BANK OF SIERRA LEONE

HALF-YEARLY ECONOMIC REVIEW

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ACRONYMS

BSL	Bank of Sierra Leone
ECB	European Central Bank
ECOWAS	Economic Community of West African States
EDSA	Electricity Distribution and Supply Authority
GDP	Gross Domestic Product
Gw/hr	Giga-Watts per Hour
M2	Broad Money
MoFED	Ministry of Finance and Economic Development
MPC	Monetary Policy Committee
NDA	Net Domestic Asset
NFA	Net Foreign Asset
OPEC	Organization of Petroleum Exporting Countries
RM	Reserve Money
WTI	West Texas Intermediate
WAMZ	West African Monetary Zone

1.0 Executive Summary

The global economy continued to strengthen in the first-half of 2018, though the expansion was uneven, reflecting the effects of rising oil prices, tightened financing conditions, intensifying trade wars, low capital inflows, exchange rate pressures as well as domestic political and policy uncertainty in countries with weak economic fundamentals or higher political risks. Meanwhile, global inflationary pressures emerged, with headline inflation increasing in both advanced and emerging market and developing economies, following the rise in fuel prices. Commodity prices increased in the first half, supported by strong demand and weak supply factors.

The Sierra Leone economy continued to grow, but at a moderate pace in 2018. Gross Domestic Product expanded by 3.5 percent in real terms, a pace slightly lower than 3.8 percent in 2017.

Inflationary pressures emerged in the first half of 2018 as headline inflation increased to 16.57 percent in June 2018 from 15.33 percent in December 2017. On average, headline inflation rose to 8.77 percent in the first half of 2018 from 6.00 percent in the second half of 2017. The outturn was however, lower when compared with an average rate of 19.42 percent in the corresponding period of 2017. The inflationary pressures where evident in both food and non-food inflation.

In response to the inflationary pressures, the Bank of Sierra Leone (BSL) gradually tightened monetary policy by increasing the Monetary Policy Rate from 14.5 percent in December 2017 to 15.0 percent in May 2018, and further to 16.5 percent in June 2018.

Notwithstanding the tight monetary policy stance, Broad Money Supply expanded while Reserve Money contracted. Credit to private sector by commercial banks increased by 10.70 percent percent from a contraction 4.07 percent.

Government budgetary operations resulted in a deficit (including grants) of Le1, 022.38bn, compared to Le 471.31bn recorded in the previous half of 2017. The overall deficit exceeded the budgeted target of Le726.64bn by 116.93 percent and was also 15 percent lower than the deficit of Le1, 201.03bn recorded in the corresponding first half of 2017.

External sector developments in the first half of 2018 were mixed, evidenced in the sizeable improvement in the level of external trade – with the trade deficit contracting due to a significant improvement in export earnings. Notwithstanding this improvement, the stock of gross foreign exchange reserves declined by 3.38 percent to US$515.74mn and was equivalent to 2.7 months of import of goods and services. Consequently, the Leone depreciated against all major international currencies during the review period.

2.0 Global Economic Developments

2.1 Overview

The global economy continued to strengthen in the first-half of 2018, reflecting the effects of rising oil prices, tightened financing conditions, intensifying trade wars, low capital inflows, exchange rate pressures as well as domestic political and policy uncertainty in countries with weak economic fundamentals or higher political risks. Meanwhile, global inflationary pressures edged up, with headline inflation increasing in both advanced and emerging market and developing economies, following the rise in fuel prices. Commodity prices increased in the first half, supported by strong demand and frail supply factors.

2.2 Global Growth

Growth was estimated at 3.9 percent in 2018, from 3.5 percent in the second half of 2017, reflecting strong domestic demand growth, firming commodity prices, steady monetary policy normalisation in advanced economies, and improved economic sentiments in emerging market & developing economies. Nonetheless, the pace of expansion is unequal among countries, due in part to rising trade tensions, rising oil prices and political insecurity.

Advanced Economies

After reaching a high of 2.4 percent in 2017, economic growth in advanced economies remained at that point in 2018 and is expected to decline to 2.2 percent in 2019, as monetary policy was normalised and the effect of U.S fiscal stimulus diminished. Developments in the first half reflected a balance between strengthened growth in the United States and growth moderations in the euro area and Japan. Growth in the United States picked up in the second quarter to 3.1 percent after slowing to 1.2 percent in 2018Q1, supported by increased consumer spending, pick-up in business equipment investment and the current momentum in the mining and manufacturing sectors.

Emerging Market and developing economies

Despite experiencing strong headwinds in recent times, including higher yields in the United States, intensifying trade tensions as well as geopolitical conflict, emerging market and developing economies continued to register impressive growth of 4.9 percent in 2018 and is expected to grow by 5.1 percent 2019. The increase in commodity prices spurred growth in most commodity exporters in the region, while the weakening of the U.S dollar reduced pressures on exchange rates, thus contributing to domestic disinflation.

Sub-Saharan Africa

Momentum in Sub-Saharan Africa continued to be resilient in the first half of 2018, following a strong pick-up in 2017, with growth estimated at 3.4 percent in 2018 and expected to hit 3.8 percent in 2019, underpinned by the rise in commodity prices as well as a pick-up in activity in some key economies.

Table 1: Global Output Growth, in %

	2010	2011	2012	2013	2014	2015	2016	2017[e]	2018[f]	2019[f]
World Output	5.4	4.2	3.5	3.4	3.5	3.4	3.2	3.7	3.9	3.9
Advanced Economies	3.1	1.7	1.2	1.3	2.0	2.1	1.7	2.4	2.4	2.2
United States	2.5	1.6	2.2	1.7	2.4	2.6	1.5	2.3	2.9	2.7
Euro Area	2.1	1.5	-0.9	-0.3	1.2	2.0	1.8	2.4	2.2	1.9
Japan	4.2	-0.1	1.5	2.0	0.3	1.1	1.0	1.7	1.0	0.9
Emerging Market and Developing Economies	7.4	6.3	5.4	5.1	4.7	4.3	4.4	4.7	4.9	5.1
Brazil	7.5	4.0	1.9	3.0	0.5	-3.8	-3.5	1.0	1.8	2.5
Russia	4.5	4.0	3.5	1.3	0.7	-2.8	-0.2	1.5	1.7	1.5
India	10.3	6.6	5.5	6.5	7.2	8.0	7.1	6.7	7.3	7.5
China	10.6	9.5	7.9	7.8	7.3	6.9	6.7	6.9	6.6	6.4
Sub-Saharan Africa	7.0	5.0	4.3	5.3	5.1	3.4	1.5	2.8	3.4	3.8
Nigeria	11.3	4.9	4.3	5.4	6.3	2.7	-1.6	0.8	2.1	2.3
South Africa	3.0	3.3	2.2	2.5	1.7	1.3	0.6	1.3	1.5	1.7

e =Estimate; f =Forecast;
Source: World Economic Outlook, July, 2018

2.3. Global Inflation

Global inflation edged up in the first half of 2018, after moderating in 2017, underpinned by strong commodity prices and rising oil prices. Headline inflation increased mainly on the back of an increase in fuel prices, while core inflation also increased, largely driven by the pass-through effects of currency depreciation in emerging market and developing economies as well as the increase in prices of agricultural commodities. Going forward, headline inflation is projected to increase to 3.5 percent in 2018 before receding to 3.4 percent in 2019, from 3.0 percent in 2017.

Headline inflation in advanced economies increased by 0.5 percentage points to 2.2 percent in 2018 from 1.7 percent in 2017 on the back of rising oil prices. Similarly, core inflation is moved upwards, partly in response to labour market tightening in the United States and stronger demand.

In emerging markets and developing economies, headline inflation increased to 4.4 percent in 2018 from 4.0 percent in 2017, attributed largely to the increase in fuel prices. Core inflation moves in a similar trend, supported by the pass-through effects from currency depreciation in some countries and second-round effects of higher fuel prices in others. In sub-Saharan Africa, inflation declined to 9.5 percent and 8.9 percent in 2018 and 2019, respectively, from 11.0 percent in 2017, reflecting stability in the exchange rate of some countries.

