INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/378

SIERRA LEONE

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

December 2016

In the context of the Sixth Review under the Extended Credit Facility Arrangement, Financing Assurances Review and Request for Waiver for Nonobservance of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse of time basis following discussions that ended September 27, 2016, with the officials of Sierra Leone on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on November 17, 2016.
- A **Staff Supplement** updating information on recent developments.

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

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

*Also included in Staff Report

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

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Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 16/545
FOR IMMEDIATE RELEASE
December 6, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review Under ECF Arrangement for Sierra Leone and Approves US$33.23 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Sierra Leone's performance under the economic program supported by an Extended Credit Facility (ECF) arrangement[1]. Completion of the review enables the disbursement of SDR24.44million, about US$33.23million, bringing total disbursements under the arrangement to SDR186.66million (about US$253.81 million). The decision was made on a lapse of time basis[2].

In completing the review, the Executive Board also approved a request for waiver for the non-observance of the continuous performance criterion on the net present value of the external debt and the non-introduction of multiple currency practices given corrective measures taken by the authorities.

Sierra Leone's ECF arrangement was approved by the Executive Board for SDR 62.22 million (about US$86.86 million) on October 21, 2013 (see Press Release No. 13/410) and was augmented twice (see Press Release 15/86 and Press Release 14/441). It was subsequently extended until end-December 2016 (see PR No 16/314).

The government's economic reform program supported by the ECF has achieved its key objectives despite the exogenous shocks of the Ebola epidemic and the collapse of iron ore prices and associated loss of production in 2014-2015. It aims at ensuring stronger and more inclusive growth and plays a catalytic role for bilateral and multilateral assistance.

The economy proved resilient, supported by sound macroeconomic policies, together with generous support from development partners that helped ensure fiscal and external sustainability, while providing resources to begin implementing the post-Ebola Recovery

[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 Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

Strategy. However, the authorities need more resources to mitigate the long – lasting impact of Ebola and commodities prices shocks.

Despite this improvement, challenges persist. Looking ahead, policy should focus on continuing to anchor economic stability through sound fiscal, monetary, and debt policies while making faster progress on structural reforms. Diversifying growth, making it more inclusive and distributing its benefits more widely should be the overriding focus of economic policy.

INTERNATIONAL MONETARY FUND

SIERRA LEONE

November 17, 2016

SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, FINANCING ASSURANCES REVIEW AND REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Background. Recovery from the twin shocks of Ebola and the collapse of the iron ore sector continues. Non-iron ore sector growth is projected to be 3.7 percent in 2016, led by manufacturing and trade. Iron ore growth is also recovering, with the main company now operating with moderate profitability. Overall growth is projected to be 4.9 percent. Inflation was 10.9 percent at end-September, while the exchange rate has depreciated 19 percent over the last year. The budget is under severe pressure, in part because the rapid depreciation has stripped the government of all excise revenue from retail fuel, and led to explicit subsidies from the budget to keep retail fuel prices fixed. All end-June performance criteria were met while some structural benchmarks were missed. However, the ceiling on net domestic financing was met in part through the accumulation of arrears. There was also a minor non-observance of the continuous ceiling on external debt and a temporary multiple currency practice was introduced in recent months. This is the last review under this ECF arrangement, which expires on December 21, 2016. The authorities have expressed interest in negotiating a successor program in early 2017.

Policy discussions. Discussions focused on fuel subsidy reform, and interim measures to stop ongoing losses from the budget; closing the 2017 budget gap, which staff urged be done through revenue measures; tightening monetary policy to contain inflation; and ending a recently introduced multiple currency practice (MCP).

Outlook and risks. Growth is expected to reach 6.5 percent in the medium term. However, risks to the outlook are firmly to the downside. Revenues are too low to finance key infrastructure projects. Iron ore production has become moderately profitable, but there is downside risk to iron ore prices. Higher oil prices on top of further depreciation would put more pressure on fuel prices, and could increase subsidies markedly if fuel subsidy reform is not passed. Further inflation and depreciation could result in social unrest, jeopardizing the post-Ebola recovery trajectory.

Staff supports the authorities' request for completion of the sixth (last) review of the ECF arrangement, as well as the request for a waiver for the non-observance of the continuous PC on the non-introduction of multiple currency practices, as the authorities have taken corrective action to eliminate this MCP, and the request for a waiver of the non-observance of the continuous PC on external debt as the non-observance is minor.

Approved By	
David Owen (AFR) and Andrea Richter Hume (SPR)	The discussions took place during September 13–27, 2016 in Freetown, Sierra Leone. The staff team comprised Mr. Wakeman-Linn (head); Messrs. Mu and Cangul, and Ms. Glaser (all AFR), Mr. Endegnanew (FAD), Ms. Masha (Resident Representative) and Mr. Sandy (Resident Economist). Mr. Yamuremye (OED) participated in policy discussions. Staff met with President Koroma, Mr. Momodu L. Kargbo, Minister of Finance and Economic Development, Dr. Kaifala Marah, Governor of the Bank of Sierra Leone, Mr. Sesay, Clerk of Parliament, Ms. Sawyer, Ebola Recovery Delivery Team Lead, and other senior officials; representatives of the private sector, development partners, and civil society organizations.

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PROGRAM PERFORMANCE, RECENT DEVELOPMENTS AND OUTLOOK

A. ECF Arrangement: Successes and Lessons in Retrospect

1. **In 2013, the authorities requested a three-year ECF arrangement to support their medium-term priorities of sustained and inclusive growth, and reducing poverty**. The main objectives of the program (Text Table 1), were as follows:

- *Entrench macro stability and contain domestic debt*. The primary deficit would narrow over time, supporting a marginal decline in the domestic debt ratio from 12.7 percent in 2013 to 12 percent of GDP in 2016. Fiscal policy would be anchored by a ceiling on net domestic financing of 2 percent of GDP.

- *Increase fiscal and external buffers*. Increase revenue through efficiency gains in the National Revenue Authority (NRA), by reducing exemptions and combatting fraud. Revenue to GDP ratio would go from 12.4 percent in 2013 to 13.4 percent by 2016. Increase overall external reserve coverage to 2.6 months of imports by the end of the program from 2 months.

- *Improve prospects for inclusive growth in the context of a new Poverty Reduction Strategy, Agenda for Prosperity (A4P)*. This strategy would include increasing domestic capital spending from 2.6 percent of GDP in 2013 to 3.3 by 2016, with reduced current spending. To help achieve this, authorities would contain the wage bill to 6.5 percent of GDP over the medium-term.

Text Table 1. ECF Arrangement Objectives
(Percent of GDP, unless otherwise stated)

	2012	*2013*	*2016 Objective*	*2016 Proj.*
Domestic Revenue	12.2	12.4	13.4	10.5
Domestic Capital Expenditure	3.0	2.6	3.3	2.5
Net Domestic Financing	2.3	1.9	1.4	2.1
Domestic Debt	11.6	12.7	12.0	13.5
External Reserves (in months of imports)	2.0	2.1	2.6	3.7

Sources: Sierra Leone authorities; and Fund staff estimates.

2. **Implementation of the 2013–16 ECF arrangement was severely complicated by the simultaneous onset of two immense shocks**, the Ebola Virus Epidemic (EVD) and the collapse of the iron ore sector. The goals of the ECF arrangement, approved before the onset of Ebola, were set in the context of high growth and strong macroeconomic performance, coupled with social

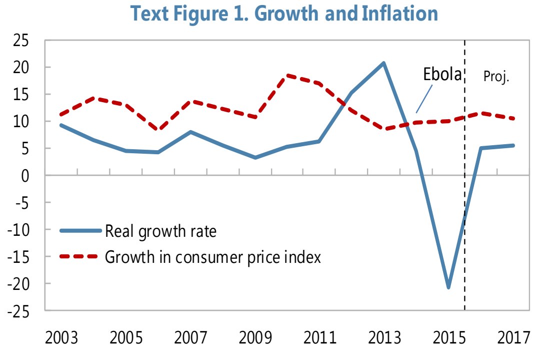
progress.[1] The twin shocks shifted the focus of the program from achieving long-term structural objectives to responding to the crisis, and returning Sierra Leone to the path of macroeconomic stability and high growth (Text Figure 1). The authorities, with the support of the IMF and other development partners, succeeded in putting Sierra Leone back on track in three respects:

- *Growth and macroeconomic stability*. There was a severe shock to growth. Overall growth declined from 20.7 percent in 2013 to 4.6 in 2014 and negative 20.6 in 2015 (Text Figure 1). Through a combination of debt relief, increased financing and budget on-lending, the IMF provided over $219 million in financial assistance during 2014–15 (more than 5 percent of 2015 GDP).[2] This helped alleviate the impact of the twin shocks on growth by giving the budget greater resources at a time when social spending, especially for health and education, was critical. Growth is projected to recover to 4.9 percent in 2016.

- *External buffers*. Reserve coverage performed much better than expected, increasing to 3.7 months of imports from 2 in the beginning of the program. The main reasons for this were the significant level of external aid in response to Ebola and the decline in iron ore related imports.

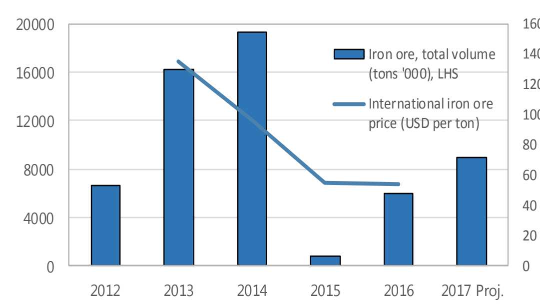
    - *Fiscal anchor and domestic debt in a more constrained fiscal environment*. The impact on the budget was felt through two channels. Domestic revenues were lower, dropping from 12.6 percent of GDP in 2013 to 10.1 percent in 2015, as iron ore production halted (Text Figure 2) and economic activity slowed due to Ebola. Simultaneously, there was increased expenditure pressure related to health and social programs to curb Ebola, despite significant assistance from donors, most of which was outside the budget. Expenditures increased from 17.5 percent of GDP in 2013 to more than 19 percent in 2015. The cap on domestic financing was relaxed from 2 percent to 2.5 percent of GDP. Despite temporarily going off track in late 2014 due to these expenditures pressures, the

Text Figure 1. Growth and Inflation



Source: Sierra Leone authorities.

Text Figure 2. International Iron Ore Price and iron ore Production
(In US dollar)



Source: Sierra Leone authorities.

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[1] Following the end of the Civil War in 2002, Sierra Leone experienced more than a decade of strong economic performance, building on improved policies and high commodity prices. Between 2003 and 2014, the economy grew an average of 8 percent per year, while inflation fell below 10 percent.

[2] All percent of GDP references in this document use non-iron ore nominal GDP.

authorities quickly brought fiscal performance back in line with program targets through expenditure rationalization and revenue mobilization efforts.

- *Inclusive growth and poverty reduction.* Prior to the Ebola epidemic, Sierra Leone was making progress on reducing poverty and improving social conditions. For example, the poverty rate, although still high, had dropped from 78.7 percent in 2003 to 66.1 percent in 2011.[3] Life expectancy improved from an average of 45 years in 2007 to 51 years in 2014.[4] However, there is no doubt that Ebola had a devastating impact on this progress. The social and health services, already under strain before Ebola, were severely damaged.[5] Families lost their breadwinners, and many children were orphaned, putting a tremendous strain on the social fabric, and reversing gains in inclusive growth. While progress on poverty reduction was undoubtedly reversed, the authorities generally met the program's indicative target on poverty spending except for the period of most intense pressure on the budget at the time of the 3rd and 4th review.

3. In retrospect, the twin shocks provided valuable lessons in the context of this program and for future engagement.

a. *Non-iron ore revenue mobilization.* High iron ore revenue in the initial phase of production created complacency, and reduced the incentive for non-iron ore revenue mobilization and diversification. The twin crises further underlined the urgency of diversifying revenue sources. The authorities recognize the importance of domestic revenue mobilization through policy and administrative reforms. They have made significant efforts in this regard, including by eliminating ad hoc import duty and Global Sales Tax (GST) exemptions, and the gradual removal or scaling back of exemptions approved by parliament.[6] Furthermore, the authorities have successfully completed a Tax Administration Diagnostic Assessment Tool (TADAT) mission[7] to identify areas for improvement in tax administration.[8]

b. *Public Financial Management, arrears and reliance on external budget support.* As domestic revenue sources were constrained, their effective utilization became more critical, and the budget became ever more dependent on timely disbursement of external budget support. Better cash management, including through longer-term planning and limiting in-year

[3] "A Poverty Profile for Sierra Leone", June 2013. World Bank and Statistics Sierra Leone.

[4] World Bank Development Indicators (WDI) database.

[5] The health sector was one of the worst hit; more than 5 percent of casualties were physicians.

[6] There was more than a 6 percent reduction in the value of exemptions in the first half of 2016 compared to the first half of 2015. The government applied greater scrutiny to NGOs, leading to a 48 percent reduction to the value of their exemptions. Similarly, Ministries, Departments and Agencies (MDA) exemptions decreased by 76 percent.

[7] The two key takeaways from the September 2016 TADAT mission were: there is a severe technological capacity problem as most systems are not automated, especially GST collection, and the tax base is grossly underreported, and does not reflect the actual number of businesses contributing to economic growth.

[8] During the Annual Meetings, the authorities requested a follow-up FAD diagnostic mission, which will focus on specific recommendations to improve areas identified in the TADAT mission.

ad hoc expenditures, is critical to avoid the occurrence of arrears. The implementation of the recently passed PFM Act will be an important step toward this goal. Delays in donor financing have created periodic cash management problems, further stressing the importance of mobilizing domestic revenue, and reducing reliance on external budget support.

c. *Fuel subsides*. Retail fuel prices have been kept fixed by varying the excise rate to offset movements in the cost of fuel *(See Annex I for a full description of the current fuel pricing regime and related challenges)*. The authorities reduced the retail price at end-2014 to be consistent with commercial prices, which are determined by an automatic fuel pricing formula and thus were declining with global oil prices. Staff advocated for reform in the latter part of 2015 when the exchange rate was relatively stable, and oil prices were still declining, but reform was delayed due to sociopolitical fragility in the aftermath of Ebola. The needed adjustment is now more significant. Staff estimates that the failure to adjust retail fuel prices has led to implicit subsidies (in the form of lost revenues) in 2016 of 0.8 percent of GDP. Continued failure to adjust retail fuel prices through 2017 would have given rise to implicit subsidies of 1 percent of GDP and required additional explicit cash payments to the oil marketing companies of a projected 1 percent of GDP.

d. Crisis preparedness. EVD showed that Sierra Leone was inadequately prepared to deal with a health crisis of this proportion, underlining the importance of strengthening social safety nets and health infrastructure as well as protecting investment spending to improve social and health response capacities.

B. Recent Developments and Program Performance

4. Non-iron ore growth is picking up as the economy recovers from Ebola, and the main iron ore company is now operating with slight profitability. Staff revised non-iron ore growth up to 3.7 percent, as a result of more vitality in trade, services and manufacturing than originally forecast. Iron ore production is still projected to be 6 million tons for 2016, but relative to the beginning of the year, unit costs are lower by $10 per ton due to improvements in operational efficiency. Lower costs combined with higher iron ore prices have resulted in moderate profitability (Annex II).

5. Inflation has been rising due to higher import costs and second round effects from the depreciation of the leone (Text Figure 3). As of end-September, headline inflation was 10.9 percent, while the leone had depreciated almost 20 percent year-on-year, (Text Figures 3 and 4).[9] In early September 2016, the BSL introduced an interest corridor system as part of improving liquidity management. Growth in credit to the private sector picked up to around 14 percent (year-on-year) as of July 2016 from 3.2 percent in 2015, driven mainly by demands from the trading (as a result of deprecation) and manufacturing sectors. However, given the small share of credit to

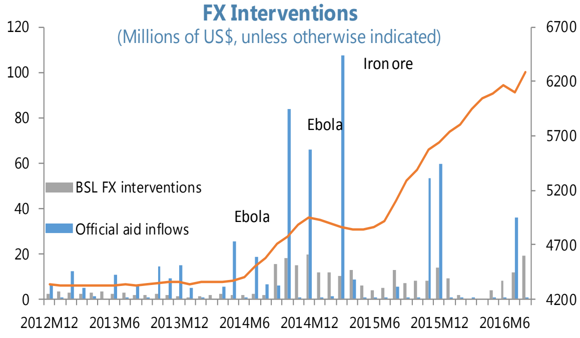
[9]Compared to other metal exporters, Sierra Leone's ER depreciation is not large, Text Figure 5.

the private sector in terms of GDP (around 5 percent), the impact of credit on growth should be marginal.

6. **The fiscal situation is becoming more fragile, in part due to unplanned expenditures**. The targeted deficit in 2016 has been revised to 4.6 percent from 4.9 percent in the last review, primarily due to lower domestic financing because of tight liquidity. The key fiscal objective for 2016 remains covering priority expenditures in an environement where revenue generation is limited and financing constrained.

