PARLIAMENT OF SIERRA LEONE

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Parliamentary Budget Office's Summary of the Fiscal Strategy Statement (FSS) for FY 2024-2028

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1. GOVERNMENT'S FISCAL OBJECTIVES, 2024-2028

The key objectives for 2024-2028 include:

Public Debt Management:

- Reduce total public debt from 98.8% of GDP in 2022 to 66.6% by 2028.
- Decrease external debt from 67.7% of GDP in 2022 to 45.6% by 2028.
- Lower domestic debt from 31.3% of GDP in 2022 to 20.9% by 2028.

Budget Deficit Reduction:

Decrease overall budget deficit, including grants, from 10.9% of GDP in 2022 to 3% by 2028.

Supplementary Fiscal Targets:

- Increase domestic revenue to 20% of GDP by 2028 from 5.9% at June 2023.
- Restrict government expenditures to an average of 23% of GDP by 2025, aiming for a gradual reduction from 30% in 2022 to 22.5% by 2025.

Macroeconomic Stability and Transparency:

- Formulate and implement fiscal policies to maintain macroeconomic stability.
- Provide timely, reliable, and adequate information to the public for transparency in budgetary and financial management.
- Prudent management of fiscal risks faced by the government.
- These objectives are interconnected, with the reduction of the budget deficit seen as crucial for achieving the public debt target.
- The overall aim is to restore fiscal and debt sustainability while adhering to responsible fiscal management principles.

2. RECENT ECONOMIC TRENDS

2.1 Recent global Economic Development, Outlook and Risks

The global economy in 2023 faces challenges like successive shocks, China's slowdown, weak manufacturing, and rising interest rates, leading to a projected IMF slowdown to 3.0% in 2023 and 2024 from 3.5% in 2022. Inflation may decrease, but commodity prices, supply disruptions, geopolitics, Chinese industrial recovery, and weather events pose risks.

2.2 Domestic Macroeconomic Trends (Sierra Leone):

- Sierra Leone's economy, after recovering in 2021 (3.6), faced challenges in 2022 (2.7) due to global supply chain disruptions, rising food and energy prices, and Russia-Ukraine war.
- Inflation surged to 37.1% in December 2022 and continued to rise to 44.8% in June 2023, driven by global factors and currency depreciation.
- Public debt increased due to budget deficits, emergency support loans, and development partner disbursements.

2.3.1 Real Gross Domestic Product (GDP):

Sierra Leone's economic growth has been volatile, influenced by global uncertainties like COVID-19 and the Ukraine crisis. Actual GDP growth often deviates from projections, with fluctuations from 5.5% in 2019 to -2.0% in 2020, rebounding to 4.1% in 2021 but slowing to 3.6% in 2022 due to supply chain disruptions, rising food and energy prices, and exchange rate depreciation.

2.3.2 Inflation:

In 2019, inflation was 13.9%, close to the 14.0% projection. The surge in inflation in 2020, triggered by COVID-19, led to an upward revision of the target to 17.5%. End-of-period inflation in December 2020 was 10.4%. In 2021, inflation rose to 17.9%, driven by increased food and energy prices and exchange rate depreciation. Projected to be 22.1% in 2022, inflation reached 38.1%, influenced by disruptions in global supply chains and higher prices.

2.3.3 Domestic Revenue, Expenditures, and Fiscal Deficit:

The fiscal deficit was projected at 5.5% of GDP in 2019 but was lower at 3.1% due to higher domestic revenue. In 2020, the deficit widened to 5.8% as domestic revenue fell to 13.8%, and expenditures rose to 25.7% to address pandemic-related costs. In 2021, the deficit was expected to decrease to 4.5%, but it widened to 7.4% due to increased expenditures (28.1% of GDP). In 2022, the deficit deteriorated to 10.9%, significantly higher than the original forecast of 4.1%.

2.3.4 Public Debt:

Sierra Leone's economic performance has been volatile, deviating from projections in GDP growth, inflation, fiscal deficits, and public debt due to global uncertainties. Public debt increased from 71.8% of GDP in 2019 to 98.9% in 2022, driven by emergency support loans for COVID-19. Challenges in 2022 included global market disruptions and rising prices.

