



SIERRA LEONE

June 2023

SIXTH AND SEVENTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, EXTENSION OF THE ARRANGEMENT, REPHASING OF DISBURSEMENTS, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SIERRA LEONE

In the context of the Sixth and Seventh Reviews Under the Extended Credit Facility, Requests for Waivers of Nonobservance of Performance Criteria, Extension of the Arrangement, Rephasing of Disbursements, and Financing Assurances Review, 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 June 5, 2023, following discussions that ended on April 28, 2023, with the officials of Sierra Leone on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 22, 2023.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Statement by the Executive Director** for Sierra Leone.

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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Washington, D.C.**



IMF Executive Board Completes the Sixth and Seventh Reviews Under the Extended Credit Facility Arrangement for Sierra Leone

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the sixth and seventh reviews under the Extended Credit Facility Arrangement for Sierra Leone which allows for an immediate disbursement of about US\$20.7 million.
- Sierra Leone's economic challenges have intensified. Inflation has continued to rise; the currency has depreciated sharply; and debt related risks have increased. The authorities have requested an extension of the program to November 2023 to continue building on recent reforms and achieve program objectives.
- Building resilience and laying the foundations for stronger growth by consolidating public finances and addressing debt vulnerabilities, while supporting the most vulnerable, remains key to the success of the program.

Washington, DC – June 05, 2023: The Executive Board of the International Monetary Fund (IMF) completed the Sixth and Seventh Reviews of Sierra Leone's Extended Credit Facility (ECF) arrangement, and approved the authorities' request for a rephrasing, and extension of the ECF Arrangement by five months to November 29, 2023. The completion of the reviews enables the immediate disbursement of SDR 15.555 million (about US\$20.7 million). This brings the total disbursements under the ECF Arrangement to SDR 108.89 million (about US\$144.6 million).

In completing the sixth and seventh reviews, the Executive Board approved the authorities' request for waivers for nonobservance of the end-June 2022 performance criterion on the ceiling on the net domestic bank credit to the central government, and the end-December 2022 performance criteria on the ceiling on the net domestic bank credit to the central government, the ceiling on the net domestic assets of the BSL, and the floor on the gross international reserves of the BSL, based on corrective actions taken by the authorities.

The ECF Arrangement with Sierra Leone was approved by the Executive Board [on November 30, 2018](#), for SDR 124.44 million (about US\$172.1 million at that time or around 60 percent of the country's quota) for 43 months and was further extended by 12 months on July 27, 2021. The program aims to reduce inflation, mobilize revenue to allow for necessary spending consistent with debt sustainability, safeguard financial stability, and maintain external resilience to shock.

The economic recovery from successive external shocks was interrupted last year amid high energy and food prices in the context of Russia's war in Ukraine, reduced household purchasing power and lower than expected mining output. Inflation continued to rise on the back of increasing commodity prices, as well as looser-than-warranted macroeconomic

policies and the sharp currency depreciation. The soaring cost of living contributed to rising levels of food insecurity. Foreign exchange reserves remain adequate but have declined, and rebuilding reserve buffers will be a priority going forward. Sierra Leone remains at high risk of debt distress, and risks have risen in the context of recent large fiscal deficits and the currency depreciation. A frontloaded and decisive adjustment of macroeconomic policies is needed to restore stability, create space for priority social spending, and contain risks to debt sustainability.

Macroeconomic conditions are expected to stabilize on the back of the planned adjustment, but the outlook remains challenging. Growth is expected to decelerate to 2.7 percent in 2023 from 3.6 percent in 2022, before recovering to 4.7 percent in 2024. Inflation is projected to gradually decline to single digits over the medium term amid the contractionary policy stance while foreign exchange reserves would stabilize, assuming robust concessional financing.

Policy implementation risks are high amid the large adjustment need. A larger-than-programmed domestic financing need, and further deposit dollarization, could intensify rollover risks as banks' ability to increase holdings of government paper could come under strain. Larger-than-programmed BSL purchases of government paper would further spur the inflation-depreciation spiral, thus reigniting deposit dollarization. An abrupt global slowdown, tighter global financial conditions, a more protracted Russia's war in Ukraine, and geographical fragmentation could weigh on external demand. A worse-than-anticipated terms of trade shock, and higher inflation, could deteriorate fiscal and external accounts.

At the conclusion of the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director, and Acting Chair, made the following statement:

"Sierra Leone continues to face significant economic challenges, amplified by multiple shocks, including from Russia's war in Ukraine and policy slippages. Inflation continued to rise, the currency depreciated sharply, and debt related risks increased. A decisive and frontloaded tightening of macroeconomic policies is required to restore stability and contain increasing risks to debt sustainability. The authorities have started taking bold measures to stabilize the economy, with the ECF program remaining an important policy anchor amid a fragile economic backdrop.

Recent efforts to bolster tax revenues represent important steps towards tightening the fiscal stance, while creating space for priority social spending. The implementation of the new Medium-Term Revenue Strategy will further strengthen revenue mobilization. Efforts to raise revenues and curtail spending need to be backed by contingency measures given the large adjustment need. Strengthening budget preparation and execution will be crucial in achieving a durable fiscal adjustment. High risks to debt sustainability imply that efforts are needed to bring down the debt service burden, while mobilizing additional grant support.

To bring down inflation and arrest the currency depreciation, monetary conditions need to tighten, including through reduced central bank purchases of government securities. Exchange rate policy should focus on rebuilding foreign exchange reserves. Reinforcing transparency in the currency redenomination will boost confidence in the currency.

Ensuring financial sector stability will require building on recent progress in improving bank supervision and regulation, while strengthening the financial sector safety net and crisis management frameworks. Timebound action vis-à-vis banks in breach of regulatory requirements is key. Further efforts to strengthen the AML/CFT framework are needed.

Structural reforms will be essential to reduce vulnerabilities to corruption and foster private sector development. Efforts to improve the business climate and strengthen the governance of key institutions need to continue, including to support the public accountability framework, anti-corruption efforts and the effective rule of law. Efforts to enhance climate resilience and foster sustainable green growth would be important.”

Table 1. Sierra Leone: Selected Economic Indicators

	2021	2022		2023		2024	2025	2026	2027	2028
	Est.	ECF 5th Rev 1/	Proj. 2/	ECF 5th Rev 1/	Proj. 2/	Proj. 2/				
National account and prices										
Growth										
GDP at constant prices	4.1	3.6	3.6	3.4	2.7	4.7	5.2	4.5	4.5	4.6
GDP excluding Iron ore	3.6	2.4	2.8	3.2	2.6	4.6	5.1	4.6	4.5	4.6
GDP excluding mining	2.9	3.0	3.2	3.4	2.6	4.7	4.7	4.7	4.7	4.7
GDP deflator	6.7	15.8	21.4	17.9	34.7	24.2	16.6	12.8	9.5	7.8
Inflation										
Consumer prices (end-of-period)	17.9	22.1	37.1	19.6	36.4	21.7	16.8	12.3	9.8	8.0
Consumer prices (average)	11.9	21.7	27.2	21.0	41.9	29.1	19.3	14.6	11.1	8.9
External sector										
Terms of trade (deterioration -)	-16.0	-11.5	-13.9	3.4	1.8	0.9	1.4	1.3	1.0	0.7
Exports of goods	72.0	30.6	16.1	6.8	-7.9	3.4	10.1	5.3	7.3	5.3
Imports of goods	33.5	9.6	7.1	-4.1	-12.6	0.0	2.0	3.8	5.7	6.0
Gross international reserves (excl. swaps) (months of next year's imports)	5.5	4.0	4.0	3.5	3.4	3.2	3.0	3.0	3.1	3.2
Money, credit and reserves										
Domestic credit to the private sector	32.9	22.8	11.9	30.4	18.2	19.4	19.4	19.6	20.2	20.1
Domestic credit to the private sector (percent of non-iron GDP)	7.2	7.3	6.5	7.9	5.6	5.2	5.0	5.1	5.4	5.7
Base money	8.7	1.3	25.6	20.4	15.3	17.0	16.0	13.4	11.0	8.9
M3	22.1	10.1	41.1	16.8	15.3	17.0	16.0	13.4	11.0	8.9
Gross international reserves (excl. swaps) (US\$ millions)	932	689	610	600	521	490	485	512	558	617
Net international reserves (excl. swaps) (US\$ millions)	355	120	82	71	-4	25	86	183	293	417
National accounts										
Gross capital formation	10.8	17.3	12.0	18.0	11.1	11.6	13.1	14.4	14.6	14.5
Government	4.3	7.3	5.0	7.0	3.6	3.6	3.6	3.4	3.6	3.5
Private	6.5	10.0	7.0	11.0	7.5	8.0	9.5	11.0	11.0	11.0
National savings	2.1	3.7	2.9	7.1	3.9	5.8	10.0	11.7	12.3	10.3
Financing and debt										
Public debt	79.8	80.8	98.9	80.4	92.2	84.3	79.6	72.9	67.3	66.6
Domestic	28.7	22.9	31.3	22.2	25.2	24.0	23.6	22.8	21.5	20.9
External public debt (including IMF)	51.1	57.9	67.7	58.2	67.0	60.3	56.0	50.1	45.9	45.6
External sector										
Current account balance										
(including official grants)	-8.7	-13.6	-9.2	-10.9	-7.3	-5.8	-3.1	-2.7	-2.3	-4.2
(excluding official grants)	-11.6	-16.9	-13.0	-13.6	-10.5	-9.0	-6.2	-5.6	-5.0	-5.3
Central government budget										
Domestic primary balance 3/	-5.0	-2.5	-9.4	0.3	-2.5	-0.1	1.0	1.6	1.7	1.9
Overall balance	-7.4	-4.1	-10.9	-2.8	-5.6	-2.8	-2.4	-2.4	-2.1	-4.3
Overall balance (excluding grants)	-12.0	-9.9	-17.4	-7.3	-11.0	-8.7	-7.2	-6.3	-5.7	-5.0
Revenue (excluding grants) 4/	15.7	14.7	13.0	15.0	14.1	15.9	17.0	17.3	17.5	17.5
Grants	4.6	5.8	6.5	4.5	5.4	5.8	4.8	4.0	3.7	0.7
Total expenditure and net lending	28.4	25.1	30.8	22.3	25.2	24.5	24.2	23.7	23.2	22.5
Memorandum item:										
GDP at market prices (Leone billions)	44,360	54,926	55,774	66,987	77,139	100,323	123,038	145,102	165,942	187,058
Excluding iron ore (Leone billions)	44,069	52,857	54,220	64,361	74,733	96,856	118,218	138,935	159,121	179,793
Excluding iron ore (US\$ millions)	4,121	4,041	3,860	3,924	3,394	3,483	3,632	3,891	4,284	4,635
Per capita GDP (US)	509	505	478	481	413	417	428	451	486	514
National currency per US dollar (average) (Leone)	10,695	..	14,047	..	..	..	..	..	..	..
National currency per US dollar (EOP) (Leone)	11,256	..	18,835	..	..	..	..	..	..	..

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

1/ See *Sierra Leone: 5th Review Under the Extended Credit Facility (CR/22/259)*, July 2022

2/ The macro framework reflects a scenario as part of which the authorities take the necessary measures to ensure a credible medium term fiscal framework.

3/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed capital spending, and arrears paydown from grants.

4/ Excludes transfers related to CCRT debt relief from 2020 through 2021



SIERRA LEONE

May 22, 2023

SIXTH AND SEVENTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, EXTENSION OF THE ARRANGEMENT, REPHASING OF DISBURSEMENTS, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context: Since the 5th review under the ECF arrangement in July 2022, macro policies have become more expansionary than expected, inflation has continued to rise, the leone has depreciated sharply and debt related risks have increased notably. Deadly floods weakened activity and highlighted climate-related risks. The risk of social unrest remains high given the soaring cost of living and record levels of food insecurity. The President appointed a new economic team in early 2023 which has begun to take decisive action to tackle these challenges. Discussions focused on recent developments as well as policy commitments to restore stability, maintain debt sustainability, and achieve program objectives.

Program performance. Program performance in H2-2022 was weak, but corrective action has been undertaken in H1-2023. All but one end-June 2022 quantitative performance criteria (PCs) were met. However, the net credit to government (NCG) PC was breached by a significant margin. Three end-December 2022 PCs were also missed, with the NCG breached by a 7½ percent of GDP margin, while the continuous PCs were met. Corrective actions include measures to (i) raise tax revenues through 2.2 percent of GDP in additional measures; (ii) reduce spending by 5.6 percent of GDP in 2023 relative to 2022; (iii) strengthen budget execution and prevent arrears; and (iv) bolster expenditure transparency and accountability. However, performance on structural reforms has improved considerably in 2023. The authorities met 5 of 15 structural benchmarks (SBs) and completed 9 with a delay. They also completed all four prior actions for the 6th and 7th reviews.

Policy recommendations. A decisive tightening of macroeconomic policies is critical to restoring macroeconomic stability and keeping debt on a sustainable path. Fiscal consolidation will require continued efforts to raise revenues and curtail expenditures while protecting social spending and seeking grant financing. Monetary policy will need to tighten

to break the upward inflation and depreciation trends and help rebuild FX reserves. Structural reforms to reduce the need for energy subsidies should continue at pace. Amid the notable increase in debt sustainability risks, the debt service burden should be brought down over time. There is also a need to continue governance reforms and to reinforce transparency around the currency redenomination. The authorities should also strengthen the crisis management framework and financial safety net.

Program issues. The authorities request (i) completion of the 6th and 7th ECF reviews; (ii) waivers of non-observance for the end-June 2022 NCG and the end-December 2022 NCG, GIR and NDA based on corrective actions; (iii) a five-month extension of the ECF and a rephrasing of disbursements; and (iv) completion of the financing assurances review. Disbursements under the 6th and 7th reviews would be reduced by half, and the remaining access would be available at the newly set 8th review with an end-June 2023 test date. Total disbursements under the ECF would thus remain unchanged. Staff proposes new QPCs and ITs for June 2023 and three new SBs to inform the 8th review of the ECF.

Risks to the program. Program risks, including those related to debt sustainability, are high, and contingency planning is key. Sierra Leone is highly vulnerable to external shocks, and the required adjustment is sizable. While the authorities have taken decisive initial steps, policy implementation will remain a significant challenge. Risks to the program are mitigated by the authorities' commitment to the ECF and its strong conditionality, the extensive capacity development agenda, and the authorities' strong track record of servicing their obligations to the Fund.

Approved By
Montfort Mlachila
(AFR) and Anna Ilyina
(SPR)

An IMF team consisting of Mr. Saborowski (head), Mr. Nicholls, Mr. Wankuru (all AFR), Mr. Kato (SPR), Ms. Duarte, Mr. Zhou (FAD), Mr. Zhang (MCM), Ms. Newiak (former Resident Representative), Mr. Mitchell (Resident Representative) and Mr. Saffa (former local Economist, Freetown office) held discussions with the authorities in Freetown during November 30-December 9, 2022, and April 24-28, 2023. Mr. Nakunyada (OED), and Mr. Mansaray (Advisor OED) participated in the second mission. Ms. Datshkovsky, Ms. Jain, Mr. Márquez Barroeta and Ms. Mowatt also contributed to the preparations for the review. Ms. Manning and Mr. Magno provided editorial support. The mission met with President Maada Bio, Finance Minister Bangura, Acting Governor Stevens, and representatives of the private sector, CSOs, and development partners.

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Acronyms

ASSL	Audit Service Sierra Leone
BSL	Bank of Sierra Leone
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CRW	World Bank's Crisis Response Window
CSO	Civil Society Organization
CtR	Capacity to Repay
ECDMC	Expanded Cash and Debt Management Committee
ECF	Extended Credit Facility
ECR	Electronic Cash Register
EDSA	Electricity Distribution and Supply Authority
EFT	Electronic Funds Transfer
FAD	Fiscal Affairs Department
FPC	Financial Policy Committee
FAO	Food and Agriculture Organization
GoSL	Government of Sierra Leone
GIR	Gross International Reserves
GRB	Gender-Responsive Budgeting
H2	Second half of the year
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
ITs	Indicative Targets
ITAS	Integrated Tax Assessment System
JLSC	Judicial and Legal Service Commission
LOI	Letter of Intent
MTRS	Medium-Term Revenue Strategy
MDAs	Ministries, Departments and Agencies
MDTS	Medium-Term Debt Strategy
MEFP	Memorandum of Economic and Financial Policies
MoF	Ministry of Finance
MPC	Monetary Policy Committee
NaCOVERC	National COVID-19 Emergency Response Center
NASSIT	National Social Security and Insurance Trust
NCG	Net Credit to Government
NDA	Net Domestic Assets
NIN	National Identification Number
NPL	Non-performing loans
NRA	National Revenue Authority
PFM	Public Financial Management
QPC	Quantitative Performance Criteria
RBS	Risk Based Supervision
SBs	Structural Benchmarks
SVA	Sub-Vented Agencies
SOB	State Owned Banks

SOE	State Owned Enterprise
SOP	Standard Operating Procedures
T-bill	Treasury bill
TSA	Treasury Single Account
WB	World Bank
WEO	World Economic Outlook
WFP	World Food Programme

CONTEXT

1. **External shocks and looser-than-warranted policies intensified Sierra Leone's economic challenges.** Since the 5th review under the ECF in July 2022, macro policies have become more expansionary than expected, inflation has continued to rise, the leone has depreciated sharply and debt related risks have increased. The soaring cost of living contributed to rising levels of food insecurity (Annex I), raising the risk of social unrest. Deadly floods in August 2022 highlighted the country's exposure to climate-related shocks.
2. **The authorities have started taking bold measures to stabilize the economy.** Ahead of the Presidential and General elections in June 2023, the President appointed a new economic team that has begun to take decisive action to (i) tighten the fiscal stance; (ii) contract monetary conditions; (iii) advance PFM and governance reforms; and (iv) mobilize additional grant support.
3. **The ECF arrangement remains an important policy anchor through the election cycle and amid a still fragile economic backdrop.** Relative to 5th review of the ECF, the needed adjustment in macro policies is larger, debt related risks have increased notably, FX reserves have dropped more than expected, and inflation has risen to worryingly high levels.

RECENT ECONOMIC DEVELOPMENTS

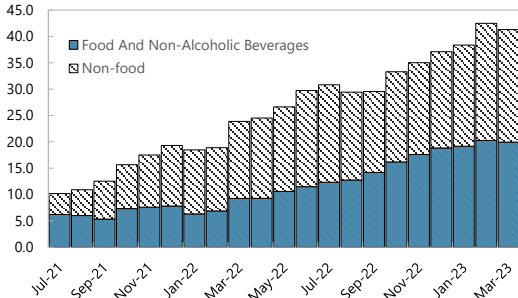
4. **Macroeconomic imbalances and vulnerabilities have grown:**
 - **Growth** decelerated to 3.6 percent in 2022. External factors stymying the recovery included high energy and food prices. Growth was also held back by (i) the decline in household purchasing power; (ii) lower-than-expected mining output; and (iii) severe flooding in August.
 - **Inflation** has risen on the back of more-expansionary-than-warranted policies, the sharp leone depreciation, and rising global food and fuel prices. Headline inflation rose to 41.5 percent yoy in March 2023, amid a food inflation reading of 49.5 percent.
 - **The current account** deficit remained at around 9 percent of GDP in 2022 despite the 67.3 percent yoy leone depreciation as of end-2022. Fuel imports increased as iron-ore mining activity improved, while the depreciation mitigated the impact of weaker terms of trade. International reserves dropped but remained adequate (4 months of imports at end-2022).¹

¹ The decline in reserves was driven by a variety of factors: the BSL serviced external debt obligations as expected. It also disbursed most of the FX allocated to support food and fuel imports as planned. It sold another US\$24 million in 2022-Q3, and US\$46 million in 2022-Q4 to intervene in the FX market in support of the leone and fuel import. The import of newly printed currency in the context of the leone redenomination led to additional outflows, while the timber export ban importantly reduced export proceeds.

Text Figure 1. Sierra Leone: Recent Economic Developments

Economic headwinds prevailed in 2022, with high inflation...

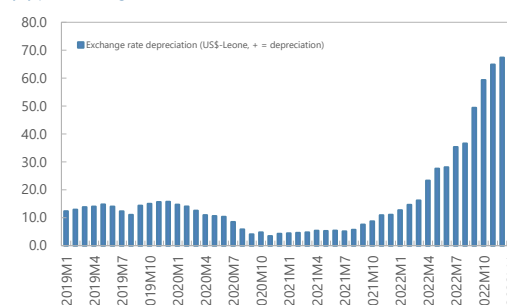
Contribution to Inflation
(Percentage points)



Sources: Statistics Sierra Leone and IMF Staff Calculations.

...a sharp exchange rate depreciation against the US dollar.

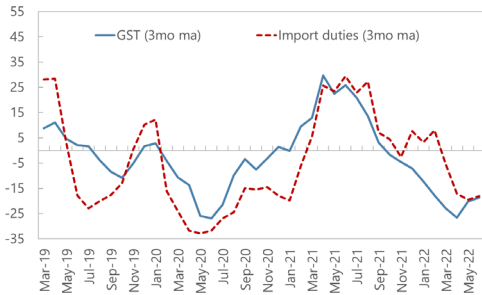
Leone-U.S. Dollar Exchange Rate Depreciation
(yoy percent change)



Sources: Stats SL, BSL and IMF staff calculations

...and weak revenue collection.

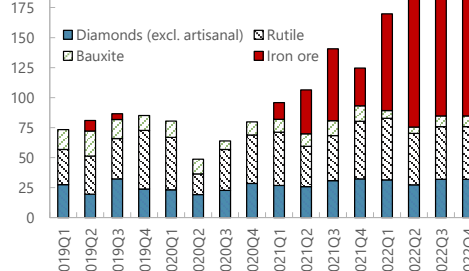
Revenue Collection
(Constant prices, percent change y-o-y)



Sources: SL National Revenue Agency and IMF staff calculations

Iron-ore exports are a bright spot.

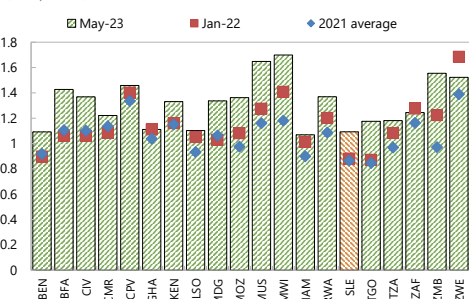
Mining exports, 2019-22
(millions of US\$)



Source: National Minerals Agency

Fuel prices increased modestly in local currency in 2023 but have fallen in US\$ terms...

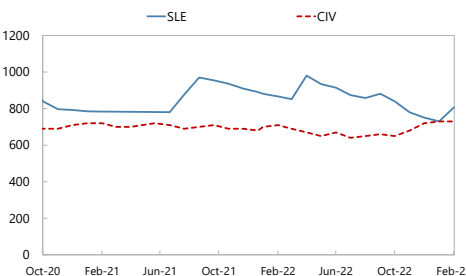
Gasoline Prices
(USD per liter)



Sources: Globalpetrolprices.com

...while imported rice prices show a modest uptick.

Imported Rice Prices
(USD/Ton)



Sources: FAO

- **The banking system faces vulnerabilities including from the sovereign-bank nexus.** At March 2023, the capital adequacy ratio stood at 41 percent—although a second domestic bank now faces solvency challenges—and the NPL ratio at 13 percent. Appetite for government paper remains strong amid high yields and limited investment alternatives, but deposit dollarization is increasingly becoming a constraint: the share of FX deposits increased from 36 to 53 percent

between end-2021 and March 2023, in large part due to valuation effects, but also due to customers shifting to FX deposits in search for a hedge against the depreciation. The share of government securities in banks' total assets declined from a peak of 46 percent in mid-2021 to 34 percent: while banks continued large scale net purchases of government securities, FX denominated assets grew faster amid significant valuation effects and deposit dollarization.²

5. The macroeconomic policy stance was too loose in 2022 and 2023Q1.

- The 2022 fiscal deficit exceeded the 5th review target by 6.8 percent of GDP due to under-budgeting, policy discretion and rising costs** (Text Table 1). Domestic revenue fell 1.7 ppts of GDP short of 5th review targets, reflecting compliance challenges, reduced excise rates, poor implementation of electronic cash registers, and the CITES ban on most timber exports. Expenditures on goods and services exceeded targets amid higher costs, underbudgeting, and increased security outlays. Higher-than-budgeted fuel subsidies were the main culprit in subsidies and transfers, while overruns in expenditures were explained by unexpected payments to roads contractors (1.4 ppts of GDP) and overruns on health and education (0.7 ppts of GDP). Higher-than-expected interest payments and domestic legacy arrears payments added to the overruns. The preliminary 2023-Q1 revenue outturn was in line with projections, but further efforts are needed to tighten spending. Overruns relative to the budget were in large part expected—including those on interest expense (given debt and interest rate outturns in 2022), electricity subsidies (given leone depreciation and global energy prices), and wages and salaries (frontloading of leave and rent allowances)—but also reflected continued overspending on roads construction.
- Monetary conditions turned looser than warranted.** The BSL purchased some 5 percent of GDP in government securities in 2022, contributing to an expansion in base money of 25.6 percent yoy (-11.5 percent in real terms) at end-December, compared to 1.3 percent

Text Table 1. Sierra Leone: 2022 Budget Outturn
(Percent of non-iron ore GDP)

	2021	2022		2023Q1	
	Act.	ECF 5th Rev 1/	Prel.	Budget Target.	Prel.
Total revenue and grants	21.1	21.0	19.9	3.9	3.7
Revenue	15.7	14.7	13.0	3.0	3.0
Tax revenue	12.7	12.1	10.9	2.3	2.2
Non-tax	3.0	2.6	2.1	0.7	0.8
Other	0.7	0.4	0.4	0.0	0.0
Grants	4.6	5.8	6.5	0.8	0.7
Expenditures and net lending	28.4	25.1	30.8	5.1	6.2
Current expenditures	19.6	17.7	20.4	3.7	4.3
Wages and salaries	8.9	8.2	8.0	1.6	1.8
Goods and services	3.9	2.7	4.5	0.5	0.5
Subsidies and transfers	3.9	3.9	4.5	0.7	1.0
Interest	2.9	3.0	3.4	0.8	1.0
Capital Expenditure	8.0	7.3	9.3	1.3	1.9
Foreign financed	4.2	4.9	4.0	0.9	1.0
Domestic financed	3.8	2.4	5.3	0.4	0.9
Arrears Paydown (cash)	0.7	0.0	1.0	0.1	0.0
Domestic primary balance	-5.0	-2.5	-9.4	-0.2	-1.2
Overall balance including grants	-7.4	-4.1	-10.9	-1.2	-2.5

Sources: Sierra Leonean authorities, and IMF staff calculations.
1/ the 5th Review Under the Extended Credit Facility (CR/22/259).

² Commercial banks purchased 2.4 percent of GDP in government securities on a net basis in 2022, and 1.2 percent of GDP in Q1-2023, which contributed to a further crowding out of private credit (15 percent growth yoy). The sum of the share of claims on foreign residents and foreign banks as well as foreign currency cash in total assets of the banking system increased from 22 percent at end-2021 to 30 percent in March 2023.

projected during the 5th review. In Q1 2023, base money growth decelerated to 4.4 percent qoq, from 23 percent in the previous quarter. Real rates remain negative, despite a 275-bps policy rate increase to 18.25 percent in January 2023.

PROGRAM PERFORMANCE

6. Program performance was weak in H2-2022 due to both external shocks and policy slippages, which delayed the 6th review, while little progress was made to achieve program objectives. However, performance on structural benchmarks and prior actions has improved considerably since, giving staff confidence that the authorities are committed to implement the program going forward.

- **End-June 2022 test date for the 6th review.** Quantitative performance criteria (PCs) on net domestic assets (NDA) and gross international reserves (GIR) were met, as were the continuous PCs and the IT on poverty spending. The end-June Net Credit to Government (NCG) was missed by a 1.2 percent of GDP margin alongside the ITs on domestic revenue and the primary balance, mainly reflecting higher costs, policy slippages and revenue shortfalls, including from timber.
- **End-December 2022 test date for the 7th review.** Three PCs on NCG, NDA and GIR as well as most ITs were missed, while all continuous PCs and the IT on poverty spending were met. The NCG was breached by 7½ percent of GDP, driven by rising costs, discretionary spending, and under-budgeting. The NDA was missed in tandem with the NCG as the BSL injected liquidity to support commercial bank purchases of government securities. The GIR was missed due to the BSL's FX intervention, the timber export ban, and the procurement cost of new leone bills. Preliminary information suggests that the end-March 2023 ITs on NCG, NDA and GIR were missed, reflecting rising inflation, the depreciation, and the timber export ban since the 5th review, but also policy slippages (¶15).
- **Structural benchmarks.** The authorities met only five of 15 SBs, in part due to capacity constraints, but they made significant efforts in recent months and completed another nine SBs with a delay (MEFP, Table 2). The continuous SB on fuel pricing was missed as the authorities preferred to cushion retail fuel price increases.
- **All four prior actions for the 6th and 7th reviews are met.** These are critical to supporting the ambitious macroeconomic adjustment: (i) parliament passed a new Finance Act with 1.8 percent of GDP in additional tax policy measures; (ii) cabinet approved the MTRS; (iii/iv) detailed information on recent budgetary overruns on roads construction and arrears clearance payments was published.

MACROECONOMIC OUTLOOK AND RISKS

7. Macroeconomic conditions are expected to stabilize but the outlook remains challenging.

- **Growth** in 2023 is projected to decelerate to 2.7 percent as fiscal consolidation takes hold (Text Table 2), although activity should be supported by the ramp-up of iron ore production at Marampa and Tonkolili mines, and policies to lift agricultural output by providing seed rice and implements to farmers. In 2024, growth should accelerate given the expected recovery in mining and agriculture, the less contractionary fiscal stance, and as macroeconomic stabilization sets in.
- **Inflation** is projected to gradually decline to single digits over the medium-term amid the contractionary policy stance.
- **External sector.** The current account deficit is projected to decline on the back of increasing iron ore exports and tighter fiscal policy. FX reserves would stabilize at 3 months of imports assuming that an annual financing gap of around US\$40 million after 2024 is closed.

8. Risks to the outlook are high (Annex II). Policy implementation risks are high amid the large adjustment need. Larger-than-programmed government domestic financing needs, and further deposit dollarization, could intensify rollover risks as banks' ability to increase holdings of government paper may come under strain. Larger-than-programmed BSL purchases of government paper could further spur the inflation-depreciation spiral, thus reigniting deposit dollarization. An abrupt global slowdown, tighter global financial conditions, a more protracted Russia's war in Ukraine, and geographical fragmentation could weigh on external demand. A worse-than-anticipated ToT shock, and higher inflation, could deteriorate fiscal and external accounts.

Text Table 2. Sierra Leone: Medium-Term Macroeconomic Framework, 2021-28

	2021	2022		2023		2024	2025	2026	2027	2028
	Est.	IMF CR 22/259	Proj.	IMF CR 22/259	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(In percent of non-iron ore GDP unless otherwise indicated)										
GDP at constant prices (percent change)	4.1	3.6	3.6	3.4	2.7	4.7	5.2	4.5	4.5	4.6
Consumer prices (end-of-period)	17.9	22.1	37.1	19.6	36.4	21.7	16.8	12.3	9.8	8.0
Gross international reserves (months of next year's imports)	5.5	4.0	4.0	3.5	3.4	3.2	3.0	3.0	3.1	3.2
Current account balance (incl. grants)	-8.7	-13.6	-9.2	-10.9	-7.3	-5.8	-3.1	-2.7	-2.3	-4.2
External public debt	51.1	57.9	67.7	58.2	67.0	60.3	56.0	50.1	45.9	45.6
Revenue (excl. grants)	15.7	14.7	13.0	15.0	14.1	15.9	17.0	17.3	17.5	17.5
Domestic primary balance	-5.0	-2.5	-9.4	0.3	-2.5	-0.1	1.0	1.6	1.7	1.9
Overall Balance	-7.4	-4.1	-10.9	-2.8	-5.6	-2.8	-2.4	-2.4	-2.1	-4.3

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

POLICY DISCUSSIONS

A decisive tightening of macroeconomic policies is required to restore stability, contain increasing risks to debt sustainability and achieve program objectives. The authorities plan to sharply curtail expenditures and raise tax revenues. Monetary policy will be contractionary to arrest upward inflation and depreciation trends, and to relieve pressure on FX reserves. Measures to improve PFM and governance are critical to durably improve budget outcomes, while the BSL should strengthen crisis management frameworks and the safety net.

A. Fiscal Policies

9. Fiscal policy is set to tighten decisively this year. The deficit is projected to contract from 10.9 percent of GDP in 2022 to 5.6 percent of GDP. This is expected to be achieved through a package of measures to raise tax revenues and curtail spending.

10. The authorities have implemented an ambitious package of measures to mobilize tax revenues. These are estimated to yield additional annual tax revenues of 2.2 percent of GDP by 2024 (Text Table 3): parliament approved a new 2023 Finance Act (**Prior Action #1**) with 1.8 percent of GDP in tax policy measures in April, while tax administration measures are expected to yield 0.4 percent of GDP.

11. Additional revenue measures are underway. The authorities are in the process of renegotiating a mining contract—which is expected to yield 0.2 percent of GDP in revenues—and are implementing a safe harbor regulation for iron ore to mitigate possible iron ore mispricing.³ They are also committed to reinstating a fixed, predictable, and stable excise on fuel going forward, consistent with the historical average and the continuous SB.

12. The authorities are in the process of substantially curtailing spending while protecting social programs (Text Table 4). They plan to submit a 2023 supplementary budget after the elections that is aligned with program projections, including a 5.6

Text Table 3. Sierra Leone: Revenue Measures
(Percent of non-iron ore GDP)

Revenue measures	Yield
<u>Tax policy measures (Finance Act 2023)</u>	
(1) Introduced a minimum alternative tax at 3% of turnover	0.2
(2) Removed exemptions on GST (machinery and equipment, aviation operations, gambling, fees-based financial services, mobile data, digital services, voice calls, and first sale of property)	1.3
(3) Harmonized excise tax rates for local and imported excisable products and introduced annual vehicle circulation fees at Nle 200.	0.3
<u>Tax administration measures</u>	
(4) Introduced digital IDs, excise stamps and fuel marking technology; integrated company systems with electronic cash registers (ECR) for 19 large companies; strengthened compliance of key large taxpayers (extractives, financial, telecoms); and collected outstanding lease payments from two large hotels.	0.4
<u>Mining related measures</u>	
(5) Renegotiated one mining contract to unwind concessions awarded in 2022	0.2
(6) Implemented a safe harbor regulations for iron ore	tbd
Total	2.4

Sources: Sierra Leonean authorities, and IMF staff calculations.

³ While difficult to quantify ex-ante, the regulation has the potential of raising mining revenues.

percentage points (ppts) reduction in spending relative to 2022, of which reversals of one-offs accounts for some 3.4 ppts:

- **Wages and salaries.** Reduced by 1.0 ppts of GDP relative to 2022, assuming no new hires—except for critical sectors to replace retirees—and no new wage increases.
- **Goods and services.** Reduced by 1.5 ppts of GDP relative to 2022 by removing one-offs (security outlays, public order equipment supplies, arrears in international subscriptions) and adjusting the baseline.
- **Domestically financed capital expenditure.** Projected to decrease from 5.3 ppts of GDP in 2022 to 2.8 ppts in 2023 through removal of one-off spending items (census, reconstruction of police posts, construction of anti-corruption building, and rehabilitation of district hospitals) and a commitment to postpone roads construction projects on feeder roads to make up for 2023-Q1 overruns (¶15).
- **Interest.** Projected to increase due to higher-than-expected debt and coupons.
- **Legacy arrears.** Consistent with budget and arrears clearance strategy.
- **Budget support grants.** US\$65 million under WB budget support operation (DPO), US\$25 million from WB's Crisis Response Window (CRW),⁴ and US\$2.4 million in UNDP election funding.