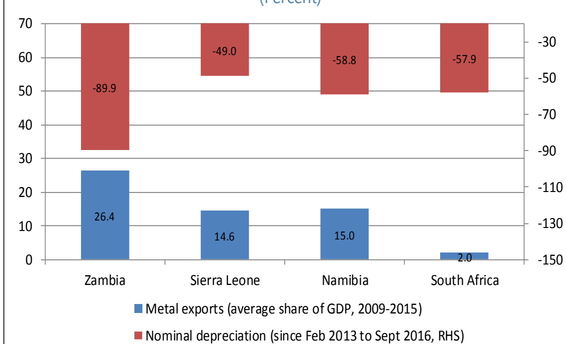
- There were **unplanned current expenditures** (0.3 percent of GDP) relating to (i) the first installment of a payment for one hundred buses (0.1 percent of GDP),[10] and (ii) unplanned Ebola Recovery (Annex III) expenditures (0.2 percent of GDP), in the health sector.[11] At the same time, as discussed in Annex I, the rapid exchange rate depreciation has resulted in a large gap between the commercial fuel price and the fixed retail price, resulting in the need for explicit subsidies. For the year, expenditures are expected to be mainly in line with the last review due to adjustments discussed below.

Text Figure 3. Nominal Exchange Rate, Aid Flows and FX Interventions
(Millions of US$, unless otherwise indicated)



Soures: BSL; and IMF staff estimates.

Text Figure 4. Nominal ER Depreciation and Metal Exports
(Percent)



Sources: IFS; WEO; and IMF staff estimates.

- **On the revenue side**, excluding a one-off capital gains tax payment of $30 million from the sale of a telecommunication company, revenues are expected to underperform by about 0.5 percent of GDP, with respect to 5th Review projections. Two main reasons are lower PIT

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[10] The Ministry of Transport and Aviation purchased 100 buses in early 2015. It was originally planned that the cost would be fully recovered through bus fares. However, revenue from the fares have not been at the expected level. Thus MOFED had to cover the debt obligation, approximately 0.3 percent of GDP as a first installment payment for 2016. There will be a second payment in 2017 of the same amount, already accounted for in the budget.

[11] The government has recently begun stepping in to fill the gap between the needed resources for ERS (Ebola Recovery Strategy) and those committed by the donors; this is expected to result in further spending pressure in 2017.

collection[12] and much lower than expected gains from the Gateway Liberalization Reform.[13] Including the one-off capital gains tax payment, domestic revenues are expected to be 0.2 percent of GDP higher than projected in the last review.

- **Financing** was 0.3 percent of GDP lower than expected in the first half, mainly because of tight liquidity. In addition, almost no budget support was disbursed in the first half. Indeed, 74 percent of all budget support is now expected in the last 6 weeks of the year, creating serious cash flow problems for the budget.[14] As a result, the budget was in part financed by bridge loans from the BSL, to be repaid from budget support.[15]

7. In order to compensate for the shortfall in revenue, the authorities implemented three revenue measures. NRA introduced an excise on the alcohol content of imported beverages, and a new excise regime and higher import duty rates on cigarettes, which together generated 0.04 percent of GDP in revenues. In addition, the 15 percent GST was applied to electricity tariffs, in conjunction with the finalization of higher rates.

8. However, despite these measures, as of the time of the mission, there was still a financing gap of approximately 140 billion Le or 0.5 percent of GDP for the rest of 2016. To close the gap, the authorities enacted expenditure measures:

- MDAs (Ministries, Departments and Agencies) with the exception of those deemed "priority" would only receive 1/3 of their original spending allocations for the remainder of the year to cover operational expenses. Some key ministries would receive half of their allocations.[16] These cuts would save 0.4 percent of GDP.

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[12] PIT collection in the first half fell 0.1 percent of GDP short of what was assumed in the last Staff Report due to (i) delays in implementing the expected tax obligation scrutiny on the professional class, as the NRA is still in the process of identifying the individuals and companies undertaxed; and (ii) the refusal of TIMIS to pay PIT to NRA due to an ongoing conflict, which the NRA is seeking to resolve by year-end.

[13] Gateway Liberalization led to a renegotiation of the revenue government received from fees associated with international calls to Sierra Leone, previously monopolized by one company. The reform, carried out with assistance from the World Bank, opened this market to other firms, and also renegotiated government's share of the call fees. The authorities expected approximately 7 billion Le per month after the reform, but they have been receiving only about 1.5 to 2 billion Le. The main reason for this underperformance is that the government lacks the technical capacity to monitor calls processed by the telecommunication companies. Previously they only had to monitor one company. With the assistance of the World Bank, the authorities have recently contracted a company to monitor all calls, and thus anticipate an increase in revenue from this source.

[14] These disbursements were always programmed for the fourth quarter. In addition, World Bank budget support, which had been expected in the fourth quarter, has been delayed to early 2017, due to temporary disagreements on energy sector reform.

[15] There were two loans, for 100 billion and 60 billion Le (total of 0.6 percent of GDP), the former to bridge to the delayed IMF disbursement, (already paid back with the arrival of financing), and the latter to bridge delayed budget support from the EU, now expected in the fourth quarter. There is a third bridge loan expected of 120 billion Le, which will bridge to the World Bank disbursement. These loans are consistent with the BSL law.

[16] Authorities ensured staff these cuts would not create arrears as the funds have not been released yet, and hence spending has not yet materialized.

- In order to ensure a cushion for unplanned expenditures and to signal austerity, the authorities also announced measures, intended to be applied through the first half of 2017. These include: no new procurement of government vehicles, furniture and fittings; a fifty percent cut in monthly office supplies; official travel restrictions; and elimination of overtime payments. These measures are projected to save 12 billion leones in 2016.

9. **The authorities have begun tightening monetary policy to contain inflation**. On September 28, BSL increased the Monetary Policy Rate (MPR) by a hundred basis points. The interest transmission mechanism in Sierra Leone is rather weak. The rate hike is expected to have only limited impact on deposit and lending rates. Therefore, countering inflation will mainly rely on containing money supply. Accordingly, the BSL has committed to slow the growth of broad and reserve money for 2017 to a rate consistent with achieving a single digit inflation.

10. **BSL has resumed selling foreign exchange at weekly auctions, contrary to its commitment to stop sales except to smooth excessive volatility**. Since April, BSL has been selling $3 million at its weekly auctions, in an attempt to slow depreciation. This has contributed to the slow growth of base money and as well as loss of foreign exchange reserves.

11. **The mission found that the BSL was engaged in a temporary Multiple Currency Practice (MCP) during the summer**. The MCP was a result of conducting official foreign exchange auctions at preferential rates, with the ultimate aim of providing subsidized foreign exchange to fuel and rice importers. This practice was the result of informal BSL guidance to commercial banks as to the rates they would like banks to bid at the foreign exchange auction, combined with limits on the maximum bid by any bank that effectively constrained demand to be less than or equal to supply at any exchange rate. This led to a spread between the BSL auction rate and market rates of as high as 16 percent

12. **The most recent safeguard assessment was completed in 2015**. Most measures recommended by the assessment have been implemented. The BSL continues to prepare IFRS financial statements that are audited by reputable external auditors, and the bank has taken steps to strengthen the capacity in internal audit and audit oversight areas.

13. **The current account deficit in 2016 is forecast to deteriorate modestly relative to the last Staff Report**. Imports are slightly higher, driven by the resumption of iron ore production and related need for machinery and oil. Exports are also expected to be slightly higher than in the Staff Report, driven by minerals, agricultural commodities and timber. Services, income and transfers have all been reduced modestly relative to the last staff report as well.

14. **Program performance was broadly satisfactory; all end-June quantitative performance criteria (QPCs) were met, but some indicative targets (ITs) and structural benchmarks (SBs) were missed**. In addition, there was a non-observance of the continuous ceiling on external debt in recent months. The net domestic bank credit to the central government ceiling was met with a comfortable margin. However, this was in part through the accumulation of arrears in the form of

unpaid checks, which now stand 317 billion Le or 1.2 percent of GDP.[17] QPCs on net domestic assets of the Central Bank and gross foreign exchange reserves of the Central Bank were also met with comfortable margins at end June, but the March IT on reserve accumulation was missed by a moderate amount. The end-June ITs on total domestic government revenue and poverty related expenditures were met, while the IT on the domestic primary balance was missed due to expenditure overruns in goods and services. At the time of the last review, the present value of new external debt accumulated since July 2015 was $69 million (just below the program limit of $70 million). The authorities subsequently contracted three loans (with an NPV of $67.76 million), as discussed in the LOI, paragraph 5. Two related to projects had been under discussion at the time of the previous review and are part of the priority projects of the government in addressing Sierra Leone's infrastructure and health challenges. With this additional debt, Sierra Leone has accumulated roughly $138 million since July 2015. This amount is below the limit that staff had considered, at the time of the last review, as consistent with Sierra Leone maintaining a moderate risk of debt distress, namely around $150 million in NPV terms. However, no modification of the continuous PC on new external debt was requested at the time of the last review. Therefore, the contracting of new debt resulted in the non-observance of the continuous PC on external debt. The authorities are requesting a waiver based on the fact that the new debt resulting in the non-observance is both small (at roughly 1.6 percent of GDP) and does not jeopardize Sierra Leone's maintaining a moderate risk of debt distress.

15. The performance on SBs was mixed (Appendix 1, Table 2). The provisions for the establishment for the Natural Resource Revenue Fund and the Treasury Single Account (TSA) have been passed along with the passage of the PFM Act. Work on rendering them functional is ongoing.[18] The Cabinet has yet to approve the wage reform strategy.[19] The SB on the new Tax Administration Act was missed, but is expected to be implemented with a delay. The authorities shared with staff the list of mining agreements that have expired. They intend to follow through with this SB by identifying which agreements that have expired can be renegotiated on better terms. BSL recently signed the contract for a diagnostic study of the two state-owned banks, an SB originally set for end-June. Delay in implementing this measure was due to delays in finalizing World Bank funding. Finally, the NRA has delayed the movement to ASYCUDA World due to funding issues, but the transition is ongoing with World Bank support, and should be finalized in the medium-term.

16. Financing Assurances Review. Staff has assessed that the expected disbursement of IMF financing following the completion of the sixth ECF review by the Executive Board is consistent with

[17] These are checks issued by the government, and presented to the BSL for payment by the recipient, but which the BSL—under instructions from the government—has not yet honored. This is a common practice, and in the past such unpaid checks have always been cleared by the end of the fiscal year. The authorities assured staff this would be the case for 2016 as well. This practice adversely impacts the confidence in the government. The successor arrangement will seek to tackle this issue.

[18] On TSA, the authorities need additional time to resolve issues on technology and banking procedures. They are also studying experiences of countries that passed successful TSA reform. Work is ongoing on the Natural Resource Revenue Fund, and may require TA.

[19] Reportedly the cabinet has requested an expanded analysis that would look at a wider scope for the reform.

IMF's policy on lending into arrears. Prompt Fund support is crucial for the implementation of Sierra Leone's economic program for the remainder of 2016 and beyond. Staff assess that the authorities are making good-faith efforts to resolve the issue of private external arrears, dating back to the civil war period, estimated at $203.8 million as of December 2015. The authorities have entered into a collaborative process with creditors, and are leveraging World Bank technical assistance to help clear these arrears.

C. Outlook and Risks

17. The macroeconomic outlook remains challenging.

- *Growth is expected to converge to 6.5 percent in the medium-term.* The non-iron ore economy is forecast to continue its recovery from Ebola, estimated at 3.7 percent in 2016, reaching 4.1 percent in 2017, and converging toward 6.4 percent in the medium-term. Staff expects commercial agriculture to be a key driver of growth. Infrastructure investments, in particular energy, are expected to support private sector growth and diversification. The iron ore sector is expected to remain marginally profitable with lower costs. Production is forecast to reach 16 million tons in 2018, from 6 million in 2016.

- *Inflation is projected to reach 11.5 percent, mainly as a result of depreciation*. In 2017, through tighter monetary policy, end-period inflation is conservatively[20] targeted at 10.5 percent, reaching single digits at 9.5 percent in 2019, and 8.5 percent by 2021. Credit to private sector is expected to grow at 8.3 percent in 2017, and further pick up to 10 percent in the medium term, with credit to the government reducing its share gradually.

- *The fiscal deficit including grants is expected to stabilize at 3 to 3.3 percent of GDP in the medium-term.* In 2016, the deficit is estimated at 4.6 percent of GDP, 0.3 percent of GDP lower than programmed due to lower net domestic financing. In 2017, the deficit is targeted to be 3.4 percent of GDP, while the fiscal anchor, net domestic financing, is maintained at no more than 2.5 percent of GDP to accommodate the continuing spending needs related to the Ebola recovery. From 2018 onward, the fiscal anchor could revert to 2 percent of GDP, while revenues should continue the upward trend.

- *The current account deficit is expected to improve to 13.4 percent of GDP in the medium-term.* As noted, the current account deficit is expected to widen this year. In 2017, the balance is expected to improve with exports increasing 16.8 percent, driven by minerals. Current transfers are projected to decrease by 13.2 percent in 2017 due to a reduction in off-budget grants. In the medium-term, the steady improvement is underlined by sustained growth in exports. The capital account is expected to improve gradually with higher FDI, growing 50 percent over the course of the projection period, to almost 13 percent of non-iron ore

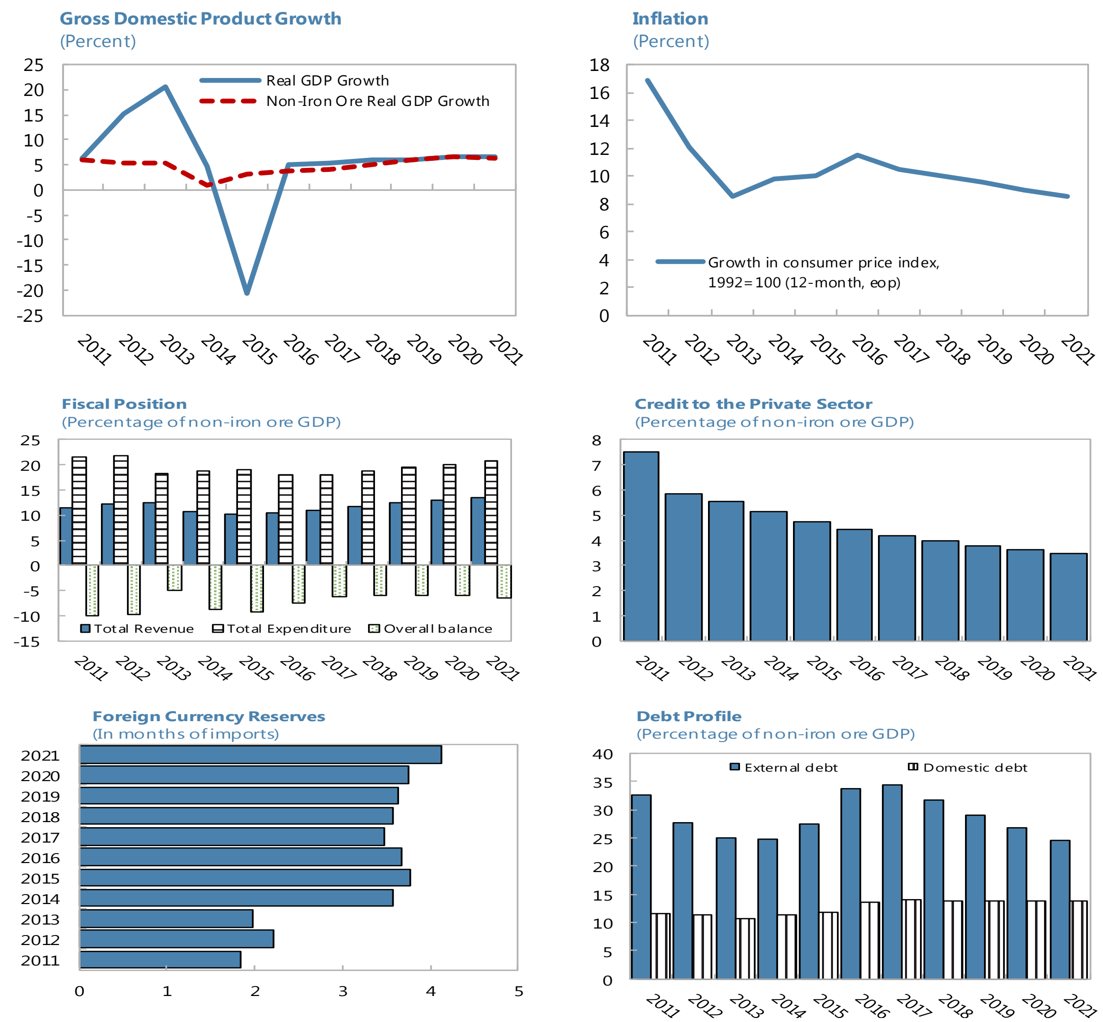
[20] Staff will seek a more ambitious reduction path in the context of a proposed program.

GDP. Reserves are expected to increase from their current level of 3.7 to 4.1 months of imports in the medium-term.

