Economic and Financial Review July - December 2011

1.0 Highlights

Macroeconomic management in Sierra Leone during the second half of 2011 significantly improved compared to the first half. This was attributable in part to enhanced domestic revenue performance and increased external budgetary support inflows received during the period, combined with prudent expenditure management policies adopted by the fiscal authorities aimed at correcting the imbalances that characterized fiscal performance in the preceding half year. The stance of monetary policy also continued to remain tight as the exchange rate of the Leone to the US Dollar held relatively stable culminating in salutary outcome in inflation performance during the period.

An International Monetary Fund (IMF) mission visited Sierra Leone from August 23 to September 6, 2011, to conduct the combined second and third reviews of the three-year Arrangement under the Extended Credit Facility (ECF) which was approved by the Executive Board in June 2010. Following the conclusion of the second and third reviews of Sierra Leone's economic performance under the ECF program on 7th December 2011, the Executive Board of the IMF endorsed the immediate release of the 3rd & 4th disbursements in the sum of SDR 8.88 million (about US$13.8 million) which brought total disbursements under the programme to an amount equivalent to SDR 17.76million (about US$27.6 million). In concluding the reviews, the Executive Board approved government's request for waivers for the non-observance of performance criteria on net domestic bank credit to the central government and net domestic assets of the Central Bank, at end-December 2010, and for the continuous performance criterion on the ceiling on contracting new non-concessional external debts through end June 2011. The Board also approved the request for modification of three performance criteria for end-December 2011, net domestic bank credit to the central government, net domestic assets of the central bank, and gross foreign exchange reserves of the Central Bank, to reflect the envisaged tighter fiscal and monetary policy.

Real GDP growth in 2011 which was earlier projected at 5.0 percent was later revised to 5.3 percent in the reporting period, with mining, agriculture and services subsectors constituting the key drivers of growth.

Domestic inflation remained in double digits throughout the reporting period, due mainly to the pass-through effect of global increases in the prices of food and petroleum products. The national year-on-year inflation rate as measured by the Composite Consumer Price Index (CPI) declined marginally from 16.79 percent in June 2011 to 16.64 percent in December 2011, albeit recording 17.15 percent and 17.24 percent in the months of October and November 2011 respectively, as global food and fuel prices surged.

Agriculture continued to post strong recovery during the period under review, as the government provided the much needed support to the sector. Government's strategic plan to strengthen agriculture is channeled through a Public Private Partnership (PPP) strategy in line with which investment-friendly policies were put in place during the period to encourage private entrepreneurship in the sector. On 10th November 2011, the construction of an ethanol refinery and a biomass fuelled power plant commenced in Makeni, Northern Sierra Leone.

In spite of the incentives created by the increase in world market prices of cash crops, output levels of coffee and cocoa dropped in the second half of 2011, relative to production levels recorded in the first half of 2011 and the corresponding half year in 2010.

In the mining sub-sector, total diamond shipments in the second half of 2011, as recorded by the Gold and Diamond Department (GDD), was considerably lower than in the first half of 2011 and the corresponding half year in 2010. Shipment of bauxite and gold were also below previous half year's levels, while shipment of rutile and illmenite registered increases over the preceding period's levels. For the first time in thirty-five years, the country resumed exportation of iron ore in the fourth quarter of 2011.

Performance in the energy sub-sector improved during the review period relative to the preceding half year. Total units of electricity generated in the reporting period was recorded at 96.60 million kilowatts hours (kw/hr), compared to 79.04 million kilowatts hours (kw/hr). This indicated a 22.22 percent growth rate compared to 87.54 kw/hr (10.35%) in the corresponding period in 2010.

Notwithstanding the increase in prices of building materials, construction activities by both the private and public sectors continued to boom as reflected in the increased number of building permits issued during the second half of 2011. Also, the transport and communications sectors continued to remain buoyant, mainly attributed to increased infrastructure development projects, the expansion in telecommunications network and the establishment of the US$30 million Africa Coast to Europe (ACE) fibre optic project, aimed at improving the information and communication capacity in Sierra Leone.

Fiscal performance during the second half of 2011 reflected some improvement in total revenue collection (plus grants) relative to the first half of 2011 and the corresponding period in 2010. The improvement was attributable to both enhanced domestic revenue collections as well as augmented foreign exchange inflows. Total revenue increased by 19.37 percent from Le934,05bn in the preceding half year to Le1,181.22bn in the reporting half year and was also 19.67 percent above the program target of Le987.09bn. Total expenditure and net lending was recorded at Le1,434.72bn during the review period, indicating an 8.92 percent increase over the preceding half year's position of Le1,317.23bn. It was also 9.35 percent above the period's target of Le1,312.07bn. The authorities also successfully operated an improved cash budget management system during the reporting period, which positively impacted on fiscal operations, as reflected in the substantial contraction (22.64%) in the overall deficit from Le327.69bn in the preceding half year, to Le253.49bn in the reporting half year. The deficit was however 36.76 percent higher than the corresponding half year's level of Le185.35bn in 2010.

The Central Bank maintained a tight monetary policy stance during the second half of 2011, aimed at achieving and maintaining price stability. Accordingly, monetary expansion during the review period slowed down as money supply grew by only Le191.16bn (7.56%) over the reporting period compared to growth rates of 13.06 percent and 26.41 percent respectively in the preceding half-year and the corresponding half-year of 2010. This was driven mainly by the 12.37 percent expansion in the Net Foreign Assets (NFA) of the banking system. Open Market Operations (OMO) through Repo, remained the major instrument of monetary policy management via weekly auctions of treasury bills and bonds during the reporting period. Reserve Money (RM) grew by 15.86 percent from Le741.91bn as of end June 2011, to Le859.60bn as of end December 2011. However, RM declined by 2.5 percent from the corresponding period in 2010.

In the external sector, trade deficit for the second half of 2011 widened significantly from US$556.39mn in the preceding half year to US$798.38mn during the review period, representing a 43.5 percent increase compared to the 182.60 percent increase recorded in the corresponding half of 2010. The deterioration in the trade deficit was explained by the 34.9 percent increase in total import bill, mainly on account of machineries and transportation for the mining sector, which more than offset the 7.6 percent increase in export earnings. The monthly average bilateral exchange rate of the Leone to the United States Dollar during the reporting period remained relatively stable compared to the preceding half year period during which the exchange rate depreciated by 1.54 percent. Nonetheless, the gross external reserves position of the Central Bank improved by US$32.20mn (9.30%) to US$376.79mn at end December 2011. This level of foreign exchange reserves was enough to cover 4.2 months of imports of goods and services.

Sierra Leone's performance on the convergence scale under the West African Monetary Zone (WAMZ) programme indicated that only one primary convergence criterion (the gross external reserves equivalent to 4.2 months of imports cover) and one secondary criterion (Public Investment from Domestic Receipts of not less than 20 percent) were met. The country continued to breach the criterion on single digit inflation, though the national year-on-year inflation rate declined from 16.79 percent as of end June 2011 to 16.64 percent as of end December 2011.

2.0 Real Sector Developments

Real sector activities during the second half of 2011 reflected mixed performances, with some sub-sectors recording moderate recovery while others were experiencing a slow down. Recovery in the performance of some sectors during the review period was reflective of the strong growth in the construction and services sub-sectors. The agriculture sector continued to receive Government's support in the form of enhanced assistance to smallholder farmers as a vehicle to facilitate the achievement of their potential for increased output, productivity and income on a sustainable basis. Farmers are being encouraged to plant crops including rice and cassava through the government's Smallholders Commercialization Program (SCP) within the framework of the National Sustainable Agricultural Development Programme (NSADP) and the Comprehensive African Agricultural Development Programme (CAADP).

Performance in the mining sector was mixed during the period. On a positive note, Sierra Leone recorded the first shipment of iron ore, in more than 30 years, by the African Minerals Mining Company Ltd. The shipment volume, amounting 40,000 tonnes, was successfully loaded and shipped to China in November 2011.

In the energy sector, Addax Bioenergy, a local subsidiary wholly-owned by the Geneva-based Addax and Oryx Group Limited (AOG) commenced the construction of the ethanol refinery and the biomass fuel powered plant at Makeni, Northern Sierra Leone, in November, 2011.

The communication sector benefited from a further boost in October 2011, when the country secured its first fibre optic connection to the outside world, following the landing of the Africa Coast to Europe (ACE) submarine cable in Freetown. The 17,000-kilometer ACE cable is expected to run from France to South Africa, connecting 23 countries on its way either directly or indirectly and is expected to provide a significant enhancement in broadband access. Sierra Leone's connection to ACE was funded by a line of credit in the sum of US$30 million from the World Bank. A total sum of US$71.5 million was approved by the World Bank for broadband development across Africa for three major projects aimed at boosting ICT infrastructure and access to services in Liberia, Sierra Leone and the Democratic Republic of São Tomé.

In the construction sector, a new policy for the provision of feeder roads in Sierra Leone was launched in October 2011 in Makeni, Northern Sierra Leone. The new policy delegates the management functions of feeder roads construction, rehabilitation and maintenance, to the Ministries of Finance and Economic Development (MOFED), Works Housing and Infrastructure, the local councils and the Sierra Leone Roads Authority.

Inflation rates remained in double digits throughout the reporting period. From 16.82 percent in July 2011, the year on year rate fell to 15.7 percent in September 2011 and thereafter rose again to 17.24 percent in November 2011, before settling at 16.64 percent in December 2011. The high inflation rate was reflective of the upward pressure on domestic price arising from the continuous increase in international food and oil price.

Table 1: Production						
	UNITS	Jul - Dec 2010	Jan -Jun 2011	*Jul - Sep 2011*	*Oct - Dec 2011*	Jul - Dec 2011
1	2	3	4	*5*	*6*	7
MINERAL						
Diamonds	000' carats	199.31	210.21	*75.52*	*69.55*	145.07
Bauxite	000' M tons	525.20	788.89	*33.41*	*330.20*	668.61
Rutile	000' M tons	37.55	27.15	*18.20*	*22.62*	40.82
Ilmenite	000' M tons	9.37	4.79	*4.31*	*5.48*	9.78
Gold	000' ounces		3.08	*3.72*	*0.00*	2.20
Zircon	000' M tons		4.64	*0*	*137.91*	3.72
Iron Ore	000' M tons	3.83	0	*1.01*	*1.19*	137.91
AGRICULTURE						
Coffee	000' M tons	0.33	3.60	*0.04*	*0.15*	0.19
Cocoa	000' M tons	13.48	11.59	*1.42*	*4.98*	6.41
MANUFACTURED GOODS						
Beer and Stout	000' cartons	404.54	433.28	*183.80*	*315.85*	499.64
Maltina	000' cartons	106.43	152.48	*57.30*	*84.55*	141.86
Acetylene	000' cu. ft	99.06	103.16	*48.11*	*47.30*	95.42
Oxygen	000' cu. ft	136.52	137.95	*62.40*	*67.00*	129.41
Confectionery	000' lbs	1,592.61	1,758.84	*817.16*	*893.51*	1,710.68
Common Soap	M tons	153.83	153.76	*154.74*	*171.90*	326.65
Soft drinks	000' crates	932.35	994.9	*410.13*	*476.12*	886.25
Paint	000' gals	114.46	107.77	*50.29*	*45.80*	96.10
Cement	000' M tons	144.34	162.95	*72.00*	*75.94*	147.95
Flour	000' M tons	4.84	6.80	*3.94*	*3.38*	7.32
Services						
Electricity						
Units Generated	GW/hr	56.08	79.04	*41.84*	*54.77*	96.60
Industrial Consumption	GW/hr	4.94	15.83	*8.84*	*7.26*	16.10
Domestic Consumption	GW/hr	15.00	12.02	5.05	3.92	8.96
Commercial Consumption	GW/hr	12.00	8.02	*3.36*	*2.61*	5.97
Government Consumption	GW/hr	3.80	6.57	*3.14*	*1.75*	4.88

2.1 Agriculture

In recognition of the important role played by the agriculture sector in supporting macroeconomic stability and growth, the government continued to assign top priority to the sector as an integral part of the national agenda towards achieving the national goal of food security and promotion of job creation in the country. Consequently, in 2011 the government allocated Le22.4bn to the Ministry of Agriculture, Forestry and Food Security (MAFFS) for recurrent expenditure and Le94.2bn from the capital budget, of which Le26.3bn was directed towards the expansion of the Small-

Holder Commercialisation Programme (SCP). The SCP was the result of government's strategy to commercialise, privatise and enhance agricultural development through increase in marketable surplus.

2.1.1 Cash Crop Production

Available data on half yearly production of traditional cash crops indicated a decline during the review period. This was reflected in the decline in shipment of both cocoa and coffee during the second half of 2011, compared to the preceding half-year and the corresponding period in 2010.

Shipment of coffee beans slumped by 3.42 thousand metric tons (94.84%) over the six-month period to 0.19 thousand metric tons, in spite of the period being on-season for harvesting of the crop. The decline in output may be explained by increased smuggling activities across the borders with neighbouring countries, as a result of the comparatively better prices and road networks. It was also 43.57 percent lower than total shipment for the corresponding period in 2010. On a quarterly basis, total shipment of coffee increased from 0.04 thousand metric tons in the third quarter to 0.15 thousand metric tons during the fourth quarter of 2011.

Shipment of cocoa beans also dropped markedly by 5.18 thousand metric tons (44.74 percent) from 11.59 thousand metric tons in the preceding half year to 6.41 thousand metric tons during the reporting period. The decline was mainly due to seasonal factors associated with the period being off-peak season for harvesting of the crop. The bulk of the crop had already been harvested in the preceding period, which was on-season for harvesting activities. It was also partly connected with increased smuggling activities. In terms of quarterly shipments, a total of 4.98 metric tons of cocoa beans was shipped in the fourth quarter, reflecting a 250 percent increase over the total volume of 1.42 metric tons recorded for the third quarter of 2011. In comparison with the corresponding half-year in 2010, output of cocoa declined by 52.45 percent. Additional factors include unfavourable farming conditions and bad weather, particularly during the third quarter.

2.2 Manufacturing

Developments in the manufacturing sub-sector during the review period were mixed with output levels of most products declining compared to the preceding half year. Out of a total of ten products considered in the report, only three recorded increased output during the reporting six-month period. Included in this category are common soap, which increased by 112.44 percent to 326.65 thousand metric tons followed by beer & stout which increased by 15.32 percent to 499.64 thousand cartons, and flour increasing by 7.6 percent to 7.32 thousand metric tons. In contrast, most products recorded lower output levels during the period under review compared to output levels recorded in the preceding half year. The outputs of Maltina drink and soft drinks dropped by 6.97 percent to 141.86 thousand cartons and by 10.92 percent to 886.25 thousand crates respectively in the reporting half-year. Similarly, production of acetylene and oxygen declined by 7.5 percent and 6.19 percent over the period, to 95.42 thousand cubic feet and 129.41 thousand cubic feet, respectively. A 2.74 percent reduction was recorded in the output level of confectionery to 1,710.68 thousand pounds, with production of paint and cement declining by 10.83 percent to 96.1 thousand gallons and 9.21 percent to 147.95 thousand metric tons, respectively. The relative low performance in the manufacturing sector, despite improvements in electricity supply in Freetown, was explained by a range of factors principal among which are scarcity of raw material inputs, competition from imported products and reduced consumer demand.

2.3 Mining

In November 2011, the mineral sub-sector posted an impressive performance, with the first shipment of 40,000 tonnes of iron-ore in three decades. The shipment was done by the African Minerals Mining Company, under the Tonkolili Phase 1 project.

Performances in the mining sub-sector during the second half of 2011 were mixed. On the positive side, total shipment of ilmenite recorded the highest growth rate of 104.05 percent to 9.78 thousand metric tons. This was followed by shipment of rutile at 50.36 percent to 40.82 thousand metric tons. This development may be attributed to growth in global demand for the minerals, particularly in the aviation industry. On quarterly basis, output of rutile increased from 18.20 thousand metric tons in the third quarter of 2011 to 22.62 thousand metric tons in the fourth quarter, attributable to a pick up in mining activities. The volume was also 8.71 percent higher than the corresponding level a year ago.

In contrast, the volume of diamond shipment, as reported and valued by the Gold and Diamond Department (GDD), dropped by 30.99 percent over the six-month period to 145.07 thousand carats and by 27.21 percent over the year, mainly as a result of the slump in demand and prices of the mineral in the international market, resulting from the global economic uncertainties and tight liquidity situation in the cutting centres. Total output for the period under review comprised 94.00 thousand carats of gem and 51.06 thousand carats of industrial diamonds, representing respectively decreases of 18.63 percent and 46.07 percent over the preceding half-year's level. These were respectively 24.73 percent and 31.39 percent lower than their corresponding 2010 output levels. Total diamond output dropped to 75.52 thousand carats in the third quarter of 2011 and further to 69.55 thousand carats in the fourth quarter, reflecting the downward trend in world market demand and prices.

The volume of bauxite produced in the second half-year of 2011 was recorded at 668.61 thousand metric tons, reflecting a 15.25 percent decrease when compared to the 788.89 thousand metric tons recorded in the first half of 2011. Notwithstanding the drop over the six months period, the total of 668.61 thousand metric tons was significantly (27.31%) higher than the volume of 525.20 thousand metric tons recorded for the corresponding half year in 2010. Quarterly positions indicated that output of bauxite fell marginally from 338.41 thousand metric tons in the third quarter of 2011 to 330.20 thousand metric tons in the fourth quarter, partly explaining the drop over the six months review period. The decline in output may also be attributed to the general depression in global demand, which has had dampening effect on prices.

Gold production also recorded a decline during the second half of 2011. Total gold production was recorded at 2.20 thousand ounces during the reporting half-year, representing 28.71 percent and 42.53 percent decreases over the preceding half-year of 2011 and the corresponding half year in 2010, respectively. Gold output was recorded at 1.01 thousand ounces in the third quarter before it increased to 1.19 thousand ounces in the fourth quarter. However, the increase was not strong enough to offset the higher volumes recorded for the preceding first and second quarters of the year.

Total volume of zircon produced in the reporting period took place entirely in the third quarter of 2011 and was recorded at 3.72 thousand metric tons,. There was no production of the mineral in the fourth quarter of 2011.

Following the resumption of mining activity in November 2011, total volume of iron ore production was recorded at 137.91 thousand metric tons during the reporting period.

2.4 Services

2.4.1 Construction

Construction activities, as gauged by the number of building permits issued in Freetown and the volume of cement production, indicated mixed performance during the reporting period.

The total number of building permits issued in July-December 2011 by the Ministry of Lands Housing Country Planning and the Environment (MLCPE) was 1,026, representing a 61.32 percent increase over the number issued in the preceding half year and 7.32 percent when compared to the corresponding total in 2010.

Of total permits issued in the second half of the year, 750 were for residential buildings which represented an increase of 114.29 percent over the preceding half year and 5.42 percent, when compared to the corresponding period in 2010. Commercial building permits issued numbered 169, and were 3.43 percent below the preceding half year's level and 1.17 percent when compared to the corresponding half-year in 2010.

In addition, a number of road construction and repairs projects were undertaken during the reporting half-year, including the completion of major roads linking the capital city to the provincial towns, construction of major highways and sub urban roads in the main urban centres of Freetown, Bo, Kenema and Makeni. During the period also, reconstruction and rehabilitation work continued at the Lungi International Airport.

2.4.2 Electricity Generation

Total electricity generation by the National Power Authority (NPA) increased by 22.22 percent over the six months period to 96.60 million kilowatt hours (kw/hr) in December 2011. The amount generated in the preceding half-year was 79.04 million kilowatt/hour. The total of 96.60 million kilowatt/hour generated during the review period also represented a 10.35 percent increase over the 87.54Kw/hr generated during the corresponding period in 2010. Of total electricity generated, the Bumbuna Hydro Electric Power contributed the highest with 97.5 percent, while the thermal plants contributed only 2.5 percent. The improvement in total generation was mainly a result of unobstructed operations from the Bumbuna Hydroelectric power during the rains, coupled with improved operations of the two thermal plants installed in the West and East End of Freetown.

