INTERNATIONAL MONETARY FUND

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SIERRA LEONE

June 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SIERRA LEONE

In the context of the Request for Disbursement under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 3, 2020, following discussions that ended on May 19, 2020 with the officials of Sierra Leone on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 27, 2020.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Sierra Leone.

The document listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Sierra Leone*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR20/233

IMF Executive Board Approves US$143 Million Disbursement to Sierra Leone to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The COVID-19 pandemic is taking a heavy toll on Sierra Leone's economy, jeopardizing hard-won gains since the Ebola health crisis.
- The IMF approved the disbursement of US$143 million under the Rapid Credit Facility to support the authorities' response to the pandemic.
- The Sierra Leonean authorities are taking decisive and welcome actions to contain the pandemic and its socio-economic impact.

Washington, DC – June 03, 2020 The Executive Board of the International Monetary Fund (IMF) today approved the disbursement of SDR 103.7 million (US$143 million or 50 percent of quota) under the Rapid Credit Facility (RCF) to Sierra Leone to help meet the urgent balance of payments and fiscal needs stemming from the COVID-19 pandemic.

The COVID-19 pandemic is severely impacting Sierra Leone's economy. A sharp contraction in external demand, and vital steps to contain the spread of the virus, are disrupting domestic activity and important mineral exports.

The authorities have taken swift action to combat the effects of the crisis, increasing health spending and social protection for the most vulnerable, as well as steps to support the private sector and secure critical supplies to address food insecurity. These substantial needs, together with the already tight financing situation, underline the importance of Fund support, and additional support from the international community.

In the context of their broader commitment to strengthen governance, the authorities are taking steps to ensure transparency and accountability in executing pandemic-related measures.

IMF staff are working closely with the authorities to provide technical and policy advice to help Sierra Leone as it battles the pandemic.

At the conclusion of the Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

"The COVID-19 pandemic puts Sierra Leone's population at risk and is a serious blow to the economy, which has just started to recover. The number of COVID-19 cases is increasing rapidly, threatening the fragile health system. The drop in external demand and essential measures to contain the spread of the virus are sharply curtailing economic activity.

"The authorities are taking decisive actions to mitigate the health and socio-economic impact of the pandemic. In collaboration with development partners, they are scaling up urgent health spending and introducing measures, including boosting social safety nets and ensuring access to credit for affected businesses.

"Beyond the crisis, the authorities remain committed to their National Development Plan and their reform program supported under the Extended Credit Facility. They are taking steps to maintain macroeconomic stability during the crisis and are continuing to strengthen governance, including by seeking IMF technical assistance to implement accountability structures for emergency spending. Once the crisis abates, resuming fiscal consolidation and accelerating structural reform will be important. The IMF stands ready to assist Sierra Leone as it fights the pandemic and to support its economic reforms going forward.

“The shock has generated a large balance of payments need. Emergency financing under the Rapid Credit Facility will help meet this financing gap and create room for pandemic-related spending. With significant downside risks and a tight financing situation threatening to reverse Sierra Leone’s progress toward the Sustainable Development Goals, additional grant support from the international community is urgently needed.”

More information

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

INTERNATIONAL MONETARY FUND

SIERRA LEONE

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

May 27, 2020

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic is severely impacting the Sierra Leonean economy, threatening to wipe out the hard-won gains since the Ebola health crisis just five years ago. The sharp contraction in external demand, and disruptions to mining production and exports are straining the external and fiscal accounts. Proactive measures vital to contain the spread of the crisis are dampening economic activity. The already tight financing situation and fragile health sector, and vast development needs, limit the authorities' ability to reallocate resources within and across sectors.

Policy Response. Sierra Leone's continued commitment to reform under both the Government's National Development Plan and the Extended Credit Facility—including to enhance governance—will support the COVID-19 response. The immediate priority is to address the health and socio-economic fallout of the pandemic. The authorities swiftly introduced containment measures, with immediate fiscal costs. The Government is working closely with development partners, within a dedicated COVID-response governance structure. Measures include: increasing health spending to contain the spread, expanding social protection to support the most vulnerable, securing the supply of critical goods to address food insecurity, and supporting the private sector.

Request for IMF support. Sierra Leone faces urgent and widening external and fiscal financing gaps. Efforts by the authorities to reallocate budget resources, along with additional grant financing (World Bank), IMF debt service relief, and the Debt Service Suspension Initiative (DSSI) supported by the G20 and Paris Club substantially narrow the financing gaps. To further narrow these gaps, the Government is seeking financial assistance under the "exogenous shocks" window of the Rapid Credit Facility (RCF). In the attached letter of intent (LOI), they request a disbursement of SDR 103.7 million or 50 percent of quota, to become available upon Board approval. To address urgent fiscal needs, the Bank of Sierra Leone would on-lend the RCF disbursement to the Treasury. Staff assesses that Sierra Leone meets the qualification criteria and other requirements and supports the request. Public debt is sustainable and the capacity to repay the Fund remains adequate. While the RCF disbursement helps meet a large portion of the currently estimated need, it will also play a vital role in catalyzing additional support—ideally grants—from development partners, which the authorities are actively seeking.

Approved By
Dominique Desruelle (AFR), Kevin Fletcher (SPR)

An IMF team comprising Mmes. Karen Ongley (head), Natalia Aivazova, Rosalind Mowatt (AFR), Ms. Aleksandra Zdzienicka and Mr. Fazeer Rahim (both FAD); Mr. Shelton Nicholls (MCM); Mr. Masashi Saito (SPR); Ms. Monique Newiak (Resident Representative) and Mr. Michael Saffa (Local Economist) held teleconferences with the Sierra Leonean authorities from May 15-19, 2020. Mr. van Greuning (FIN) and Mr. Jha (AFRITACW2) also joined the discussions. Mr. Mahlinza and Mr. Nakunyada (both OED) joined the concluding meeting.

CONTENTS

CONTEXT

1. **Accelerating reforms and recovery in recent years had promised to help Sierra Leone overcome a long period of economic instability and fragility.** The twin shock of Ebola and the commodity price slump in 2014-15 devastated the economy, and the subsequent period of lax macroeconomic policies stalled the recovery. Since coming to office in April 2018, the Government embarked on reforms to restart growth. Their National Development Plan (NDP) emphasizes stabilizing the macroeconomy, while investing in better education, infrastructure and governance.

2. **Continued progress under the Fund-supported program attests to this reform commitment**. In completing the 2nd review under the Extended Credit Facility (ECF) in April, the Board highlighted that the cautious approach to fiscal policy had put Sierra Leone's public finances on a firmer footing. Yet the financing situation remains tight, owing to a shallow banking sector, a large stock of legacy arrears, weaker global sentiment for grant support, and the growing yet still thin domestic revenue base.

3. **Mounting pressures on the health sector, the shock of the pandemic and critical containment measures have created significant financing needs.** Since the first reported case at end-March, Sierra Leone's official case load escalated rapidly to above 700 as of May 26. The global shock, along with domestic containment measures, have undercut economic activity, lowered domestic revenues, strained external accounts, and created significant external and fiscal financing gaps, amid vital spending needs to support a weak health sector. The World Health Organization expects cases to escalate rapidly once testing capacity improves and the health crisis is expected to peak only later this year, creating substantial health and economic risks and operational uncertainty.

4. **The authorities have requested emergency financing through the IMF's Rapid Credit Facility (RCF)** to help address urgent health and economic needs, and provide a bridge until discussions with the IMF on the ECF-supported program can resume.

IMPACT OF COVID-19 PANDEMIC AND OUTLOOK

5. **The past two years had seen welcome progress in Sierra Leone's economic recovery.** Growth stabilized at 3.5 percent in 2018 before picking up to an estimated 5.1 percent in 2019, and was set to average 4½ percent over the medium term. Fiscal consolidation, supported by spending prioritization and revenue mobilization efforts, succeeded in narrowing the overall deficit from 8.8 percent of GDP in 2017 to 2.9 percent of GDP in 2019. This helped to stabilize domestic borrowing needs and inflation moderated. Foreign exchange buffers started building up, though exchange rate pressures persisted.

6. **The global COVID-19 shock is set to severely disrupt macroeconomic stabilization.** The revised outlook (Text Table 1) takes current global projections as given and assumes that the decisive domestic containment measures (Box 1) would continue for much of 2020. Despite substantial uncertainty, widespread economic hardship is imminent:

- ***...real GDP growth would turn sharply negative*** in 2020 to about -3.1 percent, down by more than 7 percentage points compared to the pre-COVID estimate. Trade, tourism and other services (nearly 40 percent of GDP) will contract sharply. Supply chain disruptions would impede imports of intermediate goods, dampening manufacturing and construction. Growth would recover somewhat in 2021 as containment measures are lifted but uncertainty would continue to weigh on confidence and private sector activity after the pandemic.

Text Table 1. Sierra Leone: Macroeconomic Framework, 2018-2022

	2019	2020	2020	2021	2021	2022
		2nd ECF		2nd ECF		
	Est.	Rev.	Proj.	Rev.	Proj.	Proj.
(In percent of non-iron ore GDP unless otherwise indicated)						
GDP at constant prices (percent change)	5.1	4.2	-3.1	4.6	2.7	4.2
Excluding iron ore	4.5	4.4	-2.5	4.5	2.3	4.1
Consumer prices (end-of-period)	13.9	13.0	17.5	11.0	13.5	11.1
Gross international reserves (months of imports)	3.5	3.7	4.2	3.6	4.1	3.9
Current account balance (incl. grants)	-13.8	-11.3	-15.8	-11.4	-14.7	-13.3
Excl. grants	-17.4	-15.2	-20.0	-14.2	-18.1	-16.7
External public debt	43.6	47.2	55.0	47.8	57.1	56.0
Revenue	14.3	14.8	13.0	15.3	13.8	14.4
Domestic primary balance	-0.6	0.3	-4.9	1.0	-0.4	0.6
Overall Balance	-2.9	-3.3	-8.2	-3.4	-5.2	-3.6

- ***...inflation would rise*** to 17½ percent towards the end of 2020, up 4½ percentage points from the pre-COVID estimate, mainly on the back of potential shortages of goods due to supply chain disruptions and transportation restrictions, exacerbating usual pressures during the lean rainy season.

