



**BANK OF SIERRA LEONE**

**Monthly  
Economic  
Review**

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# **BANK OF SIERRA LEONE**

## **MONTHLY ECONOMIC REVIEW**

### **OCTOBER 2017**

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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
WB	-	World Bank

## **1.0 Highlights**

Macroeconomic performance continued to be mixed during the month of October 2017. Inflationary pressures continued to ease, as annual headline inflation decreased further to 16.86 per cent in October 2017, from 17.83 per cent in September 2017. The slowdown in inflation was reflected in food and non-food inflation.

Central government fiscal operations improved further as the deficit narrowed to Le23.02bn in October 2017 from a deficit of Le28.18bn in September 2017.

Growth in monetary aggregates for the month of October 2017 was mixed. Broad Money (M2) expanded by 1.27 per cent, while Reserve Money (RM) contracted by 6.31 per cent. The monetary policy rate, lending and deposit facility rates were revised upwards to 14.00 per cent, 17.00 per cent and 10.00 per cent in October 2017, from 13.00 per cent, 16.00 per cent and 9.00 per cent respectively, reflecting further tightening of the monetary policy stance.

Consistent with BSL's tight monetary policy stance, the interbank market rate further increased further to 14.04 per cent in October 2017 from 11.92 per cent in September 2017, while the commercial banks' average lending and savings deposits rates remained unchanged at 21.35 per cent and 2.38 per cent respectively.

Gross International Reserves of the BSL declined marginally by 0.11 per cent to US\$482.89mn as at end October 2017 from US\$483.43mn as at end September 2017, driven mainly by a revaluation loss amounting to US\$2.38mn, though inflows of US\$8.51mn outweighed outflows of US\$6.67mn.

The exchange rate of the Leone against the United States dollar in both the buying and selling fronts continued to be mixed during the month of October, 2017.

## **2.0 Production and Prices**

### **2.1 Production**

#### **2.1.1 Manufacturing**

Production performance in the manufacturing sector was mixed during the review period as Beer & Stout and Maltina, Cement, Oxygen and Paint production increased, while decreases in production were observed in Soft drinks, Common Soap, Confectionary and Acetylene.

Beer & Stout production increased slightly by 2.09 per cent from 154.43 thousand cartons in September 2017 to 157.66 thousand cartons in November 2017. Maltina production increased from 18.89 thousand cartons in September 2017 to 23.24 thousand cartons in the reporting month. Cement production increased to 26.43 thousand metric tons in October 2017, from 22.16 thousand metric tons in September 2017. Similarly, Oxygen production increased to 26.55 thousand cubic feet in the review month from 18.65 thousand cubic feet in September 2017. Paint production also increased to 56.45 thousand gallons in October 2017 from 49.32 thousand gallons in September 2017.

On the contrary, decreases in production were observed for Confectionery, Soft Drink, Common soap and Acetylene. Confectionery production decreased from 287.67 thousand pounds in September 2017 to 196.78 thousand pounds in October 2017, while Common soap production decreased from 38.97 thousand metric tons in September 2017 to 12.33 thousand metric tons in October 2017, while Soft drinks production decreased to 78.86 thousand crates in October 2017 from 98.98 thousand crates in September 2017.

#### **2.1.2 Mining**

Performance of the mining sector was mixed, as reflected in production declines in Rutile, Illmenite and Iron ore, while increases in production were recorded in Diamond and Gold. Diamond production increased from 23.26 carats in September 2017 to 33.78 carats in October 2017, while Gold production increased to 1,098.40 ounces in October 2017 from 178.06 ounces in September 2017. Iron ore production decreased to 234.02 thousand metric tons in October 2017,

down from 305.66 thousand metric tons in September 2017. Rutile production fell by 0.85 per cent from 16.53 thousand metric tons in September 2017 to 16.39 thousand metric tons in October 2017, while Ilmenite production fell by 2.38 per cent from 5.88 thousand metric tons in September 2017 to 5.74 thousand metric tons in October 2017.

