SM/88/68

CONTAINS CONFIDENTIAL
INFORMATION

March 23, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Sierra Leone - Staff Report for the 1987 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with Sierra Leone, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 23.

Mr. Edo (ext. 8752) or Mr. Martey (ext. 6514) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL INFORMATION

INTERNATIONAL MONETARY FUND

SIERRA LEONE

# Staff Report for the 1987 Article IV Consultation

Prepared by the Staff Representatives for the 1987 Consultation with Sierra Leone

(In Consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by A.D. Ouattara and S.J. Anjaria

March 22, 1988

## I. Introduction

The 1987 Article IV consultation discussions with Sierra Leone were initiated in Freetown during the period November 26-December 13, 1987, and completed in Washington during January 13-20, 1988. The Sierra Leonean representatives included the Hon. Hassan G. Kanu, Minister of Finance, Mr. A.R. Turay, Governor of the Bank of Sierra Leone (BSL), and other senior officials concerned with economic and financial matters. The staff representatives were Mr. Edo (head-AFR), Mr. Martey (AFR), Mr. Saunders (STA), Mr. Modi (FAD), Mr. Frenkel (ETR), and Ms. Selassie (secretary-AFR). Mr. Kalinga, the Fund's resident representative in Freetown, participated in the discussions.

Sierra Leone continues to avail itself of the transitional arrangements of Article XIV. The last stand-by arrangement for Sierra Leone, approved by the Executive Board on November 14, 1986, in an amount equivalent to SDR 23.16 million, or 40 percent of the quota of SDR 57.9 million, was to cover the 12-month period from November 14, 1986. Simultaneously, the Board approved a three-year arrangement and the first annual arrangement under the structural adjustment facility (SAF). However, the stand-by arrangement became inoperative after the initial purchase equivalent to SDR 8.0 million, as Sierra Leone's adjustment effort was not maintained and targets were not observed; the provisions of a four-month (March-June) shadow program initiated in early 1987 to arrest the deterioration were not carried out either. A disbursement for the equivalent of SDR 11.58 million under the first annual arrangement under the SAF was made to Sierra Leone, but thus far no program has been discussed for the second annual arrangement; most of the structural policy benchmarks for the first year were not met.

In recent years, Sierra Leone has encountered considerable difficulties in meeting its financial obligations to the Fund. Of the SDR 29.6 million that fell due during 1987, Sierra Leone discharged only SDR 2.1 million. As of March 10, 1988, Sierra Leone's overdue financial obligations to the Fund totaled SDR 36.0 million, equivalent to 62 percent of quota. At the Executive Board's meeting on January 25, 1988 for a further review of its decisions regarding Sierra Leone's overdue financial obligations to the Fund (EBS/88/4, 1/12/88), the Executive Board decided that unless by April 25 Sierra Leone was current in its financial obligations, or the Article IV consultation had been completed and the Managing Director had informed the Executive Board that he was satisfied that a comprehensive adjustment program was being implemented, and that the program offered the prospect of the prompt elimination of the overdue obligations to the Fund, Sierra Leone would be ineligible to use Fund resources with effect from that date.

Sierra Leone is on the standard 12-month consultation cycle. The last Article IV consultation with Sierra Leone was concluded by the Executive Board on November 14, 1986. In discussing the staff report, Directors were encouraged by the Sierra Leonean authorities' adoption at that time of a comprehensive adjustment program, but stressed that the authorities would need to implement strong follow-up actions in a number of areas in order to maintain and accelerate the momentum of their adjustment efforts. In addition, given the difficult medium-term prospects for the balance of payments position, the authorities would need to monitor the implementation of the floating exchange rate system very closely to ensure that it continued to operate in a fully market-determined manner.

Summaries of Sierra Leone's relations with the Fund and the World Bank Group are provided in Appendices I and II, respectively. As of February 1988, Sierra Leone had overdue financial obligations to the Bank amounting to US$3.3 million, and was placed on accrual status on August 15, 1987. Statistical issues are discussed in Appendix III. A summary of Sierra Leone's implementation of structural policy benchmarks is given in Appendix IV. Projections and basic data are presented in Appendices V-VII.

## II. Background

Sierra Leone's natural resources include minerals (diamonds, gold, bauxite, and rutile), fish, and considerable cultivable land. However, inappropriate policies and failure to sustain efforts at financial stabilization have led to stagnation in economic performance, declining per capita incomes, high levels of domestic inflation, large fiscal deficits financed predominantly from the domestic banking system, and substantial balance of payments deficits financed largely through accumulation of external payments arrears.

In the five years ended 1985/86 (July/June), real gross domestic product (GDP) declined on average by about 1 percent per annum and the domestic rate of inflation (as measured by the consumer price index) averaged 56 percent annually (Table 1). The ratio of the overall fiscal deficit (on a commitment basis) to GDP declined from 12.6 percent in

Table 1. Sierra Leone: Selected Economic and Financial Indicators, 1981/82-1987/88 1/

| | 1981/82 | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 2/ | 1987/88 Proj. |
|---|---|---|---|---|---|---|---|
| | (Annual percentage change, unless otherwise specified) | | | | | | |
| Income and expenditure | | | | | | | |
| GDP at constant prices | 1.7 | -1.4 | 1.3 | -2.7 | -3.5 | 3.8 | -0.3 |
| GDP at current market prices | 24.2 | 16.9 | 45.5 | 57.1 | 47.7 | 160.9 | 65.7 |
| Gross domestic expenditure at current prices 3/ | 17.2 | 17.8 | 33.4 | 55.8 | 48.5 | 161.0 | 71.8 |
| Consumer prices | 25.2 | 44.6 | 78.7 | 61.8 | 70.4 | 167.4 | 70.0 |
| External sector (on the basis of SDRs) | | | | | | | |
| Exports, f.o.b. | -10.0 | -25.9 | 22.7 | 29.5 | -20.3 | -8.8 | -20.5 |
| Imports, f.o.b. | 2.0 | -34.8 | -24.5 | 20.6 | -23.8 | -14.6 | -8.2 |
| Oil imports, f.o.b. | 68.6 | -34.6 | 14.7 | -6.5 | -50.7 | -14.6 | -2.5 |
| Diamond export volume | -29.4 | 27.6 | -33.8 | 13.4 | 19.9 | -6.0 | -42.4 |
| Terms of trade (deterioration -) | -13.7 | -25.3 | 9.2 | 8.8 | -8.5 | -10.0 | -10.9 |
| Nominal effective exchange rate 4/ (depreciation -) | 7.1 | 5.0 | -44.8 | -12.8 | -43.4 | -85.2 | ... |
| Real effective exchange rate 4/ (depreciation -) | 23.3 | 42.3 | -3.2 | 25.0 | -4.1 | -66.5 | ... |
| Government finance | | | | | | | |
| Total revenue and grants | -9.6 | -12.0 | 46.0 | 22.5 | 57.5 | 340.7 | -20.0 |
| Total revenue | -13.6 | -14.8 | 31.6 | 32.3 | 32.2 | 248.3 | -0.3 |
| Total expenditure 5/ | 0.4 | 0.3 | 15.5 | 71.7 | 76.4 | 290.5 | -11.8 |
| Money and credit | | | | | | | |
| Domestic credit | 30.8 | 38.4 | 20.6 | 30.1 | 57.5 | 104.0 | 47.1 |
| Government | 36.5 | 42.8 | 23.1 | 29.1 | 63.5 | 100.1 | 44.5 |
| Private sector | 7.8 | 15.4 | 4.6 | 37.3 | 15.2 | 145.0 | 68.1 |
| Money and quasi-money (M2) | 25.5 | 36.8 | 28.5 | 54.7 | 75.8 | 126.4 | 47.1 |
| Velocity (GDP relative to M2) | 4.9 | 4.2 | 4.8 | 4.9 | 4.1 | 4.7 | 5.3 |
| Interest rate 6/ (annual rate on one-year deposits) | 11.5 | 11.5 | 13.5 | 13.5 | 13.5 | 21.5 | 16.0 |
| | (In percent of GDP, unless otherwise specified) | | | | | | |
| Overall government deficit 7/ (commitment basis) | 12.6 | 12.1 | 7.6 | 11.4 | 14.5 | 20.2 | 10.5 |
| Overall government deficit 7/ (cash basis) | 10.0 | 14.4 | 7.6 | 7.9 | 12.8 | 15.5 | 10.5 |
| Domestic bank financing | 8.7 | 12.0 | 6.3 | 6.3 | 11.9 | 11.8 | 6.3 |
| Percent of initial money stock | 54.1 | 69.3 | 39.0 | 47.1 | 85.7 | 125.5 | 49.4 |
| Foreign financing | 2.0 | 2.2 | -0.3 | 1.0 | 0.6 | 2.4 | 2.3 |
| Gross domestic investment 3/ | 13.4 | 14.3 | 12.7 | 9.9 | 7.8 | 2.7 | 4.0 |
| Gross domestic savings | 3.2 | 3.3 | 10.9 | 9.0 | 6.3 | 1.2 | -1.2 |
| External current account deficit (-) | -15.0 | -8.3 | -3.7 | -5.0 | -2.8 | -5.8 | -6.1 |
| Balance of payments deficit (-) | -10.2 | -5.4 | -4.2 | -3.1 | -5.4 | -15.8 | -12.3 |
| External debt 8/ | | | | | | | |
| Exclusive of IMF | 24.8 | 34.5 | 25.4 | 31.5 | 83.0 | 42.2 | ... |
| Inclusive of IMF | 28.1 | 40.5 | 48.5 | 61.2 | 179.0 | 87.1 | ... |
| External debt service as percent of exports 9/ | | | | | | | |
| Excluding IMF | | | | | | | |
| Before debt relief | 50.4 | 57.9 | 41.6 | 44.6 | 63.9 | 72.7 | 104.6 |
| After debt relief | 43.8 | 19.0 | 32.8 | 39.4 | 63.9 | 59.1 | 92.6 |
| Including IMF | | | | | | | |
| Before debt relief | 58.2 | 66.0 | 50.6 | 55.9 | 78.5 | 94.7 | 137.2 |
| After debt relief | 51.6 | 27.1 | 41.8 | 50.7 | 78.5 | 81.1 | 125.2 |
| Gross official foreign reserves (months of imports) 6/ | 0.4 | 0.6 | 0.5 | 0.5 | 0.7 | 1.0 | 0.1 |
| | (In millions of SDRs) | | | | | | |
| Balance of payments deficit (-) | -120.2 | -73.8 | -43.6 | -43.3 | -60.0 | -66.2 | -111.2 |
| External current account deficit (-) | -176.0 | -114.5 | -37.8 | -68.4 | -31.5 | -24.4 | -54.8 |
| External payments arrears 6/ | 199.5 | 239.9 | 236.2 | 276.0 | 314.9 | 322.7 | ... |

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

1/ Fiscal years July-June.

