



**Institute for Governance Reform-IGR**

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**IGR Quarterly Economic Update: Vol. 0001**

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The Quarterly Economic Update on the Sierra Leone Economy is a publication of the Institute for Governance Reform (IGR). It is a quarterly report that highlights quarterly trends of the Sierra Leone economy. Here we report recent financial and economic indicators to inform policymakers and citizens. This current Update focuses on the last quarter of 2021.

### **Inflation and Monetary Policy**

The national year-on-year inflation for October 2021 stood at 14.55 percent, indicating an upward swing compared to 11.63 percent in September. By November inflation jumped to 15.77 percent demonstrating a continued increase in the price of basic goods and services. The last quarter of 2021 saw inflation continue to surge by an additional 2.15 percent, reaching its highest level across 2021 at 17.94% in December<sup>1</sup>.

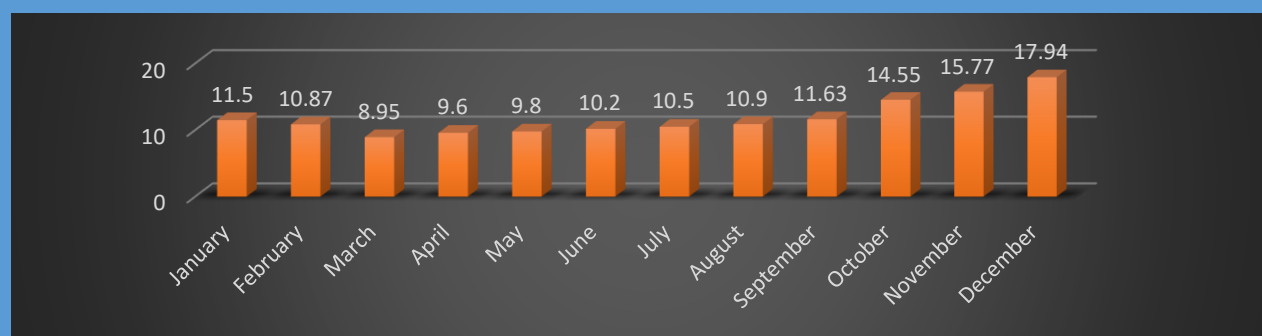


Figure 1. 2021 Inflation Rate Tracker

The figure above highlights that in 2021 January and February year-on-year inflation had rested in double digits but from March to May shows a slight decrease in inflationary pressures. Inflation ebbed and flowed throughout 2021. The third quarter saw an average of 11.01 percent while the last quarter witnessed an average inflation rate of 16.09 percent, this shows that the year-on-year inflation increased at an alarming rate in the last quarter. The rise could be largely attributed to the disruption within the global supply chain caused by COVID-19 in the last quarter.

### Money supply

The trend in money supply throughout the last quarter was expansive. Broad money (M2) increased through the period expanding by about 9.56% between November and December<sup>2</sup>. This was mainly a result of an increase in the net foreign assets during the period being reviewed. Narrow Money (M1) increased during the same period at an increasing rate. In November, M1 grew by about 7.37% whilst the growth was about 10.32% at the end of quarter<sup>3</sup>. This expansion was attributed to the rise in demand deposits and currency in circulation. We also noticed a shortage of Leones in circulation throughout the last quarter which was also confirmed by an

announcement made by the Bank Governor of the Central Bank of Sierra Leone. But in December sufficient supply of currency was circulated after the central bank printed money to mitigate monetary pressures.

### Interest rate

In Sierra Leone, interest rate decisions are taken by the Bank of Sierra Leone's Monetary Policy Committee. The BSL's official interest rate is the monetary policy rate. The policy rates for October, November, and December ranged from 14 to 14.25 percent. The interbank rates for October, November, and December were 14.41 percent, 14.77 percent, and 15.01 percent,

respectively. The average <sup>1</sup> interest rate on saving deposits dropped from 2.27% recorded at the beginning of the fourth quarter to 2.15% where it remained until the close of the quarter<sup>4</sup>. The prime lending rate of 19.03 percent remained fixed throughout the fourth quarter.

