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SIERRA LEONE

August 2021

THIRD AND FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR EXTENSION AND REPHASING OF THE ARRANGEMENT, WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SIERRA LEONE

In the context of the THIRD AND FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR EXTENSION AND REPHASING OF THE ARRANGEMENT, WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW, 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 July 27, 2021, following discussions that ended on June 18, 2021, 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 July 9, 2021.
- 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.

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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Washington, D.C.

IMF Executive Board Completes Third and Fourth Reviews of Sierra Leone's Extended Credit Facility

FOR IMMEDIATE RELEASE

- IMF approves disbursement of US$ 44.2 million (SDR 31.11 million) to Sierra Leone to support the government's policy and reform efforts aimed at reinforcing the country's recovery from the pandemic, preserving macroeconomic stability, and sustaining inclusive long-term growth.
- There are early signs of economic recovery, but Sierra Leone continues to face COVID risks, and a tight financing situation amidst substantial development and priority expenditure needs.
- Completion of the third and fourth reviews under the Extended Credit Facility underscores the Government's ongoing commitment to critical reforms and safeguarding macroeconomic stability.

Washington, DC – **July 27, 2021:** The Executive Board of the International Monetary Fund (IMF) completed the third and fourth reviews of Sierra Leone's performance under the program supported by an Extended Credit Facility (ECF). Completion of these reviews enables the IMF to disburse SDR31.11 million (about US$ 44.2 million), bringing total disbursements under the arrangement to SDR 77.775 million (about US$ 111 million). The Executive Board approved the authorities' request for a waiver of non-observance of two performance criteria.

The Executive Board also approved the rephasing and extension of the ECF arrangement by 12 months. The Board had approved Sierra Leone's 43-month ECF arrangement for SDR124.44 million (about US$172.1 million) on November 30, 2018 (see Press Release No. 18/446). The Government's reform agenda, supported by the ECF, continues to aim at creating fiscal space for development by strengthening revenue mobilization, containing current spending and improving the efficiency of public investment.

There are early signs of economic recovery, but Sierra Leone's fiscal situation remains tight. Economic activity dipped sharply in the second and third quarter of 2020 with inter-district lockdowns and disruptions to international trade and travel. Depressed activity saw inflation trending downwards, though food price inflation remains elevated. Higher frequency indicators suggest a moderate pick-up of activity began in the fourth quarter of the 2020. Mining is expected to drive the recovery in 2021 (growth of 3.2 percent) and 2022 on the back of normalization of production at existing mines and favorable prices. However, fiscal space remains limited, reflecting a still low revenue base, an elevated public debt level, and substantial COVID-19-related and other priority expenditure and development needs.

Growth would recover to pre-COVID-19 levels in the medium term, but there are considerable risks to the outlook. Over the medium term, non-mining growth is projected to average around 4.5 percent. The external position would remain vulnerable as international reserve coverage is expected to decline. Risks to the outlook are significant and include, for instance, unexpected global shifts in the COVID-19 pandemic or an intensification of the third wave, uncertainties in the mining sector, lower-than-expected support from development partners or slower-than-expected reform implementation.

At the conclusion of the Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

“The COVID-19 pandemic has strained Sierra Leone’s effort to address its large development needs and exacerbated a difficult financing situation. The authorities’ strong economic and health responses helped mitigate the immediate impact of the crisis while exceptional external support, including from the Fund, helped cushion fiscal and external positions. There are early signs of economic recovery, but a third wave of infections and difficulties in vaccine rollout could delay a return to pre-crisis growth.

“The authorities have responded appropriately to the crisis within a tight budget envelope. The 2021 budget continues to prioritize health and other priority spending under the National Development Plan while allowing for a significant improvement in the primary balance. The authorities remain committed to securing fiscal and debt sustainability, through enhanced domestic revenue mobilization, improved expenditure efficiency and controls, and reliance on external grants and concessional financing.

“The Extended Credit Facility arrangement provides a critical policy anchor, including for the post-crisis recovery. The arrangement will help meet external and fiscal financing needs and support the authorities’ reform agenda amidst heightened uncertainty. The authorities continue to strengthen governance, including by making progress with the fraud prevention policy and the internal audit function at the Bank of Sierra Leone, and transparent reporting of COVID-19 related spending.

“Looking ahead, continued strong policy efforts are needed to help the recovery while safeguarding macroeconomic stability. With a high risk of debt distress, this requires enhanced revenue mobilization, prudent expenditure management, and continued external grant support. Mindful of the price stability objective, monetary and exchange rate policy should remain flexible to support the recovery while rebuilding external buffers and monitoring closely financial stability risks.”

INTERNATIONAL MONETARY FUND

SIERRA LEONE

July 9, 2021

THIRD AND FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR EXTENSION AND REPHASING OF THE ARRANGEMENT, WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Following two emergency Rapid Credit Facility disbursements in June 2020 and March 2021 to assist in addressing the impact of the COVID-19 pandemic, the Sierra Leonean authorities are committed to resuming the program supported by the Extended Credit Facility arrangement. The program is an important policy anchor for the authorities, and its main objectives—revenue mobilization, safeguarding financial stability, and addressing external vulnerabilities—remain valid. While an economic recovery is underway, driven by the mining sector, risks to the outlook are considerable and, the risk of debt distress is high but remains sustainable. This is predicated on the authorities' ambitious fiscal adjustment and continued reliance on concessional financing and grants. External vulnerabilities are expected to persist over the medium term.

Program performance. All quantitative performance criteria (QPCs) for end-December 2019 (third review) were met. The authorities are requesting waivers for the QPCs on net credit to government and net domestic assets of the BSL for end-June 2020 (fourth review), which were missed, reflecting the on-lending of emergency financing for the COVID-19 response. Corrective actions taken include the sizeable adjustment in the 2021 budget (2 percent of GDP in the domestic primary balance) and the implementation of important fiscal structural reforms. Structural reforms continued at a slower pace as the authorities prioritized reforms more relevant to the recovery; important steps have been taken by adopting the arrears clearance strategy and submission of the National Revenue Agency Act to Parliament.

Policy recommendations. The revised budget for 2021 relies on grants and higher revenues to support increases in health-related spending. For 2022 and beyond, the authorities' program strikes a careful balance between reducing fiscal and debt sustainability risks and supporting the post-COVID recovery. Concerted reforms in tax policy and administration, unwinding of emergency spending and public financial management reforms to improve

spending efficiency will facilitate a gradual reduction of expensive bank financing. The proposed on-lending of ECF disbursements assists in providing a more favorable financing mix. A potential SDR allocation later in 2021 would provide a much-needed boost to official reserves while a small portion could provide financing to the budget to supplement priority spending in 2022 and 2023 (alternative scenario detailed in the staff report). The program will also advance the financial sector reform agenda, including by improving bank supervision and management of the two state-owned banks, and will continue to facilitate implementation of the safeguards assessment recommendations. Finally, mindful of the price stability objective, monetary and exchange rate policy should remain flexible to support the recovery, with central bank support to specific sectors rolled back as the COVID-19 shock subsides.

Program modalities and risks. The authorities are requesting a rephasing and extension of the arrangement by 12 months, through the April 2023 elections, given the significant delay in completing the third and fourth reviews. Risks to the program are elevated, due to the ongoing COVID-19 pandemic, overstretched capacity, fiscal financing pressures, and fragile institutions. Moreover, capacity to repay the Fund is constrained and full program implementation is necessary to improve it. The authorities' commitment to the program and ready availability of technical assistance to support program implementation are important mitigating factors. Staff therefore supports the completion of the third and fourth reviews and financing assurances review, waivers of nonobservance of performance criteria and requests for rephasing and extension of the arrangement, and the resulting disbursement of SDR 31.11 million (US$44.4 million).

Approved By
Catherine Pattillo (AFR) and Anna Ilyina (SPR)

An IMF team consisting of Ms. Ongley (Head), Mr. Singh (Head), Ms. Mowatt, Mr. Wankuru, Ms. Bteish (all AFR), Mr. Saito (SPR), Mr. Rahim (FAD), Ms. Newiak (Resident Representative) and Mr. Saffa (Economist, Freetown office) held virtual discussions with the authorities during May 26-June 18, 2021. Mr. van Greuning (FIN) and Mr. Nicholls (MCM) provided support to the team and also joined some discussions. Ms. Mannathoko (Executive Director), Mr. Nakunyada (Alternate ED), Mr. Garang (Senior Advisor), and Mr. Ekeocha (Senior Advisor) joined the mission discussions.

CONTENTS

TABLES

ANNEXES

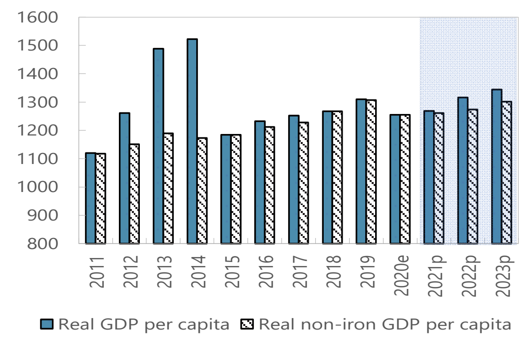
APPENDIX

CONTEXT AND BACKGROUND

1. A legacy of successive large shocks and fragile institutions complicate Sierra Leone's recovery from COVID-19 and impede progress towards its development objectives.

While the authorities' policy response and support from international partners helped avoid even deeper losses, the economic hardships persist. Recovery from COVID-19 is likely to be gradual and subject to more uncertainty than for many other countries, despite relatively low infection rates. Per-capita income will likely not return to the pre-COVID level until 2022 (Text Figure 1). Competing pressures of development needs, a narrow tax and financing base, and debt distress concerns have worsened, with spillovers well beyond the crisis year. Development challenges have deepened, with the share of the food insecure population rising to 57 percent in 2020, 10 percentage points up from a decade earlier; almost 4 percent of the population face severe acute malnutrition.

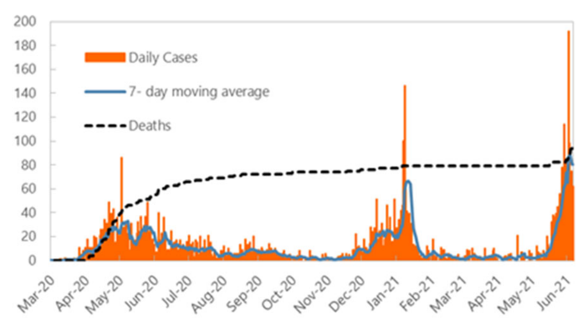
Text Figure 1. Sierra Leone: Real GDP Per Capita, 2011-2023
(Thousands of leones)
Per capita incomes will only return to 2019 levels by 2022



Sources: Statistics Sierra Leone and UNPOP

2. Pandemic vulnerabilities and other risks persist in a weak health system. COVID-19 case numbers had retreated and reported deaths had plateaued earlier this year, but June has seen the onset of increasing case numbers, leading into a third wave (Text Figure 2). A slow start to the national vaccination program amidst public concerns about vaccine effectiveness and administrative challenges add to longstanding challenges (malaria, maternal death, infant mortality) in one of the world's weakest health systems. As of mid-June 2021, only 1 percent and 0.3 percent of the population had received their first and second doses of a COVID-19 vaccine, respectively—well below the Government's goal to vaccinate 20 percent of the population using the COVAX facility in a first step.

Text Figure 2. Sierra Leone: COVID-19 Cases and Deaths



Source: Johns Hopkins University

3. The return to the Extended Credit Facility (ECF) arrangement will be an important policy anchor. Since completing the second ECF review in April 2020, disbursements under the RCF in June 2020 and March 2021 provided breathing space and allowed for a response to the pandemic. Reengagement under the ECF now allows pursuit of program objectives—revenue mobilization, safeguarding financial stability, and increasing external resilience—with an adjusted timeline that takes into account the repercussions from the large pandemic shock. Rephasing remaining reviews and extending the arrangement (¶26) beyond the April 2023 election will help continue to prudently support the authorities' plan to stabilize the macroeconomy while pursuing their development agenda that focuses on strengthening human capital development.

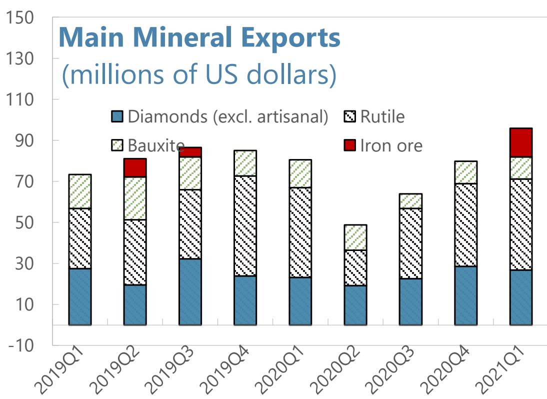
RECENT ECONOMIC DEVELOPMENTS

4. Following the sharp contraction in 2020, a recovery appears underway.

- **Economic activity** dipped sharply in 2020Q2-Q3 with inter-district lockdowns and disruptions to international trade and travel. Higher frequency indicators suggest a moderate pick-up of both mineral and non-mineral activity began in Q4 (Text Figure 3). Depressed activity saw inflation decline in 2020 (9.8 percent in May 2021), although food inflation remains elevated (17.6 percent).

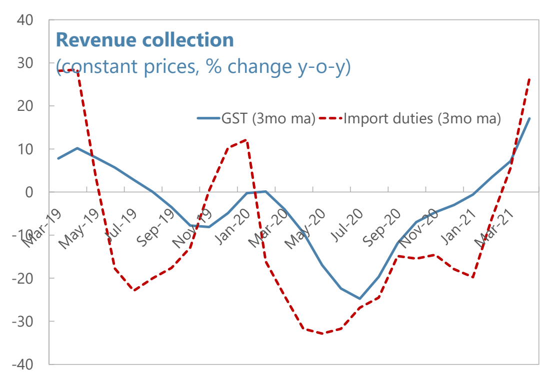
Text Figure 3. Sierra Leone: High Frequency Indicators

Mineral production, including iron ore, is normalizing ...



Source: National Minerals Agency

.... while tax revenue data suggests a more generalized pick-up in activity in 2020Q4 and 2021Q1



Sources: SL National Revenue Agency and IMF staff calculations

- **External:** Exports weakened significantly in 2020, with disruptions to mining and lower global demand. However, weaker imports, larger remittances, and larger external financing helped avert serious pressures on the current account, gross reserves, and the exchange rate. Pandemic-related emergency financing has included two RCF disbursements, budget support grants, and debt relief/deferment under the CCRT and DSSI. The external position of Sierra Leone in 2020 was substantially weaker than the level implied by fundamentals and desirable policies (Annex 2).

- **Public finances:** The overall fiscal balance widened to 5½ percent of non-iron ore GDP in 2020, reflecting the pandemic and associated policy responses. Weaker business activity and compliance challenges due to lockdowns and social distancing measures undermined domestic revenues. Total public expenditures increased with the authorities' emergency health and socio-economic response (Text Table 1). Preliminary data for 2021Q1 indicate domestic revenues broadly on target, while spending exceeded the 2021Q1 target, including as transfers to NaCOVERC (National COVID-19 Emergency Response Centre) were frontloaded to manage a second wave and exceeded their 2021 budget allocation by April. As a result, the domestic primary deficit in 2021 is expected to narrow by less than envisaged at the time of the March 2021 RCF, to 2.1 percent of non-iron ore GDP.

Text Table 1. Sierra Leone: Budgeted and Implemented Emergency Spending

(Billions of leones)

Particulars	FY 2020 Original Budget	FY 2020 Sppl'tary Budget	FY 2020 Revised Budget	2020 Actual
CONTAINMENT and SOCIAL RESPONSE implemented via budget	**44**	**29**	**73**	**144**
Health Sector Response implemented via budget	**3**	**384**	**387**	**410**
Health Sector Resonse Plan	0	275	275	375
Other Health Sector Spending	3	109	111	35
SOCIAL and ECONOMIC RESPONSE	**253**	**628**	**881**	**889**
QAERP: Budget Expenditure	**228**	**302**	**530**	**737**
Commence national micro credit scheme	21	29	50	4
Social Safety Net	3	52	55	48
o/w Cash Transfers and Food Assistance 1/	3	12	15	13
Bailout to SOE's	0	20	20	30
Support to Tourism Sector (Hotels)	0	20	20	5
Rehabilitate unpaved trunk and feeder roads	80	30	110	164
Minor repairs on township roads	37	168	205	332
Provide farm inputs including chemicals and seedlings to farmers	68	3	71	45
Support farmers' access to tractors and other farmer machinery	16	20	36	89
Provide extension services to farmers	4	0	4	56
Other economic and social response	**25**	**326**	**351**	**152**
Tree Planting and Re-afforestation	2	38	40	24
Districts Electrification Project	20	126	146	40
Support to Agriculture/COVID-19 Response	0	20	20	7
Water Supply Projects	3	142	145	82
Total COVID19-related Budgetary Expenditure	**300**	**1,041**	**1,341**	**1,443**

Source: Sierra Leone Ministry of Finance.

1/ Cash transfers and food assistance in 2020 were below the revised budget allocation. However, the authorities prioritized direct support to impacted sectors (tourism) and measures to address food insecurity by providing support to the agricultural sector (improved access to tractors and other machinery).

- **Monetary and financial**: Large FX inflows, mainly reflecting RCF and development partner support, and expanding credit to government drove money growth in 2020, with banks holding high levels of excess reserves at the BSL. However, excess liquidity proved temporary, and real interest rates on one-year[1] T-bills have returned to positive levels after falling into negative territory in 2020H2. Private sector credit growth began to pick up in 2020Q4 (+8.9 percent y-o-y in March 2021). NPLs increased to 13.7 percent in 2021Q1, from 12.7 percent in 2020Q4, although aggregate numbers mask considerable variation between banks (Figure 3).

[1] One-year T-bills comprised 99 percent of the total outstanding T-bill stock at end-April 2021.

OUTLOOK AND RISKS

5. The recovery is expected to be driven by mining in 2021 and 2022, while economic fragilities and external vulnerabilities will persist over the medium term. Net exports will drive the 2021 recovery, while domestic demand would remain muted. Normalization of production at existing mines following COVID-19-related disruptions, favorable mineral prices, recovery of artisanal mining, and resumption of iron ore production at the Tonkolili mine since March 2021 and Marampa mine beginning in 2022[2] are expected to increase exports, partly offset by weakness in rutile exports.[3] Over the medium term, non-mining growth is projected to average around 4.5 percent (similar to pre-COVID levels). Reserves from 2021 onwards would remain lower than the 2020 level (Table 4), due to increased imports, lower budget support grants,[4] and higher debt service to the IMF and other creditors, as debt service relief/deferment under the CCRT/DSSI and ECF disbursements under the current arrangement come to an end in 2023H1. Reserve coverage is projected to decline over time, and a BOP financing gap of around US$35-40 million annually would emerge after the current ECF ends in 2023. While the expected SDR allocation of around US$283 million in 2021 would help maintain adequate reserve coverage over the medium term (at around 3 months of imports through 2026), external sustainability requires reducing current account deficits and real effective exchange rate depreciation, while relying on highly concessional external financing (largely grants) and making progress on fiscal adjustment (Annex 2).

6. Considerable uncertainties and risks remain. They include unexpected global shifts in the COVID-19 pandemic or an intensification of the third wave which would require further reprioritizing expenditures towards health. Uncertainties in the mining sector, and lower-than-expected support from development partners could increase external pressures. Policy slippages, including due to capacity constraints or increased tensions between the two main political parties, could stall reform momentum and jeopardize confidence (Text Table 2).

PROGRAM PERFORMANCE

7. Program performance for the 3rd review was solid. The December 2019 QPCs on net credit to government (NCG), net domestic assets (NDA) and gross reserves were met. The IT on the domestic primary balance was missed by a small margin; other ITs were met. The continuous PC on

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[2] After an almost two-year dispute, the government reached an out-of-court agreement with Gerald Group, owner of SL Mining in May 2021. The agreement covers the export of the existing iron ore stockpile, and an associated payment of US$20 million to the government in 2021. Production is expected to resume in 2022. Staff's growth forecast for 2022 has been revised up as a result from 3.6 percent at the time of the March 2021 RCF to 5.9 percent.

[3] The owner of Sierra Rutile, Iluka, issued a notification to the government in May 2021 stating that it intended to stop operations at the mine in 6 months' time, citing acute business challenges.

[4] Some development partners frontloaded their budget support in 2020, which affected their capacity to provide budget support grants in 2021 and beyond.

no new nonconcessional external debt was met, while that on concessional external debt was breached in 2019 (the Board granted a waiver at the time of the 2nd review).[5]

8. Performance against the end-June 2020 QPCs (4th review) was mixed, reflecting the impact of the pandemic and the policy response. Two of the three QPCs—NCG and NDA—were missed. On-lending of the June RCF disbursement for budget support—an action supported by staff and the Board—directly impacted both outturns for end-June, by increasing credit to government from the BSL by about Le 1.4 billion (3.4 percent of GDP). Deviations from the targets were significantly less than the amount of on-lending (MEFP Table 1), indicating that RCF on-lending was partially offset by a reduction in other, more expensive financing. RCF on-lending permitted an appropriate policy response to COVID-19: emergency spending on health, prevention and containment measures, support to vulnerable sectors, and social transfers totaled 3.2 percent of GDP in 2020 and staff supports the requests for waivers based on corrective actions taken (¶26).[6] The continuous PCs on external debt were met in 2020. Reflecting the impact of the crisis and associated domestic recession, the ITs on domestic revenue and the domestic primary balance were missed due to revenue shortfalls and ramped up crisis spending. Tight financing conditions, especially at the beginning of the year, resulted in the missed poverty-related spending IT in June.

9. Structural reforms continued at a slower pace, as the authorities prioritized reforms most relevant to the COVID-19 recovery. While most structural benchmarks for the third review were not met (MEFP Table 2), some reforms were completed with a delay: in July 2020, Cabinet approved a domestic arrears clearance strategy (published online); and in January 2021, the authorities submitted the revised NRA Act to Parliament.[7] The long-term business strategy for the two state-owned banks (SOBs) is still outstanding as the authorities focused on preserving the immediate health of the banks via continued enhanced supervision. Although the individual banks have prepared business plans, a government strategy for putting these banks on a firm commercial footing has not been forthcoming.[8] The structural benchmark on the automatic (monthly) fuel price adjustment mechanism was met until February 2021, but implementation was suspended thereafter given concerns over economic hardship. Given significant revenue losses, the authorities have restored the mechanism from July.

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[5] In Table 1 of the MEFP, the actual amounts of concessional external debt for March 2019 and June 2019 are corrected from what were reported at the time of the 2nd review (reduced from US$42 million to zero for March 2019 and reduced from US$42 million to US$27 million for June 2019). This does not change the assessment that the PC relating to concessional external debt was met for end-June 2019. This PC was subsequently breached in September 2019, and this was correctly reflected in Table 1 of the MEFP. The Board then granted a waiver at the time of the second review.

[6] See Box 1 in CR/21/58 (*Sierra Leone: Request for Disbursement under the RCF*) and Annex XXIV on Sierra Leone in *Policy paper 2021/023 on the CCRT*.

[7] This was a prior action under the RCF-2, along with the operationalization of the Cash and Debt Management Committee in January 2021.

[8] For a more detailed discussion of the state-owned banks and the reasons for setting this SB, see the staff report for the 2019 Article IV and Second ECF Review (CR/20/116).

Table 1. Sierra Leone: Risk Assessment Matrix

Nature/Sources of Risk	Relative likelihood	Expected Impact if Realized	Policies to Mitigate Risks
External Risks			
Uncontrolled Covid-19 local outbreaks and subpar/volatile growth in affected countries.	***High***	***Expected impact: High*** A third wave in Sierra Leone could necessitate renewed containment measures that would weaken growth and lower revenues, increase spending needs, widening the financing gap.	Ensure prudent budgetary management, reprioritizing expenditures as possible, while seeking additional concessional/grant support to accommodate necessary pandemic and health spending (incl. vaccines).
Global resurgence of the Covid-19 pandemic.	***Medium***	***Expected impact: High*** Beyond the impact of the renewed contained measures mentioned above, adverse international developments would also undermine export, investment and growth prospects.	Ensure prudent budgetary and FX reserve management, reprioritizing expenditures as possible, while seeking additional concessional/grant support to accommodate necessary pandemic and health spending (incl. vaccines).
Rising commodity prices amid bouts of volatility.	***Medium***	***Expected impact: Medium*** Increased oil prices would stoke inflation and increase pressure on the government to subsidize fuel. This could create fiscal pressures by increasing energy costs for, and central government transfers to, SOEs. Higher prices for Sierra Leone's mineral resources represent an upside risk.	Continuous application of automatic fuel price adjustment mechanism to avoid expectations of a subsidy and to safeguard critical revenues. Progress on energy sector reforms to shift away from reliance on fuel oil. Consistent application of Extractive Industries Revenue Act to ensure benefit from high minerals prices.
Regional and Domestic Risks			
Delays in the recovery of the mining sector	***Medium***	***Expected impact: Medium*** Undermine investor confidence and growth, lower-than-projected mining production and exports (iron ore).	Continue public-private dialogue; keep up structural reform momentum to attract complementary sources of investment/FX inflow
Setback in fiscal and structural reform momentum (via social discontent, political instability, and/or capacity constraints)	***Medium***	***Expected impact: Medium/High*** Delays in revenue and PFM reforms could set back fiscal adjustment, increase debt, and dampen development partner confidence and lower external financing/grants.	Accelerate structural reforms and continue to ensure prudent budgetary management. Put in place social programs to address potential adverse impact on the most vulnerable groups.

POLICY DISCUSSIONS

A. Fiscal Policies and Debt Sustainability

10. The Government's revised budget plans continue to appropriately support the COVID-19 response, while balancing a tight financing situation to support debt sustainability.

- An amicable resolution of a long-standing dispute in the iron-ore mining sector is expected to increase 2021 revenues slightly above levels anticipated earlier this year, but the overall financing situation remains tight. The authorities are targeting an improvement in the domestic primary balance from –4.1 percent of GDP in 2020 to –2.1 percent in 2021, consistent with halving the net borrowing from the banking sector. The proposed on-lending of disbursements from the 3rd/4th ECF reviews would help meet critical expenditure needs, while keeping expensive net borrowing from the banking sector to less than 2 percent of GDP in 2021.

- With a few exceptions, updated expenditure plans that are expected to feature in the authorities' revised budget remain consistent with estimates at the time of the March 2021 RCF. Higher-than-anticipated spending needs on the COVID-19 response in the context of a second and beginning third wave have necessitated increasing planned transfers to the National COVID-19 Emergency Response Center (by about 0.6 percent of non-iron ore GDP). Similarly, a larger-than-budgeted wage increase (0.3 percent of non-iron ore GDP) in the tertiary sector arose from an agreement with university staff, raising the wage bill above March 2021 RCF projections. Nonetheless, current expenditures in percent of non-iron ore GDP would decline by 0.8ppt from 2020 to 2021 supported by lower-than-anticipated goods and services spending, and a lower domestic interest bill due to RCF on-lending. Updated project financing assumptions contribute to a downward revision in foreign-financed capital spending.

- The authorities are actively seeking additional grants to support the health policy response and building contingencies to accommodate additional health spending. Discussions are ongoing with the Global Fund to finalize support to the COVID-19 response and vaccination program, estimated to require financing of 1.4 percent of non-iron ore GDP in 2021 (0.8 percent of non-iron ore GDP to be funded through the budget in the baseline which reflects the revised budget), and the World Bank has disbursed funding for the acquisition and administration of vaccines. In case of shortfalls in expected grants to cover NaCOVERC's expenses, holding back the implementation of some projects or reducing the operational budget of MDAs provide contingencies for transfers from the budget (MEFP ¶28).

Text Table 2. Sierra Leone: Summary of Fiscal Operations of the Central Government
(Percent of non-iron ore GDP)

	2020	2021			2022		2023	2024
	Prel.	ECF Review/4	RCF2	Proj.	ECF Review/4	Proj.	Proj.	
Total revenue and grants	**19.3**	**17.8**	**19.4**	**19.3**	**18.2**	**18.7**	**18.7**	**19.2**
O/w Domestic Revenue	13.3	15.3	13.4	14.1	15.9	14.2	14.3	14.7
Tax revenue	11.1	13.1	11.4	11.8	13.6	11.9	12.0	12.6
CCRT Debt Relief	0.9	...	0.7	0.7	...	0.4	0.0	0.0
Grants	5.1	2.4	5.3	4.5	2.3	4.1	4.4	4.5
Expenditures and net lending	**24.8**	**21.2**	**23.5**	**23.1**	**20.8**	**21.5**	**20.8**	**20.3**
Current expenditures	17.1	14.3	15.1	16.3	13.8	14.7	13.7	13.1
O/w COVID-19 spending/1	*3.2*	...	...	...	...	...	...	...
Capital Expenditures	7.3	6.2	8.1	6.4	6.4	6.7	6.8	6.8
Contingent expenditure	0.1	0.2	0.0	0.1	0.2	0.0	0.0	0.0
Arrears Paydown (cash)	0.4	0.5	0.3	0.3	0.4	0.0	0.3	0.4
Domestic primary balance/2	**-4.1**	**1.0**	**-1.5**	**-2.1**	**1.5**	**0.3**	**1.0**	**1.8**
Overall balance including grants	**-5.5**	**-3.4**	**-4.2**	**-3.8**	**-2.6**	**-2.8**	**-2.1**	**-1.1**
Financing	**5.5**	**3.4**	**4.2**	**3.8**	**2.6**	**2.8**	**2.1**	**1.1**
External financing (net)	1.7	1.5	0.5	0.5	1.5	0.7	0.8	0.6
Domestic financing (net)	3.7	1.9	1.4	2.9	1.2	2.2	1.4	0.6
O/w Banks, net of onlending/3	3.6	2.6	2.8	1.9	2.1	2.2	2.0	1.8
G20 debt initiative (deferment)	0.2	...	0.2	0.4	...	0.0	0.0	0.0
G20 debt initiative (payment)	0.0	...	0.0	0.0	...	-0.1	-0.1	-0.1
Financing Gap	**0.0**	...	**2.0**	**0.0**	...	**0.0**	**0.0**	**0.0**
Memorandum item:								
Non-iron ore GDP (Le billions)	41,379	50,538	47,865	47,055	57,841	53,823	62,080	71,223

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ The government reprioritized expenditure outlays to support recovery and livelihoods (see. Box 3 CR No. 21/58).
2/ Revenue less expenditures adjusted for interest payments, foreign financed Capex, and arrears paydown.
3/ Program de facto anchor to reduce borrowing from the banking system (adjusted for onlending).
4/ See Sierra Leone Article iv and ECF second review completed in April 2020 (CR No.20/116).

11. **Over the medium-term, fiscal adjustment will continue to strike a balance between reducing debt sustainability risks and supporting the post-COVID recovery.** Under the baseline scenario, the domestic primary balance shifts into surplus next year and to 1.0 percent of non-iron ore GDP by 2023, on the back of recovering domestic revenues (14.3 percent of non-iron ore GDP by 2023) as in-person enforcement of tax payments resumes, and payoffs from more comprehensive revenue reforms start materializing (MEFP ¶32).The unwinding of emergency spending by 2022 and gradual efficiency improvements (¶12) would also support steady adjustment of the domestic primary balance in the medium term. On-lending under the ECF would alleviate financing pressures and keep domestic bank financing to about 2-2.2 percent of non-iron ore GDP (Text Table 3). The planned 2021 SDR allocation would provide an additional line of defense for critical expenditures that need to be protected (e.g. vaccines, arrears clearance, and monitorable domestically-financed development spending, including support to ambulance services, school feeding program, and completion of water supply services), while providing external buffers, as outlined in the alternative scenario (Box 1).

Box 1. Alternative Scenario with SDR Allocation

Background. In April 2021, the IMFC Communiqué called on the IMF to prepare a proposal for a general allocation of SDRs (US$650 billion) to address the long-term global need to supplement existing reserve assets. Once approved later in 2021, IMF member countries would receive SDRs proportional to their IMF quotas—about US$283 million (about 6½ percent of GDP) for Sierra Leone.

Macroeconomic implications. The authorities expect to keep the full amount of the allocated SDRs in official foreign reserves, considering a vulnerable external position under the baseline. However, given financing constraints, staff advised that a small portion of the SDR allocation could serve to create space for additional on-lending from the central bank. The authorities have identified a set of well-defined and monitorable expenditures to support the health response, clear arrears and cover critical development needs, amounting to 0.8 and 0.3 percent of GDP in 2022 and 2023, which could be covered with on-lending in local currency associated with the SDR allocation.

Under staff's SDR allocation scenario (text table):

- Gross and net international reserves would increase by around US$283 million in 2021 (the increase over the medium term would be less, assuming a smaller unidentified financing over the medium term relative to the baseline);
- The domestic primary balance in percent of GDP would decrease by 0.6 and 0.3 ppts in 2022 and 2023;
- The SDR allocation will not add to Sierra Leone's net external liabilities; however domestic public debt would be slightly larger in 2022-23 due to additional on-lending from the BSL to the government, while external debt would be smaller due to smaller unidentified external financing;
- Reserve money growth would increase in 2022 and 2023 because of the SDR on-lending. NDA would also increase accordingly.

Adjusters have been added to the Technical Memorandum of Understanding (TMU) to allow for an adjustment of program targets should the SDR allocation be approved (¶26). They have been formulated assuming indirect budget support and will be governed by an MOU between the BSL and the government that would cover interest and exchange rate risk.

	Baseline			*With SDR allocation and proposed on-lending*		
	2021	**2022**	**2023**	**2021**	**2022**	**2023**
Domestic primary balance (% of GDP)	-2.1	0.3	1.0	-2.1	-0.3	0.7
Gross international reserves excl. swaps (US$ millions)	652	532	470	935	815	718
Gross international reserves excl. swaps (months of imports)	4.3	3.4	2.9	6.2	5.2	4.4
Unidentified external financing (US$ millions)	0	0	35	0	0	0
Public debt (% of non-iron ore GDP)	73.0	72.5	70.7	73.0	72.7	69.9
External debt	51.1	51.6	50.9	51.1	51.6	50.1
Domestic debt	22.0	20.9	19.8	22.0	21.1	19.8
Reserve money growth (%)	7.6	1.4	11.5	7.6	10.6	13.4
Net credit to gov't, TMU def'n (% of non-iron ore GDP)	3.8	2.5	1.7	3.8	3.3	2.1
Change in NDA, TMU def'n (% of non-iron ore GDP)	2.1	2.5	1.4	-4.9	3.3	1.7

12. The authorities are advancing a range of fiscal structural reforms on both revenue and expenditure fronts.

- *A range of tax policy and administration reforms underpin the program's revenue mobilization goals* (MEFP ¶32).
  - After a pause in implementation in February-June 2021, aimed at mitigating the impact of the price pass through on the population, the authorities restarted implementation of the automatic pricing formula for petroleum products on July 1, 2021 (**continuous structural benchmark**). They intend to implement the duty

waiver in the first quarter of 2022, start implementing the transfer pricing regulations to support assessment, tax audit and other revenue administration processes, complete a stock take of existing income tax exemptions (**structural benchmark**), implement a standstill on new exemptions, and undertake a review of the excise tax regime. They will also develop a Medium-Term Revenue Strategy (MTRS) to be approved by Cabinet by September 2022 (**structural benchmark**).

  - Reforms to enhance administration and compliance include: automating tax processes through implementing the Integrated Tax Administration System (ITAS) with the support of the World Bank; and installation of electronic cash registers to all GST registered businesses. In the interim, the NRA will continue carrying out audits in selected sectors (extractives, financial, and telecoms) and large taxpayers, and implement strategies to identify and tax High Net Worth Individuals (HNWI) with the help of IMF TA, and commence with the Block Management System (BMS) to bring more taxpayers into the tax net through formal registration of businesses. Efficiency gains from these reforms are projected to increase tax revenue by some 0.1 percent of non-iron ore GDP each year in the next few years.