2/ Uses an average exchange rate of Le 36 = US$1 for 1986/87. Owing to the sharp drop in GDP, in foreign currency terms, entailed in the large depreciation of the leone in the context of the floating exchange rate system, there may be marked shifts in the ratios of a number of aggregates in relation to GDP.

3/ Includes changes in stocks.

4/ Trade-weighted. Changes in four-quarter averages. Information Notice System.

5/ Commitment basis. Prior to 1985/86, data do not include accumulated arrears on external interest.

6/ End of period. For 1987/88 this is the rate in effect as of end-December 1987.

7/ 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.

8/ Disbursed medium term and long term only; at end period and as percent of following fiscal year GDP.

9/ Exports of goods only.

1981/82 to 7.6 percent in 1983/84 when Sierra Leone followed a Fund-supported adjustment program, but expanded rapidly to 14.5 percent in 1985/86 as domestic revenue rose at a much lower rate than expenditure (Table 2). Over the five-year period, government domestic revenue fell from 11.4 percent of GDP to 6.4 percent, and barely covered the wages and salaries and goods and services components of recurrent expenditure, while development outlays remained below 6 percent of GDP. As foreign financing remained below 3 percent of GDP, the bulk of the overall fiscal deficits was financed from the domestic banking system; by 1985/86 such financing had reached 85.7 percent of the beginning stock of broad money and constituted the major element of the inflationary pressures experienced over the period. The Government accumulated considerable domestic payments arrears.

Monetary and credit developments were strongly influenced by the Government's expansionary fiscal policies. The banking system's claims on Government consistently exceeded 80 percent of domestic credit, and reached 91 percent in June 1986 (Table 3). With claims on Government increasing at an annual average rate of about 40 percent, and external resources remaining at a low level, broad money expanded at an annual rate exceeding 44 percent. Of the small portion of total domestic credit that was taken by the private sector, the larger part was used to finance commerce. The structure of interest rates on savings deposits, ranging between 3 percent and 15 percent, did not encourage domestic savings; the ratio of quasi-money to broad money fell steadily to less than 24 percent by June 1986.

The external payments position remained very difficult. Although the overall balance of payments deficit was reduced by nearly two thirds between 1981/82 and 1984/85, to SDR 43.3 million, this was mainly on account of a compression of imports; exports stagnated, with an expansion in the volume of rutile exports being offset by a decline in the volume and unit value of diamonds (Table 4). The overall balance of payments deficit worsened to SDR 60.0 million in 1985/86, notwithstanding a continued contraction in imports. Throughout the period, the balance of payments deficits were largely financed through the accumulation of external payments arrears, which reached SDR 315 million (28 percent of GDP) by end-June 1986.

Beginning in June 1986 the authorities, in consultation with the Fund, introduced measures to deal with the difficult economic situation and a Fund-supported program was approved by the Executive Board on November 14, 1986. The first review of the stand-by arrangement could not be concluded because the authorities could not adopt measures adequate to maintain the original targets of the program. Given political conditions following the massive liberalization of prices and the exchange system beginning in June 1986, the authorities felt they could not proceed in December 1986 with privatization of rice and petroleum products and freeing of the respective retail prices in order to eliminate the relevant subsidies. For the same reasons, the authorities could not effect the agreed retrenchment of government employees, nor

Table 2. Sierra Leone: Central Government Budgetary Operations, 1982/83-1987/88 1/

| Fiscal year ending June 30 | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 | | 1987/88 | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Program | Prov. actuals | Budget | Proj. |
| | | | | | (In millions of leones) | | | |
| Revenue and grants | 181.5 | 264.9 | 324.4 | 511.0 | 2,118.7 | 2,253.1 | 2,695.0 | 1,802.0 |
| Revenue | 156.0 | 205.3 | 271.5 | 406.2 | 1,479.6 | 1,414.8 | 1,713.0 | 1,410.0 |
| Tax | (143.7) | (192.9) | (256.9) | (379.2) | (1,439.6) | (1,377.4) | (1,663.0) | (1,360.0) |
| Nontax | (12.3) | (12.4) | (14.6) | (27.0) | (40.0) | (37.4) | (50.0) | (50.0) |
| Grants | 25.5 | 59.6 | 52.9 | 104.8 | 639.1 | 838.3 | 982.0 | 392.0 |
| Total expenditure | 409.1 | 472.7 | 811.4 | 1,431.8 | 3,269.9 | 5,588.6 | 4,549.3 | 4,672.0 |
| Current expenditure | 261.7 | 332.6 | 541.9 | 1,063.1 | 1,971.9 | 2,989.7 | 2,549.3 | 3,156.0 |
| Development expenditure | 99.2 | 103.1 | 126.2 | 212.8 | 1,093.5 | 1,397.6 | 2,000.0 | 872.0 |
| Other expenditure 2/ | 48.2 | 37.0 | 143.3 3/ | 155.9 | 204.5 | 1,201.3 | -- | 644.0 |
| Overall deficit (commitment basis) | -227.6 | -207.8 | -487.0 | -920.8 | -1,151.2 | -3,335.5 | -1,854.3 | -2,870.0 |
| Change in expenditure-related arrears (reduction -) 4/ | -42.1 | 4.3 | 149.5 | 106.7 | -10.0 | 777.5 | 340.0 | -- |
| Overall deficit (cash basis) | -269.7 | -203.5 | -337.5 | -814.1 | -1,161.2 | -2,558.0 | -1,514.3 | -2,870.0 |
| Financing | 269.7 | 203.5 | 337.5 | 814.1 | 1,161.2 | 2,558.0 | 1,514.3 | 1,264.0 |
| Foreign financing (net) | 42.0 | -8.0 | 44.7 | 36.3 | -145.8 | 402.7 | 626.0 | -620.0 |
| Drawings | (69.0) | (40.0) | (75.0) | (65.4) | (580.0) | (560.3) | (730.0) | (480.0) |
| Amortization (-) | (-27.0) | (-48.0) | (-30.3) | (-29.1) | (-925.8) | (-157.6) | (-104.0) | (-1,100.0) |
| Amount due | -74.5 | -94.3 | -98.9 | -230.1 | -1,246.4 | -1,165.1 | -1,673.0 | -1,100.0 |
| In arrears | 47.5 | 46.3 | 68.6 | 201.0 | 320.6 | 1,007.5 | 1,569.0 | (--) |
| Domestic financing (net) | 227.6 | 211.5 | 292.8 | 777.8 | 677.2 | 2,155.3 | 888.3 | 1,884.0 |
| Banking system | (224.9) | (173.1) | (268.7) | (756.5) | (616.2) | (1,946.3) | (738.3) | (1,734.0) |
| Nonbank sector | (2.8) | (38.4) | (24.1) | (21.3) | (61.0) | (209.0) | (150.0) | (150.0) |
| Noncash foreign financing | ... | ... | ... | -- | 629.8 | ... | ... | ... |
| Debt relief (rescheduled) | ... | ... | ... | -- | 629.8 | ... | -- | ... |
| New arrears not rescheduled | ... | ... | ... | -- | -- | ... | ... | ... |
| Financing gap | -- | -- | -- | -- | -- | -- | -- | 1,606.0 |
| | | | | | (In percent of GDP) | | | |
| Revenue and grants | 9.7 | 9.7 | 7.6 | 8.1 | 12.8 | 13.6 | 9.8 | 6.6 |
| Revenue | 8.3 | 7.5 | 6.3 | 6.4 | 9.0 | 8.6 | 6.3 | 5.2 |
| Tax revenue | 7.7 | 7.1 | 6.0 | 6.0 | 8.7 | 8.3 | 6.1 | 5.0 |
| Total expenditure | 21.8 | 17.3 | 18.9 | 22.6 | 19.8 | 33.8 | 16.6 | 17.1 |
| Current expenditure | 13.9 | 12.2 | 12.6 | 16.8 | 11.9 | 18.1 | 9.3 | 11.5 |
| Development expenditure | 5.3 | 3.8 | 2.9 | 3.3 | 6.6 | 8.5 | 7.3 | 3.2 |
| Other expenditure | 2.6 | 1.4 | 3.3 | 2.5 | 1.2 | 7.3 | -- | 2.4 |
| Overall deficit (commitment basis) 5/ | -12.1 | -7.6 | -11.4 | -14.5 | -7.0 | -20.2 | -6.8 | -10.5 |
| Overall deficit (cash basis) 5/ | -14.4 | -7.5 | -7.9 | -12.8 | -7.0 | -15.5 | -5.5 | -10.5 |
| | | | | | (In percent of beginning stock of broad money) | | | |
| Bank financing | 69.3 | 39.0 | 47.1 | 85.7 | 39.7 | 125.5 | 21.0 | 49.4 |

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

1/ Government accounts have not been fully finalized and audited since 1978/79. For the period 1982/83-1985/86, revenue and expenditure data do not include transactions between the Central Government and the SLPMB on a gross basis.

2/ For the period 1982/83-1986/87, this is a residual derived from available data on financing, revenue, and expenditure.

3/ Includes payments of equity contribution to the Precious Metals Marketing Company (PMMC) and suspense account transactions as well as the residual mentioned in footnote 2 above.

4/ Prior to 1985/86, data do not include accumulation of arrears on foreign interest payments.

5/ Before debt relief.

Table 3. Sierra Leone: Monetary Survey, June 1982-September 1987

(In millions of leones; end of period)

