

Economic and Budget Brief

Introduction

The Parliamentary Budget Office (PBO) was established in 2017, pursuant to Section 13(1) of the Parliamentary Service Act of 2007, with the aim of maintaining a high quality research, and studies to provide information on economic and financial interests, advise the Legislature on budget matters, and support the legislative process through the costing of proposals initiated by the Executive arm of Government. The above is achieved through the deployment of many processes and procedures such as preparing analysis and briefs relating to the economy and public finances, analysing government budget policies and intentions, and assist in strengthening the work of Parliamentary committees responsible for budget oversight.

This Quarterly Economic and Budget Brief published by the PBO is intended to update Members of Parliament (MPs) on recent macroeconomic, fiscal and budgetary developments. It utilises published and official data and reports provided by the Ministry of Finance, the Bank of Sierra Leone, Statistics Sierra Leone and where applicable, other institutions. The focus of the analysis is for the period January to June 2021.

Contents

Macroeconomic Developments.....	2
Gross Domestic Product – Sierra Leone Outlook.....	2
Outlook and risks	3
Inflation.....	4
Monetary Policy and Interest Rate	7
Exchange Rate.....	7
Revenue and Expenditure.....	9
Revenue Head Performance	9
Expenditure Performance	10
Private Sector and Doing Business.....	10

Macroeconomic Developments

Gross Domestic Product – Sierra Leone Outlook

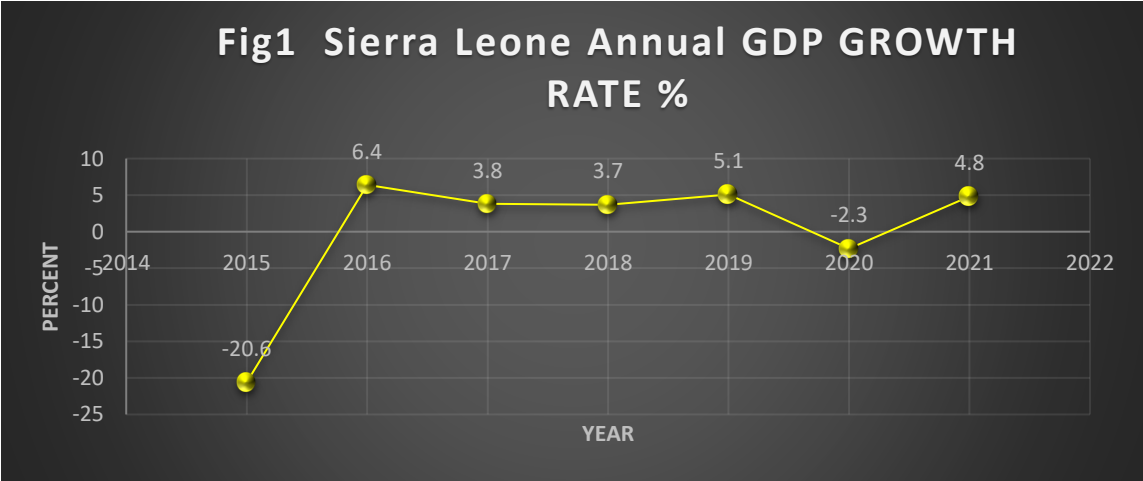
In recent years, macroeconomic conditions stabilized, and the economy had begun to cement its recovery. Since coming to office in early 2018, the Government implemented key reforms and launched a new National Development Plan with a strong emphasis on investing in education, infrastructure and improving governance. Growth stabilized at 3.5 percent in 2018 before picking up to an estimated 5.1 percent in 2019, on the back of a broad-based recovery of economic activity. At the same time, inflation moderated to under 14 percent by end-2019 and hit single digits for the first time in over years in March of 2021 (8.95 percent).

A focus on fiscal sustainability and prudent budget execution saw the overall budget deficit decline from 11.3 percent of non-iron ore GDP in 2017 to 7.7 percent in 2018 and an estimated 6.3 percent in 2019. This helped to stabilize domestic borrowing needs. The current account deficit also narrowed substantially, although pressure on the exchange rate persists.

While the Sierra Leonean economy has great potential, the immediate outlook is overshadowed by the rapidly unfolding global COVID-19 pandemic. Based on programmed policies, growth was projected to average around 4½ percent over the medium term. However, **Sierra Leone GDP growth rate increased from its 2021 projection of 3.6 percent to 4.8 percent as a result of the resumptions of mining activities which has significantly improved net export to 2.4 percent as the real contribution to GDP growth (see fig.1)**

With the fragile Sierra Leonean economy still recovering from the Ebola health crisis and past lax macroeconomic policies, the COVID-19 shock will add to the country’s vast development challenges. Avoiding long-lasting scarring and continuing the economy’s promising development trajectory will require significant support from development partners. The magnitude of the impact will depend heavily on the extent of vital prevention and containment measures—nationally, regionally and globally—and the associated economic spillovers.

