INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/377

SIERRA LEONE

November 2023

EIGHTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

In the context of the Eighth Review Under the Extended Credit Facility Arrangement, Request for a Waiver of Nonobservance of Performance Criterion, 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 November 20, 2023, following discussions that ended on October 6, 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 November 13, 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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Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

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PRESS RELEASE

PR23/403

IMF Executive Board Completes the Eighth and Final Review Under the Extended Credit Facility Arrangement for Sierra Leone

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed the eighth and final review under the Extended Credit Facility Arrangement for Sierra Leone which allows for an immediate disbursement of about US$20.7 million.*
- *Successive shocks and policy slippages contributed to a build-up in macroeconomic imbalances in recent years. The Sierra Leonean authorities have taken bold steps to tighten macroeconomic policies, but reform implementation is challenging amid the large adjustment need and the ongoing cost of living crisis.*
- *As the arrangement under the ECF-supported program for Sierra Leone comes to an end, continued reform momentum will be critical in restoring macroeconomic stability and containing risks to debt sustainability. As macroeconomic policies tighten further, efforts to protect the most vulnerable are a priority.*

Washington, DC – November 20, 2023: The Executive Board of the International Monetary Fund (IMF) completed the Eighth and final review of Sierra Leone's arrangement under the Extended Credit Facility (ECF). The completion of the review enables the immediate disbursement of SDR 15.555 million (or about US$20.7 million). This brings total disbursements under the arrangement to SDR 124.44 million (or about US$165.6 million).

In completing the eighth review, the Executive Board approved the authorities' request for a waiver of nonobservance of the end-June 2023 performance criterion on the ceiling on the net domestic assets of the Bank of Sierra Leone, based on corrective actions taken by the authorities.

The ECF Arrangement for 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 Sierra Leone's quota) for 43 months. It was extended by 12 months on July 27, 2021, and by another five months on June 5, 2023. The program aimed at reducing inflation, mobilizing revenue to allow for necessary spending consistent with debt sustainability, safeguarding financial stability, and maintaining resilience to external shocks.

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

"Successive shocks and policy slippages contributed to a build-up in macroeconomic imbalances in recent years, while a cost-of-living crisis has taken a severe toll on the most vulnerable. A decisive macroeconomic policy tightening is needed to restore stability and contain risks to debt sustainability. The authorities have taken bold steps to tighten policies, but reform implementation is challenging amid the large adjustment need and the ongoing cost-of-living crisis.

700 19th Street NW
Washington, DC 20431
USA

“As the ECF arrangement comes to an end, continued reform momentum is critical. Implementation of recent tax revenue measures and steadfast spending restraint should help achieve fiscal targets, while creating space for priority social spending to support the most vulnerable. The updated debt management strategy will be critical in helping bring down the high debt service burden and mobilize additional grant support.

“Monetary conditions should tighten further to bring down inflation, including through strict limits on central bank purchases of government securities. Exchange rate flexibility should be a key element of the policy mix, with a focus on ensuring continued reserve adequacy. Establishing transparency around the currency redenomination and recapitalizing the Bank of Sierra Leone will help boost confidence in the currency and support the effective execution of the central bank’s mandate. Addressing the solvency challenges in commercial banks and strengthening crisis management frameworks and the safety net will be critical in maintaining financial stability.

“Progress with structural reforms will be essential, including to enhance governance, bolster anti-corruption efforts, further improve the AML/CFT framework, and strengthen the external audit function. Strengthening public financial management will also be key, including by avoiding arrears accumulation and gaining better control of multi-year commitments, especially on domestically financed capital spending. Efforts to improve the business climate and build climate resilience will also be critical. “

Sierra Leone: Selected Economic Indicators

	2022 Prel.	2023 Proj.	2024 Proj.
Output (annual percentage change)			
Real GDP growth	3.5	2.7	4.7
Real GDP growth, excl. iron ore	2.7	2.6	4.6
Prices (annual percentage change)			
Inflation, end of period (%)	37.1	44.3	22.9
Central Government Finances (percent of non-iron ore GDP)			
Revenue, excl. grants	12.4	13.1	14.8
Grants	6.2	4.7	5.8
Expenditure and net lending	29.5	23.6	23.5
Overall balance	-10.5	-5.8	-2.8
Public debt	94.6	90.5	83.7
Money and credit (annual percentage change)			
Broad money	41.1	27.2	13.6
Credit to the private sector	11.9	18.4	19.0
Balance of payments (percent of non-iron ore GDP)			
Current account	-9.0	-6.1	-4.2
Gross reserves (months of imports)	3.8	3.4	3.2
External debt	64.8	66.0	60.1

Sources: Central Bank, Ministry of Finance, Statistics Sierra Leone, and Fund staff estimates and projections

SIERRA LEONE

November 13, 2023

EIGHTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. President Bio started his second term following the June elections. Allegations of electoral fraud led the opposition to temporarily refuse to participate in any level of governance, but the political stalemate ended in October. The authorities have taken bold steps to tackle macroeconomic imbalances, but reform implementation remains a challenge amid the large adjustment need, a dramatic cost-of-living crisis and the tense political environment. The ECF arrangement—a key policy anchor—is coming to an end with the conclusion of the eighth and final review. The authorities have signaled their interest in a successor ECF arrangement as well as in support under the RST.

Program issues. Program performance was mixed. Two end-October 2023 structural benchmarks were met, while the third is on track to be completed as a prior action. The second prior action is also on track. All end-June 2023 performance criteria were met, except for the net domestic assets (NDA). The authorities request (i) completion of the eighth ECF review; (ii) completion of the financing assurances review; and (iii) a waiver of non-observance for the end-June 2023 NDA, based on corrective actions to: (a) reduce BSL holdings of government securities in H2-2023; (b) raise the policy rate by 250 bps; (c) provide forward guidance on the need for a tight policy stance; and (d) submit to parliament a detailed report on the currency redenomination, and publish key contents within one week after parliamentary proceedings on the report end.

Policy recommendations. A decisive macroeconomic tightening is needed to restore stability and contain risks to debt sustainability, supported by an ambitious updated debt management strategy. For fiscal policy, this calls for implementing tax revenue measures and exercising steadfast expenditure restraint, while supporting the most vulnerable parts of the population. Monetary policy will need to tighten sharply to bring inflation down and stabilize the leone. Measures to improve governance and PFM are critical, including by strengthening the external audit function, bolstering anti-corruption efforts, supporting transparency around the currency redenomination, and improving budget planning and execution. The BSL should decisively address solvency

challenges in commercial banks and strengthen crisis management frameworks and the safety net. Recapitalizing the BSL is a priority.

Key Risks. Risks, including those related to debt sustainability, are high, and contingency planning is key. Policy implementation will remain a challenge as Sierra Leone is highly vulnerable to external shocks, the adjustment need is sizable, the cost-of-living crisis persists, and the political climate is tense.

Approved By
Montfort Mlachila (AFR) and Jarkko Turunen (SPR)

An IMF team consisting of Messrs. Saborowski (head), Nicholls, Wankuru (all AFR), Mr. Kato (SPR), Ms. Duarte (FAD), Mr. Zhang (MCM), Mr. Mitchell (Resident Representative) and Mr. Kargbo (Economist, Freetown office) held discussions with the authorities in Freetown during September 25-October 6, 2023. Mr. Mansaray (Advisor OED) participated in the mission. Mr. Márquez Barroeta also contributed to the preparations for the review. Ms. Manning provided editorial support. The mission met with Finance Minister Bangura, Acting Governor Stevens, and representatives of the private sector, CSOs, and development partners.

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CONTEXT

1. President Bio started his second term following the June elections. The opposition alleged electoral fraud and did not participate in the country's governance for several months following the June elections. Several development partners criticized a lack of transparency around the elections and urged a resolution of the political impasse. The authorities and the opposition signed a joint communiqué to end the political stalemate in October.

2. The ECF arrangement, a key policy anchor, is coming to an end. The Fund-supported program made mixed progress in achieving the objectives set out at the time of approval (Annex I). Reforms supported by the ECF have strengthened tax policy and administration, public financial management, financial oversight, and monetary policy independence, among others. Growth evolved broadly as expected, except during the height of the pandemic. However, external shocks and policy slippages contributed to elevated debt levels, high inflation, and a decline in reserves.

3. The authorities will need to build on initial steps to address macroeconomic imbalances. Policies must tighten further to restore stability and contain risks to debt sustainability. Meanwhile, the large adjustment need, the tense political climate, and the cost-of-living crisis are complicating policymaking. The administration published a manifesto on development priorities for the 2023-27 period that seeks to tackle these challenges.[1]

RECENT ECONOMIC DEVELOPMENTS

4. The macroeconomic policy stance has tightened but remains too loose.

- **Fiscal policy.** Revenues in Q1-Q3 underperformed amid challenges in sensitizing taxpayers to new tax policy measures, and technical difficulties in configuring them (Text Table 1). Grants also fell short as the World Bank DPO was delayed to Q4, and support under the World Bank's Crisis Response Window did not finance budgetary expenditures. Lower-than-expected current expenditures partially offset a 0.9 percent of GDP domestic capital expenditure overrun. Meanwhile, the authorities raised fuel (40 percent in August) and electricity (91 percent in October) prices to contain budget overruns going forward.

- **Monetary policy.** Base money grew by 57 percent y-o-y in June, compared to the target of 37 percent. The higher outturn was explained by higher-than-expected BSL liquidity provision and an unexpected decline in BSL capital. The authorities have since tightened monetary conditions, including by (i) reducing y-o-y base money growth to 37 percent by August,

[1] The manifesto is labeled the "Big Five Game Changers". Priorities include boosting agricultural productivity to strengthen food security, investing in human capital development and youth employment, increasing efficiency in public service, and accelerating investments in infrastructure, technology, and digitalization.

(ii) raising the policy rate by 250 bps since June, and (iii) providing forward guidance on a continued tight policy stance.[2]

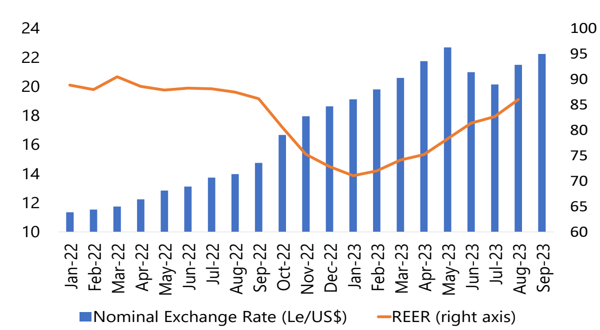
Text Table 1. Sierra Leone: Jan-Sep-2023 Budget Deviations (Actuals Less Budget)
(Percent of non-iron ore GDP)

	Deviation Jan-Jun	Deviation Jan-Sep
Revenue	**-0.2**	**-0.4**
Personal Income Tax	0.0	-0.1
Corporate Income Tax	-0.1	-0.1
Goods and Services Tax	-0.2	-0.1
Excises	0.0	-0.1
Import Duties	-0.1	0.0
Other	0.2	0.0
Grants	**-0.1**	**-2.1**
Expenditure	**-0.1**	**0.6**
Wages 1/	0.0	-0.4
Goods and Services	-0.1	0.3
Subsidies and Transfers	-0.2	-0.2
Other	0.0	0.0
Interest	-0.2	-0.3
Capital Expenditure	0.5	1.2
Foreign	0.3	0.4
Domestic	0.1	0.9
Arrears Paydown (cash)	-0.1	-0.1
Domestic primary balance 2/	**-0.1**	**-1.1**
Overall Balance incl. grants	-0.2	-3.1

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.

5. **There are tentative signs that the macroeconomic tightening is bearing fruit.** The leone has remained broadly stable since May (Text Figure 1). Inflation slowed on a m-o-m basis over the course of H1-2023, albeit not as rapidly as expected (Text Figure 2, left chart). However, y-o-y inflation rose to 54 percent by September on the back of a 40 percent fuel price increase and a 65 percent y-o-y increase in food prices (Figure 2, right chart). Sierra Leone's 2022 external position is assessed as moderately weaker than the level implied by fundamentals and desirable policies (Annex II).

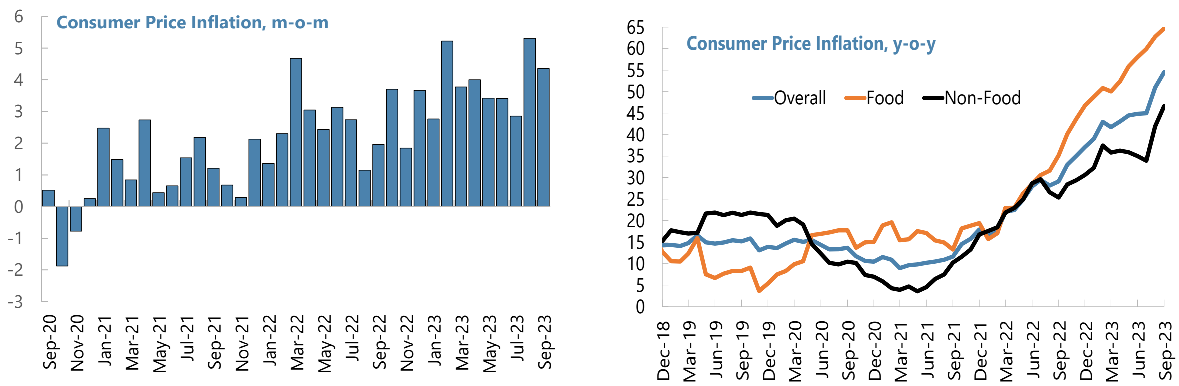
Text Figure 1. Sierra Leone: Exchange Rate (Leones/U.S. dollar)



Sources: Sierra Leonean Authorities and IMF staff estimates.

[2] See: https://bsl.gov.sl/Monetary%20Policy%20Statement.pdf.

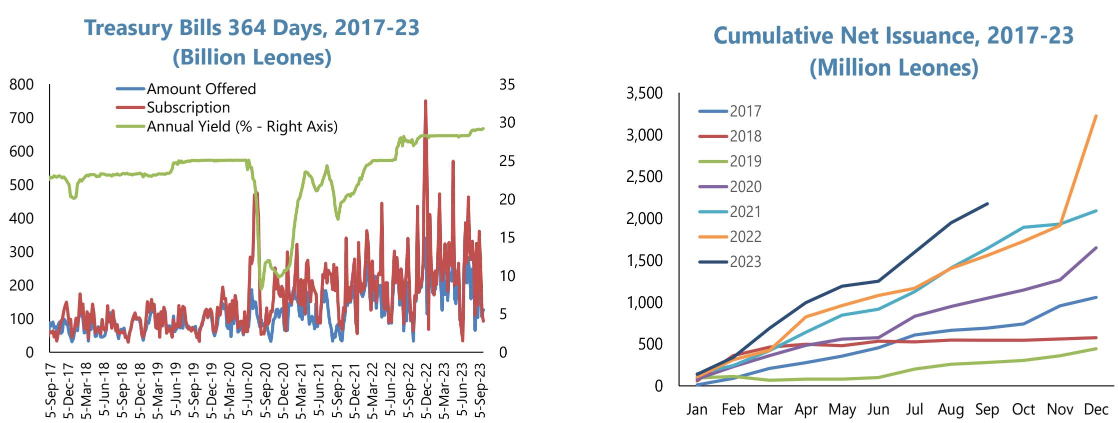
Text Figure 2. Sierra Leone: Inflation Developments



Sources: Sierra Leonean Authorities and IMF staff calculations.

6. The banking system faces vulnerabilities including from the sovereign-bank nexus. While the system's capital adequacy ratio (CAR) strengthened to 45 percent in June, some banks continued to face solvency challenges, and the NPL ratio remained above regulatory limits at 12 percent (Table 8).[3] Bank appetite for government paper remains strong (Text Figure 3) amid solid systemwide liquidity in the sector (Figure 3 and Table 8), which, in turn, has been supported by the BSL's liquidity operations and a modest reversal of the recent increases in deposit dollarization (Text Figure 4). The sovereign-bank nexus is a concern, as banks' holdings of government securities as a share of assets remain high.[4] Private credit growth remained subdued at 14.8 percent y-o-y in June.

Text Figure 3. Sierra Leone: Issuance of Government Securities

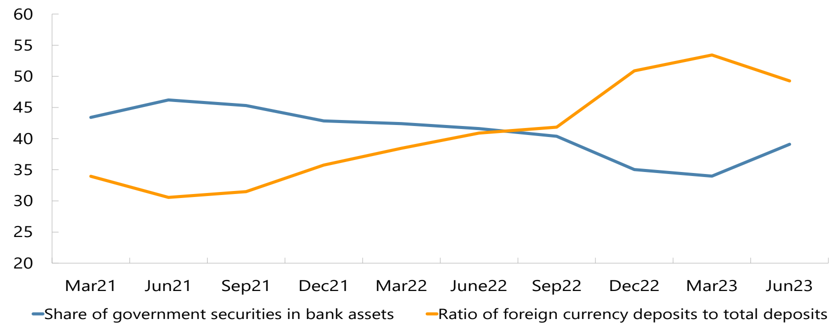


Sources: Sierra Leonean Authorities and IMF staff calculations.

[3] The regulatory limit for the NPL ratio is 10 percent.

[4] See the 2022 Article IV report for Sierra Leone for a detailed coverage of the sovereign-bank nexus.

Text Figure 4. Sierra Leone: Commercial Bank Holdings of Government Securities and Deposit Dollarization
(In Percent)



Sources: Sierra Leonean Authorities and IMF staff calculations.

PROGRAM PERFORMANCE

7. Program performance has been mixed.

- **End-June 2023 PCs/ITs**. The PCs on net credit to government (NCG) and gross international reserves (GIR) were met, as were all continuous PCs and the IT on poverty spending (MEFP Table 1). The PC on net domestic assets (NDA) was missed by a large margin (1.8 ppts of GDP), mainly reflecting larger-than-expected BSL liquidity provision and an unexpected decline in BSL capital. The ITs on domestic revenue and the primary balance were also missed.

- **SBs.** Two end-October 2023 SBs were met, while the third is on track to be met as a prior action (MEFP Table 2). The continuous SB on automatic fuel pricing was not met, but full pass-through was restored with the August price increase.

- **Prior actions.** The authorities are on track towards meeting the two prior actions for the eighth review by submitting to Parliament (i) a 2024 budget consistent with the key parameters of the ECF arrangement; and (ii) 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.

MACROECONOMIC OUTLOOK AND RISKS

8. Macroeconomic conditions are expected to stabilize (Text Table 2).

- **Growth** is projected to decelerate in 2023 amid the tighter policy stance. The recovery in 2024 is expected to be supported by an expansion in mining and agriculture, the less contractionary fiscal stance, and the macroeconomic stabilization.

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

	2021	2022		2023		2024	2025	2026	2027	2028
	Est.	CR23/214	Prel.	CR23/214	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	3.5	2.7	2.7	4.7	5.2	4.5	4.5	4.6
Consumer prices (end-of-period)	17.9	37.1	37.1	36.4	44.3	22.9	17.4	12.9	9.8	8.0
Gross international reserves (months of next year's imports)	5.5	4.0	3.8	3.4	3.4	3.2	3.0	3.0	3.1	3.2
Current account balance (incl. grants)	-8.7	-9.2	-9.0	-7.3	-6.1	-4.2	-2.9	-2.8	-3.1	-5.0
External public debt	51.1	67.7	64.8	67.0	66.0	60.1	56.4	51.2	47.2	46.9
Revenue (excl. grants)	15.7	13.0	12.4	14.1	13.1	14.8	15.8	16.0	16.4	17.0
Domestic primary balance	-5.0	-9.4	-9.0	-2.5	-2.4	-0.2	1.0	1.8	1.8	2.1
Overall Balance	-7.4	-10.9	-10.5	-5.6	-5.8	-2.8	-2.4	-2.4	-2.1	-4.3

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

- **Inflation** is projected to ease to 44.3 percent at end-2023, as the tighter policy stance takes hold. The upward revision since the last review is due to the recent bold regulatory price increases and the looser-than-expected macroeconomic policy stance in Q1-Q3.

- The **current account** deficit is projected to decline on the back of the policy tightening and strong mining exports, especially for iron ore. Reserves would stabilize at around 3 months of imports, assuming that the annual US$40 million post-program financing gap is closed.

9. **Risks to the outlook are significant** (Annex III). Political tensions, food insecurity, regulatory price increases and governance challenges could fuel social unrest, undermine investor confidence, further tighten domestic liquidity, and stymie the policy agenda. A failure to achieve the programmed adjustment could lead to difficulties in financing the deficit, reinvigorate deposit dollarization, and intensify debt related risks. A global slowdown, tighter financial conditions, a more protracted Russia's war in Ukraine, and geographical fragmentation could weigh on external demand. An adverse terms of trade (ToT) shock could deteriorate fiscal and external balances.

POLICY DISCUSSIONS

A decisive macroeconomic tightening is needed to restore stability and contain risks to debt sustainability, supported by an ambitious updated debt management strategy. For fiscal policy, this calls for implementing tax revenue measures and exercising steadfast expenditure restraint, while supporting the most vulnerable parts of the population. Monetary policy will need to tighten sharply to bring inflation down and stabilize the Leone. Measures to improve governance and PFM are critical, including by strengthening the external audit function, bolstering anti-corruption efforts, supporting transparency around the currency redenomination, and improving budget planning and execution. The BSL should decisively address solvency challenges in commercial banks and strengthen crisis management frameworks and the safety net. Recapitalizing the BSL is a priority.

A. Fiscal Policies

10. Tighter fiscal policies are needed to achieve the 5.8 percent of GDP deficit target for 2023. The deficit target was increased from 5.6 percent of GDP during the last review to accommodate some revenue shortfalls on account of difficulties in implementing recent tax measures. To attain the revised target, the authorities have designed a package of measures to improve revenue collection and curtail spending (MEFP ¶18).[5]

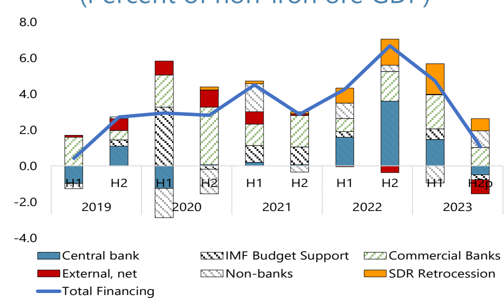
- **Revenues.** The authorities are redoubling efforts to resolve technical issues in implementing remaining revenue measures under the 2023 Finance Act by end-November.[6] They also launched a program to improve tax compliance that is estimated to yield 0.2 percent of GDP in additional revenues for the remainder of this year.[7]

- **Expenditure.** The authorities are committed to (i) save a 0.2 ppts of GDP buffer in goods and services spending by canceling allocations to MDAs in Q4-2023; (ii) save 0.5 percent of GDP in subsidies as a result of the October electricity price increase; (iii) save 0.1 percent of GDP by postponing transfers to local councils to next year; and (iv) freeze domestically financed capital expenditure in Q4 to contain overruns on it at 0.3 percent of GDP. The authorities agreed that any spending shifted from 2023 to 2024 will be fully reflected in the 2024 budget.

11. Financing needs in H2-2023 are expected to be met by banks, non-banks, and use of the 2021 SDR allocation. Revised H2-2023 projections assume cumulative net financing from commercial banks and non-banks of 1.8 percent of GDP, broadly consistent with the historical trend (Text Figure 5; Figure 3). IMF budget support and SDR retrocession amounts are unchanged from the last review. This would allow BSL net purchases of government securities to turn negative in H2-2023. The authorities committed to repaying a BSL bridge loan—that was needed due to the delay in the WB DPO—by the end of the year (MEFP ¶38).

Text Figure 5. Sierra Leone: Financing Needs and Sources

(Percent of non-iron ore GDP)



Sources: Sierra Leonean Authorities and IMF staff estimates.

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[5] These measures will also help in correcting for the end-June 2023 IT target misses.

[6] The technical issues refer to the need to reconfigure various revenue IT systems to accurately determine taxpayers' tax liabilities. In some cases, the tax changes involved converting from ad valorem to specific taxes which could not be done in-house, requiring renewed engagements with software vendors.

[7] These compliance measures include working with the Ministry of Finance to (i) deduct from state enterprise utility service payments and from TSA and Sub-vented Agencies allocations and transfers any PAYE due to the revenue authority; (ii) make use of data analytics to profile taxpayers in ITAS; (iii) implement an extensive taxpayer education campaign; (iv) conduct block registration of businesses in regional cities to expand the tax base; and (v) initiate increased monitoring of business establishments to ensure the use of ECR machines.

12. Fiscal policy is set to tighten further over the medium-term (Text Table 3). To this end, the authorities are on track to submit to Parliament a 2024 budget consistent with the key parameters of the ECF arrangement (**Prior Action I**). The envisaged deficit of 2.8 percent of GDP implies another significant tightening relative to the 5.8 percent of GDP deficit this year and the 10.5 percent of GDP deficit in 2022. The consolidation is expected to be based on additional revenue mobilization and continued expenditure restraint:

Text Table 3. Sierra Leone: 2023 Budget and MT

(Percent of non-iron ore GDP)

	2022	2023		2024		2025
	Prel.	6th/7th Rev 1/	Proj.	6th/7th Rev 1/	Proj.	
Total revenue and grants	**19.0**	**19.5**	**17.8**	**21.7**	**20.7**	**20.7**
Revenue	12.4	14.1	13.1	15.9	14.8	15.8
Tax revenue	10.4	12.0	11.1	13.8	12.8	13.8
Other, Capital Transfers from BSL (CCRT Debt Relief)	0.4	0.0	0.0	0.0	0.0	0.0
Grants	6.2	5.4	4.7	5.8	5.8	4.9
Expenditures and net lending	**29.5**	**25.2**	**23.6**	**24.5**	**23.5**	**23.1**
Current expenditures	19.5	18.1	16.4	17.7	16.3	16.5
Wages and salaries 2/	7.7	7.0	6.7	7.2	6.4	7.0
Goods and services	4.3	3.0	2.7	3.1	3.0	3.1
Subsidies and transfers	4.3	3.8	3.0	3.2	2.7	2.6
o/w elections	0.6	0.5	0.4	0.0	0.2	0.0
o/w Transfers to energy IPPs	1.3	1.5	0.9	1.4	0.9	0.8
Interest	3.2	4.2	4.0	4.1	4.1	3.8
Domestic	2.9	3.9	3.7	3.7	3.8	3.4
Foreign	0.4	0.3	0.3	0.4	0.3	0.5
Capital Expenditure	8.9	6.8	6.9	6.6	7.0	6.4
Foreign financed	3.8	4.0	3.8	4.3	4.2	4.3
Domestic financed	5.1	2.8	3.1	2.3	2.7	2.1
Contingent expenditure	0.1	0.1	0.1	0.0	0.0	0.0
Arrears Paydown (cash)	1.0	0.2	0.2	0.2	0.2	0.2
Domestic primary balance 3/	-9.0	-2.5	-2.4	-0.1	-0.2	1.0
Overall balance including grants	**-10.5**	**-5.6**	**-5.8**	**-2.8**	**-2.8**	**-2.4**
Financing	**10.5**	**5.6**	**5.8**	**2.8**	**2.8**	**2.4**
External financing (net)	-0.4	-0.8	-0.7	-0.9	-0.9	-0.1
Domestic financing (net)	10.9	6.4	6.5	3.7	3.7	2.5
Total Banking Sector (net)	7.5	3.4	3.4	3.4	3.5	2.4
o/w Banks, net of budget support	7.2	3.0	3.1	4.6	4.7	3.7
o/w IMF Budget Support 4/	0.3	0.3	0.3	-1.2	-1.2	-1.3
Non-Bank Sector	0.4	0.8	0.7	0.3	0.3	0.1
Other 5/	0.8	-0.2	0.0	0.0	0.0	0.0
Other, Use of 2021 SDR allocations	2.2	2.5	2.4	0.0	0.0	0.0
Financing Gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ See *Sierra Leone: 6th and 7th Review Under the Extended Credit Facility* (CR23/214), July 2023
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/ IMF Budget Support is the amount for budget support based on the IMF ECF 8th Review disbursements
5/ Other includes discrepancy and the corresponding transaction for securities issued to reduce the stock of arrears.

- **Revenues**. The authorities published the new MTRS in October (see Box 1). They are working towards submitting, as part of the 2024 Finance Act to Parliament, measures yielding 1.15 percent of GDP in additional annual tax revenues (**Prior Action II**; Text Table 4). Implementation of the revenue administration measures outlined in the MTRS for 2024 (see Box Table 1) is expected to yield another 0.3 percent of GDP in annual tax revenues. The authorities are also committed to including tax measures yielding a further 1 percent of GDP in annual tax revenues in the Finance Act 2025 (MEFP ¶21).[8] Nevertheless, the projected revenue mobilization path is ambitious, and its implementation will remain a challenge.[9]

Text Table 4. Sierra Leone: 2024 Finance Act

(Percent of non-iron ore GDP)

2024 Finance Act	Yield
Additional tax policy measures	
(1) Harmonize final withholding taxes for capital income at a rate of 15 percent.	0.15
(2) Establish fixed excise rates for fuel at NLe 2.8/ liter for gasoline and NLe 2.4/ liter for diesel. 1/	0.82
(3) Restore import duty on cement, iron rod, and cooking gas. 2/	0.12
(4) Introduce an education levy of 1 percent of all contracts. 3/	0.12
(5) Introduce excise on gambling, casino services, and plastic materials. Implement CIT on income derived from digital services for non-resident companies. 3/	0.11
(6) Introduce a safe harbor rule for iron ore valuation.	0.05
(7) Introduce additional royalty on timber export based on the value of timber	0.05
Review of the 2023 Finance Act	
(8) Reduce MAT rate to 2 percent	-0.07
(9) Reduce stamp duty fee to 1 percent for properties other than financial instruments and to 0.2 percent for financial instruments	-0.10
(10) Reestablish GST exemption for plant and machinery for use in mining, manufacturing and agriculture	-0.10
Total	**1.15**

Source: Sierra Leone authorities and IMF staff calculations.
1/ Authorities will increase diesel excise gradually in 2024. Expected additional revenue from fuel excise in 2024 is 0.62 percent of GDP.
2/ Impact of import duty on cement partially incorporated in projections for 2024 and 2025 the gradual increase.
3/ Measures only partially incorporated in the projections for 2024 as they are likely to present implementation challenges.

