



## 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 Half-yearly 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 July to December 2020.

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# Macroeconomic Developments

## Global Outlook

The months after the release of the June 2020 World Economic Outlook (WEO) Update have offered a glimpse of how difficult rekindling economic activity will be while the pandemic surges. During May and June, as many economies tentatively reopened from the Great Lockdown, the global economy started to climb from the depths to which it had plunged in April. But with the pandemic spreading and accelerating in places, many countries slowed reopening, and some are reinstating partial lockdowns. While the swift recovery in China has surprised on the upside, the global economy's long ascent back to pre-pandemic levels of activity remains prone to setbacks.

To contain the coronavirus (COVID-19) pandemic and protect susceptible populations, most countries imposed stringent lockdown measures in the first half of 2020. Meanwhile, economic activity contracted dramatically on a global scale. This chapter aims to dissect the nature of the economic crisis in the first seven months of the pandemic. It finds that the adoption of lockdowns was an important factor in the recession, but voluntary social distancing in response to rising infections also contributed very substantially to the economic contraction. Therefore, although easing lockdowns can lead to a partial recovery, economic activity is likely to remain subdued until health risks are at a manageable level.

**Table1: GLOBAL OUTLOOK GROWTH RATE AND 2021 PROJECTIONS**

(real GDP annual percent change)	Projections	
	2020	2021
World output	-4.4	5.2
Advanced Economies	-5.8	3.9
Euro Area	-8.3	5.2
Emerging Market and Developing Economies	-3.3	6.0
Emerging and Developing Asia	-1.7	8.0
Low Income Developing Economies	-1.2	4.9
United States	-4.3	3.1
China	1.9	8.2
Nigeria	-4.3	1.7

Source; World Bank economic outlook report 2020

## Sierra Leone Context

The coronavirus pandemic (COVID-19) has reversed the strong growth projections reported earlier in the 2020 IMF Economic Outlook. This has necessitated revisions of the growth projections and outlook for Sierra Leone for 2020 and 2021, accounting for the impact of the COVID-19 pandemic on Sierra Leone's socioeconomic landscape. Uncertainty is heightened by the epidemiology of the virus and the various containment policies adopted by the governments. Due to

the fluidity of the pandemic, two possible scenarios are considered: the baseline assumes that the virus has a substantial impact but of shorter duration, and the worst-case assumes a virulent impact of the virus over a longer duration with the pandemic continuing beyond the first half of 2020

Under the baseline scenario, real GDP is projected to contract by 2.3 percent in 2020, corresponding to a GDP drop of 2.8 percentage points from 2019 annual real GDP growth rate. In the worst-case scenario, if the pandemic continues beyond the first half of 2020, there would be a deeper GDP contraction in 2020.

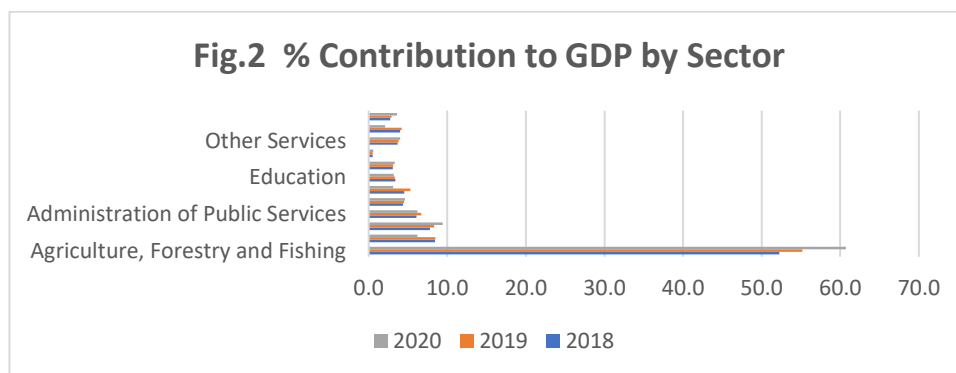
While the Sierra Leonean economy has great potential, the immediate outlook is overshadowed by the rapidly unfolding global COVID-19 pandemic. Based on programmed policies, growth was projected to average around 4½percent over the medium term. However, prospects for the remainder of 2020 are subject to considerable uncertainty. 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.

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.