### Exchange Rates

The Leone depreciated against the US Dollar (USD) and British Pound (GBP) throughout the period. At the end of the quarter, the parallel exchange rate of the Leone against the USD showed the highest depreciation (2.72% and 3.54%) for both buying and selling rates<sup>5</sup>. The official exchange rate of the Leone against the USD showed depreciation of the Leone from October through to December in terms of both buying and selling rates.

Foreign Exchange Rate	Oct-30	Nov-30	Dec-30
Le/USD\$ - Buying (Official)	10,585	10,916	11,232
Le/USD\$ - Buying (Parallel)	11,000	11,300	11,700
Le/GBP – Buying	14,716	14,712	14,894
Le/USD\$ - Selling (Official)	10,850	11,200	11,600
Le/USD\$ - Selling (Parallel)	11,200	11,800	12,400
Le/GBP - Selling	15,200	15,310	15,850

### Redenomination

According to the Central Bank Governor Professor Kelfala M. Kallon, “our current currency is too big to fit into a wallet and we spend too much money printing oversized banknotes.”<sup>6</sup> The implication is that transaction costs are too high, and there is a need to redenominate the Leone.

The removal of the three zeros from the currency will not affect its real value. A redenomination is an auxiliary tool for improving the economy, providing the Central Bank with monetary tools to smooth out the effects of the crisis and chronic hyperinflation. Its task is to restore confidence in the national currency, simplify settlements and take control of shadow money. Central Bank Governor Kallon stated that the new currency notes will reduce transaction costs as well as provide a “psychological boost to the

citizens”. The effect of the currency redenomination will be felt by everyone irrespective of their financial status or earning power.

### **Fiscal Policy**

Most emerging economies around the world, including Sierra Leone, run a fiscal deficit as government expenditure exceeds government revenue. However, sometimes the reverse is possible. A fiscal deficit is when a government spends more than it receives. The last quarter shows an increase in Sierra Leone’s fiscal deficits.

When government spends more than it receives, it must make difficult political decisions. It has to increase taxation, reduce spending, or continue borrowing – further increasing public debt. Any one of these options will prove unpopular with voters. However, carrying on with the deficit is often seen by the government as the best short-term solution. As the debt piles up, it becomes a problem for the next government. By contrast, increasing taxation or reducing public spending will hurt the current government in the short-term.

### Revenue

Deficits were recorded in government’s fiscal operations in the first two months of the last quarter, with November recording the second-highest deficit of the year. The fiscal deficit rose sharply from Le39 Billion in October to Le86.9 Billion in November 2021. Despite the increase, a surplus of Le51.8 Billion was, however, recorded at the end of the quarter being reviewed. Overall, deficits recorded at the start of the fourth quarter were about Le24.2 Billion higher than that recorded at the close of the third quarter. This was due to a drop in Customs and Excise revenue as well as in Income Tax receipts. The increase in the deficit in November was the result of poor revenue performance including a significant fall of about 89.53% in total grants received<sup>7</sup>.

The surplus recorded at the end of the quarter was the result of an increase of over 150% received in total revenue including grants in December, compared to that in the previous

<sup>1</sup> Statistics Sierra Leone monthly bulletin 2021  
<sup>3,4,5 & 7</sup> Bank of Sierra Leone Data Warehouse

<sup>6</sup>Bank of Sierra Leone press conference 14<sup>th</sup> March 2021

<sup>2</sup>National Mineral Agency

month. As a result of the surplus, the cumulative deficit fell from Le 101.9 Billion in the previous quarter to Le64.6 Billion in the fourth quarter. Goods and Services Tax (GST) increased by about 18% between the end of the third quarter and the start of the last quarter<sup>8</sup>. Revenue receipts from GST continued to increase throughout the fourth quarter, though there was a drop in the rate of increase in November. GST collections exceeded monthly targets set during the quarter. Though revenue receipts from Custom and Excise duties increased during the period under review, the figures were less than those recorded at the end of the third quarter.