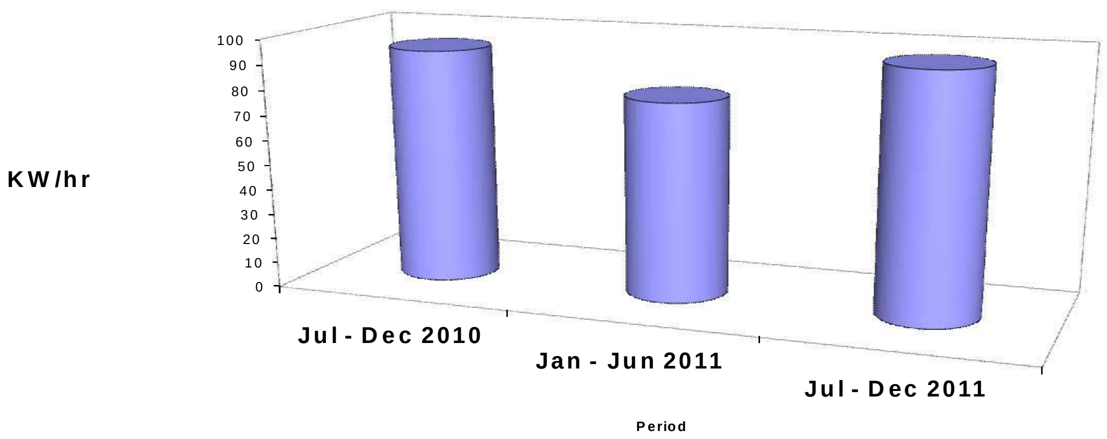
Comparative monthly analysis of power outputs indicated that a total unit of 20.73 million Kw/hr generated in November 2011 recorded the highest ever and was contributed almost entirely by the Bumbuna Hydroelectric power plant. Total units of 43.43 million Kilowatt/hr consumed in the second half of 2011 similarly reflected a 2.34 percentage increase with industrial consumption representing a 21.13 percent increase to 19.17 million Kw/hr while government consumption at 6.3 million Kilowatt/hr reflected a 4.01 percent decline.

2.5 Transport and Communication

2.5.1 Transport

Activities in the Transport and Communications sub-sector contracted during the second half of 2011. Total number of vehicles registered at

Chart 1 - Electricity Generation



the vehicle licensing department, dropped by 6.9 percent from 13,652 during the first half of 2011 to 12,846 in the period under review. Of these registered vehicles, 932 were private cars, 5,002 taxis, 1,447 motor cycles, 699 utility vans and station wagons, 2,164 vans/buses carrying up to 25 passengers, 1,362 buses carrying above 25 passengers, 133 trucks with six tyres, 810 trucks with more than six tyres, and 297 tractors and trailer units.

The number of licensed vehicles for the period totaled 22,574, comprising 1,465 private cars, 4,833 taxis, 5,293 motor cycles, 1,778 utility vans and station wagons, 5,373 vans/buses of up to 25 passengers, 2,201 buses above 25 passengers, 168 trucks with six tyres, 811 trucks above six tyres and 652 tractors and trailer units. Total vehicles licensed in the reporting period recorded a 19 percent decline over the preceding six months but represented a 151.13 percent increase over the corresponding period in 2010. All the categories of licensed vehicles recorded increases over their preceding half year's and corresponding 2010 positions, respectively. The overall performance of both registrations and licenses represented an overall decline in activities in the transport sector.

2.5.2 Communications

During the period under review, the Communications sub-sector received a major boost with the landing of the fibre optic submarine cable under the Africa Coast to Europe (ACE) Project. This was made possible through a line of credit from the World Bank in the sum of US$30 million, to enhance performance in the country's ICT communications sub-sector. Also, during the review period, out of a total of six GSM companies licensed to operate in the country, namely, Airtel, Africell, Comium, Intergroup Telecoms, Ambitel and Rawabi Dubai only three were operational. Total number of SIM card registrations increased from 1,752,607 in 2010 to 3,039,522 in 2011, while the number of internet service providers was recorded at 18 in December 2011.

2.6 Tourism

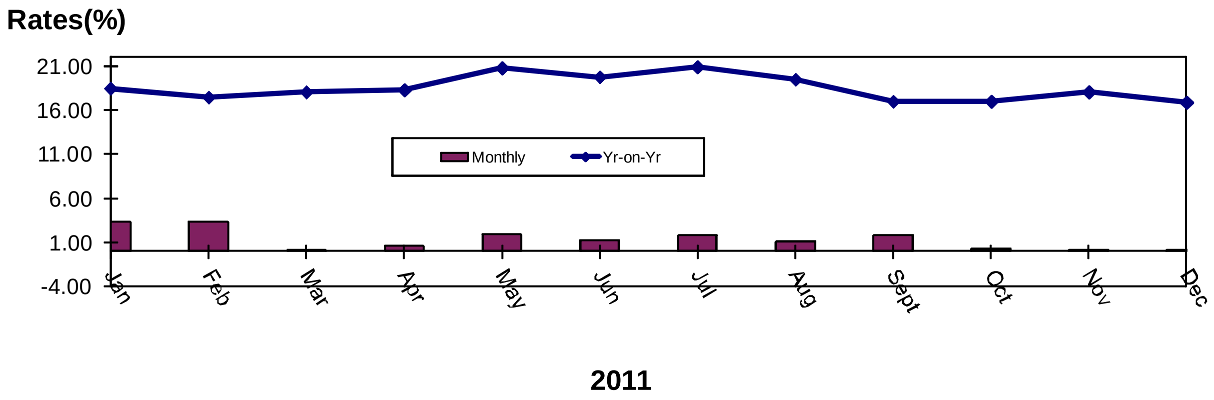
Tourist statistics provided by the Tourist Board indicated that during the second half of 2011, total number of tourist arrivals to Sierra Leone on holiday, conference, business, visiting friends and relatives and for other purposes, totaled 24,564, representing 11.88 percent decrease compared to the preceding half-year but an increase of 55.07 percent when compared to the corresponding period in 2010. The drop in the overall number of arrivals was mainly accounted for by seasonal factors which contributed to the marked decline in the number of tourists arrivals on holiday from 7,177 in the first half of 2011 to 3,969 in the second half year. Analysis of the statistics by country of residence revealed that 31.27 percent came from Africa, 10.36 percent from Asia, 18.96 percent from America, 27.7 percent from Europe, 6.48 percent from the Middle East and 5.22 percent from Australia and Oceania.

The overall performance of this sector signals the need for improved investment climate as well as improved promotional activities by the National Tourist Board to enhance tourist attraction.

2.7 Price Developments

The inflationary pressures that characterized macroeconomic performance during the first half of 2011, continued into the second half, as a result of the continued spike in international food and oil prices and the pass through effect on the pump prices of petroleum products in the domestic economy. Nonetheless, the year-on-year national inflation rate declined to 16.64 percent as of end December 2011, from 16.79 percent at end June 2011. This rate of inflation was also lower than the 17.84 percent recorded during the corresponding period in 2010. From 16.82 percent in July 2011, year-on-year inflation declined to 15.7 percent in September 2011, as the government puts policy measures in place in an effort to cushion the effect of increases in the world market prices of petroleum. Inflation rate however rebounded to a high of 17.24 percent in November 2011 as prices of key basic commodities critical to the

Chart 2. National Inflation Rates



consumption basket, such as food, particularly bread and cereals, clothing, footwear and medical products increased during the month. This development, coupled with the gradual depreciation of the Leone/Dollar exchange rate contributed to the price rises. Inflationary pressures however abated during the period to record 16.64 percent in December 2011. However, monthly national inflation rate, increased from the 0.52 percent recorded as of end June 2011 to 1.39 percent as of end December 2011, which was lower than the 1.91 percent recorded as of end December 2010.

The end period inflation rate for the second half of 2011 is recorded at 16.64 percent, while the half yearly average indicates a decline to 10.11 percent in the second half of 2011, from 15.42 percent in the first half.

3.0 Fiscal Operations

Outturn in fiscal operations during the second half of 2011 reflected some improvement in the budget deficit (22.64%) relative to the first half of 2011 but deteriorated by 36.76 percent relative to the corresponding half of 2010. The improvement was mainly on account of the significant increase in foreign exchange inflows for budgetary support, which counterbalanced the effect of the increased Government outlays during the reporting period.

3.1 Revenue

Total revenue including external budgetary support inflows, for the reporting period was recorded at Le1,1812bn (10.16% of GDP). This was 19.67 percent above the programme target of Le987.09bn and 19.37 percent higher than the Le989.54bn recorded in the first half of 2011. The amount was also 28.84 percent higher than the corresponding 2010 level of Le916.78bn. The improved performance in overall revenue generation was credited to revenue contributions from mining companies, improved tax administration, and strong enforcement of the tax legislations to ensure compliance.

Domestic revenue comprising customs and excise duties, income tax receipts, non-tax receipts and road-user charges amounting to Le795.83bn (6.84 of GDP) during the review period was 24.36 percent above the program target of Le639.92bn. It also reflected an increase of Le129.56bn (19.45%) over the Le660.91bn generated in first half of 2011 and Le205.68bn (34.85%) over the Le590.15bn collected in the second half of 2010. The impressive revenue performance during the review period was due to the higher than expected receipts realized from non-tax revenue, particularly in respect of licenses fees paid by the mining companies.

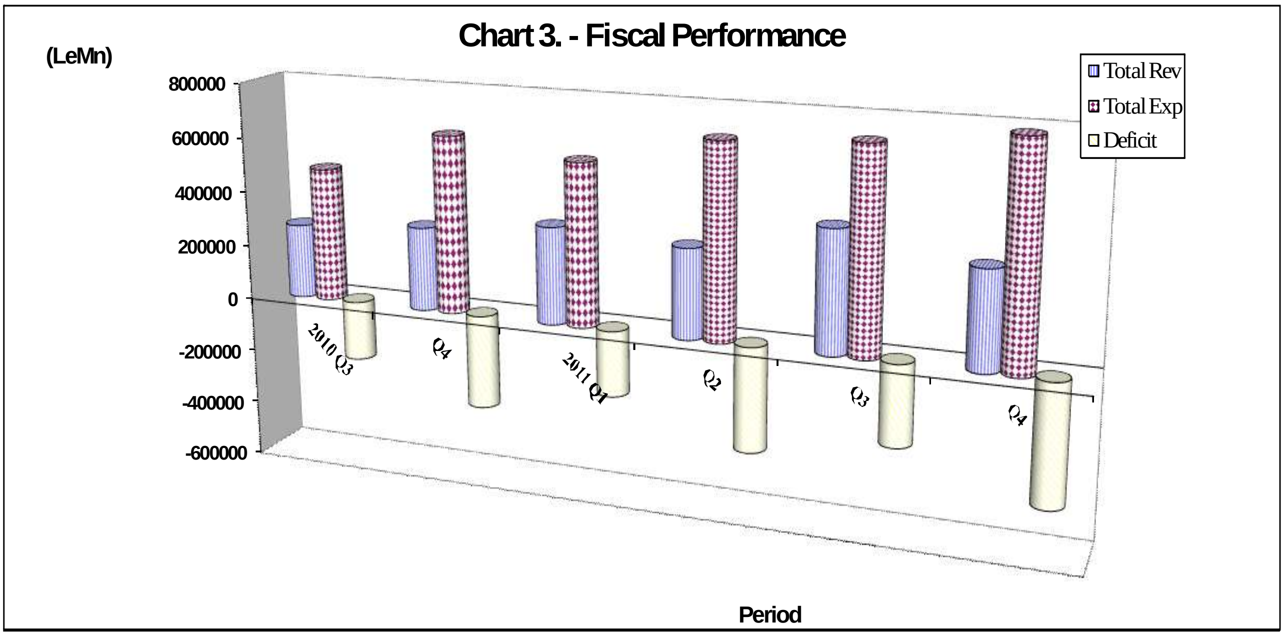
Table 4
Government Fiscal Operations
(In Millions of Leones)

	Jul - Dec 2010	Jan - Jun 2011	*Jul - Sept 2011*	*Oct - Dec 2011*	Jul - Dec 2011	Prog. Target Jul - Dec 2011
1	2	3	*4*	*5*	6	7
TOTAL REVENUE (PLUS GRANTS)	**916,782**	**989,536**	***552,864***	***628,359***	**1,181,223**	**987,092**
DOMESTIC REVENUE	**590,147**	**666,269**	***436,980***	***358,851***	**795,831**	**639,924**
Of which:						
Customs & Excise	**185,917**	**189,015**	***68,699***	***86,022***	**154,721**	**228,866**
Import Taxes	103,817	128,655	*67,787*	*85,971*	153,758	166,493
Excise on Petroleum	74,762	55,311	*0*	*0*	0	51,412
Other Excise Dutties	4,508	0	*0*	*0*	0	4,852
Freight Levy from Marine Administration	2,830	5,049	*912*	*51*	963	6,109
Income Tax Department	**191,490**	**233,809**	***112,235***	***127,106***	**239,341**	**158,607**
Company Tax	101,724	62,034	*7,808*	*3,590*	11,398	31,457
Personal Income Tax	86,523	165,724	*104,216*	*123,516*	227,732	125,745
Other Taxes	3,243	6,051	*211*	*0*	211	1,405
Goods and Services Tax	**144,018**	**174,930**	***85,292***	***91,227***	**176,519**	**165,409**
Import GST (Import Sales Tax)	78,573	83,017	*30,965*	*15,567*	46,532	79,800
Domestic GST	65,445	91,913	*54,327*	*75,660*	129,987	85,609
Miscellaneous	**43,336**	**51,956**	***170,754***	***48,154***	**218,908**	**56,533**
Mines Dept.	16,734	17,017	*155,129*	*30,198*	185,327	29,249
Royalty on Rutile	0	560	*115*	*9*	124	**309**
Royalty on Bauxite	0	0	*0*	*0*	0	1,423
Royalty on Diamond and Gold	0	6,335	*2,611*	*6,489*		10,656
Royalty on Iron Ore	0	0	*0*	*0*		0
Licences	16,734	10,122	*152,403*	*23,700*	176,103	16,861
Other Departments	26,602	34,939	*15,625*	*17,956*	33,581	27,284
Royalty on Fisheries	**3,645**	**6,569**	***2,667***	***2,615***	**5,282**	**5,066**
Parastatals	8,381	0	*0*	*0*	0	10,432
Other Revenues	**14,576**	**28,370**	***12,958***	***15,341***	**28,299**	**11,786**
Road User Charges	25,386	16,559	*0*	*6,342*	6,342	30,509
GRANTS	326,635	323,267	*115,884*	*269,508*	385,392	347,168
Programme	177,727	130,482	*11,408*	***138,333***	**149,741**	**146,038**
HIPC Debt Relief Assistance	13,745	8,540	*990*	*12,411*	13,401	10417
Japanese Food & Oil Aid	5,621	0	*0*	*0*	0	42,996
Global Fund Salary Support	0	10,390	*3,461*	*0*		
Kuwaiti Fund Refund	0	1,685	*0*	*0*	0	
UK (DFID)	19,187	74,283	*6,957*	*24,038*	30,995	29,667
EU	110,473	0	*0*	*61,416*	61,416	
AfDB	28,701	0	*0*	*40,467*	40,467	43,426
WB	0	10,727	*0*	*0*	0	
Peace Building Fund	0	24,857	*0*	*0*	0	19,531
Emergency Power Programme	0	24,857	*0*	*0*	0	19,531
Others (projects)	0	0	*0*	*0*	0	
Development Projects	148,908	192,785	*104,476*	*131,175*	235,651	201,130

Table 4 contd…
Government Fiscal Operations
(In Millions of Leones)

	Jul - Dec 2010	*Jan - Jun 2011*	Jul - Sept 2011	*Oct - Dec 2011*	Jul - Dec 2011	Prog. Target Jul - Dec 2011
1	2	3	4	5	6	7
TOTAL EXPENDIUTRE & NET LENDING	**1,102,134**	**1,317,233**	**696,593**	***738,123***	***1,434,716***	**1,312,071**
Of which:						
Current Expenditure	691,846	768,019	408,153	*426,649*	*834,802*	784,880
Of which:						
Wages & Salaries	290,744	300,570	173,482	*207,294*	*380,776*	309,204
Domestic Interest	95,667	94,556	64,111	*67,470*	*131,581*	103,061
Foreign Interest	9,824	11,927	5,090	*7,065*	*12,155*	10,849
Goods & Services	226,268	165,130	126,954	*104,168*	*231,122*	230,691
Transfers to Local Councils	32,186	44,732	16,786	*14,540*		43,490
Fuel Subsidies	0	95,444	0	*0*	*0*	5,032
Social Outlays	332	0	0	*0*	*0*	0
Grants to Education Institution	8,546	23,744	12,335	*12,335*	*24,670*	22,924
Transfer to Road fund	25,386	2,000	3,000	*7,282*	*10,282*	30,509
Elections & Democratisation	2,893	29,916	6,395	*6,495*	***12,890***	29,120
Development Exp. & Net Lending	410,288	549,214	288,440	*311,474*	*599,914*	527,191
Foreign Loans & Grants	227,888	424,889	163,779	*198,312*	*362,091*	440,533
Loans	78,980	232,104	59,303	*67,137*	*126,440*	239,403
Grants	148,908	192,785	104,476	*131,175*	*235,651*	201,130
Domestic	**182,400**	**124,325**	124,661	*113,162*	*237,823*	86,658
Lending Minus Repayment	**0**	**0**	**0**	***0***	***0***	**0**
CURRENT BALANCE+/- (Including grants)	**224,936**	**221,517**	**144,711**	***201,710***	***346,421***	**202,212**
ADD DEVELOPMENT EXPENDITURE	**-410,288**	**-549,214**	**-288,440**	***-311,474***	***-599,914***	**-527,191**
Basic Primary Balance	**-175,715**	**-89,676**	**-20,238**	***-99,930***	***-120,168***	**-88,584**
OVERALL DEFICIT/SURPLUS +/-(Incl. grants	**-185,352**	**-327,697**	**-143,729**	***-109,764***	***-253,493***	**-324,979**
FINANCING	**185,352**	**327,697**	**143,729**	***109,764***	***253,493***	**324,979**
Domestic	**209,244**	**135,800**	**31,772**	***-12,713***	***19,059***	**118,751**
Of which:						
Bank Financing	**234,042**	**77,600**	**21,786**	***-32,789***	***-11,003***	**75,751**
Bank of Sierra Leone	213,196	8,773	19,884	*-18,740*	*1,144*	46,686
Commercial Banks	20,846	68,827	1,902	*-14,049*	*-12,147*	29,065
Non-Bank Financing	**-24,798**	**24,059**	**9,986**	***20,076***	***30,062***	**0**
Privatisation Receipts	0	34,141	0	*0*	*0*	43,000
Extenal	**89,385**	**212,183**	**45,374**	***47,073***	***92,447***	**264,550**
Of which:						
Loans	119,578	232,104	59,303	*67,137*	*126,440*	282,403
Project	78,980	232,104	59,303	*67,137*	*126,440*	239,403
Programme	40,598	0	0	*0*	*0*	43,000
Amortisation	-30,193	-19,921	-13,929	*-20,064*	*-33,993*	-17,853
Debt Relief	0	0	0	*0*	*0*	0
Others*	**-113,277**	**-20,286**	**66,583**	***75,404***	***141,987***	**-58322**

** Others include resheduling/write off,*
financing gap, privatisation net & unaccounted amounts
Source: Budget Bureau, MOF



Aggregate collections from customs and excise duties in the amount of Le154.72bn (1.33% of GDP), were 32.40 percent short of the program target of Le228.87bn. It was also Le34.29bn (18.14%) and Le31.20bn (16.78%) below total collections of Le154.72bn in the first half year of 2011 and Le185.92bn in the second half of 2010, respectively. The under-performance in customs and excise receipts was due to a variety of factors including the non-collection of taxes from petroleum products, a reduction in collections from freight levies on Marine Administration and the granting of discretionary tax concessions and duty waivers during the review period.

