INTERNATIONAL MONETARY FUND

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SIERRA LEONE

November 2024

2024 ARTICLE IV CONSULTATION AND REQUEST FOR A 38-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SIERRA LEONE

In the context of the 2024 Article IV Consultation and Request for a 38-Month Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its October 31, 2024, consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 31, 2024, following discussions that ended on September 13, 2024, 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 October 16, 2024.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- An **Informational Annex** prepared by the staff of the IMF.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Sierra Leone.

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

Selected Issues
Poverty Reduction and Growth Strategy Paper

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2024 Article IV Consultation with Sierra Leone and Approves Request for a 38-Month Arrangement under the Extended Credit Facility

FOR IMMEDIATE RELEASE

- The IMF Executive Board today approved a 38-month arrangement under the Extended Credit Facility, with requested access of SDR 186.663 million (around US$ 248.5 million).
- The ECF-supported program will help Sierra Leone restore stability by bolstering debt sustainability, addressing fiscal dominance, bringing down inflation and rebuilding reserves; support inclusive growth through reforms and targeted social spending; confront corruption, and strengthen governance, institutions, and the rule of law.
- The Executive Board also completed the 2024 Article IV consultation, which focused on climate vulnerabilities, gender gaps, social policies, mining revenue mobilization, drivers of inflation, and trade facilitation.

Washington, DC – **October 31, 2024:** The Executive Board of the International Monetary Fund (IMF) today concluded the 2024 Article IV consultation[1] with Sierra Leone and approved a 38-month arrangement under the Extended Credit Facility (ECF), in the amount of SDR 186.663 million (about US$248.5 million). The Executive Board's decision enables an immediate disbursement of SDR 34.999 million (about US$ 46.6 million).

The new arrangement supports the authorities' National Development Plan 2024-30. It aims to restore stability by bolstering debt sustainability addressing fiscal dominance, bringing down inflation and rebuilding reserves; support inclusive growth through structural reforms and targeted social spending; and confront corruption, and strengthen governance, institutions, and the rule of law.

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The authorities began to tackle Sierra Leone's macroeconomic imbalances last year by notably tightening fiscal and monetary policies. They reduced the domestic primary deficit by 2.8 percentage points of GDP in 2023 and are on track towards reducing it by another 2.1 percentage points this year. They also tightened monetary conditions sharply by reducing year-on-year base money growth from a peak of 63.4 percent in June 2023 to 8.8 percent in June 2024, and raised the policy rate by 7.75 percentage points since end-2022.

The policy tightening arrested the sharp exchange rate depreciation observed in 2022 and early 2023, and inflation declined from 55 percent y-o-y in October 2023 to 25 percent in

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

August 2024. Growth reached more than 5 percent in 2022 and 2023 on the back of strong mining sector activity and is expected to stabilize at 4.6 percent over the medium term. Nonetheless, debt remains at high risk of distress, international reserves have fallen to less than two months of imports, inflation and borrowing costs remain elevated, and the electricity distribution company continues to make losses, resulting in significant fiscal pressures.

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

"Despite Sierra Leone's abundant natural resources, its young population, and favorable geography, the years since the Ebola outbreak did not deliver sufficient improvements in standards of living.

"The previous ECF arrangement served as a critical policy anchor, supported stability, promoted reforms, catalyzed financing, and integrated well with capacity development efforts, but program performance was mixed. A series of exogenous shocks, paired with suboptimal policies and governance challenges contributed to low growth, elevated inflation, and heightened debt-related risks.

"The authorities' recent ambitious reform efforts are commendable. Tighter macroeconomic policies contributed to a substantial decline in inflation, helped stabilize the exchange rate, and built policy credibility. However, debt remains at high risk of distress, inflation is still too high, and international reserves are at inadequate levels.

"Addressing Sierra Leone's macroeconomic imbalances while making durable progress in fighting poverty, and raising standards of living, will require a sustained commitment to reform. The macroeconomic policy tightening required to keep debt on a sustainable path, bring down inflation, and rebuild international reserves is significant. Protecting the most vulnerable from the adjustment will be a challenge, and achieving higher, and more inclusive growth will require ambitious structural reform efforts.

"The new ECF arrangement integrates well with the National Development Plan 2024-30 in addressing these challenges. It aims to tighten fiscal policy by enhancing revenue mobilization, boosting spending efficiency, and strengthening public financial management and debt management. Monetary policy will remain appropriately tight, while maintaining a flexible exchange rate, and strengthening financial sector oversight and regulation, and building a strong financial safety net.

"The ECF arrangement will also support inclusive growth through targeted social spending and structural reforms, including by promoting gender equality, strengthening customs administration, building a strong social safety net, and bolstering governance, institutions, and the rule of law."

Sierra Leone: Selected Economic Indicators

	2023 Prel.	2024 Proj.	2025 Proj.
Output (annual percentage change)			
Real GDP growth	5.7	4.0	4.5
Real GDP growth, excl. iron ore	3.0	3.9	4.6
Prices (annual percentage change)			
Inflation, end of period (%)	52.2	21.0	14.9
Central Government Finances (percent of non-iron ore GDP)			
Revenue, excl. grants	7.9	8.9	9.8
Grants	5.6	4.1	4.6
Expenditure and net lending	18.9	16.1	18.3
Overall balance	-5.3	-3.2	-3.9
Public debt	53.4	46.5	46.6
Money and credit (annual percentage change)			
Broad money	32.8	16.5	14.5
Credit to the private sector	25.0	21.0	20.4
Balance of payments(percent of non-iron ore GDP)			
Current account	-5.3	-4.0	-4.5
Gross reserves (months of imports)	2.6	2.4	2.7
External debt	36.5	30.2	29.7

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

PRESS RELEASE

PR 24/432

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Executive Board Assessment[2]

Directors agreed with the thrust of the staff appraisal. They noted that external shocks, paired with suboptimal policies and weak governance, have contributed to low growth, high inflation, a high risk of debt distress, and low reserves. While the recent policy tightening helped to reduce inflation and stabilize the currency, Directors emphasized that strong program ownership and steadfast implementation under the new ECF, including contingency measures as needed, are crucial for restoring macroeconomic stability, safeguarding debt sustainability, and fostering higher and inclusive growth. They noted the importance of CD support for successful program implementation.

Given the high risk of debt distress, Directors underscored the need for sustained fiscal consolidation to keep debt on a sustainable path. They welcomed the authorities Medium Term Revenue Strategy, the focus on enhancing implementation, compliance, and tax administration, as well as efforts to enhance mining revenues. They also called for expenditure restraint, while protecting social spending amid the high level of food insecurity. Directors emphasized the need to further strengthen debt management and public financial management.

Directors concurred that monetary policy should be sufficiently tight to reduce inflation to single digits. They welcomed plans to strengthen the monetary policy framework to provide more effective policy tools, limit monetary financing, and enhance liquidity management. They highlighted the need to allow the exchange rate to adjust flexibly to shocks while rebuilding international reserves. They encouraged effective implementation of safeguards assessment recommendations to improve the governance, accountability, and transparency of the central bank.

Directors noted that the elevated sovereign-bank nexus, high deposit dollarization, and solvency and prudential challenges require continued vigilance and enhanced regulation and oversight to safeguard financial sector stability. They positively noted commitments to establish a macroprudential framework, the Deposit Protection Fund, and an Emergency Liquidity Assistance framework, as well as efforts to finalize the crisis management plan and to prepare measures to bolster bank solvency. Strengthening the AML/CFT framework is essential.

Directors noted that the objectives of the ECF arrangement are aligned with the National Development Plan 2024-30. They emphasized the importance of addressing weaknesses in governance and corruption, narrowing gender gaps, bolstering customs administration, building a strong social safety net, and proactively dealing with climate related risks. They

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[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

looked forward to the governance and corruption diagnostic to guide robust governance reforms. A few Directors noted the authorities’ interest in an RSF arrangement to help address climate challenges.

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INTERNATIONAL MONETARY FUND

SIERRA LEONE

October 16, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION AND REQUEST FOR A 38-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context. Political and social stability have been tested by a cost-of-living crisis, a coup attempt, and allegations of electoral fraud. To help maintain calm, the ruling coalition and the opposition released a joint statement promoting a constructive political dialogue. The Tripartite Committee facilitated by the UN published its recommendations to strengthen the electoral system. External shocks and suboptimal policies contributed to substantial macroeconomic imbalances following the Covid-19 pandemic. A new economic team has taken action to stabilize the economy and reduce debt-related risks, but additional efforts will be needed, including to protect the most vulnerable. The Extended Credit Facility (ECF) arrangement will serve as a critical policy anchor, and strong ownership will be key.

Macroeconomic developments and outlook. Macroeconomic imbalances have narrowed on the back of tighter policies. The exchange rate has remained stable, and inflation is coming down. Nonetheless, the remaining fiscal and monetary adjustment needed to keep debt on a sustainable path is large, financing needs and borrowing costs are high, inflation remains elevated, and reserves are inadequate. The cost-of-living crisis continues in the context of already high levels of poverty and food insecurity. Growth is projected to be supported by the macroeconomic stabilization and the ongoing expansion in the mining and agricultural sectors.

Article IV and ECF Program. Consistent with the National Development Plan 2024-30, and building on the lessons learnt from the previous ECF arrangement, the new ECF arrangement aims to:

- **Restore stability** by bolstering debt sustainability, addressing fiscal dominance, bringing down inflation, and rebuilding reserves. This will require tightening the policy stance, maintaining financial stability through strong oversight and regulation and an enhanced financial safety net, strengthening debt management, public financial management, and the monetary policy framework, and raising grant resources.

- **Support inclusive growth** through reforms—including to narrow gender gaps—and targeted social spending. Amid high levels of food insecurity, social spending will be protected despite the fiscal consolidation. Reforms aimed at achieving higher, more inclusive, and sustainable growth are centered around the National Development Plan.

- **Confront corruption, and strengthen governance, institutions, and the rule of law.** A Governance and Corruption Diagnostic will provide a holistic analysis of corruption challenges and provide concrete sequenced recommendations to guide conditionality and capacity development. Safeguards reforms will be based on the recent assessment.

Access: Staff proposes a 38-month arrangement under the ECF with access of SDR 186.663 million (approximately 90 percent of quota) to allow Sierra Leone to meet its balance of payments needs. The disbursement schedule is frontloaded to bolster Sierra Leone's international reserves position.

Program risks. Downside risks to reform execution are high as high levels of food insecurity, governance challenges, and the fragile social and political landscape could fuel social tensions and weaken ownership. A global slowdown, tighter financial conditions, and a protracted Russia's war in Ukraine could weigh on demand, while the entrenched sovereign-bank nexus constitutes a financial stability risk. Adverse terms of trade shocks could adversely impact the current account and the fiscal position, and rollover risks could materialize. These risks are mitigated, through contingency planning, substantial capacity development to strengthen institutional capacity, and the ongoing dialogue between the two main political factions to resolve outstanding governance issues. Sierra Leone has a good track record of IMF repayment.

Staff's views. Staff recommends concluding the 2024 Article IV consultation and supports the authorities' request for the ECF arrangement considering their strong policy commitments.

Approved By
Montfort Mlachila and Jarkko Turunen

An IMF team consisting of Messrs. Saborowski (head), Dovi, Nicholls, Wankuru (all AFR), Ms. Kazandjian (SPR), Ms. Duarte (FAD), Mr. Mugisa (MCM), Mr. Mitchell (Resident Representative) and Mr. Kargbo (Economist, Freetown office) held discussions with the authorities in Freetown during April 3 -12, 2024, and September 4-13, 2024. Mr. Mansaray (Advisor OED) participated in the missions. Mr. Márquez Barroeta and Ms. Datshkovsky contributed to the preparations for the review. Mr. Magno and Ms. Manning provided editorial support. The mission met with President Bio, Finance Minister Bangura, Governor Stevens, and representatives of the private sector, CSOs, and development partners.

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APPENDIX

Acronyms

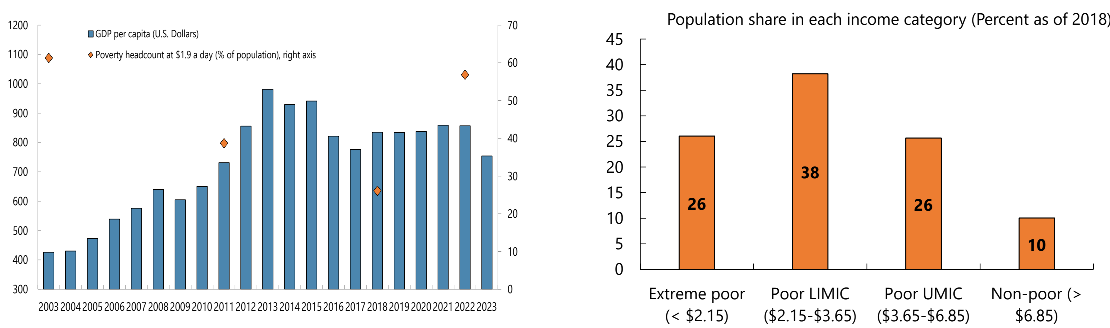
AE	Advanced Economy
AFCFTA	African Continental Free Trade Area
AFW2	AFRITAC West 2
AML/CFT	Anti-money Laundering and Combating the Financing of Terrorism
ASSL	Audit Service Sierra Leone
ASYCUDA	Automated System for Customs Data
BOP	Balance of Payments
BSL	Bank of Sierra Leone
CA	Current Account
CAR	Capital Asset Ratio
CCDR	Country Climate and Development Report
CCR	Catastrophe Containment and Relief
CPD	Climate Policy Diagnostic
C-PIMA	Climate Public Investment Management Assessment
CSO	Civil Society Organization
CtR	Capacity to Repay
DFC	Development Finance Corporation
DP	Development Partner
DPO	Development Policy Operations
DSA	Debt Sustainability Analysis
ECDMC	Expanded Cash and Debt Management Committee
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
ECR	Electronic Cash Register
EDSA	Electricity Distribution and Supply Authority
EFT	Electronic Funds Transfer
eGDDS	Enhanced General Data Dissemination System
EMDE	Emerging Market and Developing Economy
ESTR	Euro Short-term Rate
EU	European Union
EWRC	Electricity and Water Regulatory Commission
FA	Finance Act
FAD	Fiscal Affairs Department
FADEP	Fiscal Affairs Department Expenditure Policy
FPC	Financial Policy Committee
FS	Financial Secretary
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GIR	Gross International Reserves
GRA	General Resources Account
GRB	Gender-Responsive Budgeting
GST	Goods and Services Tax
H1	First half of the year

H2	Second half of the year
HIPC	Heavily Indebted Poor Countries
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPP	Independent Power Producers
IT	Indicative Target
ITAS	Integrated Tax Assessment System
MCC	Millennium Challenge Corporation
MDA	Ministries, Departments and Agency
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
MoF	Ministry of Finance
MPC	Monetary Policy Committee
MT	Medium Term
MTRS	Medium-Term Revenue Strategy
NASSIT	National Social Security and Insurance Trust
NCG	Net Credit to Government
NDA	Net Domestic Assets
NPIMP	National Public Investment Management Policy
NPL	Non-performing loans
NRA	National Revenue Authority
PFM	Public Financial Management
OECD	Organisation for Economic Co-operation and Development
PFM	Public Finance Management
PIM	Public Investment Management
PPI	Producer Price Index
PRGT	Poverty Reduction and Growth Trust
QPC	Quantitative Performance Criterion
RBS	Risk Based Supervision
REER	Real Effective Exchange Rate
RSF	Resilience and Sustainability Facility
SB	Structural Benchmark
SDG	Sustainable Development Goal
SME	Small and Medium Enterprise
SOB	State Owned Bank
SOE	State Owned Enterprise
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
SOP	Standard Operating Procedures
SVA	Sub-Vented Agency
TA	Technical Assistance
T-bill	Treasury bill
TONAR	Tokyo Overnight Average Rate
ToT	Terms of Trade
TSA	Treasury Single Account
WB	World Bank
WEO	World Economic Outlook

CONTEXT

1. **External shocks and suboptimal domestic policies contributed to stagnating income levels and rising poverty over the past decade** (Text Figure 1). Despite Sierra Leone's abundant natural resources, its young population, and favorable geography, the years since the Ebola outbreak did not deliver critically needed improvements in standards of living. A series of shocks, paired with suboptimal policies and weak governance, contributed to low growth, high inflation, a high risk of debt distress, and low reserves.

Text Figure 1. Sierra Leone: Income and Poverty



Sources: World Bank, using the latest survey 2018 and IMF staff calculations.
Note: The categories in the right chart reflect poverty headcounts for those living at the respective US$-amount per day. LIMIC=low middle income, and UMIC=upper middle income.

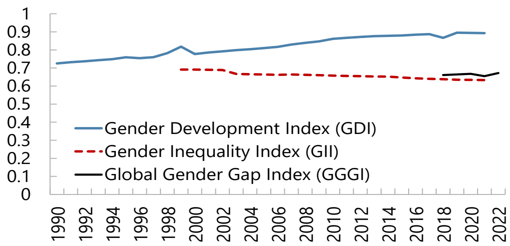
2. **Expansionary policies paired with structural and governance challenges crowded out inclusive and private sector led growth.** Large fiscal deficits and loose monetary conditions not only materialized in macroeconomic imbalances but also in a robust sovereign-bank nexus, high borrowing costs, and a crowding out of private access to finance. Governance and corruption challenges diverted resources away from productive investments, undermined the business climate through pervasive arrears and poor revenue mobilization, and prevented Sierra Leone's mining sector from living up to its potential. Efforts to address gender inequality are laudable, but an inequality in opportunities persists (Text Figure 2 and Table 10). The high vulnerability to climate shocks is placing an additional burden on the population amid an inadequate social safety net.

3. **The previous ECF arrangement served as a critical policy anchor but failed to deliver on all its objectives** (Annex I). It supported stability, promoted reforms, catalyzed financing, and integrated well with Capacity Development (CD). However, an initially promising performance gave way to expansionary policies following the Covid-19 pandemic and ahead of the 2023 general elections. The exchange rate depreciated sharply, inflation and debt levels surged, and reserves fell to inadequate levels. Lessons from the program include that (i) conditionality should be clearly defined, parsimonious, and cognizant of ownership and capacity; (ii) reforms should be well aligned with CD; and (iii) contingency measures are critical when PFM is weak.

Text Figure 2. Sierra Leone: Trends in Gender Equality

Overall gender inequality has declined over the past two decades but remains high.

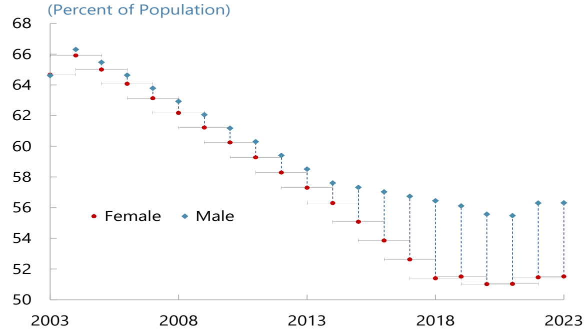
Composite Gender Indices
(Index, 0-1; GII: higher value, lower equality; GDI/GGGI: higher values, higher equality)



Source: UNDP and World Economic Forum, and IMF staff calculations.

Women's labor force participation has fallen more than men's, widening the gender divide.

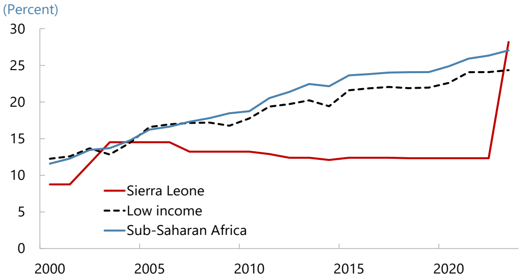
Labor Force Participation Rate
(Percent of Population)



Source: World Bank Gender Data Portal

Women's representation increased following the Gender Equality and Women's Empowerment Act 2022…

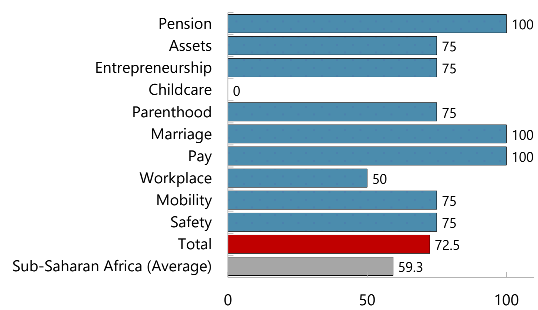
Proportion of Seats Held by Women in National Parliament
(Percent)



Source: World Bank World Development Indicators.

… and legal reforms have increased Sierra Leone's score above the regional average.

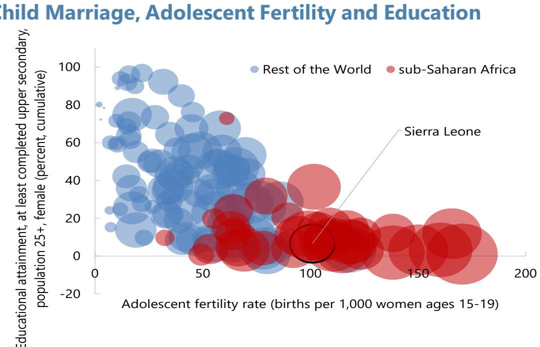
Legal Equity
(World Bank 2.0 Legal Framework Score; 100=highest)



Source: World Bank, Women Business and the Law (2024).

High rates of child marriage are contributing to elevated adolescent fertility and lower educational outcomes.

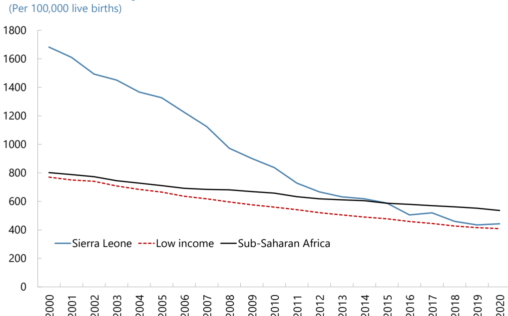
Child Marriage, Adolescent Fertility and Education



Source: World Bank Gender Statistics.
Note: Each circle indicates one country. The size of the circle is proportionate to the percentage of women (age 20-24).

Maternal death ratios have declined substantially but remain high.

Maternal Mortality Ratio
(Per 100,000 live births)



Source: World Bank World Development Indicators.

4. A new economic team has begun to reverse course, but significant challenges remain. The authorities tightened macroeconomic policies significantly since early 2023. They implemented a set of difficult reforms despite a competitive election cycle, and as allegations of electoral fraud, and two alleged coup attempts, fueled political divisions. They also developed new entities to increase value for the state from the mining sector and are committed to further refining their institutional arrangements to contain governance risks. Some recommendations from the last Article IV Consultation were also addressed (Annex II). The macroeconomic adjustment and structural reforms required to keep debt on a sustainable path are nonetheless ambitious, financing needs remain too high, reserves are inadequate, and structural challenges are significant.

5. **The authorities have requested a successor program to support key objectives in the National Development Plan 2024-30 (NDP).**[1] The NDP centers around the Big Five Game Changers, namely (i) the Feed Salone initiative;[2] (ii) programs to develop a skilled, healthy, inclusive and gender-sensitive labor force; (iii) employment schemes for the youth; (iv) initiatives to improve technology and infrastructure; and (v) programs to transform the public service architecture to achieve effective service delivery. The ECF arrangement supports these initiatives by restoring macroeconomic stability and tackling structural reforms, including policies to promote gender equality, efforts to support social spending, and initiatives to strengthen governance.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

6. **The political and social environment has been tense.** Social cohesion has been tested by a severe cost-of-living crisis, the November 2023 coup attempt, and allegations of fraud during the 2023 elections. To help maintain calm, the ruling coalition and the opposition released a joint statement in June, condemning hate speech and promoting a constructive political dialogue. The Tripartite Committee facilitated by the UN to resolve grievances over allegations of electoral fraud published its recommendations to strengthen the electoral system in July.

7. **The President initiated the process to remove the auditor general and her deputy from office in June.** The decision was based on an investigative tribunal's recommendations. The tribunal was set up following the officials' suspension from office in November 2021, and its conduct and findings have been criticized by outside observers.

8. **The rebased national accounts suggest that the Sierra Leonean economy is much larger than previously estimated.** Nominal GDP in 2022 was revised up by 74 percent. The rebasing notably reduced ratios of debt, revenues, trade, and other variables to GDP, but staff's assessment is that that key challenges and reform priorities remain unchanged (Annex VII).

9. **The macroeconomic policy stance tightened significantly.**

- **Fiscal policy** (Text Table 1). The domestic primary deficit narrowed by 2.8 ppts of GDP in 2023, amid improvements in tax collections and tight spending restraint on wages and salaries, goods

[1] The NDP qualifies as Poverty Reduction Strategy Paper (PRSP) for the purposes of the ECF arrangement.

[2] The Feed Salone aims to achieve food self-sufficiency by (i) improving mechanization and irrigation, particularly in rice production areas; (ii) better targeting seed and input subsidy systems; (iii) aggregating farmers' output, processing, and supportive market linkages; (iv) promoting agricultural finance; (v) adopting modern ag-tech and climate smart agriculture; and (vi) empowering women and youth in agriculture.

and services, subsidies and transfers, and capital expenditure. In H1-2024, the policy stance continued to tighten as tax revenues recovered further on the back of recently implemented tax policy measures, strong enforcement, and one-offs. The authorities remain on track towards narrowing the domestic primary balance by another 2.1 ppts of GDP in 2024.

- **Monetary policy.** Base money growth increased from 10.2 percent y-o-y at end-2022 to a peak of 63.4 percent in June 2023, before declining to 13.5 percent in July 2024. The MPC raised the policy rate from 17 percent in end-2022 to 24.75 percent in October 2024 (Text Figure 3).

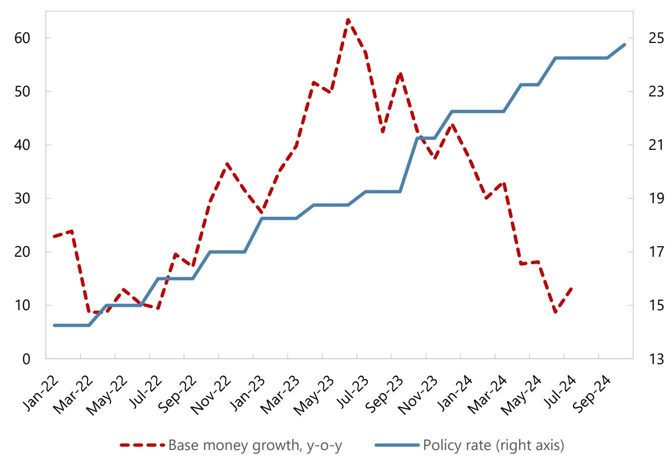
Text Table 1. Sierra Leone: Budget Outturn
(Percent of GDP)

	2022	2023	H1-2024	H2-2024
	Act.	Prel.	Prel.	Proj.
Total revenue and grants	**13.8**	**13.6**	**5.3**	**7.6**
Revenue	7.2	7.9	4.5	4.4
Tax revenue	6.0	6.8	3.8	3.7
Personal Income Tax	1.8	2.0	1.0	1.1
Corporate Income Tax	1.1	1.1	0.6	0.6
Goods and Services Tax	1.3	1.6	0.7	0.8
Excises	0.4	0.4	0.6	0.5
Import duties	0.9	0.9	0.5	0.4
Mining royalties and licenses	0.4	0.5	0.3	0.3
Other taxes	0.1	0.1	0.0	0.0
Non-tax	1.1	1.1	0.8	0.6
Grants	6.4	5.6	0.8	3.3
Expenditures and net lending	**19.9**	**18.9**	**7.2**	9.0
Current expenditures	11.8	11.3	5.4	5.8
Wages and salaries	4.4	4.2	1.9	2.1
Goods and services	2.8	2.5	1.1	1.2
o/w School feeding program	0.1	0.1	0.0	0.2
Subsidies and transfers	2.7	2.1	1.2	0.9
o/w Transfers to energy IPPs	0.8	0.7	0.5	0.3
Interest	1.9	2.5	1.2	1.6
Capital Expenditure	7.5	7.2	1.8	3.1
Foreign financed	5.0	5.6	1.1	2.5
Domestic financed	2.4	1.6	0.6	0.6
Contingent expenditure	0.0	0.1	0.0	0.0
Arrears Paydown (cash)	0.6	0.3	0.0	0.1
Domestic primary balance	**-5.7**	**-2.9**	**-0.3**	**-0.5**
Overall primary balance	**-4.2**	**-2.8**	**-0.6**	**0.3**
Overall balance including grants	**-6.1**	**-5.3**	**-1.8**	**-1.3**
Financing	**6.1**	**5.3**	**1.8**	**1.3**
External financing (net)	-0.2	-0.3	-0.1	-0.2
Domestic financing (net)	6.3	5.7	2.0	1.6
Total Banking Sector (net)	3.6	4.4	**1.9**	1.2
Banks, net of Budget Support	3.5	3.9	2.2	0.7
IMF Budget Support	0.2	0.5	-0.3	0.5
Non-Bank Sector	0.2	-0.1	0.3	0.1
Other, incl. Use of 2021 SDR allocations	1.3	1.5	-0.3	0.3
Financing Gap	**0.0**	**0.0**	**0.0**	**0.0**

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

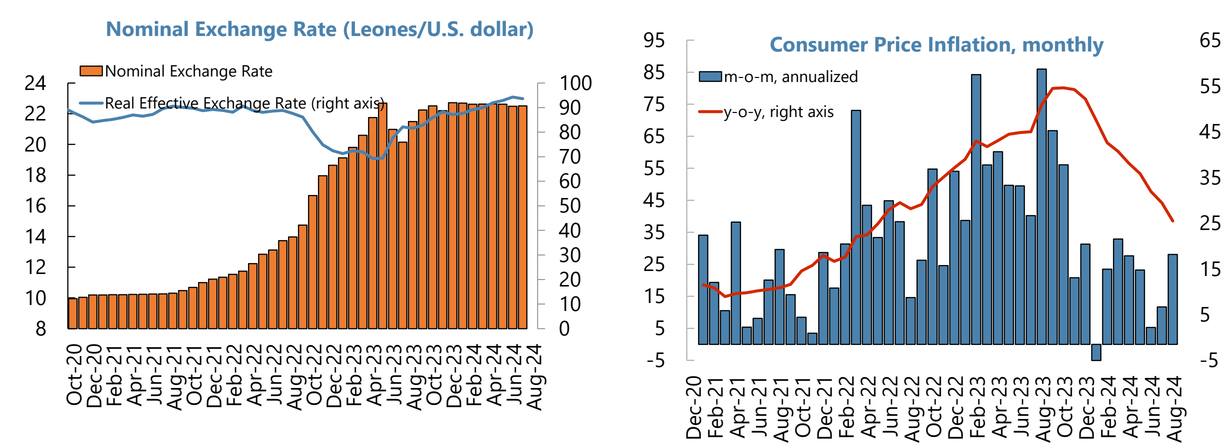
10. The tighter policy stance has borne fruit, but T-bill rates remain stubbornly high, and the real effective exchange rate (REER) has appreciated. Inflation declined from 55 percent y-o-y in October 2023 to 25 percent in August 2024 (Text Figure 4, right chart), including due to a remarkably stable leone (Text Figure 4, left chart). Staff considers that prudent policies were key not only in bringing down inflation but also in stabilizing the leone given that (i) FX intervention has been very modest;[3] (ii) staff is not aware of any new exchange restrictions; and (iii) the rate on the illegal parallel market has been similarly stable as the official rate. Of concern is that the more appreciated REER will prevent a more rapid external rebalancing and reserve accumulation (Text Figure 4, left chart). Another concern is that treasury yields have yet to decline despite the policy tightening and falling inflation (Box 1). As the public borrowing envelope has shrunk, reducing BSL financing of the budget has been a priority. The envelope has yet to fall more to allow reducing domestic market financing to levels conducive to a durable decline in yields. Staff projects yields to start falling in H2-2024 as the authorities reduce domestic financing and step-up communication with the market.

Text Figure 3. Sierra Leone: Policy Rate and Base Money Growth
(In Percent)



Sources: Sierra Leonean Authorities and IMF staff calculations.

Text Figure 4. Sierra Leone: Exchange Rate (Le/US$) and Consumer Price Inflation



Sources: Sierra Leonean Authorities and IMF staff calculations.

3 The BSL sold only $23.1 million in 2023 and $1.0 million in H1-2024, down from $93.7 million in FX sales in 2022.

11. Growth is projected to converge gradually towards Sierra Leone's medium-term potential. (Text Table 2). Growth reached more than 5 percent in 2022 and 2023, buoyed by strong mining activity. Non-mining output grew by 4.2 percent in 2022—supported by a significant fiscal expansion—and 3.5 percent in 2023—held back by a significant consolidation. Both non-mining and overall growth are projected to converge towards Sierra Leone's potential of 4.5 percent over the medium-term as the economy stabilizes and mining and agricultural activity remain buoyant. Structural reforms to lift productivity growth will be critical.

Text Table 2. Sierra Leone: Medium-Term Macroeconomic Framework, 2023-29

	2023	2024	2025	2026	2027	2028	2029
	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(In percent of non-iron ore GDP unless otherwise indicated)							
Output and Inflation							
GDP at constant prices (percent change)	5.7	4.0	4.5	4.7	4.7	4.7	4.6
Consumer prices (end-of-period)	52.2	21.0	14.9	11.4	9.0	8.0	7.0
Public Sector							
Revenue (excl. grants)	7.9	8.9	9.8	10.1	10.7	11.3	11.6
Domestic primary balance	-2.9	-0.8	0.3	0.8	1.5	1.7	1.7
Overall Balance	-5.3	-3.2	-3.9	-1.8	-1.0	-0.5	-1.6
Public Sector Debt	53.4	46.5	46.6	46.4	44.1	41.5	40.2
External Sector							
Current account balance (incl. grants)	-5.3	-4.0	-4.5	-3.7	-3.4	-3.8	-3.7
Gross international reserves (months of next year's imports)	2.6	2.4	2.7	2.9	3.0	3.0	3.0
External public debt	36.5	30.2	29.7	29.0	28.4	27.3	27.2

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

12. Sierra Leone's 2023 external position is assessed as broadly consistent with the level implied by fundamentals and desirable policies (Annex III). The current account strengthened in 2023 amid a large real depreciation the year before and as imports contracted due to the fiscal tightening. However, reserve coverage dropped to under two months of imports in August 2024, including due to significant external debt service. The prospective policy tightening should strengthen the current account and help rebuild reserve buffers.

13. The authorities discovered new external arrears but are current on the agreed repayment plans. In February 2024, the authorities verified external arrears of US$ 23.4 million owed to two companies for road construction and penalty interest on delayed payment of civil war-related services. The arrears add to the existing debt stock and debt service projection.

14. The banking system faces vulnerabilities including from the sovereign-bank nexus (Box 1; Annex IV). The system's Tier 1 regulatory capital adequacy ratio rose to 45.6 percent in June, and the NPL ratio declined to 7.5 percent. One domestic bank continues to face severe solvency challenges, but staff does not assess it as systemically important. Private credit edged up as a share of GDP but continues to be crowded out by deposit dollarization, the large public borrowing need, and bank appetite for government paper. The sovereign-bank nexus constitutes a financial stability concern, with banks' holdings of government paper accounting for more than a third of total assets, even as the ratio remains below recent peaks (Box 1). Banks' negative net open positions increased, suggesting continued long leone positioning. Going forward, the public borrowing need is expected to decline, and incentives for deposit dollarization should subside, thus freeing up balance sheet space for an expansion in private credit.

15. Risks to the baseline are significant (Annex V). Risks to reform execution remain high as political tensions, food insecurity, and governance challenges could fuel social tensions and threaten the reform agenda. Reform fatigue could reinvigorate deposit dollarization, intensify debt-related risks, and could counter efforts to finance the deficit sustainably, potentially leading to a loss of domestic market access. External financing could fall short, which would further compound domestic financing challenges. Climate shocks could have a significant impact on output as rainfed agriculture accounts for a significant share of GDP. A global slowdown, tighter financial conditions, and a protracted Russia's war in Ukraine could weigh on demand, while the entrenched sovereign-bank nexus constitutes a significant financial stability risk. Adverse ToT or export shocks could adversely impact the current account and the fiscal position, and rollover risks could materialize.

Authorities' Views

16. The authorities broadly agreed with staff's assessment of recent developments, the outlook, and risks. They see strong potential for an extended growth recovery as the reform agenda takes hold under the ECF-supported program, and as growth impulses from the mining and agricultural sectors set in as expected. The authorities agreed with the assessment that the external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies. They cautioned that repeated adverse external shocks could jeopardize progress in bringing down inflation and could derail the broader reform agenda.

PROGRAM AND MEDIUM-TERM POLICIES

The proposed ECF arrangement aims to (i) restore stability by bolstering debt sustainability, addressing fiscal dominance, bringing down inflation and rebuilding reserves; (ii) support inclusive growth through reforms—including to narrow gender gaps—and targeted social spending; and (iii) confront corruption, and strengthen governance, institutions, and the rule of law.

17. Fiscal consolidation is critical to keeping public debt on a sustainable path. The program targets a domestic primary surplus of 1.5 percent of GDP by 2027, an adjustment of some 4.4 ppts of GDP relative to 2023. The adjustment is frontloaded—with around half taking place in 2024 alone—and revenue based—with 2.6 ppts of GDP achieved through revenue mobilization (Text Table 3), which will remain guided by the Medium-Term Revenue Strategy (MTRS). The authorities have published an MTRS implementation plan and activated the committees established by its governance framework (MEFP¶9-11).

Box 1. Sierra Leone: Macro-Financial Linkages and Private Access to Finance

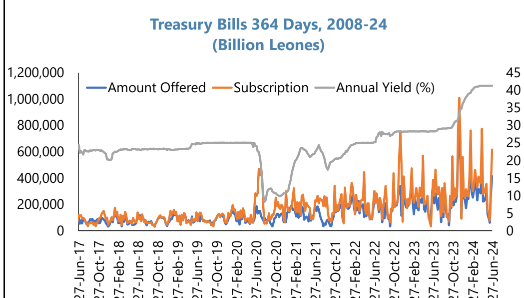
Private credit remains crowded out by deposit dollarization, the large public borrowing need, and continued bank appetite for government paper. The public borrowing need is expected to decline over the program period, and incentives for deposit dollarization are expected to subside, freeing up space on banks' balance sheet for an expansion in private credit.

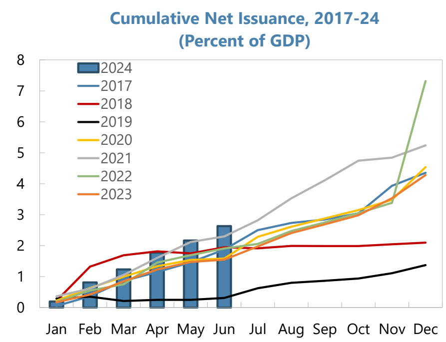
Bank appetite for government paper remains strong amid high yields and zero risk weights (Box Text Figure 1). Government securities stood at over a third of total bank assets over the past two years, even as the ratio declined from a peak of 45 percent in Q1-2021 (Box Figure 2; left chart). The sovereign-bank nexus constitutes a financial stability risk and gives rise to macro-financial linkages and vulnerabilities (Annex IV)

Private access to finance is crowded out by the large public borrowing need. Private credit stood at only 3.1 percent of GDP in 2023. Staff projects the public borrowing need to decline over the medium term, which should provide incentives to banks to reorient their business models towards the private sector.

Deposit dollarization further constrains bank lending to the private sector. Banks have supported exchange rate stability in recent months by taking long leone positions (Box Text Figure 2; right chart). Their positioning contrasts with depositors' continued hedging against leone depreciation through dollar denominated deposits. Deposit dollarization constrains bank lending, weakens monetary transmission, and can give rise to currency mismatches and financial stability risks. With continued macroeconomic stabilization, incentives for deposit dollarization are expected to decline, which could boost banks' local currency liquidity, and provide additional balance sheet space for lending to the private sector.

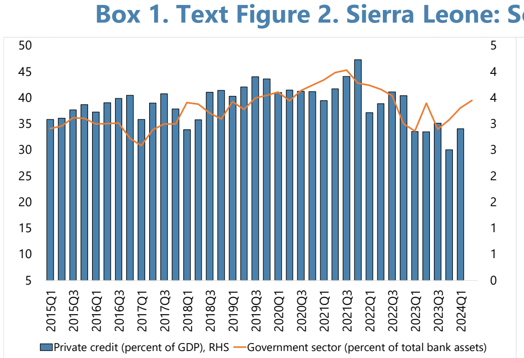
Box 1. Text Figure 1. Sierra Leone: Issuance of Government Securities

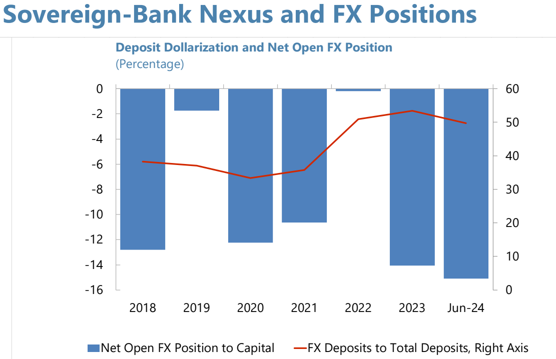




Sources: Sierra Leonean Authorities and IMF staff calculations.

Box 1. Text Figure 2. Sierra Leone: Sovereign-Bank Nexus and FX Positions





Sources: Sierra Leonean Authorities and IMF staff calculations.

A. Fiscal Policy

18. In the near-term, revenue mobilization will focus on implementation, compliance, and tax administration. The authorities have implemented most tax policy measures legislated under the Finance Acts 2023/24.[4] They have also revised the fuel price mechanism (Annex VI) and are committed to setting prices consistent with the excise rates established in the 2024 Finance Act (**continuous SB**). To strengthen compliance, the authorities plan to implement a compliance risk management framework, bolster tax audit capacity, and carry out tax audits for high-risk taxpayers. To strengthen tax administration, they intend to (i) integrate National Revenue Authority (NRA) revenue systems; (ii) operationalize the revenue court; and (iii) strengthen stakeholder engagement (MEFP ¶14). They are also committed to implementing MTRS reforms at customs, including by establishing a revenue taskforce to strengthen collections of customs duties and taxes (MEFP ¶15).

Text Table 3. Sierra Leone: 2024 Budget and MT

(Percent of non-iron ore GDP)

	2023	2024	2025	2026	2027	2028	2029
	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**13.6**	**13.0**	**14.4**	**14.4**	**15.0**	**15.6**	**15.0**
Revenue	7.9	8.9	9.8	10.1	10.7	11.3	11.6
Tax revenue	6.8	7.5	8.5	8.8	9.4	9.9	10.2
Non-tax	1.1	1.4	1.3	1.3	1.3	1.3	1.3
Grants	5.6	4.1	4.6	4.4	4.3	4.3	3.4
Expenditures and net lending	**18.9**	**16.1**	**18.3**	**16.2**	**15.9**	**16.1**	**16.6**
Current expenditures	11.3	11.1	11.4	9.8	9.6	9.4	9.2
Wages and salaries 1/	4.2	3.9	3.9	3.9	4.0	4.1	4.1
Goods and services	2.6	2.2	2.0	2.1	2.3	2.3	2.3
o/w School feeding program	0.1	0.2	0.5	0.6	0.8	0.8	0.8
Subsidies and transfers	2.1	2.1	1.7	1.6	1.6	1.6	1.6
Interest	2.5	2.8	3.8	2.2	1.7	1.4	1.1
Capital Expenditure 2/	7.2	4.9	6.7	6.2	6.2	6.6	7.3
Foreign financed	5.6	3.6	4.9	4.8	5.1	5.1	5.5
Domestic financed	1.6	1.3	1.1	1.0	1.2	1.5	1.8
Capital transfers 3/	…	0.0	0.7	0.4	…	…	…
Contingent expenditure	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Arrears Paydown (cash)	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Domestic primary balance 4/	-2.9	-0.8	0.3	0.8	1.5	1.7	1.7
Overall primary balance	-2.8	-0.3	0.0	0.4	0.7	0.9	-0.4
Overall balance including grants	**-5.3**	**-3.2**	**-3.9**	**-1.8**	**-1.0**	**-0.5**	**-1.6**
Financing	**5.3**	**3.2**	**3.9**	**1.8**	**1.0**	**0.5**	**1.6**
External financing (net)	-0.3	-0.4	0.4	0.4	0.7	0.8	1.5
Domestic financing (net)	5.7	3.6	3.5	1.4	0.3	-0.3	0.1

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

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

2/The following expenditure lines have been taken out of domestic capital expenditure and reclassified to goods and services:school feeding, examination fees for WASSCE; diet for boarding home schools, strengthening chiefdom governance, cluster eight: means of implementation and subsidies and transfers:school fee subsidies, clearance of grants in aid arrears to tertiary institutions.

3/ This is an intial estimate of the total fiscal costs of recapitalizing BSL. A final updated number on the cost of BSL recapitalization is to be provided in early 2025, once technical work on estimating the capital shortfall is completed.

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

[4] The minimum alternate tax (MAT) and the changes in excise rates for imports are the only two measures with significant revenue implications included in the Finance Acts 2023/24 that are yet to be implemented. The authorities are committed to configure the MAT in their internal tax administration system, ITAS, by March-2025 before companies start filling their tax returns for the 2024 fiscal year. The configuration of the new excise rates in ASYCUDA should be completed by the end of 2024. The non-implemented measures represent about 15 percent of the total expected yield from tax measures included in the Finance Acts 2023/24.

19. Strengthening mining revenue mobilization will be a priority (Box 2). The authorities are committed to ensuring that Extractive Industries Revenue Act (EIRA) terms are implemented for all new mining projects. They are also in the process of establishing a safe harbor pricing framework for iron ore that could be replicated for other sectors (**end-December 2024 SB)**. They are strengthening the cooperation between the National Minerals Agency (NMA) and NRA, while keeping the NRA in charge of assessing and collecting mineral royalties as established in the EIRA (MEFP ¶13). The Sierra Leone Mines and Mineral Development and Management Corporation (SLMMDMC) and Mineral Wealth Fund (MWF) were established to support increased state participation in greenfield projects. To curtail governance and fiscal risks, the authorities are committed to reviewing the oversight and accountability frameworks of the two entities in close cooperation with IMF and WB staff (MEFP¶40; **end-August 2025 SB**).

20. Over the medium term, the authorities intend to take additional tax measures. They plan to submit to Parliament a 2026 Finance bill with measures delivering at least 1 percent of GDP in additional annual tax revenues (MEFP¶12; **end-November 2025 SB**), with possible measures including residual measures from the MTRS—including harmonizing CIT rates at 20 percent and transitioning to a global income tax—and rationalizing tax expenditures. Together with the tax policy measures in the Finance Acts 2023/24—which have an estimated yield of 1.8 percent of GDP—these would more than account for the projected tax revenue increase of 2.6 ppts of GDP between 2023 and 2027 (Text Table 4). Additional gains from tax administration and compliance—including the safe harbor for iron ore—represent an upside to this projection.

Text Table 4. Sierra Leone: Additional Revenue from Tax Policy and Administration Measures [1/]

(Percentage points of non-iron ore GDP)

	2024-2027
Finance Act 2023	
Introduction of a minimum alternate tax at 2 percent of turnover.	0.1
Removal of GST exemptions on gambling, fees based financial services, mobile data, digital services, voice calls, and first sale of property.	0.7
Introduction of a tourism levy. Harmonization of excise rates and introduction of a vehicle circulation fee.	0.2
Finance Act 2024	
Establishment of a fixed excise rate for fuel.	0.5
Harmonization of CIT rates at 15 percent.	0.1
Restoration of import duties on cement, iron rod, and cooking gas.	0.06
Introduction of an education levy of 1 percent of all contracts.	0.07
Introduction of excise on gambling, casino services, and plastic materials. Introdution of CIT on income derived from digital services for non-resident companies. Additional royalty on timber export based on the value of timber.	0.1
Finance Act 2026	1.0
Revenue administration and compliance measures, including the safe harbor for iron ore, measures to improve compliance for high risk sectors and at customs, integration of revenue systems, and strengthened tax audit capacity.	n.a.
Total	2.8
Changes in Tax Revenue 2024-2027	2.6

1/ Projected increase in tax revenues 2024-2027

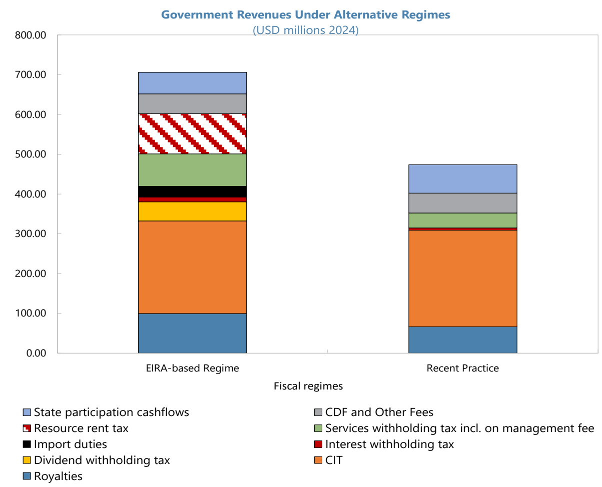
Source: Sierra Leonean authorities; and IMF staff estimates and projections.

