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October 10, 1984

To: *Members of the Executive Board*

From: The Secretary

Subject: Sierra Leone - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Sierra Leone. A draft decision appears on page 28.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Enweze (ext. (5)8650).

Att: (1)

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INTERNATIONAL MONETARY FUND

SIERRA LEONE

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the
1984 Consultation with Sierra Leone

Approved by J.B. Zulu and Eduard H. Brau

October 9, 1984

I. Introduction

The 1984 Article IV consultation discussions with Sierra Leone were held in Freetown during the periods March 7-22, 1984 and May 16-June 1, 1984. The Sierra Leonean representatives included the Honorable Salia Jusu-Sheriff, then Minister of Finance; Dr. J.S.A. Funna, Governor of the Bank of Sierra Leone; Mr. P. Kuyembeh, Financial Secretary; Mr. J.T.S. Wright, Deputy Governor of the Bank of Sierra Leone; and other senior officials concerned with economic and financial matters. During the discussions in March, the staff representatives were Mr. Enweze (head-AFR), Mrs. Mitchell (ETR), Mr. Fiator (AFR), Mr. Fetherston (FAD), Mr. Dublin (AFR), and Mr. Sharma (secretary-ETR). The May staff team comprised Mr. Enweze (head), Mr. Fetherston, Mr. Dublin, Ms. Atkinson (ETR), and Mrs. Nairn (secretary-AFR); Mr. Dahl, who took up his assignment as Fund resident representative in Freetown on May 23, also participated in the May discussions. During the course of both missions, Mr. Enweze was received by the President, His Excellency Siaka P. Stevens.

In support of the Government's current stabilization program, on February 3, 1984 the Fund approved a one-year stand-by arrangement for Sierra Leone in an amount equivalent to SDR 50.2 million (86.7 percent of quota). Under the arrangement, Sierra Leone has so far made two purchases totaling SDR 19.0 million. The third purchase, SDR 17.6 million, is subject both to the satisfaction of the end-June 1984 performance criteria and the completion of a mid-term review of the program, in the course of which understandings are to be reached with the Fund on economic and financial policies for the financial year starting July 1, 1984. As will be explained below, the mid-term review has not been completed as of the date of issuance of this paper, largely because understandings have not yet been reached with the authorities on exchange rate policy and because of a temporary accumulation of arrears to the Fund.

Sierra Leone continues to avail itself of the transitional arrangements of Article XIV.

Summaries of Sierra Leone's relations with the Fund and the World Bank Group are provided in Appendices I and II, respectively.

II. Recent Economic Developments and Performance under the 1983/84 Program

Economic growth in Sierra Leone came to a halt in 1981/82 (July/June) and 1982/83 as output declined in the major export-oriented sectors due to the depressed level of world demand and shortages of imported inputs. Meanwhile, the expansionary fiscal and monetary policies pursued during this period led to a significant increase in domestic expenditures in nominal terms, which in turn widened the external current account deficit, depleted the gross reserves of the banking system, added to the rapid accumulation of external payments arrears, fostered a thriving parallel market for foreign exchange, and accelerated the rate of inflation.

In 1981/82 the overall government deficit, on a cash basis, reached Le 161 million (10.3 percent of GDP) (Table 1), of which Le 140 million (about 54.1 percent of beginning money stock) was financed through the domestic banking system; in addition, domestic arrears increased by about Le 41 million (almost 2.6 percent of GDP), so that, on a commitment basis, the deficit was equivalent to about 12.9 percent of GDP. In 1982/83 the cash deficit rose to Le 270 million (13.5 percent of GDP); this outturn, however, included a reduction in domestic arrears of about Le 42 million. Of the overall deficit of Le 270 million, Le 225 million (some 69.3 percent of beginning money stock) was financed through the banking system. The major influences on overall developments in 1982/83 included a further absolute decline in receipts, as total revenue and grants fell by 12 percent (4 percentage points of GDP), mainly because the worsening external situation compressed imports and customs revenue; on the expenditure side, while outlays under the current and development budgets rose by only about 5 percent, the Government incurred some Le 40 million in exceptional oil-related payments, of which Le 26 million reflected net lending to the refinery associated with the introduction of new supply and financing arrangements for oil imports, and Le 14 million represented the higher foreign exchange cost of financing oil imports purchased at the depreciated commercial rate under the dual exchange rate system.

Monetary and credit developments in 1981/82 and 1982/83 were largely influenced by the widening budget deficit and its reliance on financing from the banking system; total domestic credit rose by 31.9 percent and 39.4 percent in 1981/82 and 1982/83, respectively, while the money supply (broadly defined) grew by 25.5 percent and 36.0 percent in the same years, substantially faster than the increase in nominal GDP. These developments were accompanied by an acceleration in the inflation rate from 26 percent in 1981/82 to 49 percent in 1982/83.

Table 1. Sierra Leone: Selected Economic and Financial Indicators, 1978/79-1984/85 1/

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84 Program	1983/84 Revised	1984/85 Proj.
	(Annual percent change, unless otherwise specified)							
Income and expenditure								
GDP at constant factor cost	6.0	4.1	0.5	--	--	1.0	0.5	2.0
GDP at current market prices	21.1	12.3	15.8	17.0	27.5	25.2	26.0	26.7
Gross domestic expenditure at current prices 2/	24.8	19.7	13.5	16.5	20.6	23.0	22.5	26.2
Consumer prices (average)	14.1	19.3	13.7	26.3	49.4	40.0	70.0	50.0
External sector (on the basis of SDRs)								
Exports, f.o.b.	-12.3	44.7	-25.7	-9.9	-25.7	39.2	18.0	39.2
Imports, f.o.b.	31.1	24.3	-10.4	2.0	-34.8	-8.0	-21.9	23.2
Oil imports, f.o.b.	69.0	37.1	25.7	68.6	-34.6	14.7	14.7	--
Diamond export volume	9.1	-20.5	-32.9	-29.4	27.6	1.0	-27.9	5.0
Terms of trade (deterioration -)	-26.1	9.8	-15.9	-13.9	-25.3	...	29.2	...
Nominal effective exchange rate 3/ (depreciation -)	-4.2	-5.4	0.4	4.7	5.5	...	-46.2	...
Real effective exchange rate 3/ (depreciation -)	0.6	-2.1	5.0	23.5	20.6	...	-14.0	...
Government finance								
Total revenue and grants	8.3	10.3	18.9	-9.6	-12.0	55.3	49.7	15.1
Total revenue	6.9	--	25.4	-13.6	-14.8	36.4	38.5	19.3
Total expenditure 4/	20.6	15.1	21.7	0.4	0.4	17.6	14.7	7.1
Money and credit								
Domestic credit	35.5	21.4	39.5	31.9	39.4	23.8	20.7	18.6
Government	36.3	28.1	44.7	38.1	44.3	24.3	23.2	18.2
Private sector	33.3	3.8	22.4	7.8	15.3	21.2	4.7	21.5
Money and quasi-money (M_2)	28.3	16.7	3.6	25.5	36.0	29.3	26.0	16.5
Velocity (GDP relative to M_2)	4.8	4.6	5.2	4.8	4.5	4.4	4.5	4.9
Interest rate 5/ (annual rate on one-year deposits)	8.5	11.5	11.5	11.5	11.5	13.5	13.5	16.5
	(In percent of GDP, unless otherwise specified)							
Overall government deficit (cash basis)	11.3	12.3	11.5	10.3	13.5	8.0	7.9	6.0
Overall government deficit (commitments basis)	11.3	12.3	13.3	12.9	11.4	8.0	7.9	6.0
Domestic bank financing	5.7	4.8	8.5	8.9	11.3	7.1	6.8	5.2
Percent of initial money stock	35.2	26.1	45.5	54.1	69.3	40.3	38.6	29.6
Foreign financing	4.5	6.1	2.4	2.0	2.0	0.7	-0.5	0.2
Gross domestic investment 2/	13.4	16.3	13.5	11.6	8.6	9.8	7.5	9.7
Gross domestic savings	5.2	0.9	0.4	-1.0	2.1	5.2	3.9	6.6
External sector								
Current account deficit (millons of SDRs)	141.0	145.1	157.8	181.5	120.9	75.6	68.2	65.7
Ratio to GDP	18.7	17.2	16.1	15.9	9.5	8.0	7.1	5.4
Balance of payments deficit (millions of SDRs)	47.9	45.6	122.2	120.2	73.4	75.0	98.5	39.3
Ratio to GDP	6.4	5.4	12.5	10.5	5.8	7.9	10.3	3.2
External debt 5/	29.5	31.2	30.4	26.9	28.9	46.8	40.7	33.2
Inclusive of use of Fund credit 5/	31.1	34.3	33.2	30.8	34.0	49.2	49.0	41.5
External debt service as percent of exports 6/	33.7	24.8	40.5	40.3	59.9	50.1 7/	27.4 8/	29.9 8/
Gross official foreign reserves 5/ (months of imports)	1.5	1.3	0.8	0.5	0.6	...	0.6	...
External payments arrears 5/ (millions of SDRs)	38.6	54.7	113.3	199.5	243.9	153.9	231.5	...

Sources: Data provided by the Sierra Leonean authorities; and staff estimates.

1/ Fiscal years July/June.
2/ Includes changes in stocks.
3/ Trade-weighted.
4/ Commitments basis, i.e., including unpaid obligations.
5/ End of period.
6/ Exports of goods only.
7/ Does not include impact of rescheduling.
8/ Includes impact of 1984 rescheduling.

In the external sector, the pressures on Sierra Leone's balance of payments, which intensified in 1981/82, continued in 1982/83: the current account deficit at SDR 121 million (or 9.5 percent of GDP) remained high, despite a reduction in the trade deficit brought about by a severe compression of imports (by about 35 percent to SDR 161.1 million), which resulted from the continuing dearth of foreign exchange (export earnings fell by 26 percent to SDR 88 million). The overall balance of payments deficit amounted to SDR 73 million (or 5.8 percent of GDP); this deficit was financed, in large part, by a renegotiation of debt owed to the oil companies, by a purchase from the Fund under the compensatory financing facility, and by an increase (about SDR 40 million) in external payments arrears. By end-June 1983, external payments arrears had reached SDR 244 million, more than twice the annual level of exports of goods.

