INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/154

SIERRA LEONE

June 2017

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SIERRA LEONE

In the context of the Request for a Three-Year Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 5, 2017, following discussions that ended on April 21, 2017, with the officials of Sierra Leone on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 18, 2017.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Sierra Leone.

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

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

*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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Press Release No. 17/208
FOR IMMEDIATE RELEASE
June 6, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$224.2 Million Under the ECF Arrangement for Sierra Leone

- The Executive Board's decision will enable a first immediate disbursement of SDR39.166 million (about US$54.3 million).
- Growth is expected to reach 7 percent in the medium-term. Under the program, inflation is expected to fall to 12 percent by end-2017, further declining to 9.5 percent in 2018 and narrowing by about 0.5 percent each year thereafter.
- The program aims at supporting important policies targeted at reducing inflation and significantly increasing domestic revenues, while increasing infrastructure spending and bolstering the social safety net.

On June 5, 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF)[1] for Sierra Leone for SDR 161.778 million (about US$224.2 million, or 78 percent of Sierra Leone's quota) in support of the authorities' economic development efforts.

The program will build on the lessons from the previous ECF arrangement. It aims at supporting important policies targeted at reducing inflation and significantly increasing domestic revenues, including by eliminating numerous tax and duty exemptions, while increasing infrastructure spending and bolstering the social safety net. The ECF program is also expected to play a catalytic role to maintain external support. In the medium-term, the arrangement will provide the framework for structural progress on revenue mobilization, public financial management and financial sector reforms, as well as increased reserves.

The Executive Board's decision will enable a first immediate disbursement of SDR39.166 million (about US$54.3 million). The remaining amounts will be phased over the duration of the program, subject to semi-annual reviews.

[1] The Extended Credit Facility (ECF) is the IMF's main tool for medium-term financial support to low-income countries. Financing under the ECF carries a zero-interest rate, with a grace period of 5½ years, and a final maturity of 10 years

Following the Executive Board discussion on Sierra Leone, IMF Deputy Managing Director Mr. Tao Zhang and Acting Chair, said:

“The new program provides support on three broad fronts: (i) provide financing space in the short-run to fund critical spending; (ii) make a strong contribution to the reduction of poverty; and (iii) support a medium-term structural reform framework, most critically in domestic revenue mobilization, public financial management (PFM), and financial sector reform.

“For the medium-term, the new program focuses on forceful revenue mobilization supported by a medium-term Revenue Mobilization Strategy (RMS), which the authorities will design and implement. On the expenditure front, the authorities are in the process of finalizing the regulatory framework for the recently passed PFM Act. The PFM Act will enhance the efficiency of spending, support medium-term budget planning, and consolidate the cash resources of various ministries, departments and agencies under the roof of the Treasury Single Account (TSA).

“In the short-run, the ECF arrangement will help create fiscal space, which will be used to scale up infrastructure and social spending to support higher and inclusive growth. To further this goal, the authorities’ decision to prioritize public investment, consistent with a moderate risk of debt distress rating, is welcome. The authorities’ efforts to expand the social safety net are also to be commended.

“The authorities’ commitment to implement a fuel subsidy reform no later than the second ECF review is important for a sustainable budget. In the meantime, the alternative actions taken to compensate for the delay in the implementation of this reform are welcome. These measures are the elimination of all import duty and GST exemptions as well as the collection of royalties from mining companies based on published market prices.

“Sierra Leone’s risk of debt distress remains moderate. Financing needs, particularly for large-scale investment projects will need to be covered mostly with grants and concessional loans. In addition, non-debt generating options should be considered for the proposed new airport.

“Monetary policy will remain focused on lowering inflation to single digits. The Bank of Sierra Leone (BSL) shall seek to build reserves, while allowing further exchange rate flexibility and limiting its interventions to smooth exchange rate volatility. The BSL should also take firm action to strengthen the financial system, based on the conclusions of the recently completed diagnostics for the two state-owned banks. The establishment of a civil registry and financial sector reforms, including the move toward risk-based supervision, should help increase credit to private sector.

"Structural reforms aimed at enhancing governance and improving the business environment will help increase support for private sector participation in the economy and promote economic diversification."

Annex

Recent Economic Developments

Sierra Leone has shown remarkable resilience in overcoming the twin shocks of the iron ore export collapse and the Ebola virus disease epidemic. Growth has recovered to 6.1 percent in 2016 with resumption of iron ore production. Non-iron ore growth also performed better at 4.3 percent. However, although recovery is in progress, challenges remain.

The immediate policy challenge is to re-establish fiscal discipline, increase foreign exchange reserves, and bring the economy back to a path of high growth levels, social progress and macroeconomic stability.

On the fiscal performance front, the deficit was higher than anticipated at 8.3 percent of GDP. Because of increased secondary market operations to finance the deficit, the monetary base expanded more rapidly in the second half of the year, contributing to a sharp increase in inflation. Reserves money grew nearly 24 percent, and inflation exceeded 17 percent by the end of 2016. The current account widened by 1.6 percent of GDP.

Program Summary

The new program aims at providing the necessary financing space to fund critical spending. It will contribute to poverty reduction, mainly by expanding the social safety net to provide relief to vulnerable segments of society that may be impacted by the new policies. The program also supports a medium-term structural reforms framework, most critically in domestic revenue mobilization, public financial management and financial sector reform.

Growth is expected to reach 7 percent in the medium-term. Under the program, inflation is expected to fall to 12 percent by end-2017, further declining to 9.5 percent in 2018 and narrowing by about 0.5 percent each year thereafter.

The main medium-term objective of the program is to unlock the growth potential of the country while reducing poverty. In that regard, it proposes front-loaded financing that would help improve the current account deficit in the medium-term to 18 percent by 2021 from the projected 21.8 percent in 2017.

The fiscal stance envisions gradual tightening in the medium-term to 2.4 percent domestic primary balance by the end of the program, from a projected 4 percent. To support the expansion of domestically financed capital spending as well as the replacement of gradually lower donor financing, there will be need for more forceful revenue mobilization and a strengthening of budget preparation and execution. Monetary policy in the medium-term will aim at containing the inflation below 10 percent.

Background

Sierra Leone, which became member of the IMF on September 10, 1962, has a quota of SDR207.40 million.

For additional information on the IMF and Sierra Leone, see **here**:

Sierra Leone: Selected Economic Indicators, 2013–21

	2013	2014	2015	2016		2017		2018	2019	2020	2021
				EBS 16/119	Prel.	EBS 16/119	Proj.	Proj.	Proj.	Proj	Proj
(Annual percent change, unless otherwise indicated)											
National account and prices											
GDP at constant prices	20.7	4.6	-20.5	4.9	6.1	5.4	6.0	6.1	6.8	6.8	7.1
GDP Excluding Iron ore	5.6	0.9	3.2	3.7	4.3	4.1	4.0	5.1	5.9	6.6	7.0
Iron ore production (millions metric tons)	16.2	19.4	0.8	6.0	6.2	9.0	9.0	12.0	15.0	16.5	18.2
Iron ore price (US$ per ton) :											
WEO (spot price 62% Fe)	135.4	97.4	56.1	52.2	58.6	45.2	81.2	66.1	53.5	54.6	55.7
Weighted average company price	82.6	39.8	29.0	27.0	27.6	23.4	30.0	24.4	19.8	20.2	20.6
Consumer prices (end-of-period)	8.5	9.8	10.1	11.5	17.4	10.5	12.0	9.5	9.0	8.5	8.0
Consumer prices (average)	9.8	8.3	9.0	11.5	11.5	10.5	16.9	10.6	9.2	8.7	8.2
External sector											
Terms of trade (deterioration -)	-3.4	-16.0	-22.3	0.9	9.4	-2.7	2.3	-5.6	-4.7	0.6	0.4
Exports of goods	47.4	-15.4	-55.4	18.8	15.2	16.8	29.6	20.8	11.6	10.2	11.4
Imports of goods	-19.9	4.7	-18.1	0.6	-2.3	1.3	9.6	6.9	7.9	8.8	5.8
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/	2.1	4.1	3.8	3.7	3.0	3.5	2.7	2.9	3.1	3.1	3.1
Money and credit											
Domestic credit to the private sector	11.9	5.4	9.1	7.9	16.7	10.0	-1.5	14.8	15.3	15.5	17.3
Base money	17.7	30.2	8.3	11.4	23.9	11.1	11.3	13.4	14.9	16.2	16.5
M3	16.7	16.6	4.9	11.8	17.9	11.1	11.3	13.4	14.9	16.2	16.5
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	13.8	16.1	12.6	15.3	17.8	17.7	18.2	19.0	19.1
Government	6.3	5.9	7.5	6.1	8.6	4.8	7.3	7.2	7.7	8.0	8.4
Private	8.6	8.6	6.3	10.0	4.0	10.5	10.5	10.5	10.5	11.0	10.8
National savings	-5.6	-5.6	-3.6	-2.2	-7.3	-2.4	-4.0	-1.2	-0.7	0.2	1.5
External sector											
Current account balance											
(including official grants)	-20.5	-20.1	-17.5	-18.3	-19.9	-17.7	-21.8	-18.9	-18.9	-18.9	-17.6
(excluding official grants)	-21.7	-35.6	-25.7	-23.4	-25.6	-21.6	-25.5	-22.7	-21.4	-21.3	-20.0
External public debt (including IMF)	24.9	24.9	29.4	33.7	37.2	34.2	44.8	48.0	49.9	59.6	57.8
Central government budget											
Domestic primary balance 2/	-0.7	-5.4	-5.3	-3.6	-6.7	-2.6	-4.0	-3.3	-2.4	-2.1	-2.0
Overall balance	-1.9	-4.0	-4.6	-4.6	-8.3	-3.1	-6.1	-5.5	-4.9	-4.8	-4.7
(excluding grants)	-4.9	-8.7	-10.0	-7.4	-11.1	-6.2	-8.9	-7.7	-6.9	-6.7	-6.6
Revenue	12.6	10.8	10.8	10.5	12.2	11.8	13.2	14.3	15.2	15.9	16.2
Grants	3.0	4.7	5.4	2.8	3.1	3.1	2.8	2.2	2.0	1.9	1.9
Total expenditure and net lending	17.5	19.5	20.8	18.0	23.4	18.1	22.0	22.0	22.1	22.6	22.8
Memorandum item:											
GDP at market prices (billions of Leone)	21,317	22,689	21,582	26,690	23,848	30,640	29,440	33,742	38,325	44,212	50,958
Excluding iron ore	18,159	20,541	21,549	26,547	23,605	30,411	28,534	33,012	38,004	43,828	50,499
Excluding iron ore in millions of US$	4,187	4,533	4,245	4,084	3,678	4,055	3,777	4,020	4,316	4,663	5,057
Per capita GDP (US$)	805	803	673	638	577	623	594	615	639	682	728

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ Refers to reserves in current year and imports in following year.
2/ Revenue less expenditures and net lending adjusted for interest payments.

INTERNATIONAL MONETARY FUND

SIERRA LEONE

May 18, 2017

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

KEY ISSUES

Context. Sierra Leone has shown remarkable resilience in overcoming the twin shocks of the iron ore export collapse and the Ebola Virus Disease (EVD) epidemic. However, significant medium-term challenges remain amidst persistent economic fragilities. There is a severe infrastructure gap with deficiencies in transportation, housing for the poor, sanitation and health facilities, as well as food security and energy supply. Despite these problems, the economy holds tremendous potential. Sierra Leone boasts one of the largest natural ports in the region, it receives abundant rainfall with a fertile soil and a sea front with promise in agriculture, fishing and tourism. Meanwhile, the mineral sector can be a basis for higher value added processing. But weaknesses, especially on fiscal policy and in the financial sector, remain impediments for unlocking this potential. The key structural macroeconomic problem is low fiscal revenues—despite significant efforts to enhance revenues in recent years. Since late 2016, high inflation and falling foreign exchange reserves have emerged as new macroeconomic challenges. Both are a direct result of a spending surge in late 2016.

Policy Framework. The immediate policy challenge is to re-establish fiscal discipline, arrest the decline in foreign exchange reserves, and bring the economy back to its pre-twin shock path: high levels of growth, social progress and macroeconomic stability. In the medium-term, the anchor for economic development remains the authorities' Agenda for Prosperity (A4P). To finance the A4P, however, the government needs to increase domestic revenue mobilization. This is especially critical in the context of volatile mineral revenues and dwindling financing from donors following the end of Ebola. Revenue mobilization is also crucial to maintain macroeconomic stability and fiscal sustainability in the near-term. There is little room for expenditure adjustment, with mounting pressures to sustain the recovery from Ebola and the costs of financing the approaching elections. In addition, tight monetary policy will be necessary to reduce inflation. To support rebuilding foreign exchange reserves, central bank intervention needs to be limited to smoothing volatility.

Request. Following the successful completion of their last Extended Credit Facility (ECF) in 2016, the authorities are requesting a new three-year arrangement under the ECF in the amount of SDR 161.8 million (78 percent of quota). In the near-term, this ECF is expected to support important but difficult policies: ending routine foreign exchange auctions, and eliminating numerous tax and duty exemptions, while increasing infrastructure spending and bolstering the social safety net. The ECF will also play a catalytic role to maintain external support. In the medium-term, the proposed arrangement will provide the framework for structural progress on revenue mobilization, PFM and financial sector reforms, as well as increased reserves.

Staff conducted an Ex-Post Peer Reviewed Assessment (PRA) with feedback from the authorities. The PRA draws relevant lessons from the experience of the last two arrangements, and incorporates them to the elements of this proposed arrangement. The most important lesson can be summarized as forceful revenue mobilization to finance critical expenditures, including the expansion of the social safety net to reduce poverty, and to replace dwindling donor financing.

Staff supports the authorities' request for a new ECF. Forceful implementation of the program, especially on revenue mobilization and expenditure control, will be essential to achieve fiscal sustainability and medium-term growth objectives.

Approved By
Dominique Desruelle and Andrea Richter Hume

Discussions took place in Freetown (March 16–28) and in Washington (April 17–21). The staff team comprised John Wakeman-Linn (head), Yibin Mu, Mehmet Cangul and Paolo Cavallino (all AFR), Fei Liu (SPR), Iyabo Masha (Resident Representative) and Mathew Sandy (Resident Economist). Mr. Yamuremye (OED) participated in the discussions. Staff met with Mr. Momodu L. Kargbo, Minister of Finance and Economic Development, Dr. Ibrahim Stevens (Deputy Governor of the Bank of Sierra Leone), and other senior officials, representatives of the private sector, development partners, and civil society organizations.

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ANNEXES

APPENDIX

BACKGROUND AND RECENT DEVELOPMENTS

A. Background

1. **Prior to the onset of the twin shocks of the iron ore price collapse and the Ebola Virus Disease (EVD) epidemic, Sierra Leone was making notable economic progress**. Growth averaged 8 percent per year between 2003 and 2014, while inflation fell below 10 percent. Although lagging in the efficiency of its business environment and governance,[1] the country was making social progress, with the poverty head count dropping nearly 25 percent in the last decade.[2] A combination of improved macroeconomic policies, targeted social measures, the discovery of iron ore, a favorable external environment, and a relatively stable political environment following the civil war, were some of the factors underlying this success.

2. **In 2014, however, the economy was hit by twin shocks**. GDP fell more than 20 percent and domestic revenue dropped to 10.8 percent of non-iron ore GDP from 12.6 percent prior to the shocks. Banking sector vulnerabilities increased, in part due to the pressures created by these crises.

3. **Recovery from the twin shocks is in progress, but challenges remain**. The Fund responded to the twin shocks by augmenting access under the ECF Program arrangement, as well as providing budget support and temporary debt relief. In the wake of the Ebola crisis, the authorities began implementing the post-Ebola Recovery Strategy (ERS), which they designed in cooperation with development partners.[3] Growth has recovered to more than 6 percent in 2016, with resumption of iron ore production. However, revenue, estimated to be at 12.2 percent of GDP in 2016, has not reached its pre-crisis levels despite significant measures to increase revenues (most notably, marked reductions in duty exemptions and a 60 percent increase in the price of retail fuel, allowing the collection of excises on retail fuel). Combined with limited financing from the domestic banking sector, this has resulted in growing fiscal pressures. Meanwhile, the structural reform agenda, disrupted during the shocks, has regained some momentum. The Public Financial Management (PFM) law has been passed, and the PFM regulatory framework is near completion; a Tax Administration Diagnostic Assessment Tool (TADAT) mission was recently completed, followed by an FAD revenue administration mission. In the financial sector, the independent diagnostic studies of the two troubled state-owned banks are almost finalized.

[1] According to World Bank Governance Indicators, in Voice and Accountability, the percentile rank dropped to 37 in 2015 from 42 in 2010. Government effectiveness remained the same since 2010. In regulatory quality, there was a drop to 20 from 26. However, since 2015, based on Ease of Doing Business Indicators in 2017, Enforcement of Contracts, Ease of Doing Business, and Registration of Property indices all saw modest improvements.

[2] World Bank Data.

[3] For more details on the ERS, please refer to the 2016 Sierra Leone Article IV Report and Sierra Leone IMF Country Report No. 16/378.

4. Following the successful completion of the previous ECF, there were policy slippages that present new challenges, even as Sierra Leone continues to face more fundamental challenges related to the fragile recovery from the twin shocks. Significant spending overruns unfortunately led to a sharp widening of the fiscal deficit, which was financed in part by an accumulation of domestic arrears. This contributed to higher inflation, which has reached nearly 20 percent. A weaker exchange rate also contributed. The Central Bank has been drawing on its limited reserves to stem depreciation pressures. Financing pressures continue, given limited borrowing space from the domestic bond market and dwindling budget support from donors, putting revenue mobilization at the forefront of economic policy.

B. Recent Developments

5. Overall growth in 2016 was 6.1 percent, compared to 4.9 percent projected in IMF Country Report No. 16/378.[4] The main iron ore company continued its cost cutting measures discussed extensively in the last review,[5] raising the value added per ton by approximately 50 percent. Non-iron ore growth also performed better at 4.3 percent compared to 3.7 percent in the last Staff Report, due to higher activity in commerce, tourism and services than projected.

6. However, fiscal performance was significantly worse than expected. The deficit in 2016 was 3.1 percent of GDP[6] higher than anticipated or 59.5 percent higher in nominal terms, mainly due to overspending on two fronts:

a. *52.7 percent higher goods and services spending relative to the last review.* Most of this overspending was on one-off items,[7] which occurred after spending restraints that had been imposed during the last ECF were lifted. Election preparations, educational grants and expenditures on defense and security were some of the major elements underlying this excess spending.

b. *53.4 percent higher spending on domestically financed capital.* The authorities had severely underestimated the rate at which large capital projects were being executed; certificates for road construction were coming due at a much faster pace than anticipated. In addition, depreciation picked up in the second half of the year, resulting in higher payments to suppliers. This overspending is likely to continue into 2017.

[4] There was also a downward revision to nominal GDP in 2015 that carried to outer years. The authorities explained that this was due to the usage of a new, more accurate nationwide CPI index updated from the available Freetown Index used previously. Previous 2016 ratios to GDP would be 12 percent higher if computed using the new CPI index.

[5] Sierra Leone IMF Country Report No. 16/378.

[6] All percent of GDP references in this report are calculated by dividing the nominal difference by the latest estimate of GDP for that year. This is done to separate the change in the nominal value from the revision in the GDP figures.

[7] Items in educational spending (for new universities) and defense (peace keeping mission) are multi-year commitments.

7. Budget support grants were 43.4 percent lower than envisioned, due to delayed World Bank budget support of $20 million, as they sought to finalize understanding on related conditionality, and lower financing from DFID due to a missed performance target. The government had arranged a Central Bank bridge financing in 2016 to cover the temporary shortfall from the World Bank, but the lower financing from DfID, due to missing a revenue criterion, was unexpected and permanent.[8]

Text Table 1. 2016 Fiscal Summary
(Billions of Leone)

	Program	Actual	Percent of GDP Difference 1/
Total Revenue and grants	3,554	3,615	0.3
Total revenue	2,798	2,889	0.4
Grants	756	727	(0.1)
Budget Support	341	193	(0.6)
Total Expenditure	4,775	5,519	3.2
Current Expenditure	3,179	3,553	1.6
Wages	1,796	1,818	0.1
Goods and Services	746	1,139	1.7
Capital Expenditure	1,630	2,039	1.7
Domestically Financed	655	1,005	1.5
Foreign Financed	975	1,034	0.2
Domestic primary balance	(949)	(1,582)	(2.7)
Overall balance, including grants	(1,222)	(1,950)	(3.1)
Financing	1,222	1,950	3.1
External Financing (net)	372	398	0.1
Domestic Financing	850	1,552	3.0
of which uncleared checks	-	460	1.9

Sources: Sierra Leone authorities and staff estimates.
1/ Calculated by dividing the nominal difference by the latest estimate of nominal non-iron ore 2016 GDP.

8. On domestic revenue, there was a nominal over performance of about 3.2 percent, mainly due to one off factors.[9] Excluding one-off elements, revenue was largely in line with expectations.

9. The significantly increased deficit in 2016 was financed by arrears and increased borrowing from the BSL via secondary market operations of bond purchases from commercial banks. The government resorted to forced financing via domestic arrears in the form of unpaid checks worth 1.9 percent of GDP.[10] In addition, BSL exceeded its planned secondary market monetary operations by more than 11 percent, or 0.9 percent of GDP. Meanwhile, the government over borrowed from commercial banks by 0.4 percent of GDP or 37 percent nominally. Financing from non-bank financial institutions was also higher than planned. Total domestic financing excluding unpaid checks was more than 1 percent of GDP higher than anticipated in the Staff Report or more than 42 percent nominally.

10. As a result of increased secondary market operations, the monetary base expanded more rapidly in the second half of the year, contributing to a sharp increase in inflation. Reserve money grew nearly 24 percent, and inflation exceeded 17 percent by the end of 2016.[11]

[8] The authorities cannot recover the lost budget support due to the missing criterion as DfID has already adjusted its disbursement budget accordingly.

[9] The one-off factors mainly related to arrear payments from mineral companies and a capital gains tax from the sale of a mineral company.

[10] The authorities cleared 36 percent of these arrears in the first quarter of 2017, and will clear the rest by the end of the year, planning no new accumulation of unpaid checks.

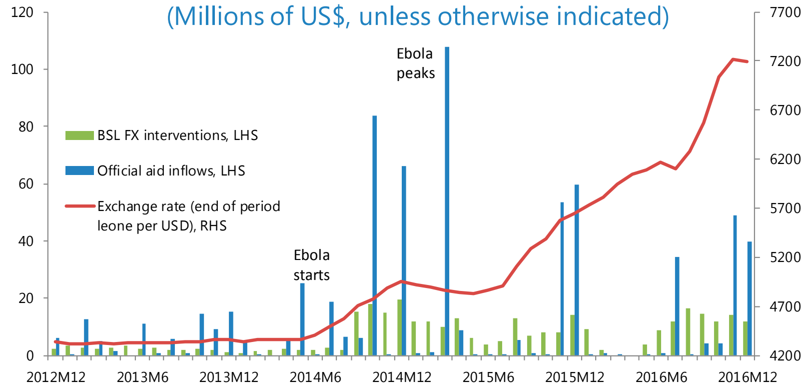
[11] There was also an impact from the one-time fuel price hike in November 2016. Retail fuel prices rose 60 percent with immediate impact on the cost of transportation and food.

In addition, the higher borrowing by the government resulted in the 1-year domestic bond yield climbing to 30 percent.

11. Meanwhile, the authorities tripled the amount sold at weekly exchange rate auctions from $1 million to $3 million in the latter part of 2016, as the high spending and rapid money growth put pressure on the exchange rate. Reserve coverage, which had been projected to be roughly unchanged at 3.7 months of imports, declined to 3.0 months at the end of 2016. Continued sales have led reserve coverage to decline further, to 2.4 months at the end of the first quarter of 2017. The leone, however, continued its depreciating trend (Text Figure 1) with the parallel market rate[12] depreciation reaching more than 28 percent by the end of 2016. Staff estimates the exchange rate to be 15–17 percent overvalued, based on an external balance assessment (Annex II).

Text Figure 1. Nominal Exchange Rate, Aid Flows and FX interventions

(Millions of US$, unless otherwise indicated)



Source: BSL; and IMF staff estimates.

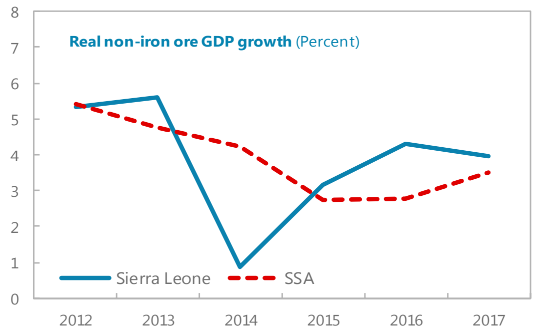
12. The current account in 2016 widened by 1.6 percent of GDP. Both exports and imports were slightly lower than anticipated. The decline in imports was mostly driven by lower demand for machinery used in mineral production, associated with lower exports of minerals and agricultural commodities. Higher diamond exports only partially compensated for these export declines.

[12] The parallel market is the unofficial black market exchange rate, largely used by border traders. It is an illegal market but enforcement is a challenge.

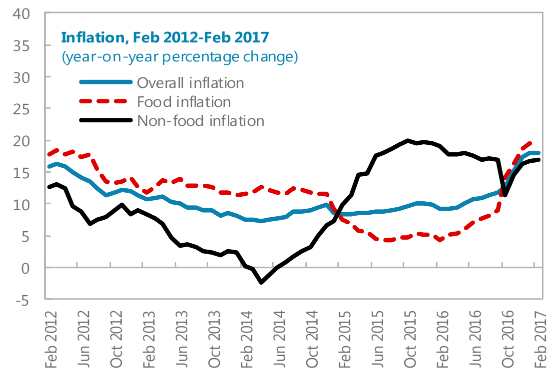
Figure 1. Sierra Leone: Real and External Sectors, 2011–17

(Percent of Non-Iron Ore GDP)

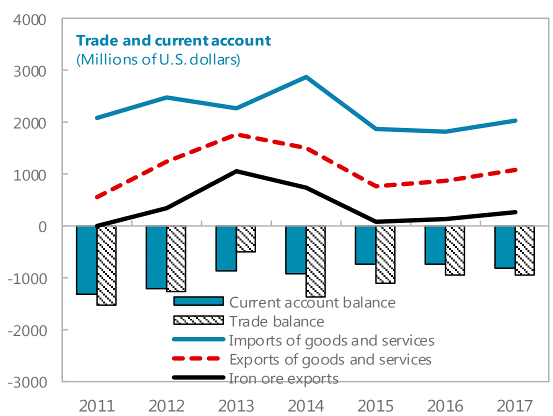
The economy recovered from Ebola...



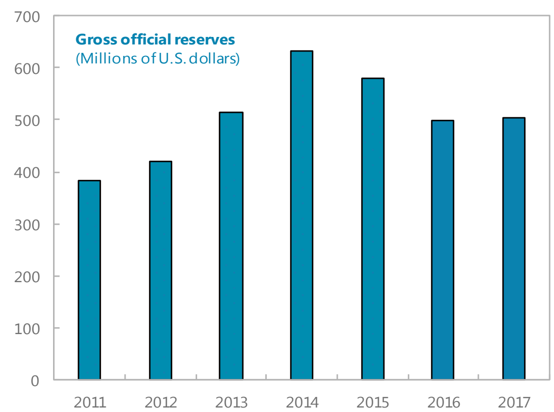
... but inflation rose to double digits with rapid exchange rate depreciation.