| | 1982 | 1983 | 1984 | 1985 | 1986 | | | | 1987 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | June | | | | March | June | Sept. | Dec. | March | June | Sept. Prov. |
| Foreign assets (net) | -296.6 | -292.1 | -730.4 | -1,547.4 | -1,551.8 | -2,135.8 | -6,159.8 1/ | -8,284.3 | -11,019.2 | -9,197.2 | -9,548.5 |
| Central Bank | -275.8 | -314.3 | -761.6 | -1,582.2 | -1,596.5 | -2,176.0 | -6,414.6 | -8,608.1 | -11,661.0 | -9,825.0 | -9,905.7 |
| Commercial banks | 6.2 | 22.2 | 31.2 | 34.8 | 43.7 | 40.2 | 254.8 | 323.8 | 641.8 | 627.8 | 357.2 |
| Domestic credit | 627.1 | 867.1 | 1,046.2 | 1,360.7 | 1,940.4 | 2,142.8 | 2,456.0 | 2,957.4 | 3,271.6 | 4,371.4 | 4,504.3 |
| Claims on Government (net) | 525.0 | 749.9 | 922.9 | 1,191.6 | 1,759.0 | 1,948.1 | 2,215.7 | 2,509.3 | 2,746.8 | 3,894.4 | 3,898.8 |
| Claims on private sector | 102.1 | 117.8 | 123.2 | 169.1 | 181.4 | 194.7 | 240.4 | 448.1 | 524.8 | 477.0 | 605.5 |
| Public enterprises | (3.6) | (3.9) | (3.0) | (4.6) | (1.4) | (17.4) | (20.7) | (21.0) | (34.4) | (2.2) | (20.4) |
| Other private | (98.5) | (113.9) | (120.2) | (164.5) | (180.0) | (177.3) | (219.7) | (427.1) | (490.4) | (474.8) | (585.1) |
| Money and quasi-money | 324.5 | 443.8 | 570.2 | 882.3 | 1,2997.7 | 1,551.3 | 1,808.4 | 2,284.6 | 2,995.6 | 3,511.5 | 3,608.7 |
| Money | 169.3 | 259.4 | 375.6 | 619.1 | 561.7 | 1,185.3 | 1,441.5 | 1,851.5 | 2,521.3 | 2,958.2 | 2,947.9 |
| Quasi-money | 155.2 | 184.4 | 194.7 | 263.2 | 338.0 | 366.0 | 366.9 | 433.1 | 474.3 | 553.3 | 660.8 |
| Other items (net) 2/ | 33.0 | 131.8 | -254.5 | -1,069.0 | -911.1 | -1,544.3 | -5,512.1 1/ | -7,611.5 | -10,743.2 | -8,337.3 | -8,652.9 |
| Memorandum items: | | | | | | | | | | | |
| Ratios (in percent) | | | | | | | | | | | |
| Claims on Government/domestic credit | 83.7 | 86.4 | 88.2 | 87.6 | 90.7 | 90.9 | 90.2 | 84.8 | 84.0 | 89.1 | 86.6 |
| Currency/broad money | 28.3 | 30.1 | 39.8 | 40.0 | 38.4 | 39.5 | 38.6 | 44.0 | 43.5 | 42.7 | 41.4 |
| Quasi-money/broad money | 47.8 | 44.6 | 34.1 | 25.8 | 26.0 | 23.6 | 20.3 | 19.0 | 15.8 | 15.8 | 18.3 |

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.

Table 4. Sierra Leone: Balance of Payments, 1982/83-1987/88

(In millions of SDRs, unless otherwise stated)

| | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 | | 1987/88 |
|---|---|---|---|---|---|---|---|
| | | | | | Program | Prel. | Staff est. |
| Trade balance | -69.9 | -14.1 | -7.3 | -0.6 | 22.6 | 6.0 | -7.0 |
| Exports | (112.0) | (107.6) | (139.4) | (111.1) | (138.6) | (101.4) | (80.6) |
| Imports | (-181.9) | (-121.7) | (-146.7) | (-111.8) | (-116.1) | (-95.4) | (-87.6) |
| Services balance | -63.2 | -49.0 | -80.5 | -53.5 | -65.0 | -51.6 | -59.8 |
| Freight and insurance | (-25.7) | (-19.8) | (-23.9) | (-18.2) | (-18.9) | (-15.5) | (-14.3) |
| Other transportation | (10.1) | (6.9) | (5.3) | (7.0) | (7.5) | (6.0) | (5.1) |
| Travel | (2.0) | (1.1) | (1.1) | (0.5) | (5.5) | (0.5) | (0.5) |
| Debt service | (-13.9) | (-14.3) | (-36.7) | (-36.3) | (-42.3) | (-36.9) | (-45.3) |
| Official interest (incl. interest on arrears) | [-9.1] | [-9.0] | [-30.4] | [-30.0] | [-35.3] | [-32.7] | [-41.2] |
| IMF charges | [-4.8] | [-5.3] | [-6.3] | [-6.3] | [-7.0] | [-4.2] | [-4.1] |
| Other Government | (-4.8) | (-5.5) | (-5.3) | (-2.3) | (-2.3) | (-2.0) | (-3.0) |
| Other services | (-12.0) | (-5.0) | (-6.5) | (-3.7) | (-8.1) | (-3.2) | (-1.7) |
| Investment income | (-18.9) | (-12.4) | (-14.5) | (-0.5) | (-6.4) | (-0.5) | (-1.0) |
| Transfers 1/ | 22.1 | 25.3 | 19.4 | 22.6 | 36.8 | 21.2 | 11.9 |
| Private | (3.8) | (2.6) | (1.9) | (2.5) | (2.7) | (2.5) | (2.5) |
| Official | (18.3) | (22.7) | (17.5) | (20.1) | (34.1) | (18.7) | (9.4) |
| Current account | -111.0 | -37.8 | -68.4 | -31.5 | -5.6 | -24.4 | -54.8 |
| Capital account | 37.2 | -5.8 | 25.1 | -28.5 | -43.5 | -41.8 | -56.4 |
| Long term (net) | -7.0 | -28.8 | 4.3 | -27.2 | -6.0 | -26.6 | -25.4 |
| Official | (0.7) | (-17.0) | (1.0) | (-29.1) | (-9.2) | (-28.1) | (-29.5) |
| Drawings | [42.4] | [18.7] | [32.8] | [11.9] | [22.5] | [12.9] | [13.6] |
| Repayments due | [-41.7] | [-35.7] | [-31.8] | [-41.0] | [-31.7] | [-41.0] | [-43.1] |
| Private | (-7.7) | (-11.8) | (3.3) | (1.9) | (3.2) | (1.5) | (4.1) |
| Short term (including errors and omissions) | 44.2 | 23.0 | 20.8 | -1.3 | -37.5 | -15.2 | -31.0 |
| Overall balance | -73.8 | -43.6 | -43.3 | -60.0 | -49.1 | -66.2 | -111.2 |
| Debt relief | 34.1 | 9.4 | 7.3 | -- | -- | 13.8 | 9.7 |
| Arrears | 40.4 | -3.7 | 35.7 | 64.7 | -25.4 | 52.8 | -21.9 |
| Accrual | (...) | (...) | (...) | (64.7) | (--) | (75.6) | (--) |
| Cash payment | (...) | (...) | (...) | (--) | (-25.4) | (-22.8) | (-21.9) |
| Net Fund credit | 18.4 | 14.6 | -9.4 | -9.9 | -2.5 | -10.1 | -22.2 |
| Purchase | (20.7) | (19.0) | (--) | (--) | (15.6) | (8.0) | (--) |
| Repurchase | (-2.3) | (-4.4) | (-9.4) | (-9.9) | (-18.1) | (-18.1) | (-22.2) |
| Reserve items (increase -) 2/ | -19.1 | 23.3 | 9.7 | 5.2 | -6.4 | -1.9 | -- |
| SAF | -- | -- | -- | -- | 11.6 | 11.6 | -- |
| Gap finance | -- | -- | -- | -- | 71.9 | -- | 145.6 |
| Memorandum items: | | | | | | | |
| Stock of official foreign exchange reserves (end of period) | 9.7 | 6.4 | 7.8 | 8.1 | 14.5 | 1.5 | 1.0 |
| Official foreign exchange reserves/imports (months cover) | 0.6 | 0.6 | 0.7 | 0.9 | 1.5 | 0.2 | 0.1 |
| | | | | (In percent) | | | |
| Debt service ratio (before debt relief) | | | | | | | |
| Including the IMF | 51.6 | 50.6 | 55.9 | 78.5 | 66.5 | 94.7 | 137.2 |
| Excluding the IMF | 45.4 | 41.6 | 44.6 | 63.9 | 48.3 | 72.7 | 132.1 |
| Current account/GDP | -7.8 | -3.7 | -5.0 | -2.8 | -1.8 | -5.8 | -6.1 |
| Overall balance/GDP | -5.1 | -4.2 | -3.1 | -5.4 | -15.3 | -15.8 | -12.3 |
| Export growth | -5.3 | -3.9 | 29.5 | -20.3 | 24.7 | -8.7 | -20.5 |
| Import growth | -26.4 | -33.1 | 20.6 | -23.8 | 6.2 | -14.5 | -8.2 |
| Change in terms of trade | -25.3 | 9.2 | 8.8 | -8.5 | 25.5 | -10.0 | ... |

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

1/ Includes PL 480 rice until 1985/86.
2/ Includes monetary authorities and commercial banks.

initiate new revenue measures to offset slippages that had occurred under the program. Although a midyear budget was formulated and presented to Parliament in February 1987 as envisaged under the program, Parliament did not act on the budget and most of its provisions were not implemented. The budgetary situation deteriorated markedly; revenue rose less rapidly than projected, owing to weaknesses in tax collection and a reduction in the volume of declared imports, while expenditures rose much more rapidly than anticipated, as wages were increased in response to the sharp rises in prices, and unbudgeted expenditures surged. Foreign aid receipts were less than projected, largely owing to Sierra Leone's inability to discharge its outstanding financial obligations. As the authorities were unable to enforce foreign exchange surrender requirements, a critical shortage of foreign exchange developed in the banking system, with as much as an estimated two thirds of export proceeds being channeled through the parallel market.

Reflecting the mounting domestic demand pressures and declining foreign exchange receipts, the exchange rate of the leone, which had risen from Le 4.9 per U.S. dollar in May 1986 to Le 14 per U.S. dollar at the inception of the float and to Le 35.5 per U.S. dollar by end-December 1986, depreciated further to Le 53 per U.S. dollar by end-April 1987. The pursuit of inappropriate monetary and fiscal policies, following the initial sharp depreciation of the exchange rate of the leone, contributed to severe inflationary pressures; the domestic rate of inflation, as measured by the consumer price index, increased to 167 percent in 1986/87.

Beginning on May 1, 1987 the authorities steadily revalued the exchange rate of the leone, from Le 53 per U.S. dollar to Le 33 per U.S. dollar by end-June, and further to Le 23 per U.S. dollar by end-August; the rate has since been maintained at this level. In real effective terms, the exchange rate of the leone, which had appreciated by 80.9 percent between March 1982 and June 1986, subsequently depreciated by 74.9 percent by April 1987; it has since been steadily revalued by the Sierra Leonean authorities to about 18 percent below the level in June 1986 (Chart 1).

