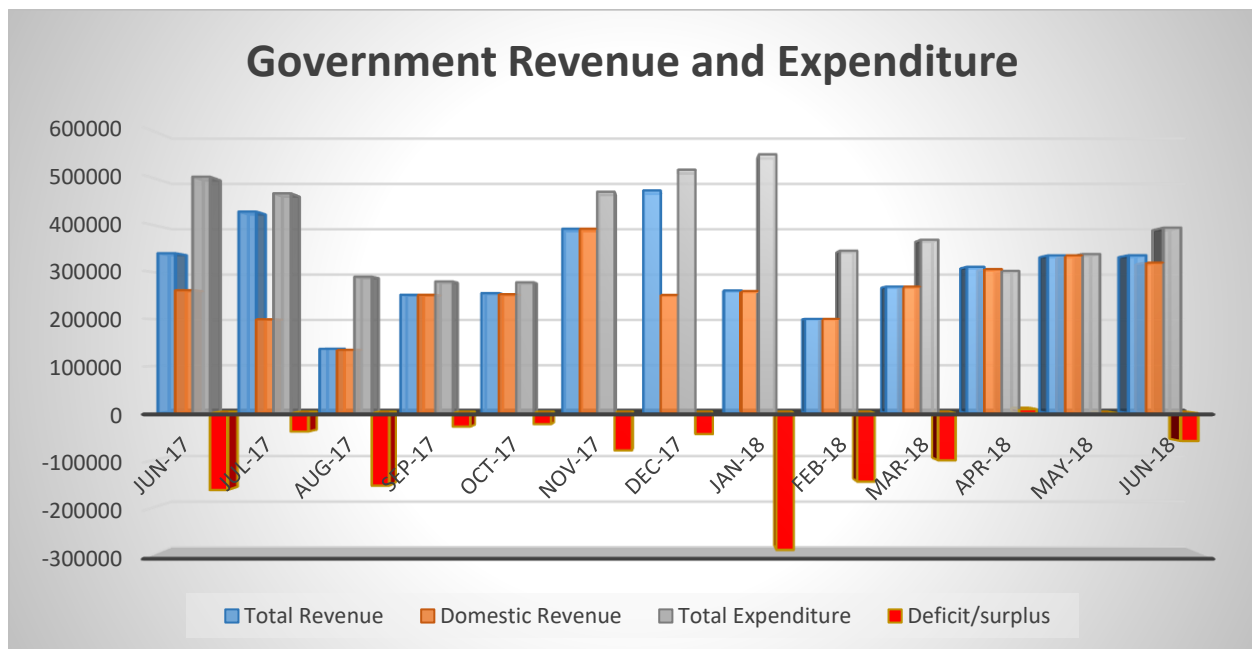
Government's budgetary operations in June 2018 resulted in a deficit of Le73.87bn from a deficit of Le2.9bn in May 2018. The deficit was on account of increase in government expenditure which surpassed total revenue collected during the reporting month.

3.1 Revenues

Government revenue decreased by 4.5 per cent to Le320.08bn in June 2018 from Le335.15bn in May 2018. The decrease in total revenue was explained by decline in domestic revenue mobilization as there was no disbursement of external grants in the review period. Domestic revenue fell by 4.61 per cent to Le319.71bn from Le335.15bn. The decrease in domestic revenue

was reflected in all the main components but for income tax receipts which increased during the reporting month. Customs and Excise receipts decreased by 2.7 per cent to Le63.05bn in June 2018 from Le64.80bn in May 2018. Goods and Services revenue declined by 15.15 per cent to Le69.37bn in June 2018 from Le81.76bn in May 2018. Non-tax revenue declined by 45.36 per cent to Le51.85bn in June 2018 from Le94.90bn in May 2018. Receipts from Income Tax increased by 44.57 per cent to Le135.43bn in the reporting month from Le93.68bn in May 2018.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditures

Total government expenditure in June 2018 grew by 16.53 per cent to Le393.93bn from Le338.05bn in May 2018. The increase in total government spending was explained by increased debt services payments and Treasury Expenses for goods and services. Debt services payments increased by 25.14 per cent to Le131.74bn in the reporting month from Le105.28bn in May 2018, of which foreign debt services payments increased by 108.36 per cent to Le66.77bn from Le32.05bn to Le66.77bn while domestic debt services payments declined by 11.28 per cent to Le64.98bn in June 2018 from Le73.23bn in May 2018. Treasury Expenses for goods and services

increased to Le110.92bn in June 2018 from Le77.12bn in May 2018. Wages and salaries declined by 2.77 per cent to Le151.16bn from Le155.47bn in the preceding month.

3.3 Financing

The overall deficit of Le73.87bn was financed from domestic resources.

4.0 Monetary Developments

Developments in monetary aggregates were mixed in June 2018, as Broad Money (M2) expanded, though marginally, while Reserve Money (RM) contracted.

4.1 Broad Money

Broad money (M2) expanded by 0.28 per cent in June 2018, compared to the 1.53 per cent decline recorded in May 2018. On the asset side, M2 increased mainly as a result of the growth in Net Domestic Assets (NDA) of the banking system, as Net Foreign Assets (NFA) of the banking system contracted in the review month.

NDA of the banking system increased by 4.35 per cent in June 2018, compared to a 2.48 per cent decline in May 2018. This was due to a Le424.17bn increase in claims of government by the Central bank. Growth in credit to the private sector also contributed to the growth in NDA of the banking system, which expanded by 2.32 per cent in June 2018, relative to a growth of 2.89 per cent in May 2018.

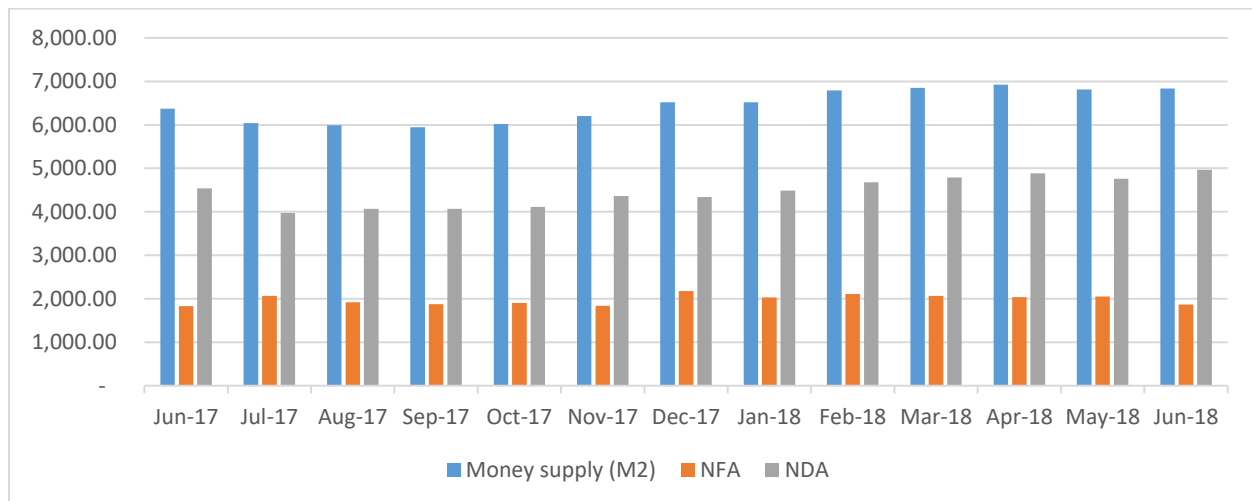
NFA of the banking system contracted by 9.16 per cent in June 2018, compared to a growth of 0.73 per cent in May 2018. This reflected decreases in both NFA of BSL and NFA of ODCs. NFA of BSL declined by 18.89 per cent in the review month, compared to a 14.81 per cent growth in the previous month. The contraction in NFA of BSL was as a result of debt service payments, embassy payments and payment to other international organizations. The NFA of ODCs decreased by 7.11 per cent, relative to a 1.80 per cent decline in the period under review. This was mainly due to decline in the nostro balances of commercial banks.

