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Sierra Leone: 2008 Article IV Consultation, Third Review Under the Three–Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Requests for Waivers of Nonobservance of Performance Criteria, Augmentation of Access, and Modification of Performance Criterion—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Sierra Leone.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2008 Article IV consultation with Sierra Leone and the third review under the three–year arrangement under the Poverty Reduction and Growth Facility, financing assurances review, and requests for waivers of nonobservance of performance criteria, augmentation of access, and modification of performance criterion for Sierra Leone, the following documents have been released and are included in this package:

- The staff report for the combined 2008 Article IV Consultation, Third Review Under the Three–Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Requests for Waivers of Nonobservance of Performance Criteria, Augmentation of Access, and Modification of Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on September 23, 2008, 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 December 8, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A public information notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its December 22, 2008 discussion of the staff report that concluded the Article IV consultation and completed the review and request, respectively.
- A statement by the Executive Director for Sierra Leone.

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

Letter of Intent sent to the IMF by the authorities of Sierra Leone*
Memorandum of Economic and Financial Policies by the authorities of Sierra Leone*
Technical Memorandum of Understanding*
Selected Issues and Statistical Appendix
*Also included in the Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

SIERRA LEONE

Staff Report for the 2008 Article IV Consultation, Third Review Under the Three–Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Requests for Waivers of Nonobservance of Performance Criteria, Augmentation of Access, and Modification of Performance Criterion

Prepared by the African Department
(In consultation with other departments)

Approved by Thomas Krueger and Dominique Desruelle

December 8, 2008

Discussions. A mission visited Freetown September 9–23, 2008 and met with President Koroma, Finance Minister Carew, Central Bank Governor Kamara, other government officials, parliamentarians, and representatives of the business community, labor unions, civil society, and development partners. The mission team comprised Messrs. Toé (head), Nsengiyumva, Sriram (all AFR), Takats (SPR), and Hilaire (resident representative). Mr. Itam (OED) participated in several policy meetings.

PRGF arrangement. Approved on May 10, 2006 in an amount equivalent to SDR 31.1 million (30 percent of quota); three disbursements totaling SDR 13.5 million have been made to date. The authorities are requesting an augmentation of access in an amount equivalent to SDR 10.4 million (about 10 percent of quota). Upon completion of the third review, a disbursement of SDR 7.0 million (6.7 percent of quota) will become available.

Exchange rate regime. In March 2008, the de facto exchange rate regime was reclassified from a crawling to a conventional peg. The de jure classification is a floating exchange rate regime. The country has accepted the obligations under Article VIII, sections 2, 3, and 4 and maintains no restrictions on the making of payments and transfers for current international transactions.

Last Article IV consultation. The 2006 Article IV consultation was concluded on December 15, 2006. Executive Directors' views and comments can be found at http://www.imf.org/external/np/sec/pn/2007/pn0719.htm.

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Abbreviations and Acronyms

ACA	Anti-Corruption Act
ACC	Anti-Corruption Commission
AfDB	African Development Bank
AFR	African Department
AGD	Accountant General's Department
BOP	Balance of payments
BSL	Bank of Sierra Leone
CRF	Consolidated Revenue Fund
DfID	U.K. Department for International Development
DSA	Debt Sustainability Analysis
ECOWAS	Economic Community of West African States
EITI	Extractive Industries Transparency Initiative
EPP	Emergency Power Project
GDP	Gross domestic product
GST	Goods and services tax
IDA	International Development Association
HIPC	Highly indebted poor countries
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPP	Independent power provider
MDAs	Ministries, departments, and agencies
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
MoFED	Ministry of Finance and Economic Development
MPC	Monetary Policy Committee
MRU	Mano River Union
NEER	Nominal effective exchange rate
NPA	National Power Authority
NPL	Nonperforming loan
NPV	Net present value
NRA	National Revenue Authority
OMOs	Open market operations
PC	Performance criterion
PFM	Public financial management
PFM-NAP	Public Financial Management National Action Plan
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
REER	Real effective exchange rate

SB	Structural benchmark
SDR	Special drawing rights
SPR	Strategy, Policy, and Review Department
SSA	Sub-Saharan Africa
TMU	Technical Memorandum of Understanding

EXECUTIVE SUMMARY

Background. Since the last Article IV consultation, Sierra Leone has moved forward to consolidate peace. A smooth political transition brought into power a new government with a pro–reform, anti–corruption agenda and a strong commitment to maintaining a stable macroeconomic environment. Macroeconomic performance was again mixed. Output growth was strong and broad-based, but inflation reverted to double digits in 2007 and stayed high throughout 2008, largely due to the global food and fuel crisis.

Article IV issues. The Article IV discussions focused on four themes:

- *Coping with the impact of rising world food and oil prices*. The authorities lowered import duties in 2008 on rice, flour, and oil as a temporary measure. Going forward, they intend to allow a full pass–through of world oil prices to domestic pump prices and promote domestic agricultural production. However, the decision to not yet reverse the tariff reduction for key imported food items may interfere with the latter objective.
- *Making macroeconomic policies more effective*. The authorities agreed on the need to reinforce the monetary framework and concurred that fiscal policy should continue to be supportive to reduce inflation.
- *Maintaining external stability and competitiveness*. Staff analysis indicates that the real effective exchange rate (REER) is broadly aligned with economic fundamentals and there are no major concerns about competitiveness at present. Nevertheless, staff underscored the need for greater nominal exchange rate flexibility, not least to prevent a disruptive appreciation of the REER going forward.
- *Promoting private sector-led growth*. This requires improvement in basic infrastructure and a more business-friendly environment.

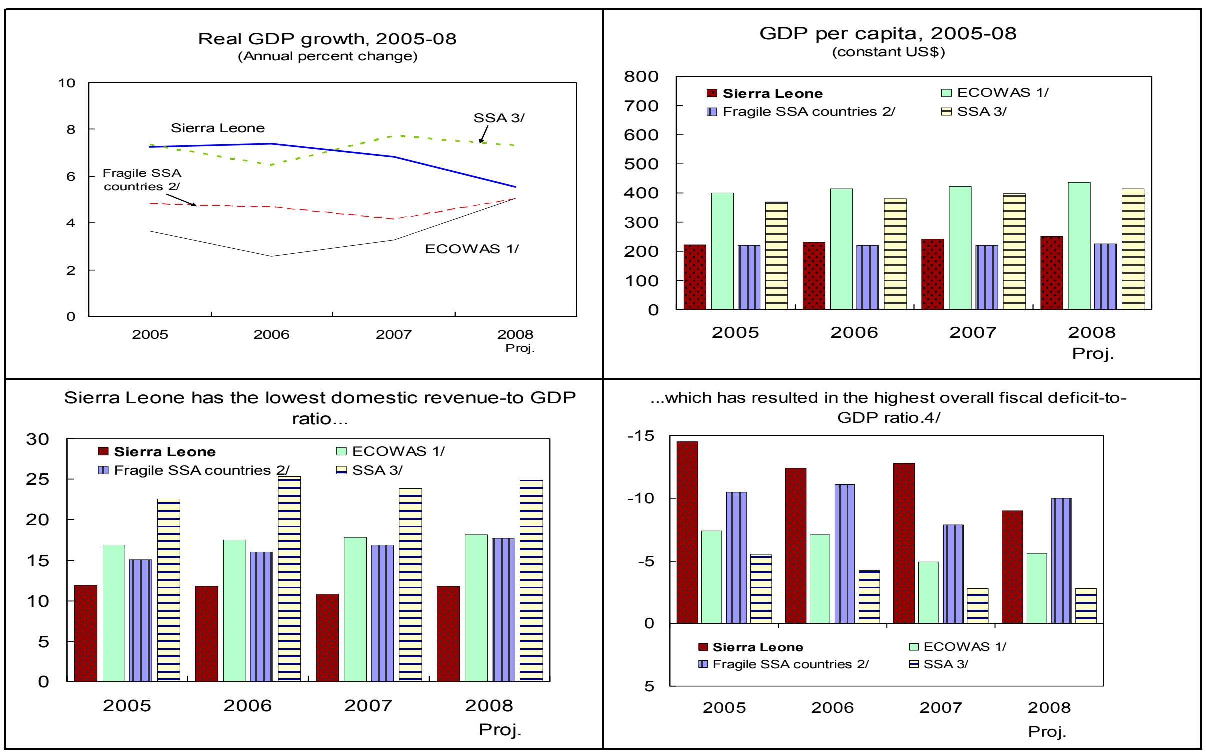
Program issues. Program implementation continues to be challenging. Two quantitative end–June 2008 PCs were missed, but there is progress on the structural front because the authorities are committed to revitalizing the reform agenda. They are implementing corrective measures to ensure that the end–2008 quantitative targets will be met. Staff is proposing that the primary fiscal deficit be revised upward by 0.4 percentage points of GDP to accommodate the unanticipated budget impact of the rise in world oil prices. The authorities are requesting an augmentation of access in an amount equivalent to SDR 10.4 million (about 10 percent of quota). The program for 2009 aims to: (i) reduce inflation; (ii) rebuild gross foreign reserves; and (iii) strengthen the foundations for higher and sustained economic growth. It faces risks that have been heightened by the unfolding global financial crisis. The authorities are resolved to take actions to mitigate the risks; which staff considers manageable. Staff recommends approval of the authorities' requests for waivers of nonobservance of the two quantitative PCs, modification of another PC, completion of the third review, and augmentation of access under the PRGF arrangement.

I. Background

1. **Sierra Leone's main economic indicators still lag behind the averages for sub-Saharan Africa (SSA) and even other fragile SSA countries** (Figure 1 and Table 11). While its real GDP growth has exceeded the averages of SSA countries for the past five years, GDP per capita in constant dollars remains well below them, and the country ranks last among those surveyed in the United Nations *2007 Human Development Report*. Having also the lowest domestic revenue-to-GDP ratio, Sierra Leone has little fiscal space to fight poverty. This underscores the magnitude of the efforts needed to achieve the MDGs.

2. **Sierra Leone's record in responding to Fund policy advice has improved somewhat** (Box 1). Following setbacks leading up to the 2007 legislative and presidential elections, implementation of the PRGF–supported program improved, paving the way for completion of the much-delayed second review under the PRGF arrangement on July 7, 2008. The landmark 2007 general elections were followed in July 2008 by peaceful local council elections, creating an environment conducive to reforms. But to preserve peace, the authorities must address the rising cost of living due to the global food and fuel crisis in the context of pervasive poverty.

Figure 1. Sierra Leone: Selected Comparative Indicators, 2005-08



Sources: IMF Regional Economic Outlook, Sub-Saharan Africa (April 2008) and Sierra Leone database.

[1] ECOWAS, excluding Liberia and Nigeria.

[2] Fragile countries include Burundi, Central African Republic, Comorros, Congo (Democratic Rep. of), Côte d'Ivoire, Eritrea, Gambia (The), Guinea, Guinea-Bissau, Liberia, São Tomé and Príncipe, Sierra Leone, Togo, and Zimbabwe.

[3] Sub-Saharan Africa, excluding Nigeria and South Africa.

[4] Excluding grants.

Box 1: Implementation of Past Fund Policy Recommendations

Advice	Status
Increase the domestic revenue-to-GDP ratio and rationalize public expenditure to create fiscal space for poverty reduction.	A three-year modernization plan for the National Revenue Authority (NRA) is being implemented, and preparation to introduce a Goods and Services Tax (GST) early in 2009 is well advanced. An action plan on public financial management (PFM) reforms is being implemented, with assistance from budget support donors.
Reform the civil service to improve the quality of public services and bring the wage bill under control.	The civil service reform has not yet been launched, but because progress has been made in controlling the wage bill, the conditionality on it has been removed.
Adopt and implement a time-bound comprehensive strategy to strengthen the financial system and carry through with implementation of the Anti-Money Laundering (AML) Act.	The strategy was adopted in June 2008 and the authorities are reviewing the AML Act 2005 and drawing up regulations in line with international standards to enhance AML/CFT compliance. A Financial Intelligence Unit has been established at the Bank of Sierra Leone (BSL).
Pursue a flexible exchange rate policy to facilitate economic adjustment to exogenous shocks.	The nominal exchange rate of the leone against vis-à-vis the U.S. dollar has been relatively stable since the last Article IV consultation, partly due to the BSL's de facto management through auctions as the only seller of foreign exchange.
Accelerate governance and other structural reforms to enhance transparency and accountability, and improve the regulatory framework.	A number of laws were amended to strengthen institutions, notably: (i) the Anti-Corruption Act (ACA), which now gives the Anti-Corruption Commission (ACC) more investigative and prosecutorial powers; (ii) the Companies Act; and (iii) the Bankruptcy Bill.
Avoid using tax incentives to stimulate activity; adopt instead a rules-based and predictable fiscal regime that applies uniformly to all companies.	No cases of tax incentives to stimulate activity were reported in 2007–08.

II. Recent Economic Developments and Program Performance

3. **Macroeconomic performance in 2007 and through September 2008 was mixed (Figure 2):**

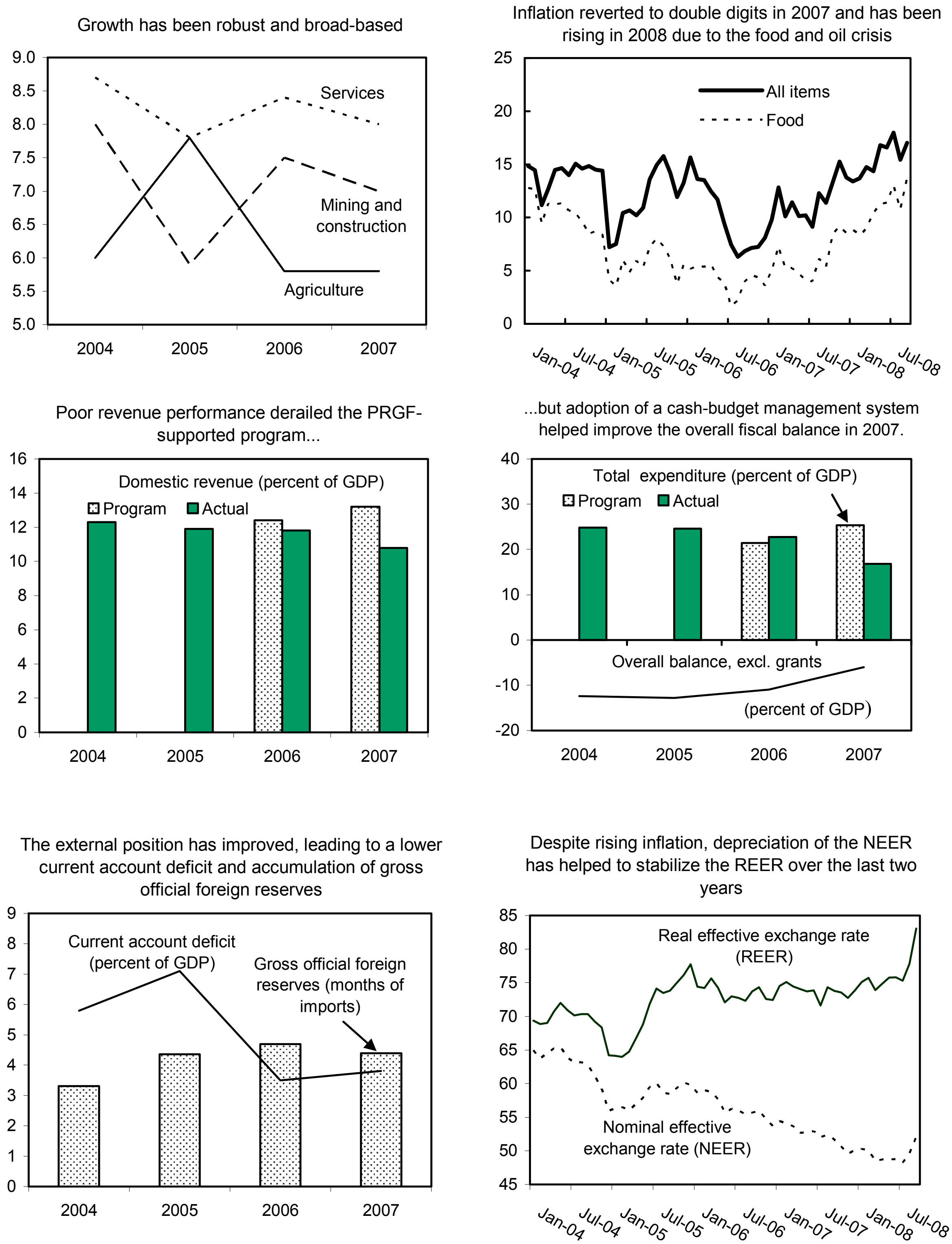
- Real GDP grew by an estimated 6.4 percent in 2007, led by solid agricultural and mining production and buoyant activity in the construction and services sectors. Preliminary information through August 2008 points to continued robust economic activity in 2008, as evidenced by fast growth in credit to the private sector.

- Headline inflation reverted to double digits in 2007 and has shot up since then, rising to 17 percent (year-on-year) by September 2008. This reflected largely global food and oil price developments. Higher-than-expected reserve money growth also added to inflationary pressures in 2007.

- The external current account deficit (including official transfers) increased slightly in 2007 (3.8 percent of GDP versus 3.5 percent in 2006) following a slight deterioration in the terms of trade. The foreign reserve position of the BSL is still strong; at end–September 2008, international reserves stood at US$212 million (about 4.6 months of import coverage).

- The nominal effective exchange rate depreciated enough in 2006–07 to offset the rise in inflation, keeping the REER fairly stable. However, the REER appreciated by an annual average of 2.9 percent between September 2007 and September 2008.

Figure 2. Sierra Leone: Selected Macroeconomic Indicators, 2004–08



Sources: Sierra Leonean authorities; and IMFstaff estimates.

4. **Progress in program implementation in the first half of 2008 was uneven (MEFP ¶ 2):**

- Two end-June quantitative PCs—on domestic government revenue and the primary fiscal balance—were missed (MEFP, Table 1). The revenue shortfall was Le 10.1 billion (about 0.2 percent of GDP), of which about Le 6 billion was due to technical reasons[1] and the rest to the authorities' decision to suspend a vehicle license fee until the vehicle registration process could be improved. Higher-than-programmed cost for fuel for the World Bank-supported Emergency Power Project (EPP) and duplicate transfers to Local Councils for health services[2] contributed to overruns on nonwage noninterest expenditure of 0.4 percent of GDP, thus breaching the other PC.

- Structural measures under the PRGF-supported program were implemented as planned (Table 12). The continuous structural PC on the monthly meetings of the Monetary Policy Committee (MPC) has been observed starting in June 2008 and legislation introducing the GST has been adopted by the Cabinet and submitted to Parliament (June structural benchmark—SB). In other areas of the reform agenda, the BSL finalized in June a comprehensive strategy and action plan for reform of the financial sector; the Cabinet launched a national Anti-Corruption Strategy (ACS) and Action Plan for 2008–13 in early June; and a revised ACA, granting investigative and prosecutorial powers to the ACC, was signed into law in September 2008.

- The government completed an audit of domestic arrears accumulated in 2005–07. Verified domestic arrears accumulated in 2007 amount to Le 20 billion (0.4 percent of GDP); they are being cleared, as programmed, using FY 2008 resources. Arrears accumulated in 2005–06, also verified by the audit, amount to Le 21 billion; the government intends to clear these over the medium term as fiscal space is created. The authorities adopted a strategy on how to address a recent out-of-court settlement with a domestic supplier in a manner consistent with the agreed macroeconomic framework for 2008 and 2009.

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[1] A payment of Le 6 billion received from a mining company in June was credited to the CRF at the BSL on July 2.

[2] Due to clerical errors, first quarter allocations were transferred twice in April, along with those for the second quarter; third quarter allocations were adjusted accordingly.

III. Report on the Discussions

A. Article IV Issues

5. **Against the backdrop of the global food and fuel crisis, the Article IV discussions dealt with four challenges**: (i) coping with rising world food and oil prices; (ii) making macroeconomic policies more effective; (iii) promoting private sector-led growth in order to make progress toward the MDGs; and (iv) maintaining external stability and competitiveness. There was a general convergence of views on many, though not all, policy issues.

Coping with rising world food and oil prices

6. **The food and fuel crisis prompted the authorities to take a number of measures to alleviate its impact on the population**. They have: (i) cut import duty rates on rice and flour from 15 and 20 percent, respectively to 10 percent; (ii) reduced taxation of petroleum products by shifting the import duty from an ad-valorem rate to a specific rate and lowering the excise tax; and (iii) imposed a ban on export of rice and palm oil. In parallel, with donor assistance, the authorities intensified distribution of food to some of the most vulnerable groups.[3]

7. **Staff advised against general subsidies through reductions in taxes because they tend to be ineffective but very costly to the budget**. Pump prices of petroleum products are lower than those in neighboring countries, providing incentives for cross-border smuggling. Staff therefore recommended a full pass-through of world oil prices to domestic prices and adoption of an automatic pricing mechanism to effect that. The authorities agreed to review the price structure; they did so before November, taking advantage of the drop in world prices.[4] They decided to keep current import tariffs on rice and flour throughout 2009 and are working to create the conditions for achieving food self-sufficiency and security by: (i) expanding the land area available for agriculture; (ii) increasing the access of smallholder farmers to improved inputs; and (iii) providing more extension services.

Sierra Leone: Retail fuel prices in MRU Countries
(mid-October 2008)

	Super	Diesel	Kerosine
	(In U.S. dollars per liter)		
Côte d'Ivoire	1.85	1.59	1.15
Guinea	1.51	1.51	1.51
Liberia	1.20	1.40	1.44
Sierra Leone	1.32	1.32	1.32

Sources: Country desk economists.

[3] In August, the World Bank approved a grant of US$4 million for a "Food-for-Work Program" and supplemental budget support of US$3 million to help compensate for the increased cost of food and fuel.

[4] Pump prices are to be, henceforth, adjusted automatically when the combined effects of world market prices and the exchange rate cause a variation of 5 percent in the leone-based landed cost of the petroleum products.