Table 2: Global Consumer Price Inflation

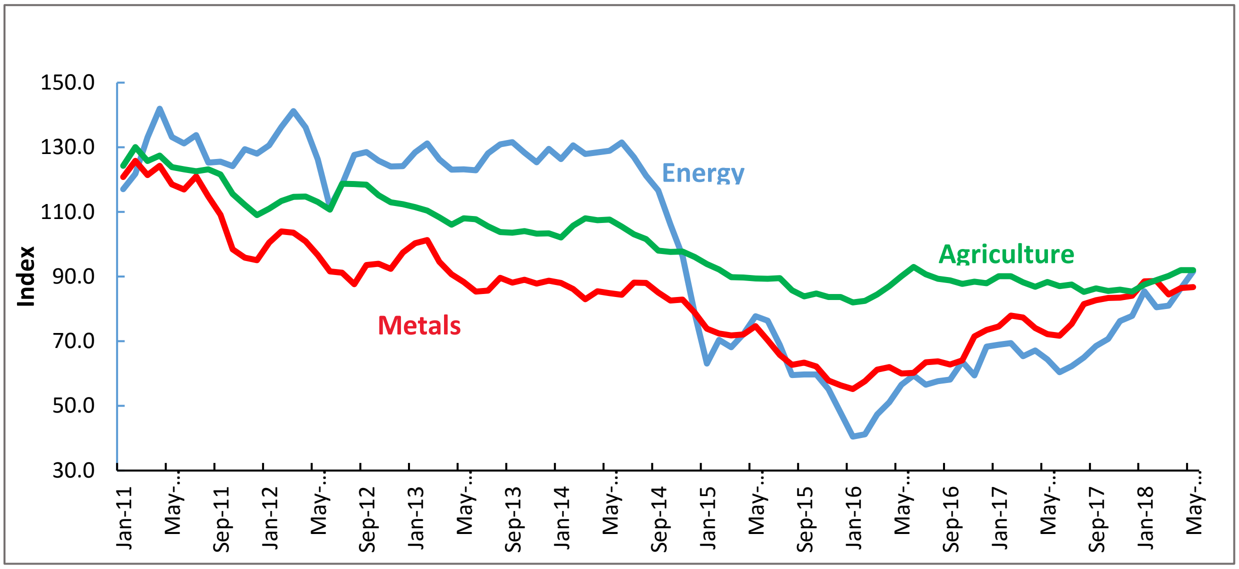
Consumer Price Inflation	2010	2011	2012	2013	2014	2015	2016	2017[e]	2018	2019[f]
Global Inflation	3.7	5.0	4.1	3.7	3.2	2.8	2.8	3.0	3.5	3.4
Advance Economies	1.5	2.7	2.0	1.4	1.4	0.3	0.8	1.7	2.2	2.2
Emerging Markets and Developing Economies	5.6	7.1	5.8	5.5	4.7	4.7	4.3	4.0	4.4	4.4
Sub-Saharan Africa	8.1	9.4	9.3	6.6	6.3	7.0	11.3	11.0	9.5	8.9

e =Estimate; f =Forecast; Source:
World Economic Outlook, July, 2018

2.4 Global Commodity Prices

Commodity prices on the whole increased in the first half of 2018 buoyed by the robust pick-up in global growth as well as strong demand and weak supply factors. Energy prices strengthened on the back of various supply constraints, including OPEC and Non-OPEC continued production restriction. The prices of metals also surged, reflecting in part stronger demand and various supply shortcomings. Finally, prices of agricultural commodities strengthened largely because of various supply factors (see Figure 1 below).

Figure 1: Evolution of the Commodity Price Indexes

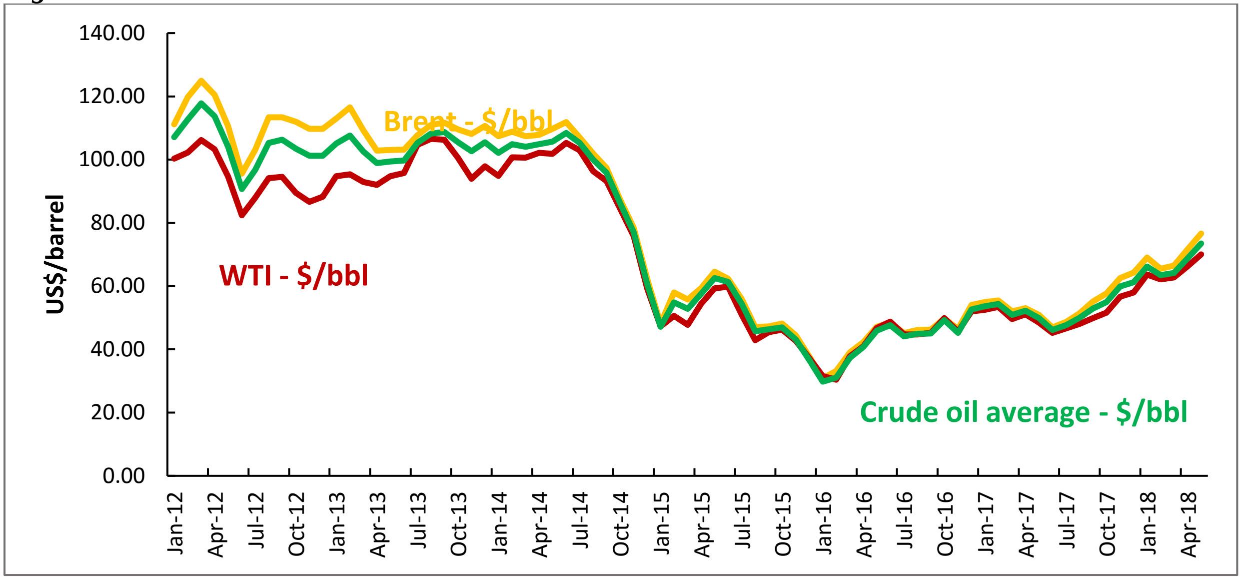


Source: *World Commodity Markey Outlook, May 2018*

Crude oil

Crude oil prices on average, in the first half of 2018, continued its upward momentum, with the half-year average price rising by 23.5 percent to US$67.2/bbl in 2018H1 from US$54.4/bbl in 2017H2, supported by greater compliance from OPEC and Non-OPEC producers to agreed production cuts. The leading international indicator, Brent crude oil, rose by 23.4 percent, averaging US$69.8/bbl in 2018H1 from US$56.6/bbl in 2017H2. The Western Texas Intermediate (WTI) also increased during the review period, averaging US$65.0/bbl in 2018H1 from US$51.8/bbl in 2017H2.

Figure 2:Crude Oil Prices

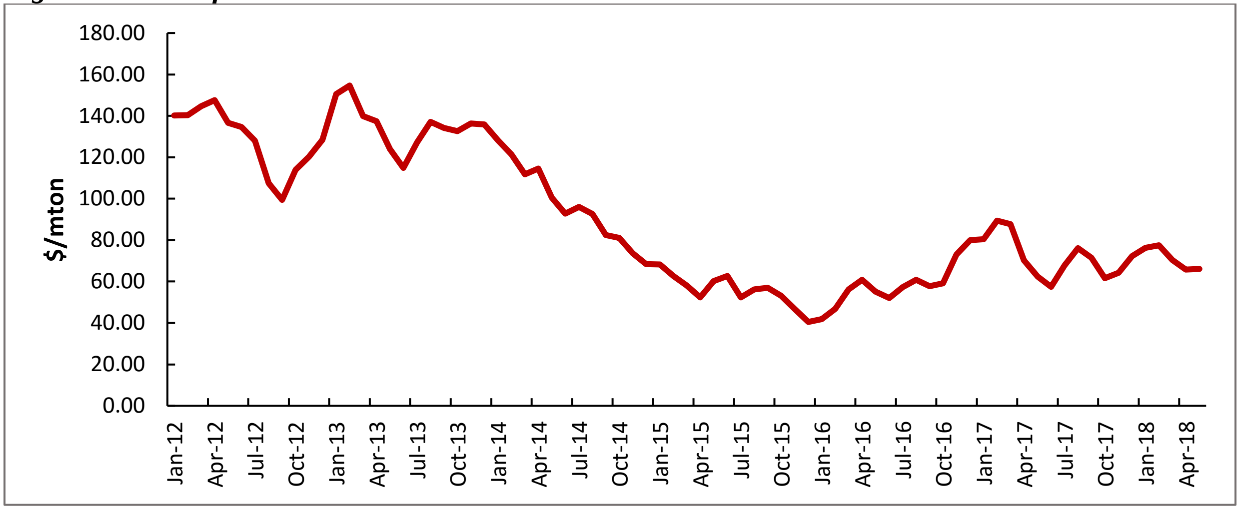


Source: World Commodity Markets Outlook, May 2018

Iron Ore

The average price of iron ore strengthened by 3.3 percent to US$71/dmt in 2018H1 from US$69/dmt in the preceding period, largely driven by increased steel output in China as a result of government imposed closure of illegal scrap-based steel capacity which led to stronger iron ore demand by steel producers, generally for higher quality materials. Nonetheless, a monthly assessment reflected that the price dropped in March 2018 amidst fears of trade war and slowing demand in China.

Figure 3: Price of Iron Ore

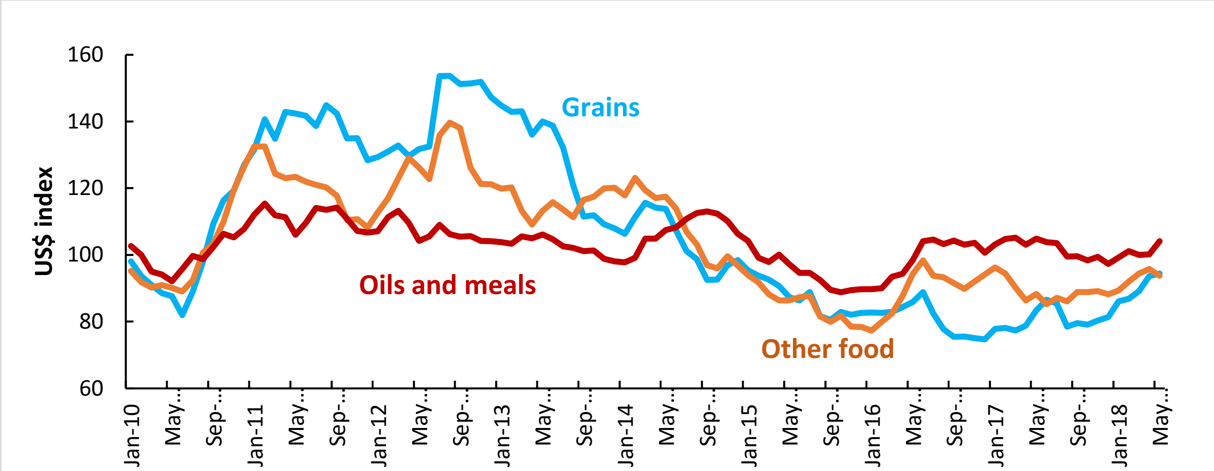


Source: World Commodity Markets Outlook, May 2018

Food

The food price index strengthened by 5.6 percent to 94.6 in the first half of 2018 from 89.6 in the preceding half year, reinforced by improvements in all categories of grains; notably maize, rice and wheat as well as other types of food, despite significant declines in some edible oil prices. In complementing this development, the World Bank's grain price index rose by 11.5 percent to 90 in 2018H1 from 80.7 in the previous period, marking a fourth consecutive semi-annual increase. The increase in the grain price index reflects increased global supply of all grain categories, of which rice production for the period was good and the outlook looks promising, underpinned by benign growing conditions. Similarly, the oils and meals and other food price indices improved by 5.7 percent and 1.3 percent respectively during the review period.

