



**BANK OF SIERRA LEONE**

**Monthly  
Economic  
Review**

**Volume 19| Issue 6  
June 2017**

# **BANK OF SIERRA LEONE**

## **MONTHLY ECONOMIC REVIEW**

**JUNE 2017**

**Publisher:** The Monthly Economic Review is published by the Research Department, Bank of Sierra Leone. The Department takes responsibility for opinions expressed in this review; queries should be forwarded to [res@bsl.gov.sl](mailto:res@bsl.gov.sl)

**Address:** Siaka Stevens Street, P O Box 30 Freetown Sierra Leone

**CONTENTS**

1.0 Highlights .....	1
2.0 Production and Prices .....	2
2.1 Production .....	2
2.1.1 Manufacturing .....	2
2.1.2 Mining .....	2
2.2 Price Developments.....	2
3.0 Government Budgetary Operations.....	4
3.1 Revenues .....	4
3.2 Expenditures.....	5
3.3 Financing.....	5
4.0 Monetary Developments .....	5
4.1 Broad Money.....	5
4.2 Reserve Money.....	7
4.3 Interest rates .....	9
5.0 Exchange Rate Developments.....	10
6.0 Gross Foreign Exchange Reserves .....	11

**List of Figures:**

Figure 1: Annual Inflation Developments.....	3
Figure 2: Headline and Monthly Inflation.....	3
Figure 3: Government Revenue and Expenditure .....	5
Figure 4: Broad Money and its Components .....	7
Figure 5: Reserve Money and its Components .....	8
Figure 6: Monetary Policy Rate and Other Market Rates .....	9

**List of Tables:**

Table 1: Broad Money and its Components.....	6
Table 2: Reserve Money and its Components.....	8
Table 3:Interest Rate .....	10

**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
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 for the month of June 2017 continued to be mixed. Inflationary pressures picked up in June 2017 as headline inflation increased to 19.14 per cent from 18.91 per cent in May 2017. The domestic price pressures observed in the review month was mainly reflected in non-food prices, while food prices continued to decline.

Central government fiscal operations in June 2017 resulted in a deficit of Le162.22bn compared to a deficit of Le135.86bn recorded in May.

Growth in monetary aggregate for June was mixed, with Broad Money (M2) expanded by 6.66 per cent, while Reserve Money contracted by 0.81 per cent.

The Bank of Sierra Leone's key policy rate (MPR) was adjusted upwards to 13 per cent in June 2017 from 12 per cent in May 2017 reflecting further tightening of the monetary policy stance. Responding to BSL's tight monetary policy stance, the interbank market rate increased to 10.69 per cent in June 2017 from 10.36 per cent in May 2017. However, the average lending and savings deposits rates of commercial banks remained unchanged at 21.35 per cent and 2.38 per cent respectively in June 2017.

Gross International Reserve of the BSL as at end June 2017 improved by 8.3 per cent to US\$477.55mn. The accumulation of reserves during the month was driven by increased inflows of US\$60.93mn which more than outweighed outflows of US\$26.91mn, resulting a net inflow of US\$34.02mn.

Supported by tight liquidity conditions and relatively subdued demand for foreign exchange, the exchange rate of the Leone against the United States dollar which has been relatively stable over the past couple of months, was sustained in the month of June 2017.

