

SIERRA LEONE BALANCE OF PAYMENTS

I. General

The Research Department of the Bank of Sierra Leone (BSL) is responsible for the compilation of the Balance of Payments for Sierra Leone. The data for the balance of payments estimates are obtained from various sources including the government ministries, the Customs and Excise Department (CED), BSL records and the “Financial Survey of Major Limited Companies.” BSL conducts this survey annually to obtain estimates for services and for income and capital flow data relating to direct investment, portfolio and other investments. In addition to the balance of payments, the Bank now produces the International Investment Position (IIP) since 2002 compilation. The sources of data for the IIP are the same as for the Balance of Payments. Data are prepared on an annual basis; they are published in the *Sierra Leone Balance of Payments* pamphlet and in the half yearly, BSL Bulletin and BSL website. Balance of payments estimates are compiled in millions of Leones and are, as far as possible, in accordance with the international standards recommended in the Balance of Payments fifth manual (BPM5).

II. Specific Items: Balance of Payments

Current Account

Goods

Exports

Export data excluding diamond exports are obtained from CED. Diamond export data are obtained from the Government Diamond Department (GDD). To make adjustment for smuggled diamonds, un-recorded diamond exports from Sierra Leone are added to the export data. Un-recorded diamond exports from Sierra Leone are estimated by deducting official export figures for diamond from trading partners’ official import

figures of diamond from Sierra Leone. Other exports, which are not captured by customs such as goods procured in ports by carriers, are also added. The value of exports is reported on free on board (f.o.b.) basis.

Imports

Import data are obtained from (CED) on a cost, insurance and freight (c.i.f.) basis and are adjusted to a free on board (f.o.b.) level by deducting estimates of freight and insurance. These deductions are added to the services sector. Other adjustments include the addition to the import data of non-dutiable goods also obtained from CED, petroleum products from the oil companies and payments for printing of currency from BSL. Foreign currency values of imports are converted into Leones at the official exchange rate.

Services

Transportation

This category covers freight and passenger services for all modes of transport and port services. Data for transport services are derived from an annual survey of airline and shipping companies that operate in Sierra Leone. Data on seaport charges and airport fees are derived from information provided by the seaports and airport authorities. Estimates of freight and insurance are based on information furnished in customs declaration forms. Where such information is not available, these expenses are estimated at 10 percent and 2 percent, respectively, of the c.i.f. value of imports.

Travel

Estimates of travel credits are compiled by combining data on tourist arrivals with estimates of their average expenditures, both of which are provided by the Sierra Leone Tourist Board. Information on government travel is obtained from banking records.

Other services

Insurance: Data are obtained from the BSL annual survey of all insurance companies resident in Sierra Leone. Credit entries include the net premiums received on direct insurance of exports and reinsurance by companies operating locally. Premiums are net of claims, cancellations, and commissions. Debit entries cover premiums on merchandise insurance on imports derived from customs statistics.

Other business.

Other services comprise those international service transactions not covered under the items transportation and travel. They include: communications services, construction services, financial services, computer and information services, royalties and license fees, other business services. Credit entries are made for all services provided by residents to non-residents, whilst debit entries are made for all services provided by non-residents for resident enterprises. For information on other services, separate questionnaires are designed and administered to both providers and consumers of such services in the country.

Government Services not included elsewhere

Cash flow statements from International Finance Department at Bank of Sierra Leone are used for government services not included elsewhere. Credit entries represent expenditures of foreign governments, diplomatic missions, and international organizations in Sierra Leone. Debit entries comprise the expenditures abroad of Sierra Leone's diplomatic and trade missions as well as military expenditures on the Sierra Leone military contingent in foreign countries.

Income:

Income covers two types of transactions between residents and non-residents

- i. Those involving compensation of employees, which are paid to non-resident workers (eg border, seasonal and other short term workers)

- ii. Those involving investment income receipts and payments on external financial assets and liabilities. Included in the latter are receipts and payments on direct investment, portfolio investments, other investments, external debt and receipts on reserve assets

Compensation of Employees

This comprises wages, salaries, and other benefits in cash or in kind, earned by individuals in economies other than those in which they are residents – for work performed for (and paid for by) residents of those economies. Income earned by residents of Sierra Leone are recorded as credit and payments made to non-residents are recorded as debit. Data are obtained from completed questionnaires sent to enterprises as well as official sources such as BSL records.

Investment income

Direct investment, portfolio investment and other investment data are derived from the annual financial surveys of registered companies, banks and other financial institutions as well as from BSL records. Details of government transactions are obtained from the International Finance Department (IFD) of the BSL. The credit entries relate mainly to interest on investments held by official institutions. The debit entries relate to remittances of profits, interest, and dividends accruing to nonresidents, as well as interest on official loans.

Current transfers

General government

Data are derived from information provided by various government agencies. The entries cover grants in cash and in kind from other governments for development and training, and contributions to the administrative budget of international organizations.

Other sectors

Data are derived from the International Finance Department records of the BSL, information provided by the banks, and duty free entries pertaining to Non-Governmental Organisations. The credit entries include grants and gifts received, transfers of savings by nonresidents, and transfers of funds by missionary organizations.

Capital Account

Capital Transfers

Debt forgiveness. Data on debt forgiveness are derived from records of the International Finance Department of the BSL.