(PBO Analysis 2021, IMF Executive Board Report 2020)



(PBO Data Analysis 2021)

Outlook and risks

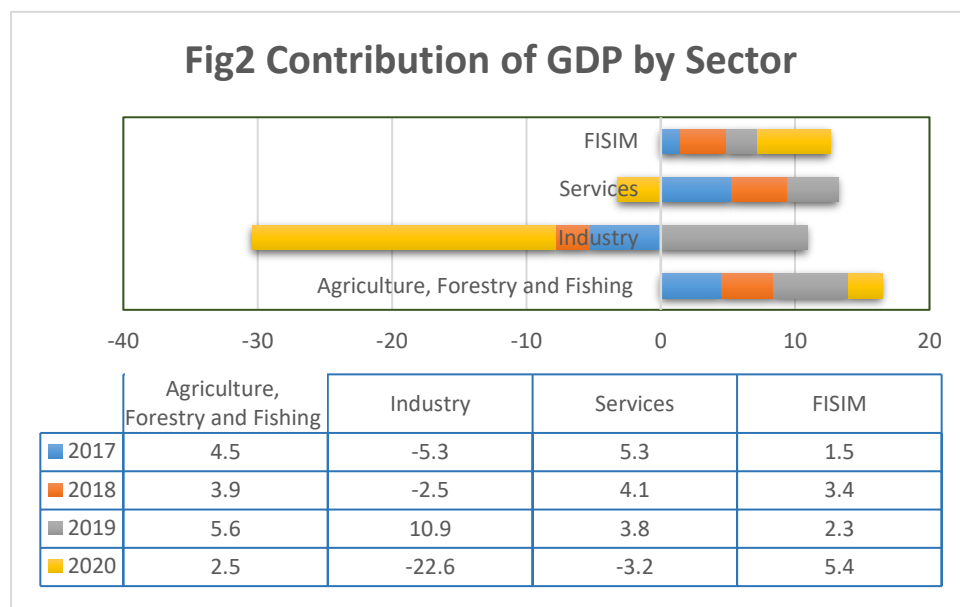
Upside risks to the outlook are predicated on the assumption that the economy would fully reopen, the ongoing policy and structural reforms supported by the NDP be implemented, the economic stimulus program continue, and external financial assistance in grants, concessional loans, debt service suspension, and restructuring be secured. In that scenario, growth is projected to accelerate to 3.1% in 2021 and in actual perspective growth in 2021 is at 4.8 % because of the resumption of mining activities and 4.3% in 2022. Inflation is projected to ease to 13.6% by the end of 2021 and to 11.3% in 2022; the fiscal deficit will narrow to 4.1% of GDP in 2021 and 3.6% in 2022; and the current account deficit will be reduced to 14.4% of GDP in 2021 and 13.5% in 2022. Downside risks to the outlook emanate from delays in the full reopening of the economy, a potential slowdown in global demand, and weak international assistance to supplement growth recovery efforts.

TABLE1. SIERRA LEONE'S GDP GROWTH RATE DATA OVERTIME

YEAR	GDP GROWTH (%)	ANNUAL CHANGE (%)
2021	4.8	7.1
2020	-2.3	-7.4
2019	5.1	1.3
2018	3.8	0.1
2017	3.7	-2.7
2016	6.4	27
2015	-20.6	27

Note: ■ Represent unstable economic performance
■ Represents strong economic performance
■ Represent weak economic performance
 Represents stability

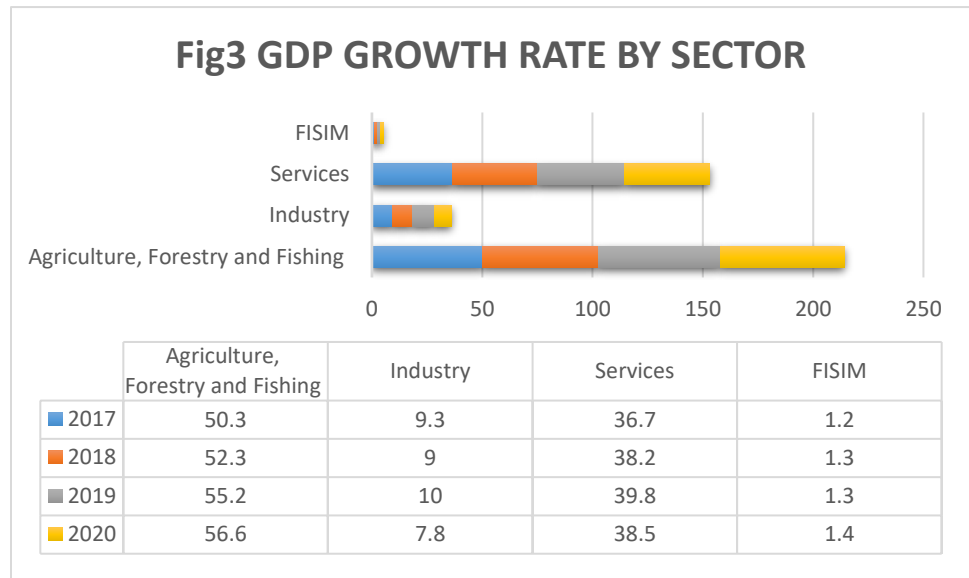
(PBO data calculation 202)



(PBO data analysis 2021)

The contribution of GDP in the Agriculture, Forestry and Fishing continue to slow down from 2017 (4.5 percent) to 2020 (2.5 percent). Industry and services sector were worst hit at the peak of the coronavirus epidemic

Fig2 contribution to GDP of -22.6 and -3.2 percent respectively whilst contribution from FISIM has been steady throughout the period of 2017 to 2020.