Faced with these growing economic and financial difficulties, the Sierra Leonean authorities commenced discussions with the Fund staff in late 1982 on the elements of an adjustment program. Subsequently, on February 3, 1984, the Fund approved the present stand-by arrangement for Sierra Leone in support of the authorities' stabilization program. The program aimed at reviving the economy, containing the rate of inflation, and reducing the current account deficit of the balance of payments for fiscal 1983/84 (July/June) by some 2.3 percentage points of GDP. These targets were to be achieved through measures covering the exchange rate, producer pricing, and fiscal and monetary policies. In this context, the dual exchange rate system, which had been in operation since December 1982, was terminated and the official and commercial rates of exchange for the leone were unified on July 1, 1983 at Le 2.50 per U.S. dollar, implying a 50 percent devaluation of the official rate for the leone (100 percent in local currency terms). Along with the unification of the exchange rate, the Government announced large increases in producer prices, and gave an undertaking that the retail price of rice would be decontrolled. The retail prices of petroleum products were also raised, in stages, to reflect the increased oil import cost following the devaluation.

The 1983/84 budget originally provided for a deficit of Le 210 million (8.4 percent of GDP), with bank financing projected at Le 180 million, or 41 percent of beginning broad money stock. Under the financial program for 1983/84, the authorities sought to achieve additional fiscal adjustment by adopting a target for the overall deficit of Le 200 million (8.0 percent of GDP), of which bank financing was to be limited to Le 177.7 million (7.1 percent of GDP, or 40 percent of beginning money stock). As revenues in the early months of the fiscal year fell short of the projections of the original budget, the revised targets were to be achieved through additional reductions in expenditure below the originally budgeted levels.

To encourage savings and restrict the demand for credit, on July 1, 1983 interest rates on commercial bank deposits were raised by 2 percentage points and ceilings on bank lending rates were abolished. In

September 1983 the effective required liquidity ratio of commercial banks was increased by 5 percentage points, and in December the Bank of Sierra Leone reintroduced the system of quarterly quantitative ceilings on commercial bank credit to the private sector.

In the external sector, the program targeted a cash reduction in arrears (from their November 18, 1983 level) of SDR 0.5 million by end-March 1984 and SDR 1 million by end-June 1984, and required the Government to complete debt rescheduling exercises with its external creditors by March 1984. Quarterly ceilings for end-March and end-June 1984 were established as performance criteria for (a) total domestic bank credit and (b) net credit to Government from the banking system; in addition, indicative targets were set for December 1983.

The program's quantitative performance criteria for end-March and end-June 1984 were met (Table 2). Available data also indicate that the program's overall fiscal targets were achieved; revised estimates show an overall deficit of Le 198 million (7.9 percent of GDP), with bank financing of Le 170 million, both within program targets (Table 3). Net foreign financing is now estimated as an outflow of Le 11.5 million, compared with a programed inflow of Le 18.3 million, as foreign-financed development expenditure fell short of projections. Despite this outflow, bank financing of the overall deficit was contained within program limits as a result of efforts to mobilize nonbank resources: nonbank domestic financing, at an estimated Le 39 million, was well above the programed level, as treasury bills proved to be an attractive outlet for the private sector's excess liquidity, following the increase in the treasury bill rates in July 1983.

Total revenue and grants are estimated at Le 272 million, compared with Le 282 million under the program. With collections picking up toward the end of the year, income taxes and customs and excise revenues are estimated to have exceeded program projections by about Le 3.5 million and Le 5.5 million, respectively, but these increases were offset by shortfalls on grants and nontax revenues, reflecting slower implementation of some grant-financed projects, disappointing collections from administrative fees and charges, and a lower-than-expected transfer of profits from the Bank of Sierra Leone. Total expenditures are estimated at Le 469 million, or less than the Le 482 million under the program; current expenditures exceeded program projections by Le 24 million, of which Le 12 million reflected overspending on casual wages before the hiring of casual labor was frozen in March, and Le 14 million represented excess interest payments, as Fund charges, although not included in the budget, were debited to the Treasury. Under other current expenditures, the subsidy on petroleum products associated with the delayed pass-through of oil cost increases, which was projected under the program at Le 13 million, actually amounted to Le 6.1 million, as the balance of the losses was absorbed by the refinery. Development expenditures are estimated at Le 103.9 million, less than the Le 140 million under the program,

Table 2. Sierra Leone: Quantitive Performance Criteria and Results for March and June 1984

	June 1983	Sept. 1983	Dec. 1983	March 1984	June 1984
Credit ceilings			(In millions of leones)		
Net credit to Government from the banking system					
Ceiling	--	--	812.4 1/	857.4	910.2
Actual	732.5	747.4	765.8	832.5	902.9
Total domestic credit					
Ceiling	--	--	967.4 1/	1,007.4	1,052.8
Adjusted ceiling	--	--	...	...	1,050.4 2/
Actual	850.3	875.5	901.9	968.7	1,026.2
External public debt			(In millions of U.S. dollars)		
Outstanding nonconcessional loans contracted with maturities between 1-12 years 3/					
Ceiling	--	--	10.0 1/	10.0	10.0
Actual	...	...	--	--	--
Outstanding non-trade credits with maturities of less than 1 year					
Ceiling			15.0 1/	15.0	15.0
Actual			11.0	5.0	5.0
External payments arrears			(In millions of SDRs)		
Cash reduction by end of period 4/					
Minimum required	--	--	--	0.5	1.0
Actual	--	--	--	6.0	6.0

Sources: EBS/84/2; and data provided by the Sierra Leonean authorities.

1/ Indicative ceilings.
2/ In keeping with the requirements of the program, the end-June credit ceiling was adjusted downward by Le 2.4 million to reflect equivalent cash withdrawal from the blocked deposits for commercial arrears.
3/ For Kimberlite and Bumbuna projects only.
4/ From the November 18, 1983 level of SDR 259.4 million, it is expected that there will be an additional reduction through consolidation and rescheduling.

Table 3. Sierra Leone: Central Government Operations, 1980/81-1984/85 1/

(In millions of leones)

	1980/81	1981/82	1982/83	1983/84 Budget	1983/84 Program	1983/84 Revised estimate	1984/85 Budget
Total revenue and grants	228.3	206.3	181.5	324.2	281.8	271.7	312.7
Taxes on net income and profits	53.1	42.6	42.7	72.9	69.9	73.4	88.1
Of which: SLPMB	(--)	(--)	(--)	(26.0)	(24.0)	(19.0)	(24.0)
Taxes on goods and services	43.7	45.2	38.5	51.2	44.2	48.5	65.3
Import duties and fees	83.5	69.2	51.6	98.1	68.1	71.0	79.6
Export duties	14.5	14.0	5.4	5.8	5.8	4.2	4.7
Other revenue and grants	33.5	35.3	43.3	96.2	93.8	74.6	75.0
Total expenditure	406.6	408.3	409.0	534.4	481.8	469.3	502.7
Current expenditure	246.3	248.8	261.7	364.2	341.8	365.4	382.7
Wages and salaries	(101.8)	(117.5)	(125.1)	(155.7)	(149.7)	(162.2)	(164.7)
Interest payments	(23.2)	(39.4)	(43.0)	(76.2)	(67.9)	(82.0)	(101.9)
Other	(121.3)	(91.9)	(93.6)	(132.3)	(124.2)	(121.2)	(116.1)
Development expenditure	63.9	94.9	99.2	170.2	140.0	103.9	120.0
Of which: domestic	(...)	(...)	(27.1)	(47.0)	(32.0)	(25.0)	(30.0)
Other expenditure 2/	96.4	64.6	48.1	--	--	--	--
Overall deficit (commitment basis)(-)	-178.3	-202.0	-227.5	-210.2	-200.0	-197.6	-190.0
Net change in domestic arrears (reduction -)	24.3	41.2	-42.1	--	--	--	--
Overall deficit (cash basis)(-)	-154.0	-160.8	-269.6	-210.2	-200.0	-197.6	-190.0
Financing	154.0	160.8	269.6	210.2	200.0	197.6	190.0
Foreign	32.4	31.9	42.0	15.8	18.3	-11.5	5.4
Drawings	(64.1)	(63.6)	(69.0)	(85.8)	(75.8)	(46.0)	(50.0)
Amortization	(-31.7)	(-31.7)	(-27.0)	(-70.0)	(-57.5)	(-57.5)	(-44.6)
Domestic	121.6	128.9	227.6	194.4	181.7	209.1	184.6
Banking system	(113.6)	(140.0)	(224.8)	(180.0)	(177.7)	(170.4)	(164.6)
Nonbank sources	(8.0)	(-11.1)	(2.8)	(14.4)	(4.0)	(38.7)	(20.0)
				(In percent of GDP)			
Overall deficit (commitment basis)	13.3	12.9	11.4	8.4	8.0	7.9	6.0
Overall deficit (cash basis)	11.5	10.3	13.5	8.4	8.0	7.9	6.0
Bank financing	8.5	8.9	11.3	7.2	7.1	6.8	5.2
Percent of beginning money stock	45.5	54.1	69.3	40.8	40.3	38.6	29.6

Sources: Data provided by the Sierra Leonean authorities.

1/ Provisional estimates; treasury accounts have not been finalized and audited since 1978/79. Posts and telecommunications operations are treated net.

2/ Includes extrabudgetary expenditure and unpaid commitments for which available data do not permit classification across expenditure categories.

reflecting restraint on domestic outlays, and the shortfall in foreign financing, due, in part, to a temporary suspension of disbursements by multilateral agencies, as a result of the inability of the Government to discharge debt servicing obligations to these agencies. Under the program, improvements in financial management were implemented, including the establishment of quarterly expenditure allocations to improve monitoring and control, and of a blocked account for the domestic counterpart of external public debt service payments.

Credit to the private sector rose by 5 percent, or substantially less than the program objective of 21 percent (Table 4). The increase in lending rates, as well as the guidelines established for commercial bank credit, played an imporant role in limiting private sector credit expansion below the levels targeted in the program. Provisional estimates indicate that the decline in the net foreign asset position of the banking system during 1983/84 has been stabilized and is consistent with the growth in external obligations incurred for purposes of balance of payments support. Money supply grew by 26 percent in 1983/84 (compared with 36 percent in 1982/83) reflecting, in part, the blocking of the domestic counterpart of the oil arrears (Le 41.9 million) with the Bank of Sierra Leone in November 1983. However, the rate of inflation (as measured by the Freetown Consumer Price Index) is estimated to have substantially exceeded the 40 percent projected for 1983/84. This development followed the devaluation of the official exchange rate by 100 percent in local currency terms on July 1, 1983 and was also due to the continuing shortage of imported goods, as well as to recourse to the parallel market for purposes of financing commercial imports.