### **2.1.3 Electricity Generation**

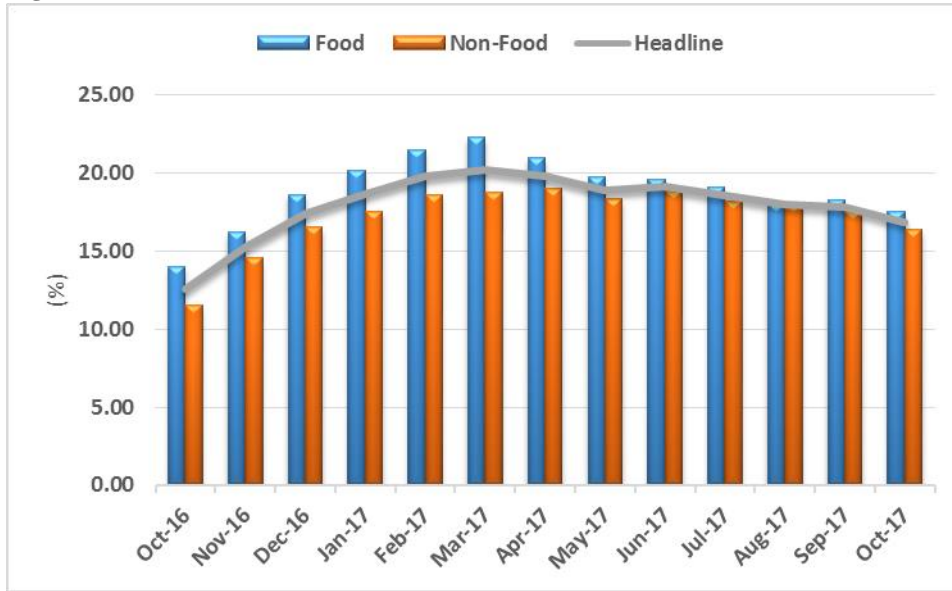
Electricity generated during the month of October 2017 totaled 29.66Gw/hr, representing an increase of 9.83 per cent from 27.00 Gw/hr generated in the previous month. Of the total generation, thermal plants contributed 0.96 Gw/hr, while hydro power contributed 28.7 Gw/hr.

## **2.2 Price Developments**

Inflationary pressures in October 2017 continued to ease as headline inflation declined by 0.97 percentage points to 16.86 per cent from 17.83 per cent in September 2017. The slowdown in headline inflation was reflected in both food and non-food inflation. Food inflation decreased by 0.69 percentage points to 17.55 percent in October 2017 from 18.24 per cent in September 2017. Similarly non-food inflation fell by 1.17 percentage points to 16.36 per cent in October 2017 from 17.53 per cent in September 2017. The decline in non-food inflation was partly reflected in the relative stability in the prices of water, housing, electricity, gas, and other fuel .Figure 1 plots Food, Non-food and Headline year-on-year inflation from October 2016 to October 2017.



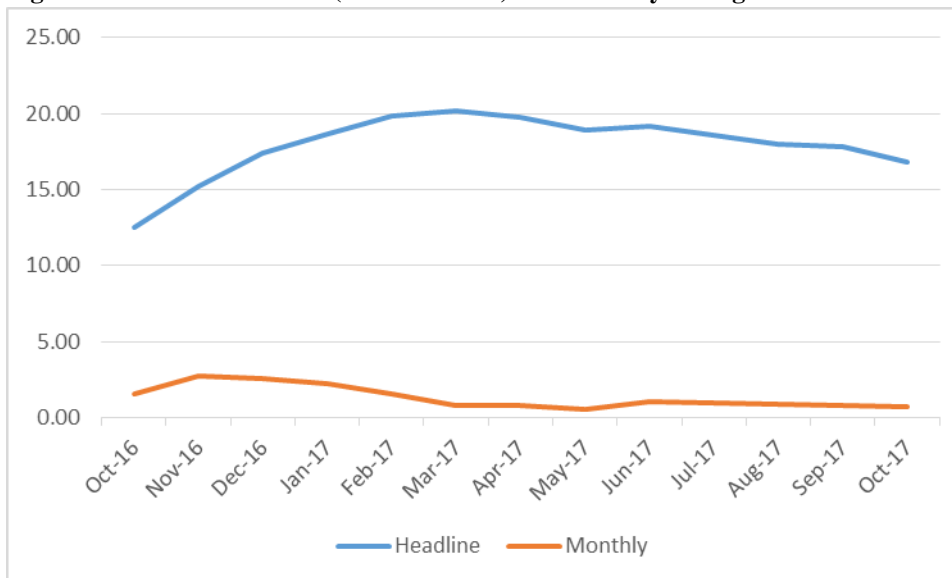
**Figure 1: Food, Non-food and Headline Inflation**



*Source: Research Department, Bank of Sierra Leone*

The consumer price index (CPI) on a month-on-month basis decreased to 0.74 per cent in October 2017 from 0.78 per cent in the preceding month.

**Figure 2: Headline Inflation (Year-on-Year) and Monthly Change**



*Source: Research Department, Bank of Sierra Leone*

Regional developments showed that monthly inflation rate increased in all the regions as follows: Western Area 0.67 per cent, Northern Region 0.73 per cent, Southern Region 1.08 per cent and Eastern Region 0.56 per cent.

