



BANK OF SIERRA LEONE

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BANK OF SIERRA LEONE

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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 was mixed during the month of August 2017. Inflationary pressures moderated in August 2017, as headline inflation decreased further to 18.01 per cent in August 2017 from 18.56 per cent in July 2017.

Central government fiscal operations deteriorated significantly as the deficit widened to Le153.10bn in August 2017 from a deficit of Le38.75bn recorded in July 2017.

Growth in monetary aggregates for the reporting month continued to be contractionary, with both Broad Money (M2) and Reserve Money (RM) contracting by 0.89 per cent and 2.56 per cent respectively, in August 2017. The monetary policy rate, lending and deposit facilities remained unchanged at the June 2017 levels of 13 per cent, 16.00 per cent and 9.00 per cent, respectively.

Gross International Reserves of the BSL declined by 3.65 per cent from US\$508.56mn as at end July 2017 to US\$490.02mn recorded at end August 2017, on account of outflows of US\$21.22mn, significantly outweighing inflows of US\$3.18mn, resulting to a net outflow of US\$18.04mn.

The Leone depreciated against the United States dollar in all the foreign exchange markets, reflecting excess demand over supply for foreign currency.

2.0 Production and Prices

2.1 Production

2.1.1 Manufacturing

Production performance in the manufacturing sector was mixed during August 2017, with increases recorded in beer & stout, soft drinks, cement, paint, confectionery and common soap. Beer & stout and soft drinks grew by 2.59 per cent to 145.7 thousand cartons and by 30.08 per cent to 98.11 thousand crates respectively. Cement and paint production rose by 10.2 per cent to 19.45 thousand metric tons and by 14.42 per cent to 45.78 thousand gallons, respectively. While confectionery and common soap experienced production increases by 17.94 per cent to 299.70 thousand pounds and by 37.71 per cent to 47 thousand metric tons respectively.

On the other hand, production declines were recorded for maltina, acetylene and oxygen. Maltina production fell by 16.9 per cent to 23.6 thousand cartons, while acetylene and oxygen respectively slowed by 10.77 per cent to 19.63 thousand cubic feet and by 57.45 per cent to 21.7 thousand cubic feet.

2.1.2 Mining

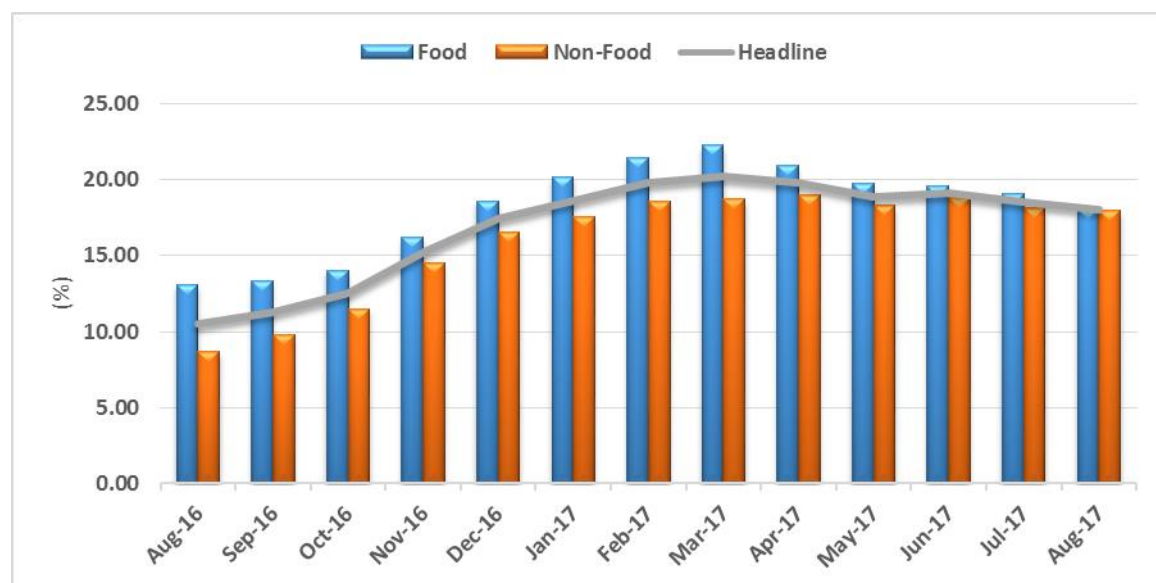
Production in the mining sector experienced a slump in all minerals but diamond. Diamond production increased by 62.02 per cent to 18.47 thousand carats and comprised 7.56 thousand carats of industrial diamond and 10.91 thousand carats of gem diamond.

