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SIERRA LEONE

June 2014

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—STAFF REPORT; AND PRESS RELEASE

In the context of the first review under the Extended Credit Facility arrangement, request for modification of performance criteria, and financing assurances review, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on April 2, 2014, with the officials of Sierra Leone on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 4, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Press Release**.

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Sierra Leone*
Memorandum of Economic and Financial Policies by the authorities of Sierra Leone*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

SIERRA LEONE

June 4, 2014

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

KEY ISSUES

Focus: Discussions on the first review under the Extended Credit Facility (ECF) arrangement focused on program performance as well as policy commitments and reforms for 2014. The main objectives of the program remain to entrench macroeconomic stability, build fiscal and external buffers and improve prospects for inclusive growth, in the context of a new Poverty Reduction Strategy. Hence, structural reforms continue to focus on strengthening the fiscal position through enhanced revenue mobilization and progress in Public Financial Management reforms; supporting financial and private sector development; and advancing civil service reforms.

Recent Economic Developments: Economic growth momentum continued in 2013, with output expanding by 20 percent on account of new iron ore production coming on stream, as well as strong growth in agriculture and the services sector. Inflation declined to single digits, mainly reflecting increased food supply. The surge in iron ore exports contributed to the improvement in the external and fiscal positions. For 2014, projections point to continued robust growth and moderating inflation.

Risks: The balance of risks is to the downside. Domestically, the fiscal position remains fragile because of the low tax base and underlying expenditure pressures for higher salaries and infrastructure investment that could lead to fiscal slippages and consumer price pressures. Externally, volatility in global commodity prices is an important risk factor given the economy's growing dependence on iron ore exports. The risk of a potential shortfall in external budget support is also a source of concern in view of stringent financing conditions facing Sierra Leone.

Program: Policy implementation to date has been consistent with program objectives. All performance criteria and structural benchmarks were met; and all indicative targets, but one, were observed. The indicative target on poverty-related spending was missed because of lower than projected execution of domestically-financed investment.

Staff views: Staff recommends completion of the first review under the ECF arrangement.

Approved By
Abebe Aemro Selassie (AFR) and Dhaneshwar Ghura (SPR)

Discussions took place in Freetown during March 18–April 2, 2014 and in Washington during the Spring Meetings. The staff team comprised Ms. Malangu Kabedi-Mbuyi (head) and Messrs. Axel Palmason, Toomas Orav (all AFR), Hua Chai (SPR), and Francis Kumah (Resident Representative). Joseph Tucker (OED) participated in policy discussions. The mission met with Dr. Kaifala Marah, Minister of Finance and Economic Development, Mr. Sheku Sesay, Governor of the Bank of Sierra Leone, as well as other senior officials; and representatives of the private sector, development partners, and civil society organizations.

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ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

1. **The start of iron ore production has contributed to a significant boost in economic growth in the last two years** (Figure 1; Table 1). Output expansion is estimated at 20 percent in 2013, up from 15 percent in 2012 due to a further ramping up of production at the largest iron ore mine and robust growth in the non-iron ore economy (5.5 percent), particularly in agriculture and services sector.

2. **Consumer price inflation receded to single digits, underpinned by increased food supply**. The authorities continued support to agriculture production, combined with favorable weather conditions have resulted in an increase in food supply and the trend decline in food inflation in the last two years. Tight monetary policy conditions and stable exchange rate have also contributed to easing price pressures. The end-December inflation rate stood at 8.5 percent (y/y) in 2013, down from 12 percent in 2012.

3. **The strong expansion in iron ore exports helped strengthen the external position** (Figure 1; Table 4). Despite a deterioration in the terms of trade, the trade balance turned to a surplus, and the current account deficit was halved thanks to the surge in export volume, notably for iron ore; and a decline in machinery and equipment imports for iron ore mining. As a result, the balance of payments surplus increased further, and reserve accumulation exceeded the program target by US$42 million.

4. **Playing off the high growth and the unwinding of one-off expenditure, the fiscal deficit narrowed significantly** (Figure 2; Tables 2a, 2b). Total revenue stood at 12.7 percent of non-iron ore GDP (12.2 percent in 2012) mostly due to improved tax administration, continued robust growth in the non-iron ore economy, and increased revenue from iron ore. Expenditure declined with the unwinding of one-off spending related to the 2012 elections and slow execution of the investment program. The overall fiscal deficit (excluding grants) declined from 9.7 percent of non-iron ore GDP in 2012 to 4.9 percent. This strong fiscal outcome translated into a better-than-programmed domestic primary balance (indicative target); lower government borrowing from domestic bank and nonbank financial institutions; and a significant decline in yields on government securities.

5. **Broad money growth receded, private sector credit recovered, and financial sector supervision strengthened** (Figure 3; Tables 3, 8). Growth in broad money decelerated to 21 percent from 23 percent in 2012; and private sector credit expanded by almost 12 percent, partly supported by a decline in interest rates. Risks to the financial system stability appear contained: banks are generally well-capitalized, profitable, and in compliance with prudential regulations. Nonperforming loans have been rising recently with the introduction of new guidelines for off-site supervision and revised prudential guidelines that have increased banks' recognition of long-standing impaired assets.

6. **Program performance has been strong** (MEFP ¶10–12; and Tables 1 and 3). All performance criteria were met with comfortable margins; and all indicative targets (IT) were met, except for the one on poverty-related spending that was missed due to enhanced monitoring of domestic investment execution and delayed budget support. To meet the pro-poor spending targets in 2014, the authorities moved from quarterly to semi-annual allocation of budgetary appropriations to line ministries to enable more predictable funding. All structural reform measures were implemented: the authorities submitted to parliament the Extractive Industries Revenue Bill, including a resource rent tax; set up a resource revenue unit at the National Revenue Authority (NRA); established a Public Investment Program (PIP) Unit; put in place a small taxpayer regime; adopted a medium-term debt management strategy; and prepared a report on PIP execution, as well as a quarterly report on external debt.

POLICY DISCUSSIONS

A. Medium-Term Macroeconomic Outlook and Risks

7. **The updated medium-term macroeconomic outlook points to continued strong growth, declining inflation, and improving external position** (MEFP ¶13). The authorities concurred with staff that expansion in iron ore mining, agriculture, and services will remain the key drivers of growth over the medium-term. They noted that the expected recovery in electricity supply and the planned investment scaling-up under the new poverty reduction strategy, *Agenda for Prosperity* (AfP), will support continued high growth. Staff stressed that medium-term growth prospects would also be strengthened by decisive progress in the implementation of programmed structural reforms aimed at supporting financial sector development, improving the business environment, and advancing civil service reforms (MEFP ¶23–28). The authorities noted that continued support to agricultural production in order to increase food supply would help contain inflationary pressures.[1] The external current account deficit is expected to narrow further as exports volume growth is projected to remain high, compensating the expected pick-up in demand for imports linked to increased public investment.

8. **The balance of risks is nevertheless to the downside** (Table 9). Although there are upside risks to the outlook related to potentially higher iron ore production than in the current baseline scenario, for the foreseeable future, downside risks are dominant. Domestically, the fiscal position remains fragile due to the low tax base and underlying expenditure pressures for higher salaries and increased infrastructure investment. Externally, the volatility in global commodity prices is an important risk factor given the economy's growing dependence on iron ore exports. Although the projected decline of about 20 percent in iron ore prices in the medium-term is higher than at the time the program was formulated in 2013, its impact is muted by the projected higher iron ore

[1] Agriculture is supported through the Small Holder Commercialization Program, which seeks to provide training, basic inputs, tractors, and extension services to small-scale farmers. The AfP projects US$1.16 billion in spending on agriculture over 2013–17, with three-quarters financed by donors.

export volume. Nonetheless, a sustained decline in global commodity prices would adversely affect the fiscal and external positions and could hinder prospects for investment in the iron ore sector. A shortfall in external budget support is also an important risk in view of stringent financing constraints facing Sierra Leone. The authorities agreed with this assessment and stand ready to take needed mitigating measures should the risks materialize.

B. Fiscal Policy and Reforms

9. **The revised medium-term fiscal outlook is consistent with the program objective to contain domestic debt**. The primary deficit would narrow over time, supporting a marginal decline in domestic debt ratio from 11 percent of non-iron ore GDP in 2014 to 10.7 percent by 2016. To this effect, fiscal performance would continue to be anchored on a ceiling of 2 percent of non-iron ore GDP for financing from domestic bank and nonbank financial institutions. The authorities concurred that continued revenue-enhancing measures are needed to achieve this objective and build fiscal buffers. Absent new tax measures, they will continue to enhance administrative efficiency gains at the NRA, reduce tax exemptions, and combat fraud. They expect to raise revenue collection from 12.7 percent of non-iron ore GDP in 2013 to 13.7 percent by 2016 helped by these actions, continued robust economic growth, and increased mining royalties. For 2014, the revenue target was revised upward to reflect a better than programmed outcome in income tax and mining revenue in 2013. Administrative measures planned for 2014 include: (i) better enforcement of needed documentation for collection of taxes on goods and services; (ii) improved information technology systems at NRA; (iii) strengthened tax statements audit capacity; and (iv) enhanced monitoring of mineral revenue by the specialized Unit set up at the NRA in 2013 (MEFP ¶15).

10. **The medium-term expenditure profile is driven by public investment scaling up**. Total expenditure is projected to rise from 17.6 percent of non-iron ore GDP in 2013 to 20.4 percent in 2016 with decelerating current spending and scaled-up capital outlays. To achieve this objective and prevent fiscal slippages, the authorities intend to contain the wage bill to 6.5 percent of non-iron ore GDP over the medium-term; and to continue strengthening domestic investment management. Hence, they agreed to prepare a medium-term wage strategy to ensure that future salary adjustments are consistent with fiscal sustainability, and they have completed a preliminary study on salary harmonization that would provide core elements for the strategy. The latter would be developed in consultation with development partners to take into account donor-funded civil service reform programs as well as the ECF-supported program targets for the wage bill (Box 1; MEFP ¶26, 27). The authorities noted that the PIP Unit set up in 2013 would play an important role in improving selection procedures, scrutiny, and monitoring of investment projects.

11. **The authorities have revised upward the 2014 expenditure to reflect new spending needs**. However, the impact of the additional outlays is contained through a reallocation of appropriations. Spending on salaries, goods and services, and domestic investment are higher than programmed while transfers and domestic debt interests are below program levels. Savings in domestic debt costs are backed by the drop in yields in government securities in 2013 from an average of 22 percent in 2012 to 8 percent, for short-term securities. With these changes, total

expenditure and net lending is now projected at 20.7 percent of non-iron ore GDP up from 20 percent in the program (MEFP ¶16).

12. **The wage bill takes into account a public sector minimum wage and salary increase introduced in the 2014 budget** (See Box 1). It is projected at 6.7 percent of non-iron ore GDP (5.9 percent in the program) reflecting planned recruitment in priority sectors; higher entry level salary; and a salary increase for teachers and parliamentarians. Staff called the authorities' attention to the fact that the share of salaries in current spending rose from 35 percent in 2005 to 50 percent in 2014, a trend that carries the risk of crowding out pro-poor spending, and that is unsustainable in view of the low revenue base. The authorities explained that these measures were part of their efforts to address wage erosion in recent years and its impact on the quality of public service delivery. To contain the impact of the new measures, they limited the increase in the entry level salary to the low-grade civil servants and froze salary increase for subvented agencies and senior officials (MEFP ¶17).

13. **The revised program is fully financed for 2014, and there are good prospects for adequate financing for 2015–16**. The main financing sources remain external budget support and government securities. For 2014, the domestic primary deficit is projected at 2.5 percent of non-iron ore GDP (2.3 percent in the program). The revised fiscal projections will underpin the supplementary budget to be presented in parliament in July for the appropriation of additional budgetary resources comprising: higher revenue projections, a budget aid windfall from the release of the 2013 World Bank grant, and savings from lower domestic debt costs. In response to staff's advice to save the additional resources, the authorities explained that while agreeing with staff on the need to build fiscal buffers, they needed to address pressing expenditure needs for the effective functioning of the public administration, and for infrastructure. They reiterated commitment to scale down non-priority spending in case of revenue shortfall (MEFP ¶19).

14. **Addressing long-standing weaknesses in budget processes and expenditure management remains an important challenge**. Recent progress in Public Financial Management (PFM) reforms has helped improve budget processes and cash flow management. However, structural weaknesses remain and require further progress to support medium-term fiscal objectives. In particular, increased forecasting capacity in line ministries is required to reduce variations between budget appropriations and outcomes; a broader roll-out of the Integrated Financial Management Information System (IFMIS) is need to improve the budget coverage, enhance expenditure commitment controls, and increase transparency. The authorities have adopted an ambitious PFM reform strategy that seeks to address these weaknesses and improve revenue collection. Staff encouraged them to prepare a realistic action plan taking into account the cost for the strategy's implementation. Key PFM measures for 2014 are:

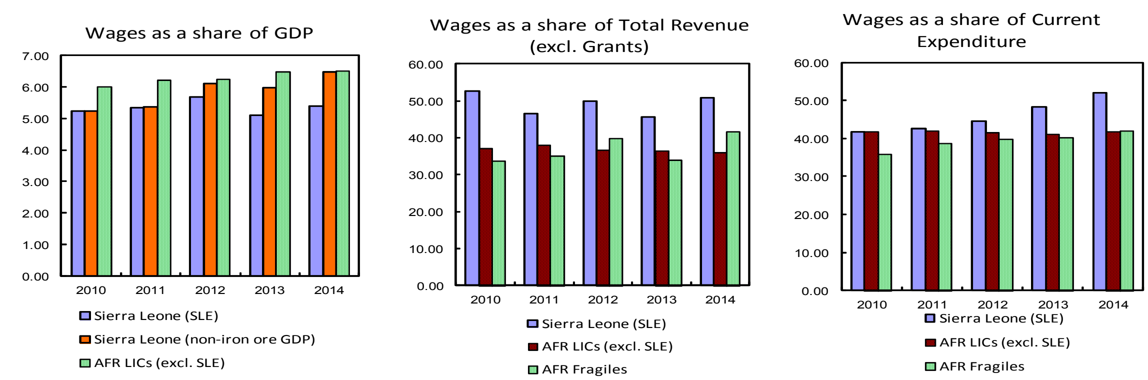
- The presentation to parliament of the new PFM law, with IMF technical support. The new law will include clarification on supplementary budgets and contingency funds, and introduce provisions for the setting up of a Natural Resource Revenue Fund.

- The preparation of a three-year PIP fully integrated with the budget process and the revised Medium-term Expenditure Framework for 2015–18. The PIP is expected to be presented to parliament with the 2015 budget.

- The publication of a calendar for government securities issuance, in collaboration with the BoSL.

Box 1. Sierra Leone: The Wage Bill—Recent Developments and Reforms

Background. Significant wage erosion took place in Sierra Leone during the civil war (1991–2002) and in its aftermath, making it difficult to retain and attract well-qualified middle-level professionals in the civil service. Over a decade on, this problem has not been fully addressed although measures have been put in place to address it. Despite historically low pay in public service, the wage bill has been a growing burden on the budget for decades.



Source: IMF Staff calculations.

Trend in the wage bill. The wage bill increased from 5.2 percent on non-iron ore GDP in 2010 to 5.9 percent in 2013 and is projected to reach 6.7 percent in 2014. Salary increases have been broad-based across the public sector, albeit to varying degree. About 32,000 teachers represent half of the public sector workforce and one-third of the wage bill. In January 2014, the official minimum wage for civil servants was raised by 114 percent to US$111 for teachers and by 71 percent to US$138 for the police, and the military. In the context of the 2014 budget, the government announced plans to raise the minimum wage in steps to reach a living wage of about US$173 per month by 2017.