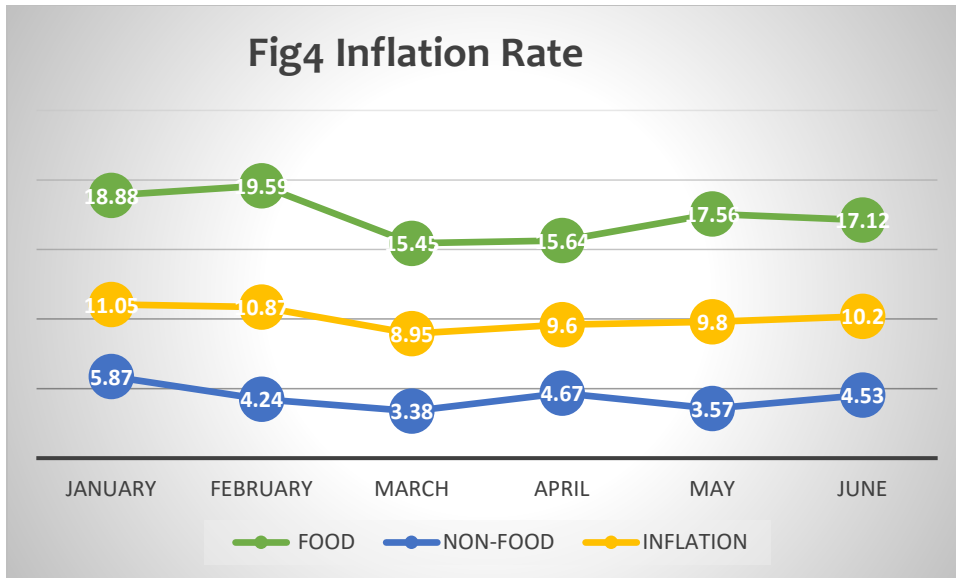


In 2020 the Agricultural and services sectors had the most growth by sector GDP. The growth rate was 56.6 and 38.5 whilst mining and manufacturing sector continue to struggle because of the slump in iron ore price at the world market and the

closure of mining activities and other external industrial shocks in the economy, the growth rate lower from 10 percent in 2019 to 7.8 percent in 2020. Relatively there has been consistency in the FISIM sector growth rate shows +0.1 percent from 2019 to 2020.

Inflation

Inflation in the first half of 2021 has reached a significant milestone in March 2021 when it hit single digit for the first time in many years Inflation was **8.95** percent vs **15.56** percent in March in 2020. January Inflation rose by 0.6 percent from 10.45 percent in December to 11.05. Whilst food and non-food inflation was 18.88 and 5.87 percent respectively which indicate an increase/decrease for that particular month. In June inflation goes back to double digits from 9.8 percent in May to 10.2 percent which shows an increment of 0.4 percent. On the other hand food inflation spiked to 17.56 percent in May from 15.64 percent in April this increased by 1.92 percent from the previous month. Based on assessment, Non- food inflations continue to stagnate in the month of February to June, around 3 to 4 percent. The continual reduction in inflation rate is as a result of heightened macroeconomic policies to aid the fight against covid-19. Details of the trend can be found on the graphical representation below.



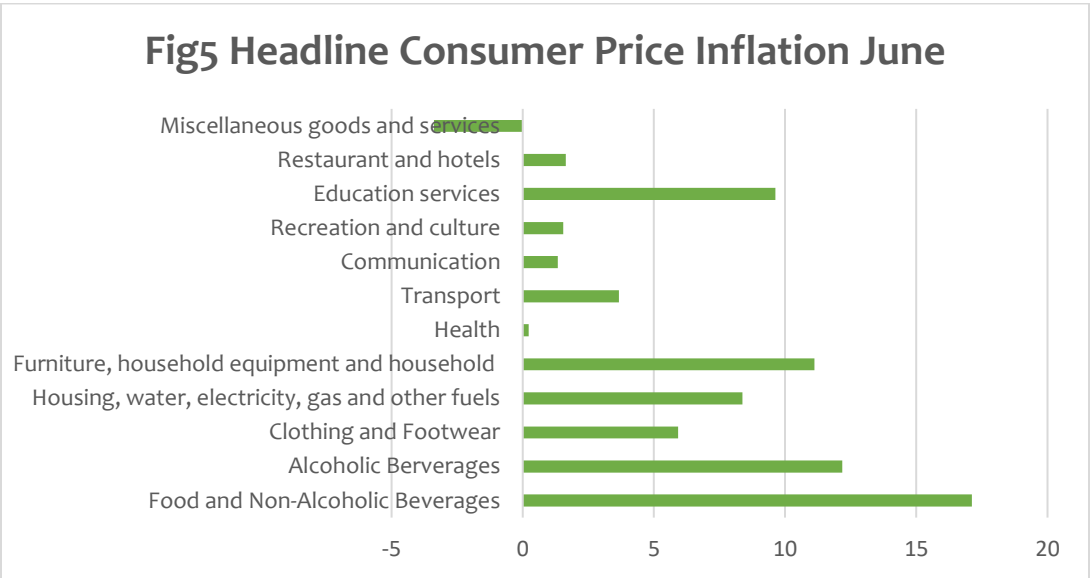
(PBO data analysis 2021)

