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SIERRA LEONE

September 2014

AD HOC REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR AUGMENTATION OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW — STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SIERRA LEONE

In the context of the Ad Hoc Review Under the Extended Credit Facility Arrangement and Request for Augmentation of Access, 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 September 26, 2014, following discussions that ended on September 15, 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 September 18, 2014.

A **Press Release** including a statement by the Chair of the Executive Board.

A **Statement by the Executive Director** for Sierra Leone.

The document listed below has been or will be separately released.

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

*Also included in Staff Report

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

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AD HOC REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR AUGMENTATION OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

KEY ISSUES

Background. The Ebola outbreak that started in one district in late May has spread to the entire country, overwhelming already weak institutions and ill-equipped medical facilities. At end-August, over 1000 people were infected and more than a third had died from the disease. The country's social and economic fabric is also adversely affected by the epidemic. Economic growth has slowed, inflationary pressures have intensified, and new balance of payments and fiscal financing needs have emerged. The epidemic has heightened food insecurity and impacted livelihoods for a large portion of the population, generating additional distress for vulnerable groups.

The program. In October 21, 2013, the Executive Board approved a three-year arrangement under the Extended Credit Facility (ECF) for Sierra Leone totaling SDR 62.2 million (60 percent of quota). The first review under the program was completed on June 19, 2014. Preliminary indications are that performance under the program is on track, in spite of weaknesses in budget execution at end-June.

The authorities' requests. In the attached letter of intent, the Sierra Leone authorities are requesting an Ad Hoc review under the ECF arrangement, and an augmentation of access in an amount equivalent to 25 percent of quota (SDR 25.925 million), in a single disbursement. These resources, together with contributions from other donors will help cover balance of payments and budgetary financing needs generated by the Ebola epidemic. The authorities are also requesting a modification of end-December 2014 performance criteria on net domestic bank credit to the central government, and on net domestic assets of the central bank.

Safeguard assessment. A safeguards assessment of the Bank of Sierra Leone (BoSL) was completed in March 2014. The BoSL is taking steps to strengthen its safeguards framework and staff is monitoring implementation of the recommendations from the assessment.

Staff views. Staff supports the completion of the Ad Hoc review, and the authorities' requests.

Approved By

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

Prepared by the Sierra Leone team, comprising Ms. Kabedi-Mbuyi (head), Messrs. Orav, Kumah (Resident Representative) (all AFR), and Mr. Chai (SPR). Discussions took place in July–September through video and teleconference. The team also met with the Minister of Finance and Economic Development Dr. Kaifala Marah, in Washington in July. Mr. Joseph Tucker (OED) participated in policy discussions.

CONTENTS

INTRODUCTION

1. **Sierra Leone is being acutely affected by the unprecedented Ebola outbreak in West Africa**. The disease first detected in one district in late May has rapidly spread in recent months, overwhelming already weak institutional and medical infrastructure. At end-August, the total number of confirmed cases surpassed 1,000 and the death toll reached 461. A combination of mobility, public mistrust of health services, and misinformation has contributed to the spread of the disease.

2. **The Ebola epidemic has generated significant hardship**. To contain the disease, the authorities have quarantined the most affected regions and prohibited large gatherings. Neighboring countries have closed their borders with Sierra Leone, and a number of international airlines have suspended flights to the country. These measures have affected activities in agriculture, trade and services, tourism, transport and construction. As a result, there has been income loss and increased food insecurity, heightening pressure on vulnerable groups. In addition, health service delivery has been disrupted because most health facilities are no longer providing basic care; some privately-owned health facilities have shut down for fear of contamination; and a large number of health workers have been infected with the virus.

3. **The authorities are seeking an augmentation of access under the ECF arrangement**. In the attached LOI (Appendix I), they are requesting IMF financing through an augmentation of access under the Extended Credit Facility (ECF) arrangement to address urgent balance of payments and fiscal financing needs generated by the outbreak.

BACKGROUND—PERFORMANCE AND SHORT-TERM PROSPECTS PRIOR TO THE EBOLA OUTBREAK

A. Macroeconomic Developments

4. **Sierra Leone made important progress in macroeconomic stability in recent years** (Table 1). Economic growth accelerated in the last two years reaching 20 percent in 2013, thanks to the resumption of iron ore production, scaling up of infrastructure investment, and robust activity in the non-iron ore sector; and inflationary pressures receded thanks to tighter monetary policy stance and increased food supply. Based on these developments and assuming continued implementation of pro-growth policies, before the Ebola outbreak, staff projected a real GDP growth rate of 11¼ percent for 2014, and an inflation rate of 7.5 percent at end-year.

5. **In the fiscal area, following a strong performance in 2013, the outturn through end-June was weaker than expected**. Revenue underperformed on account of lower proceeds from the mining sector and taxes on goods and services, as well as corporate income tax. Expenditures were higher than projected, mostly because of overruns in wages and salaries due to new recruitments; some Ebola-related expenditure, and higher than expected spending for goods and services and domestic investment. In addition, financing from the securities market was lower

than programmed due to unexpected redemptions; and some external budget support was delayed. The combination of these factors resulted in the accumulation of unpaid bills totaling 1 percent of non-iron ore GDP. The authorities have indicated that these bills will be cleared by end-December through expenditure reallocation and cuts in the second half of the year.

6. **The external position had been improving, the reserve cover had increased, and the exchange rate was stable** (Table 4). At end-June 2014, international reserves accumulation stood at US$26 million, contributing to the leone's stability vis-à-vis the U.S. dollar. At the time of the first ECF review (Country Report No. 14/171), staff projected a further narrowing of the current account deficit to 11 percent of non-iron ore GDP, down from 12.4 percent in 2013 and an increase in reserve cover from 3.4 months of imports (excluding iron ore-related imports) in 2013, to 3.6 months in 2014.

B. Performance Under the ECF-Supported Program

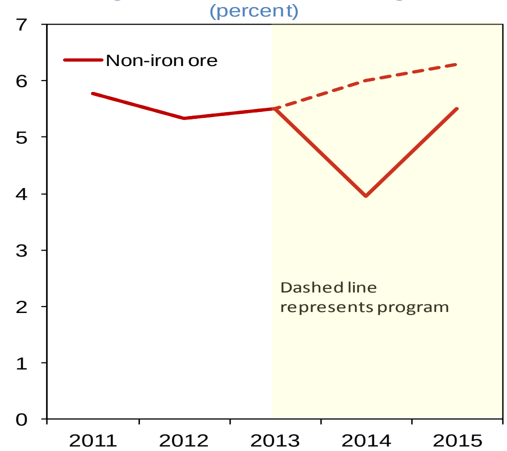
7. **Program performance has been generally good** (see Appendix I, Tables 1, 2). The Executive Board approved a new three-year ECF arrangement for Sierra Leone on October 21, 2013 and completed the first review on a lapse-of-time basis, on June 19, 2014. Preliminary information indicates that all performance criteria (PCs) at end-June and continuous PCs were met; indicative targets, other than the floors on revenue and on domestic primary balance, were also met. As noted above, however, on a commitment basis, fiscal performance was weaker than envisaged given the accumulation of unpaid bills. On structural reforms, four out of eight structural benchmarks were implemented at end-June. The authorities have reiterated their commitment to program objectives, despite the difficult environment generated by the Ebola epidemic.

ECONOMIC IMPACT OF THE EBOLA OUTBREAK

8. **The Ebola outbreak has worsened the economic outlook for 2014–15 and heightened downside risks** (See Tables 1, 4).

- *Output loss*. Based on preliminary data, staff estimates a growth slowdown from 11¼ percent to 8 percent in 2014 due to disruptions and reduced activity in key sectors that drive growth, notably mining, agriculture, construction, services, transport and tourism. Staff projections assume a slow recovery beginning in the second quarter of 2015, with real GDP growth rate projected at 10.4 percent (Text Figure 1).

Text Figure 1. Sierra Leone: Real growth (percent)

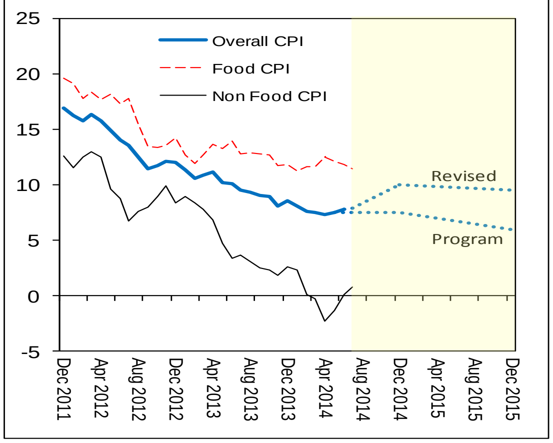


- *Increased inflationary pressures*. Price pressures have flared up because of lower domestic production and disruption of supply chains. The inflation rate that had declined from 8.5 percent (y/y) at end-2013 to 7.5 percent at end-March rose to 8 percent at end-July. Accordingly, staff revised the end-December target from 7.5 percent to 10 percent. Inflation is expected to remain elevated in 2015, partly due to the lagged effect of a poor harvest and planting seasons in 2014–15 (Text Figure 2).

- *Weakened external position and leone depreciation* (Text Table 1 and Text Figure 3). The current account deficit is expected to be larger than projected as export growth decelerates, in line with reduced domestic production, and imports increase to cover additional needs for medical and emergency food supplies, fuel, and capital equipment for new health centers. Some offsetting impact is expected from lower import of services and income transfers linked with reduced exports. While the capital account is expected to remain broadly unchanged, the overall balance of payments (BOP) is now projected to shift from a surplus of US$38 million to a deficit of US$72.4 million. Taking into account the programmed reserve cover of 3.6 months of imports, there is a financing gap of US$110 million. Available information indicates that the leone depreciated in the parallel foreign exchange market by 6 percent between end-May and mid-August due to excess demand pressures. Sierra Leone has a flexible exchange rate system and the leone is expected to stabilize once the pressures subside.

- *Significant downside risks*. Economic prospects for 2014–15 are highly uncertain and subject to significant downside risks linked to volatility in global commodity prices, notably for iron ore; the fragile fiscal position; and now, the uncertain duration and severity of the Ebola epidemic. If downside

Text Figure 2. Sierra Leone: Inflation
(year-over-year percent change)

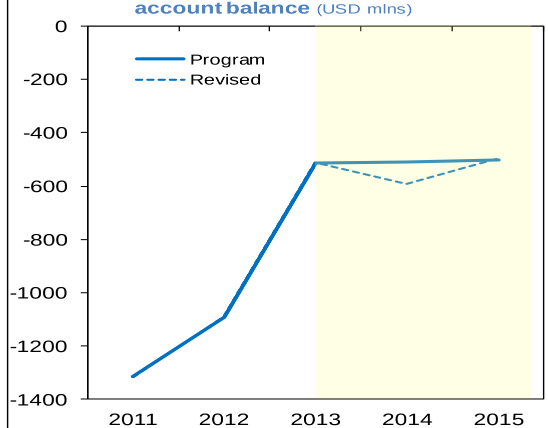


Text Table 1. Sierra Leone: Balance of Payments Needs and Financing Sources, 2014 (US$ millions)

	Program	Revised
Exports	2,531.6	2,186.7
Imports	-1,732.5	-1,810.4
Services	665.0	-589.0
Income	897.1	-624.9
Transfers	252.3	245.5
Capital and Financial Accounts	548.8	519.7
Overall Balance	38.1	-72.4
Financing	-38.1	-37.9
Gross reserves	-53.7	-53.4
IMF Financing	15.5	15.5
Exceptional financing		
Financing gap	0.0	110.2
Identified Sources of Financing	0.0	33.9
World Bank	...	30.0
AfDB	...	2.0
Bilateral donors	...	1.9
Residual financing gap	...	76.3
ECF Augmentation		39.8
Additional donor financing		36.4

Source: Sierra Leone authorities and IMF staff estimates

Text Figure 3. Sierra Leone: Current account balance (USD mlns)

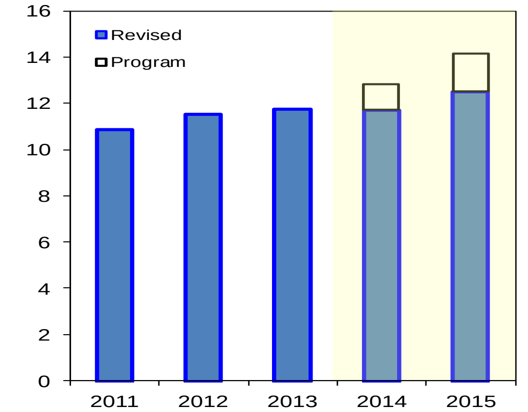


risks materialize, the authorities will have to further scale back the domestic capital budget or increase borrowing from the securities market. Staff encouraged them to continue engaging Sierra Leone's development partners for additional financial aid commensurate with the adverse impact of a prolonged Ebola epidemic.

