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SIERRA LEONE

December 2018

REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; DEBT SUSTAINABILITY ANALYSIS; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SIERRA LEONE

In the context of the Request for an Arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 30, 2018, following discussions that ended on October 2, 2018, with the officials of Sierra Leone on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 15, 2018.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Sierra Leone.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Sierra Leone*

Memorandum of Economic and Financial Policies by the authorities of Sierra Leone*

Technical Memorandum of Understanding*

*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND
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Press Release No. 18/446
FOR IMMEDIATE RELEASE
November 30, 2018

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$172.1 Million Arrangement Under the Extended Credit Facility for Sierra Leone

- The Executive Board's decision enables an immediate disbursement of US$21.5 million to Sierra Leone.
- The country's ECF-supported program aims at tackling new challenges that have arisen since June 2017 while at the same time, improving the prospects for long term growth.
- Forceful implementation of the program, especially on revenue mobilization and expenditure control, will be essential to achieve fiscal sustainability and medium-term growth objectives.

The Executive Board of the International Monetary Fund (IMF) today approved a new 43 months arrangement for Sierra Leone under the Extended Credit Facility (ECF) for SDR124.44 million (about US$172.1 million), equivalent of 60 percent of Sierra Leone's quota in the IMF, to support the country's economic and financial reforms.

The Executive Board's decision enables an immediate disbursement of SDR15.555 million (about US$21.5 million). The remaining amount will be phased over the duration of the program, subject to semi-annual reviews.

The authorities' ECF-supported program aims at tackling new challenges that have arisen since June 2017 while at the same time, improving the prospects for long term growth. In particular, addressing the fiscal slippages, adjusting the medium-term framework to correct for these slippages and account for recent external shocks, and supplementing the structural reform agenda to better tailor it to current circumstances, including in the areas of central bank safeguards and governance. Forceful implementation of the program, especially on revenue mobilization and expenditure control, will be essential to achieve fiscal sustainability and medium-term growth objectives.

Following the Executive Board discussion on Sierra Leone, Deputy Managing Director Mr. Tao Zhang, and Acting Chair, said:

“The goals of the new program remain focused on reducing inflation, mobilizing revenue to allow for necessary spending consistent with debt sustainability, safeguarding financial stability, and maintaining external resilience to shocks. These are critical for strong, sustained growth.

“Revenue mobilization is central to the success of the program. In the near term, maintaining the improved revenue performance of the last several months is essential for preventing a reemergence of budget arrears and establishing budget credibility. Over the longer term, sustainably higher revenue is needed to support the government’s policy goals of boosting investment in infrastructure and social protection.

“Controlling expenditure commitments requires increasing the accountability, transparency, and oversight of quasi-government institutions and state-owned enterprises. Effective implementation of the public finance management regulations is an integral part of this effort. The government’s recent reform to operationalize the Treasury Single Account is a welcome step, as are policies to ensure that spending commitments are in line with the available financing envelope. More broadly, these efforts will lead to better governance, helping promote macroeconomic stability and inclusive growth.

“The program aims to reduce the country’s debt burden over the longer term. Infrastructure spending remains essential to improving growth prospects, but the country’s high debt means that priority should be given to projects with high economic returns. External borrowing will be anchored by the objective of reducing the risk of debt distress.

“Monetary policy will remain focused on bringing inflation down to single digits over the medium-term, while the Bank of Sierra Leone (BSL) continue to strengthen its capacity to use indirect instruments. The volatile external environment underscores the importance of increasing exchange-rate flexibility and maintaining reserve buffers.

“As banks’ role in the economy grows, the BSL’s supervisory and regulatory regime will need to be upgraded to ensure that the sector remains sound. Legislation pending parliament approval should improve the oversight and functioning of the financial system. The BSL’s enhanced supervision of the state-owned banks has improved their operations and balance sheets and should continue, but the banks need to be placed on a firmer commercial footing to prevent a reoccurrence of their politically-motivated, loss-making lending practices. Strengthening the BSL’s governance framework remains a priority, and the program’s measures to better safeguard the integrity of the BSL’s foreign exchange reserves will be important for increasing public trust in the institution.”

Annex

Recent Economic Developments

The new government elected in April 2018 has vowed to bring about a fundamental improvement in economic stewardship.

Macroeconomic developments for 2017–18 have been weaker than hoped for in the previous program that went off track. Growth this year is projected at 3¾ percent compared with 6 percent in the program, largely reflecting weaker performance in the iron ore sector culminating in the shuttering of the main loss-making mine early this year. Tight liquidity conditions related to the budget's cash shortfall, the arrears buildup, and the correspondingly limited space for government spending on programs and projects are likely to have been headwinds for non-mining growth. Inflation is below its peak of over 20 percent at the start of the previous program but remains high at 19.29 percent in October 2018, reflecting a combination of factors including food price developments and exchange rate pass through. The suspension of iron ore mining and exports together with the rise in imported fuel prices have negative implications for the balance of payments and budget revenue. The shutting down of iron ore mining alone is expected to bring gross exports down by $100 million per year.

The authorities initially focused their efforts on the sort of corrective actions that aimed to bring the program back on track and complete the first review. But given the long delay, the size of the fiscal slippages, and a macro-financial environment that has changed substantially since the arrangement was approved in June 2017, the authorities have opted to cancel the June 2017 arrangement and replace it with a new arrangement. This approach would maintain the key structural elements of the previous program while more appropriately tailoring conditionality to present circumstances.

Program Summary

The objectives of the previous program remain appropriate, but circumstances call for a recalibration of the program framework. The main objectives of the current program are to safeguard macroeconomic stability, deepen structural reforms, and advance the country's Education for Development and poverty reduction agendas. The program will be based on a set of policies that would lead to sustainable macroeconomic outcomes. These include sustainable fiscal policy, debt and public finance management; low inflation and higher foreign reserve coverage; a safe and sound financial system; improved central bank governance; inclusive growth, expanded social safety net, and improved business environment.

Growth is expected to reach 5.1 percent in the medium-term. Average inflation is expected to fall to 16 percent by end-2019, declining to 9.6 percent by the end of the program. Although a temporary bump from the increase in retail fuel prices and any need for exchange rate depreciation will be headwinds, the macroeconomic framework is sufficiently robust to allow for the achievement of the inflation objective.

Sierra Leone's fiscal strategy is anchored on the principle that ambitious revenue mobilization is needed to boost infrastructure and social spending but is designed to be sufficiently robust to achieve the deficit reduction needed to stabilize and reduce public debt even in the event of unforeseen shocks. To this end, the authorities' Fiscal Adjustment Framework is a multipronged approach to meeting the government's policy objectives in a sustainable way that lays the foundation for macroeconomic stability and economic growth.

To succeed, the program aims to address the country's large public debt burden. Sierra Leone's domestic and external debt levels have been high for some time, in part reflecting past borrowing to address the infrastructure deficit. The recent fiscal slippages and weaker output growth have added to this challenge, and Sierra Leone is now classified as being at "high risk" of debt distress.

In addition to macroeconomic adjustment, program objectives will be achieved through the implementation of the structural reform agenda, including in the areas of central bank safeguards and governance. Forceful implementation of the reforms, especially on revenue mobilization and expenditure control, will be essential to achieve fiscal sustainability and medium-term growth objectives.

Background

Sierra Leone, which became a member of the IMF on September 10, 1962, has an IMF quota of SDR207.4 million.

For additional information on the IMF and Sierra Leone, see: [www.imf.org/sierraleone.](http://www.imf.org/sierraleone)

SIERRA LEONE

November 15, 2018

REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

KEY ISSUES

Context. Sierra Leone is a fragile state. Since emerging from a decade-long civil war in 2001, the country has made notable economic progress but has also suffered occasional setbacks, such as the Ebola Virus Disease epidemic of 2014. A three-year ECF arrangement was approved June 2017 to help address Sierra Leone's macroeconomic weaknesses—in particular, low revenue, elevated inflation, high public debt, and inadequate foreign exchange reserve buffers—which had been exacerbated by the Ebola crisis and a collapse in iron ore prices (Country Report No. 17/154). However, the program went off track shortly after approval as lackluster revenue performance and expenditure overruns led to a budget cash shortfall and a growing stock of budget arrears. With the authorities unable to take corrective actions ahead of the March 2018 presidential elections the first review of the program was put on hold. Since then elections have produced a new government, marking the first change of power in ten years. This government has taken a number of corrective actions over the last six months with the aim of reviving the program engagement with the IMF.

Request. Rather than seeking to complete the first review under the previous arrangement the authorities are requesting that it be cancelled and replaced with a new arrangement under the ECF in the amount of SDR 124.44 million (60 percent of quota). Staff supports this request.[1]

Key program considerations. The objectives of the previous program remain appropriate—namely reducing inflation, mobilizing revenue to allow for much needed spending on infrastructure and social protection, safeguarding financial stability, and strengthening external resilience to shocks. Reviving the program—in the form of a new ECF arrangement—entails tackling new challenges that have arisen since June 2017. In particular, addressing the fiscal slippages that caused the previous program to go off track, adjusting the medium-term framework to correct for these slippages and account for recent external shocks, and supplementing the structural agenda to better tailor it to current circumstances, including in the areas of safeguards and governance. Forceful implementation of the program, especially on revenue mobilization and expenditure control, will be essential to achieve fiscal sustainability and medium-term growth objectives.

[1]In this report, "previous program" refers to the ECF arrangement approved June 2017 (Country Report No. 17/154) and cancelled November 2018.

Approved By
Dominique Desruelle and Kevin Fletcher

Discussions took place in Freetown (September 20-October 2). The staff team comprised Brian Aitken (head), Natalia Aivazova, Yibin Mu and Jiaxiong Yao (all AFR), Yiqun Wu (SPR), Eui Chang (FAD), and Iyabo Masha (Resident Representative). Willie Nakunyada (OED) participated in the discussion. Staff met with Vice President Mohamed Jalloh, Speaker of Parliament Abass Bundu, Minister of Finance Jacob J. Saffa, Finance Secretary Sahr Jusu, Deputy Governor of the Bank of Sierra Leone Ibrahim Stevens, other senior officials; and development partners.

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APPENDIX

RECENT DEVELOPMENTS

A. Performance Under the ECF Arrangement

1. The previous program went off track shortly after approval in June 2017. Revenue underperformed relative to the program's targets as some measures were not taken or did not yield the desired results. This combined with significant pre-election expenditure overruns resulted in a prolonged and acute budget cash shortfall and produced a stock of budget arrears that is estimated to have peaked in mid-2018 at about 4 percent of GDP. This shortfall quickly emerged as the most pressing threat to near-term macroeconomic stability. Financing through arrears rather than outright central bank lending to the budget kept the impact of the financing shortfall from being felt on the exchange rate and foreign exchange reserves, but created a situation that was clearly unsustainable.

2. A new government was elected in April 2018. Recognizing the pressing macroeconomic challenges, newly-elected President Bio expressed a strong desire to revive the program and work with donors, arguing that addressing inadequate budget revenue, weak spending discipline, and high public debt are the key near-term macro-financial priorities.

3. The new government has vowed to bring about a fundamental improvement in economic stewardship, regarding its success as dependent on delivering its social priorities (education in particular) in a sustainable way. The policy emphasis has been toward public accountability and transparency and reversing past practices that the new government regards as having led to the economic problems it has inherited. In particular there is a strong public commitment to end the practice of financing through arrears, and an awareness that sources of budget financing are limited. Recognizing the need to prioritize project spending, it has canceled or put on hold several large foreign-financed infrastructure projects that it views as having limited economic returns. At the same time, Sierra Leone remains a fragile state, and the new government will be tested by the same capacity constraints and political economy that it inherited from its predecessor. In particular, it is facing the immediate challenge of raising revenue from and bringing spending disciple to politically powerful quasi-independent public entities and state-owned enterprises, many of whom have operated with impunity in a non-transparent budget environment.

4. The authorities have in recent months taken a number of corrective actions to shore up public finances, in particular to raise revenue and control spending commitments, which could help limit the budget's borrowing needs and support deficit reduction (Text Table 1). These include eliminating subsidies on retail fuel, moving toward more fully operationalizing the Treasury Single Account, collecting dividends from profitable SOEs, and reviewing and streamlining duty and tax waivers. The Finance Ministry has put in place measures aimed at controlling domestically-financed capital spending commitments, containing goods and services spending, and identifying excess and double payments in the wage bill.

Text Table 1. Actions Undertaken Under the Fiscal Adjustment Strategy	
Measure	**Progress Report**
Fuel subsidy reform. Floating the retail fuel price at the same fixed ad-valorem excise level as the current commercial fuel formula.	Implemented beginning July 13.
Suspension of import GST waivers. Undertake review of selected import duty waivers.	In April import duties and GST waivers were largely suspended and the review undertaken.
More comprehensive review of all tax concessions.	Review by a high-level committee has submitted its preliminary findings to the government.
Treasury Single Account (TSA) Flows. Consolidating all revenue inflows of quasi-independent public institutions (MDAs) into the TSA and centralizing and rationalizing expenditure allocations. Net excess revenue is now retained by the budget.	TSA is now fully operational.
Collecting fees from contractors and dividends from SOEs. Focuses on profitable SOEs, including profits from the two state-owned banks from interest gained through government securities.	Significant dividends have been transferred. Transfers from state-owned banks under consideration once capital adequacy has been achieved. MOF has increased monitoring of SOEs to improve financial management.
Review of tax collection from property rents. Applies greater scrutiny to under-collected rental income tax liabilities.	Measures have been taken to improve monitoring and ensure compliance.
Concrete steps by National Revenue Authority (NRA) to improve customs and domestic tax administration, implementing FAD TA and Revenue Mobilization Strategy (RMS) recommendations.	NRA systems relating to customs revenue are underway. Implementation of various recommendations of IMF TA missions on tax payer registration and extractive revenue administration have commenced.
Audit of domestically financed capital spending arrears and scrutiny of future payments. Overall aim is to contain fraudulent and/or excessive claims on government contracts by the audit of existing arrears, and by implementing greater scrutiny (through a centralized committee in MOF) on future payments.	Audit is ongoing. The July 2018 supplemental budget reduced capex spending by ¾ percent of GDP by cutting lower priority projects. In addition, a previously-committed large-scale project (two-thirds percent of GDP) was dropped.
Cuts to recurrent spending. Includes identifying excesses and double payments in the wage bill, and containment of goods and services spending.	Significant savings have been identified. Implementation of the *Wage Reform Strategy* paper produced during the previous program is estimated to deliver substantial savings.

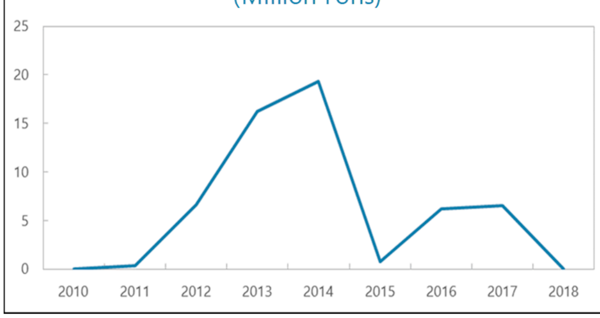
5. Eliminating retail fuel subsidies was a significant and necessary step toward producing a credible plan for financing the budget through 2019. The estimated costs to the budget of maintaining the price at its previous level would have amounted to around 2 percent of GDP in subsidies and forgone revenue on an annual basis, dwarfing the potential yield from the other identified revenue and expenditure measures as well as possible donor support. The government's decision in July to increase the retail fuel price by 33 percent was a key step in the direction of shoring up the budget financing outlook.

6. **Despite the macroeconomic slippages, progress on the structural side of the program has continued** (the program's structural policy agenda is discussed in Section D below). The extractive industries revenue bill was passed in July 2018, a major achievement that by ensuring any new mining agreements are subjected to a consistent taxation regime could lead to higher revenue over the longer run and reduce the potential for corruption. Legislation to improve the oversight and functioning of the banking system and central bank governance was submitted to a new parliament in October, and public financial management guidelines have been approved by parliament. The recent establishment of the Treasury Single Account could have cross-cutting benefits, including higher budget revenue, better expenditure control, and improved public sector transparency and accountability. Measures taken under the program (discussed below) to improve the operations and balance sheets of the two historically-beleaguered state-owned banks are yielding results—losses have been contained, profitability is up, and capital adequacy has improved.

B. Recent Economic Developments

7. **Macroeconomic developments for 2017–18 have been weaker than hoped for in the previous program**. While the overall macroeconomic environment has shown resilience in the face of large budget financing pressures, external shocks, and election-related uncertainty, growth has slowed, inflation remains high, and reserves have underperformed.

Text Figure 1. Iron Ore Production, 2010–18
(Million Tons)

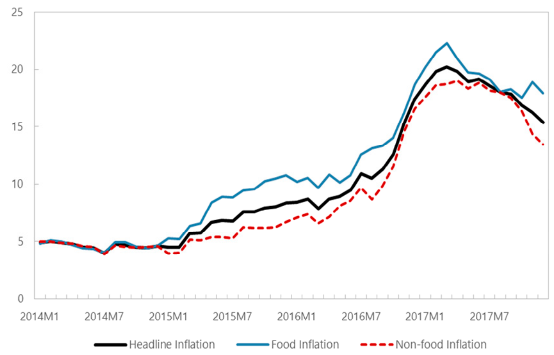


- Growth this year is projected at 3¾ percent compared with 6 percent in the program, largely reflecting weaker performance in the iron ore sector culminating in the shuttering of the main loss-making mine early this year. Tight liquidity conditions related to the budget's cash shortfall, the arrears buildup, and the correspondingly limited space for government spending on programs and projects are likely to have been headwinds for non-mining growth.

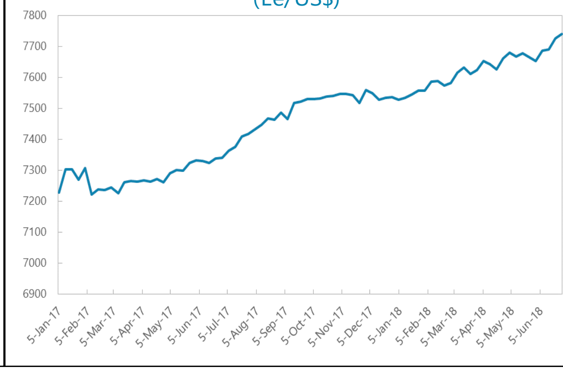
- Inflation is below its peak of over 20 percent at the start of the previous program but remains high in the 15–18 percent range reflecting a combination of factors including food price developments and exchange rate pass through.

- The drop off in iron ore mining exports and the rise in imported fuel prices have negative implications for the balance of payments and budget revenue. The shutting down of iron ore mining alone is expected to bring gross exports down by $100 million per year.

Text Figure 2. Inflation, 2014–17



Text Figure 3. Exchange Rates, 2017–18
(Le/US$)



- The rate of nominal exchange rate depreciation has picked up modestly since July, in part reflecting a sharp drop in iron ore proceeds and increased demand for foreign exchange from fuel importers. The BSL temporarily intervened in the foreign exchange auction to prevent these pressures from destabilizing the thin market. The real exchange rate has appreciated somewhat in 2018 but remains well below its 2015 peak.

- Gross reserves have declined modestly to below $500 million (or $450 million excluding swap operations—about 3 months of imports) and balance of payments weaknesses have led to reserves underperforming relative to the program.

8. Fiscal slippages have delayed the targeted deficit reduction. The deficit for 2017 was about 8¾ percent of GDP, over 2½ percent higher than programmed, financed mostly by higher domestic borrowing (arrears) with external borrowing lower than programmed. These slippages carried over into the first half of 2018, but since then the improved revenue outlook and tighter spending control are likely to bring about some deficit reduction in 2018—the overall deficit is currently projected to fall to below 7 percent of GDP.

PROGRAM OBJECTIVES AND POLICIES

A. Objectives and Risks

9. While the objectives of the previous program remain appropriate, circumstances call for a recalibration of the program framework. The authorities continue to operate under the previous program framework and have focused their efforts on the sort of corrective actions that would have aimed to bring the program back on track and complete the first review. But given the long delay, the size of the fiscal slippages, and a macro-financial environment that has changed substantially since the arrangement was approved in June 2017, the authorities have opted to cancel the June 2017 arrangement and replace it with a new arrangement. This approach would maintain the key structural elements of the previous program while more appropriately tailoring conditionality to present circumstances. Also, slippages have meant that slow progress has been made so far toward meeting the program's ultimate macroeconomic objectives—indeed, many of the previous program's 2021 targets, particularly for inflation and primary deficit reduction, are now unlikely to be achieved by that date (Text Table 2). This suggests that an arrangement with a longer program period to allow more time toward these goals and phasing disbursements would be appropriate (Table 6).[2]

10. To succeed, the program must address the country's large public debt burden. Sierra Leone's domestic and external debt levels have been high for some time, in part reflecting past borrowing to address the economic fallout from the Ebola crisis. The recent fiscal slippages and weaker output growth have added to this challenge, and Sierra Leone is now classified as being at "high risk" of debt distress.[3] In this context, the revived program engagement will play an essential role—by supporting policies needed for sustained output growth and higher revenue—in reducing the country's debt burden over the longer term.

11. The program faces exogenous downside risks. Weaker-than-projected balance of payments inflows could challenge the central bank's ability to achieve its reserve targets in the face of an underdeveloped foreign exchange market and limited exchange rate flexibility. Mining sector prospects are volatile and subject to global developments—Sierra Leone faces upside potential from possible mining prospects, but a drop in export demand could have negative spillovers on the domestic economy and would reduce mining-related budget revenue. Overall, Sierra Leone's longer-term growth prospects are promising, but experience has shown that the economy is fragile and will remain vulnerable to domestic and external shocks.

12. There are also areas where weak policy implementation would make achieving the program goals more challenging. An immediate risk would be for revenue to underperform, which if combined with weak expenditure control could lead to another bout of arrears and pressures for direct or indirect central bank financing that jeopardize the inflation objectives. Over a longer horizon, if the revenue-to-GDP ratio is not increased sufficiently, financing and debt sustainability constraints could curtail necessary capital and social spending. Public debt is high and could become unsustainable if longer-run prospects for output growth were to worsen. Lack of progress on structural reforms—particularly related to public finance management and the accountability and transparency of public institutions—would reduce the effectiveness of fiscal policy.

B. Medium-term Macroeconomic Framework and Objectives

13. The program framework was revised to achieve the previous program's macroeconomic outcomes. The new program is designed to recover over time much of the ground lost to slippages and exogenous factors that have pushed back progress toward meeting the

[2]With fiscal deficit reduction and revenue mobilization central elements of the program, the proposed arrangement would need to span 43 months in order to support the government's progress and performance over the three fiscal years 2019-2021.

[3]While external debt levels have been in line with the previous program targets, domestic debt has increased somewhat, and growth and revenue have underperformed since the previous debt sustainability analysis (DSA) in June 2017 delivered the result that Sierra Leone was at "moderate risk of debt distress". Applying the guidelines of the IMF's new framework, the latest DSA exercise now shows the country briefly breaching one of the four determined thresholds for "high risk" of debt distress.

original program's goals for the budget, inflation, and reserves (Text Table 2). A rising revenue-to-GDP ratio remains a key target, both to finance essential spending and to allow for an assumed gradual decline in official budget support. Underpinning the framework is a more cautious medium-term growth forecast of around 5 percent, compared with the more ambitious 7 percent in the previous program. In the near term, growth in 2019 is expected to recover on the back of the broader mining sector, agriculture, and a modest rebound in public investment.

Text Table 2. Sierra Leone: Medium-term Macroeconomic Framework, 2017–22

	2017	2018	2019	2020	2021	2022	2021 Country Report No. 17/154
		Proj.					
(In percent of non-iron ore GDP unless otherwise indicated)							
GDP at constant prices (percent change)	3.8	3.7	5.4	5.4	5.1	5.1	7.1
Excluding iron ore	3.6	5.7	5.1	4.9	4.8	4.8	7.0
Consumer prices (end-of-period)	15.3	18.0	14.0	12.0	10.2	9.0	8.0
Gross international reserves in months of imports	3.5	3.3	3.1	3.5	3.5	3.4	3.1
Current account balance (incl. grants)	-10.9	-14.0	-12.6	-11.1	-10.2	-9.3	-14.1
Excl. grants	-19.1	-17.6	-15.5	-13.9	-12.8	-11.7	-16.0
External public debt	44.5	43.0	45.0	45.7	46.2	45.3	38.4
Revenue	12.2	13.8	14.5	15.0	15.8	16.5	16.2
Domestic primary balance	-4.5	-2.4	-0.7	-0.3	0.0	0.0	0.3
Overall Balance	-8.7	-6.8	-4.3	-5.1	-5.2	-4.7	-4.7

Monetary Policy

14. The program remains centered on the objective of bringing inflation to single digits over the medium term. Although a temporary bump from the increase in retail fuel prices and any need for exchange rate depreciation will be headwinds, the macroeconomic framework is based on a monetary policy stance designed to bring about a gradual reduction of inflation to below 10 percent by 2022. Broad money will continue to act as the operating target managed through secondary market operations to directly determine reserve money. At the same time the BSL will work to gradually strengthen its capacity to use indirect instruments, an area where extensive technical assistance from MCM has identified potential for development. A key priority is deepening the market for a range of domestic debt instruments with different maturities which will help establish a yield curve, develop the monetary transmission mechanism, and improve the traction of the BSL's policy rate.

Text Table 3. Medium-term Budget Scenarios
(Percent of non-iron ore GDP)

	2018	2019	2020	2021	2022
Revenue	13.8	14.5	15.0	15.8	16.5
Grants	3.1	2.3	1.8	1.7	1.7
Expenditure	23.6	21.1	22.0	22.7	22.9
Wages	6.5	6.2	6.1	6.0	6.0
Capital	7.0	6.0	7.0	7.7	8.0
Domestic primary balance	**-2.4**	**-0.7**	**-0.3**	**0.0**	**0.0**
Balance incl. grants	-6.8	-4.3	-5.1	-5.2	-4.7
Net domestic financing (excl. IMF budget support)	4.3	3.3	3.0	2.6	2.2

Fiscal Policy

15. The program's fiscal strategy is anchored by the need to bring the deficit down to sustainable levels. The medium-term stance envisages gradual tightening of the domestic primary balance which both measures fiscal effort and is a proxy for the structural fiscal deficit. Underlying this path would be two anchors—stabilizing and reducing public debt, and keeping domestic financing consistent with inflation targets.[4]

16. Targets for the domestic primary balance will be supported in part by the authorities' Fiscal Adjustment Framework—a multipronged approach to mobilizing revenue and controlling expenditure (MEFP paragraph 16). Revenue mobilization will be coupled with significant upfront spending cuts—particularly for discretionary spending—returning the total envelope to a more sustainable level while allowing for a much-needed shift in focus toward spending on social protection and poverty reduction. Civil service wage restraint is key to bringing down the total wage bill and accommodating the hiring of new primary school teachers as part of the government's initiative to expand access to education. While the program targets are designed to be achievable, the government aims for even more ambitious deficit reduction. With a continuation of vigorous revenue mobilization efforts and structural reforms to improve tax efficiency, they hope to increase revenue at a pace that delivers their targeted level of 20 percent of GDP by 2023.

Revenue Mobilization Strategy

17. The program is based on a robust revenue mobilization effort supported in large part by the range of tax policy and administration measures identified in the previous program's Revenue Mobilization Strategy (MEFP paragraphs 17–19, Box 1) which has benefited from extensive and ongoing IMF technical assistance.[5] As discussed, many of the key measures in this strategy have been put in place or reinvigorated and have begun to yield results. Going forward the success of these measures, and of sustaining the improved revenue performance of the last several months, will depend on the government and the National Revenue Authority maintaining strong efforts—both technical and political—to bring about a fundamental shift in the tax paying and collecting culture.

Expenditure Prioritization

18. The government will need to contain recurrent spending while reorienting overall spending towards infrastructure and social protection, including investment in its flagship Free Quality Education and other social programs. Expenditure control will play a key role in the adjustment. This requires improving public financial management and strengthening the budget's legal and regulatory framework to ensure that spending commitments are managed efficiently (discussed in Section D below). But equally important are efforts to control these commitments now

[4]Given the small size of the banking sector, keeping the domestic financing of the budget consistent with the program's inflation targets would require that over the program period it gradually converge toward 2 percent of GDP, from about 3½–4 percent of GDP in 2018.

