



Statistics Sierra Leone

ECONOMIC ANALYSIS - 2012

Re-basing of the National Accounts GDP Figures from 2001 Base to 2006 Base Year

Economic Statistics Division

May, 2012



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base to 2006 base year**

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SUMMARY

With Technical Assistance from the IMF, Sierra Leone has rebased its economy from 2001 to 2006 base year to ensure that the estimates do not only comply with international standards but also account for recent developments in the economy, especially in the mining sector. The rebased figures show that Sierra Leone has continued to enjoy robust economic growth, notwithstanding the negative impact of the 2008/09 financial crisis. Although the crisis affected the growth prospects of the country, the economy grew by 5.4% in 2008 and 3.2% in 2009. The economy started re-bouncing back from the crisis in 2010. Real GDP grew by 5.3% in 2010 and 6.0% in 2011, largely on account of growth in agriculture, mining, manufacturing, construction and services. Although, diamond exports dipped in 2011 (because Koidu Holdings participation in the export market dropped), the unexpected exporting of 137, 000 tones of iron ore done in 2011 boosted the GDP growth rate in 2011. Agriculture sector continues to contribute greater percentage to Sierra Leone GDP volume estimates compared to the other sectors, contributing about 52.8 per cent in 2011; Industry contribution is 8.8% in 2011; Service sector less FISIM has a share of 33.4 percent; while taxes contributed 5.1%.

The 2012 growth is predicated not only on government's ongoing policies to consolidate macroeconomic stabilization, expand basic public infrastructure, and improve the business environment for private sector development but also on the production and export of 11.5 million tons of iron ore by the African Mineral Limited (10 million tons) and the London Mining Company (1.5 million tones) in 2012. Assuming that 11.5 million tons iron ore are produced and exported in 2012, the economy is projected to grow by 32.5% in 2012. Without iron ore, the economy is expected to grow by a moderate 6.3% in 2012. This 6.3% growth rate is built on the backbone of agriculture growth, non-iron ore mineral growth, enhanced electricity and water supply, continued government spending on infrastructure and expansion of services in the economy. The 32.5% is based on the expectation that iron ore price remains high at least \$90 per ton and the operating cost is at most \$ 27.5 per ton in 2012 and that 11.5 million tons ore are produced and exported in 2012. Any change in these assumptions could affect the 32.5% growth rate in 2012 up or down depending on the direction of the change in assumptions. A major implication of this accelerated growth is that the economy, although still agrarian, would be more susceptible to internal market primary commodity price variations than ever before

Although the Sierra Leone Business confidence Index for the first quarter of 2012 of 65.9 index points which was 15.9 points above normal, price inflation continues to be a major challenge for the authorities. In January 2012, the year-on-year increase slightly from 16.6% in December 2011 to 16.8% but declined slightly to 15.5% in February 2012 and further declined to 14.5 in March 2012. This means that although inflation is still a major challenge for the authorities, the decline suggests that prices are beginning to stabilize in the economy. Therefore, the key challenges for the country in 2012 would be the stabilization of prices in the face of huge capital projects financed from limited domestic resources and the anticipated reduction of budget support from donors due to the November 17 elections.

National accounts are an essential tool for analyzing and forecasting economic phenomena. The System of National Accounts (SNA) is the internationally agreed standard set of recommendations on how to compile measures of economic activity in accordance with established accounting conventions based on economic principles. The recommendations are expressed in terms of a set of concepts, definitions, classifications and accounting rules that comprise the internationally agreed standard for measuring such items as gross domestic product (GDP), the most frequently quoted indicator of economic performance. GDP figures are computed by Statistics Sierra Leone using the standard 1993 System of National Accounts (SNA93) methodology; and it is estimated for the previous year, while projections are provided for the current year.

The base year was revised from 1990 to 2001, and it has been further revised from 2001 to 2006 to ensure that the estimates do not only comply with international standards but also account for recent developments in the economy. As best practice, it is recommended that countries national accounts be rebased every five year, or at the extreme end every 10 years in order to accounts for changing patterns in the economy. Since our base year was 2001 and given the fact that a good number of new activities (re-)surfaced during 2006, the year has been chosen for the new base year. New activities included in the 2001 series (but their compilation started in 2006), include mobile communication, gold mining, bauxite, rutile and illiminte mining, expanded financial sector including foreign exchange bureaus. Being the year of HIPC (debt relief) completion point, 2006 is also considered to be a stable year in terms of prices (stable inflation) and fiscal discipline (low deficit).