Contributions to headline annual (YOY) consumer price inflation and Key Indicator performance

- The monthly consumer price inflation for January 2021 is **2.48** percent; went up by 2.23 percentage points from 0.25 percent in December, 2020.
- Food and non-alcoholic beverages increased from 15.10 percent in December 2020 to 18.88 percent in January 2021. The inflation rate increased by 3.78 percentage point's year on-year.
- Health increased from 7.44 percent in December 2020 to 8.84 percent in January 2021. The inflation rate increased by 1.40 percentage point year-on-year.
- For Education, no change was noted in January, 2021 when compared to December 2020.
- The monthly consumer price inflation for February 2021 is **1.49** percent; went down by 0.99 percentage point from 2.48 percent in January, 2021.
- Food and non-alcoholic beverages increased from 18.88 percent in January 2021 to 19.59 percent in February 2021. The inflation rate increased by 0.71 percentage point year-on-year.
- Health declined by 11.63 percentage points from 8.84 percent in January 2021 to -2.79 percent in February 2021
- For Education, no change is noticed between January, 2021 and February, 2021.
- The monthly consumer price inflation for March 2021 is **0.84** percent; down by 0.65 percentage points from 1.49 percent in February, 2021
- Food and non-alcoholic beverages declined by 4.14 percentage points from 19.59 percent in February 2021 to 15.45 percent in March 2021.
- Health increased from -2.79 percent in February 2021 to -1.86 percent in March 2021. The inflation rate increased by 0.93 percentage point year-on-year.
- The monthly consumer price inflation for April 2021 is **2.73** percent; up by 1.89 percentage points from 0.84 percent in March, 2021.

- Food and non-alcoholic beverages increased from 15.45 percent in March 2021 to 15.64 percent in April 2021. The inflation rate increased by 0.19 percentage point year-on-year.
- Health declined by 1.43 percentage point from -1.86 percent in March 2021 to -3.29 percent in April 2021.
- The monthly consumer price inflation for May 2021 is **0.44** percent; down by 2.29 percentage points from 2.73 percent in April, 2021.
- Food and non-alcoholic beverages increased from 15.64 percent in April 2021 to 17.56 percent in May 2021. The inflation rate increased by 1.92 percentage point's year-on-year.
- Health declined from -3.29 percent in April 2021 to -3.65 percent in May 2021. The inflation rate decreased by 0.36 percentage point year-on-year.

In June 2021 consumer price inflation for was 0.65 percent; up by 0.21 percentage point from 0.44 percent in May, 2021. The monthly consumer price inflation for June 2021 is 0.65 percent; up by 0.21 percentage point from 0.44 percent in May, 2021. Whilst miscellaneous goods and services was -3.6 percent. The graph below shows consumer price inflation commodity performance in June 2021.



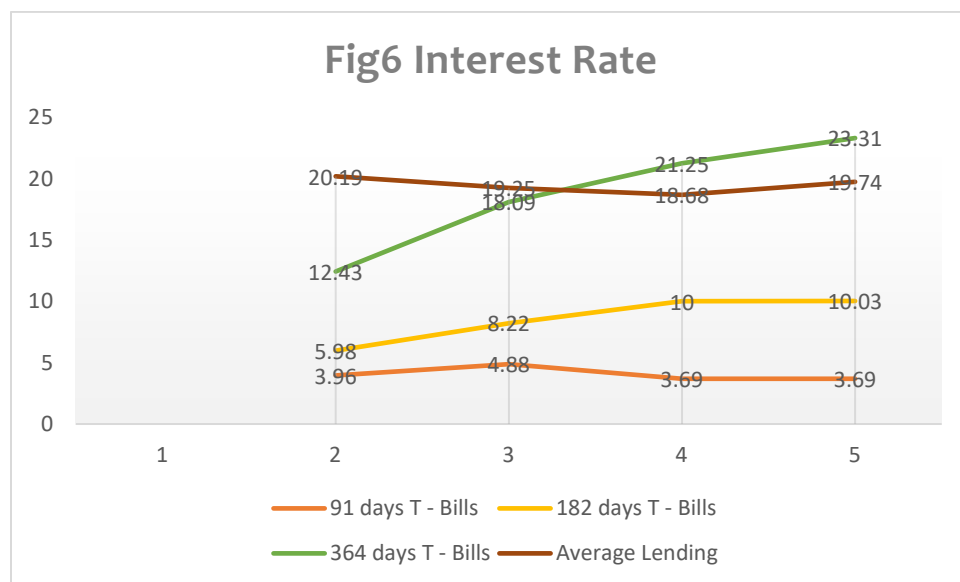
(PBO data analysis 2021)