In the external sector, the current account deficit is estimated to have declined from 9.5 percent of GDP in 1982/83 to 7.1 percent of GDP in 1983/84 (Table 5); this outturn compares with a targeted deficit of 8.0 percent of GDP under the program. Although their rate of increase fell short of the program projections, exports are estimated to have performed well, rising by 18 percent in foreign currency terms as a result of higher international commodity prices and larger volumes of some mineral exports, including gem quality diamonds. Imports, on the other hand, continued to decline in 1983/84, falling by an estimated 22 percent in nominal terms during the year. The overall balance did not, however, reflect the improvement in the current account; long-term capital inflows fell short of the programed level partly because project loan disbursements were temporarily stopped during the year. The overall deficit of SDR 98 million (program target SDR 75 million) was financed largely by debt relief provided by the Paris Club, commercial banks, and supplier creditors and by net use of Fund resources provided in support of the authorities' stabilization program.

At end-December 1983, Sierra Leone's external public debt outstanding (disbursed), excluding use of Fund credit, amounted to US$379 million, or 38 percent of GDP. The debt service burden for 1983/84 was reduced

Table 4. Sierra Leone: Monetary Survey, June 1982-June 1984

(In millions of leones)

	1982		1983				1984	
	June	Dec.	March	June	Sept.	Dec.	March	June
Foreign assets (net)	-236.96	-241.56	-243.38	-258.01	-264.31	-616.37 1/	-663.91 1/	-692.10 1/
Central bank	243.15	-250.56	-261.08	-280.19	-283.28	-634.62	-689.09	-723.24
Commercial banks	6.18	9.00	17.70	22.18	18.97	18.25	25.18	31.14
Domestic credit	609.87	722.18	751.02	850.27	875.54	901.91	968.68	1,026.15
Claims on Government (net)	507.79	603.89	634.42	732.50	747.41	765.78	832.46	902.90
Claims on private sector	102.08	118.29	116.60	117.77	128.13	136.13	136.22	123.25
Money and quasi-money	324.49	419.64	435.15	441.29	513.23	551.21	538.78	555.87
Money	169.34	253.22	264.75	256.86	325.50	358.22	351.69	361.17
Quasi-money	155.15	166.42	170.39	184.43	187.73	192.99	187.09	194.70
Other items (net)	48.42	60.98	72.50	150.97	98.00	-265.67	-234.01	-221.82

Source: Bank of Sierra Leone.

1/ Net foreign assets are revalued at the exchange rate of US$1=Le 2.50. The revaluation counterpart is reflected in other items (net).

Table 5. Sierra Leone: Balance of Payments, 1982/83-1984/85

(In millions of SDRs)

	1982/83	1983/84		1984/85
		Program	Revised	Projection
Trade balance	-73.1	-30.6	-22.0	-10.5
Exports	88.0	132.1	103.8	144.5
Imports	-161.1	-162.7	-125.8	-155.0
Services balance	-51.6	-55.0	-50.0	-59.0
Of which: official interest	(-9.1)	(-10.8)	(-9.0)	(-10.0)
IMF charges	(-4.8)	(-3.8)	(-6.8)	(-7.8)
Private transfers (net)	3.8	10.0	3.8	3.8
Current account	-120.9	-84.6	-68.2	-65.7
(In percent of GDP)	(9.5)	(8.0)	(7.1)	(5.4)
Government transfers (net)	18.3	26.2	24.7	25.0
Long-term capital (net)	-7.0	-10.4	-28.8	1.4
Official (net)	0.7	-16.6	-17.0	-9.4
Drawings	(42.4)	(28.8)	(18.7)	(20.7)
Repayments	(-41.7)	(-45.4)	(-35.7)	(-30.1)
Private (net)	-7.7	6.2	-11.8	10.8
Export earnings retained	(-17.3)	(-16.3)	(-26.6)	(-14.0)
Short-term capital	36.2	-15.3	-26.2	--
Overall balance before rescheduling	-73.4	-75.0	-98.5	-39.3
Net impact of rescheduling of debt and arrears	34.1	43.7	63.8 1/2/	5.6 1/3/
Overall balance after rescheduling	-39.3	-31.3	-34.7	-33.7
Financing	39.3	31.3	34.7	10.8
Arrears (decrease -) 4/	40.0	3.5	-1.5	-10.0
Fund credit (net)	18.4	12.8	12.8	20.8
Drawings	(20.7)	(19.0)	(19.0)	(31.2)
Repurchases	(-2.3)	(-6.2)	(-6.2)	(-10.4)
Reserves (increase -)	-19.1	15.0	23.3	--
Financing gap	--	--	--	22.9

Sources: Data provided by the Sierra Leonean authorities; and staff estimates.

1/ 1984 rescheduling only: covers Paris Club maturities to December 31, 1984 and non-Paris Club to June 30, 1985.

2/ Includes impact of rescheduling of SDR 37.6 million of Eurodollar loans, also shown as a short-term capital outflow.

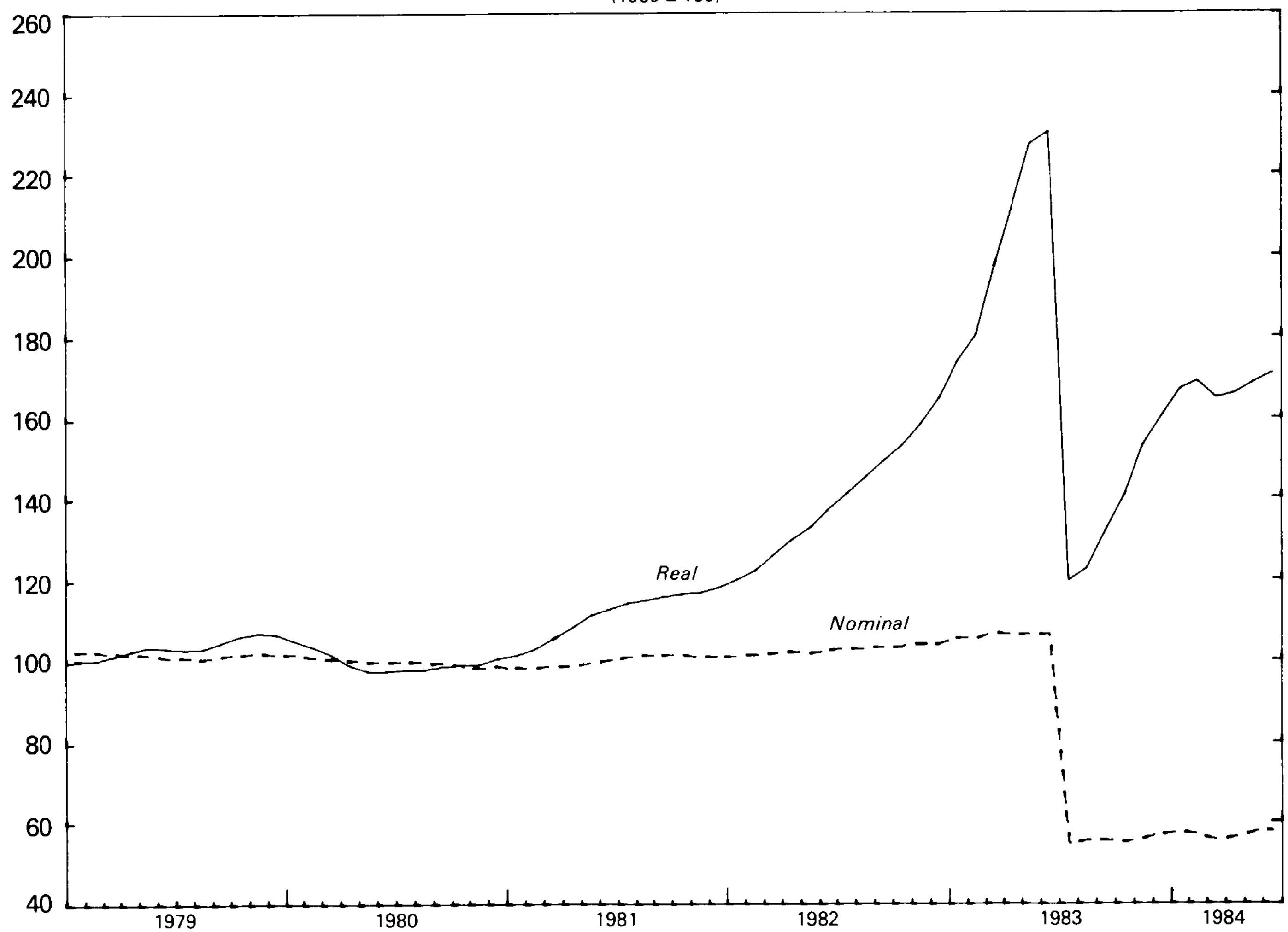
3/ Includes payments of SDR 10.7 million on rescheduled short-term debts and arrears to banks and oil companies.

4/ Arrears change shown on a cash basis. For 1983/84 program, the figure includes a buildup of SDR 4.5 million in arrears before the beginning of the stand-by arrangement, and a reduction of SDR 6.0 million during the remainder of the year. The stock of arrears on debt service at the end of 1983/84 was SDR 67.5 million, of which SDR 2.7 million was to international organizations and the rest to creditors who have not yet agreed to reschedule on Paris Club terms.

CHART
SIERRA LEONE

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, TRADE-WEIGHTED, 1979-84

(1980 = 100)



Note. An increase in the index indicates an appreciation of the leone

as a result of the rescheduling exercises completed with the Paris Club creditors, the commercial banks, and supplier creditors; the debt service ratio (including repurchases to the Fund) amounted to 27.4 percent of exports of goods after rescheduling; excluding the Fund, the ratio is estimated at about 14.8 percent. The medium-term debt profile, nevertheless, remains worrisome because of the overhang of the consolidation of arrears and the impact of related interest payments. The result of rescheduling arrears with the Paris Club and the making of cash payments on arrears owed to multilateral financial organizations has been to reduce total outstanding arrears from SDR 244 million at end-June 1983 to SDR 231 million at end-June 1984; about half of this total consists of private commercial arrears.

The real trade-weighted exchange rate of the leone fell sharply (by 50 percent in foreign currency terms) (see chart) in July 1983, following the devaluation of the leone. However, from July 1983 to June 1984, it is estimated that the real trade-weighted exchange rate (based on the official rate) appreciated again by some 43 percent, due to higher inflation rates in Sierra Leone relative to those of its major trading partners and to the appreciation of the U.S. dollar. For 1983/84 as a whole, the average real effective exchange rate of the leone depreciated by 14 percent compared with the preceding year.

