POLICY BRIEF

Sierra Leone Supplementary Budget FY2026

Reading the fiscal response to the oil price shock: what it means for growth, investment, business and household welfare

Development Decision Support (DDS) Limited | August 2026 | Condensed from the full 18-page analysis. For the full report contact us via email: info@ddsconsultancy.org or phone: +232 34 727215

The verdict

Sierra Leone absorbed a genuine external shock from a position of unusual strength. Growth reached 4.8 percent in 2025, inflation fell to 4.4 percent from 52.2 percent two years earlier, and the domestic primary balance turned positive for the first time since the pandemic. The closure of the Strait of Hormuz in late February 2026 pushed oil from US$70 to a peak of US$138 per barrel, tripled inflation to 14.8 percent by June, and cut projected growth to 4.0 percent.

The response is defensible in shape: subsidize fuel and electricity temporarily, protect the wage bill, and take the adjustment in domestically financed capital. The deficit widens only from 2.3 to 2.8 percent of GDP and the domestic primary balance stays in surplus. But four features of the revised numbers, all visible in the annexes rather than the narrative, materially change the assessment.

Four findings that change the assessment

1. Only 57 percent of the deficit widening is the oil shock. The deficit rises NLe870.4 million. Revenue, grants, recurrent and capital changes explain NLe498.7 million. The remaining NLe371.7 million is contingency, driven by Special Presidential Warrants rising from NLe10.0 million to NLe326.5 million, including NLe80.0 million for the 69th ECOWAS Summit and a further NLe68.1 million in the capital annex for Lungi conference facilities.

2. The headline expenditure increase understates the true increase by 2.7 times. Paragraph 37 reports total expenditure rising NLe217.2 million. That line excludes contingency. Including it, the increase is NLe588.9 million.

3. Financing has pivoted onto the commercial banking system. Commercial bank borrowing rises from NLe567.3 million to NLe4,175.3 million, up 636 percent, or from 0.3 to 2.2 percent of GDP. In 2025, Government stepping back from this market was the reason private credit grew 49 percent and yields fell from 41.0 to 17.0 percent. That mechanism now runs in reverse, alongside a higher policy rate.

4. The second half arithmetic is undemonstrated. Domestic revenue must rise 8.3 percent above the first half while total spending falls 10.3 percent in nominal terms, a real contraction of roughly one fifth. No measure of that magnitude is identified.

> **The single most useful number in the document**
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> Wages and salaries, interest and subsidies together consume NLe19,251.7 million, equal to 89.5 percent of projected domestic revenue. Domestic interest alone, at NLe6,688.2 million, is over four times the entire domestically financed capital programme. Every discussion of fiscal space in Sierra Leone reduces to this ratio.

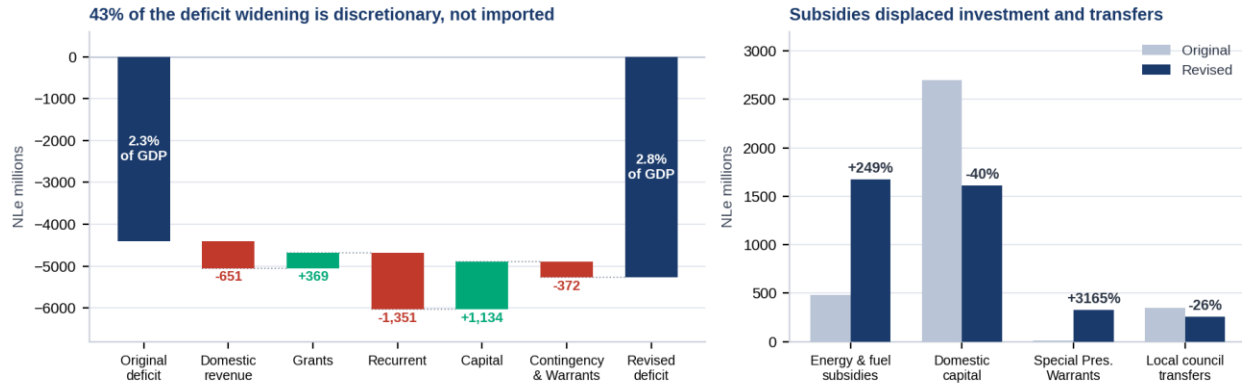

Figure 1. Left: decomposition of the NLe870.4 million increase in the deficit, which reconciles exactly to the published revised figure. Right: selected budget lines, original against revised, NLe millions.