Production declines were recorded for bauxite and ilmenite by 24.13 per cent to 138.5 thousand metric tons and by 1.18 per cent to 5.88 thousand metric tons respectively. Zircon and iron ore production respectively declined by 99.81 per cent to 0.14 thousand metric tons and by 34.77 per cent to 305.66 thousand metric tons. Similarly, gold dropped by 46.02 per cent to 347.48 ounces.

2.2 Price Developments

The headline inflation (year-on-year) continued its gradual decline, moving from 18.56 per cent in July 2017 to 18.01 per cent in August 2017. The main components contributing to inflation during the review period were food & non-alcoholic beverages, clothing and foot wear, housing, water, electricity & gas, and furnishing, equipment & household maintenance and transport.

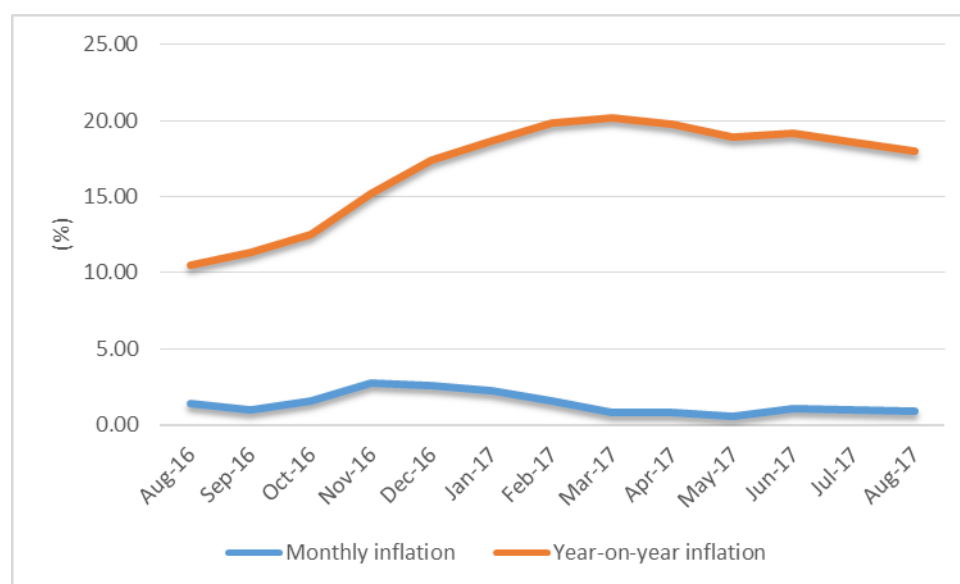
Figure 1: Annual Inflation Developments



Source: Statistics Sierra Leone

Trends on the broad disaggregation showed a systematic fall in both food and non-food inflation during the reporting period. Food inflation fell to 18.05 per cent in August 2017 from 19.12 per cent in July 2017, while non-food inflation declined to 17.99 per cent in August 2017 from 18.16 per cent in July 2017.

Figure 2: Headline and Monthly Inflation



Source: Statistics Sierra Leone

Monthly developments also showed the gradual decline in prices, indicated by the fall in inflation to 0.93 per cent in August from 1.01 per cent in July 2017.

3.0 Government Budgetary Operations

Government budgetary operations in August 2017 resulted in a deficit of Le153.10bn compared to a deficit of Le38.75bn in the previous month. The widened deficit was attributed to a significant decline in domestic revenue generation which was proportionately higher than the fall in expenditure.

