FOR AGENDA

0451

EBS/89/233

CONFDIENTIAL

December 7, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Sierra Leone - Staff Report for the 1989 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1989 Article IV consultation with Sierra Leone. A draft decision appears on page 30.

It is understood that the Executive Director for Sierra Leone will be requesting the Board for a waiver of the circulation period, to enable this subject to be brought to the agenda for discussion on Friday, December 22, 1989.

Mr. Hino (ext. 8379) or Mr. Muzondo (ext. 8654) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

SIERRA LEONE

Staff Report for the 1989 Article IV Consultation

Prepared by the Staff Representatives for
the 1989 Consultation with Sierra Leone

(In consultation with the Fiscal Affairs, Legal, and
Treasurer's Departments)

Approved by Mamoudou Touré and Thomas Leddy

December 6, 1989

Contents

I. Introduction

The 1989 Article IV consultation discussions with Sierra Leone were conducted in Freetown during October 11-25, 1989. The Sierra Leonean representatives included the Hon. Hassan G. Kanu, the Minister of Finance, Mr. A.R. Turay, the Governor of the Bank of Sierra Leone, and other ministers and senior officials concerned with economic and financial matters. 1/

Sierra Leone has had a number of financial arrangements with the Fund during the last ten years (Annex Table 1): a stand-by arrangement (1979); an extended arrangement (1981); a drawing under the compensatory financing facility (1983); a stand-by arrangement (1984); and an arrangement under the structural adjustment facility, together with a stand-by arrangement (1986). These arrangements, except the SBA in 1979, became inoperative within three-four months of Board approval because of inadequate program implementation and only one or two purchases were made under each of the respective arrangements.

Sierra Leone has continuously had overdue obligations to the Fund since November 1984, except for one brief period (September 18, 1986-January 15, 1987) when the overdue obligations were cleared by a commercial bank bridge loan. The country was declared ineligible to use Fund resources on April 25, 1988, and since then, made no payments to the Fund until end-June 1989. Since the resumption of payments, Sierra Leone has made irregular and modest payments to the Fund totaling the equivalent of SDR 1.3 million during July-November 1989, compared with SDR 6.6 million falling due in that period. As of November 30, 1989 Sierra Leone's overdue financial obligations to the Fund were the equivalent of SDR 69.4 million, or 119.9 percent of quota.

At the conclusion of the 1987 Article IV consultation on April 20, 1988, 2/ the Executive Board deeply regretted Sierra Leone's failure to fulfill its financial obligations to the Fund. The Directors urged the authorities to implement a comprehensive adjustment program which would remove the existing structural bottlenecks to economic recovery. In particular, they urged implementation of policies that would streamline the finances of the Central Government and of public enterprises, the system of dealing in and exporting gold, diamonds, and agricultural products, and the operations of the financial institutions in the economy. At the review of Sierra Leone's overdue financial obligations

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1/ The staff representatives were Mr. Hino (Head-ETR), Mr. Muzondo (AFR), Mr. Modi (FAD), Mr. Cho (ETR), and Ms. Sabi (Secretary-ETR). Mr. Adams and Mr. Hamidian-Rad of the World Bank participated in the discussions.

2/ The 1989 Article IV consultation was delayed beyond the period specified by the standard 12 month cycle. A notification of delay was issued to the Board on July 26, 1989 (EBD/89/234).

to the Fund on August 23, 1989, the Directors reiterated their regret over Sierra Leone's continuing failure to fulfill its financial obligations to the Fund. While Directors were encouraged by the adjustment measures that had recently been implemented, they nonetheless urged them to demonstrate actively their intention to cooperate with the Fund by implementing strong adjustment measures in key areas and by making regular and substantial payments to the Fund. Directors indicated that in the absence of resumption of active cooperation by Sierra Leone, the application of further remedial measures would be considered at the next review of Sierra Leone's overdue financial obligations to the Fund.

Sierra Leone has accumulated arrears to the World Bank since early 1987 and has been placed on a nonaccrual status. Payments to the Bank have been irregular, and included two small payments in April 1989 totaling US$0.5 million, leaving outstanding arrears as of November 16 of US$8.0 million.

Sierra Leone continues to avail itself of the transitional arrangements of Article XIV, and maintains a number of restrictions subject to approval under Article VIII. Summaries of its relations with the Fund and with the World Bank Group are provided in Appendices I and II, respectively. Selected economic and financial indicators are provided in Table 1. Medium-term projections and basic data are presented in Annex Table 7 and Appendix IV, respectively, and statistical issues are discussed in Appendix III.

II. Background

1. Overview of economic and financial conditions

Sierra Leone is richly endowed with natural resources: fertile land suitable for growing rice, coffee, cocoa, vegetables, and fruits; the ocean for shrimp and a variety of other marine products; water resources for hydro electric power generation; and mineral deposits containing gold, diamonds, bauxite, rutile, and iron ore. These resources have not been well developed and managed, and the economy relies heavily on agriculture, mainly rice, coffee, and cocoa, which accounts for about one third of GDP. Mining comprises only about 5 percent of GDP, and the recorded exports are very small (US$30 per capita) in relation to those of other African countries.

Economic and financial conditions in Sierra Leone have been very difficult over the last decade. No economic growth was achieved in the 1980s (Chart 1), with agriculture, mining, and manufacturing production declining in the second half of the decade. Per capita income, at SDR 160 in fiscal year 1988/89, 1/ was 50 percent lower than in 1979/80 in real terms. Inflation was high throughout the decade, with the peak

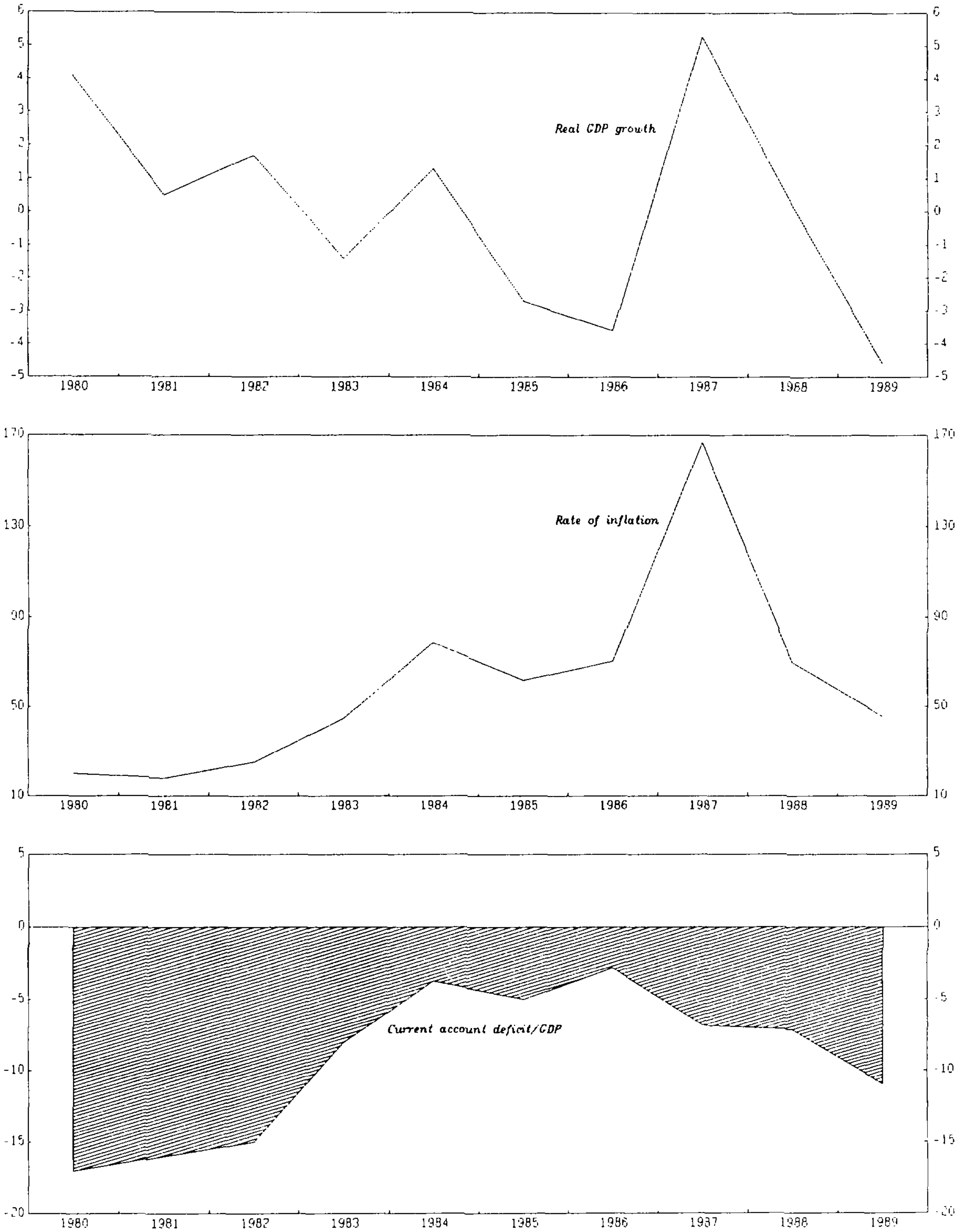
1/ The fiscal year runs from July 1 to June 30.

CHART 1

SIERRA LEONE

SELECTED ECONOMIC INDICATORS, 1979/80 - 1988/89

(In Percent)



Source: Data provided by the Sierra Leonean authorities.

of about 170 percent in 1986/87 (Table 1). The retail price of rice, the staple food, has risen to Le 1,800 per 50 kilogram bag, the normal monthly requirement for an average family, compared with the average civil service salary of Le 1,500 per month. The level of imports fell continuously in real terms (to 45 percent of the 1980/81 level by 1988/89), but because of the increase in the incidence of smuggling of exports, the current account deficit continued to be large (11 percent of GDP in 1988/89). With international reserves virtually exhausted and little inflow of foreign capital, the deficit has been financed by the accumulation of arrears, which rose to about SDR 500 million by the end of 1988/89.

The social and economic infrastructure, including the power supply, roads, schools, and hospitals, has deteriorated severely. Shortages of essential commodities, including rice, petroleum products, and medicine, have been frequent. The provision of public services, including health, education, and transportation, has suffered greatly. The incidence of poverty has risen markedly and malnutrition is now evident, especially among children. Infant mortality is estimated to have risen to 193 per 1,000 in 1989 from 172 per 1,000 in 1980.

These indications of economic difficulties may overstate to some degree the extent of economic decline in Sierra Leone. The parallel foreign exchange market is apparently thriving and there is no scarcity of imported consumer goods. A number of expensive houses are under construction, and trading appears active. These activities are supported mainly by sales through unofficial channels of gold and diamonds (estimated at about US$300 million or 36 percent of GDP in 1988/89). The existence of a large parallel market renders national income and balance of payments statistics unreliable, making quantitative analysis of the Sierra Leone economy particularly difficult. 1/

It is nonetheless clear that public trust and confidence have been seriously eroded, in part because of the nature of the relationships between business and Government, and also because of lack of public accountability. In addition, more recently, confidence in the financial institutions, including commercial banks, has been seriously undermined by their inability to deliver cash (currency notes) to customers upon demand (see Section III.3 below). The confidence of the international financial community is also low. Sierra Leone is in arrears to all of its major creditors, and disbursements of bilateral and most multilateral assistance have been suspended except some small-scale operations by a few donors.

1/ For example, balance of payments data are not generally consistent with national income statistics because the former report officially recorded transactions while the latter are based on estimates of all transactions, including those of the parallel market. More generally, the statistical data base is very weak as discussed in Appendix III.

Table 1. Sierra Leone: Selected Economic and Financial Indicators, 1982/83-1989/90

Fiscal year July-June	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89 Est.	1989/90 Proj.
	(Annual percentage change, unless otherwise specified)							
Income and expenditure								
GDP at constant prices	-1.4	1.3	-2.7	-3.6	5.3	-0.2	-4.6	2.5
GDP at current market prices	16.9	45.5	57.1	47.7	160.9	65.7	42.6	32.7-37.2
Consumer prices	44.6	78.7	61.8	70.4	167.4	70.0	45.6	35.0-40.0
External sector (on the basis of SDRs)								
Exports, f.o.b.	-25.9	22.7	29.5	-20.3	-8.9	-22.7	3.9	25.8
Imports, f.o.b.	-34.8	-24.5	20.6	-23.8	-14.6	-18.9	21.5	8.8
Oil imports, f.o.b.	-34.6	14.7	-6.5	-50.7	-14.6	-6.0	26.9	-2.2
Diamond export volume	27.6	-33.8	13.4	-27.2	-10.8	-54.4	-34.6	305.1
Terms of trade (deterioration -)	-25.3	9.2	8.8	-8.5	-10.0	-18.1	-12.9	-5.6
Nominal effective exchange rate 1/ (depreciation -)	5.0	-44.8	-12.8	-43.4	-85.2	45.2	-32.3	...
Real effective exchange rate 1/ (depreciation -)	42.3	-3.2	25.0	-4.1	-66.5	64.4	-22.7	...
Government finance								
Total revenue and grants	-12.0	46.0	22.5	57.5	315.9	32.6	50.0	138.0
Total revenue	-14.8	31.6	32.3	49.6	248.5	40.6	85.6	119.9
Total expenditure 2/	0.3	15.5	71.7	76.4	248.4	-7.1	53.0	62.0
Money and credit 3/								
Domestic credit 3/	38.4	20.6	30.1	57.5	98.5	33.4	47.3	6.4
Government 3/	42.8	23.1	29.1	63.5	99.0	25.4	32.7	--
Private sector 3/	15.4	4.6	37.3	15.2	93.8	68.4	133.4	28.1
Money and quasi-money (M2) 3/	36.8	28.5	54.7	75.8	126.4	47.1	53.0	25.0
Velocity (GDP relative to M2)	4.7	5.1	5.4	4.8	5.5	5.5	5.3	...
Interest rate 4/ (annual rate on one-year deposits)	11.5	13.5	13.5	13.5	21.5	16.0	16.0	26.0
	(In percent of GDP, unless otherwise specified)							
Overall government deficit 5/ (commitment basis)	-12.1	-7.6	-10.3	-12.4	-14.8	-7.1	-7.5	-3.6
Overall government deficit 5/ (cash basis)	-14.4	-7.5	-7.1	-10.9	-10.8	-5.4	-5.1	--
Domestic bank financing	12.0	6.3	5.7	10.2	10.0	3.8	4.2	--
Percent of initial money stock	69.3	39.0	47.1	85.7	125.5	38.7	27.0	--
Foreign financing	2.2	-0.3	0.9	0.5	-0.4	0.3	-0.2	-0.6
Gross domestic investment 6/	14.3	12.7	9.9	7.8	10.6	9.0	9.0	9.0
Gross domestic savings	3.3	10.9	9.2	10.0	11.5	7.7	7.2	8.2
External current account deficit (-)	-8.3	-3.7	-5.0	-2.8	-6.8 7/	-11.0	-11.4	-15.0
Balance of payments deficit (-)	-5.4	-4.2	-3.1	-5.4	-17.2 7/	-11.0	-12.0	-13.5
External debt 8/								
Exclusive of IMF	62.2	58.3	39.2	53.7	157.9 7/	87.1	112.1	...
Inclusive of IMF	71.5	66.2	50.1	61.9	172.6 7/	98.2	125.7	...
External debt service as percent of exports 9/								
Excluding IMF								
Before debt relief	57.9	41.6	44.6	63.9	72.7	84.9	79.0	57.6
After debt relief	19.0	32.8	39.4	63.9	59.1	73.8	79.0	...
Including IMF								
Before debt relief	66.0	50.6	55.9	78.5	94.7	115.5	96.9	71.7
After debt relief	27.1	41.8	50.7	78.5	81.1	104.3	96.9	...
Gross official foreign reserves (months of imports) 5/	0.6	0.5	0.5	0.7	1.0	0.1	0.1	0.3
	(In millions of SDRs)							
Balance of payments deficit (-)	-73.8	-43.6	-43.3	-60.0	-65.7	-83.0	-77.0	-57.0
External current account deficit (-)	-114.5	-37.8	-68.4	-31.5	-20.9	-53.3	-72.7	-61.8
External payments arrears 4/	239.9	243.9	272.1	313.4	319.8	387.3	473.4	...