Box 2. Sierra Leone: Mining Revenue Mobilization

Sierra Leone is a resource rich economy, but mining revenue mobilization has been disappointing. Applying EIRA's fiscal terms could strengthen revenue performance. Stepped-up compliance and administration efforts would further boost revenues. The safe harbor for iron ore should help address export underpricing and. The authorities established new entities to support state participation in mining projects. To minimize risks, they have committed to establishing governance frameworks consistent with best practice.

Sierra Leone needs to break with past practice by applying EIRA's fiscal terms. The fiscal regime for industrial miners was traditionally incorporated into mineral license agreements, with tailored arrangements for each investor that are difficult to modify. Tax concessions hinder revenue performance and have led to a high reliance on fees and trade taxes. These instruments increase investor costs and do not respond to commodity price fluctuations, thus curbing competitiveness. Simulations on a hypothetical project indicate that EIRA's application could increase revenue by 40 percent over a project's life cycle relative to recent practice (Box 2 Text Figure 1; **Selected Issues Paper 1)**.[1]

Box 2. Text Figure 1. Sierra Leone: Fiscal Regime Revenues from a Prospective Project: Recent Negotiation Practice vs EIRA Terms



Source: IMF staff calculation

Note: State participation dividends assumed to be paid to the budget, but this may not be the case given the creation of the Mines and Minerals Development and Management Corporation.

Improved revenue administration and efforts to strengthen compliance—including through the safe harbor for iron ore—will also be critical. The authorities have successfully built capacity in NRA and other agencies, but further investment and CD support will be needed, including to build capacity to conduct tax audits. Underfunding, lack of access to international tax information exchange mechanisms, and skills shortages weaken the ability to monitor industry practices, detect tax avoidance, and prevent evasion and smuggling.

The SLMMDMC was established to conduct mining activities through a project company, the MWF. The MWF was established as a private limited liability company wholly owned by the MMDMC. The authorities identified high-value assets to be developed by the MWF in joint ventures with established private partners that will abide by EIRA's fiscal terms. These assets include the Tonkolili North iron deposit, the title to the Pepel Rail and Port, and the 10 percent free carried interest the government is expected to hold in future large-scale mining licenses. For the first year of operation, the corporation was financed through a 50 million new leones allocation from the budget. Moving forward, the authorities are committed to maintain full transparency on the operations of both entities, including by transparently reporting any form of state support, and to refine accountability and oversight standards to be consistent with international best practice (MEFP ¶40).

[1] The hypothetical project is based on public information on the Sembehun project. It assumes a 15-year production life and a real internal rate of return of around 22 percent before taxation.

21. Continued spending restraint will be critical to avoid arrears accumulation (MEFP¶16). Spending is projected to decline by 3 ppts of GDP between 2023 and 2027 (Text Table 3). To this end, the authorities are committed to strengthen the medium-term expenditure framework and to submit to Parliament a 2025 budget consistent with program parameters, including the primary fiscal balance, revenues, and expenditures (**end-November 2024 SB**). They plan to (i) maintain an unchanged ratio of wages and salaries to GDP; (ii) contain goods and services outlays by containing administrative and operational expenses of governance institutions and subvented agencies;[5] (iii) reduce domestically financed capital expenditure; (iv) account for the expected need for capital transfers;[6] (v) maintain arrears clearance consistent with the strategy;[7] and (vii) reduce energy subsidies and the accumulation of new arrears through measures to strengthen the Electricity Distribution and Supply Authority's (EDSA's) performance and exploit low cost energy sources. The clearance of EDSA's outstanding arrears will follow the parameters set in the negotiated payment plans with the key IPPs (Box 3 and MEFP¶16).

Box 3. Sierra Leone: Electricity Subsidies and Reforms

Inefficiencies continue to cause financial losses at the state-owned EDSA. The authorities envisage a gradual reduction in government support to cover these losses by way of short-term stabilization measures and medium-term structural reforms supported by the WB, the MCC, and the DFC. Despite these reform efforts, fiscal risks from EDSA and expected transfers from the budget are expected to remain large.

Reforming the eleimficity sector is a priority. Electricity supply is limited, costly, and unreliable, with a rudimentary grid in need of updating. The high cost of energy, combined with substantial technical, commercial, and collection losses have led EDSA to accumulate arrears and the state to provide support.

Arrears clearance. The information on EDSA's financial and operational performance is of low quality and subject to frequent revisions. An audit of EDSA's financials with support of the WB is ongoing and reliable information should be available by end-2024. The available information indicates that the stock of EDSA's arrears to IPPs increased in the first quarter of 2024, from US$59 million to US$68 million. Since April 2024, the authorities have revised the governance framework of the electricity sector and agreed on payment plans with the main IPPs. In 2024, the government will pay US$56 million in arrears and additional invoices while EDSA is expected to pay at least US$42 million. The available data indicates that EDSA continues to accumulate new arrears to IPPs, even if at a slower pace than in 2023 and early 2024. By end-August 2024, the arrears stock remained significant at US$56 million.

Short-term measures. The authorities have installed 1,250 Advanced Metering Infrastructure (AMI) meters in recent months, primarily for high value customers—who represent a significant share of commercial losses—and at secondary substations. They committed to installing an additional 3,000 meters for high-value costumers with WB support by mid-2025. Adherence to the recently signed payment plans could increase the availability of energy from some of the lower-cost IPPs.

Medium-term measures. The authorities plan to modernize the regulatory framework and to allow for cost-reflective tariff adjustments. Cabinet has approved a plan to grant a concession to the private sector, and the authorities are working with the WB to identify partners. The authorities also intend to clear all MDA arrears to EDSA and install smart meters in government facilities. As part of the US$480 million MCC grant, they plan to upgrade and expand the national grid to allow for increased low-cost energy imports. The US$412 million in DFC financing and insurance will help upgrade a power plant.

Government support. The extent of additional budget transfers in 2025, 2026 and beyond will depend on the speed at which ongoing structural reforms at EDSA take effect. Staff estimates that net fiscal transfers will have to remain large in the near term at 0.5 percent of GDP in 2025, and 0.4 percent of GDP in 2026.

[5] The governance institutions are those established for the sole purpose of providing good governance services of the State. They include Audit Service, Human Rights Commission, Electoral Commission, NPPA, Parliament, Office of the President. Sub-vented Agencies, which are supervised by different ministries, are developed to perform technical functions. Examples include the National Revenue Authority (NRA) and the National Minerals Agency (NMA).

[6] The fiscal framework includes an envelope for capital transfers for 2025 and 2026 to account for the need to address commercial bank solvency challenges and recapitalize the BSL. Should the cost turn out to be higher than estimated, the authorities would need to take contingency measures to stay within the budgetary envelope.

[7] The updated Spending Arrears Clearance Strategy (2023-2028) represents a fully financed plan to reduce the stock of outstanding arrears as of June 2023. The strategy also discusses measures the authorities are implementing to curb the accumulation of new arrears. The Arrears Clearance Strategy does not include arrears owed by EDSA.

22. Social spending will be protected from the fiscal tightening and needs to rise further over the long term. The authorities intend to raise spending on social protection by expanding school feeding, protecting transfers to the National Commission for Social Action's (NaCSA) cash transfer program, and maintaining transfers to budget lines specified in the social spending IT. They are committed to staying current on their obligations towards the school feeding program and plan to further strengthen its governance framework (MEFP¶43). Scaling up social protection programs further will be critical, including in the context of an increasing frequency of climate-related shocks.

Box 4. Sierra Leone: Social Spending in Sierra Leone

Indicators of socio-economic well-being in Sierra Leone have improved over the last two decades, but substantial challenges remain. Social protection programs are not well coordinated and need to be scaled up to support a larger share of the vulnerable population. The increasing frequency of climate-related shocks reinforces this need. Staff's analysis suggests that an annual financing gap of 5.6 percent of GDP needs to be closed to achieve Sierra Leone's health and education SDGs by 2035.

Existing social protection programs are not well coordinated and need to be scaled up. Coverage and adequacy of Sierra Leone's social protection programs are lower than in other countries in the region, and a lack of coordination between different programs hampers efficacy. Social protection spending needs to support a larger share of the vulnerable population. Increasing the efficiency of health and education spending could improve outcomes and create fiscal space (**Selected Issues Paper 2).**

A stronger social protection framework will be increasingly critical as the frequency of climate shocks increases. Sierra Leone is among the most vulnerable countries to the hazards of climate change. The interlinkages between climate shocks, elevated levels of poverty, food insecurity, and high dependency on rainfed agriculture suggest that climate strategies will need to be integrated with the social protection framework. Our simulations suggest that a strategy of cash transfers to affected households is likely to be an effective policy response to food insecurity created by climate shocks (**Selected Issues Paper 3**).

Achieving the SDGs for health and education by 2035 would require filling a sizable annual financing gap. Our calculations suggest that about 5.6 percent of GDP in additional annual resources would be required to achieve the health and education SDGs by 2035. This gap could be reduced to 0.8 percent of GDP through a credible set of reforms to increase the efficiency of spending, mobilize additional domestic revenues, and boost sustainable growth and private sector participation. Health and education spending similarly need to increase substantially for Sierra Leone to meet its SDGs by 2035 (MEFP¶16; **Selected Issues Paper 2**).

23. Strong contingency measures will be critical should downside risks materialize. Should the need arise, the authorities plan to (i) reprioritize spending while protecting social spending; and (ii) strengthen revenues, including by frontloading revenue measures in the MTRS or implementing short-term emergency spending measures (MEFP¶17).

Authorities' Views

24. The authorities agreed with staff's recommendations on the need for fiscal consolidation while protecting social spending. The authorities consider that efforts to mobilize additional revenues need to be stepped up in line with the MTRS to create fiscal space to meet the country's large development needs. They emphasized that spending on social programs is key to maintaining social stability and promoting the country's development over the medium and long-term. They are committed to step up revenue mobilization from the mining sector through stronger enforcement and their new model for state participation in the mining sector.

B. Debt Sustainability and Financing Strategy

25. Sierra Leone's debt is sustainable, but at high risk of distress (**DSA**). The external debt-service-to-revenue ratio exhibits a protracted threshold breach. The total debt-service-to-revenue ratio remains above 100 percent until 2028, while gross financing needs (GFNs) are above 14 percent during 2025-26. All debt indicators remain on a declining trend over the medium term.

26. The program envisages continued external donor support and a substantial reduction in domestic borrowing. Net official external financing is expected to increase to an average of 0.3 percent of non-iron ore GDP during 2024-2027 (Text Table 5). The domestic borrowing envelope is expected to shrink, amid a higher contribution from non-banks and a decreasing contribution from banks. The authorities also plan to redouble efforts to raise grant resources. They are committed to (i) sticking to their external borrowing limits (Text Table 6) and (ii) discontinuing domestic borrowing where the FX risk is borne by the government (MEFP¶19).

Text Table 5. Sierra Leone: Central Government Financing (2024-27)

(Percent of non-iron ore GDP)

	2024	2025	2026	2027
	Projections			
Net Financing	**3.2**	**3.9**	**1.8**	**1.0**
External financing (net)	-0.4	0.4	0.4	0.7
Domestic financing (net)	3.6	3.5	1.4	0.3
Total Banking Sector	3.2	3.1	1.0	-0.1
Banks, net of Budget Support	3.0	2.6	0.8	-0.3
IMF Budget Support	0.2	0.5	0.2	0.2
Non-Bank Sector	0.4	0.3	0.3	0.4
Other, Use of 2021 SDR allocations	0.0	0.0	0.0	0.0

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

27. The authorities plan to strengthen debt management to contain rollover risks. Continued efforts to tighten macroeconomic policies to bring down inflation and contain uncertainty will provide the basis for lengthening the maturity profile of domestic debt (Text Figure 5). The authorities also plan to strengthen debt management practices in line with the Medium-Term Debt Strategy (MTDS). They have established regular consultations with market participants and plan to (i) issue T-bonds with variable coupons; (ii) discontinue private placements of T-bonds; (iii) review primary dealership roles; (iv) implement regulatory norms for institutional investors while ensuring that they can meet their asset-liability management objectives; and (v) allow

Text Table 6. Sierra Leone: Summary of External Borrowing Plan for 2024

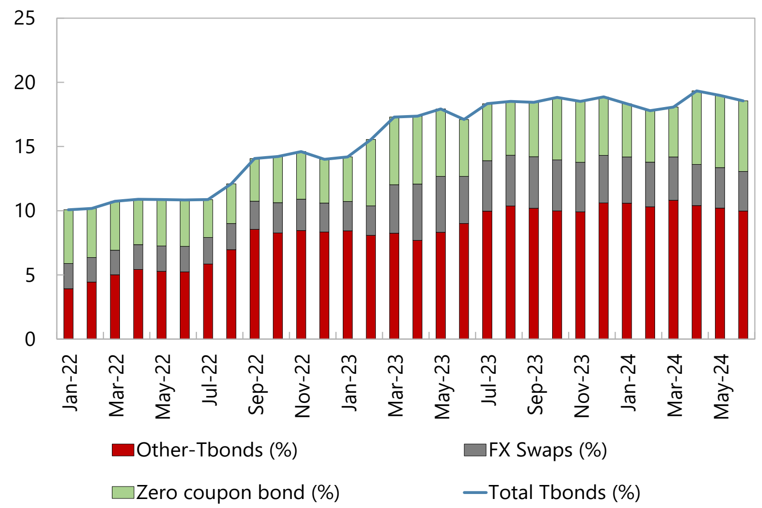
PPG external debt contracted or guaranteed	Volume of new debt, US million 1/	PV of new debt, US million 1/
Sources of debt financing	**100**	**50-65**
Concessional debt 2/	100	50-65
non-concessional debt 3/		
Use of debt financing	**100**	**50-65**
Project financing	100	50-65
Budget financing	0	0

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.

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

T-bonds to be used as collateral for repo agreements, with the applicable haircuts to compensate for illiquidity and market risk (MEFP¶20).

Text Figure 5. Sierra Leone: Share of T-Bonds in Total Government Securities
(Percent of end-period stock)



Sources: Sierra Leonean Authorities and IMF staff calculations.

Authorities' Views

28. The authorities agreed with staff's recommendations on the need to reduce the high risk of debt distress. They are committed to taking action to strengthen debt management practices and further developing the domestic debt market. They also plan to prioritize efforts to secure additional external grant support.

C. Monetary, Exchange Rate and Safeguards Policies

29. Monetary policy needs to tighten to bring inflation down to the single-digit medium-term inflation objective. Staff's analysis suggests that macroeconomic policies explain a large share of the variation in inflation in recent years, underpinning the notion that policies need to continue to tighten to bring inflation down (**Selected Issues Paper 4**). The authorities are committed to a reserve money path consistent with reducing inflation to their medium-term single-digit objective over the program period (MEFP¶21).

30. The authorities plan to strengthen the monetary policy framework. They intend to (i) include their single digit inflation objective in future monetary policy statements; (ii) develop a strategy to revise and recalibrate the BSL's monetary policy tools (**end-February 2025 SB**)—which will be implemented over the program period—including to avoid monetary financing; and

(iii) terminate the securitization of Ways and Means advances. The authorities also committed to consult IMF staff before renewing the Agriculture Credit Facility (ACF) (MEFP¶21/25).[8]

31. The authorities are committed to allowing the leone to adjust flexibly to market conditions while continuing efforts to rebuild reserves. They intend to limit FX interventions to addressing excess volatility and to implement recent IMF TA proposals to strengthen the FX market. These include (i) publishing the BSL rate on the day it is compiled; (ii) simplifying FX interbank market rules; (iii) identifying market makers; and (iv) conducting regular auctions (MEFP¶22).

32. The August 2024 update safeguards assessment identified gaps in governance and transparency and accountability mechanisms. The BSL Board's oversight modalities, including its sub-committees, need to be strengthened through a broader scope and coverage of areas within its mandate. Stronger oversight will also support efforts to improve the internal control environment, particularly in banking and currency operations, risk management, cybersecurity, and business continuity. Further, the BSL's annual audited financial statements are published with delays and full compliance with International Financial Reporting Standards (IFRS) remains a work in progress. The BSL is in need of recapitalization given its negative equity position.

33. The authorities plan to implement the recommendations of the recent safeguards assessment. With support from IMF TA, they will undertake balance sheet scenario analyses to determine the appropriate level of BSL capital. They will prepare an action plan by end-April 2025 and recapitalize the BSL accordingly (**end-August 2025 SB**). They plan to publish the BSL's 2024 financial statements with the audit carried out by two firms within the same global network, a local firm that will sign the audit opinion, and an international firm with central banking and IFRS expertise (**end-July 2025 SB**). The authorities plan to review and reconcile differences between the cash in vault and the balance in the general ledger in time to be fully reflected in the 2024 financial statements. The authorities intend to request TA on IFRS implementation (MEFP¶23/24).

34. The currency redenomination continues to present challenges. It was launched in July 2022 and suffered budget overruns and weaknesses in project management and oversight. Legal tender status for old leones ended in December 2023, but old notes remain exchangeable at the BSL. Significant challenges remain, including in storing and destroying the old notes (Box 5).

Authorities' Views

35. The authorities agreed with staff's recommendations. They agreed with the need to tighten policy to bring inflation down to single digits within the program horizon, noting that tighter fiscal policy will have an important role to play. They look forward to enhancing the monetary policy framework. They cautioned that the BSL has other policy objectives beyond inflation, such as

[8] The BSL reintroduced the ACF (discontinued in 2022) in April 2024 for a period of 24 months to help address the food security crisis as part of the Feed Salone initiative outlined in the NDP (Box 1). The ACF offers two-year loans in leones at subsidized interest rates through banks. The Leone equivalent of US$10 million is earmarked for the ACF. The current ACF differs from the earlier one in that the BSL will not provide access to FX under the facility.

financial stability, that must be considered in setting the policy stance. They reaffirmed their commitment to rebuilding reserves and maintaining a flexible exchange rate.

Box 5. Sierra Leone: Currency Redenomination, 2022-23

The currency redenomination was launched in 2022 to remove three zeros from the currency. The process suffered budget overruns and weaknesses in project management and oversight. Legal tender status for old leones ended in December 2023, but challenges continue and will require close oversight by the BSL Board.

The redenomination substantially elevated the BSL's operational risks and exposed governance weaknesses. It was not underpinned by a comprehensive strategy or project plan. The BSL Board also did not exercise sufficiently close and independent oversight as would be warranted for an initiative of this magnitude.

Acquisition of new banknotes has contributed to the drop in international reserves as well as the BSL's negative equity position. The BSL incurred direct procurement costs of nearly US$60 million (equivalent to almost 1 percent of GDP, or 12 percent of foreign assets in 2023) to acquire the new banknotes. Overall, the process resulted in overspending of approximately 500 percent vis-à-vis the project's budget.[1]

The redenomination has come to conclusion, but challenges remain. The BSL stepped up transparency and communication over the latter part of the process. It approved an internal audit report on the redenomination in September 2023, and a detailed report was submitted to Parliament. However, significant challenges remain, including the shortage of adequate storage space for old banknotes and a lack of machinery to sort and destroy them.

[1] https://bsl.gov.sl/Currency%20Redenomination%20in%20SL%20Financials.pdf.

D. Financial Sector Policies

36. Financial sector oversight and regulation need to be strengthened. The authorities plan to conduct regular SOB on-site examinations, and to adopt parts of pillar 1 of the Basel II/III capital framework to incorporate market and operational risk. They are also considering measures to deal with FX liquidity mismatches and risks associated with deposit dollarization. New corporate governance guidelines for banks came into effect on January 1, 2024 (MEFP¶29).

37. The BSL has begun to permit lending in foreign exchange on a case-by-case basis. It published guidelines in October 2024. The BSL also plans to strengthen foreign currency regulation and supervision through training of staff, updating bank examination procedures, prioritizing examination of banks' FX controls, and reviewing banks' risk controls on foreign currency placements abroad (MEFP¶29).

38. Longstanding solvency challenges in the banking system need to be addressed. To this end, the BSL has commissioned a diagnostic review of institutions meeting the criteria prescribed in section 69 of the Banking Act 2019 to accurately determine their asset quality and capital position. The completed report will be shared with IMF staff (**Prior Action)**. The authorities plan to initiate resolution proceedings for the relevant institutions in a way that safeguards the continuity of important functions but contains fiscal costs (MEFP¶26; **end-February 2025 SB**).

39. Bolstering the financial safety net is critical. This includes (i) launching the deposit protection fund once solvency challenges in commercial banks have been dealt with; (ii) establishing a macroprudential policy framework and crisis management plan; (iii) enhancing the BSL's operational capacity to implement the resolution framework; and (iv) operationalizing the emergency liquidity assistance framework (MEFP¶27/30; **end-July 2025 SB**).

Authorities' Views

40. The authorities assign a high priority to financial sector stability. They are committed to continue strengthening the existing financial safety net provisions and acknowledged the need to improve financial sector regulation for which they have requested TA. They also agreed on the need to decisively address prudential issues in the banking sector.

E. Governance and Institutions

41. A Governance and Corruption Diagnostic (GCD) will provide the foundation for program engagement on corruption vulnerabilities and governance weaknesses. The GCD will provide a holistic analysis of corruption challenges and concrete recommendations on steps to improve governance and integrity. Those reforms are expected to feature in program conditionality, and associated capacity development. The authorities have committed to publishing the GCD (**end-May 2025 SB**).

42. Enhancing PFM practices is key to fiscal consolidation (Box 6). Cabinet will approve a ministerial directive that (i) directs budgetary units to refrain from making commitments and payments that exceed approved annual and multiannual ceilings; (ii) reinforces that those who fail to limit commitments to the approved ceilings will be subject to the sanctions established in the PFM Act and Regulations (2016); and (iii) is published on the Ministry of Finance's website (MEFP¶31; **Prior Action**). The authorities also plan to strengthen PIM by implementing the National PIM Policy (MEFP¶16) and submitting to Parliament a 2025 budget that includes a comprehensive roads budget (MEFP¶31; **end-November 2024 SB)**. [9, 10] They intend to strengthen the budget process, enhance controls, increase transparency, and improve the management of fiscal risks as outlined in the PFM Reform Strategy (Box 6).

[9] The National Public Investment Management Policy (NPIMP) establishes that all capital projects should adhere to the PIM cycle. Capital investment projects should go through formal appraisal and selection procedures and the decision to include projects in the budget should be made by the Ministerial Investment Committee established by the Pre-Investment Manual (2022).

[10] A significant share of past budget overruns arose from roads projects. The roads budget is a first step in gradually implementing a comprehensive capital budget.

Box 6. Sierra Leone: The PFM Reform Strategy (2023-27)

Weak PFM practices have led to variations in in-year budget allocations, the accumulation of expenditure arrears, and weak budget credibility. The recently published PFM reform strategy 2023-2027 outlines actions to strengthen PFM with a focus on measures to improve planning, strengthen controls, and enforce accountability. A comprehensive review of the PFM Act could support the authorities in achieving the objectives of the strategy. Sustained progress will depend on continued capacity development and ownership.

Despite notable reforms, significant weaknesses persist across most PFM functions. Medium-term forecasting is weak, unrealistic assumptions and a lack of effective expenditure controls—including due to failures to report and control for multiyear commitments and the issuance of FS letters—led to frequent in-year adjustments—often to the detriment of priority expenditures like social programs—and the accumulation of arrears persists due to weaknesses in budget planning and execution.

The PFM Reform Strategy 2023-2027 presents a detailed action plan to improve PFM practices. The key objectives of the reform are broadly aligned with the ECF program and include measures to (i) increase the transparency and effectiveness of PIM processes; (ii) rationalize the payroll; (iii) leverage IFMIS to improve financial controls and the comprehensiveness of government financial statements; (iv) improve cash and debt management; (v) strengthen capacity for medium-term planning; (vi) improve the assessment of fiscal risks; and (vii) implement gender-responsive budgeting.

A review of the PFM Act could help improve compliance. A recent IMF TA mission provided a comprehensive assessment of the key weaknesses in the current legal framework and suggested refinements. Critical amendments include provisions to (i) harmonize the PFM legal framework; (ii) clarify roles and responsibilities; (iii) strengthen top-down budgeting, reporting, expenditure controls, and auditing; and (iv) increase the effectiveness of sanctions.

Strong political ownership and continued support from development partners will be critical. The authorities should continue to maintain strong coordination between DPs and key MDAs, including through the PFM Steering Committee. They should also continue to benefit from the support of the resident PFM advisor.

43. The authorities are taking action to minimize budget support to SOEs and strengthen SOE transparency. They are committed to (i) publishing detailed information on SOE government transfers and contingent liabilities starting with the 2025 budget; (ii) ensuring that SOE support is consistent with budget priorities and contingent upon pre-assessment of fiscal risks; (iii) publishing implicit transfers through NRA's annual reports on tax arrears owed by SOEs, enforce sanctions in case of non-payment; (iv) approving and implementing the SOE Ownership and Governance bill by end-2024; and (v) publishing a code of conduct for the board and senior officers by July 2025. The authorities will also work with IMF TA to develop a systematic in-year reporting mechanism for SOEs by end-2024 (MEFP¶18).

44. Further progress is needed in implementing AML/CFT reforms (MEFP¶37). Effective implementation of AML/CFT reforms should be a priority while focusing on convicting launderers and confiscating their ill-gotten proceeds. Progress has been made in AML/CFT risk-based supervision of non-bank financial institutions (NBFIs), but challenges remain in regulating the high-risk real estate sector and dealers in precious metals and stones. Enforcement action remains insufficient, including in (i) implementing sanctions against banks for compliance failures related to measures for politically exposed persons' beneficial ownership; and (ii) implementing United Nations Security Council Resolutions related to terrorism and terrorism financing. While steps to amend the

2009 Companies Act to improve beneficial ownership transparency are ongoing, progress has been slow.

Authorities' Views

45. The authorities agree with staff's assessment. They are looking forward to the governance and corruption diagnostic to provide a road map for governance reforms. Work is also underway to strengthen PFM and improve the governance of SOEs to minimize fiscal support and better manage associated fiscal risks. The authorities recognize the need to enhance the AML/CFT framework.

F. Inclusive Growth

46. The authorities plan to boost inclusive growth over the medium-term. To strengthen the business environment, they intend to establish an online business registration system and continue to support the SME ecosystem, including through incubators and accelerators as well as financial support through the MUNAFA Fund (MEFP¶38). To strengthen food production, the Feed Salone initiative will include measures such as the provision of fertilizer, seeds and chemicals to farmers, as well as support for land preparation through the electronic voucher system. The authorities are working with development partners to (i) reform product markets and enhance food security; (ii) strengthen rice, cocoa, and horticulture value chains; and (iii) review e-vouchers and subsidies to district farm machinery rigs to incentivize private sector participation (MEFP¶41).

47. Addressing barriers to trade by strengthening customs administration and transparency will be critical. Trade costs in Sierra Leone are high compared to peers. Model simulations suggest sizable revenue and activity gains can be expected from efforts to strengthen trade facilitation. Key elements of a framework for reform are in place with the WTO trade facilitation agreement, provisions under the African Continental Free Trade Area (AfCFTA), and the MTRS. To implement the MTRS reforms at customs, the authorities plan to establish a revenue taskforce (MEFP ¶15; **Selected Issues Paper 5**).

48. Promoting gender equality is a priority. The government has implemented a range of measures to support gender equality (**Selected Issues Paper 6**). Putting a gender-lens on public financial management—including through continued roll-out of gender budgeting—measures to keep girls in school and scaling up efforts to reduce gender-based violence (GBV) will help address still high levels of gender inequality and support growth (MEFP¶42; Box 7; **Selected Issues Paper 7**).

Box 7. Sierra Leone: Fostering Inclusive Growth by Empowering Women

The authorities have implemented reforms to advance gender equality. Between October 2022 and July 2024, they passed the Gender Equality and Women's Empowerment Act 2022, the Public Elections Act 2022, the Employment Act 2023, and the Prohibition of Child Marriage Act 2024. The National Policy on Radical Inclusion has helped children with fewer opportunities, including pregnant girls, to enroll in and finish school. The BSL's second National Strategy for Financial Inclusion (2022-2026) incorporates measures to address the needs of underserved segments of the economy, including women and the youth.

However, remaining gender gaps continue to constrain development. Maternal mortality and adolescent fertility rates have fallen, but still-high rates of child marriage contribute to high rates of adolescent (and risky) pregnancy, increasing the risk of maternal death, and lowering female secondary completion rates. Eradicating child marriage (**Selected Issues Paper 6**), reducing GBV (**Selected Issues Paper 7**) and closing gender gaps in the labor market (Box Text Figure 1) are some of the objectives that could yield potentially significant GDP gains.

Box 7. Text Figure 1. Sierra Leone: Potential GDP Gains from Closing Gender Gaps in the Labor Market

(Percent of GDP)

Source: IMF Equity Toolkit

Further efforts are needed to level the playing field, including by (i) increasing cash-plus initiatives and improving alternative pathways for out-of-school children to access basic education through enrolment drives, the Radical Inclusion Policy (2021), and the School Safety Policy (2023); (ii) improving women's access to digital and financial services by implementing client-centric product and service offerings, and financial education and literacy initiatives; (iii) addressing GBV by providing infrastructure for prevention, reporting and support; (iv) enforcing of the Child Marriage Act; and (v) continuing gender budgeting.

49. **Further efforts are needed to address climate-related challenges**. Sierra Leone is among the most vulnerable countries to climate change.[11] The linkages between climate shocks, poverty and food insecurity, and high dependency on rainfed agriculture suggest that climate strategies will need to be integrated with the social protection framework (**Selected Issues Paper 3**). Ongoing initiatives include implementing the National Adaptation Implementation Plan, bolstering the capacities of the National Disaster Management Agency and the Climate Finance Unit within the Ministry of Finance, and implementing the Disaster Risk Financing Strategy. Over the medium term the authorities should press ahead with implementing recommendations from the C-PIMA, the CCDR, and the Climate Policy Diagnostic (CPD) (MEFP¶44).

[11] IMF-Adapted ND-Gain Index: https://climatedata.imf.org/datasets/e6604c14a46f44cbbb4ee1a5e9996c49_0/about.

Authorities' View

50. The authorities agree with staff's assessment. They emphasized the importance of leveraging climate finance as a priority. They have requested an RSF arrangement and asked for TA support in implementing the C-PIMA, CCDR and CPD recommendations. They also expressed the desire to formulate a more comprehensive approach to harness climate finance opportunities. They committed to further reforms to enhance gender equality, in line with the NDP, including by continuing to implement gender-responsive budgeting, supported by IMF TA. They stressed that the ongoing Demographic and Health Survey will help provide an update on the effectiveness of government initiatives to address gender inequality. They are also committed to pressing ahead with actions aimed at reducing costs and facilitating trade.

DATA ADEQUACY AND CAPACITY DEVELOPMENT

51. The data provided to the IMF has some shortcomings but is broadly adequate for surveillance (Annex IX). The authorities are committed to improving the timely provision of data related to inflation, the monetary sector, international reserves, and the government's net domestic financing. With IMF support, the authorities have rebased the national accounts, but the national accounts continue to have some shortcomings that somewhat hamper surveillance. Sierra Leone is an eGDDS country but there is room for improvement. The authorities will endeavor to enhance the compilation, reconciliation, coverage, and dissemination of grants, fiscal, debt, financial sector (including non-bank), national accounts, price, and external sector statistics.

52. IMF CD will play a crucial role in helping the authorities implement reforms under the ECF arrangement (Annex VIII). IMF CD will focus on enhancing fiscal management by assisting the authorities in implementing the MTRS, strengthening the BSL's monetary policy operations, improving financial sector regulation and supervision, and advancing timely data compilation and dissemination. The authorities are also planning to make full use of resident advisors at the MoF and the BSL in implementing CD recommendations. During the program period, with IMF CD, they also plan to adopt the GFSM 2014 standards for compiling the fiscal accounts. CD would also continue on strengthening data adequacy.[12]

Authorities' Views

53. The authorities have expressed strong appreciation for the efforts of the IMF in helping the country build capacity. They are redoubling efforts to fully implement recommendations and are keen to receive continued TA, including through the greater use of

[12] This would include (i) developing the PPI, with further TA planned for FY25; (ii) finalizing the national accounts rebasing, including compiling government capital formation data, completing a sand mining survey, and back casting the rebased GDP to 2001-2017; (iii) improving the quality of financial soundness indicators, to bring this area in line with international best practice; and (iv) improving external sector statistics, including estimates of FDI.

resident advisors in key areas. They have asked for future TA missions to include a training component to build capacity.

PROGRAM MODALITIES

54. Staff is proposing a 38-month arrangement under the ECF with access of SDR 186.663 million (approximately 90 percent of quota; about US$253 million) to address Sierra Leone's protracted BOP problems.[13] Access would be frontloaded, which is justified by the frontloaded reform path. All disbursements would be provided as budget support.[14]

55. IMF financing would represent 45.6 percent of the total projected budget support during the program period (Text Table 7). However, successful implementation of reforms under the ECF focused on restoring macroeconomic stability and addressing governance challenges is expected to have a catalytic effect in unlocking more concessional financing.

Text Table 7. Sierra Leone: Burden Sharing under the Proposed Program

(USD Million)

	2024	2025	2026	2027	Total	Percent
Total Projected Budget Support	118.5	157.2	137.0	132.1	544.8	100.0
IMF ECF	46.4	77.4	62.2	62.3	248.3	45.6
World Bank DPO	60.0	60.0	55.0	50.0	225.0	41.3
EU Poverty Reduction Budget Support	12.1	19.8	19.8	19.8	71.5	13.1

Sources: IMF staff projections.

56. The program is fully financed. Significant financing assurances have been provided by the World Bank and the EU to complement the scheduled disbursements under the proposed ECF arrangement. There are firm financing commitments for the first 12-month period, with good prospects that financing will be adequate for the remaining program period.

57. Sierra Leone's capacity to repay the IMF remains adequate but subject to significant downside risks (see Annex X). Outstanding IMF credit is projected to peak at end-2025 at 172.1 percent of quota, 91.4 percent of gross reserves, above the median values for PRGT countries. Annual gross repayments to the IMF are projected to peak in 2026 at 4.8 percent of exports, 0.9 percent of GDP (Table 6), and 6.6 percent of government revenues and grants.

58. The proposed program will be monitored through semi-annual and continuous performance criteria (PCs) and reviews, and quarterly indicative targets (ITs) (MEFP Table 1). Semi-annual PCs focus on key policies—a ceiling on net domestic credit to the government (NCG), a

[13] The current account deficit is projected to remain at an average of 3.8 percent of non-iron ore GDP over 2024-2029. Public debt amortization is projected to average US$137 million (1.9 percent of GDP) over the period.

[14] A Memorandum of Understanding will be established between the BSL and MoF on their respective roles and responsibilities for servicing Sierra Leone's obligations to the IMF.

ceiling on the net domestic assets of the BSL (NDA), and a floor on net international reserves (NIR)—underpinning macroeconomic stability objectives. Proposed ITs include (i) a floor on revenue collection; (ii) a floor on social spending; (iii) a floor on domestic primary spending; and (iv) a ceiling on net domestic arrears accumulation.

STAFF APPRAISAL

59. Progress in raising standards of living is long overdue. Despite Sierra Leone's abundant natural resources, its young population, and favorable geography, the years since the Ebola outbreak did not deliver critically needed improvements in standards of living. The social fabric remains fragile amid allegations of electoral fraud during the 2023 elections and the November 2023 coup attempt. The previous ECF arrangement served as a critical policy anchor, supported stability, promoted reforms, catalyzed financing, and integrated well with CD, but performance was mixed.

60. Tighter policies and stronger governance are key in stabilizing the economy and laying the foundations for inclusive growth. A series of shocks, paired with suboptimal policies and weak governance contributed to a period of low growth, high inflation, and increasing debt-related risks in recent years. Large public sector borrowing needs materialized in a robust sovereign-bank nexus, crowded out private access to finance and fueled fiscal dominance and inflation. Governance and corruption challenges diverted resources away from productive investments, undermined the business climate through pervasive arrears and poor revenue mobilization, and prevented Sierra Leone's mining sector from delivering sufficient benefit to Sierra Leoneans. Guided by the National Development Plan 2024-30, steadfast progress in addressing these challenges will be critical.

61. The recent reform momentum needs to be sustained, and increased efforts are needed to protect the most vulnerable. The remaining adjustment needed to keep debt on a sustainable path, bring down inflation, rebuild international reserves, and address fiscal dominance is large. Making durable progress in fighting poverty and raising standards of living will require a strong commitment to reform, sustained political and social consensus, and well targeted social policies that cover larger shares of the vulnerable population. Sierra Leone's 2023 external position is assessed as broadly consistent with the level implied by fundamentals and desirable policies, and maintaining price competitiveness going forward will be important in facilitating an external rebalancing and rebuilding international reserves.

62. The new ECF arrangement will help address these challenges in conjunction with the National Development Plan 2024-30. First, the program aims to bolster stability by tightening the macroeconomic policy stance, rebuilding international reserves, maintaining financial stability, strengthening debt and public financial management, and mobilizing grant resources. Second, the program will support inclusive growth through targeted social spending and structural reforms. To this end, an indicative target will ensure that social spending as a percentage of GDP does not decline despite the significant spending consolidation over the program period. Third, a new

Governance and Corruption Diagnostic will guide reform efforts to strengthen governance and address corruption vulnerabilities.

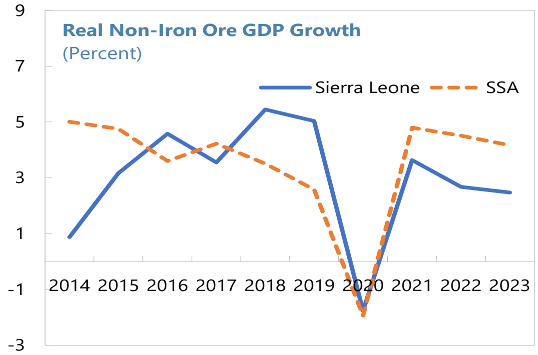
63. Program implementation risks are elevated. Downside risks arise from a global economic slowdown, tighter external financial conditions, terms of trade shocks, and shocks related to climate change. Geopolitical tensions can have serious implications for the Sierra Leonean economy, given their potential impact on energy subsidies, food inflation and security spending. In addition, there is a risk that reform fatigue could set in given the large adjustment need and the country's fragile social and political backdrop. In this context, contingency plans are critical.

64. Staff recommends the Executive Board's conclusion of the 2024 Article IV Consultation and supports the authorities' request for a 38-month extended arrangement under the ECF with access of SDR 186.663 million (approximately 90 percent of quota; about US$253 million). Staff also supports the authorities' request to use disbursements under the arrangement as budget support.

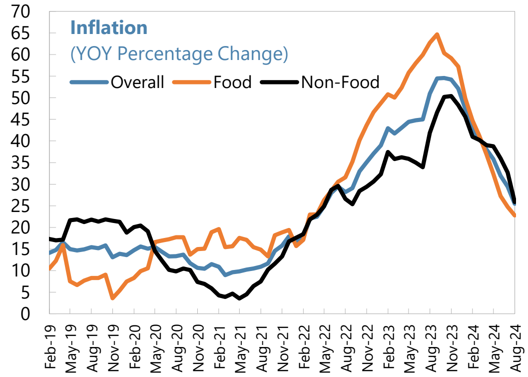
65. Staff recommends that the next Article IV consultation for Sierra Leone be held on the 24-month cycle per the decision on Article IV consultations cycles for members with IMF arrangements.

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

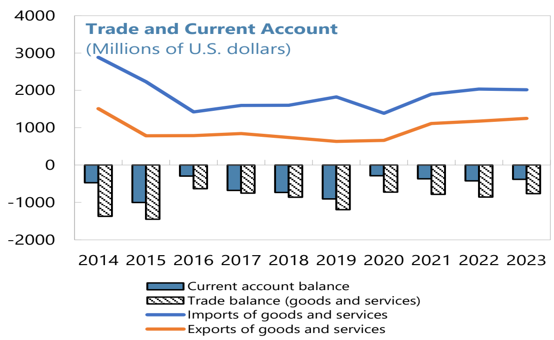
Non-iron ore growth remained below potential in 2023 amid the decisive fiscal tightening.



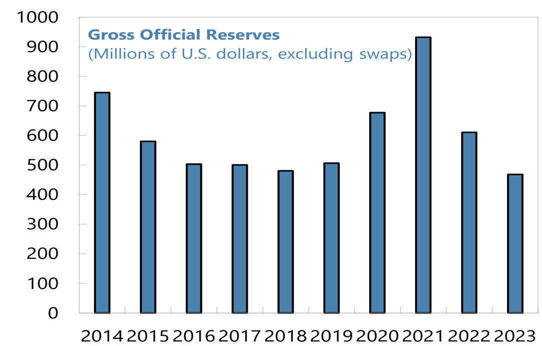
Both food and non-food inflation are coming down.



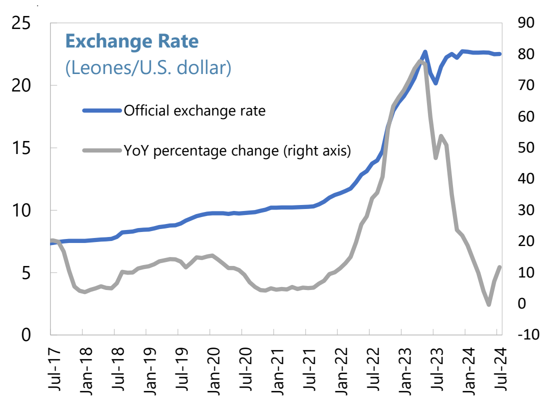
Imports and exports picked up beyond pre-pandemic levels, partly driven by higher prices for fuel and food.



Official reserves were bolstered by the 2021 SDR allocation but have since dropped sharply.



The steep currency depreciation in 2022 and early 2023 has been arrested ...



... leading to substantial REER appreciation.

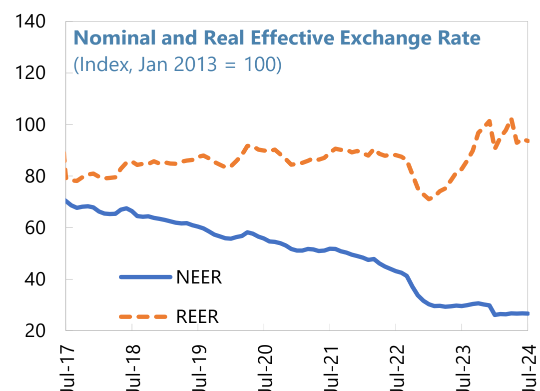
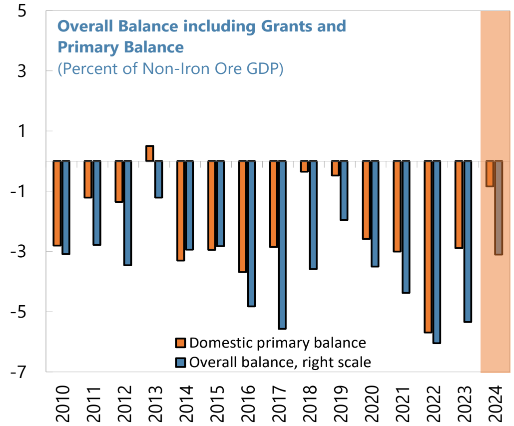
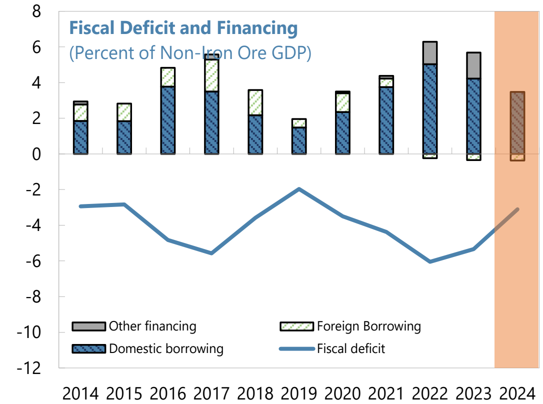


Figure 2. Sierra Leone: Fiscal Sector, 2010-24

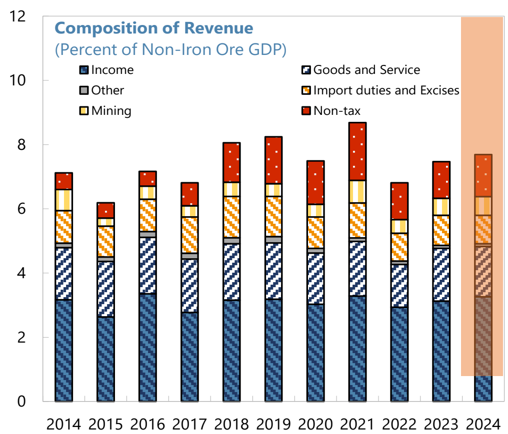
The fiscal policy stance tightened in 2023.



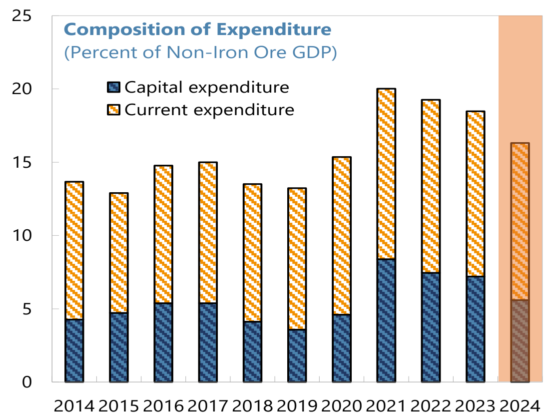
This resulted in a drop in domestic borrowing despite net negative external borrowing.



Revenue collection increased in 2023.



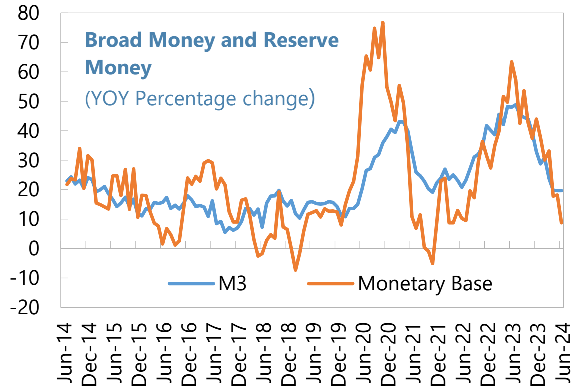
Expenditures contracted in 2023.



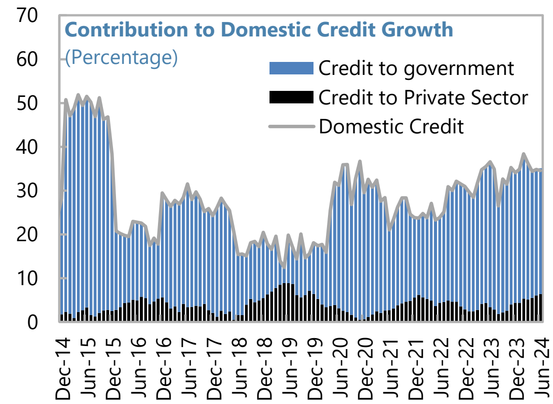
Sources: Sierra Leonean authorities; and IMF staff estimates.

Figure 3. Sierra Leone: Monetary and Financial Indicators, 2014–24

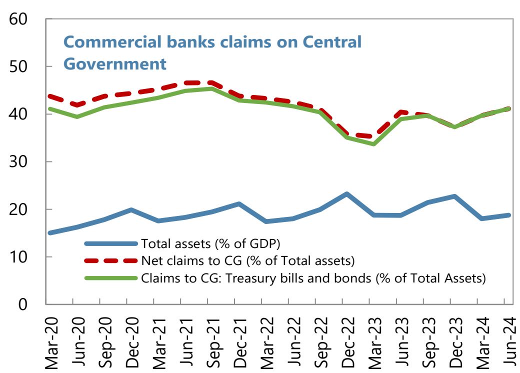
Base money growth has come down significantly ...