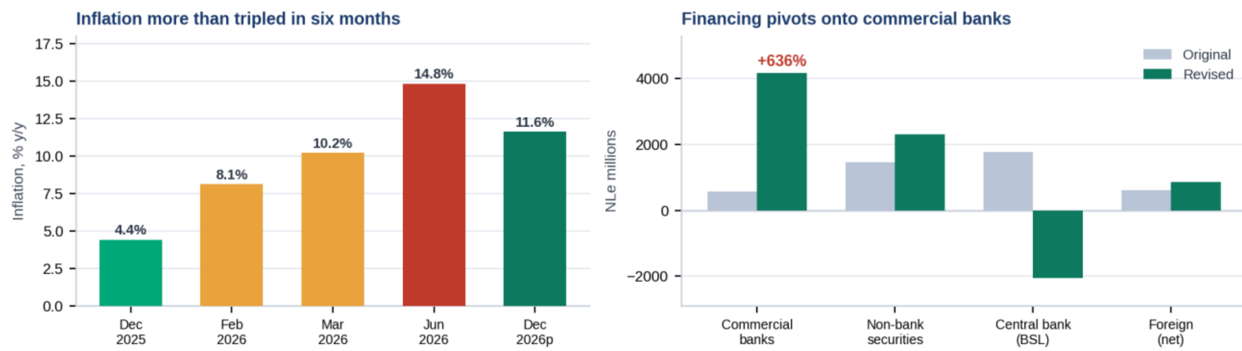

Figure 2. Left: the inflation trajectory, with the December 2026 projection based on oil averaging US$89.0 per barrel. Right: deficit financing by source, NLe millions.

The revised framework in eleven numbers

Indicator	2025 actual	2026 original	2026 revised	Change
Real GDP growth (%)	4.8	4.5	**4.0**	**-0.5 pp**
Inflation, end period (%)	4.4	n.a.	**11.6**	**+7.2 pp**
Domestic revenue (% of GDP)	10.7	11.8	**11.5**	**-0.3 pp**
Overall deficit, incl. grants (% of GDP)	-4.3	-2.3	**-2.8**	**-0.5 pp**
Domestic primary balance (% of GDP)	1.3	1.6	**1.1**	**-0.5 pp**
Domestic revenue (NLe million)	18,033	22,164	**21,513**	**-651**
Recurrent expenditure (NLe million)	22,144	21,651	**23,002**	**+1,351**
Domestic capital only (NLe million)	1,266	2,699	**1,610**	**-1,089**
Energy and fuel subsidies (NLe million)	443	480	**1,675**	**+1,195**
Commercial bank financing (NLe million)	3,739	567	**4,175**	**+3,608**
Gross reserves (months of imports)	2.0	n.a.	**2.3 (Jun)**	**+0.3**

Source: DDS analysis of the Supplementary Budget Statement and Annexes 1 to 3.

What it means, sector by sector

Area	What the budget does	Implication
Fiscal	Deficit widens to 2.8 percent of GDP. Recurrent spending up NLe1,351.0 million, capital down NLe1,133.7 million, contingency up thirty-fold.	Consolidation is paused rather than abandoned. The domestic primary surplus falls 36 percent, and the composition shifts from investment towards consumption subsidies.

Area	What the budget does	Implication
Monetary	Policy rate raised in May 2026. New framework built on the seven-day reverse repo. Government repays NLe2,063.1 million to the Bank of Sierra Leone.	Ending monetary financing is unambiguously good policy. But fiscal expansion funded by banks works against the tightening, so the two arms are in partial opposition.
External	Reserves at 2.3 months of imports. Leone appreciated 0.3 percent. RSF of US$211.5 million secured; US$60.0 million BADEA facility in place; US$100.0 million petroleum facility still under negotiation.	The buffer that absorbed this shock was thin and remains below the three-month benchmark. Iron ore alone is 58 percent of first quarter merchandise exports and minerals 84 percent, which is the principal concentration risk.
Real sector	Growth to 4.0 percent, returning to potential in 2027. Domestic capital cut 40.4 percent to 0.86 percent of GDP; roads, water and district electrification all reduced.	The 2026 downgrade is modest. The larger medium-term risk is the investment cut, which shifts public investment further towards partner priorities and away from domestic selection.
Foreign investment	Not mentioned in the Statement. The National Investment Board's non-salary budget is cut 60.4 percent, with investment promotion down 68.9 percent to NLe1.6 million.	Positives are exchange rate stability, an on-track IMF programme, falling debt and the Safe Harbour Framework. Negatives are double-digit inflation, tighter local currency credit and an arrears stock implying 4.8 years to clear.
Domestic business	Diesel 22.8 percent above February. Electricity tariffs frozen via a NLe1,432.3 million IPP subsidy. Compliance tightens through 10,000 cash registers, GST on digital services and a Revenue Court.	Margin compression, tighter and dearer credit in the second half, and rising compliance cost in the same year. The tariff freeze is the most valuable offset, but it is temporary and unfunded beyond 2026.
Welfare	Free education revised down 8.7 percent but well above the 2025 outturn. Wages held flat in nominal terms. Free health care drugs procurement cut 77.3 percent to NLe9.6 million.	Nominal protection is real erosion at 11.6 percent inflation. Public servants face a real pay cut of about eight percent. The drugs cut is the most regressive line in the budget and is not mentioned.
Local government	Transfers to councils cut 26.1 percent; devolved function grants down 27.2 percent; Road Maintenance Fund transfer down 23.4 percent.	The deepest proportional cut in the budget, and undiscussed. Councils with functioning own-source revenue systems, particularly property tax, will absorb it far better than those without.