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

1/ Represents changes in annual averages derived from quarterly averages. Data supported from the information notice system.
2/ Commitment basis. Prior to 1985/86, data do not include accumulated arrears on external interest.
3/ For 1988/89 refers to the 12-month period ended March 1989.
4/ End of period, except for 1989/90 which is end-September 1989.
5/ Data for 1986/87 are on a before debt relief basis; for 1985/86 there was no debt relief; and for 1981/82-1984/85, data are on an after debt relief basis.
6/ Includes changes in stocks.
7/ Marked shifts in the ratios of a number of aggregates in relation to GDP are due in part to the sharp drop in GDP in foreign currency terms resulting from the large depreciation of the leone.
8/ At end period and as percent of year GDP.
9/ Exports of goods only.

2. Causes of economic problems

Sierra Leone's economic decline began with the sharp increase in oil prices in the mid-1970s. Since then, readily exploitable diamond, gold, and iron ore reserves have been steadily depleted while the terms of trade have continued to worsen, including the latest drop in coffee and cocoa prices. Although these external factors have contributed to the economic decline, the more fundamental cause was economic and financial mismanagement, including: (i) direct or indirect state control of external and internal trade, which has been a vehicle for widespread corruption; (ii) exchange rate and pricing policies that have subsidized the urban population at the expense of agricultural growth; (iii) fiscal policies that have accommodated large nonproductive expenditures; and (iv) monetary policy that discouraged domestic savings and financial discipline.

a. Control on trade and pricing policies

External and internal trade, as well as domestic prices of agricultural products, have traditionally been extensively regulated. The importation of rice was, until recently, the monopoly of the Sierra Leone Produce Marketing Board (SLPMB), which distributed rice at heavily subsidized prices to the armed forces, hospitals, prisons, and government officials, particularly those in high posts. The SLPMB also distributed rice through commercial channels at prices which were also low reflecting the overvaluation of the exchange rate (Chart 2). The farmgate price of rice was depressed not only because of the distribution by the SLPMB, but also because of government procurement of domestic rice at low administered prices. While the Government attempted to encourage production by distributing fertilizer at subsidized prices and offering extension services, these efforts were ineffective and the production of paddy stagnated over the last five years.

Government intervention has also had a significant negative impact on Sierra Leone's two major export crops, coffee and cocoa. Until recently, the marketing and exportation of these products were also under the monopoly of the SLPMB. Prices offered to the growers by the SLPMB were low, not only because of an export tax of 30 percent and overvaluation of the exchange rate, but also because it financed part of the cost of importing and distributing rice by profits generated from coffee and cocoa exports. The prices offered by the SLPMB to producers averaged 65 percent of export prices for coffee and 59 percent for cocoa during the period 1981/82 to 1988/89. If export prices are converted using the parallel market exchange rates, the producer prices averaged only 33 percent of export prices for coffee and 29 percent of export prices for cocoa during the same period. Furthermore, producer prices in 1988/89 were only 70 percent and 43 percent of their 1981 levels for coffee and cocoa, respectively, in real terms. This discouraged farmers from improving production techniques, and encouraged border trade.

The essential elements of the mining policy in Sierra Leone have involved the design of agreements setting forth rules for exploitation rights, repatriation of dividends, the Government's direct intervention in management, allocation of foreign exchange receipts, and taxes and royalties. Bauxite and rutile mining have been the enclave operations, with apparently very small tax, royalties, and other contributions to the national economy. In the case of diamonds and gold, government involvement took the form of direct ownership/management of mining operations, state monopoly of exports, or indirect control of private trade through export taxes and licenses. The government-owned company has ceased operations. When private exports were allowed, all or a portion of proceeds had to be surrendered to the Bank of Sierra Leone (BSL) at the official exchange rate. As the parallel market rate usually deviated substantially from the official rate, this requirement was a strong disincentive to export through official channels, and gold and diamonds were exported mostly through informal and unofficial channels.

Government intervention through price controls has also been detrimental to the manufacturing sector. The manufacturing sector in Sierra Leone is small and relies heavily on imported inputs, spare parts, and raw materials. It has been quite difficult or costly to obtain imported inputs, as they had to be imported through the parallel market. Frequent interruptions of electric power also raised costs of production. Thus, production costs frequently exceeded the price ceilings and factories have generally operated at only about one third of their capacity. At the same time, imported substitutes have been readily available through the parallel market. While the imported substitutes might have been subject to similar price control, it was virtually impossible to administer such control at retail levels.

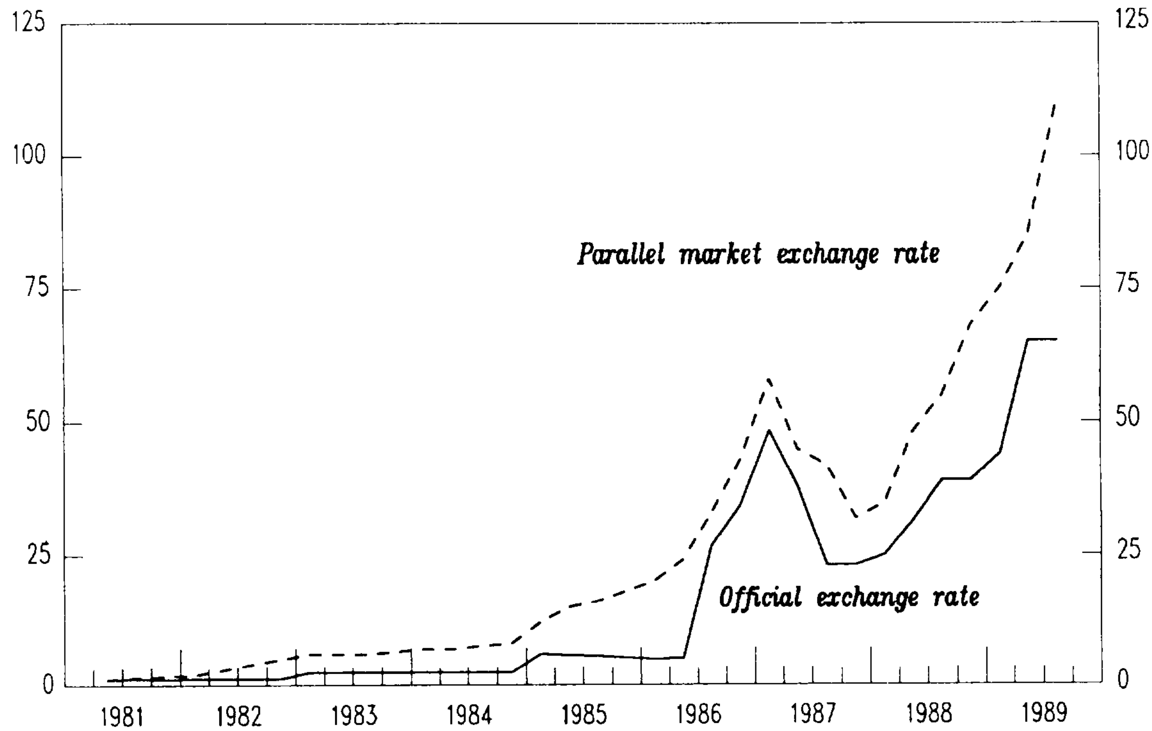
b. Fiscal and monetary policies

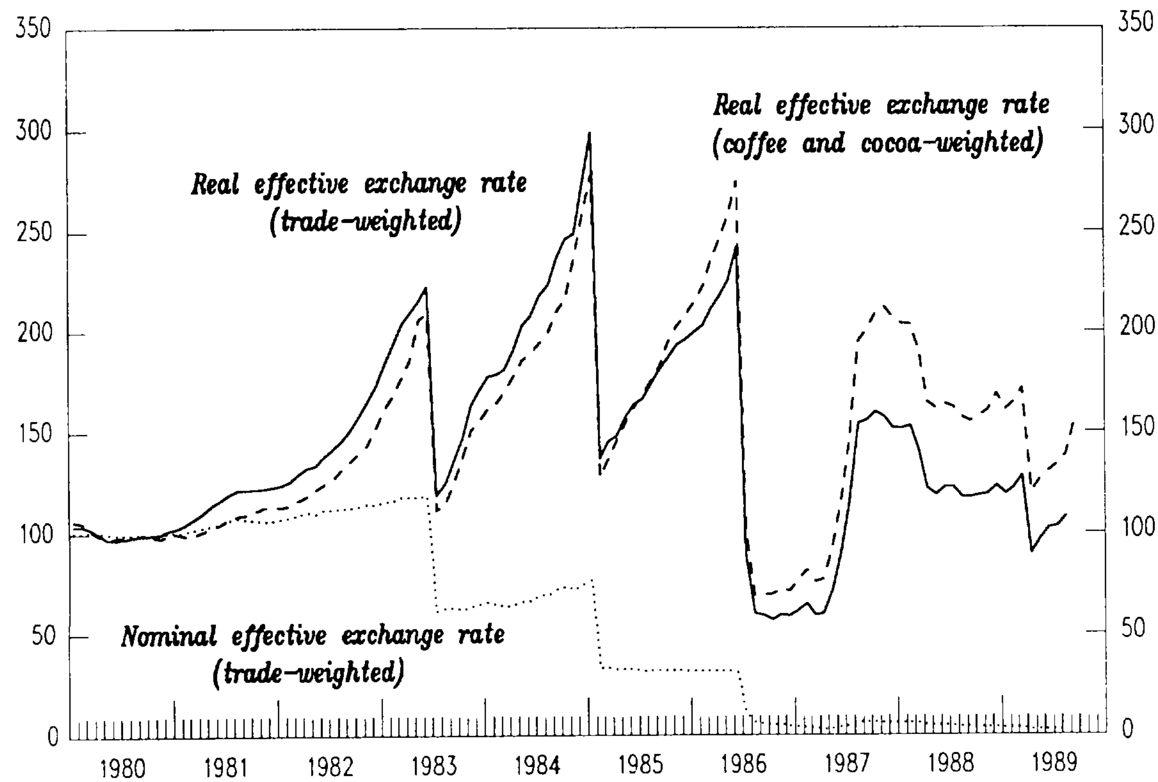
The major sources of inflationary pressures in the economy have been the large fiscal deficits which have ranged between 7 percent and about 15 percent of GDP (Chart 3). Domestic bank credit to finance the deficits, including overdraft facilities with the Bank of Sierra Leone, have also been large, ranging between 40 and 130 percent of the beginning-of-period broad money stock. Money supply rose by about 13-fold during the five-year period 1983/84-1988/89, with about 70 percent of this increase accounted for by the Government's recourse to bank credit (Chart 4). Empirical evidence suggests that the rate of inflation as well as the parallel market exchange rate follow very closely the expansion of the money supply (Chart 5).

The large and continuous budget deficits stem from both high expenditure and poor revenue performance which fell to a low of 7 percent of GDP in the mid-1980s. High levels of expenditures have been due to recurrent expenditure (development outlays averaged only 3.5 percent of GDP). Such expenditures have been poorly controlled, to a large extent due to extrabudgetary expenditures that have often been incurred through

CHART 2
SIERRA LEONE

EXCHANGE RATE MOVEMENTS, 1980-89



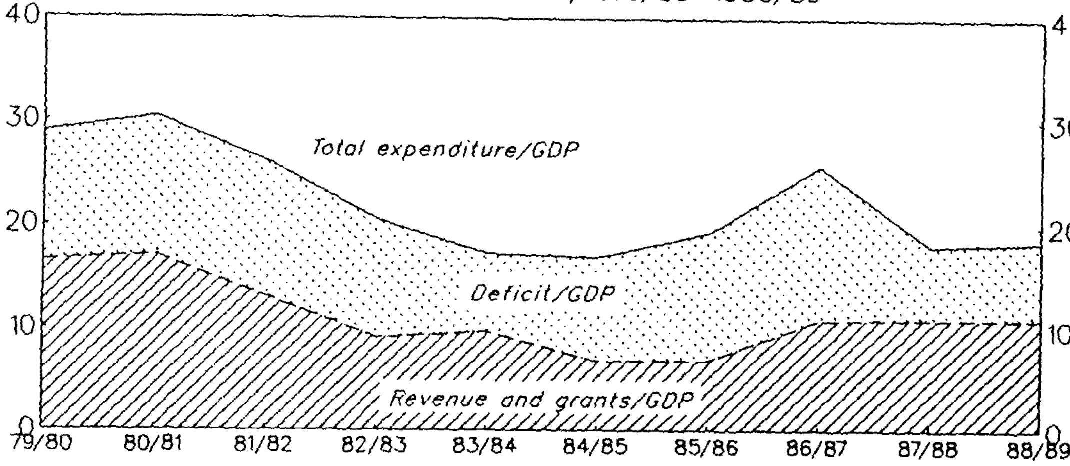


Source: Data provided by the Sierra Leonean authorities.

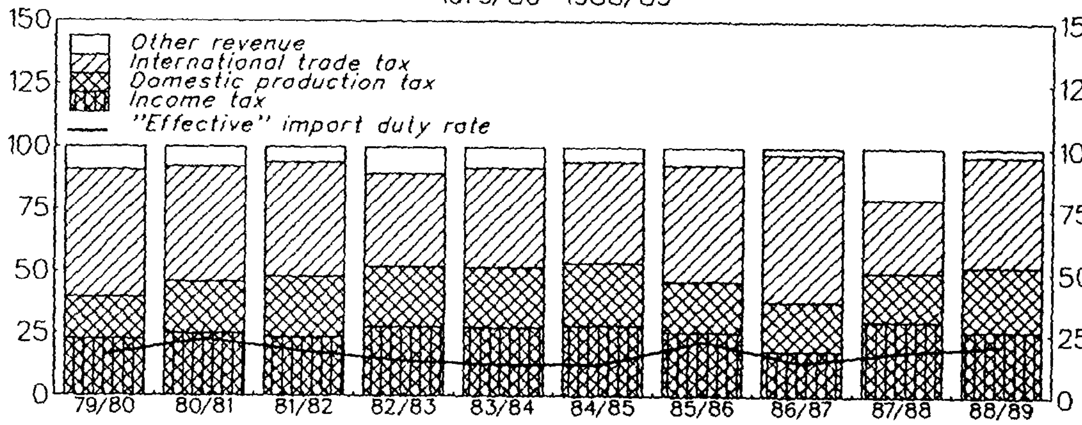
CHART 3

SIERRA LEONE

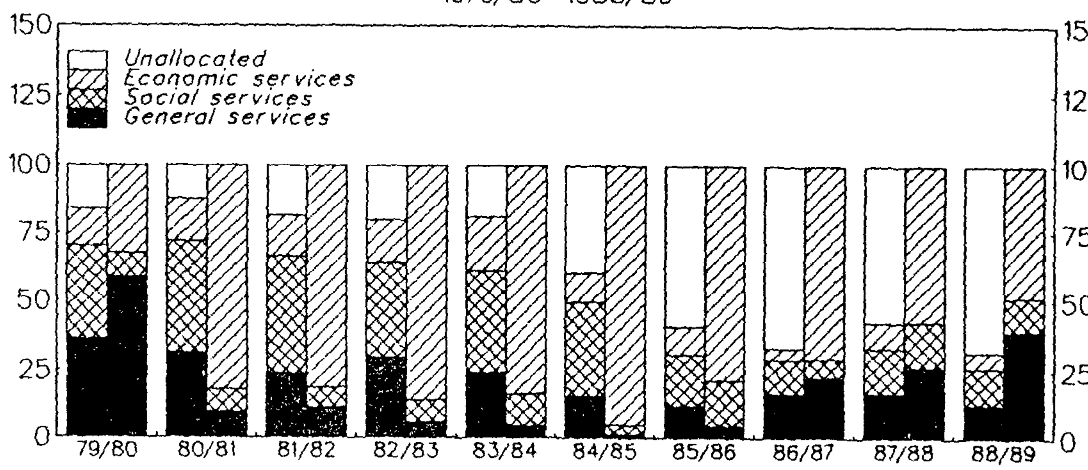
REVENUE AND GRANTS, TOTAL EXPENDITURE AND OVERALL DEFICIT, 1979/80-1988/89