- ***...the fiscal deficit would widen*** due to the substantial loss in fiscal revenues as external and domestic activity declines and as previously expected revenue administration gains are no longer feasible. Compared to pre-COVID projections, the domestic revenue-to-GDP ratio is expected to drop by 1¾ percentage points, on the back of lower customs duties, value-added tax proceeds and income tax.

- ***...asset quality is likely to deteriorate*** on the back of lower growth.

- ***...longer-term development outcomes*** would suffer. For instance, school closures will stall some human capital accumulation, even with mitigating measures, and violence against children and women could rise, with longer-term macroeconomic consequences.

7. The external accounts will be strained, giving rise to a large and urgent balance of payments need. Dampened external demand, closed borders, and constrained domestic movements will depress mining activity and exports (-16.6 percent y-o-y). Heavy dependence on food imports—food accounts for close to 40 percent of total imports—and increased medical imports to shore up the weak healthcare system will limit the overall decline in imports. Dampened global activity and investor sentiment would curtail FDI and remittances. These effects, together with a heightened need for reserves to support confidence and given high uncertainties, open an urgent balance of payments gap of US$214 million (Table 4), even after the policy adjustments outlined in the next section.

Box 1. Government's Containment Measures

The Government acted decisively to implement a range of prevention and containment measures. On March 24, President Bio declared a 12-month national state of emergency complementing a range of prevention and containment measures to…

- ***…limit the import of the virus,*** including mandatory quarantine for anyone arriving from a country with 50 or more cases, closing land borders, enhanced border controls, and suspending for three months all incoming and outgoing regular passenger flights.
- ***…encourage social distancing,*** including closing education institutions as of end-March 2020, restricting attendance of religious events and use of public beaches, limiting the number of passengers in public transport, and mandating the use of masks in public spaces.
- ***…curtail interactions*** by restricting inter-district travel, shortening public working hours, and implementing a national evening curfew until further notice.

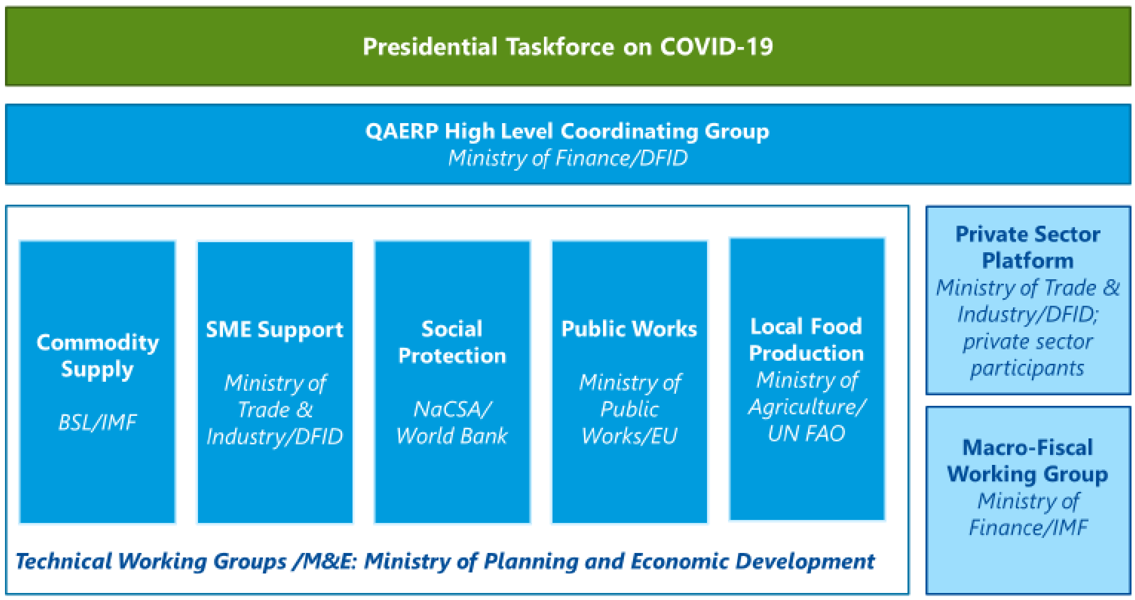
8. **Notwithstanding the large shock, the outlook remains fraught with uncertainty and risk.** The Ebola crisis showed that interactions between health and economic crises are complex, and the impact could be larger than anticipated. A more sustained spread of the virus could further increase health and social spending needs. Failure to mobilize financing and redirect limited resources towards the COVID-response could undermine progress towards other health and development goals. For instance, the higher spending to eradicate Ebola came at the expense of a surge in malaria infections and deaths. Weaker-than-expected execution of COVID-19 related measures could further dampen economic growth. Weaknesses in public financial management (PFM) could slow implementation, despite recent improvements and ongoing technical support. The potential for even weaker economic activity, and difficulties with revenue administration and compliance in the context of containment measures, pose a significant risk to revenue performance. A more severe or protracted global crisis or a further fall in prices of Sierra Leone's main export commodities, could further widen the balance of payments financing gap.

POLICY ISSUES AND DISCUSSIONS

9. **The authorities are taking a comprehensive approach to addressing the health and economic fallout of the crisis.** The Government has signaled its continued commitment to the medium-term objectives of its ECF-supported program. However, that requires first stemming the impact of the crisis on people's health and livelihoods. The authorities are addressing urgent health needs through their *Health Response Plan*, and their *Quick Action Economic Response Programme* (QAERP) seeks to mitigate the impact on the economy, businesses and households. It addresses several interlinked priority areas: ensuring a stable supply of essential commodities and energizing local food production; providing support to affected small and medium enterprises; and improved social protection and planned public works.

10. To facilitate a well-designed policy response, the Government established a coordination mechanism to engage development partners and other stakeholders (Text Figure 1). The goal is to ensure the response is targeted and sustainable, efficiently implemented, well-coordinated, and well governed. The Macro-Fiscal Working Group, co-chaired by the Ministry of Finance and IMF, is focused on costing the measures and ensuring the plan is sustainable.

Text Figure 1. Sierra Leone: Quick Action Economic Response Programme Governance Structure



Source: QAERP secretariat.
Note: Organizations in italics are co-chairing relevant groups, with each group including broader participation of Ministries and development partners.

A. Fiscal Policy to Mitigate the Impact of COVID-19

11. The impact of the crisis, and the Government's response, will widen the fiscal deficit (Text Table 2). While revenues are set to decline, additional public spending is needed to address immediate health costs, enhance social security, and support the private sector.

- ***Initial containment measures*** included ramping up security and provisions for personnel enforcing border closures, screening and so on, and raising public awareness (Le 294 billion).
- ***Health spending*** is focused on increased testing and surveillance, laboratory information, case management, information and social mobilization, and logistics. While the health response is still being finalized, the budgetary cost is expected to be around Le 423 billion.
- ***Mitigating the socio-economic impact.*** The Government is expanding cash and in-kind transfer programs to vulnerable households in rural areas, and providing one-time payments to affected informal sector workers in urban areas with World Bank support, based on

existing structures and in coordination with the QAERP social protection working group. It also plans targeted and temporary import tax deferrals to help secure imports of essential goods. Leveraging already-budgeted projects and existing policy mechanisms, it intends to expand rural road networks and road maintenance in support of employment and private sector activity. These activities require funding of Le 464 billion (around US$40-45 million).

Text Table 2. Sierra Leone: Costing the Authorities' COVID-19 Responses

	Total Cost	Total Budgetary Cost		
		From 2020 Budget	Identified New Funding	Remaining Cost
	(Billions of Leone)			
Initial Containment and Social Response	**294**			
***of which*: Implemented via the government budget**	**294**	**-**	**-**	**294**
Health Sector Response Plan 1/	**783**			
***of which*: Implemented via the government budget**	**423**	**-**	**93**	**330**
Quick Action Economic Response Programme	**1,365**			
Budget Expenditure	**665**	**201**	**-**	**464**
Establish and maintain a stock and price monitoring system for essential commodities	5	-	-	5
Special loan facility (local and foreign currency) to businesses at concessional rates	100	-	-	100
Commence national micro credit scheme	50	20	-	30
Expand existing cash transfer programme implemented by NaCSA	100	40		60
Provide food assistance to vulnerable groups	50	-	-	50
Rehabilitate unpaved trunk and feeder roads	200	80		120
Minor repairs on township roads	20	-	-	20
Provide farm inputs including chemicals and seedlings to farmers	100	57	-	43
Support farmers' access to tractors and other farmer machinery	30	-	-	30
Provide extension services to farmers	10	4	-	7
Contingent liabilities for central government	**200**	**-**	**-**	**-**
De-risk lending through guarantees to Small and Medium-Scale Enterprises (SMEs)	100			
Suspend interest payments on commercial bank loans for tourism sector SMEs	100			
Central Bank Support	**500**	**-**	**-**	**-**
Support for private secotr importation of essential commodities & special credit facility to support the production, importation and distribution of essential goods & services	500			
Total COVID19-related Budgetary Expenditure	**1,382**	**201**	**93**	**1,089**

1/ Some health sector initiatives are being implemented directly by health sector and development partners.

Sources: Sierra Leonean authorities, and IMF staff estimates.