The rebasing process was supported by the International Monetary Fund (IMF), who provided three Technical Missions (TAs) in 2011 to facilitate the process. The Missions reviewed the rebasing methodology in line with international best practice and provided hands-on-training. As a result, the rebasing process incorporated the following activities:

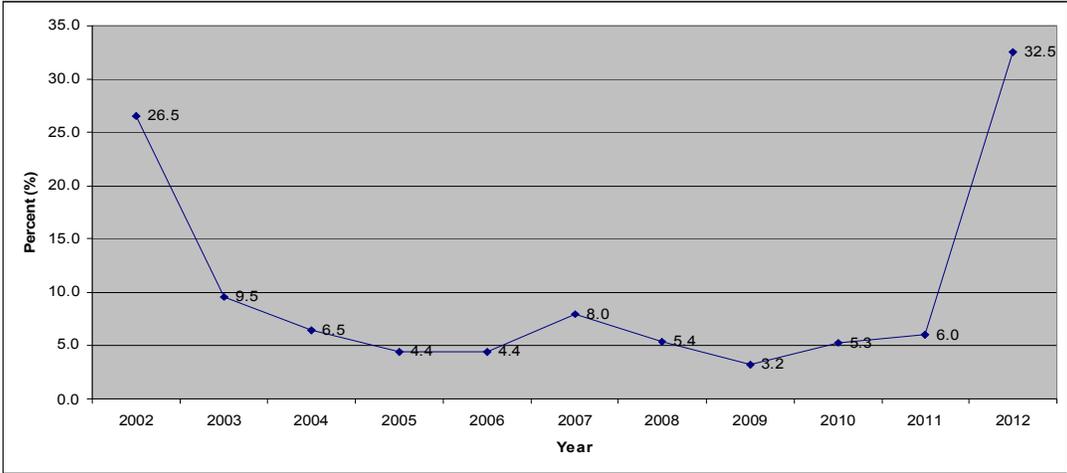
- 1) A new methodology is introduced-updated methodology for compilation
- 2) A new source datasets were included-for some industries
- 3) A new price index is constructed-for all industries using 2006 prices as base

GDP figures are estimated from the following sources: administrative data received from institutions (such as Accountant general's Office, Budget Bureau, BSL, Sierra Leone Insurance Company, Government Gold and Diamond Office, etc.), surveys conducted by other institutions and the Annual Economic Survey and other surveys conducted by Statistics Sierra Leone to complement the sources mentioned. The figures for the 2011 GDP are provisional subject to the conduct of the Annual Economic Survey in July 2012 and receipt of final data from some ministries, departments and agencies (MDAs). Projections are made for 2012.

1.1 TRENDS IN 2011 REAL GDP (RGDP) FIGURES

The rebased figures show that Sierra Leone has continued to enjoy robust economic growth, notwithstanding the negative impact of the 2008/09 financial and economic crisis that emanated from the US housing market crisis. Although the crisis affected the growth prospects of the country, the economy grew by 5.4% in 2008 and 3.2% in 2009. The economy started re-bouncing back from the crisis in 2010. Real GDP grew by 5.3 percent in 2010 and 6.0 percent in 2011, largely on account of growth in agriculture, mining, manufacturing, construction and services. Although, diamond exports dipped in 2011 (because Koidu Holdings participation in the export market dropped), the unexpected exporting of 137, 000 tones of iron ore done in 2011 boosted the GDP growth rate in 2011.

Figure 1: Real GDP Growth Rate (2001-2012)



Since the brisk growth of 8.0% in 2007, when the ‘tractorization’ policy of the government started, the economy dipped to 3.2% in 2009 partly blamed on the structural crisis faced by the mining companies (Koidu Holding and Sierra Rutile in 2008) and partly due to the financial and economic crisis which started in 2008 (Figure 1). The 5.3% growth rate in 2010 and now the 6.0% in 2011 indicate a recovery from the impact of the financial and economic crisis of the 2008/2009, with agriculture, manufacturing, construction, banking and communication industries playing a leading role.

1.2 SECTORAL ANALYSIS

As the main sector of the economy, the output of the Agriculture sector continues to grow since 2002. However growth in the sector slowed down to 4% in 2009 and to 3.5% in 2010 partly due to the fact that the ‘tractorization’ policy, which largely aims at expanding land under cultivation, had reached its limit and that a backup policy was needed to enhance productivity and processing of produce. With the introduction of the Small Holder Commercialization Programme (SHCP) policy in late 2010, which

encourages small holder farmers to come together in groups known as agriculture business units (ABU) which are supported by the government and other development partners in the form of improved inputs, tractors and processing equipment, there has been visible improvement in the growth rate of rice and other crops; thus agriculture grew by 4.6% in 2011. Although there is a ban on Export of Timber, domestic production is ongoing, and in addition there has been massive increase in char coal production, especially in the Northern Province (maybe due to the increase mining activities) which resulted to a 3.6% and 2.7% growth in the forestry output in 2010 and 2011 respectively.