Text Table 4. Sierra Leone: 2023 Budget and MT
(Percent of non-iron ore GDP)

	2022		2023		2024	2025
	Prel.	ECF 5th Rev 1/	2023 budget 2/	Proj.		Proj.
Total revenue and grants	19.9	19.5	19.7	19.5	21.7	21.8
Revenue	13.0	15.0	14.0	14.1	15.9	17.0
Tax revenue	10.9	12.5	11.9	12.0	13.8	14.8
Other, Capital Transfers from BSL (CCRT Debt Relief)	0.4	0.0	0.0	0.0	0.0	0.0
Grants	6.5	4.5	5.7	5.4	5.8	4.8
Expenditures and net lending	30.8	22.3	23.0	25.2	24.5	24.2
Current expenditures	20.4	15.0	16.4	18.1	17.7	17.3
Wages and salaries 3/	8.0	7.2	7.2	7.0	7.2	7.2
Goods and services	4.5	2.5	2.4	3.0	3.1	3.2
Subsidies and transfers	4.5	2.6	3.0	3.8	3.2	3.2
o/w elections	0.7	0.1	0.6	0.5	0.0	0.0
o/w Transfers to energy IPPs	1.4	0.1	0.5	1.5	1.4	1.3
Interest	3.4	2.7	3.7	4.2	4.1	3.7
Capital Expenditure	9.3	7.0	6.3	6.8	6.6	6.7
Foreign financed	4.0	4.6	4.5	4.0	4.3	4.3
Domestic financed	5.3	2.3	1.8	2.8	2.3	2.4
Contingent expenditure	0.1	0.1	0.0	0.1	0.0	0.0
Arrears Paydown (cash)	1.0	0.3	0.3	0.2	0.2	0.2
Domestic primary balance 4/	-9.4	0.3	-0.4	-2.5	-0.1	1.0
Overall balance including grants	-10.9	-2.8	-3.2	-5.6	-2.8	-2.4
Financing	10.9	2.8	3.2	5.6	2.8	2.4
External financing (net)	-0.4	0.4	-0.6	-0.8	-0.9	-0.1
Domestic financing (net)	9.1	2.1	2.6	3.9	3.7	2.5
Total Banking Sector (net)	7.9	1.7	2.1	3.4	3.4	2.3
o/w Banks, net of onlending	7.6	2.0	1.8	3.0	4.6	3.6
o/w IMF ECF onlending, Net	0.3	-0.4	0.3	0.3	-1.2	-1.3
Non-Bank Sector	0.4	0.5	0.5	0.8	0.3	0.1
Other 5/	0.8	0.0	0.0	-0.2	0.0	0.0
Other, Use of 2021 SDR allocations	2.3	0.3	1.3	2.5	0.0	0.0
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Sierra Leonean authorities, and IMF staff calculations.

1/ The 5th Review Under the Extended Credit Facility (CR/22/259).

2/ Approved budget December 2022.

3/ Tertiary education wages are classified in the wage bill rather than under subsidies and transfers.

4/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed CAPEX and elections spending, and arrears paydown.

5/ Includes domestic financing discrepancy and arrears clearance securities.

13. Contingency planning is important amid rising debt vulnerabilities and program

implementation risks. The authorities committed to further reprioritize spending, including by curbing domestically financed capital expenditure, should pressures reemerge. They would also seek additional budget support and implement additional tax measures informed by the MTRS in case of revenue shortfalls, including (i) fast tracking the harmonization of taxes on capital income (excluding

⁴ Sierra Leone is expected to access up to US\$50 million of grants through the WB's CRW. US\$25 million of the grants will be used to finance specific budgetary expenditures, most of which are yet to be identified.

capital gains) at 20 percent from 10 percent; (ii) increasing stamp duty on immovable property; (iii) streamlining GST exemptions while protecting the poor; and (iv) introducing an excise tax on single use, non-biodegradable plastics (MEFP 138).

14. Over the medium-term, fiscal consolidation will continue to focus on mobilizing revenues and containing expenditures, while protecting social spending. Following 2023, the domestic primary balance is projected to strengthen by another 4.3 ppts of GDP until 2028, largely on the back of increasing tax revenues and a decline in interest expense. At 1.9 percent of GDP in 2028, the primary balance surplus is higher than projected at the 5th review, reflecting the need to offset the fiscal slippages in 2022 through a larger adjustment.

- **Revenues.** Cabinet has approved the MTRS (**Prior Action #2**), and the authorities established a high-level steering committee with stakeholder representation (**end-March 2023 SB**). They will include tax measures yielding at least 1 percent of GDP in the 2024 Finance Bill (**proposed end-October SB**), and 1 percent of GDP in the 2025 Finance Bill. Tax revenues are also expected to be supported by a recovery in buoyancy, efficiency gains from automation (ITAS, ECR, computer aided audits), and adherence to the fuel price formula (continuous SB).
- **Expenditures.** The authorities plan to finalize a medium-term wage bill management strategy by end-October 2023 (developed with FAD TA; MEFP 136) to help contain the wage bill, while subsidies will decrease with reforms in EDSA and other SOEs. Interest obligations are projected to drop as yields moderate and debt ratios fall. Restraining recurrent spending will be key alongside efficiency improvements in capital expenditures.

B. Financing Strategy

15. Financing needs are expected to be met largely by domestic banks and use of the 2021 SDR allocation. Domestic bank financing is projected at 3.4 ppts of GDP in 2023, in addition to 0.8 ppts of GDP from non-banks. The authorities also plan to use an additional 2.5 percent of GDP of the 2021 SDR allocation (bringing the cumulative use to 55 percent of the total).⁵

C. Debt Sustainability

16. Sierra Leone's overall and external public debts are assessed as sustainable, but the risk of debt distress is high and rising. The sharp depreciation, and the larger-than-expected 2022 deficit have pushed up several DSA indicators. The external debt service-to-revenue ratio and the PV of the public debt-to-GDP ratio exhibit large and sustained breaches of their thresholds. All debt indicators remain on a declining trend over the medium to long-term (see DSA), but this is predicated on the planned ambitious fiscal adjustment and continued reliance on grants and

⁵ The authorities have updated priority expenditures funded using SDRs and are committed to ensuring transparent accounting and reporting (MEFP Text Table 1). They are also updating the agreement that underpins the planned transfer and use of SDRs, consistent with the domestic institutional frameworks.

concessional financing.⁶ The notable increase in risks implies that action is urgently needed to bring down the debt service burden over time.

17. Enhancing domestic debt management is a priority. The high interest bill adds to fiscal pressures while the reliance on T-bills creates refinancing risk. The authorities remain committed to their external borrowing limits (Text Table 5) and will continue to seek grant financing. They plan to continue issuing longer-term securities as conditions permit.

Text Table 5. Sierra Leone: Summary Table of External Borrowing Plan for 2023

PPG external debt contracted or guaranteed	Volume of new debt, US million 1/	PV of new debt, US million 1/
Sources of debt financing	100	50-65
Concessional debt 2/	100	50-65
Non-concessional debt 3/	0	0
Use of debt financing	100	50-65
Project financing	100	50-65
Budget financing	0	0

1/ Contracting and guaranteeing of new debt (defined in the TMU). The present value of debt is calculated using the terms of individual loans applying the 5 percent program discount rate.

2/ Debt with a grant element that exceeds a minimum threshold of 35 percent.

3/ Debt which does not meet the definition of concessional debt.

D. Monetary and Exchange Rate Policies

18. Monetary policy is set to tighten sharply. Base money—the BSL’s operational target—is projected to contract by 15.5 percent in real terms in 2023 supported by strictly limited BSL purchases of government securities (Text Figure 2). The authorities are also committed to continue raising the policy interest rate to send a strong signal of their intention to reduce inflation. Improved communication can play a complementary role in anchoring expectations. To this end, the recent publication of quarterly monetary policy reports, and the decision to announce dates of forthcoming MPC meetings are welcome.

19. The tighter policy stance should help maintain adequate reserve buffers.⁷ With the larger-than-expected decline in reserves, space to intervene in the FX market is constrained. Intervention should be two-sided and strictly limited to addressing excessive volatility and concerns about de-anchoring inflation expectations in case of very large temporary shocks. To further shore

⁶ While SDR use reduces refinancing risks, it increases external debt in the DSA and is subject to SDR interest rate risk. As part of the operation, SDR assets and liabilities are transferred from the BSL to the government. SDR assets are then sold back to the BSL for local currency.

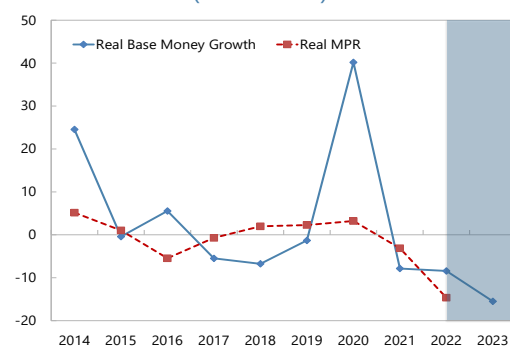
⁷ Sierra Leone’s external position in 2021 was assessed as weaker than the level implied by fundamentals and desirable policies. For details, see ESA assessment in the 5th review and 2022 Article IV SR.

up reserve buffers, the authorities plan to enforce existing FX repatriation requirements more rigorously and have extended them to the mining sector.

20. Developing the interbank FX market is a priority. The authorities have begun to publish the FX rate daily (**end-April 2023 SB**), adopted prudential guidelines that cover net open positions (**end-September 2022 SB**) and plan to abolish FX regulatory limits on forward transactions, in line with IMF TA recommendations.⁸

21. Risks in the currency redenomination remain elevated. Some risks staff highlighted during the 5th review materialized. These include (i) lack of vault space; (ii) limited capacity to destroy notes; and (iii) cost overruns. The authorities indicated that demand for the new currency has been larger than expected. To reduce costs, they satisfied some of the demand with unused old notes, while extending the deadline to withdraw old notes from circulation. The authorities plan to strengthen transparency to further shore up confidence in the currency by publishing detailed information on the redenomination (**Proposed end-October 2023 SB**).

Text Figure 2. Sierra Leone: Monetary Policy Indicators (Real Rates)



Sources: BSL and IMF staff calculations

Notes: Real base money growth: Annual change in the nominal base money adjusted for end of period inflation.

Real monetary policy rate: End of period nominal MPR rate adjusted for end of period inflation.

E. Financial Sector Policies

22. The authorities are making progress in strengthening financial sector governance and supervision. They (i) implemented the revised Prudential Guidelines for banks (**September 30, 2022, SB**); (ii) outlined a supervisory strategy to address high NPLs (**December 15, 2022, SB**); (iii) completed a corporate governance action plan for SOBs (**end-September 2022 SB**); and (iv) ran stress tests supported by the Fund's resident advisor that were published in the 2021 Financial Stability Report. They plan to:

- Establish a Financial Policy Committee in line with the BSL Act 2019 by end-July 2023.

⁸ Sierra Leone maintained two multiple currency practices (MCPs) and an exchange restriction (see 5th review under the ECF arrangement for details ([CR No. 22/259](#))). The authorities have confirmed that the BSL facilities have expired. Therefore, staff assesses that the MCP and exchange restriction arising from such facilities no longer exist. The authorities have also moved to a daily calculation and publication of an exchange rate – the BSL Rate – that is based on a one-day lag (see ¶20 and end-April 2023 SB). Pursuant to the July 2022 [Review of the Fund's Policy on Multiple Currency Practices](#), official exchange rates computed using market exchange rates of the preceding business day and which meet certain specific criteria will not give rise to an MCP. Therefore, staff assesses that the use of the BSL Rate no longer gives rise to an MCP.

- Adopt Corporate Governance Guidelines for banks by end-October 2023 and operationalize the corporate governance action plan for SOBs.
- Launch the Deposit Protection Fund Act by end-September 2024—after taking timebound action vis-à-vis any banks that are in breach of regulatory requirements—and make progress on operationalizing the financial crisis management framework and financial safety net in accordance with the TA Roadmap in the FSSR 2020.

23. The authorities have implemented most safeguards recommendations. In December 2022, they published the BSL’s audited FY2021 financial statements (**end-September 2022 SB**). Since then, the BSL has been working towards normalizing the audit cycle for FY2022 and finalizing prior year Management Letters issued by the external auditor. The FY2022 audit is already in progress. The BSL appointed a director of Internal Audit (**end-December 2022 SB**).

F. Governance and PFM

24. While governance and corruption vulnerabilities remain significant, the authorities have taken steps to reinforce safeguards over the use of public resources. They published a roadmap (with a delay) that aims to strengthen the ASSL’s budgetary autonomy (**end-September 2022 SB**). They also published the 2021 financial statements of their National Covid Emergency Response Center (NaCOVERC). The authorities amended (with a delay) the Audit Service Act 2014 (**October 15, 2022, SB**). They also plan to publish a roadmap that revives the currently dormant statutory provisions on surcharges with an implementing regulation (Section 12 Audit Service Act 2014).

25. The Judicial and Legal Service Commission adopted new tribunal guidelines, though with a delay (end-December 2022 SB). However, the ongoing tribunal on the suspension of the Auditor General and her Deputy has made little progress over a period of 18 months. The authorities have taken initial steps to make progress towards meeting the commitment to pay all salaries and allowances that are legally due to ASSL management.

26. The authorities are taking additional measures to strengthen budget execution, including to contain arrears accumulation. They (i) have made it mandatory to process expenditures through the web-based IFMIS; (ii) plan to fully implement the Electronic Funds Transfer (EFT) system (MEFP 134);⁹ and (iii) intend to incorporate all outstanding verified domestic arrears as of end-June 2023, including unpaid checks, into a new arrears clearance strategy (**Proposed end-October 2023 SB**) with a view to fully budgeting for their clearance starting with the 2024 budget. Post-June 2023 domestic arrears will be paid only when budgeted for. They also plan to deploy an arrears profiling system that will help track arrears payments across MDAs.

⁹ The implementation of EFT recently went live, and the authorities plan to roll it out to all MDA to prevent the accumulation of printed cheques.

27. Implementation of Phase II of the TSA expansion is expected to strengthen cash management. The authorities identified all SVA accounts in commercial banks. They transferred all balances, except those related to donor-funded projects, to BSL disbursement accounts. The BSL is expected to redesignate the disbursement accounts as treasury accounts by end-August 2023.¹⁰

28. Continued efforts to strengthen expenditure transparency are key to improving budget outcomes. The authorities have published detailed information on spending on legacy arrears (**Prior Action #3**) and roads projects (**Prior Action #4**) in 2022 (MEFP Table 2a).

29. The authorities have embarked on gender-responsive budgeting (GRB), supported by IMF TA. The Gender Equality and Women’s Empowerment Act 2022 will help operationalize the [gender policy](#). The authorities have committed to introducing GRB in five pilot ministries in which gender needs assessments are ongoing (MEFP 132).

G. Structural Policies

30. Efforts to reduce energy subsidies continue. The authorities are working with the World Bank to improve EDSA’s financial and operational performance. According to the World Bank, network improvements should reduce average technical and commercial losses from 40 percent in 2022, to 27 (18) percent in 2025 (2030). EDSA plans to adopt a tariff formula that contains the local currency cost of imported fuels and intends to adjust tariffs to reflect the formula on a regular basis (MEFP 130). The authorities have also developed an SOE Ownership Policy (**September 2022 SB**).

31. The authorities are making limited progress in strengthening the national AML/CFT framework. Sierra Leone’s 2020 evaluation of its AML/CFT framework identified significant weaknesses including (i) making beneficial ownership of companies available by amending the 2009 companies act; (ii) enhancing AML/CFT risk-based supervision of NBFIs, particularly exchange houses exposed to FX market manipulation, and monitoring of dealers of precious metals and stones (currently not regulated for AML/CFT purposes); and (iii) strengthening enforcement against money laundering and financial crimes. The authorities plan to complete the now overdue National AML/CFT Risk Assessment by July 2023.

¹⁰ This will allow the BSL to calculate the interest on ways and means advances considering all government balances in BSL accounts.

PROGRAM MODALITIES

32. The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic program and set out future policy commitments. The Technical Memorandum of Understanding (TMU) clarifies program and target definitions.

33. The authorities request completion of the 6th and 7th ECF reviews and waivers of non-observance for the end-June 2022 NCG and the end-December 2022 NCG, GIR and NDA. Staff supports these requests given the strong set of corrective actions, supported by the four prior actions. To correct for breaches in the NCG PC, the authorities have (i) implemented 2.2 percent of GDP in additional revenue measures; (ii) are broadly on track to reduce spending by 5.6 ppts of GDP in 2023 relative to 2022 (¶112); (iii) have bolstered expenditure transparency and accountability (¶128); and (iv) have begun to strengthen budget execution and cash management, including to prevent arrears (¶126/27). The correction in the fiscal position would also provide space for tighter monetary conditions, helping to correct for the slippages in the NDA PC, while the breach in the GIR PC will additionally be supported by the reinforcement of the repatriation requirement. The authorities also request the completion of the financing assurances review and agreed to provide monthly data on key PCs to support high-frequency monitoring under the program (see Attachment I in TMU).

34. The authorities request a five-month extension of the ECF and a rephrasing of disbursements. Disbursements under the 6th and 7th reviews would be reduced by half, and the remaining access would be available at the time of a newly set 8th review with an end-June 2023 test date. Total disbursements under the ECF would remain unchanged. The extension to November 29, 2023, would provide more time to achieve program objectives.

35. New conditionality is proposed. New QPCs and ITs are set for June 2023 to inform the 8th review. Continuous PCs are maintained through the end of the program. Staff proposes three new structural benchmarks to inform the 8th review of the ECF, including (i) including additional revenue measures in the 2024 Finance Act that would yield at least 1 percent of GDP in additional annual revenues; (ii) adopting a new arrears clearance strategy that incorporates outstanding verified domestic arrears as of end-June 2023; and (iii) publishing on the BSL's website detailed information on the redenomination process.

36. Financing assurances are adequate. The ECF is fully financed with firm commitments for the remainder of the program. The cumulative disbursement of SDR 15.555 million under the 6th and 7th reviews will be on-lent to the budget based on the existing Memorandum of Understanding. In the medium term, grant support is expected from development partners. The authorities continue to make good faith efforts to reach a collaborative agreement with external commercial creditors on long-standing pre-HIPC initiative arrears.

37. Risks to the program, including those related to debt sustainability, are considerable but manageable, conditional on the authorities' program ownership. These arise primarily from

the large adjustment need and capacity constraints. Risks are mitigated somewhat by the authorities' commitment to the ECF and its strong conditionality, extensive capacity development plans, and the authorities' strong track record in servicing debt obligations to the Fund.

38. Capacity to repay the Fund remains adequate but subject to high downside risks.

Following exceptional Fund support during past shock episodes (Ebola and COVID-19), outstanding debt to the IMF as a percentage of GDP, at 13.3 percent, is now among the highest in sub-Saharan Africa and in PRGT-eligible countries. Outstanding IMF credit is projected to peak at end-2023 at 173 percent of quota and 103 percent of gross reserves, well above the median PRGT country. Sierra Leone's debt service will increase substantially going forward and is expected to remain elevated in the medium-term with PPG external debt service staying at around 25 percent of revenue until 2026 (DSA Table 3). Annual gross repayments to the Fund are projected to peak in 2024 at 5.1 percent of exports and 1½ percent of GDP (Table 6). Repayment risks can be mitigated through program implementation and improved debt management. While a post program financing gap arises due to protracted BOP needs stemming from continued reform needs, underlying poverty and weak growth (¶17), the capacity to repay remains adequate and debt remains sustainable under realistic financing assumptions.¹¹

39. The technical assistance agenda is integrated with the program. Risks relate mainly to absorptive capacity (Annex III).

40. The authorities expressed interest in a post-program engagement. They are expected to request a successor program.

41. Political assurances. The presidential candidate and the chairman of the main political opposition have expressed support for the overall objectives and key policies of the ECF arrangement. This statement of support, paired with the decisive corrective actions taken by the authorities, suggests that there is sufficient commitment and capacity to implement the program.

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42. The authorities have begun taking decisive steps toward restoring macroeconomic stability. External shocks and loose macroeconomic policies contributed to a surge in inflation, a sharp depreciation of the leone and rising debt sustainability risks last year. The macroeconomic backdrop remains fragile, and the projected stabilization of the economy is predicated on implementing the ambitious adjustment path.

¹¹ The macroeconomic framework assumes that the post program financing gap will be covered by concessional financing under the conservative assumption of an overall grant element of 35.5 percent. Staff assesses that prospects are good for the gap to be filled through a combination of grant resources and concessional loans given that the sum of budget support grants assumed in the framework for the period 2023-27 and the post program financing gap is no larger than the average budget support grant receipts between 2020-22. The authorities continue to engage with donors to secure additional budget support grants.

43. Staff supports the authorities' decision to decisively tighten fiscal policy. A tighter policy stance will help contain inflation and depreciation pressures, limit the crowding out of private credit, create space for priority social spending, and bolster debt sustainability. The urgency of restoring stability calls for a frontloaded adjustment. The authorities should build on recently adopted revenue measures by mobilizing additional tax revenues and grant support and containing expenditures.

44. Monetary policy should focus on bringing down inflation and rebuilding reserve buffers. The pace of base money growth needs to be contained, and policy rates should rise further to signal the BSL's intention to bring inflation down. FX intervention should be strictly limited.

45. Increased efforts are needed to address growing risks to debt sustainability. The authorities' efforts to increasingly issue domestic debt at longer maturities are welcome and should continue. Staff also encourages the authorities to mobilize additional grant resources and take steps to reduce the high debt service burden to prudent levels. Given significant risks, including from policy implementation, contingency planning will be important.

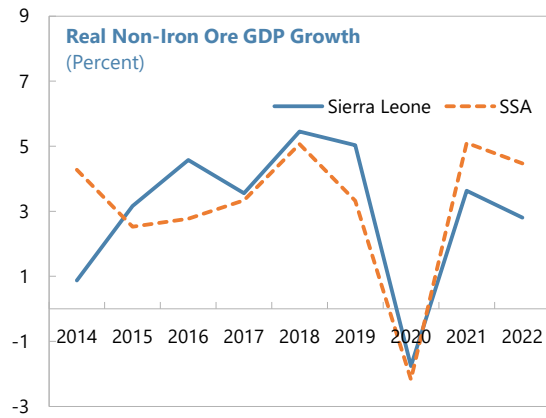
46. The authorities should continue to make progress on structural reforms. Fiscal consolidation will benefit from bolstering EDSA's financial independence and strengthening public financial management. The BSL should further strengthen financial sector governance and supervision, reinforce transparency in the leone redenomination, and build a strong financial safety net and crisis management framework. It should also take timebound action vis-à-vis banks that are in breach of regulatory requirements. Renewed efforts to revive the nascent FX inter-bank market and strengthen the AML/CFT framework are also critical.

47. There is also a need to continue strengthening governance. This includes commitments to time-bound and transparent tribunal proceedings and to meeting legal payment obligations to public sector staff. Resolving these matters will be important in supporting the public accountability framework, anti-corruption efforts and the effective rule of law. Efforts should be made to implement the effective roll out of the Audit Service Amendment Act in which MDA compliance is secured.

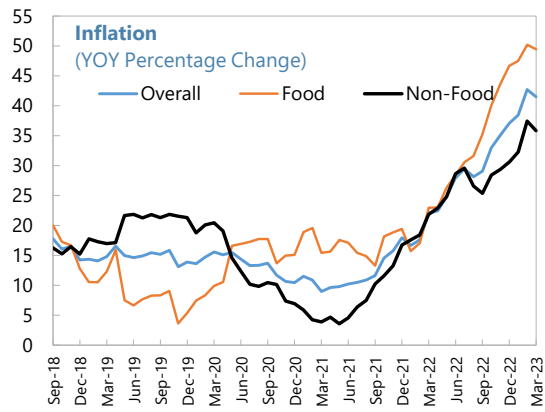
48. Staff supports the completion of the sixth and seventh reviews under the ECF, given the authorities' strong commitment to the program. Staff also supports the request for waivers of the June 2022, and December 2022 performance criteria—based on strong corrective measures—the extension of the arrangement through November 29, 2023, the rephrasing of disbursements, and the completion of the financing assurances review.

Figure 1. Sierra Leone: Real and External Sectors, 2014-22

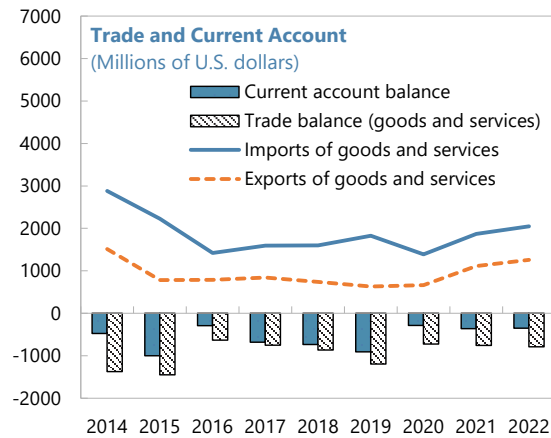
The growth recovery in 2021 was interrupted in 2022...



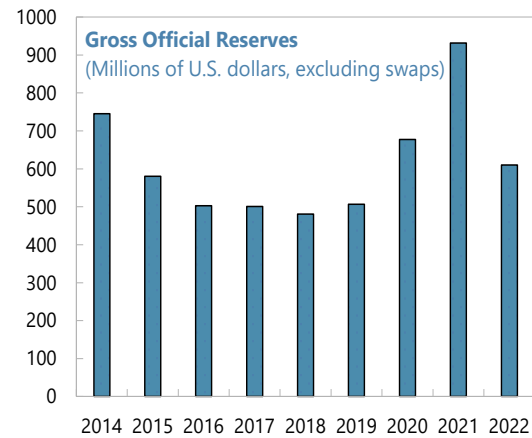
Inflation has increased rapidly, reaching 41.5 percent yoy in March 2023.



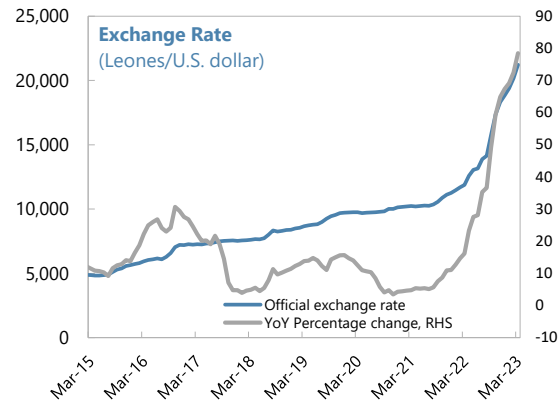
Imports and exports picked up beyond pre-pandemic levels, partly driven by higher prices for fuel and food.



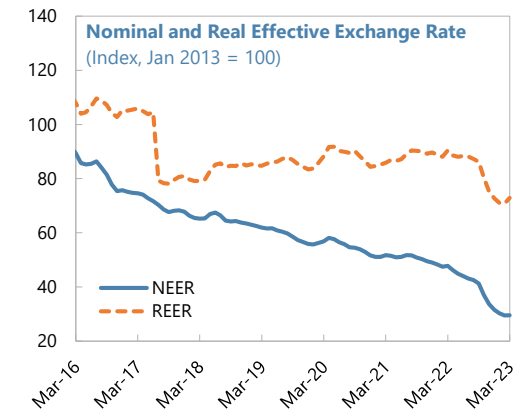
Official reserves were bolstered by the 2021 SDR allocation but dropped in 2022.



The pace of depreciation against the dollar has accelerated sharply since 2022...



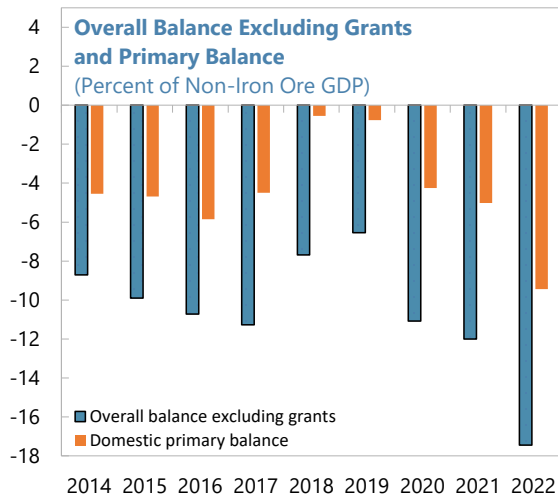
...leading to a sizable adjustment in the REER.



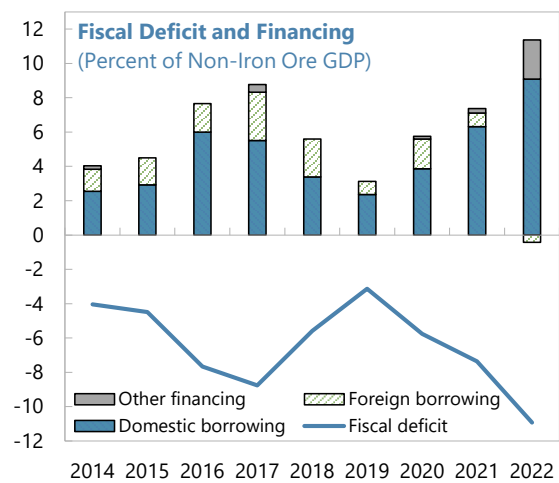
Sources: Sierra Leonean authorities and IMF staff estimates.

Figure 2. Sierra Leone: Fiscal Sector, 2014-22

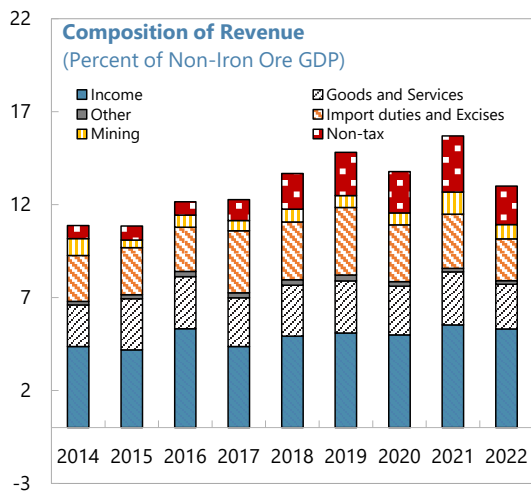
The 2022 overall balance widened relative to 2021 driven by both exogenous and policy related slippages...



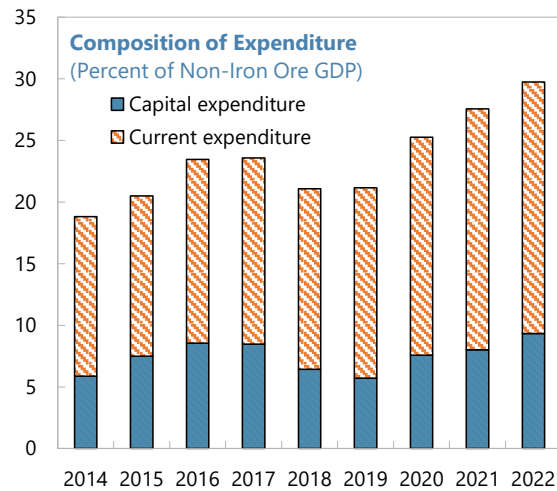
This was largely financed through domestic bank financing and SDR use, while external borrowing turned negative.



Revenue collection edged down in 2022 as import duties, timber and mining revenues disappointed...



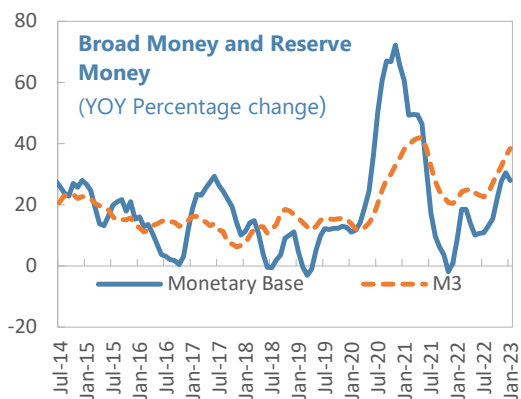
...while expenditures increased further.



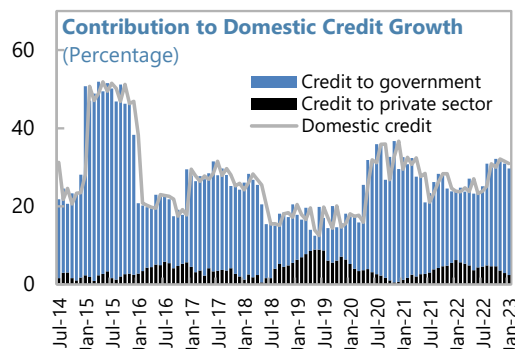
Sources: Sierra Leonean authorities; and IMF staff estimates.

Figure 3. Sierra Leone: Monetary and Financial Indicators, 2014–23

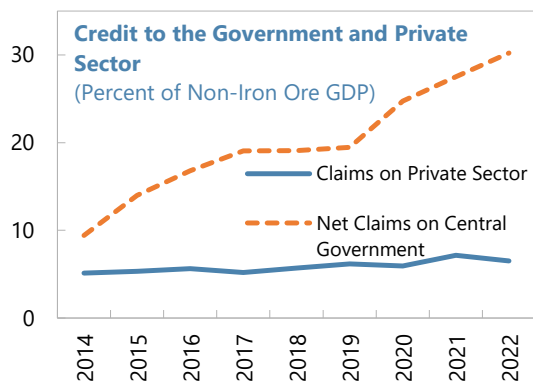
Growth in monetary aggregates increased but remained below nominal GDP growth...



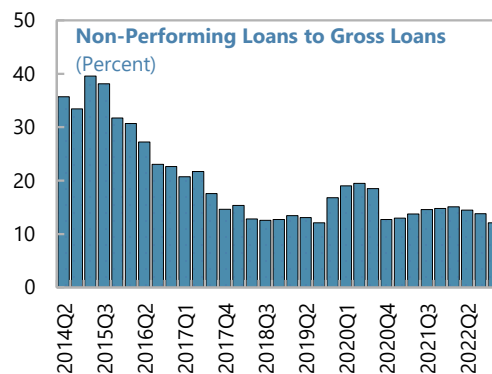
...while private credit growth was crowded out by official sector borrowing



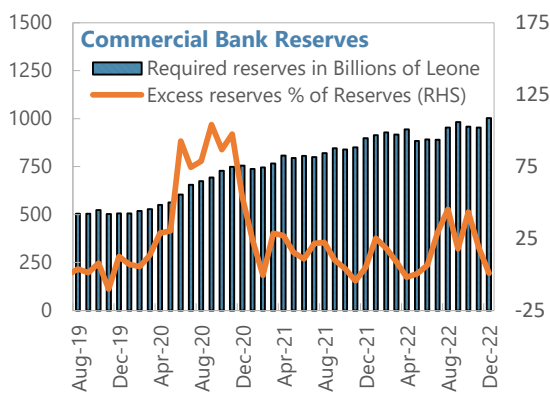
Private credit remains low and edged down as a share of GDP...



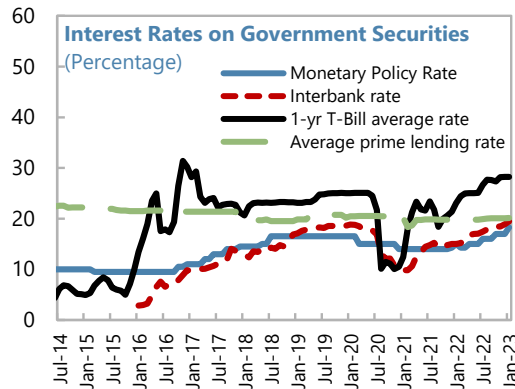
...while NPLs declined modestly.



Excess commercial bank reserves have remained broadly constant...



... and yields on long-term government have risen to pre-pandemic levels.



Sources: Sierra Leonean authorities; and IMF staff estimates.