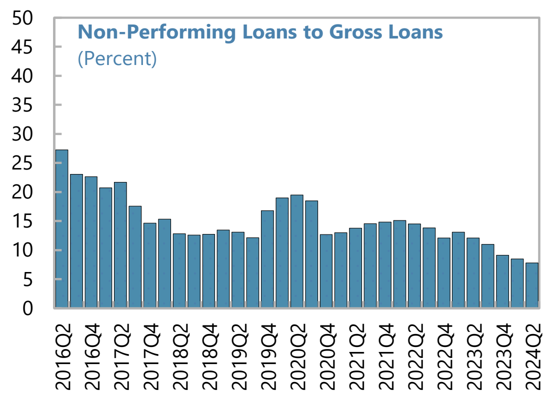
...while private credit growth remains too low.



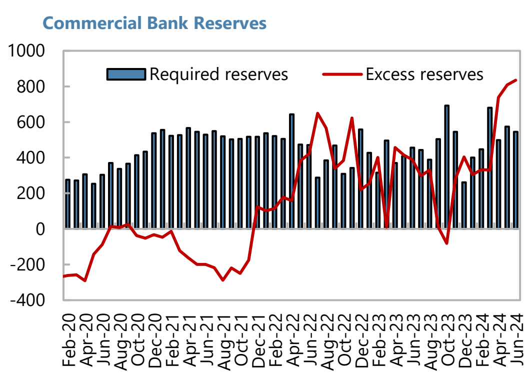
The business models of commercial banks remain focused on government securities...



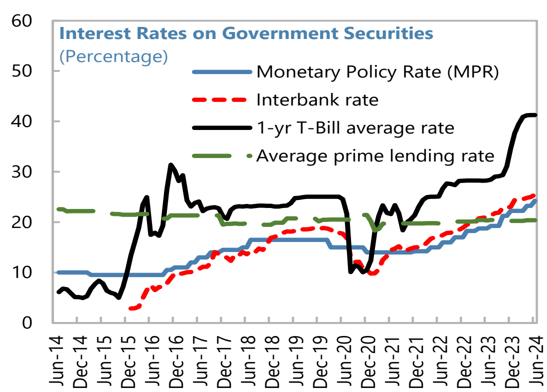
NPL ratios have edged down over the past two years.



Banks are holding large volumes of excess reserves.



Interest rates edged up alongside the policy rate, but real rates remain negative.



Sources: Sierra Leonean authorities; and IMF staff estimates.

Table 1. Sierra Leone: Selected Economic Indicators, 2023-29

	2023	2024	2025	2026	2027	2028	2029
	Prel.	Proj.	Proj.		Proj.		
	(Annual Percent Change, unless otherwise indicated)						
National account and prices							
Growth							
GDP at constant prices	5.7	4.0	4.5	4.7	4.7	4.7	4.6
GDP excluding Iron ore	3.0	3.9	4.6	4.6	4.7	4.7	4.5
GDP excluding mining	3.5	3.7	4.3	4.7	4.8	4.9	4.7
GDP deflator	29.2	24.5	12.0	8.0	7.1	6.2	5.9
Inflation							
Consumer prices (end-of-period)	52.2	21.0	14.9	11.4	9.0	8.0	7.0
Consumer prices (average)	47.7	36.6	18.0	13.2	10.2	8.5	7.5
External sector							
Terms of trade (deterioration -)	5.7	-3.4	-2.2	-1.3	-0.4	1.0	0.8
Exports of goods	8.9	8.7	0.5	4.8	2.7	3.7	5.5
Imports of goods	-3.3	7.2	3.6	1.1	1.5	5.2	2.4
Gross international reserves (excl. swaps) (months of next year's imports)	2.6	2.4	2.7	2.9	3.0	3.0	3.0
Money, credit and reserves							
Domestic credit to the private sector	25.0	21.0	20.4	21.0	21.2	21.2	20.9
Domestic credit to the private sector (percent of non-iron GDP)	3.5	3.2	3.3	3.6	3.9	4.2	4.6
Base money	44.0	16.5	14.5	13.6	13.4	12.9	10.6
M3	32.8	16.5	14.5	13.6	13.4	12.9	10.6
Gross international reserves (excl. swaps) (US$ millions)	468	449	514	558	605	620	642
	(In percent of non-iron ore GDP, unless otherwise indicated)						
National accounts							
Gross capital formation	21.2	19.1	21.3	21.3	21.7	22.2	23.2
Government	7.2	4.9	6.7	6.2	6.2	6.6	7.3
Private	14.0	14.3	14.6	15.1	15.5	15.6	15.9
National savings	15.9	15.1	16.8	17.5	18.3	18.5	19.5
Financing and debt							
Public debt	53.4	46.5	46.6	46.4	44.1	41.5	40.2
Domestic	16.9	16.3	16.9	17.3	15.7	14.2	13.0
External public debt (including IMF)	36.5	30.2	29.7	29.0	28.4	27.3	27.2
External sector							
Current account balance							
(including official grants)	-5.3	-4.0	-4.5	-3.7	-3.4	-3.8	-3.7
(excluding official grants)	-5.7	-5.4	-5.9	-5.0	-4.6	-4.9	-4.2
Central government budget							
Domestic primary balance 1/	-2.9	-0.8	0.3	0.8	1.5	1.7	1.7
Overall primary balance	-2.8	-0.3	0.0	0.4	0.7	0.9	-0.4
Overall balance	-5.3	-3.2	-3.9	-1.8	-1.0	-0.5	-1.6
Overall balance (excluding grants)	-11.0	-7.2	-8.5	-6.1	-5.2	-4.8	-5.0
Revenue (excluding grants) 2/	7.9	8.9	9.8	10.1	10.7	11.3	11.6
Grants	5.6	4.1	4.6	4.4	4.3	4.3	3.4
o/w off-budget grants	2.4	1.9	2.2	1.9	1.9	2.0	2.0
Total expenditure and net lending	18.9	16.1	18.3	16.2	15.9	16.1	16.6
Memorandum item:							
GDP at market prices (Leone millions)	136,604	176,871	207,012	234,075	262,455	291,843	323,254
Excluding iron ore (Leone millions)	127,630	164,984	193,340	218,457	245,142	272,897	301,901
Excluding iron ore (US$ millions)	5,976	6,915	7,291	7,422	7,701	8,051	8,444
Per capita GDP (US)	754	857	884	882	896	917	943
National currency per US dollar (average) (Leone)	21	..	..	..	..	..	..
National currency per US dollar (EOP) (Leone)	23	..	..	..	..	..	..

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

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

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

Table 2a. Sierra Leone: Fiscal Operations of the Central Government, 2022-29

(Millions of Leone)

	2022	2023	2024	2025	2026	2027	2028	2029
	Prel.	Prel.	Proj.	Proj.		Proj.		
Total revenue and grants	**13541**	**17303**	**21393**	**27882**	**31497**	**36700**	**42,454**	**45,242**
Revenue	7046	10100	14690	18909	21980	26221	30,776	34,894
Tax revenue	5921	8641	12405	16413	19138	22997	27,128	30,852
Personal Income Tax	1763	2566	3405	4262	5015	5647	6,451	7,368
Corporate Income Tax	1114	1425	1970	2487	2989	3482	4,044	4,593
Goods and Services Tax	1308	2097	2552	4311	4919	6676	8,352	9,486
Excises	373	569	1801	2138	2446	2784	3,143	3,481
Import duties	850	1195	1407	1938	2305	2781	3,339	3,918
Mining royalties and licenses	415	671	1127	1106	1268	1405	1,548	1,728
Other taxes	98	118	144	172	196	222	252	279
Non-tax	1125	1459	2284	2495	2842	3223	3,648	4,042
Grants	6277	7203	6703	8973	9517	10479	11,678	10,348
o/w Budget support	1880	1501	1780	2116	2202	2221	2,399	779
o/w Project grants	1479	2669	1777	2655	3164	3547	3945	3657
o/w Off-budget grants	2749	3033	3145	4202	4152	4711	5,335	5,912
Expenditures and net lending	**19471**	**24118**	**26607**	**35332**	**35369**	**39086**	**43,867**	**50,041**
Current expenditures	11574	14389	18350	22076	21448	23552	25,547	27,704
Wages and salaries 1/	4346	5311	6509	7627	8618	9783	11,084	12,295
Goods and services	2751	3262	3666	3787	4590	5612	6,301	7,068
o/w School feeding program	134	154	300	870	1311	1863	2074	2294
o/w Security spending	436	1060	749	878	1027	1153	1283	1420
Subsidies and transfers	2646	2619	3476	3237	3483	3944	4,399	4,873
o/w Transfers to energy IPPs	746	844	1339	875	795	860	915	965
Interest	1830	3197	4699	7425	4757	4213	3,763	3,468
Domestic	1632	2922	4386	7106	4316	3697	3,197	2,813
Foreign	199	274	313	319	441	516	566	654
Capital Expenditure 2/	7302	9192	8052	12961	13627	15249	18,035	22,011
Foreign financed	4929	7137	5975	9508	10406	12396	13,994	16,675
Domestic financed	2373	2055	2077	2194	2250	2853	4,041	5,336
Captial transfers	0	0	0	1259	972	0	0	0
UTB recapitalization	0	...	...	287	0	...	...	...
BSL recapitalization	0	0	0	972	972	0	0	0
Net lending	0	0	0	0	0	0	0	0
Contingent expenditure	46	103	35	35	35	35	35	35
Arrears Paydown (cash)	549	434	170	260	259	250	250	291
Domestic primary balance 3/	-5576	-3684	-1243	510	1774	3744	4,665	4,996
Overall primary balance	-4099	-3618	-515	-25	885	1827	2350	-1331
Overall balance including grants	-5930	-6815	-5214	-7450	-3872	-2386	-1,413	-4,799
Overall balance excluding grants	-12207	-14018	-11917	-16423	-13389	-12865	-13,091	-15,147
Financing	**5930**	**6815**	**5214**	**7450**	**3872**	**2386**	**1,413**	**4,799**
External financing (net)	-232	-435	-651	759	841	1772	2,227	4,512
Borrowing	701	1435	1052	2652	3091	4138	4,714	7,106
Amortization	-933	-1870	-1703	-1893	-2250	-2366	-2,488	-2,594
Domestic financing (net)	6161	7250	5865	6691	3031	614	-813	286
Total Banking Sector (net)	3561	5663	5225	6051	2271	-275	-1802	-903
Banks, net of Budget Support	3395	4969	4946	5054	1833	-685	25	867
IMF Budget Support 4/	167	694	279	997	438	410	-1828	-1770
Non-Bank Sector	204	-69	640	640	760	889	989	1189
Other 5/	1,163	-210	0	0	0	0	0	0
Other, Use of SDR allocations	1233	1866	0	0	0	0	0	
Financing Gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum item:								
Total Stock of Arrears 6/ 7/	2922	2023	1804	1496	1237	987	737	446
Foreign Financed Capital expenditure	4,929	7,137	5,975	9,508	10,406	12,396	13,994	16,675
Loans	701	1,435	1,052	2,652	3,091	4,138	4,714	7,106
Project grants	1479	2669	1777	2655	3164	3547	3945	3657
Off-Budget grants	2749	3033	3145	4202	4152	4711	5335	5912

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

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

2/ The following expenditure lines have been taken out of domestic capital expenditure and reclassified to goods and services:school feeding, examination fees for WASSCE; diet for boarding home schools, strengthening chiefdom governance, cluster eight: means of implementation and subsidies and transfers:school fee subsidies, clearance of grants in aid arrears to tertiary institutions.

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

6/ Changes in the total stock of arrears reflect cash paydown of arrears and the clear of arrears to NASSIT through the issuance of long-term bonds.

7/ The total stock of arrears does not include information on arrears owed to EDSA. Work is ongoing to reconcile and settle these figures.

Table 2b. Sierra Leone: Fiscal Operations of the Central Government, 2022-29

(Percent of non-iron ore GDP)

	2022	2023	2024	2025	2026	2027	2028	2029
	Act.	Prel.	Proj.	Proj.		Proj.		
Total revenue and grants	**13.8**	**13.6**	**13.0**	**14.4**	**14.4**	**15.0**	**15.6**	**15.0**
Revenue	7.2	7.9	8.9	9.8	10.1	10.7	11.3	11.6
Tax revenue	6.0	6.8	7.5	8.5	8.8	9.4	9.9	10.2
Personal Income Tax	1.8	2.0	2.1	2.2	2.3	2.3	2.4	2.4
Corporate Income Tax	1.1	1.1	1.2	1.3	1.4	1.4	1.5	1.5
Goods and Services Tax	1.3	1.6	1.5	2.2	2.3	2.7	3.1	3.1
Excises	0.4	0.4	1.1	1.1	1.1	1.1	1.2	1.2
Import duties	0.9	0.9	0.9	1.0	1.1	1.1	1.2	1.3
Mining royalties and licenses	0.4	0.5	0.7	0.6	0.6	0.6	0.6	0.6
Other taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Non-tax	1.1	1.1	1.4	1.3	1.3	1.3	1.3	1.3
Other, Capital Transfers from BSL (CCRT Debt Relief)	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	6.4	5.6	4.1	4.6	4.4	4.3	4.3	3.4
o/w Budget support	1.9	1.2	1.1	1.1	1.0	0.9	0.9	0.3
o/w Project grants	1.5	2.1	1.1	1.4	1.4	1.4	1.4	1.2
o/w Off-budget grants	2.8	2.4	1.9	2.2	1.9	1.9	2.0	2.0
	13.0	10.8	8.8	8.4	8.4	8.8	9.2	9.6
Expenditures and net lending	**19.9**	**18.9**	**16.1**	**18.3**	**16.2**	**15.9**	**16.1**	**16.6**
Current expenditures	11.8	11.3	11.1	11.4	9.8	9.6	9.4	9.2
Wages and salaries 1/	4.4	4.2	3.9	3.9	3.9	4.0	4.1	4.1
Goods and services	2.8	2.6	2.2	2.0	2.1	2.3	2.3	2.3
o/w School feeding program	0.1	0.1	0.2	0.5	0.6	0.8	0.8	0.8
o/w Security spending	0.4	0.8	0.5	0.5	0.5	0.5	0.5	0.5
Subsidies and transfers	2.7	2.1	2.1	1.7	1.6	1.6	1.6	1.6
o/w Transfers to energy IPPs	0.8	0.7	0.8	0.5	0.4	0.4	0.3	0.3
Interest	1.9	2.5	2.8	3.8	2.2	1.7	1.4	1.1
Domestic	1.7	2.3	2.7	3.7	2.0	1.5	1.2	0.9
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital Expenditure 2/	**7.5**	**7.2**	**4.9**	**6.7**	**6.2**	**6.2**	**6.6**	**7.3**
Foreign financed	5.0	5.6	3.6	4.9	4.8	5.1	5.1	5.5
Domestic financed	2.4	1.6	1.3	1.1	1.0	1.2	1.5	1.8
Capital transfers	...	...	0.0	0.7	0.4	...	...	...
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent expenditure	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Arrears Paydown (cash)	0.6	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Domestic primary balance 3/	-5.7	-2.9	-0.8	0.3	0.8	1.5	1.7	1.7
Overall primary balance	-4.2	-2.8	-0.3	0.0	0.4	0.7	0.9	-0.4
Overall balance including grants	**-6.1**	**-5.3**	**-3.2**	**-3.9**	**-1.8**	**-1.0**	**-0.5**	**-1.6**
Financing	**6.1**	**5.3**	**3.2**	**3.9**	**1.8**	**1.0**	**0.5**	**1.6**
External financing (net)	-0.2	-0.3	-0.4	0.4	0.4	0.7	0.8	1.5
Borrowing	0.7	1.1	0.6	1.4	1.4	1.7	1.7	2.4
Projects	0.7	1.1	0.6	1.4	1.4	1.7	1.7	1.8
Budget	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6
Amortization	-1.0	-1.5	-1.0	-1.0	-1.0	-1.0	-0.9	-0.9
Domestic financing (net)	6.3	5.7	3.6	3.5	1.4	0.3	-0.3	0.1
Total Banking Sector (net)	3.6	4.4	3.2	3.1	1.0	-0.1	-0.7	-0.3
Banks, net of Budget Support	3.5	3.9	3.0	2.6	0.8	-0.3	0.0	0.3
IMF Budget Support 4/	0.2	0.5	0.2	0.5	0.2	0.2	-0.7	-0.6
Non-Bank Sector	0.2	-0.1	0.4	0.3	0.3	0.4	0.4	0.4
Other 5/	1.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other, Use of 2021 SDR allocations	1.3	1.5	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**
Memorandum item:								
Total Stock of Arrears 6/ 7/	3.0	1.6	1.1	0.8	0.6	0.4	0.3	0.1
Foreign Financed Capital expenditure	5.0	5.6	3.6	4.9	4.8	5.1	5.1	5.5
Loans	0.7	1.1	0.6	1.4	1.4	1.7	1.7	2.4
Project grants	1.5	2.1	1.1	1.4	1.4	1.4	1.4	1.2
Off-Budget grants	2.8	2.4	1.9	2.2	1.9	1.9	2.0	2.0
Non-iron ore GDP (Leone millions)	98,006	127,630	164,984	193,340	218,457	245,142	272,897	301,901

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

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

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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.

6/ Changes in the total stock of arrears reflect cash paydown of arrears and the clear of arrears to NASSIT through the issuance of long-term bonds.

7/ The total stock of arrears does not include information on arrears owed to EDSA. Work is ongoing to reconcile and settle these figures.

Table 2c. Sierra Leone: Fiscal Operations of the Central Government on a Quarterly Basis, 2024-25

(Millions of Leone)

	2024					2025				
	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4	annual
	Prel.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	4114	4685	5275	7318	**21393**	6332	6648	6201	8700	**27882**
Revenue	3580	3918	4045	3147	**14690**	4618	4934	4487	4870	**18909**
Tax revenue	2837	3414	3517	2638	**12405**	3783	4356	3960	4314	**16413**
Personal Income Tax	819	804	919	862	**3405**	1029	1095	1027	1112	**4262**
Corporate Income Tax	429	630	512	399	**1970**	503	737	561	686	**2487**
Goods and Services Tax	541	686	702	623	**2552**	1007	1105	1073	1127	**4311**
Excises	464	478	540	319	**1801**	509	572	498	559	**2138**
Import duties	333	425	422	226	**1407**	456	500	468	513	**1938**
Mining royalties and licenses	224	344	378	181	**1127**	243	302	289	272	**1106**
Other taxes	26	46	43	29	**144**	37	45	43	47	**172**
Non-tax	743	504	528	509	**2284**	835	577	527	556	**2495**
Grants	534	767	1231	4171	**6703**	1714	1714	1714	3830	**8973**
o/w Budget support	0	0	0	1780	**1780**	0	0	0	2116	**2116**
o/w Project grants	534	767	444	32	**1777**	664	664	664	664	**2655**
o/w Off-budget grants	0	0	786	2359	**3145**	1051	1051	1051	1051	**4202**
Expenditures and net lending	**5586**	**6238**	**6168**	**8615**	**26607**	**9010**	**8881**	**8553**	**8888**	**35332**
Excluding arrears paydown (cash)	*3782*	*4169*	*3657*	*4325*	**15933**	*4903*	*4658*	*4345*	*4492*	18398
Current expenditures	4170	4691	4428	5061	**18350**	5528	5250	5369	5930	**22076**
Wages and salaries 1/	1525	1548	1608	1828	**6509**	1907	1884	1929	1907	**7627**
Goods and services	803	948	917	998	**3666**	845	1049	943	951	**3787**
o/w School feeding program	43	0	75	182	**300**	218	218	218	218	**870**
o/w Security spending	335	294	75	45	**749**	306	211	176	186	**878**
Subsidies and transfers	764	1271	729	713	**3476**	1046	825	712	654	**3237**
o/w elections	15	24	40	80	**159**	18	18	11	25	**72**
o/w Transfers to energy IPPs	90	724	335	189	**1339**	345	177	177	177	**875**
Interest	1079	924	1175	1522	**4699**	1730	1491	1785	2418	**7425**
Domestic	998	860	1097	1432	**4386**	1634	1421	1705	2345	**7106**
Foreign	81	64	78	90	**313**	96	70	80	73	**319**
Capital Expenditure 2/	1405	1512	1689	3446	**8052**	3409	3557	3110	2884	**12961**
Foreign financed	726	1145	1336	2768	**5975**	2377	2732	2422	1977	**9508**
Domestic financed	679	367	353	678	**2077**	717	511	373	592	**2194**
Captial transfers	0	0	0	0	**0**	315	315	315	315	**1259**
UTB recapitalization	0	0	0	0	**0**	72	72	72	72	**287**
BSL recapitalization	…	…	…	…	**0**	243	243	243	243	**972**
Net lending	0	0	0	0	**0**	0	0	0	0	**0**
Contingent expenditure	3	1	9	22	**35**	9	9	9	9	**35**
Arrears Paydown (cash)	8	34	43	86	**170**	65	65	65	65	**260**
Domestic primary balance 3/	**-201**	**-251**	**387**	**-1178**	**-1243**	**-285**	**276**	**141**	**378**	**510**
Overall primary balance	**-394**	**-629**	**282**	**225**	**-515**	**-948**	**-742**	**-567**	**2231**	**-25**
Overall balance including grants	**-1472**	**-1553**	**-893**	**-1297**	**-5214**	**-2678**	**-2233**	**-2352**	**-187**	**-7450**
Overall balance excluding grants	**-2006**	**-2320**	**-2123**	**-5468**	**-11917**	**-4392**	**-3947**	**-4066**	**-4017**	**-16423**
Financing	**1472**	**1553**	**893**	**1297**	**5214**	**2678**	**2233**	**2352**	**187**	**7450**
External financing (net)	-218	0	-235	-197	**-651**	190	171	171	228	**759**
Borrowing	192	378	105	377	**1052**	663	663	663	663	**2652**
Amortization	-410	-378	-341	-574	**-1703**	-473	-492	-492	-435	**-1893**
Domestic financing (net)	1690	1553	1128	1494	**5865**	2488	2062	2181	-40	**6691**
Total Banking Sector (net)	1872	1341	968	1044	**5225**	2328	1902	2021	-200	**6051**
Banks, net of Budget Support	2022	1684	1118	122	**4946**	2522	843	2567	-878	**5054**
IMF Budget Support 4/	-150	-344	-150	922	**279**	-194	1059	-546	678	**997**
Non-Bank Sector	157	318	160	4	**640**	160	160	160	160	**640**
Other 5/	-339	-107	0	446	**0**	0	0	0	0	**0**
Other, Use of SDR allocations	0	0	0	0	**0**	0	0	0	0	0
Financing Gap	0	0	0	0	**0**	0	0	0	0	**0**
Memorandum item:										
Total Stock of Arrears 6/ 7/	2014	1978	1923	1804	**1804**	1727	1650	1573	1496	**1496**

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

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

2/ The following expenditure lines have been taken out of domestic capital expenditure and reclassified to goods and services:school feeding, examination fees for WASSCE; diet for boarding home schools, strengthening chiefdom governance, cluster eight: means of implementation and subsidies and transfers:school fee subsidies, clearance of grants in aid arrears to tertiary institutions.

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

6/ Changes in the total stock of arrears reflect cash paydown of arrears and the clear of arrears to NASSIT through the issuance of long-term bonds.

7/ The total stock of arrears does not include information on arrears owed to EDSA. Work in ongoing to reconcile and settle these figures.

Table 3. Sierra Leone: Monetary Accounts, 2022-29

(Millions of Leone, unless otherwise indicated)[1/]

	2022	2023	2024				2025				2026	2027	2028	2029
	Act.	Prel.	Proj				Proj				Projections			
	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec				
I. Monetary Survey														
Net foreign assets 2/	**5278**	**6391**	**4577**	**4323**	**3880**	**5888**	**6013**	**5540**	**5168**	**7817**	**10338**	**13692**	**18514**	**23468**
Net domestic assets	**15120**	**20705**	**22744**	**22771**	**25356**	**25669**	**26632**	**28228**	**29763**	**28316**	**30693**	**32840**	**34020**	**34656**
Net domestic credit	**18659**	**25128**	**27882**	**28127**	**30709**	**31021**	**32237**	**34100**	**35914**	**34759**	**38490**	**42292**	**45480**	**48506**
Claims on central government (net) 3/	13947	19610	20760	21702	22670	23713	26042	27944	29965	29764	31198	32829	32299	31895
Claims on private sector	3539	4424	5137	5356	5354	5352	5606	5872	6151	6443	7797	9453	11460	13850
Claims on others 4/	1173	1095	1985	1070	2686	1956	590	285	-202	-1449	-505	11	1721	2761
Other items (net)	-2199	-3149	-2997	-3957	-2339	-3067	-4687	-5259	-6024	-7563	-7973	-9112	-9411	-10760
Money and quasi-money (M3)	**20394**	**27088**	**27310**	**27084**	**29236**	**31557**	**32644**	**33768**	**34931**	**36133**	**41031**	**46531**	**52534**	**58125**
II. Bank of Sierra Leone														
Net foreign assets	**-2961**	**-3770**	**-4445**	**-4931**	**-6162**	**-5005**	**-5279**	**-6163**	**-6962**	**-4752**	**-4026**	**-2689**	**-65**	**2840**
Net domestic assets	**9015**	**12483**	**12826**	**12910**	**15162**	**15156**	**15780**	**17026**	**18198**	**16376**	**17225**	**17657**	**16965**	**15857**
Net domestic credit	**8000**	**10560**	**11193**	**11593**	**13364**	**13235**	**13792**	**14861**	**15711**	**13717**	**14130**	**14294**	**13601**	**12494**
Claims on other depository corporations	778	665	1011	1379	3300	2249	3000	3009	4406	1734	714	-754	-916	-1619
Claims on central government	7173	9897	10084	10238	10088	11010	10816	11875	11329	12007	13440	15071	14542	14138
Claims on other sectors	49	-24	99	-24	-24	-24	-24	-24	-24	-24	-24	-24	-24	-24
Other items (net) 5/	1014	1923	1633	1317	1798	1921	1988	2165	2487	2659	3095	3363	3363	3363
Reserve money	**6053**	**8714**	**8381**	**7979**	**9000**	**10151**	**10501**	**10862**	**11236**	**11623**	**13199**	**14968**	**16899**	**18698**
Memorandum items:														
	(Annual percent change unless otherwise indicated)													
Base money	31.5	44.0	33.1	8.8	24.3	16.5	25.3	36.1	24.8	14.5	13.6	13.4	12.9	10.6
M3	41.8	32.8	23.8	19.7	18.7	16.5	20.5	15.5	10.7	14.5	13.6	13.4	12.9	10.6
Credit to the private sector (growth)	11.9	25.0	31.7	37.7	30.0	21.0	9.1	9.6	14.9	20.4	21.0	21.2	21.2	20.9
BSL Holdings of marketable government securities (Leones)	3697	5325	5296	5680	5680	5680	5680	5680	5680	5680	5680	5680	5680	5680
Velocity 6/	5.6	5.4	..	..	..	5.6	..	..	..	5.7	5.7	5.6	5.5	5.5
Money multiplier (M3/base money)	3.4	3.1	3.3	3.4	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Credit to the private sector (in percent of non iron ore GDP)	3.6	3.5	..	..	..	3.2	..	..	..	3.3	3.6	3.9	4.2	4.6
Nominal exchange rate, average (Leones/US$)	18	22	..	..	..	..	..	..	..	..	..	..	..	..
Nominal exchange rate, end of period (Leones/US$)	19	23	..	..	..	..	..	..	..	..	..	..	..	..

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

1/ End of period.

2/ Net foreign assets are now reported as in IMD, leading to differences relative to previously reported figures.

3/The definition for central government used in the monetary survey is broader than that used for the calculation of the net credit to the government in the QPC table. Therefore, the change in claims on central government (net) in the monetary survey is unlikely to match the change in the NCG in the QPC table.

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

5/ Includes valuation.

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

Table 4. Sierra Leone: Balance of Payments, 2022-29
(Millions of US$, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029
	Est.	Prel.	Proj.	Proj.		Proj.		
Current account	**-424.3**	**-319.4**	**-279.4**	**-329.1**	**-278.0**	**-262.3**	**-304.6**	**-311.7**
Trade balance	-594.5	-433.2	-446.0	-505.3	-459.8	-448.2	-492.2	-455.6
Exports, f.o.b.	1,154.4	1,257.3	1,366.4	1,372.7	1,438.3	1,477.5	1,532.8	1,617.1
of which: Diamonds	189.8	145.2	238.7	279.3	288.2	297.4	306.9	316.7
Iron ore	452.4	528.6	537.4	494.9	509.5	512.8	526.7	572.1
Rutile and ilmenite	217.7	148.0	126.4	131.5	136.8	142.4	148.1	154.1
Imports, f.o.b	-1,748.8	-1,690.4	-1,812.4	-1,877.9	-1,898.0	-1,925.7	-2,025.0	-2,072.7
of which: Oil	-414.5	-372.9	-398.9	-393.0	-390.2	-394.3	-403.2	-415.3
Services (net)	-265.0	-305.0	-331.0	-344.9	-349.5	-357.3	-374.8	-387.2
Income (net)	-67.0	-53.8	-61.4	-64.6	-68.5	-71.7	-74.6	-79.2
of which: Interest on public debt	-15.0	-11.2	-11.5	-12.0	-15.0	-16.2	-16.7	-18.3
Transfers	502.1	472.5	559.0	585.6	599.8	614.9	637.1	610.2
Official transfers (net)	176.1	23.7	90.6	98.4	93.4	88.3	89.3	40.4
Other transfers (net)	326.0	448.9	468.3	487.2	506.4	526.6	547.7	569.8
Capital and financial account	**367.0**	**445.2**	**278.6**	**383.4**	**330.3**	**313.2**	**364.3**	**370.0**
Capital account	220.1	346.7	208.5	260.9	250.9	261.9	276.4	270.3
of which: Project support grants	301.0	267.0	206.3	258.6	248.5	259.4	273.8	267.6
Financial account	146.9	98.6	70.0	122.5	79.4	51.3	88.0	99.7
Foreign direct and portfolio investment	186.2	201.2	88.7	103.8	70.8	26.3	57.2	4.1
Other investment	-39.3	-102.6	-18.7	18.6	8.6	25.0	30.8	95.6
of which: Public sector (net)	62.7	65.5	-27.3	28.6	28.6	55.7	65.7	126.2
Disbursements	49.9	67.2	44.1	100.0	105.0	130.0	139.1	198.7
Amortization	-63.9	-72.9	-71.4	-71.4	-76.4	-74.3	-73.4	-72.5
Errors and omissions	**-241.2**	**-244.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-298.6**	**-118.9**	**-0.8**	**54.3**	**52.3**	**50.9**	**59.7**	**58.3**
Financing	**298.6**	**118.9**	**0.8**	**-54.3**	**-52.3**	**-50.9**	**-79.7**	**-88.3**
Change in net central bank reserves (- increase)	301.3	123.3	5.2	-52.1	-50.1	-49.2	-79.7	-88.3
of which: Change in gross central bank reserves (- increase)	321.3	142.1	19.3	-65.1	-44.0	-46.3	-15.4	-21.8
of which: Net use of Fund credit	-20.1	-18.7	-14.1	13.1	-6.1	-2.9	-64.3	-66.5
Disbursements	20.8	41.5	46.4	77.4	62.2	62.3	0.0	0.0
Repayments	-40.9	-60.2	-60.4	-64.4	-68.3	-65.2	-64.3	-66.5
DSSI (repayment)	-2.7	-4.4	-4.4	-2.2	-2.2	-1.7	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**20.0**	**30.0**
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	20.0	30.0
Memorandum items								
(Percent of non-iron ore GDP unless otherwise indicated)								
Current account	-6.1	-5.3	-4.0	-4.5	-3.7	-3.4	-3.8	-3.7
Trade balance	-8.5	-7.2	-6.4	-6.9	-6.2	-5.8	-6.1	-5.4
Capital and financial account	5.3	7.5	4.0	5.3	4.5	4.1	4.5	4.4
Overall balance	-4.3	-2.0	0.0	0.7	0.7	0.7	0.7	0.7
Budget support (grants and loans)	1.9	1.5	1.0	1.1	1.0	0.9	0.9	0.9
Budget support (grants and loans), millions of U.S. dollars	130.9	91.2	72.1	79.8	74.8	69.8	70.8	71.8
Gross international reserves (including swaps)	627	499	478	518	558	605	620	642
Gross international reserves (excluding swaps)	610	468	449	514	558	605	620	642
Gross international reserves (excluding swaps), months of next year's imports	3.6	2.6	2.4	2.7	2.9	3.0	3.0	3.0
National currency per US dollar (average)	14	21	…	…	…	…	…	…

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

Table 5. Sierra Leone: External Financing Requirements and Sources, 2022-29
(Millions of US$)

	2022	2023	2024	2025	2026	2027	2028	2029
	Act.	Prel.	Proj.		Proj.			
Financing needs	**-387**	**-339**	**-487**	**-631**	**-562**	**-538**	**-547**	**-513**
Current account balance (excluding net official current transfers)	-600	-343	-370	-427	-371	-351	-394	-352
Debt amortization (excluding IMF)	-64	-73	-71	-71	-76	-74	-73	-73
Repayments to IMF	-41	-60	-60	-64	-68	-65	-64	-67
DSSI (repayment)	-3	-4	-4	-2	-2	-2	0	0
Gross international reserves accumulation (- increase)	321	142	19	-65	-44	-46	-15	-22
Identified financing sources	**506**	**480**	**373**	**476**	**428**	**408**	**456**	**461**
Capital account balance	220	347	209	261	251	262	276	270
Disbursements from official creditors (excluding IMF)	50	67	44	100	105	130	139	199
Net official current transfers	72	-42	19	19	19	19	19	19
Foreign direct and portfolio investment	186	201	89	104	71	26	57	4
Net acquisition of financial assets of commercial banks (- increase)	-88	-173	9	-10	-20	-31	-35	0
Other	66	81	4	2	2	2	0	-31
Errors and omissions	**-241**	**-245**	**0**	**0**	**0**	**0**	**0**	**0**
Financing gap	**122**	**103**	**114**	**155**	**135**	**130**	**91**	**52**
Other financing sources	**122**	**103**	**114**	**155**	**135**	**130**	**91**	**52**
Disbursements from IMF (ECF)	21	42	46	77	62	62	0	0
World Bank	104	66	60	60	55	50	50	0
EU	0	0	12	20	20	20	21	22
Unidentified financing	0	0	0	0	0	0	20	30
Memorandum items								
Gross international reserves (excluding swaps)	610	468	449	514	558	605	620	642
Gross international reserves (excluding swaps) (months of next year's imports)	3.6	2.6	2.4	2.7	2.9	3.0	3.0	3.0

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

Table 6. Sierra Leone: Indicators of Capacity to Repay the Fund, 2024-34

(In millions of SDRs, unless otherwise indicated)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Fund obligations based on existing credit (millions of SDRs)											
Principal	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	1.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Fund obligations based on existing and prospective credit (millions of SDRs)											
Principal	45.6	48.5	51.2	48.8	48.0	49.6	45.0	40.1	38.1	42.0	37.3
Charges and interest	1.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Fund obligations based on existing and prospective credit											
In millions of SDRs	47.1	50.5	53.2	50.8	50.0	51.6	47.1	42.1	40.1	44.0	39.4
In millions of US$	62.4	67.1	71.0	67.9	67.0	69.2	61.9	54.3	50.7	54.6	47.8
In percent of exports of goods and services	4.4	4.7	4.8	4.4	4.2	4.1	3.5	2.9	2.5	2.5	2.1
In percent of total debt service 1/	43.5	45.4	44.4	43.6	43.4	44.0	41.2	37.4	33.5	33.5	29.0
In percent of GDP	0.8	0.9	0.9	0.8	0.8	0.8	0.7	0.5	0.5	0.5	0.4
In percent of gross international reserves	13.0	12.9	12.7	11.2	10.8	10.8	9.1	7.6	6.7	6.9	5.7
In percent of quota	22.7	24.4	25.7	24.5	24.1	24.9	22.7	20.3	19.3	21.2	19.0
Outstanding Fund credit based on existing and prospective credit											
In millions of SDRs	347.2	357.0	352.5	350.3	302.3	252.7	207.7	167.6	129.5	87.5	50.2
In millions of US$	459.9	473.9	469.9	467.8	404.8	339.1	273.2	216.2	163.7	108.5	61.0
In percent of exports of goods and services	32.5	33.3	31.5	30.5	25.5	20.2	15.3	11.4	8.1	5.1	2.7
In percent of total debt service 1/	320.9	320.6	294.3	300.4	262.2	215.5	181.8	148.8	108.0	66.5	37.0
In percent of GDP	6.2	6.1	5.9	5.7	4.7	3.8	2.9	2.2	1.6	1.0	0.5
In percent of gross international reserves	96.2	91.4	84.2	77.4	65.3	52.8	40.2	30.2	21.7	13.7	7.3
In percent of quota	167.4	172.1	169.9	168.9	145.8	121.9	100.1	80.8	62.4	42.2	24.2
Net use of Fund credit (millions of SDRs)	-10.6	9.8	-4.5	-2.2	-48.0	-49.6	-45.0	-40.1	-38.1	-42.0	-37.3
Disbursements	35.0	58.3	46.7	46.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	45.6	48.5	51.2	48.8	48.0	49.6	45.0	40.1	38.1	42.0	37.3
Memorandum items											
Exports of goods and services (millions of US$)	1,416	1,425	1,491	1,532	1,590	1,677	1,788	1,902	2,018	2,146	2,283
Total debt service (millions of US$) 1/	143.33	147.79	160	156	154	157	150	145	152	163	165
Nominal GDP (millions of US$)	7,413	7,807	7,952	8,245	8,610	9,041	9,504	9,989	10,499	11,040	11,609
Gross international reserves (millions of US$)	478	518	558	605	620	642	680	716	754	793	836
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

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, 2024-27

Dates	Disbursements		Conditions for Disbursement
	In millions of SDRs	In percent of quota 1/	
October 31, 2024	34.999	16.88	The approval of the ECF arrangement.
May 15, 2025	34.999	16.88	Board completion of the first review based on observance of continuous and December 31, 2024 performance criteria
November 15, 2025	23.333	11.25	Board completion of the second review based on observanc of continuous and June 30, 2025 performance criteria
May 15, 2026	23.333	11.25	Board completion of the third review based on observance of continuous and December 31, 2025 performance criteria
November 15, 2026	23.333	11.25	Board completion of the fourth review based on observance of continuous and June 30, 2026 performance criteria
May 15, 2027	23.333	11.25	Board completion of the fifth review based on observance of continuous and December 31, 2026 performance criteria
November 15, 2027	23.333	11.25	Board completion of the six review based on observance of continuous and June 30, 2027 performance criteria
Total disbursements	**186.663**	**90.00**	

1/ This does not reflect the recent 15th quota review across member states.

Sources: Sierra Leonean authorities; and IMF staff estimates.

Table 8. Sierra Leone: Financial Soundness Indicators, 2013-24

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 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	41.8	45.4
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	31.4	38.9
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	9.1	7.8
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	1.2	0.7
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	7.8	9.6
Return on equity	9.6	15.4	18.0	21.8	29.8	28.6	26.1	25.7	21.5	26.0	35.3	42.2
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	69.7	75.7
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	96.8	114.1
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	77.0	75.1
Sensitivity to Market Risk												
Net open position in FX to capital	-1.2	0.8	-6.8	14.4	-14.4	-12.8	-1.8	-12.2	-10.6	-0.2	-14.1	-10.4
Memorandum Item:												
Number of banks	13.0	13.0	13.0	13.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	15.0

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, 2023-24[1/]

	Debt Stock (end of period) 2023			Debt Service					
				2022	2023	2024	2022	2023	2024
	(In mil. US$)	*(Percent total debt)*	*(Percent GDP)*	*(In mil. US$)*			*(Percent GDP)*		
Total	2,988	100.0	49.9	727	626	574	13.7	10.4	8.1
External	2,044	68.4	34.1	138	144	143	2.6	2.4	2.0
Multilateral creditors[3]	1,651	55.2	27.6	108	111	117	2.0	1.9	1.7
IMF	480	16.1	8.0						
World Bank	479	16.0	8.0						
AfDB	162	5.4	2.7						
Other Multilaterals	529	17.7	8.8						
o/w: Islamic Development Bank	120	4.0	2.0						
EEC/EIB	61	2.0	1.0						
Bilateral Creditors	217	7.3	3.6	22	25	17	0.4	0.4	0.2
Paris Club	51	1.7	0.8	0	0	0	0.0	0.0	0.0
o/w: South Korea	51	1.7	0.8						
Non-Paris Club	166	5.6	2.8	22	25	17	0.4	0.4	0.2
o/w: Kuwait	55	1.9	0.9						
China	59	2.0	1.0						
Bonds	-	-	-	-	-	-	-	-	-
Commercial creditors	176	5.9	2.9	8	8	9	0.1	0.1	0.1
Other international creditors	-	-	-	-	-	-	-	-	-
Domestic[2]	945	31.6	15.8	589	482	431	11.1	8.0	6.1
Held by residents, total	945	31.6	15.8	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	-	-	-	-	-	-	-	-	-
T-Bills	673	22.5	11.2	n/a	n/a	n/a	n/a	n/a	n/a
Bonds	119	4.0	2.0	n/a	n/a	n/a	n/a	n/a	n/a
Loans	9	0.3	0.2	n/a	n/a	n/a	n/a	n/a	n/a
Memo items:									
Nominal GDP	6,397								

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)

Table 10. Sierra Leone: Gender Gaps Selected Macro-Critical Gender Related Indicators, 2018-23

	2018	2019	2020	2021	2022	2023	AFR Countries 1 / 25th Percentile	AFR Countries 1 / 75th Percentile	AFR Countries 1 / Median
Composite Gender Indices									
Female Human Capital Index (HCI) 2/	0.36	...	0.37	...	...	...	0.37	0.43	0.40
Gender Development Index (GDI)	0.91	0.89	0.89	0.89	0.89	...	0.88	0.95	0.92
Gender Inequality Index (GII) 3/	0.62	0.62	0.62	0.62	0.61	...	0.50	0.61	0.54
Global Gender Gap Index 2/	0.66	...	0.67	0.66	0.67	...	0.64	0.73	0.69
Women Business and the Law Index (WBL) 4/	63.1	63.1	69.4	72.5	72.5	92.5	67.5	83.8	79.4
Labor and Income									
Gender Gap (F-M) in Employment-to-Population Ratio, Modeled ILO Estimate (15+ yrs)	-3.8	-3.4	-3.1	-3.0	-3.6	-3.5	-11.4	-10.4	-11.2
Gender Wage Gap 5/	13.2	...	...	...	...	...	...	...	...
Gender Gap (F-M) in Informal Employment Rate	7.4	...	...	...	...	...	...	...	...
Gender Gap (F-M) in Labor Force Participation Rate, Modeled ILO Estimate (15+ yrs)	-5.1	-4.6	-4.6	-4.4	-4.8	-4.8	-13.0	-9.8	-13.6
Gender Gap (F-M) in Unemployment Rate, Modeled ILO Estimate (15+ yrs)	-2.0	-2.0	-2.3	-2.3	-2.0	-2.0	0.4	1.8	0.9
Gender Gap in Gross Pension Replacement Rate (as share of average worker earnings)	...	...	...	...	...	...	...	...	...
Leadership and Social									
Proportion of Seats Held By Women in National Parliaments	12.3	12.3	12.3	12.3	12.3	28.2	14.6	33.8	24.5
Proportion of Women in Managerial Positions	...	...	...	...	...	...	...	...	...
Access to Finance									
Gender Ratio: Number of Household Loan Accounts with Commercial Banks (Females' Accounts for 1,000 Female Adults / Males' Accounts per 1,000 Male Adults)	...	...	...	...	...	...	...	...	...
Gender Ratio: Number of Household Deposit Accounts with Commercial Banks (Females' Accounts per 1,000 Female Adults/ Males' Accounts per 1,000 Male Adults)	...	...	...	...	...	...	...	...	...
Gender Gap in Adults Who Borrowed From a Financial Institution (Share of Female - Share of Male, percentage points)	...	...	...	0.9	...	...	-2.1	-2.4	-2.4
Gender Gap in Adults Who Own a Financial Institution Account (Share of Female - Share of Male, percentage points)	...	...	...	-6.9	...	...	-9.7	-15.5	-10.1
Gender Gap in Adults with Mobile Money Account (Share of Female - Share of Male, percentage points)	...	...	...	-4.8	...	...	-11.1	-10.6	-8.9
Gender Gap in Adults Who Made or Received Digital Payments in the Past Year (Share of Female - Share of Male, percentage points)	...	...	...	-8.4	...	...	-10.5	-4.1	-12.9
Education									
Gender Gap (F-M) in Adult Literacy Rate	...	...	...	...	-14.7	...	-24.0	-5.3	-9.5
Gender Gap (F-M) in Mean Years of Schooling	-2.5	-2.4	-2.4	-2.4	-2.4	...	...	...	...
Gender Gap (F-M) in Primary Gross Enrollment Rate	6.2	6.5	7.1	8.3	...	...	-3.2	-7.8	-1.7
Gender Gap (F-M) in Secondary Gross Enrollment Rate	-0.9	0.0	1.1	2.4	...	...	...	...	...
Gender Gap (F-M) in Tertiary Gross Enrollment Rate	...	...	...	...	...	...	-2.5	-2.7	-2.4
Health									
Gender Gap (F-M) in Adult Mortality Rate per 1,000 Adults 6/	-41.4	-37.7	-41.3	-37.0	-36.7	...	-74.0	-88.9	-63.7
Gender Gap (F-M) in Life Expectancy at Birth	2.7	2.6	2.7	2.6	2.6	...	4.0	5.2	4.4
Maternal Mortality Ratio per 100,000 Live Births, Modeled Estimate (15-49 yrs)	460	435	443	...	...	...	220	487	303
Total Fertility Rate (Births Per Woman)	4.3	4.2	4.1	4.0	3.9	...	3.5	4.6	4.1

Source: GenderDataHub /7

1/ Group aggregates are calculated where data are available for at least 50 percent of countries for a given indicator, and for weighted averages, where the relevant weights are also available. Data are reported for the latest year for which aggregates are available. Detailed metadata, including weights used for averages, are available on the Gender Data Hub.
2/ This index is scored on a scale of 0-1, with a higher score corresponding to better outcomes for women.
3/ This index is scored on a scale of 0-1, with a higher score corresponding to higher inequality (worse outcomes for women).
4/ The Women, Business, and the Law Index is reported on a scale of 0-100, with a higher score corresponding to better outcomes for women.
5/ The Gender Wage Gap is the difference between average earnings of men and average earnings of women expressed as a percentage of average earnings of men (as calculated by the International Labor Organization). The gap listed here is for Occupation = "Total" under the ICSO 08 Classification.
6/ The adult mortality rate refers to the probability that those who have reached age 15 will die before reaching age 60 (shown per 1,000 persons). In other words, a value of 150 means that out of 1,000 persons who have reached age 15, 150 are expected to die before reaching age 60, and 850 are expected to survive to age 60. This is based on a "synthetic cohort": current life-table mortality rates are applied to the current cohort of 15 year olds, assuming no changes in mortality.
7/ See Gender Data Hub metadata for original data sources and definitions.

Annex I. Ex-Post Peer Reviewed Assessment (PRA)

Performance during the 2017 and 2018 ECF arrangements for Sierra Leone was mixed. With the onset of Covid-19, the authorities were right to expand macroeconomic policies, but the policy stance soon became too loose, leading to successive large target misses and derailing an initially promising track record. The authorities nonetheless succeeded in completing the final reviews of the program by implementing an ambitious set of corrective actions. Three main lessons arise: first, conditionality should be unequivocally defined, parsimonious, and cognizant of ownership and implementation capacity; second, structural reform success benefits from well-aligned technical assistance; and third, robust contingency measures are particularly critical when PFM practices are weak.[1]

A. Overview

1. Sierra Leone has been an intense user of Fund resources for decades. Since becoming a member of the International Monetary Fund in 1962, it has had a total of 19 arrangements and facilities, including seven under the ECF, two under the Rapid Credit Facility (RCF), two under the Structural Adjustment Facility (SAF), one under the Extended Fund Facility (EFF), and seven Standby Arrangements (SBA). Of the available access of SDR 1.294 billion, 0.92 billion was disbursed, three quarters of which since the 1991-2001 civil war. This is the second PRA that the country is doing.

