GOVERNMENT OF SIERRA LEONE

FISCAL STRATEGY STATEMENT (FSS)

For FY 2023-2025

Submitted by

DENNIS K. VANDI
MINISTER OF FINANCE

In fulfillment of the requirements of section 23 of the Public Financial Management Act, 2016 and section 40 of the Finance Act 2020

MINISTRY OF FINANCE

October 2022

Table of Contents

BOXES

TABLES

INTRODUCTION

The Fiscal Strategy Statement (FSS) for 2023-2025 is prepared in compliance with section 23 (1) of the Public Financial Management (PFM) Act, 2016, which states: "Not less than the end of the seventh month of every financial year, the Minister shall, with the approval of Cabinet, prepare and lay before Parliament for its information a Fiscal Strategy Statement".

The main purpose of the FSS is to provide Cabinet and Parliament with a document that outlines the fiscal objectives and fiscal strategy of Government for the medium-term. The FSS provides early indications to Cabinet and Parliament of the main revenue and expenditure targets and policies to be adopted in the annual budget; in this case the 2023 Government budget.

In an effort to comply with sections 21 (1) and 23 (1) of the PFM Act, 2016, the Minister of Finance had prepared and submitted to Cabinet and Parliament Annual Fiscal Strategy Statements for 2019, 2020, 2021 and 2022 financial years. This 2023 Fiscal Strategy Statement specifies the fiscal objectives and strategy of Government for the next three years (2023-2025).

Consistent with section 23 (1) (a) to (k) of the PFM Act, 2016, this FSS is organized as follows: Following the introduction, section 1 presents the broad fiscal objectives of Government. Section 2 provides an overview of recent global and domestic macroeconomic developments (2020-2022) and the medium-term macroeconomic forecasts (2023-2025) and underlying assumptions. The section also presents a comparison between the macroeconomic forecasts in the previous Fiscal Strategy Statements and the actual outcomes. Section 3 presents the Fiscal Developments in recent years (2020-2022), medium-term fiscal forecasts and assumptions underlying the forecasts. The section also describes measures for achieving the fiscal objectives, which include revenue enhancing and expenditure management measures as well as debt management policies. It also reports on progress in achieving the fiscal objectives of Government in recent years (2019-2021). Section 4 presents the Medium-Term Expenditure Framework and Public Investment Programme with details of allocations of non-salary, non-interest and domestic capital expenditures to MDAs for 2023-2025. The section also discusses Government priority expenditures for 2023. Section 5 presents the Fiscal Risk Statement. The Fiscal Risk statement analyses the macroeconomic and other risks that are likely to derail the attainment of the fiscal objectives specified in the FSS. The section also discusses the measures for mitigating the different types of fiscal risks.

1 FISCAL STRATEGY AND OBJECTIVES

The fiscal objectives of Government for the medium-term (2022-2025) are specified in the Medium-term National Development Plan (2019-2024) and are consistent with the principles of Responsible Fiscal Management enshrined in section 2 (2) of the Public Financial Management (PFM) Act 2016 as follows:

- Achieve and maintain prudent levels of public debt so as not to impose an inequitable burden on future generations;
- Achieve and maintain an appropriate balance between revenue and expenditures of the general Government
- Formulate and implement fiscal policies to maintain macroeconomic stability
- Provide timely, reliable and adequate information to the public on fiscal objectives, data, and risks to ensure transparency in budgetary and financial management of the general Government; and
- Manage prudently, the fiscal risks faced by Government

In line with the principles of Responsible Fiscal Management and the need to achieve fiscal and debt sustainability, Government will adopt the following key fiscal objectives for the medium-term (2023-2025):

(i) Reduce total Public Debt to 70 percent of GDP by the 2025 fiscal year
(ii) The overall fiscal deficit, including grants, should gradually narrow down to a level not exceeding 3 percent of GDP by the 2025 fiscal year

The above fiscal objectives and targets will enable Government to achieve fiscal and debt sustainability, thereby complying with the principles of responsible fiscal management. The two main fiscal targets have been chosen because they are mutually reinforcing. The attainment of the public debt target depends largely on the reduction of the budget deficit, which will in turn will reduce the need for Government borrowing.

To support compliance with the above two (2) primary fiscal objectives and targets, Government is also pursuing the following supplementary fiscal targets:

(i) Increase domestic revenue to at least 16.3 percent of GDP by 2025

(ii) Contain Government expenditures at 21-22 percent of GDP by 2025.

To achieve the domestic revenue target, Government will be implementing several revenue enhancing measures including strengthening tax administration, automating tax processes and expanding the tax base and restructure tax rates. To this end, Government is developing a Medium-term Revenue Strategy with support from the IMF and the World Bank.

To keep expenditures at the level specified above, Government will improve expenditure management and strengthen controls. In this regard, Government will continue to implement the on-going wage reforms and develop a Medium-term Wage Reform Strategy to achieve a sustainable wage bill of 6 percent of GDP in the medium-term. Efforts will continue to improve the management of non-interest, non-salary recurrent expenditures by strengthening commitment controls. The management of capital expenditures will also be improved through the implementation of the recommendations contained in the technical assistance report on Public Investment Management Assessment (PIMA).

2 RECENT ECONOMIC TRENDS AND OUTLOOK

2.1 Global Economic Developments in 2022, Outlook and Risks

The global economic recovery from the COVID-19 pandemic is slowing down and the medium-term outlook is challenging. This is coming on the back of stalling growth in the world's three largest economies—the United States, China, and the euro area. According to the July World Economic Outlook Update from the International Monetary Fund, global growth is projected to slowdown from 6.1 percent in 2021 to 3.2 percent in 2022, 0.2 percent lower than the April WEO projections. This downward revision was principally driven by the spillovers from the deepening uncertainties from the war in Ukraine, the slowdown in the US, China and the Euro Area coupled with the tighter global financial conditions, as central banks around the world raise interest rates to bring inflation down. Growth is also projected to moderate further in 2023 to 2.3 percent, 0.7 percent below the April WEO forecasts. Global growth is projected to average around 3.0 percent in the medium-term.

Significant uncertainty surrounds this forecast, and downside risks to the global outlook dominate. These risks include surge in energy prices, re-emergence of the COVID-19 pandemic and heightened uncertainties from the war in Ukraine.

In the US, growth prospects for 2022 and 2023 have weakened substantially, following two consecutive quarters of negative growth, reflecting slowdown in consumer and business spending, amid high inflation and the fear of a recession. Economic activities contracted by 0.9 percent in the second quarter, following a 1.6 percent contraction in the first quarter. As a result, the IMF July WEO update has revised growth of the US economy for 2022 to 2.3 percent and to further moderate to1.0 percent in 2023.

Europe's economic outlook has diminished significantly as the war in Ukraine deepens, reflecting the continents over reliance on Russia for most its energy needs and as a major market for EU exports. In addition, delays in the normalization of global supply chain have weak export demand and tighter monetary condition continue to weigh on the region's growth. Beyond the immediate humanitarian crisis, soaring energy prices have push inflation to record high. Economic activities are now projected to expand by 2.6 percent in 2022, 1.1 percent slower than the April WEO projection of 3.9 percent.

In China, growth remain subdued by repeated zero-Covid-19 lockdowns- which closed major cities and manufacturing hubs and disrupted industrial production. In addition, weak consumer and business spending has slowdown retail sales and deepened the crisis in the real estate and property market. Although exports improved in June, overall economic outlook for the year is projected to remain weak. As a result, the economy is projected to slow down to 3.3 percent in 2022, from 8.1 percent in 2021.

In Sub Saharan Africa, despite heightened global headwinds from high and rising inflation, slowing global economic conditions and tighter global financial conditions, favourable export prices for the region's key exports including fossil fuel and metals amid higher commodity prices as the war in Ukraine deepens could just be enough to starve off a slowdown in economic activities in the region. Economic activities in the region are projected to slow down to 3.8 percent in 2022, from 4.5 percent in 2021.

Despite slowing global economic conditions, headline inflation in several Advanced and Emerging Market economies has drifted further above-set targets, amid escalating energy and food prices, as well as persistent and broadened supply chain bottlenecks. Inflation this year is anticipated to reach 6.6 percent in advanced economies and 9.5 percent in emerging market and developing economies—upward revisions of 0.9 and 0.8 percentage points respectively—and is projected to remain elevated longer. Inflation has also broadened in many economies, reflecting the impact of cost pressures from disrupted supply chains and historically tight labor markets.

Earlier gains in the prices of commodities that we saw in the first half of 2022 are slowing down, underpinned by heightened uncertainties for the health of the global economy and sharp slowdown the two largest economies- US and China and persistent and broadened supply chain bottleneck. Energy prices fell by 1.3 percent in July, led by crude oil (-10%), while European Natural gas gained more than 50 percent. Non-energy fell by 8.9 percent. Agricultural prices dropped by 7.4 percent. Food prices decline by 7.4 percent, led by grains (-8.3 %)

and oils and meals (-13.1%). Fertilizer eased 3.7 percent in July. Metals declined 13.4percent with large metal registering huge declines; iron ore (17%), tin (19.5%), and copper and nickel (16%). Precious metal declined by 6.6 percent.

2.2 Domestic Macroeconomic Developments: 2020-2021 and First Half of 2022

The Sierra Leone economy contracted by 2.0 percent in 2020 following the outbreak of the COVID-19 pandemic and subsequent introduction of pandemic-related restrictions, which disrupted economic activities. The economy recovered in 2021 growing by 3.2 percent underpinned by the unwinding of pandemic related restrictions, resumption of iron ore production, increased activities in agriculture coupled with the fledgling recovery in services including tourism.

Headline inflation rose sharply in March 2020, following pandemic-related panic buying, instigated by the announcement of the first lockdown. However, inflation moderated in the second half of the year and declined to 10.4 percent in December 2020 from 13.9 percent in December 2019 owing to the availability of essential items in the market and relative stability in the exchange rate facilitated by the Special Credit Facility of US$50 million launched by the Bank of Sierra Leone to support the importation, production and distribution of essential goods. The downward trend continued into the first quarter of 2021 reaching a low of 8.9 percent in March 2021. Inflationary pressures re-emerged in the second half of 2021, following steep increases in global food and energy prices, high shipping costs due to demand and supply imbalances and supply disruptions, combined with the depreciation of the Leone. As a result, end-period inflation rose to 17.9 percent in December 2021 with food inflation ring to 19.4 percent in 2021 from 15.1 percent in 2020.

Despite the recovery in exports, the current account deficit widened to US$ 604.7 million (14.3 percent of GDP) in 2021 from US$ 275.6 million (6.8 percent of GDP) in 2020 reflecting the sharp increase in imports, decline income (net) and transfers and increase in payments for services.

While merchandise exports increased by 66.5 percent to US$ 705.6 million in 2021 from US$ 423.8 million in 2020, imports (f.o.b) increased to US$ 1,560 million in 2021, up by 27.7 percent from US$ 1,221million in 2020 driven by the increase in the importation of chemicals, machinery and transport equipment, crude materials reflecting the recovery in economic activities.

Gross international reserves of the BSL increased by 37.6 percent to US$ 931.8 million (5.3 months of imports in 2021 from US$ 677.2 million (4.2 months of imports) in 2020. The increase reflects increased receipt from mining and agricultural exports, enhance budget support from the World Bank and the disbursement of balance of payment support from the IMF.

The annual average exchange rate depreciated by 6.2 percent to Le 10,439.4 per US dollar in December 2021 from Le 9,829.8 per US dollar in 2020. The spread between the Official and Parallel market rates widened to 4.1 percent (Le 457.2 per US dollar) in December 2021 from 3.5 percent (Le 353.94 per US dollar) in December 2020.