18. The risks to the outlook are firmly to the downside. A key assumption in projections is significant domestic revenue mobilization to finance the critical infrastructure improvements necessary to support growth. If the revenue to GDP ratio is not increased sufficiently, there could be severe financing constraints with painful cuts to necessary capital and social spending. Lower iron ore prices and further delays in negotiations between SISG (the primary iron ore producer) and its main subcontractor could result in a significantly lower than forecast output. Higher inflation and depreciation than expected would increase the pressure on the population, and derail long-term structural objectives.

Text Figure 5. Sierra Leone: Recent Economic Developments and Medium-Term Outlook, 2011–21

(Percent of GDP, unless indicated otherwise)



Source: IMF staff calculation.

POLICY DISCUSSIONS

Discussions focused on (i) closing the 2017 fiscal gap; (ii) fuel subsidy reform; (iii) and monetary and exchange rate policies, including removing the practices resulting in an MCP. As the authorities have expressed interest in a successor arrangement, the 2017 budget featured prominently in the discusisons, even though the arrangement expires in 2016. Two prior actions were set for completion of this review: submission to parliament of a 2017 budget consistent with the deficit target in the June 16, 2016 staff report, and signing a contract for disgnostic studies of the two state-owned banks.

A. Closing the 2017 Fiscal Gap

19. Staff agreed with the authorities that the net domestic financing ceiling for 2017 of 2.5 percent of GDP, which was planned as of the time of the 5th review, remains appropriate. The decline in projected net external financing implies a deficit target for 2017 of 3.1 percent of GDP, down from the projected 4.6 percent of GDP for 2016.

20. However, relative to the discussions at the time of the last review, new expenditures pressures have emerged for 2017. Overall spending at the time of the mission was projected to be 346 billion Le or 1.2 percent of GDP higher than envisioned in the last staff report. The main reason is spending for elections and the establishment of a civil registry, about 240 billion Le or 0.9 percent of GDP, with additional spending pressures related to ebola Recovery Program

21. As a result, at the time of the mission there was a projected financing gap for 2017 of 278 billion leones, or 0.9 percent of GDP. Staff recommended that the gap be closed through revenue measures, as expenditures were already severely constrained, and the authorities concurred. The authorites and staff agreed that administrative measures alone would not suffice to increase revenue to the level required for the execution of next year’s budget, and that credible policy changes would be necessary. The discussion focused on the following areas:

a. Elimination of fuel subsidies, combined with a reinstatement of excise taxes and import duties on retail fuel, and a higher excise on commercial fuel.

b. Harmonization of ECOWAS Common External Tariff (CET). Currently, certain rates in Sierra Leone are lower compared to neighboring countries.

c. Passage of legislation that would require transfer of all MDA revenues to the control of Ministry of Finance and Economic Development (MOFED). This is a step beyond TSA reform that organizes various MDA bank accounts under one account; it would actually give MOFED control over the funds.

d. Further elimination of exemptions. The authorities produced a universal list of all import duty and import GST exemptions by law and agreements, estimating how much each is costing the government. The authorities have committed to go through this list, and eliminate or not renew those laws or agreements they think are not worth their costs.

e. Review of all expiring tax and non-tax obligations for mining companies. There were at least two mining companies that were due for a review of their agreements, but this did not take place during the twin shocks. The authorities committed to review these agreements, and take an initiative to negotiate more favorable terms where possible, until the passage of the Extractive Industry Revenues Act, (EIRA).

f. If these measures did not yield sufficient resources to close the gap, staff suggested revising the current GST rate to the regional norm by increasing it from 15 percent to 17 or 18 percent. The authorities were reluctant to do so.

22. The measures related to fuel are expected to generate 242 billion leones (0.8 percent of GDP), as discussed below. In addition, staff concurs with the authorities revised estimate that the application of GST to electricity tariffs will yield 12 billion leones more than previously estimated. Unfortunately, estimating the revenue yield from the other measures is difficult. While the authorities will implement these measures, except for the increase in the GST rate, they have decided not to rely on them to close the fiscal gap. The modest remaining gap—24 billion leones (less than 0.1 percent of GDP)— was in part closed through lower expenditures and some increase in grants.[21]

23. The 2017 budget, which was submitted to Parliament on November 11, reflects these measures. The budget targets a deficit of 3.1 percent of GDP, with net domestic financing of 2.1 percent of GDP, both slightly tighter than proposed in the last review, thereby fulfilling the prior action. Given the tight liquidity and high interest rates on government securities, staff agrees that this slight tightening is appropriate.

24. Increasing the revenue to GDP ratio remains a fundamental challenge and a key policy focus for the government in the medium-term. The authorities and staff agreed that in order to sustainably finance infrastructure projects crucial to increase growth, raising domestic revenue is imperative.[22] In order to raise revenue to a sustainable level, there is need for fundamental tax policy reform. Inter-alia, this would include:

a. Working with Parliament and other stakeholders to further reduce exemptions by reversing or not renewing enabling laws and agreements;

b. Ensuring that tax rates in Sierra Leone are comparable with neighboring countries;

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[21] Relative to the discussions at the time of the mission, the authorities have somewhat changed the composition of spending, with subsidies and transfers, as well as domestically financed capital, reduced. On the other hand, social safety net measures to offset the increase in fuel costs have been introduced as discussed below, and interest obligations, amortization, goods and services, and contingency funding have all been increased. At the same time, authorities expect higher grants to partially finance elections. The combination of these changes has closed the gap, and resulted in a slightly less domestic financing need to cover the new expenditure profile.

[22] In 2015, domestic revenue to GDP ratio stood at 10.1 percent. This is expected to increase modestly to 10.5 percent in 2016.

c. Passing the Extractive Industry Revenues Act (EIRA), to consolidate all mining tax and non-tax obligations under common terms;[23]

d. Expansion of the tax base by a sustained effort to bring businesses into the official stream;

e. Investments in digitization of the processes of taxpayer registration, determination of tax obligations and collections;

f. Finally, transitioning to the single clearance window.

25. The mission noted its concern regarding the continued reliance on unpaid checks. While traditionally all issued checks are honored by the end of the year, the process of refusing to honor them for some time undermines confidence in the government and the payments system. The authorities noted that they are attempting to strengthen their cash management system to resolve this problem. In addition, the introduction of the TSA, as well as the new legislation requiring all MDAs to deposit all receipts in the TSA, should significantly ease future cash constraints.

B. Fuel Subsidy Reform

26. President Koroma has declared publicly that the government has "come to the end of the road" on fuel subsidies. The authorities and staff agreed that there is simply no room in the budget for the recently introduced explicit subsidies. Staff's initial recommendation was to float commercial and retail prices with the market, at the same level, with the same fixed excise. However, the authorities indicated that this option is socially and politically not viable at this point, particularly in light of rising prices for imported rice.

27. Recognizing the social constraints to immediate liberalization, staff advised the authorities to apply a one-time increase now to a price that would stop subsidies from the budget, and restore excise and RUC to positive levels. Then, on January 1, 2017, after the local rice harvest has come in and hopefully eased rice prices, the authorities would float prices with the market, as committed under the previous review. The authorities indicated they were reluctant to do this, as the resulting steady rise in fuel price (due to depreciation) would hamper post-Ebola recovery efforts.

28. However, after examining all options, the authorities have now adopted a variation of this proposal. The Minister of Finance announced on November 11 that retail fuel prices will be increased the following week from 3,750 to 5,500 leones per liter, while the excise on commercial fuel has been roughly doubled, to 1,500 leones per liter. In addition, the government has announced that, as of July 1, 2017, retail and commercial fuel prices will be unified, using the commercial pricing

[23] The EIRA, drafted with assistance from FAD, was submitted to Parliament in 2013, but has not yet received a vote. Staff understand that a complication regarding possible oil revenue that is no longer relevant and the Ebola epidemic have delayed passage. Staff urged the authorities to review the Act's status in Parliament, and resolve pending issues holding up its passage. Once it is passed, EIRA would apply to both new and existing mining contracts with terms up for renegotiation.

formula. Staff estimates that these moves, combined, will generate an additional 242 billion leones in excise revenues and import duties, as the unification of prices will mean the removal of the exemption from import duties for retail fuel. These actions eliminate the need for any further subsidies from the budget.

29. To ease the impact of this price increase on the most vulnerable, the government has increased spending with respect to 2015, totaling approximately 75 billion leones, in the following areas:

a. 13 percent increase in spending in provision of free health care drugs;

b. 30 percent increase in education spending, mainly going toward the school feeding program;

c. 60 percent increase in provision of equipment, fertilizer and seeds to low-income farmers; and a

d. 5 percent increase in cash transfers to the aged and vulnerable.

C. Monetary and Exchange Rate Policy

30. The authorities and staff agreed monetary policy has to be tightened to reign in the rising double-digit inflation. In addition to raising the MPR as discussed above, BSL has committed to slow the growth of money supply to a rate consistent with achieving a single digit inflation by 2019, currently targeted at 9.5 percent. Specifically, the authorities agreed to lower the growth rates of 2017 broad and base money by just over 4 percent, compared to the last review, and halt BSL purchases of government securities from the secondary market. With this tightening, staff envisions that inflation will decline to 10.5 percent in 2017 from the currently projected 11.5 percent in 2016. However, staff will aim for a more ambitious inflation and associated monetary targets in the context of the negotiations for a possible successor arrangement. Lower inflation will help reduce social tensions and depreciation pressures.

31. BSL will become a net buyer of foreign exchange beginning in 2017. The authorities were reluctant to halt their foreign exchange sales, as they had committed to do at the time of the last review. Staff noted that these sales were not appreciably helping the exchange rate, and that continued sales would reduce bank liquidity, resulting in continued difficulties selling treasury obligations. BSL agreed that it would stop its weekly auctions, and limit foreign exchange interventions to only smooth excessive exchange rate volatility. Beginning in 2017, BSL is committed to become a moderate net buyer of foreign exchange, to help increase reserves toward a medium-term target of 4 months of imports.

32. BSL signed the contract for the diagnostic studies of the two state-owned banks on October 28, satisfying the prior action. The contract calls for the studies to be completed in no more than six months.

33. BSL took concrete measures, in consultation with Fund staff, to remove the measure which gave rise to the MCP. BSL has committed to no longer give guidance to banks regarding the rates at which they bid in the foreign exchange auction. In addition, BSL increased the ceiling on the maximum bid amount a commercial bank can submit, to ensure that potential demand is at least double supply. As a result, auctions since these measures have produced rates within 2 percent of the market rate. BSL has also lifted a limit on the margin the commercial banks could earn when selling the foreign exchange obtained through the BSL auction.[24]

34. Strong external debt management continues to be a priority to ensure borrowing does not cause a high risk of debt distress. The resumption of iron ore exports, recovery from Ebola and additional revenue from fiscal measures have improved the Debt Sustainability Analysis (DSA), conducted in the last review, (EBS/16/59). However, there are heightened risks on the horizon, especially depreciation and fiscal fragility, that warrant continued prudence. In addition, risks surrounding the iron ore sector persist. Staff urged the authorities to remain prudent in their debt management, including by not signing a proposed airport loan that would place Sierra Leone at high risk of debt distress. The authorities agreed with this advice, noting that, while building a new airport remains a goal for the authorities, they are seeking ways for it to be built without government money.

PROGRAM FINANCING AND RISKS

35. The program is fully financed. The fiscal gap that emerged for 2016 in the beginning of discussions has been closed.

36. Program implementation risks for the remaining period are low. This reflects the government's relatively strong record in program implementation and the interest expressed for a successor program to be discussed in early 2017.

37. Capacity to repay the Fund is adequate. Sierra Leone has a good track record of timely payment of its external debt obligations, including to the Fund. The total outstanding debt to the Fund is expected to peak in 2016 at SDR 231 million (111.5 percent of new 2016 quota).

STAFF APPRAISAL

38. In light of the severe shocks faced by Sierra Leone, its economic performance during the ECF arrangement has been impressive. Two daunting, simultaneous crises have been overcome with resolve. Just one year into the program, Sierra Leone was hit by both EVD, which ravaged livelihoods, and the collapse of the iron ore sector at a time when the government was in need of resources to fight EVD. The combined effect of these shocks resulted in output declining by

[24] The authorities also introduced a mechanism to ensure that winning bids at the auction are within two percent of each other, thereby eliminating an MCP that had been in place since 2009.

more than 20 percent in 2015. Despite these circumstances, program performance was consistent, with few slippages. Today Sierra Leone is back on the path of economic growth, and revenues, although still insufficient, are increasing modestly. Fiscal discipline has been generally maintained, with key expenditures, especially spending for poverty reduction, protected. This was coupled with strong progress in the Ebola Recovery effort. The PFM Law has been passed, and work begun on its implementation. Banking sector conditions are improving as credit to the private sector is growing, and the authorities are determined to resolve the NPL and governance problems in the two-state owned banks; a diagnostic study is expected to be underway before the end of this year.

39. Staff welcomes 2017 budget, which is consistent with the net credit to government targeted at the time of the last review. The staff also welcomes the authorities' progress on enhancing revenues, which are targeted to increase by 1.3 percent of GDP in 2017. Staff supports the authorities' decision to close the fiscal gap which had appeared for 2017 through additional revenue, rather than further expenditure compression. Going forward, further strong actions to increase the revenue to GDP ratio will be needed in coming years. Key steps will be required to broaden the tax base, both through reduced exemptions and through increasing the base of registered taxpayers. Without a significant, sustainable increase in revenues, spending pressures will remain severe, and government will not be able to finance needed infrastructure, as well as the social safety net.

40. Staff urges the authorities to strengthen cash management, and avoid the future accumulation of unpaid checks. The practice of accumulating arrears undermines trust in the government and the payments system, weakens the economy, and contributes to the weak condition of the banking system.

41. Staff welcomes the authorities' decision to act decisively to eliminate fuel subsidies, and urges the authorities to adhere to their plan to unify commercial and retail prices in July. While staff recognizes the social and political challenges in doing so, the fiscal situation leaves the authorities no viable alternative. The budget cannot afford to continue fuel subsidies, which predominantly benefit the middle and upper-middle class, as well as foreigners through smuggling to neighboring countries where fuel prices are much higher. Staff also welcomes the measures taken to reduce the impact of this measure on the most vulnerable. However, additional measures, including possibly an expansion of the existing cash transfer system, may be needed at the time of unifying retail and commercial prices

42. Staff welcomes the passage of the PFM Act. It will be important to ensure swift adoption of implementing regulations to make the Act operational, and staff is encouraged by efforts in this direction. More broadly, staff urges the authorities to accelerate their structural reform efforts, which will be critical to diversifying the economy.

43. Staff also welcomes the decision by the BSL to tighten monetary policy. The recent increase in the MPR has appropriately signaled to the market that BSL is going to fight the second round effects of depreciation on inflation. Staff urges the BSL to slow down the growth rate of money supply and allow markets to determine the exchange rate, limiting its foreign exchange interventions to smooth excess volatility. It is also important that BSL become a net buyer of foreign exchange going forward, to enhance its reserves.

