



SIERRA LEONE

November 2015

THIRD AND FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW, REQUESTS FOR WAIVERS FOR NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA, AND REQUESTS FOR REPHASING AND AUGMENTATION OF ACCESS UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; AND STAFF REPORT

In the context of the third and fourth reviews under the Extended Credit Facility arrangement and Financing Assurances Review, Requests for Waivers for Nonobservance of Performance Criteria and Modification of Performance Criteria, and Requests for Rephasing and Augmentation of Access under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 16, 2015, following discussions that ended on September 16, 2015, 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 October 30, 2015.
- An **Informational Annex** prepared by the IMF staff.

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

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

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

Technical Memorandum of Understanding*

*Also included in Staff Report

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

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**IMF Executive Board Completes Third and Fourth Review of Sierra Leone's
Arrangement under the Extended Credit Facility, and Approves
US\$46.14 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the third and fourth reviews of Sierra Leone's performance under a three-year arrangement under the Extended Credit Facility (ECF) and approved an augmentation of access of 45 percent of quota, equivalent to SDR 46.665 million (about US\$64.59 million), to be distributed in three tranches. The completion of the third and fourth reviews enables the immediate disbursement of SDR 33.335 million (about US\$46.14 million). This amount includes the first tranche of the augmentation in an amount of SDR 15.555 million (about US\$21.53 million). The Executive Board also approved the authorities' request for rephasing of the fifth and sixth disbursements under the arrangement.

In completing the review, the Executive Board additionally approved the authorities' request for waivers of non-observance of the end-December 2014 performance criteria on the ceiling on Net Domestic Bank Credit to Government Ceiling, the ceiling on Net Domestic Assets of the Central Bank Ceiling, and the floor on Gross Foreign Exchange Reserves of the Central Bank on the basis of corrective action taken.

The ECF arrangement for SDR 62.22 million (about US\$95.9 million) was approved on October 21, 2013 ([see Press Release No. 13/410](#)) and was augmented twice ([see Press Release 15/86](#) and [Press Release 14/441](#)).

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

“With the World Health Organization declaring Sierra Leone Ebola free on November 7, the country now faces the difficult challenge of economic recovery. Complicating that task, the decline in iron ore prices has led to the shutdown of the main iron ore mines, with consequent sharp declines in GDP and exports, and reduced fiscal revenues.

“As a result, the fiscal challenges in 2016 will be substantial. It will be critical for the authorities to ensure sufficient revenues and financing to cover priority spending, especially for the post-Ebola Economic Recovery Strategy (ERS). This will require strong moves on tax policies and continued efforts on tax administration. Containing the wage bill will also be critical to increase the resources available for the ERS, which will be strengthened by enhancing the transparency and efficiency of expenditures.

“The Bank of Sierra Leone (BSL) should continue targeting price stability in support of economic recovery. With depreciation pressures stemming from the lost iron ore exports, the BSL should enhance monetary policy instruments and liquidity forecasting to increase its ability to respond to any second round inflationary pressures. BSL should also enhance supervision of the financial sector, and seek to understand and resolve any underlying stress through a timely diagnostic of key troubled banks.

“The updated debt sustainability analysis shows that, while Sierra Leone’s risk of debt distress is moderate, the economy is increasingly vulnerable to further shocks. Thus, borrowing policies should remain prudent in view of the narrow export base and fragile fiscal position. Financing needs, particularly for investment projects, should continue to be covered mostly with grants and concessional loans.”



SIERRA LEONE

October 30, 2015

SIERRA LEONE—THIRD AND FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW, REQUESTS FOR WAIVERS FOR NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA, AND REQUESTS FOR REPHASING AND AUGMENTATION OF ACCESS UNDER THE EXTENDED CREDIT FACILITY

KEY ISSUES

The Ebola outbreak and the sharp drop in iron ore prices have dealt a severe blow to Sierra Leone's economy. The epidemic, which appears to be in its final stages, has exacted a heavy human toll (more than 3,500 lives) and disrupted economic activity. The sharp drop in iron ore prices has compounded these difficulties by shuttering the main iron ore mines.

These twin shocks have prompted a severe slump in activity. Following several years of robust economic growth, economic output is set to contract by some 21.5 percent this year.

Against this backdrop, policy discussions focused on generating fiscal space to tackle the lingering impact of the Ebola epidemic, and contend with the effects of the collapse in iron ore production. The domestic primary deficit, which widened from 0.7 percent of non-iron ore GDP in 2013 to 5.6 percent in 2014, because of Ebola-related spending and weakened revenue performance, is expected to remain at 5.5 percent of non-iron ore GDP in 2015.

Staff supports the authorities' requests for waivers, as well as for additional financing from the IMF. Program implementation has been good, notwithstanding the shocks that the economy has experienced. Despite missing several end-2014 PCs, due to the Ebola outbreak, authorities have placed policies back on track. All end-June 2015 performance criteria, as well as most structural benchmarks, have been observed. The authorities' policy commitments are appropriately strong, in line with the challenges they face. Thus, staff supports the authorities' request for the completion of the third and fourth ECF reviews, plus an augmentation of 45 percent of quota (15 percent of quota for each of the fourth, fifth and sixth reviews), to bring access in line with the new norms. Given the severe fiscal challenges, staff also supports the authorities' intention to use this additional funding to help finance the 2015 and 2016 budgets.

Approved By

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

Discussions took place in Freetown during September 2–16, 2015. The staff team comprised Mr. Wakeman-Linn (head); Ms. Parulian, Mr. Cangul (all AFR), Mr. Baltabaev (SPR), and Ms. Masha (Resident Representative). Mr. Tucker (OED) participated in policy discussions. The mission 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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