## **2.0 Production and Prices**

### **2.1 Production**

#### **2.1.1 Manufacturing**

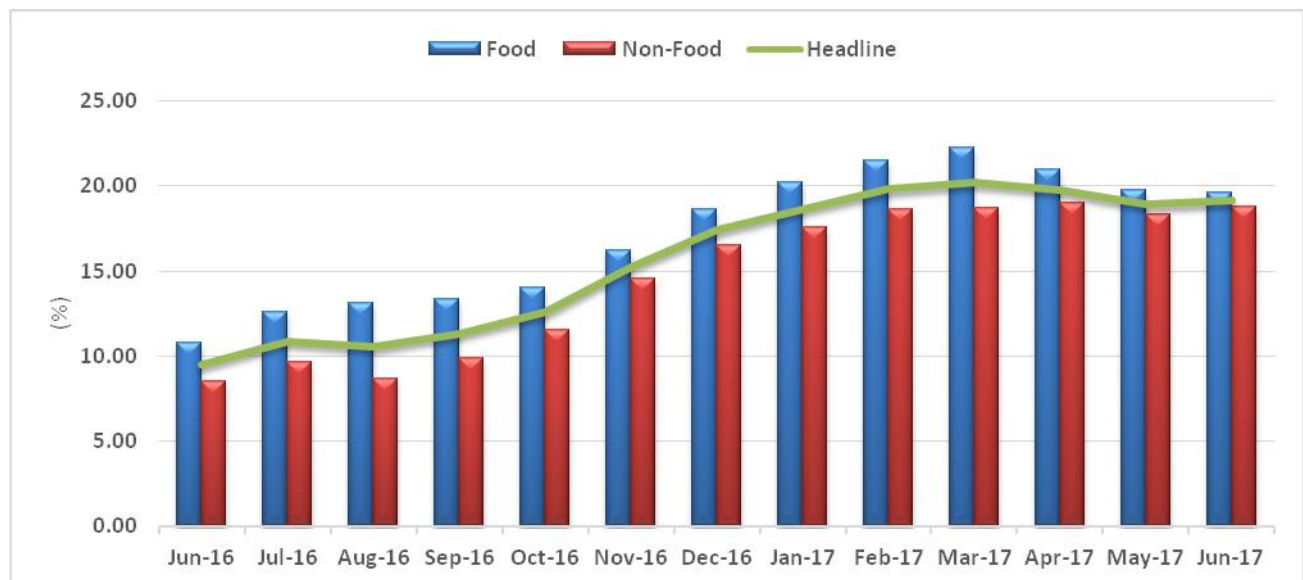
The performance in the manufacturing sector was mixed during the reporting month. Increases in production were recorded for acetylene by 27.59 per cent to 18.5 thousand cubic feet, confectionery by 4.05 per cent to 274.32 thousand pounds and common soap by 7.6 per cent to 35.67 thousand metric tons. Production declines were however recorded for cement by 37.24 per cent to 12.32 thousand metric tons, paint by 25.75 per cent to 50.11 thousand gallons and oxygen by 33.33 per cent to 35 thousand cubic feet. Production increases in acetylene, confectionery and common soap were explained by increased demand for the products, while production declines for cement, paint and oxygen were on account of the unavailability of raw material inputs.

#### **2.1.2 Mining**

The mining sector experienced a drop in performance as reflected in the production declines in diamond, bauxite, zircon, iron ore and gold. Diamond production fell by 50.9 per cent to 16.32 thousand carats, made up of 6.74 thousand carats of industrial diamond and 9.58 thousand carats of gem diamonds. Bauxite and zircon production decreased by 16.92 per cent to 10.32 thousand metric tons and by 20.21 per cent to 0.75 thousand metric tons respectively. Similarly, iron ore production recorded a 17.16 per cent decline to 468.56 thousand metric tons, while gold production slowed by 32.25 per cent to 374.28 ounces.