COMPOSITION OF GOVERNMENT REVENUE, 1979/80-1988/89



COMPOSITION OF GOVERNMENT EXPENDITURE, 1979/80-1988/89

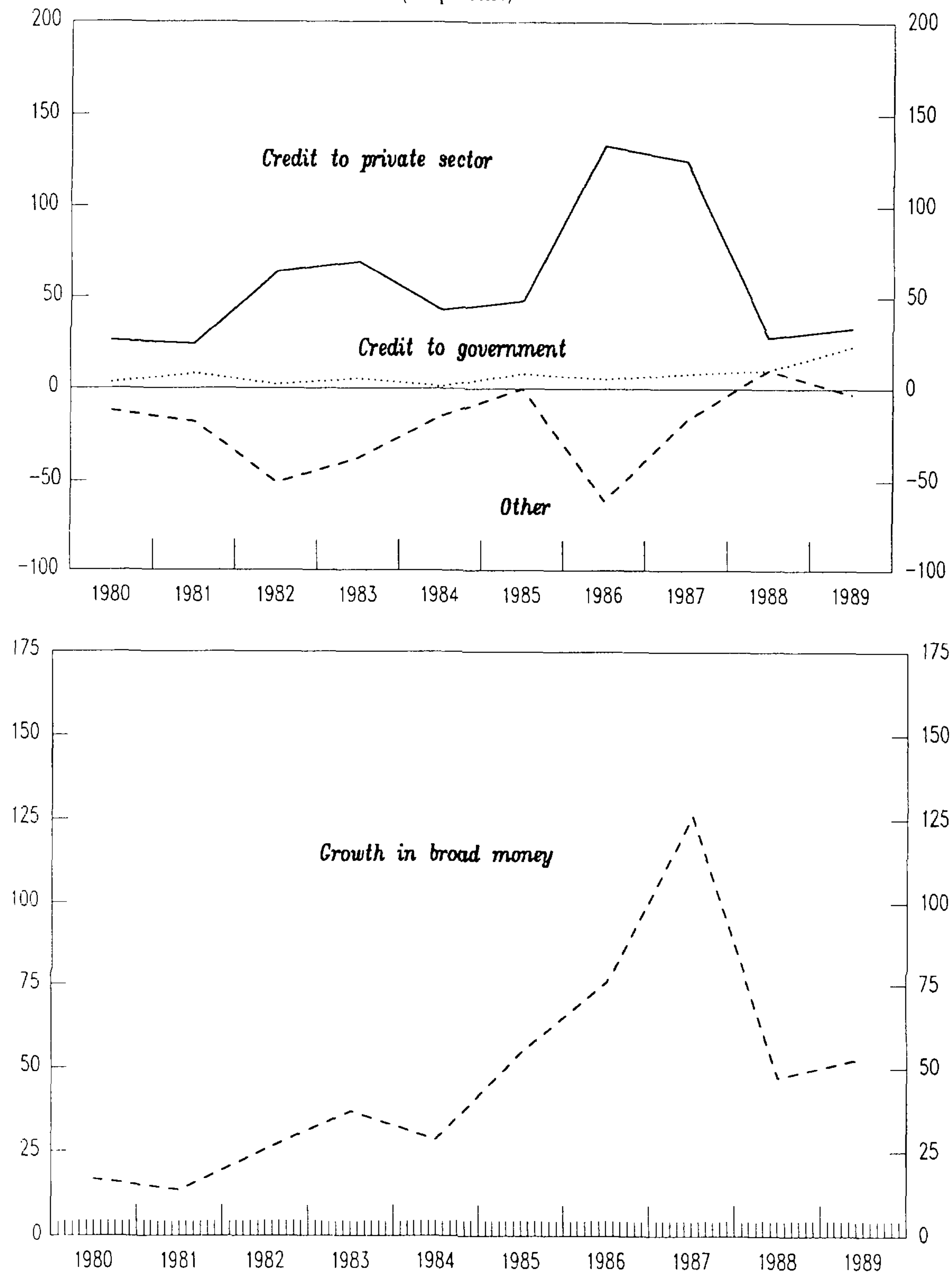


Sources: Data supplied by the authorities, and Fund staff estimates.

CHART 4
SIERRA LEONE

GROWTH IN BROAD MONEY AND ITS SOURCES

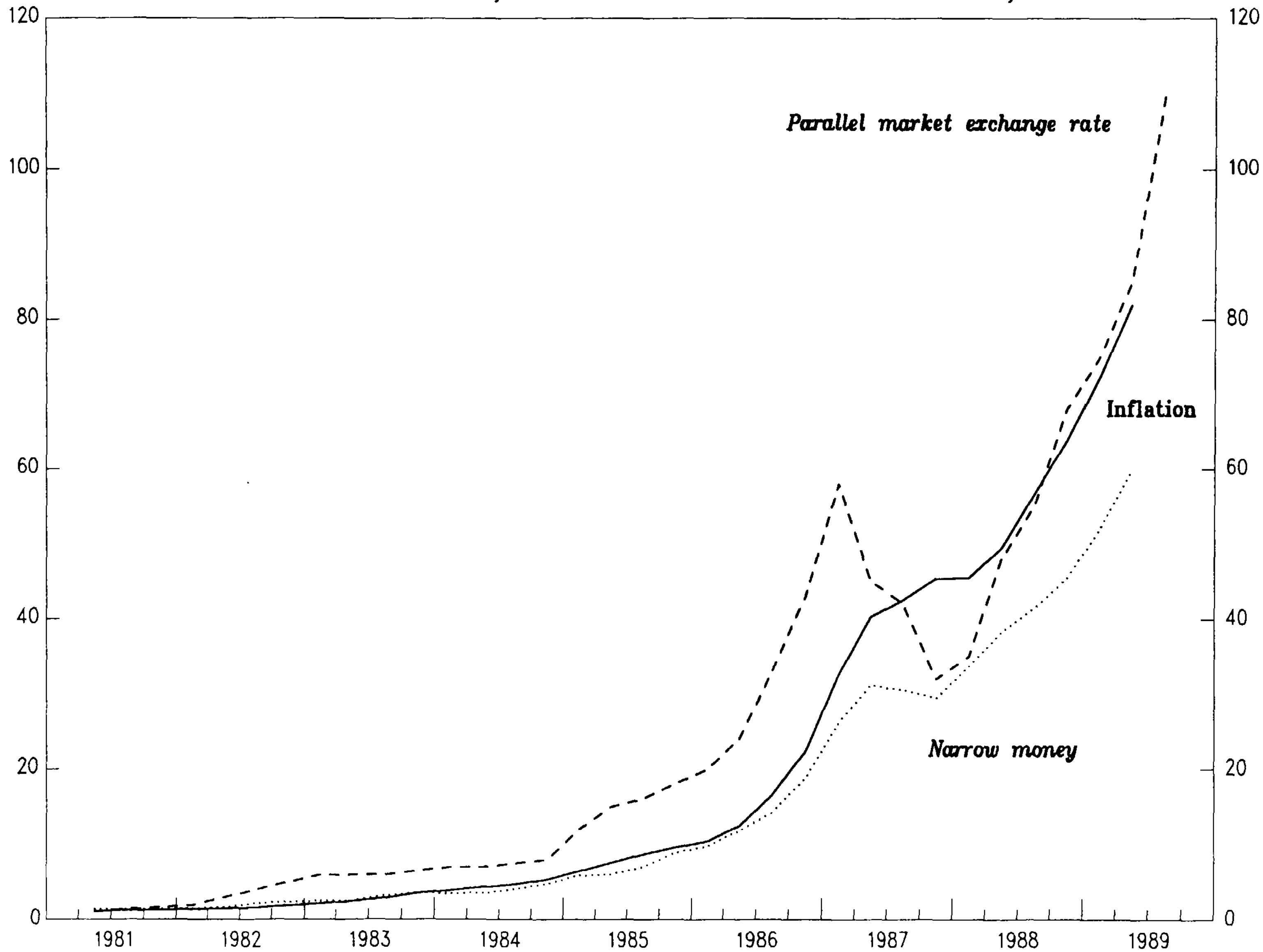
(In percent)



Source: Data provided by the Sierra Leonean authorities

CHART 5
SIERRA LEONE

PARALLEL MARKET MONEY, INFLATION AND EXCHANGE RATE, 1981-89



Source: Data provided by the Sierra Leonean authorities.

Presidential Orders. Extrabudgetary expenditures, as well as overruns of some regular expenditures, have been authorized by Financial Secretary's Letters (FS letters), which in practice circumvented the standard procedures, including the verification and authorization by the Accountant-General, pre-audit, and competitive procurement. Weak revenue performance was largely due to poor tax administration and the erosion of the tax base stemming from the diversion of taxable activities to the parallel market.

Until 1986/87, the budget usually turned out to be very much out of line from the one approved by Parliament, typically on account of expenditure overruns. For example, in 1986/87 the actual overall deficit amounted to 17 percent of GDP compared with the budget target of 6 percent, with actual total expenditure at 29 percent of GDP compared with the budget target of 17 percent of GDP. Moreover, the Government's accounts have not been closed for the past several years and have not been submitted to the Public Accounts Committee of Parliament. These practices have made the budget largely a ceremonial document, eluded public accountability, and contributed to the erosion of public confidence in the Government.

Despite the large borrowing requirements to finance budget deficits, interest rates remained low and substantially negative in real terms (Chart 6). The floor on interest rates on deposits, the prime lending rates, and the maximum spread around the prime rates have all been set by the BSL. As of June 1989, the deposit rates were 16 to 26 percent, and the prime lending rate was 27 percent with the maximum spread of 5 percentage points. Commercial banks tended to be content with profits from lending to the Government and financing import trade. Banks were not motivated to finance riskier, but more productive, investment opportunities in the real economy, or compete for deposits of low- and middle-income households. The absence of an environment conducive for competition in the banking system has contributed to the poor saving performance and the expansion of an informal market for financial intermediation.

The demand for cash has increased rapidly over the last several years, reflecting the expansion of parallel market activities (in which dealings are transacted in cash), high rates of inflation, and the absence of adequate incentives to bring money to the banks. The BSL's capacity to issue new leone notes has become increasingly constrained by the lack of foreign exchange to pay for the notes (which are printed by a commercial company in London). Thus, despite a 50 percent increase in currency in circulation in the 12-month period ending June 1989, severe cash shortage emerged, which developed into a crisis in mid-1989.

c. Exchange rate and exchange system

As measured by the trade-weighted real effective exchange rate index (REER) the leone tended to appreciate over the last decade, except for periods of sharp depreciation associated with short-lived adjustment efforts. An export competitiveness indicator 1/ showed a similar trend, but with more real appreciation during the last several years than that indicated by the REER. Both indices were substantially higher (appreciated) during 1981-1989 than in 1980, when the balance of payments was under severe pressure and the export competitiveness was judged to be inadequate. Moreover, throughout the 1980s, the official exchange rate was higher (appreciated) by 30-40 percent in relation to the rates in the parallel markets where three fourths of total exports are believed to be channeled.

Whenever a significant differential emerged between the official and the parallel market exchange rate, foreign exchange inflows to the banking system dissipated quickly. The Government reacted to this pressure by adjusting the official rate or by adopting a new exchange rate system. Since 1982, the exchange system has been changed more than five times, and has included a pegged, dual market, and floating exchange system (see Appendix I). None of these reform efforts were fully successful, partly because of the lack of comprehensiveness of reform measures but, more fundamentally, because of the failure to control government expenditures and the money supply.

Following the depreciation of the official rate from Le 6 per U.S. dollar to Le 53 per U.S. dollar under the floating exchange rate system during June 1986-April 1987, the authorities revalued the exchange rate to Le 23 and declared, on November 1, 1987, a state of "economic emergency." Under the emergency regulations, it was illegal for residents to: (a) hold leone notes in excess of Le 150,000 (equivalent to about US$6,520 at the prevailing official exchange rate); (b) hold foreign currency beyond three days; or (c) hoard certain "essential" consumer goods (for example, rice and petroleum products). All private licenses for exporting gold and diamonds were suspended, and the BSL and the Government Gold and Diamond Office (GGDO) were made the sole exporters of gold and diamonds. The authorities proscribed unnumbered import licensing, which allowed importation of goods without procuring foreign exchange through official channels or declaring the source of foreign exchange used to pay for the imports. However, this lasted for only one month. Even though the "emergency" measures had some temporary benefits, they expanded the opportunities for corruption and made the present foreign exchange crisis more protracted and deep-rooted.

3. Developments in 1988/89: beginning of adjustment

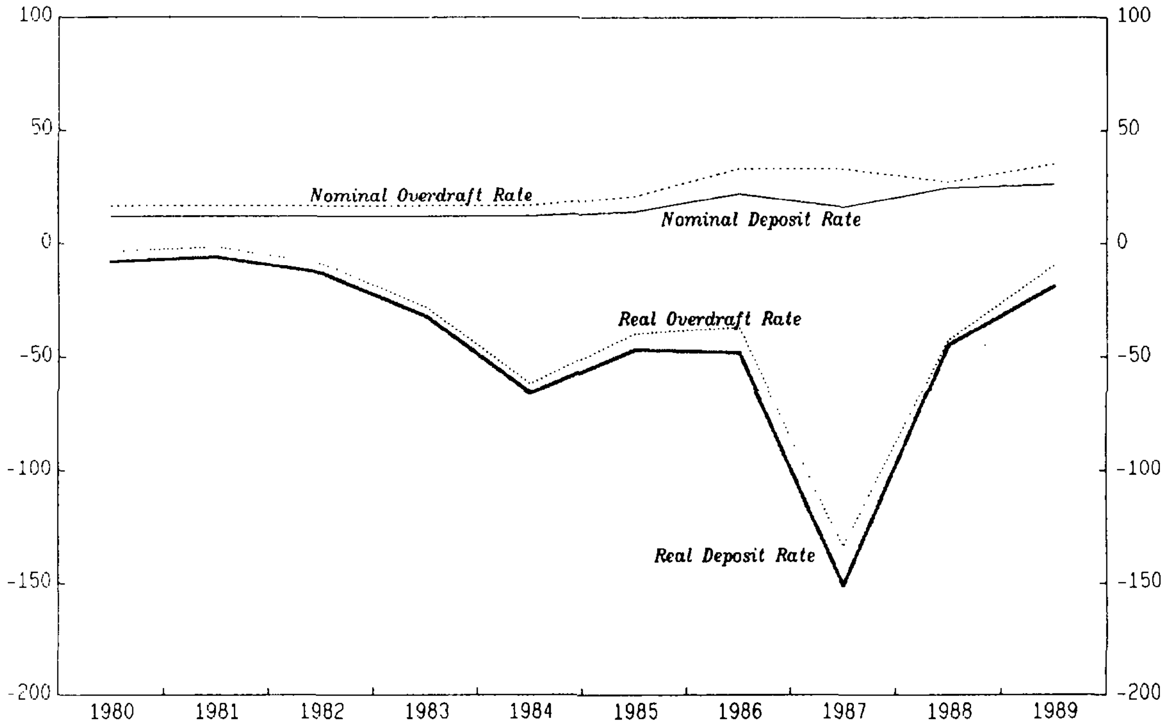
Faced with an increasingly serious economic situation, the authorities began to implement some adjustment measures in early 1989.