Making macroeconomic policies more effective

8. **The twin global crises (food and fuel, and financial) have brought to the fore the need for more effective macroeconomic policies**. Staff underscored that more effective policies would improve the economy's response to shocks and reduce domestic absorption as needed. More effective policies would also help sustain growth, contain inflation, and create fiscal space for pro-poor spending and public investment. To accomplish this, monetary aggregates should be monitored closely so that monetary targets can be promptly adjusted.

9. **The authorities concurred with staff that monetary policy should aim to prevent the second-round effects of higher import prices of food and fuel**. They indicated that monetary policy will lean against the wind to prevent higher inflation expectations from becoming entrenched. Given the high volatility in food and energy prices, staff suggested that a measure of core inflation also be used in assessing whether the monetary policy stance is appropriate.

10. **The authorities consider the intermediate objective of targeting reserve money growth to contain inflation as the appropriate policy framework.** The BSL is refining its market-based instruments, including open market operations (OMOs) through the sale of treasury bills and weekly foreign exchange auctions, but they have been handicapped by the lack of an adequate supply of treasury bills for monetary policy purposes. While welcoming the provision of additional T–bills for OMOs, staff underscored the need to improve monthly forecasting of liquidity to make BSL interventions more effective, so that it can better control reserve money growth and rein in inflation.[5] Staff pointed to the inherent tension between the de facto exchange rate regime (a conventional peg) and reserve money targeting and encouraged the authorities to allow greater exchange rate flexibility to supplement an appropriate mix of treasury bills and foreign exchange sales. The authorities indicated that the BSL had no target exchange rate path and limits its interventions to the achievement of the program objective for international reserves.

11. **It is essential that that fiscal policy support monetary policy**. The authorities agreed to reduce the fiscal dominance of the past few years and gradually lower the domestic primary fiscal deficit to limit government recourse to domestic financing.[6] [7] This would help prevent crowding-out private sector credit and contain inflation.

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[5] A Selected Issues Paper on monetary transmission mechanism concludes that a shock in the BSL's policy rate (91–day T–bill yield) typically impacts market interest rates and prices gradually, with the effect on prices peaking between 10 and 15 months later.

[6] Central bank financing will be limited to the use of MDRI resources consistent with the annual repayment schedules of the original obligations.

Sierra Leone: Fiscal Indicators, 2007–12
(Percent of GDP, unless otherwise indicated)

	2007	2008		2009	2010	2011	2012
	Act.	Prog. [1]	Proj.	Proj.			
Revenue and grants (excluding MDRI assistance)	15.6	18.4	18.1	18.6	18.2	18.3	18.9
Domestic revenue	10.8	11.9	11.8	12.3	13.3	13.6	13.8
Total expenditure and net lending	17.6	20.8	21.2	22.2	22.0	22.1	22.1
Of which: Current expenditure	13.3	15.2	15.2	14.9	14.6	14.6	14.6
Capital expenditure	3.5	5.7	6.0	7.3	7.4	7.5	7.5
Domestic primary fiscal balance	-1.9	-2.4	-2.8	-1.7	-1.2	-1.0	-0.9
Overall fiscal balance, commitment basis							
Excluding grants	-6.8	-9.0	-9.4	-9.9	-8.7	-8.5	-8.3
Including grants, but excluding MDRI relief	-2.0	-2.5	-3.2	-3.5	-3.8	-3.8	-3.1
Domestic financing	1.7	1.3	1.8	1.3	1.2	1.1	0.8
Domestic debt (end-period)	25.6	23.0	23.3	21.5	20.5	19.4	18.1
Poverty-reducing expenditures	3.0	5.6	7.1	5.8	4.9	5.3	5.5

Sources: Sierra Leonean authorities, and IMF staff estimates and projections.
[1] IMF Country Report No. 08/249.

12. **Mobilizing domestic revenue mobilization still poses a challenge**. Sierra Leone has the lowest domestic revenue-to-GDP ratio of all SSA countries (Figure 1) and needs to step up efforts in this area to create fiscal space. The authorities have made commendable progress in several areas, but recognized the need to sustain the reform efforts through timely passage of supporting legislations and effective implementation of the modernization plan for the NRA. Of particular note is their work to: (i) strengthen the Large Taxpayer Office; (ii) modernize the customs administration; and (iii) prepare to introduce the GST. They reiterated their commitment to introducing the GST but plan to delay its launch slightly to allow more time to educate stakeholders.[8] They are also determined to review mineral rights to maximize the contribution of the mining sector. Staff and the authorities agreed that current revenue mobilization efforts, if sustained, could raise the domestic revenue-to-GDP ratio from 11.8 percent in 2008 to 13.6 percent in 2011.

13. **Better management of public expenditure is essential to ensure budget credibility and make public spending more effective**. A National Action Plan (NAP) for PFM, prepared in 2005–06, is being updated in light of the findings of a Public Expenditure and Financial Accountability assessment and the recommendations of a Fiscal Affairs Department March 2008 technical assistance (TA) mission. Use of the IFMIS to process transactions is improving budget execution. Staff emphasized the need to: (i) strengthen the legal and regulatory framework for PFM; (ii) extend the IFMIS to all ministries, departments, and agencies (MDAs) to more tightly control spending commitments and prevent accumulation of domestic arrears; (iii) complete the reform of the procurement

[7] Limit on domestic financing would also help lower the domestic debt burden. Domestic debt is projected to decline from 25.6 percent of GDP in 2007 to 18.1 percent in 2012.

[8] The target launch date has been pushed from January 1 to April 2009.

framework; and (iv) build up audit and evaluation capacities. The authorities agreed that the current medium-term expenditure framework process will need to be revamped to emphasize strategic planning and introduce few selected performance indicators to ensure that budget allocations are consistent with the Poverty Reduction Strategy (PRS) objectives.

Promoting broad–based private sector–led growth

14. **Staff and authorities concurred that current growth rates are insufficient to reduce poverty significantly, particularly for the large rural population**. The authorities recognized that raising economic growth will require higher factor accumulation and productivity. The discussions therefore focused on policies needed to raise private sector investment and improve the efficiency of all factors of production. The authorities indicated that these policies will be reflected in the new PRSP, which is expected to be finalized later this year.[9]

15. **Rebuilding basic infrastructure is critical to sustaining high and broad-based economic growth over the medium term.** Both the authorities and representatives of the private sector noted that Sierra Leone's infrastructure has still to recover from the extensive damage it suffered during the war. Even though Sierra Leone is doing better than other fragile countries, its investment rate is lower than the SSA average. Staff welcomed the reallocation of public resources from nonwage noninterest expenditure toward basic infrastructure, but stressed that much of the factor accumulation would need to come from private investment, domestic and foreign.

Sierra Leone and sub-Saharan Africa: Investment Spending, 2005-2007

(Percent of GDP)

	Sierra Leone			sub-Saharan Africa		
	2005	2006	2007	2005	2006	2007
Total Investment	17.4	15.5	13.5	20.2	21.6	22.2
Public investment	5.8	5.1	3.5	6.8	7.4	7.7
Private investment	11.6	10.4	10.0	13.4	14.2	14.6

Source: IMF, *World Economic Outlook*, October 2008.

[9] The authorities plan to organize a Consultative Group meeting to mobilize donor support for implementing the PRS.

Box 2: Sources of Economic Growth in Sierra Leone

Assessing the sources of growth within the standard growth-accounting framework, using a capital-output elasticity of 0.35 (corresponding to the mid-value of the range of elasticities generally used in many other studies for low-income countries) leads to the following conclusions:

- During the period 1980–90, the contribution of total factor productivity (TFP) was negative and the low level of real GDP growth was mostly generated by the labor force.
- The civil war (1992–2001) severely weakened productive capacity and institutions, leading to very negative real GDP growth. The negative TFP during that period explains more than 75 percent of the decline in economic activity.
- Since the end of the civil war, each factor contributed positively to growth, especially TFP (61 percent). There was, however, considerable volatility around the average, reflecting large variations in the level of annual real GDP growth.

The turnaround in TFP contribution since the end of the conflict reflects a catch-up effect, mainly driven by reconstruction, a substantial surge of aid flows (including debt relief), and the payoff of improved structural and macroeconomic policies undertaken by the authorities starting in 2002. The challenge facing the authorities is to increase the contribution of physical capital to economic growth by raising public and private investment and maintaining or even improving the level of TFP experienced over the last few years. This will require preserving macroeconomic stability, deepening growth-conducive structural reforms, and improving the business environment for private-sector-led growth.

Sources of Economic Growth during 1980-2007

	1980-90		1991-2001		2002-07	
	Mean	Standard deviation	Mean	Standard deviation	Mean	Standard deviation
Real GDP growth	0.65	3.03	-5.66	12.22	10.19	6.94
Contribution of physical capital	0.15	1.54	-2.18	1.42	1.59	2.12
Contribution of labor force	1.49	0.51	0.83	1.33	2.39	1.06
Contribution of total factor productivity	-1.00	3.08	-4.30	11.80	6.21	7.12

16. **The authorities recognized the importance of enhancing the business environment to boost private sector activity**. While Sierra Leone does relatively well compared to its neighbors in the Mano River Union (MRU)[9] in terms of general ease of doing business, it lags behind other SSA countries and ranks near the bottom (156 out of 181) among all countries surveyed in the World Bank *Doing Business Survey, 2009*. Representatives of the private sector emphasized the need to ensure property rights and streamline the taxation of small business. The authorities indicated that the Foreign Investment Advisory Services of the World Bank and the U.K. DfID are working with them on simplifying regulatory framework and small business taxation.

Sierra Leone: Doing Business Indicators
(Rank, based on 181 countries)

	Sierra Leone	MRU Countries other than Sierra Leone (average)	sub-Saharan Africa
Ease of doing business	**156**	**163**	**137**
Starting a business	53	144	125
Dealing with construction permits	169	166	114
Registering property	163	156	123
Getting credit	145	146	119
Protecting investors	53	154	111
Paying taxes	160	125	110
Trading across borders	132	127	132
Enforcing contracts	141	140	118

Source: *World Bank*, Doing Business Project, 2009.

17. **Financial sector stability needs to be addressed**. Although most banks respect the required prudential ratios, staff raised concerns about the continued rise in nonperforming loans (NPLs) amid the significant increase in credit to the private sector (Table 10). The BSL explained that the NPLs are confined to a small number of banks suffering from a handful of large bad loans and that these banks are increasing provisioning and working to recover the loans or writing-down the NPLs. It noted that the planned introduction in 2009 of risk-based banking supervision (Basel II) and current efforts to introduce a credit reference bureau should help reinforce the banking system and improve credit quality.

Maintaining external stability and competitiveness

18. **Staff assessed the value of the leone to be broadly in line with fundamentals, but stressed the need for more exchange rate flexibility to help in adjusting to exogenous shocks**. The mission discussed with the authorities the preliminary results of a Selected Issues Paper (SIP) that assesses external stability (Box 3). Employing different methodologies, all results indicated no significant deviations from estimated equilibrium values—although the analysis was hindered by data weaknesses. The authorities welcomed the analysis and reiterated their commitment to increased exchange rate flexibility, not only to allow for appropriate response to external shocks but also to prevent a disruptive appreciation of the REER going forward. The BSL is prepared to actively participate in the foreign exchange market also as a buyer (MEFP, ¶ 20). There was, as noted, agreement on the importance of structural reforms to strengthen competitiveness and growth.

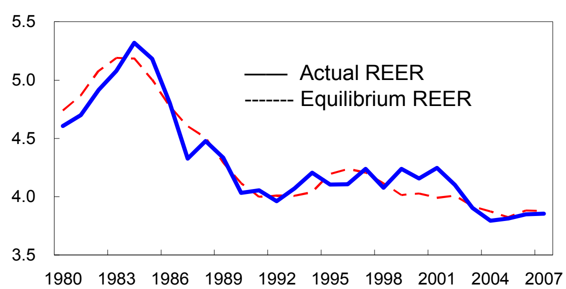
[9] Côte d'Ivoire, Guinea, Liberia, and Sierra Leone.

Box 3: Real Effective Exchange Rate Assessment

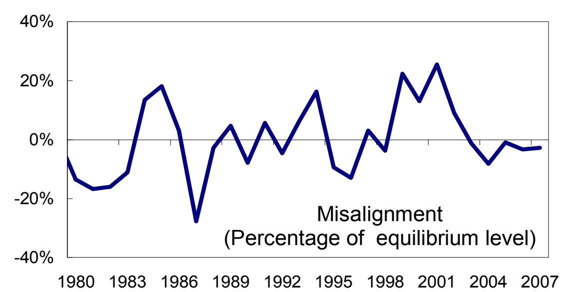
Results of a SIP on the REER and external competitiveness found the REER to be broadly in line with economic fundamentals. The paper uses the three methodologies proposed by the Consultative Group on Exchange Rate Issues (CGER). The results are as follows:

- The macroeconomic balance approach finds that the current REER deviates by a narrow range from its equilibrium values. The underlying current account balance is estimated to range from -4.6 to -5.3 percent of GDP, depending on the smoothing methodology chosen. The current account norm is estimated at -4.1 percent of GDP. With the current account elasticity with respect to the real effective exchange rate estimated to be 0.4, REER overvaluation is estimated to be between 1.3 and 3.1 percent, depending on the underlying current account balance estimate used.
- The equilibrium real exchange rate (ERER) approach finds that currently the REER is slightly undervalued. Autoregressive distributed lag (ARDL) models are used to estimate the coefficients of the major determinants of REER. Productivity, openness, investments, aid, and government expenditures are used in the estimates. Even though the REER has historically shown large under- and overvaluations (see figures below), currently it is undervalued by only 2.8 percent.

Actual and Equilibrium REER



Deviation from Equilibrium (percent of value)



- Using historical average net foreign assets position from 1980 to 2007, the external sustainability approach finds that the REER overvaluation ranges between 0.9 and 2.7 percent.

19. **Trade integration is fundamental to Sierra Leone's development strategy.** Improving cross–border trade could significantly reduce poverty and help diversify the economy. After world prices recently declined from earlier peaks, the authorities rescinded the ban on exports of rice and palm oil and reiterated their commitment to remain active in regional initiatives on trade integration, especially within the Economic Community of West African States (ECOWAS) and the MRU. They raised concerns, however, about uneven implementation among ECOWAS countries of trade liberalization and the common external tariff, which makes Sierra Leone vulnerable to smuggling and unfair competition.

20. **Sierra Leone is at a moderate risk of debt distress**. The conclusions of the Fund and World Bank debt sustainability analysis (DSA) completed in June 2008 are still valid

(Country Report No.08/249). External debt indicators are expected to remain below the DSA thresholds through 2028, barring unexpected adverse external developments.[10] Staff reiterated the need for continued prudent macroeconomic policies and reliance on grants and highly concessional resources to finance government operations. The authorities indicated that they are discussing with commercial creditors debt relief through the IDA–Debt Reduction Facility, and they are pursuing negotiations with official bilateral creditors on debt relief agreements that are consistent with the enhanced HIPC Initiative.

B. Program Issues

Medium–term macroeconomic framework

21. **The medium–term macroeconomic framework agreed with the authorities during the second PRGF review has been updated to reflect changes in the international environment.** The main changes are: (i) a downward revision in GDP growth of 0.5 percentage points for both 2008 and 2009 to take into account the global downturn and an unanticipated drop in mining production;[11] and (ii) an upward revision of inflation by about 2 percentage points in 2008—due to the food and fuel price shocks—but a return to a downward path in 2009. The updated macroeconomic framework still envisions a build up of the BSL's gross foreign reserves to 4.5 months of import coverage by 2012 and a significant increase in domestic investment.

22. **The revised 2009 program is still subject to uncertainties related to the unfolding financial crisis.** Output growth is projected at 5.5 percent (compared with 6 percent in the original program), predicated on agriculture picking up any slack resulting from the dampening effects of the global downturn and improved supply of electricity.[12] A deceleration in inflation is projected (12.7 percent against 15.6 percent forecast for 2008), helped by expected decline in food and oil world prices. The external current account deficit is expected to decline slightly thanks to projected improvement in the terms of trade. Donor financial support, more active participation of the BSL in the foreign exchange market as a buyer should help achieve the objective of raising gross international reserves slightly above 4 months of import coverage. There are significant downside risks—not yet quantifiable—to these projections stemming from: (i) lower remittances flows ; (ii) reduced foreign direct

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[10] The DSA shows that in most of the bounds tests the NPV of debt–to–GDP exceeds the threshold.

[11] A dredge at a major mining site collapsed.

[12] In response to the food and fuel crisis, the government launched initiatives to expand land for agriculture and strengthen extension services. Moreover, the Bumbuna Hydroelectric Project is expected to be completed by June 2009.

investment; and (iii) even lower demand and prices for Sierra Leone's export commodities. Should these risks materialize, the balance of payments would come under severe pressures.

Sierra Leone: Medium-Term Macroeconomic Indicators, 2007–12
(Percent of GDP, unless otherwise indicated)

	2007	2008		2009		2010	2011	2012
	Act.	Prog. [1]	Proj.	Prog. [1]	Proj.		Proj.	
Real GDP (annual percentage change)	6.4	6.0	5.5	6.0	5.5	5.8	6.0	6.5
Consumer prices (percentage change; end of period)	13.8	13.4	15.7	11.0	9.8	9.0	8.7	8.2
Consumer prices (percentage change; annual average)	11.7	14.1	15.6	12.2	12.7	9.4	8.9	8.5
Reserve money (annual percentage change)	26.0	17.2	18.2	15.1	13.4	10.9	10.7	10.5
Gross domestic investment	13.4	16.0	15.7	19.0	16.7	17.7	17.8	18.4
Public	3.5	5.7	6.0	7.7	7.3	7.4	7.5	7.5
Private	9.9	10.3	9.7	11.3	9.5	10.3	10.4	10.9
Gross domestic saving	6.0	5.8	5.1	9.5	8.9	10.5	11.6	12.5
External current account balance, including official transfers	-3.8	-6.5	-7.1	-6.1	-5.2	-4.6	-3.6	-3.3
External current account balance, excluding official transfers	-7.3	-10.3	-10.6	-9.4	-8.1	-7.5	-6.5	-6.3
Gross official reserves (months of imports)	4.6	3.5	3.9	3.9	4.2	4.3	4.4	4.5

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

[1] IMF Country Report No. 08/249.

Policies for the rest of 2008

23. **Additional measures are being taken to ensure that the fiscal targets for the year as a whole will be achieved.** On the revenue side, the measures include: (i) the transfer of all off-budget revenue collected by MDAs to the Consolidated Revenue Fund, as required by the 2007 and 2008 Finance Acts; (ii) restoration petroleum product taxation to its 2006 level; and (iii) the imposition, effective October 1, of interest and penalties on late or under payment of tax. On the expenditure side, the authorities have cut allocations for the last quarter to offset the spending overruns of the first half of 2008.

24. **Monetary policy will continue to aim at containing inflation pressures**. The capacity of the BSL to conduct OMOs has been enhanced (see ¶ 10) and the option to convert an additional Le 32.5 billion of noninterest- into interest-bearing marketable securities before year-end bodes well for the conduct of monetary policy.

Policies for 2009

25. **Fiscal policy will aim to consolidate macroeconomic stability and lay the basis for solid economic growth** (MEFP, ¶ 17). The 2009 budget envisages a reallocation of resources from current toward capital expenditures, in line with the authorities' decision to give priority to basic infrastructures. A significant improvement is expected in revenue collection, reflecting efficiencies realized as the NRA modernization plan takes hold. In particular, the NRA will establish a Domestic Tax Department as a vehicle for achieving integration of domestic tax collection (end–December PC). Also, a strict application of policy measures specified in the 2007 and 2008 Finance Acts, and the introduction of the GST in the first half of 2009 should enhance revenue performance. To bolster the shift in expenditure composition, the authorities intend to enforce budget execution procedures and avoid

overruns and extrabudgetary spending (MEFP, ¶ 18). In line with the requirements of the Government Budgeting and Accountability Act and financial management regulations, budget committees in key MDAs will be adequately staffed and made operational to improve budget preparation and execution (end–June PC). The primary fiscal deficit is projected to decline by 1.1 percentage points of GDP. The program will be financed primarily by donor support of the government's PRS and the use of MDRI resources.

Sierra Leone: Programmed External Budget Support and use of MDRI resources in 2009
(In million of US dollars)

	2009				
	Q1	Q2	Q3	Q4	Total
United Kingdom	0.0	18.5	0.0	6.6	25.1
European Union	0.0	12.0	0.0	4.6	16.6
World Bank	0.0	0.0	0.0	10.0	10.0
AfDB	8.0	0.0	0.0	0.0	8.0
Total budget support	8.0	30.5	0.0	21.2	59.7
Use of MDRI resources	9.9	6.6	9.9	1.6	28.0

Source: Sierra Leonean authorities.

26. **Monetary policy will aim at lowering inflation to single digits by the end of 2009**. To limit second-round effects of the food and fuel price increases in 2008, monetary policy will be tightened moderately, with reserve money growth below growth in nominal GDP. The mission reiterated the need for an appropriate mix of T–bills and foreign exchange sales to help sterilize foreign exchange liquidity injections and use of MDRI resources.

27. **Structural reforms in 2009 will strengthen the foundations for economic growth and improve delivery of public services by**

- *Implementing the comprehensive strategy for reform of the financial sector that was adopted in June 2008*. The plan calls for strengthening bank supervision, enhancing competition, increasing access to commercial bank credit, and improving the payment system. A number of laws have already been approved or are being revised (MEFP, ¶ 22). The BSL is moving to build the capacity of its banking supervision department to conduct supervision of banks, both onsite and off. It will adopt new off-site surveillance guidelines and introduce reporting requirements based on these guidelines (end–September PC).

- *Shoring up the capital base of the BSL to enable it to perform its core mandates more effectively*. Staff welcomed the authorities' decision to recapitalize the BSL, by converting in 2009 Le 130 billion of noninterest-bearing securities into 5–year T–bonds at a 9 percent interest rate), as was recommended by the May 2008 IMF Monetary and Capital Markets Department TA mission.