III. Report on the Discussions

Sierra Leone's efforts to halt and reverse the prolonged economic and financial decline met with a limited degree of success during the first half of 1984. The recent increases in the production and export of certain products are evidence of a slow return of business confidence following the introduction of several adjustment measures, and the effects of the improved international prospects for Sierra Leone's exports. However, around mid-year, the authorities' commitment to implement adjustment measures appears to have weakened, and there were delays in the reaching of understandings on exchange rate policy. The consultation discussions focused on a broad review of the economic situation, the degree of adjustment achieved under the program, and the policies that would be required to complement and sustain the adjustment effort for the period ahead.

1. Production and investment policies

The Sierra Leonean representatives expressed disappointment that, in spite of the large devaluation of the leone in July 1983, substantial increases in producer prices, and rising international commodity prices, production in the major export-oriented sectors continued to lag during the latter half of 1983. In the mineral sector, official exports of diamonds produced under the Alluvial Diamond Mining Scheme (ADMS) temporarily came to a complete halt following the surge in the parallel market rate for foreign exchange in the second half of 1983. At the same time, concerted efforts to control smuggling proved largely unsuccessful, and the Diamond Corporation (DICOR), the single largest purchaser and exporter of diamonds in Sierra Leone, closed its purchasing office in August 1983. Similar developments affected the production and export of gold; there were no official exports between August 1983 and March/April 1984.

To stimulate production and rechannel exports of diamonds and gold through officially-recognized channels, the authorities initiated a scheme in March/April 1984 which allowed exporters of these commodities to use their foreign exchange earnings, either to finance approved imports for their own use or to sell to other approved importers at an exchange rate determined directly between the two parties. Other efforts to encourage production and exports included a reduction in the price of a gold operator's license from Le 10,000 to Le 2,500 for a resident operator, a reduction in royalty charged on exports of gold from 5 percent to 3 percent of the value, and the termination, in February 1984, of the Bank of Sierra Leone's monopoly on gold exports. Following these changes, recorded exports of both gold and diamonds rose sharply, with an estimated total of 10.6 thousand ounces of gold valued at about Le 9.0 million and an estimated 230 thousand carats of diamonds valued at about Le 74.4 million being exported during the four-month period ended June 1984. The authorities stated that they are presently reviewing the price of the licenses for diamond dealers with a view to reducing cost for resident operators. Given the initial success of the scheme designed to promote gold and diamond exports, they expressed confidence that the system would prove successful in reattracting a substantial proportion of exports which previously were effected outside official channels. 1/

The Sierra Leonean representatives stated that the operations of the National Diamond Mining Company (DIMINCO) were hampered by high operating costs and low production levels. As a result, the company had been forced to reduce the annual number of sales from three to two. Total sales in 1983/84 were estimated at 98,000 carats, compared with 163,000 carats in 1982/83. The authorities also stated that plans to diversify production away from alluvial operations were proceeding on schedule. Construction of the Kimberlite underground mining project will be developed and managed by DIMINCO. The size of the investment in the project has been reduced from US$140 million to US$112 million, and the mining technique has been modified as a result of a re-evaluation of the financial profitability of the project, following the drop in the average projected price of diamonds from US$210 per carat to US$135 per carat. At the time of the

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1/ Subsequent to the consultation discussions, the authorities announced in late August the formation of a "Precious Metals Marketing Company" whose capital would be subscribed by the Government, parastatals, diamond exporters, and the public. Although details on this company are not yet available, indications are that its operations could have adverse implications for the budget and the exchange system.

mission's visit, the major share of the financing (US$67 million) required for the project was expected to be in the form of loans, mainly from foreign financial institutions. At that time, it was also expected that the development of the project would be spread over a period of 11 years, and that production would start in 1984/85 at a level of 38,000 carats, rising to 208,000 carats in 1987/88.

Where other minerals are concerned, the Sierra Leonean representatives felt that the prospects had improved somewhat with the economic recovery in the industrialized countries. The production and export of wet bauxite grew from 648,000 tons in 1982/83 to 900,000 tons in 1983/84, mainly due to new markets in South America. There were, however, no exports of the higher valued dried bauxite because of the continuing depressed state of international demand. Rutile production is estimated to have more than doubled, increasing from 32,000 tons in 1982/83 to 76,000 tons in 1983/84. Shipments of iron ore were estimated to have increased substantially to a level of 500,000 tons in 1983/84, compared with 144,000 tons in 1982/83.

The Sierra Leonean representatives expressed concern that the output of export crops, as measured by the official purchases of the Sierra Leone Produce Marketing Board (SLPMB), had not responded positively to the increases in producer prices which had been granted in July 1983. In addition to the increases in the producer prices for coffee, cocoa, ginger, and palm kernels of 82 percent, 93 percent, 118 percent, and 82 percent, respectively, these prices were raised again in March and June 1984, by a total of 55 percent, 63 percent, 124 percent, and 50 percent, respectively. Despite these substantive increases, however, producer prices in U.S. dollar terms continued to lag behind comparable producer prices in Liberia, by as much as an estimated 10 percent to 25 percent, as the discrepancy between the official and parallel market rates widened. It is estimated that official purchases of cocoa, palm kernels, and ginger in 1983/84 were 9,000 tons, 11,500 tons, and 100 tons, respectively, compared with the 1982/83 levels of 10,000 tons, 10,000 tons, and 100 tons for the respective products. Owing to unfavorable weather conditions, purchases of coffee were extremely low, amounting to only 2,600 tons, a decline of 48 percent below the 1982/83 level. The Sierra Leonean representatives expressed the hope that the most recent increases in producer prices which had been made possible by the recovery in international commodity prices would have the desired effect of bringing about a substantial increase in the production and purchases of the main export crops. Meanwhile, the financial operations of the SLPMB, which registered a pretax surplus of about Le 24 million in 1983/84, are expected to register another large surplus in 1984/85.

With respect to rice, the Sierra Leonean representatives stated that the SLPMB had imported 25,000 tons of commercial rice for the purpose of building up a strategic stock, an amount which was within the maximum limits envisaged under the program; the SLPMB's monopoly to import rice had also been withdrawn. Total imports of rice fell to 40,000 tons in 1983/84 from 70,000 tons in 1982/83, a decline which was made possible by higher levels of domestic production of rice in 1983/84. Finally, the Sierra Leonean representatives said that the agricultural sector continued to receive financial and technical support in the form of project assistance from the IBRD, EEC, and ADB. In addition, the IBRD had approved a sectoral adjustment loan of US$21.5 million for Sierra Leone in June 1984. The proceeds of the loan would be used to support a plan costing US$29.4 million to rationalize the operations of the Ministry of Agriculture and Forestry and the Ministry of Natural Resources, and to finance imported inputs required to increase production.

With regard to the construction and manufacturing sectors, the Sierra Leonean representatives explained that performance continued to be constrained by the lack of imported raw materials, due to the scarcity of foreign exchange. They were hopeful that, with the introduction of the new scheme designed to increase the exports of gold and diamonds through official channels, and the allocation of these export receipts to priority imports, the prospects for these sectors would be improved in the coming period.

The Sierra Leonean representatives stated that the draft of the Second National Development Plan, covering the three-year period 1983/84-1985/86, had been completed and was due to be issued shortly. Total planned investment is targeted at Le 674 million (at current prices) for the three-year period, 84 percent of which would be financed from external sources. To achieve its main objectives of accelerating economic recovery and promoting self-sufficiency, the Plan emphasizes expenditures on economic services which are projected to make up 80 percent of the total. The Sierra Leonean representatives added that sectoral policies are directed at augmenting production through increased utilization of existing infrastructure, speeding up the completion of on-going investment programs, and implementing quick-yielding investment programs. To this end, the plan devotes 26 percent of total expenditure to agriculture, 24 percent to transport and communications, and 13 percent each to mining and energy.

2. Energy-related policies

The prices of petroleum products were increased effective July 1, 1983, following the devaluation of the leone. These increases, which initially only partially recouped the increased cost of crude oil resulting from the exchange rate adjustment, raised the pump price of gasoline, kerosene, and gas-oil by 47 percent, 29 percent, and 50 percent per gallon, respectively; the pass-through of cost increases resulting from the devaluation was completed on February 2, 1984 when the authorities announced additional price increases which raised prices of gasoline, kerosene, gas-oil, and fuel oil by 30 percent, 20 percent, 28 percent, and 19 percent, respectively, to Le 6.50, Le 3.00, Le 5.10, and

Le 1.77 per gallon, respectively. At the prevailing parallel market rate of Le 6 = $1.00, the new prices are equivalent to $1.08 for gasoline, $0.50 for kerosene, $0.85 for gas-oil, and $0.30 for fuel oil. Imports of crude were estimated to have declined to 190,400 tons during 1983, from 201,000 tons (inclusive of refined products) in 1982, because of supply disruptions. The Sierra Leonean representatives indicated that they did not anticipate any further substantive reduction in fuel consumption in 1984 despite the higher pump prices, as the economy required approximately a minimum of 200,000 tons when operating at normal capacity.

To reduce Sierra Leone's reliance on imported energy, a technical feasibility study prepared by the IBRD has recommended that a scaled-down Bumbuna hydroelectric project ($100 million in 1982 prices) would be more viable for Sierra Leone. Approximately $30 million has already been spent on the construction of access roads and diversion tunnels, and a co-lenders' meeting to be sponsored by the IBRD is being proposed for the latter part of 1984 or early 1985. Meanwhile, the first phase of the rehabilitation of the transmission facilities is being financed by the Arab Bank for Economic Development in Africa, and a second phase, financed by the IBRD, is scheduled to start early in 1985.

3. Prices and incomes policy

With regard to overall price developments, the Sierra Leonean representatives stated that the acceleration in the inflation rate in 1983/84 reflected the effects of the devaluation of the leone in July 1983 and its direct impact on prices of petroleum products, the general scarcity of goods resulting from the depressed state of domestic production, and the depreciated rate of the leone at which all private sector imports of goods are effected. Where wages and salaries are concerned, they expressed their intention to continue the policies of moderation which had helped them to achieve the budgetary targets in 1983/84. They were, however, concerned that the wage settlements which had been negotiated by several industrial trade groups during 1983/84 and which had a direct impact on public sector wage-earners, could, in the medium term, disrupt their effort to contain salary and wage increases in the budget within appropriate limits. Accordingly, the authorities were considering the issuing of guidelines in future which would apply to both public and private sector wage settlements.