12. **Notwithstanding efforts to reprioritize 2020 budget spending and scaled-up financing from other development partners, a significant financing gap remains**. The total fiscal impact of the COVID-19 related shock, both to revenue and expenditure, is approximately US$230 million. While the authorities have identified elements of the 2020 budget that will be reallocated to address crisis needs (US$18.7 million), there will be a substantial fiscal financing gap in excess of Le 2 trillion (around US$210 million or around 5.4 percent of GDP (Text Table 3).

- Development partners are moving quickly to commit additional emergency support, significantly narrowing the initial financing gap. The World Bank is providing support for the health sector response, including a US$7.5 million health project grant approved in April, and a US$100 million budget support grant (US$40 million above the financing provisioned in the authorities' 2020 budget), expected to be approved in June. The European Union is delinking fixed and flexible tranches of their budget support to enable earlier disbursements, and is exploring increased support.

- Given Sierra Leone's shallow financial markets, the financial sector has little scope to absorb additional T-Bill issuances without straining banks' balance sheets and jeopardizing financial stability. Therefore, on-lending of the proposed RCF—and other prospective debt service relief (including the second CCRT tranche)—is crucial to substantially narrowing the fiscal financing gap. Ongoing discussions with other development partners, such as the African Development Bank, are expected to close the small residual gap.

Text Table 3. Sierra Leone: Fiscal Financing Gap, 2020

	Leones, bln		
	2nd Review	Current	Change from 2nd Review
Domestic Revenue	6467	5399	-1068
Grants	1762	1798	36
CCRT Debt Relief (1st tranche)	0	197	197
Expenditure	9687	10784	1097
Overall Balance	-1458	-3390	-1932
Financing	1458	3390	1932
Foreign financing	510	500	-10
Domestic Financing	948	645	-304
Financing Gap	**0**	**2245**	**2245**
RCF On-Lending	0	1530	1530
Remaining CCRT, prospective	0	46	46
G20 debt initiative (deferment)	0	104	104
World Bank support (grants):			
Budget (additional to budget assumption)	0	418	418
Health sector	0	93	93
Remaining Gap	0	56	56

13. Evidence from the Ebola health crisis suggests that the fiscal pressures are likely to be long-lasting. The economic recovery is expected to be gradual as re-starting structural reforms and regaining revenue mobilization momentum will likely take years. While exceptional and direct spending pressures moderate progressively by end-2021, large development needs, exacerbated by the pandemic, could result in expenditure pressures over the medium term. The authorities remain firmly committed to their pre-crisis reform agenda, including revenue mobilization, maintaining what reforms they can in the face of the pandemic and reviving others as soon as conditions allow. However, while revenue mobilization efforts are still recovering, efforts to steadily reduce the deficit after the crisis and limit recourse to domestic debt could constrain spending, including critical development spending.

14. While debt remains sustainable, Sierra Leone's risk of debt distress remains high, particularly with the added pressure of the COVID-19 shock. The updated debt sustainability analysis (DSA) reflects the new macroeconomic framework and financing environment, and recent debt initiatives intended to provide fiscal space. In particular, the projections take into account debt service relief under the CCRT (about US$81 million for the 24 months until April 2022[1]) and about US$10 million of debt service suspension the authorities have requested from creditors participating

[1] Debt relief approved under the first six-month tranche of the CCRT is US$18.5 million; debt relief for the remainder of the 2-year CCRT is subject to the availability of resources.

in the DSSI.[2] While debt remains sustainable, lower revenues and increased financing needs result in a more prolonged breach of the external debt service-to-revenue threshold. Moreover, the risk of a sharper downturn in economic activity, with attendant risks to government finances and the external sector, underscores the importance of highly concessional—ideally grant—financing to avoid further pressure on debt sustainability.

B. Monetary and Financial Policies to Soundly Safeguard Economic Activity

15. The Bank of Sierra Leone (BSL) acted expeditiously to mitigate the economic impact of the pandemic. An emergency Monetary Policy Committee meeting on March 18 decided to (i) reduce the monetary policy rate by 150 bps from 16.5 percent to 15 percent; (ii) extend the reserve requirement maintenance period from 14 to 28 days to ease liquidity pressures; (iii) create a Le 500 billion special credit facility to support the production, procurement and distribution of essential goods; and (iv) support the private sector in the importation of essential goods. The exchange rate has been allowed to adjust, with continued depreciation of 10 percent (y-o-y) in April 2020.

16. The BSL will supervise the special credit facility and is discussing with IMF staff its effective implementation (Box 2). Commercial banks have started to process loan applications for eligible borrowers—mainly large importers—at the effective interest rate under this facility.[3] So far, applications to the facility have been for credit in Leones only. In the context of ongoing technical dialogue with the BSL, IMF staff suggested specifying more clearly operational aspects, including adequate collateral; strengthening and upgrading the BSL's standing facilities; greater transparency on the auction process (including determination of the all-inclusive interest rate), and on the exchange rate. The BSL has addressed the staff's suggestions on collateral and transparency, including by amending the Rules for Administering the Facility, and is working closely with staff on exchange rate issues to avoid inefficiencies.

Box 2. BSL Special Credit Facility

- **Goal:** maintain liquidity and enable importers to secure adequate supply of essential goods, supporting health sector response and food security.
- **Modality:** BSL credit window, via commercial banks, in Leones or FX at the prevailing market rate.
- **Eligibility:** businesses with at least 75 percent of their revenues from operations in Sierra Leone.
- **Risk mitigation:** commercial banks bear 100 percent of credit risk; use existing underwriting procedures; register collateral with Collateral Registry to process loans.
- **Accountability:** submit supporting documents and credit information to evaluate loans to the BSL's Banking Supervision Department and Credit Reference Bureau.

[2] In line with the announced DSSI supported by the G20 and the Paris Club, repayment of suspended debt service will begin after a one-year grace period, with six equal installments of 2022-24 (two per year).

[3] The published Rules for Administering the Special Credit Facility outline clear eligibility criteria for loan applicants, including preventing "politically exposed persons or entities" from participating in the facility.

17. Other measures may become necessary if financial conditions deteriorate. Although the banking sector is profitable and adequately capitalized, the current uncertainties warrant monitoring NPLs even more closely and regularly reassessing loan portfolios and the level of provisioning. While holdings of government securities have been a stable source of income, concessional support from development partners for the budget during this crisis will be critical to limit fiscal, and associated financial stability, risks. If the situation deteriorates, the authorities may need to consider other measures including prudent loan restructuring through renegotiated terms (maturity, interest rates, fees). While the BSL could consider suspending automatic asset classification triggers, it should continue to apply asset classification and prudential and IFRS 9 provisioning requirements to restructured loans and loans covered by moratoria. Staff also encouraged the authorities to consider requiring banks to forgo paying shareholder dividends, buying back stock, or increasing executive compensation during the crisis period. Coordination between the Government, BSL and private sector will be critical to support effective implementation.

C. Accountability and Transparency for an Effective COVID-Response

18. The authorities are committed to effective governance and accountability in their COVID-19 response, consistent with the emphasis on improving governance in their NDP. The Anti-Corruption Commission (ACC) has launched a COVID-19 response task force on transparency to watch over the use of funds during this crisis. The Audit Service Sierra Leone (ASSL) issued a public notice in March reiterating the main legal procedures in the use of public funds and its role in safeguarding the integrity of public finances in Sierra Leone.

19. The authorities have also begun to put in place measures to manage and monitor COVID-related spending, supported IMF technical assistance (TA). The Government has set up the COVID-19 Fund (CF), an extra budgetary account at the BSL, to pool funds with a counterpart account at a commercial bank to execute the emergency spending. This represents an improvement over the multitude of makeshift funds and agencies during the Ebola response. The authorities plan (Appendix I) for regular reporting and the ex post audit by the ASSL of COVID-related interventions in line with their *Public Financial Management Act (2016)*, and to publish online the names and beneficial owners of companies winning large COVID-19-related contracts. IMF TA is underway to ensure good practices, particularly on the management and oversight of the CF, the process for approving emergency spending, and increased use of electronic transactions. Timely disbursement of resources to ASSL and empowering ASSL to audit all resources spent will be important.

20. The authorities are also continuing efforts to enhance BSL governance to buttress financial sector oversight. A new BSL Act, the Banking Act, and Borrowers and Lenders Act, which came into effect in mid-2019, aim to bolster central bank independence and accountability, and strengthen financial stability. The BSL is finalizing the terms of reference for its Financial Policy Committee, which will implement updated prudential guidelines and appropriate macroprudential policy measures and provide an important first step for interagency coordination. In addition, the BSL is awaiting the appointment of a second Deputy Governor by the President, which is important for improving the efficiency of the internal organization of the central bank. A Financial Sector

Stability Review is underway to help the BSL identify priority areas for financial reform and develop a roadmap to be supported by a comprehensive capacity development program.

ACCESS AND CAPACITY TO REPAY

21. The authorities are requesting a disbursement under the RCF equivalent to 50 percent of quota (SDR 103.7 million). Sierra Leone meets the eligibility requirements for support under the RCF. The large, COVID-induced balance of payments gap—US$214 million or around 5½ percent of GDP—if not urgently addressed, would result in immediate and severe economic disruptions (Table 4). Fortunately, additional support (grants) committed by development partners (around US$50 million), and debt service relief through the CCRT and DSSI (nearly US$10 million), will narrow the financing gap. Funding under the RCF would therefore help to all but close the remaining balance of payments and corresponding fiscal financing gaps. The influx of foreign support would allow the authorities to meet the fiscal costs of the crisis, and associated import needs, without external sector pressures leading to a precipitous decline in international reserves amidst exceptional uncertainties.