The Industrial sector suffered heavily during the structural crisis faced by mining companies in 2008 and the financial crisis of 2008/2009. As a result the sector recorded negative growth rates of 10.4% in 2008 and 4.6% in 2009 respectively; mainly due to decline in the mining output of diamond, bauxite and rutile. However, as the demand for these minerals recovered in the international market in 2010, coupled with increased production in manufacturing, the sector grew by 12.8% in 2010 and 9.7% in 2011. The slow growth in 2011 is due to the decline in the volume of diamond exported by the key player-Koidu Holdings-maybe due to negotiations with the government and expansionary activities of the company in 2011. Manufacturing also recorded a positive growth rate of 15.0% in 2011 due mainly to the increase in output of cement, soft drinks, beer & stout, flour and paint. This shows a recovery from the negative growth of 6.8% in 2009 blamed on capacity problems and low demand resulting from stiff domestic competition.

For the Electricity and Water sub-sector, the electricity industry suffered so much over the years, it picked up in 2008 by recording a 330% growth rate due to the Emergency Power Project which saw a sudden increase in units of electricity generated and sold, especially in Freetown. Since then the industry has been struggling with Transmission and Distribution (T&D) problems with mixed rate of growth for different years. Notwithstanding, the industry grew by 2.8% in 2010, and expected to grow by 6.6% in 2011. The water industry also suffered from lack of maintenance and adequate resources in the past with mixed growth rates recorded; and the negative growth rate of 6.7% in 2011 is due to the decline in the number of units supplied as well as sold in 2011. The road construction in Freetown (damaging of pipes, etc) as well as logistical problems faced by GUMA and SALWACO (the 2 water companies) could be responsible for this decline. The construction sub-sector grew by 15.5% in 2010, 20.7% in 2011 due to increase in cement output and increase in cement importation; expanded construction activities in the country are a result of the scaling up of government construction expenditure under the 'Agenda for Change'.

The service sector grew by 8.5% in 2008, 4.1% in 2009, 6.4% in 2010 and 7.2% in 2011 supported mainly by growth in the sub-sectors like Transport and Communication and Banking, which continue to record impressive growth rates (*Table NA03*). Trade and Tourism, also grew in 2010 and 2011 due to trade sub-sector growth and increased in

tourism arrivals and improved occupancy rate. Health and Education Services continue to record positive growth rates under the 'Agenda for Change'; and Administration of General Government services increased by 23.9 percent in 2010 and 14.1% in 2011 due to increase in the wage bill as well as increase in capital consumption allowance estimated from capital expenditure.

1.3 PERCENTAGE CONTRIBUTIONS

Agriculture sector, being the dominant economic activity of Sierra Leoneans, continues to contribute greater percentage to Sierra Leone GDP volume estimates compared to the other sectors. Of the 2011 GDP figures, Agriculture contributed about 52.8per cent; Industry contribution is 8.8% in 2011; Service sector less FISIM¹ has a share of 33.4 percent; while taxes contributed 5.1%. (*Table NA05*)

1.4 GROWTH DRIVERS

From the supply side, *Table NA06* clearly shows that Agriculture contributed 2.5% of the 6.0% growth rate in 2011, mainly coming from crop (2.0%); Services Sector less FISIM contributed 2.4 percentage points (Trade-0.8%, Administration Services-0.5% and Transport-0.3%). Industry only made a contribution of 0.8% to growth. This means that our sources of growth are Agriculture (crop sub-industry) and services (Trade, Administrative services, and transport sub-industries) industries.

1.5 2012 PROJECTIONS

Expansion of economic activity in 2012 such as agriculture, construction, mining, and especially the introduction of the new iron ore mining activity is expected to accelerate real GDP growth in 2012. The 2012 growth is predicated not only on government's ongoing policies to consolidate macroeconomic stabilization, expand basic public infrastructure, and improve the business environment for private sector development but also on the production and export of 11.5 million or more tons of iron ore by the African Mineral Limited (10 million tons) and the London Mining Company (1.5 million tons) in 2012.

Assuming that 11.5 million tons iron ore are produced and exported in 2012, the economy is projected to grow by 32.5% in 2012. Without iron ore, the economy is expected to growth by a moderate 6.3% in 2012. This 6.3% growth rate built on the backbone of agriculture growth, non-iron ore mineral growth, enhanced electricity and water supply, continued government spending on infrastructure and expansion of services in the economy.