Figure 4: Food Price Indexes

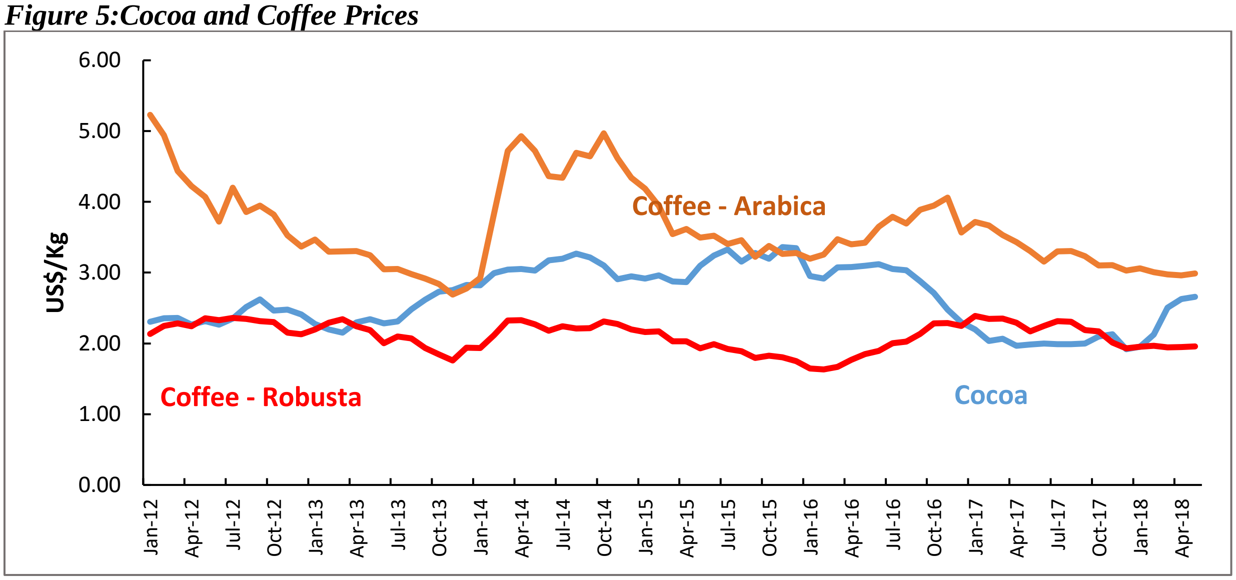


Source: World Commodity Markets Outlook, May 2018

Cocoa and Coffee

The price of cocoa rose by 17.5 percent to US$2.37/kg in the first half of 2018 from US$2.02/kg in the preceding period, reflecting supply limitations, resulting from production declines by the world's top suppliers (Cote D'Ivoire and Ghana); mainly because of bad weather. On the other hand, both Arabica and Robusta coffee prices declined by 5.7 percent and 9.2 percent, averaging US$3.00/kg and US$1.95/kg in 2018H1 from US$3.18/kg and US$2.15/kg respectively in the previous period. This plunge in the price of coffee was due to a stronger-than-expected exports from most exporters as well as large impending Brazilian crop.

Figure 5:Cocoa and Coffee Prices



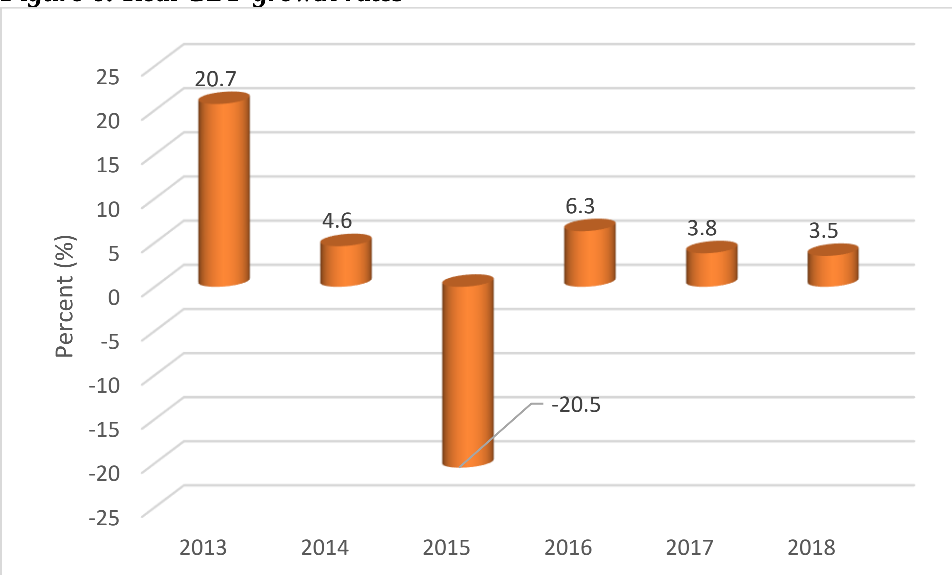
Source: World Commodity Markets Outlook, May 2018

3.0 Real Sector Developments

3.1 Real Economic Growth

The growth of the domestic economy was estimated at 3.5 percent in 2018, lower than the 3.7 percent projected earlier. This was also comparably lower than the 3.8 percent growth recorded in 2017. The slowdown in 2018 growth was mainly attributable to the cessation of iron ore mining activity, coupled with underperformance of the main sectors of the economy.

Figure 6: Real GDP growth rates



Source: Statistics Sierra Leone

Agriculture

The agriculture sector, which includes crops, livestock, forestry and fishing grew by 3.91 percent in 2018 from 4.48 percent in 2017. The drop in performance was mostly linked to crops and livestock. Crops production increased by 4.05 percent in 2018 from 5.27 percent in 2017, while livestock production rose by 2.6 percent in 2018 from 3.49 percent in 2017. Forestry expanded by 4.74 percent in 2018 relative to 3.51 percent in 2017, fishing production grew 2.84 percent in 2018 from 1.33 percent in 2017.

Production of traditional exports crops such as coffee amounted to 4.10 thousand metric tons, while cocoa recorded 43.25 thousand metric tons compared to 93.85 thousand metric tons in the previous second half of 2017.

Manufacturing

The manufacturing sector performance improved in the first half of 2018. Production volumes of beer and stout, acetylene, common soap and soft drinks increased, while production volumes of maltina, oxygen, and confectionary declined during the period. Beer and stout production expanded by 88.06 percent to 827.95 thousand cartons. Acetylene and common soap production rose by 14.20 percent to 151.65 thousand cubic feet and 22.05 percent to 280.90 thousand pounds respectively. Soft drinks production increased by 104. 18 percent to 266.75 thousand carats. On the other hand, maltina production declined by 20.81 percent to 116.78 thousand cartons. Oxygen and confectionary production decreased by 29.74 percent to 140.94 thousand cubic feet and 24.26 percent to 1027.94 thousand metric tons respectively.

Construction

Performance in the construction, proxied by cement production amounted to 150.78 thousand metric tons, representing a decline of 0.49 percent and was 65.93 percent higher than the corresponding first half of 2017. Similarly, paint production expanded by 205.76 percent to 314.28 thousand gallons but 11.44 percent lower than the corresponding first half of 2017

Mining

Production performance in the mining sector exhibited mixed trends, as diamond production increased by 96.05 percent to 372.52 thousand carats and comprised of 87.96 thousand carats of industrial diamond and the remaining 121.06 thousand carats was gem diamond. The growth in the total diamond production was driven by the expansion in gem diamond by 58.21 percent while industrial diamond fell by 22.50 percent. Bauxite production grew by 65.7 percent to 1190.18 thousand metric tons and was higher than the corresponding first half of 2017 by 27.92 percent. Rutile production declined by 34.42 percent to 57.15 thousand metric tons which was also 25.6 percent lower than the corresponding first half of 2017. Ilmenite production rose by 30.33 percent to 25.77 thousand metric tons but was lower than the corresponding first half of 2017 by 0.85 percent. Gold production level fell by 55.67 percent to 1.49 thousand ounces but higher than the corresponding first half of 2017 by 9.90 percent.