3.1 Revenues

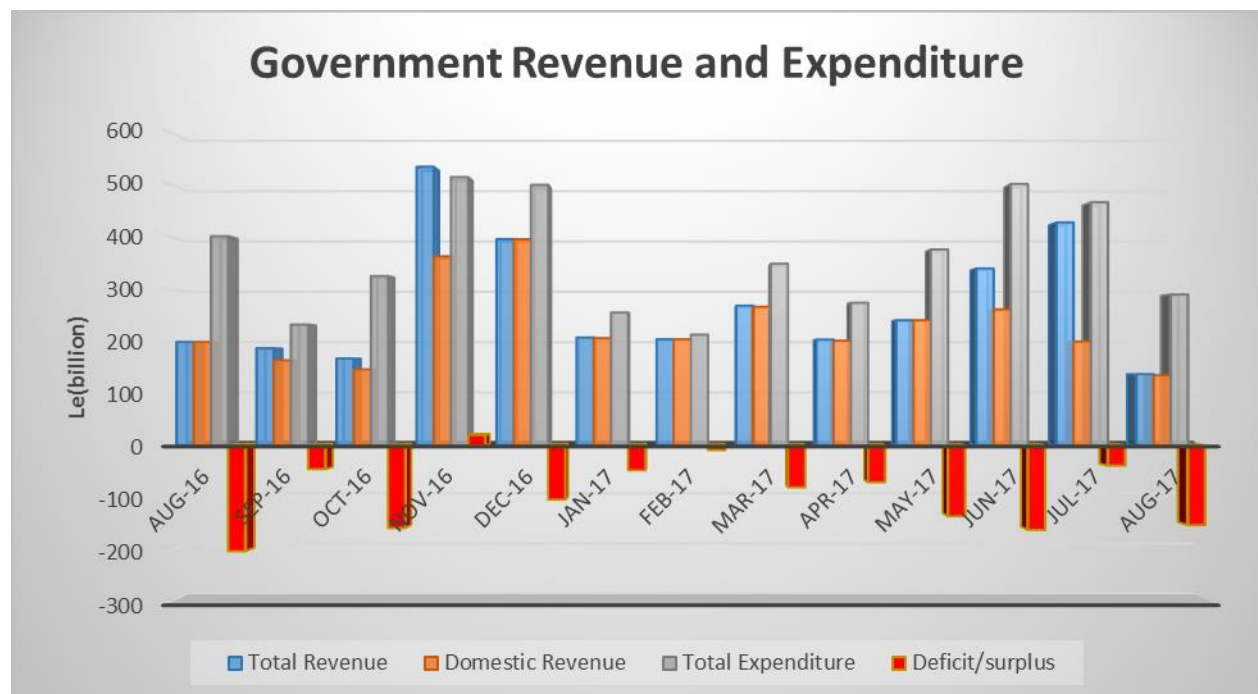
Overall revenue including grants amounted to Le139.83bn, representing a decrease of 68.04 per cent and was above below the target of Le303.03bn. Domestic revenue fell by 32.55 per cent to Le134.59bn, and was 54.52 per cent short of the budgeted amount of Le295.92bn.

The drop in domestic revenue was the result of an overall decline in all categories of revenue generation. Collection of Customs & Excise dropped by 36.61 per cent to Le22.83bn and was 73.04 per cent below the target, Income tax collection slowed by 36.05 per cent to Le42.02bn and missed the Le99.00bn target by 57.55 per cent, while receipts from Goods and Services Tax (GST) fell by 37.66 per cent to Le34.61bn, and was short of the Le69.00bn target by 49.84 per cent.

Similarly, receipts from miscellaneous sources amounted to Le35.13bn, representing a 16.97 per cent decline and was consequently below the Le43.25bn target by 18.78 per cent.

Receipts from external grants dropped by 99.02 per cent to Le2.24bn and as a result, fell below the Le7.11bn target by 68.46 per cent.

Figure 3: Government Revenue and Expenditure



Source: Research Department, Bank of Sierra Leone

3.2 Expenditures

Total expenditure decreased by 37.9 per cent to Le289.92bn and was 4.67 per cent less than the ceiling of Le304.14bn. The fall in expenditure was mainly explained by decreases in pension, wages and salaries, and treasury expenses for goods and services. Pensions, wages and salaries dropped by 25.51 per cent to Le96.02bn, Treasury expenses fell by 18.67 per cent to Le142.25bn. However, debt services payment grew by 21.96 per cent to Le51.39bn and breached the ceiling of Le21.33bn by 140.88 per cent.

3.3 Financing

The overall deficit of Le153.1bn was financed from both domestic and foreign sources.

4.0 Monetary Developments

Monetary developments in the month of August were contractionary as both Broad Money (M2) and Reserve Money (RM) contracted.

4.1 Broad Money (M2)

Broad Money supply contracted moderately by 0.89 per cent in August 2017, compared to the 5.23 per cent decline in the preceding month. The contraction in M2 was reflected in Net Foreign Assets (NFA) which more than offset the increase in Net Domestic Assets (NDA) of the banking system. NFA contracted by 6.99 per cent in August 2017 from an expansion of 12.63 per cent in July 2017. NFA declined as a result of foreign payment in respect of energy project and embassy payments in respect of wages and salaries. NDA expanded by 2.28 per cent relative to the 12.44 per cent decline in July 2017. The growth in NDA was attributed to Ways and Means Advances in order to settle government commitment on external debt payment and Wages and Salaries.