Table 1: Broad Money and its Components

Billions of Leones	2018		Absolute Change		(%) Change	
	May-18	Jun-18	May-18	Jun-18	May-18	Jun-18
Reserve money	2,149.79	2,104.01	(50.76)	(45.78)	(2.31)	(2.13)
Broad money (M2)	6,815.85	6,834.98	(105.87)	19.13	(1.53)	0.28
Narrow money (M1)	3,241.25	3,209.39	3.18	(31.86)	0.10	(0.98)
Currency outside banks	1,553.82	1,513.32	(16.35)	(40.50)	(1.04)	(2.61)
Demand deposit	1,687.43	1,696.07	19.53	8.64	1.17	0.51
Quasi money	3,569.02	3,622.33	(111.28)	53.31	(3.02)	1.49
o.w. Foreign currency deposit	1,694.81	1,678.47	(111.46)	(16.34)	(6.17)	(0.96)
Time and saving deposit	1,874.21	1,943.86	0.18	69.65	0.01	3.72
Net Foreign Asset	2,054.59	1,866.42	14.98	(188.17)	0.73	(9.16)
BSL	357.44	289.91	46.10	(67.53)	14.81	(18.89)
ODCs	1,697.15	1,576.51	(31.12)	(120.64)	(1.80)	(7.11)
Net Domestic Assets	4,761.26	4,968.56	(120.85)	207.30	(2.48)	4.35
Net Domestic Credit	6,280.88	6,376.81	(6.65)	95.93	(0.11)	1.53
Government (Net)	4,713.18	4,769.93	(48.62)	56.75	(1.02)	1.20
Private Sector	1,524.50	1,559.23	38.14	34.73	2.57	2.28
o.w. BSL	33.66	33.78	(3.76)	0.12	(10.05)	0.36
ODCs	1,490.84	1,525.45	41.90	34.61	2.89	2.32
Other Sectors (Net)*	43.20	47.65	3.83	4.45	9.73	10.30
Other Items (Net)	(1,519.62)	(1,408.25)	(114.20)	111.37	8.13	(7.33)
Money Multiplier	3.17	3.25				

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

Source: Research Department, BSL

Figure 4: Trends in M2, NFA and NDA

Source: Research Department, BSL

On the liability side, the expansion in M2 mainly reflected the 1.49 per cent growth in Quasi Money, compared to the 3.02 per cent decrease in May 2018. This was driven by the 3.72 per cent increase in time and saving deposit. In contrast, Narrow Money (M1) declined by 0.98 per cent in the review period, compared to a 0.10 per cent growth in the previous period. M1 contracted on account of a 2.61 per cent decrease in Currency outside banks.