3. MEDIUM-TERM MACROECONOMIC FORECASTS (2024-2028)

Despite current economic challenges, Sierra Leone anticipates a promising medium-term outlook. The recovery is expected to be driven by increased agricultural and mining output, infrastructure investment, and structural reforms. Macroeconomic stability is crucial for this recovery, but downside risks include prolonged geopolitical crises, rising food and fuel prices, potential pandemics, and climate change impacts.

MACROECONOMIC PROJECTIONS (2024-2028):

Real GDP Growth:

- Moderate growth of 2.7% in 2023, followed by a robust recovery at 4.7% in 2024 and sustaining an average growth of 4.5% from 2026-2028.
- Agriculture, industry (mining, manufacturing, construction), and services sectors are all expected to contribute positively to growth.

Inflation:

- End-of-period inflation projected to decline from 36.4% in 2023 to single digits (8.0%) in 2028.

- Average inflation to rise in 2023 due to external factors but gradually decrease to 8.9% in 2028.

Trade and External Sector:

- Exports to rebound, growing by an average of 6.0% from 2026-2028 after a projected 7.3% decline in 2023.
- Imports to decline by 12.6% in 2023, stabilize in 2024, and then grow by an average of 5.2% from 2026-2028.
- Current account deficit expected to narrow from 7.0% of GDP in 2023 to 4.2% in 2028.

Foreign Reserves and Exchange Rate:

- Gross foreign reserves to average 3.3 months of import cover during 2023-2028.
- Exchange rate of Leone to US Dollar to slow down as inflation decreases, exports increase, and US monetary policy relaxes.

Public Debt:

- Public debt (% of GDP) to decline gradually from 90.3% in 2023 to 62.5% in 2028.
- Domestic and external components of public debt to follow similar decreasing trends.

Assumptions Underpinning Forecasts:

- Economic recovery supported by iron ore mining, increased agricultural output, construction, manufacturing, tourism, and business environment improvements.
- Inflation slowdown due to fiscal consolidation, reduced budget deficit monetization, and expected increases in domestic food production.
- Export growth driven by mining projects and cash crop production.
- Imports decline due to falling international food and fuel prices.
- Improved trade balance and higher transfers to narrow the current account deficit.
- Foreign reserves supported by grants, IMF support, tax receipts, and export proceeds.
- Exchange rate stability attributed to increased exports, moderate import growth, falling global food and fuel prices, and US monetary policy relaxation.

These projections, developed collaboratively with the IMF, provide a strategic roadmap for Sierra Leone's economic recovery and sustainability over the medium term. However, careful monitoring and adaptation to evolving global conditions will be essential to navigate potential risks.

4. FISCAL POLICY AND STRATEGY

Objective of Fiscal Policy:

- The primary goal of the medium-term fiscal policy is to achieve fiscal and debt sustainability.
- Despite achieving fiscal sustainability in 2019 through consolidation, subsequent external shocks and policy lapses led to a widened budget deficit and a significant increase in public debt.

4.1 Fiscal Developments (2018-2022 and First Half of 2023):

- Fiscal conditions improved initially after adopting a consolidation strategy in 2018, with increased domestic revenue and reduced budget deficit.

- However, challenges emerged during 2020-2022 due to repeated shocks (COVID-19 and Ukraine Crisis), impacting economic activities, tax compliance, and leading to policy slippages.
- Despite recovering domestic revenues in 2021, the deficit widened due to increased expenditures in response to the ongoing COVID-19 pandemic.
- The Ukraine crisis in 2022 further strained domestic revenue, and unexpected security-related expenses, higher domestic prices, and depreciation of the Leone resulted in increased government expenditure.
- The overall budget deficit, including grants, expanded to 10.9 percent of GDP in 2022, and the deficit was largely financed by borrowing from the domestic banking system.

