IMF Country Report No. 16/236

SIERRA LEONE

July 2016

2016 ARTICLE IV CONSULTATION AND FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY AND FINANCING ASSURANCES REVIEW AND REQUEST FOR AN EXTENSION OF THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SIERRA LEONE

In the context of the 2016 Article IV Consultation and fifth review under the Extended Credit Facility and Financing Assurances Review and Request for an Extension of the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its July 1, 2016 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 1, 2016, following discussions that ended on April 29, 2016, with the officials of Sierra Leone on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 16, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Sierra Leone.

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

Letter of Intent sent to the IMF by the authorities of Sierra Leone*
Memorandum of Economic and Financial Policies by the authorities of Sierra Leone*
Technical Memorandum of Understanding*
Selected Issues
*Also included in Staff Report

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

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Press Release No. 16/314
FOR IMMEDIATE RELEASE
July 1, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under ECF Arrangement for Sierra Leone and Approves US$34.12 Million Disbursement Sierra Leone

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Sierra Leone's performance under the economic program supported by an Extended Credit Facility (ECF) arrangement.[1] Completion of the review enables the disbursement of SDR 24.44 million, about US$34.12 million, bringing total disbursements under the arrangement to SDR 162.22 million (about US$226.45 million).

In completing the review, the Executive Board also approved the authorities' request for an extension of the ECF arrangement by about two months until end-December 2016.

Sierra Leone's ECF arrangement was approved by the Executive Board for SDR 62.22 million (about US$86.86 million) on October 21, 2013 (see Press Release No. 13/410) and was augmented twice (see Press Release 15/86 and Press Release 14/441). It supports the government's economic reform program for stronger and more inclusive growth, and it also plays a catalytic role for bilateral and multilateral assistance.

Following the Executive Board's discussion on Sierra Leone, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"After many years of strong growth, Sierra Leone's economy has deteriorated significantly since mid-2014 when the country was hit by twin shocks: the Ebola epidemic and sharply lower iron ore prices. Growth declined from 4.6 percent in 2014 to -21.1 percent in 2015. The budget and exchange rate came under pressure, while banking vulnerabilities have increased. On the positive side, the World Health Organization declared Sierra Leone Ebola-free for the second time on March 17, 2016.

"Despite these serious challenges, program performance has been relatively good. All end-December 2015 quantitative performance criteria were met. While performance against

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

end-September 2015 indicative targets was mixed, with policy corrections all end-December 2015 indicative targets were met. Meanwhile considerable progress was made in key structural reform areas, although a few structural benchmarks were met with delays, and others missed.

“Growth is expected to recover moderately in 2016, with average inflation edging up slightly, driven mainly by further exchange rate depreciation. However, budget implementation is expected to be even more challenging than in 2015, given the expected decline in budget support and constrained domestic financing, combined with overspending on wages and the failure to eliminate fuel subsidies.

“To address these challenges, the authorities are committed to stepping up reforms and improving public financial management. Key reforms include liberalization of the telecommunications gateway, imposing Goods and Service Tax on all electricity bills, and significant reductions in tax exemptions and duty waivers.

“Decisive implementation of structural reforms aimed at economic diversification will be key to achieving strong and sustainable growth and reducing poverty. Priority should be given to improving the business climate, enhancing infrastructure, and supporting private sector development.”

Press Release No. 16/327
FOR IMMEDIATE RELEASE
July 8, 2016

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2016 Article IV Consultation for Sierra Leone

On July 1, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the 2016 Article IV consultation[1] with Sierra Leone.

After a dozen years of strong growth, benefiting from both improved polices and booming commodity prices, Sierra Leone has been hit by twin shocks since mid-2014: the Ebola epidemic and sharply declining iron ore prices. As a result, economic outcomes have deteriorated sharply over the past two years. Growth declined dramatically from 20.7 percent in 2013, to 4.6 percent in 2014, and further to -21.1 percent in 2015. The budget is under severe pressure. Between mid-2014 and end-2015, the Leone depreciated 22 percent against the US dollar. Banking sector vulnerabilities have increased. Living standards have also deteriorated significantly since late 2014. The World Health Organization declared Sierra Leone Ebola-free for the second time on March 17, 2016.

The medium-term outlook is somewhat positive, with growth projected to recover to 4.3 percent this year, increasing gradually to around 6.5 percent by 2020, given that the twin shocks have largely wound down. The risks to the outlook are firmly to the downside, given a potential possible slowdown of reform efforts and various uncertainties: a further slowdown in China could worsen the economic outlook, and iron ore production may again shut down if the company continues to produce at a loss.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

The authorities, in partnership with the international community, designed and began implementing a post-Ebola Economic Recovery Strategy (ERS). The plan has three main elements: getting to and staying at zero new Ebola cases; implementing immediate recovery priorities through social measures, education and sanitation; and transitioning back to the Agenda for Prosperity Plan in the medium term. Sustained reform efforts are needed to achieve these robust growth rates over the medium term, and improve Sierra Leone's living standards.

Program performance has been relatively good. All quantitative performance criteria at end-December 2015 were met. While some end-September2015 indicative targets were missed, with policy corrections all end-December 2015 indicative targets were met. While considerable progress was made in key structural reform areas, a few structural benchmarks were met with delays, and others missed.

Executive Board Assessment[2]

Executive Directors commended Sierra Leone's steadfast implementation of the Fund-supported program especially under difficult circumstances. However, Directors noted that the Ebola epidemic and lower iron ore prices have posed significant challenges. The country also remains vulnerable to external risks. Directors encouraged the authorities to decisively implement their post-Ebola Economic Recovery Plan, in close cooperation with donors. They emphasized that sustained reform efforts are needed, particularly in the fiscal and financial sectors, to generate robust and sustainable growth which can facilitate poverty reduction.

Directors agreed that making fiscal space for priority spending is critical. To this end, they encouraged the authorities to push forward with strong measures to increase domestic revenues and rationalize expenditure. On the revenue side, Directors saw need for action to broaden the tax base, remove tax exemptions, and improve tax administration. They also encouraged the authorities to implement a prudent wage policy and eliminate fuel subsidies, which will help increase excise revenues. Directors welcomed the adoption of a new Public Financial Management (PFM) Act and called for its speedy implementation. The PFM Act should help enhance the transparency and efficiency of expenditures.

Directors noted that although Sierra Leone's risk of debt distress is moderate, the economy remains vulnerable to further shocks. They encouraged the authorities to maintain prudent borrowing policies, especially in view of the narrow export base and the fragile fiscal position. Financing needs, particularly for large-scale investment projects, should continue to be covered mostly with grants and concessional loans.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors supported the central bank's intention to target price stability in support of economic recovery. Going forward, they encouraged the authorities to continue to enhance monetary policy instruments and liquidity management. Limiting intervention in the foreign exchange market will also be important to preserve foreign exchange reserves. Directors emphasized the need to strengthen the banking system to support financial intermediation, and to resolve any underlying stresses, especially non-performing loans, through a timely diagnostic of key troubled banks.

Directors emphasized that economic diversification is key to strong and sustainable growth and reducing poverty. They encouraged the authorities to accelerate efforts to improve the business environment, increase the role of the private sector, and address infrastructure bottlenecks.

Table 1. Sierra Leone: Selected Economic Indicators

	2013	2014	2015		2016		2017	2018	2019	2020	2021
			EBS 15/122	Est.	EBS 15/122	Proj.	Proj.	Proj.	Proj.	Proj	Proj
(Annual percent change, unless otherwise indicated)											
National account and prices											
GDP at constant prices	20.7	4.6	-21.5	-21.1	0.1	4.3	5.0	5.8	6.2	6.6	6.5
Excluding Iron ore	5.5	0.8	1.0	1.4	1.3	3.3	4.0	5.0	6.0	6.5	6.4
Iron ore production (millions metric tons)	16.2	19.4	0.8	0.8	0.0	6.0	9.0	12.0	13.2	14.5	16.0
Iron ore price (US$ per ton) :											
WEO (spot price 62% Fe)	135.4	96.8	55.8	55.2	44.8	42.4	35.5	33.8	35.9	35.9	35.9
Weighted average company price	82.6	39.8	31.3	31.0	...	24.3	24.3	24.3	25.9	25.9	25.9
Consumer prices (end-of-period)	8.5	9.8	12.0	10.1	9.5	9.5	9.0	8.5	8.0	7.5	7.5
Consumer prices (average)	9.8	8.3	9.9	9.0	9.5	9.5	9.0	8.5	8.0	7.5	7.5
External sector											
Terms of trade (deterioration -)	-5.0	-16.0	-18.0	-21.8	0.4	-1.9	-2.4	-2.2	0.6	0.4	0.5
Exports of goods	47.4	-15.4	-55.1	-55.4	-0.3	13.7	32.6	21.7	11.8	9.3	10.7
Imports of goods	-19.9	4.7	-14.9	-20.6	-3.8	1.9	4.4	6.9	8.4	9.0	8.7
Average exchange rate (leone per US$)	4337	4532	...	5076	...	...	...	...	...	...	...
Nominal effective exchange rate change (end-period, depreciation -)	-2.4	-7.1	...	-2.2	...	...	...	...	...	...	...
Real effective exchange rate (end-period, depreciation -)	3.6	0.7	...	5.8	...	...	...	...	...	...	...
Gross international reserves, months of imports 1/	2.0	3.6	4.0	3.8	3.6	3.6	3.4	3.4	3.3	3.3	3.5
Excluding iron ore related imports, months of imports 2/	3.4	4.3	4.7	4.9	4.8	5.0	5.1	5.0	4.8	4.9	5.2
Money and credit											
Domestic credit to the private sector	11.9	5.4	1.0	3.2	2.1	5.0	5.4	6.8	11.6	13.6	12.6
Base money	17.7	30.2	7.1	10.4	8.0	11.0	15.5	16.4	16.5	15.4	14.3
M3	16.7	16.6	13.0	11.3	13.3	12.9	15.3	15.5	16.0	15.0	13.9
91-day treasury bill rate (in percent)	8.0	2.4	...	2.1	...	...	...	...	...	...	...
(Percent of non-iron ore GDP, unless otherwise indicated)											
National accounts											
Gross capital formation	14.9	14.5	16.0	16.3	15.2	16.3	16.3	16.5	16.8	17.6	17.8
Government	6.3	5.9	7.0	7.3	6.2	6.3	5.8	6.0	6.3	6.6	7.0
Private	8.6	8.6	9.0	9.0	9.0	10.0	10.5	10.5	10.5	11.0	10.8
National savings	-5.6	-5.6	2.5	0.7	3.1	-0.3	0.3	0.8	1.2	2.6	2.6
External sector											
Current account balance											
(including official grants)	-20.5	-20.1	-13.5	-15.5	-12.1	-16.6	-16.0	-15.7	-15.6	-15.0	-15.1
(excluding official grants)	-21.7	-35.6	-25.1	-23.5	-19.4	-22.2	-19.6	-18.6	-18.5	-17.8	-17.9
External public debt (including IMF)	24.9	24.9	30.9	28.5	32.5	33.0	33.1	32.1	30.9	29.4	27.8
Central government budget											
Domestic primary balance 3/	-0.7	-5.4	-5.5	-5.1	-4.7	-4.2	-2.7	-2.4	-2.3	-2.3	-2.3
Overall balance	-1.9	-4.0	-4.8	-4.4	-5.3	-4.9	-3.8	-3.3	-3.3	-3.3	-3.3
(excluding grants)	-4.9	-8.7	-10.1	-9.6	-8.6	-8.1	-6.2	-5.7	-5.7	-5.7	-5.7
Revenue	12.6	10.8	9.8	10.5	10.4	10.9	12.1	12.8	13.5	14.1	14.6
Grants	3.0	4.7	5.4	5.2	3.2	3.2	2.4	2.5	2.4	2.4	2.4
Total expenditure and net lending	17.5	19.5	20.0	20.1	19.0	19.0	18.3	18.6	19.2	19.8	20.3
Memorandum item:											
GDP at market prices (billions of Leone)	21,317	22,690	22,260	22,326	24,582	25,807	29,508	33,788	38,656	44,056	49,737
Excluding iron ore	18,159	20,542	22,190	22,254	24,582	25,101	28,360	32,183	36,698	41,824	47,210
Excluding iron ore in millions of US$	4,187	4,533	4,310	4,384	4,513	4,165	4,264	4,524	4,850	5,225	5,614
Per capita GDP (US$)	805	803	684	696	701	665	676	710	750	798	844

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

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

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

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

SIERRA LEONE

June 16, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY AND FINANCING ASSURANCES REVIEW AND REQUEST FOR AN EXTENSION OF THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context: After a dozen years of strong growth, benefiting from both improved polices and booming commodity prices, Sierra Leone has been hit by twin shocks since mid-2014: (i) the Ebola epidemic and (ii) sharply lower iron ore prices. As a result, economic outcomes have deteriorated sharply. Growth declined dramatically from 4.6 percent in 2014 to -21.1 percent in 2015. The budget is under severe pressure, with the authorities having difficulty funding routine expenditures in a timely manner. Between mid-2014 and end-2015, the Leone depreciated 22 percent against the US dollar. Banking sector vulnerabilities have also increased. The World Health Organization declared Sierra Leone Ebola-free for the second time on March 17, 2016. The Article IV discussions were conducted together with the fifth review under the Extended Credit Facility.

Article IV discussions: The consultation focuses on four key medium-term economic challenges facing Sierra Leone: making fiscal space for priority spending; strengthening public financial management; enhancing financial stability and unlocking macro-financial synergies; and diversifying the economy.

Outlook and risks: The medium-term outlook is somewhat positive, yet highly uncertain. Growth is projected to recover gradually to around 6.5 percent in 2020, driven primarily by non-iron ore growth. However, sustained reform efforts are needed, particularly in the fiscal and financial sectors,[1] to achieve these robust growth rates and improve Sierra Leone's living standards, which have deteriorated significantly since late 2014. The risks to the outlook are firmly to the downside, given the potential for slow implementation of needed and various externals risks, including a possible further slowdown in China, which would reduce exports, or a renewed cessation of iron ore production if it cannot be made profitable.

Program performance has been relatively good: All quantitative performance criteria at end-December 2015 were met. All end-December 2015 indicative targets were met while end-September 2015 indicative targets were mixed. While considerable progress was made in key structural reform areas, a few structural benchmarks were met with delays, and others missed. The prior action set for this review has been met.

Staff supports the completion of the fifth review under the ECF and the authorities' request for a two-month extension of the ECF arrangement, to allow time to complete the final review.

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[1] Since Sierra Leone is a pilot on the mainstreaming financial sector surveillance initiative, this report highlights the macro-financial links throughout its analysis.

Approved By
Abebe Aemro Selassie and Andrea Richter Hume

Discussions took place in Freetown during March 16–29 and continued from headquarters through April 29. The staff team comprised Mr. Wakeman-Linn (head); Messrs. Mu and Cangul, and Ms. Parulian (all AFR), Mr. Baltabaev (SPR), and Ms. Masha (Resident Representative). Mr. Yamuremye (OED) participated in policy discussions. Staff met with President Koroma, Dr. Kaifala Marah, Minister of Finance and Economic Development, Mr. Momodu L. Kargbo, Governor of the Bank of Sierra Leone, and other senior officials; representatives of the private sector, development partners, and civil society organizations.

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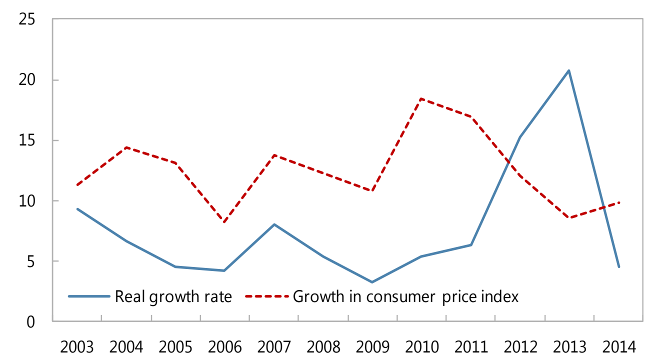
BACKGROUND

A. Context

1. **After the end of its civil war in 2002, Sierra Leone experienced more than a decade of strong economic performance, building on improved policies and high commodity prices, which allowed a sharp expansion of iron ore mining**. Between 2003 and 2014, the economy grew an average of 8 percent per year, while inflation fell below 10 percent (Text Figure 1). The country was making social progress as well; the poverty head count had dropped from nearly 70 percent in 2003 to 52 percent, and its Human Development Index (HDI) ranking improved modestly. A combination of improved macroeconomic policies, targeted social measures, the discovery of iron ore, and a favorable external environment were major factors underlying this success.

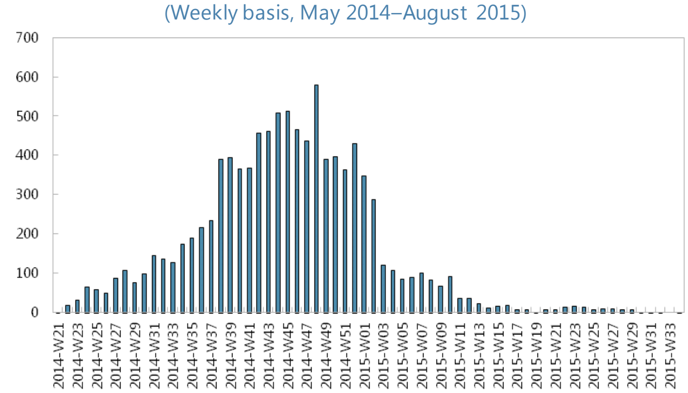
Text Figure 1. Historical Real Growth and Inflation



Source: Sierra Leone authorities.

2. **In 2014, however, the economy was hit by twin shocks—an outbreak of the Ebola Virus Disease (EVD) and a sharp drop in iron ore prices**. As the EVD spread (Text Figure 2), private sector activity came to a halt as businesses closed, and movement of goods and people was restricted. There were sharp job losses in the private sector, while agricultural exports and manufacturing output declined 30 and 60 percent, respectively (SIP 1).[2] As the government was trying to generate additional resources to fight the EVD, iron ore production came to a halt in early 2015, largely as a result of the sharp drop in iron ore prices (Text Figure 3). GDP fell more than 21 percent while domestic revenue as a percentage of non-iron ore GDP dropped to 10.5 (end-2015) from 12.6 (end-2013) prior to the

Text Figure 2. The Spread of Ebola: Number of New Cases in Sierra Leone
(Weekly basis, May 2014–August 2015)

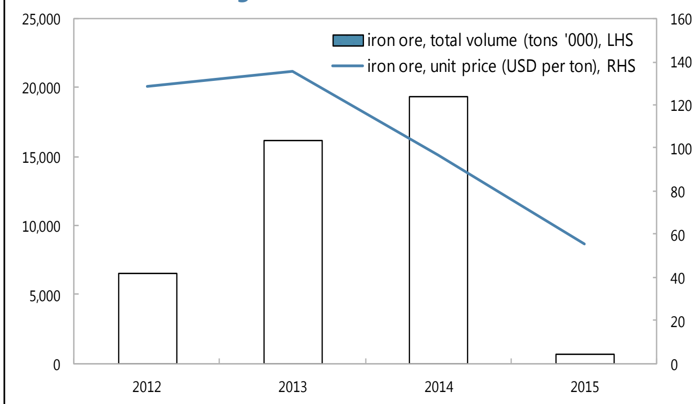


Source: World Health Organization.

[2] "National Ebola Recovery Strategy for Sierra Leone, 2015–17," prepared by Government of Sierra Leone.

shocks.[3] Banking sector vulnerabilities also increased, in part due to the pressures created by Ebola and the iron ore crisis.

Text Figure 3. Iron Ore Production



Source: Sierra Leone authorities.

3. **The authorities have done a commendable job in dealing with these two crises, with the support of the international community**. The Fund has helped through a combination of debt relief, increased financing and budget on-lending, the IMF provided over US$219 million in assistance during 2014–15 (about 5 percent of 2015 GDP), significantly above what had previously been planned. This helped alleviate the impact of the twin shocks on both the balance of payments (BOP) and the budget. The authorities made adjustments internally, focusing the budget on EVD response, economic recovery, and poverty reduction. Program performance suffered initially, but regained traction in 2015.

4. **Although still undergoing adjustment, the economy is showing signs of recovery**. Sierra Leone was declared Ebola free for a second time on March 17, 2016. This has contributed to the resumption of economic activity and a pickup in revenues. The authorities, in partnership with the international community, designed and began implementing a post-Ebola Economic Recovery Strategy (ERS). The plan has three main elements: getting to and staying at zero new EVD cases; implementing immediate recovery priorities through social measures, education and sanitation; and transitioning back to the Agenda for Prosperity Plan (A4P) in the medium term (MEFP ¶3).

5. **The 2016 Article IV discussions were conducted together with the fifth review under the ECF in March 2016, and continued during the Spring Meetings**. The Article IV consultation focused on critical medium-term (including 2017) issues, while the fifth review focused on immediate and short-term challenges.

B. Recent Economic Developments, Medium-Term Outlook and Risks

6. **As a result of the twin shocks, Sierra Leone's economy in 2015 deteriorated severely**. Growth is estimated to have declined from 4.6 percent in 2014 to -21.1 percent in 2015. Between mid-2014 and end-2015, the Leone depreciated 22 percent against the US dollar. Despite the loss of iron ore exports and the resultant more than 55 percent decline in total exports, the current account (CA) deficit improved from 20.1 percent of non-iron ore GDP in 2014 to about 15.5 percent in 2015. This was driven by a more than 20 percent decline in imports—largely Ebola related imports of

[3] Country Report No. 15/323 elaborates more extensively on the macroeconomic impact of the twin shocks.

goods and services and fuel products—and still strong current transfers related to Ebola. In early 2016, the largest iron ore producer resumed operations, albeit at significant loss.[4]

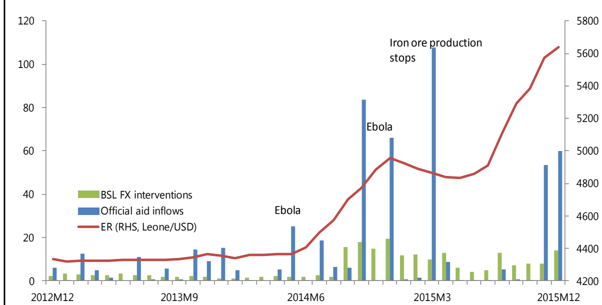
7. On the fiscal front, the deficit further widened to 4.4 percent in 2015 from 4.0 percent of GDP in 2014. Domestic revenue in percent of GDP declined to 10.5 percent in 2015 from 10.8 percent in 2014, mainly due to the loss of revenue from minerals and the ongoing impact of Ebola. This was a somewhat better performance than anticipated at the time of the last review, as revenue was nearly 0.7 percent of non-iron ore GDP, due to enhanced tax audits, minimization of duty concessions, and stricter enforcement. Staff and authorities estimate that about half, of the over-performance in revenue was from structural measures in better administration that could be sustained going forward, while the rest was from one-time measures. Expenditures were broadly in line with expectations, about 0.1 percent of non-iron ore GDP higher than targeted. Combined, the fiscal deficit in 2015 widened moderately. However, revenue shortfalls led to periodic accumulations of arrears,[5] which in turn contributed to problems in the financial sector, discussed below.

8. Inflation remained contained in 2015, despite significant exchange rate depreciation.

- Consumer price inflation averaged 9 percent in 2015, slightly below staff's projection during the last review, compared with 8.3 percent in 2014. The increase in inflation reflected exchange rate depreciation, reduced food supply due to lower agriculture production, and disruptions in cross border trade with Liberia and Guinea.

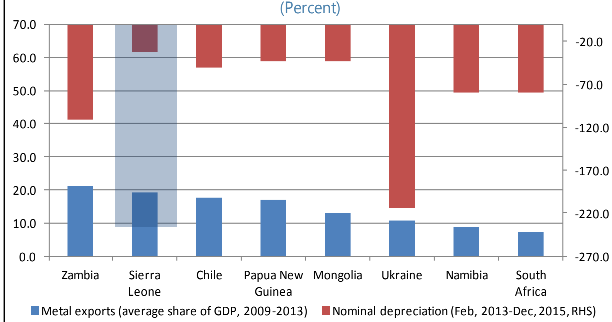
- Monetary policy management during the second half of 2015 was challenged by the depreciation, increased inflation expectations driven mainly by non-food inflation and the pass through effect associated with the depreciation of the leone. With the end of Ebola and related decreases in external financing, the Leone depreciated 18 percent against the dollar between mid-2015 and end-March 2016 (Text Figures 4 and 5), as donor inflows continue to decline and iron ore export

Text Figure 4. Nominal Exchange Rate, Aid Flows and FX Interventions
(Millions of US$, unless otherwise indicated)



Sources: BSL; and IMF staff estimates.

Text Figure 5. Nominal ER Depreciation and Metal Exports
(Percent)



Sources: IFS; WEO; and IMF staff estimates.

[4] In spite of repeated requests, staff has not received adequate information to assess accurately the breakeven price. Based on limited information, staff roughly estimates the break-even iron ore price for the mine is currently around $75 per ton.

[5] Sierra Leone has no external arrears, except the legacy arrears dating back to the civil war period.

receipts remained negligible. Interventions in the foreign exchange market by the Bank of Sierra Leone (BSL, central bank of Sierra Leone) increased markedly between the second half of 2014 and the first half of 2015, reaching US$19 million in December 2014. In the second half of 2015 and early 2016, BSL reduced interventions to about $3–4 million per week and since the second week of February 2016, the BSL has intervened only infrequently, to preserve reserves.

- The reserve coverage remains adequate at 3.8 months of imports at end-2015 (Annex I). This is higher than both the standard 3-month norm and the suggested level by the LIC reserve template, at 2.8 months of imports. The REER is estimated to be overvalued between 12–14 percent as of December 2015, suggesting continued pressure on the exchange rate. This will help reduce the current account deficit, particularly through reduced imports, as Sierra Leone's exports are less responsive to exchange rate.

9. The financial sector is in distress. At end-2015, there were significant problems with respect to prudential norms. Compared to 2014, the number of banks that were non-compliant with the minimum liquidity, capital adequacy, and non-performing loan (NPL) ratios increased. Partly caused by the twin shocks, the NPL ratio jumped from 22 percent at end 2013 to 38 percent in mid-2015.[6] Poor loan quality reflects continuing fragility in the private sector, problems in banking supervision, and governance and connected lending issues in the two majority state-owned banks. Loan sector concentration remains high with international trade, construction, and services accounting for about three quarters of total loans. The top five borrowers account for 35 percent of total gross loans.

10. The economic environment in 2016 remains very challenging. Iron ore production by the largest mining company (Shanghai Iron and Steel Group, SISG) has resumed, providing a modest impetus to real GDP.[7] However, given the low international iron ore price and the significant discount at which SISG's iron ore is sold on the international market, its contribution to nominal GDP will be marginal.[8] The economic recovery in the near term will largely from non-iron ore and agriculture sectors as the authorities' economic diversification effort and post Ebola recovery plan. Overall, staff projects a return of economic growth in 2016, with total real GDP projected to increase by 4.3 percent, with non-iron ore GDP increasing by 3.3 percent. Average inflation is projected to edge up slightly to 9.5 percent, driven by further exchange rate depreciation, offset somewhat by improvements in domestic food production.

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[6] Though the NPL ratio declined to around 32 percent at end 2015, the amounts of outstanding loans and provisions were largely unchanged. This may indicate that at least part of the decline in NPLs was achieved through issuance of new loans to pay off overdue loans.

[7] Discussion is also on-going for a second mining company to resume production as soon as agreement can be reached on a repayment schedule for tax arrears. Staff has not incorporated this into the medium-term projection given the uncertainty.

[8] Given the uncertainties in the sector, staff agreed with the authorities to base 2016 and 2017 macroeconomic projections on assumed iron ore exports that are roughly half the level SISG projects.

11. The 2016 fiscal environment is even more challenging than in 2015, despite the fact that domestic revenues are increasing 0.4 percent of GDP from last year. This increase in revenues is mainly due to policy measures discussed in more detail below, and comes despite the fact that the authorities failed to adhere to their commitment, in the context of the last review, to eliminate implicit fuel subsidies. The approved budget accounted for the fact that budget support is declining by more than 1 percent of GDP from 2015. However, it has proven challenging to mobilize the domestic financing assumed in the budget (3 percent of GDP), despite very significant increases in interest rates on treasury obligations, as continued BSL sales of foreign exchange have drained liquidity from the system. Combined with some overspending—particularly on wages—and the failure to eliminate fuel subsidies as committed in the last review, the budget faces a financing gap for 2016 of more than 1 percent of GDP. Staff and the authorities agreed on measures to close these gaps, as discussed below and in the MEFP (¶22–25).

12. Monetary policy is expected to focus on price stability, while liquidity management should be enhanced. The overly tight liquidity[9] in early 2016 calls for improvement in BSL's liquidity management, as well as a halt to BSL foreign exchange sales. The BSL is struggling to balance the need to provide adequate liquidity to enable the effective operation of commercial banks and to avoid an overshooting of interest rates, with the desire to fight further leone depreciation.

13. The current account (CA) deficit is projected to deteriorate modestly. With the resumption of iron ore production in early 2016, exports are projected to rise by 13.7 percent, to $662 million. The trade deficit is projected to improve to US$669 million, helped by resumption of iron ore exports and declining oil prices. However, the CA deficit is projected to increase slightly to over 16 percent of GDP due to declining current transfers, and will be predominantly financed by FDI-related inflows. A significant boost to FDI is expected to come from investments in the agriculture and food processing sectors, as well as predicted capital flows from the parent company to cover the incurred losses of the iron ore company.

14. Over the medium term, economic prospects are expected to improve given that the twin shocks have now largely wound down. Staff projects medium-term growth gradually picking up to around 6.5 percent in 2020 from 4.3 percent in 2016. Inflation will decline to 7.5 percent in 2020 from 9.5 percent in 2016. The fiscal and current accounts deficits will decline to 3.3 and 15 percent in 2020 from 4.9 and 16.6 percent in 2016, respectively. The projected deterioration in the current account deficit from 2017 onwards is mostly driven by the need to increase reserves, as well as by the projected cessation of World Bank budget support. As a result, a balance of payments financing gap is projected to emerge in the medium term.

15. The unusual situation in the iron ore sector makes the medium-term projections highly uncertain. As noted above, staff does not have sufficient data to firmly determine the cost of iron ore production, but it is clear the current mine is operating at a loss. Since it is unclear why SISG chose to resume production at a loss, it is hard for staff to forecast the likelihood of continued

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[9] Liquidity here refers to excess cash in commercial bank to purchase Treasury Bills. From a prudential perspective, where liquidity includes the stock of Treasury Bills holdings, there is ample liquidity in the system.

production, or the realistic prospects for the proposed resumption of production at the second mine.

16. Given these uncertainties, staff has attempted to assess what the first-round impacts on the economy would be if iron ore production halted again. If there were zero iron ore production in 2017 and 2018, growth would decline to an estimated 1.8 and 5.0 percent, respectively (compared to 5.0 and 5.8 percent in the baseline). The direct fiscal impact would be surprisingly limited, as the mine currently only pays royalties. Thus, the estimated loss of fiscal revenue would be around 0.2 percent of GDP per year. The loss of iron ore exports would be partially offset by declining iron ore related imports, but nonetheless the current account would deteriorate by $75–100 million per year; closing this gap would be perhaps the biggest challenge from a loss of iron ore exports.

17. The risks to outlook are firmly to the downside. Beyond the risks related to iron ore production, projected FDI flows may fail to materialize, particularly, in the medium term, posing significant downside risk to both the DSA and the balance of payments financing, as this would cause both growth and exports to be lower. In addition, if the high NPL problem and weaknesses in the state-owned banks are not tackled rapidly, the weaker exchange rate and higher inflation combined with low growth could further compromise the overall stability of the banking system and result in potential high fiscal costs for possible bank recapitalizations and/or resolution. Other domestic risks which could pose negative impacts on outlook include poor implementation of fiscal policy or reemergence of Ebola. External risks include persistently lower energy prices and structural weak growth in emerging economies, particularly a further slowdown in China. These risks emphasize the importance of domestic revenue mobilization and expenditure prioritization. On the monetary and financial policy front, they underline the urgency of timely implementation of the recommendations of the diagnostic studies of the two banks.

Authorities' Views

18. The authorities broadly concur with staff's projections. The authorities agreed with staff's views on growth and inflation prospects for the medium term, which are better than assumed at the time of the last review (MEFP ¶5). They noted that several initiatives and the large FDI in the agriculture sector will boost activity in the non-iron ore sectors and help the economy diversify. Given the uncertainty of the iron ore and other commodity prices, the authorities acknowledged the downside risk from a prolonged shock in the mining sector. In particular, since the iron ore company is producing at significant loss, the sustainability of their operation remains a major concern. The authorities agreed with staff projections of revenues and expenditures for the medium term (MEFP ¶28). Their key aims will be to increase non-iron ore revenue (MEFP ¶40) while improving expenditure management (MEFP ¶41).

ARTICLE IV DISCUSSIONS: BUILDING THE FOUNDATIONS FOR ECONOMIC RECOVERY AND STRONGER GROWTH

The challenge facing Sierra Leone is to achieve fiscal sustainability and return to a path of strong, sustainable economic growth, which can facilitate a significant reduction in poverty. The staff agreed with the authorities that there are four key medium-term economic challenges facing Sierra Leone, as it seeks to achieve this goal: making fiscal space for priority spending, strengthening public financial management, enhancing financial stability and macro-financial synergies, and diversifying the economy.

A. Policy Theme #1: Making Fiscal Space for Priority Spending

19. A key structural challenge confronting the authorities is the very low domestic revenue to GDP ratio, an estimated 10.9 percent of non-iron ore GDP for 2016, even after the measures discussed below to close the fiscal financing gap (Table 2b). This is especially critical as expenditure pressures mount relating to the post-Ebola recovery and the Agenda for Prosperity, as external budget support is expected to further decline in the medium term, and as the sustainability of iron ore production remains unclear. Thus, the authorities and staff agree that increasing domestic revenues is the most important challenge facing the government (MEFP ¶36). Accomplishing this will require continued efforts to enhance tax administration, as well as a fundamental reconsideration of tax policies.

20. The importance of increasing domestic revenues is underlined by the limited availability of domestic financing. The authorities' fiscal anchor under the program is determined by an upper ceiling in domestic financing of the budget of 2 percent of GDP. This anchor is consistent with fiscal sustainability given the spending needs of the government, domestic resources available to the authorities and the depth of the domestic debt market. There was a temporary relaxation of this anchor to 3 percent of GDP for 2015 in the face of severe shocks facing the country. Given the continuing fiscal challenges, including the needs for post-Ebola recovery spending, the program envisions a gradual return to the anchor. Thus, the anchor will be set at 2.5 percent of GDP in 2016, and return to 2 percent in 2017.

21. Thus, given the constraint of the fiscal anchor, staff's main recommendation is to increase fiscal space through higher and more diversified revenues, with steady increases in revenues as a share of GDP each year over the medium term. Staff believes the increased fiscal space should be used for higher expenditures, especially in pro-poor spending and capital projects to address critical infrastructure needs in energy, education, and health.

22. The greatest challenge in tax administration is non-compliance. To address this difficulty, the authorities are increasing their audit and collection efforts. However, more needs to be done to run tax collections on a systemic basis instead of through ad-hoc efforts to meet short-term expenditure pressures and year-end targets. In this regard, staff welcomes the authorities' push to automate GST collections, which is expected to reach completion by end-2017. Human capacity needs to be enhanced to review tax returns of large companies that may be underestimating their obligations, especially in the telecommunications, extractive and financial sectors. In addition, it will be important to continue efforts to simplify customs clearance, whose existing complexity is facilitating tax evasion.