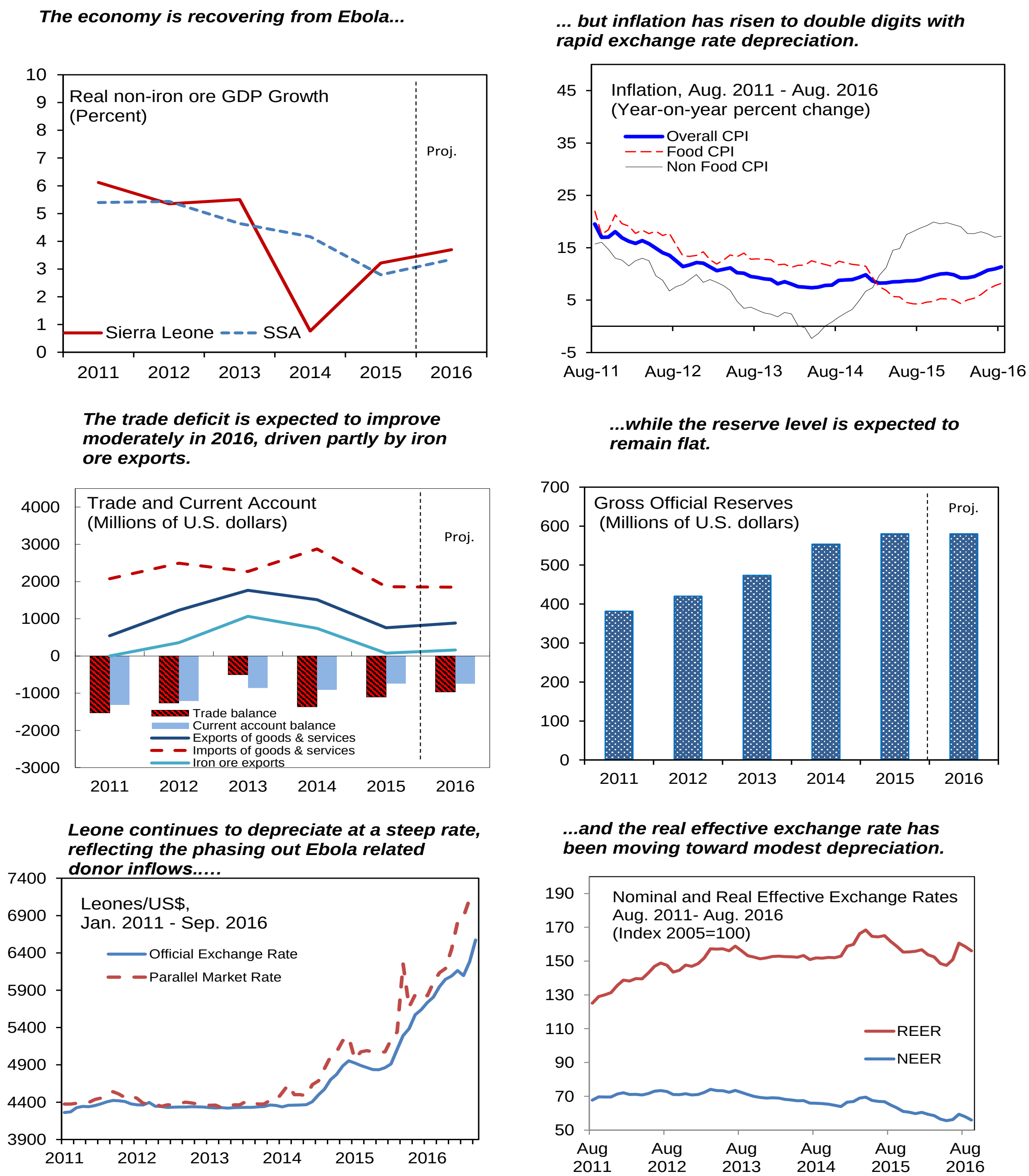
44. Staff urges continued prudence in the contracting of external debt. The risk of debt distress remains moderate. However, this hinges heavily on the continuation of iron ore exports, domestic revenue mobilization, and the anticipated contribution to exports from the planned large scale FDI. Given the uncertainties in all these elements, staff urges the authorities to give priority to concessional financing where available. In this context, staff is encouraged by the authorities' commitment not to sign the proposed airport loan, which would put Sierra Leone at a high risk of debt distress.

45. Staff is encouraged by the authorities' commitment to improve economic statistics, including national accounts and BOP statistics.

46. Staff recommends the completion of the sixth (final) review, and supports the authorities' request for a waiver for the non-observance of the continuous PC on the non-introduction of a multiple currency practice based on the authorities' adoption of corrective measures. Staff also supports the request for a waiver of the continuous ceiling on the stock of new external debt, as the amounts of the new debts contracted above the ceiling is small, and does not undermine program objectives.

47. Staff recommends a return to the 12-month cycle for Article IV consultations, in accordance with Decision 14747, as amended.

Figure 1. Sierra Leone: Real and External Sectors, 2011–16



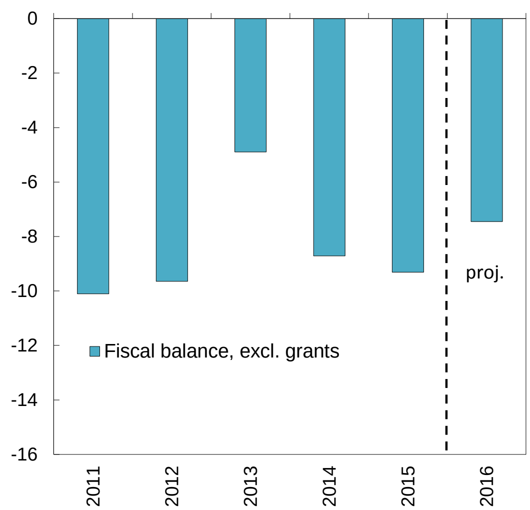
*Denotes projections.

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

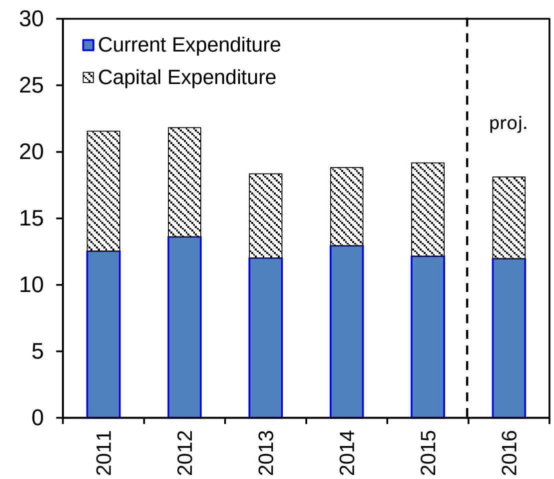
Figure 2. Sierra Leone: Fiscal Sector, 2011–16

(Percent of Non-Iron Ore GDP)

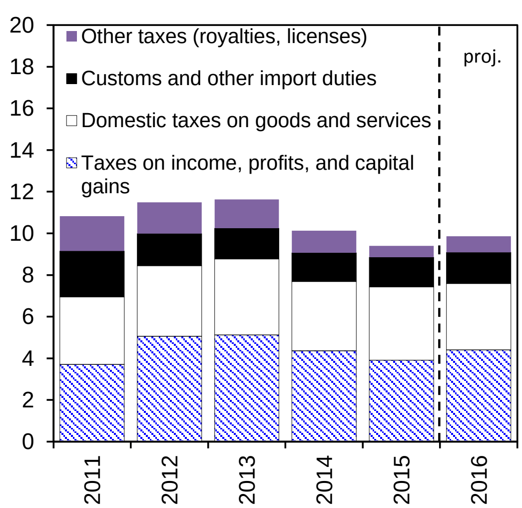
Fiscal deficit widened in 2015, but is expected to tighten in 2016 reflecting lower financing.



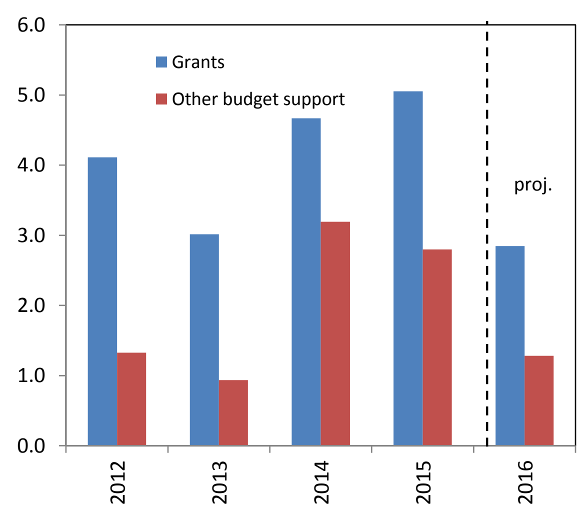
Spending increased in 2015 to finance higher capital expenditure, but is expected to decline slightly in 2016.



Domestic revenue was slightly lower in 2015 due partly to the shutdown in the iron ore sector. 2016 revenue is expected to increase only moderately.

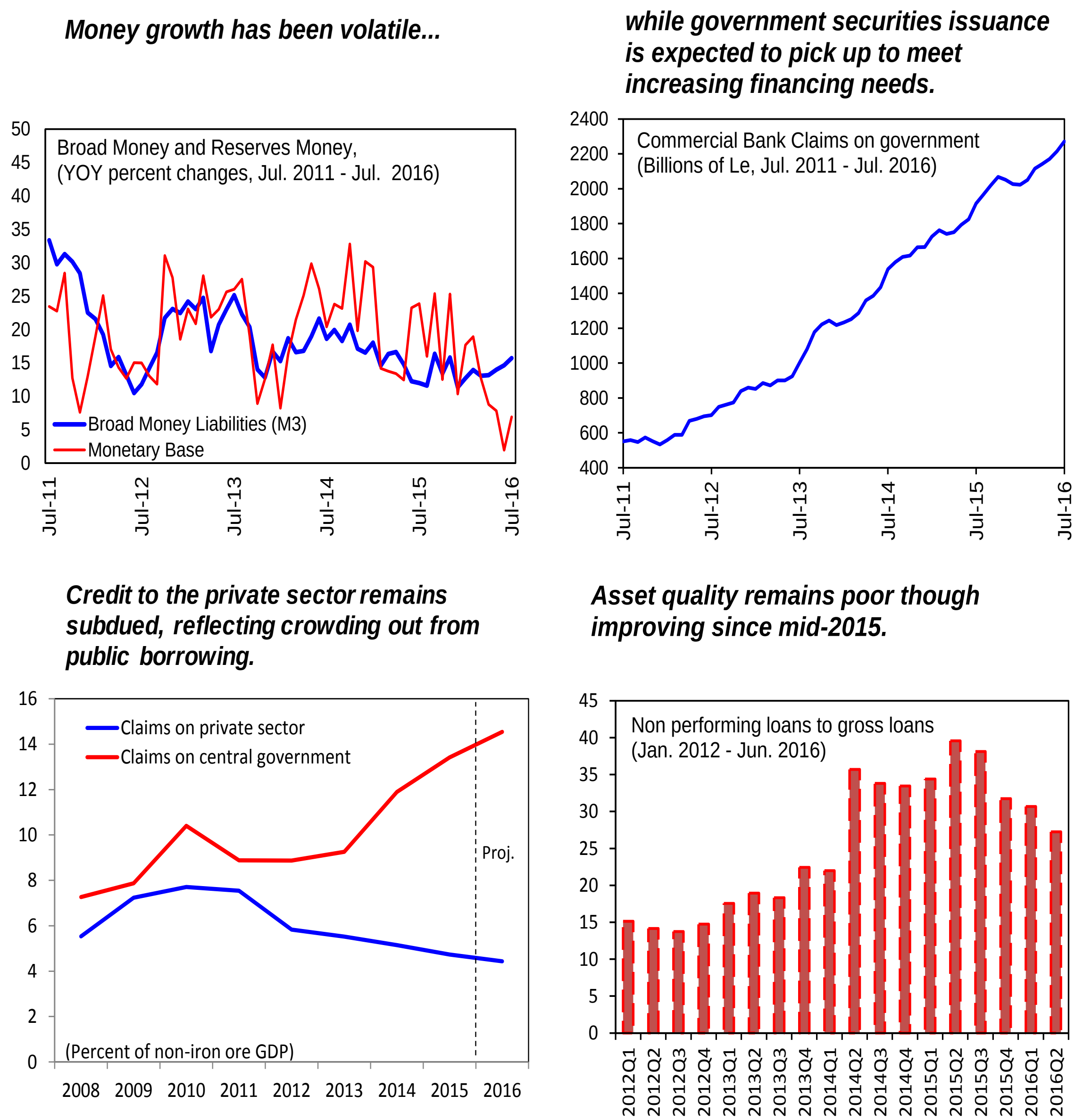


Meanwhile budget support declined in 2015, and is expected to decline further in 2016.



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

Figure 3. Sierra Leone: Monetary and Financial Indicators, 2011–16



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

Table 1. Sierra Leone: Selected Economic Indicators, 2013–21

	2013	2014	2015	2016		2017		2018	2019	2020	2021
				EBS 16/236	Proj.	EBS 16/236	Proj.	Proj.	Proj.	Proj	Proj
(Annual percent change, unless otherwise indicated)											
National account and prices											
GDP at constant prices	20.7	4.6	-20.6	4.3	4.9	5.0	5.4	5.8	6.1	6.6	6.5
Excluding Iron ore	5.5	0.8	3.2	3.3	3.7	4.0	4.1	5.1	6.0	6.5	6.4
Iron ore production (millions metric tons)	16.2	19.4	0.8	6.0	6.0	9.0	9.0	12.0	13.2	14.5	16.0
Iron ore price (US$ per ton) :											
WEO (spot price 62% Fe)	135.4	96.8	55.2	42.4	52.2	35.5	45.2	40.9	35.9	35.9	35.9
Weighted average company price	82.6	39.8	31.0	24.3	27.0	24.3	23.4	21.2	18.6	18.6	18.6
Consumer prices (end-of-period)	8.5	9.8	10.1	9.5	11.5	9.0	10.5	10.0	9.5	9.0	8.5
Consumer prices (average)	9.8	8.3	9.0	9.5	11.5	9.0	10.5	10.0	9.5	9.0	8.5
External sector											
Terms of trade (deterioration -)	-4.6	-16.0	-22.6	-1.9	0.9	-2.4	-2.7	-2.1	-3.6	0.9	1.0
Exports of goods	47.4	-15.4	-55.4	13.7	18.8	32.6	16.8	23.7	5.0	10.0	12.1
Imports of goods	-19.9	4.7	-18.1	1.9	0.6	4.4	1.3	6.8	8.1	9.1	8.9
Average exchange rate (leone per US$)	4337	4532	5076	...	...	...	...	...	...	...	...
Nominal effective exchange rate change (end-period, depreciation -)	-2.4	-7.1	-2.2	...	...	...	...	...	...	...	...
Real effective exchange rate (end-period, depreciation -)	3.6	0.7	5.8	...	...	...	...	...	...	...	...
Gross international reserves, months of imports 1/	2.0	3.6	3.8	3.6	3.7	3.4	3.5	3.6	3.6	3.8	4.1
Excluding iron ore related imports, months of imports 2/	3.4	4.2	4.6	5.0	5.7	5.1	5.0	5.1	5.1	5.3	5.9
Money and credit											
Domestic credit to the private sector	11.9	5.4	3.2	5.0	7.9	5.4	10.0	8.8	9.6	10.8	10.4
Base money	17.7	30.2	10.4	11.0	11.4	15.5	11.1	14.6	14.7	15.5	14.9
M3	16.7	16.6	11.3	12.9	11.8	15.3	11.1	14.6	14.7	15.5	14.9
91-day treasury bill rate (in percent)	8.0	2.4	2.1	...	...	...	... ...	... ...	... ...	... ...	...
(Percent of non-iron ore GDP, unless otherwise indicated)											
National accounts											
Gross capital formation	14.9	14.5	16.0	16.3	16.1	16.3	15.3	16.7	17.0	17.9	18.1
Government	6.3	5.9	7.0	6.3	6.1	5.8	4.8	6.2	6.5	6.9	7.3
Private	8.6	8.6	9.0	10.0	10.0	10.5	10.5	10.5	10.5	11.0	10.8
National savings	-5.6	-5.6	-0.3	-0.3	-2.2	0.3	-2.4	0.4	1.2	4.3	4.7
External sector											
Current account balance											
(including official grants)	-20.5	-20.1	-16.3	-16.6	-18.3	-16.0	-17.7	-16.3	-15.8	-13.6	-13.4
(excluding official grants)	-21.7	-35.6	-24.1	-22.2	-23.4	-19.6	-21.6	-19.3	-18.7	-16.4	-16.1
External public debt (including IMF)	24.9	24.9	27.5	33.0	33.7	33.1	34.2	31.5	29.0	26.5	24.5
Central government budget											
Domestic primary balance 3/	-0.7	-5.4	-5.0	-4.2	-3.6	-2.7	-2.6	-2.5	-2.5	-2.6	-3.0
Overall balance	-1.9	-4.0	-4.3	-4.9	-4.6	-3.8	-3.1	-3.0	-3.1	-3.1	-3.4
(excluding grants)	-4.9	-8.7	-9.3	-8.1	-7.4	-6.2	-6.2	-6.2	-6.4	-6.5	-6.7
Revenue	12.6	10.8	10.1	10.9	10.5	12.1	11.8	12.5	13.1	13.6	14.1
Grants	3.0	4.7	5.1	3.2	2.8	2.4	3.1	3.0	3.0	3.0	3.1
Total expenditure and net lending	17.5	19.5	19.4	19.0	18.0	18.3	18.1	18.8	19.5	20.2	20.8
Memorandum item:											
GDP at market prices (billions of Leone)	21,317	22,690	23,057	25,807	26,690	29,508	30,640	35,120	40,291	46,527	53,454
Excluding iron ore	18,159	20,542	23,045	25,101	26,547	28,360	30,411	35,012	40,440	46,697	53,647
Excluding iron ore in millions of US$	4,187	4,533	4,540	4,165	4,084	4,264	4,055	4,501	5,020	5,603	6,229
Per capita GDP (US$)	805	803	719	665	638	676	623	675	734	810	886

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

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

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

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

Table 2a. Sierra Leone: Fiscal Operations of the Central Government, 2013–21

(Billions of leone)