Public debt increased from 76.3 percent of GDP in 2020 to 78.8 percent of GDP in 2021 as both domestic and external debts increased over the period. Domestic debt increased from 26.6 percent in 2020 to 28.3 percent in 2021 whilst external debt increased from 49.7 percent of GDP to 50.5 percent of GDP over the same period. The war in Ukraine is constraining economic activity in 2022. Against the background of rising food and fuel prices, somewhat lower production prospects in the mining sector and the general uncertainty in the global economy, growth in 2022 has been revised downwards to an estimated 3.6 percent from an earlier forecast of 5.9 percent.

Inflation continued to rise driven by the sharp increase in the international price of food and fuel products due to supply disruptions caused by the Ukraine crisis. Inflation rose to 29.5 percent in July 2022 before moderating slightly to 28 in August 2022.

The trade deficit widened from US108.2 million in the first Quarter of 2022 to US$254.9 million in the second

Quarter of 2022. This was mainly due to the increase in the import bill, which outweighed the increase in exports. The increase in the import bill was largely driven by the higher payments for food and petroleum products, reflecting the rise in international prices for these commodities.

The low level of exports and speculative activities by market agents coupled with the appreciation of the US dollar have had a telling effect on the performance of exchange rate in the first half of the year. The exchange rate of the Leone to the US dollar depreciated by 17.0 percent, from Le 11,255.72 in end December 2021 to Le 13,153.15 as at end June 2022.

2.3 Medium-Term Macroeconomic Forecasts, 2023 – 2025

The medium- term outlook remains challenging on account of the deteriorating terms of trade, more uncertain global prospects due to the Ukraine war, and the lingering COVID-19 risks. The on-going Russia-Ukraine war is undermining the growth prospects of the economy.

The medium-term macroeconomic and fiscal projections were initially produced by the Macro-Fiscal Working Group comprising the Ministry of Finance, Bank of Sierra Leone, Statistics Sierra Leone, National Revenue Authority and the National Minerals Agency using the Sierra Leone Integrated Macroeconomic Model (SLIMM). The initial projections were discussed with the IMF Country team during the Fifth review under the Extended Credit Facility (ECF) during May to June 2022. The final agreed projections for the period 2023-2025 are as follows:

Real GDP growth is projected to slightly slow down to 3.4 percent in 2023 from 3.6 percent in 2022 and to grow strongly by an average of 5.0 percent during 2024 to 2025. The agricultural sub-sector is projected to grow by 3.6 percent in 2023 and by an average of 4.4 percent in 2024 and 2025. The Industry sector comprising mining, manufacturing and construction is projected to grow by 3.3 percent in 2023, 10.2 percent in 2024 and 11.1 percent in 2025. The services sector comprising trade, travel, tourism, transport, banking and telecommunications is projected to grow by 3.2 percent in 2023 and further by 4.5 percent in 2024 and 4.6 percent in 2025.

Table 2. 1: Sectoral GDP Growth Rates Projections (2023-2025)

	2021	2022	2023	2024	2025
Real GDP Growth	3.2	3.6	3.4	5.0	5.0
Agriculture	2.5	3.6	3.6	4.5	4.3
Industry	10.7	8.3	3.3	10.2	11.1
Services	2.3	2.5	3.2	4.5	4.6

End of period Inflation (year-on-year) is projected to decline to 19.6 percent in 2023, 16.4 percent in 2024, and 13.2 percent in 2025 from the high level recorded in 2022 (28.5 percent in July 2022). Annual average inflation is also projected to decline to 21.0 percent in 2023 and further down to 14.8 percent in 2025.

Export of Goods are projected to grow by an average of 7.2 percent during 2023 to 2025.

Import of Goods are projected to decline by 4.1 percent in 2023 and 0.48 percent in 2024 before increasing slightly by 1.4 percent in 2025.

The current account deficit (including grants) is projected to decline gradually from 13.6 of GDP in 2022 to 10.9 percent of GDP in 2023, 8.8 percent of GDP in 2024 and then to 6.4 percent of GDP in 2025.

The balance of payment deficit is projected to narrow down to 1.1 percent of GDP in 2023 from 5.7 percent of GDP in 2022 and turn to a surplus of 1.1 percent of GDP in 2025.

Gross Foreign Reserves of the Bank of Sierra Leone will average 3.3 months of import cover during 2023-2025

The depreciation of the exchange rate is expected to slow down as exports increase and domestic inflation moderates in the medium-term.

Box 2. 1 : Assumptions underpinning the Medium-term Macroeconomic Forecasts

Real GDP: Concerns about the economic uncertainty created by the war in Ukraine underpins the projected slight slowdown of the economy to 3.4 percent in 2023.
The ramping up of iron ore mining, increase in agricultural output as the policy shift consolidates, expansion in construction and manufacturing activities, recovery of the tourism sector and improvement in the business environment will support the projected average growth of 5 percent during 2024-2025.

Inflation: The projected slowdown in inflation is based on the expected decline in international prices of food, fuel and fertilizer as supply disruptions normalizes; increase domestic food supply, expected stability in the exchange rate as exports improve combined with the tight monetary policy stance of the Bank of Sierra Leone.
Exports: the continued operations of the two iron ore mining projects (Tonkolili and Marampa), expansion in diamond and gold mining and the resumption of bauxite exports combined with the increase in agricultural exports (cocoa, coffee and palm oil) will support the growth in exports.

Imports: the expected gradual decline in international food and fuel prices during 2023 and 2024 will contribute to the decline in the total import bill.

Current Account Balance: the projected improvement in the trade deficit as exports increase and imports decline combined with the expected increase in official transfers (project and programme grants) will lead to the narrowing of the current account deficit.
Balance of Payments: Inflows of Foreign Direct Investments in key sectors of the economy as governance and the business environment improves will help improve the overall Balance of Payments.

Gross foreign reserves: Disbursement of programme grants, balance of payments support by development partners, tax receipts and export proceeds will contribute to the projected level of foreign reserves.

Exchange rate: The exchange rate of the Leone to the US Dollar is projected to depreciate/appreciate by the difference in the inflation rate in Sierra Leone and that of the country's trading partners

Table 2. 2: Forecasts of key Macroeconomic Indicators, 2023-2025

	2020 Est.	2021 Est	2022 Org. proj	2022 Rev. Proj	2023 Proj.	2024 Proj.	2025 Proj.
Annual Percentage Change							
Real GDP	-2.0	3.2	5.9	3.6	3.4	5.0	5.1
Real GDP, excl. iron ore	-1.8	2.3	3.1	2.4	3.2	4.8	4.9
Inflation (end-of- period	10.4	17.9	12.0	22.1	19.6	16.4	13.2
Inflation (average)	13.4	11.9	13.0	21.7	21.0	18.0	14.8
Export of goods	-34.2	30.7	14.6	30.6	6.8	4.4	10.3
Import of goods	-12.0	27.8	3.2	9.6	-4.1	-0.8	1.4
Percent of Non-iron ore GDP							
Current account (including official grants)	-6.8	-14.6	-15.9	-13.6	-10.9	-8.8	-6.4
Current account (excl. official grants)	-11.3	-17.8	-18.4	16.9	-13.6	-12.1	-9.6
Gross Foreign reserves (months of imports)	4.2	5.3	3.4	4.0	3.5	3.3	3.0
Public Debt	76.3	78.8	72.5	80.8	80.4	77.4	73.9
Domestic	26.5	28.3	20.9	22.9	22.2	21.1	20.4
External including IMF	49.7	50.5	51.6	57.9	58.2	56.4	53.5

2.4 Comparison between Macroeconomic Forecasts and Actual Outturns, 2019-2021

In an integrated global economy, continuous changes in demand and supply conditions, spillover from external shocks and policy slippages could have an appreciable effect on the evolution of macroeconomic and budgetary variables and as such could cause a deviation of macroeconomic and fiscal outturns from their respective initial forecasts. In addition to these so called traditional drivers of both domestic and global shocks, health related pandemics and climate change concerns have recently emerged as very important factors that could trigger variations between actual macro-fiscal indicators and original projections.

This section analyses the variation of actual macroeconomic and fiscal outturns from their original forecasts produced by the Macro-Fiscal Working Group and the IMF and published in the Fiscal Strategy Statements (FSS) for the period 2019-2021. The relevant macroeconomic and fiscal variables include real GDP, inflation, budget deficit and public debt.

2.4.1 Real Gross Domestic Product (GDP)

Sierra Leone economic growth performance in recent times has been volatile characterized by periods of high growth and spells of low growth given the vulnerability of the economy to shocks. This has caused actual real GDP growth to deviate from initial forecasts with adverse implications for economic and fiscal management.

Real GDP was projected grow by 5.1 percent in 2019 from the subdued growth of 3.5 percent in 2018.
Actual GDP growth was estimated at 5.5 percent in 2019, 0.4 percent higher than the original forecast. The better-than- expected economic growth reflected the increased activities in agriculture and mining activities following resumption of iron ore mining as well as the expansion in services including communications, trade and tourism. The recovery of the economy was initially projected to strengthen further by 4.2 percent in 2020. However, the outbreak of the COVID-19 pandemic and the introduction of pandemic-related restrictions, constrained economic activities. Trade and tourism were the hardest hit while agriculture and mining also declined. As a result, the economy recorded a negative growth rate of 2.0 percent in 2020 instead of the positive growth rate initially anticipated.

As the health situation improved and restrictions removed, economic activities resumed, supported by the resumption of iron ore production and the fledging revival in traveling and tourism, the economy was initially projected to recover by 2.7 percent in 2021. Actual real GDP growth was estimated at 3.2 percent, 0.5 percent above the initial projection, reflecting the higher-than-expected mining output combined with the recovery in agriculture, manufacturing, construction, travel, trade and tourism.

2.4.2 Inflation

Inflation was broadly as projected in 2019. Actual end period inflation was 13.9 percent compared to the projection of 14.0 percent. Inflation was initially projected to decline to 12.0 percent in 2020. However, the surge in inflation triggered by panic buying in March following the announcement of the first COVID-19 lockdown, necessitated an upward revision of the target to 17.5 percent. End of period inflation declined to 10.4 percent in December 2020. The better-than-expected outcome was due to the uninterrupted supply of essential items supported by the BSL Special Credit Facility, the relative stability of the exchange rate combined with the weak private demand for goods and services.
End of period inflation was initially projected to rise to 13.5 percent in 2021. After falling to 8.9 percent in March 2021, inflationary pressures re-emerged in the second quarter of 2021 after. End of period inflation rose to 17.9 percent in 2021, reflecting the rise in food and energy price, higher freight costs, and the continuous depreciation of the Leone to the US dollar.

2.4.3 Domestic Revenue, Expenditures and Fiscal Deficit

For 2019, the fiscal deficit (including grants) was projected at 5.5 percent of GDP underpinned by Government's fiscal consolidation efforts, which began to yield positive results in 2018. Domestic revenue was projected to increase to 14.1 percent of GDP while expenditure was programmed at 21.5 percent of GDP.

The actual fiscal deficit (including grants) for 2019 was 3.1 percent of GDP, lower than the initial projection of 5.5 percent of GDP, as domestic revenue collected of 14.6 percent of GDP was higher than original target of 14.1 percent of GDP. Total expenditures and net leading amounted to 21.1 percent of GDP, broadly as budgeted. For 2020, the original budget deficit (including grants) was projected at 2.6 percent of GDP, with domestic revenue projected at 14.8 percent of GDP and total expenditures at 21.5 percent of GDP. However, due to the outbreak of COVID-19 and the associated drop in economic activities, domestic revenue fell to 13.8 percent of GDP, whilst expenditures increased to 25.7 percent of GDP to accommodate pandemic related expenditures. As a result, the budget deficit (including grants) widened to 5.8 percent of GDP, which is 1.6 percentage point above the initial projection.