Income tax collections totaling Le239.87bn for the review period was Le80.73bn (50.90%) above the program target of Le158.61bn. The receipts from income tax were also 2.37 percent higher than collections in the first half of 2011 and 24.99 percent above receipts in the second half of 2010. The improved performance was due to enhanced collections from personal income tax in the amount of Le101.99bn (81.11%) which was in excess of the programmed target. The enhanced receipts from personal income tax were mainly a result of PAYE (Pay-As-You-Earn) contributions from the mining sector.

Revenue from Goods and Services tax recorded at Le176.52bn for the period under review was 6.72 percent above the programme target of Le165.41bn. This amount was Le1.59bn (0.91%) and Le32.50bn (22.57%) higher than the collections recorded in the first half of 2011 and the second half of 2010, respectively. The improved performance was due to increased sensitization on the payment of domestic GST, which recorded Le129.99bn for the review period. Domestic GST receipts were 51.84 percent higher than the programme target of Le85.61bn and 41.42 percent when compared to the Le91.91bn in the preceding half year of 2011. It was also 98.62 percent higher than receipts in the corresponding period in 2010.

Revenue from "miscellaneous sources" during the review period amounted to Le218.91bn and was 287.22 percent above the programme target of Le56.53bn. It also reflected increases of Le166.95bn (321.33%) and Le175.57bn (405.14%) over total collections of Le51.96bn in the first half of 2011 and Le43.34bn in the second half of 2010, respectively.

The significant increase in revenue collections from "miscellaneous sources" during the period was mainly attributed to increased payment of licenses fees by mining companies in the sum of Le176.10bn, compared to Le10.12bn and

Le16.73bn recorded in the preceding half-year and the corresponding half-year in 2010, respectively. It was also well above the budget target of Le29.25bn. The surge in licenses fees was explained by the entry of new mining companies into the sub-sector during the reporting period.

Total grants received during the review period amounted to Le385.39bn (3.31% of GDP). This comprised program grants of Le149.74bn and development project funds of Le235.65bn. Total grants received were 11.01 percent higher than the program target of Le347.17bn. This represented a 19.22 percent increase over the Le323.27bn received in the first half of 2011 and 17.99 percent over the Le326.64bn receipts in the corresponding period of 2010.

Programme grants received in the review period were in respect of HIPC Debt Relief Assistance (Le13.40bn), United Kingdom DFID (Le31.00bn), European Union (Le61.42bn), and African Development Bank (Le40.47bn). Development project funds were 17.16 percent above the program target of Le201.13bn and 58.25 percent higher than total grants received in the corresponding period in 2010.

3.2 Expenditure & Net Lending

Total expenditure and net lending was recorded at Le1,434.72bn (12.34% of GDP) for the reporting period, which was 9.35 percent above the program ceiling of Le1,312.07bn and 8.92 percent above the preceding half year's position of Le1,317.23bn. It was also 30.18 percent in excess of total expenditure of Le1,102.13bn recorded in the corresponding half of 2010. The higher aggregate expenditure, relative to programme ceiling was explained by overruns of 6.36 percent on recurrent and 13.79 percent on development expenditures and net lending, respectively.

Current expenditure aggregated at Le834.80bn in the reporting half-year, was also 6.63 percent above the program target of Le784.88bn and 8.70 percent above that of the preceding half year's. It also recorded a 20.66 percent increase over the corresponding period in 2010. The higher recurrent expenditure was mainly on account of overruns in payment of wages & salaries, goods and services and foreign interest. Expenditure on wages & salaries was recorded at Le380.78bn, reflecting increases of 23.15 percent relative to the program ceiling of Le309.20bn, 26.68 percent over the preceding half-year's level of Le300.57bn and 30.97 percent over the total of Le290.74bn, respectively. The higher wage bill was on account of the commencement of the new multi-year pay reform system for teachers, as well as other public servants, including the military, the police, health sector workers and civil servants which took effect during the reporting period.

Aggregate expenditures on Goods & Services for the reporting period amounted to Le231.12bn, representing 39.96 percent increase over the preceding half year and 2.15 percent over similar expenditures during the corresponding half-year in 2010, respectively. The amount was also 0.19 percent in excess of the programme ceiling for the reporting half year. The expenditures were mostly in respect of fuel subsidies, social outlays, quarterly subventions, National Electoral Commission, grants to educational institutions, the Ministry of Defence and essential drugs. The increased expenditures on goods and services were driven by the need to offset the additional subventions that were paid to Government institutions and parastatals, embassies and payments for supplies.

Domestic interest payments during the review period amounting to Le131.58bn were 31.50 percent above the program ceiling of Le103.06bn. The recorded payments were also Le37.03bn (39.16%) and Le35.91bn (37.54%) more than domestic interest payments made in the first half of 2011 and the second half of 2010. The increase in domestic interest payments were mainly explained by the huge increase in domestic public debts, which were refinanced through the issuance of new government securities.

Foreign interest payments amounting to Le12.16bn were 12.02 percent above the program ceiling of Le10.85bn. Payments made during the reporting period were also Le0.23bn (1.91%) above that made in the first half of 2011 and Le2.33bn (23.73%) higher than that in the second half of 2010.

Government expenditure towards the elections and democratization process amounting to Le12.89bn was 55.73 percent below the program target of Le29.12bn. It was also Le17.03bn (56.91%) below expenditures incurred during the first half of 2011. The reduction in expenditure during the review period was mainly attributed to budget constraints.

Development Expenditures and Net Lending amounted to Le599.91bn which was 13.79 percent more than the programmed ceiling of Le527.19bn, 9.23 percent higher than expenditures in the previous half year and 46.22 percent of expenditures in the corresponding period in 2010. Development expenditures funded by foreign loans and grants amounted to Le362.09bn, representing a 17.81 percent fall and well within the ceiling requirement of Le440.53bn. Development expenditures funded from domestic sources amounting to Le237.82 exceeded it ceiling requirement of Le86.66bn.

The overall fiscal balance on commitment basis was a deficit of Le253.49bn, compared to a deficit of Le327.70bn in the preceding half year of 2011 and Le185.35bn in the corresponding period in 2010. The deficit in the review period was well within the programme target of Le324.98bn and was attributed to the increase in government domestic revenue being outpaced by the increase in recurrent expenditure. The bulk of the fiscal deficit was financed from external sources in the form of project and programme loans amounting to Le92.45bn. External financing was 65.05 percent below the targeted amount of Le264.55bn. Domestic financing amounted to Le19.06bn and was 83.95 percent lower than the programme target of Le118.75bn.

On the domestic front, the commercial banks reduced their net holdings of government securities by Le66.21bn, while the Bank of Sierra Leone contributed Le10.57bn in net claims on government. The non-bank public increased their holdings of government securities by Le74.70bn. The remaining financing requirement in the amount of Le141.99bn was met by building arrears of unpaid contractors, net privatization receipts and unaccounted expenses in the review period.

4.0 Monetary Developments

The key Monetary Policy objective during the second half of 2011 was to achieve and maintain price stability consistent with macroeconomic stability. Other objectives include maintaining monetary and financial stability to deepen the inter-bank market and strengthen confidence in the financial system. In line with these objectives, the Bank of Sierra Leone continued to conduct monetary policy management within the framework of monetary targeting strategy, with Reserve Money (RM) as the Bank's operating target and Broad Money (M2) the intermediate target.

To enhance monetary policy management, the Monetary Policy Rate (MPR), which was introduced by the Bank during the first half of 2011 continued to serve as an important instrument to signal the Bank's monetary policy stance and to anchor inflationary expectations. The MPR guided the open market operations, through active Repo operations complemented by weekly foreign exchange auction. These complementary instruments enabled the Bank to manage liquidity and smoothen out volatility in the inter-bank market. During the period, the MPR was occasionally revised to signal the Bank's monetary policy stance to the market based on information on liquidity conditions in the inter-bank market and other macroeconomic and financial indicators. The MPR was revised downwards to 20 percent in October 2011, from the 23 percent level it was set in March 2011.

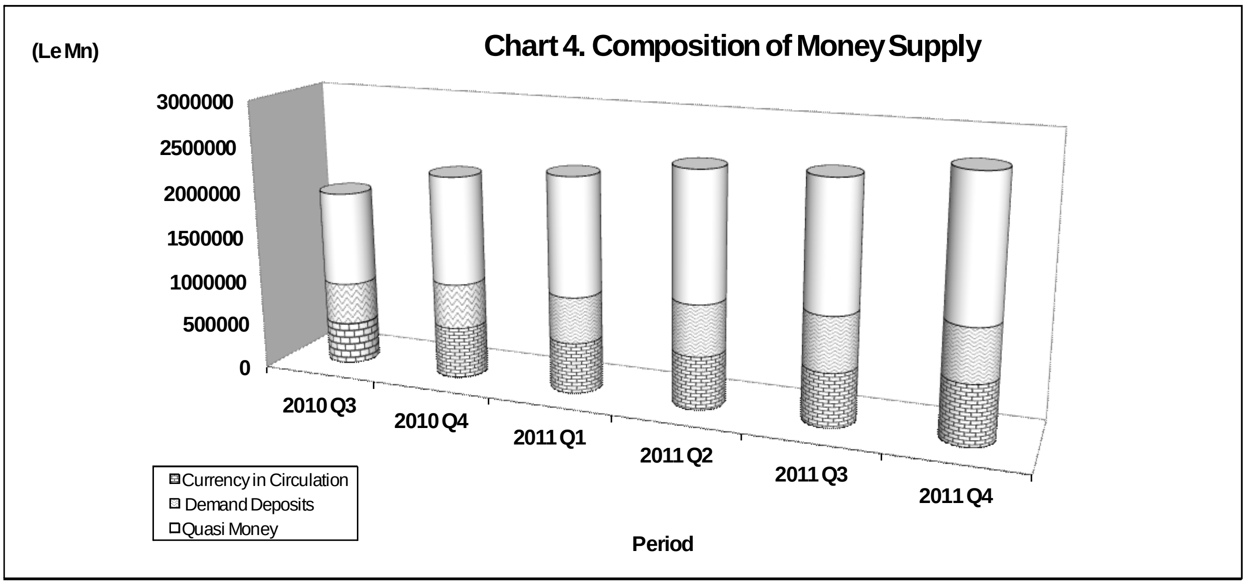
Movements in monetary aggregates during the second half of 2011 were expansionary. Broad Money (M2) grew by Le191.16bn (7.56%) from Le2528.58bn as of end June 2011 to Le2719.74bn as of end December 2011. The

Table 5
Monetary Survey
(Million Leones)

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
1	2	3	4	5	6
Reserve Money	**760,898**	**725,045**	**741,909**	**787,326**	**859,604**
Broad Money	**2,236,534**	**2,348,558**	**2,528,578**	**2,551,955**	**2,719,741**
Broad Money*	**1,577,937**	**1,589,730**	**1,718,196**	**1,775,242**	**1,868,262**
Narrow Money	**1,048,055**	**1,053,296**	**1,128,497**	**1,164,644**	**1,209,324**
Currency in Circulation	557,262	549,675	572,424	575,492	641,832
Demand Deposits	490,794	503,622	556,073	589,152	567,492
Quasi Money	**1,188,478**	**1,295,261**	**1,400,081**	**1,387,311**	**1,510,417**
Foreign Currency Deposits	658,597	758,827	810,382	776,714	851,479
Time Deposits	112,242	103,876	123,780	122,611	138,734
Savings Deposits	412,525	427,978	457,236	484,084	515,694
Other Deposits	3,062	2,527	6,631	1,855	2,468
Time Savings and Foreign Currency deposits(BSL)	2,052	2,052	2,051	2,048	2,041
Net Foreign Assets	**1,644,515**	**1,808,992**	**1,826,944**	**1,891,616**	**2,053,006**
Bank of Sierra Leone	959,035	1,027,191	985,528	1,056,487	1,117,856
Assets	1,458,997	1,549,117	1,486,352	1,566,486	1,661,061
Liabilities	499,963	521,926	500,824	509,999	543,205
Commercial Banks	685,481	781,801	841,416	835,128	935,150
Assets	703,456	797,414	857,237	850,950	949,227
Liabilities	17,975	15,613	15,822	15,822	14,077
Domestic Credit	**1,739,941**	**1,791,296**	**1,863,709**	**1,940,430**	**1,932,431**
Claims on Central Govt. Net	**873,687**	**850,992**	**936,276**	**952,845**	**879,751**
of which:					
BSL	574,954	569,692	575,810	595,821	585,498
Total Claims	705,192	589,191	607,271	619,962	601,222
Treasury Bills	149,389	125,318	82,895	71,269	132,435
Treasury Bonds	20,592	26,071	24,960	13,727	11,009
Ways and Means Advances	178,579	-	-	37,199	26,886
2010 Ways and Means Advances Stock A/C		78,401	78,401	77,516	-
SDR Bridge Loan			64,292	64,292	-
BSL losses for conversion	10,390	13,120	9,739	8,305	6,998
Stock of NNNIB	81,801	81,801	81,801	81,801	81,801
5YR Bonds for Recapitalization	264,430	264,430	264,430	264,430	264,430
Government Departments	12	51	753	1,423	147
Deposits	130,238	19,499	31,461	24,141	15,723
Treasury Income and Expenditure(net)*	2	2,373	7,193	2	2
Departmental Accounts	16,717	16,607	23,749	23,619	15,201
Blocked Account	7.78	7.78	7.78	8.00	8.00
Commercial Banks	**298,734**	**281,300**	**360,467**	**357,024**	**294,253**
Total Claims	**476,127**	**482,844**	**545,029**	**547,073**	**533,460**
Treasury Bills	458,226	459,097	511,214	508,487	491,773
Treasury Bearer Bonds	-	557	14,948	14,948	15,448
Loans and Advances	17,901	23,190	18,868	23,638	26,238
Deposits	177,393	201,544	184,563	190,049	239,207
Demand Deposits	109,140	130,043	100,909	126,140	182,039
Savings Accounts	20,645	13,231	14,635	13,580	15,073
Time Deposits	47,608	58,270	69,019	50,329	42,095
Claims on Non Financial Public Sector	54,025	41,956	42,475	48,479	53,507
Claims on Private Sector	789,983	872,971	860,479	903,911	963,142
of which					
Commercial Banks	783,523	860,585	849,200	894,091	955,897
Claims on Non-Banking Inst.	**22,246**	**25,377**	**24,478**	**35,196**	**36,031**
Other Items (Net)	**1,147,923**	**1,251,731**	**1,162,074**	**1,280,091**	**1,265,697**

** Excludes Foreign Currency Deposits at the Commercial Banks*

Source: Bank of Sierra Leone and Deposit Money Banks



growth rate of M2 was lower when compared to the preceding half-year's rate of 13.06 percent and the corresponding 2010 rate of 26.41 percent. The growth in M2 was driven mainly by the 12.37 percent expansion in Net Foreign Assets (NFA) of the banking system, during the period under review, which was higher than the 11.09 percent growth in NFA recorded in the preceding half year, but lower than the 22.28 percent growth rate in the corresponding half year in 2010. The growth in NFA was mainly on account of several factors including foreign inflows for budgetary and balance of payments support, increases in commercial banks' claims on overseas banks and revaluation gains due to the depreciation of the Leone. Net Domestic Assets (NDA), declined by Le34.91bn (4.98%), from Le701.65bn in June 2011, to Le666.73bn

Table 6
Average Interest Rates (%)

1	2 Dec-10	3 Mar-11	4 Jun-11	5 Sep-11	6 Dec-11
Treasury Bills (3-months)	24.54	26.39	23.38	23.25	23.42
Treasury Bills (6- months)	28.35	32.48	30.40	29.27	29.55
Treasury bills(1 -Year)	28.98	29.91	25.53	25.84	28.63
Treasury Bearer Bonds (1-year)	22.50	20.00	18.67	18.00	20.00
Savings^	6.19	6.35	6.62	6.42	6.42
1 Month	8.40	9.23	9.28	9.16	9.16
3 Months^	8.90	9.55	10.07	9.75	9.75
6 Months^	9.33	10.12	10.59	10.39	10.39
9 Months^	9.25	9.58	10.50	10.25	10.25
12 Months^	10.55	11.54	12.06	11.91	11.91
Lending Overdraft Rate	**21-28**	**21-28**	**21-28**	**21-29**	**21-29**

in December 2011, as a result of the Le104.15bn increase in Other Items Net, which more than offset the Le69.24bn expansion in Domestic Credit. Reserve Money (RM) grew by Le117.70bn (15.86%) to Le859.60bn in December 2011. Relative to the preceding half-year's level of Le18.99bn, RM contracted by 2.50 percent but expanded by Le177.23bn (30.36%) relative to the corresponding 2010 level. The increase in RM was underpinned by the non-sterilization of changes in NFA coupled with increased demand for cash during the festive seasons in December 2011.

Credit to the private sector by commercial banks increased by Le106.70bn (12.56%) during the reporting period, compared to an increase of Le65.68bn (8.38%) in the preceding period and Le99.81bn (14.60%) in the corresponding period in 2010. The growth in private sector credit was mainly due to commercial banks' response to the seasonal growth in demand for credit. The main sectoral beneficiaries of private sector credit during the reporting period were the imports & trade, construction, services and agriculture and forestry.

During the second half of 2011, Net Claims on Government by the banking system registered a Le55.64bn (5.95%) contraction from Le935.39bn as of June 2011 to Le879.75bn as of December 2011. The preceding half year's level and the corresponding half year's position in 2010 position recorded expansions of Le62.59bn (7.17%) and Le274.12bn (Le45.79%), respectively. The decline in the banking system's net claim on government was on account of a Le66.21bn (18.37%) drop in Net Claims on Government by the commercial banks, which more than offset the Le10.57bn(1.84%) increase in Net Claims on Government by the Central Bank. Net Claims on Government by the Bank of Sierra Leone increased as a result of the Le49.54bn growth in the Bank's holdings of Treasury Bills, due to purchases from commercial banks, the Le26.89bn increase in Ways and Means Advances, and the Le15.74bn decline in Government Deposits at the Bank of Sierra Leone. Net Claims on Government by the commercial banks declined as a result of the Le19.44bn decline in their holdings of Treasury Bills and the Le54.64bn build-up in Government Deposits at the banks.

During the review period, the structure of interest rates changed. Interest rates on Savings, 1 month, 3 months, 6 months, 9 months, and 12 months Time Deposits declined by 20, 12, 32, 20, 25 and 15 basis points from 6.62 percent, 9.28 percent, 10.07 percent, 10.59 percent, 10.50 percent and 12.06 percent as of June 2011, to 6.42 percent, 9.16 percent, 9.75 percent, 10.39 percent, 10.25 percent and 11.91 percent, in December 2011 respectively. In the treasury securities Market, the average monthly annual yields on the 3 months and 12 months Treasury Bills increased by 4 and 310 basis points from 23.38 percent and 25.53 per cent in June 2011, to 23.42 percent and 28.63 percent in December 2011, respectively, while the rate on the 6 months tenure decreased by 85 basis points from 30.40 percent to 29.55 percent. Interest rate on 12 months treasury bonds increased to 20.00 percent (133 basis points) in December 2011, from 18.67 percent in June 2011. The commercial bank's overdraft lending rates also increased from the range of 21-28 percent to that of 21-29 percent in December 2011.