Corrective Measures (2023 and Medium-Term):

- The government aims to return to a sustainable fiscal path by focusing on enhancing domestic revenue collection and rationalizing expenditures.
- Corrective measures in 2023 include efforts to exceed the original revenue target and address challenges in income taxes, GST, and import duties.
- Development partners' grant disbursements were slower in the first half of 2023, affecting total grants received.
- Expenditure and net lending in the first half of 2023 were within the budgeted amount, but challenges in project loans and grants affected capital expenditures.
- The budget deficit for the period was 4.9 percent of GDP, mainly financed by domestic bank borrowing.

4.2 . Progress in Achieving Fiscal Objectives (2018-2022):

- The government faced challenges in meeting fiscal objectives during 2018-2022 due to overlapping shocks and policy slippages.
- While the deficit narrowed to 3.1 percent of GDP in 2019 following consolidation, subsequent external shocks widened the deficit to 5.8 percent in 2020 and further to 7.4 percent in 2021.
- The Ukraine crisis in 2022 exacerbated existing vulnerabilities, leading to a widened budget deficit of 10.9 percent of GDP.
- Public debt, targeted at 70 percent of GDP, was only within this limit in 2018, gradually increasing to an estimated 98.9 percent of GDP in 2022.

4.3 Medium-Term Fiscal Forecasts, 2024-2028

4.3.1 Domestic Revenue Projections:

- **Objective**: Government aims to increase domestic revenue to 20% of GDP over the medium-term.
  - **Strategy**: Medium-term Revenue Strategy involves tax policy and administration measures, alongside technological advancements in tax collection.
  - **Projections**: Domestic revenue is expected to increase from SLe7.05 billion (13.0% of GDP) in 2022 to SLe31.5 billion (17.5% of GDP) in 2028.

  Tax Revenue Breakdown (2023-2028):

  - Personal Income Tax (PIT): From NLe2.5 billion in 2023 to NLe6.3 billion in 2028.
  - Corporate Income Tax (CIT): From NLe1.6 billion in 2023 to NLe4.4 billion in 2028.

- Goods and Services Tax (GST): From NLe2.2 billion in 2023 to NLe8.2 billion in 2028.
- Excise Taxes: From NLe651 million in 2023 to NLe2.3 billion in 2028.
- Import Duties: From NLe1.2 billion in 2023 to NLe4.3 billion in 2028.
- Mining Royalties and Licenses: From NLe699 million in 2023 to NLe1.6 billion in 2028.
- Other Taxes (mainly fisheries royalties and licenses): From NLe179 million in 2023 to NLe489 million in 2028.

Non-Tax Revenue Projections (2023-2028):

- Total Non-Tax Revenue: From NLe1.6 billion in 2023 to NLe3.8 billion in 2028 (averaging 2.1% of GDP).
- Timber Royalties: Projected at nil in 2023 and remaining nil over the period.

Grants:

- Grant Projections: From NLe4.03 billion in 2023 to NLe1.2 billion in 2028.
- As a Percentage of GDP: Forecasted to decline from 5.8% in 2024 to 0.7% in 2028.

4.3.2. Local Council Revenue Projections (2024-2028):

- Total Local Revenue: Projected to increase by 43%, from Le190.22 million in 2024 to Le271.18 million in 2028.
- Significant Increase: 50% growth in 2024 due to current and planned reforms, followed by 15% increase in 2025, and 10-8% increases in 2026-2028.

Assumptions Underlying Projections:

- Domestic Revenue: Driven by economic expansion, tax policy measures, and technological advancements in tax collection.
- Tax Revenues (PIT, CIT, GST, Excise, Import Duties, Mining Royalties, Other Taxes): Based on specific growth rates, policy changes, and efficiency gains.
- Non-Tax Revenues: Includes revenues collected by Other MDAs, TSA agencies, Timber royalties, Cargo tracking, and Road User Charges.
- Grants: Influenced by slow disbursement of project grants, with a decline as a percentage of GDP over the forecast period.
- Local Council Revenue Projections: Affected by local revenue mobilization reforms.

4.3.3. Government Expenditure Projections

Total Expenditure and Net Lending:

- Nominal terms to increase from an estimated NLe18.8 billion in 2023 to NLe40.5 billion in 2028.
- As a percentage of GDP, projected to decrease from 30.8% in 2022 to 22.5% in 2028.