For 2021, the original budget deficit (including grants) was projected to decline to 4.5 percent from 5.8 percent of GDP in 2020. Domestic revenue was projected to increase to 14.1 percent of GDP while expenditures were programmed to decline to 23.1 percent of GDP.

Actual domestic revenues collected increased to 15.5 percent of GDP due to the recovery in economic activities, unwinding of the tax deferrals and one-off payment of iron ore royalties by the Sierra Leone Mining Company operating at the Marampa Mines. Despite the improvement in revenues, the budget deficit widened to 7.3 percent of GDP. This was due largely to the sharp increase in expenditure to 28.1 percent of GDP, 5.0 percentage point above the budgeted amount due to the continued need to response to the lingering impact of COVID-19.

2.4.4 Public Debt

The total stock of public and publicly guaranteed debt was estimated at 71.8 percent of GDP in 2019, almost 10.0 percentage point above the original projection of 62.1 percent of GDP. This deviation was as a result of the disbursement of programme and project loans to finance several projects in key sectors.

Public debt was projected to rise slightly to 73.0 percent of GDP in 2020 from 71.8 percent of GDP in 2019The disbursement of emergency support loans under the Rapid Credit Facility of the IMF as part of efforts to mitigate the impact of COVID-19 on the fiscal and external accounts partly accounted for the increase in the actual public debt to 76.3 percent of GDP, 3.3 percentage points above the original projection.

For 2021, public debt was projected to decline slightly to 72.5 percent of GDP from 76.3 percent of GDP in 2020. However, the outturn for 2021 was estimated at 78.8 percent of GDP, 6.2 percentage point above the initial projection. Domestic debt increased to 28 percent of GDP in 2021 compared to the projection of 22.0 percent of GDP. The deviation was driven mainly by the increase in domestic borrowing to finance the budget deficit. External debt amounted to 50.5 percent of GDP compared to the projection of 51.1 percent.

Table 2. 3 : Comparison between Macroeconomic Forecasts and Actual outcomes

Indicators	2019		2020		2021	
	Projection	Actual	Projection	Actual	Projection	Actual
Real GDP	5.1	5.5	4.2	-2.0	3.3	3.2
Inflation	14.0	13.9	12.0	10.4	13.5	17.9
Domestic Revenue (% of GDP)	14.1	14.6	14.8	13.8	14.1	15.5
Total Expenditures (% of GDP)	21.5	21.1	21.5	25.7	23.1	28.1
Overall Budget Deficit, incl. grants (% of GDP)	-5.5	-3.1	-2.6	-5.8	-4.5	-7.3
Public Debt (of GDP)	62.6	71.8	73.0	76.3	72.5	78.8

3 FISCAL POLICY

This section presents an overview of recent fiscal developments and the medium-term fiscal forecasts (2023-2025). The section also describes Government's strategies for achieving the fiscal objectives set out in section 1 of this document.

3.1 Recent Fiscal Developments: 2020-2021 and First Half of 2022

Fiscal performance during 2020 to 2021 and the first half of 2022 was challenging, reflecting the impact of external shocks, mainly COVID-19 pandemic, which disrupted external and domestic economic activities, weaken tax compliance and created additional expenditure pressures. The Russia-Ukraine war, which broke out in February 2022 is also exacerbating the fiscal pressure.

Domestic revenue collected in 2020 amounted to Le5.51 trillion (13.8 percent of GDP) and increased to Le6.92 trillion (15.5 percent of GDP) in 2021. Relative to the original pre-COVID target, domestic revenue recorded a shortfall of Le969 billion (2.3 percent of GDP) in 2020, attributed mainly to the depressed economic activity, weak tax compliance, tax deferrals granted to businesses and disruptions in the implementation of tax administration reforms. Domestic revenue collection exceeded its original and revised targets in 2021 by Le 500.91 billion and Le102.60 billion. With the exception of collections from petroleum excise and fisheries, all other revenue streams in 2021 were significantly higher than the respective amounts collected in 2020.

The improved domestic revenue performance in 2021 was attributed mainly to the recovery in economic activities, one-off payment of royalties on iron ore (US$20 million) by the Marampa Mines; improved tax compliance, opening of international trade as well as the roll-out of the Electronic Cash Register for the administration of GST and the Integrated Tax Administration System (ITAS) for the electronic registration, filing and payment of taxes.

Domestic revenue collection was weak during the first half of 2022. Total revenue collected amounted to SLE 3.26 billion (6.4 percent of GDP), which was SLE212 million below the revised target of SLE 3.56 billion and SLE119 million less than the amount collected in the corresponding period in 2021. The poor revenue performance was driven by many factors including (i) weak tax compliance, (ii) transition challenges to a lower GST threshold to be administered with the electronic cash register; (iii) delays in the payment of mineral and fisheries license fees, (iv) suspension of the implementation of the full pass-through fuel pricing formula, and (v) supply chain challenges in the export of timber logs.

Total grants received from development partners amounted to Le2.12 trillion (5.3 percent of GDP) in 2020 and Le2.4 trillion (4.6 percent of GDP) in 2021. The higher grants received during the period, reflects in part development partners' efforts to mitigate the adverse impact of COVID-19 on the budget.

Total expenditure and net lending, increased sharply to 25.7 percent of GDP in 2021 and further to 28.1 percent of GDP from 21.3 percent of GDP in 2019, reflecting the continuing need to respond to the impact of the lingering COVID-19 on the population. Total expenditure and Net Lending for the first half of 2022 amounted to SLe6.7 billion (13.3 percent GDP), exceeding the budgeted amount by SLe382.5 million. Whilst the wage bill was within the half yearly ceiling, goods and services, subsidies and transfers and interest payments exceeded their respective budgeted amounts by SLe98.4 million, SLe12.6 million and SLe180 million, respectively. Domestic capital expenditures also exceeded the budgeted amount by SLE91.8 million.

Reflecting these developments, the overall budget deficit widened to 5.8 percent of GDP in 2020 and further to 7.3 percent of GDP in 2021 from 3.1 percent of GDP in 2019. The deficits were financed mainly from domestic borrowing, including the on-lending of RCF resources to Government by the Bank of Sierra Leone to support budget implementation. Domestic bank financing, including RCF resources on-lent amounted to 6.9 percent of GDP in 2020; of which net RCF resources on-lent to Government amounted to 3.1 percent of GDP. Domestic bank financing amounted to 5 percent of GDP in 2021; of which net RCF resources on-lent amounted to 1.9 percent of GDP. The overall budget deficit, for the first half of 2022 is estimated at 5.1 percent of GDP compared to the target of 3.7 percent of GDP.

Table 3. 1: Sierra Leone: Fiscal Operations, 2020-2021 and First Half 2022 (Le million)

	2020	2021	FH2022
Total Revenue & Grants	**7,794**	**9,288**	**4,154.9**
Domestic Revenue	**5,501**	**6,917**	**3,257.9**
Tax Revenue	4,613	5,585	2,500
Personal Income Tax	1,408	1,670	493.5
Corporate Income Tax	584	765	780.2
Goods and Services Tax	1,046	1,258	589.5
Excises	577	481	177.4
Import Duties	644	807	405.4
Mining Royalties & Licenses	258	523	162.8
Royalty on Fisheries	96	81	47.5
Non-Tax Revenue	887	1,332	757.8
Capital Transfer from BSL	352	327	
Grants	2,122	2,044	895.9
Budget Support/Debt Relief	1,525	1,084	222.1
Project Grants	597	960	673.8
Total Expenditure & Net Lending	**10,274**	**12,533**	**6,727.6**
Recurrent Expenditure	7,067	8,622	4,892.5
Wages and Salaries	3,264	3,926	2,169.4
Goods & Services	1,423	1,706	858.4
Subsidies & Transfers	1,171	1,722	1,025.6
Interest	1,209	1,268	839.2
Domestic	1,089	1,134	764.2
Foreign	120	134	75.0
Capital Expenditure	3,026	3,528	1,835.0
Foreign funded	1,709	1,836	1,173.4
Domestic funded	1,317	1,692	673.8
Domestic Primary balance	**-1697**	**-2213**	**-2,238.8**
Overall Balance including grants	**-2300**	**-3245**	**-2,591.2**
Overall balance excl. grants	**-4422**	**-5289**	**-3,469.6**
Financing (Net)	**2,300**	**3,245**	**2,591.2**
External	692	350	209.8
Domestic (Net)	1,542	2,781	1,495.4
Total Bank	2,740	2,247	1,426.9
Bank Net of On-lending	1,510	1,407	1,261.7
RCF/SDR on-lending (Net)	1230	840	165.2
Non-bank	-161	-138	68.5

3.2 Medium-Term Fiscal Forecasts: 2023 – 2025

3.2.1 Domestic Revenue Projections (2023-2025)

The spillover effects of the Ukraine crisis are expected to linger into the medium-term with adverse implications for domestic revenue collection. However, Government is putting in place revenue enhancement measures to improve domestic revenue collection in the medium-term as part of efforts to restore fiscal sustainability and macroeconomic stability.

On this basis, domestic revenue is projected to increase from SLe7.79 billion in 2022 to SLE9.35 billion (14.0 percent of GDP) in 2023. Domestic revenue is projected to improve in the medium term to SLE12.09 billion (15.5 percent of GDP) in 2024 and SLE14.7 billion (15.9 percent of GDP in 2025.

Personal Income Tax (PIT) is projected to increase in nominal terms to Le2.4 billion in 2023, Le2.9 billion in 2024 and further to Le3.2 billion in 2025. As a percentage of GDP, personal income tax is projected to increase to 3.5 percent of GDP in 2023. PIT will increase to 3.7 percent of GDP in 2024 and 3.8 percent of GDP in 2025.

Corporation tax (CIT) is projected to increase to SLe1.3 billion (2.0 percent of GDP) in 2023. CIT is projected to increase further to SLE1.4 billion in 2024 and further improve to SLe1.6 billion in 2025.

Goods and Services Tax (GST) is forecast to increase to SLE1.84 billion (2.8% of GDP) in 2023. GST collection is projected to significantly improve in the medium term to SLE2.5 billion (3.2% of GDP) in 2024 and further to SLe3.3 billion (3.6% of GDP) in 2025.

Excise taxes, comprising largely excise duty on petroleum products are projected at SLe575.2 million in 2023 (0.9 percent of GDP). Of this Excise duties on petroleum products are projected at SLe470.1 million (0.7 percent of GDP) and Other excises at SLe105.1 million (0.2 percent of GDP) in 2023. Excise taxes are projected to average 1.1 percent of GDP in the medium-term.

Import Duties are forecast to amount to SLe1.1 billion (1.6 percent of GDP) in 2023. Import duties are projected to increase to SLe1.6 billion (2.1% of GDP) in 2024 and SLe2.01 billion (2.2 percent of GDP) in 2025.

Mining royalties and licenses are projected to amount to SLe576.8 million (0.9 percent of GDP) in 2023. Mining royalties and licenses are projected to increase further to SLe732 million in 2024 and SLe946 million in 2025.

Other taxes, which are mainly **fisheries royalties and licenses** will average 0.3 percent of GDP in the medium-term. In nominal terms, fisheries royalties and licenses are projected to amount to SLe178.8 million in 2023; and to increase to Le216 million in 2024 and Le266 million in 2023.

Non-tax revenue including revenues collected by Other MDAs, TSA agencies, Cargo tracking and Road User Charges is forecasted at SLe1.39 million in 2023. TSAs will collect SLe801.5 million; MDAs, SLe197.7 million and Cargo tracking, SLe196.0 million in 2023. **Timber royalty** will be zero in 2023 due to the ban in timber exports.

Road User charges are projected at SLe197.9 million (0.3 percent of GDP in 2023).

