EXECUTIVE BOARD MEETING

EBS/15/10

February 17, 2015

To: Members of the Executive Board

From: The Secretary

Subject: **Sierra Leone—Second Review Under the Extended Credit Facility Arrangement and Financing Assurances Review, and Requests for Augmentation of Access Under the Extended Credit Facility and Debt Relief Under the Catastrophe Containment and Relief Trust**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Monday, March 2, 2015**
Proposed Decisions:	Pages 18–20
Publication:	Yes*
Questions:	Ms. Kabedi-Mbuyi, AFR (ext. 36387) Mr. Orav, AFR (ext. 34492) Ms. Masha, AFR (ext. 35939) Ms. Parulian, AFR (ext. 36167)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	Wednesday, February 25, 2015—WTO After Board Consideration—African Development Bank, European Commission, Islamic Development Bank

***The authorities have indicated that they consent to the Fund's publication of this paper.**

SIERRA LEONE

February 17, 2015

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW, AND REQUESTS FOR AUGMENTATION OF ACCESS UNDER THE EXTENDED CREDIT FACILITY AND DEBT RELIEF UNDER THE CATASTROPHE CONTAINMENT AND RELIEF TRUST

KEY ISSUES

The Ebola outbreak and sharp drop in iron ore prices have dealt a severe blow to Sierra Leone's economy. The Ebola epidemic, which continues to spread albeit at a lower rate than in latter parts of 2014, has exacted a heavy human toll (at least 3000 lives to date) and disrupted much economic activity. The sharp drop in iron prices has compounded these difficulties by shuttering the main mining operator.

These twin shocks have prompted a sharp slump in activity. Following several years of robust economic growth as new mining activity came on stream in 2011, economic output is set to contract by some 13 percent this year, comprising a decline in non-iron ore activity of some 2 percent and a 47 percent slump in iron-ore output as the dominant mining operator is not expected to resume activity until mid-year at the earliest.

Against this backdrop, policy discussions focused on generating fiscal space to tackle the Ebola emergency and contend with the effects of the slump in iron ore production and prices. The domestic primary deficit is set to widen from 0.7 percent of non-iron ore GDP in 2013 to 5.2 percent in 2015 because of Ebola-related priority spending and weakened revenue performance. Increased support from Sierra Leone's development partners will contribute towards the financing of the higher deficit, but recourse to domestic borrowing will also be unavoidable.

Staff supports the authorities request for significant additional financing from the IMF. Program implementation has been good, notwithstanding the severe shocks that the economy has been subjected to and all continuous and end-June 2014 performance criteria, as well as most structural benchmarks have been observed. The authorities' policy commitments are also commensurately strong with the challenges they face. Consequently, staff supports the authorities' request for the completion of the second ECF review, 50 percent of quota augmentation of access, and 20 percent of quota debt relief under the catastrophe containment window of the Catastrophe Containment and Relief Trust.

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

Discussions took place in Paris during December 9–19, 2014 due to travel restrictions triggered by the Ebola outbreak. The staff team comprised Ms. Kabedi-Mbuyi (head); Messrs. Kumah, Orav; and Ms. Parulian (all AFR), Mr. Chai (SPR), and Ms. Masha (Resident Representative). Mr. Tucker (OED) participated in policy discussions. The mission met with Dr. Kaifala Marah, Minister of Finance and Economic Development, Dr. Ibrahim Stevens, Deputy Governor of the Bank of Sierra Leone, and other senior officials. Discussions with representatives of the private sector, development partners, and civil society organizations were held via video conference.

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APPENDIXES

RECENT ECONOMIC DEVELOPMENTS

1. **The Ebola epidemic continues to exact a heavy social and economic toll** (Box 1). Until recently, the infection rate remained stubbornly high, particularly in urban areas. The number of cases reached 10,491 at end-January, including some 3,200 fatalities. The epidemic has disrupted production and distribution channels for basic consumer goods, leading to lost incomes and heightened inflationary pressures. The population of orphans, food-insecure, and the vulnerable has increased significantly stretching thin the current social protection system. Schools have been closed nationwide since July and many healthcare facilities shut down for fear of contamination, reducing basic healthcare services. The authorities have been actively working to contain the epidemic through the implementation of an Accelerated Ebola Outbreak Response Plan managed by the National Ebola Response Center (NERC). Donors have been supporting the authorities' efforts through financial and in-kind aid, as well as human resources. Of late, these combined efforts are bearing fruit, with Ebola infection rates declining markedly since the turn of the year.

2. **The economic environment deteriorated sharply in the second half of 2014** (Figure 1, Table 1, and Text Table 1). Real GDP growth is estimated to have decelerated from 20 percent in 2013 to 6 percent last year, a much slower pace than the 11 percent projected at the time of the first ECF review (pre-Ebola in mid-2014). Following robust growth through end-June, the non-mineral economy contracted in the second half as the Ebola outbreak reduced activity in agriculture, construction, tourism, and services; and investment projects were scaled back. In the iron ore sector, after expanding through end-June, activity slumped in the latter part of the year. Playing-off the collapse in iron ore prices by 50 percent in 2014, the country's two foreign-owned and heavily indebted iron ore operators faced increasing financial problems: (i) London Mining declared bankruptcy and was taken over in October by Timis Corporation; and (ii) the largest operator (African Minerals Limited - AML) has mothballed operations temporarily according to the company and the authorities. Iron ore accounts for about 25 percent of GDP and some 50 percent of total exports.

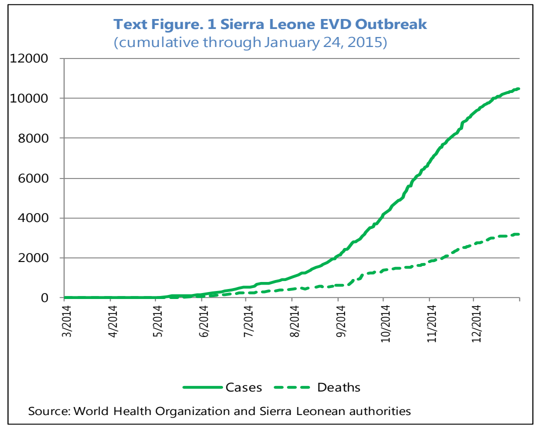
Text Table 1. Sierra Leone: Selected Economic and Financial Indicators
(Percent of non-iron ore GDP, unless otherwise indicated)

	2012	2013	2014			2015		
			1st Rev.	Ad hoc Rev.	Proj.	1st Rev.	Ad hoc Rev.	Proj.
GDP at constant prices (percent change)	15.2	20.1	11.3	8.0	6.0	8.9	10.4	-12.8
Excluding Iron ore	5.3	5.5	6.0	4.0	0.5	6.3	5.5	-2.0
Consumer prices (end-of-period, percent change)	12.0	8.5	7.5	10.0	10.0	6.0	9.5	14.0
Gross international reserves, months of imports (Excluding iron ore related imports)	3.2	3.4	3.6	3.6	4.3	3.7	3.7	4.2
Current account balance (Including official grants)	-30.9	-12.4	-11.1	-13.0	-9.0	-9.4	-9.3	-13.7
External public debt	27.8	29.8	25.8	26.9	31.4	25.3	25.7	34.8
Domestic primary balance	-3.8	-0.7	-2.5	-4.0	-4.9	-1.8	-3.4	-5.2

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

Box 1. Sierra Leone: Ebola Epidemic—Impact and Mitigating Measures

Sierra Leone has seen the largest number of Ebola cases, and incidence is leveling off, despite intense transmission. The number of new confirmed cases averaged 27 per day in the first two weeks of January, down from a peak of around 70 per day in November.



Challenges Posed by the Outbreak

The Ebola outbreak has been unprecedented both in terms of numbers and reach. Several factors likely contributed to this outcome: (i) an unfamiliarity with Ebola in West Africa; (ii) low trust in government communication, significantly hampering critical community mobilization; (iii) the geographic scope of the outbreak, including for the first time urban areas, quickly overtaxing limited capacities; and (iv) concealment of cases encouraged by suspicions about isolation wards and fear of stigmatization.

Socio-Economic Impact and Mitigating Measures

In addition to the human loss, the socio-economic spillovers on vulnerable groups are significant and could be summarized as follows:

- *Health services.* Sierra Leone's fragile public health infrastructure has been overwhelmed by the epidemic. A review of health services found a 70-percent decline in facility inpatient admissions and major surgeries since mid-May 2014, implying exclusion of an estimated 35,000 sick people from inpatient care.[1] Aid groups are working to improve infection control training, and the UN has launched an outreach strategy to rebuild trust in health services.
- *Economic activity and livelihoods.* Survey data indicates 93 percent of farmers reporting lower incomes since the start of the outbreak. A key factor is risk aversion; 86 percent of respondents indicate that fear of Ebola prevents them from going about their normal business. Activity has also been disrupted in other labor-intensive sectors such as hospitality and construction, due to travel bans and a substantial reduction in government and donor-funded projects.[2] The government is currently working with development partners to craft a post-Ebola recovery strategy that would identify measures to revive economic activity, focusing on health, education, and agriculture. The World Bank will also help to finance social safety net programs for groups impacted by the epidemic.
- *Food security.* Sierra Leone has a high level of poverty (53 percent, 2011 estimate), with two-thirds of the population dependent on agriculture. The outbreak coincided with planting season in the country's most productive agricultural areas. A recent UN food security assessment found that movement restrictions and labor disruptions would reduce 2014 rice output by 8 percent. Moreover, a DfID-funded study found that 65 percent of farmers are facing reduced market access due to closures and higher transportation costs.[3] As a result of this, and loss of income by a large proportion of the population, food insecurity is expected to more than double from 330,000 affected persons before the Ebola outbreak to some 750,000 people, according to the UN World Food Program (WFP), which is providing food to quarantined households.

[1] Håkon Angell Bolkan, Donald Alpha Bash-Taqi, Mohammed Samai, Martin Gerdin, Johan von Schreeb, "Ebola and Indirect Effects on Health Service Function in Sierra Leone," PLOS Currents Outbreaks. December 19, 2014.

[2] National Tourist Board data shows air arrival down and hotel occupancy down by two-thirds since the start of the outbreak.

[3] The Impact of Ebola (EVD) on SME's in Rice and Vegetable Markets in Sierra Leone, Sierra Leone Opportunities for Business Action, December 2014.

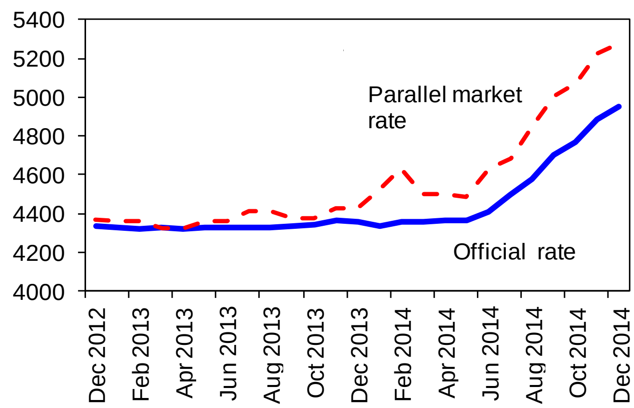
3. **Inflation started to accelerate in mid-2014**. It increased from 7.5 percent (y/y) in May to 9.3 percent in November (8.5 percent at end-2013), reversing the downward trend that started in mid-2011. In the main, this reflected the disruptions to domestic agricultural production and supplies as a result of the quarantines introduced to curb the spread of the Ebola outbreak.

4. **The fiscal deficit widened reflecting the downturn and lower iron ore prices** (Figure 2, Table 2a, and 2b). Total revenues are estimated at 11¼ percent of non-iron ore GDP last year, well below first ECF review projections (12¾ percent). In addition, arrears in tax obligations arose at end-2014 reflecting financial difficulties facing taxpayers as a result of the twin shocks. Expenditure is estimated to be below expectations by about 1.1 percent of non-iron ore GDP. Lower than anticipated capital spending offset overruns in current outlays. The latter was largely due to higher than budgeted wage bill for some government agencies and one-off outlays for goods and services. Through June there was also accumulation of unpaid bills totaling about 1 percent of non-iron ore GDP reflecting the spending overruns, shortfalls in revenue and grants, and higher-than-programmed redemptions of Treasury Bills. Preliminary data indicate that these unpaid bills were cleared at end-December. The domestic primary deficit is estimated at 4.9 percent of non-iron ore GDP, nearly double the level projected under the program.

5. **With economic signals very mixed, the Bank of Sierra Leone (BoSL) has kept the policy rate unchanged** (Figure 3, Table 3; MEFP ¶7–8). With economic activity weakening and the pick-up in inflation due to the supply shocks, the Monetary Policy Rate (MPR) was maintained at 10 percent. Banks' lending rates remain in the 20–25 percent range, while yields on government securities declined further, with the 3-month Treasury bill rate reaching 2.3 percent at end-December compared with 8 percent in 2013, and 22.4 percent in 2012.

6. **The Leone came under increased depreciation pressures** (Text Figure 2, MEFP ¶9). The economic downturn, as well as the decline in border trade reduced the supply of foreign exchange (forex). At the same time, Ebola-driven forex demand for travel and imports of basic goods were elevated. As a result, the Leone depreciated by some 14 percent by end-December 2014 (4 percent in July), and the spread between the official and the parallel market exchange rate widened. To address the additional demand for forex, the BoSL increased its weekly forex sales from US$½ million in June to US$3 million in October on a temporary basis.

Text Figure 2. Sierra Leone: The Official and Parallel Market Exchange Rates (Leone/US$)



Sources: Sierra Leonean authorities.

PROGRAM PERFORMANCE

7. **All in all, program implementation has been satisfactory** (MEFP ¶10–13; and MEFP Tables 1 and 2). Although the Ebola outbreak started in May 2014, it did not impact program performance at end-June: all performance criteria (PCs) were met, and continuous PCs were observed; the target on poverty-related spending was met, while the ones on government revenue and domestic primary balance were missed due to a weak fiscal outturn. Based on preliminary information, all end-December 2014 PCs are expected to be met, except for the one on net domestic bank credit to the central government.

8. **Progress on structural reforms has been hampered by Ebola-related disruptions** (MEFP ¶26–32).

- Five out of nine structural benchmarks set for end-June were observed. The authorities prepared a development strategy for small-and-medium-sized enterprises, and continued to prepare a monthly rolling Treasury cash flow Table; bi-annual reports on the execution of the public investment program; and quarterly reports on external debt monitoring. They also completed a roadmap for the implementation of risk-based banking supervision.

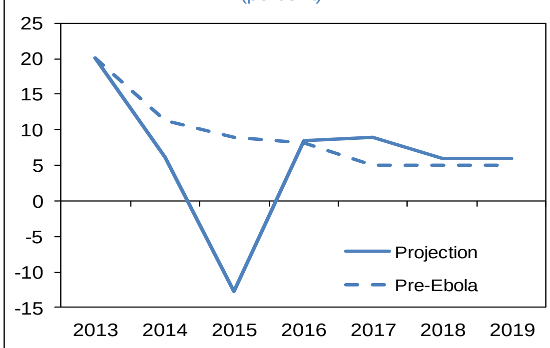
- In other areas, however, despite progress, completion of programmed measures was hampered by limitations generated by the Ebola outbreak that affected the functioning of public administration, travel and delivery of needed technical assistance (TA). Delayed measures are proposed to be rescheduled to 2015.

ECONOMIC OUTLOOK AND RISKS

9. **The outlook is highly uncertain and subject to significant downside risks** (Text figures 2–6; Text Table 2).

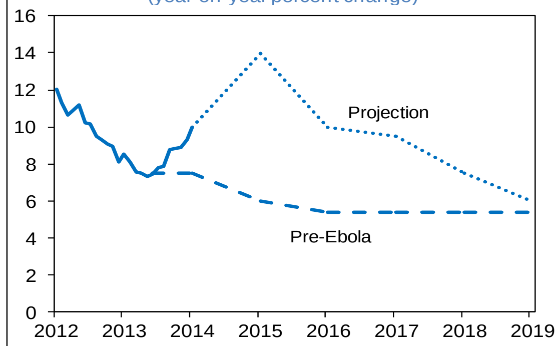
- *Output and inflation*. Under staff's baseline projections, real GDP is set to contract by some 13 percent in 2015 (by 2 percent in the non-iron ore economy) assuming that Ebola containment efforts as well as negotiations for the resumption of iron ore production at AML would be successful around mid-year. The projected rebound in 2016 is predicated on a return to normal iron ore production levels, a pick-up in agricultural activity, a gradual increase in private sector and infrastructure investment, and implementation of the authorities' Post-Ebola Economic Recovery Strategy. Consumer price inflation is likely to remain in the double-digits through 2016, reflecting lingering effects of the supply shocks, projected wage growth in 2015, and potential Leone depreciation. Price pressures are expected to be dampened by the decline in retail prices of petroleum products reflecting the drop in global prices.[1]

Text Figure 3. Sierra Leone: Real GDP growth
(percent)



Sources: Sierra Leone authorities and IMF staff

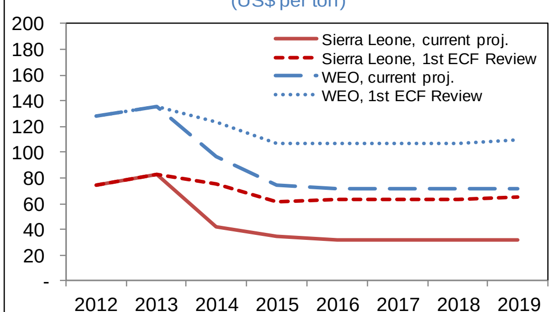
Text Figure 4. Sierra Leone: Inflation
(year-on-year percent change)



Sources: Sierra Leone authorities and IMF staff estimates.

- *The external position.* Medium-term balance of payments (BOP) prospects reflect developments in the iron ore sector, higher imports demand as economic recovery takes hold, and a stable flow of external transfers. The external current account balance is expected to deteriorate in 2015 before improving gradually over the medium-term. Gains from the projected decline in oil prices [2] are offset by the expected increase in imports, consistent with the gradual economic recovery. Taking into account increasing net capital inflows, the reserve cover is projected at around 4 months of non-iron ore imports during 2016–19.

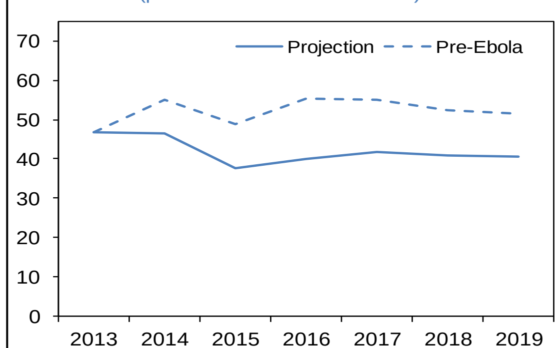
Text Figure 5. Iron ore prices 1/
(US$ per ton)



Sources: WEO and Sierra Leone authorities

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

Text Figure 6. Sierra Leone: Exports
(percent of non-iron ore GDP)



Sources: Sierra Leone authorities and IMF staff estimates.

10. **Risks to the outlook are to the downside** (Text Table 2). Key domestic risks arise from the uncertainty on the duration of the Ebola epidemic, and on the resumption of iron ore production at

[1] The authorities reduced the retail fuel prices in January. They have decided that going forward, pump prices will be adjusted periodically to reflect movements in the landed cost of plus/minus five percent.

[2] The revised macro-framework uses assumptions from the January 2015 World Economic Outlook, taking into account global prices and currency movements.

AML; increased fragility in the fiscal position; and heightened vulnerability in the financial sector. Externally, further decline in iron ore prices is a major risk for the projected growth, budgetary revenue, and the external position. The authorities concurred with staff's assessment. They indicated that they were closely monitoring negotiations between the two key investors in the Tonkilili Iron Ore Project (AML) and hopeful for a resolution in early 2015. While hoping the Ebola epidemic would be contained before mid-2015, the authorities stressed that the return to normalcy would be very gradual in view of lost incomes and eroded capital base for households and businesses.

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

Source of Risks	Relative Likelihood	Impact and Policy Response
Geopolitical fragmentation that erodes the globalization process and fosters inefficiency	**Medium**	**Medium** Fragmentation in the Middle East could lead to a sharp rise in oil prices that is not passed through to domestic consumers, as Sierra Leone lacks efficient social safety nets to mitigate the impact on vulnerable groups. The budget would absorb the cost, likely resulting in lower domestic investment or higher domestic borrowing. *Policy responses*: Gradual pass-through of higher global prices combined with social safety nets measures for the most vulnerable groups.
Protracted slower growth in advanced and emerging economies	**High**	**High** Continued decline in iron ore prices would weaken the external position, and negatively impact growth and government revenue. It could also delay expected investment in iron ore production expansion over the medium-term. *Policy response:* Strengthen efficiency in non-resource revenue mobilization; promote diversification in the context of the Poverty Reduction Strategy.
Uncertain duration of the Ebola epidemic and prolonged shutdown of AML	**High**	**High** A prolonged Ebola epidemic and extended shutdown of AML would further negatively impact growth as well as the fiscal and the external position. *Policy response:* Intensify containment efforts with donor support.
Poor implementation of fiscal policy	**Medium**	**Medium** A higher than anticipated fiscal deficit would lead to increased borrowing from the securities market that could potentially crowd out private sector borrowing and impede economic recovery. *Policy response:* Maintain fiscal discipline; and enhance expenditure management as well as revenue collection.
Weakness in the financial sector	**Medium**	**Medium** The continued recession in 2015 could lead to higher non-performing loans in a context of weakening profitability. *Policy response:* Enhance banking supervision, notably through regular on-site inspections and stress testing of banks to promote healthy financial intermediation.

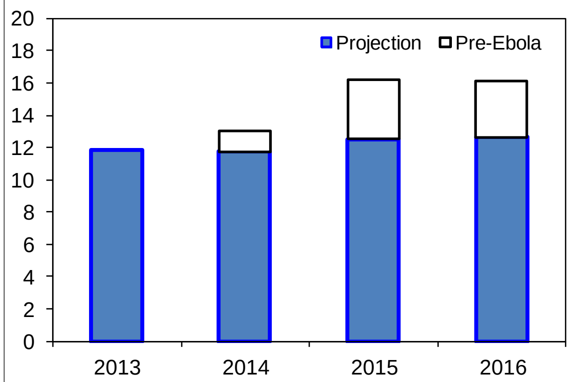
[1] The RAM shows events that could materially alter the baseline path (the scenario most likely to materialize in staff's view). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent; "medium" a probability between 10 and 30 percent; and "high" a probability of 30 percent or more). The RAM reflects staff's views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

FISCAL POLICY AND REFORMS

11. **Staff and the authorities agreed on the broad objective for fiscal policy: addressing the repercussion of the Ebola epidemic for the budget in a highly constrained resource environment** (Text figures 7, 8).