23. With regard to tax policy, it will be vital to broaden the tax base. Currently, tax policy focuses on collecting revenue from a small portion of the economy, with key sectors and businesses exempted from excise taxes and/or the GST. In the context of the last review and the 2016 budget, the government eliminated all exemptions not approved by parliament, generating an amount estimated 0.10–0.15 percent of non-iron ore GDP. In addition, as detailed below, the authorities have begun scrutinizing exemptions requested by NGOs to ensure they relate strictly to their core activities, and henceforth hotels will not be granted exemptions beyond the construction phase. Further to these efforts, staff has urged the elimination of the exemption for imported rice; however, the authorities have shown reluctance citing socio-political reasons, especially as they view local production to be insufficient to meet local demand. Overall, staff strongly urges the government to review the entire list of tax exempt items and activities, and the cost of each exemption, with the aim of eliminating most exemptions. The staff is confident that a careful review of exemptions will lead the authorities to conclude that the costs of most exemptions—both in terms of lost revenue, and distortions imposed on the economy—greatly exceed any benefits.

24. Staff also strongly urged the authorities to follow through on their previous commitment to eliminate implicit fuel subsidies, which would lead to a significant increase in excise revenues. Currently, the government adjusts the excise rate charged retail fuel consumers at periodic intervals to maintain prices stable. When international oil prices rise, the excise revenue they collect declines to insulate the retail price from the changes in the global markets, resulting in an implicit subsidy in the form of foregone revenue of about 0.4 percent of GDP per year.

25. Measures to increase revenues will pay off gradually. In the meantime, addressing fiscal challenges will require spending restraint. Under current spending policies, and assuming a gradual increase in revenues based on the measures discussed above, staff estimates fiscal gaps for 2017 of 0.5 percent of GDP, and in the medium-term of more than 1 percent of non-iron ore GDP. These gaps would emerge, despite revenue gains and expenditure savings that would accrue from structural measures agreed to close the gap in 2016, for two reasons. First, a significant part of domestic financing shifted to the 364-day treasury bills, the interest rate on which have increased to more than 20 percent compared to an assumption of 10 percent during the last review. This development will increase the domestic interest rate cost by more than double beginning in 2017, and it will only gradually decline over the medium-term. Second, external budget support is expected to continue to decline. To close the financing gaps will require further expenditure restraint.

26. Wages are a significant source of budgetary pressure, projected to be more than 7 percent of non-iron ore GDP and taking up more than 65 percent of domestic revenue in 2016, up from 46 percent in 2013. In consultation with staff, the authorities have prepared a medium-term wage strategy that aims to reduce and contain the wage bill within 6 percent of GDP and 50 percent of domestic revenue by 2019 through a number of steps, inter-alia: committing to a nominal freeze of the existing wage bill for 2017; ensuring sectoral hiring and wage increases thereafter consistent with the medium-term wage target of 6 percent of GDP; harmonizing subvented agency wages with the civil service pay scale, including a commitment to freeze the creation of new agencies and hiring of new staff for the existing agencies for at least one year; eliminating ghost workers and continuous monitoring thereof; and ensuring staff who are supposed to be retired do not continue to be on the payroll.

27. To strengthen the fiscal position beyond 2016, a number of steps will need to be taken. For 2017, the fiscal gap—after measures taken in 2016—stands at approximately at 0.4 percent of GDP. In 2018 and beyond, the gap is approximately 1 percent of GDP. The following medium-term measures (Box 1, Text Table 1) were discussed and agreed with the authorities to address the emerging medium-term gaps (MEFP ¶28).

Box 1. Measures to Close the 2017 and the Medium-Term Fiscal Gap

- **Revenue**: Implementation of the fuel subsidy reform, effective January 1, 2017. This would raise an estimated 0.3 percent of non-iron ore GDP. This should be combined with further elimination of exemptions and other unidentified revenue measures, targeted at raising an additional 0.1 percent of non-iron ore GDP. With these in effect, domestic revenue would increase 1.2 percent of GDP from 2016. Staff and authorities agree they should target annual increases in revenues of at least 0.7 percent of GDP for 2018 and 2019, increasing domestic revenue as percent of GDP to 14.6 by 2021.
- **Expenditures**: The authorities conveyed that goods and services expenditures and domestically financed capital spending would decrease each by 0.1 percent of GDP in 2017, from their 2016 levels. In 2018 and thereafter, staff and authorities project increases of between 0.2 and 0.4 percent of non-iron ore GDP in goods and services and domestically financed capital spending.

28. Staff expects these measures and policy decisions should close the emerging fiscal gaps in the medium-term. Compared to the last review, the fiscal stance would moderately loosen in 2017 due to the gradual return to the NDF anchor, while 2018 and onward would see a fiscal stance consistent with the last review.

Text Table 1. Measures and Developments to Close the Fiscal Gap in 2017

Measure / Development	*Domain*	*Type*	*Estimated Impact (bln of Le)*	*Percent of GDP*
Fuel Subsidy Reform	Revenue	Structural	85	0.3
Further exemption eliminations and other unudientified fiscal measures	Revenue	Structural	28	0.1
Expenditure Restraint 1/	Expenditure	One-off	--	--

Sources: Staff estimates; and Sierra Leone authorities.
1/ There is no concrete estimate from this, but as percentage of GDP, for both goods and services and domestically financed capital, the restraint is represented by a 0.1 percent of GDP point drop from 2017, thereafter converging to a normal trajetory whereby there is progressive growth matched by higher revenue.

The domestic primary deficit would improve to 4.2 percent of GDP in 2016 from 5.1 percent in 2015 and 4.7 percent programmed at the time of the last review, due to lower domestic borrowing, as discussed above. In 2017, the primary deficit would improve further to 2.7 percent on the back of aggressive revenue increases. From 2018 onward, the primary deficit would converge to around 2.3 percent GDP partly reflecting lower domestic borrowing consistent with returning to the fiscal anchor of 2 percent of GDP.

Authorities' Views

29. The authorities agree with staff that significant structural changes must take place in fiscal policy to ensure the budget can be executed effectively and without arrears (MEFP ¶22, 24, 28). The government also agrees that aggressive revenue measures must be taken to close emerging fiscal gaps in 2016 and the medium-term. The authorities agree that further elimination of GST and import duty exemptions is a priority, and can generate significant resources. To facilitate their efforts to enhance tax administration, the authorities have requested a TADAT mission to conduct a comprehensive review of tax administration, and highlight critical areas of needed improvement. The authorities are inclined to stress potential savings in expenditures, especially in domestically financed capital spending, as they believe significant portions of capital spending will continue to be financed by donors. They underline the point that an excessive reliance on revenue generation would risk adding duress to the currently fragile recovery of the non-iron ore sector. Finally, the authorities agree that, on its current trajectory, the wage cost has become fiscally unsustainable. The authorities agree that they should target a wage cost of 6 percent of GDP in the medium-term through strong measures already detailed in their medium-term wage strategy discussed above. (MEFP¶ 22–23, 25, 38).

B. Policy theme #2: Enhancing Public Financial Management

30. The very limited resources available to the government heighten the importance of ensuring those resources are used effectively. Staff has conducted a study assessing fiscal risks in Sierra Leone, which include the risks from weak public finance management practices (SIP 2). Unpredictability of the budget, large public investment project plans, lack of comprehensiveness and transparency in Ministries, Departments and Agencies (MDA) and SOE reported operations; and poor oversight of fiscal risk from contingent liabilities, among other PFM weaknesses, are among the key fiscal risks.

31. Most of these deficiencies in public finance management should be mitigated by the provisions of the Public Finance Management (PFM) Act, which was passed by Parliament in early June. There are two main areas of weakness in the existing PFM framework. The first is the ad-hoc basis on which MDAs submit off-budget expenditure requests beyond their original allocations, preventing effective cash management and planning by the Ministry of Finance (MOFED). The PFM reform would put an official cap on these requests, giving MOFED more control over the approved budget spending plans. The second area of weakness is the autonomy of resources under the control of MDAs beyond the reach of MOFED. This de-facto autonomy both deprives the budget of resources that may be sitting idle or spent inefficiently, and allocates them away from the expenditure priorities established in the budget. The PFM reform will unify the unruly network of accounts containing these revenues into a Treasury Single Account (TSA), making these resources transparent, and rendering them accessible to MOFED in case of budgetary need, while preserving their original assignment to the MDAs. The PFM Act also establishes a budget process that is anchored by macro-fiscal objectives, which will include an annual Fiscal Risk Statement, as well as a more rigorous framework for assessing requests for government guarantees, a framework for evaluating public investment proposals, and a system of budget adjustments that allows sufficient flexibility for government to respond to exceptional circumstances.

Authorities' Views

32. The authorities agree that implementing the PFM Act is a priority if scarce resources are to be employed effectively (MEFP ¶37). They will be working closely with FAD in the coming months to set up the appropriate regulatory framework for the implementation of the Act. They agree that if properly implemented, the PFM framework will give MOFED more control of a budget process that will be consistent with the macro-fiscal framework. Furthermore, they agree that the PFM Act will enable the government to more effectively incorporate a medium-term outlook into budget planning.

C. Policy Theme #3: Enhancing the Monetary Framework, Strengthening Financial Stability, and Unlocking the Potential of Macro-Financial Synergies

33. While the legal mandate of the BSL is price stability, the BSL has not established a framework for monetary policy that would allow it to respond quickly in case of a sudden rise in inflation, nor one that, by stabilizing interest rates, can reduce uncertainty for borrowers and support growth. The BSL's monetary policy operations are heavily constrained by the fiscal dominance in the banking system. Monetary policy is formulated by the Monetary Policy Committee (MPC). The MPC meets every quarter to discuss economic developments influencing monetary policy. A press release is issued after each MPC meeting summarizing the Committee's policy deliberations and decisions on the Monetary Policy Rate and the interest rates of the BSL's reverse repurchase operations and standing credit facility. Monetary policy is implemented in the context of reserve money targeting. Financial markets remain underdeveloped and monetary policy transmission through the interest rate channel is weak. Moreover, monetary policy is largely reactive to current events and past developments, instead of responding to long-term underlying economic and financial market trends and sustained inflationary pressures

34. The BSL should focus monetary policy on price stability and limit its intervention in the foreign exchange market. Making the economic environment more predictable is the most important way the BSL can support faster growth in Sierra Leone. The need to finance a modest deficit within limited resources will remain a strain on the financial system, but a shift in the BSL's decision making toward medium-term goals can help reduce volatility in interest rates, the exchange rate, and inflation. Staff welcomes the BSL's commitment to enhancing the effectiveness of its monetary policy operations, as well as liquidity management through its secondary market operations and foreign exchange interventions (MEFP ¶30). As the exchange rate will continue to be under pressure, the authorities plan to migrate gradually to intervention aimed at smoothing exchange rate volatility, and to introduce a reserve requirement on foreign exchange deposits (MEFP ¶31). Starting from 2017, the projected evolution of cash flows to Sierra Leone implies that the BSL will need to be a net buyer of foreign exchange from the market in order to meet its foreign exchange reserve target.

35. **Weaknesses in the financial sector are a major impediment to Sierra Leone's economic progress**. These weaknesses come in two forms: concerns about the financial soundness of the banking system, and the very low levels of credit available. With regard to the former, the two state-owned banks suffer from exceedingly high non-performing loans (NPLs), as well as a range of other weaknesses, including concentrated and connected lending. Staff welcomes the independent diagnostic study of these two institutions funded by the World Bank, to determine their true situation, and how the risks they pose for the financial system can be most effectively addressed. Timely and aggressive implementation of the recommendations of these studies will be critical.

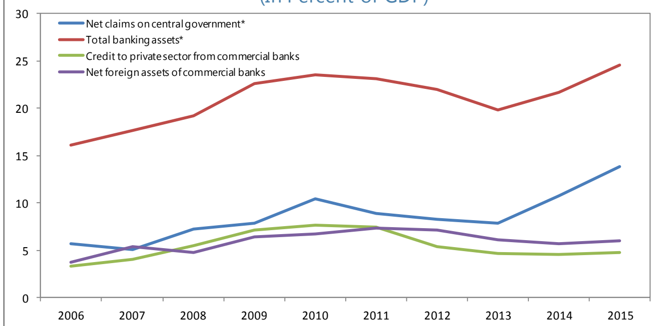
36. **However, concerns about soundness are not limited to these public banks**. A number of other banks suffer from high NPLs, as well as excessive exposure to large borrowers. It is essential that the BSL work to further strengthen banking supervision, to address these challenges. Banks are also failing to serve the key function of providing credit to the private sector. Banking system credit to the private sector stands below 5 percent of GDP, a figure that has declined in recent years. Combined with the high share of loans going to the five largest borrowers, this means that, for most private sector businesses, credit is virtually impossible to attain. Business development and expansion require access to credit on appropriate terms, and it will be essential to address the factors that prevent the banking system from providing that credit.

37. **With that in mind, staff conducted a pilot exercise of the Fund's new macro-financial analysis** (Appendix 2). The pilot focused on issues related to strengthening financial stability and unlocking the potential synergies of macro-financial linkages. Specifically, the pilot focused on the following areas: (i) assessing and explaining the financial landscape and vulnerabilities in Sierra Leone; (ii) spelling out the linkages between the various components of the story: fiscal dominance, fiscal arrears, NPLs, banking supervision, governance and management of state-owned banks, and the extremely low credit to GDP ratio; (iii) analyzing the potential cost of cleaning the balance sheets of one or both state-owned banks; and (iv) analyzing the impacts on the taxpayers, the budget, and the payment system if one or both of the state-owned banks had to be closed. Key findings of the pilot exercise are as follows.

a. **The financial sector, dominated by the state-owned banks, is in poor shape**. Reflecting weak governance and poor management of some banks, as well as the effects of the Ebola outbreak and the crisis in the mining sector, banks' asset quality and capital buffers have deteriorated sharply in recent years. As of end June 2015, non-performing loans accounted for nearly 40 percent of total loans, having doubled in two years. The NPL ratios of the two state-owned banks stood at 74 and 48 percent respectively, at end 2015.

b. **The system suffers from fiscal dominance (Text Figure 6)**. Net claims on the central government account for 14 percent of GDP while credit to private sector accounts for less than 5 percent of GDP. In addition, fiscal arrears to contractors are reportedly a major source of NPLs. The increasing shift to domestic financing at very high costs and increased fiscal dominance in the banking sector could get into a self-reinforcing vicious circle.

Text Figure 6. Financial Sector Development
(In Percent of GDP)



Sources: The BSL; and IMF staff compilation.
* Total banking assets and net claims on central government excludes 2013 onwards IMF augmentation.

c. **There appears to be a negative feedback loop between the financial and real sectors**. On one hand, poor governance and management of some banks, combined with weaknesses in banking supervision, limit the capacity of the financial sector to contribute to the real economy. On the other hand, a lack of bankable projects in the private sector limits the healthy expansion of the financial sector, while returns on treasury bills are attractive. As a result, credit to the private sector is very low while the banking sector sits on substantial liquid assets.

d. **The system is significantly dollarized**. Net foreign assets of commercial banks are more than 25 percent greater than total credit to the private sector. Foreign currency deposits account for 32 percent of total deposits. Local currency deposits are subjected to a 12 percent reserve requirement while foreign currency deposits are not subject to reserves requirement. This contributes to preference of holding foreign currency deposits.

38. To address these issues, a comprehensive and sequenced reform roadmap is needed to address the financial sector vulnerabilities and unlock the macro-financial synergies in Sierra Leone. Based on the urgency of the issues, staff believes the following sequence of reforms is advisable: The first priority is to address the two problem state-owned banks. The second priority is to address the NPLs of other banks. The third priority is to create an enabling environment for banking sector development. In parallel, the coordination of macro-economic policies could be strengthened.

39. This first priority should be carried out immediately, the second priority should be done in the short-term framework (within one year), and the third priority should be done in the medium term.

- Ensuring swift completion of the independent diagnostic studies of the two largest banks, and then aggressively addressing the findings of those studies, will be important to improving the health of the banking system.

- Intensifying efforts to strengthen banking supervision to increase the health of the banking system. For example, the BSL should review the situation of other banks with either high NPLs, or violations of prudential regulations, and ensure that those banks take necessary steps meet the prudential requirements (MEFP ¶32, 33).

- Adopting reforms to improve the enabling environment for financial sector development. In this regard, the introduction of a registry of movable collateral is welcome. The authorities are encouraged to accelerate efforts aimed at making this registry operational. It will also be important to introduce unique identification numbers, which are essential to enable the credit reference bureau to be effective. Furthermore, it is important to promote private sector development so that there will be more bankable projects. In addition, it is advisable to introduce a reserve requirement on foreign currency deposits, while lowering the reserve requirement on domestic currency deposits, so that the net impact is no change in required reserves. Finally, the authorities should minimize fiscal arrears to eliminate one source of NPLs of banks.

Authorities' Views

40. The authorities acknowledge that vulnerabilities in the banking system have increased and are taking measures to address them. The authorities are committed to award the contract for the independent studies by end-June, with the aim of completing them by end-September. To further strengthen supervisory abilities, they requested the IMF to provide a long-term resident expert in banking supervision (MEFP ¶32, 33).

41. The authorities welcome the findings of the macro-financial pilot and its recommendations. They noted their continuous effort to improve the financial sector environment, in particular through the operation of the credit registry. The authorities also see merit in the staff recommendation on the unique identification. There is not yet a timeline and plan to introduce this, but if introduced, this unique number could also serve as a tax identification number.

D. Policy Theme #4: Strengthening Economic Diversification and External Sustainability

42. Economic diversification is an essential prerequisite to strong, sustainable, poverty reducing growth. This was demonstrated clearly by the consequences to Sierra Leone of the collapse in metal prices; a more diversified economy would have been more resilient in the face of this shock. But achieving economic diversification is a difficult and long-term challenge.

43. Unfortunately, in recent years Sierra Leone's economy has become less diversified, as shown by staff's study on export diversification (SIP 3). Prior to 2010, export diversification had been improving in Sierra Leone over the previous five decades. The country's export diversification fared well relative to its peers. However, the large-scale iron ore investment and subsequent related exports, and their impact on the exchange rate, have significantly reduced both export product and market diversification. Moreover, most of Sierra Leone's traditional export products have failed to grow over the past decade. As supported by cross country experience, Sierra Leone can achieve greater export, and hence economic, diversification by attracting more FDI, improving human capital and easing infrastructure bottlenecks.

44. A key part of the challenge in achieving economic diversification will be to enhance the economic infrastructure. Unfortunately, while the needs are extensive—increased electricity supply, improved roads and ports, enhanced water and sanitation systems, strengthened health and education systems, and more—the resources available to address these needs are extremely limited. In this regard, the previous three challenges feed directly into the economic diversification challenge: more effective use of increased domestic resources would enable the government to address more of these infrastructure challenges, while a strengthened financial sector would enable the private sector to expand and diversify.

45. Given the many needs and limited resources, a two-pronged approach is needed here. First, it will be critical to effectively prioritize the infrastructure needs. Second, the limited domestic resources can be supplemented by borrowed external resources. However, given the country's already high level of external debt, only a limited amount of additional external debt can be acquired without putting the country at high risk of debt distress. This makes it vital that the government be selective in determining which projects it seeks external financing for, and that it seeks the best terms possible for such financing, relying almost exclusively on concessional financing.

Authorities' Views

46. The authorities concurred with the thrust of the analysis. They noted that Sierra Leone was performing better than peers in export diversification and shared the concern that iron exports have made exports less diversified. They agreed that export diversification can be achieved by boosting infrastructure and human capital as well as attracting more FDI, all of which will require mobilizing fiscal revenues and providing macro-economic stability. They also noted the importance of conducting Sierra Leone-specific sectoral analysis on the constraints to the development of certain sectors.

Data Provision

47. Data provision is broadly adequate for surveillance purposes, with some key shortcomings in national accounts, price and external sector statistics. The authorities are working with Fund staff, including from AFRITAC, to address these shortcomings.

PROGRAM ISSUES

A. Review of Recent Program Performance

48. Performance relative to program commitments in the latter half of 2015 was relatively good. All end-2015 quantitative performance criteria were met. All continuous PCs have also been observed. While end-September 2015 indicative targets on net domestic bank credit to the central government, net domestic assets (NDA) of the central bank, and poverty-related expenditures were missed, policy corrections were put in place and all end-December 2015 indicative targets were met.

49. Progress on structural reforms was mixed. Several structural benchmarks were met, including the preparation of a rolling biweekly treasury cash flow table and semi-annual report on PIP execution, submission of the PFM Bill to Parliament, the introduction of a wholesale foreign exchange auction, the issuance of a tender for a diagnostic study of the two state-owned banks, and finalizing the business process engineering for a customs single clearance window. In addition, several structural benchmarks for end-March 2016 have also been met, including the establishment of a registry of moveable collateral and the introduction of a daily liquidity forecasting framework. However, progress on other structural measures was not consistent with program benchmarks. Most importantly, the delay in passage of the PFM Bill meant that the benchmarks on the establishment of a Treasury Single Account and a Natural Resource Revenue Fund by end-December 2015 were missed, as these are embodied in the PFM Act. With the recent passage of the PFM Act, the authorities are now proceeding with the establishment of the TSA and Natural Resource Revenue Fund. In addition, the authorities had committed to introduce to parliament a new Tax Administration Act by December 2015, but have not yet done so. The following structural benchmarks for end-March 2016 were also missed: adoption by cabinet of a revised medium-term wage, establishment of a primary dealer system, finalization of BSL's rule governing the inter-bank foreign exchange market, and completion of an independent diagnostic study for the two state-owned banks. It will be important to accelerate structural reform efforts, if the objectives of the government's program are to be achieved.

B. Review of Forward-Looking Policies

50. During the early months of 2016, a significant financing gap emerged in the budget. This budget gap is driven by several factors, including wages running well above budget and the failure to unify retail and commercial fuel prices at the commercial level. Combined with a shortfall in net domestic financing due to tight liquidity in the banking system, these factors produced a financing gap for the 2016 budget of nearly 1 percent of GDP.

a. **The 2016 budget called for wages to be unchanged in nominal terms relative to 2015, but several factors have made that goal unattainable**. First, government wages increased 15 percent on July 1, 2015; the application of this higher wage for all of 2016 would naturally increase the wage bill. The authorities had assumed retirements and other routine reductions in staffing would offset this impact; these anticipated savings have not materialized. In addition, the government's inability to control wages of subvented agencies created severe wage pressures; the wage bill of subvented agencies in the first quarter of 2016 was almost 30 percent higher than in the first quarter of 2015. Combined, this resulted in a wage bill being 0.6 percent of GDP higher than assumed in the program. The authorities have since begun taking of measures to reduce this initial projection, discussed in detail below in the context of the measures to close the gap, which should reduce the wage bill by about 0.15 percent of GDP.

b. **The budget's revenue forecast had been based in part on the authorities' intention to unify retail and commercial fuel prices at the commercial level**. This was projected to increase excise revenues by 104 billion leones, 0.4 percent of GDP. However, this unification has not happened. The authorities had made a commitment to implement this reform as part of the budget for 2016 at the time of the 3rd and 4th Review. This was both a significant revenue measure and an important structural commitment for the medium-term. The presence of implicit subsidies in the separate pricing formula for retail users is regressive and subject to abuse as it is administratively impractical to enforce the separate application. Hence, many commercial, wealthy users buy fuel at the retail price (as opposed to the higher commercial price that has complete pass-through from the international markets), becoming the main beneficiaries of the implicit subsidy contained in the retail formula. However, in the context of a fragile economic recovery from Ebola, the authorities cited the political cost of removing the subsidy in an environment of declining global oil prices as the key reason (MEFP ¶21) they cannot now honor this commitment. The authorities expressed a firm commitment to pass the fuel subsidy reform in the context of a possible successor arrangement.

51. In addition to these problems, the authorities have continued to accrue fiscal arrears during the year as a result of periodic cash constraints.[10] Usually difficulties in financing relating to unexpected delays in external budget support and tightness in the domestic financial market combined with overruns in statutory spending are the main contributors to this problem; that has been the case in 2016. Although the authorities have always cleared these arrears by the end of the year, the delays in payments during the year are borne by government contractors working on domestically financed capital projects or certain wage earners. These delays in turn contribute to both an inefficient execution of capital projects and lack of confidence in the government's ability to honor its obligations, and result in non-performing loans for the banking sector. Higher mobilization of domestic revenue will help reduce the budget's sensitivity to external budget support and relieve the pressure on the domestic financing market. On the other hand, better cash management, including through the effective implementation of the recently passed PFM Act, will help the authorities reduce unexpected spending overruns.

[10] The government does not have any external arrears except legacy loans owed to commercial creditors, dating back to the Civil Conflict. The arrears mentioned in this paragraph emerged during the year as a result of cash constraints, but are cleared before the beginning of the next fiscal year.

52. Staff supports the authorities' plans to implement the following combination of revenue and expenditure measures to close this gap, as discussed in detail in the MEFP, paragraphs 22–26, and Text Table 2 and MEFP. The gateway liberalization took place April 1, 2016, and instructions have been issued tightening exemptions for NGOs and hotels. In addition, the PRU and mining arrears have already been collected. While staff and the authorities agreed to incorporate into the framework a conservative revenue estimate of 1 percent of GDP from these measures, staff believes the potential yield from these revenue measures could be greater.

Text Table 2. Measures to Close the Fiscal Gap in 2016

Measure / Development	*Domain*	*Type*	*Estimated Impact (bln of Le)*	*Percent of GDP*
15 percent GST tax on electricity tariff	Revenue	Structural	15	0.06
Gateway Liberalization	Revenue	Structural	63	0.25
Administrative Scrutiny 1/	Revenue	Structural	20	0.08
Exemptions 2/	Revenue	Structural	7	0.03
PRU Arrears	Revenue	Structural	15	0.06
Mining Arrears	Revenue	One-off	70	0.27
Wage Bill	Expenditure	Structural	42	0.16
Expenditure Restraint 3/	Expenditure	Structural / One-off	--	0.1
Total				**1.0**

Sources: Staff estimates; and Sierra Leone authorities.

1/ This scrutiny will be applied to the high-income professionals and government contractors previoulsy not fully captured by the tax network.

2/ This represents the net additional savings (beyond last review's assumption) generated by closer scrutiny on NGO exemptions and hotels.

3/ These measures include limits on discretionary spending, freezing of new government contracts and shift toward domestic currency payment for existing contracts. The residual gap that these measures are supposed to cover is estimated to be approximately 0.1 percent of GDP, but these measures will likely generate more savings.

53. Staff projects these measures will produce a fiscal deficit for 2016 consistent with available financing. Compared to the last review, the fiscal stance in 2016 will tighten due to lower net domestic financing. The overall balance including grants is now programmed to be 4.9 percent of non-iron ore GDP compared to 5.3 percent in the last review.

54. Staff expects the authorities to meet the June 2016 quantitative performance targets and Structural Benchmarks. Revenue performance is so far in line with expectations. In the first quarter, domestic revenue was more than 2 percent higher than expected, mainly as a result of aggressive monitoring of and eliminations of exemptions (consistent with program commitments) and continuation of strengthened administrative measures, including higher scrutiny on taxes owed by professional previously not scrutinized. With the Gateway Liberalization effective March 1, expected to bring 0.25 percent of GDP higher revenue annually, second quarter revenue should continue to over-perform. Accordingly, staff expects the authorities to comfortably meet its June revenue floor. Although expenditures were running above target in the first quarter due to the overruns in the wage bill, the spending restraint enacted currently and the effect of frontloading of some expenditures of to the first quarter should get spending back on track with the program in the second quarter. The target on Net Banking Credit to Government is also expected to be met given the restraints on commercial bank borrowing observed so far. The prior action on passage of the

PFM Bill by Parliament was met on May 31, paving the way for completion of the review. The authorities are on track to meet all end June structural benchmarks.

55. Monetary and exchange rate policies will continue to be designed primarily to contain inflation, while ensuring adequate liquidity in the banking system. Monetary policy will be geared to keeping inflation broadly unchanged at around 9 percent. In this context, the BSL is committed to continue efforts to strengthen liquidity management, including by improving liquidity forecasting. In addition, the authorities and staff agree that the BSL should introduce reserve requirements on foreign currency deposits, in part to eliminate the bias favoring foreign currency deposits. Finally, staff strongly recommended that the BSL halt routine sales of foreign exchange, intervening in the market only to offset excessive temporary moves in the exchange rate. The authorities agreed in principle, but felt it would be desirable to gradually move in that direction.

56. It will also be critical for the BSL to intensify its efforts to strengthen banking supervision and increase the health of the banking system. Ensuring the swift completion of the independent diagnostic studies of two state-owned banks, and then aggressively addressing the findings of those studies, will be important to improve the health of the banking system. It will also be necessary to review the situation of other banks with either high NPLs, or violations of prudential regulations, and ensure them to take necessary steps to meet prudential requirements.

57. Strong external debt management will be vital to ensure that debt levels do not rise to the point of putting Sierra Leone at a high risk of debt distress. The resumption of iron ore exports and the additional fiscal revenue measures since the last review have improved the debt sustainability analysis (DSA) of Sierra Leone (Annex II). Previously identified vulnerabilities from the November 2015 update, which stemmed from low exports and revenues, have somewhat eased in the baseline scenario. As a result, the borrowing space to contract external debt without jeopardizing debt sustainability may have increased. However, given the precarious viability of iron ore production under the near-term price dynamics, the authorities should remain cautious in their borrowing plans. Moreover, the potential fiscal cost of restructuring the banking system poses an additional downside risk to public DSA. Staff and authorities have agreed to keep the current limit of the performance criteria on the external borrowing unchanged at this stage as the borrowing program that will most likely materialize before end-June 2016 is well below the current limit. Beyond June 2016, an indicative debt limit that would preserve Sierra Leone's current moderate risk rating is around $150 million in NPV—or $80 million more than the end-June 2016 ceiling. The authorities should strive to borrow within this limit to maintain the moderate risk of debt distress.

58. However, if downside risks to the growth outlook materialize, this will result in weaker fiscal performance. Revenue will be lower and the financing gap higher. In this case, staff's recommendations will focus on further eliminating subsidies and exemptions and increasing spending efficiency.

59. Sierra Leone's capacity to repay the Fund remains adequate. Sierra Leone has a good track record of timely payment of its external debt obligations, including to the Fund. Debt service obligations to the Fund declined substantially in 2015–16 thanks to debt relief under the CCR Trust.

The total outstanding debt to the Fund is expected to peak in 2016 at SDR 231 million (111.5 percent of new 2016 quota). As discussed in the last program review, staff proposes that SDR 15.56 million be used as indirect budget support, out of the SDR 24.44 million from the current disbursement. As in the combined third and fourth reviews, the BSL would lend the Leone equivalent of the disbursed IMF budget support resources to the Treasury and sell the foreign exchange as government spending occurs; the MOU between the BSL and MOFED, signed at the time of the third and fourth reviews, also covers this disbursement.

60. The 2015 safeguards assessment found that the modernization of the internal audit function at the BSL had stalled. In order to address this, the assessment recommended strengthening the capacity of the function. Other recommendations aimed to improve the oversight bodies. While most measures have been implemented as scheduled, enhancing the capacity of internal audit is ongoing.

61. Financing assurances review. Staff has assessed that the expected disbursement of IMF financing following the completion of the fifth ECF review by the Executive Board is consistent with IMF's policy on lending into arrears. Prompt Fund support is crucial for the implementation of Sierra Leone's economic program for the remainder of 2016. Staff assess that the authorities are making good-faith efforts to resolve the issue of private external arrears, dating back to civil war period, estimated at US$203.8 million as of December 2015. The authorities have already entered into a collaborative process with creditors, and are leveraging World Bank technical assistance to help clear these arrears.

62. Staff and authorities agreed to leave unchanged the quantitative PCs for end-June 2016 established in the previous review. In order to improve revenue related policy traction, the authorities have proposed a new structural benchmark on "revision of consolidated tax and nontax obligations for mining companies and preparation of a list of expired mining agreements". They have also proposed that the continuous benchmark on treasury cash flow table be changed from "monthly" to "biweekly" frequency. In recognition of the delay in initiating the procurement process, they request that the end-June benchmark on the diagnostic study of the two state-owned banks be changed to "complete contracting process". Staff supports these requests. The definitions of the variables monitored are provided in the Technical Memorandum of Understanding (TMU). Structural benchmarks are proposed as shown in the MEFP, Tables 4 and 5.

STAFF APPRAISAL

63. Staff welcomes the relatively strong performance of the Sierra Leone government regarding its commitments in the ECF arrangement, under extremely difficult circumstances. Meeting all end-December 2015 performance criteria while GDP was declining by more than 21 percent demonstrates the authorities' very strong commitment to the program. However, progress on structural reforms has been mixed.

64. Given the continued fragility in the iron ore sector and the declining external financing, it remains critical for the authorities to diversify and increase domestic revenues, especially in the non-iron ore sectors. To this end, staff regrets the authorities' decision to not eliminate fuel subsidies as planned, and urges them to ensure their elimination no later than January 1, 2017. Staff believes elimination of tax exemptions, especially in import duties, offers the most promising additional potential for increasing revenues in the near term. Staff commends the authorities' request for a TADAT mission to have a comprehensive review of tax administration in Sierra Leone, to identify priority areas for structural improvement. Going forward, it will be vital to ensure that tax revenues steadily increase as a share of GDP.

65. On expenditures, staff regrets the slippages on the wage bill in 2016 and advises the authorities to make space for priority spending. Staff urges the authorities to freeze the nominal wage bill in 2017, as a step toward capping it at no more than 6 percent of GDP over the medium term while making space for priority spending in such areas as social protection, energy, education, and health.

66. Staff welcomes the passage of the new PFM Act, and urges the authorities to aggressively strengthen public financial management. This will help MOFED in improving cash management and exercising greater control over planning and execution of the budget. The PFM Act implementation will also consolidate various sub-accounts of MDAs with possibly idle revenue under one umbrella and increase the transparency of these accounts and their accessibility for more efficient use.

67. Staff supports BSL's continued objective of price stability and encourages BSL to enhance its monetary policy framework and liquidity management capacity to improve the efficiency of the financial system. To protect foreign exchange reserves, staff welcomes the BSL's plan to migrate from regular foreign exchange sales to a regime aimed at smoothing short-term exchange rate volatility, and urges them to do so as soon as practical. Staff also advises the BSL to introduce reserves requirement on foreign exchange deposits, to eliminate the existing bias in favor of such deposits.

68. Staff remains concerned by the serious NPL problem in the banking sector and urges the authorities to strengthen financial stability. Staff urges the authorities to move quickly to complete the independent diagnostic study of the two largest banks, and to work closely with the staffs of the IMF and the World Bank to quickly and decisively implement the resulting recommendations to resolve the problems found in the that study. In addition, staff continues to urge the BSL to further strengthen supervisory capacity, including the hiring of a long-term export on banking supervision, enforcement of prudential guidelines, and advancement of financial sector reforms to support healthy financial intermediation.

69. Further measures to improve the business environment and governance are needed to provide a favorable environment for strong private sector investment. Staff sees the merit of full utilization of the established credit reference bureau, and urges the adoption of a national identification number system as soon as possible. Staff also urges the authorities to move quickly to complete all necessary technical steps for introducing a one-stop window for imports clearance to improve the easiness of doing business in Sierra Leone.

70. Staff urges the authorities to continue prudent borrowing policies and strengthening economic diversification. Staff reiterates that in all projects, options for concessional loans should be exhausted before looking into nonconcessional loans.

71. Staff urges the authorities to accelerate efforts to strengthen macroeconomic data collection and analysis. A major and sustained improvement in the coverage and timeliness of economic data will require greater interagency coordination and restructuring of the institutional framework.