Civil Service Reforms. The government adopted a multi-year pay reform strategy in February 2011 aimed at: (i) improving remuneration and reducing inequities to retain qualified personnel; (ii) eliminating inefficiency; (iii) increasing productivity and performance; and (iv) rationalizing the public service. For sustainability, the increase in remuneration is to be accompanied by reforms to enhance productivity, efficiency, and accountability. The pay reform also involves implementation of key cost saving measures, including: re-grading, rightsizing, and payroll cleaning. Considerable effort has been made to clean up the payroll, including through a biometric verification of teachers. However, more remains to be done as envisaged under the authorities' multi-year reform program.

C. Monetary and Exchange Rate Policies

15. **The BoSL agreed with staff that monetary policy should continue to aim for price stability** (MEFP ¶20). In this context, reserve money growth is projected to decelerate from 17.6 percent in 2013 to 15 percent in 2014. The authorities noted that the recent conversion of the

stock of 91-day Treasury Bills into 3-year bonds offers greater scope for a more active participation of the BoSL in the secondary market for government securities to manage liquidity. Staff recommended that following the reduction in the Monetary Policy Rate (MPR) in 2013, further adjustments should take into account liquidity conditions in the market to reinforce the MPR's signaling role (Box 2).

16. **The BoSL maintained that the exchange rate policy remains flexible**. Although the Leone exchange rate to the US Dollar has been stable in the last two years, it's market-determined. In addition, the BoSL's interventions are limited to smoothing short-term volatility, and are marginal relative to the market size. Staff encouraged the BoSL to support the development of the interbank foreign exchange market to pre-empt challenges from the expected increase in foreign currency inflows from the mining sector. It called particularly for the adoption of a wholesale auction system to replace the current retail auction format (Structural Benchmark).

17. **The foreign exchange market has been stable, although the BoSL has been concerned about uncontrolled foreign exchange outflows** (MEFP ¶16, 28). In December 2013, the BoSL issued a Circular to commercial banks reinforcing legislative provisions setting limits on US Dollar cash withdrawals (except in selected cases), out of concerns for the use of foreign currency in domestic transactions. In the following two months, the Leone depreciated by 7 percent in the parallel market relative to the US Dollar, while the official rate remained broadly stable. The parallel market premium has since narrowed to about 3 percent, consistent with past trends. Staff took the view that the foreign exchange measure put in place was not supported by strong evidence given market stability over the past two years. Staff assessed on a preliminary basis that the measure was not inconsistent with Sierra Leone's obligations under Article VIII, Section 2(a) of the IMF's Articles of Agreement as it does not give rise to restrictions on the making of payments and transfers for current international transactions.[2] Furthermore, the spread between the parallel market and the official rate does not give rise to a multiple currency practice inconsistent with Sierra Leone's obligations under Article VIII, Section 3 as there is no evidence of any official action channeling transactions to the parallel market.[3] Staff encouraged the BoSL to make progress on the ongoing preparation of a new Foreign Exchange Bill with IMF technical assistance.

D. Borrowing Policy

18. **Prudent borrowing policies remain critical for long-term fiscal and debt sustainability**. Although the last debt sustainability analysis[4] indicated that Sierra Leone's risk of debt distress is moderate (Figure 4), staff took the view that the authorities needed to continue seeking mostly

[2] The measure pertains to cash withdrawals and does not restrict non-cash outward transfers of the balances in the accounts, or access to the foreign exchange market for the making of current international payments or transfers.

[3] The parallel market is illegal but tolerated.

[4] IMF Country Report No. 13/330 (November 2013).

grants and concessional loans to cover financing needs given the undiversified and narrow export base that increases vulnerability to terms of trade and other exogenous shocks (MEFP ¶21, 22).

19. **Staff cautioned the authorities on financial implications of large-scale investment projects contemplated in the AfP** (MEFP ¶18). It reiterated the need to carry out economic viability studies for these projects, to secure soft financing terms, and to establish priorities taking into account financing constraints. On the new airport project, to be financed with a loan from a foreign bank, staff reiterated that since the financing terms currently offered are nonconcessional,[5] and that the project is estimated to cost US$198 million, it was not consistent with the performance criterion (PC) on nonconcessional debt, which sets a ceiling of US$30 million per year during the program period. Staff stressed that for 2014, the limit on nonconcessional debt targeted projects in the energy sector. It urged the authorities to consider less costly transportation options in consultation with the World Bank. Staff indicated that, should the authorities decide to proceed with the project, they should continue to seek concessional financing and complete its economic appraisal prior to entering into final loan commitments. The authorities reiterated the economic and social importance of the airport project and difficulties in securing concessional financing. They also noted that the limited space under the program for nonconcessional borrowing is an important constraint to addressing Sierra Leone's large infrastructure needs; and requested flexibility for the financing of the new airport if all avenues for mobilizing concessional financing were exhausted. Staff took the view that absent a sound economic viability study for the project, it would not be possible to make a case for nonconcessional borrowing. It also reminded the authorities that such a case would be based on a debt sustainability analysis showing that the new nonconcessional debt would not increase Sierra Leone's risk of debt distress. Further discussions will take place at the time of the second ECF review and staff does not propose to modify the PC at this time.

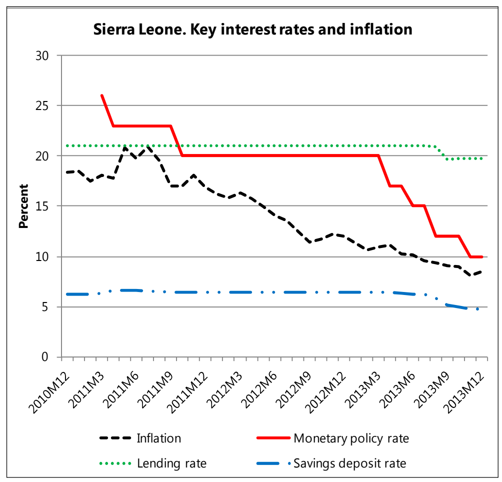
[5] The financing terms are: an annual interest rate of 2 percent, a maturity period of 20 years, and a grace period of 5 years.

Box 2: Sierra Leone: Advancing the Monetary Policy Framework

Background. The BoSL's primary target is price stability, and it uses the reserve money as an intermediate target to guide its liquidity management operations. The Monetary Policy Committee meets every other month to review the Monetary Policy Rate (MPR), taking into account various economic and financial factors, including the reserve money trend, and their projected impact on inflation. The policy rate has, however, not been effective in signaling intended monetary policy stance mainly due to uncertainties in the demand for money estimates and its low interest elasticity.

Recent monetary sector developments underscore challenges and inefficiencies for the current monetary policy framework. In 2012–13, reserve money growth exceeded program targets, largely reflecting changes in net foreign assets of the central bank. The signaling value of the MPR remains limited, and the policy rate appears to follow rather than lead money market rates, rendering monetary policy passive. Despite successive rate cuts in 2013, the MPR remained well-above money market interest rates that are mainly driven by short-term T-bill interest rates; and the reverse repo and standing credit facilities (which are tied to the MPR and fixed respectively at 50 and 100 basis points above it) were dormant, while liquidity soared in the banking system.

Strengthening the effectiveness of BSL monetary policy is one of the key elements of technical assistance. While reserve money would remain the operational target, it could be supplemented more effectively with repo and reverse repo operations in line with the BoSL's liquidity management objectives. In so doing, the auction rate would yield a price for liquidity in the form of an interest rate. These operations could have important benefits for the money market, as they would encourage more active liquidity management by banks, and launch a shorter maturity to help develop the short end of the yield curve. With technical assistance from the IMF's Monetary and Capital Markets' Department, the BoSL is preparing operational guidelines for its repo and reverse repo operations, which would be shared with market participants. This will proceed hand-in-hand with capacity building to further enhance the BoSL's liquidity forecasting procedures.



The BSL would need a sound balance sheet and a positive income position. Given the projection of a strengthening balance of payments position, driven by robust exports and investment flows, the BoSL will need to have the means to actively manage liquidity conditions and to sterilize, as needed, some of the inflows to prevent disorderly appreciation of the domestic currency. Some important steps in this direction came in early 2014: the government issued a bond to the central bank against past realized losses, and agreed to convert non-interest bearing short-term securities held by the central bank to marketable securities to be used for open market operations. These steps would help strengthen the BoSL's balance sheet and expand its monetary policy instruments.

OTHER PROGRAM ISSUES

20. **Capacity to repay the Fund** (Table 5). Sierra Leone has adequate capacity to repay the Fund, and has established a good record on timely payment on external obligations. Debt service to

the Fund is projected at 0.4 percent of exports of goods and services in 2014, and 0.5 percent in 2016.

21. **Program monitoring and conditionality** (MEFP ¶ 29; Tables 2 and 3). Program performance will be assessed through semi-annual reviews based on PCs and structural benchmarks for June and December 2014, as well as quantitative indicative targets for September 2014. Staff is proposing a modification of PCs as follows: (i) for June 2014: the ceiling on net domestic bank credit to the central government and on net domestic assets of the central bank; and the floor on gross foreign exchange reserves of the central bank; and (ii) for December 2014: the ceiling on net domestic assets of the central bank. The revised PCs take into account the updated fiscal and balance of payments outlook, and reflect BoSL's commitment to actively manage liquidity through open market operations.

22. **A safeguards assessment**. The authorities have made good progress in implementing recommendations from the January 2014 safeguard assessment of the BoSL. In particular, a memorandum of understanding was signed between the Ministry of Finance and BoSL on the issuance of a long-term bond to recapitalize the BoSL, and the new non-Executive Board members are in the process of being appointed. However, the Deputy Governor position remains vacant.

23. **Financing assurances review**. Sierra Leone is a small open economy with an undiversified export base and dependent on oil and food imports which makes it vulnerable to terms of trade shocks and generates protracted balance of payments needs. Fund financing under the ECF-supported program is expected to contribute to improved reserve coverage and to play an important catalytic role for the programmed donor funding. On this basis, and consistent with IMF's policy on lending into arrears, staff has determined that the expected disbursement following the completion of the first review under the ECF arrangement by the Executive Board (Table 6) is essential for the implementation of Sierra Leone's economic program for 2014. It will also help with the resolution of arrears to private creditors accumulated before and during the civil conflict, estimated at US$213.7 million at end-2013. The authorities have been working on a debt buy-back operation to clear these arrears. In January 2014, the World Bank approved a grant of US$1.0 million to cover financial and legal fees for the preparation of the buy-back operation. In the meantime, the authorities continue to make goodwill payments to prevent litigation.

STAFF APPRAISAL

24. **Program performance has been strong**. Economic policy implementation remained supportive of macroeconomic stability and growth. As a result, consumer price inflation declined to the single digits, the external current account narrowed, international reserves increased, and the fiscal position improved. In addition, all performance criteria and quantitative targets under the program, but one, were met; and all structural reform measures programmed for end-December 2013 were taken. While commending the authorities for these results, staff encourages them to maintain the momentum of reforms to support medium-term growth prospects and poverty reduction.

25. **Staff believes that, despite the encouraging outcome in 2013, the fiscal position remains fragile because of the low revenue base and underlying expenditure pressures**. Therefore, staff encourages the authorities to continue enhancing revenue mobilization. Higher revenue, particularly from the non-mining economy, is needed to increase fiscal space for priority spending and to contain the domestic debt burden. Staff believes that the focus should remain on broadening the tax base, notably by reducing duty waivers, curbing fraud and tax evasion, and improving audit capacity in tax administration. Staff encourages the authorities to expedite the preparation of a medium-term wage strategy that would support progress in civil service reforms, while ensuring that future growth in the wage bill is consistent with medium-term fiscal sustainability. Staff also urges the authorities to continue improving public investment management to ensure that public investment scaling-up supports long-term debt sustainability. In the case of large-scale infrastructure projects contemplated under the new poverty reduction strategy, staff reiterates the need to continue seeking concessional financing, to the extent possible, and to assess the economic viability of these projects before completing financing arrangements.

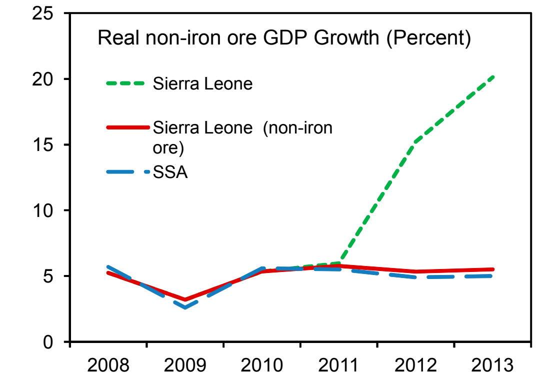
26. **Advancing PFM reforms is critical to strengthen the fiscal position**. The improvement in the fiscal position in 2013 was an important shift from past history of fiscal slippages, and should be a stepping stone for further progress. Timely implementation of the programmed PFM reforms would help enhance transparency and accountability, thus strengthening the credibility of fiscal policy. Staff calls particularly for a rapid completion of the PFM bill and the setting up of the Treasury Single Account.

27. **Monetary policy should remain focused on price stability**. The decline in inflation to the single digits is encouraging. Nonetheless, the BoSL should maintain a tight monetary policy stance to entrench inflation expectations, and participate more actively in the government securities secondary market to enhance liquidity management.

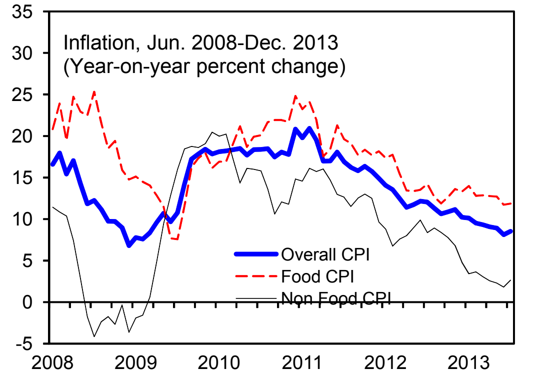
28. **Staff recommends completion of the first review under the ECF arrangement** based on Sierra Leone’s strong program performance, and the authorities’ policy commitments under the program.

Figure 1. Sierra Leone: Real and External Sector Developments, 2008–13

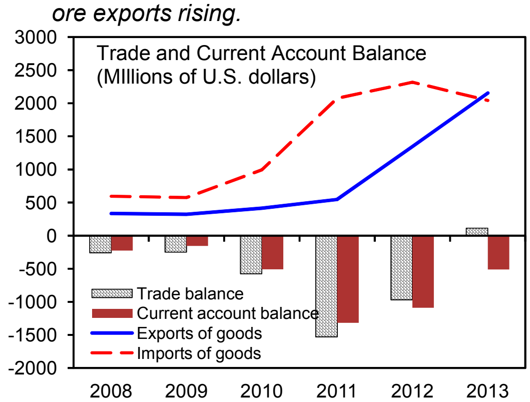
Growth has been robust due to iron ore, and non-iron ore growth is in line with SSA average.



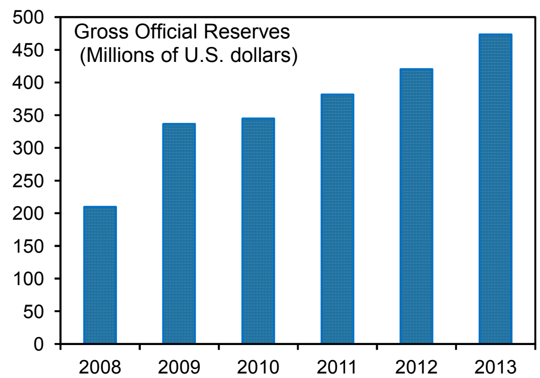
Inflation has moderated since 2011 thanks to falling food prices and a stable exchange rate.



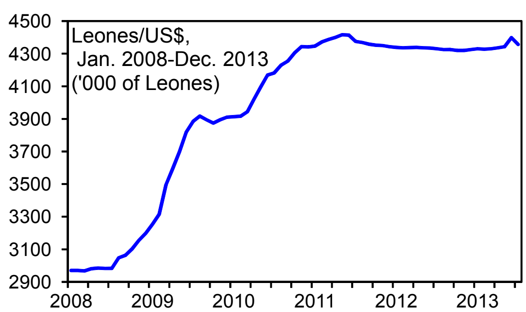
Pressure on the current account has eased with FDI-related imports unwinding and iron ore exports rising.