4.2 Reserve Money

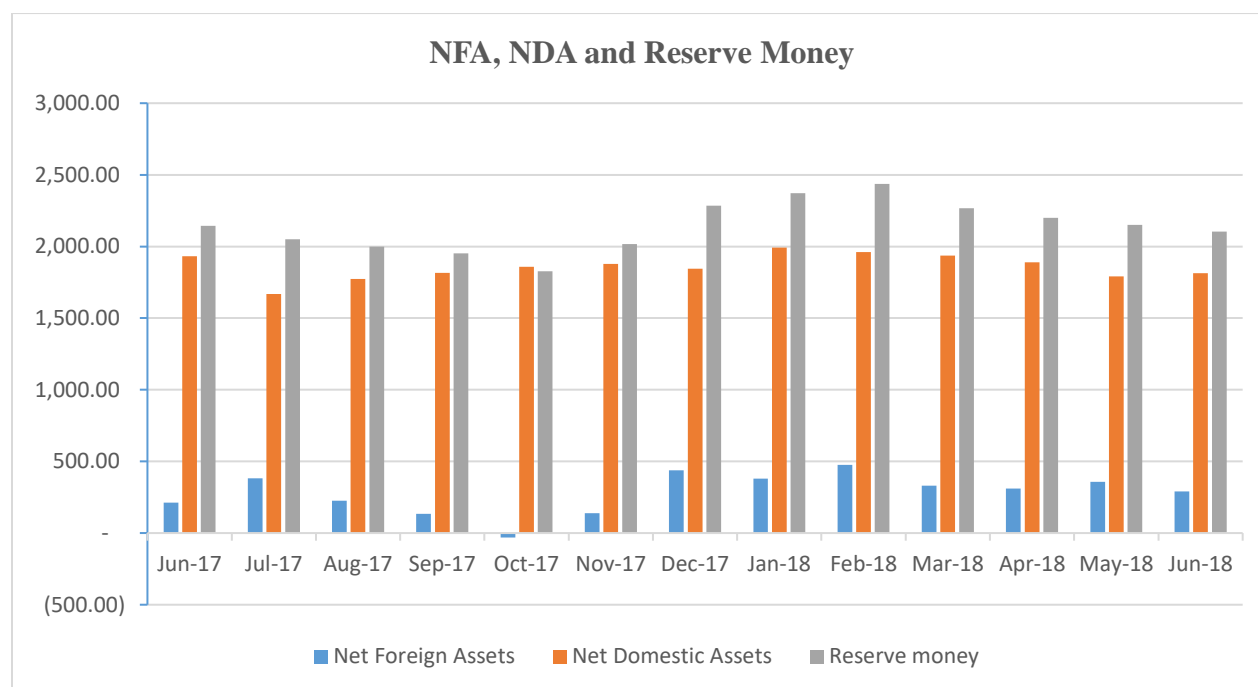
Reserve Money (RM) contracted by 2.13 per cent in June 2018, relative to the 2.31 per cent decline recorded in May 2018 (See Table 2). The fall in RM was mainly driven by the drawdown in NFA of BSL to settle foreign liabilities.

Table 2: Reserve Money and its Components

	2018		Absolute change		(%) Change	
	May-18	Jun-18	May-18	Jun-18	May-18	Jun-18
1. Net Foreign Assets	357.44	289.91	46.10	(67.53)	14.81	(18.89)
2. Net Domestic Assets	1,792.35	1,814.10	(96.86)	21.75	(5.13)	1.21
2.1 Government Borrowing (net)	2,040.40	2,076.92	(73.85)	36.52	(3.49)	1.79
o.w. 2.11 Securities	1,076.09	1,122.92	(91.38)	46.83	(7.83)	4.35
2.12 Ways and Means	88.04	95.95	(59.24)	7.91	(40.22)	8.98
2.13 GoSL/IMF Budget financing	988.95	988.95	-	-	-	-
3. Reserve money	2,149.79	2,104.01	(50.76)	(45.78)	(2.31)	(2.13)
o.w. 3.1 Currency issued	1,772.91	1,737.76	(42.76)	(35.15)	(2.36)	(1.98)
3.2 Banks' reserves	371.31	362.99	(10.22)	(8.32)	(2.68)	(2.24)

Source: Research Department, BSL

On the liability side, RM declined as a result of the fall in both Currency Issued (1.98 per cent) and Banks' reserves (2.24 per cent) during the month under review.