Monetary Policy and Interest Rate

The interest on government securities showed mixed trends over the period. Between January to April, T-bills at 91 days reached its highest pick in February at 4.88 percent but remains constant throughout in the remaining month till April at around 3 ½ percent. The yield for 182-days treasury bills stagnated at 8.2 percent in February but plunged to 10 percent in March and April, while the yield on 364-days treasury bills shows a steady growth rate from Jan, Feb, Mar, Apr at 12.43, 18.09, 21.25 around 23.31 percent respectively. Worth noting yields in 364 days increased by 206 basis point to 23.31 percent in April 2021 from 21.25 percent in March 2021 over the course of the first half of 2021 reflecting government’s ongoing appetite to borrow from the domestic market and the high interest rate environment

Sierra Leone relies heavily on imported goods and services (30 percent of GDP), which suggests that exchange rate pass through is potentially high. While reserve coverage is broadly adequate as of end- of 1st half of 2021 (preliminarily at 3.5 months of imports), real exchange rate overvaluation (assessed to be in the order of 20-30 percent) implies that depreciation pressures could quickly place pressure on reserve adequacy. Shocks to the external sector will likely have a significant impact on inflation, further complicating the inflation management.

The Monetary Policy Committee MPC decided to maintain the Monetary Policy Rate at 14.00 percent. Similarly, the Standing Lending Facility rate and the Standing Deposit Facility rate were maintained at 17.00 percent and 8.00 percent, respectively.



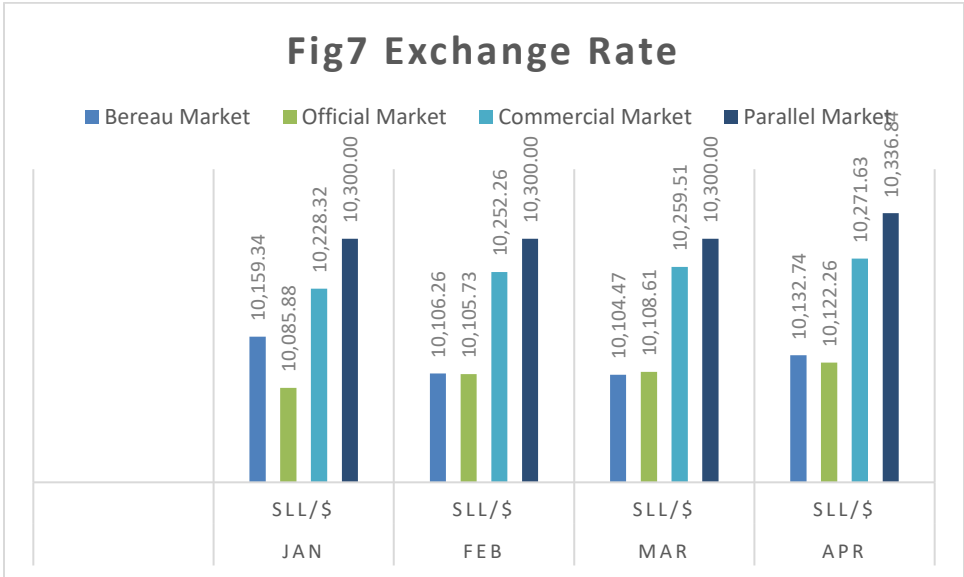
DISCLAIMER!
Data for the month of May and June was not available at the time of producing this report.

Source: PBO calculations based on Bank of Sierra Leone data

Exchange Rate

Exchange rate for the past one year has been relatively stable at around Le 10,300/ Us\$1 In January 2021, the average exchange rate of the Leone to the US dollar depreciated in all foreign

exchange markets except in the parallel market. On the buying front, the Leone depreciated in the bureau, official and commercial banks markets by 1.80 percent, 0.92 percent and 0.91 percent, averaging Le10,159.34/US\$1, Le10,085.88/US\$1 and Le10,228.32/US\$1 respectively. The average premium between the official and parallel rates narrowed by 7.49 percent to Le150.09/US\$1 in February 2021 from Le162.24/US\$1 in January 2021. In April 2021, the average exchange rate of the Leone to the US dollar (Le/US\$) on the buying front depreciated in the parallel market, bureau market, official market and commercial banks by 0.36 percent, 0.28 percent, 0.14 percent and 0.12 percent averaging Le10,336.84/US\$1, Le10,132.74/US\$1, Le10,122.26/US\$1 and Le10,271.63/US\$1, respectively. Similarly, on the selling front, the average exchange rate depreciated in the parallel market, official market and commercial banks by 0.48 percent, 0.14 percent and 0.09 percent averaging Le10,450.00/US\$1, Le10,326.75/US\$1 and Le10,386.12/US\$, respectively. However, the bureau 10 market selling rate appreciated slightly to an average of Le10,380.48 in April 2021, from Le10,380.56/US\$1 in March 2021. The premium between the official and parallel rates widened by 21.27 percent to Le168.91/US\$1 in April, 2021 from Le139.29/US\$1 in March, 2021.