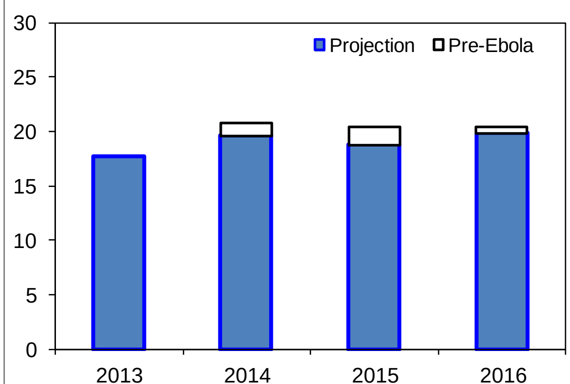
- On the revenue side, the Ebola epidemic has eroded the non-mineral revenue base and weakened compliance with tax regulations, making it more challenging for the authorities to meet revenue targets. In the near-term, revenue performance is also adversely affected by difficulties in the iron ore sector and their impact on the non-mining economy. Staff stressed the need for continued reforms to increase administrative efficiency gains at NRA, reduce tax exemptions to broaden the revenue base, and combat tax evasion. The authorities noted that while measures in these areas have been ongoing at NRA for the last three years, the Ebola outbreak is challenging their effective implementation.

Text Figure 7. Sierra Leone: General government revenue (percent of non-iron ore GDP)



Sources: Sierra Leone authorities and IMF staff estimates.

Text Figure 8. Sierra Leone: Expenditure and net lending (percent of non-iron ore GDP)



Sources: Sierra Leone authorities and IMF staff estimates.

- On the expenditure side, staff projections point to slightly lower levels than in pre-Ebola projections in the short run. For 2015, depending on available resources, a reduction compared with the previous year can be avoided, while freeing up resources needed to fight the Ebola epidemic, and to support economic recovery. Total expenditure is expected to be at around 19 percent of non-iron ore GDP. This does not reflect the full extent of Ebola-related outlays as they are largely carried out outside the budget through the donor-financed NERC. To ensure transparency and accountability in the use of resources allocated to fight Ebola, the authorities signed a contract with a consultancy firm (BDO) as a fiduciary agent for the management of all Ebola funds. They also agreed on a reporting framework with Sierra Leone's development partners. The consultancy firm is producing regular reports covering funding and Ebola-related expenditures.

- As a result, the domestic primary deficit would rise to some 5 percent of non-iron ore GDP during 2015–16, compared with 0.7 percent in 2013. Financing this deficit will require significant additional support from Sierra Leone's development partners, as well as recourse to domestic financing from bank and non-bank financial institutions to the tune of 2 percent of non-iron ore GDP (fiscal anchor under the program). Despite declining yields, government securities remain an attractive investment for banks because of high liquidity in the banking system, and limited alternative options. However, the authorities and staff agreed that it would be important to maintain government borrowing from the securities market within the program ceiling to avoid crowding out private sector credit.

12. **The 2015 fiscal program is fully financed and there are good prospects for covering the financing gap projected for 2016**. The main financing sources are: budget grants, borrowing from the government securities market and the anticipated financing from the IMF (see below). As in the past, the overdraft facility (Ways and Means) from the BoSL would be capped at 5 percent of 2014 revenue, and used to bridge resources gaps during the year. The authorities stressed that they continue to engage donors for additional funding that would help increase domestic investment and strengthen mitigating measures against the Ebola epidemic in 2015. They plan to present a supplementary budget to parliament by mid-year to appropriate any additional resources. For 2016, the projected financing gap, at 2.3 percent of non-iron ore GDP reflects the needed scaling up of domestic investment in line with an enhanced implementation of the Poverty Reduction Strategy (PRS).

13. **Progress in public financial management remains critical** (MEFP, ¶27–30). Staff urged the authorities to reinvigorate the implementation of fiscal reforms to preserve progress made in recent years and support post-Ebola economic recovery. It stressed that revenue-enhancing measures should continue to focus on improving NRA's Information Technology resources further; enhancing its auditing capacity; collecting tax arrears from 2014; and enhancing monitoring of tax exemptions to reduce ad-hoc duty waivers. While agreeing with staff, the authorities noted that disruptions and challenges engendered by the Ebola epidemic should not be underestimated. On expenditure management, staff called for a better harmonization of spending commitments with available resources to prevent the accumulation on unpaid bills. In this context, it encouraged the authorities to resume regular meetings of the Cash Management Committee—suspended in mid-2014 because of the Ebola outbreak—recalling that they have played an important role in enhancing fiscal and monetary policy coordination, and improved budget execution. Staff encouraged the authorities to increase resources at the Public Investment Unit to improve investment management and monitoring. On wages and salaries, staff stressed that the macroeconomic assumptions underpinning the medium-term wage policy strategy completed in late 2014 were no longer sustainable as they were prepared before the Ebola outbreak and the recent crisis in the iron ore sector. The authorities agreed to update the assumptions and adopt a revised strategy by September 2015. The latter would also take into account potentially higher staffing needs, notably in the health sector due to the impact of Ebola; and will inform the revised Medium-Term Expenditure Framework for 2016–19.

MONETARY, EXCHANGE RATE POLICY AND FINANCIAL SECTOR ISSUES

14. **Monetary policy will continue to face challenges in 2015**. The BoSL and staff agreed that some easing of monetary conditions would be needed to support economic recovery. Consequently, the Monetary Policy Rate would be kept at 10 percent as long as inflationary pressures continue to be driven by supply shocks. The Bank would remain attentive to any second-round inflationary pressures, and adjust the policy stance as needed. It noted that the increase in the frequency of Monetary Policy Committee meetings adopted in 2014 would help the BoSL aptly manage monetary policy to address emerging challenges. Staff reiterated that the BoSL should continue to strengthen its liquidity forecasting capacity and play a more active role in the secondary securities and forex markets to manage excess liquidity. The Bank noted the depletion of its stock of government securities for monetary policy operations as an additional constraint to efficient monetary policy in 2015.

15. **Demand pressures in the forex market are likely to remain elevated**. The BoSL concurred with staff that in the current uncertain environment with poor prospects in the iron ore sector, the Bank should remain prudent in addressing increased demand for forex, and ensure that the exchange rate reflects current market conditions. It should ensure that the exchange rate continues to be market-determined, and limit its interventions in the forex market to smoothing excessive short-term volatility in the exchange rate, in order to preserve foreign reserves.

16. **Staff called for further progress in financial sector reforms** (MEFP, ¶31–32). The BoSL agreed that priority should be given to improving monetary operations, developing the interbank forex market, increasing access to financial services for small-and-medium-sized borrowers, and building capacity in banking supervision.

BORROWING POLICY

17. **The authorities agreed with staff that the current economic environment calls for increased prudence in borrowing policies** (Figure 4, Appendix II). Although the updated Debt Sustainability Analysis (DSA), prepared jointly with World Bank staff shows that the risk of debt distress remains moderate, financing needs should continue to be covered mostly with concessional loans and grants to avoid destabilizing increases in the level of debt over the medium to long term.

18. **Staff encouraged the authorities to continue seeking financing for the implementation of their PRS**. While noting current difficulties to mobilize increased budget aid and the additional needs generated by the Ebola epidemic, the authorities agreed that progress in growth-enhancing and pro-poor programs under the PRS would support post-Ebola economic recovery actions. They also concurred with staff that large-scale investment projects under the PRS should be financed, to the extent possible, through concessional loans. Following discussions on the new airport project,

and taking into account various challenges engendered by the twin shocks affecting the economy, the authorities have decided to postpone the project and to maintain the current limit on nonconcessional borrowing under the program.

OTHER PROGRAM ISSUES

19. **The Sierra Leone authorities are requesting additional IMF financing**. They argued that new BOP financing needs are anticipated for 2015 on account of the combined impact of the Ebola epidemic and the sharp decline in iron ore prices. Expected financing from donors would cover about 75 percent of the financing gap estimated at about US$306 million. The authorities are requesting additional financing from the IMF through an augmentation of access under the ECF arrangement, and debt relief under the catastrophe containment window of the Catastrophe Containment and Relief (CCR) Trust to finance part of the remaining gap and strengthen reserve accumulation.

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

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

Source: Sierra Leone authorities
1/ Refers to the Ad Hoc Review for Augmentation of Access (EBS/14/116).

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

- *An augmentation of access under the ECF arrangement* amounting to 50 percent of quota (SDR 51.85 million). This access level is based on the economy's continued vulnerability to exogenous shocks that leads to protracted BOP needs. It is also consistent with applicable access norms and limits under an ECF arrangement, and with Sierra Leone's capacity to repay the Fund. Disbursing these resources following the completion of the second ECF review by the Executive Board would strengthen the authorities' efforts to address the impact of the shocks early in the year.

- *Access to debt relief* (LOI¶ 1, 11, Text Tables 4,5). Staff considers that Sierra Leone is eligible and qualifies for debt relief under the CCR Trust. Sierra Leone is a PRGT-eligible country, one of the most vulnerable low-income countries facing significant BOP needs engendered by the Ebola outbreak.

Text Table 4. Sierra Leone: Projected Debt Service
(millions of U.S. dollars)

	2015	2016	Debt Stock [1]
Multilateral			
IMF	14.3	16.9	168.7
World Bank	4.0	4.2	237.8
AfDB	0.7	1.5	89.2
Other Multilateral	15.7	19.3	223.5
Bilateral			
Paris Club	0.0	0.0	0.0
Non-Paris Club	7.3	9.3	140.0
China	2.4	2.5	42.2
India	1.7	3.6	39.5
Kuwait	2.1	2.1	32.5
Saudi Arabia	0.3	0.3	15.6
Other Bilateral	0.9	0.9	10.2
Total	41.9	51.2	859.3
Memorandum Items			
Debt service to IMF			
In millions of SDRs	9.9	11.7	109.7
In percent of quota	9.5	11.26	105.83

[1] End of 2014

In staff's views, the ongoing epidemic is a Qualifying Public Health Disaster under the CCR Trust: it has been spreading in Sierra Leone and to five other countries in the region, and was declared a Public Health Emergency of International Concern on August 8, 2014 by the World Health Organization. The Ebola epidemic has also resulted in significant loss of lives and disrupted livelihoods, reducing economic activity and creating additional BOP needs. For 2014–15, the combined revenue shortfall and increased spending compared with pre-Ebola staff's projections is estimated to amount to 10 percent of non-iron ore GDP, and the cumulative output loss is estimated at 34 percent. The authorities put in place mitigating measures to contain and fight the epidemic from the outset. In staff's views, they also maintained a sound macroeconomic policy environment as evidenced by satisfactory performance under the program. Under the CCR Trust, Sierra Leone is eligible for debt relief in an amount equivalent to 20 percent of quota (SDR 20.74 million), covering 89 percent of its debt service obligations to the Fund falling due during February 2015–February 2017. The authorities are requesting that following approval of their request by the Executive Board, Sierra Leone benefits from immediate relief on these obligations to help address BOP financing needs, and catalyze similar support from other creditors.

Text Table 5. Sierra Leone: Impact of Ebola Outbreak

	2014-15
Cumulative real GDP loss, percent on non-iron ore GDP[1,2]	34.0
Cumulative fiscal impact, percent of non-iron ore GDP[2,3]	10.2
Revenue loss[4]	4.1
Expenditure increase	6.1
Number of cases, as of January 24, 2015	10491
Deaths	3195

Source: Sierra Leone authorities and IMF staff estimates

1/ Change of real non-iron ore GDP levels of pre-Ebola (1st ECF Review, June 2014) and current framework. Non-iron ore used to exclude impact of iron shock.

2/ The cumulative ratio is sum of 2014 and 2015 annual ratios

3/ Fiscal impact for compares pre-Ebola program projections against 2014 outturn and 2015 projections in percent of non-iron ore GDP.

4/ Revenue loss excludes iron ore-related revenue.

- *Provision of indirect budget support.* Staff proposes that half of resources from the access augmentation (equivalent to 25 percent of quota), as well as the debt relief be used to finance the fiscal financing gap of US$68 million in 2015. Operationally, the BoSL would lend the Leone equivalent of the access augmentation resources to the Treasury and sell the forex as government spending occurs.

21. **Sierra Leone's capacity to repay the Fund is adequate** (Table 5). Sierra Leone has a good track record of timely payment of its external debt obligations, including to the Fund. Debt service to the Fund is projected at 0.9 percent of exports of goods and services in 2015–16 while total Fund credit is projected to increase from 105.8 percent of quota in 2014 to 177.9 percent by 2016, reflecting additional IMF financing in 2014–15.

22. **The BoSL made further progress on recommendations from the January 2014 safeguards assessment**. Most measures have been implemented as scheduled, and others are ongoing. Since the authorities are seeking an augmentation of access under the ECF arrangement for 2015, an update safeguards assessment is in progress.

23. **Assessment of program performance will continue to be carried out through semi-annual reviews** (MEFP ¶ 33; and MEFP Tables 2, 4). For the purpose of these reviews, the program

has set quantitative PCs for end-June and end-December 2015; indicative targets for end-March and end-September; and structural benchmarks for 2015 in macro-critical areas. The PCs on net domestic bank credit to the central government reflects resources from augmentation of access (25 percent of quota), while the PC on gross foreign exchange reserves of the central bank takes into account IMF financing from the 50 percent of quota augmentation of access as well as debt relief under the CCR Trust.

24. **Program implementation is subject to downside risks**. Abovementioned risks to the economic outlook (Text Table 2) also weigh on program performance, particularly for attaining the quantitative objectives. In addition, a prolonged Ebola epidemic would continue to impede administrative capacity, weaken policy coordination, and disrupt TA delivery. The authorities indicated that they are aware of these risks. They are seeking to reinvigorate reform implementation as they gain ground in the fight against Ebola, and are planning to avail themselves of available options for remotely-delivered TA.

25. **Financing assurances review**. Consistent with IMF's policy on lending into arrears, staff has determined that the expected disbursement of IMF financing following the completion of the second ECF review by the Executive Board is essential for the implementation of Sierra Leone's economic program for 2015. Consequently, it will support the authorities' ongoing efforts to resolve the issue of arrears to private creditors accumulated before and during the civil conflict, estimated at US$213.7 million at end-2014. The authorities are working on a debt buy-back operation with World Bank support to clear these arrears while continuing to make good faith efforts to reach a collaborative agreement with creditors, including by making payments to prevent litigation.

STAFF APPRAISAL

26. **The confluence of an epidemic with high economic and social costs and a crisis in the iron ore sector, key contributor to growth, is a major setback for Sierra Leone's economy**. The two shocks are threatening to erode recent gains in macroeconomic stability and are adding to policy challenges. In addressing their repercussions, the authorities would need to strike a balance between short-term measures and actions needed to lay the foundation for a robust medium-term growth and sustained poverty reduction. On both fronts, Sierra Leone would continue to need significant financial and technical support from its development partners.

27. **Staff encourages the authorities to reinvigorate implementation of structural reforms to support post-Ebola economic recovery**. The authorities' continued commitment to objectives under Sierra Leone's financial program led to satisfactory performance in 2014 despite a difficult environment. All continuous and end-June quantitative Performance Criteria were met; one of the three indicative targets was also met, and most structural benchmarks were observed. Maintaining policies in line with macroeconomic stability objectives, and advancing structural reforms helped the authorities prevent a much stronger economic impact of the Ebola epidemic, and will be critical to support post-Ebola economic recovery.

28. **The authorities should continue to enhance revenue collection and expenditure management to support priority spending**. Staff stresses that absent new tax measures, meeting the revenue target will depend on efficiency gains in tax administration. Therefore, the authorities should ensure that measures planned for 2015 to increase auditing capacity and monitoring at NRA, and to reduce tax exemptions are fully implemented. The tight resource envelop and high uncertainty on economic prospects for 2015 call for a close monitoring of budget execution, a prudent wage policy, and continued improvement in capital spending management. Staff urges the authorities to advance structural reforms in these areas to support fiscal objectives.

29. **Staff encourages the authorities to maintain prudent borrowing policies**. The updated DSA shows that the risk of debt distress remains moderate for Sierra Leone. However, sensitivity analysis points to vulnerability to shocks affecting exports, government revenue and loans conditions. Hence, staff reiterates that financing needs should be covered with concessional loans and grants to the extent possible, particularly for large-scale projects contemplated in the Poverty Reduction Strategy. For these projects, staff continues to encourage the authorities to complete financing arrangements based on conclusive independent economic viability studies.

30. **Staff sees merit in some easing of monetary policy conditions to support post-Ebola economic recovery, as long as inflationary pressures continue to be driven by supply shocks**. It encourages BoSL to continue enhancing monetary policy instruments and liquidity forecasting capacity to ensure efficient response to any second-round inflationary pressures. To protect foreign exchange reserves, staff urges the BoSL to limit its interventions in the foreign exchange market to smoothing short-term exchange rate volatility. Given the increased risk of default on current loans due to the recession, Staff urges the Bank to step up supervisory activities and advance financial sector reforms to support healthy financial intermediation.

31. **Staff recommends completion of the second review of the ECF-supported program and of financing assurances review**. The attached Letter of Intent (LOI) and the Memorandum of Economic and Financial Policies from the authorities outline their policies for 2015; propose a new timeline for structural reforms outstanding at end-2014; and present additional structural measures for 2015. The LOI presents also the authorities' requests for completion of the second ECF review, for a 50 percent of quota augmentation of access under the ECF arrangement, and for a 20 percent of quota debt relief under the catastrophe containment window of the Catastrophe Containment and Relief Trust. Staff supports the request for augmentation based on Sierra Leone's balance of payments needs, the continued good program performance, and the strength of policy commitments for 2015. Staff also supports the request for debt relief which meets the qualification criteria under the CCR Trust.

Proposed Decisions

The following decisions, which may be adopted by a majority of the votes cast, are proposed for adoption by the Executive Board:

Decision 1

1. Sierra Leone has consulted with the Fund in accordance with paragraph 4.A(b) of the three-year arrangement for Sierra Leone under the Extended Credit Facility (the "Arrangement", EBS/13/130, Sup. 3, 10/18/2013) in order to review program implementation.

2. The letter dated February 12, 2015 from the Minister of Finance and Economic Development and the Governor of Bank of Sierra Leone (the "February 2015 Letter") with its Memorandum of Economic and Financial Policies (the "February 2015 MEFP") and Technical Memorandum of Understanding (the "February 2015 TMU") shall be attached to the Arrangement, and the letter dated October 1, 2013, together with its attachments, as supplemented and modified, shall be read as supplemented and modified by the February 2015 Letter and its attachments.

3. Accordingly, the Arrangement shall be amended as follows:

   a. In paragraph 1(a) of the Arrangement, "SDR 88.145 million" shall be replaced by "SDR 140 million".

   b. Paragraph 1(b) of the Arrangement shall be replaced to read as follows:

      "Disbursements under this arrangement will not exceed the equivalent of SDR 113.335 million until October 20, 2015."

   c. In paragraph 2(c) of the Arrangement, "SDR 8.89 million" shall be replaced by "SDR 60.74 million".

   d. New paragraphs 2(e) and 2(f) of the Arrangement shall be inserted to read as follows:

"(e) the fifth disbursement, in an amount equivalent to SDR 8.89 million, will be available on or after December 15, 2015, at the request of Sierra Leone and subject to paragraphs 4.C and 5 below."

"(f) the sixth disbursement, in an amount equivalent to SDR 8.89 million, will be available on or after June 15, 2016, at the request of Sierra Leone and subject to paragraphs 4.C and 5 below."

e. A new paragraph 4.C of the Arrangement shall be inserted to read as follows:

"4.C. Sierra Leone will not request the fifth or sixth disbursements under this arrangement specified in paragraphs 2(e) and 2(f) above respectively:

(a) if the Managing Director of the Trustee finds that, with respect to the fifth disbursement, the data as of June 30, 2015 and with respect to the sixth disbursement, the data as of December 31, 2015, indicate that:

(i) the ceiling on the net domestic bank credit to the central government; or

(ii) the ceiling on net domestic assets of the central bank; or

(iii) the floor on the gross foreign exchange reserves of the central bank;

as set out in Table 3 of the February 2015 MEFP and further specified in the February 2015 TMU, was not observed; or

(b) until the Trustee has determined that, with respect to the fifth disbursement, the fourth review, and with respect to the sixth disbursement, the fifth review, referred to in Paragraph 33 of the February 2015 MEFP, has been completed."

f. In paragraph 5 of the Arrangement, the references to "Table 2 of the June 2014 MEFP" and "the June 2014 TMU" shall be replaced by "Table 3 of the February 2015 MEFP" and "the February 2015 TMU", respectively.