Sources: IMF Data Mapper 2020,PBO Data Analysis

The performance of the mining sector in Sierra Leone, agriculture continues to be the backbone of the economy with the cultivation of food crops, tree crops, livestock, fisheries and forestry sub sectors accounting for 60.7 percent of GDP in 2020 as compared to 55.2 percent in 2019. The services sector inclusive of tourism and trade, transport, finance and administration of public services decline from 39.8 percent to 39.3 percent and tourism being the most hit sector due to the covid 19 pandemic.



Sources: Data; Statistics Sierra Leone, Calculations; PBO

## Inflation Outlook

Inflation has ratcheted up rapidly since 2015, despite similar growth rates of money aggregates throughout the decade. Based on its assessment, the monetary policy committee (MPC) noted that inflationary pressure is steadily declining during the course of the second half of 2020, after almost stagnating in July, August and September at around 13 percent there was a significant decline in the following month of October by 2 percentage point to 11.71 percent from 13.71 percent in the previous month. Meanwhile, there was further decline in November to 10.63 percent and December to 10.45 percent. The continual reduction in inflation rate is as a result of heightened macroeconomic policies to aid the fight against covid-19.

### Contributions to headline annual (YOY) consumer price inflation

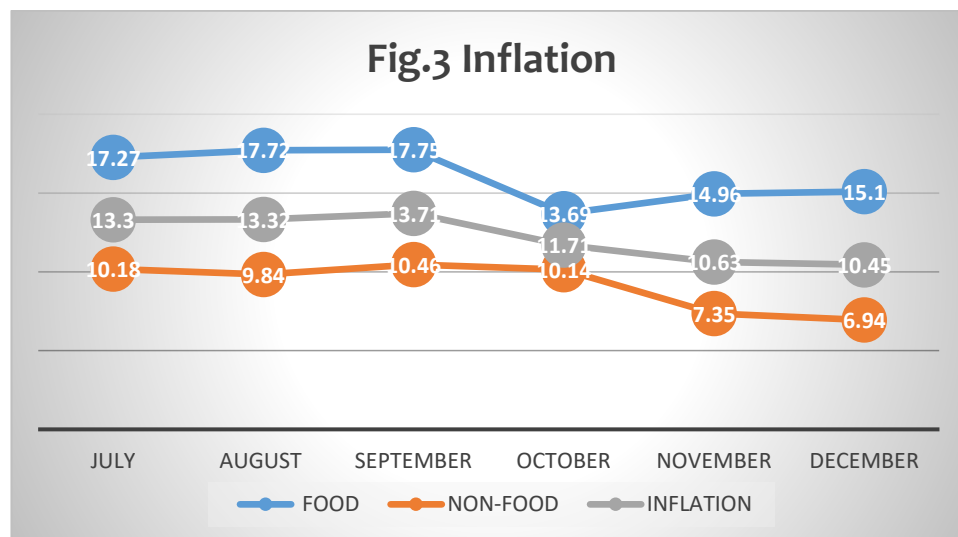
- Headline National Inflation Rates Annual National Consumer Price Inflation (year-on-year) went down by **1.06** percentage point from **14.36** percent in June 2020 to 13.30 percent in July 2020. The monthly consumer price inflation for July 2020 is 1.26 percent; went up by 0.97 percentage point from **0.29** percent in June, 2020. Food and non-alcoholic beverages increased from **16.94** percent in June 2020 to **17.27** percent in July 2020. The inflation rate increased by 0.33 percentage point year-on-year.
- Headline National Inflation Rates Annual National Consumer Price Inflation (year-on-year) went up by **0.02** percentage point from 13.30 percent in July 2020 to **13.32** percent in August 2020. The monthly consumer price inflation for August 2020 is 1.84 percent; went up by 0.58 percentage point from **1.26** percent in July, 2020. Food and non-alcoholic beverages increased from **17.27** percent in July 2020 to 17.72 percent in August 2020. The inflation rate increased by **0.45** percentage point year-on-year.
- Headline National Inflation Rates Annual National Consumer Price Inflation (year-on-year) went up by **0.39** percentage point from **13.32** percent in August 2020 to **13.71** percent in September 2020. The monthly consumer price inflation for September 2020 is 0.52 percent; went down by 1.32 percentage point from 1.84 percent in August, 2020. Food and non-alcoholic beverages increased from **17.72** percent in August 2020 to 17.75 percent in September 2020. The inflation rate increased by **0.03** percentage point year-on-year.
- Headline National Inflation Rates Annual National Consumer Price Inflation (year-on-year) went down by 2.00 percentage points from **13.71** percent in September 2020 to **11.71**

percent in October 2020. The monthly consumer price inflation for October 2020 is **-1.89** percent; went down by **2.41** percentage points from 0.52 percent in September, 2020. Food and non-alcoholic beverages declined by 4.06 percentage points from 17.75 percent in September 2020 to 13.69 percent in October 2020.