Six priority actions

Ordered by expected benefit relative to fiscal cost. The first four require no additional resources.

#	Action	Owner, timing and cost
1	Restore the free health care drugs procurement line to NLe42.2 million by virement, and ring-fence social sector releases in the quarterly allocation process.	Ministry of Finance, Ministry of Health, NMSA. Q3 2026. NLe32.6 million, or 1.9 percent of the energy subsidy and 41 percent of the ECOWAS Summit allocation.
2	Publish a three-scenario oil sensitivity annex at US$70, US$90 and US$120, showing the implied subsidy cost, deficit and financing mix, with a dated trigger for resuming full pass-through pricing.	Ministry of Finance, EPRU. Q3 2026. No fiscal cost.
3	Reconcile the Statement to Annex 1 by reporting expenditure inclusive of contingency, and disclose the composition of the NLe326.5 million Special Presidential Warrants provision.	Ministry of Finance, Budget Bureau. Immediate. No fiscal cost.
4	Shift the incremental domestic borrowing towards non-bank investors through the quarterly investor forum and the new investor relations desk, and hold to the MTDS maturity profile.	Ministry of Finance, Public Debt Management Division, BSL. Continuous. No fiscal cost; reduces the 2027 interest bill.
5	Commission a subsidy incidence analysis and design a targeted transport-based alternative to the untargeted electricity tariff subsidy.	Ministry of Finance, Ministry of Energy, Statistics Sierra Leone. Report by Q4 2026; instrument for the 2027 budget.
6	Front-load the remaining devolved function grants to councils and publish a release calendar; table a costed enumeration plan for the census before any further reprofiling of its NLe162.4 million.	Ministry of Finance, MLGCA, Statistics Sierra Leone, MoPED. Q3 2026. Reprofiling within existing allocations.

Watch list for the second half

- **Oil above US$110 per barrel.** The second half subsidy allocation of NLe954.6 million is calibrated near US$89. There is no identified offset beyond further capital compression.
- **Treasury yields.** If the additional NLe3,608.0 million of bank borrowing prices materially above the 17.0 percent of May 2025, the 2027 interest bill absorbs a further slice of an already narrow fiscal space.
- **The exchange rate assumption.** The revised framework assumes NLe23 per US Dollar against NLe24 originally. If the Leone instead depreciates, the subsidy bill and external debt service overshoot together.
- **Execution of back-loaded social spending.** NLe817.0 million of school feeding, 76 percent of the annual total, falls in the second half.
- **Arrears.** A stock of NLe1,236.6 million against NLe259.0 million of annual clearance, with NLe1,273.8 million of first half float scheduled to unwind. Payment delays on public contracts are structural.

> **Bottom line**
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> The fiscal arithmetic is sound and the reform agenda is serious. The framework is nevertheless tighter than the Statement acknowledges, and it protects a consumption subsidy flowing disproportionately to connected urban users by cutting domestic investment 40 percent, intergovernmental transfers 26 percent, the census 59 percent and free health care drugs 77 percent, while raising discretionary contingency provisions thirty-fold. Budget credibility, the stated theme, is established by the correspondence between what a budget says and what it does. Closing that gap through disclosure and a small number of low-cost reallocations would strengthen the credibility claim more than any additional measure.

Based solely on the Supplementary Government Budget and Statement of Economic and Financial Policies for FY2026 and Annexes 1, 2, 2a, 3 and 3a. Where the narrative and the annexes differ, the annexes are used. Real comparisons are indicative deflations using the framework's own end-period inflation projection of 11.6 percent. Analytical and independent; not investment, legal or tax advice. The full 18-page brief contains the detailed evidence, the risk register and twelve recommendations. Prepared by Development Decision Support (DDS) Limited, 58 Fort Street, Freetown.

Location: 58 Fort Street, Freetown, Sierra Leone
Email: info@ddsconsultancy.org
Web: www.ddsconsultancy.org