2. The rationale for repeated Fund engagements stemmed from a succession of shocks, and a protracted need for policy support. In the post-civil war era (2002-2023), Fund engagement centered on supporting the country's emergence from the ravages of civil war. Efforts were focused on development support and poverty reduction, underpinned by a robust structural reform agenda—namely focusing on governance and institution building. Since then, programs have focused increasingly on addressing macroeconomic challenges. These have included persistent poverty and food insecurity, low revenues, high public debt, elevated inflation, and weakening reserve buffers. A series of sizable shocks—including the Ebola crisis, climate-related shocks, the collapse in iron ore prices, the Covid-19 pandemic, and Russia's war in Ukraine—have further complicated the situation.

3. This PRA reviews two recent Fund arrangements with Sierra Leone: one approved in June 2017 (ECF1) and one approved in November 2018 (ECF2).[2]

- ECF1 was approved in June 2017 with access of SDR 161.772 million (78 percent of quota), of which about 24.2 percent was disbursed. ECF1 went off track shortly after its approval. Reasons included weaker-than-expected growth, lackluster revenue performance, and expenditure overruns, which led to a growing stock of arrears. The 2018 elections produced a new

[1] The analysis throughout this annex uses GDP data with base year 2006, not the rebased (base year 2018) GDP.

[2] A previous PRA was conducted as part of the approval of ECF1.

government, and the authorities opted to cancel ECF1 before the first review could be completed and replaced it with ECF2.

- ECF2 was approved in November 2018 with access of SDR 124.440 million (60 percent of quota), which is close to the undisbursed access under ECF1 of SDR 122.606 million. The 8th and final review were completed on November 20, 2023, and the committed access was fully disbursed.

B. Program Objectives

4. ECF1 focused on restoring macroeconomic stability and strengthening resilience. The program aimed at reducing inflation, mobilizing revenue—to allow for much needed spending on infrastructure and social protection—safeguarding financial stability, and strengthening resilience to external shocks.

5. ECF2 had broadly similar objectives, but the macroeconomic framework and structural agenda were recalibrated. Changes included measures to address the fiscal slippages that caused the previous program to go off track, adjust the medium-term framework to correct for these slippages, and supplement the structural agenda to better tailor it to the new circumstances.

C. Program Design

6. The choice of Fund arrangements was appropriate. Given the protracted balance of payments need, the need for substantial structural reforms, the high risk of debt distress, and the weak implementation capacity, the ECF was the appropriate facility for both arrangements.

7. Extending ECF2 twice was appropriate to allow for sufficient time to achieve program objectives and cope with external shocks. The first extension—at the time of the combined third and fourth reviews—aimed at supporting the authorities' ability to achieve their program objectives after the Covid-19 pandemic. The second extension—at the time of the combined sixth and seventh reviews—provided more time to implement corrective actions and achieve program objectives amid the large successive target misses leading up to the reviews. As part of the second extension, a new test date and an additional review were added to the arrangement.[3]

8. Access and phasing of both arrangements were adequate. Access under both ECF1 and ECF2 was below the ECF access norm—aligned with the strength of the program, Sierra Leone's capacity to repay the Fund and the existing balance of payments gaps.[4]

[3] The onset of Russia's war in Ukraine was accompanied by a sharp rise in the prices of key commodities, including wheat, rice, and oil, which caused a large deterioration in Sierra Leone's terms of trade and contributed to a steady rise in food inflation.

[4] The access norm for an arrangement under the ECF is 145 percent of quota. For ECF1, access was 78 percent of quota, and for ECF2, access was 60 percent of quota.

- **Rephasing.** As part of the first extension of ECF2, test dates and availability dates were rephased appropriately to address delays in completing the third and fourth reviews as the Covid shock hit. In the context of the second extension, disbursements under the sixth and seventh reviews were reduced by half, and the remaining access was made available under the added eighth review. The rephasing appropriately aligned incentives given that key reforms were left to be completed at the eighth review.

- **Intermittent RCF access.** As Covid-19 hit, additional access of 67 percent of quota was appropriately provided under the RCF, given that an emergency financing need had arisen.

9. Conditionality was generally well-aligned with program objectives. QPCs and ITs were focused on constraining macroeconomic policies, limiting external debt accumulation, and protecting reserve adequacy. The choice of SBs was generally also aligned with program objectives (e.g., in ECF2, more than two thirds of SBs focused on general government or central bank operations; Text Figure 1). However,

- **The complexity of some SBs made their implementation difficult.** As a result, staff had to modify and break up several SBs into steps.[5]

- **Some SBs could have been more carefully worded to avoid ambiguities** (e.g., the continuous SB on adherence to the fuel price mechanism).

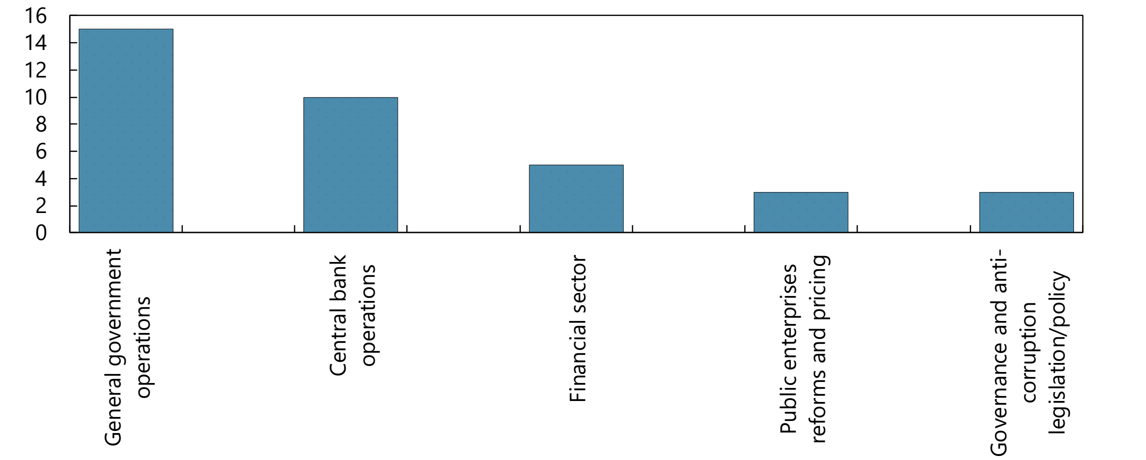
- **Conditionality could have been better prioritized (Text Figure 2).**

    - **Overall.** The number of prior actions (PAs) and SBs increased substantially following the onset of the pandemic, severely testing the authorities' implementation capacity.

    - **Governance.** To address concerns over the suspension of the auditor general and her deputy around the time of the fifth review, three SBs and several MEFP commitments were added. One commitment—to adequately remunerate Audit Service Sierra Leone (ASSL) management—proved very difficult to monitor; more generally, the sheer number of commitments may have crowded out policy discussions and reform efforts in other priority areas. It appears that a broader, more prioritized approach to governance challenges could have been a better choice.

[5] The type of issues to be addressed required specialized skills which were not available in Sierra Leone or not with the requisite experience. For example, conducting a forensic audit of the BSL.

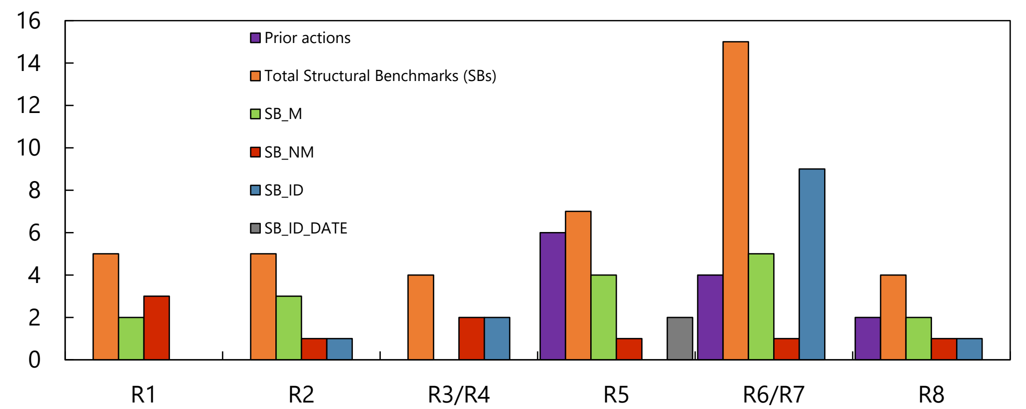
Text Figure 1. Sierra Leone: Structural Benchmarks by Category, 2018–23



Source: Monitoring of Fund Arrangements (MONA); and IMF staff calculations.

Text Figure 2. Sierra Leone: Structural Benchmarks and Prior Actions, 2018–23

(Per ECF2 review)

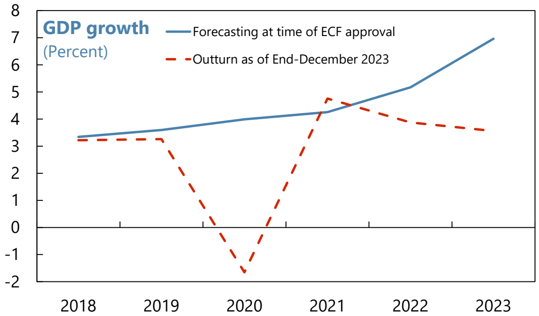


Source: Monitoring of Fund Arrangements (MONA); and IMF staff calculations.
Note: SB_M = met; SB_NM = not met; SB_ID = not met; implemented with delay; and SB_ID_Date = not met; implemented with delay at later date.

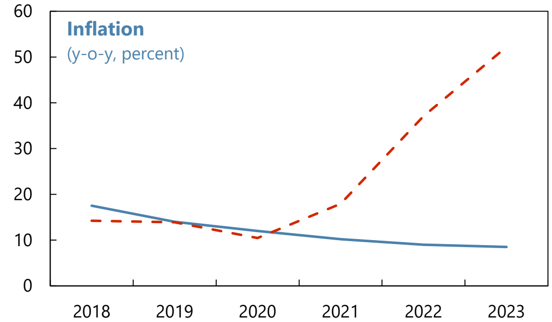
10. Key assumptions, risk assessments and contingency planning were generally adequate. However, Covid-19 and Russia's war in Ukraine significantly altered the macroeconomic framework: GDP growth and inflation were broadly in line with projections through 2020. Macroeconomic conditions then weakened notably as the shocks hit, policy slippages intensified, and the exchange rate depreciated sharply (Text Figure 3).

Text Figure 3. Sierra Leone: ECF2 Approval vs Outturn: Real and External Sectors, 2018-23

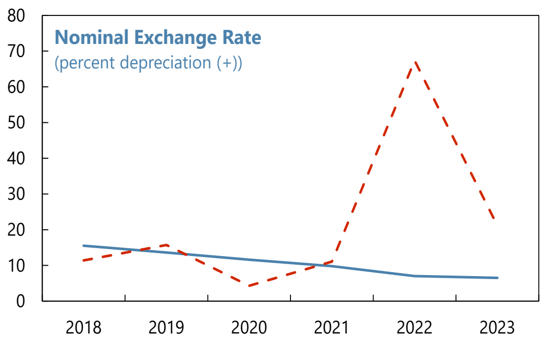
Growth was interrupted by the Covid-19 pandemic in 2020...



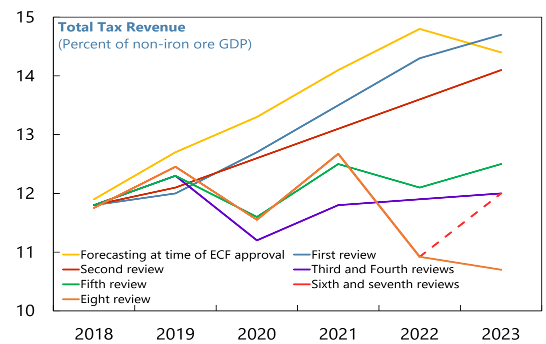
Headline inflation surged in the post covid era.



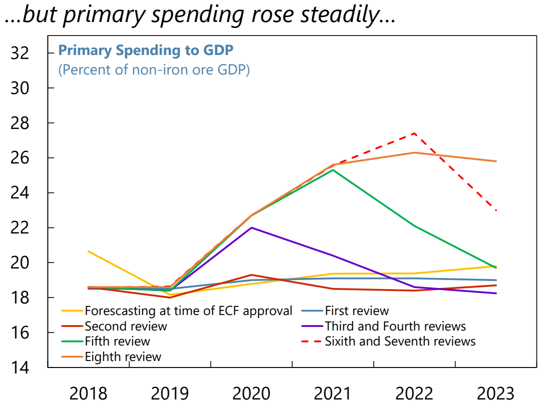
The nominal exchange rate depreciated strongly in 2022 ...



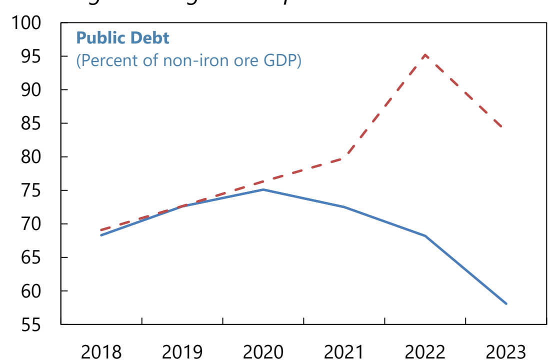
Revenue collections fell significantly short of projections....



...but primary spending rose steadily...



...leading to a surge in the public debt to GDP ratio.



Sources: Sierra Leonean authorities and IMF staff estimates.

Note: The charts in this panel use GDP data with base year 2006, not the rebased (base year 2018) GDP.

11. **Contingency planning was appropriately updated at each review, but it was insufficient to deal with the scale of shocks and policy slippages.** With hindsight, risk assessments may not have been fully reflective of the authorities' implementation capacity, the tense political and social environment, and fragile institutions. The significant fiscal and monetary policy slippages at the time of the sixth and seventh reviews were in large part a direct result of

weak PFM practices. To complete the sixth and seventh reviews the authorities committed to further reprioritize spending, including by curbing domestically financed capital expenditure, should pressures reemerge. They would also seek additional budget support and implement additional tax measures informed by the MTRS in case of revenue shortfalls, including (i) fast tracking the harmonization of taxes on capital income (excluding capital gains) at 20 percent from 10 percent; (ii) increasing stamp duty on immovable property; (iii) streamlining GST exemptions while protecting the poor; and (iv) introducing an excise tax on single use, non-biodegradable plastics.

D. Program Performance

12. ECF1 went off track shortly after its approval. Reasons included weaker-than-expected growth, lackluster revenue performance, and expenditure overruns, which led to a growing stock of arrears. The 2018 elections produced a new government, and the authorities opted to cancel ECF1 and replace it with ECF2.

13. External shocks and social tensions created a difficult environment for ECF2.

- **External shocks.** The Covid-19 pandemic, incidences of severe flooding, a significant drop in mining output, and Russia's war in Ukraine severely weakened the Sierra Leonean economy and put pressure on fiscal accounts, creating a need to loosen macroeconomic policies, and undermining the authorities' ability to achieve program targets.

- **Social tensions.** Tensions erupted in August 2022 when at least 21 protesters and 6 police officers were killed during a demonstration against the soaring cost of living. The government blamed the opposition for inciting violence. A change in the electoral system in December 2022 in the run-up to the June general elections created further tensions. Allegations of fraud during the elections by the opposition—which subsequently refused to take part in the country's governance for several months—created a significant obstacle for the implementation of reforms and the completion of the eighth review.

14. ECF2 fell short of achieving all its objectives following successive external shocks and substantial policy slippages. The program supported critical structural reforms, including by giving the central bank more operational independence, strengthening financial sector governance and supervision, launching the free quality education program, and adopting gender-responsive budgeting. However, the initial encouraging performance in the program weakened with the onset of Covid-19 (Box 1). While more expansionary policies were an appropriate response to the shock, policies soon loosened more than warranted (Text Figure 3). As a result, the exchange rate depreciated sharply, inflation increased significantly, and debt ratios surged. High inflation also drove the proportion of households facing food insecurity to 78 percent in 2023, from 54 percent in 2019. A rushed currency redenomination further added to these challenges.[6]

[6] Staff offered technical support on the currency redenomination and advised the authorities to take sufficient time to prepare, including to ensure that the relevant infrastructure was in place to receive, securely store and destroy large amounts of currency notes.

Box I.1. Sierra Leone: Performance in Meeting QPCs, PAs and SBs of ECF2

QPC performance weakened with the onset of the pandemic. During the first three reviews, the only two target misses resulted from bridge financing necessitated by a delay in donor support.[1] With the onset of the pandemic, successive external shocks, paired with an excessively expansionary policy response, and the costly currency redenomination exercise led to large and repeated target misses, especially of the Net Domestic Bank Credit to the Central Government (NCG) and Net Domestic Assets of the BSL (NDA) QPCs (Box Text Table 1). To address these target misses, for the 5th review, the authorities implemented several correctives measures, including improved monitoring of budget execution and arrears paydown, strengthening cash management, and revising the 2022 budget to reflect a more realistic expenditure envelope and revenue measures. For the sixth and seventh reviews, they also agreed to implement 2.2 percent of GDP in additional revenue measures; reduce spending by 5.6 ppts of GDP in 2023 relative to 2022; bolster expenditure transparency and accountability; and strengthen budget execution and cash management, including to prevent arrears. They also committed to the reinforcement of an existing FX repatriation requirement.

Box 1. Text Table 1. Sierra Leone: Quantitative Performance Criteria of ECF2, 2018–23

	R1 - Board date: June 2019	R2 - Board date: April 2020	R3/R4 Board date: July 2021		R5 Board date: June 2022	R6/R7 Board date: June 2023		R8 - Board date: November 2023	
Test Date	**Nov. 2018**	**Jun. 2019**	**Dec. 2019**	**Jun. 2020**	**Dec. 2021**	**Jun. 2022**	**Dec. 2022**	**June. 2022**	**Grand Total**
Net domestic bank credit to the central government	W	M	M	W	W	W	W	M	8
Net Domestic Assets of the BSL	W	M	M	W	M	M	W	W	8
Gross international reserves of the BSL	M	M	M	M	M	M	W	M	8
New concessional external debt with original maturity of one year or more contracted or guaranteed by the public sector	M	M	M	M	M	M	M	M	8
New non-concessional external debt	M	M	M	M	M	M	M	M	8
Outstanding stock of external debt with maturities of less than one year contracted or guaranteed by the public sector	M	M	M	M	M	M	M	M	8
External payment arrears of the public sector	M	M	M	M	M	M	M	M	8
Total QPCs	7	7	7	7	7	7	7	7	56
QPCs met	5	7	7	5	6	6	4	6	46
QPCs not met	2	0	0	2	1	1	3	1	10

Source: Monitoring of Fund Arrangements (MONA); and IMF staff calculations.
Note: M = met; W = waived; and CAN = canceled.

Source: Monitoring of Fund Arrangements (MONA); and IMF staff calculations.
Note: M = met; W = waived.

The authorities achieved most SBs, albeit some with a delay (Table 1). There were a total of 46 SBs and PAs. 83 percent were met or completed with a delay. Structural reform success was often supported with well-aligned TA initiatives. There were four key reasons why some SBs were not met:

i. During the first and second reviews, four SBs were missed due to their complexity and dependence on external expert advice. Of these, three—the forensic audit of the BSL, the strategic plan for the two state-owned banks, and the strategy for clearing domestic arrears—were reformulated to henceforth focus on incremental steps.

ii. The exigencies of the Covid-19 pandemic forced the authorities to reprioritize and focus on reforms most relevant to the recovery. This delayed the implementation of some SBs, including the development of a long-term business strategy for the two state-owned banks.

iii. The Covid-19 pandemic further tightened existing capacity constraints as the authorities were increasingly spread thin, and this slowed or stalled the implementation of reforms. In the case of the fifth review, this led to the reset of test dates for two SBs, while, in the combined sixth and seventh reviews, the authorities met only five of the fifteen SBs.

iv. Depleted buffers and increased volatility in the post-Covid era caused conflicts in government policy objectives in the case of the continuous SB on flexible fuel mechanism, which was met only twice. The implementation of the fuel price adjustment mechanism was suspended at various times given concerns over economic hardship.

Twelve waivers and four modifications were granted. These included two waivers for the introduction of multiple currency practices and exchange restrictions during the fifth review. The four modifications included a new SDR allocation adjustor for the GIR and NDA, and two increases in the ceiling for new concessional external debt to accommodate a bunching of ratifications of critical project loans, and to allocate unused space under the target to subsequent years.

[1] The NCG was the subject of misreporting to the Board, as the authorities initially reported this QPC as met.

15. A new economic team succeeded in completing a strong set of corrective actions to bring the program to completion. President Julius Maada Bio installed a new Minister and a new (Acting) Governor in early 2023, ahead of the combined sixth and seventh reviews. Only a few months ahead of the June 2023 general elections, the new leadership took bold corrective action to stabilize the economy and keep ECF2 on track: among other measures, the authorities legislated some three percent of GDP in tax policy measures over a period of only six months surrounding the elections.

E. Lessons Learnt

16. ECF2 was an important policy anchor amid a fragile socio-economic and political environment.[7] The arrangement (i) supported macroeconomic and financial stability; (ii) promoted the adoption of key structural reforms, including institutional building, (iii) catalyzed additional financial and other support from development partners to support reform efforts; and (iv) provided critical technical assistance for capacity building.

17. The assessment revealed three main lessons:

- **Program conditionality should be unequivocally defined, parsimonious, and cognizant of ownership and implementation capacity.** Trying to do too many reforms at the same time may lead to delays in priority reforms. Conversely, the authorities' success in achieving the ambitious package of corrective actions under the sixth, seventh and eighth reviews illustrates that programs can be rescued despite significant slippages when the authorities' commitment is strong and corrective actions are well-designed and prioritized.

- **Structural reform success benefits from well-aligned technical assistance**. Good practice examples included revisions to the National Revenue Authority Act and the adoption of the medium-term-revenue strategy.

- **Robust contingency measures are particularly critical when PFM practices are weak**. Contingency measures that compensate for spending overruns or revenue shortfalls arising from weak budget planning and controls can help achieve fiscal targets and reduce incidences of fiscal dominance.

F. Priorities

18. A successor program for Sierra Leone should reflect the following priorities: (i) a continued decisive macroeconomic adjustment to contain debt-related risks, bring down inflation and address fiscal dominance; (ii) strong PFM, including in budget planning and execution, to limit budgetary overruns; (iii) a strong and independent monetary policy framework focused on decisively bringing down inflation; (iv) a credible strategy to develop the domestic bond market and

[7] The program parameters were used to guide budget preparation, monetary policy targets, and external borrowing. The program has also created space for social protection by creating a floor on poverty spending.

lengthen maturities, supported by strong financial market communication, consistent with the MTDS; (v) financial stability through strong regulation and supervision, decisive action on insolvent banks and careful management of the sovereign-bank-nexus; (vi) a strong social safety net to address poverty and high levels of food insecurity; and (vii) a structured approach to governance reforms.

19. Risks for any successor program include the following: (i) capacity constraints, lack of ownership, and implementation risks, given the plethora of reform needs and the size of the adjustment need; (ii) fiscal financing pressures, and the high risk of debt distress; (iii) an uncontrollable surge in inflation and renewed exchange rate pressures owing to continued fiscal dominance; (iv) a tense/fragile social and political environment amid an ongoing cost-of-living-crisis; (v) high exposure to external shocks, including commodity price volatility and climate change induced shocks; (vi) donor disengagement leading to a reduction of financial and technical support; and (vii) adjustment fatigue leading to weak program ownership by the political class.

G. Authorities' Response

20. The authorities and other stakeholders broadly agreed with the findings of the assessment. They noted that the recently completed ECF yielded important lessons. These included: (i) structural reforms were most successful when supported by well-aligned TA (e.g., MTRS); (ii) buffers and contingency planning are key when shocks are frequent, and PFM practices weak; (iii) adjusting to declining donor support and the temporary nature of RCF disbursements is challenging; and (iv) deep tax reforms require time for consultations and to reconfigure IT systems.

21. The authorities stressed that a potential successor ECF should aim to restore stability and strengthen inclusive growth. This would include bringing down debt-related risks and inflation. The authorities also noted the need to strengthen governance and climate resilience.

Table I.1. Sierra Leone: Structural Benchmarks and Prior Actions, 2018–23

Review	R0				R1			R2			R3-R4				R5								R6-R7		R8
Test Date	Nov 11. 2018	Jan 31. 2019	Mar 31. 2019	May 31. 2019	Jun 28. 2019	Aug 31. 2019	Sep 30. 2019	Apr 03. 2020	Apr 30. 2020	May 31. 2020	Jul 27. 2021	Dec 31. 2021	Mar 31. 2022	Apr 30. 2022	Jun 27. 2022	Sep 30. 2022	Oct 15. 2022	Oct 31. 2022	Dec 15. 2022	Dec 31. 2022	Mar 31. 2023	Apr 30. 2023	Jun 05. 2023	Oct 31. 2023	Nov. 20 2023
1.0 General Government																									
1.1. Revenue measures, excluding trade policy																									
Undertake a stocktake and prepare a report on existing income tax exemptions.												M													
Conduct a study on effective ways to identify and tax High Net Worth Individuals (HNWI), including to determine whether to establish a dedicated HNWI unit at the NRA; share the study with IMF staff													M												
Develop a Medium-Term Revenue Strategy (MTRS) approved by Cabinet.																MOD-DATE									
A draft Medium-Term Revenue Strategy (MTRS), developed with stakeholder inputs, submitted to Cabinet for approval.																				MD					
The Government will establish a high-level steering committee on the MTRS which will meet quarterly and be led by the Ministry of Finance with representation from the NRA, development partners, civil society and other relevant government departments and agencies.																					MD				
Parliament to approved a new 2023 Finance Act implementing tax measures estimated to yield additional annual tax revenues of 1.6 percent of GDP																									
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																							M		
1.2. Revenue administration, including customs																									
Submit the revised NRA Act to the Parliament, based on Fund staff review and advice on the draft NRA Act								M																	
1.3. Expenditure measures, including arrears clearance																									
Adopt a plan for dealing with the outstanding stock of unpaid obligations to domestic suppliers containing: (1) a comprehensive stock-taking, transparent verification, and prioritization of arrears; (2) measures to prevent new arrears; (3) making allocations for clearance of arrears in the medium-term budget framework; and (4) plans to rationalize the balance sheet of the BSL.			MOD-SB																						
Complete the stocktaking of payment arrears to domestic suppliers to determine a comprehensive arrears figure, drawing on IMF technical assistance recommendations.						MD																			
Finalize and publish an arrears clearance strategy, consistent with the resource envelope in the 2020 budget and the program; and refrain from issuing securities for arrears clearance until the strategy is finalized and published.									MD																
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.																								M	
Develop infrastructure project appraisal templates and guidelines, as recommended in the recent FAD PIMA.													M												
Update the legacy arrears clearance strategy, consistent with debt sustainability, in consultation with FAD, that includes a list of creditors, criteria to prioritize the list, and amounts to be paid over the next three years																		M							
Published on the MoF website payments of legacy arrears in 2022, including the amounts paid and the names of the creditors.																							M		
Prior action for the Public Debt Management Division (PDMD) to: (i) prepare an agreed action plan based on previous TA reports (Budget Execution TA report, Cash Management TA report) for preventing recurrence of new domestic arrears before the Board meeting, to be reviewed by FAD; and (ii) publish on the Ministry of Finance's website, the quarterly report for 2022Q1 and an annual report for 2021 on actual performance against actual budget allotments. These reports shall provide updates on budget execution and arrears paydown or accumulation of due payables during the quarter.																MOD-SB									
Publish all quarterly unaudited financial statements of NACOVERC up to March 2022 on the Ministry of Finance's website.																M									
MoF has reactivated the Expanded Cash and Debt Management Committee and held at least four meetings between April 15 to June 15 in line with the committee's terms of references. Submit to the IMF a note with a list of actions to improve the functioning of the cash management committee.																M									

Table I.1. Sierra Leone: Structural Benchmarks and Prior Actions, 2018–23 (continued)

1.7. Fiscal transparency (publication, parliamentary oversight)	
Prepare draft amendments to the NRA Act, drawing on technical assistance recommendations (from the IMF and the UK DfID), and submit to Fund staff for review (to be done prior to submitting to the Cabinet).	M
Prepare a quarterly budget out-turn report that includes: (i) progress in reduction of unpaid checks; (ii) implementation of the ECDMC recommendations; (iii) the disbursement and use of SDR-backed resources for fiscal purposes; and (iv) an additional statement monitoring the actual performance against quarterly budget allotments, and provide corrective policy options in case of budget overruns	MD
Published in the 2022 budget outturn report detailed contract information on the seven road construction projects that accounted for the largest domestically financed capital expenditures in 2022. The information includes the date the contracts were awarded, the initial value of the contracts, variation dates for the contracts (and additional amounts), the expected project completion date, the disbursements under the contracts in US$ to date, and the contractors' names.	M
Publication of the second audit report on the COVID-19 response, covering July-December 2020, on ASSL's website, in compliance with the commitments in the 2021 RCF Letter of Intent.	M
1.8. Budget preparation (e.g., submission or approval)	
Submit to Parliament a revised 2022 budget consistent with agreed fiscal consolidation path and including specific measures (no further pre-April 2018 domestic arrears payments until a new arrears clearance plan is in place) that are necessary for a fully financed budget in line with program targets.	
Submit to parliament a 2024 budget consistent with the key parameters of the ECF arrangement.	M
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	M
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 receive;	
vi. The monthly value of new leones issued and in circulation	
2.0. Central Bank	
2.1. Central bank operations and reforms	
Develop and publish an action plan on corporate governance frameworks for the two state-owned banks, with a focus on (a) Board and Senior management oversight; (b) operational management; (c) risk management; (d) compliance with regulation (e) internal audit; (f) external audit	MD
Prepare a document to be shared with the Fund which sets out the BSL's supervisory strategy and approach to address high system-wide NPLs and gradually realize compliance on a bank-by-bank basis with to the 10 percent prudential limit	M
Move to daily calculation and publication of an exchange rate that is based on a one-day lag, in consultation with AFRITAC West II.	M
2.2. Central bank auditing, transparency, and financial controls	
Complete the audit of BSL's 2017 financial statements	M
Publish the final report of the forensic audit of foreign exchange transactions between the BSL and MDAs during July 2015 -June 2018 and adopt a remedial action plan to address findings.	MOD-SB
Adopt a remedial action plan to address the findings of the forensic audit report.	NM
Complete the audit of BSL's 2017 financial statements	M
Publish on the website of the BSL the BSL's FY 2021 financial statements audited by a reputable audit firm with experience in central banking.	MOD-DATE MD
Appoint a Chief Internal Auditor at the Bank of Sierra Leone	MD

Table I.1. Sierra Leone: Structural Benchmarks and Prior Actions, 2018–23 (continued)

5. Public enterprise reform and pricing (non financial sector)										
Develop a strategic plan for the two state-owned banks including a timetable for putting in place an independent governance framework for the banks that protects them against political influence, and thereby durably limits their fiscal contingency risks.	MOD-SB									
Develop an SOE Ownership Policy that outlines the rationale and objective for state ownership, which would help guide further reforms of SOEs and the SOE framework.								M		
5.1. Public enterprise pricing and subsidies										
Continue to use the automatic fuel price indexation mechanism to set fuel price determination and begin publishing the fuel price formula and the outcome of fuel price setting decision, regardless of whether fuel prices are changed.		M		M		NM		NM	NM	NM
6. Financial Sector										
6.1. Financial sector legal reforms, regulation, and supervision										
Update the 2016 diagnostic study of the two state-owned banks, with support from the World Bank.			M							
Update and issue revised prudential guidelines for banks in line with the 2019 Banking Act, to strengthen the regulatory framework for capital adequacy, loan classification and provisioning as well as for credit, market and operational risks							MOD-DATE			
Conduct a thematic review of NPL strategy and management in the two state-owned banks and share a summary of the actionable recommendations with the Fund							M			
Develop updated corporate governance frameworks for the two state-owned banks, with a focus on (a) Board and Senior management oversight; (b) operational management; (c) risk management; (d) compliance with regulations; (e) internal audit; (f) external audit.								MD		
6.2. Restructuring and privatization of financial institutions										
Prepare a long-term business strategy for both state-owned banks, including a time-bound action plan on steps to put in place a new business model that would ensure they operate on a firm commercial footing and effectively contribute to financial intermediation.					NM					

Table I.1. Sierra Leone: Structural Benchmarks and Prior Actions, 2018–23 (concluded)

11. Other structural measures	
Adoption by the Judicial and Legal Service Commission (JLSC) of Guidelines (Practice Directions) for any Tribunal under Section 137 5(ff) of the Constitution that may be established in the future. These guidelines shall be reflective of general principles in the Constitution including (i) Ensuring a fair hearing, (ii) with the procedure conducted in public, (iii) with reasonable timelines by an independent and impartial Tribunal; and (iv) with the announcement of the decisions in public.	MD
11.4. Anti-corruption legislation/policy	
With the aim to strengthen the audit process, adopt by parliament a statutory amendment of the Audit Service Act 2014 and implementing regulations, as follows: (i) to strengthen the implementation of ASSL recommendations with a detailed provision which includes the obligation of auditees to provide justification or explanation, issue a timeline, assign staff and agree to an ongoing engagement process with the ASSL. (Section 93 Audit Service Act) (ii) to strengthen compliance during the audit process by extending the power to withhold salaries of vote controllers for non-submission of financial statements to the verification and explanation stage (Sections 11 & 12 Audit Service Act 2014).	MD
The MoF and the ASSL will jointly publish a roadmap, in consultation with FAD, which aims to enhance the budgetary autonomy of the ASSL. The roadmap will make statutory amendment proposals on three issues, as follows: the process of setting and approving the ASSL budget, the timely and complete disbursement of the budget for mandatory spending of the ASSL, and the processing of the audit fees.	MD

Source: Monitoring of Fund Arrangements (MONA); and IMF staff calculations.

Notes: M=met; MD=implemented with delay; NM=not met; MOD=modified; MOD-Date= modified test date; MOD-SB= modified to become new structural benchmark.

Annex II. Status of Key Recommendations from 2022 Article IV Consultation

Policies	Key Recommendations	Status of Implementation
Inclusive and Resilient Recovery	Given tight fiscal space and high debt, the authorities should i) integrate climate risks into debt sustainability analysis, ii) calibrate climate costs and adaptation benefits and mainstream adaptation into fiscal policies, iii) tap into international (grant) funding and explore the possibility of issuing carbon credits to finance priority projects, and iv) adapt the existing PFM framework to integrate climate targets and prioritize investment projects that meet both development and adaptation purposes.	A Climate Finance Unit was established at the MoF in 2023 with the mandate to strengthen coordination and support the mobilization of climate finance. The Fiscal Risks Statement addresses climate change, but only qualitatively. The recent C-PIMA report laid out recommendations to increase the climate sensitivity of public investment.
Fiscal Consolidation, Debt Sustainability, and Fiscal Governance	Priority attention should be paid to developing and implementing a medium-term wage bill management strategy.	A medium-term wage bill strategy is being developed with the help of FAD.
	Adhere to the automatic fuel pricing mechanism and use some of the savings to scale up targeted cash transfers.	The automatic fuel pricing formula was irregularly implemented. As of end-February, retail prices were consistent with the parameters of the formula.
	Building on the Medium-Term Debt Strategy (MTDS), TA is recommended on domestic market development to facilitate lengthening the maturity structure, which would reduce rollover risk and diversify financing. Reigning in inflation will support this objective. More issuance at shorter maturities (3-month and 6-month) would help manage government liquidity and allow for development of a yield curve, thus facilitating the pricing of longer-term bonds. Bringing in more non-bank participants (long-term pension, insurance funds) and facilitating a more actively traded secondary market would help lengthen maturities. Specifically, reviewing regulatory and investment guidelines for pension funds and insurance companies, as well as clarification of the tax treatment on sovereign bonds, would help support bond market development.	An updated MTDS has been adopted. Reforms to support bond market development have to be stepped up.

Policies	Key Recommendations	Status of Implementation
Fiscal Consolidation, Debt Sustainability, and Fiscal Governance (continued)	Strengthen the ASSL audit process.	Parliament amended the Audit Service Act 2014 and implemented regulations, as follows: (i) to strengthen the implementation of ASSL recommendations with a detailed provision which includes the obligation of auditees to provide justification or explanation, issue a timeline, assign staff, and agree to an ongoing engagement process with the ASSL (Section 93 Audit Service Act). (ii) to strengthen compliance during the audit process by extending the power to withhold salaries of vote controllers for non-submission of financial statements to the verification and explanation stage (Sections 11 & 12 Audit Service Act 2014).
	Enhance ASSL's institutional and financial independence, including its powers to enforce audit recommendations. More broadly, it is critical that Sierra Leone continues efforts to strengthen the governance of key fiscal, monetary and financial institutions to reduce vulnerabilities to corruption, foster private sector development and growth, and ensure more effective delivery of essential services.	The MoF and the ASSL jointly published a roadmap, which aims to enhance the budgetary autonomy of the ASSL. The roadmap made statutory amendment proposals setting and approving the ASSL budget, the timely and complete disbursement of the budget for mandatory spending of the ASSL, and the processing of the audit fees.
Promoting External Stability and Diversification	BSL should not renew the two temporary facilities (US$50 million each), the Special Facility for Food (SFF) for rice, sugar and flour and the Reserve Fuel Facility (RFF) respectively once the US$100 million is disbursed.	The special facilities have expired.
	Supply side reforms should continue to strengthen competitiveness. Natural endowments—expanding agricultural production, fisheries, mining production and increasing value added—provide a foundation for further boosting the economy if managed well. Sierra Leone's young population holds the potential for productivity growth and a more diversified economy.	The authorities have launched five strategic interventions (The Big Five game changers) in their National Development Plan 2024-30 to support growth and development.

Policies	Key Recommendations	Status of Implementation
Monetary and Financial Sector Policies: Tackling Inflation, Maintaining Stability and Expanding Financial Development	Increase FX buffers beyond the 3-month coverage of imports to manage spillovers from the war in Ukraine, pandemic related uncertainty, and macroeconomic vulnerabilities.	FX buffers have fallen below three months of imports.
	Continue to raise the monetary policy rate (MPR) to combat rising inflation.	The MPR has been increased significantly.
	The BSL should limit the use of secondary market purchases to support government issuance and consider introducing its own short-term liquidity management operation, ideally with a standardized tenor, along with strengthened coordination with the MoF on cash management.	The BSL has reduced secondary market purchases of government securities.
	Monetary and exchange rate policy communication could also be improved to better anchor expectations, by, for example, publishing and clearly explaining the BSL's inflation goal, and via the timely publication of statistics, economic reviews, and monetary policy statements on the BSL's website.	Monetary policy statements are now published on the BSL's website, as well as dates for future MPC meetings.
	BSL should complete the draft of the prudential guidelines while ensuring proper consultation with the banking industry.	BSL has updated and issued prudential guidelines for banks in line with the 2019 Act, to strengthen the regulatory framework for capital adequacy, loan classification and provisioning as well as for credit, market, and operational risks.
	The BSL should set out a systemwide strategy for bringing down NPLs to the 10 percent prudential limit.	The BSL has prepared a document which sets out the BSL's supervisory strategy and approach to address high system-wide NPLs and gradually realize compliance on a bank-by-bank basis to reach the 10 percent prudential limit.
Monetary and Financial Sector Policies: Tackling Inflation, Maintaining Stability and Expanding Financial Development (continued)	The National Risk Assessment (AML/CFT) and related strategy should prioritize the monitoring, supervisory, and enforcement actions and provide for the necessary resources to achieve concrete outcomes.	The National Risk Assessment was completed in 2023 but has not yet been published.
	The BSL to extend the preparation phase of the currency redenomination to ensure a smooth transition process. The responsibilities of all key stakeholders should be agreed along with accountability. An audit by a reputable independent firm would boost public confidence in the conversion process (equivalent to about 9 percent of GDP).	The preparation phase of the redenomination was extended. An internal audit was undertaken which uncovered governance lapses and high costs.
Capacity to pay	Sierra Leone should continue to pursue highly concessional external support, fiscal adjustment, and active liability management to ensure adequate capacity to repay.	Under the 2018 ECF, there was a PC that prevented contracting new non-concessional external debt. This PC was always observed.
Statistics	Prioritize rebasing the national accounts and reducing delays in publication of the national accounts will be important.	The rebased national accounts were published in July 2024.

Annex III. External Sector Assessment

Assessment: *Sierra Leone's external position in 2023 was broadly in line with the level implied by fundamentals and desirable policies. The assessment is subject to a wide margin of uncertainties, given the low quality of official data and the sensitivity of the model results to parameter choices. The current account deficit as a percentage of GDP is projected to moderate over the medium-term as export growth in key sectors picks up while the tightening fiscal stance holds back imports.*

Potential Policy Responses: *The country should: (i) persevere on the fiscal adjustment path, (ii) rely on highly concessional financing—largely grants—to contain external liabilities, (iii) allow the exchange rate to flexibly adjust to shocks, while being mindful of the pass-through to inflation, and (iv) enhance productivity and improve competitiveness, keeping in mind that sustained external financial support and foreign direct investment (FDI) cannot necessarily be relied upon indefinitely. These policies are also key to rebuilding adequate reserves over the medium term.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) at end-2023 is estimated at around -53.1 percent of GDP, with gross foreign assets of around 23.0 percent of GDP and gross foreign liabilities of around 76.1 percent. The foreign assets of deposit-taking corporations constitute about half of foreign assets, with the remainder including the BSL's gross official reserves and foreign assets of other non-official sectors. About two-thirds of foreign liabilities are FDI liabilities, while the remainder is accounted for by other (mainly public sector) investment liabilities. The NIIP has worsened over the last five years but is projected to moderate in the medium term.

Assessment. While the NIIP deficit is large, external stability is bolstered by its composition, including the large share of FDI liabilities in total foreign liabilities. The authorities should publish more recent official IIP data, as the latest data point is from 2017.

2023 (percent GDP)	NIIP: -53.1	Gross Assets: 23.0	Gross Liabilities.: 76.1

Current Account

Background. Over the past five years, current account deficits were large in the context of looser macroeconomic policies and weak terms of trade amid the pandemic and Russia's war in Ukraine. Preliminary data show that the current account deficit declined from 6.0 percent of GDP in 2022 to 5.0 percent of GDP in 2023 amid a significant real depreciation the year before, and amid the tightening fiscal policy stance. The trade balance improved as imports—including food and fuel—declined, while iron-ore and agricultural exports strengthened. The current account deficit as a percentage of GDP is projected to moderate over the medium term as export growth in key sectors picks up and the tightening fiscal stance holds back import growth.

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 2023 was broadly in line with the level implied by fundamentals and desirable policies.[1] Using preliminary estimates for 2023, the CA model indicates an undervaluation of 6.6 percent, a CA gap of 0.9 percent of GDP and a cyclically adjusted CA balance of -4.7 percent of GDP against a norm of -5.5 percent of GDP (Text Table 1).

Text Table 1. Sierra Leone: Model Estimates for 2023
(Percent of GDP)

	CA model 1/	**REER model**
	(in percent of GDP)	
CA-Actual	**-5.0**	
Cyclical contributions (from model) (-)	-0.3	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-4.7**	
CA Norm (from model) 2/	**-5.5**	
Adjusted CA Norm	**-5.5**	
CA Gap	**0.9**	**0.8**
o/w Relative policy gap	-0.2	
Elasticity	-0.1	
REER Gap (in percent)	**-6.6**	**-5.9**

1/ Based on the EBA-lite 3.0 methodology.
2/ 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. The pace of depreciation accelerated in 2022 and early 2023, but the leone has since been broadly stable. The REER depreciated sharply over the course of 2022 and the early part of 2023 but recovered almost in full by end-2023, on the back of the tightening macroeconomic policy stance. The REER has continued appreciating in 2024, raising concerns that it may prevent a more rapid external rebalancing and reserve accumulation.

Assessment. The EBA-lite REER model indicates an undervaluation of 5.9 percent, implying a CA gap of 0.8 percent of GDP. The results of the two models are thus consistent. Staff relies on the CA model for the bottom-line external sector assessment, judging that it offers stronger explanatory power for a country like Sierra Leone. The appreciation of the REER in 2024 suggests that any undervaluation is likely to have been reversed in 2024 thus far.

Capital and Financial Accounts: Flows and Policy Measures
Background. The capital account strengthened in 2023 despite a decline in project grants.[2] FDI and other investment are the main components making up the financial account. While the data is weak, and the financial account suffers from large estimation errors, net inflows weakened in 2023 due to increased debt amortization and increased financial asset accumulation by deposit-taking corporations, except the central bank. While the high level of debt amortization will continue for some time, the financial account is projected to recover as FDI inflows increase amid strong mining and resumed timber activity over the medium term. **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 be counted on indefinitely.
FX Intervention and Reserves Level
Background. Gross international reserves excluding swaps dropped more than expected to 7.3 percent of GDP in 2023. Factors contributing to this drop included (i) significant external debt obligations, (ii) US$23.1 million in foreign exchange sales in 2023—down from US$93.7 million in 2022—to provide FX to private companies through commercial banks, (iii) reduced export proceeds in the context of the timber export ban, (iv) higher-than-expected security expenditures in the context of two alleged coup attempts, (v) higher-than-expected expenditures for currency imports in the context of the currency redenomination, and (vi) higher-than-expected payments for official sector goods and services. **Assessment.** Reserve coverage in 2023 fell to 2.6 months of next year's imports but it 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.
[1] The external sector assessment is based on preliminary 2023 BOP data provided by the authorities. [2] Capital account data was updated to more fully account for project support grants. This led to an upward revision in the capital account for 2021-2023.

Annex IV. Macro-Financial Linkages: The Sovereign-Bank Nexus in Sierra Leone

This annex discusses the sovereign-bank nexus in Sierra Leone. It illustrates three key channels that give rise to the nexus and create macro-financial linkages, including (i) the sovereign exposure channel—banks' holdings of sovereign debt— (ii) the safety net channel—banks' protection through government guarantees—and (iii) the macroeconomic channel—governments and banks affect economic activity and are being affected by it. Reducing the severity of the sovereign nexus in Sierra Leone over time calls for continued macroeconomic policy tightening to reduce public borrowing, enhancing sovereign debt management, increasing capital and liquidity buffers for banks, and strengthening the financial safety net.

A. Introduction

1. The sovereign-bank nexus refers to the interconnectedness of banks and sovereigns. A strong nexus can multiply and accelerate vulnerabilities in each sector, and lead to adverse feedback loops (Giovanni Dell'Ariccia and others 2018).[1]

2. There are three main channels that give rise to the nexus, and through which shocks from one sector may transmit to the other: (i) the sovereign exposure channel arising from banks' holdings of sovereign debt; (ii) the safety net channel, arising from implicit and explicit sovereign guarantees to banks; and (iii) the macroeconomic channel, which arises from the fact that the health of banks and governments affect, and are affected by, economic activity. The channels operate simultaneously and interact with each other. For example, a deterioration in the government's fiscal position and creditworthiness would weaken banks' capital positions through the sovereign exposure channel. This would undermine the system's ability to provide credit to the private sector, which in turn would lead to lower activity and weaken both the government and banks through the macroeconomic channel.

3. The sovereign-bank nexus is a substantial risk to financial stability. It may act as a powerful transmitter and amplifier of financial stress, exacerbating risks of adverse feedback loops that may precipitate twin crises (Giovanni Dell'Ariccia and others 2018). A crisis originating in the banking system will weaken the sovereign, which will in turn worsen the banking crisis itself, and vice versa (Farhi and Tirole 2014).[2] It is thus critical to build resilience to guard against such shocks, including by preventing an undue strengthening of the nexus.

[1] Giovanni Dell'Ariccia, Caio Ferreira, Nigel Jenkinson, Luc Laeven, Alberto Martin, Camelia Minoiu, Apex Popov, 2018, "Managing the Sovereign-Bank Nexus", IMF Departmental Paper No. 2018/016.

[2] Farhi, E., and J. Tirole, 2014, "Deadly Embrace: Sovereign and Financial Balance Sheets Doom Loops," Working Paper No. 164191, Harvard University OpenScholar.