[5]The authorities formally adopted as part of the 2018 budget law a comprehensive medium-term Revenue Mobilization Strategy, in line with commitments under the previous ECF program (Country Report No. 17/154, paragraph 30). The Strategy was the result of a joint effort by the National Revenue Authority, Ministry of Finance, and IMF staff (FAD, AFR, and AFRITAC West).

and over the medium term. The program includes a range of measures to this end in several key areas, including:

- Wage reform—to achieve its goal of limiting the wage bill to 6 percent of GDP the government will build on the progress in implementing the Payroll Strategy adopted October 2017 (MEFP paragraph 21).

- Procurement reform—to reduce expenditure and ensure its efficiency the government will review the legal framework for procurement (MEFP paragraph 22).

- Capital expenditure management and control—prioritization and rationalization require overcoming challenges in planning, monitoring, and implementation of public investment projects, and the program envisages reforms to bring about more effective project appraisal (MEFP paragraph 23).

External Borrowing

19. External borrowing will be anchored by the objective of reducing the risk of debt distress. Infrastructure spending remains essential to improving growth prospects, but the country's high debt calls for project prioritization. Recognizing this, the government cancelled or put on hold several large projects that were determined to yield low growth returns. Instead, the government will explore donor and concessional financing to support only higher-priority development projects and avoid contracting debt that worsens the country's risk of debt distress.[6]

Text Table 4. Gross and Net Reserves
(Millions of dollars)

	2016	2017	2018	2019	2020	2021	2022
Net reserves (excl. swaps)	193	131	107	94	163	200	225
IMF disbursement	68	53	22	44	44	44	22
IMF repayment	1	16	18	16	29	43	58
Gross reserves (excl. swaps)	503	501	481	495	578	615	603
(in months of imports)	4.3	3.5	3.3	3.1	3.5	3.5	3.4

Exchange Rate Policy and Foreign Exchange Reserves

20. The revised macro-framework envisages maintaining a reserve coverage ratio of around 3½ months of imports. The pace of buildup is less rapid in absolute dollar terms than in the previous program—in part reflecting the weaker outlook for iron ore exports, higher projected world oil prices, and lower donor financing—but would be sufficient to allow the country to maintain adequate reserve coverage and repay the IMF.[7]

[6]In line with this, the proposed program sets limits on new borrowing sufficiently tight to bring the country closer to the classification of "moderate" risk.

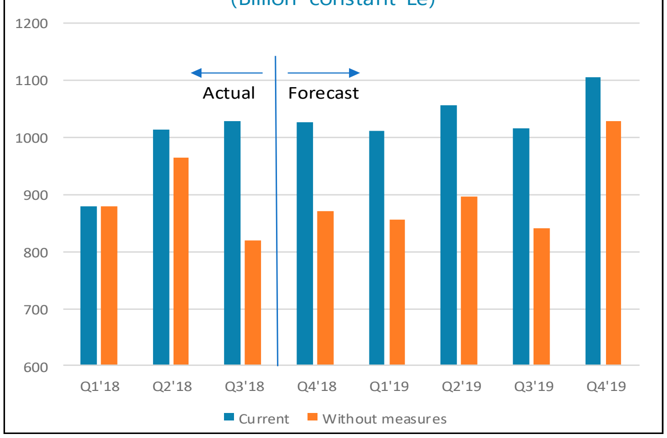
[7]Revisions to historical balance of payments data since June 2017 have lowered the baseline for import projections, resulting in higher measured coverage ratios for a given stock of reserves than in the previous program.

21. The volatile external environment underscores the importance of increasing exchange rate flexibility. While subject to much uncertainty, Sierra Leone's external position is assessed to be weaker than would be implied by medium-term fundamentals and desirable policies (Annex 1). While the program's reforms could narrow this gap by boosting longer-run productivity, the exchange rate will also play a role by remaining market determined to allow the economy to adjust to external shocks and maintain competitiveness, with the BSL's intervention limited to containing temporary excessive volatility. Structural reforms in line with IMF technical assistance will be an important input in building the market and technical preconditions that would allow the BSL to set and actively pursue a reserve target (MEFP paragraphs 42–43).

C. Near-term Challenges

22. The program is centered on a concrete and credible plan for financing the budget through 2019, essential to preventing a reemergence of budget arrears. The plan is based on mobilizing resources to limit the budget's borrowing need to within the maximum available financing from the banking sector. The program aims to accomplish this through a combination of fiscal effort and donor support.

Text Figure 4. Revenue Outturn and Projections
(Billion constant Le)



23. The improved revenue performance of the past several months would need to be maintained. As discussed above, key elements of the authorities' Revenue Mobilization Strategy are already in place and yielding results in the near term, helping alleviate the budget's short-run cash shortage and arresting the growth of arrears (Text Figure 4). The revenue performance has also benefited from the government's increased efforts to improve tax collection across the board, and the determination to maintain this will be essential for the sustainability of revenue mobilization.

24. Altogether, the key measures taken and currently underway are expected yield revenue sufficient to meet or exceed that required under the program's budget financing plan (Text Table 5). In particular,

- Fuel excise reform could generate ¾-1¼ percent of GDP annually, depending on how the recent fuel price increase affects the volume of imports.[8]

[8]The continued use of the automatic fuel price indexation mechanism is proposed as a continuous structural benchmark.

- The annual surplus revenue collected by MDAs (ministries, departments, and agencies) above their budgeted expenses is projected to be about ½ percent of GDP, in line with the experience of the last several months since the consolidation of their accounts at the TSA.

- Dividends from profitable SOEs are now being collected, and the measure is likely to deliver about 0.15 percent of GDP in revenue in 2018 with a similar amount expected next year. This could increase significantly if the now-profitable and well-capitalized state-owned banks begin paying dividends, as is currently being considered.

25. A number of other measures under the Revenue Mobilization Strategy that have been taken or are in the pipeline (suspension of import duty and GST waivers, comprehensive review of tax concessions, identified steps for improving tax administration) will contribute to higher revenue, but their precise yield is difficult to quantify at this stage (Text Table 1).

26. The recent control over spending will also need to continue. Bringing spending down to levels that can be credibly financed will require actions to address past excesses. This means reversing the lack of pre-election spending discipline and the budget's cash shortage that led to a self-reinforcing dynamic of higher spending commitments—both recurrent and project-related—and arrears, as MDAs inflated their spending requests in the effort to secure scarce cash resources, anticipating that only a portion would be honored.

Text Table 5. Budget Financing Plan, Sept. '18–Dec. '19
(Percent of GDP, annualized)

Budget financing need with no measures	
Revenue	13.2
Expenditure	23.2
Identified financing	1.8
Financing need	8.2
Available domestic financing	
Ceiling on bank financing	3.3
Financing gap	
Financing need less available financing	4.9
Measures and budget support	
Total	4.9
Measures	2.4
Fuel excise reform	0.8
Other Revenue Mobilization Strategy measures	0.5
Prioritization of domestic investment projects	0.5
Current spending cuts, net	0.6
Budget support	2.5
of which: IMF	0.5

27. In this regard, establishing budget credibility is key to bringing spending back to more sustainable levels. The government has undertaken several initiatives to bring this about:

- It is currently implementing a range of reforms discussed above as part of the medium-term fiscal strategy, including reforms to contain the wage bill and prioritize capital spending.

- By paying down part of the stock of arrears this year whenever surplus budget resources allow, it aims to demonstrate its determination to honor the budget's spending commitments and cease the past practice of relying on arrears financing.

- As part of the 2019 budget discussions, agreeing with ministries on more realistic, less inflated spending allocations in exchange for the assurance that those allocations will be honored in full.

- Using the results of the audit of domestically-financed projects currently underway to improve prioritization which, together with reforms already undertaken to match project commitments with available funding (discussed in the Section D below), should allow for capital spending consistent with the budget's near-term financing plan.

28. These actions have already begun to produce significant concrete savings that are expected to carry over into 2019. The composition of spending is undergoing change, as the new government's reprioritization will lead to declines in some spending categories offset by increases in others. But beyond these changes, there are key areas where savings as a share of GDP are expected, in large part driven by policy actions (Text Table 5):

- Much of the spending in 2017 and 2018 should unwind next year, particularly elections-related spending and some one-off costs related to the government's education initiatives (student enrolment initiatives, etc. supported by the World Bank). These changes are built into the staff's no-policy baseline scenario.

- The recent reduction in domestically-financed project spending (including through cancelling lower-priority project proposals) is expected to ease somewhat in 2019 once the government's audit is completed and if budget financing is identified, but not to baseline, pre-election levels. On balance, this could lower spending relative to the baseline by ½-¾ percent of GDP.

- Returning spending envelopes for MDAs to less-inflated, pre-election levels will generate substantial savings as a percent of GDP. This together with lower fuel subsidies, modest wage increases in nominal terms, and lower local government transfers will save an additional ½-¾ percent of GDP.

29. Donor financing catalyzed by a revived Fund-supported program is also expected to play a role. As part of the effort to ensure that a program would be based on a fully-financed budget framework, and with the aim of striking the right balance between an ambitious but also realistic effort to address the underlying fiscal problems, several donors (including the World Bank, AfDB, and the EU) plan to provide budget support this year of around $70 million in total, most of it subject to the condition that a program with the IMF is in place. The program envisages this donor financing be met with IMF budget support (discussed below).

30. Submission to parliament of a 2019 budget consistent with the program is a prior action for the program. While primary deficit reduction is the medium-term goal, limited available financing will be the binding constraint in the near term—even with the projected improvement in 2019 revenue, the spending envelope will need to be maintained at a tight level until future revenue mobilization efforts take hold, requiring strict expenditure prioritization. The authorities agreed that while these assumptions would deliver a financing plan that is viable, they regarded this as only a baseline and are focusing their efforts on achieving an even better outturn. In this regard the budget submitted to parliament sets an even tighter spending envelope which, together with any revenue overperformance above the financing plan's baseline assumption, would be used to reduce the stock of arrears.

D. The Structural Reform Agenda

Financial Sector Reform

31. Sierra Leone's financial sector is small, rudimentary, and underdeveloped, but generally sound. The sector is comprised of the two large state-owned banks (about 30 percent of total banking assets) and a handful of smaller, domestically- and foreign-owned private banks. The measures the BSL has taken to improve the operations and balance sheets of the state-owned banks[9] have led to a substantial improvement in system-wide indicators of financial soundness—despite variation across banks, the sector as a whole is well capitalized, liquid, and profitable. But this is in part because both state and private banks have relied on the budget's large borrowing need, and as a result their assets are concentrated in liquid and high-yielding public debt, (highlighting the link between the health of the financial sector and public debt sustainability). Commercial lending accounts for a minor share of banks' assets and is largely linked to supporting enterprises involved in domestic public investment projects.

32. Regulation and supervision will become increasingly important as banks' role in the economy grows. As banks increasingly shift away from t-bills toward private sector lending, the BSL's supervisory and regulatory environment needs to be upgraded to ensure that the sector remains sound. The program continues the reform process currently underway (benefiting from IMF technical assistance), in part through steps to address BSL's capacity constraints in this area (MEFP paragraphs 45–50). To improve the laws underpinning the regulatory framework the government submitted to parliament amendments to the BSL Act and Banking Act in October 2018 (a prior action).

33. Limiting the fiscal contingency risks from state-owned banks remains an important part of the program. The BSL's measures to address weaknesses in the state-owned banks' balance sheets have reduced these risks significantly since the program began. However, to prevent a reoccurrence of politically-motivated, loss-making lending practices, the banks should be put on a firmer commercial footing and the risk of undue influence by the government in management decisions significantly reduced. The government aims to finalize a strategic plan for these banks including a timetable for putting in place an independent governance framework (end-March 2019 structural benchmark). In the meantime, the BSL will continue to maintain its enhanced supervision of these banks to preserve the recent improvement in their financial conditions (MEFP paragraphs 52–53).

[9]In 2018 the BSL replaced the banks' management and appointed two of its senior directors to oversee the operations of the banks and ensure the implementation of the a more intensive supervision regime. Measures include suspending most types of lending, aggressive pursuit of non-performing loans by "politically exposed persons"; charging off of all debt in the "loss" category; and suspending new capital investment.

Strengthening Public Financial Management

34. The government is committed to preventing the reemergence of new arrears. This requires two essential elements: (1) addressing the macro-financial causes of the recent buildup by ensuring that the budget is adequately financed, and (2) reforms to strengthen the budget's legal and regulatory framework and capacity-building efforts to ensure that spending commitments are managed efficiently. The program entails a range of reforms to address institutional weaknesses in expenditure management (MEFP paragraphs 27–28).[10]

35. Controlling expenditure commitments requires increasing the accountability, transparency, and oversight of quasi-public institutions (MDAs). Much of the buildup of unpaid obligations to domestic suppliers, particularly in the pre-election period, reflected a lack of budget control over MDAs' spending commitments. Increased oversight over MDAs will prove essential in reigning in expenditures, as will the new government's recent reforms aimed at ensuring that the project-related selection and appraisal process is fully coordinated with the budget's available financing envelope before new spending commitments are undertaken. Going forward, effective implementation of the public finance management regulations would be an integral part of this effort.

36. The program aims to increase oversight over state-owned enterprises and improve their efficiency. The Ministry of Finance has established, in line with IMF technical assistance recommendations, a dedicated unit overseeing the financial conditions of SOEs and identifying risks. Measures are also underway to increase their transparency—the SOEs have now been brought into the national budget process, and the government will begin regularly publishing their financial statements and reports on their arrears (MEFP paragraphs 25–26).

Arrears Clearance and Debt Management Strategies

37. The government's efforts to clear existing arrears are underway. Its arrears clearance strategy will be finalized (end-March 2019 structural benchmark) based on the findings of the comprehensive audit of arrears claims currently underway (drawing on technical assistance from donors) to determine which claims are legitimate. This audit will also cover a large number of domestically-financed pipeline project commitments which were entered into over the last two years, often without appropriate approval. Once the magnitude of the challenge is identified, the authorities would consider a number of approaches for arrears settlement, including paying them down with surplus budget resources and securitizing them in a way that fits with their medium-term debt management and budget frameworks (MEFP paragraphs 35–38).

38. The program will also address the financial sector implications of arrears settlement. As a large share of the domestic public debt is currently held on the balance sheet of the BSL and the banking sector (the two state-owned banks in particular), a public debt management strategy

[10]Going forward, the authorities will explore whether FAD technical assistance in improving the institutional framework for expenditure management is appropriate as part of their arrears prevention strategy.

would need to account for this interconnectedness and ensure that repayment of past obligations can be managed within the budget's financing constraints while preserving financial soundness and the BSL's ability to deliver price stability. The authorities are seeking IMF technical assistance to support the government's aim of formulating and carrying out a comprehensive strategy for managing debt and normalizing arrears.[11]

Central Bank Governance and Safeguards Issues

39. The July 2017 safeguards report found a weakened safeguards framework at the BSL. Capacity constraints had impacted the internal control environment, financial reporting fell short of international standards, and risks were exacerbated by gaps in oversight and the audit mechanisms. A follow up monitoring visit in April 2018 noted that while the BSL has been taking steps to implement recommendations, greater efforts are needed to address control weaknesses and external audit quality.

40. The program entails actions essential to addressing safeguards concerns. In August 2017 evidence of past misappropriations related to foreign exchange transactions between the BSL and MDAs has emerged.[12] To establish the magnitude of misappropriations and identify appropriate remedial measures for control deficiencies, the government will appoint an international firm to conduct a forensic audit of transactions between the BSL and MDAs (prior action). This audit is expected to be completed in early 2019, and based on the findings, which will be published, a remedial action plan will be adopted by end-May 2019 (structural benchmark) and built into the program's future structural conditionality during the first review (MEFP paragraph 44).

41. Addressing weaknesses in the BSL's governance framework remains a priority. As the public institution tasked with delivering price stability, ensuring the soundness of the banking system, and safeguarding the country's foreign exchange reserves, public trust in the BSL's integrity depends on the institution's transparency, accountability, and good governance. To this end in October the government reconstituted the BSL Board and Audit Committee and submitted to parliament amendments to the BSL Act (prior actions). The audit of the BSL's 2017 financial statements will also be completed by end-January 2019 (structural benchmark).

Governance

42. Continued efforts to strengthen governance will help promote macroeconomic stability and growth. The thrust of the structural reforms discussed above—specifically in the areas of public financial management, MDA and SOE oversight, central bank governance, minerals

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[11]In July 2018 the government requested joint technical assistance from MCM and the World Bank on its medium-term debt management strategy, an element of which would be a settlement strategy for managing the audited stock of outstanding arrears (MEFP paragraph 32).

[12]In August 2017 it emerged that some BSL staff were involved in running a parallel foreign exchange market in transactions with quasi-independent government agencies (MDAs). An initial report by an international auditor, commissioned by the BSL, identified serious internal control deficiencies and the lack of cooperation from MDAs that had significant foreign exchange activity with the BSL raised concerns on the scale of misappropriations.

taxation, tax administration, and banking supervision—will be toward strengthening governance and reducing vulnerabilities to corruption. More broadly, the government is committed to reviewing its governance and anti-corruption frameworks with a view to taking further measures to strengthen them as needed.

Social Protection and Poverty Reduction

43. The program aims to contribute to these social goals. The government has made education and the scaling up of social safety nets priorities. Likewise, poverty reduction and the need to provide protection for vulnerable segments of the population that could be hurt by revenue mobilization efforts are key principles of the previous program which are carried into the new program framework. As in the previous program, the authorities have agreed to augment the size of the existing cash transfer program currently being implemented with the assistance of the World Bank.[13] The program also establishes a floor on poverty-reducing spending to be monitored as an indicative target.

PROGRAM MONITORING AND FINANCING

44. Program performance will be monitored as in the previous ECF through semi-annual quantitative targets, as well as quarterly indicative targets. In addition to carrying out several of the previous program's structural commitments, the authorities have agreed to structural benchmarks to be completed by the first review, which will be essential building blocks for identifying the structural agenda going forward including future program conditionality. They have agreed to implement the following prior actions: (i) submitting to parliament a 2019 budget consistent with the program targets for revenue, financing, and deficit reduction; (ii) submitting to parliament amendments to the BSL Act and Banking Bill; (iii) appointing an international firm with significant proven experience in conducting forensic investigations to conduct an audit of the foreign exchange transactions between the BSL and quasi-government agencies (MDAs); and (iv) reconstituting the BSL Board and Audit Committee.

45. The proposed access level—equal to the remaining access under the previous program—is justified by the balance of payments financing needs. As the program aims to build reserve buffers gradually, staff proposes phasing this access (SDR 124.44 million) in equal disbursements. While a downward revision to imports has arithmetically improved the reserve coverage ratios, in absolute dollar amounts imports of essentials including food and fuel, as well as external debt service remain at previous levels—maintaining external resilience calls for a coverage ratio modestly higher than the previous program, in the range of 3½ months of imports. Capacity to repay the Fund remains adequate (Table 5). Sierra Leone has a good track record of timely payment of its external obligations including to the Fund, and implementation of the program's policies

[13]The National Commission for Social Action (NaCSA) provides ongoing unconditional cash transfer program to poor households. Allocating SDR 3.6 million of proposed program's budget support to this end would allow for an additional 61,000 households to be covered.

would bring about the growth in output and exports consistent with meeting the scheduled increase in payments to the IMF beginning in 2020.

46. Staff proposes budget support of SDR 25.6 million—SDR 15.55 million disbursed upon program approval and SDR 10 million on completion of the first review. This budget support would be aimed at giving the authorities the financing space necessary to undertake reforms and support social spending and poverty reduction efforts until revenue policies begin to generate significant yields toward the middle and end of the program.

STAFF APPRAISAL

47. Staff supports the authorities' cancellation of the previous arrangement and request for a new ECF arrangement at the access level requested. The government clearly recognizes the challenges it faces, and its recent efforts to shore up public finances and revive the program engagement are welcome. The goals of the new program are as before—reducing inflation, mobilizing revenue to allow for necessary spending consistent with debt sustainability, safeguarding financial stability, and maintaining external resilience to shocks.

48. Revenue mobilization remains central to the success of the program. In the near term, maintaining the improved revenue performance of the last several months is important for preventing a reemergence of budget arrears and establishing budget credibility. Over the longer term, sustainably higher revenue is needed to support the government's policy goals of boosting investment in infrastructure and social protection. The Revenue Mobilization Strategy provides a blueprint, but the success of its measures will depend on the authorities maintaining strong efforts—both technical and political—to fundamentally shift the tax paying and collecting culture.

49. Controlling expenditure commitments requires increasing the accountability, transparency, and oversight of public institutions (MDAs and SOEs). Effective implementation of the public finance management regulations would be an integral part of this effort. The government's recent reform to operationalize the Treasury Single Account is a welcome step, as are policies to ensure that spending commitments are fully coordinated with the budget's available financing envelope. More broadly, these efforts will lead to better governance and reduce vulnerabilities to corruption, helping promote macroeconomic stability and growth.

50. Staff supports the government's objective of bringing inflation to single digits over the medium-term. While monetary aggregates will need to act as operating targets, the BSL's ongoing efforts to strengthen its capacity to use indirect instruments will ultimately contribute to more nimble monetary policy management.

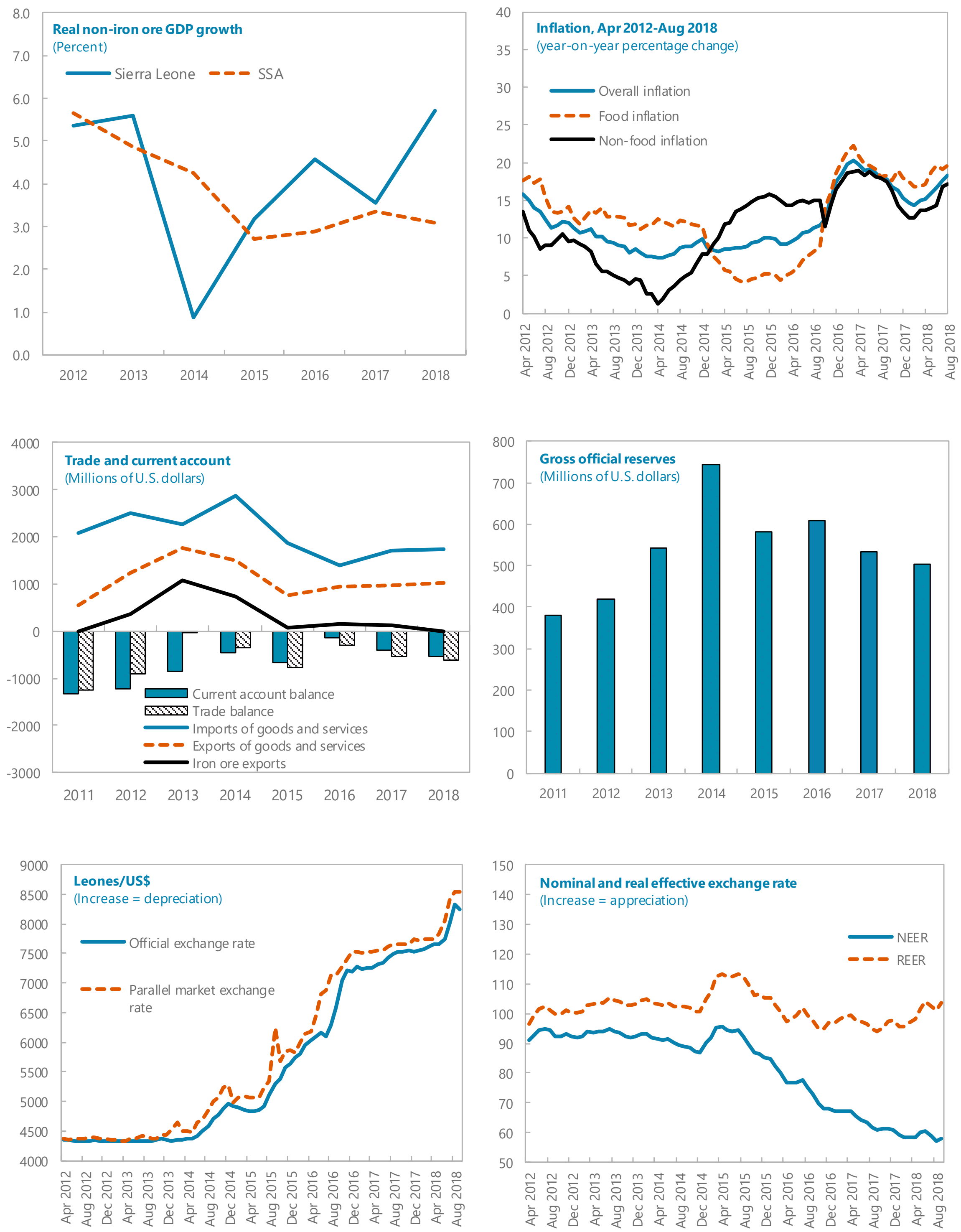
51. The government's external borrowing strategy is appropriately anchored by the objective of reducing the risk of debt distress. Infrastructure spending remains essential to improving growth prospects, but the country's high debt means that priority should be given only to those projects with the clearest economic return.

52. The volatile external environment underscores the importance of increasing exchange rate flexibility and maintaining reserve buffers. The technical and policy impediments to a deeper foreign exchange market need to be addressed to give the BSL the ability to actively meet its reserve targets, while allowing the exchange rate to adjust as needed to maintain the economy's competitiveness.

53. As banks' role in the economy grows, the BSL's supervisory and regulatory regime will need to be upgraded to ensure that the sector remains sound. Legislation pending parliament approval should improve the oversight and functioning of the financial system. The BSL's enhanced supervision of the state-owned banks has improved their operations and balance sheets and should continue, but the banks need to be placed on a firmer commercial footing to prevent a reoccurrence of their politically-motivated, loss-making lending practices.

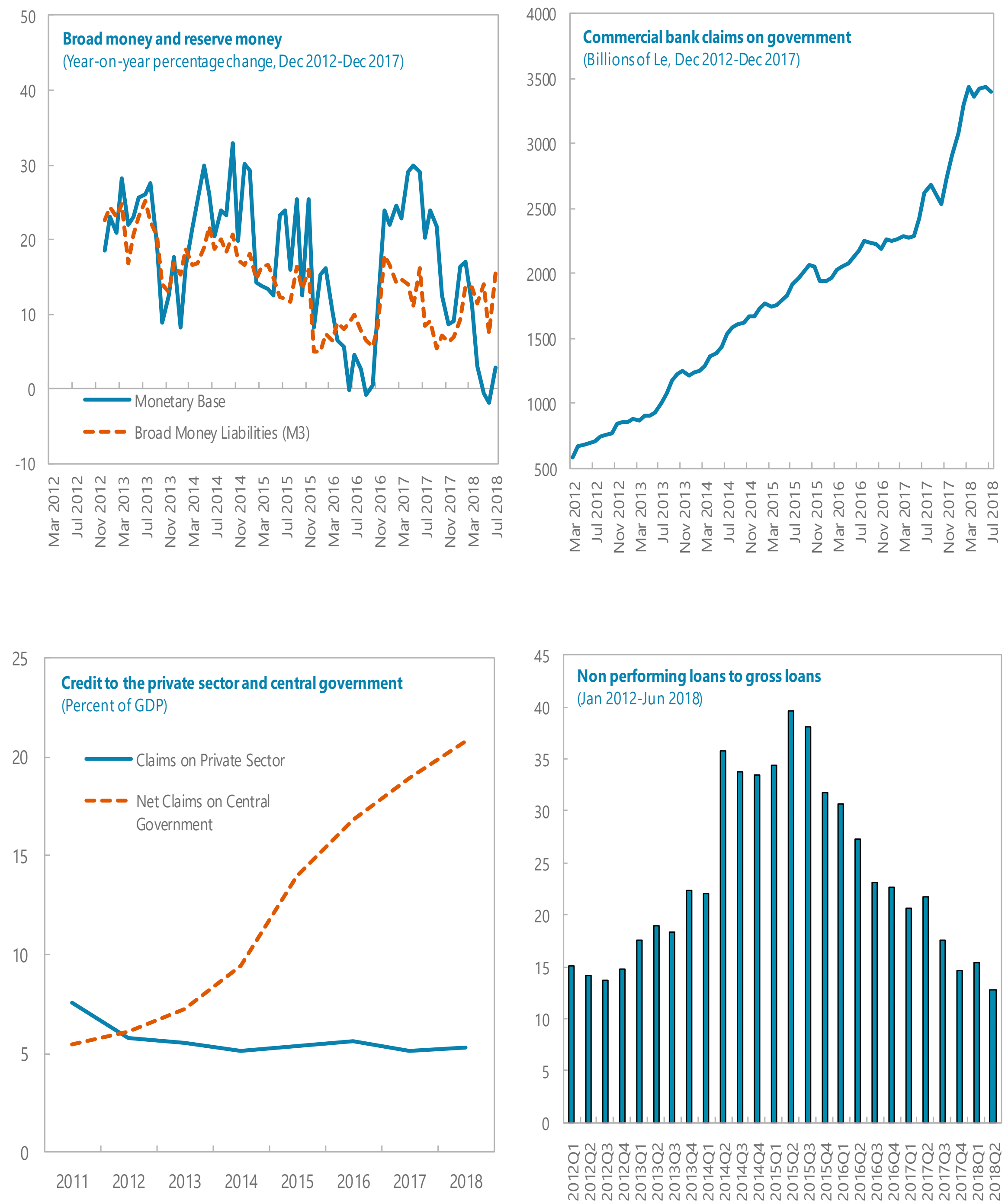
54. Strengthening the BSL's governance framework remains a priority. The government's actions to reconstitute the BSL Board and Audit Committee and submit to parliament amendments to the BSL Act are welcome. The program's measures to better safeguard the integrity of the BSL's foreign exchange reserves will be important for increasing public trust in the institution.