4. The Fund decides that (i) the second program review contemplated in paragraph 4.A(b) of the Arrangement, and (ii) the financing assurances review contemplated in paragraph 5(e) of the Arrangement are completed, and that Sierra Leone may request the third

Decision 2

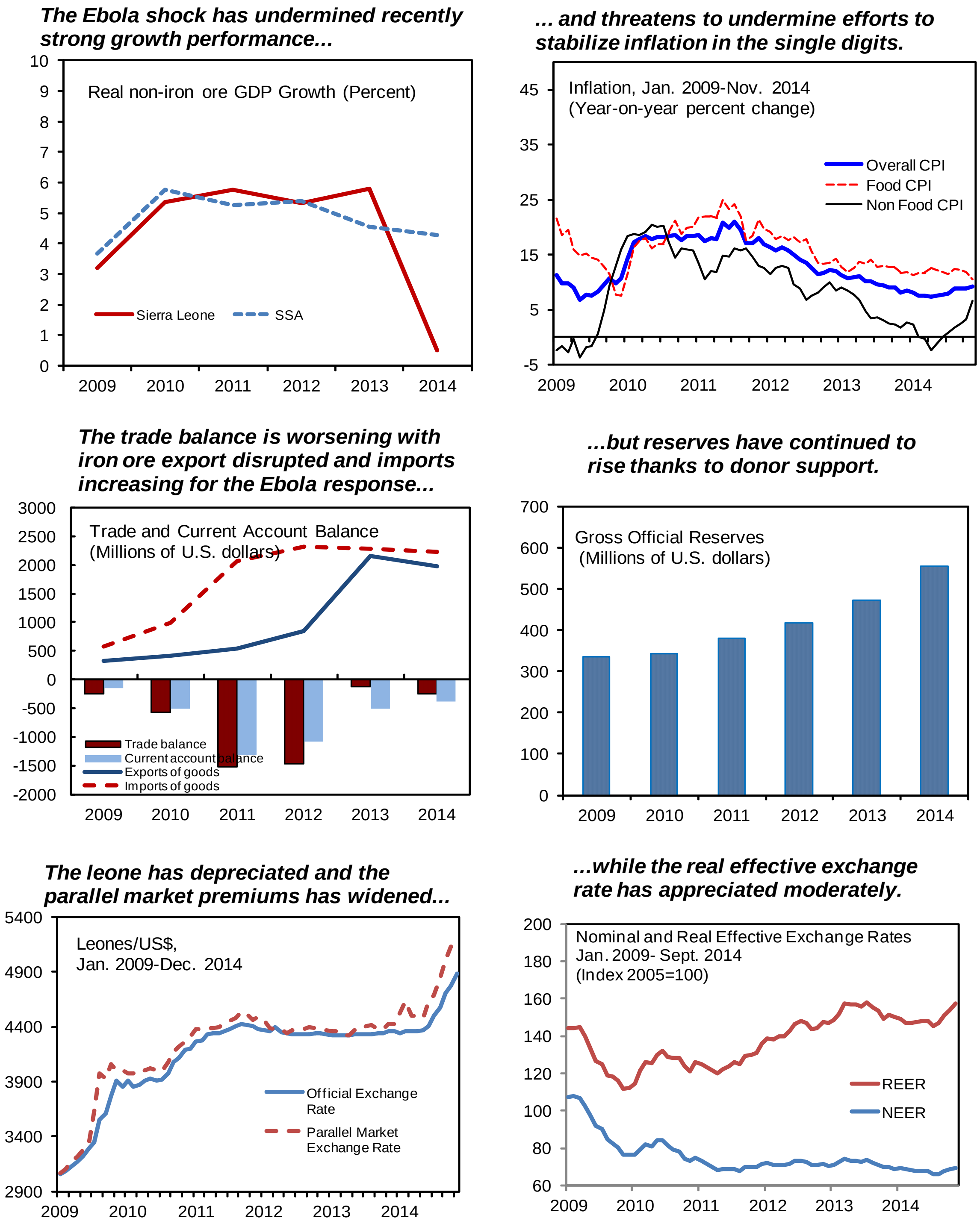
1. Sierra Leone has requested that the Fund, as Trustee (the "Trustee") of the Catastrophe Containment and Relief Trust (the "CCR Trust" or "Trust"), established by Decision No. 14649-(10/64), as amended by Decision No. 15708-(15/12), adopted February 4, 2015, provide Sierra Leone with grant assistance for immediate debt relief under the Catastrophe Containment Window ("CC Window") of the CCR Trust Instrument.

2. Pursuant to the terms of the CCR Trust, the Trustee determines that Sierra Leone is eligible and qualifies for grant assistance for immediate debt relief under the CC Window in accordance with Section III, Paragraphs 1 and 3(a) of the CCR Trust.

3. The Trustee decides to make available to Sierra Leone an amount equivalent to SDR 20.74 million (twenty percent of quota) from the CCR Trust in the form of a grant to enable the Trustee, on behalf of Sierra Leone, to repay Sierra Leone's eligible debt to the Fund (including to the Fund as Trustee), as defined under Section III, paragraph 3(c)(i) of the CCR Trust.

4. Accordingly, the Trustee shall disburse the amount specified in paragraph 3 above into a subaccount for the benefit of Sierra Leone to effect the early repayment of Sierra Leone's eligible debt to the Fund in accordance with Section III, paragraph 4(b)(ii) of the CCR Trust.

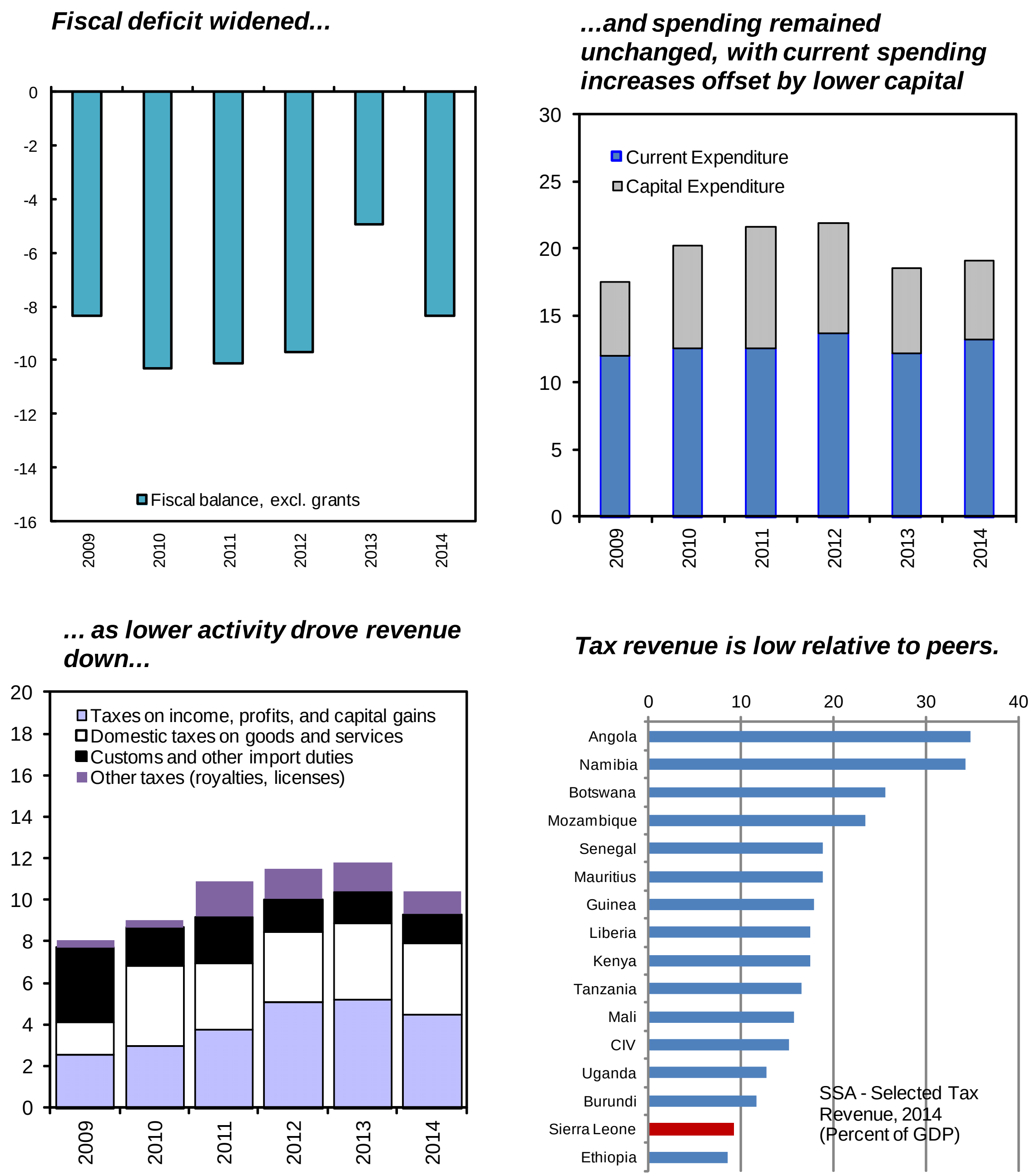
Figure 1. Sierra Leone: Real and External Sectors, 2009–14



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

Figure 2. Sierra Leone: Fiscal Sector, 2009–14

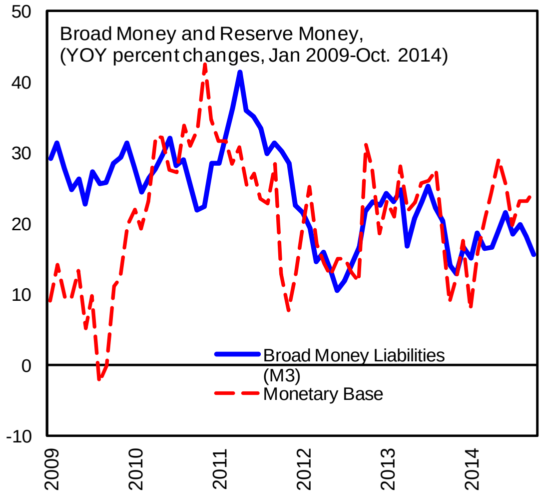
(Percent of non-iron ore GDP)



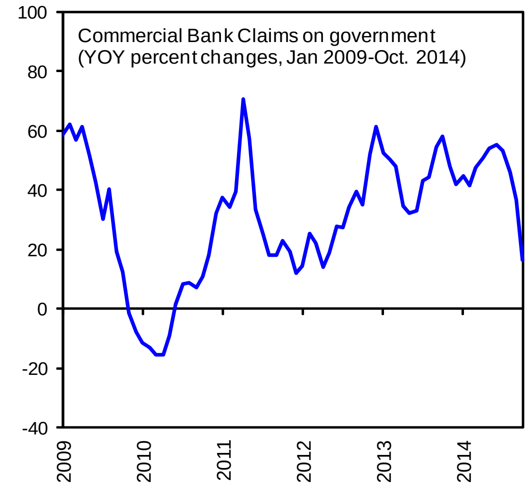
Sources: Sierra Leonean authorities; and staff estimates and projections.

Figure 3. Sierra Leone: Monetary and Financial Sector Indicators, 2009–14

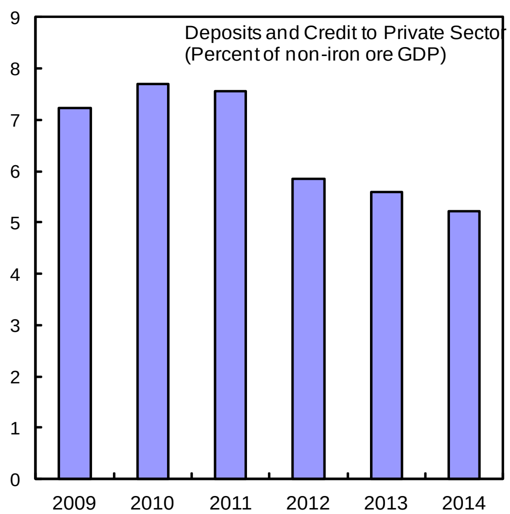
Money growth accelerated through the first half of 2014...



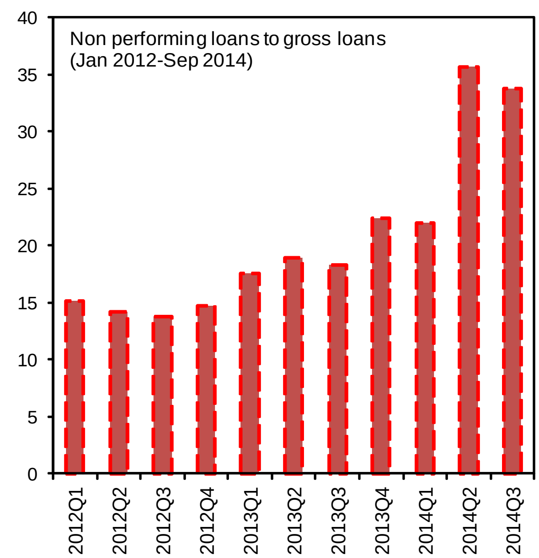
...partly reflecting government securities issuance.



Credit to the private sector is expected to remain subdued at year-end...

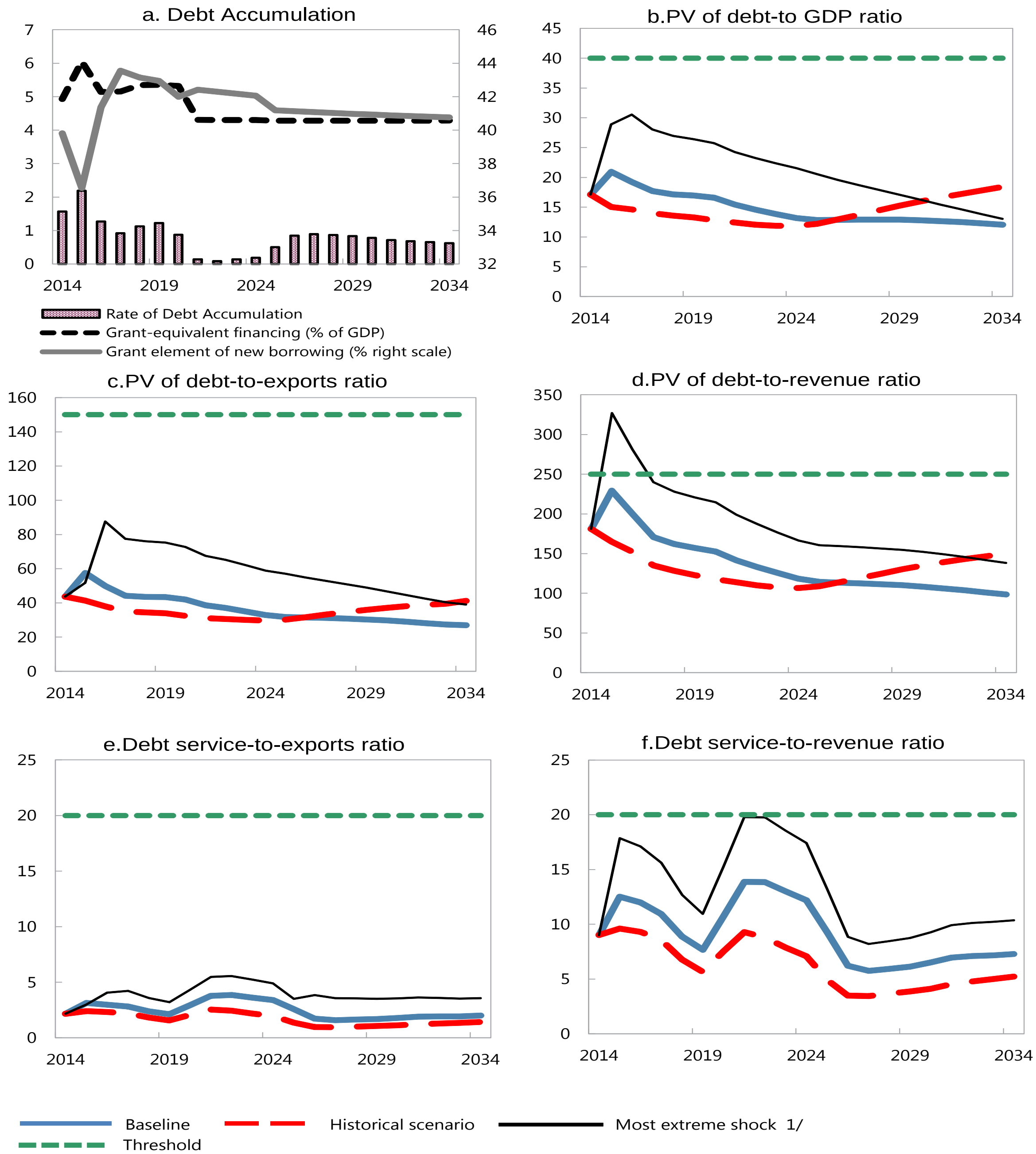


...as economic uncertainty and weak asset quality deter new lending.



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

Figure 4. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2014–34[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Non-debt flows shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table 1. Sierra Leone: Selected Economic Indicators, 2011–19

	2011	2012	2013	2014		2015		2016	2017	2018	2019
				Prog. 1/	Proj.	Prog. 1/	Proj.				
				(Annual percent change, unless otherwise indicated)							
National account and prices											
GDP at constant prices	6.0	15.2	20.1	8.0	6.0	10.4	-12.8	8.4	8.9	6.0	6.0
Excluding Iron ore	5.8	5.3	5.5	4.0	0.5	5.5	-2.0	1.5	2.5	6.0	6.0
GDP deflator	17.3	12.0	7.7	4.1	3.8	6.3	14.3	9.7	7.8	6.6	5.3
Consumer prices (end-of-period)	16.9	12.0	8.5	10.0	10.0	9.5	14.0	10.0	9.5	7.5	6.0
Consumer prices (average)	18.5	13.8	9.8	8.8	8.3	10.1	13.1	11.8	9.5	7.5	6.0
External sector											
Terms of trade (deterioration -)	-4.7	4.8	-3.9	-12.7	-12.8	-5.0	-0.7	0.5	0.1	-0.8	-0.4
Exports of goods	6.2	202.0	66.0	13.1	-7.3	6.6	-19.4	22.0	18.9	7.8	7.6
Imports of goods	85.2	20.2	-19.9	15.3	-2.7	4.9	-3.9	14.8	5.8	4.4	7.1
Average exchange rate (leone per US$)	4,349	4,344	4,357	...	...	...	...	...	...	...	...
Nominal effective exchange rate change (end-period, depreciation -)	-4.1	1.0	-1.1	...	...	...	...	...	...	...	...
Real effective exchange rate (end-period, depreciation -)	8.7	14.7	3.6	...	...	...	...	...	...	...	...
Gross international reserves, months of imports 2/	1.8	2.2	2.6	2.2	3.2	2.2	3.0	2.9	3.0	3.0	3.0
Excluding iron ore related imports, months of imports 3/	2.4	3.2	3.4	3.6	4.3	3.7	4.2	4.2	4.2	4.2	4.2
Money and credit											
Domestic credit to the private sector	21.8	-6.9	11.7	6.4	3.0	11.3	-12.9	3.4	3.5	4.0	6.0
Base money	13.0	18.5	17.6	11.6	11.7	17.6	11.0	13.0	13.5	15.2	16.1
M2	20.0	23.1	21.0	12.7	12.3	20.9	11.0	14.0	15.0	16.5	16.5
91-day treasury bill rate (in percent)	24.5	22.4	8.0	...	2.4	...	...	...	...	...	...
				(Percent of non-iron ore GDP, unless otherwise indicated)							
National accounts											
Gross capital formation	42.2	28.5	24.7	16.8	15.9	17.8	16.2	17.8	19.3	19.3	19.3
Government	9.0	8.2	6.4	7.8	5.9	7.8	6.2	7.8	8.3	8.3	8.3
Private	33.1	20.3	18.3	9.0	10.0	10.0	10.0	10.0	11.0	11.0	11.0
National savings	-17.0	-4.1	12.3	3.8	6.9	8.5	2.5	8.9	11.8	12.2	12.8
External sector											
Current account balance											
(including official grants)	-45.0	-30.9	-12.4	-13.0	-9.0	-9.3	-13.7	-8.9	-7.5	-7.1	-6.5
(excluding official grants)	-48.8	-33.6	-13.6	-14.8	-12.7	-10.5	-18.3	-10.8	-9.4	-9.0	-8.4
External public debt (including IMF)	32.6	27.8	29.8	26.9	31.4	25.7	34.8	31.2	28.5	27.2	26.4
Central government budget											
Domestic primary balance 4/	-3.8	-3.8	-0.7	-4.0	-4.9	-3.4	-5.2	-5.0	-4.2	-3.8	-3.6
Overall balance	-4.6	-5.6	-1.9	-5.7	-3.8	-5.7	-4.6	-5.5	-5.0	-4.6	-4.4
(excluding grants)	-10.1	-9.7	-5.0	-9.4	-8.3	-8.7	-9.3	-9.8	-9.4	-9.2	-9.0
Revenue	11.5	12.2	12.7	11.5	11.2	11.7	9.5	10.0	10.8	11.0	11.2
Grants	5.6	4.1	3.1	3.7	4.6	3.0	4.6	4.3	4.5	4.6	4.6
Total expenditure and net lending	21.6	21.9	17.7	20.9	19.6	20.4	18.7	19.8	20.2	20.2	20.2
Memorandum item:											
GDP at market prices (billions of Leone)	12,753	16,461	21,287	24,003	23,428	28,173	23,365	27,789	32,619	36,868	41,156
Excluding iron ore	12,723	15,332	17,920	20,277	19,746	24,919	22,551	26,804	31,327	35,492	39,692
Excluding iron ore in millions of US$	2,925	3,530	4,124	4,606	4,242	5,431	4,247	4,968	5,637	6,200	6,732
Per capita GDP (US$)	500	634	803	868	808	972	696	800	895	963	1,025

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

1/ Refers to projections of EBS/14/116

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

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

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

Table 2a. Sierra Leone: Fiscal Operations of the Central Government, 2011–19

(Billions of leone)