22. Fund support will be instrumental in catalyzing additional support from development partners to close the remaining gaps and support sustained development. In particular, Fund support could prove crucial if additional measures become necessary or downside risks materialize, resulting in even larger financing gaps. If so, additional recourse to IMF emergency support cannot be ruled out. At this stage, significant uncertainty about the scale and duration of the COVID-19 impact, and practical difficulties, prevent timely completion of the third review or augmentation of access under the ECF arrangement. However, reform efforts under the ECF are continuing, and the authorities and IMF staff intend to resume review discussions once these obstacles abate.

23. Even with the RCF disbursement, public debt remains sustainable and the capacity to repay the Fund remains adequate, although financing will remain tight in the medium term. Including the RCF disbursement, total outstanding credit to the Fund at end-2020 would amount to SDR 393.4 million, 189.7 percent of quota, or 14 percent of GDP. While the capacity to repay the Fund remains adequate, gross repayments would be substantial (above 1 percent of GDP per year during 2021-28). The updated DSA indicates that the temporary relaxation of the deficit and RCF disbursement will keep Sierra Leone's risk of external and public debt distress as high. Looking ahead, crisis-related setbacks to revenue mobilization efforts, together with large ongoing development needs, will leave Sierra Leone with sustained financing needs over the medium term, calling for support through highly concessional financing or, ideally, grants.

24. The Government and BSL will establish a framework for on-lending in a Memorandum of Understanding (MoU). As with previous on-lending of Fund resources in Sierra Leone, the MoU will: (i) specify the maintenance of a specific government account at the central bank to receive IMF resources; (ii) require that the government holds foreign exchange balances only with the central bank; (iii) establish an agreement between the BSL and the Ministry of Finance on responsibilities for servicing financial obligations to the IMF; and (iv) indicate repayment schedules.

25. Implementation of safeguards assessment recommendations remains slow. The audit of the BSL's FY2018 financial statements is expected to be finalized by end-June 2020, significantly beyond the statutory deadline (March 2019). Outstanding safeguards recommendations include: (i) conducting an external quality assessment of the internal audit function; (ii) adopting a fraud prevention and whistleblower policy; and (iii) engaging an accounting consultant to review controls.

STAFF APPRAISAL

26. The COVID-19 pandemic is a damaging shock for Sierra Leone's economy, external balances, and public finances. The drop in external demand, decline in some export prices, and restrictions to contain the spread of the virus are already dampening economic activity. Together with critical policy actions to address the threat to the health and well-being of the population, and limit the ongoing toll on the economy, these shocks have created large external and fiscal financing gaps. Efforts to reprioritize budget spending and grant resources committed by development partners, along with CCRT relief and the DSSI, are important steps toward narrowing these gaps.

27. Staff welcomes the authorities' commitment to shepherding Sierra Leone through this crisis and return the economy to a sustained development path. They are taking decisive action to halt the spread of the virus and mitigate its socio-economic impact, while remaining committed to macroeconomic stability. Staff supports widening the fiscal deficit to create room for urgent health spending, and measures to mitigate the economic impact, including boosting social safety nets (especially for the most vulnerable) and ensuring access to credit for affected businesses. The authorities are making good use of pre-existing structures to coordinate their health emergency response and scale up social spending, and are working closely with development partners on effective delivery mechanisms, building on recent PFM improvements.

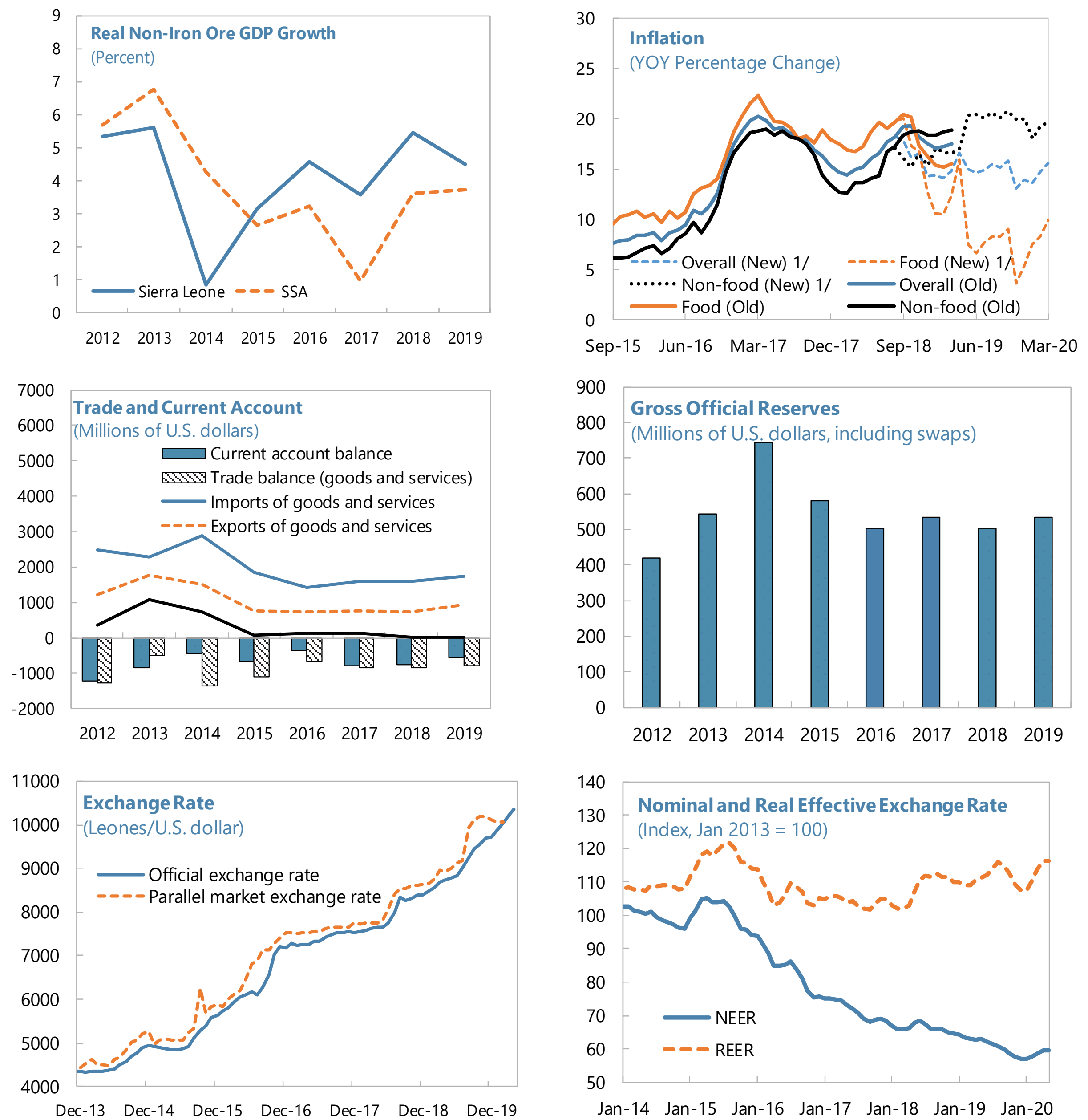
28. The tight financing situation calls for continued international support—ideally grants—including in the medium term. Staff assesses debt to be sustainable, including with the requested financing under the RCF, although Sierra Leone remains at high risk of debt distress due largely to the substantial shock to growth, exports and revenues. Debt service relief under the CCRT and DSSI are welcome contributions to filling the immediate financing needs. Staff strongly supports the authorities' efforts to seek additional grants from development partners to address short-term pressures. The setback to revenue mobilization and spending needed to support the recovery imply that significant additional support will be necessary to assist Sierra Leone's sustained development.

29. Uncertainty and considerable downside risks cloud the economic outlook. A larger-than expected domestic outbreak would call for both higher health and priority spending and more aggressive containment measures, further increasing financing needs and dampening the economic outlook. A more protracted global crisis would exacerbate the shock to external demand and commodity prices, increasing pressures on the balance of payments. While the RCF significantly narrows the currently estimated balance of payment and fiscal financing needs, additional grant support from development partners or IMF emergency financing may prove necessary should significant downside risks materialize.

30. Staff commends the authorities' commitment—in line with their Fund-supported program—to ensuring the effective use of funds. In particular, staff supports the steps the authorities are taking to stave off macroeconomic instability throughout the crisis and pursue their NDP goal of more effective governance. To ensure integrity, accountability and transparency in the use and management of funds in the current setting, the ACC's COVID-19 Transparency Taskforce and the ASSL will play a crucial role. The authorities established a COVID-19 account to ensure transparency in the receipt and use of funds, and are implementing it supported by IMF TA. ASSL will audit COVID-19 related transactions after the crisis and publish its ex-post assessment.

31. Against this background, staff supports the authorities' request for a disbursement under the Rapid Credit Facility in the amount of SDR 103.7 million (50 percent of quota).