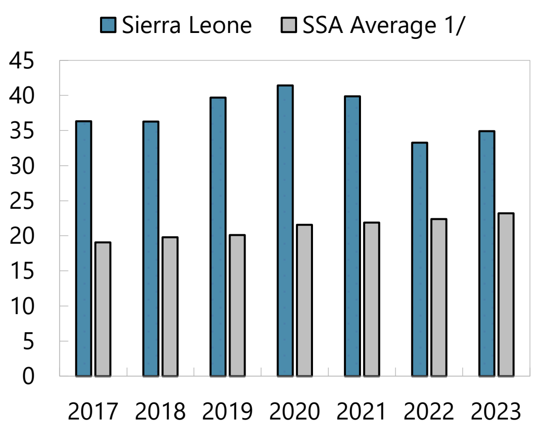
B. The Sovereign Bank Nexus in Sierra Leone

4. The financial sector in Sierra Leone is small and bank dominated. At the end of 2023, there were 14 banks operating in the country: two domestic state-owned banks in which the government is the majority shareholder, two domestic privately-owned banks and ten foreign banks, most of which are separately capitalized subsidiaries of large Nigerian banks. Total assets of the banking system amounted to NLe 23 billion or about 48 percent of GDP, accounting for more than 90 percent of total financial assets in the country. Other financial corporations include the National Security and Insurance Trust (NASSIT), insurance companies, community banks, and microfinance institutions (MFIs), among others.

Text Figure 1. Sierra Leone: Sovereign Exposure Channel

Financial institutions assets are heavily concentrated in government securities, even by already high regional standards.

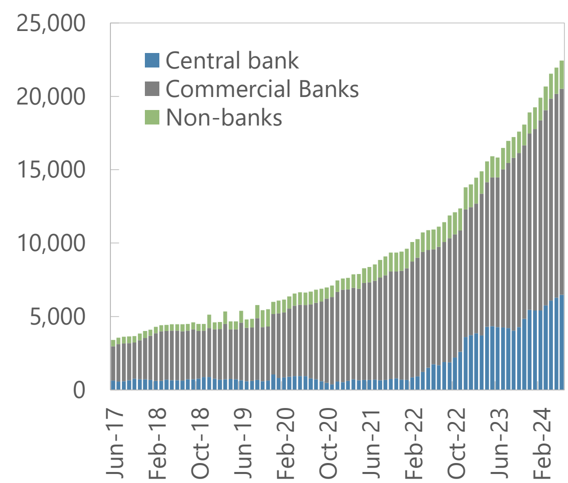
Net Claims on Government
(Percent of total assets of other depository corporations)



Sources: IMF's MFS database; and IMF staff calculations.
1/ Excludes Ethiopia as no data is available.

Non-banks account for only a small proportion of total holdings.

Government Securities by Holder
(NLe million)



Sources: BSL and IMF staff calculations

C. The Sovereign Exposure Channel

5. The sovereign is banks' largest exposure. As the major investor in sovereign debt, banks' holding of government securities (mainly 365-day T-bills) peaked at 46 percent of total assets in 2021 during the Covid-19 pandemic. While the ratio edged down over the last two years, it remains higher than in most other sub-Saharan African countries (Salim 2024, forthcoming).[3] Sovereign

[3] Dehmej, Salim, 2024, "Exploring a New Database on the Public Sector-Bank Nexus", forthcoming IMF Working Paper.

securities remain attractive to banks due to certain factors including the perceived riskiness of the private sector, zero risk weight for government securities in capital computations, the absence of alternative investment opportunities and the treatment of government securities of 365 days or less as liquid assets in the computation of liquidity requirements.

6. The banking sector's concentrated exposures make it susceptible to fluctuations in sovereign risk. A decrease in the sovereign's capacity to repay would directly impact bank solvency and undermine confidence in the Sierra Leonean economy. As more than 70 percent of sovereign debt holdings are 365-day T-bills, the pressure to constantly roll over debt poses refinancing risk to the authorities and solvency risk to the banks. Moreover, while banks' liquidity ratios remain high as of the end of 2023, the absence of an active secondary market gives rise to liquidity risks from uncertainty over banks' ability to liquidate securities under stress.

D. The Safety Net Channel

7. The financial safety net is a framework of institutions and mechanisms that ensures the stability of the financial system. These usually include prudential regulation and supervision, resolution, deposit insurance and lender of last resort. These backstops or mechanisms are usually supported by sovereigns and central banks. They generate spillover risks from banks to sovereigns and vice versa. The absence of these mechanisms, especially in developing countries, places a heavy burden on government's fiscal accounts to bail out failing institutions and thus increases the nexus between the sovereign and the bank. On the other hand, weakening of the sovereign reduces its ability to provide this backstop for the banking sector.

8. In Sierra Leone, there is a prudential regulation and supervisory framework that is fully functional for both on-site and off-site supervision of banks. However, the authorities are yet to fully operationalize the resolution framework for problem financial institutions despite having resolution powers in the Bank of Sierra Leone Act. This increases the strain on state resources during failure of banks. The Lender of Last resort function is yet to be fully operationalized despite the Bank of Sierra Leone having the powers to lend to illiquid but solvent banks. The Deposit Protection Fund, the deposit insurer, is yet to be fully operationalized. Policies and procedures are yet to be put in place for the collection of periodic premiums from the banks. This increases the burden of the government to compensate depositors should any bank be closed for outright liquidation.

E. The Macroeconomic Channel

9. Banks and governments are interlinked through their effect on, and their exposure to, economic activity. Fiscal consolidation, for instance, may have a contractionary effect on economic activity, thus impeding bank profitability, and, potentially, bank stability. On the other hand, banking crises would hinder economic activity by disrupting the supply of credit and causing an inefficient allocation of consumption and investment, as informational asymmetries make it difficult for borrowers to substitute bank loans with other sources of funding (Bernanke 1983; Kiyotaki and

Moore 1997; Bernanke and Gertler 1990).[4] As a result, the economic slowdown has a negative impact on fiscal balances.

10. Macroeconomic imbalances expose the economy to risks through the macroeconomic channel. As a small economy, a confluence of external factors has contributed to the challenging macroeconomic situation in Sierra Leone, including the lingering effects of the Covid-19 pandemic; higher food and energy prices amid Russia's war in Ukraine; higher interest rates and associated tighter financing conditions as central banks at the global level tighten monetary policy to combat inflation; a stronger US$; and general economic uncertainty. These developments contributed to large macroeconomic imbalances, culminating in weak economic growth, higher inflationary pressures, limited fiscal space and heightened debt vulnerabilities. This gave rise to a significant fiscal consolidation that could put even more pressure on bank balance sheets.

F. Conclusion and Policy Implications

11. The sovereign bank nexus in Sierra Leone constitutes a financial stability risk and creates macro-financial linkages and vulnerabilities. The large direct exposure of the banks to the sovereign and absence of a fully functional financial safety net is evidence of this. The already challenging macroeconomic situation in the country further supports this assessment. Stronger bank and sovereign balance sheets would help greatly in mitigating the risks from the closely intertwined sovereign-bank nexus in Sierra Leone.

12. On the sovereign side, larger fiscal buffers and better public debt management can improve debt sustainability and reduce the risk of sovereign-related bank distress. Steadfast implementation of the planned fiscal adjustment and the recent Medium-Term Debt Strategy will be critical. Prudent fiscal policy will be fundamental in addressing the high reliance on financing from the domestic banking sector. A reduced supply of sovereign paper could lower yields and attenuate the crowding out of the private sector, thus catalyzing private sector led economic growth and additional fiscal revenue.

13. Larger capital buffers and better prudential frameworks would strengthen banks and reduce the risk of bank-induced sovereign distress. The current prudential guidelines for commercial banks, which adopted Basel I, were updated in 2022 to be in line with the revised Banking Act 2019. As of March 2024, preparatory work is underway to implement certain aspects of Basel II and Basel III focusing on pillar 1 minimum capital after a Quantitative Impact Study. It would be crucial to adopt revised capital and liquidity requirements, especially for the systemically important banks, to ensure that there is a cushion against shocks. The ECF program will advocate for enhanced onsite supervision for the state-owned banks.

[4] Bernanke, B., and M. Gertler, 1990, "Financial Fragility and Economic Performance," Quarterly Journal of Economics, Vol. 105(1), pp. 87-114; Bernanke, B., 1983, "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression," American Economic Review, Vol. 73, No. 3 (Jun. 1983), pp. 257-276; and Kiyotaki, N., and J. Moore, 1997, "Credit Cycles," Journal of Political Economy, Vol. 105(2), pp. 211-48.

14. Continuous efforts are needed in enhancing the financial safety net and crisis management framework. Both the institutional framework and operational capacity could be enhanced. The ECF program envisages technical assistance in enhancing the resolution of problem financial institutions and fully operationalizing the Emergency Liquidity Assistance framework. This would facilitate orderly resolution in case of banking failure and reduce any potential need for fiscal support.

Annex V. 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 or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows. 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 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 on the vulnerable, e.g., by expanding the social safety net, including the school feeding program, by reallocating budgetary resources.
Commodity price volatility	High	***Medium/High***. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability. For Sierra Leone, higher energy prices would stoke inflation further and would add to fiscal pressures, given the reliance on diesel power, and possible calls for enhanced fuel subsidies. Rising and volatile food prices could lead to increasingly severe food insecurity.	Continuous application of the automatic fuel price adjustment mechanism 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, the school feeding program, and reallocating budgetary resources. Policies to boost domestic food production could also help to address food shortages.
Global growth surprises: slowdown	Medium	***Medium/High.*** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs. Sierra Leone's economy is dependent on minerals exports. A growth slowdown in major economies would likely decrease demand for its minerals.	Tighten fiscal policy to offset the potential decline in export-related revenues on the budget. Continue with efforts to diversify the economy and the mining sector in particular.
Global growth surprises: acceleration	Low	***Medium.*** Positive supply-side surprises, monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions. Sierra Leone's economy is dependent on mineral exports. A growth acceleration in EMDEs would likely increase demand for its minerals.	Save any additional mining revenues or use them to increase priority spending, including on social security.

Nature/Sources of Risk	Relative Likelihood	Expected Impact if Realized	Policies to Mitigate Risks
Deepening geo-economic fragmentation	High	***High.*** Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower 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 could worsen 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 financing. Fully implement the provisions of the AFCFTA. Improve the environment for the private sector to expand and attract FDI in sectors beyond mining. Improvements in governance, and anti-corruption frameworks 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.
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, a potential deterioration in asset quality 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.	Reduce the public sector borrowing requirement by tightening the fiscal policy stance. Prioritize the reform and further development of the domestic debt market. Enhance the supervision and regulation of the banking system. Enhance the financial safety net including the bank resolution framework.

Nature/Sources of Risk	Relative Likelihood	Expected Impact if Realized	Policies to Mitigate Risks
Monetary policy calibration	Medium	***Medium.*** Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs. For Sierra Leone, the capital flow channel will have limited impact. However, adverse impacts could be felt through knock-on effects.	The exchange rate should be allowed to adjust to reflect price differentials. Prioritize social spending to cushion the impact on the poor and vulnerable.
Cyberthreats	High	**Medium** . Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	Develop and implement a national cyber security plan.
Systemic financial instability	Medium	***High.*** High interest rates and risk premia and asset repricing amid economic slowdowns and elevated policy uncertainty (including from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	The effects of this shock on Sierra Leone are likely to come through the commodity market. Therefore, the authorities should continue efforts to diversify the economy away from commodities.
Sovereign debt distress	Medium	**Medium.** Domino effects from high global interest rates, deteriorating debt sustainability in some AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, loss of market access, and contraction of growth and social spending. For Sierra Leone, the direct effect of debt distress in AEs and EMDEs is limited. Adverse knock-on effects could arise through decreased foreign demand for minerals and lower remittance inflows.	Tighten fiscal policy to offset the potential decline in export-related revenues on the budget. Continue with efforts to diversify the economy away from the mining sector.
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.

Nature/Sources of Risk	Relative Likelihood	Expected Impact if Realized	Policies to Mitigate Risks
Social discontent	**High**	***High.*** High inflation, real income loss, spillovers from conflicts (including migration), and worsening inequality stir social unrest, drive populist policies, and increase resistance to reforms, especially in the context of polarized or disputed elections. This exacerbates imbalances and weakens growth prospects, leading to policy uncertainty and market repricing. For Sierra Leone, high food price inflation has increased food insecurity among a growing share of the population. This fed into the political space, materializing in social tensions.	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.
Climate change	**Medium**	***Medium/High.*** Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment. Sierra Leone is highly exposed to weather and climate-related shocks.	Prioritize public investment in climate-resilient infrastructure. Seek grant financing for climate projects related to adaptation. Strengthen the social safety net.

Annex VI. New Fuel Price Mechanism

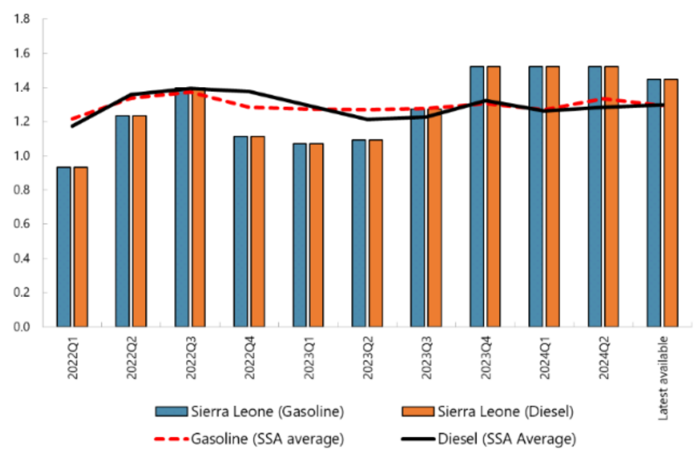
The Petroleum Regulatory Agency introduced a new fuel pricing formula in July 2024. The formula was developed with support from the World Bank to address several shortcomings facing the previous formula. In conjunction with the authorities' commitment to a fixed, predictable excise rate as established in the Finance Act 2024, the formula is expected to increase transparency and eliminate regressive indirect fuel subsidies.

1. The new formula improves upon its predecessor along the following dimensions:

- **Differentiation of fuel types.** The new formula allows for differences in price between different types of fuel to account for differences in import, storage and transportation costs and distorted market conditions. Both Diesel and gasoline prices remain above the Sub-Saharan African average following the introduction of the new formula (Text Figure 1).

Text Figure 1. Sierra Leone: Fuel Retail Prices

(USD per liter)



Sources: Petroleum Regulatory Agency, Global Petrol Prices and IMF staff calculations.

- **Changes in formula components.** Several components of the previous formula were outdated and did not reflect the latest estimates of import and logistical costs. The main changes in the formula include the transition to West Africa Platts as a benchmark for international prices and the inclusion of an import premium to be updated annually based on a review of import invoices.

- **New price correction levy.** Retail prices are adjusted monthly based on end-month international fuel prices. The price correction levy is designed to compensate market participants for any meaningful losses due to the variation in international prices over the course of the month. The price correction levy is not designed to function as a price smoothing mechanism. The international experience shows that price-smoothing mechanisms are rarely viable given the current dynamics of oil markets.

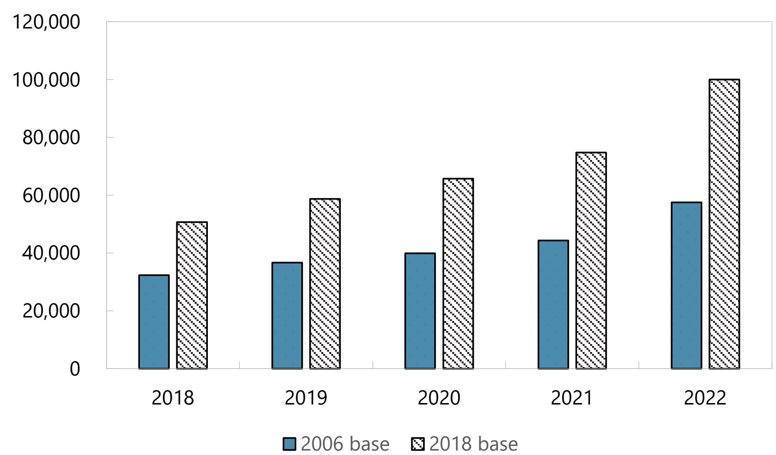
Annex VII. Sierra Leone: Rebasing of the National Accounts

1. Statistics Sierra Leone (Stats SL) published the rebased national accounts in July 2024. With AFRITAC West II support, Stats SL revised the base year from 2006 to 2018. The main changes include (i) the implementation of the System of National Accounts 2008 (2008 SNA); (ii) new and updated production-side classifications; as well as (iii) improved data collection on economic activity in the informal sector. The rebased GDP series covers 2018-2023.

2. The rebased nominal GDP figures between 2018 and 2022 are 56 to 74 percent higher than before (Text Figure 1). The increase in GDP is primarily driven by improved measurement of the agricultural (which now includes cashew nuts, sorghum, sesame, and agricultural services) and services sectors (which now include professional, scientific, admin and support services), as well as increased coverage of informal activities across all sectors. This increase in nominal GDP is large, but expected, given that the exercise was long overdue, and given the substantial changes in the structure of the Sierra Leonean economy between 2006 and 2018.

Text Figure 1. Sierra Leone: Comparison of Nominal GDP

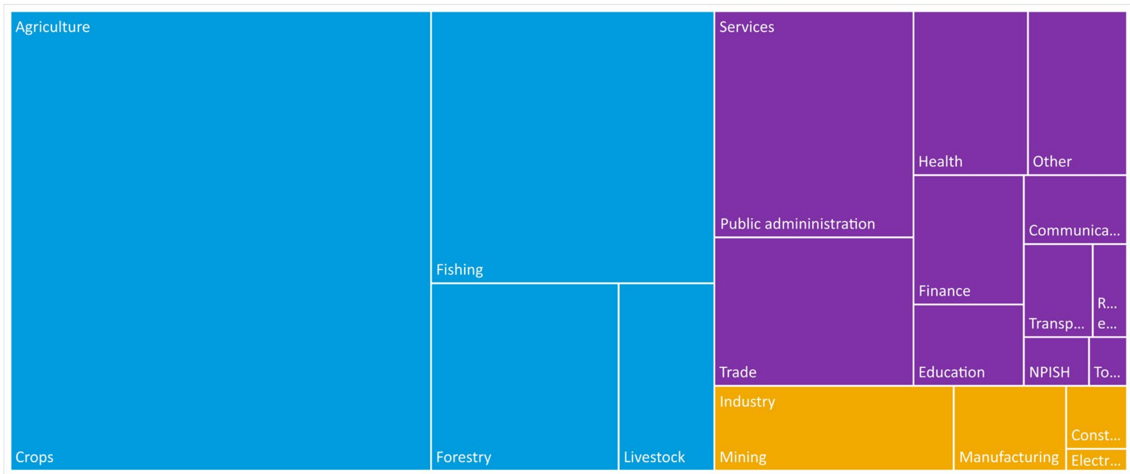
(Millions of current Leones)



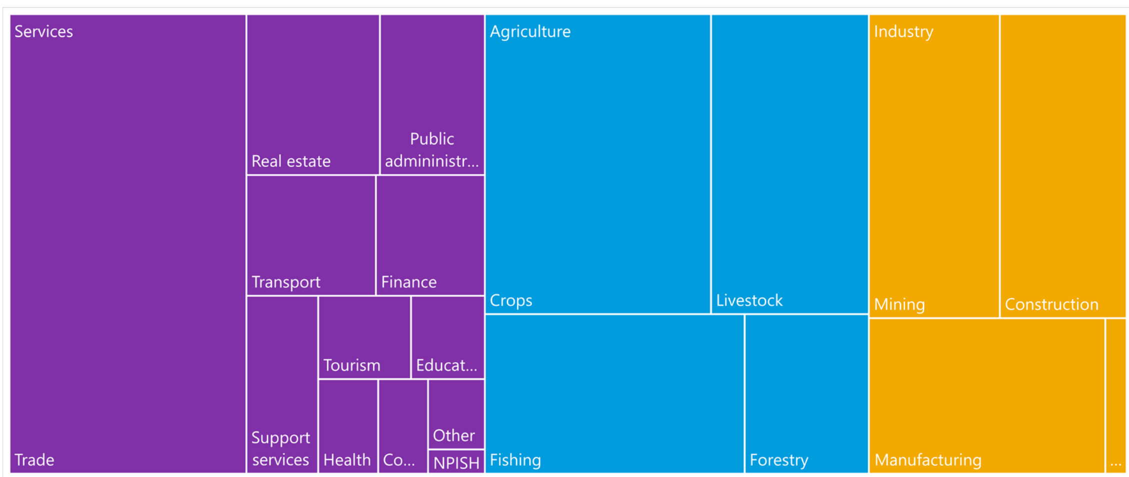
Source: Stats SL and IMF staff estimates.

3. On the production side, agriculture's share of nominal GDP has declined, while the shares of industry and services sectors have increased (Text Figure 2). In 2022, relative to the 2006 base year, the share of industry in nominal GDP increased from 7 to 21 percent. The services sector was the largest sector in 2022 at 42 percent of nominal GDP, although the agricultural sector was still sizeable at 34 percent of nominal GDP. The increase in the size of the services sector is mainly due to the large increase in the 'Wholesale and Retail trade, repair of motor vehicles and motorcycles' ('Trade' in Text Figure 2), reflecting an improved coverage of the informal sector.

Text Figure 2a. Sierra Leone: Shares of 2022 Nominal Production GDP, 2006 Base



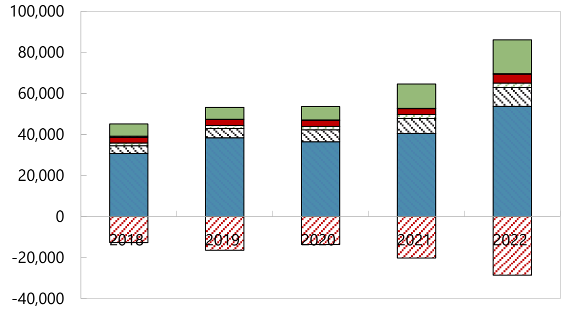
Text Figure 2b. Sierra Leone: Shares of 2022 Nominal Production GDP, 2018 Base



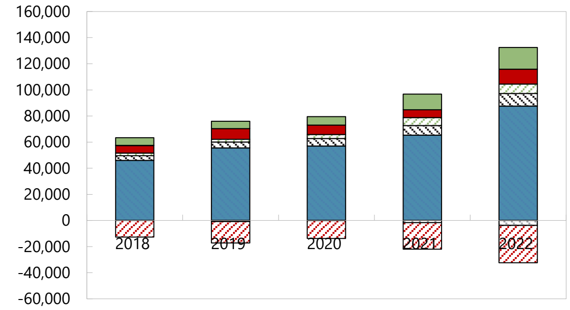
Source: Stats SL and IMF staff estimates.

4. **On the expenditure side, exports and imports declined as a share of GDP, while gross fixed capital formation increased (Text Figure 3).** Since capital formation, exports and imports are unaffected by the change in base year, their share of nominal GDP has declined relative to the 2006 base year. The increase in nominal GDP on the expenditure side is hence attributed to an increase in private consumption.

Text Figure 3a. Sierra Leone: Composition of Expenditure Nominal GDP, 2006 Base
(Millions of current Leones)



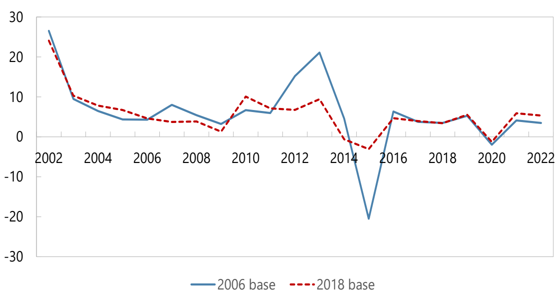
Text Figure 3b. Sierra Leone: Composition of Expenditure Nominal GDP, 2018 Base
(Millions of current Leones)



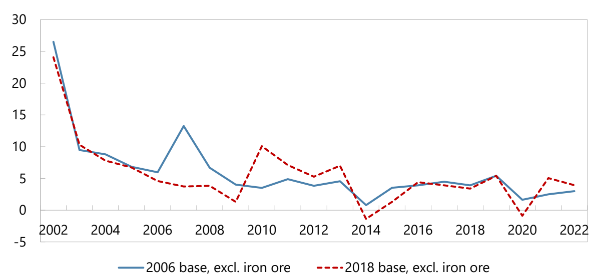
Source: Stats SL and IMF staff estimates.

5. **Trend real GDP growth is broadly unaffected by the rebasing, but its volatility has decreased (Figure 4a).** The rebased GDP series was extended to 2001 by applying the new weights to previous growth rates at the most granular level. The decreased volatility of GDP growth is primarily due to the smaller weight of the mining sector, particularly iron-ore production (Text Figure 4b and Text Figure 2).

Text Figure 4a. Sierra Leone: Comparison of Real GDP Percent Growth Rates, 2006 Base vs. 2018 Base



Text Figure 4b. Sierra Leone: Comparison of Real GDP Excluding Iron Ore Percent Growth Rates, 2006 Base vs. 2018 Base



Source: Stats SL and IMF staff estimates.

6. **The upward revision in 2022 nominal GDP has other important implications, including:**

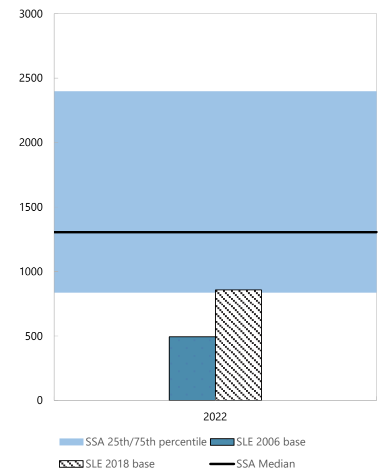
- **GDP per capita increased (Text Figure 5a)** from US$492 to US$857. This lifted Sierra Leone from below the 10th percentile in sub-Saharan Africa to around the 25th percentile.

- **The debt-to-GDP ratio dropped (Text Figure 5b)** from 94 to 54 percent of GDP. This notwithstanding, the ratios of debt service to revenues and to exports did not improve, implying that staff's assessment that debt is sustainable but at high risk of distress still stands (see DSA).

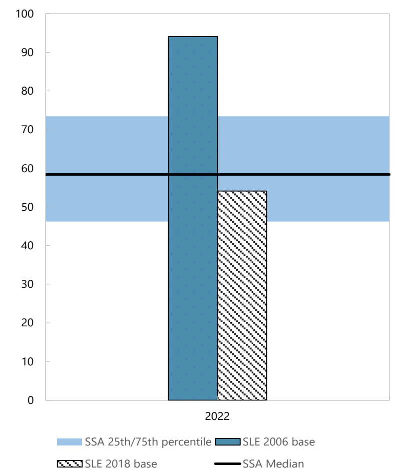
- **The tax revenue ratio declined (Text Figure 5c)** from 10 to 6 percent. Tax revenue relative to GDP is now below the 10th percentile in sub-Saharan Africa, highlighting the importance of improved revenue mobilization.

- **The trade to GDP ratio declined (Text Figure 5d)** from 78 percent to 45 percent. It is now below the 25th percentile in sub-Saharan Africa, indicating that there is room for increased efforts to achieve trade facilitation.

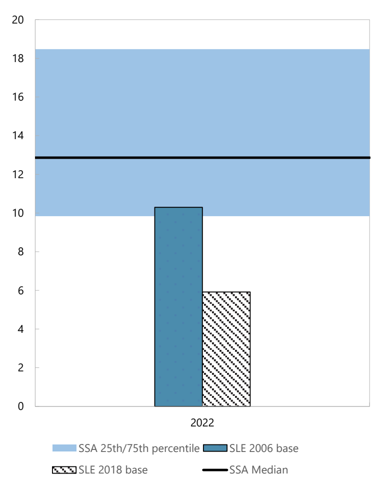
Text Figure 5a. Sierra Leone: Comparison of USD GDP per capita



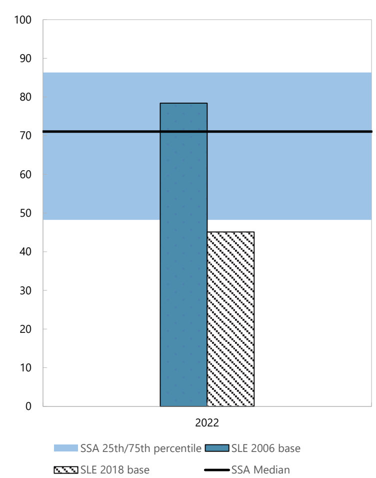
Text Figure 5b. Sierra Leone: Comparison of Debt-to-GDP



Text Figure 5c. Sierra Leone: Comparison of Tax-Revenue-to-GDP



Text Figure 5d. Sierra Leone: Comparison of Trade-to-GDP



Source: Stats SL, WEO, and IMF staff estimates.

Annex VIII. Capacity Development Summary

A. CD Strategy and Priorities

1. Sierra Leone's CD Strategy is anchored to the government's MT development goals and integrated with program objectives. The CD strategy is guided by the priorities set in the country's medium-term strategic documents, including the Medium-Term National Development Plan, the Medium-Term Debt Strategy (MTDS), and the Medium-Term Revenue Strategy (MTRS) Capacity building is also focused on improving governance and fiscal transparency and on mainstreaming climate. CD strategy for the financial sector is guided by the 2021 Financial Sector Stability Review (FSSR) (Table II.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 PFM, and debt management. Against this, CD is focused on assisting the authorities to implement the MTRS; building public finance management capacity to strengthen commitment and payment 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.

- *The 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. Technical support on the recapitalization of the BSL is a key part of the CD strategy as it is linked to independent monetary policy implementation. Fund support will also be required to implement International Financial Reporting Standards as this was one of the safeguard report's recommendations.

- *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. IMF TA is planned for the operationalization of the emergency liquidity assistance framework and establishment of problem bank resolution framework.

- *Timely data compilation and dissemination are a priority in all sectors to enable effective policy design and implementation.* Support is needed in the area of debt recording and management, as well as public debt compilation and reporting. Improving compilation methodologies will allow for more accurate estimates of output. Continued support is needed to further strengthen national accounts compilation. This includes improving the methodologies to derive sectoral estimates (agriculture and mineral production), measuring the informal sector, estimating GDP from the expenditure and income sides, and compiling and releasing the producer price index (PPI). On external sector statistics, support is required to strengthen estimation methodologies, including in estimating foreign direct investment inflows, compiling remittances, and capturing unrecorded exports of minerals. Additionally, the net international position data has not been released since 2017. An overarching issue is inadequate capacity and sluggish pace of data collection from other agencies.

- *Increased availability of high frequency data will also be crucial.* These would usefully include quarterly GDP estimates and monthly financial stability indicators, such as NPL ratios and the ratio of banks' liquid assets to total assets.

B. 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 II.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. Several initiatives could help mitigate these risks. The placement of two resident advisors at the BSL in 2022, on banking supervision and monetary policy, and of a PFM resident advisor at the MoF in 2024 has helped support CD delivery in a fragile institutional setting. 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. The authorities have requested that future TA should contain a training component to help build domestic capacity. In addition, Staff plans to hold regular TA coordinating meetings with the authorities to plan and prioritize upcoming TA.

Table VIII.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; (v) enhancing cash forecasting and the cash management function. Accelerate transparency and governance reforms, including on follow-up of audit recommendations. Improve fiscal reporting by: (i) enhancing coverage of the whole of central government and gradually extending it 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. 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 on developing the iron ore safe harbor (led by Revenue Administration), linking closely with the fiscal regime (tax policy); modeling training on mining sector (financed under the Global Public Finance Partnership as the Managing Natural Resources Wealth Topical Fund is wound up). Support is also needed to strengthen tax policy analysis at the Ministry of Finance.
Revenue Administration	Improve the efficiency of domestic resource mobilization by (i) increasing tax compliance and supporting the development of a compliance risk framework; (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. The 2023 mission on wage bill management supported authorities' development of a medium-term wage bill management strategy. Engagement on the assessments of energy subsidies and social policies is expected to continue in the coming months.
Financial Sector Supervision and Regulation	Increase financial system safety and soundness through strengthening prudential regulations as well as supervisory frameworks and processes.
Financial Stability	Design new tools to monitor systemic risk, conduct stress tests and improve financial stability analysis.
Debt Management	Improving debt recording 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 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 the supervisory framework for financial market infrastructures.
Safeguards	(i) IFRS implementation and capacity building for the BSL's accounting to achieve timeliness in financial reporting; (ii) a comprehensive review of the BSL's balance sheet; and (iii) training for members of the BSL Board and the Audit and Risk Committee in their oversight roles.
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. Specific near-term needs include: (i) developing a system to estimate foreign direct investment flows; (ii) improving estimates of private remittances; and (iii) converting fiscal accounts to the GFSM 2014 standard.

Table VIII.2. Sierra Leone: Technical Assistance, FY 2021-24

Date	CD activity
Dec-24	STX-Developing Reform Management Tools
Nov-24	STX Assignment - Building Project Management Capacity
Jun-24	Sierra Leone-TA-GDP mission
May-24	Sierra Leone-TA-GDP-D4D
May-24	Sierra Leone AFW2 May FY25 IFRS Accounting and Prudential Provisioning
May-24	Sierra Leone AFW2 May FY25 Improving Monetary Policy Analysis and NTF Capabilities
May-24	Sierra Leone BSR LTX Extension II (Juan Arango)
May-24	Sierra Leone MPO LTX Extension III (Zsolt Kondrat)
Apr-24	Energy subsidy scoping mission
Apr-24	Scoping Mission on Energy Subsidy Reform
Mar-24	AFW2- Peer Learning on the set up of an SOE Oversight Commission
Mar-24	mining revenue model construction 2
Mar-24	T/STX support on safe harbor 2
Mar-24	Wage Bill in-person training
Mar-24	Training on public sector wage bill management and forecasting
Mar-24	Customs Post Clearance Audit Training - STX field
Feb-24	Sierra Leone-TA-GDP-GDP rebasing
Jan-24	Sierra Leone - HQ-Led - C-PIMA and PIMA review
Jan-24	Installation mission
Jan-24	Sierra Leone-PRC-Updating PPI
Jan-24	FSSR FY24: Sierra Leone Jan FY24 Macroprudential Policy
Jan-24	SIERRA LEONE Andrew Argyle
Jan-24	Sierra Leone AFW2 Jan FY24 Operationalization of the Oversight Framework for Payment Systems
Jan-24	Deployment Activity-Ilyas Tufan
Nov-23	Training on the use of the SOE HCT and DGLAT
Nov-23	Training on the use of the SOE HCT and DGLAT (for RM)
Nov-23	Sierra Leone-TA-GDP-Development of QGDP
Nov-23	Sierra Leone Nov FY24 Professional Attachment on Developing Forecasting and Policy Analysis System
Nov-23	Sierra Leone- TA - BOP
Nov-23	Sierra Leone Nov FY24 Developing Stress-Testing Capacity
Oct-23	Customs Induction & Risk Management Training - STX field
Oct-23	MTRS - follow-up mission on TP actions
Sep-23	Sierra Leone Sep FY24 Supporting Basel II/III Implementation
Sep-23	Customs Risk Management - LTX Field
Sep-23	Sierra Leone-TA-PRC-Updating CPI
Sep-23	Customs Risk Management - STX field
Sep-23	AFW2- Professional attachment to Uganda on PIM
Sep-23	AFW2-Professional Attachment MoF Uganda on PIM
Aug-23	Sierra Leone Aug FY24 Improving Monetary Policy Analysis and NTF Capabilities Hybrid I
Aug-23	Sierra Leone-TA-GDP-GDP rebasing
Aug-23	Support on Iron ore safe harbor
Jun-23	Sierra Leone / AFR - TA - PSDS - D4D - Expanding PSDS coverage
Jun-23	Sierra Leone AFW2 Jun FY24 Follow up on FX Market Operations Hybrid I
May-23	Sierra Leone May FY24 Foreign Exchange Regulation and Supervision
May-23	Sierra Leone May FY24 Improving Monetary Policy Analysis and NTF Capabilities
May-23	Sierra Leone Bilateral LTX in Monetary Policy and Financial Stability FY24 Extension II
May-23	FSSR FY24: Sierra Leone FSSR Banking Supervision LTX FY24
Apr-23	STX - MTRS Review

Table VIII.2. Sierra Leone: Technical Assistance, FY 2021-24 (continued)

Apr-23	Professional Attachment to Kenya On Fiscal Risks Management
Apr-23	Customs Risk Management Training II - STX Field
Apr-23	AFW2-Follow up to the development of an SOE Monitoring Framework
Apr-23	STX Mission - Audit training-telecom sector
Apr-23	Sierra Leone-TA-GDP-D4D
Mar-23	Sierra Leone - TA - PRC - Updating CPI
Mar-23	Sierra Leone BSR LTX Extension
Mar-23	AFW2: National Training on risk based internal auditing
Mar-23	Remote on Demand support - minerals valuation
Mar-23	Wage Bill mission - IMF01
Mar-23	STX for EP Wage Bill Mission
Mar-23	FAD Customs Risk Management - LTX Field
Feb-23	Sierra Leone Feb FY23 Improving Monetary Policy Analysis and Near-Term Forecasting Capabilities
Feb-23	STARE Sierra Leone-TA-GDP-GDP rabasing
Jan-23	AFW2-Support to the development of an SOE Monitoring Framework
Jan-23	FAD HQ mission-tax administration extractive industry revenue unit
Jan-23	Sierra Leone FY23 MMP/FSR LTX Extension (Zsolt Kondrat)
Jan-23	Bilateral LTX in Monetary Policy and Financial Stability FY23 Extension
Jan-23	FAD AFW2: National Training on risk based internal auditing
Jan-23	FAD Mining sectoral model mission 3
Dec-22	FAD Follow-up mission
Dec-22	MCM Operationalization of the Oversight Framework for Payment Systems
Nov-22	FAD Customs Risk Management - STX Field
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	FAD STX - Review of Strategic Plan and Alignment with MTRS
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	FADR2 Additional follow-up support for MTRS
Oct-22	STABP Sierra Leone - TA - BOP
Sep-22	MCMCO Improving intebank/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, admistration, 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

Table VIII.2. Sierra Leone: Technical Assistance, FY 2021-FY2024 (Concluded)

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-Team 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	MCM Bilateral LTX in Monetary Policy and Financial Stability FY23
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)
Apr-22	LEG remote mission on High Level Conference on Governance and Corruption Issues
Apr-22	FAD remote mission on Audit training - telecom sector
Apr-22	MCM STX Improving oversight and supervisory framework for FMIs
Apr-22	MCM LTX Improving oversight and supervisory framework for FMIs
Apr-22	MCM remote mission on Improving monetary policy analysis and near-term forecasting capabilities
Apr-22	FAD/AFW2 remote mission on the development of a framework for SOE Ownership
Apr-22	ICD ATI Course on Macroeconomics of Climate Change
Apr-22	FAD/AFW2 STX on strengthening Fiscal reporting and compliance with cash based IPSAS
Apr-22	STA remote mission on Sierra Leone-TA-GDP - GDP Rebasing
Mar-22	FAD remote mission component (joint with MNRW mission)
Mar-22	FAD remote mission on regional coordination work
Mar-22	LEG scoping Mission
Mar-22	FAD remote mission on Customs Trade Facilitation - LTX Duty Station
Mar-22	FAD remote mission on Customs Post Clearance Controls - STX Field
Mar-22	LEG remote mission on regional P2P event (AF)
Mar-22	MCM support on FSSR Banking Supervision LTX FY22
Mar-22	FAD support during Staff Visit
Mar-22	FAD STX Visit on CRM in the EI
Mar-22	MCM Bilateral LTX in Monetary Policy and Financial Stability FY22
Feb-22	FAD remote mission/HQ Workshop on MTRS
Feb-22	FAD remote mission on initial workshop
Feb-22	LEG remote mission on SAI Regional Event - Peer to Peer Preparatory Work FY2022
Feb-22	FAD remote mission on Strengthen Excise Duties Management Capacity
Feb-22	MCM remote mission on IFRS Improving Supervisory Understanding of ECL/IRB
Feb-22	MCM STX Support on FSSR Review of Prudential Guidelines
Jan-22	STA remote mission on Sierra Leone - TA - PRC - Updating CPI
Jan-22	LEG Desk review work
Dec-21	FAD STX support on Developing Reform Management Tools
Dec-21	FAD STX support on Developing Reform Management Tools
Dec-21	FAD/AFW support the preparation of project appraisal guidelines
Dec-21	MCM remote mission in strengthening the Oversight Framework for Payment Systems
Dec-21	MCM remote mission on Sierra Leone-Payment Systems Oversight
Dec-21	MCM Sierra Leone-Payment Systems Oversight
Dec-21	FAD remote mission on mining revenue model mission 1
Nov-21	FAD Strengthen Tax Exemptions Management Capacity
Nov-21	MCM/AFE/AFS/AFW2 Webinar on climate-related risk
Nov-21	MCM/AFE/AFS/AFW2 Regional Webinar on Climate Related Risk
Nov-21	STA remote mission on Sierra Leone - TA - BOP
Nov-21	FAD STX Assignment - Building Project Management Capacity
Nov-21	FAD Module 2 on Fiscal Risks and Macro Shocks (Correct)
Nov-21	FAD STX support on Customs data analytics
Oct-21	MCM country X FY22 Short Engagement Activity
Oct-21	MCM country X FY22 Short Engagement Activity
Oct-21	MCM SLE: Supporting Basel II/III Implementation Process
Oct-21	MCM Bank Supervision
Sep-21	MCM AFR IMF01 Short Engagement Project - Financial Crisis Management
Sep-21	FAD Customs Border Control, Risk Management & PCA - STX

Annex IX. Data Issues

Table IX.1. Sierra Leone: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/

B

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	B	C	B	B	B

Detailed Questionnaire Results

Data Quality Characteristics						
Coverage	C	B	C	C	B	
Granularity 3/	B		B	C	B	
			B		B	
Consistency			C	C		B
Frequency and Timeliness	C	B	B	C	C	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data have some shortcomings but is broadly adequate for surveillance and program monitoring. The most affected areas are balance of payments, and national accounts statistics. Both national accounts and balance of payments are compiled on an annual basis, with long delivery delays. Additional, weak estimates of services sectors, and a large informal sector could impact estimates of revenue capacity. To address this staff has had to use the mining sector and government activity as stand-in indicators to grasp the tempo of economic activity and make projections in the short term. Finally weaknesses on the key components or the balance of payments, such estimates for foreign direct Investment, compliation or private remitances and unrecorded mineral exports, makes it challenging to identify drivers for foreign exchange flows, including potential FX pressures.

Article IV consultation. Data weaknesses in both national accounts (NA) and external sector statistics hamper surveillance work. In the case of the latter, the low-quality data produces a wide margin of uncertainties on the external sector assessment (ESA). Of particular note is the delay in publication of international investment position (IIP) data, the most recent being for 2017. Compilation of foreign direct investment (FDI) and other investments, the main components of the financial account are also subject to large estimation errors. Reporting of annual GFS to STA (with the institutional coverage of budgetary central government) has been suspended since 2019 data. Improvements can also be made by expanding the coverage to general government, including social security funds, local governments, and autonomous agencies, and by implementing the international statistical guidelines set out in the GFS Manual 2014 framework. In the current cash based approach to the fiscal accounts, it is difficult to accurately pin down the fiscal position.

Changes since the last Article IV consultation. The authorities are making some efforts to improve statistics, including the recent rebasing of the GDP to 2018. In May 2024, a national accounts mission helped the authorities to finalize GDP from the production side, while a June 2024 mission started work on compiling GDP from the expenditure side. TA support has continued on the external sector but progress has been very slow on addressing weaknesses identified in the previous Article IV consultation.

Corrective actions and capacity development priorities. To correct the weaknesses in national accounts, the authorities are increasing the number of staff working in this area and is seeking a resident advisor to help train this co-hort. The authorites confirmed their capacity development priorities as: 1) Developing the PPI. STA technical assistance (TA) is planned during FY25 to continue on this; 2) finalizing the rebasing of the GDP, including compiling government capital formation data, completing a sand mining survey, and back casting the new GDP series to 2001-2011, 3) Improving the quality and dissemination of compiled soundness indicators. STA remains ready to support the central bank of Sierra Leone in this area in line with international best practice, 4) Improving external sector statistics, including estimates of FDI and IIP. An STA mission on external sector statistics is scheduled for November, 18-29 2024; 5) Improving the reporting of fiscal statistics to be in line with 2014 GFSM standard.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics

Other data gaps. Labor market statistics. Information on trends in employment, unemployment and wages could help the team to better assess short-term economic developments. Aldditional data gaps include: Data related to climate change; income and gender inequality; social protection and social spending, and digitization.

Table IX.2. Sierra Leone: Data Standards Initiatives

Sierra Leone participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since December 2016.

Table IX.3. Sierra Leone: Table of Common Indicators Required for Surveillance

As of end-September 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Sierra Leone[8]	Expected Timeliness[6,7]	Sierra Leone[8]
Exchange Rates	1-Sep-24	23-Sep-24	D	D	D	D	…	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Aug-24	Sep-24	M	M	M	M	1M	1Q
Reserve/Base Money	Jun-24	Aug-24	M	M	M	M	2M	2M
Broad Money	Jun-24	Aug-24	M	M	M	M	1Q	2M
Central Bank Balance Sheet	Jun-24	Aug-24	M	M	M	M	2M	2M
Consolidated Balance Sheet of the Banking System	Jun-24	Aug-24	M	M	M	M	1Q	2M
Interest Rates[2]	1-Jun-24	1-Aug-24	M	M	M	M	NA	2M
Consumer Price Index	May-24	Jun-24	M	M	M	M	2M	2M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	NA	NA	NA	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Jun-23	Aug-24	Q	Q	Q	A	1Q	1Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-23	May-24	Q	Q	Q	Q	2Q	2W
External Current Account Balance	Dec-23	Sep-24	A	A	Q	A	1Q	24M
Exports and Imports of Goods and Services	Jun-24	Aug-24	M	M	M	M	12W	4M
GDP/GNP	Dec-23	Aug-24	A	A	Q	A	1Q	1Q
Gross External Debt	Dec-23	May-24	Q	Q	Q	Q	2Q	2W
International Investment Position	Dec-17	Oct-19	A	A	A	A	3Q	24M

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex X. Enhanced Safeguards for Sierra Leone

ES1A

1. Sierra Leone's de facto senior and other multilateral debt is projected to decline over the medium term.[1] Multilateral debt currently accounts for 80.8 percent of external debt, indicating a potentially narrow scope for external debt restructuring. However, debt service obligations to other multilateral creditors are low, and debt ratios are projected to decline: IMF debt—including SDR retrocession—is projected to decline from 9.8 to 7.7 percent of GDP by 2026, while debt held by all institutions with preferred creditor status—the IMF, the World Bank, and the African Development Bank—is expected to decline from 19.8 to 15.2 percent of GDP, and debt held by all multilateral institutions from 25.8 to 18.8 percent of GDP.

Text Table 1. Sierra Leone: Debt Composition

	Actual	*Projections*		
Creditor profile	2023	2024	2025	2026
Total debt[1]	2,988	3,012	3,001	2,873
External debt	2,044	1,958	1,898	1,813
Multilateral creditors[2]	1,651	1,589	1,551	1,492
o/w: IMF and WB	1,107	1,081	1,080	1,058
o/w: IMF[3]	627	613	624	616
o/w: AfDB	162	159	156	152
o/w: Other Multilaterals	382	349	315	282
Bilateral creditors	217	203	189	173
o/w: Paris Club	51	51	51	51
o/w: Non-Paris Club	166	152	138	122
Private creditors	176	167	158	149
o/w: Bonds	n/a	n/a	n/a	n/a
o/w: Loans	n/a	n/a	n/a	n/a
Domestic debt[4]	945	1,054	1,103	1,060
Memorandum items				
Collateralized debt	n/a	n/a	n/a	n/a
o/w: Related	n/a	n/a	n/a	n/a
o/w: Unrelated	n/a	n/a	n/a	n/a
Nominal GDP	6,397	7,413	7,807	7,952
Multilateral and collateralized debt				
Multilateral debt	1,651	1,589	1,551	1,492
Percent of external debt	80.8	81.1	81.7	82.3
Percent of GDP	25.8	21.4	19.9	18.8
o/w: IMF and WB	1,107	1,081	1,080	1,058
Percent of external debt	54.2	55.2	56.9	58.3
Percent of GDP	17.3	14.6	13.8	13.3
o/w: AfDB	162	159	156	152
Percent of external debt	7.9	8.1	8.2	8.4
Percent of GDP	2.5	2.1	2.0	1.9
o/w: Other Multilaterals	382	349	315	282
Percent of external debt	18.7	17.8	16.6	15.6
Percent of GDP	6.0	4.7	4.0	3.5
Collateralized debt	n/a	n/a	n/a	n/a
Percent of external debt	n/a	n/a	n/a	n/a
Percent of GDP	n/a	n/a	n/a	n/a

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/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).

3/Includes SDR retrocession.

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

[1] Other multilaterals include International Fund for Agricultural Development (IFAD), OPEC Fund for International Development (OFID), Islamic Development Bank (IsDB), European Development Fund (EEC/EIB), Arab Bank for Economic Development in Africa (BADEA), and ECOWAS Regional Development Fund (EBID).