5.0 External Sector Developments

Developments in the external sector during the second half of 2011 were mixed. Trade deficit grew by 43.5 percent to US$798.38mn, from the first half year's level of US$556.39mn and by a significant 182.6 percent when compared with the total of US$282.49mn recorded in the corresponding second half of 2010. The deterioration in the trade deficit reflected an increase in the imports bill (34.9%) which more than offset the increase in export earnings (7.6%). The Central Bank's gross external reserves position however, improved by 9.3 percent to US$376.79mn in the review period. This is equivalent to 4.2 months of imports cover and thus satisfies the West African Monetary

Table 8a International Trade and Reserves (Million Leones)					
	Jul-Dec'10	**Jan-Jun'11**	***Jul-Sept'11***	***Oct-Dec'11***	**Jul-Dec'11**
1	2	3	*4*	*5*	6
Merchandise Imports	**1,861,418.5**	**3,099,344.6**	***1,912,009.7***	***2,422,970.5***	**4,334,980.2**
of which					
Food of which	213,343.7	447,937.4	*248,091.2*	*377,249.0*	625,340.2
Rice	179,062.9	172,143.0	*53,657.7*	*144,551.9*	198,209.6
Beverages and Tobacco	36,935.5	54,693.8	*31,337.1*	*58,199.6*	89,536.7
Crude Materials	23,257.0	34,801.8	*29,510.4*	*15,937.0*	45,447.4
Mineral Fuels and Lubricants of which	344,141.6	620,287.3	*330,543.4*	*241,300.2*	571,843.6
Fuel	288,944.5	569,525.1	*274,219.0*	*210,727.6*	484,946.5
Animal and Vegetable Oils	17,189.0	18,325.5	*10,728.7*	*12,665.1*	23,393.8
Chemicals	93,039.2	56,127.1	*63,200.2*	*172,240.5*	235,440.7
Manufactured Goods	271,945.8	372,110.9	*203,082.5*	*182,699.9*	385,782.4
Machinery and Transport Equipment	738,008.4	1,200,559.1	*878,337.5*	*1,209,877.8*	2,088,215.3
Other Imports	123,558.4	294,501.6	*117,178.7*	*152,801.3*	269,980.0
Merchandise Exports	**706,652.7**	**750,845.7**	***1,594,772.4***	***405,386.1***	**2,000,158.5**
of which					
Mineral Exports	**433,006.0**	**472,839.6**	***267,847.3***	***309,198.0***	**577,045.3**
Diamonds	250,408.4	291,624.8	*151,387.5*	*123,106.4*	274,493.9
Bauxite	56,009.0	78,704.6	*52,355.3*	*38,543.0*	90,898.3
Rutile	103,959.0	64,355.3	*25,296.3*	*60,488.6*	85,784.9
Gold	16,777.6	14,970.9	*9,827.4*	*6,889.4*	16,716.7
Ilmenite	5,851.9	6,691.3		*12,692.3*	12,692.3
Iron Ore			-	*67,367.6*	67,367.6
Zircom	-	16,492.6	*28,980.8*	*110.8*	29,091.6
Agricultural Exports	**45,021.9**	**138,272.8**	***13,819.7***	***49,775.0***	**63,594.7**
Coffee	1,367.0	6,789.2	*318.2*	*1,587.6*	1,905.9
Cocoa	43,635.4	130,666.1	*13,358.1*	*46,163.7*	59,521.8
Piassava	-	42.7	-	-	-
Fish and Shrimps	19.5	774.8	*143.4*	*2,023.7*	**2,167.1**
Tobacco	-	-	-	-	-
Others	183,751.0	87,064.8	*1,244,326.6*	*23,234.8*	1,267,561.4
Re-exports	44,873.92	52,668.50	*68,778.79*	*23,178.21*	91,957.00
Trade Balance	**(1,154,765.8)**	**(2,348,498.9)**	**(317,237.3)**	**(2,017,584.4)**	**(2,334,821.7)**
Foreign Reserves (Million Leones)	**1449237.0**	**1500515.4**	***1561755.2***	***1649462.6***	**1649462.6**

Zone's Convergence programme requirement of at least 3 months of import cover. However the months of import cover during the reporting period indicated a lower level when compared with 5.1 months of import cover recorded for the preceding half year in 2011. This was mainly attributed to the high import bills in respect of mining sector investments recorded in the review period. The country's stock of external debt including interest and principal arrears decreased by US$8.7mn (1.03%) to US$840mn as of end-December 2011, from US$848.7mn as of end-June 2011, mainly on account of changes in the debt stock owed to multilateral creditors. The exchange rate of the Leone to the United States Dollar was relatively stable

Table 8b
International Trade and Reserves
(Thousand US Dollars)

	Jul-Dec'10	Jan-Jun'11	*Jul-Sept'11*	*Oct-Dec'11*	Jul-Dec'11
1	2	3	*4*	*5*	6
Merchandise Imports	**456,874.9**	**722,062.5**	***435,963.5***	***549,920.7***	**985,884.2**
of which					
Food of which	52,838.8	103,602.3	*56,562.9*	*85,647.1*	142,210.0
Rice	44,602.0	39,689.9	*12,224.3*	*32,812.3*	45,036.6
Beverages and Tobacco	9,117.4	12,798.1	*7,145.8*	*13,197.4*	20,343.2
Crude Materials	5,796.2	8,105.8	*6,718.5*	*3,632.3*	10,350.8
Mineral Fuels and Lubricants of which	84,616.9	144,689.2	*75,371.5*	*54,750.4*	130,121.9
Fuel	70,922.7	132,907.9	*62,527.8*	*47,813.6*	110,341.4
Animal and Vegetable Oils	4,281.1	4,311.9	*2,443.1*	*2,874.9*	5,318.1
Chemicals	23,167.7	13,131.4	*14,425.0*	*39,261.7*	53,686.6
Manufactured Goods	66,388.6	86,649.4	*46,289.2*	*41,490.6*	87,779.8
Machinery and Transport Equipment	180,277.6	280,209.2	*200,290.7*	*274,381.5*	474,672.2
Other Imports	30,390.5	68,565.3	*26,716.8*	*34,684.8*	61,401.6
Merchandise Exports	**174,385.6**	**174,282.4**	***83,241.3***	***92,185.7***	**175,426.9**
of which					
Mineral Exports	**107,197.3**	**109,647.4**	***60,751.3***	***70,335.0***	**131,086.3**
Diamonds	62,142.8	67,470.1	*34,317.4*	*27,978.7*	62,296.1
Bauxite	13,901.9	18,348.2	*11,898.7*	*8,751.1*	20,649.8
Rutile	25,610.9	14,936.4	*5,742.9*	*13,757.2*	19,500.1
Gold	4,112.7	3,475.1	*2,239.8*	*1,565.1*	3,804.9
Ilmenite	1,429.0	1,541.1	-	*2,900.6*	2,900.6
Iron Ore			-	*15,357.1*	15,357.1
Zircom	-	3,876.4	*6,552.6*	*25.2*	6,577.8
Agricultural Exports	**10,965.9**	**32,344.6**	***3,141.8***	***11,293.1***	**14,434.8**
Coffee	34.0	1,564.5	*72.7*	*363.6*	436.3
Cocoa	10,927.3	30,515.3	*3,036.3*	*10,470.4*	13,506.6
Piassava	-	10.1	-	-	-
Fish and Shrimps	4.7	254.7	*32.8*	*459.1*	491.9
Others	**45,301.2**	**20,085.1**	***3,635.2***	***5,276.9***	**8,912.2**
Re-exports	**10,921.3**	**12,205.3**	***15,713.0***	***5,280.7***	**20,993.6**
Trade Balance	**(282,489)**	**(547,780)**	***(352,722)***	***(457,735)***	**(810,457)**
Foreign Reserves ($mn)	**345.2**	**344.6**	***353.1***	***376.8***	**376.8**

Sources: Customs and Excise Department,Oil Importing Companies and Government Gold & Diamond Department.

during the period, but remained outside the ±15 percent band of the central parity rate of Le2,562.18/US$1 stipulated under the Exchange Rate Mechanism of the West African Monetary Zone.

5.1 INTERNATIONAL TRADE

5.1.1 Exports

Earnings from exports during the review period totaled US$187.50mn, which was US$13.22mn (7.6%) higher than the US$174.28mn recorded for January-June 2011 and US$13.12mn (7.5%) above export receipts recorded in the corresponding period of 2010. The increased total export earnings were driven mainly by the marked growth in receipts from "domestic exports" and re-exports". Receipts from domestic exports (comprising mineral and agricultural exports) grew by 2.7 percent over the preceding half-year to US$166.51mn and by 1.9 percent over the corresponding half-year in 2010. The increase in domestic exports earnings was due to a rise in proceeds from mineral exports in the sum of US$131.09mn,

Table 9					
Sectoral allocation of Foreign Exchange under the Auction Sytem (US$ '000)					
Sectors	**Jul-Dec'10**	**Jan-Jun'11**	**Jul-Sep'11**	**Oct-Dec'11**	**Jul-Dec'11**
1	2	3	4	5	6
Manufacturing Industries	1,138.34	1,530.00	1,200.00	1,105.00	2,305.00
General Imports	858.33	1,740.00	400.00	505.00	905.00
Oil Companies	5,844.65	4,930.00	2,900.00	2,350.00	5,250.00
Rice	5,758.68	9,665.00	7,029.00	7,815.00	14,844.00
Total Allocation	***13,600.00***	***17,865.00***	***11,529.00***	***11,775.00***	***23,304.00***

which was 19.6 percent higher than the level of US$109.65mn recorded for January-June 2011, and 22.3 percent above receipts in the corresponding period in 2010.

Proceeds from export of bauxite amounted to US$20.65mn, which was 12.5 percent higher than similar export earnings in the preceding half-year and 48.5 percent that of the corresponding 2010 exports receipts. The increase was as a result of higher export volumes in the review period, which more than offset the impact of the drop in world market prices of the products during the period. Total value of rutile exports for the period under review registered US$19.50mn, which was 30.6 percent above the value recorded in the preceding six months, but 23.9 percent below that recorded in the corresponding period in 2010.

Proceeds from exports of ilmenite at US$2.9mn for the fourth quarter of 2011, indicated an 88.2 percent growth in value, and 4.4 percent increase in volume during the reporting six months period. It reflected an increase of over 50 percent when compared to receipts in the preceding half year of 2011 but a reduction of 11.3 percent when compared with the volume exported in the corresponding period in 2010.

The value of gold exports amounting to 2,202.9 ounces in July-December 2011 was recorded at US$3.80mn, which was 9.5 percent higher than the US$3.48mn recorded for the first half of 2011 and 7.5 percent when compared with export earnings of US$4.11mn for the corresponding period in 2010.

The volume of iron ore export, which commenced during the fourth quarter of 2011 was recorded at 137,883 metric tons valued at USUS15.36mn. The value of Zircom export for the reporting period recorded at US$6.58mn was 69.69 percent higher in value terms while total export volume of 7,124.9 metric tons was 20.75 percent higher in volume terms over the preceding six-months. There was no export of Zircom in the corresponding period in 2010.

Receipts from export of agricultural produce, mainly coffee and cocoa, exhibited declining trends throughout the review period due partly to seasonal factors. Aggregate earnings from agricultural exports were 55.4 percent below the value of similar exports in the preceding half-year, but 31.6 percent above export receipts from the sector during the corresponding period in 2010. Proceeds were in respect of 186 metric tons of coffee worth US$0.44mn and 6,406.9 metric tons of cocoa valued at US$13.51mn. The volume and value of coffee exports during the review period decreased by 94.8 percent and 72.1 percent respectively, compared with the preceding period. Similarly, the volume and value of cocoa export declined by 44.7 percent and 55.7 percent respectively, over the preceding six months period. In comparison with the corresponding period in 2010, the value of export earnings from both coffee and cocoa increased by over 1,000 percent and 23 percent respectively. In volume terms, coffee exports were 495.2 percent above the corresponding period's level in 2010, while cocoa export was 25.7 percent below the corresponding level in 2010. Earnings from "other exports" (comprising mainly ginger, sawn timber, assorted plastic wares, audio cassettes and compact discs) were recorded at US$20.99mn for the reporting half year, reflecting an increase of 4.5 percent over the preceding half-year's level, but 53.7 percent below the corresponding period in 2010. The value of re-exports increased by US$8.79mn (72.0%) to US20.99mn during the period under review, from US$12.21mn in the preceding half-year. Compared to the corresponding period in 2010, re-exports increased by 92.2 percent.

5.1.2 Imports

Aggregate import payments for July-December 2011 amounted to US$985.88mn, up 34.9 percent and 115.8 percent over the import bills of US$730.67mn and US$456.87mn recorded for the first half of 2011 and the corresponding period in 2010, respectively. The higher imports supported real sector activities, particularly in the mining and construction sectors. The increase in import bills was mainly attributed to the growth in imports of "machinery & transport equipment", which accounted for 48.2 percent of total import bill. Payments for import of "machinery & transport equipment" amounted to US$474.67mn, which was 68.6 percent above the US$281.59mn payments made in the preceding half-year and 163.3 percent above the US$180.28mn payments recorded during the corresponding period of 2010. The import value of "consumer goods" recorded at US$167.87mn for the reporting period was 39 percent higher than the total of US$120.78mn recorded for the preceding half-year and 153.4 percent above the import bills for the corresponding period in 2010. The increase in the import bills for consumer goods during the review period was largely accounted for by a rise in payments for all sub-categories of consumer items including food, of which, "rice" constituted 31.7 percent.

Aggregate payments for food import stood at US$142.21mn, 37.2 percent and 169.1 percent higher than similar payments in the preceding half year and the corresponding period in 2010, respectively. The increase was influenced significantly by payments for rice imports to the tune of US$45.04mn during the review period, compared to US$39.69mn in January-June 2011. The volume of rice imports during the period under review was recorded at 76,587.0 metric tons, reflecting a 2.8 percent drop when compared to the preceding half-year's level; but 4.7 percent increase when compared to the corresponding 2010 level of 73,134.5 metric tons. The increase in the value of rice imports during the review period was attributed, in part, to higher world market commodity prices. Significant increases were also recorded in the value of import categories of "beverages and tobacco" and "animal and vegetable oils" to US$20.34mn and US$5.32mn, from US$12.80mn and US$4.31mn respectively, in the preceding half year. The import bill for "intermediary goods", including crude materials and chemicals, were recorded at US$64.04mn, for the reporting period, 198.2 percent and 121.1 percent higher than the US$21.47mn and US$28.96mn recorded for the preceding half-year and the corresponding period in 2010, respectively. Import bill for manufactured goods during the period under review amounted to US$ 149.18mn, down by 7.5 percent over the US161.19mn recorded for January-June 2011, but up by 54.1 percent when compared to the import bill for the corresponding period in 2010. Payments for "mineral fuel and lubricants" decreased by 10.7 percent to US$130.12mn during the review period, from US$145.64mn in the January-June 2011 period, which reflected a 53.8 percent increase when compared with similar payments a year ago.

5.2 Exchange Rate Movements

During the review six-month period (July-December 2011), the exchange rate of the Leone to the United States Dollar was relatively stable, though the period average exchange rate continued to remain outside the ±15 percent band of the central parity rate of Le2,562.18/US$1 under the Exchange Rate Mechanism of the West African Monetary Zone. Monthly averages for the official market, commercial banks and the BSL auction market rates depreciated throughout the period except for November and December 2011 when marginal appreciations were recorded. Similarly, the exchange rate in the bureaux market depreciated throughout the months, appreciating only in December 2011, while the parallel market rate depreciated throughout the third quarter of the reporting period but appreciated throughout the fourth quarter in 2011.

The six-months average exchange rates for all the foreign exchange markets depreciated. The exchange rate of the commercial banks, bureaux, official market, parallel market and auction market depreciated by 1.94 percent, 1.15 percent, 1.04 percent, 0.81 percent and 0.60 percent, respectively. They were recorded respectively at Le4393.99/$, Le4398.46/$, Le4394.46/$, Le4461.92/$ and Le4406.97/$ at the end of the review period. Similar developments were evident in all the exchange markets when compared to the corresponding half-yearly average rates in July-December 2010. The average exchange rate in the official market depreciated the highest (8.36%), followed by the commercial banks (8.21%), the bureaux (7.59%), the parallel market (6.80%) and the BSL auction market (6.57%).

Quarterly average positions revealed that in all the foreign exchange markets, the rates depreciated during the third quarter, with the parallel market, official market, commercial banks, bureaux and the BSL auction market, indicating depreciations by 1.30 percent, 0.99 percent, 0.97 percent, 0.97 percent and 0.60 percent, respectively. However, the average exchange rates for the fourth quarter were mixed with the bureaux, official market and commercial banks' rates depreciating by 1.04 percent, 0.36 percent and 0.20 percent, respectively. On the contrary, the parallel market and the BSL auction market rates appreciated by 0.02 percent and 0.23 percent, respectively.

The premium between the average half-yearly official market rate and the parallel market rates narrowed from Le76.69/US$1 (1.76%) in the preceding period to Le67.46/US$1 (1.54%) in the reporting period.

5.2.1 Sectoral Utilisation of Foreign Exchange

The weekly foreign exchange auction held by the Central Bank remained a complementary source of financing private sector imports during the period under review. The amount of foreign exchange sold during the reporting period totaled US$23.30mn, which was 30.45 percent and 71.35 percent higher than the amounts sold in the preceding half-year and the corresponding half-year in 2010, respectively. The increase in the value of sales was triggered by the higher demand for foreign currency from rice importers, which accounted for 63.7 percent of the total utilization of foreign exchange. Utilisation by rice importers and oil companies reflected increases of US$5.2mn (53.59%) and US$0.32mn (6.49%), respectively. Sales to manufacturing industries rose by US$0.78mn (50.65%) to US$2.31mn, while foreign exchange sold for general imports decreased by 47.99 percent to US$0.91mn) over the reporting six months. Relative to sales of foreign exchange during the corresponding period in 2010, allocation to rice importers, manufacturing industry, and general imports reflected increases of 157.77 percent, 102.49 percent and 5.4 percent respectively, while those to oil companies decreased by 10.17 percent.

