RECENT ECONOMIC DEVELOPMENTS

1. **The Ebola epidemic continues to exact a heavy social and economic toll** (Box 1). The confirmed number of cases reached 8,704 at end-September, including at least 3,589 fatalities. The epidemic disrupted production and distribution channels for basic consumer goods, leading to lost incomes and heightened inflationary pressures. The population of orphans, food-insecure, and the vulnerable has increased significantly, stretching thin the social protection system. The death of many healthcare workers has severely impacted the nation's healthcare system. With new cases of Ebola down sharply—the country may be declared Ebola-free in November—the authorities have begun to focus on a post-Ebola recovery.

2. **The economic environment deteriorated sharply in the second half of 2014 and 2015** (Figure 1, Table 1, and Text Table 1). Real GDP growth is estimated to have decelerated from 20 percent in 2013 to 4.6 percent last year, somewhat slower than the 6 percent projected at the time of the second ECF review. With the collapse of the iron ore industry,[1] GDP is expected to decline a dramatic 21.5 percent in 2015. However, non-iron ore GDP is expected to grow modestly (1 percent), as the relaxation of curfews and quarantines, and the resumption of international flights and other economic activities, have buoyed agriculture, manufacturing and trade. This modest recovery could be impacted by mid-September flooding in and around Freetown, which caused significant disruption and resulted in the dislocation of more than 14,000 families.

Text Table 1. Sierra Leone: Selected Economic and Financial Indicators
(Percent of non-iron ore GDP, unless otherwise indicated)

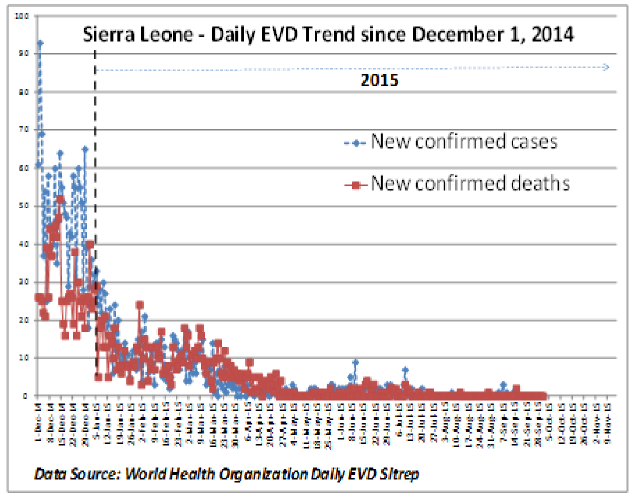
	2012	2013	2014				2015			
			1st Rev.	Ad hoc Rev.	2nd Rev.	Prel.	1st Rev.	Ad hoc Rev.	2nd Rev.	Proj.
GDP at constant prices (percent change)	15.2	20.7	11.3	8.0	6.0	4.6	8.9	10.4	-12.8	-21.5
Excluding Iron ore	5.3	5.4	6.0	4.0	0.5	0.8	6.3	5.5	-2.0	1.0
Consumer prices (end-of-period, percent change)	12.0	8.5	7.5	10.0	10.0	9.8	6.0	9.5	14.0	12.0
Gross international reserves, months of imports	3.2	3.4	3.6	3.6	3.2	4.1	3.7	3.7	3.0	4.7
Current account balance	-34.3	-20.8	-11.1	-13.0	-9.0	-21.2	-9.4	-9.3	-13.7	-13.5
External public debt	27.8	25.2	25.8	26.9	31.4	26.2	25.3	25.7	34.8	30.9
Domestic primary balance	-3.8	-0.7	-2.5	-4.0	-4.9	-5.6	-1.8	-3.4	-5.2	-5.5

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

[1] The decline in iron ore prices compounded already existing financial and management problems at the largest of the two iron ore companies.

Box 1. Ebola Epidemic in Sierra Leone: Developments and Prospects

Sierra Leone is gradually emerging from the Ebola Virus Disease (EVD) epidemic. With more than 3,500 fatalities as of September 2015, the socio-economic impact of the disease is profound. One full school year was lost following closures, as well as restrictions on movements and gatherings at the height of the epidemic. The high fatality rate among health care workers contributed to a more than 80 percent decline in the ratio of skilled health personnel to the population. This loss, coupled with a 21 percent decline in childhood immunization, means that some post-civil war gains in human development indicators have likely been reversed.



The adverse macroeconomic impact of EVD was moderated by increased donor support in the wake of the epidemic. As economic activities slowed in 2014, the momentum that followed the commencement of iron ore mining in 2011 was lost. However, strong external support from development partners, including the Fund, contributed to only a moderate deterioration in the current account balance and exchange rate stability. The gradual decline in EVD infections and resumption of economic activity is now fueling a modest recovery in the non-mining economy. However, the loss of iron ore export receipts, combined with the decline in Ebola related external inflows, is putting pressure on the exchange rate.

A Post-Ebola Recovery Strategy, developed with the support of development partners, aims to put the economy back on a path toward economic growth and stability. The strategy focuses on three elements: getting and staying at zero new cases; implementing immediate recovery priorities; and transitioning back to the Agenda for Prosperity in the medium term; Unfortunately, it has attracted only limited donor funding to date. Government spending in 2015 (0.4 percent of non-iron ore GDP) has focused mainly on getting children back to school, as well as water and sanitation needs. Even assuming future increases in donor commitments, the economic impact of Ebola will linger as foreign investors consider the additional risk factor before committing to projects in the country.

3. **Inflation has picked up somewhat**, reaching 8.9 percent at end-August 2015. In the second half of 2014, lower agriculture production and disruption in cross border trade with Liberia and Guinea contributed to higher inflation. Reflecting the pickup in non-mining economic activities, inflation is expected to increase further this year, reaching 12 percent by the end of 2015.

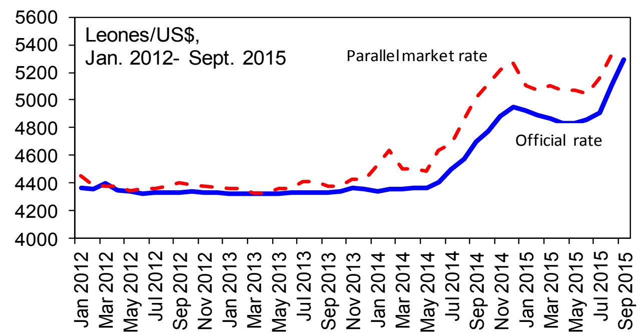
4. **The fiscal deficit widened in 2014 largely due to the economic slowdown and low iron ore prices** (Figure 2, Table 2a, and 2b). The domestic primary deficit is estimated to have been 5.6 percent of non-iron ore GDP, compared to the 4.9 projected at the time of the last review. Revenue was somewhat lower than projected, while domestically financed expenditures somewhat higher, both due mostly to the impacts of Ebola, including unplanned recruitments. For 2015, despite the continued impact of Ebola and the longer than anticipated shut down of iron ore mining, revenues are projected to be slightly higher than at the time of the last review, due to the modest recovery in the non-iron ore economy, as well as administrative measures. However, as capital

projects resumed more rapidly than previously anticipated, the overall deficit is projected to be 4.8 percent of non-iron ore GDP, slightly higher than the 4.6 projected at the time of the last review.

5. **With the economy weak but inflation rising somewhat, the Bank of Sierra Leone (BSL) kept the policy rate unchanged at 10 percent through March 2015** (MEFP ¶7, 11). It was then reduced to 9.5 percent, to signal that stronger private sector credit expansion was needed to support the post-Ebola economic recovery. Market rates were largely unresponsive to the change, as in the past.

6. **The Leone came under increased depreciation pressures starting in the second half of 2014** (Text Figure 1, MEFP ¶12). Since May 2014 the Leone has depreciated by 18.9 percent against the US$ in two episodes. First, in the second half of 2014, during the peak of Ebola outbreak the Leone depreciated by 13.4 percent, reflecting demand pressures generated by Ebola-related imports. To meet this additional demand, the BSL increased its weekly interventions in the foreign exchange market from US$500,000 to US$3 million, made possible by donor inflows. Second, the Leone depreciated by 8.9 percent from June to September 2015, as donor inflows declined and seasonal demand increased from importers who are restocking goods for the year-end festive season. With the reduced donor inflows, BSL weekly sales of foreign exchange have been reduced to US$1–2 million since May 2015.

Text Figure 1. The Official and Parallel Market Exchange Rate



Sources: Sierra Leonean authorities.

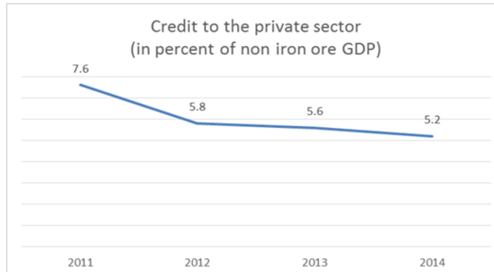
7. **Banking sector vulnerabilities have increased due to the pressures created by Ebola and the iron ore crisis (Box 2)**. Compared with 2013, the number of banks that were non-compliant with the minimum liquidity and capital adequacy ratios increased, while loan concentration remains high. In addition, aggregate non-performing loans have grown significantly, reaching 39.6 percent of gross loans at end-June 2015.[2] The two largest banks were put under administration in December 2014, and the BSL is working with the staffs of MCM and the World Bank to identify and resolve the underlying problems (MEFP ¶ 31–32). Nonetheless, at the aggregate level, banks remain profitable,[3] with high liquidity, primarily in the form of treasury bills.

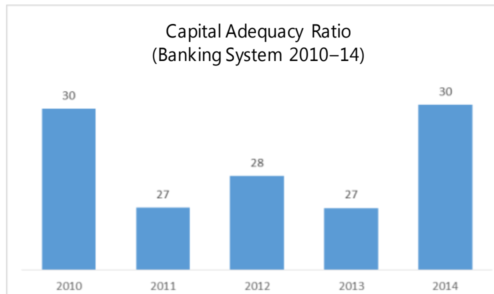
[2] In addition to the Ebola and iron ore shocks, the high level of NPLs—mainly at the two state-owned banks—reflects management problems, including related to credit reviews.

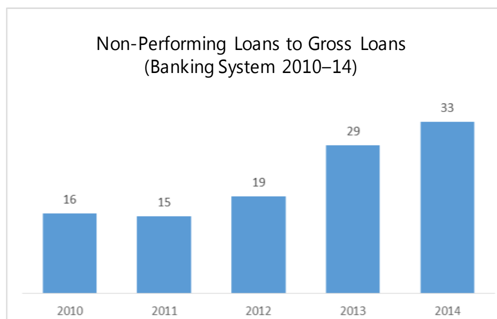
[3] Reportedly, since the Ebola outbreak, banks' profitability has been maintained largely due to other operating income, primarily from foreign exchange transaction income.

Box 2. Sierra Leone: Financial System Challenges and Non Performing Loans (NPLs)

Financial System Structure. The financial system in Sierra Leone is dominated by the banking system, with 13 commercial banks. Three banks are local (two are state-owned). Assets of the commercial banks represent around 20 percent of GDP. In addition to commercial banks, there are community banks, security dealers, micro finance institutions and mortgage banks. The nonbank financial institutions include insurance companies, a stock exchange, foreign exchange bureaus and a pension fund.







Cash based economy. Transactions in the economy are mainly in cash, with limited use of electronic payments. Banks are engaged mostly in retail business.

Access to financial services is still at a low level. The capital market is shallow, and the secondary market for government securities almost nonexistent. Banks and other financial institutions invest heavily in short-term government Treasury Bills, and tend to extend only short term credits.

The banking system as a whole seems well capitalized, with a large variation across banks. The aggregate capital adequacy ratio is 30 percent as of June 2015. However, the two largest banks continue to have challenges to meet the regulatory required minimum capital adequacy ratio of 15 percent.

Asset quality and capital have deteriorated in recent years. The ratio of nonperforming loans (NPLs) to total gross loans has been steadily rising. As of end June 2015, the NPL ratio stood at almost 40 percent, doubling in 2 years. This rising trend was driven by the two largest banks, whose respective portfolios deteriorated significantly over the period. The impact of Ebola on SME lending and the crisis in the iron ore sector contributed to the NPL increase.

Measures. As part of the resolution of the NPL problem, the two largest banks have been under administration since December 2014, and have received capital injections. In addition, the following actions have been taken by BSL:

- *A cap on lending or a temporary moratorium on lending for some banks.*
- *A Loan Write- Off Policy Directive*, which would allow banks to clean their balance sheets, and repackage toxic assets for eventual sale. The directive will take effect in December 2015.
- *Adoption of the Lenders and Borrowers Act 2014.*

Other planned actions include introduction of Collateral Registry and draft of Credit Administration Bill.

8. **The current account deficit deteriorated in 2014, due to the collapse in iron ore prices and the rise in Ebola-related imports**. Iron ore export receipts dropped by more than 30 percent in 2014, despite the rise in export volumes, while iron ore related service imports grew more than expected, as freight companies charged a premium due to the Ebola risk. As a result, the net impact of the iron ore sector on the balance of payments (BOP) was negative last year. Ebola related

imports of medical goods and services boosted total imports, which were mostly supplied as in-kind transfers.[4] The trade deficit was financed by Ebola-related current transfers and strong flows from international donors.

PROGRAM PERFORMANCE

9. **Considering the difficult—and not fully anticipated—circumstances, program implementation has been satisfactory** (MEFP ¶15; and MEFP Tables 1 and 3). At end-December 2014, performance criteria (PC) on domestic bank credit to the central government, net domestic assets of the central bank, and gross foreign exchange reserves of the central bank were missed, while all other PCs were observed. Spending on poverty-related expenditures modestly exceeded the indicative floor. However, the indicative targets on domestic government revenue and the domestic primary balance were missed because of the impact of Ebola on revenues and expenditures.

10. **Despite the continuing challenges, all PCs and indicative targets for end-March and end-June 2015 were met, except for the end-March indicative target on BSL gross foreign exchange reserves and the end-June target for poverty related spending**. The end-March 2015 gross reserve accumulation target was missed by a small margin (about US$7 million) due to lower minerals export receipts. At the time of the second review, the targeted 2015 overall spending was reduced 17 percent, rendering the accommodation of the planned poverty related spending extremely difficult. The authorities missed the June indicative target on poverty expenditure by just over 30 percent.

11. **On structural benchmarks, there was limited progress in the implementation of measures programmed for the second half of 2014, largely due to Ebola-related delays in TA** (MEFP ¶17; MEFP Table 2). The monthly rolling Treasury cash flow table consistent with the revised 2014 budget; the semi-annual report on the execution of the public investment program; and 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 was completed. Pilots of the wholesale foreign exchange auction were held starting in September 2014, and have been used exclusively since March 2015. The remaining structural reforms programmed for the second half of 2014 (MEFP Table 2) have yet to be implemented. For 2015, the PFM bill was submitted to Parliament in August 2015, (MEFP Table 2) only slightly later than called for in the program. The remaining major structural benchmarks on revenues—the establishment of the Treasury Single Account (TSA) and the introduction of the Tax Administration Act—are expected to be completed before year-end.

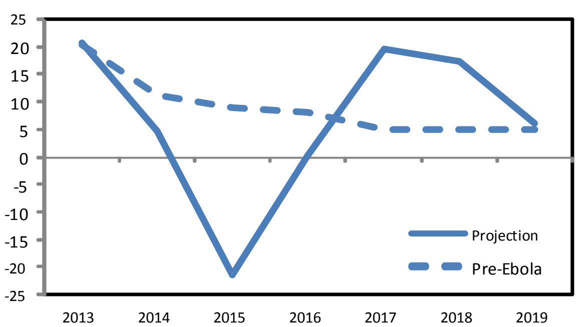
[4] Moreover, 2012–14 goods exports data were revised down by around US$300 million on average due to a double-counting of minerals exports, generating large historical errors in those years.

ECONOMIC OUTLOOK AND RISKS

12. **The outlook is highly uncertain and subject to significant downside risks** (Text figures 2–5; Text Table 1).

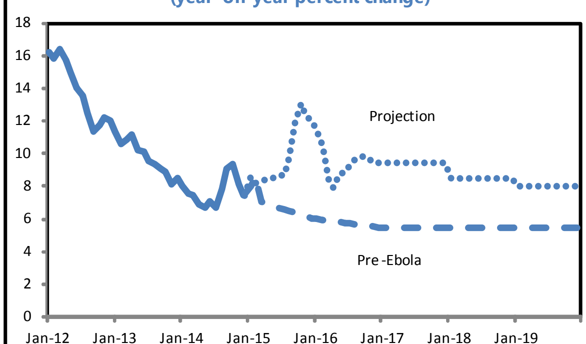
- *Output and inflation*. Under the baseline projection, GDP will decline 21.5 percent in 2015, and be virtually unchanged in 2016, before gradually recovering in 2017. This path reflects assumptions that the non-iron ore sectors of the economy will recover gradually, while iron ore production will resume starting in 2017. It is possible iron ore production could resume before that date—indeed, the new owner of the largest mine indicates that, if appropriate agreements can be reached with their subcontractors, production could resume this year. However, given the likelihood of continued low prices for iron ore on the international market, staff believes this to be unlikely (see Appendix II for the DSA impact of losing iron ore sector permanently). Going forward, staff will work with the authorities and the staff of the World Bank to try to identify measures the authorities can take to reduce the cost of iron ore mining, so as to enhance the sector's recovery prospects. Inflation is expected to decline only modestly, as Ebola-related supply constraints gradually ease.

Text Figure 2. Sierra Leone: Real GDP Growth
(percent)



Source: Sierra Leone authorities and IMF Staff.

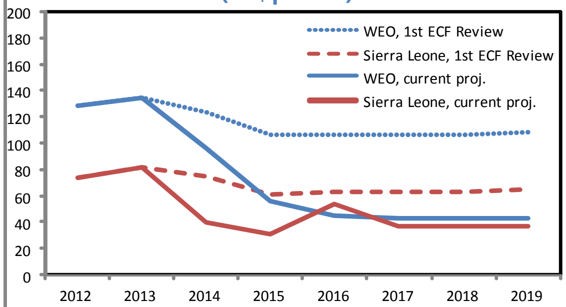
Text Figure 3. Sierra Leone: Inflation
(year-on-year percent change)



Source: Sierra Leone authorities and IMF Staff.

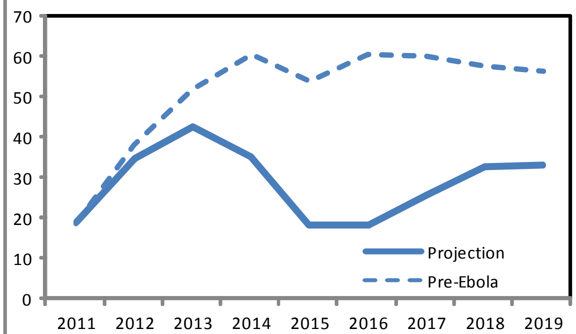
- *The external position*. The significant downward revisions to historical export data, and thus large historical errors and omissions in the BOP, render BOP projections highly uncertain. Notwithstanding the loss of the remaining iron ore exports, staff projects a significant improvement in the current account in 2015, in part because iron ore was a net negative factor for the BOP in 2014. The current account balance is expected to improve gradually over the medium-term, helped by the expected resumption in iron ore exports and a slower growth in goods and services imports, which will be driven by moderate oil price growth and iron related services growth. Reserve coverage is projected to be 4.7 months of non-iron ore imports at end-2015, gradually increasing to 5.2 months by 2018.

Text Figure 4. Iron Ore Price 1/
(US$ per ton)



Source: WEO and Sierra Leone authorities
1/ Sierra Leone price is a weighted company average based on realized 2013-14 prices and WEO price projections.

Text Figure 5. Sierra Leone: Exports
(percent of non-iron ore GDP)



Source: Sierra Leone authorities and IMF Staff.

13. **Risks to the outlook are to the downside** (Text Table 2). Key domestic risks arise from the uncertainty in the duration and impact of the Ebola epidemic, and in the resumption of iron ore production; increased fragility in the fiscal position; and heightened vulnerability in the financial sector. Externally, further decline in iron ore prices is a major risk for the projected growth and external position.[5] The authorities concurred with this assessment, stressing that the post-Ebola recovery would be gradual in view of lost incomes and eroded capital base for households and businesses.

[5] Should iron ore production not resume in 2017, growth would be much slower. In addition there would be a fiscal impact, Revenues from royalties and licenses would fall 0.2 percent of GDP that year and 0.4 the next. There would also likely be additional indirect impact s on PIT and GST. This would require reductions in goods and services expenditures, and reprioritization of investment expenditures.

Text Table 2. Sierra Leone: Risk Assessment Matrix (RAM)[1]

Source of Risks	Relative Likelihood	Impact and Policy Response
Heightened risk of fragmentation/state failure/security dislocation in the Middle East and some countries in Africa	**Medium**	**Medium** Fragmentation in the Middle East could lead to a sharp rise in oil price. If the increase is passed on to consumers, there could be domestic unrest, as Sierra Leone lacks efficient social safety nets to mitigate the impact on vulnerable groups. Alternatively the budget could absorb the cost, likely resulting in lower domestic investment or higher domestic borrowing. Policy response: Pass-through of higher global prices combined with strengthened social safety net measures for the most vulnerable groups.
Structurally weak growth in emerging economies, including China	**Medium**	**Medium** Medium-term weak growth in emerging economies and a sharp slowdown in China in 2015–16 could further depress iron ore prices. This could lead to an even longer period before iron ore production resumes, and could delay expected investment in iron ore production expansion over the medium-term. Policy response: Strengthen efficiency in non-resource revenue mobilization; promote diversification in the context of the Poverty Reduction Strategy.
Sharp slowdown in China	**Low**	
Persistently low energy prices	**Medium**	**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 responses: Full pass-through of lower global oil prices.
Reemergence of Ebola at epidemic proportions.	**Medium**	**High** A prolonged Ebola epidemic or its re-escalation could negatively impact growth as well as the fiscal and the external positions. Policy response: Continue intense Ebola containment efforts with donor support.

Text Table 2. Sierra Leone: Risk Assessment Matrix (RAM)[1] (Concluded)		
Source of Risks	**Relative Likelihood**	**Impact and Policy Response**
Prolonged shutdown of AML	**High**	**Medium** The extended shutdown of AML due to persistently low iron ore prices would exacerbate the outlook on growth, external and fiscal positions. Policy response: Continue consultations with AML management to improve costs and expedite the resumption of production; promote diversification in the context of the Post-Ebola Recovery Strategy.
Poor implementation of fiscal policy	**Medium**	**Medium** A higher than anticipated fiscal deficit would lead either to increased borrowing from the securities market that could crowd out private sector borrowing, or to growing arrears; either would impede economic recovery. Policy response: Maintain fiscal discipline; and enhance expenditure management as well as revenue collection.
Weakness in the financial sector	**High**	**Medium** The continued recession in 2015 and 2016 could lead to higher NPLs in a context of weakening profitability. Policy response: Enhance banking supervision, notably through timely, independent diagnostic tests and regular on-site inspections.