Table 3: Production

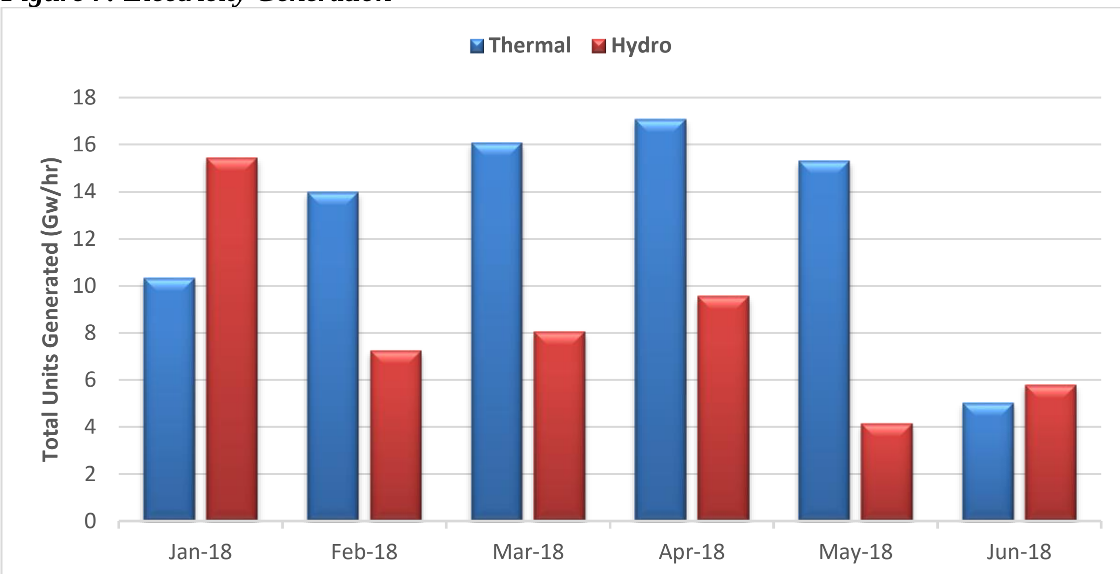
		Jan- Jun	Jul- Dec	Jan-Mar	Apr-Jun	Jan –Jun
		2017	**2017**	**2018**	**2018**	**2018**
Minerals						
Diamonds	‘000 carats	150.48	190.02	126.23	246.29	372.52
Gem	‘000 carats	82.81	76.52	72.37	127.94	200.31
Industrial	‘000 carats	62.84	113.50	54.86	118.94	173.67
Bauxite	‘000 M Tons	930.39	721.00	628.60	561.58	1190.18
Rutile	‘000 M Tons	76.81	87.13	29.61	27.54	57.15
Ilmenite	000Ounces	25.99	19.78	12.62	13.15	25.77
Gold	‘000 M Tons	1.36	3.36	1.49	1.50	2.99
Zircom	'000 M Tons	0.53	0.64	0.00	0.0	0.00
Iron ore	000 M Tons	5255.10	3035.42	0.00	0.0	0.00
Agriculture	000M Tons					
Coffee	000M Tons	0.14	0.00	0.00	4.10	0.00
Cocoa	000M Tons	0.89	93.85	0.00	0.00	0.00
Manufactured goods						
Beer and Stout	000Ctns	569.11	440.25	296.46	431.49	827.95
Maltina	'000 Cu.Ft	153.16	147.48	44.84	71.94	116.78
Acetylene	'000 Cu.Ft	100.30	132.79	78.71	72.94	151.65
Oxygen	'000 Lbs	266.10	200.60	75.62	65.32	140.94
Confectionary	000M Tons	1521.75	1357.28	412.06	615.88	127.94
Common Soap	000crates	193.58	230.15	138.61	142.29	280.90
Soft drinks	'000 Gals	412.53	256.04	257.21	265.58	522.79
Paint	000M Tons	354.87	102.79	145.43	168.85	314.28
Cement	000M Tons	90.87	151.53	76.22	74.56	150.78
Services						
Total Unit Generated		141.05	167.94	72.48	56.79	127.94
Total termal plants		67.62	17.45	41.76	37.37	77.77
Total hydro plants		73.43	150.49	30.72	19.42	50.17

Source: Bank of Sierra Leone

Electricity Generation

Electricity generation in the first half totaled 127.94 Gw/hr, representing a decline by 71.33 percent compared to the previous period. The total generation was made up of 77.77 Gw/hr from thermal plants and 50.17 Gw/hr from hydro power.

Figure 7: Electricity Generation



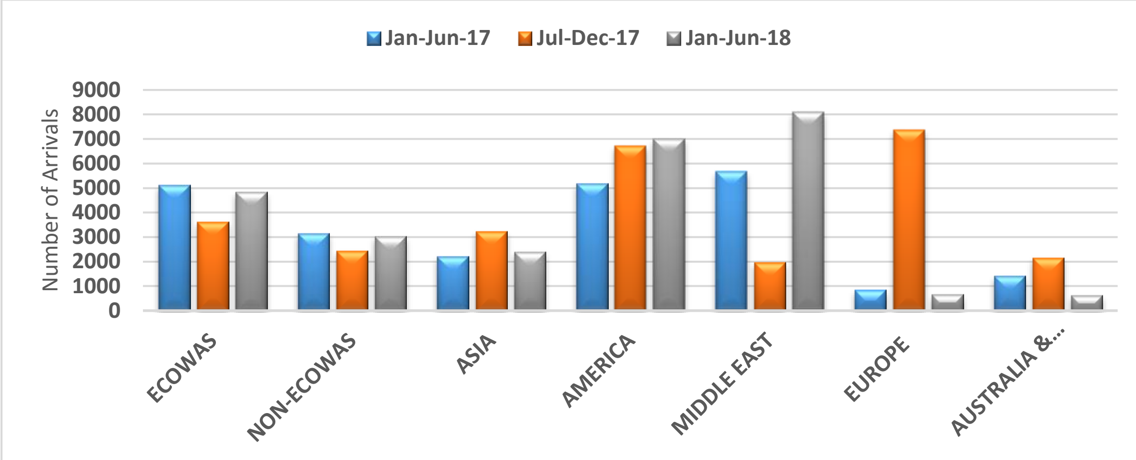
Source: EDSA

The fall in overall electricity generation was exclusively as a result of low generation from hydro power plants, explained by repairs and maintenance during the review period. Hydro power generation of 50.17 Gw/hr was 30.98 percent less than generation in the previous period. Generation from thermal plants grew by 445.54 percent, but this significant growth was still insufficient to reverse the decline in the overall generation.

Tourism

Tourist arrivals in the first half of 2018 amounted to 26,657 reflecting a decline by 3 percent compared to the previous period. The overall fall was on account of decline in arrivals from Middle East, Asia and Australia & Oceania.

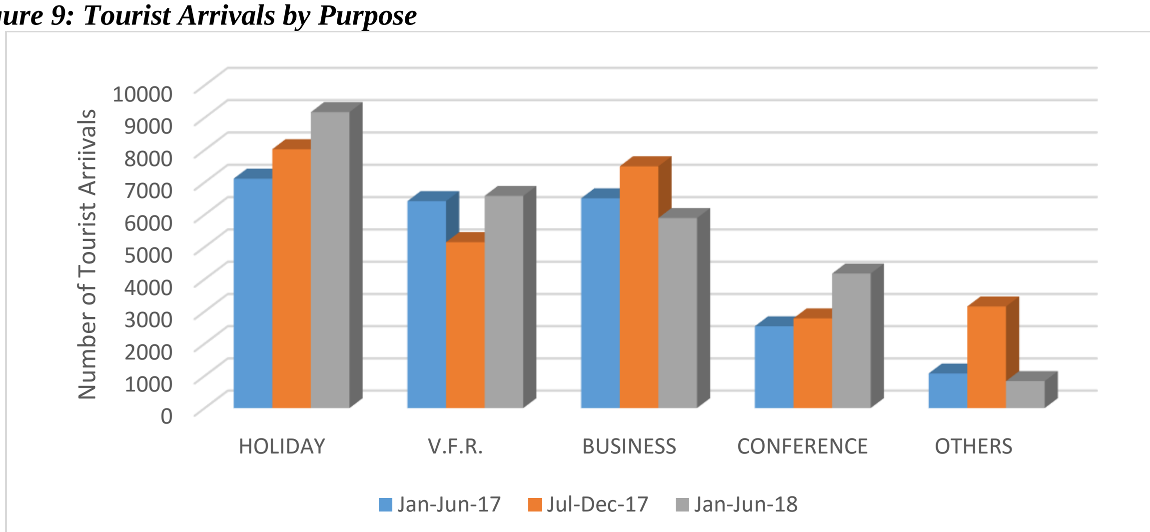
Figure 8: Tourist Arrivals by Place of Residence



Source: National Tourist Board Sierra Leone

Total arrivals comprised of 30.41% from Europe, 26.26% from America, 18.17% ECOWAS, 8.99% Asia, 11.38% Non-ECOWAS, 2.34% Australia & Oceania, and 2.45% Middle East.

Figure 9: Tourist Arrivals by Purpose



Source: National Tourist Board Sierra Leone

Categorized by purpose of visit, holidays were the most popular reason for visiting Sierra Leone (34.4%) followed by business reasons (22.11%), visits to friends (24.68%), attendance of conferences (15.66%), and other purposes (3.14%).