¹ FISIM is Financial Intermediation Services Indirectly Measured. The SNA 93 recommends that it should be treated as Intermediate Consumption and therefore deducted from the output of the sectors that incur them; or appears in the account but deducted from the total.

1.6 IMPLICATIONS OF THE EXPANDED ECONOMIC ACTIVITIES

The double digit growth of 32.5% resulting from iron ore production and export lays out lessons to be learnt:

- That the economy is rapidly expanding, with increase in employment of nationals as well as foreign workers
- That mining industry is once again a leading growth industry of the economy
- That structure of the economy is expected to change from being domestic household consumption led to export led economy, although the economy is still an agrarian economy
- That the economy will become more dependent on world market prices than ever before, which means that Sierra Leone would now be more susceptible to international market price fluctuations than ever before
- That the fate of the national is slowly being built into the hands of one product/output-iron ore

1.7 GDP GROWTH AND WELFARE

GDP accelerated GDP growth rate does not mean necessarily rapid increase in government revenue, which go into government budget. This is more so evident in Sierra Leone where companies in the leading industries are given tax exemption and tax holidays in the name of investment incentives; this is why our revenue tax ratios are still below those of other countries in the sub-region. This notwithstanding, accelerated GDP growth has direct individual benefits (salaries to workers) and community benefits (corporate social responsibility of leading companies) and national benefits (provision of basic goods and services-such as infrastructures, social services, etc).

The Consumer Price Index (CPI) is the main measure of inflation in Sierra Leone; changes in the CPI are used as an indicator of the changes in the rate of inflation for the economy as a whole. The CPI is a high profile statistics of national and international importance used widely in economic policy decision-making particularly monetary policy. In Sierra Leone, inflation is being monitored on a monthly and annual basis based on the CPI published by Statistics Sierra Leone. The Composite Consumer Price Index is computed as a weighted average of the different center sub-indices. The Consumer Price Index (CPI) basket in Sierra Leone currently covers a total of 433 items; and the CPI is estimated as a weighted aggregate of a fixed basket of these 433 goods and services popularly consumed in Sierra Leone. The index covers sampled outlets from five urban towns representing the four geographic regions of the country: Kenema and Koidu-Eastern province, Bo-Southern Province, Makeni-Northern Province and Freetown-Western Area, the current reference year is 2007. All prices collected are the prevailing retail market prices from six (6) markets in Freetown, three (3) Markets in Bo Town, three (3) markets in Kenema Town, three markets (3) in Koidu and three (3) markets in Makeni Town for weekly prices, making a total of 18 markets as data collection centers for the CPI exercise in Sierra Leone. This is in addition to data collected from educational institutions, health facilities and hotels & restaurants

The CPI data for 2010 and 2011 show that the last quarter of the year 2010 ended with CPI relatively higher compared to the first quarter of the year 2011. The 2010 year ended with an annual rate of inflation of 16.76%; while in January 2010 the rate increase to 14.8% from single digit 9.9% in December 2009 blamed mostly on the introduction of the GST and the confusion that accompanied it in January 2010. The 2011 Year-on-Year rate of inflation continued to record double digits rate of inflation as was the case in 2010. But compared to the last quarter of 2010, the rate of inflation in the first quarter of 2011 was considerably lower. The National CPI decreased from 17.84% in December 2010 to 13.52% in January, 2011 (the base effect). The 2011 rate of inflation gradually started to rise in February (13.88%), March (14.92%), April (15.42%) and reached its highest in May (17.82%). This significant increase in the Year-on-Year rate of inflation in May was triggered by the sudden rise in the price of Petroleum products and the confusion that followed the introduction of the metric system in the country.

Prices decreased slightly in June (16.79%) to September (15.70%) before rising again in October (17.15%) and November (17.24%). Unlike in December 2010, prices in December 2011 decreased slightly from 17.24% in November to 16.64% resulting to an annual average rate of inflation of 16.03%. In January 2012, the year-on-year increase slightly from 16.6% in December 2011 to 16.8% but declined slightly to 15.5% in February 2012 and further declined to 14.5 in March 2012. This means that although inflation is still a major challenge for the authorities, the decline suggests that prices are beginning to stabilize in the economy.

2.1 REASONS FOR THE DOUBLE DIGIT INFLATION

There are many reasons why high inflation may persist; and cause can be both external and internal.