- *Putting the National Power Authority (NPA on a sound financial footing*. The authorities plan to adopt a comprehensive electricity tariff policy by December 2008 (SB) that would cover generation and distribution costs. Closer oversight of financial and technical operations of the NPA is envisaged through the appointment of resident financial experts and a supervisory engineer, in consultation with the World Bank.

- *Promoting good governance and accountability and enhancing transparency in the use of public resources*. Following the strengthening of the ACC (¶ 4), the authorities will conduct semi-annual assessments of the status of progress on the national ACS to ensure sustained progress in the fight against corruption (MEFP, ¶ 25). Sierra Leone became a candidate for the Extractive Industries Transparency Initiative in February 2008 and agreed on a work plan to be implemented within two years to reach validation status. The World Bank is helping with implementation of the work plan.

Program monitoring, risks, and augmentation of access

28. **The proposed conditionality for the fourth review is consistent with program goals**. It has been streamlined to focus on tax and customs administrations, PFM, and financial sector reform—all critical to achieving program objectives (see MEFP Table 3 for the rationale for the measures). Staff is proposing an upward revision of the end–December 2008 target for the primary fiscal deficit by 0.4 percentage points of GDP to accommodate the full-year impact of the rise in world oil prices on the cost of fuel for the EPP.

29. **The authorities are requesting augmentation of access equivalent to 10 percent of quota** (LOI, ¶ 5). While the external current account is expected to improve relative to the program's original target because of the significant *World Economic Outlook* downward revision of oil prices for 2009, the balance of payments remains vulnerable to adverse exogenous shocks. In addition, as indicated in the staff report for the second review (Country Report No. 08/249), the authorities deferred their request for an augmentation earlier in the year. The additional support will enable the BSL to build up its foreign reserve position in 2009–10 and better cope with the unfolding global financial crisis should additional risks to the program materialize (¶ 22).

30. **Given Sierra Leone's arrears to private external creditors, the staff discussed financing assurances.** The authorities have been engaging with external commercial creditors and have made goodwill payments to some of them to avoid litigation. The current status of Sierra Leone's relations with its external creditors provides sufficient financing assurances for the Fund-supported program.

31. **Risks to the program include:**

- *Lingering effects of increases in world food and oil prices*. Notwithstanding the measures taken to lessen the impact of the global food and fuel crisis and a recent reversal in world prices, the rise in inflation may intensify wage demands causing public spending to increase beyond what is budgeted for 2009.

- *The global financial crisis*. While the financial system has yet to feel the impact of the global financial crisis because Sierra Leone's commercial banks have limited exposure to international markets, the crisis could cause problems as commercial banks might lose some of their deposits with troubled foreign correspondent banks. In addition, parent banks of Sierra Leonean subsidiaries might be forced to repatriate capital, thus constraining credit.

32. **The authorities have provided reasonable assurances to address these risks**. They pointed to the moderate general salary increases planned for 2009, which, in addition to the measures on import tariffs for essential goods, should broaden domestic support for their public sector wage policy. As to global financial crisis, the BSL will closely monitor closely developments in the financial, especially bank open positions in foreign currency.

IV. Statistical Issues

33. **Statistical weaknesses hamper surveillance, even though fiscal and monetary statistics are in general adequate for program monitoring**. There are still shortcomings in balance of payments and national accounts data. The authorities are cooperating fully in providing data to the Fund and regularly disseminating economic and financial data to the public. The Fund Statistics Department has conducted a series of missions to Freetown as part of the GDDS/DfID Project to help improve the collection and dissemination of national accounts estimates. The authorities are making efforts to improve the timeliness and quality of economic and financial data.

V. Staff Appraisal

34. **Sierra Leone has managed its post-conflict transition well, adopting policies that support economic growth and poverty reduction**. Peace is being consolidated, economic growth has been robust and broad-based, inflation has been contained (although the recent surge in world food and oil prices has made it difficult to bring it back to single digits), and external reserve position has been relatively strong. Yet Sierra Leone's social indicators still lag far behind those of other fragile states. Sustained efforts are needed to preserve macroeconomic stability and fight poverty, which is pervasive.

35. **While the authorities' response to the food and fuel crisis in 2008 addressed short-term concerns, a better-targeted more sustainable response is now needed**. The expansion of such social programs as school feeding and food-for-work programs would go a long way in protecting more vulnerable groups while limiting budgetary costs. The recent decision to allow full pass-through of world oil prices to domestic pump prices is welcome and will facilitate efficient adjustments of the domestic economy.

36. **Mobilizing more domestic revenue should continue to be a priority**. The authorities are encouraged to steadfastly implement the NRA modernization plan and to introduce the GST as planned in the first half of 2009. Given Sierra Leone's relatively low

revenue-to-GDP ratio, the current review of mining rights needs to be expedited to explore whether there is room to boost the sector's contribution to domestic revenue while ensuring a predictable environment for doing business.

37. **Weaknesses in budget procedures and execution must be addressed**. Budget discipline needs to be enforced to avoid expenditure overruns and extrabudgetary spending. The authorities are encouraged to increase their efforts to improve public expenditure management to ensure greater transparency, accountability, and efficiency in the use of public resources.

38. **There are no major concerns about competitiveness and external stability at present**. However, given Sierra Leone's high inflation differential with major trading partners and the current account deficits likely over the medium term, there is a risk of a disruptive appreciation of the REER. It is important that the authorities pursue sound macroeconomic policies and allow for greater flexibility in the nominal exchange rate. They also need to accelerate structural reforms and strengthen institutions to improve external competitiveness.

39. **The global financial crisis has brought to the fore the urgency of addressing weaknesses in the financial sector**. While the banking system is well capitalized and moderately profitable, the high level of NPLs is a cause of concern. It is important that the BSL strengthen its supervisory capacity and monitor developments closely to detect financial sector vulnerabilities early.

40. **The DSA for Sierra Leone shows little room for it to accumulate debt**. The authorities should rely on grants and highly concessional loans for financing their development program. The authorities' resolve to strengthen debt management and seek grants from donors for implementation of the new PRS is understandable.

41. **Structural reforms need to be accelerated to raise economic growth and improve delivery of public services**. The authorities have made a notable commitment to return the NPA to financial viability and promote good governance and accountability in the use of public resources. They now need to accelerate the reform of the NPA and push down further the cost of doing business in order to create an environment that is business-friendly.

42. **Staff recommends completion of the third review and augmentation of access**. Staff supports the authorities' request for waivers for the nonobservance of two quantitative PCs because corrective measures have been taken that should ensure that the related end–December targets can be met.

43. Staff recommends that the next Article IV consultation take place within 24 months, in line with the decision on consultation cycles in program countries.

Table 1. Sierra Leone: Selected Economic and Financial Indicators, 2006–12

	2006	2007	2008		2009		2010	2011	2012
	Act.	Act.	Prog.[1]	Proj.	Prog.[1]	Proj.		Proj.	
			(Annual percentage change, unless otherwise indicated)						
Income and expenditure									
Real GDP	7.4	6.4	6.0	5.5	6.0	5.5	5.8	6.0	6.5
GDP deflator	11.9	10.8	11.0	12.0	6.6	8.3	5.1	5.6	5.4
Nominal GDP	20.1	17.9	17.7	18.2	13.0	14.3	11.2	11.9	12.2
Consumer prices (end of period)	8.3	13.8	13.4	15.7	9.7	9.8	9.0	8.7	8.2
Consumer prices (annual average)	9.5	11.7	14.1	15.6	10.4	12.7	9.4	8.9	8.5
Money and credit									
Broad money	18.9	25.9	20.5	20.9	14.8	14.0	11.1	11.7	12.0
Velocity (level)	4.7	4.4	4.3	4.3	4.2	4.3	4.3	4.3	4.3
Domestic credit [2]	-48.7	27.2	30.6	41.9	20.9	20.8	19.8	18.4	13.7
Government [2]	-63.9	17.6	41.3	49.1	20.5	21.9	18.6	17.5	8.8
Private sector	18.5	39.4	19.8	34.6	21.8	20.0	21.8	19.9	20.0
Reserve money	10.7	26.0	17.2	18.2	14.3	13.4	10.9	10.7	10.5
Interest rate [3]	14.2	21.3	...	...	...	...	...	...	...
External sector									
Exports (US$)	28.3	3.9	11.6	0.0	12.4	12.0	21.4	14.9	14.9
Imports (US$)	1.9	4.6	18.1	17.4	6.8	-1.8	14.1	8.2	12.3
Terms of trade (– = deterioration)	-6.4	-0.6	-13.5	-17.9	0.8	0.6	3.4	0.8	0.8
Real effective exchange rate (– = depreciation; eop)	-7.4	0.5	…	…		…	…	…	…
			(Percent of GDP)						
Gross domestic saving	7.9	6.0	5.8	5.1	9.5	8.9	10.5	11.7	12.5
Government	-1.3	0.3	-0.8	-0.9	0.3	0.0	1.1	1.4	1.5
Private	9.1	5.7	6.5	6.0	9.2	8.8	9.4	10.3	11.0
Gross domestic investment	15.5	13.4	16.0	15.7	19.0	16.7	17.7	17.8	18.4
Government	5.1	3.5	5.7	6.0	7.7	7.3	7.4	7.5	7.5
Private	10.4	9.9	10.3	9.7	11.3	9.5	10.3	10.4	10.9
Current account balance, including official transfers	-3.5	-3.8	-6.5	-7.1	-6.1	-5.2	-4.6	-3.6	-3.3
Current account balance, excluding official transfers	-8.8	-7.3	-10.3	-10.6	-9.4	-8.1	-7.5	-6.5	-6.3
Overall balance of payments	10.2	1.9	-1.9	-2.7	1.2	0.8	0.5	1.7	1.3
Government domestic revenue	11.8	10.8	11.9	11.8	12.4	12.3	13.3	13.6	13.8
Total expenditure and net lending	22.7	17.6	20.8	21.2	22.6	22.2	22.0	22.1	22.1
Of which: current expenditure	17.6	13.3	15.2	15.2	14.9	14.9	14.6	14.6	14.6
Overall fiscal balance									
(excluding grants and MDRI)	-11.0	-6.8	-9.0	-9.4	-10.2	-9.9	-8.7	-8.5	-8.3
(including grants and MDRI) [4]	9.3	25.2	-2.5	-3.2	-4.2	-3.5	-3.8	-3.8	-3.1
Domestic primary fiscal balance [5]	-3.1	-1.9	-2.4	-2.8	-1.7	-1.7	-1.2	-1.0	-0.9
Domestic financing	-10.4	1.7	1.3	1.8	1.2	1.3	1.2	1.1	0.8
Financing gap (US$ millions)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
			(Percent of exports of goods and nonfactor services)						
Debt service due (incl. to IMF) after debt relief [6]	6.6	4.1	3.3	3.1	2.9	2.8	4.1	5.0	5.0
Debt service due (incl. to IMF) before debt relief	18.9	135.7	4.1	4.1	3.5	3.6	4.7	5.6	5.6
Net present value of debt-to-exports ratio [7]	52.1	41.1	45.2	49.9	45.9	56.2	56.6	56.7	56.1
			(US$ millions, unless otherwise indicated)						
Memorandum items:									
External current account balance, excluding official transfers	-125.8	-122.1	-186.7	-209.4	-176.3	-173.0	-169.2	-157.5	-163.8
Gross international reserves	184.2	215.5	185.9	180.1	220.9	219.3	239.9	274.9	299.9
(months of imports) [8]	4.7	4.6	3.5	3.9	3.9	4.2	4.3	4.4	4.5
GDP	1,423.7	1,664.8	1,813.7	1,968.9	1,882.8	2,130.7	2,261.2	2,421.3	2,603.6
GDP (Le billions)	4,217.0	4,969.8	5,845.4	5,873.4	6,688.5	6,711.8	7,461.9	8,353.6	9,372.9

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

[1] IMF Country Report No. 08/249.

[2] The numbers reflect the impact of MDRI.

[3] 91-day treasury bill rate (end of period).

[4] For 2006, MDRI relief from IMF; for 2007, MDRI relief from IDA and AfDF (both as stock of debt relief).

[5] Domestic revenue minus total expenditure and net lending, excluding interest payments, and externally financed capital expenditure.

[6] Percent of exports of goods and services; after Naples (2001) and Cologne flow reschedulings (2002–04) and delivery of full HIPC Initiative and MDRI assistance.

[7] Net present value (NPV) of debt under the LIC DSF.

[8] Months of imports of goods and services of subsequent year.

Table 2. Sierra Leone: Central Government Financial Operations, 2008–09
(Cumulative; Le billions, unless otherwise indicated)

	2008						2009			
	Q1	Q2		Q3		Q4	Q1	Q2	Q3	Q4
	Actual	Prog. 1/	Act.	Prog. 1/	Prel.	Proj	Proj.			
Total revenue and grants	210.5	421.7	397.9	786.4	703.1	1,060.9	266.5	623.1	895.1	1,249.9
Domestic revenue	151.0	326.9	316.8	508.4	492.7	692.7	180.7	386.6	602.7	824.0
Income Tax Department	45.0	94.6	96.0	147.5	147.4	196.5	49.5	107.8	170.1	230.8
Customs and Excise Department	82.4	178.9	174.5	273.0	270.0	370.9	102.1	213.5	333.8	458.8
Mines Department	3.6	10.2	5.8	16.7	15.3	26.2	6.3	13.7	21.0	29.2
Other departments	9.0	17.3	18.3	32.4	27.0	45.3	10.7	24.6	36.3	49.0
Road user charges	11.0	25.8	22.3	38.8	32.9	53.8	12.1	27.0	41.3	56.2
Grants	59.5	94.8	81.0	278.1	210.4	368.2	85.8	236.4	292.4	425.9
Program	0.4	1.7	0.4	146.7	91.4	209.3	27.1	124.7	126.4	201.0
Of which: HIPC assistance [2]	0.4	1.7	0.4	3.6	6.0	10.7	1.9	3.4	5.2	12.8
Projects	59.1	93.1	80.6	131.4	118.9	159.0	58.7	111.7	166.0	224.9
Total expenditure and net lending	293.5	596.4	579.0	900.4	885.8	1,246.6	351.9	727.6	1,100.5	1,486.7
Current expenditure	193.4	417.7	441.0	634.4	657.6	894.6	225.1	478.9	728.7	1,000.9
Wages and salaries	77.9	165.7	161.1	254.9	247.3	340.2	99.8	199.7	299.9	400.2
Current noninterest, nonwage expenditure	84.5	194.4	216.4	293.7	319.7	433.6	99.9	221.2	338.7	460.2
Goods and services	61.2	130.8	144.8	201.2	224.0	302.7	66.2	146.2	224.0	304.4
Of which: Emergency Power Project	19.4	37.2	45.3	55.8	68.6	98.2	20.8	41.6	41.6	41.6
Transfers to local councils	5.1	20.8	32.1	27.7	35.4	41.5	13.0	28.9	44.2	60.1
Grants to educational institutions	6.0	13.6	13.4	20.6	22.5	27.2	8.4	18.7	28.6	38.9
Transfers to Road Fund	11.0	25.8	22.3	38.8	32.9	53.8	12.1	27.0	41.3	56.2
Elections	1.1	3.2	3.8	5.1	5.0	7.5	0.1	0.2	0.3	0.4
Interest payments	31.0	57.6	63.5	85.9	90.6	120.9	25.4	58.0	90.1	140.5
Domestic	29.1	52.4	58.2	78.8	84.1	109.6	23.4	52.0	82.5	127.6
Foreign	1.9	5.2	5.3	7.1	6.5	11.2	2.0	6.0	7.6	12.9
Capital expenditure and net lending	100.1	178.7	138.0	266.0	228.3	351.9	126.9	248.7	371.8	485.8
Capital expenditure	100.1	179.6	138.0	267.9	228.3	353.8	127.1	249.2	372.6	486.8
Externally financed	71.5	130.5	94.9	198.9	163.3	267.3	113.0	211.3	310.9	406.0
Loans	12.4	37.5	14.3	67.5	44.3	108.3	12.6	25.3	37.9	12.6
Grants	59.1	93.1	80.6	131.4	118.9	159.0	21.7	43.5	65.2	21.7
Domestically financed	28.6	49.1	43.1	69.0	65.0	86.6	14.1	37.9	61.7	80.8
Net lending	0.0	-1.0	0.0	-1.9	0.0	-1.9	-0.3	-0.5	-0.8	-1.0
Contingency spending related to MDRI relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)										
Excluding grants	-142.5	-269.5	-262.2	-392.0	-393.1	-553.9	-171.2	-340.9	-497.9	-662.7
Including grants and MDRI assistance from IDA and AfDF	-83.0	-174.7	-181.1	-113.9	-182.7	-185.6	-85.4	-104.5	-205.5	-236.8
Total financing	83.0	174.7	181.1	113.9	182.7	185.6	85.4	104.5	205.5	236.8
Foreign	8.3	26.5	7.4	45.9	34.9	77.4	49.1	85.4	128.6	150.3
Borrowing	12.4	37.5	14.3	67.5	44.3	108.3	54.3	99.6	144.9	181.1
Project	12.4	37.5	14.3	67.5	44.3	108.3	54.3	99.6	144.9	181.1
Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-4.1	-11.0	-6.9	-21.6	-9.5	-30.9	-5.2	-14.2	-16.3	-30.8
Domestic	91.9	164.4	153.7	84.2	144.9	108.2	36.3	19.0	76.9	86.4
Bank financing	47.1	116.8	82.7	85.0	137.7	127.3	32.1	33.4	87.4	100.2
Of which: change in MDRI-related deposits	57.2	77.9	80.3	98.1	115.6	98.3	31.2	52.0	83.2	88.2
Nonbank financing	44.8	47.6	71.0	-0.9	7.3	-19.1	4.2	-14.4	-10.5	-13.8
Government bonds	20.6	10.6	32.1	14.3	-17.3	-6.9	5.3	-0.3	7.1	7.3
Privatization receipts	0.0	0.0	0.0	0.0	0.0	13.9	6.0	12.0	12.0	12.0
Change in arrears	-1.5	-3.1	-2.2	-25.2	-14.9	-41.9	-7.2	-26.1	-29.6	-33.1
Float (including checks payable/receivable)	25.6	40.1	41.0	10.1	39.4	15.8	0.0	0.0	0.0	0.0
Unaccounted (– = overfinancing of the budget)	-17.3	-16.2	20.0	-16.1	2.9	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (Le billions)	5,873	5,845	5,873	5,845	5,873	5,873	6,712	6,712	6,712	6,712
Total HIPC assistance (percent of GDP)	0.0	0.0	0.0	0.1	0.1	0.2	0.0	0.1	0.1	0.2
Total poverty expenditures (percent of GDP)	1.3	2.7	3.6	4.2	1.6	7.1	1.2	2.7	3.8	4.9
(Le billions)	75.1	157.7	210.4	243.4	94.7	415.3	82.1	181.0	256.4	330.6
	(Percent of GDP, unless otherwise indicated)									
Domestic revenue	2.6	5.6	5.4	8.7	8.4	11.8	2.7	5.8	9.0	12.3
Total expenditure and net lending	5.0	10.2	9.9	15.4	15.1	21.2	5.2	10.8	16.4	22.2
Of which: current expenditure	3.3	7.1	7.5	10.9	11.2	15.2	3.4	7.1	10.9	14.9
capital expenditure	1.7	3.1	2.3	4.6	3.9	6.0	1.9	3.7	5.5	7.2
Overall fiscal balance				0.0						
Including grants and MDRI	-1.4	-3.0	-3.1	-1.9	-3.1	-3.2	-1.3	-1.6	-3.1	-3.5
Excluding grants	-2.4	-4.6	-4.5	-6.7	-6.7	-9.4	-2.6	-5.1	-7.4	-9.9
Domestic primary balance [3]	-0.7	-1.4	-1.8	-1.8	-2.4	-2.8	-0.5	-1.1	-1.4	-1.7
(Le billions)	-40.0	-81.4	-103.7	-107.3	-139.2	-165.7	-32.8	-71.6	-96.9	-116.2
Domestic financing	1.6	2.8	2.6	1.4	2.5	1.8	0.5	0.3	1.1	1.3
Total wages and salaries	1.3	1.5	2.7	3.1	1.6	5.8	1.5	3.0	4.5	6.0
Total wages and salaries (percent of domestic revenue)	51.6	50.7	50.8	50.1	46.5	49.1	55.2	51.6	49.8	48.6

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

1 IMF Country Report No. 08/249.

2 HIPC Initiative relief is shown as program grants, consistent with revised presentation in the balance of payments from 2002 onward.

3 Domestic revenue minus total expenditure and net lending, excluding interest payments and externally financed capital expenditures.