ES1B

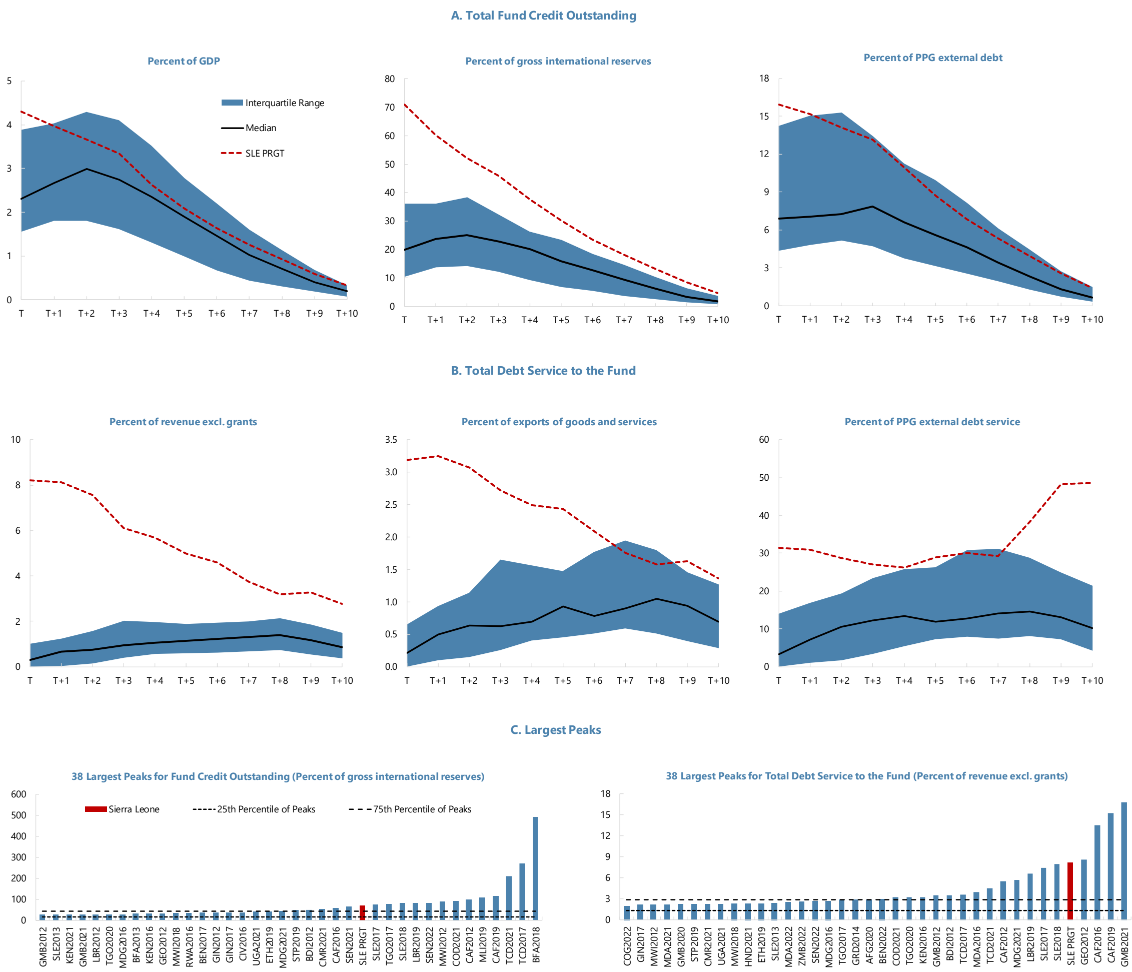
2. Sierra Leone's capacity to repay the Fund is adequate, but subject to significant downside risks (Figure 1). Under the baseline, the stock of debt to the Fund as a share of GDP remains at elevated levels based on existing and prospective drawings, peaking in 2025 at 6.1 percent of GDP, above the 75th percentile of past PRGT arrangements (Figure 1) and among the PRGT's larger exposures in the last decade. Debt service to the Fund as a share of external debt service increases after 2030 when repayments of disbursements under the proposed ECF will commence. Sierra Leone's capacity to repay the Fund is subject to significant downside risks including from reform delays, natural disasters, and a deterioration in the security situation. Risks are mitigated by the authorities' strong track record of servicing their debt obligations to the Fund, fiscal policy measures envisaged under the program, and measures to strengthen governance.

ES2

3. A key objective of Sierra Leone's request for a Fund-supported program is to reduce debt vulnerabilities. Sierra Leone is assessed to be at high risk of debt distress. The external debt service-to-revenue ratio exhibits a protracted threshold breach. The total debt-service-to-revenue ratio remains above 100 percent until 2028, while gross financing needs (GFNs) are above the 14 percent benchmark during 2025-26. (DSA Figure 1 and 2). Nonetheless, all debt burden indicators are projected to be on a declining trend over the course of the program, underpinned by the ambitious and frontloaded fiscal adjustment, continued reliance on concessional financing and grants, and moderately high growth rates. The baseline external debt service-to-revenue remains above the DSA threshold until 2028, reflecting financing needs arising from Fund support during the Covid-19 and Ebola crises, as well as recent large commodity price shocks.

Figure X.1. Sierra Leone: Capacity to Repay Indicators Compared to PRGT Countries

(Units as indicated)



Notes:
1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.
4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5) Comparator series is for PRGT arrangements only and runs up to T+10.
6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.
8) International reserves are proxied by imputed reserves as measured by net foreign assets or by the currency union's total reserves for LICs that are part of currency unions.

Appendix I. Letter of Intent

Freetown, Sierra Leone

October 11, 2024

Madame Kristalina Georgieva

Managing Director

International Monetary Fund

Washington, D.C. 20431

U.S.A.

Dear Madame Georgieva,

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

2. **We are proud to report that we were able to bring the 2018 ECF arrangement to a successful conclusion in November 2023.** We have taken bold steps to tighten policies and have made headway towards achieving macroeconomic stability. We expect our structural reform efforts to support long-term growth and inclusiveness going forward.

3. **We hereby request support under a new thirty-eight-month ECF arrangement in an amount equivalent to SDR 186.663 million (approximately 90 percent of quota).** As under the previous arrangement, we request that disbursements under the new arrangement be made as budget support. To monitor progress in implementing our reform agenda, the program includes a set of periodic and continuous performance criteria, indicative targets, prior actions, and structural benchmarks outlined in the MEFP and the Technical Memorandum of Understanding (TMU). We also request that the first disbursement under the new arrangement, in an amount equivalent to SDR 34.999 million, be made available after approval of the ECF arrangement by the Executive Board of the IMF.

4. **The objectives of this program and the policy commitments to achieve them are described in the attached MEFP.** The ECF arrangement aims to (i) restore stability by bolstering debt sustainability, addressing fiscal dominance, bringing down inflation and rebuilding reserves; (ii) support inclusive growth through reforms—including to narrow gender gaps—and targeted social spending; and (iii) confront corruption, and strengthen governance, institutions, and the rule of law. These objectives advance our poverty reduction and growth goals as outlined in our National Development Plan (NDP) 2024-30. By helping us restore macroeconomic stability, including by reducing inflation, maintaining debt sustainability, and rebuilding international reserves, the

program will support key structural reforms aimed at fostering sustainable growth. Furthermore, reforms included in the ECF arrangement, such as promoting gender equality and protecting social spending, directly contribute to achieving the NDP's goals of food security, enhancing human capital development, and reducing the gender gap. Additionally, the program's governance-related conditionality will strengthen the NDP's plans to improve public administration.

5. We are optimistic that with the successful implementation of this program, our medium-term economic outlook will be promising. We expect total GDP growth to reach around 4.5 percent over the medium term as our economy continues to stabilize and structural reforms begin to bear fruit. Amid the expected tight macroeconomic policy stance, we expect inflationary pressures and the cost-of-living crisis to subside, and to be able to rebuild our reserves to adequate levels. Our planned fiscal consolidation, paired with enhanced debt management efforts, should reduce public debt and debt-service needs over time to ensure that our debt remains sustainable and the risk of distress declines. By protecting social spending, we hope to be able to effectively support the most vulnerable parts of the population.

6. The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Sierra Leone will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

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

Very truly yours,

/s/	/s/
Sheku Ahmed Fantamadi Bangura	**Ibrahim Stevens**
Minister of Finance	Governor of Bank of Sierra Leone

Attachments:

- Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial policies (MEFP) describes (i) recent macroeconomic developments, (ii) key objectives of our Extended Credit Facility (ECF) supported program, (iii) the economic outlook and risks, and (iv) the macroeconomic policies and structural reforms that we intend to implement over the next three years.

A. Background

1. Sierra Leone has been hit hard by multiple shocks in recent years. 11 years of civil war, the devastating 2014 Ebola epidemic, the 2015 commodity price slump, the Covid-19 pandemic, spillovers from Russia's war in Ukraine, mudslides, and episodes of domestic insecurity have compounded pain and suffering. They derailed our success in fighting poverty, building human capital, and achieving macroeconomic stability.

2. Sierra Leoneans have weathered the storm, and we have begun to take steps to reduce vulnerabilities. We tightened macroeconomic policies significantly last year and persevered on the structural reform agenda to reduce vulnerabilities and take steps toward attaining macroeconomic stability. To strengthen social cohesion and political stability, a Tripartite Committee published a report in July with a set of recommendations to strengthen our electoral system and institutional capacity.

3. We view the new ECF arrangement as a critical policy anchor. Macroeconomic imbalances and financing needs remain large, and the priorities outlined in our Medium-Term National Development Plan (2024-30)[1] will be costly and will require support from development partners. The new ECF should help galvanize this support, and advance reforms conducive to achieving inclusive, green, and sustainable growth for our people.

B. Recent Economic Developments

4. We have tightened our macroeconomic policies significantly.

- **2023.** Our domestic primary deficit narrowed by 2.8 ppts of non-iron-ore GDP relative to 2022, on the back of improvements in revenue collections and tight spending restraint. We tightened monetary policy in tandem: base money growth declined to 44.0 percent y-o-y in December 2023, down from 63.4 percent in June 2023. The MPC raised the policy rate by 5.25 ppts in 2023 to 22.25 percent.

[1] These include boosting agricultural productivity ("Feed Salone"); human capital development; youth employment; technology and infrastructure; and improved public service delivery architecture.

- **2024.** The fiscal policy stance tightened further and is on track towards achieving a domestic primary deficit of 0.8 percent of non-iron-ore GDP for the year as a whole. Monetary policy also tightened significantly, with base money growth declining to 13.5 percent y-o-y as of July 2024. The MPC raised the policy rate by another 2.5 ppts in 2024, to 24.75 percent as of October.

5. Non-mining growth remains below potential, but we are beginning to reap the fruits of our tighter policy stance. Overall growth increased to 5.3 percent in 2022 and 5.7 percent in 2023 amid strong mining activity. Non-iron-ore growth reached 3.9 percent in 2022—a year of expansionary macroeconomic policies—and 3.0 percent in 2023—a year of macroeconomic policy consolidation. The current account deficit narrowed, and gross reserves decreased below 2 months of imports, with the most important factor being external debt service.

6. The tighter policy stance continues to pay dividends, but T-bill rates remain stubbornly high. Owing to our prudent macroeconomic policy, the leone has remained remarkably stable. Annual headline inflation declined from 54.6 percent y-o-y in October 2023 to 29.5 percent in July 2024. Of concern is that the stability in the exchange rate has contributed to a significant appreciation of the real effective exchange rate, with implications for price competitiveness. Another concern is that treasury yields have yet to come down despite the policy tightening and falling inflation.

C. Economic Outlook and Risks

7. Growth outlook. Growth is expected to reach 4.0 percent in 2024 and 4.6 percent over the medium term, driven primarily by strong activity in agriculture and mining. We consider this projection to be conservative and expect strong upside potential, especially from the mining sector. Boosting agricultural productivity is our flagship project, including through the Feed Salone initiative. Inflation is projected to ease to single digits over the medium term as macroeconomic policies continue to tighten and global prices of food and fuel come down. The current account deficit is expected to narrow over the medium term, and we are expecting to rebuild international reserves.

8. Downside risks to the outlook are significant. These include deterioration of the security situation, surging global food prices, fiscal slippages, spillovers from ongoing global fragmentation, an escalation of Russia's war in Ukraine, and declining international donor support.

D. Program Objectives and Economic and Financial Policies

Our ECF supported economic program aims to (i) restore stability by bolstering debt sustainability addressing fiscal dominance, bringing down inflation and rebuilding reserves; (ii) support inclusive growth through reforms–including to narrow gender gaps–and targeted social spending; and (iii) confront corruption, and strengthen governance, institutions, and the rule of law.

E. Fiscal Policy

9. Fiscal policy is set to tighten substantially in 2024, following an even larger tightening in 2023. We are on track towards achieving a domestic primary deficit of 0.8 percent of non-iron-ore GDP, down from 2.9 percent of non-iron-ore GDP in 2023 and 5.7 percent of non-iron-ore GDP in 2022:

- ***Expenditures*** in 2024 are expected to be NLe437 million higher than reported in the original budget approved by parliament. This is due to a set of factors: (i) we plan to clear a larger-than-expected portion of EDSA's arrears to IPPs (NLe443.5 million), which would bring total transfers to the energy sector to NLe1339 million; (ii) transfers to NRA and TSA agencies are expected to be higher, reflecting the expected gradual improvement in revenues; (iii) increased security spending in H1-2024 would cause an overrun for goods and services; and (iv) interest payments on public debt are expected to exceed their allocation by NLe462million. These increases are partially offset by savings on wages and salaries (NLe 76 million), and a reduction in the domestic currency value of foreign financed capital expenditure (NLe 779 million). Finally, we have reallocated some expenditure line items, including school feeding, from domestic capital spending to goods and services, and transfers and subsidies, with no impact on total spending.

- ***Revenues*** in 2024 are expected to perform broadly in line with the approved budget, supported by one-off receipts, implementation of tax policy measures in the finance act 2023 and 2024, and enhanced efforts by NRA to enforce compliance.

10. The fiscal consolidation will need to continue over the program period to keep our public debt on a sustainable path. We are targeting a domestic primary surplus of 1.5 percent of GDP by 2027, an adjustment of some 4.4 ppts of GDP relative to 2023 and 7.2 ppts relative to 2022.

11. Our revenue mobilization strategy is guided by our MTRS. We have developed and published an implementation plan for the MTRS and established reporting mechanisms on its implementation. We commit to conducting quarterly meetings of the MTRS High-Level Steering Committee.

12. Strong tax policy measures constitute the backbone of our efforts to mobilize revenues. Most measures in the FA 2023 and 2024 have been implemented, including changes in domestic excise rates and import duties, the fixed excise rates for fuel products, the vehicle circulation levy, the tourism levy, the education levy, and non-tax revenue measures. Out of the many tax measures in the FA 2023 and 2024, the only significant measures outstanding are the excise rates for imports—due to capacity challenges in configuring the import excises for ASYCUDA, which we expect to be able to address by end-2024—and the MAT—which we are confident to be able to implement before the April 2025 due date. We updated the fuel price mechanism with World

Bank support. The automatic adjustment of fuel prices at the pump (**continuous SB**) is expected to safeguard excise revenues. We commit to publishing pricing decisions on a monthly basis. We also commit to sending to Parliament a 2026 Finance Act with tax measures that are expected to yield at least 1 percent of GDP in additional annual tax revenues (**end-November 2025 SB**). These measures are likely to include residual tax policy measures from the MTRS and efforts to rationalize tax expenditures. To support the identification of specific measures, we will finalize a report on the scope and size of existing tax exemptions by end-April 2025.

13. We are committed to enhancing revenue mobilization from extractive industries. We will ensure full implementation of the Extractive Industries Revenue Act (EIRA) 2018 going forward and avoid negotiating new fiscal terms for resource projects outside of the EIRA parameters. Consistent with the EIRA, we confirm that the NRA will remain in charge of administering the assessment and collection of mineral royalties for the entire period of the ECF arrangement, while the NMA would use its expertise to support NRA as it builds its expertise. Plans are also underway to implement a safe harbor framework for establishing iron ore prices (**end-December 2024 SB**), and the NRA plans to continue carrying out tax audits for high-risk taxpayers, including in the extractive industries, manufacturing, and telecoms.

14. Revenue mobilization will also be boosted by our commitment to continue strengthening revenue administration. NRA has made meaningful progress in the implementation of tax administration reforms, including implementation of product and fuel marking for excise collection, the rollout of a new system for telecoms auditing, and the integration of the ECR and ASYCUDA systems with ITAS. We plan to continue making progress in strengthening revenue administration and compliance, including with the establishment of a tax court—for which a courtroom has already been allocated and a compendium of offenses developed—and with measures to further integrate NRA's systems. We plan to implement a Strategic Compliance Risk Management (CRM) Framework by end-2024, and will allocate the CRM function to a senior member of staff. Finally, the government is committed to strengthen stakeholder engagement and to implement actions to improve GST collection, including by developing instruments to enforce the use of ECRs and to prosecute non-compliance. To monitor progress, we will prepare and share with IMF staff compliance reports on a quarterly basis, including, inter alia, information on taxpayer registration, on-time filing, payment rates, and aggregate information on tax audits.

15. We are committed to implementing MTRS reforms at customs. To facilitate this, with technical assistance from AFRITAC, we plan to establish a revenue taskforce by end-December 2024, the short-term focus of which would be on increasing the collection of customs duties and taxes. This task force will be focused on the Port of Freetown and will be led by a dedicated management team. It will include the risk management and post clearance audit (PCA) units along with a specialist team of customs officers to conduct inspections and document checks at the Port. Additional support will also be provided by a dedicated intelligence team. The risk management unit will be responsible for data analysis, risk assessment and targeting of the specialist team of customs officers operating at the Port. They will work closely with the intelligence unit to support the identification of high-risk businesses to be audited by the PCA unit. Once the taskforce has been established and has operated successfully at the Port, the scope of operations will be extended to cover other selected points of entry into Sierra Leone. A set of key performance indicators and a supporting monitoring and evaluation framework will be agreed to support this objective and to inform the activities of the taskforce. The taskforce will operate for a period of 12 months, at which time the results would be evaluated, and key findings identified.

16. The medium-term expenditure framework seeks to consolidate spending while protecting social programs.

- **Wages and salaries.** We plan to maintain wages and salaries at around 4.0 percent of non-iron-ore GDP over the program period, supported by a new wage bill strategy and the commitment to impose stricter controls on the recruitment and compensation of consultants and sub-vented agencies staff while protecting essential services. The wage bill strategy is expected to curb payroll spending by introducing measures to improve budget planning and execution, including the establishment of recruitment quotas and stricter controls over in-year requests.

- **Goods and services.** We plan to contain goods and services spending despite increases in social spending, including on the school feeding program. We commit to remaining current on our obligations to school feeding providers to avoid further disruptions in program implementation and to ensure that the school feeding program benefits at least 800,000 children.

- **Energy subsidies.** We remain committed to substantially reducing energy subsidies and transfers by strengthening EDSA's revenue effort. To this end, we established a plan to clear EDSA's arrears to IPPs. We also continue to work with the World Bank to reduce EDSA's significant technical and commercial losses and to strengthen its operational performance. In the year to end-September 2024, we have installed and commissioned 1,250 smart meters for high-value customers and at secondary substations. We have also commenced the development of a time-bound strategy to minimize EDSA's dependence on expensive fossil fuel power generation, which will include negotiating more favorable terms in prospective agreements with IPPs with technical support from the World Bank. Going forward, by end-June 2025, we plan to (i) request support of the World Bank to procure and install at least 3,000 additional smart meters with high-value consumers, (ii) prepare and implement a settlement plan to clear all MDA arrears to EDSA, and (iii) install smart meters in government facilities by end-June 2025. We also plan to submit to Parliament by end-June 2025 a revised National Electricity Act that allows for changes in electricity prices triggered by changes in underlying operational costs, as part of a broad set of reforms needed to support the concession of EDSA's operations to the private sector. In the interim, EWRC will adjust electricity tariffs regularly to reflect changes in underlying operational costs. Finally, the regulator plans to reintroduce the social tariff band targeted at the poorest consumers by end-December 2024 as the recently established management information system allows EDSA to better monitor monthly consumption, restricting the social tariff to residential customers that consume up to 25 kWh a month.

- **Domestic capital spending.** We commit to fully implement the National Public Investment Management Policy (NPIMP), which establishes that all capital projects should adhere to the public investment management cycle. Accordingly, starting with the 2025 budget, capital investment projects will go through formal appraisal and selection procedures, and the decision to include projects in the budget will be made by the Ministerial Investment Committee as established by the Pre-Investment Manual (2022). Investment projects that are longstanding or that have gone through variations that exceed the regulatory threshold of 25 percent of original cost will require re-appraisal and re-selection. We will also continue working with FAD to develop an electronic Public Investment Management Information System. Consistent with this approach, we commit to carefully review the viability of all capital projects in our pipeline to ensure that plans are realistic and focused on high priority projects. We commit to (i) establish a technical budget working group to support the Ministerial Investment Committee in a comprehensive review and reprioritization of existing projects to limit execution to funding availability; and (ii) publish annually detailed information on all government-funded capital projects in the budget, including funding allocated to them. We will start by submitting to Parliament a 2025 budget that is consistent with program projections for the primary balance, revenues and expenditures and includes a comprehensive roads budget with information on total cost, variations, allocations in FY2025, and expected funding needs for FY2026 and FY2027 **(end-November 2024 SB)**.

- **Arrears clearance.** We commit to implementing our arrears clearance strategy and to restrain the net accumulation of arrears (verified or unverified) to zero **(IT on domestic arrears accumulation)**. In addition, we plan to improve, by end-October 2025, our arrears recording systems to align the available information on outstanding arrears to the definitions outlined in the PFM Act (2016). To implement this, we will deploy an arrears profiling system to capture information on all transactions processed within IFMIS and on any outstanding invoices at the MDA level. We will include information on all payments not made in line with the recommendations of the PFM Act to the stock of unverified arrears within the financial year. Arrears that have gone through the appropriate audit procedures will be classified as verified arrears.

- **Social programs.** To protect the vulnerable population amid the fiscal adjustment, we commit to **a floor on social spending (IT)**. It covers spending on priority programs including (i) education support programs, including school feeding, and the diet for boarding home schools; tuition fee subsidies and examination fees; and subsidized school bus transportation;

(ii) cash transfers, including support for the aged; (iii) other social assistance programs, including programs for disabled people; (iv) free healthcare initiative, including procurement of free healthcare and drugs; and (v) employment and active labor market policies, including youth in agriculture and support for youth in fisheries.

- **Transition to GFSM 2014.** We are committed to transiting to GFSM 2014 for fiscal reporting, with technical assistance from the IMF Statistics Department for the 2026 Budget. Implementation of the new format will facilitate fiscal reporting under both the old and new formats to ensure consistency throughout the program period.

17. Contingency planning is critical. We are prepared to (i) reprioritize spending while protecting social spending; (ii) strengthening revenues, including by frontloading revenue measures in the MTRS; and (iii) implementing short-term emergency measures (Text Table 1).

Text Table 1. Sierra Leone: Contingency Measures
(Percent of non-iron ore GDP)

	2024	2025
Saving from Non-Statutory Travels by MDAs	*0.03*	*0.07*
Restrict Domestic Travels	*0.00*	*0.01*
Restrain the extention and creation of Subvented Agencies in the regions and districts	*0.01*	*0.02*
Put on hold payments for the construction of Trunk Roads across the country	*0.05*	*0.10*
Put on hold payments for electrification of 7 district headquarter towns	*0.01*	*0.01*
Reduction in Special Imprest across MDAs	*0.03*	*0.04*
Reduction allocations for fuel and lubricants to all MDAs	*0.05*	*0.08*
Delay procurement of additional Government Vehicles	*0.09*	-
Put on-hold the Procurement of new Furniture and Fittings	-	*0.12*
Delay the Postings and Recall of New Ambassadors and Diplomatic Staff	-	*0.04*
Total	**0.3**	**0.5**

Source: Sierra Leonean authorities and IMF staff estimates.

18. Transparency on budget transfers and contingent liabilities from SOEs is crucial to minimize fiscal risks. We will continue to publish information on debt and guarantees of SOEs in the budget and associated fiscal risks in the SOE Financial Analysis report. Starting with the 2025 budget, the government will publish detailed information on SOE government transfers and contingent liabilities. Any additional support to SOEs will be conditioned on an ex-ante review of fiscal risks. Information on implicit transfers will be made public through NRA's annual reports on tax arrears owed by SOEs and NRA will independently act to collect these arrears and enforce compliance while imposing the appropriate sanctions. We will continue to improve the coverage and timeline for financial reporting of SOEs. Cabinet approved the SOE Ownership and Governance Commission bill. We are committed to ensure the bill: i) provides clear roles for the Minister of Finance in line with the PFM Act and regulations, ii) is adopted by end-December 2024, and iii) is rigorously implemented including by publishing a code of conduct for the board and senior officers by July 2025. Finally, working with FAD TA, we will develop a systematic in-year reporting mechanism for SOEs by end-December 2024.

F. Debt and Debt Management

19. Our overall and external public debts are assessed as sustainable, but at high risk of debt distress. To reduce our debt vulnerabilities, we are committed to the agreed fiscal adjustment under the program, as well as to redoubling our efforts to raise grant resources, and to extending the average maturity of our debt. In light of our difficult debt situation, significant grant-based program support, and higher annual access under the ECF arrangement than in the past, we are also committed to discontinuing the costly use of domestic FX linked securities, including FX Swaps and zero-coupon bonds (existing instruments will not be rolled over), unless the FX risk is borne by our counterparty.

20. We plan to make progress in implementing our MTDS. We commit to continue extending maturities and developing the domestic debt market over the program period as envisaged in our MTDS to ameliorate high rollover risks. To this end, the BSL and the MoF have begun regular consultations with market participants to discuss the MTDS, the annual borrowing plan, treasury auction calendars, and the macroeconomic outlook. We are using these consultations as an opportunity to understand the market's needs, appetite for various debt instruments, and to diversify our investor base. We plan to (i) make use of securities with variable coupons to help extend maturities; (ii) terminate the private placement of treasury securities, which undermine transparency and the development of the domestic market; (iii) review primary dealership roles with AfDB support; (iv) implement regulatory norms for institutional investors while ensuring that they can meet their asset-liability management objectives; and (v) allow T-bonds to be used as collateral for repo agreements, with the applicable haircuts to compensate for illiquidity and market risk. We plan to update our MTDS on an annual basis going forward.

G. Monetary, Safeguards and Exchange Rate Policy

21. Monetary policy will be focused on achieving low and stable inflation. Our medium-term inflation objective is to reduce inflation to single digits. We will continue to strengthen internal capacity and liquidity management operations to help meet our reserve money target, with a view to achieving single digit inflation rates by the end of the program. Specifically, we are committed to:

- Achieve the NIR and NDA targets **(PCs)** in the program, which are consistent with our reserve money target.
- Continue to take action to achieve positive real policy rates.
- Reflect the single digit medium-term inflation objective in our monetary policy statements.
- Develop and share with Fund staff a strategy to revise and recalibrate the BSL's monetary policy operational tools with a view to strengthening its capacity to achieve its reserve money target

(**end-February 2025 SB**). We plan to implement the strategy over the remainder of the ECF arrangement.

- Refrain from monetary financing over the program period. To this end, we plan to (i) terminate the securitization of the Ways and Means advances beginning with the outstanding stock at end-December 2024 (balances must be repaid in cash, in line with the BSL Act before additional credit can be extended) and (ii) contain the BSL's gross claims on the central government.

22. We are taking action to maintain exchange rate flexibility, boost FX reserve buffers, and support FX market development. We are committed to reaching gross reserves levels equivalent to at least 3 months of imports and to keeping FX intervention two-sided and limited to addressing excess volatility. We are implementing TA recommendations in support of FX market development, including by (i) publishing the BSL FX reference rate on the day it is compiled; (ii) simplifying the rules of the FX interbank market; (iii) identifying market makers; and (iv) conducting regular FX auctions as and when market conditions permit. We are confident that the recent stability in the leone's value against the dollar is driven by prudent policymaking, including the successful transition to the new leone in the final stages of the redenomination process. We note the significant appreciation in the real exchange rate and remain committed to allowing the leone to adjust flexibly to market conditions to allow for the needed external rebalancing.

23. Recapitalizing the BSL is a priority. With IMF technical support, we will undertake balance sheet scenario analyses to determine the appropriate level of BSL capital and prepare an action plan to recapitalize the BSL by end-April 2025 to that level. We will recapitalize the BSL by **end-August 2025 SB**.

24. We are in the process of addressing the key recommendations of the August 2024 safeguards assessment. We have recently published the BSL's audited 2023 financial statements. We commit to publishing the BSL's audited 2024 financial statements that are audited by two audit firms within the same global network a local firm and an international firm with central banking and IFRS expertise (**End-July 2025 SB**). The local firm will sign the audit opinion. We will review and reconcile the difference between the cash in vault and the balance in the general ledger in time to be fully reflected on the BSL's audited 2024 financial statements, and at the latest by April 2025. We will also request Fund TA on IFRS implementation.

25. We reintroduced the Agricultural Credit Facility (ACF) in April for a period of 24 months. The ACF aims to address the food security crisis as part of the Feed Salone initiative outlined in the National Development Plan. The ACF offers two-year loans in leones at subsidized interest rates through banks. The size of the facility is limited, with the Leone equivalent of US$10 million earmarked for the ACF. The current ACF differs from the one we discontinued in 2022 in that the BSL will not provide access to FX under the facility. We are committed to renew the ACF beyond the 24 months only in close consultation with IMF staff.

H. Financial Sector Policies

26. We are addressing solvency challenges in commercial banks. The BSL will strictly enforce the Banking Act 2019, including requiring any bank in violation of the minimum CAR to submit a credible and implementable capital restoration plan. We have commissioned a diagnostic review of any bank meeting the criteria prescribed in section 69 of the Banking Act 2019 as of end-December 2023, conducted by an independent, reputable international firm, to accurately determine the bank's asset quality and capital position, and we will share the final report with Fund staff (**Prior action**). We will also initiate resolution proceedings for any such bank in a way that safeguards the continuity of its important functions but contains fiscal costs (**end-February 2025 SB**).

27. We plan to build a strong financial safety net. The Deposit Protection Fund (DPF) Unit has been established in the BSL and a 2-year work plan for launching the DPF Act is now underway. Calculation of the required premiums and initial seed capital for the DPF have been finalized. We will launch the DPF once solvency challenges in commercial banks have been dealt with and amendments to the DPF Act have been finalized. We are committed to operationalizing an Emergency Liquidity Assistance framework (**end-July 2025 SB**). We plan to fully operationalize the bank resolution framework by end-June 2025.

28. The BSL will continue to provide regulatory and supervisory oversight of the banking system using the risk-based supervision (RBS) approach. New corporate governance guidelines for banks came into effect on January 1, 2024. We are also working on closing gaps in RBS implementation, including by implementing TA recommendations for the adoption of certain elements of Pillar 1 Basel II/III capital frameworks by December 2025 and continuing with regular on-site supervision of SOBs. This will enhance confidence in banks' ability to perform their intermediation function with prudence and within a risk management culture. Regular on-site supervision of state-owned banks will be enforced to ensure the continued stability of the sector.

29. We have begun permitting lending in foreign exchange on a case-by-case basis since early 2024. We published guidelines on foreign currency lending in October 2024 in line with best practice. We anticipate that these guidelines will help contain the financial stability risks associated with foreign currency lending. Foreign currency regulation and supervision will also be strengthened including through training of staff, updating bank examination procedures, prioritizing examination of banks' FX controls, and reviewing banks' risk controls on foreign currency placements abroad.

30. The BSL has established a macroprudential policy framework and is in the process of finalizing a crisis management plan. This is in line with the recommendations of the FSSR and FSAP reports to strengthen the financial system in accordance with the Charter of the FPC approved by the board. We are working towards finalizing the crisis management plan by December 2025.

I. Public Financial Management

31. The government remains committed to strengthening Public Financial Management (PFM). In support of the existing PFM regulations, cabinet will approve a ministerial directive that (i) directs budgetary units to refrain from making commitments and payments that exceed approved annual and multiannual ceilings; (ii) reinforces that those who fail to limit commitments to the approved ceilings will be subject to the sanctions established in the PFM Act and Regulations (2016); and (iii) is published on the Ministry of Finance's website (**Prior Action**). To allow verification of the prior action, the ministerial directive will reference the cabinet minute authorizing the ministerial directive, and both the cabinet minute and the cabinet memorandum will be shared with Fund staff. During the execution of the 2024 budget, the Ministry of Finance curbed overspending by directing all MDAs requesting additional expenditures to seek parliamentary approval. Moving forward, the Ministry of Finance will reject spending requests that are beyond the allocations approved by Parliament in accordance with provisions of the PFM Act. We will continue to strengthen our PIM by implementing the National PIM Policy and submitting to Parliament a 2025 budget that includes a comprehensive roads budget (**end-November 2024 SB)**.

32. We will leverage IFMIS functionalities to strengthen commitment and payment controls and improve reporting of arrears. The updated web-based IFMIS application has been rolled out to 115 budgetary agencies and we plan to add 20 SVAs and MDAs, including the Medical Supplies Agency, by end-December 2024. We have minimized the use of FS letters and we will ensure that all transactions are entered through IFMIS at the commitment stage. To improve information on existing commitments and support improved planning, the government will prepare, and share with IMF staff, quarterly IFMIS reports with information on budget allocations (i.e., authorization to make commitments), commitments made, completed payments, and outstanding payments, starting with the fourth quarter of 2024 (by end-January 2025). We also commit to publish information on the progress of reducing the issuance of FS letters in our quarterly budget reports, including the number and value of FS letters in total and broken-down by month, MDA, expenditure type, and purpose (for the most recent quarter and the previous three quarters, starting with the Q4 2024 report).

33. Enhancing budget credibility remains a key objective and the government will take measures to improve medium-term expenditure planning and implement baseline budgeting. The government intends to continue building capacity for improving the medium-term expenditure framework through the issuance of realistic medium-term expenditure ceilings. MoF will also provide capacity support to MDAs on the design of credible medium-term strategic plans. To transparently account for existing commitments at the budget preparation stage, we developed, with FAD and AFW2 support, an action plan to implement baseline budgeting. In that process, we developed costing templates and provided support to ten pilot MDAs on the estimation of baseline costs. We used the baseline costs to quantify fiscal space and held discussions on corrective measures for MDAs with negative fiscal space during the budget retreat. These discussions will be reflected in the budget documents. For the 2026 budget, we intend to take the actions necessary to advance with the implementation of a fully-fledged baseline budget in line with AFW2 recommendations, including by executing the budget calendar as determined in the PFM Regulations.

34. We will continue to implement measures to improve cash management and reduce net accumulation of arrears. The Expanded Cash and Debt Management Committee (ECDMC) will prepare cash flow projections at weekly meetings and will establish a monthly-rolling cash forecasting system with approved guidelines and by using the forecast data gathered from the key MDAs. Reports detailing the findings from the ECDMC will be shared with the Minister of Finance, the Financial Secretary, and the BSL Governor. Quarterly budget allotments to MDAs will be based on the cash flow projections of the ECDMC. The paydown of existing arrears will be reported in the quarterly budget reports and the annual debt bulletin, including flow and stock arrears information for the most recent quarter and the previous three quarters. We will also work with FAD to establish a system to properly report all outstanding arrears, including payables, at the end of every quarter, starting with the Q4 2024 report.

35. We will leverage PFM reforms to operationalize our gender policy as outlined in the Gender Equality and Women's Empowerment Act of 2022. In the 2024 budget, we have introduced Gender-Responsive Budgeting (GRB) for five pilot MDAs, including the Ministries of Basic and Secondary Education, Health and Sanitation, Gender and Children's Affairs, Defense, and Sierra Leone Police. These MDAs were required to include in their budget proposals information relating to their gender priorities, performance targets, and indicators. We are committed to improve capacity for monitoring and evaluation of the GRB, including by developing guidelines to assess the gender responsiveness of budget submissions and by preparing and publishing periodic reports on gender performance indicators and related spending on gender priorities.

J. Governance

36. A Governance and Corruption Diagnostic (GCD) will provide the foundation for our reforms to address corruption vulnerabilities and governance weaknesses. The GCD will provide a holistic analysis of corruption challenges and concrete sequenced recommendations on steps to improve governance and integrity. Those reforms are expected to feature in our reform actions, ECF conditionality, and associated technical assistance and capacity development. We commit to publishing the GCD, which we expect to include an action plan (**end-May 2025 SB**). We emphasize that we will continue to adhere to transparency, adherence to the rule of law, and the independence and effective functioning of the Supreme Audit Institution, which will remain critical in strengthening governance.

37. We are committed to implementing AML/CFT reform measures. This would include (i) amending the 2009 Companies Act to make beneficial ownership of companies available with a focus on the mining sector; (ii) strengthening AML/CFT risk-based supervision of NBFIs, including foreign exchange bureaus; and dealers of precious metals and stones; and (iii) continue improving the targeted financial sanctions regime on counterterrorism and terrorism financing.

K. Inclusive, Green, and Sustainable Growth

38. **We are committed to improving our productivity and investment climate.** We plan to address barriers to trade by strengthening customs administration and transparency in line with our MTRS. The World Bank is supporting us in establishing an online business registration system, and we continue to support growth of SMEs and SME Ecosystems (capacity for incubators and accelerators), and provision of financial support to SMEs. The MUNAFA Fund continues to provide credit to SMEs through financial intermediaries.

39. **To create more value for the state in the mining sector, we plan to boost resource mobilization through direct state participation in greenfield projects**. Sierra Leone is a resource rich country with significant reserves of rutile, bauxite, iron ore, gold, diamonds, limonite, platinum, and zircon. Despite the abundance of resources, the contribution of the sector in promoting the country's development goals has been underwhelming. Mining revenue performance is below the average for other mining intensive economies in the region and most large-scale mines in the country continue to operate under negotiated fiscal terms at a loss for the Treasury. To support development priorities and boost resource mobilization, the government established the Sierra Leone Mines and Mineral Development and Management Corporation (SLMMDMC), with the purpose of carrying out development and management activities in the mining sector through a project company, the Mineral Wealth Fund (MWF). The government identified high-value assets to be developed by the MWF in joint ventures with established private partners that will abide by the fiscal terms established in the EIRA Act. By acting as direct partner with established performance standards, the MWF will strengthen the government's ability to reap a larger share of the proceeds from mining operations in the country.

40. **We are committed to maintain the highest standards of governance in the operations of the SLMMDMC and MWF.** We plan to review their oversight and accountability frameworks to certify that they are fully consistent with good international practice—including principles in the IMF fiscal Transparency Code and the OECD Guidelines on Corporate Governance of State-Owned Enterprises—and compliant with the domestic legal framework such as the PFM Act, including through the development of clearly defined performance and dividend policies. To this end, we will request technical support from the IMF and the World Bank and plan to address any identified concerns in close consultation with our partners (**end-August 2025 SB**). In the meantime, the government will remain committed to its policy of full transparency regarding the two entities' operations including through (i) transparently reporting any transfers from the budget or any financing in the form government guarantees and on-lending; (ii) publishing audited financial statements no later than 3 months after the end of the fiscal year; (iii) promptly sharing with IMF staff detailed information on agreements with joint venture, management service or other partners; and (iv) submitting the companies to periodic reviews of efficacy and performance by the ASSL.

41. **To strengthen food production, we will continue to implement the Feed Salone initiative.** This includes measures such as the provision of fertilizer, seeds, and chemicals, as well as support for

land preparation through the electronic voucher system. We are working with DPs to (i) reform product markets and enhance food security, (ii) strengthen rice, cocoa, and horticulture value chains (with WB support) and (iii) review e-vouchers, and subsidies to district farm machinery rigs to incentivize private sector participation.

42. Further promoting gender equality will support our NDP's objectives. We have enacted and implemented a progressive gender equity and empowerment law that seeks to address binding constraints to women's participation in the economy, including to raise female representation. We are addressing residual harmful practices that undermine women's contribution to the economy, including confronting gender-based violence. Our budget framework incorporates a gender-based lens to the allocation of scarce resources.

43. We are committed to scale up coverage of the school feeding program to over 800,000 pupils for 2024-2025 school year, while strengthening the program's governance framework. The government is committed to staying current on our obligations to providers of the school-feeding program. To strengthen its governance framework, the government commits to reform the National School Feeding Secretariat to determine standards for program implementation and to establish strong accountability and monitoring systems. We also commit to implement the program exclusively with reputable partners and further integrate the program with local farmers and producers in support of the objectives of the Feed Salone strategy.

44. We are taking action to combat the detrimental impact of climate change. We have developed a National Adaptation Implementation Plan, established a National Disaster Management Agency, published a Disaster Risk Financing Strategy, and created a Climate Finance Unit within the Ministry of Finance. Efforts to reduce costly energy subsidies and the transition towards a greener energy mix must be sustained and revamped. Over the medium-term we should press ahead with implementing recommendations from the C-PIMA, the CCDR, and the Climate Policy Diagnostic (CPD).

L. Capacity Building

45. Technical assistance provided by the IMF, the WB, and other development partners will be essential in the coming years to strengthen our institutional capacity and ensure the success of implementing this new program supported by the ECF. We will request TA in the following areas: (i) improving domestic revenue mobilization; (ii) strengthening public financial management; (iii) implementation of IFRS; (iv) governance and anti-corruption; (v) arrears and public debt management and debt market development; and (vi) statistics, including balance of payments and government finance. The CD strategy for the financial sector is guided by the 2021 Financial Sector Stability Review (FSSR).

46. We are committed to improving the quality of external sector statistics. These efforts will involve increasing staffing, improving capacity, and providing adequate financial resources to the BSL

BOP unit to improve the compilation of BOP statistics and commence the compilation of IIP data and the related inter-agency coordination.

M. Program Monitoring

47. The program will be monitored through semi-annual and continuous performance criteria (PCs) and reviews and quarterly indicative targets (ITs) (Table 1). Quantitative performance criteria were set for end-December 2024 and end-June 2025, and indicative targets were set for end-March 2025 and end-September 2025 (Table 1). The first review of performance under the ECF arrangement will take place on or after May 15, 2025. The second performance review will take place on or after November 15, 2025. We will continue to provide IMF staff with the data and statistical information identified in the attached TMU, as well as any other information they may deem necessary or that IMF staff may request for monitoring purposes. As with previous ECF arrangements, the MoF will establish an MOU with the BSL on respective responsibilities to repay the portion of IMF loans used for budget support.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets, 2024-25

(Within-year cumulative change – NLe millions, unless otherwise indicated)

	2024	2025		
	December	March	June	September
	PC	IT	PC	IT
Quantitative Performance Criteria				
Net domestic bank credit to the central government (ceiling) 1/	5225	2085	3745	5523
Net domestic assets of the BSL (ceiling)	2237	536	1522	2306
Net international reserves of the BSL, US$ millions (floor) 2/	2.3	1.7	-26.0	-34.3
Continuous Performance Criteria				
New concessional external debt with original maturity of one year or more contracted or guaranteed by the public sector, US $ millions (annual ceiling) 3/,4/	100	100	100	100
New non-concessional external debt contracted or guaranteed by the public sector, US$ million (annual ceiling) 3/	0	0	0	0
Outstanding stock of external debt with maturities of less than one year contracted or guaranteed by the public sector (annual ceiling) 3/	0	0	0	0
External payment arrears of the public sector (annual ceiling) 3/	0	0	0	0
Indicative targets				
Total domestic government revenue (floor)	14690	4618	9552	14039
Social spending (floor) 5/	1294	368	736	1104
Domestic primary balance (floor)	-1243	-42	477	861
Domestic Arrears (ceiling)	1804	1727	1650	1573
Memorandum items:				
Programmed external budgetary support, US$ million	72.1	0.0	0.0	0.0
Repayment of zero-coupon bonds related to CSE and Securiport LLC	9.1	9.1	0.0	0.0
Exchange rate (Leones/US$)				
Program	23	23	23	23

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

2/ The new NIR definition will be finalized with the authorities during the upcoming mission.

3/ These apply on a continuous basis.

4/ The debt limit is formulated in nominal terms due to the authorities' limited capacity to monitor and observe conditionality on aggregate debt levels (including in PV terms).

5/ Social spending is defined in paragraph [22] of the TMU.

Table 2. Sierra Leone: Proposed Prior Actions and Structural Benchmarks					
	PRIOR ACTIONS AND STRUCTURAL BENCHMARKS	Macroeconomic Objectives	Due Date	Depth	Status
	Prior Actions				
PA1	Cabinet to approve a ministerial directive that (i) directs budgetary units to refrain from making commitments and payments that exceed approved annual and multiannual ceilings; (ii) reinforces that those who fail to limit commitments to the approved ceilings will be subject to the sanctions established in the PFM Act and Regulations (2016); and (iii) is published on the Ministry of Finance's website.	Improve fiscal discipline and debt sustainability		Medium	
PA2	BSL to commission and complete a diagnostic review of any bank meeting the criteria prescribed in section 69 of the Banking Act 2019 as of end-December 2023, conducted by an independent, reputable international firm, to accurately determine the bank's asset quality and capital position.	Promote financial stability		Medium	
	Structural Benchmarks				
SB1	Authorities to set retail fuel prices at the end of each month in accordance with the automatic fuel price indexation mechanism, maintaining the excise rates established in the 2024 Finance Act.	Protect the tax base and efficiency of public spending	Continuous (Monthly)	Medium	
SB2	Authorities to submit to Parliament a 2025 budget that is consistent with program projections for the primary balance, revenues, and expenditures, and includes a comprehensive roads budget with information on total cost, variations, allocations in FY2025, and expected funding needs for FY2026 and FY2027.	Improve governance and efficiency of public spending	End-November 2024	Medium	
SB3	NRA to issue guidelines and a public notice establishing a safe harbor for iron ore.	Protect revenue base	End-December 2024	High	
SB4	The BSL will develop a strategy to revise and recalibrate the BSL's monetary policy operational tools with a view to strengthening its capacity to achieve its reserve money target.	Enhance the credibility and effectiveness of monetary policy	End-February 2025	Low	
SB5	Authorities to initiate resolution proceedings for any bank meeting the criteria prescribed in Section 69 of the Banking Act 2019 as of end-December 2023, in a way that safeguards the continuity of its important functions but contains fiscal costs.	Promote financial stability	End-February 2025	High	
SB6	Authorities to publish the Governance and Corruption Diagnostic (GCD) report, which will include an action plan.	Enhance governance and transparency anti-corruption efforts	End-May 2025	Low	
SB7	BSL to operationalize the new Emergency Liquidity Assistance framework following close consultation with Fund staff. .	Promote financial stability	End-July 2025	High	
SB8	Publish the BSL's audited 2024 financial statements that are audited by two audit firms within the same global network, a local firm, and an international firm with central banking and IFRS expertise.	Strengthen central bank safeguards	End-July 2025	Medium	
SB9	Authorities to recapitalize the BSL with IMF technical support.	Enhance the credibility and effectiveness of monetary policy	End-August 2025	High	

Table 2. Sierra Leone: Proposed Prior Actions and Structural Benchmarks (concluded)					
	PRIOR ACTIONS AND STRUCTURAL BENCHMARKS	**Macroeconomic Objectives**	**Due Date**	**Depth**	**Status**
SB10	Cabinet to (i) review the oversight and accountability frameworks of the Sierra Leone Mines and Minerals Development and Management Corporation and the Mineral Wealth Fund in close consultation with the IMF and the World Bank and (ii) submit to Parliament any revisions to their institutional frameworks needed to address identified concerns and ensure that the frameworks are fully consistent with good international practice and compliant with the domestic legal framework such as the PFM Act, including through the development of clearly defined performance and dividend policies.	Enhance governance and transparency anti-corruption efforts	End-August 2025	High	
SB11	Authorities to submit to Parliament a 2026 Finance bill with measures projected to deliver at least 1 percent of GDP in additional annual tax revenues.	To raise tax revenue yields	End-November 2025	Low	

Attachment II. Technical Memorandum of Understanding[1]

A. Introduction

1. This Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria (PCs) and indicative targets (ITs) that will be used to evaluate performance under the program supported by the Extended Credit Facility (ECF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and ITs will be evaluated in terms of cumulative flows from the beginning of the relevant period. The definitions and adjustors described below cover the PCs for December 2024 and June 2025, and ITs for March 2025. For any variable or definition that is omitted from the TMU but is relevant for program targets, the authorities shall consult with IMF staff on the appropriate treatment to reach an understanding based on the Fund's standard statistical methodology.