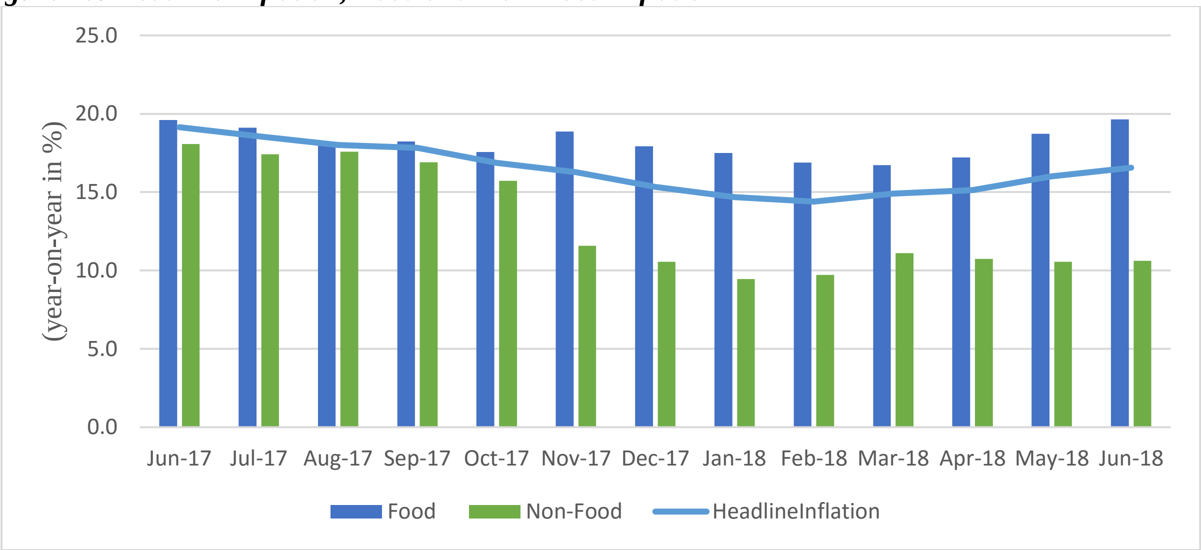
3.2 Domestic Price Developments

Inflationary pressures emerged in the first half of 2018 as headline inflation increased to 16.57 percent in June 2018 from 15.33 percent in December 2017. On average, headline inflation rose to 8.77 percent in the first half of 2018 from 6.00 percent in the second half of 2017. The outturn was however, lower when compared with an average rate of 19.42 percent in the corresponding period of 2017. The inflationary pressures where evident in both food and non-food inflation.

Food inflation increased to 19.65 percent end June 2018 from 17.93 percent at end-December 2017. The upward pressure in food prices was due to the increased demand for food the month of Ramadan, coupled with the pass-through effects of the depreciation of the Leone on imported food prices.

Non-food inflation also increased moderately, moving from 10.56 percent at end-December 2017 to 10.65 percent at end-June 2018. The moderate increased in non-food inflation was attributable to the increase in housing & utilities, health, clothing & footwear and furnishing & maintance indices.

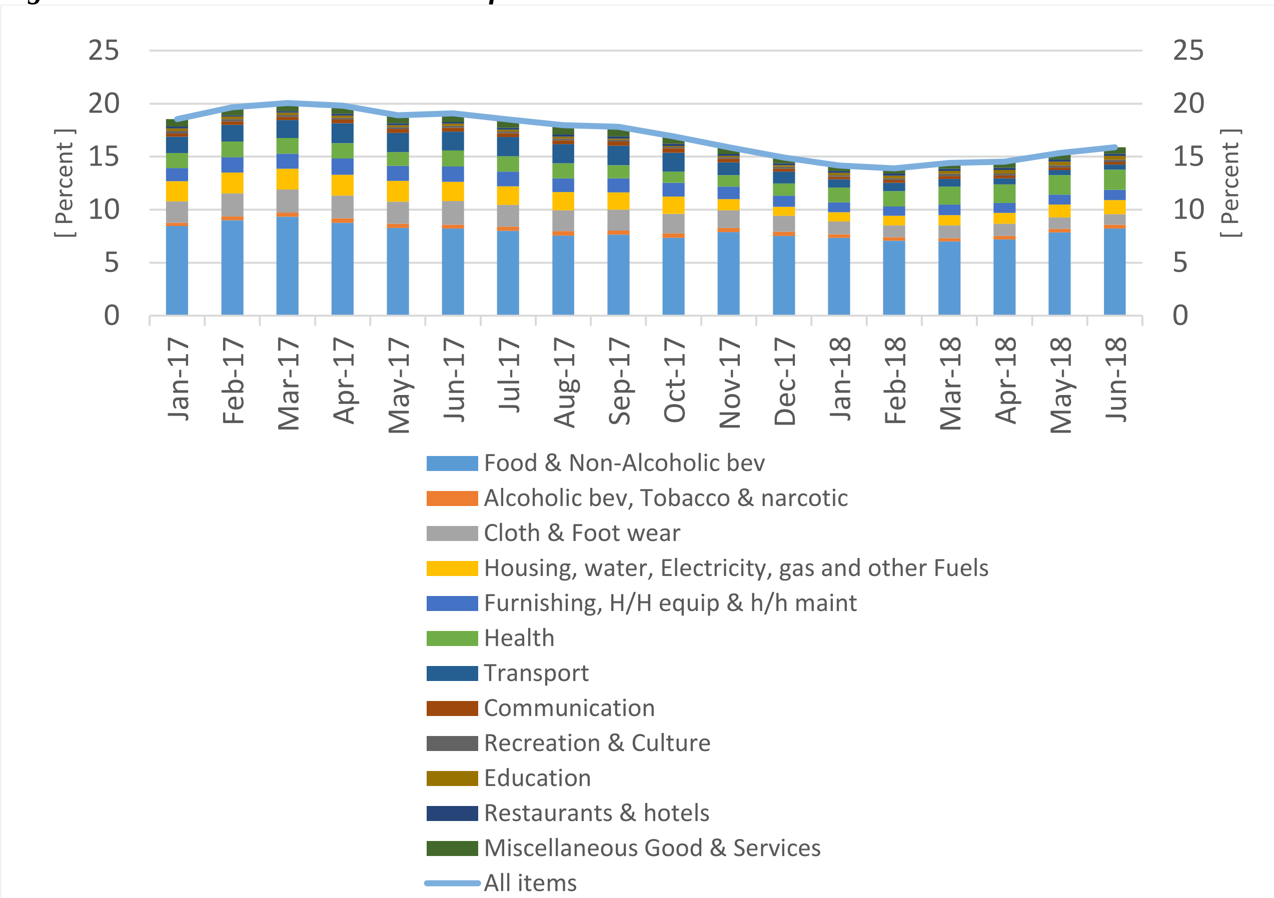
Figure 10: Headline Inflation, Food and Non-Food Inflation



Source: Bank of Sierra Leone and Statistics Sierra Leone

In terms of the CPI components, most of the sub-indices contributed somewhat to the upward pressure on domestic prices over the review period. Specifically, food & non-alcoholic beverages, and non-food items such as health, clothing & footwear, furnishing & household equipment and housing, water, electricity, gas & other fuels exerted upward pressure on headline inflation.

Figure 11: Contributions to Headline Inflation



Source: Bank of Sierra Leone and Statistics Sierra Leone

4.0 Fiscal Operations

Government budgetary operations resulted in a deficit (including grants) of Le1, 022.38bn, compared to Le 471.31bn recorded in the previous half of 2017. The overall deficit exceeded the budgeted target of Le726.64bn by 116.93 percent and was also 15 percent lower than the deficit of Le1, 201.03bn recorded in the corresponding first half of 2017.

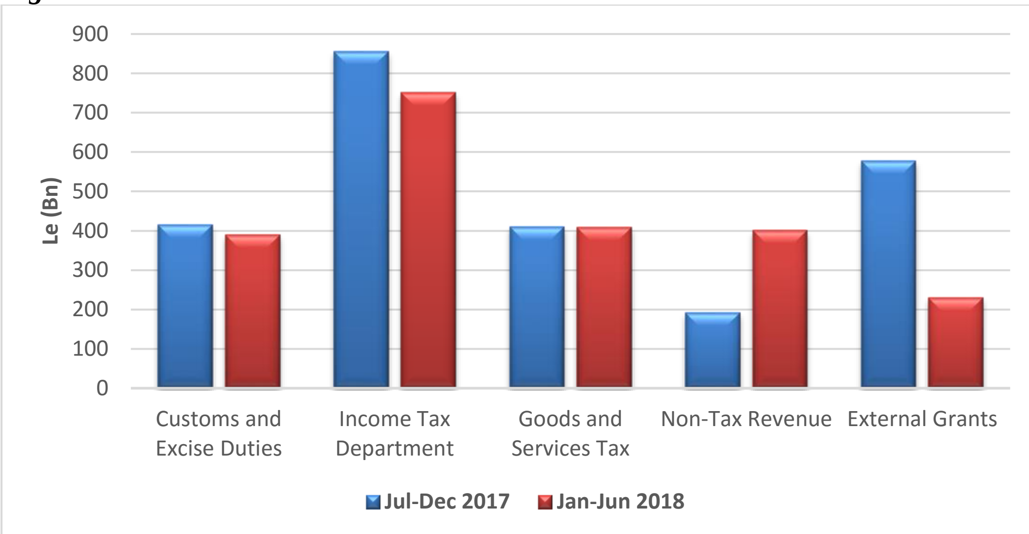
4.1 Government Revenues

Total Government revenue and grants amounted to Le2, 201.07bn, down by 13.32 percent compared to the previous period and was 11.64 percent lower than the budgeted amount of Le2, 490.93bn. This outturn was mainly explained by a significant decline in foreign grants as domestic revenue increased marginally.

Domestic revenue grew slightly by 0.50 percent to Le1, 971.19bn mainly on account of increased non-tax revenue. Non-tax revenue increased by 109.52 percent to Le400.56bn and exceeded the target of Le 384.90bn by 4.07 percent, mainly owing to increases in revenue collection from royalties from mining and other departments.

Tax revenue declined by 7.82 percent to Le1, 550.46bn and was 18.09 percent below the target of Le1, 892.85bn, primarily explained by decreases in collection from the main tax categories. Revenue from Customs and Excise Department slowed by 5.98 percent to Le390.64bn and was 38.18 percent below the target of Le 631.88bn. Income tax receipts fell by 12.30 percent to Le750.63bn, but exceeded the target of Le719.34bn by 4.35 percent. Collections from Goods and Services Tax (GST) decreased slightly by 0.33 percent to Le409.19bn and fell short of the target of Le 541.64bn by 24.45 percent.