[1] The RAM shows events that could materially alter the baseline path (the scenario most likely to materialize in staff's view). The relative likelihood of risks listed 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 of 30 percent or more). The RAM reflects staff's 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.

FISCAL POLICY AND REFORMS

Staff and the authorities agreed that the broad objective for fiscal policy is addressing the impact of the Ebola epidemic on the budget in a highly constrained resource environment (Text figures 6, 7).

14. **For the remainder of 2015, the key challenge will be ensuring sufficient revenues and financing to cover critical investments and meet program poverty-related spending targets**. With regard to revenues, the authorities plan additional administrative measures (MEFP ¶37), which

staff agrees should result in revenues slightly above programmed levels. However, to cover ongoing investment projects, and meet the target for poverty related spending, the authorities would need additional financing. The authorities stressed their belief that they would be able to meet the program target for poverty related spending in 2015 if their requested augmentation is approved, and the augmented resources are on lent to the budget, and pledged donor funds are received.

15. **The authorities agreed that the key fiscal challenge for 2016 will be to increase revenues**. Sierra Leone's revenue to non-iron ore GDP ratio declined from nearly 13 percent in 2013 to an expected less than 10 percent in 2015. Staff and the authorities share the view that, given the uncertainties, prudence dictates planning the 2016 budget on the assumption of no iron ore related revenues. Thus, in order to mobilize additional revenues, the authorities have decided to implement three important tax policy changes with the 2016 budget (submission to parliament of a budget containing these measures is a prior action):

a. **Eliminate implicit price subsidies for consumer purchases of petrol**. Currently commercial users are charged a fixed excise tax on top of the international price that is adjusted for costs such as shipping, distribution and exchange rate depreciation. On the other hand, for retail users the excise charged varies so that, using the same auxiliary costs as in the commercial formula, the end-price stays relatively stable. The authorities have decided that, starting in 2016, all petrol will be sold using the current formula for commercial users. This is projected to generate just over 0.42 percent of non-iron ore GDP in additional excise taxes.[6]

b. **Increase the PIT rate for the top income bracket from the current level of 30 percent to 35 percent**. Currently, the top income tax rate in Sierra Leone is lower than the regional unweighted average of 41.3 percent for the Mano River Union. This increase should generate about 0.02 percent of non-iron ore GDP in additional revenue.

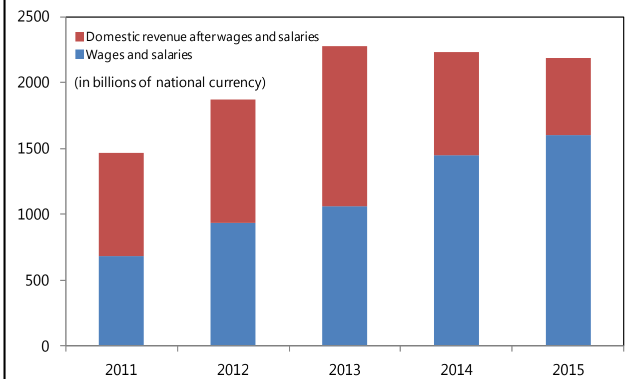
c. **Eliminate discretionary waivers and exemptions from custom duties and goods and services tax**. According to National Revenue Agency (NRA) estimates, in the first half of 2015, these waivers and exemptions, not approved by the Parliament, amounted to 17.5 billion leones. The authorities have committed to eliminating such exemptions, which should produce an estimated 0.12% of non-iron ore GDP in revenue in 2016. In addition, the authorities will include language in the 2016 budget that prohibits the granting of any waivers or exemptions in the future, without prior parliamentary approval.

Combined, these three measures should generate roughly 0.6 percent of GDP in additional revenue in 2016.

[6] While the authorities are committed to implementing this measure, they have noted to staff the possibility of Parliamentary resistance. In the event that Parliament forces some modification to this proposal, staff will work with the authorities to identify offsetting measures to protect the budget.

16. **On expenditures, the authorities agreed that containing the wage bill is a key priority** both for re-aligning expenditures to more effectively address the needs of the Post-Ebola Recovery and for rendering wage costs fiscally sustainable over the medium term.[7] Wages currently comprise more than 70 percent of domestic revenue, up from 50 percent in 2012 (Text Figure 6). One of the structural reasons behind this steep trajectory is that there are many agencies with the power to decide their own wage policies. As part of the structural reform agenda, the authorities have committed to complete a wage study whose end goal will be to consolidate wage-related regulations, and hence contain future costs. This will come in addition to a parallel pension study that will aim to do the same consolidation of regulations on pension claims. By the first quarter of 2016, Cabinet will adopt the recommended measures, which is expected to bring costs down markedly in the medium to long-run. The authorities have committed to maintain the wage bill nominally fixed for 2016 and 2017, except for a modest increase in the wages of the judiciary in order to bring it in line with civil servants of comparable grade.[8] Going forward, the wage bill is targeted to decline from its current level of 6.2 percent of GDP to under 6 percent. In addition, once fully implemented, the new PFM law will help contain other problems, such as unbudgeted spending, lack of appropriate scrutiny of over-budget expenditures, and proper costing and prioritization of capital projects.

Text Figure 6. Sierra Leone: Wages and Revenues



Source: Sierra Leone authorities.

17. **The authorities are also committed to enhancing the transparency of expenditures, particularly related to the use of donor money to combat Ebola**. The authorities already publish monthly a report of the use of all donor funds that go through the National Ebola Response Center. In addition to this, going forward, the authorities will publish quarterly reports on the use of all donor funds that have gone through the budget.

Text Table 3. Sierra Leone: External Financing and Contributions to the Ebola Response, 2015
(USD Millions)

	2015	
	Prog. 1/	Proj.
Total	67.0	409.8
Bilateral donors	42.5	48.7
DfID	25.2	15.6
EU	17.3	33.1
International Financial Institutions	17.1	159.9
African Development Bank	3.1	24.8
IMF	0.0	105.2
World Bank	14.0	30.0
of which: Grants	0.0	30.0
of which: Loans	14.0	0.0
Other expected financing	7.4	201.2
Other	0.0	191.7
Global Fund	7.4	9.5

Source: Sierra Leone authorities.
1/ Refers to the Ad Hoc Review for Augmentation of Access (Country Report 14/300).

[7] Staff has not yet received details of planned Post-Ebola Recovery spending in the 2016 budget.

[8] While some agencies have the power to set their own wages, as noted above, the authority to disburse these funds rests with the budget. The authorities have assured staff that new wage claims from these agencies will not be approved and funded,, beyond the agreed modest amount for the judiciary.

18. **Despite the strong revenue measures, sharply declining grants (as Ebola winds down, grants are projected to decline by 2.2 percent of non-iron ore GDP) mean the budget faces severe financing difficulties**. Without additional financing, sharp spending cuts would be necessary, making it virtually impossible for the authorities to finance critical post-Ebola recovery efforts. Thus, staff supports the authorities' intention to use the requested augmentation for 2016 to help finance the 2016 budget. In addition, staff recommends a temporary increase in net domestic financing (excluding Fund financing on lent to the budget) to 3 percent of GDP from the current 2 percent. The combination of these policies will result in a domestic primary balance in 2016 of 4.7 percent of GDP, lower than the 5.0 percent targeted in the Second Review.

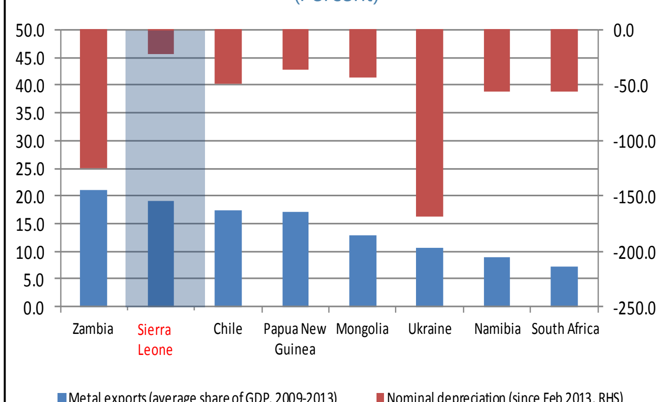
19. **Should revenues underperform expectations, or donor funds fall short of commitments, further fiscal tightening would be unavoidable**. This would have to be done through postponement of spending, most probably capital projects.

MONETARY, EXCHANGE RATE POLICY AND FINANCIAL SECTOR ISSUES

20. **Monetary policy will continue to be geared toward price stability**. The BSL will remain attentive to second-round inflationary pressures from depreciation, and tighten monetary policy if needed to achieve the inflation target. It noted that the increase in the frequency of Monetary Policy Committee meetings adopted in 2014 would help them manage monetary policy to address emerging challenges. Staff reiterated that the BSL should further strengthen its liquidity forecasting capacity and play a more active role in the secondary market for securities to manage liquidity. In this regard, BSL is committed to implement daily liquidity forecasting with the close cooperation of the Treasury by March 2016 (MEFP ¶41; MEFP Table 6).

21. **Demand pressures in the foreign exchange market are likely to remain elevated**. The BSL concurred with staff that under the current uncertain environment with poor prospects in the iron ore sector and the declining trend of Ebola-related inflows, the BSL should remain prudent in addressing increased demand for foreign exchange, and ensure that the exchange rate reflects current market conditions. BSL should smooth excessive short-term volatility while allowing the flexibility of the exchange rate due to market fundamentals (MEFP ¶30). Cross-country comparisons of mineral exporters suggest Sierra Leone's exchange rate is likely to depreciate further (Text figure 7).

Text Figure 7. Nominal ER Depreciation and Metal Exports
(Percent)



Sources: IFS, WEO, IMF staff estimates.

There is a roughly 5 percent premium between the official and parallel market exchange rate. Staff understands that this reflects small traders' demand in the informal sector, such as from cross border traders that opt to pay a premium instead of going through the banking system.

22. **BSL has taken several regulatory and supervisory actions to address the more general NPL problems in the banking system** (MEFP ¶31–33). In particular, the BSL has agreed to work closely with the staffs of MCM and the World Bank in assessing and resolving the problems in the two largest (state owned) banks. As a first step, an independent diagnostic study of the problems in these banks will be commissioned, with the terms of reference for this study agreed with MCM and the World Bank.

23. **Staff called for further progress in financial sector reforms** (MEFP, ¶32–33). The BSL agreed that priority should be given to improving monetary operations, developing the interbank foreign exchange market, increasing access to financial services for small-and-medium-sized borrowers, and building capacity in banking supervision.

BORROWING POLICY

24. **The authorities were at an advanced stage of discussions on a non-concessional loan to build a new airport, but this has now been put on hold**. The loan (US$315 million;[9] about 7.3 percent of 2015 GDP) had been discussed in the context of ECF program since 2012. Staff strongly advised against contracting this loan as it would put the country at high risk of debt distress. Moreover, staff stressed the need to address three issues before proceeding with building a new airport: 1) ensure the proposed project is well-designed to address the country's needs; 2) seek an independent economic viability study to ensure the project will be worth the investment; and 3) seek improved financing terms, including a possible FDI-type arrangement, to minimize the burden of the loan on Sierra Leone's debt sustainability. The authorities confirmed that their own assessment concluded this loan would put Sierra Leone at high risk of debt distress, and have thus put consideration of a new airport on hold.

25. **The authorities committed to maintain prudent borrowing policies** given the difficult economic environment. Although the updated Debt Sustainability Analysis (DSA), prepared jointly with World Bank staff, shows the risk of debt distress remains moderate, the impacts of the twin shocks have moved Sierra Leone close to high risk of debt distress (Figure 1, Appendix II). To prevent a high risk of debt distress and implement the new IMF policy on debt limits, staff has reached understandings with the authorities on a ceiling on the present value (PV) of new external borrowing as defined in the MEFP. Given the small borrowing room to stay within the thresholds of the DSA, the proposed limit on the PV of new borrowing is US$70 million for the remainder of the program

[9] The initial amount of the loan that the China EXIM Bank offered is about US$200 million. However, an independent study by Ernst and Young, commissioned by the authorities, discovered problems in the design of the project, estimating an additional cost of US$115 million.

period (Text Table 4). Should a positive shock materialize, such as an earlier than anticipated resumption of iron ore production, the PC on the PV limit may be revisited in subsequent reviews. Because Sierra Leone's capacity to monitor public debt is adequate (based on CPIA score of 3.5), the proposed limit on the PV of external debt is sufficient as per the guidelines under the new IMF debt limits policy. The program will continue to impose a zero limit on short-term external public borrowing to prevent roll-over risks. To meet the program targets as well as to preserve debt sustainability, the authorities agreed that they will continue to give priority to concessional loans and grants (MEFP ¶34).

Text Table 4. Summary Table on External Borrowing Program (July 2015-June 2016)

PPG external debt contracted or guaranteed	Volume of new debt, US million 1/	Present value of new debt, US million 1/
Source of debt financing	**108**	**70**
Concessional debt, of which 2/	48	25
Multilateral debt	35	17
Bilateral debt	13	8
Non-concessional debt, of which 2/	60	45
Semi-concessional debt	60	45
Commercial terms	0	0
Uses of debt financing	**108**	**70**
Infrastructure	108	70
Budget financing	0	0

1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.
2/ Concessional debt is defined as debt with a grant element that exceeds the minimum threshold of 35 percent.

26. **Staff encouraged the authorities to continue to seek financing for the implementation of their Post-Ebola Recovery Program, as well as their Agenda for Prosperity (A4P)**. While noting difficulties in mobilizing additional donor support, the authorities agreed that progress in growth-enhancing and pro-poor programs under the A4P would support post-Ebola economic recovery actions. They also concurred with staff that investment projects under the A4P should be financed, to the extent possible, through concessional loans.

OTHER PROGRAM ISSUES

27. **The authorities have requested additional IMF financing**. They argued that new BOP and budget financing needs are anticipated for the remainder of 2015 and 2016, due to the lingering impact of the Ebola epidemic and the prolonged halt in iron ore production. The requested

additional financing (45 percent of quota) would bring the access level for Sierra Leone to 180 percent of quota, in line with the new access norm under PRGT programs. The authorities have also requested a rephasing of the fifth and sixth disbursements, to provide the requested budget support in a more timely manner.

28. **In support of the authorities' request, staff proposes**:

- *An augmentation of access under the ECF arrangement* amounting to 45 percent of quota (SDR 46.67 million), with access for each of the fourth, fifth and sixth reviews increased by 15 percent of quota. This access level is based on the economy's continued exposure to exogenous shocks leading to protracted BOP needs. It is consistent with Sierra Leone's capacity to repay the Fund. Disbursing these resources, in three equal tranches (following the completion of the combined third and fourth ECF reviews, the fifth review and the sixth review), would strengthen the authorities' efforts to address the impact of the twin shocks.

Text Table 5. Sierra Leone: Projected Debt Service

(Millions of U.S. Dollars)

	2015	2016	Debt Stock [1]
Multilateral			
IMF	0.6	0.5	158.0
World Bank	3.7	3.8	236.7
AfDB	1.7	1.7	112.0
Other Multilateral	15.5	17.4	251.4
Subtotal-Multilateral	**21.5**	**23.4**	**758.0**
Bilateral			
Paris Club	0.0	0.0	0.0
Non-Paris Club	6.7	9.1	161.0
Subtotal-Bilateral	**6.7**	**9.1**	**161.0**
Commerical	**8.0**	**7.5**	**208.7**
Total	36.2	40.0	1127.7
Memorandum Items			
Debt service to IMF			
In millions of SDRs	0.4	0.4	109.7
In percent of quota	0.4	0.3	105.83

Sources: Sierra Leone authorities and IMF staff estimates.

[1] End of 2014.

- *Rephasing of the fifth disbursement, so it is available on or before the planned Board date* and the rephasing of the sixth disbursement from June to April 2016 as indicated in Table 6.

- *Provision of indirect budget support.* Staff proposes that all of the resources from the access augmentation be used to finance the fiscal budget in the amount of US$22.56 and US$45.11 million in 2015 and 2016, respectively. Similar to the augmentation from the second review, the BSL would lend the Leone equivalent of the access augmentation resources to the Treasury and sell the foreign exchange as government spending occurs.

29. **Sierra Leone's capacity to repay the Fund is adequate** (Table 5). Sierra Leone has a good track record of timely payment of its external debt obligations, including to the Fund. Debt service to the Fund declined significantly in 2015–16 thanks to debt relief under the CCR Trust. The stock of debt outstanding to the Fund, with the proposed increase in access, is projected to rise to 176 percent and 223 percent of quota in 2015 and 2016, respectively.

30. **The latest safeguards assessment for the Bank of Sierra Leone (BSL) was completed on June 11, 2015**. The assessment concluded that despite the Ebola epidemic, BSL maintained essential operations and related controls. However, the modernization of the internal audit function has stalled. In order to address this, the assessment recommended strengthening the capacity of the

function. Other recommendations aim to improve the oversight bodies. Most measures have been implemented as scheduled, and others are ongoing.

31. **Assessment of program performance will continue to be carried out through semi-annual reviews** (MEFP ¶ 45; and MEFP Tables 3, 5). For the purpose of these reviews, the program is monitoring quantitative PCs for end-December 2015 and end-June 2016; as well as indicative targets for end-March 2016; and structural benchmarks in macro-critical areas. The PCs on net domestic bank credit to the central government reflects resources from the on-lending to the budget of the augmented IMF resources.

32. **Financing assurances review**. Staff has determined that the expected disbursement of IMF financing following the completion of the combined third and fourth ECF reviews by the Executive Board is consistent with IMF's policy on lending into arrears. The disbursement is essential for the implementation of Sierra Leone's economic program for the remainder of 2015 and 2016, and staff supports the authorities' ongoing efforts to resolve the issue of arrears to private creditors accumulated before and during the civil conflict, estimated at US$207.2 million as of June 2015. The World Bank approved about US$1 million in technical assistance support to clear these arrears. The authorities are now seeking to hire advisors for advanced negotiations while continuing to make good faith efforts to reach a collaborative agreement with creditors, including by making payments to prevent litigation.

STAFF APPRAISAL

33. **The confluence of an epidemic with high economic and social costs and a crisis in the iron ore sector, a key contributor to growth, has dealt a severe blow to Sierra Leone's economy**. The two shocks are threatening to erode recent gains in macroeconomic stability and are adding to policy challenges. In addressing their repercussions, the authorities need to strike a balance between short-term measures to eliminate the effect of the shocks with actions needed to lay the foundation for a robust medium-term growth and sustained poverty reduction. On both fronts, Sierra Leone will continue to need significant financial and technical support from its development partners. In particular, the authorities should seek assistance in identifying measures that they can take to reduce the costs related to iron ore mining, so as to enhance the recovery prospects for that sector.

34. **Staff commends the strong program performance, in light of the greater than anticipated economic disruptions**. While several PCs and structural benchmarks for end-December 2014 were missed, strong corrective actions have been taken to bring the program back on track, as reflected in the fact that all PCs for end-June 2015 were met. The pace of structural reforms has also been accelerated, as the Ebola threat recedes and TA missions resume. Staff encourages the authorities to further reinvigorate implementation of structural reforms to support post-Ebola economic recovery.

35. **Staff welcomes the authorities' commitment to enhance revenue collection and strengthen expenditure management**. The tax policy measures incorporated in the 2016 budget, which has recently been submitted to Parliament, are a significant first step. Going forward, it will be vital to ensure that no new ad hoc tax exemptions or waivers are granted. In addition, staff urges the authorities to review existing (parliament-approved) exemptions and waivers, with the objective of proposing further significant reductions in these in the next budget. Staff notes that meeting the revenue target will also depend on continued efficiency gains in tax administration.

36. **Staff is encouraged by the commitment to hold wages constant in nominal terms, except for a modest increase for the judiciary, pending completion and adoption of a medium term wage policy**. It will be critical that this policy be consistent with a gradual reduction in wages as a share of GDP, to ensure fiscal sustainability, as well as to ensure adequate resources are available for development and poverty reducing spending. The authorities are also encouraged to continue enhancing the transparency and accountability measures for Ebola-related donor funding.

37. **Staff stressed the importance of maintaining prudent borrowing policies**. Although the updated DSA shows that the risk of debt distress remains moderate for Sierra Leone, sensitivity analysis points to vulnerability to shocks affecting exports, government revenue and loan conditions. While acknowledging the problems with the existing international airport, staff urges the authorities to work with the staff of the World Bank to find less expensive ways to address these problems. Moreover, to safeguard Sierra Leone's external debt sustainability, staff supports the authorities' decision to postpone the proposed contraction of a loan to build a new airport.