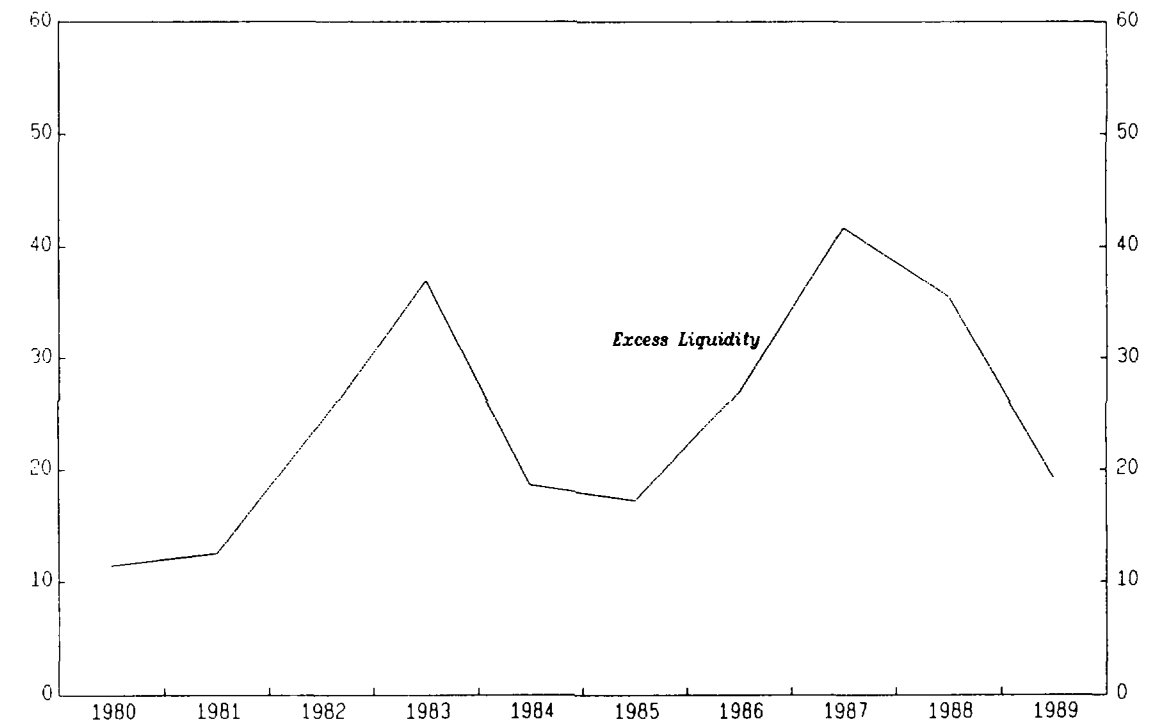
1/ This indicator is based on the calculation of real effective exchange rates of Sierra Leone using the weights of Sierra Leone's major export competitors for coffee and cocoa according to their share of production and exports.

CHART 6

SIERRA LEONE

Interest Rates and Liquidity of Commercial Banks, 1980-90





Source: Data provided by the Sierra Leonean authorities.

First, on March 31, 1989, the exchange rate was adjusted from Le 44 per U.S. dollar to Le 65 per U.S. dollar, following a gradual depreciation from Le 23 per U.S. dollar to Le 44 per U.S. dollar between March 1988 and March 1989. The March 1989 exchange rate adjustment brought the official rate close to the parallel market rate of Le 70 per U.S. dollar prevailing at that time. Second, since January 1989, private traders have been allowed to purchase coffee and cocoa at any prices from producers and have been free to retain 40 percent of the export proceeds; until then, only the SLPMB was authorized to purchase these commodities. Third, since February 1989, export licenses for gold and diamonds have been freely issued to exporters who meet certain criteria, while they are allowed to retain 40 percent of export proceeds, with the balance to be surrendered to the Bank of Sierra Leone. Fourth, since January 1989, private traders have been allowed to import rice using their own sources of foreign exchange. Finally, the "emergency" regulations were formally lifted in June 1989.

The overall budget deficit for 1988/89 is now estimated to have amounted to Le 2.8 billion (7.5 percent of GDP), close to the original budget estimate and compared with 7.2 percent in the previous year (Table 2). The deficit was contained, despite continued large extra-budgetary expenditures, because (i) revenue collection was strong, owing to a bonus offered to revenue collectors (equivalent to 10 percent of collections above the performance targets assigned to them) and the introduction of a 15 percent import surcharge effective April 1, 1988; (ii) the elimination of "ghost workers" resulted in an increase in the wage bill for 1988/89 of less than 20 percent, despite a 70 percent increase in civil service wages and salaries; and (iii) several contracts for purchases of materials and supplies were canceled.

While the implementation of these adjustment measures had some positive initial impact in 1988/89, overall economic conditions continued to deteriorate in that year. Preliminary data indicate that real GDP fell by 4.6 percent, with all sectors except trade and tourism showing zero or negative growth. Output in agriculture and mining fell sharply (15 percent), the former reflecting in part poor weather conditions and shortages of fertilizer and other inputs. While the budget in 1988/89 marked a much needed improvement, the deficit was still large and required domestic bank financing of Le 1.6 billion or 33 percent of the money stock at the beginning of the fiscal year. This financing, together with a sharp expansion of bank credit to the private sector, led to an increase in the money supply of 53 percent and, consequently, inflation of 46 percent for the 12-month period ending June 1989 (Table 3). The inflation largely reflected sharp increases in food prices, including in particular that of rice which more than doubled in that period.

Table 2. Sierra Leone: Central Government Budgetary Operations, 1984/85-1989/90

	Provisional Actuals				1988/99	1989/90	1989/90
	1984/85	1985/86	1986/87	1987/88	Pre. Act.	Budget Estimates	Revised Estimates
	(In millions of leones)						
Revenue and grants	324	511	2,125	2,817	4,225	6,218	10,055
Revenue	271	406	1,415	1,990	3,693	5,028	8,121
Income taxes	76	104	252	698	963	1,100	1,265
Taxes on goods and services	69	83	281	467	963	1,128	2,935
Excise	62	68	211	367	696	600	840
Royalties			50	80	194	300	1,833
Rutile				18	169	120	1,292
Fishing				4	3	15	351
Other				58	22	165	190
Other	7	15	20	20	73	228	262
Import duties	103	177	649	667	1,608	2,450	3,504
Export duties	6	7	183	7	13	50	72
Other tax revenues	3	8	13	20	41	100	115
Nontax revenue	14	27	37	131	105	200	230
Fuel excises							
Roads rehabilitation fund					--	600	690
Other				341			400
Grants	53	105	710	486	532	590	844
Total expenditure	811	1,432	4,989	4,665	7,090	9,050	11,804
Recurrent expenditure	542	1,063	2,990	3,816	6,142	7,250	8,576
Wages and salaries	195	227	560	928	1,106	1,934	2,059
Freeze on recruitment							-275
Selective pay raise							400
Goods and services	92	266	692	1,328	1,819	2,016	2,318
Domestic interest	26	91	322	650	1,308	1,500	1,500
Foreign interest	40	106	790	732	1,350	1,500	2,145
Subsidies and transfers	189	373	626	178	559	300	429
Socially-oriented expenditure					--	--	542
Kerosene cross-subsidy							200
NGO-channeled expenditure							342
Roads rehabilitation fund expenditure					--	600	690
Development expenditure	126	212	899	649	809	1,200	1,996
Extrabudgetary expenditure	143	157	1,100	200	139	--	--
Overall deficit (commitment basis)	-487	-921	-2,864	-1,848	-2,865	-2,832	-1,749
Change in expenditure-related arrears (reduction, -)	149	107	777	884	1,341	800	1,144
Overall deficit (cash basis)	-338	-814	-2,087	-964	-1,524	-2,032	-605
Total financing	338	814	2,087	964	1,524	2,032	605
Foreign financing (net)	45	36	-68	-29	-87	46	65
Disbursements	75	65	89	12	34	570	814
Amortization due (-)	-99	-230	-1,165	-400	-1,500	-884	-1,264
Arrears accumulated	69	201	1,008	359	1,379	360	515
Domestic financing	293	778	2,155	993	1,611	1,986	540
Bank	269	757	1,946	967	1,589	1,575	--
Nonbank	24	21	209	26	22	411	540
Debt rescheduling							
Blocked account							
Memorandum items:							
	(In percent of GDPs unless otherwise specified)						
Revenue and grants	6.8	6.9	11.0	11.0	11.0	12.9	20.9
Revenue	(5.7)	(5.5)	(7.3)	(7.8)	(9.6)	(10.5)	(16.9)
Total expenditure	17.1	19.2	25.7	18.2	18.5	18.8	24.6
Overall deficit	-10.3	-12.4	-14.8	-7.2	-7.5	-5.9	-3.6
Bank borrowing/beginning money stock	47.2	85.8	125.4	27.5	33.0	21.7	--

Sources: Data supplied by authorities; and staff estimates.

Table 3. Sierra Leone: Monetary Survey, June 1984-September 1989

(In millions of leones; end of period)

	1984	1985	1986	1987	1988			1989		
		June		June	June	Sept.	Dec.	March	June	Sept. Prov.
Foreign assets (net)	-730.0	-1,549.0	-2,135.8 1/	-9,197.2	-5,730.4	-5,553.8	-8,442.4	-8,638.8	-13,231.7	-13,231.7
Central Bank	-761.0	-1,583.0	-2,176.0	-9,825.0	-6,108.4	-5,974.3	-8,847.3	-9,248.0	-14,247.1	...
Commercial banks	31.0	34.0	40.2	627.8	378.0	420.5	404.9	609.2	1,015.3	...
Domestic credit	1,045.4	1,360.4	2,142.8	4,371.4	5,683.9	5,953.4	6,806.2	7,579.3	8,370.3	9,429.2
Claims on Government (net)	922.4	1,191.4	1,948.1	3,894.4	4,861.1	4,831.1	5,583.5	6,005.0	6,460.0	7,114.9
Claims on private sector	123.0	169.0	194.7	477.0	822.8	1,122.3	1,222.7	1,574.3	1,910.3	2,314.3
Public enterprises	(3.0)	(5.0)	(17.4)	(2.2)	(38.0)	(51.2)	(51.0)	(48.3)	(94.6)	(94.6)
Other private	(120.0)	(164.0)	(177.3)	(474.8)	(784.8)	(1,071.1)	(1,171.7)	(1,526.0)	(1,826.0)	(2,115.9)
Money and quasi-money	571.0	885.0	1,551.3	3,511.5	4,808.6	5,351.0	5,780.6	6,413.5	7,354.9	8,185.5
Money	376.0	619.0	1,185.3	2,958.2	3,817.8	4,142.3	4,539.2	5,191.7	5,986.9	6,493.0
Quasi-money	195.0	266.0	366.0	553.3	990.8	1,208.7	1,241.4	1,221.8	1,368.0	1,692.5
Other items (net) 2/	-254.5	-1,070.0	-1,544.3 1/	-8,337.3	-4,855.0	-4,951.4	-7,416.8	-7,473.0	-12,216.3	-12,216.3
Memorandum items:										
Ratios (in percent)										
Claims on Government/domestic credit	88.2	87.6	90.9	89.1	85.5	81.2	82.0	79.2	77.1	78.5
Currency/broad money	39.8	40.0	39.5	42.7	38.7	38.1	38.9	39.4	38.6	38.3
Quasi-money/broad money	34.1	29.8	23.6	15.8	20.6	22.6	21.5	19.1	18.6	20.7

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

1/ Since July 1986 these series reflect partial valuation adjustments associated with the depreciation of the leone following the float.

2/ Includes exchange rate-related valuation adjustment for exchange rate changes in 1983, 1985, and since July 1986 on external arrears and Treasury IMF accounts; counterpart funds; and blocked accounts.

In the external sector, with ample domestic demand, imports rose by 22 percent in SDR terms (Table 4). As recorded exports continued to stagnate owing to large-scale smuggling, the recorded current account deficit widened to SDR 73 million or 11 percent of GDP. While some recorded imports were financed by the parallel market as seen in positive errors and omissions, most of the deficit was financed by the further accumulation of external payments arrears of SDR 86 million. Usable international reserves fell to less than SDR 0.5 million or one week of imports, by June 1989.

III. Prospects and Policies for 1989/90

The discussions with the authorities covered a broad set of topics, including economic and financial developments since the 1987 consultation, policies for 1989/90, and medium-term prospects. The discussions took place against a background of apparent change in the authorities' attitude toward cooperating with the Fund. Following the exchange rate adjustment of March 31, 1989 and a letter from the Minister of Finance to the Managing Director, a staff team visited Freetown in June 1989. The staff team discussed the resumption of payments to the Fund and policies to be implemented during July-September 1989. Satisfactory performance in this period with respect to policy and payments was to pave the way for the initiation of discussions of a Fund-monitored program in October, and following further payments to the Fund and satisfactory policy implementation during October-December 1989, further discussions on the program were envisaged in early 1990. Payments to the Fund during July-September 1989 were broadly, though not fully, in line with those indicated to the staff; however, as explained below, policy developments fell substantially short of expectations. In a telex dated September 14, 1989 to the Managing Director, President Momoh indicated that payments of SDR 4.7 million, the amount estimated to fall due during October-December 1989, would be made by December 20, 1989.

1. Macroeconomic outlook and policy priorities

If present trends continue without corrective policy measures, Sierra Leone's economic and financial conditions are likely to be further aggravated in 1989/90. Some growth in real GDP could be expected in 1989/90 on account of continued growth in tourism and recovery in agriculture, reflecting favorable weather conditions during the growing season and the use of a large number of tractors for tilling agricultural land. However, the rate of inflation is likely to remain high largely because of continued and substantial reliance on bank credit to finance the large budget deficit, substantially negative interest rates in real terms, and continued depreciation of the parallel market exchange rate. At the same time, an even larger share of export earnings would likely be diverted away from the official channels, and the BSL would therefore continue to be deprived of foreign exchange needed for essential payments. With further accumulation of external payments arrears, foreign financing could not be expected on appropriate

Table 4. Sierra Leone: Balance of Payments, 1983/84-1989/90

(In millions of SDRs, unless otherwise stated)

	1983/84	1984/85	1985/86	1986/87	1987/88 Prel.	1988/89 Prel.	1989/90 Proj.
Trade balance	-14.1	-7.3	-0.6	5.9	-8.3	-25.2	-12.3
Exports	(107.6)	(139.4)	(111.1)	(101.6)	(85.9)	(89.2)	(112.2)
Imports	(-121.7)	(-146.7)	(-111.8)	(-95.7)	(-94.2)	(-114.4)	(-124.5)
Services balance	-49.0	-81.4	-53.5	-53.0	-59.4	-58.2	-64.2
Freight and insurance	(-19.8)	(-23.9)	(-18.2)	(-15.6)	(-15.3)	(-18.6)	(-20.3)
Other transportation	(6.9)	(5.3)	(7.0)	(6.0)	(5.9)	(6.0)	(7.1)
Travel	(1.1)	(1.1)	(0.5)	(0.5)	(4.0)	(4.0)	(5.5)
Debt service	(-14.3)	(-36.7)	(-36.3)	(-36.9)	(-39.4)	(-41.7)	(-49.1)
Interest (including interest on arrears)	[-9.0]	[-30.4]	[-30.0]	[-32.7]	[-35.3]	[-35.1]	[-42.0]
IMF charges	[-5.3]	[-6.3]	[-6.3]	[-4.2]	[-4.1]	[-6.6]	[-7.1]
Other Government	(-5.5)	(-5.3)	(-2.3)	(-2.5)	(-5.6)	(-3.2)	(-4.8)
Other services	(-5.0)	(-7.4)	(-3.9)	(-4.0)	(-3.3)	(-3.7)	(-2.9)
Investment income	(-12.4)	(-14.5)	(-0.5)	(-0.5)	(-5.7)	(-1.0)	(-1.0)
Transfers	25.3	19.4	22.6	21.2	14.4	10.7	16.0
Private	(2.6)	(1.9)	(2.5)	(2.5)	(0.2)	(2.5)	(4.0)
Official	(22.7)	(17.5)	(20.1)	(18.7)	(14.2)	(8.2)	(12.0)
Current account	-37.8	-69.3	-31.7	-25.9	-53.3	-72.7	-61.8
Capital account	-5.8	26.0	-28.3	-39.8	-29.7	-4.3	4.7
Long term (net)	-28.8	4.3	-27.2	-30.1	-31.9	-23.0	-4.0
Official	(-17.0)	(1.0)	(-29.1)	-28.2)	(-31.9)	(-23.0)	(-4.0)
Drawings	[18.7]	[32.8]	[11.9]	[12.9]	[5.7]	[12.4]	[20.0]
Repayments due	[-35.7]	[-31.8]	[-41.0]	[-41.1]	[-37.6]	[-35.4]	[-24.0]
Private	(-11.8)	(3.3)	(1.9)	(--)	(--)	(--)	(--)
Short term (including errors and omissions)	23.0	21.7	-1.1	-9.7	2.2	18.7	8.7
Overall balance	-43.6	-43.3	-60.0	-65.7	-83.0	-77.0	-57.0
Debt relief	9.4	7.3	--	13.8	9.6	--	--
Arrears	-3.7	35.7	64.7	52.3	93.3	86.0	-78.3
Payments	-3.7	--	--	-22.8	-4.5	-0.5	-78.3
Accrual	--	35.7	64.7	75.1	97.8	86.5	--
Net Fund credit	14.6	-9.4	-9.9	-10.1	-22.2	-9.4	-6.8
Purchase	19.0	--	--	--	--	--	--
Repurchase	-4.4	-9.4	-9.9	-10.1	-22.2	-9.4	-6.8
Reserve items (increase -) 1/	23.3	9.7	5.2	-1.9	2.3	0.4	-2.0
SAF	--	--	--	11.6	--	--	--
Financing gap	--	--	--	--	--	--	-144.2
Memorandum items:							
Stock of official foreign exchange reserves (end of period)	6.4	7.8	8.1	1.2	6.4	3.8	4.8
Foreign exchange reserves/ imports (months cover)	0.6	0.7	0.9	0.1	0.8	0.4	0.5
				(In percent)			
Debt service ratio (before debt relief) 2/							
Including the IMF	50.6	55.9	78.5	94.6	115.5	96.9	71.7
Excluding the IMF	41.6	44.6	63.9	72.7	84.9	79.0	58.7
Current account/GDP	-3.7	-5.0	-2.8	-6.8	-7.1	-11.4	-15.4
Overall balance/GDP	-4.2	-3.1	-5.4	-17.2	-11.0	-12.0	-14.2
Export growth	-3.9	29.5	-20.3	-8.6	-15.5	3.9	25.8
Import growth	-33.1	20.6	-23.8	-14.4	-1.6	21.5	8.8
Change in terms of trade	9.2	8.8	-8.5	-8.7	-18.1	12.9	...