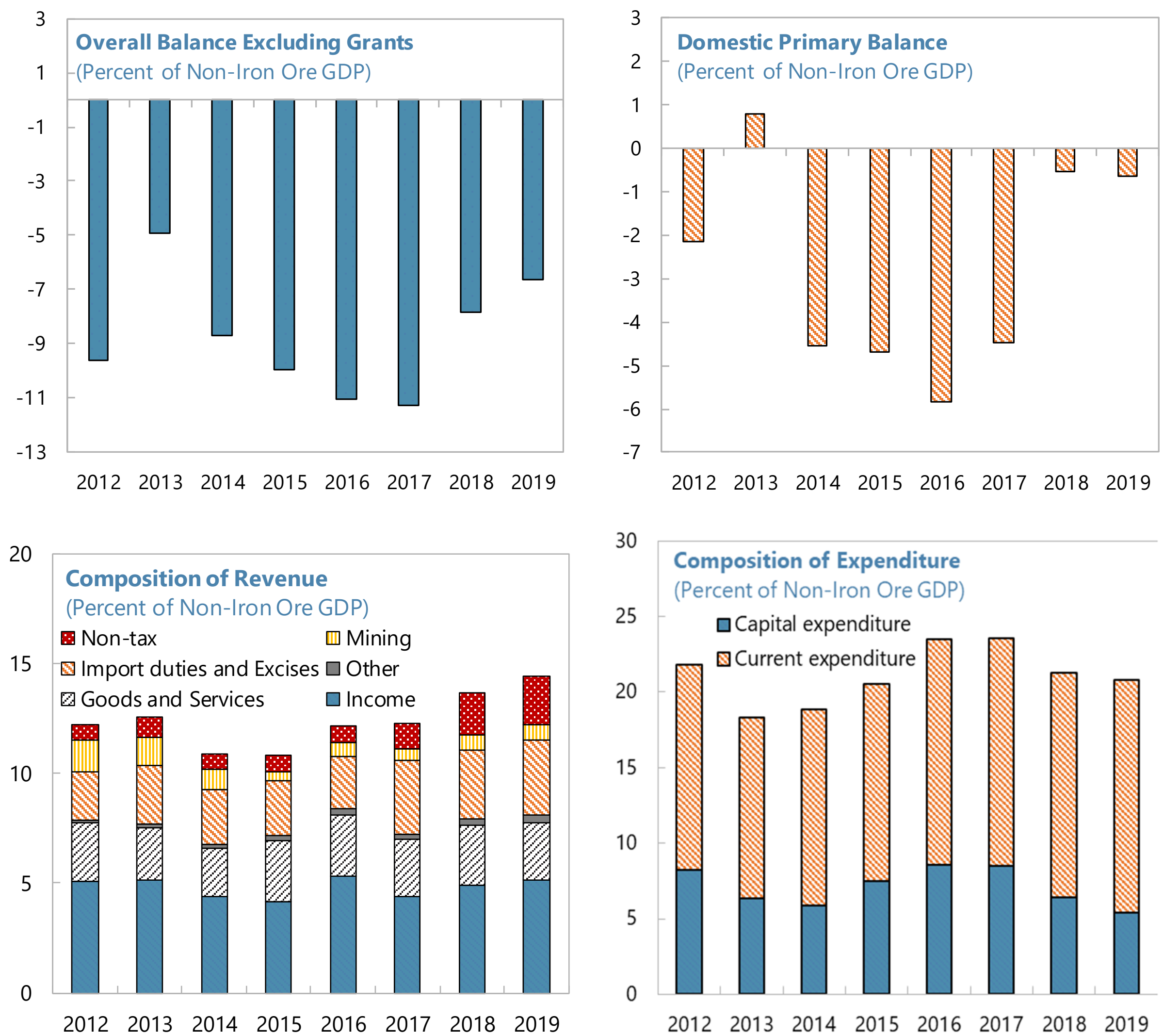
Figure 1. Sierra Leone: Real and External Sectors, 2012–20



1/ Reflects updated CPI series with technical corrections.

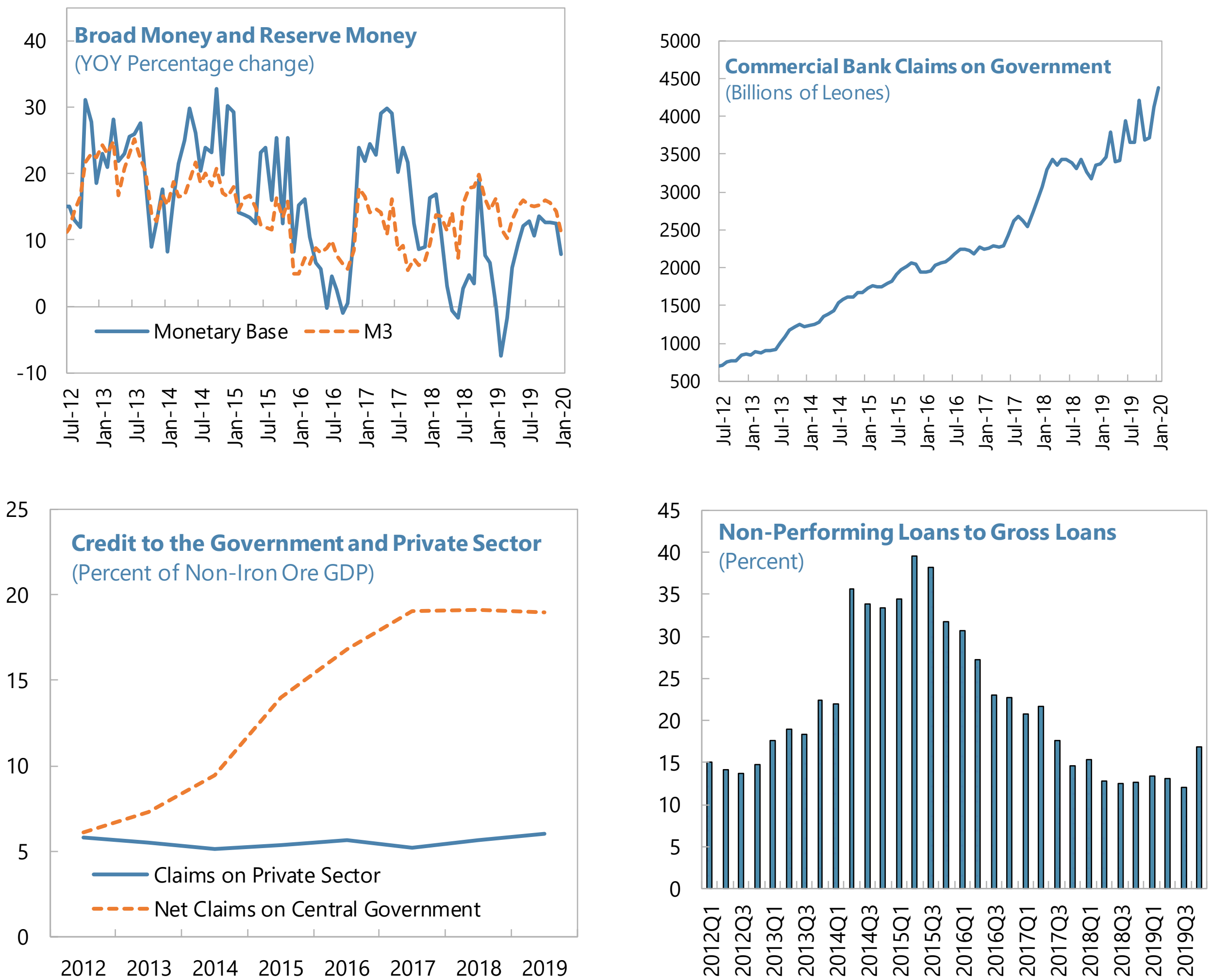
Sources: Sierra Leonean authorities; and IMF staff estimates.

Figure 2. Sierra Leone : Fiscal Sector, 2012–19



Sources: Sierra Leonean authorities; and IMF staff estimates.

Figure 3. Sierra Leone: Monetary and Financial Indicators, 2012–19



Sources: Sierra Leonean authorities; and IMF staff estimates.

Table 1. Sierra Leone: Selected Economic Indicators

	2017	2018	2019	2020		2021	2022	2023	2024	2025
				2nd ECF						
			Est.	Rev.	Proj.1/			Proj.		
	(Annual percent change, unless otherwise indicated)									
National account and prices										
Growth										
GDP at constant prices	3.8	3.5	5.1	4.2	-3.1	2.7	4.2	4.5	4.5	4.6
GDP excluding Iron ore	3.6	5.4	4.5	4.4	-2.5	2.3	4.1	4.4	4.4	4.4
Inflation										
Consumer prices (end-of-period)	15.3	14.2	13.9	13.0	17.5	13.5	11.1	9.8	8.8	8.0
Consumer prices (average)	18.2	16.0	14.8	13.4	15.7	15.5	12.3	10.5	9.3	8.4
External sector										
Terms of trade (deterioration -)	15.5	-9.9	-4.2	2.3	2.4	-2.2	-0.4	0.0	-0.1	0.1
Exports of goods	-0.3	-2.0	11.3	28.1	-16.6	24.1	15.9	9.9	11.1	10.5
Imports of goods	23.7	0.6	4.9	4.0	-4.3	4.1	4.5	2.5	6.4	5.1
Gross international reserves (excluding swaps), months of imports 2/	3.8	3.7	3.5	3.7	4.2	4.1	3.9	3.9	3.7	3.6
Money, credit and reserves										
Domestic credit to the private sector	4.9	30.6	22.9	9.3	10.6	15.7	16.3	2.1	2.6	14.4
Domestic credit to the private sector in percent of non-iron GDP	5.2	5.6	6.0	5.7	6.1	6.1	6.1	5.4	4.9	5.0
Base money	9.0	6.5	12.4	26.3	19.6	19.8	15.5	13.9	13.1	12.5
M3	7.0	14.5	14.3	17.4	14.6	16.3	15.5	13.9	13.1	12.5
Gross Intl. Reserves (excluding swaps, in US$ millions)	501	487	506	572	565	569	575	582	589	600
Net Intl. Reserves (excluding swaps, in US$ millions)	128	107	125	154	3	6	49	118	190	272
	(Percent of non-iron ore GDP, unless otherwise indicated)									
National accounts										
Gross capital formation	19.0	16.9	15.9	17.6	16.5	15.4	16.1	17.1	17.6	18.4
Government	8.5	6.4	5.4	6.6	6.7	5.0	5.1	5.1	5.6	6.4
Private	10.5	10.5	10.5	11.0	9.8	10.4	11.0	12.0	12.0	12.0
National savings	-2.2	-1.8	2.1	6.3	0.8	0.7	2.8	5.3	6.2	7.8
Financing and debt										
Public debt	69.1	69.1	70.0	66.6	77.2	79.0	77.5	74.8	71.9	69.3
Domestic	28.0	27.9	26.4	19.4	22.2	21.9	21.4	20.8	20.2	19.8
External public debt (including IMF)	41.1	41.2	43.6	47.2	55.0	57.1	56.0	54.0	51.7	49.5
External sector										
Current account balance										
(including official grants)	-21.1	-18.7	-13.8	-11.3	-15.8	-14.7	-13.3	-11.8	-11.4	-10.6
(excluding official grants)	-22.5	-19.7	-17.4	-15.2	-20.0	-18.1	-16.7	-14.9	-14.5	-13.5
Central government budget										
Domestic primary balance 3/	-4.5	-0.5	-0.6	0.3	-4.9	-0.4	0.6	1.4	1.5	1.2
Overall balance	-8.8	-5.6	-2.9	-3.3	-8.2	-5.2	-3.6	-2.7	-2.5	-2.7
Overall balance (excluding grants)	-11.3	-7.7	-6.3	-7.4	-12.5	-8.1	-6.4	-5.1	-4.8	-4.8
Revenue (excluding grants)	12.3	13.7	14.3	14.8	13.0	13.8	14.4	14.9	15.5	16.0
Grants	2.5	2.1	3.4	4.0	4.3	2.9	2.8	2.4	2.3	2.1
Total expenditure and net lending	23.5	21.4	20.6	22.2	26.0	21.9	20.8	20.1	20.3	20.8
Memorandum item:										
GDP at market prices (billions of Leone)	27,465	32,402	37,910	43,846	41,400	48,058	55,638	63,863	72,619	82,115
Excluding iron ore	27,257	32,402	37,587	43,569	41,400	47,733	55,205	63,312	71,850	80,988
Excluding iron ore in millions of US$	3,700	4,082	4,150	4,149	3,877	3,801	3,853	3,961	4,101	4,286
Per capita GDP (US$)	498	534	536	523	486	469	466	469	477	489
National currency per US dollar (average)	7,366	7,938	9,056	…	…	…	…	…	…	…
National currency per US dollar (EOP)	7,537	8,396	9,716	…	…	…	…	…	…	…