### **3.0 Government Budgetary Operations**

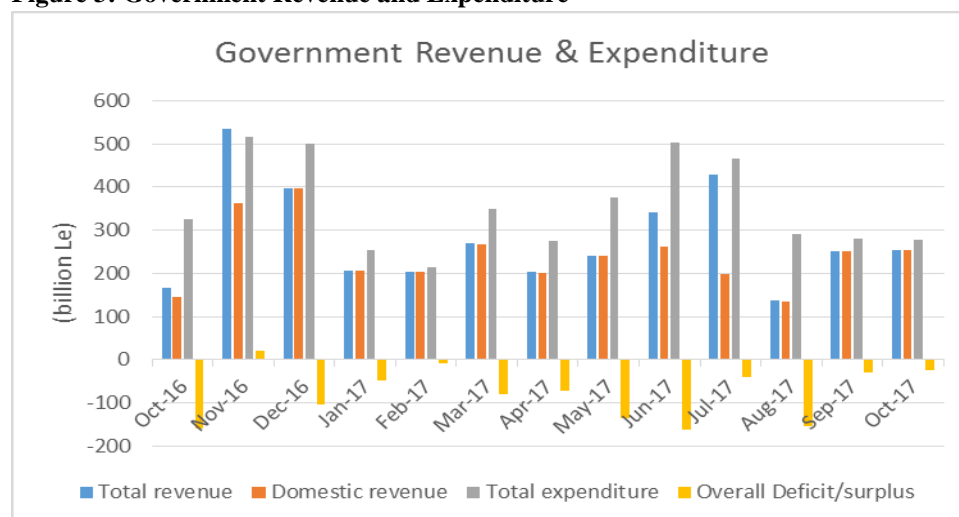
Government budgetary operations for the month of October 2017 resulted in a deficit of Le 23.02bn which was below both the previous month's deficit of Le28.18bn and the budgeted deficit of Le28.79bn. The narrow fiscal deficit was on account of the combined effects of improved revenue mobilization and a decline in government expenditure during the month.

#### **3.1 Revenues**

Domestic revenue improved by 0.43 per cent to Le252.71bn in October 2017 but was 31.84 per cent short of the budgeted amount of Le370.76bn. This slight improvement was attributable to increased performance in customs and excise tax collection which increased by 0.93 per cent from Le41.42bn in September 2017 to Le41.80bn in October 2017 but was below the target of Le103.41bn. Income tax declined to Le78.08bn in October 2017 by 12.91 per cent from Le89.66bn in September 2017 and was below the target of Le142.72bn by 45.29 per cent. Goods and Services tax decreased by 9.64 per cent from Le56.72bn in September 2017 to Le51.25bn in October 2017 and was below the target of Le86.72bn.

#### **3.2 Expenditures**

Total expenditure amounted to Le278.14bn in October 2017 when compared to Le279.81bn recorded in September 2017. This was however far below the target of Le413.95bn by 32.81 per cent. The drop in total expenditure in the review period was attributable to a considerable drop in Debt services consisting of both Domestic and Foreign debts. Total debt services dropped by 34.33 per cent from Le41.10bn in September 2017 to Le34.11bn in October 2017 but below the budgeted expenditure of Le93.33bn by 54.69 per cent. We however witnessed an uptick in other expenditure categories. Pensions, Wages & Salaries increased by 4.05 per cent from Le112.03bn in September 2017 to Le116.57bn in October 2017 albeit below the projected expenditure of Le151.33bn by 22.97 per cent. Other Expenditure category also increased marginally by 20.31 per cent to Le113.16bn in October 2017 from Le94.06 per cent in September 2017 but was below the budgeted amount of Le155.75bn by 27.35 per cent in the review period.

**Figure 3: Government Revenue and Expenditure**

*Source: Research Department, Bank of Sierra Leone*

### 3.3 Financing

The overall fiscal deficit of Le23.02bn was entirely financed by domestic resources.

### 4.0 Monetary Developments

Monetary developments was mixed in the month of October 2017, as Broad money (M2) increased while Reserve Money declined.