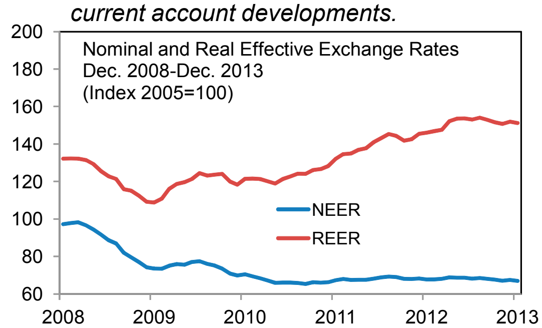
As a result, gross reserves have risen to record levels since 2008.



The exchange rate was stable in 2012–13...



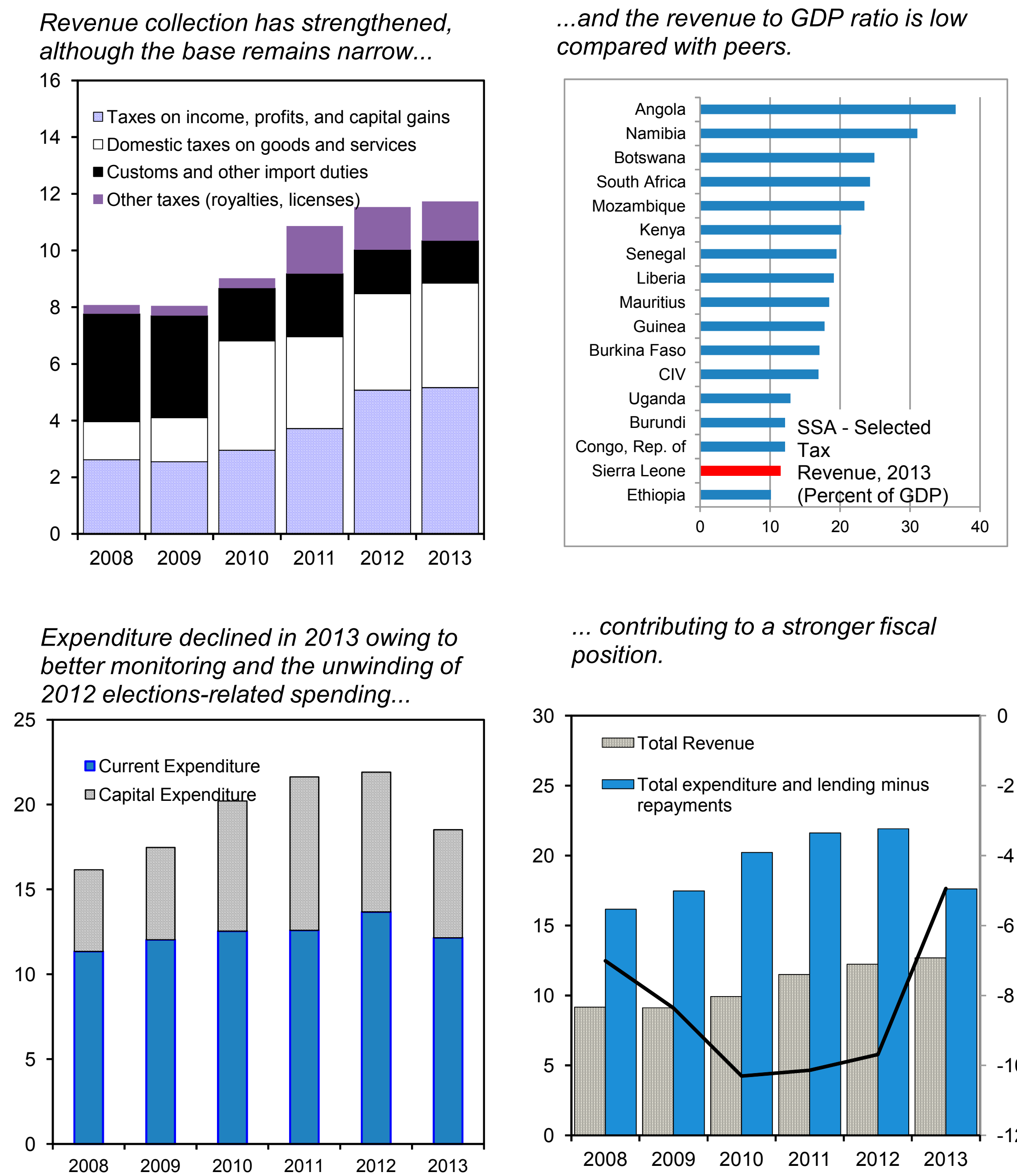
... as were the nominal and real effective exchange rates, reflecting favorable current account developments.



Sources: Sierra Leonean authorities; and IMF staff estimates.

Figure 2. Sierra Leone: Fiscal Developments, 2008–13

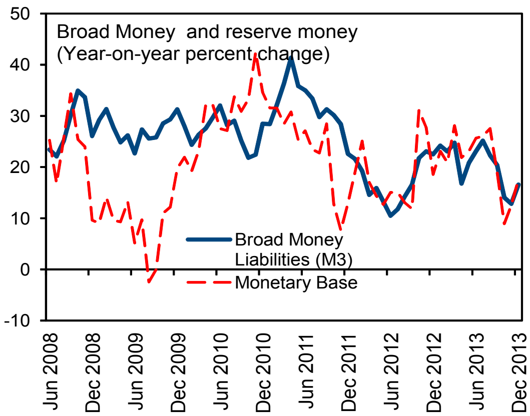
(Percent of Non-Iron Ore GDP)



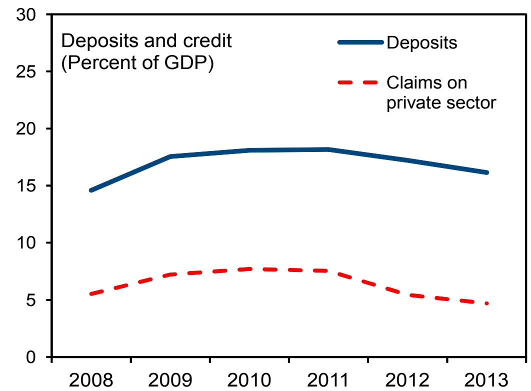
Sources: Sierra Leonean authorities; and staff estimates.

Figure 3. Sierra Leone: Monetary and Financial Sector Indicators, 2008–13

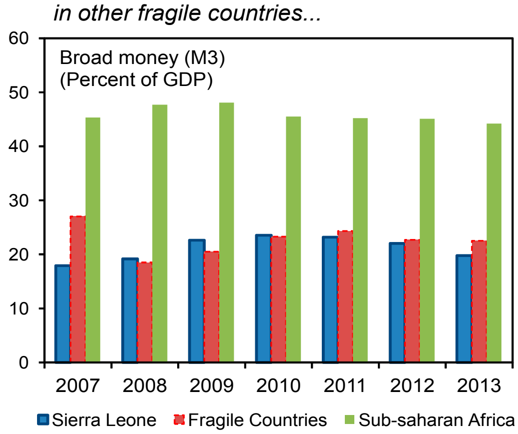
Broad money growth decelerate in 2013.



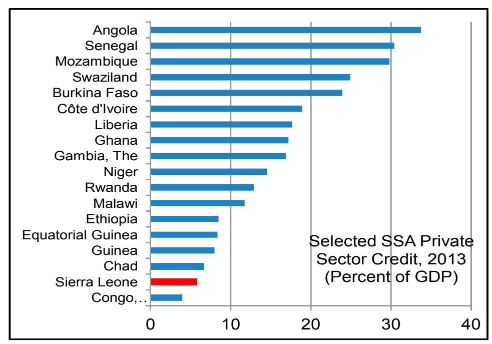
Deposit growth has slowed relative to economic expansion.



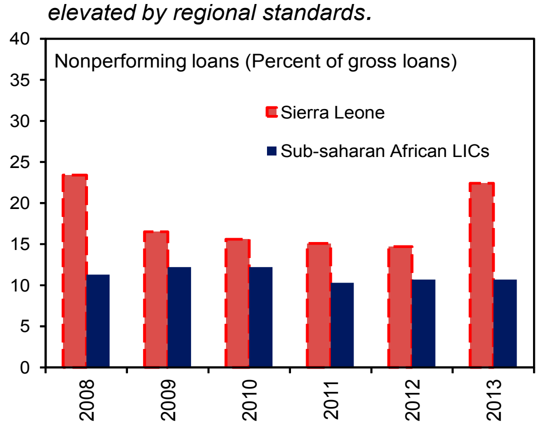
Financial intermediation is shallow, as in other fragile countries...



... while credit provision is lower than peers.

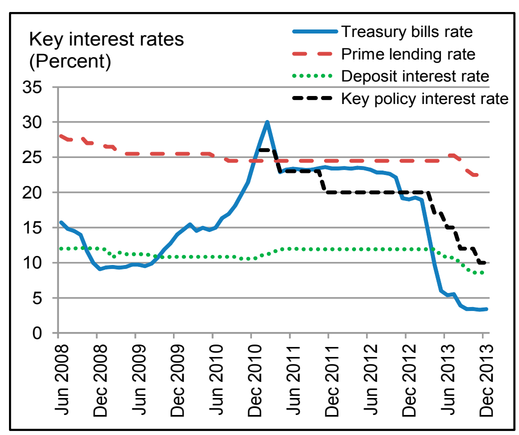


Non-performing loans have risen and remain elevated by regional standards.



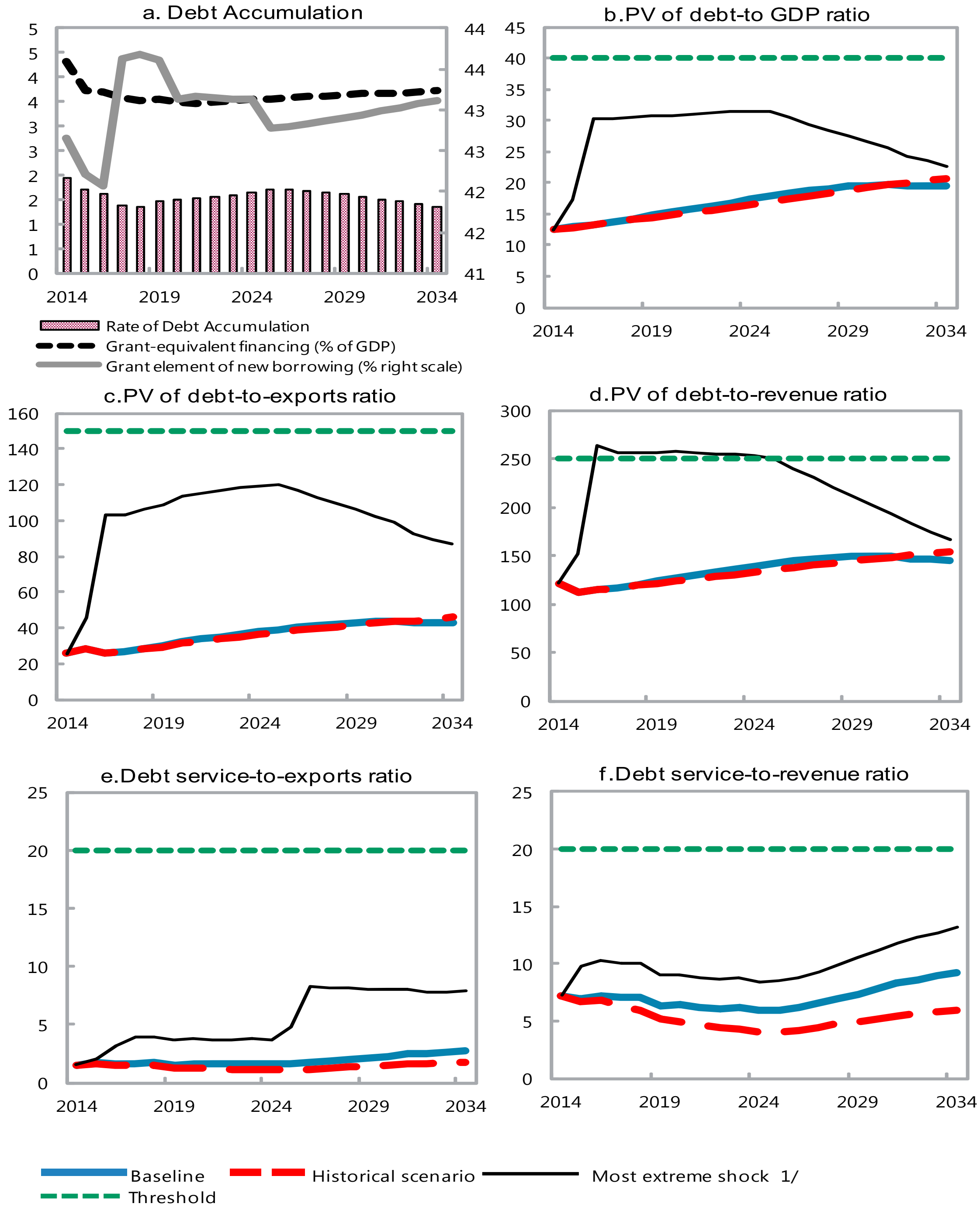
*Note: Sierra Leone December 2013 value is compared against the 2012 Sub-saharan Average.

Despite the declining policy rate, transmission to lending rates is weak.



Sources: Sierra Leonean authorities; Regional Economic Outlook, and IMF staff estimates.

Figure 4. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2014–34[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table 1. Sierra Leone: Selected Economic Indicators, 2011–16

	2011	2012	2013		2014		2015	2016
			prog.	prel.	prog.	proj.		
	(Annual percent change, unless otherwise indicated)							
National account and prices								
GDP at constant prices	6.0	15.2	13.3	20.1	14.0	11.3	8.9	8.2
Excluding Iron ore	5.8	5.3	6.0	5.5	6.3	6.0	6.3	6.6
GDP deflator	17.4	12.0	9.1	8.1	6.5	6.7	4.5	4.9
Consumer prices (end-of-period)	16.9	12.0	9.0	8.5	7.5	7.5	6.0	5.4
Consumer prices (average)	18.5	13.8	10.3	9.8	7.7	7.8	6.7	5.7
External sector								
Terms of trade (deterioration -)	-1.7	6.1	-1.6	-4.7	-4.9	-4.6	-3.8	1.7
Exports of goods	6.2	202.0	56.9	66.0	29.9	31.0	2.6	23.7
Imports of goods	85.2	20.2	18.6	-19.9	5.8	10.3	6.7	7.9
Average exchange rate (leone per US$)	4,349	4,344	…	4,357	…	…	…	…
Nominal effective exchange rate change (end-period, depreciation -)	-4.1	1.0	…	-1.1	…	…	…	…
Real effective exchange rate (end-period, depreciation -)	8.7	14.7	…	3.6	…	…	…	…
Gross international reserves, months of imports 1/	1.8	2.2	2.1	2.1	2.2	2.2	2.2	2.4
Excluding iron ore related imports, months of imports 2/	2.4	3.2	3.2	3.4	3.4	3.6	3.7	4.0
Money and credit								
Domestic credit to the private sector	21.8	-6.9	10.8	11.7	11.0	12.1	14.3	13.5
Base money	13.0	18.5	14.2	17.6	17.1	15.0	17.7	14.4
M2	20.0	23.1	14.8	21.0	18.8	15.2	19.2	14.7
91-day treasury bill rate (in percent)	24.5	22.4	…	8.0	…	…	…	…
	(Percent of non-iron ore GDP, unless otherwise indicated)							
National accounts								
Gross capital formation	42.2	28.6	18.2	24.6	19.1	19.4	19.3	19.3
Government	9.0	8.2	7.2	6.4	8.1	8.4	8.3	8.3
Private	33.1	20.3	11.0	18.2	11.0	11.0	11.0	11.0
National savings	-2.8	-2.4	-0.8	12.2	8.6	8.3	9.9	10.6
External sector								
Current account balance								
(including official grants)	-45.0	-30.9	-19.1	-12.4	-10.5	-11.1	-9.4	-8.7
(excluding official grants)	-48.8	-33.6	-20.6	-13.6	-11.9	-12.9	-10.6	-10.0
External public debt (including IMF)	32.6	27.8	27.3	25.1	27.4	25.8	25.3	25.9
Central government budget								
Domestic primary balance 3/	-3.8	-3.8	-1.8	-0.7	-2.3	-2.5	-1.8	-1.8
Overall balance	-4.6	-5.6	-3.1	-1.9	-4.5	-4.2	-4.0	-3.8
(excluding grants)	-10.1	-9.7	-6.6	-4.9	-7.6	-7.9	-6.8	-6.7
Revenue	11.5	12.2	12.4	12.7	12.4	12.8	13.6	13.7
Grants	5.6	4.1	3.6	3.0	3.1	3.6	2.9	2.9
Total expenditure and net lending	21.6	21.9	19.1	17.6	20.0	20.7	20.4	20.4
Memorandum item:								
GDP at market prices (billions of Leone)	12,755	16,453	20,357	21,356	24,713	25,348	28,851	32,741
Excluding iron ore	12,725	15,324	17,673	17,990	20,775	20,432	24,417	27,421
Excluding iron ore in millions of US$	2,926	3,528	4,000	4,140	4,531	4,606	5,321	5,795
Per capita GDP (US$)	500	634	729	805	832	917	995	1,075

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

1/ Refers to reserves in current year and imports in following year.