Table 1. Sierra Leone: Selected Economic Indicators, 2021-28

(Percent of non-iron ore GDP, unless otherwise indicated)

	2021	2022		2023		2024	2025	2026	2027	2028
	Est.	ECF 5th Rev 1/	Proj. 2/	ECF 5th Rev 1/	Proj. 2/	Proj. 2/				
National account and prices										
Growth										
GDP at constant prices	4.1	3.6	3.6	3.4	2.7	4.7	5.2	4.5	4.5	4.6
GDP excluding Iron ore	3.6	2.4	2.8	3.2	2.6	4.6	5.1	4.6	4.5	4.6
GDP excluding mining	2.9	3.0	3.2	3.4	2.6	4.7	4.7	4.7	4.7	4.7
GDP deflator	6.7	15.8	21.4	17.9	34.7	24.2	16.6	12.8	9.5	7.8
Inflation										
Consumer prices (end-of-period)	17.9	22.1	37.1	19.6	36.4	21.7	16.8	12.3	9.8	8.0
Consumer prices (average)	11.9	21.7	27.2	21.0	41.9	29.1	19.3	14.6	11.1	8.9
External sector										
Terms of trade (deterioration -)	-16.0	-11.5	-13.9	3.4	1.8	0.9	1.4	1.3	1.0	0.7
Exports of goods	72.0	30.6	16.1	6.8	-7.9	3.4	10.1	5.3	7.3	5.3
Imports of goods	33.5	9.6	7.1	-4.1	-12.6	0.0	2.0	3.8	5.7	6.0
Gross international reserves (excl. swaps) (months of next year's imports)	5.5	4.0	4.0	3.5	3.4	3.2	3.0	3.0	3.1	3.2
Money, credit and reserves										
Domestic credit to the private sector	32.9	22.8	11.9	30.4	18.2	19.4	19.4	19.6	20.2	20.1
Domestic credit to the private sector (percent of non-iron GDP)	7.2	7.3	6.5	7.9	5.6	5.2	5.0	5.1	5.4	5.7
Base money	8.7	1.3	25.6	20.4	15.3	17.0	16.0	13.4	11.0	8.9
M3	22.1	10.1	41.1	16.8	15.3	17.0	16.0	13.4	11.0	8.9
Gross international reserves (excl. swaps) (US\$ millions)	932	689	610	600	521	490	485	512	558	617
Net international reserves (excl. swaps) (US\$ millions)	355	120	82	71	-4	25	86	183	293	417
National accounts										
Gross capital formation	10.8	17.3	12.0	18.0	11.1	11.6	13.1	14.4	14.6	14.5
Government	4.3	7.3	5.0	7.0	3.6	3.6	3.6	3.4	3.6	3.5
Private	6.5	10.0	7.0	11.0	7.5	8.0	9.5	11.0	11.0	11.0
National savings	2.1	3.7	2.9	7.1	3.9	5.8	10.0	11.7	12.3	10.3
Financing and debt										
Public debt	79.8	80.8	98.9	80.4	92.2	84.3	79.6	72.9	67.3	66.6
Domestic	28.7	22.9	31.3	22.2	25.2	24.0	23.6	22.8	21.5	20.9
External public debt (including IMF)	51.1	57.9	67.7	58.2	67.0	60.3	56.0	50.1	45.9	45.6
External sector										
Current account balance										
(including official grants)	-8.7	-13.6	-9.2	-10.9	-7.3	-5.8	-3.1	-2.7	-2.3	-4.2
(excluding official grants)	-11.6	-16.9	-13.0	-13.6	-10.5	-9.0	-6.2	-5.6	-5.0	-5.3
Central government budget										
Domestic primary balance 3/	-5.0	-2.5	-9.4	0.3	-2.5	-0.1	1.0	1.6	1.7	1.9
Overall balance	-7.4	-4.1	-10.9	-2.8	-5.6	-2.8	-2.4	-2.4	-2.1	-4.3
Overall balance (excluding grants)	-12.0	-9.9	-17.4	-7.3	-11.0	-8.7	-7.2	-6.3	-5.7	-5.0
Revenue (excluding grants) 4/	15.7	14.7	13.0	15.0	14.1	15.9	17.0	17.3	17.5	17.5
Grants	4.6	5.8	6.5	4.5	5.4	5.8	4.8	4.0	3.7	0.7
Total expenditure and net lending	28.4	25.1	30.8	22.3	25.2	24.5	24.2	23.7	23.2	22.5
Memorandum item:										
GDP at market prices (Leone billions)	44,360	54,926	55,774	66,987	77,139	100,323	123,038	145,102	165,942	187,058
Excluding iron ore (Leone billions)	44,069	52,857	54,220	64,361	74,733	96,856	118,218	138,935	159,121	179,793
Excluding iron ore (US\$ millions)	4,121	4,041	3,860	3,924	3,394	3,483	3,632	3,891	4,284	4,635
Per capita GDP (US)	509	505	478	481	413	417	428	451	486	514
National currency per US dollar (average) (Leone)	10,695	..	14,047	..	..	..	..	..	..	..
National currency per US dollar (EOP) (Leone)	11,256	..	18,835	..	..	..	..	..	..	..

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

1/ See *Sierra Leone: 5th Review Under the Extended Credit Facility (CR/22/259)*, July 2022.

2/ The macro framework reflects a scenario as part of which the authorities take the necessary measures to ensure a credible medium term fiscal framework.

3/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed capital spending, and arrears paydown from grants.

4/ Excludes transfers related to CCRT debt relief from 2020 through 2021.

Table 2a. Sierra Leone: Fiscal Operations of the Central Government, 2022-28
(Billions of Leone)

	2022	2023		2024	2025	2026	2027	2028
	Prel.	ECF 5th Rev ^{1/}	Proj.	Proj.				
Total revenue and grants	10792	12578	14594	21036	25788	29569	33677	32,696
Revenue	7046	9666	10562	15371	20071	24071	27868	31,458
Tax revenue	5921	8023	8952	13344	17551	21118	24494	27,654
Personal Income Tax	1763	2572	2484	3316	4165	4901	5520	6,307
Corporate Income Tax	1114	975	1611	2185	2785	3412	3908	4,416
Goods and Services Tax	1308	1820	2153	3550	4805	6064	7264	8,207
Excises	373	729	651	1040	1511	1781	2037	2,298
Import duties	850	1214	1176	2110	2822	3243	3866	4,314
Mining royalties and licenses	415	533	699	882	1162	1355	1475	1,623
Other taxes	98	179	179	261	299	361	424	489
Non-tax	1125	1643	1609	2028	2520	2953	3374	3,805
o/w timber revenue	76	341	0	0	0	0	0	0
Other, Capital Transfers from BSL (CCRT Debt Relief)	218	0	0	0	0	0	0	0
Grants	3528	2912	4033	5665	5717	5497	5809	1,238
Expenditures and net lending	16722	14368	18811	23772	28639	32892	36970	40,479
Current expenditures	11064	9645	13504	17174	20489	23768	26039	28,628
Wages and salaries ^{2/}	4346	4636	5261	7009	8514	9945	11386	12,807
Goods and services	2446	1594	2239	3022	3786	4459	5106	5,743
Subsidies and transfers	2442	1704	2876	3146	3806	4423	5067	5,722
o/w elections	358	91	395	0	0	0	0	0
o/w Transfers to energy IPPs	746	324	1112	1345	1515	1695	1913	2152
Interest	1830	1711	3128	3997	4383	4941	4481	4,357
Domestic	1632	1490	2877	3595	3835	4302	3802	3,585
Foreign	199	221	250	402	548	639	679	771
Capital Expenditure	5062	4484	5052	6428	7890	8865	10680	11,601
Foreign financed	2180	2986	2986	4165	5083	5892	7095	7,916
Domestic financed	2883	1498	2066	2263	2806	2973	3586	3,685
o/w school feeding program	129	116	289	484	650	903	1193	1348
Net lending	0	0	0	0	0	0	0	0
Contingent expenditure	46	53	68	0	0	0	0	0
Arrears Paydown (cash)	549	186	186	170	260	259	250	250
Domestic primary balance ^{3/}	-5116	181	-1904	-69	1159	2272	2724	3,502
Overall balance including grants	-5930	-1790	-4217	-2736	-2851	-3323	-3293	-7,783
Financing	5930	1790	4217	2736	2851	3323	3293	7,783
External financing (net)	-232	284	-589	-826	-83	1120	2328	5,365
Borrowing	701	1333	1016	1117	2379	3750	4829	7,916
Amortization	-933	-1049	-1605	-1943	-2462	-2630	-2501	-2,551
Domestic financing (net)	4928	1382	2939	3562	2933	2203	965	2,418
Total Banking Sector (net)	4274	1069	2520	3274	2757	1945	813	1918
Banks, net of onlending	4108	1298	2272	4475	4252	3918	2897	3998
SDR onlending, Net ^{4/}	167	-228	248	-1201	-1495	-1973	-2083	-2080
Non-Bank Sector	204	313	569	288	176	258	152	500
Other ^{5/}	450	0	-150	0	0	0	0	0
Other, Use of SDR allocations	1233	200	1866	0	0	0	0	0
Financing Gap	0	0	0	0	0	0	0	0

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

^{1/} See *Sierra Leone: 5th Review Under the Extended Credit Facility (CR/22/259)*, July 2022

^{2/} Starting in 2019, tertiary education wages are classified in the wage bill rather than under subsidies and transfers.

^{3/} Revenue less expenditures and net lending adjusted for interest payments, foreign financed CAPEX and elections, and arrears paydown.

^{4/} SDR onlending, Net is the onlent amount for budget support based on the IMF program disbursements

^{5/} Other includes discrepancy and the corresponding transaction for securities issued to reduce the stock of arrears.

Table 2b. Sierra Leone: Fiscal Operations of the Central Government, 2022-28
(Percent of non-iron ore GDP)

	2022	2023		2024	2025	2026	2027	2028
	Prel.	ECF 5th Rev 1/	Proj.			Proj.		
Total revenue and grants	19.9	19.5	19.5	21.7	21.8	21.3	21.2	18.2
Revenue	13.0	15.0	14.1	15.9	17.0	17.3	17.5	17.5
Tax revenue	10.9	12.5	12.0	13.8	14.8	15.2	15.4	15.4
Personal Income Tax	3.3	4.0	3.3	3.4	3.5	3.5	3.5	3.5
Corporate Income Tax	2.1	1.5	2.2	2.3	2.4	2.5	2.5	2.5
Goods and Services Tax	2.4	2.8	2.9	3.7	4.1	4.4	4.6	4.6
Excises	0.7	1.1	0.9	1.1	1.3	1.3	1.3	1.3
Import duties	1.6	1.9	1.6	2.2	2.4	2.3	2.4	2.4
Mining royalties and licenses	0.8	0.8	0.9	0.9	1.0	1.0	0.9	0.9
Other taxes	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Non-tax	2.1	2.6	2.2	2.1	2.1	2.1	2.1	2.1
o/w timber revenue	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Other, Capital Transfers from BSL (CCRT Debt Relief)	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	6.5	4.5	5.4	5.8	4.8	4.0	3.7	0.7
Expenditures and net lending	30.8	22.3	25.2	24.5	24.2	23.7	23.2	22.5
Current expenditures	20.4	15.0	18.1	17.7	17.3	17.1	16.4	15.9
Wages and salaries 2/	8.0	7.2	7.0	7.2	7.2	7.2	7.2	7.1
Goods and services	4.5	2.5	3.0	3.1	3.2	3.2	3.2	3.2
Subsidies and transfers	4.5	2.6	3.8	3.2	3.2	3.2	3.2	3.2
o/w elections	0.7	0.1	0.5	0.0	0.0	0.0	0.0	0.0
o/w Transfers to energy IPPs	1.4	0.5	1.5	1.4	1.3	1.2	1.2	1.2
Interest	3.4	2.7	4.2	4.1	3.7	3.6	2.8	2.4
Domestic	3.0	2.3	3.9	3.7	3.2	3.1	2.4	2.0
Foreign	0.4	0.3	0.3	0.4	0.5	0.5	0.4	0.4
Capital Expenditure	9.3	7.0	6.8	6.6	6.7	6.4	6.7	6.5
Foreign financed	4.0	4.6	4.0	4.3	4.3	4.2	4.5	4.4
Domestic financed	5.3	2.3	2.8	2.3	2.4	2.1	2.3	2.0
o/w School feeding program	0.2	0.2	0.4	0.5	0.6	0.7	0.8	0.8
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent expenditure	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Arrears Paydown (cash)	1.0	0.3	0.2	0.2	0.2	0.2	0.2	0.1
Domestic primary balance 3/	-9.4	0.3	-2.5	-0.1	1.0	1.6	1.7	1.9
Overall balance including grants	-10.9	-2.8	-5.6	-2.8	-2.4	-2.4	-2.1	-4.3
Financing	10.9	2.8	5.6	2.8	2.4	2.4	2.1	4.3
External financing (net)	-0.4	0.4	-0.8	-0.9	-0.1	0.8	1.5	3.0
Borrowing	1.3	2.1	1.4	1.2	2.0	2.7	3.0	4.4
Projects	1.3	2.1	1.4	1.2	2.0	2.7	3.0	3.0
Budget	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4
Amortization	-1.7	-1.6	-2.1	-2.0	-2.1	-1.9	-1.6	-1.4
Domestic financing (net)	9.1	2.1	3.9	3.7	2.5	1.6	0.6	1.3
Total Banking Sector (net)	7.9	1.7	3.4	3.4	2.3	1.4	0.5	1.1
Banks, net of onlending	7.6	2.0	3.0	4.6	3.6	2.8	1.8	2.2
SDR onlending, Net 4/	0.3	-0.4	0.3	-1.2	-1.3	-1.4	-1.3	-1.2
Non-Bank Sector	0.4	0.5	0.8	0.3	0.1	0.2	0.1	0.3
Other 5/	0.8	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Other, Use of 2021 SDR allocations	2.3	0.3	2.5	0.0	0.0	0.0	0.0	0.0
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:								
Non-iron ore GDP (Leone billions)	54,220	64,361	74,733	96,856	118,218	138,935	159,121	179,793

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

1/ See *Sierra Leone: 5th Review Under the Extended Credit Facility (CR/22/259)*, July 2022

2/ Starting in 2019, tertiary education wages are classified in the wage bill rather than under subsidies and transfers.

3/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed CAPEX and elections spending, and arrears paydown.

4/ SDR onlending, Net is the onlent amount for budget support based on the IMF program

5/ Other includes discrepancy and the corresponding transaction for securities issued to reduce the stock of arrears.

Table 2c. Sierra Leone: Fiscal Operations of the Central Government on a Quarterly Basis (2023-24)
(Billions of Leone)

	2023					2024				
	Q1 Proj	Q2 Proj.	Q3 Proj.	Q4 Proj.	annual	Q1 Proj	Q2 Proj.	Q3 Proj.	Q4 Proj.	annual
Revenue	2279	2524	2588	3170	10562	3671	3913	3675	4112	15371
Personal Income Tax	589	620	648	626	2484	959	828	866	663	3316
Corporate Income Tax	272	455	336	548	1611	481	617	456	631	2185
Goods and Services Tax	449	529	537	638	2153	735	875	888	1052	3550
Excises	75	78	214	284	651	260	303	265	212	1040
Import Duties	240	339	285	312	1176	485	608	511	506	2110
Other	654	504	568	761	2487	750	682	690	1048	3171
Grants	504	669	2108	752	4033	762	762	2594	1546	5665
Expenditure	4626	5163	4496	4527	18811	5913	6160	5760	5939	23772
Wages 1/	1320	1397	1300	1244	5261	1773	1752	1731	1753	7009
Goods and Services	397	627	537	678	2239	756	756	756	756	3022
Subsidies and Transfers	741	849	644	642	2876	787	787	787	787	3146
Other	40	0	0	28	68	0	0	0	0	0
Interest	735	782	782	829	3128	999	999	999	999	3997
Capital Expenditure	1391	1461	1177	1023	5052	1556	1824	1445	1602	6428
Foreign	747	882	764	593	2986	970	1190	1060	944	4165
Domestic	645	578	413	429	2066	587	634	385	658	2263
o/w school feeding	0	72	72	144	289	121	121	121	121	484
Arrears Paydown (cash)	0	47	56	84	186	43	43	43	43	170
Domestic primary balance 2/	-864	-903	-299	162	-1904	-231	-15	17	160	-69
Overall Balance incl. grants	-1843	-1970	201	-605	-4217	-1480	-1485	509	-280	-2736
Financing	1843	1970	-201	605	4217	1480	1485	-509	280	2736
Foreign	-332	-11	-130	-116	-589	-278	-57	-188	-304	-826
Disbursement (Projects)	254	390	271	101	1016	208	429	298	182	1117
Disbursement (Budget)	0	0	0	0	0	0	0	0	0	0
Amortization	-586	-401	-401	-217	-1605	-486	-486	-486	-486	-1943
Domestic	1379	1514	-538	584	2939	1758	1542	-322	583	3562
Total Banking Sector, Net	1254	1410	-657	514	2520	1686	1470	-394	511	3274
o/w Banks, net of onlending	1401	1138	-509	241	2272	1868	1888	-211	930	4475
o/w SDR onlending, Net 3/	-148	271	-148	272	248	-182	-418	-182	-418	-1201
Non-Bank	21	142	157	249	569	72	72	72	72	288
Government Securities, General	21	168	201	280	670	150	150	150	150	600
Government Securities, Arrears-Related	0	-25	-44	-32	-101	-78	-78	-78	-78	-312
o/w Pre-Arrears Strategy	0	-13	-32	-7	-52	-66	-66	-66	-66	-263
o/w Post-Arrears Strategy	0	-12	-12	-24	-49	-12	-12	-12	-12	-49
Other 4/	104	-37	-38	-179	-150	0	0	0	0	0
Change in Unpaid Checks(+=accumul.)	104	-38	-38	-179	-150	0	0	0	0	0
Change in Arrears (Timing Discrepancy)	0	0	0	0	0	0	0	0	0	0
Statistical Discrepancy (- = overfinanced)	0	0	0	0	0	0	0	0	0	0
Use of SDR allocations	796	467	467	137	1866	0	0	0	0	0
Financing Gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Total Bank Financing, excluding special bonds 4/	0	0	0	0	0	0	0	0	0	0

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

1/ Starting in 2019, tertiary education wages are classified in the wage bill rather than under subsidies and transfers.

2/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed capital spending, and arrears paydown from grants.

3/ SDR onlending, Net is the onlent amount for budget support based on the IMF program disbursements.

4/ Other includes discrepancy and the corresponding transaction for securities issued to reduce the stock of arrears, as well as domestic financing discrepancies.

Table 3. Sierra Leone: Monetary Accounts, 2022-28¹
(Billions of Leone, unless otherwise indicated)

	2022	2023				2024	2025	2026	2027	2028
	Act.	Proj.				Projections				
	Dec	Mar	Jun	Sep	Dec					
I. Monetary Survey										
Net foreign assets	10099	9634	8662	9484	8952	11360	14944	20253	26100	33043
Net domestic assets	10200	10746	12487	12087	14446	16016	16812	15760	13876	10491
Net domestic credit	19710	21035	22725	22387	22873	26959	30688	33805	36064	39713
Claims on central government (net) 2/	16385	17639	19049	18392	18905	22181	24939	26886	27702	29622
Claims on private sector	3539	3610	3891	4210	4183	4993	5964	7133	8578	10305
Claims on others 3/	-215	-215	-215	-215	-215	-215	-215	-215	-215	-215
Other items (net)	-9509	-10289	-10238	-10299	-8427	-10943	-13876	-18045	-22188	-29222
Money and quasi-money (M3)	20299	20380	21149	21572	23398	27376	31756	36013	39976	43534
II. Bank of Sierra Leone										
Net foreign assets	1859	1252	138	817	143	1053	2988	6695	11050	16654
Net domestic assets	3919	4783	5882	5323	6517	6739	6051	3556	329	-4262
Net domestic credit 4/	8411	9293	10181	9422	9725	9975	9443	7106	4067	139
Claims on other depository corporations	733	1316	1847	1156	1134	1750	1741	436	-1379	-4006
Claims on central government	7677	7976	8332	8265	8590	8224	7701	6670	5445	4144
Claims on other sectors	1	1	1	1	1	1	1	1	1	1
Other items (net) 5/	-4492	-4510	-4298	-4099	-3208	-3236	-3392	-3550	-3738	-4401
Reserve money	5778	6035	6020	6140	6660	7792	9039	10251	11379	12392
Memorandum items:										
	(Annual percent change unless otherwise indicated)									
Base money	25.6	34.0	34.1	30.3	15.3	17.0	16.0	13.4	11.0	8.9
M3	41.1	34.4	38.3	26.6	15.3	17.0	16.0	13.4	11.0	8.9
Credit to the private sector (growth)	11.9	12.4	14.8	16.5	18.2	19.4	19.4	19.6	20.2	20.1
BSL Holdings of marketable government securities (Leones)	3594	3950	3940	4019	4096	4792	5559	6304	6998	7621
Velocity 6/	3.1	..	..	..	3.4	3.8	4.0	4.1	4.2	4.3
Money multiplier (M3/base money)	3.5	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Credit to the private sector (in percent of non iron ore GDP)	6.5	..	..	..	5.6	5.2	5.0	5.1	5.4	5.7
Nominal exchange rate, average (Leones/US\$)	17,759	..	..	..	..	..	..	..	..	..
Nominal exchange rate, end of period (Leones/US\$)	18,835	..	..	..	..	..	..	..	..	..

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

1/ End of period.

2/ The large increase in 2020 reflects the RCF disbursement, which is onlent from the central bank to the ministry of finance.

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

4/ Includes SDR onlending.

5/ Includes valuation. The decrease in September 2021 is the counterpart of the increase in reserves due to the SDR allocation in August.

6/ Velocity is calculated as non-iron ore GDP /the average of M3 at the end of the current year and the preceding year.

Table 4. Sierra Leone: Balance of Payments, 2021-28
(Millions of U.S. dollars, unless otherwise indicated)

	2021	2022		2023		2024	2025	2026	2027	2028
	Est.	ECF 5th Rev 1/	Proj.	ECF 5th Rev 1/	Proj.			Proj.		
Current account	-360.6	-549.5	-353.2	-426.3	-246.9	-201.8	-114.0	-105.0	-98.7	-193.5
Trade balance	-584.7	-604.3	-532.6	-458.2	-408.9	-369.9	-282.9	-275.8	-270.7	-298.0
Exports, f.o.b.	1,046.6	1,105.9	1,215.1	1,181.3	1,119.3	1,157.7	1,274.6	1,341.5	1,438.9	1,514.5
<i>of which:</i> Diamonds	261.1	249.4	243.9	250.5	269.6	285.8	325.1	333.8	342.8	352.0
Iron ore	144.8	404.8	452.4	474.3	390.2	452.0	516.2	553.8	564.9	606.2
Rutile and ilmenite	168.1	177.8	217.7	181.1	181.1	111.8	116.1	120.8	125.7	130.7
Imports, f.o.b.	-1,631.3	-1,710.2	-1,747.7	-1,639.5	-1,528.2	-1,527.6	-1,557.5	-1,617.3	-1,709.6	-1,812.5
<i>of which:</i> Oil	-269.3	-431.6	-414.5	-387.0	-361.8	-356.5	-353.2	-351.6	-352.7	-357.3
Services (net)	-170.0	-362.0	-254.9	-364.2	-234.4	-235.3	-243.8	-254.4	-268.6	-285.0
Income (net)	-72.3	-68.0	-63.1	-67.4	-53.7	-58.2	-62.7	-67.1	-72.4	-78.3
<i>of which:</i> Interest on public debt	-12.7	-13.4	-15.0	-14.3	-11.2	-14.5	-16.9	-17.9	-18.3	-19.9
Transfers	466.5	484.7	497.4	463.4	450.1	461.5	475.2	492.3	513.1	467.9
Official transfers (net)	119.4	134.0	149.8	108.9	108.6	109.9	111.2	112.6	114.0	50.5
Other transfers (net)	347.1	350.7	347.6	354.6	341.5	351.7	364.0	379.7	399.1	417.3
Capital and financial account	589.0	381.9	54.7	381.9	181.0	196.1	137.4	164.0	171.0	277.3
Capital account	105.7	144.9	107.2	134.3	91.1	111.3	84.9	61.9	63.1	2.3
<i>of which:</i> Project support grants	89.8	110.7	105.3	100.8	89.5	109.6	83.1	60.0	61.0	0.0
Financial account	483.3	163.9	-52.5	247.6	89.9	84.8	52.5	102.1	107.9	275.0
Foreign direct and portfolio investment	212.3	122.1	52.2	219.5	4.9	84.4	36.4	75.0	52.6	125.4
Other investment	271.0	41.9	-104.7	28.1	85.0	0.4	16.1	27.1	55.4	149.6
<i>of which:</i> Public sector (net)	80.1	20.7	-14.0	17.3	-26.7	-29.7	-2.5	31.4	62.7	138.3
Disbursements	81.9	86.8	49.9	81.3	46.2	40.2	73.1	105.0	130.0	204.1
Amortization	-49.2	-66.1	-63.9	-64.0	-72.9	-69.9	-75.6	-73.6	-67.3	-65.8
Errors and omissions	-79.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	149.0	-240.7	-298.5	-44.4	-65.9	-5.7	23.4	59.1	72.4	83.8
Financing	-149.0	44.4	298.5	44.4	65.9	-34.3	-63.4	-99.1	-112.4	-123.8
Change in net central bank reserves (- increase)	-206.5	48.8	301.2	48.8	70.3	-29.9	-61.1	-96.9	-110.7	-123.8
<i>of which:</i> Change in gross central bank reserves (- increase)	-254.6	242.6	321.3	89.3	89.2	31.7	4.2	-26.7	-45.4	-59.8
<i>of which:</i> Net use of Fund credit	48.0	-40.5	-20.1	-40.5	-18.9	-61.5	-65.3	-70.1	-65.3	-63.9
Disbursements	94.5	43.4	20.8	21.9	41.9	0.0	0.0	0.0	0.0	0.0
Repayments	-46.5	-42.6	-40.9	-62.4	-60.8	-61.5	-65.3	-70.1	-65.3	-63.9
Exceptional financing	57.6	-2.7	-2.7	-4.4	-4.4	-4.4	-2.2	-2.2	-1.7	0.0
CCRT first tranche	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CCRT second tranche	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CCRT third tranche	21.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CCRT fourth tranche and fifth tranche	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DSSI (deferment)	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DSSI (repayment)	0.0	-4.4	-2.7	-4.4	-4.4	-4.4	-2.2	-2.2	-1.7	-1.7
Financing gap	0.0	0.0	0.0	0.0	0.0	40.0	40.0	40.0	40.0	40.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	40.0	40.0	40.0	40.0	40.0
Memorandum items										
	(Percent of non-iron ore GDP unless otherwise indicated)									
Current account	-8.7	-13.6	-9.2	-10.9	-7.3	-5.8	-3.1	-2.7	-2.3	-4.2
Trade balance	-14.2	-15.0	-13.8	-11.7	-12.0	-10.6	-7.8	-7.1	-6.3	-6.4
Capital and financial account	14.3	7.6	1.4	9.7	5.3	5.6	3.8	4.2	4.0	6.0
Overall balance	3.6	-6.0	-7.7	-1.1	-1.9	-0.2	0.6	1.5	1.7	1.8
Budget support (grants and loans)	2.4	2.5	3.4	1.9	2.7	2.6	2.5	2.4	2.2	2.1
Budget support (grants and loans)	100.7	100.0	130.9	75.0	90.0	91.3	92.6	93.9	95.4	96.9
Gross international reserves (including swaps)	948	706	627	600	531	500	485	512	558	617
Gross international reserves (excluding swaps)	932	689	610	600	521	490	485	512	558	617
Gross international reserves (excluding swaps) (months of next year's imports)	5.5	4.0	4.0	3.5	3.4	3.2	3.0	3.0	3.1	3.2
National currency per US dollar (average)	10,695	...	14,047	...	...	...	...	...	...	...

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

1/ See *Sierra Leone: 5th Review Under the Extended Credit Facility (CR/22/259)*, July 2022

Table 5. Sierra Leone: External Financing Requirements and Sources, 2021-28
(Millions of U.S. dollars)

	2021	2022		2023		2024	2025	2026	2027	2028
	Prel.	ECF 5th Rev 1/	Proj.	ECF 5th Rev 1/	Proj.			Proj.		
Financing needs	-830	-550	-286	-651	-400	-333	-362	-388	-391	-434
Current account balance (excluding net official current transfers)	-480	-684	-503	-535	-356	-312	-225	-218	-213	-244
Debt amortization (excluding IMF)	-49	-66	-64	-64	-73	-70	-76	-74	-67	-66
Gross international reserves accumulation (- increase)	-255	243	321	11	89	110	4	-27	-45	-60
Repayments to IMF	-47	-43	-41	-62	-61	-62	-65	-70	-65	-64
Financing sources	758	509	268	633	363	297	324	350	352	394
Capital account	106	145	107	134	91	111	85	62	63	2
Disbursements from official creditors (excluding IMF)	82	87	50	81	46	40	73	105	130	204
Net official current transfers	119	134	150	109	109	110	111	113	114	51
Foreign direct and portfolio investment	212	122	52	219	5	84	36	75	53	125
Net acquisition of financial assets of commercial banks (- increase)	-114	-14	-113	-24	90	8	-4	-26	-30	-11
Other	352	35	22	114	22	-56	22	22	22	22
Errors and omissions	-79	0	0	0	0	0	0	0	0	0
Other financing sources	152	41	18	18	37	-4	-2	-2	-2	0
Disbursements from IMF	95	43	21	22	42	0	0	0	0	0
Exceptional financing	58	-3	-3	-4	-4	-4	-2	-2	-2	0
CCRT first tranche	0	0	0	0	0	0	0	0	0	0
CCRT second tranche	0	0	0	0	0	0	0	0	0	0
CCRT third tranche	22	0	0	0	0	0	0	0	0	0
CCRT fourth tranche and fifth tranche	25	0	0	0	0	0	0	0	0	0
DSSI (deferment)	11	0	0	0	0	0	0	0	0	0
DSSI (repayment)	0	-4	-3	-4	-4	-4	-2	-2	-2	-2
Financing gap	0	0	0	0	0	40	40	40	40	40
Unidentified financing	0	0	0	0	0	40	40	40	40	40
Memorandum items										
Gross international reserves (excluding swaps)	932	689	610	600	521	490	485	512	558	617
Gross international reserves (excluding swaps) (months of next year's imports)	5.5	4.0	4.0	3.5	3.4	3.2	3.0	3.0	3.1	3.2

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

1/ See Sierra Leone: 5th Review Under the Extended Credit Facility (CR/22/259), July 2022

Table 6. Sierra Leone: Indicators of Capacity to Repay the Fund, 2023-34

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Fund obligations based on existing credit (millions of SDRs)												
Principal	36.7	45.6	48.5	51.2	48.8	46.5	43.4	28.3	12.9	1.6	0.0	0.0
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit (millions of SDRs)												
Principal	36.7	45.6	48.5	52.2	48.8	48.0	49.6	34.5	19.1	7.8	4.7	0.0
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit												
In millions of SDRs	36.7	45.7	48.6	52.3	48.9	48.1	49.7	34.6	19.2	7.9	4.8	0.1
In millions of US\$	49.4	61.7	65.4	70.2	65.4	64.0	64.8	44.3	24.0	9.7	5.7	0.1
In percent of exports of goods and services	4.2	5.1	4.9	5.0	4.3	4.0	3.7	2.4	1.3	0.5	0.3	0.0
In percent of total debt service 1/	33.7	42.8	42.9	44.6	42.6	39.9	40.3	30.1	17.5	7.1	4.1	0.1
In percent of GDP	1.4	1.7	1.7	1.7	1.5	1.3	1.3	0.8	0.4	0.2	0.1	0.0
In percent of gross international reserves	10.6	13.4	13.6	13.8	12.0	10.9	10.5	6.7	3.4	1.3	0.7	0.0
In percent of quota	17.7	22.0	23.4	25.2	23.6	23.2	23.9	16.7	9.2	3.8	2.3	0.0
Outstanding Fund credit based on existing and prospective credit												
In millions of SDRs	357.8	312.2	263.7	212.5	163.6	115.6	66.1	31.5	12.4	4.7	0.0	0.0
In millions of US\$	481.5	421.3	355.1	285.3	218.8	154.0	86.2	40.4	15.6	5.7	0.0	0.0
In percent of exports of goods and services	41.1	34.8	26.7	20.4	14.5	9.7	5.0	2.2	0.8	0.3	0.0	0.0
In percent of total debt service 1/	328.3	292.6	232.9	181.1	142.5	96.1	53.6	27.4	11.4	4.2	0.0	0.0
In percent of GDP	13.7	11.7	9.4	7.0	4.9	3.2	1.7	0.7	0.3	0.1	0.0	0.0
In percent of gross international reserves	103.2	91.7	73.6	56.2	40.1	26.1	14.0	6.1	2.2	0.8	0.0	0.0
In percent of quota	172.5	150.5	127.1	102.4	78.9	55.8	31.9	15.2	6.0	2.3	0.0	0.0
Net use of Fund credit (millions of SDRs)												
Disbursements	-5.5	-45.6	-48.5	-52.2	-48.8	-48.0	-49.6	-34.5	-19.1	-7.8	-4.7	0.0
Repayments	31.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	36.7	45.6	48.5	52.2	48.8	48.0	49.6	34.5	19.1	7.8	4.7	0.0
Memorandum items												
Exports of goods and services (millions of US\$)	1,172	1,211	1,331	1,402	1,505	1,586	1,731	1,808	1,904	2,022	2,139	2,255
Total debt service (millions of US\$) 1/	147	144	152	158	154	160	161	147	137	136	140	144
Nominal GDP (millions of US\$)	3,519	3,605	3,779	4,063	4,469	4,826	5,119	5,439	5,775	6,129	6,504	6,899
Gross international reserves (millions of US\$)	466	459	483	508	545	590	616	657	701	747	791	838
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

Source: IMF staff estimates and projections.

1/ Total debt service includes repayments to IMF.

Table 7a. Sierra Leone: Existing Schedule of Disbursements Under the ECF Arrangement (2018-23)

Availability	Disbursements		Conditions for Disbursement
	In millions of SDRs	In percent of quota 1/	
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 continuous and December 31, 2018 performance criteria
December 1, 2019	15.555	7.50	Board completion of the second review based on observance of continuous and June 30, 2019 performance criteria
June 1, 2020	15.555	7.50	Board completion of the third review based on observance of continuous and December 31, 2019 performance criteria 2/
December 1, 2020	15.555	7.50	Board completion of the fourth review based on observance of continuous and June 30, 2020 performance criteria 2/
June 1, 2022	15.555	7.50	Board completion of the fifth review based on observance of continuous and December 31, 2021 performance criteria
December 1, 2022	15.555	7.50	Board completion of the six review based on observance of continuous and June 30, 2022 performance criteria 3/
June 1, 2023	15.555	7.50	Board completion of the seventh review based on observance of continuous and December 31, 2022 performance criteria
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.

2/ The third and fourth reviews are combined.

3/ The 6th and 7th reviews are combined.

Table 7b. Sierra Leone: Proposed Rephased Disbursements Under the ECF Arrangement, 2018-23

Availability	Disbursements		Conditions for Disbursement
	In millions of SDRs	In percent of quota 1/	
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 continuous and December 31, 2018 performance criteria
December 1, 2019	15.555	7.50	Board completion of the second review based on observance of continuous and June 30, 2019 performance criteria
June 1, 2020	15.555	7.50	Board completion of the third review based on observance of continuous and December 31, 2019 performance criteria 2/
December 1, 2020	15.555	7.50	Board completion of the fourth review based on observance of continuous and June 30, 2020 performance criteria 2/
June 1, 2022	15.555	7.50	Board completion of the fifth review based on observance of continuous and December 31, 2021 performance criteria
December 1, 2022	7.7775	3.75	Board completion of the sixth review based on observance of continuous and June 30, 2022, performance criteria 3/
June 1, 2023	7.7775	3.75	Board completion of the seventh review based on observance of continuous and December 31, 2022 performance criteria 3/
October 1, 2023	15.555	7.50	Board completion of the eighth review based on observance of continuous and June 30, 2023 performance criteria
Total disbursements	124.44	60.0	

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

2/ The third and fourth reviews are combined.

3/ The 6th and 7th reviews are combined.