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

1/ Includes monetary authorities and commerical banks.
2/ As percent of exports.

terms and official development assistance could be further scaled down. Shortages of power and petroleum would intensify, and the deterioration of public services would continue.

The authorities agreed that bold and decisive additional measures are necessary. For the immediate period ahead, they stressed that priority objectives of policy measures should be to stabilize the economy, bring external trade and financial transactions increasingly into the formal sector, rebuild confidence of the public, and help to set the stage for regularization of relations with the Fund and other creditors. In this regard, the authorities indicated that appropriate measures should include: (a) further strengthening of the 1989/90 budget with stricter control of expenditure on goods and services and adoption of new revenue measures; (b) tightening of domestic liquidity, with substantial increases in interest rates, and keeping the expansion of money supply to a minimum; (c) allowing the exchange rate to be determined freely by market forces and eliminating import licensing; (d) increasing the prices of petroleum products to levels that would eliminate the incentive to smuggle oil from Sierra Leone to the neighboring countries; and (e) allocating, as appropriate, additional budgetary expenditures for the rehabilitation of public transport, roads, and other social services and for socially oriented programs in education, health care, and nutrition.

If appropriate policies are implemented and sustained, a turnaround of Sierra Leone's economy could begin even before the end of this fiscal year. Staff projections indicate that real GDP growth of some 3 percent is possible in 1989/90, while the rate of inflation could be halved to an annual rate of about 25 percent in the first half of 1990. The projections also suggest that a reduction in the current account deficit from SDR 73 million in 1988/89 to about SDR 60 million could reasonably be expected. Assuming a modest pickup in inflows of official capital, allowing for current debt service payments to the multilateral institutions and a modest increase in international reserves, a financing gap of some SDR 80 million is projected for 1989/90. Additional financing of SDR 78 million would be required to clear outstanding arrears to the Fund and other multilateral institutions.

2. *Fiscal policy*

The 1989/90 budget aimed at an overall deficit (commitment basis) of Le 2.8 billion or 5.9 percent of GDP, compared with 7.5 percent in the previous year. This target was to be attained largely through improving revenue performance (up to nearly 1 percent of GDP). Much of the projected increase in revenues was from income tax and import duties (owing to replacement of a surcharge of 15 percent of import duty on all imports, except essential food items, with a 10 percent sales tax on all imports), increases from excise duties on petroleum products (arising from the increase in the rate of duty from 0.6 percent to 18 percent of the ex-refinery price), and from nontax revenues (arising from increases in various license fees and administrative charges for certain government services).

Total expenditure was to be kept at 19 percent of GDP in 1989/90. Most of the increase in expenditure was attributable to a 75 percent increase in wages and salaries, of which 50 percent related to the general salary raise and the rest to the expansion of civil service posts. Subsidies were projected to decline with the elimination of rice subsidies to nonsecurity government employees and other segments of the population. Development outlays were projected to stagnate, reflecting continued suspension of multilateral assistance from creditors to whom Sierra Leone has incurred arrears and the disillusionment of bilateral donors with the Sierra Leonean Government's economic policies. Extra-budgetary expenditures were to be eliminated. Expenditures were to be controlled through monthly limits on releases of funds, strict observance of centralized tendering procedures, and verification of availability of funds prior to placement of orders. The authorities said that the 50 percent general salary increase was unavoidable in view of the doubling of the rice price during 1988/89, the March exchange rate adjustment, and the doubling of petroleum product prices, effective July 1.

While welcoming the thrust of the 1989/90 budget, the staff representatives noted that the deficit was still very large, requiring domestic bank financing of Le 1.6 billion or 22 percent of the money stock at the beginning of 1989/90. Such large bank credit to the Government would be incompatible with the objective of containing monetary expansion to a minimum, which would be critical for reducing the rate of inflation substantially and keeping the parallel market exchange rate in check. The staff representatives therefore urged the authorities to further reduce the budget deficit target.

The authorities agreed to the need for a further tightening of the budget targets and indicated that they would propose to the Cabinet to limit the overall budget deficit (on a commitment basis) in 1989/90 to Le 1.8 billion, and to increase nonbank borrowing substantially so that government borrowing from the banking system could be avoided altogether for the fiscal year. To this end, the authorities said that they would propose the following new revenue measures to the Cabinet: (a) an increase in excise duties on tobacco (from 100 percent to 300 percent), and beer (from 40 percent to 70 percent); (b) enforcement of payment of the 10 percent royalties on fish exports or collection of the equivalent revenue from increased fees; (c) simplification of the complex tariff structure to facilitate revenue collection; and (d) doubling of the excise duty on petroleum products. These measures, together with the accrual to the budget of recently negotiated royalties on rutile, would yield about Le 2 billion in additional revenue, equivalent to 4 percent of GDP. In order to make exemptions more transparent and minimize associated revenue losses, they proposed that a review of the present system of exemptions and waivers be undertaken and completed by January 1990.

The authorities said that they would propose to the Cabinet that the authorization of expenditures through FS letters would be abolished altogether. In addition, the Government would freeze recruitment. Additional funds would be directed to (a) increasing the salaries of essential civil servants; (b) truly productive development expenditures; (c) public transportation and maintenance of social services; and (d) socially oriented programs.

As regards the budget performance during July-September 1989, preliminary data indicated that the overall deficit (commitment basis) during July-September 1989 was estimated at Le 926 million compared with the seasonally adjusted budget provision of Le 582 million (Table 5). This performance reflected a revenue shortfall of about Le 130 million and expenditure overruns of about Le 200 million. Expenditures on wages and salaries were some 12 percent above budgetary provisions, and those on goods and services were more than one and one half times the budgetary provision. Borrowing from the BSL during July-September 1989 amounted to at least Le 605 million, compared with the original intention of zero borrowing in this period. The larger than expected borrowing from the BSL reflected, not only the higher deficit, but also the payment of a carryover of expenditure from the last fiscal year (Le 220 million) and the delay in the issuance of Treasury bills; Le 220 million of Treasury bills were sold at the end of September but were not credited in the government accounts until October.

The authorities noted that: (i) royalty payments of Le 600 million from Sierra Rutile is expected by December, following the recent conclusion of negotiations for the exploitation rights; (ii) import duty collection could be higher by at least Le 300 million in October-December than in July-September due to seasonality; and (iii) proceeds of Treasury bills sales to the nonbank public of Le 220 million at end-September were credited in October. They indicated that the Government's outstanding liabilities with BSL would be reduced by Le 350 million during October-December 1989.

The staff estimated that if the trend in the July-September quarter continued, the overall deficit in 1989/90 could amount to Le 3.7 billion, higher than the budget target by Le 0.9 billion on account of both revenue shortfall and expenditure overruns. The policy package, if fully and promptly implemented, could generate savings of about Le 1.2 billion as additional revenue of Le 2 billion would be offset by an increase in expenditure for the desired socially oriented programs and higher salaries for critical personnel. The net effect of weaker revenue and expenditure performance and the adoption of the policy package would be the overall deficit of Le 2.5 billion. 1/ The staff representatives

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1/ The impact of an exchange rate adjustment on the overall deficit is broadly neutral, as higher revenue on import duties would be offset by higher foreign interest payments and larger expenditure on imported goods.

Table 5. Sierra Leone: Central Government's Budgetary Operations, July-September 1989

(In millions of leones)

	Budget 1/	Preliminary Actual 2/
Revenue and grants	1,322	1,192
Revenue	1,257	1,127
Income tax	(296)	(188)
International trade taxes	(584)	(623)
Other	(377)	(316)
Grants	65	65
Total expenditure	1,904	2,118
Recurrent	1,798	2,012
Wages and salaries	(388)	(451)
Goods and services	(427)	(646) 3/
Domestic interest	(388)	(278)
Foreign interest	(517)	(544) 3/
Other	(78)	(93)
Development	106	106
Overall deficit (commitment basis)	-582	-926
Changes in arrears	409	280 3/
Overall cash deficit/surplus	173	-654
Nonbank and foreign financing	-173	49
Ways and means advances	--	605

Sources: Data supplied by the authorities; and Fund staff estimates.

1/ Staff estimates for July-September quarter derived from the annual budget figures, seasonally adjusted.

2/ Ministry of Finance's data adjusted to the Fund's format in which expenditures (including interest obligations falling due) are shown on a commitment basis.

3/ Net of payments for commitments of Le 220 million made in 1988/89 and paid in 1989/90.

representatives estimated that, even if the authorities' target of an overall deficit of Le 1.8 billion was difficult to achieve, a deficit of about Le 2 billion was feasible, provided that strong action was taken to avoid expenditure overruns and to correct revenue shortfall.

3. Monetary policy

The authorities indicated that one of the major monetary policy objectives for 1989/90 would be to restore public confidence in the banking system that has been seriously eroded by the acute shortage of leone notes. The authorities' analysis showed that additional cash of about Le 1.5 billion was necessary to restore the historical relationship between cash in circulation and GDP and to accommodate additional demand for the leone in the neighboring countries (Liberia and Guinea) where the leone is widely used for border trade. The authorities stressed the need to bring in additional notes quickly and indicated that arrangements had been made for delivery of a sufficiently large amount of new notes by early 1990. The staff representatives underscored the importance of quickly supplying currency notes to the banking system. They stressed that the infusion of cash should not lead to a corresponding increase in the money supply and, to this end, cash should be delivered to customers only against demand or other deposits that normally satisfied transaction needs. They also pointed out that the infusion of cash would not lead to a lasting solution as long as interest rates are so low that there would be no financial incentives for the public to bring cash back to the banking system.

The authorities agreed that interest rates should be raised to make them positive in real terms as soon as possible. To this end, Treasury bills would be sold by the BSL to the nonbank public at interest rates sufficient to allow sales of a large predetermined volume of bills, and the interest structure of commercial banks would be adjusted accordingly. The authorities explained that the direct sales to the nonbank public would be the most effective approach to induce commercial banks to compete for savings. They thought, however, that the scope for raising additional financial savings and attracting repatriation of residents' assets abroad could be limited because: (a) bulk of savings are held by traders who are inclined to hold assets abroad and send abroad large sums of money for noneconomic reasons; and (b) middle income earners have no money to spare because of the rapidly falling purchasing power of their incomes. The staff representatives pointed out that with the present levels of interest rates, traders would profit simply by borrowing money from banks, importing goods, waiting for the price to rise, and then selling the goods; the interest rates should be raised also to discourage this type of transactions.

During July-September 1989, money supply expanded by the annual rate of 53 percent, reflecting the large use of bank credit by the Government as well as the continued sharp expansion of credit to the private sector. Treasury bills were sold to nonbank public at interest rates of 40-45 percent only at the end of September. The minimum deposit rates were raised at end-September, but only by 0-5 percentage points to 20-26 percent (Annex Table 2). The prime and maximum lending rates were raised by 8 and 13 percentage points, respectively, to 35 and 45 percent. The staff representatives indicated that further increases in interest rates, particularly those on deposits, and more timely monetary policy action would be appropriate.

Staff analyses indicate that the rate of monetary expansion should be brought down to the annual rate of about 20 percent in January-June 1990, consistent with the inflation target of about 25 percent in that period. Net repayment by the Government to the banking system of Le 600 million during October 1989-January 1990 is critical to achieve this target. In addition, expansion of bank credit to the private sector must be kept minimal. The staff representative suggested that in order to avoid excessive credit expansion, short-term central bank notes could be sold to a few commercial banks to absorb their excess liquidity. The authorities agreed with the money supply target and indicated that they would begin weekly sales of Treasury bills of Le 100 million at higher interest rates and to tighten the liquidity conditions in part through sales of central bank notes.

4. Exchange rate and exchange and trade system

In discussing the objective of exchange rate management in June 1989, the authorities indicated that any significant deviation of the official exchange rate from the parallel market exchange rate should be avoided as such deviation would inevitably result in a loss of foreign exchange to the parallel market. They hoped, however, that it would not be necessary to constantly chase the parallel market rate, and stressed that it would be most desirable to see an appreciation in this rate because of their impact on inflation and, perhaps more importantly, on confidence in the economy. The staff representatives saw the merits of this strategy, but stressed that the stability in the parallel market exchange rate could be achieved only by keeping the budget deficit to a minimum and by avoiding excessive monetary expansion. The authorities fully agreed and indicated that, if the large differential persisted between the parallel and official rates, the official exchange rate would be adjusted by end-July or early August 1989. In the event, the parallel market exchange rate depreciated sharply to Le 85 per U.S. dollar in early July and Le 110-120 in September 1989, reflecting the fiscal and monetary developments discussed above. Nevertheless, the official exchange rate remained at Le 65 per U.S. dollar.

The staff representatives noted that since the bulk of exports and imports are channeled through the parallel market (with the notable exception of oil imports), the only substantive negative price impact of a depreciation of the official exchange rate would be an increase in oil prices. While any substantial oil price increase would have direct adverse effects on the daily lives of the general public, the exchange rate adjustment would help to bring about a resumption of foreign exchange flows to the banking system and could thus permit a more secured supply of petroleum products.

The staff representatives further noted that the present export earnings retention scheme as well as the control of import and export trade through licensing were clearly not working as intended. A great deal of discretion is exercised by the Ministry of Trade in issuing import licenses, and a large volume of "unnumbered licenses" are also issued. Less than US$0.5 million had been surrendered to the BSL from gold and diamond exports during July-September. It is rather time consuming and cumbersome to obtain licenses to export diamonds and gold as the signatures of ministers and permanent secretaries of the Ministries of Finance, Mines, and Trade, as well as the BSL, have to be obtained. Traders are allowed to retain 100 percent of export proceeds if they were used to import rice. The staff representatives noted that the linkages of export proceeds with rice imports could lead to segmentation of rice and other imports, and to less than optimal use of foreign exchange resources. There is also a danger that large monopolistic profits might be earned by a few traders engaged in both rice imports and exports of major products.

In light of the continuing high rate of inflation and the sharp depreciation of the parallel market exchange rate, the authorities were of the view that action on the exchange rate front was no longer avoidable. They explained that various aspects of the exchange rate policy noted by the staff had been carefully examined, and the Cabinet subcommittee on foreign exchange generation had been considering the possibility of (a) a depreciation of the leone under the present exchange rate system; (b) legalization of parallel market foreign exchange transactions together with the maintenance of certain transactions at the official exchange rate; or (c) a floating exchange rate system.

The authorities indicated that they would propose to the Cabinet that a new exchange system be introduced as soon as possible. Under the new exchange system: (a) the exchange rate would be determined freely in the market and all transactions would take place at the market-determined exchange rate; and (b) import licenses would be abolished and export licenses limited to gold and diamonds, and they would be granted freely to all qualified corporations and individuals. The present official rate would be adjusted to the market-determined exchange rate prevailing at that time, and, if necessary, the Bank of Sierra Leone would acquire foreign exchange from commercial banks at market-determined exchange rates. They noted that this system would provide for greater transparency of economic and financial transactions and would facilitate greater revenue collection, including the valuation of imports for customs purposes at a realistic exchange rate. The staff representatives supported this proposal, and underscored the importance of fiscal discipline and tight monetary conditions for the success of the new exchange system.