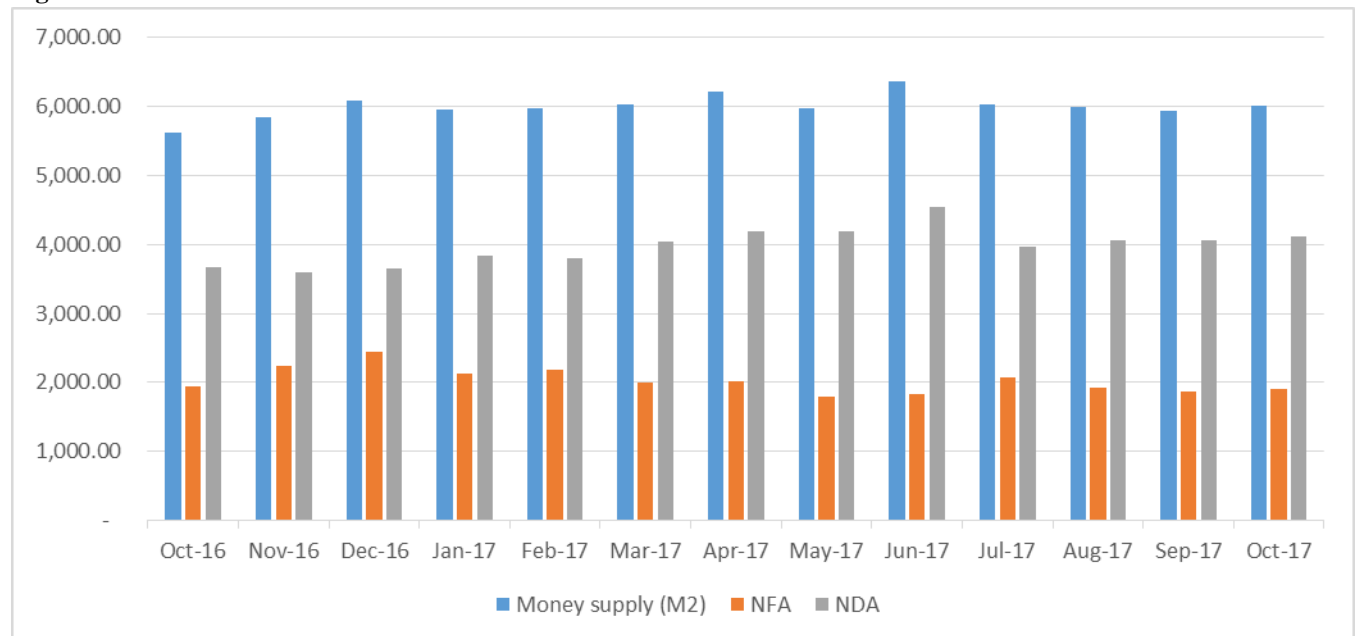
#### 4.1 Broad Money (M2)

Broad Money supply registered a growth of 1.27 per cent (Le75.32bn) in October 2017, compared to a contraction of 0.72 per cent (Le43.21bn) in the preceding month. The growth in M2 was reflected in an increase in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system. NDA expanded by 1.08 per cent (Le44.12bn) in October 2017, from a growth of 0.07 per cent (Le2.84bn) in September 2017, and contributed 0.74 per cent to M2 growth. The growth in NDA was largely driven by increase in credit extended to other sectors which included claims on State and Local, Public Non-Financial Corporation and Other Financial Corporations. NFA expanded by 1.67 per cent (Le31.20bn) in October 2017 from a contraction of 2.40 per cent (Le46.05bn) in September 2017, and contributed 0.52 per cent to M2 growth. The growth in NFA was mainly as a result of increase in the Nostro accounts of commercial banks.

**Table 1: Broad Money and its Components**

	2017		Absolute Change		(% Change)	
	Sep-17	Oct-17	Sep-17	Oct-17	Sep-17	Oct-17
<b>Reserve money</b>	<b>1,951.03</b>	<b>1,827.96</b>	<b>(47.86)</b>	<b>(123.07)</b>	<b>(2.39)</b>	<b>(6.31)</b>
<b>Money supply (M2)</b>	<b>5,942.88</b>	<b>6,018.20</b>	<b>(43.21)</b>	<b>75.32</b>	<b>(0.72)</b>	<b>1.27</b>
<b>Narrow money (M1)</b>	<b>2,572.19</b>	<b>2,623.53</b>	<b>(106.53)</b>	<b>51.34</b>	<b>(3.98)</b>	<b>2.00</b>
Currency outside banks	1,249.25	1,263.90	2.72	14.65	0.22	1.17
Demand deposit	1,322.94	1,359.63	(109.25)	36.69	(7.63)	2.77
<b>Quasi money</b>	<b>3,370.50</b>	<b>3,394.46</b>	<b>63.40</b>	<b>23.96</b>	<b>1.92</b>	<b>0.71</b>
o.w. Foreign currency deposit	1,701.58	1,710.95	44.85	9.37	2.71	0.55
Time and saving deposit	1,668.92	1,683.51	18.55	14.59	1.12	0.87
<b>Net Foreign Asset</b>	<b>1,873.43</b>	<b>1,904.63</b>	<b>(46.05)</b>	<b>31.20</b>	<b>(2.40)</b>	<b>1.67</b>
BSL	134.37	(30.73)	(90.51)	(165.10)	(40.25)	(122.87)
ODCs	1,739.06	1,935.36	44.46	196.30	2.62	11.29
<b>Net Domestic Assets</b>	<b>4,069.45</b>	<b>4,113.57</b>	<b>2.84</b>	<b>44.12</b>	<b>0.07</b>	<b>1.08</b>
<b>Net Domestic Credit</b>	<b>5,571.41</b>	<b>5,589.05</b>	<b>(68.21)</b>	<b>17.64</b>	<b>(1.21)</b>	<b>0.32</b>
Government (Net)	3,930.78	3,968.90	(19.33)	38.12	(0.49)	0.97
Private Sector	1,536.28	1,496.93	62.52	(39.35)	4.24	(2.56)
Other Sectors (Net)*	104.35	123.22	(111.40)	18.87	(51.63)	18.08
<b>Other Items (Net)</b>	<b>(1,501.96)</b>	<b>(1,475.48)</b>	<b>71.05</b>	<b>26.48</b>	<b>(4.52)</b>	<b>(1.76)</b>
<b>Monthly RM growth</b>	(2.39)	(6.31)				
<b>Monthly M2 growth</b>	(0.72)	1.27				
<b>Money Multiplier</b>	3.05	3.29				