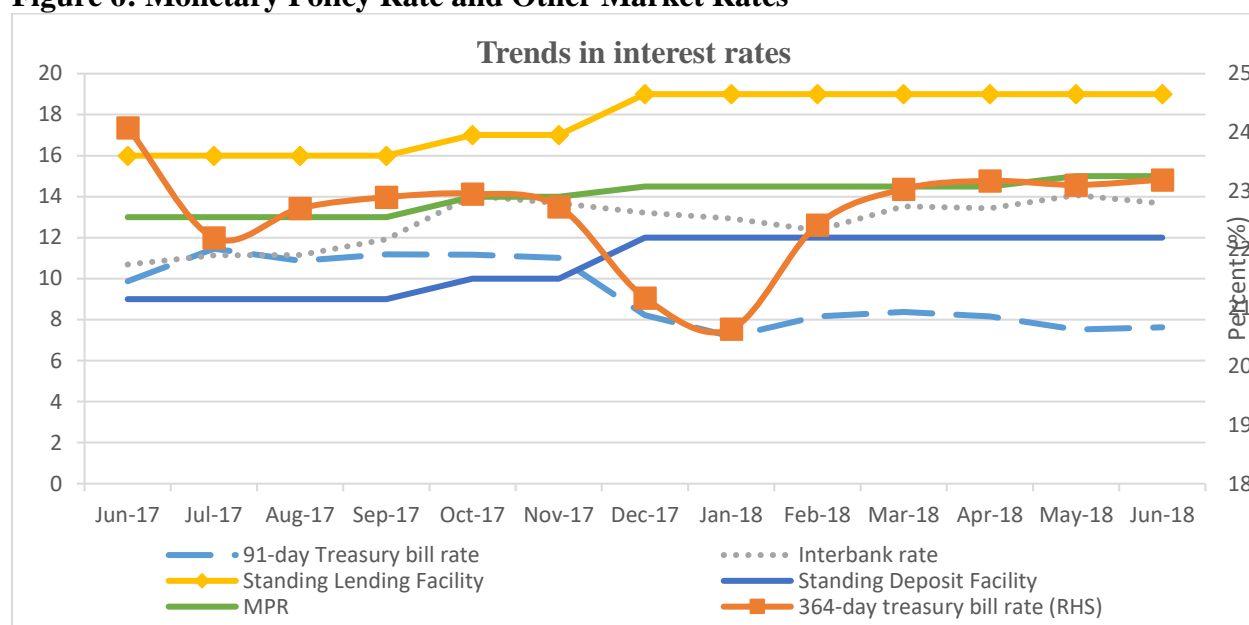
Figure 5: Reserve Money and its Sources

Source: Research Department, BSL

4.3 Interest Rates

During the review month, the Monetary Policy Rate (MPR) remained unchanged at 15.00 per cent, while the Lending and Deposit Facility rates also remained at 19.00 per cent and 12.00 per cent respectively. The Monetary Policy Committee (MPC) met on the 28th June 2018 and decided to further increase the MPR to 16.50 per cent. Accordingly, the Lending and Deposit Facility rates were raised to 20.50 and 13.50 per cent respectively.

The interbank rate declined to 13.66 per cent in June 2018, from 14.07 per cent in May 2018, while the commercial banks' average lending and saving deposit rates remained unchanged at 21.35 per cent and 2.38 per cent respectively. The Prime lending rate remains within the range of 17.92 to 24.79.

Figure 6: Monetary Policy Rate and Other Market Rates

Source: Research Department, BSL

Yields on government securities marginally increased across all tenures during June 2018. The 91-days treasury bills increased from 7.52 per cent in May 2018 to 7.62 in June 2018. The yield on the 182-days treasury bills increased from 8.05 per cent in May 2018 to 8.20 per cent in June 2018. The 364-days treasury bills also increased from 23.10 per cent in May 2018 to 23.19 per cent in June 2018.