Fiscal Policy

9. **The authorities and staff agreed that the program fiscal objectives for 2014–15 should be adjusted, consistent with available financing** (Tables 2a, 2b; Text Figures 4; and Text Table 2). Based on staff's preliminary estimates, the domestic primary deficit will be higher than expected in 2014–15 in view of the estimated revenue loss and additional spending generated by the Ebola epidemic. Revenue collection will be adversely affected by reduced economic activity, lower mining revenue, and potentially weaker taxpayer compliance. Staff estimates the Ebola-related revenue shortfall at about US$46 million (1 percent of non-iron ore GPD) in the second half of 2014, and about US$91 million (1.6 percent of non-iron ore GDP) in 2015. For 2015, the adverse impact on revenue is mainly driven by expected lower corporate and personal income tax payments because of the economic downturn in 2014; and lower taxes on goods and services and on international trade due to the assumed lingering impact of the Ebola epidemic on economic activity in the first half of 2015. Staff encouraged the authorities to continue enhancing tax administration to address the new revenue collection challenges, particularly through measures aimed at curbing tax evasion, strengthening controls, and reducing duty waivers.

Text Figure 4. Sierra Leone: Revenue
(percent of non-iron ore GDP)



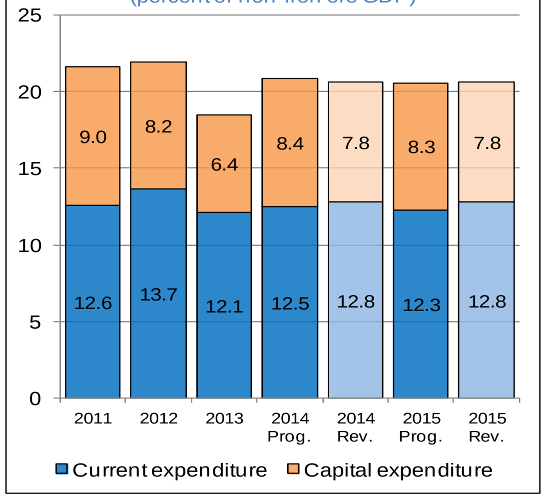
Text Table 2. Sierra Leone: Fiscal Impact of the Ebola Epidemic and Financing

	2014			2015		
	Le billions	US$ millions	% non-iron ore GDP	Le billions	US$ millions	% non-iron ore GDP
Ebola-related revenue loss	198	45.7	1.0	395.8	91.3	1.6
Ebola-related spending	156	36.0	0.8	177.1	40.9	0.7
Direct response	112	25.8	0.6	0.0	0.0	0.0
Logistics and coordination	27	6.2	0.1	…	…	…
Epidemiology and laboratory work	24	5.6	0.1	…	…	…
Case management and prevention	37	8.5	0.2	…	…	…
Social mobilization and sensitization	24	5.6	0.1	…	…	…
Social spending	44	10.2	0.2	177.1	40.9	0.7
Total Impact	354	81.7	1.7	572.9	132.2	2.3
Financing Sources	354	81.7	1.7	572.9	132.2	2.3
Identified Financing	181	41.8	0.9	572.9	132.2	2.3
Additional adjustment/financing required	145	33.6	0.7	303.6	70.1	1.2
Private contributions	3	0.6	0.0	0.0	0.0	0.0
Donor support (project grants)	33	7.7	0.2	269.3	62.1	1.1
Residual financing gap	173	39.8	0.9	0.0	0.0	0.0
ECF Augmentation	173	39.8	0.9	0.0	0.0	0.0

Source: Sierra Leone authorities and IMF staff estimates

10. **The epidemic has engendered tremendous expenditure pressures** (Text Table 2, Text Figure 5). In July, the authorities estimated the cost of the Ebola first response plan at US$26 million. Other Ebola-related costs, including outlays on security to enforce quarantine measures and food for quarantined zones are estimated at US$10 million. In view of the emergency situation, Ebola-related outlays are being executed through presidential decree, consistent with the State of Emergency declared by President Koroma in July. Staff estimates that for 2014, the total impact of the epidemic on the budget is about US$82 million (1.7 percent of non-iron ore GDP). Expenditure pressures are likely to continue in 2015, particularly for higher social spending and incentive measures for health workers and farmers. The estimated total impact of Ebola for 2015 amounts to US$132 million (2.3 percent of non-iron ore GDP), comprising 1.6 percent of revenue loss and 0.7 percent of additional expenditure.

Text Figure 5. Sierra Leone: Expenditure
(percent of non-iron ore GDP)



11. **Significant additional BOP support will be important to allow the revised program to be fully financed** (Text Table 2). For 2014, the 1.7 percent of non-iron ore GDP financing gap is expected to be filled through a combination of increased donor support (of some 0.9 percent of non-iron ore GDP, which the authorities are soliciting), higher domestic financing (0.4 percent of non-iron ore GDP), and some adjustment (0.3 percent of non-iron ore GDP by scaling back public investment). For 2015, the authorities hope to minimize further still their reliance on expensive domestic borrowing and policy adjustment to the extent they can, and accordingly intend to approach development partners for significantly higher BOP support.

Monetary and Exchange Rate Policies, and Financial Sector Issues

12. **Monetary and exchange rate policies are facing new challenges** (Table 3). The BoSL concurred with staff that the rising inflation and the leone depreciation have generated added challenges for monetary policy. It indicated that at its September 4th meeting, the Monetary Policy Committee responded by maintaining the Monetary Policy Rate unchanged at 10 percent, and by increasing the weekly foreign exchange auction amount to accommodate a higher demand for key essential imported goods. As current inflationary pressures are driven by supply shocks related to the Ebola epidemic, they are expected to be temporary. There was an agreement that monetary policy would only seek to lean against any second round inflationary pressures. To this end, the BoSL will mop up any excess liquidity, notably through open market operations as market conditions change. Staff stressed that the leone exchange rate should continue to be market determined, and encouraged the authorities to continue complying with the limit on BoSL direct financing to the government budget.

13. **The Ebola outbreak will also likely affect the financial sector**. The direct transmission channel is clients' default on their obligations to banks because of reduced economic activity. While agreeing with staff's assessment, the BoSL indicated that the financial system has remained stable; banks have set up physical screening measures to reduce disruptions to their operations; and there were no signs of run on deposits. Staff has advised the BoSL to step up supervision by increasing ad-hoc inspections for commercial banks; and by ensuring that non-performing loans continue to be appropriately provisioned for, and that the Credit Bureaus database is updated regularly to support healthy lending.

THE AUTHORITIES' RESPONSE AND DONOR SUPPORT

14. **The authorities' initial response has focused on mitigating measures and donor mobilization** (Text Table 3). Based on identified measures and support from the United Nations (UN) and other development partners, the authorities launched an *Accelerated Ebola Outbreak Response Plan* with an estimated cost of US$26 million. It covered four thematic priority areas for a six-month period through December 2014. The authorities have also taken steps to ensure accountability and effective use of Ebola-related funding. They have enhanced financial management procedures and assigned management of the Ebola Fund to the Emergency Operations Center, with fiduciary oversight by a consultancy firm, KPMG.

Text Table 3. Sierra Leone: Ebola Virus Disease Initiatives, Financing Needs, and Pledges (USD millions)

Thematic Areas	Estimated Cost	Pledged	Gap
Coordination, finance, and logistics	6.3	2.1	4.2
Epidemiology and laboratory	5.6	1.9	3.7
Case management, infection prevention and control, and psychosocial support	8.5	3.1	5.4
Social mobilization/public information	5.6	0.6	5
Total	**26**	**7.7**	**18.3**

Source: Sierra Leone Ministry of Health and Sanitation

15. **Donors have provided some support to the authorities' efforts to contain the epidemic**. They have pledged US$7.7 million to finance the abovementioned Ebola response plan; and the UN has issued an appeal to raise the remaining balance. Donors have also provided financing, equipment, medical supplies, logistical support, and personnel to run the Treatment Centers. They have channeled funding through the UN and NGOs, with total support estimated at US$62.4 million at end-August (Text Table 4). Additional funding has been pledged at the regional level, and country allocations are expected in coming weeks.

Text Table 4. Sierra Leone: Ebola Response Support[1] (USD millions)

Donor	Pledge
African Development Bank	3.20
Austria	0.26
China	1.62
Denmark	0.18
Germany	0.93
Ireland	2.70
Japan	0.25
Netherlands	0.19
Nigeria Trust Fund	0.50
OCHA	0.05
Spain	0.20
Sweden	1.15
United Nations	0.23
United Kingdom	16.66
United States	0.20
World Bank	34.06
Total	**62.38**

Source: United Nations
[1]As of August 28, 2014

PROGRAM ISSUES

16. **In response to the authorities' request, staff proposes an augmentation of access under the ECF arrangement, equivalent to 25 percent of quota (SDR 25.925 million)**. This level is based on the strength of Sierra Leone's ECF-supported program, its protracted BOP needs and additional financing needs generated by the Ebola epidemic. The proposed access is consistent with applicable access norms and limits under an ECF arrangement, Sierra Leone's capacity to repay the Fund, and total Fund credit outstanding. IMF financing, combined with expected additional donors disbursements will help maintain reserve cover at 3.6 months of imports in 2014.

17. **The proposed IMF disbursement covers about 36 percent of the estimated BOP financing gap through indirect budget support**. Staff will advise that the BoSL should lend the leone equivalent of the ECF augmentation to the Treasury and use foreign exchange sales to mop up liquidity as government spending occurs. The use of IMF financing for budget support will help moderate the cost of internal adjustment measures, as well as borrowing from the government securities market.

18. **The authorities request a modification of end-December 2014 program targets**. They have indicated that the end-December PCs on net credit to government (NCG) and on net domestic assets of the central bank need to be modified to reflect the proposed use of IMF financing for budget support. The modification of the PC on NCG would also take into account the additional borrowing from the securities market needed to ensure that the 2014 program is fully financed. The authorities are also requesting the lowering of end-December indicative targets on total domestic government revenue and domestic primary balance to account for the impact of the Ebola epidemic on the budget.

19. **Staff has determined that Sierra Leone meets the conditions for the proposed Ad Hoc review of the ECF arrangement**. As indicated above, the ECF-supported program remains broadly on track, and the first review was completed by the Executive Board in June 2014. In addition, the Ebola epidemic has generated acute and urgent BOP needs necessitating consideration of the ECF access augmentation by the Board before the second review, contemplated for mid-December 2014.

20. **A significant worsening of the outbreak may require adjustments to program parameters in due course**. The proposed modifications to the program's near-term macroeconomic objectives, coupled with the authorities' commitments should allow the revised PCs and indicative targets to be adhered to. But, if the disease burden were to continue increasing as rapidly as it has in recent weeks, the authorities could likely find it challenging to implement the structural components of the program. They have, however, reiterated their strong commitment to purse all the objectives under the program. It was agreed that the next program review would provide an opportunity to consider the recalibration that might be needed for the second and third years of the current ECF arrangement.

21. **The updated Debt Sustainability Analysis (DSA) indicates that Sierra Leone's risk of debt distress remains moderate** (Appendix II). All debt indicators are below their policy-dependent indicative thresholds under the baseline scenario. However, stress tests point to vulnerability to adverse shocks affecting key macroeconomic variables, particularly exports, in view of Sierra Leone's narrow export base.

22. **Sierra Leone's capacity to repay the Fund is adequate** (Tables 5, 6). The country has established a good track record of timely discharge of external debt obligations to all creditors. Disbursement under the proposed augmentation will increase Sierra Leone' access under the ECF arrangement to 85 percent of quota. Total Fund credit is projected to rise from 80.1 percent of quota in 2013, to 114.4 percent in 2014, and 127.9 percent at the end of the program period.

23. **The implementation of Sierra Leone's program is consistent with IMF policy on lending into arrears**. Staff has determined that the country continues to implement prudent policy, including on external borrowing. The proposed disbursement under the ECF arrangement augmentation will contribute to the achievement of program objectives and to 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 making good faith efforts to reach collaborative agreement with creditors and making goodwill payments to avoid litigation. In addition, they are working with the World Bank on a debt buy-back operation for the clearance of these arrears.

24. **The 2014 update of BoSL safeguards assessment completed in March this year found broadly strengthened safeguards**, particularly in the internal audit mechanism and the legal framework, which was updated in 2011 and reinforced the BoSL's autonomy. Aspects of governance arrangements, however, could be strengthened by closer engagement by the Audit Committee. Recommendations from the assessment included strengthening the Audit Committee's oversight of the external audit mechanism, adoption of a memorandum of understanding with the Government for the recapitalization of the BoSL, and enhancements to financial reporting practices. The BoSL has been taking steps to address these safeguards recommendations and staff is following up on the implementation status.

