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June 2, 2020

**Statement by Mr. Kaya, Mr. Benk, and Mr. Marek on Sierra Leone
(Preliminary)
Executive Board Meeting 20/66
June 3, 2020**

We thank staff for the detailed set of reports and Mr. Mahlinza and Mr. Nakunyada for their helpful Buff statement. Sierra Leone has been impacted by the COVID-19 pandemic by a drop in external demand, decline in export prices as well as through restrictions on the economy resulting from the pandemic-containment measures. The macroeconomic outlook is projected to significantly deteriorate amid a sharp contraction in growth, a widening fiscal deficit and strained external accounts. **Against this backdrop, we support the authorities' request for a disbursement under the RCF in the amount of SDR 103.7 million, equivalent to 50 percent of quota.** The authorities should use the emergency financing as a temporary support allowing to resume the required reforms under the ECF arrangement.

Sound management of the emergency financing is critical. We note the authorities' comprehensive approach to addressing the health and economic fallout of the crisis through the Health Response Plan and the Quick Action Economic Response Program (QUAERP). Accountable and transparent use of the COVID-19 related spending is essential. To this end, we welcome that the IMF's technical assistance will support the management and operation practices of the COVID-19 Fund set up by Sierra Leone's government. The COVID-related interventions need to be subject to regular reporting and ex post audit by the Audit Service Sierra Leone, which should publish its final report. We welcome the authorities' assurances that large public procurement contracts related to crisis mitigation will also be published.

The risks to debt sustainability should be mitigated by sound fiscal planning and additional financial assistance. We are concerned that the fiscal pressures stemming from the health crisis are expected to be long-lasting, with a significant impact on revenue mobilization. Considering the upcoming substantial gross repayments to the Fund in 2021-28, the authorities need to commit to the pre-crisis reform agenda and seek additional resources from development partners, while ensuring that the social objectives of the National Development Plan can be pursued. The governance structure of the QUAERP has to ensure that the crisis-containment spending is well-targeted and efficiently implemented.

Given the shallow domestic banking system, highly concessional financing and grants from development partners will be essential. We take positive note of the authorities' intention to seek temporary relief under the G20 and Paris Club debt service suspension initiative. We are encouraged that the authorities are committed to resume growth-friendly fiscal consolidation to restore fiscal and debt sustainability once the crisis abates.

The accommodative monetary policy stance is warranted but financial sector risks need to be closely monitored. The Bank of Sierra Leone's (BSL) interventions to mitigate the economic impact of the pandemic were appropriate, including through reducing the main policy rate and creating a special credit facility to support production and businesses. Ensuring transparent operation of the facility will be critical. In this regard, we welcome the Rules for Administering the Special Credit Facility, which outline clear eligibility criteria for loan applications. Given the current macro-financial uncertainties, the quality of banks' balance sheets needs to be monitored to keep the NPL ratio in check. Clear supervisory guidance on potential loan restructuring might be warranted going forward. We encourage the authorities, including the BSL, to closely cooperate with the IMF on the current Financial Sector Stability Review to identify priority areas for financial sector reform. *Staff's preliminary views on potential reform areas in the financial sector would be welcome.*