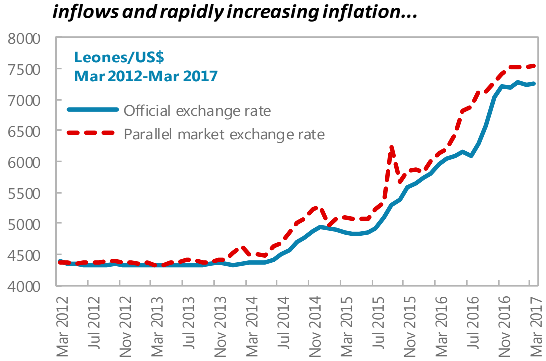
The trade deficit improved moderately in 2016,



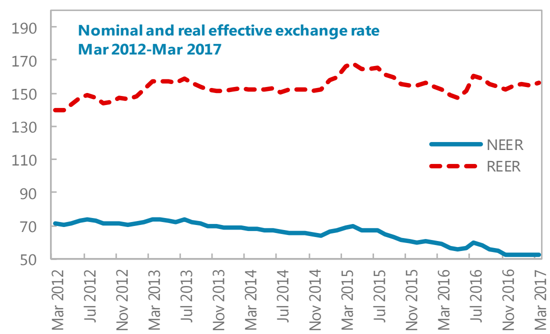
...while the reserve level contiuned to decline.



Leone depreciated at a steep rate in 2016, reflecting the phasing out Ebola related donor inflows and rapidly increasing inflation...

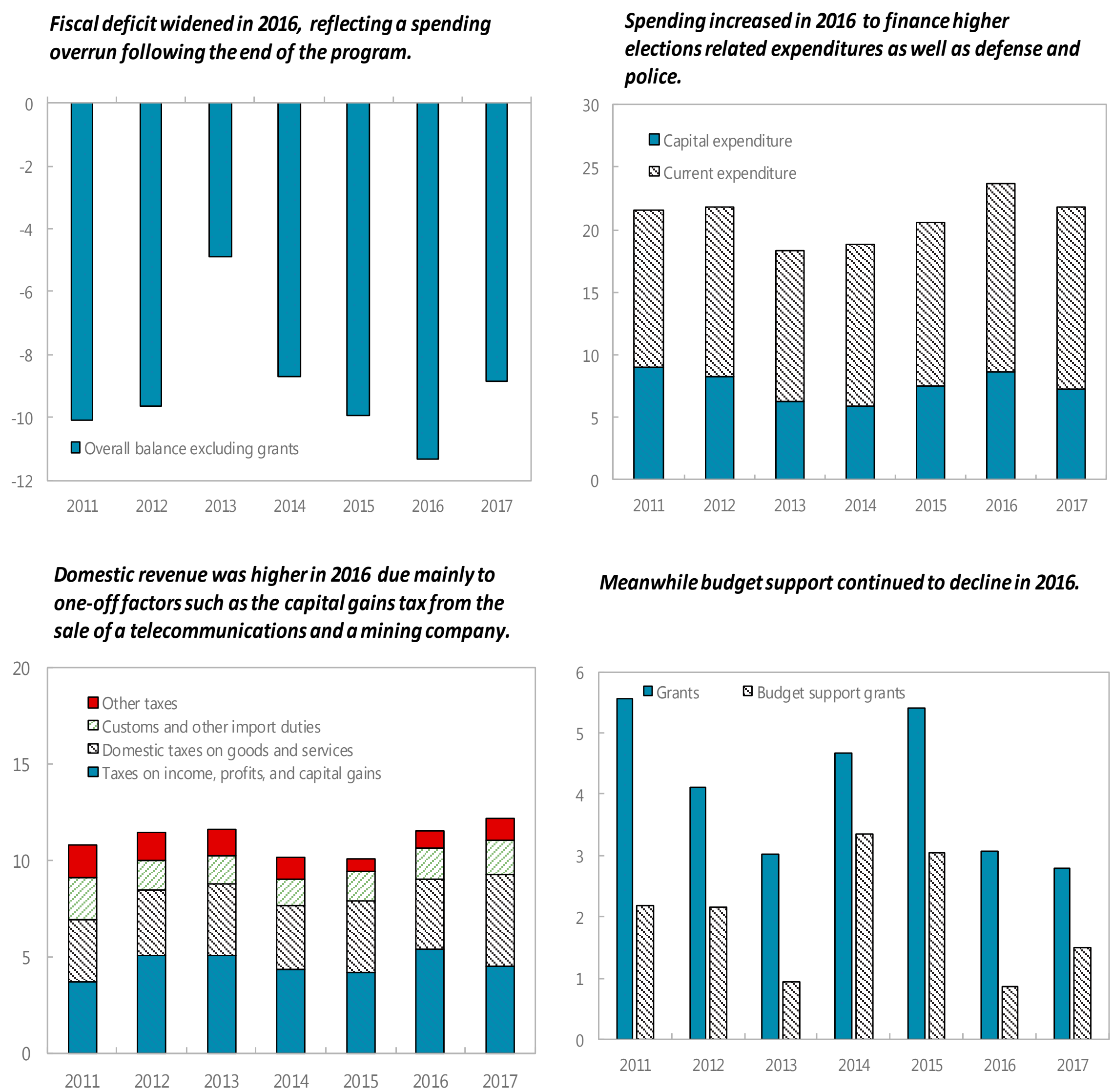


...and the real effective exchange rate was relatively stable.



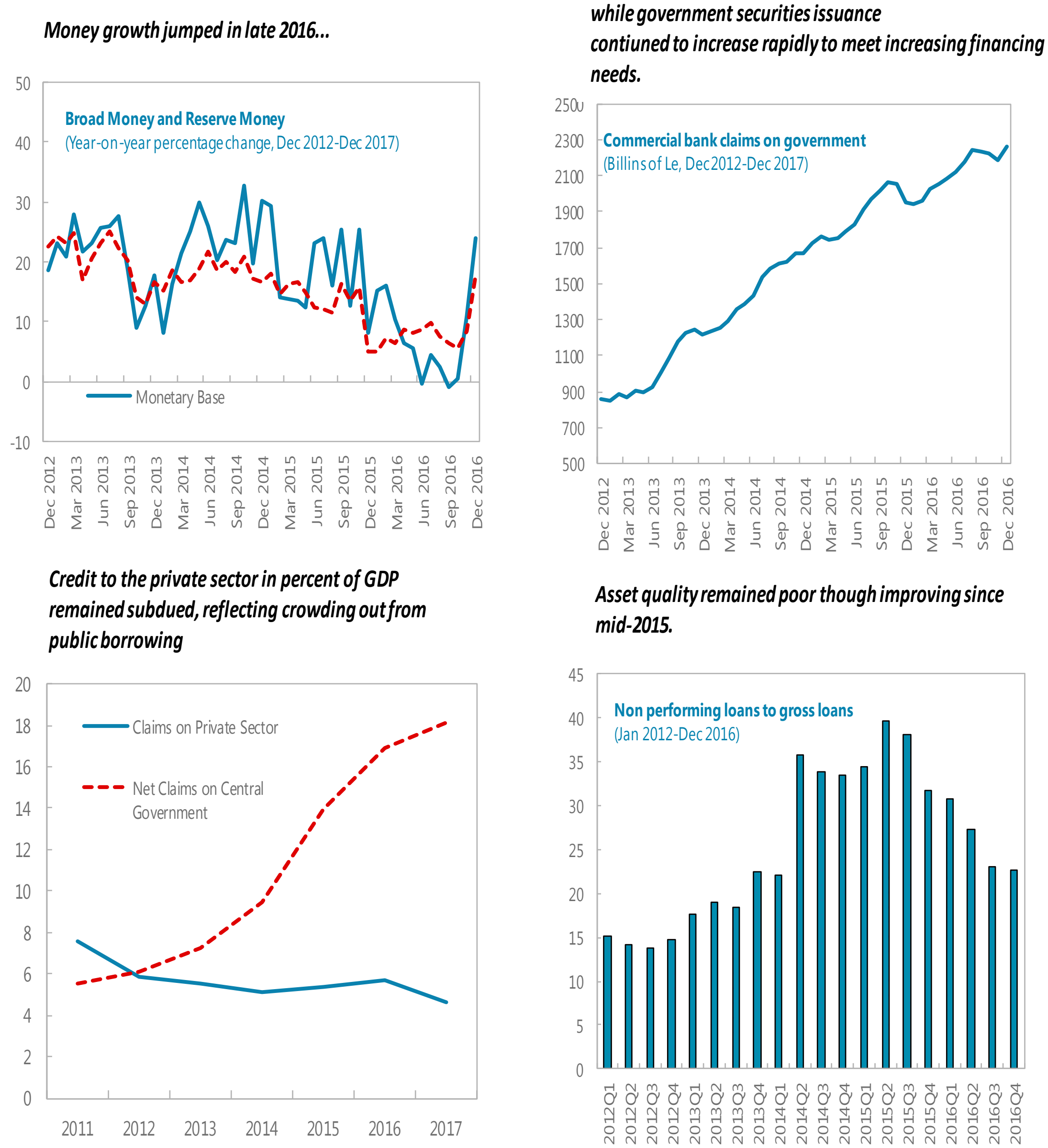
Sources: Sierra Leonean authorities; and IMF staff estimates and projections.

Figure 2. Sierra Leone: Fiscal Sectors, 2011–17



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

Figure 3. Sierra Leone: Monetary and Financial Indicators, 2011–17



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

PROPOSED PROGRAM

The proposed ECF aims to support the authorities on three broad fronts: (i) provide the necessary financing space in the short-run to fund critical spending; (ii) make a strong contribution to the reduction of poverty, partly by expanding the social safety net to provide relief to the vulnerable segments of society that may be impacted by new policies; and (iii) support a medium-term structural reform framework, most critically in the area of domestic revenue mobilization, PFM and financial sector reform

In the short-term, however, the program faces challenges that need to be tackled with relative urgency: (i) closing the 2017 fiscal gap that emerged from overspending in 2016 and the need to clear unpaid checks; (ii) halting routine foreign exchange auctions to prevent further declines in reserve coverage (prior action); and (iii) sharply reducing duty and GST exemptions, to replace revenues foregone by the decision to delay the floating of retail fuel prices (prior action).

The proposed program is based on the authorities' medium term objectives, as spelled out in the A4P, and builds on the lessons from past engagement, as reflected in the Peer Reviewed Assessment (PRA) of program engagement with Sierra Leone (Annex 1).

A. Immediate and Near-Term Challenges

13. The 2017 budget contains significant measures designed to increase revenues and reduce expenditures. The biggest measures on revenues included the application of GST to electricity tariffs, and a 60 percent increase to the price of retail fuel already in effect, enabling collection of higher excise revenue. On the expenditure side, the authorities decided to freeze the wage bill, implying that with higher inflation and higher growth in 2017 than originally envisioned, the wage bill will decline by 1.3 percent of GDP.

14. Unfortunately, the spending pressures that emerged in late 2016 have rendered the 2017 budget unrealistic. Combined with the fact that the World Bank budget support of $50 million (1.3 percent of GDP), which was originally assumed to be a grant, will primarily be loans, and with no offsetting measures, the budget deficit for 2017 would have reached 8.1 percent of GDP, and the domestic primary deficit 6.0 percent.

15. In line with the fiscal anchors discussed below, the authorities agreed to limit the deficit to 6.1 percent of GDP, and the domestic primary deficit to 4.0 percent, implying a financing gap of nearly 2 percent of GDP (MEFP, paragraph 10).

16. In addition, the authorities noted that they remain committed to floating retail fuel prices by no later than the second review, and thus permanently eliminating fuel subsidies (MEFP, paragraph 11). However, it will be politically and socially impossible to do so before the elections in March 2018. Staff conveyed to the authorities the critical importance of passing fuel subsidy reform, especially given the recent favorable price dynamics.

17. Staff estimates that the failure to eliminate fuel subsidies in 2017 will result in lost excise revenue of approximately 75 billion (0.26 percent of GDP) for 2017, further increasing the financing gap to approximately 2.2 percent of GDP. The authorities and staff agreed this gap should be closed, to the extent possible, through sustainable revenue measures (MEFP, paragraph 12). However, the scope for additional revenue is constrained by the fact that we are already close to the middle of the year. Staff thus agreed with the authorities that 0.6 percent of GDP of the gap should be closed through revenue measures, and 1.6 percent through spending restraints (MEFP, paragraph 14).

18. The following agreed revenue measures for 2017 were estimated to approximately generate 0.5 percent of GDP in additional resources to the budget (their adoption is a prior Action[13] (PA), MEFP, paragraphs 12, 31, Table 2).

a. *Elimination of all duty and GST exemptions, except those required by international multilateral or bilateral agreements, contracts or MOUs approved by parliament, and imported rice.* For contracts or MOUs approved by parliament, all exemptions will terminate once the current agreement expires. Where possible, government will seek to terminate GST exemptions this year. In addition, the government has stated publicly that no new requests for exemptions will be considered (MEFP, paragraph 12). This measure—which completes efforts begun in 2015 to scale back pervasive exemptions, is expected to yield 65.2 billion leones, or 0.2 percent of GDP for the remainder of 2017 (98 billion leones on an annual basis).

b. *Application of royalty rates on minerals to market prices, rather than company-quoted sales prices*. Existing law calls for royalties to be applied to market (arms-length) pricing. However, until now the rate has been applied to the company-reported sales price, which often has been well below reported market prices. This measure is expected to conservatively yield 40 billion leones, or 0.1 percent of GDP on iron ore alone, for the remainder of 2017.

c. Excise on luxury vehicles. Vehicles with a CIF value over $25,000 will be subject to a luxury excise of 20 percent. The measure is expected to generate Le 28 billion or approximately 0.1 percent of GDP in revenues for the remainder of 2017.

19. Furthermore, the authorities are determined to begin collecting dividends from SOEs that can afford to pay them. Some SOEs—such as the Port Authority, the National Telecommunication Agency and the Airport—are profitable. NRA has agreed to conduct a comprehensive review of the Auditor General's (AG) audited SOE financial statements, to identify profitable SOEs. A one-time dividend on past profits of these enterprises will be imposed, generating at least 44 billion leones in 2017, or more than 0.1 percent of GDP. In addition,

[13] Except in the case of the SOE dividends.

government will make clear to these SOEs that, in future, at least 10 percent of gross profits should be paid as annual dividends to the budget (MEFP, paragraph 13).

20. Finally, the authorities are in the process of adopting the ECOWAS Common External Tariff (CET). Adopting these tariffs should increase revenues, as many tariffs are currently below the harmonized rates. However, the authorities are working on a list of special items exempt from the harmonization. Since this is an ongoing process, there is still too much uncertainty to reliably project a yield from this measure.

21. With regard to tax administration, the authorities have identified, with help from Fund technical assistance, three areas that could generate revenue in 2017 (MEFP, paragraph 14): (i) use of a Block Management System (BMS)[14] to expand taxpayer registration; (ii) auditing the misclassification of employees' status as a contractors, which shifts the burden of the final tax from the employer to the employee/contractor and substantially reduces the withholding rate; (iii) comparing the reporting to customs with income and GST reporting, to find inconsistencies. To be prudent, staff and the authorities agreed not to incorporate additional revenue from these measures until they start yielding fruit.

22. The authorities and staff agreed that the remaining gap, 1.6 percent of GDP, would be closed by targeted savings in expenditures. The authorities have identified capital projects worth 1.3 percent of GDP that can either be delayed until 2018, or where the execution rate can be slowed. Other capital project savings are related to civil registration activities that were originally in the budget, but are now financed off budget by the World Bank and the EU. Despite these savings, domestically financed capital spending is still projected to be 51.7 percent higher than budgeted, consistent with the higher pace of completion, particularly of roads. The remaining 0.3 percent of GDP financing gap will be closed by eliminating specific budget line items in goods and services (0.2 percent of GDP), and subsidies and transfers (0.1 percent); relevant MDAs have been notified accordingly. The sustainability of these cuts is consistent with the one-off nature of the overruns in goods and services spending in the second half of 2016, discussed above. Notwithstanding these cuts, goods and services spending is more than 11 percent higher than originally budgeted, taking into account the costs of conducting the approaching elections and the specified multi-year commitments discussed above.[15]

23. Given the recent decline in reserve coverage, the authorities have agreed to halt the BSL's routine foreign exchange auctions (PA, MEFP, paragraphs 22 and 31, Table 2). The authorities recognize that continuing the auctions would have resulted in a critical reduction in reserve coverage.

[14] Please refer to the Technical Assistance Report prepared by FAD, "Embracing Reform to Revenue Mobilization", April 2017.

[15] The authorities have indicated to staff that they intend to inform the Parliament of these changes, which do not warrant the submission of a formal supplemental budget.

B. Medium-Term Objectives and Macroeconomic Framework

Introduction

24. The medium-term objective of the program is to unlock the growth potential of Sierra Leone while reducing poverty. Specifically, the proposed arrangement will aim to make the growth path more inclusive and sustained through a sound fiscal framework, with room for expanded infrastructure and social spending, and structural reforms to encourage private sector participation (PRA, pp. 79–80). The program envisions overall growth to reach 7 percent over the medium-term. This path would be supported by increasing public infrastructure investments in roads, energy and agricultural projects, as well as spending on the social safety net. Domestic revenue mobilization would result in the fiscal space necessary to sustain and expand public investment and social programs in the A4P, while preserving macroeconomic and debt sustainability. While the authorities design and implement their revenue mobilization strategy, **the program proposes front-loaded financing (elaborated above)**. Meanwhile, reforms in the financial sector and governance, especially toward the improvement of the business environment, should enable more private sector initiatives from both domestic and foreign investors (PRA, p. 80).

25. The current account deficit in the medium-term would improve from the projected 21.8 percent in 2017 to 18 percent by 2021. Underlying this trend would be exports growing by 49 percent in 2017–19, with the further recovery of the iron ore industry, as well as higher exports supported by investments in agriculture, higher value added processing, and economic diversification. The strengthening of the overall external position, envisioned as a key objective, (LOI, paragraph 2), would be supported by allowing the exchange rate to depreciate, eliminating its overvaluation (estimated at 15–17 percent), by the gradual fiscal tightening, and by increased private capital flows as the business environment improves, elaborated below (and see also Annex II).

26. The short and medium-term risks to the economic outlook, and hence to the program, are significant. The largest risk is non-mobilization of revenue. If the revenue measures are not implemented or do not bring the desired yields, given the limited availability of domestic financing and the limited scope to cut spending, the government would likely accrue domestic arrears. With arrears, private sector confidence in the government could deteriorate, leading to the disruption of ongoing projects with negative feedback for growth and stability. If oil prices or exchange rate depreciation increase, the excise room the government has on fuel could quickly shrink to zero, exerting renewed pressure on the budget before retail fuel prices are floated. In the medium-term, the lack of sufficient revenue mobilization combined with continued use of unplanned, ad hoc budgetary adjustments taking resources away from priority investments could see the derailing of the A4P vision, leading to lower medium-term economic growth. Finally, the upcoming elections pose a political risk, as spending pressures could build further and the priorities of a new government may be different.

Fiscal Policy

27. The fiscal stance envisions gradual tightening in the medium-term from a projected 4 percent domestic primary balance to 2.4 percent by the end of the program. Underlying this path would be two anchors: maintaining a moderate risk of external debt distress and keeping net domestic financing below 2 percent of GDP. These anchors have delivered sound macroeconomic outcomes and remain appropriate. They entail a need for strong domestic revenue mobilization to produce fiscal space for scaling up priority expenditures. The domestic anchor is driven by the reality of the limited available domestic financing. Given the small size of the banking sector, it has proven difficult to mobilize more than 2 percent of GDP in domestic financing on a sustainable basis. While the additional revenue would finance critical expenditures, overall spending would remain roughly constant over the course of the program due to contained wage and goods and services spending, resulting in a gradually tightening stance.

28. External debt management would continue to be anchored by the objective of maintaining moderate risk of debt distress. Based on the current DSA, the borrowing envelope is estimated at no more than $140 million (net present value) for 2017 and roughly $470 million over the program period.

29. Spending composition over the program would be tilted toward a scaling up of domestically financed capital expenditures and the expansion of the social safety net. Domestically financed capital expenditure would increase from 3 percent of GDP in 2017 to 3.7 percent by the end of the program. Current expenditures would remain broadly the same as a percent of GDP. Goods and services spending would remain constant at 3.7 percent of GDP while wages would be contained at 6 percent of GDP. The domestic interest cost is projected to increase in 2018 to 2.5 percent of GDP from 1.8 in 2017, due to the steep increase in the 1-year yield. Over the course of the program, the share of domestically financed capital spending in the expenditure envelope would increase from an estimated 13.7 in 2017 to 16.6 percent by 2019.

30. To support the expansion of domestically financed capital spending, as well as the replacement of gradually lower donor financing, authorities and staff agreed, there will need to be forceful revenue mobilization. The program envisions that revenues will increase from 12.2 percent of GDP in 2016 to 15.2 percent by the end of the program. Authorities and staff agreed that to achieve this target, a comprehensive medium-term Revenue Mobilization Strategy (RMS) needs to be adopted (MEFP, paragraph 9). The authorities have agreed to adopt such a strategy by September 2017 (MEFP, paragraph 9). To assist the authorities in preparing an RMS, a paper will be prepared as a joint effort of the National Revenue Authority (NRA), Ministry of Finance, and IMF staff (FAD, AFR and AFRITAC West). The RMS paper will assess how Sierra Leone's revenue efforts compare to its peers, and where it should aim to be by the end of program. It will propose both policy and administrative measures with specific timelines.

31. In addition to enhancing revenues, there is a need to strengthen budget preparation and execution. On the preparation side, the budget bill covers expenditures, while the Finance Act, which covers revenues, is passed 4–5 months after the budget. The authorities have agreed to remedy this starting with the 2018 budget (MEFP, paragraph 9). In addition, budget execution is constrained by cash emergencies that either result in arrears or BSL bridge financing. Both practices are unsound. Furthermore, running from one cash emergency to the next derails long-term budget planning for medium-term economic development. Cash problems are often the result of requests from ministries, departments and agencies (MDAs) for discretionary expenditures above the budget, displacing original commitments, often medium-term, and partially fueling cash management problems. The newly passed PFM law places strict limits on additional expenditure requests from MDAs. The authorities are in the process of finalizing the PFM regulatory framework (PFMRF) (with a view toward completion by end-December (SB, MEFP, paragraph 31, Table 2), which should address this issue. The challenge will be forceful implementation that respects this limit.

32. Domestic arrears in the form of unpaid checks result in a lack of confidence in the government, with enormous long term negative externalities for the economy. Over time, systematic arrears lead to higher premiums charged for capital projects and thus higher costs. In addition, when contractors are not paid on time, they are not able to honor their obligations to creditors and banks, and cannot pay their workers on time, who in turn cannot pay their own obligations, resulting in a liquidity constraint for the economy. This in turn feeds back into government's own ability to raise financing from the domestic market, with banks demanding prohibitive yields on new financing. The authorities are committed to clearing the existing stock of unpaid checks before the end of 2017 and not to accumulate new unpaid checks (MEFP, paragraph 17). To discourage reliance on unpaid checks going forward, the authorities have agreed that any (unintended) accumulation of unpaid checks, or slower than programmed repayment of outstanding unpaid checks should lower the ceiling on borrowing from the banking sector by an equivalent amount (MEFP, Table 1, TMU, paragraph 7).

33. On the other hand, bridge financing from BLS (to future budget support) establishes a dangerous and unsound precedent. Financing that should come from commercial banks is replaced with subsidized financing from the BSL. Aside from being unsound, with inflation already at 20 percent, there is no scope for this type of financing.[16] With earlier budget support during the year from the IMF and the World Bank, the authorities have agreed to stop this practice henceforth, (continuous SB, MEFP, paragraphs 21 and 31, Table 2).

34. The recently passed PFM Law, if effectively implemented, will partially help alleviate these challenges. The authorities are now in the process of drafting the regulatory framework for the implementation of PFM reforms, including the establishment of a Treasury Single Account (TSA). A TSA will help with cash management and financing costs. MDAs hold non-transparent and inaccessible bank accounts with potential idle funds. Under a TSA, these accounts will be made transparent, and they will become consolidated as sub-accounts under

[16] Each year the government can borrow from the Central Bank up to 5 percent of the preceding year's domestic revenue. The government is required to pay back the loan by the first quarter of the subsequent year. The purpose of this borrowing is to facilitate cash flow management, not to provide a permanent source of budget financing.

the TSA, accessible to the Ministry of Finance. This will help cash management, reducing cash-expenditure mismatching throughout the year as well as financing costs. The authorities have committed to prepare plans to link existing bank accounts and consolidate the cash resources into the main TSA account overnight by end-June. The authorities will implement this plan by end-December (SB, MEFP, paragraphs 16 and 31, Table 2).

35. To respond to the pressures of wage costs, the authorities have been working on a medium-term wage strategy. The authorities are determined to have a finalized medium-term strategy approved by the Cabinet by end-December. (SB, MEFP, paragraphs 15 and 31, Table 2), PRA (p. 78).

Monetary and Exchange Rate Policy

36. The goal of monetary policy in the medium-term will be to contain inflation below 10 percent. Given the inflation that has already taken place in 2017, staff and the authorities believe a realistic target for end-2017 inflation is 12 percent, declining to 9.5 percent in 2018 and declining 0.5 percentage points each year thereafter. To do so, the BSL will continue to rely on money aggregates as their operating target. BSL will not engage in secondary market operations for the purpose of indirect financing of government, but rather will intervene in the secondary market only as called for by the framework of managing aggregate money supply.

37. The exchange rate will be solely market-determined going forward. BSL interventions in the foreign exchange market will be limited to those necessary to contain temporary excessive volatility (PA). The authorities agreed BSL should aim to become a net buyer of foreign exchange in coming years, with the aim of increasing reserve coverage (MEFP, paragraphs 7 and 19).

38. While relying on monetary aggregate targeting, BSL will seek to gradually strengthen its capacity to use indirect instruments. In consultation with Fund TA staff, BSL introduced an interest rate corridor system in September 2016, which is showing some signs of increasing the influence of the Policy Rate. Going forward, BSL will aim to strengthen this framework.

39. A constraint in liquidity management is the absence of a functional inter-bank money market. While overall banking liquidity appears moderate, it is highly concentrated in one or two banks. The commercial bank that has the highest excess liquidity cannot invest it in either government bonds or in the Central Banks' standing facility due to internal regulations. An improved inter-bank market should help banks reallocate liquidity among banks. Revamping the master repo agreement should help improve the inter-bank market.

Financial Sector Reform and Inclusion

40. A major challenge in the financial sector is the weak financial positions of the two public banks, and poor asset quality in several other banks. A crucial first step in improving the soundness of the banking sector will be to forcefully restructure the two-state owned banks, based on the findings of the soon to be completed diagnostic studies. BSL is committed to adopting a restructuring plan, in consultation with the staffs of the World Bank and IMF, by end August (MEFP, paragraph 25). The BSL will also scrutinize the financial soundness indicators of all banks on a continuous basis, and enforce necessary corrective steps. As several banks have persistently breached prudential indicators (e.g., NPL ratio), the BSL will develop plans to bring these banks back into compliance. BLS will also seek to enhance banking supervision capacity by migrating to risk-based supervision and building up top-down stress testing capacity, building on TA provided by MCM and AFRITAC

41. Another challenger in financial sector is low credit to the private sector. Averaged between 2014–16, credit to the private sector stands at one of the lowest in the region at around 5.4 percent of GDP. Credit to the central government in percent of GDP increased from 5.5 in 2011 percent to 16.8 percent in 2016 and is expected to further increase to 17.6 percent in 2017, while credit to the private sector declined from 7.5 percent in 2011 to 5.7 percent in 2016, and is expected to further decrease to 4.6 percent in 2017. Turning around this trend will be challenging in the short term. Over the medium term, even with declining credit to government as a share of GDP, the program foresees only a modest increase in credit to private sector, as banking system net foreign assets increase.