4. Domestic financial policies

In the fiscal area, the Sierra Leonean representatives emphasized the substantial adjustment which had been implemented as part of their stabilization program in 1983/84, with the overall deficit estimated to have been reduced by some 5.6 percentage points of GDP compared to the 1982/83 outturn (cash basis). This reduction had been achieved, in part, through firm restraint on the capital expenditure side, coupled with the beneficial effects of the July 1983 devaluation on revenues; as a result of improved expenditure controls, current expenditures were substantively reduced in real terms.

Nevertheless, problems had been encountered in certain areas, notably with regard to wages, where the freeze on hiring of salaried employees had been partially circumvented by departments hiring more casual labor; however, in March 1984 an executive order was issued to extend the hiring freeze to casual workers, and, as noted above, it was proposed to consider the issuance of guidelines for future wage negotiations under the industrial bargaining system, so that wage pressures could be curbed and the budgetary impact of such wage settlements more satisfactorily controlled. The authorities' efforts at restraining expenditures had not been without adverse effects on the efficiency of government operations, as some departments were experiencing serious shortages of vehicles, stationery, and other essential supplies. In this context, the Sierra Leonean representatives observed that, in general, procedures for procurement of supplies and operation of stores were adequate and that problems in these areas in earlier years had been due to failure to follow regulations. Proper procedures were now being followed, and additional improvements were expected to be implemented in the procurement and management of health supplies with assistance from an external aid donor. They also noted that, as part of ongoing preparations for a possible Structural Adjustment Loan (SAL) to begin in 1985, the IBRD was preparing, in consultation with the authorities, reviews of the public enterprise sector and of public expenditures in the major sectors of the economy in Sierra Leone. Following the completion of these reviews, they expect to initiate measures to improve the efficiency of public expenditure planning and implementation, and to improve the performance of the public enterprise sector, in part through selective privatization. Other measures envisaged under the proposed SAL include the adoption of improved pricing policies, including the removal of price controls, particularly for the enterprises operating in the agricultural, manufacturing, and mining sectors.

The staff representatives, while acknowledging the efforts which had been made to contain expenditures in 1983/84 and thereby meet the program's fiscal targets, stressed that the overall deficit and its bank financing remained high and, therefore, a contributory element to inflationary and balance of payments pressures. Consistent with the declared intentions of the authorities to maintain their adjustment efforts, the staff team urged a further reduction in the overall deficit and its associated bank financing in the context of the 1984/85 budget, which was under preparation at the time. Specifically, the staff team, while recommending a continuation of expenditure restraint, stressed the need for efforts to mobilize additional revenues to improve the balance of the effort at fiscal adjustment. While acknowledging the need to contain the overall deficit and its bank financing, the Sierra Leonean representatives emphasized that this would be a difficult task. Given the restraint of recent years, pressures for higher expenditures in essential areas were increasingly hard to resist, while on the revenue side, they felt that many tax rates were already at high levels and that efforts should focus more on improving the collection effort on existing taxes. In this context, they explained that they had recently established a Customs and Excise Advisory Committee, including representatives both from government and the private sector, to seek improvements in customs valuation and inspection procedures.

In the event, the 1984/85 budget estimates received by the staff subsequent to the mission provide for an overall cash deficit of Le 190 million, equivalent to 6.0 percent of projected GDP, some 1.9 percentage points below the estimated 1983/84 outturn. Bank financing of the deficit is projected at Le 164.6 million (5.2 percent of GDP, or 29.6 percent of beginning money stock), compared with Le 170.4 million (6.8 percent of GDP) in 1983/84. Total revenue and grants are budgeted at Le 313 million, representing an increase of 15 percent over the estimated 1983/84 outturn. The rate of increase in revenue receipts, which is substantially less than the projected rate of inflation in 1984/85, is largely due to the authorities' practice of valuing goods for customs and excise purposes at the official exchange rate rather than at the effective market rate at which most goods are traded. The budgeted rise reflects an increase of Le 15.4 million in excise revenues from the tobacco company and the brewery against guarantees of foreign exchange availability (including about Le 2 million from higher duty rates on beer and stout from May 1984), as well as higher taxes on soft drinks, imported cigarettes, liquor, automobiles, and increases in postal rates (total projected yield Le 2.8 million); these measures offset the effects of an increase in the exemption level for personal income tax, from Le 1,202 to Le 1,800 per annum, which is estimated to result in a revenue loss of about Le 3 million. In addition, the authorities are strengthening tax collections through new incentive schemes for revenue departments, under which departments would retain one percent of any excess of actual collections over their budget targets, to supplement their operations.

On the expenditure side, the budget provides for total outlays of Le 503 million, or 7 percent in nominal terms above the 1983/84 revised estimates, reflecting a continuing policy of stringency with regard to discretionary outlays. Thus, current expenditures are estimated to increase by about Le 17 million, or less than 5 percent in nominal terms, with the increase more than accounted for by a Le 20 million rise in interest payments, which reflects both moratorium interest arising from external debt rescheduling, and the rising burden of domestic debt servicing. The wage and salary bill is estimated to increase by about 2 percent, with the impact of normal increments and promotions, as well as selective employment increases in police and health (totaling Le 7.3 million), partly offset by a 15 percent reduction in the casual wage bill for the Ministries of Agriculture, Health, and Works (Le 4.6 million). The general freeze on hiring is to continue, and no general salary increase is envisaged. Other current expenditures are slated to decline by about 5 percent in nominal terms, largely because of the absence of the temporary oil subsidy, which amounted to

Le 6.1 million in 1983/84. Development expenditures are estimated to increase by 15 percent in nominal terms, mainly on account of new IBRD projects in the agricultural and energy sectors.

The Sierra Leonean representatives expressed the view that the significant reduction in the growth of domestic credit had a beneficial impact on imports, which declined by 22 percent in foreign currency terms during 1983/84, and on the parallel market rate for foreign exchange that fell somewhat in the beginning months of 1984. Therefore, they indicated their intention to pursue restrictive monetary policies and, in particular, to continue to limit government borrowing from the banking system in 1984/85. The Sierra Leonean representatives noted that, in order to promote a better allocation of financial resources and an increase in domestic savings, they had eliminated the ceilings on the lending rates charged by the commercial banks in July 1983 and had simultaneously raised deposit rates by 2 percentage points. They stated that lending rates now ranged between 18 and 22 percent, having risen by about 2 percentage points, and interest rates paid on savings and time deposits now ranged between 12 and 14 percent. However, since they still remained strongly negative in real terms, a further increase in interest rates has been approved by Cabinet for implementation in 1984/85.

5. External financial policies

Sierra Leone's balance of payments position remains very weak. Although in 1983/84 exports were higher than in 1982/83, the overall performance of exports was disappointing, and, despite a sharply reduced level of imports, the official foreign exchange situation remained critical. The difficult foreign exchange situation has resulted in a continuing high level of external arrears and in delays in meeting official debt service obligations, including payments into the special account established under the Paris Club debt renegotiation agreement of February 1984 and, temporarily, to the Fund.1/

The Sierra Leonean representatives explained that the volume of mineral exports other than diamonds and gold has registered significant increases, with large gains in the case of rutile and iron ore; these increases have also been accompanied by a recovery in the export prices of these commodities, leading to an increase in export earnings. In the case of agricultural export commodities, volumes have remained at either the same level as in 1982/83 (cocoa), or have increased substantially (palm kernels), except in the case of coffee where volumes were reduced by drought conditions which adversely affected the crop. The higher

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1/ In the last twelve months Sierra Leone has frequently been late in meeting payments to the Fund; however, all overdue obligations were cleared prior to the end of the period when the Executive Board is normally notified that payments are overdue.

producer prices and increased enforcement of anti-smuggling operations had helped to sustain the levels of officially-marketed output in 1983/84; these factors, coupled with substantial recovery in the prices of the major agricultural exports, led to a marked increase in the export earnings from these commodities.

By contrast, a major problem remained with the export of diamonds and gold: although export unit values for diamonds had increased substantially in 1983/84, performance in volume terms for these exports had been disappointing for the greater part of the fiscal year, largely because of increased smuggling. However, the Sierra Leonean representatives stated that the recent exchange measures, which involve a more depreciated rate for diamond and gold exports, coupled with the abolition of the Bank of Sierra Leone's monopoly on gold exports, would help increase the inflow of export earnings from diamonds and gold. Furthermore, efforts were being made to improve retention policies in the mineral sector. In this context, three committees have been formed in the Bank of Sierra Leone to work out the specific details for implementing the recommendation of a consultant from the United Kingdom who presented a preliminary report to the Government on ways to limit the retention of foreign exchange earnings in the mining sector, a practice which has been permitted to facilitate the payment of debt servicing andd other external obligations by foreign-owned companies.

In discussing exchange rate policy, the Sierra Leonean representatives stated that partly as a result of the delay in concluding negotiations on a Fund-supported program, and the continuing dearth of foreign exchange, pressures intensified on the exchange rate, leading to a widening of the differential between the official and the parallel market exchange rates and aggravating the problem of smuggling. The new system for re-channeling proceeds from diamond and gold exports was introduced in response to these pressures. They explained that, under this system, most of the foreign exchange transactions take place overseas through a correspondent bank or branch of one of the local banks and are reportedly effected at the existing parallel market rate of between Le 5-Le 6 to the U.S. dollar, compared with the official rate of Le 2.50 to the U.S. dollar. Exports made under the scheme are recorded, and reported to the Department of Customs for export duty; however, both exports and imports continue to be valued for customs purposes at the official rate of exchange, and the commercial banks' books and transactions are based on the official rate.

The staff representatives argued that in view of Sierra Leone's pressing adjustment needs, the appreciation of the real effective exchange rate of the leone, as well as of developments in the parallel market, a substantial discrete adjustment in the official exchange rate was urgently needed. Also, the authorities needed to adopt a basket-pegging arrangement designed to maintain the stability of the real effective exchange rate. For their part, the Sierra Leonean representatives felt that the prevailing system was preferable to another adjustment of the official rate: first, available data indicated that recorded exports of gold and diamonds had increased since the inception of the system introduced in March/April; second, DICOR, which had ceased operations for several months, has now started to compete in the purchase and export of diamonds as it now pays for its diamonds with coupons denominated in U.S. dollars which are deposited abroad by the recipients; third, the March/April system has also permitted other smaller exporters to compete in the purchase and export of gold and diamonds; fourth, practically all private sector imports are now financed by proceeds at the already existing highly depreciated rate; fifth, some relaxation of the restrictiveness of the trade and payments system is already taking place, as evidenced by the increasing number of import licenses issued in the past few months (about SDR 6.1 million), compared with the period between September 1983 and February 1984 (when only SDR 5.6 million was issued because of the unavailability of foreign exchange); sixth, the elimination of unnumbered import licenses is also being facilitated. However, they agreed with the mission that the system discriminated against other exporters and that it has not led to sufficient inflow of official foreign exchange to finance all government obligations, including payments into the special account set up by the Paris Club. Furthermore, some, albeit small, amounts of oil have been purchased by the Government with foreign exchange bought at the parallel market rate; similarly, since July/August 1983, the Bank of Sierra Leone is apparently buying gold for export at a high price in leones which appears to reflect the more depreciated rate. In addition, imports which were financed with foreign exchange obtained at the parallel market rate, continued to be valued at the official exchange rate for customs purposes. It was largely as a result of the failure to reach understandings on exchange rate policy that the review of the stand-by arrangement was not completed.