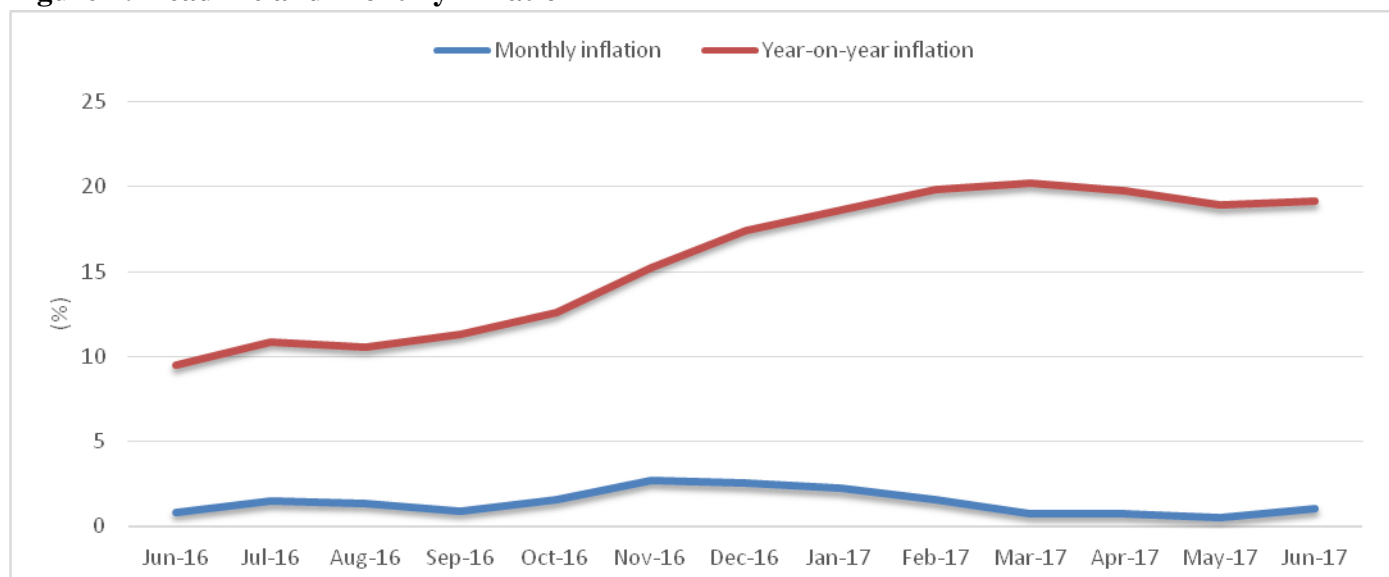
### **2.2 Price Developments**

Annual headline inflation rate in June 2017 was 19.14 per cent, representing a 0.23 percentage-points increase compared to 18.91 per cent in May 2017. The main components in the consumer basket contributing to this inflation were food & non-alcoholic beverages, clothing and footwear, housing, water, electricity, gas & other fuels, transport, and health.

**Figure 1: Annual Inflation Developments**

Source: Statistics Sierra Leone and Bank of Sierra Leone calculations

Food inflation however continued its gradual decline reaching 19.6 per cent in June 2017 from 19.74 per cent in May 2017. Conversely, non-food inflation increased to 18.81 per cent in June 2017 from 18.31 per cent in May 2017.

**Figure 2: Headline and Monthly Inflation**

Source: Statistics Sierra Leone

Monthly inflation rate picked up in June 2017 from its declining trends since January 2017. Inflation grew to 1.07 per cent in June 2017 from 0.54 per cent in May 2017. At the regional level, prices picked up in all regions but for Western Area. In the Eastern Region, inflation increased to



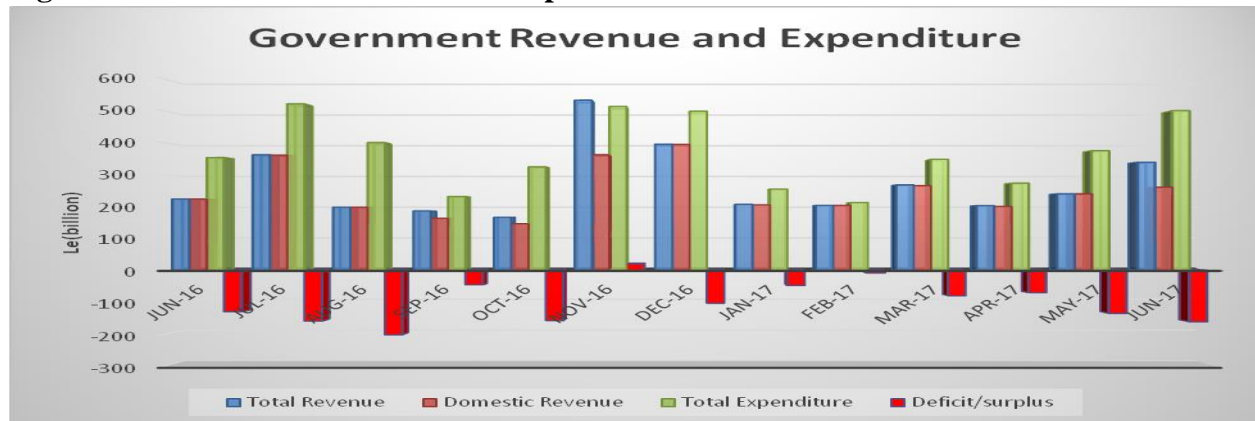
23.73 in June 2017 from 23.15 per cent in May 2017; Northern Region inflation increased to 19.76 per cent from 19.71 per cent and Southern Region inflation increased to 17.43 per cent from 16.58 per cent. Inflation in Western Area decreased to 18.07 per cent from 18.09 per cent.