Headline National Inflation Rates Annual National Consumer Price Inflation (year-on-year) went down by **1.08** percentage points from 11.71 percent in October 2020 to **10.63** percent in November 2020. The monthly consumer price inflation for November 2020 is **-0.77** percent; went up by **1.12** percentage points from **-1.89** percent in October, 2020. Food and non-alcoholic beverages declined by 4.06 percentage points from 17.75 percent in September 2020 to 13.69 percent in October 2020.

- Headline National Inflation Rates Annual National Consumer Price Inflation (year-on-year) went down by **1.08** percentage points from 11.71 percent in October 2020 to **10.63** percent in November 2020. The monthly consumer price inflation for November 2020 is **-0.77** percent; went up by **1.12** percentage points from **-1.89** percent in October, 2020. Food and non-alcoholic beverages increased from **13.69** percent in October 2020 to **14.96** percent in November 2020. The inflation rate increased by **1.27** percentage point year-on-year.
- Headline National Inflation Rates Annual National Consumer Price Inflation (year-on-year) went down by **0.18** percentage point from **10.63** percent in November 2020 to **10.45** percent in December 2020. The monthly consumer price inflation for December 2020 is **0.25** percent; went up by **1.02** percentage points from **-0.77** percent in November, 2020. Food and non-alcoholic beverages increased from **14.96** percent in November 2020 to **15.10** percent in December 2020. The inflation rate increased by **0.14** percentage point year-on-year.

Below shows a graphical representation of inflation trend for the second half of 2020 for food, non-food and inflation rate.