- *The overall spending envelope for the 2022 budget is tight.* The 2022 budget envelope, to be discussed later this year, is expected to broadly reflect the framework discussed and agreed with staff. The authorities will continue to prioritize health and social spending, and supporting the recovery in line with their NDP (MEFP ¶27-29).[9] This includes most of the critical expenditures (health, social and economic recovery). Additional priority spending that needs to be safeguarded, can be ring-fenced and is easily monitorable, would be covered by the prospective SDR allocation (such as vaccine expenditures, arrears clearance payments consistent with the arrears clearance strategy, domestically financed development spending, including support to ambulance services, school feeding program, and completion of water supply services). As the crisis abates, expenditures will support sustained growth via investments in human and physical capital. This depends critically on the availability of additional highly concessional financing and improving spending efficiency. The recent Public Investment Management Assessment (PIMA) identified potential gains from better project appraisal and selection, and improved planning and execution. With World Bank technical advice, reforming energy sector SOEs will open up fiscal space through improved efficiency and reducing reliance on budget transfers. The wage bill is expected to moderate to about 6 percent of GDP by 2023 through limiting real wage increases, and effective payroll management and control, including establishment of a wage and compensation commission in 2022 to review wages and align with the sector mandate.[10] More robust budgeting practices, better cash management and tighter expenditure controls will remain critical to avoid the accumulation of arrears.

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[9] See Box 3 in CR/21/58 (*Sierra Leone: Request for Disbursement under the RCF*).

[10] In line with commitments made in the context of the 2nd ECF review (see CR/20/116).

- *The authorities are undertaking several PFM reforms to improve the efficiency of spending and minimize risks to the budget.* They will finalize and adopt a national policy on public investment, develop criteria to select and prioritize infrastructure projects, and project appraisal templates and guidelines (end-March 2022, **structural benchmark**); roll out the integrated financial management information system (IFMIS) to large spending agencies, extend the cash forecasting horizon, and incorporate arrears repayment plans and financing requirements into cash planning; and continue improving the analysis of SOE-related fiscal risks in line with Fund capacity development, including adopting regular reporting and analysis of SOE fiscal risks (by end-2021, MEFP ¶38), developing an SOE ownership policy (end-September 2022; **structural benchmark**), and reviewing and streamlining the legal and institutional framework governing SOEs (2022Q4).

13. A fiscal anchor could help guide the fiscal path going forward and could be discussed in the context of the 5th review. The government's adjustment path remains anchored in reducing domestic bank borrowing to around 2 percent of GDP to alleviate pressure on inflation and the interest bill (MEFP ¶27). However, at 73.7 percent of GDP at end-December 2020, debt is currently above the authorities' own NDP ceiling of 70 percent and more discussions and potential Fund TA will help set an appropriate debt limit (a level not to be exceeded even under large macro and fiscal shocks). A fiscal rule that avoids breaching the debt limit could guide the fiscal policy stance beyond the program (Box 2). In particular, a debt rule anchor (a level or range around which debt should be kept, on average) to ensure that debt remains below the debt limit, could be introduced. It would also require setting up flexibility mechanisms, such as an escape clause and correction mechanisms to account for unexpected shocks.

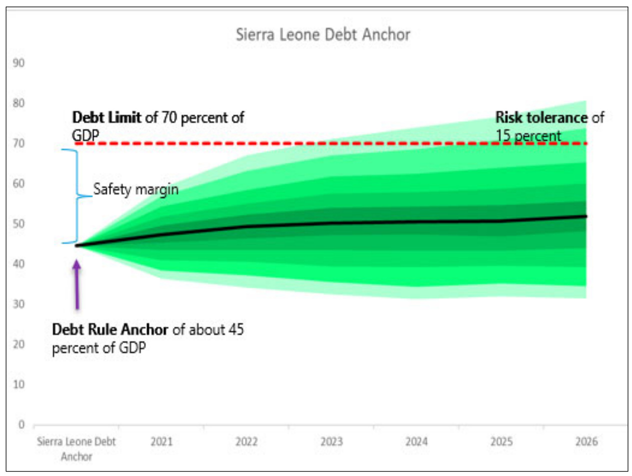
14. The debt sustainability analysis indicates that Sierra Leone's risk of debt distress is high but debt is sustainable. With the macroeconomic framework and policy fundamentals broadly unchanged from the March 2021 RCF, the assessment remains unchanged on substance. All debt indicators are on a declining trajectory over the medium- to long-term, predicated on sustained fiscal adjustment, reliance on highly concessional external financing (largely grants), and limited recourse to domestic debt. The overall objective of debt policy is to maintain debt sustainability despite the shocks coming from the COVID-19 pandemic and reduce debt vulnerabilities going forward. Government will continue to implement additional fiscal and external sector adjustments through revenue mobilization, export diversification to build reserves, and rely on highly concessional external financing (largely grants), including from development partners, to limit recourse to expensive domestic debt.

Box 2. Illustrating a Fiscal Anchor

Sierra Leone's debt to GDP is estimated at about 73.7 percent of GDP at end-December 2020 and debt vulnerabilities are rising (as per June 2021 DSA). This is above its NDP debt ceiling of 70 percent of GDP. Under such circumstances, a fiscal rule based on a debt anchor could reduce some of these vulnerabilities and guide fiscal policy to bring debt down over the medium to long term. Maintaining a safety margin from this limit can protect against future shocks to debt.[1]

Concepts and illustration of debt anchor calibrations for Sierra Leone

- **Estimating a debt anchor using the risk-based approach involves three basic steps:** (i) set a debt limit and choose a level of tolerance to risks; (ii) undertaking Monte Carlo simulations of the key macroeconomic drivers behind debt (growth, interest rate, exchange rate) and estimating a fiscal reaction function of the government to macro shocks to obtain to possible debt trajectories for a starting level of debt; (iii) iterate until a starting debt level is found for which the probability of breaching the debt limit over this period does not exceed the tolerance level.
- **Preliminary and illustrative calibrations for Sierra Leone** suggest that a debt anchor of 45 percent of GDP could provide sufficient protection against future shocks over the medium term (6 years), with the probability of breaching the debt limit not exceeding 15 percent (further work with Fund TA would be needed to determine an appropriate debt anchor accounting for a risk tolerance level and safety margin). Year-to-year operational fiscal targets can then be derived in the form of the levels of the primary balance (a variable that is under the direct control of the government) that ensure that debt follows a downward trajectory and converges within a set timeframe towards 45 percent of GDP.
- **Setting a debt anchor, in addition to the existing debt ceiling** may require an institutional mechanism for its implementation, such as the inclusion of the rule in the PFM law or NDP.



[1] How to Calibrate Fiscal Rules : A Primer (imf.org).

15. Firm commitments to effective debt management practices will complement efforts to secure debt sustainability. Domestic debt in percent of GDP decreased from 27.6 percent of non-iron ore GDP in 2019 to 25.7 percent in 2020, in large part due to exceptional external grant support and progress in domestic arrears clearance. The authorities paid down a higher-than-anticipated stock of domestic arrears in 2020 to support small and medium suppliers as part of the crisis response. Renewed efforts to implement haircuts and NPV reductions, in line with the arrears clearance strategy, are now necessary to safeguard public debt sustainability.[11] The authorities are committed to improving debt reporting and recording through ongoing Fund TA which is expected to strengthen regular debt reporting that consistently includes a record on arrears-related debt

[11] The baseline assumes that the NPV reductions previously advised and in approved clearance strategy would be sustained.

instruments. Further, the authorities remain committed to reducing and better managing debt, as signaled through the expansion of the cash management committee to include debt management and reinstituting regular meetings. They have prepared a Medium-Term Debt Management Strategy with the support of IMF/World Bank TA (MEFP ¶47) that focuses on reducing roll-over risk and borrowing costs.

16. **On external debt, the authorities will continue to favor a cautious approach in new foreign borrowing.** This will entail seeking only highly concessional financing (grant element of 35 percent or more) and ratifying loans only within the annual ceiling set out in the MEFP (Table 1, continuous QPC).[12] The authorities committed to continue to refrain from any non-concessional borrowing and to renegotiate or cancel any loans under discussion deemed non-concessional. They would engage with the IMF prior to signature of any loans to ensure compliance with ECF external borrowing limits. The annual ceiling for new concessional external debt for 2021 will be somewhat higher than the annual ceiling for 2019 and 2020 which was US$100 million, considering the expected bunching of ratifications of critical project loans. However, to ensure debt sustainability, the annual ceiling for 2022 is lowered to US$70 million. Further, alternative/innovative financing approaches including Public-Private Partnership arrangements to implement specific self-liquidating projects would be contracted cautiously while limiting government exposure to contingent liabilities. The authorities will continue to conduct an annual DSA to provide signals on the level of risks to external and public debt sustainability.

17. **The authorities have continued their good governance efforts, including by transparently accounting for the COVID-related spending.** In line with their RCF-commitments, they have published the unaudited financial statements of the NaCOVERC as of December 2020[13] and March 2021,[14] and key details of large procurement contracts related to crisis mitigation, and are reporting on their broader social and economic response.[15] They committed to continue this practice regularly (MEFP ¶21). Parliament scrutinized the real-time external audit by the Audit Service of Sierra Leone, a good practice that only few countries in sub-Saharan Africa have implemented. The authorities have started to take actions to address identified irregularities, including by implementing standard operating procedures, training all District Covid-19 Emergency Response Centers on principles of financial management, and taking steps to improve HR processes (MEFP ¶21). A chart of accounts developed with the Accountant General facilitates the recording and reporting of transactions. A fiduciary agent has been appointed to support financial management. Going forward, ASSL would include an audit of the crisis response within its regular annual audit.

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[12] Staff has clarified that going forward, this will be a continuous PC instead of a periodic PC. In addition, such PC shall have an annual ceiling and will be evaluated in terms of cumulative changes within each calendar year. Please see TMU paragraph 16 for further details.

[13] https://mof.gov.sl/wp-content/uploads/2021/02/NACOVERC-UNAUDITED-FINANCIAL-REPORT-MARCH-DECEMBER-2020.pdf

[14] https://mof.gov.sl/wp-content/uploads/2021/06/FINAL-Q1-Report-NACOVERC-UNAUDITED-FINANCIAL-REPORT-Q1-2021.pdf

[15] https://mof.gov.sl/wp-content/uploads/2021/06/UPDATED-FY-2020-QAERP-TABLES.xlsx

B. Monetary and Exchange Rate Policies

18. The BSL has continued to monitor and respond to inflation developments and liquidity conditions, and to improve monetary policy operations and forecasting, supported by Fund CD. Staff reiterated its advice that the BSL avoid monetary financing by refraining from purchasing securities in the secondary market for non-monetary purposes (MEFP ¶51).

19. Staff advised the BSL to only extend the Special Credit Facility (SCF) if justified by a potential disruption to food imports. The SCF provided preferential credit and, when needed, FX to essential goods importers to avoid supply disruptions. Introducing the SCF in the early stages of the pandemic helped avoid shortages and foreign exchange market volatility. The allocated Le 500 billion has now been disbursed and no further disbursements will be made unless a decision is taken to extend the SCF. Staff advised, and the authorities agreed, to only extend the SCF in the event of an emerging threat to food security (MEFP ¶52).

20. Shortages of local currency have persisted and should be dealt with expeditiously. Acute shortages of cash leones emerged in late 2020, due to exceptionally large growth in currency outside banks. While the problem was temporarily resolved by banknote shipments in January, it has re-emerged periodically in subsequent months, at times when banks face a high demand for cash. To remedy the situation, the BSL has sold foreign exchange to banks to enable them to offer their customers FX in exchange for leones. The high levels of currency circulating outside the banking sector may reflect the growth of the non-bank sector; staff encouraged the BSL to investigate this issue further, seeking TA if necessary, and to expedite new shipments of currency (MEFP ¶53).

21. Exchange rate flexibility and adequate reserve coverage should be maintained. Exceptional external support during 2020 and two RCF disbursements boosted reserve coverage (currently over 4½ months of imports), providing a prudent buffer against currently larger-than-usual uncertainties. Going forward, reserve coverage is expected to moderate with steadily increasing external debt service, smaller external financing and debt relief, and limited sources of official FX reserves. In this context, while the SDR allocation in 2021 would increase reserves and provide an additional buffer, exchange rate flexibility will be vital to help absorb external shocks and maintain adequate reserves over the medium term (MEFP ¶54).

C. Financial Sector Policies

22. The banking sector appears stable but high NPLs and exposure to government represent continued vulnerabilities. The NPL ratio to gross loans of the banking system has declined from its pre-pandemic level, as a result of both write-offs and recoveries.[16] However, the ratio remains well above the (already high) prudential limit of 10 percent (Table 8); given that the impact of the downturn in 2020 may not yet be fully reflected in NPLs, they should continue to be monitored closely. Six banks are under enhanced supervision. Almost all banks reported profits in

[16] Recoveries over the past year were enhanced due to significant arrears clearance by government.

2020, although profitability declined in 2021Q1, reportedly due to lower interest income from government securities, which continue to represent about 40 percent of total commercial bank assets.

23. The recent Financial Sector Stability Report[17] identified strengthening the regulatory and supervisory framework for banks as a near-term reform priority. Staff therefore advised the BSL to prioritize improvements in banking supervision, including updating and issuing revised prudential guidelines to ensure compliance with the Banking Act of 2019 (**structural benchmark**), supported by Fund CD (MEFP ¶57).

24. **The BSL reported that uptake of the new agricultural credit facility (ACF) has thus far been slow.** The BSL introduced the US$10 million ACF in March to reduce food insecurity by incentivizing private sector participation in agriculture. This low-interest medium-term lending facility (similarly structured as the SCF) helps finance the production, procurement and distribution of agricultural inputs. Staff stressed that the ACF should be limited in size and scope and that the role of the central bank in providing this financing should be temporary, in line with the guidelines issued.[18] Implementation will be assessed at the time of the next review.

25. Addressing fiscal risks and governance concerns posed by the two SOBs remains a core program objective. The SOBs have returned to profitability but remain under an enhanced supervision directive from the BSL, which is expected to be maintained in the near-term. On-site examinations are planned in 2021H2; as part of the on-site reports the BSL will also prepare a thematic report on NPL strategy and management, with actionable recommendations (**structural benchmark**, end-March 2022), which will form the basis of structural benchmarks for subsequent reviews, to ensure that sound NPL management is fully embedded in the two banks (MEFP ¶59). The SB on developing a sound long-term business strategy to put the banks on a commercial footing proved challenging to meet, with disruptions to external technical support and current economic uncertainty not conducive to a large financial sector reform. The authorities' program thus focuses on reforming the corporate governance frameworks in these two banks (**structural benchmark**) as an important step towards ensuring that these banks are run on a commercial basis. An IMF resident adviser on banking supervision, to be posted to the BSL in 2021H2, will support improvements in this area, especially on supervision of the SOBs.

[17] The IMF's 2020 FSSR covered (i) bank and nonbank regulation and supervision; (ii) stress-testing; (iii) systemic risk, financial stability and macroprudential policy frameworks; (iv) financial safety net, crisis preparedness and crisis management; (v) financial market infrastructure; and (vi) financial inclusion. A TA roadmap to support implementation of the report's recommendations has been developed, in consultation with the World Bank and development partners.

[18] The guidelines for the ACF limit the duration of the ACF to 18 months, but it may, with the approval of the Board of Directors, be extended for another period not exceeding 18 months.

PROGRAM MODALITIES

26. Program conditionality would change as follows:

- *Request waivers of non-observance for the end-June 2020 QPCs on NCG and NDA.* As noted in ¶8, the NCG and NDA outturns were directly impacted by on-lending of the June 2020 RCF disbursement as budget support for the COVID-19 response.[19] The July 2020 supplementary budget subsequently ensured that budget support was appropriately channeled to pandemic-related emergency spending, in line with RCF understandings. Staff supports the waiver request on this basis, together with the authorities' corrective actions to safeguard debt sustainability and to allow for program objectives to be met: (i) having passed a 2021 budget which entails a 2½ percent of GDP contraction of the domestic primary balance (around 2 percent of GDP for the planned revised budget), including through containing non-priority spending while safeguarding priority spending to deal with the second wave and avoid undermining the recovery; and (ii) implementing structural reforms to improve revenue mobilization and debt management, including expanding the cash management committee to include debt management and reinstituting regular meetings, and submitting to parliament the NRA Act to underpin revenue mobilization efforts going forward. Sierra Leone is also one of a few countries implementing fully their RCF transparency and accountability commitments.

- *Multiple currency practice (MCP).* Staff have assessed that a MCP based on potential deviation between the BSL exchange rate and other exchange rates in the market has been in place since March 2016 (use of the BSL rate in governmental transactions). Since this MCP pre-dates this ECF arrangement and arose more than 4 years ago, it does not lead to a non-observance of the continuous PC on MCPs in this arrangement, or to misreporting. The BSL rate was further used in sale of foreign exchange to banks and in transactions related to the SCF, and is planned to be used for ACF transactions as well. Staff has assessed that such use did not result in a non-observance of the continuous PC. The authorities are not currently requesting, and staff are not recommending, approval for this MCP. However, the BSL is taking steps to improve the computation of the BSL rate, to bring it in line with the market rate (MEFP ¶55).

- *On-lending.* The disbursements (SDR 31.11 million or about US$44.4 million) under the combined 3rd and 4th reviews will be on-lent to the budget. This allows the Fund to provide additional budget support (without net new obligations), while also reducing recourse to relatively expensive domestic financing. As with previous on-lending under this ECF arrangement, the Government and BSL will establish a framework for on-lending in an MOU.

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[19] The RCF on-lending is governed by a MOU, which sets out a repayment schedule equivalent to that of the RCF; the impact of the on-lending on the NCG and NDA stock will therefore be unwound over a 10-year period.

- *Request rephasing and extending the arrangement.* Given the COVID-19 related pause in ECF reviews and the intervening RCF disbursements, the authorities request, and staff supports, a rephasing of the program (postponing the availability of and associated test dates for the sixth, seventh, and eighth disbursements by 12 months) and an extension of the ECF arrangement by 12 months to June 29, 2023—with the benefit of extending the program through the April 2023 elections. Despite the relatively long lag between the 3rd/4th and 5th reviews, a staff visit on the 2022 budget in September 2021 will ensure continued engagement.

- *New adjusters.* Adjusters for the SDR allocation for the QPCs on gross international reserves of the BSL and net domestic assets of the BSL are added, considering that the SDR allocation will increase reserves and reduce NDA. Adjusters to allow for some on-lending to the budget of the SDR allocation have been added to the NCG and NDA targets. Given the risks of a third wave of COVID-19 with a consequent impact on food security, adjusters on the NDA and GIR targets are also proposed to accommodate a possible extension of the SCF.

- *New QPCs and ITs.* New QPCs for December 2021 and June 2022, and new ITs for September 2021, and March, September and December 2022 are proposed. The annual ceiling for new concessional external debt for 2021 is proposed to be somewhat higher than the annual ceiling for 2019 and 2020 which was US$100 million, considering expected bunching of ratifications of critical project loans. However, to avoid a harmful impact on debt sustainability, the annual ceiling for 2022 is lowered to US$70 million.

27. Financing assurances are adequate. The program is fully financed with firm commitments in place for the next 12 months, and with good prospects to cover financing needs for the remainder of the current ECF arrangement (the final disbursement is expected in 2023H1). The authorities continue to make good faith efforts to reach a collaborative agreement with external commercial creditors, regarding long-standing pre-HIPC arrears, including making annual goodwill repayments.

28. Risks to the program are elevated, given capacity constraints, fiscal financing pressures, and fragile institutions. The ongoing COVID-19 pandemic, including in the context of a third wave and presence of the delta variant in Sierra Leone, also adds significant uncertainty to both revenue mobilization goals and spending objectives and may call for additional reprioritization of expenditures. The authorities' commitment to the program and Fund CD to support program implementation are important mitigating factors.

29. Capacity to repay the Fund is constrained and full program implementation is key to improve it. Due to an increase in debt service over the medium term, financing will remain challenging and debt servicing capacity may become strained. Outstanding IMF credit at end-2021—when exposure to the Fund reaches its peak—is projected at 192 percent of quota, 88 percent of gross reserves, 74 percent of exports, and is equivalent to 13 percent of GDP given Sierra Leone's large quota relative to its economic size (Table 6). Gross repayments to the IMF remain significant over the near and medium term (around 1½ percent of GDP annually).[20] While the country's participation in the CCRT and DSSI helps to contain near-term repayments, Sierra Leone should continue to rely on highly concessional external support (largely grants) and pursue fiscal adjustment to ensure adequate capacity to repay.

30. The BSL continues to make progress in addressing the recommendations of the safeguards assessment. The FY2019 and 2020 audits of the BSL's financial statements are underway and are expected to be finalized by October 2021. An external quality assessment of the internal audit function will be completed by end-2021. Going forward, it will be important that a reputable external auditor be appointed for the FY2021 audit by November 2021 to ensure completion within the statutory deadline, i.e., end-March. The audit should be published on the BSL's website by April 2022 (**structural benchmark**).

STAFF APPRAISAL

31. The COVID-19 shock has strained Sierra Leone's efforts to address its extensive development challenges. With its impact threatening gains made under the NDP, this necessitated the strong economic and health responses. Support from the international community, including the Fund's two RCF disbursements, has been critical in cushioning the exceptional pressure on the fiscal and external positions. While there are nascent signs of economic recovery, risks remain elevated with both domestic and external demand remaining well below pre-pandemic levels. The beginning of a third wave, external spillovers, and difficulties in vaccine rollout pose serious risks to the population's health and the economic outlook and imply a gradual recovery. Against this background, the authorities' commitment to resume the ECF arrangement as a policy anchor in the face of heightened uncertainty is commendable, particularly given likely lower external financing than in 2020. Staff concurs with the priority attached to tackling longstanding challenges on human capital development, governance, revenue mobilization, safeguarding financial stability and increasing external resilience.

32. Staff welcomes the authorities' firm commitment to securing fiscal sustainability despite considerable challenges imposed by the COVID pandemic. The government's revised budget plans continue to appropriately support the COVID-19 response, while balancing debt sustainability. The reliance on grants and higher revenues to support increases in health-related spending allows for significant improvements in the primary balance. The authorities continue to make efforts on domestic revenue mobilization through tax policy and administration reforms. This should include full implementation of the fuel price mechanism as an equitable way of raising revenues. Scaling-up of spending, including for needed social and human capital development, depends crucially on revenue collection and external grant support.

[20] This largely represents repayment of Ebola-era support and the start of repayments for RCF disbursements during the COVID-19 pandemic.

33. The goal of reducing domestic bank financing remains appropriate but the authorities should consider establishing a debt anchor going forward. Reducing bank financing to around 2 percent of non-iron ore GDP is expected to help contain inflation, lower the domestic interest bill, and create space for private sector credit. The authorities have reiterated intentions to continue seeking only highly concessional external financing for their priority development projects and ratifying loans only within the annual ceiling to manage elevated fiscal risks. A follow-up on initial conceptual discussions to establish a debt anchor will be needed to guide fiscal policy beyond the program and keep debt below the authorities' debt limit. Success will also be dependent on continued provision of adequate external funding on highly concessional terms. A potential SDR allocation would contribute to the external buffers required to manage the path to reduced debt vulnerability, while providing some fiscal space to supplement priority spending.

34. Sierra Leone's debt is assessed to be sustainable. This is predicated on the authorities' ambitious fiscal adjustment and continued reliance on concessional financing and grants. Sierra Leone remains at high risk of distress; an improvement in the debt rating will require a sustained effort at strengthening revenue mobilization, effective expenditure prioritization, reliance on grants and limited highly concessional borrowing, while strictly limiting recourse to expensive domestic debt. The authorities' continued commitment to refrain from any non-concessional borrowing and to limit concessional borrowing is welcome. Domestic arrears clearance should continue with due attention to the impact of repayment terms on debt sustainability. Better debt management is also important, and the recent Fund-Bank supported Medium-Term Debt Management Strategy offers a useful action plan.

35. Monetary and exchange rate policy should remain flexible to support the recovery, while safeguarding price stability. The BSL should continue to monitor inflation and liquidity developments closely and be ready to adjust monetary policy depending on the pace of recovery, within the bounds of program conditionality. The external position of Sierra Leone in 2020 was substantially weaker than the level implied by fundamentals and desirable policies. Continued exchange rate flexibility will be key to mitigate the impact of shocks and protect the vulnerable reserves position as the exceptional external financing of 2020 and 2021 tapers off. An extension of the Special Credit Facility should only be considered if problems with essential goods supply threaten food security.

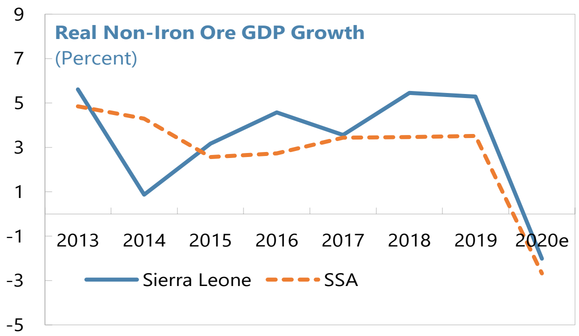
36. Financial stability risks should be monitored closely, especially given continued uncertainty about the impact of the crisis. With non-performing loans exceeding prudential limits and excessive asset concentration on short-term government securities, the continued enhanced supervision of several banks is justified. In this regard, the authorities are urged to issue revised prudential guidelines to implement the 2019 Banking Act, as recommended by the recent FSSR. Particular focus is required to address the fiscal and financial stability risks from the two state-owned banks, where efforts should initially be concentrated on developing a plan to reduce NPLs to within prudential guidelines and then on developing new corporate governance frameworks.

37. Staff also welcomes the authorities' follow-up on their governance commitments. Completing external audits of the BSL are a priority from the Safeguards Assessment. Recent progress in areas such as the fraud prevention/whistleblower policy and assessing the internal audit function are welcome. Staff looks forward to the 2019 and 2020 audits being completed by October 2021, and the 2021 financial statements being audited by a reputable external auditor within the statutory deadline of March 2022. On the fiscal side, staff welcomes the reporting on QAERP and NaCOVERC expenditures, ASSL's real-time audit, and the publication of procurement details related to crisis mitigation, as well as information on the broader crisis response.

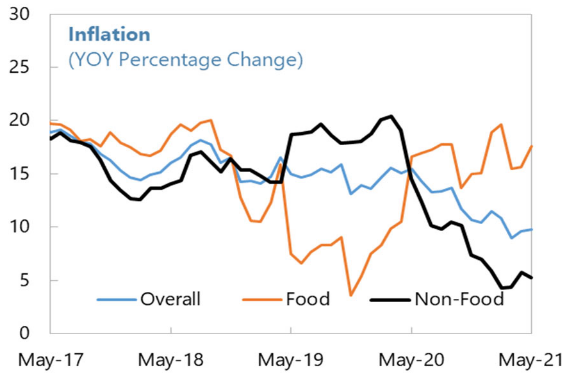
38. Staff supports the completion of the third and fourth reviews under the ECF-supported arrangement and the financing assurances review, given the authorities' strong commitment to the program. Staff also supports the request for waivers on the June 2020 performance criteria on net credit to government and net domestic assets on the basis of corrective measures taken by the authorities, as well as the request for rephasing the remaining reviews and extending the arrangement for a year, to beyond the April 2023 elections.

Figure 1. Sierra Leone: Real and External Sectors, 2013–21

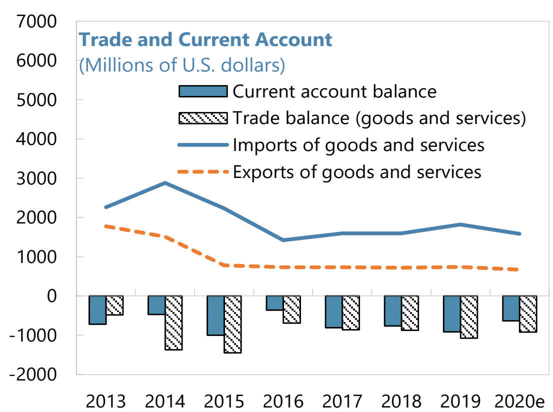
Growth fell sharply in 2020…



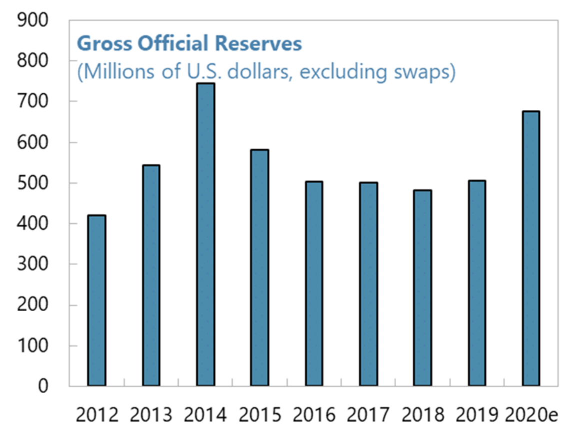
and while overall inflation trended downwards, food price inflation remained high.



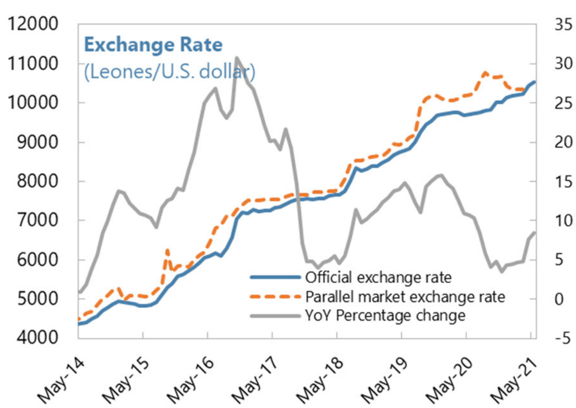
The current account deficit contracted in 2020…



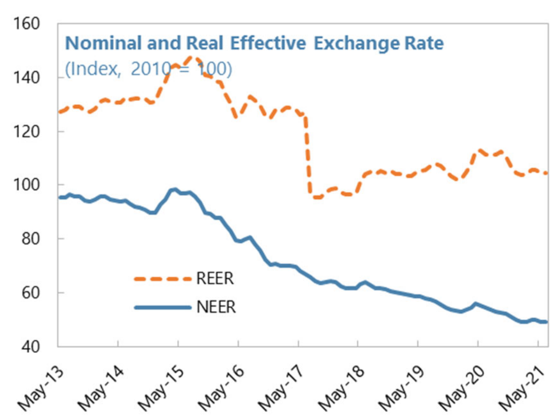
and official reserves increased, bolstered by external support including the RCF.



Exchange rate depreciation slowed in 2020, due principally to high FX inflows and the Special Credit Facility…



… while the REER remained stable.

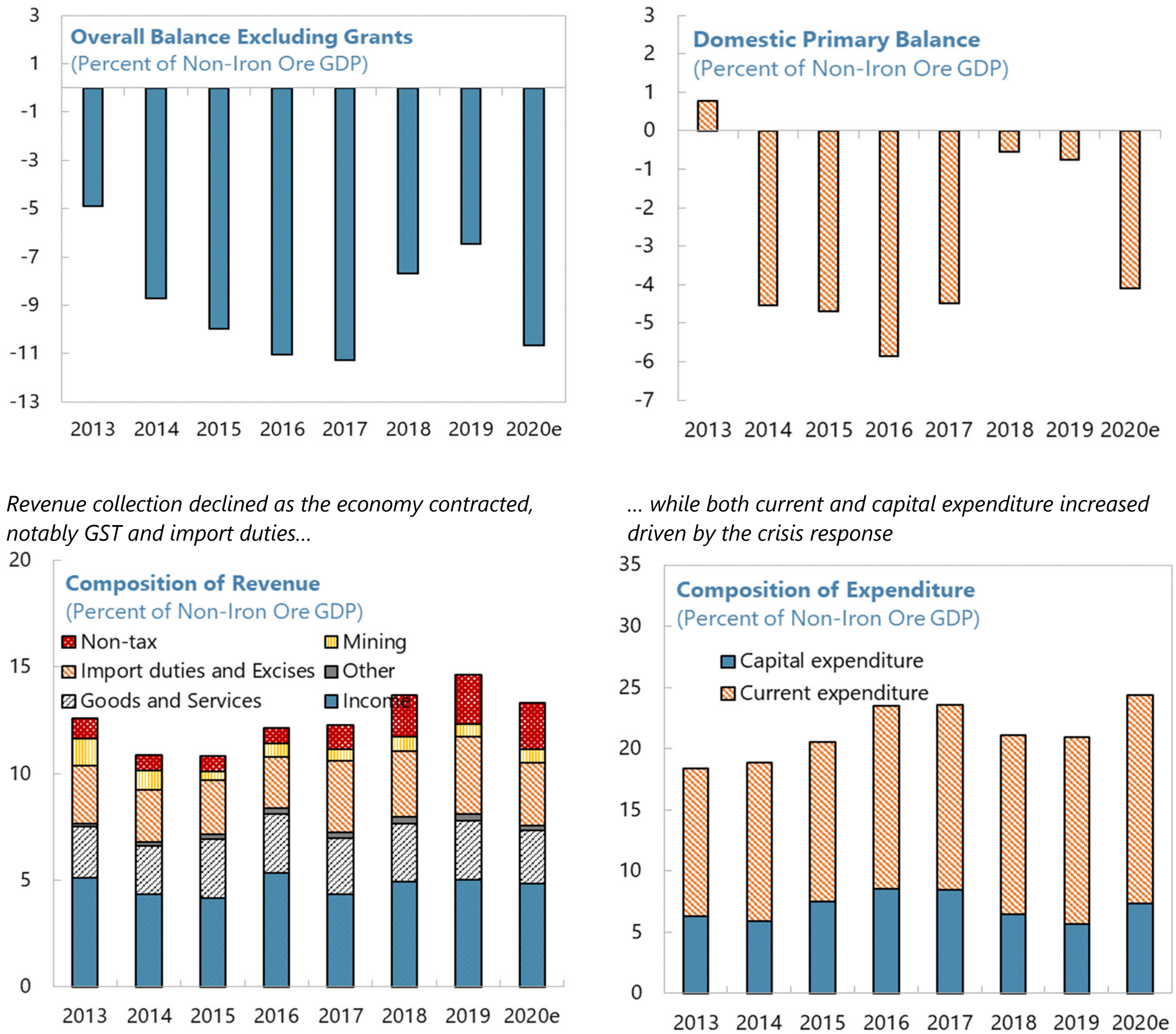


Sources: Sierra Leonean authorities and IMF staff calculations.

Figure 2. Sierra Leone: Fiscal Sector, 2013–2020

The overall deficit excl. grants widened in 2020…

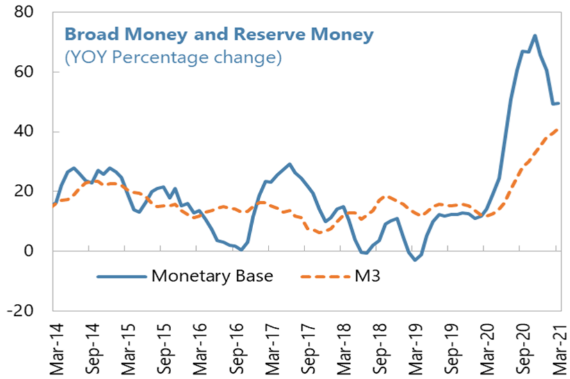
…as did the domestic primary deficit, reflecting the COVID-19 response.



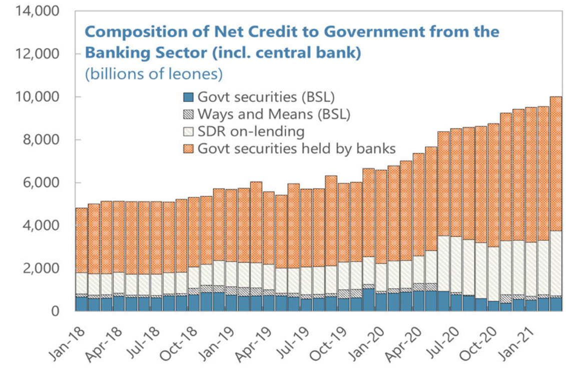
Source: Sierra Leonean authorities and IMF staff calculations.