#### Government spending

Total government spending showed an elevated trend throughout the fourth quarter. The high deficit recorded in November is partly attributed to the 26.2% increase in expenditure from the previous month. This significant jump contributed to the 84.3% rise in treasury expenses used mainly for infrastructure, education, defence, debt financing, agriculture and health<sup>9</sup>.

#### Debt Management

The deficit recorded at the start of the fourth quarter was financed mainly from internal sources. Government debt to GDP ratio in Sierra Leone reached 73 percent of GDP by the end of 2021<sup>10</sup>.

Public debt and risk is monitored by the Expanded Cash and Debt Management Committee. The committee also monitors domestic and external debt levels. The Cash and Debt Management Committee is responsible for monitoring public debt as well as supporting reforms. Debt management processes will continue to be subjected to annual scrutiny by the Audit Service Sierra Leone as well as the Internal Audit Department of the Ministry of Finance. Progress towards achieving the targets identified in the MTDS will be measured at regular intervals and supported by performance audits by Audit Service Sierra Leone, and the annual audit reviews by the Internal Audit Department of the Ministry of Finance. Government is also responsible for undertaking a Debt Management Performance Assessment

(DeMPA) during the MTDS period to help identify areas for improvement. As the fiscal deficit continues, interest payments grew exponentially in a vicious cycle that increases the deficit further.

### **General Economy**

#### Manufacturing Sector

Manufacturing sector outputs improved during the fourth quarter of 2021, a reflection of increased consumer demand for certain manufacturing goods during the festive period. At the start of the quarter, output of all manufacturing goods increased. In November however, the production trend was mixed. Whilst the production of alcoholic beverages increased, that of non-alcoholic beverages, namely Maltina and soft drinks dropped. December recorded a much better performance in the sector relative to that of the previous month. This was as a result of the slack in the COVID-19 restrictions in the last quarter of the year.

#### Extractive Sector

In the diamond market, the cumulative value resulted in the lowest export value, with December resulting in the lowest performance in 2021. The value of diamond exports in December was 16.4% below that exported in the same month in 2020.<sup>2</sup> The cumulative total in the last quarter of 2021 was however, about 14% higher than that recorded during the same period just a year before<sup>12</sup>.

In the rutile market, the cumulative value showed that the fourth quarter recorded the highest export value, with the December figure being the highest of 2021. The value of rutile exported in December was about 22.6% above that exported in the same month in 2020. The cumulative total in the last quarter of 2021 was however about 17% higher than that recorded during the same period in 2020<sup>13</sup>.

#### Official Reserves

Though Sierra Leone's foreign-exchange reserves fluctuated substantially in recent months, it tended to increase through the period of November 2016 - October 2021 resulting in

<sup>8</sup> National Revenue Authority  
<sup>9,11,12 &13</sup> Ministry of Finance Budget Bureau

<sup>10 &14</sup> Trading Economics 2021  
<sup>15,16 &17</sup> GoSL Budget Statement 2021

439 million USD. Gross external reserves of the Central Bank fell by about 2.2% between October and November in the fourth quarter. At the end of the period under review, there was an increase of US\$22.43 million (6.95%) in total external reserves from US\$322.80 in September to US\$345.23 by the end of December<sup>14</sup>.

### **IGR's Analysis**

Below we provide brief analyses of various sectors of the economy, vis à vis government policy and programmes that seek to promote economic growth and raise the social standards across the country.

#### Road Infrastructure

Investing in road infrastructure projects is a significant part of the government's development agenda. The government allocated Le 85 Billion or 4% of non-salary, non-interest expenditure (NSNIE) to the Works and Infrastructure sector of the economy<sup>15</sup>. As one of the primary means of financing these projects, government borrowing has increased and thus continued to put upward pressure on interest rates. The fourth quarter saw a jump in the annual yield of various securities. Financing long-term infrastructure continues to be a challenge for the government. The capital market is gradually developing but yet to reach a stage where it could provide other types of borrowing instruments to facilitate alternative means of project financing. Also, the Ministry of Works and Public Assets has been allocated Le12.3 billion to repair and provide general maintenance of existing government buildings.