42. To increase credit to the private sector, both in volume and access, an enabling environment conducive for banks to lend to the private sector is necessary. There are two constraints against this enabling environment. First is fiscal dominance. Revenue mobilization and better cash management could reduce the government demand on bank financing, lower yields, and open more space for private sector lending. The second constraint is information asymmetry and the related perceived risk of lending to the private sector. The establishment of a civil registry tied to the electoral registry, that is expected to be finalized by 2018, should help in this regard (PRA, p. 66).

Business Environment and Governance

43. To increase credit to the private sector, but also to encourage job creation and diversification in the economy, the business environment needs to improve. The World Bank Ease of Doing Business Index indicates that Sierra Leone is 140th out of 190 in the world.[17]

44. To improve the business environment, the government is taking steps to improve governance in its own operations. Sierra Leone has recently passed a new procurement law aimed at correcting practices such as single sourcing. There is also an effort under way to increase the powers of the Expenditure Control Management Committee (ECMC) that oversees contract awards within the Ministry of Finance so that it can more effectively enforce rules aimed at preventing single sourcing (MEFP, p. 39), before a contract is awarded. The authorities plan to expand this committee to include a wider network of government officials, including the Attorney General (Law Offices) and the National Public Procurement Authority (NPPA). This,

[17] World Bank Ease of Doing Business Reports, 2015 and 2017.

combined with the provisions in the new PFM and Procurement laws, should reduce the incidence of poor contracting and single sourcing.

45. The office of the Auditor General (AG) has been playing an important, independent role in Sierra Leone in scrutinizing various MDAs' accounts, with the aim of exposing corruption and preventing abuse of public funds and trust, among other due diligence efforts. However, while the AG's reports are discussed in parliament, there has often been little follow-up. In particular, MDAs whose activities are flagged in the reports typically have not responded to the resulting recommendations. The authorities have decided that henceforth, each MDA subject to recommendations in the AG's annual will have 3 months from the tabling of the report in parliament to convey their timeframe for addressing these recommendations. The MDA in question would then have nine months to report on their implementation of the recommendations, or explain to the Ministry of Finance and parliament why it believes the recommendations to be unwarranted, (Continuous SB, MEFP, paragraphs 17 and 31, Table 2).

Poverty Reduction

46. The proposed program aims to make a significant contribution to the reduction of poverty. Although Sierra Leone has been making progress in poverty reduction, more coverage and targeted action is needed. The authorities have agreed that $5 million will be used to double the size of the existing cash transfer program currently being implemented with assistance of the World Bank. The National Commission for Social Action (NaCSA) will use these resources to expand the ongoing unconditional cash transfer program to more households. NaCSA provided cash transfers of Le 250 thousand per month (approximately $2.5 per day) to more than 64,000 households in 2016 (76 percent of which received unconditional cash transfers.) Under the proposed ECF, NaCSA would provide unconditional cash transfers to an additional 61,000 households.[18] This would provide some relief to vulnerable segments of the population that could be adversely impacted by revenue mobilization efforts and exchange rate depreciation.[19] Staff and the authorities have also agreed to define the poverty reducing expenditure floor indicative in a targeted way that clearly benefits the poor (TMU, paragraph 15, PRA, p. 74).

Other Structural Reforms and Diversification

47. The authorities have been making efforts on several fronts to encourage diversification. Sierra Leone has significant potential for commercialization of agriculture and agricultural processing. The government has already attracted a large fruit production operation as FDI. There is also potential in metals processing, with one company already committed to domestic refining. Although the memory of Ebola is still fresh, and with the country lacking

[18] The total financing commitments for social safety nets so far amounts to US$24.1 million of which the government has committed 2.5 million, World Bank 17 million, DfID US$4.3 million and UNICEF US$0.3 million for both the social safety net (SSN) and the Rapid Ebola-SSN under the ERS recovery priorities.

[19] The authorities will also expand the urban transport subsidies, MEFP, paragraph 27.

infrastructure, tourism also holds potential, given the country's natural resources, including its beaches and tropical climate, with a new hotel already emerging in the Lakka coastline in Freetown. Two distinct steps can be taken to facilitate these types of investments. First, there is a need to develop PPP regulations (PRA, p. 67), to ensure the right balance between government's exposure to risk versus opportunity to explore new investments. Second, the authorities have agreed to prepare, by September 2017, a medium-term external borrowing plan covering the program period, that has a list of priority projects consistent with available financing; such prioritization can help planning and better use of funds toward unlocking areas with the highest growth and value-added potential, (PRA, p. 66). In this regard, the World Bank will provide an assessment of the highest growth potential areas, which can feed into the preparation of this external borrowing prioritization plan.

External Borrowing Policy

48. The authorities will continue to exercise prudence in contracting external debt to keep the risk of debt distress at moderate. While a new airport remains a high priority, the authorities recognize that the loan on offer would move them to high risk of debt distress. They are committed to seek alternative, non-debt creating arrangements for the proposed airport. The authorities will use their limited borrowing capacity for high-priority infrastructure needs as determined by a structured prioritization plan, mentioned above.

C. Proposed Financing and Justification

49. Staff proposes an access level equivalent to 78 percent of quota (SDR 161.8 million) for a new three year ECF arrangement. The case for a relatively high access is based on the strength of the program, designed to continue the recovery from the twin shocks, particularly from the devastating impact the EVD epidemic had on the economy.

50. Staff proposes budget support of SDR 45 million, half disbursed upon program approval, and half on completion of the second review. This budget support would be aimed at giving the authorities the financing space necessary to undertake necessary reforms, and implement revenue policies that will begin to generate significant yields toward the middle and end of the program. Thus, by the third year of the program, revenues should have increased sufficiently that budget support from the Fund is no longer needed.

51. To justify the high frontloaded financing, and to mitigate risks to the program, the authorities have agreed to four strong prior actions and major structural benchmarks to be completed by the end of this year, as well as an ambitious revenue mobilization target over the medium-term. The authorities have implemented these prior actions by (i) a series of strong and sustainable revenue measures that should yield at least 0.5 percent of GDP (PA, MEFP, paragraphs 12 and 31, Table 2); (ii) by submitting to Parliament the Tax Administration Bill (PA, MEFP, paragraph 31, Table 2); (iii) by submitting to Parliament the Public Financial Management and Control Bill (PA, MEFP, paragraph 31, Table 2); (iv) and by stopping regular foreign exchange auctions (PA, MEFP, paragraphs 22 and 31, Table 2).

52. The authorities have committed to complete the preparation of the PFM regulatory framework by December 2017, and to link all bank accounts of ministries and departments to the TSA by December 2017 (SB, MEFP, paragraphs 16 and 31, Table 2). They have committed to adopt an action plan to address the problems in the two state-owned banks based on the results of the diagnostic study by end-August 2017. They have also committed to submit the revised Extractive Industries Revenues Bill (EIRB) to Parliament by end-September (SB, MEFP, paragraph 31. Table 2). The authorities have committed to adopting a medium-term Revenue Mobilization Strategy by the time of the first review (MEFP, Paragraph 9). Furthermore, the authorities have agreed to stop using BSL bridge financing, (continuous SB, MEFP, paragraphs 21 and 31, Table 2) and to give the AG's recommendations teeth by placing them on a concrete time table and rendering the relevant MDAs accountable, (continuous SB, MEFP, paragraphs 17 and 31, Table 2). These measures show strong commitment to the ambitious objectives under the proposed arrangement both in the spirit of medium-term reform and forceful resolution of near-term challenges.

PROGRAM MODALITIES, FINANCING AND MITIGATING RISKS

53. Program performance will be monitored through periodic and continuous performance criteria and structural benchmarks, as spelled out in MEFP Tables 2 and 3, as well as quarterly indicative targets.

54. Capacity to repay the Fund is adequate (Table 5). 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 projected to peak in 2019 at SDR 339.8 million (163.8 percent of quota).

55. Financing assurances review. Staff has assessed that the expected disbursement of IMF financing following the completion of the request for new ECF by the Executive Board is consistent with 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 2017 and beyond. Staff assess that the authorities are making good-faith efforts to resolve the issue of private external arrears, dating back to civil war period, estimated at US$195 million as of December 2016. The authorities have entered into a collaborative process with creditors, and are leveraging World Bank technical assistance to help clear these arrears.[20]

56. An updated safeguards assessment of the BSL is in progress and is expected to be completed by the first review. The safeguards mission conducted in April found the central

[20] In July 2016, the government of Sierra Leone assumed responsibility for a debt of US$12 million obligation owed to Securiport, an airport security management company. The government has cleared the majority of this debt and the remaining US$1.5 million arrears is currently under rescheduling discussions. Securiport has agreed to rescheduling and the details are being worked out. Staff assesses the authorities are making good faith efforts to resolve this issue.

bank's safeguards framework had weakened, particularly in the areas of financial reporting, internal controls, and external audit of the central bank. The BSL has committed to address the findings.

STAFF APPRAISAL

57. Sierra Leone has recently successfully completed a demanding ECF program despite two severe shocks. Two simultaneous crises with an unprecedented impact on the economy have been overcome, while the authorities continued their engagement and commitment to complete the IMF program; staff believes this is noteworthy. Today Sierra Leone is striving to get back on the path of economic growth with macroeconomic stability. Revenues, although not back at the pre-crisis levels, are increasing with steady pace. The structural reform agenda has regained momentum, especially related to PFM and revenue mobilization.

58. Staff regrets the lack of fiscal discipline and increased central bank intervention in the second half of 2016. These have undermined the achievements of the previous program, and have added to the macroeconomic challenges facing Sierra Leone today. Forceful implementation of the newly passed PFM Act, and of the corresponding regulatory framework that would place strict limits on extra budgetary spending by MDAs, will be essential to deliver budgetary discipline and create fiscal space for high-priority spending. Ending the practice of using unpaid checks as forced financing is also critical to achieve this goal.

59. Staff supports the authorities' request for a three-year arrangement under the ECF, with access equivalent to 78 percent of quota, as well as the proposed front-loaded budget support. Staff believes a Fund program can play a critical role in helping the authorities bring the economy back to a path of strong, sustainable, inclusive growth, in the context of macroeconomic stability. Fund financing, both directly and as a catalyst for other support, will be critical to enable the authorities to mobilize needed resources, while Fund policy engagement will help the authorities achieve their key fiscal and monetary goals.

60. In this regard, staff welcomes the authorities' decision to adopt a medium-term Revenue Mobilization Strategy (RMS), in time to feed into the 2018 budget. Staff agrees with the authorities that most macroeconomic problems in Sierra Leone stem at least in part from inadequate revenues, and welcomes the authorities' strong commitment to increasing revenues. In particular, staff strongly supports the authorities' decision to eliminate virtually all duty and GST exemptions, a step that will go a long way toward broadening the tax base. Staff also believes the recent decision regarding royalties should help combat the problem of transfer pricing. Staff regrets that the authorities decided to delay floating the retail fuel price. Staff recognizes the political economy factors that led to that decision but nonetheless continues to urge the implementation of the fuel subsidy reform as soon as possible.

61. Staff welcomes the decisions taken to shore up 2017 fiscal performance. At the same time, staff see risks to the fiscal targets given the need to roll back spending overruns from 2016.

Should fiscal performance indicate that the targets are at risk, contingency measures will need to be adopted. Looking ahead, staff is encouraged by the plans to produce a medium-term investment plan, consistent with available resources, to help ensure the careful prioritization of infrastructure investments.

62. Staff is encouraged by BSL's decision to halt routine foreign exchange auctions.[21] Even with this decision, reserve coverage is projected to decline to 2.7 months of imports by the end of the year. This reserve coverage path underlines how critical this decision will be to safeguard reserves and bolster confidence in the BSL. Going forward, it will be important for the authorities to become net buyers in the market, to enhance reserves.

63. Staff welcomes the authorities' decision to slow the growth of reserve money, and to end secondary market operations for the express purpose of indirect financing of the budget. Staff is encouraged by the initial signs of success of the interest rate corridor system, and urges the BSL to continue seeking to strengthen this system.

64. Strengthening the external position is a key objective of the new program. Allowing the exchange rate to move freely, without routine intervention, will help eliminate overvaluation and, combined with fiscal tightening, should provide the basis for strengthening the external position. Structural reforms that improve the competitiveness of the economy will also be essential (Annex II).

65. The diagnostic reports on the two state-owned banks which are nearly complete, will feed into the plans to resolve the NPL and governance problems faced by these banks. Staff welcomes the authorities' commitment to move aggressively to resolve the problems of these two banks, and to seek to strengthen banking supervision more generally.

66. Staff welcomes the authorities' commitment to continued prudence in contracting external debt. In this context, staff is encouraged by the commitment of the authorities not to sign the proposed airport loan, which would put Sierra Leone at a high risk of debt distress. Staff welcomes the authorities' decision to seek alternative, non-debt creating options, including the possibility of a well-assessed PPP, to finance a possible new airport.

67. Staff supports the authorities' request for an ECF arrangement and at the access level requested.

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[21] Halting routine forex auctions is unrelated to the multiple currency practice (MCP) (For more details of MCP, please see paragraphs 11 and 33 of Country Report 16/378).

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

	2013	2014	2015	2016		2017		2018	2019	2020	2021
				EBS 16/119	Prel.	EBS 16/119	Proj.	Proj.	Proj.	Proj	Proj
	(Annual percent change, unless otherwise indicated)										
National account and prices											
GDP at constant prices	20.7	4.6	-20.5	4.9	6.1	5.4	6.0	6.1	6.8	6.8	7.1
GDP Excluding Iron ore	5.6	0.9	3.2	3.7	4.3	4.1	4.0	5.1	5.9	6.6	7.0
Iron ore production (millions metric tons)	16.2	19.4	0.8	6.0	6.2	9.0	9.0	12.0	15.0	16.5	18.2
Iron ore price (US$ per ton) :											
WEO (spot price 62% Fe)	135.4	97.4	56.1	52.2	58.6	45.2	81.2	66.1	53.5	54.6	55.7
Weighted average company price	82.6	39.8	29.0	27.0	27.6	23.4	30.0	24.4	19.8	20.2	20.6
Consumer prices (end-of-period)	8.5	9.8	10.1	11.5	17.4	10.5	12.0	9.5	9.0	8.5	8.0
Consumer prices (average)	9.8	8.3	9.0	11.5	11.5	10.5	16.9	10.6	9.2	8.7	8.2
External sector											
Terms of trade (deterioration -)	-3.4	-16.0	-22.3	0.9	9.4	-2.7	2.3	-5.6	-4.7	0.6	0.4
Exports of goods	47.4	-15.4	-55.4	18.8	15.2	16.8	29.6	20.8	11.6	10.2	11.4
Imports of goods	-19.9	4.7	-18.1	0.6	-2.3	1.3	9.6	6.9	7.9	8.8	5.8
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/	2.1	4.1	3.8	3.7	3.0	3.5	2.7	2.9	3.1	3.1	3.1
Money and credit											
Domestic credit to the private sector	11.9	5.4	9.1	7.9	16.7	10.0	-1.5	14.8	15.3	15.5	17.3
Base money	17.7	30.2	8.3	11.4	23.9	11.1	11.3	13.4	14.9	16.2	16.5
M3	16.7	16.6	4.9	11.8	17.9	11.1	11.3	13.4	14.9	16.2	16.5
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	13.8	16.1	12.6	15.3	17.8	17.7	18.2	19.0	19.1
Government	6.3	5.9	7.5	6.1	8.6	4.8	7.3	7.2	7.7	8.0	8.4
Private	8.6	8.6	6.3	10.0	4.0	10.5	10.5	10.5	10.5	11.0	10.8
National savings	-5.6	-5.6	-3.6	-2.2	-7.3	-2.4	-4.0	-1.2	-0.7	0.2	1.5
External sector											
Current account balance											
(including official grants)	-20.5	-20.1	-17.5	-18.3	-19.9	-17.7	-21.8	-18.9	-18.9	-18.9	-17.6
(excluding official grants)	-21.7	-35.6	-25.7	-23.4	-25.6	-21.6	-25.5	-22.7	-21.4	-21.3	-20.0
External public debt (including IMF)	24.9	24.9	29.4	33.7	37.2	34.2	44.8	48.0	49.9	59.6	57.8
Central government budget											
Domestic primary balance 2/	-0.7	-5.4	-5.3	-3.6	-6.7	-2.6	-4.0	-3.3	-2.4	-2.1	-2.0
Overall balance	-1.9	-4.0	-4.6	-4.6	-8.3	-3.1	-6.1	-5.5	-4.9	-4.8	-4.7
(excluding grants)	-4.9	-8.7	-10.0	-7.4	-11.1	-6.2	-8.9	-7.7	-6.9	-6.7	-6.6
Revenue	12.6	10.8	10.8	10.5	12.2	11.8	13.2	14.3	15.2	15.9	16.2
Grants	3.0	4.7	5.4	2.8	3.1	3.1	2.8	2.2	2.0	1.9	1.9
Total expenditure and net lending	17.5	19.5	20.8	18.0	23.4	18.1	22.0	22.0	22.1	22.6	22.8
Memorandum item:											
GDP at market prices (billions of Leone)	21,317	22,689	21,582	26,690	23,848	30,640	29,440	33,742	38,325	44,212	50,958
Excluding iron ore	18,159	20,541	21,549	26,547	23,605	30,411	28,534	33,012	38,004	43,828	50,499
Excluding iron ore in millions of US$	4,187	4,533	4,245	4,084	3,678	4,055	3,777	4,020	4,316	4,663	5,057
Per capita GDP (US$)	805	803	673	638	577	623	594	615	639	682	728

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

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

2/ 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 16/119	Est.	EBS 16/119	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	2,828	3,185	3,495	3,554	3,615	4,553	4,553	5,436	6,547	7,814	9,111
Revenue	2,280	2,226	2,330	2,798	2,889	3,596	3,754	4,707	5,775	6,976	8,162
Tax revenue	2,111	2,081	2,167	2,618	2,716	3,357	3,473	4,388	5,385	6,537	7,669
Personal Income Tax	657	618	650	698	936	884	889	1,069	1,287	1,581	1,923
Corporate Income Tax	267	270	245	282	324	362	379	504	657	854	984
Goods and Services Tax	440	459	593	682	666	829	849	1,160	1,499	1,804	2,139
Excises	221	222	216	162	184	533	496	416	446	481	521
Import duties	269	285	329	399	382	487	514	729	882	1,074	1,235
Mining royalties and license	235	187	87	155	156	168	256	400	469	554	635
Other taxes	23	40	47	240	68	94	89	110	145	190	233
Non-tax	169	146	163	180	173	239	281	320	391	439	493
Grants	548	959	1,165	756	727	957	800	728	772	838	948
Budget support	170	656	645	341	193	464	348	391	402	487	554
of which CCR Debt relief	...	...	145	...	...	...	...	...	...	...	...
Project grants	378	273	519	415	534	410	452	338	370	351	394
of which for elections	0	30	11	5	9	113	83	-29	0	0	0
Expenditures and net lending	3169	4016	4476	4775	5519	5494	6280	7254	8393	9,922	11,496
Current expenditures	2185	2661	2803	3179	3553	3971	4145	4854	5453	6,373	7,241
Wages and salaries	1060	1446	1587	1796	1818	1806	1825	1976	2277	2,630	3,030
Goods and services	520	681	700	746	1139	941	1046	1262	1398	1,629	1,770
Subsides and transfers	304	313	342	404	395	675	678	658	669	803	913
Ebola transfers	0	52	...	...	...	...	...	...	...	...	...
Interest	301	222	175	233	202	548	596	959	1110	1,311	1,527
Domestic	266	182	135	179	141	468	520	833	938	1,056	1,188
Foreign	35	40	40	54	61	80	76	126	172	255	339
Capital Expenditure	1147	1205	1616	1630	2039	1473	2080	2375	2914	3,524	4,230
Foreign financed	730	635	963	975	1034	904	1217	1341	1519	1,756	1,968
Domestic financed	417	570	653	655	1005	569	863	1034	1395	1,767	2,262
Net lending 1/	-168	12	0	-48	-151	0	0	0	0	0	0
Contingent expenditure 2/	5	138	57	15	79	50	55	25	25	25	25
Unidentified fiscal measures 3/	**...**	**...**	**0**	**0**	**46**	**0**	**0**	**0**	**0**	**0**	**0**
Domestic primary balance 4/	-125	-1114	-1143	-949	-1582	-801	-1149	-1080	-926	-935	-1,026
Overall balance including grants	-342	-830	-982	-1222	-1950	-941	-1727	-1818	-1846	-2,109	-2,385
Overall balance excluding grants	-889	-1,789	-2,146	-1,977	-2,677	-1,898	-2,526	-2,547	-2,617	-2,947	-3,333
Financing	342	830	982	1,222	1,950	941	1,727	1,818	1,846	2,109	2,385
External financing (net)	294	264	338	372	398	225	920	908	1,086	1,232	1,375
Borrowing	380	362	455	565	522	524	1,166	1,183	1,390	1,589	1,784
Projects	352	362	455	565	508	524	848	974	1,150	1,405	1,575
Budget	28	0	0	0	14	0	317	209	240	184	210
Amortization	-86	-98	-117	-193	-124	-299	-246	-275	-304	-357	-409
Domestic financing (net)	47	522	644	850	1,552	715	807	910	760	877	1,010
Bank	300	636	651	768	993	624	1,174	819	661	770	895
Central bank	-60	219	289	535	675	84	409	292	49	53	60
Ways and means	-47	37	24	53	168	84	-88	42	49	53	60
Secondary market operations	...	...	-31	200	223	0	260	0	0	0	0
Commercial banks	359	417	362	232	318	540	765	527	612	717	835
SDR Onlending 5/	0	182	295	282	284	0	236	250	0	n.a.	n.a.
Nonbank	-253	-114	-7	82	558	91	-367	91	99	107	115
Non bank financial institutions	-68	-68	19	103	138	113	113	124	137	150	165
Privatization proceeds	13	13	0	0	0	0	0	0	0	0	0
Change in arrears	14	-48	-39	-21	-40	-22	-20	-33	-38	-44	-50
Float (checks payable)	-211	-11	13	0	460	0	-460	0	0	0	0
o/w accumulated	30	0	0	0	460	0	512	0	0	0	0
o/w repaid	-241	-11	0	0	0	0	-972	0	0	0	0
Additional donor financing	0	0	0	0	0	0	0	0	0	0	0
IMF ECF augmentation	...	...	0	0	0	0	0	0	0	0	0
IMF debt relief	...	...	0	0	0	0	0	0	0	0	0
Memorandum item:											
Total poverty expenditures	883	1,236	1,253	1,248	1,248	1,533	1,889	2,088	2,482	3,023	3,594
Non-resource primary balance 6/	-276	-795	-276	-1,144	-1,904	-560	-1,386	-1,259	-1,204	-1,351	-1,493
Public domestic debt 7/	1,961	2,347	2,722	3,592	3,486	4,224	4,364	5,016	5,764	6,632	7,632
Bank and non-bank financial institutions 8/	231	568	375	567	1,268	715	571	660	760	877	1,010

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/Represents historical discrepancy for 2016.

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

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

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

7/ Public domestic debt includes marketable and non-marketable treasury instruments and ways ar excludes accounts payable.

8/ Fiscal anchor under the program; defined as government financing from the banking system and non-bank financial institutions, excluding SDR onlending 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 16/119	Est.	EBS 16/119	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	15.6	15.5	16.2	13.4	15.3	15.0	16.0	16.5	17.2	17.8	18.0
Revenue	12.6	10.8	10.8	10.5	12.2	11.8	13.2	14.3	15.2	15.9	16.2
Tax revenue	11.6	10.1	10.1	9.9	11.5	11.0	12.2	13.3	14.2	14.9	15.2
Personal Income Tax	3.6	3.0	3.0	2.6	4.0	2.9	3.1	3.2	3.4	3.6	3.8
Corporate Income Tax	1.5	1.3	1.1	1.1	1.4	1.2	1.3	1.5	1.7	1.9	1.9
Goods and Services Tax	2.4	2.2	2.8	2.6	2.8	2.7	3.0	3.5	3.9	4.1	4.2
Excises	1.2	1.1	1.0	0.6	0.8	1.8	1.7	1.3	1.2	1.1	1.0
Import duties	1.5	1.4	1.5	1.5	1.6	1.6	1.8	2.2	2.3	2.5	2.4
Mining royalties and license	1.3	0.9	0.4	0.6	0.7	0.6	0.9	1.2	1.2	1.3	1.3
Other taxes	0.1	0.2	0.2	0.9	0.3	0.3	0.3	0.3	0.4	0.4	0.5
Non-tax	0.9	0.7	0.8	0.7	0.7	0.8	1.0	1.0	1.0	1.0	1.0
Grants	3.0	4.7	5.4	2.8	3.1	3.1	2.8	2.2	2.0	1.9	1.9
Budget support	0.9	3.2	3.0	1.3	0.8	1.5	1.2	1.2	1.1	1.1	1.1
of which CCR Debt relief	...	...	0.7	...	...	...	...	...	...	...	...
Project grants	2.1	1.3	2.4	1.5	2.3	1.2	1.6	1.0	1.0	0.8	0.8
Other	0.0	0.1	0.1	0.0	0.0	0.4	0.3	-0.1	0.0	0.0	0.0
Expenditures and net lending	17.5	19.5	20.8	18.0	23.4	18.1	22.0	22.0	22.1	22.6	22.8
Current expenditures	12.0	13.0	13.0	12.0	15.1	13.1	14.5	14.7	14.3	14.5	14.3
Wages and salaries	5.8	7.0	7.4	6.8	7.7	5.9	6.4	6.0	6.0	6.0	6.0
Goods and services	2.9	3.3	3.2	2.8	4.8	3.1	3.7	3.8	3.7	3.7	3.5
Subsides and transfer	1.7	1.5	1.6	1.5	1.7	2.2	2.4	2.0	1.8	1.8	1.8
Interest	1.7	1.1	0.8	0.9	0.9	1.8	2.1	2.9	2.9	3.0	3.0
Domestic	1.5	0.9	0.6	0.7	0.6	1.5	1.8	2.5	2.5	2.4	2.4
Foreign	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.5	0.6	0.7
Capital Expenditure	6.3	5.9	7.5	6.1	8.6	4.8	7.3	7.2	7.7	8.0	8.4
Foreign financed	4.0	3.1	4.5	3.7	4.4	3.0	4.3	4.1	4.0	4.0	3.9
Domestic financed	2.3	2.8	3.0	2.5	4.3	1.9	3.0	3.1	3.7	4.0	4.5
Net lending 1/	-0.9	0.1	0.0	-0.2	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Contingent expenditure 2/	0.0	0.7	0.3	0.1	0.3	0.2	0.2	0.1	0.1	0.1	0.0
Unidentified fiscal measures 3/	**...**	**...**	**0.0**	**0.0**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Domestic primary balance 4/	-0.7	-5.4	-5.3	-3.6	-6.7	-2.6	-4.0	-3.3	-2.4	-2.1	-2.0
Overall balance including grants	-1.9	-4.0	-4.6	-4.6	-8.3	-3.1	-6.1	-5.5	-4.9	-4.8	-4.7
Overall balance excluding grants	-4.9	-8.7	-10.0	-7.4	-11.3	-6.2	-8.9	-7.7	-6.9	-6.7	-6.6
Financing	1.9	4.0	4.6	4.6	8.3	3.1	6.1	5.5	4.9	4.8	4.7
External financing (net)	1.6	1.3	1.6	1.4	1.7	0.7	3.2	2.8	2.9	2.8	2.7
Borrowing	2.1	1.8	2.1	2.1	2.2	1.7	4.1	3.6	3.7	3.6	3.5
Project	1.9	1.8	2.1	2.1	2.2	1.7	3.0	2.9	3.0	3.2	3.1
Budget	0.2	0.0	0.0	0.0	0.1	0.0	1.1	0.6	0.6	0.4	0.4
Amortization	-0.5	-0.5	-0.5	-0.7	-0.5	-1.0	-0.9	-0.8	-0.8	-0.8	-0.8
Domestic financing (net)	0.3	2.5	3.0	3.2	6.6	2.4	2.8	2.8	2.0	2.0	2.0
Bank	1.6	3.1	3.0	2.9	4.2	2.1	4.1	2.5	1.7	1.8	1.8
Central bank	-0.3	1.1	1.3	2.0	2.9	0.3	1.4	0.9	0.1	0.1	0.1
Ways and means	...	0.2	0.1	0.2	0.7	0.3	-0.3	0.1	0.1	0.1	0.1
Secondary market operations	...	0.0	0.0	0.8	0.9	0.0	0.9	0.0	0.0	0.0	0.0
Commercial banks	2.0	2.0	1.7	0.9	1.3	1.8	2.7	1.6	1.6	1.6	1.7
SDR Onlending 5/	...	0.9	1.4	1.1	1.2	0.0	0.8	0.8	0.0	...	...
Nonbank	-1.4	-0.6	0.0	0.3	2.4	0.3	-1.3	0.3	0.3	0.2	0.2
Non bank financial institutions	-0.4	-0.3	0.1	0.4	0.6	0.4	0.4	0.4	0.4	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
Change in arrears	0.1	-0.2	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Float (checks payable)	-1.2	-0.1	0.1	0.0	1.9	0.0	-1.6	0.0	0.0	0.0	0.0
o/w accumulated	0.2	0.0	0.0	0.0	1.9	0.0	1.8	0.0	0.0	0.0	0.0
o/w repaid	-1.3	-0.1	0.0	0.0	0.0	0.0	-3.4	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
IMF ECF augmentation	...	...	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
Memorandum item:											
Total poverty expenditures	4.9	6.0	5.8	4.7	5.3	5.0	6.6	6.3	6.5	6.9	7.1
Non-resource primary balance 6/	-1.5	-3.9	-1.3	-4.3	-8.1	-1.8	-4.9	-3.8	-3.2	-3.1	-3.0
Public domestic debt 7/	10.8	11.4	12.6	13.5	14.8	13.9	15.3	15.2	15.2	15.1	15.1
Bank and non-bank financial institutions 8/	1.3	2.8	1.7	2.1	5.4	2.4	2.0	2.0	2.0	2.0	2.0
Non-iron ore GDP (Le billions)	18,159	20,541	21,549	26,547	23,605	30,411	28,534	33,012	38,004	43,828	50,499

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/Represents historical discrepancy for 2016.