2/ Excludes import of capital goods and service related to the iron ore project that is externally financed.

3/ Revenue less expenditures and net lending adjusted for interest payments.

Table 2a. Sierra Leone : Fiscal Operations of the Central Government, 2011–16

(Billions of leone)

	2011	2012	2013		2014		2015	2016
			prog.	prel.	prog.	proj.		
Total revenue and grants	2,171	2,506	2,827	2,828	3,220	3,353	4,022	4,557
Revenue	1,462	1,874	2,197	2,280	2,581	2,613	3,322	3,759
Tax revenue	1,383	1,767	2,013	2,111	2,360	2,387	3,061	3,467
Personal Income Tax	393	571	547	657	643	721	898	1,022
Corporate Income Tax	73	203	227	267	260	283	390	438
Goods and Services Tax	351	419	458	440	523	502	674	756
Excises	55	99	276	221	335	263	336	372
Import duties	282	237	267	269	299	289	366	403
Mining royalties and license	202	222	217	235	261	300	364	437
Other taxes	24	18	21	23	40	29	34	39
Non-tax	80	106	184	169	220	225	261	291
Grants	709	633	630	548	640	740	700	798
Budget support	220	204	181	170	185	286	195	242
Project grants	428	302	417	378	422	422	473	524
Other	61	126	32	0	32	32	32	32
Expenditures and net lending	2,752	3,358	3,368	3,169	4,151	4,221	4,987	5,607
Current expenditures	1,603	2,095	2,180	2,185	2,514	2,551	3,007	3,377
Wages and salaries	681	936	1,058	1,060	1,229	1,374	1,587	1,782
Goods and services	396	464	487	520	569	611	731	820
Subsides and transfers 1/	275	406	302	304	376	333	430	481
Interest	250	288	333	301	340	232	259	293
Domestic	226	253	293	266	301	192	224	251
Foreign	24	35	40	35	39	40	35	42
Capital Expenditure	1,149	1,263	1,281	1,147	1,683	1,717	2,027	2,276
Foreign financed	787	799	818	730	1,056	1,056	1,182	1,311
Domestic financed	362	464	463	417	626	661	845	965
Net lending 2/	0	0	-99	-168	-52	-52	-52	-52
Contingent expenditure 3/	0	0	5	5	6	5	5	5
Domestic primary balance 4/	-479	-586	-313	-125	-476	-512	-448	-495
Overall balance including grants	-581	-852	-541	-342	-931	-868	-965	-1,050
Overall balance excluding grants	-1,290	-1,484	-1,172	-889	-1,571	-1,608	-1,665	-1,848
Financing	581	852	541	342	931	868	965	1,050
External financing (net)	305	523	454	294	590	592	647	704
Borrowing	359	601	541	380	694	694	770	845
Projects	359	497	401	352	634	634	709	786
Budget	0	104	141	28	61	61	61	58
Amortization	-54	-77	-88	-86	-104	-103	-123	-141
Domestic financing (net)	274	339	87	47	341	276	318	346
Bank	67	222	246	300	245	245	317	255
Central bank	10	-94	46	-60	16	113	17	35
Ways and means	…	…	46	-47	16	113	17	35
Drawing	…	…	94	1	110	114	131	166
Repayment	…	…	48	48	94	1	114	131
Commercial banks	57	316	200	359	229	132	300	220
Nonbank	208	117	-158	-253	96	31	1	91
Non bank financial institutions	54	125	91	-68	67	66	1	91
Privatization proceeds	34	9	13	13	44	9	0	0
Change in arrears	-47	-84	-22	14	-14	-14	0	0
Float (checks payable)	167	68	-241	-211	0	-30	0	0
o/w accumulated	183	251	0	30	0	0	0	0
o/w repaid	…	-183	-241	-241	0	-30	0	0
Errors and omissions/financing gap	2	-11	0	1	0	0	0	0
Memorandum item:								
Total poverty expenditures	538	869	1,063	883	1,155	1,158	1,436	1,624
Non-resource primary balance	-533	-785	…	-276	…	-935	-1,070	-1,193
Public domestic debt 5/	1,482	1,756	2,241	1,961	2,552	2,272	2,589	2,936
Bank and non-bank financing 6/	121	347	337	231	311	311	318	346

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

1/ Includes foreign financed election spending in 2012, Le 177.5 billion (1.2 percent of non-iron ore GDP).

2/ Transfer to the budget from a maturing EU grant onlent to Sierra Rutile.

3/ Contingent expenditure introduced in the budget process in 2013.

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

5/ Public domestic debt includes marketable and non-marketable treasury instruments and ways and means, excludes accounts payable.

6/ Fiscal anchor under the program; defined as government financing from the banking system and non-bank financial institutions and kept below 2 percent of non-iron ore GDP.

Table 2b. Sierra Leone: Fiscal Operations of the Central Government, 2011–16

(Percent of Non-Iron Ore GDP)

	2011	2012	2013		2014		2015	2016
			prog.	prel.	prog.	proj.		
Total revenue and grants	17.1	16.4	16.0	15.7	15.5	16.4	16.5	16.6
Revenue	11.5	12.2	12.4	12.7	12.4	12.8	13.6	13.7
Tax revenue	10.9	11.5	11.4	11.7	11.4	11.7	12.5	12.6
Personal Income Tax	3.1	3.7	3.1	3.7	3.1	3.5	3.7	3.7
Corporate Income Tax	0.6	1.3	1.3	1.5	1.2	1.4	1.6	1.6
Goods and Services Tax	2.8	2.7	2.6	2.4	2.5	2.5	2.8	2.8
Excises	0.4	0.6	1.6	1.2	1.6	1.3	1.4	1.4
Import duties	2.2	1.5	1.5	1.5	1.4	1.4	1.5	1.5
Mining royalties and license	1.6	1.4	1.2	1.3	1.3	1.5	1.5	1.6
Other taxes	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Non-tax	0.6	0.7	1.0	0.9	1.1	1.1	1.1	1.1
Grants	5.6	4.1	3.6	3.0	3.1	3.6	2.9	2.9
Budget support	1.7	1.3	1.0	0.9	0.9	1.4	0.8	0.9
Project grants	3.4	2.0	2.4	2.1	2.0	2.1	1.9	1.9
Other	0.5	0.8	0.2	0.0	0.2	0.2	0.1	0.1
Expenditures and net lending	21.6	21.9	19.1	17.6	20.0	20.7	20.4	20.4
Current expenditures	12.6	13.7	12.3	12.1	12.1	12.5	12.3	12.3
Wages and salaries	5.4	6.1	6.0	5.9	5.9	6.7	6.5	6.5
Goods and services	3.1	3.0	2.8	2.9	2.7	3.0	3.0	3.0
Subsides and transfer 1/	2.2	2.7	1.7	1.7	1.8	1.6	1.8	1.8
Interest	2.0	1.9	1.9	1.7	1.6	1.1	1.1	1.1
Domestic	1.8	1.7	1.7	1.5	1.4	0.9	0.9	0.9
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2
Capital Expenditure	9.0	8.2	7.2	6.4	8.1	8.4	8.3	8.3
Foreign financed	6.2	5.2	4.6	4.1	5.1	5.2	4.8	4.8
Domestic financed	2.8	3.0	2.6	2.3	3.0	3.2	3.5	3.5
Net lending 2/	0.0	0.0	-0.6	-0.9	-0.2	-0.3	-0.2	-0.2
Contingent expenditure 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance 4/	-3.8	-3.8	-1.8	-0.7	-2.3	-2.5	-1.8	-1.8
Overall balance including grants	-4.6	-5.6	-3.1	-1.9	-4.5	-4.2	-4.0	-3.8
Overall balance excluding grants	-10.1	-9.7	-6.6	-4.9	-7.6	-7.9	-6.8	-6.7
Financing	4.6	5.6	3.1	1.9	4.5	4.2	4.0	3.8
External financing (net)	2.4	3.4	2.6	1.6	2.8	2.9	2.7	2.6
Borrowing	2.8	3.9	3.1	2.1	3.3	3.4	3.2	3.1
Project	2.8	3.2	2.3	2.0	3.1	3.1	2.9	2.9
Budget	0.0	0.7	0.8	0.2	0.3	0.3	0.2	0.2
Amortization	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Domestic financing (net)	2.2	2.2	0.5	0.3	1.6	1.4	1.3	1.3
Bank	0.5	1.4	1.4	1.7	1.2	1.2	1.3	0.9
Central bank	0.1	-0.6	0.3	-0.3	0.1	0.6	0.1	0.1
Commercial banks	0.4	2.1	1.1	2.0	1.1	0.6	1.2	0.8
Nonbank	1.6	0.8	-0.9	-1.4	0.5	0.2	0.0	0.3
Non bank financial institutions	0.4	0.8	0.5	-0.4	0.3	0.3	0.0	0.3
Privatization proceeds	0.3	0.1	0.1	0.1	0.2	0.0	0.0	0.0
Change in arrears	-0.4	-0.5	-0.1	0.1	-0.1	-0.1	0.0	0.0
Float (checks payable)	1.3	0.4	-1.4	-1.2	0.0	-0.1	0.0	0.0
o/w accumulated	1.4	1.6	0.0	0.2	0.0	0.0	0.0	0.0
o/w repaid	…	-1.2	-1.4	-1.3	0.0	-0.1	0.0	0.0
Errors and omissions/financing gap	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:								
Total poverty expenditures	4.2	5.7	6.0	4.9	5.6	5.7	5.9	5.9
Non-resource primary balance	-4.2	-5.1	…	-1.5	…	-4.6	-4.4	-4.4
Public domestic debt 5/	11.6	11.5	12.7	10.9	12.3	11.1	10.6	10.7
External public debt (including IMF)	32.6	27.8	27.3	25.1	27.3	25.8	25.3	25.9
Bank and non-bank financing 6/	0.9	2.3	1.9	1.3	1.5	1.5	1.3	1.3
Non-iron ore GDP (Le billions)	12,725	15,324	17,673	17,990	20,775	20,432	24,417	27,421

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

1/ Includes foreign financed election spending in 2012, Le 177.5 billion (1.2 percent of non-iron ore GDP).

2/ Transfer to the budget from a maturing EU grant onlent to Sierra Rutile.

3/ Contingent expenditure introduced in the budget process in 2013.

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

5/ Public domestic debt includes marketable and non-marketable treasury instruments and ways and means, excludes accounts payable.

6/ Fiscal anchor under the program; defined as government financing from the banking system and non-bank financial institutions and kept below 2 percent of non-iron ore GDP.

Table 3. Sierra Leone: Monetary Accounts, 2011–14[1]

(Billions of leone, unless otherwise indicated)

	2011	2012	2013 Prel.	2014 Proj.
I. Monetary Survey				
Net foreign assets	2,053	2,485	2,831	3,071
Net domestic assets	905	1,138	1,393	1,759
Domestic credit	2,190	2,505	2,911	3,277
Claims on central government (net)	1,134	1,365	1,665	1,910
Claims on other public sector 2/	54	192	200	200
Claims on private sector	963	897	1,001	1,122
Other items (net) 3/	-1,285	-1,367	-1,519	-1,519
Money and quasi-money (M3)	2,958	3,623	4,224	4,830
Broad money (M2)	2,107	2,594	3,140	3,617
Foreign exchange deposits	851	1,029	1,084	1,213
II. Bank of Sierra Leone				
Net foreign assets 4/	1,118	1,303	1,526	1,725
Net domestic assets	-258	-284	-328	-347
Claims on other depository corporations	6	14	9	-123
Claims on central government (net)	601	507	447	560
Claims on other public sector 2/	0	0	0	0
Claims on private sector	7	9	13	13
Other items (net) 3/	-877	-817	-802	-802
Reserve money	860	1,019	1,198	1,378
Currency in circulation	708	903	907	1,088
Commercial bank deposits	109	94	251	220
Required reserves	105	101	148	174
Excess reserves	4	-7	103	45
Other deposits	43	22	39	69
Memorandum items:				
(Annual percent change unless otherwise indicated)				
Base money	13.0	18.5	17.6	15.0
M3	22.6	22.5	16.6	14.4
Credit to the private sector	21.8	-6.9	11.7	12.1
Velocity (GDP/M3)	4.3	4.2	4.3	4.2
Money multiplier (M3/base money)	3.4	3.6	3.5	3.5
Credit to the private sector (in percent of non iron ore GDP)	7.6	5.9	5.6	5.5
Gross Reserves (in US$ millions)	382	420	473	527
Program exchange rate (Leones/US$)	4,378	4,334	4,334	…

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

1/ End of period.
2/ Include public enterprises and the local government.
3/ Including valuation.
4/ Net foreign assets are presented at program exchange rates.

