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Statement by Mr. Saho on Sierra Leone
Executive Board Meeting
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Background

1. The implementation of successive Fund-supported financing arrangements under the Poverty Reduction and Growth Trust, following the end of the civil conflict in 2002, has helped Sierra Leone maintain macroeconomic stability and return to a high and sustainable growth trajectory. In spite of the daunting challenges posed by adverse exogenous shocks from the global food and fuel crisis and the global financial crisis, the Sierra Leone authorities successfully completed implementation of their poverty reduction strategy (PRS), the '*Agenda for Change*', spanning 2008 – 2012. Significant progress was accomplished in the delivery of public services, the deepening of the financial sector, the strengthening of state institutions, and in reducing poverty.

2. To consolidate the progress made thus far, the authorities have commenced the process of addressing the residual socio-economic challenges and accelerating the country's development through steadfast implementation of a successor PRS, the '*Agenda for Prosperity*' (AfP). The AfP defines the country's development path for the period 2013–18, with the key objective of attaining inclusive, diversified, and sustainable economic growth, in tandem with employment generation and significantly reducing income inequality. To advance these objectives, the authorities decided to negotiate a new Fund arrangement that is aligned with the priorities set out in the AfP. It is against this background that my authorities request the Executive Board's approval of a new three-year program supported under the Extended Credit Facility (ECF).

3. My authorities appreciate the continued support of the Executive Board and Management throughout the years, including in the area of technical assistance. They are particularly grateful for the productive policy dialogue and advice proffered by the staff team during the negotiations for a new ECF arrangement. Mindful of the many challenges going forward, continued engagement with the Fund and other development partners is considered crucial to sustaining the growth momentum and reducing poverty. My authorities broadly share the thrust of the staff report, which they consider a balanced account of recent economic developments and policy challenges going forward.

Recent economic developments

4. Macroeconomic performance in 2013 has so far been impressive, with declining inflationary pressures, stable exchange rate, improving current account position, and sustainable public debt levels. Real GDP growth is projected at about 13.3 percent in 2013, driven mostly by increasing value-added from iron ore production. The non-iron ore economy is also projected to register a healthy 6 percent growth, with key contributions from agriculture, services, tourism, and sustained investment in infrastructure.

5. To address the fiscal slippages and domestic debt overhang which had come to characterize budget execution in recent years, my authorities instituted stringent measures to ensure fiscal discipline. A policy stance of zero domestic securities market borrowing was adopted; outstanding arrears, including ways and means advances carried over from the previous year, were cleared; a memorandum of understanding was signed with commercial banks to reduce delays in transferring balances on the National Revenue Authority's transit accounts to the Treasury account at the central bank; and a decision was taken to terminate the 2013 expenditure commitments and issuance of payment orders at end-October and end-November, respectively, with a view to limit float transactions at the end of the year. Fiscal consolidation was rigorously pursued, through enhanced revenue mobilization and expenditure control. Total domestic revenue mobilized during the first half of 2013 amounted to 6.3 percent of GDP, exceeding the target for the period and actual collections for the corresponding period in 2012. Total expenditures and net lending, on the other hand, amounted to 6.8 percent of GDP, well within the budgeted amount of 7.5 percent of GDP.

6. The tight fiscal management in the first half of the year occasioned partly by the authorities' zero domestic borrowing stance, culminated in the significant decline in domestic interest rates translating into substantial savings in interest payments, thereby creating much-needed fiscal space for productive spending. The 3-month Treasury bills rate plummeted to 5.4 percent at end-June 2013 from 19.0 percent in December 2012. Similarly, the Treasury bearer bonds rate fell to 9 percent at end-June 2013 from 20 percent in December 2012. Accordingly, the monetary policy rate was lowered from 20 percent to 15 percent. Inflationary pressures have continued to moderate with consumer price inflation falling to 9.3 percent (year-on-year) at end-August from 12 percent in December 2012. The decline reflects moderation in international food and fuel prices, the relative stability of the exchange rate, and pro-active monetary policy supported by fiscal restraint. The country's gross international reserves amounted to about 3 months of import coverage by end-August 2013.

Medium-term outlook and policies

7. The policy interventions over the medium term will be defined by the priorities outlined in the AfP. Over the period, policy will focus on preserving macroeconomic stability and strengthening public finances, while promoting private-sector, export-led growth and generating employment opportunities.

8. The growth prospects over the medium term are quite favorable, with real GDP growth averaging 10.5 percent, driven mostly by increased iron ore mining activities. Excluding iron ore, growth is projected to attain 7 percent by 2017 on account of continued scaling up of public investment, increased agricultural productivity, and sustained activity in construction and services. Exports are projected to increase significantly over the period culminating in the narrowing of the current account deficit by 13 percentage points of non-iron ore GDP. With the improved external current account coupled with unremitting capital inflows, gross international reserves is expected to increase from 3.2 months of imports in 2013 to 4.1 months by 2017. Inflation is projected to decline from 9 percent in 2013 to 5.4 percent in 2017 on the back of a stable exchange rate and continued prudent monetary policy.

Fiscal policy and public financial management

9. The authorities' demonstrable commitment to prudent fiscal management will underpin their fiscal strategy over the medium term. The efforts at fiscal consolidation will be sustained through enhanced domestic revenue mobilization, increased efficiency in expenditure management, and a reduction in the stock of domestic debt. On the revenue front, my authorities will seek to broaden the tax base, minimize discretionary duty exemptions, and strengthen revenue administration. The legal, operational and institutional framework for efficient management of mining revenues will be strengthened. Amendments to the Government Budgeting and Accountability Act (GBAA) will be effected to provide for the establishment of a Natural Resource Revenue Fund and the incorporation of a counter-cyclical fiscal rule that regulates budgetary utilization of natural resource revenues.