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

1/ In 2020, the current account balance (including official grants), domestic primary balance, overall balance, and grants exclude the additional World Bank support for the budget (US$40 million) and the health sector (US$8.7million).

2/ Refers to reserves and imports in current year.

3/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed capital spending, and arrears paydown from grants. Excludes capital transfers associated with CCRT debt relief.

Table 2a. Sierra Leone: Fiscal Operations of the Central Government
(Billions of Leone)

	2017	2018	2019	2020		2021	2022	2023	2024	2025
				2nd ECF						
		Act.	Est.	Rev.	Proj.			Proj.		
Total revenue and grants	**4,023**	**5,101**	**6,666**	**8,229**	**7,394**	**7,947**	**9,467**	**10,989**	**12,795**	**14,668**
Revenue	3,340	4,428	5,377	6,467	5,399	6,578	7,936	9,453	11,110	12,930
Tax revenue	3,034	3,809	4,560	5,486	4,511	5,561	6,754	8,114	9,604	11,236
Personal Income Tax	972	1,158	1,508	1,823	1,661	1,934	2,303	2,690	3,103	3,563
Corporate Income Tax	214	438	384	380	340	412	542	691	856	965
Goods and Services Tax	714	886	984	1,241	931	1,202	1,556	1,955	2,363	2,866
Excises	424	358	571	683	548	664	772	886	1,008	1,190
Import duties	486	650	710	852	641	919	1,075	1,264	1,540	1,819
Mining royalties and licenses	149	223	268	323	225	242	276	265	313	351
Other taxes	76	95	134	184	164	189	230	361	420	483
Non-tax	306	620	818	982	888	1,017	1,182	1,339	1,506	1,694
Other, Capital Transfers from BSL (CCRT Debt Relief)	...	...	...	...	197	0	0	0	0	0
Grants	683	673	1,289	1,762	1,798	1,369	1,531	1,535	1,685	1,738
Budget support	137	218	777	1,027	1,050	802	955	951	1,092	1,136
Project grants	546	454	512	735	748	567	576	584	593	602
Expenditures and net lending	**6,412**	**6,920**	**7,742**	**9,687**	**10,784**	**10,443**	**11,464**	**12,704**	**14,569**	**16,827**
Current expenditures	4,121	4,748	5,656	6,508	6,511	7,535	8,319	9,145	10,180	11,291
of which, existing expenditure apportioned to COVID-19					*201*					
Wages and salaries 1/	1,890	2,057	2,588	3,175	3,175	3,548	3,911	4,302	4,724	5,158
Goods and services	1,079	1,155	1,175	1,058	1,058	1,249	1,450	1,628	1,925	2,254
Subsidies and transfers	549	629	903	1,018	1,018	1,177	1,396	1,604	1,814	2,091
Interest	602	906	990	1,258	1,261	1,560	1,562	1,611	1,715	1,789
Domestic	535	812	880	1,105	1,105	1,371	1,351	1,376	1,428	1,478
Foreign	67	95	110	153	156	189	211	236	287	311
Capital Expenditure	2,308	2,083	2,035	2,874	2,786	2,409	2,796	3,199	4,030	5,177
Foreign financed	1,246	1,409	1,136	1,814	1,826	1,851	2,060	2,292	2,552	2,840
Domestic financed	1,062	674	899	1,060	960	558	736	907	1,478	2,337
Net lending	(23)	-	-	-	-	-	-	-	-	-
Contingent expenditure	6	89	51	40	40	90	90	100	100	100
Arrears Paydown (cash)				266	266	260	260	260	260	260
Additional COVID-19 Related Expenditure	...	...	...	...	*1,182*	*150*	-	-	-	-
Domestic primary balance 2/	(1,223)	(176)	(239)	117	(2,033)	(196)	353	912	1,068	991
Overall balance including grants 3/	(2,389)	(1,819)	(1,076)	(1,458)	(3,390)	(2,496)	(1,997)	(1,716)	(1,774)	(2,159)
Overall balance excluding grants	(3,072)	(2,492)	(2,365)	(3,220)	(5,188)	(3,866)	(3,528)	(3,251)	(3,459)	(3,897)
Financing	**2,389**	**1,819**	**1,076**	**1,458**	**3,390**	**2,496**	**1,997**	**1,716**	**1,774**	**2,159**
External financing (net)	766	714	222	510	500	717	787	845	1,056	1,299
Borrowing	1,030	1,023	630	1,078	1,078	1,454	1,691	1,964	2,266	2,598
Projects	727	1,023	630	1,078	1,078	1,283	1,484	1,708	1,958	2,238
Budget	303	-	-	-	-	171	208	256	308	361
Amortization	(264)	(309)	(409)	(569)	(578)	(737)	(904)	(1,120)	(1,210)	(1,300)
Domestic financing (net)	1,623	1,104	854	948	645	1,252	1,026	923	775	861
Total Banking Sector (net)	...	998	942	1,209	905	1,378	1,149	1,067	897	899
Banks, net of onlending	1,193	815	819	1,325	1,025	1,630	1,613	1,634	1,595	1,775
SDR onlending, Net	228	183	123	(116)	(120)	(252)	(464)	(567)	(698)	(876)
Non-Bank Sector	...	440	(77)	(261)	(261)	(125)	(123)	(144)	(123)	(39)
Government Securities, General	...	5	174	-	-	-	-	-	-	-
Government Securities, Arrears-Related	...	435	(251)	(261)	(261)	(125)	(123)	(144)	(123)	(39)
o/w Pre-Arrears Strategy	...	435	(251)	(241)	(241)	(106)	(104)	(125)	(103)	(19)
Other 4/	202	(333)	(11)	0	0	0	0	0	0	0
Financing Gap	**...**	**...**	**...**	**...**	**2,245**	**527**	**184**	**(52)**	**(57)**	**0**
RCF onlending		...	...	...	1,530	0	0	0	0	0
Remaining CCRT, prospective 5/	...	...	...	...	46	527	231	0	0	0
G20 debt initiative (deferment)		...	...	...	104	0	0	0	0	0
G20 debt initiative (payment)	...	...	...	...	0	0	(46)	(52)	(57)	0
World Bank budget support (additional to budget assumption)	...	...	...	...	418	0	0	0	0	0
World Bank health sector support	...	...	...	...	93	0	0	0	0	0
Remaining Gap	...	...	...	...	56	0	0	0	0	0
Memorandum item:										
Change in unpaid checks (+ = accumulation)	...	265	208	...	...	...	...	...	...	...
Total Stock of Arrears	3,077	3,377	...	...	...	...	...	...	...	

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

1/ Starting in 2019, tertiary education wages are classified in the wage bill rather than under subsidies and transfers.

2/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed capital spending, and arrears paydown from grants. Excludes capital transfers associated with CCRT debt relief.

3/ The projection for 2020 would equal -2834 if additional World Bank budget and health sector support, and the remaining CCRT support were included.

4/ In CR No 19/217 and prior, "other" includes the non-bank sector. 2018 onward, "other" includes the corresponding transaction for securities issued to reduce the stock of arrears.

5/ Projections assume debt relief under the IMF's Catastrophy Containment and Relief Trust (CCRT) through April 2022, subject to the availability of resources.