Table 3. Sierra Leone: Central Government Financial Operations, 2007–12
(Le Billions, unless otherwise indicated)

	2007	2008		2009		2010	2011	2012
	Actual	Prog. [1]	Proj.	Prog. [1]	Proj.		Proj.	
Total revenue and grants	2,129.3	1,074.0	1,060.9	1,235.1	1,249.9	1,357.9	1,528.3	1,772.9
Domestic revenue	536.9	692.7	692.7	831.5	824.0	989.3	1,132.6	1,291.3
Income Tax Department	146.2	196.5	196.5	232.5	230.8	285.0	319.0	357.9
Customs and Excise Department	308.4	370.9	370.9	456.7	458.8	547.6	640.3	729.0
Mines Department	18.6	26.2	26.2	34.7	29.2	36.9	44.6	60.0
Other departments	29.4	45.3	45.3	52.7	49.0	62.6	70.1	78.6
Road user charges	34.4	53.8	53.8	54.9	56.2	57.3	58.7	65.7
Grants	1,592.5	381.3	368.2	403.7	425.9	368.6	395.7	481.6
Program	168.7	222.3	209.3	215.1	201.0	191.9	210.6	238.0
Of which: HIPC assistance [2]	35.0	11.1	10.7	12.3	12.8	11.4	11.9	0.0
Projects	70.6	159.0	159.0	188.5	224.9	176.7	185.1	243.6
MDRI assistance from IDA, and AfDF	1,353.2	...	...	...	...	...	...	...
Total expenditure and net lending	876.6	1,218.4	1,246.6	1,513.2	1,486.7	1,641.9	1,844.7	2,067.5
Current expenditure	660.9	887.0	894.6	997.2	1,000.9	1,093.1	1,222.0	1,365.3
Wages and salaries	296.5	356.2	340.2	416.2	400.2	455.0	509.4	582.5
Of which: social security payments	14.0	19.7	18.1	20.7	21.7	21.7	21.7	21.7
Current noninterest, nonwage expenditure	252.3	409.8	433.6	436.9	460.2	494.6	557.6	628.6
Goods and services	157.3	278.9	302.7	284.3	304.4	321.0	371.0	420.1
Of which: Emergency Power Project	...	74.4	98.2	0.0	41.6	...	...	...
Transfers to local councils	19.3	41.5	41.5	54.0	60.1	69.9	77.0	86.3
Grants to educational institutions	27.4	27.2	27.2	41.4	38.9	45.5	50.1	56.2
Transfers to Road Fund	34.4	53.8	53.8	54.9	56.2	57.3	58.7	65.7
Elections	13.8	7.5	7.5	0.4	0.4	0.6	0.6	0.0
Interest payments	112.1	121.0	120.9	144.1	140.5	143.5	155.0	154.2
Domestic	96.3	109.6	109.6	130.9	127.6	129.9	140.7	135.3
Foreign	15.9	11.3	11.2	13.2	12.9	13.6	14.3	18.9
Capital expenditure and net lending	176.7	331.4	351.9	516.1	485.8	548.8	622.7	702.1
Capital expenditure	173.8	333.3	353.8	517.1	486.8	548.8	622.7	702.1
Externally financed	132.4	267.3	267.3	424.0	406.0	418.0	474.7	536.1
Domestically financed	41.4	66.0	86.6	93.1	80.8	130.7	148.0	166.1
Net lending	2.9	-1.9	-1.9	-1.0	-1.0	0.0	0.0	0.0
Contingency spending related to MDRI	39.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)								
Excluding grants	-339.7	-525.7	-553.9	-681.8	-662.7	-652.6	-712.0	-776.2
Including grants	1,252.7	-144.4	-185.6	-278.1	-236.8	-284.0	-316.3	-294.6
Total financing	-1,252.7	144.4	185.6	278.1	236.8	284.0	316.3	294.6
Foreign	-1,333.8	70.1	77.4	192.0	150.3	191.4	224.6	220.9
Borrowing	61.8	108.3	108.3	235.5	181.1	241.3	289.6	292.4
Project	61.8	108.3	108.3	235.5	181.1	241.3	289.6	292.4
Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization [3]	-1,395.6	-38.2	-30.9	-43.4	-30.8	-49.9	-65.0	-71.5
Domestic	83.5	74.3	108.2	86.1	86.4	92.6	100.9	127.1
Bank financing	28.0	127.2	127.3	106.0	100.2	103.7	115.9	68.7
Central bank	30.0	98.3	98.3	99.4	88.2	111.7	116.3	68.0
Of which: change in MDRI-related deposits	39.0	98.3	98.3	99.4	88.2	111.7	116.3	68.0
Commercial banks	-2.0	28.9	29.0	6.6	12.0	-8.0	-0.4	0.7
Nonbank financing	55.4	-52.9	-19.1	-20.0	-13.8	-11.2	-15.0	58.4
Government bonds	11.3	-6.9	-6.9	-6.7	7.3	0.9	0.0	38.4
Privatization receipts	5.2	0.0	13.9	0.0	12.0	0.0	0.0	0.0
Change in arrears	39.0	-46.0	-41.9	-13.2	-33.1	-12.0	-15.0	20.0
Of which: arrears to local councils	0.0	-15.3	-15.3	0.0	0.0	0.0	0.0	0.0
Float (checks payable)	0.0	0.0	15.8	0.0	0.0	0.0	0.0	0.0
Unaccounted (– = overfinancing of the budget)	-2.4	0.0	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 items								
Nominal GDP	4,969.8	5,845.4	5,873.4	6,688.5	6,711.8	7,461.9	8,353.6	9,372.9
Total HIPC assistance (percent of GDP)	0.7	0.2	0.2	0.2	0.2	0.2	0.1	0.0
Total poverty expenditures (percent of GDP)	3.0	5.6	7.1	5.8	4.9	5.3	5.5	5.6
(Le billions)	147.8	326.7	415.3	387.9	330.6	394.0	456.2	524.6
		(Percent of GDP, unless otherwise indicated)						
Domestic revenue	10.8	11.9	11.8	12.4	12.3	13.3	13.6	13.8
Total expenditure and net lending	17.6	20.8	21.2	22.6	22.2	22.0	22.1	22.1
Of which: current expenditure	13.3	15.2	15.2	14.9	14.9	14.6	14.6	14.6
capital expenditure	3.5	5.7	6.0	7.7	7.3	7.4	7.5	7.5
Overall fiscal balance (commitment basis)								
Including grants	25.2	-2.5	-3.2	-4.2	-3.5	-3.8	-3.8	-3.1
Excluding grants	-6.8	-9.0	-9.4	-10.2	-9.9	-8.7	-8.5	-8.3
Domestic primary balance [4]	-1.9	-2.4	-2.8	-1.7	-1.7	-1.2	-1.0	-0.9
(Le billions)	-95.2	-137.4	-165.7	-113.7	-116.2	-91.0	-82.4	-86.0
Domestic financing	1.7	1.3	1.8	1.3	1.3	1.2	1.2	0.8
Domestic debt stock, at end-period	25.6	23.0	23.3	21.4	21.5	20.5	19.4	18.1
Total wages and salaries	6.0	6.1	5.8	6.2	6.0	6.1	6.1	6.2
Total wages and salaries (percent of domestic revenue)	55.2	51.4	49.1	50.1	48.6	46.0	45.0	45.1

Sources: Sierra Leonean authorities, and IMF staff estimates.

[1] IMF Country Report No. 08/249.

[2] HIPC Initiative relief is shown as program grants consistent with revised presentation in the balance of payments from 2002 onward.

[3] The amount for 2007 includes MDRI relief from IDA and AfDF (as stock of debt relief).

[4] Domestic revenue minus total expenditure and net lending, excluding interest payments and externally financed capital expenditure.

Table 4. Sierra Leone: Monetary Survey, 2007–09

(Le billions; at actual exchange rates unless otherwise indicated)

	2007		2008							2009			
	Dec.		Mar.		Jun.		Sep.		Dec.	Mar.	Jun.	Sep.	Dec.
	Prog. [1]	Act.	Proj.	Act.	Prog. [2]	Act.	Prog. [2]	Prel.		Projections			
Monetary survey													
Net foreign assets	676.2	882.6	882.7	824.3	979.6	821.4	800.4	801.8	741.5	788.9	939.5	913.4	919.4
Net domestic assets	241.0	273.1	292.6	341.6	418.6	429.5	407.4	532.5	617.2	607.9	524.1	625.0	630.9
Domestic credit	461.6	579.5	593.6	667.7	687.8	742.0	691.2	852.9	822.0	851.5	877.2	996.4	993.4
Net credit to government	248.8	307.3	353.7	359.3	424.0	414.6	392.2	468.7	458.4	490.5	491.8	545.7	558.6
Narrow definition [3]	-281.4	-205.5	-126.5	-158.4	-75.7	-122.8	-107.5	-67.9	-54.2	-27.1	-45.8	-5.8	46.0
Claims on nonfinancial public enterprises	9.2	8.4	6.6	11.0	6.6	10.4	6.6	12.6	8.6	8.7	8.7	8.7	8.7
Claims on private sector	203.6	263.7	233.3	297.3	257.3	317.0	292.3	371.6	355.0	352.3	376.8	442.0	426.2
Other items (net)	-220.6	-306.4	-300.9	-326.1	-269.2	-312.5	-283.8	-320.5	-204.8	-243.6	-353.2	-371.4	-362.5
Broad money	917.2	1,128.5	1,175.3	1,165.9	1,398.2	1,251.0	1,207.8	1,334.3	1,358.7	1,396.8	1,463.6	1,538.4	1,550.3
Money	425.4	549.6	521.8	547.5	593.9	591.1	519.0	626.8	474.0	446.8	425.7	402.9	522.2
Quasi–money	491.8	578.9	653.5	605.2	804.4	645.1	688.7	695.7	884.7	950.0	1,037.9	1,135.6	1,028.0
Memorandum items:							(Annual percentage change)						
Broad money	17.1	25.9	19.0	17.5	39.9	25.2	19.0	31.4	20.4	19.8	17.0	15.3	14.1
Reserve money	15.6	26.0	19.8	18.4	45.8	26.2	21.8	34.8	16.8	15.6	14.2	12.0	13.6
Net credit to the government	20.7	17.6	7.6	9.3	39.3	36.2	23.4	47.5	49.1	36.5	18.6	16.4	21.9
Claims on private sector	14.7	39.4	15.1	46.7	14.9	41.5	18.4	50.5	34.6	18.5	18.9	18.9	20.0
Velocity (GDP/M2)	5.6	4.4	5.0	5.0	4.2	4.7	4.8	4.4	4.3	4.8	5.1	5.4	4.3
Money multiplier (M2/base money)	2.6	2.7	2.8	2.8	2.8	2.9	2.9	2.9	2.7	2.9	3.0	3.0	2.8

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

[1] IMF Country Report No. 07/68.

[2] IMF Country Report No. 08/249.

[3] Excluding noninterest-bearing government securities, government securities held for monetary operations, recapitalization bond and deposits in the sterilization account.

Table 5. Sierra Leone: Summary Accounts of Central Bank and Deposit Money Banks, 2007–09

(Le billions; at actual exchange rates unless otherwise indicated)

	2007		2008							2009			
	Dec.		Mar.		Jun.		Sep.		Dec.	Mar.	Jun.	Sep.	Dec.
	Prog. [1]	Act.	Proj.	Act.	Prog. [2]	Act.	Prog. [2]	Prel.		Projections			
Bank of Sierra Leone													
Net foreign assets	419.9	536.2	450.4	502.7	520.5	477.5	473.8	506.7	422.8	396.7	504.6	480.9	559.6
Foreign assets	554.1	647.2	610.0	617.9	635.7	593.0	589.0	637.6	533.8	511.9	620.1	611.8	670.6
Foreign liabilities	-134.2	-111.0	-159.6	-115.2	-115.2	-115.5	-115.2	-130.9	-111.0	-115.2	-115.5	-130.9	-111.0
Net domestic assets	-66.7	-112.4	-33.2	-90.6	-22.4	-46.3	-54.4	-42.5	72.1	79.7	-12.2	39.0	2.6
Net credit to government	77.0	75.0	183.8	98.2	164.0	132.7	122.7	106.0	158.0	189.2	210.0	241.2	246.2
Claims on nonfinancial public enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	3.4	2.9	3.6	6.2	6.2	5.4	6.2	5.7	2.9	2.9	2.9	2.9	2.9
Claims on deposit money banks	0.0	0.8	4.9	3.6	3.6	5.2	3.6	5.6	0.8	0.8	0.8	0.8	0.8
Other items (net)	-147.2	-191.2	-225.5	-198.6	-196.2	-189.6	-186.9	-159.9	-89.6	-113.2	-225.9	-205.9	-247.3
Reserve money	353.2	423.8	417.2	412.1	498.2	431.2	419.5	464.2	494.9	476.4	492.4	519.9	562.3
Currency outside banks	276.4	309.8	335.7	299.6	389.0	310.5	336.0	321.5	428.2	411.1	421.9	443.4	488.6
Reserves of deposit money banks	57.4	92.7	58.8	92.1	79.5	100.7	59.3	109.2	41.1	40.9	47.2	37.9	44.5
Other deposits	19.4	21.2	22.8	20.4	29.6	19.9	24.1	33.5	25.6	24.5	23.3	38.6	29.2
Deposit money banks													
Net foreign assets	256.3	346.4	432.3	321.6	459.1	344.0	326.5	295.1	318.7	392.2	434.9	432.5	359.7
Net domestic assets	365.2	451.0	384.6	511.2	520.5	561.7	521.0	672.4	586.2	569.1	583.5	623.9	672.7
Net credit to government	171.8	232.3	169.9	261.1	260.0	281.9	269.6	362.8	300.4	301.3	281.8	304.5	312.4
Claims on nonfinancial public enterprises	9.2	8.4	6.6	11.0	6.6	10.4	6.6	12.6	8.6	8.6	8.7	8.7	8.7
Claims on private sector	200.2	260.8	229.7	291.1	251.1	311.5	286.2	365.9	352.1	349.4	373.8	439.0	423.2
Reserves	57.4	65.5	58.8	78.9	79.5	85.9	59.3	97.4	41.1	40.9	47.2	37.9	44.5
Other items (net)	-73.5	-116.0	-80.4	-131.1	-76.7	-128.0	-100.5	-166.3	-116.0	-131.1	-128.0	-166.3	-116.0
Total deposits	621.4	797.4	816.9	832.7	979.6	905.7	847.6	967.4	904.9	961.2	1,018.4	1,056.4	1,032.5
Local currency deposits	378.8	523.9	544.9	545.2	650.2	614.0	569.1	682.8	575.6	582.2	578.8	549.7	638.2
Foreign currency deposits	242.7	273.5	272.0	287.5	329.4	291.6	278.5	284.7	329.3	379.0	439.6	506.7	394.3

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

[1] IMF Country Report No. 07/68.

[2] IMF Country Report No. 08/249.

[3] Excluding noninterest-bearing government securities, government securities held for monetary operations, recapitalization bond and deposits in the sterilization account.

Table 6. Sierra Leone: Balance of Payments, 2005–12

(US$ millions, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011	2012
	Act.	Est.	Prel.	Proj.				
Current account balance	-86.4	-49.9	-63.5	-139.3	-109.8	-103.1	-88.3	-85.9
Balance on goods	-147.6	-93.7	-100.1	-167.4	-125.0	-119.5	-103.3	-104.8
Exports, f.o.b.	214.1	274.8	285.4	285.4	319.5	387.8	445.7	511.9
Of which: rutile	0.0	29.6	39.4	37.3	38.6	57.1	75.5	86.0
bauxite	0.0	23.6	32.7	33.4	45.4	59.0	64.4	73.7
diamonds [1]	170.6	146.9	168.6	152.9	159.5	178.2	202.1	236.2
Of which : kimberlite	18.1	15.0	17.1	15.7	16.5	18.6	21.3	24.8
Imports, f.o.b.	-361.7	-368.5	-385.6	-452.8	-444.5	-507.3	-549.0	-616.7
Of which: petroleum	-74.1	-107.3	-105.7	-166.8	-130.7	-168.8	-184.0	-201.4
rice	-21.6	-20.8	-20.9	-40.1	-32.1	-28.9	-26.0	-23.4
Balance on services	-12.6	-15.1	-22.6	-41.9	-42.5	-43.0	-45.0	-48.5
Credit	78.0	80.1	63.1	62.8	67.7	71.5	75.5	79.6
Debit	-90.6	-95.2	-85.7	-104.7	-110.3	-114.5	-120.5	-128.2
Income	-63.4	-57.8	-34.9	-39.5	-41.6	-43.2	-46.0	-47.7
Credit	5.4	7.5	7.6	7.6	7.7	7.8	7.8	7.9
Debit	-68.8	-65.3	-42.5	-47.2	-49.3	-51.0	-53.9	-55.6
Interest payments due before debt relief [2]	-24.0	-24.6	-5.3	-3.8	-4.1	-4.1	-5.2	-5.7
Current transfers	137.2	116.7	94.2	109.4	99.3	102.6	106.0	115.1
Public (net) [3]	86.2	76.0	58.6	70.0	63.2	66.2	69.2	77.9
Of which: HIPC grants	21.1	14.5	12.0	3.5	3.5	3.5	3.5	3.5
Private (net) [4]	51.0	40.7	35.6	39.4	36.1	36.5	36.8	37.2
Current account balance, excl. public transfers	-172.6	-125.8	-122.1	-209.4	-173.0	-169.2	-157.5	-163.8
Capital and financial account	98.7	195.5	94.7	85.5	126.3	114.5	128.6	118.4
Capital account	67.8	218.5	472.1	56.6	75.0	57.6	58.0	72.5
Project grants	66.1	41.8	23.3	53.3	71.4	53.6	53.6	67.7
Other transfer (MDRI grant) [5]	0.0	174.9	0.0	0.0	0.0	0.0	0.0	0.0
Debt forgiveness (MDRI relief from IDA and AfDB) [5]	0.0	0.0	445.9	0.0	0.0	0.0	0.0	0.0
Private capital transfers	1.7	1.8	3.0	3.3	3.6	4.0	4.4	4.8
Financial account	30.8	-22.9	-377.4	28.9	51.3	57.0	70.6	45.9
Direct investment and portfolio investment [6]	48.3	42.2	69.1	29.6	29.6	31.2	25.1	15.2
Other investment	-17.4	-65.2	-446.5	-0.6	21.7	25.8	45.4	30.7
Public sector loans (net)	-11.0	-23.9	-447.1	25.9	47.7	58.0	65.1	61.4
Of which: disbursements	37.0	16.3	20.3	36.3	57.5	73.1	83.9	81.2
program loans	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
project loans	26.0	16.3	20.3	36.3	57.5	73.1	83.9	81.2
amortization due	-47.9	-40.2	-467.5	-10.4	-9.8	-15.1	-18.8	-19.9
Private sector loans (net) [7]	0.0	0.0	0.0	-15.0	-15.0	0.0	0.0	0.0
Change in net foreign assets of commercial banks	0.0	-20.2	-45.8	9.3	-13.0	-7.6	-7.6	-8.0
Other, including errors and omissions	-6.5	-21.1	46.4	-20.9	2.0	-24.6	-12.1	-22.7
Overall balance	12.3	145.6	31.3	-53.8	16.5	11.5	40.3	32.5
Financing	-12.3	-145.6	-31.3	53.8	-16.5	-11.5	-40.3	-32.5
Change in net foreign assets of the central bank (– = increase)	-45.5	-193.1	-31.3	35.4	-39.3	-22.9	-40.3	-32.5
Change in reserve assets (– = increase)	-57.8	-15.9	-31.3	35.4	-39.3	-20.6	-35.0	-25.0
Net Fund credit	12.3	-177.1	0.0	0.0	0.0	-2.3	-5.3	-7.5
Disbursements	20.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments [6]	-8.4	-177.1	0.0	0.0	0.0	-2.3	-5.3	-7.5
Exceptional financing	33.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (+ = increase)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief [8]	33.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	47.4	0.0	18.4	22.7	11.4	0.0	0.0
Debt relief [8]	0.0	34.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund disbursement under new PRGF	0.0	13.4	0.0	18.4	22.7	11.4	0.0	0.0
Remaining gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:			(Percent of GDP unless otherwise indicated)					
Current account	-7.1	-3.5	-3.8	-7.1	-5.2	-4.6	-3.6	-3.3
Current account, excluding public transfers	-14.2	-8.8	-7.3	-10.6	-8.1	-7.5	-6.5	-6.3
Overall balance of payments	1.0	10.2	1.9	-2.7	0.8	0.5	1.7	1.3
MDRI debt service savings (in millions of US dollars)	0.0	0.0	21.3	29.2	33.1	39.1	39.4	26.1
Of which: IMF	0.0	0.0	16.2	24.1	28.0	33.9	33.7	18.9
AfDF	0.0	0.0	1.8	1.9	1.9	1.9	2.2	2.5
IDA	0.0	0.0	3.2	3.2	3.2	3.3	3.5	4.7
Gross official reserves (US$ millions)	168.3	184.2	215.5	180.1	219.3	239.9	274.9	299.9
Gross official reserves (months of imports) [9]	4.4	4.7	4.6	3.9	4.2	4.3	4.4	4.5

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

[1] Includes unrecorded diamond exports estimated from partner-country data.

[2] Official interest payments due, including Fund charges.

[3] Includes mostly program grants.

[4] Includes worker remittances and transfers to NGOs.

[5] MDRI relief from the IMF (for 2006), IDA and AfDF (for 2007) as a stock of debt reduction.

[6] Includes investment related to the rehabilitation of the Koidu kimberlite mine and assumes investment into rutile mining financed by foreign loans, 'foreign investment, and government on-lending of an EU grant.

[7] Includes capital outflows associated with unrecorded diamond exports, and change in trade credits.

[8] This reflects the rescheduling on Cologne terms for 2002-05 agreed by the Paris Club at the decision point in February 2002 and assumptions of the 'extended consolidation period retroactively from July 2005 under the new PRGF program. Comparable relief by other creditors is assumed.

[9] Months of imports of total goods and services of subsequent year.

Table 7. Sierra Leone: Indicators of Capacity to Repay the Fund, 2005–16 [1]

(US$ millions, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
								Proj.				
Fund credit outstanding (end of period)												
SDR millions	134.4	23.1	23.1	34.5	48.5	54.1	50.8	46.2	41.6	34.0	25.0	17.2
US$ millions	198.6	34.0	35.4	55.8	78.8	88.1	83.0	75.5	67.9	55.5	40.8	28.0
percent of quota	129.6	22.3	22.3	33.3	46.8	52.2	49.0	44.6	40.1	32.8	24.1	16.5
Fund obligations	9.3	5.5	0.2	0.2	0.3	2.5	5.4	7.4	10.0	12.6	11.7	12.8
Fund total charges and interests	1.0	1.0	0.2	0.2	0.3	0.4	0.4	0.4	0.4	0.3	0.2	0.0
Existing drawings	1.0	1.0	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0
Prospective drawings	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.0
Fund total repayments/repurchases	8.4	4.5	0.0	0.0	0.0	2.1	4.9	7.0	9.6	12.2	11.5	12.8
Existing drawings	8.4	4.5	0.0	0.0	0.0	2.3	5.3	7.5	7.5	9.0	6.7	3.6
Prospective drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.4	8.0	9.1
Fund credit outstanding as percent of:												
Exports of goods and services	68.0	9.6	10.2	16.0	20.3	19.2	15.9	12.8	10.9	8.3	5.7	3.7
Total external debt	12.6	2.3	3.5	5.5	7.4	7.9	7.2	6.3	5.5	4.4	3.1	2.1
Gross official reserves	118.0	18.5	16.4	31.0	35.9	36.7	30.2	25.2	20.9	15.9	10.8	6.9
Fund obligations as percent of:												
Exports of goods and services	3.2	1.5	0.1	0.1	0.1	0.5	1.0	1.2	1.6	1.9	1.6	1.7
Gross international reserves	5.5	3.0	0.1	0.1	0.1	1.0	1.9	2.5	3.1	3.6	3.1	3.2
Memorandum items:												
Exports of goods and services (US$ millions)	292.2	355.0	348.5	348.2	387.2	459.3	521.2	591.5	625.4	665.9	710.3	754.8
Gross official reserves (months of imports of goods and services)	4.4	4.7	4.6	3.9	4.2	4.3	4.4	4.5	4.6	4.7	4.7	4.8

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

[1] After HIPC and MDRI assistance, and includes the remaining disbursements under the current PRGF arrangement.