72. Staff recommends completion of the fifth review of the ECF-supported program and supports the request for a two-month for an extension of the current program to December 21, 2016, to enable adequate time to complete the final review. It is proposed that the next Article IV consultation take place in accordance with the Decision on Article IV consultation cycles for program countries (Decision No. 14747-(10/96), as amended).

Figure 1. Sierra Leone: Development Indicators

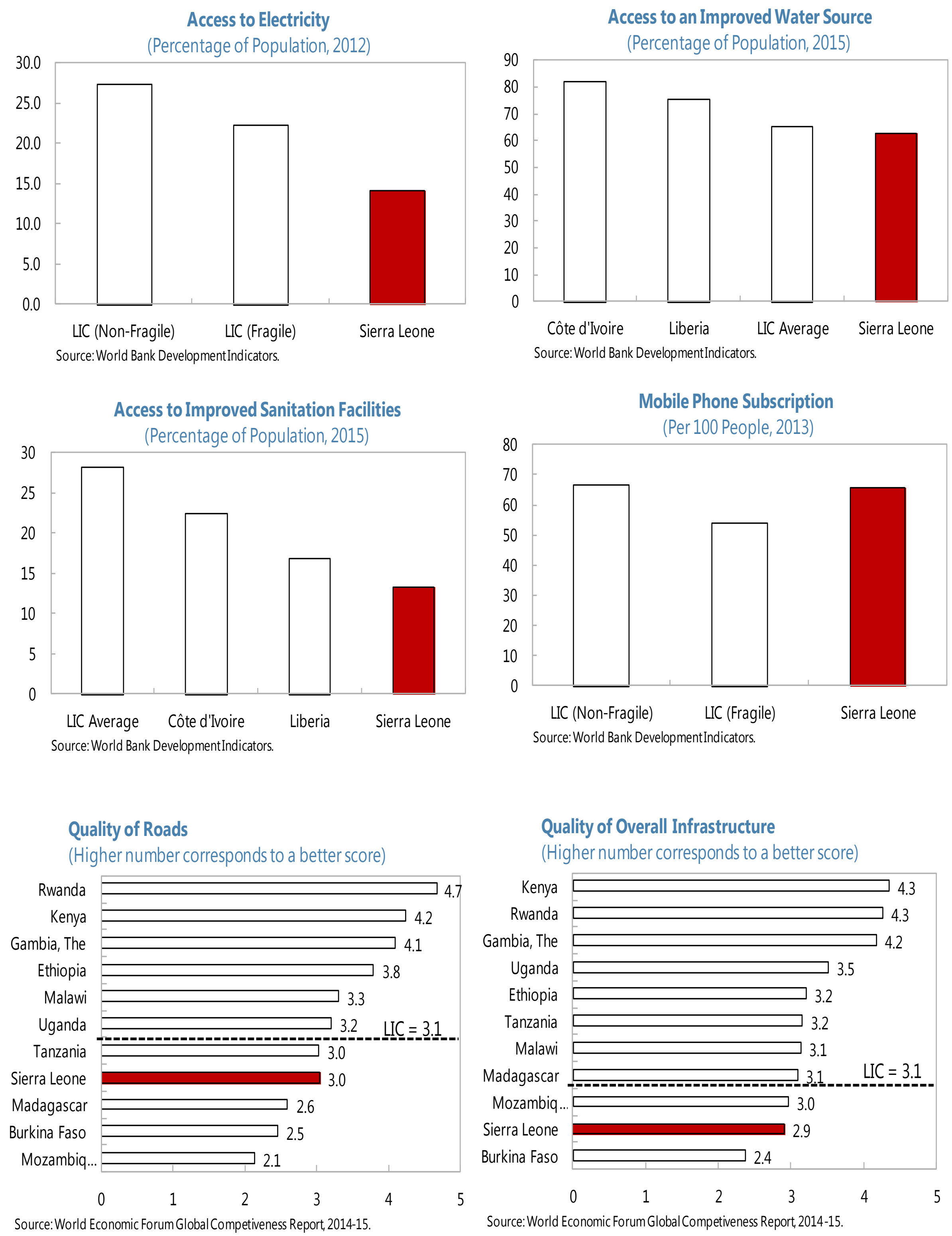
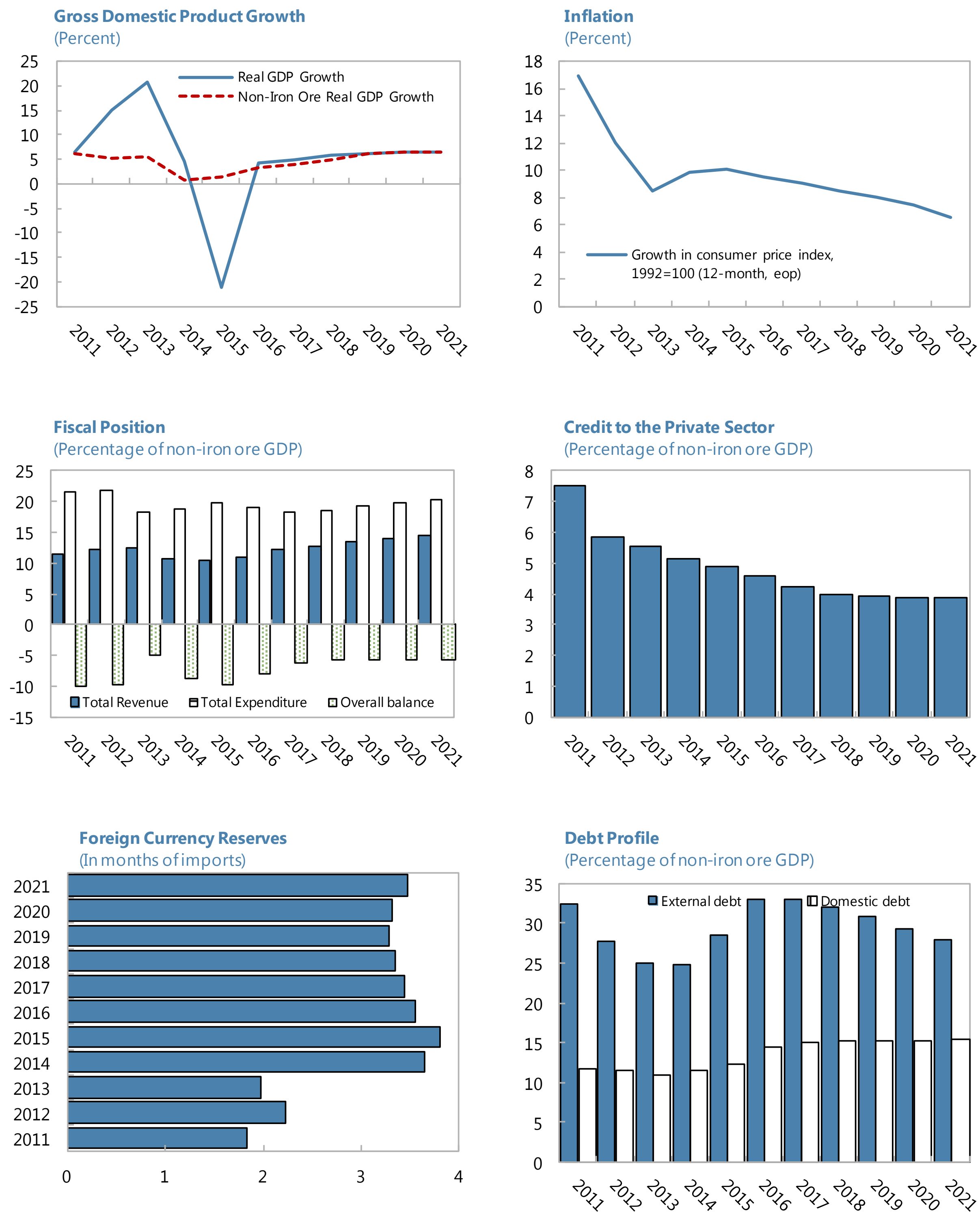
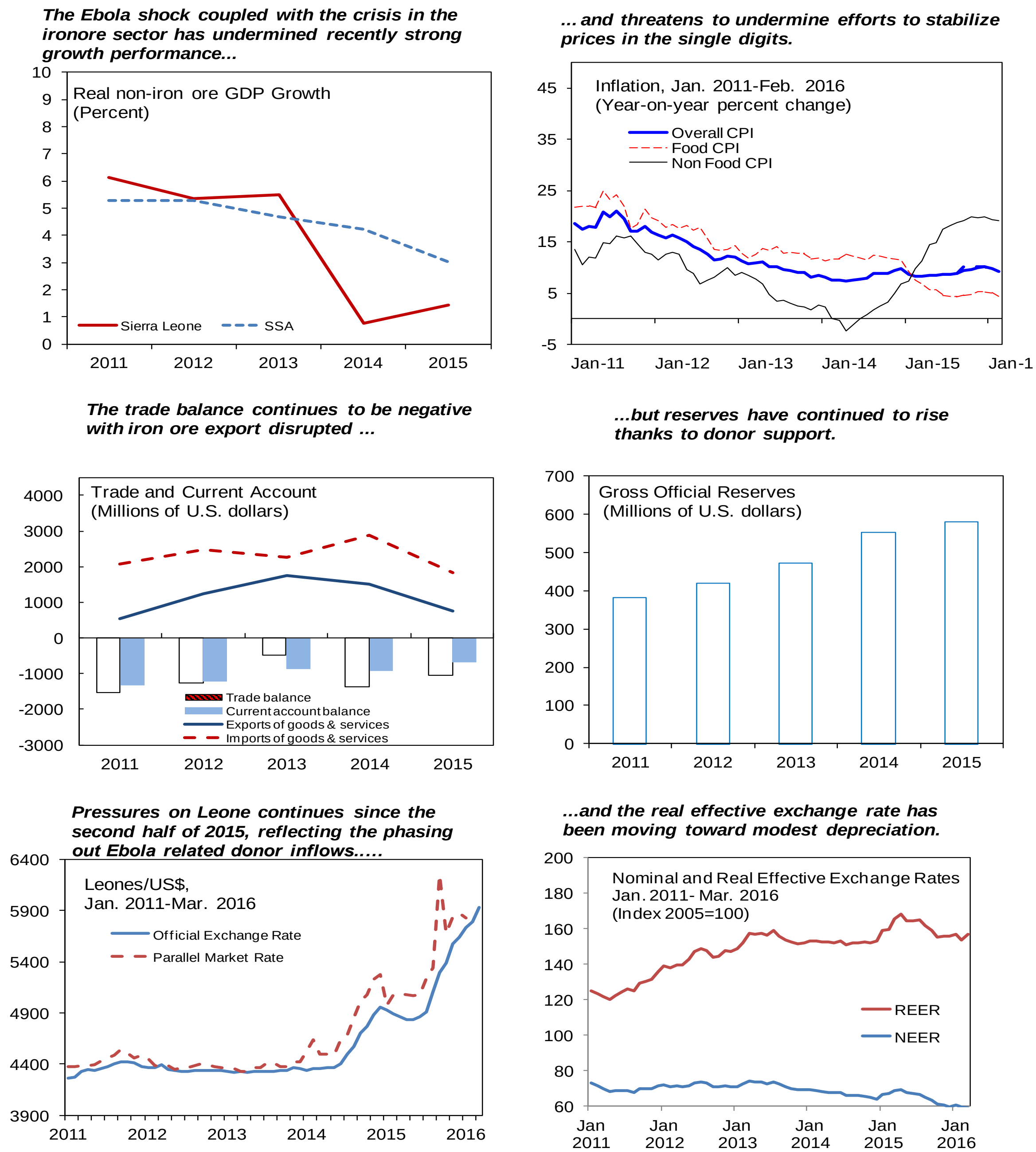


Figure 2. Sierra Leone: Recent Economic Developments and Medium-Term Outlook, 2011–21



Source: IMF staff calculation.

Figure 3. Sierra Leone: Real and External Sectors, 2011–15



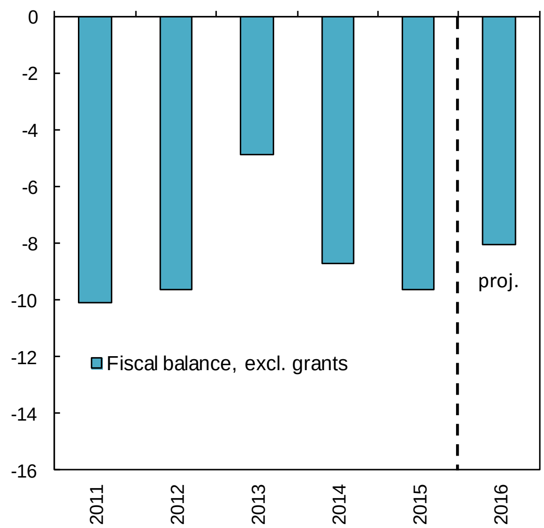
*Denotes projections.

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

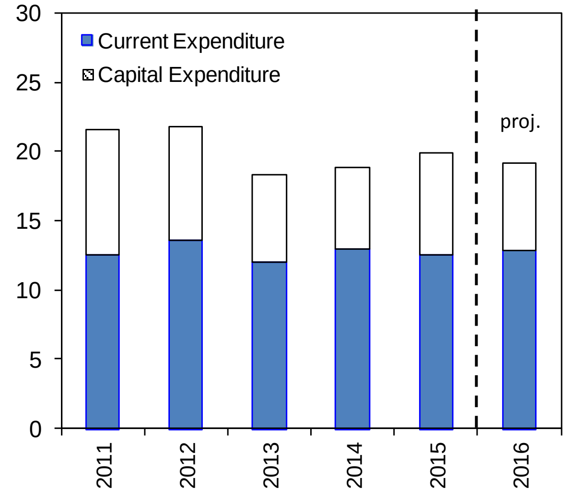
Figure 4. Sierra Leone: Fiscal Sector, 2011–16

(Percent of Non-Iron Ore GDP)

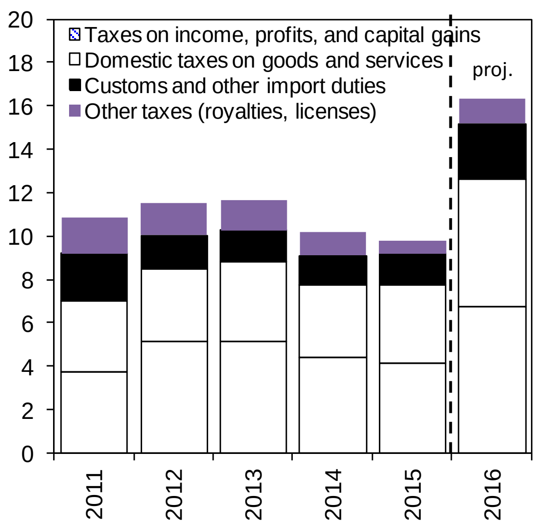
Fiscal deficit widened in 2015, but is expected to tighten in 2016 reflecting higher revenue and lower percentage of GDP spending.



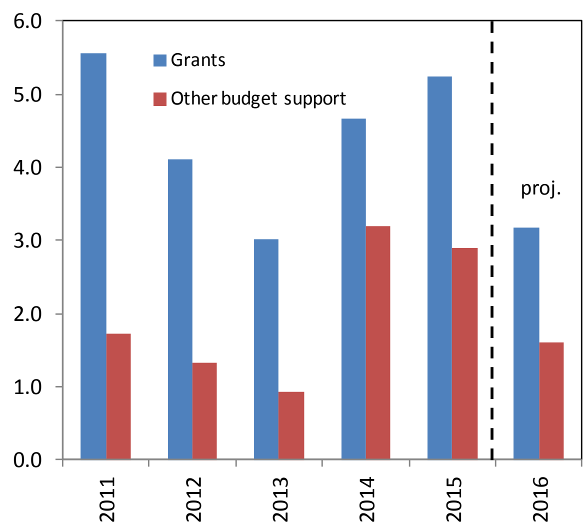
Spending increased in 2015 to finance higher capital expenditure, but is expected to decline slightly in 2016.



Domestic revenue was slightly lower in 2015 due partly to the shutdown in the iron ore sector. 2016 revenue is expected to increase as a number of new measures come into place.



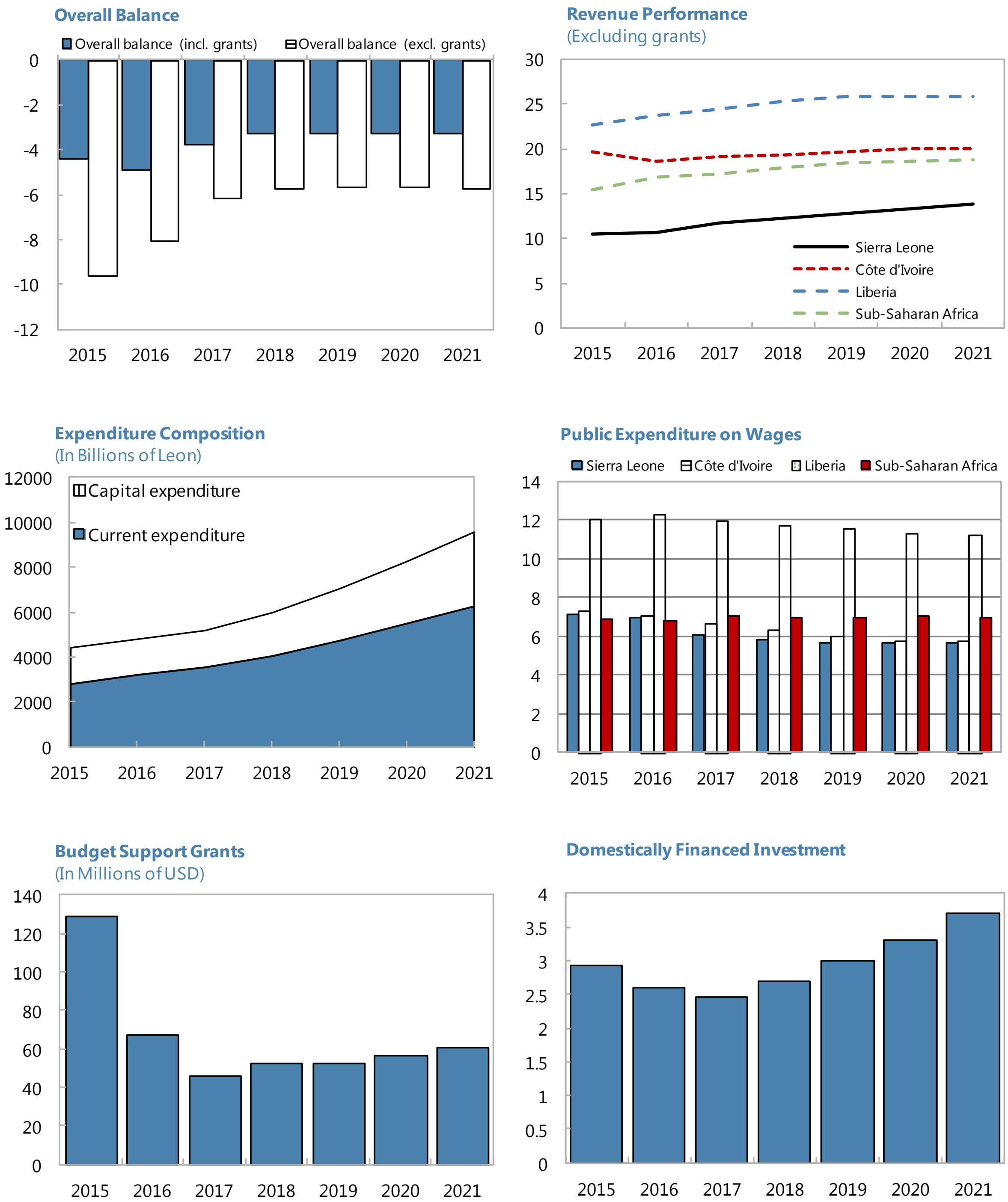
Meanwhile budget support declined in 2015, and is expected to decline further in 2016.



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

Figure 5. Sierra Leone: Medium-Term Fiscal Outlook, 2015–21

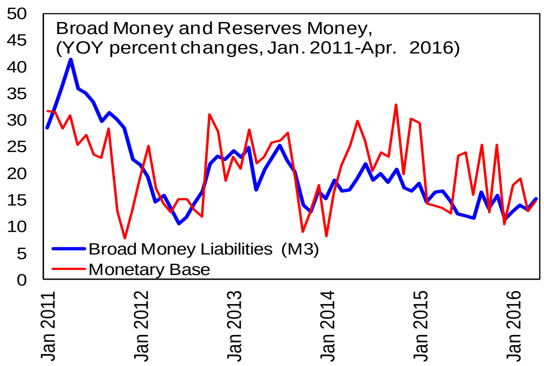
(Percent of Non-Iron Ore GDP, unless otherwise indicated)



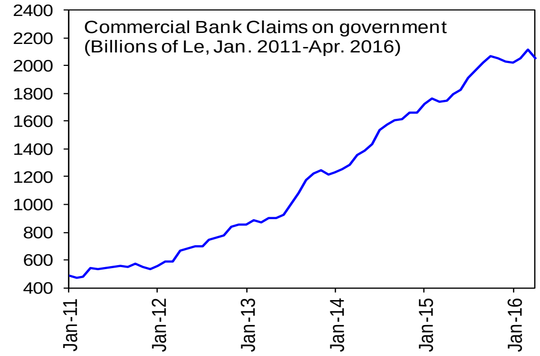
Source: IMF staff estimates.

Figure 6. Sierra Leone: Monetary and Financial Indicators, 2011–15

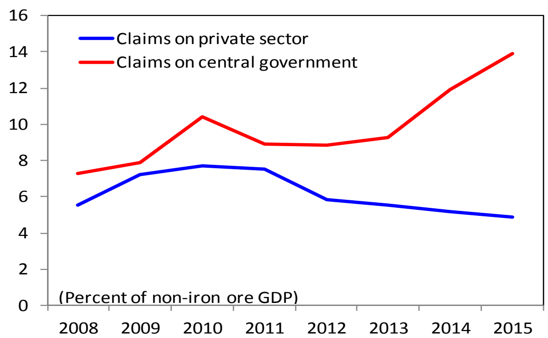
Money growth has been volatile…



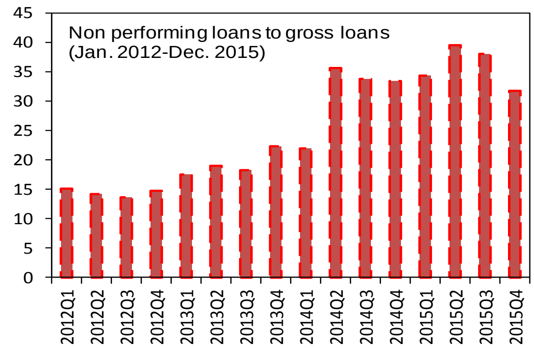
while government securities issuance is expected to pick up to meet increasing financing needs.



Credit to the private sector remain subdued, reflecting crowding out from public borrowing

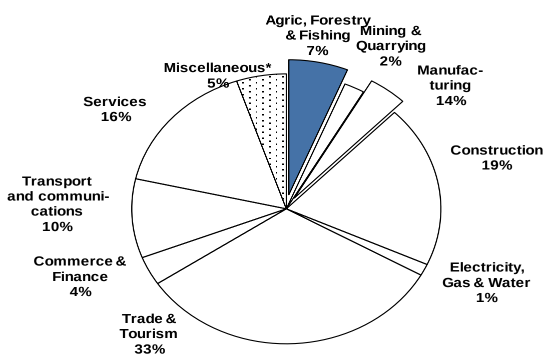


Economic uncertainty contributed to weak asset quality.

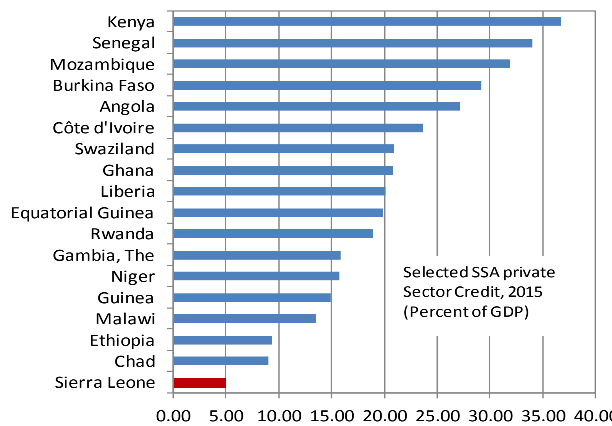


Trade, construction, and services have the largest share of private credit.

Sectoral Distribution of Credit (Percent, year-end 2015)



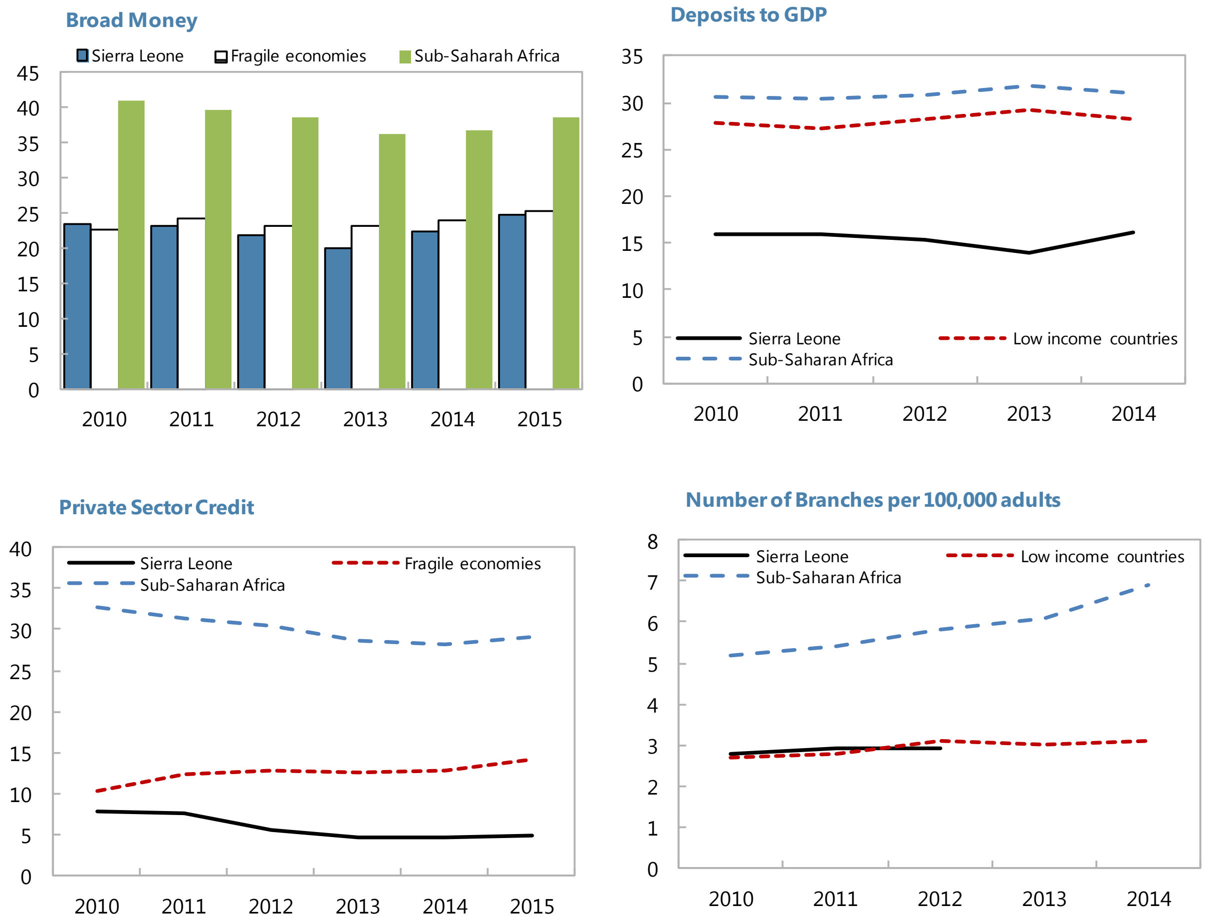
… but financial intermediation remains low.



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

Figure 7. Sierra Leone: Selected Indicators on Financial Sector Depth and Inclusiveness

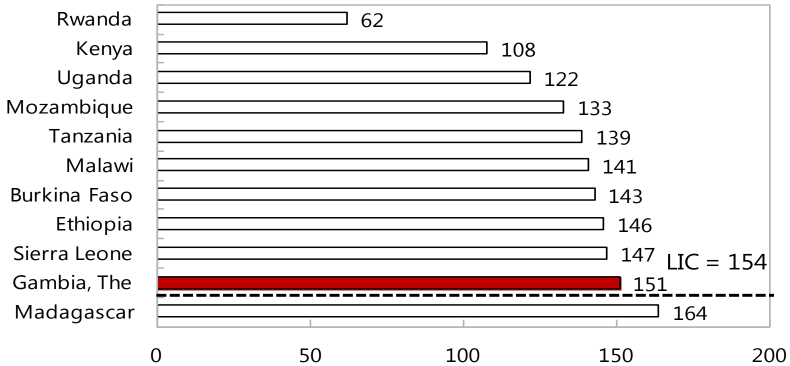
(Percent of GDP, unless otherwise indicated)



Source: WEO, FINstats2016.

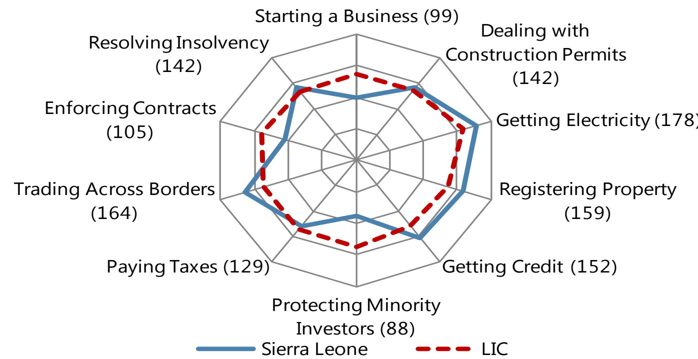
Figure 8. Sierra Leone: Business Environment Indicators

Ease of Doing Business, 2015
(Lower number corresponds to a higher ranking)



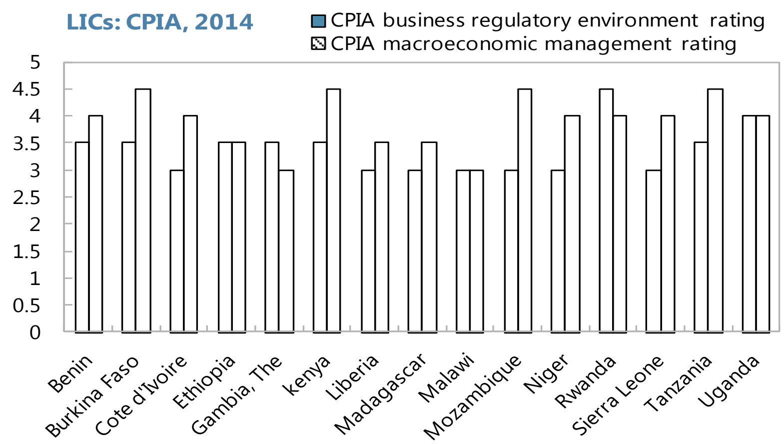
Source: World Bank Ease of Doing Business Indicators, 2016.

Sierra Leone: Ease of Doing Business Indicators, 2015
(Figures in brackets represent the rank of Sierra Leone)



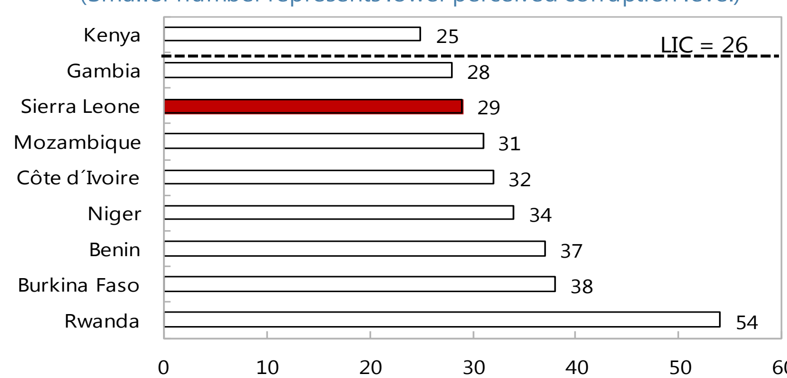
Source: World Bank Ease of Doing Business Indicators, 2016.

LICs: CPIA, 2014



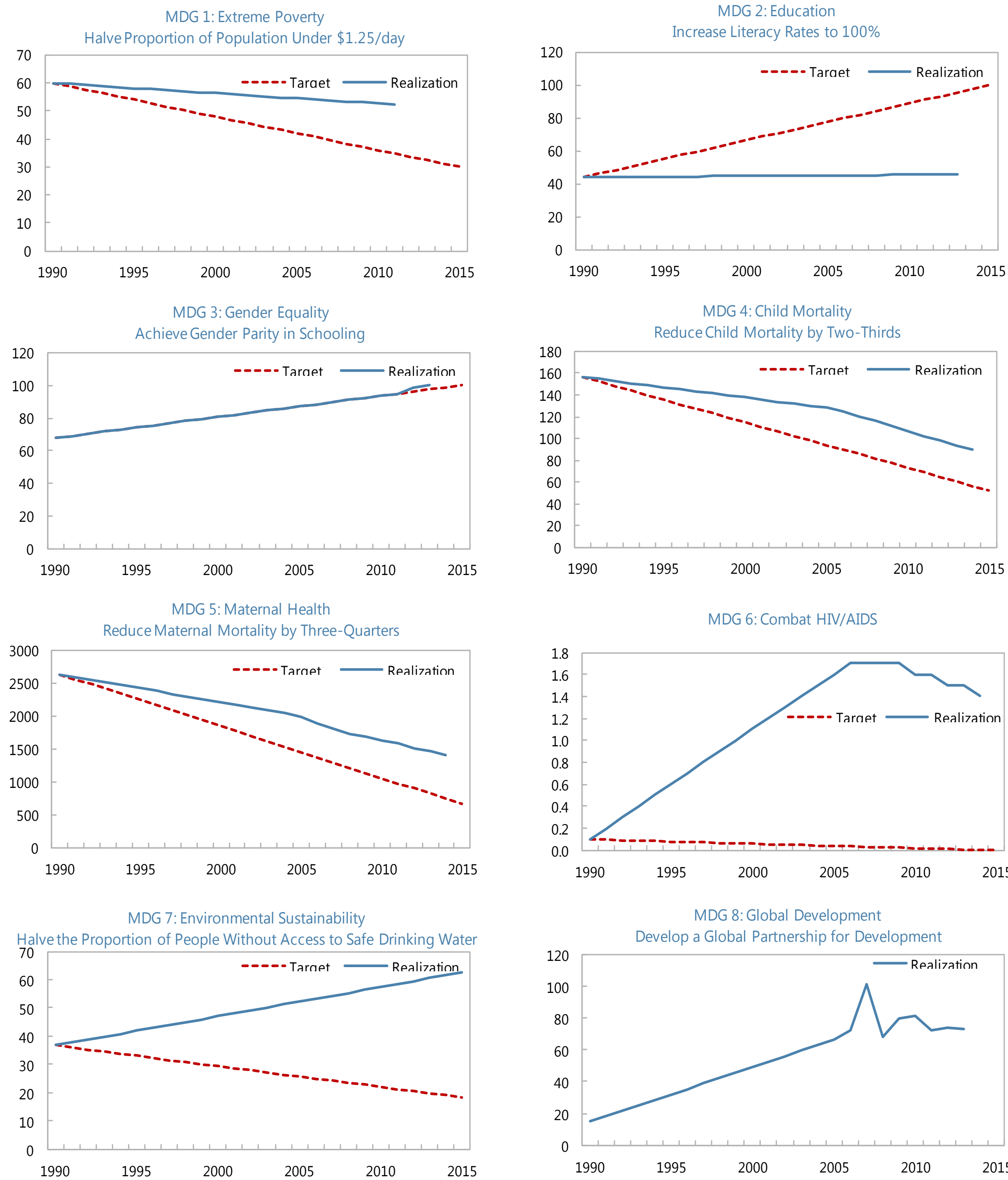
Source: World Bank Country Policy and Institutional Assessment (CPIA), 2015.