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

	2017	2018	2019	2020		2021	2022	2023	2024	2025
				2nd ECF						
		Act.	Est.	Rev.	Proj.			Proj.		
Total revenue and grants	**14.8**	**15.7**	**17.7**	**18.9**	**17.9**	**16.6**	**17.1**	**17.4**	**17.8**	**18.1**
Revenue	12.3	13.7	14.3	14.8	13.0	13.8	14.4	14.9	15.5	16.0
Tax revenue	11.1	11.8	12.1	12.6	10.9	11.7	12.2	12.8	13.4	13.9
Personal Income Tax	3.6	3.6	4.0	4.2	4.0	4.1	4.2	4.2	4.3	4.4
Corporate Income Tax	0.8	1.4	1.0	0.9	0.8	0.9	1.0	1.1	1.2	1.2
Goods and Services Tax	2.6	2.7	2.6	2.8	2.2	2.5	2.8	3.1	3.3	3.5
Excises	1.6	1.1	1.5	1.6	1.3	1.4	1.4	1.4	1.4	1.5
Import duties	1.8	2.0	1.9	2.0	1.5	1.9	1.9	2.0	2.1	2.2
Mining royalties and licenses	0.5	0.7	0.7	0.7	0.5	0.5	0.5	0.4	0.4	0.4
Other taxes	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.6	0.6	0.6
Non-tax	1.1	1.9	2.2	2.3	2.1	2.1	2.1	2.1	2.1	2.1
Other, Capital Transfers from BSL (CCRT Debt Relief)	...	...	...	...	0.5	0.0	0.0	0.0	0.0	0.0
Grants	2.5	2.1	3.4	4.0	4.3	2.9	2.8	2.4	2.3	2.1
Budget support	0.5	0.7	2.1	2.4	2.5	1.7	1.7	1.5	1.5	1.4
Project grants	2.0	1.4	1.4	1.7	1.8	1.2	1.0	0.9	0.8	0.7
Expenditures and net lending	**23.5**	**21.4**	**20.6**	**22.2**	**26.0**	**21.9**	**20.8**	**20.1**	**20.3**	**20.8**
Current expenditures	15.1	14.7	15.0	14.9	15.7	15.8	15.1	14.4	14.2	13.9
of which, existing expenditure apportioned to COVID-19					*0.5*					
Wages and salaries 1/	6.9	6.3	6.9	7.3	7.7	7.4	7.1	6.8	6.6	6.4
Goods and services	4.0	3.6	3.1	2.4	2.6	2.6	2.6	2.6	2.7	2.8
Subsidies and transfers	2.0	1.9	2.4	2.3	2.5	2.5	2.5	2.5	2.5	2.6
Interest	2.2	2.8	2.6	2.9	3.0	3.3	2.8	2.5	2.4	2.2
Domestic	2.0	2.5	2.3	2.5	2.7	2.9	2.4	2.2	2.0	1.8
Foreign	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Capital Expenditure	8.5	6.4	5.4	6.6	6.7	5.0	5.1	5.1	5.6	6.4
Foreign financed	4.6	4.3	3.0	4.2	4.4	3.9	3.7	3.6	3.6	3.5
Domestic financed	3.9	2.1	2.4	2.4	2.3	1.2	1.3	1.4	2.1	2.9
Net lending	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent expenditure	0.0	0.3	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1
Arrears Paydown (cash)	...	...	...	0.6	0.6	0.5	0.5	0.4	0.4	0.3
Additional COVID-19 Related Expenditure		*...*	*...*	*...*	*2.9*	*0.3*	*0.0*	*0.0*	*0.0*	*0.0*
Domestic primary balance 2/	-4.5	-0.5	-0.6	0.3	-4.9	-0.4	0.6	1.4	1.5	1.2
Overall balance including grants 3/	-8.8	-5.6	-2.9	-3.3	-8.2	-5.2	-3.6	-2.7	-2.5	-2.7
Overall balance excluding grants	-11.3	-7.7	-6.3	-7.4	-12.5	-8.1	-6.4	-5.1	-4.8	-4.8
Financing	**8.8**	**5.6**	**2.9**	**3.3**	**8.2**	**5.2**	**3.6**	**2.7**	**2.5**	**2.7**
External financing (net)	2.8	2.2	0.6	1.2	1.2	1.5	1.4	1.3	1.5	1.6
Borrowing	3.8	3.2	1.7	2.5	2.6	3.0	3.1	3.1	3.2	3.2
Projects	2.7	3.2	1.7	2.5	2.6	2.7	2.7	2.7	2.7	2.8
Budget	1.1	0.0	0.0	0.0	0.0	0.4	0.4	0.4	0.4	0.4
Amortization	-1.0	-1.0	-1.1	-1.3	-1.4	-1.5	-1.6	-1.8	-1.7	-1.6
Domestic financing (net)	6.0	3.4	2.3	2.2	1.6	2.6	1.9	1.5	1.1	1.1
Total Banking Sector (net)	...	3.1	2.5	2.8	2.2	2.9	2.1	1.7	1.2	1.1
Banks, net of onlending	4.4	2.5	2.2	3.0	2.5	3.4	2.9	2.6	2.2	2.2
SDR onlending, Net	0.8	0.6	0.3	-0.3	-0.3	-0.5	-0.8	-0.9	-1.0	-1.1
Non-Bank Sector	...	1.4	-0.2	-0.6	-0.6	-0.3	-0.2	-0.2	-0.2	0.0
Government Securities, General	...	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government Securities, Arrears-Related	...	1.3	-0.7	-0.6	-0.6	-0.3	-0.2	-0.2	-0.2	0.0
o/w Pre-Arrears Strategy	...	1.3	-0.7	-0.6	-0.6	-0.2	-0.2	-0.2	-0.1	0.0
Other 4/	0.7	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap	**...**	**...**	**...**	**...**	**5.4**	**1.1**	**0.3**	**-0.1**	**-0.1**	**0.0**
RCF onlending	...	...	...	...	3.7	0.0	0.0	0.0	0.0	0.0
Remaining CCRT, prospective 5/	...	...	...	...	0.1	1.1	0.4	0.0	0.0	0.0
G20 debt initiative (deferment)	...	...	...	...	0.3	0.0	0.0	0.0	0.0	0.0
G20 debt initiative (payment)	...	...	...	...	0.0	0.0	-0.1	-0.1	-0.1	0.0
World Bank budget support (additional to budget assumption)	...	...	...	...	1.0	0.0	0.0	0.0	0.0	0.0
World Bank health sector support	...	...	...	...	0.2	0.0	0.0	0.0	0.0	0.0
Remaining Gap	...	...	...	...	0.1	0.0	0.0	0.0	0.0	0.0
Memorandum item:										
Change in unpaid checks (+ = accumulation)	...	0.8	0.6	...	...	...	...	...	...	...
Total Stock of Arrears	11.3	10.4	...	...	...	...	...	...	...	
Non-iron ore GDP (Le billions)	27,257	32,402	37,587	43,569	41,400	47,733	55,205	63,312	71,850	80,988

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

1/ Starting in 2019, tertiary education wages are classified in the wage bill rather than under subsidies and transfers.

2/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed capital spending, and arrears paydown from grants. Excludes capital transfers associated with CCRT debt relief.

3/ The projection for 2020 would equal -6.8 if additional World Bank budget and health sector support, and the remaining CCRT support were included.

4/ In CR No 19/217 and prior, "other" includes the non-bank sector. 2018 onward, "other" includes the corresponding transaction for securities issued to reduce the stock of arrears.

5/ Projections assume debt relief under the IMF's Catastrophy Containment and Relief Trust (CCRT) through April 2022, subject to the availability of resources.

Table 3. Sierra Leone: Monetary Accounts[1]

(Billions of Leone, unless otherwise indicated)

	2017	2018	2019	2020		2021	2022
				2nd ECF			
			Est.	Rev.	Proj.	Proj.	Proj.
I. Monetary Survey							
Net foreign assets	**2,956**	**2,707**	**2,964**	**3,577**	**1,860**	**2,006**	**2,731**
Net domestic assets	**3,566**	**4,758**	**5,569**	**6,445**	**7,918**	**9,368**	**10,407**
Net domestic credit	**6,690**	**8,039**	**9,287**	**10,706**	**11,962**	**13,734**	**15,357**
Claims on central government (net) 2/	5,193	6,190	7,133	8,341	9,567	10,945	12,094
Claims on private sector	1,413	1,845	2,269	2,479	2,509	2,904	3,378
Claims on others 3/	84	3	(115)	(115)	(115)	(115)	(115)
Other items (net)	(3,124)	(3,281)	(3,717)	(4,262)	(4,044)	(4,366)	(4,950)
Money and quasi-money (M3)	**6,522**	**7,465**	**8,533**	**10,022**	**9,778**	**11,374**	**13,138**
II. Bank of Sierra Leone							
Net foreign assets 4/	**1,217**	**901**	**1,212**	**1,728**	**35**	**81**	**750**
Net domestic assets	**1,068**	**1,532**	**1,523**	**1,728**	**3,238**	**3,842**	**3,781**
Net domestic credit 5/	**2,323**	**2,872**	**3,255**	**3,646**	**5,210**	**5,820**	**5,769**
Claims on other depository corporations	0	7	234	430	540	1,153	1,279
Claims on central government	2,296	2,839	3,004	3,198	4,652	4,649	4,472
Claims on other sectors	28	26	18	18	18	18	18
Other items (net) 6/	(1,256)	(1,340)	(1,732)	(1,918)	(1,972)	(1,978)	(1,988)
Reserve money	**2,284**	**2,433**	**2,735**	**3,456**	**3,273**	**3,922**	**4,530**
Memorandum items:							
(Annual percent change unless otherwise indicated)							
Base money	9.0	6.5	12.4	26.3	19.6	19.8	15.5
M3	7.0	14.5	14.3	17.4	14.6	16.3	15.5
Credit to the private sector (growth)	4.9	30.6	22.9	9.3	10.6	15.7	16.3
Velocity 7/	4.3	4.6	4.7	4.7	4.5	4.5	4.5
Money multiplier (M3/base money)	2.9	3.1	3.1	2.9	3.0	2.9	2.9
Credit to the private sector (in percent of non iron ore GDP)	5.2	5.7	6.0	5.7	6.1	6.1	6.1
Nominal exchange rate, average (Leones/US $)	7,366	7,938	9,056	…	…	…	…
Nominal exchange rate, end of period (Leones/US $)	7,537	8,396	9,716	…	…	…	…

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

1/ End of period.