Table 8. Sierra Leone: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2006–10
(SDRs millions)

Date	Disbursements Current	Disbursements Proposed [10]	Subject to
May 10, 2006	4.71	4.71	Approval of arrangement
December 21, 2006	4.40	4.40	First review and performance criteria (PCs) for end-June 2006
June 2008	4.40	4.40	Completion of the second review and waivers for the nonobservance of end-December 2006 PCs
December 2008	4.40	7.00	Third review and quantitative PCs for end-June 2008, and structural PC for end-September 2008, as described in the June 5, 2008 MEFP, Tables 1 and 2
May 2009	4.40	7.00	Fourth review and quantitative PCs for end-December 2008 and structural PC as described in the MEFP, Table 2
November 2009	4.40	7.00	Fifth review and PCs for end-June 2009
April 2010	4.40	7.00	Sixth review and PCs for end-December 2009
Total disbursements	31.11	41.51	

[10] Assuming an augmentation of SDR 10.4 million (about 10 percent of quota) upon completion of the third review.

Table 9. Sierra Leone: Millennium Development Goals, 1990–2007

	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	*64*	66	68	*68*
Employment to population ratio, ages 15-24, total (%)	*51*	55	60	*60*
Income share held by lowest 20%	1.1	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	24.7	..
Poverty headcount ratio at national poverty line (% of population)	*82.8*	..	..	..
Prevalence of undernourishment (% of population)	*46*	*44*	..	..
Vulnerable employment, total (% of total employment)	..	..	..	..
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	..	..	..	..
Literacy rate, youth male (% of males ages 15-24)	..	..	..	..
Persistence to last grade of primary, total (% of cohort)	..	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	..	81
Total enrollment, primary (% net)	..	..	..	..
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	..	*6*	9	13
Ratio of female to male enrollments in tertiary education	..	..	*40*	..
Ratio of female to male primary enrollment	*70*	..	*71*	90
Ratio of female to male secondary enrollment	*57*	..	*71*	69
Ratio of young literate females to males (% ages 15-24)	..	..	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	..	..
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	..	..	37	*67*
Mortality rate, infant (per 1,000 live births)	169	165	162	*159*
Mortality rate, under-5 (per 1,000)	290	282	277	*270*
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	*192*	192	*166*
Births attended by skilled health staff (% of total)	..	..	42	*43*
Contraceptive prevalence (% of women ages 15-49)	..	..	4	*5*
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*2,100*
Pregnant women receiving prenatal care (%)	..	..	68	*81*
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	61	*52*
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	214	282	371	*517*
Prevalence of HIV, female (% ages 15-24)	..	..	..	1.3
Prevalence of HIV, total (% of population ages 15-49)	..	..	*1.3*	1.7
Tuberculosis cases detected under DOTS (%)	..	28	33	*35*
Goal 7: Ensure environmental sustainability				
Annual freshwater withdrawals, total (% of internal resources)	..	..	*0.2*	..
CO_2 emissions (kg per PPP $ of GDP)	0.2	0.3	0.3	..
CO_2 emissions (metric tons per capita)	0.1	0.1	0.1	..
Forest area (% of land area)	43	..	40	*38*
Improved sanitation facilities (% of population with access)	..	12	12	*11*
Improved water source (% of population with access)	..	57	57	*53*
Marine protected areas, (% of surface area)	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	15	50	40	*63*
Debt service (PPG and IMF only, % of exports, excl. workers' remittances)	10.1	63.2	45.9	*5.7*
Internet users (per 100 people)	0.0	0.0	0.1	0.2
Mobile phone subscribers (per 100 people)	0.0	0.0	0.3	13.3
Telephone mainlines (per 100 people)	0.3	0.4	0.4	..
Other				
Fertility rate, total (births per woman)	6.5	6.5	6.5	*6.5*
GNI per capita, Atlas method (current US$)	200	190	140	260
GNI, Atlas method (current US$) (billions)	0.8	0.8	0.6	1.5
Gross capital formation (% of GDP)	10.0	5.6	6.9	17.2
Life expectancy at birth, total (years)	39	39	41	*42*
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..
Population, total (millions)	4.1	4.1	4.5	5.8
Trade (% of GDP)	46.2	45.1	57.5	65.0

Source: World Development Indicators database, 2007.

Table 10. Sierra Leone: Financial Soundness Indicators of the Banking System, 2004–08

	2004	2005	2006	2007	2008 June
	(Percent, end of period, unless otherwise indicated)				
Capital adequacy					
Regulatory capital ratio [1]	38.1	35.7	33.3	35.0	41.1
Regulatory tier 1 capital ratio [2]	12.7	10.3	17.0	16.7	18.6
Asset quality					
Nonperforming loans to total gross loans	16.5	26.8	27.8	31.7	32.2
Nonperforming loans (net of provisions) to regulatory capital	13.4	26.8	24.1	37.8	34.9
Loan loss provisions to NPLs (net of accrued interest)	43.1	10.3	59.7	44.5	40.3
Earnings and profitability					
Return on assets	9.9	8.1	5.8	3.1	1.8
Return on equity	32.9	28.0	17.0	10.3	7.0
Interest spread [3]	12.2	13.4	13.4	15.2	15.2
Liquidity					
Ratio of net loans to total deposits	36.3	27.5	26.5	27.7	30.0
Liquidity ratio [4]	52.9	53.0	58.9	53.3	57.5
Statutory minimum liquidity ratio [4] [5]	33.4	34.0	28.5	25.7	25.6
Share of FX deposits in total deposits	28.2	30.7	32.4	36.5	34.4
	(Number of banks not complying)				
Prudential ratios at end-year					
Capital Adequacy	0	0	0	0	0
Minimum liquidity ratio	0	0	0	0	0
Minimum capital	0	0	1	1	1
Limit of single large exposure 6/	0	0	2	1	1
Memorandum Item:					
Number of banks	7	7	8	10	10

Source: Bank of Sierra Leone.

[1] Capital requirement over risk-weighted assets (solvency ratio).

[2] Core capital (Tier I) over total assets.

[3] Average lending rate minus average saving deposit rate.

[4] Calculated taking into account both domestic currency and foreign currency deposits. Liquid assets include domestic currency cash in vault, claims on the BSL, claims on discount houses, and government securities.

[5] Effective November 2007, minimum liquidity includes 40 percent of demand deposits and 20 percent of quasi money to be held in either cash or treasury bills.

[6] A single large exposure of an institution is any exposure that is 2 percent (and above) of its capital base.

Table 11. Sierra Leone: Selected Comparative Indicators, 2004–08

	2004	2005	2006	2007	2008 Proj.
	(Constant U.S.$)				
Real GDP per capita					
Sierra Leone	212	221	232	241	248
ECOWAS [1]	388	395	398	403	412
Fragile SSA countries [2]	251	250	248	245	247
SSA [3]	354	369	383	401	415
	(Annual percentage change)				
Real GDP					
Sierra Leone	7.4	7.3	7.4	6.8	5.5
ECOWAS [1]	3.5	4.7	4.0	3.9	4.7
Fragile SSA countries [2]	3.1	3.4	2.8	3.0	4.8
SSA [3]	7.2	7.4	7.0	7.9	6.6
Average inflation					
Sierra Leone	14.2	12.1	9.5	11.7	15.6
ECOWAS [1]	4.2	8.5	6.0	5.4	9.6
Fragile SSA countries [4]	5.0	11.9	9.3	8.6	11.6
SSA [3]	8.9	9.4	8.7	7.7	12.0
	(Percent of GDP)				
Government revenue, excluding grants					
Sierra Leone	12.3	11.9	11.8	10.8	11.8
ECOWAS [1]	17.2	17.6	17.9	18.8	18.7
Fragile SSA countries [2]	17.3	18.8	20.2	25.0	21.7
SSA [3]	20.8	22.5	25.1	25.5	26.2
Overall fiscal balance, excluding grants					
Sierra Leone	-12.4	-12.8	-11.0	-6.8	-9.4
ECOWAS [1]	-6.6	-6.0	-7.4	-7.0	-7.8
Fragile SSA countries [2]	-5.4	-5.4	-5.8	-2.7	-6.7
SSA [3]	-4.1	-1.7	0.2	-0.4	-0.2
Current account balance, excluding grants					
Sierra Leone	-13.1	-14.2	-8.8	-7.3	-10.6
ECOWAS [1]	-6.9	-8.1	-7.1	-9.2	-10.9
Fragile SSA countries [2]	-3.8	-6.7	-3.8	-4.9	-1.4
SSA [3]	-5.2	-3.2	-0.6	-3.6	-1.7

Sources: AFR Regional Economic Outlook, Sub-Saharan Africa (October 2008) and Sierra Leone database.

[1] ECOWAS, excluding Liberia and Nigeria.

[2] Fragile countries include Burundi, Central African Republic, Comorros, Congo (Democratic Rep. of), Côte d'Ivoire, Eritrea, Gambia (The), Guinea, Guinea-Bissau, Liberia, São Tomé & Principe, Sierra Leone, Togo, and Zimbabwe.

[3] Sub-Saharan Africa, excluding Nigeria and South Africa.

[4] Excluding Zimbabwe.

Note: ECOWAS member states are Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

Table 12. Sierra Leone: Status of Implementation of Structural Conditionality, 2008

Structural performance criteria	Timing	Status
• Provide to Fund staff the Monetary and Policy Committee (MPC) monthly minutes that include the monthly projections for government revenue and expenditures made available by the Ministry of Finance to the Bank of Sierra Leone to produce a monthly liquidity forecast	On a continuous basis, starting in June.	Met
• Promulgate the interest rate and penalties for under/late payment of tax and make them effective starting October 1, 2008.	End-September	Met
• Adoption by the cabinet of the implementation decree for the Goods and Services Tax (GST).	End-December	
Structural Benchmarks		
• Adoption by cabinet and submission to parliament of the legislation for the introduction of the GST.	End-June	Met
• Introduce a Tax Identification Number (TIN) system and make it effective.	End-September	Met
• Adopt a comprehensive tariff policy for the electricity sector that will strengthen the financial position of the National Power Authority.	End-December	

Appendix I. Letter of Intent

December 5, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

1. The attached Memorandum on Economic and Financial Policies (MEFP) supplements the one attached to my letter to you dated June 5, 2008. It describes recent economic developments and progress in the implementation of the PRGF-supported program during the first half of 2008 as well as the policies that we intend to implement during the remainder of 2008 and in 2009.

2. On July 7, 2008, the Executive Board completed the second review under the three-year arrangement for Sierra Leone under the Poverty Reduction and Growth Facility (PRGF). The Government of Sierra Leone in collaboration with staff of the IMF carried out a review under the program for the first half of 2008 during 9–23 September 2008. The mission also reviewed the program for the remaining period in 2008 and the framework for 2009.

3. Despite strong efforts, program implementation during the first half of 2008 was uneven. Two out of the 9 quantitative performance criteria (PCs)—domestic revenue and domestic primary fiscal balance—were missed. The shortfall in revenue was due to technical reasons as a payment of about Le 6 billion received from a mining company in June was not credited to the Consolidated Revenue Fund (CRF) until 2 July 2008. The target for domestic primary fiscal balance was not met because of expenditure overruns in the provision of fuel for the World Bank-supported Emergency Power Project (EPP) due to the increase in the price of oil and duplicate transfers to Local Councils. We are currently implementing revenue-enhancing measures in order to meet the revenue target for the year as a whole. We have also reduced budgetary allocations for the third and fourth quarters of 2008 to ensure that full-year budget envelopes will be adhered to (except for the provision of fuel for the EPP).

4. In view of the foregoing, the Government of Sierra Leone requests for a waiver for the non-observance of the performance criteria related to domestic revenue and domestic primary fiscal balance.

5. The Government of Sierra Leone requests the completion of the third review under the PRGF arrangement and the release of the fourth disbursement upon completion of the review. It also requests additional support from the Fund representing 10 percent of the quota to help strengthen the central bank's foreign reserve position. The government is aware that an augmentation will require completion of an update safeguards assessment of the central bank, and is fully committed to providing Fund staff will all the information and cooperation required to complete this in a timely manner.

6. The government of Sierra Leone believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program for 2008 and 2009, but stands ready to take any further measures that become necessary for this purpose, in close consultation with the Fund. The fourth and fifth reviews shall take place in May 2009 and November 2009, respectively based on the end-December 2008 and end-June 2009 quantitative PCs and the applicable structural PCs. In addition, we will hold discussions with IMF staff on the sixth review to be completed by April 2010, based on quantitative and structural PCs for end-December 2009. The government of Sierra Leone will also continue to provide the staff of the Fund with the information required to accurately assess Sierra Leone's progress in executing the policies contained in the attached MEFP. Furthermore, it will continue to consult with the IMF on its economic and financial policies, in accordance with the Fund's policies on such consultations.

7. The government of Sierra Leone agrees, in line with its commitment to transparency and accountability, to the publication of this letter, its attachments, and the related staff report.

Very truly yours,

/s/
David O. Carew
Minister of Finance and Economic Development

Attachments

APPENDIX I. ATTACHMENT I. SIERRA LEONE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

December 5, 2008

I. INTRODUCTION

1. This memorandum supplements the policies presented in our Memorandum of Economic and Financial Policies (MEFP) of June 5, 2008 (IMF Country Report N° 08/249). It reviews developments during the first half of 2008 and outlines the macroeconomic policies and structural reforms that the government of Sierra Leone (GoSL) will pursue during the remainder of 2008 and in 2009.

II. PROGRAM PERFORMANCE IN THE FIRST HALF OF 2008

2. **Despite strong efforts, program implementation during the first half of 2008 was uneven.** Two out of nine quantitative performance criteria (PCs)─for domestic government revenue and primary fiscal balance─were missed (Table 1). On the structural front, the continuous structural PC on the monthly meetings of the Monetary Policy Committee (MPC) as well as the June structural benchmark (SB) on the legislation introducing the Goods and Services Tax (GST) were observed. The end–September structural PC on the promulgation of the interest rate and penalties for late/underpayment of taxes, as well as the end-September structural benchmark on the introduction of Tax Payer Identification Number (TIN), was observed. Also, the ban on exports of rice and palm oil instituted at the beginning of the food crisis, has been removed.

3. **The global food and fuel crisis has posed serious challenges to macroeconomic stability**. While growth prospects remain strong as evidenced by the fast growth in credit to the private sector during the first half of this year, continued intensification and expansion of food crops, and robust activity in the construction and service sector, inflation has picked up significantly reaching 18 percent at end–July (12-month inflation). The surge in food and oil prices has also been exerting heavy pressure on the balance of payments. The external current account deficit is expected to increase in 2008 and the foreign exchange reserve position of the Bank of Sierra Leone (BSL) would drop more than originally programmed, in nominal terms, to absorb the terms of trade shock.

4. **Despite stepped up revenue mobilization efforts by the National Revenue Authority (NRA), the domestic revenue target was missed**. The NRA collected Le 294.5 billion, against a target of Le 301 billion. The shortfall is due to technical reasons as a payment of about Le 6 billion received from a mining company in late June was not credited to the Consolidated Revenue Fund (CRF) until July 2. Domestic revenue not collected by the NRA was short of the target by Le 3.5 billion (less than 0.1 percent of GDP)

mainly due to a decision by the Ministry of Transport to suspend the vehicle license fee pending improvement in the vehicle registration process.

5. **Budget execution during the first half of 2008 was complicated by the need to consolidate the new administration and by lapses in fiscal discipline.** Nonwage noninterest current expenditures were higher than programmed by Le 22 billion (0.4 percent of GDP) due to overruns and extrabudgetary spending. The overruns related mainly on the following items: (i) fuel cost for the World Bank-supported Emergency Power Project (EPP) due to higher-than-projected increase in world oil prices; (ii) transfers for health services administrated by local councils; (iii) domestic and overseas traveling by government officials; and (iv) recall and postings of new ambassadors and diplomatic staff. Extrabudgetary expenditures comprised essentially GoSL contribution to the Bumbuna Hydroelectric Project (BHP) and a payment for the printing of new passports. Despite underspending on wages and salaries, shortfall in revenue and spending over commitments on nonwage noninterest expenditures led to a higher-than-targeted primary fiscal deficit by about Le 23 billion (0.4 percent of GDP). The larger-than-programmed primary fiscal deficit was financed by the nonbank private sector.

6. **A final audit report on the verification of domestic suppliers' arrears for the period 2005–07 has been finalized**. Total verified and accepted arrears for 2007 amount to about Le 20 billion (0.3 percent of the 2008 nominal GDP), against an initial estimate of Le 26 billion.[1] Verified and accepted arrears accrued in 2005–06 also amounted to Le 20 billion. The 2007 audited arrears will be cleared in 2008 while those accumulated in 2005–06 will be in 2009–10 as fiscal space is created. With respect to the out-of-court settlement agreed with a domestic supplier to repay domestic arrears dating back to the civil war in the late 1990s, we have reached an agreement to defer implementation of the out-of-court settlement pending the mobilization of resources to retire the claims. In the meantime, a goodwill payment will be made in 2008, consistent with our strategy note on how government intends to implement the agreement reached with the creditor.

7. **On the monetary side, both reserve and broad money grew less rapidly than programmed during the first half of 2008**. This was mainly on account of lower than projected net foreign assets. The PCs on net domestic assets of the BSL and net bank credit to the government were observed.

8. **Bank credit to the private sector continued to grow strongly.** Falling lending rates in response to a drop in Treasury bill yields, continued strong demand for loans from construction, import trade, and communication sectors, and the entry of new banks with high liquidity were the main reasons for this sharp increase. Yield on the 91–day treasury bills fell

[1] This initial estimate is the difference between the total unpaid claims of Le 41.1 billion indicated in our June 2008 MEFP, minus budgeted allocations for Local Councils that were not effectively transferred in 2007.

significantly (by 600 basis points) to about 15 percent during the first half of 2008 due to excess demand from market participants, arising from a drop in the amount of 91–day treasury bills offered, mainly as a result of the fact that the BSL had commenced sourcing the 182–day and 364–day treasury bills from the stock of the maturing 91–day T–bills.

9. **The banking sector continues to be saddled by rising nonperforming loans.** However, banks are making efforts to set aside adequate provisions or writing down bad loans. Loss of several staff members has strained the ability of the BSL to closely supervise the banks. Nevertheless, steadfast implementation of the recently-adopted financial sector development strategy aimed at strengthening the banking supervision capacity of the BSL will help address this problem.

III. Policies for the Remainder of 2008

10. **We have revised slightly the macroeconomic framework to incorporate the impact of the global food and fuel crisis.** Real GDP growth is projected at 5.5 percent, down 0.5 percentage points compared to the program. Average inflation is expected to rise to 15.6 percent (against the previous projection of 14.1 percent). The deeper-than-anticipated food and fuel crisis, coupled with an unexpected drop in diamond production, would widen the external current account deficit (including official transfers) to 7.1 percent of GDP compared to the previous projection of 6.5 percent. Gross official reserves are expected to absorb some of the fuel and food price shocks, dropping from 4.6 months of imports coverage in 2007 to 3.9 in 2008.

11. **To ensure that the revenue target for the year as a whole is achieved, we have taken a number of additional short-term measures**. These include: (i) the transfer of all off-budget revenue collected by Ministries, Departments, and Agencies (MDAs) to the CRF; (ii) restoration of the excise tax and the ad-valorem import duty on petroleum products to their 2006 levels; (iii) enforcing the payment of tax arrears with the application of interest and penalties on under/late payment of tax; and (iv) the transfer of the collection of the vehicle license, mining fees, freight levy fees pharmacy license fees, and cost recovery proceeds on the sale of essential drugs from the current collection agencies to the NRA. The NRA will implement and enforce the findings of the recently concluded field audit of firms and continue to strengthen the Enforcement and Debt Management Unit of the Income Tax Department.

12. **It has become necessary to revise the projected domestic primary fiscal balance by 0.4 percent of GDP to accommodate the impact of higher fuel prices.** As indicated in ¶ 5, fuel for the EPP will cost Le 24 billion more than budgeted and the GoSL's contribution to the BHP (about Le 22 billion) was not programmed. These budgetary overruns will be partly offset by projected savings on wages and salaries (about Le 16 billion) and the remaining financing needs will be covered by the transfer of Le 2 billion per month (starting in September 2008) by the National Power Authority (NPA)

to the CRF, as agreed in the context of the EPP, as well as a targeted budgetary assistance expected from the Peacebuilding Fund.

13. **Money growth will continue to be restrained to reduce inflation expectations**. The BSL will conduct open market operations to control the growth of reserve money. To aid in this effort, the government has converted in September another Le 15 billion noninterest–bearing non–marketable securities held by the BSL and plans to convert an additional Le 32.5 billion by end-2008 in order to reach Le 100 billion that has been agreed upon in MOU between the MoFED and the BSL. The Monetary Policy Technical Committee (MPTC) will continue to meet on a monthly basis and coordination between the MoFED and the BSL will be improved.