LICs: Corruption Perception Index, 2015
(Smaller number represents lower perceived corruption level)



Source: Transparency International, Corruption Perception Index, 2015.

Figure 9. Sierra Leone: Progress Towards the MDGs, 1990–2015



Source: World Bank, Millennium Development Goals database.

Note: Solid line indicates observed performance, while dotted line indicated required achievement.

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

	2013	2014	2015		2016		2017	2018	2019	2020	2021
			EBS 15/122	Est.	EBS 15/122	Proj.	Proj.	Proj.	Proj.	Proj	Proj
(Annual percent change, unless otherwise indicated)											
National account and prices											
GDP at constant prices	20.7	4.6	-21.5	-21.1	0.1	4.3	5.0	5.8	6.2	6.6	6.5
Excluding Iron ore	5.5	0.8	1.0	1.4	1.3	3.3	4.0	5.0	6.0	6.5	6.4
Iron ore production (millions metric tons)	16.2	19.4	0.8	0.8	0.0	6.0	9.0	12.0	13.2	14.5	16.0
Iron ore price (US$ per ton) :											
WEO (spot price 62% Fe)	135.4	96.8	55.8	55.2	44.8	42.4	35.5	33.8	35.9	35.9	35.9
Weighted average company price	82.6	39.8	31.3	31.0	...	24.3	24.3	24.3	25.9	25.9	25.9
Consumer prices (end-of-period)	8.5	9.8	12.0	10.1	9.5	9.5	9.0	8.5	8.0	7.5	7.5
Consumer prices (average)	9.8	8.3	9.9	9.0	9.5	9.5	9.0	8.5	8.0	7.5	7.5
External sector											
Terms of trade (deterioration -)	-5.0	-16.0	-18.0	-21.8	0.4	-1.9	-2.4	-2.2	0.6	0.4	0.5
Exports of goods	47.4	-15.4	-55.1	-55.4	-0.3	13.7	32.6	21.7	11.8	9.3	10.7
Imports of goods	-19.9	4.7	-14.9	-20.6	-3.8	1.9	4.4	6.9	8.4	9.0	8.7
Average exchange rate (leone per US$)	4337	4532	...	5076	...	...	...	...	...	...	...
Nominal effective exchange rate change (end-period, depreciation -)	-2.4	-7.1	...	-2.2	...	...	...	...	...	...	...
Real effective exchange rate (end-period, depreciation -)	3.6	0.7	...	5.8	...	...	...	...	...	...	...
Gross international reserves, months of imports 1/	2.0	3.6	4.0	3.8	3.6	3.6	3.4	3.4	3.3	3.3	3.5
Excluding iron ore related imports, months of imports 2/	3.4	4.3	4.7	4.9	4.8	5.0	5.1	5.0	4.8	4.9	5.2
Money and credit											
Domestic credit to the private sector	11.9	5.4	1.0	3.2	2.1	5.0	5.4	6.8	11.6	13.6	12.6
Base money	17.7	30.2	7.1	10.4	8.0	11.0	15.5	16.4	16.5	15.4	14.3
M3	16.7	16.6	13.0	11.3	13.3	12.9	15.3	15.5	16.0	15.0	13.9
91-day treasury bill rate (in percent)	8.0	2.4	...	2.1	...	...	...	...	...	...	...
(Percent of non-iron ore GDP, unless otherwise indicated)											
National accounts											
Gross capital formation	14.9	14.5	16.0	16.3	15.2	16.3	16.3	16.5	16.8	17.6	17.8
Government	6.3	5.9	7.0	7.3	6.2	6.3	5.8	6.0	6.3	6.6	7.0
Private	8.6	8.6	9.0	9.0	9.0	10.0	10.5	10.5	10.5	11.0	10.8
National savings	-5.6	-5.6	2.5	0.7	3.1	-0.3	0.3	0.8	1.2	2.6	2.6
External sector											
Current account balance											
(including official grants)	-20.5	-20.1	-13.5	-15.5	-12.1	-16.6	-16.0	-15.7	-15.6	-15.0	-15.1
(excluding official grants)	-21.7	-35.6	-25.1	-23.5	-19.4	-22.2	-19.6	-18.6	-18.5	-17.8	-17.9
External public debt (including IMF)	24.9	24.9	30.9	28.5	32.5	33.0	33.1	32.1	30.9	29.4	27.8
Central government budget											
Domestic primary balance 3/	-0.7	-5.4	-5.5	-5.1	-4.7	-4.2	-2.7	-2.4	-2.3	-2.3	-2.3
Overall balance	-1.9	-4.0	-4.8	-4.4	-5.3	-4.9	-3.8	-3.3	-3.3	-3.3	-3.3
(excluding grants)	-4.9	-8.7	-10.1	-9.6	-8.6	-8.1	-6.2	-5.7	-5.7	-5.7	-5.7
Revenue	12.6	10.8	9.8	10.5	10.4	10.9	12.1	12.8	13.5	14.1	14.6
Grants	3.0	4.7	5.4	5.2	3.2	3.2	2.4	2.5	2.4	2.4	2.4
Total expenditure and net lending	17.5	19.5	20.0	20.1	19.0	19.0	18.3	18.6	19.2	19.8	20.3
Memorandum item:											
GDP at market prices (billions of Leone)	21,317	22,690	22,260	22,326	24,582	25,807	29,508	33,788	38,656	44,056	49,737
Excluding iron ore	18,159	20,542	22,190	22,254	24,582	25,101	28,360	32,183	36,698	41,824	47,210
Excluding iron ore in millions of US$	4,187	4,533	4,310	4,384	4,513	4,165	4,264	4,524	4,850	5,225	5,614
Per capita GDP (US$)	805	803	684	696	701	665	676	710	750	798	844

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

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

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

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

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

(Billions of leone)

	2013	2014	2015		2016		2017	2018	2019	2020	2021
			EBS 15/122	Est.	EBS 15/122	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	2,828	3,185	3372	3,495	3,358	3,539	4,120	4,929	5,843	6,891	8,013
Revenue	2,280	2,226	2181	2,330	2,559	2,744	3,439	4,134	4,961	5,886	6,879
Tax revenue	2,111	2,081	2021	2,167	2,369	2,512	3,146	3,808	4,592	5,476	6,421
Personal Income Tax	657	618	587	650	653	742	876	1,032	1,232	1,488	1,774
Corporate Income Tax	267	270	237	245	259	279	376	491	633	805	909
Goods and Services Tax	440	459	559	593	635	680	859	1,024	1,222	1,422	1,653
Excises	221	222	215	216	323	232	343	393	449	512	578
Import duties	269	285	301	329	370	390	466	531	649	791	983
Mining royalties and license	235	187	79	87	76	131	153	248	286	319	358
Other taxes	23	40	43	47	52	57	73	89	120	139	166
Non-tax	169	146	160	163	190	232	293	326	369	410	458
Grants	548	959	1191	1,165	798	795	681	795	882	1,005	1,134
Budget support	170	656	657	645	418	404	307	370	397	453	511
of which CCR Debt relief	...	...	145	145	...	...	...	...	...		
Project grants	378	273	488	508	380	391	374	425	484	552	623
Other	0	30	46	11	0	0	0	0	0	0	0
Expenditures and net lending	3169	4016	4431	4476	4662	4770	5187	5984	7052	8,264	9,575
Current expenditures	2185	2661	2827	2803	3120	3218	3553	4053	4740	5,504	6,270
Wages and salaries	1060	1446	1601	1587	1651	1795	1795	1963	2202	2,509	2,833
Goods and services	520	681	692	700	783	730	800	1058	1323	1,652	1,992
Subsides and transfers	304	313	345	342	388	392	390	419	540	604	678
Ebola transfers	0	52	...	...	...	...	...				
Interest	301	222	190	175	299	301	567	612	675	738	768
Domestic	266	182	148	135	254	250	520	582	638	698	724
Foreign	35	40	42	40	45	51	47	31	37	41	44
Capital Expenditure	1147	1205	1551	1616	1517	1585	1635	1931	2312	2,760	3,305
Foreign financed	730	635	984	963	904	930	935	1062	1211	1,380	1,558
Domestic financed	417	570	567	653	613	655	700	869	1101	1,380	1,747
Net lending 1/	-168	12	0	0	0	-48	0	0	0	0	0
Contingent expenditure 2/	5	138	53	57	25	15	25	25	25	25	25
Unidentified fiscal measures	...	...	-1	0	0	0	0	0	0	0	0
Domestic primary balance 3/	-125	-1114	-1224	-1143	-1154	-1045	-767	-757	-842	-958	-1,094
Overall balance including grants	-342	-830	-1058	-982	-1305	-1230	-1068	-1055	-1209	-1,373	-1,562
Overall balance excluding grants	-889	-1,789	-2249	-2,146	-2,103	-2,026	-1,748	-1,850	-2,090	-2,378	-2,696
Financing	342	830	1058	982	1,305	1,230	1,068	1,055	1,209	1,373	1,562
External financing (net)	294	264	361	338	365	359	359	411	475	537	618
Borrowing	380	362	496	455	524	539	561	637	727	828	935
Projects	352	362	496	455	524	539	561	637	727	828	935
Budget	28	0	0	0	0	0	0	0	0	0	0
Amortization	-86	-98	-135	-117	-159	-180	-202	-227	-252	-291	-317
Domestic financing (net)	47	522	697	644	940	871	709	644	734	837	944
Bank	300	636	733	651	961	789	624	551	634	728	826
Central bank	-60	219	336	289	463	564	84	35	35	41	46
Ways and means	-47	37	73	24	-10	53	84	35	35	41	46
SDR Onlending 4/	0	182	289	295	223	261	0	0	0	0	0
Secondary market operations	...	...	-25	-31	250	250	0	0	0	0	0
Commercial banks	359	417	396	362	498	225	540	517	599	686	779
Nonbank	-253	-114	-36	-7	-21	82	85	92	100	109	119
Non bank financial institutions	-68	-68	0	19	0	103	113	125	137	151	166
Privatization proceeds	13	13	0	0	0	0	0	0	0	0	0
Change in arrears	14	-48	-35	-39	-21	-21	-28	-32	-37	-42	-47
Float (checks payable)	-211	-11	-1	13	0	0	0	0	0	0	0
o/w accumulated	30	0	0	0	0	0	0	0	0	0	0
o/w repaid	-241	-11	0	0	0	0	0	0	0	0	0
Additional donor financing		0	0	0	0	0	0	0	0		
IMF ECF augmentation		...	0	0	0	0	0	0	0	0	0
IMF debt relief		...	0	0	0	0	0	0	0	0	0
Memorandum item:											
Total poverty expenditures	883	1,236	1,128	1,253	1,248	1,248	1,353	1,674	2,108	2,588	3,153
Non-resource primary balance 5/	-276	-795	-276	-276	-1,082	-1,061	-654	-690	-820	-954	-1,152
Public domestic debt 6/	1,961	2,347	2791	2,722	3,752	3,614	4,239	4,848	5,547	6,343	7,241
Bank and non-bank financial institutions 7/	231	568	444	375	737	610	709	644	734	837	944

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ Transfer to the budget from debt owed from Sierra Rutile.
2/ For 2014-15, contingent expenditure captures only expenditures related to the Ebola epidemic.
3/ Revenue less expenditures and net lending adjusted for foreign interest payments and foreign financed capital spending.
4/A Memorandum of Understanding (MOU) between the BSL and MoFED has been signed to on-lend these resources to the budget.
5/ Non-resource revenue less expenditures and net lending adjusted for interest payments.
6/ Public domestic debt includes marketable and non-marketable treasury instruments and ways and means, excludes accounts payable.
7/ Fiscal anchor under the program; defined as government financing from the banking system and non-bank financial institutions and kept below 2 percent of non-iron ore GDP.

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

(Percent of Non-Iron Ore GDP)

	2013	2014	2015		2016		2017	2018	2019	2020	2021
			EBS 15/122	Est.	EBS 15/122	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	15.6	15.5	15.2	15.7	13.7	14.1	14.5	15.3	15.9	16.5	17.0
Revenue	12.6	10.8	9.8	10.5	10.4	10.9	12.1	12.8	13.5	14.1	14.6
Tax revenue	11.6	10.1	9.1	9.7	9.6	10.0	11.1	11.8	12.5	13.1	13.6
Personal Income Tax	3.6	3.0	2.6	2.9	2.7	3.0	3.1	3.2	3.4	3.6	3.8
Corporate Income Tax	1.5	1.3	1.1	1.1	1.1	1.1	1.3	1.5	1.7	1.9	1.9
Goods and Services Tax	2.4	2.2	2.5	2.7	2.6	2.7	3.0	3.2	3.3	3.4	3.5
Excises	1.2	1.1	1.0	1.0	1.3	0.9	1.2	1.2	1.2	1.2	1.2
Import duties	1.5	1.4	1.4	1.5	1.5	1.6	1.6	1.7	1.8	1.9	2.1
Mining royalties and license	1.3	0.9	0.4	0.4	0.3	0.5	0.5	0.8	0.8	0.8	0.8
Other taxes	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.4
Non-tax	0.9	0.7	0.7	0.7	0.8	0.9	1.0	1.0	1.0	1.0	1.0
Grants	3.0	4.7	5.4	5.2	3.2	3.2	2.4	2.5	2.4	2.4	2.4
Budget support	0.9	3.2	3.0	2.9	1.7	1.6	1.1	1.2	1.1	1.1	1.1
of which CCR Debt relief	….	….	0.7	0.6	…	…	…	…	…	…	…
Project grants	2.1	1.3	2.2	2.3	1.5	1.6	1.3	1.3	1.3	1.3	1.3
Other	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures and net lending	17.5	19.5	20.0	20.1	19.0	19.0	18.3	18.6	19.2	19.8	20.3
Current expenditures	12.0	13.0	12.7	12.6	12.7	12.8	12.5	12.6	12.9	13.2	13.3
Wages and salaries	5.8	7.0	7.2	7.1	6.7	7.2	6.3	6.1	6.0	6.0	6.0
Goods and services	2.9	3.3	3.1	3.1	3.2	2.9	2.8	3.3	3.6	4.0	4.2
Subsides and transfer	1.7	1.5	1.6	1.5	1.6	1.6	1.4	1.3	1.5	1.4	1.4
Interest	1.7	1.1	0.9	0.8	1.2	1.2	2.0	1.9	1.8	1.8	1.6
Domestic	1.5	0.9	0.7	0.6	1.0	1.0	1.8	1.8	1.7	1.7	1.5
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Capital Expenditure	6.3	5.9	7.0	7.3	6.2	6.3	5.8	6.0	6.3	6.6	7.0
Foreign financed	4.0	3.1	4.4	4.3	3.7	3.7	3.3	3.3	3.3	3.3	3.3
Domestic financed	2.3	2.8	2.6	2.9	2.5	2.6	2.5	2.7	3.0	3.3	3.7
Net lending 1/	-0.9	0.1	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Contingent expenditure 2/	0.0	0.7	0.2	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Unidentified fiscal measures	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance 3/	-0.7	-5.4	-5.5	-5.1	-4.7	-4.2	-2.7	-2.4	-2.3	-2.3	-2.3
Overall balance including grants	-1.9	-4.0	-4.8	-4.4	-5.3	-4.9	-3.8	-3.3	-3.3	-3.3	-3.3
Overall balance excluding grants	-4.9	-8.7	-10.1	-9.6	-8.6	-8.1	-6.2	-5.7	-5.7	-5.7	-5.7
Financing	1.9	4.0	4.8	4.4	5.3	4.9	3.8	3.3	3.3	3.3	3.3
External financing (net)	1.6	1.3	1.6	1.5	1.5	1.4	1.3	1.3	1.3	1.3	1.3
Borrowing	2.1	1.8	2.2	2.0	2.1	2.1	2.0	2.0	2.0	2.0	2.0
Project	1.9	1.8	2.2	2.0	2.1	2.1	2.0	2.0	2.0	2.0	2.0
Budget	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.5	-0.5	-0.6	-0.5	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Domestic financing (net)	0.3	2.5	3.1	2.9	3.8	3.5	2.5	2.0	2.0	2.0	2.0
Bank	1.6	3.1	3.3	2.9	3.9	3.1	2.2	1.7	1.7	1.7	1.7
Central bank	-0.3	1.1	1.5	1.3	1.9	2.2	0.3	0.1	0.1	0.1	0.1
Ways and means		0.2	0.3	0.1	0.0	0.2	0.3	0.1	0.1	0.1	0.1
SDR Onlending 4/		0.9	1.3	1.3	0.9	1.0	0.0	0.0	0.0		
Secondary market operations	…	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0		
Commercial banks	2.0	2.0	1.8	1.6	2.0	0.9	1.9	1.6	1.6	1.6	1.7
Nonbank	-1.4	-0.6	-0.2	0.0	-0.1	0.3	0.3	0.3	0.3	0.3	0.3
Non bank financial institutions	-0.4	-0.3	0.0	0.1	0.0	0.4	0.4	0.4	0.4	0.4	0.4
Privatization proceeds	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	0.1	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Float (checks payable)	-1.2	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w accumulated	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w repaid	-1.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional donor financing		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF ECF augmentation		…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF debt relief		…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:											
Total poverty expenditures	4.9	6.0	5.1	5.6	5.1	5.0	4.8	5.2	5.7	6.2	6.7
Non-resource primary balance 5/	-1.5	-3.9	-1.2	-1.2	-4.4	-4.2	-2.3	-2.1	-2.2	-2.3	-2.4
Public domestic debt 6/	10.8	11.4	12.6	12.2	15.3	14.4	14.9	15.1	15.1	15.2	15.3
Bank and non-bank financial institutions 7/	1.3	2.8	2.0	1.7	3.0	2.4	2.5	2.0	2.0	2.0	2.0
Non-iron ore GDP (Le billions)	18,159	20,542	22,190	22,254	24,582	25,101	28,360	32,183	36,698	41,824	47,210

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ Transfer to the budget from debt owed from Sierra Rutile.
2/ For 2014-15, contingent expenditure captures only expenditures related to the Ebola epidemic.
3/ Revenue less expenditures and net lending adjusted for foreign interest payments and foreign financed capital spending.
4/ A Memorandum of Understanding (MOU) between the BSL and MoFED has been signed to on-lend these resources to the budget.
5/ Non-resource revenue less expenditures and net lending adjusted for interest payments.
6/ Public domestic debt includes marketable and non-marketable treasury instruments and ways and means, excludes accounts payable.
7/ Fiscal anchor under the program; defined as government financing from the banking system and non-bank financial institutions and kept below 2 percent of non-iron ore GDP.

Table 2c. Sierra Leone: Fiscal Operations of the Central Government in 2015

(Billions of leone)

	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	2015 Proj.
Total revenue and grants	927	888	638	1,042	3,495
Revenue	565	609	516	639	2,330
Tax	536	553	489	589	2,167
Personal Income Tax	169	152	143	186	650
Corporate Income Tax	56	66	50	73	245
Goods and Services Tax	137	160	142	153	593
Excises	79	50	38	50	216
Import duties	68	86	83	93	329
Mining royalties and license	17	25	22	22	87
Other	10	14	8	14	47
Non-tax	29	56	27	50	163
Grants	362	279	122	403	1,165
Budget support	95	181	25	345	645
of which CCR Debt relief	0	145	0	0	145
Project grants	265	95	94	55	508
Other	2	3	4	2	11
Expenditures and net lending	1,279	1,058	1,179	960	4,476
Current expenditures	684	646	777	696	2,803
Wages and salaries	379	365	419	424	1,587
Goods and services	182	149	223	146	700
Subsidies and transfer	81	87	101	73	342
Interest	42	45	34	54	175
Domestic	32	35	23	45	135
Foreign	10	10	12	9	40
Capital expenditure	566	388	402	259	1,616
Foreign financed	409	245	181	127	963
Domestic financed	157	143	221	132	653
Net lending 1/	0	0	0	0	0
Contingent expenditure	28	24	0	5	57
Domestic primary balance 2/	-295	-194	-470	-185	-1,143
Overall balance including grants	-351	-170	-542	82	-982
Overall balance excluding grants	-713	-449	-663	-321	-2,146
Financing	351	170	542	-82	982
External financing (net)	117	118	57	45	338
Borrowing	144	150	88	72	455
Project	144	150	88	72	455
Budget	0	0	0	0	0
Amortization	-27	-32	-31	-28	-117
Domestic financing (net)	234	52	485	-127	644
Bank	143	175	344	-10	651
Central bank	67	90	149	-18	289
IMF ECF Augmentation	177	0	0	118	295
Secondary Market Operations	-25	-22	7	9	-31
Ways and means 3/	-85	112	142	-145	24
Commercial banks	75	85	194	8	362
Nonbank	92	-123	141	-117	-7
Non bank financial institutions	-12	-6	4	33	19
NASSIT bond	0	0	0	0	0
Privatization proceeds	0	0	0	0	0
Change in arrears	-20	-3	-12	-4	-39
Float (checks payable)	124	-114	149	-146	13
accumulated	0	0	0	0	0
repaid	0	0	0	0	0
Financing gap	0	0	0	0	0
Memorandum item:					
Bank and non-bank financing 4/	57	52	485	-245	349

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/Includes net balance on deposits and advances from commercial banks to Ministries and Agencies.
2/ Revenue less expenditure and net lending adjusted for interest payments and foreign financed capital spending.
3/ Includes bridge financing equivalent to 25 million euros (in Q3) from the Central Bank to cover delayed budget support to be pa
4/ Fiscal anchor under the program; defined as government financing from the banking system and non-bank financial institutions and kept below 2 percent of non-iron ore GDP.

Table 2d. Sierra Leone: Fiscal Operations of the Central Government in 2016

(Billions of leone)

	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	2016 Proj.
Total revenue and grants	708	1,005	774	1,052	3,539
Revenue	634	749	673	687	2,744
Tax	575	690	615	632	2,512
Personal Income Tax	171	200	195	176	742
Corporate Income Tax	54	88	70	67	279
Goods and Services Tax	164	174	169	174	680
Excises	70	56	50	57	232
Import duties	90	104	90	106	390
Mining royalties and license	10	54	26	40	131
Other	17	14	15	12	57
Non-tax	59	59	59	56	232
Grants	74	256	101	365	795
Budget support	0	113	24	268	404
of which CCR Debt relief	0	0	0	0	0
Project grants	74	143	77	97	391
Other	0	0	0	0	0
Expenditures and net lending	1,232	1,164	1,076	1,298	4,770
Current expenditures	796	770	776	875	3,218
Wages and salaries	475	440	440	440	1,795
Goods and services	227	154	146	202	730
Subsidies and transfer	68	92	95	138	392
Interest	26	85	95	95	301
Domestic	15	72	83	81	250
Foreign	11	13	13	14	51
Capital expenditure	436	390	344	416	1,585
Foreign financed	214	242	214	260	930
Domestic financed	222	148	130	155	655
Net lending 1/	0	0	-48	0	-48
Contingent expenditure 2/	0	4	4	8	15
Domestic primary balance 3/	-373	-160	-176	-337	-1,045
Overall balance including grants	-524	-158	-302	-246	-1,230
Overall balance excluding grants	-598	-415	-403	-611	-2,026
Financing	524	158	302	246	1,230
External financing (net)	98	93	83	86	359
Borrowing	119	140	124	156	539
Project	119	140	124	156	539
Budget	0	0	0	0	0
Amortization	-21	-47	-41	-71	-180
Domestic financing (net)	426	65	219	161	871
Bank	200	234	204	151	789
Central bank	112	137	184	131	564
IMF ECF Augmentation	0	0	131	131	261
Secondary Market Operations	56	161	34	0	250
Ways and means 4/	57	-24	20	0	53
Commercial banks	88	97	20	20	225
Nonbank	226	-169	15	10	82
Non bank financial institutions	38	30	20	15	103
NASSIT bond	0	0	0	0	0
Privatization proceeds	0	0	0	0	0
Change in arrears	-5	-5	-5	-5	-21
Float (checks payable)	194	-194	0	0	0
accumulated	0	0	0	0	0
repaid	0	0	0	0	0
Financing gap	0	0	0	0	0
Memorandum item:					
Bank and non-bank financing 5/	426	65	88	30	610

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ Includes debt owed from Sierra Rutile in the amount of 8 mln USD expected to be paid in Q3.
2/ Contingent expenditure introduced in the budget process in 2013.
3/ Revenue less expenditure and net lending adjusted for interest payments and foreign financed capital spending.
4/ Includes bridge loan of 60 billion Le to cover shorfall in external budget support, paid back to the Central Bank in the second quarter.
5/ Fiscal anchor under the program; defined as government financing from the banking system and non-bank financial institutions and kept below 2 percent of non-iron ore GDP.

Table 3. Sierra Leone: Monetary Accounts, 2013–16

(Billions of leone, unless otherwise indicated)

	2013	2014	2015				2016			
			Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
			Prel.	Prel.	Prel.	Prel.	Prel.	Proj.	Proj.	Proj.
I. Monetary Survey										
Net foreign assets	2832	3254	3168	2989	2964	3211	3197	3006	2914	3170
Net domestic assets	1396	1675	1778	2049	2333	2277	2396	2224	2796	3028
Domestic credit	2928	3742	3881	4058	4458	4405	4698	4932	5138	5249
Claims on central government (net) 2/	1681	2444	2592	2763	3106	3092	3293	3527	3732	3882
Of which: Claim on government by commercial banks	1219	1666	1741	1825	2019	2027	2115	2212	2232	2252
Claims on other public sector 3/	200	199	190	183	177	182	191	191	191	182
Claims on private sector	1003	1057	1057	1064	1120	1091	1164	1164	1166	1146
Other items (net) 3/	-1532	-2067	-2103	-2009	-2126	-2128	-2302	-2708	-2342	-2222
Money and quasi-money (M3)	4229	4929	4945	5038	5297	5488	5592	5230	5710	6198
Broad money (M2)	3144	3864	3942	4069	4213	4387	4336	3941	4598	4954
Foreign exchange deposits	1085	1065	1003	969	1084	1101	1257	1150	1112	1244
II. Bank of Sierra Leone										
Net foreign assets	1527	1958	1856	1824	1708	1863	1741	1470	1429	1509
Net domestic assets	-327	-397	-354	-157	-89	-139	-47	90	274	405
Claims on other depository corporations	9	4	5	4	7	3	0	0	0	0
Claims on central government (net)	462	779	851	938	1087	1065	1178	1315	1499	1630
Ways and means advances 4/	1	39	0	66	66	63	120	97	116	116
SDR-on lending	...	182	359	359	359	477	477	477	607	738
Claims on other public sector 3/ 5/	0	0	0	0	0	0	0	0	0	0
Claims on private sector	14	18	20	37	32	30	39	39	39	39
Other items (net) 5/	-818	-1198	-1230	-1136	-1215	-1237	-1264	-1264	-1264	-1264
Reserve money	1200	1562	1502	1667	1619	1724	1694	1560	1703	1914
Currency in circulation	912	1137	1181	1118	1158	1357	1300	1339	1463	1506
Commercial bank deposits	248	384	286	514	423	331	357	204	207	365
Other deposits	39	40	35	35	37	36	37	17	34	42
Memorandum items:										
(Annual percent change unless otherwise indicated)										
Base money	17.7	30.2	13.8	23.3	25.4	10.4	12.7	-6.4	5.2	11.0
M3	16.7	16.6	16.4	12.3	16.4	11.3	...	...	...	12.9
Credit to the private sector	11.9	5.4	...	...	...	3.2	...	...	...	5.0
Velocity (GDP/M3)	4.3	4.2	...	...	...	4.1	...	...	...	4.1
Money multiplier (M3/base money)	3.5	3.2	3.3	3.0	3.3	3.2	...	...	...	3.2
Credit to the private sector (in percent of non iron ore GDP)	5.5	5.1	...	...	...	4.9	...	...	...	4.6
Gross Reserves (in US$ millions)	473	554	605	587	540	580	552	526	552	580
Program exchange rate (Leones/US$)	4334	4334	4953	4953	4953	4953	5639	5639	5639	5639

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

1/ End of period.

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

3/ Include public enterprises and the local government.

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

5/ Including valuation.

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

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

	2013	2014	2015		2016		2017	2018	2019	2020	2021
		Prel.	EBS 15/122	Proj.	EBS 15/122	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-859	-911	-582	-681	-546	-692	-683	-710	-758	-782.5	-849.9
Trade balance	-28	-339	-813	-724	-761	-669	-512	-417	-416	-450.1	-462.3
Exports, f.o.b.	1,543	1,304	586	582	584	662	877	1,068	1,194	1,304.8	1,444.8
Of which: diamonds	186	213	158	160	120	109	113	116	146	138	144
iron ore	1,064	742	23	78	0	146	219	292	342	376	414
Imports, f.o.b	-1,570	-1,644	-1,399	-1,306	-1,345	-1,331	-1,390	-1,485	-1,610	-1,755	-1,907
Of which: oil	-331	-311	-131	-157	-128	-112	-139	-159	-181	-200	-218
Services (net)	-476	-1,027	-286	-341	-167	-281	-340	-425	-455	-479	-514
Income (net)	-557	-376	-119	-112	-79	-97	-111	-132	-168	-151	-190
Of which: interest on public debt	-7	-9	-7	-8	-8	-9	-8	-7	-9	-9	-10
Transfers	202	831	636	496	461	355	280	263	280	298	316
Official transfers	51	703	498	350	328	231	153	129	138	147	158
Other Aid (incl. Ebola)	17	564	402	222	245	162	101	70	70	70	70
Other transfers	151	128	137	146	134	124	128	134	142	150	159
Capital and financial account	567	622	506	455	476	624	686	708	771	875	971
Capital account	99	82	128	135	74	70	62	66	71	76	82
IMF CCRT Debt Relief 1/	…	…	29	29	…	…	…	…			
Project support grants	87	60	95	100	70	65	56	60	64	69	74
Financial account	468	540	378	320	402	554	624	642	700	799	889
Foreign direct and portfolio investment	370	385	308	263	304	516	560	599	648	708	772
Other investment	98	154	70	57	98	38	64	44	52	91	117
Public sector (net)	101	59	69	35	114	58	54	58	63	67	73
Disbursements	89	82	96	60	146	89	84	90	96	103	111
Amortization	-20	-24	-27	-25	-32	-32	-30	-32	-33	-36	-38
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0
Change in net foreign assets of comm. banks	-3	48	0	22	-16	-20	10	-14	-11	-27	1
Other sectors net	0	0	0	0	0	0	0	0	0	51	42
Short-term	0	0	0	0	0	0	0	0	0	0	0
Errors and omissions	339	328	0	152	0	0	0	0	1	0	0
Overall balance	47	39	-76	-74	-70	-67	4	-2	13	93	121
Financing											
Central bank net reserves (- increase)	-47	-39	76	74	70	67	-55	-50	-55	-93	-121
Gross reserve change	-53	-80	-30	-27	0	0	-38	-32	-40	-63	-74
Use of Fund loans	7	41	106	101	70	67	-17	-18	-16	-29	-46
Purchases	14	54	136	130	71	68	0	0	0	0	0
Repurchases	-7	-12	-30	-30	-1	0	-17	-18	-16	-29	-46
Exceptional financing	0	0	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	51	52	42	0	0
Memorandum items:											
(Percent of non-iron ore GDP unless otherwise indicated)											
Current account	-20.5	-20.1	-13.5	-15.5	-12.1	-16.6	-16.0	-15.7	-16	-15	-15
Trade Balance	-0.7	-7.5	-18.9	-16.5	-16.9	-16.1	-12.0	-9.2	-9	-9	-8
Capital and Financial Account	13.5	13.7	11.7	10.4	10.5	15.0	16.1	15.7	16	17	17
Overall Balance	1.1	0.9	-1.8	-1.7	-1.6	-1.6	0.1	0.0	0	2	2
Official aid (grants and loans)	1.1	3.1	2.3	2.9	1.9	1.7	1.3	1.4	1	2	2
IMF CCRT debt service savings in US$	…	…	13	13	16	16	…				
Budget support in US$ (grants and loans)	44.2	141.0	98.9	129.1	85.4	71.7	54.4	61.8	70	80	91
Gross International Reserves											
US$ millions	473	554	584	580	584	580	618	650	690	753	827
Months of imports	2.0	3.6	4.0	3.8	3.6	3.6	3.4	3.4	3.3	3.3	3.5
Excluding iron ore, months of imports	3.4	4.3	4.7	4.9	4.8	5.0	5.1	5.0	4.8	4.9	5.2
National currency per US dollar (average)	4,337	4,532	…	…	…	…	…	…	…	…	…

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

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

Table 5. Sierra Leone: Financial Soundness Indicators of the Banking System, 2011–15

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

Source: Bank of Sierra Leone.

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

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

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

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

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

Table 6. Sierra Leone: Indicators of Capacity to Repay the Fund, 2013–21

				Projection												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Fund obligations based on existing credit (in millions of SDRs)																
Principal	2.3	4.6	8.1	0.4	0.4	12.1	13.0	11.3	21.2	24.4	21.8	20.0	19.1	6.1	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit (in millions of SDRs)																
Principal	2.3	4.6	8.1	0.4	0.4	12.1	13.0	11.3	21.2	33.6	38.2	36.5	35.6	22.5	7.3	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0
Total obligations based on existing and prospective credit																
In millions of SDRs	2.3	4.6	8.1	0.4	0.4	12.1	13.0	11.8	21.6	34.0	38.5	36.7	35.7	22.6	7.3	0.0
In millions of US$	3.5	7.1	12.5	0.6	0.5	16.8	18.0	16.3	29.97	47.06	53.39	50.80	49.44	31.28	10.17	0.00
In percent of exports of goods and services	0.3	0.4	0.8	0.1	0.0	1.3	1.1	0.9	1.55	2.27	2.44	2.22	2.07	1.25	0.39	0.00
In percent of debt service 1/	13.4	20.9	27.3	1.0	1.2	29.6	30.9	27.7	39.66	49.76	51.65	49.41	48.42	37.02	14.19	0.00
In percent of GDP	0.1	0.1	0.3	0.0	0.0	0.4	0.4	0.3	0.60	0.88	0.94	0.83	0.76	0.45	0.14	0.00
In percent of Gross International Reserves	0.8	1.5	2.3	0.1	0.1	2.6	2.6	2.3	4.06	6.13	6.70	5.94	5.71	3.43	1.01	0.00
In percent of quota	2.2	4.5	7.8	0.4	0.2	5.8	6.3	5.7	10.43	16.37	18.58	17.68	17.20	10.88	3.54	0.00
Outstanding Fund credit																
In millions of SDRs	78.8	83.1	109.7	182.2	231.2	219.1	206.1	194.8	173.63	140.08	101.86	65.41	29.85	7.33	0.00	0.00
In millions of US$	120.7	127.6	168.7	264.0	320.4	303.6	285.6	270.0	240.60	194.11	141.15	90.64	41.36	10.16	0.00	0.00
In percent of exports of goods and services	9.8	7.2	11.2	34.5	26.7	23.6	18.1	14.9	12.43	9.36	6.44	3.96	1.73	0.41	0.00	0.00
In percent of debt service	458.2	376.0	368.8	412.7	799.9	536.1	490.7	458.3	318.39	205.25	136.55	88.16	40.51	12.02	0.00	0.00
In percent of GDP	3.2	2.6	3.6	6.3	7.8	7.3	6.5	5.7	4.78	3.62	2.48	1.49	0.63	0.15	0.00	0.00
In percent of Gross International Reserves	28.7	27.0	30.5	43.8	53.1	47.0	41.9	38.5	32.60	25.30	17.72	10.60	4.78	1.12	0.00	0.00
In percent of quota	76.0	80.1	105.8	175.7	111.5	105.6	99.4	93.9	83.72	67.54	49.11	31.54	14.39	3.53	0.00	0.00
Net use of Fund credit (in millions of SDRs)	2.1	4.3	26.7	73.5	48.5	-12.1	-13.0	-11.3	-21.17	-33.55	-38.23	-36.45	-35.56	-22.52	-7.31	0.00
Disbursements	4.4	8.9	34.8	94.1	48.9	0.0	0.0	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repayments	2.3	4.6	8.1	20.6	0.4	12.1	13.0	11.3	21.17	33.55	38.23	36.45	35.56	22.52	7.31	0.00
Memorandum items:																
Exports of goods and services (in millions of US$)	1,228	1,766	1,510	765	1,198	1,284	1,576	1,806	1935	2073	2192	2287	2390	2500	2629	2773
Debt service (in millions of US$)	26	34	46	64	40	57	58	59	76	95	103	103	102	84	72	69
Nominal GDP (in millions of US$)	3,789	4,868	4,746	4,167	4,095	4,159	4,419	4,724	5034	5356	5699	6098	6526	6983	7475	8003
Gross International Reserves (in millions of US$)	420	473	554	603	603	646	682	701	738.0	767.3	796.7	855.2	865.9	910.6	1003.6	1138.4
Quota (millions of SDRs)	104	104	104	104	207	207	207	207	207	207	207	207	207	207	207	207

Source: IMF staff estimates and projections.