Figure 12: Contributions to Government Revenue



Source: Ministry of Finance

Foreign grants received decreased significantly by 60.23 percent to Le229.88bn and exceeded the target of Le193.00bn by 19.11 percent. The foreign grants disbursed during the period were grants for development projects amounting to Le193.00bn, programme grants amounted to Le36.88bn and HIPC Debt Relief Assistance amounting to Le6.63bn.

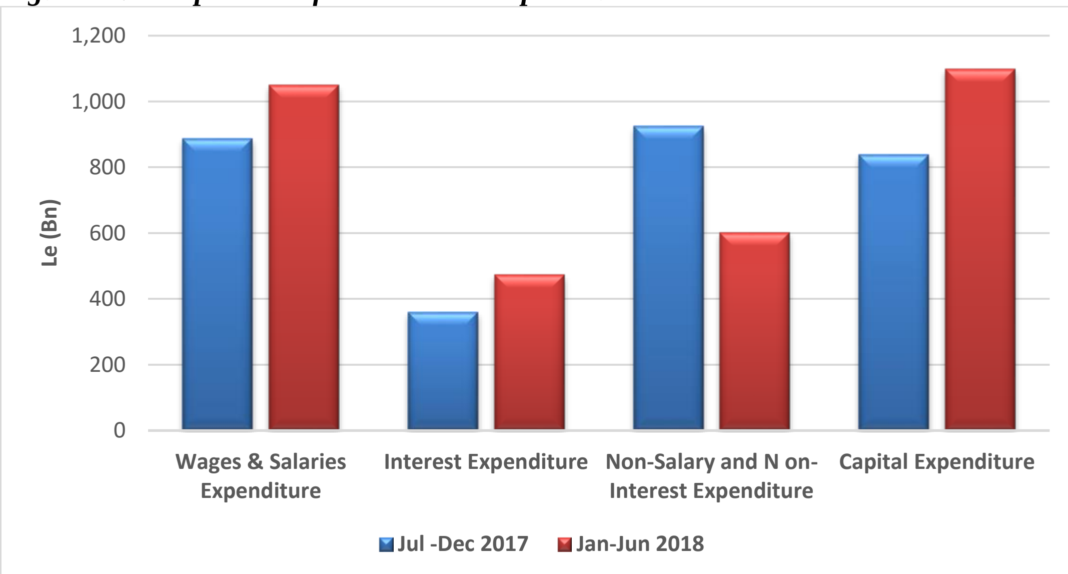
4.2 Expenditures and Net Lending

Total expenditures and net lending expanded by 7.06 percent to Le 3,223.45bn in the first half of 2018 and was 0.18 percent higher than the ceiling of Le3, 217.57bn. The expansion in total expenditure was observed in capital expenditure as recurrent expenditure declined marginally.

Recurrent spending contracted by 2.19 percent to Le2, 124.86bn but exceeded the ceiling of Le2, 112.14bn by 0.60 percent. The decline in recurrent spending was mainly due to decreases in expenditure on goods and services and transfers to local councils. However, the wage bill increased by 18.26 percent to Le1, 050.04bn but was slightly below the ceiling of Le1, 057.23bn, and accounted for 47.79 percent of total revenues and 48.37 percent of recurrent expenditures.

Total interest payment increased by 31.42 percent to Le472.96bn but was within the ceiling of Le505.46bn by 6.43 percent. The increased interest payments was attributable to the rise in the domestic interest payment to the tune of Le454.45bn from Le248.32bn in the previous period. Foreign interest payment declined to Le51.01bn from Le65.17bn in the previous half.

Figure 13: Composition of Government Expenditure



Source: Ministry of Finance and Economic Development

The non- salary, non-interest recurrent expenditures declined by 33 percent to Le601.87bn This amount comprised of expenditure on goods and services amounting to Le269.69bn, expenditure on social outlays and grants to education to the tune of Le113.51bn and Le109.06bn respectively.

Capital Expenditure increased by 31.05 percent to Le1, 098.59bn primarily on account of increased externally and domestically financed spending on capital projects. Foreign loans and grants financing rose by 29.27 percent to Le704.50bn, while domestic financing increased by 34.35 percent to Le394.09bn.

4.3 Financing

The overall deficit including grants of Le1, 022.38bn was financed from domestic, external and other sources. Domestic financing amounted to Le414.87bn, while external financing amounted to Le372.12bn. Other sources of financing amounted to Le235.38bn.

Table 4: Government Fiscal Operations 2018, in Millions of Leone

	2017 Jan – Jun	2017 Jul. – Dec.	2018 Jan. – Jun.	2018 Budget
TOTAL REVENUE (PLUS GRANTS)	1,745,747	2,539,437	2,201,071	2,490,925
DOMESTIC REVENUE	1,668,273	1,961,367	1,971, 191	2,297,925
Of which:				
Customs & Excise	496,285	415,469	390,640	631,875
Income Tax Department	569,612	855,938	750,628	719,341
Goods & Services Tax	371,400	410,526	409,191	541,638
Miscellaneous	172,182	191,178	400,556	384,895
GRANTS	77,474	578,070	229,880	193,000
TOTAL EXPENDITURE & NET LENDING	2,946,780	3,010,742	3,223,451	3,217,566
Of which:				
Current Expenditure	2,095,700	2,172,414	2,124,863	2,112,140
Development Exp. & Net Lending	851,080	838,328	1,098,588	1,105427
CURRENT BALANCE+/- (Including grants)	(349,953)	367,023	76,208	378,786
Basic Primary Balance	(616,992)	358,052	(52,144)	312,979
OVERALL DEFICIT/SURPLUS (Incl. grants)	(1,201,033)	(471,305)	(1,022,380)	(726,641)
FINANCING	1,201,033	471,305	1,022,380	726,641
Domestic	796,274	346,676	414,876	506,484
Of which				
Bank Financing	779,287	335,807	450,839	506,484
External	106,767	628,511	372,122	374,596
Others*	297,992	(503,882)	235,382	(154,439)

**Includes Rescheduling/Write Off, Financing Gap, Privatisation Net, and Unaccounted Amounts*

Source: Ministry of Finance and Economic Development

5.0 Monetary Developments

5.1 Conduct of Monetary Policy

Consistent with its mandate of achieving and maintaining price stability, the Bank's monetary policy during the first year of 2018 was geared towards bringing down inflation to a lower double digit in 2018.

During the review period, monetary policy management was challenged by exchange rate volatility, slowdown in economic activities, rising international commodity prices, fiscal imbalances and tight liquidity conditions in the interbank market. In response to these challenges, the BSL extended bridge financing to the government in anticipation of budget support and also conducted foreign exchange swap transactions with commercial banks to support liquidity in the banking system.

The Monetary Policy Committee (MPC) held two meetings. Based on its assessment of inflation outlook, the MPC maintained tight monetary policy stance by increasing the Monetary Policy Rate from 14.5 percent in December 2017 to 15.0 percent in May 2018, and further to 16.5 percent in June 2018.

Table 5: Monetary Policy Committee Meetings held in January-June 2018

MPC Meetings	Policy Decisions	MPR (%)
Thursday, 14th Dec 2017	Increase the MPR by 50 basis points	14.5
Monday, 14th May 2018	Increase the MPR by 50 basis points	15.0
Thursday, 28th June 2018	Increase the MPR by 150 basis points	16.5

Source: Research Department, BSL

5.2 Developments in Monetary Aggregates

Developments in monetary aggregates in the first half of 2018 were mixed. Broad Money supply expanded while Reserve Money supply contracted.

Broad Money

Despite the tight monetary policy stance, Broad Money (M2) expanded in the first half of 2018, compared to the growth recorded in both the preceding and corresponding periods in 2017. M2 expanded by 4.79 percent in January-June 2018, compared to the 2.34 percent growth recorded in the preceding period in 2017 and the 4.54 percent increase in the corresponding period in 2017. The increase in M2 was as a result of a 12.53 percent expansion in Net Domestic Assets (NDA), which more than offset the 4.54 percent decline in Net Foreign Assets (NFA) of the banking system.

The NDA of the banking system grew mainly on account of an expansion in government borrowing from commercial banks in the securities market as well as increase in credit to the private sector. Credit to the private sector by commercial banks increased by 10.70 percent, compared to the 4.07 percent contraction in July-December 2017 and the 8.72 percent increase in January–June 2017. This was mainly as a result of improved investor confidence in the economy.

The decline in NFA of the banking system was lower, compared to the 23.11 percent growth recorded in July-December 2017 and the 21.06 percent decrease in January-June 2017. The decrease in NFA of the banking system was mainly reflected by the 9.37 percent contraction in NFA of the commercial banks which more than outweighed the 2.38 percent increase in NFA of the Bank of Sierra Leone. The decline in NFA of the commercial banks was mainly driven by decrease in claims on non-residents.

From the liabilities side, the M2 grew as a result of a 12.31 percent increase in Quasi Money and a 1.81 percent growth in Narrow Money. Quasi Money growth was attributed to the expansion in both Savings and Time Deposits by 12.58 percent and Other Deposits by 8.70 percent, while Narrow Money grew mainly as a result of increase in Demand Deposits (3.24%).

Reserve Money

The Reserve Money (RM) contracted by 7.89 percent in January-June 2018, compared to the increases of 6.49 percent in the preceding period and 2.36 percent in the corresponding position. This development was mainly due to decrease in Net Domestic Assets (NDA) which more than offset the growth in Net Foreign Assets (NFA) of the BSL. The NDA of the BSL contracted as a result of decrease in holdings of government securities and Ways and Means Advances. The NFA of the BSL expanded on account of SWAP transaction with commercial banks and accrued interest on investment by the BSL.