	2013	2014	2015		2016		2017		2018	2019	2020	2021
			EBS 16/236	Est.	EBS 16/236	Proj.	EBS 16/236	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	2,828	3,185	3495	3,495	3,539	3,554	4,120	4,553	5,429	6,489	7,776	9,219
Revenue	2,280	2,226	2330	2,330	2,744	2,798	3,439	3,596	4,391	5,293	6,368	7,572
Tax revenue	2,111	2,081	2167	2,167	2,512	2,618	3,146	3,357	4,116	4,975	6,012	7,168
Personal Income Tax	657	618	650	650	742	698	876	884	1,060	1,285	1,577	1,919
Corporate Income Tax	267	270	245	245	279	282	376	362	487	643	836	961
Goods and Services Tax	440	459	593	593	680	682	859	829	1,007	1,228	1,469	1,752
Excises	221	222	216	216	232	162	343	533	612	702	811	932
Import duties	269	285	329	329	390	399	466	487	583	694	832	1,038
Mining royalties and license	235	187	87	87	131	155	153	168	254	271	298	334
Other taxes	23	40	47	47	57	240	73	94	114	151	188	232
Non-tax	169	146	163	163	232	180	293	239	275	318	356	404
Grants	548	959	1165	1,165	795	756	681	957	1,038	1,196	1,408	1,647
Budget support	170	656	645	645	404	341	307	464	576	663	792	940
of which CCR Debt relief	…	…	145	145	…	…	…	…	…	…		
Project grants	378	273	508	508	391	410	374	380	462	533	616	706
Other	0	30	11	11	0	5	0	113	0	0	0	0
Expenditures and net lending	3169	4016	4476	4476	4770	4775	5187	5494	6577	7886	9,422	11,142
Current expenditures	2185	2661	2803	2803	3218	3179	3553	3971	4401	5238	6,193	7,209
Wages and salaries	1060	1446	1587	1587	1795	1796	1795	1806	2136	2426	2,802	3,219
Goods and services	520	681	700	700	730	746	800	941	1188	1505	1,926	2,396
Subsides and transfers	304	313	342	342	392	404	390	675	431	580	658	751
Ebola transfers	0	52	…	…	…	…	…	…				
Interest	301	222	175	175	301	233	567	548	646	726	806	843
Domestic	266	182	135	135	250	179	520	468	586	650	719	756
Foreign	35	40	40	40	51	54	47	80	60	77	87	87
Capital Expenditure	1147	1205	1616	1616	1585	1630	1635	1473	2176	2648	3,230	3,933
Foreign financed	730	635	963	963	930	975	935	904	1154	1333	1,541	1,766
Domestic financed	417	570	653	653	655	655	700	569	1022	1315	1,689	2,167
Net lending 1/	-168	12	0	0	-48	-48	0	0	0	0	0	0
Contingent expenditure 2/	5	138	57	57	15	15	25	50	25	25	25	25
Unidentified fiscal measures	…	…	0	0	0	0	0	0	-85	-158	-197	-116
Domestic primary balance 3/	-125	-1114	-1143	-1143	-1045	-949	-767	-801	-886	-1026	-1,230	-1,602
Overall balance including grants	-342	-830	-982	-982	-1230	-1222	-1068	-941	-1063	-1239	-1,449	-1,808
Overall balance excluding grants	-889	-1,789	-2146	-2,146	-2,026	-1,977	-1,748	-1,898	-2,101	-2,436	-2,858	-3,455
Financing	342	830	982	982	1,230	1,222	1,068	941	1,063	1,239	1,449	1,808
External financing (net)	294	264	338	338	359	372	359	225	362	431	515	735
Borrowing	380	362	455	455	539	565	561	524	693	800	924	1,060
Projects	352	362	455	455	539	565	561	524	693	800	924	1,060
Budget	28	0	0	0	0	0	0	0	0	0	0	0
Amortization	-86	-98	-117	-117	-180	-193	-202	-299	-330	-369	-409	-325
Domestic financing (net)	47	522	644	644	871	850	709	715	700	809	934	1,073
Bank	300	636	651	651	789	768	624	624	611	713	830	961
Central bank	-60	219	289	289	564	535	84	84	43	40	45	54
Ways and means	-47	37	24	24	53	53	84	84	43	40	45	54
SDR Onlending 4/	0	182	295	295	261	282	0	0	0	0	0	0
Secondary market operations	…	…	-31	-31	250	200	0	0	0	0	0	0
Commercial banks	359	417	362	362	225	232	540	540	568	673	785	907
Nonbank	-253	-114	-7	-7	82	82	85	91	89	96	104	112
Non bank financial institutions	-68	-68	19	19	103	103	113	113	124	137	150	165
Privatization proceeds	13	13	0	0	0	0	0	0	0	0	0	0
Change in arrears	14	-48	-39	-39	-21	-21	-28	-22	-35	-40	-47	-54
Float (checks payable)	-211	-11	13	13	0	0	0	0	0	0	0	0
o/w accumulated	30	0	0	0	0	0	0	0	0	0	0	0
o/w repaid	-241	-11	0	0	0	0	0	0	0	0	0	0
Additional donor financing		0	0	0	0	0	0	0	0	0		
IMF ECF augmentation		…	0	0	0	0	0	0	0	0	0	0
IMF debt relief		…	0	0	0	0	0	0	0	0	0	0
Memorandum item:												
Total poverty expenditures	883	1,236	1,253	1,253	1,248	1,248	1,353	1,533	1,890	2,427	3,052	3,803
Non-resource primary balance 5/	-276	-795	-276	-276	-1,061	-1,144	-654	-560	-670	-784	-941	-1,299
Public domestic debt 6/	1,961	2,347	2722	2,722	3,614	3,592	4,239	4,224	4,881	5,650	6,539	7,558
Bank and non-bank financial institutions 7/	231	568	375	375	610	567	709	715	700	809	934	1,073

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

1/ Transfer to the budget from debt owed from Sierra Rutile.

2/ For 2014-15, contingent expenditure captures only expenditures related to the Ebola epidemic.

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

4/A Memorandum of Understanding (MOU) between the BSL and MoFED has been signed to on-lend these resources to the budget.

5/ Non-resource revenue less expenditures and net lending adjusted for interest payments

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

7/ 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, 2013–21

(Percent of non-iron ore GDP)

	2013	2014	2015		2016		2017		2018	2019	2020	2021
			EBS 16/236	Est.	EBS 16/236	Proj.	EBS 16/236	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	15.6	15.5	15.7	15.2	14.1	13.4	14.5	15.0	15.5	16.0	16.7	17.2
Revenue	12.6	10.8	10.5	10.1	10.9	10.5	12.1	11.8	12.5	13.1	13.6	14.1
Tax revenue	11.6	10.1	9.7	9.4	10.0	9.9	11.1	11.0	11.8	12.3	12.9	13.4
Personal Income Tax	3.6	3.0	2.9	2.8	3.0	2.6	3.1	2.9	3.0	3.2	3.4	3.6
Corporate Income Tax	1.5	1.3	1.1	1.1	1.1	1.1	1.3	1.2	1.4	1.6	1.8	1.8
Goods and Services Tax	2.4	2.2	2.7	2.6	2.7	2.6	3.0	2.7	2.9	3.0	3.1	3.3
Excises	1.2	1.1	1.0	0.9	0.9	0.6	1.2	1.8	1.7	1.7	1.7	1.7
Import duties	1.5	1.4	1.5	1.4	1.6	1.5	1.6	1.6	1.7	1.7	1.8	1.9
Mining royalties and license	1.3	0.9	0.4	0.4	0.5	0.6	0.5	0.6	0.7	0.7	0.6	0.6
Other taxes	0.1	0.2	0.2	0.2	0.2	0.9	0.3	0.3	0.3	0.4	0.4	0.4
Non-tax	0.9	0.7	0.7	0.7	0.9	0.7	1.0	0.8	0.8	0.8	0.8	0.8
Grants	3.0	4.7	5.2	5.1	3.2	2.8	2.4	3.1	3.0	3.0	3.0	3.1
Budget support	0.9	3.2	2.9	2.8	1.6	1.3	1.1	1.5	1.6	1.6	1.7	1.8
of which CCR Debt relief	… .	… .	0.6	0.6	…	…	…	…	…	…	…	…
Project grants	2.1	1.3	2.3	2.2	1.6	1.5	1.3	1.2	1.3	1.3	1.3	1.3
Other	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0
Expenditures and net lending	17.5	19.5	20.1	19.4	19.0	18.0	18.3	18.1	18.8	19.5	20.2	20.8
Current expenditures	12.0	13.0	12.6	12.2	12.8	12.0	12.5	13.1	12.6	13.0	13.3	13.4
Wages and salaries	5.8	7.0	7.1	6.9	7.2	6.8	6.3	5.9	6.1	6.0	6.0	6.0
Goods and services	2.9	3.3	3.1	3.0	2.9	2.8	2.8	3.1	3.4	3.7	4.1	4.5
Subsides and transfer	1.7	1.5	1.5	1.5	1.6	1.5	1.4	2.2	1.2	1.4	1.4	1.4
Interest	1.7	1.1	0.8	0.8	1.2	0.9	2.0	1.8	1.8	1.8	1.7	1.6
Domestic	1.5	0.9	0.6	0.6	1.0	0.7	1.8	1.5	1.7	1.6	1.5	1.4
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2
Capital Expenditure	6.3	5.9	7.3	7.0	6.3	6.1	5.8	4.8	6.2	6.5	6.9	7.3
Foreign financed	4.0	3.1	4.3	4.2	3.7	3.7	3.3	3.0	3.3	3.3	3.3	3.3
Domestic financed	2.3	2.8	2.9	2.8	2.6	2.5	2.5	1.9	2.9	3.3	3.6	4.0
Net lending 1/	-0.9	0.1	0.0	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Contingent expenditure 2/	0.0	0.7	0.3	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.0
Unidentified fiscal measures	…	…	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.4	-0.4	-0.2
Domestic primary balance 3/	-0.7	-5.4	-5.1	-5.0	-4.2	-3.6	-2.7	-2.6	-2.5	-2.5	-2.6	-3.0
Overall balance including grants	-1.9	-4.0	-4.4	-4.3	-4.9	-4.6	-3.8	-3.1	-3.0	-3.1	-3.1	-3.4
Overall balance excluding grants	-4.9	-8.7	-9.6	-9.3	-8.1	-7.4	-6.2	-6.2	-6.0	-6.0	-6.1	-6.4
Financing	1.9	4.0	4.4	4.3	4.9	4.6	3.8	3.1	3.0	3.1	3.1	3.4
External financing (net)	1.6	1.3	1.5	1.5	1.4	1.4	1.3	0.7	1.0	1.1	1.1	1.4
Borrowing	2.1	1.8	2.0	2.0	2.1	2.1	2.0	1.7	2.0	2.0	2.0	2.0
Project	1.9	1.8	2.0	2.0	2.1	2.1	2.0	1.7	2.0	2.0	2.0	2.0
Budget	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.5	-0.5	-0.5	-0.5	-0.7	-0.7	-0.7	-1.0	-0.9	-0.9	-0.9	-0.6
Domestic financing (net)	0.3	2.5	2.9	2.8	3.5	3.2	2.5	2.4	2.0	2.0	2.0	2.0
Bank	1.6	3.1	2.9	2.8	3.1	2.9	2.2	2.1	1.7	1.8	1.8	1.8
Central bank	-0.3	1.1	1.3	1.3	2.2	2.0	0.3	0.3	0.1	0.1	0.1	0.1
Ways and means		0.2	0.1	0.1	0.2	0.2	0.3	0.3	0.1	0.1	0.1	0.1
SDR Onlending 4/		0.9	1.3	1.3	1.0	1.1	0.0	0.0	0.0	0.0		
Secondary market operations	…	0.0	0.0	0.0	1.0	0.8	0.0	0.0	0.0	0.0		
Commercial banks	2.0	2.0	1.6	1.6	0.9	0.9	1.9	1.8	1.6	1.7	1.7	1.7
Nonbank	-1.4	-0.6	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Non bank financial institutions	-0.4	-0.3	0.1	0.1	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Privatization proceeds	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	0.1	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Float (checks payable)	-1.2	-0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w accumulated	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w repaid	-1.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional donor financing		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF ECF augmentation		…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF debt relief		…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:												
Total poverty expenditures	4.9	6.0	5.6	5.4	5.0	4.7	4.8	5.0	5.4	6.0	6.5	7.1
Non-resource primary balance 5/	-1.5	-3.9	-1.2	-1.2	-4.2	-4.3	-2.3	-1.8	-1.9	-1.9	-2.0	-2.4
Public domestic debt 6/	10.8	11.4	12.2	11.8	14.4	13.5	14.9	13.9	13.9	14.0	14.0	14.1
Bank and non-bank financial institutions 7/	1.3	2.8	1.7	1.6	2.4	2.1	2.5	2.4	2.0	2.0	2.0	2.0
Non-iron ore GDP (Le billions)	18,159	20,542	22,254	23,045	25,101	26,547	28,360	30,411	35,012	40,440	46,697	53,647

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

1/ Transfer to the budget from debt owed from Sierra Rutile.

2/ For 2014-15, contingent expenditure captures only expenditures related to the Ebola epidemic.

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

4/ A Memorandum of Understanding (MOU) between the BSL and MoFED has been signed to on-lend these resources to the budget.

5/ Non-resource revenue less expenditures and net lending adjusted for interest payments.

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

7/ 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 2c. Sierra Leone: Fiscal Operations of the Central Government in 2016

(Billions of leone)

	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	2016 Proj.
Total revenue and grants	827	835	881	1,010	3,554
Revenue	649	720	779	650	2,798
Tax	590	676	739	612	2,618
Personal Income Tax	170	174	170	184	698
Corporate Income Tax	54	94	63	71	282
Goods and Services Tax	164	181	160	177	682
Excises	83	37	17	25	162
Import duties	90	109	90	109	399
Mining royalties and license	10	67	45	33	155
Other	19	14	193	13	240
Non-tax	59	44	39	38	180
Grants	178	115	103	360	756
Budget support	0	0	21	319	341
of which CCR Debt relief	0	0	0	0	0
Project grants	176	113	81	41	410
Other	3	2	0	0	5
Expenditures and net lending	1,421	1,159	1,081	1,114	4,775
Current expenditures	936	759	700	784	3,179
Wages and salaries	462	433	440	460	1,796
Goods and services	343	201	110	93	746
Subsidies and transfer	96	59	106	143	404
Interest	35	65	44	88	233
Domestic	22	48	31	78	179
Foreign	13	18	14	10	54
Capital expenditure	485	400	377	368	1,630
Foreign financed	236	266	224	248	975
Domestic financed	249	134	153	120	655
Net lending 1/	0	0	0	-48	-48
Contingent expenditure 2/	0	0	4	11	15
Domestic primary balance 3/	-524	-155	-64	-206	-949
Overall balance including grants	-594	-324	-199	-104	-1,222
Overall balance excluding grants	-773	-439	-302	-464	-1,977
Financing	595	318	320	-11	1,222
External financing (net)	48	90	86	149	372
Borrowing	61	154	130	221	565
Project	61	154	130	221	565
Budget	0	0	0	0	0
Amortization	-12	-64	-44	-72	-193
Domestic financing (net)	546	229	235	-160	850
Bank	201	245	161	161	768
Central bank	113	145	121	156	535
IMF ECF Augmentation	0	0	141	141	282
Secondary Market Operations	56	52	91	0	200
Ways and means 4/	57	93	-111	14	53
Commercial banks	88	100	40	5	232
Nonbank	345	-16	74	-321	82
Non bank financial institutions	38	46	15	4	103
NASSIT bond	0	0	0	0	0
Privatization proceeds	0	0	0	0	0
Change in arrears	-9	0	-5	-7	-21
Float (checks payable)	316	-62	63	-317	0
accumulated	0	0	0	0	0
repaid	0	0	0	0	0
Financing gap	0	-5	121	-116	0
Memorandum item:					
Bank and non-bank financing 5/	546	229	93	-301	567

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ Includes debt owed from Sierra Rutile in the amount of 8 mln USD expected to be paid in Q3.
2/ Contingent expenditure introduced in the budget process in 2013.
3/ Revenue less expenditure and net lending adjusted for interest payments and foreign financed capital spending.
4/ Includes bridge loan of 160 billion Le to cover shorfall in external budget support, paid back to the Central Bank in the third quarter.
5/ 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, 2013–17[1]

(Billions of leone; unless otherwise indicated)

	2013	2014	2015				2016				2017
			Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	
								Prel.	Proj.	Proj.	Proj.
I. Monetary Survey											
Net foreign assets	2832	3254	3168	2989	2964	3219	3204	3099	3100	3101	3997
Net domestic assets	1396	1675	1778	2049	2333	2269	2388	2677	2954	3033	2817
Domestic credit	2928	3742	3881	4058	4458	4405	4697	4997	5228	5282	6008
Claims on central government (net) 2/	1681	2444	2592	2763	3106	3092	3293	3538	3699	3860	4484
Of which: Claim on government by commercial banks	1219	1666	1741	1825	2019	2027	2115	2215	2255	2260	2800
Claims on other public sector 3/	200	199	190	183	177	182	191	188	188	188	188
Claims on private sector	1003	1057	1057	1064	1120	1091	1163	1215	1226	1177	1295
Other items (net) 3/	-1532	-2067	-2103	-2009	-2126	-2136	-2309	-2320	-2273	-2248	-3190
Money and quasi-money (M3)	4229	4929	4945	5038	5297	5488	5592	5776	6054	6134	6815
Broad money (M2)	3144	3864	3942	4069	4213	4387	4336	4465	4954	4903	5447
Foreign exchange deposits	1085	1065	1003	969	1084	1101	1257	1311	1100	1231	1368
II. Bank of Sierra Leone											
Net foreign assets	1527	1958	1856	1824	1708	1871	1748	1586	1544	1503	2363
Net domestic assets	-327	-397	-354	-157	-89	-147	-55	114	348	504	-250
Claims on other depository corporations	9	4	5	4	7	3	0	0	0	0	0
Claims on central government (net)	462	779	851	938	1087	1065	1178	1323	1444	1601	1685
Ways and means advances 4/	1	39	0	66	66	63	120	213	101	116	84
SDR-on lending	...	182	359	359	0	0	0	0	141	282	0
Claims on other public sector 3/ 5/	0	0	0	0	0	0	0	0	0	0	0
Claims on private sector	14	18	20	37	32	30	38	35	148	148	148
Other items (net) 5/	-818	-1198	-1230	-1136	-1215	-1245	-1271	-1245	-1245	-1245	-2083
Reserve money	1200	1562	1502	1667	1619	1724	1694	1700	1892	1921	2134
Currency in circulation	912	1137	1181	1118	1158	1357	1300	1247	1624	1511	1679
Commercial bank deposits	248	384	286	514	423	331	357	407	258	317	419
Other deposits	39	40	35	35	37	36	37	46	9	92	36
Memorandum items:											
(Annual percent change unless otherwise indicated)											
Base money	17.7	30.2	13.8	23.3	25.4	10.4	12.7	2.0	16.9	11.4	11.1
M3	16.7	16.6	16.4	12.3	16.4	11.3	13.1	14.6	14.3	11.8	11.1
Credit to the private sector	11.9	5.4	...	...	...	3.2	10.1	14.1	9.4	7.9	10.0
Velocity (GDP/M3)	4.3	4.2	...	...	...	4.2	...	...	...	4.3	4.5
Money multiplier (M3/base money)	3.5	3.2	3.3	3.0	3.3	3.2	3.3	3.4	3.2	3.2	3.2
Credit to the private sector (in percent of non iron ore GDP)	5.5	5.1	...	...	...	4.7	...	...	...	4.4	4.3
Gross Reserves (in US$ millions)	473	554	605	587	540	580	551	526	544	580	608
Program exchange rate (Leones/US$)	4334	4334	4953	4953	4953	4953	5639	5639	5639	5639	5639

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

1/ End of period.