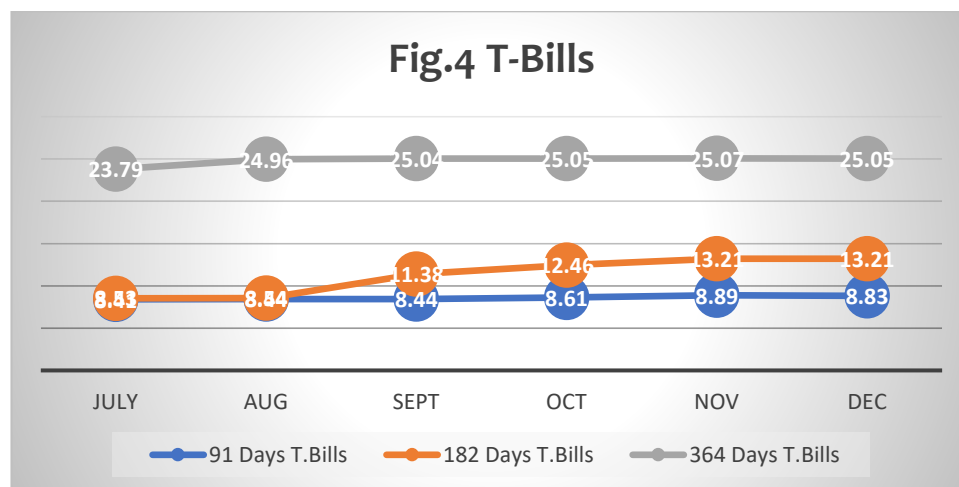


Sources: BSL,PBO Data Analysis

## Monetary Policy Rate and Interest Rate

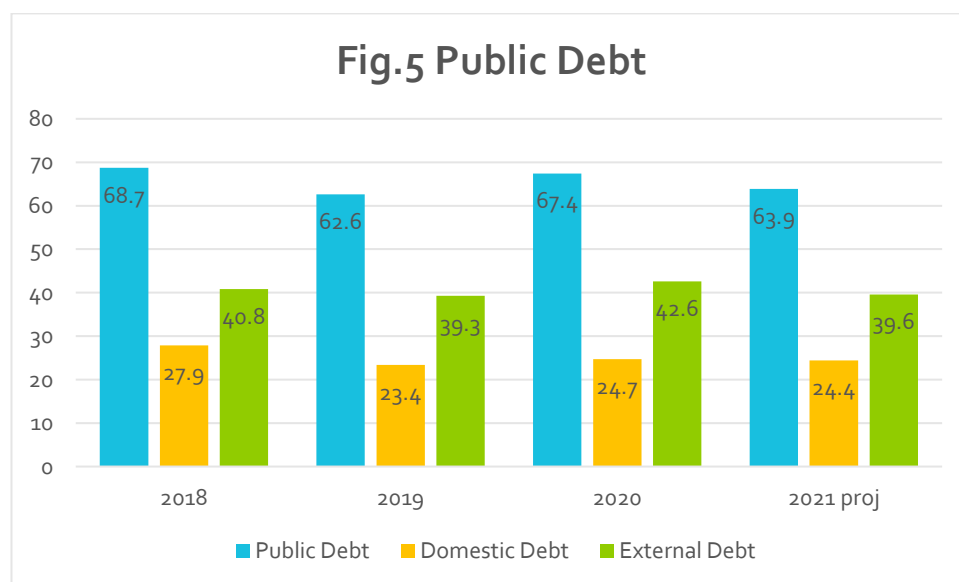
Sierra Leone relies heavily on imported goods and services (30 percent of GDP), which suggests that exchange rate pass through is potentially high. While reserve coverage is broadly adequate as of end-December 2019 (preliminarily at 3.5 months of imports), real exchange rate overvaluation (assessed to 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 interest on government securities showed mixed trends over the period. Between July and August, the yield on both 91 and 182-days treasury bills stagnated at 8.5 percent, while the yield on 364-days treasury bills shows a steady growth rate around 25 percent over the course of the second half of 2020 reflecting government’s ongoing appetite to borrow from the domestic market and the high interest rate environment.



Source: PBO Data Analysis

## Public Debt



Sources: IMF World Outlook Oct 2020, PBO’s Calculations

In 2020 External debt increased to 42.6 percent from 39.3 percent in 2019. Despite a high and growing level of debt over the past years, the debt level remains sustainable overtime. In 2018 public debt reached its highest, reaching 68.7 of total debt, compared to 62.6 percent and 67.4 percent in 2019 and 2020 respectively. Domestic debt service by commercial banks in 2020 was 24.7 percent showing an increase from previous year of 23.4 percent which indicate an increase of 1.3 percentage point. However, a projection of Sierra Leone’s external debt by the IMF is expected to reach 39.6 percent whilst total public debt is expected to decline to 63.9 percent in 2021 from 67.4 percent in 2020.

## Private Sector and Doing Business

The National Development Plan 2019-2023, Section 3.7 clearly explains government plans in fostering private growth and manufacturing. The characterized weak linkages between the Primary and that of the Manufacturing Sectors has limit women participation in the chain value due to untrained small and medium sized enterprises, weak infrastructure and innovation, regulatory constraints, limited access to capital in terms of long - term financing and foreign currency lending.

The 2020 data processed by Statistics Sierra Leone indicates 2.1 percent contribution made by manufacturing sector to GDP. It’s on this back dropped that the government of Sierra Leone has set targets by increasing the number of registered firms, create more industrial and economic zones in all regions of the Country, in order to improve the Country’s ranking in the World Bank Doing Business Index aiming for a position within the first 100 Countries.