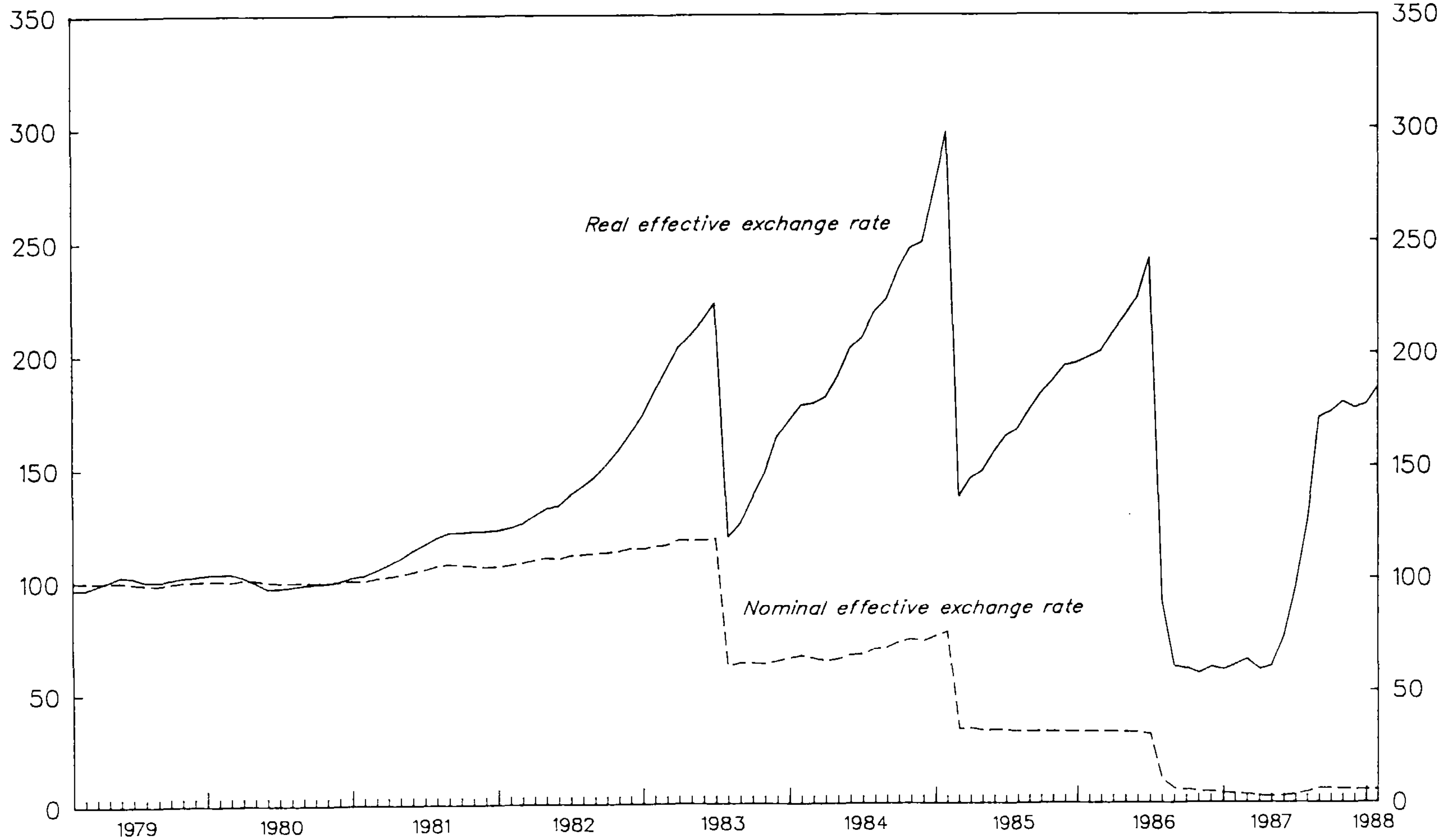
Sierra Leone's medium- and long-term external public debt, including overdue interest, rose by about 20 percent between end-June 1981 and end-June 1986 to SDR 411 million, equivalent to 92 percent of GDP (Table 5). In 1985/86 external debt service obligations amounted to SDR 87.2 million, equivalent to 79 percent of exports of goods and nonfactor services. A fourth agreement with creditors of the Paris Club, signed in November 1986, consolidated maturities falling due between June 1, 1986 and November 13, 1987 and rescheduled 100 percent of principal and interest, including obligations arising from the last two previous reschedulings. The Sierra Leonean authorities have since concluded most of the bilateral rescheduling agreements but have made no payment into the special account established in accordance with the Agreed Minute.

CHART 1

SIERRA LEONE

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, JAN. 1979—JAN. 1988

(Trade—weighted; 1980=100)




Source: IMF, Information Notice System.

Table 5. Sierra Leone: External Public Debt Outstanding, 1982/83-1986/87

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

| | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 |
|---|---|---|---|---|---|
| Medium and long-term debt | 405.0 | 361.0 | 349.0 | 411.0 | 487.0 |
| Multilateral | (123.0) | (126.0) | (133.0) | (150.0) | (164.0) |
| Bilateral | (158.0) | (149.0) | (143.0) | (171.0) | (225.0) |
| Suppliers' credit | (113.0) | (49.0) | (38.0) | (51.0) | (56.0) |
| Financial institutions | (12.0) | (37.0) | (34.0) | (39.0) | (42.0) |
| Eurodollar loans (incl. arrears) | ... | ... | ... | 55.0 | 74.0 |
| Use of Fund credit | 71.3 | 83.9 | 72.8 | 82.4 | 89.7 |
| Arrears | ... | ... | ... | 261.5 | 279.7 |
| Interest on medium and long-term debt | (...) | (...) | (...) | (35.5) | (33.7) |
| On Fund charges | (--) | (--) | (--) | (7.0) | (2.0) |
| Commercial | (186.0) | (185.0) | (188.0) | (219.0) | (244.0) |
| Total | ... | ... | ... | 809.9 | 930.4 |

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

Sierra Leone's exchange system entails restrictions on the making of payments and transfers for current international transactions, subject to Fund approval, including restrictions evidenced by external payments arrears, and a multiple currency practice arising from the non-payment of interest on deposits of the leone counterpart of commercial arrears. Sierra Leone also continues to maintain bilateral payments agreements with restrictive features with two Fund members (Guinea and the People's Republic of China).

## III. Report on the Discussions

In the consultation discussions, the authorities and the staff focused on economic and financial developments since the previous consultation in 1986, and on assessments of the prospects for the immediate period ahead and for the medium term. At the authorities' request, the staff team also initiated discussions on the elements of a shadow program, the successful implementation of which would be a precondition for a program that could be supported by use of Fund resources, provided that Sierra Leone had also cleared its arrears with the Fund.

### 1. The real economy

In 1986/87, preliminary estimates indicate that real GDP showed a positive growth rate (3.8 percent) for the first time in three years, principally because of increased output (largely rice) in the agricultural and the mineral sectors. Favorable weather conditions were the main factor in the growth in rice production. For the mining sector, the output of rutile rose by one third and bauxite production increased by nearly 22 percent, on the completion of major investment in these operations; these increases offset declines in the official recorded output of gold and diamonds. There were, however, several unfavorable aspects to the real sector performance in 1986/87. Public investment declined substantially as virtually all donors discontinued project disbursements on account of payments arrears and the Government's inability to generate the necessary local counterpart funds. Private and government consumption rose considerably. Inflationary pressures remained strong.

Adequate data are not available to permit reliable estimates of the growth performance in the current fiscal year. Fragmentary information suggests that overall economic activity is likely to stagnate in 1987/88, and that the rate of inflation, while less than in 1986/87, would still be very high. The authorities informed the mission that they were concerned about prospects for the diamond and gold industries, which in the past provided a substantial part of foreign exchange earnings but whose output had declined substantially in recent years. The Government was making active efforts, unsuccessfully thus far, to attract foreign investment to re-equip the production machinery in the diamond sector; smallholder production was to be encouraged through improved distribution channels for inputs and for the consumer goods demanded in the mining areas.

2. Fiscal developments and policies

The original 1986/87 budget, adopted as part of the program supported by the Fund, called for a reduction of 3.4 percentage points in the overall fiscal deficit on a commitment basis to Le 1,151 million, or 7.0 percent of GDP. Revenue and grants together were projected to increase by 315 percent, and total expenditure, by 128 percent. While the major portion of the expected increase in revenue (particularly international trade taxes) and in grants was related to the depreciation of the leone, the program anticipated a restructuring and improvement in the revenue potential of the tax system, in connection with which the Fund provided technical assistance. The programmed moderation of expansion in expenditure was predicated on more effective expenditure control, particularly on recurrent outlays, and the elimination of subsidies on rice, petroleum products, and electricity, as well as the tightening of controls with respect to procurement and management of supplies, and avoidance of extrabudgetary expenditures. In view of the average wage increase of 35 percent granted at the beginning of fiscal 1986/87, the authorities were to consult with the Fund before granting any further wage awards.

The fiscal outturn for 1986/87 was substantially different from that envisaged under the program, as the authorities were unable to maintain the necessary demand management policies. The actual inflow of foreign capital also remained below the level anticipated in the program. The overall deficit on a commitment basis amounted to Le 3,336 million, or 20.2 percent of GDP. Reflecting the very large currency depreciation, revenue and grants increased by 341 percent to Le 2,253 million, only slightly higher than the initially projected currency depreciation. By contrast total expenditure rose by 290 percent--more than twice the projected rate of expansion--to Le 5,589 million. There was a Le 778 million accumulation of payments arrears. Over three fourths of the resulting overall deficit on a cash basis was financed from the domestic banking system; net bank credit to the Government was equivalent to 126 percent of beginning stock of broad money, compared with 40 percent envisaged under the program.

In discussing the above developments, the Sierra Leonean representatives stated that some of the revenue measures, particularly those relating to income taxes, had not been implemented because of delays in passing the enabling legislation. Export taxes due from the Sierra Leone Produce Marketing Board (SLPMB) had not been collected but had been offset against rice subsidies claimed by the marketing board. Taxes on international trade had been buoyant until March 1987, but receipts had subsequently been eroded by the appreciation of the leone after May 1, 1987. Regarding expenditure, the Sierra Leonean representatives said that the rapid inflation associated with the initial depreciation of the leone, and political pressure following the release of the report of a salary commission, had compelled the Government to award wage increases averaging 95 percent in February 1987. The mission noted that petroleum and rice subsidies had reached nearly five times the program level of Le 132 million (0.8 percent of GDP), largely as a result of the failure of the authorities to remove the rice and petrol subsidies as envisaged in the program. Moreover, because of massive extrabudgetary outlays, other expenditures, at Le 1,200 million, were nearly sixfold the programmed level of 1.2 percent of GDP, notwithstanding the Le 778 million accumulation of payments arrears, and the rescheduling of substantial external obligations to Paris Club creditors. The bulk of the extrabudgetary expenditures covered IMF obligations and a commercial bank bridging loan amounting to Le 250 million and advances to the refinery of Le 220 million.

For fiscal 1987/88 the authorities had approved a budget that called for a 19.6 percent increase in revenue and grants and an 18.6 percent reduction in total expenditure (on a commitment basis), compared with the provisional outturn for 1986/87. A 21 percent increase in domestic revenue was expected, primarily from a more effective enforcement of income taxes (32 percent of the total increase), and taxes on goods and services (59.2 percent), mainly excise taxes. The overall fiscal deficit was budgeted at Le 1,854 million (6.8 percent of GDP) on a commitment basis, on the assumption of accumulation of interest arrears of Le 340 million, and at Le 1,514 million (5.5 percent of GDP) on a cash basis. The preliminary actual data, which are available only for the first quarter of 1987/88, indicate that revenues were broadly in line with the budget, owing in large part to the receipt of unbudgeted nontax revenue from the publicly owned oil company. On the expenditure side, wages and salaries, goods and services, and domestic interest payments exceeded their respective pro rata appropriations, but development expenditure commitments were only about one tenth of budgeted levels, stemming partly from the Government's inability to raise local counterpart funds, and partly from donors' continued unwillingness to commit further resources in view of the unsatisfactory economic situation and outstanding payments arrears. Domestic and external payments arrears exceeded even the estimates in the budget; consequently, the Government's domestic financing requirements were minimal and the banking system's net claims on the Government, negligible.