Figure 1. Sierra Leone: Real and External Sectors, 2011–18



Sources: Sierra Leonean authorities; and IMF staff estimates and projections.

Figure 2. Sierra Leone: Monetary and Financial Indicators, 2011–18



Sources: Sierra Leonean authorities; and IMF staff estimates and projections.

Table 1. Sierra Leone: Selected Economic Indicators, 2015–22

	2015	2016	2017		2018		2019	2020	2021	2022
			CR No. 17/154	Pre.	CR No. 17/154	Proj.				
(Annual percent change, unless otherwise indicated)										
National account and prices										
Growth										
GDP at constant prices	-20.5	6.4	6.0	3.8	6.1	3.7	5.4	5.4	5.1	5.1
GDP excluding Iron ore	3.2	4.6	4.0	3.6	5.1	5.7	5.1	4.9	4.8	4.8
Inflation										
Consumer prices (end-of-period)	8.4	17.4	12.0	15.3	9.5	18.0	14.0	12.0	10.2	9.0
Consumer prices (average)	6.5	12.9	16.9	18.2	10.6	16.6	16.0	13.0	11.1	9.6
External sector										
Terms of trade (deterioration -)	-22.4	9.0	2.3	13.6	-5.6	-11.4	…	…	…	…
Exports of goods	-55.4	15.3	29.6	-4.9	20.8	3.2	37.6	8.8	10.2	11.7
Imports of goods	-18.1	-28.9	9.6	23.6	6.9	8.6	5.7	5.3	5.6	1.6
Gross international reserves (excluding swaps), months of imports 1/	3.7	4.3	2.7	3.5	3.7	3.3	3.1	3.5	3.5	3.4
Money, credit and reserves										
Domestic credit to the private sector	9.1	16.7	-1.5	4.9	14.8	19.0	15.4	…	…	…
Base money	8.3	23.9	11.3	9.0	13.4	2.9	25.1	15.1	13.4	12.2
M3	4.9	17.9	11.3	7.0	13.4	16.7	19.8	15.1	13.4	12.2
Gross Intl. Reserves (excluding swaps, in US$ millions)	580	503	503	501	583	481	495	578	615	603
Net Intl. Reserves (excluding swaps, in US$ millions)	372	193	n.a	131	n.a	107	94	163	200	225
(Percent of non-iron ore GDP, unless otherwise indicated)										
National accounts										
Gross capital formation	14.0	12.7	17.8	19.2	17.7	17.9	16.8	18.1	18.4	19.8
Government	7.6	8.7	7.3	8.5	7.2	7.1	6.1	7.1	7.7	7.9
Private	6.4	4.0	10.5	10.6	10.5	10.8	10.7	11.1	10.7	11.9
National savings	-1.5	9.2	-4.0	8.2	-1.2	3.9	4.2	7.0	8.2	10.5
Financing and debt										
Public debt	42.1	51.5	60.1	61.5	63.2	68.3	72.6	75.1	72.5	68.2
Domestic	12.6	14.6	15.3	16.5	15.2	25.3	27.6	29.4	26.2	22.9
External public debt (including IMF)	29.4	36.8	44.8	44.5	48.0	43.0	45.0	45.7	46.2	45.3
External sector										
Current account balance 3/										
(including official grants)	-15.6	-3.5	-21.8	-10.9	-18.9	-14.0	-12.6	-11.1	-10.2	-9.3
(excluding official grants)	-25.7	-11.9	-25.5	-19.1	-22.7	-17.6	-15.5	-13.9	-12.8	-11.7
Central government budget										
Domestic primary balance 2/	-4.7	-5.9	-2.5	-4.5	-0.7	-2.4	-0.7	-0.3	0.0	0.0
Overall balance	-4.6	-8.0	-6.1	-8.7	-5.5	-6.8	-4.3	-5.1	-5.2	-4.7
Overall balance (excluding grants)	-10.0	-11.0	-8.9	-11.2	-7.7	-9.9	-6.6	-6.9	-6.9	-6.4
Revenue (excluding grants)	10.8	12.1	13.2	12.2	14.3	13.8	14.5	15.0	15.8	16.5
Grants	5.4	3.0	2.8	2.5	2.2	3.1	2.3	1.8	1.7	1.7
Total expenditure and net lending	20.8	23.2	22.0	23.4	22.0	23.6	21.1	22.0	22.7	22.9
Memorandum item:										
GDP at market prices (billions of Leone)	21,583	24,296	29,440	27,611	33,742	31,722	37,180	44,221	51,574	59,455
Excluding iron ore	21,550	23,834	28,534	27,402	33,012	31,722	36,835	43,277	49,976	57,101
Excluding iron ore in millions of US$	3,822	3,312	3,777	3,720	4,020	3,897	3,945	4,118	4,298	4,533
Per capita GDP (US$)	600	522	594	506	615	515	515	532	549	572
National currency per US dollar (average)	5,076	6,417	7,555	7,366	8,211	…	…	…	…	…
National currency per US dollar (EOP)	5,639	7,195	7,915	7,537	…	…	…	…	…	…

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ Refers to reserves and imports in current year.
2/ Revenue less expenditures and net lending adjusted for interest payments and foreign financed capital spending.
3/ The very unusual small 2016 current account balance is because there was unusual large negative errros and omissions (-13 percent of GDP) in 2016.

Table 2a. Sierra Leone: Fiscal Operations of the Central Government, 2016–22
(Billions of leone)

	2016	2017	2018		2019	2020	2021	2022
			CR No. 17/154	Proj.				
Total revenue and grants	**3,615**	**4,023**	**5,436**	**5,353**	**6,203**	**7,297**	**8,747**	**10,418**
Revenue	2,889	3,340	4,707	4,366	5,350	6,498	7,883	9,444
Tax revenue	2,716	3,034	4,388	3,780	4,693	5,742	7,023	8,439
Personal Income Tax	936	972	1,069	1,282	1,488	1,814	2,219	2,593
Corporate Income Tax	324	214	504	318	496	636	784	996
Goods and Services Tax	666	714	1,160	900	1,045	1,294	1,574	1,962
Excises	184	424	416	339	431	512	597	688
Import duties	382	486	729	603	750	898	1,157	1,362
Mining royalties and license	156	149	400	217	311	365	418	466
Other taxes	68	76	110	120	172	224	273	372
Non-tax	173	306	320	586	657	756	860	1,005
Grants	727	683	728	987	853	798	864	974
Budget support	193	137	391	586	409	376	507	707
Project grants	534	546	338	401	444	422	357	267
Expenditures and net lending	**5519**	**6,412**	**7,254**	**7,499**	**7,785**	**9,500**	**11,354**	**13,086**
Current expenditures	3553	4121	4854	5174	5506	6,381	7,416	8,428
Wages and salaries	1818	1890	1976	2068	2272	2,640	2,999	3,426
Goods and services	1139	1079	1262	1300	1379	1,515	1,717	1,827
Subsides and transfers	395	549	658	855	820	1,030	1,335	1,572
Interest	202	602	959	951	1035	1,196	1,366	1,603
Domestic	141	535	833	854	937	1,056	1,188	1,378
Foreign	61	67	126	97	98	140	178	225
Capital Expenditure	2039	2308	2375	2210	2222	3,029	3,848	4,568
Foreign financed	1034	1246	1341	1409	1136	1,688	2,099	2,056
Domestic financed	1005	1062	1034	801	1086	1,342	1,749	2,512
Net lending	-151	-23	0	0	0	0	0	0
Contingent expenditure	79	6	25	116	57	90	90	90
Domestic primary balance 1/	-1395	-1223	-247	-765	-264	-118	-7	17
Overall balance including grants	-1904	-2389	-1818	-2147	-1582	-2,204	-2,608	-2,667
Overall balance excluding grants	-2,631	-3,072	-2,547	-3,133	-2,435	-3,002	-3,471	-3,641
Financing	**1,904**	**2,389**	**1,818**	**2,147**	**1,582**	**2,204**	**2,608**	**2,667**
External financing (net)	398	766	908	671	226	886	1,291	1,386
Borrowing	522	1,030	1,183	1,023	692	1,390	1,894	2,053
Projects	508	727	974	1,023	692	1,266	1,742	1,788
Budget	14	303	209	0	0	124	152	265
Amortization	-124	-264	-275	-352	-466	-504	-603	-667
Domestic financing (net)	1,506	1,623	910	1,475	1,356	1,317	1,316	1,281
Bank Total	988	1,193	…	1,139	1,216	1,317	1,316	1,281
SDR onlending	284	228	…	131	140	0	0	0
Other	233	202	…	205	0	0	0	0

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.

1/ Revenue less expenditures and net lending adjusted for interest payments and foreign financed capital spending.

Table 2b. Sierra Leone: Fiscal Operations of the Central Government, 2016–22
(Percent of non-iron ore GDP)

	2016	2017	2018		2019	2020	2021	2022
			CR No. 17/154	Proj.				
Total revenue and grants	**15.2**	**14.7**	**16.5**	**16.9**	**16.8**	**16.9**	**17.5**	**18.2**
Revenue	12.1	12.2	14.3	13.8	14.5	15.0	15.8	16.5
Tax revenue	11.4	11.1	13.3	11.9	12.7	13.3	14.1	14.8
Personal Income Tax	3.9	3.5	3.2	4.0	4.0	4.2	4.4	4.5
Corporate Income Tax	1.4	0.8	1.5	1.0	1.3	1.5	1.6	1.7
Goods and Services Tax	2.8	2.6	3.5	2.8	2.8	3.0	3.1	3.4
Excises	0.8	1.5	1.3	1.1	1.2	1.2	1.2	1.2
Import duties	1.6	1.8	2.2	1.9	2.0	2.1	2.3	2.4
Mining royalties and license	0.7	0.5	1.2	0.7	0.8	0.8	0.8	0.8
Other taxes	0.3	0.3	0.3	0.4	0.5	0.5	0.5	0.7
Non-tax	0.7	1.1	1.0	1.8	1.8	1.7	1.7	1.8
Grants	3.0	2.5	2.2	3.1	2.3	1.8	1.7	1.7
Budget support	0.8	0.5	1.2	1.8	1.1	0.9	1.0	1.2
Project grants	2.2	2.0	1.0	1.3	1.2	1.0	0.7	0.5
Expenditures and net lending	**23.2**	**23.4**	**22.0**	**23.6**	**21.1**	**22.0**	**22.7**	**22.9**
Current expenditures	14.9	15.0	14.7	16.3	14.9	14.7	14.8	14.8
Wages and salaries	7.6	6.9	6.0	6.5	6.2	6.1	6.0	6.0
Goods and services	4.8	3.9	3.8	4.1	3.7	3.5	3.4	3.2
Subsides and transfer	1.7	2.0	2.0	2.7	2.2	2.4	2.7	2.8
Interest	0.8	2.2	2.9	3.0	2.8	2.8	2.7	2.8
Domestic	0.6	2.0	2.5	2.7	2.5	2.4	2.4	2.4
Foreign	0.3	0.2	0.4	0.3	0.3	0.3	0.4	0.4
Capital Expenditure	8.6	8.4	7.2	7.0	6.0	7.0	7.7	8.0
Foreign financed	4.3	4.5	4.1	4.4	3.1	3.9	4.2	3.6
Domestic financed	4.2	3.9	3.1	2.5	2.9	3.1	3.5	4.4
Net lending	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Contingent expenditure	0.3	0.0	0.1	0.4	0.2	0.2	0.2	0.2
Domestic primary balance 1/	-5.9	-4.5	-0.7	-2.4	-0.7	-0.3	0.0	0.0
Overall balance including grants	-8.0	-8.7	-5.5	-6.8	-4.3	-5.1	-5.2	-4.7
Overall balance excluding grants	-11.0	-11.2	-7.7	-9.9	-6.6	-6.9	-6.9	-6.4
Financing	**8.0**	**8.7**	**5.5**	**6.8**	**4.3**	**5.1**	**5.2**	**4.7**
External financing (net)	1.7	2.8	2.8	2.1	0.6	2.0	2.6	2.4
Borrowing	2.2	3.8	3.6	3.2	1.9	3.2	3.8	3.6
Project	2.1	2.7	2.9	3.2	1.9	2.9	3.5	3.1
Budget	0.1	1.1	0.6	0.0	0.0	0.3	0.3	0.5
Amortization	-0.5	-1.0	-0.8	-1.1	-1.3	-1.2	-1.2	-1.2
Domestic financing (net)	6.3	5.9	2.8	4.7	3.7	3.0	2.6	2.2
Bank Total	4.1	4.4	…	3.6	3.3	3.0	2.6	2.2
SDR onlending	1.2	0.8	…	0.4	0.4	0.0	0.0	0.0
Other	1.0	0.7	…	0.6	0.0	0.0	0.0	0.0
Memorandum item:								
Non-iron ore GDP (Le billions)	23,834	27,402	33,012	31,722	36,835	43,277	49,976	57,101

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.

1/ Revenue less expenditures and net lending adjusted for interest payments and foreign financed capital spending.

Table 2c. Sierra Leone: Fiscal Operations of the Central Government on a Quarterly Basis, 2018–19

(Billions of leone)

	2018					2019				
	Q1 Act.	Q2 Act.	Q3 Est.	Q4 Proj.	annual	Q1	Q2	Q3	Q4	annual
					Baseline scenario					
Revenue	**914**	**1096**	**1156**	**1200**	**4366**	**1224**	**1325**	**1317**	**1483**	**5350**
Personal Income Tax	257	332	326	367	1282	341	369	362	417	1488
Corporate Income Tax	58	76	74	110	318	113	123	117	142	496
Goods and Services Tax	183	226	237	255	900	239	259	255	292	1045
Excises	57	61	102	119	339	99	107	106	120	431
Import Duties	123	150	159	171	603	172	186	186	206	750
Other	236	251	259	178	924	261	282	291	305	1139
Grants	**98**	**107**	**105**	**677**	**987**	**102**	**154**	**220**	**377**	**853**
Expenditure	**1854**	**1396**	**1900**	**2349**	**7499**	**1786**	**1942**	**1936**	**2121**	**7785**
Wages	513	537	505	512	2068	591	568	568	545	2272
Goods and Services	230	153	412	505	1300	276	359	356	388	1379
Subsidies and Transfers	108	66	271	409	855	192	212	205	212	820
Other	20	44	28	24	116	14	14	14	14	57
Interest	239	234	212	266	951	251	248	234	302	1035
Capital Expenditure	743	363	471	633	2210	462	542	559	659	2222
Domestic primary balance	**-560**	**76**	**-364**	**82**	**-765**	**-98**	**-110**	**-98**	**41**	**-264**
Balance incl. grants	-842	-193	-640	-472	-2147	-459	-464	-399	-260	-1582
Financing	**842**	**193**	**640**	**472**	**2147**	**459**	**464**	**399**	**260**	**1582**
Foreign	215	168	197	91	671	52	59	56	59	226
Projects	256	256	256	256	1023	159	180	173	180	692
Budget	0	0	0	0	0	0	0	0	0	0
Amortization	-41	-88	-59	-165	-352	-107	-121	-116	-121	-466
Domestic	627	25	442	381	1475	407	405	343	202	1356
o/w SDR onlending	...	...	...	...	131	...	...	...	...	140

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.

Table 3. Sierra Leone: Monetary Accounts,[1] 2016–19

(Billions of leone, unless otherwise indicated)

	2016	2017	2018				2019			
			Mar.	June	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
I. Monetary Survey										
Net foreign assets	**3,042**	**2,956**	**3,059**	**2,822**	**2,851**	**3,060**	**3,113**	**3,167**	**3,221**	**3,274**
Net domestic assets	**3,054**	**3,566**	**3,794**	**4,013**	**4,222**	**4,551**	**4,874**	**5,197**	**5,520**	**5,843**
Net domestic credit	5,592	6,690	7,172	7,247	7,664	8,200	8,604	9,008	9,413	9,817
Claims on central government (net)	4,000	5,193	5,675	5,640	6,082	6,463	6,870	7,275	7,618	7,820
Claims on private sector	1,346	1,413	1,464	1,559	1,624	1,690	1,687	1,686	1,747	1,950
Claims on others 2/	245	84	33	48	(42)	48	48	48	48	48
Other items (net)	(2,538)	(3,124)	(3,379)	(3,234)	(3,442)	(3,649)	(3,731)	(3,812)	(3,893)	(3,974)
Money and quasi-money (M3)	**6,096**	**6,522**	**6,852**	**6,835**	**7,073**	**7,611**	**7,987**	**8,364**	**8,740**	**9,117**
II. Bank of Sierra Leone										
Net foreign assets	**1,388**	**1,217**	**1,326**	**1,246**	**1,116**	**1,088**	**1,091**	**1,095**	**1,099**	**1,102**
Net domestic assets	**707**	**1,068**	**941**	**858**	**1,014**	**1,262**	**1,485**	**1,603**	**1,721**	**1,838**
Net domestic credit	2,509	3,312	3,257	3,224	3,416	3,833	4,093	4,387	4,542	4,697
Claims on other depository corporations	0	0	1	6	6	6	50	100	150	200
Claims on central government	1,734	2,296	2,247	2,208	2,400	2,686	2,902	3,007	3,111	3,216
Claims on other sectors	14	28	21	21	21	21	21	21	21	21
Other items (net) 3/	(1,040)	(1,256)	(1,327)	(1,376)	(1,413)	(1,450)	(1,487)	(1,524)	(1,561)	(1,598)
Reserve money	**2,096**	**2,284**	**2,267**	**2,104**	**2,130**	**2,350**	**2,576**	**2,698**	**2,819**	**2,941**
Memorandum items:										
	(Annual percent change unless otherwise indicated)									
Base money	23.9	9.0	11.2	-1.9	9.2	2.9	13.7	28.2	32.4	25.1
M3	17.9	7.0	14	7	19	16.7	16.6	22.4	23.6	19.8
Credit to the private sector (growth)	16.7	4.9	10.4	6.8	5.7	19.6	15.2	8.1	7.6	15.4
Velocity (GDP/M3)	4.2	4.3	n.a.	n.a.	n.a.	4.5				4.4
Money multiplier (M3/base money)	2.9	2.9	3.0	3.2	3.3	3.2				3.1
Credit to the private sector (in percent of non iron ore	5.6	5.2	n.a.	n.a.	n.a.	5.3				5.3
Net Intl. Reserves (Including swaps,in US$ millions)	193	164	180	156	132	124	107	84	82	111
Gross Intl. Reserves (including swaps, in US$ millions)	503	534	546	516	489	498	478	471	465	512
Nominal exchange rate, average (Leones/US $)	6417	7366	n.a.	n.a.	n.a.	n.a.				
Nominal exchange rate, end of period (Leones/US $)	7195	7537	7611	7741	8260	n.a.				

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.

1/ End of period.

2/ Include other financial corporations, public enterprises and the local government.

3/ Including valuation.

Table 4. Sierra Leone: Balance of Payments, 2016–22

(Millions of U.S. dollars, unless otherwise indicated)

	2016	2017	2018		2019	2020	2021	2022
		Est.	CR No. 17/154	Proj.				
Current account	**-130.7**	**-407.0**	**-758.5**	**-545.1**	**-497.2**	**-459.2**	**-438.7**	**-421.5**
Trade balance	-286.9	-545.4	-494.4	-626.5	-453.1	-446.0	-425.2	-322.9
Exports, f.o.b.	670.1	637.4	1,048.0	657.7	904.8	984.2	1,084.6	1,211.2
Of which: diamonds	163.0	118.2	163.9	202.8	223.0	224.3	228.8	241.7
iron ore	142.3	131.9	292.7	0.0	131.1	111.8	171.1	232.7
Imports, f.o.b	-957.0	-1,182.8	-1,542.4	-1,284.2	-1,357.8	-1,430.2	-1,509.8	-1,534.1
Of which: oil	-140.6	-153.0	-272.9	-211.3	-220.4	-219.5	-220.2	-223.7
Services (net)	-170.9	-185.9	-437.7	-94.2	-180.9	-188.8	-200.7	-219.5
Income (net)	-98.5	-82.7	-123.8	-70.9	-86.8	-52.5	-44.7	-113.3
Of which: interest on public debt	-10.1	-10.0	-15.3	-10.9	-12.6	-13.3	-15.3	-17.9
Transfers	425.5	406.7	297.4	246.5	223.6	228.2	231.8	234.3
Official transfers	311.1	302.0	156.0	139.2	114.0	114.0	113.6	110.4
Other Aid (incl. Ebola)	73.8	106.3	115.8	71.9	70.0	70.0	70.0	70.0
Other transfers	114.3	104.1	141.4	107.3	109.6	114.2	118.3	123.8
Capital and financial account	**466.5**	**318.9**	**780.8**	**505.4**	**483.3**	**523.7**	**463.7**	**446.5**
Capital account	143.4	153.0	50.0	57.4	52.6	45.2	35.7	28.2
Of which: Project support grants	29.4	30.4	44.7	47.4	47.6	40.2	30.7	21.2
Financial account	323.2	165.8	730.8	448.0	430.7	478.5	428.0	418.3
Foreign direct and portfolio investment	161.5	149.2	600.5	307.2	371.2	373.6	295.0	296.4
Other investment	161.7	16.6	130.3	140.8	59.6	104.9	133.0	121.9
Public sector (net)	147.5	-35.0	110.6	126.4	46.7	95.1	120.5	116.7
Disbursements	177.6	-5.0	144.0	170.7	94.1	140.5	169.8	167.1
Amortization	-30.0	-30.0	-33.4	-44.3	-47.4	-45.4	-49.3	-50.4
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in net foreign assets of comm. banks	14.2	51.7	19.7	14.4	12.9	9.8	12.5	5.2
Errors and omissions	**-524.5**	**80.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-188.7**	**-8.3**	**22.3**	**-39.7**	**-13.9**	**64.5**	**25.0**	**25.0**
Financing								
Central bank net reserves (- increase)	144.6	8.3	-22.3	39.7	13.9	-64.5	-25.0	-25.0
of which: Use of Fund loans	66.6	36.5	57.6	4.2	28.7	15.0	1.2	-36.2
Purchases	67.7	52.7	75.1	22.2	44.3	44.3	44.3	22.2
Repurchases	-1.1	-16.2	-17.5	-18.0	-15.6	-29.3	-43.1	-58.4
Other	44.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items								
	(Percent of non-iron ore GDP unless otherwise indicated)							
Current account	-3.5	-10.9	-18.9	-14.0	-12.6	-11.1	-10.2	-9.3
Trade Balance	-7.7	-14.7	-12.3	-16.1	-11.5	-10.8	-9.9	-7.1
Capital and Financial Account	12.6	8.6	19.4	13.0	12.3	12.7	10.8	9.8
Overall Balance	-5.1	-0.2	0.6	-1.0	-0.4	1.6	0.6	0.6
Official aid (grants and loans)	6.5	5.4	1.8	3.0	1.6	1.6	1.5	1.4
Budget support in US$ (grants and loans)	242.7	231.8	103.3	132.0	64.0	64.0	63.6	65.5
of which: Use of Fund loans	...	30.2	30.2	15.0	15.0	...	...	...
Gross International Reserves (excluding swaps)								
US$ millions	503	501	583	481	495	578	615	603
Months of imports	4.3	3.5	3.7	3.3	3.1	3.5	3.5	3.4
National currency per US dollar (average)	6,417	7,366	8,211	...	...	...	...	...

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.

Table 5. Sierra Leone: Indicators of Capacity to Repay the Fund, 2018–32

	Projection														
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Fund obligations based on existing credit															
(in millions of SDRs)															
Principal	13.0	11.3	21.2	31.1	42.1	44.3	43.4	30.4	17.6	3.9	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit															
(in millions of SDRs)															
Principal	13.0	11.3	21.2	31.1	42.1	44.3	48.1	41.2	34.7	27.3	24.9	20.2	14.0	7.8	1.6
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit															
In millions of SDRs	13.0	11.3	21.2	31.1	42.1	44.3	48.1	41.2	34.7	27.3	24.9	20.2	14.0	7.8	1.56
In millions of US$	18.5	16.1	30.16	44.30	60.01	63.06	68.44	58.73	49.44	38.81	35.45	28.80	19.94	11.08	2.22
In percent of exports of goods and services	1.8	1.3	2.21	3.03	3.72	3.56	3.52	2.78	2.17	1.58	1.34	1.01	0.65	0.33	0.06
In percent of debt service 1/	25.1	21.2	34.17	41.01	47.22	47.41	44.05	37.48	31.39	24.42	21.49	17.00	11.51	6.52	1.26
In percent of GDP	0.5	0.4	0.72	1.00	1.27	1.25	1.27	1.02	0.81	0.59	0.51	0.38	0.25	0.13	0.02
In percent of Gross International Reserves	3.8	3.2	5.22	7.20	9.95	10.96	12.01	9.97	7.45	4.93	3.66	2.39	1.32	0.59	0.10
In percent of quota	6.3	5.4	10.21	15.00	20.32	21.35	23.17	19.88	16.74	13.14	12.00	9.75	6.75	3.75	0.75
Outstanding Fund credit															
In millions of SDRs	260.8	280.6	290.6	290.6	264.0	219.7	171.7	130.4	95.7	68.4	43.6	23.3	9.3	1.6	0.0
In millions of US$	371.4	399.6	413.8	413.8	375.9	312.9	244.4	185.7	136.3	97.5	62.0	33.2	13.3	2.2	0.0
In percent of exports of goods and services	36.7	31.5	30.3	28.3	23.3	17.7	12.6	8.8	6.0	4.0	2.3	1.2	0.4	0.1	0.0
In percent of debt service	504.3	527.7	468.8	383.1	295.8	235.2	157.3	118.5	86.5	61.3	37.6	19.6	7.7	1.3	0.0
In percent of GDP	9.5	10.0	9.8	9.3	8.0	6.2	4.5	3.2	2.2	1.5	0.9	0.4	0.2	0.0	0.0
In percent of Gross International Reserves	77.2	80.8	71.6	67.3	62.4	54.4	42.9	31.5	20.5	12.4	6.4	2.8	0.9	0.1	0.0
In percent of quota	125.7	135.3	140.1	140.1	127.3	105.9	82.8	62.9	46.1	33.0	21.0	11.2	4.5	0.8	0.0
Net use of Fund credit (in millions of SDRs)	2.6	19.9	10.0	0.0	-26.6	-44.3	-48.1	-41.2	-34.7	-27.3	-24.9	-20.2	-14.0	-7.8	-1.6
Disbursements	15.6	31.1	31.1	31.1	15.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	13.0	11.3	21.2	31.1	42.1	44.3	48.1	41.2	34.7	27.3	24.9	20.2	14.0	7.8	1.6
Memorandum items:															
Exports of goods and services (in millions of US$)	1,012	1,267	1367	1462	1,613	1,772	1,943	2,116	2,276	2,451	2,644	2,854	3,083	3,334	3,608
Debt service (in millions of US$)	74	76	88	108	127	133	155	157	158	159	165	169	173	170	177
Nominal GDP (in millions of US$)	3,897	3,982	4208	4436	4,720	5,051	5,404	5,774	6,121	6,536	6,996	7,490	8,021	8,592	9,205
Gross International Reserves (in millions of US$)	481	495	578	615	603	575	570	589	663	787	967	1,206	1,505	1,866	2,307
Quota (millions of SDRs)	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4

Source: IMF staff estimates and projections.