Figure 3. Sierra Leone: Monetary and Financial Indicators, 2013–21

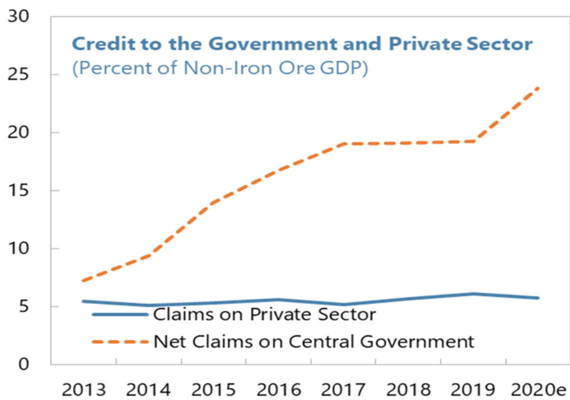
Monetary aggregates expanded significantly in 2020, due to FX inflows and domestic financing for the government…



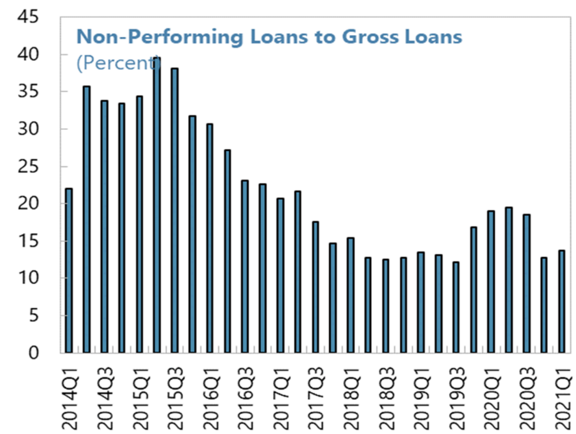
…. mainly from securities issuance and SDR on-lending.



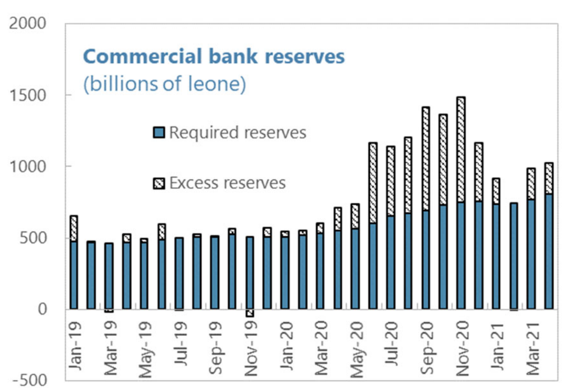
Despite high money growth, private sector credit growth was muted….



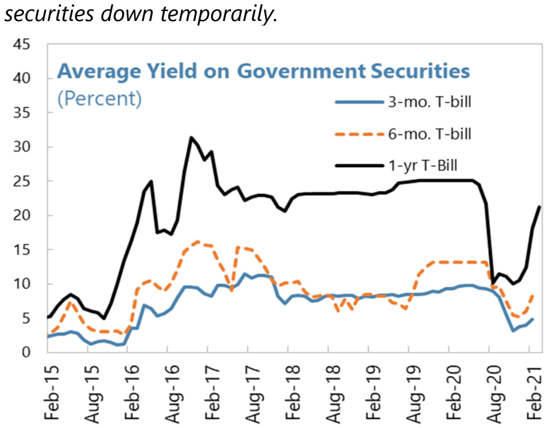
… and NPLs fell towards the end of 2020, due to both recoveries and write-offs.



There was excess liquidity in 2020H2….



…which helped to push interest rates on government securities down temporarily.



Sources: Bank of Sierra Leone and IMF staff calculations

Table 2. Sierra Leone: Selected Economic Indicators

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			RCF2 1/	Est.	RCF2 1/	Proj.					
	(Annual percent change, unless otherwise indicated)										
National account and prices											
Growth											
GDP at constant prices	3.5	5.5	-2.2	-2.2	3.0	3.2	5.9	4.4	4.9	4.8	4.2
GDP excluding Iron ore	5.5	5.3	-2.0	-2.0	2.4	2.6	3.1	4.4	4.9	4.8	4.4
GDP excluding mining	3.8	5.0	-1.1	-1.2	2.4	2.5	3.9	4.1	4.3	4.5	4.5
GDP Deflator	12.7	8.6	13.9	13.8	11.9	11.8	10.5	9.5	8.3	6.9	5.3
Inflation											
Consumer prices (end-of-period)	14.2	13.9	10.4	10.4	13.3	13.9	12.0	10.8	9.8	8.0	6.0
Consumer prices (average)	16.0	14.8	13.4	13.4	10.4	10.7	13.0	11.4	10.3	8.9	7.0
External sector											
Terms of trade (deterioration -)	-10.4	-5.2	15.0	15.5	-1.2	-5.2	-2.2	2.1	0.6	0.4	0.6
Exports of goods	-2.0	4.4	-10.6	-36.5	39.6	63.9	14.6	17.2	11.6	8.5	3.1
Imports of goods	0.6	14.7	-12.0	-12.0	6.6	6.9	3.2	2.5	3.5	4.0	4.5
Gross international reserves (excluding swaps, months of next year's imports)	3.2	3.9	4.7	4.7	4.7	4.3	3.4	2.9	2.5	2.2	1.9
Money, credit and reserves											
Domestic credit to the private sector	30.6	22.9	1.6	4.9	22.8	15.6	19.9	17.5	14.7	20.6	19.4
Domestic credit to the private sector in percent of non-iron GDP	5.6	6.1	5.6	5.8	5.9	5.8	6.1	6.2	6.2	6.6	7.1
Base money	6.5	12.4	61.3	54.8	6.4	7.6	1.4	11.5	11.8	9.6	8.3
M3	14.5	14.3	33.4	38.2	13.4	14.0	6.6	11.5	11.8	9.6	8.3
Gross international reserves (excluding swaps, US$ millions)	481	507	677	677	695	652	532	470	430	392	354
Net international reserves (excluding swaps, US$ millions)	105	126	170	159	100	80	-24	-44	-15	19	57
	(Percent of non-iron ore GDP, unless otherwise indicated)										
National accounts											
Gross capital formation	16.9	16.2	15.8	16.3	17.5	15.4	16.7	17.8	18.8	18.0	17.6
Government	6.4	5.7	7.3	7.3	8.1	6.4	6.7	6.8	6.8	6.0	5.6
Private	10.5	10.5	8.5	9.0	9.4	9.0	10.0	11.0	12.0	12.0	12.0
National savings	-1.7	-6.1	0.8	-0.4	3.1	-0.2	0.8	4.3	6.3	6.3	5.6
Financing and debt											
Public debt	69.1	71.8	72.0	73.7	71.3	73.0	72.5	70.7	67.8	64.0	60.5
Domestic	27.9	27.6	26.2	25.7	22.5	22.0	20.9	19.8	18.9	17.9	17.4
External public debt (including IMF)	41.2	44.2	45.8	48.0	48.8	51.1	51.6	50.9	48.9	46.0	43.1
External sector											
Current account balance											
(including official grants)	-18.6	-22.3	-15.0	-16.7	-14.4	-15.6	-15.9	-13.6	-12.4	-11.7	-12.0
(excluding official grants)	-20.1	-24.2	-19.8	-21.5	-16.9	-19.0	-18.4	-16.6	-15.4	-14.6	-14.8
Central government budget											
Domestic primary balance 2/	-0.5	-0.8	-4.0	-4.1	-1.5	-2.1	0.3	1.0	1.8	1.9	1.8
Overall balance	-5.6	-3.1	-5.5	-5.6	-4.2	-3.8	-2.8	-2.1	-1.1	-0.7	-0.4
Overall balance (excluding grants)	-7.7	-6.5	-10.6	-10.7	-9.4	-8.3	-6.9	-6.5	-5.6	-4.5	-3.4
Revenue (excluding grants) 3/	13.7	14.6	13.3	13.3	13.4	14.1	14.2	14.3	14.7	15.1	15.3
Grants	2.1	3.4	5.1	5.1	5.3	4.5	4.1	4.4	4.5	3.8	3.1
Total expenditure and net lending	21.4	21.1	24.8	24.9	23.5	23.1	21.5	20.8	20.3	19.6	18.7
Memorandum item:											
GDP at market prices (billions of Leone)	32,402	37,138	41,365	41,341	48,534	47,583	56,316	64,966	74,646	84,744	94,436
Excluding iron ore	32,402	37,041	41,365	41,341	47,865	47,055	53,823	62,080	71,223	80,789	89,990
Excluding iron ore in millions of US$	4,085	4,108	4,204	4,201	4,361	4,302	4,267	4,338	4,478	4,682	4,929
Per capita GDP (US$)	534	527	527	527	542	534	537	535	541	555	573
National currency per US dollar (average)	7,932	9,016	9,840	9,840	...	..	..	..	..	..	..
National currency per US dollar (EOP)	8,396	9,716	10,133	10,133	...	..	..	..	..	..	..

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

1/ See *Sierra Leone: Request for Disbursement under the Rapid Credit Facility* (CR/21/58), March 2021

2/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed capital spending, and arrears paydown from grants.

3/ Excludes transfers related to CCRT debt relief from 2020 through 2022

Table 3a. Sierra Leone: Fiscal Operations of the Central Government
(Billions of Leone)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Act.	Est.	RCF2 1/	Prel.	RCF2 1/	Proj.			Proj.		
Total revenue and grants	**5109**	**6666**	**7980**	**7974**	**9271**	**9076**	**10067**	**11616**	**13676**	**15225**	**16,533**
Revenue	4428	5418	5507	5501	6415	6642	7637	8885	10481	12194	13,785
Tax revenue	3809	4562	4606	4613	5466	5574	6379	7476	8940	10419	11,823
Personal Income Tax	1158	1516	1665	1408	2007	1661	1904	2231	2609	3008	3,393
Corporate Income Tax	438	339	334	584	399	673	805	945	1135	1319	1,505
Goods and Services Tax	886	1025	1033	1046	1218	1224	1464	1679	2004	2354	2,712
Excises	358	603	579	577	685	663	787	916	1052	1194	1,331
Import duties	650	730	643	644	765	766	902	1039	1277	1520	1,745
Mining royalties and licenses	223	232	254	258	275	472	375	491	633	756	829
Other taxes	95	117	96	96	117	114	142	176	230	267	308
Non-tax	620	855	900	887	949	1068	1258	1409	1541	1775	1,962
Other, Capital Transfers from BSL (CCRT Debt Relief)	…	…	352	352	331	335	213	0	0	0	0
Grants	680	1249	2122	2122	2524	2099	2217	2731	3195	3031	2,748
Budget support	225	745	1525	1525	713	1138	820	1288	1451	1597	1,715
Project grants	455	504	597	597	1811	960	1396	1443	1743	1434	1033
Expenditures and net lending	**6920**	**7814**	**10249**	**10274**	**11269**	**10868**	**11577**	**12934**	**14487**	**15799**	**16,849**
Current expenditures	4748	5653	7050	7067	7230	7660	7929	8491	9364	10557	11,487
Wages and salaries 2/	2057	2576	3276	3264	3510	3663	3702	3914	4314	4894	5,409
Goods and services	1155	1180	1390	1423	1164	1164	1264	1545	1739	2010	2,268
Subsidies and transfers	629	912	1174	1171	1278	1555	1398	1421	1604	1919	2,196
Interest	906	986	1209	1209	1278	1278	1566	1612	1708	1734	1,614
Domestic	812	886	1089	1089	1139	1139	1388	1391	1430	1408	1,254
Foreign	95	100	120	120	138	138	178	221	278	326	361
Capital Expenditure	2083	2096	3020	3026	3870	3017	3622	4237	4833	4883	5,034
Foreign financed	1409	1132	1709	1709	2689	1836	2532	2874	3334	3159	2,845
Domestic financed	674	964	1311	1317	1181	1181	1090	1363	1499	1724	2,190
Net lending	0	0	0	0	0	0	0	0	0	0	0
Contingent expenditure	89	65	21	22	20	43	26	21	30	100	100
Arrears Paydown (cash)			159	159	149	149	0	186	260	260	228
Domestic primary balance 3/	-176	-279	-1666	-1697	-738	-965	158	622	1296	1547	1,622
Overall balance including grants	-1811	-1148	-2269	-2300	-1998	-1793	-1510	-1318	-811	-574	-316
Overall balance excluding grants	-2492	-2396	-4391	-4422	-4523	-3891	-3726	-4049	-4006	-3605	-3,065
Financing	**1811**	**1148**	**2269**	**2300**	**1998**	**1793**	**1510**	**1318**	**811**	**574**	**316**
External financing (net)	714	282	692	692	244	240	351	507	444	452	452
Borrowing	1023	634	1112	1112	878	875	1135	1431	1591	1725	1,812
Projects	1023	634	1112	1112	878	875	1135	1431	1591	1725	1,812
Budget	0	0	0	0	0	0	0	0	0	0	0
Amortization	-309	-352	-420	-420	-634	-635	-784	-924	-1146	-1274	-1,360
Domestic financing (net)	1097	865	1512	1542	676	1366	1198	892	456	182	-73
Total Banking Sector (net)	999	942	2860	2740	1220	1775	1366	1076	656	182	-73
Banks, net of onlending	817	819	1631	1510	1361	893	1193	1266	1316	1031	1049
SDR onlending, Net	183	123	1229	1230	-140	882	173	-189	-661	-848	-1121
of which, exceptional financing-RCF	0	0	1392	1392	0	508	0	0	0	0	0
Non-Bank Sector	440	-77	-48	-53	-284	-148	-168	-184	-199	0	0
Government Securities, General	5	174	112	107	0	135	0	0	0	0	0
Government Securities, Arrears-Related	435	-251	-160	-160	-284	-283	-168	-184	-199	0	0
o/w Pre-Arrears Strategy	435	-251	-160	-160	-430	-429	-119	-135	-150	0	0
o/w Post-Arrears Strategy	0	0	0	0	146	146	-49	-49	-49	0	0
Other 4/	-342	0	-1300	-1145	-261	-261	0	0	0	0	0
G20 debt initiative (deferment)	…	…	65	65	101	186	0	0	0	0	0
G20 debt initiative (payment)	…	…	0	0	0	0	-39	-81	-90	-60	-63
Financing Gap	…	…	0	0	978	0	0	0	0	0	0
Memorandum item:											
Change in unpaid checks (+ = accumulation)	265	208	…	…	…	…	…	…	…	…	…
Total Stock of Arrears	3377	3586	…	2508	…	…	…	…	…	…	…

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ See *Sierra Leone: Request for Disbursement under the Rapid Credit Facility* (CR/21/58), March 2021
2/ Starting in 2019, tertiary education wages are classified in the wage bill rather than under subsidies and transfers.
3/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed capital spending, and arrears paydown.
4/ In CR No 19/217 and prior, "other" includes the non-bank sector. 2018 onward, "other" includes the corresponding transaction for securities issued to reduce the stock of arrears.

Table 3b. Sierra Leone: Fiscal Operations of the Central Government
(Percent of non-iron ore GDP)

	2018	2019		2020	2021		2022	2023	2024	2025	2026
	Act.	Act.	RCF2 1/	Prel.	RCF2 1/	Proj.			Proj.		
Total revenue and grants	**15.8**	**18.0**	**19.3**	**19.3**	**19.4**	**19.3**	**18.7**	**18.7**	**19.2**	**18.8**	**18.4**
Revenue	13.7	14.6	13.3	13.3	13.4	14.1	14.2	14.3	14.7	15.1	15.3
Tax revenue	11.8	12.3	11.1	11.2	11.4	11.8	11.9	12.0	12.6	12.9	13.1
Personal Income Tax	3.6	4.1	4.0	3.4	4.2	3.5	3.5	3.6	3.7	3.7	3.8
Corporate Income Tax	1.4	0.9	0.8	1.4	0.8	1.4	1.5	1.5	1.6	1.6	1.7
Goods and Services Tax	2.7	2.8	2.5	2.5	2.5	2.6	2.7	2.7	2.8	2.9	3.0
Excises	1.1	1.6	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.5
Import duties	2.0	2.0	1.6	1.6	1.6	1.6	1.7	1.7	1.8	1.9	1.9
Mining royalties and licenses	0.7	0.6	0.6	0.6	0.6	1.0	0.7	0.8	0.9	0.9	0.9
Other taxes	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Non-tax	1.9	2.3	2.2	2.1	2.0	2.3	2.3	2.3	2.2	2.2	2.2
Other, Capital Transfers from BSL (CCRT Debt Relief)	…	…	0.9	0.9	0.7	0.7	0.4	0.0	0.0	0.0	0.0
Grants	2.1	3.4	5.1	5.1	5.3	4.5	4.1	4.4	4.5	3.8	3.1
Budget support	0.7	2.0	3.7	3.7	1.5	2.4	1.5	2.1	2.0	2.0	1.9
Project grants	1.4	1.4	1.4	1.4	3.8	2.0	2.6	2.3	2.4	1.8	1.1
Expenditures and net lending	**21.4**	**21.1**	**24.8**	**24.9**	**23.5**	**23.1**	**21.5**	**20.8**	**20.3**	**19.6**	**18.7**
Current expenditures	14.7	15.3	17.0	17.1	15.1	16.3	14.7	13.7	13.1	13.1	12.8
Wages and salaries 2/	6.3	7.0	7.9	7.9	7.3	7.8	6.9	6.3	6.1	6.1	6.0
Goods and services	3.6	3.2	3.4	3.4	2.4	2.5	2.3	2.5	2.4	2.5	2.5
Subsidies and transfers	1.9	2.5	2.8	2.8	2.7	3.3	2.6	2.3	2.3	2.4	2.4
Interest	2.8	2.7	2.9	2.9	2.7	2.7	2.9	2.6	2.4	2.1	1.8
Domestic	2.5	2.4	2.6	2.6	2.4	2.4	2.6	2.2	2.0	1.7	1.4
Foreign	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Capital Expenditure	6.4	5.7	7.3	7.3	8.1	6.4	6.7	6.8	6.8	6.0	5.6
Foreign financed	4.3	3.1	4.1	4.1	5.6	3.9	4.7	4.6	4.7	3.9	3.2
Domestic financed	2.1	2.6	3.2	3.2	2.5	2.5	2.0	2.2	2.1	2.1	2.4
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent expenditure	0.3	0.2	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.1	0.1
Arrears Paydown (cash)	…	…	0.4	0.4	0.3	0.3	0.0	0.3	0.4	0.3	0.3
Domestic primary balance 3/	-0.5	-0.8	-4.0	-4.1	-1.5	-2.1	0.3	1.0	1.8	1.9	1.8
Overall balance including grants	-5.6	-3.1	-5.5	-5.6	-4.2	-3.8	-2.8	-2.1	-1.1	-0.7	-0.4
Overall balance excluding grants	-7.7	-6.5	-10.6	-10.7	-9.4	-8.3	-6.9	-6.5	-5.6	-4.5	-3.4
Financing	**5.6**	**3.1**	**5.5**	**5.6**	**4.2**	**3.8**	**2.8**	**2.1**	**1.1**	**0.7**	**0.4**
External financing (net)	2.2	0.8	1.7	1.7	0.5	0.5	0.7	0.8	0.6	0.6	0.5
Borrowing	3.2	1.7	2.7	2.7	1.8	1.9	2.1	2.3	2.2	2.1	2.0
Projects	3.2	1.7	2.7	2.7	1.8	1.9	2.1	2.3	2.2	2.1	2.0
Budget	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.0	-1.0	-1.0	-1.0	-1.3	-1.3	-1.5	-1.5	-1.6	-1.6	-1.5
Domestic financing (net)	3.4	2.3	3.7	3.7	1.4	2.9	2.2	1.4	0.6	0.2	-0.1
Total Banking Sector (net)	3.1	2.5	6.9	6.6	2.5	3.8	2.5	1.7	0.9	0.2	-0.1
Banks, net of onlending	2.5	2.2	3.9	3.7	2.8	1.9	2.2	2.0	1.8	1.3	1.2
SDR onlending, Net	0.6	0.3	3.0	3.0	-0.3	1.9	0.3	-0.3	-0.9	-1.1	-1.2
of which, exceptional financing-RCF			3.4	3.4	0.0	1.1	0.0	0.0	0.0	0.0	0.0
Non-Bank Sector	1.4	-0.2	-0.1	-0.1	-0.6	-0.3	-0.3	-0.3	-0.3	0.0	0.0
Government Securities, General	0.0	0.5	0.3	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Government Securities, Arrears-Related	1.3	-0.7	-0.4	-0.4	-0.6	-0.6	-0.3	-0.3	-0.3	0.0	0.0
o/w Pre-Arrears Strategy	1.3	-0.7	-0.4	-0.4	-0.9	-0.9	-0.2	-0.2	-0.2	0.0	0.0
o/w Post-Arrears Strategy	0.0	0.0	0.0	0.0	0.3	0.3	-0.1	-0.1	-0.1	0.0	0.0
Other 4/	-1.1	0.0	-3.1	-2.8	-0.5	-0.6	0.0	0.0	0.0	0.0	0.0
G20 debt initiative (deferment)	…	…	0.2	0.2	0.2	0.4	0.0	0.0	0.0	0.0	0.0
G20 debt initiative (payment)	…	…	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Financing Gap	…	…	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:											
Change in unpaid checks (+ = accumulation)	0.8	0.6	…	…	…	…	…	…	…	…	…
Total Stock of Arrears	10.4	9.7		…	…	…	…	…	…	…	..
Non-iron ore GDP (Le billions)	32,402	37,041	41,365	41,341	47,865	47,055	53,823	62,080	71,223	80,789	89,990

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

1/ See Sierra Leone: Request for Disbursement under the Rapid Credit Facility (CR/21/58), March 2021

2/ Starting in 2019, tertiary education wages are classified in the wage bill rather than under subsidies and transfers.

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

4/Other includes the corresponding transaction for securities issued to reduce the stock of arrears.

Table 4. Sierra Leone: Fiscal Operations of the Central Government on a Quarterly Basis

(Billions of Leone)

	2021					2022				
	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	annual	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	annual
Revenue	**1637**	**1646**	**1565**	**1793**	**6642**	**1951**	**1988**	**1703**	**1995**	**7637**
Personal Income Tax	441	403	401	417	1661	473	481	460	490	1904
Corporate Income Tax	170	187	139	176	673	168	241	175	221	805
Goods and Services Tax	310	297	295	322	1224	360	374	349	381	1464
Excises	147	131	191	195	663	194	203	184	205	787
Import Duties	182	181	195	207	766	225	230	213	234	902
Other	387	447	343	478	1654	530	459	322	464	1775
Other, Capital Transfers from BSL (CCRT Debt Relief)	**0**	**241**	**0**	**94**	**335**	**166**	**47**	**0**	**0**	**213**
Grants	**488**	**173**	**248**	**1191**	**2099**	**168**	**251**	**1180**	**618**	**2217**
o/w Budget Support	270	0	0	868	1138	0	0	820	0	820
Expenditure	**3309**	**2538**	**2439**	**2582**	**10868**	**2543**	**2883**	**2988**	**3162**	**11577**
Wages 1/	914	916	916	918	3663	925	925	925	925	3702
Goods and Services	562	215	233	154	1164	199	234	404	427	1264
Subsidies and Transfers	401	346	398	410	1555	291	363	426	318	1398
Other	43	0	0	0	43	6	6	6	6	26
Interest	413	293	314	258	1278	415	361	378	411	1566
Capital Expenditure	910	746	556	805	3017	706	993	848	1074	3622
Foreign	380	509	435	510	1836	379	688	663	802	2532
Domestic	530	236	120	295	1181	327	305	185	273	1090
Arrears Paydown (cash)	67	22	22	37	149	0	0	0	0	0
Domestic primary balance 2/	**-812**	**-67**	**-103**	**17**	**-965**	**202**	**154**	**-244**	**46**	**158**
Overall Balance incl. grants	-1184	-477	-627	496	-1793	-259	-597	-105	-549	-1510
Financing	**1184**	**477**	**627**	**-496**	**1793**	**259**	**597**	**105**	**549**	**1510**
Foreign	93	165	62	-80	240	22	147	193	-12	351
Disbursement (Projects)	163	337	234	142	875	211	437	303	184	1135
Disbursement (Budget)	0	0	0	0	0	0	0	0	0	0
Amortization	-70	-171	-171	-222	-635	-189	-289	-110	-197	-784
Domestic	1059	250	529	-473	1366	236	463	-88	588	1198
Total Banking Sector, Net	665	397	795	-82	1775	259	499	-76	686	1366
o/w Banks, net of onlending	157	500	292	-56	893	329	325	2	538	1193
o/w SDR onlending, Net	508	-103	503	-26	882	-71	174	-78	148	173
o/w RCF disbursement	508	0	0	0	508	0	0	0	0	0
o/w regular on-lending, Net	0	-103	503	-26	374	-71	174	-78	148	173
Non-Bank	135	-73	-83	-127	-148	-23	-36	-12	-97	-168
Government Securities, General	135	20	10	-31	135	0	0	0	0	0
Government Securities, Arrears-Related	0	-93	-93	-96	-283	-23	-36	-12	-97	-168
o/w Pre-Arrears Strategy	0	-142	-142	-146	-429	-17	-17	1	-86	-119
o/w Post-Arrears Strategy	0	48	48	50	146	-6	-19	-13	-11	-49
Other 3/	259	-74	-183	-263	-261	0	0	0	0	0
Change in Unpaid Checks	394	-209	-183	-263	-261	0	0	0	0	0
Change in Arrears (Timing Discrepancy)	0	0	0	0	0	0	0	0	0	0
Statistical Discrepancy (- = overfinanced)	-134	134	0	0	0	0	0	0	0	0
G20 Debt Initiative (Deferment)	32	63	35	56	186	0	-13	0	-27	-39
Financing Gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Total Bank Financing, excluding special bonds 4/	0	0	0	…	…	0	0	0	0	…

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

1/ Starting in 2019, tertiary education wages are classified in the wage bill rather than under subsidies and transfers.

2/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed capital spending, and arrears paydown from grants.

3/ 2018 onward, "other" includes the corresponding transaction for securities issued to reduce the stock of arrears.

4/ Special bonds, as defined in the TMU, are excluded from the program definition of NCG but are included in and impact the overall availability of financing

Table 5. Sierra Leone: Monetary Accounts[1]

(Billions of Leone, unless otherwise indicated)

	2018	2019	2020				2021				2022				2023
	Act.	Act	Act.				Est.	Proj.			Proj.				
	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Proj.
					I. Monetary Survey										
Net foreign assets	**2685**	**2974**	**3068**	**3241**	**3918**	**4189**	**4121**	**3811**	**3163**	**3899**	**3511**	**3264**	**3530**	**3098**	**3237**
Net domestic assets	**4780**	**5559**	**5517**	**6297**	**6664**	**7602**	**8158**	**8486**	**9188**	**9547**	**9959**	**10425**	**10281**	**11235**	**12740**
Net domestic credit	**8039**	**9287**	**9886**	**10901**	**11093**	**12082**	**12946**	**13313**	**14056**	**14230**	**14685**	**15150**	**14992**	**16145**	**17798**
Claims on central government (net) 2/	6190	7133	7581	8647	8874	9873	10538	10935	11730	11648	11906	12405	12329	13014	14090
Claims on private sector	1845	2269	2367	2398	2385	2380	2577	2547	2494	2752	2949	2915	2833	3301	3878
Claims on others 3/	3	-115	-61	-144	-166	-170	-169	-169	-169	-170	-170	-170	-170	-170	-170
Other items (net)	-3259	-3728	-4369	-4604	-4428	-4481	-4788	-4827	-4868	-4683	-4726	-4725	-4711	-4910	-5058
Money and quasi-money (M3)	**7465**	**8533**	**8585**	**9538**	**10583**	**11791**	**12279**	**12297**	**12351**	**13447**	**13470**	**13690**	**13811**	**14333**	**15977**
					II. Bank of Sierra Leone										
Net foreign assets	**879**	**1223**	**1261**	**1284**	**1791**	**1608**	**1279**	**874**	**130**	**937**	**433**	**71**	**221**	**-326**	**-665**
Net domestic assets	**1554**	**1513**	**1405**	**2391**	**2217**	**2627**	**2863**	**3225**	**3797**	**3622**	**3912**	**4345**	**4234**	**4949**	**5819**
Net domestic credit 4/	**2872**	**3255**	**2951**	**4018**	**3850**	**4262**	**4698**	**5112**	**5738**	**5512**	**5811**	**6260**	**6153**	**6978**	**7808**
Claims on other depository corporations	7	234	15	215	392	505	404	961	1109	623	1199	1463	1436	1894	2802
Claims on central government	2839	3004	2921	3803	3452	3750	4293	4150	4628	4884	4606	4791	4710	5079	5000
Other items (net) 5/	-1317	-1743	-1546	-1627	-1633	-1635	-1835	-1886	-1940	-1890	-1898	-1915	-1919	-2029	-1989
Reserve money	**2433**	**2735**	**2666**	**3675**	**4008**	**4235**	**4141**	**4099**	**3927**	**4558**	**4345**	**4416**	**4455**	**4624**	**5154**
Memorandum items:															
		(Annual percent change unless otherwise indicated)													
Base money	6.5	12.4	19.6	55.5	74.8	54.8	55.4	11.5	-2.0	7.6	4.9	7.7	13.4	1.4	11.5
M3	14.5	14.3	13.6	20.4	30.9	38.2	43.0	28.9	16.7	14.0	9.7	11.3	11.8	6.6	11.5
Credit to the private sector (growth)	30.6	22.9 ..	14.2	9.9	3.9	4.9	8.9	6.2	4.6	15.6	14.4	14.5	13.6	19.9	17.5
Velocity 6/	4.3	4.6	...	...	...	4.1	...	...	...	3.7	..	..	..	3.9	4.1
Money multiplier (M3/base money)	3.1	3.1	...	...	...	2.8	3.0	3.0	3.1	2.9	3.1	3.1	3.1	3.1	3.1
Credit to the private sector (in percent of non iron ore GDP)	5.7	6.1	...	...	...	5.8	...	...	...	5.8	...	...	...	6.1	6.2
Nominal exchange rate, average (Leones/US $)	8,430	9,016	9,763	9,746	9,840	10,196	10,211	...	...	.	..	..	..	..	..
Nominal exchange rate, end of period (Leones/US $)	8,396	9,716	9,763	9,741	9,828	10,133	10,232	...	...	..	..	..	..	..	..

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

1/ End of period.

2/ The large increase in 2020 reflects the RCF disbursement, which is onlent from the central bank to the ministry of finance.

3/ Include other financial corporations, public enterprises and the local government.

4/ Includes SDR onlending.

5/ Includes valuation.

6/ Velocity is calculated as non-iron ore GDP /the average of M3 at the end of the current year and the preceding year.

Table 6. Sierra Leone: Balance of Payments

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

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			RCF2 1/	Est.	RCF2 1/	Proj.			Proj.		
Current account	**-761.8**	**-915.4**	**-629.9**	**-702.8**	**-629.3**	**-673.1**	**-678.1**	**-588.4**	**-556.9**	**-549.3**	**-591.9**
Trade balance	-570.8	-720.9	-625.0	-797.7	-469.1	-611.3	-551.2	-448.2	-388.1	-355.5	-387.1
Exports, f.o.b.	639.2	667.1	596.5	423.9	832.5	694.9	796.4	933.5	1,042.0	1,131.1	1,166.2
of which: Diamonds	156.0	167.6	160.8	119.5	162.0	177.2	174.1	177.4	231.5	278.3	287.7
Iron ore	13.1	13.5	0.0	0.0	152.6	134.9	375.1	401.2	428.6	457.0	465.9
Rutile and ilmenite	64.5	152.6	150.9	131.2	184.7	141.2	0.0	78.7	94.6	99.9	104.9
Imports, f.o.b	-1,210.0	-1,388.0	-1,221.5	-1,221.5	-1,301.6	-1,306.1	-1,347.7	-1,381.7	-1,430.1	-1,486.6	-1,553.3
of which: Oil	-208.6	-188.7	-185.6	-185.6	-243.8	-300.1	-309.6	-306.7	-310.5	-318.0	-327.0
Services (net)	-304.9	-355.4	-288.9	-272.0	-353.6	-340.6	-371.9	-412.0	-445.1	-475.6	-493.4
Income (net)	-68.8	-68.3	-69.5	-70.9	-73.8	-71.9	-74.6	-77.4	-81.1	-85.5	-89.9
of which: Interest on public debt	-11.9	-11.0	-12.5	-13.9	-13.8	-12.9	-14.1	-15.9	-17.5	-18.9	-19.7
Transfers	182.6	229.1	353.4	437.7	267.2	350.6	319.7	349.2	357.4	367.3	378.5
Official transfers (net)	61.1	80.3	201.0	199.4	108.0	144.4	107.6	132.3	133.5	134.8	136.2
Other transfers (net)	121.6	148.9	152.4	238.3	159.2	206.2	212.0	216.9	223.9	232.5	242.2
Capital and financial account	**257.4**	**620.5**	**384.5**	**357.3**	**483.4**	**535.3**	**560.5**	**539.3**	**551.3**	**547.2**	**593.5**
Capital account	66.3	81.5	87.5	87.5	193.3	115.6	139.2	129.8	139.6	114.5	89.7
of which: Project support grants	48.7	55.1	60.6	60.6	165.0	87.8	110.7	100.8	109.6	83.1	56.6
Financial account	191.2	539.0	296.9	269.8	290.2	419.7	421.2	409.5	411.7	432.7	503.9
Foreign direct and portfolio investment	250.5	342.4	256.9	276.5	269.2	395.3	395.1	377.9	389.2	412.0	488.8
Other investment	-59.3	196.5	40.0	-6.7	20.9	24.5	26.2	31.6	22.5	20.7	15.1
of which: Public sector (net)	82.7	154.1	59.0	67.8	22.2	22.0	27.8	35.4	27.9	26.2	24.8
Disbursements	120.8	193.1	113.0	113.0	80.0	80.0	90.0	100.0	100.0	100.0	99.2
Amortization	-38.1	-39.0	-54.0	-45.3	-57.8	-58.0	-62.2	-64.6	-72.1	-73.8	-74.5
Errors and omissions	**480.7**	**316.1**	**250.0**	**350.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-23.7**	**21.2**	**4.5**	**4.5**	**-145.9**	**-137.8**	**-117.7**	**-49.1**	**-5.6**	**-2.1**	**1.6**
Financing	**23.7**	**-21.2**	**-4.5**	**-4.5**	**59.7**	**137.8**	**117.7**	**14.1**	**-34.4**	**-37.9**	**-41.6**
Change in net central bank reserves (- increase)	23.7	-21.2	-46.7	-46.7	19.8	90.1	103.9	19.8	-28.8	-34.4	-38.1
of which: Change in gross central bank reserves (- increase)	20.1	-25.9	-170.6	-170.6	-17.3	24.8	120.0	62.1	40.2	37.9	38.5
of which: Net use of Fund credit	3.6	4.7	123.9	123.9	37.1	65.3	-16.1	-42.3	-69.0	-72.3	-76.7
Disbursements	22.0	21.5	166.1	166.1	67.7	95.7	45.4	22.9	0.0	0.0	0.0
Repayments	-18.4	-16.8	-42.2	-42.2	-30.6	-30.4	-61.6	-65.3	-69.0	-72.3	-76.7
Exceptional financing	0.0	0.0	42.2	42.2	39.8	47.7	13.8	-5.6	-5.6	-3.5	-3.5
CCRT first tranche	…	…	18.6	18.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CCRT second tranche	…	…	17.0	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CCRT third tranche	…	…	…	…	…	21.8	0.0	0.0	0.0	0.0	0.0
Remaining CCRT 2/	…	…	0.0	0.0	30.6	8.7	16.9	0.0	0.0	0.0	0.0
DSSI (deferment)	…	…	6.6	6.6	9.2	17.3	0.0	0.0	0.0	0.0	0.0
DSSI (repayment)	…	…	0.0	0.0	0.0	0.0	-3.1	-5.6	-5.6	-3.5	-3.5
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**86.2**	**0.0**	**0.0**	**35.0**	**40.0**	**40.0**	**40.0**
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	35.0	40.0	40.0	40.0
Second RCF disbursement (prospective at the time of RCF-2)	…	…	…	…	51.2	…	…	…	…	…	…
World Bank budget support grant (prospective at the time of RCF-2)	…	…	…	…	35.0	…	…	…	…	…	…
Memorandum items											
(Percent of non-iron ore GDP unless otherwise indicated)											
Current account	-18.6	-22.3	-15.0	-16.7	-14.4	-15.6	-15.9	-13.6	-12.4	-11.7	-12.0
Trade balance	-14.0	-17.5	-14.9	-19.0	-10.8	-14.2	-12.9	-10.3	-8.7	-7.6	-7.9
Capital and financial account	6.3	15.1	9.1	8.5	11.1	12.4	13.1	12.4	12.3	11.7	12.0
Overall balance	-0.6	0.5	0.1	0.1	-3.3	-3.2	-2.8	-1.1	-0.1	0.0	0.0
Budget support (grants and loans)	0.7	2.0	3.7	3.7	1.5	2.4	1.5	2.1	2.0	2.0	1.9
Budget support (grants and loans, US$ millions)	27.7	83.9	156.4	156.4	65.0	101.5	65.0	90.0	91.3	92.6	93.9
Gross international reserves (including swaps, US$ millions)	503	533	709	709	696	654	532	470	430	392	354
Gross international reserves (excluding swaps, US$ millions)	481	507	677	677	695	652	532	470	430	392	354
Gross international reserves (excluding swaps, months of next year's imports)	3.2	3.9	4.7	4.7	4.7	4.3	3.4	2.9	2.5	2.2	1.9
National currency per US dollar (average)	7,932	9,016	…	9,840	…	…	…	…	…	…	…

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

1/ See *Sierra Leone: Request for Disbursement under the Rapid Credit Facility* (CR/21/58), March 2021

2/ Subject to the availability of resources.