2. Program exchange rates. For the purpose of program monitoring, most foreign currency related assets, liabilities, and flows, will be evaluated at "program exchange rates" as defined below.

Sierra Leone Program Exchange Rate for ECF Arrangement
Cross Rates as of June 28, 2024[1/]

Currency	Currency units per SDR	Leones per currency unit	US$ per currency unit
US$	1.315	22.507	1.000
British Pound Sterling	1.039	28.485	1.266
Japanese Yen	211.705	0.140	0.006
Euro	1.229	24.093	1.070
SDR	1.000	29.604	1.315
Renminbi	9.558	3.097	0.138

[1/] All exchange rates except for the Leone/US$ exchange rate as reported in the IMF's International Financial Statistics. Leone / US$ exchange is the Bank of Sierra Leone mid-rate.

B. Quantitative Program Targets

3. Quantitative performance criteria are proposed for December 31, 2024 and June 30, 2025 with respect to:

- Net domestic bank credit to the central government (NCG) (**ceiling**);

[1] This TMU will apply to test dates starting in December 2024.

- Net domestic assets (NDA) of the Bank of Sierra Leone (BSL) (**ceiling**);
- Net international reserves (NIR) of the BSL (**floor**);
- New concessional external debt with original maturity one year or more contracted or guaranteed by the public sector, US$ millions (**ceiling, cumulative from December 31, 2023**);
- New non-concessional external debt contracted or guaranteed by the public sector, US$ million (**continuous ceiling**);
- Outstanding stock of external debt with maturities of less than one year contracted or guaranteed by the public sector (**continuous ceiling**); and
- External payment arrears of the public sector (**continuous ceiling**).

4. Indicative targets are proposed for March 31, 2025 with respect to:

- Total domestic government revenue (floor);
- Domestic primary balance (floor);
- Domestic arrears (ceiling);
- Social spending (floor).

5. In addition to the specific QPCs listed in paragraph 3, as for any Fund arrangement, continuous PCs also include the non-introduction of exchange restrictions and multiple currency practices. Specifically, continuous conditionality covers (i) non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions; (ii) non-introduction or modification of multiple currency practices; (iii) non-conclusion of bilateral payments agreements that are inconsistent with Article VIII; and (iv) non-imposition or intensification of import restrictions for balance of payments reasons. These continuous PCs, given their non-quantitative nature, are not listed in the QPC table annexed to the MEFP.

C. Quantitative Performance Criteria

Net Domestic Bank Credit to the Central Government (NCG)

6. Definition. NCG refers to the net banking system's claims on the central government as calculated by the BSL. It is defined as the sum of the following:

a. **the net position of the government with commercial banks**, (ODC-2SR, line 656 – budget financing), including: (a) treasury bills; (b) treasury bonds; and (c) loan and advances of commercial banks to the government; less government deposits in commercial banks (ODC-2SR , line 667); and

b. the net position of the government with the BSL:

- CB-1SR, line 758, budget financing: ***including*** - (a) BSL holdings of treasury bills and bonds, including any bonds issued in the conversion/securitization of ways and means into debt (government's overdraft at the central bank); (b) ways and means advances; and (c) any other type of direct credit from the BSL to the government, including the special lending arrangements relating to budget support. It excludes holdings of special bonds provided by government to cover BSL losses and/or to increase its capital (CB-1SR, line 771 – other financing).

- ***less*** (a) central government deposits with the BSL (CB-1SR, line 783); and (b) any debt relief received, notably HIPC, MDRI and relief deposits, as well as debt relief under the Catastrophe Containment and Relief (CCR) Trust.

7. Adjustment clauses. The ceiling on changes in NCG will be adjusted (a) downward (upward) by the excess (shortfall) in external budgetary assistance[2] —measured in leones at the official (not program) exchange rate—with the downward (upward) adjustment capped at the equivalent of US$50 million.[3] The downward adjustment does not apply to excess external budgetary assistance provided with the explicit purpose of building buffers to retire domestic debt or repay EDSA's arrears to IPPs; (b) downward (upward) by the increase (decline) in the value of the cumulative net flow of electronic funds transfer (EFT) checks and other outstanding payments (relative to the end-December 2023 value); (c) downward (upward) by the excess (shortfall) in Leone value of net issues of government securities to the non-bank private sector;[4] and (d) downwards (upward) by the decrease (increase) in the cumulative net flow of non-tradeable securities issued to the non-bank sector for regularizing the stock of legacy arrears.[5]

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

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

[3] Should there continue to be different official rates, the BSL mid-rate will be considered the official rate for adjustment purposes.

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

[5] The stock of legacy arrears refers to arrears identified in the stocktaking exercise completed in September 2019, totaling Le 3.287 trillion. The Government updated its arrears clearance strategy in October 2023 and, to date, has not yet issued any securities for the purpose of clearing these arrears.

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

Net Domestic Assets of the BSL (NDA)

10. Definition. Net domestic assets (NDA) of the BSL are defined as the end-period stock of reserve money minus the net foreign assets of the BSL calculated at program exchange rates. Reserve money is defined as the sum of currency in circulation (currency outside banks plus cash in vaults), deposits of commercial banks with the BSL, and BSL liabilities to other private-sector entities. Net foreign assets are defined as the BSL's foreign assets (claims on nonresidents) minus the BSL's foreign liabilities (liabilities to nonresidents).[6]

Net International Reserves of the BSL (NIR)

11. Definition. The net international reserves of the BSL are defined as reserve assets minus short-term and other foreign liabilities at program exchange rates. Reserve assets are defined in IMF's Balance of Payments Manual (5th ed.) and elaborated in the reserve template of the Fund's International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template.[7] Short-term and other foreign liabilities include (i) the BSL's foreign currency-denominated liabilities to residents and nonresidents with a remaining maturity of one year or less, excluding the foreign liability to China of US$8.4 million relating to a legacy clearing account for a previous bilateral trade agreement;[8] (ii) the balance on all foreign currency denominated or -linked securities guaranteed by the BSL on behalf of the government, with a remaining maturity of one year or less, excluding zero-coupon bonds related to Compagnie Sahalienne D'enterprises (SCE) and Securiport LLC ; (iii) all credit outstanding from the IMF, excluding liabilities arising from existing and future allocation of SDRs by the IMF to its membership and debt relief from the CCR Trust granted in 2015; (iv) commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options); and (v) the government's foreign currency deposits with the BSL with original maturity of less than 360 days.

[6] In the July 2024 IMD shared by the authorities, NFA at the official exchange rate can be found in AD-CB, line 7.

[7] Reserve assets include (i) the BSL's holdings of monetary gold (excluding amounts pledged as collateral); (ii) holdings of existing Special Drawing Rights (SDRs) and any future allocation of SDRs by the IMF to its membership; and (iii) the BSL's holdings of foreign currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments). Reserve assets do not include (i) frozen, pledged, or any encumbered assets, including but not limited to assets used as collateral or guarantees for third-party external liabilities, or assets received as part of foreign exchange swap arrangements, including those with domestic with commercial banks.; (ii) foreign currency claims on residents; (iii) precious metals other than gold; (iv) assets in nonconvertible currencies; (v) illiquid foreign assets.

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

12. Adjustment clause. The floor on the change in NIR will be adjusted downward (upward) by US dollars equivalent cumulative shortfall (excess) in programmed external budgetary assistance. The floor on the change in NIR will be adjusted downward by the amount paid on maturity of zero-coupon bonds related to CSE and Securiport LLC.

Assumptions on External Budgetary Assistance

13. The programed cumulative calendar year external budgetary assistance for the calculation of NCG, NDA, and NIR targets is projected to, by the respective test dates, amount to:

December 31, 2024	US$ 72.1 million
June 30, 2025	US$ 0 million

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

14. New external debt is defined as all forms of new external debt with original maturity of one year or more contracted or guaranteed by the public sector based on the residency of the creditor. The external debt definition applies not only to debt as defined in the Guidelines on Public Debt Conditionality in Fund Arrangements (Decision No. 16919-(20/103), October 28, 2020, paragraph 8) but also to commitments contracted or guaranteed for which value has not been received. For the purposes of this PC, external debt is defined on the basis of the residency of the creditor. The "public sector" is defined in paragraph 20.

15. For program purposes, the debt is deemed to have been contracted when it is signed by the government of Sierra Leone and ratified by Parliament. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling. The government will report any planned external borrowing and its terms to Fund staff before external debt is contracted or guaranteed by the government. The ceiling on new concessional external debt with original maturity of one year or more will be applied on a continuous basis and evaluated in terms of cumulative changes within each calendar year.[9]

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

[9] For example, a ceiling amount of US$75 million in calendar year 2024 means that up to US$75 million of new concessional external debt can be contracted in 2024. Once that ceiling is reached at any point in the year, any new concessional external debt that is contracted will result in the nonobservance of the PC.

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

17. Non-concessional external debt is defined as external debt (defined in paragraph 14) on terms that do not meet the definition in paragraph 16. External debt and its concessionality will be reported by the Debt Management Division of the Ministry of Finance and will be measured in US$ at current exchange rates. This PC will apply on a continuous basis.

18. For loans carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the loan would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the loan contract. The program reference rate for the six-month USD SOFR is 3.23 percent and will remain fixed for the remainder of the program. The spread of six-month Euro ESTR over six-month USD SOFR is -50 basis points. The spread of six-month JPY TONAR over six-month USD SOFR is -300 basis points. The spread of six-month GBP SONIA over six-month USD SOFR is 50 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD SOFR is zero basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 basis points) will be added. This PC will apply on a continuous basis.

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

19. Definition. External short-term debt is defined as external debt stock with a maturity of less than one year contracted or guaranteed by the public sector. Debt is defined in Annex I of this TMU. For this purpose, short-term debt will exclude trade credit with maturity of one year or less for imports. For the purposes of this PC, the public sector is as defined in paragraph 20. This PC will apply on a continuous basis.

External Payment Arrears of the Public Sector

20. Definition. External payment arrears of the public sector are defined to include all debt-service obligations (interest and principal) arising from loans contracted or guaranteed by the public sector. For the purposes of this PC, the public sector comprises the central government, regional government, state owned enterprises, as listed in Annex 9 of the 2023 budget documents, and the BSL. The non-accumulation of external arrears is a continuous performance criterion during the program period. For the purposes of this performance criterion, external arrears are obligations that have not been paid on due dates (taking into account the contractual grace periods, if any). Excluded from this PC are (i) external arrears accumulated before the approval of this ECF arrangement and (ii) those debts subject to rescheduling or restructuring or that are under litigation. This PC will apply on a continuous basis.

D. Quantitative Indicative Targets

Domestic Revenue of Central Government

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

Domestic Primary Balance

22. Definition. Central Government Revenue less expenditures and net lending adjusted for interest payments, foreign financed capital expenditure, foreign financed elections and foreign financed energy spending, foreign financed cash paydown of domestic arrears and capital transfers used to recapitalize the BSL.

Social Spending

23. Definition. For the purposes of the ECF arrangement, social spending is defined as the sum of all non-salary, non-interest recurrent expenditure and domestic capital expenditure as defined in Attachment B: (i) cash transfers; (ii) free health care initiative; (iii) education support programs, including school feeding program and diet for boarding home schools; (iv) other social assistance programs; and (v) employment/active labor market programs.

Domestic Arrears

24. Definition: Domestic arrears are defined as (i) the stock of legacy (pre-April 2018) arrears determined for the purpose of the Sierra Leonean authorities' arrears clearance strategy; (ii) unverified arrears or the stock of overdue invoices as recorded by the Accountant General at the end of the financial year; and (iii) verified invoices or the stock of overdue invoices that have gone through the appropriate internal audit procedures.

E. Program Monitoring

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

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

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

Attachment A. Summary of Data Reporting to IMF Staff

	Type of Data	Frequency	Reporting deadline
Real Sector	National accounts	Annual	End of year + 9 months
	GDP deflators by sector	Annual	End of year + 9 months
	Mining production and exports	Annual	End of year + 9 months
	Revisions of national accounts	Annual	End of revision + 2 months
Public finance	Net government position and details of nonbank financing, including changes in stocks of arrears, stock of the float, treasury bills, and bonds.	Monthly	End of month + 6 weeks
	Government flow-of-funds table (Government Financial Operations Table)	Monthly	End of month + 6 weeks
	Structure of petroleum product prices by categories of petroleum products.	Monthly	End of month + 6 weeks
	Import duty and GST exemptions by end-users estimates of corresponding revenue losses.	Quarterly	End of quarter + 6 weeks
	Details of all new external borrowing and guarantees provided by government on new borrowing, including the associated concessionality calculation (percentage) for each new loan	Monthly	End of month + 4 weeks; the contracting or guaranteeing of external debt should be immediately reported to IMF staff
	External debt service payments (separately on principal and interest payment) to each creditor, including and excluding new disbursements in the debt recording system. Also, including and excluding HIPC relief.	Monthly	End of month + 4 weeks
	Report on the stock of debt outstanding, and loan agreements under discussion	Quarterly	End of quarter + 3 weeks
Monetary and Financial Data	Monetary survey	Monthly	End of month + 6 weeks
	Balance sheet of the BSL	Monthly	End of month + 6 weeks
	Consolidated balance sheets of commercial banks	Monthly	End of month + 6 weeks
	BSL monitoring sheet of net financing of the financial sector to the government	Daily	COB + 2 days
	BSL monitoring sheet of treasury bills and bond holdings	Weekly	COB + 1 day
	Borrowing and lending interest rates	Monthly	End of month + 6 weeks
	Results of foreign exchange and Treasury Bills Auctions	Weekly	End of week + 1 day
	Stocks of government securities	Monthly	End of month
	Banking supervision ratios	Quarterly	End of quarter + 4 weeks
External Sector	Net official foreign reserves	Weekly	End of week + 1 week
	Foreign exchange cash flow table	Monthly	End of month + 3 weeks
	Balance of payments data	Annual	In addition, updated data should be reported when revisions occur
	Exports and imports of goods (including the volume of key minerals and fuels).	Monthly	End of month + 3 weeks
	Outstanding external arrears and repayments (if applicable)	Monthly	End of month + 4 weeks; the occurrence of new external arrears should be immediately reported to IMF staff
	FX transaction volumes	Monthly	End of month + 4 weeks

Attachment B. Definition and Composition of Social Spending IT

	In Thousands of Leones								
MDA Code	Category	Non-salary, non-interest recurrent expenditure	Domestic capital expenditure	2024	Percent of GDP	Non-salary, non-interest recurrent expenditure	Domestic capital expenditure	2025	Percent of non-iron-ore GDP
	[Unconditional] Cash Transfers	**25667**	**0**	**25667**	**0.02**	**31580**	**0**	**31580**	**0.02**
308	social safety net program								
407	Social pensions - cash transfers for the aged								
	Free healthcare Initiative	277254.9	31000	308254.9	**0.19**	266087.5	183007.3	449094.8	**0.23**
304	Improving access to quality free health care								
307	Procurment of free health care and cost recovery drugs								
309	Dental and medical board								
311	Health service commission								
314	National HIV and AIDS commission								
315	Teaching hospitals complex administration								
317	Post graduate college of health specialists								
323	National public health commission								
345	Pharmacy board services								
701	Devolved function-health care services								
304	Construction pharma grade wharehouse and ancillary structures								
304	Constrution of port loko Hospital								
304	Support to national emergency medical services (NEMS)-Ambulance services								
	Education Support Programs	**384027**	**492132**	**876159**	**0.53**	**454711**	**451223**	**905934**	**0.47**
301	Ministry of Basic and Secondary Education								
312	Ministry of Technical and Higher Education								
701	Teaching service commission								
300	Devolved function- education services								
316	Civil service training college								
321	Student's loan scheme secretariat								
301	Free Qualtity school education program								
301	School feeding programme								
301	Tuition Fees subsidies for school going pupils								
301	Examination Fees for WASSCE								
2.1	Delivering free quality education								
	Rehabilitation and expansion schools								
301	Diet for Boarding home Schools								
301	Establishment/strengthening of laboratories in senior secondary schools								
301	Construction of rehabilitation of non-formal learning centres								
301	Support to library service								
	Other Social Assistance	**27079**	**4000**	**31079**	**0.02**	**33319**	**3942**	**37261**	**0.02**
319	National reintegration of street children								
319	Gender and children affairs								
305	Grants to welfare institutions								
305	Diets for approved school & Remand Home								
305	Program for disabled persons								
305	Livelihood support for persons living with disability								
305	Establish rehabilitation centre for drugs addicts								
305	Rehabiliation of Approved Schools and Remand Homes								
305	Social protection programs								
	Employment/Active labour market programs	**0**	**52800**	**52800**	**0.03**	**0**	**48414**	**48414**	**0.03**
313	Graduate Internship Program - training (vocational, life skillls, cash for training)								
310	Youth in cash wash project -								
310	Support to youth in fisheries								
310	Support to youth in Agriculture (cash for work)								
318	National Tree Planting (cash for Work)								
308	Productive Safety Net and Youth Employment Program (PSNYEP)								
308	SierraLeone community development driven project II - Gietrenk								
308	Pro-poor growth for peace consolidation (GPC IV)								
308	Enhancing management of rural rewable energy for productive use								
308	Community Driven Development Project								
308	Rapid Community Development Initiatives								
308	Sierra Leone Disability Project								
	Totals	**714028**	**579932**	**1293960**	**0.8**	**785698**	**686586**	**1472284**	**0.8**

INTERNATIONAL MONETARY FUND

SIERRA LEONE

October 16, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION AND REQUEST FOR A 38-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—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 November 2023, but key indicators display modestly more favorable paths than before, in part helped by the national accounts rebasing.[1] *This assessment hinges on the authorities' commitment to program objectives, continued access to highly concessional external financing (including grants), and medium debt carrying capacity. As a result of the national accounts rebasing in May 2024, the PV of the public debt-to-GDP ratio no longer breaches its threshold. However, the external debt service-to-revenue ratio continues to exhibit protracted breaches. In addition, the overall debt-service-to-revenue ratio remains above 100 percent until 2027. Continued ambitious fiscal adjustment is required to ensure that debt remains sustainable. All debt indicators decline over the medium to long-term, predicated on the continued adjustment, the growth recovery, and continued reliance on concessional financing and grants. Efforts to seek grant financing and lengthen the maturity of debt remain critical as debt service ratios and gross financing needs will remain elevated over the medium and long term. Domestic rollover risks are contained by limited alternative investment options for banks, and the authorities' commitment to bringing down the domestic financing envelope. Sierra Leone is highly susceptible to shocks to growth, exports, commodity prices, and the exchange rate, as well as fiscal slippages.*

[1] Sierra Leone's debt-carrying capacity remains rated "medium" with a composite indicator value of 2.70 based on the April 2024 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 on improving its financial and debt management systems— with the support of development partners including the World Bank—and on enhancing the accounting for 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-2023.

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

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

Note: Blank indicates there is no data.

2. **The assumptions in the contingent liability stress test are modestly higher than the ones in the previous DSA.** Total contingent liabilities are estimated at 10 percent of GDP, which exceeds the size of the contingent liabilities of 12 percent of GDP assumed in the previous DSA since GDP has since been rebased (which resulted in a 74 percent increase in nominal GDP for 2022 (Text Table 2). Specifically, (i) the contingent liability for SOE debt is set at 5 percent of GDP, higher than the default value, reflecting the authorities' latest estimates;[2] (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 because the baseline reflects estimated domestic arrears.

[2] The SOE contingent liabilities consist of on-lending by the central government of the proceeds of external loans (usually loans for 20 years, with rates ranging from 1.5 percent to 3 percent); domestic loans/overdrafts from local commercial banks (typically for 30 months at interest rates of 18 percent to 20 percent); letters of credit (typically for 36 months). These are all guaranteed by the government and recorded as contingent liabilities. The risk of these materializing is mitigated by the monitoring and reports of the fiscal risk unit in the MoF. They continuously monitor and report on fiscal risk from SOE performance.

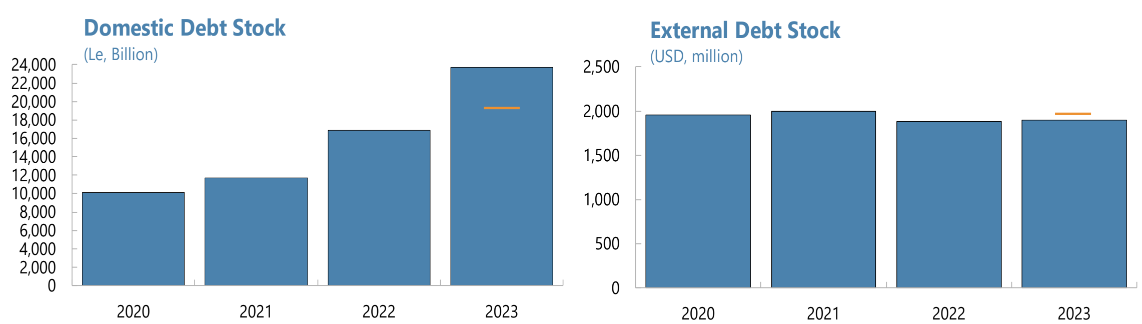
Text Table 2. Sierra Leone: Coverage of the Contingent Liabilities' Stress Test			
1. The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt		
	Default	Used for the Analysis	Reasons for deviations from the default setting
2. Other elements 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	5.0	Reflect the authorities' estimate of total indebtedness of SOEs and rebased GDP.
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)		10.0	

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.

BACKGROUND ON DEBT

3. **End-2023 stock data shows that Sierra Leone's public external debt increased in US dollar terms, but total debt significantly declined as a ratio to GDP**. While domestic debt turned out to be higher than projected in US dollar terms in 2023 (Text Figure 1), total public debt declined to 49.2 percent of GDP (from 54.0 percent of GDP in 2022) due to strong nominal GDP growth, still negative real average interest rates, and the stability in the nominal exchange rate. The authorities maintained new external borrowing below the Fund-supported program ceiling even as the ECF program ended in November.

Text Figure 1. Sierra Leone: Debt Stock (Domestic and External)



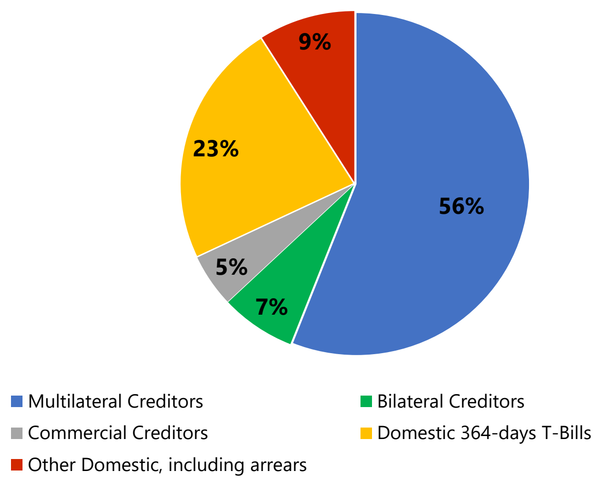
Note: Orange markers show the projection as of the November 2023 DSA.
Source: Sierra Leonean authorities and IMF staff estimates.

4. **The composition of public debt is largely unchanged from the previous DSA.** Approximately 68 percent of total public and publicly guaranteed (PPG) debt is external debt,

of which about 82 percent comprised non-restructurable obligations to multilateral creditors including the IMF (16.3 percent of total PPG debt stock) and the WB (16.3 percent of total PPG debt stock). On the domestic debt side, around 56 percent of domestic debt is owed to commercial banks in the form of 364-day T-bills. The remainder is held by the BSL and the non-bank sector (Text Figure 2).

5. **The authorities discovered new external arrears but are current on the agreed repayment plans.** In February 2024, the authorities verified external arrears of US$ 23.4 million owed to two companies for road construction and penalty interest on delayed payment of civil war-related services. The arrears are added to the existing debt and debt service projections.

Text Figure 2. Sierra Leone: Debt Stock as of End-2023



Source: Sierra Leonean authorities and IMF staff estimates.

Text Table 3. 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.

MACRO FORECASTS

5. The macroeconomic assumptions underlying this DSA have been updated to reflect recent data outturns (Text Table 4).

Text Table 4. Sierra Leone: Macroeconomic Assumptions														
	Current DSA											Previous DSA (November 2023)		
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	LT ave.[1/]	2023	2033	LT ave.
Real GDP growth (in percent)	5.7	4.0	4.5	4.7	4.7	4.7	4.6	4.5	4.5	4.5	4.6	4.6	2.7	4.6	4.5
Inflation (GDP deflator, in percent)	29.2	24.5	12.0	8.0	7.1	6.2	5.9	5.6	5.6	5.6	5.6	10.5	37.1	6.4	12.1
Primary deficit (percent of GDP)	2.6	0.3	0.0	-0.4	-0.7	-0.8	0.4	0.7	1.1	0.4	0.4	0.4	1.7	1.0	0.5
Non-interest current account deficit (percent of GDP)	4.8	3.6	4.1	3.3	3.0	3.3	3.2	2.4	2.3	2.2	2.1	3.1	5.6	4.9	3.9

[1/] Average between 2023 to 2033.

- **Growth** reached more than 5 percent in 2022 and 2023, buoyed by strong mining activity. Non-mining output grew by 4.2 percent in 2022—supported by a significant fiscal expansion—and 3.5 percent in 2023—held back by a significant consolidation. Growth in 2025 is expected to accelerate due to the sustained strong performance of the mining sector, increased agricultural output amid support through the Feed Salone initiative, and as the macroeconomic stabilization continues. Both non-mining and overall growth are projected to converge towards Sierra Leone's potential growth of 4.5 percent over the medium-term as the economy stabilizes and mining and agricultural activity remain buoyant. Structural reforms to lift productivity growth will be critical.[3]

- **Inflation.** GDP deflator growth is expected to decrease from 29.2 percent in 2023 to 24.5 percent in 2024, following significant disinflation thus far in 2024. Inflation is expected to continue falling amid the tight monetary policy stance: reserve money growth fell to 8.8 percent in June while the policy rate increased by another 2 percentage points so far in 2024. Inflation is expected to reach single digits by 2026.

[3] The May 2024 rebasing of the national accounts led to an upward revision of 2022 nominal GDP by some 74 percent. The increase in GDP is primarily driven by improved measurement of the agricultural and services sectors, as well as increased coverage of informal activities across all sectors. The services sector is now the largest sector at 42 percent, although the agricultural sector is still sizeable at 34 percent (of 2022 nominal GDP). The changed GDP figures reflect a change in how GDP is measured rather than an actual change in economic activity. Consequently, the rebased GDP figures alone do not indicate any improvement in fiscal outcomes.

- **Fiscal.** The 2024 overall fiscal deficit is projected to narrow to 3.2 percent of GDP from 5.3 percent in 2023. Revenues are expected to grow at a slower pace than envisaged at the eighth review of the last ECF, largely owing to initial delays in the implementation of tax policy measures included in the 2023 and 2024 Finance Acts, which are expected to raise annual tax revenues by some 1.8 percent of GDP over time.[4] Revenues are expected to rise gradually over the medium term on the back of these measures, additional measures expected to be included in the 2026 Finance Act (1 percent of GDP in additional annual tax revenues), improvements in compliance and tax administration, efficiency gains from digitalization, a gradual recovery in tax buoyancy, and the implementation of the newly revised automatic fuel pricing formula. Expenditures are projected broadly in line with the 2024 budget for this year. Measures to contain spending would include (i) maintaining the ratio of wages and salaries to GDP constant after 2024, supported by a new wage bill strategy and the commitment to impose stricter controls on the recruitment and compensation of consultants and SVA staff; (ii) keeping goods and services spending constant as a ratio to GDP, despite increased outlays for school feeding; (iii) strengthening EDSA's financial position to contain the need for energy transfers; (iv) prioritizing domestically financed capex projects while reducing the overall spending envelope; (v) maintaining arrears clearance consistent with the arrears clearance strategy.[5] The fiscal framework also assumes capital transfers for 2025-2026 to address bank solvency challenges (0.1 percent of GDP) and recapitalize the BSL (0.9 percent of GDP).

- **External.** The current account deficit is projected to shrink in 2024 to 3.8 percent of GDP from 5.0 percent of GDP in 2023 amid the continued fiscal consolidation. It is projected to modestly improve over the medium term, supported by strengthening mining production, and in the context of slow import growth as fiscal policy consolidates further.

[4] 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 and rental income tax). Implementation delays were due to the need to reconfigure various revenue IT systems to accurately determine taxpayers' tax liabilities. For example, converting from ad valorem to specific taxes could not be done in-house and required renewed engagements with software vendors.

[5] 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

- **IDA financing.** The assumption regarding IDA financing modalities is changed. IDA financing reflects firm grant commitments until 2028, a zero-interest 50-year loan in 2029, and 100 percent regular IDA credits after 2029.[6]

- **No additional use of the 2021 IMF SDR allocation is expected.** Approximately Le 1,233 billion (1.2 percent of GDP) and Le 1,866 billion (1.4 percent of GDP), were used in 2022 and 2023. The amounts were transferred to the government through a retrocession transaction. The SDR assets were then sold back to the central bank which converted them into local currency and credited the government's accounts accordingly. The operation left the government with SDR liabilities which are counted as additional long-term external debt in the DSA.

- **Other assumptions.** As before, this DSA reflects actual and projected future disbursements under the requested ECF, the SDR allocation in August 2021, debt relief under the CCRT, and debt deferment under the DSSI. It also takes into account a modest post-program financing gap (PPFG) for 2028-29 and assumes that the gap will be covered by new external concessional financing.[7] IMF financing under the ECF has a 5.5-year grace period, 10-year maturity, and currently carries zero interest. 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, this DSA assumes (i) 20 percent of new domestic debts are financed by 1-3 years bonds in 2024, and (ii) 30 percent of new domestic debts are financed by 1-3 years bonds between 2025-28. This assumption differs from the previous DSA which assumed 25 percent would be financed by 1-3 year bonds and 5 percent by 4-7 years bonds. The revision owes to the limited progress the authorities have made in issuing longer tenors despite gradually improving macroeconomic conditions. Even achieving the revised shares of longer tenors requires stepped-up efforts to implement reforms to strengthen the domestic debt market, paired with continued macroeconomic stabilization. [8, 9] On this basis, borrowing costs are

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[6] These assumptions reflect current IDA financing terms and may change due to a change in financing terms applicable to future IDA replenishments and availability of IDA resources. The availability of World Bank financing is also linked to other conditions, such as the adequacy of the macro-economic policy framework in the case of a potential budget support operation..

[7] In the DSA, the assumptions for the PPFG of $20 and $30 million in 2028 and 2029, respectively, is that it has a 0.5 percent interest rate, a 5-year grace period, 15-year maturity, and an overall grant element of 35.5 percent. Due to the modest amounts of the PPFG, downside risks that this concessional financing cannot be obtained are limited.

[8] The authorities' 2023-27 MTDS entails more ambitious assumptions than this DSA, including a 40 percent target for the share of T-bonds in total debt securities, which it envisages to achieve with the help of reforms, including (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 yields.

[9] In March and April 2023, the authorities issued FX swaps in part to refinance maturing debt. In these transactions, a bank repatriates FX to buy government debt in domestic currency through an arranged bilateral transaction facilitated by the Central bank. The Central bank receives FX in its nostro accounts and credits the commercial banks in local currency. This transaction is fully reversible at maturity, hence the "swap." The commercial bank then

(continued)

expected to decline going forward, and demand for longer dated securities is expected to increase, which should allow the authorities to extend maturities further.

6. **Downside risks to the outlook are high.** Political tensions and food insecurity could fuel social unrest, undermine investor confidence, and stymie the policy agenda. On the upside, better terms of trade and ongoing efforts to address post-elections grievances through the tripartite committee could quell simmering political tensions. 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.

7. **The realism tools flag some optimism relative to the historical trend as the required fiscal consolidation effort is large** (Figure 4). The 3-year average primary balance adjustment is 3.0 ppts of GDP close to the 81st percentile of the historical distribution for Sierra Leone's peers. Nonetheless, staff considers the adjustment achievable, not least because it is expected to be supported by 1.8 ppts of GDP in tax policy measures that have already been legislated but have yet to be fully implemented. The adjustment will also be supported by a range of tax compliance and administration measures. To strengthen compliance, the authorities plan to implement a compliance risk management framework, bolster tax audit capacity, and carry out tax audits for high-risk taxpayers. To strengthen tax administration, they intend to (i) integrate National Revenue Authority (NRA) revenue systems; (ii) operationalize the revenue court; and (iii) strengthening stakeholder engagement. They are also committed to implementing MTRS reforms at customs, including by establishing a revenue taskforce to strengthen collections of customs duties and taxes. Expenditure containment and control will remain critical, especially this year, as the authorities implement the 2024 budget. A medium-term wage bill management strategy, and efforts to reduce energy subsidies by applying the fuel price formula and implementing critical reforms in the electricity sector would help contain recurrent expenditures.

8. **The authorities identified strong contingency measures**: they are prepared to frontload additional revenue measures based on the MTRS or implementing short-term emergency measures. They would further reprioritize spending, while protecting social spending, including by curbing domestically financed capital expenditure, should spending pressures reemerge. The authorities remain committed to their 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.

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uses the proceeds to take up MT bonds (2-3 years) plus it is guaranteed the exchange rate for the transaction and subsequent repayment of the foreign currency. Ministry of Finance gets the proceeds and implements its budget or refinances maturing debt. This turns out to be a very costly transaction for the government, as it has to pay the high yields and also absorb any FX losses on reversal of the swap. Going forward, this practice is discouraged given its costs, and the adverse impact it is likely to have on further development of the domestic currency bond market.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9. **Sierra Leone's debt-carrying capacity is medium**. With the Composite Indicator (CI) score of 2.70 based on the latest data including the April 2024 WEO and the 2022 CPIA, Sierra Leone's debt carrying capacity is evaluated as medium, unchanged from the previous DSA (Text Tables 5 and 6).

10. **Stress tests generally follow standardized settings, with the addition of two tailored stress tests to capture risks related to contingent liabilities and commodity price shocks.** The combined contingent liabilities stress test is described in ¶2 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 price outlook prepared by the IMF Research Department.

Text Table 5. Sierra Leone: Composite Indicator

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium 2.70	Medium 2.75	Medium 2.73

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	3.625	0.10	4%
Import coverage of reserves (in percent)	4.052	29.704	1.20	45%
Import coverage of reserves^2 (in percent)	-3.990	8.823	-0.35	-13%
Remittances (in percent)	2.022	6.439	0.13	5%
World economic growth (in percent)	13.520	2.909	0.39	15%
CI Score			2.70	100%
CI rating			Medium	

Text Table 6. Sierra Leone: Applicable Thresholds for Debt Indicators

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

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

External DSA

11. 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 ambitious fiscal adjustment and continued reliance on concessional financing and grants, and moderately high growth rates. Due to the substantially stronger than expected nominal exchange rate performance in recent months, the paths of the PV of external debt-to-GDP and the external debt service-to-revenue ratio are more favorable relative to the last DSA. The external debt-to-GDP ratio also shifted down substantially due to the national accounts rebasing. The debt service-to-revenue ratio also benefits from the inclusion of previously excluded project support grants in the macroframework. The authorities should continue limiting 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).[10] The projected decline in the debt ratios reflects several factors such as the repayment of past ECF disbursements, including those from the Ebola pandemic 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 declines below the threshold of 18 percent by 2028. The PPG external debt service-to-exports ratio remains significantly below the threshold of 15 percent over the medium term.

- Stress tests indicate that the external debt indicators are sensitive to multiple shocks, particularly exports and a one-time depreciation. Additionally, the debt service-to-revenue ratio is above the threshold over the medium term in response to the historical shock. The PV of external debt to GDP remains below the threshold for the whole projection period in response to any of the shocks. Lastly, several shock scenarios cause the external-debt-service-to-revenue ratio to breach the threshold over the medium term.

- Since the PPG external debt service-to-revenue ratio breaches its threshold over the medium term under the baseline, Sierra Leone is assessed to be at high risk of external debt distress. However, all the external debt indicators decline over the medium to long term.

[10] 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.

Overall Risk of Public Debt Distress

12. Sierra Leone is assessed to be at high overall risk of public debt distress, and public debt is assessed to be sustainable. The domestic debt to GDP ratio is below the median level across LICs and does not signal additional sustainability risk (Text Figure 3). The ratio is projected to increase from about 15.8 percent of GDP in 2023 to 16.1 percent of in 2025, before falling steadily henceforth. The domestic debt service to revenues (including grants) ratio is high (85.5 percent) in 2023 reflecting the short tenor of the debt and associated rollover needs, but this ratio is expected to fall steadily after 2025 driven by the continued fiscal consolidation and enhanced debt management strategies, including issuing longer term debt as inflation falls to single digits. The large negative net domestic debt issuances through 2027 is predicated on the continued strong and frontloaded fiscal adjustment and reliance on concessional financing and grants, and moderately high growth rates.

- Under the baseline scenario, the PV of the public debt-to-GDP ratio is significantly below the threshold of 55 percent of GDP over the entire horizon and gradually declines over the medium term (Figure 2). The indicator significantly shifted down relative to the last DSA due to the May 2024 rebasing of national accounts and the stronger-than-expected exchange rate performance. The overall debt service-to-revenue ratio is projected to fall below 100 percent by 2028—aided by the inclusion of previously off-budget project grants in the macroframework—but remains relatively high throughout the projection horizon, suggesting a tight liquidity situation (Text Figure 3, and Text Figure 4). Recent efforts to lengthen the maturity structure of government borrowing reduced the ratio. In this context, Sierra Leone will need continued access to concessional financing to ensure that financing terms remain 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.

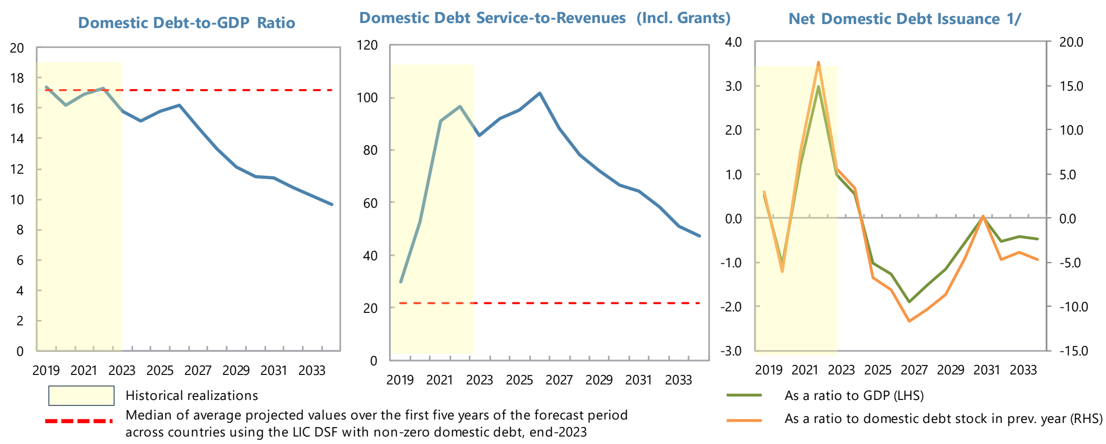
- Stress tests indicate that a shock to commodity prices and the combined contingent liabilities shock are the most extreme shocks. However, even in response to the most extreme shock to the PV of debt to GDP, the commodity price shock, the indicator remains significantly below the threshold for the entire projection period. None of the shocks simulated lead the PV of debt to GDP to breach the threshold. Even though the total public debt burden indicator does not breach its respective threshold, since the external debt service-to-revenue ratio exceeds its threshold under the baseline, the country is assessed to have a high overall risk of 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.

13. Debt service and gross financing needs are high, and their reduction is contingent on the fiscal adjustment and greater grant and concessional borrowing. The need to roll over T-bills issued in the previous year ("T-bills amortization" in Text Table 7) accounts for around 55 percent of gross financing needs in 2024 (Text Table 7, Text Figure 3, and Text Figure 4). These T-bills are held largely by domestic public banks and domestic subsidiaries of foreign banks. Rollover risk is high but somewhat mitigated by the characteristics of Sierra Leone's domestic financial market, where commercial banks' investment models rely heavily on T-Bills, and there is limited secondary market trading between commercial banks. Staff assesses that banks have the capacity to absorb the projected volumes of securities assumed under the baseline. The banking system is generally well capitalized—with a Tier 1 regulatory capital adequacy ratio of 45.6 percent as of June 2024—but pockets of vulnerability remain, and bank holdings of government paper account for over a third of total banking system assets. Going forward, rollover risks should decline with the reduction in the government's domestic financing need and the general tightening of macroeconomic policies, which should contain inflation and ensure the relative stability 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 risk, especially if banking sector health should deteriorate 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 Figure 3. Sierra Leone: Indicators of Public Domestic Debt 2019-33

(Percent)



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	28%
Short-term	72%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	4.8%
Avg. maturity (incl. grace period)	2
Avg. grace period	1
Domestic short-term debt	
Avg. real interest rate	5.0%

Sources: Country authorities; and staff estimates and projections.

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, Other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

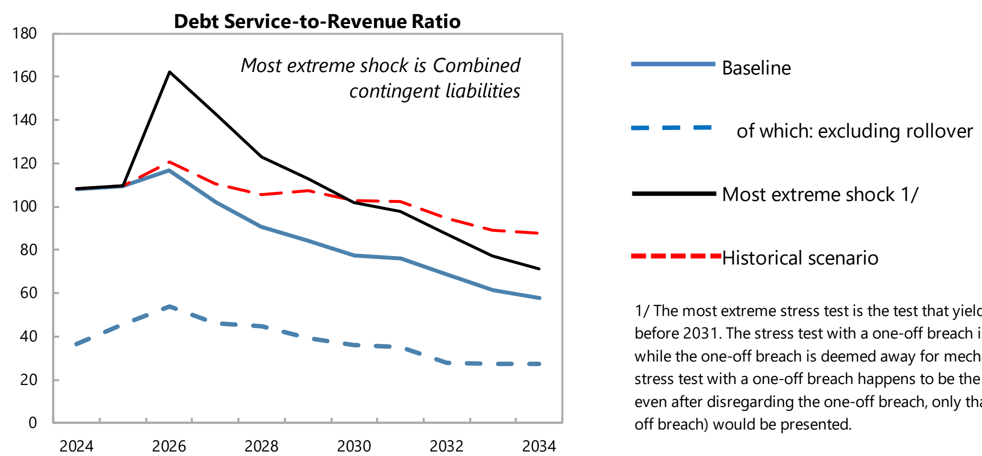
14. Climate change is an important additional source of risk. To this end the authorities are desirous of accessing the RST facility to support their adaptation and mitigation efforts. The plan is to be proactive by making upfront adaption of investment with the aim to reduce GDP losses if a future climate shock occurs, and to allow for a faster recovery. The World Bank is currently working on a CCDR, and the IMF is preparing a Climate Policy Diagnostic. The findings of these studies could form the basis for the development of climate shock scenarios for the DSA at the time of the RST request.

Text Table 7. Sierra Leone: Debt-Service to Revenue and Grants Ratio

	Actual	Projections											
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2044
Debt service-to-revenue and grants ratio 1/	**103.3**	**108.2**	**109.5**	**116.9**	**102.2**	**90.5**	**84.1**	**77.3**	**76.1**	**68.9**	**61.4**	**57.6**	**22.9**
of which: T-bills amortization	68.6	71.7	63.7	62.9	56.0	45.8	44.8	41.3	41.0	41.0	34.0	30.3	8.1
of which: others	**34.6**	**36.5**	**45.8**	**54.0**	**46.2**	**44.7**	**39.3**	**36.0**	**35.1**	**27.9**	**27.4**	**27.3**	**14.8**
Gross financing need 2/	**15.7**	**13.4**	**14.8**	**15.3**	**13.6**	**12.4**	**12.2**	**11.4**	**11.4**	**9.9**	**9.0**	**8.4**	**3.8**
of which: T-bills amortization	8.7	8.7	8.6	8.5	7.8	6.7	6.3	5.7	5.6	5.6	4.7	4.2	1.2
of which: others	**7.0**	**4.7**	**6.2**	**6.9**	**5.8**	**5.7**	**5.9**	**5.7**	**5.9**	**4.2**	**4.2**	**4.2**	**2.6**

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 4. Sierra Leone: Debt-Service to Revenue and Grants Ratio



1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

RISK RATING AND VULNERABILITIES

15. Sierra Leone debt is assessed to be sustainable but at high risk of external and overall public debt distress. Failure to achieve the programmed fiscal adjustment constitutes a significant downside risk. The high overall public and external debt-service-to-revenue ratios over the medium term suggest high liquidity-related vulnerabilities. The stress tests highlight that debt indicators are sensitive to shocks to exports, commodity prices, depreciation, and combined contingent liabilities shocks.

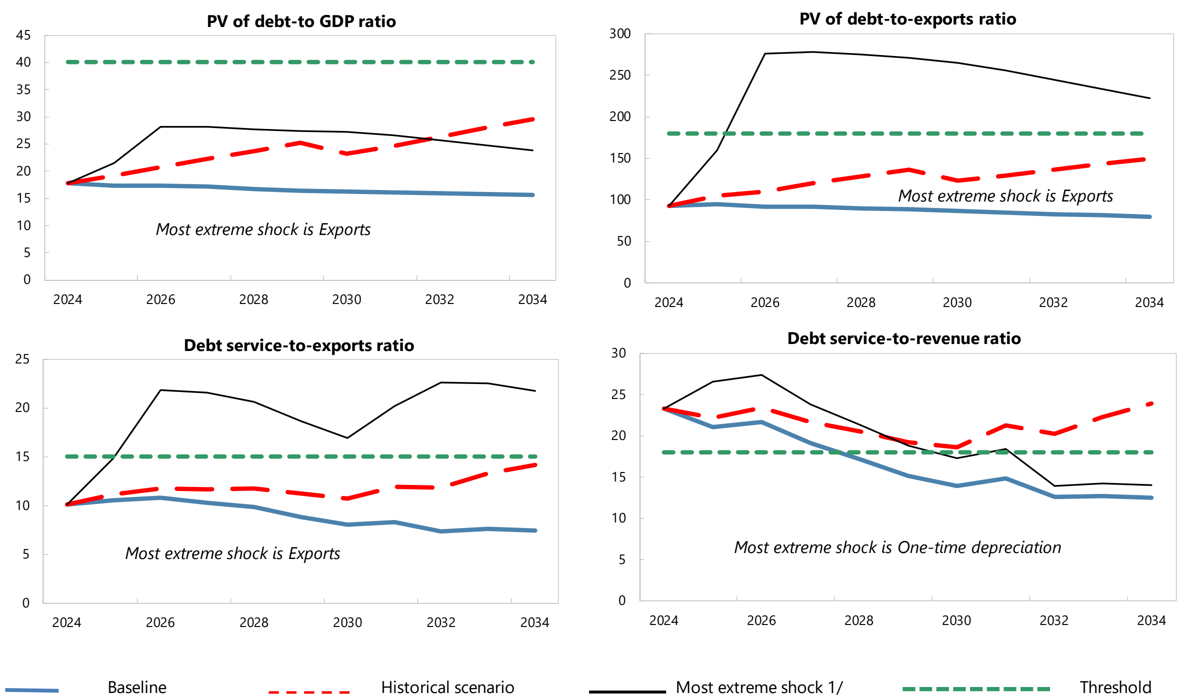
16. This DSA underscores the importance of sustained fiscal consolidation and structural reforms, supported by technical assistance and prudent financing choices. Given Sierra Leone's high vulnerability to external shocks, including adverse terms of trade shocks and exposure of iron ore exports to a recession in key trading partners, maintaining debt sustainability requires, first and foremost, sustained fiscal adjustment underpinned by domestic revenue mobilization and 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 grants. In line with the limit imposed under the requested ECF-supported program and WB SDFP and performance and policy actions (PPAs), Sierra Leone will have a zero ceiling on non-concessional external debt.

17. It will be critical to mitigate risks through steadfast implementation of the fiscal consolidation, paired with the development of a deeper domestic debt market. While staff assesses that risks remain manageable at the current juncture, 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, and, relatedly, should T-bill rates fail to come down as expected. Risks would also increase should the BSL be called upon to finance any additional residual borrowing needs or provide much larger support to the market in the event banks do not roll over their holdings of short-term securities. This rollover could reignite exchange rate depreciation pressures and deposit dollarization, thus further constraining banks' domestic currency liquidity. These risks are mitigated by the authorities' commitment to limit future domestic borrowing and lengthen tenors through the steadfast implementation of the MTDS. 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. These would be supported by the development of the domestic market, including by drawing on recent IMF technical assistance on debt recording, joint World Bank/IMF and AfDB technical assistance on the MTDS, and FY2024 Performance and Policy Actions under Sustainable Development Finance Policy supported by World Bank.