Table 8. Sierra Leone: Financial Soundness Indicators, 2014-23

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
										March
	(Percent, end of period, unless otherwise indicated)									
Capital adequacy										
Regulatory capital ratio 1/	30.2	34.0	34.1	34.1	38.4	41.7	40.1	41.0	35.2	40.9
Regulatory tier 1 capital ratio 2/	25.9	29.0	27.2	27.2	29.6	33.9	33.2	34.3	27.8	37.4
Asset quality										
Nonperforming loans to total gross loans	35.3	33.2	15.5	15.0	13.0	16.8	12.7	15.2	12.1	13.1
Nonperforming loans (net of provisions) to regulatory capital	41.8	31.9	1.2	12.1	9.9	7.2	4.3	4.8	2.4	3.6
Earnings and profitability										
Return on assets	2.6	3.2	3.8	5.6	6.0	6.1	6.1	4.8	5.5	7.5
Return on equity	15.4	18.0	21.8	29.8	28.6	26.1	25.7	21.5	26.0	35.7
Interest margin to gross income	43.5	36.6	51.1	63.2	63.2	66.9	70.0	66.4	70.9	66.7
Liquidity										
Liquid assets to short-term liabilities	87.0	87.0	86.0	77.8	82.3	86.8	94.1	92.0	95.5	95.4
Liquid assets to total assets	78.9	83.3	85.5	70.9	69.2	68.4	73.4	73.7	78.3	77.0
Memorandum Item:										
Number of banks	13	13	13	14	14	14	14	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.

Table 9. Sierra Leone: Decomposition of Public Debt and Debt Service by Creditor, 2022-24¹

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In mil. US\$)	(Percent total debt)	(Percent GDP)	(In mil. US\$)			(Percent GDP)		
Total	2,848	100.0	96.2	727	611	512	18.5	20.6	16.8
External	1,948	68.4	65.8	138	144	142	3.5	4.9	4.7
Multilateral creditors ³	1,548	54.3	52.3	108	111	117	2.7	3.7	3.9
IMF	491	17.2	16.6						
World Bank	464	16.3	15.7						
AfDB	157	5.5	5.3						
Other Multilaterals	436	15.3	14.7						
o/w: Islamic Development Bank	117	4.1	4.0						
EEC/EIB	65	2.3	2.2						
Bilateral Creditors	239	8.4	8.1	22	25	17	0.6	0.9	0.6
Paris Club	50	1.8	1.7	0	0	0	0.0	0.0	0.0
o/w: South Korea	50	1.8	1.7						
Non-Paris Club	189	6.6	6.4	22	25	17	0.6	0.9	0.6
o/w: Kuwait	59	2.1	2.0						
China	67	2.3	2.3						
Bonds	-	-	-	-	-	-	-	-	-
Commercial creditors	162	5.7	5.5	8	8	8	0.2	0.3	0.2
Other international creditors	-	-	-	-	-	-	-	-	-
Domestic²	900	31.6	30.4	589	467	370	14.9	15.8	12.1
Held by residents, total	900	31.6	30.4	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	-	-	-	-	-	-	-	-	-
T-Bills	630	22.1	21.3	n/a	n/a	n/a	n/a	n/a	n/a
Bonds	69	2.4	2.3	n/a	n/a	n/a	n/a	n/a	n/a
Loans	6	0.2	0.2	n/a	n/a	n/a	n/a	n/a	n/a
Memo items:									
Nominal GDP	3,970								

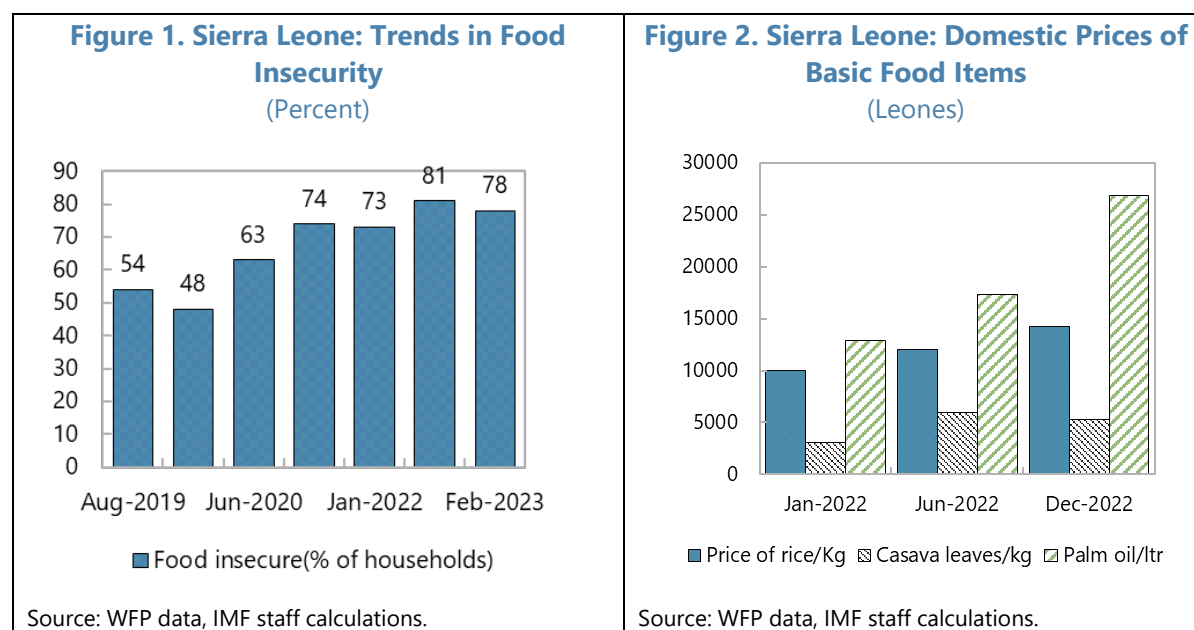
1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/Some public debt is not shown in the table due to confidentiality clauses and data limitation. Total includes domestic arrears.

3/Multilateral creditors are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

Annex I. Food Insecurity and Interventions

1. Food insecurity has increased sharply since 2019. In Feb 2023, some 78 percent of the households are food insecure-according to WFP (Figure 1). This trend has been driven by both external and domestic factors. External factors include increasing global food prices following Russia’s war in Ukraine. Domestic factors include the August 2022 floods, low productivity, high inflation, and the depreciation of the Leone, all of which led to very high domestic food prices. As of December 2022, the price of rice per kilogram had increased by 45 percent compared to January. Palm oil prices increased by 108 percent over the same period (Figure 2).



2. Food is available but is not accessible due to falling incomes. According to the WFP’s minimum expenditure basket measure, 80 percent of Sierra Leonean households cannot afford the cost of the minimum food basket, leading them to turn to unfavorable coping mechanisms (e.g., one meal per day). Lower access reflects eroded purchasing power but also structural factors such as low agricultural productivity of rural households for domestic staples, resulting in reliance on food imports. The long-term development impact of increasing food insecurity is significant as poor dietary and nutritional intakes are associated with lower learning abilities and outcomes in children.

3. Some initiatives are underway to address food insecurity. These include:

- *School feeding program.* Up to 600,000 students in food vulnerable districts are benefiting from daily meals (at a cost of about US\$ 24cts per meal). The government is working with development partners such as WFP, Plan International and Catholic Relief Society (CRS) to deliver this program.
- *The government’s new policy direction on agriculture.* Through an e-voucher program, rice farmers have access to farming inputs, tractor services, fertilizers, and labor.

- *Interventions to tackle short-term food shortages and ensure the availability of food.* The BSL previously introduced a special facility for food (SFF) of US\$50 million to enable importers to have access to FX for essential food imports at competitive rates (these facilities have since expired).

4. The International community is helping the government address food insecurity, but more support is needed. Sierra Leone has access to the World Bank's Crisis Response Window (CRW), a US\$50 million project grant that supports emergency responses to food shortages and promotes agricultural productivity. WFP, FAO, and ECOWAS also support monitoring and collecting accurate information on household food security and vulnerability. Additional financial support is needed to scale-up the social safety net program, including school feeding, and to provide targeted support to farmers. In the medium-term, it will be critical to expand shock-responsive social programs and to bring current transfer levels in line with rising costs of essential needs. Over the long term, investment is needed to increase productivity in agriculture, soil management, conservation, and climate-smart agriculture to meet conservation goals.

Annex II. Risk Assessment Matrix

Nature/Sources of Risk	Relative likelihood	Expected Impact if Realized	Policies to Mitigate Risks
External Risks			
Intensification of regional conflicts	High	High. Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems. For Sierra Leone, supply chain disruptions lead to higher prices for essential imports such as fuel and rice.	Continuous application of the automatic fuel price adjustment mechanism to avoid expectations of a subsidy and to safeguard critical revenues (with a stepwise adjustment to be considered in case of an extreme shock). Make progress on energy sector reforms to diversify energy sources. Introduce targeted measures to mitigate the impact of the shock, e.g., by expanding the social safety net and expanding budget allocation to the school feeding program.
Commodity price volatility	Medium	Medium/High. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability. For Sierra Leone, higher energy prices would stoke inflation further and would also add to fiscal pressures, given the reliance on diesel power and an expectation of fuel subsidies. Sierra Leone is in the list of the countries severely affected by the global food shock. Therefore, rising and volatile food could lead to acute food insecurity.	Continuous application of the automatic fuel price adjustment mechanism to avoid expectations of a subsidy and to safeguard critical revenues (with a stepwise adjustment to be considered in case of an extreme shock). Progress on energy sector reforms to shift away from reliance on fuel oil. Introduce targeted measures to mitigate the impact of the shock, e.g., by expanding the social safety net and expanding budget allocation to the school feeding program. Policies to enhance own rice production could also help to address food shortages in a sustainable way.
Abrupt global slowdown or recession	Medium	Medium/High. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation. Greater-than-expected economic disruptions from COVID resurgence, rising geopolitical tensions, and/or a	Continue with efforts to diversify the mining sector and the economy more broadly.

Nature/Sources of Risk	Relative likelihood	Expected Impact if Realized	Policies to Mitigate Risks
		sharper-than-expected slowdown in the property sector disrupt economic activity. China is the primary destination for Sierra Leone's iron ore exports. A growth slowdown would likely affect both China's demand for iron ore, as well as the global price.	
Deepening geo-economic fragmentation	High	High. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth. This is likely to have both negative and positive impacts for Sierra Leone. On the positive side, by raising competition for key raw materials, economic fragmentation could benefit the country by putting it in a stronger position to negotiate more beneficial extractive arrangement than previously obtained. The country could also potentially benefit from the relocation of manufacturing activities as companies realign their supply chains. On the downside, fragmentation could complicate existing relationships with other partners and could be exploited by some groups to reignite internal strife by exploiting existing fissures. Additionally, higher import prices, which fragmentation portends could drive inflation and be a huge negative for the country given its impact on food insecurity	<ul style="list-style-type: none"> ○ Improve domestic resource mobilization, by improving tax policies (fully implementing the MTRS) and leveraging digitization in tax collection. ○ Deepening/developing the domestic financial markets to broaden the sources of finances. ○ Fully implement the provisions of the AFCFTA; ○ Improve the environment for the private sector to development expand and attract FDI in sectors beyond mining. Improvements in governance, and anti-corruption framework are key elements in a strategy for reducing domestic uncertainty, which is essential for private enterprises to thrive. ○ Identify and nurture sectors that may benefit from trade diversion.
Monetary policy miscalibration	Medium	Medium. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance	Prudent monetary and fiscal policies will be important. The exchange rate should be allowed to adjust to reflect price differentials. Prioritize social

Nature/Sources of Risk	Relative likelihood	Expected Impact if Realized	Policies to Mitigate Risks
		prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. For Sierra Leone, the capital flow channel will have limited impact. However, adverse impacts could be felt through knock-on effects (lower EMDE growth, lower commodity prices, ToT shock, and currency movements).	spending to cushion the impact on the poor and vulnerable.
Cyberthreats	Medium	Medium. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	Develop and implement a national cyber security plan.
Systemic financial instability	Medium	Medium. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	The effects of this shock on Sierra Leone are likely to come through the commodity market. Therefore, the authorities should continue efforts to diversify the economy away from commodities.
Regional and Domestic Risks			
Spillovers from instability elsewhere in West Africa	Medium	High. Recent coups and security crises in the region could inspire domestic actors. However, memories of the civil war mean there is likely to be less support for coups amongst the populace.	Strengthen governance and efforts to curb corruption. Prioritize social spending and service delivery.
Setback in fiscal and structural reform momentum (via social discontent, political instability, and/or capacity constraints)	Medium	Medium/High. The upcoming general elections will derail momentum for reforms until after June, 2023. Experience from the August 10 violent protest that turned political could further derail stringent reforms. Delays in revenue and PFM could set back fiscal adjustment, increase debt, dampen development partner confidence, and lower external financing/grants.	Put in place measures to deliver credible elections and improve peace dialogue among political parties. Accelerate structural reforms and continue to ensure prudent budgetary management. Put in place social programs to address potential adverse on the most vulnerable groups.
Worsening governance and resort to populist policies ahead of 2023 General Election	Medium	Medium/High. Indications of deteriorating governance and a lack of fiscal discipline to support reelection could lead to an	Strengthen governance and efforts to curb corruption. Encouraged continued strong engagement with the Fund and

Nature/Sources of Risk	Relative likelihood	Expected Impact if Realized	Policies to Mitigate Risks
		unsustainable debt burden and a reduction in development aid.	other multilateral and bilateral development partners.
Social discontent	High	High. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing. For Sierra Leone, high food price inflation has increased food insecurity among a growing share of the population. This fed into the competitive political space during the summer of 2022 led to violence and death among civilians and police officers.	Continue to prioritize social programs that help vulnerable segments of the population to effectively participate in the economy. In this context, the school feeding program should be expanded and protected from any planned fiscal consolidation. Improve governance, transparency and communication framework. Strengthen and enforce anti-corruption measures. Develop program for non-violent conflict resolution and negotiations.
Extreme climate events	Medium	Medium/High. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth. For Sierra Leone, severe floods in September, with loss to lives and livelihoods, highlights Sierra Leone's exposure to weather and climate related shocks.	Prioritize public investment in climate-resilient infrastructure. Seek grant financing for climate projects related to adaptation.
Lower growth outcomes in 2024 and beyond on the back of policy tightening	High	High. The continued fiscal consolidation in 2024 could affect the expected recovery in growth, should activity in the mining and agricultural sectors disappoint. Slower growth could increase the fiscal deficit and borrowing requirement if government spending is not adjusted accordingly. A higher fiscal deficit may require increased BSL purchases of government securities than programmed,	Develop contingency measures to compensate for any revenue shortfalls. These measures should involve revenue and expenditure measures. They should also seek additional budget support and further reprioritize spending.

Nature/Sources of Risk	Relative likelihood	Expected Impact if Realized	Policies to Mitigate Risks
		leading to increased pressure on the exchange rate and inflation.	
Banking sector vulnerabilities and “sovereign-bank” nexus	High	High. Given the already high exposure of banks to the sovereign, more government borrowing from the banking sector could further crowd out private sector credit, raise interest rates and rollover risks on government securities. This could trigger central bank financing, thus further fueling inflation. At the same time, heightened risks from the attendant deterioration in asset quality in the private sector could threaten bank solvency with the potential for indirect fiscal costs. The government is also exposed to direct fiscal risks via ownership of the two largest banks.	Pursue the following strategies to manage the sovereign-bank nexus and reduce bank vulnerabilities: (i) Reduce the public sector borrowing requirement by tightening the fiscal policy stance; (ii) Prioritize the reform and further development of the domestic debt market in line with IMF 2013 and 2019 TA reports; (iii) Develop and implement a governance strategy for the two state-owned commercial banks; (iv) BSL should enhance the supervision and regulation of the banking system; (v) BSL should enhance the bank resolution framework.
Domestic inflation-depreciation spiral	High	High. Looser than warranted monetary policies have magnified second round effects of the 2022 food and fuel price shocks on inflation. With this, economic agents have fled the Leone in favor of foreign currency deposits reducing the ability of the commercial banks to buy government securities. As a result, the BSL was forced to facilitate the roll-over of government securities by increasing its secondary market purchases. However, this additional liquidity puts pressure on the exchange rate and inflation – thus creating an inflation-depreciation spiral.	Tighten the macro policy stance, through a coordinated approach between fiscal and monetary policy. The tighter fiscal stance would result in the gradual easing of inflationary and exchange rate pressures, as the BSL tightens monetary policy. The tighter macro policies should reduce the incentive for domestic economic agents to switch to foreign currency deposits, and by so doing increase the ability of the banking system to take up additional government securities; (ii) tighter fiscal policies implies a lower borrowing requirement, hence lower issuance of government securities going forward.

Annex III. Capacity Development Summary

A. CD Strategy and Priorities

1. Sierra Leone's CD Strategy is anchored to the government's MT development goals and integrated with the Fund supported program. Priorities emerging from the COVID-19 shock and the war in Ukraine, largely require expediting existing CD needs, rather than fundamentally altering the focus of CD provision. In this regard, the authorities' NDP, the ECF supported program, improving governance and fiscal transparency, and climate and gender-based budgeting, continue to guide this strategy. CD strategy for the financial sector is guided by the 2021 Financial Sector Stability Review (FSSR) (Table III.1).

- *Sierra Leone's fiscal situation remains extremely tight, characterized by large development financing needs, a low tax base, and high debt levels.* This requires increased emphasis on revenue mobilization, improving the efficiency and effectiveness of spending, strengthening budget credibility, and debt management. Against this, CD is focused on assisting the authorities in developing and implementing the medium-term revenue strategy (MTRS); building public finance management capacity to strengthen commitment controls, wage bill management; promoting transparency and accountability in the use of public funds; improving accounting and fiscal reporting; limiting and better controlling tax exemptions and improving compliance and more effective debt management to address rising debt vulnerabilities.
- *Monetary policy is at a nascent stage and central bank operations require strengthening.* With the Fund's assistance, the BSL is developing analytical capacity and forecasting tools to inform monetary policy decisions.
- *High non-performing loans and weaknesses in state-owned banks require increased attention to financial sector supervision and stability.* The FSSR follow-up plan for Sierra Leone focuses on bank supervision, systemic risk, financial stability and macroprudential policy frameworks and on developing stress-testing capacity, as well as on the oversight of financial market infrastructure. The implementation of the new Banking and BSL Acts will be supported by capacity development focused on risk-based supervision and the implementation of Basel II/III. Additional support would be needed to advance reform of the state-owned banks.
- *Timely data compilation and dissemination are a priority in all sectors to enable effective policy design and implementation.* Support is needed in the area of debt recording and management, as well as public debt compilation and reporting. Rebasement of national accounts and improving compilation methodologies will allow for more accurate estimates of output and inflation. Increased availability of high frequency data will also be crucial.

B. Main Risks and Mitigation

2. Risks to TA implementation in Sierra Leone relate to absorptive capacity, political risks and financing constraints. TA implementation is often constrained by the small number of officials handling a large variety of tasks. This can become binding without careful prioritization, particularly with numerous and sometimes bunched TA missions (Table III.2), and TA delivery by other development partners. The cost of implementing TA recommendations, especially those involving investments in hardware or new systems, has sometimes delayed implementation.

3. Staff discussed actions to mitigate these risks. Remote missions continue to be effective, including providing scope for increased integration with program work and peer learning. With gradual resumption of in-person missions, alternative capacity building methods (e.g., end of CD mission workshops) could provide valuable hands-on experience to officials. The placement in March 2022 of two resident advisors at the BSL, on banking supervision and monetary policy has helped support CD delivery in a fragile institutional setting. Sierra Leone is a pilot country for the expenditure policy TA that is focused on MT capacity building.

Table AIII.1. Sierra Leone: Capacity Development Priorities

Priorities	Objectives
Public Finance Management	<p>Ensure fiscal sustainability through: (i) implementing reforms to better manage public investment with stronger focus on project appraisal and selection; (ii) more effectively prioritize spending to critical sectors.</p> <p>Improve budget execution through: (i) enhancing and rolling out more widely the Integrated Financial Management Information System (IFMIS); and (ii) work with ECDC to improve cash flow projections and alignment with quarterly allotments. Accelerate transparency and governance reforms, including on follow-up of audit recommendations.</p> <p>Improve fiscal reporting: (i) enhanced coverage to the whole of central government and gradually extended to the general government; (ii) international standards (IPSAS) based accounting and fiscal reporting and (iii) improved data integrity of the financial statements.</p>
Tax Policy	<p>Support the design and implementation of individual MTRS measures, as requested by the authorities. This support will be in close cooperation with other development partners to ensure each MTRS action is led by one cooperation partner (with that partner then coordinating inputs from others as needed). Support to developing the iron ore safe harbor (led by Revenue Administration) will continue, linking closely with fiscal regime (tax policy) modeling training on iron ore mines (provided under the Managing Natural Resources Wealth Topical Fund).</p>
Revenue Administration	<p>Improve the efficiency of domestic resource mobilization by (i) increasing tax compliance, including with respect to extractive industries revenue and contribution of large taxpayers; (ii) broadening the tax base and strengthening border controls; (iii) modernizing the governance structure of NRA; (iv) building capacity in data analytics and audit of the specialized industries; (v) automating tax administration and (vi) limiting tax exemptions and better managing, monitoring and controlling the end use of exempt goods.</p>
Expenditure Policy	<p>FAD-EP has a medium-term programmatic CD engagement on expenditure policy. In 2022, missions were on (1) benefit incidence analysis in education and health, and (2) Medium-term wage bill management. Future actions are being developed following feedback from authorities on recent missions and in the context of 2023 CD priorities.</p>
Financial Sector Supervision and Regulation	<p>Increase financial system safety and soundness through strengthening prudential regulations as well as supervisory frameworks and processes.</p>
Financial Stability	<p>Establish the Financial Policy Committee and design new tools to monitor systemic risk, conduct stress tests and improve financial stability analysis.</p>
Debt Management	<p>Improving debt recording and debt management.</p>
Central Banking Operations and Governance	<p>(i) Implement the revised Banking and BSL Acts to strengthen the BSL's ability to supervise the banking system; (ii) Continue to improve monetary policy analysis and foreign exchange operations, and to modernize the monetary policy framework to be more responsive to market developments and more effectively promote price stability; and (iii) Continue to enhance oversight and supervisory framework for financial market infrastructures.</p>
Statistics	<p>Produce timely, frequent and credible indicators of economic activities in all sectors to inform policy, including more attention to developing and leveraging high frequency data.</p>

Table AIII.2. Sierra Leone: Technical Assistance, FY 2021-FY2023

Date	CD activity
Mar-23	FAD Customs Risk Management - LTX Field
Mar-23	FAD Wage Bill mission
May-22	MCM SLE: FSSR Banking Supervision LTX FY23
Feb-23	FAD HQ - Mission - Joint TP/RA Review of MTRS Draft
Mar-23	MCM Sierra Leone Improving Monetary Policy Analysis and Near-Term Forecasting Capabilities STX
Mar-23	MCMSTX Follow up Improving interbank/money market to support monetary policy transmission
Feb-23	STA Sierra Leone - TA - PRC - Updating CPI
Feb-23	MCM Sierra Leone Feb FY23 Improving Monetary Policy Analysis and Near-Term Forecasting Capabilities
Feb-23	STA Sierra Leone-TA-GDP-GDP rebasing
Feb-23	FAD STX Visit Risk analysis
Feb-23	FAD Mining revenue model construction
Jan-23	FAD AFW2-Support to the development of an SOE Monitoring Framework
Jan-23	FAD STX Mission - Improving Risk Management
Feb-23	MCM SLE: Supporting Basel II/III Implementation FU
Jan-23	FAD Customs Border Controls - STX Field
Jan-23	FAD HQ mission-tax administration extractive industry revenue unit
Jan-23	FAD AFW2: National Training on risk based internal auditing
Jan-23	FAD Mining sectoral model mission 3
May-22	MCM Bilateral LTX in Monetary Policy and Financial Stability FY23
Oct-22	FAD STX - Review of Strategic Plan and Alignment with MTRS
Dec-22	FAD Follow up mission
Nov-22	FAD Customs Risk Management Training - STX field
Dec-22	MCM Operationalization of the Oversight Framework for Payment Systems
Nov-22	FAD STX Visits risk analysis
Nov-22	MCM Systemic Risk (Financial Stability Mission 2)
Nov-22	MCM Systemic Risk (Financial Stability Mission 1)
Oct-22	STARE Sierra Leone-TA-GDP-D4D
Oct-22	FADR2 HQ Customs diagnostic Mission
Oct-22	FADR2 STX Visits on mining revenue model
Oct-22	STABP Sierra Leone - TA - BOP
Sep-22	MCMCO Improving interbank/money market to support monetary policy transmission
Sep-22	FADEP Wage Bill follow up
Sep-22	FADM1 Support to the implementation of Gender Budgeting
Sep-22	FADR2 HQ Mission - Strengthening Compliance for Specialized Sectors
Sep-22	FADR2 Categorization, administration, monitoring, control of exemptions+ data analysis for customs purposes
Sep-22	MCMCO Sierra Leone AFW2 Sep FY23 Improving FX operations
Aug-22	FADM1 AFW2- Pre-Investment Guidance Manual
Aug-22	FADM1 AFW2 STX -Training on the use of the Pre-Investment Guidance Manual
Aug-22	FADM1 AFW2-Training of officials on the IMF Gender Budgeting framework
Aug-22	FADEP Health BIA
Aug-22	FADR2 HQ Mission - Strengthening Compliance Risk Management for LTO: MTRS
Jul-22	MCMFR SLE IFRS: Developing Supervisory Guide for ECL Model Assessment
Jul-22	FADR2 Customs Border Controls - STX field
Jul-22	FADR2 Customs Border Controls - LTX Field
Jul-22	FADM1 AFW2 Enhancing cash flow forecasting and planning
Jul-22	FADM1 HQ - Strategic Budgeting
Jul-22	FADM1 HQ: Budget Preparation and Execution
Jun-22	MCMMP Sierra Leone Improving Monetary Policy Analysis and Near-Term Forecasting Capabilities
Jun-22	STAGO Sierra Leone / AFR - TA - PSDS - D4D - Expanding PSDS coverage
Jun-22	STARE Hybrid-Sierra Leone-TA-GDP- GDP rebasing
Jun-22	MCMFR Sierra Leone AFW2 Jun FY23 IFRS Improving Supervisory Assessment of ECL Model
Jun-22	MCMTA Developing Stress-testing capacity Mission 2
Jun-22	FADT2 Mining sectoral model mission 2
Jun-22	FADR2 STX Mission - Audit training -telecom sector
May-22	FADT2 mission - tax policy review for MTRS
May-22	FADR2 HQ Mission - Revenue Administration MTRS Support Mission
May-22	FADR2 STX Mission - Support NRA to Develop its Strategic Plan
May-22	FADM1 AFW2-Training on Public Private Partnerships Model (PFRAM)

Table AIII.2. Sierra Leone : Technical Assistance, FY 2021-FY2023 (concluded)

Date	CD activity
Apr-22	LEG remote mission on High level conference on Governance and Corruption Issues
Apr-22	FAD remote mission on Audit training -telecom sector
Apr-22	MCM STX Improving oversight and supervisory framework for FMIs
Apr-22	MCM LTX Improving oversight and supervisory framework for FMIs
Apr-22	MCM remote mission on Improving monetary policy analysis and near-term forecasting capabilities
Apr-22	FAD/AFW2 remote mission on the development of a framework for SOE Ownership
Apr-22	ICD ATI Course on Macroeconomics of Climate Change
Apr-22	FAD/AFW2 STX on strengthening Fiscal reporting and compliance with cash based IPSAS
Apr-22	STA remote mission on Sierra Leone-TA-GDP- GDP rebasing
Mar-22	FAD remote mission component (joint with MNRW mission)
Mar-22	FAD remote mission on regional coordination work
Mar-22	LEG scoping Mission
Mar-22	FAD remote mission on Customs Trade Facilitation - LTX Duty Station
Mar-22	FAD remote mission on Customs Post Clearance Controls - STX Field
Mar-22	LEG remote mission on Regional P2P event (AF)
Mar-22	MCM support on FSSR Banking Supervision LTX FY22
Mar-22	FAD support during Staff Visit
Mar-22	FAD STX Visit on CRM in the EI
Mar-22	MCM Bilateral LTX in Monetary Policy and Financial Stability FY22
Feb-22	FAD remote mission/HQ Workshop on MTRS
Feb-22	FAD remote mission on initial workshop
Feb-22	LEG remote mission on SAI Regional Event - Peer to Peer Preparatory Work FY2022
Feb-22	FAD remote mission on Strengthen Excise Duties Management Capacity
Feb-22	MCM remote mission on IFRS Improving Supervisory Understanding of ECL/IRB
Feb-22	MCM STX support on FSSR Review of Prudential Guidelines
Jan-22	STA remote mission on Sierra Leone - TA - PRC - Updating CPI
Jan-22	LEG Desk review work
Dec-21	FAD STX support on Developing Reform Management Tools
Dec-21	FAD STX support on Developing Reform Management Tools
Dec-21	FAD/AFW support the preparation of project appraisal guidelines
Dec-21	MCM remote mission in strengthening the Oversight Framework for Payment Systems
Dec-21	MCM remote mission on Sierra Leone-Payment Systems Oversight
Dec-21	MCM Sierra Leone-Payment Systems Oversight
Dec-21	FAD remote mission on Mining revenue model mission 1
Nov-21	FAD Strengthen Tax Exemptions Management Capacity
Nov-21	MCM /AFE/AFS/AFW2 Webinar on climate-related risk
Nov-21	MCM/AFE/AFS/AFW2 Regional Webinar on Climate Related Risk
Nov-21	STA remote mission on Sierra Leone - TA - BOP
Nov-21	FAD STX Assignment - Building Project Management Capacity
Nov-21	FAD Module 2 on Fiscal Risks and Macro Shocks (correct)
Nov-21	FAD STX support on Customs data analytics
Oct-21	MCM country Short Engagement Activity
Oct-21	STA Sierra Leone-TA-GDP-GDP rebasing
Oct-21	MCM Country X FY22 Short Engagement Activity
Oct-21	MCM Country X FY22 Short Engagement Activity
Oct-21	MCM SLE: Supporting Basel II/III Implementation Process
Oct-21	MCM Bank Supervision
Sep-21	MCM AFR IMF01 Short Engagement Project - Financial Crisis Management
Sep-21	FAD Customs Border Control, Risk Management & PCA - STX

Appendix I. Letter of Intent



Ministry of Finance



Bank of Sierra Leone

GOVERNMENT OF SIERRA LEONE

Freetown, May 22, 2023

Kristalina Georgieva
 Managing Director
 International Monetary Fund
 Washington, D.C. 20431
 U.S.A.

Dear Madam Georgieva;

1. On behalf of the Government of Sierra Leone, we hereby request the IMF Executive Board to complete the sixth and seventh reviews of the Extended Credit Facility (ECF) arrangement. We also request for a five-month extension of the ECF to Nov 29, 2023, a rephrasing of disbursements, including to add an 8th review, and the completion of the financing assurances review. We request approval of the disbursement of the seventh and eighth tranches of the credit, following our request for waivers of non-observance for the quantitative performance criteria (PCs) relating to Net Credit to Government (NCG) from the banking system at end-June 2022 and the end-December 2022 PCs on NCG, net domestic assets (NDA) and gross international reserves (GIR), based on the strong corrective actions we have taken, and the progress we have made in the implementation of the structural benchmarks.

2. The attached supplemental Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and reports on performance under Sierra Leone's economic and financial programme supported by the IMF under the ECF arrangement. It outlines the key policy and reform measures for the remainder of 2023 and the medium-term. These policies aim to restore macroeconomic stability and safeguard financial stability through strengthening

public finances and addressing debt vulnerabilities to lay the foundation for sustainable, inclusive green economic growth and poverty reduction over the medium-term.

3. A variety of external and internal factors have contributed to weak program performance. On the external front, large uncertainty occasioned by the multiple and repeated shocks including the Ukraine crisis, lingering impacts of the COVID-19 pandemic, weak global growth, including in China, the main market for Sierra Leone’s iron ore exports, and the appreciation of the US Dollar have contributed to low domestic output, weak fiscal and external accounts, the sharp depreciation of the Leone, higher inflationary pressures, and heightened debt vulnerabilities. On the domestic front, the August 10 unrests, severe floods, and high costs of living have compounded our macroeconomic challenges. These developments have in turn led to policy slippages and too loose macroeconomic policies, reversed the gains made in stabilizing the economy in earlier years and significantly upset our program performance. They have also worsened food insecurity—with up to 78 percent of households facing severe food insecurity in February 2023—and pushed many households into poverty.

4. Government remains committed to addressing the macroeconomic challenges and pursuing program targets, amid significant headwinds.

- We met the end-June 2022 quantitative performance criteria (PCs) on NDA and gross GIR, the continuous PCs and the IT on poverty spending. We missed the end-June NCG by a 1.2 percent of GDP margin alongside the ITs on domestic revenue and the primary balance, mainly reflecting higher costs, policy slippages and revenue shortfalls, including from timber royalties.
- We missed all three end-December 2022 PCs on NCG, NDA and GIR while the continuous PCs and the IT on poverty spending were met. The NCG was breached by 7½ percent of GDP, driven by rising costs, discretionary spending, and underbudgeting. The NDA was missed in tandem with the NCG. The GIR was missed due to the BSL’s FX intervention, the timber export ban, and the cost of the currency management of the Leone. Preliminary data indicate that we missed all ITs for end-March 2023.
- We met 5 of 15 structural benchmarks (SBs) and completed another 9 of them with a delay.
- We completed all 4 prior actions for the 6th and 7th reviews of the ECF.

5. We are taking corrective actions to avoid future breaches of PCs and ITs under the programme and request waivers of non-observance based on a strong set of corrective actions taken. We (i) raised domestic revenues—through a total of 2.2 percent of GDP in revenue measures implemented as part of the 6th and 7th reviews; (ii) began to curtail spending—by a total of 5.6 percent of GDP in 2023 relative to 2022; (iii) started taking steps to prevent arrears and strengthen cash management; and (iv) bolstered expenditure transparency and accountability. On this basis, we

request waivers of non-observance for the end-June 2022 NCG PC and the end-December 2022 PCs on NCG, NDA and GIR.

6. A new Finance Act 2023 and enhanced revenue administration are expected to be key in helping us meet our domestic revenue mobilization target. Parliament approved a new Finance Act in April with annual tax revenue measures of about 1.8 ppts of GDP by 2024. Tax administration measures have also been taken, with expected additional tax revenues of 0.4 ppts of GDP. We are also in the process of (i) renegotiating one mining contract to reverse concessions we had extended (0.2 percent of GDP) and (ii) implementing a safe harbor regulation for iron ore. In April, Cabinet approved a new Medium-Term Revenue Strategy (MTRS) for 2023-27 that is expected to guide our revenue mobilization going forward. Finally, we are committed to including additional tax measures in the 2024 Finance Act that will raise tax revenues by at least another 1 percent of GDP.

7. Government is committed to strengthening public expenditure management and budget execution systems while avoiding the buildup of arrears and enhancing the credibility of the budget. We commit to submit a supplementary budget in July 2023 that (i) is consistent with program projections for revenues and expenditures, (ii) will be informed by program projections for macroeconomic variables such as growth and inflation, and (iii) will target a deficit of some 5.6 percent of GDP.¹ In addition, Government is strengthening cash management through regular meetings of the cash management committee, aligning quarterly budget allotments to cash flow projections, making it mandatory to process payments through the IFMIS, and limiting printing of checks through the rollout of the EFT. Government is also committed to including in a revised arrears clearance strategy all domestic arrears, with a view to fully budgeting for their clearance starting with the 2024 budget. Given the high risk of debt distress, we plan to increasingly issue domestic debt at longer maturities and to mobilize additional grant resources. We plan to bring down the high debt service burden to prudent levels and to create fiscal space for spending on priority areas.

8. We are committed to bringing down inflation and limiting FX intervention. Monetary policy will focus on bringing down inflation and rebuilding reserve buffers. We are committed to tightening our macroeconomic policies, which should help contain inflation and depreciation pressures, limit the crowding out of private credit, and bolster debt sustainability. The decline in government borrowing should provide room to tighten monetary policy further to contain inflation. We commit to limit FX intervention to the room provided under the GIR target, with view to rebuilding reserve buffers. In line with our commitment to good governance, the internal audit will prepare for the BSL Board a status and assessment report as of end-June 2023 on the currency redenomination process. A detailed report will also be submitted to Parliament.

¹ The supplementary budget includes US\$25 million CRW grants from the World Bank to offset certain expenditures to be identified. The budgetary expenditures may be lower once the CRW expenditures are taken out.