Sierra Leone maintains exchange restrictions in accordance with the transitional arrangements under Article XIV. It also maintains exchange restrictions subject to Fund approval under Article VIII, namely

(i) those evidenced by the accumulation of commercial external payments arrears; (ii) the multiple currency practice arising from noninterest bearing counterpart deposits required for payments of arrears; (iii) a restriction arising from the limitation for two years of the remittance of profits from capital investment made in accordance with the debt-equity conversion code; and (iv) the restrictive features of the bilateral payments arrangements with Fund members. Sierra Leone also maintains a multiple currency practice applicable to capital investment transactions made in accordance with the debt-equity conversion code. With regard to the payment of interest on deposits of the leone counterpart of commercial arrears, the authorities stated that the original intention was for the BSL to pay whatever amount was necessary to externalize the counterpart deposits when the foreign exchange situation improves. However, because the exchange rate has depreciated so much since the blocking of counterpart deposits in December 1982 (from Le 1.25 per U.S. dollar to Le 65 per U.S. dollar), the BSL currently is undecided on whether it will fully pay the exchange losses. In the meantime, the BSL has been encouraging the withdrawal of counterpart deposits and debt/equity conversion by creditors at the exchange rate negotiated between the creditors and the authorities. Very small amounts were withdrawn or converted to equity during the last two years, however. No new deposits are currently accepted. Sierra Leone also continues to maintain bilateral payments agreements with restrictive features with Fund members (Guinea and the People's Republic of China). However, these agreements have been dormant during the last two years as transactions with Guinea are cleared through the Western African Clearing House and no transactions have taken place with China.

5. <u>Energy issues</u>

Sierra Leone depends entirely on imported crude oil and refined petroleum products for its commercial energy consumption. Crude oil imports amounted to 140 metric tons in 1988/89. The imported crude is processed by the state-owned refinery. Wood is the main source of domestic fuel in both urban and rural areas.

a. <u>Petroleum products</u>

On July 1, 1989, petroleum product prices were raised for the first time since February 1987 as follows: petrol from Le 55 to Le 110 per gallon, kerosene from Le 50 to Le 100 per gallon, and diesel from Le 45 to Le 90 per gallon. These increases were designed to: (a) fully cover the operating costs of the Sierra Leone Petroleum Company at an exchange rate of Le 65 per U.S. dollar; (b) to curb cross-border smuggling by bringing the prices in Sierra Leone close to those of the neighboring countries; and (c) to raise additional excise revenue of Le 13 per gallon to be earmarked for the rehabilitation and repair of roads. Since these price increases were put into effect, the parallel market exchange rate has depreciated by about 50 percent; converted at the parallel rate, a considerable differential has re-emerged between the prices in Sierra Leone and those in the neighboring countries. 1/ The authorities estimated that at least 10 percent of total consumption is currently transported to the neighboring countries.

The authorities stated that even though the highest priority is attached to adequate availability of petroleum products, it had proved difficult to arrange for minimum payments for oil that would allow for a continuous flow of the minimum requirements. While some arrangements had been made to cover payments for oil delivery for the rest of the year, such arrangements have not been made for the first quarter of 1990. They noted that given the extreme scarcity of foreign exchange and petroleum in Sierra Leone, further smuggling of oil should be avoided and that their desire to maintain stable petroleum prices should be balanced against the negative impact of keeping the exchange rate overvalued. The authorities indicated that in the light of the above considerations, they would propose to the Cabinet to increase oil prices when the new exchange rate system is introduced to reflect the market-determined exchange rate prevailing at that time.

b. Electricity

The authorities explained that the Kingstom Power Station is at present the only major power station in the country, and that only one of the six generators at the Kingstom Station is in working condition. The present generating capacity for the Freetown area is therefore only 11 MW, compared with the country's normal requirements of about 26 MW. The authorities thus attach the highest priority to the rehabilitation of the Kingstom Power Station; a project to rehabilitate the National Power Authority's (NPA) generation and distribution facilities has just been appraised by IDA; further processing of this project depends on the clearance of arrears to the World Bank Group.

Following the increase in petroleum product prices charged by the refinery to NPA on July 1, 1989 (70 percent for diesel and 30 percent for black fuel), the NPA has proposed a tariff increase of 104 percent. The authorities indicated that electricity tariffs would be raised by 50-100 percent within weeks that should be sufficient to cover operating costs. The staff representatives suggested that further increases might be considered in order to cover not only operating costs, but also depreciation, maintenance, and provision for future investment, which would be critically needed if the Kingstom Power Station was to be properly maintained after the rehabilitation.

The Government has initiated the Bumbuna hydro electric generation project (47 MW) that is expected to meet Sierra Leone's electricity requirement beyond 1995. While this project is the least costly

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1/ For example, the price of regular gasoline in Sierra Leone is US$0.92 per gallon, compared with US$2.60 in Guinea and US$1.26 in Liberia.

electricity generation program, it would still require additional investment of US$147 million (in 1988 prices); about two thirds of this is to be financed by a concessional loan from Italy. For this project to be viable, transmission lines to consuming areas would have to be separately built. The African Development Bank is considering this project. While expressing their understanding of the need to augment the power generation capacity, the staff representatives called for care in undertaking foreign borrowing of this magnitude, particularly if part of it involved a loan on commercial terms.

6. Pricing policy and public enterprises

a. Agriculture

Producer prices for coffee and cocoa for the 1989/90 season have been set at Le 20 per lb for cocoa and Le 32 per lb for coffee, compared with Le 13.5 per lb and Le 24 per lb in the previous year, respectively. Even with the low world market prices and these prices set by the Government, trading in coffee and cocoa is apparently financially attractive to private traders. Marketing and administrative costs are presumably lower for private traders than for the SLPMB, and foreign exchange earned can be retained to import rice from which considerable profit could be made. The entry of private traders has proved to be beneficial to farmers as: (i) they are offered better prices for their products; (ii) they are getting cash on delivery from private traders unlike the practice of the SLPMB; (iii) some of them provide advice to farmers on improved methods of crop husbandry, as well as some modern farm inputs; and (iv) they bring essential goods such as rice, sugar, salt, soap, and kerosene to the rural dwellers. Available evidence suggests that farmers have renewed interest in coffee and cocoa cultivation as a result of the recent competitive environment, and are rehabilitating old cocoa/coffee groves.

The entry of private traders in the importation of rice has also been beneficial. There are no longer shortages of rice in Freetown, and the price of rice has fallen from Le 14.9 per 10 oz. cup in May to Le 10 per 10 oz. cup in September. The retail price still appears to be excessively high in relation to the cost in the international market.

The authorities explained that even though the SLPMB is expected to purchase no more than 25 percent of total supply of coffee and cocoa in 1989/90, in view of its good performance in marketing and the quality control function, they intend to maintain the requirement that all coffee and cocoa exports be shipped through the SLPMB. They also said that it would be desirable for the SLPMB to continue to purchase coffee and cocoa as well as rice at the producer price as a buffer against possible collusion of private traders or against a possible dramatic fall in market prices. Although the SLPMB has not imported rice thus far in 1989/90, nor is expected to do so during the rest of this fiscal year, it should still maintain the function of keeping strategic grain reserves. The staff representatives suggested that the role of the

SLPMB be reviewed in the light of the new circumstances, focusing on the efficiency of its operations and potential budgetary burdens. The authorities indicated that such a review would be completed by early 1990.

b. Manufacturing

The staff representatives noted that the operations of public enterprises, especially those in the manufacturing sector, have been adversely affected by a severe shortage of foreign exchange and by the constraint placed on the prices of their products through control or price monitoring. The authorities explained that there are no price controls for most of the commodities produced by private sector companies, that there was a system of price monitoring for prices of commodities produced by public enterprises, and there was a system of price control for goods and services produced by public monopolies, such as the NPA, the Guma Valley Water Company (GUMA), the Sierra Leone Power Authority (SLPA), and the Road Transport Corporation (RTC). They explained that under the system of price monitoring if an enterprise submitted prices of a commodity which the Government considered "excessive," it would urge the enterprise to reduce the price to a more "realistic" level. The staff representatives noted that in practice, price monitoring could have the same results as price controls, and drew the attention of the authorities to the specific case of tobacco whose price is controlled and import banned, and of some other private enterprises which find production unprofitable essentially because of the constraint imposed by the price control. The staff representatives suggested that the price control and monitoring system be reviewed with a view to decontrolling prices, particularly those of private enterprises including tobacco and beer.

7. External debt management

Sierra Leone's total external debt increased to US$1,015.4 million at end-June 1989, equivalent to 127.5 percent of GDP in 1988/89 (Annex Table 3). About half of the total was medium- and long-term debt (US$519 million) and the rest consisted of short-term debt (US$394 million) and use of Fund credit (SDR 80 million). Scheduled debt service obligations amounted to SDR 87 million in 1988/89, equivalent to 97 percent of total exports of goods (Annex Table 4). Debt service payments in 1988/89 consisted of SDR 0.05 million to the Fund, SDR 0.4 million to the World Bank, and SDR 0.05 million to suppliers' credit. External payments arrears amounted to SDR 471 million by end-June 1989 (Annex Table 5).

The staff representatives urged the authorities to refrain from commercial borrowing even if it was to finance critical imports. Any external borrowing should in principle be on concessional terms with long grace periods. If this policy is adhered to, the external debt service obligations as percent of exports could be gradually reduced to about 40 percent by 1994/95. The debt service burden could be further reduced if bilateral debt service were rescheduled by the Paris Club.

8. Social objectives and policies

The authorities noted that government expenditures allocated for socially oriented programs have been limited (Le 930 million in 1988/89 or 13.5 percent of total expenditure) because of the severe budget constraint and because much of those expenditures may not reach targeted groups due to administrative difficulties and the lack of proper personnel. The staff representatives expressed concern about a general deterioration in the living conditions of the most vulnerable social groups, such as children and rural dwellers, with limited or no access to social services. The authorities stressed that if an adjustment program is to succeed, special care would need to be given to protect the vulnerable groups, and to this end, additional funds would be allocated to the socially oriented programs and the price of kerosene could be kept relatively low through cross subsidization for petroleum products. They also said that to complement the limited administrative capacity of implementing ministries, additional government expenditure could be channeled through nongovernment organizations that are engaged in such programs as food for self-sufficiency, health care through retainer doctors, free immunization, and access to low-cost drugs and repair of schools, roads, and bridges.

IV. Medium-Term Outlook

1. Growth and balance of payments potential

Given its rich resource endowments in mining, agriculture, and fisheries, and the existence of underutilized manufacturing capacity, Sierra Leone's potential for rapid growth and development is substantial. The Government has recently concluded the negotiation with Sierra Rutile, a subsidiary of U.S.-based Nord Resources, on the terms for continuing exploitation rights. Under the new agreement, total receipts from Sierra Rutile (from royalties, income tax, rent, and contribution to the agricultural support fund) is expected to double to US$20 million annually. While domestic value added is small because of the enclave nature of the rutile operation, the additional income is nonetheless substantial. Furthermore, the Government conducted the negotiations with the assistance of the United Nations Center for Transnational Corporations in a manner that has helped to raise confidence of international investors. In addition, the negotiations for the large diamond mining Kimberlite project is at an advanced stage, under the advice of the International Finance Corporation (IFC). This project is expected to produce 150,000 carats per annum (about US$20 million) within 30 months of its initiation, and the capacity is projected to rise to 250,000 carats per annum (about US$33 million) by 1998. International investors are interested in other mining possibilities, including rutile deposits and alluvial diamond mining.

In agriculture, prospects for substantial expansion of coffee and cocoa production over the medium term appear limited because of the depressed outlook for the world prices of these commodities. However, the potential for expanding rice production is substantial. Domestic rice production is at present short of domestic consumption by about 180,000 tons, and the authorities see prospects for eliminating this deficit over the medium term, provided that appropriate financial incentives are given to farmers and that production benefits from a more favorable input structure including seeds, fertilizers and chemicals, extension services, and some mechanizations. A few large-scale plantations for fruits and vegetables have begun commercial operation, and there is scope for considerable expansion in the area. Fisheries are another area where the potential is severely underexploited.

The potential for substantially strengthening the balance of payments position over the medium term is equally apparent. In 1988/89, total exports and imports including those channeled through the parallel market are estimated at about US$400 million and US$300 million, respectively, leaving a trade surplus of US$100 million, 1/ compared with the recorded deficit of US$34 million. This indicates the scope for a major change in the current account balance if the policies discussed above were sustained and if confidence in the new exchange system--and in the economy as a whole--was established. Furthermore, as noted above, foreign exchange earnings could increase considerably over the medium term, and the scheduled debt service ratio as a percent of exports could decline steadily.

2. Macroeconomic framework

While the potential for growth and a stronger balance of payments seems evident, it is extremely difficult to quantify such potential and project the major economic aggregates for the next several years. This difficulty is not only due to the weak data base, but also to the shift in economic and financial transactions from the informal to the formal sector that would occur if the policies outlined above were pursued and sustained. The medium-term macroeconomic framework presented in Annex Table 6 should, therefore, be seen as one of the possible scenarios that could emerge, rather than as a projection as such, if the appropriate policies were pursued and confidence in the economy returned.

The scenario envisages that growth of real GDP would accelerate to 5 percent per annum by 1990/91; the rate of inflation would fall steadily to 10 percent by 1992/93; and the current account deficit would fall sharply in 1993/94 and gradually decline to a deficit of one percent of GDP by 1994/95. Consistent with the growth objective, investment would rise by one percentage point annually, or 5.5 percentage

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1/ Assets of Sierra Leonean nonbank residents held in commercial banks in the BIS reporting area amounted to US$111 million as of June 1989, compared with the corresponding liabilities of US$22 million.

points of GDP in the five-year period 1990/91-1994/95. In order to bring about the desired improvement in the current account balance while accommodating higher investment, domestic savings would have to rise by 8 percent of GDP in the five-year period. The higher savings could arise equally from larger budgetary savings and from increased private savings. Imports would continue to increase at a high pace, reflecting large and growing investment (Annex Table 7). This would require a rapid increase of exports, which should be feasible owing to the fruition of the investment projects in both mining and agriculture, the maintenance of a competitive exchange rate, and more efficient utilization of fisheries and other resources.

V. Staff Appraisal

Over the last decade, Sierra Leone's economic and financial conditions have been very difficult and deteriorating. Shortages of essential commodities, including rice, petroleum products, and medicine have been frequent; the rate of inflation has been high; the stagnation in real GDP has led to a steady and significant fall in real income per capita, giving rise to a marked increase in the incidence of poverty and malnutrition; and the social and economic infrastructures have deteriorated severely. Furthermore, the provision of public services, including health care, has suffered greatly, and public trust and confidence have been seriously eroded. With external debt service arrears to virtually all its creditors, including the Fund, the country's standing in the international community has suffered and the economy has been deprived of much needed foreign investment and development assistance.

Economic and financial mismanagement has led this richly endowed country to its present predicament. Exports of major commodities and imports of essential products were controlled by the state either directly or through licensing. The exchange rate was overvalued. Producer prices for major export commodities were kept low, with the profits realized in exports directed to finance the subsidization of rice, the staple food, which was imported only by the state agricultural marketing board. These policies have led to large-scale smuggling of major exports, and have diverted most foreign exchange transactions to the parallel market.

The budget deficits have been large. The deficits have been attributable to large nonproductive expenditure, as well as to the collapse of revenue collection. Owing largely to central bank financing of the deficit, money supply increased sharply, and monetary expansion has exerted severe pressure on consumer prices and parallel market exchange rates. The banking system has not been competitive, and an increasing share of financial intermediation has been conducted outside of the banking system. Such intermediation, together with high inflation and substantially negative real interest rates, has led to severe shortages of local currency notes, a development which has seriously eroded confidence in the banking system.

Faced with this serious situation, the authorities began to implement some adjustment measures earlier this year. The public sector's monopoly on major exports and on imports of rice was abolished; export licenses for diamonds and gold are now granted to qualified individuals or corporations; the exchange rate was depreciated in March from Le 44 per U.S. dollar to Le 65 per U.S. dollar, compared with the parallel market rate of Le 70 per U.S. dollar at that time; the prices of petroleum products were doubled on July 1, 1989; the foreign exchange surrender requirements were streamlined; and the overall fiscal deficit for 1988/89 was kept below the original budget estimate.