10. On expenditures, the authorities will continue to restrain non-statutory recurrent expenditures while rationalizing capital spending, with increased allocations to priority sectors consistent with the country's AfP. Public financial management reforms and fiscal governance will continue to be strengthened within the context of the Integrated Public Financial Management Programme (IPFMRP). The further roll out of the Integrated Financial Management Information System (IFMIS) to government ministries, departments and agencies (MDAs) and the Petra financial management information system to local councils will strengthen budget preparation, budget execution, cash management and financial reporting. The establishment of a Treasury Single Account and improvement in the operational efficiency of the Cash Management Committee constitute important priorities going forward. In addition, my authorities will work on operationalizing the recently-established Public Investment Management Unit (PIMU) with a view to expediting preparation of a public investment plan (PIP) that is fully integrated with the budget process and consistent with the MTEF.

Debt management policy

11. The Sierra Leone authorities intend to fast-track preparation of a comprehensive Medium-Term Debt Management Strategy (MTDS) that prioritizes the use of grants and highly concessional resources for project financing. Given the daunting challenges of securing concessional external financing for critical transformative infrastructure and social development projects outlined under the country's AfP, they would appreciate flexibility

under the new ECF-supported program for the financing, on nonconcessional terms, of some socially and economically viable projects for which concessional funding could not be secured.

12. The latest update of staffs' debt sustainability analysis which affirms that Sierra Leone remains at a moderate risk of debt distress is welcomed. Mindful of the vulnerability of the long-term debt outlook to adverse shocks affecting key macroeconomic variables and roll-over risks from the short-term maturity structure of public domestic debt, my authorities agree with the policy prescriptions proffered by staff and will seek to maintain prudent borrowing policies.

Monetary and exchange rate policies

13. Monetary policy will continue to be implemented within the context of the monetary targeting framework which has proven to be appropriate in achieving price stability. To further enhance the efficacy of monetary policy in containing potential inflationary pressures and in attaining and maintaining single-digit inflation levels, the liquidity forecasting and management framework of the Bank of Sierra Leone (BSL) will be further strengthened. Efforts to deepen the secondary market and the interbank market for government securities will be enhanced in order to amplify the signaling effect and thus the monetary policy transmission mechanism.

14. The current flexible exchange rate regime will be maintained over the medium term to help facilitate rapid adjustments to exogenous shocks. The BSL's intervention in the foreign exchange market will continue to be limited to smoothening short-term exchange rate volatility. Going forward, the BSL will introduce new measures in the management of foreign exchange to ensure greater efficiency in the functioning of the inter-bank foreign exchange market, prevent loss of foreign exchange reserves and limit potential risk to liquidity and exchange rate volatility. This would include a new guideline for foreign exchange operations as well as a revised Foreign Exchange Act.

Financial sector reforms

15. The resilience of the financial sector to adverse domestic and external shocks will be further enhanced through effective implementation of the Financial Sector Development Plan (FSDP) that aims, amongst others, to safeguard financial sector stability, improve efficiency in financial intermediation, and expand access to financial services. The supervisory framework of the banking system will continue to be reinforced, including through an accelerated transition to risk-based supervision and full implementation of the Basel II Core Principles. Moreover, efforts will be made to strengthen the legal framework of the financial sector by instituting appropriate prudential regulations including enactment, over the near term, of the Borrowers and Lenders Bill, the Securities and Exchange Bill, and the Collective Investment Bill. Progress accomplished in modernizing the payments system will be further consolidated. With the promotion of financial inclusion an overarching medium-term goal, the BSL will work closely with development partners and fulfill its commitments under the

Maya Declaration to the Alliance for Financial Inclusion geared towards scaling up access to financial services.

Other structural reforms

16. My authorities consider far-reaching structural reforms critical to the successful implementation of the new ECF-supported program and to achieving their medium-term objective as stated in the AfP. To this end, in addition to the structural fiscal and financial sector reform measures highlighted above, they will, over the near to medium term, seek to consolidate progress accomplished in modernizing the business regulatory framework and eliminating administrative barriers to investment; boost energy supply by rehabilitating the Bumbuna hydroelectric power plant and thermal power generators; achieve the Extractive Industries Transparency Initiative-compliant status by expediting the validation exercise; and strengthen the public procurement process by ensuring transparency in procurement activities and information dissemination, including through online access to procurement opportunities and contract awards.

The Agenda for Prosperity

17. As highlighted above, my authorities have embarked on a program of socio-economic transformation and development through judicious implementation of the AfP, on which the new ECF-supported program is to be predicated. While addressing the country's huge infrastructure deficit remains an integral part of the strategy, my authorities will maintain close engagement with development partners, notably the IMF and the World Bank, in assessing the economic feasibility and macroeconomic impacts of the financing options for key transformative projects prior to their implementation.

18. Finally, my authorities have initiated a series of global road shows to sensitize development partners and potential investors about the funding requirements and available investment opportunities in the country. A Consultative Group meeting and Investment Forum will be organized in Freetown later this year to effectively mobilize the resources needed to finance key projects identified under the AfP. My authorities count on the continued support of development partners in fulfilling the development aspirations of the people of Sierra Leone.