9. The Government believes that the policies set forth in the attached MEFP and Technical Memorandum of Understanding (TMU) are adequate to achieve the objectives of the programme. We stand ready to take any further measures that are necessary for this purpose. The Government will consult the IMF in advance of revisions to the policies contained in the MEFP. The eighth and final review of the programme will take place on or after October 1, 2023.

10. In line with its commitment to transparency and accountability, the Government agrees to publication of this letter, its attachments, and related staff report in accordance with the Fund procedures for publication.

Very truly yours,

/s/

Sheku A.F Bangura
Minister of Finance

/s/

Ibrahim L. Stevens
Acting 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) supplements the one dated June 2022. It reviews recent economic developments and reports on performance under Sierra Leone's economic and financial programme supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) arrangement. It also outlines the key policy and reform measures for the remainder of 2023 and the medium-term. These policies aim to restore macroeconomic stability and safeguard financial stability through strengthening public finances and addressing debt vulnerabilities in order to lay the foundation for sustainable, inclusive green economic growth and poverty reduction over the medium-term.

2. A variety of factors have contributed to a challenging macroeconomic backdrop. The general economic uncertainty occasioned by the multiple and repeated shocks including the Ukraine crisis and lingering COVID-19 pandemic combined with weak global growth and a strengthening US Dollar have contributed to low domestic output, weak fiscal and external accounts, the sharp depreciation of the Leone, higher inflationary pressures, and heightened debt vulnerabilities. These developments have in turn reversed the gains made in stabilizing the economy in earlier years. These crises have also worsened food insecurity and household poverty.

3. Government remains committed to addressing these macroeconomic challenges. Through the implementation of prudent fiscal and monetary policies, as well as advancing structural reforms, it will seek to boost the resilience of the economy and lay the foundation for sustainable economic growth and poverty reduction in the medium-term.

RECENT ECONOMIC DEVELOPMENTS

4. Following the rebound in economic activity in 2021, economic growth slowed in 2022. The economy grew by 3.6 percent in 2022, compared to the strong recovery of 4.1 percent in 2021. The uncertain global economic environment coupled with high food and energy prices weighed on economic growth in 2022.

5. Headline inflation has increased further, amid rising inflation expectations. Higher food and energy prices, higher freight costs, the pass-through effect of the continuous exchange rate depreciation, and loose macroeconomic policies contributed to the higher inflation. Year-on-year headline inflation rose steadily from 17.9 percent in December 2021 to 37.1 percent in December 2022 and accelerated further to 41.5 percent by March 2023, driven by both food and non-food inflation. Food and non-food inflation remained elevated at 49.5 percent and 32.1 percent, respectively in March 2023.

6. The external sector weakened in 2022, on a wider trade deficit. The strong growth in imports driven by the higher food and fuel import bill more than offset the growth in export earnings, resulting in the widening of the goods and services deficit to US\$788 million in 2022 from US\$755 million in 2021. Total exports increased to US\$1.26 billion in 2022 from US\$1.11 billion in 2021. Imports rose to US\$2.05 billion in 2022 from US\$1.87 billion in 2021. Gross international reserves of the BSL declined to US\$610.4 million as of end-December 2022, from US\$931.8 million at end-December 2021, largely on account of Government support to the private sector to facilitate the importation of food, fuel and other essential commodities as part of efforts to mitigate the impact of the Ukraine crisis on the economy. The larger trade deficit combined with the strong US Dollar and loose macroeconomic policies resulted in the depreciation of Leone by 65.7 percent from January to December, and by 32.7 percent since the launch of the redenominated currency on the 1st of July 2022.

7. Public finances weakened in 2022 due to a combination of external shocks and policy slippages. Higher than projected inflation and the exchange rate depreciation contributed to expenditure overruns in goods and services, energy subsidies, interest payments and domestically funded capital projects. Total expenditures increased to 29.8 percent of GDP in 2022 from 27.8 percent of GDP in 2021 and were 7.5 percentage points above the budgeted amount. Overruns were also driven by unexpected security related spending, increased outlays on the Free Quality Education programme and Government's desire to address the looming energy crisis and infrastructure deficit.

8. At the same time, the supply chain disruptions and weak economic activity occasioned by the Ukraine crisis led to shortfalls in domestic revenue collection. Domestic revenue declined to 13.0 percent of GDP in 2022 compared to the projection of about 14.2 percent of GDP in the original budget, reflecting the underperformance in income taxes, excise duties on petroleum products, domestic goods and services taxes, mining revenues, and timber revenue following the timber export ban. As a result, the overall budget deficit, including grants widened to 10.9 percent of GDP in 2022 from 7.4 percent of GDP in 2021.

9. The deficit was financed largely by borrowing from the domestic banking system. Reflecting the increased financing needs and sharp depreciation in the Leone, total public debt is estimated to have increased to NLe 51.7 billion (93.4 percent of GDP) in 2022 from NLe 34.0 billion (76.6 percent of GDP) in 2021. External debt increased in Leone terms to NLe 35.5 billion (US\$1.9 billion) in 2022 from NLe 22.5 billion (US\$2.0 billion) in 2021. Similarly, domestic debt increased to NLe 16.9 billion (31.3 percent of GDP) in 2022 from NLe 12.6 billion (28.7 percent of GDP) in 2021. Debt service payments increased from 25.9 percent to 27 percent of domestic revenues over the same period.

10. The BSL took steps to contain rising inflation. The Bank of Sierra Leone (BSL) consecutively raised the policy rate to 18.25 percent in December 2022 from 14.25 percent in March

2022 to contain inflation. The BSL further raised the policy rate by 50 basis points to 18.75 percent in March 2023 to anchor the rising inflation expectations. Base money growth reached 25.6 percent year-on-year in December 2022 (-1.3 percent in real terms) and 34 percent in March 2023.

11. The banking sector generally remains well capitalized, liquid and profitable. Most key financial soundness indicators are comfortably above stipulated prudential thresholds. Banks non-performing loans, though high and above tolerable levels of 10.0 percent, have been declining. Efforts are underway to strengthen the capital adequacy of the two banks that are facing solvency issues.

PROGRAMME PERFORMANCE

12. Programme performance was weak in 2022, due to exogenous factors including the sharp increase in the prices of goods and services and the depreciation of the exchange rate, combined with policy slippages. As a consequence, the 6th review was delayed.

- We met the end-June 2022 quantitative performance criteria (PCs) on net domestic assets (NDA) and gross international reserves (GIR), the continuous PCs, and the Indicative Target (IT) on poverty spending. We missed the end-June Net Credit to Government (NCG) by a 1.2 percent of GDP margin alongside the ITs on domestic revenue and the primary balance, mainly reflecting higher costs, policy slippages and revenue shortfalls, including from timber royalties.
- We missed all three end-December 2022 PCs on NCG, NDA and GIR and most ITs, while the continuous PCs and the IT on poverty spending were met. The NCG was breached by 7½ percent of GDP, driven by rising costs, discretionary spending, and underbudgeting. The NDA was missed in tandem with the NCG as the BSL injected liquidity to address the tight liquidity position faced by commercial banks. The GIR was missed due to the BSL's foreign exchange (FX) intervention, the timber export ban, and the cost of currency management of the Leone. Preliminary data indicate that we missed all ITs for end-March 2023.

13. We request waivers of non-observance based on a strong set of corrective actions. As corrective actions for the missed PCs, we have (i) implemented 2.2 percent of GDP in additional revenue measures; (ii) are broadly on track to reduce spending this year by 5.6 percentage points of GDP in 2023 relative to 2022; (iii) have bolstered expenditure transparency and accountability; and (iv) have begun to strengthen budget execution and cash management, including to prevent arrears. The correction in the fiscal position would also provide space for tighter monetary conditions, helping to correct for the slippages in the NDA PC, while the breach in the GIR PC will additionally be supported by the reinforcement of the repatriation requirement.

14. We have completed four strong prior actions for the 6th and 7th reviews of the ECF. Parliament passed a new Finance Act with 1.8 percent of GDP in additional tax policy measures; Cabinet approved a new Medium-Term Revenue Strategy (MTRS) for 2023-27; we published detailed

information on recent budgetary overruns on roads construction; and we published detailed information on recent budgetary overruns on legacy arrears clearance payments.

15. The MTRS lays out policy and administrative tax measures, which will be implemented by Government to improve domestic revenue collection over the short and medium-term.

Government commenced the implementation of some of the measures taken in the first half of 2023 (including through the Finance Act, 2023) to generate additional tax revenues, reduce the budget deficit and mitigate debt vulnerabilities. To support the implementation of this strategy, Government has also established a high-level Steering Committee on the MTRS, which will meet quarterly, and be led by the Ministry of Finance with representation from the NRA, development partners, civil society, private sector, and other relevant government departments and agencies. We are also in the process of renegotiating one mining contract to reverse concessions we had extended and are in the process of implementing a safe harbor regulation for iron ore. In addition, Government enacted the Duty and Tax Waivers Law to improve transparency and accountability in the process of administering duty and tax exemptions, eliminate the abuse of exemptions with a view to broaden the tax base, and increase domestic revenue collection.

16. We are also implementing expenditure containment measures. These include (i) the payment of legacy arrears consistent with the updated arrears clearance strategy; (ii) sustaining efforts to ensure the integrity of the payroll and to reduce the wage bill as a share of GDP; (iii) disallowing unbudgeted expenditures under goods and services (including the purchase of vehicles, delaying non-priority international subscriptions, and biometric identification of school children; (iv) curtailing the roads budget by postponing projects on feeder roads—that are clearly monitorable; (v) strengthening cash management; and (vi) improving public investment management. Plans are also underway to bring down the large debt service burden over time to create fiscal space for spending on priority areas.

17. We have also made significant progress in the implementation of structural benchmarks, though in several cases with delays. We (i) published an action plan on corporate governance frameworks for the two state-owned banks; (ii) developed an SOE Ownership Policy that outlines the rationale and objective for state ownership; (iii) published the 2021 audited financial statements of the Bank of Sierra Leone; (iv) issued revised prudential guidelines for commercial banks in line with the 2019 Banking Act to strengthen the regulatory framework for capital adequacy, loan classification and provisioning as well as for credit, market and operational risks; (v) prepared a supervisory strategy and approach to address high system-wide NPLs and gradually realize compliance on a bank-by-bank basis to the 10 percent prudential limit; (vi) appointed a Chief Internal Auditor at the Bank of Sierra Leone; (vii) prepared a budget outturn report that includes progress in the reduction of unpaid cheques, information on the implementation of the recommendations of the expanded cash and debt management committee, the disbursement and use of SDR backed resources for fiscal purposes, an analysis of actual performance against budget allotments, and corrective policy options in the case of budget overruns; (viii) updated the Legacy

Arrears Clearance Strategy; (ix) prepared a Medium-Term Revenue Strategy (MTRS) that was approved by Cabinet in April 2023; (x) established a high level steering committee on the MTRS with stakeholder participation – to be led by MoF with representation from NRA, DPs, civil societies, private sector, and other relevant MDAs; (xi) moved to the daily calculation and publication of exchange rates; (xii) through a joint effort by the Ministry of Finance and Audit Service Sierra Leone, took action to enhance the budgetary autonomy of the Audit Service Sierra Leone (ASSL) by publishing a road map in March 2023, which makes statutory amendment proposals on the setting and approving the ASSL budget, the timely and complete disbursement of the budget for mandatory spending of the ASSL, and the processing of the audit fees; (xiii) amended the 2014 ASSL Act to include (a) detailed provisions to strengthen the implementation of ASSL recommendations including the obligation of auditees to provide justification or explanation, issue a time line, assign staff and agree to an on-going engagement process with ASSL; and (b) provisions to strengthen compliance during the audit process by extending the power to withhold salaries of vote controllers for non-submission of financial statements to the verification and explanation stage. In addition, Government has developed Standard Operating Procedures (SoPs) for the follow-up of the implementation of audit recommendations; (xiv) as part of efforts to ensure transparency and fairness in the conduct of any Tribunal, the Judicial and Legal Service Commission (JLSC) adopted guidelines for tribunals, which are consistent with the general principles in the Constitution of Sierra Leone. The continued structural benchmark to ensure full implementation of the fuel pricing formula was not met.

MEDIUM-TERM ECONOMIC OUTLOOK

18. The medium-term economic prospects of the Sierra Leonean economy remain vulnerable to the slowdown in global growth, spillovers from the Ukraine crisis, the strengthening US dollar, as well as domestic challenges including limited fiscal space, supply-side constraints and weak domestic demand.

- **Growth is not expected to return to pre-pandemic levels until 2025.** The economy is projected to expand by 2.7 percent in 2023 and to average around 4.8 percent in the medium-term. Growth in the non-iron ore economy is projected to average around 4.7 percent in the medium-term driven by increased investment in agriculture; other mining activities, expansion in manufacturing; recovery of the tourism sector; and the general improvement in the business environment as investments in infrastructure and the implementation of business regulatory and financial sector reforms continue.
- **Headline inflation is projected to remain elevated in 2023.** It is expected to gradually decline to 21.7 percent in 2024 and to moderate further to 16.8 percent in 2025 as fiscal consolidation takes hold and monetary conditions tighten, combined with the expected increase in domestic food production and the stabilization of the exchange rate as export earnings increase.

- **The overall fiscal deficit, including grants is projected to narrow** from 10.9 percent of GDP in 2022 to 2.5 percent of GDP in 2025 on the back of improved revenue mobilization, expenditure containment and improved public financial management reforms detailed in the Public Financial Management (PFM) Strategy.
- **The current account deficit, including official grants, is projected to narrow** from 6.8 percent of GDP in 2023 to 5.6 percent of GDP in 2024. It is expected to shrink further to 3.0 percent of GDP in 2025 as the trade deficit narrows, combined with an increase in official and private grants. Gross foreign reserves are programmed to average 3.1 months of imports in the medium term. The exchange rate is expected to move in line with the difference between inflation in Sierra Leone and the inflation of our major trading partners.

19. Despite the re-opening of the Chinese economy, a major trading partner, risks to the outlook persist and are tilted to the downside. These include heightened geo-political tensions and fragmentation; escalation of Ukraine crisis, higher international prices for food and energy, continuous depreciation of the exchange rate, declining international donor support and the re-emergence of COVID-19 or other health emergencies.

PROGRAMME OBJECTIVES AND POLICIES

20. Government's policy objectives remain broadly the same as at the time of negotiating this programme in 2018. They are fine-tuned to accommodate the challenges triggered by the overlapping and multiple shocks in recent years. Our key objectives under the programme are to maintain a stable economic environment and financial system, and to vigorously pursue the implementation of structural reforms to lay the foundation for sustainable, inclusive, and green growth. To boost the resilience of the economy, Government will pursue public financial management reforms to ensure transparency and accountability in the use of public funds and endeavors to strengthen budget discipline, improve the business environment, and enhance social protection systems.

A. Fiscal Policy

21. The key objective of fiscal policy has been to achieve fiscal and debt sustainability through fiscal consolidation. Policies focus on improving domestic revenue collection and expenditure rationalization to create room for priority social programmes within a stable economic environment. Unfortunately, repeated adverse external and domestic shocks have constrained Government's efforts in achieving these objectives. Going forward, we will undertake adjustment measures to return our fiscal position to a sustainable path and reduce debt vulnerabilities. In this context, Government will implement a mix of revenue enhancement and expenditure containment measures, while seeking additional grant and SDR resources to support priority spending.

22. The overall budget deficit is projected to narrow substantially this year and in the medium-term. It is expected to decrease from 10.9 percent of GDP in 2022 to an average of 2.8 percent over the medium-term. This will enable Government to reduce domestic borrowing from the banking system in line with the ECF supported program target, thereby complementing monetary policy in containing inflation and stabilizing the exchange rate. The Government will make use of additional SDRs in financing the budget to support emergency energy subsidies, ambulance services, cash transfers, school feeding, tree planting, hygiene and welfare packages for schoolgirls, and critical domestic capital expenditures for improving water and electricity supply to boost social and economic resilience (Text Table 1). As with previous SDR use, we will update the MoU that underpins the use of SDRs for budget, consistent with the domestic institutional frameworks. The Government commits to transparent accounting and use of SDR resources through a regular budget monitoring process.

Text Table 1. Sierra Leone: IMF SDR Allocations Use for Budget, 2023
(Millions of New Leones)

Particulars	FY2023	FY2023	FY2023
	Original Budget Q1-Q4	Estimates Q1	Revised Budget Q1-Q4
Goods and Services	10	76	18
Support to Ambulance Services (NEMS)	7	7	15
Agricultural Extension Services	3	0	3
Rice to Sierra Leone Police (SLP)	0	69	0
Subsidies and Transfers	124	191	800
Emergency Energy Support	124	149	800
School fees Subsidy	0	0	0
Grants to Universities	0	42	0
Domestic Capital	732	529	1048
School Feeding Programme	289	68	330
Welfare and Hygiene Packages for School Going Girls	10	10	20
Construction of Cancer and Diagnostic Medical Centre	40	0	40
Support to National Emergency Medical Services (NEMS) - Ambulance Services	18	0	18
Strengthening Extension Services to Farmers and Agricultural Management Information System	5	0	5
Support to Artisanal Fisheries	5	0	5
Rehabilitation/Construction of Community Facilities (incl. Court Barrays)	8	0	8
Electrification of 7 (Seven) District Towns	46	94	186
National Tree Planting	12	0	32
Construction of 45 Industrial Boreholes (Urban Wash Supply)	6	0	16
Completion of Construction of Water Supply Facilities in Six (6) District Capitals	40	6	85
Arrears Clearance	186	0	186
Lungi Water Supply Project	26	0	26
Rehabilitation, Expansion and Equipment of District Hospitals	14	0	14
Rural Electrification Project - CLSG (Serving Communities along the Transmission Line)	24	0	49
Sierra Leone Social Safety Net (Cash Transfers)	3	0	28
Bridge Loan for Salary Payments	0	351	0
Total SDR Resources	866	796	1866

Source: Sierra Leonean Authorities.

23. To ensure continued improvement in domestic revenue collection during the first half of 2023, the Government has frontloaded implementation of some MTRS measures. Preliminary data for Q1 2023 shows revenue collections are broadly on target, supported by stricter tax enforcement and improved compliance (for income taxes and GST), implementation of automatic pricing formula on fuels and relatively higher mineral royalties. A new Finance Act, 2023 was

approved by Parliament in April (**Prior Action #1**). The new tax policy measures are estimated to yield additional annual tax revenue of 1.8 percentage points of GDP by 2024 (Text Table 2).

Government has also implemented tax administration measures, including roll out of digital IDs, introduction of excise stamps, fuel marking technology, integration of ECRs with 19 large companies, improving compliance of large taxpayers, which are expected to yield additional tax revenues of 0.4 percentage points of GDP. Meanwhile, Government will restore full pass-through of the petroleum pricing formula starting in July 2023 to ensure a fixed, predictable, and stable excise duty on petroleum products. In addition, we are in the process of renegotiating a mining contract which is expected to bring in at least 0.2 percent of GDP in additional revenues. We have received cabinet approval to renegotiate, notified the mining company, and a public statement has been issued by the mining company to its shareholders on the proposed changes. The next step is for the company's board of directors to consider the proposal. Government is also in the process of establishing a safe harbor regulation for iron ore that is expected to mitigate iron ore mispricing. This is expected to gradually replace the current tax and royalty system that is based on self-weighing, self-assessing, self-assaying and self-reporting. We are working with Fund TA to strengthen capacity on valuation techniques for minerals and pricing methodologies including the use of a price index.

Text Table 2. Sierra Leone: Revenue Measures
(Percent of non-iron ore GDP)

Revenue measures	Yield
<u>Tax policy measures (Finance Act 2023)</u>	
(1) Introduced a minimum alternative tax at 3% of turnover	0.2
(2) Removed exemptions on GST (machinery and equipment, aviation operations, gambling, fees-based financial services, mobile data, digital services, voice calls, and first sale of property)	1.3
(3) Harmonized excise tax rates for local and imported excisable products and introduced annual vehicle circulation fees at Nle 200.	0.3
<u>Tax administration measures</u>	
(4) Introduced digital IDs, excise stamps and fuel marking technology; integrated company systems with electronic cash registers (ECR) for 19 large companies; strengthened compliance of key large taxpayers (extractives, financial, telecoms); and collected outstanding lease payments from two large hotels.	0.4
<u>Mining related measures</u>	
(5) Renegotiated one mining contract to unwind concessions awarded in 2022	0.2
(6) Implemented a safe harbor regulations for iron ore	tbd
Total	2.4

24. Government targets increasing tax revenue mobilization over the medium-term. To boost revenue collection in the Medium-term and achieve the target of 20 percent of GDP in revenues, Government with support from the IMF and World Bank has developed the MTRS, 2023-2027, that was approved by Cabinet in April 2023 (**Prior Action #2**). Government will also implement a set of additional tax revenue measures based on the MTRS that are expected to yield at least 1 percent of GDP and which will be submitted to Parliament as part of the 2024 Finance Act (**Proposed end-October 2023 SB**). Government will also implement another set of additional tax revenue measures based on the MTRS that are expected to yield at least 1 percent of GDP in additional annual tax revenues as part of the 2025 Finance Act.

25. The MTRS tax policy measures include, among others, a review of the corporate income taxation system to increase revenue and encourage investment, initiate the transition to a Global Income Tax system, introduce a Minimum Alternate Tax, broaden the GST base by streamlining further GST exemptions and adopting measures to extend GST to the informal sector while protecting the poor, maintain excises on fuel at a fixed and predictable rate and increase it gradually to NLe 2.4/liter for Diesel and NLe 2.8/liter for gasoline, convert ad valorem excise taxes into specific taxes, harmonize rates for locally produced and imported excisable goods, introduce a vehicle circulation tax, and institutionalize the policy of not negotiating fiscal incentives for greenfield investments in the extractive sector. The MTRS also includes tax administration measures aimed at improving taxpayer registration, strengthening tax compliance, improving auditing, compliance risk and debt management as well as improving customs valuation.

26. In addition, Government will explore the possibility of leveraging climate finance from Sierra Leone's forests, including carbon credits, REDD+ payments, and grants for forest conservation or reforestation. In this context, Government will leverage international public finance including transition and adaptation financing for climate change and plan to request access under the IMF's RST facility in the future. Government will also consider levying carbon taxes on certain sectors of the economy and will explore issuing green bonds in the medium term.

27. Government remains committed to strengthening public expenditure management to create the fiscal space for spending on priority areas while avoiding the buildup of arrears and enhancing the credibility of the budget. To this end, Government will continue with efforts to improve budget planning and execution, strengthen cash management, sustain efforts to improve the integrity and sustainability of the payroll, and improve the efficiency of the public investment program.

28. In the short term, the government intends to submit a 2023 supplementary budget in July 2023, that is consistent with program projections.¹ The supplementary budget will take into account updated macroeconomic developments since November 2022, the fiscal outturn in the first quarter of 2023, and any additional expenditure surprises. Revenue and expenditure projections in the supplementary budget will be based on the macro framework for the 6th and 7th reviews, including price and exchange rate projections. It will also include updated revenue targets in line with the 2023 Finance Act and additional expenditure measures including to postpone projects on feeder roads, delaying non-priority subscriptions to international organizations, and energy infrastructure completion, while vehicle purchases will be kept strictly within dedicated envelopes in the approved budget.

¹ The supplementary budget includes US\$25million CRW grants from the World Bank to offset certain expenditures to be identified. The budgetary expenditures may be lower once the CRW expenditures are taken out.

29. In the medium term, the government intends to enhance the efficiency of government spending to create fiscal space to address its pressing development needs.

Among the proposed actions to rationalize spending in the medium term, are the development of a medium-term wage bill management strategy (by October 2023), administrative cuts within goods and services and containment of energy subsidies. On energy subsidies, we are working with EDSA to strengthen their own revenue mobilization (by connecting mining companies to the grid), which should help reduce energy subsidies. EDSA is also working with the World Bank to reduce technical and commercial losses.

30. We are working on containing fiscal risks posed by Electricity Distribution and Supply Authority (EDSA).

Projected energy subsidies to EDSA to meet power purchases from Karpower are estimated at US\$25.5million for 2023. In addition, energy subsidies to cater for power purchases from the CLSG power pool are estimated at US\$9 million in 2023. These projections are based on a payment agreement between the MoF, EDSA and Karpower that was signed on March 16, 2023. To support EDSA's revenue and to align power sales to costs, Government plans to adopt a tariff formula that reflects the local currency cost of imported fuels and to adjust tariffs on a regular basis.

31. We are working on improving budget preparation and execution. To this end, Government with Technical Assistance from the IMF has adopted the strategic top-down budgeting approach, which ensures that the total level of expenditure is determined before detailed items in the budget are negotiated and to reflect aggregate fiscal policy priorities.

32. Consistent with the Gender Equality and Women's Empowerment Act and ongoing efforts to strengthen gender equality, the Ministry of Finance in collaboration with the Ministry for Gender and Children's Affairs introduced Gender-Responsive Budgeting (GRB) with a pilot programme for the Ministries of Basic and Senior Secondary Education, Health and Sanitation, Gender and Children's Affairs, Defense and the Sierra Leone Police to promote gender equality in budget planning and execution. The objective is to ensure that spending equitably addresses the needs of women and men, boys and girls through the accountability and transparency mechanisms in the determination of government priorities and public spending.

33. The Integrated Financial Management System (IFMIS) has been upgraded from version 6.5e to a web-based GRP version 7 application and rolled-out to 61 MDAs. Over 90 percent of Government expenditures are processed through the system and efforts are underway to rollout the system to additional 24 MDAs and subvented agencies in 2023. Training on the IFMIS roll-out has commenced at the Accountant-General's Department. The Ministry of Finance has made it mandatory that MDAs process expenditures through the web-based IFMIS to prevent arrears accumulation.

34. The Cash Management Unit will continue to use the Cash Forecasting Tool to produce and update cash forecasts to inform the decisions and recommendations of the Expanded

Cash and Debt Management Committee (ECDMC) on budget execution. Quarterly budget allocations will be based on the cash flow forecasts approved by the ECDMC. Expenditure commitments will henceforth be based on the availability of cash and not just on expenditure allocations. The use of the Electronic Funds Transfer (EFT) System ensures that payment requests are sent to the Bank of Sierra Leone only when funds are available, thus eradicating the build-up of unpaid cheques with the Bank of Sierra Leone. Further, Government will incorporate all outstanding domestic arrears as of end June 2023 including unpaid checks into a newly published arrears clearance strategy by end-October 2023 (**Proposed end-October 2023 SB**), among these, the payables would have been verified by the ASSL with view to fully budgeting for their clearance starting with the 2024 budget. Post-July 2023 domestic arrears including unpaid checks will be paid only if budgeted for in the 2024 or future budgets. To increase transparency and improve budget execution, the Government is also committed to deploy an arrears profiling system to track arrears payments across MDAs.

35. The conclusion of Phase I and implementation of Phase II of the Treasury Single Account (TSA) expansion should improve cash management. The government plans to transfer all balances of SVAs in commercial banks to treasury accounts at the BSL by end-August 2023, with the exception on balances related to donor-funded projects. This transfer will allow the BSL to compute ways and means daily.

36. Government is committed to moving towards a sustainable wage bill. The transparency and reliability of the Government wage bill has improved in recent years following the implementation of several payroll reforms initiated in 2018. These include: reconciliation of the inconsistencies between the employee dates of birth in the payroll database and NASSIT numbers; ensuring new employees brought into the payroll have valid National Identification Numbers (NIN), NASSIT Numbers and BBAN; timely removal from the payroll of public servants who have reached the retirement age of 60 years; and biometric verification of civil servants and pensioners. However, the wage bill remains too high and is becoming unsustainable. Building on the ongoing reforms, Government will undertake the following:

- (i) Develop a Medium-term Wage Bill Management Strategy that introduces additional reforms to strengthen payroll management by October 2023;
- (ii) Operationalise the Wages and Compensation Commission following the enactment of Wages and Compensation Commission Act in April 2023;
- (iii) Conduct a biometric verification exercise for teachers and health workers; and
- (iv) Institute workforce planning for all payroll categories to improve the controls relating to new recruitments and salary adjustments.

37. To improve the effective planning and efficient execution of the public investment programme, the government has adopted the National Public Investment Management Policy (NPIMP). Its implementation will ensure that all public investment projects go through the Public Investment Management Cycle. Government will activate the governance architecture of the Public Investment Management systems, which requires the screening of projects by the Ministerial Investment Committee on the recommendation of the Technical Investment Committee before inclusion in the Public Investment Programme.

38. The Government recognizes the importance of contingency planning. We commit to further reprioritize spending, including through administrative cuts (including foreign travel) and curbs of domestically financed capital expenditure, should spending pressures reemerge. In case of revenue shortfalls, we would seek additional budget support and implement additional tax measures informed by the MTRS, including (i) fast tracking harmonization of taxes on capital income (excluding capital gains) at up to 20 percent from 10 percent; (ii) increasing further stamp duty on immovable property; (iii) streamlining further GST exemptions; and (iv) introduction of excise tax on single use, non-biodegradable plastics.

39. Government is taking action to improve expenditure transparency. It has (i) [published](#) on the MoF website detailed information on the payment of legacy arrears in 2022, including information on the amounts paid and names of the creditors on the MoF website (**Prior Action #3**); and (ii) [published](#) on the 2022 budget outturn report detailed contract information on the seven road construction projects that represent the largest shares of the domestically financed capital expenditure envelope in 2022, including information on the date the contracts were awarded, their initial value, variation dates for the contracts and additional amounts, expected project completion date, disbursement in US\$ to date, and the contractor's name (**Prior Action #4**).

40. We are committed to reducing debt related risks. Multiple and successive shocks and policy slippages have heightened public debt vulnerability. Sierra Leone is assessed as a country with a high risk of both external and overall debt distress, but debt is sustainable on a forward-looking basis. Implementation of the fiscal consolidation measures mentioned above is critical to maintain debt sustainability. The sharp depreciation, and the large fiscal overrun in 2022 have pushed up the debt to GDP ratio, and the debt service burden has increased further, crowding out priority spending, and increasing roll-over risks. To address the challenging debt situation, Government will pursue the following actions:

- (i) limit domestic borrowing in line with program projections;
- (ii) maintain adherence to annual external borrowing ceilings under the program;
- (iii) continue to seek grant financing or borrow concessional loans to finance investments in key sectors of the economy, especially infrastructure;

- (iv) continue to introduce local medium to long-term bonds for the financing of infrastructure projects;
- (v) continue to explore non-debt-creating financing models such as Public-Private Partnerships (PPPs) supported by thorough analyses of the potential fiscal risks;
- (vi) implement the updated Arrears Clearance Strategy;
- (vii) annually update and implement the Medium-term Debt Strategy to guide public debt management;
- (viii) continue to strengthen debt management and improve debt reporting and transparency through the regular publication of publicly guaranteed debt; and
- (ix) to develop and implement a debt management strategy aimed at improving the debt service profile before the 8th Review under the ECF Arrangement, in consultation with Fund staff to ensure that the strategy is anchored around the ECF program parameters.

41. Sound procurement systems remain a critical area for improving delivery of basic services to the citizens of Sierra Leone. Government will build on the ongoing procurement reforms to support wider e-procurement roll out strategy for strengthening procurement reforms in all Ministries, Departments and Agencies. This includes the implementation of an Action Plan which will include change management, roll out, adoption and mainstreaming of e-Procurement in the health and education sectors. Government will effectively implement accompanying legal reforms associated with the Electronic Transaction Act for mainstreaming e-Procurement.

B. Monetary and Exchange Rate Policies

42. The Bank of Sierra Leone remains focused on its core mandate of ensuring price and financial sector stability while providing support to the government's economic objectives.

During 2022, monetary policy implementation was challenging in an environment full of uncertainties:

- Operational challenges include the shallow financial markets, the lack of a functioning secondary government securities market, high credit risk and low financial intermediation, the dominance of the informal sector, emerging signs of currency substitution, lack of effective monetary policy instruments and the increasingly negative real interest rate.
- Macroeconomic challenges during 2022 through to the first quarter of 2023 include high and lingering inflation pressures as well as persistent depreciation of the Leone. These developments stem from multiple supply and demand side shocks. On the domestic front, production in the economy is unable to keep pace with rising demand – which is clearly demonstrated by the heavy reliance on imports of staple food – due to a variety of factors such as inadequate

infrastructure, lack of credit and capital. The exchange rate and inflationary pressures were escalated by global supply chain disruptions on the back of multiple global shocks including the lingering effects of the Ukraine war, the relics of Covid-19 control measures and tight global liquidity conditions, which emanated from the aggressive policy tightening of the Fed and other major central banks in response to the surge in inflation. These developments led to a deteriorating terms of trade, the depreciation of the Leone and high and persistent inflation. Going forward, the risks to inflation include the depreciation of the Leone, lower than expected domestic output, faster growth in monetary aggregates, increase in election-related expenditures, high inflation expectations, and an increase in international food and energy prices.

43. The BSL is committed to decisive monetary policy action to reduce inflation. In an environment of high inflationary pressures, the BSL raised the policy rate consecutively in the past five quarters from March 2022 until March 2023. In total, the Monetary Policy Rate increased by 4.50 percentage points during the reference period. In addition, the BSL provided two new one-off facilities to support the importation of essential commodities with view to moderating exchange rate and inflationary pressures. These facilities, which have since expired, include a special food facility of US\$50 million to support the importation of essential food items such as rice, flour and sugar, and another special facility of US\$36 million to support the importation of fuel. The Bank will continue to monitor developments in the domestic economy and act appropriately, in line with its mandate to ensure price and financial system stability, for sustainable economic growth:

- With a view to containing base money growth within the limits agreed in the program with the IMF, the BSL will limit purchases of government securities in the secondary market, which will enhance the effectiveness of monetary policy and the objective of achieving single-digit inflation over the medium term. BSL will also continue raising the policy rate as needed to send a strong signal of its intention to tighten monetary policy and bring down inflation. BSL will also consider strategies to enable the use of its own instruments to support effective liquidity management operations.
- In 2022, the BSL established a Monetary Policy Strategy and Communications unit to improve monetary policy communication and anchor inflation expectations in the medium-term. The Bank will adopt strategies to engage the wider public (both formal and informal) in communicating its objectives of monetary policy. These strategies will be designed to explain basic concepts of monetary policy in a way that is easily understandable to the public.
- The Bank will also have regular engagements with commercial banks to communicate its monetary policy framework, goals, and outcomes, including the role of commercial banks in implementing monetary policy.

- With technical assistance from the IMF, ongoing efforts are being made to improve liquidity and inflation forecasting as well as the computation of the composite index of economic activities (CIEA).
- Consistent with the BSL Act 2019, the BSL will provide by end-October 2023, a detailed report on the currency redenomination process through end-June 2023 to Parliament as part of the fulfillment of its reporting requirements, (**proposed end-October 2023 SB**).

44. The Leone has depreciated notably in recent years. Exchange rate pressures remain high and persistent, with the Leone depreciating significantly against international currencies across various foreign exchange market segments. This persistent depreciation reflects the structural imbalances between the demand for and the supply of foreign exchange. Foreign exchange inflows have dwindled since the emergence of the COVID-19 pandemic, mainly from key foreign exchange earning sectors like mining and agriculture as well as low inflows from development partners. However, demand for foreign exchange remains worryingly high, reflecting the high cost of imported goods, particularly food and oil. Additionally, there are signs of emerging currency substitution by market participants, as evidenced by the increased level and share of foreign currency deposits in commercial banks.

45. The BSL will limit FX intervention to safeguard reserves. To address the high and persistent exchange rate pressures, the Bank of Sierra Leone has taken several policy measures aimed at increasing the supply of foreign exchange to partly meet the demand from the private sector as part of efforts to stabilize the exchange rate. In total, the Bank provided FX liquidity amounting to USD133.25 million in 2022 to support the private sector's importation of essential goods and services, including food and oil. This included the creation of food and fuel facilities in April 2022, which have since expired, foreign exchange auctions conducted to support the private sector, and foreign exchange sales to oil importers to facilitate the importation of oil for productive activities. Going forward, the BSL will intervene in the forex market only in exceptional circumstances to prevent excessive volatility in the exchange rate and concerns about a de-anchoring of inflation expectations in case of very large temporary shocks. We commit to limit our FX intervention to within the envelope provided under the GIR target.