[8] Tax revenues are also expected to be supported by a recovery in buoyancy, efficiency gains from automation (ITAS, ECR, computer aided audits), adherence to the fuel price formula, and the renegotiation of a mining contract.

[9] Staff recommends to strictly limit the practice of earmarking revenues from new measures into separate stand-alone funds, which complicates fiscal policies and increases governance risks.

Box 1. The Medium-Term Revenue Strategy

The authorities published a new Medium-Term Revenue Strategy (MTRS) for 2023-27.[1] The strategy presents a comprehensive set of tax policy and revenue administration measures that could increase tax revenues to 19 percent of GDP by 2027.

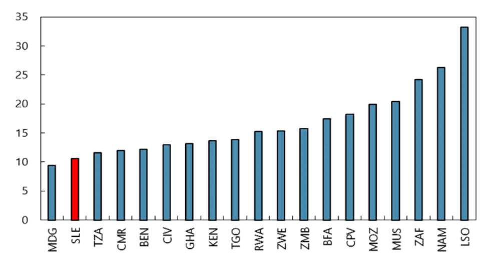
The MTRS is aligned with Sierra Leone's national development goals. Revenue performance in Sierra Leone lags other countries in the region (Box Figure 1). The MTRS aims to support revenue mobilization, while increasing the transparency and predictability of tax policy, strengthening the business environment, and supporting growth.

The MTRS focuses on expanding the tax base, reducing inconsistencies and inefficiencies, and enhancing the business environment. Proposed measures for corporate income taxes include aligning withholding tax rates and introducing a minimum alternate tax. The MTRS also seeks to shift from ad valorem excises to specific rates and increasing excises on items like fuel, alcohol, and cigarettes. Other measures include broadening the tax base, including by reviewing sectoral investment agreements and streamlining GST exemptions.

The MTRS also aims to strengthen tax administration. It supports the development of a comprehensive compliance risk management framework, simplifies tax administration—while enhancing communication and taxpayer education—and modernizes business operations by leveraging data, investing in technology, and enhancing staff capacity. It also includes measures to enhance compliance, strengthen border controls, manage exemptions, improve customs valuation, enhance post-clearance audits, and strengthen data acquisition and management.

Work to implement the MTRS is ongoing, supported by IMF CD engagement (see Annex IV). A high-level steering committee led by the MoF—and with representation of NRA, development partners, and other stakeholders—was created to support the implementation of the strategy. Several tax policy and tax administration measures covered by the MTRS have been adopted (Box Table 1).

Box 1. Figure 1. Sierra Leone: General Government Taxes in SSA
(Percent of GDP, 2022)



Sources: April 2023 WEO and IMF staff calculations.

Box 1. Table 1. Sierra Leone: MTRS Measures Taking Effect in 2023/2024

Tax Policy	
2023	**2024**
Introduce a turnover-based minimum alternate tax (MAT); restore GST on fee based financial services, aviation services, insurance, gambling tokens and tickets, first sale of commercial and residential buildings, and digital services; covert ad valorem excise to specific rates for alcohol, cigarettes, tobacco products, and sugary beverages; harmonize excise rates for domestic goods and imports; increase stamp duty rates; introduce a tourism levy.	Harmonize capital income tax rates at 15 percent; increase excise rates for fuel; introduce excise taxes on plastics, gambling, and casino services; introduce an education levy; restore import duty on selected products, introduce additional value-based royalty on timber export.
Revenue administration	
2023	**2024**
Implement excise stamps; strengthen customs valuation and control of technical smuggling; strengthen control of duty waiver management and monitoring.	Enhance compliance risk management for large taxpayers; strengthen payment compliance of SOEs and MDAs; strengthen automation and data management for increased compliance of telecommunication, gaming, and betting activities; enhance compliance for rental income, high net worth individuals, SMEs and extractives; continue strengthening custom activities; establish a safe harbor for mining companies; implement fuel marking technology.

[1] Please see: https://mof.gov.sl/wp-content/uploads/2023/10/SIERRA-LEONE-MTRS-2023-2027-06-10-23.pdf

- **Expenditures**. Ongoing electricity sector reforms are expected to facilitate a gradual decline in energy subsidies, including via (i) the development of a new electricity tariff pricing model; (ii) legislative changes to permit automatic tariff adjustments (MEFP ¶25); (iii) the integration of mining companies into the grid; (iv) the roll-out of smart meters; and (v) the increased generation from more sustainable energy sources. The authorities are also working on a medium-term wage bill strategy to strengthen payroll management and sustainability and create space for expanding service provision in priority sectors. A focus on bolstering spending efficiency and control—including the monitoring of multi-year commitments—is expected to help contain domestically financed capital spending (MEFP ¶28).

- **Social spending.** The authorities are committed to scaling up social spending to cover more households amid the current cost-of-living crisis (MEFP ¶23). They are considering harnessing available targeting systems, improving coordination between programs, reprioritizing budget allocations, and seeking additional donor support. The authorities are also committed to scaling up financing for the school feeding program from 0.4 to 0.8 percent of GDP by 2027. For the 2023/2024 school year, the authorities expect the program to cover 800,000 children, a number that is expected to increase by 100,000 children annually.

- **Contingency measures.** Should budget overruns recur, the authorities committed to further reprioritize spending, including by curtailing domestically financed capital spending (MEFP ¶24). They would also consider frontloading additional revenue measures in the MTRS, including harmonizing final withholding CIT tax rates at a rate of 20 percent, increasing the stamp duty on immovable property, and further streamlining GST exemptions. In case of renewed global energy supply shocks, the authorities are committed to maintaining cost-reflective energy prices through their fuel and electricity pricing formulas.

B. Debt Sustainability

13. Sierra Leone's overall and external public debts are assessed as sustainable, but at high risk of debt distress (see DSA).[10] 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. The total debt service-to-revenue ratio remains above 100 percent until 2028, while GFNs are well above the 14 percent benchmark during 2023-33. All debt indicators remain on a declining trend over the medium to long-term, but this is predicated on the planned ambitious fiscal adjustment and continued reliance on grants and concessional financing. The authorities are committed to staying within their external borrowing limits after the Fund-supported program ends (Text Table 5, MEFP ¶36), and plan to redouble their efforts to raise grant resources and concessional financing.

Text Table 5. Sierra Leone: Summary 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.

[10] The DSA assumes that the share of T-bonds in domestic debt securities will increase to 30 percent by 2025 (from 14 percent in Dec-2022). Achieving the 40 percent objective in the new MTDS (Box 2) would help bring down elevated levels of debt service more rapidly.

14. The authorities adopted an updated Medium-Term Debt Strategy (MTDS) that builds on recent progress in lengthening the average maturity of domestic debt. Strengthening demand for longer-term securities in the domestic market will, first and foremost, require tightening macroeconomic policies to reduce inflation. The MTDS includes policies to complement these efforts by strengthening the development of the domestic bond market (Box 2).

Box 2. The Medium-Term Debt Strategy

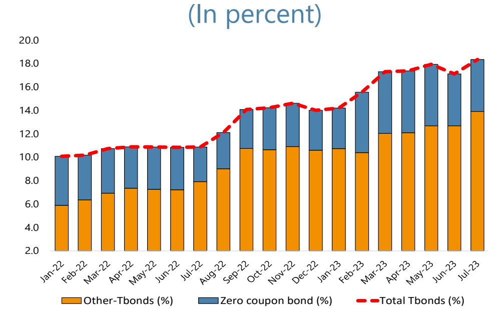
The authorities adopted a new Medium-Term Debt Strategy (MTDS) for 2023-27. The MTDS seeks to reduce debt related risks, including by lengthening the maturity structure of domestic debt.

The authorities have made progress under their 2022-25 MTDS in lengthening the maturity structure of domestic debt. The share of T-bonds in total debt securities increased from 10 percent in January 2022 to some 18 percent by July 2023 (Box Figure 1).

The authorities adopted an updated 2023-27 MTDS in October 2023. The MTDS includes a specific focus on lengthening the maturity structure of debt, given that the heavy reliance on T-bills is the main contributor to Sierra Leone's high levels of debt service (Box Figure 2). The MTDS is underpinned by the macroeconomic framework for the 8th ECF review and includes the same limits on annual external borrowing, the same assumptions on future disbursements of concessional loans, and the same split between external and domestic borrowing.

Box 2. Figure 1. Sierra Leone: Share of T-Bonds in Total Government Securities

(In percent)

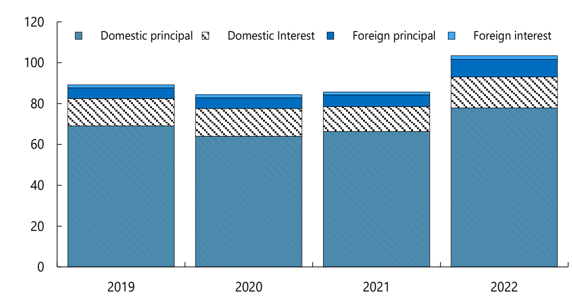


Source: Sierra Leonean staff and IMF calculations.

The MTDS includes several policy initiatives to aid in further lengthening the maturity structure of debt. The preferred strategy in the MTDS seeks to increase the share of T-bonds in domestic debt securities to 40 percent by 2027. Initiatives to incentivize increased demand for T-bonds in the domestic market include: (i) stipulating investment norms for institutional investors while ensuring that their investment policies are decided within the framework of their own asset-liability and risk management objectives; (ii) updating auction procedures, including by reducing auction frequency; (iii) changing auction rules to signal acceptable rates to the market; (iv) strengthening communication with market participants by explaining the macroeconomic policy outlook and the MTDS; (v) reviewing primary dealership roles and assigning them to few commercial banks with the capacity to underwrite primary issuances, while moving other banks to the secondary market; and (vi) raising limits on T-bond yields to allow appropriate price discovery.

Box 2. Figure 2. Sierra Leone: Debt Service to Revenue and Grants

(In percent)



Sources: Sierra Leonean Authorities and IMF staff estimates

C. Governance and PFM

15. Measures to enhance governance, strengthen the external audit function and bolster anti-corruption efforts are a priority. The authorities published the roadmap that revives the currently dormant provisions on surcharges.[11] The tribunal to adjudicate the charges against the suspended auditor general and her deputy has been repeatedly postponed. Continued delays in the tribunal could impact public confidence in the functioning of the external audit function and governance in the country. The authorities are working towards finalizing legally due payments, in line with the commitment to pay salaries and allowances legally due to all persons holding management positions in the ASSL. The FIU AML/CFT National Risk Assessment report was approved and is expected to be published in November.

16. The authorities have been taking steps to enhance transparency around the currency redenomination (MEFP ¶39). The BSL approved an internal audit report on the redenomination process, and a detailed report on the process was submitted to Parliament (**end-October 2023 SB**). They also committed to publishing key contents requested under the SB on the currency redenomination within a week after Parliamentary proceedings on the currency redenomination report end. The currency redenomination process has suffered some setbacks including budget overruns and practical challenges—including availability of storage space for old banknotes—which stronger project management and oversight would have helped avoid. The authorities are committed to ending legal tender status for old leones by end-December 2023.

17. Steadfast implementation of PFM reforms is critical. The authorities included all outstanding domestic arrears, including unpaid cheques, in a new arrears clearance strategy (**end-October 2023 SB**). They committed to clearing arrears going forward only if budgeted for. They also finalized Phase II of the TSA expansion, made it mandatory for MDAs to process expenditure through the web-based IFMIS, and implemented the EFT system.[12] To support greater coordination and transparency in the management, control, and execution of multi-year capital expenditure projects, the authorities requested all MDAs to provide detailed information on projects for the 2024 budget, which they intend to make public (MEFP ¶29). They are also committed to strengthening the public investment management framework, including by establishing mandatory screening of projects by the Ministerial Investment Committee. To improve expenditure control and ensure that project decisions from the Ministerial Investment Committee are implemented as planned, the authorities will set up a Budget Working Group with representatives from the Macro and Budget

[11] The roadmap aims to implement provisions in the Audit Service Act of 2014 to give the auditor general the power to disallow and surcharge. See https://mof.gov.sl/wp-content/uploads/2023/10/Roadmap-on-ASSL-Regulations-2023.pdf.

[12] The EFT system helped reduce the accumulation of unpaid cheques in H1-2023. By June 2023, the stock of unpaid cheques accumulated during the 2023 fiscal year was NLe3 million while the stock of unpaid cheques accumulated during the 2022 and 2021 fiscal years was NLe290 million.

Directorates of the MoF, and the PIM Directorate of MoPED (MEFP ¶28/¶29). The authorities plan to pilot green and gender budgeting for select MDAs in the 2024 budget.[13]

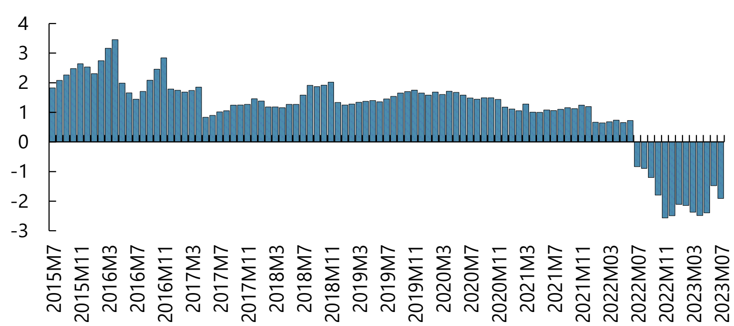
18. Strengthening PFM practices is also crucial in building resilience against climate change and natural disasters. Sierra Leone is highly vulnerable to climate change and natural disasters, including epidemics, floods, landslides, storms, and wildfires. The authorities are working with the IMF and other development partners in assessing opportunities for climate financing and in identifying adaptation actions, including capacity building for the implementation of PFM and Public Investment Management (PIM) green practices (MEFP ¶22).

D. Monetary and Exchange Rate Policies

19. Monetary conditions need to continue to tighten to bring down inflation. The authorities plan to contract real base money by 17 percent in 2023—supported by net sales BSL of government securities in H2-2023 (MEFP ¶38)—and by 9 percent in 2024 (Table 3). Progressive increases in the policy rate—targeting positive real rates in H1-2024—would be an important signal of the BSL's objective of putting inflation firmly on a downward path. The BSL also intends to further strengthen its communication, including by publishing quarterly monetary policy reports and decisions in a timely manner.

20. The authorities plan to swiftly recapitalize the BSL.[14] The BSL's capital position deteriorated notably as a result of the cost of the currency redenomination and net valuation losses on its net foreign asset position (Text Figure 6). The authorities plan to recapitalize the BSL as soon as the BSL's FY2022 audit is concluded (MEFP ¶39).[15]

Text Figure 6. Sierra Leone: BSL Capital
(Percent of GDP)



Sources: Sierra Leonean Authorities and IMF staff estimates

[13] Capacity constraints have delayed the implementation of the gender budget pilot, and the authorities are planning additional training for the pilot ministries for FY2024.

[14] Chapter 42(1) of the BSL Act 2019 outlines the necessary steps to recapitalize the BSL.

[15] The audit is still ongoing due to a need to address outstanding data issues with the external auditor. The decline in BSL capital shown in Text Figure 6 will be revised after external audit adjustments for errors in net exchange losses.

21. The BSL is taking measures to protect reserve adequacy (MEFP ¶40). They are committed to strictly limiting interventions to addressing excess volatility in case of very large temporary shocks. They are also planning to develop a robust interbank FX market in line with recent Fund TA.

E. Financial Sector Policies

22. The authorities are making progress in strengthening financial sector governance and supervision. They have (i) established the Financial Policy Committee and held its first meeting in September; (ii) approved new Corporate Governance Guidelines for the banking sector, which will become effective in January 2024; and (iii) established a Deposit Protection Fund Unit in the BSL and drafted a 2-year work plan to fully operationalize the DPF Act. They are also in the process of developing a formal directive to implement the supervisory strategy to address high NPLs with the help of the IMF's Resident Advisor (MEFP ¶42/¶45).

23. Further strengthening financial sector oversight and safety nets is key. Priorities include:

- Strictly enforcing the Banking Act 2019 by requiring any bank in violation of the minimum CAR to submit a credible timebound capital restoration plan to the BSL for review, approval, and monitoring of implementation (MEFP ¶46).
- Conducting on-site examinations of the two state-owned banks in Q4-2023, following the completion of the Corporate Governance Guidelines, and in accordance with the action plan on corporate governance for the two SOBs (MEFP ¶43).
- Finalizing the macroprudential policy framework and crisis management plan by end-2023 and launching the Deposit Protection Fund (DPF) Act by end-September 2024.[16] In accordance with the FSSR 2020 TA Roadmap, other priorities include enhancing the operational capacity to implement the resolution framework for financial institutions per the Banking Act 2019 and establishing an Emergency Liquidity Assistance framework (MEFP ¶42/¶44).

PROGRAM ISSUES

24. 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.

25. The authorities request completion of the 8th ECF review and a waiver of non-observance for the end-June 2023 NDA PC. Staff supports this request given corrective actions to: (i) reduce the BSL's holdings of government securities in H2-2023 (¶4/¶19); (ii) raise the policy rate

[16] The DPF Act was enacted and published but its requirements need to be fully operationalized. The DPF should only enter into force once solvency challenges in individual banks have been addressed. The authorities should establish an emergency funding arrangement to backstop the DPF.

by 250 bps as a clear signal of the BSL's intention to bring down inflation (¶4); (iii) provide forward guidance on the need for a tight policy stance (¶4); and (iv) submit to parliament a detailed report on the currency redenomination and publish key contents within one week after Parliamentary proceedings on the report end (¶16). The authorities also request completion of the financing assurances review.

26. Financing assurances are adequate. The ECF is fully financed with firm commitments for the remainder of the Fund-supported program. The World Bank's Development Policy Operation (DPO) will provide US$65 million in budget support in 2023. The disbursement of SDR 15.555 million under the 8th review will finance the budget.[17] The authorities continue to make good faith efforts to reach a collaborative agreement with external commercial creditors on longstanding pre-HIPC arrears.

27. Sierra Leone's capacity to repay the Fund remains adequate but subject to high downside risks. Outstanding IMF credit is projected to peak at end-2023 at 173 percent of quota, 88.2 percent of gross reserves, well above the median values for PRGT countries. Annual gross repayments to the Fund are projected to peak in 2026 at 5.7 percent of exports and 1.8 percent of GDP (Table 6). Staff assesses that prospects are good for a US$40 million annual post-program financing gap—which arises due to protracted BOP needs stemming from continued reform needs and a deeply negative NIIP—to be covered by concessional financing under the conservative assumption of an overall grant element of 35.5 percent. The capacity to repay remains adequate and debt remains sustainable under such realistic financing assumptions.[18]

28. Risks to the program are high. They arise primarily from fiscal pressures and debt sustainability risks related to the difficult macro environment and the tense social and political situation following the elections. The governance situation remains highly challenging, including through a weakening of the external audit function and limited progress on AML/CFT reforms.

29. The technical assistance agenda is fully integrated with the program. Risks relate mainly to absorptive capacity (Annex IV).

30. The authorities plan to request a successor ECF arrangement and support under the RSF. They are aware that a new program can only be discussed following discussions on medium-term policy priorities and lessons learnt from the required ex-post program assessment, given their long-lasting program engagement. They are also aware that a credible strategy that reduces debt related risks over time would be a prerequisite. An updated safeguards assessment will also need to be conducted and will be initiated shortly.

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[17] As with previous budget support under this ECF arrangement, the Government and the BSL have established a framework on their respective responsibilities for IMF repayments in a Memorandum of Understanding (MOU).

[18] 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.

STAFF APPRAISAL

31. The authorities have taken steps to tackle macroeconomic imbalances, but a long road lies ahead. Challenges such as high inflation, elevated debt levels, and low reserves have intensified in recent years following large external shocks and policy slippages. Initial steps to tackle them have been taken, but the adjustment need is large and frontloaded, and a cost-of-living crisis as well as a tense political environment are complicating policymaking.

32. As the ECF arrangement comes to an end, continued commitment to the reform path is critical. Staff's expectation that economic stability will be restored over the medium-term, and debt sustainability preserved, is predicated on the ambitious macroeconomic adjustment the authorities have committed to.

33. Fiscal consolidation will be a cornerstone of the reform package. Reducing the overall deficit from 10.5 percent of GDP in 2022 to 5.8 percent of GDP in 2023 and around 2 percent of GDP over the medium-term, will require continued steadfast expenditure restraint. Efforts will also be needed to mobilize revenues, including through full implementation of tax policy measures, and stringent enforcement action.

34. Scaling up social protection needs to be a priority despite the fiscal consolidation. Staff welcomes the authorities' commitment to cover more vulnerable households amid the current cost-of-living crisis by seeking additional donor support and reprioritizing spending, including for the school feeding program.

35. Decisive action is needed to reduce the high risk of debt distress. Sierra Leone's overall and external public debts are assessed as sustainable, but at high risk of debt distress. Staff welcomes the authorities' commitment to lengthen debt maturities as part of their recently updated MTDS. The authorities should make swift progress on policy initiatives to develop the domestic bond market.

36. Efforts should be redoubled to mobilize financing on favorable terms. Securing additional grant and concessional financing is critical.

37. Monetary policy should focus on tackling high inflation and protecting reserves. To this end, reserve money should contract notably in real terms this year and next, and the policy rate should be raised further as a clear signal of the authorities' intention to bring down inflation. FX intervention should be strictly limited to addressing excess volatility in case of very large temporary shocks. The authorities should act swiftly to recapitalize the BSL in line with the BSL Act 2019.

38. The authorities should redouble their efforts to enhance governance and PFM and bolster anti-corruption efforts. A key priority would be to safeguard the independence of the external audit function. Transparency around the currency redenomination is critical to support the credibility of the new currency. To this end, staff welcomes the recent internal audit report and report to Parliament and is encouraged by the authorities' commitment to publish key contents requested under the SB on the currency redenomination within a week after parliamentary proceedings on the currency redenomination report end. Effective implementation of AML/CFT reforms should also be a priority. Strengthening public financial management is needed to underpin the fiscal consolidation. This would include efforts to avoid arrears accumulation and gain better control of multi-year commitments, especially on domestically financed capital spending.

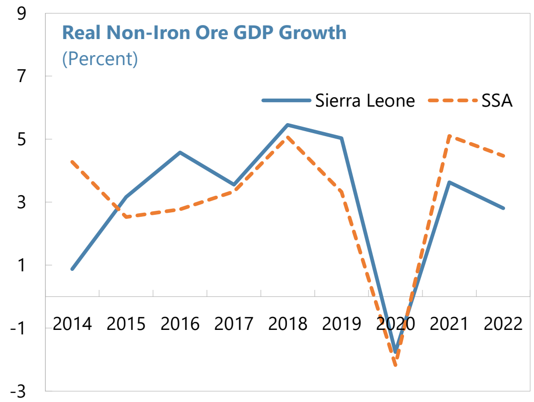
39. Financial sector policies should continue to focus on stability and oversight. In the period ahead, the BSL should strictly enforce the provisions of the Banking Act to preserve financial stability and bolster the crisis management framework and the safety net.

40. Staff supports the completion of the eighth and final review under the ECF. Staff also supports the request for completion of the financing assurances review and—on the basis of strong corrective actions—the waiver of non-observance for the end-June 2023 NDA PC.

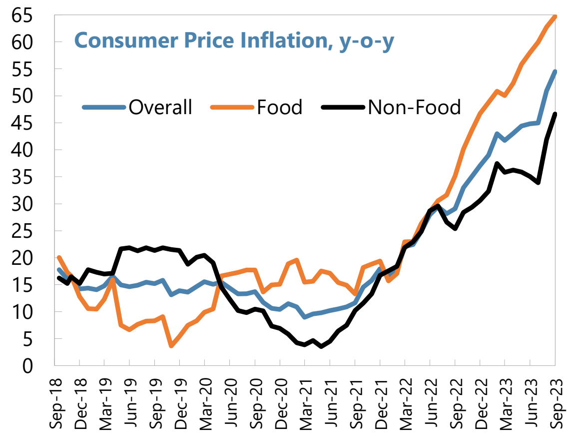
41. Staff recommends that Sierra Leone returns to the standard 12-month Article IV consultation cycle.

Figure 1. Sierra Leone: Real and External Sectors, 2014-23

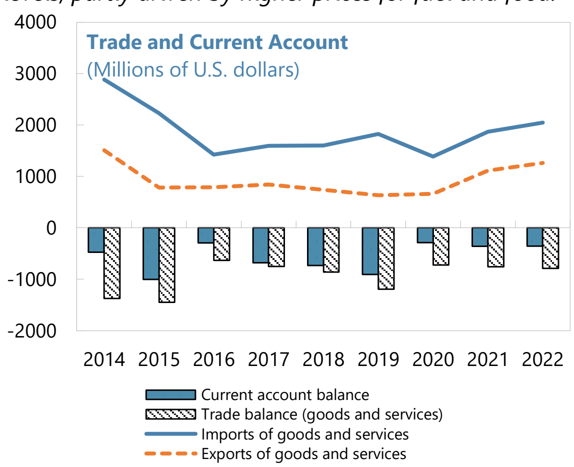
The growth recovery was interrupted in 2022...



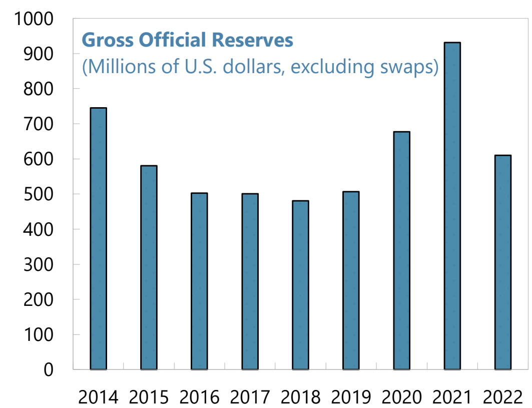
Food prices continued to put upward pressure on inflation while non-food inflation is edging down.



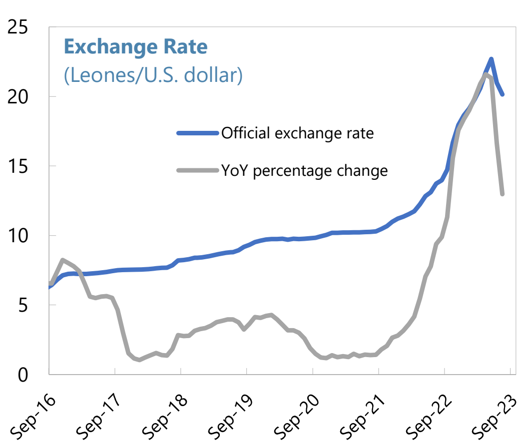
Imports and exports picked up beyond pre-pandemic levels, partly driven by higher prices for fuel and food.



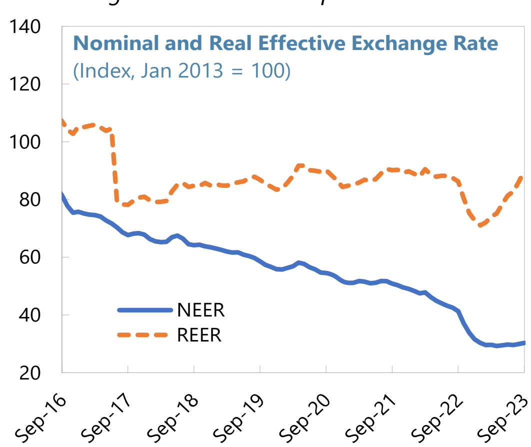
Official reserves were bolstered by the 2021 SDR allocation but dropped in 2022.



The exchange rate has stabilized in recent months, ...



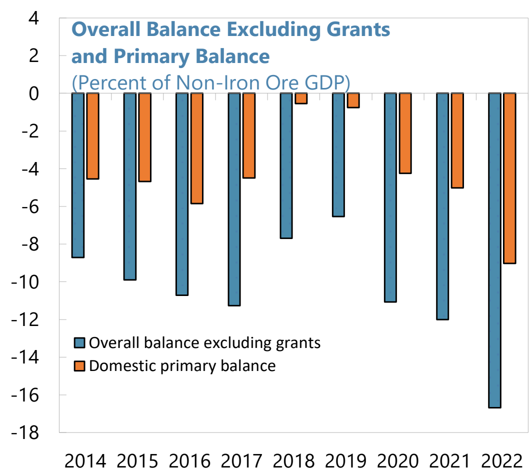
... reversing the recent REER depreciation.



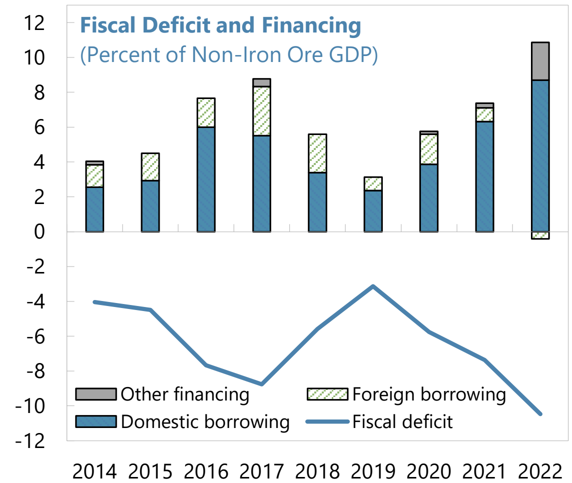
Sources: Sierra Leonean authorities and IMF staff estimates.

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

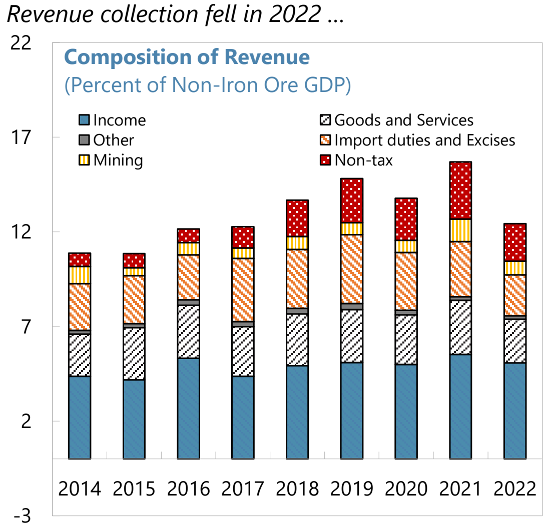
The overall balance excluding grants widened sharply in 2022 amid policy slippages and exogenous shocks.