*Source: Research Department, BSL*

**Figure 4: M2 and its Sources**

*Source: Research Department, BSL*

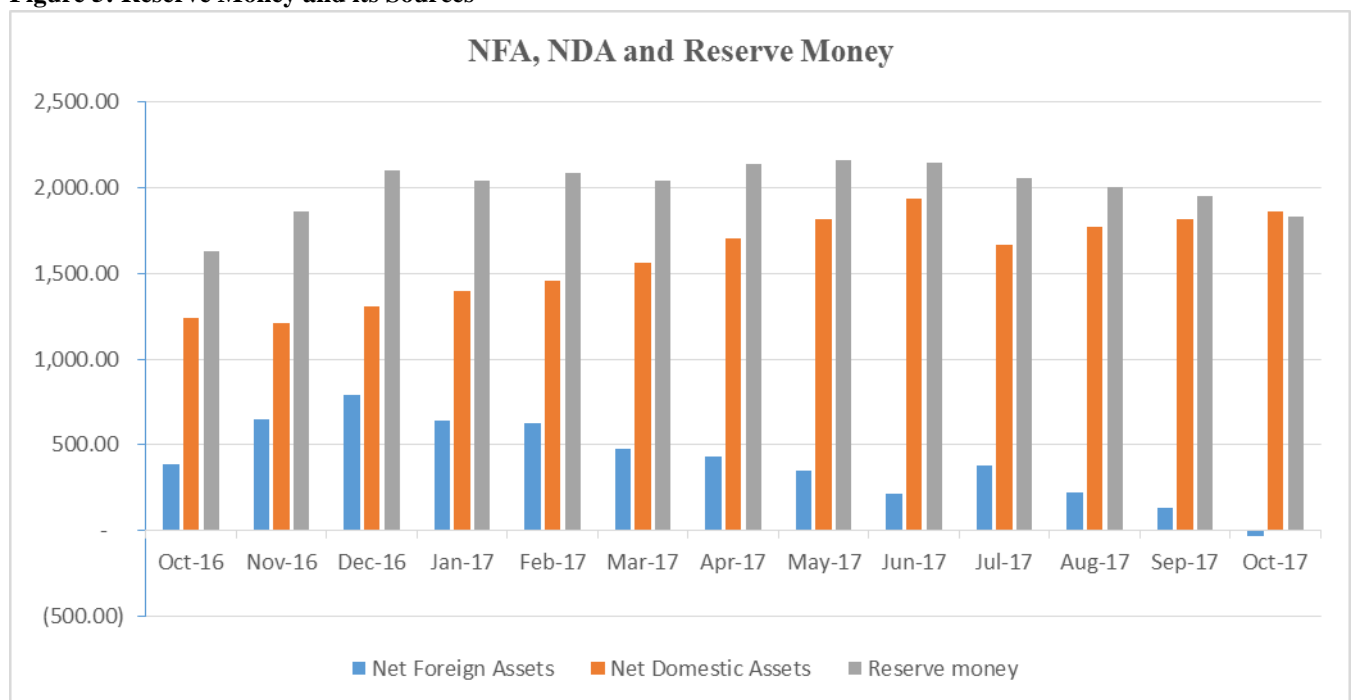
On the liability side, both Narrow Money (M1) and Quasi Money grew in the review period. Narrow Money grew by 2.00 per cent (Le51.34bn) in October 2017 compared to a 3.98 per cent (Le106.53bn) contraction in the preceding month. The growth in M1 was evidenced by the increase in both currency outside banks by 1.17 per cent and demand deposits by 2.77 per cent. Quasi Money also grew though marginal by 0.71 per cent (Le 23.96bn) in October 2017, and lower when compared to the 1.92 per cent (Le63.40bn) growth recorded in September 2017.

#### 4.2 Reserve Money (RM)

Reserve Money declined further by 6.31 per cent (Le123.07bn) in October 2017 from 2.39 per cent (Le47.86bn) in September 2017. The decline in Reserve Money was mainly on account of a fall in NFA of the BSL by 122.87 per cent (Le165.10bn) in October 2017, compared to a contraction of 40.25 per cent (Le90.51bn) in September 2017. The fall in the NFA of BSL was attributed to the significant drawdown of the Local Liquid Asset Requirement (LLAR) deposits by commercial banks. The contraction in Reserve money was reinforced by the 2.31 per cent (Le42.03bn) contraction in NDA of the BSL.