Unfortunately, policy reform efforts were not maintained during July-September 1989. Actions to tighten liquidity and raise interest rates were not taken until end-September in spite of the sharp depreciation of the parallel market exchange rate to Le 110-120 per U.S. dollar by early September. The official exchange rate remained at Le 65 per U.S. dollar, resulting in a substantial appreciation in real terms in this period. Most importantly, the Government borrowed from the BSL at least Le 605 million during this period, equivalent to 8 percent of the money stock at the beginning of this period, in sharp contrast to the earlier indication by the authorities that no such borrowing would be undertaken. It is regrettable that it proved impossible to use the period July-September to begin to establish the record of sustained policy implementation that was needed for Sierra Leone to begin to re-establish its credibility and that would have provided a basis for the initiation of discussions on a Fund-monitored program.

Despite the slippages during July-September, the authorities have emphasized their desire to cooperate with the Fund and to continue to work toward establishment of a basis for discussions on a Fund-monitored program. They have reiterated their intention to make payment by December 20, 1989 of an amount equivalent to obligations falling due in the last quarter of 1989 (approximately SDR 4.7 million). Such payment would represent a further and welcome indication by the authorities of their desire to cooperate with the Fund.

Moreover, on November 17, 1989, the Cabinet broadly approved, for immediate implementation, the following policy package: (i) the adoption of new revenue measures yielding additional revenue of about 4 percent of GDP; (ii) the complete abolition of authorization of government expenditure through FS letters; (iii) the initiation of weekly sales of Treasury bills to absorb excess liquidity, and, consequently, to raise interest rates further; (iv) the introduction of a completely market-determined exchange rate system; (v) the complete elimination of licensing restrictions on imports and exports, except for some export licenses for monitoring purposes only; (vi) the increase of petroleum products to levels sufficient to curb smuggling; (vii) the reduction of the budget deficit target for 1989/90 to a level financable without recourse to borrowing from the domestic banking system; and (viii) the limitation of the rate of monetary expansion to a level consistent with the inflation on an annual rate of about 25 percent in the period January-June 1990. The staff believes that this policy package, if fully and promptly implemented, would constitute an important step toward addressing Sierra Leone's economic difficulties.

The staff strongly urges the authorities to proceed promptly with the measures and payment described above. It believes that these steps, if implemented fully and promptly, would lay a foundation for early initiation of discussions looking toward a Fund-monitored program. Finally, concrete steps should be taken promptly to strengthen the administrative capacity to formulate, implement, and monitor the desired policies.

Sierra Leone's exchange system involves restrictions on the making of payments and transfers for current international transactions subject to Fund approval under Article VIII. In the absence of an economic program that would lead to their removal, the staff does not recommend approval for their retention by Sierra Leone.

It is proposed that Sierra Leone remain on the standard 12-month consultation cycle.

Proposed Decision

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

1. The Fund takes this decision relating to Sierra Leone's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1989 Article XIV consultation with Sierra Leone, in the light of the 1989 Article IV consultation with Sierra Leone conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended ("Surveillance over Exchange Rate Policies").

2. Sierra Leone maintains the restrictive exchange measures described in SM/88/68, in accordance with Article XIV, Section 2, except that the restrictions evidenced by the accumulation of commercial external payments arrears, the restriction arising from limitation on the remittance of dividends obtained from investment made in accordance to the debt-equity conversion code, the restrictive features of bilateral payments agreements with Fund members, and the multiple currency practice arising from the noninterest-bearing counterpart deposits formerly required for the payment of external obligations in arrears, are subject to Fund approval under Article VIII. The Fund urges Sierra Leone to reduce reliance on exchange restrictions in general and to eliminate as soon as possible those subject to Fund approval under Article VIII, including the restrictive features of the bilateral payments agreements with other Fund members.

Table 1. Sierra Leone: Financial Arrangements with the Fund, 1979-89

Type of Arrangement	Date of Board Approval	Length	Amount of Arrangement (millions of SDRs)	Amount Drawn (millions of SDRs)	Comment
SBA	Nov. 1979	12 months	17.0	17.0	...
EFF	Mar. 1981	3 years	186.0	33.5 (2 purchases)	June 1981 performance criteria were not observed
CFF	Feb. 1983	...	20.7	20.7	...
SBA	Feb. 1984	12 months	50.2	19.0 (2 purchases)	June 1984 performance criteria were not observed
SBA	Nov. 1986	12 months	23.2	8.0 (1 purchase)	Dec. 1986 performance criteria not observed
SAF	Nov. 1986	3 years	40.53	11.6 (1 purchase)	Most of the benchmarks for the first year were not observed.

Source: Various Fund papers on Sierra Leone.

Table 2. Sierra Leone: Structure of Interest Rates, June 1984-September 1989

(In percent per annum)

	1984 June	1985 June	1986 August	1987 June	1988 June	1989 June	1989 September
Lending rates							
Treasury bill rate 1/	10.0	12.0	19.0	18.0	18.0	18.0	30.0
Discount rate	12.0	14.0	16.0	16.0	16.0	16.0	16.0
Commercial banks' lending and Overdraft rates 2/	15.0-18.0	18.0-24.0 2/	30.0-36.0 2/	30.0-36.0 2/	27.0 3/	27.0 3/	35.0 4/
Deposit rates 5/							
Time deposits with commercial banks							
Up to one month	9.0	11.0	19.0	12.0	17.0	17.0	22.0
1-3 months	10.0	12.0	20.0	12.0	17.0	17.0	23.0
3-6 months	10.5	12.0	20.5	13.0	18.5	18.5	24.0
6-9 months	11.0	13.0	21.0	14.0	21.5	21.5	25.0
9-12 months	11.5	13.5	21.5	15.0	23.0	23.0	25.0
12-18 months	12.0	14.0	22.0	16.0	24.5	24.5	26.0
18-24 months	12.5	14.5	22.5	17.0	26.0	26.0	26.0
Savings deposits	10.0	12.0	20.0	15.0	16.0	16.0	20.0
Post Office Savings deposits	10.0	12.0	20.0	15.0	16.0	16.0	20.0

Source: Data provided by the Sierra Leonean authorities.

1/ The special treasury bill (sold to non-banks) rates in September 1989 were 40 and 45 percent.
2/ Beginning July 1, 1983 the ceiling on commercial banks' lending rates was abolished.
3/ Prime lending rates: rates above prime not to exceed 5 percentage points.
4/ Prime lending rate: rates above prime not to exceed 10 percentage points.
5/ The Central Bank fixes minimum deposit rates. Commercial banks are free to offer higher rates.

Table 3. Sierra Leone: External Public Debt Outstanding, 1983/84-1988/89

(In millions of U.S. dollars; end of period)

	1983/84	1984/85	1985/86	1986/87	1987/88 Prel.	1988/89 Prel.
Medium- and long-term debt	361.0	348.0	411.0	443.2	510.4	518.0
Multilateral	(126.0)	(133.0)	(150.0)	(136.4)	(167.0)	(180.0)
Bilateral	(149.0)	(143.0)	(171.0)	(225.6)	(244.0)	(232.0)
Suppliers' credit	(49.0)	(38.0)	(51.0)	(47.1)	(56.9)	(66.0)
Financial institutions	(37.0)	(34.0)	(39.0)	(34.1)	(42.5)	(40.0)
Eurodollar loans (including arrears)	...	...	65.7	74.0	79.0	87.0
Use of Fund credit 2/	83.9	72.8	82.4	89.7	91.0	86.5
Arrears on interest payment	...	...	32.5	19.5	30.0	50.4
Interest on medium and long-term debt	(...)	(...)	(25.5)	(17.5)	(23.1)	(33.7)
On Fund charges	(--)	(--)	(7.0)	(2.0)	(6.9)	(16.7)
Commercial arrears 3/	185.0	188.0	216.9	240.9	254.5	273.0
Total	...	...	808.5	867.3	964.9	1,014.9
Memorandum item:						
Total arrears 4/	251.5	271.6	369.0	408.7	507.5	587.5

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

1/ Includes arrears on principal.
2/ IMF Trust Fund is included in multilateral debt.
3/ Commercial arrears include commercial banks' pipeline, Bank of Sierra Leone pipeline, oil company arrears and arrears arising from commercial transactions with People's Republic of China.
4/ Includes medium- and long-term interst and principal arrears, eurodollar arrears, arrears to the Fund and commercial banks.

Table 4. Sierra Leone: External Debt Service, 1988/89-1994/95

(In millions of U.S. dollars) 1/

	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
I. Medium- and long-term debt	66.53	61.94	58.08	49.42	59.46	62.01	65.03
Principal	38.51	30.27	26.59	16.36	23.27	22.65	23.89
Multilateral 2/	(16.59)	(13.06)	(13.96)	(8.20)	(7.32)	(7.58)	(7.39)
Bilateral	(13.21)	(7.25)	(6.15)	(5.66)	(13.45)	(13.97)	(15.50)
Suppliers' credits	(3.26)	(7.19)	(4.82)	(1.06)	(1.06)	(--)	(--)
Financial institutions	(5.45)	(2.77)	(1.66)	(1.44)	(1.44)	(1.10)	(1.00)
Interest 3/	28.02	31.67	31.49	33.06	36.19	39.36	41.14
Multilateral	(11.93)	(13.86)	(14.32)	(14.64)	(15.71)	(17.29)	(17.82)
Bilateral	(8.96)	(10.04)	(9.15)	(9.59)	(10.49)	(10.90)	(10.85)
Suppliers' credits	(4.17)	(3.76)	(3.34)	(3.08)	(3.00)	(2.95)	(2.95)
Financial institutions	(2.96)	(4.01)	(4.68)	(5.75)	(6.99)	(8.22)	(9.52)
II. Other	20.39	22.75	22.02	18.95	14.94	15.01	14.95
Of which:							
Euro-dollar loans	9.61	10.40	9.66	6.61	2.60	2.60	2.60
Principal	6.25	6.25	6.25	3.80	--	--	--
Interest	3.36	4.15	3.14	2.81	2.60	2.60	2.60
Total (I + II)	86.92	84.69	80.10	68.37	74.40	77.02	79.98
Memorandum items:							
Total debt service, as percent of exports, f.o.b. 4/	96.90	71.70	47.90	47.40	46.50	43.10	40.20
Fund obligations (SDR million)	15.91	13.95	14.48	8.22	7.27	7.25	7.25
Repurchases	9.35	6.83	8.81	3.16	2.32	2.30	2.30
Charges 5/	6.56	7.12	5.67	5.06	4.95	4.95	4.95

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

1/ Excludes interest on financing gap and before debt relief.
2/ Includes IMF repurchases and IMF charges.
3/ Excludes interest on financing gap, but includes estimated interest on arrears.
4/ Excludes IMF repurchases.
5/ Includes charges on overdue obligations.

Table 5. Sierra Leone: External Payments Arrears Outstanding, 1984-89

(In millions of SDRs; end of June)

	1984	1985	1986	1987	1988	1989
Arrears on medium- and long-term debt						
Multilateral 1/	2.9	6.9	12.5	11.6	18.6	24.8
Bilateral	19.1 2/	27.0 2/	40.4	24.3	38.7	59.5
Suppliers' credit/financial institutions	38.4	29.1	42.1	57.0	64.3	72.5
Subtotal	60.4	63.0	95.0	92.9	121.6	156.8
Arrears on commercial payments 3/						
Commercial banks' pipeline	108.4	107.2	94.4	90.1	92.3	101.7
Bank of Sierra Leone pipeline 4/	20.0	20.0	33.2	42.3	43.4	47.7
Chinese clearing account 5/	12.0	11.2	9.5	8.8	8.5	9.0
Oil company arrears	39.0	50.0	47.1	47.3	50.0	60.9
Subtotal	179.4	188.4	184.2	188.5	194.5	219.3
Others						
Euro-dollar loans	4.1	15.8	17.1	27.3	35.0	41.7
Arrears to the Fund (excluding Trust Fund)	---	4.9	17.1	11.1	36.2	53.5
Subtotal	4.1	20.7	34.2	38.4	71.2	95.2
Grand total	243.9	272.1	313.4	319.8	387.3	471.3

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

1/ Includes Trust Fund but excludes arrears to the Fund on repurchases and charges.
2/ Includes the effect of debt relief from four loans (Switzerland, Belgium, Norway, and Federal Republic of Germany).
3/ Includes estimated increase in arrears resulting from the accrual of interest on the arrears.
4/ Outstanding government applications still awaiting approval by Bank of Sierra Leone.
5/ Account maintained in Bank of Sierra Leone for arrears arising from commercial transactions with People's Republic of China.

Table 6. Sierra Leone: Medium-Term Scenario;
Selected Macroeconomic Indicators, 1988/89-1994/95

(Annual percentage changes)

	1984/85 Average	1988/89 Actual	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1990/91-1994/95 Average
			Projection						
Domestic sector									
Real GDP	-1.5	-4.6	2.5	5.0	5.0	5.0	5.0	5.0	5.0
Consumer prices	83.9	45.6	35.0	25.0	15.0	10.0	7.5	5.0	12.5
Gross investment/GDP	9.3	9.0	9.0	10.0	11.0	12.0	13.5	14.5	12.2
Gross domestic Savings/GDP	9.1	8.2	8.6	9.8	10.5	13.6	15.0	16.5	13.1
Fiscal deficit (commercial)/GDP	--	-7.5	-3.6	-2.0	-2.0	-2.0	-2.0	-2.0	-0.3
External sector									
Export volume	1.4	--	32.9	29.5	18.9	9.1	8.4	8.3	14.8
Import volume	-5.2	--	8.5	8.0	3.5	3.4	3.9	4.4	4.6
Terms of trade	-5.6	--	-5.6	-4.0	-1.1	-0.9	-0.1	-0.1	-1.2
Current account/GDP	-6.5	--	-15.1	-8.0	-6.8	-4.7	-2.7	-0.8	-4.6
Reserve (months of import)	0.6	--	0.5	0.6	0.7	0.8	0.9	1.0	0.8
Debt/GDP	103.2	--	214.8	...	...	...	...	...	...
Debt service/exports	82.3	--	71.7	47.9	47.4	46.5	43.1	40.2	45.0

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

Table 7. Sierra Leone: Medium-Term Balance of Payments Scenario, 1989/90-1994/95

(In millions of SDRs)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
Trade balance	-12.3	5.0	25.7	35.9	47.3	58.9
Exports, f.o.b.	(112.2)	(141.1)	(169.8)	(190.0)	(212.2)	(235.5)
Imports, f.o.b.	(-124.5)	(-136.1)	(-144.1)	(-154.1)	(-164.9)	(-176.6)
Services (net)	-64.2	-55.6	-78.3	-82.8	-86.9	-88.5
Freight and insurance	(-20 3)	(-22.2)	(-23.5)	(-25.4)	(-26.8)	(-28.8)
Interest	(-47.8)	(-38.1)	(-60.2)	(-65.0)	(-69.1)	(-71.6)
Other	(3.9)	(4.7)	(5.4)	(7.3)	(9.5)	(11.9)
Unrequited transfers (net)	16.0	21.0	25.0	25.0	25.0	25.0
Private	(4.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Official	(12.0)	(16.0)	(20.0)	(20.0)	(20.0)	(20.0)
Current account	-60.0	-29.5	-27.7	-21.9	-14.6	-4.7
Capital account	4.7	11.3	17.0	15.1	18.4	12.3
Long-term (net)	-3.9	6.3	17.0	15.1	18.4	12.3
Official	-3.9	4.3	13.0	9.1	10.4	4.3
Private	--	2.0	4.0	6.0	8.0	8.0
Short-term (including errors and omissions)	8.7	5.0	--	--	--	--
Overall balance; deficit (-)	-55.8	-18.2	-10.7	-6.8	3.7	7.6
Financing gap	—	-108.5	-18.9	-14.1	-3.6	0.3

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

Sierra Leone--Relations with the Fund
(As of November 30, 1989)

I. Membership status

(a) Date of membership: September 20, 1962

(b) Status: Article XIV

A. Financial Relations

II. General Department

1. General Resources Account

(a) Quota: SDR 57.9 million

(b) Fund holdings of leones: SDR 114.81 million (198.28 percent of quota)