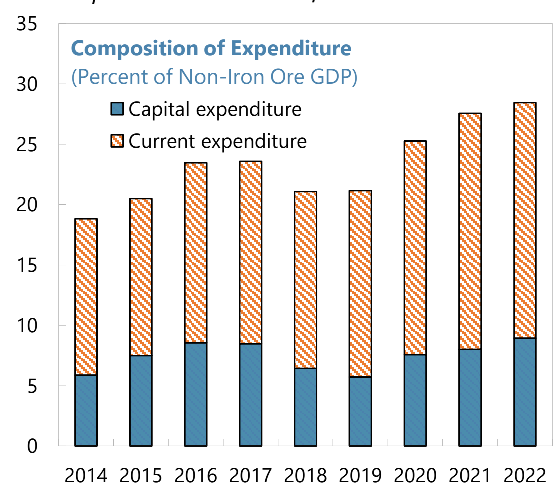
This was financed through domestic bank borrowing (including BSL) and SDR use.



Revenue collection fell in 2022 ...



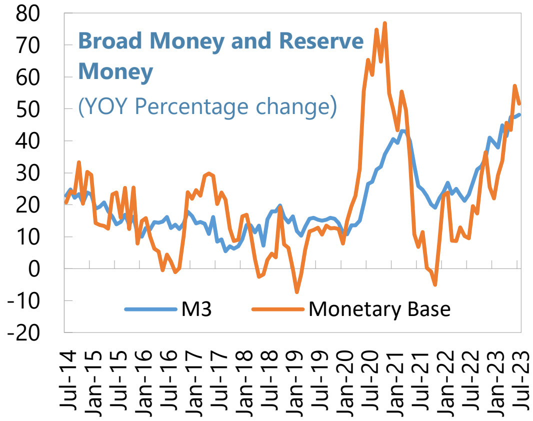
...while expenditures increased further.



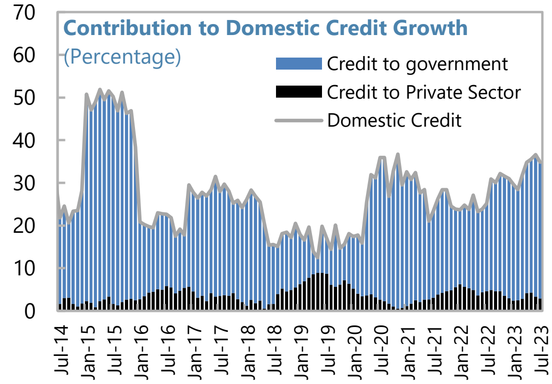
Sources: Sierra Leonean authorities; and IMF staff estimates.

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

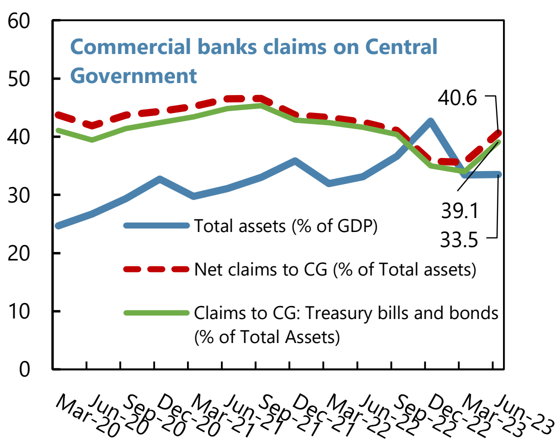
Base money growth has continued to increase sharply…



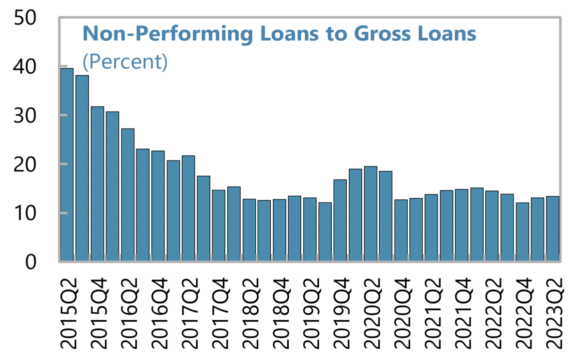
…while private credit growth remains subdued.



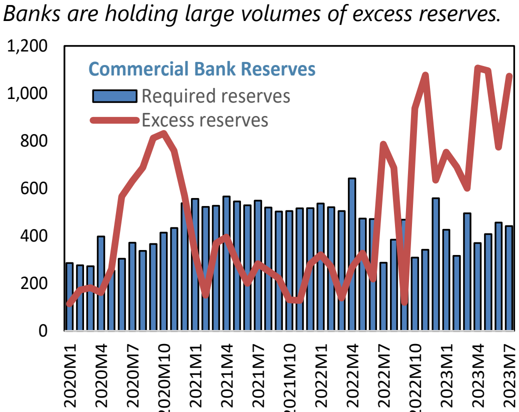
The business models of commercial banks remain focused on government securities…



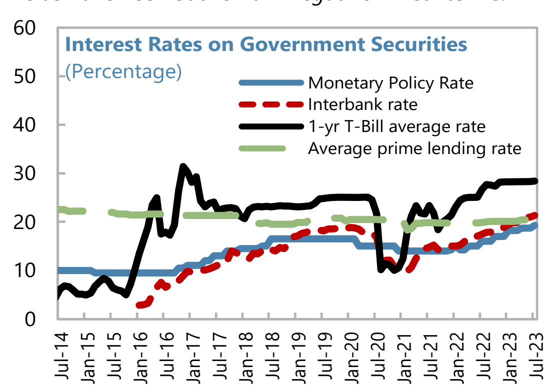
NPL ratios have remained broadly unchanged in recent years.



Banks are holding large volumes of excess reserves.



Yields have risen but remain negative in real terms.



Sources: Sierra Leonean authorities; and IMF staff estimates.

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

	2021	2022	2023		2024		2025	2026	2027	2028
	Act.	Prel.	6th/7th Rev 1/	Proj. 2/	6th/7th Rev 1/	Proj. 2/	Proj. 2/			
	(Annual Percent Change, unless otherwise indicated)									
National account and prices										
Growth										
GDP at constant prices	4.1	3.5	2.7	2.7	4.7	4.7	5.2	4.5	4.5	4.6
GDP excluding Iron ore	3.6	2.7	2.6	2.6	4.6	4.6	5.0	4.5	4.5	4.6
GDP excluding mining	2.9	3.0	2.6	2.7	4.7	4.7	4.7	4.7	4.7	4.7
GDP deflator	6.7	25.3	34.7	37.1	24.2	21.7	14.7	10.9	8.7	7.9
Inflation										
Consumer prices (end-of-period)	17.9	37.1	36.4	44.3	21.7	22.9	17.4	12.9	9.8	8.0
Consumer prices (average)	11.9	27.2	41.9	45.6	29.1	33.6	20.2	15.2	11.4	8.9
External sector										
Terms of trade (deterioration -)	-16.0	-13.8	1.8	3.6	0.9	-6.1	-3.5	-2.6	-0.5	0.6
Exports of goods	72.0	14.5	-7.9	4.0	3.4	0.9	4.7	4.2	6.2	5.3
Imports of goods	33.5	7.1	-12.6	-7.4	0.0	-2.8	1.3	4.0	6.6	6.2
Gross international reserves (excl. swaps) (months of next year's imports)	5.5	3.8	3.4	3.4	3.2	3.2	3.0	3.0	3.1	3.2
Money, credit and reserves										
Domestic credit to the private sector	32.9	11.9	18.2	18.4	19.4	19.0	20.1	21.1	21.7	21.8
Domestic credit to the private sector (percent of non-iron GDP)	7.2	6.2	5.6	5.3	5.2	4.9	4.9	5.1	5.4	5.9
Base money	8.7	25.6	15.3	27.2	17.0	13.6	13.5	13.4	11.0	8.9
M3	22.1	41.1	15.3	27.2	17.0	13.6	13.5	13.4	11.0	8.9
Gross international reserves (excl. swaps) (US$ millions)	932	610	521	535	490	498	498	525	570	628
Net international reserves (excl. swaps) (US$ millions)	355	82	-4	1	25	25	92	189	300	424
	(In percent of non-iro ore GDP, unless otherwise indicated)									
National accounts										
Gross capital formation	10.8	11.8	11.1	11.2	11.6	11.5	12.9	14.1	14.4	14.6
Government	4.3	4.8	3.6	3.7	3.6	3.5	3.4	3.1	3.4	3.6
Private	6.5	7.0	7.5	7.5	8.0	8.0	9.5	11.0	11.0	11.0
National savings	2.1	2.8	3.9	5.1	5.8	7.3	10.1	11.3	11.3	9.5
Financing and debt										
Public debt	79.8	94.6	92.2	90.5	84.3	83.7	79.8	74.0	68.8	68.0
Domestic	28.7	29.9	25.2	24.5	24.0	23.6	23.4	22.8	21.6	21.1
External public debt (including IMF)	51.1	64.8	67.0	66.0	60.3	60.1	56.4	51.2	47.2	46.9
External sector										
Current account balance										
(including official grants)	-8.7	-9.0	-7.3	-6.1	-5.8	-4.2	-2.9	-2.8	-3.1	-5.0
(excluding official grants)	-11.6	-12.7	-10.5	-9.1	-9.0	-7.4	-6.0	-5.8	-5.8	-6.2
Central government budget										
Domestic primary balance 3/	-5.0	-9.0	-2.5	-2.4	-0.1	-0.2	1.0	1.8	1.8	2.1
Overall balance	-7.4	-10.5	-5.6	-5.8	-2.8	-2.8	-2.4	-2.4	-2.1	-4.3
Overall balance (excluding grants)	-12.0	-16.7	-11.0	-10.5	-8.7	-8.7	-7.3	-6.4	-5.8	-5.0
Revenue (excluding grants) 4/	15.7	12.4	14.1	13.1	15.9	14.8	15.8	16.0	16.4	17.0
Grants	4.6	6.2	5.4	4.7	5.8	5.8	4.9	4.0	3.8	0.7
Total expenditure and net lending	28.4	29.5	25.2	23.6	24.5	23.5	23.1	22.4	22.2	22.0
Memorandum item:										
GDP at market prices (Leone billions)	44,360	57,519	77,139	80,993	100,323	103,198	124,453	144,330	163,965	185,098
Excluding iron ore (Leone billions)	44,069	56,677	74,733	78,693	96,856	101,019	122,272	142,402	162,248	183,271
Excluding iron ore (US$ millions)	4,121	4,035	3,394	3,575	3,483	3,490	3,598	3,803	4,155	4,494
Per capita GDP (US)	509	493	413	434	417	412	415	428	456	483
National currency per US dollar (average) (Leone)	10,695	14,047	..	..	..	..	..	..	..	..
National currency per US dollar (EOP) (Leone)	11,256	18,839	..	..	..	..	..	..	..	..

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

1/ See Sierra Leone: 6th and 7th Review Under the Extended Credit Facility (CR23/214), July 2023.

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
		6th/7th		6th/7th					
	Prel.	Rev 1/	Proj. 2/	Rev 1/	Proj. 2/	Proj. 2/			
Total revenue and grants	**10792**	**14594**	**14004**	**21036**	**20870**	**25276**	**28509**	**32700**	**32,396**
Revenue	7046	10562	10277	15371	14972	19306	22744	26593	31,094
Tax revenue	5921	8952	8726	13344	12945	16854	19891	23345	27,428
Personal Income Tax	1763	2484	2481	3316	3345	4171	4914	5536	6,328
Corporate Income Tax	1114	1611	1469	2185	1985	2557	3120	3636	4,199
Goods and Services Tax	1308	2153	2142	3550	3451	4947	6188	7375	8,331
Excises	373	651	651	1040	1330	1608	1680	1753	1,830
Import duties	850	1176	1176	2110	1819	2341	2581	3505	5,028
Mining royalties and licenses	415	699	699	882	857	1059	1197	1290	1,419
Other taxes	98	179	107	261	158	173	211	250	293
Non-tax	1125	1609	1551	2028	2028	2452	2853	3248	3,667
Other, Capital Transfers from BSL (CCRT Debt Relief)	218	0	0	0	0	0	0	0	0
Grants	3528	4033	3727	5665	5898	5970	5765	6107	1,301
Expenditures and net lending	**16722**	**18811**	**18559**	**23772**	**23729**	**28225**	**31912**	**36058**	**40,329**
Current expenditures	11064	13504	12903	17174	16472	20174	23379	25520	27,930
Wages and salaries 3/	4346	5261	5261	7009	6509	8553	10046	11509	12,945
Goods and services	2446	2239	2089	3022	3072	3780	4391	5040	5,669
Subsidies and transfers	2442	2876	2376	3146	2771	3165	3705	4264	4,824
o/w elections	358	395	345	0	159	0	0	0	0
o/w Transfers to energy IPPs	746	1112	712	1345	895	928	1025	1153	1295
Interest	1830	3128	3177	3997	4120	4676	5236	4708	4,493
Domestic	1632	2877	2926	3595	3800	4107	4571	3999	3,688
Foreign	199	250	250	402	320	569	666	709	806
Capital Expenditure	5062	5052	5402	6428	7052	7791	8274	10288	12,149
Foreign financed	2180	2986	2986	4165	4289	5258	6179	7459	8,323
Domestic financed	2883	2066	2416	2263	2763	2533	2095	2829	3,827
o/w school feeding program	129	289	289	484	505	672	926	1217	1375
Net lending	0	0	0	0	0	0	0	0	0
Contingent expenditure	46	68	68	0	35	0	0	0	0
Arrears Paydown (cash)	549	186	186	170	170	260	259	250	250
Domestic primary balance 4/	-5116	-1904	-1888	-69	-178	1275	2506	2952	3,831
Overall balance including grants	-5930	-4217	-4555	-2736	-2859	-2948	-3404	-3358	-7,934
Financing	**5930**	**4217**	**4555**	**2736**	**2859**	**2948**	**3404**	**3358**	**7,934**
External financing (net)	-232	-589	-588	-826	-906	-137	1174	2447	5,641
Borrowing	701	1016	1016	1117	1117	2434	3932	5077	8,323
Amortization	-933	-1605	-1605	-1943	-2023	-2570	-2758	-2630	-2,682
Domestic financing (net)	6161	4805	5144	3562	3765	3085	2229	910	2,293
Total Banking Sector (net)	4267	2520	2708	3274	3488	2909	1971	758	1793
Banks, net of Budget Support	4100	2272	2451	4475	4739	4482	4072	2990	4037
IMF Budget Support 5/	167	248	257	-1201	-1252	-1573	-2101	-2232	-2244
Non-Bank Sector	204	569	569	288	278	176	258	152	500
o/w Post-Arrears Strategy	18	-49	-49	-49	-49	-49	0	0	0
Other 6/	458	-150	0	0	0	0	0	0	0
Other, Use of SDR allocations	1233	1866	1866	0	0	0	0	0	0
Financing Gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

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

1/ See Sierra Leone: 6th and 7th Review Under the Extended Credit Facility (CR23/214), July 2023

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/ Starting in 2019, 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, and arrears paydown.

5/ IMF Budget Support is the amount for budget support based on the IMF ECF 8th Review disbursements

6/ 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.	6th/7th Rev 1/	Proj. 2/	6th/7th Rev 1/	Proj. 2/	Proj. 2/			
Total revenue and grants	**19.0**	**19.5**	**17.8**	**21.7**	**20.7**	**20.7**	**20.0**	**20.2**	**17.7**
Revenue	12.4	14.1	13.1	15.9	14.8	15.8	16.0	16.4	17.0
Tax revenue	10.4	12.0	11.1	13.8	12.8	13.8	14.0	14.4	15.0
Personal Income Tax	3.1	3.3	3.2	3.4	3.3	3.4	3.5	3.4	3.5
Corporate Income Tax	2.0	2.2	1.9	2.3	2.0	2.1	2.2	2.2	2.3
Goods and Services Tax	2.3	2.9	2.7	3.7	3.4	4.0	4.3	4.5	4.5
Excises	0.7	0.9	0.8	1.1	1.3	1.3	1.2	1.1	1.0
Import duties	1.5	1.6	1.5	2.2	1.8	1.9	1.8	2.2	2.7
Mining royalties and licenses	0.7	0.9	0.9	0.9	0.8	0.9	0.8	0.8	0.8
Other taxes	0.2	0.2	0.1	0.3	0.2	0.1	0.1	0.2	0.2
Non-tax	2.0	2.2	2.0	2.1	2.0	2.0	2.0	2.0	2.0
Other, Capital Transfers from BSL (CCRT Debt Relief)	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	6.2	5.4	4.7	5.8	5.8	4.9	4.0	3.8	0.7
Expenditures and net lending	**29.5**	**25.2**	**23.6**	**24.5**	**23.5**	**23.1**	**22.4**	**22.2**	**22.0**
Current expenditures	19.5	18.1	16.4	17.7	16.3	16.5	16.4	15.7	15.2
Wages and salaries 3/	7.7	7.0	6.7	7.2	6.4	7.0	7.1	7.1	7.1
Goods and services	4.3	3.0	2.7	3.1	3.0	3.1	3.1	3.1	3.1
Subsidies and transfers	4.3	3.8	3.0	3.2	2.7	2.6	2.6	2.6	2.6
o/w elections	0.6	0.5	0.4	0.0	0.2	0.0	0.0	0.0	0.0
o/w Transfers to energy IPPs	1.3	1.5	0.9	1.4	0.9	0.8	0.7	0.7	0.7
Interest	3.2	4.2	4.0	4.1	4.1	3.8	3.7	2.9	2.5
Domestic	2.9	3.9	3.7	3.7	3.8	3.4	3.2	2.5	2.0
Foreign	0.4	0.3	0.3	0.4	0.3	0.5	0.5	0.4	0.4
Capital Expenditure	8.9	6.8	6.9	6.6	7.0	6.4	5.8	6.3	6.6
Foreign financed	3.8	4.0	3.8	4.3	4.2	4.3	4.3	4.6	4.5
Domestic financed	5.1	2.8	3.1	2.3	2.7	2.1	1.5	1.7	2.1
o/w School feeding program	0.2	0.4	0.4	0.5	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	0.0
Contingent expenditure	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Arrears Paydown (cash)	1.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Domestic primary balance 4/	-9.0	-2.5	-2.4	-0.1	-0.2	1.0	1.8	1.8	2.1
Overall balance including grants	**-10.5**	**-5.6**	**-5.8**	**-2.8**	**-2.8**	**-2.4**	**-2.4**	**-2.1**	**-4.3**
Financing	**10.5**	**5.6**	**5.8**	**2.8**	**2.8**	**2.4**	**2.4**	**2.1**	**4.3**
External financing (net)	-0.4	-0.8	-0.7	-0.9	-0.9	-0.1	0.8	1.5	3.1
Borrowing	1.2	1.4	1.3	1.2	1.1	2.0	2.8	3.1	4.5
Projects	1.2	1.4	1.3	1.1	1.1	2.0	2.8	3.1	3.1
Budget	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4
Amortization	-1.6	-2.1	-2.0	-2.0	-2.0	-2.1	-1.9	-1.6	-1.5
Domestic financing (net)	10.9	6.4	6.5	3.7	3.7	2.5	1.6	0.6	1.3
Total Banking Sector (net)	7.5	3.4	3.4	3.4	3.5	2.4	1.4	0.5	1.0
Banks, net of Budget Support	7.2	3.0	3.1	4.6	4.7	3.7	2.9	1.8	2.2
IMF Budget Support 5/	0.3	0.3	0.3	-1.2	-1.2	-1.3	-1.5	-1.4	-1.2
Non-Bank Sector	0.4	0.8	0.7	0.3	0.3	0.1	0.2	0.1	0.3
Other 6/	0.8	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other, Use of 2021 SDR allocations	2.2	2.5	2.4	0.0	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**	**0.0**
Memorandum item:									
Non-iron ore GDP (Leone billions)	56,677	74,733	78,693	96,856	101,019	122,272	142,402	162,248	183,271

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

1/ See Sierra Leone: 6th and 7th Review Under the Extended Credit Facility (CR23/214), July 2023

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/ Starting in 2019, 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, and arrears paydown.

5/ IMF Budget Support is the amount for budget support based on the IMF ECF 8th Review disbursements

6/ 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	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4	annual
	Est.	Est.	Est.	Proj.		Proj	Proj.	Proj.	Proj.	
Revenue	**2277**	**2359**	**2419**	**3221**	**10277**	**3586**	**3809**	**3585**	**3993**	**14972**
Personal Income Tax	595	594	591	701	2481	967	835	873	669	3345
Corporate Income Tax	280	337	346	506	1469	437	560	414	574	1985
Goods and Services Tax	430	427	568	718	2142	715	851	864	1021	3451
Excises	71	108	96	377	651	332	391	338	268	1330
Import Duties	233	283	336	324	1176	418	524	440	436	1819
Other	669	611	481	596	2357	716	647	655	1025	3043
Grants	**654**	**438**	**533**	**2102**	**3727**	**793**	**793**	**2701**	**1611**	**5898**
Expenditure	**4540**	**5168**	**5041**	**3811**	**18559**	**5905**	**6165**	**5711**	**5949**	**23729**
Wages 1/	1325	1369	979	1588	5261	1646	1627	1608	1628	6509
Goods and Services	400	562	853	274	2089	768	768	768	768	3072
Subsidies and Transfers	687	756	636	297	2376	693	693	693	693	2771
Other	44	0	24	0	68	9	9	9	9	35
o/w Elections, foreign-financed	0	0	0	45	45	0	0	0	0	0
Interest	718	626	758	1075	3177	1030	1030	1030	1030	4120
Foreign	54	28	80	88	250	80	80	80	80	320
Domestic	664	598	678	987	2926	950	950	950	950	3800
Capital Expenditure	1365	1854	1792	391	5402	1717	1995	1561	1779	7052
Foreign	724	1168	791	303	2986	1001	1222	1091	975	4289
Domestic	641	686	1000	88	2416	716	774	470	803	2763
Arrears Paydown (cash)	0	0	0	186	186	43	43	43	43	170
Domestic primary balance 2/	**-821**	**-1014**	**-1073**	**1020**	**-1888**	**-246**	**-62**	**38**	**93**	**-178**
Overall Balance incl. grants	-1609	-2371	-2089	1513	-4555	-1527	-1563	575	-345	-2859
Financing	**1609**	**2371**	**2089**	**-1513**	**4555**	**1527**	**1563**	**-575**	**345**	**2859**
Foreign	-462	489	-114	-501	-588	-298	-77	-207	-323	-906
Disbursement (Projects)	70	730	270	-54	1016	208	429	298	182	1117
Disbursement (Budget)	0	0	0	0	0	0	0	0	0	0
Amortization	-532	-241	-384	-448	-1605	-506	-506	-506	-506	-2023
Domestic	2070	1881	2204	-1012	5144	1825	1640	-367	668	3765
Total Banking Sector, Net	1163	1599	1904	-1958	2708	1755	1571	-437	599	3488
o/w Banks, net of Budget Support	1316	1318	2058	-2241	2451	1945	2006	-247	1035	4739
o/w IMF Budget support, Net 3/	-153	282	-154	283	257	-190	-436	-190	-436	-1252
Non-Bank	15	-172	-167	894	569	69	69	69	69	278
Government Securities, General	15	-167	-168	989	670	150	150	150	150	600
Government Securities, Arrears-Related	0	-5	0	-95	-101	-81	-81	-81	-81	-322
o/w Pre-Arrears Strategy	0	-5	-6	-40	-52	-68	-68	-68	-68	-274
o/w Post-Arrears Strategy	0	0	6	-55	-49	-12	-12	-12	-12	-49
Other 4/	27	-13	0	-14	0	0	0	0	0	0
Change in Unpaid Checks(+=accumul.)	-32	-11	0	44	0	0	0	0	0	0
Change in Arrears (Timing Discrepancy)	0	0	0	0	0	0	0	0	0	0
Statistical Discrepancy (- = overfinanced)	59	-1	0	-58	0	0	0	0	0	0
Use of SDR allocations	866	467	467	66	1866	0	0	0	0	0
Financing Gap	**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/ IMF Budget Support is the amount for budget support based on the IMF ECF 8th Review 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, 2022-28[1]

(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**	**10074**	**7410**	**7204**	**10013**	**12158**	**15867**	**21495**	**27664**	**34973**
Net domestic assets	**10200**	**11899**	**15125**	**18064**	**15803**	**17163**	**17413**	**16245**	**14229**	**10649**
Net domestic credit	**19710**	**21219**	**22891**	**25001**	**23068**	**27350**	**31258**	**34490**	**36818**	**40537**
Claims on central government (net) 2/	16385	17548	19147	21051	19094	22581	25490	27461	28220	30013
Claims on private sector	3539	3901	3891	4097	4189	4983	5983	7244	8813	10739
Claims on others 3/	-215	-230	-147	-147	-215	-215	-215	-215	-215	-215
Other items (net)	-9509	-9321	-7766	-6937	-7265	-10187	-13846	-18245	-22589	-29887
Money and quasi-money (M3)	**20299**	**21973**	**22535**	**25268**	**25816**	**29321**	**33279**	**37740**	**41894**	**45622**
II. Bank of Sierra Leone										
Net foreign assets	**1859**	**843**	**-86**	**-662**	**293**	**1119**	**3338**	**7286**	**11892**	**17797**
Net domestic assets	**3919**	**5181**	**7149**	**7854**	**7055**	**7227**	**6135**	**3456**	**33**	**-4811**
Net domestic credit	**8411**	**8360**	**9808**	**10514**	**10360**	**10591**	**9669**	**7185**	**3966**	**-164**
Claims on other depository corporations	733	464	799	2093	2119	3272	3528	2764	1598	-461
Claims on central government	7677	7887	8951	8363	8239	7317	6140	4420	2367	296
Claims on other sectors	1	1	58	58	1	1	1	1	1	1
Other items (net) 4/	-4492	-3178	-2660	-2660	-3305	-3364	-3534	-3729	-3933	-4647
Reserve money	**5778**	**6024**	**7062**	**7193**	**7348**	**8346**	**9473**	**10743**	**11925**	**12986**
Memorandum items:										
(Annual percent change unless otherwise indicated)										
Base money	25.6	33.8	57.3	52.6	27.2	13.6	13.5	13.4	11.0	8.9
M3	41.1	44.9	47.4	48.3	27.2	13.6	13.5	13.4	11.0	8.9
Credit to the private sector (growth)	11.9	21.4	14.8	13.4	18.4	19.0	20.1	21.1	21.7	21.8
BSL Holdings of marketable government securities (Leones)	3594	3713	4282	4075	3891	4093	4292	4492	4531	4545
Velocity 5/	3.3	..	..	..	3.4	3.7	3.9	4.0	4.1	4.2
Money multiplier (M3/base money)	3.5	3.6	3.2	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)	6.2	..	..	..	5.3	4.9	4.9	5.1	5.4	5.9
Nominal exchange rate, average (Leones/US$)	17,759	19,839	21,811	21,295	..	..	..	..	..	..
Nominal exchange rate, end of period (Leones/US$)	18,835	21,219	18,923	22,538	..	..	..	..	..	..

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

5/ 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
	Act.	Est.	6th/7th Rev 1/	Proj. 2/	6th/7th Rev 1/	Proj. 2/	Proj. 2/			
Current account	**-360.6**	**-363.7**	**-246.9**	**-216.9**	**-201.8**	**-146.8**	**-102.8**	**-106.1**	**-128.0**	**-226.1**
Trade balance	-584.7	-549.5	-408.9	-373.3	-369.9	-315.9	-277.7	-286.6	-311.2	-344.4
Exports, f.o.b.	1,046.6	1,198.2	1,119.3	1,245.7	1,157.7	1,257.2	1,315.9	1,370.8	1,455.4	1,532.3
of which: Diamonds	261.1	243.9	269.6	200.0	285.8	285.5	324.9	333.8	342.7	351.8
Iron ore	144.8	452.4	390.2	548.8	452.0	545.0	557.1	542.1	528.1	566.7
Rutile and ilmenite	168.1	217.7	181.1	181.1	111.8	111.8	116.1	120.8	125.7	130.7
Imports, f.o.b	-1,631.3	-1,747.7	-1,528.2	-1,619.0	-1,527.6	-1,573.0	-1,593.5	-1,657.4	-1,766.7	-1,876.7
of which: Oil	-269.3	-414.5	-361.8	-344.5	-356.5	-349.7	-352.2	-355.0	-359.2	-365.0
Services (net)	-170.0	-255.1	-234.4	-250.2	-235.3	-243.8	-248.9	-257.6	-272.6	-289.7
Income (net)	-72.3	-64.6	-53.7	-55.8	-58.2	-57.6	-61.1	-64.5	-69.0	-74.8
of which: Interest on public debt	-12.7	-15.0	-11.2	-11.2	-14.5	-14.4	-16.7	-17.8	-18.1	-19.8
Transfers	466.5	505.5	450.1	462.5	461.5	470.5	484.9	502.5	524.9	482.7
Official transfers (net)	119.4	149.8	108.6	108.9	109.9	110.1	111.4	112.8	114.3	50.8
Other transfers (net)	347.1	355.7	341.5	353.6	351.7	360.3	373.4	389.7	410.6	431.9
Capital and financial account	**589.0**	**65.1**	**181.0**	**164.6**	**196.1**	**135.8**	**131.3**	**165.8**	**200.9**	**309.8**
Capital account	105.7	107.2	91.1	91.2	111.3	111.3	84.8	61.8	63.0	2.1
of which: Project support grants	89.8	105.3	89.5	89.5	109.6	109.6	83.1	60.0	61.0	0.0
Financial account	483.3	-42.1	89.9	73.3	84.8	24.5	46.4	104.0	137.9	307.7
Foreign direct and portfolio investment	212.3	62.6	4.9	29.9	84.4	23.6	33.1	84.9	92.5	168.0
Other investment	271.0	-104.7	85.0	43.4	0.4	1.0	13.3	19.0	45.4	139.7
of which: Public sector (net)	80.1	-14.0	-26.7	-26.7	-29.7	-31.3	-4.0	31.4	62.7	138.3
Disbursements	81.9	49.9	46.2	46.2	40.2	38.6	71.6	105.0	130.0	204.1
Amortization	-49.2	-63.9	-72.9	-72.9	-69.9	-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**	**-298.6**	**-65.9**	**-52.4**	**-5.7**	**-11.0**	**28.5**	**59.7**	**72.9**	**83.7**
Financing	**-149.0**	**298.6**	**65.9**	**52.4**	**-34.3**	**-29.0**	**-68.5**	**-99.7**	**-112.9**	**-123.7**
Change in net central bank reserves (- increase)	-206.5	301.3	70.3	56.8	-29.9	-24.6	-66.3	-97.5	-111.2	-123.7
of which: Change in gross central bank reserves (- increase)	-254.6	321.3	89.2	75.6	31.7	36.9	-0.6	-26.4	-44.7	-58.1
of which: Net use of Fund credit	48.0	-20.1	-18.9	-18.9	-61.5	-61.5	-65.7	-71.0	-66.5	-65.6
Disbursements	94.5	20.8	41.9	41.8	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-46.5	-40.9	-60.8	-60.7	-61.5	-61.5	-65.7	-71.0	-66.5	-65.6
Exceptional financing	57.5	-2.7	-4.4	-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	-2.7	-4.4	-4.4	-4.4	-4.4	-2.2	-2.2	-1.7	-1.7
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**40.0**	**40.0**	**40.0**	**40.0**	**40.0**	**40.0**
Unidentified financing	0.0	0.0	0.0	0.0	40.0	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	-9.0	-7.3	-6.1	-5.8	-4.2	-2.9	-2.8	-3.1	-5.0
Trade balance	-14.2	-13.6	-12.0	-10.4	-10.6	-9.1	-7.7	-7.5	-7.5	-7.7
Capital and financial account	14.3	1.6	5.3	4.6	5.6	3.9	3.6	4.4	4.8	6.9
Overall balance	3.6	-7.4	-1.9	-1.5	-0.2	-0.3	0.8	1.6	1.8	1.9
Budget support (grants and loans)	2.4	3.2	2.7	2.5	2.6	2.6	2.6	2.5	2.3	2.2
Budget support (grants and loans,)	100.7	130.9	90.0	90.0	91.3	91.3	92.6	93.9	95.4	96.9
Gross international reserves (including swaps)	948	627	531	545	500	508	498	525	570	628
Gross international reserves (excluding swaps,)	932	610	521	535	490	498	498	525	570	628
Gross international reserves (excluding swaps) (months of next year's i	5.5	3.8	3.4	3.4	3.2	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: 6th and 7th Review Under the Extended Credit Facility (CR23/214), July 2023

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.