5.3 Gross External Reserves

The gross international reserves position of the Central Bank as at end December 2011 was recorded at US$376.79mn, representing 4.2 months of import cover of goods and services. The level of reserves indicated an increase of US$32.2mn or 9.3 percent over the US$344.59mn recorded at end-June 2011. The increase in reserves was largely due to cumulative inflows of US$61.60mn, outweighing total outflows of US$32.25mn for the period under review. Significant inflows during the period comprised receipts in respect of foreign exchange purchased from commercial banks (US$11.80mn), flows from Petroleum Resource

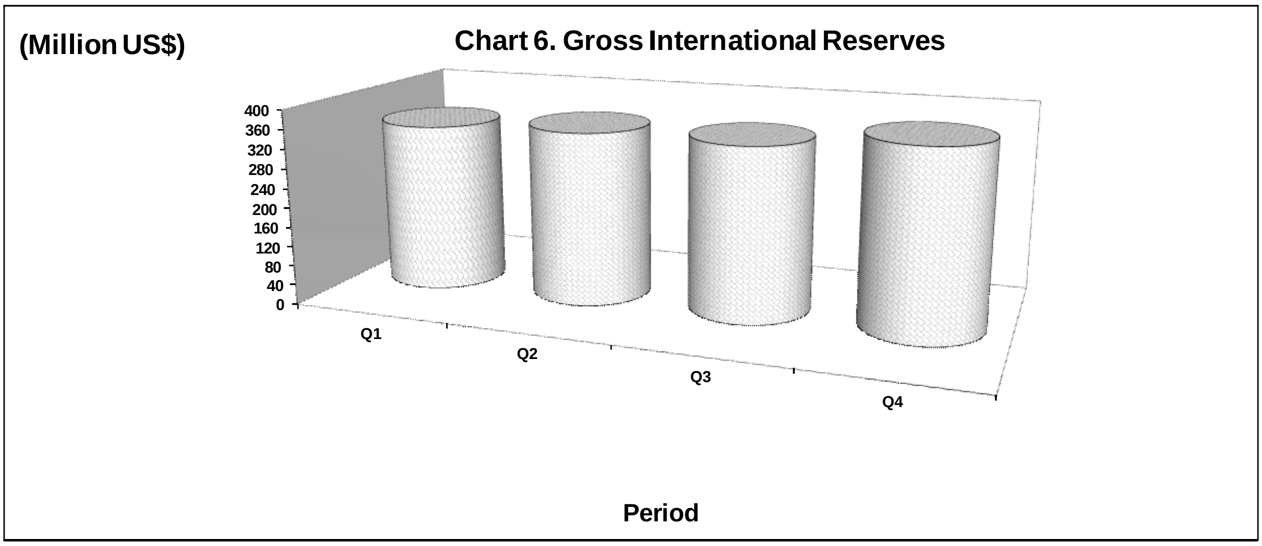


Table 10. Estimate of External Public Debt as at Dec. 31, 2011 *
(In million US dollars)

	Disbursed Outstanding Debt /1	Arrears Principal	Arrears Interest	Total Incl. Interest	Percentage of Total
1	2	3	4	5	6
Total External Debt	**836.5**	**236.4**	**3.5**	**840.0**	**100.0**
Total Commercial Obligations & Short-Term Debt	208.1	208.1	-	208.1	24.8
Total Long-Term Debt, of whi	628.4	28.3	3.5	631.9	75.2
Multilateral	**524.58**	**-**	**-**	**524.58**	**62.45**
World Bank Group	**187.9**	**-**	**-**	**187.9**	**22.4**
IMF	120.6	-	-	120.6	14.4
ADB/F	81.3	-	-	81.3	9.7
EEC	11.5	-	-	11.5	1.4
EIB	1.5	-	-	1.5	0.2
IFAD	24.6	-	-	24.6	2.9
BADEA	26.8	-	-	26.8	3.2
IDB	44.6	-	-	44.6	5.3
OFID/OPEC	24.7	-	-	24.7	2.9
ECOWAS	1.0	-	-	1.0	0.1
Official Bilateral	84.0	8.4	-	84.0	10.0
Paris Club	**-**	**-**	**-**	**-**	**-**
Other Bilateral	84.0	8.4	-	84.0	10.0
Of which:					
China	26.6	8.4	-	26.6	3.2
Morocco	-	-	-	-	-
Kuwait Fund	10.9	-	-	10.9	1.3
Saudi Fund	12.1	-	-	12.1	1.4
India	34.4	-	-	34.4	4.1
CDC	-	-	-	-	-
Other Creditors/Military Debt	**19.9**	**19.9**	**3.5**	**23.4**	**2.8**

* Disbursed Outstanding Debt, including Principal Arrears

Unit (US$3.35mn), receipts from exports (US$0.85mn), Aid/Loan disbursements, of which, IMF (US$13.65mn), African Development Bank (US$9.33mn), UK/Department for International Development (DfID)and the European Union, in respect of Poverty Reduction Budget Support (US$5.51mn) and (US$14.09mn), respectively, IDA/World Bank foreign exchange purchases (US$1.23mn) and receipts from other governments (US$1.26mn).

Major outflows were in respect of amounts utilized under the Bank of Sierra Leone weekly foreign exchange auction (US$11.78mn), Embassies and Mission payments (US$2.86mn), payment for the printing of currency (US$3.76mn), outlays for government infrastructure projects on roads, water and energy (US$3.24mn), government travel and other government outlays (US$2.90mn). Other key outflows included debt service payments to various creditors, including payments to OPEC/OFID (US$0.72mn), World Bank (US$0.25mn), AFDB (US$0.33mn), International Monetary Fund (US$2.89mn) and other multilateral and bilateral creditors (US$2.76mn).

5.4 External Debts

The country's stock of external debts including interest and principal arrears was recorded at US$840mn at end-December 2011, reflecting a US$8.7mn (1.03%) decrease compared to US$848.7mn at end-June 2011. The drop in the external debt stock was mainly on account of changes in the stock of debt owing to the multilaterals, which declined by 1.3 percent (US$6.9mn) to US$524.6mn and constitutes 62.4 percent of the total debt stock.

Total commercial obligations and short-term debt also decreased from US$209.6mn at end June 2011 to US$208.1mn during the period under review.

Official bilateral debts similarly declined from US$87.2mn to US$84.0 over the six-month period ending December 2011. In contrast, the stock of other debts/military debt increased from US$20.4mn in the preceding half year of 2011 to US$23.4mn in the reporting period.

5.5 Sierra Leone's Status of Convergence Report under the West African Monetary Zone (WAMZ) Convergence Programme (July-December 2011)

An analysis of Sierra Leone's performance under the West African Monetary Zone's (WAMZ) convergence criteria showed that in July-December 2011, the country satisfied only one of the four primary criterion (months of import cover) and one secondary criterion (public investment from domestic receipts). Inflation remained in double digits, while the fiscal deficit was still hard to pin down. The criterion on central bank financing of the fiscal deficit however improved but was still above the target set under the WAMZ Programme.

5.5.1 Primary Criteria

5.5.1.1Inflation

Inflation rate as measured by the consumer price index was in double digits throughout the second half of 2011, in contravention of the WAMZ single digit criterion, improving marginally compared with the preceding period. The year-on-year rate was 16.64 percent at end December 2011, indicating a slight drop from 16.79 percent at end-June 2011. The persistent double digit inflation rate was due in part to monetary expansion and partly to supply shocks stemming from high international prices of crude oil and food imports, coupled with government's partial removal of subsidy on fuel. The position was however an improvement on the 17.84 percent recorded at end December 2010.

5.5.1.2 Fiscal Deficit/GDP Ratio

The WAMZ threshold of 4 percent on the fiscal deficit as a percentage of GDP was breached in the second half of 2011 with performance recorded at 15.01 percent. This level of performance was also above the ratio of 13.53 percent recorded in the preceding half year,

Table 11					
Sierra Leone's Performance Under the WAMZ Convergence Criteria					
WAMZ Criteria	**Target**	**Performance**			
Primary		**Jan – June 2010**	**Jul – Dec 2010**	**Jan – June 2011**	**Jul – Dec 2011**
Budget Deficit/GDP	Less than or equal to 4 percent	-15.45%	-11.99%	-13.53%	-15.01%
Inflation	Single digit	16.42%	17.84%	16.79%	16.64%
Central Bank Financing/previous year's tax receipts	Less than or equal to 10 percent	19.83%	17.57%	71.66%	24.60%
Gross Reserves	Greater than or equal to 3 months	6.1	4.5	5.1	4.2
Secondary					
Domestic Arrears	0	n.a.	n.a	n.a.	n.a.
Tax revenue/ GDP	Greater than or equal to 20 percent	9.60%	13.70%	13.20%	11.90%
Wage Bill / Tax revenue	Less than or equal to 35 percent	63.10%	49.60%	50.40%	67.14%
Public Investments/Tax Revenue	Greater than or equal to 20 percent	25.76%	31.10%	20.84%	35.39%
Nominal Exchange rate	Plus or minus 15 percent	34.40%	38.97%	41.05%	41.08%
Real Interest rate	Greater than zero	-10.10%	-11.59%	-10.30%	-10.14%

n.a. - Not available

though an improvement when compared to the ratio recorded in the corresponding period in 2010. The expansion in fiscal deficit was due to extra budgetary spending in all expenditure categories, especially wages and salaries, interest on domestic and external debts and infrastructure projects.

5.5.1.3 Central Bank financing of Fiscal Deficit

Central bank financing of the budget deficit during the July-December 2011 was recorded at 24.6 percent of the previous year's tax revenue, indicating a breach of the WAMZ target of less than or equal to 10 percent of previous year's tax revenue. The performance ratio was however a significant improvement when compared to 71.7 percent recorded in the first half of 2011. The improved performance of this criterion resulted from non-participation of the Central Bank in the primary securities market, coupled with the sale of its portfolio of treasury bills holdings as a result of active open market operations. Also, the Central Bank ensured that the ceiling on Net Domestic Bank Credit to Government was observed throughout the review period.

5.5.1.4 Gross External Reserves/ Months of Import Cover

Gross external reserves increased from US$344.59mn at end-June 2011 to US$376.79 million at end-December 2011, representing 4.2 months of import cover, thereby satisfying the WAMZ benchmark requirement of at least 3 months of cover. It was however below the 5.1 months of import cover recorded for the preceding half in 2011, in spite of the increase in reserves. The drop in the months of import cover was explained by the high level of imports during the review period, largely of machinery and transport equipments for the mining and construction sectors.

5.5.2 Secondary Criteria

5.5.2.1 Tax revenue /GDP Ratio

Tax revenue as a percentage of GDP was recorded at 11.90 in the review period, also reflecting a breach of the WAMZ stipulated 20 percent minimum. Notwithstanding the improved performance in revenue during the period, the position further reflected a decline on the 13.20 percent recorded in January-June 2011 and 13.70 percent registered for July-December 2010.

5.5.2.2 Salary Mass/Total Revenue

The wage bill/tax revenue ratio of not more than 35 percent continued to be breached at 67.14 percent for the reporting period, which was 16.74 percentage points above the 50.4 percent recorded in the previous half year. It was also higher than the 49.6 percent recorded for the corresponding half-year in 2010

5.5.2.3Public Investment from Domestic Receipts

Performance under the criterion on public investment from domestic receipts in the review period was recorded at 35.39 percent, well within the required WAMZ target of at least 20 percent of public investment and also 14.55 percentage points above the 20.84 percent recorded in the January-June 2011 period. The increase in the ratio was due to the expansion in government investment in infrastructure projects, including a new terminal building at the Freetown International Airport, financed entirely from domestic resources.

5.5.2.4Positive Real Interest rate

The country failed to achieve the positive real interest rate criterion as required by WAMZ Programme. The real interest rate at recorded as end December 2011 was negative 10.14 percent, which was below the required 5 percent benchmark of positive real interest rate. It was however a slight improvement on the negative 10.3 percent recorded at end June 2011. The breach was attributed to the high inflation rate which at 16.64 percent at end–December 2011 continued to remain well above the savings rate.

5.5.2.5Nominal exchange Rate Stability

The country failed to meet this criterion during the period under review, deviating from the central parity rate by a significant 41.08 percent, which is more than the WAMZ benchmark of ± 15 percent Nonetheless, the Leone remained relatively stable through-out the review period, amidst demand pressures on the foreign exchange market.

Documents

Press Release [No. 11/327]

Statement at the conclusion of an IMF Staff Mission to Sierra Leone 8th September, 2011

An International Monetary Fund (IMF) mission visited Sierra Leone during August 23-September 6, 2011 to conduct discussions for the combined second and third reviews of the program supported under the Extended Credit Facility (ECF) approved by the IMF Executive Board in June 2010. The mission met with His Excellency, President Ernest Bai Koroma; Minister of Finance and Economic Development, Dr. Samura Kamara; the Governor of the Bank of Sierra Leone, Mr. Sheku Sesay; other senior officials of the government and the central bank, representatives of the business community and CSOs, and development partners.

The following statement was issued today in Freetown by Jan Mikkelsen, IMF Mission Chief for Sierra Leone:

"Following a 5 percent growth in real GDP in 2010, economic activity has remained robust in 2011, supported by continued expansion in agriculture and mining. Consumer price inflation increased, however, to 20.9 percent (year-on-year) in July 2011 on account of food and fuel price increases, as well as the effect of expansionary monetary policy in the second half of 2010. Gross international reserves remain at a comfortable level. The Leone has been relatively stable, depreciating by about 4 percent in the first half of 2011, and Treasury bill interest rates have declined. In this respect, the mission commends the authorities for their efforts in containing spending and tightening the monetary policy stance.

"The main policy challenges facing the authorities remain to close the infrastructure gap, expand social services, and reduce unemployment while maintaining macroeconomic stability. In this respect, the mission supports the authorities' efforts to mobilize domestic revenue and underscores the need for constraining nonpriority expenditures in the second half of 2011. To that effect, the mission recommends that the Government gives due consideration to gradually restoring fuel excises, which were significantly lowered earlier this year. This would enhance fiscal space for necessary capital and social spending.

"The mission concurs with the Bank of Sierra Leone on the need to tighten monetary policy and maintain exchange rate stability.

"With regard to performance relative to the ECF-supported program, the tightening of fiscal and monetary policies contributed to meeting all quantitative criteria for end-June, with the exception of the ceiling on contracting of nonconcessional external debt. Discussions with the authorities will continue, to allow the Executive Board's consideration of the combined second and third reviews of the ECF-supported program later this year.

"The mission would like to thank the authorities for their continued excellent cooperation."

Press Release [No. 11/450]

IMF Executive Board Completes Second and Third Reviews Under ECF with Sierra Leone and Approves $US 13.8 Million Disbursement

7th December, 2011

The Executive Board of the International Monetary Fund (IMF) today completed the second and third review of Sierra Leone's economic performance under a program supported by the Extended Credit Facility (ECF). The Board's decision enables the immediate disbursement of an amount equivalent to SDR 8.88 million (about US$13.8 million), bringing total disbursements under the arrangement to an amount equal to SDR 17.76million (about US$27.6 million).

In completing the reviews, the Executive Board approved waivers for nonobservance of performance criteria on net domestic bank credit to the central government and net domestic assets of the central bank, both for end-December 2010, and for the continuous performance criterion on the ceiling on new nonconcessional external debt. The Board also approved a modification of three performance criteria for end-December 2011 related to the net domestic bank credit to the central government, net domestic assets of the central bank, and gross foreign exchange reserves of the central bank to reflect envisaged changes in fiscal and monetary policy.

The three-year ECF arrangement for Sierra Leone was approved on June 4, 2010 in an amount equivalent to SDR 31.11 million Following the Executive Board's discussion of Sierra Leone, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"The economy is continuing to recover, reflecting steady growth in mining, manufacturing, and construction. Inflation, however, remains high due to exogenous shocks and loose monetary policy at the end of 2010. Given tighter policies and more favorable external conditions, inflation is expected to decline in the near term. Gross international reserves remain at comfortable levels.

"Notwithstanding progress with respect to macroeconomic and structural policies, recent performance under the authorities' program, supported by the three-year Extended Credit Facility, has been mixed. Despite improved revenue performance in the second half of 2010, an acceleration of infrastructure investment under the government's *Agenda for Change* led to a surge in unbudgeted spending and commensurate liquidity expansion. As monetary policy accommodated the fiscal easing, key fiscal and monetary targets for December 2010 were not met. The government took action in early 2011 to tighten policies, resorting to both revenue and expenditure measures, resulting in improved program performance. It is also taking action to impose a statutory limit on central bank credit to the government. Continued fiscal restraint will be critical to maintaining macroeconomic stability in the period ahead.

"The medium-term outlook is favorable. Full operation of an iron ore megaproject in 2012 is expected to boost GDP and exports substantially. The fiscal space for infrastructure investment and social spending is, however, constrained in the near term, as government revenue is expected to increase only gradually in the first years of new mining activity. Financing the upcoming elections, as well as the government's decision to reduce excises on fuel, puts additional burdens on the 2012 budget.

"Monetary policy will seek to contain inflationary pressures, bringing inflation down to single digits by 2013, while improving policy implementation and communication. Exchange rate flexibility should be maintained to facilitate adjustment to external shocks.

"Administrative reforms must also underpin policy efforts with a focus on improving tax administration, strengthening public financial management, and deepening the financial sector. These reforms will help create fiscal space for capital and social spending, while encouraging private sector investment and activity in support of inclusive and broad-based growth", Mr. Shinohara added.

CALENDAR OF SOCIO-ECONOMIC EVENTS
(July - December 2012)

July 01, 2011
Koidu Holdings secured funding to the sum of US$150million for the expansion of its kimberlite project, to improve its production capacity.

July 08, 2011
The Bank of Sierra Leone, in collaboration with the Ministry of Finance and Economic Development and the Office of the International Monetary Fund (IMF) Resident Representative, held a one day seminar on the theme: *Recovery and New Risks-based on the Spring 2011 Regional Economic Outlook for Sub-Saharan Africa (SSA) and policy implications for Sierra Leone*.

July 22, 2011
Parliament ratified the amended Customs Bill Act on the reduction of customs duty on imported cement from 20 percent to 10 percent. Parliament also approved the continuation of the 10 percent import duty suspension on imported rice until end 2011.

July 27, 2011
Parliament ratified an augmented US$12mn loan from the Islamic Development Bank, for the improvement of water supply system in Kabala town in the Northern Region. This loan has a 25 years maturity period with a grace period of 7 years.

August 04, 2011
The Bank of Sierra Leone celebrated 47 years of successful central banking in Sierra Leone.

August 11, 2011
The African Minerals Limited Company (AML) signed the final agreements with its Chinese counterpart, Shandong Iron and Steel Group (SISG) that would lead to the investment of an additional US$1.5billion towards the development of phase II of the Tonkolili Iron Ore project in the country.

August 11, 2011
The African Minerals Limited Company (AML) paid a total of Le353million as compensation to 300 farmers whose crops were affected by its operations in Buya Romende (Port Loko District), Makarie Gbanti (Bombali District) and Kalasongoya and Kafe Simera (Tonkolili District).

August 12, 2011
Addax Bioenergy disbursed fifty million, five hundred and twenty eight thousand Leones (Le50,528,000) to eight (8) villages in the Yankasa Section, Bombali District as *'payment of acknowledgement agreements'*, a novelty introduced by Addax, in order to show appreciation to land owners for giving up their land to the company through lease agreements.

August 23 - September 06, 2011
An International Monetary Fund (IMF) mission concluded the combined second and third reviews of Sierra Leone's performance under the IMF's Extended Credit Facility (ECF) supported program, approved by the IMF Executive Board in June 2010. The mission commended Sierra Leone's effort in mobilizing domestic revenue and further recommended the need to enhance policies that would broaden the fiscal space for necessary capital and social spending.

September 13, 2011
Sierra Leone qualified for a US$15.7 million grant under the African Development Bank's (AfDB) Fragile States Facility, to finance the second Economic Governance Reform Program (EGRP), which aims at strengthening Public Financial Management and revenue governance in the mining and energy sectors.

September 21, 2011
The Sierra Leone Parliament ratified a long term concessional loan agreement for US$15.314 million between the Government of Sierra Leone and the Export Bank of China, to fund the

country's Dedicated Security Information System Project. The project aims at improving the national telecom and security systems in the country.

September 21, 2011
The West African Regional Communication Infrastructure Programme was launched in Sierra Leone as a complement to the ECOWAS' Regional Backbone Infrastructure and E-Governance Project (ECOWAN).

October 10, 2011
The seventeen thousand miles Fibre-Optic Submarine Cable under the ACE Project funded by the World Bank and the Islamic Development Bank was landed in Freetown, aimed at improving broad band capacity that will enhance both private and public sector information and communication needs as well as e-governance designed to improve transparency in governance and pull Sierra Leone from its currently limited satellite system of communication to a high-speed modem cable communication system.

October 17 - 24, 2011
A joint mission of the World Bank and the African Development Bank visited Sierra Leone to consult stakeholders with the view to assessing progress of implementation and stock take on the effectiveness of the strategy and prepare for the mid-term review of the PRSP II under the Joint Assistance Strategy (2009-2012).

October 20, 2011
The Bank of Sierra Leone revised its Monetary Policy Rates downwards, consistent with market trends.

October 27, 2011
The United Kingdom aid (UK aid) and the European Union (EU) through ENCISS
(Enhancing the Interaction and Interface between Civil Societies and the State to improve poor people's lives) disbursed £1.579 million to civil society organizations and the Government of Sierra Leone as strategic Project Grants towards increasing the involvement and interaction between civil societies and thee State at District levels covering the Justice and Security, Gender, the 2012 elections, Youth and Local governance.