1/ Total debt service includes IMF repayments.

Table 7. Sierra Leone: Actual and Proposed Disbursements Under the ECF Arrangement, 2013–21

Availability	Disbursements In millions of SDRs	Disbursements In percent of quota 1/	Conditions for Disbursement
October 21, 2013	8.890	4.29	Effectiveness of the three-year ECF arrangement
June 15, 2014	8.890	4.29	Board completion of the first review based on observance of performance criteria for December 31, 2013
September 26, 2014	25.925	25.00	Board completion of Ad Hoc Review and Augmentation of Access of 25 percent of quota
March 2, 2015	60.740	29.29	Board completion of the second review based on observance of performance criteria for June 30, 2014 and Augmentation of Access of 50 percent of quota
June 15, 2015	8.890	4.29	Board completion of the third review based on observance of performance criteria for December 31, 2014
November 15, 2015	24.445	11.79	Board completion of the fourth review based on observance of performance criteria for June 30, 2015
April 15, 2016	24.440	11.78	Board completion of the fifth review based on observance of performance criteria for December 31, 2015
September 10, 2016	24.440	11.78	Board completion of the sixth review based on observance of performance criteria for June 30, 2016
Total disbursements	186.660	**102.50**	

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

Table 8. Sierra Leone: Millennium Development Goals, 1990–2015

	1990	1995	2000	2005	2010	2014	2015
Goal 1: Eradicate extreme poverty and hunger							
Employment to population ratio, 15+, total (%) (modeled ILO estimate)	..	62.0	61.9	64.0	64.9	..	..
Employment to population ratio, ages 15-24, total (%) (modeled ILO estimate)	..	38.1	38.4	42.0	42.1		
GDP per person employed (constant 1990 PPP $)	..	..	..	..	..	..	..
Income share held by lowest 20%	..	..	..	..	..	..	..
Prevalence of underweight, weight for age (% of children under 5)	25.4	..	24.7	28.3	21.1	..	..
Poverty gap at $1.25 a day (PPP) (%)	..	..	..	..	..	..	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	..	..	..	..	..	..
Vulnerable employment, total (% of total employment)	..	..	..	..	..	..	..
Goal 2: Achieve universal primary education							
Literacy rate, youth female (% of females ages 15-24)	..	..	..	..	..	..	..
Literacy rate, youth male (% of males ages 15-24)	..	..	..	..	..	..	..
Persistence to last grade of primary, total (% of cohort)	..	..	..	..	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	..	..	..	..	..
School enrollment, primary (% net)	..	..	..	..	..	..	..
Goal 3: Promote gender equality and empower women							
Proportion of seats held by women in national parliaments (%)	..	..	8.8	14.5	13.2	12.1	..
School enrollment, primary (gross), gender parity index (GPI)	0.7	..	0.9	..	..	..	..
School enrollment, secondary (gross), gender parity index (GPI)	0.5	..	..	..	..	..	..
School enrollment, tertiary (gross), gender parity index (GPI)	..	..	0.8	..	..	..	..
Share of women in wage employment in the nonagricultural sector (% of total nonagric	..	..	..	..	..	..	..
Goal 4: Reduce child mortality							
Immunization, measles (% of children ages 12-23 months)	..	..	37.0	71.0	81.0	78.0	..
Mortality rate, infant (per 1,000 live births)	156.5	153.4	143.3	128.1	107.0	90.2	87.1
Mortality rate, under-5 (per 1,000 live births)	264.3	257.5	235.8	203.7	160.2	126.4	120.4
Goal 5: Improve maternal health							
Adolescent fertility rate (births per 1,000 women ages 15-19)	181.8	169.1	159.3	149.1	133.1	119.6	..
Births attended by skilled health staff (% of total)	..	..	41.7	43.2	62.5	..	..
Contraceptive prevalence (% of women ages 15-49)	..	..	4.3	5.3	11.0	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	2300.0	2400.0	2200.0	1600.0	1200.0	..	0.001
Pregnant women receiving prenatal care (%)	..	..	67.9	81.1	93.0	..	..
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..	27.4	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases							
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	61.0	52.0	62.1	..	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	252.0	282.0	305.0	316.0	317.0	..	..
Prevalence of HIV, female (% ages 15-24)	0.1	0.2	0.8	1.0	0.6	0.4	..
Prevalence of HIV, male (% ages 15-24)	0.1	0.1	0.4	0.5	0.3	0.2	..
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.2	1.0	1.6	1.6	1.4	..
Tuberculosis case detection rate (%, all forms)	6.2	18.0	30.0	42.0	70.0	..	..
Goal 7: Ensure environmental sustainability							
CO2 emissions (kg per PPP $ of GDP)	0.1	0.1	0.1	0.1	0.1	..	..
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1	0.1	..	..
Forest area (% of land area)	43.2	41.8	40.5	39.1	37.8	..	..
Improved sanitation facilities (% of population with access)	10.1	10.7	11.3	11.9	12.6	13.1	13.3
Improved water source (% of population with access)	36.7	42.0	47.2	52.3	57.4	61.6	62.6
Marine protected areas (% of territorial waters)	..	..	6.3	..	6.3	..	..
Net ODA received per capita (current US$)	14.7	54.1	43.6	66.4	81.2	..	..
Goal 8: Develop a global partnership for development							
Debt service (PPG and IMF only, % of exports of goods, services and primary income)	10.0	62.5	45.9	8.9	3.8	..	..
Internet users (per 100 people)	0.0	0.0	0.1	0.2	0.6	2.1	..
Mobile cellular subscriptions (per 100 people)	0.0	0.0	0.3	..	34.8	76.7	..
Fixed telephone subscriptions (per 100 people)	0.3	0.4	0.5	0.5	0.2	0.3	..
Fertility rate, total (births per woman)	6.5	6.2	5.9	5.5	4.9	..	..
Other							
GNI per capita, Atlas method (current US$)	200.0	200.0	160.0	320.0	470.0	710.0	..
GNI, Atlas method (current US$) (billions)	0.8	0.8	0.7	1.6	2.7	4.5	..
Gross capital formation (% of GDP)	13.0	5.6	1.1	11.5	31.1	13.8	..
Life expectancy at birth, total (years)	37.4	35.8	38.1	42.1	44.8	..	..
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..	..	..
Population, total (millions)	3.9	3.8	4.1	5.1	5.8	6.3	..
Trade (% of GDP)	68.7	45.0	57.5	47.5	51.3	82.7	..

Source: World Development Indicators.

Table 9. Sierra Leone: Risk Assessment Matrix (RAM)[1]		
Source of Risks	**Relative Likelihood**	**Impact and Policy Response**
Domestic risks		
Political instability stemming from extending President's term limit /public perception of lack of recovery, lack of public service implementation	**Low**	**High** If the President insists on staying in power beyond the constitutionally mandated limit, social volatility (as seen in other African countries) could ensue. If the public does not perceive improved social services or infrastructure, political pressure and instability may magnify. ***Policy response*:** Resist short-term populist measures that would compromise macro-fiscal sustainability.
Reemergence of Ebola at epidemic proportions.	**Low**	**High** A reemergence Ebola epidemic or its re-escalation would negatively impact growth as well as the fiscal and the external positions. *Policy response*: Continue intense Ebola containment efforts with donor support.
Permanent shut down of iron ore production	**Medium**	**High** Under the baseline WEO price outlook for iron ore, the current iron ore production by SISG generates significant losses. This may well lead to the permanent halt of the production again. *Policy response*: Continue to diversify exports, mobilize fiscal revenues and seek concessional loans to preserve external debt sustainability
Lower revenues and poor implementation of fiscal policy	**Medium**	**High** Lower revenue could lead to poor execution of budget, possible arrears, as well as higher than anticipated fiscal deficits. *Policy response:* Increase non-iron ore revenue; enhance expenditure management through timely implementation of the PFM bill.
Poor implementation of donor-demanded reforms	**Medium**	**High** If donors fail to see structural reforms tied to their financial support, external financing could see persistent delays, leading to arrears and difficulties in budget execution. *Policy response*: Implement donor-tied policy reforms on a timely basis; increase domestic revenue to insulate budget from impact of delays in external financing.

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

Source of Risks	Relative Likelihood	Impact and Policy Response
Weakness in the financial sector	**High**	**High** The continued weakness and high NPLs in the two state-owned banks could lead to wider contagion in the banking sector, real sector as well as fiscal costs in the case of needed capital injections to the two large banks. *Policy response:* Implement the recommendations that will come out of the diagnostic studies on a timely basis. Work to enhance banking supervision, notably through regular on-site inspections and stress testing of banks to promote healthy financial intermediation.
External risks		
Structurally weak growth in emerging economies, including China	**Medium**	**Medium** Medium-term weak growth in emerging economies and a sharp slowdown in China in 2016–17 could further depress iron ore prices. *Policy response*: Strengthen efficiency in non-resource revenue mobilization; promote diversification in the context of the Agenda for Prosperity (A4P).
Significant China slowdown	**Medium**	
Persistently lower energy prices	**High**	**Medium** Low oil prices pose an upside risk and will benefit the economy by boosting domestic demand and reducing inflation. It would also improve both fiscal and external positions. *Policy response*: Full pass-through while maintaining fixed excise for both commercial and retail users.

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

Annex I. External Sector Assessment

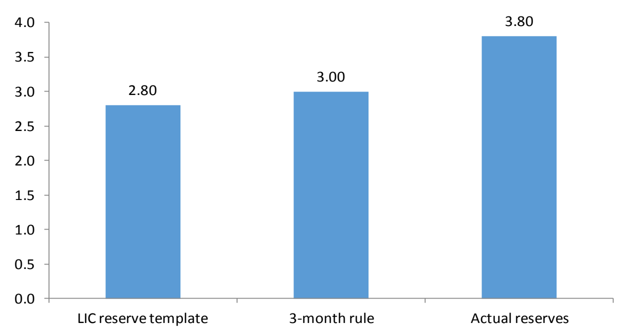
The real effective exchange rate (REER) seems overvalued by 12-14 percent (Text Table 1). The Leone depreciated some 14 percent against the US dollar in 2015, while the REER declined 3.8 percent. The REER misalignment was assessed by employing the external sustainability (ES) approach based on the 2014 indicators, the latest available actual data. Using the current account (CA) elasticity of -0.35 percent, the REER is estimated to be overvalued by 16–18 percent. For instance, to stabilize Sierra Leones's international investment position (IIP) at -34.6 percent of GDP (2014 level), REER will have to depreciate by some 18 percent. REER overvaluation reduces to 16½ percent, if IIP is to be stabilized at -40 percent of GDP (the median of middle income countries). Considering 3.8 percent REER depreciation that already took place during 2015, as of end 2015, the REER is possibly overvalued between 12–14 percent. The EBA-lite methodology is not applicable to Sierra Leone given the poor quality of BoP data, which renders unreliable historical CA deficits.

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

					CA norm (% of GDP)	Underlying CA (% of GDP)	CA gap	REER gap
Scenario 1: Stabilizing net IIP at	-34.6	% of GDP			-5.3	-11.5	-6.2	17.7
Scenario 2: Stabilizing net IIP at	-40.0	% of GDP			-5.6	-11.5	-5.9	16.8
Scenario 3: Reaching net IIP at	-40.0	% of GDP	in	2034	-5.7	-11.5	-5.7	16.4

Sierra Leone's gross international reserves (GIR) level is adequate. Gross reserves rose by US$50 million during 2015 and stand at US$580 million as of end-2015. The GIR covers about 3.8 months of imports, which is slightly above the standard 3-month norm. However, the current level of reserves is much higher than the adequacy level implied by the LIC reserve template, which determines the adequate level of GIR based on the costs and benefits of holding reserves. According to this template, Sierra Leone should hold 2.8 months of imports in GIR. Along with the 2016 projections for the macro data, this assessment was derived by assuming 60 percent probability of a large shock and 0.05 percent cost of holding reserves (lowest cost of holding reserves).

Figure 1. Reserve Adequacy Assessment
(Months of imports)



Source: IMF staff calculations.

Annex II. Response to Fund Advice from the 2013 Article IV Consultation

Implementation of previous staff advice has been mixed. The authorities have responded to the Fund's policy advice on economic diversification and inclusive growth which is now embedded in the first pillar of the A4P, 2013–18, commenced fiscal consolidation, supported PFM reform, and coordinated fiscal and monetary policy implementation through the Cash Management Committee. However, measures to reform the fuel subsidies have not yet been taken, there has been only modest reduction in duty waivers to date, and governance and expenditure management remain weak. High dependence on the extractive industries exposed the country to significant macroeconomic challenges as a result of declining commodity prices. Achieving economic diversification remains a key policy deficit. In addition, delayed implementation of policy advice on privatization, especially for the two state-owned banks, could elevate fiscal and financial sector risks. On the external front, the authorities have exercised restraint in pursuing prudent borrowing policies, which have helped to keep the debt distress risk at moderate. Enhancing non-resource revenue mobilization, improving expenditure management, advancing PFM reform, and maintaining debt sustainability remain the key policy goals going forward. Please see table 1 below for details.

Table 1. Sierra Leone: Response to Fund Advice from the 2013 Article IV Consultation		
Fund Policy Advice	**Response**	**Status**
Macroeconomic		
Promote sustained and inclusive economic growth to create employment and reduce poverty.	The authorities adopted economic diversification and inclusive growth as the first pillar of the Poverty Reduction Strategy III—the Agenda for Prosperity, 2013-18.	Key policy reforms were implemented in agriculture (extension services, skills development and agricultural business centers), energy and transportation but high dependence on the extractive industries exposed the country to significant macroeconomic challenges during the EVD and iron ore price shocks. Economic diversification remains a key policy deficit.
Fiscal and Public Financial Management		
Advance privatization of state-owned enterprises including Rokel Commercial Bank by selling all government shares in the bank.	Prior to the 2013 Article IV, challenges emerged under the ECF on implementation of Fund policy advice on privatization.	Delayed implementation of policy advice on privatization has elevated the risks in the financial sector. The two State-owned banks are amongst the problem banks with potential systemic and macro-financial implications.
Advance fiscal consolidation and implement fiscal reforms to improve the fiscal position. In particular: i) Reform the fiscal regimes in the extractive industries by submitting to parliament the Extractive Industries Revenue Act.	Some corrective fiscal measures were implemented after the fiscal slippages of 2011–12 (which led to the cancellation of previous program at the authority's request). The implementation of additional revenues measures helped to raise domestic revenue to off-set previous years' expenditure overruns and revenue mobilization strengthened. But tax buoyancy remains stunted.	Fiscal consolidation remains in deficit. In particular controlling the wage bill has been challenging and its structural impact became more pronounced during the twin shocks of Ebola and iron ore price collapse. The wage bill now accounts of over 70 percent of domestic revenues. More room remains on revenue mobilization from petroleum price reform and review of existing mining agreements.

Table 1. Sierra Leone: Response to Fund Advice from the 2013 Article IV Consultation (Continued)

Fund Policy Advice	Response	Status
ii) Strengthen revenue mobilization and enhance expenditure management (including wage bill) and tackle expenditure overruns. iii) Establish the Treasury Single Account (TSA).	Efforts were made to improve the fiscal regimes in the extractive industries. The authorities submitted the Extractive Industry Revenue (EIR) bill to parliament but the EIR bill has been in Parliament since December 2013 without approval.	The EIRA remain under parliamentary scrutiny since 2013 which has delayed the policy outcome to reform the fiscal regime in the extractive industries. Delayed implementation of the TSA has prevented the consolidation of off-budget revenues to improve fiscal efficiency.
Advance public financial management reform and enhance the coordination of fiscal and monetary policy implementation.	A new Public Financial Management act was drafted and sent to Parliament with enhanced measures on expenditure control and fiscal rules. The authorities established the Cash Management Committee to support coordination of fiscal and monetary policy implementation.	The new PFM act is under parliamentary scrutiny but the authorities are working to address the issues raised by Parliament which has delayed the approval of the PFM bill.
Public debt		
Adopt prudent borrowing policy and promote long-term debt sustainability by seeking mainly grants and nonconcessional borrowing. Reduce domestic debt and lengthen the maturity profile of domestic debt. Adopt the new debt limit policy.	The rate of debt accumulation has increased since the last Article IV but the risk to debt distress remains moderate.	The authorities have exercised restraint not to borrow for the construction of a new airport at Mamamah which has been the main anchor to achieve debt sustainability within the new debt limit policy.

Table 1. Sierra Leone: Response to Fund Advice from the 2013 Article IV Consultation (Concluded)		
Fund Policy Advice	**Response**	**Status**
Monetary policy and International Competitiveness		
Boost international competitiveness: i) improve exchange rate management through wholesale auction); ii) improve policy buffers on gross reserves—pursue policies to strike the right balance between reserve accumulation and capital spending to minimize the impact of external shocks on economy; iii) set-up the financial intelligence unit and promote private sector credit.	The authorities have set up an independent Financial Intelligence Unit; introduced the wholesale foreign exchange auction; and enacted the borrowers and lenders act. In addition, the BSL is developing a collateral registry to help solve the loan selection problem of banks and promote a health private sector credit growth. Good monetary policy implementation supported a stable exchange rate prior to the twin shocks of Ebola and iron ore price collapse in 2014. The exchange rate continues to face significant depreciation pressure since 2014 to date.	Policy buffers have diminished which has constrained monetary policy implementation. The exchange rate depreciation remains the main absorber of the external shock in the midst of a tight gross foreign exchange persevere position. The BSL is making moves to strictly enforce the foreign exchange regulations to make the formal market more attractive from foreign exchange transactions.
Institution and capacity		
Enhance administrative reforms. Support revenue and expenditure forecasting at all levels. Improve capital spending management and integrate the PIP with the MTEF budget.	A PIP Unit was set up in MoFED to improve management of capital spending. The Sierra Leone Integrated Macroeconomic (SLIM) working group meetings twice a year to update the national macro framework.	Capacity challenges to conduct economic and financial analysis of capital projects remain. The IMF TA support coupled with other donor support is helping to build capacity at MoFED, BSL, NRA and SSL.
Improve data quality especially on BoP, IIP, government finance statistics, financial sector data, and natural resource accounting.	The coverage of economic and financial sector data is expanding, but improving the data quality remains a challenge.	Whilst the BSL is working closely with SSL, NRA, and MoFED to improve BoP data more work should continue to improve real, fiscal and financial sector data.

Appendix I. Letter of Intent

June 16, 2016

Madame Christine Lagarde

Managing Director

International Monetary Fund

Washington, D.C. 20431

USA

Dear Madame Lagarde:

1. In 2014–2015, the Sierra Leone economy was hit by two severe shocks: the Ebola epidemic and the sharp drop in iron ore prices. At the height of the epidemic, many lost their sources of income, as business and farm activities were disrupted. The economic impact was compounded by the shutting down of two iron ore mining companies in 2015, which together accounted for more than a fifth of national income and two-thirds of exports. It appears these twin challenges are now largely behind us as Sierra Leone has been declared Ebola-free since November 2015, and iron ore production has resumed. Nonetheless, the problems are not over: post-Ebola challenges remain prevalent in health and human development and iron mining remains on a small scale.

2. The implementation of the Post-Ebola Recovery Strategy has gained momentum since the beginning of 2016. The strategy builds on our poverty reduction strategy (*Agenda for Prosperity*), with a special focus on the following areas for quick-wins: health, education, water and sanitation; social protection; agriculture; and private sector development. We are hopeful that continued financial support from Sierra Leone's development partners would enable us to achieve our strategic vision.

3. Notwithstanding the immediate post-Ebola challenges we faced, the implementation of policies and reforms under the ECF-supported program continued. At end-December 2015, all quantitative performance criteria (PC) on net domestic bank credit to government, net domestic assets of the central bank, and gross foreign reserves of the central bank were met. We also observed the continuous ceilings on the PV of external debt, on short-term external debt owed or guaranteed by the public sector, and on external payment arrears of the public sector. Targets on

poverty-related spending, domestic government revenue and on the domestic primary balance were also met.

4. Despite this relatively strong performance on the quantitative criteria, the structural reform agenda stalled due to delays in implementing agreed measures. The Public Finance Management Bill, submitted to Parliament in August 2015, was tied up in the legislative process for most of the last quarter of 2015 and first quarter of 2016. As a result, the establishment of the Treasury Single Account and the Natural Resource Fund were delayed. The contentious issues in the Bill have been addressed, with technical assistance from the IMF Fiscal Affairs Department, and passage into law occurred only at end-May. The provision on removal of fuel subsidies contained in the 2016 Finance Bill was expunged by Parliament, and in deference to political sensitivities, government has decided to shelve the implementation for the time being. Implementation of other structural measures is progressing.

5. We recognize the risks to the financing of our 2016 program following some expenditure overruns in the first quarter of the year. Therefore, a comprehensive program of revenue enhancement and expenditure rationalization was adopted by Cabinet in early March 2016. These measures are expected to bring in additional revenue, while curtailing expenditures across the board in the first half of the year. In addition to these temporary measures, permanent measures will provide sustainable improvement to our public finances in the long run. These include liberalization of the telecommunications gateway, which allow us to capture as revenue those funds which had previously gone to the monopoly controller of the gateway; imposing Goods and Service Tax on all electricity bills, and significant reduction in tax exemptions and duty waivers.

6. The Government believes the policies and reforms presented in the attached MEFP are adequate to achieve the program's objectives. However, it stands ready to take any additional measures that may become necessary for this purpose. We will consult with the IMF on the adoption of any additional measures and in advance of revisions to policies contained in the attached MEFP, in accordance with IMF policies on such matters.

7. The Government requests the completion of the fifth review of Sierra Leone's program supported by the IMF under the ECF arrangement, and the disbursement of the respective tranche in the amount of SDR 24.44 million, upon the completion of the review by the IMF Executive Board, SDR 15.56 million of which will be lent to the budget. Finally, in order to allow adequate time for the completion of the final review under this arrangement, we request a two-month extension of our ECF arrangement until December 21, 2016.

8. In line with our commitments to transparency in government operations, we authorize publication of this letter, the Memorandum of Economic and Financial Policies, as well as the Technical Memorandum of Understanding attached to it; and the staff report, including placement of these documents on the IMF website, in accordance with IMF procedures.

Very truly yours,

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

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

Attachment I. Memorandum of Economic and Financial Policies

Freetown, June 16, 2016

INTRODUCTION

1. This Memorandum of Economic and Financial Policies (MEFP) supplements the one dated October 30, 2015. It reports on performance under Sierra Leone's economic and financial program supported by the International Monetary Fund (IMF) through the Extended Credit Facility (ECF), and outlines key policies and reform measures for the remainder of 2016. These policies aim to rebuild the economy, support macroeconomic stability, and generate sustainable growth.

2. In 2014, the Sierra Leone economy was hit by two severe shocks: the Ebola epidemic and the sharp drop in iron ore prices. At the height of the epidemic, many lost their sources of income, as business and farm activities were disrupted. The economic impact was compounded by the shutting down of two iron ore mining companies in 2015, which together accounted for more than a fifth of national income and two-thirds of exports. It appears these twin challenges are now ebbing, as Sierra Leone has been declared Ebola-free and iron ore production has resumed. Nonetheless, the problems are not over: post-Ebola challenges remain prevalent in health and human development and iron mining remains on a small scale.

3. The implementation of the Post-Ebola Recovery Strategy has gained momentum since the beginning of 2016. The strategy builds on the Government's poverty reduction strategy (Agenda for Prosperity), with a special focus on the following areas for quick-wins: health, education, water and sanitation; social protection; agriculture; and private sector development. We are hopeful that continued financial support from Sierra Leone's development partners will allow for the achievement of our strategic vision.

RECENT ECONOMIC DEVELOPMENTS

4. Real GDP declined significantly in 2015, by more than 21 percent. Many sectors were adversely affected by the Ebola outbreak in the first half of the year, including construction, trade and tourism, transport, and manufacturing. The impact of Ebola on these sectors was exacerbated by the closing of borders with neighboring countries to contain the spread of the disease, and a reduction in investment-related spending as a number of foreign-financed investment projects were halted or scaled-down. As a result, growth in the non-iron ore economy was limited to 1.4 percent, compared with a 5.5 percent in 2013. IMF staff analysis indicates that this decline is almost entirely due to the longer than anticipated duration of the Ebola Virus Disease (EVD).

However, as EVD receded in the second half of 2015, a gradual recovery began in the non-iron ore economy, mainly contributed by the rebound in agriculture sector.

5. Growth prospects for 2016 and the medium term are better than assumed at the time of the last program review. The agriculture sector is projected to grow by 4 percent in 2016, and by 3.5 percent in 2017 and 2018. Growth in this sector is driven by more than US$500 million in investments in commercial and industrial agriculture businesses, most of which will commence production between 2016 and 2018. These include investments in ethanol, palm oil, tobacco, and rice. In addition, various ongoing interventions in subsistence agriculture are expected to increase crop yield. Growth in the mining and quarrying sector will be driven by the resumption of iron ore mining by Shandong Iron and Steel Company (SISC) in early 2016. Other minerals such as bauxite, diamond, and gold are projected to record roughly unchanged production, given global price dynamics. The manufacturing and services sectors are expected to benefit significantly from ongoing energy reforms. As a result of these, overall GDP growth is projected at 4.3 percent in 2016 and 5 percent in 2017.

6. Consumer price inflation averaged 9 percent in 2015, compared with 8.3 percent in 2014, reflecting exchange rate depreciation, reduced food supply due to lower agriculture production, and disruptions in cross border trade with Liberia and Guinea. In 2016, inflation is projected to average 9.5 percent as international and domestic oil prices are expected to remain low, and domestic food production improves supplemented by supplies from World Food Program interventions. There is however, a possibility that exchange rate depreciation pressures could threaten price stability.

7. The fiscal position improved in 2015. Revenue performance was strong across the board. Domestic revenue was nearly 7 percent higher than budgeted, with all broad categories of revenue, except Road User Charges, being higher than projected. Corporate and personal income tax benefited from the resumption of economic activities (as well as one-off payments from Africa Minerals Limited), and the National Revenue Administration (NRA) ramped up enforcement actions, with several defaulting businesses sealed off. Revenue from customs exceeded the target by 6 percent, reflecting increased oversight of operations and enforcement of collections from outstanding obligations. Additional gains were recorded in petroleum excise duties as oil prices declined, reducing the implicit subsidy. The mining sector exceeded the revenue target by 10 percent, notwithstanding challenges in bauxite and diamond mining, as some overdue obligations were paid in the latter part of the year.

8. Total expenditures exceeded the program by 1 percent. Wages and salaries were lower than programmed due to a freeze in recruitment of personnel in the public service, which came into effect in mid-2015. Interest payments also declined by 8 percent, benefiting from lower yields on government securities, as well as debt relief from the IMF Catastrophe Containment and Relief Trust Fund. However, goods and services exceeded the programmed level by 1 percent, while development expenditure recorded an overrun of 4 percent. Most of the overrun in capital expenditure is attributable to expenditure on projects related to road construction, energy and water supply that were affected by exchange rate depreciation. The overall deficit is estimated at 4.4 percent of non-iron ore GDP, compared to a program target of 4.8 percent. External budget support totaled Le 645 billion, a significant decline from 2014, reflecting the winding down of Ebola-related support from development partners. Government borrowing from the securities market was 0.2 percent of non-iron ore GDP lower than expected in the last quarter of the year due to strong revenue performance in the latter part of the year.

9. Notwithstanding a slow start in 2015, by end year, remarkable progress was made in poverty-related spending. Most of the key sectors that account for the bulk of our pro-poor expenditure were able to deliver services as expected. Schools reopened in early April; most hospitals were operating at capacity; agricultural activities increased as a result of interventions; and most of the infrastructure projects in roads, water supply and energy resumed by the second quarter of the year.

10. Monetary sector developments in 2015 were heavily influenced by the post-Ebola recovery and the winding down of related transfers. Broad money (M3) grew by 11.3 percent in 2015, largely reflecting strong growth in net domestic assets of the banking system as government borrowing increased. During the same period, net foreign assets of the banking system expanded as banks both held more foreign currency and placed more foreign currency deposits with overseas banks (mainly their parent banks). Meanwhile, credit to the private sector rose by 3.2 percent, an improvement over the contraction recorded in first half of the year. While credit growth is consistent with the gradual resumption of economic activities, it is still low, reflecting challenges in the banking system, such as credit risk and high nonperforming loans. On the liabilities side, currency in circulation and transferable deposits recorded significant growth reflecting increased demand as the economy began to recover, especially in the second half. Reserve money grew by 10.4 percent in 2015, well above the targeted rate of 7.1 percent. There was a marginal decline in the interest rates of commercial banks and the Monetary Policy Rate has remained at 9.5 percent since March 2015.

11. Pressures on the Leone continued in 2015. The average exchange rate to the US dollar depreciated by [12] percent, compared to a depreciation of 4.4 percent in 2014. The depreciation reflected pressures in the foreign exchange market due to the winding down of Ebola related inflows, as well as declining inflows from mining. Total sales during auctions by the BSL in 2015 amounted to US$112 million, more than the US$83 million sold in 2014. Pressures on the exchange rate continued in the first quarter of 2016, with the Leone depreciating by 5 percent in the quarter. To further cope with reserves pressures, the BSL first reduced weekly sales to $1–$2 million, and later withdrew from the market for three successive auctions in order to preserve reserves.

12. At end-2015, there were significant problems with respect to prudential norms. All banks, but one, met the minimum paid-up capital of Le 30 billion at end December 2015. Pretax profit increased by 35 percent, while liquidity stood at 17.24 percent. However, compared with 2014, the number of banks that were non-compliant with the minimum liquidity, capital adequacy, and non-performing loan (NPL) ratios increased. Partly caused by the twin shocks, the NPL ratio jumped from 22 percent at end 2013 to 38 percent in mid-2015. Though the NPL ratio declined sharply to around 32 percent at end 2015, the amounts of outstanding loans and provisions remain roughly unchanged. Poor loan quality reflects continuing fragility in the private sector, as well as governance and connected lending issues in the two majority state-owned banks. However, the on-going resolution process in the banks is addressing these problems. Loan concentration remains high with international trade, construction, and services accounting for about three quarters of total loans.

13. Total exports of goods collapsed by over 55 percent in 2015 due mostly to the cessation of iron ore production and the continued decline in international prices for Sierra Leone's key mineral products. With the resumption of iron ore production in early 2016, exports are projected to rise by 13.7 percent, to $662 million. Total imports also declined by about 20.6 percent in 2015, as Ebola-related goods and services imports decreased along with the imports of fuel products. As a result, the trade deficit increased from US$339 million in 2014 to US$724 million in 2015. For 2016, the trade deficit is projected to improve to US$670 million, helped by resumption of iron ore exports and declining oil price.

PROGRAM PERFORMANCE

14. The implementation of policies and reforms under the ECF-supported program continued in 2015 and through the first quarter of 2016. At end-December 2015, all performance criteria (PC)

were met. Net domestic bank credit at end December was Le 650.7 billion, lower than the adjusted target by Le 62.95 billion. Net domestic assets of the central bank was Le 431 billion; which is Le 49.81 billion less than the adjusted target. Gross foreign reserves of the central bank at December 2015 increased by US$49.6 million, exceeding the program floor by US$20.59 million. The continuous ceilings on new non-concessional external debt, on short-term external debt owed or guaranteed by the public sector, and on external payment arrears of the public sector were all observed. Spending on poverty-related expenditure reached Le 1,253 billion, exceeding the indicative target by Le 125 billion. Targets on domestic government revenue and on the domestic primary balance were also met by wide margins.

15. Some program benchmarks have not been satisfactorily completed, thereby stalling the structural reform agenda. A prior action for the third and fourth reviews that required three revenue measures to be included in the Finance Bill for 2016 was met, but the bill was only passed toward the end of the first quarter 2016, reducing the revenue impact of the measures. Furthermore, one of the provisions, on removal of fuel subsidy, was expunged by Parliament with the recommendation that it be implemented administratively. Another major setback for the reform agenda is the delayed enactment of the Public Finance Management Bill, originally submitted to Parliament in August 2015. As a result, the establishment of the Treasury Single Account and the Natural Resource Fund (Structural Benchmarks) has been delayed. The contentious issues in the Bill have been addressed, including through technical assistance from FAD, and passage occurred in early June.

16. The following structural benchmarks for end-March 2016 were also missed: adoption by cabinet of a revised medium-term wage, establishment of a primary dealer system, finalization of BSL's rule governing the inter-bank foreign exchange market, and completion of an independent diagnostic study for the two state-owned banks. However, progress was made in the implementation of all other 2016 structural benchmarks. A draft revised medium term wage and pay reform strategy has been prepared, and was submitted to Cabinet at end-May. The monthly rolling Treasury cash flow table consistent with the annual budget, the semi-annual report on the execution of the public investment program, the quarterly report on external debt commitments, agreements and disbursements were prepared; and a three-year Public Investment Program integrated with the budget process and the revised Medium-term Expenditure Framework for 2015–17 were also completed. BSL has finalized guidelines on a primary dealer system for the government securities market, but the agreement is not yet operational as stakeholders have yet to confirm their new roles and responsibilities. A liquidity forecasting framework has been established and the spreadsheet is being populated daily. A draft regulation governing the operations of the

interbank foreign exchange market has been completed, and discussions with banks are planned. Structural benchmarks on financial sector developments have reached advanced stages. The terms of reference for a diagnostic study of the two state-owned banks have been completed, and five companies have expressed interest in undertaking the study. A registry of movable collateral was established and BSL is awaiting specifications from IFC for procurement of the hardware.

ECONOMIC OUTLOOK AND POLICIES FOR THE REMAINDER OF 2016

Economic Outlook

17. The outlook in 2016 and beyond is challenging, despite the resumption of iron ore production. Real GDP growth is projected by 4.3 percent (revised from 0.1 in the last review) while the non-iron ore economy is forecast to grow by 3.3 percent in 2016. However, iron ore production may not be viable for long, as the company is producing at a loss. This uncertainty has implications for not only real growth, but also government revenue.