### **3.0 Government Budgetary Operations**

Government budgetary operation in June 2017 resulted in a deficit of Le162.22bn compared to Le135.86bn in the previous month and was above the monthly target of Le12.21bn. The widening deficit was attributed to an increase in government expenditure over the month which was over and above revenues mobilized over the month.

### **3.1 Revenues**

Total revenue including grants amounted to Le339.78bn, reflecting an increase of 41.34 per cent when compared to the previous month and exceeded its monthly target by 14.72 per cent. Domestic revenue rose by 8.70 per cent to Le261.31bn, and exceeded the budgeted amount by 13.19 per cent. The growth in domestic revenue was mainly driven by increased receipts from Income tax and Goods and Services Tax (GST). Income tax collection grew by 34.37 per cent to Le107.65bn but was 8.04 per cent below its target, while revenue from GST increased by 6.98 per cent to Le64.29bn and was 11.8 per cent above its target. Revenue declines were recorded for customs and excise, and for non-tax revenues. Customs and excise receipts fell by 1.69 per cent to Le42.83bn and but overshoot its target by 115.55 per cent; while non-tax revenue declined by 17.9 per cent to Le46.53bn and but exceeded its target by 27.77 per cent.

**Figure 3: Government Revenue and Expenditure**

Source: Research Dept, Bank of Sierra Leone

### 3.2 Expenditures

Total expenditure grew by 33.42 per cent to Le502.00bn and exceeded the monthly ceiling by 62.79 per cent. The increased spending was mainly driven by overruns in expenses for goods and services and debt services payment. Expenditures on goods and services more than doubled to Le276.12, while debt services payments increased by 74.22 per cent to Le83.27bn and exceeded the ceiling by 128.09 per cent. Similarly, spending on pensions, wages and salaries increased by 4.47 per cent to Le141.84bn and was below the ceiling by 12.01 per cent.

### 3.3 Financing

Both domestic and foreign resources were used to finance the overall deficit during the month.

### 4.0 Monetary Developments

The outcome of monetary developments was mixed. Whilst Broad Money (M2) expanded, Reserve Money (RM) contracted.

#### 4.1 Broad Money (M2)

Broad Money supply expanded by 6.66 per cent in the review period, in contrast to the 3.83 per cent decrease at the end of the preceding month. The expansion in M2 was supported by increase in both Net Domestic Assets (NDA) and Net Foreign Assets (NFA) of the banking system. NDA expanded by 8.47 per cent, in contrast to the 0.09 per cent decline at end May 2017. This was

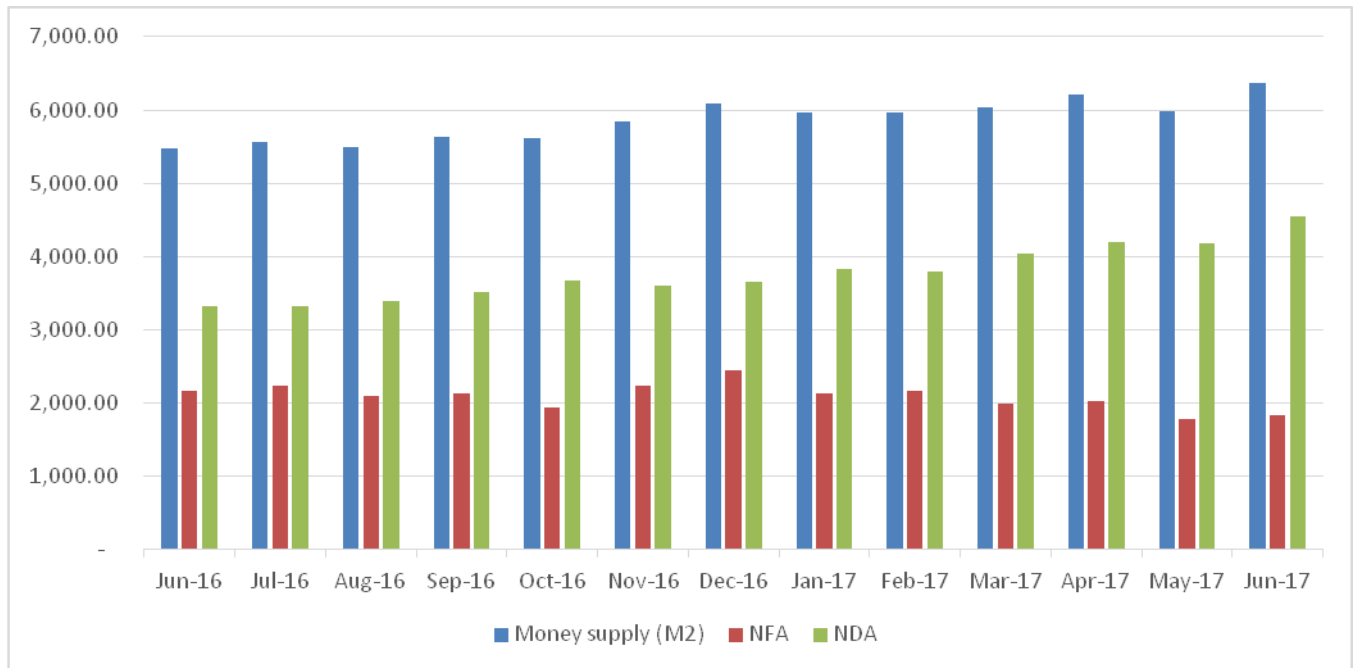
mainly on account of Bank of Sierra Leone financing the budget through an IMF on-lending arrangement under the Extended Credit Facility Programme, coupled with increased holdings of government securities by commercial banks. The growth in NDA was further reinforced by credit to the private sector which increased by 2.37 per cent relative to the 1.89 per cent contraction in the preceding month. NFA grew by 2.43 per cent in June 2017 compared to the 11.57 per cent contraction in May 2017. The growth in NFA emanated from increased holdings of foreign Assets by commercial banks.