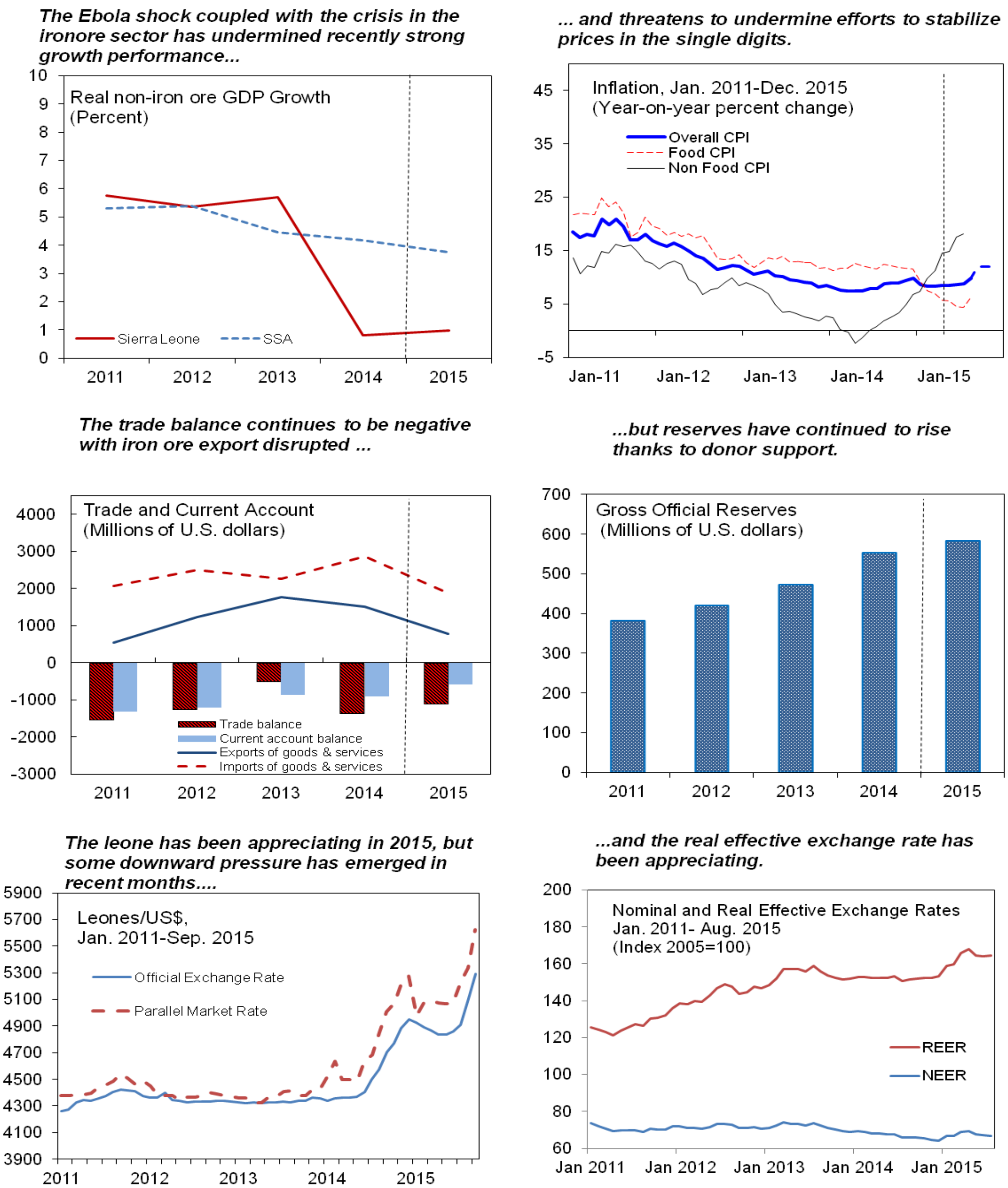
38. **Staff supports BSL's continued objective of price stability**. It encourages BSL to enhance monetary policy instruments and liquidity forecasting capacity to ensure efficient response to any second-round inflationary pressures. To protect foreign exchange reserves, staff urges the BSL to limit its interventions in the foreign exchange market to smoothing short-term exchange rate volatility.

39. **Staff is concerned by the growing problems in the banking sector**. Staff urges the authorities to move quickly to complete the independent diagnostic study of the two largest banks, and to work closely with MCM and the staff of the World Bank to quickly resolve all problems found in that study. In addition, staff urges the BSL to strengthen supervisory activities, including enforcement of prudential guidelines, and advance financial sector reforms to support healthy financial intermediation.

40. **Staff recommends completion of the third and fourth reviews of the ECF-supported program**. In light of already materialized twin adverse shocks to the economy, the macroeconomic prospects and framework have been substantially revised. Thus, staff proposes to modify the end-December 2015 PCs on NDA, NCG, and gross foreign exchange reserve accumulation, as well as the indicative targets on total domestic revenue and the domestic primary balance, as detailed in Table 5. Staff also proposes to eliminate the downward adjuster cap of US$20 million on the external budgetary assistance shortfalls for the PC on gross reserves. The attached Letter of Intent (LOI) and

the Memorandum of Economic and Financial Policies (MEFP) from the authorities outline their policies for 2015 and 2016; propose a new timeline for structural reforms outstanding at end-2014; and present additional structural measures for 2015 and 2016. The LOI also presents the authorities' requests for the completion of the third and fourth ECF reviews, for rephasing of the fifth and sixth disbursements, for waivers for missed performance criteria, and for a 45 percent of quota augmentation of access under the ECF arrangement. Staff supports the requests for waivers and completion of the reviews, as corrective measures have been taken to place the program back on track (MEFP¶16). Staff also supports the request for augmentation based on Sierra Leone's balance of payments and budget financing needs, the continued good program performance, and the strength of policy commitments for 2015 and 2016. Finally, staff supports the request for a rephasing of the fifth disbursement, making it available immediately upon the completion of the Board meeting and the rephasing of the 6th disbursement from June to April 2016, to enable the timely receipt of needed budget support.

Figure 1. Sierra Leone: Real and External Sectors, 2011–15

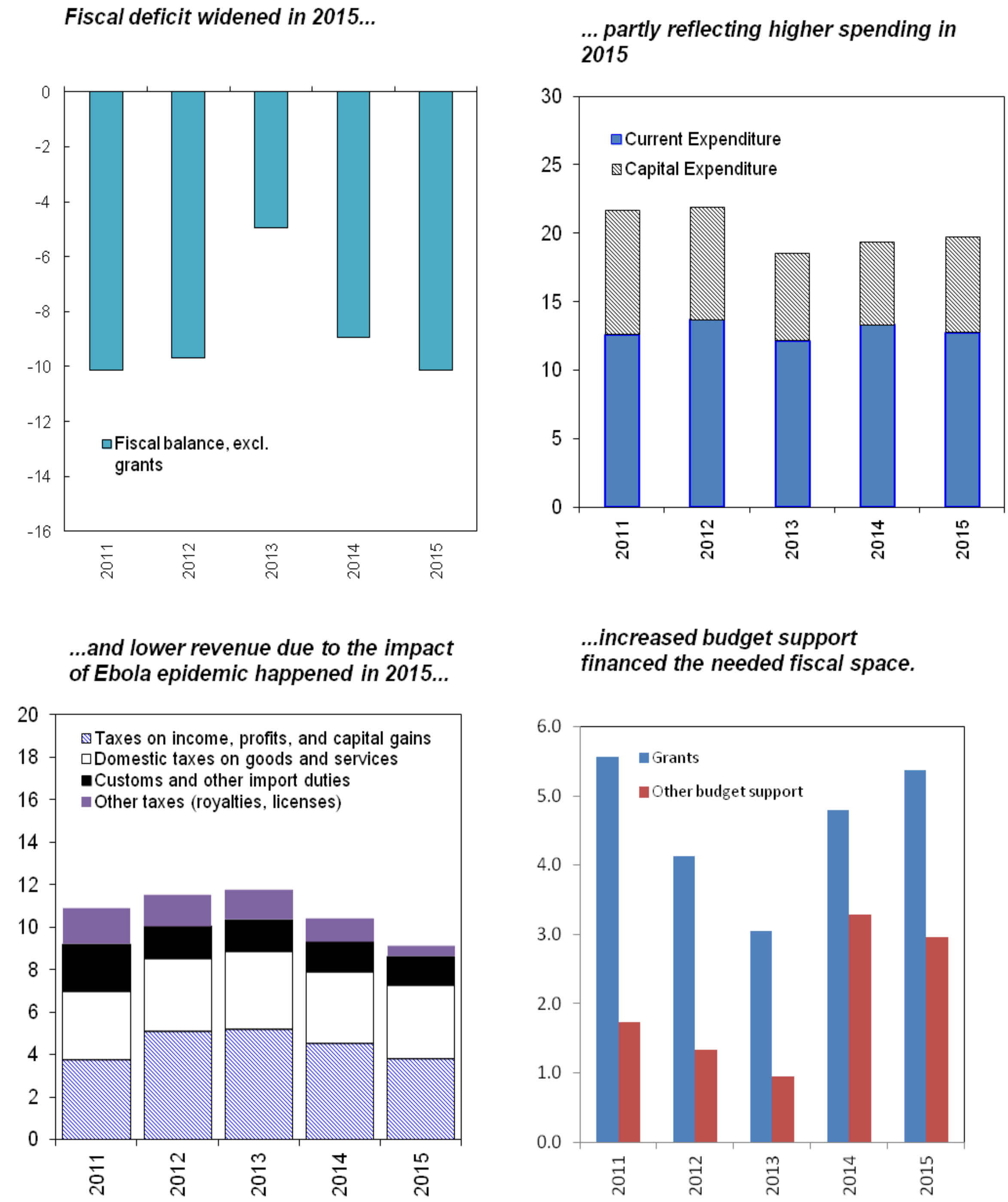


*Denotes projections.

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

Figure 2. Sierra Leone: Fiscal Sector, 2011–15

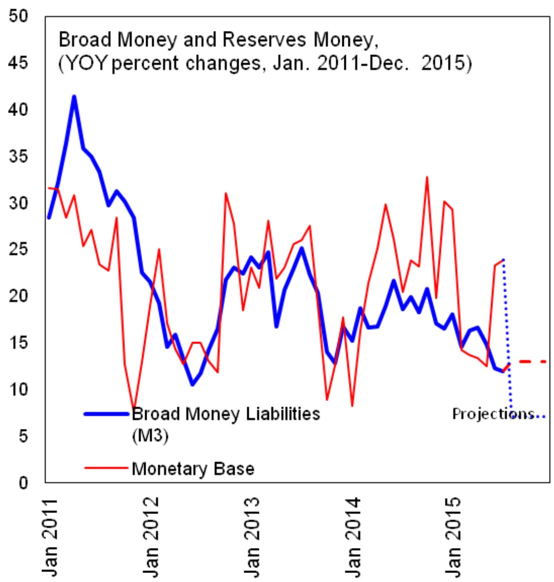
(Percent of non-iron ore GDP)



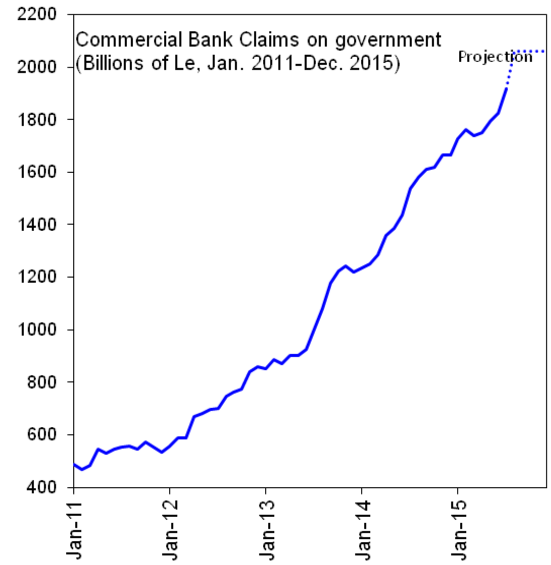
Sources: Sierra Leonean authorities; and staff estimates and projections.

Figure 3. Sierra Leone: Monetary and Financial Sector Indicators, 2011–15

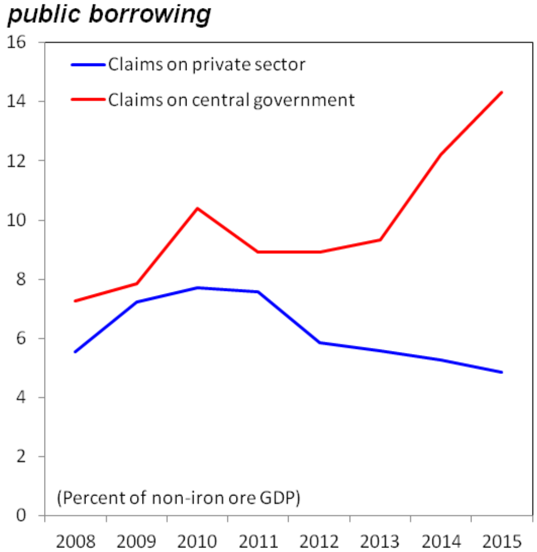
Money growth has been volatile...



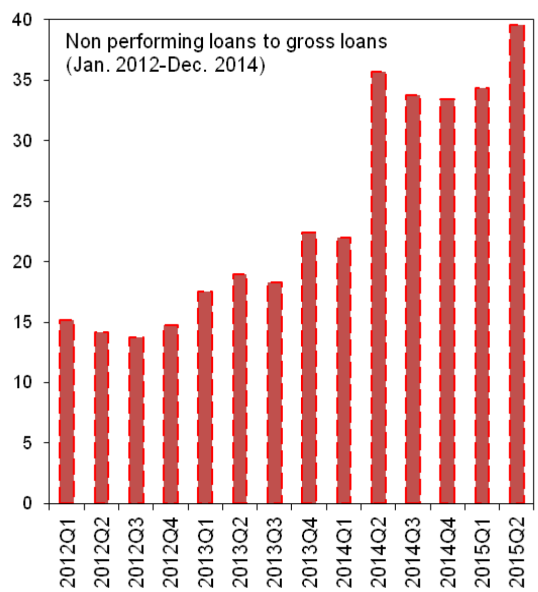
while government securities issuance is expected to pick up to meet increasing financing needs.



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

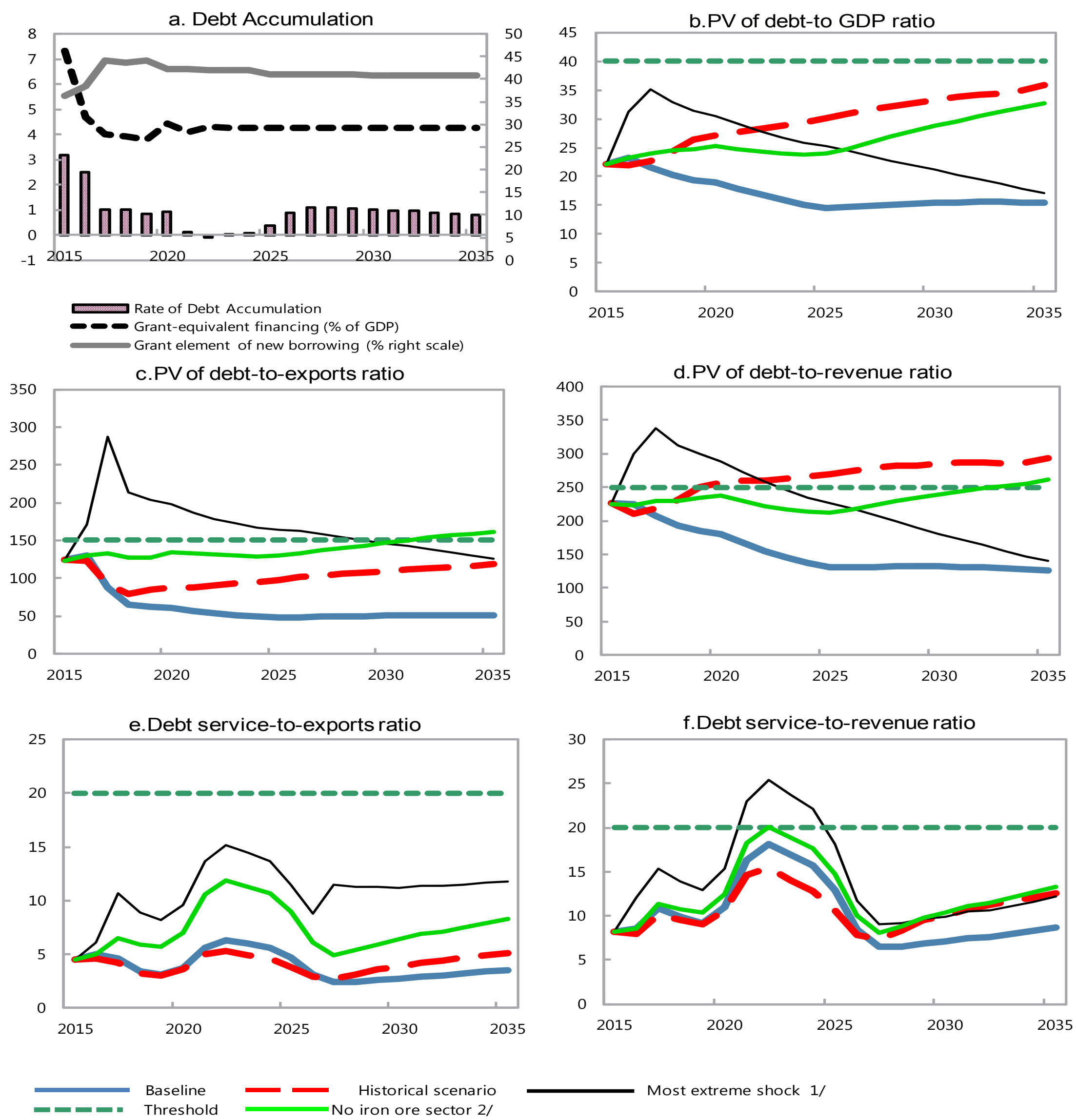


Economic uncertainty contributed to weak asset quality.



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

Figure 4. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2015–35[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 2025. In figure b. it corresponds to a Non-debt flows shock; in c. to a Exports shock; in d. to a Non-debt flows shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

2/ Iron ore production is permanently shut down

Table 1. Sierra Leone: Selected Economic Indicators, 2011–18

	2011	2012	2013	2014			2015		2016	2017	2018
					EBS		EBS				
				Prog. 1/	15/10	Prel.	15/10	Proj.	Proj.	Proj.	Proj.
(Annual percent change, unless otherwise indicated)											
National account and prices											
GDP at constant prices	6.0	15.2	20.7	8.0	6.0	4.6	-12.8	-21.5	0.1	19.6	17.5
Excluding Iron ore	5.8	5.3	5.4	4.0	0.5	0.8	-2.0	1.0	1.3	4.0	5.1
Iron ore production (millions metric tons)	0.3	6.6	16.2	18.4	19.1	19.4	10.0	0.8	0.0	9.7	19.4
Iron ore price (US$ per ton) :											
WEO (spot price 62% Fe)	167.8	128.5	135.4	106.0	96.8	96.8	74.1	55.8	44.8	42.9	42.8
Weighted average company price	...	74.7	82.6	64.6	42.4	39.8	34.6	31.3	...	40.1	40.0
Consumer prices (end-of-period)	16.9	12.0	8.5	10.0	10.0	9.8	14.0	12.0	9.5	9.5	8.5
Consumer prices (average)	18.5	13.8	9.8	8.8	8.3	8.3	13.1	9.9	9.5	9.5	8.5
External sector											
Terms of trade (deterioration -)	-5.6	5.4	-5.0	-12.7	-12.8	-16.0	-0.7	-18.0	0.4	-0.5	-1.2
Exports of goods	6.2	171.4	47.4	13.1	-7.3	-15.4	-19.4	-55.1	-0.3	72.5	47.5
Imports of goods	85.2	20.2	-19.9	15.3	-2.7	4.7	-3.9	-14.9	-3.8	8.9	9.8
Average exchange rate (leone per US$)	4349	4344	4345	...	...	4655	...	...	...	...	...
Nominal effective exchange rate change (end-period, depreciation -)	-4.1	-1.0	-2.4	...	...	-7.1	...	...	...	...	...
Real effective exchange rate (end-period, depreciation -)	8.7	8.0	3.6	...	...	0.7	...	...	...	...	...
Gross international reserves, months of imports 2/	1.8	2.2	2.0	2.2	3.2	3.5	3.0	4.0	3.6	3.6	3.6
Excluding iron ore related imports, months of imports 3/	2.4	3.2	3.4	3.6	4.3	4.1	4.2	4.7	4.8	5.0	5.2
Money and credit											
Domestic credit to the private sector	21.8	-6.9	11.9	6.4	3.0	5.4	-12.9	1.0	2.1	4.5	5.8
Base money	13.0	18.5	17.7	11.6	11.7	30.2	11.0	7.1	8.0	15.4	16.7
M2	20.0	23.1	21.2	12.7	12.3	22.9	11.0	13.0	13.3	16.5	18.6
91-day treasury bill rate (in percent)	24.5	22.4	8.0	...	2.4	2.4	...	...	...	...	...
(Percent of non-iron ore GDP, unless otherwise indicated)											
National accounts											
Gross capital formation	42.2	30.0	15.1	16.8	15.9	14.9	16.2	16.0	15.2	15.5	16.1
Government	9.0	8.2	6.4	7.8	5.9	6.0	6.2	7.0	6.2	6.0	6.1
Private	33.1	21.8	8.7	9.0	10.0	8.9	10.0	9.0	9.0	9.5	10.0
National savings	-17.0	5.0	2.7	3.8	6.9	-6.3	2.5	2.5	3.1	4.5	7.8
External sector											
Current account balance											
(including official grants)	-45.0	-34.3	-20.8	-13.0	-9.0	-21.2	-13.7	-13.5	-12.1	-10.9	-8.3
(excluding official grants)	-48.8	-36.9	-22.0	-14.8	-12.7	-37.5	-18.3	-25.1	-19.4	-13.3	-10.7
External public debt (including IMF)	32.6	27.8	25.2	26.9	31.4	26.2	34.8	30.9	32.5	30.6	29.0
Central government budget											
Domestic primary balance 4/	-3.8	-3.8	-0.7	-4.0	-4.9	-5.6	-5.2	-5.5	-4.7	-2.9	-3.0
Overall balance	-4.6	-5.6	-1.9	-5.7	-3.8	-4.1	-4.6	-4.8	-5.3	-3.2	-3.3
(excluding grants)	-10.1	-9.7	-4.9	-9.4	-8.3	-8.9	-9.3	-10.1	-8.6	-6.5	-6.6
Revenue	11.5	12.2	12.7	11.5	11.2	11.1	9.5	9.8	10.4	10.7	11.1
Grants	5.6	4.1	3.0	3.7	4.6	4.8	4.6	5.4	3.2	3.3	3.3
Total expenditure and net lending	21.6	21.9	17.6	20.9	19.6	20.1	18.7	20.0	19.0	17.3	17.7
Memorandum item:											
GDP at market prices (billions of Leone)	12,752	16,460	21,154	24,003	23,428	22,091	23,365	22,260	24,582	28,821	33,565
Excluding iron ore	12,722	15,331	17,984	20,277	19,746	20,005	22,551	22,190	24,582	27,904	31,713
Excluding iron ore in millions of US$	2,925	3,529	4,139	4,606	4,242	4,298	4,247	4,310	4,513	4,931	5,394
Per capita GDP (US$)	500	634	798	868	808	761	696	684	701	776	854

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

1/ Refers to projections of EBS/14/116

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

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

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

Table 2a. Sierra Leone: Fiscal Operations of the Central Government, 2011–18

(Billions of leone)