Table 7. Sierra Leone: External Financing Requirements and Sources
(Millions of U.S. dollars)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			RCF2 1/	Est.	RCF2 1/	Proj.			Proj.		
Financing needs	**-859**	**-1,077**	**-1,098**	**-1,160**	**-843**	**-881**	**-790**	**-788**	**-791**	**-792**	**-841**
Current account balance (excluding net official current transfers)	-823	-996	-831	-902	-737	-818	-786	-721	-690	-684	-728
Debt amortization (excluding IMF)	-38	-39	-54	-45	-58	-58	-62	-65	-72	-74	-74
Gross international reserves accumulation (- increase)	20	-26	-171	-171	-17	25	120	62	40	38	39
Repayments to IMF	-18	-17	-42	-42	-31	-30	-62	-65	-69	-72	-77
Financing sources	**357**	**740**	**639**	**602**	**649**	**738**	**730**	**736**	**757**	**756**	**804**
Capital account	66	82	88	87	193	116	139	130	140	114	90
Disbursements from official creditors (excluding IMF)	121	193	113	113	80	80	90	100	100	100	99
Net official current transfers	61	80	201	199	108	144	108	132	134	135	136
Foreign direct and portfolio investment	250	342	257	277	269	395	395	378	389	412	489
Net acquisition of financial assets of commercial banks (- increase)	11	5	-19	-75	-1	2	-2	-4	-5	-5	-10
Other	-153	38	0	0	0	0	0	0	0	0	0
Errors and omissions	**481**	**316**	**250**	**350**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other financing sources	**22**	**21**	**208**	**208**	**108**	**143**	**59**	**17**	**-6**	**-3**	**-3**
Disbursements from IMF	22	21	166	166	68	96	45	23	0	0	0
Exceptional financing	0	0	42	42	40	48	14	-6	-6	-3	-3
CCRT first tranche	…	…	19	19	0	0	0	0	0	0	0
CCRT second tranche	…	…	17	17	0	0	0	0	0	0	0
CCRT third tranche	…	…	…	…	…	22	0	0	0	0	0
Remainig CCRT	…	…	0	0	31	9	17	0	0	0	0
DSSI (deferment)	…	…	7	7	9	17	0	0	0	0	0
DSSI (repayment)	…	…	0	0	0	0	-3	-6	-6	-3	-3
Financing gap	**0**	**0**	**0**	**0**	**86**	**0**	**0**	**35**	**40**	**40**	**40**
Unidentified financing	0	0	0	0	0	0	0	35	40	40	40
Second RCF disbursement (prospective at the time of RCF-2)	…	…	…	…	51	…	…	…	…	…	…
World Bank budget support grant (prospective at the time of RCF-2)	…	…	…	…	35	…	…	…	…	…	…
Memorandum items											
Gross international reserves (excluding swaps)	481	507	677	677	695	652	532	470	430	392	354
Gross international reserves (excluding swaps, months of next year's imports)	3.2	3.9	4.7	4.7	4.7	4.3	3.4	2.9	2.5	2.2	1.9

Sources: Sierra Leonean authorities; and IMF staff estimates and projections.
1/ See *Sierra Leone: Request for Disbursement under the Rapid Credit Facility* (CR/21/58), March 2021

Table 8. Sierra Leone: Indicators of Capacity to Repay the Fund

			Projection										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Fund obligations based on existing credit (millions of SDRs)													
Principal	21.1	42.1	44.3	46.5	48.5	51.2	41.0	37.1	34.0	19.0	3.5	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
Fund obligations based on existing and prospective credit (millions of SDRs)													
Principal	21.1	42.1	44.3	46.5	48.5	51.2	48.8	51.1	49.6	34.5	19.1	7.8	1.6
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
Fund obligations based on existing and prospective credit													
In millions of SDRs	21.1	42.1	44.3	46.5	48.5	51.2	48.8	51.1	49.6	34.5	19.1	7.8	1.6
In millions of US$	30.4	61.6	65.3	69.0	72.3	76.7	71.7	73.6	69.9	47.8	25.9	10.3	2.0
In percent of exports of goods and services	3.9	7.0	6.4	6.1	5.9	6.1	5.5	5.3	4.8	3.1	1.5	0.6	0.1
In percent of total debt service 1/	30.0	44.7	44.8	43.5	43.8	44.9	42.9	42.0	38.0	28.6	17.1	7.0	1.4
In percent of GDP	0.7	1.4	1.4	1.5	1.5	1.5	1.3	1.3	1.1	0.7	0.4	0.1	0.0
In percent of gross international reserves	4.7	11.6	13.9	16.0	18.4	21.7	18.0	15.2	12.0	6.7	3.4	1.3	0.2
In percent of quota	10.2	20.3	21.4	22.4	23.4	24.7	23.5	24.6	23.9	16.6	9.2	3.8	0.8
Outstanding Fund credit based on existing and prospective credit													
In millions of SDRs	398.4	387.4	358.7	312.2	263.7	212.5	163.6	112.5	63.0	28.4	9.3	1.6	0.0
In millions of US$	574.5	565.9	528.6	462.9	393.0	318.1	240.2	161.9	88.8	39.3	12.7	2.1	0.0
In percent of exports of goods and services	74.3	64.5	52.1	41.1	32.2	25.3	18.4	11.7	6.1	2.6	0.7	0.1	0.0
In percent of total debt service 1/	566.6	410.5	362.8	292.1	238.2	186.1	144.0	92.5	48.3	23.5	8.4	1.4	0.0
In percent of GDP	13.2	12.7	11.6	9.9	8.0	6.2	4.4	2.8	1.4	0.6	0.2	0.0	0.0
In percent of gross international reserves	87.9	106.3	112.4	107.6	100.2	89.9	60.4	33.4	15.3	5.5	1.7	0.3	0.0
In percent of quota	192.1	186.8	172.9	150.5	127.1	102.4	78.9	54.3	30.4	13.7	4.5	0.8	0.0
Net use of Fund credit (millions of SDRs)	45.3	-11.0	-28.7	-46.5	-48.5	-51.2	-48.8	-51.1	-49.6	-34.5	-19.1	-7.8	-1.6
Disbursements	66.4	31.1	15.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	21.1	42.1	44.3	46.5	48.5	51.2	48.8	51.1	49.6	34.5	19.1	7.8	1.6
Memorandum items													
Exports of goods and services (millions of US$)	774	877	1,016	1,127	1,220	1,260	1,304	1,385	1,447	1,527	1,701	1,813	1,926
Total debt service (millions of US$) 1/	101	138	146	159	165	171	167	175	184	167	151	148	144
Nominal GDP (millions of US$)	4,350	4,465	4,539	4,693	4,912	5,173	5,470	5,809	6,191	6,605	7,044	7,511	8,002
Gross international reserves (millions of US$)	654	532	470	430	392	354	398	485	582	718	763	811	859
Quota (millions of SDRs)	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4

Source: IMF staff estimates and projections.

1/ Total debt service includes repayments to IMF.

Table 9. Sierra Leone: Actual and Proposed Disbursements (Before Rephasing) Under the ECF Arrangement 2018−22

Availability	Disbursements		Conditions for Disbursement
	In millions of SDRs	In percent of quota 1/	
November 30, 2018	15.555	7.50	The approval of the ECF arrangement.
June 1, 2019	15.555	7.50	Board completion of the first review based on observance of continous and December 31, 2018 performance criteria
December 1, 2019	15.555	7.50	Board completion of the second review based on observance of continous and June 30, 2019 performance criteria
June 1, 2020	15.555	7.50	Board completion of the third review based on observance of continous and December 31, 2019 performance criteria
December 1, 2020	15.555	7.50	Board completion of the fourth review based on observance of continous and June 30, 2020 performance criteria
June 1, 2021	15.555	7.50	Board completion of the fifth review based on observance of continous and December 31, 2020 performance criteria
December 1, 2021	15.555	7.50	Board completion of the six review based on observance of continous and June 30, 2021 performance criteria
June 1, 2022	15.555	7.50	Board completion of the seventh review based on observance of continous and December 31, 2021 performance criteria
Total disbursements	124.44	**60.00**	

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

Table 10. Sierra Leone: Actual and Proposed Disbursements (After Rephasing) Under the ECF Arrangement 2018–23

Availability	Disbursements In millions of SDRs	Disbursements In percent of quota 1/	Conditions for Disbursement
November 30, 2018	15.555	7.50	The approval of the ECF arrangement.
June 1, 2019	15.555	7.50	Board completion of the first review based on observance of continuous and December 31, 2018 performance criteria
December 1, 2019	15.555	7.50	Board completion of the second review based on observance of continuous and June 30, 2019 performance criteria
June 1, 2020	15.555	7.50	Board completion of the third review based on observance of continuous and December 31, 2019 performance criteria 2/
December 1, 2020	15.555	7.50	Board completion of the fourth review based on observance of continuous and June 30, 2020 performance criteria 2/
June 1, 2022	15.555	7.50	Board completion of the fifth review based on observance of continuous and December 31, 2021 performance criteria
December 1, 2022	15.555	7.50	Board completion of the six review based on observance of continuous and June 30, 2022 performance criteria
June 1, 2023	15.555	7.50	Board completion of the seventh review based on observance of continuous and December 31, 2022 performance criteria
Total disbursements	124.44	**60.00**	

1/ Following the 14th quota review, Sierra Leone doubled its quota at the Fund. The current numbers reflect this increased quo
2/ The third and fourth reviews are combined.

Table 11. Sierra Leone: Financial Soundness Indicators of the Banking System, 2013-21

	2013	2014	2015	2016	2017	2018	2019	2020				2021
								Mar	Jun	Sep	Dec	Mar
	(Percent, end of period, unless otherwise indicated)											
Capital adequacy												
Regulatory capital ratio 1/	30.1	30.2	34.0	34.1	34.1	38.4	41.7	46.8	47.1	44.5	40.1	49.0
Regulatory tier 1 capital ratio 2/	26.3	25.9	29.0	27.2	27.2	29.6	33.9	44.7	43.3	39.1	33.2	47.0
Asset quality												
Nonperforming loans to total gross loans	23.7	35.3	33.2	15.5	15.0	13.0	16.8	19.0	19.5	18.5	12.7	13.7
Nonperforming loans (net of provisions) to regulatory capital	31.7	41.8	31.9	1.2	12.1	9.9	7.2	9.2	8.1	3.1	4.3	4.5
Earnings and profitability												
Return on assets	2.2	2.6	3.2	3.8	5.6	6.0	6.1	6.3	6.4	6.5	6.1	1.4
Return on equity	9.6	15.4	18.0	21.8	29.8	28.6	26.1	27.1	27.1	28.1	25.7	6.2
Interest margin to gross income	59.2	43.5	36.6	51.1	63.2	63.2	66.9	67.9	69.6	68.9	70.0	60.6
Liquidity												
Liquid assets to short-term liabilities	81.3	87.0	87.0	86.0	77.8	82.3	86.8	89.6	93.4	97.5	94.1	..
Liquid assets to total assets	72.5	78.9	83.3	85.5	70.9	69.2	68.4	68.2	70.0	73.2	73.4	76.2
Memorandum Item:												
Number of banks	13	13	13	13	14	14	14	14	14	14	14	14

Source: Bank of Sierra Leone.
1/ Capital requirement over risk-weighted assets (solvency ratio).
2/ Core capital (Tier I) over total assets.

Annex I. Capacity Development Summary

CD Strategy and Priorities

1. **While Sierra Leone's CD Strategy remains anchored in the Government's medium-term development goals, the immediate priorities focus on efforts to address the COVID-19 crisis** (Table A1.1). Priorities emerging from the COVID19 shock largely require expediting existing CD needs, rather than fundamentally altering the focus of CD provision in Sierra Leone. In this regard, the authorities' National Development Plan (NDP), the 2019 Article IV recommendations, and priorities under the 2018 ECF-supported program continue to guide this Strategy. In addition, the strategy for the financial sector is now guided by the 2021 Financial Sector Stability Review (FSSR).

- *The COVID-19 crisis is placing additional pressure on Sierra Leone's already substantial financing needs, limited fiscal space and debt vulnerabilities.* This requires increased emphasis on effective budget formulation, smart management of resources, and the ability to sustainably mobilize revenues. The strategy focuses on: strengthening the medium-term budget framework through better forecasting and modeling of revenue and expenditure; building public finance management capacity to improve the efficiency and effectiveness of public spending; strengthening commitment controls, promoting transparency and accountability in the use of public funds; improving tax policy and limiting tax exemptions, strengthening tax compliance, including with respect to extractive industries and HNWI; and more effective debt management to address ongoing financing and arrears pressures, and limit debt vulnerabilities.

- *Limited transmission of monetary policy to other sectors and previous central bank governance weaknesses motivate the focus on central banking operations and governance.* While persistent fiscal pressures and underdeveloped financial markets limit the effectiveness of monetary policy, this is a longer-term endeavor. The strategy therefore focuses on modernizing monetary policy frameworks over time. The strategy also reflects the importance of maintaining momentum on addressing the central bank governance challenges revealed by the 2017 safeguards assessment and 2019 forensic audit of the BSL and implementing the new banking and BSL Acts.

- *Still high non-performing loans now under pressure from the COVID-19 shock and weaknesses in state-owned banks require increased attention to financial sector supervision and stability.* The FSSR follow-up plan for Sierra Leone focuses on bank supervision, systemic risk, financial stability and macroprudential policy frameworks and on developing stress-testing capacity. Follow-up TA on the oversight of financial market infrastructure will be provided by AFRITAC West II.

- *Timely data compilation and dissemination are a priority in all sectors to enable effective policy design and implementation.* In the current absence of quarterly GDP estimates, the increased attention to high frequency indicators of economic activity will improve the ability to monitor the reform process and refine monetary and fiscal policies in response to shocks or changed circumstances.

Main Risks and Mitigation

2. **Risks to TA implementation in Sierra Leone relate to absorptive capacity, political risks, and financing constraints, along with the unique challenges posed by the COVID-19 crisis**. Policy implementation is often constrained by the small number of officials that are handling a large variety of tasks. These constraints can become binding without careful prioritization, particularly with numerous and sometimes bunched TA missions (Table A1.2), and TA delivery by other development partners. The competing demands of the COVID-19 crisis response, and limits on in-person missions, are also near-term implementation risks. Vested political interests can also create stumbling blocks. The cost of implementing TA recommendations, especially those involving investments in hardware or new systems, has sometimes delayed implementation.

3. **The authorities and country team discussed actions to mitigate these risks.** Remote missions, while no replacement for in-person interaction, can still be highly effective, including providing scope for increased integration with program work or peer learning. Once in-person missions resume, alternative capacity building methods (e.g., end of CD mission workshops) can provide valuable hands-on experience to a broader range of officials. To mitigate political risk, the Res Rep office conducts regular outreach with Parliament and stakeholders. The Res Rep office has served as interlocutor for financial assistance from development partners. The team continues discussions with other development partners to coordinate more closely on TA needs and delivery to promote coherent policy advice and be more mindful of the burden on already-stretched officials.

Authorities' Views

4. **The authorities concur with the priorities outlined above**. The reform orientation of the current administration provides an opportunity to make sustained progress on structural reforms in response to the COVID19 crisis and beyond. The authorities also strongly underscored the importance of CD that included hands-on workshops and have therefore requested that workshops be made a more routine part of CD delivery. In the past, such engagement has effectively improved traction. Lastly, they signaled that better dialogue and planning ahead of missions—both with the Fund and other development partners—has allowed them to schedule CD missions more effectively to coincide with ongoing workflows, hence somewhat mitigating absorption capacity concerns.

Table A1.1. Sierra Leone: Capacity Development Priorities

Priorities	Objectives
Public Finance Management	Ensure **fiscal sustainability** through: (i) implementing reforms to better manage public investment with stronger focus on project appraisal and selection; (ii) more effectively prioritize spending to critical sectors within a medium-term budget framework; and (iii) improve debt recording and management. Improve **budget execution** through: (i) enhancing and rolling out more widely the Financial Management Information System (FMIS); and (ii) strengthening liquidity management and implementation of the Treasury Single Account (TSA). Accelerate **transparency and governance reforms**, with particular focus on the use of emergency funds by implementing commitments made under RCF and following standards set in recent COVID-19 Regulations.
Tax Policy	Improve the effectiveness of tax policy as a tool for economic management by (i) operationalizing the framework for natural resource management; (ii) improving understanding of extractive industry fiscal modelling; and (iii) understanding transfer pricing issues especially in the extractive and communications industries.
Revenue Administration	Improve the efficiency of domestic resource mobilization by (i) increasing tax compliance, including with respect to extractive industries revenue; (ii) broadening the tax base and strengthening border controls; (iii) modernizing the governance structure of NRA; (iv) building capacity in data analytics and audit of the specialized industries and (v) automating tax administration.
Financial Sector Supervision and Regulation	Increase financial system safety and soundness through strengthening prudential regulations as well as supervisory frameworks and processes.
Financial Stability	Establish the Financial Policy Committee and design new tools to monitor systemic risk, conduct stress tests and improve financial stability analysis.
Central Banking Operations and Governance	(i) Continue to implement the revised Banking and BSL Acts to strengthen the BSL's ability to supervise the banking system. (ii) Continue to improve monetary policy analysis and foreign exchange operations, and to modernize the monetary policy framework to be more responsive to market developments and more effectively promote price stability.
Statistics	Produce timely, frequent and credible indicators of economic activities in all sectors to inform policy, including more attention to developing and leveraging high frequency data.

Table A1.2. Sierra Leone : Technical Assistance, FY 2019/20-FY2020/21		
Fiscal		
FAD	EI Risk Based Compliance Strategy	May 6–17, 2019
	Improving Risk Processes, Compliance Management etc. (2 of 2)	June 3–12, 2019
	Core Process Re-engineering	June 20–July 3, 2019
	Modernization Strategy	July 25–26, 2019
	Modelling and Support to Petroleum Licensing Round	September 26–30, 2019
	EI Risk Based Compliance Strategy 1 of 2	Sept. 23-Oct.4, 2019
	Dispute Resolution	November 4-15, 2019
	Joint STX mission under MNRW	November 4-15, 2019
	EI Risk Based Compliance Strategy 2 of 2	January 20-31, 2020
	Filing and Payment, Process re-engineering	January 22-31, 2020
	Filing and Payment, Process re-engineering	February 3-7, 2020
	Modelling and Support to Petroleum Licensing Round	February 26- March 6, 2020
	COVID-19-Follow-up on natural resource regime mission	March 16-20, 2020
	Modernization Strategy	March 23-29, 2020
	Establishing a Data Analytics Operating Framework	May 5-June 6, 2020
	Establishing a Modernization Operating Framework	Oct. 29-Nov 27, 2020
	Establishing a COVID-19 Fund	May 27-31, 2020
	EI Ongoing on demand remote assistance	June 1-10, 2020
	Debt recording and management	August 23-31, 2020
	EI CRM Strategy [WFH]	September 1-15, 2020
	Strengthening Tax Administration	Sept. 15- Oct. 14, 2020
	EI Revenue Administration	Oct. 26- Nov 12, 2020
	ITAS Implementation Data Cleansing and Migration for the LTO	September 15-29, 2020
	EI CRM Strategy- International tax risks in EI	January 22-31, 2021
	Data Analytics Framework for Risk Management	March 1-30, 2021
	To Support the NRA to Operationalize the Modernization Department	March 12-31, 2021
	Customs admin regional project	March 30-April 14, 2021
AFRITACW2	Follow up Mission Supporting the Upgrade of COA Aligned with GFSM 2014, and their Implementation	July 8–22, 2019
	Development of Controls for ECOWAS Customs Integrity Framework—Phase 1	July 15–19, 2019
	Sierra Leone Training on PPP Fiscal Risk Management Tool	September 9–13, 2019
	Design of Risk Management Strategy and Supporting Framework	September 16–27, 2019
	Training on Excel Based Modelling Techniques	November 11-22, 2019
	Review of the Sierra Leone Integrated Macroeconomic Model (SLIMM)	November 11-22, 2019
	Strengthen excise duites management capacity	November 18-29, 2019
	Development of Stakeholder Engagement Strategy	November 25-29, 2019

Table A1.2. Sierra Leone : Technical Assistance, FY 2019/20-FY2020/21 (Continued)		
	Development of Stakeholder Engagement Strategy	November 26-December 6, 2019
	PIMA	December 4-17, 2019
	GST Compliance and Data Matching	January 22-24, 2020
	GST Compliance and data matching	February 17-28, 2020
	Strengthen capacity to audit telecom sector	February 24-March 6, 2020
	Delivery of Training on Stakeholder Engagement Strategy	March 2-17, 2020
	Professional Attachment for NRA Risk Management Unit to Mauritius Customs	March 16-27, 2020
	Follow-up Mission to Support Authorities Implement Commitment Control Measures	April 6-17, 2020
	Development of Customs Integrity Framework (ECOWAS)	April 20-24, 2020
	Follow-up mission to Strengthen NRA capacity to audit the telecommunication sector	May 19-June 10, 2020
	Supporting Cash Management in COVID-19 Context	July 6-19, 2020
	Support for implementation of the Risk Management Strategy & Action Plan	July 6-22, 2020
	Support for Development of Customs Import Procedures [WFH]	September 14-27, 2020
	Remote TA (COVID) Support for Implementation of core customs functions [WFH]	December 1-10, 2020
	(COVID-19) Strengthen NRA Capacity to Audit the Telecommunications Sector	March 31-April 9, 2021
	Implementing Cash Based IPSAS	April 13-30, 2021
	(Virtual) Regional Seminar on Gender Budgeting	April 6-13, 2021
	Support for the implementation of core customs functions in relation to border and inland controls	March 31- April 9, 2021
Monetary/Foreign Exchange/Financial		
MCM	Debt Management and Central Bank Balance Sheet	April 23–May 3, 2019
	Central Bank Modernization Advisor (Extension)	May 1–28, 2019
	FSSR Scoping Mission	December 2-6, 2019
	Project Assessment	November 11-15, 2019
	Deepening Central Bank operations	April 30, 2018-July 1, 2020
	WAH (COVID-19): FSSR Main Mission Prep Background Notes: • Crisis Management • Financial Stability • Regulation and Supervision • Financial Market Infrastructure • Stress Testing	June 14-18; 19-23, 2020
	Virtual (COVID): Application of IFRS9 Financial Instruments	Sept. 26- Oct 9, 2021
	Virtual TA (COVID: Banking Supervision	November 3-12, 2020

Table A1.2. Sierra Leone : Technical Assistance, FY 2019/20-FY2020/21 (Concluded)		
	Virtual TA (COVID) Enhancing the Application of IFRS9 Financial Instruments	December 1-15, 2020
	WAH: Banking Supervision Desk Review and Remote TA	April 20-26, 2020
	Virtual TA (COVID) Banking Supervision	February 10-16, 2021
AFRITACW2	Improving Monetary Policy Analysis and Follow-Up on Monetary Operations	May 20-24, 2019
	WAH-Supporting MPC Preparations and Monetary Policy Report Issuance	September 6-13, 2019
	RBS: Developing RBS Manual	October 14-25, 2019
	(Virtual) Developing Conceptual Understanding of Basel II/III	April 12-17, 2021
	Virtual TA (COVID) Improving Monetary Policy Analysis and Near-Term Forecasting Capabilities	Nov. 23-Dec 3, 2020
Statistics		
STA	Consumer Prices/Producer Price (EDDI2)	April 29–May 10, 2019
	Price Statistics (EDDI2)	September 9-13, 2019
	External Sector Statistics (EDDI2)	October 14-25, 2019
	Price Statistics (EDDI2)	February 24-28, 2020
	(Remote TA) Consumer Price Index (EDDI2)	June 22-July 3, 2020
	(Remote TA) Consumer Price Index (EDDI2)	December 14-25, 2020
	(Remote TA) High Frequency Indicators (D4D) (Placeholder Country)	January 11-20, 2021
	(Remote TA) Source Data (D4D)	February 14-19, 2021
AFRITAC-W2	Supporting the Upgrade of Chart of Accounts Complying GFSM 2014, and their Implementation	July 8–22, 2019
	National accounts - Rebasing of GDP	January 27-Februrary 7, 2020
	National accounts - Rebasing of GDP	April 20-May 1, 2020
	(Remote TA) National accounts	Sept 21-Oct 2, 2020
	(Remote TA) Price Statistics – Consumer Price Index	April 15-19, 2021
	(Remote TA) National accounts – Rebasing of GDP	April 19-30, 2021
Source: IMF TAIMS.		

Annex II. External Sector Assessment

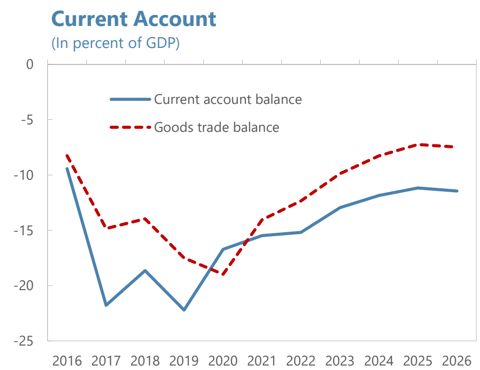
Overall Assessment: *The external position of Sierra Leone in 2020 was substantially weaker than the level implied by fundamentals and desirable policies. The assessment is subject to wide margin of error, given the quality and availability of official data and the sensitivity of the model results to parameters.*

Potential Policy Responses: *While the near-term policies should support the recovery from the COVID-19 crisis, reducing the current account gap and REER overvaluations over the medium term is critical to maintain external sustainability. Specifically, the country should: (i) rely on highly concessional financing largely grants to contain external liabilities, (ii) make progress on fiscal adjustment while protecting essential spending, (iii) maintain exchange rate flexibility while being mindful of the impact on inflation, and (iv) enhance productivity and improve competitiveness. These policies are also key to maintain adequate reserves over the medium term.*

Current Account

Recent developments. The current account in 2020 is estimated to be around -17 percent of GDP. While exports weakened significantly after the COVID-19 crisis, the impact on the current account is partly offset by a decrease in imports, an increase in external budget support grants, and an increase in remittances.

Outlook and risks. The current account is projected to moderately improve over the medium term, with an increase in mining exports. However, the current account deficit is expected to remain large, with risks associated with mining exports.



Sources: BSL until 2019. Staff estimate and projection after 2020.

Capital and Financial Accounts: Flows and Policy Measures

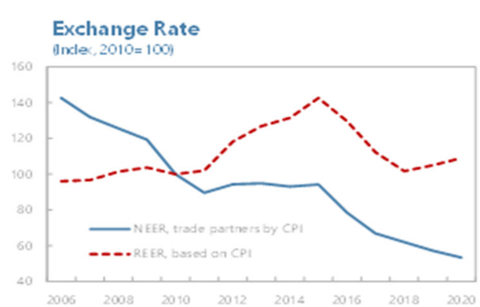
Capital account. The capital account in 2020 is estimated to be around 2 percent of GDP, broadly unchanged from 2019. It is projected to increase somewhat in 2021 due to an increase in project grants.

Financial account. FDI and other investment are the main drivers of the financial account. While net inflows are estimated to have decreased in 2020 with smaller FDI, they are projected to recover as mining activity increases.

Real Exchange Rate

NEER. The nominal effective exchange rate (NEER) has been on a depreciating trend.

REER. The real effective exchange rate (REER) appreciated until mid-2010s due to high inflation. It then depreciated until 2018 as the inflation rate declined. It appreciated somewhat in 2019-20, as inflation more than offset nominal depreciation.

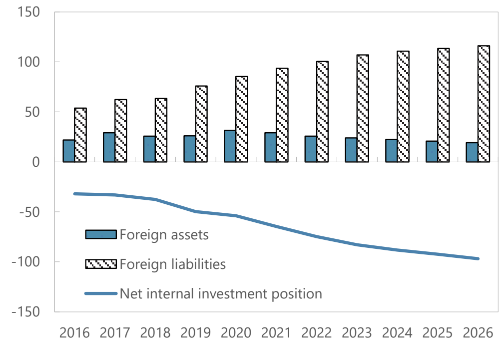


Sources: IMF IFS.

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) at end-2020 is estimated to be around -54 percent of GDP, with gross foreign assets of around 31 percent of GDP and gross foreign liabilities of around 85 percent.[1] The BSL's gross official reserves constitute more than half of foreign assets, with the remaining including foreign assets of deposit-taking corporations and other nonofficial sectors. About two-third of foreign liabilities are FDI liabilities and the rest is other investment liabilities (mainly public sector but also commercial banks and other sectors). The NIIP has worsened over the last five years, and it is projected to follow a similar trend as the current account deficits persist.

Foreign Assets and Liabilities
(In percent of GDP)



Sources: BSL until 2017. Staff estimate and projection after 2018.

Assessment. We use the revised EBA-lite external sustainability (ES) model to estimate the size of necessary REER adjustment (and the corresponding current account adjustment) to keep the NIIP at the 2020 level over the medium term.[2] This assumption—maintaining the NIIP at the current level—is a common assumption applied also in other countries. While this level is high, containing the NIIR at that level is likely to ensure sustainability given that a large part of foreign liabilities is FDI.

The ES model indicates that a REER depreciation of around 22.5 percent is necessary over the medium term to keep the NIIP (as a percentage of GDP) at the 2020 level. Using the elasticity of the current account with respect to REER of -0.35 (the same value was used in the previous external sector assessment in April 2020), this corresponds to a current account gap of around -7.9 percent of GDP, which is the desirable level of the current account balances over the medium term, based on the ES model.

Based on this result and other information above, the external position of Sierra Leone in 2020 was assessed to be substantially weaker than the level implied by fundamentals and desirable policies.[3] This assessment is subject to wide margin of error, given the quality and availability of official data (very large errors and omissions) and the sensitivity of the results to parameters, including the elasticity of the current account with respect to the REER.

Potential policy responses. While the near-term policies should support the recovery from the COVID-19 crisis, reducing the large current account gap and REER overvaluation over the medium term is critical to maintaining external sustainability. In particular, the country should: (i) rely on highly concessional financing, ideally grants to contain external liabilities, (ii) make progress on fiscal adjustment while protecting essential spending, (iii) maintain exchange rate flexibility while being mindful of the impact on inflation, and (iv) enhance productivity and improve competitiveness.

Sierra Leone: Model Estimates for 2020

	Revised EBA-lite ES model
CA-Actual (in percent of GDP)	**-16.7%**
CA Gap (in percent of GDP)	**-7.9%**
Elasticity of CA with respect to REER	**-0.35**
REER Gap	**22.5%**

2020 (% GDP)	NIIP: -54	Gross Assets: 31	Gross Liab.: 85

[1] The official estimate for the NIIP is available until 2017.

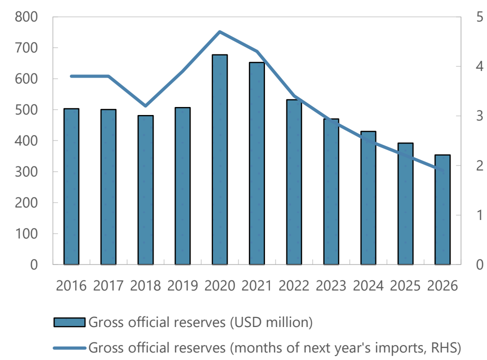
[2] The ES model used here is explained in: O. Blanchard and M. Das, 2017, "A New Index of External Debt Sustainability." IMF, 2019, "The Revised EBA-lite Methodology." The ES model is based on the idea that net external liabilities or the NIIP are sustainable if they are less than or equal to the present value of net exports, plus the rate of return differential between external assets and external liabilities times the gross asset position. The ES model calculates the size of REER adjustment required to equate the present value of future net exports and net interest income to the current level of the NIIP (i.e., the level of the NIIP in 2020).

[3] As in the last external sector assessment in April 2020, we rely on the ES model, as it is difficult to implement the CA model and the REER model for Sierra Leone due to limited data availability and weak data quality.

FX Intervention and Reserves Level

Background. BSL's gross official reserves (excluding swaps) at end-2020 were USD 677 million, corresponding to about 4.7 months of next year's imports of goods and services. Gross reserves increased in 2020, mainly due to the emergency financing from the IMF, exceptionally large budget support grants from the World Bank, and the debt initiatives (the CCRT and the DSSI). Gross reserves are projected to steadily decrease over the medium term, mainly because of increasing external debt service, and the absence of exceptional support.

Gross Official Reserves



Sources: BSL until 2020. Staff projection after 2021.

Assessment and potential policy responses. While the reserve coverage in 2020 and 2021 are higher than the recommended level based on the Fund's reserve coverage metric (3 months of next year's imports), exceptionally large uncertainty after the COVID-19 crisis justifies the higher reserve coverage. Over the medium term, the reserve coverage is projected to fall below 3 months of imports. However, the prospective SDR allocation later in 2021—currently not included in the baseline—would help improve the reserve coverage.

Potential policy responses. The policies to ensure external sustainability described in the previous section help maintain adequate reserve coverage over the medium term.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431 U.S.A.

Freetown, July 8, 2021

Dear Managing Director Georgieva,

1. **On behalf of the Government of Sierra Leone, we hereby request the IMF Executive Board to complete the third and fourth review of the Extended Credit Facility (ECF)** arrangement and approve disbursement of the fourth and fifth tranche of the loan following broad fulfillment of the end-December 2019 and end-June 2020 quantitative performance criteria and progress toward implementing the structural benchmarks.