Table 4. Sierra Leone: Balance of Payments, 2011–16
(Millions of U.S. dollars, unless otherwise indicated)

	2011	2012	2013 prog.	2013 prel.	2014	2015	2016
Current account	-1,315.4	-1,091.1	-764.9	-511.8	-510.7	-502.8	-505.5
Trade balance	-1,245.5	-796.1	-368.6	362.3	799.1	748.9	1,218.7
Exports, f.o.b.	385.6	1,164.5	1,496.4	1,932.6	2,531.6	2,598.3	3,214.4
Of which: diamonds	154.1	161.7	211.1	185.7	211.4	207.4	209.7
iron ore	0.0	357.0	854.6	1,064.4	1,478.8	1,409.7	1,635.7
Imports, f.o.b	-1,631.1	-1,960.6	-1,865.0	-1,570.3	-1,732.5	-1,849.4	-1,995.7
Of which: oil	-214.5	-255.0	-313.5	-330.9	-368.5	-377.1	-387.6
Services (net)	-283.2	-349.2	-544.8	-518.9	-665.0	-738.9	-821.8
Income (net)	-35.3	-182.1	-89.7	-557.3	-897.1	-757.9	-1,173.3
Of which: interest on public debt	-5.5	-6.4	-9.3	-7.0	-9.3	-8.0	-9.7
Transfers	248.6	236.3	238.2	202.1	252.3	245.0	270.9
Official transfers	112.8	93.8	59.8	51.1	82.6	61.7	72.5
Other transfers	135.8	142.5	178.5	151.0	169.7	183.4	198.3
Capital and financial account	1,352.8	1,109.1	789.8	566.5	548.8	550.1	578.8
Capital account	127.0	123.4	96.5	99.3	97.5	110.5	118.5
Of which: project support grants	98.5	86.4	94.4	86.9	95.2	103.0	110.8
Financial account	1,225.8	985.7	693.3	467.2	451.3	439.6	460.3
Foreign direct and portfolio investment	1,073.9	632.8	602.6	369.1	313.5	320.5	324.6
Other investment	152.0	352.9	90.7	98.1	137.8	119.1	135.7
Public sector (net)	72.5	121.7	97.7	100.9	136.2	141.8	149.8
Disbursements	84.9	137.0	125.0	89.0	160.2	168.5	179.6
Amortization	-11.6	-16.4	-27.2	-19.8	-24.0	-26.7	-29.8
Monetary authorities	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Change in net foreign assets of comm. banks	-50.3	4.4	-7.1	-2.8	1.6	-22.8	-14.1
Other sectors net	3.2	50.2	0.0	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-9.4	17.4	0.0	-8.1	0.0	0.0	0.0
Overall balance	28.0	35.4	24.9	46.6	38.1	47.2	73.3
Financing							
Central bank net reserves (- increase)	-28.0	-35.4	-24.9	-46.6	-38.1	-47.2	-73.3
Gross reserve change	-36.9	-38.7	-31.5	-53.2	-53.7	-59.4	-82.7
Use of Fund loans	8.9	3.3	6.6	6.6	15.5	12.2	9.4
Purchases	14.0	6.8	13.7	13.7	27.3	27.3	27.3
Repurchases	-5.2	-3.5	-7.1	-7.1	-11.8	-15.2	-17.9
Exceptional financing	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
Memorandum items:							
(Percent of non-iron ore GDP unless otherwise indicated)							
Current account	-45.0	-30.9	-19.1	-12.4	-11.1	-9.4	-8.7
Trade Balance	-42.6	-22.6	-9.2	8.8	17.3	14.1	21.0
Capital and Financial Account	46.2	31.4	19.7	13.7	11.9	10.3	10.0
Overall Balance	1.0	1.0	0.6	1.1	0.8	0.9	1.3
Official aid (grants and loans)	3.0	2.8	1.9	1.1	1.7	1.1	1.2
Budget support in US$ (grants and loans)	86.8	100.1	74.3	44.2	79.9	59.0	69.2
Gross International Reserves							
US$ millions	382	420	452	473	527	587	669
Months of imports	1.8	2.2	2.1	2.1	2.2	2.2	2.4
Excluding iron ore, months of imports	2.4	3.2	3.2	3.4	3.6	3.7	4.0
National currency per US dollar (average)	4,357	4,344	...	4,345	...	...	...

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

Table 5. Sierra Leone: Indicators of Capacity to Repay the Fund, 2010–24

				Projection											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Fund obligations based on existing credit															
(in millions of SDRs)															
Principal	1.4	1.9	2.3	4.6	7.7	9.9	11.7	12.1	13.0	11.3	8.1	4.4	2.7	1.8	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit															
(in millions of SDRs)															
Principal	1.4	1.9	2.3	4.6	7.7	9.9	11.7	12.1	13.0	12.2	12.6	12.4	13.3	12.4	9.8
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.2	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.0
Total obligations based on existing and prospective credit															
In millions of SDRs	1.4	1.9	2.3	4.6	7.7	10.1	11.9	12.4	13.2	12.4	12.7	12.6	13.4	12.5	9.8
In millions of US$	2.1	3.0	3.5	7.0	11.8	15.7	18.7	19.6	21.1	19.7	20.3	20.0	21.4	19.9	15.7
In percent of exports of goods and services	0.5	0.5	0.3	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.3
In percent of debt service 1/	7.3	13.3	13.4	20.7	26.3	31.5	32.6	31.6	32.0	30.5	29.3	27.6	28.4	24.6	20.1
In percent of GDP	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1
In percent of Gross International Reserves	0.6	0.8	0.8	1.5	2.2	2.7	2.8	2.6	2.5	2.1	2.0	1.8	1.8	1.5	1.1
In percent of quota	1.4	1.8	2.2	4.5	7.4	9.7	11.5	11.9	12.7	11.9	12.3	12.1	13.0	12.1	9.5
Outstanding Fund credit															
In millions of SDRs	73.4	79.0	78.8	83.1	92.7	100.6	106.7	94.6	81.6	69.5	56.9	44.4	31.1	18.7	8.9
In millions of US$	111.9	124.7	120.7	126.2	143.0	156.7	167.4	149.7	130.2	110.8	90.7	70.9	49.6	29.8	14.2
In percent of exports of goods and services	26.5	22.9	9.0	5.9	5.1	5.4	4.7	4.0	3.3	2.7	2.2	1.6	1.1	0.6	0.3
In percent of debt service	380.9	560.5	458.2	371.9	317.3	314.1	291.3	241.8	197.8	171.4	130.7	97.6	65.8	36.6	18.2
In percent of GDP	4.3	4.3	3.2	2.6	2.5	2.5	2.4	2.0	1.7	1.3	1.0	0.7	0.5	0.3	0.1
In percent of Gross International Reserves	32.5	32.7	28.7	26.7	27.1	26.7	25.0	19.8	15.3	12.0	9.0	6.4	4.1	2.2	1.0
In percent of quota	70.7	76.2	76.0	80.1	89.4	97.0	102.9	91.2	78.7	67.0	54.9	42.9	30.0	18.0	8.6
Net use of Fund credit (in millions of SDRs)	22.4	5.6	2.1	4.3	10.1	7.8	6.0	-11.8	-12.5	-11.7	-12.1	-12.0	-11.1	-12.0	-7.7
Disbursements	23.8	8.9	4.4	9.0	17.7	17.5	17.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	1.4	3.3	2.3	4.7	7.7	9.7	11.4	11.8	12.5	11.7	12.1	12.0	11.1	12.0	7.7
Memorandum items:															
Exports of goods and services (in millions of US$)	423	546	1,347	2,156	2,791	2,884	3,529	3,774	3,893	4,092	4,198	4,442	4,698	4,968	5,268
Debt service (in millions of US$)	29	22	26	34	45	50	57	62	66	65	69	73	75	81	78
Nominal GDP (in millions of US$)	2,578	2,933	3,788	4,915	5,714	6,288	6,920	7,371	7,842	8,348	8,887	9,467	10,097	10,764	11,483
Gross International Reserves (in millions of US$)	345	382	420	473	527	587	669	755	849	924	1,003	1,099	1,212	1,336	1,477
Quota (millions of SDRs)	104	104	104	104	104	104	104	104	104	104	104	104	104	104	104

Source: IMF staff estimates and projections.

1/ Total debt service includes IMF repayments.

Table 6. Sierra Leone: Actual and Proposed Disbursements Under the ECF Arrangement, 2013–16

Availability	Disbursements		Conditions for Disbursement
	In millions of SDRs	In percent of quota	
October 21, 2013	8.89	8.57	Effectiveness of the three-year ECF arrangement
June 15, 2014	8.89	8.57	Board completion of the first review based on observance of performance criteria for December 31, 2013
December 15, 2014	8.89	8.57	Board complettion of the second review based on observance of performance criteria for June 30, 2014
June 15, 2015	8.89	8.57	Board completion of the third review based on observance of performance criteria for December 31, 2014
December 15, 2015	8.89	8.57	Board completion of the fourth review based on observance of performance criteria for June 30, 2015
June 15, 2016	8.89	8.57	Board completion of the fifth review based on observance of performance criteria for December 31, 2015
September 10, 2016	8.88	8.56	Board completion of the sixth review based on observance of performance criteria for June 30, 2016
Total disbursements	**62.22**	**60.00**	

Table 7. Sierra Leone: Millennium Development Goals, 1990–2012

	1990	1995	2000	2005	2010	2011	2012
Goal 1: Eradicate extreme poverty and hunger							
Employment to population ratio, 15+, total (%)	64	64	63	65	65	65	65
Employment to population ratio, ages 15-24, total (%)	39	38	39	42	42	42	42
GDP per person employed (constant 1990 PPP $)	..	..	..	..	..	..	..
Income share held by lowest 20%	..	..	..	6	..	8	..
Malnutrition prevalence, weight for age (% of children under 5)	25	..	25	28	21	..	..
Poverty gap at $1.25 a day (PPP) (%)	45	..	..	20	..	17	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	63	..	..	53	..	52	..
Vulnerable employment, total (% of total employment)	..	..	..	92	..	..	..
Goal 2: Achieve universal primary education							
Literacy rate, youth female (% of females ages 15-24)	..	..	..	37	..	52	..
Literacy rate, youth male (% of males ages 15-24)	..	..	..	60	68	70	..
Persistence to last grade of primary, total (% of cohort)	..	..	..	..	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	..	..	74	77	72
Total enrollment, primary (% net)	..	..	..	..	..	..	..
Goal 3: Promote gender equality and empower women							
Proportion of seats held by women in national parliaments (%)	..	6	9	15	13	13	12
Ratio of female to male primary enrollment (%)	66	..	67	..	93	95	99
Ratio of female to male secondary enrollment (%)	49	..	71	..	..	..	..
Ratio of female to male tertiary enrollment (%)	..	..	81	..	..	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	..	23	..	..	..
Goal 4: Reduce child mortality							
Immunization, measles (% of children ages 12-23 months)	..	..	37	71	80	80	80
Mortality rate, infant (per 1,000 live births)	162	159	143	134	123	120	117
Mortality rate, under-5 (per 1,000 live births)	276	271	233	202	193	187	182
Goal 5: Improve maternal health							
Adolescent fertility rate (births per 1,000 women ages 15-19)	139	130	128	122	108	104	..
Births attended by skilled health staff (% of total)	..	..	42	43	63	..	..
Contraceptive prevalence (% of women ages 15-49)	3	..	4	5	11	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1300	1300	1300	1000	890	..	..
Pregnant women receiving prenatal care (%)	..	..	68	81	93	..	..
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..	28	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases							
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	61	52	62	..	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	5	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	18	..	..
Incidence of tuberculosis (per 100,000 people)	207	279	377	509	682	..	..
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	1.5	..	..
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	0.6	..	..
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.2	0.9	1.5	1.6	..	..
Tuberculosis case detection rate (%, all forms)	8	23	34	26	34	32	32
Goal 7: Ensure environmental sustainability							
CO2 emissions (kg per PPP $ of GDP)	0.1	0.1	0.2	0.1	0.1	..	..
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1	0.1	..	..
Forest area (% of land area)	44	42	41	39	38	38	..
Improved sanitation facilities (% of population with access)	11	11	12	12	13	13	..
Improved water source (% of population with access)	37	42	47	52	57	58	..
Marine protected areas (% of territorial waters)	0	0	1	1	1	1	1
Net ODA received per capita (current US$)	15	54	44	66	81	72	..
Goal 8: Develop a global partnership for development							
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	10	62	46	9	4	4	..
Internet users (per 100 people)	0	0	0.1	0.2	0.6	0.9	1.3
Mobile cellular subscriptions (per 100 people)	0	0	0.3	14	34	36	37
Telephone lines (per 100 people)	0.3	0.4	0.5	0.5	0.2	0.3	0.3
Fertility rate, total (births per woman)	6.5	6.2	5.9	5.5	4.9	4.9	..
Other							
GNI per capita, Atlas method (current US$)	200	200	160	310	450	480	580
GNI, Atlas method (current US$) (billions)	0.8	0.8	0.7	1.6	2.6	2.8	3.5
Gross capital formation (% of GDP)	13	5.6	1.1	11.4	24.1	40.3	..
Life expectancy at birth, total (years)	38	36	38	42	45	45	..
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	35	..	43	..
Population, total (millions)	4.0	3.9	4.1	5.1	5.8	5.9	6.0
Trade (% of GDP)	68.7	45.1	57.5	47.5	51.3	69.9	..

Source: World Development Indicators

Table 8. Sierra Leone: Financial Soundness Indicators of the Banking System, 2007–13

	2007	2008	2009	2010	2011	2012	2013			
							Mar	Jun	Sep	Dec
	(Percent, end of period, unless otherwise indicated)									
Capital adequacy										
Regulatory capital ratio 1/	35.0	43.5	34.0	30.7	27.0	27.7	31.8	29.9	30.2	30.1
Regulatory tier 1 capital ratio 2/	16.7	18.7	18.8	17.5	14.0	12.5	14.1	14.6	14.2	13.6
Asset quality										
Nonperforming loans to total gross loans	31.7	23.4	16.5	15.6	15.1	14.7	17.6	18.9	18.3	22.4
Nonperforming loans (net of provisions) to regulatory capital	35.5	26.8	22.4	13.1	19.6	19.2	23.1	28.7	27.5	31.7
Earnings and profitability										
Return on assets	3.1	2.2	1.6	3.4	3.8	3.4	1.3	1.8	2.2	2.1
Return on equity	10.3	7.2	4.0	12.1	15.6	16.1	6.0	8.5	10.1	9.9
Liquidity										
Ratio of net loans to total deposits	27.7	33.9	41.5	42.8	41.3	33.9	33.3	38.2	35.5	32.4
Liquidity ratio 3/	53.3	62.0	53.4	54.1	54.6	40.7	64.1	63.1	120.4	72.5
Statutory minimum liquidity ratio 3/ 4/	25.7	25.0	29.0	41.5	29.7	54.9	52.5	28.9	49.2	29.3
Share of foreign exchange deposits in total deposits	36.5	32.2	34.5	40.4	41.5	40.8	38.7	35.8	63.2	38.5
	(Number of banks not complying)									
Prudential ratios at year-end										
Capital adequacy	0	0	1	0	2	0	0	0	0	0
Minimum liquidity ratio	0	0	1	1	3	0	0	0	0	0
Minimum capital	1	1	2	0	4	1	0	0	0	0
Limit of single large exposure 5/	1	2	4	5	3	5	4	…	…	…
Memorandum Item:										
Number of banks	10	13	14	13	13	13	13	13	13	13

Source: Bank of Sierra Leone.

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

2/ Core capital (Tier I) over total assets.

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

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

5/ A single large exposure of an institution is any exposure that is 2 percent or more of its capital base.

Table 9. Sierra Leone: Risk Assessment Matrix (RAM)[1]

Source of Risks	Relative Likelihood	Impact and Policy Response
Sustained decline in commodity prices.	**Medium**	**Low to Medium** A sustained decline in commodity prices would result in a higher external current account deficit and a shortfall in government revenue from the mining sector. It could also delay expected investment in iron ore production expansion. *Policy response:* Delay scaling up of public investment and strengthen efficiency in non-resource revenue mobilization.
Aid shortfall.	**Medium**	**Medium** A shortfall in aid would compromise the anticipated fiscal consolidation efforts. It may result in postponement of domestic investment, and lead to increased borrowing from the securities market that could potentially crowd out of private sector borrowing. *Policy response:* Ensure strong implementation of donors' disbursement conditions for committed aid, and scale back domestically financed investment in case of aid shortfall.
Weak fiscal policy implementation.	**Low**	**Medium** A higher than anticipated fiscal deficit would lead to increased borrowing from the securities market and a possible accumulation of domestic arrears, with adverse impact for the monetary program and the financial sector. *Policy response:* Continue close monitoring of budget execution, and stop nonwage expenditure commitments two months prior to the end of the fiscal year.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in staff's view). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent; "medium" a probability between 10 and 30 percent; and "high" a probability of 30 percent or more). The RAM reflects staff's views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Appendix I. Letter of Intent

June 4, 2014

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Dear Madame Lagarde:

1. The Extended Credit Facility (ECF) Arrangement approved by the Executive Board of the International Monetary Fund (IMF) on October 21, 2013 is a welcomed support to our medium-term economic program and for the implementation of our Poverty Reduction Strategy, the *Agenda for Prosperity (*AfP*)*. The attached Memorandum of Economic and Financial Policies (MEFP) updates the MEFP dated October 1, 2013 and its supplement of October 17, 2013. It summarizes recent economic developments in Sierra Leone; discusses performance under the ECF-supported program in 2013; and outlines macroeconomic policies and structural reforms for 2014.