Regarding the restrictive system, the Sierra Leone representatives stated that import licenses issued for 1983/84 amounted to $50.2 million and that as of end-June, only $10 million had been allocated against these licenses; the unallocated portion expired at the end of the fiscal year. However, as noted earlier, additional licenses have been issued under the new system. At the time of the consultation discussions, the modalities for the foreign exchange budget for 1984/85 were still being considered, but it was expected to be based on the present system. They explained that there has been no change in the list of banned imports, the enforcement of which was, in any case, proving to be quite difficult; consideration was, therefore, being given to liberalizing the system by dropping certain imports from the banned list. Sierra Leone maintains bilateral payments agreements with Guinea and the People's Republic of China.

Apart from the rescheduling of Paris Club debts, the Sierra Leonean representatives stated that external arrears are also being reduced in the context of other reschedulings and consolidation. In particular, about three fourths of the non-Paris Club suppliers' credits have been rescheduled; the balance pertained to indebtedness incurred in sensitive national security areas which the foreign creditors consider non-reschedulable, and debts for which it had been difficult to make contact with the foreign principals. In addition, debts owed to one of the local commercial banks have been rescheduled; and, as of the time of the mission, the signing of a rescheduling agreement with the remaining commercial bank was imminent. Discussions were still ongoing between the authorities and the oil companies regarding the arrears owed to the companies. The estimated impact of the Paris Club reschedulings and the non-Paris Club reschedulings on the balance of payments for 1983/84 amounted to SDR 10 million and SDR 19 million, respectively. The Sierra Leonean representatives stated that discussions were under way to complete the bilateral negotiations under the Paris Club rescheduling agreements. They added that the amount of external arrears is expected to be lower than estimated at present owing to the verification and eventual cancellation of a large number of invalid applications for foreign exchange, presently estimated at about SDR 100 million.

Sierra Leone's debt service ratio remains high: staff estimates indicate that, on the basis of public debt outstanding as of end-June 1984, the ratio of debt service payments, excluding the Fund, to merchandise exports will rise to 17.3 percent in 1984/85 after taking account of the impact of debt rescheduling; inclusive of the Fund, it would amount to 29.9 percent. Inclusive of projected new borrowings and of liabilities to the Fund and assuming no further reschedulings, the debt service ratio will average 48 percent during the next four years.

6. Medium-term prospects

A continuing very difficult balance of payments situation is foreseen in the medium term (Table 6). The current account is expected to improve if the recent policy changes undertaken in the context of the stand-by program, in particular, in the area of the exchange arrangement are sustained, leading to a steady improvement in the overall payments account. However, the current account is projected to remain in substantive deficit in the period through 1988/89. Moreover, without further rescheduling, debt obligations arising from debt renegotiations in 1984, both with respect to the Paris Club and others, as well as repurchases due to the Fund, are expected to result in sizable financing gaps, beginning in 1985/86, which would widen considerably in the next two years, reaching about SDR 100 million in 1987/88 before declining thereafter.

The medium-term forecast shows an increase in the value of exports by 41 percent in 1984/85, reflecting the present exchange system which is expected to substantially increase the value of recorded diamond exports. Rutile and iron ore are also expected to expand considerably on account of price increases. Among agricultural products, coffee exports are expected to almost triple, largely under the assumption that production partly recovers from the droughts. During the following four years, the real

Table 6. Sierra Leone: Medium-Term Balance of Payments Projections, 1983/84-1988/89

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Trade balance	-22.0	-10.5	-21.3	-2.4	1.8	16.0
Exports	103.8	144.5	151.3	176.2	188.6	202.0
Imports	-125.8	-155.0	-172.6	-178.6	186.8	186.0
Of which:						
oil	(57.0)	(57.0)	(59.3)	(61.7)	(64.1)	(66.7)
rice	(13.3)	(20.0)	(19.4)	(18.8)	(18.2)	(17.7)
Kimberlite project	(--)	(8.5)	(18.6)	(17.5)	(17.0)	(8.6)
energy rehab. project	(--))	)	)	)	)	
IBRD sectoral project	(--))	(5.0))	(5.0))	(4.0))	(4.0))	(2.0)
other imports	(55.5)	(64.5)	(70.3)	(76.6)	(83.5)	(91.0)
Services balance	-50.0	-59.0	-57.0	-63.0	-66.3	-70.1
Of which: official int. 1/	(-15.8)	(-17.8)	(-19.4)	(-20.7)	(-21.9)	(-25.3)
Private transfers	3.8	3.8	4.0	4.0	4.0	4.0
Current account	-68.2	-65.7	-74.3	-61.4	-60.5	-50.1
Long-term capital (net)	-4.1	26.4	39.7	42.0	43.5	45.8
Official capital	7.7	15.6	19.7	22.0	23.5	25.8
Transfers	(24.7)	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)
Official drawings	(18.7)	(20.7)	(20.0)	(20.0)	(20.0)	(20.0)
Of which:						
IBRD sectoral adjustment loan	(--)	(7.9)	(8.0)	(7.0)	(5.0)	(3.1)
IBRD energy rehab.	(--)					
Repayments 1/	(-35.7)	(-30.1)	(-25.3)	(-23.0)	(-21.5)	(-19.2)
Of which: Trust Fund	(1.5)	(2.8)	(4.7)	(4.9)	(4.6)	(3.4)
Private capital 2/	-11.8	10.8	20.0	20.0	20.0	20.0
Export earnings retained	(-26.6)	(-14.0)	(-10.0)	(-10.0)	(-10.0)	(-10.0)
Short-term capital and errors and omissions	-26.2	--	--	--	--	--
Overall balance before debt rescheduling	-98.5	-39.3	-34.6	-19.4	-17.0	-4.3
Net impact of rescheduling of debt and arrears 3/	63.8	5.6	-28.8	-37.4	-43.4	-40.3
Overall balance after debt rescheduling	-34.7	-33.7	-63.4	-56.8	-60.4	-44.6
Financing	34.7	10.8	-19.9	-28.1	-39.1	-31.0
Arrears (decrease -) 4/	-1.5	-10.0	-10.0	-10.0	-10.0	-10.0
Fund credit						
Drawings	(19.0)	(31.2)	(--)	(--)	(--)	(--)
Repurchases	(-6.2)	(-10.4)	(-9.9)	(-18.1)	(-29.1)	(-21.0)
Net	12.8	20.8	-9.9	-18.1	(-29.1)	-21.0
Reserves (increase -) 5/	23.3	--	--	--	--	--
Financing gap	--	22.9	83.3	84.9	99.5	75.6

Sources: Sierra Leonean authorities; and Fund staff estimates.

1/ Before rescheduling and including Fund charges under interests.
2/ Includes an allowance of US$10 million per year from the Kimberlite diamond project.
3/ 1984 rescheduling only: covers Paris Club maturities to December 31, 1984 and non-Paris Club to June 30, 1985. Includes impact of rescheduling of SDR 37.6 million of Eurodollar loans, shown as short-term capital outflow in 1983/84. Includes also impact of rescheduled official arrears and arrears to oil companies.
4/ The change in arrears is shown on a cash basis. For 1983/84, the figures include a buildup of SDR 4.5 million in arrears before conclusion of the stand-by program and a reduction of SDR 6.0 million during the remainder of the year.
5/ Net foreign assets of the banking system.

GDP growth rate is expected to be around 2 percent. Export value is projected to increase by about 8.8 percent annually. This reflects an increase by about 6 percent in the volume of diamond exports, as Kimberlite output expands more rapidly than the depletion of alluvial reserves, with a rapid surge in 1986/87 when the first stage of the project is expected to be completed. Diamond prices are assumed to rise by 4 percent per annum, in line with current world inflation. Export volumes of coffee and cocoa are assumed to grow on average by 5 percent and 2.5 percent, respectively, with price increases averaging 3 percent and 1 percent. The volume of palm kernel exports is assumed to remain stable, with its price increase averaging 2 percent per annum. Exports of bauxite, rutile, and iron ore are assumed to have reached their capacities in 1983/84, while price increases for these minerals are projected to average about 5.5 percent per annum. The output and price of gold are projected to remain stable.

A number of new projects will be started during the next five years and are incorporated in the medium-term balance of payments projections, including the Kimberlite project (largely privately financed), the energy rehabilitation project of the IBRD (which is the first phase of the Bumbuna project), and an IBRD sectoral project for agriculture. The projections make no allowance for an IBRD structural adjustment loan, which is under discussion, or for the Bumbuna hydro-electric dam, for which the feasibility study is under review. Over the period, it is assumed that the volume of oil imports will remain at about the present level because of conservation measures, while prices are projected to rise by 4 percent a year from 1985/86 onward after no change in 1984/85. Rice imports are projected to rise substantially in 1984/85 following a bumper crop in the previous year, thereafter declining by 3 percent a year, reflecting increased domestic production. The remaining imports are expected to increase markedly in 1984/85 with the change in the exchange system; they are projected to rise in nominal terms at an average annual rate of 9 percent between 1985/86 and 1988/89. While continued constraints are envisaged, it is assumed that import liberalization measures will be implemented, thus allowing a growth in imports relative to GDP.

For the capital account, new disbursements of official loans are projected to remain low, at a level close to that of 1983/84. A decline in the retention of export earnings is assumed, following a renegotiation of the existing retention privileges applicable to foreign mining companies. An assumption of a minimum cash reduction of SDR 10 million a year in external payments arrears, in addition to arrears reductions according to various rescheduling agreements, is incorporated, which would still leave arrears outstanding in 1989. Official debt service payments were calculated on the basis of the projected debt structure and additional borrowing, including borrowing for balance of payments support. As previously mentioned, the impact of the 1984 debt rescheduling becomes less favorable over time, as grace periods expire and payments fall due on rescheduled obligations. The debt service ratio according to scheduled obligations is projected to decline from 56 percent in 1983/84 to about 32 percent in 1988/89 (Table 7); however, when payments arising from the 1984 debt renegotiations are incorporated, the ratio rises sharply in 1985/86 to about 47 percent and remains at about that level throughout 1988/89. No assumption has been made regarding additional debt relief, any other exceptional official aid, or further use of Fund resources beyond the current arrangement. This difficult medium-term scenario indicates that Sierra Leone will need to continue the implementation of strong adjustment policies and will also require further concessional and exceptional financing, including debt rescheduling.