2. **As laid out in the attached Memorandum of Economic and Financial Policies (MEFP),** the fallout of COVID-19 across the global economy combined with domestic COVID-19 containment measures significantly constrained economic activity in Sierra Leone during 2020. To mitigate the impact of the pandemic on the population and economy, Government with the support of development partners, developed and implemented the *Quick Action Economic Response Programme* to maintain macroeconomic and financial system stability while protecting livelihoods. The *Health Response Programme* sought to contain the spread of the pandemic and manage the health crisis. Despite ramped up financial support by development partners, implementing these measures has required difficult trade-offs, given high fiscal and economic costs amidst sharply declining revenues and an already tight debt and financing situation.

3. **While we see first signs of economic stabilization, 2021 remains a challenging year, with significant uncertainty around the outlook.** We expect growth to pick up in 2021, contributing to the recovery of incomes and government revenues. However, third waves of infections and virus mutations in several countries, and challenges with vaccine accessibility and rollout pose significant risks to our citizens and to Sierra Leone's economy. Related urgent spending needs—amidst a weakened revenue base, normalizing external grants, and development needs that are high beyond the immediate crisis—continue to put pressure on our fiscal accounts. On-lending of the ECF disbursements, through a well-defined Memorandum of Understanding between the Bank of Sierra Leone (BSL) and Ministry of Finance, will help us close the fiscal gap in 2021-23, while providing the needed international reserve cushion to external accounts.

4. **Programme performance was on track at the end of 2019 but impacted by the COVID-19 pandemic in June 2020 and the associated financing under the Rapid Credit Facility agreed with the Fund.**

- We met all quantitative performance criteria (QPC) and indicative targets for December 2019, with the exception of a narrow miss on the indicative target on the domestic primary balance and a miss of the ceiling on contracting new concessional external debt for which we sought a waiver at the time of the second review.

- We missed two of the end June 2020 QPC (Net Credit to Government (NCG)); Net Domestic Assets (NDA of the BSL), mainly due to the on-lending of the RCF resources to Government by the BSL, in line with executing our July 2020 Supplementary Budget as envisioned under May 2020 RCF request. We met the criterion on gross foreign reserves on account of external development partners' disbursements. We missed the June 2020 indicative targets on domestic revenue and basic primary balance, due to the crisis-related shortfall in domestic revenues, and the target on Poverty related spending on the back of a tight fiscal situation.

5. **We are taking measures to address the above shortfalls, and request waivers for the missed QPCs.** We have resumed the implementation of reforms including the roll-out of the electronic cash registers, implementation of automated tax processes, and improving the customs clearance process through the electronic Single Window. Training under the Tax Preparer Scheme and the Block Registration of taxpayers will help boost property taxation and compliance among SMEs. We increased poverty-related spending when more funding became available in the second half of 2020. Our 2021 budget and revised budget includes a substantial adjustment in the domestic primary balance. We closely monitor the contracting of new loans to stay within agreed concessional borrowing limits and will continue to refrain from borrowing on non-concessional terms. On the basis of these actions, we request the IMF Executive Board to approve waivers for the non-observance of the 2020 QPCs on NCG and NDA.

6. **To safeguard debt sustainability, Government would continue to prioritize concessional loans within a pre-defined borrowing limit, preferably grants.** We commit to seek only highly concessional financing and ratify loans only within the annual ceiling set out in the MEFP. We will renegotiate or cancel any loans under discussion that we consider, jointly with the IMF, as being non-concessional. We will engage early with the IMF in the contracting process or at the latest before signature to ensure compliance with our non-concessional and concessional borrowing commitments.

7. **Despite the challenging environment, we also made progress in the implementation of structural reforms.** The revised NRA Act has been gazetted and submitted to Parliament for enactment. Government, with technical support from development partners and following wide consultations, developed and published the Arrears Clearance Strategy in 2020. The two state-owned banks have prepared and submitted to the Ministry of Finance their respective long-term business plans. Until February 2021, we have adjusted fuel prices in line with the current pricing formula. To cushion the impact of COVID-19 on the population we did not make adjustments until June, but we raised the price on July 1, and will continue making adjustments in line with the formula going

forward in order to fully reflect the current Platts price, and in line with our revenue mobilization objective. Consistent with our government's commitment to transparency and good governance, we reported on our emergency response through the National Covid-19 Emergency Response Center, extended reporting to our overall response and have started to address known vulnerabilities related to the crisis response.

8. Government continues to be committed to bold policies to stabilize the macroeconomy, tackle structural impediments, and boost economic activity, as laid out in the MEFP. Our policy objectives remain broadly as originally articulated at the time of requesting the ECF in 2018 and aim to safeguard macroeconomic and financial stability, strongly pursue the implementation of structural reforms and promote sustainable, resilient, green and inclusive growth, with a central focus on human capital development. Government will continue to pursue policies aimed at ensuring fiscal and debt sustainability through strong revenue mobilization efforts, guided by a medium-term revenue strategy that we are starting to develop. We remain committed to improving public expenditure management and will therefore continue to broaden the coverage of the TSA, strengthen commitment controls to avoid the accumulation of payment arrears, minimize the possible budget impact from state-owned enterprises, further strengthen our payroll management, and follow the Public Investment Management Assessment (PIMA) recommendations. The BSL will continue to focus on achieving single digit inflation in the medium-term while limiting its intervention in the foreign exchange market to smooth excess volatility. Financial sector reforms will aim to deepen intermediation and promote financial access and stability. We have progressed with implementing recommendations of the safeguards assessment, with the FY 2019 and 2020 BSL audits expected to be finalized by October 2021, an external quality assessment of the internal audit function by end-2021, and we plan for a reputable external auditor to complete the FY 2021 BSL audit by the statutory deadline of end-March 2022, and publish it by April 2022.

9. The Government believes that the policies contained in the attached MEFP are adequate to achieve the objectives of our program. We stand ready to take any further measures that may be needed to achieve our objectives. We will consult the IMF on the adoption of these measures and, in advance of revisions to the policies contained in the MEFP, in accordance with IMF policies on such consultations. Sierra Leone will provide the IMF with any information that may be necessary for monitoring the implementation of the measures and the achievement of program objectives.

10. Given the COVID-19 related pause in ECF reviews and the intervening RCF disbursements, we request a rephasing of the program. The rephasing would postpone the availability and associated test dates for the sixth, seventh, and eighth disbursements by 12 months. This postponement will imply an extension of the ECF arrangement by 12 months to June 29, 2023.

11. The Government consents to make public the content of the IMF staff report and its supporting materials, including this letter, and the attached MEFP and TMU. It therefore authorizes the IMF to publish these documents on its website once the IMF Executive Board approves the completion of the third and fourth review under the ECF.

Very truly yours,

__________/s/___________	___________/s/__________
Dennis K. Vandi	**Kelfala M. Kallon**
Minister of Finance	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, July 2021

INTRODUCTION

1. **This Memorandum of Economic and Financial Policies (MEFP) supplements the one dated March 2020.** It reviews recent economic developments and reports on performance under Sierra Leone's economic and financial programme supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) arrangement. It outlines the key policy and reform measures for the remainder of 2021 and the medium-term. These policies aim to safeguard macroeconomic stability, support economic recovery following the COVID-19 crisis, boost resilience and promote broad-based inclusive and green economic growth and poverty reduction over the medium-term.

2. **The implementation of our National Development Plan was disrupted by the outbreak of the COVID-19 pandemic in 2020.** To mitigate the impact of the pandemic on the population, Government with the support of development partners developed and implemented the Quick Action Economic Response Programme (QAERP) and the Health Sector Preparedness and Response Programme. The key objective of the QAERP is to maintain macroeconomic and financial system stability while protecting livelihoods. The Health Sector Preparedness and Response Programme sought to contain the spread of the pandemic and manage the health crisis in order to protect lives. The Response programmes were implemented through the Supplementary Budget passed by parliament in July 2020. The budget was partly supported by emergency financing provided by the IMF under the Rapid Credit Facility (RCF) and enhanced budget support provided by development partners including the World Bank, African Development Bank and the European Union.

3. **The economy is generally stable though uncertainty looms as the pandemic lingers on.** The third wave of COVID-19 infections in several countries combined with the mutations of the virus has created tremendous uncertainty in the global and domestic economy. However, Government remains committed to the implementation of sound economic policies and structural reforms including governance reforms in order to boost resilience and accelerate economic recovery, in line with our National Development Plan (2019–23 NDP).

RECENT ECONOMIC DEVELOPMENTS

4. **The fallout of COVID-19 across the global economy combined with domestic COVID-19 containment measures significantly constrained economic activities during 2020.** The economy contracted by 2.2 percent in 2020 after recovering by 5.5 percent in 2019 as key economic activities either contracted or declined. Tourism, trade and travel were the hardest hit. Industry comprising

mining, manufacturing and construction also contracted while agricultural production also slowed down significantly.

5. Price pressures emerged during the first quarter of 2020 due to COVID-19 induced panic buying and initial supply shocks but gradually moderated towards the end of the year. Year-on-Year inflation declined to 10.4 percent at end 2020 from 13.9 percent at end 2019. The downward trend in inflation continued during the first quarter of 2021 reaching a single digit of 8.95 percent in March 2021 but edged up to 9.6 percent in April 2021. The moderation in inflation was mainly due to stability in the exchange rate, prudent fiscal policy measures and increased availability of basic foodstuffs on the market. While moderated, food price inflation, at 15.6 percent y-o-y in April, remains high.

6. The drop in domestic revenues combined with the higher expenditures due to COVID-19 relating spending led to the widening of the budget deficit. The deficit, including grants, widened to 5.6 percent of GDP in 2020 from 3.1 percent of GDP in 2019. Domestic revenues dropped to 13.3 percent of GDP (1.3 percentage points below the original target), attributed mainly to depressed economic activity, weak tax compliance, tax deferrals granted to businesses, as well as disruptions in the implementation of revenue administration reforms. At the same time, expenditures increased to Le 10.27 trillion (24.9 percent of GDP), mainly due to COVID-19 related spending. Financing from domestic sources was 6.6 percent of GDP compared to the original budget of 2.0 percent mainly on account of the on-lending of IMF RCF resources of Le 1.39 trillion (3.4 percent of GDP) to the budget.

7. The external sector was adversely affected by lower global demand, weak domestic economic activity and disruptions to foreign direct investment flows in 2020. Exports are estimated to have dropped by 36.5 percent mainly due to decline in mineral exports. Imports also declined by 12 percent, with the decline cushioned by Government's efforts to secure the supply of critical commodities. Despite the increase in the trade deficit, the impact on external accounts was partly offset by the disbursement of grants and loans by development partners to support the implementation of Government's response to the COVID-19 pandemic. Gross international reserves increased to 4.7 months of next year's imports resulting in the relative stability of the exchange rate and providing a cushion within this more uncertain environment.

8. The banking system remained largely resilient and stable as banks were profitable and adequately capitalized in 2020. The industry recorded improvement in key financial indicators including total assets, investments, gross loans and advances and deposits. The industry also continued to record cash and liquidity ratios above the statutory limits in 2020 and in March 2021. The aggregate non-performing loans to gross loans declined to 12.7 percent at end December 2020 (13.7 percent end-March 2021) compared to 16.8 percent as at end December 2019 though there are variations across the commercial banks. The improvement in NPLs was partly due to the Loan Write-Off Policy of the BSL coupled with modest loan recovery, mostly from Government contractors. A full round of Risk Based Supervision was carried out on all fourteen banks, and this has led to improvements in risk management practices in banks. The BSL plans to undertake onsite examinations of the two state-owned banks in the third quarter of 2021 to ascertain their current status. This will equip stakeholders in making a decision on the continuation of Enhanced Supervision in both banks.

9. **The total stock of public debt was estimated at US$3.01 billion (73.7 percent of GDP) as of end December 2020.** External debt amounted to US$1.96 billion (48.0 percent of GDP) compared to US$1.69 billion at end 2019. The increase in external debt reflects disbursement of loans to support the implementation of projects in key sectors of the economy including roads, energy, water, agriculture, health and education. Multilateral Creditors account for the bulk of the external debt stock (78.5 percent), bilateral creditors (12.3 percent) and commercial creditors (9.2 percent). Domestic debt (including verified domestic arrears of about Le2.5 trillion or US$247.5 million) was estimated at US$1.05 billion (25.7 percent of GDP) as at end December 2020. The stock of verified arrears largely accounted for the increase in domestic debt.

PROGRAMME PERFORMANCE

10. **Programme performance was on track at the end of 2019 but derailed in June 2020 mainly due to the adverse impact of the COVID-19 pandemic on fiscal performance.**

- We missed two out of the three end-June 2020 Quantitative Performance Criteria (QPCs)- Net Credit to Government (NCG) and Net Domestic Assets of the Bank of Sierra Leone (NDA) mainly due to the on-lending of the RCF resources to Government by the Bank of Sierra Leone. However, both criteria were missed by a small margin after netting out the amount of RCF resources as the Supplementary Budget passed by Parliament in July 2020 was executed in line with the fiscal space provided by the RCF resources (as approved by the IMF Board) and domestic revenues. A memorandum of understanding between the BSL and Ministry of Finance clearly defines the unwinding of the on-lending, in line with the intent of the RCF.

- We met the criterion on gross foreign reserves by a large margin on account of the disbursement of RCF resources by the IMF as well as enhanced budget support from the World Bank, the African Development Bank and the European Union, which increased reserves to a higher-than-expected level.

- We narrowly missed the indicative target on the domestic primary balance in December 2019. Similarly, we missed the indicative targets on domestic revenue and basic primary balance for the June 2020 due to the impact of COVID-19 on domestic revenue collection in the midst of higher COVID-19 related expenditures. The contraction in economic activities, tax deferrals, fall in imports and decline in the profitability of businesses and the delay in the implementation of tax reforms contributed to the shortfall in domestic revenues. The target on Poverty related spending was missed for June 2020 on the back of a tight fiscal situation but increased poverty-related spending significantly towards the end of the year when more funding became available.

11. **We are taking corrective actions to avoid shortfalls from the targets going forward.** The COVID-19 crisis has put exceptional pressure on our fiscal accounts. To address this situation going forward, we have resumed the implementation of reforms including the roll-out of the electronic cash registers, implementation of automated tax processes through ITAS, and improving customs clearance process through the electronic Single Window. Training of SMEs under the Tax Preparer Scheme is on-going while the Block Registration of Tax-Payers has commenced and is expected to boost property taxation and compliance among SMEs in 2021. We have also discontinued the granting of tax deferrals and relief to businesses following the lifting of COVID-19 restrictions. We did not contract any non-concessional loan during the review period. Our 2021 budget and revised budget includes a substantial adjustment in the domestic primary balance.

12. **On the basis of these commitments, we request the IMF Executive Board to approve waivers for the non-observance of the June 2020 Quantitative Performance Criteria (QPCs) on NCG and NDA.**

13. **Despite the challenging environment, we made progress in the implementation of structural reforms.** The revised NRA Act has been gazetted and submitted to Parliament for enactment. Government with technical support from development partners and following wide consultations with key stakeholders developed and published the Arrears Clearance Strategy in 2020. The two state-owned banks have prepared and submitted to the Ministry of Finance their respective long-term business strategies. Until February 2021, we have adjusted fuel prices in line with the current pricing formula. To cushion the impact of COVID-19 on the population we did not make adjustments until June, but we raised the price on July 1, and will continue making adjustments in line with the formula going forward in order to fully reflect the current Platts price, and in line with our revenue mobilization objective.

IMPACT OF COVID-19 AND GOVERNMENT RESPONSE

14. **The widespread disruptions from the COVID-19 pandemic to global and domestic health and economic activity threatens to reverse gains made in recent years in reducing poverty and inequality.** To mitigate the impact of COVID-19 on the population, Government developed the Quick Action Economic Response Programme (QAERP) and the Health Sector Preparedness and Response Programme. The overarching objective of the QAERP is to maintain macroeconomic and financial system stability, as well as mitigate the impact of COVID-19 on businesses and households. Accordingly, the QAERP comprises five program objectives or pillars as follows and closely aligned with our NDP (2019-23):

(i) Building and maintaining an adequate stock level of essential commodities at stable prices;

(ii) Providing support to hardest-hit businesses to enable them to continue operations and avert lay-offs of employees;

(iii) Expand safety nets to vulnerable groups;

(iv) Supporting labour-based public works; and

(v) Providing assistance for the local production and processing of staple food items.

15. Under the first Pillar, the Bank of Sierra Leone provided a five hundred billion Leones (Le500 billion) Special Credit Facility channeled through the commercial banks that supported the production and importation of essential commodities. Further, the National Revenue Authority (NRA) temporarily implemented various tax relief measures including delayed/deferred taxes and a warehouse suspense regime for importers of essential commodities and income tax relief for an initial period of three months to the hospitality and aviation sectors.

16. Government supported Small and Medium Enterprises (SMEs) through the operationalization of the National Micro-Finance Programme (MUNAFA Fund) and launched the Agriculture Credit Facility (ACF). This Fund was designed in 2020 and launched in 2021. Government allocated the sum of Le100 billion in the national budget for a period of four years (2020 to 2023) to address the lack of access to capital by SMEs. Currently, eleven (11) Financial Service Providers (FSP) met the minimum eligibility criteria and ten (FSP) Loan agreements have been entered into by SMEDA and The FSPs. The sum of Le26 billion was disbursed targeting 4,100 MSMEs. In March 2021, the Bank created a Le100 billion ACF to support the importation of agriculture inputs and reduce food insecurity by incentivizing private sector participation in agriculture. This low-interest medium-term lending facility (similarly structured as the SCF) helps finance the production, procurement and distribution of agricultural inputs. We intend the facility to be temporary.

17. In mitigating the economic impact of the pandemic on vulnerable households, Government with support from development partners expanded its existing cash transfer programme implemented by the National Commission for Social Action (NaCSA) from thirty-five thousand (35,000) beneficiaries to seventy-thousand (70,000) well-targeted beneficiaries, including persons with disabilities. Further, the World Bank supported the Government during this period with an Emergency Cash Transfer Scheme targeting twenty-nine thousand (29,000) beneficiaries including households affected by COVID-19 and informal sector workers such as petty traders, workers in the tourism and other service industries. Government also disbursed Le4 billion to NaCSA for cash and in-kind support to more than eleven thousand (11,000) persons with disabilities from its own resources.

18. The fourth Pillar of the QAERP focused on supporting livelihoods by providing jobs for youths through labor intensive public works programme. Through this, the Government rehabilitated approximately One Thousand Two Hundred kilometers (1200km) of trunk and feeder roads across the country. The Programme created jobs and supported livelihoods for nearly five thousand (5,000) young men and women, but also helps link our farmers to markets.

19. In order to ensure the availability of staple food during the pandemic at affordable prices, Government with the support of development partners, through the Ministry of Agriculture and Forestry, developed and launched the Local Food production COVID-19 Response Plan. The Plan focused on large scale mechanical cultivation of rice and other food crops to boost local production and to promote livestock production. The following activities were carried out in 2020 under this programme objective:

- Ploughing, harrowing and seed harrowing of 20,000 Hectares of land for rice cultivation in 10 districts (Tonkolili, Bombali, Moyamba, Bonthe, Pujehun, Kailahun, Kenema, Koinadugu, Karene, Kono);
- Supporting Farmer Based Organizations in these selected locations with 700Mt of seed rice and 3,500 metric tons of fertilizer;
- Provision of food for work with support from the World Food Programme (WFP); and
- Provision of pre and post-harvest equipment/machinery.

20. Government also developed and implemented a decentralized COVID-19 Health Sector Preparedness and Response Plan and established a National COVID-19 Emergency Response Centre (NaCoVERC) to effectively respond to the Pandemic.

- The key objectives of the Health Sector Preparedness and Response Plan were to: (i) mitigate the spread of COVID-19; (ii) minimize deaths from COVID-19; (iii) protect wider health services to ensure lives are not unnecessarily lost due to non-COVID-19 health causes; (iv) strengthen health systems and infrastructure; and (v) mitigate the impact of COVID-19 on livelihoods. This plan focused on five strategic interventions, namely: (i) surveillance, (ii) isolation/quarantine, (iii) testing, (iv) clinical case management, and (v) raise communication and social mobilization for behavioral change.
- To strengthen the health response, Government established six (6) COVID-19 testing laboratories across the country and their capacity in terms of PCR (Polymerase Chain Reaction) improved from 200 PCR tests (gold standard) in March 2020 to over 1200 PCR tests per day during the same period in 2021. Further, the analytical turnaround time has also decreased from 12 hours in March 2020 to 8 hours in March 2021.

- In addition, the number of treatment beds was also increased from 30 in March 2020 to over 1,000 as at end December 2020. The health Response plan also provided training and the deployment of approximately 100 social and mental health workers on COVID-19 awareness, as well as providing psycho-social support, ensuring appropriate care, de-stigmatization, and raising community understanding of the virus and how to engage with suspected positive cases.

- The COVID-19 Emergency Response Fund, an extra budgetary account at the BSL, to pool funds with a counterpart account at a commercial bank to execute the emergency spending, was also established to ensure public accountability and transparency in the use of COVID-19 financial resources.

21. In line with our Government's flagship agenda to eradicate corruption and strengthen governance, we reported on our emergency response, extended reporting to our overall response, and have started to address known vulnerabilities. For instance:

- We published on the Ministry of Finance's website detailed information on emergency spending in the form of NaCOVERC's unaudited financial statements as of December 31, 2020 and as of March 31, 2021. Going forward, we commit to publishing NaCOVERC's financial statements on a quarterly basis.

- We have also begun reporting on the implementation of our broader response to support the economic recovery, including under the QAERP. In line with our regular fiscal reporting, we have published information on the implementation on the QAERP up to the fourth quarter of 2020 on the Ministry of Finance's website (see Table 1). We will continue this practice on reporting on the crisis response in 2021.

- We published key details of all large procurement contracts relating to crisis mitigation awarded as at end-May, including information on the names of companies awarded contracts and their beneficial ownership, on the National Public Procurement Authority's (NPPA) website. We commit to publishing this information monthly going forward. In the absence of a procurement contract in a particular month, we will note "no new contracts as of [month]" on the NPPA's website.

- We welcome the Audit Service of Sierra Leone's real-time audit of our emergency response, its discussion report in Parliament, and its online publication in December 2020. We have taken actions to sanction the irregularities and address the weaknesses in legal, fiduciary, procurement, and HR management identified by the audit exercise. On the legal side, regulations for the operation of the COVID fund were approved by parliament. We have set out clear SOPs, and trained all the DICOVERCs on principles of financial management, modalities of paying advances, and bookkeeping. We also put in place an HR policy to ensure that each staff member has a signed contract, and weekly payments of risk allowances are verified and made through the banking system. A chart of accounts developed with the Accountant General facilitates the recording and reporting of transactions. A fiduciary agent has been appointed to support financial management.

- We commit to facilitating the ASSL final audit of the COVID-19 response and the publication of its report within 12 months of the end of the fiscal year, as required under the Public Financial Management Act 2016.

22. In 2020, we completed a mutual evaluation of our AML/CFT policies under the Inter-Governmental Action Group against Money Laundering (GIABA), a specialized institution of ECOWAS and a FATF Style Regional Body. The assessment was conducted against the FATF's 40 recommendations, and recognized progress since the 2017 evaluation. The recommendations are being assessed by the Financial Intelligence Unit and the BSL and status will be discussed during the next ECF review and 2021 Article IV consultation.

23. The BSL's monetary policy stance took into consideration the need to mitigate the impact of COVID-19 on the economy without losing sight of its core mandate of fighting inflation. Accordingly, the Monetary Policy Rate was reduced from 16.5 percent in December 2019 to 14.0 percent in December 2020. The BSL also took additional measures to ease any tightness in liquidity in the financial market, forestall exchange crisis and curtail inflationary pressures. These policy measures included: the establishment of a Le500 billion Special Credit Facility at a concessionary interest rate to support the production, procurement and distribution of essential commodities; extension of the Reserve Requirement maintenance period for commercial banks from 14 days to 28 days; and active participation in the secondary market to support liquidity in the banking system.

MEDIUM-TERM MACROECONOMIC OUTLOOK

24. The economic outlook for 2021 and the medium-term remains highly uncertain and the trajectory would be dictated by the path of the pandemic, availability of vaccines, and the improvement in global economic conditions. The economy is projected to recover by 3.2 percent in 2021 and grow further by 5.9 percent in 2022, boosted by the resumption of iron ore production. Growth is expected to return to the pre-crisis level in 2024 and average 4.8 percent over the medium-term (2023-2025). The implementation of the agriculture policy shift, resumption of iron ore mining, expansion in construction activities, on-going efforts to resuscitate the tourism sector, improvements in the business environment and good governance reforms coupled with stability in global economic conditions will support the recovery of the economy. Inflationary pressures will continue to ease gradually, and inflation is projected to reach single digits in 2024, reflecting the pro-active stance of monetary policy, increase in domestic food production and stability in the exchange rate. The overall fiscal deficit (excluding grants) is projected to narrow from 10.7 percent in 2020 to 6.9 percent in 2022. Including grants, the deficit will narrow from 5.6 percent to 2.8 percent over the same period as Government intensifies its fiscal consolidation efforts. Despite a decline in official transfers, the current account deficit will narrow from 16.7 percent of GDP in 2020 to 15.6 percent of non-iron ore GDP in 2021, on the back of increased iron ore exports. It is then projected to widen again in 2022, reflecting the expected temporary closure of the Rutile mine. Increased inflows of FDI and project support grants will finance the current account deficit.

Table 1. COVID-19: Health and Economic Response

(Billions of Le)

Particulars	FY 2020 Original Budget	FY 2020 Sppl'tary Budget	FY 2020 Revised Budget	2020 Actual
CONTAINMENT and SOCIAL RESPONSE implemented via budget	**44**	**29**	**73**	**144**
Health Sector Response implemented via budget	**3**	**384**	**387**	**410**
Health Sector Resonse Plan	0	275	275	375
Other Health Sector Spending	3	109	111	35
SOCIAL and ECONOMIC RESPONSE	**253**	**628**	**881**	**889**
QAERP: Budget Expenditure	**228**	**302**	**530**	**737**
Commence national micro credit scheme	21	29	50	4
Social Safety Net	3	52	55	48
o/w Cash Transfers and Food Assistance 1/	3	12	15	13
Bailout to SOE's	0	20	20	30
Support to Tourism Sector (Hotels)	0	20	20	5
Rehabilitate unpaved trunk and feeder roads	80	30	110	164
Minor repairs on township roads	37	168	205	332
Provide farm inputs including chemicals and seedlings to farmers	68	3	71	45
Support farmers' access to tractors and other farmer machinery	16	20	36	89
Provide extension services to farmers	4	0	4	56
Other economic and social response	**25**	**326**	**351**	**152**
Tree Planting and Re-afforestation	2	38	40	24
Districts Electrification Project	20	126	146	40
Support to Agriculture/COVID-19 Response	0	20	20	7
Water Supply Projects	3	142	145	82
Total COVID19-related Budgetary Expenditure	**300**	**1,041**	**1,341**	**1,443**

1/ Includes direct support to impacted sectors (tourism) and measures to address food insecurity (improved access to tractors and other machinery).

25. Risks to the growth outlook include the slow pace of rolling out COVID-19 vaccines, delays in the resumption of iron ore production at the Marampa mines, the possible longer than expected closure of the rutile mine and early withdrawal of international financial support. The continuous rise in international energy prices could stoke up inflationary pressures. A resurgence in COVID-19 cases may put pressure on the health system and trigger necessary containment measures, especially if progress on vaccination remains slow.

PROGRAMME OBJECTIVES AND POLICIES

26. Government's policy objectives remain broadly as originally articulated at the time of requesting the ECF in 2018. Our key objectives under this programme are to safeguard macroeconomic and financial system stability, strongly pursue the implementation of structural reforms and promote sustainable, resilient, green and inclusive growth, centered on human capital development. In this context, Government will continue to pursue policies aimed at ensuring fiscal and debt sustainability, strengthen financial sector stability, promote transparency and accountability in the use of public funds, improving the business environment and expand social protection systems.

A. Fiscal Policy and Budget Priorities

27. The key objective of fiscal policy is to pursue sustainable fiscal consolidation through the intensification of domestic revenue collection and prudent expenditure management to provide the fiscal space for priority spending. Given the heightened concerns for debt sustainability, our focus will be to gradually reduce the fiscal deficit to slightly above pre-crisis level, aiming at moving into a primary surplus in 2022, in order to stabilize the debt situation. In addition, the anticipated on-lending of the ECF resources will also reduce the expensive domestic financing, which augers well with the policy objective of reducing domestic bank financing to about 2 percent of GDP by the end of the ECF program

28. Until vulnerabilities from the COVID-19 crisis abate, our policies will continue to prioritize expenditures to protect lives and livelihoods. In this context, the 2021 revised budget will prioritize expenditures for a successful COVID-19 response and the implementation of the vaccination program. We allocated significant resources to our National Covid-19 Emergency Response Center, that is expected to benefit from additional grant financing from development partners, such as the Global Fund. We will continue seeking grant support to finance these critical expenditures. However, in case of shortfalls for critical expenditures, we will seek measures to prioritize the crisis response and articulate those clearly in the 2021 revised budget. Such measures include holding back the implementation of some projects or reducing the operational budget of MDAs.

29. The expected approval of an SDR allocation of around US$283 million will provide welcome external buffers to the central bank; a portion of it would safeguard critical priority expenditures. Our current baseline, excluding the SDR allocation, shows a vulnerable external position and only provides a tight expenditure envelope. Strengthening external buffers and financing further critical expenditures will therefore be necessary. In particular, to address the crisis we envision financing associated with the SDR allocations Le 417 billion (2022) and Le 186 billion (2023) to support well-defined and monitorable priority expenditures, including those related to the immediate health response and vaccination efforts (transfer to NaCOVERC), critical domestic capital expenditures (water supply), programs to address food insecurity and strengthen educational outcomes (e.g. school feeding program, hygiene and welfare packages for girls), and to support our strategy to clear arrears. Should other financing become available to cover these expenditures, we would reduce the use of the financing related to SDR allocation for fiscal purposes.

30. Going forward, we will consider introducing a fiscal anchor, following discussions with the IMF team in the context of the 5th review under the ECF. With debt to GDP of about 73.7 percent of GDP at end-December 2020, this is above Sierra Leone's specified debt limit of about 70 percent of GDP in our NDP. To ensure that debt levels will remain below the maximum debt limit over the medium term, we are planning to establish a debt rule anchor that ensures that debt levels do not breach our NDP debt limit even if macroeconomic and fiscal shocks materialize. This yet to be defined anchor would then guide the fiscal policy stance going forward.

Revenue Mobilization

31. Even though domestic revenue was below the original 2020 target, it was broadly in line with the revised COVID target. This outcome was underpinned by numerous measures adopted by the National Revenue Authority including developing and implementing a Business Continuity Plan (BCP) that ensured continued provision of revenue administration services, whilst respecting Government COVID-19 containment measures. The NRA provided dedicated email addresses to facilitate the on-line filing of tax returns by large and medium tax-payers whilst also providing drop boxes for the physical deposit of tax returns for tax-payers with no email facilities. The NRA also increased efforts to appeal to, and persuade, taxpayers to settle their tax obligations rather than accumulating arrears which will later become burdensome to pay, by engaging them through telephone calls and SMS messages explaining to them the implications of accumulating arears and of current government financial constraints to fund its emergency and other critical expenditures. Tax-payer education activities were also implemented using virtual sessions and electronic media. Furthermore, the relaxation of Covid-19 restrictions in the second half of the year contributed greatly to the improvement in tax compliance resulting in higher revenue collection in quarter four (Q4) of 2020.

32. Domestic revenue collection during the first four months of 2021 was broadly on target. The good performance was attributed to (i) increased compliance arising from tax-payer engagements in preparation for the tax reforms; (ii) close monitoring of revenue collection through collaboration with stakeholders; (iii) increased tax-payer sensitization and education through traditional and social media; and (iv) reduced COVID restrictions and reopening of international trade corridors facilitated the collection of GST and customs revenues, respectively. To improve domestic revenue collection in 2022 and the medium-term, Government will formulate a medium-term revenue strategy (MTRS), with Fund assistance, that will continue to build revenue administration gains while pursuing tax policy options.

Tax Administration

(i) Continue to implement the automatic pricing formula for petroleum products (continuous structural benchmark);

(ii) Complete the roll-out of the Electronic Cash Register to all GST-registered businesses by end February 2022;

(iii) Complete the installation of the Integrated Tax Administration System (ITAS) by the third quarter of 2021;

(iv) Continue to carry out robust field audits;

(v) Embark on the Block Registration System to bring more taxpayers into the tax net though formal registration of businesses by the fourth quarter of 2021;

(vi) Implement strategies to identify and tax High Net Worth Individuals (HNWI) including by completing a legislative review on provisions for taxation of HNWI. Conduct a study on effective ways to identify and tax HNWI, including to determine whether to establish a dedicated HNWI unit at the NRA, and share it with IMF staff (structural benchmark end of Q1 2022).

(vii) Continue to strengthen compliance in key sectors (telecom, financial, extractives), including with the help of IMF technical assistance.

(viii) Start implementing the Transfer Pricing Regulations to support assessment, tax audit and other revenue administration processes.

Tax Policy

(i) Implement the Duty Waiver Policy by 2022Q1.

(ii) Undertake a stocktake and prepare a report on existing income tax exemptions by December 31, 2021 (structural benchmark) which will also serve as an input to developing the medium-term revenue strategy. We will implement a standstill on new exemptions in 2022, as a step towards rationalizing exemptions and phasing out discretionary exemptions by integrating them into the tax code.

(iii) A review of the excise tax regime compared to good practices (by 2021Q3) could provide for further quick wins. The results of the review could feed into the Finance Act.

(iv) Develop a Medium-Term Revenue Strategy (MTRS) approved by Cabinet (end-September 2022 structural benchmark).

(v) Implement recommendations of the World Bank Tax Policy mission.

Expenditure Management

33. Government remains committed to improving public expenditure management in order to ensure effective and efficient public spending and strengthen budget credibility. We hope to achieve this by continuing to strengthen commitment controls, sustain efforts to improve the integrity and sustainability of the payroll, strengthen controls on non-interest and non-salary recurrent expenditures and improve the efficiency of public investment.

Strengthening Commitment Controls

34. Efforts will continue to strengthen commitment controls to avoid the accumulation of payment arrears. This will be done by ensuring that all payment requests by MDAs are processed through the Electronics PETS Form (E-PETS) to control budget overruns. The e-PETS is being rolled out to twenty-eight other MDAs including the Ministry of Finance that have received training on the use of the form. The installation of the Electronic Fund Transfer system (EFT) is also in progress to facilitate the seamless and paperless transfer of funds from the Accountant-General's Department to the BSL. User Acceptance Testing is ongoing with the BSL following which the system is expected to go live.

35. In addition, the IFMIS has been rolled-out to 57 MDAs, including the Sierra Leone Roads Authority, and is being be upgraded to the web-based version 7.0, after which, it will be extended to the remaining MDAs and foreign missions. Together with the timely allocation of quarterly budget warrants that we commit to issue, IFMIS modernization will help ensure that MDAs do not exceed their respective budget allocations as they cannot commit expenditures outside the system.

Treasury Single Account

36. Government is continuing efforts to broaden the coverage of the TSA. The TSA was further broadened in 2021 to include Audit Service Sierra Leone giving a total of 14 MDAs. Efforts are underway to extend the TSA to the remaining sub-vented agencies that keeps large volumes of idle cash balances in their respective accounts.

Other Supporting PFM Reforms

37. To ensure the smooth execution of the budget and prevent arrears, Government has taken steps to improve cash and debt management. Cash and domestic debt management is being integrated. The Cash and Debt Management Committee (CDMC) has been meeting weekly since January 2021 to review the cash and debt position, and short-term cash needs-based revenue and expenditure forecasts. To support the work of the CDMC, we are working to extend the forecast horizon for cash forecasting, incorporate arrears management in cash management and develop capacity in cash forecasting.