DISCLAIMER!
Data for the month of May and June was not available at the time of producing this report.

(Source: PBO calculations based on Bank of Sierra Leone data)

Revenue and Expenditure

Table 2.1 Domestic Revenue Performance (in billion Leones)

Revenue	Jan	Feb	Mar	April	May	June	Monthly Total	Contribution
Income Tax	192.4	168.8	255.8	192.0	184.5	272.8	1,266.2	34.9
Customs and Excise	62.5	71.1	346.3	72.3	61.6	89.4	703.3	19.4
Goods and Services Tax	77.0	117.7	107.8	95.3	89.3	100.5	587.7	16.2
Mineral Resources	7.0	15.1	14.6	39.1	41.7	22.4	139.9	3.9
Fisheries	6.7	2.6	16.8	13.8	1.8	5.5	47.3	1.3
Other Departments	40.4	42.1	89.0	70.6	15.4	52.7	310.2	8.5
Petroleum Products Excise Duty	35.0	31.0	51.4	37.5	43.6	41.0	239.5	6.6
Road User Charges	14.7	15.5	18.3	17.9	19.1	19.7	105.2	2.9
TSA Revenue (Excluding Road Fund)	38.4	27.6	38.6	35.1	41.2	38.1	219.1	6.0
Privatisation Receipt		-	1.7	4.0	5.1	4.0	14.8	0.4

Source: PBO calculations based on various Fiscal Reports published by the Ministry of Finance

Domestic Revenue

Revenue mobilization for the first half of 2021 improves greatly with the amount of le 3.6 trillion. Even though the pandemic affected the economy since the country recorded its first index case in the month of March 2020, there was a swing performance during the first half of 2021, but March recorded the highest of le 940.3 million.

Revenue Head Performance

Income Tax as a major source of revenue, generated le 1.3 trillion which shows a very encouraging collection compared to le 943.5 billion in the first half of 2020. **Customs and Excise** significantly increased from the second half of 2020 with a good outcome of contributing 23.3 percent. March accounted le 346.3 billion which shows the highest of the total monthly across the first half of 2021. **Goods and Services Tax** contributed 16.2 percent with a good collection performance from the month of February. **Fisheries** has always been the lowest performing sector over the years, the revenue

outcome of first half was le 47.3 billion compared to an increase of le 52.8 billion in 2020 first half. An impressive turnout of le 105.2 billion of **Road User Charges** for 2021 was generated by the end of June after the State of Emergency declare free. This half shows double performance of the first half of 2020.

Expenditure Performance

Table2.2 Domestic Expenditure Performance (in billion Leones)

Expenditure	Jan	Feb	Mar	Apr	May	Jun	Monthly Total	Contribution
Wages, Salaries and Employee Benefits	278.3	284.6	344.6	301.0	313.2	310.2	1,831.9	40.0
Non-Salary, Non-Interest Recurrent Expenditure	107.8	222.0	342.4	223.1	168.8	124.3	1,188.3	25.9
Domestic Development Expenditures	70.6	90.8	382.0	82.4	188.4	208.7	1,022.9	22.3

Source: PBO calculations based on various Fiscal Reports published by the Ministry of Finance

There was an increase in the **Wages, Salaries and Employee Benefits** from le1.7 trillion in the second half of 2020 to le1.8 trillion in the first half of 2021 due to the increments of Civil and Public Servants salaries and benefits in most MDAs in the Government Institutions. **Non-Salary, Non-Interest Recurrent Expenditure** grew from le876.9 billion in the first half of 2020 to le1.4 trillion in the second half of 2020 and vastly decline to le1.2 trillion in the first half of 2021. Expenditure in **Domestic Development** increase from le869.6 billion in 2020 second half compared to le1 trillion in 2021 first half. Increment in expenditure occurs because of the pandemic and more monies were put in health issues.

Private Sector and Doing Business

Ease of Doing Business reports provides data that shown the ranks and scores of each location, and recommends reforms to improve performance in each of the indicator areas fall short. Selected countries can compare their business regulations with other countries in the economy or region and with the 190 countries' economies.

Indicators and benchmarks give an indication of factors that contribute to the creation of an overall enabling environment for business and can help governments identify areas of business regulation that could benefit from further improvement to support private sector growth and investment. This Doing Business Road Map provides non-binding recommendations in areas

where the government can have a direct impact on business conditions and discusses how some of these shortcomings can be addressed through legal and regulatory reforms.