46. We consider the tighter policy stance on both fiscal and monetary policies described above will ease depreciation pressures. However, at the same time, the Bank of Sierra Leone, together with the Ministry of Finance, will continue to collaborate with relevant partners to address the current pressures on the exchange rate through specific measures. We will coordinate with the IMF early on before imposing any additional measures that could constitute breaches of our Article VIII commitments. Measures may include, but are not limited to:

- Enhancing coordination between fiscal and monetary policy to support the productive sectors of the economy and reduce pressures on the foreign exchange market. A significant volume of

foreign exchange is demanded for payments of goods that could be produced locally, including rice (the staple food). Supporting real sector activities would also lead to increased exports and, thus, foreign exchange earnings.

- Engaging with the Government and key stakeholders to enforce the 30 percent export proceeds repatriation requirement to support liquidity in the foreign exchange market.
- Encourage development partners to direct inflows from donor projects through the BSL. This is because all repayments of government project loans are done using the Central Bank's resources. This will help to support the reserves of the BSL.
- Emphasizing the need for the government to hold equity in foreign exchange earnings sectors, including in the mining sector. Some countries in the region have been able to increase their foreign exchange inflows by participating in FX-earning productive sectors of the economy.
- Developing the interbank FX market, building on our recently adopted prudential guidelines covering net open positions, implemented in January 2023, by abolishing FX regulation limits on forward transactions in the period ahead, in line with IMF TA recommendations.

C. Financial Sector Policies

47. The BSL will continue to provide regulatory and supervisory oversight of the banking system using the Risk Based Supervision (RBS) approach. We plan to adopt the Basel 2 and Basel 3 frameworks commencing in 2023. This will enhance confidence in their ability to perform their intermediation function with prudence and within a risk management culture.

48. The BSL is working to maintain system stability and improve the regulatory and supervisory framework for the banking system. In this context, the Board of the BSL has approved the Financial Policy Committee (FPC) Charter which will enable the commencement of meetings to strengthen financial sector policy management, ensure stability and support growth. The Deposit Protection Bill has been enacted by Parliament and implementation work is undergoing, which is a major improvement in enhancing the financial safety net.

49. The two state-owned banks continue to be viable with fully constituted Boards, responsible for corporate governance and overall policy formulation. Board members were drawn from various disciplines relating to the banking spectrum. Efforts are underway to assess the performance and effectiveness of the Boards and in addition identify ways to improve board efficiency and overall corporate governance in line with the new Corporate Governance Guidelines for Financial Institutions. The regular supervision of state-owned banks continues in order to strengthen their capacity to handle any shocks as and when they materialize on the basis of adequate and resilient capital. Onsite examinations have recently been concluded for these two

banks. RBS trainings continue with the IMF resident advisor, who is working with the BSL to update and improve the approach to risk-based supervision.

50. Going forward, and with the functioning of the FPC, the BSL is committed to completing and implementing the draft instruments with the assistance of the Resident Advisors and STX where necessary. The BSL will also follow through on the recommendations of the FSSR and FSAP reports to strengthen the financial system, including by establishing the Financial Policy Committee (FPC) by July 2023, finalizing the crisis management plan in accordance with the Charter of the FPC by December 2023, and enhancing the resolution framework for financial institutions and an Emergency Liquidity Assistance framework, building on recommendations from the recent FSSR. The BSL will also (i) adopt new corporate governance guidelines for banks by October 2023; (ii) enhance the corporate governance framework of the two SOBs in accordance with the action plan; and (iii) fully operationalize the Deposit Insurance Fund Act by end-September 2024.

D. Inclusive Growth and Social Protection

51. We continue to take steps to promote inclusive growth and reduce inequality by prioritising human capital development and strengthening social protection systems. Building on on-going efforts to implement the Free Quality Education Programme, Free Health Care Initiative and on-going unconditional cash transfers programme, Government will:

- Intensify local food production and distribution, targeted at addressing food insecurity. Further to support local food production, the government plans to prioritize local food purchases in its programs. Where necessary, government may facilitate food importation to meet residual shortfalls in domestic food production;
- Provide cash-based and in-kind transfers to vulnerable farming households in response to immediate food needs and to strengthen household food security;
- Continue the implementation of the Radical Inclusion Policy and enhance support for the education of girls including the provision of sanitary hygiene kits for school going girls;
- Continue with efforts for the establishment of the Sierra Leone Health Insurance Scheme (SLeSHI);
- Expand the ongoing Social Safety Nets (SSN) Project to provide cash transfers to 100,000 extremely poor households;
- Provide cash transfers to 15,000 youths to engage in productive activities and labour-intensive public works; and
- Implement the provisions of the Gender Empowerment Act.

E. Improving the Business Environment and Economic Diversification

52. More needs to be done to improve competitiveness. Sierra Leone ranked 134 out of 140 countries in the 2019 edition of the Global Competitiveness Report published by the World Economic Forum. As part of efforts to address this challenge in order to promote inclusive and sustainable growth and create employment opportunities, Government has been implementing several business regulatory and financial sector reforms as well as investing in infrastructure to improve the business environment. To diversify the economy, Government implemented a policy shift in the agriculture sector in 2020 through the introduction of electronic voucher system for the provision of agricultural inputs to farmers to improve productivity; and developed policies and strategies to rebrand the country and promote tourism and support the growth of Small and Medium Enterprises (SMEs).

53. The Collateral Registry at the Bank of Sierra Leone has been upgraded to include the use of moveable assets, individual search and e-payment services. The attendant Regulations for the Borrowers and Lenders Act 2019 have also been prepared. The first phase of the National Payment Switch, which will facilitate interoperability among commercial banks, went live on April 29, 2023. Going forward, with support from the World Bank funded- Sierra Leone Economic Diversification Project, the establishment of an Online Business Registration System to create a single window for the registration of businesses is underway. The project is also supporting the growth of SMEs and SME Ecosystems through capacity building of Incubators and Accelerators and provision of financial support to SMEs. The MUNAFA Fund established by Government is also providing microfinance services mainly credit to SMEs through financial intermediaries.

54. Government is also committed to further promoting tourism development. With support from the World Bank the upgrading of tourist destination sites in Freetown, starting with the Leicester Peak, Tacugama Sanctuary and Bureh Beach in 2023 is in progress.

F. Strengthening Climate Resilience

55. Government recognizes that building economic resilience and fostering sustainable green growth requires robust climate adaptation and mitigation measures. Consequently, in the face of increased risks from climate change and building on recent progress in reviewing existing environmental legislation and adopting a new National Climate Change Policy, Government will continue to:

- (i) Re-afforest and protect existing forests and restore degraded lands, mangroves and wetlands to preserve the environment and attract carbon credits;
- (ii) invest in renewable sources of clean energy such as solar, hydro and natural gas for producing electricity.

56. The World Bank is also preparing the Country Climate Development Report (CCDR), which will identify the impact of climate change on various sectors of the economy, propose policy priorities and strategies for adapting to the impact of climate change and strengthen resilience. The report will also cost the strategies and identify sources of financing the interventions.

57. With support from the World Bank, we are also developing a Disaster Risk Financing Strategy (DRFS) to limit the impact of crises and shocks on the budget. The Strategy outlines strategic priorities, procedures and clear rules as well as disaster risk financial instruments for the sustainable funding of disaster response activities.

58. Government will therefore deepen efforts to attract climate finance from international public and private sectors to fulfil our climate commitments. To this end, we have established a Climate Finance Unit in the Ministry of Finance to coordinate the mobilisation of financial resources to support the implementation of our Climate initiatives. We are requesting the support of the IMF and the World Bank to build the capacity of the Unit including the development of a Climate Finance Strategy.

IMPROVING GOVERNANCE

59. Consistent with our efforts to increase the effectiveness of macroeconomic policy, we have renewed our commitment to improving governance, enhancing transparency, and fighting corruption. Our strategy in this area is focused on the following:

- (i) **Tribunal Guidelines:** We have adopted new tribunal guidelines (**end-December 2022, structural benchmark**). In addition, ASSL is committed to pay all salaries and allowances (including any overdue, unpaid claims) going forward that are legally due to the persons holding the positions listed in the "Management Profile" section of ASSL's website (as of May 31, 2022) in accordance with the Sierra Leone Constitution, the Audit Service Act 2014, and the ASSL Conditions of Service 2014, as amended in 2018.
- (ii) **Transparency in the use of COVID-19 funds:** We have [published](#) the 2021 and 2022 financial statements of their National Covid Emergency Response Center. This is in line with our commitments to increase transparency and accountability in the use of public funds.
- (iii) **Strengthening the Budgetary Independence of the Auditor-General:** We have published a roadmap with the objective of strengthening ASSL's, budgetary autonomy (**end-September 2022, SB**). With the aim of strengthening the audit process, Parliament has passed a statutory amendment of the Audit Service Act 2014 (**end-October 15, 2022 SB**). In particular, inter alia, the amendment strengthens the implementation of ASSL recommendations with detailed provisions. It also facilitates a strengthening of compliance during the audit process by extending the power to withhold salaries of vote controllers for non-submission of financial statements to the verification and explanation stage. We are also planning to publish a

roadmap that revives the currently dormant statutory provisions on surcharges with an implementing regulation (Section 12 Audit Service Act 2014).

- (iv) **Strengthening implementation of audit recommendations:** Government has commenced implementation of a series of reforms to strengthen accountability and improve the implementation of audit recommendations. In August 2022, the Government through the Ministry of Finance, developed and validated the Standard Operating Procedures (SOPs) on follow-up of audit recommendations.

60. There are three primary objectives for the development of the SOPs: (i) determine the status of audit issues and suggested recommendations to confirm executive commitment to implement recommendations already agreed upon during the audit process, or to come up with executive commitments to solve those issues through the audit follow-up mechanisms; (ii) confirm the implementation of the executive commitments by verifying the remedial actions taken; and (iii) analyze and disseminate audit follow-up information to improve the overall governance and accountability environment.

61. Going forward, the Government of Sierra Leone, through the offices of the Chief Minister and Head of the Civil Service will institute a policy by which the implementation of audit recommendations is embedded in the performance contracts of vote controllers in public sector entities. This means that Permanent Secretaries/Heads of Agencies who failed to implement both internal and external audit recommendations would have the assessments of their performances negatively affected and will also be liable to other sanctions and penalties.

62. With the goal of improving the governance of State-Owned Enterprises (SoEs), the Ministry of Finance, in collaboration with relevant stakeholders, including the National Commission for Privatisation (NCP), the World Bank and the supervisory ministries, have developed a State-Owned Enterprises Ownership and Governance policy in order to:

- (i) simplify, streamline, clarify and harmonize the roles and responsibilities of the main SOE ownership and oversight agencies, i.e., the NCP, MOF and other supervisory ministries;
- (ii) review and bring up to date the NCP Act 2002 and other laws determining the SOE governance framework to remove ambiguities and overlaps with respect to institutional responsibilities for SOE ownership and oversight;
- (iii) improve transparency and disclosure with respect to SOE financial and operational performance with full adoption by all SOEs of international financial reporting standards and international standards on auditing; and
- (iv) ensure adequate representation of women on all boards of SOEs.

63. The Government of Sierra Leone would consolidate and harmonize the provisions of this Policy with other laws applicable to SOEs into a comprehensive oversight and governance Act. This is expected to strengthen the oversight and governance of SOEs with conforming amendments to other relevant Acts. The new legislation will repeal the National Commission for Privatization (NCP) Act, 2002. In addition, the Ministry of Finance, in collaboration with the Bank of Sierra Leone has developed an action plan to specifically address the corporate governance challenges of the two state-owned banks, Rokel Commercial Bank and Sierra Leone Commercial Bank.

A. Strengthening Statistics

64. The compilation and dissemination of credible and timely data is critical to informed policy design, analysis and implementation. Our activities in this area, includes the following:

- (i) **National Accounts rebasing:** With technical assistance from AFRITAC West 2 Stats-SL has commenced the process of rebasing GDP, improving data collection instruments, producing Quarterly National Accounts and developing Supply and Use tables.
- (ii) **High frequency indicators:** With IMF technical assistance, we are working on developing credible high frequency indicators of economic activity, to improve our ability to monitor the impact of our macroeconomic and structural reforms. These indicators would also help us to appropriately refine monetary and fiscal policy settings in response to shocks or changed circumstances.
- (iii) **CPI Enhancements:** With technical assistance from the IMF and AFRITAC West 2, Stats SL has now fully rebased the CPI to December 2021. The CPI basket has also been updated with revised weights based on the 2018 Sierra Leone Integrated Household Survey.
- (iv) **Other macroeconomic statistics:** Improvements in other macroeconomic statistics are being advanced with IMF technical assistance. In particular, to the Ministry of Finance to improve debt recording and to the Bank of Sierra Leone to improve balance of payments, Monetary statistics and financial soundness indicators.
- (v) **Business Establishments Census:** Statistics Sierra Leone, in collaboration with partners, has carried out a Census of Business Establishments and is in the process of analyzing the data. Additionally, with support of partners, Stats-SL is planning to conduct the Sierra Leone Integrated Household Survey (SLIHS) which will commence in the second half of this year.
- (vi) **Agriculture Census and surveys:** Stats-SL is also working with the FAO, WFP and the Ministry of Agriculture and Food Security to conduct an agriculture census in 2023, which has not been conducted for over 40 years. Stats-SL will also work with FAO, WFP and the Ministry of

Agriculture and Food Security to conduct two agricultural surveys through the 50X2030 project.

65. Going forward, with support from the World Bank under the Harmonizing and Improving Statistics Project in West Africa (HISWA), Stats-SL will continue to improve the quality of economic statistics using harmonized methodologies through:

- (i) Design and implementation of a coherent system of enterprise statistics using electronic platforms and conduct of related data collection;
- (ii) Design and implementation of comprehensive collection of agricultural statistics;
- (iii) Modernization of National Accounts using enterprise and agriculture statistics and additional data to be collected;
- (iv) Adopt the use of international standards on administrative data processing. The project will also support the improvement of the statistical Infrastructure of Stats-SL and enhance data accessibility through the creation of national data bases and development of or update web-based apps and platforms;
- (v) Furthermore, Stats-SL will continue to partner with organizations across the country to bring timely, accurate, and useful information about Sierra Leone;
- (vi) Collaborate with the DSTI and other institutions to make data easily accessible online; and
- (vii) Work with the Fund and other development partners on migrating to GFSM2014, which will allow clear fiscal classifications and facilitate better targeted and informed policy making.

B. Programme Monitoring

66. The program will be monitored on a semi-annual basis, through quantitative targets and structural benchmarks (Table 1, Table 2). Quantitative targets for end-June 2023 are performance criteria. The eighth and final review of the program will take place on or after October 1, 2023.

67. We are committed to provide monthly data on the NCG, NIR and NDA PCs, as defined in the TMU, to support high-frequency monitoring under the program.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets, 2021-23

(Within-year cumulative change – Le billions, unless otherwise indicated)

	2021				2022												2023								
	Dec. PC				Mar. IT				Jun. PC 1/				Sep. IT				Dec. PC				Mar. IT				Jun. PC
	CR No.	Adj.	Est.	Status	CR No.	Adj.	Est.	Status	CR No.	Adj.	Est.	Status	CR No.	Adj.	Est.	Status	CR No.	Adj.	Est.	Status	CR No.	Adj.	Est.	Status	Proposed
	21/183	Prog.			21/183	Prog.			22/259	Prog.			22/259	Adj. Prog.			22/259	Prog.			22/259	Prog.			
Performance criteria																									
Net domestic bank credit to the central government (ceiling) 2/	1775	482	2255	Not Met	259	657	707	Not met	1762	772	1296	Not met	2498	1638	3415	Not Met	1362	485	4272	Not Met	651	849	1401	Not Met	2663
Unadjusted target (ceiling)		1775				259				1762				2498				1362				651			
Adjustment for the shortfall in external budget support		9				0				0								0							
Adjustment for the excess (shortfall) in unpaid checks and other outstanding payments		-634				372				-898				-615				-878				140			
Adjustment for the excess (shortfall) in leone value of net issuance of government securities to non-bank private sector		-668				26				-91				-245								57			
Adjustment for the cumulative net flow of non-tradeable securities issued to the non-bank sector for regularizing the stock of legacy arrears		0				0				0															
Net domestic assets of the BSL (ceiling)	995	-1829	-2493	Met	291	307	420	Not met	2112	2136	1608	Met	2993	3006	2978	Not Met	2220	1797	3370	Not Met	405	580	1212	Not Met	1963
Unadjusted target (ceiling)		995				291				2112				2993				2220				405			
Adjustment for the shortfall (excess) in external budget support		9				0				0															
Adjustment for exchange rate depreciation (appreciation)		-117				-18				24				13				-423				175			
Adjustment for SDR allocation		-3131				0				0															
Adjustment for the Special Credit Facility		414				33				0															
Gross international reserves of the BSL, US\$ millions (floor)	-25	216	268	Met	-56	-61	-66	Not met	-222	-224	-175	Met	-304	-306	-279	Met	-243	-267	-289	Not Met	-44	-22	-46	Not Met	-96
Unadjusted target (floor)		-25				-56				-222				-304				-243				-44			
Adjustment for the shortfall (excess) in external budget support		-1								0															
Adjustment for the shortfall (excess) in the US\$ value of IMF disbursement		0								0								-22							
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities		-7				-2				-2				-2				-2				22			
Adjustment for SDR allocation		286																							
Adjustment for Special Credit Facility		-38				-3																			

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets, 2021-23 (concluded)

(Within-year cumulative change – Le billions, unless otherwise indicated)

	2021				2022								2023												
	Dec. PC				Mar. IT				Jun. PC 1/				Sep. IT				Dec. PC				Mar. IT				Jun. PC
	CR No.	Adj.	Est.	Status	CR No.	Adj.	Est.	Status	CR No.	Adj.	Est.	Status	CR No.	Adj.	Est.	Status	CR No.	Adj.	Est.	Status	CR No.	Adj.	Est.	Status	Proposed
Performance criteria (cont.)																									
New concessional external debt with original maturity of one year or more contracted or guaranteed by the public sector, US \$ millions (annual ceiling) 3/	130		104	Met	70		65	Met	115		65	Met	115		65	Met	115		105	Met	100		0	[Met]	100
New non-concessional external debt contracted or guaranteed by the public sector, US\$ million (ceiling) 3/	0		0	Met	0		0	Met	0		0	Met	0		0	Met	0		0	Met	0		0	[Met]	0
Outstanding stock of external debt with maturities of less than one year contracted or guaranteed by the public sector (ceiling) 3/	0		0	Met	0		0	Met	0		0	Met	0		0	Met	0		0	Met	0		0	[Met]	0
External payment arrears of the public sector (ceiling) 3/	0		0	Met	0		0	Met	0		0	Met	0		0	Met	0		0	Met	0		0	[Met]	0
Indicative targets																									
Total domestic government revenue (floor)	6642		6917	Met	1951		1633	Not met	3571		3346	Not Met	5518				7787		7046	Not Met	2356			[Met]	4803
Poverty-related spending (floor) 4/	2034		2565	Met	421		451	Met	1141		1422	Met	1841				2496		2947	Met	572			[Met]	1793
Domestic primary balance (floor)	-965		-2213	Not met	202		-204	Not met	-932		-1700	Not Met	-1271				-1153		-5116	Not Met	-43			[Met]	-1767
Memorandum items:																									
External budgetary assistance (in \$ million)	102		101																						
Exchange rate (Leones/US\$)																									
Program	10939				11832				13282		13153		14085				14805							15164	
Actual			11256				11889																		

1/ Data is preliminary and subject to change

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

3/ These apply on a continuous basis.

4/ Poverty-related spending is defined in paragraph 24 of the TMU.

Table 2. Sierra Leone: Progress on Prior Actions and Structural Benchmarks			
	PRIOR ACTIONS AND STRUCTURAL BENCHMARKS	TIMING	STATUS
Proposed Prior Actions for the combined 6th and 7th Reviews			
1	Parliament to approved a new 2023 Finance Act implementing tax measures estimated to yield additional annual tax revenues of 1.6 percent of GDP.		Met.
2	Cabinet to approved the Medium-Term Revenue Strategy (MTRS).		Met.
3	Published on the MoF website payments of legacy arrears in 2022, including the amounts paid and the names of the creditors.		Met.
4	Published in the 2022 budget outturn report detailed contract information on the seven road construction projects that accounted for the largest domestically financed capital expenditures in 2022. The information includes the date the contracts were awarded, the initial value of the contracts, variation dates for the contracts (and additional amounts), the expected project completion date, the disbursements under the contracts in US\$ to date, and the contractors' names.		Met.
Benchmarks for 6th Review			
5	Develop and publish an action plan on corporate governance frameworks for the two state-owned banks, with a focus on (a) Board and Senior management oversight; (b) operational management; (c) risk management; (d) compliance with regulation; (e) internal audit; and (f) external audit.	September 30, 2022	Not Met. Implemented with delay. Published here: https://mofsl.gov.sl/documents/action-plan-to-address-the-corporate-governance-issues-in-the-state-owned-banks-sobs/ .
6	Publish on the website of the BSL the BSL's FY 2021 financial statements audited by a reputable audit firm with experience in central banking.	September 30, 2022	Not Met. Implemented with delay. Published here: https://bsl.gov.sl/Annual%20Report%20and%20Statement%20of%20Accounts%202021.pdf
7	Develop an SOE Ownership Policy that outlines the rationale and objective for state ownership, which would help guide further reforms of SOEs and the SOE framework.	September 30, 2022	Met.
8	Prepare a quarterly budget out-turn report that includes (i) progress in reduction of unpaid checks; (ii) implementation of the ECDMC recommendations; (iii) the disbursement and use of SDR-backed resources for fiscal purposes; (iv) an additional statement monitoring the actual performance against quarterly budget allotments; and (v) provide corrective policy options in case of budget overruns.	September 30, 2022	Not Met. Implemented with delay. Published here: https://mofsl.gov.sl/wp-content/uploads/2023/04/Final-FY2022-Budget-Outturn-Report-1.pdf
9	Update and issue revised prudential guidelines for banks in line with the 2019 9 Act, to strengthen the regulatory framework for capital adequacy, loan classification and provisioning as well as for credit, market and operational risks.	September 30, 2022	Met. Published here: https://bsl.gov.sl/RPGCB.pdf

Table 2. Sierra Leone: Progress on Prior Actions and Structural Benchmarks (continued)			
	PRIOR ACTIONS AND STRUCTURAL BENCHMARKS	TIMING	STATUS
10	The MoF and the ASSL will jointly publish a roadmap, in consultation with FAD, which aims to enhance the budgetary autonomy of the ASSL. The roadmap will make statutory amendment proposals on three issues, as follows: setting and approving the ASSL budget, the timely and complete disbursement of the budget for mandatory spending of the ASSL, and the processing of the audit fees.	September 30, 2022	Not Met. Implemented with delay. Published here: https://mofsl.gov.sl/documents/standard-operating-procedures-sop-for-follow-up-on-audit-recommendations/
11	With the aim to strengthen the audit process, adopt by parliament a statutory amendment of the Audit Service Act 2014 and implementing regulations, as follows: (i) to strengthen the implementation of ASSL recommendations with a detailed provision which includes the obligation of auditees to provide justification or explanation, issue a timeline, assign staff and agree to an ongoing engagement process with the ASSL. (Section 93 Audit Service Act) (ii) to strengthen compliance during the audit process by extending the power to withhold salaries of vote controllers for non-submission of financial statements to the verification and explanation stage (Sections 11 & 12 Audit Service Act 2014).	October 15, 2022	Not Met. Implemented with delay.
12	Update the legacy arrears clearance strategy, consistent with debt sustainability, in consultation with FAD, that includes a list of creditors, criteria to prioritize the list, and amounts to be paid over the next three years.	October 31, 2022	Met.
13	Prepare a document to be shared with the Fund which sets out the BSL's supervisory strategy and approach to address high system-wide NPLs and gradually realize compliance on a bank-by-bank basis with to the 10 percent prudential limit	December 15, 2022	Met.
14	A draft Medium-Term Revenue Strategy (MTRS), developed with stakeholder inputs, submitted to Cabinet for approval.	December 31, 2022	Not Met. Implemented with delay.
15	Appoint a Chief Internal Auditor at the Bank of Sierra Leone.	December 31, 2022	Not Met. Implemented with delay.
16	Adoption by the Judicial and Legal Service Commission (JLSC) of Guidelines (Practice Directions) for any Tribunal under Section 137 5(ff) of the Constitution that may be established in the future. These guidelines shall be reflective of general principles in the Constitution including (i) Ensuring a fair hearing, (ii) with the procedure conducted in public, (iii) with reasonable timelines by an independent and impartial Tribunal; and (iv) with the announcement of the decisions in public.	December 31, 2022	Not met. Implemented with delay. Published here: https://www.judiciary.gov.sl/wp-content/uploads/2023/05/FairHearingGuidelinesforTribunals-1.pdf

Table 2c. Sierra Leone: Progress on Prior Actions and Structural Benchmarks (concluded)			
	PRIOR ACTIONS AND STRUCTURAL BENCHMARKS	TIMING	STATUS
Benchmarks for 7th Review			
17	Move to daily calculation and publication of an exchange rate that is based on a one-day lag, in consultation with AFRITAC West II.	April 30, 2023	Met.
18	The government will establish a high-level steering committee on the MTRS which will meet quarterly and be led by the Ministry of Finance with representation from the NRA, development partners, civil society and other relevant government departments and agencies.	March 31, 2023	Not Met. Implemented with delay.
19	Continue to use the automatic fuel price indexation mechanism to set fuel price determination and publish the price formula and the outcome of fuel price setting decisions, regardless of whether fuel prices are changed.	Continuous	Not Met.
Benchmarks for 8th Review			
20	Adopt and publish on the MoF website a new arrears clearance strategy that includes all outstanding domestic arrears as of end June 2023, including unpaid checks, with view to fully budgeting for their clearance starting with the 2024 budget.	October 31, 2023	Proposed.
21	Submit to Parliament as part of the 2024 Finance Act additional tax revenue measures that would yield at least 1 percent of GDP in additional annual tax revenues.	October 31, 2023	Proposed.
22	Consistent with the BSL Act 2019, the BSL will provide by end-October 2023, a detailed report on the currency redenomination process through end-June 2023 to parliament as part fulfillment of its reporting requirements that includes <ul style="list-style-type: none"> i. The total budget allocated to redenomination process, and the amount spent; ii. The total cost of the redenomination process; iii. The monthly value of the old leones in circulation and withdrawn from circulation; iv. The monthly value of old notes destroyed; v. The monthly value of new leones ordered and received; vi. The monthly value of new leones issued and in circulation. 	October 31, 2023	Proposed.

Attachment II. Technical Memorandum of Understanding¹

A. Introduction

1. This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund (IMF) starting June 2023. It provides 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. The definitions and adjustors described below cover the PCs and ITs for June 2023. The program PCs and ITs before June 2023, and relevant adjustors, remain as defined in the Technical Memorandum of Understanding of June 10, 2022 (see CR No. 22/259). For any variable or definition that is omitted from the TMU but is relevant for program targets, the authorities of Sierra Leone shall consult with the staff on the appropriate treatment to reach an understanding based on the Fund's standard statistical methodology.

2. Program exchange rates.² For the purpose of program monitoring, all foreign currency related assets, liabilities and flows, will be evaluated at “program exchange rates” as defined below, except for items related to fiscal operations. which will be measured at current exchange rates.³

Sierra Leone Program Exchange Rate for ECF Arrangement Cross Rates as of December 23, 2022			
Currency	Currency units per SDR	Leones per currency unit	US dollars per currency unit
US dollars	1.33	18,847.40	1.00
British Pound Sterling	1.10	22,738.40 ^{/1}	1.21
Japanese Yen	176.53	142.08	0.01
Euro	1.25	20,010.00 ^{/1}	1.06
SDR	1.00	25,093.10 ^{/1}	1.33
Renminbi	9.30	2,697.86	0.14

^{/1} As shown on the BSL website as at 23rd December 2022.

¹ This TMU will apply to test dates starting in June 2023.

² The source of the cross-exchange rates is International Financial Statistics.

³ For calculating program targets for 2023, all end-December 2022 stock variables will be based on the program exchange rate of Old Le 18,847.40/US\$. The program exchange rates for test dates are specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).

B. Quantitative Program Targets

3. Quantitative performance criteria are proposed for June 30, 2023 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**);
- New concessional external debt with original maturity one year or more contracted or guaranteed by the public sector, US\$ millions (**continuous annual 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. Indicative targets are proposed for June 30, 2023 with respect to:

- Total domestic government revenue (floor);
- Domestic primary balance (floor); and
- Poverty related -expenditure (floor).

C. Quantitative Performance Criteria

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 the sum of 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; and

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/or to increase its capital, but including any bonds issued in the conversion/securitization of ways and means into debt

(government's overdraft at the central bank); (b) ways and means; and (c) any other type of direct credit from the BSL to the government, including the special lending arrangements relating to budget support;

- 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 assistance⁴—the upward adjustment will be capped at the equivalent of US\$50 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 (or known as 'crystallized obligations') (relative to the end-December 2022); (c) a downward (upward) adjustment by the excess (shortfall) in Leone value of net issues of government securities to the non-bank private sector,⁵ and (d) an upward (downward) adjustment by the increase (decrease) in the cumulative net flow of non-tradeable securities issued to the non-bank sector for regularizing the stock of legacy arrears.^{6,7}

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.

8. 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.

Net Domestic Assets of the BSL

9. 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 BSL liabilities to other private sector entities. Net

⁴ External budgetary assistance is defined as budget grants and loans, excluding HIPC assistance. The amounts are specified in Section D.

⁵ 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 a reduction through securitization would not.

⁶ Taken together, clauses (c) and (d) imply that a change in securities issued to the non-bank sector for the purpose of regularizing the legacy stock of arrears will not impact NCG.

⁷ The stock of legacy arrears refers to arrears identified in the stocktaking exercise completed in September 2019, totaling Le 3.287 trillion. The Government updated its arrears clearance strategy in October 2022 and, to date, has not yet issued any securities for the purpose of clearing these arrears.

foreign assets of the BSL are defined as gross foreign exchange reserves minus gross foreign liabilities (defined below):

a. The 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, the September 9, 2009 Special allocation, the August 23, 2021 SDR allocation, and any future allocation of SDRs by the IMF to its membership; and
- the BSL's holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments).

b. The 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. The BSL's gross foreign exchange liabilities are defined as:

- the total outstanding liabilities of the BSL to the IMF excluding those arising from the August 28, 2009 SDR general allocation, the September 9, 2009 SDR special allocation, the August 23, 2021 SDR allocation, and any future allocation of SDRs by the IMF to its membership; 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 US\$8.4 million relating to a legacy clearing account for a previous Bilateral Trade Agreement;⁸
- commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), including 2017–18 foreign exchange swap arrangements with commercial banks; and

⁸ The authorities have confirmed that this Bilateral Trade Agreement is no longer operational.

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

10. 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\$50 million, and by exchange rate depreciation (appreciation).

Gross International Reserves of the BSL

11. 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 of the BSL excludes foreign exchange swap arrangements with commercial banks.

12. 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; (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); and (d) a downward adjustment by a cumulative maximum of US\$12 million in case the BSL decides to implement its plan to sell FX through SALPOST on a pilot basis.

Assumptions on External Budgetary Assistance

13. The programmed external budgetary assistance for the calculation of NCG, NDA, and GIR targets will amount, from January 1, 2023 to:

End-June 2023	US\$ 0.0 million
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New Concessional External Debt with Original Maturity of One Year or More Contracted or Guaranteed by the Public Sector

14. 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. 16919-(20/103), October 28, 2020, paragraph 8) but also to commitments contracted or guaranteed for which value has not been received. 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 19.

15. 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 concessional external debt with original maturity of one year or more will be applied on a continuous basis and evaluated in terms of cumulative changes within each calendar year.⁹

16. 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.

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

17. Non-concessional external debt is defined as external debt (defined in paragraph 14) on terms that do not meet the definition in paragraph 16. 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. This PC will apply on a continuous basis.

18. 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 SOFR is 0.42 percent and will remain fixed for the remainder of the program. The spread of six-month Euro ESTR over six-month USD SOFR is 50 basis points. The spread of six-month JPY TONAR over six-month USD SOFR is 50 basis points. The spread of six-month GBP SONIA over six-month USD SOFR is zero basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD SOFR is 50 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 basis points) will be added.

⁹ For example, a ceiling amount of US\$100 million in calendar year 2023 means that up to US\$100 million of new concessional external debt can be contracted in 2023. Once that ceiling is reached at any point in the year, any new concessional external debt that is contracted will result in the nonobservance of the PC.

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

19. 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 19. This PC will apply on a continuous basis.

External Payment Arrears of the Public Sector

20. 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 listed in Annex 9 of the 2023 budget documents, 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 (i) external arrears accumulated before the approval of this ECF arrangement and (ii) those debts subject to rescheduling or restructuring or are under litigation.

D. Quantitative Indicative Targets

Domestic Revenue of Central Government

21. 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.

Domestic Primary Balance

22. Definition. Central Government Revenue less expenditures and net lending adjusted for interest payments; foreign financed capital expenditure, foreign financed elections and foreign financed energy spending; and cash paydown of arrears. Arrears refers to the stock of legacy (pre-April 2018) arrears determined for the purpose of the Sierra Leonean authorities' arrears clearance strategy.

Poverty Related Expenditure

23. Definition. For program monitoring purposes, poverty-related expenditures are defined as the total non-salary, non-interest current expenditures of the following ministries and institutions: Higher and Secondary Education, Health and Sanitation, the Health Service Commission, Social Welfare, Youth, Agriculture, Fisheries, Transport and Communications, Energy, Sierra Leone

Electricity and Water Regulatory Commission, Water, Correctional Service, National Fire Authority, Local Councils, the National HIV and AIDS Commission, AntiCorruption Commission, Statistics Sierra Leone, and the National Commission for Social Action; and capital expenditure for the Ministry of Works, Energy, Sierra Leone Electricity and Water Regulatory Commission, Water, Health and Sanitation, the Health Service Commission, Agriculture, Fisheries, Local Councils, and the National Commission for Social Action.

E. Program Monitoring

24. The Sierra Leonean authorities shall maintain a program-monitoring committee composed of senior officials from the MoF, 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.”

Attachment A. Summary of Data Reporting to IMF Staff

Type of Data		Frequency	Reporting deadline
Real sector	National accounts	Annual	End of year + 9 months
	GDP deflators by sector	Annual	End of year + 9 months
	Mining production and exports	Annual	End of year + 9 months
	Revisions of national accounts	Annual	End of revision + 2 months
Public Finance	Net government position and details of nonbank financing, including changes in stocks of arrears, stock of the float, treasury bills, and bonds.	Monthly	End of month + 6 weeks
	Government flow-of-funds table (Government Financial Operations Table)	Monthly	End of month + 6 weeks
	Structure of petroleum product prices by categories of petroleum products.	Monthly	End of month + 6 weeks
	Import duty and GST exemptions by endusers estimates of corresponding revenue losses.	Quarterly	End of quarter + 6 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; the contracting or guaranteeing of external debt should be immediately reported to IMF staff
	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 quarter + 3 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 bond 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 day
	Stocks of government securities	Monthly	End of month
	Banking supervision ratios	Quarterly	End of quarter + 4 weeks
External Sector	Gross official foreign reserves	Weekly	End of week + 1 week
	Foreign exchange cash flow table	Monthly	End of month + 3 weeks
	Balance of payments data	Annual	In addition, updated data should be reported when revisions occur
	Exports and imports of goods (including the volume of key minerals and fuels).	Monthly	End of month + 3 weeks
	Outstanding external arrears and repayments (if applicable)	Monthly	occurrence of new external arrears should be immediately reported to IMF staff



SIERRA LEONE

May 22, 2023

SIXTH AND SEVENTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, EXTENSION OF THE ARRANGEMENT, REPHASING OF DISBURSEMENTS, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
Montfort Mlachila and Anna Ilyina (IMF) and Manuela Francisco and Abebe Adugna (IDA)

Prepared by the staffs of the International Monetary Fund and the 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 public debt is sustainable, but risks of external and overall debt distress are high and have increased notably relative to the previous DSA published in July 2022.¹ Last year's large fiscal overruns and the sharp depreciation of the leone have resulted in a deterioration of both solvency and liquidity indicators. The external debt service-to-revenue ratio and the PV of the public debt-to-GDP ratio exhibit larger breaches of their respective thresholds. In addition, the overall debt-service to revenue ratio and the PV of external debt-to-GDP indicator have shifted up notably. A larger and more frontloaded fiscal adjustment is now urgently needed to ensure that debt remains sustainable. All debt indicators are on a declining trend over the medium to long-term. However, this is predicated on steadfast implementation of the planned fiscal adjustment, continued reliance on concessional financing and grants, and the projected growth recovery. Efforts to seek further grant financing and lengthen the maturity structure of debt remain key as debt service ratios and gross financing needs will remain

¹ Sierra Leone's debt-carrying capacity remains rated "medium" with a composite indicator value of 2.73 based on the April 2023 IMF's World Economic Outlook (WEO) and the 2021 World Bank's Country Policy and Institutional Assessment (CPIA).

elevated over the medium and long-term. Domestic rollover risks are attenuated by high interest margins, limited alternative investment options for domestic banks and the authorities' commitment to limit future domestic borrowing. Sierra Leone is susceptible to growth and exchange rate shocks as well as fiscal slippages, all of which present downside risks to the debt outlook.