For the fiscal year as a whole, staff estimates indicate that the overall fiscal deficit (on a commitment basis) will amount to Le 2.9 billion (10.5 percent of GDP), with bank financing likely to reach 49.4 percent of the initial money stock, compared with 126 percent in 1986/87. Domestic revenue is likely to record a shortfall of 18 percent on account of the adverse effect on international trade tax revenue of both the appreciation of the leone and the "emergency regulations" (see Section 5 (b) below) recently introduced by the authorities. Moreover, it is likely that grants will reach only 40 percent of the amount budgeted. By contrast, total expenditure would probably exceed budgetary provisions, as a rapid expansion in recurrent expenditure was likely to more than offset a sharp contraction in development outlays.

The Sierra Leonean representatives stated that the Government was making new efforts to redress the fiscal imbalance. In this connection, steps had been taken to enforce collection of revenue, particularly that of income taxes. The authorities were also attempting to control expenditure commitments by requiring centralized evaluation of all proposed government contracts and by instituting cash limits on payments that could be authorized by Ministries. To eliminate fictitious names from payrolls, the Government had initiated a survey of government employees, beginning with schoolteachers. The staff team noted that the minimal recourse to the domestic banking system (3 percent increase during the first quarter of fiscal 1987/88) had resulted from the receipt of nontax revenue on a one-time basis from the national oil company, the accumulation of payments arrears, and virtual cessation of development projects.

The mission emphasized that the projected fall in the 1987/88 overall fiscal deficit as a ratio to GDP from 20.2 percent to 10.5 percent of GDP did not represent a major improvement in the fiscal situation. First, recurrent expenditures are likely to be significantly above even the record 1986/87 provisional outturn. Second, development expenditures would contract to less than half the budgeted level, or 40 percent below the 1986/87 outturn, because of the virtual cessation of external aid. Third, the Bank of Sierra Leone is assumed, as required by the Government, to discharge obligations of Le 156 million to the Fund and a commercial bank hitherto borne by the Government. Fourth, it is expected that the local oil refinery would have repaid by end-year some Le 220 million of the 91-day credit extended to it by the Government. Finally, the expenditure controls initiated at the beginning of the current fiscal year are assumed to be maintained, thereby resulting in an Le 120 million reduction in other expenditures. In the absence of the last three adjustments, and assuming that the original development expenditure target materializes, the overall fiscal deficit on a commitment basis could reach Le 4.5 billion or 16.4 percent of GDP.

The mission noted that severe structural imbalances existed in the Sierra Leone budget. Revenues had declined steadily for several years and in 1985/86 amounted to only 6 percent of GDP. Expenditures had, however, maintained their share of GDP and consequently the deficit/GDP ratio had increased. Within the expenditure categories, outlays for development had shown a large relative decline, with adverse implications for maintenance and expansion of the capital stock. As a result of past heavy domestic and external borrowing, debt service was a significant and growing burden on the budget. These developments indicated the need for effective action to raise revenues, control expenditures, and redirect expenditures to more productive uses. The mission emphasized the importance of developing coherent policies regarding public sector employment and salaries, and suggested that the results of the census on employment in the civil service could be used to begin to formulate such policies.

3. Public enterprises

The public enterprises sector in Sierra Leone is seriously deficient in financial management, organization, and capital structure, and is increasingly depending on the Government, even for working capital. The provision of subsidies and loss of revenues and dividends have also adversely affected the Central Government's fiscal operations. Under the Fund-supported structural adjustment program, considerable reform of this sector was envisaged with World Bank support, which was to entail divestiture and closure of some enterprises; and for the remaining enterprises, monitoring and control of their activities, appropriate pricing of their output, and reduction of inter-enterprise arrears.

At the time of the consultation discussions, little progress had been made in implementing these understandings. The Sierra Leonean representatives stated that these issues were under active consideration and that a coordinating department under the First Vice President had been established. The National Diamond Mining Company (NDMC), experiencing financial difficulties, had received a loan of Le 10 million from the Government to meet operating expenses, and would need urgently US$4 million to procure spare parts and equipment to avoid closing down. The operations of Sierra Fishing Company had recently been reorganized and the Government was now expecting it to be a net contributor to the government budget.

The mission drew the attention of the authorities to the unsatisfactory financial and structural position of the Sierra Leone Produce Marketing Board (SLPMB), which was projected to make severe losses in 1987/88 on the basis of the present official exchange rate. The authorities stated that they recognized that serious deficiencies existed in the structure and operations of the Marketing Board. They intended to address these issues as a matter of priority and to request World Bank assistance in identifying the problems and developing corrective measures.

4. Monetary and credit developments and policies

Monetary and credit developments during fiscal 1986/87 were dominated by the Government's fiscal operations and the highly liquid position of the commercial banks. Although the share of Government in domestic credit fell during the first half of the year, it rose again with the relaxation in the fiscal situation after December 1986. With increasing liquidity in the banking system, and a diminished outlet for profitable lending, the banks reduced their deposit rates and placed limits on the amounts of interest-bearing deposits that they would accept. As the leone exchange rate was revalued, leone notes increasingly became a store of value. Thus, notwithstanding a significant increase in the ratio of currency to broad money in the economy, for several months in mid-1987 there was a severe cash shortage in the banking system.

In the 12 months ended June 1987, total domestic credit more than doubled to Le 4.4 billion, as net claims on the Government, which accounted for 91 percent of domestic credit in June 1986, doubled. Although net claims on the Government had increased by only 29 percent in the second half of 1986 when the Sierra Leonean authorities implemented adjustment measures under the Fund-supported program, such claims increased rapidly (55 percent) during the first half of 1987 when the fiscal situation deteriorated sharply. Credit to the private sector, which had been buoyant in the first half of 1986/87, stagnated subsequently as the lack of foreign exchange to finance imports severely reduced private economic activities; nonetheless, for the year as a whole credit to the private sector (excluding public enterprises, which repaid most of their obligations), increased by 168 percent. Broad money rose sharply (by 126 percent) to Le 3,511.5 million in 1986/87, with nearly two thirds of the expansion occurring during the second half of the fiscal year, and the ratio of currency outside banks to broad money rose from 39 percent to 43 percent.

The staff team stressed that the rapid monetary and credit expansion during the second half of the year was unsustainably large and inconsistent with financial stability. The steady revaluation of the leone by the Sierra Leonean authorities at this juncture had contributed to the leone currency shortage of June-October, 1987 by creating windfall gains to currency holders and inducing hoarding of leone notes. The commercial banks, which had reduced deposit rates in response to mounting liquidity and strains on their income position, had effected further cuts in deposit rates but without corresponding reductions in lending rates. However, following the cut in treasury bill rates by the authorities at the beginning of fiscal 1987/88, the deposit rates were reduced accordingly. The Sierra Leonean representatives stated that the treasury bill rate had been reduced in order to minimize the cost of financing the budget deficit, but they recognized that a more appropriate course of action would have been to reduce the fiscal deficit directly. They stated that, in view of the deleterious effect of the massive credit expansion in 1986/87, the authorities would try to exercise stricter control on net credit to the Government during fiscal 1987/88. They added that the authorities had introduced special treasury bills, bearing an interest rate of 28 percent, in February 1987, with a view to mopping up excess liquidity in the nonbank private sector. They agreed with the staff on the need for more active use of the available monetary policy instruments to determine interest rates consistent with the economic situation, both to divert more resources into the productive sectors of the economy and to reduce the degree of reliance on quantitative credit policies. Finally, the authorities indicated that they intended to seek Fund technical assistance to help remedy the existing situation in which the delays in the availability of monetary statistics were lengthening, owing to operational and manpower problems of the central bank.

## 5. External financial policies and "emergency regulations"

### a. External financial policies

Sierra Leone's external payments position continued to worsen in 1986/87. Preliminary estimates indicate that the overall balance of payments deficit increased by 10 percent to SDR 66 million. The current account was reduced slightly, from SDR 31.5 million to SDR 24.4 million, mainly on account of a continued decline in imports because of increasing scarcity of foreign exchange. Although the value of exports fell by 9 percent to SDR 101.4 million, imports fell even more rapidly (by 15 percent), leading to a small trade surplus. However, the capital account deficit deteriorated further by SDR 13.3 million to SDR 41.8 million, owing to an intensification of capital flight. Notwithstanding external debt relief of SDR 13.8 million (mainly under the Paris Club agreement of November 1986), Sierra Leone accumulated in 1986/87 additional external payments arrears of SDR 6.1 million. Overdue financial obligations to the Fund at end-1987 amounted to SDR 29.2 million.

In discussing these developments, the Sierra Leonean representatives observed that, although the volume of bauxite and rutile exports had increased, the volume of other mineral exports (primarily diamonds and gold) had dropped and, except for rutile, this had been accompanied by a decline in the export unit value of all minerals. These developments were exacerbated by reductions in the volume and export unit values of all the major agricultural export crops. The terms of trade worsened by an estimated 10 percent. The decline in the value of imports also reflected a broad-based reduction in the volume of imports, stemming from the foreign exchange constraints. Regarding external arrears, the Sierra Leonean authorities stated that their capacity to service their obligations was weakened both by the fall in export receipts and the low-levels of official aid disbursements.

As noted above, the Sierra Leonean authorities had, in the context of the 1986/87 Fund-supported program, adopted a market-determined flexible exchange rate policy under which the leone depreciated from Le 5 per U.S. dollar in June to Le 14 per U.S. dollar in July 1986, then to Le 35.5 per U.S. dollar by end-December 1986 and to Le 53 per U.S. dollar by end-April 1987. The authorities then began to revalue the rate and by end-August 1987 the rate was Le 23 per U.S. dollar, where it has remained. Between end-June and end-December 1986, the leone depreciated in real effective terms by 75.6 percent; but by November 1987 the real effective exchange rate index had appreciated to about 18 percent below the level in June 1986.