On the liability side, the decrease in Reserve Money was evidenced by the 29.45 per cent (Le153.45bn) decrease in Banks' reserves which was more than the 2.12 per cent (Le30.35bn) growth in currency issued.

**Figure 5: Reserve Money and its Sources**



**Source: Research Department, BSL**

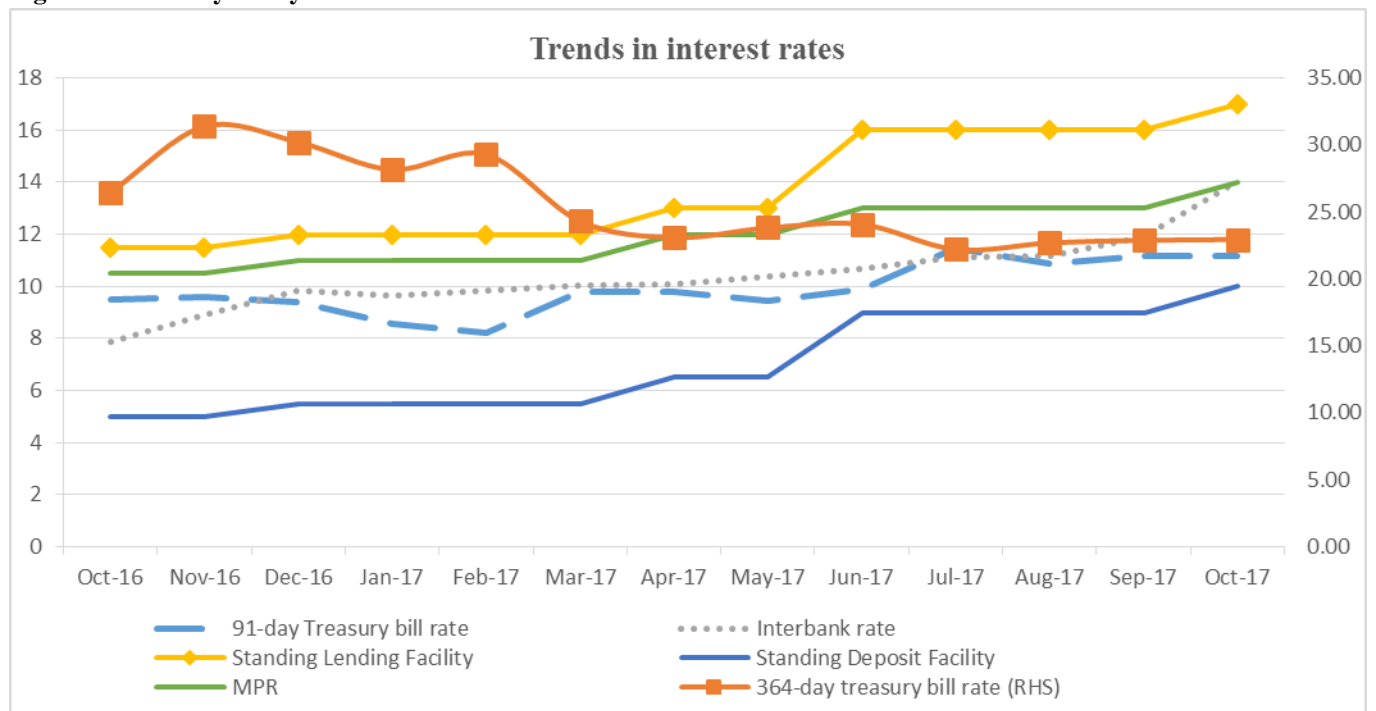
**Table 2: Reserve Money and its Components**

	2017		Absolute change		(% Change)	
	Sep-17	Oct-17	Sep-17	Oct-17	Sep-17	Oct-17
<b>1. Net Foreign Assets</b>	<b>134.37</b>	<b>(30.73)</b>	<b>(90.51)</b>	<b>(165.10)</b>	<b>(40.25)</b>	<b>(122.87)</b>
<b>2. Net Domestic Assets</b>	<b>1,816.66</b>	<b>1,858.69</b>	<b>42.65</b>	<b>42.03</b>	<b>2.40</b>	<b>2.31</b>
2.1 Government Borrowing (net)	1,963.23	2,053.72	42.33	90.49	2.20	4.61
o.w. 2.11 Securities	1,102.13	1,214.60	79.94	112.47	7.82	10.20
2.12 Ways and Means	143.03	132.58	14.75	(10.45)	11.50	(7.31)
2.13 GoSL/IMF Budget financing	988.95	988.95	-	-	-	-
<b>3. Reserve money</b>	<b>1,951.03</b>	<b>1,827.96</b>	<b>(47.86)</b>	<b>(123.07)</b>	<b>(2.39)</b>	<b>(6.31)</b>
o.w. 3.1 Currency issued	1,429.79	1,460.14	5.88	30.35	0.41	2.12
3.2 Bank reserves	521.05	367.60	(53.66)	(153.45)	(9.34)	(29.45)