3.2.2 Local Council Revenue Projections (2023-2025)

Total Local revenue is projected to increase to double over the medium term – from Le108.7 million in 2022 to Le217.4 million in 2025. A significant increase of 50% is projected in 2024 to Le190.2 million from Le135.9 million in 2023 resulting mainly from the impact of reforms introduced in 2022-2023.

3.2.3 Grants projections:2023-2025

Grants are projected to amount to 4.5 percent of GDP in 2023 and increased to 5.2 percent of GDP in 2024 before declining to 4.4 percent of GDP in 2025. Of these, project grants will amount to 2 percent of GDP in 2023 and average 2.3 percent of GDP on 2024 and 2025. Budget support grants are projected at 2.6 percent of GDP in 2023; increasing to 2.8 percent of GDP in 2024 before declining to 1.1 percent of GDP in 2025.

3.2.4 Public Debt

Public debt is projected to decline from 80.8 percent of GDP in 2022 to 79.7 percent of GDP in 2023 and further down to 70.5 percent of GDP in 2025. Domestic Debt will decline from 22.2 percent of GDP in 2023 to 20.4 percent of GDP in 2025. Similarly, external debt is projected to decline from 58.2 percent of GDP in 2023 to 53.5 percent of GDP in 2025.

Table 3. 2: Domestic Revenue Projections: 2023-2025 (Le 000)

	2021 Prel.	2022 Est.	2023	2024	2025
Domestic Revenue	6,917	7,787	9,345	12,090	14,681
Tax Revenue	5,585	6,422	7,197	10,098	12,353
Personal Income Tax	1670	2123	2,355	2878	3,219
Corporate Income Tax	765	804	1,335	1,320	1,573
Goods and Services Tax	1,258	1,450	1,839	2,466	3,284
Excises	481	598	575	887	1055
Import Duties	807	949	1,092	1,600	2,009
Mining Royalties & Licenses	523	396	577	732	946
Royalty on Fisheries	81	103	179	216	265
Non-Tax Revenue	1,332	1,365	1,393	1,992	2,328
	6,917	7,787	9,345	12,090	14,681
Grants	2,044	3,069	2,912	4,011	4,085
Budget Support/Debt Relief	1,084	1,451	1,259	1,822	2,153
Project Grants	960	1,448	1,653	2,189	1,932
Public Debt	35,159	42,708	51,746	60,253	68,033
Domestic	12,627	12,104	14,288	16,348	18,780
External	22,532	30,604	37,458	43,905	49,253

Table 3. 3 : Domestic Revenue Projections (% of GDP): 2023-2025)

	2021 Act	2022 Est.	2023 Proj.	2024 Proj.	2025 Proj.
Domestic Revenue	15.5	14.7	14.0	15.5	15.9
Tax Revenue	12.5	12.1	12.0	13.0	13.4
Personal Income Tax	3.7	4.0	3.5	3.7	3.5
Corporate Income Tax	1.7	1.5	2.0	1.7	1.7
Goods and Services Tax	2.8	2.7	2.8	3.2	3.6
Excises	1.1	1.1	0.9	1.1	1.1
Import Duties	1.8	1.8	1.6	2.1	2.2
Mining Royalties & Licenses	1.2	0.7	0.9	0.9	1.0
Royalty on Fisheries	0.2	0.2	0.3	0.3	0.3
Non-Tax Revenue	3.0	2.6	2.0	2.6	2.5
Grants	4.6	5.8	4.5	5.2	4.4
Budget Support/Debt Relief	2.4	2.7	2.0	2.3	2.3
Project Grants	2.2	2.7	2.6	2.8	1.1
Public Debt	78.8	80.8	80.4	77.4	73.9
Domestic	28.3	22.9	22.2	21.0	20.4
External	50.5	57.9	58.2	56.4	53.5

Table 3. 4: Local Councils Revenue Projections (2023-2025)(in New Leones)

Revenue Type	2022 (Est.)	2023	2024	2025
Local Tax	2,205,251	2,756,564	3,859,189	4,410,502
Property Tax	47,424,782	59,280,977	82,993,368	94,849,564
Market Dues	10,092,701	12,615,876	17,662,227	20,185,402
Business Registration	7,560,623	9,450,778	13,231,090	15,121,245
Licenses	9,481,243	11,851,554	16,592,176	18,962,487
Fees & Charges	22,008,367	27,510,458	38,514,642	44,016,733
Mining Revenues	6,056,818	7,571,022	10,599,431	12,113,635
Evacuation Fees	1,927,250	2,409,063	3,372,688	3,854,500
Other Non-Tax Revenue	1,941,060	2,426,326	3,396,856	3,882,121
Total Own Source Revenue	**108,698,094**	**135,872,618**	**190,221,665**	**217,396,189**

Source: Fiscal Decentralisation Division, Ministry of Finance

Box 3. 1: Assumptions underlying the Medium-term Revenue Projections

Corporate Income Tax: projection based on the nominal non-iron, non-agriculture GDP. Efficiency gains will come from the full operationalization of the ITAS and regular field audits.

Personal Income Tax: PAYE from the private sector is based on the non-iron ore nominal GDP growth rate. **PAYE from Government employees** is forecasted by applying the effective PAYE rate for the previous year to the Government wage bill for the subsequent year. Efficiency gains will come from the implementation of the strategy for tax High Net Worth Individuals

Domestic GST: this is based on the projected growth rate of private consumption

Import GST: based on the effective tax rate for dutiable imports in 2021 (which was a normal year). Efficiency gains will come from the reduction in duty and tax exemptions following the implementation of the duty and tax waiver policy

Import duties: based on the effective import duty rate for dutiable imports in 2021 applied to the projected dutiable imports for the medium-term. Efficiency gains will come from the implementation of the duty and tax waiver policy

Petroleum Excise: based on the projected annual consumption of petroleum products and the implementation of a full-pass through petroleum pricing formula.

Other Import Excise duties: based on the effective tax rate for 2021 and applied on projected import of beverages and cigarettes;

Other Domestic Excise: based effective tax rate for 2021 and projected domestic production of alcoholic beverages

Mineral royalties and licenses: based on the projected exports value and the respective royalty rates for the various minerals;

Royalty on Fisheries (other taxes): based on the growth rate of the fisheries sector. Efficiency gains from the fisheries surveillance activities

Timber royalty: based on the nominal GDP growth rate. Note: Timber exports banned since March 2022. Parastatals Dividends: based on the expected profitability of the two state-owned banks and the concessions fees for the Ports to paid by Bollore'.

Fees, Levies, and charges collected by MDAS: based on real GDP growth

Road User Charges: based on the consumption of dutiable petroleum products and the Road User Charge in the petroleum pricing formula.

3.3 Expenditure Projections: 2023-2025

Government expenditures increased significantly during 2020 to 2022 owing to the implementation of response programmes to cushion the impact of the COVID-19 pandemic and the Ukraine crisis on the population. Accordingly, total expenditures and net lending rose from 21.3 percent of GDP in 2019 to 25.7 percent of GDP in 2020 and further to 28.1 percent of GDP in 2021. Total expenditures are projected at 25.1 percent of GDP in 2022. The medium-term expenditure projections presented in this section seek to return fiscal policy to a sustainable path.

Total expenditure and Net lending is projected at SLe15.0 billion (22.6 percent of GDP) in 2023. Total expenditure is projected to increase nominally to SLe18 billion in 2024 and SLe20.5 billion in 2025. As a percentage of GDP total expenditure are projected to average 22.6 percent of GDP during 2023 to 2025 compared to 25.1 percent of GDP in 2022.

Recurrent expenditure is projected is projected at SLe10.9 billion in 2023, SLe11.9 billion in 2024 and SLe13.7 billion in 2025. As a percentage of GDP, recurrent expenditure will average 16 percent of GDP during 2023 to 2025 compared to the estimated 17.7 percent of GDP in 2022.

Of the projected recurrent spending, the nominal wage bill will amount to SLe4.8 billion in 2023, SLe5.5 billion in 2024 and SLe6.4 billion in 2025. As a ratio to GDP, the wage bill will decline to 7.2 percent in 2023, 7.1 percent in 2024 and 7.0 percent in 2025 compared to the estimated 8.2 percent in 2022.

Expenditure on **Goods and Services** is projected at SLe1.6 billion in 2023, SLe1.8 billion in 2024 and SLe2.4 billion in 2025. As a percentage of GDP, Goods and Services expenditure will average 2.5 percent of GDP during 2023-2025.

Subsidies and transfers are projected at SLe2.0 billion in 2023, SLe2.1 billion in 2024 and SLe2.2 billion in 2025. In terms of GDP, subsidies and transfers account for 3.0 percent of GDP due to the one –off expenditures on elections in 2023 and are expected to decline to 2.3 percent of GDP in 2025.

Interest payments are projected at Le2.4 billion (3.6 percent) in 2023; SLe2.7 billion (3.5 percent of DP) in 2024 and SLe 2.7 billion (3.0 percent of GDP) in 2025. Of this, domestic interest payments will amount to SLe2.19 billion (3.3 percent of GDP) in 2023. Interest payments will average SLe2.4 billion during 2024 and 2025.

Capital expenditures will average 7.2 percent of GDP during 2023-2025. In nominal terms, capital expenditure is projected at SLe4.2 billion in 2023, SLe5.6 billion in 2024 and SLe6.5 billion in 2025.

Foreign funded capital expenditure will average 4. 9 percent of GDP during the period. In nominal terms, foreign will amount to Le3.0 billion in 2023; increasing to SLe4.2 billion in 2024 and SLe2025.

Domestic capital expenditure will average 2.3 percent of GDP over the period. In nominal terms, domestic capital spending is projected at SLe1.2 billion in 2023; increasing to SLe1.6 billion and SLe2.3 billion in 2024 and 2025, respectively.

Table 3. 5: Expenditure Projections: 2023-2025

	2021 Act	2022 Est	2023 Proj	2024 Proj	2025 Proj
Expenditure & Net lending (Le million)	12,533	13257	15,026	17,983	20,847
Recurrent expenditure	8,622	9,362	10,886	11,939	13,666
Wages & salaries	3,926	4,314	4,827	5,513	6,412
Goods & Services	1,706	1,417	1,594	1,838	2,363
Subsidies & transfers	1,722	2,067	2,031	1,851	2,162
Interest payments	1,268	1,564	2,414	2,737	2,729
Domestic	1,134	1,402	2,193	2,420	2,312
Foreign	134	162	221	317	417
Capital expenditure	3,528	3,874	4,160	5,755	6,531
Foreign financed	1,836	2,583	2,986	4,186	4,258
Domestic financed	1,692	1,290	1,174	1,569	2,273

Table 3. 6: Expenditure Projections (% of GDP): 2023-2025

	2021 Act	2022 Est	2023 Proj	2024 Proj	2025 Proj
Expenditure & Net lending (Le million)	28.1	25.1	22.6	23.3	22.3
Recurrent expenditure	19.3	17.7	16.3	15.3	14.8
Wages & salaries	8.8	8.2	7.2	7.1	7.0
Goods & Services	3.8	2.7	2.4	2.4	2.6
Subsidies & transfers	3.9	3.9	3.0	2.4	2.3
Interest payments	2.8	3.0	3.6	3.5	3.0
Domestic	2.5	2.7	3.3	3.1	2.5
Foreign	0.3	0.3	0.3	0.4	0.5
Capital expenditure	7.9	7.3	6.2	7.4	7.1
Foreign financed	4.1	4.9	4.6	5.4	4.6
Domestic financed	3.8	2.4	1.8	2.0	2.5

3.4 Progress in Achieving Fiscal Objectives During 2019-2021

This section describes the progress made in achieving Government's fiscal objectives during the period 2019-2021. The two key fiscal objectives of Government as prescribed in the Fiscal Strategy Statements are:

(i) The overall budget deficit, including grants, not exceeding 3.0 percent of GDP. This include the sub-fiscal objectives of increasing domestic revenue to 20 percent of GDP and keeping Government expenditures at 21-22 percent of GDP over the medium-term.