2/ For 2014, claims on central government includes the Fund's special Ebola-related disbursement of Le 182 billion.

3/ Include public enterprises and the local government.

4/ For 2016, it includes bridge loan of 60 billion Le to cover shorfall in external budget support, paid back to the Central Bank in the second quarter.

5/ Including valuation.

Table 4. Sierra Leone: Balance of Payments, 2013–21

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

	2013	2014	2015		2016		2017		2018	2019	2020	2021
			EBS 16/236	Prel.	EBS 16/236	Proj.	EBS 16/236	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-859	-911	-681	-742	-692	-747	-683	-719	-735	-794	-761.2	-831.9
Trade balance	-28	-339	-724	-765	-669	-664	-512	-567	-469	-537	-577.7	-593.4
Exports, f.o.b.	1,543	1,304	582	581	662	690	877	806	998	1,047	1,151.8	1,290.7
Of which: diamonds	186	213	160	160	109	129	113	103	131	166	157	163
iron ore	1,064	742	78	77	146	162	219	210	254	245	270	297
Imports, f.o.b	-1,570	-1,644	-1,306	-1,347	-1,331	-1,355	-1,390	-1,373	-1,466	-1,585	-1,730	-1,884
Of which: oil	-331	-311	-157	-157	-112	-157	-139	-154	-172	-191	-210	-230
Services (net)	-476	-1,027	-341	-341	-281	-299	-340	-320	-413	-388	-398	-419
Income (net)	-557	-376	-112	-112	-97	-120	-111	-124	-133	-172	-114	-176
Of which: interest on public debt	-7	-9	-8	-8	-9	-10	-8	-10	-8	-10	-10	-10
Transfers	202	831	496	476	355	336	280	291	280	302	328	357
Official transfers	51	703	350	350	231	208	153	156	134	145	157	171
Other Aid (incl. Ebola)	17	564	222	222	162	162	101	101	70	70	70	70
Other transfers	151	128	146	126	124	127	128	136	146	158	171	186
Capital and financial account	567	622	455	499	624	679	686	662	710	777	880	999
Capital account	99	82	135	135	70	69	62	54	63	71	79	88
IMF CCRT Debt Relief 1/	…	…	29	29	…	…	…	…	…			
Project support grants	87	60	100	100	65	65	56	51	59	66	74	82
Financial account	468	540	320	364	554	610	624	608	646	707	801	912
Foreign direct and portfolio investment	370	385	263	265	516	530	560	575	616	666	731	801
Other investment	98	154	57	99	38	80	64	33	30	41	70	111
Public sector (net)	101	59	35	77	58	58	54	30	47	53	62	85
Disbursements	89	82	60	100	89	88	84	70	89	99	111	123
Amortization	-20	-24	-25	-23	-32	-30	-30	-40	-42	-46	-49	-38
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0	0
Change in net foreign assets of comm. banks	-3	48	22	22	-20	22	10	3	-17	-13	-31	-5
Other sectors net	0	0	0	0	0	0	0	0	0	0	40	30
Short-term	0	0	0	0	0	0	0	0	0	0	0	0
Errors and omissions	339	328	152	138	0	0	0	0	0	0	0	0
Overall balance	47	39	-74	-105	-67	-69	4	-57	-25	-17	119	167
Financing												
Central bank net reserves (- increase)	-47	-39	74	74	67	67	-55	-95	-70	-83	-119	-167
of which: Use of Fund loans	7	41	101	101	67	67	-17	-17	-18	-16	-29	-46
Purchases	14	54	130	130	68	68	0	0	0	0	0	0
Repurchases	-7	-12	-30	-30	0	0	-17	-17	-18	-16	-29	-46
Exceptional financing	0	0	0	31	0	2	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	51	152	95	100	0	0
Memorandum items:												
(Percent of non-iron ore GDP unless otherwise indicated)												
Current account	-20.5	-20.1	-15.5	-16.3	-16.6	-18.3	-16.0	-17.7	-16.3	-16	-14	-13
Trade Balance	-0.7	-7.5	-16.5	-16.9	-16.1	-16.3	-12.0	-14.0	-10.4	-11	-10	-10
Capital and Financial Account	13.5	13.7	10.4	11.0	15.0	16.6	16.1	16.3	15.8	15	16	16
Overall Balance	1.1	0.9	-1.7	-2.3	-1.6	-1.7	0.1	-1.4	-0.6	0	2	3
Official aid (grants and loans)	1.1	3.1	2.9	2.8	1.7	1.3	1.3	1.5	1.6	2	2	2
IMF CCRT debt service savings in US$	…	…	13	13	16	16	…	…				
Budget support in US$ (grants and loans)	44.2	141.0	129.1	129.1	71.7	53.4	54.4	61.9	71.3	82	95	109
Gross International Reserves												
US$ millions	473	554	580	580	580	580	618	608	660	727	817	937
Months of imports	2.0	3.6	3.8	3.8	3.6	3.7	3.4	3.5	3.6	3.6	3.8	4.1
Excluding iron ore, months of imports	3.4	4.2	4.9	4.6	5.0	5.7	5.1	5.0	5.1	5.1	5.3	5.9
National currency per US dollar (average)	4,337	4,532	…	…	…	…	…	…	…	…	…	…

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

1/ Covers payments to the IMF totaling US$ 13.3 mln and US$ 15.9 mln for 2015 and 2016, respectively.

Table 5. Sierra Leone: Financial Soundness Indicators of the Banking System, 2011–16

	2011	2012	2013	2014				2015				2016	
				Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	June
(Percent, end of period, unless otherwise indicated)													
Capital adequacy													
Regulatory capital ratio 1/	27.0	27.7	30.1	33.9	24.6	23.6	30.2	34.1	33.6	32.9	34.0	37.0	31.25
Regulatory tier 1 capital ratio 2/	14.0	12.5	13.6	13.8	21.9	20.5	25.9	31.4	29.9	28.5	29.0	34.2	27.71
Asset quality													
Nonperforming loans to total gross loans	15.1	14.7	22.4	22.0	35.7	33.8	33.4	34.4	39.6	38.1	31.7	30.7	27.71
Nonperforming loans (net of provisions) to regulatory capital	19.6	19.2	31.7	30.5	57.0	84.6	41.8	38.3	47.5	45.4	31.9	27.9	23.08
Earnings and profitability													
Return on assets	3.8	3.4	2.1	0.5	1.0	1.8	2.7	0.8	1.8	2.6	3.2	1.0	1.85
Return on equity	15.6	16.1	9.9	2.5	3.7	9.8	14.9	4.4	9.4	15.0	18.3	5.1	10.70
Liquidity													
Ratio of net loans to total deposits	41.3	33.9	32.4	33.9	26.1	27.1	27.8	26.6	24.2	24.0	24.4	25.1	25.27
Liquidity ratio 3/	54.6	40.7	72.5	77.5	74.6	73.8	78.9	77.8	83.6	84.7	83.3	83.8	71.65
Statutory minimum liquidity ratio 3/ 4/	29.7	54.9	29.3	30.7	28.4	61.2	29.7	30.2	30.4	30.3	30.4	30.3	30.65
Share of foreign exchange deposits in total deposits	41.5	40.8	38.5	30.9	34.0	32.1	26.5	32.5	30.4	31.8	32.0	33.2	33.52
(Number of banks not complying)													
Prudential ratios at year-end													
Capital adequacy	0	0	0	0	2	2	2	1	2	1	1	1	1
Minimum liquidity ratio	2	5	0	0	0	5	0	0	0	0	0	0	0
Minimum capital	3	2	1	1	2	2	2	2	2	2	2	2	2
Limit of single large exposure 5/	3	5	0	2	0	1	2	2	2	2	2	2	2
Memorandum Item:													
Number of banks	13	13	13	13	13	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.

Table 6. Sierra Leone: Indicators of Capacity to Repay the Fund, 2012–27

				Projection												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Fund obligations based on existing credit																
(in millions of SDRs)																
Principal	2.3	4.6	8.1	0.4	0.4	12.1	13.0	11.3	21.2	31.1	33.3	31.6	30.7	17.6	4.9	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.3	0.3	0.2	0.1	0.0	0.0	0.0
Fund obligations based on existing and prospective credit																
(in millions of SDRs)																
Principal	2.3	4.6	8.1	0.4	0.4	12.1	13.0	11.3	21.2	31.1	38.2	36.4	35.6	22.5	9.8	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0
Total obligations based on existing and prospective credit																
In millions of SDRs	2.3	4.6	8.1	0.4	0.4	12.1	13.0	11.8	21.6	31.5	38.5	36.7	35.7	22.6	9.8	0.0
In millions of US$	3.5	7.1	12.5	0.6	0.5	16.8	18.0	16.3	29.99	43.66	53.39	50.80	49.44	31.28	13.57	0.00
In percent of exports of goods and services	0.3	0.4	0.8	0.1	0.1	1.7	1.5	1.3	2.10	2.74	2.97	2.58	2.33	1.38	0.56	0.00
In percent of debt service 1/	13.4	20.9	27.3	1.1	1.2	25.4	26.4	23.0	33.71	46.26	51.47	48.70	46.71	34.93	19.08	0.00
In percent of GDP	0.1	0.1	0.2	0.0	0.0	0.4	0.4	0.3	0.54	0.70	0.77	0.66	0.59	0.35	0.14	0.00
In percent of Gross International Reserves	0.8	1.5	2.3	0.1	0.1	2.8	2.7	2.2	3.67	4.66	4.95	3.99	3.85	2.35	0.95	0.00
In percent of quota	2.2	4.5	7.8	0.4	0.2	5.8	6.3	5.7	10.43	15.19	18.58	17.68	17.20	10.88	4.72	0.00
Outstanding Fund credit																
In millions of SDRs	78.8	83.1	109.7	182.2	231.2	219.1	206.1	194.8	173.6	142.5	104.3	67.9	32.3	9.8	0.0	0.0
In millions of US$	120.7	127.6	168.7	264.0	320.3	303.6	285.6	269.9	240.6	197.5	144.5	94.0	44.7	13.6	0.0	0.0
In percent of exports of goods and services	9.8	7.2	11.2	34.9	36.2	30.1	23.4	20.9	16.9	12.4	8.1	4.8	2.1	0.6	0.0	0.0
In percent of debt service	458.2	376.0	368.8	437.0	784.4	458.8	418.4	379.9	270.5	209.2	139.3	90.1	42.3	15.1	0.0	0.0
In percent of GDP	3.2	2.6	3.4	5.8	7.8	7.4	6.3	5.4	4.3	3.2	2.1	1.2	0.5	0.1	0.0	0.0
In percent of Gross International Reserves	28.7	27.0	30.5	45.5	55.2	49.9	43.3	37.1	29.5	21.1	13.4	7.4	3.5	1.0	0.0	0.0
In percent of quota	76.0	80.1	105.8	175.7	111.5	105.6	99.4	93.9	83.7	68.7	50.3	32.7	15.6	4.7	0.0	0.0
Net use of Fund credit (in millions of SDRs)	2.1	4.3	26.7	69.4	48.5	-12.1	-13.0	-11.3	-21.2	-33.6	-38.2	-36.5	-35.6	-22.5	-7.3	0.0
Disbursements	4.4	8.9	34.8	90.0	48.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	2.3	4.6	8.1	20.6	0.4	12.1	13.0	11.3	21.2	33.6	38.2	36.5	35.6	22.5	7.3	0.0
Memorandum items:																
Exports of goods and services (in millions of US$)	1,228	1,766	1,510	757	885	1,007	1,219	1,293	1426	1596	1795	1966	2119	2265	2418	2577
Debt service (in millions of US$)	26	34	46	60	41	66	68	71	89	94	104	104	106	90	71	69
Nominal GDP (in millions of US$)	3,802	4,916	5,007	4,543	4,106	4,085	4,515	5,001	5583	6207	6924	7668	8355	9046	9752	10454
Gross International Reserves (in millions of US$)	420	473	554	580	580	608	660	727	816.6	937.2	1078.9	1272.7	1285.7	1333.6	1429.5	1565.4
Quota (millions of SDRs)	104	104	104	104	207	207	207	207	207	207	207	207	207	207	207	207

Source: IMF staff estimates and projections.

1/ Total debt service includes IMF repayments.

Table 7. Sierra Leone: Actual and Proposed Disbursements Under the ECF Arrangement, 2013–16

Availability	Disbursements: In millions of SDRs	Disbursements: In percent of quota 1/	Conditions for Disbursement
October 21, 2013	8.890	4.29	Effectiveness of the three-year ECF arrangement
June 15, 2014	8.890	4.29	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
March 2, 2015	60.740	29.29	Board completion of the second review based on observance of performance criteria for June 30, 2014 and Augmentation of Access of 50 percent of quota
June 15, 2015	8.890	4.29	Board completion of the third review based on observance of performance criteria for December 31, 2014
November 15, 2015	24.445	11.79	Board completion of the fourth review based on observance of performance criteria for June 30, 2015
April 15, 2016	24.440	11.78	Board completion of the fifth review based on observance of performance criteria for December 31, 2015
September 10, 2016	24.440	11.78	Board completion of the sixth review based on observance of performance criteria for June 30, 2016
Total disbursements	186.660	**102.50**	

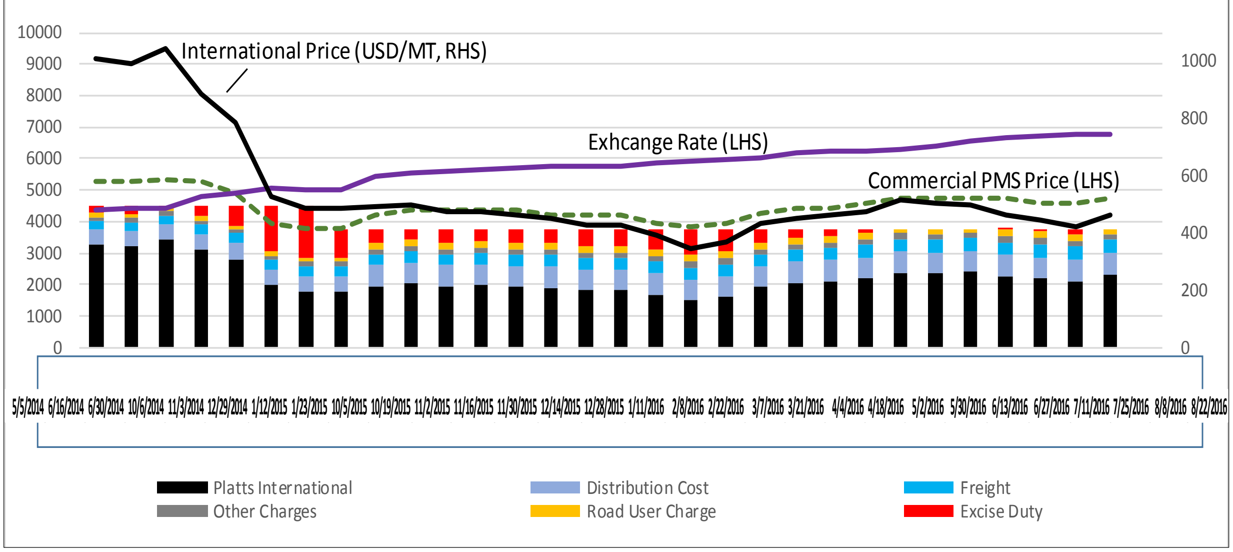
1/ Following the 14th quota review, Sierra Leone doubled its quota at the Fund. The current numbers reflect this increased quota.