Table 7. Sierra Leone: External Public Debt and Debt Service, 1982/83-1988/89

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
	Estimates		Projections 1/				
	(In millions of SDRs)						
Outstanding disbursed							
(end of period)	446.1	469.5	523.3	591.4	655.2	724.1	781.7
Medium- and long-term debt	379.4	390.0	423.0	501.0	582.9	680.9	759.5
Use of Fund credit	66.7	79.5	100.3	90.4	72.3	43.2	22.2
Debt service (scheduled)	57.9	57.7	58.3	54.6	61.8	72.5	65.5
Amortization	44.0	41.9	40.5	35.2	41.1	50.6	40.2
Medium- and long-term debt	(41.7)	(35.7)	(30.1)	(25.3)	(23.0)	(21.5)	(19.2)
Repurchases from Fund	(2.3)	(6.2)	(10.4)	(9.9)	(18.1)	(29.1)	(21.0)
Interest payments	13.9	15.8	17.8	19.4	20.7	21.9	25.3
Medium- and long-term debt	(9.1)	(9.0)	(10.0)	(10.7)	(13.2)	(16.1)	(20.3)
Fund charges	(4.8)	(6.8)	(7.8)	(8.7)	(7.5)	(5.8)	(5.0)
Debt service (after 1984 reschedulings) 2/	21.1	28.4	43.2	70.4	84.2	99.1	92.4
	(In percent)						
Ratios (before rescheduling)							
Debt service/Export of goods	65.7	55.6	40.5	36.1	35.1	38.4	32.4
Interest payments/Export of goods	15.8	15.2	12.3	12.8	11.8	11.6	12.5
Ratios (after 1984 reschedulings) 2/	24.0	27.4	29.9	46.5	47.8	52.5	45.7

Sources: Bank of Sierra Leone; World Bank; and staff estimates.

1/ Includes debt service obligations arising from new borrowing, both medium- and long-term capital inflows and balance of payments support.
2/ Includes impact of 1984 rescheduling, i.e., Paris Club maturities to December 31, 1984, and non-Paris Club to June 30, 1985. For 1982/83, the figure reflects actual payments.

IV. Staff Appraisal

When the Sierra Leonean authorities embarked on their present stabilization program, they implemented all the measures envisaged under the program; in a number of cases, they also subsequently initiated and implemented further appropriate policy measures, particularly in the areas of producer pricing policies. However, in recent months, some inertia in economic decision-making appears to have set in, and slippages in meeting program projections are becoming increasingly likely.

Largely as a result of the measures implemented by the authorities in 1983/84, the economic and financial situation was beginning to improve. The quantitative performance criteria of the program for end-March and end-June 1984 were met and the budgetary deficit and its bank financing were brought down by more than program requirements; similarly, credit expansion was more sharply curtailed than programed. In addition, revised data for 1983/84 indicate that the external current account deficit of the balance of payments was reduced, and, despite a much lower level of capital inflows, external arrears were reduced, in cash, by substantially more than was required under the program. These improvements notwithstanding, the foreign exchange situation remains extremely critical as evidenced by Sierra Leone's continuing difficulties in meeting some priority payments, including official debt service payments arising from the debt rescheduling agreement with Paris Club creditors.

The continuing difficult foreign exchange situation largely reflects the fact that the hoped-for increase in official foreign exchange receipts through diversion of exports from the parallel market into the official channels, following the unification of the exchange rate in July 1983, has not materialized, largely because the parallel exchange market has not disappeared and the exchange rate prevailing in that market has remained substantially above the unified official rate. This would indicate that the official exchange rate is grossly out of line, and the authorities' re-introduction of a dual exchange system in March/April 1984 is a clear recognition of this fact. For this reason, this exchange system should be viewed strictly as an interim measure, with limited beneficial results; its main advantage is that it holds potential for free and flexible exchange rate determination in the second market, which could, with appropriate modifications and adaptations, become the nucleus of a flexible exchange rate arrangement for Sierra Leone, pending a later new unification of the exchange rates within a specified, short period of time. In this context and in view of Sierra Leone's difficult medium-term economic outlook, and the need for urgent comprehensive policy actions, the staff believes that the establishment of an appropriate exchange rate system is a pressing priority. In the meantime, the staff urges the authorities to resist emerging pressures aimed at further complicating and manipulating the exchange rate system in a way that serves sectoral interests rather than being a useful tool to serve national objectives.

While at the start of this fiscal year there were encouraging signs that the authorities remained firmly committed to the implementation of strong adjustment policies, as evidenced by the producer price increases and the policy underpinnings of the 1984/85 budget, their adjustment efforts have since stalled. The staff is concerned that the gains of the recent past may be aborted, and reversed, partly as slippages become increasingly likely in the fiscal and monetary areas, thereby aggravating the imbalances facing the economy, and eroding confidence. In this context, the staff urges the authorities to maintain their earlier tight stance on fiscal policies and to implement the increases in interest rates, already approved by Cabinet, without delay.

Sierra Leone's exchange system involves restrictions on payments and transfers for current international transactions subject to Fund approval, including a system of foreign exchange budgeting, limits on payments for invisibles, and external payments arrears. Sierra Leone also maintains multiple currency practices subject to Fund approval arising from the nonpayment of interest on deposits of the leone counterpart of commercial arrears and the existence of an officially recognized parallel exchange market. The staff urges the authorities to undertake the removal of the exchange restrictions and the multiple currency practices at an early date. Such a removal is contingent, however, on a discontinuation of policies which lend support to the overvalued exchange rate. Sierra Leone also continues to maintain bilateral payments agreements with Fund members, Guinea and the People's Republic of China. The staff does not recommend that the Executive Board grant approval of these exchange restrictions and multiple currency practices at this time.

Consistent with the 12-month cycle envisaged for consultation discussions with Sierra Leone, the authorities propose that the next Article IV consultation discussions take place around May/June 1985.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Sierra Leone's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article XIV consultation with Sierra Leone conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Sierra Leone's exchange system involves restrictions on payments and transfers for current international transactions, including external payments arrears and multiple currency practices, as described in SM/84/222. Sierra Leone continues to maintain bilateral payments agreements with Fund members. The Fund urges the authorities to reduce reliance on exchange restrictions, including the associated multiple currency practices, and to eliminate the bilateral payments agreements with Fund members.

Sierra Leone - Relations with the Fund

(As of September 14, 1984)

I. Membership status

(a) Date of membership: September 10, 1962
(b) Status: Article XIV

(A) Financial Relations

II. General department (General resources account)

(a) Quota: SDR 57.9 million

	Millions of SDRs	Percent of quota
(b) Fund holdings of leones	135.7	234.4
(c) Fund credit	77.8	134.4
Of which:		
credit tranches	15.1	26.1
extended Fund facility	16.3	28.1
supplementary financing facility	17.2	29.7
enlarged access	8.5	14.7
compensatory financing facility	20.7	35.8

(d) Reserve tranche position: SDR 0.024 million

III. Current stand-by and special facilities

(a) Current stand-by arrangement
(i) Duration: From February 3, 1984 to February 2, 1985
(ii) Amount: SDR 50.2 million (86.7 percent of quota)
(iii) Utilization: SDR 19.0 million
(iv) Undrawn balance: SDR 31.2 million

(b) 1. Previous stand-by arrangement
(i) Duration: from June 3, 1977 to June 2, 1978
(ii) Amount: SDR 9.02 million
(iii) Utilization: SDR 7.00 million
(iv) Undrawn balance: SDR 2.02 million

2. Previous stand-by arrangement
(i) Duration: from November 2, 1979 to November 1, 1980
(ii) Amount: SDR 17.00 million
(iii) Utilization: SDR 17.00 million

Sierra Leone - Relations with the Fund (continued)

3. Previous extended arrangement
   (i) Duration: from March 30, 1981 to April 6, 1982
   (ii) Amount: SDR 186.0 million
   (iii) Utilization: SDR 33.5 million
   (iv) Undrawn balance: SDR 152.5 million

(c) Compensatory financing facility, February 14, 1983: SDR 20.7 million

IV. SDR Department

(a) Net cumulative allocation: SDR 17.46 million
(b) Holdings: none

V. Administrative accounts

(a) Trust Fund loans
   (i) Disbursed: SDR 24.43 million
   (ii) Outstanding: SDR 21.63 million

(b) SFF subsidy account
   (i) Payments by Fund: US$1.7 million

(B) Nonfinancial Relations

VI. Exchange practices

Until June 30, 1983 the leone was pegged to the SDR at the rate of Le 1 = SDR 0.731566. Effective July 1, 1983 the leone/SDR peg was abandoned, and the leone was pegged to the U.S. dollar at the rate of US$1.00 = Le 2.50. Around March/April 1984 an experimental scheme was introduced which allowed exporters of gold and diamonds, if they so wished, to sell some or all of their foreign exchange earnings to importers on an exchange rate determined directly and confidentially between the two parties. Sierra Leone maintains restrictions on payments, arrears, and a multiple currency practice arising from the nonpayment of interest on the leone counterpart of commercial arrears. These restrictions were approved by the Fund on February 3, 1984 until July 31, 1984 or the completion of the 1984 Article IV consultation, whichever is earlier.

VII. Article IV consultation

The 1983 Article IV consultation discussions with Sierra Leone were held in Freetown during the period June 8-24. The staff report (SM/83/200) was discussed by the Executive Board on October 5, 1983 when the following decision was taken:

Sierra Leone - Relations with the Fund (concluded)

1. The Fund takes this decision relating to Sierra Leone's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1983 Article XIV consultation with Sierra Leone in light of the 1983 Article IV consultation with Sierra Leone conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Sierra Leone's exchange system involves restrictions on payments and transfers for current international transactions, including external payments arrears, and a multiple currency practice, as described in SM/83/202. Sierra Leone continues to maintain bilateral payments agreements with Fund members. The Fund urges the authorities to reduce reliance on exchange restrictions, including the associated multiple currency practice, and to eliminate the bilateral payments agreements with Fund members.