18. In the non-iron ore sectors, moderate recovery is expected in agriculture, while trade and construction are likely to maintain the recovery that was already underway in 2015 following the relaxation of Ebola-related restrictions. A small decline is projected for tourism related hotel receipts given the decline in Ebola related medical arrivals. Transport and other services would benefit from the resumption of iron ore mining. For 2017, agriculture, construction and trade are expected to be key sectors contributing to growth, as agriculture productivity starts improving and post-Ebola recovery interventions are ramped up. Inflation is projected to average 9.5 percent in 2016, and 9 percent in 2017. The trade balance is projected to improve in 2016, because of the resumption of iron ore mining. However, the current account deficit is projected to deteriorate from 15.5 percent in 2015 to 16.6 percent in 2016, due mainly to declining current transfers and higher iron-ore related imports of goods and services.

19. The implementation of the Government's post-Ebola Recovery Strategy (ERS) should boost growth in the non-iron ore sectors. The delivery team has made substantial progress in aligning donor commitments to planned programs and implementation. Development partners have initiated or contributed to projects in health services; enhancement of social services to the most vulnerable; improved water and sanitation services; and supporting private sector development including agriculture. In addition, an energy sector program to increase power supply to Freetown and the western region is now in the final stages of procurement.

Fiscal Policy

20. Though revenue has been roughly in line with the program thus far in 2016, the budget was nonetheless under pressure in the first quarter. These pressures came from several sources. First, there were some expenditure overruns, especially on wages and salaries, as discussed below. Second, programmed budget support disbursements for the first quarter, amounting to Le 60 billion (0.24 percent of GDP), were delayed. Third, some expenditure, such as rent allowances for parliamentarians, was front loaded and paid in January. Finally, the situation was compounded by tight liquidity in the banking sector, which has kept net domestic credit to the government below budgeted levels, despite a sharp increase in interest rates on Government securities.

21. This situation is made more complicated by the fact that we have not eliminated the subsidy on retail fuel, despite our commitment to do so in the context of our last MEFP. The delayed implementation of this measure is due to Government's commitment to maintaining peace and stability in the post Ebola period. Even with the subsidy in the current retail price, there is strong agitation from pressure groups including civil society who are calling for a reduction in pump prices. Therefore, in realization of the political cost of removing the subsidy at this time, government decided to postpone that action. Government is committed to implementing this measure in the context of a successor arrangement.

22. As an initial response to this precarious situation, a comprehensive program of revenue enhancement and expenditure rationalization was adopted by Cabinet in early March. Implementation of the measures is expected to bring additional revenue of about Le 100 billion to the budget with respect to program.

- Increase in the withholding tax rate (for foreign company consultant/management fees) from 10 to 15 percent;
- 0 .5 percent health care tax on all new government contracts;
- Collection of about Le 16.7 billion owed by Sierra Rutile from 2015 PAYE taxes, and Le 20.7 billion in iron ore royalties;
- Closer scrutiny in the approval of duty exemptions, as a result of which, an additional Le 10 billion will be saved;
- Transfer of 60 percent of existing resources, including projected revenues of all financial autonomous agencies into the Consolidated Revenue Fund;

- All business outfits to pay outstanding arrears of taxes within 30 days—failure would lead to punitive measures. NRA estimates about Le 33 billion as arrears from GST and other taxes;
- All commercial banks to transfer monies in transit accounts within 24 hours—strict penalties would apply in event of failure to comply.

23. The expenditure measures are aimed at curtailing expenditures across the board in the first half of the year. However, all pro-poor expenditures in education, health, agriculture, social welfare etc. will be fully protected. The main measures include the following:

- Halt on all new domestically financed capital projects and supplier contracts, and focus on completing existing projects;
- 50 percent of all payments to suppliers/contractors that have a foreign component to be switched to domestic currency;
- Elimination of payment for overtime;
- Elimination of double payment of pensions and salaries across the board.

In addition to these, there are several identified reductions in various categories of goods and services.

24. Despite these efforts at fiscal restraint, we recognize that fiscal challenges will remain for the rest of the year, and that the measures taken to date will not be sufficient. Thus, in April we adopted three significant revenue-enhancing measures. First, from April 1 we have liberalized the telecommunications gateway, in part based on advice from the World Bank. In addition to increasing the competitiveness of the sector, this measure will allow us to capture as revenue, funds which had previously gone to the monopoly controller of the gateway. Based on 2015 billings, we expect to receive additional revenue in 2016 from this measure totaling Le 64 billion. Second, from July 1 all electricity bills will be subject to GST; this should yield Le 30 billion annually, or Le 15 billion for the remainder of 2016. Third, we have taken several steps to significantly reduce tax exemptions: henceforth, all NGOs will have the burden of proof to demonstrate that the items they are importing relate strictly to their operations; hotels will be granted exemptions only during the construction stage; and no domestically-financed government contracts will include a tax exemption. Combined, we expect these measures to reduce tax exemptions by 20 billion leones in 2016, and 25 billion leones annually. Finally, to aid our ongoing efforts to strengthen tax administration, we have requested a Tax Administration Diagnostic Assessment Tool (TADAT)

mission from the IMF's Fiscal Affairs Department, in addition to NRA's participation in the IMF's Revenue Administration Fiscal Tool (RA-FIT).

25. On the expenditure front, our new measures are aimed at containing a wage bill that we acknowledge is growing too rapidly. We have thus taken the following measures to reduce and contain the wage bill:

- Strengthen efforts to improve the integrity of the payroll, including payment of salaries to teachers in urban area schools into their personal bank accounts;
- Identified and removed from the payroll 2,966 workers who had passed the mandatory retirement age but were nonetheless still on the payroll;
- Of the above staff, government has been paying pensions contributions for 2,744 of them despite the fact that they had exceeded the age at which such contributions should cease. This has been remedied, and we have requested a refund from the pension fund;
- Frozen the payrolls of all subvented agencies at the July 2015 level.

26. Along with other measures, we expect the wage bill going forward to be reduced by 42 billion leones. Nonetheless, contrary to the original wage bill projection of Le 1,651 billion, wages will now reach Le 1,795 billion by the end of 2016, an increase of about Le 144 billion. We recognize that at 65 percent of domestic revenue, our wage bill is not sustainable. Therefore, we are committed to cap the wage bill at 6.0 percent of GDP over the medium term and keep its claim on domestic revenue under 50 percent per annum. One key step to achieve this will be to contain the rapid increase in wages of subvented agencies. We have presented to Cabinet, for its approval, a medium term wage policy consistent with those limits. The World Bank supported Pay and Performance Program, the European Commission Civil Service Reform program; and the African Development Bank biometric verification of teachers exercise are important steps in the reforms.

27. While domestic borrowing in 2016 is expected to be less than programmed, the cost of financing has significantly increased across all tenors. The interest rate on 364 day bills, which account for about 90 percent of total securities, increased from around 9 percent in December 2015 to 24 percent by end April 2016. As a result, the interest burden is projected to double from around Le 250 billion in 2016 to Le 520 billion in 2017. This poses a serious challenge to budget implementation in 2017 and beyond. We are requesting the IMF for technical assistance to address the issue of domestic debt management.

28. Government recognizes that the there is a large financing gap in fiscal year 2017. This is partly due to declining trend in external budget support, including the non-availability of IMF budget support and higher interest obligations. We are optimistic that the current rising trend in iron ore prices will facilitate the reopening of the second mine, and hence increased production and higher related revenues than envisaged in the program. In addition, we will continue to rein in wage bill increases, and introduce additional tax measures. Together with our commitment to remove the fuel subsidy in 2017, these, coupled with improved revenue collection and expenditure controls and management, particularly on the wage bill, are expected to close the financing gap in 2017.

Monetary and Exchange Rate Policies

29. Monetary policy will continue to be geared toward price stability. In 2016, inflationary pressures are projected to be driven by ongoing depreciation. While we cannot prevent shocks to domestic prices, BSL will remain attentive to potential risks from second round price pressures, and will tighten monetary policy if necessary to achieve our inflation target.

30. BSL will continue to enhance the effectiveness of monetary policy operations, as well as liquidity management, through more active participation in the secondary market and the use of money market operations, via lending and standing deposit facilities. Together, these would allow banks to better manage their liquidity. BSL will also strengthen its own capacity to forecast liquidity on a daily basis, with close cooperation from the Treasury. To support these efforts the Accountant General Department of MoFED will produce a daily cash flow table. In addition, BSL will implement the recommendations of the recently concluded MCM technical assistance missions on monetary policy framework and operations.

31. BSL will consider the following reforms to enhance its monetary policy operations. First, BSL will seek to provide sufficient liquidity to the banking system, including by undertaking the previously planned level of secondary market transactions for 2016. In this context, it will be important to continue efforts to strengthen liquidity management, including by improving liquidity forecasting. Second, the BSL will also consider introducing reserve requirements on foreign currency deposits, in part to eliminate the bias in favor of foreign currency deposits. Third, the BSL will gradually migrate from weekly sales of foreign exchange, reserving their interventions to efforts to offset excessive volatility in the exchange rate. Overall, monetary policy should be geared to keeping inflation broadly unchanged at around 9.5 percent.

32. Vulnerabilities in our banking system have increased, in part due to the pressures created by Ebola and the iron ore crisis. Since January 2015, we have taken steps to address the problems in

two large banks, Rokel Commercial Bank (RCB) and Sierra Leone Commercial Bank (SLCB). These banks also have high NPL ratios (75 and 48 percent, respectively at end 2015), due to problems in credit review, connected and concentrated lending, and some delays in government payments to contractors, which resulted in these contractors being late in payments on loans. As part of the resolution, in December 2015, advertisements were placed for a diagnostic study of the two institutions. Expressions of interests were received from five vendors, and the proposals are under review. Our plan is to award the contract by end-June, with the aim of completing the studies by end-September.

33. To address the more general NPL problem in the banking system, BSL has taken several remedial regulatory and supervisory actions. First, a Loan Write-Off Policy Directive has been issued to banks, which would allow them to clean their balance sheets. The directive took effect in December 2015. In addition, the introduction of the Borrowers and Lenders Act 2014 and the planned Collateral Registry and Credit Administration Bills should improve the standards of credits. Some supervisory actions have also been taken, such as putting a cap on lending or a temporary moratorium on lending for some banks, and ensuring adequate provisions on non-performing facilities. To further strengthen our supervisory abilities, we have requested that the IMF's MCM department provide us with a long-term resident expert in banking supervision.

Borrowing Policies and Financing of the Poverty Reduction Strategy

34. Debt Sustainability Analysis (DSA) indicates that the risk of debt distress remains moderate. Compared to the last program review, vulnerabilities have now reduced helped by the resumption of iron ore exports and ambitious fiscal revenue measures. However, given the uncertain outlook, particularly in the iron ore sector, the government is committed to maintaining prudent borrowing policies, and will give priority to grants and concessional borrowing to finance investment projects. Moreover, the level of public debt and the associated debt service payments are crowding out key priority expenditures necessary for supporting the post Ebola socio-economic recovery. In this regard, Government will work with World Bank to seek additional debt relief from commercial creditors. Finally, only the most critical projects, for which grants and concessional financing are not available, will be undertaken with non-concessional financing, and then only after ensuring that the resultant debt will not harm the country's debt sustainability. We will ensure that the net present value of proposed external borrowing is within the program limits and consult the IMF staff before proceeding with any proposed external borrowing.

35. Borrowing from the Government securities market will be guided by the medium-term debt management strategy. The government will continue to signal its borrowing needs through the publication of a quarterly borrowing calendar. Actual borrowing will not deviate from the calendar by more than 10 percent plus or minus.

STRUCTURAL REFORMS

36. Considering emerging fiscal pressures, the immediate focus of the structural reform agenda is to implement new revenue and expenditure measures that would immediately moderate the risks to the 2016 fiscal program. For the remainder of the ECF program, we will take advantage of the resumption of TA support following the end of Ebola to accelerate the implementation of measures originally programmed for 2014 and 2015. These are on public finance management; monetary and financial sector policies; strengthening economic data collection and reporting; and improving the business environment. In addition, attention will be placed on supporting economic diversification through private sector development.

37. During the rest of the program, we will continue the implementation of previously agreed reforms aimed at reducing discretionary waivers and broadening of the tax base. Key measures are as follows: (i) preparing a quarterly report on duty waivers granted with a view to enhancing the scrutiny of duty waiver requests; and continue our policy of requiring parliamentary approval of any new waivers; and (ii) review, by end-June 2016, the consolidated tax and non-tax obligations for mining companies, and prepare a list of all expired mining agreements **(structural benchmark)**. Following resolution of the contentious issues in the PFM Bill and its passage, we will (iii) establish the Treasury Single Account, by end-June 2016 **(structural benchmark**); (iv) establish the Natural Resource Fund, by end-June 2016 (**structural benchmark**); and (v) submit a new Tax Administration Bill to parliament, by end-June 2016 **(structural benchmark**). The Act would improve compliance with tax obligations by harmonizing administrative provisions and updating them to reflect current approaches in tax administration.

38. The late passage of the Finance Act 2016 meant that some of the measures could not be implemented in the first quarter of 2016. Following Presidential ascent to the bill, NRA will commence the implementation of key provisions contained therein. These include: i) elimination of exemptions and waivers that have not been approved by Parliament, including for MDAs;
ii) increase in PAYE rate for top earners (of Le 2.0 million per month) from 30 percent to 35 percent;
iv) increase in withholding tax on management and technical fees from 10 percent to 15 percent;

and v) introduction of a national health insurance levy of 0.5 percent on the value of all government contracts in support of the proposed National Health Insurance Scheme.

39. In the second half of 2015, NRA implemented the Short Term Revenue Improvement Project (STRIP) which improved GST compliance. In addition, procedures and processes at the Customs Service Department were continuously monitored to reduce revenue leakages and correct inefficiencies. Going forward, implementation of phase II of STRIP measures will focus on GST compliance, compliance of large and medium taxpayers, reorganization of rental income tax administration, special and provincial audits, and target top contractors. In particular, attention will focus on:

- Curbing fraud and tax evasion by building capacity for specialized revenue audits, especially in the mining, financial and telecommunication sectors;
- Implementing the Small Tax Payer Preparer Scheme to add flexibility in compliance management of the hard–to-tax sector;
- Developing and implementing a revenue accounting and reconciliation system for effective reconciliation of transit accounts in the commercial banks and the Central Bank;
- Improving the regulation and capacity of Clearing and Forwarding Agents;
- Expanding on the existing automation drive to include online submission of domestic tax returns and automate non-tax revenue payments especially for mining revenues;
- Rolling out the enhanced DTIS software to transit banks to capture tax payments and issue receipts on time; and enhance the ASYCUDA++ by implementing its remaining modules;
- Improving GST compliance through the application of a penalty of Le 5.0 million on each unauthorized receipt issued by a GST registered business other than that provided or certified by the National Revenue Authority.

40. Furthermore, the NRA will continue to strengthen implementation of administrative measures during 2016–18. It will implement a new Revenue Administration Act with consistent and simplified administrative provisions and rewrite the parent Acts to reflect consequential amendments. Key initiatives planned include:

- Use of electronic cash registers for GST registered vendors which will interface with the Online Tax System and allow real time capture of transactions to enhance GST compliance as well as reduce under-declarations;
- Expand on current automation drive of tax administration, including the introduction of an integrated tax administration system; migration from ASYCUDA++ to advanced ASYCUDA World; (Structural Benchmark);
- Improve cargo clearance through construction of cargo inspection facility at the sea port;
- Improve customs valuation by collaborating with the cargo tracking company through access to their cargo update and pricing database;
- Use mobile scanners for non-intrusive methods of import examination;
- Improve tax collection through modern technology, including further digitization; and
- Tackle transfer pricing advances through increased collaboration with international bodies and partner with MOFED to develop a transfer pricing policy.

41. Our expenditure reforms will focus on speedy response to the management of expenditure overruns and containing risks to the 2016 budget, as enunciated in paragraph 24. The wage bill remains a key risk, and the revised medium-term wage and pay reform strategy paper has already been submitted to Cabinet. Given our inability to meet the end-March deadline for its adoption, Cabinet will adopt the recommendations, by June 2016 **(structural benchmark**). We remain committed to preparing the rolling Treasury Cash Flow Table consistent with the budget and the semi-annual report on PIP execution on a continuous basis, and will now change the frequency from monthly to bi-weekly, so as to improve traction **(structural benchmark)**.

42. Implementation of measures aimed at containing the risks in the financial sector will be accelerated in 2016. Given the delay in finalizing guidelines with Discount Houses, the primary dealer system for the government securities market will now be operational by end-June 2016 **(structural benchmark**). To improve the overall effectiveness of monetary operations, BSL has commenced the operation of a daily liquidity forecasting framework which is linked to daily monetary operations actions **(structural benchmark**). BSL has also completely moved to the wholesale foreign exchange auction system since March 2015. BSL will finalize operational rules for the interbank foreign exchange market **(structural benchmark)**.

43. In the area of banking supervision, reform measures will focus on addressing the challenges in the State-owned banks. Even though the process for conducting the diagnostic audit of Sierra Leone Commercial Bank and Rokel Commercial Bank was initiated, the study could not be completed by end-March due to delays in securing World Bank approval of the Terms of reference. As this issue has now been addressed, we are committed to contracting out the study by end-June 2016 **(structural benchmark)**, with the aim of completing the study by end-September. In addition, financial sector reform will focus on priority areas defined in the road map for the implementation of risk-based supervision completed in June 2014. They include the preparation of an internal contingent manual to guide identification and step-by-step supervisory actions in the event of specific or systemic banking sector distress, by end-June 2016 (**structural benchmark**).

44. The structural reforms aimed at supporting private sector development were implemented as planned. The setting up of registry of moveable collateral was completed in the first quarter of 2016, though the registry did not take off because of delay in procurement of hardware. The business process reengineering for customs single clearance window was completed by end-December 2015, marking an important step towards the introduction of a one-stop window that will contribute to improving the business environment.

45. Following problems discovered in our balance of payments (BOP) data during the joint 3rd and 4th review mission, we have received technical assistance and we await the report so as to implement the recommendations. We have also benefited from technical assistance to strengthen our consumer price index. We will continue to welcome Fund's assistance in significantly strengthening our BOP and other economic and financial sector data.

PROGRAM MONITORING

46. The program is monitored on a semi-annual basis, through quantitative targets (Tables 1, 2 and 3) and structural benchmarks (Tables 3 and 4). Quantitative targets for end-June 2016 are performance criteria. Though the Sixth and final review under the ECF program was initially set to be completed on or after September 10, 2016, the change in scheduled reviews as a result of Ebola outbreak has made it difficult to keep to the time line. Therefore, we will request for a two-month extension, to December 21, 2016, to give sufficient time to complete the review and the sixth review is expected to be completed by this date.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2015

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

	Dec. 2014 Est. Stock	2015 Mar. 1/ Prog.	Adj. Prog.	Prel.	Status	Jun. 2/ Prog.	Adj. Prog.	Prel.	Status	Sept. 1/ Prog.	Adj. Prog.	Prel.	Status
Performance criteria													
Net domestic bank credit to the central government (ceiling)	1939	249	281	143	Met	302	429	317	Met	447	580	661	Not Met
Unadjusted target (ceiling)			249				302				447		
Adjustment for the shortfall (excess) in external budget support			20				99				99		
Adjustment for the issuance of government securities to the nonbank private sector			12				28				34		
Net domestic assets of the central bank (ceiling) 6/	-383	220	239	-33	Met	186	285	219	Met	190	289	401	Not Met
Unadjusted target (ceiling)			220				186				190		
Adjustment for the shortfall (excess) in external budget support			20				99				99		
Gross foreign exchange reserves of the central bank, US$ millions (floor)	553.5	63	58	51	Not Met	63	29	33	Met	20	-14	-14	Met
Unadjusted target (floor)			63				63				20		
Adjustment for the shortfall (excess) in external budget support 3/			-4				-20				-20		
Adjustment for the shortfall in the US$ value of IMF disbursement			0				-13				-13		
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-1				-1				-2		
Ceiling on new nonconcessional external debt (in $ million) 3/	...	30		9	Met	30	...	9	Met	30		9	Met
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 3/	...	0		0	Met	0	...	0	Met	0		0	Met
External payment arrears of the public sector (ceiling) 3/	...	0		0	Met	0	...	0	Met	0		0	Met
Indicative target													
Total domestic government revenue (floor)	...	479		565	Met	1000		1175	Met	1556		1691	Met
Poverty-related expenditures (floor)	...	271		171	Not Met	570		398	Not Met	807		781	Not Met
Domestic primary balance (floor)		-506		-295	Met	-1119		-488	Met	-1420		-959	Met
Memorandum items:													
External budgetary assistance (US$ million) 4/	...	24.8		20.8		62.9		29.5		68.1		34.6	
Net credit to government by nonbank sector 5/	...	0.0		-12.3		10.0		-17.8		20.0		-13.7	
ECF disbursements (US$ millions, flow)		88.0		88.07		12.9		0.0		0.0		0.0	
Exchange rate (Leones/US$)	4953	4953		4953		4953		4953		4953		4953	

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

2/ End-June and end-December target are performance criteria.

3/ These apply on a continuous basis.

4/ Including grants and loans.

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

6/ End December 2014 NDA and gross foreign reserves reevaluated with the new program exchange rate Le 4953.34/US$.

Table 2. Sierra Leone: Prior Actions and Structural Benchmarks Under the ECF-Supported Program, 2015

Measures	Timing	Status
Prior Actions		
Submission to parliament of a 2016 budget that contains: elimination of implicit fuel subsidies consistent with the application of the commercial price formula to consumer fuel prices; increasing the PIT rate for the top income bracket from 30 percent to 35 percent; and elimination of all ongoing and future discretionary waivers and exemptions from custom duties and goods and services tax.	November 2015	Met.
Structural Benchmarks		
Revenue Mobilization		
• Prepare a report on duty waivers granted in 2013-14, by category and by sector, specifying the legal basis for the waiver.	End-September	Met.
• Establish a Natural Resource Revenue Fund with legal and procedural characteristics consistent with the new PFM Bill.	End- December	Not met.
• Establish a Treasury Single Account (TSA), and streamline NRA's transition accounts.	End-December	Not met.
• Introduce a new Tax Administration Act.	End-December	Not met.
Expenditure Management		
• Prepare a monthly rolling Treasury Cash Flow table consistent with the 2015 budget	Continuous	Met.
• Prepare a semi-annual report on PIP execution.	Continuous	Met.
• Submit to parliament the new PFM Bill that includes amendments and clarifications on supplementary budgets and contingency funds, as well as provisions for the establishment of a Natural Resource Revenue Fund.	End-September (Met in August)	Met.

Table 2. Sierra Leone: Prior Actions and Structural Benchmarks Under the ECF-Supported Program, 2015 (Concluded)		
Measures	**Timing**	**Status**
Financial Sector Development		
• Introduce a wholesale foreign exchange auction.	End-June	Met
• Issue a tender bid for a diagnostic study for Rokel Commercial Bank and Sierra Leone Commercial Bank	End-December	Met.
Business Environment		
• Finalize the business process reengineering for custom single clearance window.	End-December	Met.

Table 3. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2015–16

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

	Dec. 2015 Proj. Stock	2015 Dec. 1/ Prog.	2015 Dec. 1/ Adj. Prog.	2015 Dec. 1/ Prel.	Status	2016 Mar. 2/ Prog.	2016 Jun. 1/ Prog.
Performance criteria 1/ 2/							
Net domestic bank credit to the central government (ceiling)	2590	733	676	651	Met	316	556
Unadjusted target (ceiling)			733				
Adjustment for the shortfall (excess) in external budget support			-1.73				
Adjustment for the issuance of government securities to the nonbank private sector			-55				
Net domestic assets of the central bank (ceiling)	48	479	477	431	Met	119	275
Unadjusted target (ceiling)			479				
Adjustment for the shortfall (excess) in external budget support			-1.73				
Gross foreign exchange reserves of the central bank, US$ millions (floor)	603	30	29	50	Met	-15	-11
Unadjusted target (floor)			30				
Adjustment for the shortfall (excess) in external budget support 3/			0.35				
Adjustment for the shortfall in the US$ value of IMF disbursement			0.41				
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-1.75				
Present Value of New External Debt (ceiling) 4/ 7/	...	70		0	Met	70	70
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 3/	...	0		0	Met	0	0
External payment arrears of the public sector (ceiling) 3/	...	0		0	Met	0	0
Indicative target							
Total domestic government revenue (floor)	...	2181		2330	Met	619	1305
Poverty-related expenditures (floor)	...	1128		1253	Met	281	624
Domestic primary balance (floor)	...	-1224		-1143	Met	-305	-643
Memorandum items:							
External budgetary assistance (US$ million, cumulative flow from the start of the year) 5/	...	99.00		99.35		12.6	19.7
Net credit to government by nonbank sector 6/	...	-36.00		18.85		0.0	0.0
ECF disbursements (US$ millions, cumulative flow from the start of the year)	...	136.00		136.41		0.0	35.4
Exchange rate (Leones/US$) 8/	4953	4953				5639	5639

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

2/ End-March is an indicative target.

3/ These apply on a continuous basis.

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

5/ Including grants and loans.

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

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

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

Table 4. Sierra Leone: Structural Benchmarks Under the ECF-Supported Program, 2016		
Measures	**Timing**	**Status**
Expenditure and Debt Management		
• Adoption by Cabinet of a revised medium-term wage and pay reform strategy reflecting the revised economic projections and taking into account promotions and retirements in the civil service.	End-March	Not met. Rescheduled to end-June.
• Prepare a monthly rolling Treasury Cash Flow table consistent with the 2016 budget	Continuous	Met.
• Prepare a semi-annual report on PIP execution.	Continuous	Met.
Monetary Operation		
• Establish a primary dealer agreement system for government securities market.	End-March	Not met. Rescheduled to end-June.
• Introduce a daily liquidity forecasting framework	End-March	Met.
• Finalize draft of BSL's rules governing the operations of the interbank foreign exchange market.	End-June	Not Met.
Financial Sector Development		
• Complete the independent diagnostic study report for Rokel Commercial Bank and Sierra Leone Commercial Bank	End-March	Not met.
• Establish a registry of moveable collateral.	End-March	Met.
• Prepare an internal BSL contingent manual to guide identification and step-by-step supervisory actions in the event of specific or systemic banking distress.	End-June	In progress.
Business Environment		
• Begin the migration from ASYCUDA ++ to ASYCUDA World as the next step for introducing a one-stop window.	End-June	In progress.

Table 5. Sierra Leone: Prior Action for Completion of the Fifth Review and Proposed Structural Benchmarks Under the ECF-Supported Program, 2016		
Measures	**Timing**	**Rationale**
Prior Action		
• Passage by Parliament of the revised PFM Bill that includes amendments and clarifications on supplementary budgets and contingency funds, as well as provisions on the take-off of the Treasury Single Account and the establishment of a Natural Resource Fund	By May 31, 2016	Improve PFM practices and mitigate fiscal risks.
Structural Benchmarks		
Revenue Mobilization		
• Establish a Natural Resource Revenue Fund with legal and procedural characteristics consistent with the new PFM Bill.	End- June	
• Establish a Treasury Single Account (TSA), and streamline NRA's transition accounts.	End-June	
• Introduce a new Tax Administration Act.	End-June	
• Review the consolidated tax and non-tax obligations for mining companies, and prepare a list of all expired mining agreements.	End-June	
Monetary Operations		
Link the operation of the daily liquidity forecasting framework to monetary policy actions.	Continuous	Improve overall effectiveness of monetary policy.
Expenditure Management		
• Prepare a bi-weekly rolling Treasury Cash Flow table consistent with the 2016 budget.	Continuous	Changed from "monthly" to "biweekly" to improve traction.
Financial Sector Development		
• Complete the contracting process for an independent diagnostic study report for Rokel Commercial Bank and Sierra Leone Commercial Bank.	End-June	Changed from "complete diagnostic study" to "complete contracting process"

Attachment II. Technical Memorandum of Understanding
Freetown, June 16, 2016

INTRODUCTION

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

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

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

Currency	Sierra Leonean leones per currency unit	US dollars per currency unit
US dollar	5639.1	1
British pound sterling	8356.58	1.48
Japanese yen	46.84	0.008
Euro	6142.11	1.09
SDR	7814.27	1.39

Source: International Financial Statistics.

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

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

QUANTITATIVE PERFORMANCE CRITERIA

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

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

4. **Adjustment clauses**. The floor on the change in gross foreign exchange reserves will be adjusted (a) downward (upward) by U.S. dollars equivalent cumulative shortfall (excess) in programmed external budgetary assistance[3]; (b) downward (upward) for any cumulative shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the ECF arrangement; and (c) upward (downward) for any increase (decrease) in BSL short-term (one year or less in original maturity) foreign currency-denominated liabilities (to residents and nonresidents).

B. Net Domestic Assets of the BSL

5. **Definition**. Net domestic assets (NDA) of the BSL are defined as the end-period stock of the reserve money less the end-period stock of net foreign assets calculated at the program exchange rates. Reserve money includes currency issued (equal to currency outside banks plus cash in vaults), deposits of commercial banks with the BSL and the BSL liabilities to other private sector. Net foreign assets of the BSL are defined as gross foreign exchange reserves (defined above) minus foreign liabilities. Foreign liabilities are defined as foreign currency-denominated liabilities of the BSL to nonresidents (excluding a foreign liability to China of Le 35 billion relating to a legacy clearing account for a previous bilateral trading agreement) and the outstanding use of Fund credit. For program purposes, foreign liabilities exclude SDR allocation, and debt relief from the Catastrophe Containment and Relief (CCR) Trust granted in 2015.

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

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

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

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

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

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

8. **Adjustment clauses**. The ceiling on changes in NCG will be adjusted (a) upward by the leone value of the shortfall in external budgetary assistance—the upward adjustment will be capped at the equivalent of US$20 million; (b) downward (upward) by the excess (shortfall) in the leone value of net issues of government securities to the nonbank private sector vis-à-vis the program assumption (as specified in the memorandum items in Table 1 of the LOI).

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

10. **Definition of Central Government**. Central government is defined for the purposes of this memorandum to comprise the central government and those special accounts that are classified as central government in the BSL statement of accounts. The National Social Security and Insurance Trust and public enterprises are excluded from this definition of central government.

D. External Payment Arrears of the Public Sector

11. **Definition**. External payment arrears of the public sector are defined to include all debt-service obligations (interest and principal) arising from loans contracted or guaranteed by the public sector. For the purposes of this PC, the public sector comprises the central government, regional government, all public enterprises and the BSL. The non-accumulation of external arrears is a continuous performance criterion during the program period. For the purposes of this

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

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

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

13. New external debt is defined as all forms of new debt with original maturity of one year or more contracted or guaranteed by the public sector (see paragraph 11 for definition of public sector) based on the residency of the creditor. The external debt definition applies not only to debt as defined in the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274 (00/85), August 24, 2000, Point 8, as revised on August 31, 2009, (Decision No. 14416-(09/91)) but also to commitments contracted or guaranteed for which value has not been received. For the purposes of this PC, the "public sector" is defined as in paragraph 11 above.

14. For program purposes, the debt is deemed to have been contracted when it is signed by the government of Sierra Leone. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling. The government will report any planned external borrowing and its terms to Fund staff before external debt is contracted or guaranteed by the government. The government's current borrowing plan is attached in Table 1.

Table 1. Summary Table of Projected External Borrowing Program
(January 1, 2016 to June 30, 2016)

PPG external debt	Volume of new debt in the first half (H1) of 2016		PV of new debt H1 2016 (program purposes)		PV of new debt H1 2016 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	**93.0**	**100**	**58.5**	**100**	**59.8**	**100**
Concessional debt, of which	**52.0**	**56**	**23.0**	**39**	**23.0**	**38**
Multilateral debt	40.0	43	16.8	29	16.8	28
Bilateral debt	12.0	13	6.1	10	6.1	10
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**41.0**	**44**	**35.6**	**61**	**36.9**	**62**
Semi-concessional	20.0	22	14.6	25	14.6	24
Commercial terms	21.0	23	21.0	36	22.3	37
By Creditor Type	**93.0**	**100**	**58.5**	**100**	**59.8**	**100**
Multilateral	60.0	65	31.4	54	31.4	52
Bilateral - Paris Club	0.0	0	0.0	0	0.0	0
Bilateral - Non-Paris Club	12.0	13	6.1	10	6.1	10
Other	21.0	23	21.0	36	22.3	37
Uses of debt financing	**93.0**	**100**	**58.5**	**100**	**59.8**	**100**
Infrastructure	60.0	65	31.4	54	31.4	52
Social Spending	12.0	13	6.1	10	6.1	10
Budget Financing	20.0	22	20.0	34	21.8	36
Other	1.0	1.1	1.0	1.7	0.5	0.9
Memo Items						
Indicative projections						
Year 2	**0.0**		**0.0**		**0.0**	
Year 3	**0.0**		**0.0**		**0.0**	

Source: IMF staff estimate.

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

15. **Definition**. External short-term debt is defined as external debt stock with a maturity of less than one year contracted or guaranteed by the public sector (see paragraph 11 for definition of public sector). Debt is defined in Annex I of this TMU. For this purpose, short-term debt will exclude normal trade credit for imports. For the purposes of this PC, the public sector is as defined in paragraph 11 above. This PC will apply on a continuous basis.

QUANTITATIVE INDICATIVE TARGET

A. Domestic Primary Balance

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

B. Domestic Revenue of Central Government

17. **Definition**. The floor on total domestic central government revenue is defined as total central government revenue, as presented in the central government financial operations table, excluding external grants.

C. Poverty-Related Expenditures

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

PROGRAM MONITORING

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

Annex. Implementation of the Revised Guidelines on Performance Criteria with Respect to Foreign Debt

The term "debt" has the meaning set forth in point No. 8 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, which reads as follows: "(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt". (c) Excluded from this performance criterion are normal import-related credits, disbursements from the IMF, and those debts subject to rescheduling arrangements."

Sierra Leone: Summary of Data Reporting to IMF Staff			
Type of Data	**Tables**	**Frequency**	**Reporting Deadline**
Real sector	National accounts	Annual	End of year + 9 months
	Revisions of national accounts	Variable	End of revision + 2 months
	Disaggregated consumer price index	Monthly	End of month + 2 weeks
Public finance	Net government position and details of nonbank financing, including the stock of the float, treasury bills, and bonds, as well as privatization receipts	Monthly	End of month + 6 weeks
	Government flow-of-funds table (Government Financial Operations Table) with supporting documentation (final) and presented on commitment and cash bases	Monthly	End of month + 6 weeks
	Petroleum product prices and tax receipts by categories of petroleum products	Monthly	End of month + 6 weeks
	Stock of outstanding payment commitments with a breakdown between current and capital expenditures	Monthly	End of month + 6 weeks
	Import duty exemptions by end-users and tariff regimes and estimates of corresponding revenue losses	Quarterly	End of quarter + 6 weeks
Monetary and financial data	Monetary survey	Monthly	End of month + 6 weeks
	Balance sheet of the BSL	Monthly	End of month + 6 weeks
	Consolidated balance sheets of commercial banks	Monthly	End of month + 6 weeks
	BSL monitoring sheet of net financing of the financial sector to the government	Monthly	End of month + 6 weeks
	BSL monitoring sheet of treasury bills and bonds holdings	Monthly	End of month + 6 weeks
	Borrowing and lending interest rates	Monthly	End of month + 6 weeks
	Results of foreign exchange and Treasury Bills auctions	Weekly	End of week + 3 days
	Stocks of government securities	Monthly	End of month + 6 weeks
	Banking supervision ratios	Quarterly	End of quarter + 8 weeks

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

Appendix II. Sierra Leone Macro-Financial Pilot[1]

INTRODUCTION

1. **Sierra Leone's financial sector operates in a challenging macroeconomic environment**. After a dozen years of strong growth due to booming commodity prices and good polices, Sierra Leone was hit by two shocks since the second half of 2014: (i) the Ebola Virus Disease (EVD) epidemic and (ii) sharply declining iron ore prices. Though Sierra Leone has been declared Ebola-free, the country continues to face difficult economic challenges, as the decline in iron ore prices has led to a consequent collapse in GDP, exports, and fiscal revenues. Growth declined dramatically from 4.6 percent in 2014 to -21.1 percent in 2015. The fiscal deficit widened to 4.4 percent of GDP in 2015 from 4.1 percent in 2014. The Leone depreciated 12 percent against the US dollar over 2015. Banking sector vulnerabilities have also increased, in part caused by Ebola and the iron ore crisis.