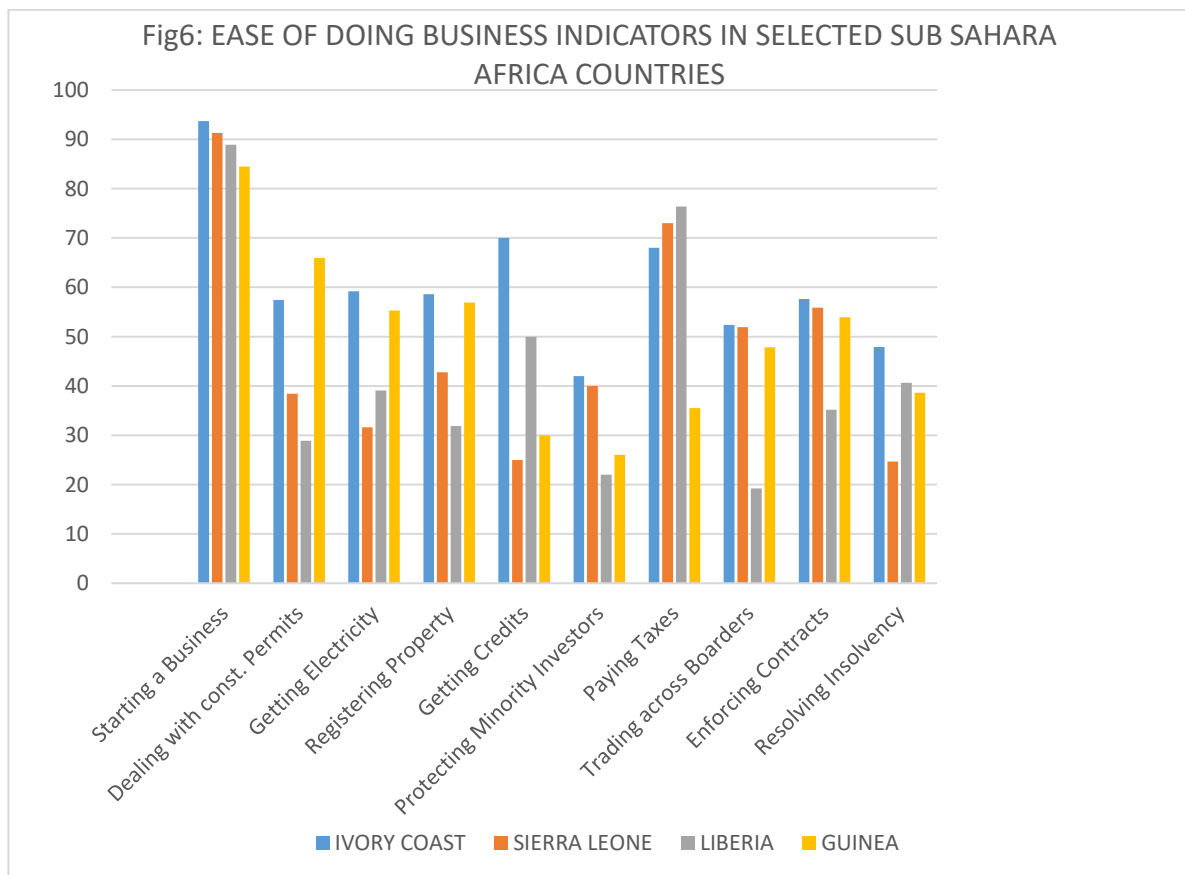
Based on the indicators in selected Africa sub-Sahara Doing Business repots 2020, out of 190 economies countries, and 10 indicators, Sierra Leone is rank 163 with a score of 47.5%. Scoring on starting a business (91.3), paying taxes (73%), trading across borders (51.9%), and enforcing contracts (55.9%) shows a significant improvement. Getting credit, protecting minority investors, getting electricity, dealing with construction permits and others hence continue recording low scores which apparently reflecting challenges faced by the country in the fight against the World epidemic (Covid-19). The table below shows comparison of these indicators among the selected Sub - Sahara Africa countries.

**Table2: Ease of Doing Business Indicators in selected Sub-Sahara African Countries**

COUNTRIES ➔	IVORY COAST	SIERRA LEONE	LIBERIA	GUINEA	IVORY COAST	SIERRA LEONE	LIBERIA	GUINEA
INDICATORS ↓	Score %	Score%	Score %	Score %	Rank	Rank	Rank	Rank
Starting a Business	93.7	91.3	88.9	84.5	29	58	75	122
Dealing with const. Permits	57.4	38.4	28.9	65.9	152	181	185	116
Getting	59.2	31.6	39.1	55.3	141	181	175	150

Electricity								
Registering Property	58.6	42.8	31.9	56.9	112	169	180	122
Getting Credits	70	25	50	30	48	165	104	152
Protecting Minority Investors	42	40	22	26	120	128	176	162
Paying Taxes	68	73	76.4	35.5	114	93	76	183
Trading across Borders	52.4	51.9	19.2	47.8	163	165	184	167
Enforcing Contracts	57.6	55.9	35.2	53.9	94	108	175	118
Resolving Insolvency	47.9	24.7	40.6	38.6	85	162	110	118
<b>OVERALL (1-190 ECONOMIES)</b>	<b>60.7</b>	<b>47.5</b>	<b>43.2</b>	<b>49.4</b>	<b>110</b>	<b>163</b>	<b>175</b>	<b>156</b>

Source: World Bank Ease of Doing Business Report 2020



Source: Parliamentary Budget Office Data Analysis



**Note:**

The performance of Sierra Leone still ranked 163<sup>rd</sup> in 2020 with the steady declined in score from 48.74 in 2019 to 47.5 in 2020. This show an opposite pattern of performance when compare to Ivory Coast placed from 122<sup>nd</sup> in 2019 to 110<sup>th</sup> in 2020. Liberia and Guinea experienced a shift back in rank of 174<sup>th</sup> and 152<sup>nd</sup> from 2019 to 175<sup>th</sup> and 156<sup>th</sup> in 2020 respectively.