- In 2008 for example, the global food and fuel crisis, which saw sudden and sharp increase in the price of food and fuel in the global market, was translated into high inflation, especially in Sierra Leone, which is a net importer of food and fuel.
- The depreciation of the exchange rate against the US Dollar is also a strong cause of inflation in Sierra Leone. It is not uncommon nowadays to hear traders and vendors quote the prices of goods and services in US Dollars; this has negative impact on the domestic prices of goods and services.
- Furthermore the formation of cartels by producers, importers and suppliers of basic goods like rice, fuel, flour, cooking oil, drinks, and other items, ensures that sellers have limited monopolies over the domestic price., which some times perpetuate profiteering at the expense of the welfare of the consumers.
- In addition, poor road network has all been blamed as part of the causes of inflation in the country, in that goods produced in the rural areas find it difficult to reach the urban areas where they are highly demanded, thereby creating artificial scarcity of these goods in the market.
- Of course theoretically, it is postulated that inflation is influenced by increase in money supply; and in 2010 we experienced a huge jump in 'ways-and-means' of the Central Bank given to the government, which was accompanied by a double digit inflation,

The Sierra Leone Business Confidence Index measures the perception of Business Executives, Managers, and Business Owners' on current and expected developments regarding business and general economic performance. The sample size comprises of 160 kind of activity establishments divided equally among four sectors, Construction, Industry(manufacturing, mining and quarrying), Other Services(Banking, Tourism, Transport and Communication) and Whole sale and Retail Establishments and grouped by size into small scale (<10 employees) medium scale(10-49 employees) and large scale establishments(50+ employees). In each sector, the top ten establishments were purposively selected and the remaining 30 were selected using ordered probability proportional to size sampling technique. Two approaches were used to compile the indices; the balances approach (Net-Balances) and the Diffusion Indices approach. For each sector and for each size measure, two type of indices are computed; the current outlook and the expected outlook indices. The Business Confidence Index is computed as a simple average of the current/past performance index and the business expectations index.

3.1 RESULTS

The Sierra Leone Business confidence Index for the first quarter of 2012 was 65.9 index points which was 15.9 points above normal. The overall index for the first quarter of 2012 is above the quarter 4 of 2011 estimated at 64.0, which represents a 1.9 percentage point improvement over quarter 4, 2011 estimate. This implies that business sentiments, improved slightly between the two quarters, which means that sentiments (notwithstanding the shortage of liquidity during the February-March, 2012) were stronger in quarter 1, 2011 than in quarter 4, 2011. The improvement in the expected business outlook (Figure 2) accounts for this stronger sentiment in the overall index.

The main reason for the strong sentiment expressed by the expected business outlook index could be attributed to the stability of the domestic currency (the Leone) in quarter 1; in some case the Le has even appreciated against the US Dollar in quater1. This stability in the exchange rate coupled with declining inflation trends, dampened inflation fears in the minds of business executives in quarter 1. As inflation becomes more and more predictable, the time planning horizon is enhanced; and as a result business executives expressed positive sentiments about the impact of macro economic factors (e.g. inflation, taxes, etc) and governance factors (the November 17 elections have not generated the anticipated violence) on the business operations in the country. This in turn, improved the rating of the confidence building factors such as the investment, sales volume, employment and the overall economy performance indicators. These improvements in macro and governance factors contributed positively to the overall index.

4.0

IMPROVEMENT IN NATIONAL ACCOUNTS COMPILATION

Sierra Leone is participating in the DFID/IMF Enhanced Data Dissemination Initiative (EDDI) project, which promotes best practice in National Accounts compilation, as well as building the capacity of National Accounts Compilers. This five-year project provides technical support to participating countries on National Accounts and related aggregates such as the consumer price index. SSL has already received Three Technical Assistance Missions from the IMF in 2011 under this EDDI project, which facilitated the rebasing process.

In addition, SSL received two TA Missions from the IMF 2011 on the consumer price index (CPI) and the producer price index (PPI). The CPI files were reviewed and recommendations made, which are currently being implemented. Also the Mission was able to estimate weight for the compilation the Producer price index (PPI). A follow-up mission is expected in May/June, 2012 to launch the PPI series and revise the CPI series.

SSL is currently processing the Sierra Leone Integrated Household Survey (SLIHS), with funds from the Government; this data will be very handy in estimating the household consumption. With funds from ILO, the child labour survey has been conducted in June 2011 (data processing is ongoing). Although this is a limited and specialized survey, it could provide insight into the activities of the informal economy in the country. In addition, the Government of Sierra Leone has approved in principle to funds to conduct a full blown labour force survey that is being planned for the first quarter of 2012.

These household-based surveys will provide data for the benchmarking/revision of the major components of the national accounts and for CPI basket.

Under the NSDS, 8 Statisticians were deployed in MDAs in an effort to improve source data; this strategy has improved source data tremendously both in terms of methodology and access to the data by SSL.