PUBLIC DEBT COVERAGE

1. Public debt coverage remains the same as in the previous DSA. As in earlier DSAs, the debt stock includes central government public and publicly guaranteed debts on a residency basis (Text Table 1). The DSA also includes the latest estimate of the consolidated stock of domestic payment arrears. The government is working, with the support of development partners including the World Bank through the Sustainable Development Finance Policy (SDFP), to improve its financial and debt management system, and to enhance the accounting and timely reporting of public debt, including the debts of state-owned enterprises (SOEs) and self-accounting-bodies. This DSA uses the debt stock data as of end-2022 and updated data on debt service and the debt composition. The updated data reflects recently completed reconciliations with bilateral creditors. This has resulted in revised amortization schedules, and increased yields on domestic instruments.

Text Table 1. Public Sector Debt Coverage Under the Baseline Scenario

Subsectors of the public sector	Sub-sectors 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 to SOEs)	X
7 Central bank (borrowed on behalf of the government)	X
8 Non-guaranteed SOE debt	

Note: Blank indicates there is no data.

Text Table 2. Coverage of the Contingent Liabilities' Stress Test

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 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	

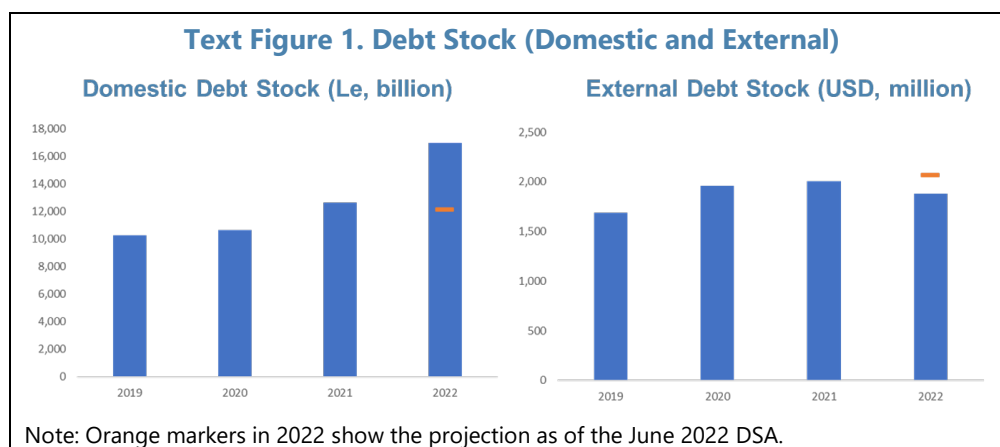
1/ The default shock of 2 percent of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1). If it is already included in the government debt (1) and risks associated with SOE's debt not guaranteed by the government is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

2. The assumptions on the contingent liability stress test remain the same as in the previous DSA. Total contingent liabilities are estimated at 12 percent of GDP (Text Table 2). Specifically, (i) the contingent liability for SOE debt is set at 7 percent of GDP, higher

than the default value reflecting the authorities' latest estimates; (ii) contingent liabilities from financial markets are set at the standard minimum value of 5 percent of GDP based on the average fiscal cost of a financial crisis in LICs since 1980; and (iii) the contingent liability of other elements of the general government is set at 0 percent of GDP because the baseline reflects estimated domestic arrears.

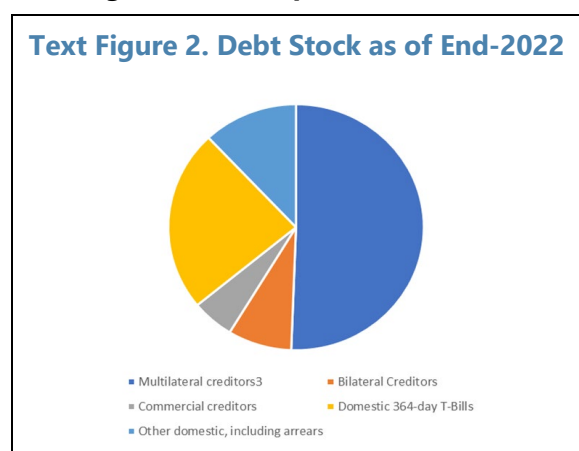
BACKGROUND ON DEBT

3. End-2022 stock data shows that Sierra Leone's public debt continued its increasing trend. While external debt turned out to be lower than projected in US dollar terms in 2022, total public debt rose to 96 percent of GDP in 2022 (from 79 percent of GDP in 2021) due to (i) the sharp depreciation of the leone (67.3 percent yoy depreciation at end-2022), and (ii) the high 2022 fiscal deficit, which led to substantial additional domestic borrowing, largely through 364-day T-bills (Text Figure 1). The authorities maintained new external borrowing below the Fund-supported program ceiling.



4. The composition of public debt is largely unchanged from the previous DSA.

Approximately 67 percent of total public and publicly guaranteed (PPG) debt is external debt, of which about 80 percent comprised non-restructurable obligations to multilateral creditors including the IMF (26 percent of total PPG debt stock) and the WB (24 percent of total PPG debt stock). On the domestic debt side, around 60 percent of domestic debt is owed to commercial banks mainly in the form of 364-day T-bills. The remainder is distributed between the BSL, the non-bank sector, and legacy domestic arrears owed to suppliers (Text Figure 2).



BACKGROUND ON MACRO FORECASTS

5. The macroeconomic assumptions underlying this DSA have deteriorated compared to the July 2022 DSA. The assumptions are consistent with the macroeconomic framework in the 6th and 7th ECF reviews staff report (Text Table 3).

	Current DSA			Previous DSA (July 2022)		
	2023	2033	LT ave.1/	2022	2032	LT ave.
Real GDP growth (in percent)	2.7	4.6	4.5	3.6	4.5	4.4
Inflation (GDP deflator, in percent)	34.7	6.5	12.6	15.8	6.6	10.7
Primary deficit (percent of GDP)	1.4	0.9	0.4	1.1	0.8	0.4
Non-interest current account deficit (percent of GDP)	6.7	5.5	4.0	12.8	6.4	7.1
1/ Average between 2023 to 2033.						

- Growth.** In 2023, growth is projected to decelerate sharply to 2.7 percent (0.9 ppts lower than in the previous DSA) amid the strong fiscal consolidation, and as rapidly rising prices are expected to weigh on domestic demand. The ramp-up of iron ore production at the Marampa and Tonkolili mines should boost production; supportive government policies to provide seed rice and implements to farmers should support agricultural output. Growth in 2024 is expected to accelerate as several factors come into play. Following a sharp and front-loaded adjustment in 2023, in the medium-term fiscal policy becomes relatively less contractionary and lower inflation should bolster consumption, while foreign investment in the mining sector is set to fuel higher investment. Furthermore, the agricultural sector is expected to sustain its expansion. In addition, exports are predicted to recover, and the macroeconomic stabilization is expected to set in. Growth is projected to reach Sierra Leone's long-run potential of about 4½ percent over the medium term, supported by buoyant activity in the mining and agricultural sectors. Downside risks to the growth outlook are significant. The upcoming general election in June 2023 and rising political tensions could undermine investor confidence. An adverse terms of trade (ToT) shock, and a faster acceleration in inflation, could exacerbate the decline in real incomes, further deteriorate the public finances and weaken external balances. Slower growth in China could adversely impact iron ore production and prices. Such scenarios would have substantial negative knock-on effects on Sierra Leone, especially given limited external buffers.
- Inflation.** Since the previous DSA in July 2022, macro policies have become more expansionary than expected, contributing to rising inflation and depreciation of the leone. Inflation, as measured by the GDP deflator, is projected at 34.7 percent (18.7 ppts higher than the previous DSA) in 2023. The measure is evolving broadly in line with, but is currently lower than, the expected average consumer price inflation of 37 percent for 2023. The upward jump in inflation reflects soaring food and fuel prices, among other price categories, and the continued

depreciation of the Leone. Over the medium-term, inflation is projected to gradually decline to single digits amid the contractionary policy stance.

- Fiscal.** Budget pressures are significantly stronger compared to the July 2022 DSA. The 2022 overall deficit widened by 6.9 ppts of GDP, and the 2023 overall deficit is projected to widen by 2.3 ppts, including because of exogenous shocks and policy related slippages. Domestic revenue mobilization is undermined by numerous exemptions, transition challenges in GST reforms, and the revenue shortfall due to the CITES ban on most timber exports. Continued expenditure pressures arise from the impact of higher inflation on goods and services, high energy subsidies, and domestically financed capex. Looking ahead, the revenue assumptions reflect the authorities' commitment to revenue mobilization underpinned by both revenue administration measures (enhanced ECR enforcement, compliance of the large taxpayers, conversion from analogue to digital IDs, and collection of arrears), and tax base expansion, including through the new Finance Act 2023. The Act introduces a minimum alternative tax, removes exemptions on GST (machinery, equipment, aviation, gambling, fees based financial services), and strengthens the excise tax regime (harmonizing rates). On the expenditure side, the adjustment is large, but of the 5.6 ppts of GDP of spending reduction from 2022 to 2023, the removal of one-offs accounts for 3.4 ppts of GDP (including 0.9 ppts of goods and services, 0.4 ppts in election and NaCOVERC, 0.3 ppts of TSA, and 1.4 ppts in roads projects). Over the medium-term the implementation of the MTRS is expected to anchor tax policy and revenue administration measures to reinforce domestic revenue mobilization. Expenditure containment measures include administrative cuts, limiting discretionary spending, and efficiency improvements in capital expenditures. Reflecting these measures, the overall deficit in 2023 is projected to narrow to 5.6 percent of GDP from 10.9 percent of GDP in 2022 and to continue to decline over the medium term. The assumption on domestic arrears clearance remains unchanged from the July 2022 DSA, with the cash paydown of arrears limited to a low budget ceiling and accompanied by NPV reductions in the face value of debt.²
- External.** Sierra Leone continues to face strong negative terms-of-trade shocks due to higher fuel and food prices and lower iron-ore prices amid the war in Ukraine and the slowdown in China. The current account deficit is projected to have remained high in 2022, as import volume growth offset increasing iron-ore exports.³ The current account is projected to gradually improve over the medium-term, supported by strengthening mining production—unchanged from the assumption in the previous DSA.

² The stock of domestic legacy arrears (these all are for suppliers of goods and services and are not caused by the government's liquidity problems) amounted to Le 2,581.3 billion (or 4.8 percent of GDP) by end 2022. The authorities have an arrears clearance strategy in place with annual budgeted amounts to be amortized. <https://mofsl.gov.sl/wp-content/uploads/2020/09/Sierra-Leone-Arrears-Clearance-Strategy-and-Principles-2020-2025.pdf>

³ Historical data revisions following the release of the 2021 BOP statistics contributed entailed an upward shift for exports. The estimation methods for mining and timber exports, which had previously been underestimated, were revised retroactively using trading partner data.

- **IDA financing.** The assumption regarding IDA financing modalities is unchanged. IDA financing reflects firm grants commitments until 2027 and 100 percent regular IDA credits after 2028.
- **The additional use of the 2021 IMF SDR allocation is expected to help safeguard priority spending.** Compared to the July DSA, the authorities have utilized an additional Le 376 billion in 2022 and will utilize an additional Le 1,666 billion in 2023. As a result, this DSA assumes approximately Le 1,233 billion (2.3 percent of GDP) and Le 1,866 billion (2.5 percent of GDP), to be used in 2022 and 2023. The amounts will be transferred to the government through a retrocession transaction. The SDR assets will then be sold back to the central bank which will convert them into local currency and credit the government's accounts accordingly. The operation would leave the government with SDR liabilities which are counted as additional long-term and highly concessional external debt in the DSA. The government has committed to transparently account for the use of SDRs to finance priority social spending.
- **Other assumptions.** As before, this DSA reflects actual and projected future disbursements under the ECF, the SDR allocation in August 2021, debt relief under the CCRT, and debt deferment under the DSSI. This DSA also takes into account the projected external financing gap during 2024-28 and assumes that the gap will be covered by concessional financing with an overall grant element of 35.5 percent. More specifically, IMF financing under the ECF has a 5.5-year grace period and 10-year maturity and currently carries a zero interest (the interest rate is subject to Executive Board review every two years). Loans from other multilateral creditors other than the World Bank are assumed to have an overall grant element of 35 percent. This assumption is unchanged from the previous DSA. On domestic debt, 364-day T-bills purchased by the central bank in the secondary markets are now included as part of gross financing needs (GFN) and revised historically through 2020-21.⁴ This increases the debt service to revenue-ratio in 2022 but smooths out thereafter, with the benefit of both higher primary surpluses and the extension of maturities for domestic debt in line with the latest MTDS.

6. The realism tools flag optimism relative to the historical trend as the required fiscal consolidation effort is large. The 3-year average primary balance adjustment is over 8 ppts of GDP—close to the 99th percentile of the historical distribution for Sierra Leone's peers. This large adjustment need reflects large fiscal slippages partly due to exogenous shocks (delayed recovery from covid impacts, Russia's invasion of Ukraine, and the cost-of-living crisis), and policy related slippages, calling for a more frontloaded and urgent fiscal consolidation to keep debt on a downward path (¶15). The authorities have begun to implement strong corrective measures ahead of the completion of the 6th and 7th reviews of the Fund-supported program. A package of measures on revenue mobilization and expenditure containment and controls is expected to help address past slippages, ringfence implementation of the current year's budget and underpin a sustainable medium-term fiscal framework. It is supported by the revenue mobilization measures estimated to yield additional annual tax revenues of 2.2 percent of GDP

⁴ Due to a historical data reconciliation effort, the analysis now distinguishes T-bills from total debt held by the BSL.

by 2024, of which 1.8 ppts of GDP come from tax policy measures approved by parliament in April and 0.4 ppts from tax administration measures. On expenditure, there is strong commitment to reduce spending by 5.6 percentage points of GDP in 2023 relative to the 2022, of which the removal of one-off spending items accounts for 3.4 ppts of GDP. The authorities have also identified strong contingency measures. They are prepared to take additional revenue measures based on the MTRS in the event the current measures disappoint. They are also seeking additional budget support grants and would further reprioritize spending, including by curbing domestically financed capital expenditure, should spending pressures reemerge. The fiscal drag on near term growth is projected to be cushioned by Sierra Leone's open economy and relatively insulated mining and agricultural sectors.

7. The deterioration of the macroeconomic environment and continued depreciation of the Leone have accentuated the risks around the baseline. Scope to maneuver depends on making progress on planned fiscal adjustment and seeking additional budget support grants. In addition to the gains from the measures already introduced (¶15), domestic revenue is projected to increase over the medium term due to new tax measures with an estimated yield in annual tax revenues of at least 2.2 ppts of GDP. Efficiency gains from automation, a gradual recovery in demand and tax buoyancy, and the implementation of the automatic pricing formula for fuel products are also expected to support revenue mobilization. The medium-term wage bill management strategy (developed with Fund TA), and reforms on subsidies are expected to help contain recurrent expenditures, while domestic capex is expected to continue supporting human capital development objectives. The authorities remain committed to a concessional debt ceiling and a zero non-concessional borrowing policy and are seeking additional budget support grants for priority and social spending, which will help contain debt vulnerabilities. The authorities have committed to strengthening budget execution, including through regular meetings of the extended cash and debt management committee, ensuring that quarterly budget allotments are backed by credible cash flow projections.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

8. Sierra Leone's debt-carrying capacity is medium. With the Composite Indicator (CI) score of 2.73 based on the latest data including the April 2023 WEO and the World Bank's latest 2021 CPIA, Sierra Leone's debt carrying capacity is evaluated as medium, unchanged from the previous DSA (Text Tables 4 and 5).

9. Stress tests generally follow standardized settings, with the addition of two tailored stress tests to capture risks related to contingent liabilities and commodity prices shocks. The combined contingent liabilities stress test is described in ¶12 above. Commodity exports make up a significant part of the export base, leaving it exposed to potential price shocks. 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.

Text Table 4. Composite Indicator

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium 2.73	Medium 2.73	Medium 2.75

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.181	1.22	45%
Real growth rate (in percent)	2.719	3.581	0.10	4%
Import coverage of reserves (in percent)	4.052	33.496	1.36	50%
Import coverage of reserves ² (in percent)	-3.990	11.220	-0.45	-16%
Remittances (in percent)	2.022	5.493	0.11	4%
World economic growth (in percent)	13.520	2.856	0.39	14%
CI Score			2.73	100%
CI rating			Medium	

Text Table 5. Applicable Thresholds for Debt Indicators

PV of PPG external debt in percent of GDP	40%
PV of PPG external debt in percent of exports	180%
PPG external debt service in percent of exports	15%
PPG external debt service in percent of revenue	18%
PV of total public debt in percent of GDP	55%

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

External DSA

10. Sierra Leone is assessed to be at high risk of external debt distress, and PPG external debt is assessed to be sustainable. This is predicated on the strong fiscal adjustment and continued reliance on concessional financing and grants, and moderately high growth rates. Compared with the previous DSA, due to the sharp exchange rate depreciation, the PV of external debt-to-GDP and the debt service-to-revenue ratio have risen, underscoring the importance of continuing to limit new external borrowing and restricting external borrowing to highly concessional loans.

- Under the baseline scenario, both the PV of the PPG external debt-to-GDP ratio and the PV of the PPG external debt-to-export ratio decline over the medium term (Figure 1, Table 1).⁵ The projected decline in the debt ratios reflects several factors such as the repayment of past ECF disbursements, including those from the Ebola period, and the projected improvement in GDP

⁵ The residuals in Table 1 reflect exchange rate changes; differential between average and period end exchange rate estimates; and decrease in capital flows, implying higher other BOP inflows, including use of reserves.

and exports. While the historical scenario indicates increasing debt ratios, this reflects the COVID-19 and Ebola crises as well as recent large commodity price shocks.

- The PPG external debt service-to-revenue ratio stays above the threshold over the medium term, indicating a tight liquidity situation, before steadily declining in the medium- to long-term, although it remains significantly above its threshold of 18 percent for the next six years. The PPG external debt service-to-exports ratio stays slightly below the threshold of 15 percent over the medium term. Although FX inflows from external borrowing are limited, with minimal borrowing under the IMF program ceiling, the authorities are utilizing measures to increase the FX inflow to maintain reserve adequacy. As such, while the indicator is above the threshold in the near term, staff assesses gross international reserves as adequate to fulfill upcoming debt service obligations.
- Stress tests indicate that the external debt indicators are sensitive to exports and GDP growth. In the stress scenarios, all external debt indicators remain above their thresholds over the medium term.
- Since the PPG external debt service-to-revenue ratio breaches its threshold over the medium term under the baseline, Sierra Leone is assessed to be at high risk of external debt distress. However, all the external debt indicators are on a declining trend over the medium to long term under the policy settings in the ECF-supported program.

Overall Risk of Public Debt Distress

11. Sierra Leone is assessed to be at high overall risk of public debt distress, but public debt is assessed to be sustainable. Again, this is predicated on the strong and front-loaded fiscal adjustment and continued reliance on concessional financing and grants, and moderately high growth rates.

- Under the baseline scenario, the PV of the public debt-to-GDP ratio breaches the threshold of 55 percent of GDP initially but gradually declines and falls below it by 2026 (Figure 2). Compared with the previous assessment, the indicator shifted up due to the depreciation of the leone, and falls below the threshold one year later than before. The public debt service-to-revenue ratio is projected to decline steadily over the medium term but remains high even at the end of the projection horizon, suggesting a tight liquidity situation. Recent efforts to lengthen the maturity structure of government borrowing reduces the ratio somewhat compared to the previous DSA.⁶ This large debt service is expected to be financed with external grants, concessional loans, and primary surpluses. In this context, Sierra Leone will need continued access to concessional financing to ensure that financing terms remains favorable. In the long term, as the economy

⁶ As the authorities have successfully continued to issue two- to three-year bonds in recent years, this DSA assumes (i) 15 percent and 20 percent of new domestic debts are financed by 1-3 years bonds in 2023, and 2024, respectively, and (ii) 25 percent of new domestic debts are financed by 1-3 years bonds and 5 percent by 4-7 years bonds between 2025-28. This compares to the previous conservative assumption that all new domestic debt will be financed by 364 days T-bills.

recovers and revenue mobilization gains materialize, the public debt service-to-revenue ratio is expected to decline.

- Stress tests indicate that the public debt indicators are most sensitive to shocks to growth. Considering that both external debt indicators and public debt indicators exceed their thresholds under the baseline, the country is assessed to have high overall risk of public debt distress.
- In this context, (i) sustained and significant fiscal adjustment; and (ii) continued reliance on highly concessional external financing (ideally grants) is particularly important, including from IFIs which account for a large share of Sierra Leone’s PPG external debt.

12. The debt service to revenue ratio and gross financing needs are high and their reduction is contingent on the ambitious fiscal adjustment and greater grant and/or concessional borrowing. The need to roll over T-bills issued in the previous year (“T-bills amortization” in Text Table 6) accounts for around 70 percent of gross financing needs (Text Table 6 and Text Figure 3). However, considering the characteristics of Sierra Leone’s domestic financial market—where commercial banks’ business models rely heavily on T-Bills, there is no secondary market trading between commercial banks, and foreign participation is absent—staff assesses that liquidity risks from this rollover are manageable. Staff also assesses that banks have the capacity to absorb the projected volumes assumed under the baseline. Going forward, rollover risks should decline with the reduction in the government’s domestic financing needs and the general tightening of macroeconomic policies, which should contain inflation and the depreciation, thus addressing the upward trend in foreign currency deposits. In case significant negative shocks materialize, the burden on banks to absorb short-term government debt will rise further, leading to larger rollover risks, especially if banking sector health also deteriorates following the shock. The gross financing needs will increase if the authorities are unable to roll over at reasonable costs. Lengthening of the maturity structure, along with strong fiscal consolidation and efforts to secure more grant financing is imperative.⁷

Text Table 6. Debt-Service to Revenue and Grants Ratio

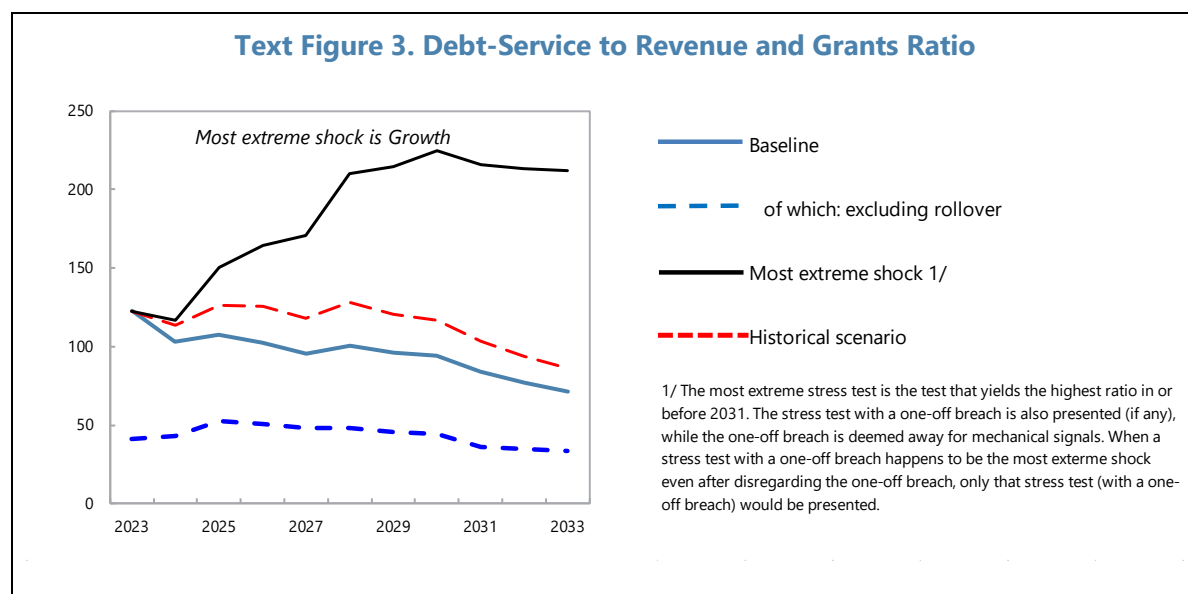
	Actual	Projections											
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2043
Debt service-to-revenue and grants ratio 1/	111.0	122.8	102.9	107.5	102.7	95.5	100.5	95.8	94.3	84.0	76.9	71.2	23.7
<i>of which: T-bills amortization</i>	77.9	81.3	59.8	54.8	52.1	47.6	52.1	49.9	50.2	48.0	42.0	37.4	6.6
<i>of which: others</i>	33.1	41.4	43.1	52.7	50.6	47.9	48.4	45.9	44.2	36.0	34.9	33.8	17.1
Gross financing need 2/	28.8	24.6	20.3	21.3	19.8	18.7	19.4	18.5	18.0	16.0	14.7	13.6	5.4
<i>of which: T-bills amortization</i>	15.1	15.4	12.5	11.5	10.6	9.7	9.1	8.9	8.7	8.5	7.5	6.6	1.2
<i>of which: others</i>	13.8	9.2	7.8	9.8	9.2	9.0	10.3	9.6	9.3	7.5	7.2	6.9	4.2

Sources: Country authorities; and staff estimates and projections.

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

2/ 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.

⁷ In the medium- to long-term, this DSA allows gradual transition towards the financing strategy (strategy 2) proposed by a recent Fund/World Bank TA on MTDS (in Oct 2021) which assumes domestic borrowing includes issuing 2-5-year T-bonds over the medium term.



RISK RATING AND VULNERABILITIES

13. While Sierra Leone is assessed to be at high risk of external and overall public debt distress, its debt is assessed to be sustainable but growing debt sustainability risks call for increased attention. Large fiscal overruns, together with the depreciation of the exchange rate, have increased risks around the baseline, as a bigger and more frontloaded fiscal adjustment is now necessary to achieve program objectives. The increasing public debt service-to-revenue ratio over the medium term suggests high liquidity-related vulnerabilities. The stress tests also highlight that debt indicators are sensitive to shocks to exports and GDP growth.

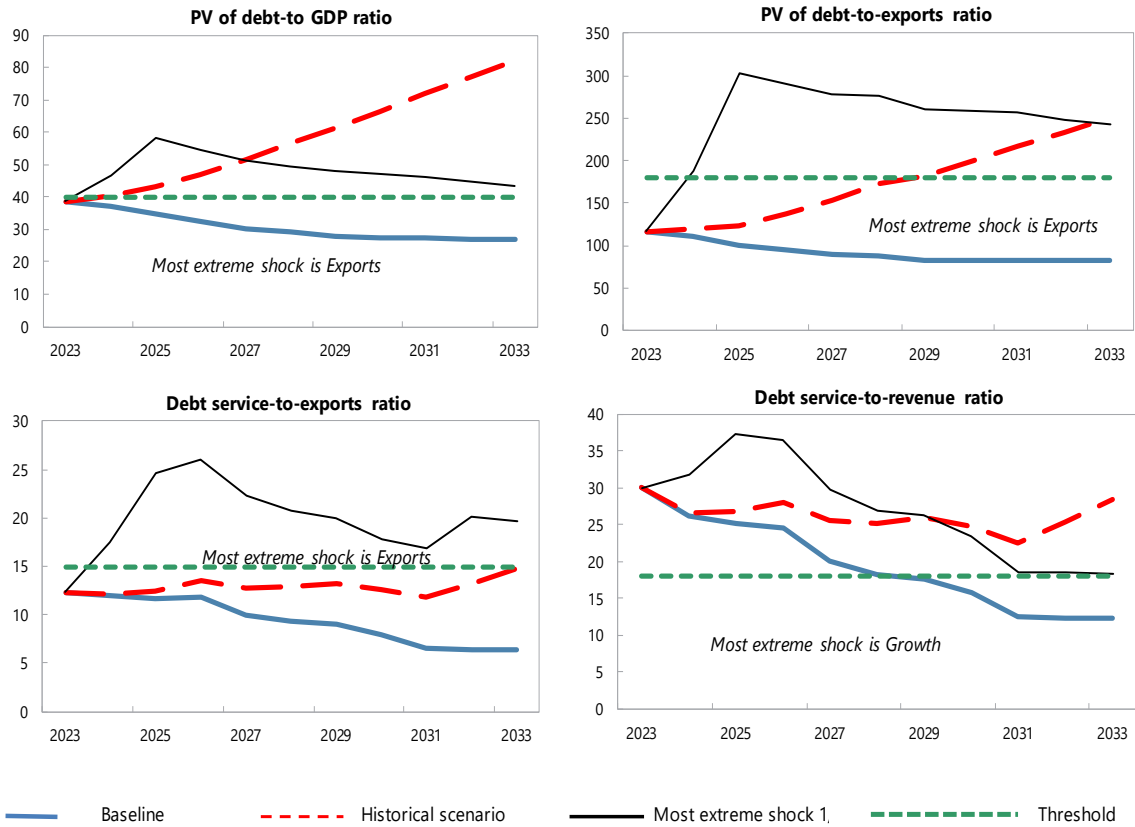
14. This DSA underscores the importance of continued fiscal discipline and structural reforms, supported by technical assistance and prudent financing choices. Higher domestic food and fuel prices could exacerbate the already severe burden on the population, deteriorate the budget and external balances, increase costs for businesses, further expand implicit fuel subsidies, provoke social discontent, and put debt sustainability at risk. Given these vulnerabilities to exogenous shocks and potential fiscal pressure stemming from the upcoming elections, reducing debt, and maintaining debt sustainability requires, first and foremost, sustained fiscal adjustment, underpinned by strengthened public financial management. However, to achieve a pace of fiscal adjustment that does not imperil the post-pandemic recovery and allows the country to protect critical social and health spending and to continue addressing its large development needs, it will be vital to rely on highly concessional financing and ideally grants. As debt sustainability risks increase, securing more grant financing is a first order issue. In line with the limit imposed under the ECF-supported program and WB SDFP and performance actions (PPAs), Sierra Leone has a zero ceiling on non-concessional external debt.

15. Steadfast implementation of the fiscal consolidation, paired with the development of a deeper domestic debt market, will be critical in mitigating rollover risks and maintaining debt sustainability. While staff assesses that risks remain manageable at the current juncture given the characteristics of Sierra Leone's financial market, they could become imminent, and debt burden indicators could shift up considerably, should the authorities be unable to issue medium maturity domestic debt at a reasonable cost, or should the fiscal adjustment fall short of the programmed path, thus further increasing domestic borrowing needs in a context in which commercial banks may be unable to significantly step-up purchases of government paper. Risks would also increase should the BSL be called upon to finance any additional residual borrowing needs, which would risk reigniting the depreciation and deposit dollarization, thus further constraining banks' domestic currency liquidity. These risks also warrant additional measures including, but not limited to, developing a deeper domestic debt market, together with securing additional grant support. The risks are mitigated by the authorities' commitment to limit future domestic borrowing, as well as continued technical assistance on debt management and the development of the domestic market, including by drawing on recent IMF technical assistance on debt recording and joint World Bank/IMF technical assistance on a medium-term debt strategy. Plans for the issuance of medium-to long-term paper would also be essential in extending the yield curve and reducing rollover risks on bonds held by domestic banks.

AUTHORITIES' VIEWS

16. The authorities agreed with staff's views on the DSA. They concurred with the urgency of ensuring a sustained and credible fiscal adjustment in 2023 and onward. They emphasized that they have taken important steps in this direction, including through recently adopted revenue mobilization measures. They committed to continuing to prioritize grant resources, seeking only highly concessional financing, and ratifying only loans within the agreed annual ceiling under the ECF-supported program to safeguard debt sustainability. The authorities recognized the high T-Bill rollover risks and are committed to addressing these, including by issuing medium-to-long-term bonds and supporting the development of the domestic debt market. The authorities reiterated their commitment to clear domestic arrears and are working to address the challenges in obtaining NPV discounts through an updated arrears clearance strategy.