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

	2021	2022	2023		2024		2025	2026	2027	2028
			6th/7th		6th/7th					
	Act.	Prel.	Rev 1/	Proj. 2/	Rev 1/	Proj.2/		Proj. 2/		
Financing needs	**-830**	**-297**	**-400**	**-384**	**-333**	**-365**	**-356**	**-390**	**-421**	**-466**
Current account balance (excluding net official current transfers)	-480	-514	-356	-326	-312	-257	-214	-219	-242	-277
Debt amortization (excluding IMF)	-49	-64	-73	-73	-70	-70	-76	-74	-67	-66
Gross international reserves accumulation (- increase)	-255	321	89	76	110	23	-1	-26	-45	-58
Repayments to IMF	-47	-41	-61	-61	-62	-61	-66	-71	-67	-66
Financing sources	**758**	**279**	**363**	**346**	**297**	**329**	**318**	**352**	**382**	**426**
Capital account	106	107	91	91	111	111	85	62	63	2
Disbursements from official creditors (excluding IMF)	82	50	46	46	40	39	72	105	130	204
Net official current transfers	119	150	109	109	110	110	111	113	114	51
Foreign direct and portfolio investment	212	63	5	30	84	24	33	85	92	168
Net acquisition of financial assets of commercial banks (- increase)	-114	-113	90	68	8	20	5	-25	-29	-11
Other	352	22	22	2	-56	26	12	12	12	12
Errors and omissions	**-79**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other financing sources	**152**	**18**	**37**	**37**	**-4**	**-4**	**-2**	**-2**	**-2**	**0**
Disbursements from IMF	95	21	42	42	0	0	0	0	0	0
Exceptional financing	58	-3	-4	-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	-3	-4	-4	-4	-4	-2	-2	-2	-2
Financing gap	**0**	**0**	**0**	**0**	**40**	**40**	**40**	**40**	**40**	**40**
Unidentified financing	0	0	0	0	40	40	40	40	40	40
Memorandum items										
Gross international reserves (excluding swaps)	932	610	521	535	490	498	498	525	570	628
Gross international reserves (excluding swaps) (months of next year's imports)	5.5	3.8	3.4	3.4	3.2	3.2	3.0	3.0	3.1	3.2

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

1/ See Sierra Leone: 6th and 7th Review Under the Extended Credit Facility (CR23/214), July 2023

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.

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

		Projection										
	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	48.0	46.5	31.4	16.0	4.7	1.6	0.0
Charges and interest	0.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Fund obligations based on existing and prospective credit (millions of SDRs)												
Principal	36.7	45.6	48.5	51.2	48.8	48.0	49.6	34.5	19.1	7.8	4.7	0.0
Charges and interest	0.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Fund obligations based on existing and prospective credit												
In millions of SDRs	36.9	46.8	49.7	52.4	50.0	49.2	50.7	35.7	20.2	8.9	5.8	1.2
In millions of US$	49.6	63.0	67.3	71.2	68.1	67.2	68.0	46.9	26.1	11.3	7.2	1.4
In percent of exports of goods and services	3.8	4.8	4.9	5.0	4.5	4.2	3.9	2.6	1.4	0.6	0.3	0.1
In percent of total debt service 1/	34.3	43.2	42.6	43.9	44.8	44.5	43.7	33.3	19.9	8.9	5.4	1.0
In percent of GDP	1.3	1.8	1.8	1.8	1.6	1.5	1.4	0.9	0.5	0.2	0.1	0.0
In percent of gross international reserves	9.1	12.4	13.5	13.6	12.0	10.7	10.9	7.1	3.7	1.5	0.9	0.2
In percent of quota	17.8	22.5	23.9	25.2	24.1	23.7	24.5	17.2	9.8	4.3	2.8	0.6
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$	480.6	420.7	357.3	289.0	222.9	158.0	88.5	41.4	16.0	5.9	0.0	0.0
In percent of exports of goods and services	37.0	32.2	26.1	20.3	14.7	9.9	5.1	2.3	0.8	0.3	0.0	0.0
In percent of total debt service 1/	331.8	288.7	226.0	177.9	146.7	104.6	56.9	29.4	12.2	4.6	0.0	0.0
In percent of GDP	13.1	11.8	9.8	7.5	5.3	3.5	1.8	0.8	0.3	0.1	0.0	0.0
In percent of gross international reserves	88.2	82.8	71.7	55.1	39.1	25.2	14.2	6.3	2.3	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)	-5.5	-45.6	-48.5	-51.2	-48.8	-48.0	-49.6	-34.5	-19.1	-7.8	-4.7	0.0
Disbursements	31.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	36.7	45.6	48.5	51.2	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$)	1,298	1,308	1,368	1,426	1,515	1,597	1,737	1,814	1,909	2,024	2,140	2,254
Total debt service (millions of US$) 1/	145	146	158	162	152	151	155	141	131	127	134	138
Nominal GDP (millions of US$)	3,680	3,565	3,662	3,854	4,199	4,539	4,807	5,097	5,401	5,724	6,065	6,427
Gross international reserves (millions of US$)	545	508	498	525	570	628	625	661	700	741	784	830
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 7. Sierra Leone: 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	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 3rd and 4th reviews are combined.
3/ 6th and 7th reviews are combined.

Table 8. Sierra Leone: Financial Soundness Indicators, 2013-23

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 March	2023 June
	(Percent, end of period, unless otherwise indicated)											
Capital adequacy												
Regulatory capital ratio 1/	30.1	30.2	34.0	34.1	34.1	38.4	41.7	40.1	41.0	35.2	40.5	45.2
Regulatory tier 1 capital ratio 2/	26.3	25.9	29.0	27.2	27.2	29.6	33.9	33.2	34.3	27.8	37.0	39.3
Asset quality												
Nonperforming loans to total gross loans	23.7	35.3	33.2	15.5	15.0	13.0	16.8	12.7	15.2	12.1	13.1	12.1
Nonperforming loans (net of provisions) to regulatory capital	31.7	41.8	31.9	1.2	12.1	9.9	7.2	4.3	4.8	2.4	3.6	4.2
Earnings and profitability												
Return on assets	2.2	2.6	3.2	3.8	5.6	6.0	6.1	6.1	4.8	5.5	9.2	9.5
Return on equity	9.6	15.4	18.0	21.8	29.8	28.6	26.1	25.7	21.5	26.0	41.2	42.8
Interest margin to gross income	59.2	43.5	36.6	51.1	63.2	63.2	66.9	70.0	66.4	70.9	66.7	63.7
Liquidity												
Liquid assets to short-term liabilities	81.3	87.0	87.0	86.0	77.8	82.3	86.8	94.1	92.0	95.5	96.2	96.4
Liquid assets to total assets	72.5	78.9	83.3	85.5	70.9	69.2	68.4	73.4	73.7	78.3	76.9	76.7
Memorandum Item:												
Number of banks	13	13	13	13	14	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, 2022-24 1/

	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	93.3	727	610	497	18.5	20.0	16.1
External	1,948	68.4	63.8	138	144	142	3.5	4.7	4.6
Multilateral creditors[3]	1,548	54.3	50.7	108	111	117	2.7	3.6	3.8
IMF	491	17.2	16.1						
World Bank	464	16.3	15.2						
AfDB	157	5.5	5.1						
Other Multilaterals	436	15.3	14.3						
o/w: Islamic Development Bank	117	4.1	3.8						
EEC/EIB	65	2.3	2.1						
Bilateral Creditors	239	8.4	7.8	22	25	17	0.6	0.8	0.5
Paris Club	50	1.8	1.6	0	0	0	0.0	0.0	0.0
o/w: South Korea	50	1.8	1.6						
Non-Paris Club	189	6.6	6.2	22	25	17	0.6	0.8	0.5
o/w: Kuwait	59	2.1	1.9						
China	67	2.3	2.2						
Bonds	-	-	-	-	-	-	-	-	-
Commercial creditors	162	5.7	5.3	8	8	8	0.2	0.2	0.2
Other international creditors	-	-	-	-	-	-	-	-	-
Domestic[2]	899	31.6	29.5	589	466	355	14.9	15.3	11.5
Held by residents, total	899	31.6	29.5	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	-	-	-	-	-	-	-	-	-
T-Bills	630	22.1	20.6	n/a	n/a	n/a	n/a	n/a	n/a
Bonds	69	2.4	2.2	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	4,095								

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. Performance Under the 2018-23 ECF

The ECF arrangement made mixed progress in achieving its objectives. Prior to the pandemic, it was broadly on track. The scale of subsequent exogenous shocks and policy slippages caused macroeconomic performance to diverge substantially from projections made at the time of program approval. However, the authorities continued to make steady progress on structural reforms. Key highlights include reforms to strengthen tax policy and administration, public financial management, financial oversight, and monetary policy independence. Reforms to strengthen governance and bolster anti-corruption efforts made limited progress.

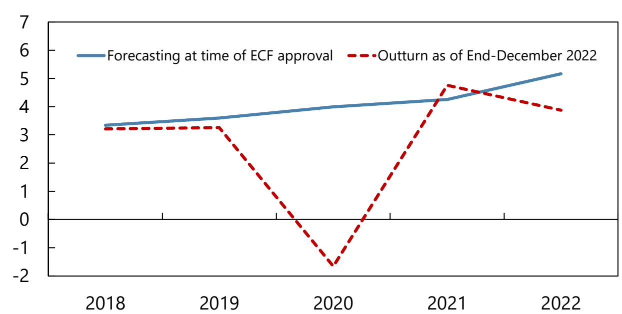
1. The ECF arrangement approved in November 2018 is coming to an end. The aims of the arrangement included reducing inflation and the deficit, consistent with debt sustainability and financial stability objectives. Fiscal adjustment was anchored on mobilizing revenue and curtailing spending while containing domestic bank financing. Structural reforms focused on strengthening governance, public financial management, and financial sector stability. This annex provides a high-level summary of the key achievements over the program horizon, and outlines priorities in the period ahead. A comprehensive post-program assessment will be conducted going forward.

Achievements of the Fund-Supported Program

2. The macroeconomic situation was extremely challenging over the program horizon (Text Figure 1). GDP growth was broadly on track with the program projection path on the back of strong mining and agriculture activities but was severely impacted by the COVID-19 related shutdown in 2020. It recovered to its pre-covid trend in 2021 before easing again in 2022, reflecting the terms of trade shock, weaker than expected mining output, and severe floods.

Text Figure 1. Sierra Leone: GDP Growth

(Percent)



Sources: Sierra Leonean Authorities and IMF staff calculations

3. Fiscal policy became more expansionary than expected amid external shocks and policy slippages, and despite supporting structural reforms.

- The expected fiscal consolidation did not materialize. A looser than warranted fiscal stance—with a budget primary deficit at, or more than 4 percent of GDP for three years in a row—combined with a depreciating nominal exchange rate increased public debt by around

26 percentage points to 94.6 percent of GDP at end-December 2022. The higher-than-expected real exchange rate depreciation was the largest contributor to the increase in the debt to GDP ratio, while the primary deficit was the second largest contributor.

- Overall external and public debt remain at a high risk of debt distress. While the external debt borrowing strategy was on track throughout the program, several additional external shocks and repeated fiscal slippages added more domestic debt than initially programed. In addition, higher inflation together with the persistent depreciation shifted up the debt to GDP ratio. On the liquidity front, while there were continuous efforts to lengthen the maturity of domestic debt, including as part of the new MTDS, large amounts of 364-day T-bills continue to put pressure on debt service and roll-over risk remains high.

- Wide-ranging reforms on revenue administration were undertaken, including its digitalization (ITAS, ECR, ASYCUDA World), and reinforcements of its monitoring, auditing, and risk management functions.

- The NRA Act was amended, facilitating audits for selected sectors (extractives, financial, and telecoms) and for large taxpayers, and implemented strategies to identify and tax High Net Worth Individuals (HNWI).

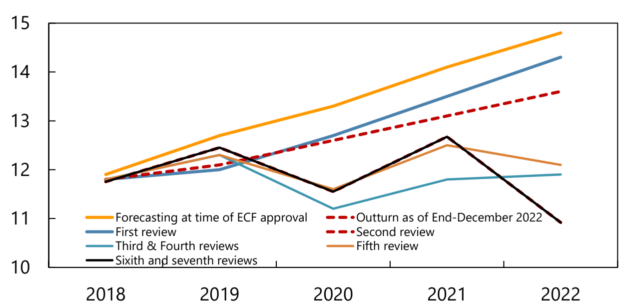
- The authorities developed and published a Medium-Term Revenue Strategy (MTRS). Implementation of the strategy is ongoing (see Box 1).

- Despite these reforms, domestic revenues underperformed, declining from 13.8 percent of GDP in 2018 to 12.4 percent in 2022, led by a 1 percent of GDP decline in tax revenues to GDP. The underperformance of tax revenues started in 2020 and never returned to the path projected at the time of program approval (Text Figure 2).

- Reforms were also implemented on the expenditure side, including public sector payroll verification; expanding coverage of the web-based Integrated Financial Management System (IFMIS); and reconciliation of interagency arrears. Authorities increased transparency by publishing annual reports on arrears, including information on crystallized cheques.

Text Figure 2. Sierra Leone: Total Tax Revenue

(Percent of non-iron ore GDP)

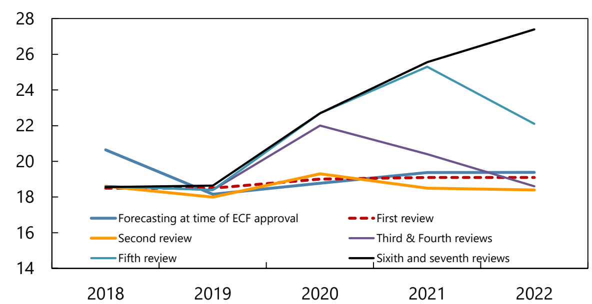


Sources: Sierra Leonean Authorities and IMF staff calculations.

- The authorities also conducted a Public Investment Management Assessment (PIMA), which has identified potential gains from better project appraisal and selection, and improved planning and execution. As a complement to it, they developed infrastructure project appraisal templates and guidelines, as recommended by the PIMA.

- Despite spending reforms, primary spending rose by about 8 ppts of GDP to 26.7 percent in 2022. Under the program, primary spending was projected to decline by 1.2 ppt of GDP by 2022. The key drivers of primary spending during the program period were domestic capital spending, subsidies and transfers and wages. Together these categories accounted for 86 percent of the increase in primary spending since 2018. The rapid increase in primary spending started in 2020, as shown by the lines in the text chart depicting the third and fourth, fifth and sixth and seventh reviews of the program (Text Figure 3).

Text Figure 3. Sierra Leone: Primary Spending to GDP
(Percent)



Sources: Sierra Leonean Authorities and IMF staff calculations.

- A fiscal risk monitoring framework was implemented. The authorities reviewed and streamlined the legal and institutional framework governing SOEs, and there is now regular reporting and analysis of SOE fiscal risks. A SOE Ownership Policy framework has been developed and adopted. This outlines the rationale and objective for state ownership, which would help guide further reforms of SOEs and the SOE framework.

- A domestic arrears clearance strategy was developed and implemented. The authorities made a concerted effort to recognize and clear domestic payment arrears. They published, in 2020, an arrears clearance strategy that included pre-2019 arrears verified by the Audit Service Sierra Leone (ASSL). The strategy was further updated recently to incorporate all pre-July 2023 outstanding arrears, including unpaid checks. Going forward, authorities committed to only clear for arrears that have been budgeted for.

- To avoid the buildup of new arrears, the authorities have taken action to improve cash flow forecasting and budget execution. They have received training from AFW2 on cash flow forecasting and cash planning and the Expanded Cash and Debt Management Committee (ECDMC) meets regularly to produce cash flow forecasts, which are then used to inform quarterly budget allocations. Cash management has been improved with the conclusion of Phase II of Treasury Single Account (TSA) expansion, having identified all Sub-vented Agencies

(SVAs) accounts in commercial banks and transferred their balances to disbursement accounts at the BSL. Further, they have made it mandatory for MDAs to process expenditure through web based IFMIS and implemented the EFT system.

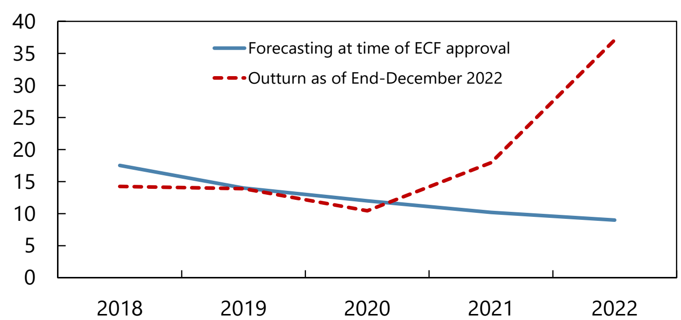
4. **The Bank of Sierra Leone (BSL) was given more operational policy independence, but monetary conditions became too expansionary**. In this regard:

- Parliament passed legislation to bolster the institution's independence and accountability.

- The BSL took steps to develop the interbank FX market, including publication of the FX rate daily and adopted prudential guidelines that cover net open positions.

- Inflation was broadly in line with projections through 2020 but has since risen sharply. The surge in inflation commenced in 2021, at the time of reopening after the COVID pandemic and continued during 2022, with the onset of Russia's war in Ukraine, combined with looser than warranted macro policies that magnified second round effects of higher international food and energy prices (Text Figure 4).

Text Figure 4. Sierra Leone: Year-on-Year Inflation.
(Percent)



Sources: Sierra Leonean Authorities and IMF staff calculations

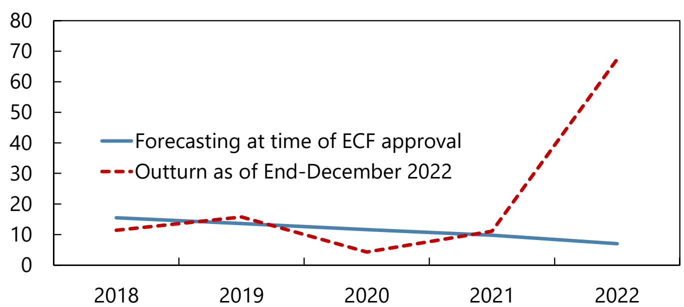
- Progress was made in strengthening financial sector governance and supervision. The authorities (i) updated and implemented the revised Prudential Guidelines for banks in line with the Banking Act 2019, to strengthen the regulatory framework for capital adequacy, loan classification and provisioning as well as for credit, market and operational risks; (ii) outlined a supervisory strategy to address high NPLs; (iii) completed a corporate governance action plan for SOBs;[1] and (iv) ran stress tests supported by the Fund's resident advisor that were published in the 2021 Financial Stability Report. They have also been progressing in further strengthening financial sector oversight and safety nets following the recommendations of the FSSR and FSAP reports. The new BSL also gave the BSL oversight of Islamic banking activities.

[1] The action plan focuses on (a) Board and Senior management oversight; (b) operational management; (c) risk management; (d) compliance with regulation; (e) internal audit; and (f) external audit.

5. Sierra Leone's external position remains moderately weaker than the level implied by fundamentals and desirable policies.

- The current account deficit in 2022 was smaller than that projected at the time of program approval despite the pandemic and terms of trade shocks.
- While the 2021 SDR allocation provided reserve buffers, interventions to avail essential imports (fuel and food) through the special facilities, to deal with the repeated external shocks weakened official reserve position.
- The nominal exchange rate broadly followed the projected program path through 2021. Since then, there was a sharp depreciation of the Leone of 67 percent in 2022 partly reflecting looser than warranted macro policies. As a result, the exchange rate has depreciated much more than originally envisaged at the time of program approval (Text Figure 5).

Text Figure 5. Sierra Leone: Nominal Exchange Rate
(Percent depreciation (+))



Sources: Sierra Leonean Authorities and IMF staff calculations.

6. Broader structural reforms to support long-term growth and inclusiveness have continued at pace.

- The Government initiated a range of policies to address deficiencies in human capital outcomes. These include the launch of the Free Quality Education (FQE) program, which is delivering free primary and secondary education by increasing access, quality and governance in the education sector.
- The authorities are working with the World Bank to improve EDSA's financial and operational performance, and through this reduce energy subsidies. 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).
- 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 are introducing GRB in five pilot ministries in which gender needs assessments are ongoing.

- GDP growth was broadly on track with the forecast at the time of the program approval (Figure 1) but was severely impacted by the COVID pandemic shut down in 2020. Post Covid, growth recovered sharply to its pre-Covid trend, but then fell slightly below it in 2022 reflecting the terms of trade shock on account of higher food and fuel prices occasioned by Russia's war in Ukraine. Policy uncertainties occasioned by an expansive fiscal policy stance in 2022 also contributed to slower growth.

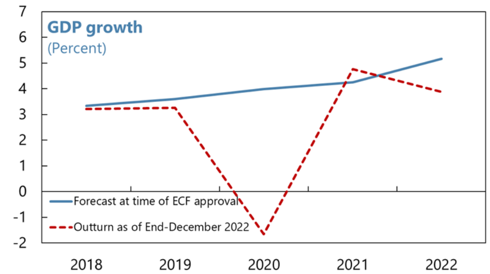
7. Reforms to strengthen governance and bolster anti-corruption efforts made limited progress.

- Following the dismissal of the auditor general and her deputy, progress in ensuring the operational and financial independence of the Audit Service Sierra Leone (ASSL) has been limited. The authorities amended the ASSL Act 2014 and published two roadmaps towards strengthening the ASSL's budgetary autonomy and its power to impose surcharges. The Judicial and Legal Service Commission also adopted new tribunal guidelines. However, the ongoing tribunal on the suspension of the Auditor General and her Deputy has made no tangible progress over a period of more than a year and a half with sessions repeatedly postponed. On salaries and allowances due to ASSL management, the authorities shared an attorney general's opinion suggesting that the deputy auditor general has been paid in accordance with the law.

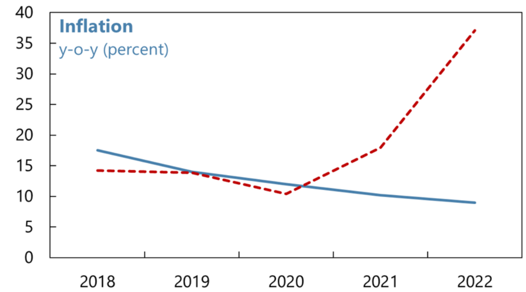
- Limited progress has been made in strengthening the national AML/CFT framework. Sierra Leone's 2020 evaluation of its AML/CFT framework identified significant weaknesses including in (i) making beneficial ownership of companies available by amending the 2009 Companies Act; (ii) enhancing AML/CFT risk-based supervision of NBFIs, particularly exchange houses exposed to FX market manipulation; (iii) monitoring of dealers of precious metals and stones (currently not regulated for AML/CFT purposes); and (iv) strengthening enforcement against money laundering and financial crimes.

Figure 1. Sierra Leone: ECF Approval vs Outturn: Real and External Sectors, 2018-22

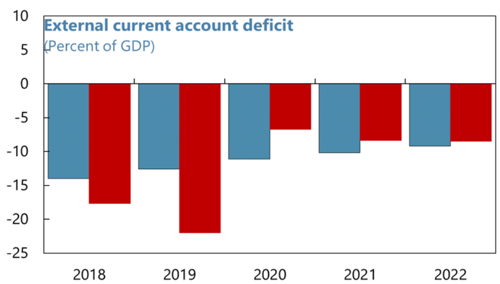
Growth was interrupted by the covid-pandemic in 2020…



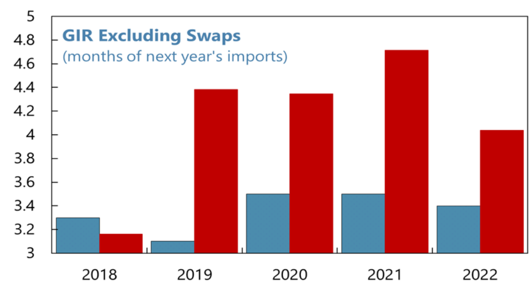
Headline inflation, surged in the post covid era.



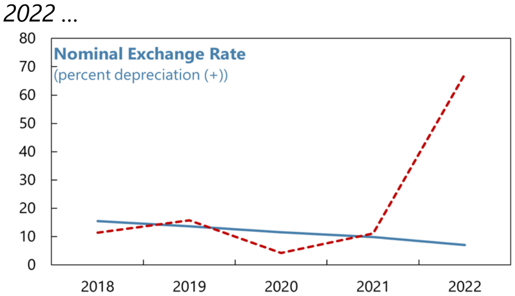
The current account deficit narrowed since the covid-pandemic, partly driven by strong exports.



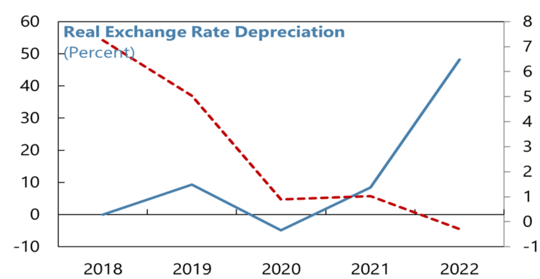
Official reserves were bolstered by the 2021 SDR allocation but dropped in 2022.



The nominal exchange rate depreciated strongly in 2022 …

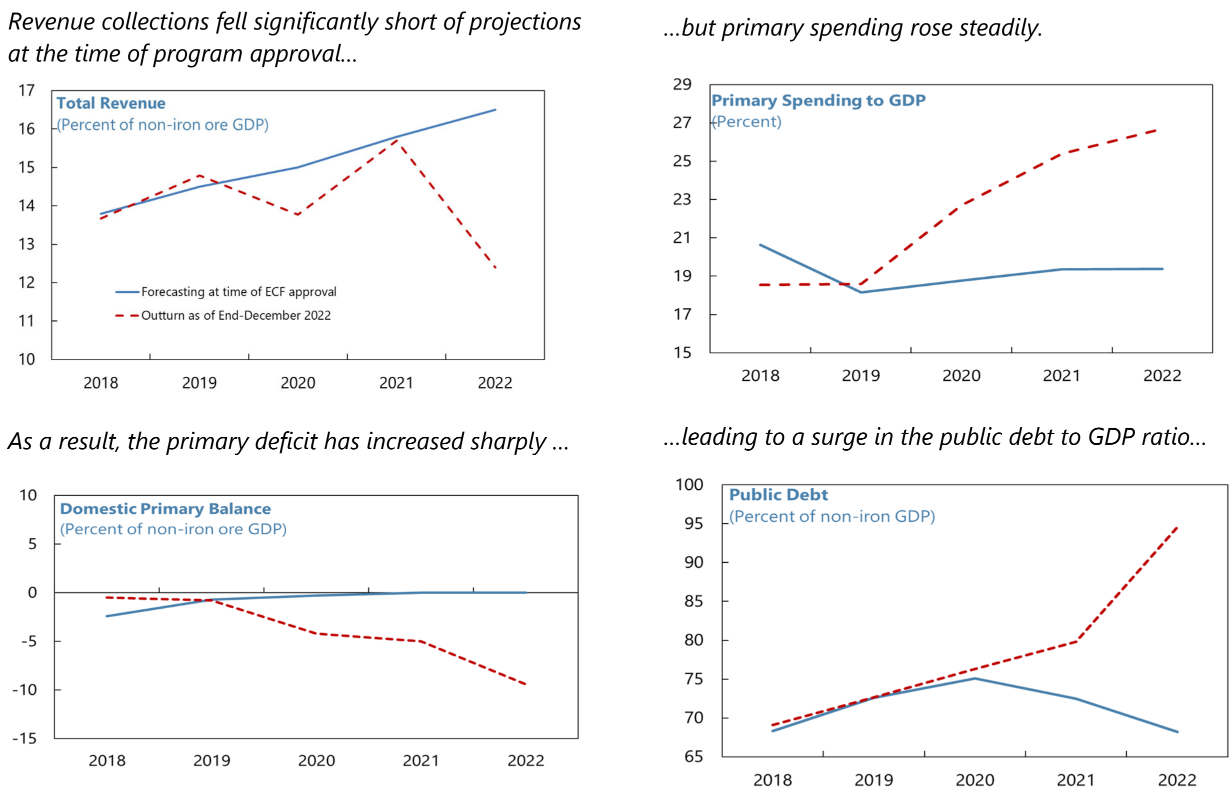


… contributing to a large REER depreciation relative to projections at the time of program approval.