(ii) Total public debt, not exceeding 70 percent of GDP in nominal terms.
Government through the Ministry of Finance made significant progress in meeting its set fiscal objectives during 2018 to 2019 following the adoption of a robust fiscal consolidation programme in 2018. However, the outbreak of COVID-19 pandemic and associated disruptions to economic activity and policy implementation undermined the achievement of fiscal objectives during 2020 and 2021.

Fiscal outturns including fiscal deficit and public debt improved significantly in 2019, following gains from the initial consolidation efforts. The fiscal deficit declined sharply to 3.1 percent of GDP in 2019 from 5.6 percent of GDP in 2018, reflecting the marked improvement in domestic revenue collection and expenditure rationalization. Domestic revenues increased to 14.6 percent of GDP in 2019, from 12.3 percent of GDP in 2018, whilst expenditures declined to 21.1 percent of GDP in 2019, from 23.3 percent of GDP in 2018.

The fiscal consolidation efforts of Government were designed to continue into 2020. Unfortunately, the outbreak of the COVID-19 pandemic disrupted domestic economic activities, weakened revenue collection and disrupted the implementation of tax administration reforms, while at the same generating new expenditure priorities that emerged as a result of the pandemic. Consequently, the fiscal deficit deteriorated to 5.8 percent of GDP in 2020, as domestic revenues collapsed to 13.8 percent of GDP, whilst expenditures increased to 25.7 percent of GDP.

Following the resumption of economic activities in 2021, domestic revenues improved to 15.5 percent of GDP buoyed by one off payment of $20 million by Marampa Mines. Despite this positive development, the need to continue to respond to the lingering COVID-19 pandemic resulted in higher- than-budgeted expenditures at 28.1 percent of GDP. As a result, the fiscal deficit widened further to 7.3 percent of GDP in 2021, 4 (four) percentage points above the fiscal target of not more than 3 percent of GDP.

The stock of public debt increased and remained above the target of 70 percent of GDP during the review period. The debt stock increased from 69.1 percent of GDP in 2018 to 72.6 percent of GDP in 2019 and further to 76.3 percent of GDP in 2020 and 78.8 in 2021.The increase in public debt during the period 2019-2021, was driven by several factors including the disbursement of the RCF loans by the IMF to mitigate the impact of COVID-19 on the budget and the balance of payments position; disbursement of project loans to support the implementation of projects in key sectors, increased domestic borrowing to finance the fiscal deficits and the inclusion of the stock verified arrears as part of domestic debt.

Although, substantial progress was made in 2019, the achievement of the set fiscal objectives in remains a challenge given the vulnerability of the economy to external shocks. Despite these setbacks, Government remains committed to recalibrate its fiscal framework with a view to achieving its medium-term fiscal objectives. In this context, the achievement of these fiscal objectives in the medium-term will be anchored on the achievement of two sub fiscal objectives, i.e domestic revenue target and expenditures ceilings. Government will intensify domestic revenue mobilization through increasing the tax base, improving tax administration and streamlining tax systems and processes through automation and strengthening audit, whilst also strengthening expenditure commitments and controls.

3.5 Fiscal Policy Measures for Achieving the Medium-term Fiscal Objectives

The key fiscal objectives of Government are to (i) reduce the debt burden from its estimated level of 80.8 percent of GDP in 2022 to 80.4 percent in 2023 and further down to the sustainable level of 70.5 percent of GDP in 2025; and (ii) reduce the overall budget deficit (including grants) from 4.1 percent of GDP in 2022 to 2.8 percent of GDP in 2023 and ensure that it does not exceed 3 percent of GDP by 2025. The objective is to ensure fiscal and debt sustainability in the medium-term. The reduction in the budget deficit, will in turn support the stabilization of the debt situation.

3.5.1 Measures for Achieving the Medium-term Public Debt Target

The stock of disbursed outstanding public debt including verified domestic supplier arrears amounted to SLe35.40 billion as at end December 2021, of which external and domestic debt accounted for SLe22.76 billion and SLe12.64 billion respectively. The public debt stock increased by 15.26 percent relative to the end December 2020 position. The growth was as a result of new domestic borrowing to implement the national budget and net external disbursement to implement donor financed projects across sectors nationwide. As at end December 2021 public debt stood at 78.8 percent of GDP and is estimated to reach 80.8 percent of GDP in 2022.

The National Development Plan (NDP) 2019-2023 prescribed public debt to be maintained at a sustainable threshold of not more than 70 percent in nominal terms and 55 percent in present-value terms, while external debt will not exceed 40 percent of GDP in present-value terms.

However, the disruptive impact of CoVID-19 on economic activities and the resultant drop in domestic revenue collection and sharp increase in COVID-19 response related expenditures increased the fiscal deficit (including grants) from -3.0 percent of GDP in 2019 to -7.3 percent of GDP in 2021. Reflecting these financing needs, public debt increased to 78.8 percent of GDP in 2021. The recent confluence of CoVID-19 and the Russian-Ukraine War has resulted in an increase in the public debt, projected at 80.8 percent of GDP in 2022.

Sierra Leone is currently assessed at a high risk of debt distress due to combination of increased borrowing to respond to the multiple and overlapping crises of COVID-19 and the Russian-Ukraine war as well as deterioration of macroeconomic fundamentals especially contraction in GDP, decline in domestic revenues and exports due to the crises. However, Sierra Leone's debt is considered to be sustainable in the medium to long-term in the absence of external shocks. To improve the management of public debt and restore, Government developed the Medium-Term Debt Strategy (MTDS) 2021-2025, with support from the IMF and the World Bank in 2021. The MTDS was approved by Cabinet and published in January 2022. The MTDS 2021-2025 calibrated four strategies:

(i) Strategy 1 (Baseline)—assumes that government will follow the agreed borrowing limits with the IMF under the Extended Credit Facility programme. This includes prioritizing and maximizing external concessional borrowing as possible, keeping borrowing from multilateral and bilateral as in past trends.

(ii) Strategy 2 (Inception of Market Development), assumes domestic and external borrowing in the same proportion as in the baseline, but over time issuing 2-5-year treasury bonds to the market while proportionately reducing treasury bills in line with development of the domestic debt market.

(iii) Strategy 3 (External Financing and Market Development) assumes a decline in domestic borrowing compared to strategies 1 and 2, but maturities of domestic instruments are similar to Strategy 2. The rationale of this strategy is to increase the Average Time to Maturity (ATM) of domestic debt and reduce interest rate costs as well as rollover risk;

(iv) Strategy 4 (International Capital Market) which assumes external borrowing as in Strategy 2, but in 2022 a 10-year Eurobond issuance is introduced. This strategy is deliberate to assess the impact of venturing into the International Capital Market (ICM).

In order to guide the management of public debt in Sierra Leone, Government adopted Strategy 1 in the MTDS to reduce the cost and risk of the existing debt stock whilst moderating the stock of public debt and improving the terms of new borrowing over the Medium-Term. The medium-term debt targets were also considered in the MTDS 2021-2025 including the PV of debt to GDP of 49.1 percent amongst others as detailed in Table 6 of the MTDS 2021-2025. Whilst the targets are ambitious, Government designed additional safeguards in the event conditions change with additional shocks as outlined in Section 5.3 of the MTDS 2021-2025.

To reduce the debt stock and achieve debt sustainability, and consistent with the recommendations of the Debt Sustainability Analysis (DSA) conducted in 2021, Government will (a) continue to prioritise grants over loans and contract only highly concessional loans that meet the criterion of at least 35 percent grant element; (b) pursue diversification of the export base to avoid over-reliance on mineral earnings given its vulnerability to shocks (c) intensify domestic revenue mobilization and strengthen expenditure management and control to reduce the budget deficit to not more than 3 percent of GDP; (e) adopt a cash flow forecasting template developed by the IMF Fiscal Affairs Department to ensure that the upcoming external debt service are well managed to ease the budgetary pressure following resumption of the full debt service after the expiration of the Debt Service Suspension Initiative (DSSI) in 2021.

3.5.2 Measures for Achieving the Budget Deficit Target

As stated in section 2 of this document, another fiscal objective of Government is to reduce the budget deficit to below 3 percent of GDP in the medium-term. To this end, Government will seek to enhance domestic revenue collection and at the same time strengthen expenditure management and control.

In this context, Government is the process of preparing a Medium-Term Revenue Strategy (MTRS) with support from the IMF and the World Bank that will continue to build on revenue administration gains while pursuing tax policy options.

The MTRS, which is expected to be completed by December 2022, will set out the policy, legislative and administrative means or actions by which government will endeavour to mobilize revenue through the tax system to finance its spending needs over the medium-term. In the meantime, Government through the National Revenue Authority will implement the following tax administration measures:

3.6 Medium-term Revenue Mobilisation Measures

3.6.1 Tax Administration Measures

(i) Embarking on the block registration exercise in the provinces to bring more taxpayers into the tax net though formal registration of businesses;

(ii) Building capacity in data analytics and risk analysis through use of Artificial Intelligence technology, data warehousing, and training in data analytics and econometrics;

(iii) Implementing a strategy for operationalisation of a High Net Worth Individual Taxation regime;

(iv) Introduction of an Excise Tax Stamp and fuel marking scheme to combat smuggling of exercisable goods while raising additional revenues in the process;

(v) Development and Implementation of Telecoms auditing tool to aid the collection of GST revenues on telecoms sector;

(vi) Implementing a centralised tax exemption monitoring and reporting system to better inform policy and streamlining of tax exemptions, including activating the ITAS exemption module;

(vii) Continue strengthening and implementing the compliance risk management framework

(viii) Develop and implement a mobile payment App for revenue collections from small and medium taxpayers as well as payment of fines, fees and levies related to non-tax revenues;

(ix) Fully rolling out systems, including the Integrated Tax Administration System (ITAS) and the Electronic Cash Register (ECR) to other areas, thereby enhancing efficiency and effectiveness in the administration of GST and other taxes;

(x) Undertake intensive and extensive trainings on ITAS for many of the new taxpayers;

(xi) Implement the change management strategy to support reforms. Expand taxpayer engagement on the ongoing tax administration reforms to minimise resistance and increase acceptance. This involves current effort by NRA in engaging on a series of taxpayer workshops and meetings to educate and train them on the ECR and ITAS systems;

(xii) Establishment of a tax Training academy to enhance the technical and professional capacity of the NRA;

(xiii) Application for membership into the OECD Global Forum on Transparency and Automatic Exchange of Information;

(xiv) Implement the ECOWAS Transit System (SIGMAT Project). The project is working to electronically connect national customs offices in the ECOWAS region in order to facilitate the regional transit of goods, and thus increase the pace and ease of international trade – particularly in landlocked countries;

(xv) Integration of Customs system with stakeholders at the Port with the other operators at the Port, including the Integrated Trade Services, Bollore-Freetown Terminal, and Standards Bureau;

(xvi) Acquisition and implementation of a compliance risk management software for Customs;

(xvii) Integration of NRA systems, especially ITAS with other information management systems at the Bank of Sierra Leone, Accountant-General's Department and the National Civil Registration Authority; and

(xviii) Integration of Clearance on Permit with the E-Exemption;

3.6.2 Tax Policy Measures

(i) Escalate the Duty Waiver Policy approved by Cabinet in March 2022 to a law;

(ii) Maintain the implementation of a full pass-through petroleum pricing formula;