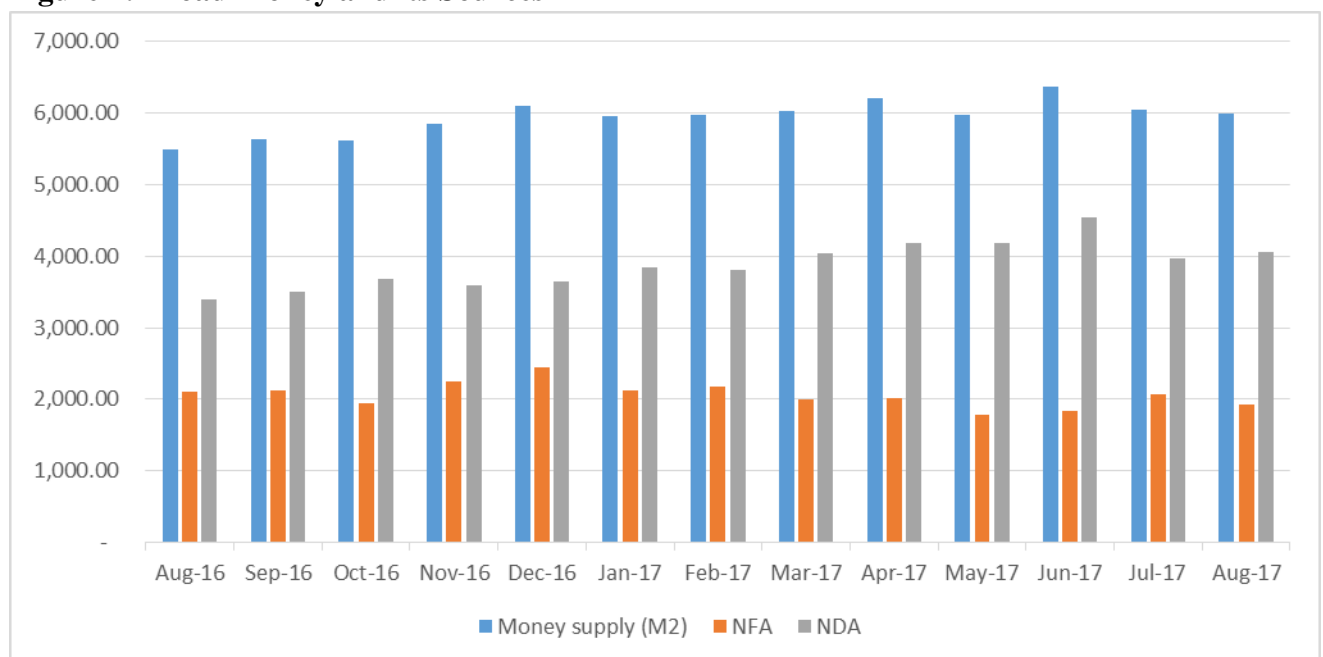
From the liability side, the contraction in M2 was translated into a decrease in Quasi Money which outweighed the increase in Narrow Money. Quasi Money contracted by 1.95 per cent in August 2017 compared to the 8.63 per cent contraction in July 2017, arising mainly from the 3.78 per cent decrease in Foreign Currency Deposits. Narrow Money grew by 0.46 per cent in August 2017 and was in contrast with the 0.52 per cent decrease in July 2017. The growth in Narrow Money was on account of the 1.93 per cent increase in Currency outside Banks, which outweighed the 0.79 per cent decline in Demand Deposit.

Table 1: Broad Money and its Components

| | 2017 | | | Absolute Change | | (% Change | |
|-------------------------------|-------------------|-------------------|-------------------|-----------------|-----------------|----------------|---------------|
| | Jun-17 | Jul-17 | Aug-17 | Jul-17 | Aug-17 | Jul-17 | Aug-17 |
| Reserve money | 2,145.10 | 2,051.33 | 1,998.89 | (93.77) | (52.44) | (4.37) | (2.56) |
| Money supply (M2) | 6,372.91 | 6,039.62 | 5,986.09 | (333.29) | (53.53) | (5.23) | (0.89) |
| Narrow money (M1) | 2,680.57 | 2,666.51 | 2,678.72 | (14.06) | 12.21 | (0.52) | 0.46 |
| Currency outside banks | 1,268.31 | 1,222.95 | 1,246.53 | (45.36) | 23.58 | (3.58) | 1.93 |
| Demand deposit | 1,412.26 | 1,443.56 | 1,432.19 | 31.30 | (11.37) | 2.22 | (0.79) |
| Quasi money | 3,691.62 | 3,372.96 | 3,307.10 | (318.66) | (65.86) | (8.63) | (1.95) |
| o.w. Foreign currency deposit | 2,008.41 | 1,721.80 | 1,656.73 | (286.61) | (65.07) | (14.27) | (3.78) |
| Time and saving deposit | 1,683.21 | 1,651.16 | 1,650.37 | (32.05) | (0.79) | (1.90) | (0.05) |
| Net Foreign Asset | 1,832.33 | 2,063.78 | 1,919.48 | 231.45 | (144.30) | 12.63 | (6.99) |
| BSL | 212.76 | 382.99 | 224.88 | 170.23 | (158.11) | 80.01 | (41.28) |
| ODCs | 1,619.57 | 1,680.79 | 1,694.60 | 61.22 | 13.81 | 3.78 | 0.82 |
| Net Domestic Assets | 4,540.58 | 3,975.84 | 4,066.61 | (564.74) | 90.77 | (12.44) | 2.28 |
| Net Domestic Credit | 5,628.45 | 5,513.94 | 5,639.62 | (114.51) | 125.68 | (2.03) | 2.28 |
| Government (Net) | 3,975.86 | 3,819.77 | 3,950.11 | (156.09) | 130.34 | (3.93) | 3.41 |
| Private Sector | 1,460.08 | 1,484.01 | 1,473.76 | 23.93 | (10.25) | 1.64 | (0.69) |
| Other Sectors (Net)* | 192.51 | 210.16 | 215.75 | 17.65 | 5.59 | 9.17 | 2.66 |
| Other Items (Net) | (1,087.87) | (1,538.10) | (1,573.01) | (450.23) | (34.91) | 41.39 | 2.27 |
| Monthly RM growth | -0.81 | -4.37 | -2.56 | | | | |
| Monthly M2 growth | 6.66 | -5.23 | -0.89 | | | | |
| Money Multiplier | 2.97 | 2.94 | 2.99 | | | | |

