

## 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 July to September 2023.

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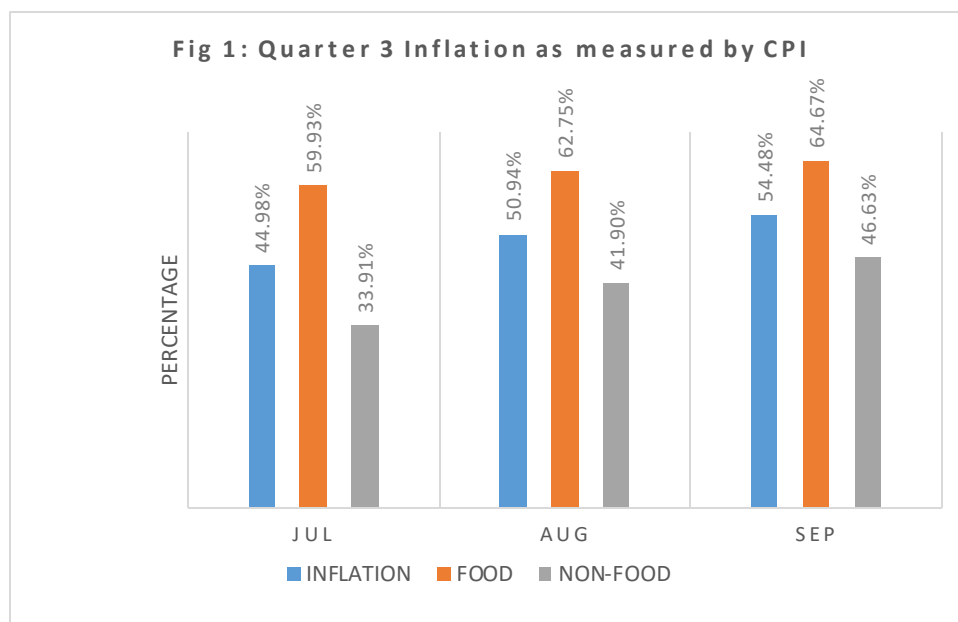
# Sierra Leone Macroeconomic Developments

## Outlook and risks

GDP growth is projected to increase to 3.1% in 2023 and 4.8% in 2024, driven by the mining sector and the continued recovery of agriculture, manufacturing, construction, and tourism. Inflation is projected to rise to 27.1% in 2023 but decline to 20.8% in 2024 as external shocks subside. The fiscal deficit is projected to narrow to 3.2% of GDP in 2023 and 2.3% in 2024 due to higher tax revenue supported by economic recovery and spending rationalization. The current account deficit is projected to narrow to 8.0% of GDP in 2023 and 7.4% in 2024 as the trade deficit narrows and official and private grants increase. Headwinds include the likelihood of a global economic recession, a prolongation of Russia's invasion of Ukraine, sustained increases in food and fuel prices, lower international financial assistance, and a re-emergence of COVID-19 and other public health emergencies.

## Inflation

The third quarter of 2023 inflation reached a significant landmark in July 2023 when it hit single digit for the second time in many years. Inflation was 29.47 percent vs 44.98 percent in July in 2023. July Inflation slightly rose by 0.17 percent from 44.81 percent in June to 44.98 percent, whilst food and non-food inflation was 59.93 and 33.91 percent respectively. This indicates an increase & decrease for that particular month. August Inflation rose by 5.96 percent from 44.98 percent in July to 50.94 percent. Whilst food and non-food inflation was 62.75 and 41.90 percent respectively which indicated an increase & decrease by 2.82 and 7.99 percent respectively for the month. In September, inflation had increased from 50.94 percent in August to 54.48 percent, which shows an increase of 3.54 percent. On the other hand, food inflation spiked to 64.67 percent in September from 62.75 percent in August, indicating an increase by 1.92 percent from the previous month. Based on assessment, Non- food inflation continue to shoot up in September at 46.63 percent from 41.90 percent in August, which indicates an increase of 4.73 percent. The rise and fall in inflation rate is as a result of the global crisis in the world.