	2011	2012	2013	2014		2015		2016	2017	2018	2019
				Prog. 1/	Proj.	Prog. 1/	Proj.				
Total revenue and grants	2,171	2,506	2,828	3,092	3,115	3,665	3,179	3,839	4,781	5,544	6,286
Revenue	1,462	1,874	2,280	2,341	2,214	2,926	2,132	2,673	3,377	3,900	4,448
Tax revenue	1,383	1,767	2,111	2,145	2,060	2,699	1,987	2,438	3,104	3,584	4,091
Personal Income Tax	393	571	657	648	603	794	535	663	806	924	1,045
Corporate Income Tax	73	203	267	253	278	308	246	239	357	426	488
Goods and Services Tax	351	419	440	433	466	577	495	628	784	910	1,041
Excises	55	99	221	256	210	327	213	274	318	377	432
Import duties	282	237	269	255	271	314	270	328	402	462	549
Mining royalties and license	202	222	235	266	192	338	177	245	366	405	446
Other taxes	24	18	23	33	41	41	51	61	71	80	89
Non-tax	80	106	169	196	154	227	145	236	273	316	357
Grants	709	633	548	750	901	739	1,047	1,165	1,404	1,644	1,838
Budget support	220	204	170	283	574	195	512	381	445	505	564
Project grants	428	302	378	422	273	512	488	748	959	1,139	1,274
Other	61	126	0	45	54	32	47	37	0	0	0
Expenditures and net lending	2,752	3,358	3,169	4,243	3,862	5,086	4,224	5,305	6,337	7,180	8,032
Current expenditures	1,603	2,095	2,185	2,597	2,606	3,189	2,833	3,255	3,737	4,234	4,738
Wages and salaries	681	936	1,060	1,374	1,420	1,607	1,571	1,729	1,942	2,201	2,461
Goods and services	396	464	520	647	665	760	718	831	955	1,083	1,211
Subsides and transfers 2/	275	406	304	343	308	459	309	430	491	559	636
Interest	250	288	301	233	213	363	235	266	348	392	430
Domestic	226	253	266	192	171	327	192	218	308	360	391
Foreign	24	35	35	40	42	36	43	48	41	32	39
Capital Expenditure	1,149	1,263	1,147	1,581	1,172	1,949	1,400	2,104	2,600	2,946	3,294
Foreign financed	787	799	730	1,056	635	1,280	887	1,246	1,598	1,899	2,123
Domestic financed	362	464	417	525	537	669	513	858	1,002	1,047	1,171
Net lending 3/	0	0	-168	-52	17	-52	-54	-54	0	0	0
Contingent expenditure 4/	0	0	5	117	68	0	45	0	0	0	0
Domestic primary balance 5/	-479	-586	-125	-806	-971	-844	-1,163	-1,338	-1,322	-1,349	-1,421
Overall balance including grants	-581	-852	-342	-1,152	-747	-1,421	-1,046	-1,466	-1,556	-1,636	-1,745
Overall balance excluding grants	-1,290	-1,484	-889	-1,902	-1,648	-2,160	-2,093	-2,631	-2,960	-3,280	-3,584
Financing	581	852	342	1,152	747	1,421	1,046	1,466	1,556	1,636	1,745
External financing (net)	305	523	294	589	254	706	265	321	413	563	658
Borrowing	359	601	380	694	362	829	399	498	639	759	849
Projects	359	497	352	634	362	768	399	498	639	759	849
Budget	0	104	28	61	0	61	0	0	0	0	0
Amortization	-54	-77	-86	-105	-108	-123	-135	-177	-226	-197	-191
Domestic financing (net)	274	339	47	354	493	445	446	536	617	700	781
Bank	67	222	300	320	647	363	402	411	467	525	556
Central bank	10	-94	-60	113	219	3	72	-4	27	35	26
Ways and means	...	...	-47	113	38	3	72	-4	27	35	26
Drawing	...	...	1	114	39	117	111	107	134	169	195
Repayment	...	...	48	1	1	114	39	111	107	134	169
SDR Onlending	0	0	0	0	182	0	0	0	0	0	0
Commercial banks	57	316	359	208	428	360	330	415	440	490	530
Nonbank	208	117	-253	33	-154	82	44	125	150	175	225
Non bank financial institutions	54	125	-68	66	-108	82	49	125	150	175	225
Privatization proceeds	34	9	13	11	13	0	17	0	0	0	0
Change in arrears	-47	-84	14	-14	-29	0	-22	0	0	0	0
Float (checks payable)	167	68	-211	-30	-30	0	0	0	0	0	0
o/w accumulated	183	251	30	0	0	0	0	0	0	0	0
o/w repaid	...	-183	-241	-30	-30	0	0	0	0	0	0
Errors and omissions/financing gap	2	-11	1	208	0	269	335	609	526	373	306
Additional donor financing 6/				35	0	269	0				
Residual gap				173	0	0	335				
IMF ECF augmentation				173	...	...	186				
IMF debt relief				...	...	...	149				
Uncovered gap				0	0	0	0				
Memorandum item:											
Total poverty expenditures	538	869	883	1,158	1,164	1,436	1,128	1,505	1,742	1,901	2,132
Non-resource primary balance 7/	-533	-785	-276	-1,185	-726	-1,396	-988	-1,446	-1,573	-1,649	-1,761
Public domestic debt 8/	1,482	1,756	1,961	2,272	2,500	2,590	2,951	3,486	4,104	4,804	5,585
Bank and non-bank financial institutions 9/	121	347	231	386	539	445	451	536	617	700	781

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ EBS/14/116
2/ Includes foreign financed election spending in 2012, Le 177.5 billion (1.2 percent of non-iron ore GDP).
3/ Transfer to the budget from a maturing EU grant onlent to Sierra Rutile.
4/ For 2014-15, contingent expenditure captures only expenditures related to the Ebola epidemic.
5/ Revenue less expenditures and net lending adjusted for foreign interest payments and foreign financed capital spending.
6/ Includes private sector donations.
7/ Non-resource revenue less expenditures and net lending adjusted for interest payments
8/ Public domestic debt includes marketable and non-marketable treasury instruments and ways and means, excludes accounts payable.
9/ Fiscal anchor under the program; defined as government financing from the banking system and non-bank financial institutions and kept below 2 percent of non-iron ore GDP.

Table 2b. Sierra Leone: Fiscal Operations of the Central Government, 2011–19
(Percent of non-iron ore GDP)

	2011	2012	2013	2014		2015		2016	2017	2018	2019
				Prog. 1/	Proj.	Prog. 1/	Proj.				
Total revenue and grants	17.1	16.3	15.8	15.2	15.8	14.7	14.1	14.3	15.3	15.6	15.8
Revenue	11.5	12.2	12.7	11.5	11.2	11.7	9.5	10.0	10.8	11.0	11.2
Tax revenue	10.9	11.5	11.8	10.6	10.4	10.8	8.8	9.1	9.9	10.1	10.3
Personal Income Tax	3.1	3.7	3.7	3.2	3.1	3.2	2.4	2.5	2.6	2.6	2.6
Corporate Income Tax	0.6	1.3	1.5	1.2	1.4	1.2	1.1	0.9	1.1	1.2	1.2
Goods and Services Tax	2.8	2.7	2.5	2.1	2.4	2.3	2.2	2.3	2.5	2.6	2.6
Excises	0.4	0.6	1.2	1.3	1.1	1.3	0.9	1.0	1.0	1.1	1.1
Import duties	2.2	1.5	1.5	1.3	1.4	1.3	1.2	1.2	1.3	1.3	1.4
Mining royalties and license	1.6	1.4	1.3	1.3	1.0	1.4	0.8	0.9	1.2	1.1	1.1
Other taxes	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Non-tax	0.6	0.7	0.9	1.0	0.8	0.9	0.6	0.9	0.9	0.9	0.9
Grants	5.6	4.1	3.1	3.7	4.6	3.0	4.6	4.3	4.5	4.6	4.6
Budget support	1.7	1.3	0.9	1.4	2.9	0.8	2.3	1.4	1.4	1.4	1.4
Project grants	3.4	2.0	2.1	2.1	1.4	2.1	2.2	2.8	3.1	3.2	3.2
Other	0.5	0.8	0.0	0.2	0.3	0.1	0.2	0.1	0.0	0.0	0.0
Expenditures and net lending	21.6	21.9	17.7	20.9	19.6	20.4	18.7	19.8	20.2	20.2	20.2
Current expenditures	12.6	13.7	12.2	12.8	13.2	12.8	12.6	12.1	11.9	11.9	11.9
Wages and salaries	5.4	6.1	5.9	6.8	7.2	6.4	7.0	6.4	6.2	6.2	6.2
Goods and services	3.1	3.0	2.9	3.2	3.4	3.0	3.2	3.1	3.1	3.1	3.0
Subsides and transfer 2/	2.2	2.6	1.7	1.7	1.6	1.8	1.4	1.6	1.6	1.6	1.6
Interest	2.0	1.9	1.7	1.1	1.1	1.5	1.0	1.0	1.1	1.1	1.1
Domestic	1.8	1.7	1.5	0.9	0.9	1.3	0.8	0.8	1.0	1.0	1.0
Foreign	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.1	0.1	0.1
Capital Expenditure	9.0	8.2	6.4	7.8	5.9	7.8	6.2	7.8	8.3	8.3	8.3
Foreign financed	6.2	5.2	4.1	5.2	3.2	5.1	3.9	4.6	5.1	5.3	5.3
Domestic financed	2.8	3.0	2.3	2.6	2.7	2.7	2.3	3.2	3.2	3.0	3.0
Net lending 3/	0.0	0.0	-0.9	-0.3	0.1	-0.2	-0.2	-0.2	0.0	0.0	0.0
Contingent expenditure 4/	0.0	0.0	0.0	0.6	0.3	0.0	0.2	0.0	0.0	0.0	0.0
Domestic primary balance 5/	-3.8	-3.8	-0.7	-4.0	-4.9	-3.4	-5.2	-5.0	-4.2	-3.8	-3.6
Overall balance including grants	-4.6	-5.6	-1.9	-5.7	-3.8	-5.7	-4.6	-5.5	-5.0	-4.6	-4.4
Overall balance excluding grants	-10.1	-9.7	-5.0	-9.4	-8.3	-8.7	-9.3	-9.8	-9.4	-9.2	-9.0
Financing	4.6	5.6	1.9	5.7	3.8	5.7	4.6	5.5	5.0	4.6	4.4
External financing (net)	2.4	3.4	1.6	2.9	1.3	2.8	1.2	1.2	1.3	1.6	1.7
Borrowing	2.8	3.9	2.1	3.4	1.8	3.3	1.8	1.9	2.0	2.1	2.1
Project	2.8	3.2	2.0	3.1	1.8	3.1	1.8	1.9	2.0	2.1	2.1
Budget	0.0	0.7	0.2	0.3	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Amortization	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6	-0.7	-0.7	-0.6	-0.5
Domestic financing (net)	2.2	2.2	0.3	1.7	2.5	1.8	2.0	2.0	2.0	2.0	2.0
Bank	0.5	1.4	1.7	1.6	3.3	1.5	1.8	1.5	1.5	1.5	1.4
Central bank	0.1	-0.6	-0.3	0.6	1.1	0.0	0.3	0.0	0.1	0.1	0.1
Commercial banks	0.4	2.1	2.0	1.0	2.2	1.4	1.5	1.5	1.4	1.4	1.3
Nonbank	1.6	0.8	-1.4	0.2	-0.8	0.3	0.2	0.5	0.5	0.5	0.6
Non bank financial institutions	0.4	0.8	-0.4	0.3	-0.5	0.3	0.2	0.5	0.5	0.5	0.6
Privatization proceeds	0.3	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Change in arrears	-0.4	-0.5	0.1	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Float (checks payable)	1.3	0.4	-1.2	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
o/w accumulated	1.4	1.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w repaid	…	-1.2	-1.3	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions/financing gap	0.0	-0.1	0.0	1.0	0.0	1.1	1.5	2.3	1.7	1.1	0.8
Additional donor financing 6/				0.2	0.0	1.1	0.0				
Residual gap				0.9	0.0	0.0	1.5				
IMF ECF augmentation				0.9	…	…	0.8				
IMF debt relief				…	…	…	0.7				
Uncovered gap				0.0	0.0	0.0	0.0				
Memorandum item:											
Total poverty expenditures	4.2	5.7	4.9	5.7	5.9	5.8	5.0	5.6	5.6	5.4	5.4
Non-resource primary balance 7/	-4.2	-5.1	-1.5	-5.8	-3.7	-5.6	-4.4	-5.4	-5.0	-4.6	-4.4
Public domestic debt 8/	11.7	11.5	10.9	11.2	12.7	10.4	13.1	13.0	13.1	13.5	14.1
Bank and non-bank financial institutions 9/	0.9	2.3	1.3	1.9	2.7	1.8	2.0	2.0	2.0	2.0	2.0
Non-iron ore GDP (Le billions)	12,723	15,332	17,920	20,277	19,746	24,919	22,551	26,804	31,327	35,492	39,692

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ EBS/14/116
2/ Includes foreign financed election spending in 2012, Le 177.5 billion (1.2 percent of non-iron ore GDP).
3/ Transfer to the budget from a maturing EU grant onlent to Sierra Rutile.
4/ For 2014-15, contingent expenditure captures only expenditures related to the Ebola epidemic.
5/ Revenue less expenditures and net lending adjusted for foreign interest payments and foreign financed capital spending.
6/ Include private sector donations.
7/ Non-resource revenue less expenditures and net lending adjusted for interest payments.
8/ Public domestic debt includes marketable and non-marketable treasury instruments and ways and means, excludes accounts payable.
9/ Fiscal anchor under the program; defined as government financing from the banking system and non-bank financial institutions and kept below 2 percent of non-iron ore GDP.

Table 3. Sierra Leone: Monetary Accounts, 2011–16[1]
(Billions of leone; unless otherwise indicated)

	2011	2012	2013	2014								2015				2016
				Mar.		Jun.		Sep.		Dec.		Mar.	Jun.	Sep.	Dec.	
				Prog. 2/	Prel.	Prog. 2/	Prel.	Prog. 2/	Prel.	Prog. 3/	Proj.	Proj.	Proj.	Proj.	Proj.	
I. Monetary Survey																
Net foreign assets	2,053	2,485	2,831	2,907	2,754	2,986	2,909	2,897	2,862	2,986	2,960	2,967	2,917	2,794	3,023	3,313
Net domestic assets	905	1,138	1,393	1,467	1,491	1,684	1,574	1,571	1,680	1,738	1,749	2,455	2,291	2,065	2,204	2,645
Domestic credit	2,190	2,505	2,927	3,002	3,052	3,219	3,317	3,106	3,543	3,466	3,612	3,734	3,747	3,916	4,067	4,508
Claims on central government (net) 4/	1,134	1,365	1,681	1,758	1,811	1,849	2,055	1,859	2,248	2,159	2,328	2,577	2,630	2,776	2,916	3,327
Claims on other public sector 5/	54	192	200	200	198	200	191	200	199	191	199	199	199	199	199	199
Claims on private sector	963	897	1,001	999	998	1,125	1,021	1,002	1,042	1,066	1,032	905	864	888	899	929
Other items (net) 5/	-1,285	-1,367	-1,534	-1,535	-1,561	-1,535	-1,744	-1,535	-1,863	-1,728	-1,863	-1,279	-1,455	-1,851	-1,863	-1,863
Money and quasi-money (M3)	2,958	3,623	4,224	4,374	4,245	4,670	4,482	4,468	4,542	4,725	4,710	5,422	5,209	4,858	5,226	5,958
Broad money (M2)	2,107	2,594	3,140	3,171	3,301	3,607	3,466	3,331	3,593	3,538	3,527	4,512	4,271	3,816	3,914	4,462
Foreign exchange deposits	851	1,029	1,084	1,203	944	1,063	1,016	1,137	949	1,186	1,183	910	937	1,042	1,312	1,496
II. Bank of Sierra Leone																
Net foreign assets	1,118	1,303	1,526	1,559	1,586	1,607	1,687	1,628	1,702	1,465	1,648	1,871	1,839	1,639	1,697	1,814
Net domestic assets	-258	-284	-328	-291	-274	-290	-343	-368	-412	-129	-309	-195	-229	-225	-212	-135
Claims on other depository corporations	6	14	9	-24	6	-57	3	-90	3	89	62	22	-18	-58	-98	-17
Claims on central government (net)	601	507	463	517	524	506	639	506	639	732	682	837	843	887	940	936
Claims on other public sector 5/ 6/	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Claims on private sector	7	9	13	13	21	13	17	13	17	17	17	17	17	17	17	17
Other items (net) 6/	-877	-817	-817	-802	-830	-802	-988	-802	-1,075	-972	-1,075	-1,075	-1,075	-1,075	-1,075	-1,075
Reserve money	860	1,019	1,198	1,267	1,312	1,317	1,344	1,260	1,291	1,336	1,338	1,676	1,610	1,414	1,485	1,679
Currency in circulation	708	903	907	1,001	939	1,040	941	995	958	976	1,004	1,223	1,159	1,039	1,114	1,239
Commercial bank deposits	109	94	251	227	326	237	360	225	283	326	239	357	330	253	245	348
Other deposits	43	22	39	39	47	39	43	39	50	35	96	96	121	122	126	92
Memorandum items:																
(Annual percent change unless otherwise indicated)																
Base money	13.0	18.5	17.6	5.8	20.7	3.9	25.3	-4.3	23.1	11.6	11.7	27.7	19.8	9.6	11.0	13.0
M3	22.6	22.5	16.6	3.5	16.5	6.8	21.5	-4.3	18.1	11.9	11.5	27.7	16.2	7.0	11.0	14.0
Credit to the private sector	21.8	-6.9	11.7	-0.3	11.9	12.6	3.3	-10.9	3.8	6.4	3.0	-9.4	-15.4	-14.8	-12.9	3.4
Velocity (GDP/M3)	4.3	4.2	4.2	...	...	...	...	...	...	4.3	4.2	...	...	...	4.3	4.5
Money multiplier (M3/base money)	3.4	3.6	3.5	...	...	...	...	...	...	3.5	3.5	...	...	...	3.5	3.5
Credit to the private sector (in percent of non iron ore GDP)	7.6	5.8	5.6	...	...	...	...	...	...	5.3	5.2	...	...	...	4.0	3.5
Gross Reserves (in US$ millions)	382	420	473	483	486	504	499	508	492	527	556	619	619	576	596	612
Program exchange rate (Leones/US$)	4,378	4,400	4,334	4,334	4,334	4,334	4,334	4,334	4,334	4,334	4,334	4,953	4,953	4,953	4,953	4,953

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

1/ End of period.

2/ Program refers to EBS/14/64

3/ Program refers to EBS/14/116

4/ For 2014, claims on central government includes the Fund's special Ebola-related disbursement of Le 182 billion.

5/ Include public enterprises and the local government.

6/ Including valuation.

Table 4. Sierra Leone: Balance of Payments, 2011–19

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

	2011	2012	2013	2014		2015	2016	2017	2018	2019
				Prog. 1/	Proj.	Proj.				
Current account	-1,315.4	-1,091.1	-511.8	-592.0	-382.0	-581.7	-443.7	-424.5	-439.6	-439.6
Trade balance	-1,245.5	-796.1	362.3	376.3	262.2	-24.7	74.5	310.2	394.4	434.6
Exports, f.o.b.	385.6	1,164.5	1,932.6	2,186.7	1,790.7	1,443.8	1,760.8	2,094.2	2,256.7	2,428.3
Of which: diamonds	154.1	161.7	185.7	182.3	214.8	230.3	270.6	281.0	300.8	298.9
iron ore	0.0	357.0	1,064.4	1,187.7	808.3	346.0	477.4	637.7	678.2	721.5
Imports, f.o.b	-1,631.1	-1,960.6	-1,570.3	-1,810.4	-1,528.4	-1,468.5	-1,686.3	-1,784.1	-1,862.3	-1,993.7
Of which: oil	-214.5	-255.0	-330.9	-364.3	-324.6	-166.9	-203.7	-236.0	-261.0	-281.2
Services (net)	-283.2	-349.2	-518.9	-589.0	-508.9	-489.1	-466.2	-459.3	-452.5	-453.1
Income (net)	-35.3	-182.1	-557.3	-624.9	-560.0	-481.8	-460.1	-611.5	-748.6	-818.2
Of which: interest on public debt	-5.5	-6.4	-7.0	-9.3	-9.7	-8.7	-9.6	-8.2	-7.4	-9.1
Transfers	248.6	236.3	202.1	245.5	424.7	413.9	299.5	336.1	367.0	397.0
Official transfers	112.8	93.8	51.1	82.6	155.1	195.2	92.5	105.4	117.3	129.3
Other transfers	135.8	142.5	151.0	162.9	269.6	218.7	207.0	230.7	249.8	267.8
Capital and financial account	1,352.8	1,109.1	566.4	519.7	411.6	291.0	450.8	471.1	503.5	507.2
Capital account	127.0	123.4	99.3	97.5	63.0	96.4	143.3	177.6	204.4	221.8
Of which: project support grants	98.5	86.4	86.9	95.2	58.7	91.9	138.5	172.5	199.0	216.1
Financial account	1,225.8	985.7	467.1	422.1	348.6	194.6	307.5	293.6	299.1	285.5
Foreign direct and portfolio investment	1,134.4	707.2	369.0	301.4	232.8	131.1	272.4	253.6	242.9	222.6
Other investment	149.5	352.9	98.1	120.7	115.7	63.5	35.1	40.0	56.2	62.9
Public sector (net)	70.0	121.7	100.9	136.2	59.4	47.8	59.5	74.3	98.3	111.6
Disbursements	82.4	137.0	89.0	160.2	83.4	75.2	92.4	115.0	132.7	144.0
Amortization	-11.6	-16.4	-19.8	-24.0	-24.0	-27.3	-32.8	-40.7	-34.4	-32.5
Monetary authorities	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in net foreign assets of comm. banks	-50.3	4.4	-2.8	-37.1	34.7	15.7	-24.4	-34.3	-42.1	-48.7
Other sectors net	3.2	50.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-9.4	17.4	-7.9	0.0	11.5	0.0	0.0	0.0	0.0	0.0
Overall balance	28.0	35.4	46.6	-72.4	41.1	-290.7	7.1	46.7	63.9	67.6
Financing										
Central bank net reserves (- increase)	-28.0	-35.4	-46.6	2.0	-41.1	-15.6	-7.1	-46.7	-63.9	-67.6
Gross reserve change	-36.9	-38.7	-53.2	-53.4	-82.1	-40.0	-15.9	-29.1	-45.1	-51.3
Use of Fund loans	8.9	3.3	6.6	55.4	41.0	24.4	8.8	-17.5	-18.8	-16.3
Purchases	14.0	6.8	13.7	67.2	53.5	38.6	25.7	0.0	0.0	0.0
Repurchases	-5.2	-3.5	-7.1	-11.8	-12.5	-14.3	-16.9	-17.5	-18.8	-16.3
Exceptional financing	0.0	0.0	0.0	70.4	0.0	306.3	0.0	0.0	0.0	0.0
Proposed ECF augmentation						75.1				
IMF Debt Relief						30.0				
Other financing						201.2				
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
(Percent of non-iron ore GDP unless otherwise indicated)										
Current account	-45.0	-30.9	-12.4	-13.0	-9.0	-13.7	-8.9	-7.5	-7.1	-6.5
Trade Balance	-42.6	-22.6	8.8	8.2	6.2	-0.6	1.5	5.5	6.4	6.5
Capital and Financial Account	46.2	31.4	13.7	11.4	9.7	6.9	9.1	8.4	8.1	7.5
Overall Balance	1.0	1.0	1.1	-1.6	1.0	-6.8	0.1	0.8	1.0	1.0
Official aid (grants and loans)	2.9	2.8	1.1	1.7	3.0	2.4	1.5	1.6	1.6	1.7
Budget support in US$ (grants and loans)	84.3	100.1	44.2	79.9	128.8	103.3	76.9	89.9	101.9	113.9
Gross International Reserves										
US$ millions	382	420	473	527	556	596	612	641	686	737
Months of imports	1.8	2.2	2.6	2.2	3.2	3.0	2.9	3.0	3.0	3.0
Excluding iron ore, months of imports	2.4	3.2	3.4	3.6	4.3	4.2	4.2	4.2	4.2	4.2
National currency per US dollar (average)	4,357	4,344	4,345	…	…	…	…	…	…	…