## Analysis of Revenue and Expenditure Performances

### Revenue Performance

**Income Tax:** At the end of the year 2020, the performance of income tax recorded the highest amount of revenue, totaling Le 1.1 trillion from July to December when compared with Le 943.5 billion for the first half of the year but the COVID -19 effects continue to affect the economy widely.

**Goods and Services Tax:** There was an increase of tax collected from Le 80.1 billion in October to Le 103.8 billion in December which contributed to 17.5 percent of the total revenue collected for the last half of the year.

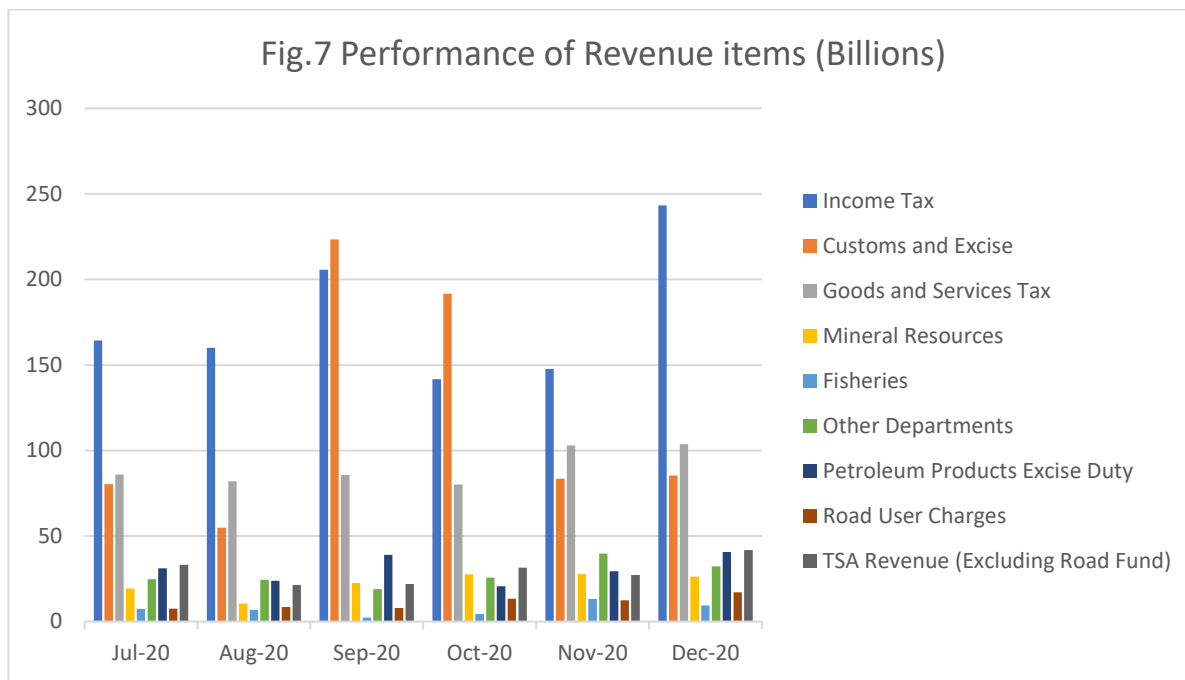
**Mineral Resources:** Revenue collection has been fluctuating monthly from February to December 2020. The last 3 months was encouraging after showing consistent performance.

**Road User Charges:** Revenue collection shows a consistently upward trend with December recoring the highest performance of Le 17.1 billion.