STAFF APPRAISAL

25. **The Ebola epidemic worsened considerably in recent months and continues to spread, causing significant social hardship**. Economic activity has slowed, reducing households' incomes and heightening vulnerability for large portions of the population, particularly in rural areas. The epidemic has also overwhelmed existing health care infrastructure and curtailed basic health provision. Increased support from the international community in terms of financial resources, logistics and health services is urgently needed to contain the epidemic and mitigate its social and economic impact.

26. **Staff estimates that the adverse economic impact of the epidemic will be significant**. Since the epidemic is still progressing, its full impact cannot be assessed at this stage. Nonetheless,

for 2014, staff estimates an output loss of 3 percentage points, lowering the real GDP growth to 8 percent. Supply chains disruptions as well as deceleration in agriculture growth are fuelling inflationary pressures. The twelve-month inflation rate is now projected at 10 percent (y/y) at end-December, up from 7.5 percent originally anticipated. There are also increased risks to financial sector stability as credit to the economy is expected to decline while non-performing loans are likely to rise, consistent with slow economic activity. Staff expects the epidemic to have lingering effects in 2015 on growth and on the fiscal position.

27. **Addressing challenges generated by the Ebola epidemic will require significant resources**. Preliminary information indicates that the cost to the budget, covering lost revenue and additional spending, as well as balance of payments needs would be above US$200 million for 2014–15. Additional financial support from Sierra Leone's development partners is critically needed to support the authorities' efforts to contain the spread of the epidemic, revamp social protection measures for the most vulnerable groups of the population, and contain the cost of domestic adjustment measures which will involve drastic capital expenditure cuts.

28. **Staff welcomes the authorities' continuing commitment to objectives under the ECF-supported program**. It supports their resolve to keep the program on track, and to implement needed adjustment measures to avoid accumulation of domestic payment arrears, and limit borrowing in the securities market.

29. **While recognizing the current difficult environment, staff encourages the authorities to maintain sound policies**. It notes that continued progress in reform implementation, and sound fiscal and monetary policies are needed to support economic recovery once the epidemic is contained. In particular, the authorities should endeavor to contain non-priority spending and continue advancing public financial management reforms to shield the budget against downside risks, particularly from lower global iron ore prices or a prolonged Ebola epidemic. Staff encourages BoSL to step up the banking system supervision to safeguard healthy lending. As current inflationary pressures are mostly driven by supply-side shocks and expected to be temporary, staff agrees with the BoSL's position to only seek to lean against second round inflationary pressures. Nonetheless, staff encourages the BoSL to stand ready to mop up any excess liquidity as market conditions evolve.

30. **Staff supports the completion of the Ad Hoc review and the immediate disbursement of the amount of the augmentation**. Based on the authorities' policy commitment under the program, staff also supports their requests for an augmentation of access under the ECF arrangement and modification of performance criteria.

Table 1. Sierra Leone: Selected Economic Indicators, 2011–15

	2011	2012	2013	2014 Prog.[1]	2014 Proj.	2015 Rev.
	(Annual percent change, unless otherwise indicated)					
National account and prices						
GDP at constant prices	6.0	15.2	20.1	11.3	8.0	10.4
Excluding Iron ore	5.8	5.3	5.5	6.0	4.0	5.5
GDP deflator	17.4	12.0	8.1	6.7	4.1	6.3
Consumer prices (end-of-period)	16.9	12.0	8.5	7.5	10.0	9.5
Consumer prices (average)	18.5	13.8	9.8	7.8	8.8	10.1
External sector						
Terms of trade (deterioration -)	0.4	4.9	-4.4	-4.6	-12.7	-5.0
Exports of goods	6.2	202.0	66.0	31.0	13.1	6.6
Imports of goods	85.2	20.2	-19.9	10.3	15.3	4.9
Average exchange rate (leone per US$)	4,349	4,344	4,357	…	…	…
Nominal effective exchange rate change (end-period, depreciation -)	-4.1	1.0	-1.1	…	…	…
Real effective exchange rate (end-period, depreciation -)	8.7	14.7	3.6	…	…	…
Gross international reserves, months of imports 2/	1.8	2.2	2.1	2.2	2.2	2.2
Excluding iron ore related imports, months of imports 3/	2.4	3.2	3.4	3.6	3.6	3.7
Money and credit						
Domestic credit to the private sector	21.8	-6.9	11.7	12.1	6.4	11.3
Base money	13.0	18.5	17.6	15.0	11.6	17.6
M2	20.0	23.1	21.0	15.2	12.7	20.9
91-day treasury bill rate (in percent)	24.5	22.4	8.0	…	…	…
	(Percent of non-iron ore GDP, unless otherwise indicated)					
National accounts						
Gross capital formation	42.2	28.6	24.6	19.4	16.8	17.8
Government	9.0	8.2	6.4	8.4	7.8	7.8
Private	33.1	20.3	18.2	11.0	9.0	10.0
National savings	-17.0	-4.1	12.2	8.3	3.8	8.5
External sector						
Current account balance						
(including official grants)	-45.0	-30.9	-12.4	-11.1	-13.0	-9.3
(excluding official grants)	-48.8	-33.6	-13.6	-12.9	-14.8	-10.5
External public debt (including IMF)	32.6	27.8	25.1	25.8	26.9	25.7
Central government budget						
Domestic primary balance 4/	-3.8	-3.8	-0.7	-2.5	-4.0	-3.4
Overall balance	-4.6	-5.6	-1.9	-4.2	-5.7	-5.7
(excluding grants)	-10.1	-9.7	-4.9	-7.9	-9.4	-8.7
Revenue	11.5	12.2	12.7	12.8	11.5	11.7
Grants	5.6	4.1	3.0	3.6	3.7	3.0
Total expenditure and net lending	21.6	21.9	17.6	20.7	20.9	20.4
Memorandum item:						
GDP at market prices (billions of Leone)	12,755	16,453	21,356	25,348	24,003	28,173
Excluding iron ore	12,725	15,324	17,990	20,432	20,277	24,919
Excluding iron ore in millions of US$	2,926	3,528	4,140	4,606	4,571	5,431
Per capita GDP (US$)	500	634	805	917	868	972

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

1/ Hereforward program refers to projections of Country Report No. 14/171.

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

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

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

Table 2a. Sierra Leone: Fiscal Operations of the Central Government, 2011–15

(Billions of leone)

	2011	2012	2013	2014		2015	
				Prog.	Proj.	Proj.	Rev.
Total revenue and grants	2,171	2,506	2,828	3,353	3,092	4,022	3,665
Revenue	1,462	1,874	2,280	2,613	2,341	3,322	2,926
Tax revenue	1,383	1,767	2,111	2,387	2,145	3,061	2,699
Personal Income Tax	393	571	657	721	648	898	794
Corporate Income Tax	73	203	267	283	253	390	308
Goods and Services Tax	351	419	440	502	433	674	577
Excises	55	99	221	263	256	336	327
Import duties	282	237	269	289	255	366	314
Mining royalties and license	202	222	235	300	266	364	338
Other taxes	24	18	23	29	33	34	41
Non-tax	80	106	169	225	196	261	227
Grants	709	633	548	740	750	700	739
Budget support	220	204	170	286	283	195	195
Project grants	428	302	378	422	422	473	512
Other	61	126	0	32	45	32	32
Expenditures and net lending	2,752	3,358	3,169	4,221	4,243	4,987	5,086
Current expenditures	1,603	2,095	2,185	2,551	2,597	3,007	3,189
Wages and salaries	681	936	1,060	1,374	1,374	1,587	1,607
Goods and services	396	464	520	611	647	731	760
Subsides and transfers 1/	275	406	304	333	343	430	459
Interest	250	288	301	232	233	259	363
Domestic	226	253	266	192	192	224	327
Foreign	24	35	35	40	40	35	36
Capital Expenditure	1,149	1,263	1,147	1,717	1,581	2,027	1,949
Foreign financed	787	799	730	1,056	1,056	1,182	1,280
Domestic financed	362	464	417	661	525	845	669
Net lending 2/	0	0	-168	-52	-52	-52	-52
Contingent expenditure 3/	0	0	5	5	117	5	0
Domestic primary balance 4/	-479	-586	-125	-512	-806	-448	-844
Overall balance including grants	-581	-852	-342	-868	-1,152	-965	-1,421
Overall balance excluding grants	-1,290	-1,484	-889	-1,608	-1,902	-1,665	-2,160
Financing	581	852	342	868	1,152	965	1,421
External financing (net)	305	523	294	592	589	647	706
Borrowing	359	601	380	694	694	770	829
Projects	359	497	352	634	634	709	768
Budget	0	104	28	61	61	61	61
Amortization	-54	-77	-86	-103	-105	-123	-123
Domestic financing (net)	274	339	47	276	354	318	445
Bank	67	222	300	245	320	317	363
Central bank	10	-94	-60	113	113	17	3
Ways and means	...	...	-47	113	113	17	3
Drawing	...	...	1	114	114	131	117
Repayment	...	...	48	1	1	114	114
Commercial banks	57	316	359	132	208	300	360
Nonbank	208	117	-253	31	33	1	82
Non bank financial institutions	54	125	-68	66	66	1	82
Privatization proceeds	34	9	13	9	11	0	0
Change in arrears	-47	-84	14	-14	-14	0	0
Float (checks payable)	167	68	-211	-30	-30	0	0
o/w accumulated	183	251	30	0	0	0	0
o/w repaid	...	-183	-241	-30	-30	0	0
Errors and omissions/financing gap	2	-11	1	0	208	0	269
Additional donor financing 5/					35		269
Residual gap					173		0
IMF ECF augmentation					173		...
Memorandum item:							
Additional adjustment/financing required					145		304
Bank and non-bank financing 6/	121	347	231	311	386	318	445

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/ For 2014, contingent expenditure captures only expenditures related to the Ebola epidemic. See Text Table 2 for details.
4/ Revenue less expenditures and net lending adjusted for foreign interest payments and foreign financed capital spending.
5/ Includes private sector donations.
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, 2011–15

(Percent of non-iron ore GDP)

	2011	2012	2013	2014		2015	
				Prog.	Proj.	Proj.	Rev.
Total revenue and grants	17.1	16.4	15.7	16.4	15.2	16.5	14.7
Revenue	11.5	12.2	12.7	12.8	11.5	13.6	11.7
Tax revenue	10.9	11.5	11.7	11.7	10.6	12.5	10.8
Personal Income Tax	3.1	3.7	3.7	3.5	3.2	3.7	3.2
Corporate Income Tax	0.6	1.3	1.5	1.4	1.2	1.6	1.2
Goods and Services Tax	2.8	2.7	2.4	2.5	2.1	2.8	2.3
Excises	0.4	0.6	1.2	1.3	1.3	1.4	1.3
Import duties	2.2	1.5	1.5	1.4	1.3	1.5	1.3
Mining royalties and license	1.6	1.4	1.3	1.5	1.3	1.5	1.4
Other taxes	0.2	0.1	0.1	0.1	0.2	0.1	0.2
Non-tax	0.6	0.7	0.9	1.1	1.0	1.1	0.9
Grants	5.6	4.1	3.0	3.6	3.7	2.9	3.0
Budget support	1.7	1.3	0.9	1.4	1.4	0.8	0.8
Project grants	3.4	2.0	2.1	2.1	2.1	1.9	2.1
Other	0.5	0.8	0.0	0.2	0.2	0.1	0.1
Expenditures and net lending	21.6	21.9	17.6	20.7	20.9	20.4	20.4
Current expenditures	12.6	13.7	12.1	12.5	12.8	12.3	12.8
Wages and salaries	5.4	6.1	5.9	6.7	6.8	6.5	6.4
Goods and services	3.1	3.0	2.9	3.0	3.2	3.0	3.1
Subsides and transfer 1/	2.2	2.7	1.7	1.6	1.7	1.8	1.8
Interest	2.0	1.9	1.7	1.1	1.1	1.1	1.5
Domestic	1.8	1.7	1.5	0.9	0.9	0.9	1.3
Foreign	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Capital Expenditure	9.0	8.2	6.4	8.4	7.8	8.3	7.8
Foreign financed	6.2	5.2	4.1	5.2	5.2	4.8	5.1
Domestic financed	2.8	3.0	2.3	3.2	2.6	3.5	2.7
Net lending 2/	0.0	0.0	-0.9	-0.3	-0.3	-0.2	-0.2
Contingent expenditure 3/	0.0	0.0	0.0	0.0	0.6	0.0	0.0
Domestic primary balance 4/	-3.8	-3.8	-0.7	-2.5	-4.0	-1.8	-3.4
Overall balance including grants	-4.6	-5.6	-1.9	-4.2	-5.7	-4.0	-5.7
Overall balance excluding grants	-10.1	-9.7	-4.9	-7.9	-9.4	-6.8	-8.7
Financing	4.6	5.6	1.9	4.2	5.7	4.0	5.7
External financing (net)	2.4	3.4	1.6	2.9	2.9	2.7	2.8
Borrowing	2.8	3.9	2.1	3.4	3.4	3.2	3.3
Project	2.8	3.2	2.0	3.1	3.1	2.9	3.1
Budget	0.0	0.7	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
Domestic financing (net)	2.2	2.2	0.3	1.4	1.7	1.3	1.8
Bank	0.5	1.4	1.7	1.2	1.6	1.3	1.5
Central bank	0.1	-0.6	-0.3	0.6	0.6	0.1	0.0
Commercial banks	0.4	2.1	2.0	0.6	1.0	1.2	1.4
Nonbank	1.6	0.8	-1.4	0.2	0.2	0.0	0.3
Non bank financial institutions	0.4	0.8	-0.4	0.3	0.3	0.0	0.3
Privatization proceeds	0.3	0.1	0.1	0.0	0.1	0.0	0.0
Change in arrears	-0.4	-0.5	0.1	-0.1	-0.1	0.0	0.0
Float (checks payable)	1.3	0.4	-1.2	-0.1	-0.1	0.0	0.0
o/w accumulated	1.4	1.6	0.2	0.0	0.0	0.0	0.0
o/w repaid	...	-1.2	-1.3	-0.1	-0.1	0.0	0.0
Errors and omissions/financing gap	0.0	-0.1	0.0	0.0	1.0	0.0	1.1
Additional donor financing 5/					0.2		1.1
Residual gap					0.9		0.0
IMF ECF augmentation					0.9		...
Memorandum item:							
Additional adjusment/financing required					0.7		1.2
Bank and non-bank financing 6/	0.9	2.3	1.3	1.5	1.9	1.3	1.8
Non-iron ore GDP (Le billions)	12,725	15,324	17,990	20,432	20,277	24,417	24,919

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/ For 2014, contingent expenditure captures only expenditures related to the Ebola epidemic. See Text Table 2.