(iii) **Convert the ad valorem excise taxes** on fuels, alcohol, tobacco, vehicles, sugar-sweetened beverages, plastics and others to a specific rate to internalize external costs, reduce harmful behaviour, and provide a stable source of revenues. In this regard, Government will review the Excise Tax Act of 1982 and the promulgations of new excise regulations;

(iv) **Broaden the base of the Goods and Services Tax.** At the moment, about 60 percent of its base is exempt and areas, such as digital services, insurance, and gambling are untaxed. The exemptions currently provided will be streamlined as well as revising the threshold and refund mechanism;

(v) **Maximise revenues from the extractive sector:** Government will implement the provisions/fiscal regime defined in the Extractive Industry Revenue Act, as amended. This will ensure that Government does not get into the legacy of individual contracts containing special and overgenerous fiscal terms that are stabilized over time outside of the general tax law; and

(vi) Explore Climate Finance:

Government will explore the possibility of leveraging climate finance from Sierra Leone's forests, including carbon credits, REDD+ payments, and grants for forest conservation or reforestation. To this end, Government will strengthen the legislative framework around forest protection, endeavour to meet the stringent transparency and verification prerequisites, and building capacity. While Government has already issued 1 million carbon credits, primarily through the GOLA Rainforest (the first REDD+ project in West Africa), the pace of projects has declined in recent years. There is a lot of potential, including through existing reforestation activities such as Freetown the TreeTown and the Ministry of Environment's plan to plant 5 million trees;

3.7 Local Revenue Mobilization Measures

Government is committed to strengthening decentralized delivery of public services and is cognisant of the fact that sustaining such commitments will require improved mobilisation and management of internally generated revenues by local councils. Government is also aware of the fact that local service delivery can be enhanced when local councils have enough fiscal space and local autonomy to implement district specific services. Local revenue mobilization has the potential to foster political and administrative accountability by empowering communities and providing financing over which local councils have the most discretion to implement demand driven public services. To that end, in the medium term, government will implement the following measures to boost local revenue mobilization:

- Develop and implement a new fiscal decentralization Policy and strategy that will provide additional window in the form of enhanced tax bases or new revenue streams to local councils to boost local tax revenues. Primarily, property tax administration will be modernised and additional surcharges introduced for collection by local councils;
- Develop and roll out a modernised Property Tax System to reflect current valuation, property roll and increased tax base;
- Constitute district revenue mobilisation committees of local stakeholders including non-state actors to discuss and follow up on challenges with local revenue mobilization as well as monitoring effective implementation of MOUs on tax collection and sharing between local and chiefdom councils;
- Organise inter - district revenue mobilisation committees dialogue fora to discuss progress, challenges and reforms required on local revenue mobilisation and management within their jurisdictions as well as share experiences; and
- Prepare and roll out local councils' specific revenue mobilisation strategies

3.8 Expenditure Management and Control Measures for the Medium-term

As part of efforts to reduce the budget deficit and restore fiscal sustainability, Government will pursue fiscal consolidation measures including the implementation of payroll reforms to improve the sustainability of the Government wage bill; strengthening the management and control of non-interest, non-salary recurrent expenditures and improving the efficiency of public investment management.

(a) Improving the Integrity and Sustainability of the Government Wage Bill

Wages and salaries averaged 8.5 percent of GDP during 2020 and 2021 and is expected to amount to 8.2 percent of GDP in 2022. The wage bill also accounted for 46 percent of Government recurrent spending and 54.1 percent of the domestic revenue during 2020 to 2022. Government's objective is to stabilize the wage bill at 6.0 percent of GDP in the medium-term. Current projections indicate that the wage bill will decline to 7.2 percent of GDP in 2023, 7.1 percent of GDP in 2024 and 7.0 percent of GDP in 2025. These figures demonstrate that more needs to be done to bring the wage bill to a sustainable level of 6.0 of GDP in the medium term. To this end, Government will sustain and broaden on-going reforms while also introducing additional reforms that will improve the sustainability of the wage bill. The PFM Reform Strategy (2022-2025) that is currently being developed will provide the framework for payroll reforms.

(b) Institutionalise use of the Payroll Policy Document

The Ministry of Finance with technical assistance from FCDO has completed a Payroll Policy Document during 2022. The Government of Sierra Leone (GoSL) Payroll Policy Document captures statutory provisions and policy instructions impacting the GoSL Payroll, including the different pension laws and computations. The next steps are to issue and institutionalise the use of the Payroll Policy Document. This document will serve as a guide for those administering the GoSL payroll on daily basis including the Accountant General's Department, Budget Bureau and Internal Audit Division.

(c) Development of a Medium-term Wage Bill Strategy (MTWBS)

There is an urgent need to develop a Medium-term Wage Bill Strategy that will guide payroll reforms in the medium-term. There is an acknowledgement that recent reform efforts have improved on the transparency and the reliability of the Government Payroll as reflected in the improvement in recent PEFA scores relating to the payroll. However, the current projections show that the wage bill is not converging to the medium-term target of 6.0% of GDP. Therefore, reforms in the MTWBS will introduce controls and policies aimed at achieving a sustainable wage bill. The Ministry of Finance will seek technical assistance from the International Monetary Fund to develop the MTWBS in 2023.

(d) Concurrence from the Ministry of Finance for Recruitments, promotions and salary adjustments

One of the contributing factors impacting on payroll costs and its predictability relates to MDAs recruiting employees and implementing promotions and salary adjustments without concurrence from the Ministry of Finance. In the past, the Financial Secretary has written to MDAs to refrain from this practice but this still remains a challenge in managing the wage bill. Therefore, during 2023 and going forward the Ministry of Finance will not honour any requests from MDAs for payments of salaries to employees if prior concurrence was not obtained from the Ministry of Finance. In order to strengthen the implementation of this policy, the Ministry of Finance will include the relevant provisions in the FY2023 Finance Act.

(e) Teacher reassessment and promotion exercise

In line with the objective of minimizing wage disparities on the payroll, the Government has conducted and implement teacher reassessment and promotions during 2021 and 2022. In 2021, 4,158 teachers were promoted and reassessed costing SLL 15.7 million while 1,083 teachers were reassessed and promoted in 2022 costing SLL 5 million. The Teaching Service Commission and the Ministry of Finance are currently working on the data to ensure the exercise is budgeted for and implemented in 2023. It is expected that about 2,500 teachers are will be promoted and reassessed in 2023. This policy has helped with ensuring teachers are in the correct grades and has improved on management of the teacher wage bill.

(f) Teacher retirement and recruitment policy

During 2023, the Government will continue implementing the new teacher retirement and recruitment policy that is in line with the academic year to avoid disruptions to the school year and to improve on the predictability and management of teacher payroll costs. The Ministry of Finance, Accountant General's Department and Teaching Service Commission will continue to work closely to monitor the implementation of this policy.

(g) Development of Health Workers Recruitment and Retirement Policy

In 2022, the Government started taking steps towards addressing the challenges relating to the Health Workers payroll. This includes capacitating the Health Service Commission in order to take over a delegated role of recruitment of health workers-this reform is still in progress. Considering the successes in the Education sector, the Ministry of Health and Sanitation, the Health Service Commission and the Ministry of Finance will work closely with the all-other relevant stakeholders to develop an appropriate recruitment and retirement policy for the Health Workers to be approved by Cabinet during 2023. The objective of this policy will be to improve the transparency, predictability and management of the health workers wage bill. In addition, it will help smoothen the recruitment process for health workers.

(h) Minimizing Manual Voucher Payments

One of the challenges with regards management of the Government payroll relates to the processing of payroll payments manually. Thus, in 2022, the Government continued efforts to minimize the use of manual voucher payments, as such Leave allowances of the Military are now being paid through the automated payroll. In

2023, The Accountant General's Department will continue to institute measures that will ensure that all retiring employing receive their gratuities along with their last pay, in order to improve on the efficiency and transparency of gratuity payments.

(i) Establishment of the Wages and Compensation Commission

Wage disparity on the public sector payroll remains a major challenge. However, Government's long term solution for addressing this issue is the setting up of the Wages and Compensation Commission (WCC). This body is being set up by the Government in order to have a central body in charge of terms and conditions of service for the public service. Addressing issues such as multiple pensions will also be part of their mandate. The Act establishing the Commission has been developed but it is yet to be laid and passed in Parliament. However, Government remains committed to establishing this agency.

(j) Strengthening the Management of Non-Salary, Non-interest Recurrent Expenditures

In recent years, progress has been made in improving the management of non-salary, non-interest recurrent expenditures comprising mainly Goods and services expenditures and Subsidies and Transfers. Some of the reforms implemented to improve the management of these expenditures include the automation of the budget execution processes, which involves the transition to web-based Integrated Financial Management Information System (IFMIS) and its roll out to 61 MDAs, the introduction of the E-PETS form and the Electronic Funds Transfers (EFT) system. Despite these reforms, major challenges remain in budget execution. These include the weak credibility of the budget and the continuous accumulation of arrears. Going forward, Government will implement several reforms to improve the credibility of the budget and minimize the accumulation of arrears.

In the area of budget planning, with support from development partners, Government will strengthen the capacity of the Macro-Fiscal Working Group in producing realistic projections of domestic revenue and budget support grants in order to avoid the appropriation of higher expenditures that could not be funded. In addition, Government will also ensure that critical and non-discretionary expenditures are adequately budget for.

Government will adopt the strategic top-down budgeting approach to ensure that the total level of expenditure is determined before detailed items in the budget are negotiated so that it properly reflects aggregate fiscal policy priorities, hence improving the credibility of the budget. As part of these efforts, Government will seek technical assistance from the Fiscal Affairs Department of the IMF on baseline budgeting and the costing of new programmes/policies.

Efforts will continue to strengthen budget execution by ensuring that quarterly budget allocations are based on or linked to cash forecasts and implement the principle of **Not in Budget, No Funding.** The quarterly allocations will also be further broken down into monthly expenditure ceilings to ensure that MDA expenditures are within their respective budgetary allocations to avoid expenditure overruns and the accumulation of arrears. The Expanded Cash and Debt Management Committee will adopt the use of the Cash Forecasting Tool, which supports the regular updating of the cash forecasts to improve the reliability of the forecasts. The approval of expenditure commitments will not only be based on the budgetary allocations but most importantly on the availability of cash to fund the expenditures. The Ministry of Finance will also ensure that procurement plans of MDAs are aligned with the annual budget.

The Ministry of Finance will also endeavor to release quarterly budget allocations on time, at least at a week before the start of the next quarter in order to discourage the practice by MDAs of entering into commitments outside the IFMIS, which in turn often leads to arrears accumulation. In particular, the Ministry will endeavor to issue out quarterly budget allocations during the first quarter of the year. To ensure this, the Ministry will allocate separately budgetary resources for arrears carried over from the previous financial year.

Furthermore, the expanded Cash and Debt Management Committee will regularly monitor and report on budget performance against budget allocation during the year with a view to determining outstanding payments and inform policy decision.

(k) Strengthening the Management of Public Investments/Capital Expenditures

The implementation of the National Public Investment Management Policy (NPIMP), which was adopted by Cabinet in September, 2021, will henceforth address the financial, institutional, technical and political challenges to the effective planning and efficient execution of public investment programme. The policy will now strengthen the Government's ability to improve decision making in public investment, track planned, on-going and completed investments; provide oversight in the implementation of projects/programmes and the utilization of available resources. To this end, the governance and institutional architecture as contained in the policy will be activated going forward.