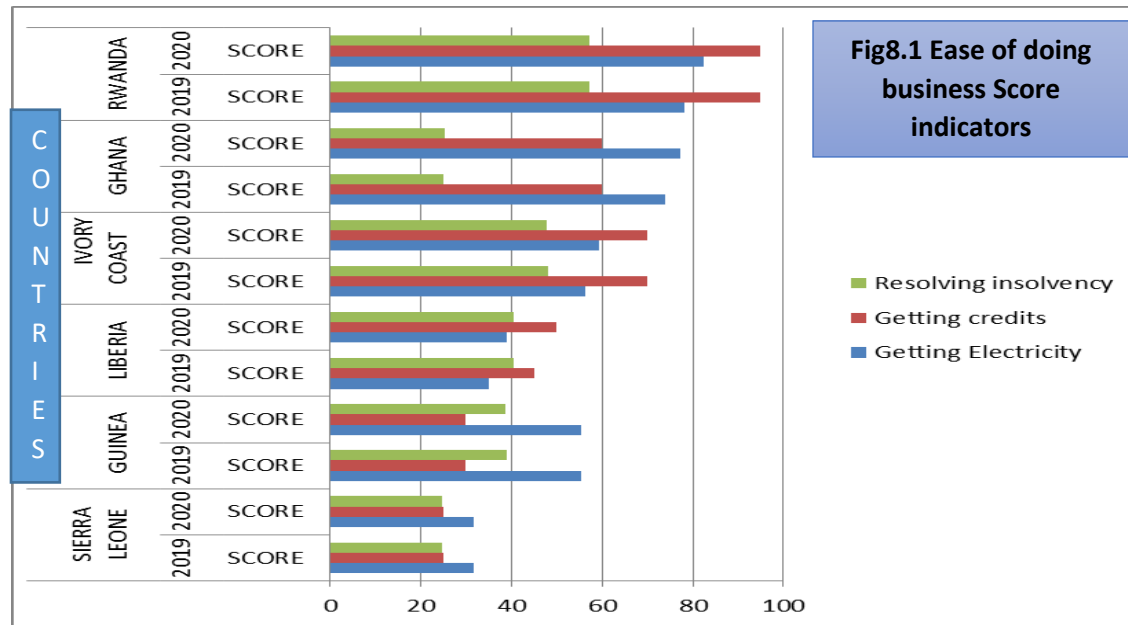
Performance Comparison - 2019/2020 Doing Business Indicators

In the 2019/2020 Doing Business reports, Sierra Leone scores **48.7** and **47.5** points respectively out of **100**, thus same ranking **163rd** out of **190** economies worldwide.

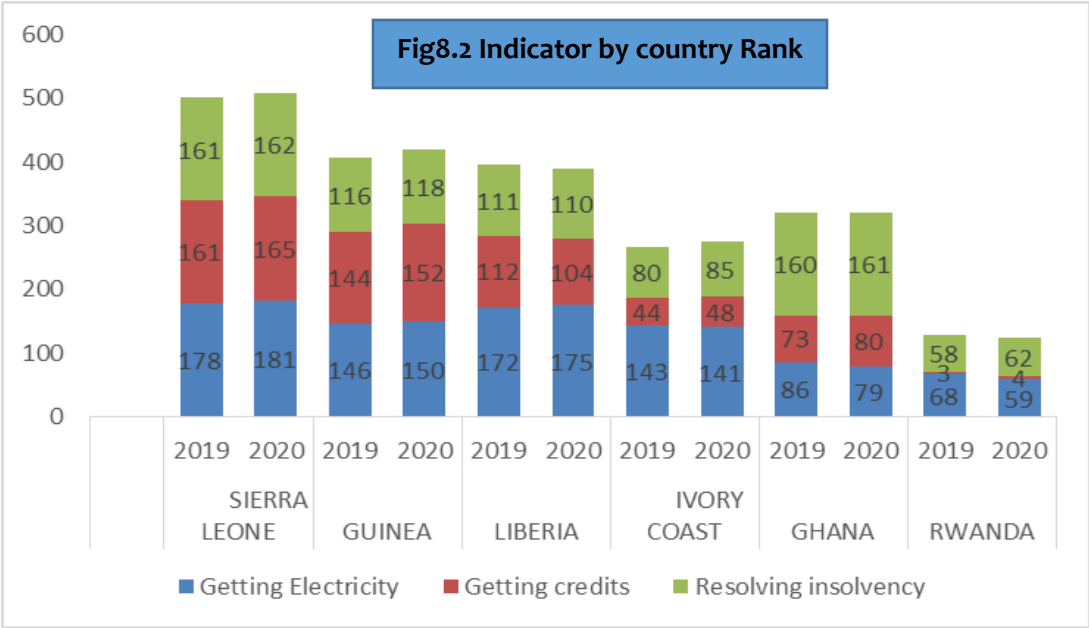
Note: The threshold of 50% and above score gives the pass mark for every indicator in each economy of 190 and subjected to ranking position of 1-190.