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 Sources

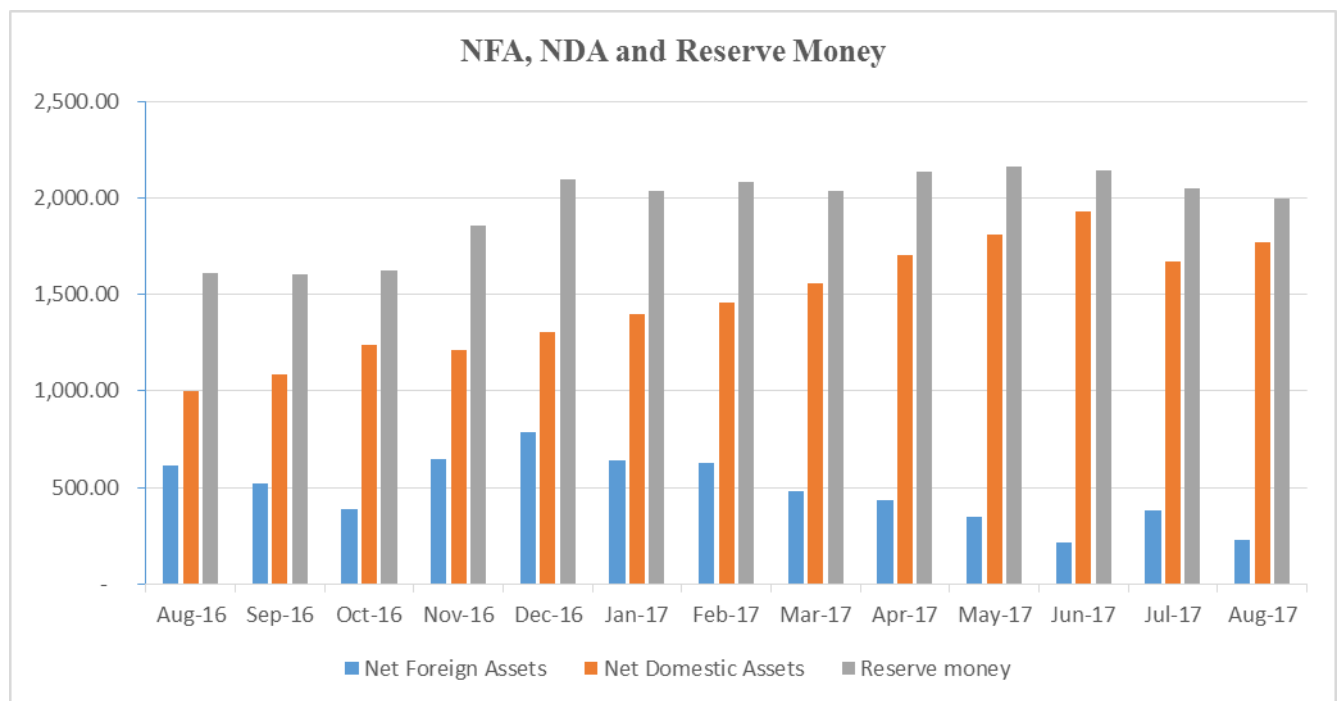
Source: Research Department, BSL

4.2 Reserve Money (RM)

Reserve Money contracted by 2.56 per cent in August 2017 from a decline of 4.37 per cent in July 2017. Reserve Money declined as a result of the 41.28 per cent contraction in Net Foreign Assets (NFA), which was more than the 6.33 per cent increase in Net Domestic Assets (NDA) of the Central Bank.