1/ Total debt service includes IMF repayments.

Table 6. Sierra Leone: Actual and Proposed Disbursement Under the ECF Arrangement, 2018–22

Availability	Disbursements In millions of SDRs	Disbursements In percent of quota 1/	Conditions for Disbursement
November 30, 2018	15.555	7.50	The approval of the ECF arrangement.
June 1, 2019	15.555	7.50	Board completion of the first review based on observance of performance criteria for December 31, 2018
December 1, 2019	15.555	7.50	Board completion of the second review based on observance of performance criteria for June 30, 2019
June 1, 2020	15.555	7.50	Board completion of the third review based on observance of performance criteria for December 31, 2019
December 1, 2020	15.555	7.50	Board completion of the fourth review based on observance of performance criteria for June 30, 2020
June 1, 2021	15.555	7.50	Board completion of the fifth review based on observance of performance criteria for December 31, 2020
December 1, 2021	15.555	7.50	Board completion of the six review based on observance of performance criteria for June 30, 2021
June 1, 2022	15.555	7.50	Board completion of the seventh review based on observance of performance criteria for December 31, 2021
Total disbursements	124.44	**60.00**	

1/ Following the 14th quota review, Sierra Leone doubled its quota at the Fund. The current numbers reflect this increased quota.

Table 7. Sierra Leone: Financial Soundness Indicators of the Banking System, 2012–18

	2012	2013	2014	2015	2016	2017				2018
						Mar	Jun	Sep	Dec	Mar
	(Percent, end of period, unless otherwise indicated)									
Capital adequacy										
Regulatory capital ratio 1/	27.7	30.1	30.2	34.0	30.7	31.5	33.4	36.5	34.2	43.5
Regulatory tier 1 capital ratio 2/	12.5	13.6	25.9	29.0	25.9	25.9	30.5	30.2	26.5	38.3
Asset quality										
Nonperforming loans to total gross loans	14.7	22.4	33.4	31.7	22.7	20.7	21.7	17.6	14.6	15.3
Nonperforming loans (net of provisions) to regulatory capital	19.2	31.7	41.8	31.9	20.0	15.9	21.2	11.5	12.1	9.2
Earnings and profitability										
Return on assets	3.4	2.1	2.7	3.2	2.9	1.1	1.4	3.8	5.3	1.5
Return on equity	16.1	9.9	14.9	18.3	22.3	7.9	6.8	20.1	25.6	7.2
Liquidity										
Ratio of net loans to total deposits	33.9	32.4	27.8	24.4	24.4	28.2	27.5	28.5	19.2	17.8
Liquidity ratio 3/	40.7	72.5	78.9	83.3	85.5	85.7	89.8	64.8	66.9	73.0
Statutory minimum liquidity ratio 3/ 4/	54.9	29.3	29.7	30.4	30.1	30.5	30.7	32.8	33.0	32.8
Share of foreign exchange deposits in total deposits	40.8	38.5	26.5	32.0	38.9	32.0	35.0	39.9	37.1	36.0
	(Number of banks not complying)									
Prudential ratios at year-end										
Capital adequacy	0	0	2	1	2			2		
Minimum liquidity ratio	5	0	0	0	0			1		
Minimum capital	2	1	2	2	2			2		
Limit of single large exposure 5/	5	0	2	2	1			1		
Memorandum Item:										
Number of banks	13	13	13	13	13	14	14	14		

Source: Bank of Sierra Leone.
1/ Capital requirement over risk-weighted assets (solvency ratio).
2/ Core capital (Tier I) over total assets.
3/ Calculated taking into account both domestic currency and foreign currency deposits. Liquid assets include domestic currency cash in vault, claims on the BSL, claims on discount houses, and government securities.
4/ Effective November 2007, minimum liquidity includes 40 percent of demand deposits and 20 percent of quasi-money to be held in either cash or treasury bills.
5/ A single large exposure of an institution is any exposure that is 20 percent or more of its capital base.

Table 8. Sierra Leone: External Financing Requirements and Sources, 2015–19
(Millions of U.S. dollars)

	2015	2016	2017	2018	2019	2017-19
I. Total financing requirements	**-950**	**-395**	**-771**	**-709**	**-672**	**-2,152**
Current account balance (excl. official transfers)	-1,092	-442	-710	-684	-611	-2,005
Debt amortization	-23	-30	-30	-44	-47	-122
Gross reserves accumulation	165	77	-31	20	-14	-25
II. Available and expected financing	**920**	**850**	**638**	**687**	**629**	**1,954**
Project support grants and debt relief	135	143	153	57	53	263
Disbursements from official creditors /1	100	178	-5	171	94	260
Budget support (grants)/2	438	316	308	144	114	114
Private transfers	-7	-5	-5	-5	0	-15
Foreign direct and portfolio investment	262	161	149	307	371	828
Change in net foreign assets of comm. banks	22	14	52	31	13	96
Repayment of IMF credit and loans	-30	0	-13	-19	-16	-48
Other	0	43	0	0	0	0
IV. Errors and omissions	**-132**	**-525**	**80**	**0**	**0**	**...**
III. Financing gap	**161**	**69**	**53**	**22**	**43**	**118**
Exceptional financing	31	2				
(Possible) ECF program	130	68	53	22	43	118
Memorandum items:						
Gross International Reserves	580	503	501	481	495	...
Months of imports	3.7	4.3	3.5	3.3	3.1	...

Sources: Sierra Leonean authorities; and IMF staff estimates and projections.

1/ Project loans.

2/ Includes budget and off budget grants.

Table 9. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2018 and 2019

(Within-year cumulative change—starting from June for 2018 and from January for 2019; Le billions, unless otherwise indicated)

	2018		2019			
	Jun.	Dec.	Mar.	Jun.	Sept.	Dec.
	Actual	PC	IT	PC	IT	IT
Performance criteria						
Net domestic bank credit to the central government (ceiling) 1/	5171	823	407	812	1155	1357
Unadjusted target (ceiling)						
Adjustment for the excess(shortfall) in unpaid checks and other outstanding payments						
Adjustment for the excess(shortfall) in net issuance of government securities to non-bank private sector						
Net domestic assets of the BSL(ceiling)	858	404	223	341	458	576
Unadjusted target (ceiling)						
Adjustment for the shortfall (excess) in external budget support						
Adjustment for exchange rate depreciation (appreciation)						
Gross international reserves of the BSL, US$ millions (floor)	474	7	-20	-27	-33	14
Unadjusted target (floor)						
Adjustment for the shortfall (excess) in external budget support						
Adjustment for the shortfall (excess) in the US$ value of IMF disbursement						
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities						
New concessional external debt with original maturity of one year or more contracted or guaranteed by the public sector, US $ millions (ceiling)	...	80	100	100	100	100
New non-concessional external debt contracted or guaranteed by the public sector, US$ million (ceiling) 2/	...	0	0	0	0	0
Outstanding stock of external debt with maturities of less than one year contracted or guaranteed by the public sector (ceiling) 2/	...	0	0	0	0	0
External payment arrears of the public sector (ceiling) 2/	...	0	0	0	0	0
Indicative target						
Total domestic government revenue (floor)	...	2356	1224	2549	3866	5350
Poverty related spending (floor) 3/	...	275	293	634	1027	1467
Domestic primary balance (floor)	...	-282	-98	-208	-306	-264
Memorandum items:						
External budgetary assistance (in $ million)	...	67	5	13	24	41
Program exchange rate (Leones/US$)	7741	8743	9040	9337	9635	9932

1/ Includes IMF budget support related SDR on-lending from the Central Bank to the Government.

2/ These apply on a continuous basis.

3/ Poverty-related spending is defined in Paragraph 21 of the TMU (and excludes capital spending).

Table 10. Sierra Leone: Prior Actions and Structural Benchmarks	
PRIOR ACTIONS	**TIMING**
Submit to Parliament a 2019 Budget consistent with meeting or exceeding program targets for revenue, financing, and deficit reduction. The program targets aim to achieve: (1) A significant, sustainable increase in the revenue-to-GDP ratio; (2) a credible financing plan; (3) a significant deficit reduction sufficient to bring the fiscal adjustment path back to debt sustainability in the medium term.	
Submit to Parliament amendments to the BSL Act and Banking Bill. Amendments to the BSL Act should be in line with the recommendations of staff's Safeguards Assessment (2017) and the technical assistance report on Central Bank Governance and Organization (2018).	
Appoint an international firm with significant proven experience in conducting forensic investigations to conduct an audit of the foreign exchange transactions between the BSL and quasi government agencies (MDAs).	
Reconstitute the BSL Board and Audit Committee to restore independent oversight at the central bank.	
STRUCTURAL BENCHMARKS FOR FIRST REVIEW	
Complete the audit of BSL's 2017 financial statements	January 31, 2019
Publish the final report of the forensic audit of foreign exchange transactions between the BSL and MDAs during July 2015–June 2018 and adopt a remedial action plan to address findings.	May 31, 2019
Develop a strategic plan for the two state-owned banks including a timetable for putting in place an independent governance framework for the banks that protects them against political influence, and thereby durably limits their fiscal contingency risks.	March 31, 2019
Continue to use the automatic fuel price indexation mechanism to set fuel price determination	Continuous
Adopt a plan for dealing with the outstanding stock of unpaid obligations to domestic suppliers containing: (1) a comprehensive stock-taking, transparent verification, and prioritization of arrears; (2) measures to prevent new arrears; (3) making allocations for clearance of arrears in the medium-term budget framework; and (4) plans to rationalize the balance sheet of the BSL.	March 31, 2019

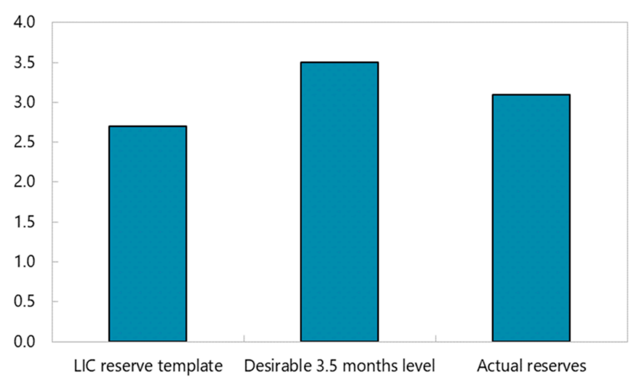
Annex I. External Sector Assessment

Sierra Leone's current account (CA) deficit and less-than-adequate reserve buffers point to an external position that is weaker than that implied by medium-term fundamentals and desirable policies. Narrowing the country's external imbalances over time will require continued fiscal adjustment, policies to boost productivity, and maintaining a market-determined and flexible exchange rate.

Quantifying the extent of external imbalances is especially challenging in Sierra Leone. Balance of payments data quality is poor, with large errors and omissions and subject to significant revisions. The mining sector's dominant role in gross exports complicates the picture further—export volumes are subject to large external demand shocks, and assessing the net impact on the balance of payments requires taking into consideration offsetting but more difficult to measure factors such as mining-related imports, FDI, and profit repatriation. Historical trends are beleaguered by instability, such as that resulting from the Ebola crisis.

These factors partly explain why model-based approaches to estimating external imbalances yield a wide range of results. Some approaches can however be useful in signaling the order of magnitude of misalignment. One of the more direct approaches is the IMF's "EBA-Lite" External Sustainability (ES) method, which compares the current account to that which would stabilize the net international investment position (NIIP) at a benchmark level. Applying this approach to 2017 annual data[1] points to a real exchange rate that is stronger than that implied by fundamentals and desired policies by a range of 5–12 percent,[2] consistent with a CA gap of -1¾ to -4¼ percent of GDP. The results however are sensitive to the assumed steady state level of NIIP, the underlying CA, and elasticities—small changes in these assumptions would widen the range of real exchange rate overvaluation to an estimated 0–18 percent. Nevertheless, even accounting for the high degree of uncertainty, the results suggest that the external position can currently be considered weaker than implied by medium-term fundamentals and desirable policies.

Sierra Leone: Reserve Adequacy Assessment
(Months of Imports)



Source: IMF staff estimates.

[1] The real effective exchange rate has remained broadly stable since 2017.

[2] Using the CA elasticity of -0.35 percent and an underlying CA of about -8 percent of GDP, to stabilize Sierra Leones's net international investment position (NIIP) at -72 percent of GDP (2017 level), the real effective exchange rate would have to depreciate by about 5 percent. If NIIP is to be stabilized at -40 percent of GDP (the median of middle income countries) by 2037, about 12 percent real depreciation would be needed.

Sierra Leone's gross international reserves are below desirable levels. As of end-September 2018, gross reserves (excluding swaps) stood at $447 million, covering around 3 months of imports. This is a decline of about $54 million since end-2017. On the one hand the level of reserves was higher than the 2.7 months of imports calculated using the IMF's "reserve adequacy template", which tries to balance benefits of reserves against the cost of holding them. However, given Sierra Leone's high level of foreign debt and a trade balance subject to large swings in global demand for mining exports, higher reserve coverage is desirable—about 3½ months of imports is in line with a level sufficient to maintain confidence and buffer against external shocks.

Appendix I. Letter of Intent

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT
GOVERNMENT OF SIERRA LEONE

BANK OF SIERRA LEONE

November 14, 2018

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431 U.S.A.

Dear Madame Lagarde:

1. **On behalf of the Government of Sierra Leone, we are pleased to submit herewith a Memorandum of Economic and Financial Policies** (MEFP) for which Sierra Leone is requesting an arrangement with the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) for the period 2018–22.

2. **The Extended Credit Facility arrangement negotiated by the previous government and approved by the Executive Board of IMF in June 2017 suffered major setbacks early in the life of the program**. Poor revenue performance, expenditure overruns and a growing debt portfolio led to a budget cash shortfall and a large stock of vendor arrears. Given the political environment, and government's reluctance to take corrective actions, the first review of the program was put on hold. Upon assumption of power in April 2018, our government engaged with the IMF team within the first two weeks, indicating readiness to resume a program relationship. In addition, we implemented bold revenue and public finance management reforms which helped to improve the challenging macroeconomic environment we inherited.

3. **The objectives of the program and measures envisaged for achieving them are described in the attached MEFP**. The program focuses on (i) safeguarding macroeconomic stability through debt sustainability, reducing inflation, and strengthening our international reserve buffers; (ii) implementing a strong fiscal program aimed at strengthening revenue performance, reforming expenditure policies, improving governance, transparency and accountability in public financial management and maintaining sustainable debt levels; (iii) implementing monetary and exchange rate policies that foster price and exchange rate stability; (iv) stepping up financial sector reforms to support financial deepening and economic growth; (v) promoting inclusive growth and expansion of the social safety net; (vi) improving the business environment and promoting economic diversification. Development partners have pledged financial support to assist the government to attain these broad objectives.

4. **The government requests that the MEFP be supported under a new forty-three month ECF arrangement in an amount equivalent to SDR 124.4 million (or 60 percent of quota)**. We request the cancellation of the existing ECF arrangement that was approved by the IMF Executive Board in June 2017. We also request that the first disbursement under the new arrangement, in an amount equivalent to SDR 15.55 million which is budget support, be made available after approval of the ECF arrangement by the Executive Board of the IMF. To monitor progress in implementing our reform agenda, the program includes a set of periodic and continuous performance criteria, indicative targets, prior actions, and structural benchmarks outlined in the MEFP and the Technical Memorandum of Understanding (TMU).

5. **We are optimistic that with strong implementation of this program, the economic outlook is promising over the medium term**. Total and non-iron ore real GDP growth is expected to gradually increase to 5.1 percent and 4.8 by 2022 from 3.7 and 5.7 percent in 2018, respectively. Tight monetary policy would assist to dampen inflationary pressures, with CPI expected to fall to 14 percent by end 2019, and to single digits by end 2022. Fiscal balance is projected to narrow, from 6.8 percent of GDP in 2018 to 4.7 percent in 2022, while gross reserves is projected to increase to over US$600 million by the end of the program period. Our strong program of fiscal consolidation, together with increased transparency and accountability in the management of public resources would enable us to scale up and improve the efficiency of public investment, as well as expand the social protection programs. We will scale up investment in human development; and deepen regulatory reforms to improve the business environment and the ease of doing business.

6. **The Government believes that the policies contained in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose**. Sierra Leone will consult the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with Fund policies on such consultations. Sierra Leone will provide the Fund with any information that may be necessary for monitoring the implementation of the measures and the achievement of program objectives.

7. **Further, and in line with its commitment to transparency and accountability, the government authorizes the IMF to publish this letter, its attachments, and related staff report**, including placement of these on the IMF website in accordance with Fund procedures, following the IMF Executive Board's approval of the request.

Very truly yours,

/s/	/s/
Jacob J. Saffa	**Kelfala Kallon**
Minister of Finance	Governor of Bank of Sierra Leone

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

INTRODUCTION

1. **This Memorandum of Economic and Financial Policies (MEFP) outlines the medium-term reform program of the Government of Sierra Leone** (GoSL) as supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) arrangement 2018-2022. Subsequent sections describe the policy measures and structural reforms needed to preserve macroeconomic stability, improve competitiveness, and ensure efficient policy transmission. The program targets discussed here are consistent with the objectives of our medium-term development strategy—*Education for Development*—and the United Nations Sustainable Development Goals (SDGs).

2. **The Extended Credit Facility arrangement negotiated by the previous government and approved by the Executive Board of the IMF in June 2017 suffered major setbacks**. Poor revenue performance, expenditure overruns, and a growing debt portfolio led to a budget shortfall and a large stock of vendor arrears. Given the political environment, especially the looming March 2018 presidential elections, the government was reluctant to take corrective actions and the first review of the program was put on hold. Upon assumption of power in April 2018, President Bio engaged with the IMF, indicating his government's desire to resume a program relationship. In addition, we commenced the implementation of revenue mobilization and structural reform measures, thereby warding off a potential economic crisis.

3. **Despite the success of recent reforms, the macro-financial environment that we inherited remains challenging**. The government has implemented reforms which (i) improve revenue mobilization, (ii) limit discretionary expenditure growth, and (iii) improve transparency and accountability in public resource management. As a result, better revenue performance has reduced the appetite for domestic debt. Nevertheless, the budget's cash shortfall remains, with the measured stock of outstanding commitments currently estimated at approximately 39 percent of GDP. Given the limited space for government spending on programs and projects, economic performance is slowing down. To address these challenges, we have put together the following programs and policies. Our objectives going forward are to safeguard macroeconomic stability, maintain debt sustainability, reduce inflation, and strengthen our international reserve buffers. We aim to address infrastructure bottlenecks, improve the business environment, promote economic diversification, and ensure inclusive growth by expanding our social protection program.

RECENT ECONOMIC DEVELOPMENTS, OUTLOOK AND RISKS

Recent Economic Developments

4. **Macroeconomic performance in 2017-18 has been weak**. In 2017, election-year policy inertia contributed to a slowdown in growth to 3.8 percent from 6.4 percent in 2016. Diamond output also fell by approximately 50 percent in 2017 as the main diamond mining company, Koidu Holdings, transitioned from open pit to underground mining. By early-2018, weak performance in the mining sector culminated in the shuttering of the main loss-making iron ore mine, as logistics

cost and bottlenecks rendered operations unprofitable. We estimate that in 2018, growth in the non-iron ore economy slowed to 3.6 percent from the earlier projection of 4 percent. This slowdown also reflects the impact of subdued economic activities in the construction and distributive trade sectors, the main sectors affected by government accumulation of procurement arrears. Despite the government's reforms and a subsequent pick-up in economic activity after the second quarter of 2018, growth is expected to remain tepid at least until 2019. Price pressures were very high in the first half of 2018. Though inflation has declined from its peak of over 20 percent at the start of the last ECF arrangement, it remains high. Headline inflation increased to 16.6 percent at end-June 2018 from 15.3 percent at end-December 2017, reflecting food price developments and exchange rate depreciation pass through.

5. **The deficit for 2017 exceeded 8.7 percent of GDP, financed mostly through higher domestic borrowing, including the accumulation of arrears**. Execution of the budget in the first half of 2018 was very challenging given the large carryover of unpaid bills from previous years. By mid-year, the original 2018 budget approved by Parliament in December 2017 was revised to reflect the new administration's policies and programs, while at the same time lowering revenue and expenditure expectations. Revenue is expected to improve in the second half of the year, with a projected fiscal deficit of 6.8 percent of GDP in 2018.

6. **Monetary policy was largely accommodative during the period**. Strong growth in monetary aggregates driven by expansionary fiscal policy contributed to inflation pressures in the first half of the year. On an annualized basis, broad money grew to 19.8 percent at end-June, compared to the 13.4 percent envisaged under the program. In addition, credit to the private sector was unexpectedly strong, at 20.6 percent. The Monetary Policy Committee (MPC) addressed the buildup in price pressures by increasing its benchmark policy rate from 14.5 percent in December 2017 to 15.0 per cent in May 2018, and further to 16.5 per cent in July 2018. However, the tight monetary policy stance was partly weakened by BSL injection of liquidity through secondary market operations.

7. **The banking system and financial conditions remain largely sound**. Banks continue to be generally well capitalized, liquid, and profitable, though there is substantial variation across banks. The industry's capital adequacy ratio (CAR) was 43.3 percent and all the banks met the 15 percent minimum at end-June. During the same period, aggregate system nonperforming loans (NPLs) fell to 12.8 percent. This was an improvement from the 15.4 percent in March 2018 and a significant improvement on the 21.7 percent at end June 2017. The decrease in NPLs in the second quarter of 2018 reflected the implementation of loan write-off directives as banks shed non-performing loans and removed them from their balance sheet after making full provisions. Most of these were loans owed by companies in the construction and commerce sector.

8. **The current account is estimated to have widened to 13.9 percent of GDP in 2018**, reflecting higher imports, especially the capital goods imports of mining companies. The overall balance of payments deficit is estimated at US$39 million. Gross international reserves are projected at U$510 million, (3.2 months of imports). As of the end of August, the Leone depreciated against the US dollar by close to 10.4 percent (year-on-year) due mainly to the loss of iron ore mining export proceeds and increased demand from fuel importers. In addition, the non-disbursement of budget support, low exports, and higher demand for imports put pressure on the exchange rate in

the third quarter of 2018. In response, the Bank of Sierra Leone intervened through the weekly auction of foreign exchange.

9. The stock of external debt increased from US$1.04 billion at the end of 2013 to US$1.51 billion at end-2017 and further to US$1.53 billion in June 2018. Multilateral debt increased from US$689.8 million (66 percent of total external debt) to US$1.16 billion (75.8 percent of external debt). Bilateral debt increased from US$141 million to US$178 million while commercial debt decreased from US$213 million at end 2013 to US$192 million in June 2018. The increase in external debt was mainly driven by larger disbursements from multilateral and bilateral creditors to finance infrastructure and other projects. The stock of domestic debt increased from Le 1.97 trillion at the end of 2013 to Le 4.56 trillion at end-2017 and further to Le 5.04 trillion in June 2018. Total domestic interest payments increased from Le 275.6 billion in 2013 to Le 571.9 billion during the first half of 2018.

Outlook and Risk

10. The outlook for growth is broadly balanced. The temporary halt of iron-ore mining will continue to weigh down on economic performance, but real GDP growth is expected to gradually increase to 5.1 percent by 2022. The main sources of growth in the medium-term are: (i) The expected resumption of iron ore mining and an increase in other mining activities,[1] (ii) reforms and stronger foreign direct investment in the agriculture, fisheries, and tourism sectors; (iii) the resumption of publicly funded construction activities; (iv) scaling up and improving the efficiency of public investment in roads, energy and the water supply; (v) increasing investment in human development; and (vi) deepening structural and business regulatory reforms to improve competitiveness and the ease of doing business.

11. Inflation is targeted to fall to 9 percent by the end of the program period, driven by tighter monetary policy and the receding impact of fuel price increases. The overall fiscal deficit will decline steadily, driven by stronger revenue mobilization. Stronger foreign inflows, including FDI, from planned expansion operations in rutile, iron ore and diamond mines would finance a continued high current account deficit. Rising international reserves over the program period will strengthen external stability and the country's resilience to shocks.

12. Growth could also receive some fillip from structural reforms. GoSL has a strong commitment to address corruption and institute transparency and accountability, key issues that have been instrumental to poor economic outcomes in the recent past. The government is also committed to transforming the economy, promoting human development, improving governance, building institutions, developing infrastructure and adopting innovative financing strategies, all of which will contribute to improved economic performance and business climate.

13. Nevertheless, there are risks to the outlook. A continuous slump in the price iron ore, our main export commodity, could delay the resumption of iron ore mining, with negative implications for growth, revenues, and foreign exchange earnings. A further rise in the international prices of

[1]Mining by Gerald Metals is expected to resume at the Marampa mine in 2019. Mining by Shandong Iron and Steel is expected to resume at the Tonkolili mine in 2021. Increased investments are also expected in diamond and rutile mining activities.

petroleum products would be a risk to price stability. Lastly, delays in the disbursement of budget support and the subsequent implications for financing the annual budget could also complicate the outlook.

PROGRAM OBJECTIVES AND POLICIES

Program Objectives

14. Our main policy objectives are to safeguard macroeconomic stability, deepen structural reforms, and advance our *Education for Development* and poverty reduction agendas. The program will be based on a set of policies that would lead to sustainable macroeconomic outcomes. These include sustainable fiscal policy, debt and public finance management; low inflation and higher foreign reserve coverage; a safe and sound financial system; inclusive growth, expanded social safety net, and improved business environment. Detailed objectives are as follows:

- ***Fiscal sustainability***: The key priority of fiscal policy is to pursue fiscal consolidation through enhanced domestic revenue mobilization and rationalization of expenditures. This would create fiscal space for the implementation of an ambitious and well planned public investment program and investment in human development, including the flagship Free Quality Education program and other social programs. Fiscal policy will target a reduction in the fiscal deficit sufficient to ensure public debt sustainability and bring down the budget's domestic financing need to a manageable level.

- ***Debt Management***: The aim of public debt management policy is to ensure fiscal and debt sustainability through the development and implementation of the Medium-Term Debt Management strategy. Special attention will be paid to the clearance of verified arrears owed to suppliers and contractors. The government will adhere to medium-term debt targets to ensure debt sustainability.

- ***Public finance management***: The implementation of the recently passed PFM Law regulations will be advanced. The law will help (i) increase the efficiency, effectiveness, transparency and accountability in the use of public resources, (ii) monitor, report, and manage fiscal risks posed by the operations of State-owned enterprises and contingent liabilities inherent in Public-Private-Partnerships (PPPs); and (iii) implement an arrears clearance strategy.

- ***Monetary, exchange rate and foreign reserves policy***: Monetary policy will focus on bringing inflation back to single digits and maintaining price stability. Increased reserve accumulation is targeted over the program period and a market-determined exchange rate will allow the economy to adjust to external shocks and maintain external competitiveness. To achieve these goals, the Bank of Sierra Leone's interventions in the foreign exchange market will be limited to smoothing excessive volatility in the exchange rate.

- ***Financial stability***: Financial sector policy will seek to enhance prudential oversight by strengthening the supervisory process and conclusively resolving the governance problems of the state-owned banks.

- ***Inclusive growth***: Government policies will foster diversified inclusive growth and an expanded social safety net.

- ***Business environment:*** Government policies will create a more favorable business environment by deepening structural and governance reforms with a view to easing the cost of doing business, and thus boosting private investments and employment creation.

- ***Strengthening Statistics***: Data quality will be improved to support economic policy making.