2. Economic and financial developments in 2013 were very encouraging. The real GDP growth is estimated at 20 percent, up from 15 percent in 2012, driven by expansion in iron ore mining, agriculture, and services. Annual consumer price inflation declined to single-digits for the first time in nearly a decade, with the inflation rate reaching 8.5 percent at end-December 2013, down from 12 percent in 2012. As iron ore mining moved to the production stage, imports financed with Foreign Direct Investment declined, while mining exports increased significantly, narrowing the external current account deficit from almost 31 percent of non-iron ore GDP in 2012 to 12.4 percent in 2013. The fiscal position improved significantly, thanks to a good revenue performance and measures to contain expenditure, supported by the unwinding of spending related to the 2012 elections. The enhanced fiscal discipline contributed to a substantial decline in interest rates on government securities, which is expected to generate savings on domestic debt interest costs in 2014.

3. The government continued efforts to advance structural reforms and to implement sound economic policies. As a result, all structural benchmarks were observed, all end-December 2013 performance criteria and continuous quantitative performance criteria were met, and all indicative targets were observed, except for the floor on poverty-related expenditure that was missed on account of the low execution of domestic capital spending.

4. The government intends to work decisively towards achieving program objectives set for 2014 to consolidate the good results achieved in 2013 and strengthen the foundation for the achievement of medium-term macroeconomic objectives. Hence, as explained in the attached MEFP, economic policies will remain prudent to support consumer price stability, medium-term fiscal and debt sustainability, economic growth and poverty reduction.

5. The government will continue efforts to strengthen the fiscal position to increase its capacity to address priority needs. Hence, revenue-enhancing measures will be intensified, particularly to curb tax evasion and increase efficiency gains at the National Revenue Authority. The government is aware of pressures to improve living conditions for civil servants, and to tackle the country's large infrastructure needs. It remains committed to address these expenditure pressures consistently with its medium-term fiscal targets. On wages, the measures introduced in the 2014 budget aim to address erosion of compensation in the civil service, particularly for low-level grades, spur productivity and enhance the quality of public service delivery. Cognizant of the need to strike a balance between the wage bill and other priority spending, the government launched the preparation of a medium-term wage strategy that will underpin any further wage adjustments and accompany implementation of ongoing donor-supported civil service reforms.

6. Although inflation has been declining in recent years, it remains high. Therefore, the government will continue implementation of initiatives aimed at supporting agriculture production to increase food supply. This, together with continued prudent monetary and exchange rate policy will support further decline in consumer price inflation.

7. The government will maintain prudent borrowing policies and ensure that the financing of investment projects contemplated in the *AfP* supports the long-term debt sustainability goal. In this context, financing commitments, as well as execution of large-scaled investment projects contemplated in the *AfP* will be based on economic viability studies and financing will be, to the extent possible, on concessional terms, and in any event, consistent with the external debt criterion. Regarding the new Airport, a consultancy firm will be hired to carry out the economic viability study prior to the completion of discussions with the bank financing the project.

8. The government believes that commitments outlined in the attached MEFP are adequate to achieve program objectives. However, it stands ready to take any additional measures that may become necessary for this purpose. As in the past, and to ensure a successful implementation of our economic program, we will keep a close policy dialogue with the IMF and seek technical assistance, as necessary, from the IMF and other development partners. We will consult with the IMF on the adoption of any additional measures and in advance of revisions to policies contained in the

attached MEFP, in accordance with IMF policies on such matters. Furthermore, we will provide the IMF with information in connection with progress in the implementation of policies and reforms under the program.

9. The government requests the completion of the first review of Sierra Leone's program supported by the ECF arrangement, and the disbursement of the second tranche in the amount of SDR 8.89 million, upon the completion of the review by the IMF Executive Board. The government also authorizes publication of this letter, its attachments, and the related staff report, including placement of these documents on the IMF website in accordance with IMF procedures.

Very truly yours,

/s/	/s/
Kaifala Marah	Sheku S. Sesay
Minister of Finance and Economic Development	Governor of Bank of Sierra Leone

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

Attachment 1. Memorandum of Economic and Financial Policies

Freetown, June 4, 2014

INTRODUCTION

1. Sierra Leone's economic and financial program for 2013–16 is supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF). The program aims to entrench macroeconomic stability, strengthen the fiscal and external positions, improve the management of natural resources, and advance structural reforms to boost inclusive growth. The program's objectives, policies, and reforms are consistent with Sierra Leone's Poverty Reduction Strategy (PRS), the *Agenda for Prosperity (AfP)*.

2. This Memorandum of Economic and Financial Policies (MEFP) supplements the MEFP of October 1, 2013 and its supplement of October 17, 2013. It reports on performance under the ECF-supported program relative to its targets, and presents economic and financial policies as well as structural reforms for 2014.

RECENT ECONOMIC DEVELOPMENTS

3. Real GDP growth in 2013 is estimated at 20.1 percent, up from 15.2 percent in 2012, mainly reflecting the expansion of iron ore production and other mining activity. Non-iron ore GDP grew by 5.5 percent (5.2 percent in 2012) thanks to continued growth in agriculture, construction, and services. Growth in the manufacturing sector was adversely affected by disruptions in energy production triggered by technical difficulties at the Bumbuna hydroelectric power station.

4. Consumer price inflation declined further in 2013 as the exchange rate was stable and food supply increased. At end-December, the inflation rate stood at 8.5 percent (Freetown CPI), down from 12 percent at end-2012, a better outcome than the program projection of 9.0 percent. Food inflation decelerated thanks to a good harvest and favorable international prices for basic staples.

5. The external current account deficit narrowed from 30.9 percent of non-iron ore GDP in 2012 to 12.4 percent in 2013. This improvement was due to a strong (iron ore driven) increase in export receipts, and a decline in imports (particularly in machinery and equipment related to iron ore mining). The overall balance of payments recorded a surplus of about US$46.6 million, and international reserve accumulation stood at 3.4 months of imports (excluding iron ore-related imports).

6. The foreign exchange market was stable in 2013. Bank of Sierra Leone (BoSL) interventions were limited and aimed at smoothing short-term fluctuations. In December 2013, BoSL issued a Circular to commercial banks to enforce the Public Notice No. 55 of 1992 issued under the Exchange Control Act. The Circular limits the withdrawal of U.S. Dollar banknotes over the counter except in the following instances: (i) diamonds transactions by licensed diamond exporters who had brought in foreign exchange through the banking system up to the exporting value; (ii) payment for travel/per diem up to US$10,000; and (iii) salaries and other emoluments to staff of international organizations. The purpose of this regulation was to ensure that foreign currency transactions were carried out through the banking system, and to strengthen the Leone as the sole legal tender. Initially the measure led to a depreciation of the leone against the U.S. Dollar in the parallel market, but the leone/U.S. Dollar exchange rate has since stabilized and the parallel market premium has narrowed considerably. Considering that it has considerably met its objectives, the BoSL has decided to increase the cap on foreign currency withdrawals for all foreign exchange currency account holders from zero (in the December 2013 Circular) to ten thousand U.S. dollars (US$10,000) per transaction, pending completion of the new Foreign Exchange Act and guidelines currently in preparation with IMF technical assistance. The BoSL continues to effectively enforce the 2011 Act on Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT).

7. The monetary survey at end-December 2013 recorded an increase in net foreign assets, consistent with the improvement in the external current account. Credit to the economy rose by 11.7 percent, partly benefitting from the decline in interest rates. While the Monetary Policy Rate (MPR) was reduced by the Monetary Policy Committee—in steps—from 20 percent in 2012 to 10 percent by end-2013, commercial banks’ lending rates declined only moderately from a 21–29 percent range at end-2012 to a 19.7–25.3 percent range at end-2013. Interest rates on government securities dropped from an average of 22.4 percent in 2012 to 8 percent in 2013.

8. Budget execution improved in 2013, with the domestic primary deficit declining from Le 586 billion in 2012 to Le 125 billion through continued revenue mobilization efforts and enhanced expenditure restraint. The latter was supported by the rationalization of expenditures requests from line ministries, the execution of infrastructure projects based on budgetary provision, the closing of expenditure commitments at end-October, and the completion of payments order issuance at end-November.

9. Total revenue stood at Le 2,280 billion, compared with a programmed level of Le 2,197 billion, driven mostly by personal income tax collection in the natural resources sector, corporate income tax, and mineral royalties. Total expenditure declined as expected, although current spending was slightly higher than anticipated. Spending on goods and services exceeded the

budgeted level, while interest on domestic debt and domestically-financed investment were below projections. Foreign-financed capital outlays declined compared with 2012, and were lower than anticipated because the disbursement of project loans and grants was slower than programmed. Domestic financing from bank and nonbank financial institutions was below target as strong revenue collection helped contain the use of Ways and Means, and because the repayment of maturing securities from nonbank financial institutions was higher than projected. Float transactions were totaled Le 30 billion, and some Le 14 billion of domestic payments arrears were accumulated because of technical delays in expenditure execution.

PROGRAM PERFORMANCE IN 2013

10. All quantitative performance criteria were met. The ceiling on net domestic bank credit to the central government was met with a wide margin on account of stronger-than-expected revenue performance. The ceiling on net domestic assets of the central bank and the floor on gross foreign reserves were also met with comfortable margins. External borrowing on nonconcessional terms was consistent with the limit set under the program. All indicative quantitative targets, but one, were met. The floor on poverty-related expenditure totaled Le 884 billion, compared with a program target of Le 1,063 billion, mainly due to slower-than-expected execution of domestically-financed investment (Table 1).

11. All structural benchmarks programmed for end-December 2013 were observed. The government submitted to parliament the Extractive Industries Revenue Act that includes a resource rent tax; a resource revenue unit was set up in the National Revenue Administration (NRA); the small taxpayer regime was implemented; the Medium-term Debt Management Strategy was completed and adopted by Cabinet; and a Public Investment Unit was established in the Ministry of Finance and Economic Development, and became operational in early 2014 (Table 3).

12. To enhance revenue mobilization, the government decided to strengthen the system for collecting taxes on petroleum products to increase efficiency and curb fraud, notably through the setting up of NRA dedicated accounts in commercial banks. The memorandum of understanding signed between the government and commercial banks on the transfer of balances in NRA transit accounts to the Treasury account at the BoSL was strictly enforced, which helped improve Treasury cash flow management.

ECONOMIC OUTLOOK AND POLICIES FOR 2014

13. Policies and macroeconomic objectives for 2014 are consistent with those outlined in the October 1, 2013 MEFP and its supplement dated October 17, 2013 presenting the three-year ECF-supported program. These policies aim to consolidate recent progress in macroeconomic stability and enhance medium-term economic growth prospects. The updated macroeconomic framework anticipates that real GDP growth will remain in double-digits (11.3 percent in 2014), in line with the expected higher iron ore and other mining production, continued strong output expansion in agriculture, services, and construction, and a recovery in manufacturing as energy supply improves in 2014. The scaling up of public investment, as envisaged in the implementation of the AfP should also catalyze private sector activity and contribute to higher, sustainable growth in the non-resources sector. Consumer price inflation is expected to continue trending downward as food supply benefits from government-sponsored programs in agriculture, and non-food inflation would remain low thanks to continued prudent monetary policy. The external current account deficit should narrow from 12.4 percent of non-iron ore GDP in 2013 to 11.1 percent in 2014 as export growth is expected to remain strong. Gross international reserves are forecast to increase from 3.4 months of imports (excluding those related to iron-ore production operations) in 2013 to 3.6 months in 2014.

A. Fiscal Policy

14. The government intends to continue strengthening fiscal policy implementation. The 2014 budget was premised on strong economic growth and implementation of the AfP. In the updated fiscal framework for 2014, the overall budget deficit at Le 868 billion is lower than projected reflecting higher mining royalties and grant inflows. The latter reflects a 2013 World Bank loan that will be released as a grant in 2014. To appropriate these additional resources, the government plans to present a supplementary budget to parliament in July.

15. Revenue is projected at Le 2,613 billion, equivalent to 12.8 percent of non-iron ore GDP. Revenue was revised upward compared with the original program to account for a better outcome in 2013 in key revenue aggregates and to reflect the impact of administrative measures planned for 2014: (i) personal and corporate income taxes are expected to be bolstered by continued growth in the mining sector and in the non-resources economy; (ii) collection of taxes on goods and services (GST) and import duties are expected to strengthen in 2014 thanks to administrative measures introduced to curb fraud and contain duty waivers, including the use of NRA receipts for GST, and an enhanced scrutiny of duty waivers requests; (iii) excises on petroleum products have been revised downward to take into account the decision to maintain petroleum retail prices constant for

non-commercial consumers; and (iv) royalties have been revised upward consistent with current iron ore production and price projections.

16. Expenditure would amount to Le 4,272 billion in 2014 (20.9 percent of non-iron ore GDP), increasing more than anticipated under the program because of new spending needs to be financed by the new grant (see above) and savings from the decline in interest rates on government securities in 2013, estimated at Le 109 billion.

17. Current expenditures are projected at Le 2,551 billion compared with Le 2,514 billion in the original program. The increase stems from new measures on wages and salaries introduced in the 2014 budget, as well as new spending needs. The new measures affecting the wage bill are: (i) introduction of a minimum wage of Le 480,000 for in the public sector; (ii) increase of the entry level salary for teachers, police, and military to Le 600,000; (iii) a salary increase for members of parliament; and (iv) addition of the salaries of Paramount Chiefs to the government payroll. These measures, together with planned recruitment in priority sectors, would raise the wage bill from 5.9 percent of non-iron ore GDP in 2013 to 6.7 percent in 2014. The government is aware of the need to control the wage bill to ensure that, while implementing measures foreseen under the donor-funded civil service and pay reforms, adjustments in salaries are consistent with medium-term fiscal sustainability and do not crowd out investment and other priority spending. The government commits to containing the wage bill to the budgeted level through the following measures: a freeze on salary increase for all subvented agencies; no salary increase for Ministers, Deputy Ministers and civil servants in Grades 10 and above. Other non-interest current expenditures are slightly lower than originally programmed. Revised interest payments on domestic debt take into account the issuance of a five-year bond totaling Le 75 billion for the recapitalization of the BoSL. Nonetheless, interest expenses are projected to drop from 1.5 percent of non-iron ore GDP in 2013 to 0.9 percent, freeing up space for additional spending, including on investment. The latter is set to reach 3.2 percent of non-iron ore GDP, up from 2.3 percent in 2013, consistent with the implementation of the AfP.

18. Although externally-financed investment is forecast to increase from 4.1 percent of non-iron ore GDP in 2013 to 5.2 percent in 2014, this does not assume the execution of large-scale investment projects under the AfP. The government reaffirms its commitment to implement these projects only if they are economically viable, supportive of medium to long-term fiscal and debt sustainability goals, and consistent with the external nonconcessional debt performance criterion under the ECF-supported program. For the new airport at Mamamah, the government will seek to recruit a consulting firm to prepare a study on the economic viability of the project. The conclusions from the study will provide a basis for a final decision on the execution of the project and the completion of financing arrangements with the creditor.

19. The overall budget deficit, at 4.2 percent of non-iron ore GDP, is financed with external budget support and borrowing from the domestic securities market. To avoid an accumulation of domestic payments arrears and contain the domestic debt burden, the government stands ready to scale back expenditure in non-priority areas and domestically-financed investment in the event of a shortfall in budgetary resources. In the same vein, the government will maintain tight cash flow management and continue to monitor expenditure execution to ensure that spending commitments and issuance of payment orders are completed by end-October and end-November 2014 respectively; and are consistent with available resources.