	2011	2012	2013	2014		2015		2016	2017	2018
				Prog. 1/	Proj.	EBS 15/10	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	2171	2,506	2,828	3,092	3,185	3179	3,372	3,358	3,916	4,579
Revenue	1462	1,874	2,280	2,341	2,226	2132	2,181	2,559	2,995	3,532
Tax revenue	1383	1,767	2,111	2,145	2,081	1987	2,021	2,369	2,783	3,296
Personal Income Tax	393	571	657	648	618	535	587	653	742	843
Corporate Income Tax	73	203	267	253	270	246	237	259	294	366
Goods and Services Tax	351	419	440	433	459	495	559	635	721	819
Excises	55	99	221	256	222	213	215	323	367	417
Import duties	282	237	269	255	285	270	301	370	421	476
Mining royalties and license	202	222	235	266	187	177	79	76	179	308
Other taxes	24	18	23	33	40	51	43	52	59	67
Non-tax	80	106	169	196	146	145	160	190	211	236
Grants	709	633	548	750	959	1047	1,191	798	921	1,047
Budget support	220	204	170	283	656	512	657	418	481	546
of which CCR Debt relief	...	...	...	...	...	...	145	...	...	...
Project grants	428	302	378	422	273	488	488	380	440	501
Other	61	126	0	45	30	47	46	0	0	0
Expenditures and net lending	2752	3358	3169	4243	4016	4224	4431	4662	4822	5622
Current expenditures	1603	2095	2185	2597	2661	2833	2827	3120	3154	3689
Wages and salaries	681	936	1060	1374	1446	1571	1601	1651	1651	1876
Goods and services	396	464	520	647	681	718	692	783	795	1034
Subsides and transfers 2/	275	406	304	343	313	309	345	388	374	401
Ebola transfers		0	0	0	52	...	...	...	...	
Interest	250	288	301	233	222	235	190	299	334	378
Domestic	226	253	266	192	182	192	148	254	302	346
Foreign	24	35	35	40	40	43	42	45	33	32
Capital Expenditure	1149	1263	1147	1581	1205	1400	1551	1517	1668	1933
Foreign financed	787	799	730	1056	635	887	984	904	978	1113
Domestic financed	362	464	417	525	570	513	567	613	690	820
Net lending 3/	0	0	-168	-52	12	-54	0	0	0	0
Contingent expenditure 4/	0	0	5	117	138	45	53	25	25	25
Unidentified fiscal measures		...	...	0	...	0	-1	0	0	0
Domestic primary balance 5/	-479	-586	-125	-806	-1114	-1163	-1224	-1154	-816	-945
Overall balance including grants	-581	-852	-342	-1152	-830	-1046	-1058	-1305	-906	-1044
Overall balance excluding grants	-1,290	-1,484	-889	-1,902	-1,789	-2093	-2,249	-2,103	-1,827	-2,090
Financing	581	852	342	1,152	830	1046	1,058	1,305	906	1,044
External financing (net)	305	523	294	589	264	265	361	365	348	417
Borrowing	359	601	380	694	362	399	496	524	538	612
Projects	359	497	352	634	362	399	496	524	538	612
Budget	0	104	28	61	0	0	0	0	0	0
Amortization	-54	-77	-86	-105	-98	-135	-135	-159	-190	-195
Domestic financing (net)	274	339	47	354	522	446	697	940	558	626
Bank	67	222	300	320	636	402	733	961	558	626
Central bank	10	-94	-60	113	219	72	336	463	58	21
Ways and means	...	...	-47	113	37	72	73	-10	27	21
SDR Onlending	0	0	0	0	182	0	289	223	0	0
Secondary market operations		...	...	0	...	0	-25	250	31	...
Commercial banks	57	316	359	208	417	330	396	498	500	605
Nonbank	208	117	-253	33	-114	44	-36	-21	0	0
Non bank financial institutions	54	125	-68	66	-68	49	0	0	0	0
Privatization proceeds	34	9	13	11	13	17	0	0	0	0
Change in arrears 6/	-47	-84	14	-14	-48	-22	-35	-21	0	0
Float (checks payable)	167	68	-211	-30	-11	0	-1	0	0	0
o/w accumulated	183	251	30	0	0	0	0	0	0	0
o/w repaid	...	-183	-241	-30	-11	0	0	0	0	0
Errors and omissions/financing gap	2	-11	1	208	44	335	0	0	0	0
Additional donor financing 7/				35	0	0	0	0	0	0
Residual gap				208	44					
Residual gap				173	44	335	0	0	0	0
IMF ECF augmentation				173	...	186	0	0	0	0
IMF debt relief				...	...	149	0	0	0	0
Uncovered gap				0	0	0	0	0	0	0
Memorandum item:										
Total poverty expenditures	538	869	883	1,158	1,236	1,128	1,128	1,248	1,331	1,607
Non-resource primary balance 8/	-533	-785	-276	-1,185	-795	-988	-276	-1,082	-752	-974
Public domestic debt 9/	1,482	1,756	1,961	2,272	2,347	2951	2,791	3,752	4,310	4,936
Bank and non-bank financial institutions 10/	121	347	231	386	568	451	444	737	558	626

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

1/ EBS/14/116

2/ Includes foreign financed election spending in 2012, Le 177.5 billion (1.2 percent of non-iron ore GDP).

3/ Transfer to the budget from a maturing EU grant onlent to Sierra Rutile.

4/ For 2014-15, contingent expenditure captures only expenditures related to the Ebola epidemic.

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

6/ Staff will clarify during mission what portion of arrears is domestic versus foreign.

7/ Includes private sector donations.

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

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

10/ 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, 2011–18

(Percent of non-iron ore GDP)

	2011	2012	2013	2014		2015		2016	2017	2018
				Prog. 1/	Proj.	EBS 15/10	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	17.1	16.3	15.7	15.2	15.9	14.1	15.2	13.7	14.0	14.4
Revenue	11.5	12.2	12.7	11.5	11.1	9.5	9.8	10.4	10.7	11.1
Tax revenue	10.9	11.5	11.7	10.6	10.4	8.8	9.1	9.6	10.0	10.4
Personal Income Tax	3.1	3.7	3.7	3.2	3.1	2.4	2.6	2.7	2.7	2.7
Corporate Income Tax	0.6	1.3	1.5	1.2	1.3	1.1	1.1	1.1	1.1	1.2
Goods and Services Tax	2.8	2.7	2.4	2.1	2.3	2.2	2.5	2.6	2.6	2.6
Excises	0.4	0.6	1.2	1.3	1.1	0.9	1.0	1.3	1.3	1.3
Import duties	2.2	1.5	1.5	1.3	1.4	1.2	1.4	1.5	1.5	1.5
Mining royalties and license	1.6	1.4	1.3	1.3	0.9	0.8	0.4	0.3	0.6	1.0
Other taxes	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Non-tax	0.6	0.7	0.9	1.0	0.7	0.6	0.7	0.8	0.8	0.7
Grants	5.6	4.1	3.0	3.7	4.8	4.6	5.4	3.2	3.3	3.3
Budget support	1.7	1.3	0.9	1.4	3.3	2.3	3.0	1.7	1.7	1.7
of which CCR Debt relief	...	...	...	...	...	...	0.7	...	...	...
Project grants	3.4	2.0	2.1	2.1	1.4	2.2	2.2	1.5	1.6	1.6
Other	0.5	0.8	0.0	0.2	0.1	0.2	0.2	0.0	0.0	0.0
Expenditures and net lending	21.6	21.9	17.6	20.9	20.1	18.7	20.0	19.0	17.3	17.7
Current expenditures	12.6	13.7	12.2	12.8	13.3	12.6	12.7	12.7	11.3	11.6
Wages and salaries	5.4	6.1	5.9	6.8	7.2	7.0	7.2	6.7	5.9	5.9
Goods and services	3.1	3.0	2.9	3.2	3.4	3.2	3.1	3.2	2.8	3.3
Subsides and transfer 2/	2.2	2.6	1.7	1.7	1.6	1.4	1.6	1.6	1.3	1.3
Interest	2.0	1.9	1.7	1.1	1.1	1.0	0.9	1.2	1.2	1.2
Domestic	1.8	1.7	1.5	0.9	0.9	0.8	0.7	1.0	1.1	1.1
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Capital Expenditure	9.0	8.2	6.4	7.8	6.0	6.2	7.0	6.2	6.0	6.1
Foreign financed	6.2	5.2	4.1	5.2	3.2	3.9	4.4	3.7	3.5	3.5
Domestic financed	2.8	3.0	2.3	2.6	2.8	2.3	2.6	2.5	2.5	2.6
Net lending 3/	0.0	0.0	-0.9	-0.3	0.1	-0.2	0.0	0.0	0.0	0.0
Contingent expenditure 4/	0.0	0.0	0.0	0.6	0.7	0.2	0.2	0.1	0.1	0.1
Unidentified fiscal measures	...	...	...	0.0	...	...	0.0	0.0	0.0	0.0
Domestic primary balance 5/	-3.8	-3.8	-0.7	-4.0	-5.6	-5.2	-5.5	-4.7	-2.9	-3.0
Overall balance including grants	-4.6	-5.6	-1.9	-5.7	-4.1	-4.6	-4.8	-5.3	-3.2	-3.3
Overall balance excluding grants	-10.1	-9.7	-4.9	-9.4	-8.9	-9.3	-10.1	-8.6	-6.5	-6.6
Financing	4.6	5.6	1.9	5.7	4.1	4.6	4.8	5.3	3.2	3.3
External financing (net)	2.4	3.4	1.6	2.9	1.3	1.2	1.6	1.5	1.2	1.3
Borrowing	2.8	3.9	2.1	3.4	1.8	1.8	2.2	2.1	1.9	1.9
Project	2.8	3.2	2.0	3.1	1.8	1.8	2.2	2.1	1.9	1.9
Budget	0.0	0.7	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.4	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6	-0.7	-0.6
Domestic financing (net)	2.2	2.2	0.3	1.7	2.6	2.0	3.1	3.8	2.0	1.9
Bank	0.5	1.4	1.7	1.6	3.2	1.8	3.3	3.9	2.0	2.0
Central bank	0.1	-0.6	-0.3	0.6	1.1	0.3	1.5	1.9	0.2	0.1
Ways and means					0.2	0.3	0.3	0.0	0.1	0.1
SDR Onlending					0.9	0.0	1.3	0.9	0.0	0.0
Secondary market operations	...	...	...		0.0	0.0	0.0	1.0	0.1	...
Commercial banks	0.4	2.1	2.0	1.0	2.1	1.5	1.8	2.0	1.8	1.9
Nonbank	1.6	0.8	-1.4	0.2	-0.6	0.2	-0.2	-0.1	0.0	0.0
Non bank financial institutions	0.4	0.8	-0.4	0.3	-0.3	0.2	0.0	0.0	0.0	0.0
Privatization proceeds	0.3	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Change in arrears 6/	-0.4	-0.5	0.1	-0.1	-0.2	-0.1	-0.2	-0.1	0.0	0.0
Float (checks payable)	1.3	0.4	-1.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
o/w accumulated	1.4	1.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w repaid	...	-1.2	-1.3	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Errors and omissions/financing gap	0.0	-0.1	0.0	1.0	0.2	1.5	0.0	0.0	0.0	0.0
Additional donor financing 7/				0.2	0.0	0.0	0.0	0.0	0.0	0.0
Residual gap				1.0	0.2	0.8	0.0	...	...	...
Residual gap				0.9	0.2	1.5	0.0	0.0	0.0	0.0
IMF ECF augmentation				0.9	...	0.8	0.0	0.0	0.0	0.0
IMF debt relief				...	...	0.7	0.0	0.0	0.0	0.0
Uncovered gap				0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:										
Total poverty expenditures	4.2	5.7	4.9	5.7	6.2	5.0	...	5.1	4.8	5.1
Non-resource primary balance 8/	-4.2	-5.1	-1.5	-5.8	-4.0	-4.4	-1.2	-4.4	-2.7	-3.1
Public domestic debt 9/	11.7	11.5	10.9	11.2	11.7	13.1	12.6	15.3	15.4	15.6
Bank and non-bank financial institutions 10/	0.9	2.3	1.3	1.9	2.8	2.0	2.0	3.0	2.0	2.0
Non-iron ore GDP (Le billions)	12,722	15,331	17,984	20,277	20,005	22,551	22,190	24,582	27,904	31,713

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ EBS/14/116
2/ Includes foreign financed election spending in 2012, Le 177.5 billion (1.2 percent of non-iron ore GDP).
3/ Transfer to the budget from a maturing EU grant onlent to Sierra Rutile.
4/ For 2014-15, contingent expenditure captures only expenditures related to the Ebola epidemic.
5/ Revenue less expenditures and net lending adjusted for foreign interest payments and foreign financed capital spending.
6/ Staff will clarify during mission what portion of arrears is domestic versus foreign.
7/ Include private sector donations.
8/ Non-resource revenue less expenditures and net lending adjusted for interest payments.
9/ Public domestic debt includes marketable and non-marketable treasury instruments and ways and means, excludes accounts payable.
10/ 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	919	3,372
Revenue	565	609	509	497	2,181
Tax	536	553	477	455	2,021
Personal Income Tax	169	152	129	137	587
Corporate Income Tax	56	66	59	56	237
Goods and Services Tax	137	160	145	116	559
Excises	79	50	41	45	215
Import duties	68	86	74	73	301
Mining royalties and license	17	25	17	19	79
Other	10	14	8	10	43
Non-tax	29	56	32	42	160
Grants	362	279	129	422	1,191
Budget support	95	181	25	357	657
of which CCR Debt relief	0	145	0	0	145
Project grants	265	95	98	30	488
Other	2	3	5	35	46
Expenditures and net lending	1,279	1,058	1,138	956	4,431
Current expenditures	684	646	785	712	2,827
Wages and salaries	379	365	428	428	1,601
Goods and services	182	149	229	133	692
Subsidies and transfer	81	87	86	90	345
Interest	42	45	43	61	190
Domestic	32	35	34	47	148
Foreign	10	10	9	14	42
Capital expenditure	566	388	352	244	1,551
Foreign financed	409	245	151	179	984
Domestic financed	157	143	201	66	567
Net lending 1/	0	0	0	0	0
Contingent expenditure 2/	28	24	0	0	53
Domestic primary balance 3/	-295	-194	-469	-267	-1,224
Overall balance including grants	-351	-170	-500	-36	-1,058
Overall balance excluding grants	-713	-449	-629	-458	-2,249
Financing	351	170	500	36	1,058
External financing (net)	117	118	41	84	361
Borrowing	144	150	53	148	496
Project	144	150	53	148	496
Budget	0	0	0	0	0
Amortization	-27	-32	-12	-64	-135
Domestic financing (net)	197	80	472	-52	697
Bank	143	175	388	27	733
Central bank	67	90	243	-64	336
IMF ECF Augmentation	177	0	0	112	289
Secondary Market Operations	-25	-22	4	18	-25
Ways and means 4/	-85	112	239	-193	73
Drawing					111
Repayment					39
Commercial banks	75	85	145	91	396
Nonbank	54	-95	84	-79	-36
Non bank financial institutions	-12	-6	20	-2	0
NASSIT bond	0	0	0	0	0
Privatization proceeds	0	0	0	0	0
Change in arrears	-20	-3	-8	-4	-35
Float (checks payable)	86	-86	72	-73	-1
accumulated	0	0	0	0	0
repaid	0	0	0	0	0
Financing gap	38	-28	-13	3	0
Memorandum item:					
Bank and non-bank financing 5/	20	80	472	-163	408

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/ 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 financing equivalent to 25 million euros (in Q3) from the Central Bank to cover delayed budget support to be paid
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 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	750	941	699	967	3,358
Revenue	619	687	608	646	2,559
Tax	576	625	568	601	2,369
Personal Income Tax	163	166	162	162	653
Corporate Income Tax	68	70	61	61	259
Goods and Services Tax	149	171	150	166	635
Excises	76	87	76	84	323
Import duties	87	100	87	97	370
Mining royalties and license	22	18	19	17	76
Other	12	14	12	14	52
Non-tax	43	62	40	45	190
Grants	132	254	91	321	798
Budget support	60	115	16	227	418
of which CCR Debt relief	0	0	0	0	0
Project grants	71	139	75	94	380
Other	0	0	0	0	0
Expenditures and net lending	1,141	1,271	1,014	1,236	4,662
Current expenditures	756	843	689	833	3,120
Wages and salaries	413	413	413	413	1,651
Goods and services	192	246	117	228	783
Subsidies and transfer	89	99	95	104	388
Interest	62	85	64	88	299
Domestic	52	73	54	75	254
Foreign	10	12	10	13	45
Capital expenditure	379	422	319	397	1,517
Foreign financed	208	235	208	253	904
Domestic financed	171	187	111	144	613
Net lending 1/	0	0	0	0	0
Contingent expenditure 2/	6	6	6	6	25
Domestic primary balance 3/	-305	-337	-188	-324	-1,154
Overall balance including grants	-391	-330	-315	-269	-1,305
Overall balance excluding grants	-523	-584	-406	-590	-2,103
Financing	391	330	315	269	1,305
External financing (net)	80	95	84	106	365
Borrowing	115	136	120	152	524
Project	115	136	120	152	524
Budget	0	0	0	0	0
Amortization	-35	-41	-37	-46	-159
Domestic financing (net)	311	235	231	163	940
Bank	316	240	236	169	961
Central bank	117	155	87	104	463
IMF ECF Augmentation	0	112	0	112	223
Secondary Market Operations	113	50	88	0	250
Ways and means	5	-6	-1	-8	-10
Drawing					101
Repayment					111
Commercial banks	199	85	149	65	498
Nonbank	-5	-5	-5	-6	-21
Non bank financial institutions	0	0	0	0	0
NASSIT bond	0	0	0	0	0
Privatization proceeds	0	0	0	0	0
Change in arrears	-5	-5	-5	-6	-21
Float (checks payable)	0	0	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 4/	311	123	231	51	716

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ Includes Net Deposits and Advances from Commercial Banks To Ministries and Agencies.
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/ 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, 2011–16[1]

(Billions of leone; unless otherwise indicated)

	2011	2012	2013	2014	2015					2016			
					Mar.	Jun.	Sep.		Dec.	Mar.	Jun.	Sep.	Dec.
				Prel.	Prel.	Prel.	Prog. 5/	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
I. Monetary Survey													
Net foreign assets	2053	2485	2832	3254	3168	2940	2794	2949	3002	2946	2677	2717	2799
Net domestic assets	905	1138	1396	1675	1778	2098	2065	2786	2567	2766	3042	3377	3511
Domestic credit	2190	2505	2928	3742	3882	4062	3916	4456	4486	4759	5024	5267	5469
Claims on central government (net) 2/	1134	1365	1681	2444	2592	2763	2776	3150	3177	3493	3733	3969	4138
Of which: Claim on government by commercial banks	533	859	1219	1666	1741	1825	1610	1970	2062	2261	2345	2495	2559
Claims on other public sector 3/	54	192	200	199	190	183	199	186	186	186	186	186	186
Claims on private sector	963	897	1003	1057	1057	1064	888	1064	1067	1025	1049	1056	1090
Other items (net) 3/	-1285	-1367	-1532	-2067	-2104	-1964	-1851	-1670	-1919	-1994	-1982	-1889	-1958
Money and quasi-money (M3)	2958	3623	4229	4929	4945	5038	4858	5735	5570	5712	5719	6094	6310
Broad money (M2)	2107	2594	3144	3864	3942	4069	3816	4574	4367	4527	4625	4876	4947
Foreign exchange deposits	851	1029	1085	1065	1003	969	1042	1161	1203	1253	1150	1218	1363
II. Bank of Sierra Leone													
Net foreign assets	1118	1303	1527	1958	1856	1824	1639	1703	1608	1532	1379	1341	1260
Net domestic assets	-258	-284	-327	-397	-354	-157	-225	86	64	183	338	440	546
Claims on other depository corporations	6	14	9	7	5	4	-58	4	5	5	5	5	5
Claims on central government (net)	601	507	462	779	851	938	887	1181	1117	1234	1389	1476	1580
Ways and means advances	27	48	1	39	0	66	19	305	112	117	110	110	102
SDR-on lending	...	...	...	182	359	359	359	359	471	471	582	582	694
Claims on other public sector 3/ 4/	0	0	0	0	0	0	0	0	0	0	0	0	0
Claims on private sector	7	9	14	18	20	37	17	37	37	39	39	54	56
Other items (net) 4/	-877	-817	-818	-1201	-1230	-1136	-1075	-1136	-1095	-1095	-1095	-1095	-1095
Reserve money	860	1019	1200	1562	1502	1667	1414	1789	1672	1715	1717	1781	1806
Currency in circulation	708	903	912	1137	1181	1118	1039	1275	1217	1348	1273	1269	1333
Commercial bank deposits	109	94	248	384	286	514	253	414	429	319	334	375	414
Other deposits	43	22	39	40	35	35	122	100	25	48	110	137	59
Memorandum items:													
(Annual percent change unless otherwise indicated)													
Base money	13.0	18.5	17.7	30.2	13.8	23.3	9.6	38.6	7.1	14.2	3.0	-0.5	8.0
M3	22.6	22.5	16.7	16.6	16.4	12.3	7.0	26.0	13.0	15.5	13.5	6.3	13.3
Credit to the private sector	21.8	-6.9	11.9	5.4	5.7	4.1	...	...	1.0	...	...	...	2.1
Velocity (GDP/M3)	4.3	4.2	4.3	4.1	...	...	...	...	4.0	...	...	...	3.9
Money multiplier (M3/base money)	3.4	3.6	3.5	3.2	3.3	3.0	3.4	3.2	3.3	3.3	3.3	3.4	3.5
Credit to the private sector (in percent of non iron ore GDP)	7.6	5.8	5.6	5.3	...	...	...	...	4.8	...	...	...	4.4
Gross Reserves (in US$ millions)	382	420	473	554	605	587	576	541	584	568	573	565	584
Program exchange rate (Leones/US$)	4378	4400	4334	4334	4953	4953	4953	4953	4953	4953	4953	4953	4953

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/ Including valuation.

5/ Program refers to EBS 15/10.