Sources: Sierra Leonean authorities and IMF staff estimates.

Figure 2. Sierra Leone: ECF Approval vs Outturn: Fiscal Sector, 2018-22



Sources: Sierra Leonean authorities; and IMF staff estimates.

Annex II. External Sector Assessment

Overall Assessment: *Sierra Leone's external position in 2022 was moderately weaker than the level implied by fundamentals and desirable policies.[1] The assessment is subject to a wide margin of error, given the quality and availability of official data and the sensitivity of the model results to parameter choices. The current account deficit is projected to remain wide in 2023 but to shrink over the medium-term as the impact of heightened food and commodity prices subsides.*

Potential Policy Responses: *The country should: (i) rely on highly concessional financing, largely grants, to contain external liabilities, (ii) undertake reforms to facilitate FX market development, including allowing sufficient exchange rate flexibility while being mindful of the impact on inflation, and (iii) enhance productivity and improve competitiveness, keeping in mind that sustained external financial support and foreign direct investment (FDI) cannot necessarily be counted on indefinitely. These policies are also key to maintaining adequate reserves over the medium term.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) at end-2022 is estimated at around -72 percent of GDP, with gross foreign assets of around 36 percent of GDP and gross foreign liabilities of around 108 percent. The BSL's gross official reserves constitute more than half of foreign assets, with the remainder including foreign assets of deposit-taking corporations and other nonofficial sectors. About two-thirds of foreign liabilities are FDI liabilities and the rest are other investment liabilities (mainly public sector but also commercial banks and other sectors). The NIIP has worsened over the last five years and is projected to continue to do so slightly as current account deficits persist.

Assessment. While the level of the NIIP is relatively high, this does not jeopardize external stability given that a large part of foreign liabilities is FDI. The authorities should publish more recent official IIP data as the latest data point is from 2017.

2022 (percent GDP)	NIIP: -72	Gross Assets: 36	Gross Liabilities: 108

Current Account

Background. Preliminary data for 2022 show that the current account deficit remained at 8.8 percent of GDP despite the 67.3 percent y-o-y Leone depreciation as of end-2022. Fuel imports increased, while iron-ore mining activity improved, and the depreciation mitigated the impact of weaker terms of trade. The current account deficit has widened during the past 5 years due to heightened food and commodity prices and weaker mining prices stemming from the pandemic and Russia's war in Ukraine. While the 2023 current account is projected to remain wide, it will improve over the medium-term.

Assessment. The EBA-lite CA model, which compares the actual current account balance with the estimated current account norm and infers the real exchange rate adjustment necessary to bridge the gap, suggests that Sierra Leone's external position in 2022 was moderately weaker than the level implied by fundamentals and desirable policies. Using preliminary estimates for 2022, the CA model indicates an

[1] The external sector assessment is based on staff's estimates.

overvaluation of 3.5 percent, a CA gap of -1.9 of GDP and a cyclically adjusted CA balance of -9.2 percent of GDP against a norm of -7.3 percent of GDP (Text Table 1). A standard adjustor was added to the actual CA balance to account for the temporary impact of COVID-19 on tourism.

Sierra Leone: Model Estimates for 2022
(Percent of GDP)

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-8.8**	
Cyclical contributions (from model) (-)	0.3	
COVID-19 adjustors (-) 2/	0.1	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-9.2**	
CA Norm (from model) 3/	**-7.3**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-7.3**	
CA Gap	**-1.9**	**0.6**
o/w Relative policy gap	-2.3	
Elasticity	-0.2	
REER Gap (in percent)	**8.4**	**-2.6**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the tourism. 0.14 percent of the shock to tourism is assumed temporary.
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The nominal effective exchange rate (NEER) has been on a depreciating trend over a long period of time and the pace of depreciation has accelerated since 2022. The real effective exchange rate (REER) depreciated sharply in 2022.

Assessment. The EBA-lite REER model indicates an undervaluation of 2.6 percent, implying a CA gap of 0.6 percent of GDP. The results of the two models thus differ modestly. Staff relies on the CA model for the bottom-line external sector assessment, judging that the CA model offers stronger explanatory power for a country like Sierra Leone.

Capital and Financial Accounts: Flows and Policy Measures

Background. The 2022 capital account is estimated at 2.7 percent of GDP, having increased somewhat from 2021 due to an increase in project grants. FDI and other investments are the main drivers of the financial account. While the data is weak and the financial account suffers from large estimation errors, net inflows temporarily weakened in 2022 due to lower FDI and increased debt amortization. While the high level of debt amortization will continue for some time, the financial account is projected to recover as FDI inflows are expected to increase amid strong mining activity.

Assessment. It is important to limit debt creating flows by relying on grants and concessional loans in financing current account deficits. Enhancing productivity and improving competitiveness is also important, as external financial support and FDI cannot necessarily be counted on indefinitely.

FX Intervention and Reserves Level

Background. Gross international reserves dropped in 2022 (15.3 percent of GDP), having been boosted by the 2021 SDR allocation (22.5 percent of GDP, as of end-2021). A variety of factors contributed to this decrease: 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 to aid fuel imports. 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.

Assessment. The reserve coverage in 2022 reached 4.1 months of next year's imports but is projected to converge to 3 months of imports over the medium-term. Intervention should be strictly limited to addressing excess volatility in case of very large temporary shocks. To facilitate exchange rate flexibility, the authorities should undertake reforms to support FX market development. Paired with a tighter macroeconomic policy stance, this policy would aid in rebuilding reserve buffers.

Annex III. 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 prices 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 promote domestic rice/food 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 sharper than expected slowdown in the property sector disrupt	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
		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	• 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 and expansion 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 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).	Prudent monetary and fiscal policies will be important. The exchange rate should be allowed to adjust to reflect price differentials. Prioritize social spending to cushion the impact on the poor and vulnerable.

Nature/Sources of Risk	Relative Likelihood	Expected Impact if Realized	Policies to Mitigate Risks
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. The authorities should continue efforts to diversify the economy away from commodities.
Disorderly energy transition	Medium	***Medium.*** Disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	Remove all subsidies on fossil fuel energy sources. Open the energy market to increased private sector participation.
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.*** Continued political tensions over the credibility of the June 2023 elections could derail momentum for reforms. Delays in revenue and PFM reforms could set back fiscal adjustment, increase debt, dampen development partner confidence, and lower external financing/grants.	Improve dialogue among political parties. Accelerate structural reforms and continue to ensure prudent budgetary management. Put in place social programs to mitigate potential adverse impacts on the most vulnerable groups.
Worsening governance and resort to populist policies	Medium	***Medium/High.*** Indications of deteriorating governance and a lack of fiscal discipline could lead to an unsustainable debt burden and a reduction in development aid.	Strengthen governance and efforts to curb corruption. Continue strong engagement with the Fund and other multilateral and bilateral development partners.

Nature/Sources of Risk	Relative Likelihood	Expected Impact if Realized	Policies to Mitigate Risks
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, and 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 programs 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 2022, 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.*** Continuing 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, leading to increased pressure on the exchange rate and inflation.	Develop contingency measures to compensate for any revenue shortfalls. These measures should involve revenue and expenditure measures. The authorities should also seek additional budget support and further reprioritize spending.

Nature/Sources of Risk	Relative Likelihood	Expected Impact if Realized	Policies to Mitigate Risks
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; and (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, 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. Tighter fiscal policies imply a lower borrowing requirement, hence lower issuance of government securities going forward.

Annex IV. Capacity Development Summary

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 IV.1).

- *Sierra Leone's fiscal situation remains extremely tight, characterized by large development financing needs, 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 to implement the recently approved a 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 tax exemptions; and more effective debt management to address rising debt vulnerabilities.

- *Monetary policy transmission mechanism is weak 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. Improving the infrastructure and systems for foreign exchange operations to develop a well-functioning interbank FX market is a priority.

- *High non-performing loans and weaknesses in some banks require strengthening financial sector governance and supervision.* 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 operationalize the financial crisis management framework and financial safety net in accordance with the TA Roadmap in the FSSR 2021.

- *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, public debt compilation and reporting. Rebasing national accounts and improving compilation methodologies will allow for more accurate estimates of output and movement towards quarterly GDP estimate.

- *Increased availability of high frequency data will also be crucial.*

Main Risks and Mitigation

2. Risks to TA implementation in Sierra Leone relate to absorptive capacity, 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 IV.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. The mission will discuss actions to mitigate these risks. Hybrid missions continue to be effective, including providing scope for increased integration with program work and peer learning. With 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 2022 of two resident advisors at the BSL, on banking supervision and monetary policy has further helped support CD delivery in a fragile institutional setting. The planned installation of a PFM resident advisor by end-2023 and the incorporation of Sierra Leone as a pilot country for FAD's medium-term programmatic approach to CD planning and delivery should support implementation of TA recommendations and the integration and sequencing of CD priorities.

Table 1. Sierra Leone: Capacity Development Priorities	
Priorities	**Objectives**
Public Finance Management	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. Improve budget execution through: (i) advising on updates to the PFM legislation; (ii) developing capabilities on strategic and baseline budgeting; (iii) strengthening fiscal risk management, including SOEs (iv) enhancing management of arrears. Accelerate transparency and governance reforms, including on follow-up of audit recommendations. Improve fiscal reporting by: (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.
Tax Policy	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).
Revenue Administration	Improve the efficiency of domestic resource mobilization by (i) increasing tax compliance and continue developing compliance improvement plans, including with respect to extractive industries revenue; contribution of large taxpayers, and management SOE's tax obligations; (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 enhancing data integrity; and (vi) limiting and improving control and monitoring over tax exemptions.
Expenditure Policy	Sierra Leone is a pilot country for FADEP's medium-term CD engagement that focuses on building government capacity to undertake evaluations of expenditure policies. 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.
Financial Sector Supervision and Regulation	Increase financial system safety and soundness through strengthening prudential regulations as well as supervisory frameworks and processes.
Financial Stability	Establish the Financial Policy Committee and design new tools to monitor systemic risk, conduct stress tests and improve financial stability analysis.
Debt Management	Improving debt recording and reporting, and debt management.
Central Banking Operations and Governance	(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.
Statistics	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.

Table 2. Sierra Leone: Technical Assistance, FY2022-FY2023

Date	CD activity
Aug-23	FAD Customs Border Controls - LTX Field
Aug-23	FAD STX-Strengthening LTO Management
Sep-23	FAD Staff Visit
Aug-23	FAD AFW2-Training on the use of the DGLAT
Aug-23	FAD AFW2-Development of project design and costing methodology and costing templates
Aug-23	FAD STX Visits
Aug-23	FAD AFW2- Development of a Data Portal
Aug-23	FAD Income tax act rewrite - scoping mission
Jul-23	FAD AFW2: Preparing roadmap for transition to accrual IPSAS
Jun-23	FAD Customs Risk Management - LTX Field
Jul-23	FAD AFW2-Follow up to the development of an SOE Monitoring Framework
Jul-23	FAD Customs Border Controls - STX Field
Jun-23	FAD AFW2: Arrears management
Jun-23	FAD Review of the implementation of Gender Responsive Budgeting
Jun-23	FAD STX - Data Matching
Jun-23	FAD HQ Customs diagnostic Mission
Jun-23	FAD MTRS - review draft
May-23	FAD AFW2- Improvements to SLIMM
May-23	FAD Support to the implementation of Climate Change Budgeting
May-23	FAD STX Mission - Audit training -telecom sector
May-23	FAD AFW2 STX- Second Training on Project Management Cycle
May-23	FAD On-demand STX
May-23	FAD DRM follow up mission
May-22	FAD LTX Mission - Ongoing support to NRA authorities and consultation
Apr-23	FAD STX - Assignment- LTO Compliance Improvement Plan
Apr-23	FAD STX Mission - Audit training -telecom sector
May-23	MCM Bilateral LTX in Monetary Policy and Financial Stability FY24 Extension II
Sep-23	MCM SLE: Stregthening RBS Processes
May-23	MCM SLE: Peer-to-peer Learning
May-23	MCM Sierra Leone-LTX and STX Mission on Payment System
May-23	MCM Sierra Leone- LTX and STX FX Mission
May-23	MCM SLE: Peer-to-peer Learning
May-23	MCM SLE: IFRS Accounting and Prudential Provisioning
May-23	MCM STX-Improving MP analysis and NTF capabilities
Apr-23	MCM Foreign Exchange Operational Analysis
Apr-23	MCM STX-Operationalization of the Oversight Framework for Payment Systems
May-23	STA Sierra Leone-TA-GDP-GDP rebasing
May-23	STA Sierra Leone-TA-PRC-Updating CPI
May-23	STA Desk view
Mar-23	FAD Wage Bill mission
May-22	MCMSLE: FSSR Banking Supervision LTX FY23
Feb-23	FADHQ - 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

Table 2. Sierra Leone: Technical Assistance, FY2022-FY2023 (concluded)

Date	CD activity
Mar-23	FAD Customs Risk Management - LTX 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	FADT2 Mining revenue model construction
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	FADT2 Additional follow-up support for MTRS
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
Sep-22	FADT2 Domestic resource mobilization
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)
May-22	FADM1 AFW2-Training on Public Private Partnerships Model (PFRAM)
May-22	MCMTA Bank Supervision
May-22	STARE Sierra Leone - CPI - FY22 Carryover

Appendix I. Letter of Intent

Ministry of Finance　　　　　　　　　　　　　　　　Bank of Sierra Leone

GOVERNMENT OF SIERRA LEONE

Freetown, November 6, 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 eighth review of the Extended Credit Facility (ECF) arrangement.** We request approval of the disbursement of the ninth tranche of the credit, following progress made in the implementation of prior actions and structural benchmarks, and after considering our request for a waiver of non-observance relating to the Net Domestic Assets of the Bank of Sierra Leone at end-June 2023, based on our strong corrective actions.

2. **The attached Memorandum of Economic and Financial Policies (MEFP) supplements the one dated May 2023.** It reviews economic developments in the first half of 2023 and reports on performance under Sierra Leone's economic and financial program, supported by the International Monetary Fund (IMF) under the ECF arrangement. It also outlines the authorities' key policy and reform measures for the remainder of 2023 and over the medium-term. Overall, our policies aim to restore macroeconomic stability and safeguard financial stability through fiscal consolidation and prudent debt management to lay the foundation for sustainable, inclusive, and green, economic growth and poverty reduction.

3. The macroeconomic situation remains challenging, occasioned by a variety of factors. Shocks included the lingering effects of the COVID-19 pandemic; higher food and energy prices amid the Russian-Ukraine Crisis; higher interest rates and associated tighter financing conditions as central banks at the global level tightened monetary policies to combat inflation; a stronger US Dollar; and general economic uncertainty. These developments contributed to weak economic growth, higher inflationary pressures, limited fiscal space and heightened debt vulnerabilities, which in turn have translated into a cost-of-living crisis with adverse implications for poverty and inequality.

4. Despite these developments, we made significant progress in meeting program targets and remain committed to safeguarding macroeconomic stability. We met most Quantitative Performance Criteria (QPCs) at end-June 2023: the ceiling on Net Credit to Government (NCG), the floor on gross international reserves (GIR), and the continuous PCs were all met, alongside the indicative target (IT) on poverty spending. We missed the end-June ceiling on Net Domestic Assets (NDA) by a margin of 1.8 percent of GDP alongside the ITs on domestic revenue and the primary balance. The NDA was missed due to the BSL's higher than programmed liquidity injections and its weakening capital position.

- We completed two (2) out of three (3) structural benchmarks for end October 2023, and the remaining one is one of two prior actions for the eighth review. We are on track towards completing both prior actions on time.

5. We request a waiver of non-observance for the QPC on the Net Domestic Assets of the Bank of Sierra Leone based on the following corrective actions: (i) a commitment to reducing the BSL's holdings of government securities in the second half of 2023; (ii) the increase in the policy rate by 50 bps in July and 200 bps in September to 21.25 percent; (iii) forward guidance in the September monetary policy statement to signal a tight monetary policy stance in coming quarters; and (iv) submission of a detailed report on the currency redenomination process to Parliament (**end-October 2023 SB**).

6. Despite the fiscal slippages recorded during Q3-2023, we are committed to meeting our fiscal deficit target of 5.8 percent of GDP in 2023, down from 10.5 percent of GDP in 2022.

- **Revenues.** The government commits to fully implement all 2023 Finance Act measures by end-November 2023. From the outstanding measures by end-September, the government finalized the implementation of the tourism levy by mid-November. The Government commits to finalize the implementation of the harmonization of domestic and imported excise rates, the revisions of excise rates, the minimum alternative tax, the annual vehicle circulation fee, the surcharge on cellular services, and the revision of GST exemptions by end-November 2023. To help meet our revenue targets for this year, we have launched a program to improve tax compliance that includes (i) working with the Ministry of Finance to deduct from payments to State-owned Utility Companies and transfers to Sub-vented and TSA agencies any PAYE due to the National Revenue Authority (NRA); (ii) making use of data analytics to profile taxpayers in ITAS; (iii) implementing an extensive taxpayer education campaign; (iv) conducting block registration of businesses in regional cities to expand the tax base; and (v) initiating increased monitoring of business establishments to ensure the use of ECR machines. We are also committed to maintain full pass-through of the petroleum pricing formula and a cost-based electricity tariff formula with a view to avoiding new arrears to independent energy producers: these policies are expected to yield stable excise duties on petroleum products and stable GST from electricity consumption, respectively.

- **Expenditures.** We are committed to (i) save a 0.2 ppts of GDP buffer in goods and services spending by refraining from making any allocations for goods and services spending to MDAs in Q4-2023; (ii) save 0.5 percent of GDP in subsidies as a result of the October electricity price increase; (iii) save 0.1 percent of GDP by postponing transfers to local councils to next year; and (iv) refrain from making any domestically financed capital expenditures in Q4 to contain overruns relative to the supplementary budget at 0.3 percent of GDP for 2023.

7. Government is taking action to further increase tax revenue mobilization in 2024. The government will submit to Parliament a 2024 budget consistent with the key parameters of the ECF arrangement (**Prior Action**). Government will also submit to Parliament as part of the 2024 Finance Act additional tax revenue measures based on the MTRS that are expected to yield at least 1 percent of GDP in revenues in 2024 (**Prior Action**). The government is also committed to implementing measures to strengthen revenue administration as outlined in the recently published Medium Term Revenue Strategy (MTRS).

8. Government remains committed to strengthening public expenditure management to create the fiscal space for spending on priority areas. To prevent the accumulation of arrears, the Cash Management Unit continues 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 are now 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.

9. Against the background of the cost-of-living crisis that has pushed several thousands of people into food insecurity, the government is committed to strengthen targeted social protection. The Government is working with development partners, including through NACSA, to provide much needed support to the poor and vulnerable households across the country and intends to continue supporting cash transfers, school feeding, climate change adaptation and mitigation activities, hygiene and welfare packages for schoolgirls, and critical domestic capital expenditures for improving water and electricity supply to boost social and economic resilience.

Going forward, the government intends to scale up these efforts, even as it pursues a path of fiscal consolidation, including by increasing domestic financing to the school feeding program from 0.4 of GDP in 2023 to 0.8 in 2027. The school feeding program will serve 800,000 children in the 2023/2024 school year and the number of beneficiaries is expected to increase by 100,000 annually.

10. Government will continue with efforts to avoid overruns in domestic capital spending. The government commits to imposing a full freeze on domestically financed capital expenditures in the fourth quarter of 2023 and to strengthen the collaboration with the National Monitoring and Evaluation Department (NaMED) and the and Ministry of Planning and Economic Development (MoPED) to prioritize measures that support the management, control, and execution of multi-year commitments going forward. The government also commits to make available detailed information from all existing and new capital projects, including projects implemented by the Sierra Leone Roads Authority (SLRA), in the National Monitoring and Evaluation Management and Information System (NaMEMIS) website. The information will include the project description, total cost, outstanding balance, and disbursement plans, for FY2024, 2025, and 2026.

11. We are committed to bringing down inflation and limiting FX intervention. The BSL will take action to contract base money growth to achieve an end-2023 y-o-y base money growth rate of 27 percent. We will also strictly limit base money growth in 2024 and over the medium term, including by containing net purchases of government securities in the secondary market. We stand ready to raise the policy rate to achieve positive real rates as early as practicable in coming quarters to send a strong signal of our intention to bring down inflation. We commit to limit FX intervention with view to rebuilding reserve buffers. We will also swiftly recapitalize the BSL as soon as its audited 2022 financial statements are finalized. We commit to publishing items i)-vi) requested under the SB on the currency redenomination within a week after Parliamentary proceedings on the redenomination report end and to address shortcomings identified in the internal audit report on the currency redenomination. We look forward to addressing the recommendations of the upcoming safeguards assessment mission.

12. We are committed to reducing debt vulnerabilities. The implementation of the fiscal consolidation measures mentioned will contribute the achievement of our budget deficit target, which in turn will slow down the accumulation of debt. We have also adopted an updated Medium-Term Debt Strategy (MTDS) in October 2023, which seeks to lengthen the maturity structure of domestic debt and to improve the debt service profile. It includes policy initiatives to incentivize investor demand for local medium to long-term bonds. We will continue to seek grant financing or borrow concessional loans to finance investments in key sectors of the economy, especially infrastructure.

13. The Government believes that the policies set forth in the attached MEFP are adequate to achieve its objectives but stands 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. We requested the disbursement under the 8th review of the ECF to be made into our SDR account and will use it to repay outstanding obligations to the IMF in 2023 and early 2024.

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

Very truly yours,

/s/	/s/
Sheku A.F Bangura	Dr. Ibrahim L. Stevens
Minister of Finance	Acting Governor of Bank of Sierra Leone

Attachment:

Memorandum of Economic and Financial Policies

Attachment I. Memorandum of Economic and Financial Policies

INTRODUCTION

1. **This Memorandum of Economic and Financial Policies (MEFP) supplements the one dated May 22, 2023.** It reviews economic developments in the first half of 2023 and reports on performance under Sierra Leone's economic and financial program supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) arrangement. It also outlines the authorities' key policy and reform measures for the remainder of 2023 and the medium-term. Overall, the authorities' policies aim to restore macroeconomic stability and safeguard financial stability through fiscal consolidation and prudent debt management to lay the foundation for sustainable, inclusive green economic growth and poverty reduction.

2. **A confluence of external factors has contributed to the challenging macroeconomic situation during the review period.** These include the lingering effects of the COVID-19 pandemic; higher food and energy prices amid the Russian-Ukraine crisis; higher interest rates and associated tighter financing conditions as central banks at the global level tighten monetary policy to combat inflation; a stronger US Dollar; and general economic uncertainty. These developments contributed to worsening already existing macroeconomic imbalances culminating in weak economic growth, higher inflationary pressures, limited fiscal space and heightened debt vulnerabilities, which in turn have translated into a cost-of-living crisis with adverse implications for poverty and inequality.

3. **Against this backdrop, Government remains committed to** the implementation of prudent fiscal and monetary policies as well as advancing structural reforms, to boost resilience and lay the foundation for sustainable economic growth and poverty reduction over the medium-term.

RECENT ECONOMIC DEVELOPMENTS

4. **Following the strong recovery in 2021, economic growth slowed in 2022.** The economy grew by 3.5 percent in 2022, compared to 4.1 percent in 2021. The uncertain global economic environment coupled with high food and energy prices weighed on economic growth in 2022.

5. **Public finances improved in 2023 despite revenue shortfalls and spending overruns that accumulated in Q3-2023.**

- **Revenues.** Election-related uncertainty, technical difficulties in the implementation of the Finance Act 2023, a freeze on fuel pump prices to ensure social stability ahead of the June elections, and delays in renegotiating the Rutile Mining agreement, contributed to somewhat lower-than-projected domestic revenue collection during the first half of 2023. Total revenue collections amounted to NLe4.64 billion (5.9 percent of GDP) compared to the program target of NLe4.80 billion (6.14 percent of GDP). The shortfall was accounted for by underperformance in income taxes; goods and services taxes and customs and excise duties. The under-performance on these revenue streams was partly offset by higher-than-expected collections on Mineral licenses and iron ore royalties, TSA revenues and road user charges. By the third quarter, the cumulative shortfall was NLe338 million (0.4 percent of GDP).

- **Expenditures.** Total expenditure and net lending exceeded budgeted amounts for the first three quarters of the year, due to overruns on goods and services and capital spending (domestic and foreign), which more than offset lower-than-budgeted wages and salaries, interest payments and subsidies and transfers. By quarter three the cumulative budget overrun was NLe 464 million (0.6 percent of GDP).

6. Monetary policy implementation was challenging during the review period due to tight liquidity conditions in the banking system, fiscal pressures, and the weak monetary policy transmission mechanism. However, the BSL continued to take action to reduce inflation and maintain financial stability. Year-on-year base money growth increased from 33.8 in March 2023 to 57.3 percent in June 2023, but decreased to 37.3 percent in August 2023 and is expected to continue on a downward trajectory. To contain the high and increasing inflation, the MPC raised the policy rate by 50 bps to 19.25 percent in July 2023, and a further 200 bps to 21.25 percent in September 2023. This is the eighth increase in the policy rate since December 2021. In the MPC statement published in September 2023, the BSL provided forward guidance that a tight monetary policy stance would continue to be needed in the next quarters to reduce the stubbornly high level of inflation.

7. Headline inflation continues to rise in 2023. Year-on-year overall inflation has increased sharply to 54 percent in September 2023 from 44.8 percent in June 2023. This was due, in part, to the faster-than-expected increase in money supply in the first half of the year as well as domestic supply shocks, imported inflation, the removal of fuel subsidies, rising domestic food prices and the high pass-through effect from the steep depreciation of the Leone on prices of imported goods.

8. Gross international reserves of the BSL have continued to decrease, but the Leone has remained broadly stable between May and September of this year. This reflected (i) declining reserve money growth; (ii) steps to increase the policy rate; (iii) removal of administrative barriers in the foreign exchange market; (iv) the amendment of the BSL Act 2019 to permit the use of currencies other than the Leone in selected transactions in Sierra Leone; (v) the announcement effects of the decision to permit lending in foreign currency by commercial banks on a case-by-case basis; and (vi) the decision to mandate offshore foreign exchange brokers to trade donor funds for development projects in Sierra Leone at the BSL FX reference rate for the day.

9. The banking sector generally remains well capitalized, liquid, and profitable. Most key financial soundness indicators were comfortably above stipulated prudential thresholds. Banks' non-performing loans remained high, above the tolerance level of 10 percent, but eased to 12 percent of total loans in June 2023. Efforts continue to strengthen the capital adequacy of the two banks facing solvency issues. Although the banking system has ample liquidity, uneven distribution has created tight liquidity conditions.

PROGRAM PERFORMANCE

10. We met two of the three Quantitative Performance Criteria (QPCs) at end-June 2023 (Table 1).[1] The ceiling on net credit to government (NCG), the floor on gross international reserves (GIR), the continuous PCs, including on multiple currency practices (MCPs) and exchange restrictions; and the indicative target (IT) on poverty spending were all met. We missed the end-June ceiling on net domestic assets (NDA) by a margin of 1.8 percent of GDP alongside the indicative targets (ITs) on domestic revenue and the primary balance. The NDA was missed due to the BSL's higher than programed liquidity injections and its weakening capital position.

11. We request a waiver of non-observance of the criterion on NDA based on the following corrective actions: (i) a commitment to contract the BSL's holdings of government securities in the second half of 2023; (ii) the increase in the policy rate by 50 bps in July and 200 bps in September to 21.25 percent; (iii) forward guidance in the October monetary policy statement to signal a tight monetary policy stance in the coming quarters; and (iv) submission of a detailed report on the currency redenomination process to Parliament and commitment to publish items i)-vi) requested under the SB on the currency redenomination within a week after parliamentary proceedings on the redenomination report end (end-October 2023 SB).

12. Two of the three end-October 2023 structural benchmarks (SBs) were met (Table 2). We (i) updated the arrears clearance strategy to include outstanding arrears as of end-June 2023; and (ii) submitted to Parliament a detailed report on the currency redenomination process. The end-October 2023 SB to submit to parliament the Finance Act 2024 with at least one percentage point of GDP in additional annual tax revenues was not completed on time but will be completed as a prior action for the eighth review; The continuous SB on automatic fuel pricing mechanism was missed but pump prices have since August been adjusted to reflect full pass-through of global oil prices, exchange rate movements and domestic taxes.

13. We are on track towards meeting the two prior actions for the 8th review of the ECF (Table 2). We will (i) submit to Parliament a budget consistent with the program; and (ii) submit to Parliament the Finance Act 2024 with at least 1 percentage points of GDP in additional annual tax revenues.

[1] Detailed definitions of the targets are in the Technical Memorandum of Understanding for the 6th and 7th reviews of the ECF arrangement.

MEDIUM-TERM ECONOMIC OUTLOOK

14. The Sierra Leonean economy is expected to recover over the medium-term. Growth is projected to increase to 4.7 percent in 2024 and to 5.2 percent in 2025, driven by increased investment in agriculture, mining activities, and a recovery in the services sector, before returning to our historical trend of around 4.5 percent by 2026 and 2027. Inflation is expected to ease to 23 percent at end-2024 and to below 10 percent over the medium-term due to the macroeconomic tightening, the decline in key global commodity prices and increases in domestic food supply. The current account deficit is projected to shrink to 4.2 and 2.9 percent of GDP in 2024 and 2025, respectively, as the trade deficit narrows. Official foreign reserves are programed to stay above the floor of 3 months of imports over the medium term, supported by official flows and private transfers. The exchange rate is expected to move in line with inflation differentials.