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

	2017			Absolute Change		(% Change)	
	Apr-17	May-17	Jun-17	May-17	Jun-17	May-17	Jun-17
<b>Reserve money</b>	<b>2,135.72</b>	<b>2,162.64</b>	<b>2,145.10</b>	<b>26.92</b>	<b>(17.54)</b>	<b>1.26</b>	<b>(0.81)</b>
<b>Money supply (M2)</b>	<b>6,212.85</b>	<b>5,975.07</b>	<b>6,372.91</b>	<b>(237.78)</b>	<b>397.84</b>	<b>(3.83)</b>	<b>6.66</b>
<b>Narrow money (M1)</b>	<b>2,732.23</b>	<b>2,648.75</b>	<b>2,680.57</b>	<b>(83.48)</b>	<b>31.82</b>	<b>(3.06)</b>	<b>1.20</b>
Currency outside banks	1,251.30	1,259.09	1,268.31	7.79	9.22	0.62	0.73
Demand deposit	1,480.93	1,389.66	1,412.26	(91.27)	22.60	(6.16)	1.63
<b>Quasi money</b>	<b>3,480.52</b>	<b>3,325.92</b>	<b>3,691.62</b>	<b>(154.60)</b>	<b>365.70</b>	<b>(4.44)</b>	<b>11.00</b>
o.w. Foreign currency deposit	1,869.09	1,681.99	2,008.41	(187.10)	326.42	(10.01)	19.41
Time and saving deposit	1,611.43	1,643.93	1,683.21	32.50	39.28	2.02	2.39
<b>Net Foreign Asset</b>	<b>2,022.90</b>	<b>1,788.89</b>	<b>1,832.33</b>	<b>(234.01)</b>	<b>43.44</b>	<b>(11.57)</b>	<b>2.43</b>
BSL	433.62	348.64	212.76	(84.98)	(135.88)	(19.60)	(38.97)
ODCs	1,589.28	1,440.25	1,619.57	(149.03)	179.32	(9.38)	12.45
<b>Net Domestic Assets</b>	<b>4,189.95</b>	<b>4,186.18</b>	<b>4,540.58</b>	<b>(3.77)</b>	<b>354.40</b>	<b>(0.09)</b>	<b>8.47</b>
<b>Net Domestic Credit</b>	<b>5,443.40</b>	<b>5,341.07</b>	<b>5,628.45</b>	<b>(102.33)</b>	<b>287.38</b>	<b>(1.88)</b>	<b>5.38</b>
Government (Net)	3,760.77	3,694.38	3,975.86	(66.39)	281.48	(1.77)	7.62
Private Sector	1,453.85	1,426.32	1,460.08	(27.53)	33.76	(1.89)	2.37
Other Sectors (Net)*	228.78	220.37	192.51	(8.41)	(27.86)	(3.68)	(12.64)
<b>Other Items (Net)</b>	<b>(1,253.45)</b>	<b>(1,154.89)</b>	<b>(1,087.87)</b>	<b>98.56</b>	<b>67.02</b>	<b>(7.86)</b>	<b>(5.80)</b>
<b>Monthly RM growth</b>	4.77	1.26	-0.81				
<b>Monthly M2 growth</b>	2.97	-3.83	6.66				
<b>Money Multiplier</b>	2.91	2.76	2.97				