Table 4. Sierra Leone: Balance of Payments, 2011–18

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

	2011	2012	2013	2014			2015		2016	2017	2018
				Prog. 1/	EBS 15/10	Prel.	EBS 15/10	Proj.	Proj.	Proj.	Proj.
Current account	-1,315	-1,209	-859	-592	-382	-911	-582	-582	-546	-540	-448
Trade balance	-1,245	-914	-28	376	262	-339	-25	-813	-761	-457	-122
Exports, f.o.b.	386	1,046	1,543	2,187	1,791	1,304	1,444	586	584	1,008	1,487
Of which: diamonds	154	162	186	182	215	213	230	158	120	116	194
iron ore	0	357	1,064	1,188	808	742	346	23	0	356	711
Imports, f.o.b	-1,631	-1,961	-1,570	-1,810	-1,528	-1,644	-1,468	-1,399	-1,345	-1,465	-1,609
Of which: oil	-214	-255	-331	-364	-325	-311	-167	-131	-128	-168	-213
Of which: iron-ore related	-548	-390	-252	…	…	-270	…	-72	-70	-249	-391
Services (net)	-283	-349	-476	-589	-509	-1,026	-489	-286	-167	-217	-206
Income (net)	-35	-182	-557	-625	-560	-376	-482	-119	-79	-126	-405
Of which: interest on public debt	-6	-6	-7	-9	-10	-9	-9	-7	-8	-7	-7
Transfers	249	236	202	246	425	831	414	636	461	260	286
Official transfers	113	94	51	83	155	703	195	498	328	114	128
Other Aid (incl. Ebola)		20	17	28	…	564	68	402	245	20	20
Other transfers	136	142	151	163	270	128	219	137	134	146	158
Capital and financial account	1,353	1,109	566	520	412	617	291	506	476	597	528
Capital account	127	123	99	98	63	81	96	128	74	82	90
IMF CCRT Debt Relief 2/		…	…	…	…	…	…	29	…	…	…
Project support grants	99	86	87	95	59	59	92	95	70	78	85
Financial account	1,226	986	467	422	349	536	195	378	402	515	438
Foreign direct and portfolio investment	1,134	707	369	301	233	382	131	308	304	430	423
Other investment	149	353	98	121	116	154	64	70	98	85	15
Public sector (net)	70	122	101	136	59	59	48	69	114	112	71
Disbursements	82	137	89	160	83	82	75	96	146	145	104
Amortization	-12	-16	-20	-24	-24	-24	-27	-27	-32	-34	-33
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0
Change in net foreign assets of comm. banks	-50	4	-3	-37	35	48	16	0	-16	-27	-56
Other sectors net	3	50	0	0	0	0	0	0	0	0	0
Short-term	0	0	0	0	0	0	0	0	0	0	0
Errors and omissions	-9	136	339	0	12	333	0	0	0	0	0
Overall balance	28	35	47	-72	41	39	-291	-76	-70	58	80
Financing											
Central bank net reserves (- increase)	-28	-35	-47	2	-41	-39	-16	76	70	-58	-80
Gross reserve change	-37	-39	-53	-53	-82	-80	-40	-30	0	-40	-61
Use of Fund loans	9	3	7	55	41	41	24	106	70	-18	-19
Purchases	14	7	14	67	54	54	39	136	71	0	0
Of which: ECF augmentation	…	…	…	…	…	…	…	23	45	…	…
Repurchases	-5	-4	-7	-12	-13	-12	-14	-30	-1	-18	-19
Exceptional financing	0	0	0	70	0	0	306	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:											
(Percent of non-iron ore GDP unless otherwise indicated)											
Current account	-45.0	-34.3	-20.8	-13.0	-9.0	-21.2	-13.7	-13.5	-12.1	-10.9	-8.3
Trade Balance	-42.6	-25.9	-0.7	8.2	6.2	-7.9	-0.6	-18.9	-16.9	-9.3	-2.3
Capital and Financial Account	46.2	31.4	13.7	11.4	9.7	14.4	6.9	11.7	10.5	12.1	9.8
Overall Balance	1.0	1.0	1.1	-1.6	1.0	0.9	-6.8	-1.8	-1.6	1.2	1.5
Official aid (grants and loans)	2.9	2.8	1.1	1.7	3.0	3.3	2.4	2.3	1.9	2.0	2.0
IMF CCRT debt service savings in US$		…	…	…	…	…	…	13	16	…	
Budget support in US$ (grants and loans)	84.3	100.1	44.2	79.9	128.8	141.0	103.3	98.9	85.4	97.0	110.3
Gross International Reserves											
US$ millions	382	420	473	527	556	554	596	584	584	624	685
Months of imports	1.8	2.2	2.0	2.2	3.2	3.5	3.0	4.0	3.6	3.6	3.6
Excluding iron ore, months of imports	2.4	3.2	3.4	3.6	4.3	4.1	4.2	4.7	4.8	5.0	5.2
National currency per US dollar (average)	4,357	4,344	4,345	…	…	4,655	…	…	…	…	…

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

1/ Program refers to EBS/14/116

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

Table 5. Sierra Leone: Indicators of Capacity to Repay the Fund, 2012–27

				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	17.5	18.8	17.1	31.34	49.20	55.82	53.11	51.69	32.70	10.63	0.00
In percent of exports of goods and services	0.3	0.4	0.8	0.1	0.1	1.4	1.1	0.9	1.51	2.19	2.35	2.13	1.97	1.18	0.36	0.00
In percent of debt service 1/	13.4	20.9	27.3	1.0	1.3	30.4	31.7	28.3	40.33	50.21	51.67	49.06	47.68	36.12	13.62	0.00
In percent of GDP	0.1	0.1	0.3	0.0	0.0	0.3	0.3	0.3	0.47	0.69	0.74	0.66	0.61	0.36	0.11	0.00
In percent of Gross International Reserves	0.8	1.5	2.3	0.1	0.1	2.8	2.7	2.4	4.25	6.37	6.75	5.81	5.32	3.06	0.87	0.00
In percent of quota	2.2	4.5	7.8	0.4	0.3	11.7	12.5	11.4	20.86	32.75	37.16	35.35	34.41	21.76	7.08	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	334.9	317.4	298.6	282.2	251.56	202.95	147.57	94.77	43.25	10.62	0.00	0.00
In percent of exports of goods and services	9.8	7.2	11.2	34.1	41.5	25.2	16.9	14.6	12.10	9.03	6.20	3.80	1.65	0.38	0.00	0.00
In percent of debt service	458.2	376.0	368.8	412.3	832.1	550.4	502.3	469.1	323.74	207.12	136.59	87.53	39.89	11.73	0.00	0.00
In percent of GDP	3.2	2.6	3.6	6.1	7.4	6.2	5.2	4.5	3.76	2.84	1.95	1.18	0.51	0.12	0.00	0.00
In percent of Gross International Reserves	28.7	27.0	30.5	45.2	57.4	50.9	43.6	39.6	34.08	26.26	17.83	10.36	4.45	0.99	0.00	0.00
In percent of quota	76.0	80.1	105.8	175.7	222.9	211.3	198.7	187.9	167.43	135.08	98.23	63.08	28.78	7.07	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$)	1,228	1,766	1,510	774	807	1,259	1,769	1,934	2079	2247	2379	2495	2625	2766	2921	3092
Debt service (in millions of US$)	26	34	46	64	40	58	59	60	78	98	108	108	108	91	78	76
Nominal GDP (in millions of US$)	3,789	4,868	4,746	4,324	4,513	5,093	5,709	6,209	6699	7156	7582	8038	8524	9043	9589	10167
Gross International Reserves (in millions of US$)	420	473	554	584	584	624	685	712	738.0	772.8	827.6	914.9	971.2	1068.2	1220.5	1421.6
Quota (millions of SDRs)	104	104	104	104	104	104	104	104	104	104	104	104	104	104	104	104

Source: IMF staff estimates and projections.

1/ Total debt service includes IMF repayments.

Table 6. Sierra Leone: Actual and Proposed Disbursements under the ECF Arrangement, 2013–16

Availability	Disbursements		Conditions for Disbursement
	In millions of SDRs	In percent of quota	
October 21, 2013	8.890	8.57	Effectiveness of the three-year ECF arrangement
June 15, 2014	8.890	8.57	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	58.57	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	8.57	Board completion of the third review based on observance of performance criteria for December 31, 2014
November 15, 2015 1/	24.445	23.57	Board completion of the fourth review based on observance of performance criteria for June 30, 2015
April 15, 2016	24.440	23.57	Board completion of the fifth review based on observance of performance criteria for December 31, 2015
September 10, 2016	24.440	23.57	Board completion of the sixth review based on observance of performance criteria for June 30, 2016
Total disbursements	186.660	**180.00**	

1/ Staff is proposing an increase of access equivalent to 45 percent of quota distributed in three tranches, starting from this review.

Table 7. Sierra Leone: Millennium Development Goals, 1990–2015

	1990	1995	2000	2005	2010	2011	2012	2013	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	65.0	65.0	65.2	..	..
Employment to population ratio, ages 15-24, total (%) (modeled ILO estimate)	..	38.1	38.4	42.0	42.1	42.0	41.9			
GDP per person employed (constant 1990 PPP $)	..	..	..	..	..	..	..	..	..	..
Income share held by lowest 20%	..	..	..	..	..	7.8	..	..	..	..
Prevalence of underweight, weight for age (% of children under 5)	25.4	..	24.7	28.3	21.1	..	..	18.1	..	..
Poverty gap at $1.25 a day (PPP) (%)	..	..	..	..	..	19.2	..	..	..	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	..	..	..	..	56.6	..	..	..	..
Vulnerable employment, total (% of total employment)	..	..	..	..	..	..	..	..	..	..
Goal 2: Achieve universal primary education										
Literacy rate, youth female (% of females ages 15-24)	..	..	..	..	..	..	..	55.6	..	..
Literacy rate, youth male (% of males ages 15-24)	..	..	..	..	..	..	..	73.0	..	..
Persistence to last grade of primary, total (% of cohort)	..	..	..	..	..	..	47.8	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	..	..	..	76.6	72.4	71.0	..	..
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	12.9	12.4	12.4	12.1	..
School enrollment, primary (gross), gender parity index (GPI)	0.7	..	0.9	..	..	0.9	1.0	1.0	..	..
School enrollment, secondary (gross), gender parity index (GPI)	0.5	..	..	..	..	0.7	0.9	0.9	..	..
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	83.0	84.0	83.0	78.0	..
Mortality rate, infant (per 1,000 live births)	156.5	153.4	143.3	128.1	107.0	102.3	97.9	93.8	90.2	87.1
Mortality rate, under-5 (per 1,000 live births)	264.3	257.5	235.8	203.7	160.2	150.6	141.6	133.4	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	129.2	125.3	122.5	119.6	..
Births attended by skilled health staff (% of total)	..	..	41.7	43.2	62.5	..	..	59.7	..	..
Contraceptive prevalence (% of women ages 15-49)	..	..	4.3	5.3	11.0	..	..	16.6	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	2300.0	2400.0	2200.0	1600.0	1200.0	..	..	1100.0	..	..
Pregnant women receiving prenatal care (%)	..	..	67.9	81.1	93.0	..	..	97.1	..	..
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..	27.4	..	..	25.0	..	..
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	..	..	48.3	..	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	..	..	..	4.5	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	..	..	..	15.4	..	..
Incidence of tuberculosis (per 100,000 people)	252.0	282.0	305.0	316.0	317.0	316.0	314.0	313.0	..	..
Prevalence of HIV, female (% ages 15-24)	0.1	0.2	0.8	1.0	0.6	0.6	0.5	0.5	0.4	..
Prevalence of HIV, male (% ages 15-24)	0.1	0.1	0.4	0.5	0.3	0.3	0.3	0.2	0.2	..
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.2	1.0	1.6	1.6	1.6	1.5	1.5	1.4	..
Tuberculosis case detection rate (%, all forms)	6.2	18.0	30.0	42.0	70.0	69.0	70.0	63.0	..	..
Goal 7: Ensure environmental sustainability										
CO2 emissions (kg per PPP $ of GDP)	0.1	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	0.2	..	..	..	..
Forest area (% of land area)	43.2	41.8	40.5	39.1	37.8	37.5	37.2	..	..	..
Improved sanitation facilities (% of population with access)	10.1	10.7	11.3	11.9	12.6	12.7	12.8	13.0	13.1	13.3
Improved water source (% of population with access)	36.7	42.0	47.2	52.3	57.4	58.5	59.5	60.6	61.6	62.6
Marine protected areas (% of territorial waters)	..	..	6.3	..	6.3	..	8.6	..	..	..
Net ODA received per capita (current US$)	14.7	54.1	43.6	66.4	81.2	72.5	74.1	72.8	..	..
Goal 8: Develop a global partnership for development										
Debt service (PPG and IMF only, % of exports of goods, services and primary income)	10.0	62.5	45.9	8.9	3.8	4.3	2.7	2.6	..	..
Internet users (per 100 people)	0.0	0.0	0.1	0.2	0.6	0.9	1.3	1.7	2.1	..
Mobile cellular subscriptions (per 100 people)	0.0	0.0	0.3	..	34.8	36.4	37.0	65.7	76.7	..
Fixed telephone subscriptions (per 100 people)	0.3	0.4	0.5	0.5	0.2	0.3	0.3	0.3	0.3	..
Fertility rate, total (births per woman)	6.5	6.2	5.9	5.5	4.9	4.9	4.8	4.7	..	..
Other										
GNI per capita, Atlas method (current US$)	200.0	200.0	160.0	320.0	470.0	500.0	520.0	670.0	710.0	..
GNI, Atlas method (current US$) (billions)	0.8	0.8	0.7	1.6	2.7	2.9	3.1	4.2	4.5	..
Gross capital formation (% of GDP)	13.0	5.6	1.1	11.5	31.1	42.1	27.9	12.7	13.8	..
Life expectancy at birth, total (years)	37.4	35.8	38.1	42.1	44.8	45.1	45.3	45.6	..	..
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..	..	..	45.7	..	..
Population, total (millions)	3.9	3.8	4.1	5.1	5.8	5.9	6.0	6.2	6.3	..
Trade (% of GDP)	68.7	45.0	57.5	47.5	51.3	72.4	85.3	90.3	82.7	..

Source: World Development Indicators

Table 8. Sierra Leone: Financial Soundness Indicators of the Banking System, 2011–15

	2011	2012	2013	2014				2015	
				Mar	Jun	Sep	Dec	Mar	Jun
	(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
Regulatory tier 1 capital ratio 2/	14.0	12.5	13.6	13.8	21.9	20.5	25.9	31.4	29.9
Asset quality									
Nonperforming loans to total gross loans	15.1	14.7	22.4	22.0	35.7	33.8	33.4	34.4	39.6
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
Earnings and profitability									
Return on assets	3.8	3.4	2.1	0.5	1.0	1.8	2.7	0.8	1.8
Return on equity	15.6	16.1	9.9	2.5	3.7	9.8	14.9	4.4	9.4
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
Liquidity ratio 3/	54.6	40.7	72.5	77.5	74.6	73.8	78.9	77.8	83.6
Statutory minimum liquidity ratio 3/ 4/	29.7	54.9	29.3	30.7	28.4	61.2	29.7	30.2	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
	(Number of banks not complying)								
Prudential ratios at year-end									
Capital adequacy	0	0	0	0	2	2	2	1	2
Minimum liquidity ratio	2	5	0	0	0	5	0	0	0
Minimum capital	3	2	1	1	2	2	2	2	2
Limit of single large exposure 5/	3	5	0	2	0	1	2	2	2
Memorandum Item:									
Number of banks	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.

Appendix I. Letter of Intent

October 30, 2015

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Dear Madame Lagarde:

1. The Sierra Leone economy has suffered tremendous hardship in 2014 and 2015 because of the adverse impact of two significant exogenous shocks: the Ebola epidemic and a severe crisis in the iron ore sector. The shocks have eroded some of the progress we made in recent years in social and economic areas, and have generated new challenges for policy implementation and economic prospects.

2. As of end-September 2015, more than one year after the onset of Ebola, 8,704 people were infected and 3,589 died; the number of vulnerable persons increased as many lost their source of income, or labor force for their businesses. The non-iron ore economy slowed significantly in both 2014 and 2015. The adverse impact of Ebola has been compounded by the crisis in the iron ore sector, set off by the collapse in global prices that exacerbated the financial difficulties facing our iron ore companies. The crisis resulted in the cessation of production, at end-March 2015, for the two companies operating in the sector; and the bankruptcy of African Minerals Limited (AML), which accounts for 80 percent of the market. In mid-April, through a bidding process, Shandong Iron and Steel Group (SISG—the second investor in AML), became the sole shareholder. However, SISG has not confirmed a timeline for the resumption of production. Consequently, total real GDP is projected to decline by more than 20 percent in 2015.

3. Despite the tremendous challenge posed by the Ebola epidemic, the Government, in cooperation with donor partners, has made significant progress in curtailing the virus, and has set the country on a solid path to becoming Ebola-free. For the first time since the start of the epidemic, the state of emergency has been eased.

4. The implementation of actions to fight Ebola, including through the National Ebola Response Center (NERC), has benefitted from the continued support of our development partners, including the International Monetary Fund (IMF) through two augmentations of the current Extended Credit Facility (ECF) arrangement and debt relief. This invaluable support has been instrumental in addressing balance of payments and budget financing needs generated by the Ebola epidemic, and in fighting the disease. The Government is hopeful that the declining trend being observed in recent months will be sustained, and lead to an "Ebola-free" Sierra Leone by the end of the year.

5. As the epidemic is brought under control, the Government has put in place a Post Ebola Recovery Strategy (ERS) that aims to put the economy back on the track of economic growth and stability. Broadly, the strategy focuses on three elements: (i) getting and staying at zero new cases; (ii) implementing immediate recovery priorities; and (iii) transitioning back to the Agenda for Prosperity Plan (A4P) in the medium to long-run. The estimated cost of the plan is US$1.3 billion. The Government had an opportunity to present its plan to a UN conference held in July.

6. Program implementation has become very challenging as the Government was faced with the adverse impact of these two exogenous shocks, both of which have lingered longer than expected at the time of the second review of our ECF arrangement. At end-December 2014, program performance was weaker than anticipated, mainly because of Ebola-related factors as explained in the attached Memorandum of Economic and Financial policies. In 2015, program performance was back on track as all end-June performance criteria were observed. Only the end-June target for poverty related spending was missed. The end-June performance target for gross reserves was met. However, this relatively strong program performance has come at the cost of weak budget implementation, as expenditures across all categories were curtailed to meet program targets, including poverty related spending. The Government is requesting a waiver of nonobservance of performance criteria for the breach of the ceiling on net domestic bank credit to the central government, on net domestic assets of the central bank, and on the floor for gross foreign reserves of the central bank for end-December 2014. In addition, in light of the more severe shocks than previously anticipated, the government is requesting an increase of access equivalent to 45 percent of quota (distributed in three tranches starting from this review) to take advantage of the new access norms. We would request that all three tranches be on lent to the budget to ease financing constraints in 2015 and 2016. This additional financing would be complemented on our side by greater adjustment than previously anticipated, with non-wage, non-interest spending (excluding foreign financed investment projects), declining by 0.5 percent of GDP in 2015, relative to 2014. In addition, we will introduce measures in 2016 to increase revenue collection, including

limitations on import duty waivers granted to Ministries Departments and Agencies. We will also seek to increase the top tax rate personal income tax from 30 to 35 percent, in line with regional average. Finally, we will eliminate implicit subsidies for petrol consumption, which have been executed through varying the excise rate to keep consumer pump prices constant. These measures should provide approximately 0.6 percent of non-iron ore GDP in 2016.

7. 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.

8. The Government requests the completion of the third and fourth combined reviews of Sierra Leone's program supported by the IMF under the ECF arrangement, the augmentation of access under the program by 15 percent of quota for each of the fourth, fifth and sixth reviews, and a rephasing of the fifth disbursement so that it becomes available immediately upon the completion of the IMF Executive Board meeting and the rephasing of the 6^{th} disbursement from June to April 2016. .

9. 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/
Kaifala Marah	Momodu Kargbo
Minister of Finance and Economic Development	Governor of Bank of Sierra Leone

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

Attachment 1. Memorandum of Economic and Financial Policies

Freetown, October 30, 2015

INTRODUCTION

1. This Memorandum of Economic and Financial Policies (MEFP) supplements the one dated February 12, 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 2015 and 2016. These policies aim to address the impact of the Ebola and iron ore crises, with the goals of rebuilding the economy, supporting macroeconomic stability, and generating sustainable poverty reduction and broad-based economic growth for the medium-term.

2. In 2014, the Sierra Leone economy was hit by two severe shocks: the Ebola epidemic and the sharp drop in iron ore prices, which contributed to the shutting down of both iron ore mining companies.

3. Although well under control, the Ebola epidemic is not over. While the last Ebola patient has been released, Sierra Leone still faces the challenge of maintaining zero new cases to be declared officially Ebola-free; complacency, therefore, is unwarranted. Many have lost their sole source of income, as business and farm activities have been disrupted. In addition, the exposure rate to neglected but prevalent diseases such as malaria has increased.

4. The implementation of the Ebola response plan has been continuing, with much appreciated support from Sierra Leone's development partners. It is clear we will have to deal with the impact of this disease for years to come because, even after the country is declared Ebola-free, there will still remain many Ebola affected people to care for, including Ebola survivors, orphans, widows, widowers and other vulnerable groups. There is also the urgent need for economic activity to be restored—a task that will be made more challenging by the financial difficulties businesses incurred as a result of the epidemic—and the entire healthcare system to be rehabilitated. The post-Ebola Recovery strategy we have prepared 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 help the Government in the implementation of this strategy.

RECENT ECONOMIC DEVELOPMENTS

5. Real GDP growth decelerated significantly in 2014. Many sectors were adversely affected by the Ebola outbreak in the second half of the year, including agriculture, construction, 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 economy was limited to 0.8 percent, compared with a 5.4 percent expansion in 2013. However, as the Ebola Virus Disease (EVD) is receding in the second half of 2015, a gradual recovery is underway in the non-iron sectors.

6. Unfortunately, the continuing crisis in the iron ore sector has severely impacted overall growth prospects in the near to medium term. For 2015, with only minimal iron ore production in the first quarter, and none in the rest of the year, total GDP is expected to contract by 21.5 percent. For 2016, prospects for the iron ore sector remain uncertain, in light of the continued low prices. Therefore, to be cautious, we have made our economic plans for 2016 based on the assumption that iron ore production will not resume until at least 2017. On that basis, with the continuing gradual recovery in the rest of the economy, total GDP is projected to grow by only 0.1 percent.

7. The consumer price index rose 9.8 percent in 2014, compared with 8.5 percent in 2013, reflecting the exchange rate depreciation, reduced food supply due to lower agriculture production, and disruptions in cross border trade with Liberia and Guinea. The suspension of periodic markets and travel restrictions contributed to a reduction in trade of basic food commodities such as rice, palm oil, gari, ground nut, onions and other essential goods. However, inflation seems to be stabilizing in the first half of 2015 due to lower food prices. As of August 2015, headline inflation stood at 8.9 percent.

8. The fiscal position weakened significantly in 2014 relative to 2013. Revenue was roughly 5 percent below the projected level, with shortfalls in personal income tax (PIT), excises and mining revenue from iron ore, mostly driven by the economic impact of the Ebola epidemic and lower revenue collection from the iron ore sector. Revenue from excises on petroleum products was below projections because of a drop in sales volumes, while non-tax revenue was lower than projected because of the general slowdown in economic activity. However, goods and services taxes, corporate taxes and Import duties performed well, largely due to increased collection efforts and administrative reforms. Total expenditures was lower than anticipated because of the significant scaling back of externally-financed investment, as many projects were stopped due to Ebola-related restrictions. However, there were overruns in current spending, reflecting Ebola-related outlays, and

higher than budgeted spending on wages and salaries, mostly due to higher than budgeted recruitments; in goods and services; and in domestically-financed public investment. The poor revenue performance and delays in the receipt of budget support led to the accumulation of unpaid bills amounting to Le 200 billion at end-June. They were cleared in the second half of the year through expenditures reallocation and additional external financing. The domestic primary deficit is estimated to have been 5.6 percent of non-iron ore GDP. External budget support (loans and grants) totaled Le 656 billion, significantly higher than budgeted, reflecting increased support from Sierra Leone's development partners to help address the impact of Ebola on the government budget. Government borrowing from the securities market amounted to Le 417 billion, compared with Le 208 billion projected. The additional amount helped cover the shortfall in revenue, and higher than expected redemption of securities held by nonbank financial institutions.