B. Monetary and Exchange Rate Policies

20. The BoSL will maintain an appropriately tight monetary policy stance consistent with the projected decline in inflation. Hence, reserve money growth is targeted at 15.0 percent, a decline compared with 2013 (17.6 percent). Should the need arise; the BoSL will enhance its interventions in the government securities market to manage liquidity and contribute to the development of the secondary market. The stock of Non-Negotiable, Non-Interest Bearing securities totaling Le 81 billion that was converted to 91-day Treasury Bills in 2013 was restructured in early April, extending its maturity to 3 years. This has provided the BoSL with instruments for active liquidity management. Following the reduction in the MPR in 2013, further adjustments will be aligned with liquidity conditions in the market to enhance its signaling role and support the efficiency of monetary policy operations.

C. Borrowing Policies and Debt Management

21. The government will continue to ensure that financing needs are covered with grants and concessional loans, to the extent possible, and that nonconcessional borrowing is consistent with the external nonconcessional debt performance criterion under the ECF-supported program, to safeguard long-term debt sustainability. The investment scaling up envisioned under the AfP will be guided by this objective. The government plans to organize a donors' conference in Freetown before the end of the year to engage Sierra Leone's development partners on the financing of the AfP.

22. On domestic debt, the government will aim to lengthen maturities for new securities, consistent with the Medium-Term Debt Management Strategy to limit refinancing risks. The ratio of public domestic debt to non-iron ore GDP is set to decline over the medium term as the government fiscal position improves.

D. Structural Reforms

23. The government remains committed to advancing structural reforms. The focus will continue to be on: (i) enhancing revenue mobilization; (ii) improving expenditure management, particularly for public investment; (iii) supporting private sector development; (iv) deepening financial intermediation; and (v) improving public debt management. Priority measures in these areas are described in Table 3.

24. The government intends to continue advancing PFM reforms to consolidate recent progress and address new challenges expected from the management of increased natural resources in the years ahead. To this end, it has prepared a PFM strategy for 2014–17, building on recommendations from the 2010 Public Expenditure and Financial Accountability Assessment (PEFA), and recommendations from the IMF Fiscal Affairs Department technical assistance (TA). The strategy aims at enhancing fiscal discipline further, contributing to the strategic allocation of scare resources, and improving the quality of public service delivery.

25. To increase visibility in the government securities' market and contribute to enhanced liquidity forecast efforts by the BoSL, the government will complete and publish, by December 2014, a calendar for the issuance of securities.

26. The government is determined to increase efficiency in the civil service to support private sector development and improve the quality of public service delivery. In 2014–15, civil service reforms will be centered around the implementation of two donor-funded projects, focusing on strengthening the payroll integrity, rationalizing the compensation system, right sizing the civil service, recruitment of mid-level managers, and harmonization of the payroll system with the human resources records. Key actions contemplated under the two programs include:

- Upgrade the Human Resource Management Information System (HRMIS) to facilitate improved records keeping, complete the validation of personnel records, and maintain an up to date record of decisions related to the Human Resource Management Plan.

- Right-size the civil service to enhance performance while increasing recruitment of mid-level managers.

- Increase administrative and logistical support for management in the civil service.

- Strengthen the link between the Human Resource Management Office (HRMO), the Accountant's General Department (AGD), and the Budget Bureau in Payroll and Budget Management.

- Review the policy to mainstream donor-funded Local Technical Assistants (LTAs) into the civil service with a view to minimizing distortions in the payroll.

27. In addition to the abovementioned measures, the government will prepare a medium-term wage strategy to ensure that its ambition to improve compensation in the civil service is consistent with its fiscal sustainability objectives. The strategy will build on the outcome of the preliminary study on salary harmonization completed in May 2014, and will benefit from contributions from development partners, notably the IMF, the World Bank and the European Union. These contributions will help ensure that the strategy is fully consistent with Sierra Leone's commitments under the IMF-supported program, under which the wage bill is projected at 6.5 percent of non-iron ore GDP for the medium-term; and supportive of objectives under the donor-funded civil service reforms discussed above.

28. Reforms in the financial sector will aim to support financial sector stability, broaden access to financial services, and develop the government securities market. The BoSL intends to enhance banking supervision with TA support from the IMF. It also plans to implement the following measures in 2014–15.

- Roll out a new platform for real time reporting of deposit money bank balances (December 2014).

- Finalize and submit to parliament the revised Foreign Exchange Act to align Sierra Leone's legislation with that of its Economic Community of West African States (ECOWAS) and West African Monetary Zone (WAMZ) partners (December 2014).

- Expand the existing credit reference database to include deposit-taking microfinance and community banks (December 2015).

- Establish a collateral registry to support use of moveable property as collateral, thereby improve the credit culture (December 2015).

- Complete the Financial Inclusion Strategy, with donors' support, to improve financial literacy and business practices (December 2015).

PROGRAM MONITORING

29. The program will be monitored on a semi-annual basis, through quantitative targets and structural benchmarks (Tables 2 and 3). Quantitative targets for end-June and end-December 2014 are performance criteria; and those for end-March 2014 and end-September 2014 are indicative targets. The second and third reviews under the program will be completed by December 15, 2014 and June 15, 2015, respectively.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2013[1]

(Cumulative change from beginning of calendar year to end of month indicated; Le billions, unless otherwise indicated)

	Dec. 2012	2013									
				Sep.				Dec.			
	Stock	Mar.	Jun.	Prog.	*Adj. Prog.*	Act.	*Status*	Prog.	*Adj. Prog.*	Act.	*Status*
Performance criteria											
Net domestic bank credit to the central government (ceiling)	1,365	32	34	230	431	303	Met	246	492	300	Met
Unadjusted target (ceiling)					230				246		
Adjustment for the shortfall (excess) in external budget support					75				87		
Adjustment for the issuance of government securities to the nonbank private sector					127				160		
Net domestic assets of the central bank (ceiling)	-265	9	-35	92	167	-17	Met	43	130	-29	Met
Unadjusted target (ceiling)					92				43		
Adjustment for the shortfall (excess) in external budget support					75				87		
Gross foreign exchange reserves of the central bank, US$ millions (floor)	420.3	11	14	11	-1	10	Met	31	11	53	Met
Unadjusted target (floor)					11				31		
Adjustment for the shortfall (excess) in external budget support					-17				-20		
Adjustment for the shortfall in the US$ value of IMF disbursement					0				0		
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities					5				0		
Ceiling on new nonconcessional external debt (in $ million) 2/ 3/	...	0.0	0.0	30		0.0	Met	30		0.0	Met
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 2/	...	0.0	0.0	0		0.0	Met	0		0.0	Met
External payment arrears of the public sector (ceiling) 2/	...	0.0	0.0	0		0.0	Met	0		0.0	Met
Indicative target											
Total domestic government revenue (floor)	...	516	1,131	1,604		1,688	Met	2,197		2,280	Met
Poverty-related expenditures (floor)	...	207	398	631		625	Not Met	1,063		883	Not Met
Domestic primary balance (floor)		62	55	-132		-191	Not Met	-313		-125	Met
Memorandum items:											
External budgetary assistance (US$ million) 4/	...	4.0	4.0	37.2		14.9		74.3		44.2	
Net credit to government by nonbank sector 5/	...	-1.7	16.8	63.8		-62.8		91.1		-68.6	
ECF disbursements (SDR millions)		0.0	0.0	0.0		0.0		13.7		13.7	
Exchange rate (Leones/US$)	4,334	4,334	4,334	4,334		4,334		4,334		4,334	

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); end-June and end-December are performance criteria, and end-March and end-September are indicative targets.

2/ These apply on a continuous basis.

3/ The ceiling covers priority loans for the energy sector; for 2013–14, such projects include the construction of two mini dams to provide access to electricity in a rural area. There was no borrowing in 2013

4/ Including grants and loans.

5/ 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 2014[1]

(Cumulative change from beginning of calendar year to end of month indicated; Le billions, unless otherwise indicated)

	Dec. 2013	2014							
		Mar.		Jun.		Sept.		Dec.	
	Stock	prog.	rev.	prog.	rev.	prog.	rev.	prog.	rev.
Performance criteria									
Net domestic bank credit to the central government (ceiling)	1,665	71	93	145	184	105	194	245	245
Net domestic assets of the central bank (ceiling)	-295	-18	20	-32	21	-50	-57	32	10
Gross foreign exchange reserves of the central bank, US$ millions (floor)	474	13	10	34	31	39	35	53	53
Ceiling on new nonconcessional external debt (in $ million) 2/ 3/	...	30	30	30	30	30	30	30	30
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 2/	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External payment arrears of the public sector (ceiling) 2/	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative target									
Total domestic government revenue (floor)	...	598	549	1,262	1,247	1,884	1,919	2,581	2,613
Poverty-related expenditures (floor)	...	262	231	559	542	815	809	1,155	1,158
Domestic primary balance (floor)		-128	-176	-255	-300	-325	-330	-476	-512
Memorandum items:									
External budgetary assistance (US$ million) 4/	...	20.0	5.1	28.7	45.4	50.7	50.6	56.7	79.9
Net credit to government by nonbank sector 5/	...	-1.3	0.0	13.2	21.9	15.4	43.9	66.7	66.0
ECF disbursements (SDR millions)		0.0	0.0	13.7	13.7	0.0	0.0	13.7	13.7
Exchange rate (Leones/US$)	4,334	4,334	4,334	4,334	4,334	4,334	4,334	4,334	4,334

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); end-June and end-December are performance criteria, and end-March and end-September are indicative targets.

2/ These apply on a continuous basis.

3/ The ceiling covers priority loans for the energy sector; for 2013–14, such projects include the construction of two mini dams to provide access to electricity in a rural area.

4/ Including grants and 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 Benchmarks Under the ECF-Supported Program, 2013–14

Measures	Timing	Status
Revenue Mobilization		
• Submit to parliament the Extractive Industries Revenue Bill, including a resource rent tax.	Dec. 2013	Met.
• Set up a resource revenue administration unit at NRA.	Dec. 2013	Met.
• Implement a new small taxpayer regime.	Dec. 2013	Met.
• Establish a Treasury Single Account (TSA), and streamline NRA's transition accounts. • Establish a Natural Resource Revenue Fund with legal and procedural characteristics as recommended by FAD TA under the Topical Trust Fund for Managing Natural Resource Wealth.	June 2014 December 2014	
• Introduce a new Tax Administration Act.	Dec. 2014	
Expenditure Management		
• Submit to parliament the new PFM Bill that includes amendments and clarifications on supplementary budgets and contingency funds, as well as provisions for the establishment of a Natural Resource Revenue Fund.	June 2014	
• Prepare a monthly rolling Treasury cash flow table consistent with the revised 2014 fiscal framework.	Continuous	Met.
• Establish and staff an operative public investment program (PIP) unit in the Ministry of Finance and Economic Development.	Dec. 2013	Met
• Prepare a bi-annual report on PIP execution.	Dec. 2013 Continuous	Met.
• Complete a three-year PIP, fully integrated with the budget process and the revised MTEF for 2015–18, to be submitted to parliament with the 2015 budget.	Oct. 2014	

Table 3. Sierra Leone: Structural Benchmarks Under the ECF Program, 2013–14 (concluded)

Measures	Timing	Status
Debt Management		
• Complete a Medium-Term Debt Management Strategy	December 2013	Met.
• Prepare a quarterly report on external debt commitments, agreements and disbursements.	Continuous	Met.
Financial Sector Development		
• Prepare a road map for developing and implementing risk-based supervision	June 2014	
• Establish a primary dealer agreement system for the government securities market	June 2014	
• Introduce a wholesale foreign exchange auction	June 2014	
Business Environment		
• Prepare a development strategy for small- and medium-sized enterprises	June 2014	
• Introduce a one-stop window for imports clearance	Dec. 2014	

Attachment 2. Technical Memorandum of Understanding
Freetown, June 4, 2014

INTRODUCTION

1. This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative performance criteria (PCs) and structural benchmarks (SBs) for the program supported by the Extended Credit Facility (ECF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 3 of the Memorandum of Economic and Financial Policies (MEFP).

2. **Program exchange rates**.[1] For the purpose of the program, foreign currency denominated values for 2013 will be converted into Sierra Leonean currency (leone) using a program exchange rate of Le 4334/US$ and cross rates as of end December 2012.[2]

QUANTITATIVE PERFORMANCE CRITERIA

A. Gross Foreign Exchange Reserves of the Bank of Sierra Leone

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

4. **Adjustment clauses**. The floor on the change in gross foreign exchange reserves will be adjusted (a) downward (upward) by the amount in U.S. dollars of the shortfall (excess) in programmed external budgetary assistance[3]—the downward adjustment will be capped at the equivalent of US$20 million; (b) downward (upward) for any shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the ECF arrangement; and (c) upward (downward) for any

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

[2] For calculating program targets for 2013, all end 2012 stock variables will be based on program exchange rate of Le 4334/US$.

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

increase (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 BoSL are defined as the end-period stock of the reserve money less the end-period stock of net foreign assets calculated at the program exchange rates. Reserve money includes currency issued (equal to currency outside banks plus cash in vaults), deposits of commercial banks with the BoSL and the BoSL liabilities to other private sector. Net foreign assets of the BSL are defined as gross foreign exchange reserves (defined above) minus foreign liabilities. Foreign liabilities are defined as foreign currency-denominated liabilities of the BSL to nonresidents (excluding a foreign liability to China of Le 35 billion relating to a legacy clearing account for a previous bilateral trading agreement) and the outstanding use of Fund credit. For program purposes, foreign liabilities exclude SDR allocation.

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

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

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

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

b. the net position of the government with the BoSL, including: (a) treasury bills and bonds, excluding holdings of special bonds provided by government to cover BoSL losses (Le 357.5 billion) and to increase its capital (Le 75 billion); (b) the stock of non-negotiable non-interest bearing securities (NNNIBS); (c) ways and means; and (d) any other type of direct credit from the BoSL to the government; less (a) central government deposits; and (b) any debt relief received, notably HIPC and MDRI relief deposits.

8. **Adjustment clauses**. The ceiling on changes in NCG will be adjusted (a) upward (downward) by up to the leone value of the shortfall (excess) in external budgetary assistance—the upward adjustment will be capped at the equivalent of US$20 million; (b) 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 assumption (as specified in the memorandum items in Table 3 of the MEFP).

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

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. External Payment Arrears of the Public Sector

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

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

12. **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 (see paragraph 11 for definition of public sector) based on the residency of the creditor. This PC applies not only to debt as defined in the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274 (00/85), August 24, 2000, Point 9, as revised on August 31, 2009, (Decision No. 14416-(09/91)) 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 paragraph 11 above. This PC will apply on a continuous basis.

13. Any external debt of which the net present value, calculated with the reference interest rates mentioned hereafter, is greater than 65 percent of the nominal value (grant element of less than 35 percent) is considered nonconcessional, with the exception of IMF lending. The discount rate

used for the purpose of calculating concessionality is 5 percent. The government will report any new external borrowing and its terms to Fund staff before external debt is contracted or guaranteed by the government.

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

14. **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 (see paragraph 11 for definition of public sector). Debt is defined in Annex I of this TMU. For this purpose, short-term debt will exclude normal trade credit for imports. For the purposes of this PC, the public sector is as defined in paragraph 11 above. This PC will apply on a continuous basis.

QUANTITATIVE INDICATIVE TARGET

A. Domestic Primary Balance

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

B. Domestic Revenue of Central Government

16. **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.

C. Poverty-Related Expenditures

17. **Definition**. For program monitoring purposes, poverty-related expenditures are defined as the total of current and capital expenditures of the following ministries and institutions: Education, Health, Social Welfare, Agriculture, Transport and Communications, Energy, Water, Police, Prisons Department, National Fire Authority; and capital expenditure for the Ministry of Works, Energy, Water, Health and Sanitation, Agriculture, Police, Prisons, Local Councils, Commission for Social Action, Anti-Corruption Commission, and Statistics Sierra Leone. Current expenditures are defined as expenditures on goods and services, transfers, and other current spending. Capital expenditures are defined as domestically-financed investment.