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

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

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

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

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

Table 2c. Sierra Leone: Fiscal Operations of the Central Government in 2017

(Billions of Leone)

	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	2017 Proj.
Total revenue and grants	772	1,181	1,020	1,581	4,553
Revenue	698	969	913	1,174	3,754
Tax	629	902	848	1,093	3,473
Personal Income Tax	154	214	211	310	889
Corporate Income Tax	66	114	84	115	379
Goods and Services Tax	166	216	207	260	849
Excises	94	131	125	145	496
Import duties	98	133	125	157	514
Mining royalties and license	32	71	74	79	256
Other	19	23	21	26	89
Non-tax	68	66	65	81	281
Grants	74	212	107	407	800
Budget support	0	111	21	216	348
Project grants	74	101	85	108	369
Other	0	0	0	83	83
Expenditures and net lending	1,784	1,404	1,351	1,741	6,280
Current expenditures	1,103	887	913	1,242	4,145
Wages and salaries	469	451	451	454	1,825
Goods and services	311	200	254	281	1,046
Subsidies and transfer	198	151	143	186	678
Interest	126	85	64	321	596
Domestic	113	73	54	280	520
Foreign	13	12	10	42	76
Capital expenditure	680	503	424	473	2,080
Foreign financed	286	314	298	320	1,217
Domestic financed	394	189	126	153	863
Net lending 1/	0	0	0	0	0
Contingent expenditure 2/	1	14	14	26	55
Unidentified Fiscal Measures	**0**	**0**	**0**	**0**	**0**
Domestic primary balance 3/	-788	-109	-129	-122	-1,149
Overall balance including grants	-1,013	-223	-331	-160	-1,727
Overall balance excluding grants	-1,087	-435	-437	-567	-2,526
Financing	1,013	223	331	160	1,727
External financing (net)	178	21	149	572	920
Borrowing	212	96	206	651	1,166
Project	212	96	133	407	848
Budget	0	0	73	244	317
Amortization	-34	-75	-57	-79	-246
Domestic financing (net)	835	202	182	-412	807
Bank	462	258	346	107	1,174
Central bank	298	70	114	-74	409
Secondary Market Operations	260	0	0	0	260
Ways and means 4/	38	-166	114	-74	-88
Commercial banks	164	188	232	181	765
SDR Onlending	0	236	0	0	236
Nonbank	372	-56	-164	-519	-367
Non bank financial institutions	26	51	36	0	113
NASSIT bond	0	0	0	0	0
Privatization proceeds	0	0	0	0	0
Change in arrears	0	0	0	-20	-20
Float (checks payable)	346	-107	-200	-499	-460
accumulated	512	0	0	0	512
repaid	-166	-107	-200	-499	-972
Memorandum item:					
Stock of checks payable	806	699	499	0	0
Bank and non-bank financing 5/	835	-34	182	-412	571

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

5/ Fiscal anchor under the program; defined as government financing from the banking system and non-bank financial institutions, excluding IMF SDR onlending form the Central Bank, 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
				Prel.	Proj.	Proj.	Proj.	Proj.
I. Monetary Survey								
Net foreign assets	**2832**	**3254**	**3160**	**3020**	**2629**	**2547**	**2597**	**2646**
Net domestic assets	**1396**	**1675**	**1972**	**3075**	**3149**	**3441**	**4012**	**4140**
Domestic credit	2570	3236	4435	5590	5666	5960	6533	6664
Claims on central government (net) 2/	1322	1938	3012	3998	4461	4719	5065	5172
Of which: Claim on government by commercial	1219	1666	1947	2266	2430	2618	2850	3031
Claims on other public sector 3/	200	199	181	163	163	163	163	163
Claims on private sector	1003	1057	1153	1346	960	996	1223	1326
Other items (net) 3/	-1174	-1561	-2463	-2515	-2517	-2519	-2521	-2524
Money and quasi-money (M3)	**4229**	**4929**	**5172**	**6096**	**5778**	**5988**	**6608**	**6786**
Broad money (M2)	3144	3864	3892	4245	4402	4558	4714	4574
Foreign exchange deposits	1085	1065	1280	1851	1867	1883	1900	1893
II. Bank of Sierra Leone								
Net foreign assets	**1527**	**1958**	**1840**	**1366**	**963**	**869**	**907**	**945**
Net domestic assets	**-327**	**-397**	**-150**	**730**	**1023**	**1189**	**1364**	**1388**
Claims on other depository corporations	9	4	0	0	-10	80	136	228
Claims on central government	104	273	1066	1733	2031	2101	2215	2141
Marketable government securities	102	53	22	245	505	505	505	505
Ways and means advances 4/	1	39	63	232	270	104	218	144
of which Bridge loans				120				
SDR onlending	…	182	477	761	761	997	997	997
Other claims	358	506	503	496	496	496	496	496
Claims on other sectors	19	13	10	13	13	13	13	13
Other items (net) 5/	-460	-693	-1241	-1016	-1011	-1006	-1000	-995
Reserve money	**1200**	**1562**	**1691**	**2096**	**1986**	**2058**	**2272**	**2333**
Currency in circulation	912	1137	1357	1467	1472	1477	1481	1486
Commercial bank deposits	248	384	334	628	514	581	790	847
Other deposits	39	40	0	0	0	0	0	0
Memorandum items:								
(Annual percent change unless otherwise indicated)								
Base money	17.7	30.2	8.3	23.9	17	24	42	11.3
M3	16.7	16.6	4.9	17.9	10	9	17	11.3
Credit to the private sector	11.9	5.4	9.1	16.7	-21.6	-22.9	-7.6	-1.5
Velocity (GDP/M3)	4.6	4.5	4.3	4.2	…	…	…	4.4
Money multiplier (M3/base money)	3.5	3.2	3.1	2.9	2.9	2.9	2.9	2.9
Credit to the private sector (in percent of non iron ore (	5.5	5.1	5.4	5.7	…	…	…	4.6
Gross Reserves (in US$ millions)	514	633	580	500	…	…	…	503
Program exchange rate (Leones/US$)	4334	4334	4953	7195	7195	7195	7195	7195
Nominal exchange rate, average (Leones/US $)	4337	4532	5076	6417	…	…	…	7555
Nominal exchange rate, end of period (Leones/US $)	4356	4953	5639	7195	…	…	…	7915

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 120 billion Le to cover shorfall in external budget support.
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 16/119	Proj.	EBS 16/119	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-859	-911	-742	-747	-733	-719	-822	-758	-814	-879.3	-892.4
Trade balance	-28	-339	-765	-664	-646	-567	-575	-494	-495	-521.7	-478.4
Exports, f.o.b.	1,543	1,304	581	690	670	806	868	1,048	1,169	1,289.1	1,436.5
Of which: diamonds	186	213	160	129	164	103	147	164	175	200	208
iron ore	1,064	742	77	162	142	210	270	293	296	333	373
Imports, f.o.b	-1,570	-1,644	-1,347	-1,355	-1,316	-1,373	-1,443	-1,542	-1,665	-1,811	-1,915
Of which: oil	-331	-311	-157	-157	-187	-154	-246	-273	-301	-336	-363
Services (net)	-476	-1,027	-341	-299	-303	-320	-368	-438	-480	-519	-574
Income (net)	-557	-376	-112	-120	-120	-124	-155	-124	-95	-109	-123
Of which: interest on public debt	-7	-9	-8	-10	-10	-10	-10	-15	-20	-27	-34
Transfers	202	831	476	336	336	291	275	297	256	271	284
Official transfers	51	703	350	208	208	156	140	156	108	114	117
Other Aid (incl. Ebola)	17	564	222	162	162	101	106	116	70	70	70
Other transfers	151	128	126	127	127	136	136	141	148	157	166
Capital and financial account	567	622	496	679	647	662	763	781	869	933	967
Capital account	99	82	135	69	69	54	58	50	50	49	55
IMF CCRT Debt Relief 1/	…	…	29	…	…	…	…	…	…	…	…
Project support grants	87	60	100	65	65	51	49	45	42	37	39
Financial account	468	540	361	610	578	608	706	731	819	884	912
Foreign direct and portfolio investment	370	385	262	530	498	575	569	600	677	736	759
Other investment	98	154	99	80	80	33	137	130	142	148	153
Public sector (net)	101	59	77	58	58	30	122	111	123	131	138
Disbursements	89	82	100	88	88	70	154	144	158	169	179
Amortization	-20	-24	-23	-30	-30	-40	-33	-33	-35	-38	-41
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0
Change in net foreign assets of comm. banks	-3	48	22	22	22	3	15	20	19	17	15
Other sectors net	0	0	0	0	0	0	0	0	0	0	0
Short-term	0	0	0	0	0	0	0	0	0	0	0
Errors and omissions	379	368	62	0	-64	0	0	0	0	0	0
Overall balance	87	79	-185	-69	-149	-57	-58	22	55	54	75
Financing											
Central bank net reserves (- increase)	-87	-79	154	67	148	-95	58	-22	-55	-54	-75
of which: Use of Fund loans	7	41	101	67	67	-17	62	58	30	-6	-42
Purchases	14	54	130	68	68	0	75	75	45	23	0
Repurchases	-7	-12	-30	0	0	-17	-13	-17	-15	-28	-42
Exceptional financing	0	0	31	2	2	0	0	0	0	0	0
Financing gap	0	0	0	0	0	152	0	0	0	0	0
Memorandum items:											
(Percent of non-iron ore GDP unless otherwise indicated)											
Current account	-20.5	-20.1	-17.5	-18.3	-19.9	-17.7	-21.8	-18.9	-19	-19	-18
Trade Balance	-0.7	-7.5	-18.0	-16.3	-17.6	-14.0	-15.2	-12.3	-11	-11	-9
Capital and Financial Account	13.5	13.7	11.7	16.6	17.6	16.3	20.2	19.4	20	20	19
Overall Balance	2.1	1.7	-4.3	-1.7	-4.1	-1.4	-1.5	0.6	1	1	1
Official aid (grants and loans)	1.1	3.1	3.0	1.3	1.5	1.5	2.2	1.8	2	2	2
IMF CCRT debt service savings in US$	…	…	13	16	16	…	…	…	…	…	…
Budget support in US$ (grants and loans)	44.2	141.0	129.1	53.4	53.4	61.9	113.4	103.3	73	71	77
of which: Use of Fund loans	…	…	…	…	…	…	30.2	30.2	…	…	…
Gross International Reserves											
US$ millions	514	633	580	580	500	608	503	583	667	715	748
Months of imports	2.1	4.1	3.8	3.7	3.0	3.5	2.7	2.9	3.1	3.1	3.1
Excluding iron ore, months of imports	3.4	4.7	4.7	5.7	4.3	5.0	3.8	4.2	4.4	4.4	4.5

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: Indicators of Capacity to Repay the Fund, 2017–31

	Projection														
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Fund obligations based on existing credit															
(in millions of SDRs)															
Principal	10.0	13.0	11.3	21.2	31.1	38.2	36.4	35.6	22.5	9.8	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit															
(in millions of SDRs)															
Principal	10.0	13.0	11.3	21.2	31.1	42.1	51.5	59.6	53.2	42.1	28.4	17.3	8.4	1.7	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit															
In millions of SDRs	10.0	13.0	11.3	21.2	31.1	42.1	51.5	59.6	53.2	42.1	28.4	17.3	8.4	1.7	0.0
In millions of US$	13.4	17.5	15.2	28.46	41.82	56.65	69.27	80.05	71.50	56.64	38.23	23.22	11.24	2.26	0.00
In percent of exports of goods and services	1.2	1.4	1.1	1.84	2.44	3.04	3.40	3.72	3.10	2.30	1.45	0.82	0.37	0.07	0.00
In percent of debt service 1/	23.9	26.4	21.9	30.41	35.81	41.67	45.59	47.86	41.52	29.02	20.25	12.71	6.22	1.24	0.00
In percent of GDP	0.3	0.4	0.3	0.61	0.82	1.02	1.15	1.23	1.02	0.75	0.47	0.26	0.12	0.02	0.00
In percent of Gross International Reserves	2.7	3.0	2.3	3.98	5.59	7.16	8.01	8.48	6.76	4.65	2.68	1.39	0.58	0.10	0.00
In percent of quota	4.8	6.3	5.4	10.21	15.00	20.32	24.85	28.71	25.65	20.31	13.71	8.33	4.03	0.81	0.00
Outstanding Fund credit															
In millions of SDRs	274.9	317.7	339.8	335.4	304.3	262.2	210.6	151.1	97.9	55.7	27.3	10.0	1.7	0.0	0.0
In millions of US$	369.5	427.1	456.8	450.9	409.0	352.4	283.1	203.1	131.6	74.9	36.7	13.5	2.3	0.0	0.0
In percent of exports of goods and services	34.2	33.6	32.5	29.2	23.9	18.9	13.9	9.4	5.7	3.0	1.4	0.5	0.1	0.0	0.0
In percent of debt service	658.1	645.3	659.8	481.7	350.3	259.2	186.3	121.4	76.4	38.4	19.4	7.4	1.2	0.0	0.0
In percent of GDP	9.5	10.4	10.5	9.6	8.0	6.4	4.7	3.1	1.9	1.0	0.4	0.2	0.0	0.0	0.0
In percent of Gross International Reserves	73.5	73.3	68.5	63.0	54.7	44.5	32.7	21.5	12.4	6.1	2.6	0.8	0.1	0.0	0.0
In percent of quota	132.5	153.2	163.8	161.7	146.7	126.4	101.6	72.8	47.2	26.9	13.2	4.8	0.8	0.0	0.0
Net use of Fund credit (in millions of SDRs)	45.8	42.8	22.1	-4.4	-31.1	-42.1	-51.5	-59.6	-53.2	-42.1	-28.4	-17.3	-8.4	-1.7	0.0
Disbursements	55.8	55.8	33.3	16.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	10.0	13.0	11.3	21.2	31.1	42.1	51.5	59.6	53.2	42.1	28.4	17.3	8.4	1.7	0.0
Memorandum items:															
Exports of goods and services (in millions of US$)	1,080	1,272	1,406	1545	1714	1862	2038	2151	2303	2466	2641	2834	3039	3264	3508
Debt service (in millions of US$)	56	66	69	94	117	136	152	167	172	195	189	183	181	181	198
Nominal GDP (in millions of US$)	3,897	4,109	4,352	4704	5103	5546	6022	6508	7030	7591	8201	8869	9557	10300	11092
Gross International Reserves (in millions of US$)	503	583	667	715.2	747.9	791.6	865.1	943.7	1057.8	1218.5	1426.3	1671.3	1945.0	2245.5	2578.8
Quota (millions of SDRs)	207	207	207	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 6. Sierra Leone: Actual and Proposed Disbursements Under the ECF Arrangement, 2017–20

Availability	Disbursements		Conditions for Disbursement
	In millions of SDRs	In percent of quota 1/	
May 15, 2017	39.166	18.88	The approval of the three-year ECF arrangement.
September 1, 2017	16.666	8.04	Board completion of the first review based on observance of performance criteria for June 30, 2017
March 1, 2018	39.166	18.88	Board completion of the second review based on observance of performance criteria for December 31, 2017
September 1, 2018	16.666	8.04	Board completion of the third review based on observance of performance criteria for June 30, 2018
March 1, 2019	16.666	8.04	Board completion of the fourth review based on observance of performance criteria for December 31, 2018
September 1, 2019	16.666	8.04	Board completion of the fifth review based on observance of performance criteria for June 30, 2019
March 1, 2020	16.776	8.08	Board completion of the six review based on observance of performance criteria for December 31, 2019
Total disbursements	161.7720	**78.00**	

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

Table 7. Sierra Leone: Risk Assessment Matrix (RAM)[1]

	Source of Risks	Likelihood	Potential Impact	Policy Response
Domestic	Reemergence of Ebola at epidemic proportions.	**Low**	**High:** would negatively impact growth as well as the fiscal and the external positions.	Continue Ebola containment efforts with donor support and improving health services.
	Political instability stemming from the general election in early 2018	**Low**	**Medium:** political pressure and instability may magnify if the public does not perceive improved social services or infrastructure.	Resist short-term populist measures that would compromise macro-fiscal sustainability; strengthen public communication.
	Insufficient revenue mobilization	**Medium**	**High:** could lead to poor execution of budget, possible domestic arrears, lower confidence in economy and negative feedback for growth and stability.	Limit discretionary expenditure strictly; strengthen revenue mobilization and budget execution process.
	Poor implementation of donor-demanded reforms	**Medium**	**High:** could delay external financing, leading to arrears and difficulties in budget execution.	Implement donor-tied policy reforms on a timely basis; increase domestic revenue to reduce reliance on external financing.
	Weakness in the financial sector	**High**	**High:** The adverse effects of lack of action or slow progress in resolving the two problematic state-owned banks could spill over to other financial institutions and the real sector and lead to fiscal costs in the case of needed capital injections.	Address the problems based on the results of the diagnostic study; enhance banking supervision, notably through regular on-site inspections and stress testing of banks to promote healthy financial intermediation.
External	Significant China slowdown	**Medium**	**Medium:** A sharp slowdown and/or weak medium-term growth in China could suppress iron ore prices and reduce export.	Increase non-resource revenue; promote diversification in the context of the Agenda for Prosperity.
	Lower energy prices	**High**	**Medium:** Low oil prices pose an upside risk and will benefit the economy by boosting domestic demand, reducing inflation, and improving fiscal and external positions.	Manage and use the excise revenue from fuel efficiently and seek opportunity to float the retail fuel price when the global energy prices are low.

[1]The Risk Assessment Matrix shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Table 8. 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	Jun	Sep	Dec
	(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	31.3	31.1	30.7
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	27.7	26.9	25.9
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	27.2	23.1	22.7
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	23.1	19.4	20.0
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	1.9	2.9	2.9
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	10.7	17.2	22.3
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	25.3	25.5	24.4
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	82.9	82.0	85.5
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	30.6	30.6	30.1
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	33.5	34.4	38.9
	(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	1.0	2.0
Minimum liquidity ratio	2	5	0	0	0	5	0	0	0	0	0	0	0	0.0	0.0
Minimum capital	3	2	1	1	2	2	2	2	2	2	2	2	2	2.0	2.0
Limit of single large exposure 5/	3	5	0	2	0	1	2	2	2	2	2	2	1	1.0	1.0
Memorandum Item:															
Number of banks	13	13	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.

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

Background and Program History

- Sierra Leone has been a member of the IMF since 1962, and began a series of arrangements with the Fund in 1989 when a Rights Accumulation Program (RAP) was negotiated to reduce poverty and boost growth.

- Progress under the RAP was interrupted by the civil conflict (1991–2001). However, IMF engagement continued. There was a structural adjustment facility (SAF) arrangement between 1994–95, an arrangement under the enhanced SAF from 1995 to 1998, followed by an arrangement supported by emergency Post-Conflict Assistance (EPCA) between 1998–2001.

- To support Sierra Leone's emergence from the civil conflict, a program supported by the Poverty Reduction and Growth Facility (PRGT) was arranged between 2001–05, focusing on poverty reduction, strengthening policies and economic development priorities. A second PRGT program was implemented between 2006–10 to help Sierra Leone reach the HIPC completion point. The Fund engagement subsequently continued with an arrangement under the extended credit facility (ECF) that was approved in July 2010. The goals of the ECF, inter-alia, were to increase fiscal space for priority spending, improve public financial management, develop the financial sector, strengthen the independence and supervisory role of the Central Bank, and develop the private sector by improving the business environment.

- A successor ECF arrangement was negotiated in 2013 to consolidate the gains made under the previous ECF. However, progress was disrupted by the onset of the twin shocks of the Ebola epidemic (EVD) and the collapse of the iron ore sector.

- To assist the government, the IMF provided support through a combination of debt relief, increased financing and budget-on lending significantly above what had been planned. IMF also played a critical role in catalyzing donor support both during the Ebola crisis, as well as the early stages of the recovery process.

- Sierra Leone has just successfully completed the ECF program it negotiated with the IMF in 2013.

Program Assessment

- An Ex-Post Assessment (EPA) was last conducted in November 2010.

- This PRA takes a retrospective look at IMF's engagement with Sierra Leone since 2010.

There are three main pillars to Sierra Leone's long-term program engagement (LTPE) with the Fund:[1]

- ➢ Maintaining macroeconomic stability
- ➢ Advancing structural reforms and strengthening macro policies
- ➢ Reducing poverty

- Program implementation was mixed in these areas over the last 6 years. Due to fiscal challenges, the ECF negotiated in 2010 was cancelled after four reviews, and replaced with the current ECF, which in turn was beset by the twin shocks of EVD and the iron ore sector collapse.

Macroeconomic background prior to the twin shock:

- ➢ Growth averaged more than 10 percent between 2010 and 2013, aided by sound policy and increased iron ore mining. The macroeconomic environment was relatively stable, with inflation averaging less than 10 percent, reduced interest rates, and a relatively strong external position.

Sierra Leone achieved social progress as well. Although still high, the poverty rate dropped from nearly 80 percent in 2003 to 66 percent in 2011.

The first ECF:

- ➢ Fiscal progress during the 2010–13 ECF was limited. While revenue performance was in line with program objectives, there were consistent expenditure overruns. The larger than programmed fiscal deficits were financed by the Central Bank in 2010; and over-borrowing from the government securities market in 2011. Corrective measures had a limited impact due to problems in cash management, including the absence of a public investment plan integrated with a medium-term expenditure framework. As a result, in

[1] In retrospect, LTPE was needed to assist Sierra Leone in macroeconomic management, and meeting its growth and structural objectives through periods of significant negative shocks, including a civil war, an epidemic, and a commodity crisis that disrupted the nation's major export base.

2013, the authorities decided to cancel the ECF arrangement, and requested a new ECF arrangement. The authorities believed key fiscal objectives under the program were no longer realistic in view of expenditure overruns resulting in domestic over-borrowing.

The second ECF:

- The major objectives of the ECF arrangement negotiated in 2013 were to provide a sounder framework for reform implementation, consolidate progress in macroeconomic stabilization, strengthen the fiscal position, enhance external buffers, and advance the structural reform agenda. Despite a strong start helped by the beginning of large scale iron ore mining, the economy underwent two simultaneous negative shocks, EVD and collapse of iron ore prices.

- During the twin shocks, GDP declined by more than 20 percent in 2015, inflation increased to double digits, and the fiscal position (excluding grants) deteriorated by more than 4 percentage points of GDP. Non-farm household revenue decreased by 40 percent with a disproportionate impact on women.[2] In addition, thousands of households lost their breadwinners. Therefore, some social gains were almost certainly reversed. In 2016, growth is estimated to have recovered to 4.9 percent. According to the World Bank, non-farm employment appears to have recovered to its pre-crisis levels.

- In order to deal with the twin shocks, the fiscal anchor under the program, net domestic financing of the government, originally set at 2 percent of GDP, was relaxed to a range of 2.5 to 3 percent in order to give the authorities increased flexibility to protect critical spending in Ebola recovery and related areas.

- Expenditures increased from 17.5 percent of GDP in 2013 to 19.4 percent by end-2015. Domestically financed capital expenditures increased from 2.3 percent of GDP in 2013 to 2.8 percent by end-2015. There were slippages on wage containment commitments; wages ballooned to nearly 7 percent of GDP by end-2015. Main factors that contributed to this were uncontrollable wage costs of autonomous subvented agencies and ghost workers. The authorities made considerable progress in the latter, and progress is underway to contain subvented agency wage costs[3] through medium-term wage reform

[2] World Bank phone surveys conducted during and subsequent to the Ebola crisis.

[3] The medium-term wage plan already proposes a consolidation of subvented agency wage setting and hiring within the umbrella of overall public wage framework. Staff have made specific recommendations to the

(continued)

that was a structural benchmark under the program, and approved by the Cabinet.[4] The current program also successfully pushed for the passage of the PFM Act with provisions for a natural resource revenue fund and a treasury single account (TSA).

- The revenue to GDP ratio declined by nearly 2 percent of GDP in the first year Ebola hit, and has not yet recovered to its pre-Ebola levels. Non-mining revenues were at 11.3 percent of GDP in 2013, prior to the twin shocks. They have dropped to 9.7 percent in 2015, after the height of the crisis, but are estimated to have recovered to 10 percent of GDP by end-2016. An important policy that has contributed to this trend has been program traction in significant elimination of exemptions.[5]

- Most recently, despite challenging circumstances, the authorities met conditionality with only a few slippages:

  - Due to expenditure pressures largely stemming from the twin shocks, the net banking credit to government QPC and other criteria were missed in late 2014, but the authorities quickly brought performance back in line with program targets through expenditure rationalization and revenue mobilization efforts.