Source: Statistics Sierra Leone

The monthly consumer price inflation for July 2023 is 2.86 percent; down by 0.55 percentage point from 3.41 percent in June, 2023.

Food and non-alcoholic beverages, increased from 57.99 percent in June 2023 to 59.93 percent in July 2023; the inflation rate increased by 1.94 percentage points.

Health, increased from 38.19 percent in June 2023 to 43.10 percent in July 2023; the inflation rate increased by 4.91 percentage points.

For Education services, no change was noticed between June 2023 and July 2023.

The monthly consumer price inflation for August 2023 is 5.31 percent; up by 2.45 percentage from 2.86 percent in July, 2023.

Food and non-alcoholic beverages, increased from 59.93 percent in July 2023 to 62.75 percent in August 2023; the inflation rate increased by 2.82 percentage points.

Health increased from 43.10 percent in July 2023 to 46.44 percent in August 2023; the inflation rate increased by 3.34 percentage points.

For Education services, with weight 3.10 percent, no change was noticed between July 2023 and August 2023.

The monthly consumer price inflation for September 2023 is 4.35 percent; down by 0.96 percentage point from 5.31 percent in August, 2023.

Food and non-alcoholic beverages, increased from 62.75 percent in August 2023 to 64.67 percent in August 2023; the inflation rate increased by 1.92 percentage points.

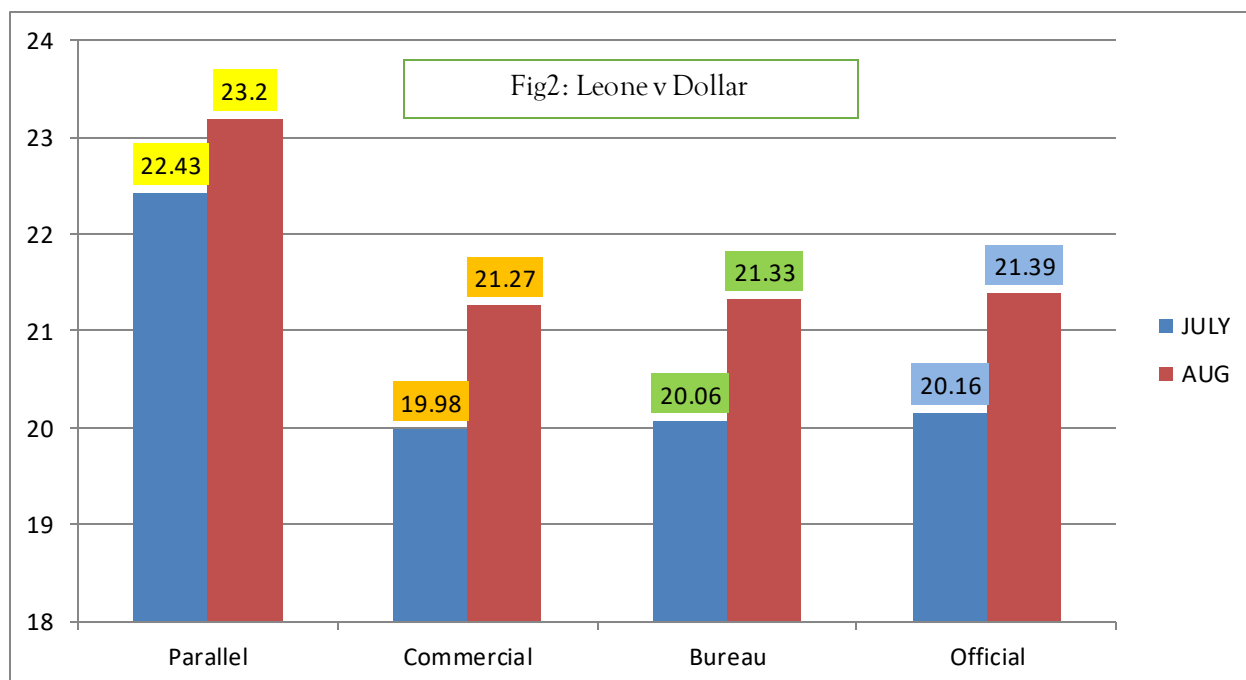
Health increased from 46.44 percent in August 2023 to 47.37 percent in September 2023; the inflation rate increased by 0.93 percentage point.