In order to efficiently implement the policy, Government with technical support from the IMF/AFRICTAC West 2 developed a Pre-Investment Manual/Guidance, which addresses the Project Development/Conceptualization, Feasibility Studies and Appraisal Methods and Techniques, which have been identified as critical challenges in the effective and efficient implementation of the Public Investment Management (PIM) cycle. A Training of Trainers (ToTs) on the applicability and use of the manual was conducted in August to September, 2022 drawing participants from key Line Ministries, Agencies and Departments. The aim is to ensure that MDAs and Local Councils are able to develop bankable projects on their own so that the Ministry of Planning and Economic Development (MoPED) and the Ministry of Finance (MoF) will focus on consolidation, and monitoring; and providing fiduciary oversight to the Public Investment Management System.

The development of the Investment Phase of the Manual is currently in advanced stage with a focus on project selection, budgeting, implementation, monitoring and post evaluation. With support from the EU Peace Building Programme, MoPED is also developing Public Investment Regulations to further strengthen the regulatory framework especially as preparatory work on developing the successor to the Medium-Term National Development Plan (2019-2023) is now underway.

The Ministry of Planning and Economic Development is strengthening the capacity of the District Development Coordination Committee (DDCCs), a platform that will be used to cascade the Public Investment Programme (PIP) to local councils. With support from the World Bank under the Accountable Governance for Basic Service Delivery (AGFBSD) project, MoPED will work with the Fiscal Decentralization Division (FDD) of the Ministry of Finance to facilitate and integrated PIPs in all the Local Councils. This should form part of the budget process for Local Councils and integrated into the National Budget and the Medium-Term Expenditure Framework (MTEF) in line with the provisions of the approved National Public Investment Management Policy (NPIMP).

4 MEDIUM-TERM EXPENDITURE FRAMEWORK (MTEF)

4.1 Medium-term Expenditure Priorities and MTEF Ceilings 2023-2025

Consistent with the priorities articulated in the Medium-term National Development Plan (MTNDP) 2019-2023, Human Capital Development with a greater focus on the Free Quality Education programme remains the topmost priority of Government. Government is developing a financing model for the sustainable financing of the Free Quality Education Programme, which includes the payment of school fees subsidy, examination fees, provision of teaching and learning materials and text books and school feeding.

Other top priorities include infrastructure development including roads, energy and water supply to improve the competitiveness of the economy and Economic Diversification with a focus on Agriculture especially the E-Voucher System for the supply of inputs and provision of mechanized services to farmers. For 2013, Governance and Accountability Cluster, particularly the funding of the 2023 General elections emerged as a new top priority. The 2023 General Elections will be largely funded by the Government of Sierra Leone.

To continue with the efforts made thus far in mitigating and adapting to climate change, Government will continue to provide funding to the National Tree Planting project as well as support the relevant MDAs involved in minimizing the impact of climate change such the Ministry of Environment and the National Disaster Management Agency.

In line with progress made in the developing the legal and policy frameworks to achieve gender equality, Government has embarked on gender responsive budgeting - that is taking the needs of both men and women into consideration when implementing Government programmes across all sectors.

Gender Responsive Budgeting is an approach to budgeting that uses fiscal policy and public financial management instruments to promote gender equality. This reform will improve on the accountability by Government institutions for gender equality, help to close the financing gap for gender priorities and to monitor spending on gender related policies and programmes.

With Technical Assistance from the International Monetary Fund (IMF) training to develop Gender Responsive Budgets has been provided to the relevant departments in the Ministry of Finance, and the five pilot MDAs. These are Ministry of Basic and Secondary School Education, Ministry of Health and Sanitation, Ministry of Gender and Children's Affairs, Ministry of Defense and Sierra Leone Police.

The allocation of recurrent and domestic capital expenditures reflects these priorities. These allocations are shown in the Medium-term Expenditure Framework (MTEF) ceilings for non-salary, non-interest recurrent expenditures and the Public Investment Programme (PIP) for domestic funded capital expenditure (Annexes 1 and 2).

4.2 Non-Salary, Non-Interest Recurrent Expenditures Ceilings/Allocations

The budgetary allocations/ceilings of non-salary, non-interest recurrent expenditures are made in accordance with the Clusters of the MTNDP. The MTEF for 2023-2025 indicates that the Governance Cluster including the security sector and Election Commission of Sierra Leone account for 60 percent while Human Capital Development account for 14.1 percent of total non-salary, non-interest recurrent expenditures for 2023. Infrastructure and Competitiveness including road maintenance account for 18 percent. Addressing Vulnerabilities Environmental and climate change mitigation activities account for 1.3 percent of the total non-salary, non-interest recurrent expenditure.

4.3 Domestic Capital Budget- Public Investment Programme (PIP) 2023-2025

The PIP for the period 2023-2025 is integrated into in this Fiscal Strategy Statement (FSS) by the policy clusters and sub-clusters drawn from the Medium-Term National Development Plan. The allocations were made after a review of the existing portfolios of projects/programmes of Ministries, Departments and Agencies during the budget process. For the 2023 Fiscal Year, Government does not intend to take in new projects in the Public Investment Programme to ensure that existing/ongoing project are implemented as much as possible.

For the period 2023 – 2025, The indicative allocations of the domestic capital by the MTNDP clusters are shown on Annex 2.

Human capital Development accounts for 50.6 percent of the domestic capital budget for 2023; of which, basic and secondary education account for 40.2 percent. The Free Quality Education Programme account for 75.2 percent of the human capital budget. The Infrastructure and Economic Competitiveness Cluster as whole accounts for 30.9 percent of the total domestic capital budget. The Economic Diversification Cluster accounts for 7.9 percent of the total domestic capital budget, with agriculture accounting for 10 percent. Governance and Accountability account for 4.5 percent while Youth, Sports and Migration account for 0.5 percent of the domestic capital budget for 2023 (See Annex 2)

Table 4. 1: Share of Government Expenditure by MTNDP Cluster

MTNDP Cluster	**% of Total NSNIR Expenditure**	**% of Total Domestic Capital Expenditure**
Human Capital Development	14.1	50.6
Economic Diversification	5.1	7.9
Infrastructure and Economic Competitiveness	18.0	30.9
Governance and Accountability	60.0	4.5
Empowering Women, Children and Persons with Disability	0.5	0.1
Addressing Vulnerabilities	1.3	1.0
Youth, Sports and Migration	1.6	0.5

5 FISCAL RISK STATEMENT

Fiscal risks refer to events that could cause fiscal outturns to deviate from fiscal projections with the potential to jeopardize the achievement of strategic fiscal objectives. Fiscal risks could be due to macroeconomic instability, crystalisation of contingent liabilities from the operations of state-owned enterprises, public-private partnerships, guarantees, litigations, and the occurrence of natural disasters as well as weak policy implementation. Some fiscal risks are explicit, while others are implicit.

Government's ability to cope with fiscal risk depends on the quality of its information about risks, its powers to limit its exposure to those risks as well as its financial capacity to absorb the fiscal consequences of risks that cannot be mitigated. The major sources of fiscal risks in Sierra Leone could be sub-divided into two broad categories: Macroeconomic risks and Specific risks.

Macroeconomic risks include shocks to GDP growth, high inflation, adverse terms of trade (increase in the price of key imports or fall in the price of key exports), sharp depreciations in the exchange rate and rise in domestic interest rates.

Specific risks include shocks emanating from natural disasters, contingent liabilities of state-owned enterprises, Public-Private Partnership transactions, and litigation against public institutions as well as weak implementation of policy reforms.

5.1 Macroeconomic Risks

Shocks to GDP Growth: In recent years, the growth of the Sierra Leone economy has been highly volatile given the vulnerability of the economy to shocks especially adverse terms of trade, epidemics, pandemics and natural disasters. The economy recovered from the devastating impact of COVID-19 and grew by 3.2 percent in 2021 reflecting the recovery in agriculture, manufacturing, trade, tourism and travel and more-than expected increase in mining output.

The economy was projected to grow strongly by 5.9 percent in 2022 but was hit by another shock-the war in Ukraine which broke out in February 2022. The surge in fuel and food prices and associated deterioration in the terms of trade lower production prospects in the mining sector and the general uncertainty in the global economy due to the Ukraine crisis, has translated into a downward revision of growth to 3.6 percent. The reduced economic growth has weakened the prospects for domestic revenue collection. Total revenue collected during the first half of 2022 recorded a shortfall of Le300 billion (percent of GDP). At the same time expenditure pressures have increased with total expenditures exceeding the half year budgeted amount by Le million. On current trends, it is unlikely that the budget deficit target of 4.1 percent for 2022 will be met.

The economy is projected to grow by 3.4 percent in 2023 and average 5.5 percent during 2024-2025 on the back of the expected ramping up of iron ore mining, increase in agricultural output as the policy shift consolidates, expansion in construction and manufacturing activities, recovery of the tourism sector and improvement in the business environment. The medium- term outlook, however, remains challenging on account of the deteriorating terms of trade, more uncertain global prospects due to the Ukraine war, and the lingering COVID-19 risks.

The on-going Russia-Ukraine war is undermining the growth prospects of the economy. Should these risks materialize, the projected growth rates may not be achieved and this will have negative impact on domestic revenue collection, thereby derailing the achievement of the fiscal objectives stated in this document. Simulations indicate that domestic revenue is likely to drop by 0.5 percentage point of GDP if the economy slows further by 1.0 percentage point.

High Inflation: The Ukraine war has led to disruptions in the supply of basic commodities (fuel, food and fertilizer) and a spike in international and domestic prices of these commodities during 2022 contributing to higher inflationary pressures.

Inflation rose 28.9 percent in August from 17.9 percent in December 2021 2021, reflecting the sharp increase in the prices of fuel and food combined with the depreciation of the exchange rate. The increase in the general price level has resulted in higher expenditure on goods and services and triggers demands for increase in wages. In particular, the rise in the price of fuel has led to higher-than budgeted subsidies to the energy sector. The high inflation is also contributing to the rise in treasury bill rates. Reflecting these developments, total Government expenditures for the first half of the year exceeded the budgeted amount, recording overruns in all categories of expenditures. If the current upward trend in inflation continues, Government expenditures will increase beyond the budgeted amount and this may worsen Government's fiscal position and jeopardize the attainment of the stated fiscal objectives.

Adverse Terms of Trade: Sierra Leone's export basket is mainly dominated by primary commodities such as iron ore, diamond, gold, cocoa and palm oil, among others. As a small open economy, Sierra Leone cannot influence the price of exports or imports and is therefore a price taker that is vulnerable to fluctuations in the international commodity prices. Therefore, a drop in the prices of our major exports such as iron ore and diamonds due to weak demand from our trading partners (Europe and China) will result in drop in government revenues from royalties and other taxes from the mining sector.

The international price of fuel has also increased sharply in recent months. If the upward trend in international fuel prices, Government may find it difficult to fully pass through the higher international fuel prices to consumers. The potential implicit and explicit fuel subsidies will adversely affect government revenue and expenditures, thereby making it difficult to achieve the stated fiscal objectives

Depreciation of the Exchange Rate: Exchange rate pressures have remained very high underpinned mainly by the structural imbalance between demand for and supply of foreign exchange. Supply of foreign exchange remains subdued reflecting reduced inflows from exports, FDI and other sources while demand has been on the rise in part to support trade and to meet Government foreign exchange needs. The persistent depreciation of the exchange rate of the Leone against the U.S. dollar will increase external debt service payments as a greater proportion of Government debt is denominated in US dollars. This in turn will worsen the budget deficit. The updated Medium-term Debt Strategy showed that a 30 percent depreciation shock to the exchange rate of the Leone to the US dollar will increase the ratio of interest payments to domestic revenue by 3.2 percentage points of GDP.

Rise in Domestic Interest Rates: Sierra Leone also has a substantial stock of domestic debt in the form of marketable and non-marketable securities. As at end June 2022, the stock of domestic debt amounted to Le13.6 trillion (NLe13.68 billion). Treasury bill rates on the 364 days Treasury Bills (the mostly traded domestic debt instrument) increased from 00 percent in January to 28 percent in August 2022 compared to the projected interest rate of 24 percent, reflecting the rolling over of outstanding debt amid high inflation due to the tight fiscal space.