Source: Research Dept. Bank of Sierra Leone

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

**Figure 4: Broad Money and its Components**

Source: Research Dept., Bank of Sierra Leone

On the liability side, the increase in M2 was reflected in its components as both Narrow Money and Quasi Money also increased. Narrow Money grew by 1.20 per cent (Le31.82bn) in June 2017 and was in contrast to the 3.06 per cent decrease (Le83.48bn) in May 2017. The growth in Narrow Money was translated into 0.73 per cent increase in Currency outside banks and 1.63 per cent increase in Demand deposits. Quasi Money increased by 11.00 per cent arising from the 19.41 per cent increase in Foreign Currency Deposits and the 2.39 per cent increase in Savings Deposits.

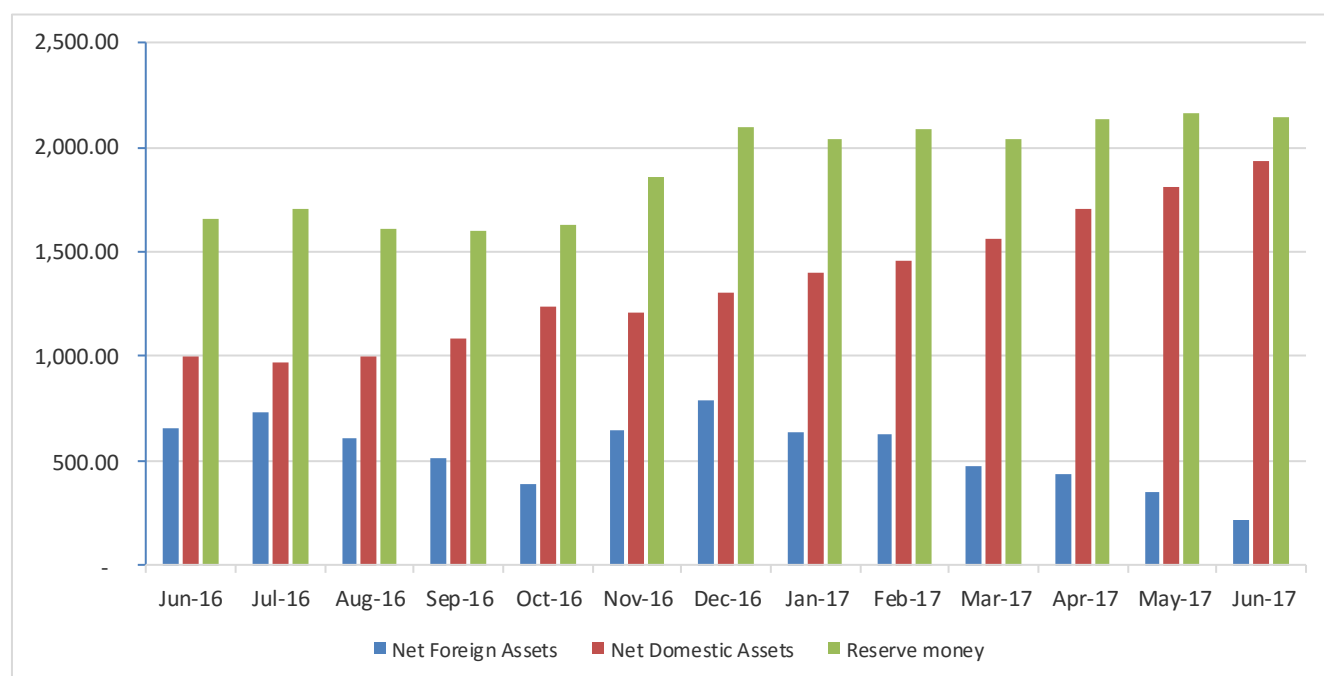
#### 4.2 Reserve Money

Reserve Money contracted by 0.81 per cent in June 2017 from an increase of 1.26 per cent in May 2017. Reserve Money declined as a result of the 38.97 per cent drawdown in Net Foreign Assets (NFA) of the Bank of Sierra Leone to settle foreign obligations. NDA of the Bank of Sierra Leone expanded by 6.52 per cent in June 2017 compared to 6.57 per cent growth recorded in May 2017. NDA grew mainly as a result of IMF Budget financing through the Bank of Sierra Leone.