38. Government is also taking actions to minimize the budget impact of state-owned enterprises (SOEs) and the risks they pose to public finances. In 2020, the Ministry of Finance has undertaken for the first time a comprehensive review of the aggregate financial position and performance of SOEs. We intend to continue this exercise annually to better track their strengths and weaknesses. We also intend to take a holistic view of the role of SOEs and the oversight of Government by developing an SOE ownership policy, and reviewing and streamlining the legal and institutional framework governing SOEs.

Payroll Reforms

39. Despite the recent increase in the wage bill attributed mainly to the integration of the payroll of tertiary institutions into the Central Government payroll, the recruitment of additional health workers and teachers, improvement in the conditions of service for teachers, university lecturers, and security forces, Government will sustain efforts aimed ensuring a transparent, accountable and sustainable payroll. To this end, Government implemented the following measures in 2021.

(i) **Teacher retirement and recruitment policy**: to avoid disruptions to the school year and to improve planning and budgeting for teachers, a new policy governing the retirement and recruitment of teachers was endorsed by Cabinet and adopted by Parliament. The policy stipulates that teachers that retire during the school year will stay on the payroll till the end of the school year. For recruitment, new teachers will only be brought on the payroll at the start of the school year i.e. September of each year.

(ii) **Biometric verification of Government pensioners**: On behalf of Government, the National Civil Registration Authority (NCRA) carried out a biometric verification of all pensioners, who retired before the establishment of the social security scheme. A significant number of pensioners could not be verified. Henceforth, only verified pensioners will receive monthly pension payments.

(iii) **Minimizing Manual Voucher payments** – Government continues to implement measures to minimize manual payroll payments. In light of this, leave allowances to the military are now being paid through the central payroll system. In addition, all staff of the Ministry of Finance and Accountant-General's Department, whose salaries were processed manually are now paid from the central payroll system. Lastly, the salaries of all contract staff of Parliament and the Law Officers Department are now paid from the central payroll system effective May 2021.

(iv) The Accountant-General and the Human Resource Management Office continues to ensure that no new employee is added on the payroll without a valid **National Identification Number (NIN),** NASSIT Number and BBAN Number. This is in order to continue to improve on the reliability of the payroll.

(v) **Teacher reassessment and promotion;** Following a comprehensive reassessment of teachers, during March 2021, a total of 2,770 teachers were promoted and 1,388 teachers reassessed. This reform will ensure that teachers are now being paid according to their qualifications and are now in their right scale/grade. This policy action was also taken in line with Government's commitment to promote continuous professional development of teachers.

40. For the rest of FY2021 and the medium-term, the following reforms will be implemented:

(i) Automation of the payroll of paramount chiefs and chiefdom functionaries;

(ii) The dedicated Payroll Audit Team will conduct random verification of public sector employees that have recently changed their critical information such as name, National Identification Number (NIN), BBAN Number, date of birth, and NASSIT number;

(iii) Develop a follow-up Payroll Strategy to guide payroll reforms in the medium-term;

(iv) Operationalize the Wages and Salaries Commission which has been approved by Cabinet and gazetted. The Wages and Compensation Bill will soon be laid in Parliament for enactment; and

(v) Conduct another teacher reassessment for implementation in FY2022.

Non-Salary, Non-Interest Recurrent Expenditures

41. As part of efforts to reduce non-priority expenditures, Government will commence the Implementation of the Vehicle Fleet Management Policy in 2021 to minimize the cost of procurement and maintenance of vehicles for public and civil servants.

Capital Expenditure Management

42. Government is committed to improving the efficient management of public investment and addressing the gaps identified in the Public Investment Management Assessment. Cabinet will soon approve the National Public Investment Management Policy, which will provide the framework to guide public investment planning, budgeting, execution and monitoring. A governance structure will provide for a Technical Investment Committee to appraise and vet projects, and a Ministerial Investment Committee will ultimately select from these projects for inclusion in the Public Investment Programme (PIP). To further this, Government has commenced the development of National Public Investment Operation Manual that will provide standardized appraisal methodologies and templates and objective criteria for project selection, to which all projects will have to adhere to. In particular, we will develop infrastructure project appraisal templates and guidelines, as recommended in the recent FAD PIMA (**structural benchmark**, end-March 2022).

Government will also provide guiding regulations for Local Councils (LCs) and State Own Enterprises (SoEs) in terms of public investment methodology and strategy.

Improving Public Procurement

43. In an effort to continue to improve transparency in the public procurement process and ensure value for money, the NPPA continued to regularly publish Quarterly Price Norms in 2020 to ensure that public procurement transactions reflect current market trends and launched the second edition of the Public Procurement Manual in September, 2020 and the second quarter 2020 Public Procurement Bulletin in October 2020. We intend to publish information on procurement contracts on the NPPA website, including emergency contracts, in line with our Public Procurement Act 2018. Preparations for the introduction of e-Procurement are at an advanced stage. E-procurement is expected to improve the effectiveness, efficiency and transparency of the public procurement system. The bidding process for the e-procurement software is in progress.

B. Debt Management Policy

44. Government will continue to take additional steps to mitigate the challenging public debt landscape by ensuring that future new borrowing and pipelines would not worsen the debt distress rating. The overall objective of debt policy is to maintain debt sustainability despite the shocks coming from the CoVID-19 pandemic and reduce debt vulnerabilities going forward. Government will continue to implement additional fiscal and external sector adjustments through revenue mobilization, exports diversification to build reserves, and rely on highly concessional external financing (largely grants), including from development partners, to limit recourse to expensive domestic debt. Government anticipates that public debt vulnerabilities will decline in the medium-term.

45. On the external front, Government would continue to prioritize concessional loans within a pre-defined borrowing limit and especially grants to finance infrastructure projects in order to lower the risk of unsustainable debt levels. We commit to seek only highly concessional financing (grant element of 35 percent or more) and ratify loans only within the annual ceiling set out in this MEFP (Table 1, continuous QPC). Any loans under discussion that are computed, jointly with the IMF, as being non-concessional, will be cancelled or the terms renegotiated to ensure they are concessional. The terms of loans under discussion will be shared with the IMF at an early stage or before signature at the latest to ensure compliance with our commitments on non-concessional and concessional borrowing. Technical assistance to the Public Debt Management and Multilateral Project Divisions to assess loan terms for concessionality would be welcome. Given that we expect somewhat higher loans to be ratified in 2021 (relative to the normal ceiling of US$100 million), we commit to contain new concessional external loans somewhat below US$100 million in 2022. Innovative financing approaches including Public Private Partnership arrangements to implement specific self-liquidating projects without exposing the government to contingent liabilities would be explored. Government would uphold the yearly conduct of Debt Sustainability Analysis (DSA) by the national DSA team to provide signals on the level of risks of external and public debt sustainability.

46. On the domestic front, Government is cognizant of rollover risks in the domestic debt portfolio and would issue medium to long-term bonds to reduce these risks and support the development of the domestic debt market. Government would develop the domestic debt market to provide the platform to raise medium to long-term resources to implement infrastructure project under the National Development Plan rather than utilizing short-term instruments, as in the past, which triggers liquidity and refinancing risks.

47. We are working on a Medium-Term Debt Strategy (MTDS). Technical assistance on an MTDS, covering the period 2021 to 2025, was conducted on 24th May to 3rd June 2020 to provide an indication of the cost and risks characteristics of the existing public debt portfolio to inform appropriate financing strategies that would lower the cost and risks of the debt portfolio and the trade-offs. The MTDS (2021 to 2025), incorporating the Arrears Clearance Strategy and Principles (2020-2025), would be published in June 2021 to ensure Government's commitment towards liquidating the verified stock of domestic suppliers' arrears are consistent with macroeconomic and financial sector fundamentals in the short to medium term. The MTDS (2021-2025) also assesses the likely impact on the cost and risk of the existing debt portfolio for a minimum issuance of 500 million Euro Bonds in the international capital market; which gives Government a good sense of the requisite prior economic fundamentals in the longer term, once significantly reduced debt levels and vulnerabilities could allow for considering such instruments.

48. We remain committed to our arrears clearance strategy. Higher-than-planned clearance of legacy arrears in 2020 helped to keep small and medium enterprises afloat and to mitigate the impact of COVID-19 on the asset quality of commercial banks. Going forward, we will strictly implement our arrears clearance strategy, including through continuing to seek necessary haircuts and NPV reductions to resolve the large stock of legacy arrears, and limiting issuances of securities to non-tradable securities to the non-bank sector.

49. Strengthening debt and arrears management, and integrating it into broader macroeconomic discussions, will be important. In line with recommendations in recent IMF technical assistance, we have re-instated the practice of regular inter-agency cash management meetings and in early February broadened the mandate to oversee cash, debt and arrears management as a whole, and have regularly met since then. Going forward, we expect to meet at least once a month, expand cash forecasting horizons, use this meeting as a vehicle to regularly monitor program targets and to incorporate arrears repayment plans and financing requirements into cash planning. This effort will help us to strengthen debt and cash reporting and management, supported by continued technical assistance, and support our efforts to clear the large stock of legacy arrears, as outlined in out arrears clearance strategy.

50. Going forward, Government would remain committed to transparency in debt reporting. In line with ongoing IMF TA, we intend to develop a standard regular debt report that consistently records arrears-related debt instruments. The liabilities of the five biggest State-Owned Enterprises (SoEs), in terms of balance sheet, was published to track contingent liability exposures across these SoEs. The publication of SoEs loans and guarantees would become a continuous practice to monitor the exposures of all SoEs in line with the provisions of the Public Debt Management Act 2011 and assess the implications for the national budget.

C. Monetary and Exchange Rate Policies

51. The BSL remains committed to its core mandate of price stability and financial stability objectives while supporting the Government's economic recovery programme. With the commitment to deepen the financial market, the BSL will continue to implement a monetary aggregate targeting framework using indirect policy instruments to achieve its target goal of price stability. Going forward in the medium term, the BSL will continue to collaborate with the IMF through Technical Assistance to strengthen the role of indirect policy instruments to allow for effective price based monetary policy. We will maintain our policy of limited recourse to secondary market purchases of government securities for non-monetary purposes, in line with program targets.

52. Given that the Le 500 billion allotted to the Special Credit Facility has been fully disbursed, we will allow the facility to be wound down over the course of 2021, unless exceptional circumstances arise which threaten our food security.

53. The BSL is committed to expeditiously resolving the recent problem of shortages of local currency. We are taking steps to identify the root cause of the problem and will implement measures to address it, seeking technical assistance as needed.

54. The BSL is committed to maintaining a flexible exchange rate to help mitigate the impact of adverse external shocks and maintain adequate reserves. The BSL will participate in the foreign exchange (FX) market only to smoothen out excess volatility in the market, while maintaining adequate reserve coverage. As the FX market develops, the Bank will continue to consolidate the framework that will facilitate the implementation of the two-way auction system.

55. We are working to improve computation of the BSL rate used in governmental and other FX transactions. Our goal is to better reflect the prevailing market rate at the time of transactions and eliminate the multiple currency practice related to the use of the rate for government transactions, SCF and ACF transactions. In this context, we are working with Refinitiv (previously Reuters) to develop a software for real time data submission by banks, specifically for the Sierra Leonean market. We are also currently compiling data series of daily exchange rate volatility and monitoring the weekly exchange rate produced currently to ensure that the deviation between the BSL rate and the market rate does not exceed 2 percent. We are working with banks in order for them to meet the deadline for submission, which most of them have challenges with. In this context, we will also seek technical assistance from AFRITAC West II in 2021 to provide additional recommendations on how to better align the BSL rate with the market rate.

56. We do not intend to introduce trade restrictions or other measures or policies that would compound our balance of payments difficulties. We will comply with the provisions of the IMF's *Articles of Agreement*, including those related to imposing new or intensifying existing restrictions on the making of payments and transfers for current international transactions, introducing or modifying multiple currency practices, concluding bilateral payments agreements which are inconsistent with Article VIII, and will implement public policies under that framework.

D. Financial Sector Policy

57. The Bank of Sierra Leone will continue to examine banks using the Risk Based approach, which would eventually lead to the adoption of Basel 2 and Basel 3, aimed at enhancing the operational resilience of banks to withstand any presenting shocks. The BSL will continue with the enhanced supervision regime, which has helped to limit the banks' fiscal risks, thereby making them to remain profitable with sufficient capital buffers. The banks continue to increase their intermediation function of lending with prudence, whilst improving their risk management practices and putting proper credit administration and management in place. The BSL will update and issue revised prudential guidelines for banks in line with the 2019 Banking Act, to strengthen the regulatory framework for capital adequacy, loan classification and provisioning as well as for credit, market and operational risks, supported by Fund CD, by December 31, 2021 (**structural benchmark**).

58. Some progress has been made in improving governance of the two state-owned banks. The Boards of the two state-owned banks (SOBs) were reconstituted, with all board members in place as of July 2019. Board members are drawn from various disciplines related to the banking industry, including economics, banking, law, finance and accounting. Board sub-committees have been constituted covering areas such as credit and audit. The board committees meet regularly. Just prior to the onset of the pandemic, the BSL undertook on-site examinations of the two state-owned banks and issued the examination reports in April/May 2020. The boards have ensured that policies which the examination teams highlighted in the previous examinations have either been developed or updated. Both banks have developed corporate governance charters and strategic plans, as well as putting in place a risk management framework. Since the issuance of the on-site reports, Sierra Leone was impacted by the Covid-19 pandemic. NPLs rose at end-June 2020, fell below 10 percent in both SOBs at end-December 2020, and have increased above 10 percent at end-March 2021 in one of the SOBs. In the context of ongoing efforts to improve governance and strengthen efficiency, both banks have revised their business plans which have been submitted to the Financial Secretary, and are in the process of upgrading their enterprise risk management frameworks and systems.

59. The BSL will conduct on-site examinations of the two SOBs in 2021, with a special focus on non-performing loans (NPLs). The enhanced directives for the two SOBs are still in effect and these banks have been strengthening their systems for credit administration as well as for AML/CFT compliance. The BSL has maintained active oversight of these two banks and has kept a resident examiner in each of them, who is providing the central bank with regular information on their operations as well as with reports from the board and the board committees. An onsite examination will be conducted in the two SOBs during the second half of 2021and will include a thematic review with a special focus on NPL strategy and management in view of their relatively high NPL levels. This review will assess credit administration (loan underwriting policies and procedures), collateral valuation, segmentation of the NPL portfolio and work-out strategies including loan recovery options. Based on the findings of the onsite examinations, the BSL will draw up a set of recommended actions to ensure that, going forward, NPLs are, at a minimum, kept within the limits specified in the prudential guidelines (SB for end-March 2022). The BSL will maintain these banks under enhanced supervision until the governance arrangements are sufficiently strengthened and effective NPL management is fully embedded. Develop updated corporate governance frameworks for the two state-owned banks, with a focus on (a) Board and Senior management oversight; (b) operational management; (c) risk management; (d) compliance with regulations; (e) internal audit; (f) external audit (**structural benchmark**, end-September 2022).

60. We continued to make progress in addressing the recommendations of the safeguards assessment. The FY 2019 and 2020 audits of the BSL's financial statements are underway and we expect them to be finalized by October 2021. An external quality assessment of the internal audit function will be completed by end-2021. We plan to appoint a reputable external auditor with central banking experience for the FY 2021 audit by November 2021, with a view to ensure the audit is completed within the statutory deadline, i.e., end-March, and subsequently publish it on the BSL's website (**structural benchmark** April 2022).

61. The Bank of Sierra Leone with the support of UNCDF has developed draft Financial Consumer Protection Guidelines to be used by banks and non-bank financial institutions. The Bank of Sierra Leone is also developing the Regulations for the Borrowers and Lenders Act and updating the Collateral Registry Database to allow the full implementation of the Borrowers and Lenders Act 2019. The National Civil Registration Authority has embarked on registering citizens and non-citizens in order to issue National Identity Numbers that will be used in the automation of the Credit Reference Bureau.

E. Inclusive Growth and Social Protection

62. Sierra Leone continues to make progress in implementing programmes and projects aimed at alleviating multidimensional poverty and inequality with the support of development partners. The Government's ongoing public financial management stance and reforms continue to focus on implementing sound macroeconomic policies, investing in human capital development and economic diversification with an inclusive growth lens.

63. Crises have always exposed challenges in public service delivery and negatively affected the socio-economic life of citizens especially the poor and other vulnerable groups. Still battling with the long-term effects of the civil war, Sierra Leone is yet to completely recover from the devastating impact of the Ebola Virus Disease (EVD) epidemic of 2014-2015. It is amidst this situation that the country recorded its first COVID-19 case in March 2020. Like other countries, COVID-19 has exacerbated existing socio-economic challenges. However, the Government proactively implemented the Quick Action Economic Response Programme (QAERP) alongside the COVID-19 Health Response. Through the QAERP, the Government was able to maintain macroeconomic stability and mitigate the impact of COVID-19 on businesses and households.

64. Sierra Leone continues to respond to the pandemic and sustain efforts to return to a growth path within the context of the Medium-Term National Development Plan for a resilient recovery. Given current domestic and global economic conditions, in order to enhance inclusive growth and social protection, the Government will:

- Expand the unconditional cash transfer scheme for the extremely poor and vulnerable households including Persons Living with Disabilities (PWDs);
- Provide micro-grants and productive skills development for 5,000 Persons with Disabilities (PWDs), including Albinos, household heads of refugees, and vulnerable communities;
- Continue to pay tuition fees for all children in Government-owned and Government-assisted schools;
- Expand school feeding for Government-owned and Government-assisted pre-primary and primary schools in impoverished communities;
- Continue to improve the efficiency of the school bus services and provide assistive devices for special needs children;
- Review the Cost Recovery Initiative for the provision of drugs and encourage private sector participation through public private partnerships;
- Implement a National Street Children Strategy which will re-integrate 10,000 street children with their families;
- Implement the Gender Equality and Women’s Empowerment Policy, which includes the establishment of a Women’s Economic Empowerment Fund;
- Invest in the productivity of youths through entrepreneurship and job creation; and
- Sustain capital expenditures to address macro-critical infrastructure bottlenecks.

F. Business Environment and Economic Diversification

65. In pursuit of Government's economic diversification strategy, Government has adopted a major policy shift in the agriculture sector. The new policy focuses on encouraging the private sector to take the lead in procurement and distribution of agricultural inputs to farmers in order to boost agriculture productivity.

66. Government with support from the World Bank has developed a Doing Business Road Map as part of efforts to improve the business environment and improve our Doing Business Ranking. The World Bank funded Economic Diversification Project is supporting policy, administrative and regulatory reforms that will facilitate business entry and operation in Sierra Leone. These include streamlining, automating (whenever possible) and making more transparent the interactions between government institutions and businesses, as related to registration of firms and obtaining of licenses, permits, approvals and other key documents needed for a business to operate in Sierra Leone. Efforts are underway to review the Companies Act, the Companies Amendment Act and the accompanying Regulations.

67. Access to finance is one of the major constraints faced by businesses in Sierra Leone. In this regard, the project is supporting the Bank of Sierra Leone to upgrade the collateral registry to include the use of moveable assets, individual search and e-payment services. Discussions are also ongoing with the Ministry of Lands and Country Planning and the Office of the Administrator and Registrar-General to determine how the processes for property registration and construction permits can be streamlined and automated.

G. Strengthening Statistics

68. Timely data compilation and dissemination are a priority in all sectors to enable us to design and implement policies effectively. In the current absence of quarterly GDP estimates, our work with IMF technical assistance brought increased attention to high frequency indicators of economic activity. It will improve the ability to monitor the reform process and refine monetary and fiscal policies in response to shocks or changed circumstances. In the meantime, work to improve statistics in core areas is ongoing with support from the IMF and other development partners and includes the conduct of the Annual Economic Survey of Enterprises (AESE) to improve the compilation of National Accounts in line with the 2008 SNA methodology and develop the Supply and Use table (SUT) and employment matrices to estimate informal activities; reviewing the Consumer Price Index (CPI) basket and updating weights and re-referencing the series, and a push to improve debt reporting (Ministry of Finance) and efforts to improve balance of payments statistics (BSL).

69. Going forward, with support from the World Bank under the Harmonizing and Improving Statistics Project in West Africa (HISWA), Stats-SL will:

(i) Continue to improve the quality of economic statistics using harmonized methodologies through:

   a. design and implementation of coherent system of enterprise statistics using electronic platforms and conducting of related data collection;

   b. design and implementation of comprehensive collection of agricultural statistics; and

   c. modernization of National Accounts using enterprise and agriculture statistics and additional data to be collected;

(ii) Modernise CPI at the national level using harmonized methodologies (with AFRITAC-West II taking the lead, with support from STA);

(iii) Carry out labour force surveys to improve labour statistics systems, household-based surveys, national census and relevant sociodemographic surveys;

(iv) Adopt the use of international standards on administrative data processing

(v) The project will also support the improvement of the statistical Infrastructure of Stats-SL and enhance data accessibility through the creation of national data bases and development of or update web-based apps and platforms.

(vi) Furthermore Stats-SL will continue to partner with organizations across the country to bring timely, accurate, and useful information about Sierra Leone, promote wider coverage and dissemination of national statistics, and become an authoritative source of data.

(vii) Collaborate with the DSTI and other institutions to make data easily accessible online.

(viii) Elevate Sierra Leone as a leader among low-and middle-income countries in ensuring that data are transparent and high-quality, and that efforts to achieve the SDG targets are data driven.

(ix) Strengthen capacity at SSL and expand technical expertise to support the collection of essential routine data about Sierra Leone and evidence-based policy decision-making.

(x) Work with the Fund and other development partners on migrating to GFSM2014, which will allow clear fiscal classifications and facilitate better targeted and informed policy making.

PROGRAM MONITORING

70. Given the COVID-19 related pause in ECF reviews and the intervening RCF disbursements, we request a rephasing of the program. The rephasing would postpone the availability and associated test dates for the sixth, seventh and eighth disbursements by 12 months. This postponement will imply an extension of the ECF arrangement by 12 months to June 29, 2023.

71. The program will be monitored on a semi-annual basis, through quantitative targets and structural benchmarks. Quantitative targets for end-December 2021 and end-June 2022 are performance criteria. Those for end-September 2021 and end-March 2022, end-September 2022 and end-December 2022 are indicative targets. The fifth review of the program will be completed on or after June 1, 2022, and the sixth review on or after December 1, 2022.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets, 2019-22
(Within-year cumulative change – starting from January; Le billions, unless otherwise indicated)

	2019				2020								2021		2022			
	Dec. PC				Mar IT.				Jun. PC				Sep. IT	Dec. PC	Mar. IT	Jun. PC	Sep. IT	Dec. IT
	CR No. 19/217	Adj. Prog.	Est.	Status	CR No.	Adj. Prog.	Est.	Status	CR No. 20/116	Adj. Prog.	Est.	Status						
Performance criteria																		
Net domestic bank credit to the central government (ceiling) 1/	1085	959	950	Met	369	369	448	Not met	556	1188	1518	Not met	1858	1775	259	757	681	1366
Unadjusted target (ceiling)		1085				369				556								
Adjustment for the shortfall in external budget support		6				0				206								
Adjustment for the excess (shortfall) in unpaid checks and other outstanding payments		-208				27				605								
Adjustment for the excess (shortfall) in leone value of net issuance of government securities to non-bank private sector		77				-28				-178								
Adjustment for the cumulative net flow of non-tradeable securities issued to the non-bank sector for regularizing the stock of legacy arrears 2/		n.a.				0				0								
Net domestic assets of the BSL (ceiling)	634	617	-34	Met	427	446	-108	Met	25	303	861	Not Met	1170	995	291	723	612	1328
Unadjusted target (ceiling)		634				427				25								
Adjustment for the shortfall (excess) in external budget support		6				0				206								
Adjustment for exchange rate depreciation (appreciation)		-22				19				72								
Gross international reserves of the BSL, US$ millions (floor)	17	-3	24	Met	-19	-19	0	Met	45	-18	147	Met	-84	-25	-56	-78	-85	-120
Unadjusted target (floor)		17				-19				45								
Adjustment for the shortfall (excess) in external budget support		-1				0				-63								
Adjustment for the shortfall (excess) in the US$ value of IMF disbursement		-22				0				0								
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities		2				0				0								
New concessional external debt with original maturity of one year or more contracted or guaranteed by the public sector, US $ millions (annual ceiling) 3/	100		122	Not met	100		0	Met	100		68	Met	130	130	70	70	70	70
New non-concessional external debt contracted or guaranteed by the public sector, US$ million (ceiling) 3/	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0
Outstanding stock of external debt with maturities of less than one year contracted or guaranteed by the public sector (ceiling) 3/	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0
External payment arrears of the public sector (ceiling) 3/	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0
Indicative targets																		
Total domestic government revenue (floor)	5302		5418	Met	1435		1402	Not Met	2942		2667	Not Met	4848	6642	1951	3939	5642	7637
Poverty-related spending (floor) 4/	1495		1544	Met	387		327	Not Met	785		711	Not Met	1585	2034	421	965	1562	2165
Domestic primary balance (floor)	-247		-279	Not met	24		57	Met	-33		-286	Not Met	-981	-965	202	356	112	158
Memorandum items:																		
External budgetary assistance (in $ million)	85		84		0		0		74		11							
Exchange rate (Leones/US$)																		
Program	9539				9908				10291				10486	10939	11832	11966	12184	12614
Actual			9716				9764				9741							

1/ Includes IMF budget support-related SDR on-lending from the Central Bank to the Government.
2/ Adjustor added in revised TMU in CR/20/116 (*Sierra Leone: 2019 Article IV Consultation, Second Review Under the Extended Credit Facility Arrangement, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review*); applies to March 2020 IT and June 2020 PC.
3/ These apply on a continuous basis.
4/ Poverty-related spending is defined in paragraph 23 of the TMU.

Table 2. Sierra Leone: Structural Benchmarks		
STRUCTURAL BENCHMARKS	**TIMING**	**STATUS**
Benchmarks for 3rd Review[1]		
Submit the revised NRA Act to the Parliament, based on Fund staff review and advice on the draft NRA Act.	April 30, 2020	Not met (completed with delay)
Finalize and publish an arrears clearance strategy, consistent with the resource envelope in the 2020 budget and the program; and refrain from issuing securities for arrears clearance until the strategy is finalized and published.	April 30, 2020	Not met (completed with delay)
Prepare a long-term business strategy for both state-owned banks, including a time-bound action plan on steps to put in place a new business model that would ensure they operate on a firm commercial footing and effectively contribute to financial intermediation.	May 31, 2020	Not met
Continue to use the automatic fuel price indexation mechanism to set fuel price determination and begin publishing the fuel price formula and the outcome of fuel price setting decision, regardless of whether fuel prices are changed.	Continuous	Not met
Benchmarks for 5th Review		
Undertake a stocktake and prepare a report on existing income tax exemptions.	December 31, 2021	
Conduct a study on effective ways to identify and tax High Net Worth Individuals (HNWI), including to determine whether to establish a dedicated HNWI unit at the NRA; share the study with IMF staff.	March 31, 2022	
Develop infrastructure project appraisal templates and guidelines, as recommended in the recent FAD PIMA.	March 31, 2022	
Update and issue revised prudential guidelines for banks in line with the 2019 Banking Act, to strengthen the regulatory framework for capital adequacy, loan classification and provisioning as well as for credit, market and operational risks.	December 31, 2021	

Table 2. Sierra Leone: Structural Benchmarks (Concluded)		
Conduct a thematic review of NPL strategy and management in the two state-owned banks and share a summary of the actionable recommendations with the Fund.	March 31, 2022	
Publish on the website of the BSL the BSL's FY 2021 financial statements audited by a reputable audit firm with experience in central banking.	April 30, 2022	
Continue to use the automatic fuel price indexation mechanism to set fuel price determination and begin publishing the fuel price formula and the outcome of fuel price setting decision, regardless of whether fuel prices are changed.	Continuous	
Benchmarks for 6th Review[2]		
Develop updated corporate governance frameworks for the two state-owned banks, with a focus on (a) Board and Senior management oversight; (b) operational management; (c) risk management; (d) compliance with regulations; (e) internal audit; (f) external audit.	September 30, 2022	
Develop an SOE Ownership Policy that outlines the rationale and objective for state ownership, which would help guide further reforms of SOEs and the SOE framework.	September 30, 2022	
Develop a Medium-Term Revenue Strategy (MTRS) approved by Cabinet.	September 30, 2022	

1/ At the time of the 2nd ECF review, no structural benchmarks were set for the 4th review.
2/ Additional structural benchmarks for the 6th review could be set during the 5th review.

Attachment II. Technical Memorandum of Understanding[1]

INTRODUCTION

1. This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund (IMF) starting 2021. It provides 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. The definitions and adjustors described below cover the PCs and ITs for September 2021 through December 2022. The program PCs and ITs through June 2020, and relevant adjustors, remain as defined in the Technical Memorandum of Understanding of April 17, 2020 (see CR No. 20/116).

2. Program exchange rates.[2] For the purpose of the program, foreign currency denominated values for 2021 and 2022 will be converted into Sierra Leonean currency (Leone) using a program exchange rate of Le 10,133.36/US$1 and cross rates as of end-December 2020.[3]

Sierra Leone Program Exchange Rate for ECF Arrangement
Cross Rates as of end-December 2020

Currency	Currency units per SDR	Leones per currency unit	US dollars per currency unit
US dollars	1.44	10,133.36	1.00
British Pound Sterling	1.07	13,599.0	1.34
Japanese Yen	149.26	97.8	0.0096
Euro	1.17	12,328.3	1.23
SDR	1.00	14,594.8	1.44

[1] This TMU will apply to test dates starting in September 2021.

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

[3] For calculating program targets for 2021 and 2022, all end-December 2020 stock variables will be based on the program exchange rate of Le 10,133,36/US$. The program exchange rates for test dates are specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).

QUANTITATIVE PROGRAM TARGETS

3. **Quantitative performance criteria are proposed for December 31, 2021 and June 30, 2022 with respect to**:

- Net domestic bank credit to the central government (NCG) (**ceiling**);
- Net domestic assets (NDA) of the Bank of Sierra Leone (BSL) (**ceiling**);
- Gross international reserves (GIR) of the BSL (**floor**);
- New concessional external debt with original maturity one year or more contracted or guaranteed by the public sector, US$ millions (**continuous annual ceiling**);
- New non-concessional external debt contracted or guaranteed by the public sector, US$ million (**continuous ceiling**);
- Outstanding stock of external debt with maturities of less than one year contracted or guaranteed by the public sector (**continuous ceiling**); and
- External payment arrears of the public sector (**continuous ceiling**).

4. **Indicative targets are proposed for September 30, 2021, December 31, 2021, March 31, 2022, and June 30, 2022 with respect to**:

- Total domestic government revenue (**floor**);
- Domestic primary balance (**floor**); and
- Poverty-related expenditure (**floor**).

QUANTITATIVE PERFORMANCE CRITERIA

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

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

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

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 and/or to increase its capital, but including any bonds issued in the conversion/securitization of ways and means into debt (government's overdraft at the central bank); (b) ways and means; and (c) any other type of direct credit from the BSL to the government, including the special lending arrangements relating to budget support;

- *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.

6. Adjustment clauses. The ceiling on changes in NCG will be adjusted (a) upward by the Leone value of the shortfall in external budgetary assistance[4]—the upward adjustment will be capped at the equivalent of US$20 million; (b) a downward (upward) adjustment by the increase (decline) in the value of the cumulative net flow of unpaid checks and other outstanding payments (or known as 'crystalized obligations') (relative to the end-December 2020); (c) a downward (upward) adjustment by the excess (shortfall) in Leone value of net issues of government securities to the non-bank private sector,[5] and (d) an upward (downward) adjustment by the increase (decrease) in the cumulative net flow of non-tradeable securities issued to the non-bank sector for regularizing the stock of legacy arrears.[6,7] If the IMF makes a new SDR allocation to its membership, the ceiling on changes in NCG in 2022 will be adjusted upward by the SDR allocation on-lent to the central government by the BSL, but not by more than Le 450 billion, with the on-lending modalities to be specified in an MOU between the BSL and the government.

7. 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.

8. 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 state-owned enterprises are *excluded* from this definition of central government.

[4] External budgetary assistance is defined as budget grants and loans, excluding HIPC assistance. The amounts are specified in Section D.

[5] Taken together, clauses (b) and (c) would imply that a reduction in the stock of unpaid checks from cash budget resources would increase the NCG ceiling by the same amount, but a reduction through securitization would not.

[6] Taken together, clauses (c) and (d) imply that a change in securities issued to the non-bank sector for the purpose of regularizing the legacy stock of arrears will not impact NCG.

[7] The stock of legacy arrears refers to arrears identified in the stocktaking exercise completed in September 2019, totaling Le 3.287 trillion. As indicated in the MEFP, the Government completed and published its arrears clearance strategy in July 2020 and, to date, has not yet issued any securities for the purpose of clearing these arrears.

B. Net Domestic Assets of the BSL

9. Definition. Net domestic assets (NDA) of the BSL are defined as the end-period stock of 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 BSL liabilities to other private sector entities. Net foreign assets of the BSL are defined as gross foreign exchange reserves minus gross foreign liabilities (defined below):

a. **The BSL's Gross foreign exchange reserves** are defined as the sum of:

- the BSL's holdings of monetary gold (excluding amounts pledged as collateral);
- holdings of Special Drawing Rights (SDRs), including the August 28, 2009 General allocation and the September 9, 2009 Special allocation and any future allocation of SDRs by the IMF to its membership; and
- the BSL's holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments).

b. **The BSL's gross foreign exchange reserves** exclude:

- pledged, or any encumbered reserve assets, including but not limited to reserve assets used as collateral or guarantees for third-party external liabilities;
- deposits with Crown Agents and other correspondent banks rated below BBB; and
- precious metals other than gold, assets in nonconvertible currencies and illiquid foreign assets.

c. **The BSL's gross foreign exchange liabilities** are defined as:

- the total outstanding liabilities of the BSL to the IMF excluding those arising from the August 28, 2009 SDR general allocation and the September 9, 2009 SDR special allocation and any future allocation of SDRs by the IMF to its membership; and debt relief from the Catastrophe Containment and Relief (CCR) Trust granted in 2015;
- convertible currency liabilities of the BSL to nonresidents with an original maturity of up to and including one year; excluding foreign liability to China of Le 35 billion relating to a legacy clearing account for a previous Bilateral Trade Agreement;[8]

[8] The authorities have confirmed that this Bilateral Trade Agreement is no longer operational.

- commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), including 2017–18 foreign exchange swap arrangements with commercial banks; and
- balance on zero coupon bonds issued by the BSL to Securiport LLC on behalf of the government.

10. 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$20 million, and by exchange rate depreciation (appreciation). If the IMF makes a new SDR allocation to its membership, the ceiling on changes in NDA of the BSL will be adjusted downward by the Leone value of the new SDR allocation to Sierra Leone and, for 2022 only, upward by the SDR allocation on-lent to the central government by the BSL, but not by more than Le 450 billion, and as specified in an MOU between the BSL and the government. The NDA target would be adjusted upward by a cumulative maximum of the Leone equivalent of US$ 50 million, in case the COVID-19 response necessitates a rollover of the BSL's Special Credit Facility as part of the QAERP.

C. Gross International Reserves of the BSL

11. Definition. Unless otherwise noted, gross international reserves (GIR) of the BSL will be calculated as reserve assets of the BSL. Reserve assets are defined in IMF's Balance of Payments Manual (5th ed.) and elaborated in the reserve template of the Fund's International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template. Specifically, GIR of the BSL excludes foreign exchange swap arrangements with commercial banks.

12. Adjustment clauses. The floor on the change in gross international foreign exchange reserves will be adjusted (a) downward (upward) by U.S. dollars equivalent cumulative shortfall (excess) in programmed external budgetary assistance; (b) downward (upward) for any cumulative shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the ECF arrangement; (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); and (d) upward by the amount of a new allocation of SDRs to Sierra Leone, should the IMF make a new allocation to its membership; (e) a downward adjustment by a cumulative maximum of US$50 million in case the COVID-19 response necessitates a rollover of the BSL's Special Credit Facility as part of the QAERP.