Recurrent Expenditure:

- Projected to increase from NLe11.1 billion in 2022 to NLe28.6 billion in 2028.
- As a percentage of GDP, to decline from 20.4% in 2022 to 15.9% in 2028.

Wages and Salaries:

- Projected to increase from NLe4.3 billion in 2022 to NLe12.8 billion in 2028.
- As a percentage of GDP, to decrease from 8.0% in 2022 to 7.1% in 2028.

Expenditure on Goods and Services:

- Projected to decrease from NLe2.4 billion in 2022 to NLe5.7 billion in 2028.
- As a percentage of GDP, to decrease from 4.5% in 2022 to an average of 3.2% during 2025-2028.

Subsidies and Transfers:

- Projected to increase from NLe2.4 billion in 2022 to NLe5.7 billion in 2028.
- As a ratio to GDP, projected to decline from 4.5% in 2022 to an average of 3.2% during 2024-2028.

Interest Payments:

- Projected to increase from NLe1.8 billion in 2022 to NLe4.9 billion in 2028.
- Domestic interest payments as a percentage of GDP to increase from 3.0% in 2022 to an average of 2.2% during 2027-2028.
- Foreign interest payments as a percentage of GDP to decline from 0.4% in 2022 to 0.4% in 2024, averaging 0.5% during 2025-2026, and further declining to an average of 0.4% during 2027-2028.

Capital Expenditure and Net Lending:

- Estimated at NLe5.0 billion in 2023, increasing to NLe11.6 billion in 2028.
- As a percentage of GDP, estimated to decline from 9.3% in 2022 to an average of 6.6% during 2024-2028.
- Foreign-funded capital expenditure to average 4.3%, and domestic capital spending to be 2.2% of GDP during 2024-2028.

Overall Budget Deficit:

- Projected to narrow to 2.8% of GDP in 2024 from 10.9% in 2022 and an estimated 5.6% in 2023.
- Declining further to an average of 2.1% during 2025-2026, then increasing to 4.3% in 2028.

Total Public Debt:

- Projected to decline to 84.3% of GDP in 2024 from the estimated 98.9% in 2022 and 92.2% in 2023.
- Further decline to 67.3% of GDP in 2027 and 66.6% of GDP in 2028.
- Domestic debt projected to decline to 24% of GDP in 2024, and external debt to decline to 60.3% of GDP in 2024 and average 45.7% of GDP in 2027.

4.4 Policy Measures for Achieving the Medium-Term Fiscal Objectives

4.4.1 Measures for Achieving the Fiscal Deficit Target:

- The government aims to progressively reduce the budget deficit from 10.9% of GDP in 2022 to an average of 2.8% in 2027 and 2028.
- Strategies involve a mix of revenue enhancement, expenditure containment, and seeking additional grants for priority sectors.
- The Medium-Term Revenue Mobilization Measures include tax policy reforms, excise tax reforms, and exploration of climate finance options.
- The MTRS introduces measures for tax administration improvement, digitizing non-tax revenues, and enhancing compliance and risk management.

Domestic Revenue Mobilization at the Local Level:

- Government commits to strengthening decentralized delivery of public services by expanding the fiscal space of local councils.
- Reforms include developing a new fiscal decentralization policy, modernizing the property tax system, and supporting district revenue mobilization committees.

Medium-Term Expenditure Management and Control Measures:

- Efforts to stabilize the wage bill at 6.0% of GDP involve the implementation of a Medium-term Wage Bill Management Strategy and operationalizing the Wages and Compensation Commission.
- Budget planning and execution improvements include top-down budgeting and upgrading financial reporting standards.
- Public investment management aims to enhance the effectiveness of capital expenditure, with guidelines for project identification, design, appraisal, and monitoring.

4.4.2 Measures for Achieving the Public Debt Target:

- The updated Medium-Term Debt Strategy (MTDS) 2023-2027 outlines four strategies, emphasizing external concessional borrowing, market development, and the introduction of a Special Purpose Vehicle linked to mining revenue.
- Strategy 4 involves leveraging external private sector/PPP financing for transformative projects, potentially reducing the fiscal deficit and external debt service payments.
- Debt Sustainability Analysis recommendations include prioritizing grants over loans, diversifying the export base, and lengthening the maturity of existing debt instruments.