Education services, with weight 3.10 percent, increased from -6.85 percent in August 2023 to 0.00 percent in September 2023; the inflation rate increased by 6.85 percentage points.

## **Exchange Rate**

In July the exchange rate against the US dollar appreciated in all markets on the buying side. The Leone appreciated in the parallel market by 1.29% averaging NLe22.43 per US dollar, commercial bank division by 4.95% averaging NLe19.98, official appreciated by 3.57% averaging by NLe20.16 and the bureau market appreciated by 3.14% averaging 20.06 per US dollar. The premium rate between parallel and official widen from 7.14% averaging NLe1.50 in June to 2.62% averaging 2.24 per US dollar in July 2023.

August 2023, on the buying side the monthly average exchange rate of the Leone against the US dollar depreciated in all foreign exchange markets. In the parallel the Leone depreciated by 3.41 %, averaging NLe23.20, commercial bank segment depreciation of 6.46 % averaging NLe21.27, official 6.10 %, averaging NLe21.39, bureau market, 6.35 %, averaging NLe21.33 per US dollars. The premium between the official and parallel rates narrowed to 8.83 % NLe1.90 per US dollar in August 2023. On an annual basis, the Leone depreciated by 35.1% in August 2023, from 32.2% in July 2023 and 25.6% in August 2022.



Source: BSL. Note: The MER and the Recent Macroeconomic Development for September are not available on BSL website

**Table1: Monetary Policy and Interest Rate**

Description	Rates 2023			
	June (%)	July (%)	August (%)	September (%)
MPR	18.75	19.25	19.25	19.25
91Days Bills	NA	NA	4.11	NA
182 Days Bills	13.2	NA	NA	14.44
364 Days Bills	28.28	28.44	29.03	29.13
Standing Lending Facility	21.75	22.25	22.5	22.25
Standing Deposit Facility	12.75	12.75	12.75	14.75
Interbank Rate	20.99	21.31	21.8	21.89
Commercial Banks	20.32	20.45	20.45	20.45
Savings Rate	2.23	2.23	2.23	2.23