The country’s overall performance lags behind most of the other low-income and developing economies in Sub-Saharan Africa. At the moment, Sierra Leone outperforms only Liberia in six (6) indicators as against Guinea, Ghana, Ivory Coast and Rwanda. Three (3) of these indicators are greatly underperform in this two year - in - reports.

Figure 8.1 and 8.2 shows Sierra Leone’s performance both score and ranking in Doing Business Indicators as compared to other Low-Income and developing Economies in the MRU countries and other countries in Sub-Saharan Africa.



Source: Parliamentary Budget Data Analysis 2021



Source: Parliamentary Budget Data Analysis 2021

Figure 8.1 shows three selected indicators with each bar represent scores of compared countries selected in the Mano River region and Sub-Sahara Africa. An increase in this bar shows the country is considering performing better in that indicator over a period in the 190 economies. A decrease shows the opposite pattern. Thus the country do not passed the threshold (50%) of that indicator as stated.

Unlike in figure 8.2, this gives the opposite pattern of bars or pole for each indicator ranked. Here, an increase of each bar or pole of indicator shows that the country unperformed considering the position placed for that indicator of that country out of the 190 economies. A decrease shows an opposite pattern haven score the threshold or above in that particular indicator for that country.

Sierra Leone unperformed in Three (3) out of Ten (10) indicators published by World Bank in 2019 and 2020 reports for 190 World economies. These indicators are compared with other economic countries in the Mano River region and other Sub-Sahara Africa countries in order to ascertain and contrast the level of performance in line with its scores and ranking globally.

Getting Electricity

Sierra Leone scores 31.7% and 31.6% with ranking 178th and 181st in the 2019/2020 World Bank Doing Business reports of the 190 Country's economies that perceived the outlaid underperform in accordance with threshold sets.

The underperformance of this indicator is as result of inadequate and aging transmission used, poor distribution network and a very high cost of tariff delivered to electricity consumers.

In relation to Ivory Coast, Ghana, Guinea and Rwanda who passed the threshold made significant improvement by increasing transparency of electricity tariffs and communicating change in advance.

Getting Credits

Sierra Leone score 25% points both in 2019/2020 Ease of Doing Business reports ranking 161st and 165th respectively in the 190 economies. This results to the lacks an integrated legal framework for secured transactions, and lacks a modern centralized collateral registry that covers all types of security interests in movable assets an electronic database indexed by debtor's identifier, which would be available for incorporated and non-incorporated entities that wish to register their security interest in order to make it enforceable against third parties pursuant to the priority of registration.

In addition, the rights of secured creditors during reorganization are less protected compared to other economies like Ivory Coast, Ghana and Rwanda that passed far above the threshold scores required.

Resolving Insolvency

Insolvency is when a debtor generally unable to pay its debts as they mature and/or that its liabilities exceed the value of its assets.

Sierra Leone ranks 161st and 162nd scoring 24.7% both in the 2019/2020 Ease of Doing Business reports on the Resolving Insolvency indicator globally.

The Strength of Insolvency Framework index component of the indicator is based on four indices: commencement of proceedings index, management of debtor's assets index, reorganization proceedings index and creditor participation index. Therefore, Sierra Leone resolving insolvency proceedings is made difficult for creditor's accessibility and granting them lesser participation in the proceedings.

Unlike to Ivory Coast, Ghana, Rwanda with exception of Liberia has made significant reforms in this indicator over the years thereby strengthening and improving on the proceedings.

Selected Glossary

Consumer Price Index (CPI) - is a measure of the aggregate price level of a basket of consumer goods and services in an economy.

Exchange Rate - is the value of one nation's currency versus the currency of another nation or economic zone. If it is said that the Leone fell against the US dollar, it means that the Leone is now worth fewer dollars.

Gross Domestic Product (GDP) - is a monetary/standard measure of the market value of all the final goods and services produced by a country during a period. GDP is the single most important indicator to capture economic activity, but it is not necessarily a good measure of societies' wellbeing.

Inflation - is a sustained increase in the general price level of goods and services in an economy over a period of time during which money loses some of its value because its purchasing power falls.

Monetary Policy - refers to how central banks manage liquidity by changing interest rates to control the demand for money and hence the rate of increase of bank lending. This in turn affects the level of demand in the economy and other parameters such as borrowing for consumption and investment.

Monetary Policy Rate - is the rate that is used by the central bank to implement or signal its monetary policy stance, and it is commonly set by the Monetary Policy Committee (MPC).

The **Monetary Policy Committee** consists of seven (7) members as provided for in the **BSL Act, 2011** Section 21(2). They include the Governor, the Deputy Governor, three (3) persons appointed by the Governor and two (2) persons appointed by the Minister of Finance and Economic Development.

Real GDP - is a measure of economic output that accounts for the effects of price changes (i.e. inflation or deflation).

Disclaimer

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