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

1/ Program refers to EBS/14/116

Table 5. Sierra Leone: Indicators of Capacity to Repay the Fund, 2012–26

			Projection												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Fund obligations based on existing credit															
(in millions of SDRs)															
Principal	2.3	4.6	8.1	9.9	11.7	12.1	13.0	11.3	15.1	12.3	9.6	7.9	7.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit															
(in millions of SDRs)															
Principal	2.3	4.6	8.1	9.9	11.7	12.1	13.0	11.3	22.1	28.9	28.9	27.1	26.2	12.3	2.7
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.3	0.3	0.2	0.1	0.1	0.0	0.0
Total obligations based on existing and prospective credit															
In millions of SDRs	2.3	4.6	8.1	9.9	11.7	12.1	13.0	11.7	22.4	29.2	29.1	27.2	26.3	12.3	2.7
In millions of US$	3.5	7.0	12.3	14.3	17.0	17.8	19.2	17.2	33.1	43.1	43.0	40.2	38.8	18.2	3.9
In percent of exports of goods and services	0.3	0.3	0.6	0.9	0.9	0.8	0.8	0.6	1.1	1.3	1.3	1.1	1.0	0.4	0.1
In percent of debt service 1/	13.4	20.7	26.8	28.5	28.7	26.7	31.7	29.7	43.1	48.1	46.3	43.0	41.1	22.5	5.4
In percent of GDP	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.2	0.4	0.5	0.5	0.4	0.4	0.2	0.0
In percent of Gross International Reserves	0.8	1.5	2.2	2.4	2.8	2.8	2.8	2.3	4.2	5.1	4.7	4.0	3.5	1.4	0.3
In percent of quota	2.2	4.5	7.8	9.5	11.3	11.7	12.5	11.2	21.6	28.1	28.1	26.3	25.4	11.9	2.6
Outstanding Fund credit															
In millions of SDRs	78.8	83.1	109.7	178.4	184.5	172.4	159.4	148.1	126.1	97.2	68.3	41.2	15.0	2.7	0.0
In millions of US$	120.7	126.2	166.8	259.2	269.1	253.0	235.4	218.8	186.2	143.5	100.9	60.8	22.1	3.9	0.0
In percent of exports of goods and services	9.0	5.9	8.5	16.2	13.6	10.8	9.3	8.0	6.3	4.4	3.0	1.7	0.6	0.1	0.0
In percent of debt service	458.2	371.9	361.6	515.8	453.1	380.6	388.8	377.8	242.5	160.2	108.7	65.0	23.4	4.9	0.0
In percent of GDP	3.2	2.6	3.3	5.9	5.2	4.3	3.7	3.1	2.5	1.8	1.2	0.7	0.2	0.0	0.0
In percent of Gross International Reserves	28.7	26.7	30.0	43.5	44.0	39.5	34.3	29.7	23.7	17.0	11.0	6.1	2.0	0.3	0.0
In percent of quota	76.0	80.1	105.8	172.0	177.9	166.2	153.7	142.8	121.6	93.7	65.9	39.7	14.4	2.6	0.0
Net use of Fund credit (in millions of SDRs)	2.1	4.3	27.0	68.5	6.0	-12.0	-12.7	-11.1	-21.6	-28.3	-28.3	-26.6	-25.7	-12.1	-2.6
Disbursements	4.4	9.0	35.2	78.3	17.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	2.3	4.7	8.2	9.8	11.6	12.0	12.7	11.1	21.6	28.3	28.3	26.6	25.7	12.1	2.6
Memorandum items:															
Exports of goods and services (in millions of US$)	1,347	2,156	1,973	1,600	1,986	2,350	2,538	2,733	2,971	3,250	3,413	3,645	3,923	4,223	4,550
Debt service (in millions of US$)	26	34	46	50	59	66	61	58	77	90	93	94	95	81	73
Nominal GDP (in millions of US$)	3,789	4,899	5,033	4,401	5,150	5,869	6,441	6,980	7,517	8,145	8,659	9,212	9,806	10,445	11,132
Gross International Reserves (in millions of US$)	420	473	556	596	612	641	686	737	785	843	913	1,003	1,115	1,263	1,452
Quota (millions of SDRs)	104	104	104	104	104	104	104	104	104	104	104	104	104	104	104

Source: IMF staff estimates and projections.

1/ Total debt service includes IMF repayments.

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

Availability	Disbursements		Conditions for Disbursement
	In millions of SDRs	In percent of quota	
October 21, 2013	8.89	8.57	Effectiveness of the three-year ECF arrangement
June 15, 2014	8.89	8.57	Board completion of the first review based on observance of performance criteria for December 31, 2013
September 26, 2014	25.925	25.00	Board completion of Ad Hoc Review and Augmentation of Access of 25 percent of quota
December 15, 2014 [1]	60.740	58.57	Board completion of the second review based on observance of performance criteria for June 30, 2014
June 15, 2015	8.89	8.57	Board completion of the third review based on observance of performance criteria for December 31, 2014
December 15, 2015	8.89	8.57	Board completion of the fourth review based on observance of performance criteria for June 30, 2015
June 15, 2016	8.89	8.57	Board completion of the fifth review based on observance of performance criteria for December 31, 2015
September 10, 2016	8.88	8.56	Board completion of the sixth review based on observance of performance criteria for June 30, 2016
Total disbursements	**140.00**	**135.00**	

1/ Includes augmentation of access equivalent to 50 percent of quota.

Table 7. Sierra Leone: Millennium Development Goals, 1990–2012

	1990	1995	2000	2005	2010	2011	2012
Goal 1: Eradicate extreme poverty and hunger							
Employment to population ratio, 15+, total (%)	64	64	63	65	65	65	65
Employment to population ratio, ages 15-24, total (%)	39	38	39	42	42	42	42
GDP per person employed (constant 1990 PPP $)	..	..	..	..	..	..	..
Income share held by lowest 20%	..	..	..	6	..	8	..
Malnutrition prevalence, weight for age (% of children under 5)	25	..	25	28	21	..	..
Poverty gap at $1.25 a day (PPP) (%)	45	..	..	20	..	17	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	63	..	..	53	..	52	..
Vulnerable employment, total (% of total employment)	..	..	..	92	..	..	..
Goal 2: Achieve universal primary education							
Literacy rate, youth female (% of females ages 15-24)	..	..	..	37	..	52	..
Literacy rate, youth male (% of males ages 15-24)	..	..	..	60	68	70	..
Persistence to last grade of primary, total (% of cohort)	..	..	..	..	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	..	..	74	77	72
Total enrollment, primary (% net)	..	..	..	..	..	..	..
Goal 3: Promote gender equality and empower women							
Proportion of seats held by women in national parliaments (%)	..	6	9	15	13	13	12
Ratio of female to male primary enrollment (%)	66	..	67	..	93	95	99
Ratio of female to male secondary enrollment (%)	49	..	71	..	..	..	..
Ratio of female to male tertiary enrollment (%)	..	..	81	..	..	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	..	23	..	..	..
Goal 4: Reduce child mortality							
Immunization, measles (% of children ages 12-23 months)	..	..	37	71	80	80	80
Mortality rate, infant (per 1,000 live births)	162	159	143	134	123	120	117
Mortality rate, under-5 (per 1,000 live births)	276	271	233	202	193	187	182
Goal 5: Improve maternal health							
Adolescent fertility rate (births per 1,000 women ages 15-19)	139	130	128	122	108	104	..
Births attended by skilled health staff (% of total)	..	..	42	43	63	..	..
Contraceptive prevalence (% of women ages 15-49)	3	..	4	5	11	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1300	1300	1300	1000	890	..	..
Pregnant women receiving prenatal care (%)	..	..	68	81	93	..	..
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..	28	..	..

Table 8. Sierra Leone: Financial Soundness Indicators of the Banking System, 2011–14

	2011	2012	2013				2014		
			Mar	Jun	Sep	Dec	Mar	Jun	Sep
	(Percent, end of period, unless otherwise indicated)								
Capital adequacy									
Regulatory capital ratio 1/	27.0	27.7	31.8	29.9	30.2	30.1	33.9	24.6	23.6
Regulatory tier 1 capital ratio 2/	14.0	12.5	14.1	14.6	14.2	13.6	13.8	21.9	20.5
Asset quality									
Nonperforming loans to total gross loans	15.1	14.7	17.6	18.9	18.3	22.4	22.0	35.7	33.8
Nonperforming loans (net of provisions) to regulatory capital	19.6	19.2	23.1	28.7	27.5	31.7	30.5	57.0	131.6
Earnings and profitability									
Return on assets	3.8	3.4	1.3	1.8	2.2	2.1	0.5	1.0	1.8
Return on equity	15.6	16.1	6.0	8.5	10.1	9.9	2.5	3.7	9.8
Liquidity									
Ratio of net loans to total deposits	41.3	33.9	33.3	38.2	35.5	32.4	33.9	26.1	27.1
Liquidity ratio 3/	54.6	40.7	64.1	63.1	120.4	72.5	77.5	74.6	73.8
Statutory minimum liquidity ratio 3/ 4/	29.7	54.9	52.5	28.9	49.2	29.3	30.7	28.4	61.2
Share of foreign exchange deposits in total deposits	41.5	40.8	38.7	35.8	63.2	38.5	30.9	34.0	32.1
	(Number of banks not complying)								
Prudential ratios at year-end									
Capital adequacy	0	0	0	0	0	0	0	2	2
Minimum liquidity ratio	2	5	2	0	0	0	0	0	5
Minimum capital	3	2	1	2	1	1	1	2	2
Limit of single large exposure 5/	3	5	4	1	1	0	2	2	2
Memorandum Item:									
Number of banks	13	13	13	13	13	13	13	13	13

Source: Bank of Sierra Leone.

1/ Capital requirement over risk-weighted assets (solvency ratio).

2/ Core capital (Tier I) over total assets.

3/ Calculated taking into account both domestic currency and foreign currency deposits. Liquid assets include domestic currency cash in vault, claims on the BSL, claims on discount houses, and government securities.

4/ Effective November 2007, minimum liquidity includes 40 percent of demand deposits and 20 percent of quasi-money to be held in either cash or treasury bills.

5/ A single large exposure of an institution is any exposure that is 2 percent or more of its capital base.

Table 9. Sierra Leone: External Financing Requirement and Sources, 2014–17
(Millions of U.S. dollars, unless otherwise indicated)

	2014	2015	2016	2017
1. Gross financing requirements	655.7	858.5	601.9	617.2
Current account deficit (excluding grants)	537.1	776.9	536.2	529.9
Debt amortization	24.0	27.3	32.8	40.7
Gross reserve accumulation	82.1	40.0	15.9	29.1
Fund repayments	12.5	14.3	16.9	17.5
2. Available financing	655.7	627.4	601.9	617.2
Foreign direct investment	232.8	131.1	272.4	253.6
Identified disbursements	238.5	270.4	184.8	220.4
Grants	155.1	195.2	92.5	105.4
Projects	26.4	91.9	15.5	15.5
Program	128.8	103.3	76.9	89.9
United Kingdom	25.4	15.6	19.1	22.3
European Union	29.9	33.0	13.5	15.8
African Development Bank	18.3	24.8	8.7	10.2
World Bank	55.1	30.0	35.7	41.7
Loans	83.4	75.2	92.4	115.0
Projects	83.4	75.2	92.4	115.0
Program	0.0	0.0	0.0	0.0
IMF disbursements	53.5	113.8	25.7	0.0
Other inflows	130.8	112.1	118.9	143.2
3. Financing gap	0.0	231.2	0.0	0.0
4. Possible financing	0.0	0.0	0.0	0.0
5. Residual financing	0.0	231.2	0.0	0.0
Of which: Debt relief	0.0	30.0	0.0	0.0

Sources: Sierra Leone authorities and Fund staff estimates and projections.

Appendix I. Letter of Intent

February 12, 2015

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

Dear Madame Lagarde:

1. The Ebola Virus Disease that hit Sierra Leone in May 2014 has spread to all 13 districts of the country. It has resulted in significant loss of life and tremendous disruptions to economic activity. At the end of January, close to 10,000 people were confirmed or suspected of having been affected by this deadly disease, and fatalities nearing 3200 people. While we have made some progress in containing the epidemic in our outer regions, there had been a significant surge in the Western area of the country, including the capital city, Freetown. Addressing the Ebola epidemic has resulted in significant balance of payments needs for 2014 and 2015, notably for increased imports of medical supplies and pharmaceuticals, food, ambulances and other Ebola-related needs. From the outset, the government took a number of measures to contain the disease, including: closure of local markets and schools nationwide; quarantine of the most affected regions, prohibition of large public gathering; setting up of check points with temperature verification on key roads and at the airport, extensive outreach activities to sensitize the population, and enhanced contact tracing. The government also carried out two lock-down exercises for the capital city with door to door verification and information dissemination. It contained non-priority spending to increase space for priority and Ebola-related expenditure. The implementation of these actions, including through the National Ebola Response Center (NERC) has benefitted from the continued support of our development partners including the International Monetary Fund (IMF) through the Ad Hoc augmentation of the Extended Credit Facility (ECF) arrangement, which has been much

appreciated. Thanks to these combined efforts, a declining trend in the transmission of the disease is beginning to emerge.

2. Limitations on movement, border closures, sharp declines in international travel and disruptions to agricultural production have impacted negatively on non-iron ore production in 2014, resulting in a growth rate of less than 1 percent. Overall GDP growth is, however, estimated at 6 percent because the iron ore sector was only marginally affected by the Ebola outbreak and iron ore companies' production was higher than expected, which more than compensated for the plunge in international iron ore prices in the second half of the year. The economic impact of the Ebola outbreak translated also into heightened inflationary pressures, depreciation of the Leone, and increased fiscal and balance of payments financing needs.

3. Notwithstanding these challenges, we maintained the momentum of policy and reform implementation. At end-June 2014, all quantitative performance criteria (PCs) were met and continuous PCs are being observed. Most structural reform measures were implemented while others were delayed because of disruptions engendered by the Ebola outbreak, notably on the delivery of needed technical assistance. We have taken steps to advance the reform agenda programmed for the second half of 2014 in the financial sector and in Public Financial Management, and have set up other structural reform benchmarks for 2015.

4. Economic prospects for 2015 are daunting. While we intend to work decisively towards achieving program objectives as explained in the attached Memorandum of Economic and Financial Policies (MEFP), the Sierra Leone economy is more vulnerable than before: the impact of the Ebola outbreak is expected to continue, at best through the end of the third quarter. At the same time, current difficulties in the iron ore sector might continue through mid-year. Under these conditions, the real GDP is projected to contract by almost 13 percent; inflation is expected to remain in the double digits; and financing needs will remain high in the fiscal and external sectors.

5. The 2015 budget aims to re-focus on priority sectors within the Poverty Reduction Strategy (*Agenda for Prosperity - AfP*) to address the socio-economic challenges resulting from the Ebola epidemic, especially in agriculture, education, water, sanitation, health sectors and Small-and-Medium-sized Enterprises' financing, while containing non-priority spending. However, the budget adopted by parliament in early December 2014 reflects weak prospects for revenue collection and limited external budget support. As a result, it anticipates a real decline in some expenditure categories, to limit the deficit at US$40 million and avoid over-borrowing from the domestic securities market.

6. The revised medium-term macroeconomic framework discussed with IMF staff shows that financing pressures will remain high in 2015. In the fiscal area, spending is expected to be higher than budgeted, mainly reflecting cautious assumptions on the containment of the Ebola epidemic and to support efficient delivery of critical public services and needed transfers to local authorities. In addition, revenue performance is likely to be weaker than anticipated in the budget because of the economic impact of a prolonged Ebola epidemic than assumed in the budget; and weak commodity prices, notably for iron ore and oil. Consequently, the Government continues to engage Sierra Leone's development partners for additional budget support that would support higher expenditure, particularly for much needed infrastructure investment.

7. Other policies will continue to be supportive of a stable macroeconomic environment. The Bank of Sierra Leone (BSL) will maintain a neutral monetary policy stance while continuing to monitor liquidity in the financial market. It will also continue to enhance banking supervision to support healthy financial intermediation and seek to limit interventions in the foreign exchange market to smoothing volatility in the exchange rate.

8. The Government intends to maintain prudent borrowing policies, particularly in the current challenging environment and uncertain medium-term prospects. Hence, domestic borrowing from Bank and nonbank financial institutions will be contained at 2 percent of non-iron GDP with financing from the BSL contained at the legal limit of 5 percent of government revenue in the previous year (2014). Given the anticipated challenges on revenue collection, increased external budget support will be essential to achieve this objective without a drastic reduction in expenditure. On external debt, the Government will continue to give priority to grants and concessional loans for investment financing, particularly for large-scale projects anticipated in the AfP; and to maintain nonconcessional borrowing at the program level.

9. The government believes that the commitments outlined in the attached MEFP are adequate to achieve program objectives. However, it stands ready to take any additional measures that may become necessary for this purpose. We will consult with the IMF on the adoption of any additional measures and in advance of revisions to policies contained in the attached MEFP, in accordance with IMF policies on such matters. Furthermore, we will provide the IMF with information in connection with progress in the implementation of policies and reforms under the

program. As in the past, and to ensure a successful implementation of our economic program, we will keep a close policy dialogue with the IMF and seek technical assistance, as necessary, from the IMF and other development partners.

10. The Government requests the completion of the second review of Sierra Leone's program supported by the ECF arrangement, and the disbursement of the third tranche in the amount of SDR 8.89 million, upon the completion of the review by the IMF Executive Board. The Government also requests an augmentation of access under the ECF arrangement in the amount of SDR 51.85 million (50 percent of quota) to help mitigate the continued adverse impact of the Ebola epidemic on Sierra Leone's economy and to support our efforts in containing the outbreak. We also request that the disbursement be immediately available following the completion of the second ECF review by the IMF Executive Board. Considering that we plan to use part of these resources to cover a portion of the fiscal financing needs, a Memorandum of Understanding will be signed between the Ministry of Finance and Economic Development and the Bank of Sierra Leone, defining our respective roles and responsibilities for servicing the financial obligations to the Fund.

11. The Government is requesting debt relief under the catastrophe containment window of the Catastrophe Containment and Relief (CCR) Trust in an amount of SDR 20.74 million (20 percent of quota). As a PRGT-eligible country with income below the IDA eligibility cutoff, Sierra Leone is eligible for access to the resources of the CCR Trust. The epidemic, which was declared a Public Health Emergency of International Concern, has severely affected the Sierra Leone economy as well as neighboring economies, causing large balance of payments and fiscal needs, resulting in an estimated cumulative decline in real non-iron ore GDP of about 34 percent, and in a cumulative loss of revenue and increase in expenditure of 10 percent of non-iron ore GDP in 2014-15. Substantial balance of payments financing gaps persist for 2015 and beyond that could be reduced by debt relief on our obligations to the Fund. We also hope that debt relief from the Fund could form the basis for additional grant-based financial support and debt relief from other creditors.

12. In line with our commitments to transparency in government operations, we authorize publication of this letter, the Memorandum of Economic and Financial Policies, as well as the

Technical Memorandum of Understanding attached to it; and the staff report, including placement of these documents on the IMF website, in accordance with IMF procedures.

Very truly yours,

____________________/s/__________________	______________/s/______________
Kaifala Marah	Momodu Kargbo
Minister of Finance and Economic Development	Governor of Bank of Sierra Leone

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

Attachment 1. Memorandum of Economic and Financial Policies

Freetown, February 12, 2015

INTRODUCTION

1. This Memorandum of Economic and Financial Policies (MEFP) supplements those of October 1, 2013 and June 4, 2014, and builds on policy commitments presented in the Letter of Intent (LOI) dated September 17, 2014. It reports on program performance in 2014 and presents economic and financial policies for 2015.

2. Economic activities were on a good trajectory for attainment of the projected real GDP growth for 2014, prior to the onset of the Ebola epidemic in May. Since then, the epidemic has continued, with devastating health and social impact. At the end of January, close to 10,000 people were confirmed or suspected of having been affected by this deadly disease, and fatalities nearing 3200 people. Schools remain closed to prevent high contagion, many households have lost their source of income, and food insecurity has increased. The Ebola epidemic has overwhelmed the institutional and medical infrastructure and reduced availability of health care services for other diseases. As explained below, it has contributed to the deterioration of macroeconomic indicators in the second half of the year and adversely affected economic prospects for 2015.

3. The Ebola epidemic threatens to erode the gains in human development and inclusive growth, and could reverse recent progress towards poverty reduction. Local markets have been closed, regional and international airlines have stopped flying to the country, and domestic quarantine measures have resulted in agricultural labor shortage, as documented in a recent publication of the International Growth Center and corroborated by a survey jointly carried out by the Government of Sierra Leone and the United Nation's Food and Agriculture Organization. As a result, supply of basic items (including food) has dwindled significantly and incomes have fallen, heightening food insecurity. A recent World Food Program report estimates suggest that the number of food-insecure individuals could nearly double from the pre-crisis level to around 450,000; and rise to 610,000 people, if Ebola infestation continues at a high rate. These estimates are corroborated by the joint report of Government of Sierra Leone and the United Nation's Food and Agriculture Organization, where almost three-quarters of survey respondents reported having only one meal a day. Since the onset of the epidemic, the Government has been implementing its

response plan, with support from development partners. The response plan rests on four thematic pillars: (i) coordination, finance, and logistics; (ii) epidemiology and laboratory; (iii) case management, infection prevention and control, and psychosocial support; and (iv) social mobilization and public information.

RECENT ECONOMIC DEVELOPMENTS

4. Output was on a good trajectory for attainment of the real GDP growth rate of about 11 percent in 2014 projected prior to the Ebola outbreak in May. The strong performance observed in 2013 continued in the first half of the year, particularly in mining and agriculture, helping compensate for the Ebola-generated downturn observed in the second half of the year. Real GDP growth is estimated at 6 percent, thanks to higher-than-anticipated iron ore production that compensated for the adverse impact of lower prices.

5. After declining to single-digits at end-2013 for the first time in a decade, consumer price inflation continued to trend downwards in the first half of 2014. However, as the Ebola outbreak intensified, prices inched up on account of disruptions in supply chains, reduced food supply because of border closures; disruptions in agriculture production; and exchange rate depreciation. The inflation rate, which declined from 8.5 percent at end-2013 (year-on-year) to 7.8 percent at end-June 2014, rose to 9.3 percent at end-November, and could reach 10 percent by end-December.