  - Structural benchmarks were largely implemented although often with significant delays.[6] The EVD crisis prevented delivery of key TA. Notably, progress on PFM reform was disrupted. However, delays (sometimes not under the control of the authorities) even after the Ebola crisis continue to pose a challenge.

- Fuel subsidy reform, unifying commercial and retail prices, and floating them based on market levels of energy and exchange rate, has been delayed due to socio-political reasons.[7]

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authorities on temporarily freezing the new hires and wage increases for subvented agencies until the full reform is operational.

[4] However, the reform is undergoing revisions for a more comprehensive scope.

[5] Sierra Leone 6th Review Staff Report (Country Report No. 16/378).

[6] Figure 1.

[7] For a more detailed discussion of the existing price structure and fuel subsidy reform, please see (Box 1, Country Report No. 16/236).

Retrospective Lessons, Risks and Pointers for a Potential Next Arrangement

- In hindsight, the choice of Fund arrangement, an ECF, was appropriate given the contracted BOP and fiscal gaps, and the acute need for structural reform and policy traction. Identification of key assumptions and risks were broadly accurate. However, more contingency planning could have been embedded to address unforeseen crises.

- Program design in the 2013–16 ECF contributed to the mitigation of fiscal risks highlighted in the previous ECF. Conditionality did evolve in response to unpredictable circumstances, providing sufficient flexibility to grant necessary waivers and enhanced financial assistance at the time of the twin shocks. However, the design of structural benchmarks could have been more streamlined and focused. Given capacity constraints and the fragile post-Ebola recovery, the potential successor arrangement should focus on a limited number of achievable and critical structural benchmarks, specifically two fiscal, two monetary and two others per review.

- The program may have also overestimated the extent to which TA (albeit disrupted during the twin shocks) recommendations were effectively implemented. The next potential arrangement should coordinate more closely with TA implementation.

Pointers by Sector:

Fiscal

- Although progress has been made in mobilizing domestic revenue, it remains insufficient to finance the infrastructure gap and social programs. Iron ore revenue induced complacency, only to result in a severe gap when it collapsed with prices. Strong revenue mobilization from a diversified tax base should be a priority in a successor program.

- Within the framework of the PFM, medium-term fiscal planning incorporated to the budget and alignment with macroeconomic goals should replace dominance of short-term reactions to persistent cash management problems. Problems in cash management and forced financing by unpaid bills and uncashed checks—exacerbated by delays or non-materialization of donor financing—continue to pose a risk, and would warrant a renewed focus in a successor program. The frequent resort by the authorities to bridge financing from the Central Bank, in anticipation of budget support disbursements, has become a dangerous habit that needs to be contained. In this context, the effective implementation of the PFM law through a well-designed regulatory framework (currently underway) will be crucial.

- Part of TSA reform should include the transfer of idle funds of Ministries, Departments and Agencies (MDAs) to the control of MoFED.

- Wage reform and containment of subvented agency wage costs should proceed actively after the final approval of the cabinet.

- If fuel subsidy reform (market pass-through to prices and unification of commercial and retail prices) is not passed in July as agreed, further depreciation and higher energy prices will increase pressure on the budget through foregone revenue and potential recurrence of explicit subsidies. To avoid this risk, and place fuel pricing on sound policy footing, it is critical that the authorities follow through their commitment to unify and float prices.

- The government should be prepared for the risk of a significant slow-down of external financing. The government should aim reduce reliance on external financing by primarily increasing domestic revenue.

- Domestically financed capital expenditure and social spending have been compressed to meet financing constraints, and remain too low due to low revenues. Increasing these expenditures is crucial to reach high, inclusive growth and to develop structural capacity for better investment and social delivery. A potential successor arrangement may also include new modalities to protect investment and social spending. This may include, inter-alia and upon consultation with authorities, poverty reducing spending and domestically financed capital spending to be elevated to performance criteria. Budget support from the Fund, to enhance spending on these critical items while the authorities seek to further increase domestic revenues, may be appropriate.

Monetary and Foreign Exchange

- Inflation is on the rise, and poses a risk to both social welfare and macroeconomic stability. The BSL should remain committed to the agreed, tighter monetary policy stance in the potential successor arrangement, and aim to reduce inflation to single digits by the end of next year.

- Monetary policy transmission and traction remain inadequate. A successor arrangement should include measures to strengthen the effectiveness of monetary policy.[8] A critical challenge for a successor arrangement will be to address the authorities' fear of a truly floating exchange rate. BSL should resist the temptation to sell foreign exchange reserves, to try to stem depreciation pressures. BSL should only intervene in the foreign exchange market to smooth excessive swings, and should become a net buyer of foreign exchange to bolster its reserves that have been declining precisely as a result of these sale auctions.

Structural and Financial

- The credit to private sector to GDP ratio stands at an extremely low level, below 5 percent. This problem warrants renewed focus in the potential next arrangement through structural reforms, including the development of microfinance and the establishment of a collateral registry that will be aided by the current efforts to establish a civil registry and a unique identification number system. This will contribute to the reduction of fiscal dominance by giving more incentives to the banking sector to lend to the private sector.

- Structural reforms should be implemented on a timelier basis to aid diversification that requires an improved business environment. The single clearance window reform for imports should be finalized by the end of the next program.

- There should be a deliberate effort by the government to invest in high-value added agricultural projects to diversify, and to increase local production and reduce reliance on food imports. Government should also identify and invest in related higher-value added streams beyond agriculture. The government is working with the World Bank currently to identify the areas with the highest potential value-added.

- A fundamental constraint on diversification is electricity. Objectives should include increasing supply and accessibility through new investments while reducing existing subsidies.

- Although Sierra Leone was making progress in poverty reduction, more is needed, especially in the aftermath of Ebola. An ambitious agenda that includes the expansion of the existing cash transfer scheme and more targeted subsidies toward specific problems is needed to significantly reduce poverty in a successor program. Toward this goal, the indicative target (IT)

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[8] A key objective of the program negotiated in 2010 was to increase the effectiveness of monetary policy and to develop a yield curve. The authorities have made some progress in this, including by introducing an interest rate corridor.

on poverty reducing expenditure floor should be re-examined to make it more focused and surgical.

- The authorities should aggressively follow through on the recommendations of the diagnostic study of the two state-owned banks, expected to be completed early in 2017.

- More needs to be done to strengthen banking supervision, which was one of the key goals of the previous ECF. BSL should take a proactive role in scrutinizing the financial soundness indicators of all banks on a continuous basis, and enforce necessary corrective steps if required.

- The authorities should continue to exercise prudence in contracting external debt to avoid reaching a high risk of debt distress. The authorities should seek alternative, non-debt creating arrangement for the proposed airport such as a well-assessed PPP, using their limited borrowing capacity for high-priority infrastructure needs.

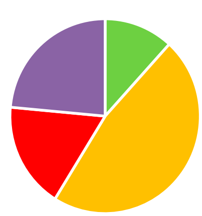
Figure 1. Structural Benchmarks

Panel Table 1.1 Three-Year ECF Program Approved in June, 2010

Category	Description	Jun-10	Sep-10	Dec-10	Jun-11	Sep-11	Dec-11	Jun-12	Sep-12	Dec-12
		Status of Conditionality								
Revenue Mobilization	Establish a Domestic Tax Department (DTD) as the vehicle for achieving integration of domestic tax collection and make it functional, including recruiting Commissioner and Deputy Commissioner.									
	Integrate the Goods and Services Tax (GST) administration within the Large Taxpayer Office (LTO).									
	Transfer all eligible taxpayers to the Medium Taxpayer Office (MTO) and integrate GST administration with MTO.									
	Implement new small taxpayer regime.									
	Introduce a resource rent tax on mining operations.									
Expenditure and Debt Management	Adopt a domestic fuel pricing formula that reflects full pass-through of international oil prices.									
	Submit to parliament amendments of the Government Budgeting and Accountability Act (2005) and Financial Management Regulation to ensure that only viable capital projects enter into the budget.									
	Develop a pay reform plan for public servants.									
	Prepare and publish regulations to implement a Public Investment Plan, fully integrated with the budget process.									
	Submit amendments to the GBAA to the Parliament. The amendments will clarify provisions related to supplementary budgets and contingency funds.									
	Complete a three-year public investment plan, fully integrated with the budget process, to be submitted with the 2013 budget.									
Financial Sector Development	Adoption by the BSL of new off-site surveillance guidelines for banks.									
	Establish a credit reference bureau.									
	Submit to parliament amendments to the BSL and Banking Acts to increase operational independence of the BSL and improve regulation and supervision of the financial sector.									
	Privatize Rokel Bank by selling all Government shares in the bank.									
	Issue revised prudential guidelines in line with Banking Act.									
Monetary Operation	Establish reverse repo rate as the benchmark interest rate and announce the rate after every Monetary Policy Committee meeting. Continuous.									

Note:
- met
- met with delay
- not met

Panel Figure 1.1 Structural Benchmarks 2010-2012



Source: IMF staff compilation.

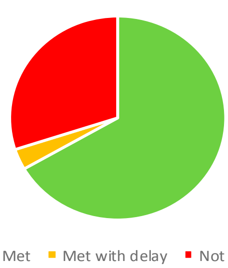
Figure 1. Structural Benchmarks (Concluded)

Panel Table 1.2 Three-Year ECF Program Approved in October, 2013

Category	Description	Dec-13	Jun-14	Oct-14	Dec-14	Mar-15	Jun-15	Sep-15	Nov-15	Dec-15	Mar-16	Jun-16
		Status of Conditionality										
Revenue Mobilization	Submit to parliament the Extractive Industries Revenue Bill, including a resource rent tax.	met										
	Set up a resource revenue administration unit at NRA.	met										
	Implement a new small taxpayer regime.	met										
	Establish a Treasury Single Account (TSA), and streamline NRA's transition accounts.		not met		not met							not met
	Establish a Natural Resource Revenue Fund with legal and procedural characteristics as recommended by FAD TA under the Topical Trust Fund for Managing Natural Resource Wealth.				not met							not met
	Introduce a new Tax Administration Act.				not met							not met
	Prepare a report on duty waivers granted in 2013-14, by category and by sector, specifying the legal basis for the waiver.							met				
	Review the consolidated tax and non-tax obligations for mining companies, and prepare a list of all expired mining agreements.											met
Expenditure and Debt Management	Submit to parliament the new PFM Bill that includes amendments and clarifications on supplementary budgets and contingency funds, as well as provisions for the establishment of a Natural Resource Revenue Fund.		not met					met				
	Prepare a monthly rolling Treasury cash flow table consistent with the 2016 budget. Continuous.	met	met	met	met	met	met	met	met	met	met	met
	Establish and staff an operative public investment program (PIP) unit in the Ministry of Finance and Economic Development.	met										
	Prepare a semi-annual report on PIP execution. Continuous.	met	met	met	met	met	met	met	met	met	met	met
	Complete a three-year PIP, fully integrated with the budget process and the revised MTEF for 2015–18, to be submitted to parliament with the 2015 budget.			met								
	Complete a Medium-Term Debt Management Strategy.	met										
	Prepare a quarterly report on external debt commitments, agreements and disbursements. Continuous.	met	met	met	met	met	met	met	met			
	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.											not met
Financial Sector Development	Prepare a road map for developing and implementing risk-based supervision.		met									
	Establish a primary dealer agreement system for the government securities market.		not met								not met	
	Introduce a wholesale foreign exchange auction.		not met				met					
	Issue a tender bid for a diagnostic study for Rokel Commercial Bank and Sierra Leone Commercial Bank.									met		
	Complete the independent diagnostic study report for Rokel Commercial Bank and Sierra Leone Commercial Bank.										not met	
	Establish a registry of moveable collateral.										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.											not met
	Complete the contracting process for an independent diagnostic study report for Rokel Commercial Bank and Sierra Leone Commercial Bank.											met with delay
Business Environment	Prepare a development strategy for small- and medium-sized enterprises.		met									
	Introduce a one-stop window for imports clearance.				not met							
	Finalize the business process reengineering for custom single clearance window.									met		
	Begin the migration from ASYCUDA ++ to ASYCUDA World as the next step for introducing a one-stop window.											met
Monetary Operation	Introduce a daily liquidity forecasting framework.										met	
	Finalize draft of BSL's rules governing the operations of the interbank foreign exchange market.											not met
	Link the operation of the daily liquidity forecasting framework to monetary policy actions.											met

Note: met; met with delay; not met

Panel Figure 1.2 Structural Benchmarks 2013-2016



Source: IMF staff compilation.

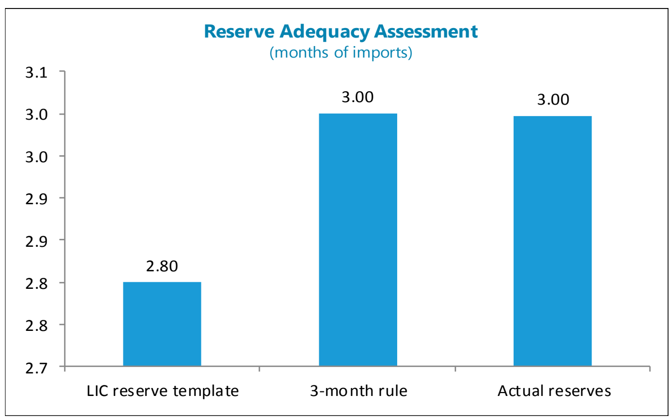
Annex II. External Sector Assessment

The real effective exchange rate (REER) seems overvalued by about 15–17 percent (Text Table 1). The REER misalignment was assessed by employing the external sustainability (ES) approach based on the 2015 indicators, the latest available actual data. The EBA-lite methodology is not applicable to Sierra Leone given the poor quality of BoP data, which renders unreliable historical CA deficits. Using the current account (CA) elasticity of -0.35 percent and underlying CA of about -11.5 percent,[1] to stabilize Sierra Leones's international investment position (IIP) at -34.6 percent of GDP (2014 level, the latest available data), REER will have to depreciate by about 16.5 percent. REER overvaluation reduces to 15 percent, if IIP is to be stabilized at -40 percent of GDP (the median of middle income countries). The nominal effective exchange rate depreciated some 13 percent against the US dollar in 2016, while the REER increased about 0.2 percent. Staff notes that a combination of a more flexible exchange rate, improved fiscal stance, and improved business environment should help reduce the external imbalance.

Text Table 1. CA Norms, CA Gaps and REER Gaps

				CA norm (% of GDP)	Underlying CA (% of GDP)	CA gap	REER gap
Scenario 1: Stabilizing net IIP at	-34.6 % of GDP			-5.7	-11.5	-5.8	16.5
Scenario 2: Stabilizing net IIP at	-40.0 % of GDP			-6.1	-11.5	-5.4	15.3
Scenario 3: Reaching net IIP at	-40.0 % of GDP	in	2035	-6.2	-11.5	-5.3	15.0

Sierra Leone's gross international reserves (GIR) level is broadly adequate. Gross reserves declined by US$80 million during 2016 and stand at US$500 million as of end-2016.[2] The GIR covers about 3 months of imports, which is at the standard 3-month norm. The current level of reserves is higher than the adequacy level implied by the LIC reserve template, which determines the adequate level of GIR based on the costs and benefits of holding reserves.



According to this template, Sierra Leone should hold 2.8 months of imports in GIR. Along with the 2016 projections for the macro data, this assessment was derived by assuming 60 percent probability of a large shock and 0.05 percent cost of holding reserves (lowest cost of holding reserves).

[1] An underlying CA of 9-13 percent of GDP is considered to reflect better Sierra Leone's situation, excluding the temporary impact of the Ebola Virus Disease shock and iron ore price decline shock. Within this range, 11.5 percent is chosen to facilitate comparison with the last external assessment in July 2016.

[2] More than half of the decline is due to depreciation of a few reserve currencies in 2016.

Appendix I. Letter of Intent

May 17, 2017

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Madame Lagarde:

1. On behalf of the Government of Sierra Leone, we are pleased to submit herewith a Memorandum of Economic and Financial Policies (MEFP) for which Sierra Leone is requesting a three-year arrangement with the International Monetary fund (IMF) under the Extended Credit Facility (ECF) for the period 2017–20.

2. The objectives of the program and measures envisaged for achieving them are described in the MEFP. They are consistent with Sierra Leone's Post Ebola Recovery Strategy, which was built on the *Agenda for Prosperity,* and the Sustainable Development Goals (SDGs). The program focuses on (i) consolidating the gains from the previous ECF-supported program, (ii) strengthening revenue performance and improving public financial management to efficiently channel adequate resources to infrastructure and poverty-related spending, (iii) stepping up financial sector reforms to support financial deepening and economic growth; and (iv) strengthen the external position, and enhance overall competitiveness. Development partners have pledged to assist the government to attain these broad objectives.

3. The program supported by the previous ECF arrangement 2013–16 contributed to ensuring macroeconomic stability despite two severe exogenous shocks in 2014–15—the Ebola epidemic and the sharp drop in iron ore prices. Though the shocks resulted in a temporary decline in our GDP, thanks to sound macroeconomic policies growth has since resumed. Consistent with the objectives we set out to achieve at the inception of that program, we maintained macroeconomic stability through the pursuit of prudent fiscal and monetary policies.

4. The government requests that the MEFP be supported under a new three-year ECF arrangement in an amount equivalent to SDR 161.8 million (or 78 percent of quota). We also request that the first disbursement, in an amount equivalent to SDR 39.166 million, of which SDR 22.5 million for budget support, be made available after approval of the ECF arrangement by the Executive Board of the IMF. To monitor progress in implementing our reform agenda, the program includes a set of periodic and continuous performance criteria, indicative targets, prior actions, and structural benchmarks outlined in the MEFP and the Technical Memorandum of Understanding (TMU).

5. The economic outlook remains promising over the medium term. Both total and non-iron ore real GDP growth are expected to gradually increase to beyond 7 percent in 2021 from 6.0 and 4.0 percent in 2017, respectively. We are committed to prudent fiscal and monetary policies to dampen inflationary pressures. CPI is expected to fall to 12 percent by end 2017 and further down to single digits by end 2018. We expect a careful execution of government spending, in the context of the newly implemented Public Finance Management Act.

6. The Government believes that the policies contained in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Sierra Leone will consult the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with Fund policies on such consultations. Sierra Leone will provide the Fund with any information that may be necessary for monitoring the implementation of the measures and the achievement of program objectives.

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

Very truly yours,

/s/	/s/
Momodu Kargbo	Ibrahim L. Stevens
Minister of Finance and Economic Development	Deputy Governor of Bank of Sierra Leone

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

Attachment I. Memorandum of Economic and Financial Policies

Freetown, March 28, 2017

INTRODUCTION

1. **This Memorandum of Economic and Financial Policies (MEFP) lays out the medium-term reform program of the government of Sierra Leone under the Extended Credit Facility (ECF) 2017–20**. The ultimate policy objective of this program is to continue to safeguard macroeconomic stability, advance the ongoing structural reform agenda, and scale up spending on essential infrastructure and social safety net programs. The program aims to place the country on a sustained path toward economic diversification and growth, employment creation, and improving social conditions, consistent with the objectives of *the Agenda for Prosperity* and the Sustainable Development Goals (SDGs). This memorandum focuses on the targets and objectives both in the first year of the ECF and over the program period, setting forth the policy measures and structural reforms needed to preserve macroeconomic stability, strengthen the external position, and enhance overall competitiveness.

2. **The program supported by the Extended Credit Facility (ECF) arrangement 2013–16 contributed to ensuring macroeconomic stability despite two severe exogenous shocks in 2014–15**: the Ebola epidemic and the sharp drop in iron ore prices. Though the shocks resulted in a temporary decline in our GDP, thanks to sound macroeconomic policies growth has since resumed. Consistent with the objectives we set out to achieve at the inception of that program, we maintained macroeconomic stability through the pursuit of prudent fiscal and monetary policies.

3. **However, notwithstanding the good program performance, a number of challenges remain to be addressed in our quest to achieve the objectives of *our Agenda for Prosperity***. Fiscal operations are complicated by pressures to address post-Ebola needs, as well as our longer term development agenda. Monetary policy is contending with the second round impact of exchange rate depreciation on prices and the one-off hiking of fuel prices in November 2016. On the external sector, while exports are recovering, they remain well below their level prior to the twin shocks. We are thus witnessing a slower than anticipated improvement in external balances. Responses to these emerging threats are compounded by delays—largely caused by the impacts of Ebola—in the implementation of structural reform policies that would have moderated their impact. Therefore, our objectives going forward are to maintain macroeconomic stability by focusing on maintaining debt sustainability, reducing inflation, strengthening our international reserve buffers, addressing infrastructure bottlenecks, promoting economic diversification, and inclusive growth with an expanded social protection program. To make all these possible, we will focus on increasing domestic revenues, which will be critical to the success of this program and the achievement of our economic goals.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

4. **Real GDP growth has resumed, as the country is experiencing a gradual recovery from the two exogenous shocks**. Non-iron ore growth is estimated to have been 4.3 percent in 2016, led by manufacturing and trade. Iron ore growth is also recovering, with the main producing company now operating with moderate profitability. Overall growth is estimated to have reached 6.1 percent.

5. **Nonetheless, the macroeconomic situation remains challenging**. End-period inflation increased significantly in 2016, to 17.4 percent from 10.1 percent in 2015. The spike in inflation was driven by the 60 percent increase in retail fuel prices in November 2016, as well as exchange rate depreciation (26.4 percent in 2016), which in turn was driven by continued low exports and a decline in donor inflows. However, base money grew 23.9 percent, more than double the targeted 11.4 percent, driven in part by an increase in Government borrowing from the BSL. The fiscal deficit is estimated to have increased from 4.6 percent in 2015 to 8.3 percent in 2016. The budget was under severe pressure, leading to expenditure overruns in goods and services, as well as domestic capital expenditures, late in the year. While government was able to raise some financing from the domestic market to finance the deficit, an estimated 460 billion leones in arrears were unfortunately accumulated to domestic contractors and suppliers. On the external front, renewed iron-ore exports contributed to a strengthening of the trade balance, but it was not enough to compensate for the decline in donor support as the fight against Ebola wound down. As a result, the current account deficit is estimated to have widened from 17.5 percent in 2015 to 19.9 percent in 2016.

6. **The macroeconomic outlook is promising**. Both total and non-iron ore real GDP growth are expected to gradually increase to above 7 percent by 2021. This growth will come from five sources. First, the efforts made by the main iron ore company to reduce costs are succeeding, and the company expects production to gradually return to pre-Ebola levels, while the second iron ore mine is expected to resume production soon, under new ownership. Second, investments in new mining production capacities and the concession of new licenses will increase production volumes in the non-iron ore mineral sectors (specifically rutile, bauxite and diamonds). Third, foreign investments in the agricultural and agribusiness sectors, especially in palm oil, will reach the production stage. Fourth, higher social and infrastructure spending will help restore demand and aid the ongoing Ebola recovery, as well as boost supply potential over the medium term. Fifth, structural reforms should contribute to an improved business environment and lower cost of doing business. Inflation is targeted to recede to 8 percent by the end of the program period, as the one-time impact of fuel price increases recedes, and the recent tightening of monetary policy continues as needed to meet this target. The overall fiscal deficit will decline steadily, and in the first two years, the deficit including grants will be 6.1 percent and 5.5 of GDP, respectively, as Fund and other external financing allow for a scaling up of critical expenditures. However, strengthened revenues should reduce the deficit to 4.9 percent of GDP by the final year of the program. Stronger foreign inflows, including Foreign Direct Investment (FDI), will finance a continued high current account deficit, but rising

international reserves over the program period will strengthen external stability and our resilience to shocks.

PROGRAM OBJECTIVES

7. **Our main policy objectives are to strengthen macroeconomic stability, deepen structural reforms, and advance our economic diversification and poverty reduction agenda**. Progress in these areas will help make our economy less vulnerable to shocks, build our fiscal and external buffers, and strengthen the business environment, encouraging investment, growth and expansion of economic and employment opportunities in Sierra Leone. Our ambitious reforms include the following key policy priorities:

- ***Fiscal policy***. Enhance domestic revenue, rationalize and prioritize expenditures to create fiscal space for the implementation of an ambitious and well planned public investment program aimed at reducing social and infrastructure gaps, as well as a strengthened social safety net.
- ***Debt Management***. Adhere to medium-term debt targets to ensure debt sustainability.
- ***Public financial management***. Implement the recently passed PFM Law. Take decisive steps to (i) increase efficiency, effectiveness, transparency and accountability in the use of public resources, (ii) monitoring and containing fiscal risks.
- ***Monetary and exchange rate policy***. Tighten monetary policy to bring inflation back to single digit. Increase reserve accumulation over the program period and allow a market-determined exchange rate by halting regular sales of foreign exchange.
- ***Financial stability***. Enhance prudential oversight by strengthening the supervisory process; and conclusively resolve the problems of the state-owned banks.
- ***Inclusive growth***. Foster diversified, inclusive growth and an expanded social safety net.
- ***Business environment***. Create a more favorable business environment, including deepening structural and governance reforms with a view to easing the cost of doing business, and thus boosting private investments and employment creation.
- ***Strengthening Statistics***. Improve data quality to support economic policy making.

PROGRAM POLICIES

Fiscal Policy

8. **Main policy objectives**. Fiscal policy will be anchored by our commitments to limit net domestic financing of the budget to no more than 2 percent of GDP, and to maintain a moderate

risk of external debt distress. These anchors have delivered generally sound macroeconomic outcomes and remain appropriate. However, while the anchors remain appropriate to our current circumstances, the limited domestic financing together with the external debt anchor are binding constraints on our objective of ramping up infrastructure spending and expanding the social safety net. Therefore, there is need for strong domestic revenue mobilization to create fiscal space for scaling up priority spending.

9. Consistent with this objective, our Medium-Term Fiscal Framework envisages a gradual fiscal adjustment. Gradual fiscal adjustment will be achieved through a combination of (i) slower growth of current spending; and (ii) a further mobilization of revenues, through both broadening the tax base and improving revenue administration. To strengthen our revenue mobilization efforts, the government will adopt a *Revenue Mobilization Strategy (RMS)* by the time of the first review of this program. Our efforts to develop this strategy will be informed by a background paper on revenue mobilization options, which will be prepared jointly by representatives of Ministry of Finance and Economic Development (MoFED), National Revenue Authority (NRA), Bank of Sierra Leone (BSL), the IMF's African (AFR) and Fiscal Affairs (FAD) departments, and AFRITAC West. To achieve better synergy in the budgetary preparation process, we will henceforth submit the Appropriation and Finance Bills to Parliament at the same time, and seek their simultaneous passage. This will reduce the risk of mismatch between planned expenditure and approved financing measures.

10. Fiscal stance. Our fiscal target under the program for 2017 is an overall deficit including grants of 6.1 percent of GDP. The revised budget keeps the growth of most recurrent spending categories in line with inflation, while allowing for increased capital expenditure. Consistent with our commitments, we intend to adopt additional revenue raising measures (outlined below) that would allow us to reduce gradually the overall fiscal deficit to 4.8 percent by 2020, while at the same time preserving adequate space for priority social and infrastructure spending.