October 28, 2011
Sierra Rutile Limited announced a production expansion project worth US$177 million and the company is expected to increase its exports to 200,000 metric tons per annum by 2014. The company also commissioned a feasibility study for the construction of a second large dredge to replace the one that capsized in 2008.

November 01, 2011
The African Minerals Limited (AML) disbursed the sum of Le325 million as compensation to farmers whose crops and settlements are likely to be affected by its operations around Wondugu village in the Tonkolili District.

November 17, 2011
The Ministry of Health and Sanitation received a grant of US$15 million from the Kuwaiti Fund, as support towards the structural upgrade of the Ola During Children's Hospital situated in the East end of Freetown.

November 22, 2011
The African Minerals Mining Company currently operating in Northern Sierra Leone successfully made its first shipment of iron ore amounting to 40,000 tonnes, to China.

November 25, 2011
The Minister of Finance and Economic Development Dr. Samura M. W. Kamara delivered the Government Budget and **Statement of Economic and Financial Policies for the Fiscal Year 2012 to the Sierra Leone Parliament on the theme: *"Celebrating five years of Transformative Change."*** The 2012 budget is based on a sound macroeconomic policy framework that supports growth, private sector development, democratic governance and human development.

December 07, 2011
Following the conclusion of the second and third reviews of Sierra Leones' economic performance under the Extended Credit Facility (ECF) program, the Executive Board of the

International Monetary Fund (IMF) approved the immediate disbursement of an amount equivalent to SDR8.88 million (about US$13.8 million), being second and third tranches to Sierra Leone, bringing total disbursements under the arrangement to SDR17.76million (about US$27.6 million), on account of satisfactory performance under the program.

December 19, 2011
Parliament ratified the Bank of Sierra Leone Act of 2011. The Act among others, provides for greater independence of thee Bank of Sierra Leone in discharging its duty in monetary policy management.

December 20, 2011
The World Bank announced a US$32 million joint World Bank/ European Union grant to Sierra Leone, being the second phase funding for the Decentralization Service Delivery Program (DSP-2). The funding is as result of Sierra Leone's effort in transparency, fair system of transferring funds to local councils and progress in devolving functions. The program which will run till December 2015 will pave the way for improved results in basic health, education, water supply and solid waste management.

GOVERNMENT OF SIERRA LEONE
GOVERNMENT BUDGET
and
Statement of Economic and Financial Policies
For the Financial Year, 2012

Theme: “Celebrating Five Years of Transformative Change”

DELIVERED BY
DR. SAMURA M. W. KAMARA
Minister of Finance and Economic Development

in the Chamber of Parliament
TOWER HILL, FREETOWN

ON
Friday, 25th November, 2011

INTRODUCTION

1. Mr. Speaker, I rise to move that the Bill entitled, "An Act to provide for the services for Sierra Leone for the Financial Year (FY) 2012" be read for the first time.

II. Delivering on Commitments

2. Mr. Speaker, at the onset of this Government in September 2007, Sierra Leone was relatively at the low end of several international country performance ratings, including in agricultural productivity, in road infrastructure coverage, in power generation and distribution, in telecommunication density, in access to finance, and basic social services - water and sanitation, health and education, in environmental management, as well as in economic and financial governance.

3. Mr. Speaker, Honourable Members, four years on, we are all witnesses to visible achievements attained so far. In his Address on the occasion of the State Opening of the Fifth Session of the Third Parliament of the Second Republic of Sierra Leone, His Excellency the President, Dr. Ernest Bai Koroma, did catalogue some of the landmark achievements in moving forward his "Agenda for Change". These include economic growth and recovery; construction and rehabilitation of trunk, feeder and urban roads throughout the country; completion of the Bumbuna Hydroelectric Power Project and enhancement of other hydro, thermal and solar power generation; rehabilitation of clean water supply systems; introduction of the Free Healthcare Initiative and significant improvements in healthcare for lactating mothers, pregnant women and children under five; transition from subsistence to commercialisation of agriculture, especially for smallholder farmers; increased budgetary transfers to Local Councils, which have transformed and strengthen them as subnational government development agents; improving the investment climate through strengthening of the legal and regulatory regimes and removal of several physical and administrative barriers; expansion of air and sea transportation; improvement in the efficiency of economic

management; and broadening and deepening the financial system.

4. Mr. Speaker, Honourable Members, the year 2012 marks the end of the "Agenda for Change". In 2012, we will be celebrating five years of transformative achievements, including of higher standings on the major international country performance rankings. In particular, in the World Bank's Country Policy and Institutional Assessment (CPIA), our score has improved to 3.3, thereby moving Sierra Leone beyond the threshold of the classification of a fragile state. Sierra Leone has now been classified from a fragile low income country to low income country with the attendant implications for donor assistance. This performance tells us that we are on the right path and that we are following the right policies. Our goal is to use the fruits of our successes to sow the seeds of our future prosperity.

5. This is a direct response to His Excellency the President's call to consolidate and continue to improve upon the gains already made in the "Agenda for Change". This enviable success story has been on the back of determined incremental public spending on priority sectors. Between 2007 and 2010, cumulative public spending, excluding donor support, rose by more than threefold in agriculture, 105 percent for roads, over 79 percent in energy, about 40 percent in health, and 36 percent in education; hence, our overarching emphasis on spurring both economic growth and human development. The combined Government spending in support of governance institutions including Anti Corruption Commission, Parliament, the Judiciary, Audit Service, National Electoral Commission and Human Rights Commission, rose by more than tenfold during this period. In line with the fiscal decentralisation objective, combined transfers for Local Councils for both devolved functions and developmental projects increased by more than threefold, from Le13.4 billion in 2007 to Le77.9 billion in 2010; the key priority sectors being agriculture, from under Le 1 billion to Le13 billion in 2010; health, from Le2 billion to Le31 billion; and education, from Le8 billion to Le28 billion.

6. Mr. Speaker, in spite of all these achievements, significant challenges still remain. The need to address the infrastructure deficit continues to require our attention; strategic investments are needed in people; public sector capacity and accountability need further strengthening; and more importantly, better management of our natural resources is compelling to ensure that the benefits are widely and equitably shared. Hence, without prompting the outcomes of the pending National Consultative Conference on the next 50 years, the next "Agenda for Change" should among other priorities, focus on ensuring inclusive growth and poverty reduction, effectively managing natural resources, accelerating progress towards achieving the Millennium Development Goals (MDGs), enhancing the competitiveness of the economy, expanding quality employment opportunities, and strengthening social protection systems.

7. Mr. Speaker, Honourable Members, as is customary, I will now present the rest of my 2012 Budget Statement by first reviewing recent developments in the world and regional economies and the impact of these on our domestic economy.

III. Recent Developments in the World and Regional Economies and Outlook

8. Mr. Speaker, the macroeconomic environment facing all policy makers in the developed, emerging market and less developed countries has become much more difficult since the global economic crisis erupted in 2008, less than one year in governance by this Government. Our economies have been buffeted by multiple shocks: from food and fuel prices, to export markets, to portfolio capital flows and home remittances, and to development assistance, tourism and the like. The current sovereign debt crisis in the Euro zone is arguably the single biggest risk to the global economy. World financial and capital markets continue to show serious signs of stress. Jobless figures in the advanced countries continue to rise just as their relatively high economic growth forecasts are now being slashed. In the corporate world, blue chip giant companies continue to unveil plans to shed jobs. Slashing overheads has become an imperative as the downturn in the global economy and the squeeze in household incomes sap their profit levels. These problems facing the global economy, including the need for rebalancing of demand, the volatility of commodity prices and vulnerabilities in financial markets, imply that countries, such as Sierra Leone, cannot expect any abatement of external shocks to their economies, over the medium term at least, if not over a longer time horizon. Notwithstanding, the macroeconomic and structural reforms which have been implemented by us in recent years have already helped to make our economies relatively more resilient in the face of external shocks.

9. At the regional level, 2012 thus looks a promising year for Sub-Saharan Africa, provided that domestic economic management remains focussed and sustained. Economic growth in the region is projected at 5.8 percent in 2012, improving upon the 2011 growth rate of 5.2 percent. The prospects for low-income Sub-Saharan African countries are even better, with an estimated growth rate of 6 percent in 2011 and a predicted growth rate of around 7 percent in 2012.

10. I believe that we can draw important lessons from our experience of dealing with the macroeconomic shocks to guide further strengthening of our macroeconomic policies and other mitigating measures, especially to protect the most vulnerable in our societies.

11. Mr. Speaker, Honourable Members, I will now turn to our domestic economy.

IV. Macroeconomic and Budgetary Performance in 2011

Macroeconomic Performance

12. Mr. Speaker, to our credit, we can boast that, today, our domestic economic and financial fundamentals remain stronger than ever before, despite the difficult global economic environment. The domestic economy is continuing its strong rebound. Real Gross Domestic Product (GDP) is projected to grow by 5.3 percent in 2011 and the growth is expected to be broad based with positive contributions from all sectors of the economy.

13. Domestic inflation remained high during the year, driven largely by the spike in the international prices of fuel and food. However, following prudent fiscal and proactive monetary policies during the first half of the year, inflationary pressures have subsided since June 2011. The year-on-year national inflation rate declined to 15.7 percent in September from 17.8 percent in May 2011. Interest rates on government securities also fell. However, commercial banks' interest rate on overdraft remained unchanged, averaging 21 percent for the credit worthy clients and 29 percent for the risky borrowers.

14. Total official exports increased by 5.5 percent to US$174.3 million during the first half of 2011, compared to US$166 million for the same period in 2010. The increase in total exports was driven largely by the substantial increase in mineral exports, benefitting from the significant rise in international prices. Mineral exports increased to US$109.6 million during the first half of 2011 compared to US$ 93.4 million for the same period in 2010 and are expected to increase sharply by the end of the year following the commencement of iron ore exports by African Minerals Limited.

15. The total value of merchandise imports increased by 124 percent to US$704 million during the first half of 2011, compared to US$314.3 million for the corresponding period in 2010. The huge increase in imports was largely on account of the surge in import of machinery and transport equipment to support mining activities. Hence, the trade deficit widened to US$530 million in the first half of 2011.

16. Despite this, the exchange rate remained relatively stable during the first half of the year, depreciating by only 3.9 percent, largely supported by increased foreign exchange inflows

- both official and private - and strong macroeconomic fundamentals.

17. Mr. Speaker, our country's stock of external debt stood at US$848.7 million as at end June 2011, indicating an increase of US$67million (8.6 percent) on the end-December 2010 position. Of the total external debt, long term debt constituted 75.3 percent; of which multilateral debt was 62.6 percent; official bilateral debt - 10.3 percent; commercial obligations and short term debt - 24.7 percent. A large proportion of the external debt stock was contracted at highly concessional terms to ensure debt sustainability in the medium to long term.

Budgetary Performance in FY 2011

18. Mr. Speaker, Honourable Members, public finances strengthened during the year, with improved revenue performance and prudent expenditure management. Total revenue and grants amounted to Le1.4 trillion for the first three quarters of the year and is projected to reach Le2.2 trillion by end of the year. Domestic revenue collected for the first three quarters of 2011 amounted to Le1.1 trillion and is estimated to reach Le1.4 trillion or 14.9 percent of GDP by the end of the year, compared to the original target of Le1.2 trillion.

19. Income taxes amounted to Le344.9 billion in the first three quarters of the year, rising to Le419.9 billion or 4.4 percent of GDP by end 2011; total collections from goods and services tax amounted to Le266.7 billion for the first three quarters of the year, and are projected to yield Le335.3 billion or 3.5 percent of GDP for the year as a whole. Customs and Excise collection amounted to Le257.6 billion and is likely to reach Le362 billion or 3.8 percent of GDP at end 2011.

20. Mining royalties and licenses amounted to Le167.8 billion and are projected to reach Le185.5 billion (1.9 percent of GDP). Collections by other Government departments amounted to Le60.7 billion and will amount to Le73.9 billion by the end of the year. Road user charge and vehicle licenses amounted to Le16.6 billion and are likely to reach Le49 billion by end 2011.

21. External grants disbursed for the first three quarters of the year amounted to Le334.6 billion. Of this, budgetary support received so far amounted to Le93.5 billion; support from Global Fund, Le10.4 billion; and Peace Building Fund, Le24.9 billion. Project grants disbursed so far amounted to Le192.8 billion. Total grants are projected to reach Le757.5 billion by the end of the year.

22. Total expenditure and net lending for the first three quarters of 2011 amounted to Le1.8 trillion and is estimated to reach Le2.6 trillion, compared to the budgeted amount of Le2.2 trillion. Of this amount, recurrent expenditures amounted to Le1.2 trillion so far, rising to an estimated Le1.6 trillion by the end of the year, compared to the original budget of Le1.4 trillion. The higher than budgeted recurrent spending was due to overruns in the wage bill, interest on domestic debt and fuel subsidies.

23. Of the recurrent expenditures, the government wage bill amounted to Le474.1 billion by end September 2011 and is projected to rise to Le650.3 billion at the end of the year, compared to Le535.7 billion in 2010. The higher wage bill was on account of the commencement of the new multi-year pay reform for teachers as well as other public servants, including military, police, health sector workers and civil servants.

24. Total interest payments on public debt for the first three quarters of the year amounted to Le172.2 billion, of which domestic interest payments amounted to Le157.5 billion. Interest payments will amount to Le237.2 billion by year end.

25. Non-Salary, non-interest recurrent expenditure amounted to Le526.4 billion as at end September 2011 and is estimated at Le676.1 billion at the end of the year. Transfers to Local Councils amounted to Le61.5 billion as at end September and are estimated to reach Le81.7 billion by year end, compared to Le78.4 billion in 2010.

26. Total Capital expenditure amounted to Le673.8 billion as at end September 2011. Capital expenditure funded by foreign loans and grants amounted to Le424.9 billion while that funded from domestic sources amounted to Le248.9 billion. Total capital expenditures are expected to amount to Le994.9 billion (10.4 percent of GDP) by the close of the year.

Sectoral Spending in 2011

27. Mr. Speaker, Honourable Members, total expenditure performance by key sectors for the whole of 2011, compared to the original approved budgets, is mixed.

28. In **Agriculture**, total expenditure is estimated at Le18.6 billion, compared to Le22.4 billion in the original budget. Of the estimated actual expenditure, food security activities will amount to Le12.2 billion while agricultural extension services will expend Le2.8 billion. Grants for devolved functions in the agriculture sector will amount to Le13.5 billion. In addition, Le1.5 billion would be spent from the domestic development budget on various agriculture projects.

29. An amount of Le140.1 billion will be spent on **road construction**, compared to Le85.7 billion in the original budget. This includes an amount of Le21.4 billion on the construction of the Lumley/Tokeh peninsular road and Le117.2 billion for the rehabilitation of streets in Freetown and district headquarter towns.

30. On **Transport and Aviation,** an estimated Le23 billion would be spent by end 2011, as against Le4.4 in the original budget. Of this amount, Le16.7 billion is for the expansion of the Lungi International Airport Terminal, Le2.1 billion as counterpart contribution to the Investment Climate Facility - Airport Transfer Project, and Le1.6 billion on procurement of Government vehicles.

31. In the **Energy Sector,** an estimated amount of Le30 billion will be spent on energy related projects, compared to Le80.9 in the original budget. This includes Le21 billion for the procurement of transmission and distribution materials including prepaid meters.

32. Total estimated spending on **water services** is Le12.1 billion, compared to Le11.3 billion. An amount of Le8.4 billion will be spent on the rehabilitation of rural water supply systems in Mile 91, Pujehun and other communities.

33. Total non-salary expenditure on the **Education Sector** will amount to Le76.7 billion, compared to Le77.1 billion in the original budget. Of this, Le48.5 billion is for grants to tertiary educational institutions; Le6.5 billion for examination fees to WAEC for the WASCE; Le3.2 billion as Grant-in–aid to boarding schools; Le2.1 billion to support the Girl Child programme; and Le1.0 billion to Technical/Vocational education. In addition, grants for devolved functions in the education sector will amount to Le30.5 billion, of which school fees subsidies, text books and teaching and learning materials for Government and Government Assisted Schools will amount to Le17.3 billion; Le3.9 billion and Le4.5 billion as examination fees to WAEC for NPSE and BECE, respectively.

34. In **the Health Sector**, total annual expenditure is estimated at Le42.6 billion, compared to Le36.6 billion. About Le3.3 billion will be spent on the Free Health Care Programme; Le1.6 billion on the Expanded Programme of Immunization (EPI), Le5.6 billion for the procurement of drugs and medical supplies and Le12.2 billion on rehabilitation of government hospitals. Grants for devolved functions in the health sector will amount to Le32.1 billion, of which support to tertiary health care services, Le16.1 billion; secondary health services, Le8.2 billion and Le7.9 billion for District Peripheral health care services.

35. The **security sector** will spend a combined estimated amount of Le102.2 billion, compared to an original budget of Le107.3 billion. Defence will expend Le54.3 billion, including Le7.5 billion for rice supplied to military personnel; Le31.7 billion by the Police including Le400 million for the rehabilitation and construction of police barracks; Le9.1 billion by the Prisons, including Le1.7 billion for diets and drugs; and Le3.0 billion by the National Fire Authority, including Le849 million for Fire Engines.

36. Fuel subsidies paid to oil marketers so far amounted to Le95.4 billion in 2011. This was aimed at limiting the full pass through of higher international oil prices to domestic pump prices, thereby minimising the hardship on the population.

37. Mr. Speaker, Honourable Members, as outlined above, domestic revenue performance for 2011 as a whole is projected to be higher than original budget estimates, due largely to improved collections of tax and non-tax revenues. The higher tax revenue performance has been driven by increased economic activities, improved tax administration and stricter enforcement of tax legislations, resulting in enhanced compliance. Non-tax revenues have been higher than originally anticipated partly as a result of the payment of signature bonuses from petroleum exploration activities and payroll taxes by mining companies. Programme grants have also been higher than budgeted. By end 2011, domestic revenues will be Le269.1 billion higher than originally projected, while programme grants will be Le143.4 billion higher than budgeted.

38. Thus, the higher revenues provided an opportunity to accommodate unbudgeted but highly compelling expenditures on the strategic priorities of the "Agenda for Change", including in wages and salaries, fuel subsidy, infrastructure (roads and energy), Lungi International Airport Terminal Expansion, additional grants to tertiary educational institutions, NaCSA stalled projects, Statistics Sierra Leone for the Integrated Household Survey, printing of National ID cards and ECOWAS Passports, and new diplomatic postings.

Budget Deficit and Financing

39. Mr. Speaker, the overall budget deficit, excluding grants, is estimated at Le1.1 trillion or 11.8 percent of GDP. Including grants, the overall budget deficit is estimated at Le375.3 billion or 3.9 percent of GDP. The total stock of arrears owed to domestic suppliers was reduced by Le67.1 billion in 2011.

40. The budget deficit for the year will be financed largely by external sources in the form of project and programme loans, amounting to Le334 billion (3.5 percent of GDP). Domestic financing of the deficit will amount to Le116.9 billion (1.2 percent of GDP), of which bank financing will amount to Le73.6 billion and non-bank - Le43.2 billion. Financing through privatisation receipts will amount to Le34.1 billion, essentially proceeds from the privatisation of the Ports Authority Container Terminal.

V. Structural Reforms

41. Mr. Speaker, Honourable Members, Government continues to broaden and deepen structural reforms in general, to improve the efficient functioning of the economy.

Financial Sector Reforms

42. The Bank of Sierra Leone has continued to further the implementation of the Financial Sector Development Plan (FSDP). In support of these reforms, the World Bank provided US$4.0 million to support two components of the FSDP, namely improving access to finance and institutional and legal reform.