Commenting on these developments, the Sierra Leonean representatives stated that the policy of revaluing the exchange rate of the leone was introduced by the authorities in order to reverse what they considered to be the negative effects, particularly the rate of inflation, that had been experienced since mid-1986. The Sierra Leonean authorities attributed the high rate of inflation (an average of 167 percent) to the sharp leone rate depreciation, and thought that the rate of inflation could be reduced by an appreciation of the leone. The staff team noted that the rapid depreciation of the leone should be seen in the context of the authorities' pursuit of highly expansionary fiscal and monetary policies, their inability to enforce foreign exchange surrender requirements, and the public's perception of the authorities' capacity to pursue strict financial policies, all of which, in addition to intensifying inflation, had contributed to capital flight and the intensification of parallel market activity. In the circumstances, a revaluation of the leone was not likely to reverse what the authorities considered to be negative developments. On the contrary, the appreciation to date had (a) strained government revenues, particularly taxes on international trade; (b) led to a reduction in export crops, gold, and diamonds delivered through official channels; (c) discouraged capital inflows; and (d) widened the differential between the official and parallel market rates, thus encouraging further capital flight. Moreover, at the current producer prices and export value at the official exchange rate, the coffee and cocoa crop accounts (the revenue-generating accounts) of the SLPMB would incur large losses, thereby drastically weakening the financial position of the Marketing Board.

With regard to the payment of interest on deposits of the leone counterpart of commercial arrears, the Sierra Leonean representatives stated that the central bank was currently undergoing a substantial reorganization of personnel and procedures. The authorities had also experienced difficulties in valuation of foreign currency-denominated accounts in the face of the floating exchange rate. In the event, the matter of interest payments would be addressed as soon as these problems were resolved.

b. Emergency regulations

In an attempt to reverse the increasing shift of trade activity from official channels to the parallel market, the Sierra Leonean authorities declared, on November 1, 1987, a state of "economic emergency" under which it was made illegal for residents (a) to 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 central bank and a government agency (the Government Gold and Diamond Office) were made the sole exporters of gold and diamonds, respectively. The authorities proscribed unnumbered import licensing (which had allowed importation of goods without the necessity of procuring foreign exchange through official channels, or of declaring the source of the foreign exchange used to procure the imports). The Sierra Leonean representatives stated that these measures were intended to reduce smuggling and parallel market operations and to increase supplies through regular market and banking channels. The staff team emphasized that the emergency measures should, at most, be considered as largely administrative and temporary; they were not a substitute for the adoption of comprehensive economic measures to redress the economic problems, and would probably lead to further disintermediation and growth of parallel markets.

## IV. Medium-Term Economic Prospects

Sierra Leone's current economic and financial prospects are not encouraging, in the absence of comprehensive economic adjustment measures and structural reforms. At prevailing unremunerative prices to producers, the bulk of the output of coffee and cocoa is likely to continue to be marketed through unofficial channels. Moreover, the prospects for repatriation of earnings from these exports are not encouraging. The financial contributions of the other existing key formal sector activities--primarily bauxite, rutile and fisheries--are also likely to be below potential. The substantial financial resources needed to exploit the known large kimberlite diamond reserves would require foreign investors' confidence beyond that provided by existing official policies; Sierra Leone cannot finance this project from its own resources. In the circumstances, the foreign exchange situation, the government fiscal position, and overall growth prospects would continue to be extremely difficult without major policy reform.

Fiscal developments will depend importantly on the Sierra Leonean authorities' resolve to follow through on the results of the just-completed census of civil servants, their capacity to eschew the current inefficiencies in procurement of goods and services, and the extent to which the authorities can mobilize additional revenue and attract foreign aid by implementing comprehensive economic adjustment policies. As noted above, based on present policies, the staff estimates that the overall fiscal deficit (on a commitment basis) in 1987/88 will reach Le 2.9 billion, equivalent, in terms of ratio to GDP, to more than double the budgetary estimates (Table 2) of the authorities; the overall fiscal deficit may well reach 16.4 percent of GDP. Aspects of the recent 'emergency regulations' are likely to have serious adverse effects on the fiscal situation. In particular, the proscription of private sector exports of diamonds and gold would most probably diminish foreign exchange that could be available for private sector imports and hence adversely affect import duty collections. Further deterioration is in prospect over the medium term. By contrast, the staff estimates that an improvement in 1987/88 and 1988/89 is achievable if the authorities take prompt action.

Fiscal policies that would need to be put in place immediately could include adjustments in international trade taxes, mobilization of additional resources from the mining sector, whose share in GDP has risen appreciably in recent years, and the adoption of expenditure-related initiatives. Revenue measures recommended by the staff to be implemented during the current fiscal year include: (a) a 15 percent import surcharge on the value of all imports other than commodity grants, project-related imports, rice, and petroleum products;

(b) a 20 percent flat tax on bauxite, rutile, and fish exports; and (c) enforcement of existing hotel and restaurant taxes. Staff estimates indicate that if these measures had been implemented on March 1, 1988, they could yield some Le 160 million (about 1 percent of GDP) during the remainder of fiscal 1987/88. The staff also recommended expenditure control measures for the last four months of 1987/88 which include: (a) a 20 percent reduction in the civil service wage bill; (b) a freeze on civil service salaries for fiscal 1987/88; and (c) a freeze on extra-budgetary expenditure. In addition, the staff team and the Sierra Leonean representatives agreed on timetables for the preparation of both the recurrent and development budgets for 1988/89.

The external payments position is likely to deteriorate under present policies. The staff estimates that the overall balance of payments deficit will worsen by 45 percent to SDR 99 million in 1987/88, even if some adjustment policies had been effected beginning March 1988; in the absence of such policies, the overall deficit could reach SDR 111 million (Table 4). With unremunerative prices for official purchases of diamonds, gold, and agricultural products, the volume and value of exports will decline sharply as parallel market activities intensify. At the same time, foreign interest payments are projected to increase significantly. Consequently, even assuming virtually stagnant imports, the current account deficit will more than double in 1987/88 and continue to deteriorate in the medium term. On the basis of staff projections (Appendix V), the overall balance of payments deficit is likely to decrease only slightly over the medium term, from the estimated SDR 111 million in 1987/88 to SDR 106 million in 1991/92, in line with decreasing official debt amortization. Moreover, the financing gap will continue to be unsustainably large. The projected decline in the debt service ratio from a peak of 137 percent in 1987/88 to about 95 percent in 1991/92 will result primarily from a prospective sharp decline in scheduled external debt amortization. By contrast, staff estimates indicate that with appropriate adjustment policies, the overall balance of payments deficit for 1987/88 and 1988/89 could be reduced sharply. The deficits for the ensuing years could be sustainable if appropriate policies can be taken with increased levels of foreign assistance (including debt relief). The magnitudes of the improvements that might be expected in the medium term would depend critically on the exchange rate policy that is pursued by the Sierra Leonean authorities. The authorities' policy intentions had not been concretized at the time of the consultation discussions but the staff discussed with the Sierra Leonean representatives the implications of alternative exchange rate policy scenarios.

In the discussions with the Sierra Leonean representatives, the staff team underscored the need for urgent comprehensive economic adjustment measures to arrest the prospective deterioration and set the stage for overall economic growth, price stability, and a viable external payments position in the medium term. To provide opportunity for the Sierra Leonean authorities to demonstrate the credible commitment that could elicit the bilateral and multilateral financial assistance necessary to sustain the efforts of the authorities, it was agreed during the consultation discussions to precede a Fund-supported program, which in any event would require the clearance of arrears to the Fund, with a six-month shadow program beginning April 1988. The shadow program period would be used by the Sierra Leonean authorities to consolidate their efforts at removing structural and institutional bottlenecks that could impede the successful implementation of the comprehensive economic reforms necessary for achieving the above economic objectives.

## V. Staff Appraisal

The decade of the 1980s has witnessed a virtual stagnation of the Sierra Leonean economy, although the country is richly endowed with minerals, fertile soil, and basic skilled manpower. The pursuit of inappropriate economic and financial policies has contributed to major internal and external imbalances that have been exacerbated by worsening external terms of trade. In the event, large-scale smuggling of diamonds, gold, and agricultural produce have persisted and public administration suffers from substantial structural deficiencies. The economic and financial policies initiated in mid-1986 by the authorities to redress these problems were short-lived and the authorities reversed the gains by pursuing highly expansionary fiscal and monetary policies. Consequently, domestic inflationary pressures intensified, and external payments arrears have mounted. The official exchange rate has been revalued sharply since May 1987. Over the medium term the economic and financial prospects of the Sierra Leone economy are for continued deterioration, in the absence of concerted policies to redress the existing imbalances.

A reversal of the deteriorating trend would require comprehensive economic adjustment measures to address not only the ingrained structural problems but also the continuing difficulties arising from the pursuit of inappropriate policies. In this connection the broad policy options discussed with the Sierra Leonean representatives, including the exchange rate, fiscal, and real sector policies, would need to be adopted urgently. In the initial stages of the process of adjustment, the full cooperation of international donors would be imperative for success, as staff estimates of foreign exchange cash flow indicate substantial gaps in the short term.

Domestically, the Sierra Leonean authorities would need to pursue much tighter fiscal and monetary policies. The expansionary fiscal and monetary policy stance in 1986/87 raised the ratio of the overall fiscal deficit (on a commitment basis) to GDP from 14.5 percent in 1985/86 to 20.2 percent (236 percent of domestic revenue), and the deficit was financed predominantly from domestic bank credit, which was equivalent to 126 percent of beginning stock of broad money. Although data for the first quarter of 1987/88, the only period for which comprehensive information is available, indicate some restraint in the fiscal and monetary situation, fragmentary information and the absence of comprehensive economic and financial policies suggest that the financial situation is likely to deteriorate substantially for the year as a whole. Increasing the current highly eroded revenue base would require both new revenue measures and an improvement in the revenue collection machinery. Simultaneously, the necessary expenditure control measures should ensure that extrabudgetary expenditures are avoided, subsidies are progressively eliminated, and public enterprises prevented from being a charge on the government budget. The complementary monetary policy essential for financial stability should include a level and structure of interest rates that would ensure appropriate savings mobilization and the encouragement of the productive sectors of the economy.

Of fundamental importance in beginning to deal with the external financial imbalance is an urgent reversal of the current policy by the pursuit of an appropriate exchange rate policy. The overall balance of payments deficit in 1986/87, the third year of continued deterioration, was unsustainably large. The external imbalances have continued to be large in 1987/88. Total external payments arrears also increased markedly, notwithstanding the comprehensive rescheduling of previous arrears with Paris Club creditors in November 1986. An appropriate exchange rate policy is essential to help restore Sierra Leone's external competitiveness, contribute to a reversal of the current levels of parallel border trade in both minerals and agricultural produce, and assist in rationalizing the external sector and in removing some of the existing distortions in the economy. A rationalization of the external sector, in terms of marketing arrangements, pricing of output, and appropriate exchange rate, should give the right signals to Sierra Leone's potential external donors and creditors to provide the resources required for initiating and sustaining the necessary adjustment efforts as well as key development projects in the Sierra Leonean economy. In this connection, the authorities should seriously consider replacing the quantitative control elements of the emergency regulations with price-incentive measures that have the potential for attaining the economic objectives of the authorities.