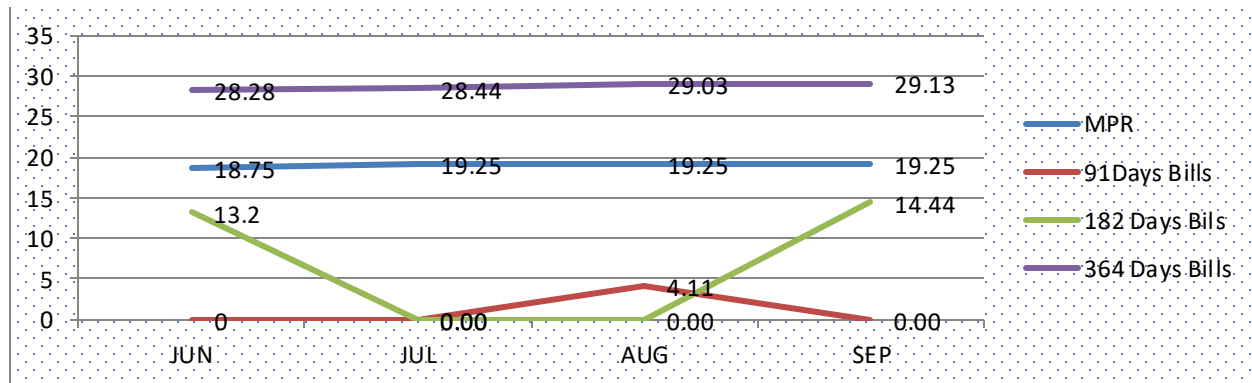
Source: Bank of Sierra Leone

#### I. MPR (Monetary Policy Rate):

- June: 18.75%
- July: 19.25%
- August: 19.25%
- September: 19.25%

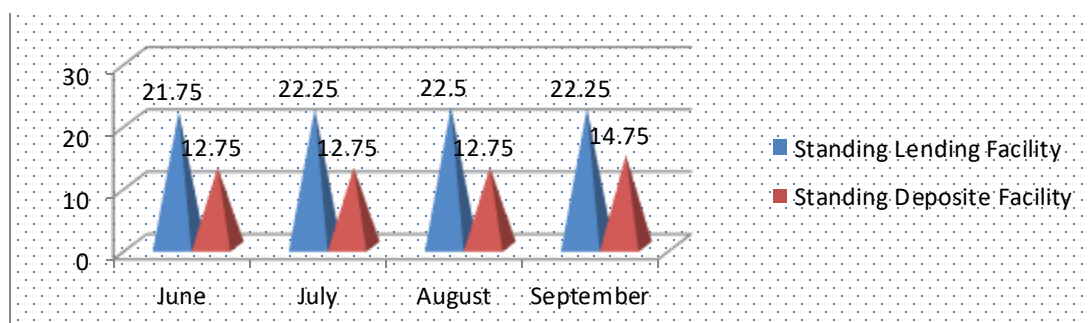
The MPR increased steadily from June to September. The increase in the MPR and other key rates shows the central bank's tightening stance on monetary policy.

## II. Treasury Bills:



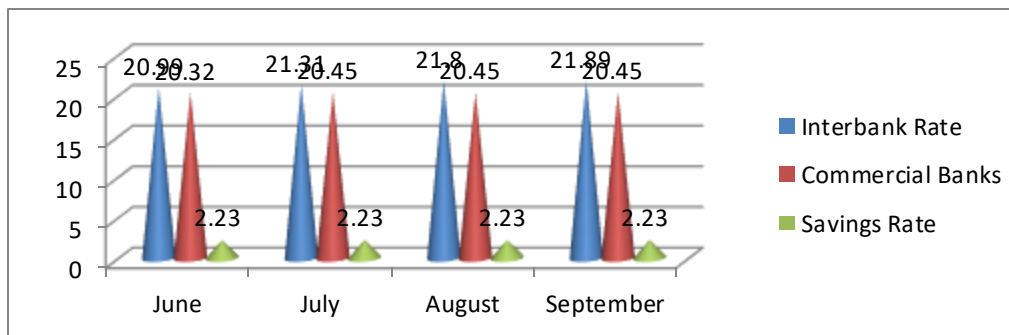
Rates fluctuated for different maturities over the period. Tighter liquidity circumstances and therefore higher inflation expectations are indicated by higher rates on Treasury bills and interbank credit. June and July saw no availability of the 91-day T-Bill rate. However, in August, it rose to 4.11% and then vanished once more in September. September saw a rise to 14.44% in the 182-day T-Bill rate, which had started at 13.2% in June and was unavailable in July and August. Investors were demanding greater returns for longer-term government assets, as seen by the 364-day T-Bill rate, which grew steadily from 28.28% in June to 29.13% in September.

## III. Standing Lending Facility and Standing Deposit Facility:



Standing Lending Facility rates, the rate at which banks can borrow from the central bank, has been rising steadily from 21.75% in June to 22.25% in July and August before somewhat declining to 22.25% in September. The rate at which banks can deposit surplus cash with the central bank, known as the Standing Deposit Facility rates, on the other hand, increased significantly to 14.75% in September after being steady at 12.75% from June to August.