5.0 MEDIUM-TERM FSS EXPENDITURE FRAMEWORK (MTEF)

In the medium term (2024-2028), the government's key priorities, known as "THE BIG FIVE," as outlined in the Peoples' Manifesto, include Agriculture and Food Security (FEED SALONE) as the top priority, followed by Human Capital Development, Infrastructure, and Technology, creating 500,000 jobs, and revamping public administration. The allocation of expenditures aligns with these priorities, as reflected in the Medium-term Expenditure Framework (MTEF) ceilings.

5.2 Non-Salary, Non-Interest Recurrent Expenditures Ceilings/Allocations: For non-salary, non-interest recurrent expenditures, the share for Agriculture and Food Security increases from 2.6% in 2023 to 4.2% in 2025 and averages 4.3% from 2026-2028. Human Capital Development increases from 10.3% in 2023 to 10.9% from 2025-2028, with Education accounting for 4.6% in 2024 and averaging 4.7% from 2025-2028. Health's share rises from 4.4% in 2023 to 4.9% in 2026-2028. Infrastructure and Technology increase from 27.9% in 2023 to 28.4% in 2024 before averaging 27.4% from 2025-2028.

5.3 Domestic Capital Budget Allocations/Ceilings

In the Domestic Capital Budget (Public Investment Program - PIP), Agriculture and Food Security, including fisheries, increases significantly to 39% from 4.0% in 2023, reflecting the sector's priority. Human Capital Development constitutes 33% from 31% in 2023, with the Free Quality School Education Program averaging 23.0% over the period. Infrastructure and Technology decrease from 58% in 2023 to 20% over the MTEF period. (See Annex 2 for details.)

6.0 FISCAL RISK STATEMENT

The Fiscal Risk Statement identifies events, such as external factors and policy issues, that may disrupt fiscal plans, posing explicit or implicit threats to strategic fiscal goals.

Sierra Leone's fiscal risk management hinges on data quality, mitigation capabilities, and financial capacity. Major risks include macroeconomic factors and specific issues, encompassing GDP, inflation, terms of trade, and internal challenges like natural disasters and state-owned enterprises.

6.1 Macroeconomic Risks:

6.1.1 Volatile Economic Growth:

- Sierra Leone's undiversified economy faces volatility, impacting domestic revenue.
- Economic growth slowed to 3.6% in 2022, affecting domestic revenue collections.
- A one percentage point slowdown in the economy leads to a two-percentage point drop in domestic revenue.

6.1.2 Higher Inflationary Pressures:

- Inflation remained persistently high, reaching 44.6% in June 2023.
- Rapid inflation increases goods and services, energy subsidies, and the domestic capital budget.
- A one percentage point increase in inflation raises expenditure on goods and services by 3%.

6.1.3 Exchange Rate Volatility:

- External shocks and policy slippages contribute to Leone/US dollar exchange rate instability.
- Depreciation increases external obligations, impacting the budget.
- A one percentage depreciation in the exchange rate increases government expenditures by 5%.

6.1.4. Rising Interest Rates on Government Securities:

- Sierra Leone has a substantial domestic debt, with interest rates rising.
- Increased rates contribute to a wider budget deficit.
- A 300-basis point increase in the T-bills rate raises the ratio of interest payments to domestic revenue by 5%.

6.1.5. Adverse Terms of Trade:

- Price changes in key exports or imports can affect the balance of payments.
- Adverse terms of trade can lead to drops in taxes and revenue, complicating budget implementation.
- A drop in iron ore prices could reduce domestic revenue and hinder fiscal deficit targets.

6.2 Specific Fiscal Risks:

6.2.1 Contingent Liabilities of State-Owned Enterprise:

State-owned enterprises (SoEs), notably the Electricity Distribution and Supply Authority (EDSA), pose threats to the national budget due to weak financial health. The Russian/Ukraine war and the lingering impact of COVID-19 have exacerbated challenges, including rising input prices and Leone depreciation. EDSA, for instance, relies on government subsidies, with arrears estimated at US$39.0 million as of June 2023. The IMF Health Check tool revealed persistent losses and high deficits in over 60% of SoEs, primarily due to low revenue streams and quasi-fiscal operations without full reimbursement from the government.