D. Assumptions on External Budgetary Assistance

13. The programed external budgetary assistance for the calculation of NCG, NDA, and GIR targets will amount, from January 1, 2021 to:

End-September 2021	US$ 26.5 million
End-December 2021	US$ 101.5 million

14. The programed external budgetary assistance for the calculation of NCG, NDA, and GIR targets will amount, from January 1, 2022 to:

End-March 2022	US$ 0.0 million
End-June 2022	US$ 0.0 million
End-September 2022	US$ 65.0 million
End-December 2022	US$ 65.0 million

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

15. New external debt is defined as all forms of new external debt with original maturity of one year or more contracted or guaranteed by the public sector based on the residency of the creditor. The external debt definition applies not only to debt as defined in the Guidelines on Public Debt Conditionality in Fund Arrangements (Decision No. 15688-(14/107), December 5, 2014, Point 8 but also to commitments contracted or guaranteed for which value has not been received. For the purposes of this PC, external debt is defined on the basis of the residency of the creditor. The "public sector" is defined in paragraph 21.

16. For program purposes, the debt is deemed to have been contracted when it is signed by the government of Sierra Leone and ratified by Parliament. 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 ceiling on new concessional external debt with original maturity of one year or more will be applied on a continuous basis and evaluated in terms of cumulative changes within each calendar year.[9]

17. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its signing date of an underlying loan agreement is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

[9] For example, a ceiling amount of US$100 million in calendar year 2020 means that up to US$100 million of new concessional external debt can be contracted in 2020. Once that ceiling is reached at any point in the year, any new concessional external debt that is contracted will result in the nonobservance of the PC.

F. New Non-Concessional External Debt Contracted or Guaranteed by the Public Sector

18. Non-concessional external debt is defined as external debt (defined in paragraph 15) on terms that do not meet the definition in paragraph 17. External debt and its concessionality will be reported by the Debt Management Division of the Ministry of Finance and will be measured in U.S. dollars at current exchange rates.

19. For loans carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the loan would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the loan contract. The program reference rate for the six-month USD LIBOR is 0.42 percent and will remain fixed for the remainder of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -50 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -50 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is zero basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is -50 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added. This PC will apply on a continuous basis.

G. Outstanding Stock of Short-term External Debt with Maturities of Less Than One Year Contracted or Guaranteed by the Public Sector

20. Definition. External short-term debt is defined as external debt stock with a maturity of less than one year contracted or guaranteed by the public sector. Debt is defined in Annex I of this TMU. For this purpose, short-term debt will exclude normal trade credit for imports. For the purposes of this PC, the public sector is as defined in paragraph 21. This PC will apply on a continuous basis.

H. External Payment Arrears of the Public Sector

21. 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, state-owned enterprises, as listed in Annex 7 of the 2021 budget documents, 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 (i) external arrears accumulated before the approval of this ECF arrangement and (ii) those debts subject to rescheduling or restructuring or are under litigation.

QUANTITATIVE INDICATIVE TARGETS

A. Domestic Revenue of Central Government

22. 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.

B. Domestic Primary Balance

23. Definition. Central Government Revenue less expenditures and net lending adjusted for interest payments, foreign-financed capital spending, and cash paydown of arrears. Arrears refers to the stock of legacy (pre-April 2018) arrears determined for the purpose of the Sierra Leonean authorities' arrears clearance strategy. Should the IMF make a new allocation of SDRs to Sierra Leone, the floor on the domestic primary balance will be adjusted downwards by the amount of the associated on-lending by the BSL to the government in 2022, but not by more than Le 450 billion, and as specified in the MOU between the BSL and the government.

C. Poverty-Related Expenditure

24. Definition. For program monitoring purposes, poverty-related expenditures are defined as the total non-salary, non-interest current expenditures of the following ministries and institutions: Higher and Secondary Education, Health and Sanitation, the Health Service Commission, Social Welfare, Youth, Agriculture, Fisheries, Transport and Communications, Energy, Sierra Leone Electricity and Water Regulatory Commission, Water, Correctional Service, National Fire Authority, Local Councils, the National HIV and AIDS Commission, Anti-Corruption Commission, Statistics Sierra Leone, and the National Commission for Social Action; and capital expenditure for the Ministry of Works, Energy, Sierra Leone Electricity and Water Regulatory Commission, Water, Health and Sanitation, the Health Service Commission, Agriculture, Fisheries, Local Councils, and the National Commission for Social Action.

D. Program Monitoring

25. The Sierra Leonean authorities shall maintain a program-monitoring committee composed of senior officials from the MoF, 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 I. Implementation of the Public Debt Limits in Fund-Supported Programs with Respect to External Debt

The term "debt" has the meaning set forth in point No. 8a of the Guidelines on Public Debt Conditionality in Fund Arrangements adopted on June 30, 2015, which reads as follows:
"(a) For the purpose of these guidelines, 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 the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, 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 in this paragraph, 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."

Attachment A. Summary of Data Reporting to IMF Staff

Type of Data	Tables	Frequency	Reporting Deadline
Real sector	National accounts	Annual	End of year + 9 months
	GDP deflators by sectors	Annual	End of year + 9 months
	Mining production and exports	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 changes in stocks of arrears, stock of the float, treasury bills, and bonds.	Monthly	End of month + 6 weeks
	Government flow-of-funds table (Government Financial Operations Table)	Monthly	End of month + 6 weeks
	Structure of petroleum product prices by categories of petroleum products	Monthly	End of month + 6 weeks
	Import duty and GST exemptions by end-users 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	Daily	COB + 2 days
	BSL monitoring sheet of treasury bills and bonds holdings	Weekly	COB + 1 day
	Borrowing and lending interest rates	Monthly	End of month + 6 weeks
	Results of foreign exchange and Treasury Bills auctions	Weekly	End of week + 1 days
	Stocks of government securities	Monthly	End of month
	Banking supervision ratios	Quarterly	End of quarter + 4 weeks

Type of Data	Tables	Frequency	Reporting Deadline
External sector 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; the occurrence of new external arrears should be immediately reported to IMF staff
	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; the contracting or guaranteeing of external debt should be immediately reported to IMF staff
	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

INTERNATIONAL MONETARY FUND

SIERRA LEONE

July 9, 2021

THIRD AND FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR EXTENSION AND REPHASING OF THE ARRANGEMENT, AND WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
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Prepared by the staffs of the International Monetary Fund and the International Development Association

Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	No

Sierra Leone's debt is sustainable. This is predicated on the authorities' ambitious fiscal adjustment and continued reliance on concessional financing and grants. The risk of external and overall debt distress remains high. The COVID-19 shock has elevated these risks. The baseline projection reflects the deleterious effects of COVID-19 on growth, exports, and revenues and their gradual recovery after 2021, as well as the cost of measures to counter the health and socioeconomic effects of the pandemic. This DSA also reflects disbursements under the IMF's Rapid Credit Facility (RCF) in 2020 and early 2021, projected future disbursements under the Extended Credit Facility (ECF), debt relief under the IMF's Catastrophe Containment and Relief Trust (CCRT), and debt deferment under the Debt Service Suspension Initiative (DSSI) including the recent extension until end-2021. While the present value of public debt-to-GDP ratio tracks downwards over the medium to long term, it takes about ten years to fall below the indicative thresholds. Some external debt indicators also remain above the thresholds over the medium term. The public debt service-to-revenue ratio and the external debt service-to-exports ratio rise over the medium term, indicating a tight liquidity situation, before steadily declining in the medium to long term. The stress tests highlight the sensitivities to shocks to growth, commodity prices, and exports. Maintaining debt sustainability requires sustained fiscal adjustment underpinned by strengthened public financial management, effective expenditure prioritization, and redoubling structural and revenue mobilization reforms. To adjust at a pace that does not imperil the post-pandemic recovery, and allow for adequate social and priority spending and meeting the country's large development needs, Sierra Leone should continue to rely on highly concessional financing and ideally grants.

[1]The Composite Indicator score of 2.69, based on the April 2021 WEO and the World Bank's latest CPIA, indicates a weak debt-carrying capacity.

PUBLIC DEBT COVERAGE

1. **The DSA covers known sources of public debt** (Text Table 1). As in earlier DSAs, the debt stock includes central government public and publicly-guaranteed debts. The DSA also includes the latest estimate of the consolidated stock of domestic payment arrears. The Government is working, with the support of development partners, to improve its financial and debt management systems, and to enhance the accounting and timely reporting of public debt, including those of state-owned enterprises (SOEs) and self-accounting bodies.

Text Table 1. Public Sector Debt Coverage Under the Baseline Scenario

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

2. **The contingent liability stress test accounts for vulnerabilities associated with SOEs and financial market risks** (Text Table 2). The contingent liability for SOE debt is set at 7 percent of GDP, higher than the default 2 percent of GDP, reflecting the authorities' estimate of indebtedness of SOEs and self-accounting bodies. Contingent liabilities from financial markets are set at the standard minimum value of 5 percent of GDP, which represents the average fiscal cost of a financial crisis in LICs since 1980. The contingent liability of other elements of the general government is set at 0 percent of GDP because the baseline reflects estimated domestic arrears. Overall, total contingent liabilities are estimated at 12 percent of GDP, as in the previous DSA.

Text Table 2. Coverage of the Contingent Liabilities' Stress Test

1. The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt		
	Default	**Used for the Analysis**	**Reasons for deviations from the default setting**
2. Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3. SOE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	7.0	Reflect the authorities' estimate of total indebtedness of SOEs.
4. PPP	35 percent of PPP stock	0.0	
5. Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
Total (2+3+4+5) (in percent of GDP)		12.0	

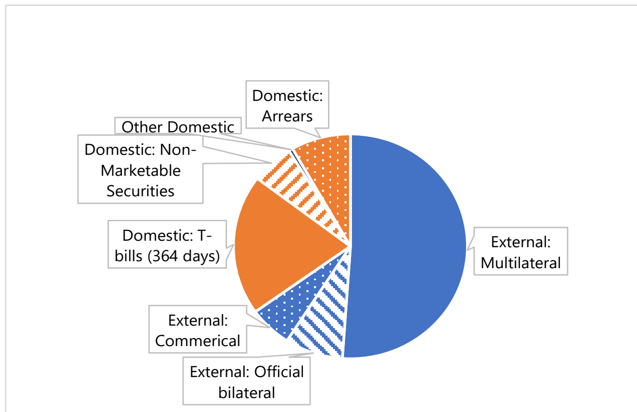
1/ The default shock of 2 percent of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1). If it is already included in the government debt (1) and risks associated with SOE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0 percent.

BACKGROUND ON DEBT

3. **The COVID-19 shock seriously strained Sierra Leone's public finances, and total public debt increased in 2020**. The large shock to growth and revenues, and measures to counter the impact of the pandemic, increased the fiscal deficit in 2020. Total public debt at end-2020 is estimated to be around 74 percent of GDP, somewhat higher than end-2019. Public debt would fall slightly below this level in 2021 and steadily decrease over the medium term.

4. **Public and publicly guaranteed (PPG) external debt increased to around 48 percent of GDP in 2020 from around 44 percent at end-2019**. It is expected to increase further in 2021. This reflects additional loans incurred in 2020 and early 2021, namely RCF disbursements in June 2020 (SDR 103.7 million or 50 percent of quota) and in March 2021 (SDR 35.26 million or 17 percent of quota). About 79 percent of Sierra Leone's PPG external debt at end-2020 comprised non-restructurable obligations to multilateral creditors (Text Figure 1). The IMF and World Bank account for about 26 percent and 22 percent of total PPG external debt (US$509 million and US$432 million respectively), followed by the African Development Fund (around 8 percent or US$161 million), the Islamic Development Bank (around 6 percent or US$127 million), the EEC/EIB (around 5 percent or US$90 million). Each of other multilateral creditors accounts for less than 5 percent. Official bilateral creditors account for around 12 percent of total PPG external debt, with the Kuwait Fund the largest (around 3 percent or US$64 million).[2] Sierra Leone has pre-HIPC arrears to external commercial creditors (about 9 percent of PPG external debt or around US$179 million at end-2020).

Text Figure 1. Composition of Public Debt, End-2020



5. **Public domestic debt declined to about 26 percent of GDP at end-2020 from around 28 percent of GDP at end-2019**. Around three-quarters of domestic debt is owed to commercial banks mainly in the form of 364-day T-bills. Less than a tenth of obligations are to the non-bank sector, while the Bank of Sierra Leone holds less than 15 percent of public debt. The authorities started to clear some domestic arrears balances in the first half of 2020 under their new arrears clearance strategy, while significant external support in 2020 (including the RCF disbursement and budget support grants) helped contain net issuances of relatively more costly T-bills. Roll-over risks are limited, as Sierra Leone has a shallow credit market and domestic banks have limited alternative investment options.

[2]Each of other official bilateral creditors accounts for less than 3 percent of total PPG external debt.

KEY ASSUMPTIONS UNDER THE BASELINE SCENARIO

6. The assumptions are consistent with the macroeconomic framework in the staff report.

- **Growth**. Real GDP in 2020 is estimated to have contracted by 2.2 percent, about a 6½ percentage point decline relative to the pre-COVID projection. This reflects disruptions in production and trade due to the COVID-19 pandemic, as well as the delayed resumption of iron ore mining. Real GDP growth is expected to rebound to about 3.2 percent in 2021, and it is projected to reach its long-run potential of around 4½ percent over the medium term. Downside risks to the growth forecast include a resurgence of the virus including in the rest of the world and a resurging third wave of infections in Sierra Leone.[3] There are both upside and downside risks to mining production.

- **Inflation**. Inflation, as measured by the GDP deflator, is estimated to be broadly in line with average consumer price inflation in 2020 at around 14 percent, and it is projected to decline gradually. Consumer price inflation is projected to reach single digits by 2024, with ongoing efforts to strengthen the monetary policy framework and an easing of fiscal financing pressures.

- **Fiscal**. The overall balance and primary balance are estimated to have widened significantly in 2020 (to -5.6 and -2.6 percent of GDP, respectively) because of the negative shock to domestic revenue and additional crisis related spending. Sustained adjustment in the medium to long term, while protecting critical social and health spending, is consistent with the Government's efforts before the pandemic, in the context of the ECF-supported program, to place the debt-to-GDP ratio on a declining path by the end of the current program. Revenue assumptions reflect the authorities' continued commitment to revenue mobilization, underpinned by revenue administration measures (e.g., ITAS, electronic cash registers to enhance GST compliance, enhanced compliance of selected sectors and large taxpayers) and tax policy reforms, including plans to develop a comprehensive medium-term revenue strategy with support from IMF and World Bank technical assistance. While the fiscal projection provides room for priority social and inclusive spending (thus supportive of growth), scaling up to meet large investment needs would be contingent on progress on revenue mobilization and access to external grants. This DSA reflects additional on-lending from ECF disbursements from the ECF third review onwards—while this does not increase overall exposure to the Fund, it helps reduce reliance on relatively more costly domestic bank financing and improves the composition of financing. Overall financing needs are projected to decline, with continued fiscal adjustment, while domestic borrowing from the banking sector is expected to decline below 2 percent of GDP by 2024.

- **External.** Both exports and imports are estimated to have fallen significantly in 2020, and are projected to recover gradually from 2021 (Table 1). While external budget support grants

[3]As of mid-June 2021, only 1 percent of the population had received their first dose of a COVID-19 vaccine.

increased significantly in 2020, they are anticipated to fall to more normal levels in 2021. The IDA financing is assumed to be all grants until 2031, and 50 percent grants and 50 percent loans after 2032. This DSA reflects two RCF disbursements in June 2020 (SDR 103.7 million or 50 percent of quota) and in March 2021 (SDR 35.26 million or 17 percent of quota), debt relief under the CCRT, and debt deferment under the DSSI.[4] This DSA also takes into account the projected external financing gap during 2023-26, and assumes that the gap will be covered by concessional financing with an overall grant element of 35.5 percent (possibly a combination of grants and loans).[5] This DSA does not reflect the prospective SDR allocation later in 2021.[6]

Text Table 3. Macroeconomic Assumptions

	Current DSA		Previous DSA (March 2021)	
	2021	2031	2021	2030
Real GDP growth (in percent)	3.2	4.5	3.0	4.5
Inflation (GDP deflator, in percent)	11.5	5.1	13.9	5.7
Primary deficit (percent of GDP)	1.1	-2.0	0.7	-2.2
Non-interest current account deficit (percent of GDP)	15.2	11.6	13.1	6.7

7. **Arrears clearance and domestic financing**. Sierra Leone has a large stock of legacy domestic payment arrears, close to 10 percent of GDP at end-2019. Clearing these arrears is a priority under the authorities' ECF-supported program (Box 1). Developments related to, and the assumptions on, arrears clearance remain unchanged from the previous DSA in March 2021, although they are somewhat less ambitious than the June 2020 DSA in terms of NPV reductions. In the wake of COVID-19, the authorities prioritized speedy clearance to support some small and medium sized enterprises, rather than large NPV reductions envisaged in their arrears clearance strategy.[7] The overall NPV reduction on total stock is therefore on the order of 35-40 percent, as opposed to the 55-60 percent assumed in the June 2020 DSA. The fact that these domestic payment arrears do not accrue interest or charges, and that the authorities' arrears clearance strategy targets significant NPV reductions will be crucial to ensure the cost of clearing arrears is sustainable. The target of gradually reducing domestic bank financing to about 2 percent of GDP remains consistent with the ECF-supported program.

[4]Debt service deferment under the DSSI is projected to be around US$6.6 million in 2020 and around US$17.3 million in 2021 (the amount in 2021 reflects the second extension of the DSSI until the end of 2021). This DSA also reflects the third tranche of the CCRT approved in April 2021 and the corresponding early repayment to the Fund.

[5]More specifically, IMF financing under the ECF has a 5.5-year grace period and 10-year maturity and currently carries a zero interest (the interest rate is subject to Executive Board review every two years). Loans from other multilateral creditors other than the World Bank are assumed to have an overall grant element of 35 percent.

[6]While the SDR allocation does not directly impact PPG external debt, it may influence total public debt depending on associated transactions and arrangements (e.g., net interest payments increase when the holding of SDRs drops below the allocated amount, domestic debt may increase when the central bank on-lends to the government).

[7]The Government paid down about 1.5 percent of GDP in arrears by mid-2020, while the arrears clearance strategy was finalized in June 2020 and approved by the Cabinet in July 2020.

Box 1. Actions to Quantify and Clear Domestic Payment Arrears in Sierra Leone

Resolving the longstanding challenge of domestic expenditure arrears is a key priority for the authorities. In the context of their program, supported by an Extended Credit Facility (ECF) arrangement with the IMF, they have undertaken a comprehensive stocktaking exercise, and adopted an arrears clearance strategy. Given the magnitude of the arrears stock and the tight fiscal financing situation, the clearance strategy reflects the difficult choices, including significant NPV reductions, required to sustainably address this issue. This DSA reflects the current stock of domestic arrears and the planned terms for arrears clearance, which are unchanged from the March 2021 DSA.

The Sierra Leonean authorities have made a concerted effort to understand the magnitude of domestic payment arrears.

- At the time, the ECF-supported program was approved in November 2018, the stock of arrears was estimated at about 4 percent of GDP—reflecting verified (crystalized) but unpaid checks accumulated at the Ministry of Finance—but indications were that it could be higher.
- In early 2019, they published several audits aimed at identifying inherited fiscal risks, including an audit by the Audit Service Sierra Leone (ASSL) to verify claims on the Government, including both future obligations and arrears.[1]
- During June-August 2019, the Ministry of Finance worked with ASSL, and relevant Ministries, Departments and Agencies to review and reconcile individual claims to determine the portion of verified claim in arrears.
- That stocktaking exercise, completed in September 2019, confirmed pre-April 2018 domestic payment arrears of Le 3.3 trillion (around 8¾ percent of 2019 non-iron ore GDP), of which around 90 percent were accrued during 2016 and 2017.[2]
- In addition to these legacy arrears, the authorities have continued to monitor the net accumulation of new arrears (unpaid checks) in the period since April 2018.

The authorities have also finalized their comprehensive arrears clearance strategy. Cognizant of the potentially substantial fiscal implications, the authorities collaborated closely with IMF staff, to develop a strategy to clear arrears based on the following key principles: transparency and equity, sustainability, macrofinancial stability, and preventing further arrears accumulation. The final strategy—approved by Cabinet in July 2020 and published on the *Ministry of Finance* website—implies full clearance over the medium term, assuming deep haircuts or NPV reductions.

The authorities have started clearing arrears at a pace faster than envisaged in the clearance strategy. To cushion the impact of the COVID-19 pandemic on the private sector, and provide liquidity to the banking sector, the authorities prioritized clearing arrears to small and medium enterprises. However, as the haircuts applied were less than envisaged under their clearance strategy, the estimated overall NPV reduction of the prospective arrears clearance is also less than originally envisaged under the plan.

This DSA fully reflects the latest stock of arrears (Le 2.5 trillion as of end-December 2020). Since the September 2019 stocktaking exercise, all Fund-Bank DSAs have included the full stock of legacy arrears (adjusted for arrears that have since been cleared) and the net accummuation of new arrears (unpaid checks) since April 2018, and the expected terms of prospective arrears clearance (as noted above).

[1] See *Box 3. Progress Towards Domestic Arrears Clearance* in IMF Country Report No. 19/217, July 2019.
[2] See *Box 3. Managing and Preventing Expenditure Arrears in Sierra Leone* in IMF Country Report No. 20/116, April 2020.

8. **The "realism tool" suggests that the projected fiscal adjustment is realistic** (Figure 4). Notwithstanding the impact of the COVID19 shock in delaying the nearer term reduction in domestic bank financing, the longer-term fiscal trajectory remains in line with the pre-crisis level and previous projections under the ECF supported program. The three-year average of fiscal adjustment

over 2021-23 reflects recovery from a sharp deterioration in the primary balance in 2020 due to the COVID19 shock. The projected fiscal adjustment from 2021 onwards is realistic and feasible, considering: (i) expected recovery in domestic revenues as in-person enforcement of tax payments resumes and payoffs from more comprehensive revenue reforms estimated at about 0.1 percent of GDP per year; (ii) the unwinding of emergency spending and gradual efficiency improvements (including in improved appraisal, selection, and execution of priority development projects); and (iii) some fiscal adjustments could be mitigated by the prospective SDR allocation, providing an additional space for critical expenditures of about 0.8 and 0.3 percent of GDP for 2022 and 2023 (Box 1 of ECF 3rd/4th Review staff report).[8]

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9. **Sierra Leone's debt-carrying capacity is assessed to be weak**. With the Composite Indicator (CI) score of 2.69 based on the April 2021 WEO and the World Bank's latest CPIA, Sierra Leone's debt carrying capacity is evaluated as weak (Text Table 4). The debt carrying capacity was changed from medium to weak in late 2020, primarily due to weaker global growth projections. Text Table 5 shows applicable thresholds for debt indicators.

Text Table 4. Composite Indicator (CI) Rating

Components	Coefficients (A)	10-year average values (B)	CI Score components	Contribution of
CPIA	0.385	3.161	1.22	45%
Real growth rate (in percent)	2.719	3.734	0.10	4%
Import coverage of reserves (in percent)	4.052	35.427	1.44	53%
Import coverage of reserves^2 (in percent)	-3.990	12.551	-0.50	-19%
Remittances (in percent)	2.022	1.187	0.02	1%
World economic growth (in percent)	13.520	3.078	0.42	15%
CI Score			2.69	100%
CI rating			Medium	

Text Table 5. Applicable Thresholds for Debt Indicators

PV of PPG external debt in percent of GDP	30%
PV of PPG external debt in percent of exports	140%
PPG external debt service in percent of exports	10%
PPG external debt service in percent of revenue	14%
PV of total public debt in percent of GDP	35%

[8] See Sierra Leone—Third and Fourth Review Under the Extended Credit Facility (CR/21/xx)

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

External DSA

10. Sierra Leone is assessed to be at high risk of external debt distress, and PPG external debt is assessed to be sustainable. This assumes strong fiscal adjustment and continued reliance on concessional financing and grants.

- Under the baseline scenario, the PV of PPG external debt-to-GDP ratio and the PV of PPG external debt-to-export ratio exceed their thresholds (30 percent and 140 percent respectively) over the medium term, and these return to their thresholds around 2024-26 (Figure 1, Table 1).[9] The projected decline in the debt ratios reflects several factors such as repayment of past ECF disbursements including those from Ebola period and the projected improvement in GDP and exports. While the historical scenario indicates increasing debt ratios, this reflects the COVID-19 crisis in 2020 and Ebola crisis and commodity price shocks earlier.

- PPG external debt service-to-exports ratio also stays above the threshold of 10 percent over the medium term. In the meantime, PPG external debt service-to-revenue ratio rises over the medium term, indicating a tight liquidity situation, before steadily declining in the medium to long term, while it remains significantly above its threshold of 14 percent for the next ten years.

- Stress tests indicate that the external debt indicators are sensitive to growth and exports. In the stress scenarios, all the external debt indicators remain above the thresholds for the next ten years.

- Since the external debt indicators breach their thresholds under the baseline, Sierra Leone is assessed to be at high risk of external debt distress. However, all the external debt indicators are on a declining trend over the medium- to long-term, and PPG external debt is assessed to be sustainable .

Overall Risk of Public Debt Distress

11. Sierra Leone is assessed to be at high overall risk of public debt distress, and public debt is assessed to be sustainable. Again, this is built on the assumption of strong fiscal adjustment and continued reliance on concessional financing and grants.

- Under the baseline scenario, the PV of public debt-to-GDP ratio gradually declines to the threshold of 35 percent before 2030 (Figure 2). The public debt service-to-revenue ratio is projected to rise over the medium term, suggesting a tight liquidity situation. This increasing

[9]The residuals in Table 1 reflect exchange rate changes.

debt service is expected to be financed with external grants and concessional loans and government revenues. In this context, Sierra Leone will need continued access to concessional financing, including from the Fund, to ensure that financing terms remain contained. In the long term, as the economy fully recovers and revenue mobilization gains materialize, the public debt service-to-revenue ratio is expected to decline gradually.

- Stress tests indicate that the public debt indicators are sensitive to shocks to growth and commodity prices. Considering that both external debt indicators and public debt indicators exceed their thresholds under the baseline, the country is assessed to have high overall risk of public debt distress.

- Nevertheless, public debt is assessed as sustainable given the downward trend in all debt indicators, conditional on (i) sustained and significant fiscal adjustment, and (ii) continued reliance on highly concessional external financing (ideally grants) including from the IFIs which account for a large share of Sierra Leone's PPG external debt, while limiting recourse to expensive domestic debt.

RISK RATING AND VULNERABILITIES

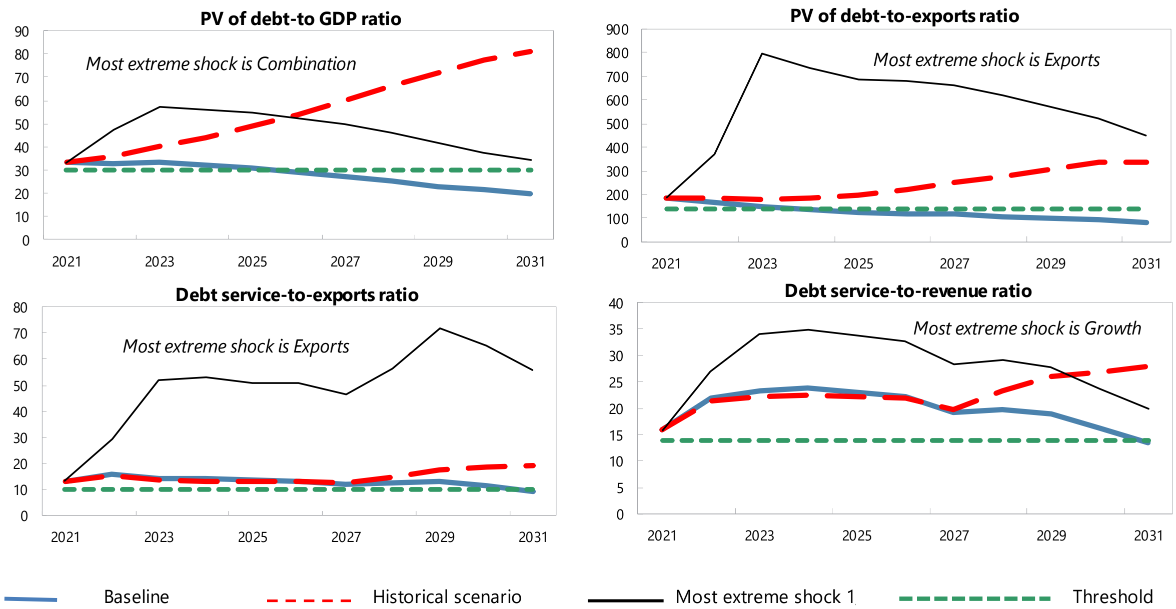
12. While Sierra Leone is assessed to be at high risk of external and overall public debt distress, its debt is assessed to be sustainable. While the COVID-19 shock worsened the public debt situation by weakening growth, revenue, and exports, the medium- to long-term trajectories of debt ratios remain largely unchanged from the pre-pandemic projection. As all the debt indicators remain on a declining trend over the medium to long term, debt is assessed to be sustainable. This is conditional on sustained fiscal adjustment and continued reliance on highly concessional external financing (ideally grants), while limiting recourse to expensive domestic debt. However, the increasing public debt service-to-revenue ratio over the medium term suggests high liquidity-related vulnerabilities. The stress tests also highlight that debt indicators are sensitive to shocks to growth, commodity prices, and exports.

13. This DSA underscores the importance of continued fiscal discipline efforts and structural reforms, supported by technical assistance and prudent financing choices. Reducing debt and maintaining debt sustainability requires, first and foremost, sustained fiscal adjustment, underpinned by strengthened public financial management, effective expenditure prioritization, and redoubling structural and revenue mobilization reform efforts. However, to achieve a pace of fiscal adjustment that does not imperil the post-pandemic recovery and allows the country to protect critical social and health spending and continue addressing its large development needs, it will be vital to rely on highly concessional financing and ideally grants. In line with the limit imposed under the ECF-supported program, Sierra Leone should not contract non-concessional external debt. In addition, continued technical assistance in debt management and development of a domestic market will be important, including an ongoing IMF technical assistance on debt recording and more recently joint World Bank/IMF technical assistance on a medium-term debt strategy.

Authorities' Views

14. The authorities concurred with staff assessment on the risk of debt distress and debt sustainability. The authorities also acknowledged the importance of redoubling efforts to ensure sustained fiscal adjustment and highlighted the range of ongoing reforms to strengthen revenue administration, improve public expenditure management, and further enhance debt management. To safeguard debt sustainability, the authorities committed to continue to prioritize concessional loans within a pre-defined borrowing limit, preferably grants, and seek only highly concessional financing and ratify loans only within the agreed annual ceiling under the ECF-supported program. The authorities also agreed with the need to limit recourse to expensive domestic debt. The authorities reiterated their commitment to clear domestic arrears in line with their arrears clearance strategy. On the external front, the authorities recognize the need to improve the external position and ensure adequate reserve coverage through fiscal adjustment and exchange rate flexibility.

Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2021–31



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	No	No
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	5	5

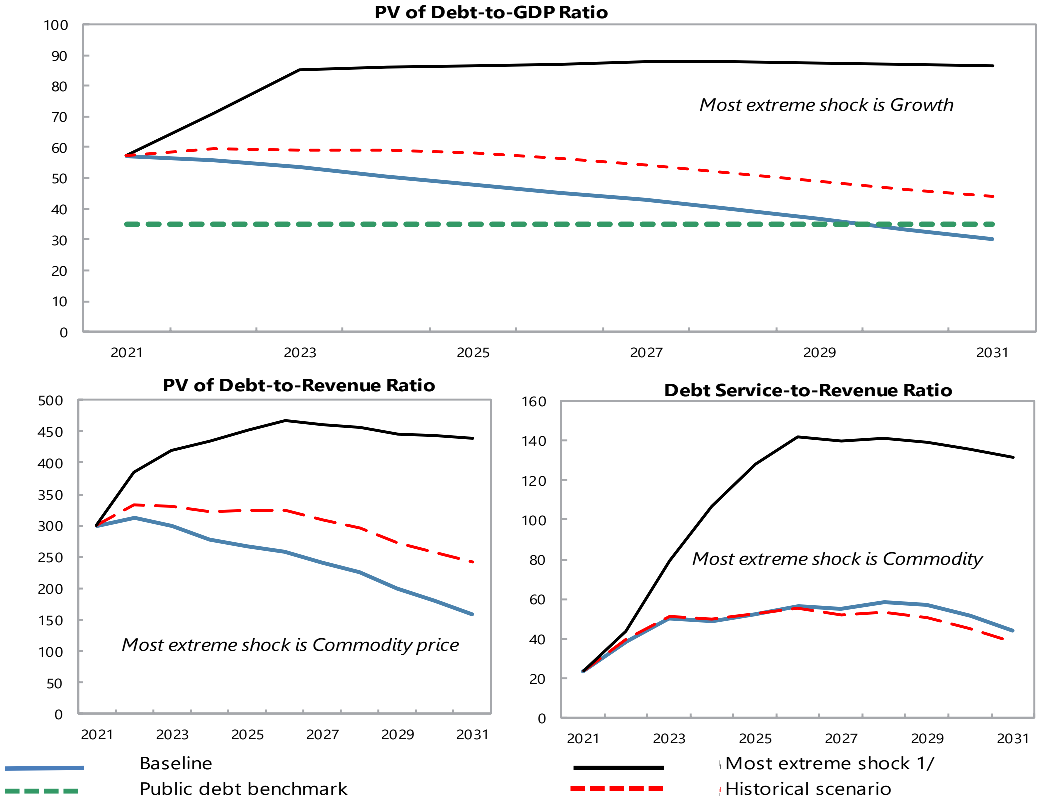
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. Stress tests with one-off breaches are also presented (in any), while these are one-breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Sierra Leone: Indicators of Public Debt Under Alternative Scenarios, 2021–31



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	33%	33%
Domestic medium and long-term	0%	0%
Domestic short-term	67%	67%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	2%	2%

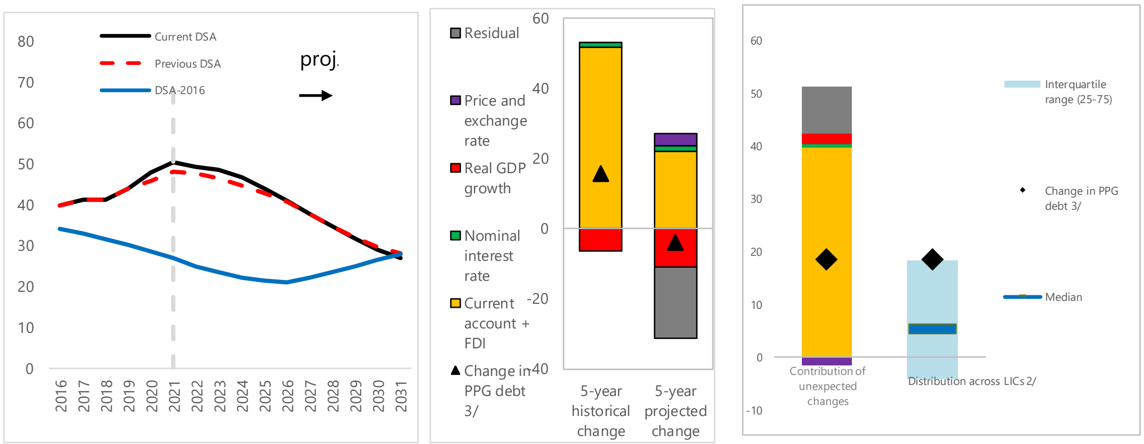
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

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

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (in any), while the one-breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

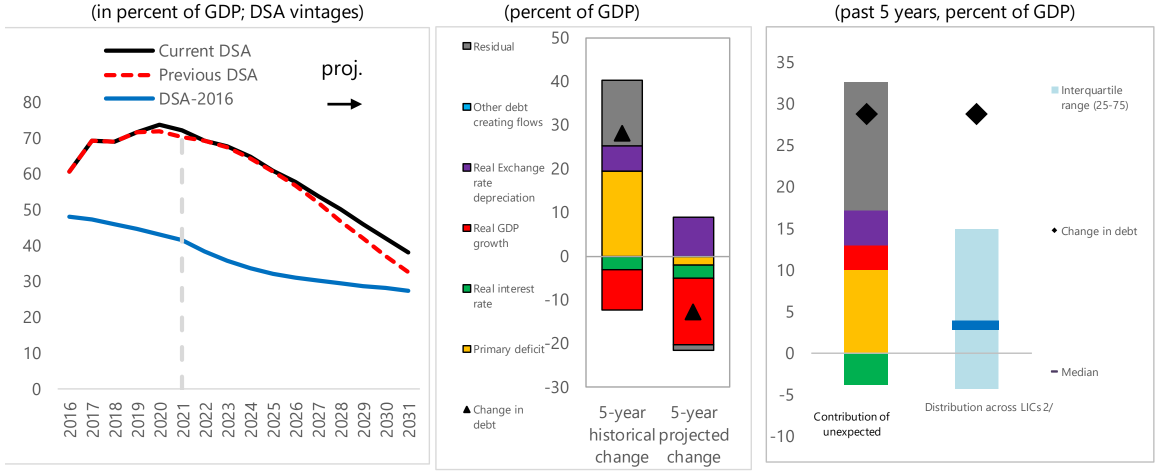
Figure 3. Sierra Leone: Drivers of Debt Dynamics, Baseline Scenario, 2016–31

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



1/ Difference between anticipated and actual contributions on debt ratios.