9. The budget continues to be under pressure in 2015. As of mid-2015, due to delays in budget support and less than anticipated domestic financing, the government had to curtail expenditures in goods and services, and domestically financed investment. On the other hand, notwithstanding the continued shutdown of the iron ore sector, the gradual recovery in the non-iron ore sectors and improvement in administrative measures in the second quarter helped domestic revenue remain in line with program projections. For the year as a whole, however, we are facing increased pressure on two fronts: first, on capital spending, where resumption of previously approved projects that had been suspended by Ebola has been more rapid than anticipated; and second, on meeting poverty related spending targets, which were set based on more optimistic macroeconomic projections. Overall, we now target a 2015 fiscal deficit of 4.8 percent of GDP, up slightly from the 4.6 percent targeted at the time of the second review.

10. One area where budget pressures have been felt particularly hard is in poverty-related spending, which recorded a shortfall of about Le 172 billion relative to program. This was due mainly to the impact of Ebola-related restrictions, as a result of which the key sectors that account for the bulk of our pro-poor expenditure were not able to deliver services as expected. Schools reopened only in early April; most hospitals were operating at below capacity; agricultural activities slowed down; and most of the infrastructure projects in roads, water supply and energy resumed only by the second quarter of the year. In addition to the direct impact of Ebola, revisions to the program during the third review due to the deterioration in economic conditions were not reflected in the target on poverty related expenditure, which were set in December 2014. While total expenditure was cut by over Le300 billion to close the implicit financing gap under the program for 2015, the initial program target of Le570 billion for poverty related expenditure was not revised downwards. Implementing it as programmed would have led to a breach of the QPC on net domestic financing

of the budget for end June 2015. Going forward for the rest of the year, we will make efforts to meet the program target for end December 2015.

11. Monetary sector developments in 2014 and so far in 2015 have also been heavily influenced by the economic impact of the Ebola epidemic. Currency in circulation increased significantly, particularly in the second half of 2014, reflecting disruptions and uncertainties engendered by the rapid spread of the disease. Ebola-related capital inflows contributed to a sharp increase in net foreign assets. Meanwhile, credit to the private sector rose only 5.4 percent, slowing further to 4.2 percent annual rate in the first half of 2015, consistent with the economic slowdown. Reserve money grew by 30 percent in 2014, well-above the targeted rate of 12.7 percent, before slowing to 23 percent as of end-June 2015, due in part to the late arrival of significant external assistance. Broad money (M2) accelerated by more than 20 percent in 2014, slowing to 17 percent as of mid-2015. The Monetary Policy Rate was kept at 10 percent in 2014, but was reduced to 9.5 percent in March 2015, in order to support the post-Ebola recovery.

12. Pressures on the Leone emerged in the second half of 2014: the average exchange rate to the US dollar depreciated by 13.8 percent, reflecting mostly demand pressures generated by Ebola-related imports. To meet the additional demand, the BSL increased its weekly interventions in the foreign exchange market from US$500,000 to US$3 million in the second half of 2014. Pressures on the exchange rate have continued in the first half of 2015, with the Leone depreciating 10 percent in the year to end-August. Weekly sales have been reduced to US$1 million, to preserve reserves. Since March, all BSL sales of foreign exchange have been conducted using the wholesale auction system, as opposed to the invoice-based auction system, as part of the process of moving to a full-fledged interbank foreign exchange market system.

13. At end-2014 most banks complied with prudential norms. However, compared with 2013, the number of banks that were non-compliant with the minimum liquidity; capital adequacy, and non-performing loan (NPL) ratios increased. Loan concentration remains high with international trade, construction, and services accounting for about three quarters of total loans. Non-performing loans (NPLs) have grown significantly, reaching 39.6 percent of gross loans at end-June 2015, a problem that the BSL is addressing with urgency, as discussed below. Nonetheless, banks remain profitable and liquidity high, primarily in the form of treasury bills.

14. Total goods exports declined from US$1,543 million in 2013, to US$1,304 million in 2014 because of the decline in international prices for Sierra Leone's key mineral products (accounting for almost 77 percent of exports), in particular prices for iron ore. With the halt in iron ore production, for 2015 exports are projected to decline sharply to $586 million. Total imports rose by 35 percent in

2014, reflecting mainly Ebola-related goods and services that more than compensated for the decline in imports of fuel products, food and machinery. As a result, the trade deficit in goods increased from US$28 million in 2013, to US$339 million in 2014. For 2015, the collapse in iron ore exports will be partially offset by a more than 15 percent decline in goods imports, as Ebola-related and iron ore-related imports decline; nonetheless, the trade deficit is projected to grow to US$813 million.

PROGRAM PERFORMANCE

15. The implementation of policies and reforms under the ECF-supported program continued in 2014, despite the very difficult environment generated by the rapid spread of the EVD. At end-December, performance criteria (PC) on domestic bank credit to the central government, net domestic assets of the central bank, and on gross foreign exchange reserves of the central bank were missed. The PC on net domestic bank credit to the central government was breached by Le 314 billion; the PC on net domestic assets of the central bank was breached by Le 219 billion; and the PC on gross foreign reserves of the central bank was missed by $6.9 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 1,236 billion, exceeding the indicative target by Le 91 billion. However, the targets on domestic government revenue and on the domestic primary balance were missed because of the impact of Ebola on both revenue and expenditure (Table 1).

16. We have taken strong corrective measures to get the program back on track. A slowdown in the sales of foreign exchange by the BSL has helped bring gross foreign exchange reserves back in line with program objectives. On the fiscal side, we have greatly strengthened tax administration (closer scrutiny of medium-sized taxpayers, closer monitoring of excise revenue, sub-contractors audits and continued efforts at goods and services taxation). We have also significantly strengthened cash management and more closely monitored expenditures, while tightly restraining non-priority spending. As a result, for 2015, all PCs and indicative targets for end-March and end-June were met, except for the end-March indicative target on BSL gross foreign exchange reserves and the end-June target for poverty related spending.

17. On structural benchmarks, there was limited progress in the implementation of measures programmed for the second half of 2014. The monthly rolling Treasury cash flow table consistent with the revised 2014 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 completed. Pilots of the wholesale foreign exchange auction were held starting in September 2014, and have been used exclusively since [March 2015]. The remaining structural reforms programmed for the second half of 2014 (Table 2) have yet to be implemented, largely due to delays in Technical Assistance due to the EVD. For 2015, the PFM bill was introduced to Parliament in August 2015, (Table 3) only slightly later than called for in the program. We request below to rephase the remaining structural benchmarks, progress on which was again hindered by delays in Technical Assistance.

ECONOMIC OUTLOOK AND POLICIES FOR THE REMAINDER OF 2015 AND 2016

Economic Outlook

18. The short-term economic outlook remains very difficult, as the government battles to make the country Ebola-free despite significant progress in containing the epidemic, while the crisis in the iron ore sector persists. Real GDP is expected to decline in 2015 by 21.5 percent, reflecting the collapse in iron ore production. For 2016, assuming iron ore production does not restart, real GDP growth is expected to be largely unchanged, due to the expected modest recovery in the non-iron ore sector.

19. The leading iron ore mining company (African Minerals Limited–AML), which shutdown in December 2014, following extended board disagreement, including a lawsuit, is now fully owned by Shandong Iron and Steel Company. However, with the continuing low prices, it is not clear when production will resume. Production from AML accounts for almost 80 percent of total iron ore mining in Sierra Leone. The smaller company, TIMIS Mining Corporation (TMC), depends on access to rail and port services owned by a subsidiary of AML. An interim Access Agreement expired on March 18, 2015, and TMC consequently was forced to halt operations on April 2, 2015. The Government is facilitating discussions between TMC and AML.

20. Overall activity in the non-iron sectors is forecast to grow by 1 percent in 2015. Moderate recovery is expected in agriculture, supported by the provision of agricultural inputs, including an improved variety of seed rice to farmers and the reduction in the rental price of tractors by the Government. Trade and construction are also showing early signs of recovery, manufacturing, however, is expected to decline in 2015, due to constraints imposed by Ebola. Tourism is also performing poorly, while transport and other services have been adversely impacted by the iron ore crisis. For 2016, agriculture, construction, and trade are expected to be key sectors contributing to growth, as concerns about Ebola are increasingly in the past. Inflation is projected to rise from

8.3 percent in 2014 to about 10 percent in 2015, before declining modestly in 2016. The trade balance is projected to worsen significantly in 2015, because of the crisis in the iron ore sector. However, the current account deficit is projected to improve from 25 percent of non-iron ore GDP in 2014, to 13.1 percent in 2015, and recover to 13 in 2016, due mainly to improvements in current transfers and reduction in iron-ore related imports of goods and services.

21. The implementation of the Government's post-Ebola Recovery Strategy (ERS), if it goes as planned, could boost growth in the non-iron sectors relative to the above projections. The ERS was presented at a UN conference in July. The key elements of the strategy comprise quick win measures to alleviate suffering and jump start the economy in the short-term while medium- to long-term measures will be integrated into the Agenda for Prosperity. Some of the short term measures are restoration of health services; enhancement of social services to the most vulnerable; improved water and sanitation services; and supporting private sector development including agriculture. To date, however, we have had only limited success in generating donor support to fund this plan.

Fiscal Policy

22. The government curtailed budget execution across all categories in the first half of 2015 as lack of activity in health and education placed certain fiscal activities on hold. The government also wanted to maintain reserves in case the Ebola Virus spiked again. Expenditure on goods and services and domestically financed capital in particular were scaled back. However, some revenue sources picked up in the first half of the year, as the non-iron economy showed signs of recovery and as iron-ore companies paid PAYE taxes they owed to NRA from last year. For the year as whole, domestic revenue is projected to decline from 11.1 percent of GDP in 2014 to 9.8 percent in 2015, mainly because of the drop in revenue from the iron ore sector and its upstream activities.

23. Expenditures for 2015 are projected to be 20.0 percent of GDP, somewhat higher than in the budget, thanks to additional commitments from Sierra Leone's development partners, including the IMF, with much of this concentrated on poverty-reducing spending, including Ebola recovery. Current spending is projected at 12.7 percent of GDP, taking into account the budgeted increase in the wage bill of about 11 percent, due to both recruitment in priority sectors and a 15-percent salary increase that started in July. These measures were introduced in parliament with the 2015 budget, when the macroeconomic outlook was based on optimistic assumptions for the containment of the Ebola epidemic, and prior to the acute crisis that affected the iron ore sector.

24. The domestic primary deficit is projected at 5.5 percent of GDP, down slightly from 2014, as non-essential expenditures will continue to be managed through tighter cash management. Despite

our best efforts at fiscal restraint, the combined Ebola and iron or shocks have had such a significant impact on our budget that we have been unable to fully finance this deficit. Thus we propose to use the first tranche of our requested increased access (15 percent of quota) to help finance the 2015 budget.

25. For 2016, fiscal challenges will continue to be severe. Revenues will be further adversely impacted by the crisis in the iron ore sector, as 2015 saw several months of modest iron ore production and related revenues, and the one time payment of iron ore-related PAYE arrears, neither of which will be repeated in 2016. We will take strong measures to enhance revenue collection. In addition to continuing our efforts to strengthen tax administration and enforcement, we will make three tax policy changes. First, waivers and exemptions from the GST and customs duties cost the budget significant revenue. We will eliminate exemptions worth Leone 30 billion, or 0.12 percent of GDP. In addition, given the large proportion of waivers and exemptions accounted for by government agencies, to contain future exemptions and waivers, the 2016 budget will include language mandating Ministries, Departments and Agencies (MDAs) to make provision for import duty for any dutiable goods or services to be imported. The budget will also include language eliminating the power to approve discretionary exemptions without the prior approval of Parliament. Second, we will increase the top PAYE rate from 30 percent to 35 percent. We expect this will generate Leone 5 billion. Finally, in 2016, the government will apply the existing commercial fuel price mechanism regime to retail pump prices as well, making the two prices equal and having a full pass-through from the international prices. The additional excise revenue collected from this effort is estimated to be approximately Leone 104 billion, or 0.42 percent of GDP. Submission to parliament of a budget consistent with these commitments will be a prior action for Board consideration of this review.

26. On the expenditure side, wages will be kept nominally flat through 2016, except for a modest adjustment for the judiciary, and will decline from 7.2 percent of GDP in 2015 to 6.7 percent in 2016. Notwithstanding this wage restraint, we will continue our efforts to recruit and train health workers to prevent an adverse impact on post-Ebola recovery; these efforts will be offset by hiring restraints for other government positions. In addition to this wage restraint, nonwage, non-interest outlays, including domestically financed investment, are set to decline by 0.5 percent of GDP with respect to 2015. Budget execution will continue to be closely monitored by the Cash Flow Management Committee.

27. Despite these revenue and expenditure measures, the combination of expenditure pressures and declining external budget support means we will need to mobilize significant financing for 2016. We propose to temporarily increase domestic financing from the 2 percent of

non-iron ore GDP ceiling we have previously adhered to 3 percent of non-iron ore GDP. Direct financing from the central bank meanwhile will continue to be contained at 5 percent of 2015 collected revenue, as regulated under the BSL Act. Unfortunately, with available external financing, this would leave us with a residual financing gap. We propose to close this residual gap by requesting the BSL to on-lend the resources from the requested 2016 ECF augmentation to the government as budget financing. A Memorandum of Understanding (MOU) between the BSL and MoFED, regarding the on-lending of the augmented Fund resources, will be signed, in consultation with the Legal Department of the IMF.

Monetary and Exchange Rate Policies

28. Monetary policy will be geared toward price stability. In 2015, inflationary pressures continue to be driven by supply shocks, as well as the ongoing depreciation, which we believe is largely caused by the loss of iron ore export receipts. While we cannot prevent these supply shocks from increasing 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.

29. 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, that 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 Accounting General Department of MoFED will produce a daily cash flow table. In addition, BSL will request technical assistance from MCM to assist in designing a program to strengthen monetary policy operations.

30. The exchange rate will continue to be market-determined. Fluctuations in BSL interventions in the foreign exchange market will be limited to smoothing excessive volatility in the exchange rate; they will not be designed to resist market-driven trends in the exchange rate. In addition, all foreign exchange sales will be carried out through the wholesale foreign exchange auctions system. Given the difficult situation, we request a reduction in the performance criterion on the accumulation of gross foreign reserves accumulation in 2015 from $40 million to $30 million.

31. Vulnerabilities in our banking system have increased, in large part due to the pressures created by Ebola and the iron ore crisis. In particular, two large banks, Rokel Commercial Bank (RCB) and Sierra Leone Commercial Bank (SLCB), have experienced growing problems. In December 2014, BSL put these two institutions under administration due to their failure to meet the minimum capital adequacy ratio. These banks also have high NPL ratios (each more than 50 percent as of end-June

2015), due to problems in credit review, connected lending, and some delays in government payments to contractors, which resulted in these contractors being late in payments on loans.

32. As part of the resolution of the problems at these institutions, additional capital (from the National Privatization Commission (Rokel) and NASSIT (SLCB) was injected into them in December 2014. In addition, Oversight Committees were established for both banks. These committees, which consist of representatives of the Ministry of Finance and Economic Development, BSL, NCP and minority shareholders, have replaced the banks' boards. The Bank of Sierra Leone has also appointed a caretaker management team to oversee the day-to-day operations of RBC. It has in addition appointed Resident Supervisors from the Banking Supervision Department to both banks. The Resident Supervisor assesses the operations of the bank on ex-post basis and report on the compliance with the provision of the resolution regime on a monthly basis to the Director of Banking Supervision. Exception reports on issues that require immediate attention are submitted as and when necessary. The caretaker management team at RBC reports to the Oversight Committee of the bank on monthly/quarterly basis and at the end of the one year period, they are expected to produce reports on reviews of Governance/Management, Credit Portfolios, Risk Management environment and Special Investigations conducted. The Oversight Committee, at the end of the one year period is expected to come up with specific recommendations with regard to the future management and governance of RBC; with particular regard to the special investigations, risk management, credit portfolio and loan recovery. Given the importance of these two banks, we will also shortly issue tenders for independent diagnostic studies of the two institutions, with assistance of the IMF's MCM department, to give us a better understanding of the sources of the difficulties in these institutions.

33. To address the more general NPL problems in the banking system, BSL has taken several remedial regulatory and supervision actions. First, a Loan Write-Off Policy Directive has been issued to banks, which would allow banks to clean their balance sheets. The directive will take effect in December 2015. In addition, the introduction of the Lenders and Borrowers Act 2014 and the planned Collateral Registry and Credit Administration Bills will improve the standards of credits. Some supervisory actions have been also 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.

Borrowing Policies and Financing of the Poverty Reduction Strategy

34. Although the updated Debt Sustainability Analysis (DSA) shows that the risk of debt distress remains moderate, the devastating impact of Ebola on the economy, as well as the crisis in the iron

ore sector, and the consequent deterioration in macroeconomic performance have moved Sierra Leone close to being at high risk of debt distress. Government is committed to maintaining prudent borrowing policies, and will continue to give priority to grants and concessional borrowing to finance investment projects. However, 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. Government will therefore seek additional debt relief from commercial creditors, as well as highly concessional financing. 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. In addition, we will seek to raise the share of long term securities in total borrowing, including by introducing two year treasury bonds.

STRUCTURAL REFORMS

36. Structural reforms will focus on advancing Public Financial Management reforms; deepening the transmission of monetary policy; financial sector reforms; improving our balance of payments data; and supporting private sector development. Further progress will be made in the implementation of measures originally programmed for 2014 as TA delivery gradually resumes.

37. Revenue mobilization measures include (i) reduction and improved monitoring of exemptions: the Ministry of Finance and Economic Development will enhance scrutiny of duty waiver requests, prepare a report on duty waivers granted in 2015, eliminate all exemptions and waivers that have not been approved by parliament, and include in the 2016 budget language that limits the authority to grant future waivers to parliament, eliminates all exemptions on petroleum products, and mandates MDAs to pay duty on all dutiable imports not exempted by parliamentary ratification **(structural benchmark**). This measure aims to reduce discretionary waivers and broaden the tax base. In the same context, the NRA will prepare and review, by end-December 2015, the list of consolidated tax and non-tax obligations for mining companies and their sub-contractors; establish a Treasury Single Account by end-December 2015 **(structural benchmark**) building on progress made in 2014 on the streamlining of NRA's transition accounts; and introduce a new Tax administration Act in parliament by end-December 2015**(structural benchmark**). The Act is

expected to improve compliance with tax obligations by harmonizing administrative provisions and updating them to reflect current approaches in tax administration.

38. The NRA plans to take the following measures in the second half of 2015:

- Implementation of Short-Term Revenue Improvement Project (STRIP) Phase 2 (August–December), specifically addressing GST compliance, compliance of large & medium taxpayers, Re-organization of rental income tax administration, Special & provincial audits, and Targeting top contractors;
- Set and monitor performance targets at Customs Service Department (CSD);
- Continue monitoring of CSD processes and procedures to reduce revenue leakages and correct inefficiencies;
- Work with the BSL in monitoring Telecommunication withholding taxes on payments to foreign contractors;
- Continue aggressive media sensitization of taxpayers on the law, processes and procedures to improve compliance.

39. Furthermore, the NRA will continue to strengthen implementation of administrative measures to curb fraud and tax evasion. Key actions planned for 2016–18 include the following:

- Building capacity for specialized revenue audits (especially in the extractive, financial and telecommunication sectors)
- Implementation of a small taxpayer regime to capture this "hard-to-tax" sector
- Developing and implementing a revenue accounting and reconciliation system for effective reconciliation of domestic revenue with the transit banks and the central bank
- Improving cargo clearance through construction of cargo inspection facility at the sea port
- Improving customs valuation by adopting the Indian and WCO price reference database
- Using mobile scanners for non-intrusive methods of import examination
- Improving tax collection through modern technology, including further digitization
- Tackling transfer pricing advances through increased collaboration with international bodies and MOFED to develop a transfer pricing policy.

40. On expenditures , we propose three structural benchmarks: (1) the completion 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, by end-2015; (2) adoption by the Cabinet of the recommendations in the reform strategy by March 2016 **(structural benchmark**); and (3) quarterly publication, within 30 days of the end of the quarter, of information on all funds

received by the budget from donors for the post-Ebola recovery strategy and how they were used. We continue our commitment to prepare the monthly rolling Treasury Cash Flow Table consistent with the budget and the semi-annual report on PIP execution **(structural benchmark)**. In addition, we have submitted a new PFM law to parliament, including provisions for the establishment of a Natural Resource Fund by end-December 2015, in line with advice received from the IMF's Fiscal Affairs Department **(structural benchmark**). We recognize that effective implementation of the new law will require a strong regulatory framework, and will work with FAD to introduce the necessary regulations.

41. Implementation of measures aimed at supporting financial sector development will be accelerated in 2015. Building on progress made at end-December 2014, BSL will establish a primary dealer agreement system for the government securities market by end-March 2016 **(Structural benchmark**). The system will help enhance liquidity and turnover, and support the development of a secondary market for government securities. To improve the overall effectiveness of monetary operations, BSL will in addition commence the operation of a daily liquidity forecasting framework which will be linked to daily monetary operations actions by end-March 2016 **(Structural Benchmark)**. Following the successful use of wholesale foreign exchange sales in late 2014, BSL transitioned to a wholesale foreign exchange auction system in March 2015 **(Structural Benchmark**). The BSL will also prepare operational rules to invigorate the interbank foreign exchange market by [end-June 2016 **(Structural Benchmark**). In preparation for the publication of the daily reference foreign exchange rates, the BSL will commence in 2015, a compilation of daily reference exchange rates of the Leone against the main international currencies based on the previous day's transaction rates, and develop a time series on exchange rates.

42. In the area of banking supervision, reform measures will focus on priority areas defined in the road map for the implementation of risk-based supervision completed in June 2014. They include (i) 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**); (ii) the preparation of bank-specific risk management guidelines to forestall credit, market, and technology risks; (iii) the preparation of detailed risk-based supervisory framework, including procedures for analyzing risk management systems of commercial banks; and (iv) the completion of on-site supervision for the five largest banks selected using asset size and quality indicators by end-December 2015. To complete these reforms, BSL will request the resumption of TA from IMF interrupted in 2014 because of the EVD outbreak.

43. The reform agenda for 2015 and 2016 contains three measures aimed at supporting private sector development, the setting up of registry of moveable collateral by end-March 2016

(**Structural benchmark**), which will help support increased access to financial services for small-and medium-sized enterprises, finalization of the business process reengineering for customs single clearance window by end-December 2015 (**Structural benchmark**), and begin the migration from ASYCUDA Plus Plus to ASYCUDA World by end-June 2016 (**Structural benchmark**) as the next steps toward introducing a one-stop window that will contribute to improving the business environment.