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

5/ Include private sector donations.

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, 2011–15[1]
(Billions of leone, unless otherwise indicated)

	2011	2012	2013	2014		2015
				Prog.	Proj.	Rev.
I. Monetary Survey						
Net foreign assets	2,053	2,485	2,831	3,071	2,986	3,490
Net domestic assets	905	1,138	1,393	1,759	1,738	2,222
Domestic credit	2,190	2,505	2,911	3,277	3,466	3,949
Claims on central government (net)	1,134	1,365	1,665	1,910	2,159	2,522
Claims on other public sector 2/	54	192	200	200	191	191
Claims on private sector	963	897	1,001	1,122	1,066	1,186
Other items (net) 3/	-1,285	-1,367	-1,519	-1,519	-1,728	-1,728
Money and quasi-money (M3)	2,958	3,623	4,224	4,830	4,725	5,712
Broad money (M2)	2,107	2,594	3,140	3,617	3,538	4,278
Foreign exchange deposits	851	1,029	1,084	1,213	1,186	1,434
II. Bank of Sierra Leone						
Net foreign assets 4/	1,118	1,303	1,526	1,725	1,465	1,683
Net domestic assets	-258	-284	-328	-347	-129	-112
Claims on other depository corporations	6	14	9	-123	89	103
Claims on central government (net)	601	507	447	560	732	735
Claims on other public sector 2/	0	0	0	0	0	0
Claims on private sector	7	9	13	13	17	17
Other items (net) 3/	-877	-817	-802	-802	-972	-972
Reserve money	860	1,019	1,198	1,378	1,336	1,571
Currency in circulation	708	903	907	1,088	976	1,163
Commercial bank deposits	109	94	251	220	326	378
Required reserves	105	101	148	174	192	236
Excess reserves	4	-7	103	45	134	142
Other deposits	43	22	39	69	35	31
Memorandum items:						
(Annual percent change unless otherwise indicated)						
Base money	13.0	18.5	17.6	15.0	11.6	17.6
M3	22.6	22.5	16.6	14.4	11.9	20.9
Credit to the private sector	21.8	-6.9	11.7	12.1	6.4	11.3
Velocity (GDP/M3)	4.3	4.2	4.3	4.2	4.3	4.4
Money multiplier (M3/base money)	3.4	3.6	3.5	3.5	3.5	3.6
Credit to the private sector (in percent of non iron ore GDP)	7.6	5.9	5.6	5.5	5.3	4.8
Gross Reserves (in US$ millions)	382	420	473	527	527	588
Program exchange rate (Leones/US$)	4,378	4,334	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, 2011–15

(Millions of U.S. dollars, unless otherwise indicated)

	2011	2012	2013	2014		2015
				Prog.	Proj.	Rev.
Current account	-1,315.4	-1,091.1	-511.8	-510.7	-592.0	-507.2
Trade balance	-1,245.5	-796.1	362.3	799.1	376.3	430.6
Exports, f.o.b.	385.6	1,164.5	1,932.6	2,531.6	2,186.7	2,330.5
Of which: diamonds	154.1	161.7	185.7	211.4	182.3	207.4
iron ore	0.0	357.0	1,064.4	1,478.8	1,187.7	1,152.6
Imports, f.o.b	-1,631.1	-1,960.6	-1,570.3	-1,732.5	-1,810.4	-1,899.8
Of which: oil	-214.5	-255.0	-330.9	-368.5	-364.3	-389.8
Services (net)	-283.2	-349.2	-518.9	-665.0	-589.0	-700.6
Income (net)	-35.3	-182.1	-557.3	-897.1	-624.9	-478.9
Of which: interest on public debt	-5.5	-6.4	-7.0	-9.3	-9.3	-8.2
Transfers	248.6	236.3	202.1	252.3	245.5	241.7
Official transfers	112.8	93.8	51.1	82.6	82.6	61.7
Other transfers	135.8	142.5	151.0	169.7	162.9	180.1
Capital and financial account	1,352.8	1,109.1	566.5	548.8	519.7	556.3
Capital account	127.0	123.4	99.3	97.5	97.5	118.6
Of which: project support grants	98.5	86.4	86.9	95.2	95.2	111.1
Financial account	1,225.8	985.7	467.2	451.3	422.1	437.7
Foreign direct and portfolio investment	1,134.4	707.2	369.1	313.5	301.4	334.6
Other investment	152.0	352.9	98.1	137.8	120.7	103.2
Public sector (net)	72.5	121.7	100.9	136.2	136.2	154.0
Disbursements	84.9	137.0	89.0	160.2	160.2	180.7
Amortization	-11.6	-16.4	-19.8	-24.0	-24.0	-26.7
Monetary authorities	0.0	-0.2	0.0	0.0	0.0	0.0
Change in net foreign assets of comm. banks	-50.3	4.4	-2.8	1.6	-37.1	-50.8
Other sectors net	3.2	50.2	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-9.4	17.4	-8.1	0.0	0.0	0.0
Overall balance	28.0	35.4	46.6	38.1	-72.4	49.1
Financing						
Central bank net reserves (- increase)	-28.0	-35.4	-46.6	-38.1	2.0	-49.1
Gross reserve change	-36.9	-38.7	-53.2	-53.4	-53.4	-61.3
Use of Fund loans	8.9	3.3	6.6	15.5	55.4	12.2
Purchases	14.0	6.8	13.7	27.3	67.2	27.3
Repurchases	-5.2	-3.5	-7.1	-11.8	-11.8	-15.2
Exceptional financing	0.0	0.0	0.0	0.0	70.4	0.0
Financing gap	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	-12.4	-11.1	-13.0	-9.3
Trade Balance	-42.6	-22.6	8.8	17.3	8.2	7.9
Capital and Financial Account	46.2	31.4	13.7	11.9	11.4	10.2
Overall Balance	1.0	1.0	1.1	0.8	-1.6	0.9
Official aid (grants and loans)	3.0	2.8	1.1	1.7	1.7	1.1
Budget support in US$ (grants and loans)	86.8	100.1	44.2	79.9	79.9	59.0
Gross International Reserves						
US$ millions	382	420	473	527	527	588
Months of imports	1.8	2.2	2.1	2.2	2.2	2.2
Excluding iron ore, months of imports	2.4	3.2	3.4	3.6	3.6	3.7
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, 2012–26

			Projection												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Fund obligations based on existing credit															
(in millions of SDRs)															
Principal	2.3	4.6	4.2	9.9	11.7	12.1	13.0	11.3	9.9	7.1	4.4	2.7	1.8	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit															
(in millions of SDRs)															
Principal	2.3	4.6	4.2	9.9	11.7	12.1	13.0	11.3	17.8	18.5	18.5	16.7	15.9	6.2	2.7
Charges and interest	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Total obligations based on existing and prospective credit															
In millions of SDRs	2.3	4.6	4.2	10.2	12.0	12.4	13.3	11.5	18.0	18.7	18.7	16.8	15.9	6.2	2.7
In millions of US$	3.5	7.0	6.5	15.9	18.8	19.7	21.2	18.4	28.7	29.9	29.8	26.9	25.4	10.0	4.3
In percent of exports of goods and services	0.3	0.3	0.3	0.6	0.6	0.6	0.6	0.5	0.7	0.7	0.7	0.6	0.5	0.2	0.1
In percent of debt service 1/	13.4	20.7	14.5	31.7	32.7	31.7	32.1	28.3	38.2	37.5	35.6	29.3	32.7	11.6	4.1
In percent of GDP	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.0
In percent of Gross International Reserves	0.8	1.5	1.2	2.7	2.7	2.6	2.6	2.1	3.0	2.9	2.6	2.2	1.8	0.7	0.2
In percent of quota	2.2	4.5	4.1	9.8	11.6	12.0	12.8	11.1	17.3	18.0	18.0	16.2	15.3	6.0	2.6
Outstanding Fund credit															
In millions of SDRs	78.8	83.1	118.6	126.6	132.7	120.6	107.6	96.3	78.5	60.0	41.5	24.7	8.9	2.7	0.0
In millions of US$	120.7	126.2	183.3	197.5	208.1	190.6	171.7	153.7	125.4	95.8	66.2	39.5	14.2	4.3	0.0
In percent of exports of goods and services	9.0	5.9	7.5	7.6	6.5	5.5	4.8	4.1	3.2	2.3	1.5	0.8	0.3	0.1	0.0
In percent of debt service	458.2	371.9	406.8	394.5	361.0	307.0	259.9	236.3	166.7	120.2	79.3	43.0	18.3	5.0	0.0
In percent of GDP	3.2	2.6	3.4	3.2	3.1	2.6	2.2	1.9	1.4	1.0	0.7	0.4	0.1	0.0	0.0
In percent of Gross International Reserves	28.7	26.7	34.8	33.6	30.4	25.4	20.8	17.4	13.3	9.4	5.9	3.2	1.0	0.3	0.0
In percent of quota	76.0	80.1	114.4	122.0	127.9	116.2	103.7	92.8	75.7	57.9	40.0	23.9	8.6	2.6	0.0
Net use of Fund credit (in millions of SDRs)	2.1	4.3	60.8	7.8	6.0	-11.8	-12.5	-11.7	-17.1	-17.8	-14.0	-16.1	-4.3	0.0	0.0
Disbursements	4.4	9.0	68.5	17.5	17.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	2.3	4.7	7.6	9.7	11.4	11.8	12.5	11.7	17.1	17.8	14.0	16.1	4.3	0.0	0.0
Memorandum items:															
Exports of goods and services (in millions of US$)	1,347	2,156	2,432	2,609	3,217	3,449	3,563	3,784	3,910	4,174	4,449	4,741	5,067	5,417	5,797
Debt service (in millions of US$)	26	34	45	50	58	62	66	65	75	80	84	92	78	86	104
Nominal GDP (in millions of US$)	3,788	4,915	5,411	6,140	6,822	7,248	7,704	8,203	8,734	9,305	9,920	10,583	11,296	12,063	12,891
Gross International Reserves (in millions of US$)	420	473	527	588	685	749	825	883	944	1,023	1,125	1,239	1,373	1,532	1,715
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
September 26, 2014	25.925	25.00	Board completion of Ad Hoc Review and Augmentation of Access of 25 percent of quota
December 15, 2014	8.89	8.57	Board completion 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	**88.15**	**85.00**	

Table 7. Sierra Leone: Financial Soundness Indicators of the Banking System, 2008–14

	2008	2009	2010	2011	2012	2013				2014
						Mar	Jun	Sep	Dec	Mar
	(Percent, end of period, unless otherwise indicated)									
Capital adequacy										
Regulatory capital ratio 1/	43.5	34.0	30.7	27.0	27.7	31.8	29.9	30.2	30.1	33.9
Regulatory tier 1 capital ratio 2/	18.7	18.8	17.5	14.0	12.5	14.1	14.6	14.2	13.6	13.8
Asset quality										
Nonperforming loans to total gross loans	23.4	16.5	15.6	15.1	14.7	17.6	18.9	18.3	22.4	22.0
Nonperforming loans (net of provisions) to regulatory capital	26.8	22.4	13.1	19.6	19.2	23.1	28.7	27.5	31.7	30.5
Earnings and profitability										
Return on assets	2.2	1.6	3.4	3.8	3.4	1.3	1.8	2.2	2.1	0.5
Return on equity	7.2	4.0	12.1	15.6	16.1	6.0	8.5	10.1	9.9	2.5
Liquidity										
Ratio of net loans to total deposits	33.9	41.5	42.8	41.3	33.9	33.3	38.2	35.5	32.4	33.9
Liquidity ratio 3/	62.0	53.4	54.1	54.6	40.7	64.1	63.1	120.4	72.5	77.5
Statutory minimum liquidity ratio 3/ 4/	25.0	29.0	41.5	29.7	54.9	52.5	28.9	49.2	29.3	30.7
Share of foreign exchange deposits in total deposits	32.2	34.5	40.4	41.5	40.8	38.7	35.8	63.2	38.5	30.9
	(Number of banks not complying)									
Prudential ratios at year-end										
Capital adequacy	0	1	0	2	0	0	0	1	0	0
Minimum liquidity ratio	0	1	1	3	0	0	0	0	0	0
Minimum capital	1	2	0	4	1	0	0	0	0	0
Limit of single large exposure 5/	2	4	5	3	5	4	1	1	0	2
Memorandum Item:										
Number of banks	13	14	13	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.