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

	2017			Absolute change		Change (%)	
	Apr	May	Jun	May	Jun	May	Jun
<b>1. Net Foreign Assets</b>	<b>433.62</b>	<b>348.64</b>	<b>212.76</b>	<b>(84.98)</b>	<b>(135.88)</b>	<b>(19.60)</b>	<b>(38.97)</b>
<b>2. Net Domestic Assets</b>	<b>1,702.10</b>	<b>1,814.00</b>	<b>1,932.34</b>	<b>111.90</b>	<b>118.34</b>	<b>6.57</b>	<b>6.52</b>
2.1 Government Borrowing (net)	1,932.31	2,014.23	2,117.53	81.92	103.30	4.24	5.13
o.w. 2.11 Securities	999.34	1,146.14	1,096.84	146.80	(49.30)	14.69	(4.30)
2.12 Ways and Means	186.71	121.02	122.36	(65.69)	1.34	(35.18)	1.11
2.13 GoSL/IMF Budget financing	880.82	880.82	1,108.95	-	228.13	-	25.90
<b>3. Reserve money</b>	<b>2,135.72</b>	<b>2,162.64</b>	<b>2,145.10</b>	<b>26.92</b>	<b>(17.54)</b>	<b>1.26</b>	<b>(0.81)</b>
o.w. 3.1 Currency issued	1,454.91	1,456.37	1,456.15	1.46	(0.22)	0.10	(0.02)
3.2 Bank reserves	680.71	705.87	688.24	25.16	(17.63)	3.70	(2.50)

*Source: Research Dept, Bank of Sierra Leone.*

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

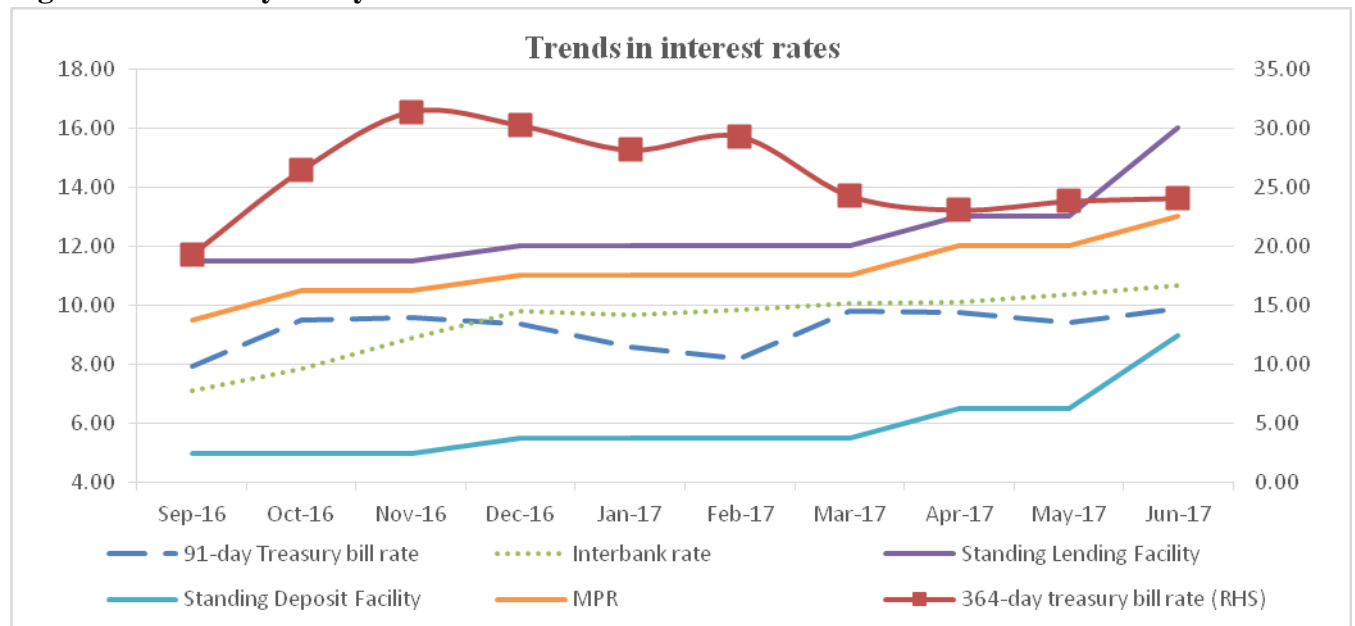
**Source:** Research Dept, Bank of Sierra Leone.