15. The risks to the outlook are significant. These include spillovers from ongoing geo-political tensions, economic fragmentation, escalation of the Russia-Ukraine crisis, including higher international prices for food and energy, continuous depreciation of the exchange rate, and declining international donor support.

OBJECTIVES AND POLICIES

16. Our key macroeconomic objectives remain broadly unchanged. They include safeguarding macroeconomic and financial stability, addressing debt vulnerabilities, and vigorously pursuing 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.

17. The government remains committed to achieving fiscal and debt sustainability through fiscal consolidation this year and over the medium-term. Unfortunately, repeated adverse external and domestic shocks have constrained Government's efforts in achieving these objectives. We are in the process of returning our fiscal position to a sustainable path. In this context, Government implemented a mix of revenue enhancement and expenditure containment measures, and stands ready to further tighten macro policies, if warranted. At the same time, we continue to seek additional grant resources from our international partners to support priority spending.

A. Fiscal Policy

18. The government is committed to achieving the overall fiscal deficit target of 5.8 percent of GDP in 2023.

- **Revenues**. The government commits to fully implement all 2023 Finance Act measures by end-November 2023. From the outstanding measures by end-September, the government has finalized the implementation of the tourism levy by mid-November. The Government commits to finalize the implementation of the harmonization of domestic and imported excise rates, the revisions of excise rates, the minimum alternate tax, the annual vehicle circulation fee, the surcharge on cellular services, and the revision of GST exemptions by end-November 2023. We are implementing a robust compliance plan to ensure that we meet the revenue targets for 2023. Measures under this plan include working with the MoF to deduct from SOEs utility service payments and from TSA and Sub-Vented Agencies allocations or transfers any PAYE due to NRA; making use of data analytics to profile taxpayers in ITAS; conducting an extensive taxpayer education campaign; using block registration of businesses in regional cities to expand the tax base; and increased monitoring of business establishments to ensure the use of ECR machines. Overall, these measures should yield about 0.2 percent of GDP in additional revenues.

- **Expenditures**. To achieve savings of NLe 150 million (0.2 percent of GDP) savings on goods and services, the government is committed to refraining from providing any additional allocation to MDAs in Q4-2023. The government also commits to achieve savings of NLe 150 million on subsidies and transfers, by eliminating any remaining subsidies to energy (0.06 percent of GDP), reducing transfers to local councils (0.06 percent of GDP), and deferring election related payments to 2024 (0.06 percent of GDP). Finally, the government commits to imposing a full freeze on domestically financed capital expenditures in the fourth quarter of 2023 to contain budgetary overruns.

19. As with previous budget support under this ECF arrangement, the Government and the BSL have established a framework in a Memorandum of Understanding (MOU) on their respective responsibilities for repayment of obligations to the IMF. The use of SDR allocations for the 2023 budget is facilitated by an existing MOU. For activities financed with the use of SDRs, the government commits to transparency in the accounting and use of resources through a regular budget monitoring process (Text Table 1).

20. Fiscal consolidation will continue in 2024 and over the medium-term. We will submit a 2024 budget to Parliament that is consistent with program projections and is projected to achieve a deficit of 2.8 percent of GDP (**Prior Action**). Over the medium-term we aim to further boost revenue mobilization and rationalize expenditures, aiming to achieve domestic primary surpluses of around 2 percent of GDP by 2028.

21. The government is taking action to further increase tax revenue mobilization. To achieve the medium-term target of 20 percent of GDP in revenues, Government with support from the IMF and World Bank has developed the MTRS, 2023-2027, which was approved by Cabinet in April 2023 and published in October 2023.[2] Government will also submit to Parliament as part of the

[2] MTRS tax policy measures include, among others, to review the corporate income taxation system to increase revenue and encourage investment, initiate the transition to a Global Income Tax system, fully implement a Minimum

(continued)

2024 Finance Act additional tax revenue measures based on the MTRS that are expected to yield at least 1 percent of GDP in revenues (**Prior Action**). These include (i) harmonization of the final withholding tax rates for capital income including dividends, rental income, interests, and royalties but excluding capital gains tax at a rate of 15 percent (ii) raising the GST registration threshold to NLe500,000, from NLe100,000, (iii) continue to gradually increase specific excise rate on fuels to internalize the external costs of fuels to NLe2.40/litre for diesel and NLe2.8/litre for gasoline, (iv) introduce specific excise tax on single use plastics at the rate of NLe 16 per kg, (v) introduce excise on gambling and casino services at a rate of 10 percent of the amount wagered or staked, (vi) restore import duty on imported rice at the rate of 10 percent (vii) restore import duty on iron rods at 10 percent, (viii) gradually restore import duty on imported cement at 20 percent, (ix) restore import duty on cooking gas at 5 percent, (x) introduce an additional royalty on timber export based on the value of the timber product, and (xi) introduce an education levy of one percentage the value of all contracts for the supply of goods, services and works as final withholding tax. Government will implement another set of additional tax revenue measures based on the MTRS that are expected to yield at least another 1 percent of GDP in additional annual tax revenues as part of the 2025 Finance Act. We are also reviewing the Petroleum Pricing Formula with support from the World Bank to ascertain the relevance of various components of the formula and determine an optimal excise duty rate on petroleum products.

Text Table 1. Sierra Leone: IMF SDR Allocation Use for Budget, 2023

(Millions of new Leones)

Particulars	FY 2023 Original Budget	FY 2023 Revised Budget
Goods and Services	**10**	**18**
Support to Ambulance Services (NEMS)	7	15
Agricultural Extension Services	3	3
Rice to Sierra Leone Police (SLP)	-	-
Subsidies and Transfers	**124**	**800**
Emergency Energy Support	124	800
Domestic Capital	**732**	**1,048**
School Feeding Programme	289	330
Welfare and Hygiene Packages for School Going Girls	10	20
Construction of Cancer and Diagnostic Medical Centre	40	40
Support to National Emergency Medical Services (NEMS) - Ambulance Services	18	18
Strengthening Extension Services to Farmers and Agricultural Management Information System	5	5
Support to Artisanal Fisheries	5	5
Rehabilitation/ Construction of Community Facilities (incl. Court Barrays)	8	8
Electrification of 7 (Seven) District Towns	46	186
National Tree Planting	12	32
Construction of 45 Industrial Boreholes (Urban Wash Supply)	6	16
Completion of Construction of Water Supply Facilities in Six (6) District Capitals	40	85
Arrears Clearance	186	186
Lungi Water Supply Project	26	26
Rehabilitation, Expansion and Equipment of District Hospitals	14	14
Rural Electrification Project - CLSG (Serving Communities Along the Transmission Line)	24	49
Sierra Leone Social Safety Net (Cash Transfers)	3	28
Total SDR Resources	**866**	**1,866**

Source: Sierra Leonean Authorities.

Alternate Tax, broaden the GST base by streamlining further GST exemptions and adopting measures to extend GST to the informal sector, maintain excises on fuel at a fixed and predictable rate, convert ad valorem excise taxes into specific taxes, harmonize rates for locally produced and imported excisable goods, enforce the 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.

22. Government will explore leveraging climate finance to address its pressing climate and development needs. Sierra Leone is among the most vulnerable countries to climate change.[3] The country also ranks high in its vulnerability to natural disasters, including epidemics, floods, landslides, storms, and wildfires.[4] To address these risks, the government is engaging with development partners to assess climate funding opportunities. This could include carbon credits, payments from reducing emissions from deforestation and forest degradation in developing countries (REDD+), 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 plans to request access under the IMF's RST facility. The government will also consider levying carbon taxes on certain sectors of the economy and will explore issuing green bonds over the medium term. The government is working with the IMF and other partners to implement adaptation actions, including incorporating green PFM and Public Investment Management practices and strengthening the Disaster Risk Management institutional framework.

23. The government remains committed to strengthening public expenditure management to create the fiscal space for spending on priority areas including social safety nets needed to cushion the impact of the cost-of-living crisis on the vulnerable (Text Table 2). Against the background of the cost-of-living crisis that has pushed several thousands of people into food insecurity, the government recognizes the urgent need for targeted social safety nets. In this regard, we are working with development partners, including through NACSA, to provide much needed support to the poor and vulnerable households across the country. The government intends to continue supporting cash transfers, school feeding, climate change adaptation and mitigation activities, hygiene and welfare packages for schoolgirls, and critical domestic capital expenditures for improving water and electricity supply to boost social and economic resilience. Going forward, the government intends to scale up these efforts, even as it pursues a path of fiscal consolidation, including by increasing domestic financing to the school feeding program from 0.4 of GDP in 2023 to 0.8 in 2027. The school feeding program will serve 800,000 children in the 2023/2024 school year and the number of beneficiaries is expected to increase by 100,000 annually.[5]

24. The Government recognizes the importance of contingency planning. We commit to compensate any revenue shortfalls with additional tax measures informed by the MTRS, including (i) fast tracking harmonization of taxes on capital income (excluding capital gains) from 15 to 20 percent; (ii) increasing further stamp duty on immovable property; and (iii) streamlining further

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[3] Sierra Leone ranks 166 on the ND-GAIN index, placing among the top 10 percent most vulnerable countries to climate change.

[4] According to the EM-DAT database, Sierra Leone experienced 30 natural disaster events between 1996 and 2020.

[5] See Fiscal Strategy Statement 2024-2028: https://mof.gov.sl/wp-content/uploads/2023/10/FISCAL-STRATEGY-STATEMENT-FSS.pdf.

GST exemptions. We would also seek additional budget support, further reprioritize spending, make administrative cuts (including foreign travel) and curb domestically financed capital expenditure.

Text Table 2. Sierra Leone: Ongoing and Proposed Social Safety Net Programs

Particulars	Implementing MDA	Beneficiaries	Funding Agency
Cash Transfers to the extremely poor	NACSA	15,000	World Bank
Emergency Cash Transfers[1]	NACSA	35,000	World Bank
Cash Transfer with an Economic Inclusion Package	NACSA	6,000	World Bank
Cash Transfer to the Aged	Ministry of Labor	NA	GoSL (funding inadequate)
Micro-grants to Persons with Disability	NACSA	400 groups	GoSL (funding inadequate)
Capacity Building for with persons with Disability on financial literacy	NACSA	1,000	World Bank
School Feeding	WFP and other NGOs	800,000	GoSL and World Bank
Labor Intensive Public Works for the Youth Construction of feeder roads Construction of health centers and community infrastructure Tree Planting	NACSA	25,000 14,000 2,500	World Bank
Microfinance to Micro-enterprises and Affinity Groups	NACSA	320 Microenterprises 400 Affinity Groups	World Bank
Provision of Agricultural Inputs to Farmer Groups (seeds, livestock, water conservation and harvesting infrastructure)	NACSA	Rural Farmers Groups	World Bank
Climate Change mitigation for poor and Vulnerable farmers ***(Rural renewable energy and water conservation and irrigation systems Productive Use Project)***	NACSA	Rural farmers	GoSL (No funding yet)
Subsidized School bus transportation	Ministry of Transport	School children	GoSL (No funding yet)
Free Tuition for primary and basic secondary education	Ministry of Education	School children	GoSL
Free Health Care Initiative	Ministry of Health	Under-fives, Pregnant and Nursing Mothers	GoSL (Funding inadequate)
Welfare Packages for Girls	Office of the First Lady	School girls	GoSL and other donors
Support to Youth in fisheries, Car Wash	Ministry of Youth	Youths engaged in fishing and washing cars	GoSL (funding inadequate)

[1] The World Bank is providing Emergency Cash Transfer to 35,000 vulnerable households at the request of authorities in response to increasing prices of food and energy. Transfers should be disbursed in Q4-2023.

25. We are taking actions to mitigate fiscal risks posed by the Electricity Distribution and Supply Authority (EDSA). We raised average electricity prices significantly consistent with the pricing model to boost the revenue collection potential of EDSA and its ability to meet payments to Karpower and CLSG with minimal or no subsidies. The Electricity and Water Regulatory Commission has developed a pricing model that incorporates the local cost of energy generation, and the government intends to review the applicable legislation to institutionalize automatic price adjustments according to this model. EDSA is also implementing measures to reduce commercial and technical losses and strengthen revenue mobilization, including by connecting mining companies to the grid and installing smart meters. Further, EDSA is working with the World Bank to strengthen generation capacity from regional and renewable sources under the West Africa Power Pool (WAPP) and RESPITE projects, reducing costs and supporting the country's climate goals.

26. Government is also committed to increasing the transparency of fiscal risks. The government is exposed to fiscal risks through on-lending arrangements, guarantees, and PPP contracts, including risks associated with the ongoing negotiations to clear US$46 million dollars in arrears owed to Independent Power Producers (IPPs) by EDSA. The government is committed to regularly publishing and monitoring contingent liabilities starting with the upcoming 2023 debt bulletin.

27. Efforts continue to improve budget preparation and execution. To this end, Government, with Technical Assistance from the IMF, has adopted a 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. To this end, Government will request technical assistance on baseline budgeting from the IMF.

28. To improve the effective planning and efficient execution of the public investment program, 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 require the screening of projects by the Ministerial Investment Committee on the recommendation of the Technical Investment Committee before inclusion in the Public Investment Program. The objective is to ensure that selected projects are not only consistent with the Medium-Term National Development Plan and technically feasible, but also financially and economically viable. The Ministry of Planning and Economic Development (MoPED) is also developing guidelines to identify the responsibility of institutions for project identification, design, appraisal, implementation, monitoring, and evaluation.

29. Government will continue with efforts to avoid overruns in domestic capital spending. We are committed to strengthening the collaboration with the National Monitoring and Evaluation Department (NaMED) and the Ministry of Planning and Economic Development (MoPED) to prioritize measures that support the management, control, and execution of multi-year commitments. In line with this strategy, the 2024 Budget Call Circular (BCC) requires all MDAs to submit details of ongoing and new capital projects to NaMED and MoPED and to upload project profiles in the National Monitoring and Evaluation Management Information System (NaMEMIS).

The government commits to maintain detailed information from all existing and new capital projects, including projects implemented by the Sierra Leone Roads Authority (SLRA), publicly available on the NaMEMIS website. The information will include the project description, total cost, outstanding balance, and the disbursement plans for FY2024, 2025, and 2026. Moreover, to improve expenditure control and ensure that project decisions from the Ministerial Investment Committee are implemented as planned, the authorities will set up a Budget Working Group with representatives from the Macro and Budget Directorates of the MoF, and the PIM Directorate of MoPED.

30. Consistent with the Gender Equality and Women's Empowerment Act 2022, efforts are ongoing 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 program 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. These MDAs will be required to include in their FY2024 budget proposals information relating to their gender priorities, performance targets and indicators, and their projected spending. 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.

31. The Integrated Financial Management System (IFMIS) has been upgraded from version 6.5e to a web-based GRP version 7 application and has been rolled out to 78 MDAs, implying that nearly all government expenditures, excluding subvented agencies, are now processed through the system. Plans are underway to roll out IFMIS to an additional thirty-seven sub-vented agencies and MDAs including the Road Maintenance Fund Administration and Medical Supplies Agency by June 2024. The use of the Electronic Funds Transfer will also be extended to sub-vented agencies. The Ministry of Finance has made it mandatory that MDAs process expenditures through the web based IFMIS to prevent arrears accumulation.

32. Further measures have been taken to prevent the accumulation of new arrears. The Cash Management Unit continues 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 are now 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. The MoF has also strengthened the controls of MDA's contracts, including by establishing a Contract Management Steering Committee.

33. **The conclusion of Phase II of the Treasury Single Account (TSA) expansion will improve cash management.** Government has transferred all balances of Sub-vented Agencies (SVAs) in commercial banks to the BSL and converted SVA departmental accounts at the BSL into treasury accounts, with the exception of balances related to donor-funded projects, allowing the BSL to compute ways and means daily.

34. **The Government has incorporated outstanding verified domestic arrears as of end June 2023 into a newly published Arrears clearance strategy (end-October 2023 SB).** Going forward, arrears will only be cleared to the extent that budgetary provisions for their clearance exist. 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. **Government is working towards improving the sustainability of the wage bill.** The transparency and reliability of the wage bill has improved in recent years following the implementation of several payroll reforms initiated in 2018. Government will:

(i) Develop a Medium-term Wage Bill Management Strategy that introduces additional reforms to strengthen payroll management. A technical committee has been established and clear terms of reference developed and shared among stake holders; a draft of the Strategy will be shared with development partners for comments by end-December;

(ii) Operationalize the Wages and Compensation Commission following the enactment of the Wages and Compensation Commission Act in April 2023. The process of appointing a CEO, a Deputy CEO of the Commission and a Chairman of the Board of the Commission commenced in September and will be completed by the end of the year;

(iii) Conduct a biometric verification exercise for teachers and health workers. The Ministry of Finance has held discussions with the United Kingdom Foreign Commonwealth and Development Office (FCDO) to seek financial and technical support for the biometric verification of teachers while the European Union has indicated support for the verification of the health sector payroll; and

(iv) Institute workforce planning for all payroll categories to improve the controls relating to new recruitments and salary adjustments. The Ministry of Finance has held discussions with the respective employing authorities. The outcome of the discussions will form the basis of the workforce planning.

36. **We are committed to reducing debt vulnerabilities.** 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 and lengthening the domestic debt maturity are critical to maintain debt sustainability. We have adopted

an update Medium-Term Debt Strategy (MTDS) in October, committing therein to (i) stipulate new investment norms for institutional investors; (ii) strengthen communication with banks and non-banks on the MTDS; (iii) update the auction procedure as proposed by IMF TA; (iv) reviewing the primary dealership agreements and have a performance threshold for the players; and (v) T-bond yields that better reflects market fundamentals. To take further action to address the challenging debt situation, Government will pursue the following actions:

(i) Limit domestic borrowing in line with program projections even after the program ends;

(ii) Limit external borrowing in line with program ceilings even after the program ends;

(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 to extend average remaining maturity, in line with the updated Medium-term Debt Strategy;

(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;

(ix) Take action through debt operations as needed to reduce the debt service burden over time; and

(x) With support from the African Development Bank, review the Debt Management Act and deploy a contract profiling tool for the effective management of contracts.

37. Effective public 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 the 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 key sectors. Government will effectively implement accompanying legal reforms associated with the Electronic Transaction Act for mainstreaming e-Procurement. Meanwhile, to improve transparency in public procurement, the tender documents and contracts awards by the high spending ministries including Education, Health, Public Works including Roads, and Energy are being uploaded on to the Open Contracting Data Standards (OCDS) of the National Public procurement Authority (NPPA).

B. Monetary and Exchange Rate Policies

38. The BSL is committed to taking decisive action to bring inflation down. The BSL will take action to slow base money growth—the BSL's operational target— to 27.2 percent at the end of 2023 by limiting liquidity provision, while the authorities will ensure that any BSL bridge loan to the government is repaid in full before the end of the year. This will help anchor monetary growth to our projected inflation path over the medium term. To achieve this, the BSL will:

- Reducing purchases of government securities in the secondary market in H2-2023, by offsetting the higher-than-expected government securities purchases in H1 2023, with lower-than-expected net purchases in H2- 2023;
- Continue to reduce base money growth in 2024 and over the medium term, including by reducing liquidity provision through net purchases of government securities in the secondary market;
- Continue raising the policy rate as needed to achieve positive real rates over the course of the coming year to send a strong signal of our intention to bring down inflation;
- Consider strategies to enable the use of our own instruments to support effective liquidity management operations including reserve requirements and prudential guidelines;
- Improve communication to explain monetary policy decisions, past outcomes, and actions necessary to align inflation expectations with policy objectives. This will be designed to explain basic concepts of monetary policy clearly and easily understandably to stakeholders in the industry and the public. We are working towards publishing quarterly monetary policy reports and decisions in a timely manner; and
- With technical assistance from the IMF, take actions to improve liquidity and inflation forecasting, and computation of the composite index of economic activity (CIEA).

39. We are strengthening transparency around the currency redenomination and will recapitalize the BSL in due course. We have submitted to parliament a detailed report on the currency redenomination process through end-June 2023 as part of the fulfillment of our reporting and transparency around the reform (**end-October 2023 SB**). We are committed to publishing items i)-vi) requested under the SB on the currency redenomination within a week after parliamentary proceedings on the redenomination report end. We are committed to ending legal tender status for old leones by end-December 2023 but will allow extended period for the exchange for the new Leones. The recent decline in BSL capital is explained by the higher than programmed cost of currency management as well as net exchange losses. We are also committed to normalizing the BSL audit cycle and the FY 2022 financial audit is on track, including in addressing outstanding data issues with the external auditor. We are committed to recapitalize the BSL and to strengthen its ability to pursue its mandate of ensuring price and financial stability as soon as the audit of our FY 2022 financial statements is complete.[6]

40. We are taking steps to protect our official foreign reserve buffers and support FX market development. We will continue to limit FX intervention to address excess volatility in case of very large temporary shocks. We have terminated all temporary FX facilities that were aimed at increasing the supply of foreign exchange for essential imports during the multiple crisis period. We are, instead, planning to take steps to support FX market development, in line with recent Fund TA. These would include publishing the BSL FX reference rate on the day it is compiled; publishing the mid-rate only; simplifying the rules of FX interbank market; identifying market makers for the FX interbank market; and work towards conducting regular auctions to establish a reference rate going forward.

C. Financial Sector Policies

41. 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 within the next two years. This will enhance confidence in banks' ability to perform their intermediation function with prudence and within a risk management culture.

42. The BSL is working to maintain financial system stability and improve the regulatory and supervisory framework for the banking system. In this context, the Financial Policy Committee has been established and the first meeting held in September 2023. The Deposit Protection Fund (DPF) Unit has been established in the BSL and a 2-year work plan for launching the DPF Act has been drafted.[7]

43. 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. We plan to conduct onsite examinations of the two SOBs by end

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[6] Chapter 42(1) of the BSL Act 2019 outlines the necessary steps to be undertaken to recapitalize the BSL.

[7] The DPF Act was enacted and published but its requirements need to be fully operationalized.

December 2023. RBS trainings continue with the IMF resident advisor, who is working with the BSL to update and improve the approach to risk-based supervision.

44. Going forward, and with the functioning of the FPC, the BSL is committed to developing macroprudential instruments with the assistance of the resident advisors and short-term experts where necessary. The BSL will also follow through on the recommendations of the FSSR and FSAP reports to strengthen the financial system, including finalizing the macroprudential policy framework, crisis management plan in accordance with the Charter of the FPC by March 2024, enhancing the operational capacity to implement the resolution framework for financial institutions per the Banking Act 2019, and establishing an Emergency Liquidity Assistance framework, building on recommendations from the recent FSSR. The new corporate governance guidelines for banks and financial holding companies, which have been approved, will become effective 1 January 2024. The BSL will also (i) implement the Domestic Systemically Important Banks (DSIBs) framework for the banking system; and (ii) fully operationalize the Deposit Insurance Fund Act by end-September 2024.

45. We plan to implement our recently developed strategy to bring down NPLs. We are in the process of developing a formal directive for implementing the supervisory strategy to address high NPLs with the help of the IMF's Resident Advisor.

46. We commit to dealing decisively with solvency challenges in commercial banks. We also plan to strictly enforce the Banking Act 2019 by requiring any bank in violation of the minimum CAR to submit a credible capital restoration plan to the BSL for review, approval, and monitoring of implementation.

D. Inclusive Growth and Social Protection

47. We continue to take steps to promote inclusive growth and reduce inequality by prioritizing human capital development and social safety nets. Building on on-going efforts to implement the Free Quality Education Program, Free Health Care Initiative and on-going unconditional cash transfers program, Government will:

- Intensify local food production and distribution, targeted at addressing food insecurity;
- Provide cash-based and in-kind transfers to vulnerable farming households in response to immediate food needs and to strengthen household food security;
- With support from the World Bank funded Productive Social safety Nets and Youth Employment Project, enhance access to social safety nets (including cash transfers targeting 100,000 household in all the sixteen districts) and employment and entrepreneurship activities targeting 13,000 youths;

- Provide cash transfers to aged and disabled;
- Continue to implement the school feeding program; and
- Continue the provision of sanitary hygiene kits for school going girls.

E. Improving the Business Environment and Economic Diversification

48. We are committed to improving our competitiveness. Government has been implementing several business regulatory and financial sector reforms as well as investing in infrastructure to improve our business and regulatory environment, which in turn supports economic diversification. The first phase of the National Payment Switch, —which will facilitate interoperability among commercial banks—went live on 29 April 2023. The World Bank funded Sierra Leone Economic Diversification Project is supporting the establishment of an Online Business Registration System to create a single window for the registration of businesses. 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 provides microfinance services mainly credit to SMEs through financial intermediaries.

49. To diversify the economy, Government will continue implementation of a policy shift in the agriculture sector, termed "feed Salone". The measures include provision of fertilizer, seeds, and chemicals, as well as support for land preparation through the electronic voucher system.

F. Strengthening Climate Resilience

50. Building economic resilience and fostering sustainable green growth in Sierra Leone will require robust climate adaptation and mitigation measures. Consequently, in the face of increased risks from climate change and building on recent environmental legislation and policies, 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 cleaner energy sources for electricity production, including natural gas and renewables, such as solar and hydropower; and

(iii) With support from the UK, Government is in the process of developing a carbon market framework.

51. The World Bank is preparing the Country Climate Development Report (CCDR) —expected by April 2024—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 for the interventions. With support from the World Bank, we have also developed a Disaster Risk Financing Strategy (DRFS) to limit the impact of crises and shocks on the budget.

G. Improving Governance

52. We remain firmly committed to improving governance, enhancing transparency, and strengthening anti-corruption efforts. The government is building on efforts to strengthen the budget and the operational independence of the ASSL. We have developed and published a roadmap that revives the current dormant statutory provisions on surcharges and in the process of developing related implementing regulation. We are also committed to conclude the tribunal to adjudicate the charges against the suspended Auditor General and her Deputy by end-November 2023, and adhering to the commitment to pay all salaries and allowances legally owed to ASSL management. Implementation of AML/CFT reform measures including making beneficial ownership of legal entities available, enhanced risk-based supervision of non-bank financial institutions is ongoing. We approved the AML/CFT National Risk Assessment Report and expect to publish it in November.

53. 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 Privatization (NCP), the World Bank and the supervisory ministries, have developed a State-Owned Enterprises Ownership and Governance policy 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.

54. Building on the State-Owned Enterprises Ownership and Governance policy, preparations are at an advanced stage for the development of a SOE Governance Bill. The new SOE Governance Bill will help establish a new oversight entity to strengthen state ownership and contain discretionary and irregular practices and political interference. Consistent with the Cabinet approval, draft guidelines have been prepared and transmitted to the Office of the Attorney-General for the legal drafting of the SOE Governance Bill.

H. Strengthening Statistics

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

- National Accounts rebasing: With TA from AFRITAC West 2 Stats-SL is rebasing the national accounts to the base year of 2018. Similarly, CPI was fully rebased to December 2021 and the CPI basket updated;

- Availability of other macroeconomic statistics has improved. The Ministry of Finance continues to improve debt transparency and recording, while the BSL has regularly published balance of payments, monetary statistics, and financial soundness indicators; and

- Business Establishments Census: Stats SL, in collaboration with partners, has completed a Census of Business Establishments and processed the data. In addition, an Agriculture Census and surveys are scheduled for completion in 2023.

56. Going forward, with support from the World Bank under the Harmonizing and Improving Statistics in West Africa (HISWA) project, Stats-SL will continue to improve the quality of economic statistics using harmonized methodologies within the WAEMU economic block.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets, 2022-23

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

	2022																2023			
	Jun. PC 1/				Sep. IT				Dec. PC				Mar. IT				Jun. PC			
	CR. No. 22/259	Adj. Prog.	Est.	Status	CR. No. 22/259	Adj. Prog	Est.	Status	CR. No. 22/259	Adj. Prog.	Est.	Status	CR. No. 22/259	Adj. Prog	Est.	Status	CR.24/214	Adj. Prog.	Est.	Status
Performance criteria																				
Net domestic bank credit to the central government (ceiling) 2/	1762	772	1296	Not met	2498	1638	3415	Not Met	1362	485	4272	Not Met	651	849	1401	Not Met	2663	3638	2767	Met
Unadjusted target (ceiling)		1762				2498				1362				651				2663		
Adjustment for the shortfall in external budget support		0								0										
Adjustment for the excess (shortfall) in unpaid checks and other outstanding payments		-898				-615				-878				140				315		
Adjustment for the excess (shortfall) in leone value of net issuance of government securities to non-bank private sector		-91				-245								57				660		
Adjustment for the cumulative net flow of non-tradeable securities issued to the non-bank sector for regularizing the stock of legacy arrears		0																		
Net domestic assets of the BSL (ceiling)	2112	2136	1608	Met	2993	3006	2978	Not Met	2220	1797	3370	Not Met	405	580	1212	Not Met	1963	1947	3277	Not Met
Unadjusted target (ceiling)		2112				2993				2220				405				1963		
Adjustment for the shortfall (excess) in external budget support		0																		
Adjustment for exchange rate depreciation (appreciation)		24				13				-423				175				-16		
Adjustment for SDR allocation		0																		
Adjustment for the Special Credit Facility		0																		
Gross international reserves of the BSL, US$ millions (floor)	-222	-224	-175	Met	-304	-306	-279	Met	-243	-267	-289	Not Met	-44	-22	-67	Not Met	-96	-93	-89	Met
Unadjusted target (floor)		-222				-304				-243				-44				-96		
Adjustment for the shortfall (excess) in external budget support		0																		
Adjustment for the shortfall (excess) in the US$ value of IMF disbursement		0								-22										
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities		-2				-2				-2				22				3		
Adjustment for SDR allocation																				
Adjustment for Special Credit Facility																				

1/ Data is preliminary and subject to change

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

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets, 2022-23 (Concluded)

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

	2022												2023							
	Jun. PC				Sep. IT				Dec. PC				Mar. IT				Jun. PC			
	CR. No. 22/259	Adj. Prog	Est.	Status	CR. No. 22/259	Adj. Prog	Est.	Status	CR. No. 22/259	Adj. Prog.	Est.	Status	CR. No. 22/259	Adj. Prog	Est.	Status	CR.24/214	Adj. Prog.	Est.	Status
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/	115		65	Met	115		65	Met	115		105	Met	100		0	Met	100		35	Met
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
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
External payment arrears of the public sector (ceiling) 3/	0		0	Met	0		0	Met	0		0	Met	0		0	Met	0		0	Met
Indicative targets																				
Total domestic government revenue (floor)	3571		3346	Not Met	5518				7787		7046	Not Met	2356			[Met]	4803		4637	Not Met
Poverty-related spending (floor) 4/	1141		1422	Met	1841				2496		2947	Met	572			[Met]	1793		2520	Met
Domestic primary balance (floor)	-932		-1700	Not Met	-1271				-1153		-5116	Not Met	-43			[Met]	-1767		-1835	Not Met
Memorandum items:																				
External budgetary assistance (in $ million)																				
Exchange rate (Leones/US$)																				
Program	13282		13153		14085				14805				15164				21302			
Actual																				

3/ These apply on a continuous basis.
4/ Poverty-related spending is defined in paragraph 23 of the TMU.