Table 3: Interest Rates (%)

	2017							2018					
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
91-day Treasury bill rate	9.88	11.46	10.87	11.19	11.17	11.01	8.22	7.18	8.15	8.37	8.16	7.52	7.62
182-day Treasury bill rate	15.31	15.18	14.97	13.91	12.43	10.62	9.68	10.12	10.16	10.34	8.83	8.05	8.20
364-day treasury bill rate	24.08	22.2	22.70	22.89	22.95	22.73	21.17	20.64	22.42	23.03	23.17	23.10	23.19
Interbank rate	10.69	11.14	11.15	11.92	14.04	13.68	13.22	12.94	12.35	13.53	13.43	14.07	13.66
Standing Lending Facility	16.00	16.00	16.00	16.00	17.00	17.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00
Standing Deposit Facility	9.00	9.00	9.00	9.00	10.00	10.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
MPR	13.00	13.00	13.00	13.00	14.00	14.00	14.50	14.50	14.50	14.50	14.5	15.00	15.00
Average Lending rate	21.35	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	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 - 24.78
Saving 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

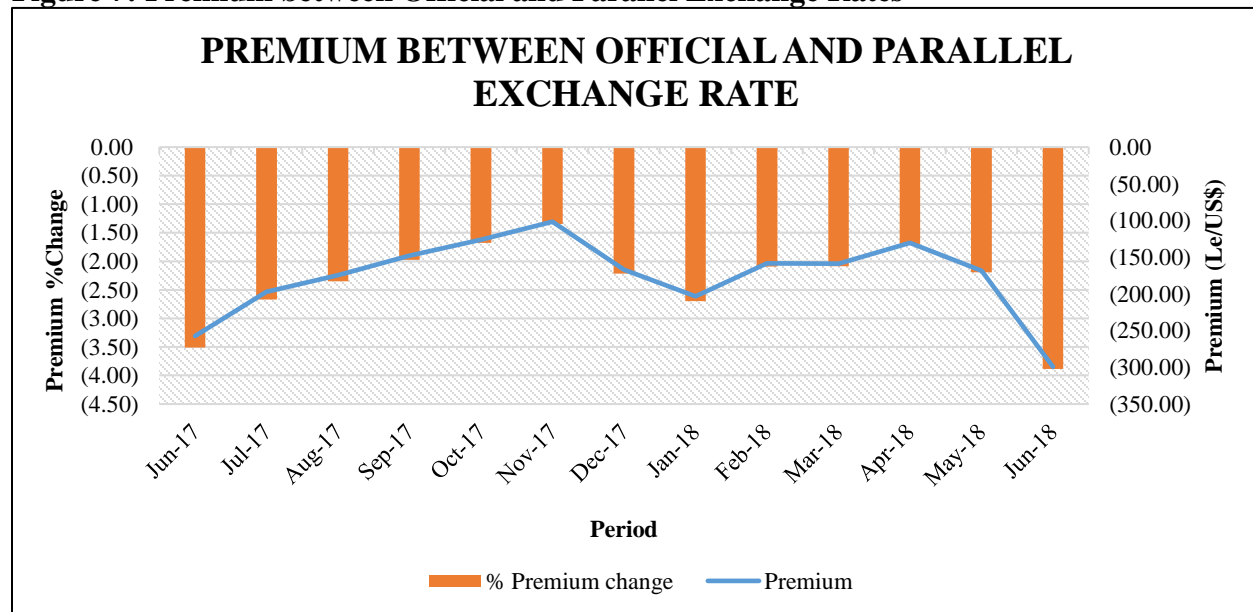
5.0 Exchange Rates Developments

The average exchange rate of the Leone against US dollar depreciated marginally in June 2018. The development in the Leone was reflected across all segments of the foreign exchange markets. On the buying front, the Leone depreciated by 1.74 per cent in the parallel market, 0.44 per cent in the commercial banks, 0.38 per cent in the bureau segment and 0.32 per cent in the official segment, averaging Le7,947.50/US\$1, Le7,724.26/US\$1, Le7,605.12/US\$1 and Le7,618.52/US\$1 respectively.