6.2.2 Public Private Partnership (PPP) Projects:

PPP arrangements, involving collaboration between the public and private sectors for public infrastructure and services, present fiscal risks. The energy sector accounts for over 38% of active PPP projects, with potential contingent liabilities for the government. Risks include minimum revenue guarantees, foreign exchange risks, tax waivers, and construction, force majeure, and termination risks. The government emphasizes fair, transparent, and effective procurement processes, strengthened by legal and institutional frameworks.

6.2.3 Public Sector Litigation:

Growing legal actions against public institutions, such as SLRA, EDSA, Sierratel, SLCB, Law Officers' Department, and local councils, pose a risk to the national budget. The estimated total cost of claims is NLe50.0 billion. Continuous monitoring is necessary, although it's unlikely that all claims will materialize.

6.2.4 Policy Risks:

Poor policy design and implementation, along with delays in policy reform, weaken public financial management and pose a significant threat to the national budget. Slow implementation of agreed-upon policies and reforms can delay budget support disbursement, leading to budget management complications.

Natural Disasters and Pandemics:

Sierra Leone is vulnerable to recurrent natural disasters, including floods, mudslides, tropical storms, and pandemics. These events can impact government revenue due to lower tax collection from affected sectors and increase public expenditure for emergency response and infrastructure reconstruction. Strengthening the management of Public-Private Partnerships (PPPs) is crucial to address fiscal risks arising from such arrangements.

6.3 Fiscal Risks Mitigating Measures

6.3.1 Mitigating Macroeconomic Risks:

6.3.1.1 Implementation of the Economic and Financial Program with the IMF:

The government plans to adopt tighter macroeconomic policies to restore stability and resilience. Fiscal consolidation efforts, raising revenues, and curbing expenditures while protecting social spending will complement the Bank of Sierra Leone's initiatives. The current IMF Extended Credit Facility (ECF) arrangement will expire in 2023, and the government aims to renegotiate a successor program in 2024 for prudent fiscal policies.

6.3.1.2 Diversification of the Economy:

Ongoing efforts to diversify the economy aim to strengthen its resilience against shocks. Private sector involvement in agriculture, combating illegal fishing practices in fisheries, and tourism sector upgrades are part of the diversification strategy.

6.3.2 Mitigation Strategies for SoEs Fiscal Risks and Guarantees:

- The government has developed a State-owned Enterprises Ownership and Governance Policy, transforming into an Act, to enhance SoE performance management and transparency.
- With IMF-AFRITAC West 2 support, an SoE monitoring framework has been established to monitor fiscal risks from SoEs effectively.
- Regular fiscal oversight, annual contingent liability surveys, and staff capacity building are conducted to manage SoE risks.

6.3.4 Mitigating Risks from Natural Disasters:

- Government targets a reduction in CO2 emissions and has established the National Disaster Management Agency, along with a Disaster Risk Financing Strategy, to mitigate risks from natural disasters.
- Long-term goals include reducing human contribution to climate change, implementing REDD+, and promoting innovation and technology transfer for sustainable breakthroughs in energy and waste management.

6.3.5 Strengthening Policy Implementation:

- Despite challenges in revenue mobilization, the government is committed to implementing policy reforms aligned with the World Bank Country Policy and Institutional Assessment framework.
- The Ministry has established a technical team to monitor and report on the progress of policy reforms quarterly.

6.3.6 Measures to Mitigate PPP Risks:

- Government benefits from IMF and World Bank support to build capacity for assessing PPP fiscal risks.
- Commitment to measure and provision for contingent liabilities arising from PPP risks.
- Regulatory frameworks like the PPP Act 2014, Procurement Acts 2016, and the PFM Acts 2016 guide PPP project implementation.
- Proposals to set limits on exposure related to guarantees and insurance securitization are under consideration.

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