Appendix I. Letter of Intent

September 17, 2014
Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Dear Madame Lagarde:

1. The Ebola Virus Disease that hit Sierra Leone in May this year has had devastating health and social impact on the population, and threatens to erode our progress towards macroeconomic stability. The rapid contagion and high mortality rate of the epidemic has overwhelmed our institutional and medical infrastructure. So far, some 1,000 persons have been infected, and 461 have died from the epidemic as of end-August. With the support of the United Nations and other bilateral partners, the Government of Sierra Leone initiated an *Accelerated Ebola Outbreak Response Plan* with an estimated cost of $26 million to meet direct costs in the six months through end-2014. Donor contribution to this plan has left an uncovered gap of US$18 million for which the United Nations has launched an Appeal to all Sierra Leone's development partners. Despite our efforts to contain the disease, contagion and morbidity have risen in recent days, indicating that the full cost for containment and humanitarian needs is going to be much higher than we had anticipated.

2. The Ebola epidemic has put a significant strain on the budget, in terms of revenue loss and additional expenditure, and generated important balance of payments needs. The latter is currently estimated at US$ 110 million. The budget is also facing tremendous pressures stemming from revenue loss, estimated at US$45.7 million in the second half of this year, and additional spending of about US$36 million, bringing the Ebola-related budgetary needs to almost US$82 million. While soliciting financial support from our development partners, we have scaled back non-priority spending and domestically financed investment for 2014. The Government expects some lingering effects of the epidemic in 2015 on revenue and spending, with a projected financing gap of 1.1 percent of non-iron ore GDP. Based on indications from Sierra Leone's development partners, we are confident that this gap will be fully covered with additional budget support. Nonetheless, we

stand ready to scale back non-priority spending or domestically-financed investment to ensure that the ECF-supported program is fully financed for 2014 and 2015.

3. The Government of Sierra Leone is therefore seeking an ad hoc review under the ECF arrangement to address urgent balance of payments and budgetary needs triggered by the epidemic. It is requesting an augmentation of access under the Extended Credit Facility in the amount of SDR 25.925 million (25 percent of quota), for immediate budget support. Accordingly, the Ministry of Finance and Economic Development, and the Bank of Sierra Leone (BoSL) [have signed] a Memorandum of Understanding defining each party's responsibilities for servicing the related financial obligations to the IMF. The government is also requesting a modification of two end-December performance criteria under the program: (i) net domestic bank credit to the central government, to reflect the requested IMF financing as well as additional borrowing from the securities market needed to cover additional spending triggered by the Ebola epidemic; and (ii) net domestic assets of the Bank of Sierra Leone. To ensure full accountability and effective use of the funds provided by the IMF and other development partners, the Government has put in place a comprehensive set of financial management procedures, including management of the Ebola Fund by the Emergency Operations Center, with fiduciary oversight by a consultancy firm, KPMG.

4. Prior to the onset of the EVD, we had made good progress towards fiscal consolidation and macroeconomic stability, albeit not without challenges. We kept to the quantitative performance criteria and structural benchmarks under the ECF-supported program, and were poised to complete the second review of the program in mid-December as scheduled. We continue to service our external debt obligations to our creditors, and are in good-faith discussions with our commercial creditors in the context of the debt buy-back arrangement supported by the World Bank.

5. The Government is committed to the design and effective implementation of measures and policies to address the immediate needs resulting from the EVD epidemic, and to support subsequent economic recovery in a manner that restores and maintains macroeconomic stability. We will consult with the IMF on the adoption of any additional measures and in advance of revisions to policies agreed for restoring macroeconomic stability in line with the broad objectives of the ECF-supported program, and in accordance with the IMF policies on such matters. Furthermore, we will continue to provide the IMF with information in connection with progress in the implementation of policies and reforms under the ECF-supported program.

6. In line with our commitments to transparency in government operations, we authorize publication of this letter 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	Momodu Kargbo
Minister of Finance and Economic Development	Governor of Bank of Sierra Leone

Table 1. 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.				Dec.	
	Stock	Prog. 2/	*Adj. Prog.*	Act.	Status	Prog. 2/	*Adj. Prog.*	Act.	Status	Prog. 2/	Rev.
Performance criteria											
Net domestic bank credit to the central government (ceiling)	1,665	93	201	130	Met	184	318	217	Met	245	493
Unadjusted target (ceiling)			92.8				183.8				
Adjustment for the shortfall (excess) in external budget support			66.4				46.9				
Adjustment for the issuance of government securities to the nonbank private sector			42.0				87.7				
Net domestic assets of the central bank (ceiling)	-295	20	86	55	Met	21	68	49	Met	10	140
Unadjusted target (ceiling)			19.9				21.3				
Adjustment for the shortfall (excess) in external budget support			66.4				46.9				
Gross foreign exchange reserves of the central bank, US$ millions (floor)	474	10	-6	13	Met	31	6	26	Met	53	53
Unadjusted target (floor)			9.7				30.6				
Adjustment for the shortfall (excess) in external budget support 4/			-15.3				-10.8				
Adjustment for the shortfall in the US$ value of IMF disbursement			0.0				-13.7				
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-0.4				-0.4				
Ceiling on new nonconcessional external debt (in $ million) 3/ 4/	...	30		0	Met	30	...	9	Met	30	30
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 3/	...	0.0		0.0	Met	0.0	...	0.0	Met	0.0	0.0
External payment arrears of the public sector (ceiling) 3/	...	0.0		0.0	Met	0.0	...	0.0	Met	0.0	0.0
Indicative target											
Total domestic government revenue (floor)	...	549		597	Met	1,247		1,174	Not Met	2,613	2,341
Poverty-related expenditures (floor)	...	231		267	Met	542		633	Met	1,158	1,145
Domestic primary balance (floor)		-176		-108	Met	-300		-451	Not Met	-512	-806
Memorandum items:											
External budgetary assistance (US$ million) 5/	...	5.1		8.7		45.4		42.5		79.9	91.4
Net credit to government by nonbank sector 6/	...	0.0		-42.0		21.9		-65.8		66.0	66.0
ECF disbursements (SDR millions)		0.0		0.0		13.7		13.7		13.7	53.5
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/ Refers to program of Country Report No. 14/171.

3/ These apply on a continuous basis.

4/ 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.

5/ Including grants and loans.

6/ Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the nonfinancial private sector.

Table 2. Sierra Leone: Structural Benchmarks Under the ECF-Supported Program, 2014

Measures	Timing	Status
Revenue Mobilization		
• 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	Not met In progress
• Introduce a new Tax Administration Act.	Dec. 2014	In progress
Expenditure and Debt 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	Not met
• Prepare a monthly rolling Treasury cash flow table consistent with the revised 2013 budget.	Continuous	Met
• Prepare a bi-annual report on PIP execution. • Prepare a quarterly report on external debt commitments, agreements and disbursements.	Continuous Continuous	Met 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	In progress
Financial Sector Development		
• Prepare a road map for developing and implementing risk-based supervision.	June 2014	Met
• Establish a primary dealer agreement system for the government securities market.	June 2014	Not met
• Introduce a wholesale foreign exchange auction.	June 2014	Not met
Business Environment		
• Prepare a development strategy for small- and medium-sized enterprises.	June 2014	Met
• Introduce a one-stop window for imports clearance.	Dec. 2014	In progress

Attachment 1. Technical Memorandum of Understanding
Freetown, September 17, 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 1 of the Letter of Intent (LOI).

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, including in 2014 the special on-lending arrangement relating to the augmentation of access under the ECF arrangement; 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 1 of the LOI).

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. For 2014–15, poverty-related spending encompasses budgetary expenditure for the Ebola Response Plan.

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

Appendix II. Debt Sustainability Analysis Update

1. **This debt sustainability analysis (DSA) updates the joint IMF-World Bank DSA** presented to the Boards of both institutions in October 2013 and uses a unified discount rate of 5 percent to calculate the present value of external debt and to assess concessionality. At that time, the DSA results showed that Sierra Leone's risk of debt distress remains moderate.[1] Under the baseline scenario, all debt indicators were below their respective policy-dependent indicative thresholds throughout the projection period (2013–33). The analysis also indicated that the medium- to long-term debt outlook was vulnerable to adverse shocks to several macroeconomic variables, notably exports, commodity prices, foreign direct investment (FDI) inflows, government revenue, and borrowing conditions. The current analysis reaches the same conclusion. Consequently, staff reiterated the need for: continued prudent borrowing policies, sustained fiscal consolidation efforts, continued implementation of growth-enhancing structural reforms, and promotion of economic diversification. The authorities agreed with Staff's assessment and policy recommendations.

2. **The baseline macroeconomic assumptions underlying this DSA update are:**

- **The economy is expected to grow by 8.0 percent in 2014, and by an average rate of about 6.5 percent per year during 2015–19**, driven by public investment scaling up in the context of the authorities' new Poverty Reduction Strategy (PRS), iron ore production and output expansion in agriculture. Over the long-term, growth would moderate to about 5.4 percent.

- **Inflation is projected to rise in the medium term**. Disruption of activity due to the Ebola outbreak is expected to push up inflation from 8.8 percent in 2014 to 10.1 percent in 2015. Inflation will then decline gradually and hover around 5.4 percent in the long term.

- **The overall fiscal deficit is projected to improve over the medium-to-long term**, with the domestic primary deficit expected to improve from 3.9 percent of GDP in 2014 to 2.3 percent in 2019; and to stabilize around 2 percent during 2020–34. Revenue and grants are projected to increase from 13 percent of GDP in 2014 to around 16 percent during the projection period as revenue recovers. Primary (non-interest) expenditure is projected to rise from 16.8 percent of GDP in 2013 to 19 percent over the medium term, on the assumption

[1] This Debt Sustainability Analysis (DSA) is based on the Debt Sustainability Framework (DSF) for low-income countries (LICs), approved by the Executive Boards of the IMF and World Bank. It updates the previous joint DSA of October 21, 2013; and takes into account the decision by the Executive Boards of the IMF and the World Bank to adopt a unified discount rate of 5 percent for the purpose of calculating the present value of the external debt of LICs and assessing the concessionality of individual loans.

that more fiscal resources would be committed to fighting the Ebola Virus Disease and its aftermath.

- **The external current account deficit is forecast to narrow over the medium-to-long-term**, consistent with the projected increase in iron ore and other exports. The projected import dynamics broadly reflects the expected overall real GDP growth.

- **New external loans are projected to average 2.3 percent of GDP over the medium-term** and long term, consistent with the authorities' objectives under the new PRS. The DSA also assumes some nonconcessional borrowing limited at 0.5 percent of GDP (US$30 million) per year during the projection period to finance key priority projects for which the authorities would not be able to secure concessional funding.

- **Domestic debt is projected to rise from 9.2 percent of GDP in 2013, to 10.3 percent by the end of the projection period**, mainly reflecting sustained financing constraints for the budget in the face of persistent needs for increased public investment.

3. **Compared with the previous DSA, the key changes are as follows** (Text Table 1): (i) real GDP growth is expected to be lower than in the 2013 DSA in the short-to-medium term, due to the Ebola outbreak and its lingering effects. Growth is projected to slow from 11 ¼ percent to 8 percent in 2014 due to disruptions in economic activity. Recovery to the long-term growth trajectory is expected to take place only gradually; (ii) a higher primary deficit, particularly in the short run, because of Ebola-related revenue shortfalls and spending needs; (iii) a higher level of domestic borrowing, in line with a weaker fiscal position and; (iv) the external current account deficit is expected to be higher as export growth decelerates, in line with reduced domestic production, while imports increase to cover additional Ebola-related needs.