These changes suggest tightening liquidity conditions, as higher rates discourage borrowing and encourage deposits.



Over the course of three months, there were variations in the interbank rate: from June to July (20.99% to 21.31%), there was an increase of 1.50%; from July to August (21.31% to 21.80%); and from August to September (21.80% to 21.89%), there was a modest rise of 0.41%.

Commercial bank lending rates stayed constant at 20.45%. Throughout the same time period, banks maintained their 2.23% savings rate, suggesting that they did not adjust the interest rates on savings accounts in response to changes in other market rates.

## Fiscal Performance

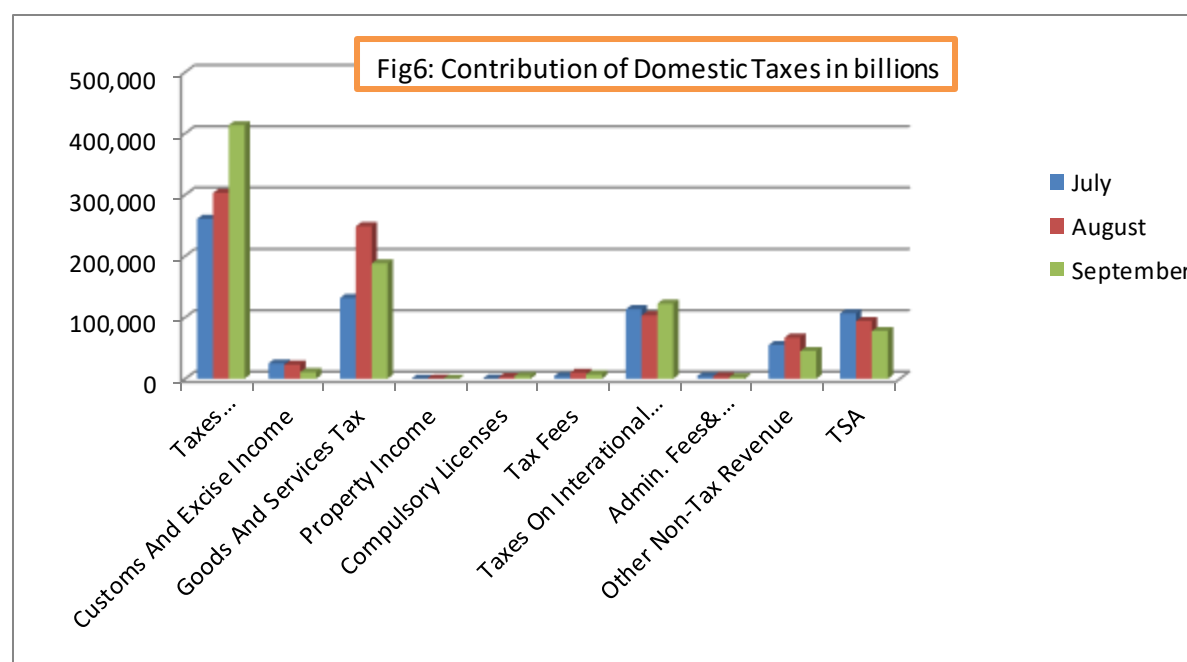
### Domestic Revenue

The domestic revenue collection for quarter three amounted to **Nle 2,429,347**, of which **Taxes Income, Profits & Capital Gains** recorded the highest generated amount of **le 977,184**. There was a mixed performance of **Good and Services tax** which shows a low collection of **Nle 131,633** in July and significantly increased in August but continue with a downward trend for the following month. Revenue from **Customs and Excise Income** was **2.4 percent** of the total domestic revenue, **Property Income** only recorded **Nle 478** in the month of August and no amount was indicated for both July and September.