	SDR million	Percent of quota
(c) Fund holdings subject to repurchase and charges:	56.92	98.30
Of which: compensatory financing facility	(12.20)	(21.07)
credit tranches	(18.50)	(32.00)
extended Fund facility	(11.76)	(20.30)
supplementary financing facility	(6.45)	(11.14)
enlarged access resources	(7.96)	(13.75)

(d) Reserve tranche position: SDR 24,146

2. Special disbursement account

Structural adjustment facility loans outstanding: SDR 11.58 million

Sierra Leone--Relations with the Fund (continued)

III. Latest stand-by arrangements and special facilities

(a) Most recent stand-by arrangement:

(i) Duration	From November 14, 1986 to November 13, 1987
(ii) Amount	SDR 23.16 million
(iii) Utilization	SDR 8.00 million
(iv) Undrawn balance	SDR 15.16 million

(b) Previous arrangements:

1. Stand-by arrangement

(i) Duration	From February 3, 1984 to February 2, 1985
(ii) Amount	SDR 50.2 million
(iii) Utilization	SDR 19.0 million
(iv) Undrawn balance	SDR 31.2 million

2. Extended arrangement

(i) Duration	From March 30, 1981 to April 6, 1982
(ii) Amount	SDR 186.0 million
(iii) Utilization	SDR 33.5 million
(iv) Undrawn balance	SDR 152.5 million

(c) Special facilities:

1. Structural adjustment facility

(i) Amount	SDR 40.53 million
(ii) Utilization	SDR 11.58 million
(iii) Undrawn balance	SDR 28.95 million

2. Compensatory financing facility

(i) Date of purchase	February 14, 1983
(ii) Amount	SDR 20.7 million

IV. SDR Department

(a) Net cumulative allocation	SDR 17.46 million
(b) Holdings	--

Sierra Leone--Relations with the Fund (continued)

V. Administered accounts

(a) Trust Fund loans:

(i) Disbursed	SDR 24.43 million
(ii) Outstanding	SDR 11.04 million

(b) SFF Subsidy Account:

(i) Donations to Fund	--
(ii) Loans to Fund	--
(iii) Payments by Fund	SDR 2.36 million

(c) Structural Adjustment Facility:

(i) First year disbursement	SDR 11.58 million
(ii) Undrawn balance	SDR 28.95 million

VI. Overdue obligations to the Fund SDR 69.4 million

B. Nonfinancial Relations

VII. Exchange rate arrangement

Sierra Leone's exchange arrangements have been modified on a number of occasions in recent years. The leone was pegged to the SDR at the rate of SDR 1 = Le 1.37 until December 17, 1982 when a dual exchange rate system was introduced. On July 1, 1983 the exchange system was unified when the leone was devalued by 50 percent in foreign currency terms and pegged to the U.S. dollar at the rate of US$1 = Le 2.50. In early 1984 a dual exchange system was reintroduced by the authorities: this system consisted of importers negotiating directly for foreign exchange proceeds of gold and diamond exports, and an official market for all other transactions in which the exchange rate remained fixed at US$1 = Le 2.50. All imports and exports continued to be valued for customs purposes at the official exchange rate. This system continued to operate until September 1984. From September 1984, limited allocations of foreign exchange for private sector payments were made under an arrangement whereby a newly formed company (the Precious Minerals Marketing Company), accepted applications for foreign exchange at rates differing from the official rate. Other sources of foreign exchange to the Sierra Leonean economy included official aid and grants, the required surrender of foreign exchange proceeds to the central bank for official uses, a very small amount of surrender to commercial banks, retention allowances for own use by certain exporters, and an extensive parallel market.

Sierra Leone--Relations with the Fund (continued)

On February 21, 1985, the official exchange rate for the leone was devalued to Le 6 = US$1 from Le 2.5 = US$1, representing a 58.3 percent depreciation with respect to the U.S. dollar, the intervention currency. From that date, the leone was pegged to the SDR, with the Bank of Sierra Leone issuing daily equivalent exchange rates for the leone in terms of all major currencies.

On June 27, 1986, the Sierra Leone authorities adopted a freely floating interbank exchange system. However, since May 1987 the authorities have managed the exchange rate of leone and revalued it from Le 53 = US$1 to Le 23 = US$1 to date. From March 1988 the authorities implemented a flexible exchange rate policy in which the leone was gradually devalued from Le 23 = US$1 to Le 45 = US$1 by mid-August 1988. The leone was further devalued to Le 65 = US$1 on March 1, 1989.

VIII. Article IV consultation

The 1987 Article IV consultation discussions with Sierra Leone were held in Freetown during the period November 26-December 13, 1987 and completed in Washington during January 13-20, 1988. The staff report (SM/88/68) was discussed by the Executive Board on April 20, 1988, and the following decision was taken:

1. The Fund takes this decision relating to Sierra Leone's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1988 Article XIV consultation with Sierra Leone, in the light of the 1987 Article IV consultation with Sierra Leone conducted under Decision No. 5392-(77/63), adopted April 29, 1977 ("Surveillance over Exchange Rate Policies").

2. Sierra Leone maintains the restrictive exchange measures described in SM/88/68, in accordance with Article XIV, Section 2, except that the restrictions evidenced by the accumulation of commercial external payments arrears, the allocation of foreign exchange for imports, the bilateral payments agreements with restrictive features with Fund members, and the multiple currency practice arising because non-interest bearing counterpart deposits are required for payments of arrears, are subject to approval by the Fund under Article VIII, Sections 2(a) and 3. The Fund urges Sierra Leone to reduce reliance on exchange restrictions in general, and to eliminate as soon as possible those subject to Fund approval under Article VIII, including the restrictive features of the bilateral payments agreements.

Sierra Leone--Relations with the Fund (concluded)

IX. Technical assistance

1. Between April 1983 and October 1985, an FAD panel expert was assigned to the Ministry of Finance as Budget Advisor; and an FAD panel expert was assigned in March 1987 to the Ministry of Finance in the same capacity. His term ended in August 1988.

2. During January 21-February 1, 1985, a Fund staff team visited Sierra Leone and discussed with the authorities the design of a flexible exchange rate system.

3. At the request of the Sierra Leonean authorities, a Fund technical expert assisted the authorities during July-August 1986, in the operation of the new interbank exchange system.

4. A fiscal mission visited Freetown for three weeks beginning October 23, 1986 to review the tax system.

X. Resident representative

The most recent Fund resident representative took up his assignment in late July 1986 and his appointment was renewed for another year following which the post was closed in July 1988.

Sierra Leone--Relations with the World Bank Group

In recent years, World Bank activities in Sierra Leone have focussed on sectoral programs and projects in the agriculture, education, infrastructure and, more recently, health sectors. Sierra Leone was placed on non-accrual status on August 15, 1987 and currently has arrears of US$7.4 million as of October 1989. The Bank has worked closely with the Fund in its discussions with the Government on economic reform over the past year. Assuming that the Fund's ongoing discussions with the Government lead towards a program, the Bank expects to resume disbursements on existing projects in agriculture, education, and health and will process a power rehabilitation project as soon as arrears are paid.

Sierra Leone - Financial Relations with the World Bank Group
as of October 31, 1989

(In millions of U.S. dollars)

	Disbursed		Undisbursed	
	IBRD	IDA	IBRD	IDA
IBRD/IDA lending operations				
Population and Health	--	1.0	--	4.7
Agriculture	5.0	28.5	--	23.3
Education	--	14.9	--	17.7
Transportation	6.0	12.5	--	--
Power	7.7	12.0	--	1.2
Technical assistance	--	1.9	--	--
Total	18.7	70.8	--	46.9
Of which: repaid	(10.6)	(0.8)	(--)	(--)
exchange adjustment	(-1.45)	(0.34)	(--)	(--)
Total outstanding	7.52	75.41	--	--
IFC				
Investment		2.1		

Source: World Bank Group.

Sierra Leone--Statistical Issues

1. Outstanding statistical issues

Monetary accounts

Starting in the fourth quarter of 1987, a number of problems were observed which raised questions about the overall accuracy of the monetary data reported for the Central Bank of Sierra Leone.

The Sierra Leonean authorities have indicated that they were aware of the magnitude of the problems but are not yet in a position to resolve them fully.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Sierra Leone in the December 1989 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Bank of Sierra Leone, which during the past year have been provided on a timely basis for real sector and monetary accounts data, and on an irregular basis for balance of payments data.

Status of IFS Data

		Latest Data in December 1989 IFS
Real Sector	- National Accounts	AA 1987
	- Prices: WPI	Q1 1986
	CPI	March 1989
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1988
	- Financing	1987
	- Debt	1988
Monetary Accounts	- Monetary Authorities	May 1989
	- Deposit Money Banks	May 1989
	- Other Banking Institutions	n.a.
Interest Rates	- Discount Rate	July 1989
	- Bank Deposit/Lending Rates	July 1989
	- Treasury Bill Rate	July 1989
External Sector	- Merchandise Trade: Values	June 1989
	Prices	n.a.
	- Balance of Payments	1987
	- International Reserves	Oct. 1989
	- Exchange Rates	Oct. 1989

3. Technical assistance missions in statistics (1986-present)

Subject	Staff Member	Date
General Economic Data	Mr. D. Kar	April 9-18, 1986

Sierra Leone--Basic Data

Area, population, and GDP per capita

Area	72,326 square kilometers
Population:	
Total (1987 estimate)	4.0 million
Growth rate	2.7 percent per annum
GDP per capita	SDR 160

	1984/85	1985/86	1986/87	1987/88 Est.	1988/89 Est.
			(In millions of leones)		
Gross domestic product, expenditure and prices					
GDP at constant 1984/85 prices	4,752.4	4,582.5	4,824.3	4,832.2	4,610.2
Agriculture, forestry, and fishing	2,075.5	1,974.4	2,125.5	2,121.2	1,803.0
Mining and quarrying	297.9	329.9	346.1	207.7	176.5
Manufacturing and handicrafts	232.6	216.2	191.0	225.4	202.9
Other sectors	2,146.4	2,062.0	2,161.7	2,277.9	2,427.8
GDP at current market prices	4,752.4	7,441.8	19,405.0	25,612.0	38,418.0
Gross domestic expenditure	5,254.9	8,390.3	21,755.4	29,390.6	45,336.6
Gross investment	3,969.5	6,198.7	2,058.4	2,305.1	3,457.6
Gross savings	437.5	745.5	2,223.6	1,973.7	2,750.0
			(Annual percentage change)		
GDP at constant 1984/85 prices	-2.7	-3.6	5.3	-0.2	-4.6
GDP at current prices	57.1	56.6	153.8	59.7	50.0
GDP deflator	59.8	60.2	148.5	59.9	54.6
Consumer price index	61.8	70.4	167.4	70.0	45.6
			(In percent of GDP)		
Gross consumption	90.8	90.0	88.5	92.3	92.8
Gross investment	9.9	7.8	10.6	9.0	9.0
Resource	-0.8	-1.3	0.9	-1.3	-1.8
			(In millions of leones)		
Revenue and grants	324.4	511.2	2,125.0	2,817.0	4,225.0
Revenue	271.5	406.2	1,415.0	2,331.0	3,693.0
Tax revenue	(256.9)	(379.2)	(1,378.0)	(1,859.0)	(3,588.0)
Nontax revenue	(14.6)	(27.0)	(37.0)	(472.0)	(105.0)
Grants	52.9	105.0	710.0	486.0	532.0

Sierra Leone--Basic Data (continued)

	1984/85	1985/86	1986/87	1987/88	1988/89 Est.
Total expenditure	811.4	1,431.8	4,989.0	4,665.0	7,090.0
Current expenditure	541.9	1,063.1	2,990.0	3,816.0	6,142.0
Development expenditure	126.2	212.8	899.0	649.0	809.0
Other expenditure	143.3	155.9	1,100.0	200.0	139.0
Overall deficit (commitment base)	-487.0	-921.8	-2,864.0	-1,848.0	-2,865.0
Change in expenditure-related arrears (increase +)	149.5	106.7	777.0	884.0	1,341.0
Overall deficit (cash basis)	-337.8	-815.1	-2,087.0	-964.0	-1,524.0
Financing	337.8	815.0	2,087.0	964.0	1,524.0
Foreign	45.0	37.3	-68.0	-29.0	-87.0
Drawings	75.0	65.4	89.0	12.0	34.0
Amortization	-99.0	-230.0	-1,165.0	400.0	-1,500.0
Arrears accumulated	69.0	201.9	1,008.0	359.0	1,379.0
Domestic	292.8	777.8	2,155.0	993.0	1,611.0
Bank	268.7	756.5	1,946.0	966.7	1,589.0
Nonbank	24.1	21.3	209.0	26.3	22.0
			(In percent of GDP)		
Revenue and grants	6.8	6.9	11.0	11.0	11.0
Total expenditure	17.1	19.2	25.7	18.2	18.5
Current expenditure	11.4	14.3	15.4	14.9	16.0
Development expenditure	2.7	2.9	4.6	2.5	2.1
Other expenditure	3.0	2.1	5.7	0.1	--
Overall deficit (commitment basis)	10.3	12.4	14.8	7.2	7.5
Overall deficit (cash basis)	7.1	10.9	10.8	3.8	4.0
			(In millions of leones)		
Money and credit (end of period)					
Foreign assets (net)	-1,549.0	-2,135.8	-9,197.2	-5,730.4	-13,231.7
Domestic credit	1,360.9	2,142.8	4,371.4	5,683.9	8,370.6
Claims on Government	(1,191.4)	(1,948.1)	(3,894.4)	(4,861.1)	(6,450.0)
Claims on public enterprises	(5.0)	(17.4)	(2.2)	(38.0)	(94.6)
Claims on private sector	(164.5)	(177.3)	(474.8)	(784.8)	(1,826.0)
Money and quasi-money	882.3	1,551.3	3,511.5	4,808.6	7,354.9
Other items (net)	-1,070.4	-1,544.3	-8,337.3	-4,855.1	-12,216.0
			(In percent of GDP)		
Domestic credit	28.6	28.8	26.4	22.2	21.8
Claims on Government (net)	25.1	26.2	23.6	19.0	16.8
Money and quasi-money	18.6	20.8	21.2	18.8	19.1

Sierra Leone--Basic Data (concluded)

	1984/85	1985/86	1986/87	1987/88 Est.	1988/89 Est.
	(In millions of SDRs)				
Balance of payments					
Exports, f.o.b.	139.4	111.1	101.6	85.9	89.2
Imports, f.o.b.	-146.7	-111.8	-95.7	-94.2	-114.4
Trade balance	-7.3	0.6	5.9	-8.3	-25.2
Services (net)	-80.5	-53.5	-53.6	-59.4	-58.2
Private transfers	1.9	2.5	2.5	0.2	2.5
Official transfers	17.5	20.1	18.7	14.2	8.2
Current account balance	-69.4	-31.5	-25.9	-53.3	-72.7
Long-term capital	4.3	-27.2	-30.1	-31.9	-23.0
Short-term capital and errors and omissions	21.8	-1.3	-9.7	2.2	18.7
Allocation of SDRs	--	--	--	--	--
Overall balance	-43.3	-60.0	-65.7	-83.0	-77.0
	(In percent of GDP)				
Exports, f.o.b.	10.0	10.0	26.6	11.4	14.0
Imports, c.i.f.	10.6	10.1	25.1	12.5	18.0
Current account deficit	-5.0	-2.8	-6.8	-7.1	-11.4
Overall balance of payments deficit	-3.1	-5.4	-17.2	-11.0	-12.0
	(In millions of SDRs)				
Gross official foreign reserves (end of period)					
Holdings of SDRs	--	--	--	--	--
IMF reserve position	--	--	--	--	--
Foreign exchange	7.8	8.1	1.5	6.4	3.8
Total	7.8	8.1	1.5	6.4	3.8
External medium- and long-term public debt (disbursed at end of period)	348.6	350.1	346.8	389.4	416.1
	(Four quarter averages; 1980=100)				
Effective exchange rates 1/					
Nominal trade-weighted	56.0	31.7	4.7	5.5	3.4
Real trade-weighted	208.1	199.6	66.8	41.9	114.7

1/ A downward movement indicates a depreciation.