From the liability perspective, both components of RM declined. Currency Issued decreased by 0.02 per cent compared to the 0.10 increase in May 2017. Bank Reserves contracted by 2.50 per cent as against the 3.70 per cent increase in May 2017.

### 4.3 Interest rates

The Bank of Sierra Leone's key policy rate (MPR) was adjusted upwards to 13 per cent in June 2017 from 12 per cent in May 2017 reflecting further tightening of the monetary policy stance. Accordingly, the corridor around the MPR was also adjusted upwards with the lending and deposit facility rates increased to 16 per cent and 9 per cent from 13 per cent and 6.5 per cent respectively. Responding to BSL's tight monetary policy stance, the interbank market rate increased to 10.69 per cent in June 2017 from 10.36 per cent in May 2017. However, the average lending and savings deposits rates of commercial banks remained unchanged at 21.35 per cent and 2.38 per cent respectively in June 2017.

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



Source: Research Dept, Bank of Sierra Leone.

Yields on treasury securities trended upwards in June 2017. The yield on all tenures, 91-days, 182-days and 364-days treasury bills increased to 9.88 per cent, 15.31 per cent and 24.08 per cent from 9.43 per cent, 9.11 per cent and 23.82 per cent respectively during the same period.

**Table 3: Interest Rate**

	2016				2017					
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
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
182-day Treasury bill rate	12.03	14.69	15.52	16.17	15.68	15.51	13.54	11.73	9.11	15.31
364-day treasury bill rate	19.34	26.47	31.38	30.22	28.16	29.29	24.31	23.09	23.82	24.08
Interbank rate	7.11	7.86	8.88	9.82	9.66	9.86	10.05	10.09	10.36	10.69
Standing Lending Facility	11.50	11.50	11.50	12.00	12.00	12.00	12.00	13.00	13.00	16.00
Standing Deposit Facility	5.00	5.00	5.00	5.50	5.50	5.50	5.50	6.5	6.5	9.00
MPR	9.50	10.50	10.50	11.00	11.00	11.00	11.00	12.00	12.00	13.00
Average Lending rate	20.69	20.86	21.35	21.35	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

*Source: Research Dept, Bank of Sierra Leone.*

### 5.0 Exchange Rate Developments

The monthly average exchange rate of the Leone vis-à-vis the US Dollar depreciated in all segments of the foreign exchange market. On the buying front, the parallel markets rate depreciated by 0.97 percent to Le7,550.00/US\$1, the commercial banks by 0.63 percent to Le7,371.97/US\$1, the official by 0.46 percent to Le7,259.83/US\$1 and bureau rate by 0.28 percent to Le7,231.16/US\$1.

On the selling front, the parallel markets rate depreciated by 0.71 percent, averaging Le7,630.95/\$1. Both the bureaux and commercial banks rates equally depreciated by 0.37 percent to Le7,408.28/US\$1 and Le7,534.93/US\$1 respectively, while the official rate depreciated by 0.27 percent to Le7,392.51/US\$1.

The premium between the official and parallel market rates widened to Le290.17/US\$1 in the review month from Le250.19/US\$1 in the previous month.

## **6.0 Gross Foreign Exchange Reserves**

Gross external reserves stood at US\$477.55mn in June 2017, an improvement from US\$440.84mn recorded in May 2017. This outturn was largely explained by increased inflows of US\$60.93mn which more than outweighed the outflows of US\$26.91mn resulting in net inflow of US\$34.02mn.

Significant inflows during the month comprised; US\$54.13mn being IMF disbursement for both budgetary and balance of payments support, and receipts from exports amounting to US\$6.36mn.

Significant outflows constituted; US\$5.34mn in respect of other government expenditures, US\$3.94mn being payments for various infrastructure projects, Embassies/missions payments amounting to US\$2.81mn and US\$1.33mn being subscription to international organizations. Debt service payments to various multilateral and bilateral organizations amounted to US\$12.67mn.