15. These objectives will be achieved through the implementation of reforms and measures set forth below. More broadly, we are committed to continuing our efforts to improve governance. In addition to safeguarding macroeconomic stability, the thrust of the reforms in our program—specifically, in the areas of Public Financial Management, MDA and SOE oversight, central bank governance, minerals taxation, tax administration, and banking supervision—will be toward strengthening governance, increasing transparency and improving oversight of public institutions, and reducing vulnerabilities to corruption. We will also continue to review our governance and anti-corruption frameworks with a view to taking further measures to strengthen them as needed.

Program Policies

Fiscal Policy

16. Our fiscal strategy is anchored on the principle that ambitious revenue mobilization is needed to boost infrastructure and social spending but is designed to be sufficiently robust to achieve the deficit reduction needed to stabilize and reduce public debt even in the event of unforeseen shocks. To this end, our ***Fiscal Adjustment Framework*** is a multipronged approach to meeting the government's policy objectives in a sustainable way that lays the foundation for macroeconomic stability and economic growth. Key elements of this framework include:

- Gradual and significant deficit reduction over the medium term. We have set a minimum target for bringing down the overall deficit to less than 5 percent of GDP by 2022, with a corresponding domestic primary balance of zero percent of GDP. While this target is designed to be achievable even under a cautious, baseline revenue scenario, we aim to achieve even more ambitious deficit reduction through strict expenditure management and faster revenue growth—we are confident that a continuation of vigorous revenue mobilization efforts and structural reforms to improve tax efficiency will deliver an increase in revenue of over 1 percent of GDP per year, reaching a targeted level of 20 percent of GDP by 2023.

- This fiscal adjustment has already begun this year and will be the cornerstone of the 2019 budget. This budget will address the resource gaps which led to the sharp buildup in arrears in the past. This will require a strict prioritization of expenditures to allow spending on essential infrastructure and social programs given available resources, backed by a credible financing plan that is sufficiently robust to ensure no new arrears even in the event of adverse developments. While ensuring a sound financing plan is an essential criterion of the

2019 budget, we are aiming to mobilize revenue sufficient not only to meet the budgeted spending needs but also allow for a gradual paydown in the existing stock of arrears. Therefore the 2019 budget to be submitted to Parliament in November (a **prior action**) will be consistent with meeting or exceeding program targets for revenue, financing, and deficit reduction as follows: (i) A significant, sustainable increase in the revenue-to-GDP ratio; (ii) a credible financing plan; (iii) a significant deficit reduction sufficient to bring the fiscal adjustment path back to debt sustainability in the medium term.

- These fiscal goals will be supported by a wide-ranging and ongoing program of tax policy and administration measures identified in the Revenue Mobilization Strategy. Expenditure control will play a key role in the adjustment, in part through reforms to ensure the integrity of the payroll, as well as reforms of the capital expenditure commitment system.

Revenue Mobilization

17. Upon assumption of power in April, we took several steps to broaden the tax base and improve revenue administration which helped alleviate the budget's short-run cash shortage and arrested the growth of arrears. The liberalization of retail fuel effective July 13, 2018 reduced projected revenue losses in 2018 by Le235 billion. To minimize the impact of the fuel price increase on the poor and vulnerable, the government is implementing several mitigating measures as discussed below. The government suspended duty and tax waivers, the abuse of which had resulted in revenue loss amounting to Le1.12 trillion during 2015-2017. The government is also streamlining the procedures for granting waivers to ensure transparency and consistency with the enabling laws and protocols. To this end, we have established a Special Committee to review the current process and develop an appropriate policy for granting duty and tax waivers. Non-Governmental Organizations (NGOs) are required to pay import duty and import GST into a Special Escrow Account at the Bank of Sierra Leone in lieu of duty and tax waivers. This amount would be reimbursed after the conduct of a post clearance audit. Requests for duty waivers by private sector organizations in respect of the Investment Agreements or Acts ratified by Parliament are being processed on a case-by-case basis. Foreign missions and international agencies continue to benefit from duty and tax waivers consistent with the Vienna and Geneva Conventions.

18. Going forward, we will continue to use the fuel price indexation mechanism to determine fuel price. This will maintain the unification of commercial and retail prices and allow fuel prices to move in line with the international petroleum price and the exchange rate (**continuous structural benchmark**). We will also pursue several policies to further improve the efficiency of tax collection and reduce the scope for leakages. In this regard, we aim to implement measures in the areas of tax policy, administration, and information systems (Box 1).

Box 1. Revenue Mobilization Measures

Tax Policy Measures

a. Adoption of the ECOWAS Common External Tariff (CET) which is likely to increase the current low levels of tariff.

b. Development and implementation of a policy on tax and duty waivers.

c. Development and enforcement of transfer pricing provisions.

d. Collection of revenue stamps as non-tax revenue.

e. Upward revision of fees/rates levied by MDAs.

Tax Administration Measures

a. Upfront payment of import duty, excise duty and road user charges by Oil Marketing Companies on petroleum products.

b. Strengthening the compliance of rental income tax and enhancing rental database by using third party data including Stats SL, EDSA and Local Government.

c. Strengthening the collection of income tax from professionals including lawyers, doctors, accountants and engineers.

d. Strengthening field audits of large taxpayers and conducting special audit on the sector where technical knowledge is ensured for proper assessment of tax liabilities.

e. Auditing GST registered businesses of both LTO and MTO cases that claim huge GST credits.

f. Use of third party data such as original commercial invoices information and custom intelligence to challenge under-declared import values.

g. Conducting review, standardize processing and clearance of transit goods.

h. Promoting voluntary compliance, and implementing SMEs taxpayer preparer scheme, and compliance risk management approach.

i. Construction of revenue post at new border posts to combat cross-border smuggling.

j. Implementation of NRA's anti-corruption strategy such as protection of whistle blowers and training of procurement staff.

k. Preparation of 'Strategy for Enforcement' of existing tax legislation.

l. Establishment of tax court to prosecute tax defaulters.

Tax Information System

a. Automation of tax collection process through adopting an Integrated Tax Administration System(ITAS) for domestic tax, the web-based ASYCUDA World for customs, and the electronic cash registers for Goods and Services Tax (GST).

b. Implementation of an automated payment gateway and reconciliation system to reconcile revenue in terms of tax assessed, collections, transfers and arrears

c. Integration of the payment and reconciliation system with all banking and GoSL systems.

19. We recognize that while efforts are being made to intensify domestic revenue mobilization, internally generated revenues are insufficient to support the scaling up of spending on education, infrastructure and social safety nets and at the same time address the large stock of suppliers and contractor's arrears inherited. It is therefore important for development partners, in particular the IMF, to provide budget support. This is expected not only to restore the credibility of the government but also to improve the asset quality of commercial banks, with positive spillover effects on the stability of the financial system.

Expenditure Management

20. Expenditure priorities are defined in the *New Direction* manifesto of the SLPP, and free quality education is the top priority of GoSL in the medium-term. At the same time, the government is committed to "transforming the economy, developing infrastructure and improving governance and accountability." Given the government's priorities, our goal is to contain recurrent expenditures while reorienting spending towards infrastructure and social protection. To this end, we plan to implement reform policies and programs on the wage bill, procurement, and capital expenditure management.

Wage Reform

21. We are committed to maintaining the wage bill at no more than 6 percent of GDP by the end of the program. To achieve this goal, the government will build on the progress made in implementing the Payroll Strategy developed and adopted in Cabinet in October 2017. Reforms will aim at improving the purity and probity of the payroll system to make the government's wage bill manageable, accountable and transparent. Key planned reforms include:

i. Following the successful EU-funded Biometric Data Collection for Civil Servants, Ministry of Finance in collaboration with the Human Resource Management Office (HRMO) and the National Civil Registration Authority (NCRA) is undertaking a biometric verification of public sector workers including sub-vented agencies, semi-autonomous agencies, local councils, parastatals and NASSIT. The government is exploring the possibility of matching biometric data collected with the HRMO and Accountant-General Payroll as well as NASSIT biometric records.

ii. Use of National Civil Registration Numbers as Unique Identifiers for Public Sector Employees. This measure will help eliminate dual employment and ghost workers on the government payroll.

iii. Address inefficiencies in the payroll management system including: (i) NASSIT contributions for public sector employees above 60 years and 55 years for Police and Army; (ii) manual processing of around 28 percent of payroll payments; (iii) addressing multiple pensions by reviewing and aligning all existing pension related laws; (iv) harmonization of salaries and allowances across all public-sector payroll categories; (v) establishment of a Wages and Salaries Commission to develop, coordinate and pursue reforms related to pay and other conditions of service of public sector employees.

Procurement Reform

22. The procurement of goods, services, and works is essential to a significant portion of the government's expenditure. It is important therefore to improve the public procurement process to reduce expenditure and ensure value for money. Some measures being implemented include:

i. A review of the Public Procurement Law and the Public Financial Management Act (2016) to clarify the roles and responsibilities of the National Public Procurement Authority (NPPA) and the Procurement Directorate of the Ministry of Finance as well as to strengthen compliance with public procurement Law.

ii. Migration from the current manual procurement processes to electronic procurement (e-procurement) system to improve transparency and ensure value for money (VFM).

iii. Strengthening expenditure commitment control systems to avoid accumulation of arrears. To this end, the Ministry of Finance will roll out the automated PETS Form I to the MDAs. Upgrading the IFMIS to Version 7 will also help to enhance the expenditure commitment control system by ensuring that MDAs are unable to enter into any commitment above the budgetary allocation issued by the Ministry of Finance.

iv. Efforts will be made to discourage extra-budgetary expenditures by improving the budget planning process and adhering strictly to the provisions in the PFM Act (2016) relating to the control of extra-budgetary expenditures.

Capital Expenditure Management and Control

23. In an effort to reduce the infrastructure deficit, the country has relied mainly on development partners to provide financing in the form of loans and grants. Nonetheless, public investment projects face challenges of planning, monitoring and implementation, contributing to fiscal risks. To address these challenges, the National Public Investment Policy and the National Public Investment Operational Manual—which are in conformity with the Public Financial Management Act of 2016 and its accompanying Regulations—will be introduced during this program to improve the effective planning and execution of public investment activities and inform capital expenditure rationalization. Some planned reforms include:

i. Government wholly funded projects would be negotiated in domestic currency with provision for domestic currency depreciation.

ii. Government wholly funded projects would be included in the Public Investment Program (PIP) only after a thorough project appraisal demonstrates that the project is economically and financially viable and funding sources have been identified.

iii. Ex-post evaluation of major projects for lessons learnt will be referenced in new project appraisals.

iv. For donor-funded projects (most of which are secured from loans and grants), appraisals are often done with no reference to the Public Investment Management Unit, Public Management Debt Division and other relevant units within the Ministries of Planning and Economic Development, and Finance. Going forward project appraisals will be done in line with the provisions of the PFM Act 2016, the Public Debt Act 2013 and the National Public Investment Policy.

v. Furthermore, as most donor-funded projects require government counterpart funding, compensations for Project Affected Persons (PAPs), resettlement needs (where applicable), payment for quarries and campsites, and other indirect project related costs should be adequately budgeted for. In the event of government counterpart funding, this should be paid in local currency.

vi. To strengthen public investment practices, the government, with assistance from the IMF Fiscal Affairs Department, will embark on the Public Investment Management Assessment (PIMA), which is a tool that shapes public investment decision-making. It measures the sufficiency and efficiency of public investment and the resulting economic growth.

Treasury Single Account (TSA)

24. The recent implementation of the TSA has been a flagship public finance management measure of the government. Following the issuance of Executive Order 1 by our new administration, all MDAs that hitherto collect and retain government revenues were directed to transfer such revenues into the Consolidated Revenue Fund. Accordingly, the Accountant General closed the accounts held in various commercial banks and transferred the balances into the Consolidated Revenue Fund at the Bank of Sierra Leone. The coverage of the TSA was recently broadened to include more agencies. The TSA agencies are projected to contribute Le 254 billion to domestic revenue for nine months of implementation (April to December 2018). The inclusion of these revenues in the CRF will not undermine access to funds for their operational requirements. In this respect, the Ministry of Finance has reviewed their respective budgets to determine operational monthly cash requirement of these agencies, which is being met from the CRF on a monthly basis. After netting off their expenditures, the agencies net contribution to the 2018 Budget is estimated at Le 114 billion in 2018. The government will continue to broaden the scope of the TSA by bring in more agencies. To enhance the operationalization of the TSA, the government will enter into a Memorandum of Understanding (MoU) with the Bank of Sierra Leone, as specified in the policy matrix agreed to with the World Bank. The MoU will seek to adopt a system that allows all BSL and commercial banks to (a) record and report all TSA transactions related with budget revenues (receipts) and expenditures (payments) through Cash Book payment; (b) pay surplus cash balances into the TSA at regular intervals; and (c) open credits in response to specific government needs by end-June 2019.

State Owned Enterprises

25. Consistent with the Public Financial Management Act 2016, the budgets of State Owned Enterprises (SOE) have been brought into the national budget process. The budgets of SOEs will be disclosed through budget documents to ensure efficient financial management in these enterprises and to reduce the contingent liabilities on the national budget. In addition, the Ministry of Finance has established a Fiscal Risk Management and Fiduciary Oversight of State Owned Enterprises Division. This division is responsible for identifying and managing risks related to SOEs and state-issued guarantees. In the context of the reforms, two SOEs—Sierra Leone Telecommunications Company (SIERRATEL) and Sierra Leone Cable Company SALCAB—have agreed to a gradual liquidation of more than US$17.3m and Le 13.9 billion of arrears of financial obligations. In addition to state owned enterprises, we commenced the introduction of Audit Committees at MDAs. These are charged with ensuring that agencies follow transparent and accountable internal processes in the management of public funds.

26. Accountability, transparency and oversight of MDAs and SOEs will henceforth be underpinned by a comprehensive framework. Elements of the framework includes: (i) subjecting MDAs and SOEs to the requirements of the PFM Regulations; (ii) publication of quarterly survey report on arrears stock at MDAs and SOEs (iii) publication of the annual financial statements of SOEs, beginning with the Electricity Distribution and Supply Authority (EDSA), Electricity Generation and Transmission Company (EGTC) and Guma Valley Water Company (GVWC).

Public Finance Management Reform Strategy

27. The ratification of the Public Financial Management Regulations 2018 by Parliament provides an opportunity to address shortcomings in our PFM practices. In the context of the new regulations we will: (i) strengthen the budgetary process; (ii) strengthen expenditure control and reporting; and (iii) automate the budget execution process as well as cash, assets and liabilities management. The implementation of the TSA and SOE reforms will be a key feature of our reform efforts.

28. Going forward, the government has prepared a new *Public Financial Management Strategy* for the period 2018-2021. The objective of the new PFM strategy is to: (i) improve the efficiency, effectiveness and transparency of revenue generation and expenditure management; (ii) provide the basis for macroeconomic stability; (iii) ensure strategic allocation of resources and delivery of vital goods and services; and (iv) strengthen accountability between the State and its citizens. The strategy covers the following thematic areas: (i) strategic policy and budget planning; (ii) budget execution, reporting, monitoring and evaluation; (iii) revenue administration and policy; (iv) accounting, forecasting and transparency; (v) local government finance; (vi) PFM oversight and public accountability; and (vii) two cross-cutting areas (capacity building and ICT). The PFM reform strategy is being validated and will be presented to the cabinet for adoption before the end of the year. We will ensure that once approved by the cabinet, the strategy guides PFM practices in MDAs.

Mining Sector Fiscal Regime

29. Enacting the Extractive Industries Revenue Act was a major achievement that—by ensuring any new mining agreements are subject to a consistent taxation regime established in law—will lead to higher revenue in the longer run by limiting the scope for case by case negotiation and reducing the potential for corruption. Following the law’s enactment, GoSL plans to embark on a comprehensive review of any mining leases that are nearing the point at which fiscal terms may come up for review, with a view to affecting a transition of those projects into the provisions of the new Act. The EIRB contains detailed provisions that grandfather (stabilize) fiscal terms for existing projects until such time as these come up for review.

Debt Management and Domestic Arrears Clearance Strategy

Maintaining Debt Sustainability

30. A key priority of our fiscal adjustment framework is to limit the risk of debt distress. Following MDRI debt relief, total public debt stood at a little over US$1.00 billion in 2006. As of end 2017, however, public debt has more than doubled to over US$2 billion, and now represents around 58 percent of GDP. Given the large stock of debt, together with the weak outlook for growth and revenue, it is important to reduce debt to levels consistent with macroeconomic stability. Upon coming to power, the new government canceled or put on hold huge infrastructure projects with planned financing from debt contracted on non-concessional terms. These include a Freetown sea port expansion project worth US$680 million, the planned new airport in the mainland worth US$200 million, and the US$110 million Islamic Development Bank loan. At the same time, we recognize the need for investment in infrastructure to improve the prospects for growth and will continue to explore donor and concessional financing to support our infrastructure development projects. We will also explore non-debt creating financing models, including public private partnerships, and build operate and transfer models. We will continue to prioritize concessional loans and avoid contracting debt that worsens the economy's risk of debt distress.

31. In addition to explicit domestic debt, implicit debt has grown sharply in the recent past. Weak compliance with established budgetary practices, together with sluggish cash forecasting and management have contributed to the build-up in payment arrears to vendors. The total stock of domestic arrears and pipeline commitment at the end of May 2018 amounted to Le10.6 trillion (or US$1.4 billion) or 39% of GDP, which included non-payment for goods and services already delivered or works completed. Approximately 10 percent of this has crystalized. The government therefore faces increased cost of service provision as suppliers mitigate the risks and opportunity cost of delayed payments by adjusting their prices upwards. As a result, public service delivery is interrupted and there is a rise in non-performing loans (NPL) of banks.

32. The government has requested joint technical assistance on *Medium Term Debt Strategy* from the IMF and World Bank. The TA will focus on all domestic debt including arrears. While awaiting this technical assistance, the government is gradually paying down arrears, while avoiding future buildup of arrears by improving PFM practices. These include strengthening the legal and regulatory framework for budget planning and execution; enhancing the credibility and realism of the budget; improving accounting and reporting; strengthening commitment controls; improving cash and debt management; enhancing oversight of sub-national governments and state-owned enterprises, implementing technological solutions and upgrading the government financial management information systems.

33. The government is committed to proactive debt management within its overall economic policy management framework. We will reform the institutional and legal framework for accessing external and domestic debts for the central government, local governments, and state-owned enterprises. Prudent debt management policies and strategies, anchored on an updated medium-term debt strategy, will be deployed to guide the management of public debt in Sierra Leone. Explicit debt ceilings will be set in the medium to long-term in the context of implementing the government's development plans, informed by sound medium-term debt strategy and debt sustainability analysis aimed at reducing the risk of debt distress. There would be regular debt sustainability analysis to provide signals on the level of risks of debt distress to feed into appropriate policy responses and approach to debt management.

34. The Government will carefully monitor the build-up in domestic debt to ensure it is within sustainable and affordable limits. We plan to issue medium to long-term bonds to finance capital and infrastructure projects within available program borrowing limits to avoid a mismatch in utilizing short-term borrowing to finance infrastructure projects, thus lowering refinancing and rollover risks inherent in the domestic debt portfolio. The government will prioritize grant and concessional external financing to ease the burden on domestic financing and the pressure on domestic interest rates. The government will limit external financing of social services to predominantly grant and direct loan resources to productive sectors and infrastructural development with high economic returns.

Domestic Arrears Clearance Strategy

35. The Government is committed to preventing the reemergence of new arrears. The central pillar of this effort is to address the macro-financial factors which led to the large buildup in arrears over the course of 2017 and the first half of 2018. The above-mentioned revenue mobilization and spending control initiatives aim to ensure that the budget is fully-financed and can meet its spending commitments.

36. Another key element of the strategy will be to focus efforts on strengthening the budget's institutional framework and capacity-building efforts to ensure that these spending commitments are managed efficiently. Procurement reforms detailed in paragraph 22, including commitment controls and migration from manual to electronic processing of commitments in MDAs, would limit the scope for arrears accumulation in the future.

37. For existing arrears, the following will guide the repayment process:

i. Government would choose to maintain a comprehensive and credible database on arrears and payables across all sectors and set out an Arrears Management Committee to ensure the integrity of the process.

ii. The database would be subjected to verification or audit to ascertain the accuracy and validity of claims. The audit process would also determine whether the transactions were conducted within the law including by following due procurement processes.

iii. The arrears would be properly verified in terms of type (salaries and wages, social security, recurrent goods and services, tax refunds, construction works, membership and other obligations to international organizations, utilities, court judgement and other claims) age, due dates, beneficiary agency, contractor/supplier, and risks of non-payment which could trigger legal recourse. Upon verification, based on certain parameters, claims would be prioritized in order of liquidation or treatment.

iv. Explicit provision will be made in the annual budget for liquidating verified arrears. To ensure prompt liquidation, the government may decide to negotiate haircuts on certain categories of claims and would mobilize down payment to pay-off the discounted amount for those creditors that are willing to participate.

v. The budget will prioritize the clearance of the verified claims with revenue and earmarked grant resources. Given that grant resources are most often pre -determined, the government could ringfence the disbursement of grant resources to address specific categories of claims in the short term.

vi. While prioritizing the paydown of arrears with revenue, the government would also consider securitization in line with the Medium-Term-Budget-Framework. Considering the large claims, particularly in the roads and energy sectors and in construction contracts, securitization will allow the government to delay financing until such time that the fiscal situation of the government would have improved. The securities would have specified and predictable payment timeline which the holders or claimants could use as guarantees or securities to access financing elsewhere.

38. In line with the above guidelines, we will adopt a plan by end-March 2019 for dealing with the outstanding stock of unpaid obligations to domestic suppliers. The plan will contain: (1) a comprehensive stock-taking, transparent verification, and prioritization of arrears; (2) measures to prevent new arrears; (3) making allocations for clearance of arrears in the medium-term budget framework; and (4) plans to rationalize the balance sheet of the BSL (**structural benchmark**).

Monetary and Exchange Rate Policies

39. Monetary and exchange rate policy will focus on price stability. BSL will implement monetary policy with the goal of gradually reducing inflation through the end of the ECF arrangement. We are committed to maintaining a flexible exchange rate to ensure orderly conditions in the foreign exchange market over the medium term, and will ensure that price and financial sector stability are consistent with the revised BSL Act, 2018. The conduct of monetary policy will continue to be driven by the need to align monetary growth to levels consistent with the medium-term inflation and GDP growth objectives.

40. BSL will continue to primarily use its policy rate to signal the monetary policy stance. The Bank will continue to enhance the effectiveness of monetary policy operations, as well as liquidity management through more active participation in the money market by the use of market-based instruments. To enhance the effectiveness of monetary policy, the BSL will seek to further develop and deepen the interbank market to enable market participants to effectively respond to monetary policy signals; and improve monetary policy communication to key stakeholders and the public at large. Furthermore, the Bank will focus on the development of appropriate monetary instruments and tools to make liquidity management more effective.

41. Accommodation of fiscal policy will be moderated. In late 2017 and early 2018, the government issued special treasury bills under a foreign exchange swap arrangement to liquidate arrears to some contractors. The BSL swapped US$37 million with banks, in exchange for domestic currency, which was then used to purchase treasury bills and bonds of various maturities. This arrangement allowed the government to meet its outstanding obligations to some contractors at a time when banks were liquidity challenged and would not have been able to purchase treasury bills. While the arrangement has so far worked well, it was costly and magnified market risks. Therefore, future exercise of this nature will be closely coordinated with monetary policy. Revisions to BSL Act, now at advanced stages of review, will strengthen the BSL's position, allowing it to reduce accommodating fiscal needs. Furthermore, the BSL in collaboration with the Ministry of Finance will implement reform measures geared towards improving the efficiency of the government securities market. This will deepen the market and enhance the ability of the government to raise financing for infrastructure projects.

42. Maintaining reserves remains an essential aim of the program. We envisage building a reserve coverage ratio of 3½ months of imports by 2022 and are taking measures to ensure that foreign exchange reserves are protected and increase over time. These measures include (i) reducing the public sector demands on the BSL to automatically provide foreign exchange; (ii) increasing the oversight of the budget over the foreign exchange transactions of MDAs; and (iii) empowering the BSL to set and actively pursue a targeted level of reserves through purchases from the market. To maintain the targeted level of reserve buffers, it is likely that the BSL will need to become a net purchaser of foreign exchange from the market during 2019. To ensure the preconditions are in place, the BSL will articulate a structural framework for developing and deepening the foreign exchange market (by end-March) which will be used to guide its reform priorities together with technical assistance from the IMF.

43. The exchange rate will continue to be market determined to allow the economy to adjust to external shocks and maintain export competitiveness. BSL's interventions in the foreign exchange market will be limited to smoothening excessive volatility and will avoid resisting market-driven movements in the exchange rate. In the medium-term, BSL would focus on developing a vibrant foreign exchange market that is well established to facilitate a well-referenced exchange rate determination. To this end, the electronic trading platform, which has been established, will be enhanced further to accommodate all significant foreign exchange transactions to help in determining the reference exchange rate for the market. The strict cooperation of all authorized dealer banks and traders in meeting reporting requirements in a timely manner will ensure that the foreign exchange market is deepened and anchored. The Bank is also considering other measures to help deepen foreign exchange liquidity by, for example, reviewing the policy on repatriation of export proceeds to increase foreign exchange inflows.

44. As the public institution tasked with delivering price stability, ensuring the soundness of the banking system, and safeguarding the country's foreign exchange reserves, public trust in the BSL's integrity depends on the institution's transparency, accountability, and good governance. To this end the government aims to continue strengthening the BSL's governance practices by addressing any shortcomings in internal controls and maintaining adequate oversight. Important steps in the period ahead include appointing an international firm with significant proven experience in conducting forensic investigations to conduct an audit of the foreign exchange transactions between the BSL and quasi government agencies (MDAs) during July 2015–June 2018, in line with IMF safeguards assessment's recommendations (**prior action**). Our plan is to publish the final report of the forensic audit and adopt a remedial action plan to address findings (**structural benchmark for end-May 2019**). We will also reconstitute the BSL Board and Audit Committee to restore independent oversight at the bank (**prior action**); and complete the external audit of the BSL's 2017 financial statements (**structural benchmark for end-January 2019**).

Financial Sector Policies

45. Our objective is to deepen financial intermediation to foster higher, broader-based, and more inclusive growth. At the same time, we recognize that this objective can only be achieved in a financially stable environment. Therefore, we will safeguard financial stability by strengthening the supervisory framework and managing risks within the banking system. We are committed to strengthening the financial soundness of banks, while exerting stronger oversight over their cross-border relationships. During the program, we will resolve conclusively the governance problems of the two state owned banks.

Financial Inclusion

46. Access to financial services expanded considerably over the past ten years, but the financial system remains shallow, with limited access to financial services, especially outside Freetown. In the past two years, we have ramped up efforts to increase access to financial services and deepen the financial markets. BSL, in collaboration with the World Bank, are working on procuring a National Switch for Sierra Leone as part of a larger project, the second phase of the Financial Sector Development Program, focusing on increasing financial inclusion. Once installed, the National Switch system will improve payments systems, facilitate revenue collection (through the introduction of electronic cash registers for GST) and financial inclusion. In addition, a National Financial Inclusion Strategy was launched in 2017 and a Financial Literacy Strategy is nearly complete and will be launched soon.

Supervision and Regulation

47. Banks are expected to play a growing role in the economy in the period ahead, and BSL stands ready to support this process. Successful implementation of the fiscal adjustment framework would result in government gradually reducing its reliance on domestic borrowing. Banks would respond by shifting from passively holding treasury bills to actively channeling savings to investments through private sector lending. BSL will ensure that the financial sector remains sound and well-behaved. For this, the supervisory and regulatory environment needs to be upgraded, and capacity constraints addressed.

48. To this end, our objective is to safeguard financial stability through the strengthening of the regulatory and supervisory framework, and appropriately assess risks within the banking system and other financial institutions. We are committed to ensure the safety and soundness of banks while exerting intrusive supervisory oversight on their cross-border relationships. Although the two state-owned banks as well as other banks have reduced their levels of non-performing loans, it remains a regulatory concern. Notwithstanding past shocks to the economy, the banking system has been resilient. However, given the significant concentration of investment in government securities, there is a need for the banks to diversify their investment portfolio. We committed to develop a strategic plan for the two state-owned banks including a timetable for putting in place an independent governance framework for the banks that protects them against political influence, and thereby durably limits their fiscal contingency risks (**structural benchmark for end March 2019**).