Text Table 1. Selected Economic Indicators, 2013–34

(Percent of GDP[1], unless otherwise indicated)

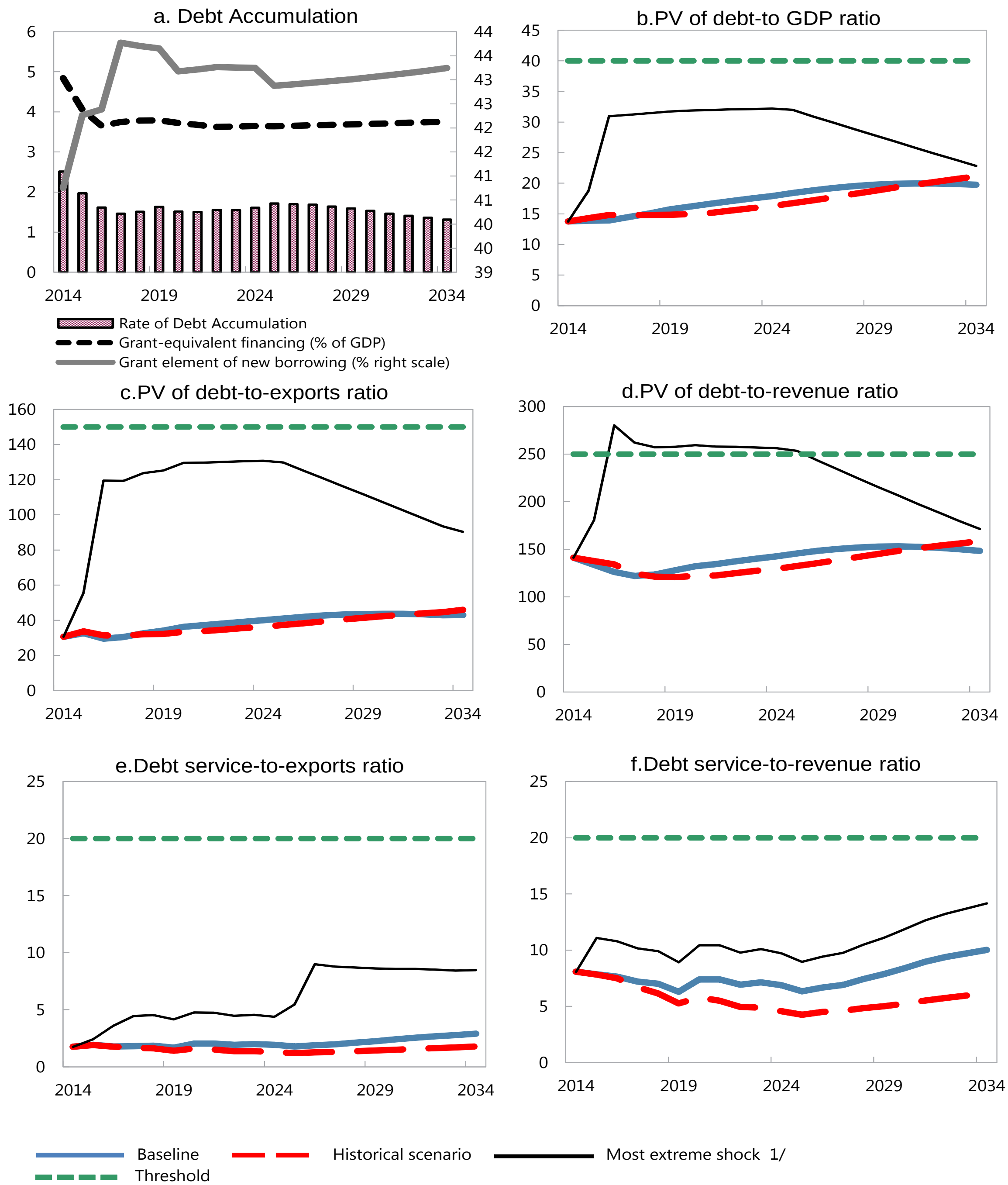
	2013	2014	2015	2016	2017	2018	2019	Long Term[2]
Real GDP Growth (in percent)								
Current DSA	20.1	8.0	10.4	7.8	4.8	4.8	4.9	5.4
Previous DSA	13.3	14.0	12.4	7.7	5.2	5.3	5.0	5.4
Primary fiscal deficit								
Current DSA	1.1	3.6	3.9	2.6	2.6	2.4	2.3	2.0
Previous DSA	1.5	2.6	2.3	2.2	1.8	1.6	1.7	1.6
Current account deficit								
Current DSA	10.4	10.8	8.1	6.6	6.7	6.3	5.9	4.2
Previous DSA	16.4	8.7	6.1	5.8	5.7	4.5	5.7	4.1
Foreign direct investment								
Current DSA	7.3	5.6	5.4	4.5	3.8	3.5	2.9	2.5
Previous DSA	13.4	6.0	3.8	3.5	4.1	3.5	3.4	2.4
External debt								
Current DSA	21.3	23.3	23.2	23.1	23.9	24.6	25.4	28.6
Previous DSA	24.2	23.5	22.8	23.2	23.6	24.1	24.7	27.3
Domestic debt								
Current DSA	9.2	9.8	9.9	10.0	10.5	10.7	10.6	11.9
Previous DSA	11.0	10.3	9.9	9.9	9.9	9.6	9.5	9.6

Sources: The Sierra Leone Authorities and IMF staff projections.

1/ GDP includes iron ore activity.

2/ For the current DSA, the long term covers the period 2020-34, and for the previous DSA it covers the period 2019-33.

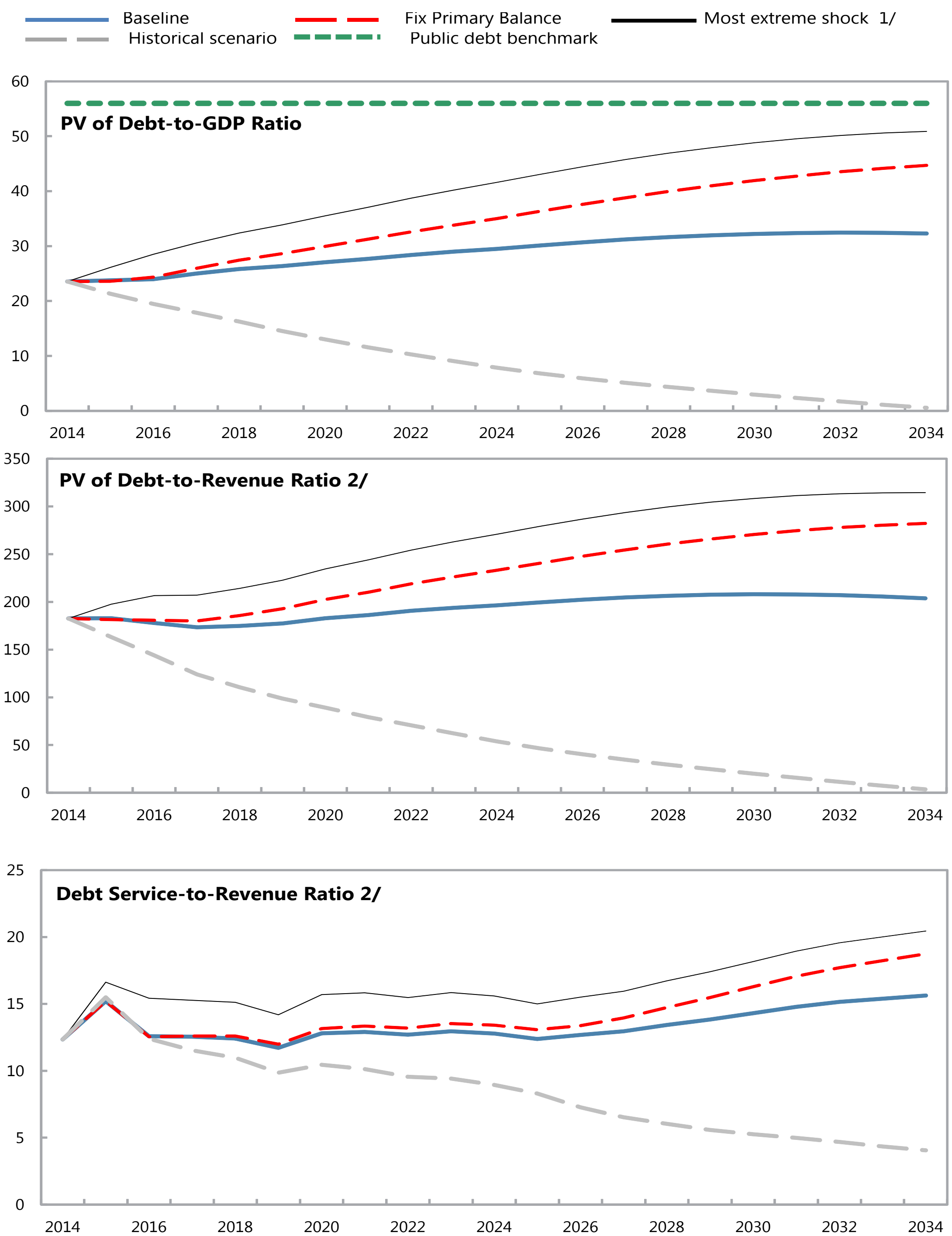
Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2014–34[1]



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

Figure 2. Sierra Leone: Indicators of Public 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.
2/ Revenues are defined inclusive of grants.

Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2011–34[1]

(Percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**33.3**	**26.2**	**21.3**			**23.3**	**23.2**	**23.1**	**23.9**	**24.6**	**25.4**		**27.9**	**29.6**	
of which: public and publicly guaranteed (PPG)	33.3	26.2	21.3			23.3	23.2	23.1	23.9	24.6	25.4		27.9	29.6	
Change in external debt	1.2	-7.0	-4.9			1.9	0.0	-0.1	0.8	0.8	0.8		0.4	-0.1	
Identified net debt-creating flows	4.4	4.6	-2.9			3.8	0.7	0.7	2.0	1.9	2.0		1.2	-0.5	
Non-interest current account deficit	**44.7**	**28.6**	**10.4**	**13.2**	**13.9**	**10.8**	**8.1**	**6.6**	**6.7**	**6.3**	**5.9**		**4.9**	**2.9**	4.2
Deficit in balance of goods and services	52.1	30.2	3.2			3.9	4.4	-0.7	-2.3	-1.0	-1.3		-0.7	-5.3	
Exports	18.6	35.6	43.9			45.0	42.5	47.2	47.6	46.3	46.1		44.9	46.0	
Imports	70.7	65.8	47.0			48.9	46.9	46.5	45.3	45.2	44.8		44.1	40.7	
Net current transfers (negative = inflow)	-8.5	-6.2	-4.1	-6.4	1.8	-4.5	-3.9	-4.0	-4.0	-4.0	-3.9		-3.9	-4.1	-4.0
of which: official	-3.8	-2.5	-1.0			-1.5	-1.0	-1.1	-1.1	-1.1	-1.1		-1.2	-1.6	
Other current account flows (negative = net inflow)	1.0	4.6	11.3			11.4	7.7	11.3	13.0	11.3	11.1		9.6	12.3	
Net FDI (negative = inflow)	**-36.6**	**-16.7**	**-7.3**	**-9.7**	**10.6**	**-5.6**	**-5.4**	**-4.5**	**-3.8**	**-3.5**	**-2.9**		**-2.7**	**-2.1**	-2.5
Endogenous debt dynamics 2/	**-3.7**	**-7.3**	**-6.0**			**-1.4**	**-2.0**	**-1.5**	**-0.9**	**-0.9**	**-1.0**		**-1.1**	**-1.3**	
Contribution from nominal interest rate	0.2	0.2	0.0			0.1	0.1	0.1	0.1	0.2	0.2		0.3	0.3	
Contribution from real GDP growth	-1.7	-3.9	-4.1			-1.5	-2.1	-1.6	-1.0	-1.1	-1.1		-1.4	-1.6	
Contribution from price and exchange rate changes	-2.2	-3.6	-1.9			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-3.1**	**-11.6**	**-2.0**			**-1.9**	**-0.7**	**-0.8**	**-1.2**	**-1.2**	**-1.2**		**-0.7**	**0.3**	
of which: exceptional financing	0.0	0.0	0.0			-1.3	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	12.4			13.8	13.9	13.9	14.5	15.1	15.7		17.9	19.8	
In percent of exports	...	...	28.3			30.6	32.6	29.6	30.5	32.6	34.1		40.0	43.0	
PV of PPG external debt	**...**	**...**	**12.4**			**13.8**	**13.9**	**13.9**	**14.5**	**15.1**	**15.7**		**17.9**	**19.8**	
In percent of exports	**...**	**...**	**28.3**			**30.6**	**32.6**	**29.6**	**30.5**	**32.6**	**34.1**		**40.0**	**43.0**	
In percent of government revenues	**...**	**...**	**116.2**			**141.1**	**133.5**	**126.2**	**122.0**	**123.5**	**127.9**		**142.6**	**148.3**	
Debt service-to-exports ratio (in percent)	**3.3**	**1.6**	**0.0**			**1.8**	**1.9**	**1.8**	**1.8**	**1.9**	**1.7**		**1.9**	**2.9**	
PPG debt service-to-exports ratio (in percent)	**3.3**	**1.6**	**0.0**			**1.8**	**1.9**	**1.8**	**1.8**	**1.9**	**1.7**		**1.9**	**2.9**	
PPG debt service-to-revenue ratio (in percent)	**5.3**	**5.0**	**0.0**			**8.1**	**7.9**	**7.7**	**7.2**	**7.0**	**6.3**		**6.9**	**10.0**	
Total gross financing need (Billions of U.S. dollars)	0.3	0.5	0.2			0.3	0.2	0.2	0.3	0.3	0.3		0.4	0.5	
Non-interest current account deficit that stabilizes debt ratio	43.4	35.7	15.3			8.9	8.2	6.7	5.9	5.5	5.1		4.5	3.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.0	15.2	20.1	7.9	5.5	8.0	10.4	7.8	4.8	4.8	4.9	6.8	5.3	5.8	5.4
GDP deflator in US dollar terms (change in percent)	7.4	12.1	8.0	5.6	6.0	1.9	2.8	3.1	1.4	1.4	1.5	2.0	1.4	1.5	1.4
Effective interest rate (percent) 5/	0.7	0.7	0.0	0.8	0.5	0.6	0.7	0.7	0.6	0.7	0.7	0.7	1.0	1.2	1.0
Growth of exports of G&S (US dollar terms, in percent)	28.9	146.8	60.1	30.3	45.0	12.8	7.3	23.3	7.2	3.3	6.2	10.0	6.9	6.4	6.9
Growth of imports of G&S (US dollar terms, in percent)	90.1	20.1	-7.2	23.4	37.3	14.4	8.9	10.1	3.5	6.3	5.5	8.1	5.5	6.5	6.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	40.8	42.3	42.4	43.8	43.7	43.7	42.8	43.2	43.2	43.1
Government revenues (excluding grants, in percent of GDP)	11.5	11.4	10.7			9.8	10.4	11.1	11.9	12.2	12.3		12.6	13.3	12.8
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.2			0.3	0.3	0.3	0.3	0.4	0.4		0.5	1.1	
of which: Grants	0.2	0.1	0.1			0.2	0.2	0.2	0.2	0.2	0.2		0.3	0.6	
of which: Concessional loans	0.1	0.1	0.1			0.1	0.1	0.1	0.2	0.2	0.2		0.3	0.5	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.8	4.1	3.7	3.7	3.8	3.8		3.6	3.8	3.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			66.0	67.5	68.5	70.3	70.2	70.2		70.0	69.5	69.8
Memorandum items:															
Nominal GDP (Billions of US dollars)	2.9	3.8	4.9			5.4	6.1	6.8	7.2	7.7	8.2		11.3	22.3	
Nominal dollar GDP growth	13.8	29.1	29.8			10.1	13.5	11.1	6.2	6.3	6.5	8.9	6.7	7.4	6.9
PV of PPG external debt (in Billions of US dollars)			0.6			0.7	0.8	0.9	1.0	1.1	1.3		2.0	4.4	
(PVt-PVt-1)/GDPt-1 (in percent)						2.5	2.0	1.6	1.5	1.5	1.6	1.8	1.6	1.3	1.5
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	12.3			13.7	13.8	13.9	14.4	15.0	15.6		17.8	19.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	27.8			30.1	32.1	29.2	30.1	32.2	33.7		39.6	42.7	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.0			1.7	1.9	1.8	1.8	1.8	1.7		1.9	2.9	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

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

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

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

Table 2. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–34

(Percent)

		Projections						
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	14	14	14	15	15	16	**18**	20
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	14	14	15	15	15	15	**16**	21
A2. New public sector loans on less favorable terms in 2014-2034 2/	14	14	15	16	18	19	**24**	30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	14	15	16	16	17	18	**20**	22
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	14	19	31	31	31	32	**32**	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	14	14	15	15	16	17	**19**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	14	17	20	20	21	21	**23**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	14	14	18	19	19	20	**22**	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	14	19	19	20	21	22	**25**	27
PV of debt-to-exports ratio								
Baseline	31	33	30	31	33	34	**40**	43
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	31	34	31	31	32	32	**36**	46
A2. New public sector loans on less favorable terms in 2014-2034 2/	31	34	32	34	38	41	**53**	65
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	31	32	29	30	32	34	**39**	42
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	31	56	120	119	124	125	**131**	90
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	31	32	29	30	32	34	**39**	42
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	31	40	42	42	44	46	**51**	45
B5. Combination of B1-B4 using one-half standard deviation shocks	31	32	40	41	43	45	**51**	50
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	31	32	29	30	32	34	**39**	42
PV of debt-to-revenue ratio								
Baseline	141	134	126	122	123	128	**143**	148
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	141	138	134	124	121	121	**129**	158
A2. New public sector loans on less favorable terms in 2014-2034 2/	141	139	137	138	144	153	**190**	224
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	141	142	141	136	138	143	**159**	166
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	141	181	280	262	257	258	**256**	171
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	141	136	133	128	130	135	**150**	156
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	141	164	178	169	168	171	**180**	154
B5. Combination of B1-B4 using one-half standard deviation shocks	141	137	163	156	156	160	**173**	163
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	141	186	176	170	172	178	**198**	206

Table 2. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–34 (concluded)

(Percent)

Debt service-to-exports ratio

Baseline	2	2	2	2	2	2	**2**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	2	2	2	2	2	1	**1**	2
A2. New public sector loans on less favorable terms in 2014-2034 2/	2	2	2	2	2	2	**3**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	2	2	2	2	2	2	**2**	3
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	2	2	4	4	5	4	**4**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	2	2	2	2	2	2	**2**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	2	2	2	2	2	2	**2**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	2	2	2	**2**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	2	2	2	2	2	2	**2**	3

Debt service-to-revenue ratio

Baseline	8	8	8	7	7	6	**7**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	8	8	8	7	6	5	**5**	6
A2. New public sector loans on less favorable terms in 2014-2034 2/	8	8	8	8	8	8	**10**	15
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	8	8	9	8	8	7	**8**	11
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	8	8	8	10	9	9	**9**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	8	8	8	8	8	7	**7**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	8	8	8	8	8	7	**7**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	8	8	8	8	8	7	**8**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	8	11	11	10	10	9	**10**	14
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	41	41	41	41	41	41	**41**	41

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011–34

(Percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	44.9	36.9	30.5			33.0	33.1	33.1	34.4	35.4	36.0		39.5	42.1	
of which: foreign-currency denominated	33.5	26.3	21.3			23.3	23.2	23.1	23.9	24.6	25.4		27.9	29.6	
Change in public sector debt	-1.9	-8.0	-6.4			2.5	0.1	0.0	1.2	1.0	0.7		0.5	-0.1	
Identified debt-creating flows	-4.3	-6.0	-5.2			1.6	0.9	-0.1	1.5	1.2	1.0		0.8	-0.2	
Primary deficit	2.6	3.5	1.1	-1.3	7.5	3.6	3.9	2.6	2.6	2.4	2.3	2.9	2.2	1.6	2.0
Revenue and grants	17.0	15.2	13.2			12.9	13.0	13.5	14.4	14.8	14.9		15.0	15.8	
of which: grants	5.6	3.8	2.6			3.1	2.6	2.4	2.5	2.5	2.5		2.5	2.5	
Primary (noninterest) expenditure	19.6	18.7	14.4			16.5	16.9	16.1	17.0	17.2	17.2		17.2	17.5	
Automatic debt dynamics	-6.1	-8.6	-6.2			-1.7	-2.9	-2.6	-1.1	-1.2	-1.3		-1.5	-1.8	
Contribution from interest rate/growth differential	-3.3	-5.8	-5.0			-2.0	-2.7	-2.3	-1.2	-1.3	-1.4		-1.1	-1.4	
of which: contribution from average real interest rate	-0.6	0.2	1.2			0.3	0.4	0.1	0.3	0.3	0.2		0.9	0.9	
of which: contribution from real GDP growth	-2.6	-5.9	-6.2			-2.3	-3.1	-2.4	-1.5	-1.6	-1.7		-1.9	-2.3	
Contribution from real exchange rate depreciation	-2.8	-2.9	-1.3			0.2	-0.2	-0.3	0.1	0.1	0.1		...	...	
Other identified debt-creating flows	-0.7	-0.8	-0.1			-0.2	-0.1	-0.1	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.3	-0.1	-0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.5	-0.8	0.0			-0.2	-0.1	-0.1	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.3	-2.0	-1.2			0.9	-0.8	0.1	-0.2	-0.2	-0.4		-0.2	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	21.6			23.5	23.8	24.0	25.0	25.8	26.3		29.5	32.3	
of which: foreign-currency denominated	...	...	12.4			13.8	13.9	13.9	14.5	15.1	15.7		17.9	19.8	
of which: external	...	...	12.4			13.8	13.9	13.9	14.5	15.1	15.7		17.9	19.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.0	5.6	2.4			5.2	5.9	4.3	4.4	4.3	4.1		4.1	4.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	163.1			182.8	182.8	177.9	173.4	174.8	177.4		196.4	203.8	
PV of public sector debt-to-revenue ratio (in percent)	...	...	202.2			241.4	229.0	216.8	210.0	211.1	214.0		234.8	242.0	
of which: external 3/	...	...	116.2			141.1	133.5	126.2	122.0	123.5	127.9		142.6	148.3	
Debt service-to-revenue and grants ratio (in percent) 4/	14.0	13.9	9.4			12.3	15.2	12.6	12.6	12.4	11.7		12.8	15.6	
Debt service-to-revenue ratio (in percent) 4/	20.8	18.6	11.7			16.3	19.0	15.3	15.2	15.0	14.2		15.3	18.6	
Primary deficit that stabilizes the debt-to-GDP ratio	4.5	11.5	7.5			1.1	3.8	2.6	1.4	1.4	1.7		1.7	1.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.0	15.2	20.1	7.9	5.5	8.0	10.4	7.8	4.8	4.8	4.9	6.8	5.3	5.8	5.4
Average nominal interest rate on forex debt (in percent)	0.7	0.7	0.0	0.9	0.6	0.6	0.7	0.7	0.6	0.7	0.7	0.7	1.0	1.2	1.0
Average real interest rate on domestic debt (in percent)	-1.9	4.8	6.6	-0.7	4.2	5.5	7.2	3.3	5.7	5.5	5.1	5.4	5.4	5.3	5.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.4	-10.0	-5.6	-3.6	8.5	1.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	17.4	12.0	8.1	12.1	4.0	4.1	6.3	6.3	4.5	4.4	4.5	5.0	4.4	4.5	4.5
Growth of real primary spending (deflated by GDP deflator, in percent)	11.1	9.8	-7.8	1.4	5.4	24.0	13.5	2.2	10.9	6.0	5.0	10.3	5.3	5.9	5.5
Grant element of new external borrowing (in percent)	...	...	...	...	...	40.8	42.3	42.4	43.8	43.7	43.7	42.8	43.2	43.2	...

Sources: Country authorities; and staff estimates and projections.

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Sierra Leone: Sensitivity Analysis for Key Indicators of Public Debt, 2014–34

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	24	24	24	25	26	26	30	32
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	21	19	18	16	15	8	1
A2. Primary balance is unchanged from 2014	24	24	24	26	27	29	35	45
A3. Permanently lower GDP growth 1/	24	24	25	26	28	29	37	57
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	24	26	29	31	32	34	42	51
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	24	25	27	28	29	29	32	34
B3. Combination of B1-B2 using one half standard deviation shocks	24	24	25	26	28	29	35	42
B4. One-time 30 percent real depreciation in 2015	24	29	28	28	29	29	31	33
B5. 10 percent of GDP increase in other debt-creating flows in 2015	24	29	29	30	31	31	34	35
PV of Debt-to-Revenue Ratio 2/								
Baseline	183	183	178	173	175	177	196	204
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	183	163	144	124	111	99	54	4
A2. Primary balance is unchanged from 2014	183	181	181	180	186	193	233	282
A3. Permanently lower GDP growth 1/	183	185	183	181	186	193	244	348
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	183	198	207	207	214	223	271	315
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	183	193	202	195	196	198	215	214
B3. Combination of B1-B2 using one half standard deviation shocks	183	183	181	180	186	192	229	262
B4. One-time 30 percent real depreciation in 2015	183	221	208	198	195	195	205	208
B5. 10 percent of GDP increase in other debt-creating flows in 2015	183	226	217	209	209	211	226	219
Debt Service-to-Revenue Ratio 2/								
Baseline	12	15	13	13	12	12	13	16
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	15	12	12	11	10	9	4
A2. Primary balance is unchanged from 2014	12	15	13	13	13	12	13	19
A3. Permanently lower GDP growth 1/	12	15	13	13	13	12	15	22
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	12	16	14	14	14	13	15	21
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	12	15	13	13	13	12	13	17
B3. Combination of B1-B2 using one half standard deviation shocks	12	16	13	13	13	13	14	18
B4. One-time 30 percent real depreciation in 2015	12	17	15	15	15	14	16	20
B5. 10 percent of GDP increase in other debt-creating flows in 2015	12	15	13	14	13	12	13	17

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Press Release No. 14/441
FOR IMMEDIATE RELEASE
September 26, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$130 Million in Immediate Assistance to Guinea, Liberia, and Sierra Leone in Response to the Ebola Outbreak

The Executive Board of the International Monetary Fund (IMF) today approved—in an expedited decision supported by a joint statement of all Directors—emergency financial assistance to Guinea, Liberia, and Sierra Leone totaling US$130 million to help respond to the Ebola outbreak. The IMF financing will be made available to the three countries immediately, in the amounts of US$41 million for Guinea, US$49 million for Liberia and US$40 million for Sierra Leone. This emergency financing comes in addition to the assistance provided under existing programs for these countries. It will help cover part of the immediate balance of payments and fiscal needs currently estimated at about US$100 million for each country.