Further increases in domestic interest rates would increase domestic debt service payments and widen the overall budget deficit beyond current projections, thereby undermining Government's ability to achieve the stated fiscal objectives. The MTDS Analysis showed that an increase in the 364 days T-bills rate by 300 basis point will increase the ration of interest payments to domestic revenue by 5 percentage points over the medium-term.

5.2 Specific Fiscal Risks

5.2.1 Contingent Liabilities of State-Owned Enterprise

State-Owned Enterprises (SOEs) are a significant source of fiscal risks as their weak financial and operational performance could threaten the national budget as well as undermine economic growth. At present, there are sixteen (16) active SOEs in Sierra Leone, classified into financial and non-financial SOEs. An assessment of the vulnerabilities of the SOEs indicate that most of the SOEs operate with systematic losses and carry significant liabilities due to high administrative costs, below market charges for their services as well as inefficient management and poor governance. The utility companies (EGTC, EDSA and GUMA), EDSA, are putting massive strain on the national budget. In particular, EDSA cannot meet its operational expenses, including payments to independent power producers (IPPs), without recourse to Government support. The effect of the Russian/Ukraine war, which led to supply chain bottleneck coupled with increase in fuel prices, exacerbated the weak financial position of EDSA. In the first half of 2022 alone, Government provided a subsidy of Le 412.1 billion (SLE412,103.11) to EDSA compared to Le 13.2 billion (SLE313,242.39) for the whole of 2021.

Using the SOE Health Check tool developed by the World Bank and IMF, three (3) SOEs are rated as very high risk in terms of profitability, liquidity and solvency; five (5) as high risk; five (5) as moderate and two (2) as low risk as shown in the table below. The SOEs that fall under the very high-risk category are faced with serious systematic and material financial distress. The SOEs that belong to the high-risk category are recording poor financial performance and face equity erosion problems. These high risk SoEs are likely to seek bailout or support from the budget in the event they become insolvent. The SoEs that are within the moderate risk category are faced with controls procedures but the possibility of recording financial losses is limited.

Table 5. 1: Risk Profile of SOE's

	Profitability		Liquidity		Solvency		Overall Risk Rating
	Cost Recovery	Return on Equity	Quick Ratio	Current Ratio	Debt to Equity	Debt to EBITDA	
SLCB	Very Low Risk	Very Low Risk	Low Risk	High Risk	Very High Risk	Very High Risk	Moderate Risk
RCB	Low Risk	Very Low Risk	Low Risk	High Risk	Very High Risk	Very High Risk	Moderate Risk
EDSA	Moderate Risk				Very High Risk	Very High Risk	
EGTC	Very Low Risk	Very Low Risk	Very Low Risk	Very Low Risk	Low Risk	Moderate Risk	Low Risk
SLPA	Moderate Risk	Low Risk	Very Low Risk	Low Risk	Moderate Risk		Moderate Risk
GVWC	Moderate Risk	Moderate Risk	Very Low Risk	Low Risk	Moderate Risk		Moderate Risk
SALWACO	High Risk	High Risk			Very Low Risk	High Risk	High Risk
SLAA					Moderate Risk		
SLRTC							
SLNSC	Moderate Risk	Very Low Risk	Moderate Risk				High Risk
SLPMC	High Risk	High Risk	Moderate Risk		Very Low Risk		High Risk
SALPOST	High Risk	High Risk	High Risk		Very Low Risk		High Risk
SLSL	High Risk				Low Risk		High Risk
NIC	Moderate Risk	Moderate Risk	Very Low Risk	Very Low Risk	Very Low Risk	High Risk	Moderate Risk
SLBC	Moderate Risk	Moderate Risk	Very Low Risk	Very Low Risk	Very Low Risk	Moderate Risk	Low Risk
SIERRATEL			Very Low Risk	Very Low Risk			High Risk

5.2.2 Contingent Liabilities from Litigations

Litigations against public institutions are becoming significant source of fiscal risk. The lack of adequate disclosure and timing for the crystallization of these liabilities could challenge the smooth implementation of the National Budget. As of June 2022, total claims from litigation amounted to SLE 2.1 billion, of which, the share of central Government is 92 percent and SOEs, 8 percent. With the exception of the Freetown City Council and Bo City Council with total claims of SLE0.366 million, there are no litigations against local councils. It should be noted, however, that most of these claims have remained outstanding for some time now and judgements have not been issued on them.

5.2.3 Contingent Liabilities of Public Private Partnership (PPP)s

PPPs are considered viable option for the delivery of public infrastructure and services. However, they can give rise to legal and contractual obligations as well as explicit and implicit contingent liabilities that could negatively affect Government's budget and public debt sustainability.

Over the years, eight (8) major PPP projects have been signed and ratified by Parliament with total investment value of US$2.68 billion or 64 percent of GDP. All the projects, except for one, are in the energy sector, representing 66 percent of the total PPPs. The energy projects are structured on a take-or-pay basis, which creates significant liability for Government given EDSA's weak revenue performance emanating mainly from high technical and commercial losses. As Government continues to engage in PPP projects, contingent liabilities would be of great concern.

5.3 Policy Risks

Weak policy implementation also poses significant risks to the budget. Given the high development needs in the midst of weak domestic revenues, it is important to pay attention to the implementation of policy reforms such as those related to the Country Policy and Institutional Assessment (CPIA) framework and budget support operations of development partners such as the World Bank, African Development Bank and the European given their potential to generate external budgetary resources to support the implementation of the budget.

The projected total Government expenditures are based on the projected domestic revenues, external loans and grants and domestic borrowing. On the basis of these expected revenues and grants, Government enters into contracts for the supply of goods, services and works. Delays or non-implementation of policy reforms will lead to the non-disbursement of funds by development partners, which can lead to increased domestic borrowing and undermine the achievement of fiscal objectives.

5.4 National Disasters

Sierra Leone is placed in the top tier of the most vulnerable countries in the world with extreme susceptibility to climate change. The Country's recent history of annual floods, landslides, fires and disease and the impact of deforestation, overpopulation and uncontrolled urbanization highlight the vulnerability. Between the period 1996 and 2021, the Country has experienced 198 disasters for which 106 were from fire followed by 73 from windstorm. The mudslides of August 2017 and August 2022 are examples of recent natural disasters. Overall, it is reported that disaster affects over 300,000 people annually.

The higher frequency and intensity of climate-related disasters imply a greater risk of a negative fiscal shock. There are multiple channels through which public finances can be affected. On the one hand, extreme weather events tend to decrease government revenue due to lower tax collection from the affected productive sectors like agriculture, fisheries and tourism. On the other hand, public expenditure is likely to increase because of rising financial needs due to the emergency response and the reconstruction of damaged public infrastructure.

5.5 Mitigating Fiscal Risks

5.5.1 Measures to Mitigate Macroeconomic Risks

5.5.1.1 Implementation of the Economic and Financial Programme with the IMF

Government is committed to the implementation of sound macroeconomic policies to boost the resilience of the economy against fiscal and other risks. To this end, the implementation of the economic and financial programme agreed with the IMF under the Extended Credit Facility (ECF) in 2018 remains on track. The IMF Executive Board has successfully concluded five (5) reviews. The Fifth review was concluded in June 2022. As articulated in the Memorandum of Economic and Financial Policies for the fifth review under the ECF, Government will continue to pursue policies aimed at ensuring fiscal and debt sustainability in order to stabilize the economy the business environment and expand social protection systems.

5.5.1.2 Diversification of the economy

Efforts continue to diversify the economy in order to strengthen its capacity to withstand shocks that have the potential to disrupt economic activities and exports with adverse implications for real GDP growth, domestic revenue collection, price and exchange rate stability. In the agricultural sector, the Policy Shift to encourage private sector participation in the delivery of agriculture inputs and mechanization services to farmers is progressing well. In the fisheries sector, Government is sustaining efforts to combat illegal, unregulated and illegal fishing practices and promote fish conservation practices including the observation of the ‘closed season’. In the tourism sector, Government with support from the World Bank under the Sierra Leone Economic Diversification Project (SLEDP) will embark on the upgrading of tourist destination sites in Freetown, starting with the Leceister Peak, Tacugama Sanctuary and Bureh Beach in 2022. Efforts to rebrand the country and promote domestic tourism are on-going. The project is also supports Government’s efforts to improve the business environment and access to finance to support private investments in order to promote sustainable and resilient economic growth.

5.5.2 Measures to mitigate Specific Fiscal Risks

5.5.2.1 Fiscal Risks from SOE

To mitigate risks emanating from SOEs, Government, with the support of the World Bank and IMF, has developed a State-owned Enterprises Ownership and Governance Policy that would help to improve the governance of SOEs in line with international best practices. It is expected that the Policy would lead to improved opportunities for private sector participation and bring greater efficiency in SOEs’ operation. The Ministry of Finance and Bank of Sierra Leone are also collaborating with the IMF and World Bank to develop a corporate governance framework for the two state-owned banks. The Ministry of Finance continues to provide fiduciary oversight over the SoEs and regularly monitors and assess their financial performance with a view to identifying any potential risks to the Budget. The contingent liabilities of SoEs are also being analysed and published in line with Government’s commitment to fiscal and debt transparency.

5.5.2.2 Fiscal Risks from Litigation

As way of mitigating risks from litigation, the Ministry of Finance, through the Fiscal Risks Management Division is compiling a database on all public sector litigation, including those of SOEs. The Ministry of Finance will also collaborate with Law Officers’ Department to assess the probability of adverse judgement and the potential risk to Government.

5.5.2.3 Fiscal Risks from PPPs

Given the complexity of PPP transactions compared to traditional procurement of projects, there is need to build capacity in PPP negotiations, structuring as well as assessing costs, benefits and risks in the selection of projects. The selected projects should be chosen for good reasons and be fiscally sustainable in the medium-to long term. The contractual risk should also be adequately allocated between public and private partners. There is therefore the need to improve the governance of PPP transactions for infrastructure projects. Government has sought technical support for the application of tools developed by the IMF and the World Bank such as the Public Investment Management Assessment (PIMA) for the evaluation of Public Infrastructure governance and management and the PPP Fiscal Risk Assessment Model (PFRAM) for the assessment of PPP fiscal costs and risks.

5.5.2.4 Fiscal Risks from Natural Disaster

The Government of Sierra Leone relies heavily on external assistance to finance disaster response. Normally, this assistance can be inadequate and may not be disbursed on time, thus prolonging the sufferings of affected people. In most cases Government resort to budgetary reallocation to finance the impact of disaster, crowding out important social spending. To mitigate these risks, the Fiscal Risk Management Division of the Ministry of Finance, in collaboration with the World Bank and other relevant stakeholders, is developing the National Disaster Risk Financing Strategy and Implementation Plan for the Country. The Strategy would strengthen the Country’s financial resilience to disaster and prescribe ways for which resources can be channeled efficiently in the event of the occurrence of natural disaster. The World Bank has also indicated its support to build capacity of relevant stakeholders in the area of disaster risk management.

5.5.2.5 Strengthening Policy Implementation

To mitigate the potential fiscal risks emanating from weak policy implementation, the Ministry of Finance established a Technical Committee for monitoring and reporting on progress in the implementation of policy reforms under the CPIA, Quantitative Performance Criteria and structural benchmarks under the IMF ECF programme and budget support triggers agreed with our development partners. The expanded cash and Debt Management Committee meets regularly to review cash flow forecasts to inform Government's borrowing requirements and budget execution in general with a view to improving budget credibility and avoid the accumulation of payment arrears.