From the liability side, both Currency Issued and Banker's Reserves contracted by 0.11 per cent and 8.15 per cent respectively.

Figure 5: Reserve Money and its Sources



Source: Research Department, BSL

Table 2: Reserve Money and its Components

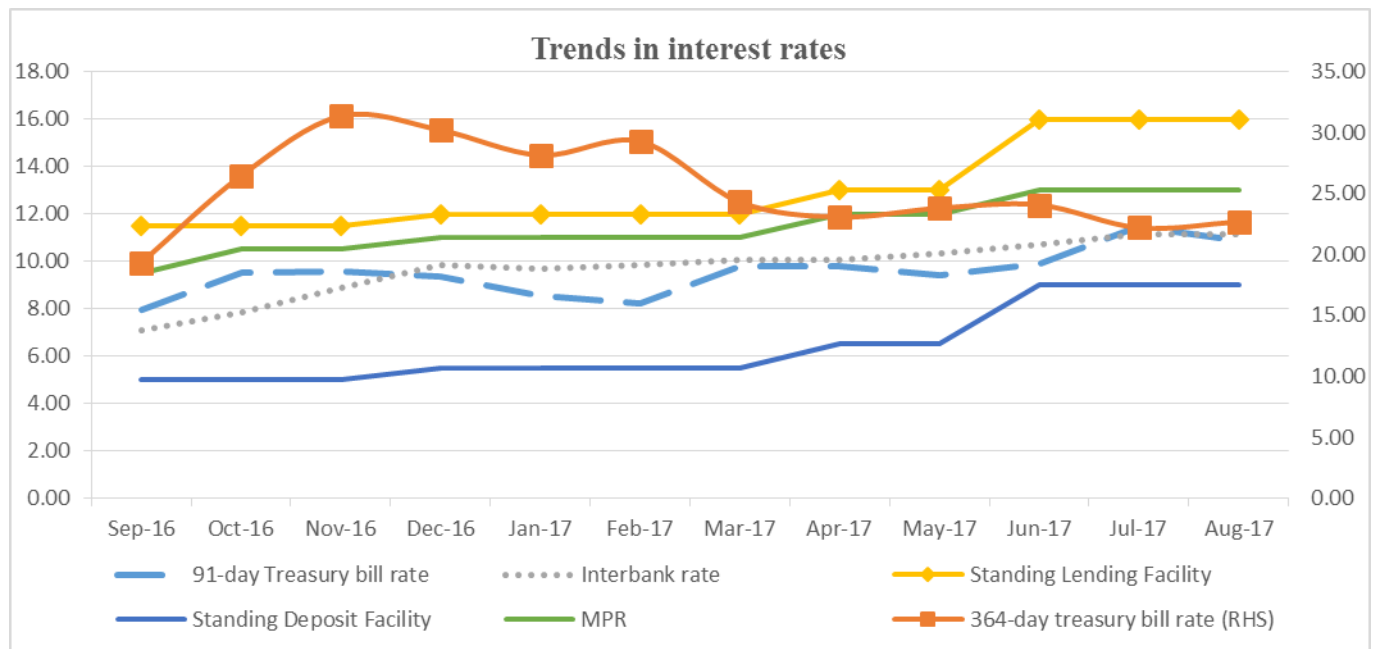
| | 2017 | | | Absolute change | | (%) Change | |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|
| | Jun-17 | Jul-17 | Aug-17 | Jul-17 | Aug-17 | Jul-17 | Aug-17 |
| 1. Net Foreign Assets | 212.76 | 382.99 | 224.88 | 170.23 | (158.11) | 80.01 | (41.28) |
| 2. Net Domestic Assets | 1,932.34 | 1,668.34 | 1,774.01 | (264.00) | 105.67 | (13.66) | 6.33 |
| 2.1 Government Borrowing (net) | 2,117.53 | 1,893.06 | 1,920.90 | (224.47) | 27.84 | (10.60) | 1.47 |
| o.w. 2.11 Securities | 1,096.84 | 1,063.56 | 1,022.19 | (33.28) | (41.37) | (3.03) | (3.89) |
| 2.12 Ways and Means | 122.36 | 46.91 | 128.28 | (75.45) | 81.37 | (61.66) | 173.46 |
| 2.13 GoSL/IMF Budget financing | 1,108.95 | 988.95 | 988.95 | (120.00) | - | (10.82) | - |
| 3. Reserve money | 2,145.10 | 2,051.33 | 1,998.89 | (93.77) | (52.44) | (4.37) | (2.56) |
| o.w. 3.1 Currency issued | 1,456.15 | 1,425.46 | 1,423.91 | (30.69) | (1.55) | (2.11) | (0.11) |
| 3.2 Bank reserves | 688.24 | 625.73 | 574.71 | (62.51) | (51.02) | (9.08) | (8.15) |

Source: Research Department, BSL

4.3 Interest rates

There was no policy change in August 2017, as the monetary policy rate remained unchanged at 13.00 per cent. The interbank market rate increased marginally to 11.15 per cent in August 2017 from 11.14 per cent in July 2017. The average commercial banks' lending and saving deposits rates stood at 21.35 per cent and 2.38 per cent respectively in August 2017.