14. **Measures are being taken to strengthen the financial sector**. The BSL is promoting competition in the banking sector. Between June 30, 2008 and September 30, 2008, three new banks have commenced operation. The BSL is focusing on developing interbank market by discouraging banks to access its rediscount facility so that banks can lend/borrow from each other for their short-term liquidity needs. It is also working on introducing an efficient payments system, including a Real Time Gross Settlement System (RTGS). To help build the securities markets, the BSL has harmonized the government securities auction system, has introduced 182–day (since July 31) and 364–day (since January 15) treasury bills, and a book-entry system (BES) has been installed and is near completion. However, the use of the BES is currently restricted to primary markets auction. To reduce the vulnerability from nonperforming loans, the BSL will enforce the minimum capital requirement for all banks of Le 12 billion by end–2008 and Le 15 billion by end–2009. To prevent money laundering, the BSL has developed a draft strategy on anti-money laundering and combating the financing of terrorism. A Financial Intelligence Unit has been set up to implement the strategy once validated with stakeholders.

15. **The BSL has initiated the preparation of a comprehensive financial sector development plan (FSDP) and an internal Medium-Term Strategy (BSL-MTS)**. These two diagnostic reviews are being undertaken in collaboration with other stakeholders in the financial sector and supported by development partners interested in the financial reform and are expected to be completed by end-2008. They come on the heels of the strategy for the financial sector adopted in May 2008 (a prior action for the second review). Both the FSDP and the BSL-MTS will provide the analytical and diagnostic foundation on which to modernize and increase the responsiveness of both the central bank and the overall financial system to growth, quality employment and poverty alleviation, as well as to global challenges.

IV. Program for 2009

16. **The program objectives for 2009 are to achieve real GDP growth of 5.5 percent, reduce end–of–period inflation to single digits, and rebuild foreign**

exchange reserves to at least 4.2 months of imports. Output growth should continue to benefit from improved supply of energy, ongoing public initiatives to increase agriculture productivity and intensification, and higher public investment in basic infrastructure. With a mix of domestic policies and external developments, inflation should ease but remain in double digits due to lingering effects of the world food and fuel crisis. International reserves are expected to slowly recover in 2009, helped by the requested augmentation of access under the PRGF arrangement. The government is also finalizing the second generation Poverty Reduction Strategy Paper (PRSP II), which will clearly set the Government's priorities for reducing poverty over the medium term.

Fiscal policy

17. **Fiscal policy in 2009 will aim at consolidating macroeconomic stability and laying the basis for sustained economic growth.** The proposed 2009 budget envisages a significant reduction in the primary fiscal deficit (1 percent of GDP) while accommodating an increase in public investment. Its main features are:

- *On the revenue side,* total domestic revenue is projected at 12.3 percent of GDP (from 11.8 percent in 2008), based on strict enforcement of the provisions of the existing tax legislations, application of policy measures adopted in the 2007 and 2008 Finance Acts, as well as the expected improved efficiency expected from the modernization plan of the NRA, in particular the automation of the customs procedures and the establishment of the Domestic Tax Department. In addition, a "specific" excise tax will be introduced on alcohol beverages based on alcohol content and the import duty on cement will be restored (to 20 percent), consistent with the ECOWAS Common External Tariff. The government will ensure timely passage of relevant legislation for the introduction of the GST by April 2009 and fast-track the renegotiation of mineral rights to enhance domestic revenue collection. Government will eliminate discretionary tax and duty exemptions and provide logistics to the Preventive Services and Special Duties unit of the NRA to intensify border patrols to reduce cross border smuggling.
- *On the expenditure side,* the wage bill is projected to stay at around 6 percent of GDP. It includes an increase of 15 percent in basic pay for civil servants and the hiring of about 1000 police officers. Current nonwage noninterest expenditures will be limited at 6.9 percent of GDP and include an allocation of Le 42 billion (0.6 percent of GDP) to cover the government's share in the EPP during the first half of the year.[2] Capital spending will be increased by 1.2 percentages points of GDP to accommodate the public infrastructure improvement program. The domestic interest bill includes the cost of the planned conversion of an additional Le 60 billion from the outstanding noninterest-bearing non-convertible securities into marketable securities and the issuance of a Le 130 billion of T–bonds in two tranches to recapitalize the BSL.

[2] The BHP is expected to come on-stream by June 2009.

- *Regarding financing items,* the government's recourse to central bank financing will be limited to the use of MDRI resources, which should not exceed Le 88 billion. Commercial bank financing will be limited to Le 12 billion. Domestic financing will also include an allocation of about Le 11.9 billion to clear part of the audited 2005–06 domestic arrears.

18. **Budget execution and control will be enhanced in 2009**. In particular, control over expenditure commitments will be tightened to avoid overruns and prohibition of extrabudgetary spending will be strictly enforced. To strengthen the role of line ministries in the budget execution process, budget officers will be recruited and assigned to MDAs that have IFMIS "rolled out", with a view to make budget committees in these public entities fully operational. The recently-adopted policy of full pass-through of world oil prices to domestic petroleum prices will help insulate the budget, and the social consequences will be effectively addressed via well-targeted subsidies for vulnerable groups.

Monetary and exchange rate policies

19. **Monetary policy will continue to aim at mitigating second round effects of the food and fuel crisis**. Reserve money is projected to grow at a rate just below that of nominal GDP (13.4 percent against 14.3 percent). This level will be sufficient to accommodate the continued strong expansion of private sector credit, projected donors' inflows, the use of MDRI resources and the rebuilding of international reserves to 4.2 months of import by end–2009. In addition, the government has committed to provide additional Le 60 billion of marketable securities to enhance the ability of BSL to control reserve money growth.

20. **The BSL will seek to increase exchange rate flexibility to allow for appropriate exchange rate responses to external shocks.** In particular, the BSL will participate, as needed, on the foreign exchange market also as a buyer, not solely as a seller. This would allow the BSL to more actively manage its foreign exchange reserves. The BSL will continue to seek to balance treasury bills sales, foreign exchange auctions, and potential foreign exchange purchases for its optimal monetary policy mix.

Other structural reforms

21. **Our structural reform agenda will continue to be directed at supporting private sector development.** To this end, efforts will aim at strengthening the financial sector, restoring the financial viability of the power and water public utility companies, and improving governance and accountability in the use of public resources. The support of our development partners remains critical for the success of these reforms.

22. **Ongoing reforms in the financial sector will be actively pursued to deepen financial intermediation and ensure strong and competitive financial sector**. The action plan for the development of the financial sector adopted in June 2008 calls for a number of

measures to be taken in 2009 to strengthen banking supervision in light of the large expansion in private sector credit and deterioration in banks' asset quality. In this context, the BSL will recruit and train staff on banking supervision. It will also adopt new off-site surveillance guidelines for banks, consistent with the requirements of the Revised Banking Act and Other Financial Services Act. Also, establishment of a credit reference bureau is under consideration. The Sierra Leone Stock Exchange Company has been granted license to operate a stock market starting in September 2008 and it plans to commence trading by the end of 2008. A number of acts (Companies Act, Securities Bill, Bankruptcy Bill, and Collective Investment Scheme Bill) have been revised or drafted to help promote financial intermediation, especially in the riskier and longer–term segments of financial markets. The Anti-Money Laundering (AML) Act 2005 is being revised to include provisions for combating the financing of terrorism (CFT)and regulations in line with international standards are being developed to enhance our AML/CFT compliance program. The BSL is also in the process of revising the Bank of Sierra Leone Act of 2000. Actions will also be taken to timely complete an audit of the 2008 financial statements of the central bank. The hiring process will be completed by end-December 2008 and the audit will be finalized by end-March 2009.

23. **The capital base of the BSL will be strengthened to enable it perform its mandates**. In line with the recommendations of the May 2008 Fund technical mission, the government will recapitalize the central bank by allowing it to covert, in two tranches, Le 130 billion of noninterest-bearing securities into 5–year T–bonds at 9 percent interest rate.

24. **Steps are being taken to accelerate the restructuring of the NPA and improve its finances.** Preparations are advancing for the adoption of a comprehensive electricity tariff policy by end-December 2008. Greater oversight over the finances and technical operations of the NPA will be henceforth exercised.[3] In this regard, the GoSL, in consultation with the World Bank, will appoint resident experts at the NPA for billing/collections and financial control with line authority and a Supervisory Engineer to advise the NPA Board. Under the EPP, which is partly funded by World Bank and the GoSL through the use of MDRI resources, the NPA was to be making a monthly payment of Le 2 billion starting April 2008. Up to August 2008, NPA did not pay any amount into the CRF and as a result, total amount outstanding is Le 10 billion (for 5 months). NPA will put in place a credible plan for the payment of these arrears starting this year. NPA is to make further monthly payments of Le 2 billion from September to December 2008 as well as Le 1.92 billion of a loan extended to the NPA in December 2006. This will bring total payment in 2008 to Le 11.9 billion.

25. **The government remains committed to promoting good governance and accountability in the use of public resources**. We have recently launched the national Anti-

[3] NPA has been instructed to comply without any further delay with the commitment to transfer monthly Le 2 billion to the CRF.

Corruption Strategy (ACS) for 2008–13[4] and enacted into law in September 2008 a revised Anti-Corruption Act that strengthens the power of the ACC. The Act is now in conformity with the African Union and the United Nations Convention Against Corruption and requires that all high-level public servants declare their assets.[5] The GoSL will conduct semi-annual assessments of the national ACS to monitor progress in its implementation and take remedial actions as needed.

26. **Two major risks may affect the implementation of the 2009 program but steps are being made to mitigate them.** First, the lingering effects of the global food and fuel crisis may intensify pressure to increase basic pay for civil servants beyond what is budgeted for 2009. Second, the ongoing financial crisis could impact negatively on the balance sheet of commercial banks, thus constraining credit availability. Also, a decline in remittances would adversely affect the balance of payments. The government will continue to seek consensus among political and social players concerning the need to maintain fiscal discipline by executing the budget as voted by the parliament. Also, the BSL will monitor closely developments in the financial sector and will take necessary measures to avoid any major credit crunch in the economy. As in 2008, we will take the necessary steps to ensure that the 2009 budget is shielded from the potential liabilities of the contract with the second independent power provider.

V. Program Monitoring

27. The program will be monitored based on quantitative PCs set for end-December 2008, end–June 2009 and end–December 2009, as well as on quantitative benchmarks set for end–March and end–September 2009, as indicated in Tables 1 and 2 annexed to this attachment. The program will also be monitored based on structural performance criteria and benchmarks during 2009, as presented in Table 3.

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[4] The government also nominated a high-powered Steering Committee to ensure that the strategy will be fully implemented.

[5] President Koroma has already declared his assets.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2008

(Cumulative change from beginning of calendar year to end of month indicated; Le millions, unless otherwise indicated) [1]

	2008											
	March		June				September				December	
			Performance	Adjusted		Met or	Indicative	Adjusted		Met or	Performance criteria	
	Proj.	Act.	Criteria	Targets	Act.	Not Met	Targets	targets	Act.	Not met	Prog. [2]	Revised
Performance criteria												
Net domestic bank credit to the central government (ceiling)	50,871	47,124	116,820	95,488	82,711	Met	85,039	174,229	137,660	Met	127,200	127,200
Unadjusted target (ceiling)				116,820				85,039				
Adjustment for the shortfall (excess) in external budget support				0				57,638				
Adjustment for the issuance of treasury securities to the private sector				-21,332				31,552				
Net domestic assets of the central bank (ceiling)	37,565	21,810	90,080	90,080	66,137	Met	58,043	115,681	69,918	Met	179,209	179,209
Unadjusted target (ceiling)				90,080				58,043				
Adjustment for the shortfall (excess) in external budget support				0				57,638				
Domestic primary fiscal balance of the central government (floor)	-46,798	-31,787	-81,355	-81,355	-103,731	Not met	-107,265	-107,265	-139,227	Not met	-137,446	-165,720
Subsidies to National Power Authority (ceiling) [3]	0	0	0	0	0	Met	0	0	0	Met	0	0
Gross foreign exchange reserves of the central bank, US$ millions (floor)	-2.8	-9.0	4.45	-25.82	-17.44	Met	-9.75	-27.32	-3.20	Met	-23.2	-23.2
Unadjusted target (floor)				4.45				-9.75				
Adjustment for the shortfall (excess) in external budget support [4]				-30.6				-17.88				
Adjustment for the shortfall in the US$ value of IMF disbursement				0.32				0.32				
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities				0.00				0.00				
Contracting or guaranteeing of new nonconcessional external debt by the public sector with maturities of one year or more (ceiling) [3]	0	0	0	0	0	Met	0	0	0	Met	0	0
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) [3]	0	0	0	0	0	Met	0	0	0	Met	0	0
External payment arrears of the public sector (ceiling) [3]	0	0	0	0	0	Met	0	0	0	Met	0	0
Total domestic government revenue (floor)	149,492	150,955	326,874	326,874	316,832	Not met	508,354	508,354	492,703	Not met	692,697	692,697
Indicative target												
Poverty-related expenditures (floor)	70,247	67,619	157,680	157,680	210,422	Met	243,362	243,362	305,143	Met	326,700	326,700
Memorandum items:												
External budgetary assistance [5]	32,230	0	0	0	0		143,043	143,043	85,405		211,200	211,200
Net credit to government by nonbank private sector [6]	-1,036	20,646	10,574	10,574	31,906		14,258	14,258	-17,294		-6,909	-6,909
Disbursements under the PRGF (US$ millions)	0	0	6.92	6.92	7.24		6.92	6.92	7.24		13.84	13.84

Sources: Sierra Leonean authorities; and IMF staff calculations.

[1] The performance criteria and indicative targets shown in this table are defined in the Technical Memorandum of Understanding (TMU).
[2] IMF Country Report No. 08/249.
[3] These apply on a continuous basis.
[4] The reserve accumulation target, unlike the monetary targets, was calculated to include foreign aid disbursements that did materialize in the period.
[5] Including program grants and program loans.
[6] Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the nonfinancial private sector.

Table 2. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2009

(Cumulative change from beginning of calendar year to end of month indicated; Le millions, unless otherwise indicated) [1]

	2009				
	March		June	September	December
	Indicative Targets Prog. [2]	Proj.	Performance Criteria	Indicative Targets	Performance Criteria
Performance criteria					
Net domestic bank credit to the central government (ceiling)	153,709	27,138	8,409	48,396	100,212
Unadjusted target (ceiling)					
Adjustment for the shortfall (excess) in external budget support					
Adjustment for the issuance of treasury securities to the private sector					
Net domestic assets of the central bank (ceiling)	138,436	7,594	-84,338	-33,131	-69,477
Unadjusted target (ceiling)					
Adjustment for the shortfall (excess) in external budget support					
Domestic primary fiscal balance of the central government (floor)	-10,569	-32,754	-71,596	-96,924	-116,158
Subsidies to National Power Authority (ceiling) [3]	0	0	0	0	0
Gross foreign exchange reserves of the central bank, US$ millions (floor)	7.3	-8.2	26.6	24.2	39.3
Unadjusted target (floor)					
Adjustment for the shortfall (excess) in external budget support [4]					
Adjustment for the shortfall in the US$ value of IMF disbursement					
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities					
Contracting or guaranteeing of new nonconcessional external debt by the public sector with maturities of one year or more (ceiling) [3]	0	0	0	0	0
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) [3]	0	0	0	0	0
External payment arrears of the public sector (ceiling) [3]	0	0	0	0	0
Total domestic government revenue (floor)	181,108	180,745	386,640	602,667	824,014
Indicative target					
Poverty-related expenditures (floor)	80,292	82,069	180,993	256,398	330,623
Memorandum items:					
External budgetary assistance [4]	26,900	25,200	121,275	121,275	188,201
Net credit to government by nonbank private sector [5]	-1,684	5,328	-272	7,056	7,328
Disbursements under the PRGF (US$ millions)	0.00	0.00	11.34	11.34	22.68

Sources: IMF staff projections

[1] The performance criteria and indicative targets shown in this table are defined in the Technical Memorandum of Understanding (TMU).
[2] IMF Country Report No. 08/249.
[3] These apply on a continuous basis.
[4] Including program grants and program loans.
[5] Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the nonfinancial private sector.

Table 3. Sierra Leone: Structural Conditionality for 2009

Measure	Timing	Macroeconomic Rationale
Structural performance criteria		
• Provide to Fund staff the Monetary and Policy Committee (MPC) monthly minutes that include the monthly projections for government revenue and expenditures made available by the Ministry of Finance to the Bank of Sierra Leone to produce a monthly liquidity forecast	On a continuous basis	To enhance liquidity management at the Accountant General Department and monetary forecasting at the BSL
• Recruit and assign budget officers to MDAs that have IFMIS 'rolled out' and ensure their budget committees are fully operational.	End–June	To improve budget formulation and execution
• Adoption by the BSL of new off-site surveillance guidelines for banks consistent with the requirements of the revised Banking and Other Financial Services Act, and introduction of new reporting requirements based on these guidelines	End–September	To enhance the bank supervision framework as well as the supervisory ability of the central bank
• Establish a Domestic Tax Department (DTD) as the vehicle for achieving integration of domestic tax collection and make it functional	End–December	To improve efficiency of revenue collection efforts
Structural Benchmarks		
• Adoption by the cabinet of the implementation decree for new and modernized customs law and regulations that reflects the WTO agreement and protects government customs revenue.	End–June	To modernize customs law and regulations
• Adoption by the cabinet of a simplified and fully designed small taxpayer regime with supporting draft legislation	End–September	To extend the tax base
• Integrate the Goods and Services Tax (GST) administration within the Large Taxpayer Office (LTO).	End–December	To ensure full and efficient implementation of the GST

ATTACHMENT II. SIERRA LEONE: TECHNICAL MEMORANDUM OF UNDERSTANDING

December 5, 2008

I. INTRODUCTION

1. This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative and structural performance criteria (PCs) and benchmarks for the reminder of the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 2 of the Memorandum of Economic and Financial Policies (MEFP) of the Government of Sierra Leone (GoSL) for 2009.

2. **Program exchange rates.** For the purpose of this TMU, foreign currency denominated transactions will be converted into Sierra Leonean currency (leones) using the program exchange rates shown in the box below and the market exchange rate against the US$ in effect on October 31, 2008 (as published in *International Financial Statistics*) for transactions in other currencies than the US dollar, the Euro, the U.K. Pound, and the Special Drawing Rights (SDR).

Leone/US$	3,150
US$/Euro	1.28
US$/Pound	1.62
US$/SDR	1.49

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Gross Foreign Exchange Reserves of the Bank of Sierra Leone (BSL)

3. **Definition**. Unless otherwise noted here, gross foreign exchange reserves of the Bank of Sierra Leone (BSL) are defined as reserve assets of the BSL. Reserve assets are defined in the IMF's *Balance of Payments Manual* (5^{th} ed.) and elaborated in the reserve template of the Fund's International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template. They exclude foreign assets not readily available to, or controlled by, the monetary authorities.

4. **Adjustment clauses.** The floor on gross foreign exchange reserves will be adjusted (a) downward (or upward) by the amount in U.S. dollars of the shortfall (excess) in programmed external budgetary assistance—the downward adjustment will be capped at the equivalent of US$20 million while the upward adjustment will be equal to the amount—if

any, exceeding US$20 million;[1] (b) downward (upward) for any shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the PRGF arrangement; and (c) upward (or downward) for any increase (or decrease) in BSL short-term (one year or less in original maturity) foreign currency-denominated liabilities (to residents and nonresidents).

B. Net Domestic Assets of the BSL

5. **Definition.** Net domestic assets (NDA) of the BSL are defined as the end-period (based on daily data) stocks, during the month of the test dates, of the reserve money less net foreign assets calculated at the program exchange rates. Reserve money includes currency in circulation and required reserves on leone deposits. Net foreign assets of the BSL are defined as gross foreign exchange reserves (defined above) minus foreign liabilities (defined below). Foreign liabilities are defined as short-term (one year or less in original maturity) foreign currency-denominated liabilities of the BSL to nonresidents and the outstanding use of Fund credit.

6. **Adjustment clauses.** The ceiling on the NDA of the BSL will be adjusted upward by the amount of the shortfall in the external budgetary assistance at the test dates, up to a maximum of US$20 million. In the event of an excess in the external budgetary assistance greater than US$20 million, the NDA ceiling will be adjusted downward by the amount exceeding US$20 million. The leone value of the cumulative shortfall or excess in external budgetary assistance will be converted at the program exchange rates.

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

7. **Definition.** NCG refers to the net banking system's claims on the central government and is defined as follows:

- the net position of the government with commercial banks, including: (a) treasury bills; (b) bonds issued by the GoSL; (c) loans and advances; less (a) Central government deposits (defined to include account balances under the authority of controlling officers, but excluding deposits in the sterilization account); plus
- BSL holdings of (a) GoSL statutory bonds; (b) ordinary GoSL bonds; (c) bonds in respect of loans to current and former parastatals; (d) treasury bills on the trading portfolio of BSL; (e) other government stock; (f) HIPC debt relief deposits; less (a) special noninterest-bearing government stocks to cover foreign exchange valuation losses; (b) treasury bills and treasury bearer bonds held by the BSL for

[1] External budgetary assistance is defined as program grants and program loans, excluding HIPC assistance.

monetary policy operations; and (c) bonds issued by the GoSL in subscription to the paid-up capital of the BSL.

8. **Adjustment clauses.** The ceiling on the increase in NCG will be adjusted upward (downward) by up to the amount of the shortfall (excess) in external budgetary assistance. The upward adjustment will be capped at the equivalent of US$20 million while the downward adjustment will be equal to the amount—if any, exceeding US$20 million. The leone value of the cumulative shortfall or excess in external budgetary assistance will be converted at the program exchange rates. The ceiling will also be adjusted downward (upward) by the excess (shortfall) in the leone value of net issues of government securities to the nonbank private sector vis-à-vis the program target (specified in the memorandum items in Table 2 of the MEFP).