Annex I. Fuel Prices: The Current Bottleneck and Options Going Forward

A. Background

There is currently a dual pricing mechanism for fuel in Sierra Leone, whereby retail fuel prices are fixed and commercial prices move with the market. The Petroleum Regulatory Unit (PRU) publishes a formula that determines per liter prices at the pump on a bi-weekly basis. The formula has four key components: the international Platts price, the exchange rate, an ad-valorem excise tax (currently zero for retail), and distribution charges. Other charges include import duties (zero for retail), storage and port charges, demurrage and levy. There is also a Road User Charge (RUC, normally 6 percent of the price, but zero now for retail) that the government collects and earmarks directly for road maintenance and repairs. The most fundamental difference between retail and commercial is that in the case of the former, the government has adjusted the level of excise it collects to keep the price fixed, at a particular level, currently 3,750 leones per liter, whereas in the case of commercial fuel, the excise is fixed, and the prices move in tandem with the Platts and the exchange rate. The current commercial Premium Motor Spirit (PMS) rate is 4,927 leones per liter. Commercial volume comprises about 35 percent of the overall volume.

Evolution of Retail Petrol (PMS) Price Components in Sierra Leone
(in Leones, LHS)



B. Current Situation

As can be seen from the graph above, the exchange rate has been depreciating steadily since June of 2014, and particularly since mid-2016. Thus, even though the Platts price has been relatively steady, and at times declining, the market-based leone price for fuel has been increasing markedly. Commercial prices that move with the market have risen 12 percent in just 5 months. Meanwhile, the government has been keeping the retail price fixed by continuously lowering the excise it collects. At the point when the excise was reduced to zero, the government began decreasing RUC. Recently, both the excise and RUC have been reduced to zero. But this has not been enough to keep the price fixed at 3,750, requiring the budget to pay explicit subsidies to the oil marketing companies.

Due to the large price differential for retail fuel emerging between Sierra Leone's and its neighbors, there are frequent reports of smuggling, especially to Guinea.

C. Current Context

As part of the combined 3rd and 4th Review of the ECF arrangement, the Government had made a commitment to enact fuel subsidy reform as of January 1, 2017. From that date, retail fuel prices would be unified with commercial prices using the commercial pricing formula. However, with the onset of actual cash subsidies, the fiscal position is no longer sustainable, and reform is needed quickly.

The ideal course would be to float prices now, and begin building excise and RUC back to their previous levels, and eventually converge with the commercial price, by January 1, 2017. However, this is a time of significant social and political tensions in the country. First, the combination of high inflation and depreciation, as well as the recent sharp increase in electricity tariffs, have markedly increased pressure across the population, particularly due to increases in prices for imported rice. Second, elections are scheduled for early 2018, and the political climate is not amenable to a drastic change to the system.

Fuel Prices in the Region[1/]
(US dollar per liter)

Sierra Leone	52 cents
Benin	75 cents
Libera	81 cents
Burkina Faso	82 cents
Guinea	88 cents
Ivory Coast	98 cents
Senegal	122 cents

[1/] Latest prices available.

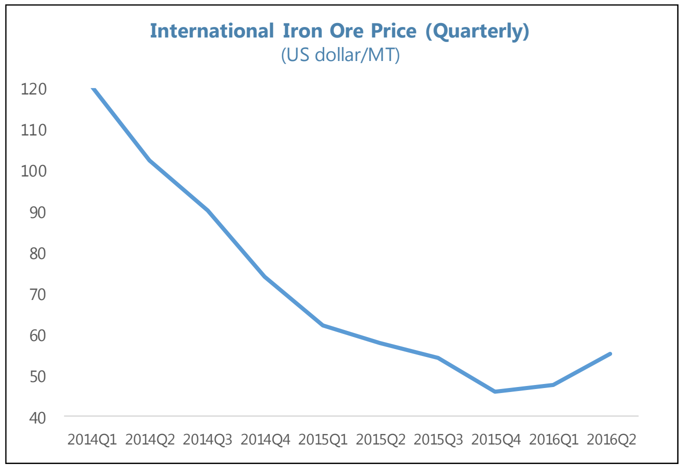
D. Strategy

As is the case with numerous successful examples of fuel subsidy reform,[1] staff has advocated that any adjustment to price, whether one-time or based on floating, be accompanied by concrete social safety measures to remedy any potential impact on the vulnerable. At the discretion of the authorities and based on expertise of relevant development partners, these measures could include, inter-alia, expansion of the existing cash transfer program under the Ebola Recovery Strategy (this would be operationally the least costly as it is already in place); and possibly transportation transfers to low-income consumers. In addition, successful examples demonstrate that a clear communication strategy, already being undertaken by the authorities, is crucial. The public message, inter-alia, would make the government's case for the reform's rationale, and explain the compensating social measures to smooth the impact of the price increase on the most vulnerable.

[1] Ghana passed successful fuel subsidy reform in 2004. The Government commissioned a Poverty and Social Impact Assessment (PSIA), undertaken through the World Bank, to determine the social impact of removing fuel subsidies. The study reached the conclusion that the highest income bracket was the greatest beneficiary. The study also quantified how and to what degree the low-income population would be impacted. This formed a solid basis for communicating the need for a change. The PSIA demonstrated that cash transfers were the most effective means to smooth the impact of the reform on the vulnerable.

Annex II. Iron Ore Sector: Background, Current Situation and Prospects

A. Background



In late 2013, amid a global slowdown in the commodities market, iron ore prices began a steady downward trend. Through the end of 2015, prices declined more than 70 percent from their peak. The main iron ore company at the time, African Minerals Limited (AML), which accounted for 80 percent of production, was involved in an extended disagreement with its shareholders, including a lawsuit. This, combined with lower prices, culminated in bankruptcy and a shutdown of operations in late 2014. The smaller company, TIMIS Mining Corporation (TMC), depended on AML for access to rail and port services. Hence, when AML shutdown, an Interim Access Agreement (IAA) expired in early 2015, and TIMIS also stopped its operations, producing less than a million tons in 2015. In mid-April 2015 SISG, formerly the second largest shareholder in AML, became the sole shareholder.

B. Current Situation

In January 2016, following protracted discussions to lower charges with its main subcontractors, SISG began new production of iron ore, selling to its parent company. TIMIS has not resumed production.

C. Production

Production to date is consistent with the original forecast of 6 million-ton for 2016. Staff has assumed 12 million tons for production in 2017, increasing to 16 million by 2021 based on further improvements to cost structure and higher production capacity. The National Mineral Agency (NMA) reported that the company is in the process of expanding its transshipment capacity by the purchase of at least three new vessels, which might increase exports to as high as 15 million by 2017. However, SISG's negotiations with its main subcontractor (BCM) to reduce charges have stalled. This poses a potential constraint to higher production in the medium-term.

D. Cost Structure

When production resumed in 2016, SISG's reported costs were in the range of $49 per ton, including freight. Since assuming sole ownership, in addition to negotiating lower costs with many of its sub-contractors, SISG undertook a series of initiatives to lower operational costs. As of end-August, the company reported having lowered its unit cost to about $37.

E. Pricing

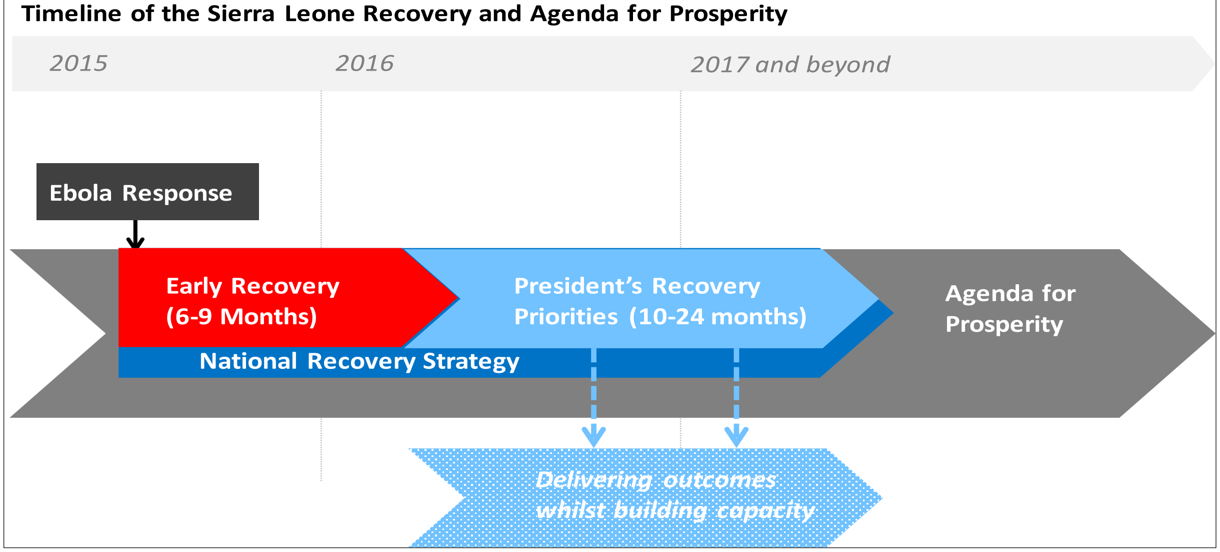
Staff's original understanding was that prices SISG would charge to its parent company were fixed at $24.3 per ton for two years through an off-take agreement. However, data provided by NMA and confirmed with the company indicated that prices charged varied with the market. Latest data indicate SISG is obtaining a price in the range of $40-45, implying that the company has begun operating at moderate profitability.

Annex III. Ebola Recovery Strategy (ERS): Status and Implementation Going Forward

An executive team was appointed by the State House (Presidency) and tasked with carrying out President Koroma's objectives as outlined in the Ebola Recovery Strategy (ERS). Below is a summary of their progress and plans:

ERS was divided into two phases: (i) a 6–9-month Early Recovery phase where crisis response, maintaining zero cases, emergency assistance to the directly impacted, and school re-openings would take priority; (ii) and a longer-term phase (10–24 months) where there would be more infrastructure spending in health, transportation and education. The second phase is intended to eventually converge with the long-term goals of the Agenda for Prosperity (A4P), Sierra Leone's strategy for poverty reduction and transition to middle-income status. The first phase of ERS has been completed, and the team is now executing the second phase.

Timeline of the Sierra Leone Recovery and Agenda for Prosperity



Key achievements of the first phase include:

- Becoming and staying Ebola-free
- Cash transfers made to more than 40,000 extremely poor and vulnerable households and more than 10,000 youth.
- Construction and rehabilitation of nearly 1000 hectares of inward valley swamps (IVS).

Of the second phase, key results are expected to be delivered by June 2017 include:

- Ensuring continuous care for EVD-affected persons and survivors.
- Training at least 40,000 teachers in core subjects and reducing overcrowding in severely affected schools.
- Instituting nation-wide school feeding for 1.2 million children.
- Generating 10,000 jobs across key agriculture value chains.
- Supporting 1,000 medium and small enterprises to increase their competitiveness, including agribusinesses across key value chains.
- Providing safe, affordable, and sustainable water supply services to 600,000 people in Freetown.
- Providing safe water supply to 700,00 people in the provinces.
- Doubling access to electricity from 125,000 to 250,000 households.
- Doubling the total operational power generation capacity from 75MW to 150MW.

Of the total required funding of $1,040 million, $755 million has been committed by donors, and $129 million from the Government, leaving a gap of $155 million for the ongoing second phase.

Appendix I. Letter of Intent

Freetown,
November 17, 2016

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

Dear Madame Lagarde:

1. The program supported by the Extended Credit Facility (ECF) arrangement has achieved its key objectives, despite the severe exogenous shocks we have suffered. The 2013–2016 ECF arrangement was initiated at a time of great momentum in our economy. Following the commencement of large scale iron ore mining, we concluded a medium term Poverty Reduction Strategy Paper, the *Agenda for Prosperity*, which was designed to accelerate growth, reduce poverty and usher our country into the ranks of middle income countries by 2035. As a result, reflecting the poverty reduction and growth objectives, the program focused on (i) consolidating the gains from the previous program, including macroeconomic stability supported by prudent fiscal and monetary policies; (ii) strengthening revenue performance and improving public financial management to efficiently channel adequate resources to infrastructure and poverty-reducing spending; and (iii) stepping up financial sector reforms to support financial deepening and economic growth. This letter details the achievements under the program, and provides an update of our economic policies going forward.

2. The ECF arrangement played a crucial role in ensuring macroeconomic stability in the presence of two significant shocks in 2014–2015: the Ebola epidemic and the sharp drop in iron ore prices. Though the shocks resulted in a temporary dip in real growth, thanks to sound macroeconomic policies and the support of our development partners, including the IMF, growth has since resumed. Consistent with the objectives we set out to achieve at the inception of the program, we have maintained macroeconomic stability through the pursuit of prudent fiscal and monetary policies, inflation declined significantly and the fiscal position improved relative to 2012.

3. Performance under the program at end-June was good, and we met all but one end-June 2016 performance criteria and all but one indicative targets (Table 1). Net domestic bank credit at end-June was Le 446 billion, lower than the adjusted target of Le 580 billion. Net domestic assets of the central bank was Le 278 billion; which is Le 105.5 billion less than the adjusted

target of Le 383 billion. Gross foreign reserves of the central bank at June 2016 declined by US$52.5 million, which is US$12.08 million less than the adjusted program floor. The continuous ceilings on short-term external debt owed or guaranteed by the public sector, and on external payment arrears of the public sector were observed, while the continuous ceiling on NPV of external debt was breached (see paragraph 5 below). Spending on poverty-related expenditure reached Le 785 billion, exceeding the indicative target by Le 161 billion. Indicative targets on domestic government revenue was met, but that on domestic primary balance was missed.

4. However, in the second half of 2016 we have struggled to keep fiscal operations on track. While total domestic revenue and grants revenue exceeded program by Le 15 billion, the higher than programmed performance reflects the receipt of about US$30 million in capital gains tax from the sale of the telecoms company, Airtel. Some revenue categories underperformed due to delays in the implementation of the Finance Act of 2016 earlier in the year, and much lower than expected collection from the liberalized telecoms gateway. In addition, a decline in petroleum excise collection, due to delay in the implementation of petroleum price unification, as well as exemptions granted to key road construction companies from payment of excise on petroleum uplift contributed to the decline. Out of programmed external budget support of Le 404 billion for the year, only Le 341 billion will be realized due in part to technical difficulties in meeting donor criteria, and in part to one donor reducing its pledge. On the expenditure side, total expenditures and net lending is projected to exceed the program by Le 5 billion. Goods and services exceeded the revised budget, especially for the procurement of emergency and free-health care drugs and medical supplies as part of the Ebola recovery strategy. The financing gap created in our 2016 budget will be filled through expenditure cuts.

5. We did however miss the continuous performance criterion on the net present value of new external debt. The non-observance occurred as we contracted two loans, and assumed a debt obligation under a third transaction. The two loans were a $50.34 million (NPV) Transmission Line and Substation Project loan from India EXIM Bank, and a $8.42 million (NPV) Regional Disease Surveillance Systems Enhancement Project, from IDA. In addition, in July 2016 the government of Sierra Leone (GOSL) assumed responsibility for a debt obligation owed to Securiport, an airport security management company.[1] These three debt obligations were contracted after the completion of the 5th review, and bring total new debt since July 2015 to roughly $138 million in NPV terms. At the time of contracting these new debts, it was our understanding that we had room for external borrowing up to $150 million in NPV terms (since

[1] The original contract signed by GOSL with Securiport in March 2012 only required GOSL to pass a directive requiring airlines operating at the international airport to collect a fee from passengers which would cover the costs of services provided by Securiport. It did not create a debt obligation for the government. However, the inability of the line ministry to enforce fee collection by the airlines led to the accumulation of arrears to Securiport, which the company claimed had reached $19.8 million as of July 2016 GOSL assumed the Securiport obligation at a discounted amount of $12 million. GOSL paid $3 million in August, with the remaining $9 million amortized in quarterly payments till 2019. Furthermore, we have notified the airlines of our intension to enforce the directive of collection of fees from passengers beginning January 1st 2017.

July 2015) while keeping our risk of external debt distress moderate. Given the relatively small amount of the additional borrowing, and the fact that we have remained within safe borrowing limits, we request a waiver of non-observance of this PC.