Figure 6: Monetary Policy Rate and Other Market Rates



Source: Research Department, BSL

Yields on treasury securities were mixed in August 2017. The yield on the 91-days and 182-days treasury bills decreased to 10.87 per cent and 14.97 per cent in August 2017 from 11.46 per cent and 15.18 per cent in July 2017 respectively, while that on 364-days treasury bills increased to 22.70 per cent in August 2017 from 22.20 per cent in July 2017.

Table 3: Interest Rate (%)

| | 2016 | | | | | 2017 | | | | | | | |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug |
| 91-day Treasury bill rate | 6.36 | 7.96 | 9.5 | 9.59 | 9.38 | 8.57 | 8.20 | 9.79 | 9.78 | 9.43 | 9.88 | 11.46 | 10.87 |
| 182-day Treasury bill rate | 10.19 | 12.03 | 14.69 | 15.52 | 16.17 | 15.68 | 15.51 | 13.54 | 11.73 | 9.11 | 15.31 | 15.18 | 14.97 |
| 364-day treasury bill rate | 17.29 | 19.34 | 26.47 | 31.38 | 30.22 | 28.16 | 29.29 | 24.31 | 23.09 | 23.82 | 24.08 | 22.2 | 22.70 |
| Interbank rate | 7.10 | 7.11 | 7.86 | 8.88 | 9.82 | 9.66 | 9.86 | 10.05 | 10.09 | 10.36 | 10.69 | 11.14 | 11.15 |
| Standing Lending Facility | 10.50 | 11.50 | 11.50 | 11.50 | 12.00 | 12.00 | 12.00 | 12.00 | 13.00 | 13.00 | 16.00 | 16.00 | 16.00 |
| Standing Deposit Facility | 10.00 | 5.00 | 5.00 | 5.00 | 5.50 | 5.50 | 5.50 | 5.50 | 6.5 | 6.5 | 9.00 | 9.00 | 9.00 |
| MPR | 9.50 | 9.50 | 10.50 | 10.50 | 11.00 | 11.00 | 11.00 | 11.00 | 12.00 | 12.00 | 13.00 | 13.00 | 13.00 |
| Average Lending rate | 21.54 | 20.69 | 20.86 | 21.35 | 21.35 | 21.35 | 21.35 | 21.35 | 21.35 | 21.35 | 21.35 | 21.35 | 21.35 |
| Savings deposits | 2.54 | 2.23 | 2.27 | 2.38 | 2.38 | 2.38 | 2.38 | 2.38 | 2.38 | 2.38 | 2.38 | 2.38 | 2.38 |

Source: Research Department, BSL

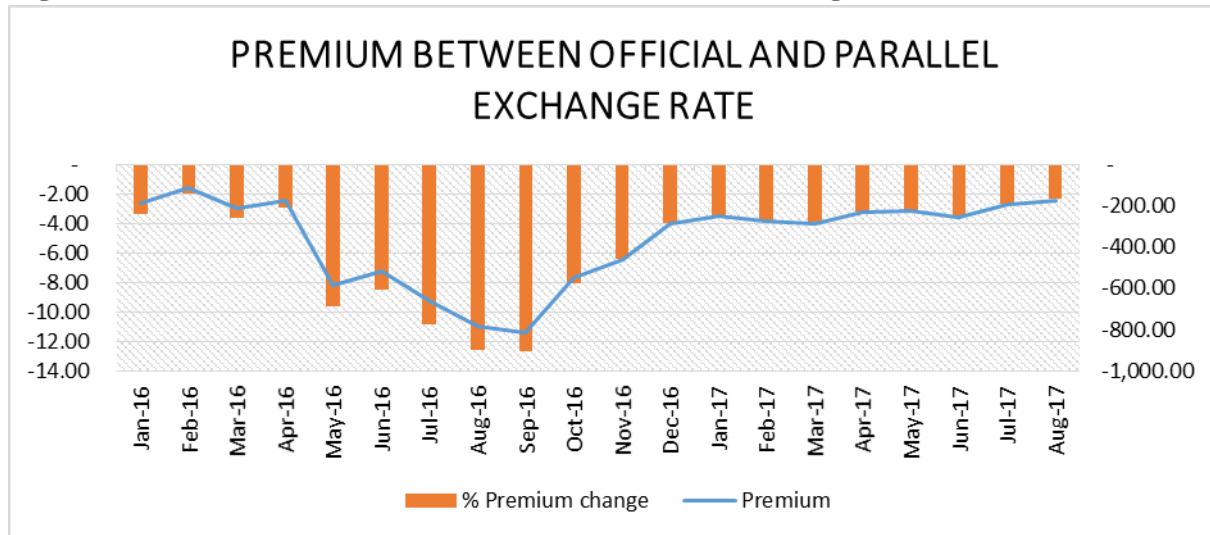
5.0 Exchange Rate Developments

The monthly average exchange rate of the Leone to the US dollar for August 2017 continued to depreciate across all segments of the foreign exchange markets.