9. **Data source**. The data source for the above will be the series "Claims on Government (Net)" submitted to Fund staff and reconciled with the monthly monetary survey prepared by the BSL. These data will be reconciled with monthly reports with the monetary data (Treasury bill transactions, ways-and-means account, and Treasury bearer bond transactions).

10. **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 public enterprises are excluded from this definition of central government.

D. Domestic Revenue of Central Government

11. **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.

E. Domestic Primary Fiscal Balance of Central Government

12. **The floor on the domestic primary budget balance** of the central government is defined as domestic revenue minus total expenditure and net lending, excluding interest payments, and externally-financed capital expenditure.

F. Subsidies to the National Power Authority (NPA)

13. **Definition**. The term "subsidy" refers to any financial government support (i.e., unrequited transfers) to the NPA. It does not include the government's on-lending of external loans for capital expenditure of the enterprise. The subsidy is to be reduced by the amount of

arrears accumulating in regard to the charges for government's electricity consumption. This PC will apply on a continuous basis.

G. External Payment Arrears of the Public Sector

14. **Definition.** External payment arrears of the public sector are defined as the stock of new external overdue debt-service payments by the public sector. For the purposes of this PC, the public sector comprises the central government, regional government, all public enterprises and the BSL. **The nonaccumulation of external arrears is a performance criterion during the program** period. Excluded from this PC are those debts subject to rescheduling. This PC will apply on a continuous basis.

H. New Nonconcessional External Debt Contracted or Guaranteed by the Public Sector with an Original Maturity of One Year or More

15. **Definition**. Those are defined as all forms of new debt with original maturity of one year or more contracted or guaranteed by the public sector.[2] This PC applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274 (00/85), August 24, 2000) but also to commitments contracted or guaranteed for which value has not been received. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling. For the purposes of this PC, the "public sector" is as defined in ¶ 14 above. This PC will apply on a continuous basis.

I. External Short-Term Debt Contracted or Guaranteed by the Public Sector

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

[2] Debt is considered concessional if it has a grant element equivalent to 35 percent or more. Calculation of the degree of concessionality of new external borrowing is based on the last 10-year average commercial interest reference rate (CIRR) of the Organization for Economic Cooperation and Development (OECD) for loans with maturities of at least 15 years and on the last six-month average CIRR for loans maturing in less than 15 years.

III. Quantitative Performance Indicators

Poverty-related Expenditures

17. **Definition**. Poverty-related expenditures refer to those expenditures in the areas identified in Table 2 of the Sierra Leone HIPC Decision Point Document. These budgetary expenditures include but are not limited to those sub-components that are financed by drawdown from the HIPC Relief Account at the BSL.

IV. Structural Performance Criteria

18. The government will complete the following actions in 2009:

- The Ministry of Finance will provide monthly projections for government revenue and expenditures to the BSL for use in producing a monthly liquidity forecast to be transmitted to the Monetary Policy Committee, which will meet monthly to provide guidance on the stance of monetary policy in the month ahead. Minutes of each meeting will be transmitted to Fund staff (on a continuous basis).

- Recruit and assign budget officers to MDAs that have IFMIS "rolled out" and ensure their budget committees are fully operational (by end–June).

- Adoption by the BSL of new off-site surveillance guidelines for banks consistent with the requirements of the revised Banking and Other Financial Services Act, and introduction of new reporting requirements based on these guidelines (by end–September).

- Establish a Domestic Tax Department (DTD) as the vehicle for achieving integration of domestic tax collection and make it functional (by end–December).

V. Structural Benchmarks

19. The government will complete the following actions by the specified dates:

- Adoption by the cabinet of the implementation decree for new and modernized customs law and regulations that reflects the WTO agreement and protects government customs revenue (by end–June).

- Adoption by the cabinet of a simplified and fully designed small taxpayer regime with supporting draft legislation (by end–September).

- Integrate the Goods and Services Tax (GST) administration within the Large Taxpayer Office (LTO) (by end–December).

VI. Program Monitoring

20. The Sierra Leonean authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance and Economic Development; the Bank of Sierra Leone, and other relevant agencies. The committee shall be responsible for monitoring performance under the program, recommending policy responses, informing the Fund regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of PCs and benchmarks. In addition, the Net Domestic Financing Technical Committee shall provide the Fund with weekly minutes of its meetings complemented with the minutes of the monthly meetings of the Inter-Agency Committee for National Statistics progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

Implementation of the Revised Guidelines on Performance

Criteria with Respect to Foreign Debt

The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 which reads as follows: "(a) For the purpose of this guideline, 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 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 the guideline, 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 above, 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". (c) Excluded from this performance criterion are normal import-related credits, disbursements from the IMF, and those debts subject to rescheduling arrangements".

Sierra Leone: Summary of Data to Be Reported to IMF Staff

Type of Data	Tables	Frequency	Reporting Deadline
Real sector	National accounts	Annual	End of year + 9 months
	Revisions of national accounts	Variable	End of revision + 2 months
	Disaggregated consumer price index	Monthly	End of month + 2 weeks
Public finance	Net government position and details of nonbank financing, including the stock of the float, treasury bills, and bonds, as well as privatization receipts	Monthly	End of month + 6 weeks
	Government flow-of-funds table (Government Financial Operations Table) with supporting documentation (final) and presented on commitment and cash basis	Monthly	End of month + 6 weeks
	Petroleum product pricing formula, tax receipts by categories of petroleum products	Monthly	End of month + 6 weeks
	Stock of outstanding payment commitments with a breakdown between current and capital expenditures	Monthly	End of month + 6 weeks
	Import duty exemptions by end-users and tariff regimes and estimates of corresponding revenue losses	Quarterly	End of quarter + 6 weeks
Monetary and financial data	Monetary survey	Monthly	End of month + 6 weeks
	Balance sheet of the central bank	Monthly	End of month + 6 weeks
	Consolidated balance sheets of commercial banks	Monthly	End of month + 6 weeks
	Borrowing and lending interest rates	Monthly	End of month + 6 weeks
	Results of foreign exchange and Treasury Bills auctions	Weekly	End of week + 3 days
	Stocks of government securities	Monthly	End of month + 6 weeks
	Banking supervision ratios	Quarterly	End of quarter + 8 weeks
	Gross official foreign reserves	Weekly	End of week + 3 days
	Foreign exchange cashflow table	Quarterly	End of quarter + 4 weeks

Sierra Leone: Summary of Data to Be Reported to IMF Staff (continued)

Type of Data	Tables	Frequency	Reporting Deadline
Balance of payments	Balance of payments	Annual	End of year + 3 months
	Revised balance of payments data	Variable	When revisions occur
	Exports and imports of goods (including a volume of key minerals and fuels)	Monthly	End of month + 3 months
External debt	Outstanding external arrears and repayments (if applicable)	Monthly	End of month + 4 weeks
	Details of all new external borrowing and guarantees provided by government on new borrowing	Monthly	End of month + 4 weeks
	External debt service payments (separately on principal and interest payment) to each creditor	Monthly	End of month + 4 weeks
HIPC Initiative and MDRI Monitoring	Statement of special account at the BSL, that receives resources generated by the HIPC Initiative and tracks their use	Monthly	End of month + 4 weeks
	Statement of special MDRI account at the BSL and the corresponding poverty-reducing spending financed	Monthly	End of month + 4 weeks
	Minutes of the meeting of the Net Domestic Financing (NDF) Technical Committee	Weekly	End of meeting + 2 weeks
	Minutes of the meeting of the Monetary Policy Committee	Monthly	Date of meeting + 2 weeks

INTERNATIONAL MONETARY FUND

SIERRA LEONE

Staff Report for the 2008 Article IV Consultation, Third Review Under the Three–Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Requests for Waivers of Nonobservance of Performance Criteria, Augmentation of Access, and Modification of Performance Criterion Informational Annex

Prepared by the African Department
(In collaboration with other departments)

Approved by Thomas Krueger and Dominique Desruelle

December 8, 2008

Contents Page

Appendix I. Relations with the Fund
(As of October 31, 2008)

I. Membership Status: Joined 9/10/62; Article VIII

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	103.70	100.00
Fund holdings of currency	103.69	99.99
Reserve position	0.02	0.02

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	17.46	100.00
Holdings	19.78	113.32

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
PRGF Arrangements	27.51	26.53

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	5/10/06	5/9/10	31.11	13.51
PRGF	9/26/01	6/25/05	130.84	130.84
PRGF	3/28/94	5/04/98	101.90	96.85

VI. Projected Payments to Fund [1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal			1.40	3.27	4.62
Charges/interest	0.07	0.14	0.14	0.13	0.11
Total	0.07	0.14	1.54	3.40	4.73

VII. Implementation of HIPC Initiative

		Enhanced Framework
Commitment of HIPC Initiative assistance		
Decision point date		March 2002
Assistance committed (NPV terms)		
By all creditors (US$ million)[2]	675.20	

[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

Of which: IMF assistance (US$ million)	125.21
(SDR equivalent in millions)	100.00
Completion point date	December 2006
Disbursement of IMF assistance (SDR million)	
Amount disbursed	100.00
Interim assistance	66.03
Completion point balance	33.97
Additional disbursement of interest income [3]	6.58
Total disbursements	106.58

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

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

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGF**	**Total**
December 2006	N/A	117.34	117.34

IX. Safeguards Assessment

Under the IMF safeguards assessment policy, the Bank of Sierra Leone was subject to a safeguards assessment with respect to the PRGF arrangement approved on May 10, 2006. The assessment, which was completed on June 12, 2006, proposed recommendations to address new and continuing vulnerabilities in the financial reporting, internal audit, and internal controls areas. The implementation of these measures is being monitored by IMF staff.

Completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not 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 remains outstanding at the time the member qualifies for such debt relief.

X. Exchange Rate Arrangement

The BSL calculates an official exchange rate every Friday morning as the weighted average of the auction rate, the commercial banks' mid-rate and the bureaus' mid-rate in the previous week, for customs valuation purposes and for official transactions. Commercial banks may buy and sell foreign exchange from/to individual customers, as well as trade among themselves or with the BSL on a freely negotiable basis. As of November 6, 2008, the BSL mid-rate was Le 3003.68=US$1. In March 2008, the exchange rate regime was reclassified as "conventional peg" to reflect the nominal stability of exchange rate developments under de facto management by the BSL through the auction as the only seller of foreign exchanges.

With effect from December 14, 1995, Sierra Leone has accepted the obligations of Article VIII, Sections 2, 3, and 4. On June 29, 2001, Sierra Leone removed the remaining exchange restriction, in the form of a tax clearance certificate required for payments and transfers of certain types of current international transactions. Sierra Leone continues to maintain an exchange system free of restrictions on the making of payments and transfers for current international transactions.

XI. Article IV Consultation

The 2006 Article IV consultation was concluded by the Executive Board on December 15, 2006. The next Article IV consultation with Sierra Leone will be held in accordance with the provisions of the decision on consultation cycles approved on July 15, 2002.

XII. Technical Assistance

Department	**Purpose**	**Date**
FAD	Evaluation of progress on tax administration reform and VAT preparation	September 2008
	Evaluation of progress in PFM reforms	July 2008
	Implementation of public financial management reforms	March 2008
	Tax administration reforms for successful VAT implementation	February 2008
	Evaluation of progress of revenue administration modernization.	November 2007
	Assist the authorities in developing a	February 2006

Department	Purpose	Date
	comprehensive revenue administration reform strategy.	
	Review the system of fiscal incentives, especially the special tax regimes applied to mining and petroleum sectors.	March/April 2004
	Review the tariff and indirect tax system, National Revenue Authority, and tax and customs administration.	February 2004
LEG	Provision of TA on a legal review of the Bank of Sierra Leone Act of 2000.	March/April 2007
MCM	Bank of Sierra Leone: Internal audit and management of the	October 2008
	Monetary policy, banking supervision, and recapitalization of the Bank of Sierra Leone	April/May 2008
	Recapitalization of the Bank of Sierra Leone Assist the Bank of Sierra Leone in bringing its accounting practices up to international best practice.	February 2008 November/December 2007
	Foreign exchange, monetary operations, and central bank recapitalization	November 2007
	Assist the Bank of Sierra Leone in setting up an action plan for implementing FSAP recommendations/financial sector reforms	June 2007
	Foreign exchange, monetary operations, and central bank recapitalization.	January/February 2007
MFD	Multi-topic technical assistance.	November 2005
	Multi-topic technical assistance.	November 2004
STA	GDDS mission on national accounts statistics	September/October 2008
	GDDS mission to review the methodological basis for compiling national accounts aggregates	January 2008
	GDDS project on implementation of SRF	June 2007
	GDDS project on monetary-fiscal accounts reconciliation	August 2006

Department	Purpose	Date
	GDDS project on national accounts.	January 2006
	GDDS project on national accounts.	February 2005
	GDDS project on monetary-fiscal accounts reconciliation.	February 2005
	GDDS project on monetary-fiscal accounts reconciliation.	October 2004
	GDDS project on BOP issues.	September/October 2004
	GDDS project on national accounts.	September 2004
	GDDS project study tour for Sierra Leonean officials to Kenya on strategic planning.	August 2004
	GDDS project on national accounts.	April 2004
	GDDS project on strategic planning.	March 2004

XII. Resident Representative

Mr. Alvin Hilaire assumed responsibility for the Fund office in November 2006. Mr. Hilaire is also the Fund's resident representative in the Republic of Guinea and is stationed in Conakry.

Appendix II. Joint World Bank-IMF Work Program, 2008–09

Title	Products	Provisional timing of mission	Expected delivery date
	A. Mutual information on relevant work programs		
World Bank work program in next 12 months	Public Expenditure Review	Tbd	August 2009
	Public Financial Management TA	October 2008 (appraisal)	February 2009
	Second Governance Reform and Growth Credit (GRGC 2)	August 2008 (appraisal)	October 2008
	Mineral Sector TA (discussion underway to merge activity with a planned regional Mining project)	August 2008 (appraisal)	
	Decentralization Study	Tbd	November 2008
	Reproductive and Child Health- Phase 2 Project	August 2008 (appraisal)	November 2008
	Basic Services I	September 2008 (pre-appraisal)	June 2009
	Food Crisis Response Grants (investment and budget support)	n.a.	August 2008
	Debt Buy Back Operation Phase I	n.a.	December 2008
	Third Governance Reform and Growth Credit (GRGC 3)	Tbd	October 2009
	Financial Sector Development Plan	Tbd	January 2009
IMF work program in next 12 months	Macroeconomic policy analysis and advice	September 2008 (Article IV)	December 2008 (Staff Report and Selected Issues Papers)
		March 2009 (PRGF 4th review)	May 2009 (Staff Report)
		September 2009 (PRGF 5th review)	November 2009 (Staff Report)
	Technical assistance		
	• Revenue administration and tax reform	November 2008/March 2009	
	• Public financial management	November/December 2008	
	• Restructuring of the MTEF process and streamlining of budget execution	January/March 2009	
	• Monetary operations	December 2008	
	• Internal audit and management	January 2009	
	• Monetary and financial statistics	April 2009	

Title	Products	Provisional timing of mission	Expected delivery date
	B. Requests for work program inputs		
Fund request to Bank	Public expenditure review		
Bank request to Fund	Medium-term macroeconomic framework		
	C. Agreement on joint products and missions		
Joint products in next 12 months	JSAN for PRSP II DSA Assisting the authorities with the implementation of their financial sector reform strategy		June 2009 September 2009

Appendix III. Statistical Issues

1. Data provided to the Fund are affected by serious shortcomings that significantly hamper surveillance. The prolonged civil war resulted in a virtual collapse of statistical systems in the late-90s. Serious deficiencies still affect balance of payments statistics, national accounts, and social indicators. The authorities are cooperating fully in providing data to the Fund and disseminating economic and financial data to the public on a regular basis. The country participates in the GDDS, but its metadata needs to be updated.

2. A major and sustained improvement in the coverage and timeliness of economic data will require greater inter-agency coordination and restructuring the institutional framework. Statistics Sierra Leone (SSL) continues to face scarce budgetary resources, which adversely affect the compilation of national accounts and price statistics. Since March 2004, and with support from the GDDS Anglophone Africa Project, six national accounts TA missions visited Freetown, the most recent in January 2008. These missions reviewed source data, methodologies, compilation, and dissemination issues and assisted with data development and improvements in methodology.

National accounts

3. The coverage of private sector activities in the national accounts is hampered by an outdated business directory and low response ratios to surveys. Small businesses in particular, which represent a very high proportion of business activity, are not adequately captured in national account statistics. The consumer price index (CPI) is used extensively to derive estimates of GDP at constant prices. AFR missions continue to make their own estimates and projections of key national accounts aggregates, as well as adjustments to historical data using available information.

4. Efforts to reconstruct the national accounts estimates commenced during 2003/04, with the main effort focusing on preparing new estimates for the period starting in 2001. Resource constraints significantly delayed production of final estimates and only preliminary data for 2001–04 were made available. Efforts are underway to prepare revised national accounts based on a 2005 benchmark and using 2005 prices to compile constant price estimates. However, shortages of resources and staff continue to pose major constraints to statistical development undertaken by SSL.

Prices

5. The CPI is compiled on a monthly basis by the SSL and published with a lag of about three weeks. It has been rebased to 2003 using the 2003 Sierra Leone integrated household survey and continues to cover the capital city and three towns. While national CPI is being compiled, the authorities continue to publish the old CPI (1992=100). To avoid confusion, the authorities should be encouraged to cease publication of the old series, although they may

Government finance statistics

6. The budget reporting system was established with assistance under the Fund/UNDP technical assistance project. Monthly data on central government revenue, current expenditure, and financing are provided with appropriate detail. The European Commission (EC) is providing technical assistance to the Accountant General's Office to improve the timeliness and quality of fiscal data. Data on capital expenditure are poor. Fiscal data are reported to AFR but the submission of annual data for publication in the *GFS Yearbook* has been discontinued (the most recent data refer to 2004). Fiscal data only cover the central government, excluding extrabudgetary agencies and local governments.

7. There is an urgent need for greater timeliness and accuracy of data on foreign-financed development projects. Reports on the implementation of the development budget and its financing are currently not produced in a format that is suitable for budget analysis as implementation data are not available. There is also need for assuring quality control of the final data. The authorities are currently considering the introduction of a flash reporting system for government expenditure in general- and foreign aid-financed projects. In the context of the GDDS regional project for Anglophone African countries, work has been undertaken to reconcile fiscal and monetary data, and to improve the coverage and classification in these two data sets.

Monetary statistics

8. The main components of the central bank balance sheet are available on a daily and weekly basis; this system provides an early warning system on key financial targets. The full monetary survey is compiled by the Bank of Sierra Leone (BSL) with a lag of about six weeks, with comprehensive coverage of commercial banks.

9. There has been some progress in the compilation of data in line with the *2000 Monetary and Financial Statistics Manual*. The BSL, with assistance from STA, has completed the preparation of a standardized report form (SRF) for central bank, but it has not started regular reporting to the IMF yet. Work is ongoing in the preparation of the SRF for other depository corporations.

10. Reconciliation of fiscal and monetary statistics remains a challenge. In the past, compilation of fiscal data solely on a cash basis, and differences in the coverage of the central government explained most of the discrepancies between both datasets. In 2007, a TA mission found limited progress on previous recommendations on the fiscal reporting system for extra budgetary agencies and projects. The coverage of reporting agencies had improved, but there were many obvious errors and omissions in the reported data and in the BSL

database. In June 2008, the authorities notified the IMF, however, that the fiscal data have been reconciled with the expanded BSL monetary data.

Balance of payments

11. The BSL is responsible for the compilation of balance of payments (BOP) statistics. The BSL obtains source data from the SSL, government ministries, the Customs and Excise Department (Customs), and the "Financial Survey of Major Limited Companies," for data on foreign direct investment. Imports and exports of goods estimates are based on data compiled by Customs and are adjusted for coverage, valuation, and timing to accord with BOP definitions. The BSL does not make adjustments to BOP data using supplementary information to take account of unreported data.

12. External transactions are characterized by a large volume of activity in the informal sector, principally the smuggling of diamonds. A considerable portion of imports is financed by these unrecorded exports. As a result, official BOP statistics tend to substantially understate transactions. The staff has been addressing this problem through the use of third-country (principally EU member) import data. STA has been providing technical assistance on BOP issues under the GDDS project to help the authorities with the implementation of the *Balance of Payments Manual, Fifth Edition (BPM5)*.

13. Outstanding data problems also exist for trade in services, income statistics, current transfers, and in the capital and financial accounts. Regarding the latter, there are substantial difficulties in tracking financial transactions of the public and private sectors that are routed through commercial banks. While the authorities are producing data on international investment position, improvements are required in coverage and in valuation adjustments. These difficulties are manifested in reconciling flow data in the BOP and stocks in the international investment position. Estimates of smuggled imports and exports, in particular diamonds, are also not available.

14. Against this background, information on official grant and loan receipts is relatively good and is prepared by AFR on the basis of contact with the authorities and donor agencies. In contrast, data on private capital flows are very poor. Some information on private banking flows can be derived from the monetary survey. Other private capital flows, especially those linked to the informal diamond trade, are implicitly included in "errors and omissions."

Sierra Leone: Table of Common Indicators Required for Surveillance
November 2008

	Date of latest observation	Date received	Frequency of Data[4]	Frequency of Reporting[4]	Frequency of publication[4]
Exchange Rates	11/08	11/08	D	W	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	09/08	11/08	M	M	M
Reserve/Base Money	09/08	11/08	M	M	M
Broad Money	09/08	11/08	M	M	M
Central Bank Balance Sheet	09/08	11/08	M	M	M
Consolidated Balance Sheet of the Banking System	09/08	11/08	M	M	M
Interest Rates[2]	09/08	11/08	W	M	W
Consumer Price Index	09/08	10/08	M	M	M
Revenue, Expenditure, Balance and Composition of Financing – Central Government	09/08	11/08	M	Q	N/A
Revenue, Expenditure, Balance and Composition of Financing– Central Government	09/08	11/08	M	Q	N/A
Stocks of Central Government and Central Government-Guaranteed Debt	06/07	09/08	M	Q	N/A
External Current Account Balance	12/07	09/08	A	A	A
Exports and Imports of Goods and Services	12/07	09/08	A	A	A
GDP/GNP	2007	09/08	A	A	A
Gross External Debt	12/07	09/08	A	A	A
International Investment Position[3]	12/07	09/08	A	A	A

[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] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[4] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND
Public Information Notice
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FOR IMMEDIATE RELEASE
January 12, 2009

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2008 Article IV Consultation with Sierra Leone

On December 22, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Sierra Leone.[1]

Background

Sierra Leone's macroeconomic performance in 2008 was mixed. Output growth reached 6.4 percent in 2007, led by solid agricultural and mining production and buoyant activity in the construction and services sectors. Available information points to continued robust economic activity in 2008, despite the impact of the global downturn and a drop in mining production. Inflation reverted to double digits in 2007 and has gone up significantly in 2008, rising to 17 percent (year-on-year) by September, mostly due to the global food and fuel crisis.