AUTHORITIES' VIEWS

18. The authorities agreed with staff's views on the DSA. They concurred with the urgency of ensuring a sustained and credible fiscal adjustment in 2024 and onward. They emphasized that they have taken important steps in this direction, including through recently submitted 2025 budget. They committed to continuing to prioritize grant resources, seeking only highly concessional financing, and ratifying only loans within the agreed annual ceiling 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 medium-term debt strategy, and through regular public outreach to market participants. The authorities reiterated their commitment to clear domestic arrears.

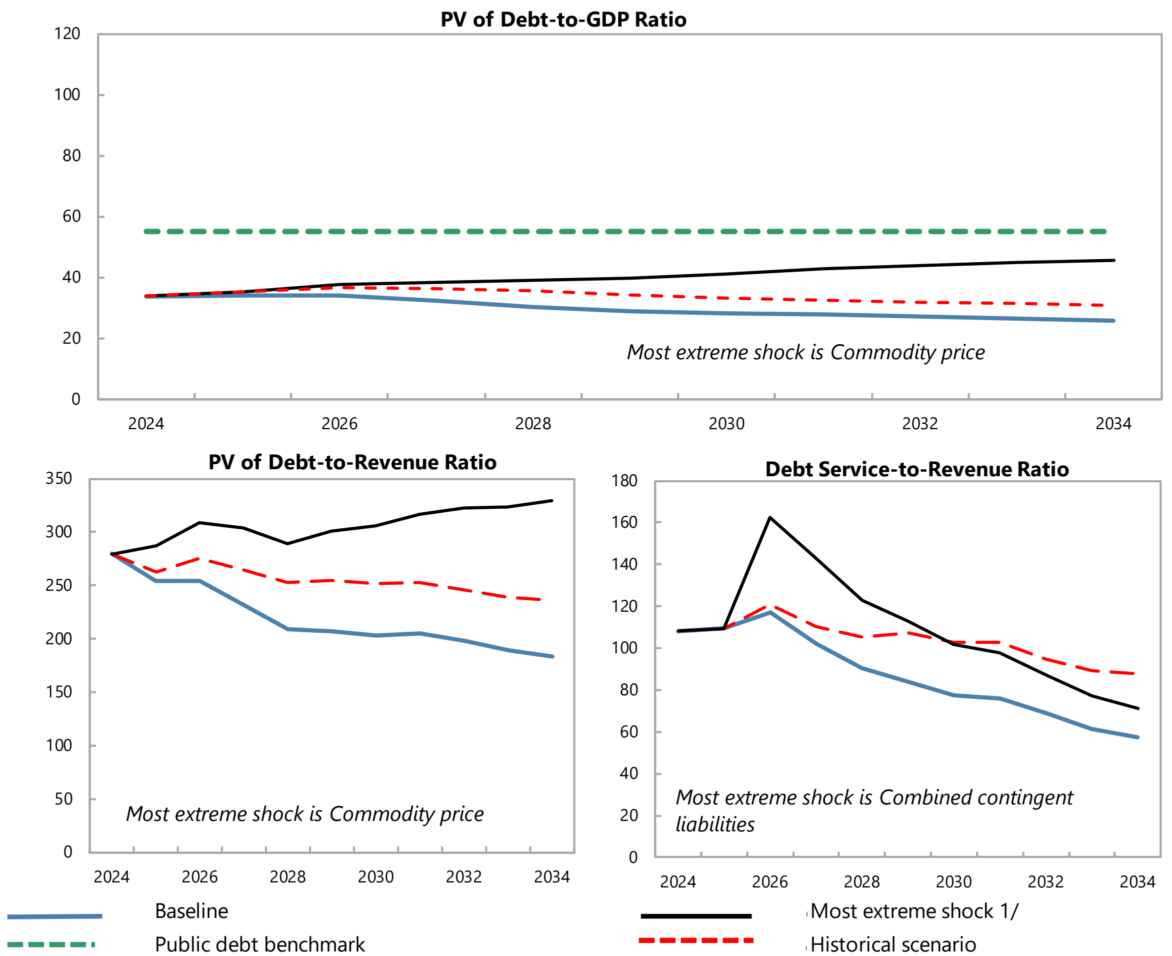
Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2024–34



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, 2024–34

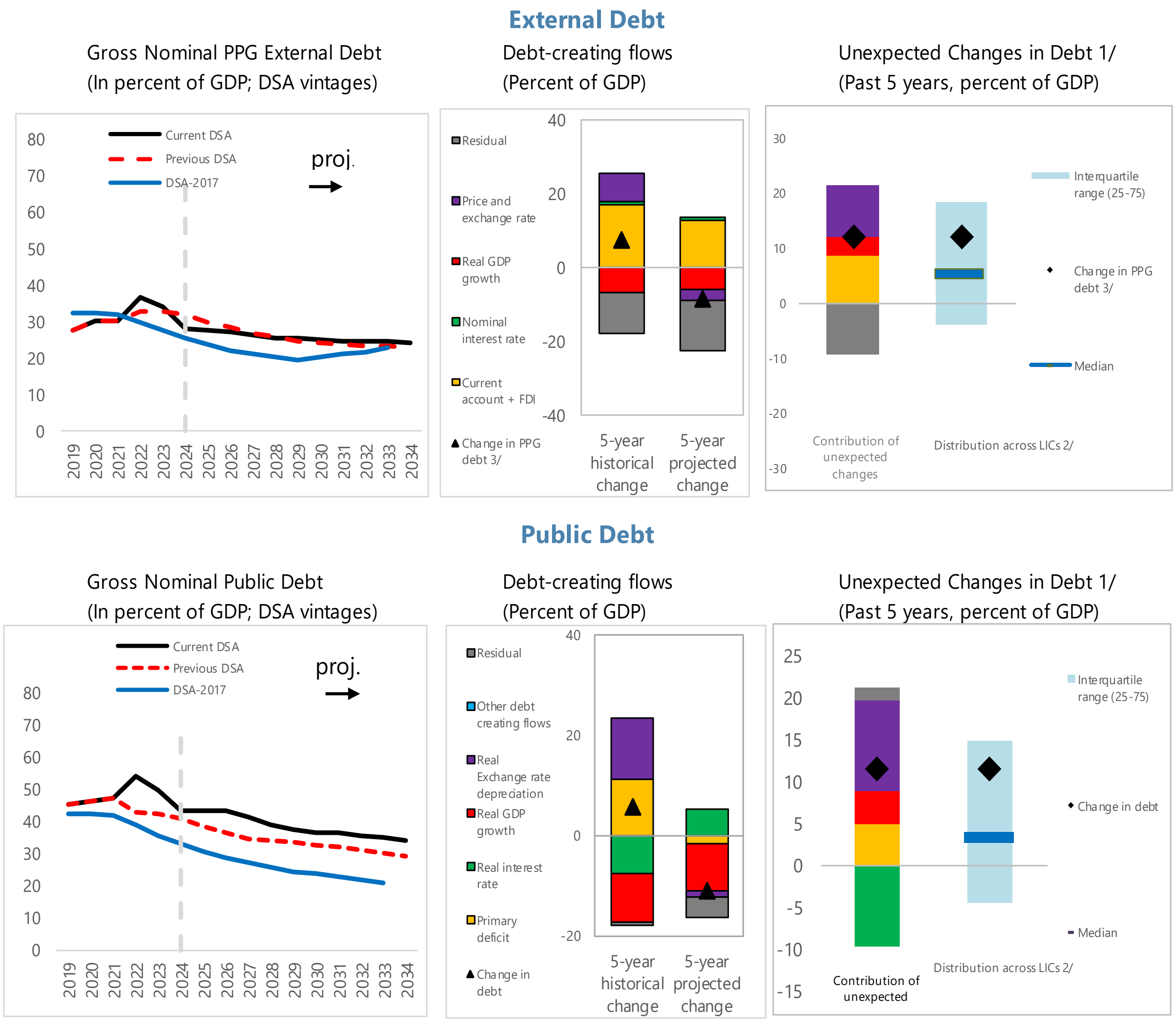


* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

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, 2019–34



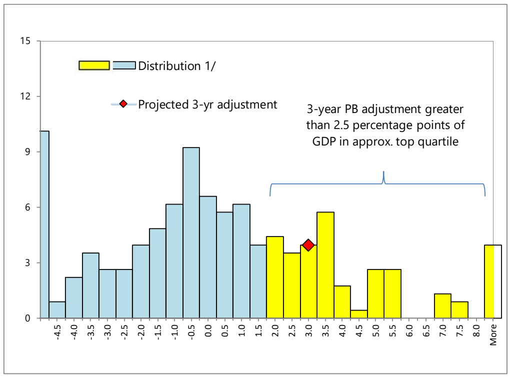
1/ Difference between anticipated and actual contributions on debt ratios.

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.

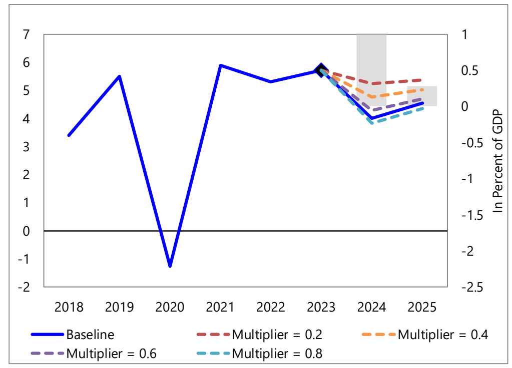
Figure 4. Sierra Leone: Realism Tools

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



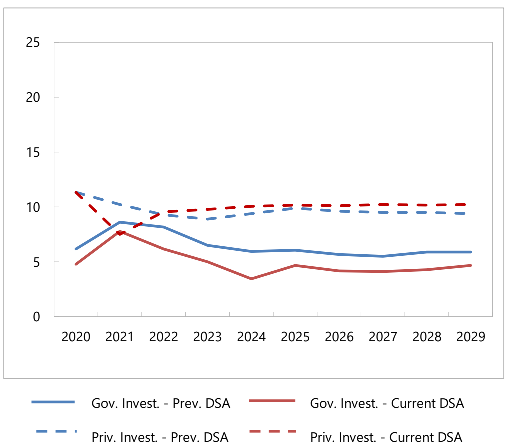
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

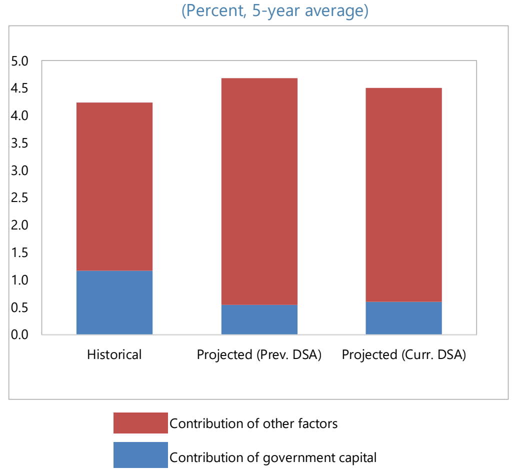
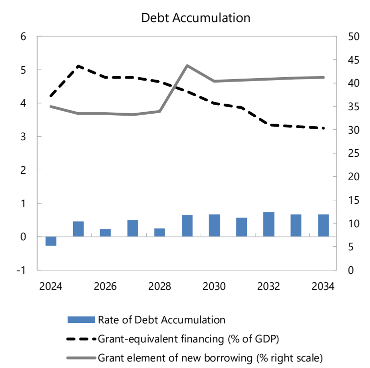


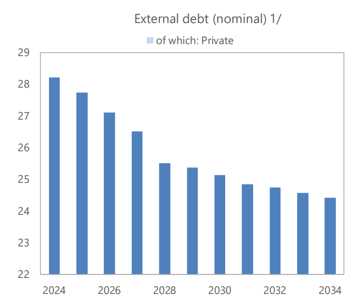
Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2023-44

(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	**34.1**	**28.2**	**27.7**	**27.1**	**26.5**	**25.5**	**25.4**	**24.4**	**25.5**	**27.7**	**25.8**
of which: public and publicly guaranteed (PPG)	**34.1**	**28.2**	**27.7**	**27.1**	**26.5**	**25.5**	**25.4**	**24.4**	**25.5**	**27.7**	**25.8**
Change in external debt	-2.6	-5.9	-0.5	-0.6	-0.6	-1.0	-0.1	-0.1	0.2		
Identified net debt-creating flows	**6.0**	**1.4**	**1.7**	**1.3**	**1.6**	**1.7**	**2.3**	**1.7**	**2.5**	**4.6**	**2.3**
Non-interest current account deficit	**4.8**	**3.6**	**4.1**	**3.3**	**3.0**	**3.3**	**3.2**	**2.0**	**0.9**	**8.3**	**2.9**
Deficit in balance of goods and services	11.5	10.5	10.9	10.2	9.8	10.1	9.3	7.7	5.9	**14.3**	**9.2**
Exports	20.3	19.1	18.2	18.8	18.6	18.5	18.6	19.7	21.9		
Imports	31.9	29.6	29.1	28.9	28.4	28.5	27.9	27.3	27.8		
Net current transfers (negative = inflow)	-7.4	-7.5	-7.5	-7.5	-7.5	-7.4	-6.7	-6.4	-5.7	**-7.5**	**-7.0**
of which: official	-0.4	-1.2	-1.3	-1.2	-1.1	-1.0	-0.4	-0.4	-0.3		
Other current account flows (negative = net inflow)	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	**1.4**	**0.7**
Net FDI (negative = inflow)	**-3.1**	**-1.2**	**-1.3**	**-0.9**	**-0.3**	**-0.7**	**0.0**	**0.6**	**2.5**	**-4.1**	**0.4**
Endogenous debt dynamics 2/	**4.3**	**-1.0**	**-1.1**	**-1.1**	**-1.0**	**-1.0**	**-0.9**	**-0.8**	**-0.9**		
Contribution from nominal interest rate	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2		
Contribution from real GDP growth	-2.3	-1.2	-1.2	-1.3	-1.2	-1.2	-1.1	-1.1	-1.1		
Contribution from price and exchange rate changes	6.5	...	...	...	...	...	...	...	...		
Residual 3/	**-8.6**	**-7.3**	**-2.2**	**-2.0**	**-2.2**	**-2.7**	**-2.4**	**-1.8**	**-2.3**	**-2.8**	**-3.2**
of which: exceptional financing	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	**20.9**	**17.8**	**17.4**	**17.3**	**17.1**	**16.6**	**16.5**	**15.7**	**16.8**		
PV of PPG external debt-to-exports ratio	**103.0**	**93.3**	**95.1**	**92.0**	**92.2**	**90.1**	**88.7**	**79.7**	**76.7**		
PPG debt service-to-exports ratio	**11.1**	**10.1**	**10.5**	**10.8**	**10.3**	**9.8**	**8.8**	**7.4**	**6.2**		
PPG debt service-to-revenue ratio	**30.4**	**23.3**	**21.0**	**21.6**	**19.1**	**17.2**	**15.2**	**12.5**	**10.9**		
Gross external financing need (Million of U.S. dollars)	250.9	322.4	363.2	353.8	377.3	386.7	437.6	463.0	900.0		
Key macroeconomic assumptions											
Real GDP growth (in percent)	5.7	4.0	4.5	4.7	4.7	4.7	4.6	4.6	4.6	**2.9**	**4.5**
GDP deflator in US dollar terms (change in percent)	-15.0	11.4	0.7	-2.7	-0.9	-0.2	0.4	0.6	0.6	**-3.0**	**1.0**
Effective interest rate (percent) 4/	0.4	0.5	0.6	0.7	0.8	0.8	0.8	0.9	1.0	**0.7**	**0.8**
Growth of exports of G&S (US dollar terms, in percent)	10.4	8.9	0.6	4.7	2.8	3.8	5.5	6.4	6.4	**0.7**	**5.3**
Growth of imports of G&S (US dollar terms, in percent)	0.0	7.6	3.7	1.1	1.6	5.1	2.6	5.3	5.4	**1.5**	**4.1**
Grant element of new public sector borrowing (in percent)	...	35.0	33.5	33.5	33.2	34.0	43.7	41.2	37.8	**...**	**37.9**
Government revenues (excluding grants, in percent of GDP)	7.4	8.3	9.1	9.4	10.0	10.5	10.8	11.7	12.4	**8.1**	**10.4**
Aid flows (in Million of US dollars) 5/	337.3	290.9	342.6	326.1	329.2	364.5	376.7	361.8	558.8		
Grant-equivalent financing (in percent of GDP) 6/	...	4.2	5.1	4.8	4.8	4.6	4.3	3.2	3.3	**...**	**4.1**
Grant-equivalent financing (in percent of external financing) 6/	...	84.2	77.1	77.3	75.4	79.1	74.7	70.8	68.1	**...**	**75.4**
Nominal GDP (Million of US dollars)	6,397	7,413	7,807	7,952	8,245	8,610	9,041	11,609	19,221		
Nominal dollar GDP growth	-10.2	15.9	5.3	1.9	3.7	4.4	5.0	5.2	5.2	**-0.3**	**5.6**
Memorandum items:											
PV of external debt 7/	20.9	17.8	17.4	17.3	17.1	16.6	16.5	15.7	16.8		
In percent of exports	103.0	93.3	95.1	92.0	92.2	90.1	88.7	79.7	76.7		
Total external debt service-to-exports ratio	11.1	10.1	10.5	10.8	10.3	9.8	8.8	7.4	6.2		
PV of PPG external debt (in Million of US dollars)	1338.5	1321.0	1355.1	1372.6	1412.1	1431.8	1488.2	1818.4	3230.0		
(PVt-PVt-1)/GDPt-1 (in percent)		-0.3	0.5	0.2	0.5	0.2	0.7	0.7	1.0		
Non-interest current account deficit that stabilizes debt ratio	7.4	9.5	4.5	3.9	3.6	4.3	3.4	2.1	0.7		

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.

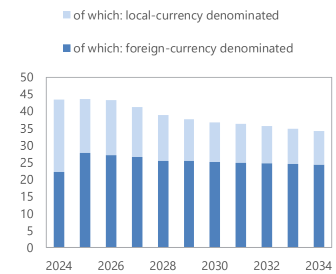
Table 2. Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2023-44

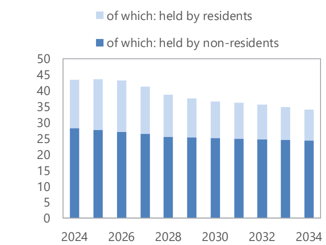
(Percent of GDP, unless otherwise indicated)

	Actual	Projections									Average 6/	
	2023	2024	2025	2026	2027	2028	2029	2030	2035	2044	Historical	Projections
Public sector debt 1/	**49.9**	**43.4**	**43.5**	**43.3**	**41.2**	**38.8**	**37.5**	**36.7**	**33.3**	**27.8**	**42.5**	**38.6**
of which: external debt	**34.1**	**28.2**	**27.7**	**27.1**	**26.5**	**25.5**	**25.4**	**25.1**	**24.3**	**25.5**	**27.7**	**25.8**
Change in public sector debt	-4.1	-6.5	0.1	-0.2	-2.1	-2.4	-1.3	-0.8	-0.7	-0.7		
Identified debt-creating flows	**-3.8**	**-2.7**	**1.0**	**-0.2**	**-1.8**	**-2.1**	**-1.0**	**-0.8**	**-1.0**	**-1.0**	**2.1**	**-1.0**
Primary deficit	**2.6**	**0.3**	**0.0**	**-0.4**	**-0.7**	**-0.8**	**0.4**	**0.7**	**0.4**	**0.4**	**2.6**	**0.2**
Revenue and grants	12.7	12.1	13.5	13.5	14.0	14.5	14.0	13.9	14.0	14.8	**11.6**	**13.7**
of which: grants	5.3	3.8	4.3	4.1	4.0	4.0	3.2	3.1	2.3	2.4		
Primary (noninterest) expenditure	15.3	12.4	13.5	13.1	13.3	13.7	14.4	14.6	14.4	15.2	**14.2**	**13.9**
Automatic debt dynamics	**-6.5**	**-3.0**	**1.0**	**0.2**	**-1.1**	**-1.3**	**-1.4**	**-1.4**	**-1.4**	**-1.4**		
Contribution from interest rate/growth differential	-5.5	-3.0	1.0	0.2	-1.1	-1.3	-1.4	-1.4	-1.4	-1.4		
of which: contribution from average real interest rate	-2.6	-1.1	2.9	2.1	0.8	0.5	0.3	0.2	0.1	-0.2		
of which: contribution from real GDP growth	-2.9	-1.9	-1.9	-1.9	-1.9	-1.8	-1.7	-1.6	-1.5	-1.3		
Contribution from real exchange rate depreciation	-1.0	...	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**-0.3**	**-3.7**	**-0.9**	**0.0**	**-0.3**	**-0.3**	**-0.3**	**-0.1**	**0.3**	**0.4**	**0.6**	**-0.4**
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	**38.1**	**33.8**	**34.2**	**34.2**	**32.4**	**30.4**	**29.0**	**28.2**	**25.0**	**19.5**		
PV of public debt-to-revenue and grants ratio	**300.8**	**279.5**	**253.7**	**254.3**	**231.6**	**209.1**	**207.1**	**202.6**	**178.4**	**132.1**		
Debt service-to-revenue and grants ratio 3/	**103.3**	**108.2**	**109.5**	**116.9**	**102.2**	**90.5**	**84.1**	**77.3**	**55.3**	**22.9**		
Gross financing need 4/	15.7	13.4	14.8	15.3	13.6	12.4	12.2	11.4	8.1	3.8		
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	5.7	4.0	4.5	4.7	4.7	4.7	4.6	4.5	4.6	4.6	**2.9**	**4.5**
Average nominal interest rate on external debt (in percent)	0.6	0.6	0.6	0.7	0.8	0.8	0.9	0.9	1.0	1.0	**0.7**	**0.8**
Average real interest rate on domestic debt (in percent)	-9.5	-3.3	15.5	15.8	7.2	5.6	4.5	4.0	3.2	2.8	**-2.7**	**5.7**
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.9	...	...	...	...	...	...	...	...	...	**7.6**	**...**
Inflation rate (GDP deflator, in percent)	29.2	24.5	12.0	8.0	7.1	6.2	5.9	5.6	5.6	5.6	**13.7**	**8.3**
Growth of real primary spending (deflated by GDP deflator, in percent)	-8.2	-15.9	13.8	1.5	6.3	8.2	9.7	5.8	5.0	3.3	**8.8**	**4.2**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	6.8	6.8	-0.1	-0.2	1.4	1.6	1.7	1.5	1.1	1.0	**2.0**	**1.6**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Sierra Leone: Sensitivity Analysis, External Debt, 2024-34

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio											
Baseline	17.8	17.4	17.3	17.1	16.6	16.5	16.3	16.0	16.0	15.8	15.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	17.8	19.2	20.7	22.3	23.7	25.2	23.2	24.6	26.3	27.9	29.5
B. Bound Tests											
B1. Real GDP growth	17.8	18.8	20.2	20.1	19.5	19.3	19.1	18.8	18.7	18.5	18.4
B2. Primary balance	17.8	17.8	18.5	19.0	19.0	19.2	19.4	19.4	19.5	19.4	19.3
B3. Exports	17.8	21.6	28.2	28.1	27.6	27.4	27.1	26.5	25.7	24.7	23.9
B4. Other flows 3/	17.8	21.3	25.2	25.1	24.6	24.4	24.2	23.6	22.9	22.1	21.4
B5. One-time 30 percent nominal depreciation	17.8	21.9	19.3	19.1	18.4	18.2	18.1	17.8	17.9	17.9	17.9
B6. Combination of B1-B5	17.8	22.6	25.5	25.4	24.8	24.6	24.4	23.7	23.2	22.5	21.9
C. Tailored Tests											
C1. Combined contingent liabilities	17.8	18.6	19.2	19.8	19.8	20.1	20.3	20.3	20.5	20.5	20.5
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	17.8	18.4	19.3	19.2	18.6	18.3	18.0	17.5	17.0	16.6	16.2
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	93.3	95.1	92.0	92.2	90.1	88.7	86.6	84.3	83.0	81.3	79.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	93.3	105.3	110.2	120.0	128.4	136.0	123.5	129.0	136.7	143.6	150.0
B. Bound Tests											
B1. Real GDP growth	93.3	95.1	92.0	92.2	90.1	88.7	86.6	84.3	83.0	81.3	79.7
B2. Primary balance	93.3	97.7	98.9	102.2	102.9	103.7	103.1	101.9	101.2	99.7	98.0
B3. Exports	93.3	160.0	**276.2**	**278.0**	**274.5**	**270.9**	**264.8**	**255.9**	**245.1**	**233.6**	**222.8**
B4. Other flows 3/	93.3	116.5	134.3	135.1	133.2	131.5	128.5	123.8	118.9	113.6	108.6
B5. One-time 30 percent nominal depreciation	93.3	95.1	81.3	81.3	79.1	77.9	75.9	73.8	73.5	72.7	71.9
B6. Combination of B1-B5	93.3	136.0	120.6	165.2	162.6	160.4	156.7	150.7	145.6	140.0	134.7
C. Tailored Tests											
C1. Combined contingent liabilities	93.3	101.7	102.4	106.3	107.2	108.2	107.7	106.7	106.5	105.5	104.4
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	93.3	108.5	109.3	108.3	104.4	101.0	96.6	92.7	89.7	86.3	83.1
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	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	10.1	10.5	10.8	10.3	9.8	8.8	8.0	8.3	7.4	7.6	7.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	10.1	11.1	11.7	11.7	11.7	11.2	10.7	11.9	11.9	13.3	14.2
B. Bound Tests											
B1. Real GDP growth	10.1	10.5	10.8	10.3	9.8	8.8	8.0	8.3	7.4	7.6	7.4
B2. Primary balance	10.1	10.5	10.9	10.4	10.0	9.0	8.2	8.7	8.1	8.5	8.5
B3. Exports	10.1	14.9	**21.8**	**21.6**	**20.6**	**18.7**	**17.0**	**20.2**	**22.6**	**22.5**	**21.7**
B4. Other flows 3/	10.1	10.5	11.1	10.9	10.4	9.4	8.5	10.4	10.9	10.9	10.6
B5. One-time 30 percent nominal depreciation	10.1	10.5	10.8	10.1	9.7	8.7	7.9	8.2	6.5	6.7	6.6
B6. Combination of B1-B5	10.1	12.3	**15.2**	14.6	13.9	12.6	11.4	13.9	13.3	13.4	13.0
C. Tailored Tests											
C1. Combined contingent liabilities	10.1	10.5	10.9	10.4	10.0	9.1	8.3	8.6	7.7	7.9	7.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	10.1	11.4	11.8	11.2	10.6	9.5	8.5	9.2	8.5	8.6	8.3
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	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	**23.3**	**21.0**	**21.6**	**19.1**	17.2	15.2	13.9	14.8	12.6	12.7	12.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**23.3**	**22.2**	**23.4**	**21.7**	**20.5**	**19.2**	**18.6**	**21.3**	**20.2**	**22.3**	**23.9**
B. Bound Tests											
B1. Real GDP growth	**23.3**	**22.7**	**25.4**	**22.4**	**20.1**	17.8	16.3	17.3	14.8	14.9	14.7
B2. Primary balance	**23.3**	**21.0**	**21.7**	**19.3**	17.4	15.5	14.2	15.5	13.8	14.3	14.3
B3. Exports	**23.3**	**22.0**	**23.7**	**21.9**	**19.7**	17.5	16.0	**19.6**	**21.0**	**20.6**	**20.0**
B4. Other flows 3/	**23.3**	**21.0**	**22.2**	**20.2**	**18.2**	16.2	14.8	**18.6**	**18.7**	**18.4**	17.8
B5. One-time 30 percent nominal depreciation	**23.3**	**26.6**	**27.3**	**23.8**	**21.4**	**18.9**	17.2	**18.4**	13.9	14.2	14.0
B6. Combination of B1-B5	**23.3**	**22.5**	**25.1**	**22.4**	**20.2**	17.9	16.4	**20.6**	**18.8**	**18.6**	**18.1**
C. Tailored Tests											
C1. Combined contingent liabilities	**23.3**	**21.0**	**21.8**	**19.4**	17.5	15.6	14.3	15.3	13.1	13.2	13.0
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	**23.3**	**24.5**	**25.4**	**22.6**	**19.6**	16.8	15.0	16.1	14.3	14.3	13.8
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	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, 2024-34

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	33.8	34.2	34.2	32.4	30.4	29.0	28.2	27.9	27.1	26.4	25.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	34	35	37	36	36	34	33	32	32	31	31
B. Bound Tests											
B1. Real GDP growth	34	37	41	40	40	40	40	41	42	42	43
B2. Primary balance	34	37	41	39	37	35	34	34	33	32	31
B3. Exports	34	38	44	42	40	38	37	37	35	34	32
B4. Other flows 3/	34	38	42	41	39	37	36	36	34	33	32
B5. One-time 30 percent nominal depreciation	34	35	34	32	30	28	26	25	24	23	22
B6. Combination of B1-B5	34	36	38	34	32	31	30	30	29	28	28
C. Tailored Tests											
C1. Combined contingent liabilities	34	43	42	40	38	36	35	35	34	33	32
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	34	35	38	38	39	40	41	43	44	45	46
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	279.5	253.7	254.3	231.6	209.1	207.1	202.6	204.7	198.3	189.5	183.9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	279	263	275	265	253	255	251	253	246	239	236
B. Bound Tests											
B1. Real GDP growth	279	265	291	276	261	272	278	291	295	294	297
B2. Primary balance	279	274	304	278	252	250	245	246	239	229	222
B3. Exports	279	280	325	299	274	274	269	270	258	243	232
B4. Other flows 3/	279	284	316	291	265	265	261	261	250	236	226
B5. One-time 30 percent nominal depreciation	279	265	260	233	207	200	191	189	178	166	157
B6. Combination of B1-B5	279	271	279	240	218	217	213	216	210	201	196
C. Tailored Tests											
C1. Combined contingent liabilities	279	316	314	287	260	258	253	255	247	237	230
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	279	288	309	304	289	301	306	317	322	323	329
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	108.2	109.5	116.9	102.2	90.5	84.1	77.3	76.1	68.9	61.4	57.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	108	109	121	110	106	108	103	103	95	89	88
B. Bound Tests											
B1. Real GDP growth	108	115	133	123	116	115	113	116	113	107	107
B2. Primary balance	108	109	135	137	121	110	100	96	87	77	72
B3. Exports	108	109	117	103	91	85	78	79	75	67	63
B4. Other flows 3/	108	109	117	103	91	85	78	79	74	66	62
B5. One-time 30 percent nominal depreciation	108	106	114	99	88	82	75	74	67	60	56
B6. Combination of B1-B5	108	109	119	111	99	93	86	85	78	70	67
C. Tailored Tests											
C1. Combined contingent liabilities	108	109	162	143	123	113	102	98	87	77	71
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	108	121	133	127	124	127	127	131	128	124	124
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.

INTERNATIONAL MONETARY FUND

SIERRA LEONE

October 16, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION AND REQUEST FOR A 38-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By The African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

As of August 31, 2024

Membership Status: Joined: September 10, 1962 — Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	207.40	100.00
IMF's Holdings of Currency (Holdings Rate)	207.39	99.99
Reserve Tranche Position	0.02	0.01

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	298.29	100.00
Holdings	247,95	83.12

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	138.96	67.00
ECF Arrangements	193.12	93.12

Latest Financial Commitments:

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Nov 30, 2018	Nov 22, 2023	124.44	124.44
ECF	Jun 05, 2017	Nov 29, 2018	161.77	39.17
ECF	Oct 21, 2013	Dec 14, 2016	186.66	186.66

Outright Loans:

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Mar 15, 2021	Mar 17, 2021	35.26	35.26
RCF	Jun 03, 2020	Jun 05, 2020	103.70	103.70

Overdue Obligations and Projected Payments to Fund [1]/

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2024	2025	2026	2027	2028
Principal	19.92	48.50	51.21	48.82	48.01
Charges/Interest	0.49	1.93	1.93	1.93	1.93
Total	20.40	50.42	53.14	50.75	49.94

Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Mar 2002
Assistance committed by all creditors (US$ Million)[2/]	675.20
Of which: IMF assistance (US$ million)	125.21
(SDR equivalent in millions)	100.00
Completion point date	Dec 2006
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	100.00
Interim assistance	66.03
Completion point balance	33.97
Additional disbursement of interest income[3/]	6.58
Total disbursements	106.58

Implementation of Multilateral Debt Relief Initiative (MDRI):

I.	MDRI-eligible debt (SDR Million)	117.34
	Financed by: MDRI Trust	76.75
	Remaining HIPC resources	40.59
II.	Debt Relief by Facility (SDR Million)[4]	

	Eligible Debt		
Delivery date	GRA	PRGT	Total
December 2006	N/A	117.34	117.34
N/A			11.55

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

[2] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[3] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

[4] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remain outstanding at the time the member qualifies for such debt relief.

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Mar 02, 2015	20.74	20.74
N/A	Apr 13, 2020	13.36	13.36
N/A	Oct 02, 2020	12.22	12.22
N/A	Apr 01, 2021	15.11	15.11
N/A	Oct 06, 2021	6.00	6.00
N/A	Dec 15, 2021	11.55	11.55

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Safeguards Assessment:

An updated safeguards assessment of the Bank of Sierra Leone (BSL) was concluded in August 2024. It found that the BSL's risk profile remains high. In particular, while governance structures are in place, independent oversight needs strengthening. Financial reporting departs from IFRS and substantial delays in the publication of annual audited accounts have impeded transparency. The BSL is taking steps to address these delays, including the gaps noted in the external audit mechanism. The current negative equity position hampers financial autonomy and discussions have been initiated to recapitalize the BSL. Separately, risks in internal controls were further elevated by the currency redenomination project that overwhelmed the BSL's operations. Going forward, the BSL needs to address the recommendations of the safeguards assessment to enhance its safeguards framework.

Exchange Rate Arrangement:

With effect December 14, 1995, Sierra Leone has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. Sierra Leone's *de jure* exchange rate regime is classified as floating, with the value of the Leone determined by the market. The *de facto* exchange rate arrangement is "stabilized". For customs valuation purposes and for official transactions, the BSL calculates an official exchange rate – the BSL Rate – which is the weighted average of all one-day-lagged rates used in transactions by banks and exchange bureaus, as reported to the BSL. Commercial banks may buy and sell FX to individual customers and may trade among themselves or with the BSL on a freely negotiable basis. As of end-June 2024, the BSL mid-rate was NLe 22.507=US$1, which is also the new program exchange rate.

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

Article IV Consultation:

The Executive Board concluded the last Article IV consultation on June 27, 2022.

Technical Assistance:

See Staff Report, Annex VI.

Data Issues Annex:

See Staff Report, Annex IX.

Resident Representative:

Mr. Wayne Mitchell assumed responsibility for the Fund office in Freetown on March 3, 2023.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank Group:
https://www.worldbank.org/en/country/sierraleone

African Development Bank:
https://www.afdb.org/en/countries/west-africa/sierra-leone

Statement by the IMF Staff Representative
October 31, 2024

This statement provides information that has become available since the staff report (EBS/24/115) was issued on October 17, 2024. This information does not alter the thrust of the staff appraisal.

1. **The prior action for cabinet to publish a ministerial directive on adhering to budgetary expenditure ceilings was completed**. The directive was published on the Ministry of Finance's website on October 22.[1] The authorities shared the cabinet minute and the cabinet memorandum with staff on the same day.

2. **The prior action for the BSL to share a diagnostic review of banks meeting the criteria prescribed in section 69 of the Banking Act 2019 was completed.** One domestic bank met the criteria, and the diagnostic, conducted by Ernst and Young Ghana was shared with IMF staff on October 21.

[1] https://mof.gov.sl/documents/ministerial-directive-on-expenditure-management-and-control/.

Statement by Willie Nakunyada, Executive Director for Sierra Leone, and Paul Mansaray, Senior Advisor to Executive Director
October 31, 2024

Introduction

1. Our Sierra Leonean authorities appreciate the continued and productive engagement with Fund staff. They view a successor Extended Credit Facility (ECF) arrangement, as critical to catalyze additional donor financing required to sustain their reform efforts.

2. The economy of Sierra Leone continues to recover from the compounding effects of multiple shocks, including the COVID-19 pandemic, conflict spillovers, geoeconomic fragmentation, global financial uncertainties, floods, mudslides, and recent domestic insecurity following the June 2023 multi-tier elections. Despite this challenging backdrop, the authorities have persevered with decisive reforms, and demonstrated strong ownership. As such, they are determined to advance further reforms under the successor ECF arrangement that provides an important policy anchor required to realize the objectives of their Medium-Term National Development Plan (NDP 2024- 2030). Nevertheless, the economy is grappling with difficult domestic and external imbalances that have manifested themselves through the depletion of reserve buffers, a high interest rate environment, high energy and debt service costs, and limited fiscal space, that has culminated in sizable financing gaps. **Against this background, our authorities are requesting for support under the Extended Credit Facility arrangement to address macroeconomic imbalances created by both domestic and external shocks.**

3. Support under the new ECF arrangement would be critically important to support achievement of the objectives of the Big Five Game Changers articulated in the NDP, focusing on the "Feed Salone Initiative". This initiative is designed to boost agricultural productivity and enhance food self-sufficiency. The NDP also seeks to accelerate human capital development, create jobs, improve infrastructure and technology, protect vulnerable households, and enhance efficient public service delivery. Further, Sierra Leone's capacity to repay the Fund remains adequate despite attendant risks to program implementation. Importantly, the authorities have demonstrated strong ownership and are determined to sustain fiscal consolidation efforts to ensure debt sustainability. At the same time, they are determined to address fiscal dominance alongside appropriate monetary policy tightening to reduce inflation to single digits, anchor expectations and help rebuild reserve buffers. The authorities are also making efforts to accelerate structural reforms to narrow gender gaps, better target social spending, strengthen governance, institutional capacity, and the rule of law to promote a durable, green, and resilient economy over the program period.

Recent Economic Development and Outlook

4. Real GDP growth has remained strong at 5.7 and 4.0 percent in 2023 and 2024, respectively, underpinned by improved performance in the mining sector, increased agricultural productivity through the "Feed Salone Initiative," and sustained macroeconomic stabilization efforts. Going forward, real GDP growth is projected to firm up to 4.5 percent in 2025 owing to the government's support to the agriculture sector, including the provision of inputs, improved mechanization, and

irrigation, particularly in rice production, the country's staple food, supporting land preparation through the e-voucher system, supporting market linkages, and agriculture financing. Additionally, strong performance in the mining sector as well as planned investments in the energy sector with support from development partners is expected to provide strong impetus to economic activities and support the near-term growth momentum.

5. Inflation significantly declined from 54.2 percent in November 2023 to 25.5 percent in August 2024 and further down to 20.2 percent in September 2024. The marked decline in inflation reflects the tighter fiscal and monetary policies that have also supported relative exchange rate stability. In the medium-term, inflation is projected to decline further to single digits as the authorities sustain policy tightening efforts.

6. The current account deficit continues to improve from 5.3 percent of GDP in 2023 to 4.0 percent in 2024 against the backdrop of improved export performance and subdued imports in response to fiscal tightening. Nonetheless, international reserves declined from 2.6 to 2.4 months of imports between 2023 and 2024, against the background of elevated external debt service costs alongside depleted donor support. However, the authorities are taking steps to rebuild external reserves over the medium-term to bolster resilience to external shocks.

Fiscal Policy and Debt Management

7. Our authorities remain committed to prudent fiscal management through its medium-term revenue mobilization efforts and expenditure containment measures. To this end, they stepped up implementation of the remaining revenue-enhancing measures in the 2023 and 2024 Finance Acts consistent with their Medium-Term Revenue Strategy (MTRS) aimed to meet the domestic primary surplus target. In this vein, they have strengthened compliance tracking and enforcement of tax collection, introduced the use of the **N-Soft** technology to audit reporting of telecoms transactions and the ensuing GST collection. Concurrently, they operationalized the **SICPA[1] product marking system** for domestic excise collection, use of mobile app for vehicle circulation levy and income taxes from commercial vehicles, ensured continuous implementation of the revised full pass-through petroleum pricing formula, and implemented the fuel marking. The authorities are also pressing ahead with other revenue administrative measures, including the establishment and operationalization of a tax court to facilitate a speedy trial of tax defaulters, implementing the safe harbor scheme for iron ore, and registering of businesses across districts to expand the tax base. They have also made notable strides in integrating all national revenue systems, including the ITAS[2], ASYCUDA[3] and Electronic Cash Register (ECR). Going forward they are fully committed to applying the Extractive Industry Revenue Administration Act 2018 to all new mining agreements.

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[1] SICPA- "Société Industrielle et Commerciale de Produits Alimentaires" is a Swiss technology company supporting the National Revenue Authority of Sierra Leone in undertaking product marking of excisable goods and fuel

[2] ITAS - Integrated Tax Administration System.

[3] ASYCUDA - Automated System for Customs Data

8. The authorities continue to take decisive actions to contain expenditures consistent with the medium-term expenditure framework and program objectives. The draft budget to be submitted to Parliament in November for the 2025 fiscal year is consistent with the program objectives. Specifically, they are terminating in-year payroll changes, adopting monthly monitoring of the payroll in close collaboration with relevant departments across government to prevent payroll interruption, enforcing workforce quotas for key departments and agencies, streamlining tax exemptions, rationalizing domestic capital spending, including capital transfers for the recapitalization of the Bank of Sierra Leone (BSL). At the same time, the authorities are reducing domestic and overseas travel, limiting international subscriptions to only critical institutions, terminating extra budgetary spending, and ensuring budget execution is consistent with the weekly cash management forecasts. In addition, the authorities have developed a wage bill strategy in consultation with key stakeholders, and progress is being made to incorporate feedback from stakeholders before finalization.

9. The authorities have taken appropriate steps to address the persistent financial losses in the energy sector, translating into high energy subsidies and accumulated arrears due to high technical and commercial losses. With support from the World Bank, the authorities have installed 1,250 AMI meters for high value customers and plan to install an additional 3,000 meters by mid-2025, revised the governance framework, and agreed to a payment plan with the independent power producers (IPPs) to reduce the government's financial support to the energy sector. Additionally, the authorities have made arrangements to pay outstanding electricity bills to the Energy Distribution and Supply Authority (EDSA) and are installing prepaid meters to all Ministries, Departments, and Agencies (MDAs). According to the agreed plan, EDSA, would also settle its tax obligations with the National Revenue Authority.

10. The authorities will continue to prioritize social spending to vulnerable households and expanding the school feeding program to smoothen the pain of adjustments amidst the high cost of living. The authorities have realized the fragmented nature of social protection programs across different Ministries, Departments, and Agencies. To this end, they have developed a social protection policy and established a social protection secretariat to ensure proper coordination amongst different institutions engaging in social protection program.

11. The authorities reaffirm their commitment to continue reliance on concessional financing, extend the average maturities, and develop the domestic debt market. In this connection, the Ministry of Finance on October 1, 2024, engaged financial institutions, including the Bank of Sierra Leone, on the implementation of the updated Medium-Term Debt Strategy (MTDS) 2023-2027, which highlights the strategies to reduce the cost and risks of debt portfolios and ways to develop the domestic market. To support bond market development, ensure openness, and promote transparency in public debt management of, the authorities have published the MTDS and continue to engage key stakeholders in the process.

Monetary, Exchange Rate, and Financial Sector Policies

12. The tightening of monetary conditions by the Bank of Sierra Leone (BSL) alongside fiscal consolidation efforts, have helped tame inflation and safeguard financial stability. Consequently,

inflation has been placed on a downward trajectory consistent with the authorities' medium-term objective. The authorities raised the monetary policy rate by 0.50 percentage points to 24.75 percent in October 2024. Going forward, monetary policy decisions would be driven by the overarching objective of price stability, and the authorities stand ready to make appropriate monetary adjustments, should inflation surprises emerge. Additionally, the authorities remain committed to achieving positive real policy rates and eliminating monetary financing of the budget, including termination of the securitization of ways and means advances over the program period. In the same vein, the authorities are engaging banks and non-bank financial institutions to deepen the secondary market and maintain a flexible exchange rate regime to allow the interplay of market participants in the FX market while stepping up efforts to replenish foreign exchange reserves.

13. The authorities prioritize financial sector stability and remain attentive to near term vulnerabilities. They have established a macroprudential policy framework and are working to finalize the crisis management plan to support its oversight functions consistent with the Banking Act 2019. In parallel, they are integrating recommendations from Fund TA to implement certain elements of Pillar I of the Basel II/III capital frameworks. The central bank has also upgraded the policy toolkit to improve risk-based supervision and enhance financial stability. Relatedly, they are developing financial safety nets by strengthening the legal framework. In this vein, they have submitted to Parliament an amendment to the Deposit Protection Fund Act 2023, established the DPF unit, and have finalized the calculation of the required premium and the initial seed capital for the fund. Consistent with BSL's medium-term strategic plan, the authorities have issued directives to raise the minimum capital requirements for banks. The authorities reaffirm their commitment to implement key recommendations of the 2024 Safeguards Assessment, including efforts to recapitalize the BSL, while advancing the operationalization of the resolution framework and the emergency liquidity assistance framework for banks.

Structural Reforms

14. Our authorities prioritize ongoing structural reform efforts to consolidate gains from earlier reforms aimed at improving governance, strengthening the fight against corruption, enhance transparency and accountability, and promote private sector led growth.

15. The authorities attach a high premium on efforts to strengthen Public Financial Management (PFM), including leveraging IFMIS functionalities to strengthen commitment, payment controls, and improve arrears reporting. They also reiterate their resolve to strengthen cash and budget management and expanding the rollout of the IFMIS and managing fiscal risks arising from state owned enterprises. In the same vein, the authorities have adopted a ministerial directive to enforce commitment to the annual ceilings of Ministries, Departments, and Agencies (MDAs) consistent with the PFM Act. They have also prioritized strengthening the Public Investment Management policy by integrating climate-related factors into the selection of projects. They plan to submit to Parliament a comprehensive budget for all roads and infrastructure projects in November 2024 as part of the 2025 budget.

16. The authorities have enacted the Anti-Money Laundering and Combating of Financing of Terrorism and Financing the Proliferation of Weapons of Mass Destruction Act (AML/CFT/PF) in May 2024.

They remain committed to implementation of measures to strengthen AML/CFT framework, improve risk-based supervision of banks and non-bank financial institutions, as well as improving beneficial ownership. In this connection, the authorities look forward to the recommendations from the ongoing governance and corruption diagnostics to help bolster their fight against corruption and address weaknesses in the system.

17. To optimize benefits from the extractive industry the authorities have taken bold initiatives to reform the mining sector legal framework. In this regard, the authorities established via an Act of Parliament, the Sierra Leone Mines and Mineral Development and Management Corporation (SLMMDMC) and the Mineral Wealth Fund (MWF) to allow the state to participate in a more sustained manner while allowing private sector participation. The MWF incorporated under the Companies Act 2009 was set up as a project company entirely owned by the SLMMDMC. This company can apply for licenses to undertake mining-related activities, including source funding, exploration, development, and production, either as an entity or jointly with other entities as a joint venture in accordance with existing laws.

18. The MWF as an entity was established to manage the identified greenfield mineral and related assets and potential assets allocated to the Cooperation through a parliamentary instrument. In doing so, the MWF is responsible, among other things, to manage the commercial interest of the corporation, whether as a unit or a joint venture in which it holds an interest on behalf of the corporation. In this regard, the authorities would appreciate Fund and World Bank support in strengthening the governance arrangements of these institutions consistent with best practice to realize the full potential of the sector.

19. The authorities are accelerating efforts to address challenges in the energy sector with support from donor partners. In this regard, they have submitted to Parliament a bill to amend the Electricity and Water Regulatory Commission Act. These amendments were aimed to improve performance of the Energy Distribution and Supply Authority (EDSA) as well as the establishment of a single collection account to enhance the financial viability of EDSA. Further, the authorities plan to modernize the regulatory framework to allow private sector participation in the sector to reduce losses and enhance efficiency.

Conclusion

20. Our Sierra Leonean authorities reaffirm their resolve to implement the necessary reform measures articulated in the Memorandum of Economic and Financial Policies and the Letter of Intent. They view reforms under the successor ECF arrangement as essential to consolidate the gains from previous ECF arrangements further strengthen macroeconomic stability and promote inclusive green growth. They also see merit in continued Fund engagement, as they commence initial steps to a potential support under the RSF given the country's vulnerability to extreme climate-related events. Importantly, they consider Fund technical assistance alongside the World Bank and other partners, as indispensable to strengthen program implementation capacity. Additionally, they look forward to Executive Directors support in approval of their request under a successor ECF arrangement.