43. The Bank has established and operationalised a Credit Reference Bureau in 2011 in an effort to minimize credit risks in the banking system to support private investment activities. In collaboration with development partners, the Bank continues to promote rural financial intermediation. To this end, a number of deposit and non-deposit-taking Micro Finance Institutions (MFIs) have been licensed. As the business model of community banks undergoes reform, the International Fund for Agricultural Development (IFAD) is active in channeling refinancing resources to Small and Medium Scale Enterprises (SMEs) through the Financial Services Associations (FSAs). The number of Financial Services Association has increased to reflect progress in rural credit flows, particularly agricultural credit.

44. Another key component of the financial sector reform agenda is the need to foster stability through strengthened and effective supervision of the banking sector. To this end, the Banking Act 2000 and the Bank of Sierra Leone Act 2000 were reviewed during the year to ensure compliance with international standards and these Bills would soon be laid before this Honourable House for enactment. The Anti-Money Laundering (AML) Act 2005 was also reviewed in 2011, taking into account the Criminalisation of Terrorism Financing (CTF). The revised Bill was approved by Cabinet early in the year and now awaits enactment by Parliament.

45. The implementation of the West African Monetary Zone (WAMZ) Payments Systems Project funded by the African Development Bank is also progressing well. It is expected to 'go live' in 2012. This project is expected to modernize the payments system infrastructure in the WAMZ member countries, thereby facilitating the timely conclusion of financial transactions in the WAMZ.

46. The Sierra Leone Stock Exchange (SLSE) continues to operate with Rokel Commercial Bank being the only listed Company. It is expected that the privatization process will facilitate the listing of additional companies. The Stock Exchange, fully operational, will assist in the mobilisation of medium to long term investment financing. A Securities and Exchange Commission Act will soon be enacted to facilitate regulation and supervision of the Stock Exchange.

47. During 2012, financial sector reform will focus on strengthening the capacity of the Central Bank and the commercial banks, as well as rural credit delivery by microfinance institutions. The Financial Intelligence Unit of the Bank of Sierra Leone will also be made independent and effective.

Public Financial Management

48. Mr. Speaker, Honourable Members**,** Government continues to implement public financial management reforms under the multi-donor funded Integrated Public Financial Management Reform Project (IPFMRP), which aims to consolidate and deepen reforms undertaken in earlier years. In this regard, Government, with support from its development partners, has undertaken an independent assessment of the public financial management systems in central Government and local councils, utilizing the Public Expenditure and Financial Accountability (PEFA) methodology. I am pleased to inform this Honourable House that the results of this assessment revealed improvements in our public financial management systems within central Government. In partnership with our development partners, we have also outlined strategies in tackling the challenges identified in our local councils' public financial management systems.

49. During the year also, the Government embarked on a comprehensive review of the Government Budgeting and Accountability Act (GBAA 2005) and the Public Procurement Act (2004) and their respective supporting regulations, that is, the Financial Management Regulations of 2007 and the Procurement Regulations 2006, in order to continue to strengthen the legal framework governing public financial management. It is envisaged that these reviews will be concluded during 2012 and the revised Bills submitted to this House for enactment.

50. Mr. Speaker, efforts continue to be made to enhance the planning, monitoring and evaluation process for capital projects. To this end, in 2011, Government amended the GBAA (2005) in support of an appropriate framework for public investment. In 2012, Government will rationalise the institutional arrangements for public investment planning and commence the process of developing a three-year Public Investment Plan (PIP) to be integrated within the budget process.

51. In respect of external audit, the audits of the 2010 Annual Public Accounts for both Central Government and Local Councils have been completed and will soon be laid in this noble House. Progress continues to be made in strengthening the internal audit function across Government. Following the deployment of Internal Auditors in Ministries, Departments and Agencies (MDAs), Internal Audit Committees are now being established to follow up on audit recommendations. Government continues to implement Public Expenditure Tracking Surveys (PETS) to ascertain the proportion of disbursed public resources that reach the intended beneficiaries. The 2011 PETS, covering selected 2010 and 2011 poverty-related expenditures, was conducted in October 2011 and the Report, including findings and recommendations, will be submitted to Cabinet in the first half of 2012.

52. Finally, we will continue to strengthen and deepen the implementation of the Integrated Financial Management Information System (IFMIS) and accelerate its rollout to additional MDAs during the ensuing financial year. The number of local councils using the PETRA financial management software has increased to fifteen. The software will be rolled out to the remaining four councils during 2012.

53. The analytical and dissemination capacity of the Non-State Actors (NSAs) on public financial management issues is also being strengthened to improve civil society's scrutiny over the use of public resources. Going forward, I am proud to announce today that Government will be publishing a "Citizen's Budget" for the first time in Sierra Leone. This is in line with H.E. President Koroma's declaration at the 50th independence anniversary address where he made every Sierra Leonean citizen a "Public Monitor". A Citizen's Budget is a simplified summary of the national budget written in a non-technical language in order to reach out to wider segments of our population. Government sees many potential benefits of this initiative – the public as taxpayers have a right to be fully aware of the use of public resources. And, through the Citizen's Budget, the public would be made fully aware of why we invest in some projects and not in others in a given year, and the Government can also better explain some of the constraints it faces and the difficult choices it has to make. Reflecting the transparency and accountability of our budget process, Sierra Leone has also been selected to be included in the international Open Budget Initiative (OBI). Hence, we shall participate in the Open Budget Survey in 2012.

Private Sector Development

54. Mr. Speaker, within the framework of the Agenda for Change, Government has been implementing reforms to improve the business environment to enhance private sector activities, including small and medium-scale enterprises. Following the establishment of the Credit Reference Bureau and other reforms undertaken during 2011, including making cross-border trading faster, implementing the Automated System for Customs Administration (ASYCUDA++) and establishment of fast track commercial courts, Sierra Leone's ranking for improving the business environment has improved significantly. As a result, Sierra Leone has been ranked among the top ten global reformers in the 2012 Doing Business report. Going forward, Government will focus on those areas where additional efforts are needed to further improve our ranking in the Doing Business Survey.

Improving Governance

55. Government continues to make efforts to improve governance and fight corruption. Reflecting these efforts, Sierra Leone has improved its score on the MO Ibrahim Index to 48 out of 100 in 2011, up from 34 in 2006. Hence, Sierra Leone now ranks 30 out of the 53 African nations scored in 2011.

56. Looking ahead, Government will focus on improving transparency and accountability in the management of mineral and petroleum revenues to ensure the full realisation of the benefits of the mining sector for all Sierra Leoneans. To this end, the National Minerals Agency is being established and will be made operational in 2012, aimed at strengthening capacity and improving governance in the mining sector.

57. As part of the drive to become EITI compliant, Government will intensify efforts to increase transparency within the mining sector.

With this in mind, His Excellency the President will soon launch the Government of Sierra Leone Online Repository, which contains details on all tax and non tax mining revenues. This is a bold step forward and will enable citizens to access information about the mining sector. The repository will be located on the website of the Ministry of Mines and Mineral Resources.

Public Sector Reform

58. Mr. Speaker, over the last few years, the Government has delivered on the commitments made in the Agenda for Change and made major strides in improving the quality of services to the nation. To achieve the even more ambitious policy objectives we are setting for ourselves in the next "Agenda for Change", Sierra Leone needs a high performing civil service which is capable, motivated and committed to service delivery. There is an urgent task to re-build our public service to meet our present and future challenges.

59. In February 2011, Cabinet approved a multi-year pay reform strategy with the objectives of (i) making the levels of remuneration more competitive and equitable so as to enable us to attract and retain qualified and motivated personnel, in particular in the technical and middle levels;
(ii) removing inefficiency; (iii) improving productivity and performance; and (iv) rationalizing the public service. Given the low level at which we are today, this will take a few years to implement. We have made a start by providing significant salary increases this year to teachers and other public servants. Last year, with the launch of the Free Health Care Initiative, we increased significantly the remuneration to health workers.

60. For sustainability, the increase in levels of remuneration has to be accompanied by reforms which lead to improvements in productivity, efficiency and accountability, and have to be affordable. This requires a well thought out, sequenced and prioritized approach to reforms. The reforms in the public sector which Government intends to take in 2012 will include job evaluations, improved performance management systems and better recruitment and staffing policies – thereby changing the way in which our public service is structured, remunerated, and held accountable for public service delivery. The public service should also be staffed with properly qualified individuals, recruited competitively and on merit. These and other reforms are critical components of our overall pay reform efforts – only a more efficient and productive public sector can justify the case for pay increases.

61. Mr. Speaker, in 2008, H.E. the President initiated a performance contracting process to improve the performance of his Ministers and to strengthen accountability for results. This year, the Government has started to extend this process to the management tiers of the civil service bureaucracy by cascading a system of performance management contracts in seven pilot ministries, involving several Permanent Secretaries and Directors, and six local councils. In the coming year, Government will further extend this performance management system to all elements of the public service as we strive to deliver our development objectives and to hold ourselves accountable to the Sierra Leonean citizens. We are being supported in this initiative by the Government of Kenya and the UNDP.

62. However, performance management alone is not a panacea: we must also ensure that we have enough skilled managers and professionals to run our MDAs and that we pay them fairly for the work they do and the contribution they make.

63. To achieve this, with the World Bank's support, Government will launch a results based "pay and performance" flagship Programme - **Improving Productivity through Management and Pay Reforms.** This programme will support efforts to fill the "missing middle" in our civil service, reform the arrangements for paying public servants, as well as extend and embed performance management within the civil service. For these efforts to be successful, the various agencies involved in public sector reform will have to better coordinate their activities and work together towards this common objective. A high level coordination and collaboration is particularly required among the office of the Chief of Staff, the Public Sector Reform Unit, the Human Resource Management Office (HRMO), the Public Service Commission (PSC), the various MDAs and Heads of the Civil and Public Services. Government is committed to providing them with adequate resources needed to deliver on this reform agenda. 64. Complementing this effort is the support from the European Union through the recently approved project - "**Support to Civil Service Reform Programme in Sierra Leone**" - which will be supporting training, rightsizing, institutional support to the HRMO, the PSC and other oversight institutions, and the mainstreaming of anti-corruption efforts in Government.

Fiscal Decentralization

65. Mr. Speaker, Government remains committed to deepen the fiscal decentralisation process. This is seen in both the increase in the amount of resources transferred to local councils as well as in improving the timely transfers of these resources. In furtherance of its commitment to this process, the Ministry of Finance and Economic Development developed a second generation grant system which has linked finance and functions through a system of client-based expenditure norms and affordable service delivery standards. The framework for this has been prepared and will come into effect in 2012. 66. Furthermore, to give councils greater autonomy in determining expenditure priorities at the local level, an unconditional block grant system has been introduced for certain sectors. In terms of development projects undertaken by councils, the concept of Rapid Result Initiative will be strengthened in 2012 and beyond to ensure local participation and ownership in the implementation of these projects.

Public Enterprise Reform

67. Mr. Speaker, Honourable Members, the National Commission for Privatization (NCP) has moved from preparatory phase to implementation phase on the reform and divestiture of public enterprises. The key milestone in 2011 is the concessioning and licensing of the Container Terminal and Break Bulk to Freetown Terminal (Bollore Group). This transaction will yeild US$177 million over twenty years.

The Commission will conclude the following divestiture and reform in 2012:

** Sale of Government 51percent shareholding in Rokel Commercial Bank (RCB);*

** Sale of 100 percent Shareholding interest in National Insurance Company (NIC); * Sale of 51percent Shareholding interest in Mining and General Services (MAGS);*

** Extension of the Sierra Leone Ports Authority (SLPA) Berth through private finance initiative will commence; and*

** Concessioning of the Sierra Leone Airport Authority (SLAA) Security System.*

In addition, the NCP is:

** exploring options for the divestiture of minority shareholding interest in the Sierra Leone Commercial Bank.*

** about to conclude the management contract for Sierratel with a view to improve the financial and operational efficiency and make it more competitive.*

** also working on the modalities for the resuscitation of National Development Bank.*

VI. Medium Term Macroeconomic Objectives and Outlook for 2012 -2014

68. Mr. Speaker, Honourable Members, the primary objective of Government's economic policy in the medium-term is to sustain high economic growth and reduce poverty, while maintaining macroeconomic stability. Thus, the medium term macroeconomic framework sets out a policy mix, aimed at achieving sustainable economic growth, job creation and the expansion of economic and social opportunities to a broader spectrum of the population, consistent with the priorities set out in the "Agenda for Change". The key priorities are to increase fiscal space for developing basic infrastructure and improving social services, while supporting the effective participation of the private sector in the economy.

69. The commencement of iron ore production is expected to boost economic activity in 2012 and beyond. The full implementation of the two new iron ore mining projects (African Minerals Limited and London Mining Limited) will substantially expand domestic output, exports and tax revenues in the coming years.

70. Real GDP is projected to expand by at least 50 percent in 2012, putting Sierra Leone among the fastest growing economies in the world. The economy is projected to grow further by 10 percent in 2013 and 2014. Exports are projected to increase by fourfold in 2012 and will continue to grow in 2013 and 2014. Even without iron ore production, the economy is projected to grow by 6 percent on average per annum in real terms during 2012-2014. Consistent with this high growth performance, Sierra Leone has been identified by the International Monetary Fund (IMF) as one of the countries that will contribute to Sub-Saharan Africa's strong growth performance in 2012, largely on account of developments taking place in the mining sector. This two-speed economy however poses serious management challenges. In this regard, Sierra Leone can learn from the experiences of other Sub-Saharan African countries, and in doing so, create a dynamic, long-term vision, whereby, the Dutch Disease, the resource curse and excessive environmental degradation are avoided.

71. The current account deficit, will decline to 11.2 percent in 2012 and further down to 10.8 percent in 2013 on account of the sharp increase in exports. Gross foreign reserves will average at least 5 months of imports cover.

72. The exchange rate is expected to stabilize in the medium term as export earnings increase. The stability in the exchange rate, combined with the proactive monetary stance as well as increase in domestic food production, will lower inflationary pressures in the medium term. Inflation is projected to fall to 11.0 percent in 2012 and return to single digits in 2013 and 2014.

73. Mr. Speaker, Honourable Members, the primary objective of monetary policy continues to focus on achieving and maintaining price stability consistent with high and sustained economic growth.

74. In 2012, monetary policy of the Bank will remain focused on bringing inflation to a much lower level. Monetary operations will therefore be centered on the use of market-based instruments, mainly Open Market Operations through the buying and selling of government securities and use of repo and reverse repo transactions. The Bank envisages that the improved monetary and financial management in 2012 would translate into further decline in interest rates in the domestic money market.

75. Government will continue to maintain a flexible exchange rate regime to allow the economy to adjust to external shocks. In 2012, the Bank's foreign exchange market interventions will be guided by the need to absorb foreign-financed budget spending, while reducing short-term volatility in the exchange rate.

76. Mr. Speaker, Honourable Members, while global sovereign debt dynamics is posing serious difficulties for policymakers, Government is taking decisive steps to ensure that public debt management in Sierra Leone is conducted in an improved and transparent manner. A clear manifestation of Government's commitment to this effort is the passing of the Public Debt Management Act in February this year. The Act has placed Sierra Leone as a forerunner in formulating sound legal framework for effective, transparent and accountable debt management among low-income countries.

77. Mr. Speaker, to ensure Sierra Leone does not slip into an unsustainable debt path as characterized in the pre-HIPC debt relief era, Government has been conducting annual debt sustainability analysis to determine a mix of borrowing requirements and the strategies required to access funds at low costs and low risk of default. I am pleased to inform this House that the debt sustainability analysis conducted in July this year revealed that Sierra Leone's external debt situation is sustainable in both the medium and long term. However, in view of the vulnerability of export revenue to external shocks, our external debt situation is faced with a moderate risk of debt distress.

78. On this basis, Government will continue to borrow at highly concessional terms to fund the much desired and productive infrastructure projects. That said, the financing mix of infrastructure projects will draw from both traditional and non-traditional resources.

79. Mr. Speaker, Honourable Members, as Government addresses the issue of external debt, we are also committed to ensure that our domestic debt remains within sustainable levels. Due to the short tenure of the current domestic debt profile, our assessment reveals that our domestic debt has moderate level of both rollover and interest rate risks. Government is taking proactive steps to effectively manage domestic debt portfolio by developing a strategy to restructure the existing portfolio from short to medium and long-term instruments to finance specific development projects.

80. Mr Speaker, given the substantial economic growth prospects for Sierra Leone, 2012 provides an excellent opportunity to secure international credit ratings well in advance of any external sovereign funding requirements. Sovereign ratings minimise investor uncertainty about economic and political prospects of a country and are crucial for a country which seeks to promote direct foreign investment for development purposes and issue sovereign debt in the international capital markets in the future.

VII. The 2012 Budget

81. Mr. Speaker, Honourable Members, the theme of the 2012 Budget is **"Celebrating Five Years of Transformative Change"**. Hence, the 2012 budget is underpinned by the need to sustain spending on infrastructure development and the provision of basic services to make progress towards the attainment of the MDGs. Efforts will therefore continue to improve domestic revenue collection while mobilising concessional external support from traditional and non-traditional partners to finance Government's development agenda. In 2012, domestic revenue collection will be supported by new activities in the mining sector and continued efforts to strengthen tax administration as well as the review of various fees and licenses collected by Ministries, Departments and Agencies.

82. Mr. Speaker, Honourable Members, the proposed 2012 Budget is based on a sound macro-economic policy framework that supports growth, private sector development, democratic governance, and human development. It, therefore, has the following key objectives and focus:

(i) continue the implementation of ongoing infrastructure and social sector projects - roads, energy and water supply, schools, hospitals and health centres, in order to spur sustainable economic growth;

(ii) continue to provide basic services in health, education, water and sanitation in order to accelerate progress toward the attainment of the Millennium Development Goals (MDGs); and

(iii) improve the capacity and productivity of the public service by undertaking deep public sector reforms including pay reform, and the development of a robust performance management system to ensure effective and efficient delivery of public services.

Domestic Revenue Projections

83. Total domestic revenue is projected at Le1.6 trillion (13.8 percent of GDP) in 2012, compared to Le1.4 trillion in 2011. Of this, income taxes comprising personal and corporate taxes, will contribute Le451.6 billion (3.9 of GDP) in line with the growth of the economy. The Goods and Services Tax (GST) is projected to yield Le407.5 billion (3.5 percent of GDP) as domestic consumption of goods and services increases and compliance strengthens. Customs and excise duties are projected to amount to Le381.9 billion (3.3 percent of GDP). While import duties are projected to increase in 2012 relative to 2011 due to the anticipated increase in import volume and value, excise duties on petroleum products are projected to fall from Le64.7 billion in 2011 to Le18.3 billion due to the reduction in excise tax on fuel products in May 2011 to keep domestic fuel prices at affordable levels.

84. Mining revenues in the form of royalties and licenses are expected to increase substantially to Le242.3 billion, compared to the estimated collections of Le185.5 billion in 2011 on account of the projected increase in iron ore exports in 2012. Royalty on iron ore is projected at Le178.8 billion in 2012. However, mining licenses are projected to drop to Le47.2 billion in 2012 from Le175.1 billion in 2011, as the signature bonuses from petroleum activities taper off in 2012.

85. Royalty and licenses on fisheries will amount to Le13.8 billion in 2012. Collections of fees, licenses, fines, etc by other MDAs will contribute Le60.1 billion. Dividends from parastatals mainly Rokel and the Sierra Leone Commercial banks will amount to Le5.3 billion. Other Government Departments will collect Le60.1 billion. Road User Charges are projected at Le44.3 billion, lower than in previous years, due to the reduction in the road user fee in order to maintain fuel prices at their May 2011 levels.

86. External grants are projected to decline to Le696.9 billion (6 percent of GDP) in 2012, compared to Le757.4 billion (7.9 percent) of GDP in 2011 due to lower HIPC debt relief and external budget support. External budget support is projected to decline from Le249.9 (2.6 percent of GDP) in 2011 to Le193.0 billion in 2012. However, support from the Multi-Donor Election Basket Fund will increase to Le113.8 billion in support of the 2012 general elections. Project grants are projected at Le348.3 billion (3.0 percent of GDP).