*Source: Research Department, BSL*

### 4.3 Interest rates

In October 2017, the Monetary Policy Committee (MPC) tightened monetary policy further by raising the Monetary Policy Rate (MPR) to 14.00 per cent from 13.00 per cent in June 2017. Accordingly, the Lending and Deposit Facility rates were also raised to 17.00 per cent and 10.00 per cent from 16.00 per cent and 9.00 per cent respectively. Reflecting the tight monetary policy stance, the interbank rate increased to 14.04 per cent in October 2017 from 11.92 per cent in September 2017. The average commercial banks' lending and saving deposits rates remained unchanged at 21.35 per cent and 2.38 per cent respectively in October 2017.

**Figure 6: Monetary Policy Rate and Other Market Rates**

*Source: Research Department, BSL*

Mixed trends were observed in the yields on treasury securities in October 2017. The yield on the 91-days and 182-days treasury securities decreased slightly from 11.19 per cent and 13.91 per cent in September 2017, to 11.17 per cent and 12.43 per cent in October 2017 respectively. The yield on the 364-days treasury bills however increased marginally from 22.89 per cent to 22.95 per cent during the same period.

**Table 3: Interest Rates (%)**

	2016				2017									
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
91-day Treasury bill rate	7.96	9.5	9.59	9.38	8.57	8.20	9.79	9.78	9.43	9.88	11.46	10.87	11.19	11.17
182-day Treasury bill rate	12.03	14.69	15.52	16.17	15.68	15.51	13.54	11.7	9.11	15.31	15.18	14.97	13.91	12.43
364-day treasury bill rate	19.34	26.47	31.38	30.22	28.16	29.29	24.31	23.1	23.82	24.08	22.2	22.70	22.89	22.95
Interbank rate	7.11	7.86	8.88	9.82	9.66	9.86	10.05	10.1	10.36	10.69	11.14	11.15	11.92	14.04
Standing Lending Facility	11.50	11.50	11.50	12.00	12.00	12.00	12.00	13.00	13.00	16.00	16.00	16.00	16.00	17.00
Standing Deposit Facility	5.00	5.00	5.00	5.50	5.50	5.50	5.50	6.5	6.5	9.00	9.00	9.00	9.00	10.00
MPR	9.50	10.50	10.50	11.00	11.00	11.00	11.00	12.00	12.00	13.00	13.00	13.00	13.00	14.00
Average Lending rate	20.69	20.86	21.35	21.35	21.35	21.35	21.35	21.4	21.35	21.35	21.35	21.35	21.35	21.35
Savings deposits	2.23	2.27	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*