The primary fiscal deficit (including grants) was reduced to 1.9 percent of GDP in 2007 from 3.1 percent in 2006 as the government implemented a cash-budget management in the face of a significant decline in domestic revenue mobilization. For 2008, the deficit is expected to reach 2.8 percent of GDP to accommodate the impact of the food and fuel crisis on the budget.

Reserve money growth exceeded the targets in 2007 (26 percent against 15.6 percent) and 2008 (end-September) due to unexpectedly high bank reserves caused mainly by the establishment of

[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. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

new foreign banks. Credit to the private sector grew rapidly in 2007 and 2008 as commercial banks continued to increase lending in support of buoyant activity in the construction and service sectors.

The external current account deficit (including official transfers) increased slightly in 2007 (3.8 percent of GDP versus 3.5 percent in 2006) following a slight deterioration in the terms of trade. The foreign reserve position of the Bank of Sierra Leone has remained relatively strong. The nominal effective exchange rate depreciated enough over the last two years to offset the rise in inflation, keeping the real effective exchange rate (REER) fairly stable. However, with the acceleration of inflation in 2008 outpacing the depreciation in the nominal effective exchange rate, the REER started to appreciate somewhat.

The authorities have made significant progress in implementing structural reforms in key areas. In particular, they have adopted: (i) a modernization plan of the National Revenue Authority, which is being actively implemented; (ii) a comprehensive strategy and action plan for the reform of the financial sector; and (iii) a new anti–corruption strategy and action plan for 2008–13 in the context of a revamped Anti-Corruption Act. In addition, preparations are well advanced for the introduction of a value added tax (called the Goods and Services Tax—GST) during the first half of 2009.

Growth prospects over the medium term remain encouraging with the expansion of available land for agriculture and intensification of extension services, and improved supply of electricity with the expected completion in early 2009 of a major hydroelectric project. The projected growth will, nevertheless, not be sufficient to make a significant dent in poverty reduction.

Executive Board Assessment

Executive Directors commended the Sierra Leonean authorities for further consolidating peace with a smooth political transition in 2007, creating an environment conducive to reforms. Directors welcomed that economic growth has continued to be robust, but noted that inflation remains in double digits, pushed up until recently by the surges in global food and fuel prices.

Directors considered the real effective exchange rate of the leone to be broadly in line with economic fundamentals. They stressed, however, that Sierra Leone's wide inflation differential with its major trading partners and the likely persistence of current account deficits over the medium term call for a more flexible exchange rate policy to facilitate adjustment to exogenous shocks.

Directors encouraged the authorities to adopt better-targeted and more sustainable measures in their response to the food and fuel crisis. They welcomed the recent decision to allow full pass-through of world oil prices to domestic pump prices, which will facilitate domestic adjustment and free up fiscal resources for other urgent spending needs.

Noting that Sierra Leone has one of the lowest domestic revenue-to-GDP ratios among sub-Saharan African countries, Directors considered that enhancing domestic revenue mobilization should continue to be a high priority in order to strengthen the fiscal position and create space for poverty-reducing and infrastructure spending. They commended the authorities for the progress made in modernizing the National Revenue Authority, and encouraged them to introduce the Goods and Services Tax in the first half of 2009, as planned. Directors noted the authorities' efforts to improve the contribution of the mining sector to domestic revenue, and stressed the need to make the ongoing review of mining rights more transparent.

Executive Directors observed that improved public expenditure management will be essential to ensure budget credibility and make public spending more effective. They encouraged the authorities to address weaknesses in budget procedures and execution, and to ensure greater transparency and accountability in the use of public resources.

Directors were encouraged by the authorities' renewed commitment to accelerating structural reforms to promote private sector activity, improve external competitiveness, and strengthen the economy's resilience to external shocks. In light of the current global financial crisis, they called for timely implementation of the reform of the financial sector, notably steps to strengthen bank supervision and enable the Bank of Sierra Leone to detect vulnerabilities at an early stage. Directors called for accelerating the reform of the National Power Authority to put it on a sound financial footing.

Noting that Sierra Leone is at a moderate risk of debt distress, Executive Directors encouraged the authorities to maintain prudent borrowing policies and rely on grants and highly concessional loans.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2008 Article IV Consultation with Sierra Leone is also available.

Sierra Leone: Selected Economic and Financial Indicators, 2006-12

	2006	2007	2008	2009	2010	2011	2012
	Actual	Actual			Proj.		
	(Annual percentage change, unless otherwise indicated)						
Income and expenditure							
Real GDP	7.4	6.4	5.5	5.5	5.8	6.0	6.5
GDP deflator	11.9	10.8	12.0	8.3	5.1	5.6	5.4
Nominal GDP	20.1	17.9	18.2	14.3	11.2	11.9	12.2
Consumer prices (end of period)	8.3	13.8	15.7	9.8	9.0	8.7	8.2
Consumer prices (annual average)	9.5	11.7	15.6	12.7	9.4	8.9	8.5
Money and credit							
Broad money	18.9	25.9	20.9	14.0	11.1	11.7	12.0
Velocity (level)	4.7	4.4	4.3	4.3	4.3	4.3	4.3
Domestic credit [1]	-48.7	27.2	41.9	20.8	19.8	18.4	13.7
Government [1]	-63.9	17.6	49.1	21.9	18.6	17.5	8.8
Private sector	18.5	39.4	34.6	20.0	21.8	19.9	20.0
Reserve money	10.7	26.0	18.2	13.4	10.9	10.7	10.5
Interest rate [2]	14.2	21.3	...	...	...	...	...
External sector							
Exports (US$)	28.3	3.9	0.0	12.0	21.4	14.9	14.9
Imports (US$)	1.9	4.6	17.4	-1.8	14.1	8.2	12.3
Terms of trade (- = deterioration)	-6.4	-0.6	-17.9	0.6	3.4	0.8	0.8
Real effective exchange rate (- = depreciation; eop)	-7.4	0.5	…	…	…	…	…
	(percent of GDP)						
Gross domestic saving	7.9	6.0	5.1	8.9	10.5	11.7	12.5
Government	-1.3	0.3	-0.9	0.0	1.1	1.4	1.5
Private	9.1	5.7	6.0	8.8	9.4	10.3	11.0
Gross domestic investment	15.5	13.4	15.7	16.7	17.7	17.8	18.4
Government	5.1	3.5	6.0	7.3	7.4	7.5	7.5
Private	10.4	9.9	9.7	9.5	10.3	10.4	10.9
Current account balance, incl. official transfers	-3.5	-3.8	-7.1	-5.2	-4.6	-3.6	-3.3
Current account balance, excl. official transfers	-8.8	-7.3	-10.6	-8.1	-7.5	-6.5	-6.3
Overall balance of payments	10.2	1.9	-2.7	0.8	0.5	1.7	1.3
Government domestic revenue	11.8	10.8	11.8	12.3	13.3	13.6	13.8
Total expenditure and net lending	22.7	17.6	21.2	22.2	22.0	22.1	22.1
Of which: Current expenditure	17.6	13.3	15.2	14.9	14.6	14.6	14.6
Overall fiscal balance							
(excluding grants and MDRI)	-11.0	-6.8	-9.4	-9.9	-8.7	-8.5	-8.3
(including grants and MDRI) [3]	9.3	25.2	-3.2	-3.5	-3.8	-3.8	-3.1
Domestic primary fiscal balance [4]	-3.1	-1.9	-2.8	-1.7	-1.2	-1.0	-0.9
Domestic financing	-10.4	1.7	1.8	1.3	1.2	1.1	0.8
Financing gap (in US$ millions)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(percent of exports of goods and nonfactor services)						
Debt service due (incl. to IMF) after debt relief	6.6	4.1	3.1	2.8	4.1	5.0	5.0
Debt service due (incl. to IMF) before debt relief	18.9	135.7	4.1	3.6	4.7	5.6	5.6
Net present value of debt-to-exports ratio	52.1	41.1	49.9	56.2	56.6	56.7	56.1
	(US$ millions, unless otherwise indicated)						
Memorandum items							
External current account balance, excl. official transfers	-125.8	-122.1	-209.4	-173.0	-169.2	-157.5	-163.8
Gross international reserves	184.2	215.5	180.1	219.3	239.9	274.9	299.9
(months of imports) [5]	4.7	4.6	3.9	4.2	4.3	4.4	4.5
Nominal GDP	1,423.7	1,664.8	1,968.9	2,130.7	2,261.2	2,421.3	2,603.6
Nominal GDP (Le billions)	4,217.0	4,969.8	5,873.4	6,711.8	7,461.9	8,353.6	9,372.9

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

[1] The numbers reflect the impact of MDRI.

[2] 91-day treasury bill rate (end of period).

[3] For 2006, MDRI relief from IMF; for 2007, MDRI relief from IDA and AfDF (both as stock of debt relief).

[4] Domestic revenue minus total expenditure and net lending, excluding interest payments, and externally financed capital expenditure.

[5] Months of imports of goods and services of subsequent year.

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December 22, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review under PRGF Arrangement for Sierra Leone, Increases Financial Assistance to Mitigate Food and Fuel Price Impact, and Approves US$10.8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Sierra Leone's performance under a four-year arrangement under the Poverty Reduction and Growth Facility (PRGF). The Board also approved an SDR 10.4 million (about US$16.1 million) augmentation to help strengthen Sierra Leone's foreign reserve position to cope with the external shocks from world food and fuel price increases and the unfolding global financial crisis. The completion of the review enables the disbursement of SDR 7.0 million (about US$10.8 million), which would bring total disbursements under the arrangement to SDR 20.51 million (about US$31.7 million), including a portion of the augmented amount.

The Executive Board also granted waivers for the non-observance of two performance criteria related to domestic government revenue and the primary fiscal balance, on the basis of remedial actions taken. The Board also completed the country's financing assurances review under the arrangement.

The three-year PRGF arrangement for Sierra Leone was originally approved by the Executive Board on May 10, 2006 (see Press Release No 06/94) in an amount equivalent to SDR 31.11 million (about US$48.1 million). The period of the arrangement was extended to four years to 2010 on July 7, 2008 (see Press Release No 08/166). With the Board's approval of the augmentation today, the total amount of the arrangement will be equivalent to SDR 41.51 million (about US$64.1 million).

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, said:

"Economic growth continued to be robust and broad-based in 2008, but downside risks have increased with the global economic downturn. Sierra Leone's output growth has exceeded the average of sub-Saharan African countries for the past five years, and the external reserve position has been relatively strong. However, the country's social indicators lag well behind those of other fragile states, and inflation remained in double digits in 2008 against the backdrop of global food and fuel price increases.

"The main challenges for Sierra Leone in the medium term include making macroeconomic policies more effective, promoting private sector-led growth to make progress toward the Millennium Development Goals, and maintaining external stability and competitiveness.

"Fiscal policy in 2009 will aim at enhancing domestic revenue mobilization and addressing weaknesses in budget procedures and execution. The authorities need to remain steadfast in the implementation of the modernization plan of the National Revenue Authority and the introduction of the Goods and Services Tax, planned for the first half of 2009. Budget discipline will be key to avoid expenditure overruns and extrabudgetary spending.

"Bringing inflation back to single digits is the main objective of monetary policy for 2009. The Bank of Sierra Leone (BSL) will need to apply the appropriate mix of treasury bill and foreign exchange sales to help sterilize liquidity injections from budgetary support and the use of resources freed under the Multilateral Debt Reduction Initiative (MDRI). Greater nominal exchange rate flexibility would facilitate achieving the monetary targets and responding to external shocks.

"Structural reforms need to be accelerated. Not least in light of the global financial crisis, it is important that the BSL strengthen its supervisory capacity and monitor developments closely to detect early signs of financial sector vulnerabilities. Improving the financial viability of public utilities, particularly the National Power Authority, and promoting good governance will be critical to promoting a high level of economic growth," Mr. Portugal said.

Statement by Samuel Itam, Executive Director for Sierra Leone
December 22, 2008

Introduction

1. My Sierra Leonean authorities are committed to further consolidation of the post conflict reconstruction, macroeconomic stability and growth tempo, as well as public accountability and structural reforms, despite the challenging external environment. Building on the broad-based economic growth that averaged 7.5 percent annually during the last five years, they are determined to maintain strong growth in the near to medium-term. The authorities appreciate the constructive engagement and support of the Fund, the World Bank and the donor community, and thank staff for their candid policy dialogue and advice under the program. The support and dialogue have been invaluable to the authorities' efforts to raise and sustain growth and reduce poverty.

2. Since the completion of the second review in July 2008, Sierra Leone has made progress in consolidating peace and macroeconomic stability. As a result, implementation of the PRGF-supported economic program has been strengthened. To this end, most of the end-June 2008 performance criteria were met, except for two quantitative performance criteria on domestic revenue and primary fiscal balance that were missed mainly due to technicalities and the impact of the high global prices of fuel. Progress in the implementation of the reform agenda was attained. In view of the good economic performance and the continued commitment to reforms under the program, the authorities request Directors' support for the associated waivers and the completion of the third review under the PRGF arrangement, modification of a performance criterion for end-December 2008, and augmentation of access under the PRGF arrangement.

Economic developments and program performance

3. The recent robust economic performance has been broad-based, sustaining the country's reconstruction and growth effort. Real GDP growth was estimated at 6.7 percent in 2007 and this growth momentum is projected to be sustained for the current year, reflecting strong performance in the agriculture, mining, service and construction sectors. Prospects for continued strong growth in 2009 are positive as these sectors experience further expansion. Inflation, however, has edged up further largely because of the lagged impact of the surge in global food and fuel prices. The authorities recognize the enormous challenges and inflationary implications of the protracted increases in the prices of oil and food. Nonetheless, they are of the view that the measures taken to ease food shortages, as well as the commitment to prudent fiscal and monetary policies, together with the recent easing of global fuel and food prices, inflationary pressures would ease in the coming months. The nominal exchange rate of the leone against the US dollar has remained quite stable and its value has continued to be in line with

fundamentals. Foreign reserve accumulation has proceeded well, standing at US$ 212 million (4.6 months import cover).

4. The Bank of Sierra Leone (BSL) has further strengthened its monetary policy framework in line with the recently adopted financial sector development strategy. As a result, reserve money growth has decelerated to less than program targets during the first half of 2008. Likewise, net bank credit expansion to the government was contained, thus meeting the program performance criterion. Strong growth in credit expansion to the private sector was sustained. The authorities are concerned about the rise in non-performing loans (NPLs) and, in response, they are putting in place measures to improve credit quality.

5. The shortfall in domestic revenue continued to constrain significant improvement in the fiscal position. The revenue shortfall of 0.1 percent of GDP was mainly due to the decision to suspend the vehicle licence fee pending improvement in the vehicle registration process. The cash budget management system helped the authorities to meet all quantitative performance criteria (PCs) and the related indicative targets. However, cost overruns due to fuel costs for power generation, transfers for heath sector, and government staff movements led to higher expenditure levels that also contributed to a higher than targeted primary fiscal deficit. Consequently, the primary fiscal deficit exceeded program target by 0.4 percent of GDP.

6. Despite capacity constraints, the authorities have made significant progress in implementing structural reforms in a number of key areas with a view to raising economic growth and improving public service delivery. On the revenue front, the three year modernisation plan for the National Revenue Authority (NRA) is being implemented. The audit of domestic arrears for 2005-07 has been completed, and arrears are being cleared in a manner consistent with the agreed macroeconomic framework for 2008 and 2009. The BSL finalized in June 2008 a comprehensive strategy and action plan for the reform of the financial sector.

Policies for 2009 and the medium term

7. The authorities remain committed to maintaining a stable macroeconomic environment, creating conditions for sustained broad-based economic growth, and persevere with the structural reform agenda. Efforts to create employment opportunities through significant public investment in infrastructure and reforms to the business environment remain priorities. Notwithstanding the recorded strong macroeconomic performance, the authorities concur with staff assessment that the country faces a number of challenges going forward.

Fiscal policy

8. The authorities will continue to pursue prudent fiscal policies in the medium term, aimed at limiting debt-creating domestic financing while providing fiscal space for increased investments in infrastructure and key MDG clusters. The main elements of the authorities' fiscal program include renewed efforts to enhance revenue collection, increase public investment in infrastructure while continuing with efforts to reduce domestic arrears.

9. The authorities are confident, and staff concur, that domestic revenue mobilization effort would improve if current efforts are sustained, aiming for revenue rise from 11.8 percent of GDP in 2008 to 13.6 percent of GDP by 2011. This is largely on account of broadening the tax base and improving customs administration, strengthening fiscal controls, reducing discretionary tax exemptions, reviewing the existing mining contracts, and enforcing the tax code and code of conduct for all NRA staff. The authorities will continue implementing the three-year modernisation program for the NRA that will enable it to strengthen the large taxpayer's office, modernize the customs administration, and finalize preparation for the introduction of the Goods and Services Tax (GST) in early 2009. Other targets are to improve field audits, enforce tax payment, collect tax arrears, and step up anti-smuggling activities. The authorities intend to stabilize current expenditure at about 15 percent of GDP, while increasing the poverty related expenditure from the 3 percent spent in 2007 of GDP to 6 percent of GDP by 2010. Spending would target improving access to basic social services, particularly in education and health, as well as improving access to public facilities like water, electricity and roads in the rural areas.

10. To ensure budget credibility and make public spending more effective, the authorities have also made an unequivocal commitment to enhance the management of public expenditure. To this end, the 2005-06 National Action Plan (NAP) for PFM is being upgraded to take into account the findings and recommendations of the Public Expenditure and Financial Accountability assessment and the recent Fund technical assistance mission. To improve budget execution, the authorities are also using the integrated financial management information system (IFMIS) to strengthen expenditure commitments and controls. The authorities concur with staff's recommendations for revamping the medium-term expenditure framework process to allow for strategic planning and introduction of selected performance indicators that would ensure that the budget allocations are consistent with the PRS objectives.

Monetary and exchange rate policies

11. The authorities reaffirm their commitment to target base money growth for containing inflation as an appropriate policy framework. The BSL will continue to

strengthen its market-based instruments, including open market operations using treasury bills and bearer bonds and weekly foreign exchange auctions. In this regard, the BSL will be recapitalised and provided with additional interest bearing securities. The authorities remain committed to a flexible exchange rate regime with the official rate determined via weekly auctions to meet the reserve targets of the program.

Structural reform agenda

12. Impressive gains have been made in implementing the structural reform agenda as an integral part of the policy priorities. The reform agenda includes the reform of the financial sector, strengthening of the financial viability of the power and water utilities, privatizing state owned enterprises, and promoting public accountability. They will further continue reforming the public procurement systems through strengthening the operational capacity of the National Public Procurement Agency (NPPA) and enhancing procurement transparency through quarterly procurement bulletins. In this regard, the authorities appreciate the support from the development partners and would like to stress that this support remains critical for the successful implementation of their reform agenda.

13. The BSL, drawing on the recently adopted strategy for reform of the financial sector, will expeditiously implement the plan with Fund–Bank support for the broader development of the financial sector, which will include the establishment of a Financial Intelligence Unit and community banks to broaden access to financial services in the rural areas. The BSL also intends to vigorously address the stability of the financial sector. To that end, it plans to introduce in 2009 a risk-based banking supervision system and a credit reference bureau.

14. Structural reforms in the power utility will entail ensuring financial viability through the strengthening of management and a comprehensive electricity tariff policy that covers the generation, distribution and maintenance costs. The authorities envisage that such a policy would be formulated through close examination of the tariff and sector’s quarterly reports. With respect to the water utility the authorities are also committed to undertake a tariff review, improve billing and collection, as well as promulgate legislation that prevents unauthorized connections.

15. As part of the commitment to promote public accountability, in June, the Cabinet launched the National Anti-Corruption Strategy (ACS) and Action Plan for 2008-2013. The Anti-Corruption Commission (ACC) has been significantly strengthened by enacting a revised Anti-Corruption Act (ACA) that gives the ACC investigative and prosecutorial powers. The legal framework regulating the mining sector will also be revised so as to increase transparency and accountability, as well as to make the sector internationally competitive. The government intends to establish soon a secretariat charged with the

responsibility of implementing the Extractive Industries Transparency Initiative (EITI) in Sierra Leone.

Conclusion

16. Despite challenging internal and external environment, the authorities have shown their commitment to implement appropriate stabilization and structural policies. In the near-term, the authorities are determined to focus on sustaining macroeconomic stability, increasing domestic resource mobilization, promoting pro-poor growth, and increasing investment in infrastructure and key MDG clusters. Their commitment to the PRGF-supported program remained unwavering and all quantitative PCs for end June 2008 were met, except those related to domestic revenue and primary fiscal balance mainly due to late posting of revenue receipt and the impact of high costs of fuel on power generation. To this end, they request the associated waivers and the completion of the third review under the PRGF arrangement, and modification of a performance criterion for end-December 2008. In addition, the authorities request an augmentation of access under the PRGF arrangement to deal with the shocks associated with food and oil prices while appropriate policies are being designed and implemented.

17. The authorities are confident that going forward, continued engagement with the Fund and the support of the development partners – both financial and policy advice – will enable them achieve their development goals and provide a sound basis for realising some of the critical MDGs.