11. Revenue mobilization. We recognize that our rate of revenue mobilization is insufficient to finance effective service delivery, provide critical infrastructure and expand social protection, given the limited available domestic and external financing. In late 2016 and in the context of the 2017 budget, we took several steps to broaden the tax base and improve revenue administration, including a 60 percent increase in the pump price of retail petroleum products. At that time, our plan was to completely eliminate the remaining subsidy in the pump price of retail petroleum products no later than July 1, and allow the price to be market determined. However, it is becoming increasingly clear that we will not be able to meet this commitment because despite our best efforts, the reach of our social safety net programs remains limited. We are now committed to making faster progress on the safety net programs, especially public transportation. We are also renewing our commitment to implement the fuel subsidy reform, floating the retail fuel prices with a fixed excise collection, no later than by the completion of the second review.

12. The non-implementation of retail fuel price liberalization has cost us some potential revenue in 2017. Considering our continuous spending pressures, and to offset the revenue loss, we have recently adopted the following policies and revenue enhancing measures, aimed at increasing domestic revenue in 2017 by approximately 0.5 percent of GDP (Prior Action (PA):

i. Elimination of all duty and tax waivers, except those covered by the Vienna convention, international bilateral agreements, donor funded projects, and contracts or MOUs approved by parliament. Existing contracts and MOUs will not be renewed when they expire, and no new request for exemptions will be entertained.

ii. Application of mineral royalty taxes to market prices rather than company prices implied by export receipts.

iii. Introduction of excise duty of 20 percent on luxury vehicles, defined as vehicles with CIF values in excess of US$25,000.

13. Furthermore, in addition to collecting a one-time dividend from profitable SOEs in 2017 of at least 0.1 percent of GDP, going forward, we will collect at least 10 percent of their gross profits as annual dividends to the budget.

14. Finally, we will pursue several policies to improve the efficiency of tax collection and reduce the scope for leakages. We have submitted to parliament the new Tax Administration Bill, and will seek swift parliamentary adoption. We are also working with FAD staff to identify measures to address problems flagged in our recent Tax Administration Diagnostic Assessment Tool (TADAT) exercise. In this regard, we will aim to implement the following measures:

i. Improve the capacity of NRA to understand and address transfer pricing issues, especially in the extractive and telecommunications sectors.

ii. Expand the taxpayer base through systematic use of third party information to detect unregistered taxpayers. A key aspect of this exercise is to implement the Block Management System (BMS) recommended by the recent FAD mission. A full report and planned follow-through actions will be prepared by end-December for sustainable compliance and measuring success.

iii. Undertake a compliance project, using intelligence garnered through data-matching.

iv. Undertake a compliance/audit project of employers' classification of employees, which has become prone to wide-spread abuse through the misclassification of employees as contractors, thereby shifting the burden of the final tax. This exercise will be completed by end-September.

v. Pass the Extractive Industry Revenues Bill (EIRB), to consolidate all mining tax and non-tax obligations under common terms. This Bill will be submitted to Parliament by end-September 2017 (Structural Benchmark (SB).

15. Expenditure Management. Our goal is to contain recurrent expenditures, while reorienting spending towards infrastructure and social protection. In the current year, we will rationalize expenditure in key areas, while increasing expenditure on social safety net programs. In the medium term, we will contain the wage bill and moderate the growth of expenditures on goods and services. To this end, we plan to:

i. Reduce expenditure on civic registration in the 2017 budget by Le 125 billion due to donor support covering specific areas, and reduce subsidies and transfers by Le 38 billion.

ii. Increase expenditures on our social safety net program. In particular, the World Bank is currently aiding us in implementing a cash transfer scheme. The current program allocates $5 million per year to the most vulnerable is society mostly in the rural areas. We are committed to adding to this program an additional $5 million per year from the budget, starting this year, to expand the social safety net program in the rural areas as well as provide additional public transportation in the urban areas, especially in Freetown.

iii. Produce a comprehensive *Wage Reform Strategy* that will be approved by Cabinet by end-2017 (SB).

iv. Institutionalize the Expenditure and Contracts Management Committee (ECMC) with a broader membership including the Law Officer's Department and the NPPA, and ensure checklist of conditions to be fulfilled is developed and enforced before the approval is granted for award of contract. The committee will be operational by end-June.

v. Ensure that the Integrated Financial Management Information System (IFMIS) is fully rolled out and utilized by all MDAs, and that all modules of the IFMIS are fully functional, allowing for the most up to date information for cash and public finance management. We will continue to rely on World Bank support for technology procurement to realize this.

vi. Adopt a Public Investment Plan by the time of the first review of this program. The plan will identify the key projects we hope to implement during the course of the program, consistent with maintaining a moderate risk of debt distress.

16. Public finance management and structural policies. Following the completion of regulations for the new PFM Act, we have commenced implementation of various provisions to strengthen the budgetary process, including expenditure control and reporting; automating the budget execution process, as well as cash, assets and liabilities management. Our most important priority in this regard is to commence the implementation of the Treasury Single Account (TSA) system. To guide the implementation of the TSA, we will prepare by end-June, a concept note that documents the program to establish a core Treasury Single Account Structure (SB). We will subsequently begin the implementation and full roll out of TSA. We will link all Ministries and Departments sub-accounts to the TSA by end-December (SB).

17. Implementation of the TSA will allow us to aggregate all receipts—revenue; payments received by ministries, departments, and agencies; the Accountant General's activities; BSL advances; and proceeds from borrowing activities—to compute the overall cash/overdraft position of the government each day. The TSA will give us better oversight of public finances, improve cash management and reduce reliance on bank financing to meet short term expenditure pressures, while fostering transparency and accountability. The Financial Management and Control Bill, which will mandate all MDAs currently allowed to retain revenues to place their revenue in the TSA is now before Parliament, and will facilitate a smooth operationalization of the TSA. In addition, we will ensure that all recommendations of the Auditor General, including audit queries, are addressed by MDAs in a timely manner. In particular, we will require all MDAs flagged in the annual Auditor General's report to submit within three months of the report's issuance, both to MoFED and to Parliament, a timetable for addressing the Auditor General's recommendations. Within 9 months, each such MDA will be required to submit a report showing how those recommendations have been addressed (or why they believe the recommendations are inappropriate), (continuous SB).

18. We will avoid building up new arrears in the form of unpaid checks. We recognize that this type of forced financing hurts the economy by reducing the private sector's confidence in the government, tying up liquidity, and increasing our capital project premiums considerably. Consistent with the macroeconomic framework agreed under the proposed program, we will thus refrain from accumulating new unpaid checks and domestic arrears. Furthermore, the budget will prioritize the clearance of the existing stock of unpaid checks with incoming resources, consistent with the clearance schedule in the quarterly fiscal framework agreed under the proposed program. We will thus clear all outstanding unpaid checks by the end of 2017, and not accumulate new ones.

Monetary and Exchange Rate Policies

19. Policy objectives: Monetary and exchange rate policy will focus on price stability. BSL will implement monetary policy with the goal of achieving single digit inflation by end-2018, and gradually reducing inflation through the rest of the program. We are committed to maintaining a flexible exchange rate to ensure orderly conditions in the foreign exchange market and to facilitate the buildup of reserves over the medium-term.

20. A major focus during the program years will be to enhance the effectiveness of monetary policy operations, as well as liquidity management. Despite excess liquidity, which is unevenly distributed among banks, the interbank money market remains less active than the secondary market for treasury bills. The monetary policy rate is yet to provide a clear signal to the financial market. The effectiveness of the newly established interest rate corridor is being reviewed. Meanwhile, the BSL will continue to strengthen its capacity to understand the transmission mechanism of monetary policy, and to forecast liquidity. BSL will explore the causes of the weak monetary policy transmission and seek ways to improve the monetary policy framework by introducing and publishing leading economic indicators to better inform monetary policy decisions (SB). The BSL will seek technical assistance to review and validate the methodology for computing the Composite Index of Economic Activity before publishing.

21. More proactive monetary operations and deployment of instruments will allow BSL better control over liquidity conditions, while allowing banks to better manage their liquidity. In this regard, BSL and the Treasury will ensure that BSL's overdraft facility will cover only temporary liquidity shortfalls, in line with PFM Act provisions. To foster both monetary and fiscal discipline, BSL will stop granting bridging loans to the Treasury. In addition, BSL will implement all outstanding recommendations of the MCM technical assistance missions on monetary policy framework and operations, and will extend the averaging period of required reserves from one to two weeks

22. BSL has halted weekly sales of foreign exchange. In 2016, and early 2017, out of concern about potential depreciation, BSL had conducted routine sales of foreign exchange in weekly auctions. We now realize that these actions are not sustainable in successfully fighting market pressures over the medium term. Therefore, going forward, BSL will limit its interventions in the foreign exchange market to efforts aimed at offsetting short run volatility in the exchange rate, while improving our external reserve buffers.

Financial Sector Policies

23. Policy objectives. Our objective is to safeguard financial stability by further strengthening the supervisory framework, and managing risks within the banking system. We are committed to strengthening the financial soundness of banks, while exerting stronger oversight over their cross-border relationships. During this program, we will resolve conclusively the problems of the two state owned banks. In addition, we will focus on improving financial intermediation and fostering financial inclusion.

24. The two state-owned banks, as well as several other banks suffer from poor asset quality, among other problems. The banking system has been resilient to past shocks, but some underlying vulnerabilities could become magnified in a weak supervisory environment. Our financial supervision, therefore, needs to become more proactive. Working closely with the new Bank Supervision Resident Advisor, more resources will be allocated to financial supervision. Our aim is to strengthen bank supervision by increasing the number of staff, improving the quality of on-site inspections, introducing risk-based supervision, and increasing the co-operation with supervisors in other countries.

25. Access to financial services expanded considerably over the past ten years. However, the financial system remains shallow, with limited access to financial services, especially outside Freetown. In the past two years, we have ramped up efforts to increase access to financial services and deepen the financial markets. These include reforms of the payment system, introduction of payment switching technology to increase interbank operations, introduction of a collateral registry, strengthening of the credit reference bureau, and the promotion of mobile money services. Going forward, we will undertake specific actions as follows:

i. Restructure the state-owned public banks by implementing a restructuring plan, to be adopted by end-August 2017, which is based on the recommendations of the recently completed independent diagnostic studies, and address high NPLs in other banks;

ii. Scrutinize the financial soundness indicators of all banks on a continuous basis, and enforce necessary corrective steps. As several banks have persistently breached prudential indicators (e.g., NPL ratio), the BSL will develop plans to bring these banks back into compliance;

iii. Enhance banking supervision capacity by migrating to risk-based supervision and building up top-down stress testing capacity, building on technical assistance provided by MCM and AFRITAC West2; and

iv. Enhance access to finance by improving the enabling environment, e.g., introducing a national ID system, and enhancing microfinance, especially for agriculture.

SUPPORTING INCLUSIVE GROWTH AND SOCIAL PROTECTION

26. Background. Since the end of the civil war, we have made progress toward peace, sustainable development, and inclusive growth. The implementation of sound macroeconomic policies, with the support of development partners including the IMF, has delivered significant real growth, which contributed to a decrease in the poverty rate. However, poverty, inequality and vulnerability remain widespread and multidimensional. The Ebola Virus Disease (EVD) epidemic of 2014-2015 exposed the challenges in the socio- economic life of the poor and vulnerable, especially on access to health services and availability of basic income generating activities. In addition, the country faces long-term challenges associated with damage caused by flooding and other effects of climate change, which continue to worsen the livelihood of the poor and vulnerable. Thus, government made a conscious decision to revamp its social protection agenda in the Post-Ebola Recovery Strategy.

27. In the context of this ECF, we plan to reform existing social safety net programs, while strengthening public investment plans. To achieve wider social protection, we will increase fiscal resources available to social safety nets, while improving the governance and public finance management framework of the implementing MDAs. We will seek to gradually supplement the unconditional cash transfer scheme with social programs aimed at increasing the productive capacity of the poor and vulnerable. In addition, to foster more inclusive growth, we will accelerate investment in growth generating projects, invest in infrastructure that is complimentary to growth, promote investment in higher value added activities, and identify various options for financing large infrastructural projects that our resources may not be able to finance. Some of the major policies to drive our inclusive growth strategy include:

i. Double the number of beneficiaries of our unconditional cash transfer scheme;

ii. Expand school feeding program and provide additional buses for public transportation

iii. Accelerate capital expenditures to address macro-critical infrastructure bottlenecks;

iv. Further expand social safety net programs and improve targeting, with the help of the World Bank, AfDB, and UN agencies;

v. Identify priority social safety net spending items and establish quarterly floors for this spending;

vi. Identify weaknesses in the existing capacity to select, implement and maintain public investment projects, and seek technical assistance to address these weaknesses;

vii. Review, and revise as necessary, legislation regulating PPPs, and seek technical assistance to draft relevant PPPs regulations.

BUSINESS ENVIRONMENT AND ECONOMIC DIVERSIFICATION

28. Policy objectives. We will take steps to further improve the business environment, including by deepening structural and governance reforms, with a view to reducing the cost of doing business and thus boosting investments and employment creation.

29. Though economic diversification and improving the business environment have been goals of this government, limited progress has been made. According to the 2017 Ease of Doing Business report, our country ranked 148 out of 190 countries, slightly worse than in 2015. The country's most recent CPIA rating on transparency, accountability, and corruption in the public sector has been unchanged since 2008 at 3.0, while World Bank governance indicators show declines in control of corruption and regulatory quality since 2015.

30. We will seek to improve the business environment and diversify the economy by implementing the following policies:

i. Finalize the single clearance window reform for imports by the end of the ECF program;

ii. Increase investment in high-value-added energy, fishery and agricultural projects;

iii. Simplify processes related to business registration and licensing and construction permits, and strengthen the commercial courts;

iv. Strengthen existing centers for mid-level manpower training and skills development, including technical skills;

v. Request a World Bank growth diagnostic study, to identify potential sources of growth.

PRIOR ACTIONS AND STRUCTURAL PROGRAM FOR 2017

31. The macroeconomic policies supported by the ECF will be complemented by a strong structural program, which will make the transmission of economic policy more efficient. The Prior Actions signal our commitment to a strong reform agenda, while the Structural Benchmarks FOR 2017 seek to reform key sectors of the economy.

Prior Actions

To be completed before program request goes to IMF Executive Board

i. Adopt measures as specified in paragraph 12 to generate at least 0.5 percent of GDP in additional revenue in 2017, to close the estimated financing gap in the 2017 fiscal operations by (i) eliminating all import duty and tax exemptions except those governed by conventions, international and bilateral agreements ratified by Parliament;
(ii) commence the application of royalty rate on mineral exports using only best-available international market price in accordance with the Mines and Minerals Act, 2009;
(iii) impose a luxury goods tax of 20 percent on automobiles with CIF value in excess of US$25,000.00.

ii. Submit the Tax Administration Bill to Parliament.

iii. Halt routine foreign exchange auctions.

iv. Submit to Parliament the Financial Management and Control Bill, which mandates MDAs to domicile all their funds in the Consolidated Revenue Fund.

Structural Benchmarks and Program for 2017

Fiscal sector

- Prepare a concept note to establish a core Treasury Single Account Structure. The note should include plans on linking the existing bank accounts and consolidating the cash resources in the separate bank accounts into the main TSA account overnight. (End-June)

- Link the existing bank accounts of Ministers and Departments (MDs) and consolidate the cash resources of MDs in the separate bank account into the main TSA account. (End-December)

- Enact the PFM Regulations made under the PFM Act. (End-December)

- Finalization and adoption by Cabinet of the Revised Wage Reform Strategy Paper. (End-December)

- Submit to Parliament the revised Extractive Industries Revenue Bill (EIRB) (End-September)

Monetary, exchange rate, and financial sectors

- Improve BSL's liquidity management by extending the reserve maintenance period from one to two weeks. (End-December)

- Introduce and publish leading macro-economic indicators (e.g., inflation expectations and composite index of economic activity). (End-December)

- Adopt an action plan to address problems of the two state owned banks, based on the diagnostic study results, by end-August 2017.
- Stop the practice of BSL bridge financing. (Continuous)

Other areas

- Require MoFED to review of fiscal implications of all large-scale projects including in energy, construction, extractive, manufacturing and agriculture sector contracts/agreements prior to their signing. The assessment should include the direct and contingent liabilities of the projects. (Continuous)

- Require that all recommendations of the Auditor General, including audit queries, are addressed by MDAs in a timely manner. In particular, require all MDAs flagged in the annual Auditor General's report to submit within three months of the report's presentation in parliament, both to MoFED and to Parliament, a timetable for addressing the Auditor General's recommendations. Within 9 months, each such MDA will be required to submit a report showing how those recommendations have been addressed (or why they believe the recommendations are inappropriate). (Continuous)

PROGRAM MONITORING

32. The program will be monitored on a semi-annual basis, through quantitative targets (Table 1) and structural benchmarks (Table 2). Quantitative targets for end-June and end-December 2017, and end-June and end-December 2018 are performance criteria, while those for end-September 2017, end-March and end-September 2018 are indicative targets. The first review under the program will be completed any time after September 1, 2017; the second and third reviews will be completed on or after May 1, 2018 and November 1, 2018, respectively.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2016–18[1/]

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

	2016	2017									2018	
	Dec. 3/	Jun. 3/			Sept. 3/			Dec. 3/			Mar. 3/	Jun. 3/
	Actual	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Prog.
Performance criteria												
Net domestic bank credit to the central government (ceiling) 1/	...	721			1067			1174				
Unadjusted target (ceiling)												
Adjustment for the shortfall (excess) in external budget support												
Adjustment for the shortfall (excess) in non-bank credit to the government 2/												
Net domestic assets of the central bank (ceiling)	730	459			635			658			179	42
Unadjusted target (ceiling)												
Adjustment for the shortfall (excess) in external budget support												
Adjustment for exchange rate depreciation (appreciation)												
Gross foreign exchange reserves of the central bank, US$ millions (floor)	500	-30			-27			3			-14	30
Unadjusted target (floor)												
Adjustment for the shortfall (excess) in external budget support												
Adjustment for the shortfall (excess) in the US$ value of IMF disbursement												
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities												
Present Value of New External Debt, US $ millions (ceiling) 4/	...	140			140			140				
Outstanding stock of external debt owed or guaranteed by the public sector												
with maturities of less than one year (ceiling) 4/	...	0			0			0				
External payment arrears of the public sector (ceiling) 4/	...	0			0			0				
Indicative target												
Total domestic government revenue (floor)	...	1666			2579			3754				
Poverty related spending (floor) 5/	...	213			363			518				
Domestic primary balance (floor)	...	-898			-1027			-1149				
Memorandum items:												
External budgetary assistance (in $ million)	36	15			5			42				
Program exchange rate (Leones/US$)	5,639	7195			7195			7195			7195	7195

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

2/Government securities issued to the non-bank sector and the cumulative net flow of arrears accumulation, (negative if cleared).

3/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); June 30, 2017 and December 31, 2017 targets are performance criteria. Septebmer 30, 2017, March 31, 2018, and June 30, 2018 targets are indicative ones. December 31, 2016 indicates stock value, whereas all other end-month values indicate flow.

4/ These apply on a continuous basis.

5/ The mission has agreed with the authorities (in consultation with the WB) which spending items constitute priority spending duiring the mission, listed in the TMU.

Table 2. Sierra Leone: Prior Actions and Structural Benchmarks Under the ECF Arrangement, 2017		
Measures	**Timing**	**Status**
Prior Actions		
Adopt measures projected to generate at least 0.5 percent of GDP in additional revenue in 2017. Measures include but are not limited to: i) Elimination of all duty and tax exemptions except those governed by conventions, international and bilateral agreements ratified by Parliament; (ii) commence the application of royalty rate on mineral exports using only best-available international market price in accordance with the Mines and Minerals Act, 2009; (iii) application of luxury goods tax on imported cars with values in excess of US$25,000.		Met
Submit to Parliament, the Tax Administration Bill		Met
Submit to Parliament, the Financial Management and Control Bill that would mandate MDAs to put all their funds in the Consolidated Revenue Fund		Met
Halt routine foreign exchange auctions by May 10, 2017		Met
Structural Benchmarks		
Fiscal sector		
Submit to Parliament of the revised Extractive Industries Revenue Bill (EIRB)	End-September 2017	
Prepare a concept note to establish a core Treasury Single Account Structure. The note should include plans on linking the existing bank accounts and consolidating the cash resources in the separate bank accounts into the main TSA account overnight.	End-June 2017	
Link the existing bank accounts of Ministries and Departments (MDs) and consolidate the cash resources in the separate bank accounts of MDs into the TSA account.	End-December 2017	
Enact the PFM Regulations made under the PFM Act.	End-December 2017	
Finalization and adoption by Cabinet of the Revised Wage Reform Strategy Policy	End-December 2017	
Review of fiscal implications of all large-scale projects prior to signing of the contract by MoFED	Continuous	

Table 2. Sierra Leone: Prior Actions and Structural Benchmarks Under the ECF Arrangement, 2017 (Concluded)

Measures	Timing	Status
Stop the practice of bridge financing from BSL.	Continuous	
Require that all recommendations of the Auditor General, including audit queries, are addressed by MDAs in a timely manner. In particular, require all MDAs flagged in the annual Auditor General's report to submit within three months of the report's issuance, both to MoFED and to Parliament, a timetable for addressing the Auditor General's recommendations. Within 9 months, each such MDA will be required to submit a report showing how those recommendations have been addressed (or why they believe the recommendations are inappropriate).	Continuous	
Monetary, exchange rate, and financial sectors		
Improve BSL's liquidity management by extending banks' required reserve maintenance period from one to two weeks.	End-December 2017	
Introduce and publish leading macro-economic indicators (e.g., inflation expectation and business confidence indicator).	End-December 2017	
Adopt an action plan to address problems at the two state owned banks, based on the diagnostic study results.	End-August 2017	

Attachment II. Technical Memorandum of Understanding

Freetown, March 28, 2017

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 2017 will be converted into Sierra Leonean currency (leone) using a program exchange rate of Le7,195.00/US$ and cross rates as of end December 2016.[2]

Sierra Leone Program Exchange Rate for ECF Arrangement

Cross Rates as of end-December 2016

Currency	Leones per currency unit	US dollars per currency unit
US dollar	7195.000	1.0000
British Pound Sterling	8851.290	1.2302
Japanese Yen	61.600	0.0086
Euro	7584.250	1.0541
SDR	9672.450	1.3443

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

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

[2] For calculating program targets for 2017, all end 2016 stock variables will be based on program exchange rate of Le 7,195/US$.

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 Trade Agreement[4]) 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.

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:

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

[4] The authorities have confirmed that this BTA is no longer operational. The staff will follow up on this in the coming staff visit (June 2017).

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, including any outstanding balance that may be converted into a bond; and (c) any other type of direct credit from the BSL to the government, including the special on-lending arrangements relating to budget support as approved under the 2017–2020 ECF arrangement; 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.

c. **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), including a downward (upward) adjustment by the excess (shortfall) in the value of the cumulative net flow of unpaid checks and other outstanding payments in the current fiscal year, up to the relevant quarter.

d. **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.

e. **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

8. 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

9. 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.

10. 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 external debt definition applies not only to debt as defined in the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274 (00/85), August 24, 2000, Point 8, as revised on August 31, 2009, (Decision No. 14416-(09/91)) but also to commitments contracted or guaranteed for which value has not been received. For the purposes of this PC, the "public sector" is defined as in paragraph 11 above.

11. 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. The government's current borrowing plan is attached in Table 1.

Table 1. Summary Table of Projected External Borrowing Program
January 1, 2017 to December 31, 2017

PPG external debt	Volume of new debt, US million 1/		Present value of new debt, US million 1/	
	USD million	Percent	USD million	Percent
By sources of debt financing	**206.9**	**100**	**135.0**	**100**
Concessional debt, of which 2/	**112.2**	**54**	**64.0**	**47**
Multilateral debt	100.2	48	56.5	42
Bilateral debt	12.0	6	7.6	6
Other	0.0	0	0.0	0
Non-concessional debt, of which 2/	**94.7**	**46**	**71.0**	**53**
Semi-concessional debt	94.7	46	71.0	53
Commercial terms	0.0	0	0.0	0
By creditor type	**206.9**	**100**	**135.0**	**100**
Multilateral	120.2	58	70.8	52
Bilateral - Paris Club	0.0	0	0.0	0
Bilateral - Non-Paris Club	86.7	42	64.2	48
Other	0.0	0	0.0	0
Uses of debt financing	**206.9**	**100**	**135.0**	**100**
Infrastructure	144.9	70	104.3	77
Social Spending	12.0	6	7.6	6
Budget financing	50.0	24	23.1	17
Other	0.0	0	0.0	0

1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.

2/ Concessional debt is defined as debt with a grant element that exceeds the minimum threshold of 35 percent. The term “semi-concessional” refers to loans assessed to have a positive grant element.

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

12. 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

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

B. Domestic Revenue of Central Government

14. 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

15. Definition. For program monitoring purposes, poverty-related expenditures are limited to the following list agreed with the government. The poverty spending target will be 80 percent of the total amount of expenditures planned in this list for 2017, increasing to 90 percent and 100 percent progressively for the amounts planned in 2018 and 2019, respectively. The authorities have the leeway to re-allocate the amounts corresponding to various items except for the cash transfer program, which should either remain at the level it is programmed to be financed in 2017 at Le 77.66 billion (including the US$ 5 million from the IMF budget support) or above.

Poverty-Related Spending List

Increase the Production of Staple Crops for Food Security
Promote and increase value adding activities for agricultural goods
Increase the production and export of cash crops
Improve access to finance for farmers
Support to Sierra Leone Agricultural Research Institute (SLARI)
Making education more equitable and accessible
Tertiary education and tec/voc education and traning
Reducing high infant, under-five and maternal mortality
Preventing and controlling communicable and non-communicable diseases
Strenghtening infrastructrure development for service delivery
National HIV/AIDS Secreteriat (NAS)
Rehabilitation of remand homes and approved shcools
Social action support project
Sierra Leone Community Drivent Development Project
Relief and resettlement
National social safety nets program
National youth development, empowerement and entrepreneurship project
National youth sercie program
Support to National Youth Village Project
Youth Farm Project
Youth in Fisheries Project
Strengthening of Export Performance of Small and Medium Enterprises Project
Provision of Clean Accessible and Affordable Water
Rehabilitation of Streets and Roads in Western Area
Rehabilitation of Streets in Districts Headquarter towns and Selected Towns
Promoting the production of local building materials and youth economic emp
Local Government Development Grant Transfers
Diet for prison inmates and correctional service officers
Grants in-aid to students
Grants to handicap schools
National school feeding program
Grants to government boarding schools
Examination fees
Girld child program
Tuition fees subsidies to universities
Malaria prevention and control
Free healthcare pgoram
Cost recovery drugs and other medical supplies
Immunization program
Diet for approved schools and remand homes
Grants to welfare instituitions
Program for disabled person
Child orphans
Procurement of fertilizers
Procurement of seedlings
Procurement of agricultural tools and equipments
Procurument and distribution of agricultural processing equipments
Post-Ebola Recovery Priority Program on agriculture
Establishment of district livestock clinics
Training of community animal health workers
Procurement of animal vaccines
Procurement and distribuiton of appropriate fishing gears
Training on appropriate and sustainable fisching practices
Cash transfers to the aged and vulnerable persons
Support to SLIPEA
Post-Ebola Recovery Priority Program on water
Support to SLARI
Primary school fees subsidy
Procurement of textbooks
Teaching and learning materials
Local healthcare services
Support to government libraries
Local agricutural services
Rural water services

D. Program Monitoring

16. 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

SIERRA LEONE

May 18, 2017

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the International Monetary Fund and the World Bank.

