



SIERRA LEONE

March 2015

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW, AND REQUESTS FOR AUGMENTATION OF ACCESS UNDER THE EXTENDED CREDIT FACILITY AND DEBT RELIEF UNDER THE CATASTROPHE CONTAINMENT AND RELIEF TRUST—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SIERRA LEONE

In the context of the Second Review Under the Extended Credit Facility Arrangement and Financing Assurances Review, and Requests for Augmentation of Access Under the Extended Credit Facility and Debt Relief Under the Catastrophe Containment and Relief Trust, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 2, 2015, following discussions that ended on December 19, 2014, with the officials of Sierra Leone on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on February 17, 2015
- An **Informational Annex** prepared by the IMF.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Sierra Leone.

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

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

Memorandum of Economic and Financial Policies by the authorities of Sierra Leone*

Technical Memorandum of Understanding*

*Also included in Staff Report

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

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February 17, 2015

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KEY ISSUES

The Ebola outbreak and sharp drop in iron ore prices have dealt a severe blow to Sierra Leone's economy. The Ebola epidemic, which continues to spread albeit at a lower rate than in latter parts of 2014, has exacted a heavy human toll (at least 3000 lives to date) and disrupted much economic activity. The sharp drop in iron ore prices has compounded these difficulties by shuttering the main mining operator.

These twin shocks have prompted a sharp slump in activity. Following several years of robust economic growth as new mining activity came on stream in 2011, economic output is set to contract by some 13 percent this year, comprising a decline in non-iron ore activity of some 2 percent and a 47 percent slump in iron-ore output as the dominant mining operator is not expected to resume activity until mid-year at the earliest.

Against this backdrop, policy discussions focused on generating fiscal space to tackle the Ebola emergency and contend with the effects of the slump in iron ore production and prices. The domestic primary deficit is set to widen from 0.7 percent of non-iron ore GDP in 2013 to 5.2 percent in 2015 because of Ebola-related priority spending and weakened revenue performance. Increased support from Sierra Leone's development partners will contribute towards the financing of the higher deficit, but recourse to domestic borrowing will also be unavoidable.

Staff supports the authorities request for significant additional financing from the IMF. Program implementation has been good, notwithstanding the severe shocks that the economy has been subjected to and all continuous and end-June 2014 performance criteria, as well as most structural benchmarks have been observed. The authorities' policy commitments are also commensurately strong with the challenges they face. Consequently, staff supports the authorities' request for the completion of the second ECF review, 50 percent of quota augmentation of access, and 20 percent of quota debt relief under the catastrophe containment window of the Catastrophe Containment and Relief Trust.

Approved By

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

Discussions took place in Paris during December 9–19, 2014 due to travel restrictions triggered by the Ebola outbreak. The staff team comprised Ms. Kabedi-Mbuyi (head); Messrs. Kumah, Orav; and Ms. Parulian (all AFR), Mr. Chai (SPR), and Ms. Masha (Resident Representative). Mr. Tucker (OED) participated in policy discussions. The mission met with Dr. Kaifala Marah, Minister of Finance and Economic Development, Dr. Ibrahim Stevens, Deputy Governor of the Bank of Sierra Leone, and other senior officials. Discussions with representatives of the private sector, development partners, and civil society organizations were held via video conference.

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