On the liabilities side, the contraction in RM was mainly reflected by the 30.09 percent decline in commercial banks' reserves, which was more than the 24.56 percent drop in July-December 2017 and the 9.57 percent increase in January-June 2017.

5.3 Interest rates

Interest rates in the auction market showed mixed trend during the review period. The 91-days treasury bills rate declined from 8.22 percent in December 2017 to 7.62 percent in June 2018. Also, the yield on the 182-days treasury bills rate decreased from 9.68 percent in December 2017 to 8.20 percent in June 2018. However, the 364-days treasury bills rate increased from 21.17 percent to 23.19 percent in the same review period. The interbank rate moved from 13.22 percent in December 2017 to 13.66 percent in June 2018, the interest rate on Savings remained unchanged at 2.38 percent, whereas the prime lending rate moved from the ranges of 17.92 and 24.77 percent in December 2017 to 17.92 and 21.79 percent in June 2017.

6.0 External Sector Developments

External sector developments in the first half of 2018 were mixed, evidenced in the sizeable improvement in the level of external trade – with the trade deficit contracting by 49.3 percent, led by a significant improvement in export earnings, while the stock of gross foreign exchange reserves on the other hand declined by 3.38 percent to US$515.74mn and was equivalent to 2.7 months of import of goods and services. Furthermore, the Leone depreciated against all major international currencies and continues to remain a challenge to the stability of the economy.

6.1 Merchandise Trade

The value of merchandise trade increased to US$1,180.01mn in the first half of 2018 from US$920.77mn and US$990.32mn in the preceding and corresponding periods in 2017, respectively. This development was mainly driven by a significant increase in exports of goods which more than outpace the growth in import payments during the review period. Consequently, the trade deficit narrowed to US$148.36mn in the first of 2018 from US$292.54mn and US$484.58mn in the preceding and corresponding periods, respectively.

Exports

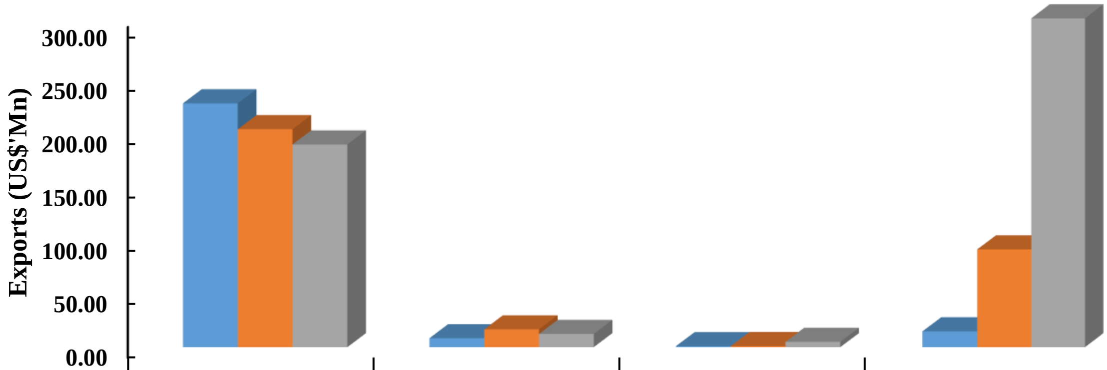
The value of merchandise exports rose by US$201.71mn or 64.2 percent to US$515.82mn in the first half of 2018 from US$314.11mn recorded in the preceding period of 2017, supported mainly by higher proceeds from the export of palm produce, notwithstanding declines in mining and agricultural exports during the review period.

Performance in the mining sector continued to deteriorate in the first half of 2018, as receipts dropped to US$190.16mn from US$204.42mn and US$228.64mn in the preceding and corresponding half year periods of 2017 respectively. The weak performance reflected a significant drop in earnings from iron ore exports to US$16.49mn in the face of declining production levels. In volume terms, iron ore export dropped to 968,585.0mt from 3,975,871.7mt and 1,967,180.6mt reported in the corresponding and preceding period respectively. A similar development was also observed for rutile, gold and ilmenite. Nevertheless, receipts from diamond export rose by 17.4 percent due to a surge in export volume from 137.8 thousand carats in the second half of 2017 to 372.93 million carats in the review half year; while earnings from the export of bauxite increased by 16.4 percent on account of a rise in volume from 674.08 thousand metric tons in July-December 2017 to 1.0 million metric tons in January-June 2018.

Receipts from agricultural exports decreased by 25.5 percent to US$12.49mn from US$16.75mn in the preceding period in 2017, underpinned by a considerable drop in the fish and shrimps component; for which earnings declined to US$2.0mn from US$6.5mn in the preceding period

Other export (constituting mainly of palm produce for the period) increased considerably to US$308.16mn, from US$14.87mn and US$91.92mn recorded in the first and second halves of 2017 respectively; while re-exports earnings amounted to US$5.0mn in the review period.

Figure 14: Developments in Merchandise Exports



	Mineral	Agriculture	Re-Exports	Other Exp
2017H1	228.64	8.39	0.97	14.87
2017H2	204.42	16.75	1.02	91.92
2018H1	190.16	12.49	5.01	308.16

Source: Bank of Sierra Leone

Imports

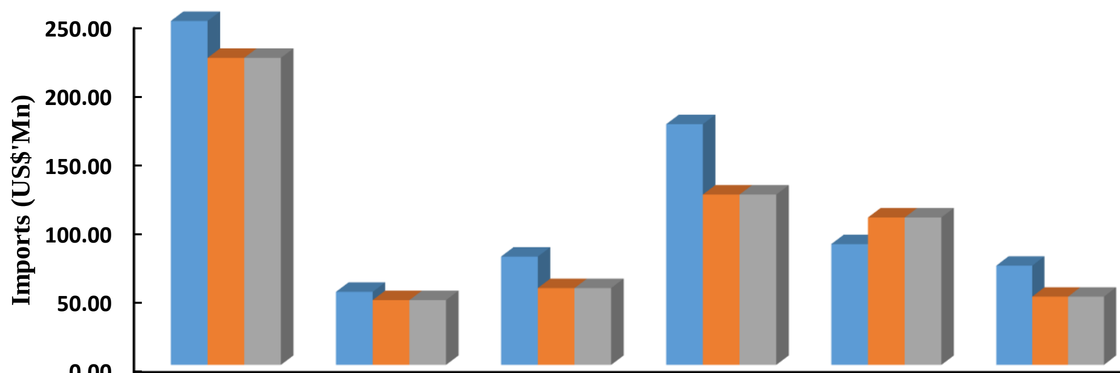
Total value of merchandise imports for the first half of 2018 amounted to US$664.18mn, up by 9.5 percent or US$57.52mn from US$606.66mn recorded in the second half of 2017 and was driven by higher levels of food and petroleum products imports during the period.

During the period under review, consumer goods (comprising food, beverages, tobacco, animal and vegetable oil) surged by US$31.7mn or 14.2 percent to US$254.87mn from US$223.17mn in the second half of 2017. For the same period last year, consumer goods imported was valued at US$270.74mn.

The value of intermediate goods imported, on the other hand, fell slightly to US$47.0mn from US$47.1mn recorded in the preceding half year. The value of Crude materials declined thus offsetting the growth registered by the chemicals sub-category in this classification.

The imports of manufactured goods increased by 3.4 percent to US$57.75mn from US$55.8mn recorded in the preceding period in 2017. Machinery and transport equipment during the period was US$114.0mn, down by 7.9 percent or US$9.8mn from US$123.8mn in the preceding period in 2017. Mineral fuel and lubricants imported rose by 31.2 percent to US$140.6mn in the review period, from US$107.1mn in the preceding period. This was due to an increase of 25.5 percent in fuel import from US$111.2mn in the preceding half year to US$139.5mn in the period under review. The value of other goods imported was US$49.9mn, which exceeded the previous half year's level by US$331.3mn.

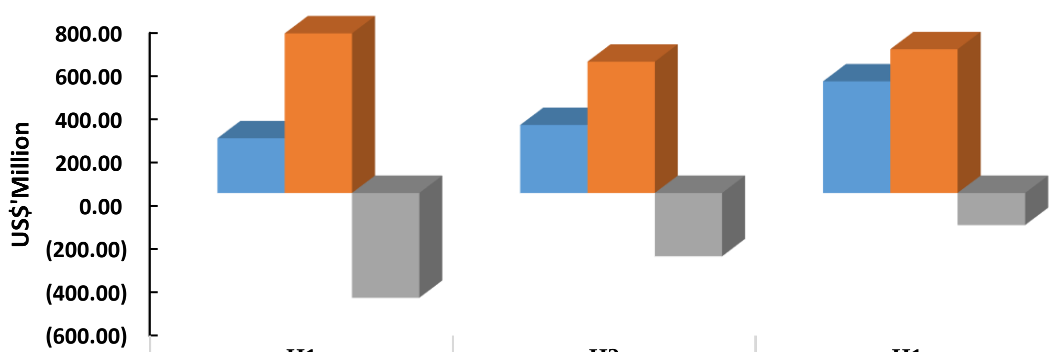
Figure 15: Developments in Merchandise Imports



	Consumer Goods	Intermediate Goods	Manufactured Goods	Machinery& Transport	Petroleum Products	Other Imp
2017H1	270.74	53.11	78.71	174.98	87.80	72.11
2017H2	223.17	47.10	55.83	123.83	107.14	49.59
2018H1	223.17	47.10	55.83	123.83	107.14	49.59