49. Over the past year, we have been transitioning to risk-based supervision and are focusing our resources on the banking institutions posing the greatest risk. Working closely with the IMF Resident Advisor on Banking Supervision, we have been sharpening our supervisory approach to become more proactive and effective. However, we recognize that continuing the progress achieved in strengthening bank supervision will require more resource allocation, improved quality of on-site examination, full implementation of risk-based supervision and increased co-operation with banking supervisors in other countries.

50. The Bank of Sierra Leone recently established a new Financial System Stability Department with the responsibility to identify, assess and communicate financial vulnerabilities and risks in the banking system. With technical support from the IMF Resident Advisors, the Bank will develop a well-articulated financial stability regime that incorporates macro prudential tools to properly monitor the broad financial system.

Financial Sector Legislative Reforms

51. Work has reached an advanced stage on the review of the legal framework underpinning BSL's regulatory functions. The final draft of the amendments to the BSL Act and the Banking Act 2011 have been submitted to Parliament recently (**prior action**). We also plan to review the Other Financial Institutions Act (2001) and the Prudential Guidelines for banks. Among other things, revisions to these acts would give BSL the authority to order the merger of two institutions, the sale of a portion of assets and liabilities of merged institutions and the eventual privatization of the institution.

The Two State-Owned Banks

52. With the BSL's enhanced supervisory oversight, the financial condition of the two state-owned banks has improved, with aggregate capital adequacy ratio of 59.5 percent and return on assets of 12.3 percent at the end of August 2018. Both banks have preserved the confidence of their customers. Furthermore, they continue to deliver efficient banking services to increase their presence and influence by leveraging on new technology, especially digital products that support intermediation and financial inclusion, thereby contributing to overall financial sector development. Given the systemic importance of these banks based on the size of their deposits and number of branch networks, they are strategically placed to support lending to the private sector. But this will require placing the banks on a firmer commercial footing to ensure that their lending decisions are sound and that the recent progress in improving the balance sheets of these banks is maintained.

53. The Government is committed to reforming the two banks, first by improving on their enterprise-wide risk management processes and compliance with the BSL's prudential requirements, with the objective of making them viable and profitable. To this end, we will develop by end-March 2019, a strategic plan for the two state-owned banks including a timetable for putting in place an independent governance framework for these banks that protects them against political influence, and thereby durably limits their fiscal contingency risks (**structural benchmark**). Building on this the Government would immediately request the World Bank to undertake a deeper analysis on the two banks and help us develop a credible restructuring strategy that aims to achieve this. We also aim to establish a governance and institutional framework that protects them from political influence, which will enable them to better perform their intermediation role and support private sector led growth.

54. At the supervisory level, the BSL will continue to maintain the current intrusive examination and leave in place directives of no lending to Politically Exposed Persons (PEPs) and strict regulatory oversight over their operations to ensure that they remain adequately capitalized and their commercial, operational and financial viability be maintained.

Supporting Inclusive Growth and Social Protection

55. The proposed program gives high priority to accelerated implementation of poverty reduction programs. Sierra Leone's Human Development Index for 2017 is 0.419—which puts the country in the low human development category (ranking at 184 out of 189 countries). The proposed ECF arrangement seeks to facilitate additional interventions in targeted social programs to cushion the burden on those who are made vulnerable from introduction of bold fiscal measures like liberalization of fuel prices. For this purpose, we have earmarked SDR3.6 million (about US$5 million) from the budget support to be received during the first disbursement to poverty reduction programs. These include the cash transfer program currently being implemented with assistance of the World Bank at the National Commission for Social Action (NaCSA). NaCSA provided cash transfers of Le250 thousand per month (approximately $1 per day) to over 62,000 households in 2017. Under the proposed ECF arrangement, NaCSA would provide unconditional cash transfers to an additional 61,000 households and expand operations from nine districts to twelve districts by 2023.

56. Against the background of the Ebola Virus Disease (EVD) epidemic of 2014 and 2015 and the emerging challenges associated with the damages caused by flooding and other effects of climate change, the GoSL made a decision to revamp its social protection agenda. Our party's New *Direction* manifesto has a vision of a "united, peaceful, progressive and happy nation where the people have access to jobs, food, and education and health services and there is equal justice and equal opportunity for all". Pursuant of this goal, the Government has prioritized education and investments in other human development interventions, including social protection in the new National Development Plan. The goal is to lift more people out of extreme poverty by 2030. Some of the major policies to drive our inclusive growth agenda include:

i. Increasing investments in the social sector especially the free quality education program and the Free Health Care Initiative by increasing the budgetary allocation to the education sector by 20 percent and progressively increase the allocation to the health sector to 15 percent of total primary expenditures;

ii. Expanding the school feeding program and provide additional public transportation;

iii. Facilitating greater financial inclusion and access to markets, leveraging technology that facilitates digital financial services and other infrastructure development;

iv. Scaling up capital spending on infrastructure including roads, energy, water and ICT;

v. Scaling up social safety net and other pro-poor programs in partnership with our development partners to mitigate the impact of the fuel price increase on the poor and vulnerable;

vi. Implementing policy and legislative reforms to address inequality such as laws pertaining to social security benefits and the minimum wage;

vii. Mainstreaming gender and youth issues in all aspects from financing to program design and implementation;

viii. Increasing citizen participation, transparency and accountability in public financial management.

Business Environment and Economic Diversification

57. **Sierra Leone is currently ranked 160 out of 190 countries in the World Bank 2018 Ease of Doing Business report**. Though this indicates a decline in ranking from 148 in 2017, improvement was made in the following indicators (i) Starting a business, (ii) Trading across borders and (iii) Resolving insolvency. Our overall 2017 Country Policy and Institutional Assessment (CPIA) score remained unchanged from the 2016 score of 3.2. The score for transparency accountability and corruption in the public sector has also remained at 3.0 since 2015, above the Sub-Saharan African average of 2.1.

58. **Improvements in our business environment are necessary to encourage much needed investments in all sectors of the economy**. To diversify our economy and improve the business environment we will seek to implement the following policies:

i. Continue improving on the process of starting and operating a business by simplifying the procedures for business registration and construction permits and strengthening the commercial court to resolve insolvency;

ii. Deepen economic diversification by increasing investments in agriculture, fisheries and tourism including the promotion of value addition and exports;

iii. Increase investments in the infrastructure needed by businesses;

iv. Increase access to affordable finance;

v. Improve the availability of skilled labor through increased investment in tertiary, vocational, and technical education;

vi. Leverage technology to streamline business processes, (including the payment of taxes) and further improve customs processes through the establishment the Single Electronic Window at the Customs Department;

vii. Improve the business environment by enacting legislation to improve access to credit and protect investors, such as the Securities and Collective Investment Bills and amendment of the Borrowers and Lenders Act 2014.

Strengthening Statistics

59. **GoSL is committed to improving data quality to support economic policy making**. There is an increasing awareness at the national level of the need for better data to assess problems, to set priorities and to monitor progress in the achievement of economic policy targets. Statistic Sierra Leone (SSL) will create the environment for the national statistical system (NSS) to generate micro and macro data, as well as survey and administrative data, which are critical for the estimation of economic and social indicators crucial to the design and implementation of economic policy and management. SSL will address the following:

i. Enhance governance and infrastructural capacity of SSL for the coordination of statistical activities to monitor progress in the implementation of the economic policy and management.

ii. The Statistics Act of 2002 will be revised. This will enhance the ability of SSL to develop policy, institutional, and physical infrastructure, which are prerequisite for statistics to contribute to economic policy and national development plans. SSL will develop statistical harmonization and coordination policies including statistical concepts, definitions and classifications.

iii. Build integrated ICT, GIS and databases for the harmonization and delivery of statistical methods, products and services. ICT and GIS technology will be used to collect, analyze, and disseminate statistical information and products.

iv. SSL will provide credible socio-economic data for the monitoring of economic policy management and national development plans. Key activities include rebasing of national accounts to a more recent year, the compilation of the supply and use table (SUT), the estimation of an input-output matrix for Sierra Leone, compilation of the monthly consumer price index.

v. SSL will conduct household and establishment-based socio-economic surveys and assessments to support economic policy management.

PROGRAM MONITORING

60. **The program will be monitored on a semi-annual basis, through quantitative targets and structural benchmarks**. Quantitative targets for end-December 2018 and end-June 2019, are performance criteria, while end-March, end-September, and end-December 2019 are indicative targets. The first review under the program will be completed on or after June 1, 2019; the second and third reviews will be completed on or after December 1, 2019 and June 1, 2020, respectively.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2018 and 2019

(Within-year cumulative change—starting from June for 2018 and from January for 2019; Le billions, unless otherwise indicated)

	2018		2019			
	Jun. Actual	Dec. PC	Mar. IT	Jun. PC	Sept. IT	Dec. IT
Performance criteria						
Net domestic bank credit to the central government (ceiling) 1/	5171	823	407	812	1155	1357
Unadjusted target (ceiling)						
Adjustment for the excess(shortfall) in unpaid checks and other outstanding payments						
Adjustment for the excess(shortfall) in net issuance of government securities to non-bank private sector						
Net domestic assets of the BSL(ceiling)	858	404	223	341	458	576
Unadjusted target (ceiling)						
Adjustment for the shortfall (excess) in external budget support						
Adjustment for exchange rate depreciation (appreciation)						
Gross international reserves of the BSL, US$ millions (floor)	474	7	-20	-27	-33	14
Unadjusted target (floor)						
Adjustment for the shortfall (excess) in external budget support						
Adjustment for the shortfall (excess) in the US$ value of IMF disbursement						
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities						
New concessional external debt with original maturity of one year or more contracted or guaranteed by the public sector, US $ millions (ceiling)	...	80	100	100	100	100
New non-concessional external debt contracted or guaranteed by the public sector, US$ million (ceiling) 2/	...	0	0	0	0	0
Outstanding stock of external debt with maturities of less than one year contracted or guaranteed by the public sector (ceiling) 2/	...	0	0	0	0	0
External payment arrears of the public sector (ceiling) 2/	...	0	0	0	0	0
Indicative target						
Total domestic government revenue (floor)	...	2356	1224	2549	3866	5350
Poverty related spending (floor) 3/	...	275	293	634	1027	1467
Domestic primary balance (floor)	...	-282	-98	-208	-306	-264
Memorandum items:						
External budgetary assistance (in $ million)	...	67	5	13	24	41
Program exchange rate (Leones/US$)	7741	8743	9040	9337	9635	9932

1/ Includes IMF budget support related SDR on-lending from the Central Bank to the Government.

2/ These apply on a continuous basis.

3/ Poverty-related spending is defined in Paragraph 21 of the TMU (and excludes capital spending).

Table 2. Sierra Leone: Prior Actions and Structural Benchmarks

PRIOR ACTIONS	TIMING
Submit to Parliament a 2019 Budget consistent with meeting or exceeding program targets for revenue, financing, and deficit reduction. The program targets aim to achieve: (1) A significant, sustainable increase in the revenue-to-GDP ratio; (2) a credible financing plan; (3) a significant deficit reduction sufficient to bring the fiscal adjustment path back to debt sustainability in the medium term.	
Submit to Parliament amendments to the BSL Act and Banking Bill. Amendments to the BSL Act should be in line with the recommendations of staff's Safeguards Assessment (2017) and the technical assistance report on Central Bank Governance and Organization (2018).	
Appoint an international firm with significant proven experience in conducting forensic investigations to conduct an audit of the foreign exchange transactions between the BSL and quasi government agencies (MDAs).	
Reconstitute the BSL Board and Audit Committee to restore independent oversight at the central bank.	
STRUCTURAL BENCHMARKS FOR FIRST REVIEW	
Complete the audit of BSL's 2017 financial statements	January 31, 2019
Publish the final report of the forensic audit of foreign exchange transactions between the BSL and MDAs during July 2015 -June 2018 and adopt a remedial action plan to address findings.	May 31, 2019
Develop a strategic plan for the two state-owned banks including a timetable for putting in place an independent governance framework for the banks that protects them against political influence, and thereby durably limits their fiscal contingency risks.	March 31, 2019
Continue to use the automatic fuel price indexation mechanism to set fuel price determination	Continuous
Adopt a plan for dealing with the outstanding stock of unpaid obligations to domestic suppliers containing: (1) a comprehensive stock-taking, transparent verification, and prioritization of arrears; (2) measures to prevent new arrears; (3) making allocations for clearance of arrears in the medium-term budget framework; and (4) plans to rationalize the balance sheet of the BSL.	March 31, 2019

Attachment II. Technical Memorandum of Understanding

INTRODUCTION

1. **This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund** (IMF) regarding the definitions of the quantitative performance criteria (PCs) and structural benchmarks (SBs) for the program supported by the Extended Credit Facility (ECF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets (ITs) will be evaluated in terms of cumulative flows from the beginning of the period.

2. **Program exchange rates**.[1] For the purpose of the program, foreign currency denominated values for 2018 will be converted into Sierra Leonean currency (leone) using a program exchange rate of Le7740.50 /US$ and cross rates as of June 2018.[2]

Sierra Leone: Program Exchange Rate for ECF Arrangement
Cross Rates as of end-June 2018

Currency	Currency units per SDR	Leones per currency unit	US Dollars per currency unit
US dollar	1.41	7740.50	1.00
British Pounds Sterling	1.04	10170.63	1.31
Japanese Yen	155.36	70.08	0.01
Euro	1.21	9023.86	1.17
SDR	1.00	10887.56	1.41

QUANTITATIVE PERFORMANCE CRITERIA

3. **Quantitative performance criteria are proposed for December 31, 2018, and June 30, 2019 with respect to**:

- net domestic bank credit to the central government (NCG) (**ceiling**);
- net domestic assets (NDA) of the Bank of Sierra Leone (BSL) (**ceiling**);
- gross international reserves (GIR) of the BSL (**floor**);

[1]The source of the cross-exchange rates is International Financial Statistics.

[2]For calculating program targets for 2018, all end-June 2018 stock variables will be based on the program exchange rate of Le 7740.50/US$. The program exchange rates for test dates are specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).

- New concessional external debt with original maturity one year or more contracted or guaranteed by the public sector, US$ millions (**ceiling**);

- New non-concessional external debt contracted or guaranteed by the public sector, US$ million (**continuous ceiling**);

- Outstanding stock of external debt with maturities of less than one year contracted or guaranteed by the public sector **(continuous ceiling)**; and

- External payment arrears of the public sector (**continuous ceiling**)

4. The program sets indicative targets for December 31, 2018, and June 30, 2019 with respect to:

- Total domestic government revenue (**floor**)

- Domestic primary balance (**floor**)

- Poverty related expenditure (**floor**)

A. Net Domestic Bank Credit to the Central Government (NCG)

5. Definition. NCG refers to the net banking system's claims on the central government as calculated by the BSL. It is defined as follows:

a. the net position of the government with commercial banks, including: (a) treasury bills; (b) treasury bearer bonds; and (c) loan and advances of commercial banks to the government; less government deposits in commercial banks;

b. the net position of the government with the BSL, including: (a) treasury bills and bonds, excluding holdings of special bonds provided by government to cover BSL losses and to increase its capital; (b) ways and means; (c) any bonds issued in the conversion of ways and means into debt; and (d) any other type of direct credit from the BSL to the government, including the special on-lending arrangements relating to budget support as approved under the 2018–2022 ECF arrangement; less (a) central government deposits; and (b) any debt relief received, notably HIPC, MDRI and relief deposits as well as debt relief under the CCR Trust.

6. Adjustment clauses. The ceiling on changes in NCG will be adjusted (a) upward by the leone value of the shortfall in external budgetary assistance—the upward adjustment will be capped at the equivalent of US$20 million; (b) a downward (upward) adjustment by the increase (decline) in the value of the cumulative net flow of unpaid checks and other outstanding payments relative to the end-June stock of 1066 billion leone); (c) a downward (upward) adjustment by the excess (shortfall) in leone value of net issues of government securities to non-bank private sector.[3]

7. Data source. The data source for the above will be the series "Claims on Government (net)", submitted to the IMF staff and reconciled with the monthly monetary survey prepared by the BSL.

a. **Definition of Central Government**. Central government is defined for the purposes of this memorandum to comprise the central government and those special accounts that are classified as central government in the BSL statement of accounts. The National Social Security and Insurance Trust and state-owned enterprises are excluded from this definition of central government.

B. Net Domestic Assets of the BSL

8. Definition. Net domestic assets (NDA) of the BSL are defined as the end-period stock of reserve money less the end-period stock of net foreign assets calculated at the program exchange rates. Reserve money includes currency issued (equal to currency outside banks plus cash in vaults), deposits of commercial banks with the BSL and the BSL liabilities to other private sector entities. Net foreign assets of the BSL are defined as gross foreign exchange reserves minus gross foreign liabilities (defined below):

a. **BSL's Gross foreign exchange reserves** are defined as the sum of:

- the BSL's holdings of monetary gold (excluding amounts pledged as collateral);
- holdings of Special Drawing Rights (SDRs), including the August 28, 2009 General allocation and the September 9, 2009 Special allocation;
- BSL's holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments).

b. **BSL's gross foreign exchange reserves** exclude:

- pledged, or any encumbered reserve assets, including but not limited to reserve assets used as collateral or guarantees for third-party external liabilities;
- deposits with Crown Agents and other correspondent banks rated below BBB; and
- precious metals other than gold, assets in nonconvertible currencies and illiquid foreign assets.

c. **BSL's gross foreign exchange liabilities** are defined as:

[3]Taken together, clauses (b) and (c) would imply that a reduction in the stock of unpaid checks from cash budget resources would increase the NCG ceiling by the same amount, but that a reduction through securitization would not.

- the total outstanding liabilities of the BSL to the IMF excluding those arising from the August 28, 2009 SDR general allocation and the September 9, 2009 SDR special allocation; and debt relief from the Catastrophe Containment and Relief (CCR) Trust granted in 2015;

- convertible currency liabilities of the BSL to nonresidents with an original maturity of up to and including one year; excluding foreign liability to China of Le 35 billion relating to a legacy clearing account for a previous Bilateral Trade Agreement;[4]

- commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), including 2017-2018 foreign exchange swap arrangements with commercial banks;

- balance on zero coupon bonds issued by BSL to Securiport LLC on behalf of the government.

9. Adjustment clauses. The ceiling on changes in NDA of the BSL will be adjusted upward (downward) by the leone value of the shortfall (excess) in the external budgetary assistance—the upward adjustment will be capped at the equivalent of US$20 million.

C. Gross International Reserves of the BSL

10. Definition. Unless otherwise noted, gross international reserves (GIR) of the BSL will be calculated as reserve assets of the BSL. Reserve assets are defined in IMF's Balance of Payments Manual (5th ed.) and elaborated in the reserve template of the Fund's International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template. Specifically, GIR-BSL excludes 2017-2018 foreign exchange swap arrangements with commercial banks.

11. Adjustment clauses. The floor on the change in gross international foreign exchange reserves will be adjusted (a) downward (upward) by U.S. dollars equivalent cumulative shortfall (excess) in programmed external budgetary assistance;[5] (b) downward (upward) for any cumulative shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the ECF arrangement; and (c) upward (downward) for any increase (decrease) in BSL short-term (one year or less in original maturity) foreign currency-denominated liabilities (to residents and nonresidents).

D. New Concessional External Debt with Original Maturity of One Year or More Contracted or Guaranteed by the Public Sector

12. New external debt is defined as all forms of new external debt with original maturity of one year or more contracted or guaranteed by the public sector based on the residency of the creditor. The external debt definition applies not only to debt as defined in the Guidelines on Public Debt Conditionality in Fund Arrangements (Decision No. 15688-(14/107), December 5, 2014, Point 8 but also to commitments contracted or guaranteed for which value has not been received.

[4]The authorities have confirmed that this BTA is no longer operational.

[5]External budgetary assistance is defined as budget grants and loans, excluding HIPC assistance.

For the purposes of this PC, external debt is defined on the basis of the residency of the creditor. The "public sector" is defined in paragraph 18.

13. For program purposes, the debt is deemed to have been contracted when it is signed by the government of Sierra Leone and ratified by Parliament. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling. The government will report any planned external borrowing and its terms to Fund staff before external debt is contracted or guaranteed by the government. The ceiling on new external debt will be applied on a continuous basis from September 1, 2018.

14. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its signing date of an underlying loan agreement is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

E. New Non-Concessional External Debt Contracted or Guaranteed by the Public Sector

15. Nonconcessional external debt is defined as external debt (defined in paragraph 12) on terms that do not meet the definition in paragraph 14. External debt and its concessionality will be reported by the Debt Management Division of the Ministry of Finance and will be measured in U.S. dollars at current exchange rates.

16. For loans carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the loan would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the loan contract. The program reference rate for the six-month USD LIBOR is 3.34 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -250 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -300 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is -200 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added. This PC will apply on a continuous basis.

F. Outstanding Stock of Short-term External Debt with Maturities of Less Than One Year Contracted or Guaranteed by the Public Sector

17. Definition. External short-term debt is defined as external debt stock with a maturity of less than one year contracted or guaranteed by the public sector. Debt is defined in Annex I of this TMU. For this purpose, short-term debt will exclude normal trade credit for imports. For the purposes of this PC, the public sector is as defined in paragraph 18. This PC will apply on a continuous basis.

G. External Payment Arrears of the Public Sector

18. Definition. External payment arrears of the public sector are defined to include all debt-service obligations (interest and principal) arising from loans contracted or guaranteed by the public sector. For the purposes of this PC, the public sector comprises the central government, regional government, state-owned enterprises, as defined in paragraph 25 of the MEFP, and the BSL. The non-accumulation of external arrears is a continuous performance criterion during the program period. For the purposes of this performance criterion, external arrears are obligations that have not been paid on due dates (taking into account the contractual grace periods, if any). Excluded from this PC are those debts subject to rescheduling or restructuring or are under litigation. This PC will apply on a continuous basis.

QUANTITATIVE INDICATIVE TARGET

A. Domestic Revenue of Central Government

19. Definition. The floor on total domestic central government revenue is defined as total central government revenue, as presented in the central government financial operations table, excluding external grants.

B. Domestic Primary Balance

20. Definition. Central Government Revenue less expenditures and net lending adjusted for interest payments and foreign financed capital spending.

C. Poverty Related Expenditure

21. Definition. For program monitoring purposes, poverty-related expenditures are defined as the total current expenditures of the following ministries and institutions: Education, Health, Social Welfare, Agriculture, Transport and Communications, Energy, Water, Police, Prisons Department, National Fire Authority; and capital expenditure for the Ministry of Works, Energy, Water, Health and Sanitation, Agriculture, Police, Prisons, Local Councils, Commission for Social Action, Anti-Corruption Commission, and Statistics Sierra Leone. Poverty-related spending encompasses also budgetary expenditure for the Ebola Response Plan.

D. Program Monitoring

22. The Sierra Leonean authorities shall maintain a program-monitoring committee composed of senior officials from the MoFED, the BSL, and other relevant agencies. The committee shall be responsible for monitoring performance under the program, recommending policy responses, informing the IMF regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of PCs and benchmarks. The committee will provide monthly reports to the IMF on progress in implementing the program’s quantitative targets and structural benchmarks.

Annex I. Implementation of the Public Debt Limits in Fund-Supported Programs with Respect to External Debt

The term "debt" has the meaning set forth in point No. 8a of the Guidelines on Public Debt Conditionality in Fund Arrangements adopted on June 30, 2015, which reads as follows: "(a) For the purpose of these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

The term "external debt" has the meaning set forth in No. 5, which reads as follows: "For the purposes of specifying public debt conditionality, the concept of "external" debt may be defined on the basis of the residency of the creditor or the currency of denomination of the debt. The public debt conditionality will specify which of these two criteria is being used for purposes of the definition of external debt."

Attachment A. Summary of Data Reporting to IMF Staff

Type of Data	Tables	Frequency	Reporting Deadline
Real sector	National accounts	Annual	End of year + 9 months
	Revisions of national accounts	Variable	End of revision + 2 months
	Disaggregated consumer price index	Monthly	End of month + 2 weeks
Public finance	Net government position and details of nonbank financing, including the stock of the float, treasury bills, and bonds, as well as privatization receipts	Monthly	End of month + 6 weeks
	Government flow-of-funds table (Government Financial Operations Table) with supporting documentation (final) and presented on commitment and cash bases	Monthly	End of month + 6 weeks
	Petroleum product prices and tax receipts by categories of petroleum products	Monthly	End of month + 6 weeks
	Stock of outstanding payment commitments with a breakdown between current and capital expenditures	Monthly	End of month + 6 weeks
	Import duty exemptions by end-users and tariff regimes and estimates of corresponding revenue losses	Quarterly	End of quarter + 6 weeks
Monetary and financial data	Monetary survey	Monthly	End of month + 6 weeks
	Balance sheet of the BSL	Monthly	End of month + 6 weeks
	Consolidated balance sheets of commercial banks	Monthly	End of month + 6 weeks
	BSL monitoring sheet of net financing of the financial sector to the government	Daily	COB + 2 days
	BSL monitoring sheet of treasury bills and bonds holdings	Weekly	COB + 1 day
	Borrowing and lending interest rates	Monthly	End of month + 6 weeks
	Results of foreign exchange and Treasury Bills auctions	Weekly	End of week + 1 days
	Stocks of government securities	Monthly	End of month
	Banking supervision ratios	Quarterly	End of quarter + 4 weeks

Type of Data	Tables	Frequency	Reporting Deadline
Monetary and financial data	Gross official foreign reserves	Weekly	End of week + 1 week
	Foreign exchange cash flow table	Monthly	End of month + 3 weeks
	Revised balance of payments data	Monthly	When revisions occur
	Exports and imports of goods (including the volume of key minerals and fuels)	Monthly	End of month + 3 months
External debt	Outstanding external arrears and repayments (if applicable)	Monthly	End of month + 4 weeks
	Details of all new external borrowing and guarantees provided by government on new borrowing, including the associated concessionality calculation (percentage) for each new loan.	Monthly	End of month + 4 weeks
	External debt service payments (separately on principal and interest payment) to each creditor, including and excluding new disbursements in the debt recording system. Also, including and excluding HIPC relief.	Monthly	End of month + 4 weeks
	Report on the stock of debt outstanding, and loan agreements under discussion	Quarterly	End of month + 3 months
HIPC initiative and MDRI monitoring	Statement of special account at the BSL, that receives resources generated by the HIPC Initiative and tracks their use	Monthly	End of month + 4 weeks
	Statement of special MDRI account at the BSL and the corresponding poverty reducing spending financed	Monthly	End of month + 4 weeks
	Minutes of the meeting of the Monetary Policy Committee	Monthly	Date of meeting + 2 weeks

INTERNATIONAL MONETARY FUND

SIERRA LEONE

REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS[1]

November 15, 2018

Approved By
Dominique Desruelle and Kevin Fletcher (IMF) and Paloma Anos-Casero (IDA)

Prepared by
International Monetary Fund
International Development Association

Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	No

Sierra Leone's risk of external debt distress and overall risk of debt distress are assessed as "high", which is a deterioration of the risk rating of the last June 2017 DSA. Under the baseline scenario, one PPG external debt indicator breaches the threshold. The PV of public debt in the baseline scenario is projected to be above the benchmark throughout the period of the IMF-supported program. The economy also continues to remain vulnerable to adverse shocks to exports and growth. Nonetheless, Sierra Leone's debt is assessed to be sustainable under the program's policy settings, which aim to put debt-to-GDP ratios back on a downward path. Reducing Sierra Leone's debt requires budget deficit reduction, sound public financial management, infrastructure project prioritization, and stepped-up efforts to improve revenue mobilization. External borrowing should continue to be anchored by the objective of limiting the risk of debt distress.

[1]This DSA was prepared under the joint IMF-World Bank Debt Sustainability Framework for Low-income Countries. Sierra Leone remains at a medium debt carrying capacity based on the October 2018 WEO and 2017 CPIA. The Composite Indicator (CI) score is 2.72, indicates a medium debt-carrying capacity. The corresponding external debt indicative thresholds are: 40 percent for the present value (PV) of debt-to-GDP ratio; 180 percent for the PV of debt-to-exports ratio; 15 percent for the debt service-to-exports ratio; and 18 percent for the debt service-to-revenue ratio.