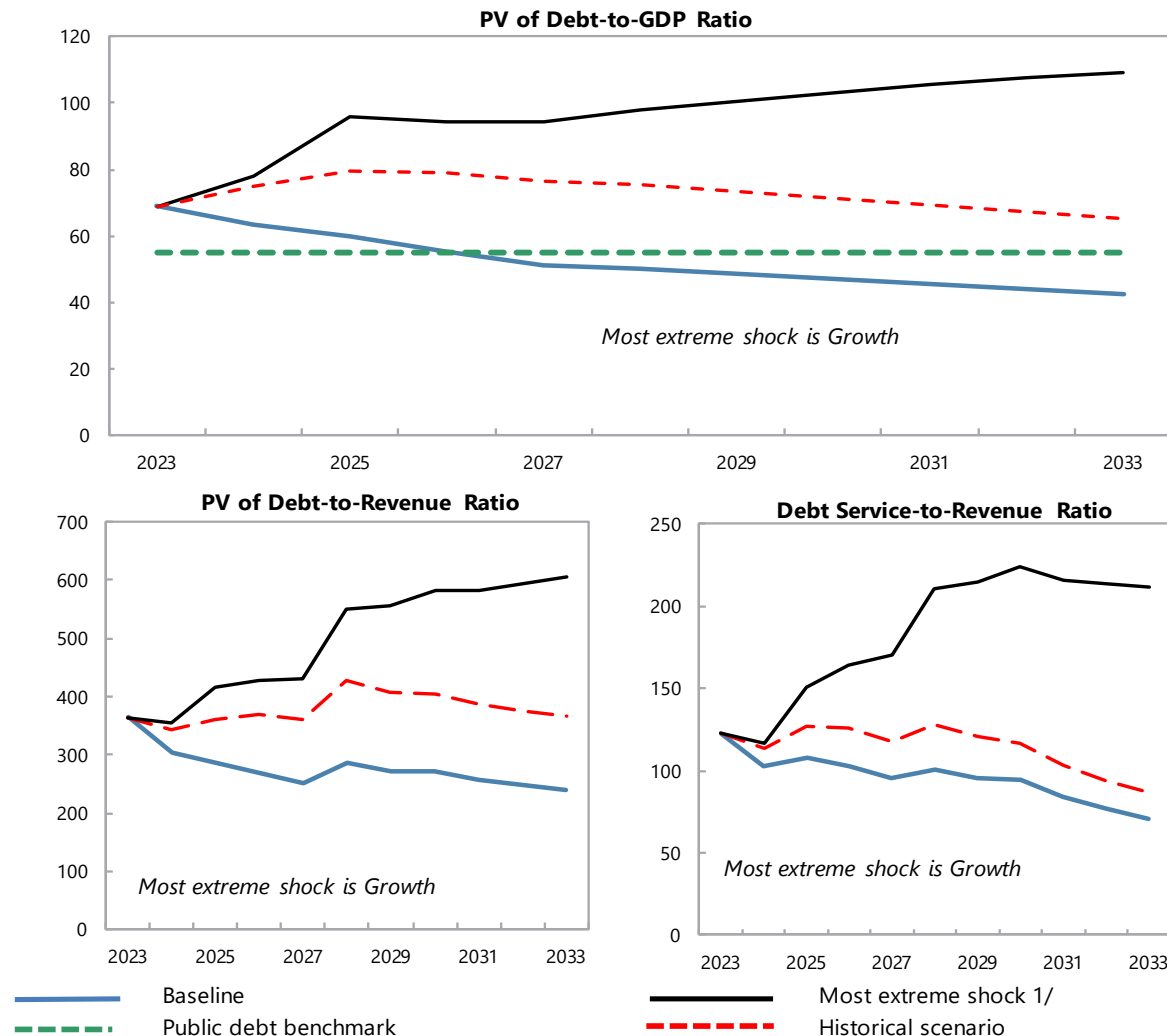
Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2023–33



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

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (in 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 extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented. 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, 2023–33

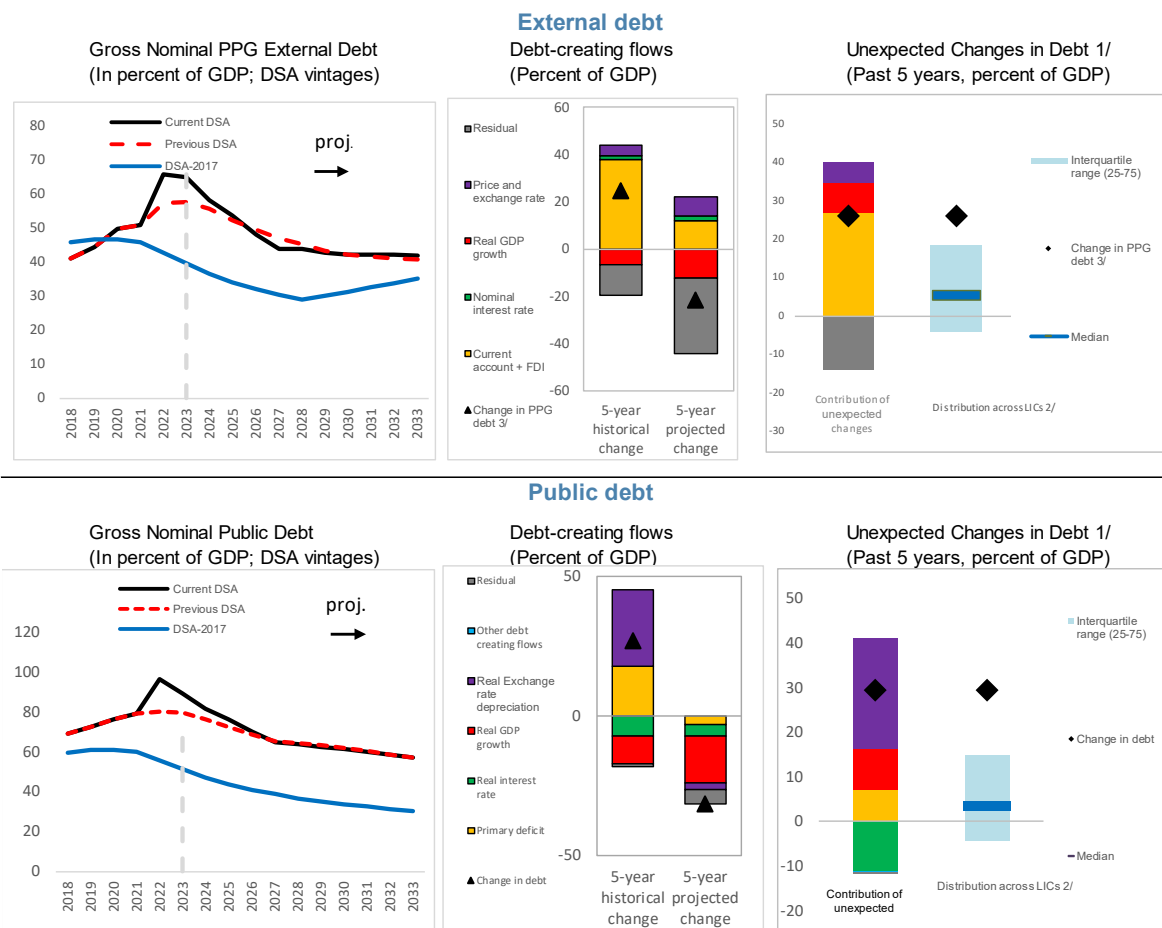


* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

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

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (in any), while the one-breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme 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, 2018–33



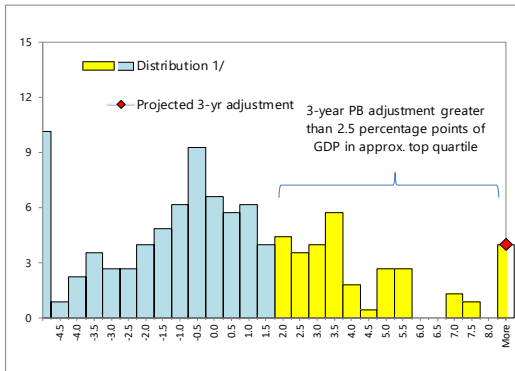
1/ Difference between anticipated and actual contributions on debt ratios.

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.

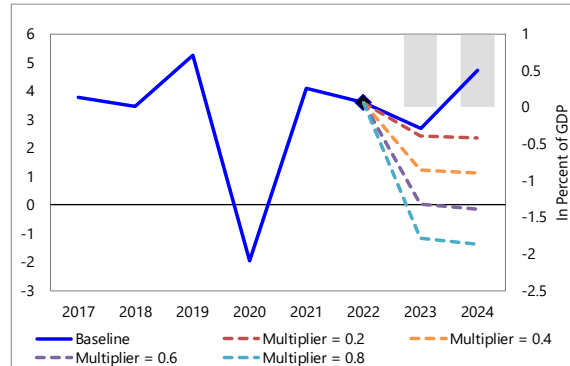
Figure 4. Sierra Leone: Realism Tools

3-Year Adjustment in Primary Balance
(In Percent of GDP)



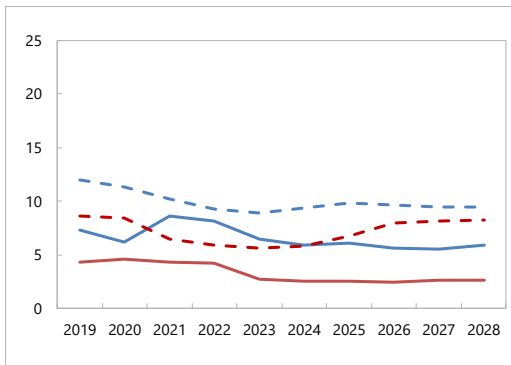
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/
(Percent)



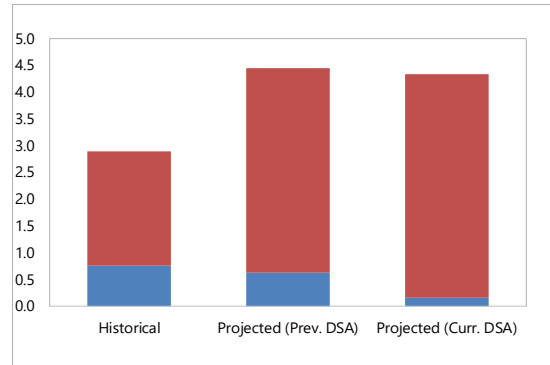
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(Percent of GDP)



— Gov. Invest. - Prev. DSA — Gov. Invest. - Current DSA
- - - Priv. Invest. - Prev. DSA - - - Priv. Invest. - Current DSA

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



■ Contribution of other factors
■ Contribution of government capital

Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2022–43
(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	65.8	64.9	58.2	53.8	48.0	44.0	43.9	42.1	42.3	41.2	47.6
of which: public and publicly guaranteed (PPG)	65.8	64.9	58.2	53.8	48.0	44.0	43.9	42.1	42.3	41.2	47.6
Change in external debt	15.0	-0.9	-6.7	-4.4	-5.8	-4.0	-0.1	-0.1	0.2		
Identified net debt-creating flows	9.8	4.9	0.3	-0.8	-1.5	-0.9	-0.5	-0.3	13.1	7.8	-0.1
Non-interest current account deficit	8.5	6.7	5.2	2.6	2.1	1.8	3.6	5.5	6.8	13.6	4.0
Deficit in balance of goods and services	19.8	18.4	16.8	13.9	13.0	12.1	12.1	13.0	13.3	21.4	13.5
Exports	31.8	33.4	33.5	35.2	34.5	33.7	32.8	32.9	32.3		
Imports	51.6	51.8	50.3	49.1	47.5	45.7	44.9	45.9	45.6		
Net current transfers (negative = inflow)	-12.5	-12.8	-12.8	-12.6	-12.1	-11.5	-9.7	-8.8	-7.4	-10.7	-10.6
of which: official	-3.8	-3.1	-3.0	-2.9	-2.8	-2.6	-1.0	-0.9	-0.7		
Other current account flows (negative = net inflow)	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	0.8	2.9	1.2
Net FDI (negative = inflow)	-1.3	-0.1	-2.3	-1.0	-1.8	-1.2	-2.6	-4.3	7.8	-6.1	-2.4
Endogenous debt dynamics 2/	2.6	-1.7	-2.6	-2.4	-1.8	-1.5	-1.5	-1.4	-1.4		
Contribution from nominal interest rate	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4		
Contribution from real GDP growth	-1.9	-2.0	-3.0	-2.9	-2.3	-2.0	-1.9	-1.8	-1.8		
Contribution from price and exchange rate changes	4.2	...	...	...	...	...	...	...	...
Residual 3/	5.1	-5.8	-6.9	-3.6	-4.3	-3.1	0.3	0.2	-13.0	-3.8	-2.1
of which: exceptional financing	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	33.5	38.7	36.9	34.9	32.4	30.1	29.0	26.9	27.7		
PV of PPG external debt-to-exports ratio	105.3	116.0	110.1	99.2	93.9	89.3	88.3	81.8	85.8		
PPG debt service-to-exports ratio	11.0	12.3	12.0	11.6	11.8	10.0	9.3	6.4	6.3		
PPG debt service-to-revenue ratio	26.7	30.0	26.2	25.1	24.5	20.0	18.1	12.3	11.8		
Gross external financing need (Million of U.S. dollars)	424.3	374.7	247.6	215.4	176.9	178.0	195.3	211.2	1907.4		
Key macroeconomic assumptions											
Real GDP growth (in percent)	3.6	2.7	4.7	5.2	4.5	4.5	4.6	4.6	4.5	2.9	4.5
GDP deflator in US dollar terms (change in percent)	-7.6	-14.1	-1.7	-0.4	2.8	5.2	3.2	1.4	1.2	-1.7	0.2
Effective interest rate (percent) 4/	0.7	0.4	0.6	0.8	0.9	0.9	1.0	1.0	1.0	0.7	0.9
Growth of exports of G&S (US dollar terms, in percent)	13.2	-7.2	3.4	9.9	5.3	7.4	5.4	5.8	6.3	4.8	5.0
Growth of imports of G&S (US dollar terms, in percent)	9.6	-11.5	0.1	2.2	4.0	5.8	6.1	6.6	5.8	0.6	3.6
Grant element of new public sector borrowing (in percent)	...	34.7	34.6	34.4	34.2	34.2	44.0	43.1	39.0	...	39.7
Government revenues (excluding grants, in percent of GDP)	13.0	13.7	15.3	16.3	16.6	16.8	16.8	17.1	17.2	12.8	16.4
Aid flows (in Million of US dollars) 5/	251.1	183.2	243.7	215.7	193.9	196.4	197.9	166.7	193.4		
Grant-equivalent financing (in percent of GDP) 6/	...	6.8	6.4	5.7	5.0	4.8	2.9	2.2	2.2	...	4.0
Grant-equivalent financing (in percent of external financing) 6/	...	69.4	81.5	74.3	68.1	65.7	50.5	50.9	46.7	...	60.7
Nominal GDP (Million of US dollars)	3,970	3,504	3,607	3,780	4,063	4,467	4,823	6,489	11,499		
Nominal dollar GDP growth	-4.3	-11.8	3.0	4.8	7.5	9.9	8.0	6.1	5.8	1.0	4.7
Memorandum items:											
PV of external debt 7/	33.5	38.7	36.9	34.9	32.4	30.1	29.0	26.9	27.7		
In percent of exports	105.3	116.0	110.1	99.2	93.9	89.3	88.3	81.8	85.8		
Total external debt service-to-exports ratio	11.0	12.3	12.0	11.6	11.8	10.0	9.3	6.4	6.3		
PV of PPG external debt (in Million of US dollars)	1328.6	1356.8	1332.3	1318.6	1315.0	1342.5	1399.2	1746.2	3184.1		
(PVT-PVt-1)/GDPt-1 (in percent)	0.7	-0.7	-0.4	-0.1	0.7	1.3	1.5	1.8	1.8		
Non-interest current account deficit that stabilizes debt ratio	-6.5	7.6	11.9	7.0	8.0	5.8	3.7	5.6	6.6		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g) + \epsilon\alpha(1+r)] / (1+g+\rho+g\rho)$ 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, ϵ = 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.

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

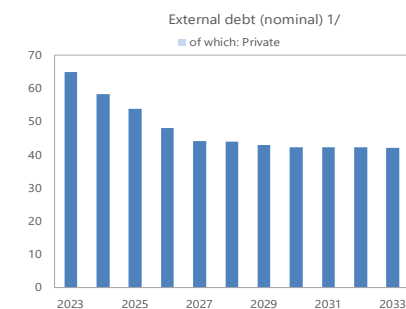
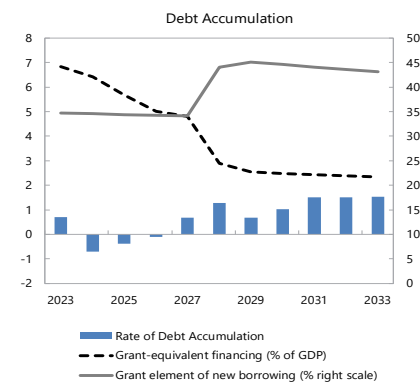


Table 2. Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022–43
(Percent of GDP, unless otherwise indicated)

	Actual		Projections							Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	96.2	89.3	81.4	76.5	69.8	64.6	64.0	57.2	45.4	63.6	67.8
of which: external debt	65.8	64.9	58.2	53.8	48.0	44.0	43.9	42.1	42.3	41.2	47.6
Change in public sector debt	16.9	-6.8	-7.9	-4.9	-6.7	-5.2	-0.6	-1.5	-0.8		
Identified debt-creating flows	21.8	-7.1	-6.1	-4.4	-3.6	-2.9	-0.5	-1.6	-1.2	5.0	-2.9
Primary deficit	7.3	1.4	-1.3	-1.2	-1.1	-0.7	1.8	0.9	1.1	3.8	0.4
Revenue and grants	19.3	18.9	21.0	21.0	20.4	20.3	17.5	17.8	17.7	16.7	18.9
of which: grants	6.3	5.2	5.6	4.6	3.8	3.5	0.7	0.6	0.6		
Primary (noninterest) expenditure	26.7	20.3	19.7	19.7	19.3	19.6	19.3	18.7	18.9	20.5	19.3
Automatic debt dynamics	14.4	-8.6	-4.8	-3.1	-2.5	-2.2	-2.3	-2.6	-2.3		
Contribution from interest rate/growth differential	-7.8	-8.6	-4.8	-3.1	-2.5	-2.2	-2.3	-2.6	-2.3		
of which: contribution from average real interest rate	-5.0	-6.1	-0.8	0.9	0.9	0.8	0.5	0.0	-0.3		
of which: contribution from real GDP growth	-2.8	-2.5	-4.0	-4.0	-3.3	-3.0	-2.8	-2.6	-2.0		
Contribution from real exchange rate depreciation	22.2	...	...	...	...	...	...	...	...
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
Privatization receipts (negative)	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		
Debt relief (HIPC and other)	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		
Residual	-4.9	0.3	-1.9	-0.5	-3.1	-2.3	-0.1	0.2	0.4	1.0	-0.7
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	75.2	69.0	63.4	60.0	55.0	51.0	50.0	42.7	31.4		
PV of public debt-to-revenue and grants ratio	388.9	364.6	302.5	286.1	269.9	251.5	286.0	240.3	176.9		
Debt service-to-revenue and grants ratio 3/	111.0	122.8	102.9	107.5	102.7	95.5	100.5	71.2	23.7		
Gross financing need 4/	28.8	24.6	20.3	21.3	19.8	18.7	19.4	13.6	5.4		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	3.6	2.7	4.7	5.2	4.5	4.5	4.6	4.6	4.5	2.9	4.5
Average nominal interest rate on external debt (in percent)	0.8	0.6	0.7	0.9	0.9	1.0	1.0	1.0	1.0	0.7	0.9
Average real interest rate on domestic debt (in percent)	-7.0	-13.2	0.0	6.6	6.3	5.8	4.7	2.3	2.4	-0.1	2.2
Real exchange rate depreciation (in percent, + indicates depreciation)	48.3	...	...	...	...	...	...	...	...	8.7	...
Inflation rate (GDP deflator, in percent)	21.4	34.7	24.2	16.6	12.8	9.5	7.8	6.5	6.2	10.4	12.6
Growth of real primary spending (deflated by GDP deflator, in percent)	8.9	-21.8	1.5	5.2	2.2	6.2	3.2	4.3	4.7	7.0	1.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-9.6	8.2	6.7	3.7	5.6	4.5	2.4	2.4	1.9	-3.1	4.0
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		

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 stabilize 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.

Note: Grants include grants for debt service relief under the Catastrophe Containment and Relief Trust (CCRT).

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

Public sector debt 1/

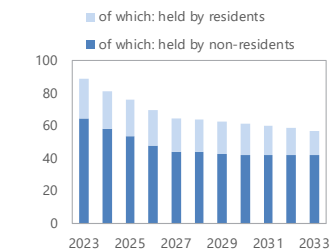
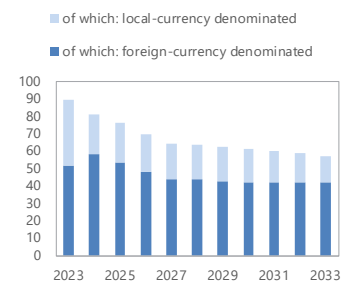


Table 3. Sierra Leone: Sensitivity Analysis, External Debt, 2023-33

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to-GDP ratio											
Baseline	38.7	36.9	34.9	32.4	30.1	29.0	28.0	27.3	27.2	27.0	26.9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	38.7	40.3	43.1	47.1	51.7	56.6	61.2	66.3	71.8	77.1	82.2
B. Bound Tests											
B1. Real GDP growth	38.7	44.9	51.9	48.1	44.7	43.2	41.6	40.6	40.4	40.2	40.0
B2. Primary balance	38.7	37.9	37.3	35.8	34.1	33.6	33.0	32.7	32.7	32.6	32.4
B3. Exports	38.7	46.5	58.0	54.6	51.1	49.3	47.9	46.9	46.0	44.6	43.3
B4. Other flows 3/	38.7	43.3	47.5	44.6	41.7	40.2	39.0	38.1	37.5	36.5	35.6
B5. One-time 30 percent nominal depreciation	38.7	47.8	42.7	39.5	36.6	35.4	34.1	33.2	33.1	33.1	33.1
B6. Combination of B1-B5	38.7	48.6	56.1	52.6	49.1	47.4	45.9	44.9	44.0	43.0	42.1
C. Tailored Tests											
C1. Combined contingent liabilities	38.7	38.4	37.2	35.4	33.5	32.8	32.0	31.5	31.5	31.5	31.4
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	38.7	39.9	40.6	38.0	35.4	34.0	32.7	31.5	30.8	30.0	29.2
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	116.0	110.1	99.2	93.9	89.3	88.3	82.8	82.2	82.4	81.9	81.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	116.0	120.2	122.5	136.6	153.6	172.2	181.0	199.5	217.8	233.7	249.7
B. Bound Tests											
B1. Real GDP growth	116.0	110.1	99.2	93.9	89.3	88.3	82.8	82.2	82.4	81.9	81.8
B2. Primary balance	116.0	113.0	106.2	103.8	101.4	102.3	97.7	98.3	99.1	98.8	98.6
B3. Exports	116.0	187.0	302.9	290.9	278.6	275.6	260.1	258.7	256.2	248.3	241.7
B4. Other flows 3/	116.0	129.2	135.1	129.4	123.8	122.5	115.4	114.8	113.6	110.6	108.2
B5. One-time 30 percent nominal depreciation	116.0	110.1	93.8	88.6	84.2	83.2	77.9	77.3	77.5	77.5	77.7
B6. Combination of B1-B5	116.0	156.4	129.1	171.9	164.3	162.6	153.1	152.2	150.4	146.9	144.1
C. Tailored Tests											
C1. Combined contingent liabilities	116.0	114.6	105.9	102.7	99.5	99.7	94.7	94.9	95.6	95.5	95.6
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	116.0	134.9	127.4	119.6	111.8	108.0	98.6	96.7	95.2	92.6	90.5
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	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	12.3	12.0	11.6	11.8	10.0	9.3	9.0	8.0	6.5	6.4	6.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	12.3	12.2	12.4	13.5	12.7	12.9	13.2	12.5	11.8	13.2	14.8
B. Bound Tests											
B1. Real GDP growth	12.3	12.0	11.6	11.8	10.0	9.3	9.0	8.0	6.5	6.4	6.4
B2. Primary balance	12.3	12.0	11.7	11.9	10.2	9.5	9.2	8.2	6.9	7.1	7.2
B3. Exports	12.3	17.4	24.7	26.0	22.3	20.7	19.9	17.8	16.8	20.1	19.6
B4. Other flows 3/	12.3	12.0	11.9	12.4	10.6	9.8	9.5	8.5	8.0	8.9	8.7
B5. One-time 30 percent nominal depreciation	12.3	12.0	11.6	11.7	9.9	9.2	8.9	7.9	6.4	6.1	6.0
B6. Combination of B1-B5	12.3	14.2	16.7	17.1	14.6	13.6	13.1	11.7	11.2	11.8	11.6
C. Tailored Tests											
C1. Combined contingent liabilities	12.3	12.0	11.7	11.9	10.1	9.5	9.1	8.1	6.7	6.6	6.6
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	12.3	13.7	13.3	13.5	11.3	10.4	9.8	8.7	7.5	7.8	7.7
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	30.0	26.2	25.1	24.5	20.0	18.1	17.7	15.8	12.5	12.4	12.3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	30.0	26.6	26.7	28.1	25.5	25.1	26.0	24.8	22.6	25.3	28.4
B. Bound Tests											
B1. Real GDP growth	30.0	31.8	37.3	36.4	29.8	27.0	26.3	23.4	18.5	18.4	18.3
B2. Primary balance	30.0	26.2	25.2	24.7	20.3	18.5	18.1	16.2	13.2	13.6	13.8
B3. Exports	30.0	28.3	29.0	29.5	24.3	22.1	21.4	19.2	17.6	21.0	20.5
B4. Other flows 3/	30.0	26.2	25.7	25.7	21.2	19.2	18.7	16.7	15.4	17.1	16.7
B5. One-time 30 percent nominal depreciation	30.0	33.9	32.4	31.4	25.7	23.2	22.7	20.2	15.9	15.1	15.0
B6. Combination of B1-B5	30.0	28.8	31.9	31.5	25.9	23.5	22.9	20.5	19.2	20.1	19.7
C. Tailored Tests											
C1. Combined contingent liabilities	30.0	26.2	25.2	24.7	20.3	18.5	18.0	16.1	12.8	12.8	12.7
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	30.0	30.2	29.3	29.1	23.3	20.6	19.5	16.9	14.2	14.8	14.4
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	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, Public Debt, 2023-33

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to-GDP Ratio											
Baseline	69.0	63.4	60.0	55.0	51.0	50.0	48.4	47.2	45.7	44.2	42.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	69	75	80	79	77	75	73	71	69	67	65
B. Bound Tests											
B1. Real GDP growth	69	78	96	95	94	98	100	103	105	107	109
B2. Primary balance	69	70	73	67	62	60	58	56	54	52	50
B3. Exports	69	70	78	71	66	65	63	62	60	57	55
B4. Other flows 3/	69	70	73	68	63	62	60	58	56	54	52
B5. One-time 30 percent nominal depreciation	69	67	62	56	51	49	46	44	42	40	37
B6. Combination of B1-B5	69	71	72	62	59	59	58	57	56	55	54
C. Tailored Tests											
C1. Combined contingent liabilities	69	74	69	64	59	57	55	54	52	50	48
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	69	68	72	74	76	81	85	89	92	95	98
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	364.6	302.5	286.1	269.9	251.5	286.0	272.2	270.8	256.8	248.6	240.3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	365	344	361	368	360	427	408	405	386	376	366
B. Bound Tests											
B1. Real GDP growth	365	354	416	428	431	550	555	582	582	594	605
B2. Primary balance	365	333	347	327	304	342	324	321	303	293	283
B3. Exports	365	334	371	351	328	373	355	354	335	321	307
B4. Other flows 3/	365	336	350	331	309	352	336	334	316	303	290
B5. One-time 30 percent nominal depreciation	365	324	301	278	254	279	260	253	235	223	211
B6. Combination of B1-B5	365	337	335	296	284	335	325	328	315	309	302
C. Tailored Tests											
C1. Combined contingent liabilities	365	352	331	312	290	327	310	308	292	282	273
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	365	355	377	402	408	491	490	509	517	534	550
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	122.8	102.9	107.5	102.7	95.5	100.5	95.8	94.3	84.0	76.9	71.2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	123	113	127	126	118	128	121	117	103	94	86
B. Bound Tests											
B1. Real GDP growth	123	117	151	164	171	210	215	224	216	214	212
B2. Primary balance	123	103	129	144	130	132	121	115	101	91	84
B3. Exports	123	103	108	104	97	102	97	96	87	83	77
B4. Other flows 3/	123	103	108	104	97	102	97	95	87	81	76
B5. One-time 30 percent nominal depreciation	123	100	106	100	93	97	93	91	80	74	68
B6. Combination of B1-B5	123	105	116	112	109	122	120	122	113	107	103
C. Tailored Tests											
C1. Combined contingent liabilities	123	103	141	132	119	122	113	108	95	86	79
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	123	115	123	142	157	190	194	202	199	200	200
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 Mr. Nakunyada, Mr. Garang, and Mr. Mansaray on Sierra Leone
Executive Board Meeting
June 5, 2023**

1. Our Sierra Leonean authorities appreciate the constructive engagements with staff during the recent ECF Review Mission. They are grateful for the continued support from Fund staff and management, and broadly share the thrust of staff's appraisal and policy recommendations.
2. The economy of Sierra Leone has weathered multiple shocks from the Ebola epidemic, mudslides, devastating floods, the COVID-19 pandemic, and the spillovers from the ongoing conflict in Ukraine. The multiple shocks have, however, exerted pressure on the fiscal and external accounts, alongside rising inflation, food insecurity, currency depreciation, and a decline in reserve buffers. Despite these significant internal and external challenges, the authorities remain committed to tackling attendant macroeconomic challenges in pursuit of the ECF program objectives. Accordingly, they have taken decisive measures to stabilize macroeconomic conditions, including through the consolidation of public finances, monetary tightening, critical PFM and governance reforms, and intensified efforts to mobilize grant resources.

Program Performance

3. All the end-June 2022 quantitative performance criteria (QPCs) and indicative targets (IT) were met except the QPC on net credit to government (NCG) and the ITs on domestic revenue and primary balance due to revenue shortfalls. Further, all three QPCs on net domestic assets (NDA), gross international reserves (GIR), and NCG, for end-December 2022 were missed, reflecting the central bank's foreign exchange and liquidity interventions. While the end-March 2023 ITs were missed, the authorities met the continuous PC and the IT on poverty spending. Out of fifteen structural benchmarks (SB) reviewed during the 6th and 7th review mission in April 2023, five were met, while nine were implemented with delay. The SB on the continued use of the automatic fuel price indexation mechanism was missed.
4. To address the program slippages, the authorities have taken appropriate remedial actions by completing four prior actions for the 6th and 7th reviews. The corrective actions taken by the authorities to place public finances on a sustainable footing include additional revenue measures to mobilize 2.2 percent of GDP, expenditure containment measures to reduce spending by 5.6 percent of GDP in 2023. Further measures to strengthen budget execution and prevent the accumulation of arrears were also taken, alongside policies to enhance expenditure transparency and accountability. Given these strong actions, **the authorities are requesting Directors' support in completion of the Sixth and Seventh ECF reviews and associated waivers for the non-observance of QPCs.** Additionally, the authorities are requesting a five (5) month extension of the ECF program to November 29, 2023, as well as rephasing of the disbursement with half of the funds on completion of the 6th and 7th reviews and the remainder on the

completion of an 8th review with an end -June 2023 test date. This allows sufficient time to achieve the program objectives.

Recent Economic Development and Outlook

5. Economic growth is projected to decelerate from 3.6 percent in 2022 to 2.7 percent in 2023 on the back of the lingering effects of the devastating floods, and the growth constraining effects of fiscal consolidation efforts. Going forward, real GDP growth is expected to rebound to an average of 4.5 percent driven by increased investments in agriculture, infrastructure, as well as recovery in the tourism sector, and expansion in mining and light manufacturing. In addition, improvements in the regulatory and general business environment are expected to provide further growth impetus. Meanwhile, inflation peaked to 42.7 percent in February 2023 on the back of higher food and energy prices and the weakening local unit. Nevertheless, inflation is projected to decline in the near-term owing to increased domestic food production, tight monetary conditions, and fiscal consolidation measures.
6. The current account deficit is projected to improve from 9.0 percent of GDP in 2022 to 6.8 percent of GDP in 2023 and further to 5.6 and 3.0 percent of GDP in 2024 and 2025, respectively on the back of the improved trade balance, and higher current transfers. Nonetheless, gross international reserves of the central bank declined from US\$931.8 million in 2021 to US\$610.4 million in 2022, covering 3.1 months of imports in FY 2023/2024. The decline in reserves largely reflects the central bank's FX interventions and high external debt service payments.

Fiscal Policy

7. The authorities are pressing ahead with efforts to consolidate public finances through revenue enhancing and expenditure containment measures to ensure fiscal and debt sustainability. To reverse the recent revenue shortfalls, they have intensified measures to mobilize additional revenue collections. Accordingly, the National Revenue Authority (NRA) has enhanced revenue mobilization efforts through automation, and removal of some tax exemptions. In addition to ongoing tax administrative measures such as the roll out of digital IDs and the Electronic Cash Register, Parliament passed the Finance Act of April 2023, with 2.2 percent of GDP in additional tax revenue measures.
8. Concurrently, Cabinet approved a new Medium Term Revenue Strategy (MTRS 2023–27), and established a high-level Steering Committee on the MTRS, comprising the Ministry of Finance, the NRA, other relevant Government departments, development partners, civil society, and private sector. Further, the authorities enacted the Duty and Tax Waivers Law to improve transparency and accountability in administering duty and tax exemptions, eliminate the abuse of exemptions with a view to broaden the tax base, and increase domestic revenue mobilization. Importantly, the authorities plan to restore the full passthrough of the petroleum pricing formula, enforce tax compliance, and fast track the harmonization of taxation on capital income from 10 to 20 percent. In addition, they intend to increase stamp duty on immovable property, introduce an

excise tax on single use of non-bio-degradable plastic, and expand the cash transfer program to cushion the most vulnerable.

9. Rationalization of expenditures ranks high on the authorities' fiscal consolidation agenda. In this connection, the authorities, under the theme "No Budget, No Funding," have discontinued unplanned and unbudgeted expenses under goods and services, including the purchase of vehicles. They have delayed non-priority international subscriptions, and biometric identification of school children and reduced the roads budget by deferring several feeder roads projects. At the same time, the authorities have continued efforts to maintain payroll integrity and minimize the wage bill as a share of GDP; strengthening cash management; and improving public investment management.
10. The authorities acknowledge the rising public debt levels and remain committed to prudent debt management by implementing appropriate measures. To this end, they have ensured payment of legacy arrears in accordance with their updated arrears clearance strategy. To further improve debt sustainability, the authorities have lengthened maturities of domestic instruments; limit borrowing in line with the program objectives, implement the medium-term debt management strategy, while pursuing grants or concessional loans with strict adherence to the annual borrowing ceilings.

Monetary and Exchange Rate Policies

11. The Bank of Sierra Leone (BSL) has tightened monetary policy by increasing the policy rate from 14.25 percent in March 2022 to 18.25 percent in December 2022 to contain inflationary pressures. Despite the contractionary monetary policy stance, inflation has remained high on the back of the elevated food import bill, the lingering pandemic effects, the prolonged war in Ukraine, the depreciation of the exchange rate, and the increased share of food in the household budget. Against this background, the BSL has further tightened monetary policy from 18.25 percent in December 2022 to 18.75 percent in March 2023. Going forward, the central bank stands ready to further tighten monetary policy to bring inflation down to single digits in the medium term. Meanwhile, the BSL has established the Monetary Policy Strategy and Communications Unit to improve both formal and informal engagement with the public and commercial banks on its monetary policy stance. At the same time, the central bank continues to allow exchange rate flexibility and intends to limit its foreign exchange interventions to smoothen volatile market conditions. The authorities have also instituted audits of the entire currency redenomination process, and a detailed report will be submitted to Parliament soon.

Financial Sector Policies

12. The financial sector remains stable and well capitalized, but the authorities continue to strengthen their regulatory and supervisory practices. In this vein, the BSL will continue with the risk-based supervision efforts, bolstering the crisis management and bank regulatory frameworks, including for the two state-owned banks (SOBs). In this connection, they have issued the revised prudential guidelines for all commercial

banks; prepared a strategy to address high non-performing loans; completed a governance action plan for the SOBs; and appointed a chief auditor. Furthermore, the Board of Directors approved the Financial Policy Committee (FPC) Charter, which is tasked with improving financial sector management and stability to foster growth; and the deposit protection bill passed in Parliament. Currently, they are working on finalizing and adopting the crisis management plan as well as building on the recommendations from the recent financial sector stability report with support from the IMF resident advisor.

Structural Reforms

13. The authorities place a high premium on efforts to strengthen governance and accountability practices. To this end, they have developed and validated standard operating procedures for the follow-up of the Audit Service Sierra Leone (ASSL) audit recommendations. They are also adopting a policy on audit implementation that will require all vote controllers to implement both internal and external audit recommendations from the annual audit report and impose sanctions for noncompliance. To strengthen State-Owned Enterprise management and minimize fiscal risks, the authorities with support from development partners, have developed the State-Owned Enterprises Ownership and Governance Policy to ensure comprehensive oversight and improve state-owned enterprises governance. To bolster financial integrity, the authorities have accelerated completion of the AML/CFT risk assessment in July 2023. In the same vein, they have ensured strong collaboration between the central bank and the Financial Intelligence Unit (FIU) to respond collaboratively, and address identified AML/CFT deficiencies.
14. To ensure the budgetary independence of the Auditor-General, Parliament has passed an amendment to the Audit Service Act 2014. The amendment aims to strengthen compliance and give the Auditor General the power to withhold the salaries of vote controllers for non-submission of financial statements at the verification and explanation stages of the audit process. The authorities have also developed and adopted guidelines on the conduct of any tribunal consistent with constitutional provisions.
15. Our authorities attach great prominence on efforts to improve the business environment and build economic resilience. In this context, they are promoting sustainable green growth by investing in renewable energy, reforestation, and protecting existing forests, lands, and wetlands. Relatedly, they are implementing several regulatory and financial sector reforms, investing in infrastructure to improve the business environment, ensure inclusive and sustainable growth, and create employment. Notable reforms to improve food security include the implementation of the 2020 agricultural policy shift, which uses the electronic voucher systems to provide inputs to farmers, while the private sector is supporting farmers to improve productivity.
16. Our authorities also continue to deliver on their LOI commitments, including by ensuring regular publication of budget reports, and statutory audit reports by the ASSL. More generally, the authorities are committed to promoting transparency and

accountability in the use of public resources. To this end, they have published detailed information on recent budgetary overruns on roads construction, legacy arrears clearance, and the 2021 and 2022 financial statements on the use of COVID-19 resources.

Conclusion

17. The authorities remain committed to ensuring macroeconomic stability and inclusive growth. They value continued Fund engagement and concur that fiscal consolidation, monetary tightening, and structural reforms remain critical to help replenish buffers, place public finances on a sustainable path, and ensure the successful completion of the ECF program. In this context, they look forward to the Directors' support in completing the combined Sixth and Seventh ECF Reviews, to help anchor their medium-term reform efforts.