Financial Account

Direct investment

BSL administers an annual financial survey of all registered companies (whose operations are relevant to the compilation process) in order to derive data on direct investment. Estimates mainly cover direct investment in branches and subsidiaries by foreign companies, which for the purposes of this survey, covers companies in which more than 10 percent of share capital is held by non-residents. Reinvested earnings are included.

Portfolio and Other investment

Data on general government transactions related to the other investment category are obtained from the Banking, International Finance and Accounts and Budget Departments of the BSL. Assets include holdings of foreign long-term securities (which comprise mainly sinking-fund contributions, savings banks' investments, and other funds) and other foreign assets. Similar data for the monetary authorities are

derived from the records of the BSL. The entries cover changes in foreign assets (other than reserve assets) and liabilities of the monetary authorities. Data on the other investment transactions of banks are obtained directly from commercial banks' records. Entries are estimated as differences in amounts of outstanding foreign assets and liabilities of commercial banks; thus, they include valuation changes.

Reserve Assets

BSL records supply these data. The data on foreign exchange holdings of the BSL are estimated as differences in amounts outstanding and, therefore, include valuation changes.

International Investment Position (IIP)

The International Investment position (IIP) is the balance sheet of the stock of external assets and liabilities. The position at the end of a specific period reflects financial transactions, valuation changes, and other adjustments all of which affect the level of assets and/or liabilities, which occurred during the year. Returns from all other institutions through the administered direct investment, portfolio investment, and other investment survey questionnaires normally sent to them serve as the main source of information. In addition to that is the official source from BSL (Reserve Management Section, IFD and BSL trial balance).

Errors and Omissions

Compiling Balance of Payments (BOP) records presents some difficulties, thus discrepancies sometimes occur in the data collection process. As such total recorded debits do not equal total recorded credits in the actual balance of payments accounts. The imperfection in the BOP accounts can be attributed to: illegal or unreported transactions, over or under estimation of items, incorrect valuation of merchandise on import documents, etc. The residual account for "Errors and Omissions" exists to accommodate such discrepancies.

Sierra Leone's Balance of Payments and International Investment Position- 2007

The 2007 balance of payment estimates for Sierra Leone showed an improvement in the overall balance to a surplus of US\$98.19mn, up by 6.62 percent from a surplus of US\$92.09mn recorded in 2006. The 'capital and financial' account balance increased to a positive net flow of US\$209.64mn from US\$133.70mn reported in 2006. The current account deficit widened to US\$181.17mn, by 98.40% from US\$91.32mn recorded in 2006.

Current Account

The Current Account deficit widened by 98.40 percent to US\$181.17mn, representing 9.28 percent of Gross Domestic Product (GDP). The expansion in the current account deficit reflected deterioration in the balances for merchandise, services, income, and current transfer payment accounts.

The trade deficit expanded by 14.88 per cent to US\$102.60mn (5.25 % of GDP) mainly on account of a higher growth in import payments than in receipts from exports. The deficit on the services account increased to US\$52.07mn from US\$43.66mn in 2006. The increase in the deficit for services account depicted deterioration in the balances for some of the major component items notably:- transportation, communication, Royalties and Licenses fees, and Travel which overshadowed the gains recorded for construction, insurance, financial services, computer and information and other business services, indicating higher payments for these services than receipts.

The deficit in the income account more than doubled (163.10%) to US\$104.35mn from US\$39.66mn in 2006, reflecting deterioration in both the investment income and compensation of employees sub-accounts. Net current transfers reduced by 3.90 percent to US\$77.85mn and this could be attributed to the drop in private transfer payments which more than offset the increase in official transfers.

Capital Account

The capital account recorded a net surplus of US\$634.34mn, as against US\$259.02mn recorded in 2006. The improvement was prompted by remarkable increases in the levels of both official and private capital inflows from US\$258.89mn and US\$0.13mn in 2006 to US\$633.25mn and US\$1.09mn respectively.

Financial Account

The financial account recorded a negative net inflows of US\$410.70mn, deteriorating by more than three folds when compared to a negative net inflows of US\$128.52mn recorded in 2006. The level of direct investment in the economy increased by 61.18 percent, to US\$94.49mn, due to increases in both the nets of reinvested earnings and “other capital” which surpassed the downward trend in equity capital. The account balance for “other investment” portrayed a deficit of US\$505.19mn, (up by 169.95%) and far outweighed the increase in the level of direct investment.

International Investment Position (IIP)

Sierra Leone’s International Investment Position (stock of external assets against liabilities) portrayed that the country continues to be indebted to the rest of the world. However, the net position as at end 2007 showed a decreasing trend in the country’s indebtedness to the rest of the world. The deficit dropped by 8.68 percent to US\$2.00bn in 2005 and then by 4.55 percent to US\$1.91bn in 2006 and further by 67.21 percent to US\$0.63bn. The position reflected a continuous rise in asset holdings and a consistent fall in liabilities. Total Asset holdings increased from US\$0.19bn in 2005 to US\$0.25bn in 2006 and US\$0.36bn in 2007. Correspondingly, total external liabilities decreased from US\$2.19bn in 2005, through US\$2.16bn in 2006 to US\$0.99bn as at end 2007. Other investment liabilities (of which general government long-term loans constituted 46.67% of total external liabilities) showed a decreasing trend from US\$1.89bn as at end 2005 to US\$1.71bn as at end 2006, and US\$0.60bn as at end 2007.