PROGRAM MONITORING

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

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

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

SIERRA LEONE

June 4, 2014

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2014)

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

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

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	99.51	100.00
Holdings	106.75	107.28

Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
ECF Arrangements	82.62	79.67

Latest Financial Arrangements:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million**
ECF	Oct 21, 2013	Oct 20, 2016	62.22	8.89
ECF[1]	July 01, 2010	June 30, 2013	31.11	22.20
ECF[1]	May 10, 2006	June 22, 2010	51.88	51.88

Projected Payments to Fund[2]

(SDR million; based on current use of resources and present holdings of SDRs):

	Forthcoming				
	2014	2015	2016	2017	2018
Principal	7.68	9.86	11.68	12.11	12.99
Charges/Interest	0.00	0.18	0.15	0.12	0.09
Total	**7.68**	**10.04**	**11.83**	**12.23**	**13.08**

Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of HIPC Initiative assistance	
Decision point date	March 2002

[1]Formerly PRGF.

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

Assistance committed (NPV terms)	
By all creditors (US$ million)[3]	675.20
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[4]	6.58
Total disbursements	106.58

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[5]	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**	**PRGT**	**Total**
December 2006	N/A	117.34	117.34

Safeguards Assessment:

The 2014 safeguards assessment of the Bank of Sierra Leone found that it continues to improve certain elements of the safeguards framework, namely the legal framework and the internal audit function, and financial statements continue to be prepared and audited in accordance with international standards and were published in a timely manner on the BSL website. Continuance in oversight was a concern however, with the Deputy Governor position remaining vacant for an extended period and the expiration of a majority of Board members non-renewable terms in 2014. External audit oversight also needed strengthening and there were delays in the expected recapitalization of the BSL.

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

[4] 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.

[5] 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 2004 that remains outstanding at the time the member qualifies for debt relief.

Exchange Rate Arrangement:

For customs valuation purposes and for official transactions, the Bank of Sierra Leone (BSL) calculates an official exchange rate every Friday morning as the weighted average of the auction rate, the commercial bank mid-rate, and the bureau mid-rate in the previous week. Commercial banks may buy foreign exchange from and sell it to individual customers and may trade among themselves or with the BSL on a freely negotiable basis. As of May 29, 2014, the BSL mid rate was Le 4,366.87=US$1.

Sierra Leone's *de jure* exchange rate regime is classified as floating, with the value of the leone determined by the market. Furthermore, effective November 1, 2008, the *de facto* exchange rate arrangement has been reclassified to 'floating' from a 'stabilized arrangement'.

With effect December 14, 1995, Sierra Leone has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. Sierra Leone maintains one multiple currency practice subject to Fund jurisdiction arising from the applied multiple-price Dutch auction system, as there is no formal mechanism in place to prevent spreads of effective rates between winning bids from exceeding 2 percent.

Article IV Consultation:

The Executive Board concluded the 2013 Article IV consultation on October 21, 2013. The next Article IV consultation will be held in accordance with the 2010 decision on consultation cycles.

Technical Assistance:

Department	Purpose	Date
FAD	Tax Policy under Module 1 of the Managing Natural Resource Wealth (MNRW) project	June, October 2013; January 2014
	EI Revenue Administration	December 2013
	EI Macro-Fiscal, PFM, and Expenditure Policy	April 2013
	EI Revenue Administration	August 2012
	EI Macro-Fiscal, PFM, and Expenditure Policy	Feb, September 2012
	EI Fiscal Regimes Follow-Up	Feb, August 2012
	Post-GST Implementation Review	February 2012
	Terms of Draft EI Revenue Act (EIRA)	January, July 2012

Department	Purpose	Date
MCM	Monetary and Forex Operations	February 2014
	Financial Stability Analysis	October 2013
	Medium-term Debt management Strategy	January 2013
	Liquidity Forecasting and Development of Interbank Foreign Exchange Market	July 2012; January 2013
	TA Needs Assessment Mission	February 2012
STA	Price Statistics	April 2014
	Annual National Accounts Statistics Module Mission within the Enhanced Data Dissemination Initiative Project for Africa	July, August 2013
	National Accounts under Module 5 within the Managing Natural Resource Wealth (MNRW) project,	April, May 2013
	Consumer Price Index	August 2012
	SRF Data Development	August 2012
	Monetary and Financial Statistics Mission under the Enhanced Data Dissemination Initiative (EDDI) Project for Africa.	August 2012

Resident Representative:

Mr. Francis Kumah assumed responsibility for the Fund office in Freetown in November 2010.

JOINT WORLD BANK-IMF WORK PROGRAM, 2014–15

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
World Bank work program	IPFMRP (PFM Project) Supervision	Feb, Jun 2014	Aug 2014
	PFMICP (New PFM Project) Preparation	Aug, Nov 2014; Mar, Jun, Sep 2015	Aug 2019
	Financial Sector TA Project	Aug, Nov 2014; Mar, Sep 2015	N/A
	Mining Sector TA Project	Jun, Oct 2014; Feb, Sep 2015	N/A
	Sixth Governance Reform and Growth Credit (GRGC-6)	Feb 2014	Apr 2014
	Pay and Performance Project	Feb, Sep, Dec 2014; Mar, Jun, Oct 2015	Jul 2016
Technical Assistance:			
	Anti Corruption Commission	Feb 2014	N/A
	Household Survey	Apr, Sep 2014 Feb, May 2015	N/A
	AML/CFT, Law, Transnational Organized Crime Unit, Nuclear Non-Proliferation Framework	Feb, May, Sep 2014; Mar 2015	N/A
	Anti-Corruption, asset disclosure system	Feb, Sep 2014	N/A
	Public Investment Management	May, Sep 2014; Feb 2015	N/A
	Revenue Administration	Oct 2014; Apr 2015	N/A
IMF work program	First Review of the ECF Arrangement	May 2014	May 2014
Technical Assistance:			
	FAD		
	Customs compliance enforcement and risk management	May, August 2014	N/A
	TSA	May, September 2014; March 2015	

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
	EI Revenue Administration	June, Nov 2014; February 2015	N/A
	Fiscal reporting	July 2014	
	PFM: Legal framework	May, August 2014; April 2015	
	Tax policy	October 2014	
	PFM: Medium-term expenditure framework	June, October 2014; January 2015	
	Program-based budgeting	November 2014	
	TA in Fiscal Law: Natural Resource Taxation	December 2014	N/A
	MCM		
	Assessment of FX measures	July 2014	N/A
	Accounting and Auditing	July 2014	
	Medium-term Debt Management Strategy Formulation	July 2014	
	Finalizing the Foreign Exchange Act	July 2014	
	Debt Market Development	September 2014	
	Financial Stability	October 2013	
	Foreign Exchange Market Development	July, December 2014	
	Monetary Operations	July, December 2014; February 2015	
	STA		
	Open Data Initiative	May 2014	
	Accounts for Natural Resources	June 2014	
	National Accounts	November 2014; April 2015	N/A
	Monetary Data Reported in Staff Reports	January 2015	
B. Agreement on Joint Products and Missions			
Joint products in 2014	Assisting the authorities with the implementation of their financial sector reform strategy		Continuous

STATISTICAL ISSUES

As of May 1, 2014

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance with some key data shortcomings in national accounts, fiscal, monetary, and external sector statistics. A major and sustained improvement in the coverage and timeliness of economic data will require greater interagency coordination and restructuring of the institutional framework.
National Accounts: Statistics Sierra Leone (SSL) produces and disseminates GDP estimates by activity in value and constant prices of 2006, according to the 1993 SNA. Under the DFID-funded project annual GDP estimates have been improved, especially regarding the compilation of construction, estimation of informal sector activity, measurement of government services, agricultural production, household final consumption, and constant price gross domestic product (GDP). Remaining issues concern developing better data sources for agricultural and mineral production, and generally continuing the improvement of informal sector measurement. However, shortages of resources and staff continue to pose major constraints to the statistical development undertaken by SSL.
Price Statistics: The SSL compiles the CPI monthly and publishes it with a lag of about three weeks. It has been rebased to 2007 using the 2007 Sierra Leone integrated household survey and continues to cover the capital city and three main districts. While a national CPI is being compiled, the authorities continue to publish the old CPI (1992=100). They have requested technical assistance for the preparation and adoption of a single index. Technical assistance missions last visited Freetown in April 2014 to review the CPI and to advice on the development of a producer price index (PPI). The authorities are working to improve the calculation methods for the CPI and procedures to aggregate regional CPIs to obtain the national index. Regarding the new PPI, the Authorities have developed the index weights, selected a representative sample of establishments, and selected representative products and transactions for price collection. A work plan, in the form of Project Framework Summary, was drafted and agreed with the authorities for the preparation of this new PPI.
Government Finance Statistics: The budget reporting system was established with assistance from the Fund/UNDP technical assistance project. Monthly cash flow data on central government budgetary revenue, current expenditure, and financing are provided. The transaction coverage of the central government budgetary cash flow is incomplete. There is an urgent need for more timely and accurate data on foreign-financed development projects. Reports on implementation of the development budget and its financing are currently not produced in a format that is suitable for budget analysis because the necessary data are not available. The authorities are currently considering the introduction of a flash reporting system for government expenditure in general and for foreign aid-financed projects, in particular. As part 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 of the two data sets. With the current drive towards decentralization and the growing role of local government, there is an urgent need to compile and monitor the operations (and financial balance sheet data) for the consolidated general government.

Financial sector surveillance: Sierra Leone does not participate in the IMF's Coordinated Direct Investment Survey (CDIS), Coordinated Portfolio Investment Survey (CPIS) and Financial Soundness Indicators (FSIs) databases.	
Monetary and Financial Statistics: The main components of the central bank balance sheet are available daily and weekly under the 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; it has comprehensive coverage of commercial banks. Significant progress has been made by the BSL in the compilation of monetary data. The BSL, with assistance from STA, has completed the migration to standardized report forms (SRFs) for the central bank and other depository corporations (ODCs). However, there is a need to expand the coverage of monetary and financial statistics by including data on other financial institutions.	
External sector statistics: The BSL is responsible for compiling BOP and IIP statistics, which are currently prepared on an annual basis. Primary data sources are administrative-based data (BSL own records, line ministries, and Customs and Excise Department (Customs) records), partner-country and international organizations data, and the annual survey of major companies for estimates on services, income, and financial flows relating to direct, portfolio, and other investments. External transactions are characterized by a large volume of activities in the informal sector. Trade data include some estimates for unrecorded diamond exports—by deducting official diamonds export figures from trading partners' official diamonds imports from Sierra Leone. Coverage issues also exist for services, primary and secondary income, and capital and financial accounts. Information on official grant and loan receipts is of generally good quality and is prepared by the IMF African Department (AFR) staff on the basis of contacts with the authorities and donor agencies. Data on private financial flows should be improved; Information on financial transactions of banks are obtained directly from commercial bank records; entries are estimated as differences in amounts of outstanding foreign assets and liabilities of commercial banks and may thus include valuation and other changes. While the authorities are producing data on the IIP, the coverage as well as the consistency with BOP data should be improved.	
II. Data Standards and Quality	
Sierra Leone is participant in the General Data Dissemination System (GDDS) since 2003.	No data ROSC is available.
III. Reporting to STA	
Data are reported for publication in the *Government Finance Statistics Yearbook*, with the most recent data referring to 2012, but no sub-annual data are reported for inclusion in the *International Financial Statistics*. The BSL started reporting monetary data in the SRF-format to the IMF in April 2010.	

Sierra Leone: Table of Common Indicators Required for Surveillance May 2014					
	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	5/30/2014	05/30/2014	W	W	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	03/31/2014	04/24/2014	M	M	M
Reserve/Base Money	03/31/2014	04/24/2014	M	M	M
Broad Money	03/31/2014	04/24/2014	M	M	M
Central Bank Balance Sheet	03/31/2014	04/24/2014	M	M	M
Consolidated Balance Sheet of the Banking System	03/31/2014	04/24/2014	M	M	M
Interest Rates[3]	10/04/2014	05/5/2014	M	M	M
Consumer Price Index	03/31/2013	04/30/2014	M	M	M
Revenue, Expenditure, Balance and Composition of Financing – General Government	12/31/2013	3/31/2014	M	M	M
Revenue, Expenditure, Balance and Composition of Financing– Central Government	12/31/2013	3/31/2014	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt	12/31/2013	3/31/2014	Q	Q	Q
External Current Account Balance	12/31/2013	3/31/2014	A	A	A
Exports and Imports of Goods and Services	12/31/2013	3/31/2014	A	A	A
GDP/GNP	12/31/2013	3/31/2014	A	A	A
Gross External Debt	12/31/2013	3/31/2014	A	A	A
International Investment Position[4]	31/12/2012	05/08/2013	A	A	A

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[4] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 14/292
FOR IMMEDIATE RELEASE
June 19, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under the Extended Credit Facility Arrangement for Sierra Leone and Approves US$13.69 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Sierra Leone's economic program under a three-year arrangement under the Extended Credit Facility (ECF) for Sierra Leone.[1] The completion of the review enables the disbursement of an amount equivalent to SDR 8.89 million (about US$13.69 million), bringing the total disbursements under the arrangement to SDR 17.78 million (about US$27.39 million). The decision was taken without a formal Board meeting.[2]

The Executive Board approved the ECF arrangement for Sierra Leone on October 21, 2013 for the equivalent of SDR 62.22 million (about US$95.84 million) (see Press Release No. 13/410).

Sierra Leone's economic growth momentum continued in 2013, with output expanding by 20 percent on account of new iron ore production coming on stream, as well as strong growth in agriculture and the services sector. Inflation declined to single digits, mainly reflecting increased food supply. The surge in iron ore exports contributed to the improvement in the external and fiscal positions.

Real Gross Domestic Product (GDP) growth is projected to remain in double-digits at 11.3 percent in 2014, in line with the expected higher iron ore and other mining production, continued strong output expansion in agriculture, services, and construction, and a recovery in manufacturing as energy supply improves in 2014. The scaling up of public investment, as envisaged in the implementation of the country's poverty reduction strategy, the *Agenda for Prosperity* (AfP), should also help to catalyze private sector activity and contribute to higher, sustainable growth in the non-resources sector. Consumer price inflation is expected to continue trending downward as food supply benefits from government-sponsored programs in agriculture,

[1] The ECF is a facility under the Poverty Reduction and Growth Trust. Financing under the ECF currently carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years. The IMF reviews the level of interest rates for all concessional facilities every two years.

[2] The Executive Board takes decisions without a meeting (based on lapse of time procedures) when it is agreed by the Board that a proposal can be considered without convening formal discussions.

and non-food inflation would remain moderate thanks to continued prudent monetary policy. An improving trade balance coupled with expected capital inflows will help strengthen the external position and gross international reserves buildup.

Fiscal policy for 2014 will continue to focus on reducing duty waivers and increasing audit capacity in tax administration to support revenue mobilization, containing non-priority spending to create space for public investment, and strengthening budget execution and controls through public financial management reforms. Continued prudent borrowing policies will be important to support growth-enhancing investment while maintaining debt sustainability.

Reform measures and policies put in place in recent years have helped improve macroeconomic stability, advance social policies, and enhance prospects for broad and inclusive growth. Nonetheless, the country faces important challenges. Poverty and unemployment remain high, and access to important public and social services is limited. In addition, growth prospects are hindered by numerous obstacles, including insufficient power supply and road networks, and limited access to financial services, particularly for small- and medium-sized enterprises. The fiscal position remains fragile, despite improvement in 2013, due to the relatively low and volatile revenue base and pressure for higher spending in wages and infrastructure.

Looking ahead, the authorities need to sustain the implementation of structural reform measures aimed at strengthening the fiscal position further, developing financial intermediation, advancing civil service reforms and creating an environment conducive to private sector development.

Program performance has been strong. The authorities met all six quantitative performance criteria for the first program review, and two out of three indicative targets. All structural benchmarks programmed for end-December 2013 were also met.