44. We are concerned by newly discovered problems in our balance of payments (BOP) data. Large revisions in our historic data, and resulting large errors and omissions, tell us that our data is inadequate for the purposes of economic policy. We have asked the Fund to provide technical assistance, as a high priority, to help us design a program to significantly strengthen our BOP data.

PROGRAM MONITORING

45. The program will be monitored on a semi-annual basis, through quantitative targets (Tables 1, 2 and 3) and structural benchmarks (Tables 3 and 4). Quantitative targets for December 2015 and end-June 2016 are performance criteria; and those end-September 2015 and end-March 2016 are indicative targets. The third and fourth reviews under the program will be completed by December 15, 2015, and the fifth and sixth reviews will be completed on or after April 15, 2016 and September 10, 2016, respectively.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2014

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

	Dec. 2013	2014															
		Mar. 1/				Jun. 2/				Sep. 1/				Dec. 2/			
	Stock	Prog. 3/	*Adj. Prog.*	Act.	Status	Prog. 3/	*Adj. Prog.*	Act.	Status	Prog. 3/	*Adj. Prog.*	Act.	Status	Prog. 4/	Adj. Prog.	Prel.	Status
Performance criteria																	
Net domestic bank credit to the central government (ceiling) 9/	1,240	93	201	130	Met	184	318	217	Met	194	329	567	Not Met	493	355	699	Not Met
Unadjusted target (ceiling)			93				184				194				493		
Adjustment for the shortfall (excess) in external budget support			66				47				22				-272		
Adjustment for the issuance of government securities to the nonbank private sector			42				88				112				134		
Net domestic assets of the central bank (ceiling) 9/	-297	20	86	55	Met	21	68	20	Met	-57	-35	33	Not Met	140	-132.0	129	Not Met
Unadjusted target (ceiling)			20				21				-57				140		
Adjustment for the shortfall (excess) in external budget support			66				47				22				-272		
Gross foreign exchange reserves of the central bank, US$ millions (floor)	473.5	10	-6	13	Met	31	6	26	Met	35	31	19	Not Met	53	103	96	Not Met
Unadjusted target (floor)			10				31				35				53		
Adjustment for the shortfall (excess) in external budget support 6/			-15				-11				-5				63		
Adjustment for the shortfall in the US$ value of IMF disbursement			0				-14				0				-14		
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			0				0				1				1		
Ceiling on new nonconcessional external debt (in $ million) 5/ 6/	...	30		0	Met	30	...	10	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) 5/	...	0		0	Met	0	...	0	Met	0	...	0	Met	0	...	0	Met
External payment arrears of the public sector (ceiling) 5/	...	0		0	Met	0	...	0	Met	0	...	0	Met	0	...	0	Met
Indicative target																	
Total domestic government revenue (floor)	...	549		588	Met	1,247		1,171	Not Met	1,919		1,715	Not Met	2,341		2,241	Not Met
Poverty-related expenditures (floor)	...	231		267	Met	542		633	Met	809		1,008	Met	1,145		1,236	Met
Domestic primary balance (floor)		-176		-114	Met	-300		-515	Not Met	-330		-892	Not Met	-806		-1,110	Not Met
Memorandum items:																	
External budgetary assistance (US$ million) 7/	...	5		5		45		35		51		45		78		141	
Net credit to government by nonbank sector 8/	...	0		-42		22		-66		44		-69		66		-68	
ECF disbursements (US$ millions, flow)		0		0		14		14		0		0		54		40	
Exchange rate (Leones/US$)	4,334	4,334		4,334		4,334		4,334		4,334		4,334		4,334		4,334	

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/ Refers to program of EBS/14/64

4/ Refers to program of EBS/14/116

5/ These apply on a continuous basis.

6/ The ceiling covers priority loans for the energy sector; for 2013–14, such projects include the construction of two mini dams to provide access to electricity in a rural area.

7/ Including grants and loans. Reference in EBS/14/116 to US$91.4 million was inaccurate; corrected figure US$78.3 million.

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

9/ Net domestic bank credit to Government and NDA of the central bank stock in end December 2013 were revised following BSL external audit exercise on June 2015.

Table 2. Sierra Leone: Structural Benchmarks Under the ECF-Supported Program, 2014

Measures	Timing	Status
Revenue Mobilization		
• Establish a Treasury Single Account (TSA), and streamline NRA's transition accounts.	End-June	Not met.
• Establish a Natural Resource Revenue Fund with legal and procedural characteristics as recommended by FAD TA under the Topical Trust Fund for managing natural resource wealth.	End-December	Not met.
• Introduce a new Tax Administration Act.	End-December	Not Met.
Expenditure and Debt Management		
• Submit to parliament the new PFM Bill that includes amendments and clarifications on supplementary budgets and contingency funds, as well as provisions for the establishment of a Natural Resource Revenue Fund.	End-June	Not met.
• Prepare a monthly rolling Treasury cash flow table consistent with the revised 2014 budget.	Continuous	Met.
• Prepare a semi-annual report on PIP execution.	Continuous	Met.
• Prepare a quarterly report on external debt commitments, agreements and disbursements.	Continuous	Met.
• Complete a three-year PIP, fully integrated with the budget process and the revised MTEF for 2015–18, to be submitted to parliament with the 2015 budget.	End-October	Met.
Financial Sector Development		
• Prepare a roadmap for developing and implementing risk-based supervision.	End-June	Met.
• Establish a primary dealer agreement system for the government securities market.	End-June	Not met.
• Introduce a wholesale foreign exchange auction.	End-June	Not met.
Business Environment		
• Prepare a development strategy for small- and medium-sized enterprises.	June 2014	Met.
• Introduce a one-stop window for imports clearance.	Dec. 2014	Not met.

Table 3. 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	2015								
	Est.	Mar. 1/				Jun. 2/				Sept. 1/
	Stock	Prog.	Adj. Prog.	Prel.	Status 7/	Prog.	Adj. Prog.	Prel.	Status 7/	Prog.
Performance criteria										
Net domestic bank credit to the central government (ceiling)	1939	249	281	143	Met	302	429	317	Met	447
Unadjusted target (ceiling)			249				302			
Adjustment for the shortfall (excess) in external budget support			20				99			
Adjustment for the issuance of government securities to the nonbank private sector			12				28			
Net domestic assets of the central bank (ceiling) 8/	-383	220	239	-33	Met	186	285	219	Met	190
Unadjusted target (ceiling)			220				186			
Adjustment for the shortfall (excess) in external budget support			20				99			
Gross foreign exchange reserves of the central bank, US$ millions (floor)	553.5	63	58	51	Not Met	63	29	33	Met	20
Unadjusted target (floor)			63				63			
Adjustment for the shortfall (excess) in external budget support 3/			-4				-20			
Adjustment for the shortfall in the US$ value of IMF disbursement			0				-13			
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-1				-1			
Ceiling on new nonconcessional external debt (in $ million) 3/ 4/	...	30		9	Met	30	...	9	Met	30
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
External payment arrears of the public sector (ceiling) 3/	...	0		0	Met	0	...	0	Met	0
Indicative target										
Total domestic government revenue (floor)	...	479		565	Met	1000		1175	Met	1556
Poverty-related expenditures (floor)	...	271		171	Not Met	570		398	Not Met	807
Domestic primary balance (floor)		-506		-295	Met	-1119		-488	Met	-1420
Memorandum items:										
External budgetary assistance (US$ million) 5/	...	24.8		20.8		62.9		29.5		68.1
Net credit to government by nonbank sector 6/	...	0.0		-12.3		10.0		-17.8		20.0
ECF disbursements (US$ millions, flow)		88.0		88.07		12.9		0.0		0.0
Exchange rate (Leones/US$)	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/ The ceiling covers priority loans for the energy sector; for 2013–14, such projects include the construction of two mini dams to provide access to electricity in a rural area.

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/ Based on data reported by the authorities, which the mission will need to confirm.

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

Table 4. Sierra Leone: Prior Actions and Structural Benchmarks Under the ECF-Supported Program, 2015

Measures	Timing	Rationale
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	Generating domestic resources for the budget
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)	Enhance monitoring of tax exemptions and reduce ad hoc duty waivers.
• Establish a Natural Resource Revenue Fund with legal and procedural characteristics consistent with the new PFM Bill.	End- December	From 2014.
• Establish a Treasury Single Account (TSA), and streamline NRA's transition accounts.	End-December	From 2014.
• Introduce a new Tax Administration Act.	End-December	From 2014.
Expenditure Management		
• Prepare a monthly rolling Treasury Cash Flow table consistent with the 2015 budget	Continuous	
• Prepare a semi-annual report on PIP execution.	Continuous	
• 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)	From 2014.

Table 4. Sierra Leone: Prior Actions and Structural Benchmarks Under the ECF-Supported Program, 2015 (Concluded)		
Financial Sector Development		
• Introduce a wholesale foreign exchange auction.	End-June	Met in March.
• Issue a tender bid for a diagnostic study for Rokel Commercial Bank and Sierra Leone Commercial Bank	End-December	Strengthening banking supervision.
Business Environment		
• Finalize the business process reengineering for custom single clearance window.	End-December	Improve the efficiency of custom clearance.

Table 5. 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.	2015 Dec. 1/		2016 Mar. 2/	2016 Jun. 1/
	Stock	Prog.	Rev. Prog.	Prog.	Prog.
Performance criteria 1/ 2/					
Net domestic bank credit to the central government (ceiling)	2672	588	733	316	556
Unadjusted target (ceiling)					
Adjustment for the shortfall (excess) in external budget support					
Adjustment for the issuance of government securities to the nonbank private sector					
Net domestic assets of the central bank (ceiling)	95	202	479	119	275
Unadjusted target (ceiling)					
Adjustment for the shortfall (excess) in external budget support					
Gross foreign exchange reserves of the central bank, US$ millions (floor)	584	40	30	-15	-11
Unadjusted target (floor)					
Adjustment for the shortfall (excess) in external budget support 3/					
Adjustment for the shortfall in the US$ value of IMF disbursement					
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities					
Ceiling on new nonconcessional external debt (in $ million) 3/ 4/	...	30	...	...	...
Present Value of New External Debt (ceiling) 7/	...	...	70	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	0	0
External payment arrears of the public sector (ceiling) 3/	...	0	0	0	0
Indicative target					
Total domestic government revenue (floor)	...	2132	2181	619	1305
Poverty-related expenditures (floor)	...	1128	1128	281	624
Domestic primary balance (floor)	...	-1163	-1224	-305	-643
Memorandum items:					
External budgetary assistance (US$ million, cumulative flow from the start of the year) 5/	...	103.3	99	12.6	19.7
Net credit to government by nonbank sector 6/	...	19.2	-36	0.0	0.0
ECF disbursements (US$ millions, cumulative flow from the start of the year)	...	113.8	136	0.0	35.4
Exchange rate (Leones/US$)	4953	4953	4953	4953	4953

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 is replaced by the ceiling on the Present Value of New External Debt, following the Fund's new debt limits policy that took effect from July 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.

Table 6. Sierra Leone: Structural Benchmarks Under the ECF-Supported Program, 2016		
Measures	**Timing**	**Rationale**
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	Ensure the fiscal sustainability and improve the efficiency of civil service.
• Prepare a monthly rolling Treasury Cash Flow table consistent with the 2016 budget	Continuous	
• Prepare a semi-annual report on PIP execution.	Continuous	
Monetary Operation		
• Establish a primary dealer agreement system for the government securities market.	End-March	Reprogrammed from 2014.
• Introduce a daily liquidity forecasting framework	End-March	Improve monetary operation
• Finalize the draft of BSL's rules governing the operations of the interbank foreign exchange market.	End-June	Improve monetary operations.
Financial Sector Development		
• Complete the independent diagnostic study report for Rokel Commercial Bank and Sierra Leone Commercial Bank	End-March	Strengthening banking supervision.
• Establish a registry of moveable collateral.	End-March	Develop access to credit for small-and-medium sized borrowers.
• 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	Strengthen banking supervision.
Business Environment		
• Begin the migration from ASYCUDA ++ to ASYCUDA World as the next step for introducing a one-stop window.	End-June	Improve the business environment.

Attachment 2. Technical Memorandum of Understanding
Freetown, October 30, 2015

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 2015 will be converted into Sierra Leonean currency (leone) using a program exchange rate of Le 4953.34/US$ and cross rates as of end December 2014.[2]

Sierra Leone: Program Exchange Rate for ECF Arrangement
Cross Rates as of December 31, 2014

Currency	Sierra Leonean Leones per currency unit	US dollars per currency unit
US dollar	4953.34	1.00
British pounds sterling	7730.64	1.56
Japanese yen	41.36	0.008
Euro	6013.44	1.21
SDR	7176.90	1.45

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

[2] For calculating program targets for 2015, all end 2014 stock variables will be based on program exchange rate of Le 4953.34/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 and 2015; 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 on External Borrowing Program (July 2015-June 2016)

PPG external debt contracted or guaranteed	Volume of new debt, US million 1/	Present value of new debt, US million 1/
Source of debt financing	**108**	**70**
Concessional debt, of which 2/	48	25
Multilateral debt	35	17
Bilateral debt	13	8
Non-concessional debt, of which 2/	60	45
Semi-concessional debt	60	45
Commercial terms	0	0
Uses of debt financing	**108**	**70**
Infrastructure	108	70
Budget financing	0	0

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

2/ Concessional debt is defined as debt with a grant element that exceeds the minimum threshold of 35 percent.

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. Debt Sustainability Analysis Update

This joint IMF-World Bank Debt Sustainability Analysis (DSA) updates the analysis presented to the Board in March 2015 and indicates that Sierra Leone's risk of debt distress remains moderate, although the vulnerabilities have significantly increased since the last DSA update. Under the baseline scenario, two ratios, the PV of debt to exports and to revenue, have deteriorated significantly, due to the loss of iron ore exports and the lingering impact of Ebola. These ratios, however, remain under their policy dependent thresholds throughout the projection period (2015–35).[1] *Under alternative macroeconomic assumptions, where the economy permanently loses the iron ore sector, the debt sustainability worsens further. The economy is now more vulnerable to adverse shocks to exports, FDI and nominal depreciation.*

1. **This DSA updates the analysis presented to the Board in March 2015 and indicates that, while Sierra Leone's debt sustainability situation has worsened, the country remains at moderate risk of debt distress**. The downside risk to the macroeconomic outlook identified in the previous DSA, regarding the potential suspension of iron ore production in 2015, has now materialized. Despite all debt indicators falling below their respective policy-dependent indicative thresholds throughout the projection period (2015–35), loss of iron ore exports and related fiscal revenues, has significantly worsened the short-term ratios of the PV of debt to exports and revenue, respectively. As a result, the room to accommodate more borrowing without breaching the respective thresholds has decreased. Nevertheless, Sierra Leone's moderate risk of debt distress is maintained as none of the ratios breach the thresholds under the baseline scenario on a significant and protracted basis.

2. **The WEO projections of persistently low global iron ore prices, cast huge uncertainty on the future of iron ore production in Sierra Leone**. It is plausible iron ore sector may permanently stop operations over the forecast horizon (2015–35) and the alternative scenario (green line) presents the DSA dynamics under that case with corresponding macroeconomic assumptions. The country's GDP prospects deteriorate over the forecast period with the cessation of iron ore production, with the loss of associated exports and fiscal revenues over the medium term relative to the baseline. The ratios of the PV of debt to exports and debt to revenue exceed their respective thresholds in the long-term, while the debt service to revenue ratio crosses the acceptable ceiling in 2024 due to the redemption profile of external debt.

3. **The DSA shows that the medium- to long-term debt outlook is vulnerable to adverse shocks to several macroeconomic variables**. Shocks to exports, foreign direct investment (FDI) inflows, and nominal currency depreciation would lead to the significant breaches of several thresholds in the short to medium run on a protracted basis. Despite all ratios eventually falling below their respective thresholds in the long run, the realization of an adverse shock may lead to the

[1] Sierra Leone's capacity to monitor debt is adequate as per CPIA with a score of 3.5.

immediate problems of debt distress. Therefore, staff continues to reiterate the need for prudent borrowing policies, revenue enhancement, sustained fiscal consolidation efforts, continued implementation of growth-enhancing structural reforms, and promotion of economic diversification. The authorities agreed with staff's assessment and policy recommendations.

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

- Economic growth is expected to collapse from 4.6 percent in 2014 to -21.5 percent in 2015 due to the impact of the Ebola epidemic and suspension of iron ore production. GDP is expected to stay flat in 2016 and grow by an annual average of 12.4 percent during 2017–20, as iron ore production resumes. 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 rise in the medium term. Disruption of economic activity due to the Ebola outbreak and depreciation of the Leone are expected to push up inflation from 8.3 percent in 2014 to 9.9 percent in 2015. Inflation is expected to decline gradually and hover around 5.4 percent in the long term.

- The overall fiscal deficit is projected to worsen in the short term and then improve over the medium-to-long term, with the domestic primary deficit increasing from around 2.3 percent of GDP in 2014 to 3.7 percent in 2015. Beginning in 2016, it is projected to improve to 2 percent in 2018, as a result of revenue measures and efforts to strengthen tax administration. It is projected to stabilize around 0.1 percent during 2021–35.

- The current account deficit is forecast to decline from 19.2 percent of GDP in 2014 to 13.2 percent in 2015 and then narrow over the medium-to-long term, consistent with the projected production profile of iron ore and other exports. The projected import dynamics broadly reflect the expected overall real GDP growth.

- FDI is projected to decline from 8 percent of GDP in 2014 to around 7 percent in 2015, growing in line with machinery imports. Despite the present difficulties in the mining sector, there are signs of renewed interest from foreign investors in non-mining sectors of the economy, particularly, in agriculture and manufacturing.

- External debt is projected to increase from 25.3 percent of GDP in 2014 to 32.0 percent in 2015, reflecting the augmentation of access to IMF financing. External debt will stabilize around 20 percent of GDP in the long run.

- Domestic debt is projected to rise from 10.6 percent of GDP in 2014, to around 19 percent by the end of the projection period, mainly reflecting increased domestic borrowing to finance public investment.

5. **Compared with the previous DSA, the key changes in this updated DSA are (Text Table 1)**: (i) real GDP growth is expected to be much lower in the short term, due to the effects

of the Ebola epidemic and the suspension of iron-ore production. The economic contraction in 2015 is projected to accelerate from -12.8 percent to -21.5 percent, and in 2016, the growth will be zero instead of 8.4 percent increase (ii) a higher primary deficit, particularly in the short run (while lower in the long run), driven by Ebola and iron-ore-related revenue shortfalls and expanded spending needs; (iii) a higher level of domestic borrowing, in line with a weaker fiscal position; and (iv) the external current account deficit is largely unchanged in 2015 compared to the previous DSA, but is slightly worse in 2016, due mostly to the loss of minerals exports.

Text Table 1. Selected Economic Indicators, 2014–35

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

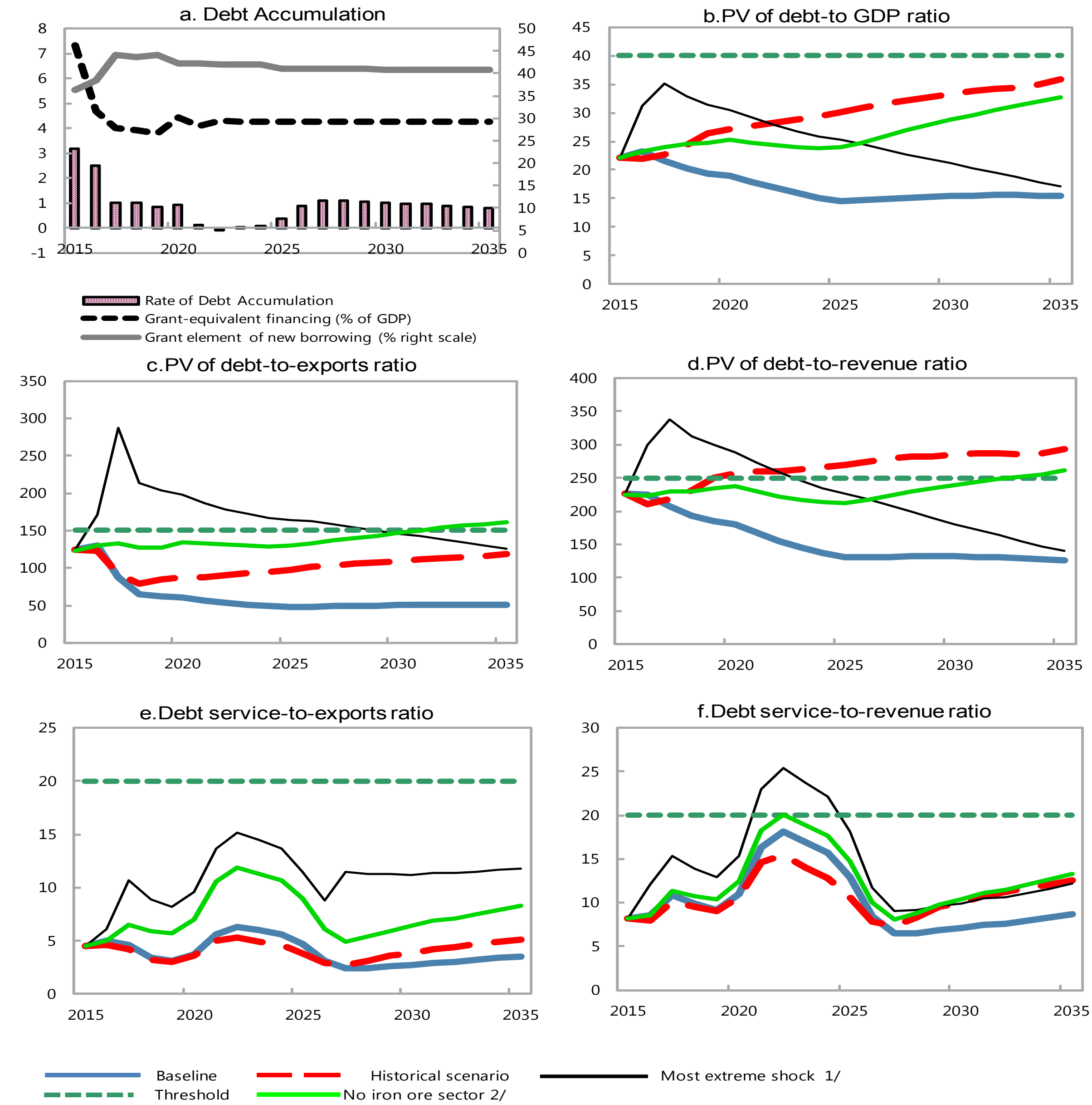
	2014	2015	2016	2017	2018	2019	2020	Long Term[2]
Real GDP Growth (in percent)								
Current DSA	4.6	-21.5	0.1	19.6	17.5	6.2	6.3	5.4
Previous DSA	6.0	-12.8	8.4	8.9	6.0	6.0	6.0	5.4
Primary fiscal deficit								
Current DSA	2.3	3.7	4.0	2.0	1.9	1.3	1.2	0.1
Previous DSA	2.0	3.5	4.5	3.7	3.3	3.2	3.0	1.8
Current account deficit								
Current DSA	19.2	13.2	11.9	10.5	7.7	5.8	8.3	4.4
Previous DSA	7.4	13.0	8.3	7.1	6.8	6.1	5.8	4.3
Foreign direct investment								
Current DSA	8.0	7.1	6.7	8.4	7.4	6.6	6.5	3.5
Previous DSA	4.6	3.0	5.6	4.5	4.0	3.3	3.0	3.2
External debt								
Current DSA	25.3	32.0	33.1	30.2	27.9	26.4	25.6	21.1
Previous DSA	28.2	33.7	30.5	27.7	26.5	25.9	25.4	19.9
Domestic debt								
Current DSA	10.6	12.5	15.3	15.0	14.7	15.5	16.2	18.8
Previous DSA	10.7	12.6	12.5	12.6	13.0	13.6	14.0	19.5

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 2021-35, and for the previous DSA it covers the period 2020-34.

Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2015–35[1]

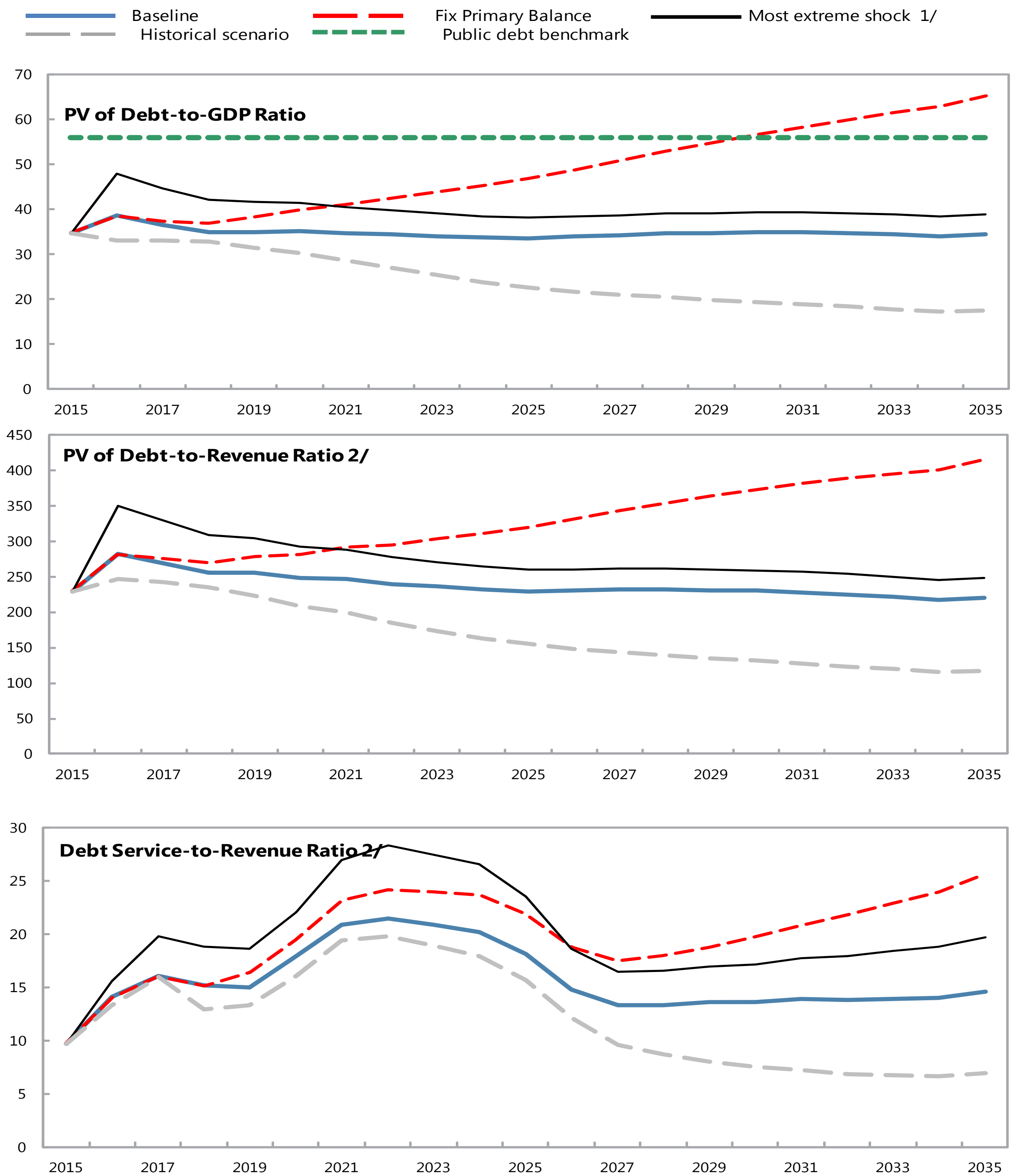


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Non-debt flows shock; in c. to a Exports shock; in d. to a Non-debt flows shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

2/ Iron ore production is permanently shut down

Figure 2. Sierra Leone: Indicators of Public Debt under Alternative Scenarios, 2015–35[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 2025.
2/ Revenues are defined inclusive of grants.

Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2012–35[1]

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**26.2**	**21.5**	**25.3**			**32.0**	**33.1**	**30.2**	**27.9**	**26.4**	**25.6**		**22.5**	**22.1**	
of which: public and publicly guaranteed (PPG)	26.2	21.5	25.3			32.0	33.1	30.2	27.9	26.4	25.6		22.5	22.1	
Change in external debt	-7.1	-4.7	3.8			6.7	1.1	-2.9	-2.3	-1.5	-0.7		-0.2	-0.2	
Identified net debt-creating flows	7.7	4.4	11.7			12.3	5.4	-3.6	-4.3	-2.2	0.4		0.4	-1.6	
Non-interest current account deficit	**31.7**	**17.6**	**19.2**	**15.8**	**13.8**	**13.3**	**11.9**	**10.5**	**7.7**	**5.8**	**8.3**		**4.4**	**2.3**	4.2
Deficit in balance of goods and services	33.3	10.4	28.8			25.4	20.6	13.2	5.8	5.2	5.0		4.9	5.0	
Exports	32.4	36.3	31.8			17.9	17.9	24.7	31.0	31.2	31.0		30.6	30.1	
Imports	65.8	46.6	60.6			43.3	38.5	38.0	36.7	36.4	36.1		35.5	35.1	
Net current transfers (negative = inflow)	-6.2	-4.2	-17.5	-7.3	4.0	-14.7	-10.2	-5.1	-5.0	-5.0	-5.0		-5.4	-6.9	-5.8
of which: official	-2.5	-1.0	-14.8			-11.5	-7.3	-2.2	-2.2	-2.3	-2.4		-2.9	-4.6	
Other current account flows (negative = net inflow)	4.6	11.4	7.9			2.6	1.6	2.3	7.0	5.6	8.3		4.9	4.2	
Net FDI (negative = inflow)	**-16.7**	**-7.4**	**-8.0**	**-10.1**	**10.5**	**-7.1**	**-6.7**	**-8.4**	**-7.4**	**-6.6**	**-6.5**		**-3.5**	**-3.0**	-3.5
Endogenous debt dynamics 2/	**-7.4**	**-5.8**	**0.6**			**6.1**	**0.2**	**-5.6**	**-4.6**	**-1.4**	**-1.4**		**-0.4**	**-1.0**	
Contribution from nominal interest rate	0.2	0.0	0.0			0.2	0.2	0.1	0.1	0.1	0.2		0.7	0.2	
Contribution from real GDP growth	-3.9	-4.2	-1.0			6.0	0.0	-5.7	-4.7	-1.6	-1.5		-1.1	-1.2	
Contribution from price and exchange rate changes	-3.6	-1.6	1.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-14.8**	**-9.1**	**-7.9**			**-2.1**	**-2.9**	**-1.3**	**0.5**	**1.3**	**-0.8**		**-0.4**	**1.5**	
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/	...	...	17.3			22.2	23.3	21.6	20.2	19.4	19.0		14.6	15.4	
In percent of exports	...	...	54.4			124.0	130.5	87.4	65.3	62.3	61.3		47.8	51.2	
PV of PPG external debt	**...**	**...**	**17.3**			**22.2**	**23.3**	**21.6**	**20.2**	**19.4**	**19.0**		**14.6**	**15.4**	
In percent of exports	**...**	**...**	**54.4**			**124.0**	**130.5**	**87.4**	**65.3**	**62.3**	**61.3**		**47.8**	**51.2**	
In percent of government revenues	**...**	**...**	**171.7**			**226.4**	**224.1**	**208.1**	**192.3**	**184.3**	**179.8**		**131.3**	**126.2**	
Debt service-to-exports ratio (in percent)	**1.8**	**0.0**	**0.0**			**4.5**	**5.0**	**4.6**	**3.4**	**3.1**	**3.7**		**4.7**	**3.5**	
PPG debt service-to-exports ratio (in percent)	**1.8**	**0.0**	**0.0**			**4.5**	**5.0**	**4.6**	**3.4**	**3.1**	**3.7**		**4.7**	**3.5**	
PPG debt service-to-revenue ratio (in percent)	**5.0**	**0.0**	**0.0**			**8.2**	**8.6**	**10.9**	**9.9**	**9.2**	**11.0**		**12.9**	**8.7**	
Total gross financing need (Billions of U.S. dollars)	0.6	0.5	0.5			0.3	0.3	0.2	0.1	0.0	0.2		0.2	0.1	
Non-interest current account deficit that stabilizes debt ratio	38.8	22.4	15.4			6.6	10.8	13.4	10.0	7.3	9.1		4.6	2.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	15.2	20.7	4.6	7.7	5.7	-21.5	0.1	19.6	17.5	6.2	6.3	4.7	5.1	5.7	5.4
GDP deflator in US dollar terms (change in percent)	12.2	6.5	-6.8	4.9	6.7	16.0	4.3	-5.6	-4.6	2.4	1.5	2.3	0.9	0.3	0.6
Effective interest rate (percent) 5/	0.7	0.0	0.0	0.6	0.5	0.6	0.6	0.4	0.5	0.6	0.6	0.6	3.1	1.2	1.7
Growth of exports of G&S (US dollar terms, in percent)	125.2	43.7	-14.5	24.3	39.6	-48.8	4.3	56.0	40.4	9.4	7.5	11.5	5.4	6.0	5.9
Growth of imports of G&S (US dollar terms, in percent)	20.1	-8.9	26.7	26.8	35.7	-34.9	-7.3	11.4	8.5	7.7	7.0	-1.3	5.8	2.8	5.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	36.3	38.4	44.0	43.7	44.1	42.2	41.5	41.1	40.7	41.2
Government revenues (excluding grants, in percent of GDP)	11.4	10.8	10.1			9.8	10.4	10.4	10.5	10.5	10.6		11.1	12.2	11.5
Aid flows (in Billions of US dollars) 7/	0.3	0.2	0.3			0.3	0.2	0.2	0.3	0.3	0.3		0.5	0.8	
of which: Grants	0.1	0.1	0.2			0.2	0.1	0.2	0.2	0.2	0.2		0.3	0.6	
of which: Concessional loans	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			7.3	4.7	4.0	3.9	3.8	4.4		4.3	4.3	4.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			68.0	67.2	79.4	79.2	81.8	79.5		79.4	79.3	79.5
Memorandum items:															
Nominal GDP (Billions of US dollars)	3.8	4.9	4.7			4.3	4.5	5.1	5.7	6.2	6.7		9.0	16.3	
Nominal dollar GDP growth	29.2	28.5	-2.5			-8.9	4.4	12.9	12.1	8.8	7.9	6.2	6.1	6.1	6.1
PV of PPG external debt (in Billions of US dollars)			0.8			0.9	1.0	1.1	1.1	1.2	1.2		1.3	2.4	
(PVt-PVt-1)/GDPt-1 (in percent)						3.2	2.5	1.0	1.0	0.9	0.9	1.6	0.4	0.8	0.7
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.1	0.1	0.1	0.1		0.1	0.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	17.1			21.9	23.1	21.4	20.1	19.2	18.9		14.5	15.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	52.7			116.7	122.9	84.1	63.5	60.7	59.7		46.8	50.5	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.0			4.2	4.7	4.4	3.3	3.0	3.6		4.6	3.5	

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, 2015–35[1]

(Percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	22	23	22	20	19	19	**15**	15
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	22	22	23	24	26	27	**30**	36
A2. New public sector loans on less favorable terms in 2015-2035 2	22	24	22	21	21	21	**19**	22
A3. Alternative Scenario :[Customize, enter title]	22	23	24	25	25	25	**24**	33
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	22	22	24	23	22	21	**16**	17
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	22	25	31	29	28	27	**22**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	22	24	22	20	19	19	**14**	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	22	31	35	33	31	31	**25**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	22	26	33	31	30	29	**23**	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	22	32	30	28	27	26	**20**	21
PV of debt-to-exports ratio								
Baseline	124	130	87	65	62	61	**48**	51
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	124	123	92	79	85	88	**98**	119
A2. New public sector loans on less favorable terms in 2015-2035 2	124	132	90	69	67	67	**61**	74
A3. Alternative Scenario :[Customize, enter title]	124	130	133	127	128	135	**130**	161
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	124	128	86	64	61	60	**46**	50
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	124	171	287	214	204	199	**164**	126
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	124	128	86	64	61	60	**46**	50
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	124	174	142	106	101	98	**82**	57
B5. Combination of B1-B4 using one-half standard deviation shocks	124	149	192	143	136	133	**110**	83
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	124	128	86	64	61	60	**46**	50
PV of debt-to-revenue ratio								
Baseline	226	224	208	192	184	180	**131**	126
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	226	211	218	231	251	257	**270**	293
A2. New public sector loans on less favorable terms in 2015-2035 2	226	227	215	202	197	195	**166**	184
A3. Alternative Scenario :[Customize, enter title]	226	223	229	229	235	238	**212**	261
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	226	216	235	217	208	201	**146**	141
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	226	239	301	278	266	257	**199**	137
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	226	233	208	193	184	179	**130**	125
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	226	300	338	312	299	289	**226**	141
B5. Combination of B1-B4 using one-half standard deviation shocks	226	252	318	293	281	272	**211**	142
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	226	309	287	265	254	246	**179**	172

Table 2. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35[1] (Concluded)
(Percent)

Debt service-to-exports ratio								
Baseline	5	5	5	3	3	4	**5**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	5	5	4	3	3	4	**4**	5
A2. New public sector loans on less favorable terms in 2015-2035 2	5	5	5	4	3	4	**4**	5
A3. Alternative Scenario :[Customize, enter title]	5	5	7	6	6	7	**9**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	5	5	5	3	3	4	**5**	4
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	5	6	11	9	8	10	**12**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	5	5	5	3	3	4	**5**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	5	5	5	4	4	4	**5**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	7	6	5	6	**8**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	5	5	5	3	3	4	**5**	4
Debt service-to-revenue ratio								
Baseline	8	9	11	10	9	11	**13**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	8	8	10	9	9	11	**11**	13
A2. New public sector loans on less favorable terms in 2015-2035 2	8	9	11	10	10	12	**12**	11
A3. Alternative Scenario :[Customize, enter title]	8	9	11	11	10	12	**15**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	8	8	13	11	11	13	**15**	10
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	8	9	11	12	11	12	**14**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	8	9	11	10	9	11	**13**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	8	9	12	12	11	13	**14**	14
B5. Combination of B1-B4 using one-half standard deviation shocks	8	8	12	12	11	13	**15**	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	8	12	15	14	13	15	**18**	12
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 assu 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, 2012–35

(Percent of GDP, unless otherwise indicated)

	Actual					Estimate					Projections				
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	36.9	30.8	35.9			44.5	48.4	45.2	42.6	41.9	41.8		41.4	41.3	
of which: foreign-currency denominated	26.3	21.5	25.3			32.0	33.1	30.2	27.9	26.4	25.6		22.5	22.1	
Change in public sector debt	-8.0	-6.1	5.1			8.6	3.9	-3.2	-2.6	-0.7	-0.1		0.2	0.4	
Identified debt-creating flows	-6.0	-4.9	5.1			6.0	2.1	-2.9	-2.3	-1.4	-0.8		-1.2	-2.4	
Primary deficit	3.5	1.1	2.3	-0.9	7.6	3.7	4.0	2.0	1.9	1.3	1.2	2.3	0.3	-0.6	0.1
Revenue and grants	15.2	13.4	14.4			15.1	13.7	13.6	13.6	13.7	14.2		14.6	15.7	
of which: grants	3.8	2.6	4.3			5.3	3.2	3.2	3.1	3.1	3.6		3.5	3.5	
Primary (noninterest) expenditure	18.7	14.5	16.7			18.8	17.7	15.6	15.6	14.9	15.3		14.9	15.1	
Automatic debt dynamics	-8.7	-5.9	3.0			2.5	-1.9	-4.8	-4.2	-2.7	-2.0		-1.4	-1.8	
Contribution from interest rate/growth differential	-5.8	-5.0	-0.2			7.4	-0.5	-7.0	-6.0	-2.7	-2.3		-1.2	-1.7	
of which: contribution from average real interest rate	0.1	1.3	1.1			-2.4	-0.4	0.9	0.7	-0.2	0.2		0.8	0.5	
of which: contribution from real GDP growth	-5.9	-6.3	-1.4			9.8	0.0	-7.9	-6.7	-2.5	-2.5		-2.0	-2.2	
Contribution from real exchange rate depreciation	-2.9	-0.9	3.2			-4.8	-1.4	2.2	1.8	0.0	0.3		...	...	
Other identified debt-creating flows	-0.8	-0.1	-0.2			-0.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.1	-0.1	-0.1			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)	-0.8	0.0	-0.1			-0.2	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	-2.0	-1.2	0.1			2.6	1.7	-0.3	-0.3	0.7	0.8		1.3	2.9	
Other Sustainability Indicators															
PV of public sector debt	...	...	27.9			34.7	38.6	36.6	34.9	34.9	35.2		33.6	34.6	
of which: foreign-currency denominated	...	...	17.3			22.2	23.3	21.6	20.2	19.4	19.0		14.6	15.4	
of which: external	...	...	17.3			22.2	23.3	21.6	20.2	19.4	19.0		14.6	15.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.6	2.4	3.1			5.2	5.9	4.1	4.0	3.3	3.7		2.9	1.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	193.7			229.2	282.6	269.2	256.1	255.5	248.4		229.7	220.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	277.1			354.4	370.7	352.0	332.1	331.7	333.1		301.8	283.2	
of which: external 3/	...	...	171.7			226.4	224.1	208.1	192.3	184.3	179.8		131.3	126.2	
Debt service-to-revenue and grants ratio (in percent) 4/	13.9	9.4	5.7			9.7	14.1	16.0	15.2	15.0	17.9		18.1	14.6	
Debt service-to-revenue ratio (in percent) 4/	18.6	11.7	8.2			15.0	18.5	21.0	19.7	19.5	24.0		23.8	18.7	
Primary deficit that stabilizes the debt-to-GDP ratio	11.5	7.2	-2.9			-4.9	0.1	5.2	4.5	2.0	1.2		0.1	-1.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	15.2	20.7	4.6	7.7	5.7	-21.5	0.1	19.6	17.5	6.2	6.3	4.7	5.1	5.7	5.4
Average nominal interest rate on forex debt (in percent)	0.7	0.0	0.0	0.8	0.6	0.6	0.6	0.4	0.5	0.6	0.6	0.6	3.1	1.2	1.7
Average real interest rate on domestic debt (in percent)	4.8	8.2	9.5	0.6	5.4	-17.1	-1.1	10.2	9.0	1.8	3.5	1.0	0.8	1.5	1.1
Real exchange rate depreciation (in percent, + indicates depreciation)	-10.0	-4.2	15.6	-2.1	10.3	-15.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	12.0	6.5	-0.2	10.6	5.6	28.3	10.4	-1.9	-0.9	6.4	6.3	8.1	6.5	5.9	6.2
Growth of real primary spending (deflated by GDP deflator, in percent)	9.8	-6.4	20.4	2.5	7.4	-11.3	-6.2	5.3	17.8	1.8	9.1	2.7	5.1	5.6	5.3
Grant element of new external borrowing (in percent)	...	...	...	...	...	36.3	38.4	44.0	43.7	44.1	42.2	41.5	41.1	40.7	...

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, 2015–35

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	35	39	37	35	35	35	34	35
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	35	33	33	33	31	30	23	18
A2. Primary balance is unchanged from 2015	35	38	37	37	38	40	47	65
A3. Permanently lower GDP growth 1/	35	39	38	37	37	38	42	61
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	35	38	43	42	43	44	46	55
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	35	40	41	39	39	39	37	37
B3. Combination of B1-B2 using one half standard deviation shocks	35	36	40	38	39	40	41	46
B4. One-time 30 percent real depreciation in 2016	35	48	45	42	42	41	38	39
B5. 10 percent of GDP increase in other debt-creating flows in 2016	35	45	42	40	40	40	38	37
PV of Debt-to-Revenue Ratio 2/								
Baseline	229	283	269	256	255	248	230	220
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	229	246	242	234	224	208	155	117
A2. Primary balance is unchanged from 2015	229	281	276	270	279	281	320	415
A3. Permanently lower GDP growth 1/	229	286	276	266	270	266	278	366
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	229	277	305	297	302	298	306	339
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	229	295	302	285	282	274	252	233
B3. Combination of B1-B2 using one half standard deviation shocks	229	268	286	277	280	275	272	289
B4. One-time 30 percent real depreciation in 2016	229	350	329	309	304	292	260	248
B5. 10 percent of GDP increase in other debt-creating flows in 2016	229	327	311	292	290	281	259	236
Debt Service-to-Revenue Ratio 2/								
Baseline	10	14	16	15	15	18	18	15
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	10	13	16	13	13	16	16	7
A2. Primary balance is unchanged from 2015	10	14	16	15	16	20	22	26
A3. Permanently lower GDP growth 1/	10	14	16	16	16	19	21	22
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	10	14	18	17	18	21	22	22
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	10	14	16	17	18	19	19	16
B3. Combination of B1-B2 using one half standard deviation shocks	10	14	17	16	17	20	20	19
B4. One-time 30 percent real depreciation in 2016	10	16	20	19	19	22	24	20
B5. 10 percent of GDP increase in other debt-creating flows in 2016	10	14	17	21	16	19	19	17

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.