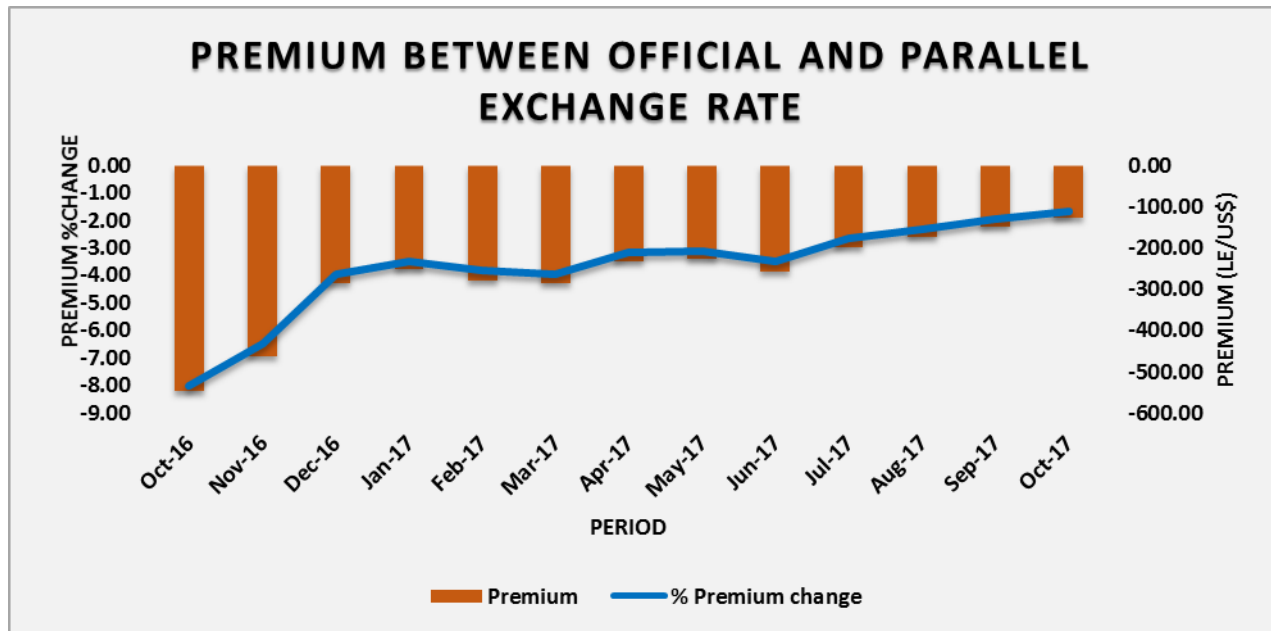
## 5.0 Exchange Rate Developments

The monthly average exchange rate of the Leone against the US dollar continued to be mixed in October 2017. On the buying front, both the official and commercial banks rates depreciated marginally by 0.42 per cent averaging Le7,458.43 and Le7,544.05 per US dollar respectively; while the bureaux and parallel markets rates depreciated by 0.38 per cent and 0.30 per cent averaging Le7,394.59 and Le7,622.73/US\$1 respectively.

On the selling front, the bureaux, official and commercial banks rates depreciated by 0.88 per cent, 0.42 per cent and 0.19 per cent averaging Le7,552.92/US\$1, Le7,609.10/US\$1 and Le7,643.57/US\$1 respectively; while the parallel markets rate appreciated by 0.04 per cent averaging Le7,697.27/US\$1.

The premium between the official and parallel markets rates narrowed by 0.13 per cent to Le164.30/US\$1 from Le173.09/US\$1 in September 2017.

Figure 7: Premium between the official and Parallel Exchange Rate



Source: Research Department, BSL

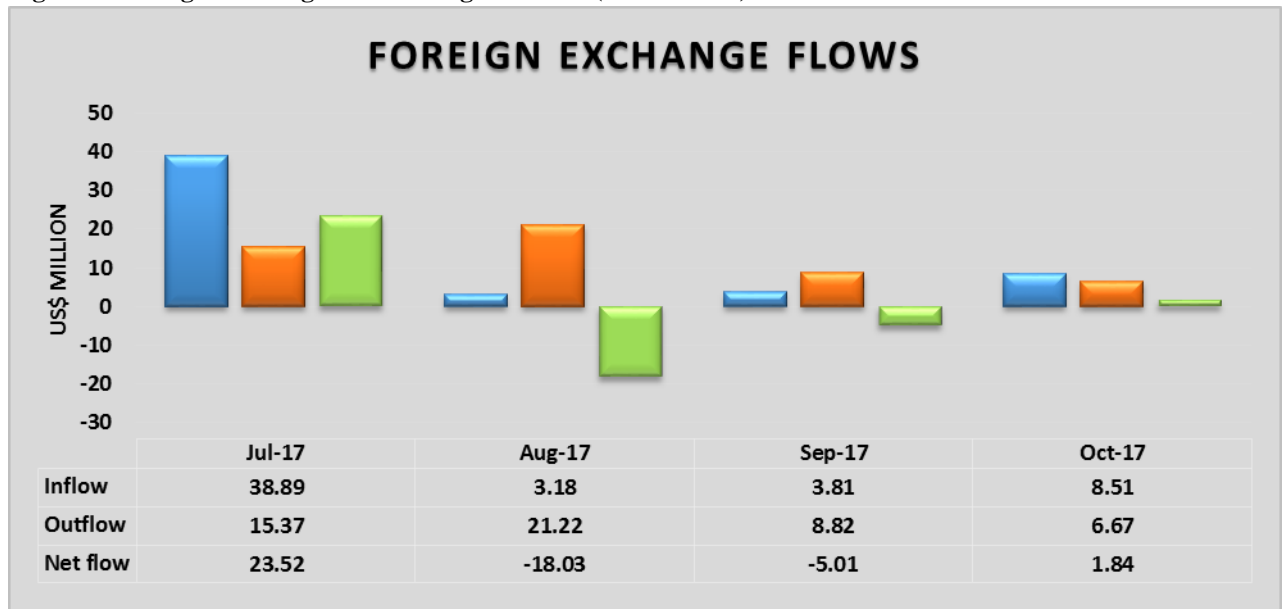
## 6.0 Gross Foreign Exchange Reserves

Following some revaluation adjustment, the Gross Foreign Exchange Reserves of the Bank of Sierra Leone decreased slightly by 0.11 per cent to US\$482.89mn in October 2017 from US\$483.43mn recorded in September 2017.

Foreign exchange inflows during the month amounted to US\$8.51mn, mainly constituting export receipts (US\$2.73mn) and aid disbursement from IDB (US\$1.81mn) for on-going projects; while US\$3.32mn was in respect of other government receipts, mainly from the petroleum directorate. Outflows during the period amounted to US\$6.67mn, comprising payments for goods and services (US\$4.68mn) and debt service payment (US\$1.99mn).



Figure 8: Foreign Exchange Flow through the BSL (US\$ Million)



*Source: Research Department, BSL*