6. Budget execution was challenging in 2014 because of weak revenue performance, expenditure overruns in the first half of the year, and the impact of the Ebola outbreak. At end-June, total revenue fell below the target by some Le 76 billion, mainly on account of lower receipts on royalties from the mining sector, import duties, and personal income tax. The decline in international iron ore prices and cash flow difficulties it generated for iron ore mining companies accounted for the shortfalls in mining royalties and personal income tax. Revenue collection remained weak in the second half of the year mainly because of the impact of the Ebola outbreak on economic activity. As a result, government revenue is expected to be significantly lower than budgeted for 2014. Total expenditures were higher than budgeted for end-June because of overruns in wages and salaries mostly due to new unanticipated recruitments; unbudgeted Ebola-related expenditures, and higher-than-expected outlays on goods and services, as well as domestically financed public investment. These developments, combined with a shortfall in budget support, led to the accumulation of unpaid bills totaling around Le 200 billion at end-June. Expenditures were reallocated in the fourth quarter to ensure clearance of these bills by year-end.

Preliminary information at end-December indicates that the domestic primary deficit could reach 5.2 percent of non-iron ore GDP, and borrowing from bank and non-bank financial institutions could be higher than budgeted, mostly because of high and unanticipated redemptions of securities held by nonbank financial institutions.

7. Monetary policy was geared towards attaining the end-year inflation target. Reserve money expanded by 23.1 percent (year-on-year) at end-September 2014, almost at the same rate during the same period of 2013. The Bank of Sierra Leone enforced the statutory limit (of no more than 5 percent of previous year's domestic revenue) on its direct lending to the budget. It maintained the monetary policy rate at 10 percent during the year, following stepwise downward adjustments from 20 percent in 2012 to 10 percent at end-2013. Broad money growth slowed down to 18.1 percent during the same period compared with 20.4 percent in the corresponding of 2013. The growth was driven mainly by an increase in banking system net foreign assets, consistent with improvements in the external current account. Credit to the private sector rose by 3.8 percent (year-on-year) as of end-September 2014, recovering from the weak levels observed in 2012–13. The 3-month Treasury bill rates declined from an average of 22.4 percent and 8.1 percent in 2012 and 2013 respectively, to 2.3 percent in December 2014.

8. Commercial bank lending rates remained sticky at a 19.7–25.3 percent range since end-2013. Most banks are comfortably capitalized, but credit risk and non-performing loans remained high in 2014. Banks' risk-weighted capital adequacy ratios are generally well-above the statutory norm of 15 percent, except at the two largest banks, where banking supervisory procedures have been initiated to address their weak capital positions. Loan concentration remained high with international trade, construction, and services (business and government) accounting for about three quarters of all loans. Reflecting this concentration, generally low repayment culture, and overhang of "legacy loans", non-performing loans have remained high at around 33.8 percent at end-September. Generally, profitability in the banking industry has been affected by the lower yields on Treasury bills. The latter account for the largest share of banks' income position.

9. The observed improvements in the balance of payments in 2012–13 continued into the first half of 2014. The improvement in 2014 reflects both a strong iron-ore driven increase in export receipts and a decline in imports (particularly of machinery and equipment related to iron ore activity). Hence, despite lower-than projected capital inflows, at end-June, gross official foreign international reserves increased by US$26 million. The Leone remained stable relative to Sierra Leone's trading partners' currencies, and the premium between the parallel market rate and the official exchange rate had declined. The external current account deteriorated in the second half

of the year on account of lower iron ore export receipts due to a sharp decline in iron ore prices, and higher imports, partly driven by the Ebola outbreak. However, it is estimated that capital inflows increased significantly during the same period, covering higher than anticipated balance of payments and budget support from Sierra Leone developments partners, and Ebola-driven foreign exchange (Forex). Demand pressures have built up in the foreign exchange market, leading to an increase in the depreciation of the Leone against the US dollar, from 2 percent in July 2014 to 13.54 percent in December. To meet the increased demand for imports, particularly for food, pharmaceutical and petroleum products, the Bank of Sierra Leone (BSL) increased its weekly sales of Forex from US$½ million in June to US$3 million in October, and carried out five wholesale Forex operations between September and December 2014 amounting to US$30 million.

PROGRAM PERFORMANCE

10. Despite the difficult environment, program implementation proceeded as scheduled with satisfactory results. At end-June, all quantitative performance criteria (PCs) were met, and continuous PCs are being observed. The ceiling on net domestic bank credit to the central government was met with a wide margin, after adjusting for non-disbursed budget support (Le 46.9 billion) and for under-borrowing from non-bank financial institutions (Le 87.7 billion). Similarly, the ceiling on net domestic assets of the central bank and the floor on gross foreign reserves were met with comfortable margins. The level of nonconcessional borrowing at end-June was US$10 million for energy projects, below the program ceiling of US$30 million per year. Indicative targets on domestic revenue and on the fiscal primary balance were missed due the weak fiscal performance as explained above. At Le 633 billion, poverty-related expenditures exceeded the programmed target of Le 542 billion, as spending on domestically-financed investment and subsidies and transfers exceeded their respective targets (Table 1).

11. Implementation of structural measures was mixed, as five out of nine structural benchmarks were met, and four experienced delays. The government developed a strategy for small- and medium-sized enterprises, and the BoSL prepared a roadmap for developing and implementing a risk-based supervision system, and all continuous measures: (i) monthly Treasury cash flow table; (ii) semi-annual report on Public Investment Program execution; and (iii) reporting on external debt commitments were observed. However, disruptions in technical assistance, partly on account of the onset of the Ebola epidemic delayed completion and submission to Parliament of the new Public Financial Management bill. The bill is expected to be submitted to Parliament in the first quarter of 2015. This has also delayed the establishment of a Treasury Single Account, although the interim steps of streamlining transit accounts of the National Revenue Authority (NRA) needed for this

measure was completed. The NRA now has 24-hour electronic access to its transit accounts in commercial banks, and a memorandum of understanding signed between the government and the banks on the transfer of balances in NRA transit accounts to the Treasury account at the BSL is being strictly enforced, and has helped improve Treasury cash flow management (Table 2).

12. Implementation of other structural reforms also progressed, albeit with delays. On civil service reforms, the right-sizing of the civil service has commenced with the recruitment of technical staff to fill the missing middle. The retrenchment of staff under the European Union-supported civil service reform program is yet to start. The process of mainstreaming donor and government funded local technical assistants is in progress and is expected to be completed in 2015. The Human Resources Management Office has upgraded the Human Capital Accountability (HCA) module in the Integrated Financial Management Information System (IFMIS) to the Civil Service Module, which has improved the link between the payroll and the IFMIS at the Accountant-General's Department.

13. To enhance the efficiency of the government securities market, the BSL has discussed a primary dealership agreement with the commercial banks, with the aim of establishing the new system by June 2015. This system would make explicit the roles of the banks in the government securities market, and should help enhance inter-bank trading in government securities and consequent development of a tri-party repurchase system with the BSL as the enforcer of the agreements. The Bank of Sierra Leone commenced the publication of a Calendar for the issuance of Government securities in July 2014. Although pilot wholesale Forex auctions were held in mid-October, the definite move from the current invoice-based system to the wholesale system (Benchmark for June 2014), has been delayed to June 2015 as BSL plans to build on lessons learned from the two pilots operations to refine draft guidelines to be circulated to commercial banks outlining the structure of the system and its mode of operation.

ECONOMIC OUTLOOK AND POLICIES FOR 2015

14. Policies and macroeconomic objectives for 2015 are underpinned by the October 1, 2013 MEFP presenting the three-year ECF-supported program. They aim to consolidate recent progress in macroeconomic stability and to rekindle medium-term economic growth prospects in the aftermath of the Ebola epidemic. The revised macroeconomic framework shows that 2015 is likely to be marked by increased economic difficulties:

- Economic growth is set to contract. The real GDP growth is projected to decline by almost 13 percent because of the continued adverse impact of the Ebola epidemic on key sectors that normally drive growth, and the further decline in iron ore prices that contributed to financial difficulties of iron ore mining companies, leading to the temporary closure of the largest company (African Minerals Limited – AML) in November 2014. These projections assume that despite ongoing efforts by the government, both the containment of the Ebola epidemic and the resumption of production at AML might take time to materialize.

- Price pressures are expected to remain elevated. Consumer price inflation is expected to increase as agriculture production would continue to be affected by the Ebola epidemic and non-food inflation is likely to remain high in view of continued Forex market pressures. Hence, the average consumer price inflation rate is projected to rise from about 8 percent in 2014 to 13 percent in 2015.

- The external position is projected to worsen. The current account deficit is projected to increase from an estimated 9 percent of non-iron ore GDP in 2014 to 15 percent, mostly because of the projected decline in iron ore exports.

- The fiscal position is likely to remain precarious. The impact of the economic slowdown in the non-iron ore economy in 2014, and projected contraction for 2015 are expected to dramatically affect the 2015 revenue performance, while expenditure pressures will remain high, notably in priority sectors.

15. Government is preparing a post Ebola Recovery Strategy to address the immediate challenges arising from the epidemic. This will set the stage for the medium-term post-Ebola economic growth and development through the implementation of selected priority program and projects under the Poverty Reduction Strategy (Agenda for Prosperity – AfP). This, however, will require additional financial support from our development partners.

Fiscal Policy

16. The 2015 budget adopted by parliament in mid-December is an austerity budget that takes into account the expected impact of the ongoing Ebola epidemic on revenue and expenditure; and the projected external budget support.

17. The budget assumes that total government revenue would increase by about 8 percent compared with the estimated 2014 collection to reach Le 2,390 billion with the personal income tax,

import duties and iron ore royalties as the main components. Revised projections taking into account recent developments, including continued difficulties in the iron ore sector, the decline in oil prices, and the likelihood of a prolonged Ebola epidemic in 2015 show that revenue could amount to Le 2,132 billion or about Le 250 billion below the budgeted level.

18. Expenditures are budgeted at Le 4,457 billion in 2015. At Le 2,842 billion, current spending reflects an increase in the wage bill of about 11 percent on account of recruitment in priority sectors and a 15-percent salary increase starting in July (see below); a modest increase in spending for goods and services, and in subsidies and transfers. Domestically-financed investment is, however, budgeted at Le 430 billion, in decline compared with 2014, and the lowest level since 2011, because of resource constraints. Direct Ebola spending is expected to decline as most of the activities are funded by donors through the National Ebola Response Center. To address economic and social challenges engendered by the Ebola epidemic and support economic recovery, the following actions are planned in the 2015 budget:

- Provision of seeds, planting materials, fertilizers and pesticides to farmers to support recovery in the agriculture sector.
- Establish a Medical Insurance Scheme for health workers on a pilot basis.
- Set up a national school feeding program and provide education programs through the media to facilitate the resumption of schools at minimal costs for parents. Other actions in the education sector include: additional resources to Local Councils for the purchase of teaching and learning materials, disinfectants for schools and payment of examination fees; and provide of allocations for payment of tuition fees for girls in Junior Secondary Schools.
- Implement new social protection programs including school feeding, cash transfers for Ebola orphans and families affected by Ebola, and enhanced child protection programs at the local level. These programs will also be supported by a number of donors including the World Bank, the Islamic Development Bank, and the African Development Bank.
- Improve access to finance for Small and Medium-Sized Enterprises (SMEs).

19. The government is aware of the need to control the wage bill to ensure medium-term fiscal sustainability. While implementing reforms under the donor-funded civil service reforms, adjustments in salaries would be carefully considered within the broader expenditure mix, in order not to crowd out infrastructure investment and priority social spending. The wage bill continues to be in line with the medium-term wage and pay reform policy, but the decline in nominal GDP has

implied an increase in the wage bill in non-iron ore GDP terms to 7 percent in 2015. Under the budgeted wage bill, the minimum wage increases to Le 550,000 per month for civil servants and Le 660,000 for teachers and security forces; and there will be increased recruitment of personnel to fill key professional and technical positions in the civil service, additional teachers, nurses, and police officers. The government recognizes that the medium-term wage policy projections adopted by Cabinet in December 2014 were completed prior to the outbreak of the Ebola epidemic, and therefore need to be revisited. Hence, during the first half of 2015, these projections, as well as policy measures will be reviewed to take into account the negative impact of the Ebola outbreak and the financial difficulties in the mining sector on domestic revenue mobilization, and medium term fiscal outlook. On this basis, a revised medium-term wage policy will be adopted by Cabinet by end-September 2015 (Structural benchmark). In a similar vein, wage projections for 2016 and 2017 will be reviewed to take into account the effect of promotions and retirements within the public service with the overall objective of anchoring the wage bill to the limit of 6.5 percent of GDP for the medium term. A revised medium-term wage strategy will be completed by end-September, in time to inform the fiscal framework for the draft 2016 budget.

20. The updated macroeconomic framework for 2015 indicates that the budgeted revenue level seems too optimistic, while expenditure pressures are expected to remain high. Hence, the domestic primary deficit is projected at Le 844 billion, compared with Le 836 billion in the budget. To continue efficient delivery of public services, notably for Ebola-related social programs and support the economic recovery, the government approached Sierra Leone's development partners for much needed additional budget support. Available commitments point to budget support amounting to Le 559 billion (Le 388 billion in the budget). Maintaining domestic financing at 2 percent of non-iron ore GDP as agreed under the program leaves an uncovered gap of Le 335 billion for which the government is requesting additional financing from the IMF through an augmentation of access under Sierra Leone's program and debt relief under the recently established Catastrophe Containment and Relief Trust. To use the additional resources, the government will present a revised budget in parliament by end-June 2015. Given increased fiscal risks in 2015, budget execution will be closely monitored, notably through the Cash Flow Management Committee to ensure that mitigating measures are taken in the event of resource shortfall, to avoid accumulation of domestic payments arrears.

Monetary and Exchange Rate Policies

21. Rising inflationary pressures raise concerns. While cognizant that these pressures are driven by supply shocks, BSL is closely monitoring market conditions and stands ready to mop-up excess liquidity to address any second-round pressures. In this context, the BSL will continue to take steps to be more active in the secondary government securities market, and to enhance capacity in liquidity forecasting. At the same time, the BSL will step up monitoring of the financial health of the banking system, notably through enhanced on-site inspection and other measures as explained below.

22. Demand pressures observed in the Forex market in 2014 are likely to remain high until the Ebola epidemic has been contained and economic activities have resumed. In addressing these challenges, the BSL will seek to limit its interventions in the Forex market to preserve foreign exchange reserves. In addition, to the extent possible, as in 2014, the BSL will carry out wholesale Forex Auctions to increase experience in these transactions before eliminating the current invoice-based Forex sales.

Borrowing Policies and Financing of the Poverty Reduction Strategy

23. A Debt Sustainability Analysis carried out in June 2014 to update the Medium Term Debt Strategy (MTDS) highlighted the need to prioritize the implementation of transformational projects envisioned in the Agenda for Prosperity and to seek soft financing terms to the extent possible. The government reaffirms its commitment to fiscal and debt sustainability, and intends to maintain prudent debt management policies, continuing to give priority to grants and concessional borrowing to finance investment projects.

24. Cognizant of the challenges generated by the Ebola epidemic, government would delay the new airport project until the economic situation improves, and would continue to seek support from the World Bank, as well as consider the recommendations in the economic viability report by Ernest and Young.

25. On domestic debt, the government will continue to contain refinancing risks notably through the issuance of instruments with longer maturity as envisaged under the MTDS. As in 2014, the government will continue to signal its’ borrowing needs in the securities market through the publication of a borrowing calendar, the frequency of which will be raised from weekly to quarterly.

STRUCTURAL REFORMS

26. The government remains committed to advancing structural reforms. The focus will continue to be on: (i) enhancing revenue mobilization; (ii) improving expenditure management, particularly for public investment; (iii) fostering healthy financial intermediation to support private sector development; and (iv) improving public debt management. Priority measures in these areas are described in Table 2.

27. To improve revenue mobilization, the government will continue to strengthen tax administration, including through the effective implementation of the new Tax Administration Act introduced in Parliament in December 2014. The latter will help improve compliance with tax obligations for taxpayers and importers by harmonizing administrative provisions and updating them to reflect current approaches in tax administration.

28. To ensure the attainment of budgeted revenue, the NRA will continue to strengthen implementation of administrative measures to curb fraud, tax evasion and avoidance, including through the use of securitized receipts for tax on goods and services (GST); the conduct of regular field audits; and further strengthening of the Revenue Intelligence and Investigation Unit. To improve tax compliance especially in the hard- to-tax sector, the NRA will establish a centralized Debt Management and Compliance Unit, Satellite Offices and a Domestic Tax Preparers Scheme. It will also operationalize the Flexible Anti-Smuggling Scheme, conduct automated reconciliation between the ASYCUDA and Destination Inspection Companies database, and introduce a database for customs valuation. Furthermore, the NRA plans to take the following measures in 2015:

- Improve Information Systems further through the automation of a non-tax revenue system; the introduction of an Integrated Tax Administration System; the enhancement of the Domestic Tax Information System (DTIS) with a payment module to automate payments banks holding NRA transit accounts.
- Roll out of the DTIS to provincial headquarters.
- Introduce the multi-year project of development of a reconciliation system with the transit banks and Accountant General's department, interface the monitoring department's Management Information System (MIS) with existing administration systems of operational departments.

- Implement a taxpayer call centre.
- Complete the migration from ASYCUDA++ to a customized Customs Management System.
- Strengthen the implementation of measures aimed at curbing tax evasion, and recovering unpaid tax obligations from 2014.

29. Actions to reduce tax exemptions will be accelerated. The Ministry of Finance and Economic Development (MOFED) will enhance scrutiny of duty waiver requests, and prepare a report on duty waivers granted in 2013-14, by September 2015 (**Structural benchmark**), with the aim of reducing discretionary waivers and enhancing revenue mobilization. Furthermore, by end-September 2015, the NRA will prepare a list of consolidated tax and non-tax obligations for mining companies and their sub-contractors to ensure full compliance with current legislation.

30. The government intends to continue advancing Public Financial Management (PFM) reforms to consolidate recent progress and address new challenges expected from the management of increased natural resources in the years ahead. The draft PFM bill endorsed by Cabinet presents clear and comprehensive definitions of government entities to underpin the new Treasury Single Account, and introduces fiscal responsibility principles to improve macro-fiscal planning and risk management.

31. Building on progress made at end-December 2014, BSL will reinvigorate implementation of reforms aimed at supporting monetary and exchange rate operations. In particular, BSL will ensure that the delayed primary dealership agreement system for the government securities market is established and operational by June 2015 (Structural Benchmark). The system will help enhance liquidity and turnover and support the development of a secondary market for government securities. Following the successful use of wholesale Forex sales in late 2014, BSL will transition to a wholesale foreign exchange auction system by June 2015 (Structural Benchmark). The BSL will also prepare operational rules to invigorate the interbank Forex market, by June 2015 (Structural Benchmark). In preparation for the publication of the daily reference foreign exchange rates, the BSL will commence in 2015 compilation of daily reference exchange rates of the Leone against the main international currencies based on previous day's transaction rates, to develop a time series. The daily publication of these rates, which informs commercial banks and their customers, will help minimize information asymmetry and improve efficiency in the Forex market.

32. As the Ebola epidemic has heightened challenges and risks in the financial sector, BSL intends to sharpen its supervisory practices to forestall overly risky lending. Building on the

roadmap for developing and implementing risk-based supervision completed in June 2014, key measures planned for 2015 include:

- Preparation of an internal contingent manual to guide identification and step-by-step supervisory actions in the event of specific or systemic banking sector distress, by September 2015 (Structural Benchmark).
- Preparation of bank-specific risk management guidelines to forestall credit, market, and technology risks.
- Preparation of detailed risk-based supervisory framework, including procedures for analyzing risk management systems of commercial banks.
- Completion of on-site supervision for the five largest banks selected using asset size and quality indicators by December 2015.
- Establishment of a registry of moveable collateral by December 2015 (Structural Benchmark).

PROGRAM MONITORING

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

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

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

	Dec. 2013	2014												
		Mar. 1/				Jun. 2/				Sep. 1/				Dec. 2/
	Stock	Prog. 3/	*Adj. Prog.*	Act.	Status	Prog. 3/	*Adj. Prog.*	Prel.	Status	Prog. 3/	*Adj. Prog.*	Prel.	Status	Prog. 4/
Performance criteria														
Net domestic bank credit to the central government (ceiling)	1,681	93	201	130	Met	184	318	217	Met	194	328	567	Not Met	493
Unadjusted target (ceiling)			92.8				183.8				193.7			
Adjustment for the shortfall (excess) in external budget support			66.4				46.9				22.3			
Adjustment for the issuance of government securities to the nonbank private sector			42.0				87.7				112.4			
Net domestic assets of the central bank (ceiling)	-295	20	86	55	Met	21	68	20	Met	-57	-35	33	Not Met	140
Unadjusted target (ceiling)			19.9				21.3				-56.9			
Adjustment for the shortfall (excess) in external budget support			66.4				46.9				22.3			
Gross foreign exchange reserves of the central bank, US$ millions (floor)	473.5	10	-6	13	Met	31	6	26	Met	35	30	19	Not Met	53
Unadjusted target (floor)			9.7				30.6				35			
Adjustment for the shortfall (excess) in external budget support 6/			-15.3				-10.8				-5.2			
Adjustment for the shortfall in the US$ value of IMF disbursement			0.0				-13.7				0.0			
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-0.4				-0.4				0.7			
Ceiling on new nonconcessional external debt (in $ million) 5/ 6/	...	30		0	Met	30	...	10	Met	30	...	10	Met	30
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 5/	...	0.0		0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0
External payment arrears of the public sector (ceiling) 5/	...	0.0		0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0
Indicative target														
Total domestic government revenue (floor)	...	549		588	Met	1,247		1,171	Not Met	1,919		1,715	Not Met	2,341
Poverty-related expenditures (floor)	...	231		267	Met	542		633	Met	809		1,008	Met	1,145
Domestic primary balance (floor)		-176		-114	Met	-300		-515	Not Met	-330		-892	Not Met	-806
Memorandum items:														
External budgetary assistance (US$ million) 7/	...	5.1		4.7		45.4		34.6		50.6		45.4		91.4
Net credit to government by nonbank sector 8/	...	0.0		-42.0		21.9		-65.8		43.9		-68.5		66.0
ECF disbursements (SDR millions)		0.0		0.0		13.7		13.7		0.0		0.0		53.5
Exchange rate (Leones/US$)	4,334	4,334		4,334		4,334		4,334		4,334		4,334		4,334

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); end-March and end-September are indicative targets.