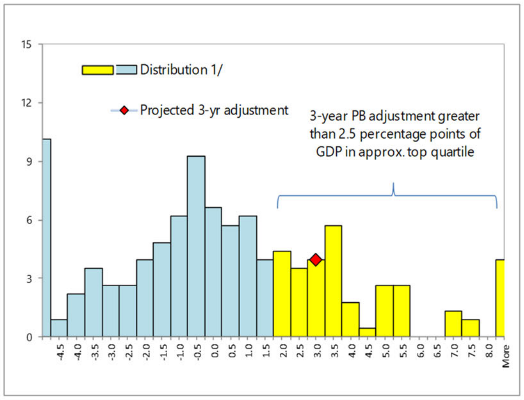
2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 4. Sierra Leone: Realism Tools

3-Year Adjustment in Primary Balance

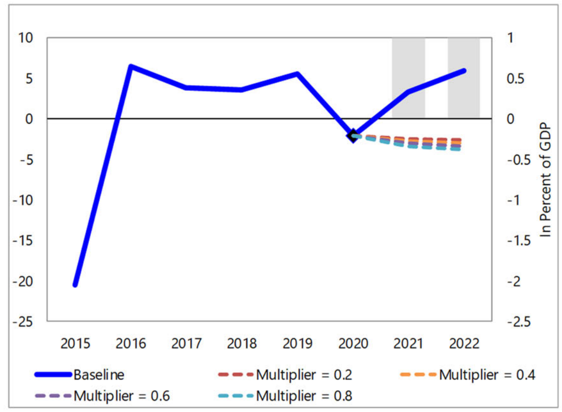
(In Percent of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

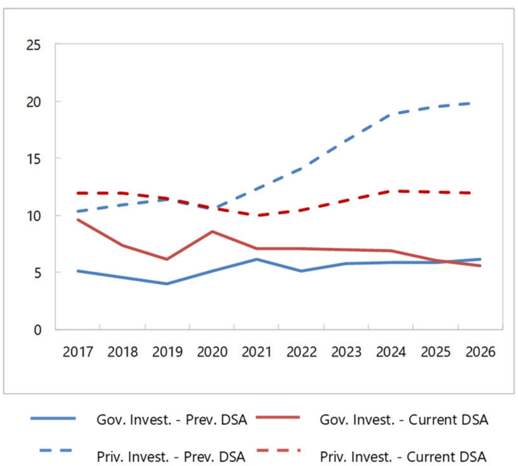
(In Percent)



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates

(% of GDP)



Contribution to Real GDP growth

(percent, 5-year average)

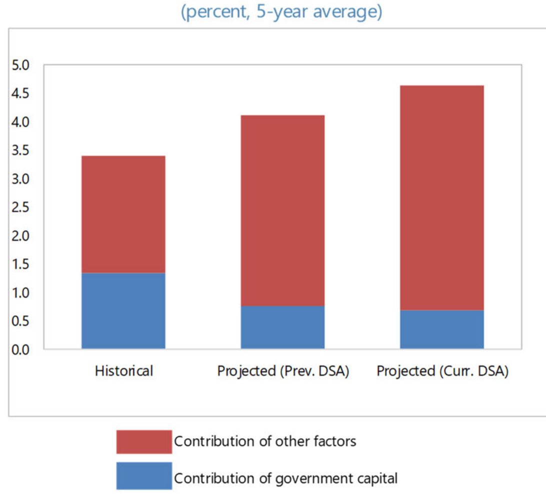
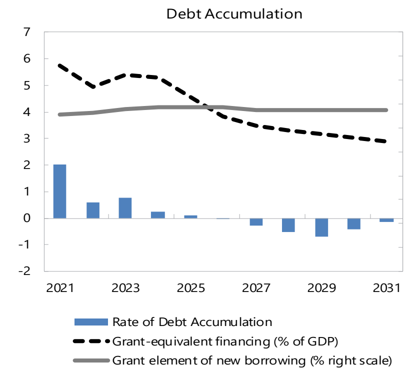


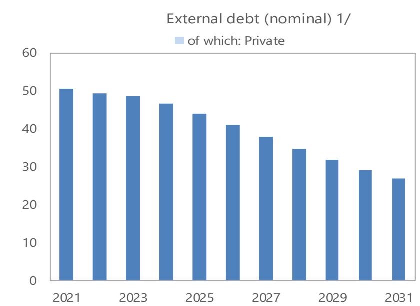
Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2020–41

(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	48.0	50.5	49.3	48.7	46.7	43.9	41.1	27.1	18.5	34.9	40.1
of which: public and publicly guaranteed (PPG)	48.0	50.5	49.3	48.7	46.7	43.9	41.1	27.1	18.5	34.9	40.1
Change in external debt	3.9	2.5	-1.2	-0.6	-2.0	-2.8	-2.8	-2.1	-0.3		
Identified net debt-creating flows	...	4.9	3.4	2.5	1.3	0.6	0.2	-0.6	0.8	...	0.3
Non-interest current account deficit	16.4	15.2	14.9	12.6	11.5	10.8	11.1	11.6	13.7	23.1	12.3
Deficit in balance of goods and services	25.5	21.9	20.7	19.0	17.8	16.9	17.0	16.6	17.1	28.4	18.1
Exports	11.9	17.8	19.6	22.4	24.0	24.8	24.4	24.1	21.5		
Imports	37.4	39.7	40.3	41.3	41.8	41.8	41.4	40.8	38.6		
Net current transfers (negative = inflow)	-10.4	-8.1	-7.2	-7.7	-7.6	-7.5	-7.3	-6.4	-4.7	-9.3	-7.2
of which: official	-4.7	-3.3	-2.4	-2.9	-2.8	-2.7	-2.6	-2.0	-1.0		
Other current account flows (negative = net inflow)	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	3.9	1.4
Net FDI (negative = inflow)	-6.6	-9.1	-8.8	-8.3	-8.3	-8.4	-9.4	-11.3	-12.3	-11.0	-10.5
Endogenous debt dynamics 2/	...	-1.2	-2.6	-1.8	-1.9	-1.8	-1.4	-0.9	-0.6		
Contribution from nominal interest rate	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.3	0.2		
Contribution from real GDP growth	0.9	-1.5	-2.9	-2.1	-2.3	-2.1	-1.8	-1.2	-0.8		
Contribution from price and exchange rate changes	...	...	...	...	...	...	...	...	...		
Residual 3/	...	-2.4	-4.7	-3.1	-3.3	-3.4	-3.1	-1.5	-1.1	...	-2.2
of which: exceptional financing	...	-1.1	-0.3	0.1	0.1	0.1	0.1	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	32.3	33.2	32.9	33.1	32.2	30.9	29.3	19.9	12.9		
PV of PPG external debt-to-exports ratio	271.7	186.5	167.4	147.9	134.3	124.4	120.5	82.3	59.8		
PPG debt service-to-exports ratio	20.3	13.1	15.6	14.2	13.9	13.3	13.3	9.3	5.6		
PPG debt service-to-revenue ratio	17.1	15.9	22.0	23.2	23.8	23.0	22.2	13.5	6.0		
Gross external financing need (Million of U.S. dollars)	513.9	366.3	405.9	338.9	306.7	280.9	251.1	179.2	365.7		
Key macroeconomic assumptions											
Real GDP growth (in percent)	-2.2	3.2	5.9	4.4	4.9	4.8	4.2	4.5	4.5	4.3	4.5
GDP deflator in US dollar terms (change in percent)	4.3	0.3	-3.1	-2.6	-1.4	-0.1	1.0	2.0	2.7	1.5	0.3
Effective interest rate (percent) 4/	0.8	0.6	0.6	0.7	0.8	0.9	0.9	1.1	1.0	0.7	0.9
Growth of exports of G&S (US dollar terms, in percent)	-32.6	54.7	13.4	15.8	11.0	8.3	3.3	11.4	6.3	9.9	12.5
Growth of imports of G&S (US dollar terms, in percent)	-13.7	9.9	4.3	4.2	4.5	4.6	4.4	7.0	6.8	9.1	5.7
Grant element of new public sector borrowing (in percent)	...	32.9	33.2	33.9	34.3	34.3	34.3	33.7	38.5	...	33.8
Government revenues (excluding grants, in percent of GDP)	14.2	14.7	13.9	13.7	14.0	14.4	14.6	16.6	20.0	12.1	14.9
Aid flows (in Million of US dollars) 5/	215.6	191.9	175.7	225.8	240.9	215.7	190.5	162.9	186.2		
Grant-equivalent financing (in percent of GDP) 6/	...	5.7	4.9	5.4	5.3	4.6	3.8	2.9	1.6	...	4.1
Grant-equivalent financing (in percent of external financing) 6/	...	67.9	70.9	70.1	73.0	70.8	68.4	72.2	58.7	...	71.6
Nominal GDP (Million of US dollars)	4,201	4,350	4,465	4,539	4,693	4,912	5,173	7,044	13,954		
Nominal dollar GDP growth	2.0	3.5	2.6	1.7	3.4	4.7	5.3	6.7	7.3	5.9	4.8
Memorandum items:											
PV of external debt 7/	32.3	33.2	32.9	33.1	32.2	30.9	29.3	19.9	12.9		
In percent of exports	271.7	186.5	167.4	147.9	134.3	124.4	120.5	82.3	59.8		
Total external debt service-to-exports ratio	20.3	13.1	15.6	14.2	13.9	13.3	13.3	9.3	5.6		
PV of PPG external debt (in Million of US dollars)	1358.5	1443.0	1468.6	1502.2	1512.9	1518.0	1517.8	1399.0	1796.7		
(PVt-PVt-1)/GDPt-1 (in percent)		2.0	0.6	0.8	0.2	0.1	0.0	-0.1	0.6		
Non-interest current account deficit that stabilizes debt ratio	12.5	12.7	16.1	13.2	13.5	13.6	13.9	13.7	14.0		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





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) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

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

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

6/ 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).

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

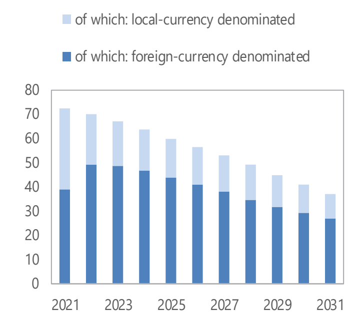
Table 2. Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–41

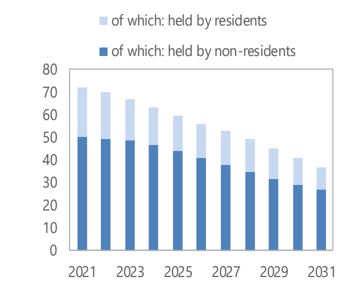
(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	73.7	72.1	70.1	67.1	63.5	59.9	56.3	37.0	20.6	53.4	55.8
of which: external debt	48.0	50.5	49.3	48.7	46.7	43.9	41.1	27.1	18.5	34.9	40.1
Change in public sector debt	2.1	-1.6	-2.0	-3.0	-3.5	-3.6	-3.6	-3.9	-0.5		
Identified debt-creating flows	-0.1	0.5	-2.6	-1.9	-3.4	-4.1	-3.9	-3.8	-4.7	1.2	-3.1
Primary deficit	2.6	1.1	-0.1	-0.5	-1.2	-1.4	-1.4	-2.0	-3.8	3.2	-1.1
Revenue and grants	19.3	19.1	17.9	17.9	18.3	18.0	17.5	18.9	20.9	15.8	18.2
of which: grants	5.1	4.4	3.9	4.2	4.3	3.6	2.9	2.3	0.9		
Primary (noninterest) expenditure	21.9	20.2	17.8	17.4	17.1	16.6	16.1	16.9	17.1	19.0	17.1
Automatic debt dynamics	-2.8	-0.6	-2.5	-1.5	-2.2	-2.7	-2.6	-1.8	-1.0		
Contribution from interest rate/growth differential	0.5	-3.9	-4.5	-3.4	-3.5	-3.1	-2.5	-1.8	-1.0		
of which: contribution from average real interest rate	-1.1	-1.6	-0.4	-0.4	-0.3	-0.2	-0.1	0.0	-0.1		
of which: contribution from real GDP growth	1.6	-2.3	-4.0	-2.9	-3.1	-2.9	-2.4	-1.8	-0.9		
Contribution from real exchange rate depreciation	-3.3	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	2.2	1.2	2.5	0.8	1.1	0.9	0.3	-0.1	4.3	1.5	0.6
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	59.0	57.3	56.0	53.4	50.7	48.0	45.3	30.1	15.3		
PV of public debt-to-revenue and grants ratio	306.0	300.2	313.1	298.7	276.6	267.0	258.6	159.3	73.3		
Debt service-to-revenue and grants ratio 3/	25.4	23.6	38.7	50.2	48.6	51.9	56.4	43.9	6.5		
Gross financing need 4/	7.5	5.6	6.8	8.5	7.7	8.0	8.5	6.3	-2.4		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	-2.2	3.2	5.9	4.4	4.9	4.8	4.2	4.5	4.5	4.3	4.5
Average nominal interest rate on external debt (in percent)	0.8	0.7	0.7	0.8	0.8	0.9	0.9	1.1	1.0	0.8	0.9
Average real interest rate on domestic debt (in percent)	-3.3	-1.7	1.0	1.6	1.8	2.2	2.3	1.8	2.1	0.1	1.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-7.2	...	...	...	...	...	...	...	...	0.7	...
Inflation rate (GDP deflator, in percent)	13.8	11.5	11.8	10.5	9.5	8.3	6.9	5.1	4.8	10.9	7.6
Growth of real primary spending (deflated by GDP deflator, in percent)	16.7	-5.1	-6.6	2.3	3.0	1.6	1.3	5.9	4.5	6.2	2.2
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.6	2.7	1.9	2.6	2.3	2.3	2.2	2.0	-3.3	0.4	2.2
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Note: Grants include grants for debt service relief under the Catastrophe Containment and Relief Trust (CCRT), projected to amount to 0.7 percent of GDP in 2021.

Table 3. Sierra Leone: Sensitivity Analysis, External Debt, 2021-2031

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	**33.2**	**32.9**	**33.1**	**32.2**	**30.9**	29.3	27.5	25.4	23.2	21.3	19.9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**33.2**	**35.9**	**39.9**	**44.2**	**48.8**	**53.8**	**60.0**	**66.1**	**71.7**	**77.2**	**81.2**
B. Bound Tests											
B1. Real GDP growth	**33.2**	**40.4**	**48.6**	**47.3**	**45.4**	**43.1**	**40.3**	**37.2**	**34.0**	**31.3**	29.1
B2. Primary balance	**33.2**	**34.1**	**36.5**	**37.0**	**36.5**	**35.5**	**33.9**	**31.8**	29.4	27.3	25.5
B3. Exports	**33.2**	**41.2**	**54.7**	**54.0**	**52.5**	**50.6**	**48.4**	**45.2**	**40.7**	**36.8**	**33.5**
B4. Other flows 3/	**33.2**	**44.0**	**55.6**	**55.0**	**53.7**	**51.9**	**49.8**	**46.3**	**41.6**	**37.5**	**33.9**
B5. One-time 30 percent nominal depreciation	**33.2**	**42.0**	**37.7**	**36.5**	**34.9**	**32.9**	**30.6**	27.9	25.6	23.8	22.3
B6. Combination of B1-B5	**33.2**	**47.6**	**57.1**	**56.2**	**54.5**	**52.5**	**50.0**	**46.1**	**41.6**	**37.7**	**34.3**
C. Tailored Tests											
C1. Combined contingent liabilities	**33.2**	**35.6**	**37.6**	**37.8**	**37.2**	**36.1**	**34.4**	**32.4**	**30.2**	28.3	26.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**33.2**	**34.2**	**35.8**	**34.9**	**33.3**	**31.3**	28.8	25.9	22.8	20.2	18.0
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	**186.5**	**167.4**	**147.9**	134.3	124.4	120.5	115.2	106.4	99.1	92.2	82.3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**186.5**	**182.7**	**178.5**	**183.9**	**196.4**	**221.1**	**251.7**	**277.1**	**306.7**	**333.8**	**336.4**
B. Bound Tests											
B1. Real GDP growth	**186.5**	**167.4**	**147.9**	134.3	124.4	120.5	115.2	106.4	99.1	92.2	82.3
B2. Primary balance	**186.5**	**173.7**	**162.9**	**154.1**	**147.1**	**145.7**	**142.2**	133.6	126.0	118.2	105.8
B3. Exports	**186.5**	**370.5**	**796.8**	**732.4**	**688.6**	**677.5**	**661.3**	**617.1**	**567.9**	**519.2**	**451.6**
B4. Other flows 3/	**186.5**	**224.0**	**248.7**	**229.2**	**216.1**	**213.2**	**208.9**	**194.1**	**178.2**	**162.3**	**140.5**
B5. One-time 30 percent nominal depreciation	**186.5**	**167.4**	131.9	119.2	109.9	105.8	100.4	91.8	85.9	80.5	72.4
B6. Combination of B1-B5	**186.5**	**286.0**	**207.6**	**343.6**	**322.3**	**316.4**	**307.9**	**283.6**	**261.3**	**239.4**	**208.9**
C. Tailored Tests											
C1. Combined contingent liabilities	**186.5**	**181.0**	**167.9**	**157.6**	**149.8**	**148.1**	**144.3**	135.8	129.1	122.3	110.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**186.5**	**185.0**	**167.2**	**150.3**	137.5	130.7	122.0	109.7	98.5	88.1	75.4
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	**13.1**	**15.6**	**14.2**	**13.9**	**13.3**	**13.3**	**12.1**	**12.5**	**12.8**	**11.2**	9.3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**13.1**	**15.1**	**13.5**	**13.2**	**12.8**	**13.1**	**12.4**	**14.7**	**17.5**	**18.7**	**19.1**
B. Bound Tests											
B1. Real GDP growth	**13.1**	**15.6**	**14.2**	**13.9**	**13.3**	**13.3**	**12.1**	**12.5**	**12.8**	**11.2**	9.3
B2. Primary balance	**13.1**	**15.6**	**14.3**	**14.1**	**13.6**	**13.6**	**12.4**	**13.3**	**14.5**	**13.3**	**11.5**
B3. Exports	**13.1**	**29.2**	**52.0**	**53.2**	**51.0**	**50.8**	**46.3**	**56.3**	**72.0**	**65.0**	**55.6**
B4. Other flows 3/	**13.1**	**15.6**	**15.0**	**15.3**	**14.6**	**14.6**	**13.3**	**18.1**	**22.6**	**20.5**	**17.6**
B5. One-time 30 percent nominal depreciation	**13.1**	**15.6**	**14.2**	**13.7**	**13.1**	**13.1**	**11.9**	**12.3**	**11.2**	9.7	7.9
B6. Combination of B1-B5	**13.1**	**20.8**	**26.8**	**26.5**	**25.4**	**25.4**	**23.1**	**30.5**	**33.5**	**30.1**	**25.6**
C. Tailored Tests											
C1. Combined contingent liabilities	**13.1**	**15.6**	**14.4**	**14.2**	**13.7**	**13.7**	**12.4**	**12.8**	**13.2**	**11.6**	9.6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**13.1**	**16.8**	**15.2**	**15.0**	**14.3**	**14.2**	**12.8**	**13.6**	**14.3**	**12.4**	**10.1**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	**15.9**	**22.0**	**23.2**	**23.8**	**23.0**	**22.2**	**19.3**	**19.8**	**19.0**	**16.1**	13.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**15.9**	**21.3**	**22.1**	**22.5**	**22.1**	**21.9**	**19.8**	**23.4**	**26.0**	**26.8**	**27.8**
B. Bound Tests											
B1. Real GDP growth	**15.9**	**27.0**	**34.1**	**34.9**	**33.7**	**32.6**	**28.3**	**29.0**	**27.9**	**23.6**	**19.8**
B2. Primary balance	**15.9**	**22.0**	**23.4**	**24.1**	**23.5**	**22.8**	**19.8**	**21.1**	**21.5**	**19.1**	**16.8**
B3. Exports	**15.9**	**23.2**	**26.1**	**27.9**	**27.0**	**26.0**	**22.7**	**27.4**	**32.8**	**28.6**	**24.8**
B4. Other flows 3/	**15.9**	**22.0**	**24.5**	**26.2**	**25.3**	**24.4**	**21.3**	**28.8**	**33.6**	**29.4**	**25.7**
B5. One-time 30 percent nominal depreciation	**15.9**	**28.1**	**29.7**	**29.8**	**28.9**	**27.9**	**24.2**	**24.9**	**21.3**	**17.7**	**14.7**
B6. Combination of B1-B5	**15.9**	**24.8**	**29.8**	**30.9**	**29.9**	**28.8**	**25.1**	**33.1**	**33.8**	**29.3**	**25.4**
C. Tailored Tests											
C1. Combined contingent liabilities	**15.9**	**22.0**	**23.5**	**24.2**	**23.6**	**22.8**	**19.9**	**20.4**	**19.6**	**16.6**	**14.0**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**15.9**	**25.7**	**27.6**	**28.5**	**26.7**	**25.0**	**21.0**	**21.4**	**21.1**	**17.6**	**14.5**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Sierra Leone: Sensitivity Analysis, Public Debt, 2021-2031

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	PV of Debt-to-GDP Ratio										
Baseline	**57.3**	**56.0**	**53.4**	**50.7**	**48.0**	**45.3**	**42.9**	**40.1**	**36.7**	33.4	30.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**57**	**60**	**59**	**59**	**58**	**56**	**54**	**51**	**49**	**46**	**44**
B. Bound Tests											
B1. Real GDP growth	**57**	**71**	**85**	**86**	**87**	**87**	**88**	**88**	**87**	**87**	**86**
B2. Primary balance	**57**	**61**	**63**	**60**	**56**	**53**	**51**	**47**	**44**	**40**	**37**
B3. Exports	**57**	**62**	**71**	**69**	**66**	**63**	**60**	**56**	**51**	**46**	**41**
B4. Other flows 3/	**57**	**68**	**77**	**75**	**72**	**68**	**66**	**61**	**56**	**50**	**44**
B5. One-time 30 percent nominal depreciation	**57**	**59**	**56**	**52**	**49**	**45**	**42**	**38**	34	31	27
B6. Combination of B1-B5	**57**	**62**	**63**	**56**	**54**	**51**	**49**	**46**	**43**	**40**	**36**
C. Tailored Tests											
C1. Combined contingent liabilities	**57**	**67**	**63**	**60**	**57**	**53**	**51**	**48**	**44**	**41**	**37**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**57**	**62**	**67**	**72**	**76**	**78**	**80**	**81**	**82**	**83**	**83**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
	PV of Debt-to-Revenue Ratio										
Baseline	300.2	313.1	298.7	276.6	267.0	258.6	241.2	226.0	200.5	179.8	159.3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	300	332	330	321	324	324	309	296	273	257	241
B. Bound Tests											
B1. Real GDP growth	300	379	432	426	443	463	462	465	450	442	433
B2. Primary balance	300	342	354	326	314	304	284	268	239	217	194
B3. Exports	300	350	399	375	366	358	337	317	279	248	217
B4. Other flows 3/	300	380	432	407	398	391	369	346	303	268	235
B5. One-time 30 percent nominal depreciation	300	337	318	291	276	261	239	220	190	166	142
B6. Combination of B1-B5	300	346	344	299	295	290	273	259	232	211	190
C. Tailored Tests											
C1. Combined contingent liabilities	300	374	353	326	315	305	286	269	241	219	197
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	300	385	419	435	453	468	460	457	446	443	438
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio										
Baseline	23.6	38.7	50.2	48.6	51.9	56.4	55.2	58.1	56.9	51.4	43.9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	24	39	51	50	52	55	52	53	51	45	38
B. Bound Tests											
B1. Real GDP growth	24	45	77	90	107	124	128	138	139	137	131
B2. Primary balance	24	39	71	83	75	72	66	66	64	59	51
B3. Exports	24	39	51	50	53	58	56	63	66	60	52
B4. Other flows 3/	24	39	51	50	54	58	57	66	69	63	55
B5. One-time 30 percent nominal depreciation	24	39	51	49	53	57	55	58	56	51	43
B6. Combination of B1-B5	24	40	53	52	60	68	68	73	72	67	60
C. Tailored Tests											
C1. Combined contingent liabilities	24	39	94	77	71	70	64	64	61	55	47
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	24	44	80	107	128	142	140	141	139	136	131
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by Ms. Ita Mary Mannathoko, Executive Director for Sierra Leone and and Mr. Patterson Chukwuemeka Ekeocha, Senior Advisor of the Executive Director

July 27, 2021

I. Introduction

1. Our Sierra Leonean authorities appreciate the constructive engagement with Fund staff during the virtual mission for the third and fourth reviews under the Extended Credit Facility (ECF) arrangement. They broadly agree with the key policy priorities and challenges articulated by staff.

2. Following emergency support to help address the impacts of the COVID-19 shock, Sierra Leone is resuming its ECF program, which will support key policy goals of revenue mobilization, safeguarding financial stability, and addressing external vulnerabilities.While the economy is emerging from the 2020 recession, the evolution of the pandemic remains uncertain with the third wave now underway, and given fiscal financing pressures alongside debt considerations, important risks cloud the outlook. Against this backdrop, the authorities are committed to resume structured engagement under the ECF program to help support the key objectives of the National Development Plan (NDP 2019-23), while limiting scarring from the pandemic. They seek Directors' support forthe completion of the third and fourth reviews under the ECF, and for requests for rephasing and extension of the arrangement, waivers of nonobservance of performance criteria, and the financing assurances review.

3. The authorities are exploring options to close the residual financing gap, including through the use of a small portion of the general allocation of Special Drawing Rights (SDRs) to meet critical priority expenditure. This could include a contingency allocation for health to bolster the COVID-19 response, while supporting arrears clearance.

II. Impact of the Pandemic and Recent Economic Developments

4. Economic growth decelerated from 5.5 percent in 2019 to -2.2 percent in 2020 aspandemic containment measures impacted tourism, trade, travel, and agricultural production. Growth is projected to rebound to 3.2 percent in 2021, contingent on improved mining activity, a pickup in global demand, and reopening of productivesectors. As the delta variant spreads, however, in the context of weak public health systems coupled with constraints in global vaccine production and distribution, the full impact of COVID-19 on the economy remains uncertain.

5. Inflation declined from 13.9 percent in 2019 to 10.4 percent 2020, and further to 9.6 percent in April 2021, as price pressures from initial supply shocks and panic buying in 2020, eased with increased availability of basic foodstuffs. Nonetheless, although food price inflation remains relatively high, the onset of the harvest season is expected to dampen food prices. Exchange rate stability and prudent fiscal policy is expected to continue to support the sustained decline in inflation.

6. Although exports and imports declined in 2020, gross international reserves remained high at 4.7 months of imports in 2020 reflecting inflows of budget grants and pandemic related emergency financing. Going forward, exports and import performance is expectedto improve as the economy recovers.

III. Program Performance

7. Program performance under the third review was solid, while that under the fourth reviewin 2020 was more mixed due to the impact of the pandemic and the necessary policy response. Specifically, quantitative performance criteria (QPCs) on net credit to government and net domestic assets of the BSL for end-June 2020 were missed, due tothe on-lending of IMF emergency financing for the COVID-19 response, as approved by the Board. Requests for waivers are based on corrective actions taken, reflected in a sizeable adjustment in the 2021 budget and the implementation of important fiscal structural reforms. Beyond this, continuous PCs on external debt were met in 2020, whileindicative targets (ITs) on domestic revenue and the domestic primary balance were missed due to the adverse impact of the crisis on fiscal revenues, alongside ramped up crisis spending. Tight financing conditions in early 2020, also resulted in the missed poverty-related spending IT, in June.

8. The outbreak of the pandemic undermined the timely implementation of structural reforms. As a result, two important reforms targeted for end-April 2020 were completed with a delay: the domestic arrears clearance strategy was approved by Cabinet in July 2020 and published online; and the revised NRA Act was submitted to Parliament in January 2021. The two state-owned banks (SOBs) have made significant progress in designing their business strategies. Moreover, the enhanced supervision by the Bank of Sierra Leone (BSL), and the settlement of domestic arrears to domestic suppliers, has helped improve the soundness of the two banks. Going forward, the authorities plan to sustain current efforts to strengthen governance in these two banks in order to set them on a commercial footing. The continuous structural benchmark on the automatic fuel price adjustment mechanism was met through February 2021. While there was a temporary suspension of the fuel adjustment mechanism to moderate inflation impacts, the authorities have since restored the mechanism from July.

IV. Policy Measures are Aligned with the ECF Program Fiscal

Policy

9. The authorities remain committed to preserving fiscal and debt sustainability. To this end, they will continue to prioritize grants and concessional loans within a pre-defined borrowing

limit to help finance priority infrastructure projects. Expected on-lending of the ECF resources will also limit expensive domestic financing. Having completed the domestic arrears clearance strategy published in 2020, the authorities plan to develop a medium-term debt management strategy that will help government to manage risk exposures arising from its debt portfolio and reduce macro-financial risks while supporting debt sustainability. The authorities appreciate the support received under the IMF's Catastrophe Containment and Relief Trust and the Debt Service Suspension Initiative, which also helps to relieve financing pressures and free up some resources to meet priority expenditure necessitated by the pandemic.

10. Fiscal consolidation through domestic revenue mobilization and prudent expenditure management will gradually reduce the fiscal deficit, moving towards a primary surplus in 2022. The authorities have continued to strengthen revenue administration measures with increased focus on tax policy reforms to enhance revenue collection. They have expandedthe tax base by increasing taxpayer compliance through public engagement and sensitization, and close monitoring of revenue collection, in collaboration with stakeholders. In addition, relaxing COVID-19 restrictions and opening international trade corridors facilitated the collection of goods and service tax (GST) and customs revenue. This, alongside reduced exemptions, supported revenue efforts. The new integrated tax administration system (ITAS) has also boosted tax compliance by simplifying payments and enhancing transparency of National Revenue Authority operations. To further improve domestic revenue collection in the medium-term, the authorities are formulating a medium-term revenue strategy.

11. On expenditure rationalization, the authorities intend to reduce the wage bill to 6 percent of GDP in the medium-term by limiting the increase in real wages and ensuring effective payroll management and control. They will also improve Public Financial Management (PFM) and build the efficiency of public investment, following the PIMA findings and recommendations, to strengthen public infrastructure project management.

Monetary, Exchange Rate, and Financial Sector Policies

12. The Bank of Sierra Leone (BSL) remains committed to safeguarding price stability. While the monetary policy stance remains accommodative, it is also data dependent and the authorities stand ready to tighten policy if inflationary pressures merit this, consistent with monetary policy objectives. On crisis support measures, the in-built temporarydesign of the agricultural credit facility (ACF) means it will serve the term allotted and bewound down in line with the guidelines issued by its Board of Directors. In the samevein, the temporary Special Credit Facility (SCF) which cushioned demand pressures on foreign exchange for key imports and bridged the shortage of cash in the banking system occasioned by the pandemic, will be wound down in 2021, unless risks to food security materialize. The BSL is also working to resolve the issue of cash shortages in the banking system, which has re-emerged in recent months. They are seeking technical assistance as needed.

13. The BSL remains committed to exchange rate flexibility to absorb external shocks and maintain adequate reserves. To that effect, BSL only intervenes in the foreign exchange market to smooth disruptive market fluctuations. As the FX market develops, the BSL will continue to consolidate the framework that will facilitate the implementation of the two-way auction system. The authorities are also working to better reflect the prevailing market rate in the computation of the BSL rate used for FX transactions, and to eliminate potential for multiple currency practices. They are also working with Refinitiv (previously Reuters) to develop software for real time data submission by banks, in the Sierra Leonean market. In the meantime, they are compiling data series of daily exchangerate volatility to compare with the weekly official exchange rate to ensure that the deviation between the BSL rate and the market rate does not exceed 2 percent. They are also committed to promote the channeling all foreign exchange transactions through commercial banks to stem money laundering activities.

14. Strengthening financial sector stability continues to rank high on the authorities' agenda. To this end, the emphasis on risk-based bank supervision will help the country move towards adoption of Basel 2 and Basel 3, and stronger operational resilience of banks, enabling them to withstand shocks. The authorities will continue to improve bank asset quality, ensure close monitoring of financial sector risks, and work on resolving troubled state-owned banks.

Structural Reforms

15. Structural reforms to enhance human capital and inclusive growth, reduce risks to debt sustainability and promote good governance will support recovery and realization of the key goals of the national development plan. The authorities have continued to enhance fiscal governance, ensuring transparent use of COVID-related resources and full compliance in publishing financial statements from the National COVID-19 Emergency Response Center (NaCOVERC), and procurement contracts including the names of the awarded companies, and their beneficial owners. They continue to report spending related to the *Quick Action Economic Response Program* (QAERP), and ex-post audits ofgovernment's COVID-19 related-spending and assessments are published online, consistent with provisions of statutory laws and safeguards for emergency financing.

16. Completing and fully implementing automated domestic revenue reforms, including electronic funds transfer, upgrade of the IFMIS to cloud application and strengthening of the TSA systems, remain priorities. Other essential reforms include the revised NRA Act to strengthen the foundation for tax policy reforms, which include revenue administration and legal components. The authorities also remain committed to the automatic fuel price adjustment mechanism and prudent budgetary management.

17. The authorities continue to implement the recommendations of the safeguards assessment. The FY 2019 and 2020 audits of the BSL's financial statements are in-train and should be finalized by October 2021. An external quality assessment of the internal audit function will be completed by end-2021. The authorities also intend to appoint a reputable external

auditor with central banking experience for the FY 2021 audit, by November 2021. The audit report will be published on the BSL's website.

18. Planned work will also strengthen central bank governance and further enhance BSL's regulatory and supervisory oversight. In addition, the BSL is committed to fast-tracking the implementation of the World Bank supported financial inclusion project.

V. Conclusion

19. Our Sierra Leonean authorities reaffirm their commitment to prudent macroeconomic policies and implementation of the ECF arrangement to achieve the objectives of the National Development Plan 2019-2023. They appreciate the IMF Board, Management, and Staff support, under both the RCF and ECF, and look forward to close Fund engagement and technical support to successfully implement reforms under the ECF program.