Similarly, on the selling front, the parallel market, commercial banks and official exchange rates depreciated by 2.22 per cent, 0.79 per cent, 0.32 per cent averaging, Le8,041.50/US\$1, Le7,880.85/US\$1, Le7,772.27/US\$1 respectively, while the bureau rate appreciated marginally by 0.32 per cent to Le7,720.74/US\$1.

The premium between the Official and Parallel rates widened by 1.46 percentage points to Le328.98/US\$1 in the review month from Le217.13/US\$1 in May 2018.

Figure 7: Premium between Official and Parallel Exchange Rates



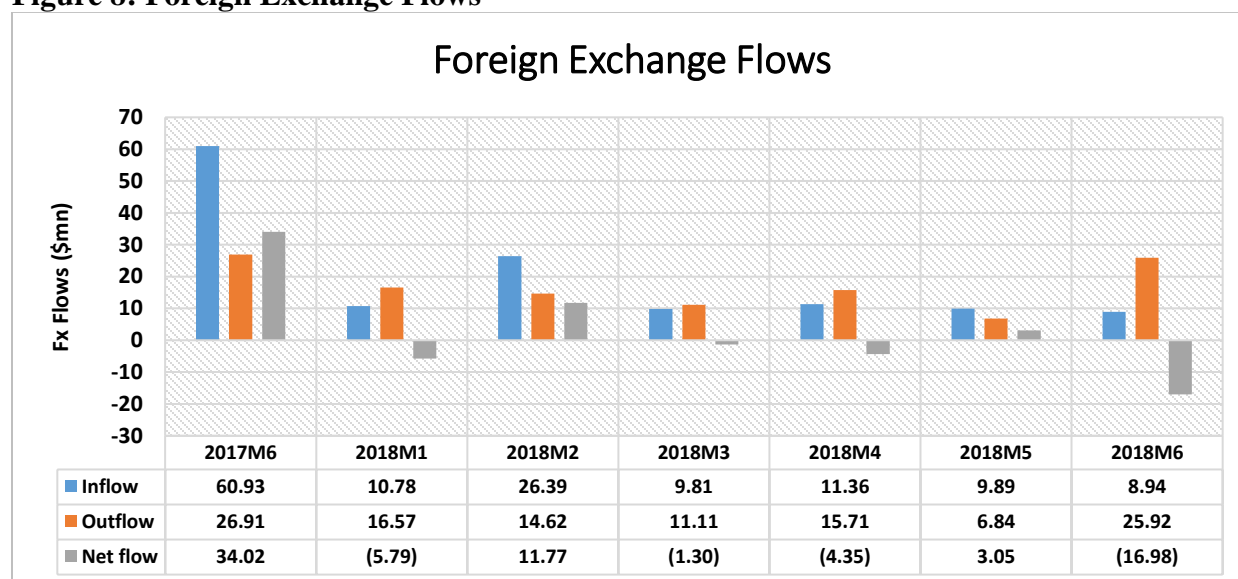
Source: Bank of Sierra Leone

6.0 Gross Foreign Exchange Reserves

Gross Foreign Exchange Reserves of the Bank of Sierra Leone decreased by 3.62 per cent to US\$515.75mn in June 2018 from US\$535.14mn in May 2018. The decline was driven by a net outflow of US\$16.98mn and a revaluation loss of US\$2.41mn in the reporting month.

Inflows during the period amounted to US\$5.20mn, consisting of export receipts US\$2.19mn and US\$1.09mn royalty payments from Sierra Rutile and Koidu holdings mining companies, US\$3.22mn being other government receipts and US\$2.00mn being funds from Global Fund TB project in respect of health workers salaries. Outflows amounted to US\$11.83mn consisting of payments for goods and services of which; US\$4.50mn was due to interbank market operations, US\$2.32mn was Bank of Sierra Leone's utilization for its activities, US\$1.75mn was Embassies/Mission payments and US\$1.45mn was government travel and other government expenditures. Debt service payments to various international organizations amounted to US\$14.09mn.

Figure 8: Foreign Exchange Flows



Source: Bank of Sierra Leone