2/ End-June and end-December target are performance criteria.

3/ Refers to program of EBS/14/64

4/ Refers to program of EBS/14/116

5/ These apply on a continuous basis.

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

7/ Including grants and loans. Reference in EBS/14/114 to US$91.4 million was inaccurate; corrected figure US$78.3 million.

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

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

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

Table 2. Sierra Leone: Structural Benchmarks Under the ECF-Supported Program, 2014 (concluded)		
Measures	**Timing**	**Status**
Business Environment		
• Prepare a development strategy for small- and medium-sized enterprises.	June 2014	Met.
• Introduce a one-stop window for imports clearance.	Dec. 2014	Not met.

Table 3. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2015[1]

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

	Dec. 2014 Proj. (stock)	2015 Mar. 1/	Jun. 2/	Sept. 1/	Dec. 2/
Performance criteria					
Net domestic bank credit to the central government (ceiling)	2,328	249	302	447	588
Unadjusted target (ceiling)					
Adjustment for the shortfall (excess) in external budget support					
Adjustment for the issuance of government securities to the nonbank private sector					
Net domestic assets of the central bank (ceiling)	-334	220	186	190	202
Unadjusted target (ceiling)					
Adjustment for the shortfall (excess) in external budget support					
Gross foreign exchange reserves of the central bank, US$ millions (floor)	556	63	63	20	40
Unadjusted target (floor)					
Adjustment for the shortfall (excess) in external budget support 3/					
Adjustment for the shortfall in the US$ value of IMF disbursement					
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities					
Ceiling on new nonconcessional external debt (in $ million) 3/ 4/	...	30	30	30	30
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 3/	...	0.0	0.0	0.0	0.0
External payment arrears of the public sector (ceiling) 3/	...	0.0	0.0	0.0	0.0
Indicative target					
Total domestic government revenue (floor)	...	479	1,000	1,556	2,132
Poverty-related expenditures (floor)	...	271	570	807	1,128
Domestic primary balance (floor)		-506	-1,119	-1,420	-1,163
Memorandum items:					
External budgetary assistance (US$ million) 5/	...	24.8	62.9	68.1	103.3
Net credit to government by nonbank sector 6/	...	0.0	10.0	20.0	19.2
ECF disbursements (SDR millions, flow)		88.0	12.9	0.0	12.9
Exchange rate (Leones/US$)	4,334	4,953	4,953	4,953	4,953

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); end-March and end-September are indicative targets.
2/ End-June and end-December target are performance criteria.
3/ These apply on a continuous basis.
4/ The ceiling covers priority loans for the energy sector; for 2013–14, such projects include the construction of two mini dams to provide access to electricity in a rural area.
5/ Including grants and loans.
6/ Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the nonfinancial private sector.

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

Measures	Timing	Rationale
Revenue Mobilization		
• Prepare a report on duty waivers granted in 2013-14, by category and by sector, specifying the legal basis for the waiver (MEFP, ¶29).	End-September	Enhance monitoring of tax exemptions and reduce ad hoc duty waivers.
Expenditure Management		
• Adoption by Cabinet of a revised medium-term wage and pay reform strategy reflecting the revised economic projections and taking into account promotions and retirements in the civil service (MEFP, ¶19).	End-September	Strengthen wage policy.
Financial Sector Development		
• Finalize the draft of BoSL's rules governing the operations of the interbank foreign exchange market (MEFP, ¶31).	End-June	Improve monetary operations.
• Prepare an internal BoSL contingent manual to guide identification and step-by-step supervisory actions in the event of specific or systemic banking distress (MEFP, ¶32).	End-September	Strengthen banking supervision.
• Establish a registry of moveable collateral (MEFP, ¶32).	End-December	Develop access to credit for small-and-medium sized borrowers.

Attachment 2. Technical Memorandum of Understanding
Freetown, February 6, 2015

INTRODUCTION

1. This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative performance criteria (PCs) and structural benchmarks (SBs) for the program supported by the Extended Credit Facility (ECF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 1 of the Letter of Intent (LOI).

2. **Program exchange rates.**[1] For the purpose of the program, foreign currency denominated values for 2015 will be converted into Sierra Leonean currency (leone) using a program exchange rate of Le 4953.34/US$ and cross rates as of end December 2014.[2]

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

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

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

[2] For calculating program targets for 2015, all end 2014 stock variables will be based on program exchange rate of Le 4953.34/US$.

QUANTITATIVE PERFORMANCE CRITERIA

A. Gross Foreign Exchange Reserves of the Bank of Sierra Leone

3. **Definition**. Unless otherwise noted, gross foreign exchange reserves of the Bank of Sierra Leone (BoSL) are defined as reserve assets of the BoSL. Reserve assets are defined in the IMF's *Balance of Payments Manual* (5th ed.) and elaborated in the reserve template of the Fund's *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template*. They exclude foreign assets not readily available to, or controlled by, the monetary authorities.

4. **Adjustment clauses**. The floor on the change in gross foreign exchange reserves will be adjusted (a) downward (upward) by the amount in U.S. dollars of the shortfall (excess) in programmed external budgetary assistance[3]—the downward adjustment will be capped at the equivalent of US$20 million; (b) downward (upward) for any shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the ECF arrangement; and (c) upward (downward) for any increase (decrease) in BSL short-term (one year or less in original maturity) foreign currency-denominated liabilities (to residents and nonresidents).

B. Net Domestic Assets of the BSL

5. **Definition**. Net domestic assets (NDA) of the BoSL are defined as the end-period stock of the reserve money less the end-period stock of net foreign assets calculated at the program exchange rates. Reserve money includes currency issued (equal to currency outside banks plus cash in vaults), deposits of commercial banks with the BoSL and the BoSL liabilities to other private sector. Net foreign assets of the BSL are defined as gross foreign exchange reserves (defined above) minus foreign liabilities. Foreign liabilities are defined as foreign currency-denominated liabilities of the BSL to nonresidents (excluding a foreign liability to China of Le 35 billion relating to a legacy clearing account for a previous bilateral trading agreement) and the outstanding use of Fund credit. For program purposes, foreign liabilities exclude SDR allocation, and debt relief from the Catastrophe Containment and Relief (CCR) Trust granted in 2015.

6. **Adjustment clauses**. The ceiling on changes in NDA of the BoSL will be adjusted upward (downward) by the leone value of the shortfall (excess) in the external budgetary assistance—the upward adjustment will be capped at the equivalent of US$20 million.

[3] External budgetary assistance is defined as program grants and program loans, excluding HIPC assistance.

C. Net Domestic Bank Credit to the Central Government (NCG)

7. **Definition**. NCG refers to the net banking system's claims on the central government as calculated by the BSL. It is defined as follows:

a. the net position of the government with commercial banks, including: (a) treasury bills; (b) treasury bearer bonds; and (c) loan and advances of commercial banks to the government; less government deposits in commercial banks;

b. the net position of the government with the BoSL, including: (a) treasury bills and bonds, excluding holdings of special bonds provided by government to cover BoSL losses (Le 357.5 billion) and to increase its capital (Le 75 billion); (b) the stock of non-negotiable non-interest bearing securities (NNNIBS); (c) ways and means; and (d) any other type of direct credit from the BoSL to the government, including the special on-lending arrangements relating to the augmentation of access under the ECF arrangement in 2014 and 2015; less (a) central government deposits; and (b) any debt relief received, notably HIPC, MDRI and relief deposits as well as debt relief under the CCR Trust.

8. **Adjustment clauses**. The ceiling on changes in NCG will be adjusted (a) upward (downward) by up to the leone value of the shortfall (excess) in external budgetary assistance—the upward adjustment will be capped at the equivalent of US$20 million; (b) downward (upward) by the excess (shortfall) in the leone value of net issues of government securities to the nonbank private sector vis-à-vis the program assumption (as specified in the memorandum items in Table 1 of the LOI).

9. **Data source**. The data source for the above will be the series "Claims on Government (net)", submitted to the IMF staff and reconciled with the monthly monetary survey prepared by the BSL.

10. **Definition of Central Government**. Central government is defined for the purposes of this memorandum to comprise the central government and those special accounts that are classified as central government in the BSL statement of accounts. The National Social Security and Insurance Trust and public enterprises are excluded from this definition of central government.

D. External Payment Arrears of the Public Sector

11. **Definition**. External payment arrears of the public sector are defined to include all debt-service obligations (interest and principal) arising from loans contracted or guaranteed by the public sector. For the purposes of this PC, the public sector comprises the central government, regional government, all public enterprises and the BoSL. The non-accumulation of external arrears

is a continuous performance criterion during the program period. For the purposes of this performance criterion, external arrears are obligations that have not been paid on due dates (taking into account the contractual grace periods, if any). Excluded from this PC are those debts subject to rescheduling or restructuring, or are under litigation. This PC will apply on a continuous basis.

E. New Nonconcessional External Debt Contracted or Guaranteed by the Public Sector with an Original Maturity of One Year or More

12. **Definition**. Those are defined as all forms of new debt with original maturity of one year or more contracted or guaranteed by the public sector (see paragraph 11 for definition of public sector) based on the residency of the creditor. This PC applies not only to debt as defined in the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274 (00/85), August 24, 2000, Point 9, as revised on August 31, 2009, (Decision No. 14416-(09/91)) but also to commitments contracted or guaranteed for which value has not been received. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling. For the purposes of this PC, the "public sector" is as defined in paragraph 11 above. This PC will apply on a continuous basis.

13. Any external debt of which the net present value, calculated with the reference interest rates mentioned hereafter, is greater than 65 percent of the nominal value (grant element of less than 35 percent) is considered nonconcessional, with the exception of IMF lending. The discount rate used for the purpose of calculating concessionality is 5 percent. The government will report any planned external borrowing and its terms to Fund staff before external debt is contracted or guaranteed by the government.

F. External Short-Term Debt Contracted or Guaranteed by the Public Sector

14. **Definition**. External short-term debt is defined as external debt stock with a maturity of less than one year contracted or guaranteed by the public sector (see paragraph 11 for definition of public sector). Debt is defined in Annex I of this TMU. For this purpose, short-term debt will exclude normal trade credit for imports. For the purposes of this PC, the public sector is as defined in paragraph 11 above. This PC will apply on a continuous basis.

QUANTITATIVE INDICATIVE TARGET

A. Domestic Primary Balance

15. **Definition**. Central Government Revenue less expenditures and net lending adjusted for interest payments and foreign financed capital spending.

B. Domestic Revenue of Central Government

16. **Definition**. The floor on total domestic central government revenue is defined as total central government revenue, as presented in the central government financial operations table, excluding external grants.

C. Poverty-Related Expenditures

17. **Definition**. For program monitoring purposes, poverty-related expenditures are defined as the total of current and capital expenditures of the following ministries and institutions: Education, Health, Social Welfare, Agriculture, Transport and Communications, Energy, Water, Police, Prisons Department, National Fire Authority; and capital expenditure for the Ministry of Works, Energy, Water, Health and Sanitation, Agriculture, Police, Prisons, Local Councils, Commission for Social Action, Anti-Corruption Commission, and Statistics Sierra Leone. Current expenditures are defined as expenditures on goods and services, transfers, and other current spending. Capital expenditures are defined as domestically-financed investment. Poverty-related spending encompasses also budgetary expenditure for the Ebola Response Plan.

PROGRAM MONITORING

18. The Sierra Leonean authorities shall maintain a program-monitoring committee composed of senior officials from the MoFED, the BSL, and other relevant agencies. The committee shall be responsible for monitoring performance under the program, recommending policy responses, informing the IMF regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of PCs and benchmarks. The committee will provide monthly reports to the IMF on progress in implementing the program's quantitative targets and structural benchmarks.

Annex. Implementation of the Revised Guidelines on Performance Criteria with Respect to Foreign Debt

The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, which reads as follows: "(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt". (c) Excluded from this performance criterion are normal import-related credits, disbursements from the IMF, and those debts subject to rescheduling arrangements."

Sierra Leone: Summary of Data Reporting to IMF Staff			
Type of Data	**Tables**	**Frequency**	**Reporting Deadline**
Real sector	National accounts	Annual	End of year + 9 months
	Revisions of national accounts	Variable	End of revision + 2 months
	Disaggregated consumer price index	Monthly	End of month + 2 weeks
Public finance	Net government position and details of nonbank financing, including the stock of the float, treasury bills, and bonds, as well as privatization receipts	Monthly	End of month + 6 weeks
	Government flow-of-funds table (Government Financial Operations Table) with supporting documentation (final) and presented on commitment and cash bases	Monthly	End of month + 6 weeks
	Petroleum product prices and tax receipts by categories of petroleum products	Monthly	End of month + 6 weeks
	Stock of outstanding payment commitments with a breakdown between current and capital expenditures	Monthly	End of month + 6 weeks
	Import duty exemptions by end-users and tariff regimes and estimates of corresponding revenue losses	Quarterly	End of quarter + 6 weeks
Monetary and financial data	Monetary survey	Monthly	End of month + 6 weeks
	Balance sheet of the BSL	Monthly	End of month + 6 weeks
	Consolidated balance sheets of commercial banks	Monthly	End of month + 6 weeks
	BSL monitoring sheet of net financing of the financial sector to the government	Monthly	End of month + 6 weeks
	BSL monitoring sheet of treasury bills and bonds holdings	Monthly	End of month + 6 weeks
	Borrowing and lending interest rates	Monthly	End of month + 6 weeks
	Results of foreign exchange and Treasury Bills auctions	Weekly	End of week + 3 days
	Stocks of government securities	Monthly	End of month + 6 weeks
	Banking supervision ratios	Quarterly	End of quarter + 8 weeks

Sierra Leone: Summary of Data Reporting to IMF Staff (concluded)			
Type of Data	**Tables**	**Frequency**	**Reporting Deadline**
Monetary and financial data	Gross official foreign reserves	Weekly	End of week + 1 week
	Foreign exchange cash flow table	Monthly	End of month + 3 weeks
	Revised balance of payments data	Monthly	When revisions occur
	Exports and imports of goods (including the volume of key minerals and fuels)	Monthly	End of month + 3 months
External debt	Outstanding external arrears and repayments (if applicable)	Monthly	End of month + 4 weeks
	Details of all new external borrowing and guarantees provided by government on new borrowing, including the associated concessionality calculation (percentage) for each new loan.	Monthly	End of month + 4 weeks
	External debt service payments (separately on principal and interest payment) to each creditor, including and excluding new disbursements in the debt recording system. Also, including and excluding HIPC relief.	Monthly	End of month + 4 weeks
	Report on the stock of debt outstanding, and loan agreements under discussion	Quarterly	End of month + 3 months
HIPC initiative and MDRI monitoring	Statement of special account at the BSL, that receives resources generated by the HIPC Initiative and tracks their use	Monthly	End of month + 4 weeks
	Statement of special MDRI account at the BSL and the corresponding poverty-reducing spending financed	Monthly	End of month + 4 weeks
	Minutes of the meeting of the Monetary Policy Committee	Monthly	Date of meeting + 2 weeks

Appendix II. Debt Sustainability Analysis Update

1. **This debt sustainability analysis (DSA) updates the analysis presented to the Board in September 2014 and indicates that Sierra Leone remains at moderate risk of debt distress**. Although domestic and external debt levels have risen since the last DSA update, all debt indicators are below their respective policy-dependent indicative thresholds throughout the projection period (2014–34). The analysis also indicates that the medium- to long-term debt outlook is vulnerable to adverse shocks to several macroeconomic variables, notably exports, commodity prices, foreign direct investment (FDI) inflows, government revenue, and borrowing conditions. Consequently, staff reiterates the need for continued prudent borrowing policies, sustained fiscal consolidation efforts, continued implementation of growth-enhancing structural reforms, and promotion of economic diversification. The authorities agreed with Staff's assessment and policy recommendations.

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

- **Economic growth is expected to slow from 20 percent in 2013 to 6.0 percent in 2014. It is projected to contract by 12.8 percent in 2015 due to the differential distribution of the impact of the Ebola epidemic and suspension of production in the iron ore sector with most of the aggregate effect in 2015**. Growth is expected to pick up in 2016 and average 7.3 percent for 2016–19. Over the long term, growth is expected to stabilize close to the historical rates for the non-iron ore economy of around 5.2 percent.

- **Inflation is projected to rise in the medium term.** Disruption of economic activity due to the Ebola outbreak and depreciation of the Leone are expected to push up inflation from 8.3 percent in 2014 to 13.1 percent in 2015. Inflation is expected to decline gradually and hover around 5.4 percent in the long term.

- **The overall fiscal deficit is projected to widen in the short term and then improve over the medium-to-long term**, with the domestic primary deficit expected to more than double from 2.0 percent of GDP in 2014 to 4.5 percent in 2016, and then improve to 3.2 percent in 2019, stabilizing around 1.8 percent during 2020–34.

- **The current account deficit is forecast to widen from 7.4 percent of GDP in 2014 to 13.0 percent in 2015 and then narrow over the medium-to-long term**, consistent with the projected production profile of iron ore and other exports. The projected import dynamics broadly reflect the expected overall real GDP growth.

- **External debt is projected to increase from 28.2 percent of GDP in 2014 to 33.7 percent in 2015**, reflecting the augmentation of access to IMF financing. External debt will stabilize around 20 percent of GDP in the long run. The DSA also assumes some nonconcessional borrowing limited at 0.5 percent of GDP (US$30 million) per year during the projection period to finance key priority projects for which the authorities would not be able to secure concessional funding.

- **Domestic debt is projected to rise from 9.2 percent of GDP in 2013, to around 20 percent by the end of the projection period**, mainly reflecting increased domestic borrowing to finance public investment.

3. **Compared with the previous DSA, the key changes in this updated DSA are as follows** (Text Table 1): (i) real GDP growth is expected to be lower in the short term, due to the effects of the Ebola epidemic and severe disruptions in the iron-ore sector and low global iron ore prices. Growth is projected to slow from 8 percent to 6 percent in 2014 and from 10.4 percent to -12.8 percent in 2015 (ii) a higher primary deficit, particularly in the short run, driven by Ebola-related revenue shortfalls and expanded spending needs; (iii) a higher level of domestic borrowing, in line with a weaker fiscal position; (iv) the external current account deficit is expected to be higher as export growth decelerates, in line with lower domestic production and declines in iron-ore prices; and (v) the exchange rate depreciates significantly in the short run, pushing up the ratio of external debt to revenue and GDP.

Text Table 1. Selected Economic Indicators, 2013-2034

(In percent of GDP, unless otherwise indicated)[1]

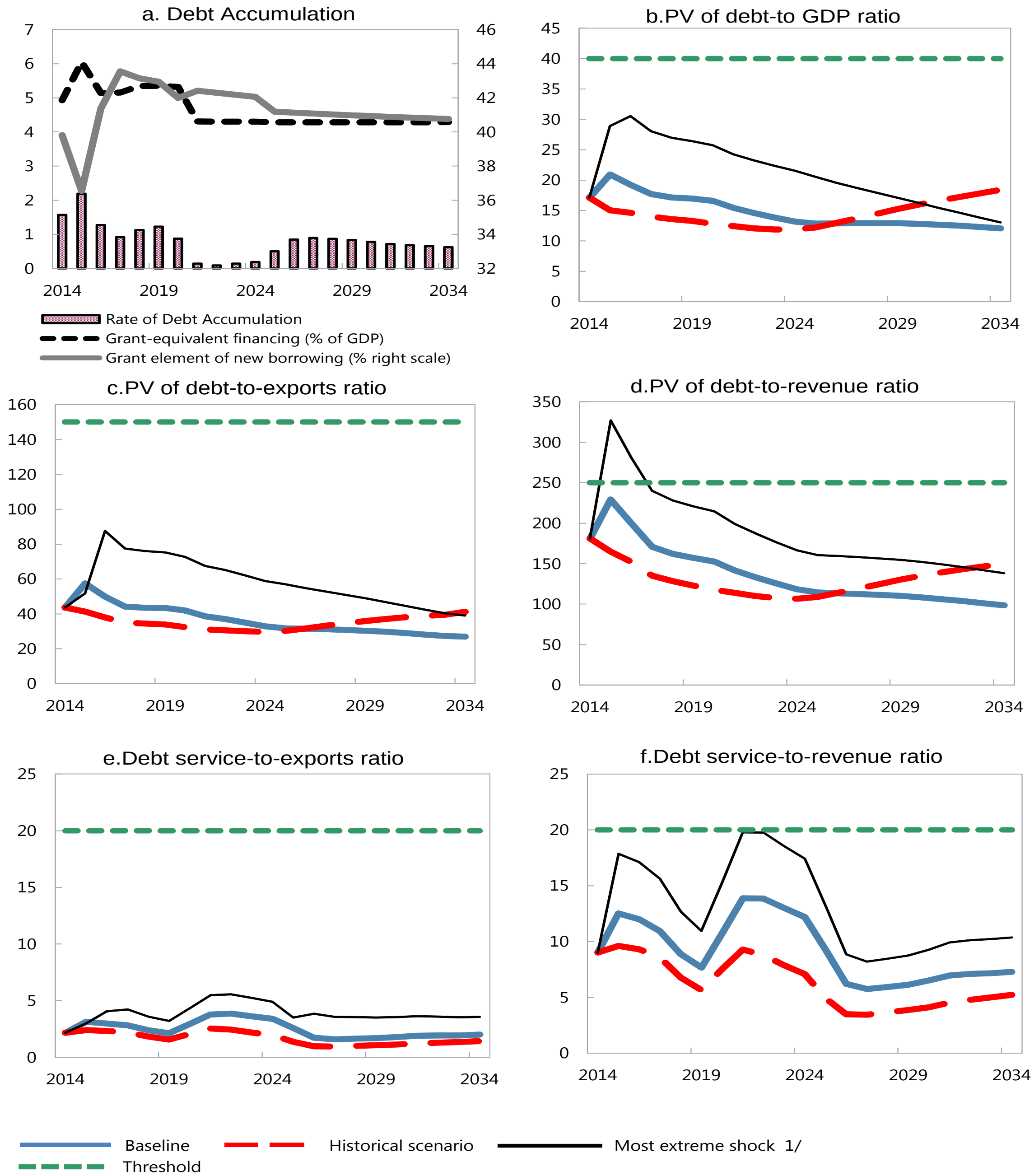
	2013	2014	2015	2016	2017	2018	2019	Long Term[2]
Real GDP Growth (in percent)								
Current DSA	20.1	6.0	-12.8	8.4	8.9	6.0	6.0	5.4
Previous DSA	20.1	8.0	10.4	7.8	4.8	4.8	4.9	5.4
Primary fiscal deficit								
Current DSA	1.1	2.0	3.5	4.5	3.7	3.3	3.2	1.8
Previous DSA	1.1	3.9	4.0	2.6	2.6	2.4	2.3	2.0
Current account deficit								
Current DSA	10.4	7.4	13.0	8.3	7.1	6.8	6.1	4.3
Previous DSA	10.4	10.8	7.9	6.5	6.7	6.3	5.9	4.2
Foreign direct investment								
Current DSA	7.3	4.6	3.0	5.6	4.5	4.0	3.3	3.2
Previous DSA	7.3	5.6	5.4	4.4	3.8	3.5	2.9	2.5
External debt								
Current DSA	25.2	28.2	33.7	30.5	27.7	26.5	25.9	19.9
Previous DSA	21.2	23.1	23.0	22.9	23.7	24.5	25.3	28.7
Domestic debt								
Current DSA	9.2	10.7	12.6	12.5	12.6	13.0	13.6	19.5
Previous DSA	9.2	9.5	9.6	9.8	10.2	10.4	10.3	11.3

Sources: The Sierra Leone Authorities and IMF staff projections.