Sierra Leone continues to be overdue in the settlement of its financial obligations to the Fund. However, excluding these arrears, Sierra Leone's prospective repurchases and other financial obligations to the Fund will decrease steadily from SDR 31.9 million (40 percent of exports, f.o.b.) in 1987/88 to SDR 3.1 million (3.5 percent of exports, f.o.b.) in 1991/92. As such, a rigorous implementation of a comprehensive economic adjustment program should enable the authorities to settle these overdue obligations and remain current with the Fund. These obligations would need to be settled as soon as possible. At the time of writing, a comprehensive adjustment program has not been adopted by the Sierra Leonean authorities, and it is not clear whether the authorities will soon adopt such a program. The staff regrets that the authorities have delayed the implementation of the shadow program and urges its adoption as soon as possible.

The staff shares the view of the Sierra Leonean authorities regarding the need to remove urgently the existing structural bottlenecks to economic recovery. In this connection, the authorities' economic emergency administrative measures initiated in November 1987 should not be viewed as a substitute for addressing comprehensively the underlying structural problems. Specific, carefully formulated policies would need to be developed to streamline the finances of both the Central Government and the public enterprises, the systems for purchases and exports of diamonds, gold and agricultural produce, and the operations of financial institutions in the economy.

Sierra Leone's exchange system involves restrictions on the making of payments and transfers for current international transactions that are subject to Fund approval, including restrictions evidenced by external payments arrears, the allocation of foreign exchange for imports, and a multiple currency practice arising from the nonpayment of interest on deposits of the leone counterpart of commercial arrears. Sierra Leone also continues to maintain bilateral payments agreements with restrictive features with two Fund members. In the absence of an economic program that would support their removal, the staff does not recommend approval of these restrictions and multiple currency practice.

It is expected to hold the next Article IV consultation discussions with Sierra Leone on the standard 12-month cycle.

## VI. 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 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, 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 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
(As of February 29, 1988)

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 115.75 million (199.91 percent of quota)

| | SDR million | Percent of quota |
|---|---|---|
| (c) Fund holdings subject to repurchase and charges: | 57.86 | 99.93 |
| Of which: compensatory financing facility | (12.21) | (21.08) |
| credit tranches | (18.54) | (32.02) |
| extended Fund facility | (12.20) | (21.07) |
| supplementary financing facility | (6.45) | (11.14) |
| enlarged access resources | (8.46) | (14.61) |

(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 36.77 million |
| (ii) | Utilization | SDR 11.58 million |
| (iii) | Undrawn balance | SDR 22.98 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 11.37 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 25.19 million |

VI. Overdue obligations to the Fund (as of March 10, 1988) SDR 35.97 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.

VIII. Article IV consultation

The 1986 Article IV consultation discussions with Sierra Leone were held in Freetown during the periods July 21-August 4 and September 19-26, 1986. The staff report (SM/86/243) was discussed by the Executive Board on November 14, 1986, 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 1986 Article XIV consultation with Sierra Leone, in the light of the 1986 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/86/273, in accordance with Article XIV, Section 2, except that the restrictions evidenced by the accumulation of commercial external payments arrears and the multiple currency practice arising from the cost to purchasers of foreign exchange of counterpart deposits required for payments of arrears, are subject to approval by the Fund under Article VIII, Sections 2(a).

3. The Fund notes the intention of the authorities to remove these restrictions as soon as possible. In the meantime, the Fund grants approval for their retention until September 15, 1987 or the completion of the 1987 Article IV consultation with Sierra Leone, whichever is earlier. Sierra Leone also maintains bilateral payments agreements with Fund members. The Fund urges Sierra Leone to eliminate the restrictive features of these agreements as soon as possible.

## 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 has since March 1987 been assigned to the Ministry of Finance in the same capacity.

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, Mr. Kalinga, took up his assignment in late July 1986; his appointment has been renewed for another year.

## Sierra Leone - Relations with the World Bank Group

In recent years the main focus of World Bank activities in Sierra Leone has been on sectoral programs and projects, particularly in the agriculture, education, infrastructure and, more recently, health sectors. In the context of these operations, the World Bank has, in collaboration with the authorities, and in consultation with the Fund staff, evolved complementary incentive policies and supporting institutions which formed an important component of past Fund programs. Sierra Leone was placed on nonaccrual status on August 15, 1987 and currently has arrears of US$3.3 million. As soon as these are paid the Bank will resume disbursements on existing projects and may reallocate some funds to finance essential imports. Assuming that Fund discussions with the Government lead to a program, the World Bank would expect to process a policy-based operation that would focus on reforms in revenue administration, agricultural pricing and marketing, and public sector management.

### Sierra Leone - Financial Relations with the World Bank Group as of December 31, 1987

(In millions of U.S. dollars)

| | Disbursed | | Undisbursed | |
|---|---|---|---|---|
| | IBRD | IDA | IBRD | IDA |
| IBRD/IDA lending operations | | | | |
| Population and Health | -- | 1.0 | -- | 5.4 |
| Agriculture | 5.0 | 28.2 | -- | 26.7 |
| Education | -- | 14.9 | -- | 20.0 |
| Transportation | 6.0 | 11.8 | -- | 1.1 |
| Power | 7.7 | 12.0 | -- | 1.4 |
| Technical assistance | -- | 1.9 | -- | -- |
| Total | 18.7 | 69.8 | -- | 54.6 |
| Of which: repaid | (10.8) | (0.8) | (--) | (--) |
| exchange adjustment | (-3.5) | (11.0) | (--) | (--) |
| Total outstanding | 11.3 | 80.0 | -- | -- |
| IFC | | | | |
| Investment | | 2.1 | | |

Source: World Bank Group.

## Sierra Leone--Statistical Issues

### 1. Outstanding statistical issues

#### a. Real sector

The Central Statistics Office has recommenced the compilation of national accounts data and recently published data through 1983/84. Preliminary data for 1984/85 and 1985/86 have been compiled and will be finalized shortly.

The 1986 Bureau of Statistics technical assistance mission made a number of recommendations for improving the quality, coverage, and currentness of the wholesale price index (WPI) as compiled by the Bank of Sierra Leone. The authorities are in the process of implementing some of these recommendations, and have not updated the WPI series for some months now. It is suggested that the authorities should not terminate the compilation of the current WPI but revise it as improvements to its underlying methodology are made.

#### b. Government finance

The flow and currentness of data on the Central Government's recurrent budgetary and extrabudgetary operations have improved greatly in the past year. They are now in a computerized format that could easily yield data according to the Fund's format. However, data on the development budget continue to be relatively uncurrent. The authorities recognize the importance of early action in this area and are looking at ways to expedite the processing of data. Data for the budgetary operations of the central government have been received for publication in the GFS Yearbook only through 1985.

#### c. Balance of payments

Although flow data on the balance of payments are reported regularly to the Bureau of Statistics, the authorities do not report the corresponding stock data on external assets and liabilities.

Sierra Leone: Implementation of Structural
Policy Benchmarks for 1986/87

| Policy measures | Programmed dates | Action taken |
|---|---|---|
| Agricultural policy reform | | |
| cereal policy (rice - complete privatization) | End-December 1986 | Temporary privatization in mid-1987 1/ |
| Industrial and mining policy reform | | |
| Revised Industrial Development Act | End-June 1987 | None |
| Fiscal policies | | |
| Complete study of tax system | Mid-November 1986 | Completed as scheduled |
| Implement revised budget | January 1987 | Largely not implemented 2/ |
| Draw up initial expenditure core program | Mid-March 1987 | None |
| Public enterprises | | |
| Establish Public Enterprise Commission | End-June 1987 | Commission not established 3/ |
| Delineate a schedule and time frame for eliminating inter-enterprise arrears | March 1987 | None |

1/ However, the SLPMB resumed imports of rice in late 1987, and has since continued to import this cereal.

2/ The revised budget was not formally approved by Parliament.

3/ A public enterprise coordination unit was established under the supervision of the First Vice President.

Sierra Leone: Baseline, Medium-Term Balance of Payments Scenario, 1987/88-1991/92

(In millions of SDRs)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 |
|---|---|---|---|---|---|
| Trade balance | -7.0 | -7.2 | -7.3 | -9.7 | -12.6 |
| Exports, f.o.b. | (80.6) | 82.3 | 85.2 | 86.6 | 88.1 |
| Imports, f.o.b. | (-87.6) | -89.5 | -92.6 | -96.3 | -100.7 |
| Services (net) | -59.8 | -68.8 | -77.6 | -86.2 | -95.3 |
| Freight and insurance | (-14.3) | -14.6 | -15.1 | -15.7 | -16.4 |
| Interest | (-45.3) | -54.1 | -62.6 | -70.7 | -79.2 |
| Other | (-0.2) | -1.0 | -1.0 | -3.0 | -3.0 |
| Unrequited transfers (net) | 11.9 | 11.4 | 10.9 | 10.4 | 10.4 |
| Private | (2.5) | 2.5 | 1.5 | 1.0 | 1.0 |
| Official | (9.4) | 9.4 | 9.4 | 9.4 | 9.4 |
| Current account | -54.8 | -64.6 | -74.0 | -85.5 | -97.5 |
| Capital account | -56.4 | -33.7 | -20.3 | -13.2 | -8.2 |
| Long-term (net) | -25.4 | -18.7 | -8.3 | -4.2 | -3.2 |
| Official | -29.5 | -19.7 | -9.3 | -5.2 | -4.2 |
| Private | 4.1 | 1.0 | 1.0 | 1.0 | 1.0 |
| Short-term (including errors and omissions) | -31.0 | -15.0 | -12.0 | -9.0 | -5.0 |
| Overall balance; deficit (-) | -111.2 | -98.3 | -94.3 | -98.7 | -105.7 |
| Financing gap | 145.6 | -107.7 | -101.1 | -107.5 | -107.7 |