#### Agriculture

The government continues to promote the agriculture sector and allocated Le103 billion, about 7% of non-salary, non-interest expenditure (NSNIE) was allocated to this sector<sup>16</sup>.

Sierra Leone's excessive dependence on imported food items makes it vulnerable to external shocks. The price of the nation's staple food, rice, continues to increase, a reflection of world market prices. Measures were put in place earlier in the year to increase domestic rice production. Whether this will yield tangible results is not certain. However, to prevent consumers from having to bear the burden of expensive imported goods, the government

should encourage citizens to consume what is produced locally. To ensure that this is effective, measures should be taken so that domestically-produced food items are of high quality so that they become substitutes for imported products.

It was agreed in the Maputo declaration that for African economies to meet the target of halving poverty and food insecurity by 2015, all African countries should ensure that their national fiscal allocation to the agriculture sector is not less than 10%. Sierra Leone is making strides towards this goal.

With all these allocations over the years Sierra Leone remains far behind in meeting national food self-sufficiency targets. Government is spending over \$200 million alone on just rice importation according to the Bank of Sierra Leone. This exerts significant pressure on the US dollar and hence leads to the depreciation of the Leone as against the US dollar as well as rising inflation.

#### Government 2022 Fiscal Budget

The government's allocation for the 2022 financial year was read during the course of the last quarter of 2021. The key highlights of the FY2022 fiscal allocation are focused on human capital development, economic diversification, infrastructure and economic competitiveness, governance, empowering women, children and persons living with disability, youth employment and sports as well as vulnerabilities to climate change and building resilience<sup>17</sup>. We note that for government to meet all or the greater part of its stated priorities in the Medium-Term National Development Plan (MTNDP), revenue mobilization (improving domestic revenue collection), addressing strategic vulnerabilities and building resilience in concert with stringent public financial management practices will have to become a top priority. Hence, the composition and allocation of government's expenditure for the 2022 financial year reflects these identified priority areas.

### **Conclusion**

The overall assessment of the last quarter for 2021 demonstrates incremental improvements, but there are a number of political and social challenges that impede growth.

Financing long-term investments remains a national challenge as spending on infrastructure projects continues to exert pressures on interest rates as government borrowing increases. Financial marketization remains a possible channel through which such challenges can be mitigated. The country continues to be greatly affected by external shocks by virtue of its economic structure and high dependence on the import market. Projections of the 2022 Government Fiscal year are indicative of the fact that Sierra Leone will continue to operate in deficit as well as depend on external sources to meet its expenditure needs.

Covid-19 remains a significant threat to the economic growth of the country. If such a surge were to happen then the GoSL would need to readjust its priority areas to put in place a robust system of stringent financial management. So, it remains important that all Sierra Leoneans take the Covid-19 vaccine to help mitigate the threat of a potential third wave of Covid-19.

Another major threat to economic growth and development is the incremental increases in the global prices of oil and other basic goods and services. Sierra Leone remains an import-driven country and any negative shock in international markets can easily distort the country's growth trajectory. It is recommended that government starts to introduce import substitution strategies to reduce its over-reliance on international markets.

The reduction in the price of key exportable minerals on the international market could also significantly impact revenue mobilization to the point of impeding capital investments. The way forward could be to put more focus on three to four sectors (agriculture, tourism, fisheries, etc.) so that when one sector is disturbed others will be able to absorb the pressure and mitigate any negative externalities it may produce.

#### *ECONOMIC ENGAGEMENT/ADVOCACY*

(Advocacy for Rebuilding the Sierra Leonean Economy and Enhancing Productivity for Sustainable Economic Growth and Development)

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