Table2: Domestic Revenue Performance (SLE000)

		SLE 000	SLE 000	SLE 000	SLE 000	%
Domestic Revenue Collection		July	August	September	Monthly Total	Contribution
Taxes Income, Profits & Capital Gains		260,693	303,069	413,422	977,184	40.2
Customs And Excise Income		24,886	22,961	10,734	58,580	2.4
Goods And Services Tax		131,633	248,799	188,049	568,481	23.4
Property Income		0	478	0	478	0.0
Compulsory Licenses		222	2,925	4,496	7,643	0.3
Tax Fees		4,259	9,855	7,160	21,274	0.9
Taxes On Interational Trade & Transport.		113,434	103,283	122,536	339,253	14.0
Admin. Fees & Charges, Incidental Sale		4,059	4,038	2,515	10,612	0.4
Other Non-Tax Revenue		55,030	67,066	45,213	167,309	6.9
TSA		106,648	94,062	77,822	278,533	11.5
<b>Total Domestic Revenue</b>		<b>700,864</b>	<b>856,536</b>	<b>871,946</b>	<b>2,429,347</b>	

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



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



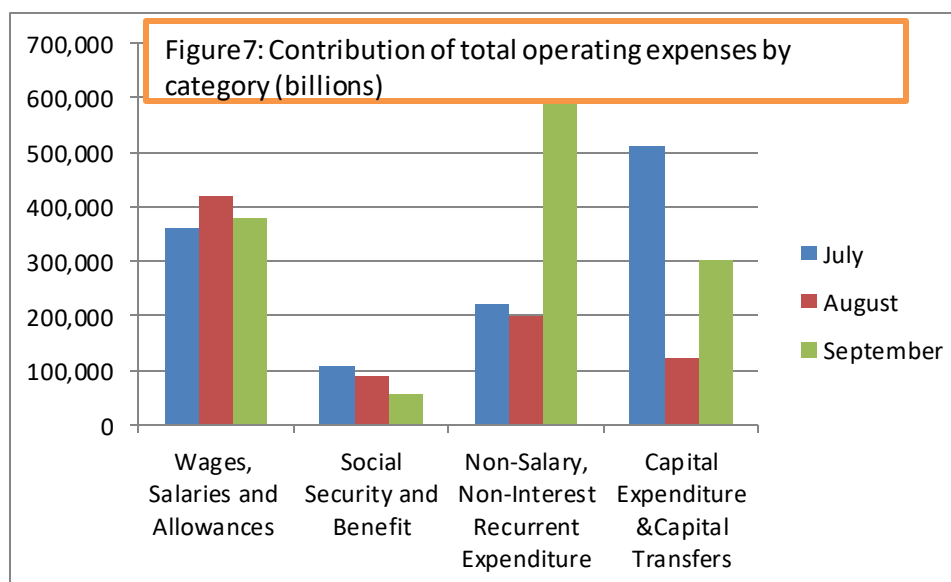
## Expenditure

Wages, Salaries and employees benefit in Qtr3 of 2023 was **N1,160,394** representing **19.8** percent of government total operating expenses. **Social Security and Benefit** increased during this quarter compared to the first half with the contribution of **4.4** percent. **Non-Salary, Non-Interest Recurrent Expenditure** shows a further increase of **N1,016,267**. **Capital Expenditure & Capital Transfers** has been peaking in the three quarters, rising from **5.3** percent in Q1, to **10.8** percent in Q2, to **16.0** in Q3.

Table3: Operating Expenditure Performance (SLE000)

	SLE 000	SLE 000	SLE 000	SLE 000	%
EXPENDITURE	July	August	September	Monthly Total	Contribution
Wages, Salaries and Allowances	361,904	419,539	378,952	1,160,394	19.8
Social Security and Benefit	107,889	89,593	57,423	254,905	4.4
Non-Salary, Non-Interest Recurrent Expenditure	223,419	200,145	592,703	1,016,267	17.3
Capital Expenditure & Capital Transfers	511,565	122,073	301,642	935,281	16.0

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



Source: PBO calculations based on various 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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