"The Ebola outbreak in Guinea, Liberia, and Sierra Leone has already cost too many lives," said IMF Managing Director Christine Lagarde. "This humanitarian crisis could also have deep economic consequences. The governments of Guinea, Liberia and Sierra Leone requested IMF support to enhance their efforts to contain this unprecedented epidemic that is disproportionately affecting the most vulnerable in their populations. The IMF is working hard with the authorities of the affected countries and their development partners to ensure that the outbreak is quickly brought under control and to assist the economic rebuilding effort that must follow."

The Ebola Outbreak affecting the three countries has created a significant social and humanitarian crisis, and has so far proven difficult to contain despite efforts by the respective governments and their development partners. It is also having an acute macroeconomic and social impact on the three already-fragile countries. The crisis is still unfolding, but preliminary IMF estimates indicate that growth could decline by at least 3–3½ percent in Liberia and Sierra Leone and by about 1½ percent in Guinea in 2014. Inflationary pressures have flared up in the affected countries, and significant fiscal financing needs have emerged as the outbreak has caused sharp declines in tax revenues and Ebola-related spending had to be increased substantially. Additional and sizeable budget support from bilateral and multilateral development partners is urgently needed to avoid painful domestic adjustment measures and help eradicate the disease.

The Executive Board of the IMF today approved an augmentation of access of 25 percent of quota under the current Extended Credit Facility[1] (ECF) arrangements for Liberia and for Sierra Leone, resulting in an increase of almost 50 percent in financing under their existing arrangements; and a 25 percent of quota financing under the Rapid Credit Facility[2] (RCF) arrangement for Guinea.

Following the Executive Board's discussion, Ms. Christine Lagarde, Managing Director and Chair, made the following statement:

"The Ebola outbreak is taking a very high human toll in Guinea, Liberia, and Sierra Leone. Unless brought under control, the epidemic will reverse the advances that these countries have made in recent years under Fund-supported programs toward mending their still fragile economies. Large-scale and well-coordinated assistance by the international community is urgently needed to support the national authorities' efforts to contain the devastating impact of the disease. Against this background, the Fund's Executive Board strongly and expeditiously supported the authorities' request for financial assistance.

"The outbreak is affecting Guinea, Liberia, and Sierra Leone in different ways, but in all cases it is expected to reduce economic growth significantly and fuel inflationary pressures. The poorest and most vulnerable segments of the population are being disproportionately affected by disruptions in commerce and the higher prices of food and basic commodities. Fiscal deficits are projected to widen due to lower revenues as economic activity slows as well as higher additional outlays on emergency programs. Current account balances are also projected to worsen owing to the decline in exports and the increase in food and other critical imports. Preliminary staff estimates put the combined financing gap at about US$300 million, provided that contagion is stopped early next year.

"The Fund resources made available today will cover almost half of this financing need. Additional balance of payments and budget support from multilateral and bilateral donors is needed to avoid painful adjustment measures and safeguard macroeconomic stability. The rapidly deteriorating health situation underscores the urgency of this support.

"The Fund is closely monitoring the situation and stands ready to provide further assistance through this challenging period.

[1] The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems.

[2] The RCF is a lending arrangement that provides rapid financial support in a single, up-front payout for low-income countries facing urgent financing needs.

Background:

Liberia: The ECF arrangement for Liberia of about US$79.9 million was approved by the IMF's Executive Board on November 19, 2012 (see Press Release No. 12/449). The additional and immediate financing of US$49 million increases the funds available under the ECF to US$130 million.

Sierra Leone: The ECF arrangement for Sierra Leone of about US$ 95.84 million was approved by the IMF Executive Board on October 21, 2013 (see Press Release No. 13/410). The additional and immediate financing of US$40 million brings the funds available under the ECF to US$136 million.

Guinea: The ECF arrangement for Guinea of about US$198.9 million was approved by the IMF's Executive Board on February 24, 2012 (see Press Release No. 12/57). Guinea is making satisfactory progress under this existing ECF arrangement, but will receive emergency funding of US$41 million under the RCF due to a pending ECF review.

Statement by Momodou Bamba Saho, Executive Director for Sierra Leone
September 26, 2014

Introduction

The outbreak of the Ebola Virus Disease (EVD) in West Africa is having a devastating impact on the social and economic fabric of Sierra Leone. Health services have deteriorated and systems incapacitated. The disease risks undermining macroeconomic stability which, in recent years, has been characterized by declining inflation, stable exchange rate, improving current account position, and sustainable public debt levels. The notable progress towards fiscal consolidation has been weakened. The projected high levels of GDP growth have been subjected to significant downward revision, with adverse impact on domestic revenue mobilization. As a consequence, the programmed medium-term macroeconomic parameters are no longer tenable and substantial balance of payments and fiscal gaps have emerged.

It is against this backdrop that the Sierra Leone authorities request an augmentation of access under the Extended Credit Facility (ECF) arrangement in an amount equivalent to 25 percent of their quota. Accordingly, the authorities also request a modification of the end-December performance criteria (PCs) on net domestic bank credit to the central government and net domestic asset of the central bank, to reflect the requested Fund financing as well as additional borrowing from the securities market needed to cover spending triggered by the Ebola epidemic.

The Sierra Leonean authorities are appreciative of the Fund Management and staff's swift response and solicit the Executive Board's approval of their requests for augmentation of access and modification of PCs.

Performance under the ECF-Supported Arrangement

Sierra Leone continues to demonstrate a track record of judicious implementation of sound macroeconomic and structural policies, within the context of Fund-supported economic programs. In June this year, the first review of its three-year ECF arrangement was completed on a lapse-of-time basis, with all quantitative PCs for the test date met with comfortable margins and all related structural reform measures fully implemented. Preliminary assessments of performance in respect of the upcoming second review of the program indicate that all PCs for the end-June test date and the continuous PCs were met. On the structural front, appreciable progress was recorded in the implementation of key benchmarks, including in the areas of revenue mobilization, debt management, and financial sector development.

Cognizant of the fiscal challenges in implementing the program, the authorities have stepped up efforts to strengthen budget processes and expenditure management. A public financial management (PFM) strategy that seeks to address weaknesses in budget execution and improve cash flow management has been adopted, and a new PFM bill which, among other things, provides for the establishment of a National Resource Revenue Fund is awaiting legislative approval. The roll-out of the Integrated Financial Management Information System to other Ministries, Departments, and Agencies of government is being expedited. Progress is also being made to develop a three-year Public Investment Plan that is fully integrated with the budget process and the medium term expenditure framework.

The Ebola Crisis: Socio-Economic Impact and the Authorities' Policy Response

The EVD outbreak has had unprecedented social and economic impact on the Sierra Leone economy. All sectors of the economy have been crippled, with notable impacts on agriculture, mining, and services. With many of the agricultural areas under quarantine and the associated trade restrictions, agricultural output is being adversely affected heightening food insecurity in the country. Foreign multinationals in mining, construction and aviation have scaled back their operations, and the tourism sector is at a standstill as tourist arrivals are halted and demand for tourism-related services including restaurants and cottage industries has plummeted. The combined effect of the disruptions to agriculture, mining, manufacturing, construction, transportation, domestic and international trade and tourism activities is expected to culminate in a deceleration of GDP growth for 2014 by about 4 percentage points to 7-8 percent compared to the original projection of 11.3 percent.

Domestic revenue collection has slumped on account of the lull in economic activities. The iron ore mining companies are encountering difficulties in exporting iron ore due to the increase in marine insurance costs while the Diamond mining companies are experiencing challenges in shipping out diamonds as a result of the suspension of operations of major airlines. This situation combined with the already weak market conditions for iron ore will negatively affect government revenues in the form of royalties. The collection of import duty and excise duty on petroleum products and related charges has weakened as uplift of petroleum products has significantly reduced. And the uncertainty created by the Ebola outbreak has further weakened tax compliance. On the other hand, the authorities' efforts to contain the outbreak and mitigate its impact have generated sizeable extra-budgetary expenditures.

The Sierra Leone authorities responded strongly to contain the spread of the EVD and mitigate its devastating health and socioeconomic impacts. A state of public health emergency has been declared throughout the country, with restrictions on the movement of people and the quarantining of communities with confirmed cases of the disease. The country's military has been deployed to affected communities, and public gatherings have been banned, except for the purpose of communicating preventive measures on Ebola. The authorities have instituted an *Accelerated Ebola Outbreak Response Plan* estimated at $26 million to address the financial cost of the outbreak through to the end of 2014 and have, along with the World Health Organization, mapped out priority preparedness activities up to end of February 2015.

In view of the adverse effects of the crisis, the authorities concur with staff on the need to revise the fiscal framework for 2014 and 2015, to reflect the significant revenue loss and the unbudgeted spending emanating from the Ebola epidemic. However, while my authorities agree with the initial staff estimates of the Ebola-related revenue shortfalls of 1 percent on non-iron ore GDP in the second half of 2014 and 1.6 percent of non-iron ore GDP in 2015, they consider these estimates preliminary given the evolving nature of the crisis. In spite of the difficult economic environment, efforts are being made to enhance domestic revenue mobilization, including through the strengthening of tax administration. Also, the authorities have significantly reduced domestically financed capital expenditures and limited current spending to mostly statutory outlays.

Notwithstanding the shortfall in domestic revenue collection and delays in the disbursement of budget support, the authorities have largely refrained from monetizing the ensuing budget deficit or excessively borrowing from the domestic securities market given the attendant consequences on inflation, exchange rates and domestic interest rates and the tendency to undermine macroeconomic stability. Financial management procedures have been strengthened and, as highlighted in the staff report, the management of the Ebola Fund assigned to the Emergency Operations Center, with fiduciary oversight by a reputable accounting firm, KPMG.

The authorities continue to closely monitor monetary developments in view of rising inflation and depreciating exchange rate occasioned by the crisis. The weekly foreign exchange auction amount has been increased from US$0.5 million to US$2.0 million in response to demands for private sector imports to fill the supply gap for essential imported commodities. At its latest meeting, the Monetary Policy Committee left the policy rate unchanged as the central bank continues to monitor the impact of the second round effects of food supply shock on inflation.

On the financial sector, the authorities are mindful of the heightened financial stability risks from an increasing portfolio of non-performing loans and the flight to safety reflected by the increased oversubscription for government securities and reduced private sector credit. Accordingly, on-sight supervision of commercial banks has been stepped up to ensure prudential guidelines, including the adequate provision for non-performing loans, are being adhered to.

Conclusion

The outbreak of the EVD continues to have undesirable impacts on the Sierra Leone economy, generating significant balance of payments and fiscal gaps. Financial contributions by multilateral financial institutions, notably the World Bank and the African Development Bank, and hopefully soon the IMF would immensely contribute towards addressing the financing needs. External financing from development partners remains critical to closing the existing gap, and my authorities look forward to the Fund’s role in helping catalyze these resources. However, in view of the rapid acceleration and daily evolution of the epidemic, the current level of resources may prove inadequate to address the widening impact of the Ebola outbreak. We therefore urge the Fund to stand ready to provide supplementary financial support in the event the adverse scenario requiring additional financing materializing, and solicit the Executive Board's support in this regard.

The crisis has exposed the weak capacity and under-resourced state of health systems in Sierra Leone and the other affected countries. Going forward, due consideration should be given to creating required fiscal space and possibly developing appropriate financing instruments to allow fragile states rebuild vital institutions and structures to help withstand shocks of the magnitude and nature of the EVD outbreak.

Notwithstanding the challenging domestic environment, my authorities reaffirm their commitment to implementing sound macroeconomic and structural policies, in line with program objectives, to restore macroeconomic stability and help return growth to a high and sustainable path.