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

Sierra Leone: External Debt Service, 1986/87-1991/92

(In millions of U.S. dollars)

| | 1986/87 | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 |
|---|---|---|---|---|---|---|
| I. Medium- and long-term debt | 53.8 | 75.6 | 50.3 | 38.2 | 33.8 | 34.8 |
| Principal | 31.5 | 48.1 | 36.1 | 22.6 | 17.4 | 16.1 |
| Multilateral | (9.8) | (10.8) | (9.2) | (7.6) | (5.5) | (5.5) |
| Bilateral | (15.4) | (26.7) | (17.3) | (9.5) | (7.7) | (7.2) |
| Suppliers' credit | (3.1) | (3.5) | (2.5) | (1.9) | (1.9) | (1.4) |
| Financial institutions | (3.2) | (7.1) | (7.1) | (3.6) | (2.2) | (1.9) |
| Interest 1/ | 22.3 | 27.5 | 14.2 | 15.6 | 16.4 | 18.7 |
| Multilateral | (3.8) | (4.9) | (3.9) | (4.6) | (5.5) | (6.6) |
| Bilateral | (11.6) | (13.2) | (7.9) | (8.1) | (7.5) | (7.7) |
| Suppliers' credit | (2.8) | (5.0) | (0.6) | (0.5) | (0.3) | (0.1) |
| Financial institutions | (4.0 | (4.4) | (1.8) | (2.3) | (3.1) | (4.3) |
| II. Other 2/ | 65.3 | 59.6 | 25.3 | 20.8 | 22.3 | 12.2 |
| Of which: | | | | | | |
| Euro-dollar loans | (14.5) | (13.5) | (9.4) | (8.8) | (8.3) | (7.5) |
| Principal | (8.3) | (7.6) | (7.0) | (7.0) | (7.1) | (7.0) |
| Interest | (6.2) | (5.9) | (2.5) | (1.8) | (1.2) | (0.5) |
| Total (I + II) | 119.1 | 135.2 | 75.6 | 59.1 | 56.1 | 47.0 |
| Memorandum items: | | | | | | |
| Total debt service, as percent of exports, f.o.b. | 94.7 | 130.0 | 71.2 | 53.8 | 50.2 | 41.4 |
| Medium-term debt service as percent of exports, f.o.b. | 42.8 | 72.7 | 47.3 | 34.8 | 30.3 | 30.6 |
| Fund obligations (SDR million) | 45.3 | 31.9 | 15.4 | 10.9 | 10.6 | 3.1 |
| Repurchases | (28.8) 3/ | (22.2) | (9.3) | (6.8) | (8.8) | (2.0) |
| Charges | (11.4) 4/ | (6.1) | (2.7) | (2.1) | (1.6) | (1.1) |
| Trust Fund | (5.1) 5/ | (3.6) | (3.4) | (2.0) | (0.2) | (--) |

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

1/ Excludes interest on financing gap but includes for 1986/87 and 1987/88 estimated interest on arrears.
2/ Includes IMF repurchases and IMF charges.
3/ Includes overdue obligations of SDR 10.7 million; actual payments during this period amounted to SDR 19.7 million.
4/ Includes an overdue amount of SDR 7.1 million; actual payments during this period amounted to SDR 9.5 million.
5/ SDR 2.9 million was paid.

## SIERRA LEONE--Basic Data

### Area, population, and GDP per capita

| | |
|---|---|
| Area | 72,326 square kilometers |
| Population: | |
| Total (1987 estimate) | 3.822 million |
| Growth rate | 2.7 percent per annum |
| GDP per capita | SDR 237 |

| | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 Prelim. Actual |
|---|---|---|---|---|---|
| | (In millions of leones) | | | | |
| Gross domestic product, expenditure and prices | | | | | |
| GDP at constant 1980/81 prices | 1,295.4 | 1,312.6 | 1,276.6 | 1,231.6 | 1,278.4 |
| Agriculture, forestry, and fishing | 403.1 | 411.5 | 445.2 | 440.3 | ... |
| Mining and quarrying | 92.5 | 105.1 | 88.8 | 120.9 | ... |
| Manufacturing and handicrafts | 92.8 | 99.5 | 99.5 | 84.5 | ... |
| Other sectors | 706.9 | 696.5 | 643.1 | 585.9 | ... |
| GDP at current market prices | 1,876.1 | 2,729.5 | 4,288.6 | 6,335.0 | 16,528.2 |
| Gross domestic expenditure | 2,081.8 | 2,771.1 | 4,327.9 | 6,428.5 | 16,781.2 |
| Gross investment | 267.9 | 346.8 | 425.2 | 493.5 | 443.2 |
| Gross savings | 62.2 | 298.2 | 385.9 | 400.0 | 190.2 |
| | (Annual percentage change) | | | | |
| GDP at constant 1980/81 prices | -1.4 | 1.3 | -2.7 | -3.5 | 3.9 |
| GDP at current prices | 16.9 | 45.5 | 57.1 | 47.7 | 160.9 |
| GDP deflator | 18.6 | 43.6 | 61.5 | 53.1 | 151.3 |
| Consumer price index | 44.6 | 78.7 | 61.8 | 70.4 | 167.1 |
| | (In percent of GDP) | | | | |
| Gross consumption | 96.7 | 89.1 | 91.0 | 93.7 | 98.8 |
| Gross investment | 14.3 | 12.7 | 9.9 | 7.8 | 2.7 |
| Resource gap | 11.0 | 1.8 | 0.9 | 1.5 | 1.5 |
| | (In millions of leones) | | | | |
| Revenue and grants | 181.5 | 264.9 | 324.4 | 511.0 | 2,253.1 |
| Revenue | 156.0 | 205.3 | 271.5 | 406.2 | 1,414.8 |
| Tax revenue | (143.7) | (192.9) | (256.9) | (379.0) | (1,377.4) |
| Nontax revenue | (12.3) | (12.4) | (14.6) | (27.0) | (37.4) |
| Grants | 25.5 | 59.6 | 52.9 | 104.0 | 838.3 |

SIERRA LEONE--Basic Data (continued)

| | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 Prelim. Actual |
|---|---|---|---|---|---|
| Total expenditure | 409.1 | 472.7 | 811.4 | 1,431.8 | 5,588.6 |
| Current expenditure | 261.7 | 332.6 | 541.9 | 1,063.1 | 2,989.7 |
| Development expenditure | 99.2 | 103.1 | 126.2 | 212.8 | 1,397.6 |
| Other expenditure | 48.2 | 37.0 | 143.3 | 155.9 | 1,201.3 |
| Overall deficit (commitment base) | -227.6 | -207.8 | -487.0 | -920.8 | -3,335.5 |
| Change in expenditure-related arrears (increase +) | -42.1 | 4.3 | 149.5 | 106.7 | 777.5 |
| Overall deficit (cash basis) | -269.7 | -203.5 | -337.5 | -814.1 | -2,558.0 |
| Financing | 269.7 | 203.5 | 337.5 | 813.0 | 2,558.0 |
| Foreign | 42.0 | -8.0 | 44.7 | 36.3 | 402.7 |
| Drawings | 69.0 | 40.0 | 75.0 | 65.4 | 560.3 |
| Amortization | -27.0 | -48.0 | -30.3 | -29.1 | -157.6 |
| Domestic | 227.7 | 211.5 | 292.8 | 777.8 | 2,155.3 |
| Bank | 224.9 | 173.0 | 268.7 | 756.5 | 1,946.3 |
| Nonbank | 2.8 | 38.5 | 24.1 | 21.3 | 209.0 |
| | | | (In percent of GDP) | | |
| Revenue and grants | 9.7 | 9.7 | 7.6 | 8.1 | 13.6 |
| Total expenditure | 21.8 | 17.3 | 18.9 | 22.6 | 33.8 |
| Current expenditure | 13.9 | 12.2 | 12.6 | 16.8 | 18.1 |
| Development expenditure | 5.3 | 3.8 | 2.9 | 3.3 | 8.5 |
| Other expenditure | 2.6 | 1.4 | 3.3 | 2.5 | 7.3 |
| Overall deficit (commitment basis) | 12.1 | 7.6 | 11.4 | 14.5 | 20.2 |
| Overall deficit (cash basis) | 14.4 | 7.5 | 7.9 | 12.8 | 15.5 |
| | | | (In millions of leones) | | |
| Money and credit (end of period) | | | | | |
| Foreign assets (net) | -292.1 | -730.4 | -1,547.4 | -2,135.8 | -9,197.2 |
| Domestic credit | 867.7 | 1,046.1 | 1,360.7 | 2,142.8 | 4,371.4 |
| Claims on Government | 749.9 | 922.9 | 1,191.6 | 1,948.1 | 3,894.4 |
| Claims on public enterprises | 3.9 | 3.0 | 4.6 | 17.4 | 2.2 |
| Claims on private sector | 113.9 | 120.2 | 164.5 | 177.3 | 474.8 |
| Money and quasi-money | 443.8 | 570.2 | 882.3 | 1,551.3 | 3,511.5 |
| Other items (net) | 131.8 | -254.2 | -1,069.0 | -1,544.3 | -8,337.3 |
| | | | (In percent of GDP) | | |
| Domestic credit | 46.3 | 38.3 | 31.7 | 33.8 | 26.4 |
| Claims on Government (net) | 40.0 | 33.8 | 27.8 | 30.8 | 23.6 |
| Money and quasi-money | 23.7 | 20.9 | 20.6 | 24.5 | 21.2 |

SIERRA LEONE--Basic Data (concluded)

| | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 Prelim. Actual |
|---|---|---|---|---|---|
| | | | (In millions of SDRs) | | |
| Balance of payments | | | | | |
| Exports, f.o.b. | 87.7 | 107.6 | 139.4 | 111.1 | 101.4 |
| Imports, f.o.b. | -161.1 | -121.7 | -146.7 | -111.8 | -95.4 |
| Trade balance | -73.4 | -14.1 | -7.3 | 0.6 | 6.0 |
| Services (net) | -63.2 | -49.0 | -80.5 | -53.5 | -51.6 |
| Private transfers | 3.8 | 2.6 | 1.9 | 2.5 | 2.5 |
| Official transfers | 18.3 | 22.7 | 17.5 | 20.1 | 18.7 |
| Current account balance | -114.5 | -37.8 | -69.4 | -31.5 | -24.4 |
| Long-term capital | -7.0 | -28.8 | 4.3 | -27.2 | -26.6 |
| Short-term capital and errors and omissions | 47.7 | 23.0 | 20.8 | -1.3 | -15.2 |
| Allocation of SDRs | -- | -- | -- | -- | -- |
| Overall balance | -73.8 | -43.6 | -43.3 | -60.0 | -66.2 |
| | | | (In percent of GDP) | | |
| Exports, f.o.b. | 6.4 | 10.4 | 10.1 | 10.0 | 24.1 |
| Imports, c.i.f. | 13.6 | 11.8 | 10.6 | 10.1 | 22.7 |
| Current account deficit (-) | -8.3 | -3.7 | -5.0 | -2.8 | -5.8 |
| Overall balance of payments deficit (-) | -5.4 | -4.2 | -3.1 | -5.4 | -15.8 |
| | | | (In millions of SDRs) | | |
| Gross official foreign reserves (end of period) | | | | | |
| Holdings of SDRs | -- | -- | -- | -- | -- |
| IMF reserve position | -- | -- | -- | -- | -- |
| Foreign exchange | 9.7 | 6.4 | 7.8 | 8.1 | 1.5 |
| Total | 9.7 | 6.4 | 7.8 | 8.1 | 1.5 |
| External medium- and long-term public debt (disbursed at end of period) | 405.0 | 361.0 | 349.0 | 411.0 | 487.0 |
| | | | (Four quarter averages; 1980=100) | | |
| Effective exchange rates 1/ | | | | | |
| Nominal trade-weighted | 113.7 | 64.2 | 56.0 | 31.7 | 4.7 |
| Real trade-weighted | 183.0 | 166.5 | 208.1 | 199.6 | 66.8 |

1/ A downward movement indicates a depreciation.