Table 2. Sierra Leone: Progress on Prior Actions and Structural Benchmarks

PRIOR ACTIONS AND STRUCTURAL BENCHMARKS	TIMING	RATIONALE FOR MEASURES	STATUS
Prior Actions for the 8th Review			
1. Submit to parliament a 2024 budget consistent with the key parameters of the ECF arrangement.		A post-program budget that is consistent with the program objectives	
2. 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.		Expansion of the tax base and enhanced DRM.	
Structural Benchmarks for 8th Review			
1. 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	To safeguard revenues and remove untargeted fuel subsidies.	Not met.
2. 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	To improve PFM and domestic debt management.	Met. (https://mof.gov.sl/wp-content/uploads/2023/10/SIERRA-LEONE-REVISED-ARREARS-CLEARANCE-STRATEGY-2023-2028-PUBLISHED-31ST-OCTOBER-2023.pdf).
3. 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	Expansion of the tax base and enhanced DRM	Not met; to be implemented as PA.
4. 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: 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	To promote transparency surrounding the ongoing currency reform and build credibility for the new currency.	Met.

SIERRA LEONE

November 13, 2023

EIGHTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
Montfort Mlachila and Jarkko Turunen (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, unchanged from the previous DSA published in June 2023.[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 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.*

[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 2022 World Bank's Country Policy and Institutional Assessment (CPIA).

PUBLIC DEBT COVERAGE

1. **Public debt coverage remains the same as in the previous DSA**. 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.

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.

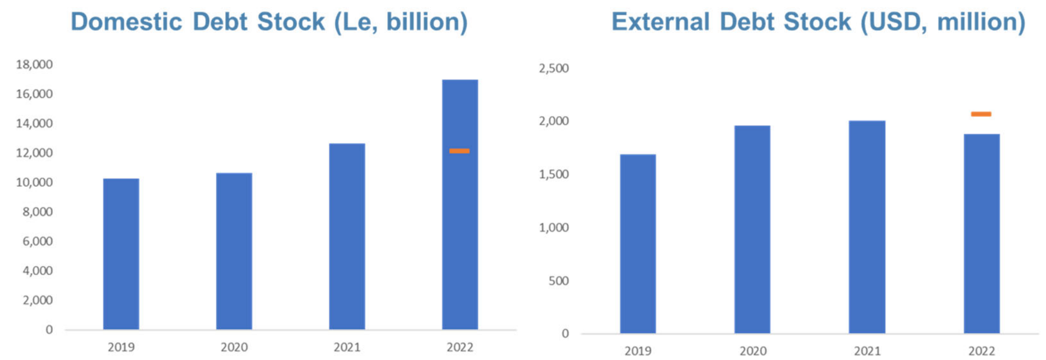
2. **The assumptions on the contingent liability stress test remain the same as in the previous DSA.** Total contingent liabilities are estimated at 12 percent of GDP (Text Table 2). Specifically, (i) the contingent liability for SOE debt is set at 7 percent of GDP, higher than the default value reflecting 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 93 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.

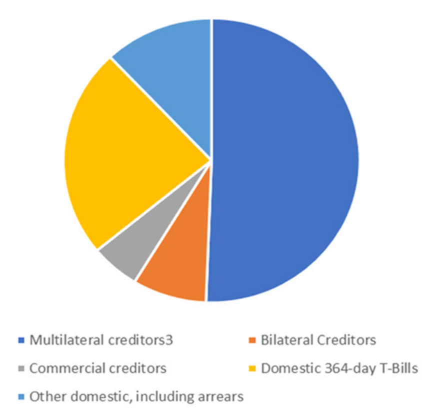
Text Figure 1. Debt Stock (Domestic and External)



Note: Orange markers in 2022 show the projection as of the June 2022 DSA.

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 domestic arrears owed to suppliers (Text Figure 2).

Text Figure 2. Debt Stock as of End-2022



BACKGROUND ON MACRO FORECASTS

5. The macroeconomic assumptions underlying this DSA have remained broadly unchanged from the June 2023 DSA (Text Table 3).

Text Table 3. Macroeconomic Assumptions

	Current DSA			Previous DSA (June 2023)		
	2023	2033	LT ave.1/	2023	2033	LT ave.
Real GDP growth (in percent)	2.7	4.6	4.5	2.7	4.6	4.5
Inflation (GDP deflator, in percent)	37.1	6.4	12.1	34.7	6.5	12.6
Primary deficit (percent of GDP)	1.7	1.0	0.5	1.4	0.9	0.4
Non-interest current account deficit (percent of GDP)	5.6	4.9	3.9	6.7	5.5	4.0

1/ Average between 2023 to 2033.

- **Growth.** In 2023, growth is projected to decelerate to 2.7 percent (from 3.5 percent in 2022) 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 due to: continued expansion in mining activity, and sustained improvements in agriculture. In addition, export shipments are predicted to grow (while iron ore prices moderate), and the macroeconomic stabilization is expected to bolster domestic demand. 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. The tighter macroeconomic policies should help create room for private sector led growth.[2] Downside risks to the growth outlook are significant. Political tensions, food insecurity, and recent regulatory price increases could fuel social unrest, undermine investor confidence, and stymie the policy agenda. A failure to achieve the programmed adjustment could lead to difficulties in financing the deficit, reinvigorate deposit dollarization and intensify debt related risks. A global slowdown, tighter financial conditions, a more protracted Russia's war in Ukraine, and geographical fragmentation could weigh on external demand.

- **Inflation.** Inflation, as measured by the GDP deflator, is projected at 44.3 percent in 2023. The measure is evolving broadly in line with, but is currently lower than, the expected average consumer price inflation of 45.5 percent for 2023. The upward revision in inflation reflects recent adjustments of administrative prices for fuel and electricity tariffs, continued increases in food prices, and the high pass-through of the sharp Leone depreciation in the first half of the year on domestic prices. Base money growth is projected to contract by 17.1 percent in real terms in

[2] The ongoing rebasing of the national accounts will help improve the GDP estimates and computation of related deflators.

2023. The BSL has raised the policy rate by 250 bps since July 2023 in a clear signal of its intention to contain inflation. Over the medium-term, inflation is projected to gradually decline to single digits amid the tighter macroeconomic policy stance.

- **Fiscal.** In 2023, the overall fiscal deficit is projected to narrow to 5.8 percent of GDP from -10.5 percent in 2022, modestly higher than the 5.6 ppt of GDP deficit target for 2023 in the staff report for the 6th/7th reviews of IMF ECF arrangement due to revenue shortfalls.[3] Revenues are expected to be boosted by administrative measures and tax policy measures. Tax policy measures in the 2023 and 2024 Finance Acts alone are expected to raise annual revenues by around 3 ppts of GDP over time (the full yield will take time to materialize). Tax policy measures in the 2023 Finance Act include the adoption of a minimum alternative tax, the removal of exemptions on GST, and the harmonization of excise tax rates for local and imported excisable products; measures in the 2024 Finance Act include broadening the GST base, adopting a specific excise tax on plastics, restoring duties on rice imports, introducing an education levy, and harmonizing the final withholding tax rates for capital income (excluding capital gains tax). Spending is projected to fall by 5.9 ppts of GDP in 2023. Measures on spending include canceling further allocations to MDAs in Q4-2023 (0.2 ppts of GDP), which in addition to the removal of one-offs yields about 1.7 ppts of GDP relative to 2022; (ii) reducing remaining subsidies to EDSA (0.1 ppts of GDP); (iii) postponing transfers to local councils to next year (0.1 ppts of GDP); (iv) freezing domestically financed capital expenditure in Q4 to contain overruns on it at 0.3 percent of GDP, which in addition to the removal of one-off should yield about 2 ppt of GDP reduction relative to 2022; and (v) institute a freeze on new hiring and new wage increases during 2023. In 2024, the deficit is expected to narrow to 2.8 percent of GDP. Revenues are expected to rise gradually over the medium-term supported by the authorities' efforts to boost revenue collection within the context of the MTRS. In particular, the authorities plan to implement additional measures in the 2025 Finance Act to raise another 1 percent of GDP in tax revenues. Meanwhile, limits on discretionary spending, efficiency improvements in capital expenditures, and better commitment management would contain spending. The assumption on domestic arrears clearance remains unchanged from the June 2023 DSA, with the cash paydown of arrears limited to a low budget ceiling and accompanied by NPV reductions in the face value of debt.[4] The deficit is expected to be financed with external concessional financing (both multilateral and bilateral) and domestic market financing.

- **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

[3] Preliminary outturn indicates that expenditures have trended slightly above target, at 78.4 percent of year's target during Q1-Q3 (or 19 percent of GDP). However, revenue collection has fallen modestly short at 9.0 percent of GDP during Q1-Q3 or 67 percent of the year's target, largely due to technical delays in implementing the tax policy measures introduced in the 2023 Finance Act.

[4] 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

China. The current account deficit is projected to shrink in 2023, as increasing iron-ore exports offset imports. The current account is projected to gradually improve over the medium-term, supported by strengthening mining production.

- **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.[5]

- **The additional use of the 2021 IMF SDR allocation is expected to help safeguard priority spending.** 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 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. In terms of domestic financing, 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 assumption is unchanged from the previous DSA.[6] Cumulative net financing from commercial banks and non-banks is assumed to stay around 2 percentage points of GDP, as banks' investment model remains heavily reliant on government securities.

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

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[5] This treatment of IDA financing is an exception.

[6] In the medium- to long-term, this assumption allows gradual transition towards the financing strategy (strategy 2) proposed by a Fund/World Bank TA on the MTDS (in Oct 2021) which assumes domestic borrowing includes issuing 2-5-year T-bonds over the medium term (share of T-bonds in domestic debt securities will increase to 30 percent by 2025). The authorities adopted an updated 2023-27 MTDS in October 2023. The revised strategy envisages actions to strengthen demand for longer term bonds, to achieve the 40 percent share of T-bonds objective and help bring down elevated levels of debt service, including by (i) stipulating investment norms for institutional investors; (ii) updating auction procedures; (iii) strengthening communication with banks and non-banks on the authorities' MTDS; (iv) reviewing primary dealership roles among commercial banks; and (v) raising limits on T-bond yield.

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 (¶5). The authorities have implemented strong corrective measures in the context of the 6th, 7th, and 8th reviews of the Fund-supported program. The package of measures on revenue mobilization, including enforcement and compliance, 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. The authorities have also identified strong contingency measures. They are prepared to frontload additional revenue measures based on the MTRS, including harmonizing final with holding CIT taxes at a rate of 20 percent, increasing the stamp duty on immovable property and further streamlining GST exemptions. 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 authorities are committed to maintaining cost-reflective energy prices by applying the fuel and electricity price formulas, including in case of additional global energy supply shocks. 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. With the measures already introduced (¶5) and expected to be introduced as part of the 2025 Finance Act, domestic revenue is projected to increase over the medium term by more than 4 ppts of GDP. Efficiency gains from digitalization, 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 (to be 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 2022 CPIA, Sierra Leone's debt carrying capacity is evaluated as medium, unchanged from the previous DSA (Text Tables 4 and 5).

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%

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.

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. 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).[7] 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 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 multiple shocks, particularly exports. Additionally, all debt indicators are above the thresholds over the medium term in response to the alternative shock of historical averages. The PV of external debt to GDP remains above the thresholds for the whole projection period in response to a shock to real GDP, and over the medium term in response to commodity, other flows and depreciation shocks. Lastly, all shock scenarios cause external debt service to revenues to breach the threshold.

- 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 frontloaded 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 2027 (Figure 2). 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

[7] 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.

liquidity situation. Recent efforts to lengthen the maturity structure of government borrowing reduces the ratio. 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 recovers and revenue mobilization gains materialize, the public debt service-to-revenue ratio is expected to decline.

- Stress tests indicate that a shock to GDP is the most extreme shock. In response to this shock, the PV of debt to GDP ratio breaches the threshold for the whole projection period, as it does to a commodity shock but at a lower ratio. In fact, all shocks simulated lead the PV of debt to GDP ratio to breach the threshold. 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) are particularly important, including from IFIs which account for a large share of Sierra Leone's PPG external debt.

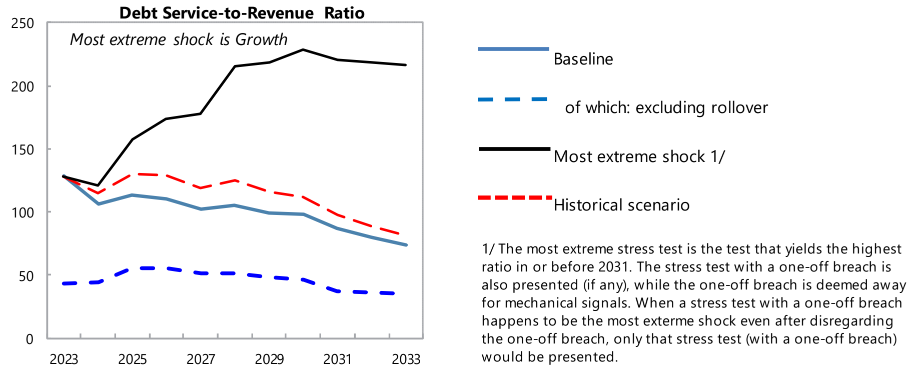
12. The debt service to revenue ratio and gross financing needs are high and their reduction is contingent on the ambitious fiscal adjustment and greater grant and/or concessional borrowing. The need to roll over T-bills issued in the previous year ("T-bills amortization" in Text Table 6) accounts for around 70 percent of gross financing needs (Text Table 6 and Text Figure 3). These T-bills are held largely by domestic public banks and domestic subsidiaries of foreign banks. Rollover risk is high. However, considering the characteristics of Sierra Leone's domestic financial market—where commercial banks' investment models rely heavily on T-Bills, there is limited secondary market trading between commercial banks—staff assesses that these factors mitigate the liquidity risks from this rollover. 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 of the leone. 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.

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**	**128.3**	**106.6**	**113.3**	**110.5**	**102.0**	**105.1**	**99.4**	**97.7**	**86.8**	**79.3**	**73.3**	**23.0**
of which: T-bills amortization	77.9	84.8	61.9	57.6	55.4	50.5	54.2	51.5	51.7	49.3	43.1	38.2	5.6
of which: others	**33.1**	**43.5**	**44.7**	**55.6**	**55.0**	**51.5**	**50.9**	**47.9**	**46.0**	**37.5**	**36.3**	**35.1**	**17.5**
Gross financing need 2/	**28.0**	**23.9**	**20.3**	**21.6**	**20.5**	**19.5**	**20.2**	**19.2**	**18.8**	**16.7**	**15.2**	**14.1**	**5.3**
of which: T-bills amortization	14.6	14.7	12.5	11.7	10.9	10.1	9.5	9.2	9.1	8.9	7.7	6.8	1.0
of which: others	**13.3**	**9.2**	**7.8**	**9.9**	**9.6**	**9.5**	**10.8**	**10.0**	**9.7**	**7.8**	**7.5**	**7.3**	**4.3**

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.

Text Figure 3. Debt-Service to Revenue and Grants Ratio



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, 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.

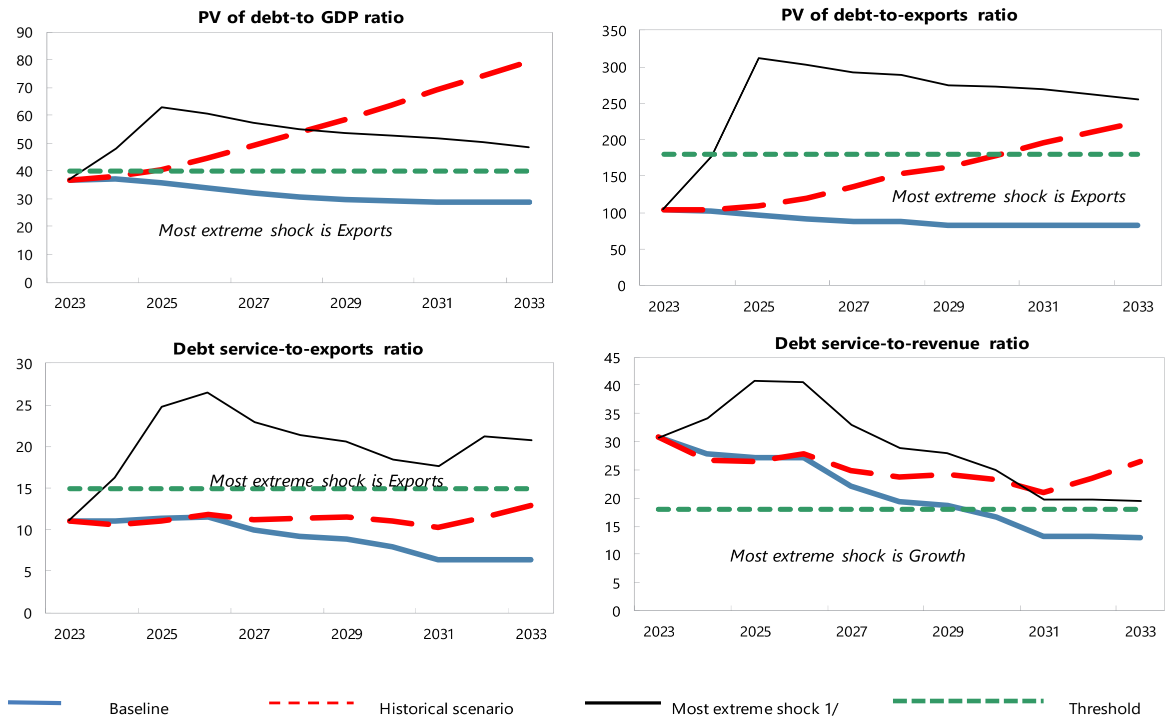
14. This DSA underscores the importance of continued fiscal discipline and structural reforms, supported by technical assistance and prudent financing choices. Higher domestic food and fuel prices could exacerbate the already severe burden on the population, deteriorate the budget and external balances, increase costs for businesses, further expand implicit fuel subsidies, provoke social discontent, and put debt sustainability at risk. Given these vulnerabilities to exogenous shocks, 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 and policy 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, joint World Bank/IMF technical assistance on a medium-term debt strategy, and FY2024 Performance and Policy Actions under Sustainable Development Finance Policy supported by World Bank. 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, included through recently submitted 2024 budget. They committed to continuing to prioritize grant resources, seeking only highly concessional financing, and ratifying only loans within the agreed annual ceiling even after the current IMF ECF program ends 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 market, through swift implementation of the recently updated medium-term debt strategy. 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.

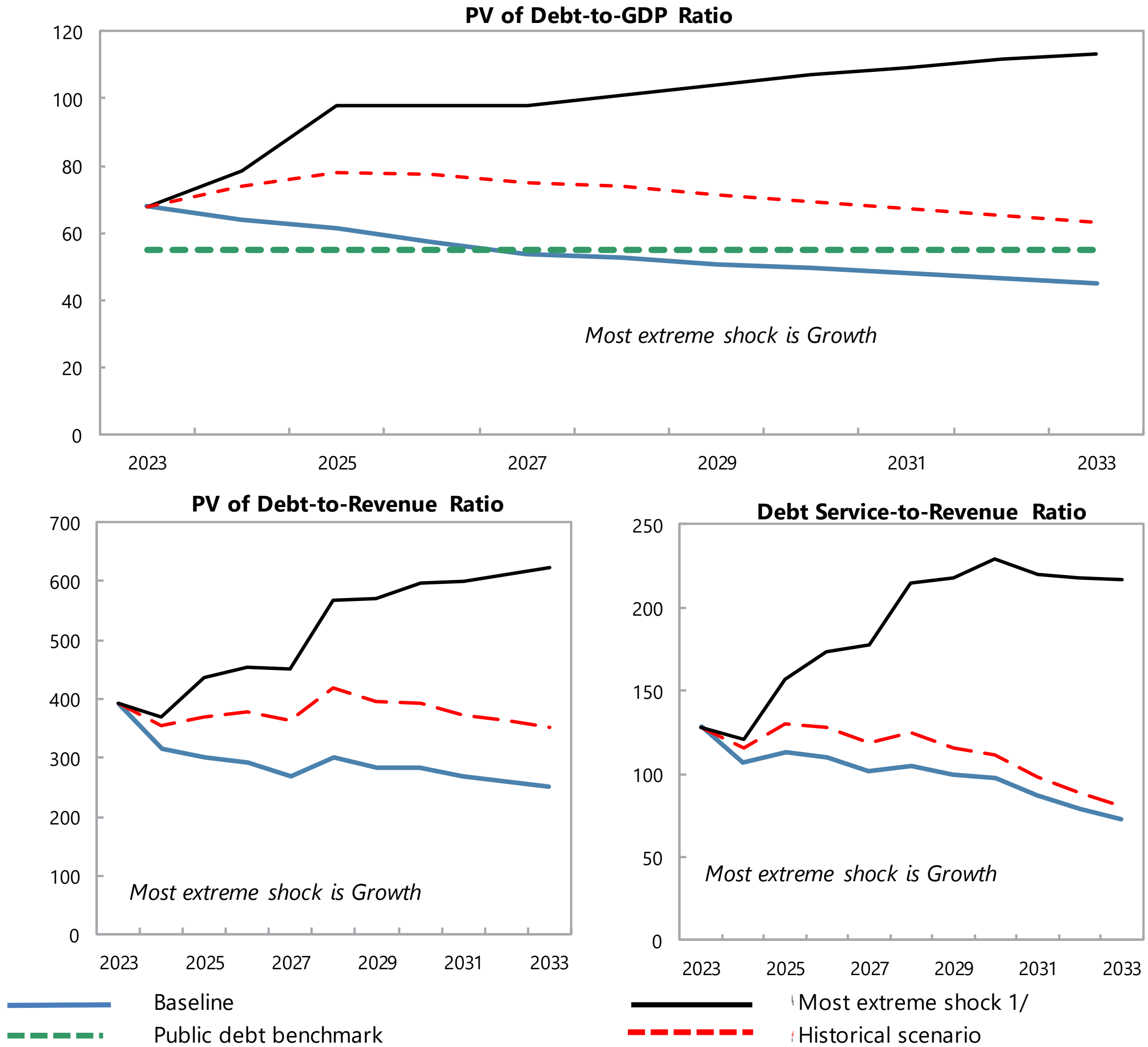
Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2023–33



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



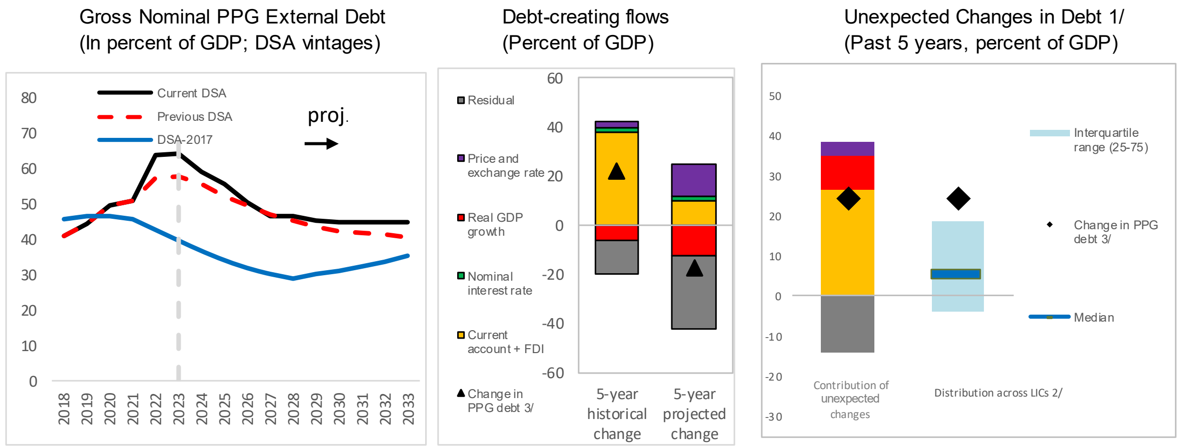
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

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

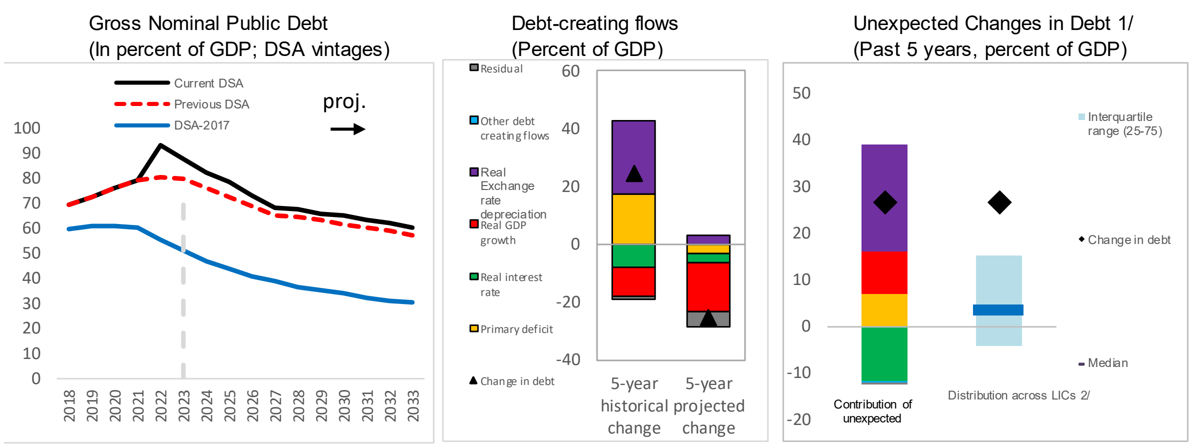
1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (in any), while the one-breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even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

External debt



Public debt



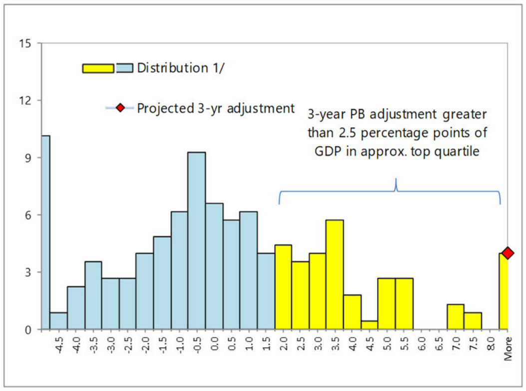
1/ Difference between anticipated and actual contributions on debt ratios.

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.