**Table3: Domestic Revenue Performance (in billion Leones)**

Revenue	July	Aug	Sep	Oct	Nov	Dec	Monthly Total	Contribution %
Income Tax	164.4	159.0	205.6	141.6	147.6	243.2	1,061.4	34.3
Customs and Excise	80.3	54.9	223.4	191.6	83.6	85.4	719.2	23.3
Goods and Services Tax	86.0	82.0	85.8	80.1	103.0	103.8	540.6	17.5
Mineral Resources	19.3	10.6	22.5	27.5	27.8	26.3	133.9	4.3
Fisheries	7.4	6.9	2.3	4.4	13.2	9.5	43.8	1.4
Other Departments	24.8	24.4	19.0	25.8	39.8	32.3	166.0	5.4
Petroleum Products Excise Duty	31.2	23.8	39.0	20.6	29.4	40.6	184.6	6.0
Road User Charges	7.5	8.5	7.9	13.4	12.4	17.1	66.7	2.2
TSA Revenue (Excluding Road Fund)	33.1	21.5	21.9	31.6	27.2	41.8	177.1	5.7

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



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

## Expenditure Performance

**Wages, Salaries and Employee Benefit.** Of the total operating expenses of Le1.6 trillion for the period the last 3 months accounted for 50.1 percent when compared with the first 3 months of 49.9 percent for the same period.

**Non-Salary, Non-Interest (NSNI) Recurrent Expenditure** There's a gradual decline in expenditure from Le 260.2 billion in July to Le 125.8 billion by end December. Overall, the PBO strongly observes that NSNI recurrent expenditure rose sharply by Le 482 billion from Le 877 billion to Le 1359 billion, representing an increase of 21.5 percent.

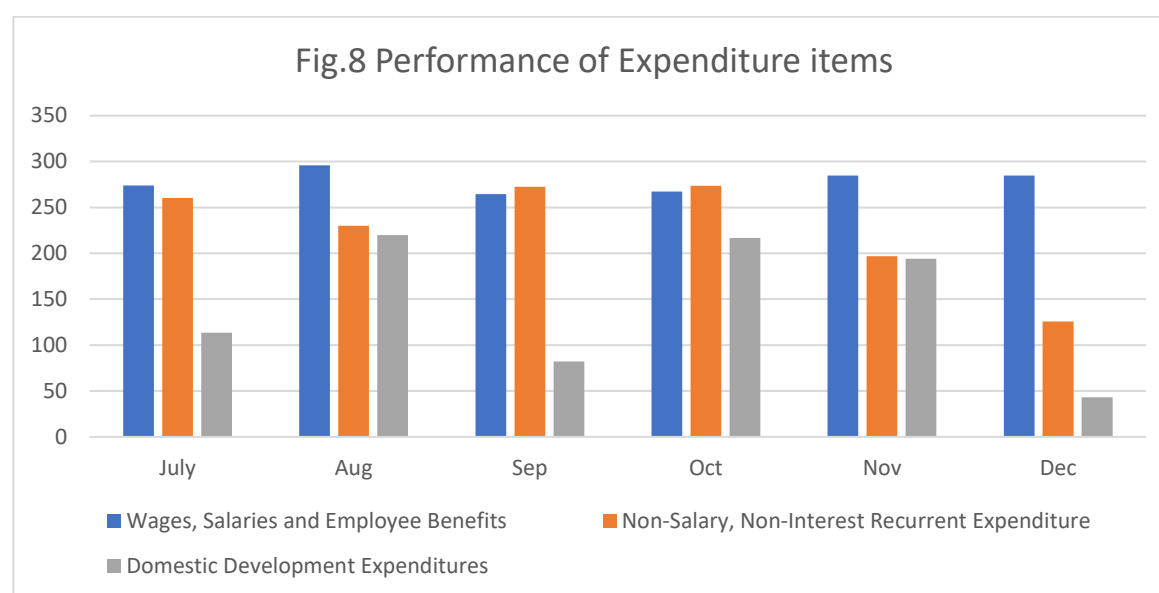
**Expenditure on Domestic Development** was Le869.6 billion (20 percent)of total expenses as compared to the first half of 2020 of Le369.9 billion (11.2 percent).

**Transfers to tertiary educational institution:** Government paid the sum of Le 439 million to Tertiary Institution in the month of October.

**Table4: Domestic Expenditure Performance (in billion Leones)**

Expenditure	July	Aug	Sep	Oct	Nov	Dec	Monthly Total	Contribution %
Wages, Salaries and Employee Benefits	274.0	295.8	264.4	267.4	284.7	284.9	1671.2	38.5
Non-Salary, Non-Interest Recurrent Expenditure	260.2	229.9	272.4	273.7	196.8	125.8	1358.7	31.3
Domestic Development Expenditures	113.7	220	82.1	216.6	194.1	43.2	869.6	20.0

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



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

## 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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