On the buying front, the commercial banks, official, parallel and bureaux market rates depreciated by 0.98 per cent, 0.94 per cent, 0.82 per cent and 0.14 per cent, trading at Le7,459.71/US\$1, Le7,376.09/US\$1, Le7,600.00/US\$1 and Le7,335.14/US\$1 respectively.

Similar trends were observed on the selling front, were the official, parallel, commercial banks and bureaux market rates depreciated by 0.94 per cent, 0.41 per cent, 0.32 per cent and 0.02 per cent, averaging at Le7,525.10/US\$1, Le7,650.00/US\$1, Le7,588.68/US\$1 and Le7,507.72/US\$1 respectively.

The premium between the official and parallel rates narrowed by 0.12 per cent to Le223.91/US\$1 from Le230.53/US\$1 in July 2017.

Figure 7: Premium between the official and Parallel Exchange Rate

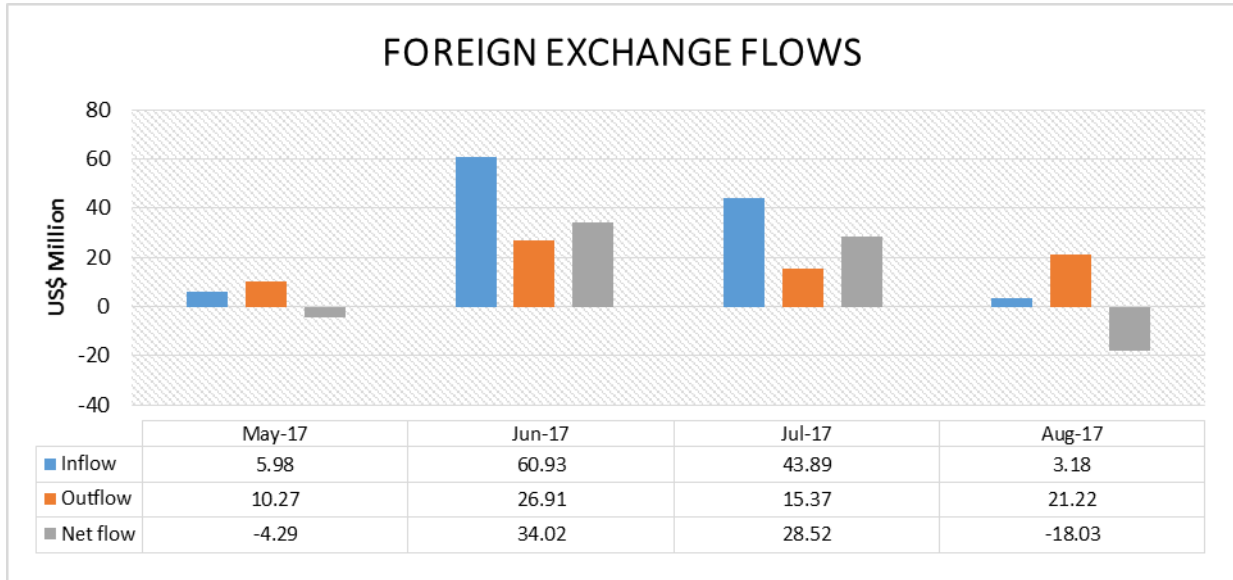
Source: Research Department, BSL

6.0 Gross Foreign Exchange Reserves

Gross Foreign Exchange Reserves of the Bank of Sierra Leone stood at US\$490.02mn in August 2017, down from US\$508.57mn recorded in July 2017. The depletion of reserves during the month was largely on account of an increase in outflows over inflows, resulting in a net outflow of US\$18.04mn.

Significant inflows recorded for the period included receipt from exports amounting to US\$2.02mn and purchase of foreign exchange from IDA/World Bank amounting to US\$0.45mn.

Significant outflows included US\$19.09mn, being payments for goods and services of which; US\$5.38mn being payment for various infrastructure projects, US\$4.78mn being government travel and other government expenditures and Debt service payments to various international organizations amounting to US\$2.12mn.

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

Source: Research Department, BSL