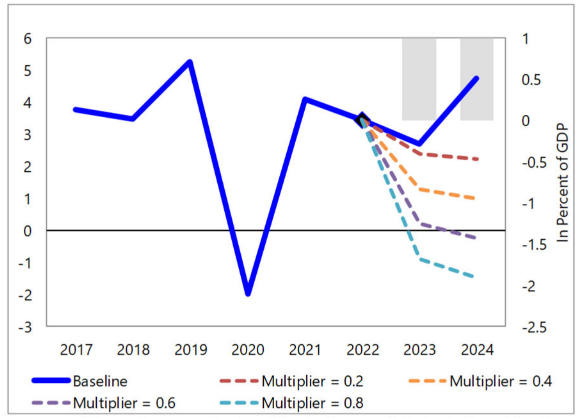
Figure 4. Sierra Leone: Realism Tools

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



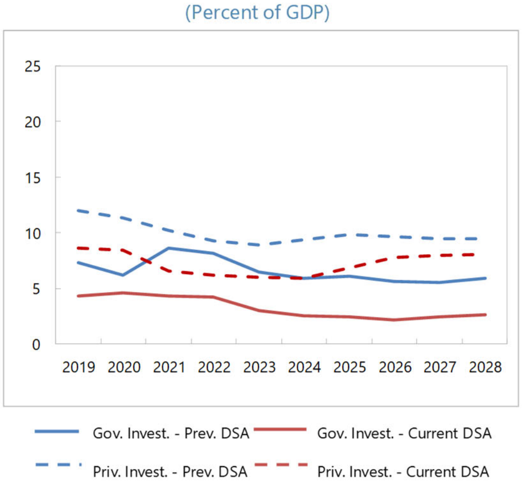
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)



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

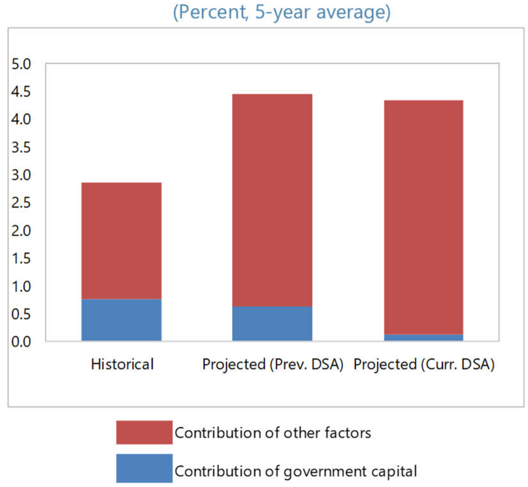
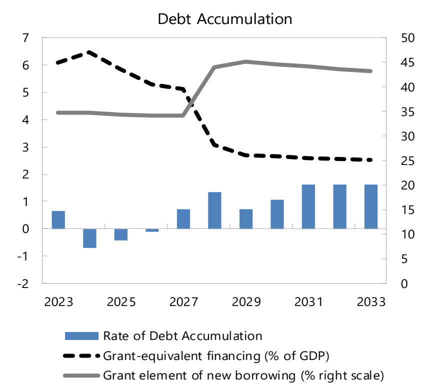


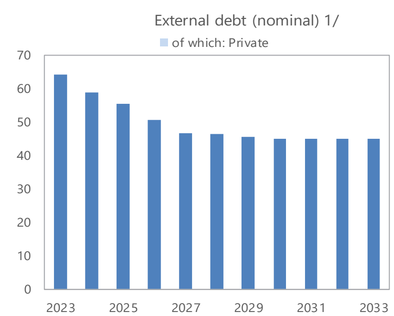
Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2022–43

(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/	63.8	64.1	58.9	55.4	50.6	46.7	46.5	44.9	45.2	**41.0**	**49.7**
of which: public and publicly guaranteed (PPG)	63.8	64.1	58.9	55.4	50.6	46.7	46.5	44.9	45.2	**41.0**	**49.7**
Change in external debt	13.0	0.3	-5.3	-3.4	-4.9	-3.9	-0.2	0.0	0.2		
Identified net debt-creating flows	8.0	3.2	0.3	-1.1	-1.8	-1.2	-0.7	-0.4	13.9	**7.6**	**-0.4**
Non-interest current account deficit	8.5	5.6	3.7	2.3	2.3	2.6	4.5	4.9	6.2	**13.6**	**3.9**
Deficit in balance of goods and services	19.6	16.9	15.7	14.4	14.1	13.9	14.0	13.6	14.1	**21.4**	**14.2**
Exports	30.4	35.3	36.7	37.4	37.0	36.1	35.2	35.3	34.4		
Imports	50.1	52.2	52.4	51.7	51.1	50.0	49.2	48.8	48.5		
Net current transfers (negative = inflow)	-12.3	-12.6	-13.2	-13.2	-13.0	-12.5	-10.6	-9.9	-8.7	**-10.7**	**-11.5**
of which: official	-3.7	-3.0	-3.1	-3.0	-2.9	-2.7	-1.1	-1.0	-0.8		
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)	-1.5	-0.8	-0.7	-0.9	-2.2	-2.2	-3.7	-3.8	9.2	**-6.1**	**-2.6**
Endogenous debt dynamics 2/	1.0	-1.6	-2.7	-2.5	-1.9	-1.6	-1.6	-1.5	-1.5		
Contribution from nominal interest rate	0.4	0.3	0.4	0.5	0.5	0.4	0.4	0.4	0.4		
Contribution from real GDP growth	-1.8	-1.9	-3.1	-3.0	-2.4	-2.1	-2.0	-1.9	-1.9		
Contribution from price and exchange rate changes	2.4	...	...	...	...	...	...	...	...		
Residual 3/	5.0	-2.9	-5.6	-2.3	-3.0	-2.7	0.5	0.4	-13.7	**-3.8**	**-1.3**
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	32.4	36.8	37.3	35.9	34.0	31.9	30.7	28.7	29.5		
PV of PPG external debt-to-exports ratio	106.7	104.4	101.6	96.1	92.0	88.3	87.4	81.4	85.9		
PPG debt service-to-exports ratio	11.1	11.1	11.1	11.3	11.6	9.9	9.2	6.4	6.3		
PPG debt service-to-revenue ratio	26.7	30.8	28.0	27.2	27.1	22.0	19.3	13.0	12.6		
Gross external financing need (Million of U.S. dollars)	424.4	319.7	253.5	207.4	168.1	167.5	185.3	201.7	1890.7		
Key macroeconomic assumptions											
Real GDP growth (in percent)	3.5	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)	-4.6	-12.5	-7.5	-2.4	0.7	4.3	3.3	1.3	1.3	**-1.4**	**-0.7**
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)	11.8	4.2	0.8	4.6	4.2	6.3	5.4	5.7	6.2	**4.6**	**5.1**
Growth of imports of G&S (US dollar terms, in percent)	9.7	-6.3	-2.8	1.4	4.0	6.6	6.3	5.8	5.8	**0.6**	**3.5**
Grant element of new public sector borrowing (in percent)	...	34.7	34.7	34.4	34.2	34.2	44.0	43.1	39.0	**...**	**39.7**
Government revenues (excluding grants, in percent of GDP)	12.6	12.7	14.5	15.5	15.8	16.2	16.8	17.2	17.2	**12.7**	**16.1**
Aid flows (in Million of US dollars) 5/	251.1	169.3	243.7	215.7	193.9	196.4	197.9	166.7	193.4		
Grant-equivalent financing (in percent of GDP) 6/	...	6.1	6.5	5.8	5.3	5.1	3.1	2.5	2.3	**...**	**4.1**
Grant-equivalent financing (in percent of external financing) 6/	...	68.4	81.8	74.5	68.1	65.7	50.5	50.9	46.7	**...**	**60.7**
Nominal GDP (Million of US dollars)	4,095	3,680	3,565	3,662	3,854	4,199	4,539	6,065	10,769		
Nominal dollar GDP growth	-1.3	-10.1	-3.1	2.7	5.2	8.9	8.1	6.0	5.9	**1.3**	**3.8**
Memorandum items:											
PV of external debt 7/	32.4	36.8	37.3	35.9	34.0	31.9	30.7	28.7	29.5		
In percent of exports	106.7	104.4	101.6	96.1	92.0	88.3	87.4	81.4	85.9		
Total external debt service-to-exports ratio	11.1	11.1	11.1	11.3	11.6	9.9	9.2	6.4	6.3		
PV of PPG external debt (in Million of US dollars)	1328.6	1355.0	1329.5	1314.7	1311.1	1338.5	1395.1	1742.6	3182.1		
(PVt-PVt-1)/GDPt-1 (in percent)		0.6	-0.7	-0.4	-0.1	0.7	1.3	1.6	2.0		
Non-interest current account deficit that stabilizes debt ratio	-4.5	5.3	9.0	5.8	7.2	6.5	4.7	4.9	6.0		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

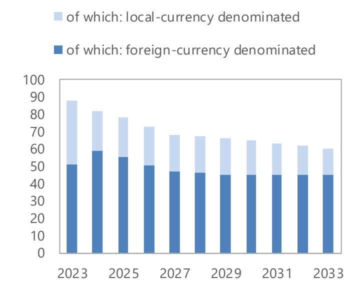
Table 2. Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022–43

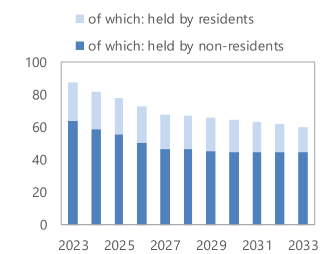
(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	**93.3**	**87.9**	**82.0**	**78.4**	**73.1**	**68.1**	**67.4**	**60.4**	**47.8**	**63.4**	**70.3**
of which: external debt	**63.8**	**64.1**	**58.9**	**55.4**	**50.6**	**46.7**	**46.5**	**44.9**	**45.2**	**41.0**	**49.7**
Change in public sector debt	14.0	-5.4	-5.9	-3.6	-5.4	-5.0	-0.7	-1.5	-0.9		
Identified debt-creating flows	**18.7**	**-7.1**	**-5.6**	**-4.4**	**-3.4**	**-2.9**	**-0.6**	**-1.8**	**-1.2**	**4.7**	**-2.9**
Primary deficit	**7.1**	**1.7**	**-1.2**	**-1.4**	**-1.3**	**-0.8**	**1.9**	**1.0**	**1.2**	**3.8**	**0.5**
Revenue and grants	18.8	17.3	20.2	20.3	19.8	19.9	17.5	17.9	17.8	**16.7**	**18.6**
of which: grants	6.1	4.6	5.7	4.8	4.0	3.7	0.7	0.7	0.6		
Primary (noninterest) expenditure	25.9	19.0	19.0	18.9	18.5	19.1	19.4	18.9	19.0	**20.4**	**19.0**
Automatic debt dynamics	**11.6**	**-8.8**	**-4.3**	**-3.1**	**-2.1**	**-2.1**	**-2.4**	**-2.7**	**-2.4**		
Contribution from interest rate/growth differential	-8.2	-8.8	-4.3	-3.1	-2.1	-2.1	-2.4	-2.7	-2.4		
of which: contribution from average real interest rate	-5.6	-6.4	-0.4	1.0	1.3	1.0	0.6	0.0	-0.3		
of which: contribution from real GDP growth	-2.6	-2.4	-4.0	-4.0	-3.4	-3.1	-3.0	-2.7	-2.1		
Contribution from real exchange rate depreciation	19.8	...	...	...	...	...	...	...	...		
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	**-4.7**	**1.7**	**-0.4**	**0.9**	**-2.0**	**-2.0**	**-0.1**	**0.2**	**0.4**	**1.0**	**-0.1**
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	**73.0**	**67.8**	**63.8**	**61.4**	**57.5**	**53.7**	**52.5**	**45.0**	**32.9**		
PV of public debt-to-revenue and grants ratio	**388.9**	**392.0**	**315.5**	**302.3**	**291.0**	**269.4**	**300.1**	**251.2**	**184.4**		
Debt service-to-revenue and grants ratio 3/	**111.0**	**128.3**	**106.6**	**113.3**	**110.5**	**102.0**	**105.1**	**73.3**	**23.0**		
Gross financing need 4/	28.0	23.9	20.3	21.6	20.5	19.5	20.2	14.1	5.3		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	3.5	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)	-9.9	-14.5	2.1	8.6	8.7	7.0	4.8	2.4	2.3	**-0.4**	**2.8**
Real exchange rate depreciation (in percent, + indicates depreciation)	42.9	...	...	...	...	...	...	...	...	**8.2**	**...**
Inflation rate (GDP deflator, in percent)	25.3	37.1	21.7	14.7	10.9	8.7	7.9	6.4	6.3	**10.8**	**12.1**
Growth of real primary spending (deflated by GDP deflator, in percent)	5.5	-24.7	4.8	4.7	2.1	8.1	5.9	4.3	4.6	**6.7**	**1.9**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-6.9	7.1	4.7	2.2	4.1	4.2	2.6	2.5	2.1	**-2.2**	**3.4**
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		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

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

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	36.8	37.3	35.9	34.0	31.9	30.7	29.7	29.0	28.9	28.8	28.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	36.8	38.0	**40.6**	**44.4**	**49.0**	**53.9**	**58.5**	**63.6**	**69.0**	**74.2**	**79.2**
B. Bound Tests											
B1. Real GDP growth	36.8	**45.6**	**53.8**	**51.0**	**47.7**	**46.0**	**44.5**	**43.5**	**43.3**	**43.2**	**43.0**
B2. Primary balance	36.8	38.2	38.4	37.5	36.1	35.5	34.9	34.6	34.7	34.6	34.5
B3. Exports	36.8	**48.2**	**63.0**	**60.6**	**57.2**	**55.2**	**53.7**	**52.6**	**51.7**	**50.2**	**48.7**
B4. Other flows 3/	36.8	**43.9**	**49.2**	**47.2**	**44.5**	**42.9**	**41.7**	**40.8**	**40.2**	39.2	38.2
B5. One-time 30 percent nominal depreciation	36.8	**48.2**	**43.8**	**41.4**	38.7	37.3	36.0	35.2	35.1	35.1	35.2
B6. Combination of B1-B5	36.8	**48.9**	**57.8**	**55.3**	**52.1**	**50.3**	**48.8**	**47.8**	**46.9**	**45.9**	**44.9**
C. Tailored Tests											
C1. Combined contingent liabilities	36.8	38.8	38.3	37.2	35.5	34.7	33.9	33.5	33.5	33.5	33.5
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	36.8	**42.8**	**46.7**	**45.0**	**42.5**	**40.7**	39.1	37.7	36.7	35.4	34.1
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	104.4	101.6	96.1	92.0	88.3	87.4	82.2	81.6	81.8	81.5	81.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	104.4	103.5	108.5	120.0	135.7	153.2	161.8	178.6	**195.2**	**209.8**	**224.5**
B. Bound Tests											
B1. Real GDP growth	104.4	101.6	96.1	92.0	88.3	87.4	82.2	81.6	81.8	81.5	81.4
B2. Primary balance	104.4	104.3	102.8	101.5	100.1	100.9	96.7	97.2	98.1	98.0	97.9
B3. Exports	104.4	177.4	**310.9**	**302.1**	**292.3**	**289.2**	**273.9**	**272.5**	**269.8**	**261.5**	**254.5**
B4. Other flows 3/	104.4	119.6	131.8	127.6	123.3	122.0	115.4	114.7	113.7	110.8	108.4
B5. One-time 30 percent nominal depreciation	104.4	101.6	90.6	86.5	82.9	82.0	77.1	76.4	76.8	76.8	77.1
B6. Combination of B1-B5	104.4	146.3	126.5	172.6	166.7	164.9	155.8	154.9	153.2	149.7	146.8
C. Tailored Tests											
C1. Combined contingent liabilities	104.4	105.8	102.6	100.5	98.3	98.5	93.9	94.0	94.8	94.8	95.0
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	104.4	150.7	153.2	143.1	132.9	125.6	112.6	110.3	107.9	103.9	100.6
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	11.1	11.1	11.3	11.6	9.9	9.2	8.9	7.9	6.4	6.4	6.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	11.1	10.6	11.0	11.9	11.2	11.3	11.5	11.0	10.2	11.5	12.9
B. Bound Tests											
B1. Real GDP growth	11.1	11.1	11.3	11.6	9.9	9.2	8.9	7.9	6.4	6.4	6.4
B2. Primary balance	11.1	11.1	11.3	11.7	10.1	9.4	9.1	8.1	6.8	7.0	7.1
B3. Exports	11.1	**16.3**	**24.8**	**26.5**	**22.9**	**21.3**	**20.6**	**18.4**	**17.6**	**21.2**	**20.7**
B4. Other flows 3/	11.1	11.1	11.6	12.2	10.5	9.8	9.4	8.4	8.0	8.9	8.7
B5. One-time 30 percent nominal depreciation	11.1	11.1	11.3	11.5	9.8	9.1	8.8	7.8	6.4	6.0	6.0
B6. Combination of B1-B5	11.1	13.2	**16.4**	**17.0**	14.7	13.7	13.2	11.8	11.4	12.0	11.8
C. Tailored Tests											
C1. Combined contingent liabilities	11.1	11.1	11.4	11.7	10.0	9.4	9.1	8.1	6.6	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	11.1	14.5	14.5	14.7	12.3	11.1	10.3	9.1	8.3	9.0	8.8
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	**30.8**	**28.0**	**27.2**	**27.1**	**22.0**	**19.3**	**18.7**	16.7	13.2	13.1	13.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**30.8**	**26.7**	**26.6**	**27.9**	**24.8**	**23.6**	**24.2**	**23.2**	**20.9**	**23.5**	**26.4**
B. Bound Tests											
B1. Real GDP growth	**30.8**	**34.2**	**40.7**	**40.6**	**33.0**	**28.9**	**28.0**	**25.0**	**19.7**	**19.7**	**19.5**
B2. Primary balance	**30.8**	**28.0**	**27.3**	**27.4**	**22.4**	**19.7**	**19.1**	17.2	14.0	14.4	14.6
B3. Exports	**30.8**	**30.6**	**32.5**	**33.8**	**27.7**	**24.3**	**23.5**	**21.1**	**19.5**	**23.5**	**23.0**
B4. Other flows 3/	**30.8**	**28.0**	**27.9**	**28.6**	**23.3**	**20.4**	**19.8**	17.7	16.4	**18.3**	17.9
B5. One-time 30 percent nominal depreciation	**30.8**	**36.2**	**35.2**	**34.8**	**28.2**	**24.7**	**24.0**	**21.4**	16.9	16.0	15.9
B6. Combination of B1-B5	**30.8**	**30.4**	**34.3**	**34.6**	**28.3**	**24.8**	**24.0**	**21.5**	**20.3**	**21.4**	**21.0**
C. Tailored Tests											
C1. Combined contingent liabilities	**30.8**	**28.0**	**27.4**	**27.4**	**22.4**	**19.6**	**19.1**	17.1	13.6	13.5	13.4
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	**30.8**	**37.2**	**36.7**	**37.7**	**28.9**	**23.8**	**21.8**	**18.5**	16.4	17.7	17.3
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	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	**67.8**	**63.8**	**61.4**	**57.5**	53.7	52.5	50.9	49.7	48.1	46.6	45.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**68**	**74**	**78**	**78**	**75**	**74**	**71**	**69**	**67**	**65**	**63**
B. Bound Tests											
B1. Real GDP growth	**68**	**79**	**98**	**98**	**98**	**101**	**104**	**107**	**109**	**111**	**113**
B2. Primary balance	**68**	**70**	**74**	**69**	**65**	**63**	**60**	**59**	**57**	55	53
B3. Exports	**68**	**71**	**81**	**76**	**71**	**70**	**68**	**66**	**64**	**61**	**59**
B4. Other flows 3/	**68**	**71**	**76**	**71**	**67**	**65**	**63**	**62**	**60**	**57**	55
B5. One-time 30 percent nominal depreciation	**68**	**66**	**63**	**58**	53	51	48	46	44	42	39
B6. Combination of B1-B5	**68**	**72**	**74**	**64**	**62**	**62**	**61**	**60**	**59**	**58**	**57**
C. Tailored Tests											
C1. Combined contingent liabilities	**68**	**74**	**71**	**66**	**62**	**60**	**58**	**56**	55	53	51
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	**68**	**70**	**75**	**81**	**85**	**91**	**96**	**99**	**102**	**105**	**108**
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	392.0	315.5	302.3	291.0	269.4	300.1	284.1	282.7	268.2	259.8	251.2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	392	354	369	378	364	418	396	393	373	362	352
B. Bound Tests											
B1. Real GDP growth	392	368	435	454	452	568	570	598	599	612	623
B2. Primary balance	392	347	366	351	324	358	337	334	316	306	296
B3. Exports	392	352	399	386	358	399	379	378	358	342	327
B4. Other flows 3/	392	351	373	360	334	372	353	352	332	319	306
B5. One-time 30 percent nominal depreciation	392	333	313	296	269	291	270	263	245	233	221
B6. Combination of B1-B5	392	352	354	319	303	350	338	341	328	322	315
C. Tailored Tests											
C1. Combined contingent liabilities	392	367	349	335	309	343	324	321	304	295	285
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	392	412	442	493	489	577	560	565	570	587	603
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	128.3	106.6	113.3	110.5	102.0	105.1	99.4	97.7	86.8	79.3	73.3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	128	115	130	129	119	125	116	111	98	88	81
B. Bound Tests											
B1. Real GDP growth	128	121	157	174	178	215	218	229	220	218	216
B2. Primary balance	128	107	135	153	137	137	125	119	104	94	86
B3. Exports	128	107	114	112	103	107	101	99	90	86	80
B4. Other flows 3/	128	107	114	112	103	106	100	99	90	84	78
B5. One-time 30 percent nominal depreciation	128	103	111	107	99	101	96	94	83	76	70
B6. Combination of B1-B5	128	109	122	120	116	127	124	126	116	110	105
C. Tailored Tests											
C1. Combined contingent liabilities	128	107	147	141	126	127	117	112	98	89	81
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	128	132	140	155	173	211	212	216	212	212	213
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 and Mr. Mansaray on Sierra Leone
November 20, 2023

1. On behalf of our Sierra Leonean authorities, we thank staff for the constructive dialogue during the final review mission of the Extended Credit Facility (ECF) arrangement. Our authorities highly appreciate the continued Fund support to Sierra Leone and broadly share staff's assessment of the recent macroeconomic developments and policy priorities.

2. The economy of Sierra Leone continues to moderately recover, against the backdrop of strong headwinds from elevated external risks and domestic macroeconomic imbalances. As such, reform implementation under the ECF arrangement has largely been challenged by external shocks from the COVID-19 pandemic, rising global food and energy prices, tight global financial conditions, constrained fiscal space, high debt service, and adverse weather events. Notwithstanding the attendant challenges, the authorities persevered with fiscal consolidation efforts geared to close the fiscal gap, tightened monetary policy, fostered prudent debt management, strengthened social safety nets, and advanced structural reforms to lay solid foundations for a durable, inclusive, and green growth. In the same vein, they are accelerating efforts to increase agricultural productivity and promote economic diversification to ensure food self-sufficiency and enhance resilience to future shocks. Importantly, they have stayed the course in reform implementation under the ECF arrangement. To consolidate their hard-won reform gains, they are keen to engage the Fund in a successor arrangement and have shown interest in access to climate financing under the Resilience and Sustainability Trust (RST).

Program Performance

3. All the quantitative performance criteria (QPCs) and indicative targets (ITs) for end-June 2023 were met except the QPC on net domestic assets (NDA), which was missed due to tight liquidity conditions that necessitated the Bank of Sierra Leone's (BSL) intervention. The ITs on domestic revenue and primary balance were also missed due to revenue shortfalls resulting from delays in implementing some revenue measures owing to the June 24, 2023, elections.

4. Two out of three structural benchmarks (SBs) for end October 2023 were met. The third SB has been implemented as a prior action for the eighth review. The continuous SB on the automatic fuel price indexation was not implemented ahead of the elections. However, since August 2023, the pump price has been adjusted to allow full pass-through.

5. As part of the remedial actions, the authorities completed two prior actions for the eighth review. The prior actions include submission of the 2024 budget consistent with the ECF program objectives and the 2024 Finance Act incorporating at least 1 percent of GDP in additional annual tax revenue measures. Additional measures to signal tight fiscal and monetary policy stance, alongside strong governance and transparency measures were also adopted to restore macroeconomic stability. Given their renewed commitment and progress made on remedial measures since the last review, as well as fulfillment of prior actions for the

eighth review, **the authorities request the Executive Directors support to conclude the eighth and final ECF review, associated waivers, and financing assurances review.**

Recent Economic Development and Outlook

6. Real GDP growth is estimated to slow from 3.5 percent in 2022 to 2.7 percent in 2023 owing to deteriorating terms of trade, tightening of fiscal and monetary policies, and heightened global uncertainties. Nevertheless, growth is expected to rebound to 4.7 percent in 2024, before averaging 4.5 percent over the medium term. The projected recovery in 2024 is attributed to stronger investments in agriculture as the government's top priority on its big five agenda, improved mining activities, and recovery in the services sector gather pace. Meanwhile, inflation rose from 50.9 percent in August 2023 to 54.5 percent in September 2023. The rise in inflation reflects the effect of energy subsidy removal on domestic food and energy prices, as well as the depreciation of the *Leone* and its impact on imports. Going forward, inflation is projected to decline, benefiting from increased domestic food production, medium-term fiscal consolidation measures, tightening of monetary conditions, and the expected retreat in commodity prices.

7. xternal sector performance is expected to improve moderately in 2023 against the background of increased iron ore exports. The current account deficit is estimated at 5.6 percent in 2023 and projected to narrow to 4.2 percent of GDP in 2024 on the back of the expected increase in mineral exports that would offset imports. Gross international reserves, which declined from 3.3 to 2.8 months of import cover between the first and second quarter of 2023 are projected to rebound to 3.4 months of import cover in 2023 on the back of improved current account performance.

Fiscal Policy and Debt Management

8. The authorities are committed to implementing ambitious medium-term fiscal consolidation measures anchored on domestic revenue mobilization and expenditure rationalization. More generally, the fiscal adjustment measures are geared to enhance debt sustainability, create fiscal space to support priority spending, and protect the most vulnerable. To this end, the authorities enacted the 2023 Finance Act and are currently enforcing administrative measures to improve revenue collection. They continue to address technical challenges in integrating all revenue administration systems and allowing the full pass-through of energy prices. They are making progress to implement the remaining revenue measures in the Finance Act of 2023, including harmonizing domestic excise taxes, surcharges on cellular services, payment of goods and services tax on electricity, the minimum alternate tax, and the safe harbor regulations to mitigate iron ore mispricing.

9. Further, the authorities have submitted a budget to Parliament and the Finance Act for the financial year 2024 that is consistent with the program target of meeting the deficit of 5.8 percent of GDP in 2023, with a projected improvement to 2.7 percent of GDP in 2024. Importantly, the Medium-Term Revenue Strategy (MTRS 2023–2027) developed with technical support from the Fund and the World Bank, was approved by Cabinet in April 2023, and has subsequently been published. Presently, the authorities are intensifying efforts to raise 1 percent of GDP in additional tax revenues.

10. To foster fiscal prudence, government has also embarked on expenditure rationalization measures, including: (i) advancing the development of a medium-term wage bill management strategy to reform the payroll; (ii) limiting further allocations and removing one-off expenditures to ministries, departments, and agencies (MDAs) in quarter four of 2023; (iii) eliminating energy subsidies by allowing full pass-through; (iv) rolling over all domestically funded capital projects and transfers to local governments to 2024; and (v) implementing the adopted public investment management policy. The authorities have also expressed willingness to deepen PFM reforms and are looking forward to Fund support through the appointment of an IMF resident advisor.

11. Given the rising cost of living, the authorities are prioritizing targeted cushioning of the most vulnerable households, as articulated in the 2024 budget. In this context, expenditure restraints and fiscal adjustments are expected to unlock additional resources to boost support to the most vulnerable. Specifically, the authorities are committed to targeting social protection through cash transfers, expanding the school feeding program, providing resources to cater for the girl child, and supporting climate mitigation measures.

12. Implementing measures to ensure debt sustainability over the medium-term remains a key priority for the authorities. To this effect, they updated the medium-term debt strategy, and the arrears clearance strategy. Concurrently, the authorities continue to use the weekly cash forecast tool to support the effectiveness of the expanded cash and debt management committee. They have also taken further steps to deploy an arrears profiling system to track arrears payments across MDAs. The authorities continue to implement the “Not in Budget, No Funding” and “No Funds, No Allocation” operations. Further they have increased reliance on grants or concessional resources while intensifying measures to mitigate fiscal risks from contingent liabilities.

Monetary and Exchange Rate Policies

13. The authorities remain committed to monetary tightening to ensure price stability. To this end, the Bank of Sierra Leone (BSL) raised the Monetary Policy Rate (MPR) from 19.25 percent in July 2023 to 21.25 percent in September 2023 and restricted secondary market interventions. To anchor monetary growth to the inflation target, the central bank remains committed to curtailing base money growth while ensuring that any bridge loan to the government is paid by the end of 2023. To achieve its near-term objective, the authorities plan to address the declining capital of the central bank as soon as the 2022 audit financial statement is complete. Additionally, the authorities have restricted their intervention in the foreign exchange market to build reserve buffers and manage exchange rate volatility. In the same vein, they have terminated the foreign exchange facilities used to resolve short-term forex supply shortages to assist the importation of essential commodities. More generally, the authorities are taking steps to develop the foreign exchange market with support from the Fund’s resident advisor. The central bank is prepared to further tighten monetary policy going forward to bring down inflation to single digit levels over the medium term. At the same time, the authorities plan to strengthen effective communication of monetary policy actions to anchor inflation expectations.

Financial Sector Policies

14. The authorities acknowledge the need to remain vigilant and have intensified financial supervision to safeguard a stable and well-capitalized financial system. Accordingly, they established the Financial Policy Committee, and set up the Deposit Protection Fund unit at the BSL. They have also accelerated risk-based supervision efforts in collaboration with the Financial Intelligence Unit. Plans are underway to adopt the Basel 2 and Basel 3 frameworks in the near term. Further, the BSL continues to improve the regulatory framework, including for the two viable state-owned banks, while building capacity on risk-based supervision with support from the IMF resident advisor. To maintain a stable financial system, the authorities are currently finalizing the macroprudential instruments, the crisis management plan, and the Emergency Liquidity Assistance (ELA) framework. At the same time, they remain committed to implementing the remaining recommendations of the 2021 financial sector stability review (FSSR) as they press forward with the adoption of a new corporate governance framework for banks and financial holding companies and implement the Domestic Systemically Important Banks (DSIBs) framework. In the near term, the authorities plan to fully implement the 2019 Banking Act, fully operationalize the Deposit Insurance Fund Act, and implement the strategy to reduce the rising non-performing loans.

Structural Reforms

15. The authorities place a high premium on structural reforms to tackle governance vulnerabilities. To this end, they are intensifying efforts to ensure transparency and accountability, to minimize corruption. Furthermore, they have taken steps to withhold allocations to ministries, departments, and agencies failing to implement audit recommendations in line with the Standard Operating Procedures adopted in the first half of 2023. While ensuring the payment of all outstanding legal arrears to the Audit Service Sierra Leone (ASSL), the authorities are intensifying implementation of the published roadmaps geared towards strengthening the ASSL's fiscal and operational independence. To improve the legal auditing framework and address issues relating to the ongoing tribunal, the authorities are keen to seek advice from the Fund's legal experts based on the divergent legal opinions so far. To promote transparency, the authorities have submitted to Parliament, a detailed report on the currency redenomination and will publish key findings as soon as parliamentary proceedings are completed.

16. To bolster financial integrity, the authorities, with support from the World Bank and the Intergovernmental Action Group against Money Laundering in West Africa (GIABA), have developed the bill on the AML/CFT and Financing the Proliferation of Weapons of Mass Destruction. By the end of 2023, Parliament is expected to ratify this bill, which seeks to repeal and replace the AML/CFT Act of 2012. While the authorities are working on advancing AML/CFT considerations across banks and non-bank financial institutions and improving joint supervision by the Financial Intelligence Unit (FIU), the BSL, and the Sierra Leone national insurance commission, have approved the AML/CFT national risk assessment report scheduled to be published by the end of November 2023. Further, prospective financial sector entrants are required to disclose their funding sources to the FIU. If this is found satisfactory, the FIU will issue a no-objection before the BSL conducts a fit and proper test and grants a

license. To strengthen collaborative supervision, the authorities are seeking TA from the Fund to build their capacities on AML/CFT supervision procedures and requirements.

17. The authorities remain committed to improving the business environment. In this vein, they have launched the national switch, which enhances interoperability among commercial banks, and are providing financial and technical support to SMEs. They continue to take steps to build resilience and promote sustainable green growth by supporting continued investments in agriculture, increasing afforestation, investing in renewable energy sources, limiting timber logging, and implementing several regulations aimed to support climate change mitigation efforts.

Conclusion

18. The authorities remain committed to implementing measures aimed to entrench macroeconomic stability and promote inclusive growth. They appreciate the Fund's support and continued engagement and agree that revenue-driven fiscal consolidation efforts remain important to ensure fiscal and debt sustainability. They are also committed to tight monetary policy to restore price stability; alongside appropriate reform measures designed to build buffers and maintain sustainable debt levels. Against this backdrop, they continue to count on the Fund's technical and financial support in the context of a successor ECF program and the RST.