Sierra Leone remains at a moderate risk of debt distress. The resumption of iron ore production with related export receipts, the recovery of non-iron ore growth, and an improved fiscal revenue profile have strengthened economic performance. Under the baseline, none of the debt sustainability framework solvency or liquidity ratios breach their respective thresholds on a protracted basis throughout the projection period (2016–36).[1] *At the same time, stress tests highlight distinct vulnerabilities to simulated adverse developments in both domestic and international conditions, with substantial breaches in evidence for most debt indicators—these underpinning the assessment of moderate risk. In addition, there remains a substantial down-side risk to the macroeconomic framework underlying this DSA, particularly the revenue and growth projections. The authorities should continue to remain prudent about their borrowing plans and step up efforts to improve revenue mobilization and public financial management.*

[1] Sierra Leone's capacity to monitor debt is adequate. The average CPIA debt policy rating (3a/3b) is 3.5. The World Bank's Country Policy and Institutions Assessment (CPIA) ranks Sierra Leone as a medium performer in terms of the quality of policy and institutions (the annual CPIA in 2013–15 has been stable at 3.27). Thus, the external debt burden thresholds for Sierra Leone are (i) PV of debt-to-GDP ratio: 40 percent; (ii) PV of debt-to-exports ratio: 150 percent; (iii) PV of debt-to-revenue ratio: 250 percent; (iv) debt service-to-exports ratio: 20 percent: and (v) debt service-to-revenue ratio: 20 percent.

RECENT DEBT DEVELOPMENTS

1. **The stock of public and publicly guaranteed (PPG) external debt amounted to US$1.53 billion at end-2016, and was mostly owed to multilateral creditors**. It increased from 21.3 percent of GDP at end-2013 to 41.3 percent of GDP at end-2016, mainly due to debt contracted for post-Ebola recovery and infrastructure construction need. Multilateral creditors account for the largest share, about 85 percent, of public and publicly guaranteed external debt; and debt to commercial creditors, estimated at US$195 million (15 percent of total external debt) as of end 2016, mostly consists of arrears accumulated prior to and during the civil conflict. In July 2016, the government of Sierra Leone (GOSL) assumed responsibility for a debt of US$12 million obligation owed to Securiport, an airport security management company.[1] GOSL has paid $3 million in August 2016 and converted about $7.5 million to domestic debt. The authorities are in negotiation with Securiport to reschedule the remaining $1.5 million that should have been paid in January. On the legacy civil conflict-related arrears, the authorities have already entered into a collaborative process with creditors, and are leveraging World Bank technical assistance to help clear them. The company Securiport has agreed to rescheduling and the details are being worked out. Staff assesses that the authorities are making good-faith efforts to resolve the issue of private external arrears.

2. **Domestic debt amounted to 14.6 percent of GDP at end-2016, which is about 26.2 percent of total public and publicly guaranteed debt**. The ratio of domestic debt in relation to total debt has been generally stable in recent years, with the portfolio concentrating in treasury securities, which accounts for about 10 percent of total domestic debt at end–2016.[2] The remaining domestic debt is comprised of the Government's overdraft facility at the Bank of Sierra Leone (BSL), verified domestic payments arrears, and non-negotiable, non-interest bearing securities held by the BSL. The fiscal deficit in 2016 was estimated to be 3.1 percent of GDP higher than projected in the 6th Review of the previous Extended Credit Facility (ECF). This additional deficit was financed by increased borrowing from the BSL via secondary market purchases, and the government's forced financing via domestic arrears in the form of unpaid checks worth 1.9 percent of GDP.

KEY ASSUMPTIONS UNDER THE BASELINE SCENARIO[3]

3. **The macroeconomic outlook is expected to improve gradually (Text Table 1)**. Overall growth in 2016 was 6.1 percent, better than projected previously in EBS/16/119. Non-iron ore growth is estimated to have been 4.3 percent in 2016, mostly led by better-than-expected outturns for tourism, services, and commerce. Iron ore growth is also recovering, with the main company

[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, and 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. For details, see the Letter of Intent for the 6th Review of the previous ECF, Country Report 16/378.

[2] 2016 data are estimates based on best information available as of the time of this DSA.

[3] All percentage figures are expressed as a share of GDP.

operating with moderate profit. Both real GDP growth and non-iron ore GDP growth are expected to gradually increase to above 7 percent over the medium term. Strong revenue mobilization measures are expected to increase revenue to GDP ratios over the 2017–19 ECF program period and beyond. Nevertheless, the primary deficit is projected to deteriorate in 2017 relative to the previous estimate, mostly due to a faster speed of capital project implementation and additional spending since the second half of 2016. External public and publicly guaranteed debt (PPG) as a share of GDP is higher than in the July 2016 update due to the contracting of a few debts for infrastructure projects, expected IMF loans, and the impact of the further depreciated exchange rate.[4] External debt in dollar terms is expected to peak in 2017 and gradually decline from then onwards, helped by a lower current account deficit and stronger FDI inflows. However, the possibility of continued depreciation could mean a slower improvement in the debt to GDP ratio.

4. The baseline macroeconomic assumptions underlying this DSA update are:

- Economic growth is expected to average about 6½ percent during 2017–21, driven largely by the non-iron ore sectors. Increased government spending on capital projects will carry a direct boost to growth, with a multiplier effect across sectors, including agriculture, energy, transportation, and construction. Higher social spending will also help support demand and aid the ongoing post-Ebola recovery. Iron ore production is expected to continue its recovery. The main iron ore company has reduced its production costs and expects to increase output. The mining of diamonds and rutile, which accounts for almost half of mineral exports, is projected to increase steadily in the next few years. Over the longer term, growth is expected to stabilize around 7 percent, supported by stepped up efforts aimed at economic diversification and to improving the business environment, which is a key pillar of the new ECF arrangement.

- Inflation is projected to decline gradually over the medium term and stabilize at about 5 percent in the long term under strengthened monetary policy framework.

- The spending pressures that emerged in late 2016 resulted in a projected 2017 primary fiscal deficit of 4 percent of GDP,[5] relative to 2.6 percent forecast in EBS/16/119. The new ECF program targets a reduction in the domestic primary balance of about one and a half percent of GDP by the end of the program period. The primary deficit will continue to improve over the long term, decreasing to about 2 percent by 2021. It is forecast to ease further in the long term, as a result of strengthened revenue mobilization measures and rationalization of public expenditures.

- The current account deficit is projected to decline from about 21 percent in 2017 to about 18.7 percent at the end of the program, and continue declining over the medium to

[4] Additional external debt, together with the last disbursement of IMF loans and currency depreciation, has resulted in the nominal value of external debt in 2016 to increase from 34.2 percent of GDP in the previous DSA to about 41.3 percent of GDP in the current DSA.

[5] Including grants.

long term. This path is consistent with the projected increase in imports and exports, with the former driven by higher development needs for capital investment and social projects, and the latter driven by higher mineral exports in the near to medium term and higher agricultural exports in the long term, and the. In the long term, projected current account dynamics reflect the expected overall real GDP growth and improved economic diversification that contributes to a smaller current account deficit.

- FDI is estimated to increase significantly from 6 percent of GDP in 2015 to around 13½ percent in 2016 as most FDI projects halted during Ebola are expected to restart. FDI is projected to remain at about 15 percent in the medium term given the investment plans laid out by the mineral companies and agricultural businesses.

- External debt is projected to increase modestly from 41.3 percent of GDP in 2016 to 45.5 percent in 2017. External debt will still stabilize at around 31 percent of GDP in the long run. This assumes the authorities use 90 percent of the US$140 million debt ceiling (in NPV terms) as specified in the program conditionality, which is consistent with the authorities' borrowing practice during the previous ECF program.

- Domestic debt is projected to rise from 12.6 percent of GDP in 2015, to around 13.7 percent by 2021, mainly reflecting increased domestic borrowing to finance public investment. It will then decline to about 5 percent of GDP in the long term.

Text Table 1. Selected Economic Indicators, 2015–36

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

	2015	2016	2017	2018	2019	2020	2021	Long term 2/
Real GDP growth (in percent)								
Current DSA	-20.5	6.1	6.0	6.1	6.8	6.8	7.1	6.1
Previous DSA	-21.1	4.3	5.0	5.8	6.2	6.6	6.5	5.4
Primary fiscal deficit								
Current DSA	3.9	7.2	3.9	2.6	2.0	2.0	2.0	1.0
Previous DSA	3.8	3.6	1.7	1.3	1.3	1.4	1.5	0.9
Central government revenue								
Current DSA	10.8	12.1	12.7	14.0	15.1	15.8	16.0	18.0
Previous DSA	10.4	10.6	11.7	12.2	12.8	13.4	13.8	16.7
Current account deficit								
Current DSA	17.4	19.5	20.9	18.2	18.4	18.4	17.1	11.0
Previous DSA	15.5	16.0	15.3	14.8	14.7	14.0	14.2	8.0
Foreign direct investment								
Current DSA	6.2	13.4	14.6	14.6	15.6	15.6	14.9	8.1
Previous DSA	6.0	12.1	12.6	12.6	12.7	12.9	13.1	8.3
External debt								
Current DSA	32.7	41.3	46.0	47.4	48.3	48.4	47.5	30.6
Previous DSA	31.6	34.2	32.9	31.5	30.2	28.7	27.0	21.0
Domestic debt								
Current DSA	12.6	14.6	13.2	13.3	13.6	13.7	13.7	5.1
Previous DSA	12.2	14.0	14.4	14.3	14.4	14.4	14.6	8.7

Sources: the Sierra Leone authorities, and IMF staff projections.
1/ GDP includes iron ore activity.
2/ The long term covers the period from 2022 to 2036.

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

5. The external DSA indicates that Sierra Leone's debt sustainability remains at moderate risk of debt distress in the baseline scenario. The dynamics of external debt accumulation are similar to the July 2016 update. The resumption of iron ore production in 2016 and associated export revenues have improved the PV of debt-to-exports and debt service-to-exports ratios. Both indicators remain well below their respective policy-dependent indicative thresholds throughout the projection period (2016–36) (Figure 1).

6. Indicators related to fiscal revenue have moved closer to the thresholds. A combination of factors, including additional external borrowing in late 2016, planned new loans to be contracted in 2017, and a more depreciated exchange rate, have all contributed to an increase of the PV of debt-to-revenue and debt service-to-revenue ratios. The former indicator will reach the threshold in 2017. This breach, which is marginal, is temporary and largely attributable to the subdued revenue to GDP ratio caused by the twin external shocks.[6] The debt and debt service indicators are projected to decline steadily and stabilize in the medium term. However, there remains a substantial downside risk, particularly related to revenue and GDP growth projections.

7. A downside scenario is constructed to illustrate the impact of lower revenue and growth rate on debt sustainability (Text Table 2). In the downside scenario that the risk of policy slippage materializes, government revenue not only fails to strengthen but rather remains at about 12 percent of GDP, as the level in 2016 when the revenue collection was weak. Additionally, the economy grows at a much lower speed—about 1.5 percentage points below the baseline growth rates throughout the program period—mainly through the channel of much lower public investment. Other assumptions remain unchanged. These two assumptions are chosen due to their stronger impact on Sierra Leone’s debt sustainability than other economic variables, and the magnitude of adjustment is calibrated to create a severe downside scenario using historical values as reference. The results show that the PV of debt-to-revenue ratio deteriorates substantially in 2017 and stays above the threshold over the medium term. The downside scenario clearly points to a risk of external debt distress (Figure 2).

[6] The iron ore export collapse and the Ebola Virus Disease (EVD) epidemic since mid-2014 until about 2016.

Text Table 2. Key Assumptions in Downside scenario, 2017–19

		2017	2018	2019
Government revenues excluding grants in percent of GDP				
	Baseline scenario	12.7%	14.0%	15.1%
	Downside scenario	12.0%	12.0%	12.6%
Real GDP growth				
	Baseline scenario	6.0%	6.1%	6.8%
	Downside scenario	4.3%	4.5%	5.5%

Sources: the Sierra Leone authorities, and IMF staff projections.

8. **Continued fiscal and borrowing prudence is warranted**. The current rating of the risk of debt distress hinges on the continuation of iron ore-related exports and the realization of fiscal revenue measures envisaged for the new program. Any remaining borrowing room should be used wisely to support development strategy while preserving debt sustainability. Finally, even with this improvement in the debt dynamics, it will be imprudent to contract debt—even concessional debt—for the construction of Mamamah Airport, given the size of the project.

9. **The external DSA shows that the debt outlook remains vulnerable to adverse shocks to several macroeconomic variables, underscoring the assessment of moderate risk**. Shocks from stress tests which simulate lower exports, nominal currency depreciation, and a combination of shocks could lead to significant breaches of several thresholds in the short to medium run on a protracted basis. Despite all stress-test ratios eventually falling below thresholds in the longer run, the realization of an adverse shock could lead to high risk of debt distress.

B. Public Debt Sustainability Analysis

10. **The public DSA shows similar debt dynamics to the external DSA**. Domestic debt is projected to increase only marginally from 13.2 percent of GDP in 2017 to 13.7 percent by 2021, which reflects some additional domestic borrowing to finance public investment but this borrowing space is constrained due to limited liquidity in domestic banks. In the baseline scenario, the PV of the debt-to-GDP ratio is below the threshold, and the PV of debt to revenue ratio declines over the medium to long run from their peak in 2016. This is largely driven by improved revenue and GDP profiles. The debt service-to-revenue ratio remains above 25 percent until 2025, as nearly all external debt is publicly-owned and large repayments come due during this time (Figure 3).

11. **In the alternative scenarios, most ratios are projected to continue to fall in the long run**. If all macroeconomic variables remained at their historic averages, the sustainability of public debt would improve significantly by the end of the forecast horizon. However, should the primary fiscal balance as a share of GDP be kept constant at 2016 level, all three ratios will be higher than in the baseline. Finally, in cases of the PV of debt-to-GDP and debt service-to-revenue ratios, a growth

shock generates the largest impact on these two indicators and the realization of such a shock could lead to high risk of debt distress.[7]

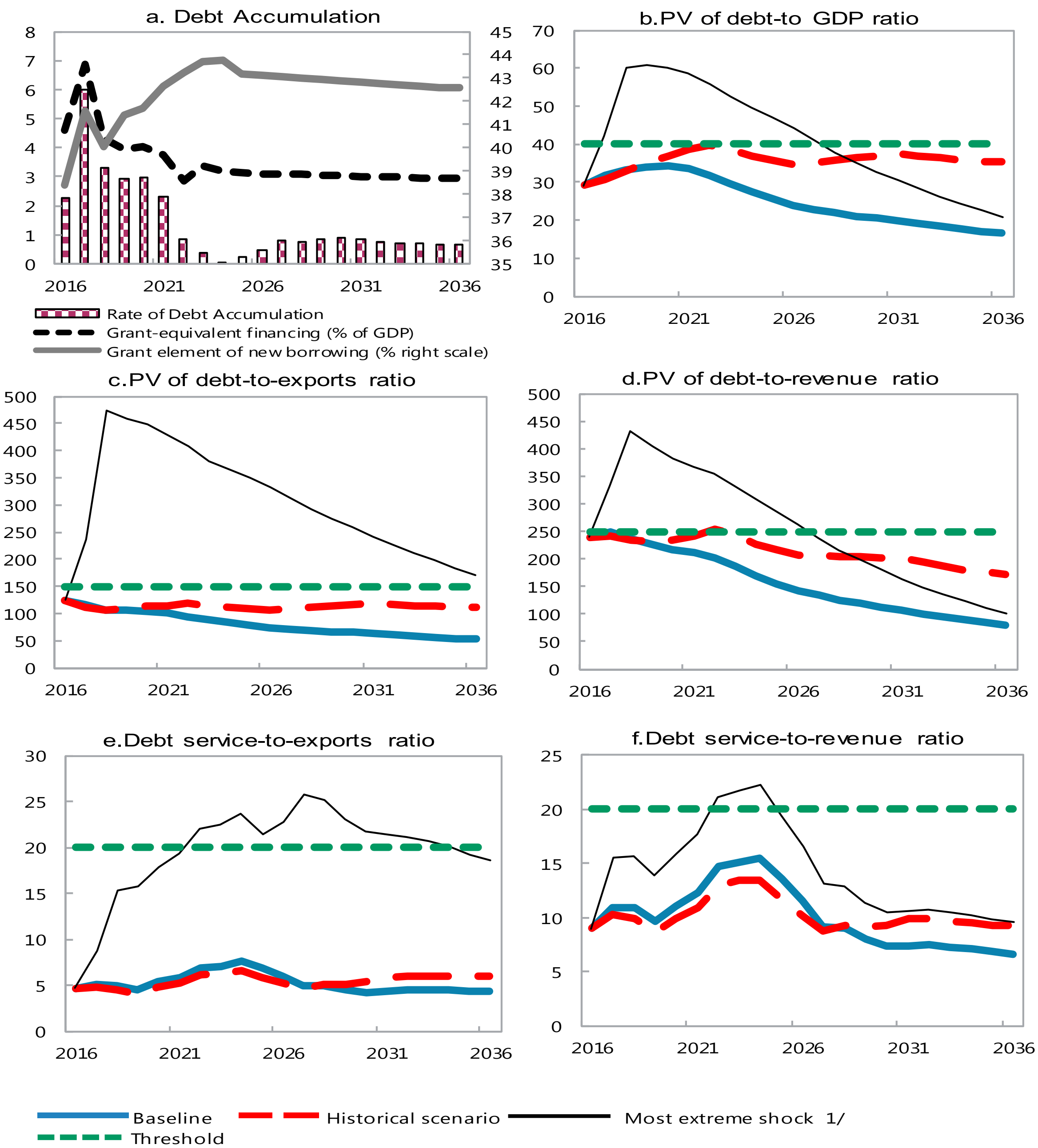
12. Authorities' view. The authorities concur with the staff assessment. They recognize the need to maintain prudent borrowing policy and continue improving debt management capacity. They plan to use Sierra Leone's limited borrowing space for high-priority infrastructure and social projects as determined by their structured prioritization plan, and noted that they would seek alternative, non-debt creating arrangements for the construction of Mamamah Airport.

CONCLUSION

13. Given the moderate risk of debt distress, the authorities should remain prudent in their borrowing policies. The macroeconomic outlook, though improving, hinges on the implementation of sound policies in the program period and ahead. In addition, the economic diversification strategy will take time to yield fruits. Therefore, staff reiterates the need for prudent borrowing policies grounded in sound debt management practices, continued revenue enhancement and expenditure rationalization, sustained efforts to improve public financial management, continued implementation of growth-enhancing structural reforms, and promotion of economic diversification.

[7] The growth shock is defined as setting the real growth rates in 2017 and 2018 to be at the historical average minus one standard deviation of the growth rate over the same historical time period (2006–15).

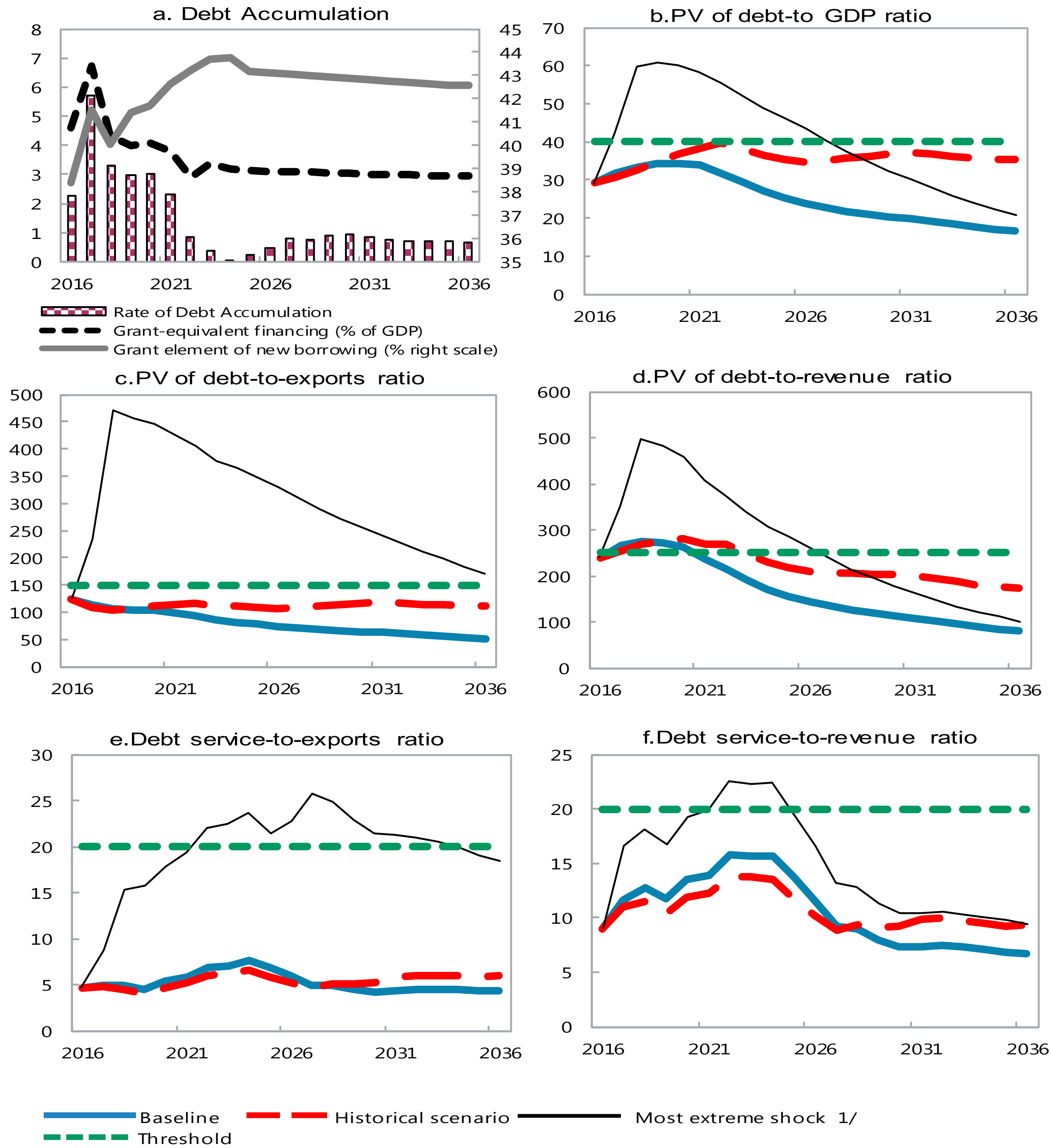
Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt: Baseline Scenarios, 2016–36[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

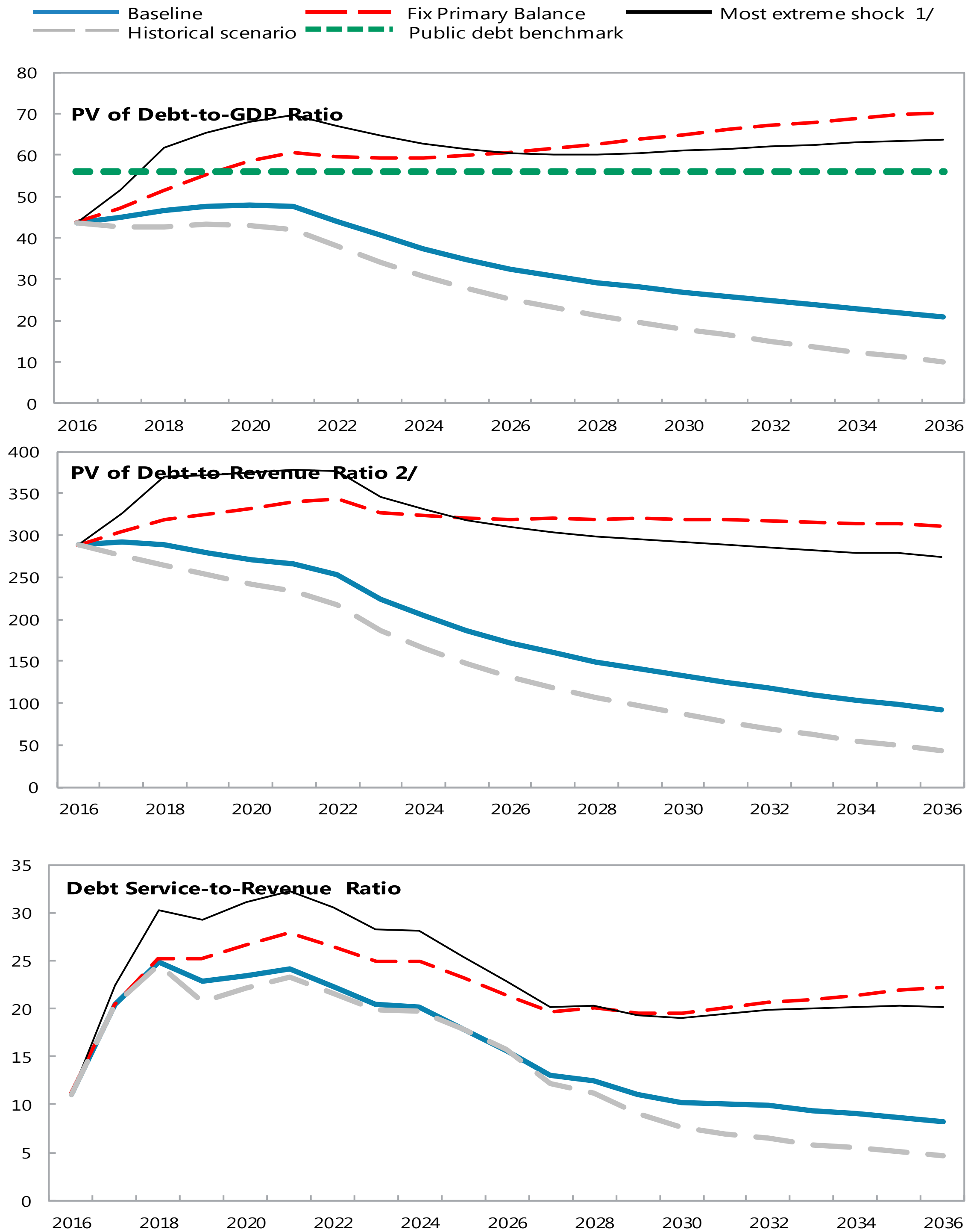
Figure 2. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt: Downside Scenarios, 2016–36[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 3. Sierra Leone: Indicators of Public Debt: Baseline Scenarios, 2016–36[1]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.

Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2013–36[1]

(Percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-2021 Average	2026	2036	2022-2036 Average
External debt (nominal) 1/	**21.3**	**24.6**	**32.7**			**41.3**	**46.0**	**47.4**	**48.3**	**48.4**	**47.5**		**33.2**	**22.9**	
of which: public and publicly guaranteed (PPG)	21.3	24.6	32.7			41.3	46.0	47.4	48.3	48.4	47.5		33.2	22.9	
Change in external debt	-4.8	3.3	8.0			8.6	4.8	1.4	0.9	0.1	-0.9		-2.2	-0.7	
Identified net debt-creating flows	4.2	10.1	15.7			4.1	4.1	1.2	0.1	0.0	-0.6		2.5	1.6	
Non-interest current account deficit	**17.5**	**18.2**	**17.4**	**17.1**	**13.1**	**19.5**	**20.9**	**18.2**	**18.4**	**18.4**	**17.1**		**13.5**	**7.9**	11.0
Deficit in balance of goods and services	10.3	27.3	26.0			25.5	24.2	22.7	22.4	22.1	20.6		13.3	7.8	
Exports	35.9	30.2	17.8			23.3	27.7	30.9	32.3	32.9	33.6		32.5	31.8	
Imports	46.2	57.4	43.8			48.8	51.9	53.6	54.7	55.0	54.2		45.8	39.6	
Net current transfers (negative = inflow)	-4.1	-16.6	-11.2	-7.5	3.9	-9.0	-7.1	-7.2	-5.9	-5.8	-5.6		-4.8	-3.9	-4.5
of which: official	-1.0	-14.0	-8.2			-5.6	-3.6	-3.8	-2.5	-2.4	-2.3		-1.8	-1.2	
Other current account flows (negative = net inflow)	11.3	7.5	2.6			3.0	3.8	2.7	1.9	2.0	2.1		5.1	4.0	
Net FDI (negative = inflow)	**-7.3**	**-7.7**	**-6.2**	**-10.1**	**10.4**	**-13.4**	**-14.6**	**-14.6**	**-15.6**	**-15.6**	**-14.9**		**-9.4**	**-5.3**	-8.1
Endogenous debt dynamics 2/	**-5.9**	**-0.4**	**4.4**			**-2.0**	**-2.1**	**-2.4**	**-2.7**	**-2.7**	**-2.8**		**-1.7**	**-1.0**	
Contribution from nominal interest rate	0.0	0.0	0.0			0.3	0.2	0.3	0.3	0.3	0.4		0.3	0.3	
Contribution from real GDP growth	-4.2	-1.0	5.9			-2.3	-2.4	-2.7	-3.0	-3.0	-3.2		-2.0	-1.3	
Contribution from price and exchange rate changes	-1.7	0.6	-1.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-9.0**	**-6.8**	**-7.6**			**4.6**	**0.6**	**0.2**	**0.8**	**0.1**	**-0.4**		**-4.6**	**-2.3**	
of which: exceptional financing	0.0	0.0	-0.7			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	22.6			29.0	31.9	33.1	34.1	34.3	33.7		24.0	16.5	
In percent of exports	...	...	127.2			124.9	114.9	107.0	105.4	104.4	100.4		73.8	51.8	
PV of PPG external debt	**...**	**...**	**22.6**			**29.0**	**31.9**	**33.1**	**34.1**	**34.3**	**33.7**		**24.0**	**16.5**	
In percent of exports	**...**	**...**	**127.2**			**124.9**	**114.9**	**107.0**	**105.4**	**104.4**	**100.4**		**73.8**	**51.8**	
In percent of government revenues	**...**	**...**	**209.8**			**239.8**	**249.9**	**237.3**	**226.0**	**217.4**	**210.6**		**142.7**	**79.9**	
Debt service-to-exports ratio (in percent)	**0.0**	**0.0**	**0.0**			**4.7**	**5.0**	**4.9**	**4.5**	**5.3**	**5.9**		**6.0**	**4.3**	
PPG debt service-to-exports ratio (in percent)	**0.0**	**0.0**	**0.0**			**4.7**	**5.0**	**4.9**	**4.5**	**5.3**	**5.9**		**6.0**	**4.3**	
PPG debt service-to-revenue ratio (in percent)	**0.0**	**0.0**	**0.0**			**9.0**	**10.9**	**10.9**	**9.7**	**11.1**	**12.4**		**11.6**	**6.7**	
Total gross financing need (Billions of U.S. dollars)	0.5	0.5	0.5			0.3	0.3	0.2	0.2	0.2	0.2		0.5	0.7	
Non-interest current account deficit that stabilizes debt ratio	22.3	14.9	9.4			10.9	16.1	16.8	17.5	18.2	18.1		15.7	8.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	20.7	4.6	-20.5	5.2	10.6	6.1	6.0	6.1	6.8	6.8	7.1	6.5	6.0	5.9	6.1
GDP deflator in US dollar terms (change in percent)	7.1	-2.6	6.8	5.1	5.8	-17.6	-1.1	-0.6	-0.8	1.2	1.3	-2.9	1.8	1.8	1.8
Effective interest rate (percent) 5/	0.0	0.0	0.0	0.5	0.4	0.7	0.6	0.7	0.7	0.8	0.8	0.7	1.0	1.2	1.0
Growth of exports of G&S (US dollar terms, in percent)	43.7	-14.5	-49.9	17.5	46.1	14.1	25.0	17.8	10.6	9.9	10.9	14.7	7.1	8.1	7.6
Growth of imports of G&S (US dollar terms, in percent)	-8.9	26.7	-35.2	21.0	40.7	-2.7	11.6	9.0	8.1	8.6	7.0	6.9	4.9	7.0	5.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	38.4	41.6	40.1	41.4	41.7	42.6	40.9	43.1	42.6	43.0
Government revenues (excluding grants, in percent of GDP)	10.7	9.8	10.8			12.1	12.7	14.0	15.1	15.8	16.0		16.8	20.6	18.0
Aid flows (in Billions of US dollars) 7/	0.2	0.3	0.5			0.2	0.4	0.2	0.2	0.3	0.3		0.3	0.6	
of which: Grants	0.1	0.2	0.2			0.1	0.1	0.1	0.1	0.1	0.1		0.2	0.3	
of which: Concessional loans	0.1	0.1	0.2			0.1	0.3	0.1	0.1	0.2	0.2		0.1	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.6	6.9	4.3	3.9	4.0	3.8		3.1	2.9	3.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			64.8	54.0	57.3	59.1	57.4	59.5		71.7	70.7	70.9
Memorandum items:															
Nominal GDP (Billions of US dollars)	4.9	5.0	4.3			3.7	3.9	4.1	4.4	4.7	5.1		7.6	16.1	
Nominal dollar GDP growth	29.3	1.9	-15.1			-12.6	4.9	5.5	5.9	8.1	8.5	3.4	8.0	7.8	8.0
PV of PPG external debt (in Billions of US dollars)			0.9			1.0	1.2	1.3	1.4	1.6	1.7		1.8	2.6	
(PVt-PVt-1)/GDPt-1 (in percent)						2.3	6.0	3.3	2.9	3.0	2.3	3.3	0.5	0.7	0.6
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.1		0.1	0.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	22.4			28.7	31.5	32.7	33.7	33.9	33.4		23.8	16.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	120.2			118.9	110.2	103.1	101.9	101.2	97.6		72.2	51.1	
Debt service of PPG external debt (in percent of exports + remittance	...	...	0.0			4.5	4.8	4.7	4.4	5.2	5.7		5.9	4.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 2. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt: Baseline Scenario, 2016–36

(Percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	29	32	33	34	34	34	**24**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	29	31	33	35	37	39	**35**	35
A2. New public sector loans on less favorable terms in 2016-2036 2/	29	33	35	37	38	39	**31**	25
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	29	34	40	41	42	41	**30**	20
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	29	37	51	51	51	50	**37**	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	29	30	32	33	33	33	**23**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	29	41	53	54	54	52	**39**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	29	42	60	61	60	59	**44**	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	29	44	46	47	48	47	**34**	23
PV of debt-to-exports ratio								
Baseline	125	115	107	105	104	100	**74**	52
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	125	111	106	108	113	115	**107**	111
A2. New public sector loans on less favorable terms in 2016-2036 2/	125	117	113	114	116	115	**95**	79
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	125	110	103	102	101	97	**72**	51
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	125	236	472	459	448	428	**332**	171
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	125	110	103	102	101	97	**72**	51
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	125	149	173	168	163	156	**121**	60
B5. Combination of B1-B4 using one-half standard deviation shocks	125	196	302	293	285	272	**212**	102
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	125	110	103	102	101	97	**72**	51
PV of debt-to-revenue ratio								
Baseline	240	250	237	226	217	211	**143**	80
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	240	242	235	232	234	241	**207**	172
A2. New public sector loans on less favorable terms in 2016-2036 2/	240	255	251	245	242	241	**184**	121
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	240	267	288	274	265	257	**176**	99
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	240	293	363	341	324	311	**222**	92
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	240	237	228	218	210	204	**140**	78
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	240	323	383	359	340	327	**234**	93
B5. Combination of B1-B4 using one-half standard deviation shocks	240	331	431	403	381	366	**263**	101
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	240	342	329	314	302	293	**201**	113

Table 2. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt: Baseline Scenario, 2016–36 (Concluded)

(Percent)

Debt service-to-exports ratio

Baseline	5	5	5	5	5	6	**6**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	5	5	4	4	5	5	**5**	6
A2. New public sector loans on less favorable terms in 2016-2036 2/	5	5	5	5	6	7	**8**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	5	5	5	5	5	6	**6**	4
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	5	9	15	16	18	19	**23**	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	5	5	5	5	5	6	**6**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	5	5	6	6	6	7	**9**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	5	7	9	10	11	11	**15**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	5	5	5	5	5	6	**6**	4

Debt service-to-revenue ratio

Baseline	9	11	11	10	11	12	**12**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	9	10	10	9	10	11	**10**	9
A2. New public sector loans on less favorable terms in 2016-2036 2/	9	11	12	11	13	15	**15**	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	9	12	14	12	14	16	**15**	8
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	9	11	12	12	13	14	**15**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	9	11	11	10	11	12	**12**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	9	11	12	12	13	14	**17**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	9	11	13	13	14	15	**18**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	9	16	16	14	16	18	**17**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	41	41	41	41	41	41	**41**	41

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming

an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Sierra Leone: Public Sector Debt Sustainability Framework: Baseline Scenario, 2016–36

(Percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2013	2014	2015	Average 5/	Standard Deviation 5/	2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	30.5	35.0	45.3			55.9	59.2	60.8	61.9	62.1	61.2		41.6	27.3	
of which: foreign-currency denominated	21.3	24.6	32.7			41.3	46.0	47.4	48.3	48.4	47.5		33.2	22.9	
Change in public sector debt	-6.2	4.4	10.3			10.6	3.3	1.5	1.1	0.2	-0.9		-2.9	-1.2	
Identified debt-creating flows	-5.7	5.0	10.4			11.8	-1.7	0.9	0.5	-0.7	-1.0		-1.7	-0.7	
Primary deficit	0.4	2.9	3.9	-0.3	7.7	7.2	3.9	2.6	2.0	2.0	2.0	3.3	0.6	0.7	1.0
Revenue and grants	13.3	14.0	16.2			15.2	15.5	16.1	17.1	17.7	17.9		19.0	22.6	
of which: grants	2.6	4.2	5.4			3.0	2.7	2.2	2.0	1.9	1.9		2.2	2.0	
Primary (noninterest) expenditure	13.6	16.9	20.1			22.3	19.4	18.7	19.1	19.7	19.9		19.6	23.4	
Automatic debt dynamics	-6.0	2.3	6.5			4.7	-5.3	-1.8	-1.6	-2.8	-3.0		-2.3	-1.4	
Contribution from interest rate/growth differential	-5.0	-0.5	7.7			-2.7	-4.0	-2.5	-2.8	-3.0	-3.2		-2.3	-1.5	
of which: contribution from average real interest rate	1.3	0.8	-1.3			-0.1	-0.8	0.9	1.1	0.9	0.9		0.2	0.1	
of which: contribution from real GDP growth	-6.3	-1.3	9.0			-2.6	-3.2	-3.4	-3.8	-3.9	-4.1		-2.5	-1.6	
Contribution from real exchange rate depreciation	-1.0	2.8	-1.2			7.4	-1.3	0.7	1.2	0.2	0.2		...	...	
Other identified debt-creating flows	-0.1	-0.2	-0.1			0.0	-0.3	0.1	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.1	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	-0.1	-0.1			0.0	-0.3	0.1	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-0.5	-0.6	-0.1			-1.2	5.0	0.6	0.7	0.9	0.1		-1.2	-0.5	
Other Sustainability Indicators															
PV of public sector debt	...	...	35.3			43.7	45.1	46.5	47.7	48.0	47.4		32.4	20.9	
of which: foreign-currency denominated	...	...	22.6			29.0	31.9	33.1	34.1	34.3	33.7		24.0	16.5	
of which: external	...	...	22.6			29.0	31.9	33.1	34.1	34.3	33.7		24.0	16.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	1.6	3.7	4.5			8.9	7.0	6.6	6.0	6.2	6.3		3.6	2.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	217.8			288.0	291.3	288.4	279.0	271.4	265.4		171.0	92.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	326.6			360.5	353.4	333.0	316.3	304.0	296.2		193.1	101.2	
of which: external 3/	...	...	209.8			239.8	249.9	237.3	226.0	217.4	210.6		142.7	79.9	
Debt service-to-revenue and grants ratio (in percent) 4/	9.4	5.7	3.9			11.1	20.4	24.8	22.9	23.4	24.1		15.6	8.2	
Debt service-to-revenue ratio (in percent) 4/	11.7	8.2	5.8			13.9	24.7	28.6	25.9	26.2	26.9		17.6	9.0	
Primary deficit that stabilizes the debt-to-GDP ratio	6.6	-1.6	-6.4			-3.5	0.6	1.1	0.9	1.9	2.9		3.5	2.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	20.7	4.6	-20.5	5.2	10.6	6.1	6.0	6.1	6.8	6.8	7.1	6.5	6.0	5.9	6.1
Average nominal interest rate on forex debt (in percent)	0.0	0.0	0.0	0.6	0.6	0.7	0.6	0.7	0.7	0.8	0.8	0.7	1.0	1.2	1.0
Average real interest rate on domestic debt (in percent)	7.8	7.3	-11.6	-0.2	6.0	1.0	-1.3	12.4	13.6	11.3	11.2	8.0	6.4	5.8	6.3
Real exchange rate depreciation (in percent, + indicates depreciation	-4.5	13.7	-3.8	-1.7	9.7	24.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.9	1.8	19.6	11.2	5.6	4.2	16.4	8.0	6.4	8.0	7.6	8.4	5.6	4.9	5.4
Growth of real primary spending (deflated by GDP deflator, in percer	-11.8	29.7	-5.3	1.3	10.7	17.7	-8.1	2.7	9.0	10.0	8.0	6.6	7.7	6.8	7.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	38.4	41.6	40.1	41.4	41.7	42.6	40.9	43.1	42.6	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 4. Sierra Leone: Sensitivity Analysis for Key Indicators of Public Debt: Baseline Scenario, 2016–36

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	44	45	46	48	48	47	32	21
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	44	43	43	43	43	42	25	10
A2. Primary balance is unchanged from 2016	44	47	51	55	58	61	61	70
A3. Permanently lower GDP growth 1/	44	46	49	52	54	56	53	87
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	44	51	62	65	68	69	60	64
B2. Primary balance is at historical average minus one standard deviations in 2017-201	44	47	51	52	52	52	36	23
B3. Combination of B1-B2 using one half standard deviation shocks	44	47	52	55	56	57	45	41
B4. One-time 30 percent real depreciation in 2017	44	56	57	57	57	55	39	25
B5. 10 percent of GDP increase in other debt-creating flows in 2017	44	51	52	53	53	53	37	23
PV of Debt-to-Revenue Ratio 2/								
Baseline	288	291	288	279	271	265	171	92
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	288	276	265	252	242	233	131	43
A2. Primary balance is unchanged from 2016	288	304	318	324	331	339	319	310
A3. Permanently lower GDP growth 1/	288	298	303	303	305	310	269	368
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	288	326	370	372	374	379	309	275
B2. Primary balance is at historical average minus one standard deviations in 2017-201	288	305	319	307	297	290	190	100
B3. Combination of B1-B2 using one half standard deviation shocks	288	303	319	316	314	314	234	180
B4. One-time 30 percent real depreciation in 2017	288	363	351	335	320	310	205	111
B5. 10 percent of GDP increase in other debt-creating flows in 2017	288	331	326	312	302	295	194	102
Debt Service-to-Revenue Ratio 2/								
Baseline	11	20	25	23	23	24	16	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	11	21	25	21	22	23	16	5
A2. Primary balance is unchanged from 2016	11	20	25	25	27	28	21	22
A3. Permanently lower GDP growth 1/	11	21	26	24	26	27	22	24
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	11	22	30	29	31	32	23	20
B2. Primary balance is at historical average minus one standard deviations in 2017-201	11	20	25	25	26	25	16	9
B3. Combination of B1-B2 using one half standard deviation shocks	11	21	27	25	26	28	19	14
B4. One-time 30 percent real depreciation in 2017	11	23	29	27	29	30	22	13
B5. 10 percent of GDP increase in other debt-creating flows in 2017	11	20	26	28	24	25	16	9

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Table 5. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt: Downside Scenarios, 2016–36

(Percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	29	32	33	34	34	34	**24**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	29	31	32	35	37	38	**35**	35
A2. New public sector loans on less favorable terms in 2016-2036 2/	29	32	35	37	38	39	**31**	25
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	29	33	39	40	41	40	**28**	20
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	29	37	51	52	51	50	**37**	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	29	30	33	34	34	33	**24**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	29	41	54	55	54	53	**39**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	29	42	60	61	60	58	**44**	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	29	43	46	47	48	47	**33**	23
PV of debt-to-exports ratio								
Baseline	125	114	106	105	104	100	**73**	52
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	125	109	104	106	111	113	**106**	111
A2. New public sector loans on less favorable terms in 2016-2036 2/	125	116	112	113	115	114	**94**	79
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	125	109	102	101	100	97	**72**	51
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	125	234	470	456	446	426	**330**	171
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	125	109	102	101	100	97	**72**	51
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	125	148	172	167	163	155	**120**	60
B5. Combination of B1-B4 using one-half standard deviation shocks	125	195	301	291	284	271	**211**	102
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	125	109	102	101	100	97	**72**	51
PV of debt-to-revenue ratio								
Baseline	240	265	275	272	262	236	**143**	80
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	240	255	270	276	280	268	**208**	172
A2. New public sector loans on less favorable terms in 2016-2036 2/	240	270	290	295	292	269	**184**	121
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	240	279	323	321	309	279	**171**	96
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	240	311	423	412	391	350	**223**	92
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	240	255	270	268	259	233	**143**	80
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	240	344	446	435	412	368	**235**	93
B5. Combination of B1-B4 using one-half standard deviation shocks	240	350	497	483	457	408	**262**	101
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	240	361	379	376	363	327	**200**	112

Table 5. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt: Downside Scenarios, 2016–36 (Concluded)

(Percent)

				Debt service-to-exports ratio				
Baseline	5	5	5	5	5	6	**6**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	5	5	4	4	5	5	**5**	6
A2. New public sector loans on less favorable terms in 2016-2036 2/	5	5	5	5	6	7	**7**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	5	5	5	4	5	6	**6**	4
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	5	9	15	16	18	19	**23**	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	5	5	5	4	5	6	**6**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	5	5	5	6	6	7	**9**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	5	7	9	10	11	11	**15**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	5	5	5	4	5	6	**6**	4
				Debt service-to-revenue ratio				
Baseline	9	12	13	12	13	14	**12**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	9	11	11	10	12	12	**10**	9
A2. New public sector loans on less favorable terms in 2016-2036 2/	9	12	14	14	16	17	**15**	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	9	13	15	14	16	17	**14**	8
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	9	12	14	14	16	16	**15**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	9	12	13	12	14	14	**12**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	9	12	14	15	16	16	**17**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	9	12	15	16	17	17	**18**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	9	17	18	17	19	20	**17**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	41	41	41	41	41	41	**41**	41

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming
an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Statement of Mr. Maxwell Mkwezalamba, Executive Director for Sierra Leone and Mr. Tharcisse Yamuremye, Senior Advisor to the Executive Director

June 5, 2017

Our Sierra Leonean authorities would like to express their appreciation for the candid discussions during the program negotiations for an arrangement under the Extended Credit Facility (ECF). They broadly agree with the staff assessment and believe that the reform program would be essential to restore macroeconomic stability, bolster economic growth, and alleviate poverty.

Sierra Leone's economic recovery in the aftermath of the twin shocks of the Ebola Virus Disease (EVD) outbreak and the commodities price collapse has been steady. This notwithstanding, the magnitude of the shocks and the dwindling donor support coinciding with the post–Ebola crisis continue to constrain attainment of a speedy economic recovery. Recognizing the enormous challenges, the authorities reiterate their commitment to strengthen macroeconomic policies, including fiscal consolidation, tightening monetary policy, and implementing structural reforms to revamp economic growth. To underpin the recovery, the authorities are requesting the Executive Board to approve a successor three–year arrangement under the ECF. Their last arrangement under the ECF was successfully completed in 2016.

Recent Economic Developments and Outlook

Economic recovery has regained momentum amidst challenging macroeconomic conditions. Growth is estimated to have reached 6.1 percent in 2016 due to the resumption of production in the mining, manufacturing, and agricultural sectors. However, the persistent depreciation of the domestic currency and the increase in retail fuel prices in November 2016 fueled inflation from 10.1 percent in 2015 to 17.4 percent in 2016, and 20 percent in March 2017. On the other hand, the fiscal deficit increased from 4.6 percent in 2015 to 8.3 percent in 2016 owing to recurrent and capital expenditure overruns attributed to the acceleration of spending on road projects. Despite the authorities' efforts to raise domestic revenue, financial receipts fell short of expectations, triggering accumulation of domestic arrears. At the same time, the current account deficit widened from 17.5 percent in 2015 to 19.9 percent in 2016, as the decline in donor support exceeded increased iron–ore export earnings.

The country's macroeconomic outlook remains encouraging as growth is expected to reach 7 percent by 2021, driven by the mining, agriculture, and agribusiness sectors; social and infrastructure spending; as well as an improved business environment. Inflation is expected to decline to single digit levels while the overall fiscal deficit is projected to decline to 4.5 percent of GDP by the end of the program. Capital inflows, especially Foreign Direct Investment (FDI), will continue to finance high current account deficit, culminating in the building of reserves.

Key Program Objectives and Policies

The arrangement under the ECF will support the authorities' efforts to strengthen macroeconomic stability, foster structural reforms required to unleash inclusive growth, and promote economic diversification to build resilience to the external shocks. It will also contribute to the attainment of the objectives of the country's Agenda for Prosperity (A4P) and the Sustainable Development Goals (SDGs). The combination of fiscal, monetary, and structural reforms is envisaged to bolster sustainable and inclusive growth.

Fiscal Policy

Cognizant of the current fiscal imbalances, the authorities are committed to strengthening domestic revenue mobilization, streamlining expenditures, and placing debt on a sustainable path. In this regard, the authorities will adopt a gradual fiscal adjustment policy along with slower growth of current spending and progressive domestic revenue mobilization.

On the expenditure front, the authorities plan to contain current expenditure while reorienting spending towards infrastructure and social protection. However, the large post – Ebola recovery financing needs, coupled with dwindling donor support, exert high pressures on expenditures. For instance, the acceleration of execution of roads projects triggered an overspending for 2016 fiscal year. To contain expenditure overruns, the authorities will undertake measures, including developing a wage reform strategy, strengthening the social safety net, and enhancing the Public Investment Plan to restore debt sustainability. In addition, the Expenditure and Contracts Management Committee (ECMC) will be strengthened and institutionalized.

To improve domestic revenue mobilization, the authorities have adopted several measures, including application of mineral royalty rates to market prices, rather than company-quoted sales prices; elimination of all tax and duty exemptions while maintaining international tax agreements; and introduction of excise on luxury vehicles. The measures are expected to generate 0.5 percent of GDP in additional resources to the 2017 budget and offset revenue shortfalls that emanated from non–implementation of retail fuel price liberalization. Meanwhile, the authorities remain committed to fully liberalize fuel prices under the current program.

Further, the authorities have submitted to the Parliament a new Tax Administration Bill to strengthen the efficiency of tax collection and reduce tax loopholes. In addition, the authorities will submit to Parliament the revised Extractive Industries Revenue Bill (EIRB) aimed to improve revenue from the mining sector. The authorities will also address weaknesses underscored in the recent Tax Administration Diagnostic Assessment Tool (TADAT). Further revenue measures, including adoption of the ECOWAS Common External Tariff (CET) and using a Block Management System (BMS) to increase taxpayer registration, are in the process of implementation. To implement a broad domestic revenue mobilization framework, the authorities in collaboration with other stakeholders will adopt a comprehensive medium term Revenue Mobilization Strategy (RMS).

The authorities continue to strengthen budget preparation and execution to enhance public finance management (PFM) and credibility. In this regard, the authorities have passed a new PFM law aimed to limit additional expenditure requests from Ministries, Departments and Agencies (MDAS). The PFM regulatory framework will be finalized by end June 2017. In addition, the implementation of the Treasury Single Account (TSA) constitutes a key priority for the Government.

Public Debt Management

Sierra Leone's external debt sustainability analysis (DSA) shows that the country remains at a moderate risk of debt distress. In this regard, the authorities will seek to strike a balance between debt sustainability and continuing key public infrastructure investments. Further, they will implement a medium–term debt strategy based on a reliable Public Investment Plan. Acknowledging that accumulation of domestic debt arrears would hamper economic activity, the authorities are committed to implementing measures to avoid building-up of domestic arrears. In addition, they remain committed to restore fiscal discipline to alleviate pressures on the financial sector and prevent crowding out of the private sector.

Monetary, Exchange Rate, and Financial Sector Policies

Monetary and exchange rate policy will focus on the maintenance of price stability. In the medium-term, inflation will be maintained below 10 percent. In this regard, the Bank of Sierra Leone (BSL) will continue to curb inflation by tightening monetary policy, while improving monetary policy effectiveness and liquidity management. The BSL will also continue to monitor and strengthen the effectiveness of the interest rate corridor system while the monetary aggregate will continue to be an operating target. Further, the BSL intervention in the secondary market will be guided by aggregate money supply rather than indirect financing of the government. Furthermore, the BSL will strengthen its reserves by allowing more exchange rate flexibility and limiting interventions in the foreign exchange market to smooth demand and supply. In this context, the BSL halted the routine weekly sales of foreign exchange in May 2017.

The financial sector remains sound and resilient. However, vulnerabilities in some banks, especially two state–owned banks, and the high level of NPLs could undermine the soundness of the financial sector. To mitigate potential risks, the BSL will implement measures, including introducing risk-based supervision, enhancing the quality of on–site inspection, and strengthening cooperation with supervisors in other countries within the context of the regional College of Banking Supervision. The BSL will also implement the recommendations of the recent independent diagnostic study to restructure the two state–owned banks and address high NPLs in other banks. In addition, the BSL will continue to improve financial intermediation and bolster financial inclusion, including enhancing microfinance to support agriculture.

Structural reforms

The authorities have made progress to attract FDI, especially in agribusiness, and are committed to continue improving the business environment to foster economic diversification and inclusive growth. In this regard, the authorities will continue to implement the post-Ebola Recovery Strategy to lay a foundation for implementing the A4P. To promote private sector development, the authorities will implement measures to improve the business environment, including reforming the single clearance window for imports, scaling up infrastructure investment, and building human capital. With the support of the World Bank, the authorities will conduct a diagnostic study to explore alternative economic growth sources.

Conclusion

Our Sierra Leonean authorities are committed to restoring macroeconomic stability and laying the foundation for post–Ebola Recovery to achieve the objectives of the A4P and the SDGs. In this regard, the authorities are committed to strengthening fiscal policy credibility by controlling public spending, increasing domestic revenue, and ensuring debt sustainability, while maintaining key infrastructure investment and social safety net. In view of the integral role to be played by the arrangement under the ECF in supporting the authorities' efforts to stabilize the economy, foster diversification, and promote inclusive growth, our Sierra Leonean authorities look forward to the Executive Board's approval of the three–year arrangement under the EECF, which will be instrumental in garnering support from other Development Partners, given the lingering impact of Ebola and iron ore price collapse.