RECENT DEBT DEVELOPMENTS

1. The DSA covers known sources of public debt. External debt of SOEs (for example, loans contracted by the Sierra Leone Cable Co and the Electricity Co) are included in the external debt stock.[2] Non-debt obligations, such as arrears, are also included to the extent possible. The stock of budget arrears was preliminarily estimated at 4.7 percent of GDP. The government's arrears clearance strategy is being finalized based on the findings of the comprehensive audit of arrears claims currently underway. Pending the government strategy, in the baseline scenario it is assumed that the authorities will issue short-term T-bills to pay down arrears.[3] Given the relatively small size of domestic debt, the public debt indicators are driven mainly by the external debt component (70 percent of the public debt).

Subsectors of the public sector	Subsectors covered
1. Central government	X
2. State and local government	
3. Other elements in the general government	
4. o/w: Social security fund	X
5. o/w: Extra budgetary funds (EBFs)	
6. Guarantees (to other entities in the public and private sector, including SOEs)	X
7. Central bank (borrowed on behalf of the government)	X
8. Non-guaranteed SOE debt	

[2]Sierra Leone's non-financial SOE sector is smaller than that of region peers, and key financial ratios of the sector appear to be at comparable levels.

[3]It is assumed that every year the authorities will issue new short-term T-bills to replace the old ones.

1. The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt		
	Default	**Used for the Analysis**	**Reasons for deviations from the default setting**
2. Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3. SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	7.0	Reflect the authorities' estimate of total external indebtedness of SOEs.
4. PPP	35 percent of PPP stock	0.0	
5. Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
Total (2+3+4+5) (in percent of GDP)		12.0	

1/ The default shock of 2 percent of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1). If it is already included I the government debt (1) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

2. **Total public and publicly guaranteed (PPG) external debt stood at 41.2 percent of GDP in 2017**. It is projected to increase to around 46 percent of GDP in 2018. External debt was predominantly owed to multilateral creditors (about 75 percent), mainly due to debt contracted for post-Ebola recovery and infrastructure construction needs. Debt to commercial creditors is estimated at US$195 million (13 percent of total external debt) in 2017.[4] Domestic public debt increased to 16.4 percent of GDP in 2017 from 14.4 percent in the previous year.

Text Table 1. Sierra Leone: Public Debt
(Percent of GDP)

	End-2016	End-2017
External debt	41.1	41.2
Official Creditors	35.0	35.9
Bilateral	5.3	4.9
Multilateral	29.7	31.0
Private Creditors	6.1	5.3
Suppliers	6.1	5.3
Domestic debt	14.4	16.4
Total	55.5	57.6

Source: Sierra Leone authorities.

[4]All arrears remain to be pre-HIPC arrears to commercial creditors.

KEY ASSUMPTIONS UNDER THE BASELINE SCENARIO

3. **The macroeconomic assumptions reflect developments through October 2018**. The key assumptions are:

- Growth weakened in 2017–18 to 3¾ percent, largely reflecting weaker performance in the iron ore sector culminating in the shuttering of the main loss-making iron ore mine early this year. Over the medium term, growth is expected to average above 5 percent, driven primarily by non-mining sectors and supported by increased government spending on capital projects and its effort on economic diversification. The projection is based on historical development in the non-mining sector and is less optimistic than the previous DSA.

- Inflation is projected to fall slowly, averaging around 10½ percent over the medium term. Over the long term, inflation is expected to fall to single digits under a strengthened monetary policy framework and improved fiscal situation.

- A fiscal deficit of 6.8 percent of non-mining GDP is expected in 2018, compared with a deficit of 8.7 percent in 2017. The medium-term fiscal stance envisages gradual tightening of the structural fiscal deficit, as measured by the domestic primary balance. Underlying this path would be two anchors—stabilizing and reducing public debt, and keeping domestic financing at sustainable levels.

- The current account deficit is expected to widen to an estimated 14 percent in 2018 and decline over the medium term averaging around 10½ percent, mainly reflecting projected increase in mineral and agricultural exports.

Text Table 2. Sierra Leone: Key Macroeconomic Assumptions Underlying the DSA
(Percent of GDP, unless otherwise specified)

	Baseline		Baseline in 2017 DSA	
	2018-2023	2024-2038	2016-2021	2022-2036
Real GDP growth (in percent)	5.0	5.0	6.5	6.1
Inflation (GDP deflator; percent change)	10.7	5.3	8.4	5.4
Overall fiscal balance	-5.0	-1.2	-5.6	-2.3
Current account deficit	-10.7	-3.3	-19.0	-11.0
Net FDI inflow	7.4	1.3	14.7	8.1

Source: IMF staff calculations.

4. **Domestic Financing**. Given the small size of the banking sector, keeping the domestic financing of the budget consistent with the program's inflation targets would require that it be gradually reduced from about 4 percent of GDP in 2018 to around 2.2 percent by the end of the program. Domestic debt is projected to decline from about 25 percent of GDP in 2018 to a low level in the long run, consistent with the long-run fiscal deficit target.

5. External Financing. External financing is expected to temporarily fall in 2019 but rebound to around 2½ percent of GDP in the medium term. Grants are expected to gradually decline from 3.1 percent of GDP in 2018 to 1.7 percent of non-iron ore GDP by 2022. External debt is projected to slightly increase from 46 percent of GDP in 2018 to 47½ percent in 2019 and stabilize around 30 percent in the long run.

6. The "realism tool" indicates differences between past and projected debt creating flows and high unexpected changes in public debt over the past 5 years. The changes in public debt dynamics reflect three major revisions incorporating the latest information. First, recently revised data show much weaker imports in 2016 and 2017 than previously estimated and hence a lower current account deficit. Second, growth has been weaker than hoped for in the original program because of anemic performance in the mining sector. Third, the stock of budget arrears (currently estimated at 4.7 percent of GDP) has been included in the current DSA.

7. The "realism tool" flags potential optimism in the projected fiscal adjustment, and between fiscal adjustment and growth. The projected adjustment path is based on reforms efforts taken by the new government in recent months. These include corrective actions to shore up public finances, such as eliminating subsidies on retail fuel, moving toward more fully operationalizing the Treasury Single Account, collecting dividends from profitable SOEs, and reviewing and streamlining duty and tax waivers.[5] Indeed, while the projected fiscal adjustment in this DSA is consistent with the program targets that are designed to be achievable under the program's revenue scenario, the government aims to achieve even more ambitious deficit reduction. Nonetheless, this optimism highlights the critical importance of strong implementation of growth- and revenue-enhancing reforms going forward.[6]

COUNTRY CLASSIFICATION: DEBT CARRYING CAPACITY

8. Sierra Leone is classified to have a medium debt-carrying capacity based on the latest Composite Indicator (CI) score. The CI score captures the impact of several factors through a weighted average of the World Bank's Country Policy and Institutional Assessment (CPIA) score, the country's real GDP growth, remittances, international reserves, and world growth. Sierra Leone's CI score is 2.72 in the current Debt Sustainability Framework, based on the IMF's October 2018 World Economic Outlook (WEO) vintage. The CI score indicates a medium debt-carrying capacity, which is the same classification as in the June 2017 DSA.

[5] As the fiscal adjustment is driven mostly by revenue measures that are estimated to have moderate multipliers, the impact on growth is expected to be limited, which could be offset by a more solid macro-fiscal policy framework, including more efficient public expenditure and debt management, and policy and regulatory efforts to deepen the financial sector and remove growth-inhibiting distortions.

[6] In the investment-growth realism tool, main driver of economic growth includes, productivity gains in agricultural sector and pickup in the mining sector, in addition to government capital accumulation.

Text Table 3. Applicable Thresholds

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.249	1.25	46%
Real growth rate (in percent)	2.719	4.650	0.13	5%
Import coverage of reserves (in percent)	4.052	28.698	1.16	43%
Import coverage of reserves^2 (in percent)	-3.990	8.236	-0.33	-12%
Remittances (in percent)	2.022	1.102	0.02	1%
World economic growth (in percent)	13.520	3.583	0.48	18%
CI Score			2.72	100%
CI rating			Medium	

Text Table 4. CI Cutoffs for Country Classification

CI Score	Country classification
CI < 2.69	Weak
2.69 ≤ CI ≤ 3.05	Medium
CI > 3.05	Strong

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY ANALYSIS

9. External Debt Sustainability Analysis. Under the baseline scenario, the debt service-to-revenue ratio breaches the threshold for two years (2022-23) because of the amortization schedule of currently contracted loans. The other external PPG debt indicators remain below the policy relevant thresholds. Sensitivity analysis show that external debt remains sensitive to both export and growth shocks. Unsurprisingly, a large export shock leads to significant increases in the PV of debt-to-GDP, debt to exports, and debt service to exports, while a large growth shock leads to a significant increase in the PV of debt services to revenue (Figure 1).[7]

10. Overall risk of public debt distress. The PV of public debt is above the threshold of 55 percent of GDP in the baseline scenario and is expected to gradually fall to the threshold by 2022. Sensitivity analysis reveals that public debt sustainability remains vulnerable to shocks,

[7]Sierra Leone qualifies for a commodity price tailored stress test. Such a test has been conducted by setting a negative commodity price shock of around 10 percent (based on its structure of commodity exports), with negative impacts on growth and revenue assumed last for 3 years starting from 2019. The result showed that debt service-to-revenue ratio remained the most vulnerate indicator to such a shock.

particularly to growth. In the most extreme shock scenario, the PV of debt to GDP ratio will reach over 90 percent of GDP in the medium term, while the PV of the debt to revenue ratio will rise to above 500 percent of GDP and the debt-service-to-revenue ratio to 180 percent of GDP in the medium term (Figure 2).[8]

STAFF ASSESSMENT

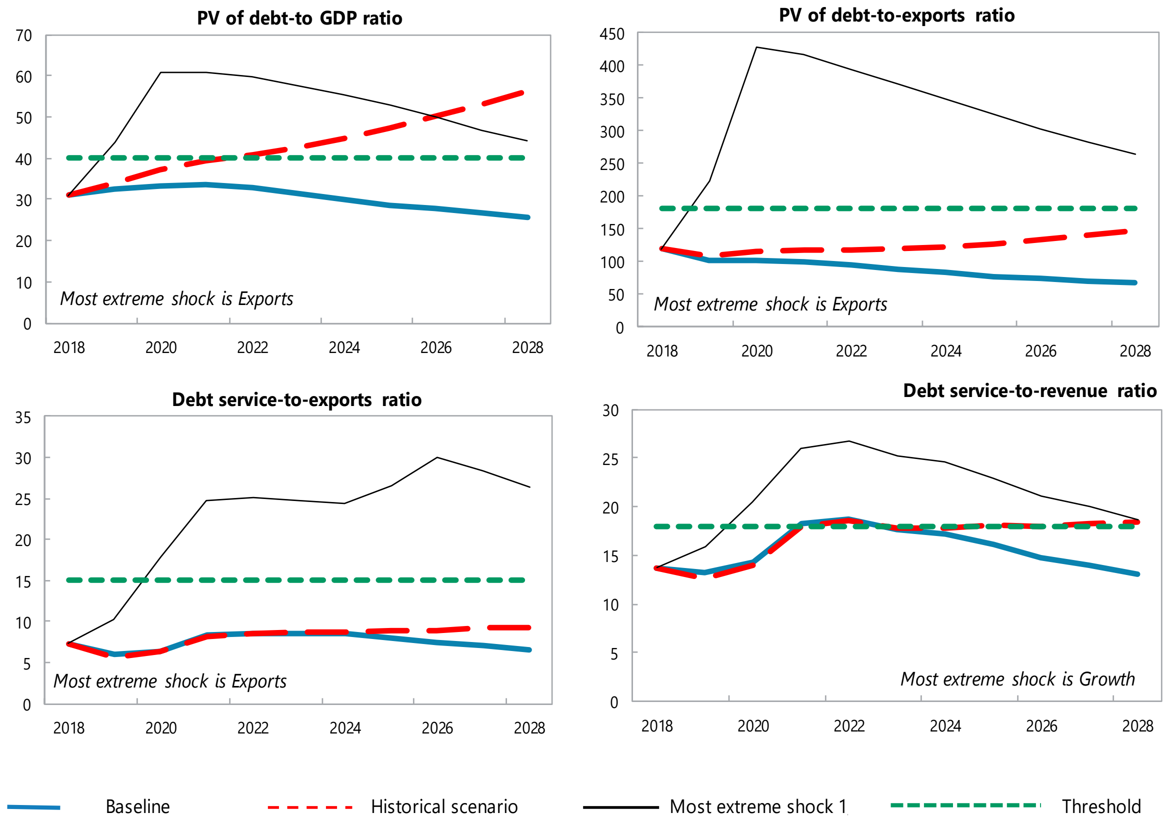
11. Sierra Leone is assessed to face a "high risk" of debt distress for both external public debt and overall public debt. The designated risk of external debt distress has changed to "high" in the current DSA from a "moderate" risk in the June 2017 DSA. This is largely due to a deterioration of the debt service to revenue ratio (partly owing to a weaker than expected revenue performance) and a tightening of the debt service thresholds under the revised DSF. Under the baseline scenario, all but one indicator for public and publicly guaranteed (PPG) external debt remain below their thresholds. The PV of total public debt is projected to fall but will be above the benchmark by the end of the IMF-supported program. Public debt and external debt have nonetheless been assessed as sustainable since debt is projected to decline gradually under the program's policy settings. The analysis confirms that public debt sustainability faces important risks and is vulnerable to shocks, particularly growth and exports shocks. Reducing Sierra Leone's debt burden (bringing its risk of debt distress designation to "moderate") requires budget deficit reduction, sound public financial management, infrastructure project prioritization, and revenue mobilization. Both domestic and external borrowing should continue to be anchored by the objective of limiting the risk of debt distress.

Authorities' Views

12. The authorities broadly agreed with the staff assessment. The new government is committed to maintaining debt sustainability and preventing the reemergence of new arrears. They recognize the need to maintain prudent borrowing policy and continue improving debt management capacity. They intend to carefully monitor the build-up in domestic debt to ensure it is within sustainable and affordable limits and emphasize special attention on the clearance of verified arrears owed to suppliers and contractors. They plan to use their cautiously limited external borrowing space, explore donor and concessional financing to support only higher-priority development projects, and avoid contracting debt that worsens the country's risk of debt distress.

[8]The large residual in 2018 is due to an addition of the stock of budgetary arrears, currency depreciation, and new domestic borrowing.

Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2018–28



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices 2/	No	No
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.6%	1.6%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	5	5

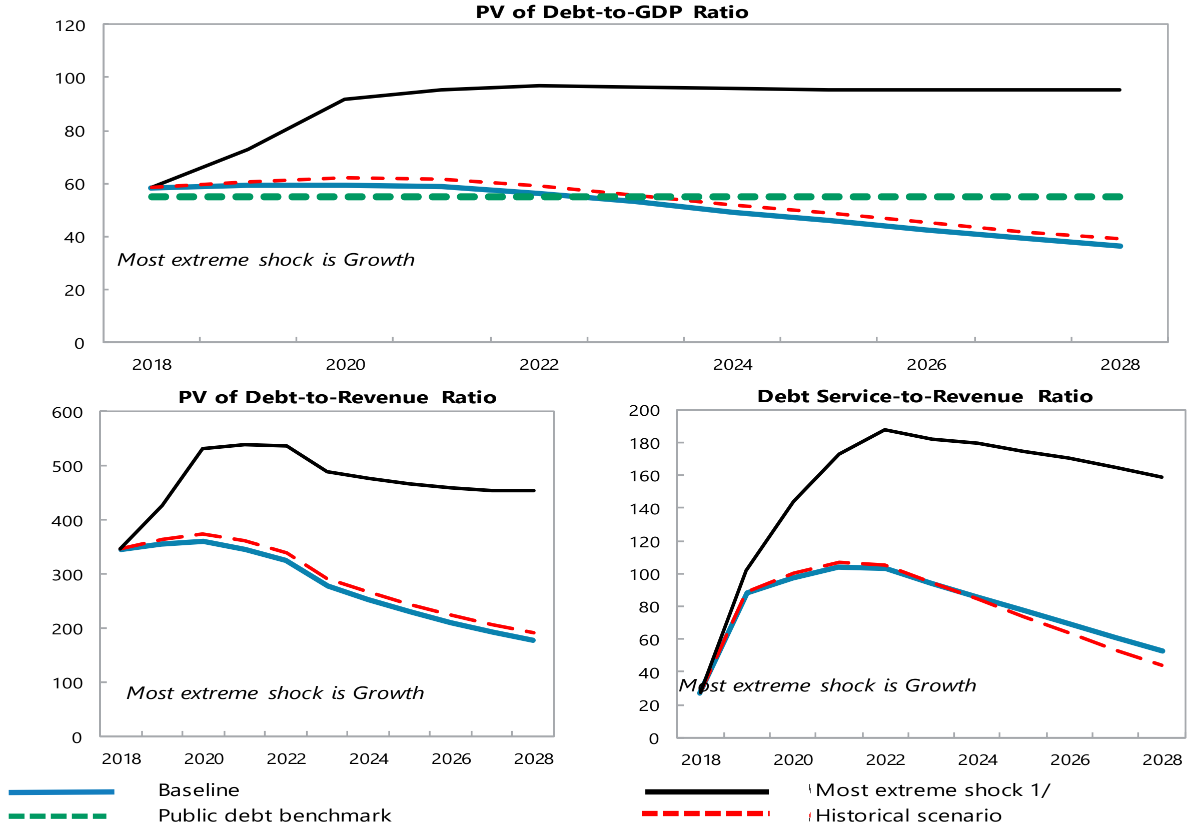
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Sierra Leone: Indicators of Public Debt Under Alternative Scenarios, 2018–28



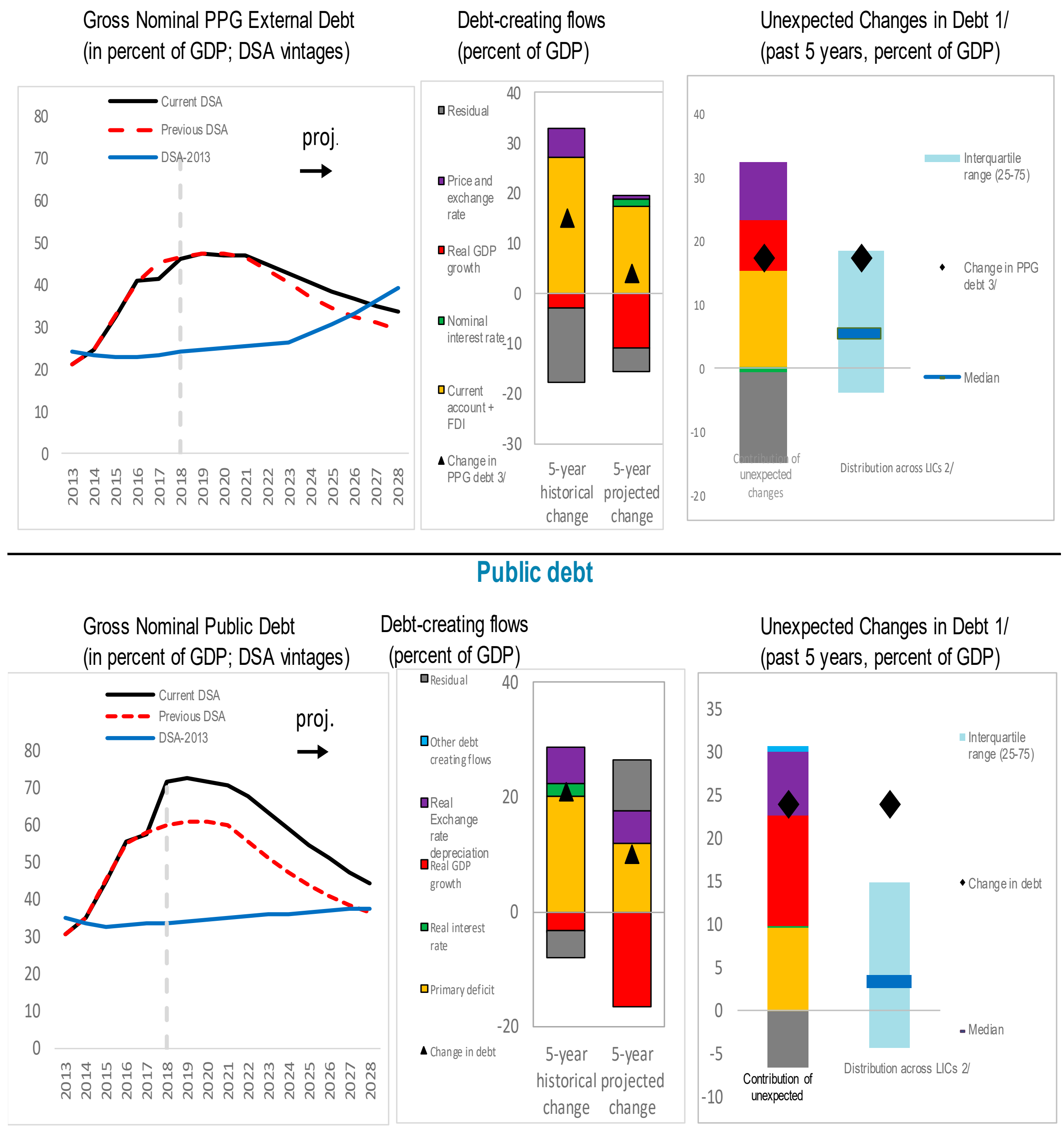
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	25%	25%
Domestic medium and long-term	0%	0%
Domestic short-term	75%	75%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.6%	1.6%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-2%	-2%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Sierra Leone: Drivers of Debt Dynamics, Baseline Scenario, 2013–28



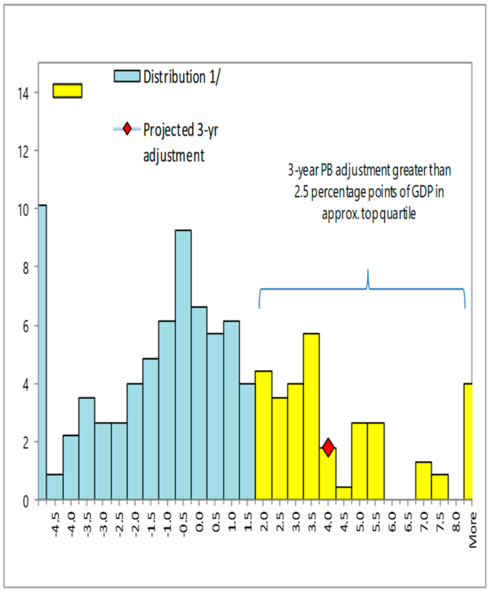
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

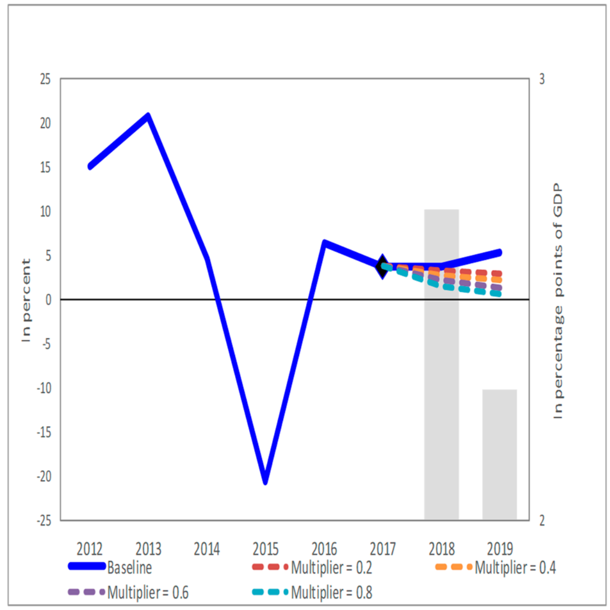
Figure 4. Sierra Leone: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



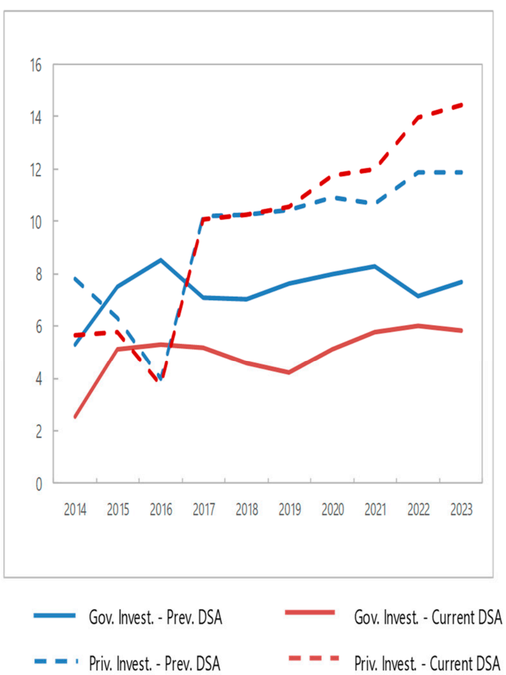
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

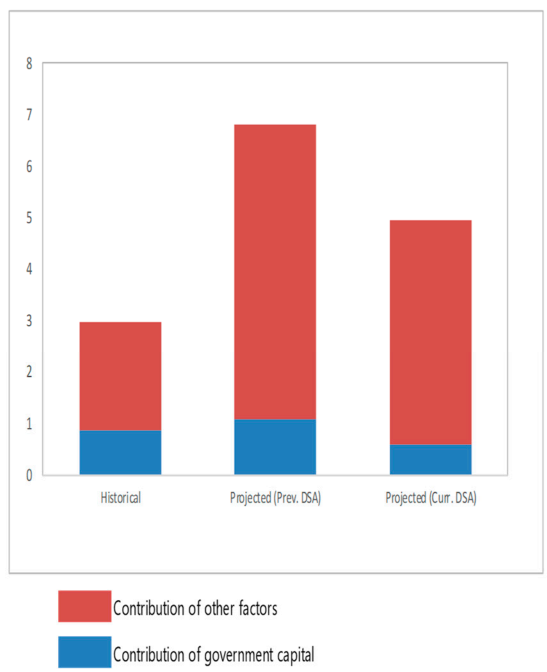
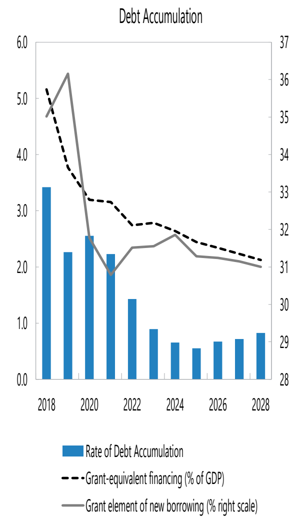


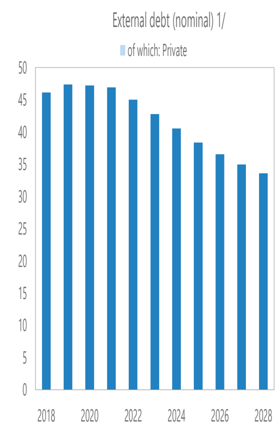
Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2015–38