Source: Bank of Sierra Leone

Figure 16: External trade



	H1 2017	H2 2017	H1 2018
Exports	252.86	314.11	515.82
Imports	737.45	606.65	664.18
TBAL	(484.59)	(292.54)	(148.36)

Source: Bank of Sierra Leone

6.2 Foreign Exchange Rate Developments

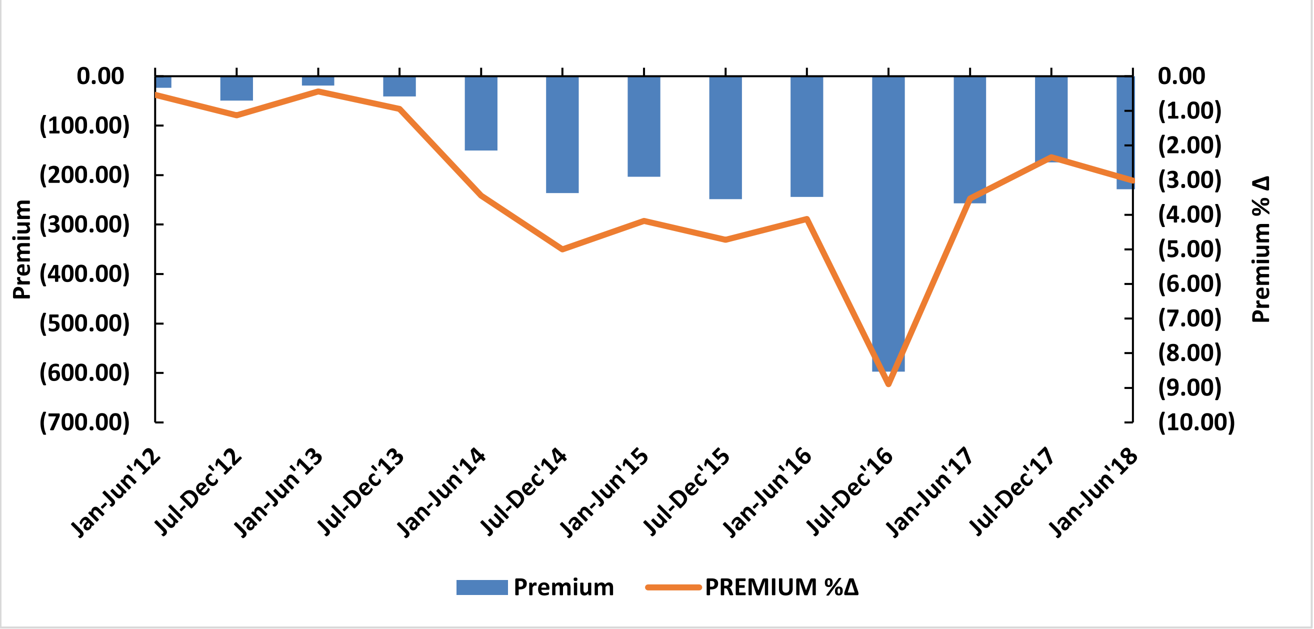
Foreign exchange market developments during the first half of 2018 exhibited a persistent depreciation of the Leone against the US dollar in all market segments, underpinned by the continued mismatch between the demand for and supply of foreign currency in the economy. Consequently, the parallel market rate depreciated the highest by 2.26 percent averaging Le7,787.20/US$1 followed by the foreign exchange bureaux, commercial banks and official rates by 1.77, 1.73 and 1.59 percents averaging Le7,543.59/US$1, Le7,656.95/US$1 and Le7,559.00/US$1 respectively, relative to the preceding period.

When compared to the corresponding period in 2017, the exchange bureaux rate depreciated the highest by 3.98 percent followed by the official by 3.88 percent, commercial banks by 3.72 percent and the parallel markets' rate by 3.37 percent.

Similar trends were also observed on a quarterly basis, with the exchange rate of the Leone against the US dollar depreciating in all market segments throughout the first two quarters of 2018.

The premium between the official and parallel markets' rates widen by 3.02 percent in the first half of 2018, reflecting the pressures in the foreign exchange market.

Figure 17: Premium between the Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

6.3 Gross Foreign Exchange Reserves

The stock of gross foreign exchange reserves of the Bank of Sierra Leone amounted to US$515.74mn in the first half of 2018, declining by 3.38 percent from US$533.80mn in the preceding period. The decline in the stock position was mainly due to a net outflow of US$13.59mn and a revaluation loss of US$4.47mn during the review half year (Figure 17). Consequently, import coverage dropped to 2.7 months from 3.2 months in the preceding period.

Inflows

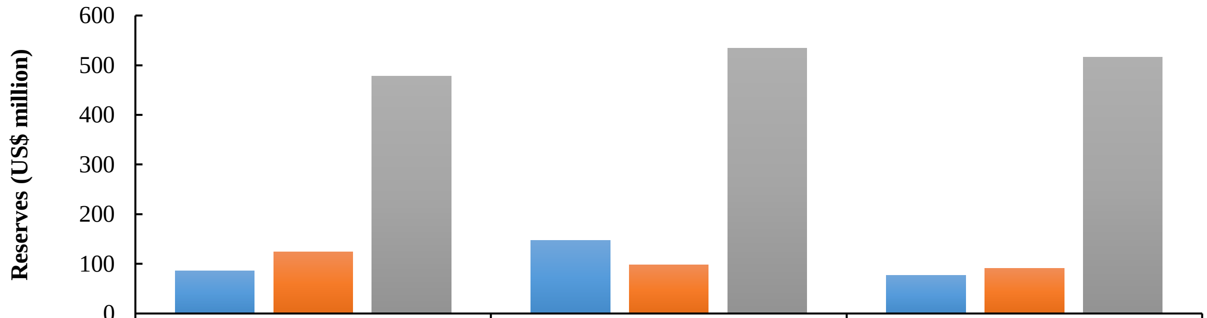
Inflows amounted to US$77.18mn in the review period, declining by 47.6 percent from US$147 in the preceding period. The decline was attributed to a significant drop in aid disbursement. Major inflows during the period comprised US$33.1mn being export receipts of which, US$18.9mn was aggregate royalty payments by Sierra rutile, Vimeto and Koidu holdings company; US$5.6mn was fishing royalty/license fees; US$4.7mn was diamond exporters income tax; US$2.3mn was in respect of other mining receipts; while US$11.6mn was cumulative receipts from other export related activities.

Other inflows comprised US$17mn, being receipt from transactions with commercial banks, US$5.10mn being privatization receipts; and US$4.07mn was aid disbursements/BOP support.

Outflows

Total outflows for the period was US$90.8mn comprising US$60.1mn being payments for goods and services of which, US$26.0mn was in respect of interbank market operations; US$16.0mn was government travel and other government payments; US$8.5mn was for embassies/missions; Bank of Sierra Leone utilization amounted to US$5.7mn; while US$2.0mn was subscription to international organisations. Total debt service payment for the period was US$30.7mn, comprising payments to other multilateral and bilateral organisations (US$13.24mn), IMF (US$10.10mn), World Bank (US$2.02mn), African Development Bank (US$1.07mn) and OPEC/OFID (US$3.56mn).

Figure 18: Foreign Exchange Flow and Reserves Position of the BSL



	2017H1	2017H2	2018H1
Inflow	86.03	147.15	77.18
Outflow	124.36	98.1	90.76
Reserves	477.54	533.8	515.74

Source: Bank of Sierra Leone

7.0 Sierra Leone's Status of Macroeconomic Convergence

Sierra Leone continues to face challenges in meeting the set convergence criteria under the ECOWAS Monetary Cooperation Programme. During the review period, none of the four primary criteria was met. Inflation was above the single digit threshold, overall budget deficit was higher than required, indicative of weak domestic revenue mobilization, central bank financing of fiscal deficit was above the required level and the stock of gross foreign exchange reserves was not sufficient to cover at least three months of import of goods and services.

However, in terms of the secondary convergence criteria, the country met both criteria, that is exchange rate stability within the band of ±10 percent and the ratio of public debt to GDP of not more than 70 percent.

Table 6: Sierra Leone – Status of Rationalized ECOWAS Primary Convergence, 2015 Dec – 2018 June

Economic Indicators	**Target**	**2015 DEC**	**2016 DEC**	**2017 JUN**	**2017 DEC**	**2018 JUN**
Inflation(End Period)	Single digit	8.9	17.4	19.1	15.3	16.6
Inflation(annual Average)	Single digit	8.1	10.8	16.2	18.3	15.3
Fiscal Deficit incl. grants/GDP (%)	≤ 3%	4.3	7.5	8.9	9.0	7.5
Central Bank Financing of Fiscal Deficit as % of previous year	≤ 10%	20.1	30.6	20.6	81	58.5
Gross External Reserves(in months of import cover)	≥ 3 mths	4.6	4.1	4.3	3.2	2.7
Number of criteria satisfied		3	1	1	1	0

Source: Bank of Sierra Leone

Table 7: Sierra Leone – Status of Rationalized ECOWAS Secondary Convergence, 2015 Dec – 2018 June

Economic Indicators	Target	2015 DEC	2016 DEC	2017 JUN	2017 DEC	2018 JUN
Exchange Rate Variation	± 10%	12.2	21.6	19.1	4.2	3.9
Public Debt/GDP (%)	≤ 70%	45.1	55.1	61.5	59.1	57.0
Number of criteria satisfied		1	1	1	2	2

Source: Bank of Sierra Leone