Revenue and Tax Policies

87. Mr. Speaker, Honourable Members, I will now turn to the policy measures for achieving the revenue targets.

Improving Tax Collection and Compliance

88. Mr. Speaker, the National Revenue Authority implemented a number of reforms in 2011 under its modernization plan, which have contributed to the improved revenue performance this year. These include, the roll-out of the ASYCUDA++ in customs operations, the establishment of a Domestic Tax Department, and a small and micro tax payer regime.

89. In consultation with the IMF, Government will be considering a number of other revenue enhancing measures and policies for implementation in 2012. These measures which include amendments to the Income Tax Act 2000, will be reflected in the 2012 Finance Bill to be laid before this House:

(i) The introduction of an additional schedule to the Income Tax Act – 'the 11th Schedule' - to address all tax and non-tax issues for the Oil and Gas Sector including all on-shore and off-shore exploration, development and production activities in this sector.

(ii) A simplified tax regime for Small and Medium Enterprises (SMEs) so as to bring on board the 'hard to tax informal sector' in the tax net, providing the taxpayer the option to be taxed on turnover basis as opposed to the outdated presumptive tax regime.

(iii) Improved provisions governing the taxation of multi-national companies with respect to various financing options including finance leases, thin capitalization, and the creation of permanent establishments. This will ensure that source income from Sierra Leone is taxed accordingly irrespective of where ownership and control lie.

(iv) The Payroll Tax Act of 1972 will be amended to require individual tax clearance certificates for expatriate staff prior to the issuance of

Work and Residential Permits by the Ministry of Labour, Social Security and Industrial Relations.

(v) The GST Act will be amended to require all GST registered traders to use the 'Electronic Cash Register' (ETR) in order to improve domestic compliance.

(vi) Enhance tax payer compliance through the passing into law the unique identifier for each tax payer- The Tax Payer Identification Number (TIN) Bill in 2012. This number is mandatory and will track all transactions undertaken by a tax payer with the National Revenue Authority so as to enhance accurate assessment and payment of taxes on a timely basis.

Other revenue enhancing measures include:

(a) the full operation of an automated Domestic Tax Department, merging the traditional Income Tax, Goods and Services Tax and Local Excise Unit of the Customs and Excise Department into a single operational unit.

(b) the granting of additional powers to the National Revenue Authority to conduct forensic investigation so as to detect fraud and other tax evasive activities and practices.

Fiscal Regime for Extractive Industries

90. Mr. Speaker, the opportunities provided by developments in the minerals sector must be exploited prudently in order to assist with the national ambitions in infrastructure development and poverty reduction. In this regard, Government will consider in 2012 the findings and recommendations in the IMF Fiscal Affairs Department recent report on Implementing Fiscal Reforms for Extractive Industries. Recommendations as approved by Cabinet will be incorporated in the 2012 Finance Bill.

Review of Non-Tax Revenues collected by MDAs

91. Mr. Speaker, Honourable Members, our non-tax revenue laws have become obsolete and the rates applied for various licenses, charges and fees are so low that the cost of collection far exceeds the actual revenue collected. I will therefore, be proposing in the 2012 Finance Bill upward revisions of non-tax rates, including those levied by the Ministry of Works, Housing and Infrastructure, Magistrate and High Courts, Registrar and Administrator General's Department and Pharmacy Board. These new rates will, upon approval by Cabinet, also be incorporated in the Finance Bill 2012.

Expenditure Proposals

92. Mr. Speaker, Honourable Members, public expenditure in 2012 will be underpinned by the following Government priorities:

(i) Continue implementation of the Comprehensive Pay Reform - Pay reform is an important ingredient of the ongoing public sector reform programme. In this respect, Government has prepared a comprehensive, structured, multi-year pay reform, the implementation of which started in September 2011.

(ii) Provide adequate resources for the Presidential, Parliamentary and Local Council elections - The conduct of credible elections is seen as paramount for the stability and progress of our country. In this regard, Government is committed to ensuring that adequate resources are provided to ensure the smooth running of the general elections in 2012.

(iii) Support completion of ongoing infrastructure projects - The poor state of our infrastructure was identified in the "Agenda for Change" as a binding constraint on economic growth and socio-economic development. Since 2009, a number of infrastructure projects were started; hence the focus in 2012 will be the completion of these ongoing projects.

(iv) Social Safety Nets - Government remains concerned about the social and economic consequences of rising food and fuel prices in the country. Additional support is, therefore, being sought from development partners for the provision of safety nets for the poor and vulnerable, especially as a way of responding to exogenous shocks. As a first step, Government, with support from the World Bank, is currently reviewing the efficiency and effectiveness of existing social safety net programmes with a view to strengthening and consolidating them. This review will help to formulate options for improved safety net systems and their financing. The implementation of new programmes is expected to start in 2012. Initially, these programmes will be fully financed by additional project support from development partners. In the mean time, Government will continue to implement the Free Healthcare Initiative to ensure greater access to basic health services by a greater proportion of the vulnerable population in all corners of the country.

(v) Establishment of a Contingency Fund: A Contingency Fund will be established to take care of unplanned/unbudgeted expenditures. For 2012, the budgetary provision in Contingency Fund is to handle security-related expenditures for the Presidential, Parliamentary and Local Councils elections.

93. On the basis of the forgoing, total expenditure and net lending for FY 2012 is projected at Le2.8 trillion (24.0 percent of GDP), compared to Le2.6 trillion (26.7 percent of GDP) for FY 2011. Of this total, recurrent expenditures are budgeted at Le1.8 trillion (15.6 percent of GDP) and capital expenditures, Le1.0 trillion (8.6 percent of GDP).

Wages and Salaries

94. Mr. Speaker, the Government wage bill is budgeted to increase from Le650.3 billion in 2011 to Le798.3 billion in 2012. The increase in the wage bill of Le148 billion will cover a yet to be determined increase in salary for public servants with effect from July 2012 and the recruitment of 1000 police and 300 military officers.

95. To keep real incomes of pensioners in the Government payroll from continued decline, recommendations will be made to Cabinet for the enhancement of annual pensions through indexation and/or other modalities.

96. Furthermore, the computation of gratuities on retirement and death, which hitherto was based on the last basic salary earned by the retiree/deceased, would now be based on the new composite salary.

Interest Payments

97. Interest payments on public debt are projected to amount to Le 259.9 billion (2.2 percent of GDP). Interest payments on domestic debt will amount to Le 234.5 billion (2.0 percent of GDP, reflecting the higher domestic interest rates.

Non-Salary, Non-interest Recurrent Expenditures

98. A total of Le751.4 billion is allocated to cover non-salary, non-interest recurrent expenditures in 2012, compared to Le676.0 billion in 2011. Of this amount, Goods and Services expenditure is budgeted at Le360.8 billion and transfers to local councils, Le82.2 billion.

Capital Expenditures

99. Capital expenditures are budgeted at 1.0 trillion (8.6 percent of GDP). Of this, foreign financed capital spending will decline from Le758.6 billion (7.9 percent of GDP) in 2011 to Le683 billion (5.9 percent of GDP) in 2012. However, this figure may likely be revised upwards as new commitments with development partners are made.

100. Domestic funded capital expenditure is increased from Le236.2 billion (2.5 percent of GDP) to Le318.1 billion (2.7 percent of GDP) to fund the completion of ongoing projects in roads, water and energy to accelerate growth, create jobs and reduce poverty. The sectoral distribution of foreign and domestic capital expenditures together with recurrent expenditures is detailed below.

Recurrent and Capital Expenditure Allocations by Sector

101. Mr. Speaker, the sectoral distribution of non-salary, non-interest recurrent, domestic and foreign capital expenditures, consistent with the strategic priorities of the "Agenda for Change", is as follows:

Agriculture

102. The agriculture sector is allocated Le130.4 billion. An amount of Le21 billion is allocated from the recurrent budget to support agricultural services including Le13.2 billion for food security activities.

103. Transfers to Local councils for agriculture services will amount to Le12.9 billion. An additional Le3.2 billion is provided from the domestic capital budget as counterpart funds towards various agricultural projects including the rehabilitation of selected agricultural stations.

104. Our development partners are expected to disburse Le100.4 billion in support of various agricultural projects, including the Smallholder Commercialisation Project, the Rural Private Sector Development Project, and the Agriculture Sector Rehabilitation Project.

Energy and Water

105. The Energy and Water sector will receive Le206.3 billion, accounting for 12.6 percent of the total budget. An amount of Le7.8 billion is from the recurrent budget, of which Le4.3 billion is for the water sector.

106. An amount of Le75.7 billion is allocated from the domestic capital budget to support energy and water projects. Of this total, Le7.9 billion is provided for the completion of water projects including the construction of wells and gravity fed systems from Calaba Town to Masiaka; rehabilitation of water supply systems in Mile 91, Pujehun and other selected towns; and the installation of pipes and fittings for various road projects. The balance of Le67.8 billion is allocated to the energy sector to support the electrification of district and provincial headquarter towns including the procurement of thermal plants and transmission and distribution materials as well as to meet counterpart funding requirements for solar street lighting in Freetown and thirteen municipalities.

107. External funding for Energy and Water projects will amount to Le122.9 billion in 2012. Of this amount, donors will disburse Le50.5 billion for water projects and Le72.4 billion for energy projects.

Roads and Aviation

108. The road sector is allocated a total Le395.4 billion, representing 24.1 percent of the total budget. Transfers to the Road Maintenance Fund for the regular maintenance of roads and streets will amount to Le44.3 billion.

109. An amount of Le157.9 billion is allocated from the domestic capital budget, of which Le72.2 billion is counterpart contribution and start-up funding towards the construction and rehabilitation of Highways including the Kenema–Pendembu Road, Lumley-Tokeh Road, Lungi-Port Loko Road, Matotoka-Sefadu Road and the Makeni-Kamakwe Road; Le1.0 billion for the rehabilitation of feeder roads in Koinadugu, Bonthe, Kono and Kailahun; Le84.7 billion for the rehabilitation of streets in Freetown and the District headquarter towns. In addition, Government is allocating Le6.3 billion towards the ongoing rehabilitation of the Lungi International Airport Terminal.

110. Our development partners have committed Le193.1 billion, of which, Le106.5 billion is for the construction of highways and Le59.5 billion for feeder roads.

Education

111. A total of Le138.9 billion is allocated to the education sector. An amount of Le84.4 billion is allocated for education services from the recurrent budget, of which, Le14.2 billion is for secondary education.

112. Grants to tertiary educational institutions will amount to Le52 billion. Government will also provide additional resources to the University of Sierra Leone and Njala University in lieu of an increase in tuition fees. The additional resources required to fill the gap between the current and proposed tuition fees is estimated at Le25.4 billion. Transfers to local councils for education services will amount to Le32.4 billion.

113. Government's counterpart contribution to donor funded projects in the education sector including Capacity building for technical and vocational education and the rehabilitation of Njala University and the Youth Employment Support project will amount to Le940 million.

114. Disbursements from our development partners in support of projects in the education sector are projected at Le21.1 billion.

Health

115. The Health sector is allocated a total of Le110.7 billion, of which, Le30.2 billion is from the recurrent budget. Of this, Le10.9 billion is for Reproductive and Child Health Care and Le3.4 billion for the procurement of drugs and medical supplies. Transfers to local councils for health services will amount to Le30.5 billion.

116. Government's counterpart contribution towards health sector projects including strengthening District Health Services and the rehabilitation of Government hospitals will amount to Le2.5 billion.

117. Our development partners will disburse about Le47.5 billion in support of projects in the health sector.

118. Mr. Speaker, consistent with our commitments, the total budgetary allocations to the strategic priorities of the Agenda for Change account for 60 percent of the total 2012 budget. I will now describe the rest of the allocations to the other sectors.

Security Services

119. The security sector is allocated the sum of Le110.9 billion from the recurrent budget. Of this, Le57 billion is for Defence including Le15.2 billion for rice supplies to the military; Le34.2 billion to the Police; Le9.8 billion to the Prisons Department; Le4.1 billion for the National Fire Force; Le2.4 billion for the Office of National Security and Le1.8 billion for the Immigration Department. An amount of Le7.6 billion is allocated from the domestic capital budget for the rehabilitation of various facilities for the military (Le4.8 billion); police (Le1.0 billion) and prisons (Le1.0 billion).

Elections

120. Mr. Speaker, Honourable Members, Sierra Leone is having its third post-war elections in 2012. The Election Programme is concentrating on three key strategic areas of electoral support: capacity building of electoral management bodies; public confidence and trust in the electoral process; and electoral disputes and electoral security. The planned expenditures for 2012 from development partners total US$11.3 million, excluding project management cost and technical advice. Government is providing a maximum of US$18 million (equivalent to Le80.4 billion) to NEC in 2012. In addition, the Government has made allocations to the Political Parties Registration Ccommission (PPRC), and for elections security and contingencies, with total funding for elections related activities in 2012 standing at US$24 million (equivalent to Le107.2 billion).

Good Governance

121. An amount of Le1.3 billion is allocated to the Anti-Corruption Commission, Le1.5 billion to Political Parties Registration Commission; Le3.0 billion to the Audit Service; Le1.3 billion to the National Commission for Democracy, Le4.6 billion for Statistics Sierra Leone, and Le11.4 billion to Parliament including Le6.1 billion for constituency facilitation allowance.

Other Ministries, Departments and Agencies (MDAs)

122. From the non-salary recurrent budget, an amount of Le16.4 billion is allocated to the Ministry of Foreign Affairs and International Cooperation; Le863.5 million to the Ministry of Fisheries and Marine Resources; Le3.9 billion to the Ministry of Youth Employment and Sports; Le5.4 billion to the Ministry of Social Welfare, Gender and Children's Affairs; Le2.6 billion to the Ministry of Lands, Country Planning and the Environment; Le2.1 billion to the Ministry of Labour and Social Security; Le4.3 billion to the Ministry of Mines and Mineral Resources; Le4.1 billion to the Ministry of Transport and Aviation; Le6.4 billion to the Ministry of Trade and

Industry; Le3.1 billion to the Ministry Local Government and Rural Development; Le905.3 million to the Ministry of Political and Public Affairs; Le2.8 billion to the Ministry of Information and Communication; Le2.4 billion to the Office of the Chief of Staff and Le557.2 million to the Ministry of Tourism and Cultural Affairs. Full details of these and all other MDA allocations are annexed to this Statement. Meanwhile, it is expected that some of these ministries, in particular, revenue generating MDAs will be accorded priority in allocating any additional domestic and donor resources to be acquired during the course of the year.

Arrears of Subscriptions to International Organisations

123. Mr. Speaker, the estimated outstanding obligations of subscriptions to international organisations which span as far back as the 1990s are about US$30.96 million. To normalize our relations and enhance our participation in regional and international bodies, my Ministry will work with MDAs to negotiate treatment of the arrears to seek full or partial cancellation through short, medium and long term arrangements.

124. In this regard and to comprehensively programme payments to international organisations within the Medium Term Expenditure Framework and consistent with the foreign exchange cash flow of the Bank of Sierra Leone, all budgetary provisions and payments of subscriptions to regional and international organizations will be consolidated and centralized at the Ministry of Finance and Economic Development, effective January 2012. Detailed quarterly estimates will be prepared for each institution and the payments will be processed using the same procedures adopted in making debt service obligations to external creditors.

Overall Budget Deficit and Financing

125. Mr. Speaker, the overall budget deficit, excluding grants, is envisaged to decline from 11.8 percent in 2011 to 10.4 percent in 2012. The deficit will be largely financed from external sources projected at Le348.4 billion (3.0 percent of GDP).

126. Domestic financing from banks and the nonbanking financial sector is limited at Le166.4 billion (1.4 percent of GDP). Direct credit to the Government by the Bank of Sierra Leone (BSL) is now limited to 5 percent of previous year's domestic revenue, as required by Law. Thus, the main source of domestic financing is from commercial banks, other financial institutions, and the non-bank public.

127. Government borrowing from the commercial banks to finance the deficit is projected at Le66.6 billion (0.6 of GDP). Borrowing from the non-bank public is projected at Le33.3 billion (0.3 % of GDP). Plans are underway for the introduction of medium-term bonds for infrastructure development.

128. Proceeds from the privatization of the Rokel Commercial Bank, the National Insurance Company and the Sierra Leone Ports Authority, projected at Le34.8 billion, will also be used to finance the deficit.

VIII. Risks to the 2012 Budget

(i) Global food and fuel price increases

129. Mr. Speaker, Honourable Members, any sharp increase in international prices of food and fuel in 2012 will place considerable pressure on the budget, through increased spending on the provision of diets for hospitals, prisons and schools. There will also be a need to protect vulnerable groups through direct budget subsidies and other safety nets. In 2011, a 40 percent average increase in food prices and a 30 percent increase in fuel prices resulted in an additional Le110 billion of spending. At the same time, the reduction in excise taxes on fuel and in Road User Charges is estimated to have caused a revenue loss of approximately Le200 billion in 2011. If this situation were to persists in 2012, compensating revenue measures would be required to offset the impact on the budget to allow its full implementation

(ii) Implementation of the Comprehensive Pay reform

130. The Multi-Year Pay Reform Strategy (2011-15) outlines a comprehensive approach to reforming the public sector in line with improving service delivery. The pay reform also involves implementation of key cost saving measures including regrading, rightsizing, targeted employment, payroll cleaning, etc. Failure to implement these reforms will lead to significant shortfall in both internal and external resources to support continued pay adjustment.

(iii) Unpredictability of External Budget Support

131. Budgetary support, in the form of grants and loans, continues to be an important source of financing for the Government. However, disbursements continue to be somewhat untimely and unpredictable.

(iv) Slow rate of execution of donor funded projects.

132. Mr. Speaker, although there have been improvements in the overall capacity to absorb aid, a number of projects have continued to experience substantial delays or cancellation of disbursements due to weak administrative and project management capacity, institutional constraints as well as externally generated constraints.

133. All of these risks have the tendency to increase project costs, and overburden the Government with unplanned expenditures.

IX. Conclusion

134. Mr. Speaker, Honourable Members, 2011 performance outcomes and the 2012 budget and its medium term perspective reflect the directions provided by His Excellency the President in his "Agenda for Change".

135. Our generation has faced daunting challenges and defining moments. Fortunately, the "Agenda for Change" provided a new direction for our future, building on the past and making good on promises. We are delivering on our commitments: enhancing agricultural productivity; improving road network; increasing access to electricity; providing good health and quality education; improving business environment; and building a productive and sustainable economy, while creating jobs, restoring and consolidating the peace and stability. It is to that vision that this Budget is formulated and to that cause our Government has demonstrated its commitments.

136. Mr. Speaker, Honourable Members, I will like to end this Statement by expressing my profound gratitude and appreciation to all those who have supported budget execution in 2011, including our development partners and budget oversight institutions. My thanks also go to all those who in diverse ways have contributed in the preparation of the 2012 Budget, from the many organisations and groups who participated in the policy hearings to Sierra Leoneans from every corner of the country who aired their views and opinions in the print and electronic media. Their contributions, their views and concerns in no small way shaped the Budget I am tabling today.

137. I would also like to thank my colleagues in Cabinet and Members of this House who provided advice and insights. In particular, I want to acknowledge the contribution of the Chairman and Members of the Parliamentary Finance Committee. Above all, I want to thank my Deputies and staff of the Ministry of Finance and Economic Development, the Governor, Management and Staff of the Bank of Sierra Leone, the Acting Commissioner General, Management and Staff of the National Revenue Authority, and heads of other MDAs for their invaluable work in finalising these estimates. The Government Printer is applauded for rising to the occasion in preparing the printed statement and estimates on time.

138. Mr. Speaker, Honourable Members of Parliament, I commend the 2012 Appropriation Bill to this House.

139. I thank you all for your time and may God bless Sierra Leone.