2. **At the same time, weaknesses in the financial sector have become a major impediment to Sierra Leone's economic progress**. These weaknesses come in two forms: concerns about the financial soundness of the banking system and the exceedingly low levels of credit available. Seven out of thirteen banks suffer from non-performing loans (NPLs) beyond 10 percent, excessive exposure to large borrowers, and other challenges.

3. **Against this backdrop, the themes of this macro-financial analysis focus on strengthening financial stability and unlocking the potential macro-financial synergies**. Specifically, staff and the authorities agreed that the focus of the macro-financial pilot should be on the following areas: (i) Assessing and explaining the financial landscape and vulnerabilities in Sierra Leone; and (ii) spelling out the linkages between the various components of the story: fiscal dominance, fiscal arrears, NPLs, banking supervision, governance and management of state-owned banks, and the extremely low credit to GDP ratio.

FINANCIAL LANDSCAPE AND VULNERABILITIES

4. **The financial sector in Sierra Leone is dominated by banks, with two state-owned banks playing a significant role**. At end-2015, assets of the commercial banks represented around 20 percent of GDP. The two state-owned banks account for about one-third of total banking system assets, in a financial system dominated by 13 commercial banks. In addition to commercial banks, there are 17 community banks, 12 microfinance institutions,[2] two discount houses, one mortgage

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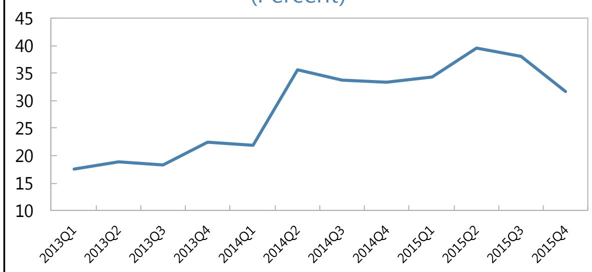
[1] Prepared by Mr. Yibin Mu.

[2] Only two microfinance companies are allowed to take deposits.

finance company, and one leasing company. The other nonbank financial institutions include insurance companies, security dealers, a stock exchange, 50 foreign exchange bureaus, and a pension fund.

5. **Banks' asset quality has deteriorated in recent years, partly reflecting the effects of the Ebola outbreak and crisis in the mining sector**. At end-2015, there were significant problems with respect to prudential norms. Compared to 2014, the number of banks that were non-compliant with the minimum liquidity, capital adequacy, and non-performing loan (NPL) ratios increased. Partly caused by the twin shocks, the NPL ratio jumped from 22 percent at end 2013 to 38 percent in mid-2015. Though the NPL ratio declined sharply to around 32 percent at end 2015, the amounts of outstanding loans and provisions have hardly changed (Figure 1 and Table 1). This may indicate that at least part of the decline in NPLs was achieved through issuance of new loans to pay off overdue loans. Poor loan quality reflects continuing fragility in the private sector, problems in banking supervision, as well as weak governance, poor management, and connected lending issues in the two majority state-owned banks. Loan concentration remains high, with international trade, construction, and services accounting for about three quarters of total loans (Figure 2).

Figure 1. NPL Ratio
(Percent)



Sources: Bank of Sierra Leone; and IMF staff estimate.

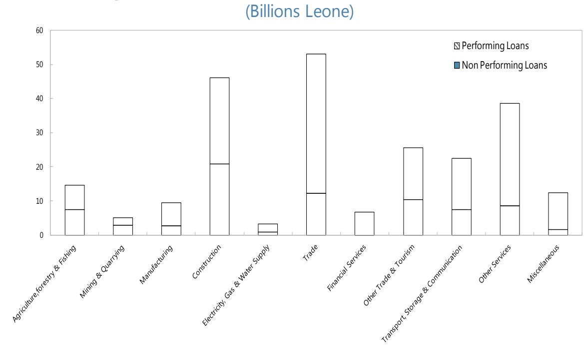
Table 1. Development of Asset Quality

	2015M9	2015M12
NPL ratio	38.1%	31.7%
Non -Performing Loans	520	426
Gross Loan and Advances	1,365	1,342
Provision for NPL	263	244
Retained profit	89	111
Net Capital(capital Base)	567	569

Unit: Le in billion

Sources: Bank of Sierra Leone; and IMF staff compilation.

Figure 2. Sectoral Distribution of Loans and NPLs
(Billions Leone)



Sources: Bank of Sierra Leone; and IMF staff compilation.

6. **The asset quality of Sierra Leone's banking sector remains much poorer than benchmarks**. The NPL ratios of Sierra Leone's banks have been much higher than benchmarks[3] (Figure 3). The poor asset quality was mainly driven by the two state-owned banks. The NPL ratios of the two state banks stood at 74 and 48 percent, respectively, at end-2015.

[3] The peer countries include Liberia, Guinea, Togo, Benin, and Burkina Faso. The expected median is a statistical benchmark, based on the country's structural characteristics (Erik Feyen, Katie Kibuuka, and Diego Sourrouille (2015)).

7. There are other threats to the health of the banking system. One arises with excess exposure to large borrowers. The top five borrowers account for 35 percent of total gross loans (Figure 4). Deposits are also highly concentrated. The financial sector also faces problems in valuing and realizing collateral, as well as finding a market for distressed assets, such as hotels. On the economic front, fluctuating prices of raw materials, especially iron ore and diamonds, are compounded by a widening budget deficit and concerns about fiscal management. The country is seeking to diversity its economy by developing agriculture and fisheries. On the monetary side, there are concerns regarding the pressures on the foreign exchange rate, as well as liquidity management and monetary policy implementation, specifically the handling of inflationary pressures. Both in isolation and in totality, the risks emanating from each of these sectors warrant a solid financial stability monitoring framework.

Figure 3. Cross Country Comparison of NPLs

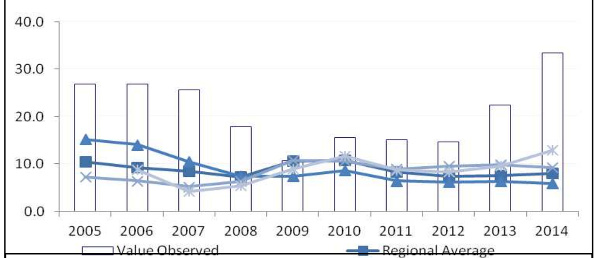
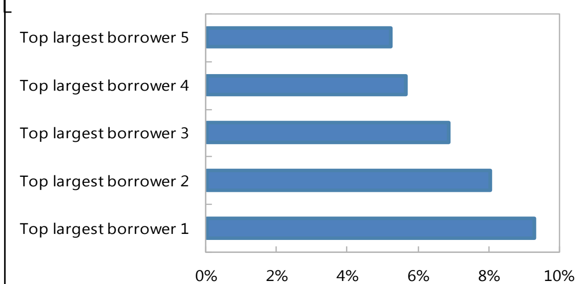


Figure 4. Private Credit to 5-Top Largest Exposures, 2015
(in percent of total gross private credit)

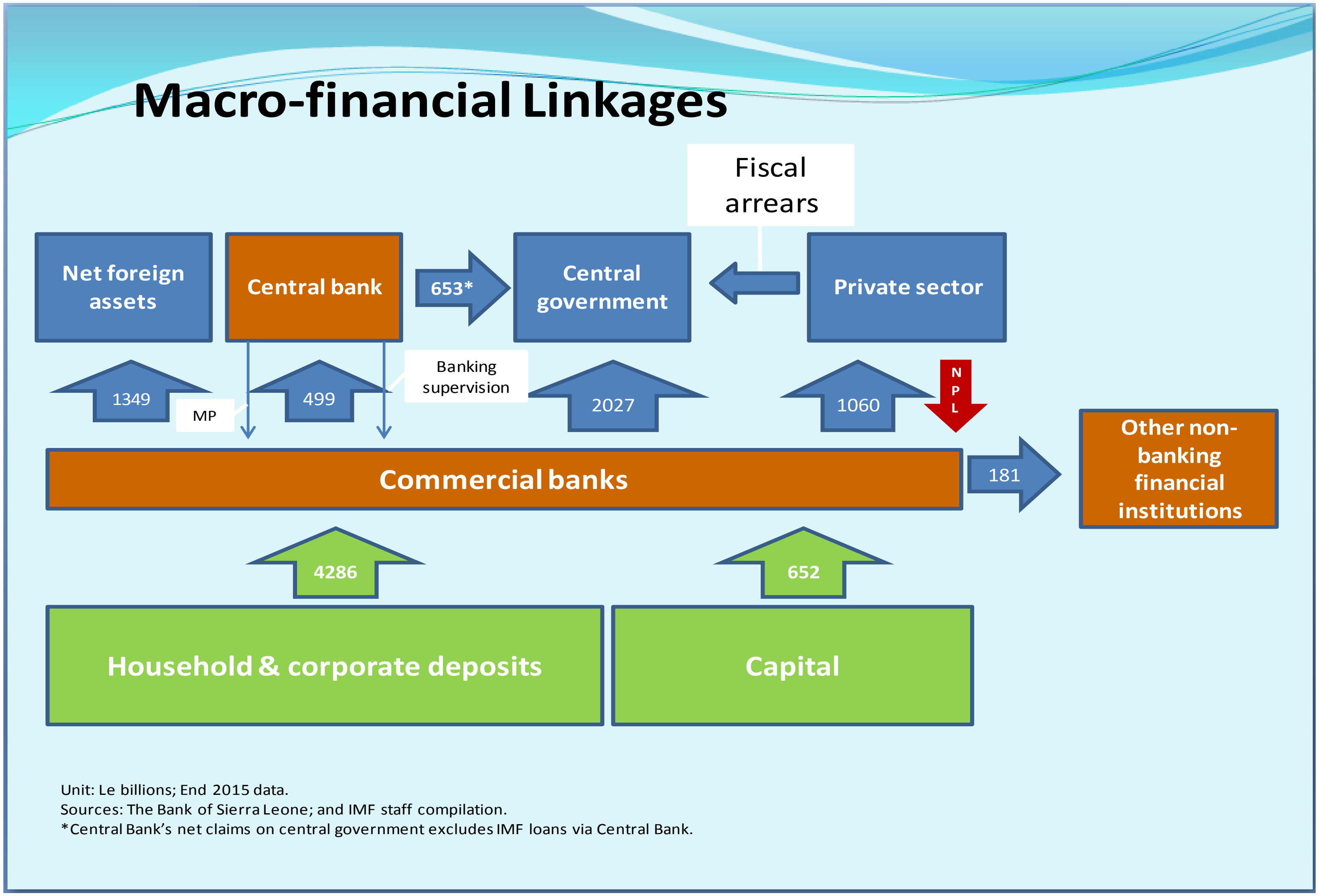


Sources: Sierra Leone authorities; and Fund staff estimates.

MACRO-FINANCIAL LINKAGES

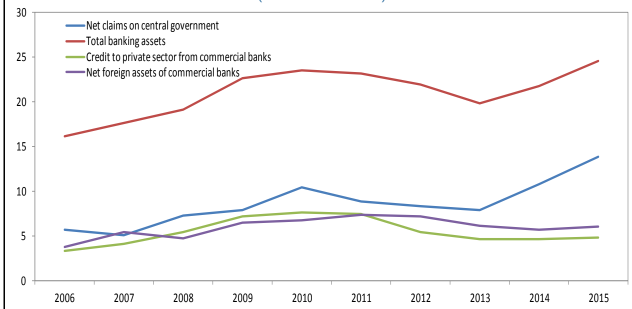
8. Figure 5 shows the overview of the linkages between the financial sector and other sectors. The financial sector includes the central bank, commercial banks, and non-bank financial institutions. The commercial banks take deposits from households and the corporate sector. The commercial banks lend to the central government almost twice as much as to the private sector. Commercial banks even place more money abroad (external sector) than they lend to the private sector. Commercial banks' net claims on the government, NFA, and credit to the private sector accounts for 38, 26, 20 percent of their assets, respectively.

Figure 5. Macro-Financial Linkages



9. **The system suffers from fiscal dominance** (Figure 6). Net claims on the central government from both commercial banks and the central bank account for 14 percent of GDP while credit to the private sector accounts for only about 5 percent of GDP. In addition, loans to construction companies working on government contracts account for the largest share among commercial banks' loan portfolios. Fiscal arrears to contractors are reported to be a major source of NPLs. The increasing shift to domestic financing at very high costs and increased fiscal dominance in the banking sector could produce a self-reinforcing vicious circle.

Figure 6. Structure of Banks' Main Assets
(Percent of GDP)

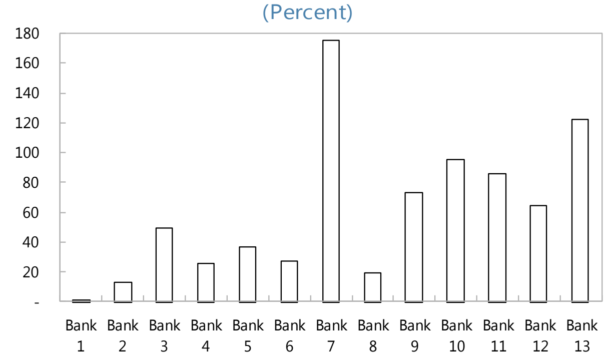


Sources: Bank of Sierra Leone; and IMF staff compilation.

10. **The system is significantly dollarized**. Net foreign assets of commercial banks are more than 25 percent larger than total credit to the private sector. Foreign currency deposits account for 32 percent of total deposits. Local currency deposits are subjected to a 12 percent reserve requirement, while foreign currency deposits are not subject to a reserve requirement. This contributes to a preference for holding foreign currency deposits.

11. **Banks are also failing to serve the key function of providing credit to the private sector**. As noted above, total banking system credit to the private sector stands below 5 percent of GDP. This means that, for most private sector businesses, credit is unlikely to be attainable. Risk-weighted capital adequacy ratios of some banks are even beyond 100 percent (Figure 7). Business development and expansion require access to credit on appropriate terms, it will be essential to address the factors that prevent the banking system from providing that credit.

Figure 7. Risk-weighted Capital Adequacy Ratios
(Percent)



Sources: Bank of Sierra Leone; and IMF staff compilation.

CONCLUSIONS

12. **A comprehensive and sequenced reform roadmap is warranted to address the financial sector vulnerabilities and unlock the macro-financial synergies in Sierra Leone**. Based on the urgency of the issues, the following sequence of reforms is advisable: The first priority is to

address the two problem banks. The second priority is to address the NPLs of other banks. The third priority is to create an enabling environment for banking sector development. This first priority should be carried out immediately, the second priority should be done in the short-term framework (within one year), and the third priority should be done in the medium term.

- Ensuring swift completion of the independent diagnostic studies of the two largest banks, and then aggressively addressing the findings of those studies, will be important to improving the health of the banking system.

- Intensifying efforts to strengthen banking supervision to increase the health of the banking system. For example, the BSL should review the situation of other banks with either high NPLs, or violations of prudential regulations, and ensure that those banks take necessary steps meet the prudential requirements.

- Adopting reforms to improve the enabling environment for financial sector development. In this regard, the introduction of a registry of movable collateral is welcome. The authorities are encouraged to accelerate efforts aimed at making this registry operational. It will also be important to introduce unique identification numbers, which are essential to enable the credit reference bureau to be effective. Furthermore, it is important to promote private sector development so that there will be more bankable projects. In addition, it is advisable to introduce a reserve requirement on foreign currency deposits, while lowering the reserve requirement on domestic currency deposits, so that the net impact is no change in required reserves. Finally, the authorities should minimize fiscal arrears to eliminate one source of NPLs of banks.

REFERENCE

Erik Feyen, Katie Kibuuka, and Diego Sourrouille (2015), FinStats 2015: A ready-to-use tool to benchmark financial sectors across countries and over time, User Guide and Benchmarking Methodology (Version 4.0).

INTERNATIONAL MONETARY FUND

SIERRA LEONE

June 16, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY AND FINANCING ASSURANCES REVIEW AND REQUEST FOR AN EXTENSION OF THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2016)

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

General Resources Account:	**SDR Million**	**% Quota**
Quota	207.40	100.00
Fund holdings of currency	207.39	99.99
Reserve position	0.02	0.01

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	99.51	100.00
Holdings	107.52	108.06

Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
ECF Arrangements	182.64	88.06

Latest Financial Arrangements:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million**
ECF	Oct 21, 2013	Oct 20, 2016	186.66	137.78
ECF	July 01, 2010	June 30, 2013	31.11	22.20
ECF[1]	May 10, 2006	June 22, 2010	51.88	51.88

Projected Payments to Fund[2]

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

	Forthcoming				
	2016	2017	2018	2019	2020
Principal	0.36	12.11	12.99	11.27	21.17
Charges/Interest	0.00	0.00	0.00	0.38	0.34
Total	**0.36**	**12.11**	**13.00**	**11.66**	**21.52**

Implementation of HIPC Initiative:

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

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[1]Formerly PRGF.

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

Assistance committed (NPV terms)	
By all creditors (US$ million)[3]	675.20
Of which: IMF assistance (US$ million)	125.21
(SDR equivalent in millions)	100.00
Completion point date	December 2006

Disbursement of IMF assistance (SDR million)	
Amount disbursed	100.00
Interim assistance	66.03
Completion point balance	33.97
Additional disbursement of interest income[4]	6.58
Total disbursements	106.58

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[5]	117.34
Financed by: MDRI Trust	76.75
Remaining HIPC resources	40.59

II. Debt Relief by facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
December 2006	N/A	117.34	117.34

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Mar 02, 2015	20.74	20.74

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

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

[4] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim.

[5] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of 2004 that remains outstanding at the time the member qualifies for debt relief.

Safeguards Assessment:

The 2015 safeguards assessment found that despite the Ebola epidemic, the Bank of Sierra Leone (BSL) has maintained essential operations and related controls. Governance bodies were reconstituted without delay, following the expiration of the previous terms, and the Audit Committee continued its oversight of BSL operations. However, the modernization of the internal audit function, recommended by an independent external quality assessment, has not been fully completed. While financial statements continue to be prepared and audited in accordance with international standards, audits are not completed within the statutory deadline.

Exchange Rate Arrangement:

For customs valuation purposes and for official transactions, the Bank of Sierra Leone (BSL) calculates an official exchange rate every Friday morning as the weighted average of the auction rate, the commercial bank mid-rate, and the bureau mid-rate in the previous week. Commercial banks may buy foreign exchange from and sell it to individual customers and may trade among themselves or with the BSL on a freely negotiable basis. As of December 31, 2015, the BSL mid rate was Le 5,639.1=US$1, which is also the new Program exchange rate. As of September 30, 2015, the BSL mid rate was Le 5,292.6=US$1.

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

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

Article IV Consultation:

The Executive Board concluded the last Article IV consultation on October 21, 2013.

Technical Assistance:

Department	Purpose	Date
FAD	Macro-Fiscal Cash Management	April 2016
	Regulations for PFM Law	September 2015
	Drafting the PFM Legal Framework	July 2014

Department	Purpose	Date
	Review of the PFM law and arrears	April 2014
	Effective Revenue Administration for the EI Sector	February 2014
	Assist in drafting a new Public Financial Management (PFM)	February 2014
	Follow up Managing Natural Resource Wealth (MNRW) project	December 2013
	Tax Policy under Module 1 of the Managing Natural Resource Wealth (MNRW) project	November 2013
	Module 2 of MNRW	July 2013
MCM	Monetary Policy Framework and Operations	March 2016
	Multi-Topic Bank Resolution and Bank Supervision Diagnostic Mission	February 2016
	Multi-Topic Mission	June 2014
	Monetary and Foreign Exchange Operations	October 2013; February 2014
	Financial Stability Analysis	October 2013; November 2013
	Medium-term Debt management Strategy	January 2013
	Liquidity Forecasting and Development of Interbank Foreign Exchange Market	July 2012; January 2013; February 2014
	Long-term expert on financial stability	2013–14
STA	DFID Price Statistics Mission	May 2016
	National Accounts Mission	April 2016
	DFID Balance of Payments Mission	March 2016
	External Sector Statistics Mission	March 2016
	Consumer Price Index Mission	February 2016
	Managing natural Resource Wealth Mission	July 2014
LEG	TA in Fiscal Law (FAD MNRW TTF)	June, November 2013; January 2014

Resident Representative:

Ms. Iyabo Masha assumed responsibility for the Fund office in Freetown on February 1, 2015.

JOINT WORLD BANK-IMF WORK PROGRAM, 2016–17

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
World Bank work program	New Development Policy Financing	June 23-28, 2016	December 2016
	Sierra Leone Boost initiative	June 23-28, 2016	On-going
	Debt Buyback operation	June 23-28, 2016	June 2017
	Energy Sector Utility Reform project	August 1-8, 2016	On-going
	Western Area Power Generation Project Guarantee	August 1-8, 2016	June 2016
	Financial Sector Development Plan support project	July 4-8, 2016	June 2016
	Public Sector Pay and Performance project	September 2016	On-going
	Country Policy and Institutional Assessment		April 2017
	Economic Diversification and Growth Study	June 23-28	June 2017
	Household Income and Expenditure Survey	TBD	TBD
IMF work program	Sixth Review of the ECF Arrangement	September 2016	November 2016
Technical Assistance:			
	FAD		
	Follow-up on Implementation PFM and PFM Regulations	2016	2016
	Revenue Enhancement: Follow-up to TADAT	2016	2016
	Capacity Building in macro-fiscal projection	2016-2017	
	Assistance on specialized audits and transfer pricing	2016-2017	

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
	MCM		
	Enhancing Risk Based and Offsite Supervision	2016-2017	
	Central Bank Operations	2016-2017	
	Debt Management	2016-2017	
	Liquidity Forecasting	April 2016	
	Financial Stability	April 2016, April 2017	
	STA		
	Follow-up on BOP Statistics	2016	
	Follow-up on Price Statistics	2016	
B. Agreement on Joint Products and Missions			
Joint Work Program	Debt Sustainability Analysis		On-going
	Domestic Resource Mobilization		June 2017
	TA to strengthen banking supervision and enhancing financial sector stability		On-going
C. Requests for Work Program Inputs			
1. Fund Requests to Bank	Updates on macro-relevant work		Continuous
	Updates on work related to the energy sector and other key infrastructure projects		Continuous
2. Bank Requests to Fund	Regular updates of performance under the Fund-supported program, macroeconomic projections and updated macroeconomic framework tables following each IMF mission		Continuous
	IMF Relations Note Assessment Letter		As needed

STATISTICAL ISSUES

(As of June 16, 2016)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance with some key data shortcomings in national accounts, monetary, and external sector statistics. A major and sustained improvement in the coverage and timeliness of economic data will require greater interagency coordination and restructuring of the institutional framework.
National Accounts: Statistics Sierra Leone (SSL) produces and disseminates GDP estimates by activity in value and constant prices of 2006, according to the 1993 SNA. Under the DFID-funded project annual GDP estimates have been improved, especially regarding the compilation of construction, estimation of informal sector activity, measurement of government services, agricultural production, household final consumption, and constant price gross domestic product (GDP). Remaining issues concern developing better data sources for agricultural and mineral production, and generally continuing the improvement of informal sector measurement. However, shortages of resources and staff continue to pose major constraints to the statistical development undertaken by SSL.
Price Statistics: The SSL compiles the CPI monthly and publishes it with a lag of about three weeks. It has been rebased to 2007 using the 2007 Sierra Leone integrated household survey and continues to cover the capital city and three main districts. While a national CPI is being compiled, the authorities continue to publish the old CPI (1992=100). They have requested technical assistance for the preparation and adoption of a single index. Technical assistance mission last visited Freetown in May 2016 to improve the computation of the consumer price index, CPI. The authorities are working to improve the calculation methods for the CPI and procedures to aggregate regional CPIs to obtain the national index. Regarding the new PPI, the Authorities have developed the index weights, selected a representative sample of establishments, and selected representative products and transactions for price collection. A work plan, in the form of Project Framework Summary, was drafted and agreed with the authorities for the preparation of this new PPI.
Government Finance Statistics: The budget reporting system was established with assistance from the Fund/UNDP technical assistance project. Monthly cash flow data on central government budgetary revenue, current expenditure, and financing are provided. The transaction coverage of the central government budgetary cash flow is incomplete. There is an urgent need for more timely and accurate data on foreign-financed development projects. Reports on implementation of the development budget and its financing are currently not produced in a format that is suitable for budget analysis because the necessary data are not available. The authorities are currently considering the introduction of a flash reporting system for government expenditure in general and for foreign aid-financed projects, in particular. As part of the GDDS regional project for Anglophone African countries, work has been undertaken to reconcile fiscal and monetary data and to improve the coverage and classification of the two data sets. With the current drive towards decentralization and the growing role of local government, there is an urgent need to compile and monitor the operations (and financial balance sheet data) for the consolidated general government.

Financial sector surveillance: Sierra Leone does not participate in the IMF's Coordinated Direct Investment Survey (CDIS), Coordinated Portfolio Investment Survey (CPIS) and Financial Soundness Indicators (FSIs) databases.

Monetary and Financial Statistics: The main components of the central bank balance sheet are available daily and weekly under the early warning system on key financial targets. The full monetary survey is compiled by the Bank of Sierra Leone (BSL) with a lag of about six weeks; it has comprehensive coverage of commercial banks.

Progress has been made by the BSL in the compilation of monetary data. The BSL, with assistance from STA, has completed the migration to standardized report forms (SRFs) for the central bank and other depository corporations (ODCs). However, there is a need to expand the coverage of monetary and financial statistics by including data on other financial institutions.

External sector statistics: The BSL is responsible for compiling BOP and IIP statistics, which are currently prepared on an annual basis. Primary data sources are administrative-based data (BSL own records, line ministries, and Customs and Excise Department (Customs) records), partner-country and international organizations data, and the annual survey of major companies for estimates on services, income, and financial flows relating to direct, portfolio, and other investments.

Technical Assistance mission last visited Freetown in March 2016 to improve the compiling and computation of balance of payments and external debt statistics. This mission was part of a United Kingdom Department for International Development – Enhanced Data Dissemination Initiative on improving balance of payments statistics, conducted by an expert reporting to STA.

External transactions are characterized by a large volume of activities in the informal sector. Trade data include some estimates for unrecorded diamond exports—by deducting official diamonds export figures from trading partners' official diamonds imports from Sierra Leone. Coverage issues also exist for services, primary and secondary income, and capital and financial accounts.

Information on official grant and loan receipts is of generally good quality and is prepared by the IMF African Department (AFR) staff on the basis of contacts with the authorities and donor agencies. Data on private financial flows should be improved; Information on financial transactions of banks are obtained directly from commercial bank records; entries are estimated as differences in amounts of outstanding foreign assets and liabilities of commercial banks and may thus include valuation and other changes.

While the authorities are producing data on the IIP, the coverage as well as the consistency with BOP data should be improved. There is a critical need to improve the quality and coverage of Balance of Payment. The recent double counting of mineral resources exports, the revision of which generated large historical errors, makes BOP da even less reliable. On this regard, the BSL has strongly requested TA to strengthen the capacity to undertake the independent survey to validate BOP data and to design a program to significantly strengthen the BOP data collection and forecasting.

II. Data Standards and Quality

Sierra Leone is participant in the General Data Dissemination System (GDDS) since 2003.	No data ROSC is available.

III. Reporting to STA

Data are reported for publication in the *Government Finance Statistics Yearbook*, with the most recent data referring to 2012, but no sub-annual data are reported for inclusion in the *International Financial Statistics*.

The BSL started reporting monetary data in the SRF-format to the IMF in April 2010.

Sierra Leone: Table of Common Indicators Required for Surveillance June 2016					
	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	05/30/2016	6/02/2016	W	W	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	12/31/2015	03/25/2016	M	M	M
Reserve/Base Money	03/30/2016	04/31/2016	M	M	M
Broad Money	03/30/2016	04/28/2016	M	M	M
Central Bank Balance Sheet	03/30/2016	04/28/2016	M	M	M
Consolidated Balance Sheet of the Banking System	03/30/2016	04/28/2016	M	M	M
Interest Rates[3]	03/30/2016	04/28/2016	M	M	M
Consumer Price Index	04/30/2016	06/03/2016	M	M	M
Revenue, Expenditure, Balance and Composition of Financing – General Government	04/30/2016	06/03/2016	M	M	M
Revenue, Expenditure, Balance and Composition of Financing– Central Government	04/30/2015	06/03/2016	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt	12/31/2015	03/25/2016	Q	Q	Q
External Current Account Balance	12/31/2015	03/25/2016	A	A	A
Exports and Imports of Goods and Services	12/31/2015	03/25/2016	A	A	A
GDP/GNP	12/31/2015	03/25/2016	A	A	A
Gross External Debt	12/31/2015	03/25/2016	A	A	A
International Investment Position[4]	12/31/2015	09/01/2015	A	A	A

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

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

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

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

SIERRA LEONE

June 16, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY AND FINANCING ASSURANCES REVIEW AND REQUEST FOR AN EXTENSION OF THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By

Abebe Selassie and Andrea Richter Hume (IMF) and Mark Thomas and John Panzer (IDA)

Prepared by the International Monetary Fund and the World Bank in collaboration with Sierra Leonese authorities.

This Debt Sustainability Analysis (DSA) updates the analysis presented to the Board in November 2015, and shows that Sierra Leone's risk of debt distress remains moderate. The resumption of iron ore production with related export receipts, as well as the improved fiscal revenue profile somewhat reduced the previously identified vulnerabilities. As in the last DSA update, none of the ratios breach their respective thresholds on a protracted basis throughout the projection period (2016–36).[1] *Moreover, the implied borrowing room without breaching the thresholds has also increased. However, the authorities should continue to remain vigilant in their borrowing plans given the uncertainty regarding the viability of iron ore production. The economy continues to remain vulnerable to adverse shocks to exports, FDI and nominal depreciation.*

[1] Sierra Leone's capacity to monitor debt is adequate. The average CPIA debt policy rating (3a/3b) is 3.5.

KEY ASSUMPTIONS UNDER THE BASELINE SCENARIO[2]

1. Short term macroeconomic projections are considerably different from the November 2015 update, but the medium term forecast remains broadly unchanged for most macroeconomic indicators (Text Table 1). In 2016, the economy is expected to grow by some 4½ percent, mostly driven by the non-iron ore sectors. The primary deficit will be significantly lower, particularly in the short term, driven by improved revenue profile and iron ore related fiscal revenues as well as by reduced primary spending. However, the external debt as a share of GDP will be higher than the November update due to the more depreciated exchange rate. It is expected to peak in 2016 and gradually decline from then onwards helped by lower current account deficit and higher FDI inflows.

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

- Economic growth is expected to average 6 percent during 2017–21, mostly driven by the non-iron ore sectors. Compared to the November 2015 update, iron production is forecast to gradually recover. However, the net value added from the iron ore sector will be lower as the cost of production continues to be higher than the current WEO projection of the iron ore price. Over the long term, growth is expected to stabilize close to the historical rates for the non-iron ore economy of around 5.4 percent.

- Inflation is projected to gradually decline over the medium term and stabilize at 5.4 percent in the long term.

- The overall fiscal deficit is projected to be smaller than the November 2015 update in the short term, due to the above-the-line improvements to cope with the new financing realities. It will continue to improve over the medium to long term, with the primary deficit[3] decreasing from around 3.8 percent of GDP in 2015 to 1.5 percent by 2021. It is forecast to ease further to 0.9 percent in the long term, as a result of revenue measures and efforts to strengthen tax administration.

- The current account deficit is forecast to rise slightly from 15½ percent of GDP in 2015 to 16 percent in 2016, and start declining over the medium to long term, consistent with the projected production profile of iron ore and other exports. Compared to the previous DSA, the deterioration in the dynamics of the projected deficit mostly reflects the base effect in 2015. The projected import dynamics broadly reflects the expected overall real GDP growth in the non-iron ore sector. The current account deficit will be financed by rising foreign direct investment (FDI).

[2] All percent figures are with respect to overall GDP.

[3] Including grants.

- FDI is projected to significantly increase from 6 percent of GDP in 2015 to around 12.1 percent in 2016 as most FDI projects halted during Ebola are expected to restart and loss-making production of iron ore is expected to be financed by the parent SISG to maintain the subsidiary's working capital. Most of the improvement is also driven by the recent projects in the agriculture sector. FDI is projected to stabilize at 8 percent in the medium term.

- External debt is projected to increase from 31.6 percent of GDP in 2015 to 34.2 percent in 2016, due to the combination of higher IMF borrowing and more depreciated exchange rate. External debt will still stabilize at around 21 percent of GDP in the long run.

- Domestic debt is projected to rise from 12.2 percent of GDP in 2015, to around 14.6 percent by 2021, mainly reflecting increased domestic borrowing to finance public investment. It will then decline to 8.7 percent of GDP in the long term.

Text Table 1. Selected Economic Indicators, 2015–36

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

	2015	2016	2017	2018	2019	2020	2021	Long Term[2]
Real GDP Growth (in percent)								
Current DSA	-21.1	4.3	5.0	5.8	6.2	6.6	6.5	5.4
Previous DSA	-21.5	0.1	19.6	17.5	6.2	6.3	6.5	5.4
Primary fiscal deficit								
Current DSA	3.8	3.6	1.7	1.3	1.3	1.4	1.5	0.9
Previous DSA	3.7	4.0	2.0	1.9	1.3	1.2	1.2	0.1
Central government revenue								
Current DSA	10.4	10.6	11.7	12.2	12.8	13.4	13.8	16.7
Previous DSA	9.8	10.4	10.4	10.5	10.5	10.6	10.7	11.5
Current account deficit								
Current DSA	15.5	16.0	15.3	14.8	14.7	14.0	14.2	8.0
Previous DSA	13.2	11.9	10.5	7.7	5.8	8.3	7.3	4.4
Foreign direct investment								
Current DSA	6.0	12.1	12.6	12.6	12.7	12.9	13.1	8.3
Previous DSA	7.1	6.7	8.4	7.4	6.6	6.5	6.5	3.5
External debt								
Current DSA	31.6	34.2	32.9	31.5	30.2	28.7	27.0	21.0
Previous DSA	32.0	33.1	30.2	27.9	26.4	25.6	24.1	21.1
Domestic debt								
Current DSA	12.2	14.0	14.4	14.3	14.4	14.4	14.6	8.7
Previous DSA	12.5	15.3	15.0	14.7	15.5	16.2	16.9	18.8

Sources: The Sierra Leone Authorities; and IMF staff projections.
1/ GDP includes iron ore activity.
2/ For the current DSA, the long term covers the period 2022-36, and for the previous DSA it covers the period 2021-35.

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

3. **The external DSA indicates that Sierra Leone's debt sustainability remains at moderate risk of debt distress in the baseline scenario**. The dynamics of external debt accumulation is in line with the November 2015 update. The resumption of iron ore production in early 2016 and associated export revenues have improved the PV of debt-to-exports and debt service-to-exports

ratios. Both of these indicators are lower than their respective policy-dependent indicative thresholds throughout the projection period (2016–36). The previously identified vulnerability in the November 2015 update, where the PV of debt-to-exports ratio was close to breaching the threshold in 2016, has now eased. Based on these two ratios, the room to accommodate more borrowing without breaching the respective thresholds has also increased.