6. We made progress in the implementation of some structural benchmarks (Tables 2 and 3). The consolidated tax and nontax obligations for mining companies as well as a list of expired mining agreements has been prepared. Implementation of structural benchmarks aimed at improving the revenue base are on track. We have achieved some success in reducing discretionary waivers and broadening of the tax base as a result of the close scrutiny of duty waiver requests; and requiring parliamentary approval of any new waivers. Most monetary and financial sector benchmarks were met. We completed the procurement process for the diagnostic audit of two state-owned banks in October. On business environment improvement, the procurement process for the migration to ASYCUDA World is now progressing with World Bank support.

7. There were challenges in meeting some structural benchmarks and revenue measures within the specified time frame. The revised medium-term wage and pay reform strategy paper, a key element of our fiscal risk mitigation was considered by Cabinet, but they requested an expanded analysis to cover the entire public sector. Following resolution of the contentious issues in the PFM Bill and its passage, we commenced the implementation of Treasury Single Account, but have since discovered that we need more time to resolve issues relating to technology, banking procedure and regulations. The establishment of the Natural Resource Revenue Fund was held up by delays in the development of PFM Act regulations. The Tax Administration Bill is currently undergoing legal drafting and will be submitted to Parliament in October. Finally, we have requested TA for the preparation of a contingent manual for supervisory action in the event of systemic banking distress. We are fully committed to continue the implementation of these measures, and to completing early in the New Year.

8. Notwithstanding the good program performance, we recognize that our economy remains vulnerable, and the structural reform agenda remains unfinished. Fiscal operations are complicated by the declining trend in donor support and increased fiscal pressures to address post-Ebola needs, as well as the longer term development agenda. Monetary policy is contending with the second round impact of exchange rate depreciation on prices. On the external sector, we are witnessing a slower than anticipated improvement in external balances. Responses to these emerging threats are compounded by the delay in the implementation of structural reform policies that would have moderated their impact. Therefore, our main objectives going forward are to maintain fiscal sustainability, reduce inflation, strengthen our international reserve buffers, address infrastructure bottlenecks and promote economic diversification and poverty reduction. To achieve these goals and safeguard macroeconomic stability, we have resolved to continue the pursuit of prudent policies, notwithstanding the end of the current arrangement.

9. Fiscal policy will seek to safeguard sustainability while pursuing the ideals set out in our Agenda for Prosperity. Our immediate priority is to increase our revenue base, while reigning in expenditure. We are optimistic that the current rising trend in iron ore prices will facilitate the reopening of the second mine, and hence increased production and higher related revenues than envisaged in the program. We have commenced the application of GST tax to electricity bill, and we resolved to improve revenue collection from telecom gateway liberalization through the use of international monitoring agents. We have reformed the fuel pricing mechanism on November 11, 2016, to avoid the need for explicit subsidies, to reinstate excises and import duties on retail fuel, and will allow full pass through from July 2017. We have also significantly increased the excise on commercial fuel.

10. These factors all key components of our 2017 budget, which was submitted to Parliament on November 11. This budget targets an increase in revenues, based on the measures discussed above, by 1.3 percent of GDP compared to 2016, and net domestic financing of 2.1 percent of GDP, in line with our plans at the time of the last review. Going forward, we will focus on the findings of the IMF TADAT mission, in order to understand how best to increase revenue collection. At the same time, we will continue to rein in wage bill increases and other expenditures. We are optimistic that given the provisions of the new PFM Act, we are in a better position to maintain the required fiscal discipline. The expected improvement in revenue collection and expenditure controls and management should result in a more sustainable fiscal stance in the medium term.

11. Monetary policy will continue to be geared toward price stability. In 2016, inflationary pressures are largely driven by ongoing depreciation of the domestic currency. While we cannot prevent shocks to domestic prices, BSL will remain attentive to potential risks from second round price pressures, and will tighten monetary policy if necessary to achieve our inflation target. We have also decided to target 2017 broad money growth at 3.4 percent lower than we had planned at the time of the last review. BSL will continue to enhance the effectiveness of monetary policy operations, as well as liquidity management, through the use of money market operations, via lending and standing deposit facilities. BSL will also strengthen its own capacity to forecast liquidity on a daily basis, with close cooperation from the Ministry of Finance and Economic Development. In this regard, the newly introduced interest rate corridor system will facilitate our policy operations.

12. We note that the operations of the foreign exchange market in recent times has inadvertently given rise to a wide gap between the BSL official rate and the auction market rate which constitutes a multiple currency practice, in contravention of our obligations under IMF's Article VIII. In this regard, we have taken remedial measures to improve the organization of the auction market to ensure that demand and supply conditions in the market determine the exchange rate, thereby eliminating the multiple currency practice. In addition, we will not in any way signal to banks what rate we would like them to bid in the auction. We hereby request a

waiver of nonobservance of this requirement. Going forward, our exchange rate and market policy will be transparently implemented. Exchange rate policy will be geared towards correcting short run volatility in the market through periodic wholesale foreign exchange activities.

13. Our financial sector policies will focus on improving the safety and soundness of the banking system, while remaining vigilant to changes in the quality of the loan portfolio. In the recent past, we introduced a Loan Write-Off Policy Directive which allowed banks to clean their balance sheets. In addition, the introduction of the Collateral Registry and the proposed Credit Administration Bills should improve the standards of credits. Some supervisory actions have also been taken, such as putting a cap on lending, and ensuring adequate provisions on non-performing facilities. We will review any issues likely to emerge from the diagnostic study, and develop an implementation plan. To further strengthen our supervisory abilities, we have requested that the IMF's MCM department provide us with a long-term resident banking supervision expert.

14. Our borrowing plans will remain anchored on ensuring debt sustainability. Given the uncertain outlook, particularly in the iron ore sector, the government will give priority to grants and concessional borrowing to finance investment projects. However, we recognize that the level of public debt and the associated debt service payments are crowding out key priority expenditures necessary for supporting the post Ebola socio-economic recovery. In this regard, government will work with the World Bank to seek additional debt relief from commercial creditors. Finally, only the most critical projects, for which grants and concessional financing are not available, will be undertaken with non-concessional financing, and then only after ensuring that the resultant debt will not harm the country's debt sustainability. In particular, we will not contract loans that would move the country into high risk of debt distress. Borrowing from the Government securities market will be guided by the medium-term debt management strategy. The government will continue to signal its borrowing needs through the publication of a quarterly borrowing calendar.

15. Even with these prudent policies, the macroeconomic outlook for 2017 and the medium term is fraught with some risks. Growth is estimated to reach 5.4 percent, reflecting a moderate recovery in iron ore production and prices, and favorable developments from the agriculture and service sectors. Inflation is projected at 10.5 percent, partly due to depreciation pressures, and to reflect a tighter monetary policy stance. We estimate that we will accumulate around US$28 million in reserves. Our external financing gap is estimated at around US$152 million. These projected developments underscore the fact that even though the program has achieved its objectives, we remain vulnerable to shocks. Therefore, we intend to continue implementing the reform agenda. Looking forward, we wish to start discussions on a possible successor arrangement in the coming months.

16. In consideration of the completion of the sixth review, we hereby request disbursement of the last tranche, based on overall performance and the government's policy intentions going forward. We will consult with the IMF on the adoption of any additional measures and in advance of revisions to policies contained herein, in accordance with IMF policies on such matters.

17. In line with our commitments to transparency in government operations, we authorize publication of this letter, and the staff report, including placement of these documents on the IMF website, in accordance with IMF procedures.

Very truly yours,

/s/	/s/
Momodu Kargbo	**Kaifala Marah**
Minister of Finance and Economic Development	Governor of Bank of Sierra Leone

Attachment I. Technical Memorandum of Understanding—Arrangement Under the Extended Credit Facility, 2013–16.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2016

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

	2016							
	Mar. 2/				Jun. 1/			
	Prog.	Adj. Prog.	Prelim	Status	Prog.	Adj. Prog.	Prelim.	Status
Performance criteria 1/ 2/								
Net domestic bank credit to the central government (ceiling)	316	347	201	Met	556	580	450	Met
Unadjusted target (ceiling)		316				556		
Adjustment for the shortfall (excess) in external budget support		68				108		
Adjustment for the issuance of government securities to the nonbank private sector		-38				-84		
Net domestic assets of the central bank (ceiling)	119	187	144	Met	275	383	278	Met
Unadjusted target (ceiling)		119				275		
Adjustment for the shortfall (excess) in external budget support		68				108		
Gross foreign exchange reserves of the central bank, US$ millions (floor)	-15	-26	-30	Not Met	-11	-65	-53	Met
Unadjusted target (floor)		-15				-11		
Adjustment for the shortfall (excess) in external budget support 3/		-12				-19		
Adjustment for the shortfall in the US$ value of IMF disbursement		0				-35		
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities		1				1		
Present Value of New External Debt (ceiling) 4/ 7/ 9/	70				70		69	Met
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
External payment arrears of the public sector (ceiling) 3/	0				0		0.0	Met
Indicative target								
Total domestic government revenue (floor)	619		649	Met	1305		1369	Met
Poverty-related expenditures (floor)	281		537	Met	624		785	Met
Domestic primary balance (floor)	-305		-524	Not Met	-643		-678	Not Met
Memorandum items:								
External budgetary assistance (US$ million, cumulative flow from the start of the year) 5/	12.6		0.5		19.7		0.5	
Net credit to government by nonbank sector 6/	0.0		38		0.0		84	
ECF disbursements (US$ millions, cumulative flow from the start of the year)	0.0		0.0		35.4		0.0	
Exchange rate (Leones/US$) 8/	4953		4953		5639		5639	

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU) of the 5th Review; end-December and end-June target are performance criteria.

2/ End-March is an indicative target.

3/ These apply on a continuous basis.

4/ The performance criteria on the ceiling on new nonconcessional external debt was replaced by the ceiling on the Present Value of New External Debt, following the IMF Board approval on November 16, 2015

5/ Including grants and loans.

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

7/ Cumulative from July 1, 2015. The Present Value of New External Debt is applied on continuous basis.

8/ New program exchange rate applies for 2016 is Le 5639.10/US$, reflecting end December 2015 actual rate.

9/ The continous PC on present value of new external debt ceiling was not observed after end-June.

Table 2. Sierra Leone: Prior Actions and Structural Benchmarks Under the ECF Arrangement, 2016

Measures	Timing	Status
Prior Actions		
• Submission to parliament of 2017 budget consistent with the deficit target in the June 16, 2016 staff report.		Met
• Signing a contract for diagnostic studies of the two state-owned banks.		Met
Expenditure and Debt Management		
• Adoption by Cabinet of a revised medium-term wage and pay reform strategy reflecting the revised economic projections and taking into account promotions and retirements in the civil service.	End-June	Not met.
• Prepare a monthly rolling Treasury Cash Flow table consistent with the 2016 budget	Continuous	Met.
• Prepare a semi-annual report on PIP execution.	Continuous	Met.
Monetary Operation		
• Establish a primary dealer agreement system for government securities market.	End-June	Met.
• Introduce a daily liquidity forecasting framework	End-March	Met.
• Finalize draft of BSL's rules governing the operations of the interbank foreign exchange market.	End-June	Met.
Financial Sector Development		
• Complete the independent diagnostic study report for Rokel Commercial Bank and Sierra Leone Commercial Bank	End-March	Not met.
• Establish a registry of moveable collateral.	End-March	Met.
• Prepare an internal BSL contingent manual to guide identification and step-by-step supervisory actions in the event of specific or systemic banking distress.	End-June	Not met.
Business Environment		
• Begin the migration from ASYCUDA ++ to ASYCUDA World as the next step for introducing a one-stop window.	End-June	Met.

Table 3. Sierra Leone: Structural Benchmarks Under the ECF Arrangement, 2016		
Measures	**Timing**	**Status**
Revenue Mobilization		
• Establish a Natural Resource Revenue Fund with legal and procedural characteristics consistent with the new PFM Bill.	End- June	Not met.
• Establish a Treasury Single Account (TSA), and streamline NRA's transition accounts.	End-June	Not met.
• Introduce a new Tax Administration Act.	End-June	Not Met.
• Review the consolidated tax and non-tax obligations for mining companies, and prepare a list of all expired mining agreements.	End-June	Met.
Monetary Operations		
Link the operation of the daily liquidity forecasting framework to monetary policy actions.	Continuous	Met.
Expenditure Management		
• Prepare a monthly rolling Treasury Cash Flow table consistent with the 2016 budget.	Continuous	Prepared on a biweekly basis to improve traction. to improve traction. Met
Financial Sector Development		
• Complete the contracting process for an independent diagnostic study report for Rokel Commercial Bank and Sierra Leone Commercial Bank.	End-June	Not Met. Completed with delay

Attachment I. Technical Memorandum of Understanding—Arrangement Under the Extended Credit Facility, 2013–16

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 (ITs) will be evaluated in terms of cumulative flows from the beginning of the period.

2. **Program exchange rates**.[1] For the purpose of the program, foreign currency denominated values for 2016 will be converted into Sierra Leonean currency (leone) using a program exchange rate of Le 5639.10/US$ and cross rates as of end December 2015.[2]

Sierra Leone: Program Exchange Rate for ECF Arrangement
Cross Rates as of December 31, 2015

Currency	Sierra Leonean leones per currency unit	US dollars per currency unit
US dollar	5639.10	1.0
British pound sterling	8356.58	1.48
Japanese yen	46.84	0.008
Euro	6142.11	1.09
SDR	7814.27	1.39

Source: International Financial Statistics.

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

[2] For calculating program targets for 2016, all end 2015 stock variables will be based on program exchange rate of Le 5639.10/US$.

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 (BSL) are defined as reserve assets of the BSL. 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 U.S. dollars equivalent cumulative shortfall (excess) in programmed external budgetary assistance;[3] (b) downward (upward) for any cumulative shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the ECF arrangement; and (c) upward (downward) for any 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 BSL 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 BSL and the BSL 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, and debt relief from the Catastrophe Containment and Relief (CCR) Trust granted in 2015.

6. **Adjustment clauses**. The ceiling on changes in NDA of the BSL 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.

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

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 BSL, including: (a) treasury bills and bonds, excluding holdings of special bonds provided by government to cover BSL losses (Le 357.5 billion) and to increase its capital (Le 75 billion); (b) ways and means; and (c) any other type of direct credit from the BSL to the government, including the special on-lending arrangements relating to the augmentation of access under the ECF arrangement in 2014 2015 and 2016; less (a) central government deposits; and (b) any debt relief received, notably HIPC, MDRI and relief deposits, as well as debt relief under the CCR Trust.

8. **Adjustment clauses**. The ceiling on changes in NCG will be adjusted (a) upward by the leone value of the shortfall 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 BSL. The non-accumulation of external arrears is a continuous performance criterion during the program period. For the purposes of this

performance criterion, external arrears are obligations that have not been paid on due dates (taking into account the contractual grace periods, if any). Excluded from this PC are those debts subject to rescheduling or restructuring, or are under litigation. This PC will apply on a continuous basis.

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

12. **Definition**. The present value (PV) of public external debt is equal to the sum of all future debt service payments (principal and interest), discounted to the present using a discount rate of 5 percent. The PV is calculated using the IMF concessionality calculator and will be based on the loan amount contracted in a given year. Specifically, it will be assumed that all new loans contracted are fully disbursed at the time when they are contracted. For loans with a grant element of zero or below zero, the PV will be set equal to the nominal value of the loan. The ceiling on the PV of new external debt will be applied on a continuous basis from July 1, 2015.

13. New external debt is 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. The term "**debt**" is as defined in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014, but also includes contracted or guaranteed commitments for which values have not been received. For purposes of these guidelines, the term "debt" is understood to mean a current, that is, 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.

14. For program purposes, the debt is deemed to have been contracted when it is signed by the government of Sierra Leone. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling. The government will report any planned external borrowing and its terms to Fund staff before external debt is contracted or guaranteed by the government.

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

15. **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

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

B. Domestic Revenue of Central Government

17. **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

18. **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. Poverty-related spending encompasses also budgetary expenditure for the Ebola Response Plan.

PROGRAM MONITORING

19. 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. 8 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

INTERNATIONAL MONETARY FUND

SIERRA LEONE

November 23, 2016

SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, FINANCING ASSURANCES REVIEW AND REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERIA—SUPPLEMENTARY INFORMATION

Approved By
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Prepared by
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1. **This supplement provides an update on the authorities' fuel subsidy reform since the staff report was issued to the Board on November 17, 2016**. The additional information does not alter the thrust of the staff appraisal.

2. **In his 2017 budget speech to the Parliament, the Minister of Finance, Mr. Kargbo, announced that fuel subsidies have ended**. The plan that had been discussed with staff was to implement a one-time increase of retail fuel prices to 5,500 leones per liter from their current level of 3,750, and that commercial and retail prices would be unified and float with market prices from July 1, 2017 onward. However, following the budget speech, the authorities issued new prices, with retail fuel set at 6,000 leones. The authorities explained that the additional 500 leones per liter would help finance an infrastructure fund that is currently being established.

3. **Staff understands that this fund will help finance priority infrastructure projects**. Details of how the fund will operate are reportedly being developed, and staff will urge that all operations of the fund be reflected in the budget.