Consistent with the 12-month cycle envisaged for consultation discussions with Sierra Leone, the authorities have tentatively proposed that the next Article IV consultation take place around May/June 1985.

VIII. Technical assistance

a. The Central Banking Department is providing technical assistance to the Bank of Sierra Leone in the areas of bank supervision and the external debt.

b. Since April 1983 an FAD panel expert has been assigned to the Ministry of Finance as Budget Advisor.

IX. Resident representative

Mr. Dahl was appointed Fund resident representative in Freetown on May 23, 1984.

Sierra Leone - Financial Relations with the World Bank Group
(As of June 30, 1984)

(In millions of U.S. dollars)

IBRD/IDA lending operations:

	Disbursed		Undisbursed	
	IBRD	IDA	IBRD	IDA
Agriculture	5.0	17.5	--	30.4 1/
Education	--	10.6	--	18.7
Transportation	6.0	6.1	--	6.1
Power	7.7	10.2	--	2.8
Technical assistance	--	1.7	--	0.8
Total	18.7	46.1	--	58.8
Of which: repaid	(8.1)	(0.3)	--	--
Total outstanding	10.6	45.8	--	58.8
IFC investment				2.1

Source: World Bank Group.

1/ Includes a loan of US$21.5 million, which was approved on June 14, 1984 in support of a project (US$30 million) to reform the agricultural sector.

SIERRA LEONE - Basic Data

Area, population, and GDP per capita

Area	72,326 square kilometers
Population: Total (1982 estimate)	3.5 million
Growth rate	2.6 percent per annum
GDP per capita (1983/84)	SDR 271

Gross domestic product and expenditure	1978/79	1979/80	1980/81 1/	1981/82 1/	1982/83 1/	1983/84 2/
			(In millions of leones)			
GDP in current market prices	1,029.2	1,155.5	1,338.0	1,565.0	1,995.0	2,514.0
Agriculture, forestry, and fishing	326.9	350.9	403.5	450.0	570.0	725.0
Mining and quarrying	115.9	124.6	119.7	129.6	168.8	217.5
Manufacturing	54.5	58.7	60.0	70.7	85.7	101.0
Trade and tourism	114.6	152.6	171.0	201.5	235.0	306.5
Transportation and communications	107.2	159.2	180.6	222.0	296.7	372.0
Other	310.1	309.5	403.2	491.2	638.8	792.0
Gross domestic expenditure in current prices	1,113.4	1,332.9	1,512.5	1,761.5	2,125.0	2,604.0
Consumption	975.3	1,145.6	1,332.0	1,580.0	1,954.0	2,415.0
Gross investment	138.1	187.3	180.5	181.5	171.0	189.0
Resource gap (-) in current prices	-84.2	-177.4	-174.5	-196.5	-130.0	-90.0
GDP at 1972/73 factor cost	401.7	418.0	420.1	420.1	420.5	422.6
			(Annual percent change)			
GDP in current market prices	21.1	12.3	15.8	17.0	27.5	26.0
GDP at 1972/73 factor cost	6.0	4.1	0.5	--	--	0.5
Gross domestic expenditure in current prices	24.8	19.7	13.5	16.5	20.6	22.5
			(In percent of GDP)			
Consumption	94.8	99.1	99.6	101.0	97.9	96.1
Gross investment	13.4	16.3	13.5	11.6	8.6	7.5
Gross domestic saving	5.2	0.9	0.4	-1.0	2.1	3.9
Resource gap (-)	-8.2	-15.4	-13.0	-12.6	-6.5	-3.6
Consumer prices			(Annual percent change)			
Consumer price index for Freetown (average)	14.1	19.3	13.7	26.3	49.4	70.0

1/ The GDP data are provisional estimates.
2/ Projections.

SIERRA LEONE - Basic Data (continued)

	1978/79	1979/80	1980/81 1/	1981/82 1/	1982/83 1/	1983/84 2/
Central government operations			(In millions of leones)			
Total revenue and grants	174.0	192.0	228.3	206.3	181.5	271.7
Taxes on net income and profits	42.2	38.1	53.1	42.6	42.7	73.4
Taxes on goods and services	28.5	28.6	43.7	45.2	38.5	48.5
Taxes on international trade	83.7	86.5	98.0	83.2	57.0	75.2
Other revenue and grants	19.6	38.8	33.5	35.3	43.3	74.6
Total expenditure	290.3	334.0	406.6	408.3	409.0	469.3
Current expenditure	182.2	192.1	246.3	248.8	261.7	365.4
Development expenditure	32.1	82.1	63.9	94.9	99.2	103.9
Extrabudgetary expenditure	76.0	59.8	96.4	64.6	48.1	--
Overall deficit (commitment basis -)	-116.3	-142.0	-178.3	-202.0	-227.5	-197.6
Net change in domestic arrears (reduction -)	--	--	24.3	41.2	-42.1	--
Overall deficit cash basis (-)	-116.3	-142.0	-154.0	-160.8	-269.6	-197.6
Financing	116.3	142.0	154.0	160.8	269.6	197.6
External (net)	46.6	70.0	32.4	31.9	42.0	-11.5
Domestic	69.7	72.0	121.6	128.9	227.6	209.1
Banking system	(58.7)	(55.7)	(113.6)	(140.0)	(224.8)	170.4
Nonbank sources	(11.0)	(16.3)	(8.0)	(-11.0)	(2.8)	(38.7)
			(In percent of GDP)			
Total revenue and grants	16.9	16.6	17.1	13.2	9.1	10.8
Total expenditure	28.2	28.9	30.4	26.1	20.5	18.7
Overall deficit (commitments basis)	11.3	12.3	13.3	12.9	11.4	7.9
Domestic bank financing	5.7	6.2	8.5	8.9	11.3	6.8
Money and credit (end of period)			(In millions of leones)			
Foreign assets (net)	10.6	-51.2	-164.4	-237.0	-258.0	-692.1
Domestic credit	272.9	331.5	462.4	609.9	850.3	1,026.2
Claims on Government (net)	198.3	254.1	367.7	507.8	732.6	902.9
Claims on private sector	74.6	77.4	94.7	102.1	117.7	123.3
Money and quasi-money	213.8	249.7	258.6	324.5	441.3	555.9
Other items (net)	69.7	30.6	39.4	48.4	151.0	-221.8
			(In percent of GDP)			
Domestic credit	26.5	28.7	34.6	39.0	42.6	40.8
Claims on Government (net)	19.3	22.0	27.5	32.4	36.7	35.9
Money and quasi-money	20.8	21.6	19.3	20.7	22.1	22.1

1/ The government finance data are provisional estimates.
2/ Projections.

SIERRA LEONE - Basic Data (concluded)

	1978/79	1979/80	1980/81	1981/82	1982/83 1/	1983/84 1/
Balance of payments			(In millions of SDRs)			
Exports, f.o.b.	122.3	177.0	131.5	118.5	88.0	103.8
Imports, f.o.b.	-217.3	-270.2	-242.2	-247.1	-161.1	-125.8
Trade balance	-95.0	-93.2	-110.7	-128.6	-73.1	-22.0
Services	-51.6	-57.9	-54.8	-61.0	-51.6	-50.0
Private transfers	5.5	6.0	7.7	8.0	3.8	3.8
Current account balance	-141.1	-145.1	-157.8	-181.6	-120.9	-68.2
Government transfers	9.5	13.2	30.7	22.8	18.3	24.7
Long-term capital	45.9	60.6	9.9	-6.7	-7.0	-28.8
Short-term capital and errors and omissions	34.6	22.5	-8.2	45.3	36.2	-26.2
Allocation of SDRs	3.2	3.2	3.2	--	--	--
Overall balance	-47.9	-45.6	-122.2	-120.2	-73.4	-98.5
Of which: covered by arrears accumulation	(34.9)	(16.1)	(58.6)	(86.2)	(40.0)	(-1.5)
			(In percent of GDP)			
Exports	16.2	20.9	13.4	10.3	7.1	10.9
Imports	28.9	32.0	24.7	21.6	13.0	13.3
Current account deficit	18.7	17.2	16.1	15.9	9.5	7.1
Overall deficit	6.4	5.4	12.5	10.5	5.8	10.3
Gross official foreign reserves (end of period)			(In millions of SDRs)			
Holdings of SDRs	0.5	1.3	0.1	--	--	--
IMF reserve position	--	--	--	--	--	--
Foreign exchange	25.9	28.1	16.5	10.3	9.4	3.7 2/
Total	26.4	29.4	16.6	10.3	9.4	3.7 2/
External public debt (disbursed at end of period)	210.7	260.7	299.1	353.1	379.4	390.0 2/
Effective exchange rates 3/			(Fourth quarter averages; 1980 = 100)			
Nominal trade-weighted	101.2	99.9	100.2	102.8	106.4	57.8
Real trade-weighted	103.6	97.6	112.8	137.1	230.2	170.9

1/ The balance of payments data are provisional estimates.
2/ At end-June 1984.
3/ A downward movement indicates a depreciation.

SIERRA LEONE - Statistical Issues

1. Coverage, Currentness, and Reporting of Data in IFS

		Latest Data in September 1984 IFS
Real Sector	- National Accounts	1983 (Total GDP only)
	- Prices	Q1 1984
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1982
	- Financing	1982
	- Debt	1982
Monetary Accounts	- Central Bank	June 1984
	- Deposit Money Banks	June 1984
	- Other Financial Institutions	June 1980
External Sector	- Merchandise Trade: Values	March 1984 (exports) Q4 1982 (imports)
	- Merchandise Trade: Prices	n.a.
	- Balance of Payments	1982
	- International Reserves	July 1984
	- Exchange Rates	July 1984

During the past year, the reporting of data for inclusion in IFS has been regular.

2. Outstanding Statistical Issues

Prices

The consumer price index (CPI) for low-income households living in Freetown presently reported for IFS is based on 1961 = 100. However, the mission obtained a revised CPI with a 1978 = 100 base, which it is hoped will be incorporated in IFS as soon as a full series is available.

Government Finance

The data in IFS reflect those figures reported for the GFS Yearbook. A technical assistance mission visited Sierra Leone from February 4-8, 1984 and a report containing recommendations to improve the reporting of government finance statistics was sent in June 1984. During that mission a seminar on the GFS system was also conducted.

SIERRA LEONE - Statistical Issues (concluded)

Monetary Statistics

The 100 percent devaluation of the leone in June 1983 does not yet appear to have been fully reflected in the money and banking statistics in IFS. This matter is currently under discussion with the IFS correspondent.