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
External debt (nominal) 1/	32.3	41.1	41.2	46.1	47.4	47.2	46.9	45.0	42.8	33.6	26.6	30.9	41.8
of which: public and publicly guaranteed (PPG)	32.3	41.1	41.2	46.1	47.4	47.2	46.9	45.0	42.8	33.6	26.6	30.9	41.8
Change in external debt	7.7	8.8	0.1	4.9	1.2	-0.2	-0.3	-1.9	-2.2	-1.4	-1.2		
Identified net debt-creating flows	13.8	3.2	7.4	4.9	0.1	0.6	0.8	0.2	0.2	-2.3	-4.4	5.3	-0.1
Non-interest current account deficit	15.5	3.5	10.9	13.7	12.2	10.6	9.5	8.6	7.9	3.7	-3.1	16.7	8.0
Deficit in balance of goods and services	26.0	12.1	19.5	18.5	15.9	15.1	14.7	13.6	11.4	6.4	-5.2	22.7	11.8
Exports	17.8	24.7	26.1	26.0	31.8	32.5	33.6	34.8	35.7	38.4	41.6		
Imports	43.8	36.8	45.6	44.5	47.7	47.6	48.2	48.4	47.1	44.8	36.4		
Net current transfers (negative = inflow)	-13.1	-11.2	-10.9	-6.3	-5.6	-5.4	-5.2	-5.0	-4.9	-4.3	-3.4	-9.7	-5.0
of which: official	-10.1	-8.2	-8.1	-3.6	-2.9	-2.7	-2.6	-2.3	-2.3	-2.0	-1.3		
Other current account flows (negative = net inflow)	2.6	2.6	2.2	1.5	1.9	0.9	0.1	-0.1	1.4	1.6	5.5	3.8	1.2
Net FDI (negative = inflow)	-6.2	-4.2	-3.9	-7.6	-9.9	-7.9	-6.8	-6.4	-6.0	-4.9	-0.5	-10.1	-6.5
Endogenous debt dynamics 2/	4.4	4.0	0.4	-1.2	-2.1	-2.1	-2.0	-1.9	-1.7	-1.1	-0.8		
Contribution from nominal interest rate	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.5		
Contribution from real GDP growth	5.9	-2.3	-1.6	-1.5	-2.5	-2.4	-2.3	-2.3	-2.1	-1.6	-1.3		
Contribution from price and exchange rate changes	-1.6	6.3	2.0	...	...	...	...	...	...	...	...		
Residual 3/	-6.0	5.6	-7.3	0.1	1.1	-0.8	-1.0	-2.2	-2.4	1.0	3.2	-3.6	-0.6
of which: exceptional financing	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	28.7	30.9	32.4	33.1	33.5	32.8	31.5	25.6	21.2		
PV of PPG external debt-to-exports ratio	...	...	109.8	118.8	101.9	101.8	99.9	94.4	88.3	66.7	51.1		
PPG debt service-to-exports ratio	0.0	0.0	0.0	7.3	6.0	6.5	8.3	8.5	8.6	6.6	4.4		
PPG debt service-to-revenue ratio	0.0	0.0	0.0	13.7	13.2	14.3	18.2	18.7	17.6	13.1	10.0		
Gross external financing need (Million of U.S. dollars)	398.9	-28.1	260.3	309.8	164.1	201.1	243.7	240.7	252.8	93.0	-243.8		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-20.5	6.4	3.8	3.7	5.4	5.4	5.1	5.1	5.1	5.0	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	6.8	-16.3	-4.6	0.2	-3.1	0.3	0.3	1.2	1.8	2.0	1.9	1.5	0.8
Effective interest rate (percent) 4/	0.0	0.0	0.0	0.7	0.7	0.7	0.8	0.9	1.0	1.5	1.8	0.3	1.0
Growth of exports of G&S (US dollar terms, in percent)	-49.9	23.7	4.4	3.5	25.2	7.9	8.9	10.2	9.9	7.8	7.1	19.1	9.7
Growth of imports of G&S (US dollar terms, in percent)	-35.2	-25.1	22.6	1.4	9.7	5.3	6.8	6.8	4.2	5.8	1.4	20.1	5.7
Grant element of new public sector borrowing (in percent)	...	...	...	35.0	36.2	31.8	30.8	31.5	31.6	31.0	30.1	...	32.1
Government revenues (excluding grants, in percent of GDP)	10.8	11.9	12.1	13.8	14.4	14.7	15.3	15.9	17.3	19.3	18.4	7.8	16.8
Aid flows (in Million of US dollars) 5/	229.4	113.2	92.7	220.5	155.8	109.4	107.8	108.6	126.9	129.6	111.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	5.2	3.8	3.2	3.2	2.7	2.8	2.1	1.1	...	3.0
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	57.6	59.1	51.7	48.7	50.0	54.2	50.8	36.3	...	53.2
Nominal GDP (Million of US dollars)	4,252	3,786	3,748	3,897	3,982	4,208	4,436	4,720	5,051	6,996	13,963		
Nominal dollar GDP growth	-15.1	-11.0	-1.0	4.0	2.2	5.7	5.4	6.4	7.0	7.0	7.0	6.7	5.8
Memorandum items:													
PV of external debt 7/	...	...	28.7	30.9	32.4	33.1	33.5	32.8	31.5	25.6	21.2		
In percent of exports	...	...	109.8	118.8	101.9	101.8	99.9	94.4	88.3	66.7	51.1		
Total external debt service-to-exports ratio	0.0	0.0	0.0	7.3	6.0	6.5	8.3	8.5	8.6	6.6	4.4		
PV of PPG external debt (in Million of US dollars)			1074.3	1202.4	1290.5	1392.2	1486.0	1549.4	1591.6	1790.8	2964.5		
(PVt-PVt-1)/GDPt-1 (in percent)				3.4	2.3	2.6	2.2	1.4	0.9	0.8	1.2		
Non-interest current account deficit that stabilizes debt ratio	7.8	-5.3	10.8	8.8	10.9	10.8	9.8	10.5	10.1	5.0	-1.9		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

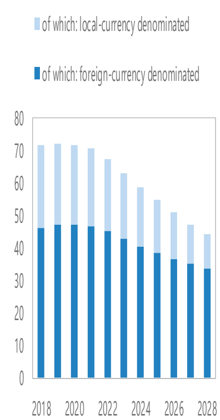
Table 2. Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015–38

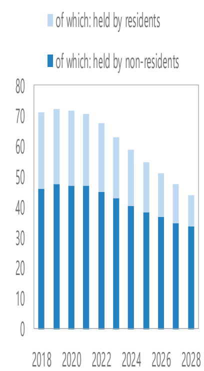
(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
Public sector debt 1/	44.9	55.5	57.6	71.5	72.4	71.7	70.5	67.5	63.3	44.0	28.0	44.2	61.2
of which: external debt	32.3	41.1	41.2	46.1	47.4	47.2	46.9	45.0	42.8	33.6	26.6	30.9	41.8
Change in public sector debt	10.0	10.5	2.1	13.9	0.9	-0.7	-1.2	-3.0	-4.2	-3.3	-1.3		
Identified debt-creating flows	10.2	11.0	5.0	5.0	0.1	-1.1	-1.0	-2.0	-2.6	-2.7	-2.6	1.0	-1.4
Primary deficit	3.7	7.0	6.5	3.8	1.5	2.3	2.4	2.0	1.0	-0.5	-0.5	2.6	1.1
Revenue and grants	16.2	14.9	14.6	16.9	16.7	16.5	17.0	17.4	19.0	20.5	18.6	10.5	18.6
of which: grants	5.4	3.0	2.5	3.1	2.3	1.8	1.7	1.5	1.7	1.2	0.3		
Primary (noninterest) expenditure	19.9	21.9	21.0	20.6	18.2	18.8	19.4	19.4	20.0	20.0	18.1	13.1	19.7
Automatic debt dynamics	6.5	4.0	-1.5	1.3	-1.4	-3.4	-3.4	-4.0	-3.6	-2.1	-2.1		
Contribution from interest rate/growth differential	7.7	-2.7	-0.4	-1.6	-3.6	-3.8	-3.8	-3.9	-3.6	-2.2	-0.8		
of which: contribution from average real interest rate	-1.3	0.0	1.6	0.5	0.1	-0.1	-0.3	-0.4	-0.3	0.1	0.6		
of which: contribution from real GDP growth	9.0	-2.7	-2.0	-2.1	-3.7	-3.7	-3.5	-3.4	-3.3	-2.3	-1.4		
Contribution from real exchange rate depreciation	-1.2	6.7	-1.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-0.3	-0.5	-2.9	11.7	3.0	0.8	0.2	-1.2	-1.6	-0.6	0.0	0.6	0.7
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	45.7	58.5	59.5	59.4	58.7	56.4	53.0	36.4	22.4		
PV of public debt-to-revenue and grants ratio	...	...	313.7	346.6	356.5	360.2	346.0	324.8	278.4	177.4	120.0		
Debt service-to-revenue and grants ratio 3/	3.9	3.9	13.3	27.2	88.4	97.4	103.7	103.3	94.3	52.4	10.8		
Gross financing need 4/	4.4	7.6	8.4	8.4	16.2	18.3	20.0	19.9	18.9	10.2	1.5		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-20.5	6.4	3.8	3.7	5.4	5.4	5.1	5.1	5.1	5.0	5.0	5.0	5.0
Average nominal interest rate on external debt (in percent)	0.0	0.0	0.0	0.7	0.8	0.8	0.8	0.9	1.0	1.5	1.8	0.3	1.0
Average real interest rate on domestic debt (in percent)	-11.6	-0.6	5.3	7.3	4.1	2.0	1.0	0.6	0.7	2.2	6.4	0.4	2.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-3.8	22.1	-2.6	...	...	...	...	...	...	...	...	1.3	...
Inflation rate (GDP deflator, in percent)	19.6	5.8	9.5	10.8	11.2	12.9	10.9	9.7	8.7	5.0	5.0	10.8	8.7
Growth of real primary spending (deflated by GDP deflator, in percent)	-5.2	16.8	-0.2	1.8	-7.3	9.0	8.4	5.2	8.5	5.0	-4.7	6.4	4.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-6.2	-3.5	4.4	-10.1	0.6	2.9	3.6	5.0	5.2	2.8	0.8	-1.8	2.3
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018–28

(Percent of GDP)

	Projections 1/										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of debt-to GDP ratio											
Baseline	30.9	32.4	33.1	33.5	32.8	31.5	30.1	28.7	27.7	26.6	25.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	30.9	34.1	37.1	39.3	**40.8**	**42.6**	**44.8**	**47.3**	**50.1**	**53.1**	**56.4**
B. Bound Tests											
B1. Real GDP growth	30.9	38.8	**47.3**	**47.9**	**46.9**	**45.1**	**43.0**	**41.0**	39.5	38.0	36.6
B2. Primary balance	30.9	33.0	34.6	35.7	35.4	34.3	33.0	31.7	30.7	29.5	28.4
B3. Exports	30.9	**43.7**	**60.7**	**60.9**	**59.6**	**57.6**	**55.4**	**52.7**	**49.9**	**46.9**	**44.0**
B4. Other flows 3/	30.9	**43.7**	**55.5**	**55.7**	**54.6**	**52.7**	**50.7**	**48.1**	**45.5**	**42.7**	**40.2**
B5. One-time 30 percent nominal depreciation	30.9	**41.4**	38.3	38.9	38.1	36.5	34.7	33.0	32.0	31.0	30.0
B6. Combination of B1-B5	30.9	**48.0**	**58.0**	**58.3**	**57.1**	**55.1**	**52.9**	**50.0**	**47.5**	**44.8**	**42.4**
C. Tailored Tests											
C1. Combined contingent liabilities	30.9	34.4	36.4	37.8	37.7	36.7	35.4	34.1	33.2	32.1	31.0
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	30.9	34.6	37.3	37.7	37.0	35.4	33.8	32.0	30.6	29.1	27.8
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	118.8	101.9	101.8	99.9	94.4	88.3	82.3	76.9	73.2	69.8	66.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	118.8	107.1	114.2	117.2	117.5	119.5	122.7	127.1	132.7	139.4	146.9
B. Bound Tests											
B1. Real GDP growth	118.8	101.9	101.8	99.9	94.4	88.3	82.3	76.9	73.2	69.8	66.7
B2. Primary balance	118.8	103.8	106.6	106.4	101.9	96.3	90.4	85.1	81.2	77.4	74.0
B3. Exports	118.8	**222.3**	**428.3**	**416.0**	**393.4**	**370.1**	**347.7**	**324.7**	**302.8**	**282.1**	**263.1**
B4. Other flows 3/	118.8	137.3	170.9	166.0	157.0	147.7	138.7	129.2	120.5	112.2	104.6
B5. One-time 30 percent nominal depreciation	118.8	101.9	92.3	90.7	85.8	80.1	74.5	69.5	66.5	63.7	61.2
B6. Combination of B1-B5	118.8	178.0	147.9	**210.4**	**198.9**	**186.9**	175.3	162.6	152.3	142.6	133.7
C. Tailored Tests											
C1. Combined contingent liabilities	118.8	108.1	112.2	112.6	108.4	102.8	96.9	91.6	87.8	84.2	80.8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	118.8	119.9	124.2	119.5	111.0	102.2	93.7	87.1	82.1	77.4	73.3
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	7.3	6.0	6.5	8.3	8.5	8.6	8.5	8.0	7.4	7.0	6.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	7.3	5.7	6.3	8.2	8.5	8.7	8.8	9.0	9.0	9.2	9.3
B. Bound Tests											
B1. Real GDP growth	7.3	6.0	6.5	8.3	8.5	8.6	8.5	8.0	7.4	7.0	6.6
B2. Primary balance	7.3	6.0	6.5	8.4	8.7	8.7	8.6	8.2	7.8	7.5	7.1
B3. Exports	7.3	10.2	**17.9**	**24.7**	**25.0**	**24.8**	**24.3**	**26.5**	**29.9**	**28.3**	**26.4**
B4. Other flows 3/	7.3	6.0	7.3	9.8	9.9	9.9	9.7	10.9	11.9	11.3	10.5
B5. One-time 30 percent nominal depreciation	7.3	6.0	6.5	8.1	8.3	8.4	8.3	7.8	6.7	6.5	6.0
B6. Combination of B1-B5	7.3	7.8	10.6	13.6	13.8	13.8	13.5	**15.3**	**15.2**	14.4	13.4
C. Tailored Tests											
C1. Combined contingent liabilities	7.3	6.0	6.6	8.5	8.8	8.9	8.8	8.3	7.7	7.3	6.9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	7.3	6.6	7.2	9.2	9.3	9.2	8.9	8.8	8.4	8.0	7.4
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	13.7	13.2	14.3	**18.2**	**18.7**	17.6	17.2	16.1	14.8	14.0	13.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	13.7	12.7	14.0	17.9	**18.6**	17.9	17.9	**18.1**	18.0	**18.3**	**18.4**
B. Bound Tests											
B1. Real GDP growth	13.7	15.8	**20.4**	**26.0**	**26.7**	**25.2**	**24.6**	**23.0**	**21.2**	**20.1**	**18.7**
B2. Primary balance	13.7	13.2	14.4	**18.4**	**19.0**	18.0	17.6	16.6	15.6	15.0	14.1
B3. Exports	13.7	14.0	17.2	**23.6**	**23.9**	**22.3**	**21.6**	**23.3**	**26.2**	**24.6**	**22.9**
B4. Other flows 3/	13.7	13.2	16.0	**21.5**	**21.7**	**20.3**	**19.7**	**22.0**	**23.9**	**22.4**	**20.9**
B5. One-time 30 percent nominal depreciation	13.7	16.9	**18.2**	**22.6**	**23.3**	**22.0**	**21.6**	**20.1**	17.2	16.4	15.3
B6. Combination of B1-B5	13.7	14.6	**19.3**	**24.6**	**25.0**	**23.4**	**22.7**	**25.6**	**25.1**	**23.6**	**22.0**
C. Tailored Tests											
C1. Combined contingent liabilities	13.7	13.2	14.6	**18.7**	**19.3**	**18.2**	17.8	16.7	15.4	14.6	13.6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	13.7	14.1	15.7	**20.2**	**20.4**	**18.9**	**18.2**	17.4	16.6	15.7	14.5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Sierra Leone: Sensitivity Analysis for Key Indicators of Public Debt, 2018–28

	Projections 1/										
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
PV of Debt-to-GDP Ratio											
Baseline	**58.5**	**59.5**	**59.4**	**58.7**	**56.4**	53.0	49.3	45.8	42.5	39.4	36.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	**58**	**61**	**62**	**62**	**59**	**56**	52	49	45	42	39
B. Bound Tests											
B1. Real GDP growth	**58**	**73**	**92**	**95**	**97**	**97**	**96**	**96**	**95**	**95**	**95**
B2. Primary balance	**58**	**63**	**65**	**64**	**61**	**57**	53	50	46	43	40
B3. Exports	**58**	**69**	**83**	**82**	**79**	**74**	**70**	**66**	**61**	**56**	51
B4. Other flows 3/	**58**	**71**	**83**	**82**	**79**	**75**	**71**	**66**	**61**	**56**	51
B5. One-time 30 percent nominal depreciation	**58**	**62**	**61**	**59**	**56**	51	47	43	39	35	31
B6. Combination of B1-B5	**58**	**63**	**65**	**64**	**62**	**59**	**56**	53	49	46	43
C. Tailored Tests											
C1. Combined contingent liabilities	**58**	**70**	**69**	**67**	**64**	**60**	**56**	52	49	46	42
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**58**	**63**	**72**	**79**	**84**	**86**	**87**	**88**	**89**	**90**	**90**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	346.6	356.5	360.2	346.0	324.8	278.4	252.5	229.7	210.2	192.8	177.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	347	363	375	362	339	292	267	245	225	207	193
B. Bound Tests											
B1. Real GDP growth	347	427	531	540	538	490	476	465	459	455	453
B2. Primary balance	347	377	395	377	352	301	273	249	228	210	194
B3. Exports	347	414	501	481	452	391	360	329	299	272	249
B4. Other flows 3/	347	429	504	483	454	393	361	330	300	273	249
B5. One-time 30 percent nominal depreciation	347	376	370	350	322	272	241	215	192	170	152
B6. Combination of B1-B5	347	376	392	374	356	310	285	262	243	225	210
C. Tailored Tests											
C1. Combined contingent liabilities	347	422	419	397	371	318	288	263	242	223	206
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	347	399	458	489	498	460	450	440	437	437	438
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	27.2	88.4	97.4	103.7	103.3	94.3	85.9	77.1	69.0	60.9	52.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	27	89	100	107	105	95	85	74	64	54	44
B. Bound Tests											
B1. Real GDP growth	27	102	144	173	188	182	180	175	170	165	159
B2. Primary balance	27	88	114	127	120	105	94	83	74	65	56
B3. Exports	27	88	99	107	106	97	88	82	77	69	60
B4. Other flows 3/	27	88	99	107	106	97	88	83	77	69	60
B5. One-time 30 percent nominal depreciation	27	84	94	98	100	91	84	75	67	59	51
B6. Combination of B1-B5	27	90	104	110	114	107	101	93	86	78	70
C. Tailored Tests											
C1. Combined contingent liabilities	27	88	149	139	128	111	98	86	76	66	57
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	27	94	113	154	178	176	175	170	165	161	156
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by the Staff Representative on Sierra Leone
November 30, 2018

This statement provides information that has become available since the Staff Report for the requested ECF arrangement was sent to the Executive Board. This information does not alter the thrust of the staff appraisal.

1. The prior actions have been completed and verified.

- The 2019 budget submitted to parliament November 2 is consistent with meeting or exceeding program goals—it aims for higher revenue, lower expenditure, and a lower domestic borrowing than the program's targets.

- The BSL Act and Banking Bill that were submitted to parliament October 31 represent steps toward strengthening the financial legal framework. The authorities have since proposed a number of revised submissions to further improve this legislation. On this basis, the prior action has been met.

- The BSL Board and Audit Committee were reconstituted on October 31.

- An international firm was appointed November 23 to conduct a forensic audit of the foreign exchange transactions between the BSL and quasi government agencies (MDAs).

2. Budget execution has been in line with program projections. Data for October show revenue collection continues at a pace consistent with the program targets. The stock of unpaid checks (arrears) fell slightly in October.

Statement of Mr. Dumisani Hebert Mahlinza, Executive Director for Sierra Leone and Mr. Willie Nakunyada, Advisor to the Executive Director

November 30, 2018

Introduction

1. Our authorities appreciate the constructive dialogue with staff during the recent Extended Credit Facility program negotiations. They broadly concur with staff's appraisal and key policy recommendations.

2. The economy of Sierra Leone continues to recover from the macroeconomic repercussions of the Ebola Virus Disease (EVD) epidemic and the simultaneous downturn in commodity prices experienced between 2014 and 2015. This growth momentum has however, been constrained by weak mineral production that affected fiscal and export revenues, challenges associated with flooding, and other climate change effects which have weighed on economic performance. To address the underlying challenges and restore macroeconomic stability, the previous administration launched a reform agenda aimed at promoting private sector development to spur sustained and inclusive growth. The Extended Credit Facility Fund (ECF) arrangement approved in 2017, however, went off track due to fiscal slippages.

3. The new government, which came into power in April 2018, is seeking to relaunch a new program tailored to resolve prevailing economic challenges. The new ECF arrangement will support the authorities' efforts to realize the key objectives of the National Development Plan (NDP) including economic diversification, employment creation and improved social outcomes. This arrangement is expected to help entrench macroeconomic stability, improve fiscal and debt sustainability, and build reserve buffers. Further, the arrangement will unlock development finance to upgrade infrastructure and diversify growth sources. With all prior actions completed, our authorities look forward to Executive Directors' support for the approval of a new ECF arrangement.

Recent Economic Developments and Outlook

4. Economic growth is projected to marginally decelerate from 3.8 percent in 2017 to 3.7 percent in 2018, owing to the closure of the main iron ore mine towards the end of 2017. Real GDP growth is, however, expected to rebound to 5.4 percent in 2019 supported by the resumption of iron ore mining operations, improved diamond production, a pick-up in public investment projects, and increased activity in the construction and services sectors. In parallel, investment initiatives in agriculture aimed to establish irrigation facilities and mechanize operations, are expected to generate strong growth spillovers.

5. Despite the decline in inflation experienced early in 2018, the recent liberalization of retail fuel prices, coupled with the exchange rate pass through effects on food imports, generated renewed inflationary pressures. Consequently, inflation firmed up towards the high end of the 15–18 percent range over the recent past. Going forward, inflationary pressures are, however, expected to recede, benefitting from the tight monetary policy stance adopted by the Bank of Sierra Leone (BSL), improved food production, and the waning effects of recent fuel price increases. On the other hand, international reserves are projected to decline from 3.5 to 3.3 months of import cover between 2017 and 2018, reflecting attendant external imbalances.

Fiscal Consolidation and Public Financial Management Reforms

6. To restore fiscal and public debt sustainability, the authorities have intensified revenue mobilization efforts through several measures adopted since the new administration assumed power in April 2018. Specifically, under the Revenue Mobilization Strategy (RMS) adopted by the authorities, efforts directed to ensure sustained enforcement of tax compliance and streamlining procedures for granting tax waivers, are expected to facilitate the generation of additional fiscal resources. In parallel, the National Revenue Authority (NRA) is already implementing robust measures to broaden the tax base and strengthen the efficiency of tax administration through automation of its operations to effectively plug revenue leakages. As a result of these measures, revenue inflows have improved significantly over the past several months. Further, the NRA is planning to conduct field audits of large tax payers, while intensifying recovery of tax arrears. At the same time, the newly enacted 2018 Extractive Industry Revenue Act (EIRA) is expected to support revenue mobilization efforts through harmonization and consolidation of the extractive sector fiscal regime.

7. The recent approval of the 2018 Public Financial Management (PFM) regulations by Parliament provided a strong impetus for the implementation of the PFM reform strategy covering the period 2018-2021. Under this strategy, the authorities are planning to strengthen the budgetary process and execution through automation. In addition, implementation of the Treasury Single Account (TSA), which requires all agencies collecting and retaining extra-budgetary revenues to transfer such revenues into the Consolidated Revenue Fund (CRF) will facilitate consolidation of government resources and rationalize expenditure allocations. Further, the Accountant General has closed all ministries, departments, and agencies' (MDAs) accounts hosted by various commercial banks and transferred the balances to the CRF at the central bank. In addition, all state-owned enterprises (SOEs) are now subject to streamlined budgetary processes, with clear benchmarks and performance indicators.

8. To contain spending within the context of the fiscal adjustment framework, strict measures to manage recurrent and capital expenditure have been adopted. As articulated in the 2019 Budget, the authorities have resolved to rationalize expenditures by containing the public

service wage bill at 6 percent of GDP, freezing new hiring,[1] and curtailing spending on goods and services. Further, work is currently underway to clean-up the payroll and eliminate dual employment and ghost workers, following the successful completion of the EU-funded Biometric Data Collection exercise for civil servants. The authorities continue to make determined efforts to enforce adherence to the public procurement procedures and strengthen expenditure commitment control systems to avoid accumulation of additional domestic arrears. In addition, the authorities are committed to upgrade the Integrated Financial Management Information System (IFMIS) to enhance expenditure commitment controls. At the same time, they remain committed to preserve social spending while prioritizing strategic projects in energy, water, and infrastructure development that generate higher growth pay-offs.

9. The authorities' mix of revenue enhancing, and expenditure control measures is expected to reduce the budget deficit and eventually generate surpluses which will be deployed towards payment of domestic arrears and place the public debt firmly onto a downward trajectory. At the same time, Fund support is expected to catalyze additional financing from other development partners to support the scaling up of expenditure on education, infrastructure, and strengthening of social safety nets.

Debt Management

10. To moderate the risk of debt distress, the authorities remain committed to prudent debt management. Through the implementation of the Medium-Term Debt Management Strategy, the authorities will continue to prioritize concessional loans and grants to finance infrastructure development projects. They have cancelled or put on hold huge infrastructure projects with planned financing from debt contracted on non-concessional terms. Going forward, the authorities will prioritize donor support, concessional financing and non-debt creating financing models such as PPPs, with appropriate safeguards.

11. As part of the broad debt management framework, the authorities attach priority to institutional and legal reforms to guide the contracting of both domestic and foreign debt for the central government, local governments, and SOEs. In this respect, they will vigilantly monitor the evolution of domestic debt to ensure that it remains within sustainable and affordable limits. To lessen the burden of domestic borrowing on private sector development, the authorities will prioritize grants and concessional external financing. Further, efforts will be made to settle budget arrears to service providers with a view to boosting private sector activity and help improve bank asset quality.

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[1]Hiring has only been confined to the education sector in view of the recently adopted free quality education policy applicable to basic and secondary schools.

Financial, Monetary and Exchange Rate Policies

12. The authorities are committed to constantly strengthen the bank regulatory and supervisory framework in order to safeguard financial stability. Presently, they are transitioning to a risk-based supervision system, with more resources deployed towards banking institutions exhibiting greater risks. Moreover, the BSL recently established the Financial Stability Department to help identify, assess and communicate emerging financial sector vulnerabilities. On-going technical support from the IMF will help in the development of a robust financial stability regime supported by a strong macro-prudential toolkit. Further, the BSL considers financial sector development as important, and has focused the broad financial sector strategy on financial inclusion and the digital financial services sector.

13. To ensure the financial viability of state-owned banks (SOBs), the BSL has adopted strict regulatory and supervisory oversight techniques to strengthen lending practices and transfer of dividends from profitable SOBs. In this vein, both the micro and macro-prudential toolkits have been strengthened to support efficient financial intermediation, and improved risk management practices. As a result, the profitability of the SOBs has increased, asset quality has improved, and capital buffers are strengthening. Going forward, the authorities aim to further strengthen governance and institutional frameworks in the SOBs to insulate them from political interference and moderate associated contingent fiscal risks. At the same time, the authorities will allow greater autonomy in the operations of the SOBs through establishment of effective boards of directors operating under an independent governance framework.

14. The BSL prioritizes the strengthening of the monetary policy toolkit to ensure efficiency in liquidity management, inflation control, and removal of monetary transmission impediments. Further, the authorities remain committed to maintaining a flexible exchange rate system with interventions limited only to smoothen disorderly market conditions. Looking ahead, they seek to enhance the recently introduced electronic trading platform to accommodate significant foreign exchange transactions. Further technical support is, however, required to help deepen the foreign exchange market, and strengthen the determination of the exchange rate.

Structural Reforms

15. The authorities are committed to improve the business climate to attract foreign investment and diversify the economy, strengthen resilience to exogenous shocks, enhance competitiveness, and support inclusive and durable growth. To this end, they plan to implement measures aimed to develop enabling infrastructure, increase access to affordable finance, invest in tertiary and vocational training under the government’s flagship Free Education Program, and automate systems to streamline business registration procedures. The new administration has also stepped up efforts to combat corruption and strengthen governance practices. In this connection, the Anti-Corruption Commission (ACC) has intensified its investigations and prosecution of offenders for both past and current cases.

Conclusion

16. Our authorities reiterate their steadfast commitment to implement comprehensive reforms aimed at placing the economy firmly onto an accelerated growth path. Accordingly, they remain determined to implement an appropriate mix of fiscal, monetary, and structural reform measures to unleash the economy's growth potential and achieve the desired social outcomes. Towards this end, our authorities value Fund support and look forward to Executive Directors' support for the approval of a new ECF arrangement to anchor the implementation of their medium-term development plan.