1/ GDP includes iron ore activity.

2/ For the current DSA, the long term covers the period 2020-34, and for the previous DSA it covers the period 2020-34.

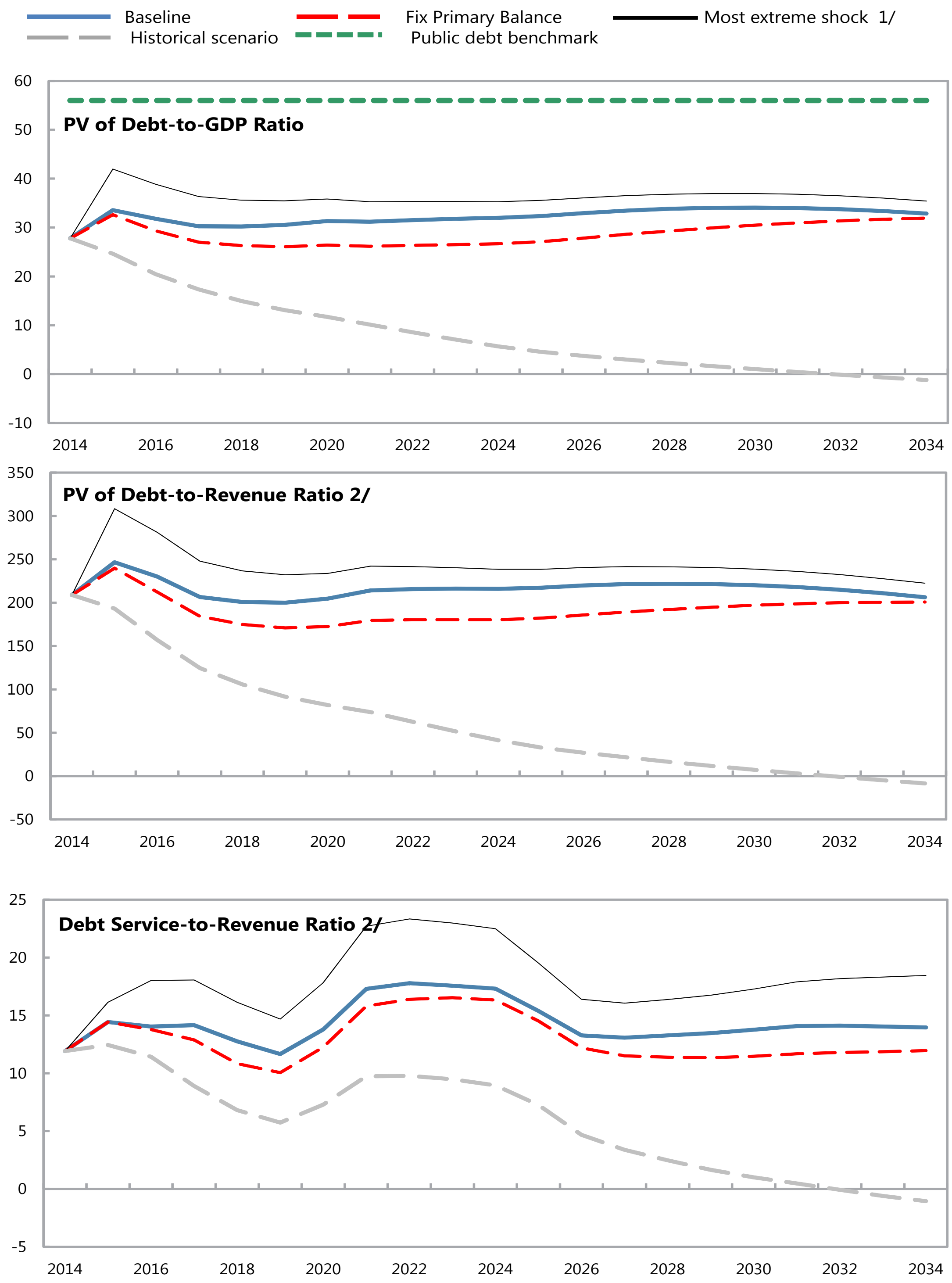
Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2014–34[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Non-debt flows shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Sierra Leone: Indicators of Debt under Alternative Scenarios, 2014–34[1]



Sources: Country authorities; and staff estimates and projections.

Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2011–34[1]

	Actual			Historical [6/]	Standard [6/]	Projections									
				Average	Deviation							2014-2019			2020-2034
	2011	2012	2013			2014	2015	2016	2017	2018	2019	Average	2024	2034	Average
External debt (nominal) 1/	**33.3**	**26.2**	**25.2**			**28.2**	**33.7**	**30.5**	**27.7**	**26.5**	**25.9**		**20.1**	**17.4**	
of which: public and publicly guaranteed (PPG)	33.3	26.2	25.2			28.2	33.7	30.5	27.7	26.5	25.9		20.1	17.4	
Change in external debt	1.3	-7.1	-1.0			3.0	5.5	-3.2	-2.8	-1.2	-0.7		-0.9	-0.3	
Identified net debt-creating flows	4.4	4.6	-2.9			1.5	9.8	0.9	0.5	1.5	1.6		0.8	-0.5	
Non-interest current account deficit	**44.7**	**28.6**	**10.4**	**13.2**	**13.9**	**7.4**	**8.4**	**8.4**	**7.1**	**6.7**	**6.2**		**4.9**	**3.0**	4.3
Deficit in balance of goods and services	52.1	30.2	3.2			4.9	11.7	7.6	2.5	0.9	0.3		-3.7	-10.3	
Exports	18.6	35.5	44.0			39.2	36.4	38.6	40.0	39.4	39.2		40.0	44.6	
Imports	70.7	65.8	47.2			44.1	48.0	46.2	42.6	40.3	39.4		36.3	34.3	
Net current transfers (negative = inflow)	-8.5	-6.2	-4.1	-6.4	1.8	-8.4	-14.0	-5.8	-5.7	-5.7	-5.7		-5.7	-6.1	-5.8
of which: official	-3.8	-2.5	-1.0			-3.1	-10.6	-1.8	-1.8	-1.8	-1.9		-2.0	-2.6	
Other current account flows (negative = net inflow)	1.0	4.6	11.4			11.0	10.8	6.6	10.3	11.5	11.6		14.3	19.4	
Net FDI (negative = inflow)	**-36.6**	**-16.7**	**-7.4**	**-9.7**	**10.6**	**-4.6**	**-3.0**	**-5.3**	**-4.3**	**-3.8**	**-3.2**		**-3.3**	**-2.7**	-3.1
Endogenous debt dynamics 2/	**-3.7**	**-7.4**	**-5.9**			**-1.3**	**4.3**	**-2.2**	**-2.2**	**-1.4**	**-1.3**		**-0.8**	**-0.7**	
Contribution from nominal interest rate	0.2	0.2	0.0			0.1	0.2	0.2	0.1	0.1	0.1		0.2	0.2	
Contribution from real GDP growth	-1.7	-3.9	-4.1			-1.5	4.1	-2.4	-2.4	-1.5	-1.5		-1.0	-0.9	
Contribution from price and exchange rate changes	-2.2	-3.6	-1.9			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-3.1**	**-11.6**	**1.8**			**1.5**	**-4.3**	**-4.1**	**-3.3**	**-2.8**	**-2.3**		**-1.7**	**0.1**	
of which: exceptional financing	0.0	0.0	0.0			0.0	-0.7	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	15.0			17.1	20.9	19.2	17.7	17.2	17.0		13.2	12.1	
In percent of exports	...	...	34.1			43.7	57.5	49.9	44.2	43.5	43.4		33.0	27.0	
PV of PPG external debt	**...**	**...**	**15.0**			**17.1**	**20.9**	**19.2**	**17.7**	**17.2**	**17.0**		**13.2**	**12.1**	
In percent of exports	**...**	**...**	**34.1**			**43.7**	**57.5**	**49.9**	**44.2**	**43.5**	**43.4**		**33.0**	**27.0**	
In percent of government revenues	**...**	**...**	**140.1**			**181.1**	**229.4**	**199.8**	**170.8**	**162.2**	**157.1**		**118.4**	**98.5**	
Debt service-to-exports ratio (in percent)	**3.3**	**1.6**	**0.0**			**2.2**	**3.1**	**3.0**	**2.8**	**2.4**	**2.1**		**3.4**	**2.0**	
PPG debt service-to-exports ratio (in percent)	**3.3**	**1.6**	**0.0**			**2.2**	**3.1**	**3.0**	**2.8**	**2.4**	**2.1**		**3.4**	**2.0**	
PPG debt service-to-revenue ratio (in percent)	**5.3**	**5.0**	**0.0**			**9.0**	**12.5**	**12.0**	**10.9**	**8.9**	**7.7**		**12.2**	**7.3**	
Total gross financing need (Billions of U.S. dollars)	0.3	0.5	0.2			0.2	0.3	0.2	0.2	0.2	0.3		0.3	0.2	
Non-interest current account deficit that stabilizes debt ratio	43.4	35.7	11.5			4.5	3.0	11.6	9.8	7.9	6.8		5.8	3.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.0	15.2	20.1	7.9	5.5	6.0	-12.8	8.4	8.9	6.0	6.0	3.8	5.0	5.6	5.4
GDP deflator in US dollar terms (change in percent)	7.3	12.2	7.6	5.5	6.0	-3.1	0.2	7.9	4.7	3.5	2.3	2.6	1.3	1.4	1.4
Effective interest rate (percent) 5/	0.7	0.7	0.0	0.8	0.5	0.6	0.6	0.7	0.5	0.5	0.5	0.6	0.9	1.2	1.0
Growth of exports of G&S (US dollar terms, in percent)	28.9	146.8	60.1	30.3	45.0	-8.5	-18.9	24.1	18.4	8.0	7.7	5.1	7.6	6.2	7.8
Growth of imports of G&S (US dollar terms, in percent)	90.1	20.1	-7.2	23.4	37.3	-4.0	-4.8	12.4	5.1	3.9	6.0	3.1	5.0	6.5	5.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	39.8	36.6	41.4	43.6	43.1	42.9	41.2	42.1	40.8	41.4
Government revenues (excluding grants, in percent of GDP)	11.5	11.4	10.7			9.5	9.1	9.6	10.4	10.6	10.8		11.1	12.3	11.5
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.2			0.3	0.3	0.3	0.3	0.4	0.4		0.5	0.9	
of which: Grants	0.2	0.1	0.1			0.2	0.2	0.2	0.3	0.3	0.3		0.4	0.7	
of which: Concessional loans	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.9	6.1	5.1	5.2	5.3	5.4		4.3	4.3	4.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			75.1	69.0	79.3	82.3	82.0	82.0		82.9	82.5	82.6
Memorandum items:															
Nominal GDP (Billions of US dollars)	2.9	3.8	4.9			5.0	4.4	5.2	5.9	6.4	7.0		9.8	18.9	
Nominal dollar GDP growth	13.7	29.2	29.3			2.7	-12.6	17.0	14.0	9.7	8.4	6.5	6.4	7.1	6.9
PV of PPG external debt (in Billions of US dollars)			0.7			0.8	0.9	1.0	1.0	1.1	1.2		1.3	2.3	
(PVt-PVt-1)/GDPt-1 (in percent)						1.6	2.2	1.3	0.9	1.1	1.2	1.4	0.2	0.6	0.6
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	14.9			17.0	20.7	19.1	17.6	17.0	16.9		13.1	12.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	33.5			42.8	56.0	48.8	43.3	42.8	42.6		32.5	26.8	
Debt service of PPG external debt (in percent of exports + remittance	...	...	0.0			2.1	3.1	2.9	2.8	2.3	2.1		3.4	2.0	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–34[1]

(Percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	17	21	19	18	17	17	**13**	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	17	15	15	14	14	13	**12**	18
A2. New public sector loans on less favorable terms in 2014-2034 2	17	22	20	19	19	19	**17**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	17	18	17	16	15	15	**12**	11
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	17	20	24	22	22	21	**17**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	17	21	21	19	18	18	**14**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	17	29	31	28	27	26	**22**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	17	13	10	9	9	9	**7**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	17	30	27	25	24	24	**19**	17
PV of debt-to-exports ratio								
Baseline	44	58	50	44	44	43	**33**	27
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	44	41	38	35	34	34	**30**	41
A2. New public sector loans on less favorable terms in 2014-2034 2	44	60	52	47	48	49	**43**	40
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	44	57	49	44	43	43	**32**	27
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	44	52	88	77	76	75	**59**	39
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	44	57	49	44	43	43	**32**	27
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	44	79	79	70	68	67	**54**	29
B5. Combination of B1-B4 using one-half standard deviation shocks	44	34	26	23	23	23	**16**	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	44	57	49	44	43	43	**32**	27
PV of debt-to-revenue ratio								
Baseline	181	229	200	171	162	157	**118**	98
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	181	165	152	135	128	123	**107**	150
A2. New public sector loans on less favorable terms in 2014-2034 2	181	238	209	184	179	177	**153**	146
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	181	195	178	152	144	140	**105**	87
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	181	217	254	216	205	197	**153**	103
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	181	231	215	184	174	169	**127**	106
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	181	317	317	271	255	244	**193**	107
B5. Combination of B1-B4 using one-half standard deviation shocks	181	147	105	90	86	85	**59**	80
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	181	327	281	240	228	221	**166**	138

Table 2. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–34[1] (Concluded)
(Percent)

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
Debt service-to-exports ratio								
Baseline	2	3	3	3	2	2	**3**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	2	2	2	2	2	2	**2**	1
A2. New public sector loans on less favorable terms in 2014-2034 2	2	3	3	3	3	2	**4**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	2	3	3	3	2	2	**3**	2
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	2	3	4	4	4	3	**5**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	2	3	3	3	2	2	**3**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	2	3	3	3	3	3	**4**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	2	2	2	**3**	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	2	3	3	3	2	2	**3**	2
Debt service-to-revenue ratio								
Baseline	9	13	12	11	9	8	**12**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	9	10	9	9	7	6	**7**	5
A2. New public sector loans on less favorable terms in 2014-2034 2	9	13	12	12	10	9	**13**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	9	11	11	10	8	7	**11**	7
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	9	13	12	12	10	8	**13**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	9	13	13	12	10	8	**13**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	9	13	13	13	11	9	**13**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	9	10	10	9	7	6	**10**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	9	18	17	16	13	11	**17**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	40	40	40	40	40	40	**40**	40

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011–34
(Percent of GDP, unless otherwise indicated)

	Actual					Estimate					Projections				
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	44.9	36.9	34.4			38.8	46.3	43.0	40.3	39.6	39.4		38.9	38.2	
of which: foreign-currency denominated	33.5	26.3	25.2			28.2	33.7	30.5	27.7	26.5	25.9		20.1	17.4	
Change in public sector debt	-1.9	-8.0	-2.5			4.4	7.5	-3.2	-2.7	-0.8	-0.1		-0.1	-0.6	
Identified debt-creating flows	-4.2	-6.0	-5.1			2.5	6.4	-1.2	-0.8	0.5	0.8		0.7	-0.6	
Primary deficit	2.6	3.5	1.1	-1.3	7.5	2.0	3.5	4.5	3.7	3.3	3.2	3.4	2.2	1.0	1.8
Revenue and grants	17.0	15.2	13.3			13.3	13.6	13.8	14.7	15.0	15.3		14.8	15.9	
of which: grants	5.6	3.8	2.6			3.8	4.5	4.2	4.3	4.5	4.5		3.7	3.7	
Primary (noninterest) expenditure	19.6	18.7	14.4			15.3	17.1	18.3	18.3	18.4	18.4		17.0	16.9	
Automatic debt dynamics	-6.1	-8.7	-6.1			0.9	3.2	-5.5	-4.5	-2.8	-2.3		-1.5	-1.6	
Contribution from interest rate/growth differential	-3.3	-5.8	-4.9			-1.8	4.7	-4.2	-3.9	-2.5	-2.3		-1.2	-1.4	
of which: contribution from average real interest rate	-0.7	0.1	1.2			0.2	-1.0	-0.6	-0.4	-0.2	0.0		0.7	0.7	
of which: contribution from real GDP growth	-2.6	-5.9	-6.2			-2.0	5.7	-3.6	-3.5	-2.3	-2.2		-1.9	-2.1	
Contribution from real exchange rate depreciation	-2.8	-2.9	-1.2			2.7	-1.5	-1.4	-0.6	-0.4	0.0		...	...	
Other identified debt-creating flows	-0.7	-0.8	-0.1			-0.3	-0.3	-0.1	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.3	-0.1	-0.1			-0.1	-0.1	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.5	-0.8	0.0			-0.2	-0.2	-0.1	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.3	-2.0	2.6			1.9	1.0	-2.1	-1.9	-1.3	-1.0		-0.8	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	24.2			27.8	33.6	31.8	30.3	30.2	30.5		32.0	32.8	
of which: foreign-currency denominated	...	...	15.0			17.1	20.9	19.2	17.7	17.2	17.0		13.2	12.1	
of which: external	...	...	15.0			17.1	20.9	19.2	17.7	17.2	17.0		13.2	12.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.0	5.6	2.4			3.5	5.5	6.4	5.8	5.3	4.9		4.7	3.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	182.3			209.0	246.7	230.0	206.5	200.7	200.0		216.1	206.4	
PV of public sector debt-to-revenue ratio (in percent)	...	...	226.1			294.0	367.8	330.3	292.3	285.3	282.6		287.0	268.1	
of which: external 3/	...	...	140.1			181.1	229.4	199.8	170.8	162.2	157.1		118.4	98.5	
Debt service-to-revenue and grants ratio (in percent) 4/	14.0	13.9	9.4			11.9	14.4	14.0	14.2	12.7	11.7		17.3	14.0	
Debt service-to-revenue ratio (in percent) 4/	20.8	18.6	11.7			16.8	21.5	20.1	20.0	18.1	16.5		23.0	18.1	
Primary deficit that stabilizes the debt-to-GDP ratio	4.5	11.5	3.6			-2.5	-4.0	7.7	6.4	4.1	3.3		2.3	1.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.0	15.2	20.1	7.9	5.5	6.0	-12.8	8.4	8.9	6.0	6.0	3.8	5.0	5.6	5.4
Average nominal interest rate on forex debt (in percent)	0.7	0.7	0.0	0.9	0.6	0.6	0.6	0.7	0.5	0.5	0.5	0.6	0.9	1.2	1.0
Average real interest rate on domestic debt (in percent)	-1.9	4.8	7.0	-0.7	4.2	4.8	-5.8	-2.1	0.9	2.0	2.7	0.4	2.8	2.4	2.7
Real exchange rate depreciation (in percent, + indicates depreciation	-9.3	-10.0	-5.2	-3.6	8.5	11.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	17.3	12.0	7.7	12.1	4.0	3.8	14.3	9.7	7.8	6.6	5.3	7.9	4.4	4.4	4.4
Growth of real primary spending (deflated by GDP deflator, in percer	11.2	9.8	-7.5	1.4	5.3	12.3	-2.2	16.1	9.1	6.2	6.3	8.0	5.0	5.7	4.9
Grant element of new external borrowing (in percent)	...	...	...	...	...	39.8	36.6	41.4	43.6	43.1	42.9	41.2	42.1	40.8	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Sierra Leone: Sensitivity Analysis for Key Indicators of Public Debt, 2014–34

		Projections						
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	28	34	32	30	30	31	32	33
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	28	25	20	17	15	13	6	-1
A2. Primary balance is unchanged from 2014	28	33	29	27	26	26	27	32
A3. Permanently lower GDP growth 1/	28	34	33	32	32	33	40	58
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	28	28	27	25	25	25	23	20
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	28	35	34	33	32	33	34	34
B3. Combination of B1-B2 using one half standard deviation shocks	28	28	26	24	23	23	20	14
B4. One-time 30 percent real depreciation in 2015	28	42	39	36	36	35	35	35
B5. 10 percent of GDP increase in other debt-creating flows in 2015	28	40	37	35	35	35	36	35
PV of Debt-to-Revenue Ratio 2/								
Baseline	209	247	230	206	201	200	216	206
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	209	193	157	125	106	92	41	-8
A2. Primary balance is unchanged from 2014	209	240	212	184	175	171	180	201
A3. Permanently lower GDP growth 1/	209	250	236	215	212	215	263	342
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	209	215	204	179	170	166	161	127
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	209	259	249	222	215	213	228	213
B3. Combination of B1-B2 using one half standard deviation shocks	209	215	197	171	160	154	139	90
B4. One-time 30 percent real depreciation in 2015	209	308	281	248	237	232	239	223
B5. 10 percent of GDP increase in other debt-creating flows in 2015	209	292	270	240	231	229	243	220
Debt Service-to-Revenue Ratio 2/								
Baseline	12	14	14	14	13	12	17	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	12	11	9	7	6	9	-1
A2. Primary balance is unchanged from 2014	12	14	14	13	11	10	16	12
A3. Permanently lower GDP growth 1/	12	15	14	15	13	12	20	21
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	12	13	13	12	11	10	15	9
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	12	14	14	16	14	12	18	15
B3. Combination of B1-B2 using one half standard deviation shocks	12	13	12	12	10	9	13	7
B4. One-time 30 percent real depreciation in 2015	12	16	18	18	16	15	22	18
B5. 10 percent of GDP increase in other debt-creating flows in 2015	12	14	16	20	13	13	18	16

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.