4. Ratios related to fiscal revenues have also improved. An increased profile of fiscal revenues, due to the resumption of iron ore production and other revenue related measures to close the emerging fiscal gap in 2016, contributed to the improvement of the PV of debt-to-revenue and debt service-to-revenue ratios. This has occurred despite the opposite impact from the more depreciated exchange rate. These two ratios now remain significantly below their respective thresholds both in the short and long term, much better than the November 2015 update. As a result, the vulnerability in Sierra Leone's debt sustainability has improved while the risk of debt distress still remains at the moderate level. Moreover, the implied external borrowing room has also expanded due to more favorable DSA outlook.

5. However, the current improvement in the debt dynamics remains fragile given, particularly, the peculiar situation in the iron ore sector. Albeit still moderate, the current rating of the risk of debt distress hinges heavily on the continuation of iron ore-related exports and the realization of fiscal revenue measures agreed upon the completion of the fifth program review. Given the huge uncertainty, particularly, regarding the long-term sustainability of iron ore production in Sierra Leone, previously identified vulnerabilities with respect to export and revenue ratios in the November 2015 update may well resurface in the future. This potential risk calls for continued prudence in the authorities' borrowing policies. The increased borrowing room should not be exhausted but used wisely and sparingly to preserve debt sustainability. Finally, even with this improvement in the debt dynamics, it will be impossible to pursue the expensive construction of Mamamah Airport with nonconcessional external loans.

6. The external DSA shows that the medium to long term debt outlook remains vulnerable to adverse shocks to several macroeconomic variables. Shocks from lower exports, decrease in FDI inflows, and nominal currency depreciation could lead to the significant breaches of several thresholds in the short to medium run on a protracted basis. Compared to three ratios in the November 2015 update, four ratios now breach their respective thresholds. Despite all ratios eventually falling below the thresholds in the long run, the realization of an adverse shock may lead to high risk of debt distress.

B. Public Debt Sustainability Analysis

7. The public DSA improved from the November 2015 update. In the baseline scenario, both PV ratios decline over the medium to long run from their peak in 2016. This is largely driven by improved revenue and GDP profiles. Similar to the external DSA, debt service-to-revenue ratio rises around 2022 as nearly all external debt is publicly-owned and large repayments come due during this time. The PV of the debt-to-GDP ratio is still below the threshold in the baseline scenario.

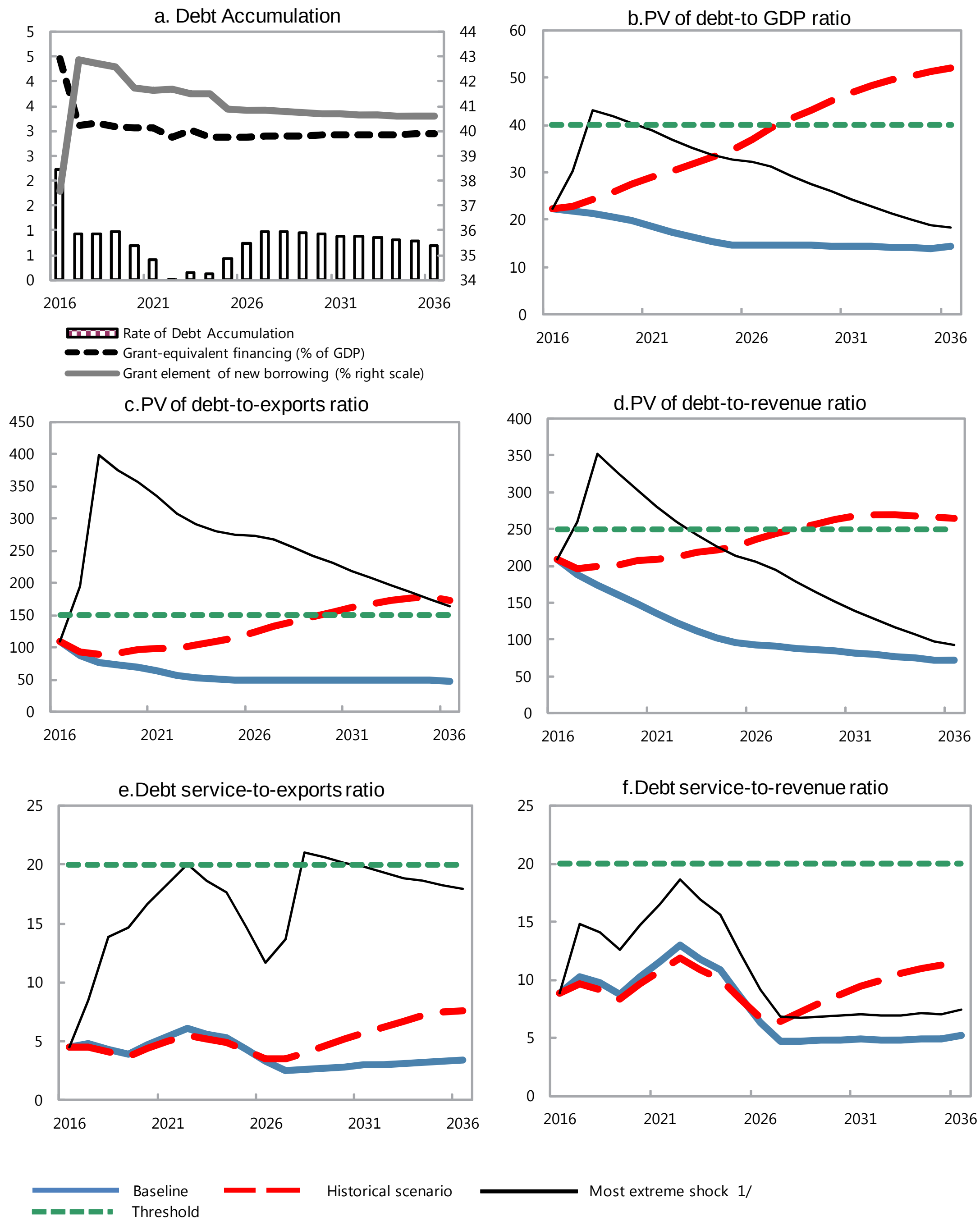
8. In most of the alternative scenarios, most ratios are expected to continue to fall in the long run. If all macroeconomics variables remain at their historic averages, the sustainability of public debt will significantly improve by the end of the forecast horizon, rendering the best outcome. However, if the primary fiscal balance as a share of GDP is kept constant at the 2015 level, all three ratios will be higher than in the baseline by 2036. In the case of PV of debt-to GDP ratio, constant fiscal balance deteriorates the long-term public debt dynamics, while the 30 percent currency depreciation shock prevails in terms of the magnitude of the impact.

9. Authorities broadly agreed with the DSA. They were satisfied with the fact that Sierra Leone's external debt was sustainable in the medium to long term period. Despite the improvement in the debt dynamics, the authorities reiterated their commitment to maintain prudent debt management policies. They also reassured that the borrowing activities would continue to be within the program, aimed at ensuring debt sustainability.

CONCLUSIONS

10. Despite the moderate risk of debt distress, the authorities should remain prudent in their borrowing policies. As the DSA shows, the risk of debt distress continues to be moderate, although the vulnerabilities have somewhat eased due to the resumption of iron ore exports and revenue-enhancing fiscal policy measures. However, the viability of iron ore production remains uncertain, the suspension of which is a major downside risk to the DSA. Furthermore, the economy continues to be highly vulnerable to overall exports and exchange rate depreciation shocks. Therefore, staff reiterates the need for prudent borrowing policies, continued revenue enhancement, sustained fiscal consolidation efforts, continued implementation of growth-enhancing structural reforms, and promotion of economic diversification.

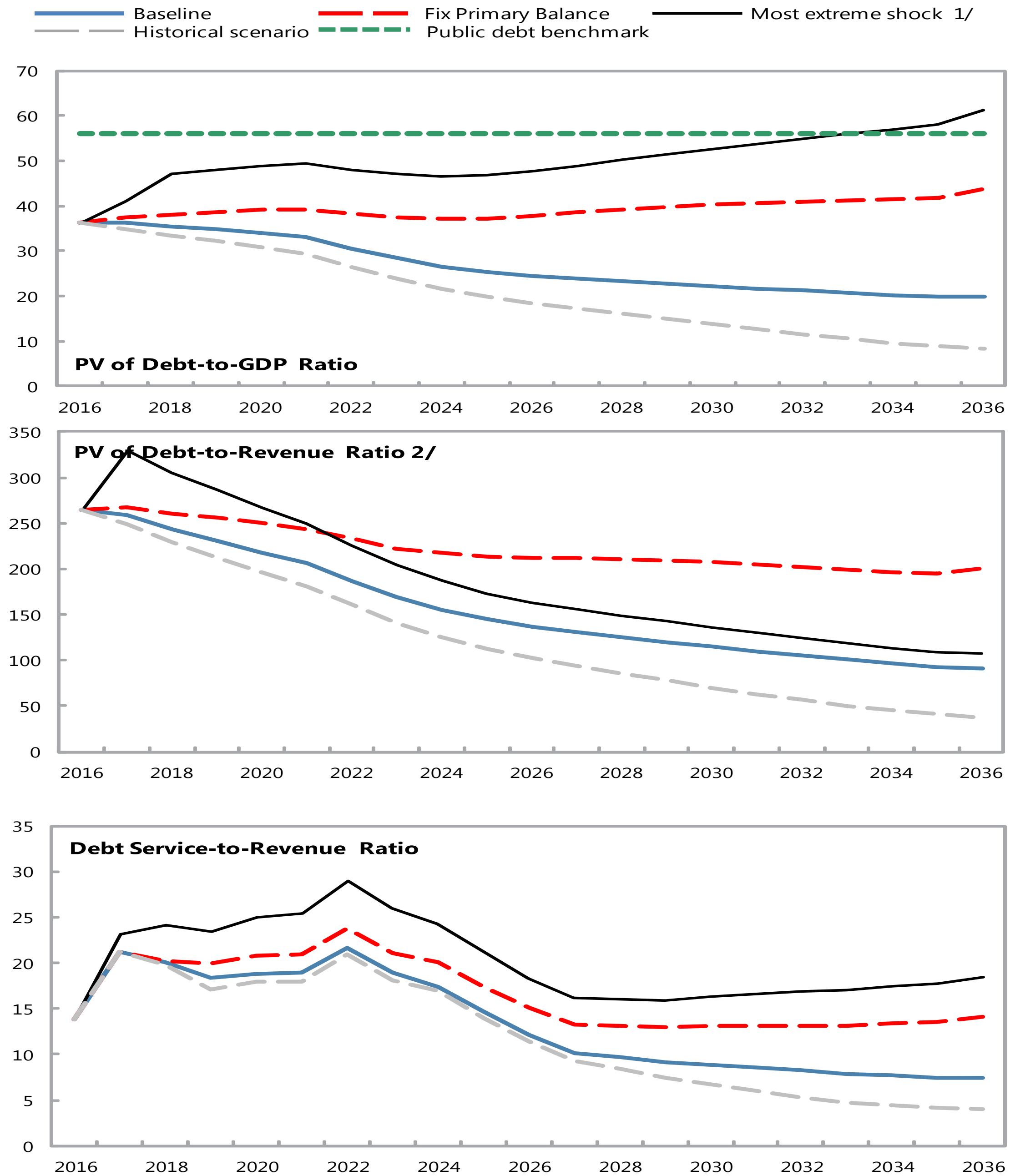
Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2016–36[1]



Sources: Country authorities; and staff estimates and projections.

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

Figure 2. Sierra Leone: Indicators of Public Debt Under Alternative Scenarios, 2016–36[1]



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

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

(Percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2016-2021			2022-2036
	2013	2014	2015			2016	2017	2018	2019	2020	2021	Average	2026	2036	Average
External debt (nominal) 1/	21.3	24.6	31.6			34.2	32.9	31.5	30.2	28.7	27.0		21.1	19.9	
of which: public and publicly guaranteed (PPG)	21.3	24.6	31.6			34.2	32.9	31.5	30.2	28.7	27.0		21.1	19.9	
Change in external debt	-4.8	3.3	6.9			2.6	-1.2	-1.4	-1.4	-1.5	-1.7		-0.4	0.6	
Identified net debt-creating flows	4.2	10.1	12.9			2.7	1.1	0.6	0.3	-0.5	-0.4		-1.0	-1.8	
Non-interest current account deficit	17.5	18.2	15.5	16.9	13.1	16.0	15.3	14.8	14.7	14.0	14.2		9.8	4.9	8.0
Deficit in balance of goods and services	10.3	27.3	24.2			22.2	19.2	17.7	17.0	16.9	16.5		11.7	7.9	
Exports	35.9	30.2	17.2			20.6	24.9	27.6	28.5	28.8	29.6		29.9	30.0	
Imports	46.2	57.4	41.4			42.8	44.1	45.3	45.5	45.7	46.1		41.6	37.9	
Net current transfers (negative = inflow)	-4.1	-16.6	-11.3	-7.5	3.9	-8.3	-6.3	-5.5	-5.5	-5.4	-5.3		-5.1	-5.3	-5.2
of which: official	-1.0	-14.0	-8.0			-5.4	-3.4	-2.7	-2.7	-2.7	-2.7		-2.6	-3.1	
Other current account flows (negative = net inflow)	11.3	7.5	2.5			2.1	2.4	2.6	3.1	2.6	3.0		3.2	2.3	
Net FDI (negative = inflow)	-7.3	-7.7	-6.0	-10.1	10.4	-12.1	-12.6	-12.6	-12.7	-12.9	-13.1		-10.0	-5.8	-8.3
Endogenous debt dynamics 2/	-5.9	-0.4	3.4			-1.2	-1.5	-1.6	-1.6	-1.7	-1.6		-0.9	-0.8	
Contribution from nominal interest rate	0.0	0.0	0.0			0.2	0.1	0.2	0.2	0.2	0.2		0.2	0.2	
Contribution from real GDP growth	-4.2	-1.0	5.9			-1.4	-1.6	-1.8	-1.8	-1.9	-1.7		-1.0	-1.0	
Contribution from price and exchange rate changes	-1.7	0.6	-2.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	-9.0	-6.8	-6.0			-0.1	-2.4	-2.0	-1.7	-1.0	-1.2		0.6	2.4	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	20.2			22.3	21.8	21.2	20.5	19.7	18.6		14.4	14.3	
In percent of exports	...	...	117.0			108.1	87.5	76.6	72.0	68.2	62.9		48.3	47.6	
PV of PPG external debt	...	...	20.2			22.3	21.8	21.2	20.5	19.7	18.6		14.4	14.3	
In percent of exports	...	...	117.0			108.1	87.5	76.6	72.0	68.2	62.9		48.3	47.6	
In percent of government revenues	...	...	193.1			209.3	186.9	172.9	159.8	147.1	134.4		92.0	72.6	
Debt service-to-exports ratio (in percent)	0.0	0.0	0.0			4.5	4.8	4.3	4.0	4.7	5.4		3.2	3.4	
PPG debt service-to-exports ratio (in percent)	0.0	0.0	0.0			4.5	4.8	4.3	4.0	4.7	5.4		3.2	3.4	
PPG debt service-to-revenue ratio (in percent)	0.0	0.0	0.0			8.8	10.3	9.8	8.8	10.2	11.5		6.2	5.2	
Total gross financing need (Billions of U.S. dollars)	0.5	0.5	0.4			0.2	0.2	0.2	0.2	0.1	0.2		0.1	0.0	
Non-interest current account deficit that stabilizes debt ratio	22.3	14.9	8.5			13.4	16.5	16.2	16.0	15.6	15.8		10.3	4.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	20.7	4.6	-21.1	5.2	10.8	4.3	5.0	5.8	6.2	6.6	6.5	5.7	5.2	5.5	5.4
GDP deflator in US dollar terms (change in percent)	7.1	-2.6	11.3	5.6	6.2	-6.7	-1.3	1.1	1.3	1.0	0.9	-0.6	1.5	-3.3	1.2
Effective interest rate (percent) 5/	0.0	0.0	0.0	0.5	0.4	0.6	0.4	0.5	0.6	0.6	0.7	0.6	0.9	1.2	1.0
Growth of exports of G&S (US dollar terms, in percent)	43.7	-14.5	-49.8	17.5	46.0	16.3	25.4	18.7	11.0	9.0	10.2	15.1	5.8	6.7	6.8
Growth of imports of G&S (US dollar terms, in percent)	-8.9	26.7	-36.6	20.8	41.0	0.4	6.9	10.0	8.0	8.2	8.3	7.0	4.6	6.2	5.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	38.5	44.5	44.3	44.1	42.7	42.5	42.8	41.2	40.8	41.3
Government revenues (excluding grants, in percent of GDP)	10.7	9.8	10.4			10.6	11.7	12.2	12.8	13.4	13.8		15.7	19.7	16.9
Aid flows (in Billions of US dollars) 7/	0.2	0.3	0.5			0.2	0.2	0.2	0.2	0.2	0.2		0.3	0.6	
of which: Grants	0.1	0.2	0.2			0.1	0.1	0.1	0.1	0.1	0.1		0.2	0.3	
of which: Concessional loans	0.1	0.1	0.2			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.5	3.2	3.2	3.1	3.1	3.1		2.9	2.9	2.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			66.6	74.9	75.2	74.7	74.1	74.0		74.1	73.9	74.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	4.9	5.0	4.4			4.3	4.4	4.7	5.1	5.5	5.9		8.4	15.6	
Nominal dollar GDP growth	29.3	1.9	-12.2			-2.7	3.6	7.0	7.6	7.7	7.5	5.1	6.8	2.0	6.7
PV of PPG external debt (in Billions of US dollars)			0.8			0.9	0.9	1.0	1.0	1.1	1.1		1.2	2.2	
(PVt-PVt-1)/GDPt-1 (in percent)						2.2	0.9	0.9	0.9	0.7	0.4	1.0	0.8	0.7	0.7
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	20.0			22.0	21.6	20.9	20.3	19.5	18.4		14.3	14.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	110.6			102.9	84.0	74.0	69.7	66.1	61.2		47.3	46.9	
Debt service of PPG external debt (in percent of exports + remittance	...	...	0.0			4.3	4.6	4.2	3.8	4.6	5.2		3.2	3.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

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

(Percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	22	22	21	21	20	19	**15**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	22	23	24	26	28	29	**37**	52
A2. New public sector loans on less favorable terms in 2016-2036 2/	22	22	21	21	21	20	**18**	21
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	22	23	26	25	24	23	**18**	18
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	22	27	38	37	35	34	**28**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	22	21	21	20	19	18	**14**	14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	22	30	39	37	36	35	**29**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	22	30	43	42	40	39	**32**	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	22	30	30	29	28	26	**21**	20
PV of debt-to-exports ratio								
Baseline	108	88	77	72	69	63	**49**	48
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	108	92	88	91	96	98	**124**	173
A2. New public sector loans on less favorable terms in 2016-2036 2/	108	87	78	75	73	69	**61**	69
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	108	85	74	70	67	62	**48**	47
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	108	194	397	374	356	334	**272**	164
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	108	85	74	70	67	62	**48**	47
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	108	122	140	132	125	117	**96**	56
B5. Combination of B1-B4 using one-half standard deviation shocks	108	159	246	232	221	207	**169**	96
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	108	85	74	70	67	62	**48**	47
PV of debt-to-revenue ratio								
Baseline	210	187	174	161	148	135	**93**	73
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	210	197	199	202	207	209	**236**	264
A2. New public sector loans on less favorable terms in 2016-2036 2/	210	185	175	166	157	147	**115**	105
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	210	201	210	195	180	165	**114**	89
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	210	236	308	285	264	245	**178**	86
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	210	180	170	158	146	134	**92**	72
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	210	261	315	292	271	251	**182**	86
B5. Combination of B1-B4 using one-half standard deviation shocks	210	260	353	327	303	281	**205**	93
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	210	260	242	224	207	190	**131**	103

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

(Percent)

Debt service-to-exports ratio								
Baseline	5	5	4	4	5	5	**3**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	5	4	4	4	4	5	**4**	8
A2. New public sector loans on less favorable terms in 2016-2036 2/	5	5	4	4	5	6	**4**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	5	5	4	4	5	5	**3**	3
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	5	8	14	15	17	18	**12**	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	5	5	4	4	5	5	**3**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	5	5	5	5	6	6	**4**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	5	6	8	9	10	11	**7**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	5	5	4	4	5	5	**3**	3
Debt service-to-revenue ratio								
Baseline	9	10	10	9	10	12	**6**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	9	10	9	8	10	11	**7**	12
A2. New public sector loans on less favorable terms in 2016-2036 2/	9	10	10	9	11	12	**7**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	9	11	12	11	13	14	**8**	6
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	9	10	11	11	12	13	**8**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	9	10	10	9	10	12	**6**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	9	10	11	11	12	14	**8**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	9	10	12	12	13	15	**8**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	9	15	14	13	15	17	**9**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	40	40	40	40	40	40	**40**	40

Sources: Country authorities; and staff estimates and projections.

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

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

(Percent of GDP, unless otherwise indicated)

	Actual					Estimate					Projections				
	2013	2014	2015	Average 5/	Standard Deviation 5/	2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	30.5	35.0	43.8			48.2	47.3	45.9	44.5	43.1	41.6		31.1	25.5	
of which: foreign-currency denominated	21.3	24.6	31.6			34.2	32.9	31.5	30.2	28.7	27.0		21.1	19.9	
Change in public sector debt	-6.2	4.4	8.8			4.4	-0.9	-1.4	-1.4	-1.5	-1.5		-1.1	0.3	
Identified debt-creating flows	-5.7	5.0	8.9			2.6	-0.2	-0.9	-1.0	-0.9	-0.6		-0.3	0.8	
Primary deficit	0.4	2.9	3.8	-0.4	7.7	3.6	1.7	1.3	1.3	1.4	1.5	1.8	0.7	0.6	0.9
Revenue and grants	13.3	14.0	15.7			13.7	14.0	14.6	15.1	15.6	16.1		17.9	21.9	
of which: grants	2.6	4.2	5.2			3.1	2.3	2.4	2.3	2.3	2.3		2.2	2.2	
Primary (noninterest) expenditure	13.6	16.9	19.4			17.3	15.7	15.8	16.4	17.0	17.6		18.5	22.5	
Automatic debt dynamics	-6.0	2.3	5.1			-1.0	-2.0	-2.2	-2.3	-2.2	-2.1		-1.0	0.1	
Contribution from interest rate/growth differential	-5.0	-0.5	7.6			-2.1	-1.9	-2.4	-2.4	-2.5	-2.3		-0.7	-0.5	
of which: contribution from average real interest rate	1.3	0.9	-1.8			-0.3	0.4	0.2	0.2	0.3	0.3		0.9	0.8	
of which: contribution from real GDP growth	-6.3	-1.3	9.3			-1.8	-2.3	-2.6	-2.7	-2.8	-2.6		-1.6	-1.3	
Contribution from real exchange rate depreciation	-1.0	2.8	-2.4			1.1	0.0	0.2	0.2	0.2	0.2		...	...	
Other identified debt-creating flows	-0.1	-0.2	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.1	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-0.5	-0.6	-0.1			1.8	-0.6	-0.5	-0.4	-0.6	-0.9		-0.8	-0.5	
Other Sustainability Indicators															
PV of public sector debt	...	...	32.3			36.3	36.1	35.5	34.9	34.1	33.1		24.4	19.9	
of which: foreign-currency denominated	...	...	20.2			22.3	21.8	21.2	20.5	19.7	18.6		14.4	14.3	
of which: external	...	...	20.2			22.3	21.8	21.2	20.5	19.7	18.6		14.4	14.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	1.6	3.7	4.4			5.5	4.7	4.2	4.1	4.3	4.6		2.8	2.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	206.7			264.4	258.9	243.3	230.7	217.7	205.7		136.7	90.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	309.9			341.0	310.2	290.1	271.7	254.9	239.7		155.7	101.0	
of which: external 3/	...	...	193.1			209.3	186.9	172.9	159.8	147.1	134.4		92.0	72.6	
Debt service-to-revenue and grants ratio (in percent) 4/	9.4	5.7	3.9			13.9	21.2	20.0	18.4	18.8	18.9		12.1	7.4	
Debt service-to-revenue ratio (in percent) 4/	11.7	8.2	5.8			17.9	25.4	23.9	21.6	22.1	22.1		13.8	8.3	
Primary deficit that stabilizes the debt-to-GDP ratio	6.6	-1.6	-5.0			-0.8	2.6	2.7	2.7	2.8	3.0		1.8	0.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	20.7	4.6	-21.1	5.2	10.8	4.3	5.0	5.8	6.2	6.6	6.5	5.7	5.2	5.5	5.4
Average nominal interest rate on forex debt (in percent)	0.0	0.0	0.0	0.6	0.6	0.6	0.4	0.5	0.6	0.6	0.7	0.6	0.9	1.2	1.0
Average real interest rate on domestic debt (in percent)	7.8	7.3	-15.2	-0.5	6.8	-1.5	5.0	5.1	5.0	5.3	5.1	4.0	7.0	10.8	7.0
Real exchange rate depreciation (in percent, + indicates depreciation	-4.5	13.5	-7.8	-2.1	9.8	3.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.9	1.8	24.7	11.7	6.6	10.8	8.9	8.2	7.7	6.9	6.0	8.1	5.0	0.1	4.7
Growth of real primary spending (deflated by GDP deflator, in percer	-11.8	29.7	-9.2	1.0	11.0	-7.0	-5.0	6.9	10.1	10.4	10.4	4.3	7.1	6.4	7.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	38.5	44.5	44.3	44.1	42.7	42.5	42.8	41.2	40.8	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

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

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	36	36	36	35	34	33	24	20
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	36	35	33	32	31	29	18	8
A2. Primary balance is unchanged from 2016	36	37	38	39	39	39	38	44
A3. Permanently lower GDP growth 1/	36	37	38	38	39	40	42	88
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	36	41	47	48	49	49	48	61
B2. Primary balance is at historical average minus one standard deviations in 2017-201	36	40	43	41	40	39	30	23
B3. Combination of B1-B2 using one half standard deviation shocks	36	39	42	42	42	42	36	40
B4. One-time 30 percent real depreciation in 2017	36	46	45	43	42	40	29	23
B5. 10 percent of GDP increase in other debt-creating flows in 2017	36	42	41	40	39	38	29	23
PV of Debt-to-Revenue Ratio 2/								
Baseline	264	259	243	231	218	206	137	91
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	264	249	229	213	197	181	102	37
A2. Primary balance is unchanged from 2016	264	267	261	256	250	243	212	200
A3. Permanently lower GDP growth 1/	264	265	256	251	246	243	228	379
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	264	288	310	306	301	296	259	273
B2. Primary balance is at historical average minus one standard deviations in 2017-201	264	283	292	275	258	243	166	105
B3. Combination of B1-B2 using one half standard deviation shocks	264	277	282	273	263	254	199	179
B4. One-time 30 percent real depreciation in 2017	264	330	306	286	267	249	163	107
B5. 10 percent of GDP increase in other debt-creating flows in 2017	264	302	284	267	251	237	162	103
Debt Service-to-Revenue Ratio 2/								
Baseline	14	21	20	18	19	19	12	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	14	21	20	17	18	18	11	4
A2. Primary balance is unchanged from 2016	14	21	20	20	21	21	15	14
A3. Permanently lower GDP growth 1/	14	22	21	20	21	22	17	23
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	14	23	24	23	25	25	18	18
B2. Primary balance is at historical average minus one standard deviations in 2017-201	14	21	21	23	23	20	13	9
B3. Combination of B1-B2 using one half standard deviation shocks	14	22	22	22	22	22	15	13
B4. One-time 30 percent real depreciation in 2017	14	23	24	22	23	24	15	11
B5. 10 percent of GDP increase in other debt-creating flows in 2017	14	21	21	25	20	20	13	9

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Statement by Chileshe Mpundu Kapwepwe, Executive Director for Sierra Leone and Mr. Tharcisse Yamuremye, Advisor to the Executive Director

July 1, 2016

The Sierra Leonean authorities appreciate the constructive engagement and policy dialogue with staff during the 2016 Article IV consultation and Fifth Review Under the Extended Credit Facility (ECF). The authorities found the discussions to be appropriately focused on macroeconomic and financial sector policies, as well as structural reforms, while striking the right balance between supporting Sierra Leone's post-Ebola recovery while maintaining macroeconomic and financial stability. Our authorities broadly agree with the staff's assessment of the Sierra Leone's economic opportunities, challenges and risks. They place high value on the accompanying policy recommendations while pursuing the implementation of the Extended Credit Facility (ECF) program. As such, the authorities request Executive Directors' support in concluding the 2016 Article IV consultation, and the completion of the fifth review under the ECF. In addition, they request support for two-month extension of the ECF arrangement, as a result of the change in scheduled reviews due to Ebola outbreak, to allow time to complete the final review.

Performance Under the ECF Arrangement

The authorities have made steady progress in the implementation of the program under a challenging environment. All end-December 2015 quantitative performance criteria and indicative targets were met. Despite the extremely difficult environment, the authorities implemented key structural reforms including preparation of a monthly rolling Treasury Cash Flow table consistent with the 2015 budget, preparation of a semi-annual report on Public Investment Plan (PIP), and the Parliament recently adopted the PFM Act. The authorities remain committed to accelerate structural reforms to achieve program's goals.

Recent Macroeconomic Developments and Outlook

Since mid-2014, Sierra Leone's economy experienced twin shocks related to the Ebola Epidemic and lower iron ore prices. Consequently, growth declined sharply from 4.6 percent in 2014 to -21 percent in 2015. Domestic currency depreciated 22 percent against the US dollar between 2014 and end-2015. A combination of 20 percent imports decline with strong current transfers have resulted to improvement in the current account deficit from 20.1 percent of non-iron ore GDP in 2014 to about 15.5 percent in 2015. Inflation increased on average from 8.3 percent in 2014 to 9 percent in 2015, due to the exchange rate depreciation, drop in agriculture production and disruption in cross border trade with neighboring Liberia and Guinea.

The outlook for 2016 and beyond is still challenging despite the resumption of iron ore production. Given lower international iron ore price and the uncertainty in mining production, the economic recovery in the near term will be driven by non-iron ore and agriculture sectors. Therefore, the implementation of the Government's post-Ebola Recovery Strategy should boost growth in non-iron ore sectors. Real GDP is projected to grow by 4.3 percent while the non-iron ore economy is forecasted to grow by 3.3 percent in 2016. Given the uncertainty in the mining sector, agriculture, construction, transport and trade are expected to be key sectors contributing to growth in 2017. Inflation is projected to 9.5 percent in 2016 and 9 percent in 2017. The current account deficit is projected to deteriorate from 15.5 percent in 2015 to 16.6 percent in 2016, due to declining current transfers and higher iron ore-related imports of goods and services.

Fiscal Policy

The authorities are implementing measures to ensure fiscal sustainability. The long-lasting vulnerability in the iron ore sector, the decline in the budget support and the limited domestic financing, require strong measures to increase domestic revenue mobilization and streamlining public expenditure. In this regard, a comprehensive program of revenue enhancement and expenditure rationalization was adopted by the Cabinet in early March 2016. On the revenue front, the authorities are taking steps to broaden tax base, review tax exemptions including NGOs and hotels. A committee was set up to review and recommend duty waiver applications and as a result there has been significant reduction in waivers awarded from April 2016 to date, compared to the same period in 2015. In addition, the authorities plan to strengthen tax administration. In this regard, they have requested a Tax Administration Diagnostic Assessment Tool (TADAT) mission from IMF's Fiscal Affairs Department, in addition the NRA is participating in the IMF's Revenue Administration Fiscal Tool (RA-FIT). To curtail expenditure, the medium term wage policy to reduce wage bill at 6.0 percent of GDP was presented to the Cabinet.

The authorities are committed to strengthen public financial management to mitigate fiscal risks and improve expenditure efficiency. The recent adoption of the new PFM Act allows the establishment of the Treasury Single Account (TSA) to improve cash management. In this regard, connectivity has been established with 12 commercial banks and work on the ICT link at Bank of Sierra Leone is complete. The authorities are reviewing technical requirements to close all dormant accounts. They are waiting technical assistance from AFRITAC West 2 and the US Office of Technical Assistance to operationalize TSA. The PFM Act will also improve control, planning and budget execution.

Debt Management

Strengthening debt management is critical to maintain fiscal sustainability. Although debt sustainability analysis indicates that the risk of distress remains moderate, the authorities will maintain prudent borrowing and give priority to grants and concessional loans to finance investment projects. As the debt service payments are crowding out key priority expenditures to support post Ebola socio-economic recovery, the authorities will work with the World Bank to seek additional measures including debt relief to alleviate debt pressure. Given the increasing interest burden from domestic debt, the authorities are also seeking IMF technical assistance to strengthen domestic debt management.

Monetary and Exchange Rate Policies

Monetary policy will continue to focus on price stability and flexible exchange rate, while providing adequate liquidity to the banking system. To maintain inflation in single digits, the Bank of Sierra Leone (BSL) will continue to monitor inflationary pressures and implementing appropriate policy actions. Monetary authorities will also continue to enhance the effectiveness of monetary policy operations and liquidity management. The BSL aims to strengthen its capacity to forecast liquidity while implementing the recommendations of the MCM technical assistance mission on monetary policy framework and operations. To eliminate the bias in favor of foreign currency, the BSL would consider introducing reserve requirement on foreign currency deposits. Furthermore, BSL is committed to limit interventions in the foreign exchange market to smooth excessive exchange rate volatility.

Strengthening Banking System

The Ebola and the iron ore-related shocks have elevated vulnerabilities in the banking system to which strengthening commercial banks portfolio is very critical. In this regard, the BSL has implemented remedial measures including Loan Write-Off Policy Directive which allows banks to clean their balance sheets. To improve the credit quality, the BSL has established the Borrowers and Lenders Act, and plans to introduce a Collateral Registry and Credit Administration Bills. These measures are expected to contribute to maintaining NPL at a lower level.

In addition, supervisory actions have been stepped up, including capping lending or a temporary moratorium on lending for some banks and ensuring adequate provisions on non-performing loans. The authorities have requested a long-term resident expert to support their effort to strengthen the supervisory capacity. Moreover, the BSL plans to conduct a diagnostic study of the two large banks, Rokel Commercial Bank (RCB) and Sierra Leone Commercial Bank (SLCB) which also have high NPL ratios and use the recommendations to improve financial soundness of the banking system.

Structural Reforms

Economic diversification remains key pillar to achieve a strong and sustainable growth and reduce poverty. In this regard, the authorities will continue to implement reforms to strengthen the fiscal framework to provide resources for infrastructure financing needs. The authorities will also strengthen the monetary policy framework and financial sector development to support a diversified private sector development. To improve business environment, the authorities are taking measures including the setting up of registry of moveable collateral and the introduction of one-stop window.

Conclusion

The twin shocks related to Ebola and Commodity crisis has constrained the trend of strong economic growth experienced by Sierra Leone during several years after civil war. To address economic and social problems, the authorities launched the post-Ebola Economic Recovery Strategy transitioning back to the Agenda for Prosperity Plan in the medium term. To achieve these objectives, the authorities remain committed to implementing sound macroeconomic policies embedded in the Current Extended Facility Arrangement. In this regard, the authorities will accelerate the implementation of structural reforms to boost economic diversification and lay a solid foundation for sustainable and inclusive growth.

Finally, the authorities are requesting the Board's support for the conclusion of the 2016 Article IV consultation, and the completion of the fifth review under the ECF, and further support for two-month extension of the ECF arrangement to complete the final review.