2/ The large increase in 2020 reflects the RCF disbursement, which is onlent from the central bank to the ministry of finance.

3/ Include other financial corporations, public enterprises and the local government.

4/ BSL's NFA before June 2018 included swaps.

5/ Includes SDR onlending.

6/ Includes valuation.

7/ Velocity is calculated as non-iron ore GDP /the average of M3 at the end of the current year and the preceding year.

Table 4. Sierra Leone: Balance of Payments

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

	2017	2018	2019	2020		2021	2022	2023	2024	2025
				2nd ECF						
		Prel.	Est.	Rev.	Proj.1/			Proj.		
Current account	**-781.5**	**-762.6**	**-573.1**	**-466.9**	**-611.2**	**-559.8**	**-512.1**	**-466.4**	**-469.1**	**-454.3**
Trade balance	-551.2	-570.8	-557.5	-406.3	-620.9	-527.9	-466.8	-415.0	-396.5	-360.2
Exports, f.o.b.	652.1	639.2	711.3	912.1	593.2	736.3	853.8	938.7	1,043.3	1,152.4
Of which: diamonds	118.2	157.1	152.1	163.3	77.1	73.1	86.7	132.6	143.7	149.0
iron ore	131.9	13.1	13.0	70.4	0.0	53.4	65.0	75.6	96.3	130.8
Imports, f.o.b	-1,203.3	-1,210.0	-1,268.8	-1,318.4	-1,214.2	-1,264.2	-1,320.6	-1,353.7	-1,439.8	-1,512.6
Of which: oil	-153.0	-204.8	-193.5	-182.2	-108.7	-118.8	-133.8	-147.6	-160.8	-173.6
Services (net)	-285.9	-285.4	-242.9	-314.2	-193.8	-235.3	-251.5	-238.6	-264.3	-287.2
Income (net)	-99.7	-71.2	-79.1	-67.1	-66.6	-60.9	-63.0	-78.1	-80.6	-82.2
Of which: interest on public debt	-9.7	-7.1	-12.1	-14.6	-14.6	-15.1	-14.7	-14.7	-16.4	-16.5
Transfers	155.8	164.8	306.4	320.8	270.2	264.3	269.1	265.3	272.3	275.4
Official transfers (net)	51.7	43.2	149.2	162.7	164.2	128.6	131.2	123.8	126.4	124.1
Other transfers (net)	104.1	121.6	157.2	158.1	105.9	135.7	137.9	141.5	145.8	151.4
Capital and financial account	**709.7**	**367.8**	**588.0**	**497.0**	**401.7**	**520.8**	**542.7**	**538.4**	**544.6**	**535.5**
Capital account	147.7	66.3	97.7	120.1	116.5	94.9	94.5	92.5	91.9	92.8
Of which: Project support grants	30.4	48.6	55.8	70.0	70.0	45.2	40.2	36.6	33.9	31.9
Financial account	562.0	301.5	490.3	376.9	285.1	425.9	448.1	445.9	452.7	442.7
Foreign direct and portfolio investment	413.7	250.5	374.6	235.3	175.9	346.9	380.9	408.0	407.9	388.9
Other investment	148.3	51.0	115.7	141.6	109.3	79.0	67.3	37.9	44.8	53.8
of which : Public sector (net)	105.4	39.0	80.8	126.4	85.9	65.0	54.9	52.9	60.3	68.7
Disbursements	145.2	82.7	129.0	180.6	140.0	123.7	118.0	122.9	129.3	137.5
Amortization	-39.8	-43.7	-48.2	-54.1	-54.1	-58.7	-63.1	-70.1	-69.0	-68.8
Errors and omissions	**32.7**	**377.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-39.1**	**-17.5**	**14.9**	**30.1**	**-209.5**	**-38.9**	**30.6**	**72.0**	**75.5**	**81.2**
Financing	**39.1**	**17.5**	**-14.9**	**-30.1**	**-4.5**	**-3.0**	**-43.4**	**-68.7**	**-72.2**	**-81.2**
Change in net central bank reserves (- increase)	39.1	17.5	-14.9	-30.1	-22.9	-3.0	-43.4	-68.7	-72.2	-81.2
of which : Change in gross reserves (- increase)	2.1	13.9	-19.6	-65.3	-58.1	-4.2	-6.4	-6.9	-7.1	-10.9
of which : Use of Fund credit (net)	37.0	3.6	4.7	37.5	35.2	1.2	-37.0	-61.8	-65.1	-70.3
Disbursements	52.7	21.6	21.5	64.3	64.4	43.2	21.7	0.0	0.0	0.0
Repayments	-15.7	-18.1	-16.8	-26.8	-29.2	-41.9	-58.7	-61.8	-65.1	-70.3
Exceptional financing (CCRT first tranche)	0.0	0.0	0.0	0.0	18.5	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**214.0**	**41.9**	**12.8**	**-3.2**	**-3.2**	**0.0**
RCF disbursement	...	...	...	...	143.2	0.0	0.0	0.0	0.0	0.0
Remaining CCRT, prospective 2/	...	...	...	...	4.3	41.9	16.1	0.0	0.0	0.0
G20 debt initiative (deferment)	...	...	...	...	9.7	0.0	0.0	0.0	0.0	0.0
G20 debt initiative (payment)	...	...	...	...	0.0	0.0	-3.2	-3.2	-3.2	0.0
World Bank budget support (additional to budget assumption)	...	...	...	...	40.0	0.0	0.0	0.0	0.0	0.0
World Bank health sector support	...	...	...	...	8.7	0.0	0.0	0.0	0.0	0.0
Remaining gap	0.0	0.0	0.0	0.0	8.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
(Percent of non-iron ore GDP unless otherwise indicated)										
Current account	-21.1	-18.7	-13.8	-11.3	-15.8	-14.7	-13.3	-11.8	-11.4	-10.6
Trade balance	-14.9	-14.0	-13.4	-9.8	-16.0	-13.9	-12.1	-10.5	-9.7	-8.4
Capital and financial account	19.2	9.0	14.2	12.0	10.4	13.7	14.1	13.6	13.3	12.5
Overall balance	-1.1	-0.4	0.4	0.7	-5.4	-1.0	0.8	1.8	1.8	1.9
Budget support (grants and loans)	1.5	1.2	2.0	2.4	2.6	2.0	2.1	1.9	1.9	1.8
Budget support (grants and loans, in US dollars)	57.0	47.7	84.4	98.0	99.3	77.5	81.1	75.5	79.9	79.2
Gross international reserves (Including swaps)	534	503	533	584	577	569	575	582	589	600
Gross international reserves (excluding swaps)										
US$ millions	501	487	506	572	565	569	575	582	589	600
Months of imports	3.8	3.7	3.5	3.7	4.2	4.1	3.9	3.9	3.7	3.6
National currency per US dollar (average)	7,366	7,938	9,056	...	...	...	...	...	...	...

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

1/ In 2020, the current account, transfers, official transfers (net), the capital and financial accounts, capital account, project support grants, overall balance, and budget support exclude additional World Bank support for the budget (US$40 million) and the health sector support (US$8.7 million).

2/ Subject to the availability of resources.

Table 5. Sierra Leone: External Financing Requirements and Sources
(Millions of U.S. dollars)

	2017	2018	2019	2020		2021	2022	2023	2024	2025
			Est.	2nd ECF Rev.	Proj.			Proj.		
Financing needs	**-887**	**-854**	**-807**	**-776**	**-917**	**-793**	**-771**	**-729**	**-737**	**-728**
Current account balance (excl. net official current transfers)	-833	-806	-722	-630	-775	-688	-643	-590	-596	-578
Debt amortization (excl. IMF)	-40	-44	-48	-54	-54	-59	-63	-70	-69	-69
Gross reserves accumulation (- increase)	2	14	-20	-65	-58	-4	-6	-7	-7	-11
Repayments to IMF	-16	-18	-17	-27	-29	-42	-59	-62	-65	-70
Financing sources	**801**	**455**	**785**	**711**	**620**	**708**	**737**	**732**	**740**	**728**
Capital account	148	66	98	120	117	95	95	93	92	93
Disbursements from official creditors (excl. IMF)	145	83	129	181	140	124	118	123	129	138
Net official current transfers	52	43	149	163	164	129	131	124	126	124
Foreign direct and portfolio investment	414	250	375	235	176	347	381	408	408	389
Change in net foreign assets of commercial banks (- increase)	52	8	35	15	23	14	12	-15	-15	-15
Other	-9	4	0	-2	0	0	0	0	0	0
Errors and omissions	**33**	**377**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other financing sources	**53**	**22**	**21**	**64**	**83**	**43**	**22**	**0**	**0**	**0**
Exceptional financing (CCRT first tranche)	0	0	0	0	18	0	0	0	0	0
Disbursements from IMF (ECF)	53	22	21	64	64	43	22	0	0	0
Financing gap	**0**	**0**	**0**	**0**	**214**	**42**	**13**	**-3**	**-3**	**0**
RCF disbursement	…	…	…	…	143	0	0	0	0	0
Remaining CCRT, prospective	…	…	…	…	4	42	16	0	0	0
G20 debt initiative (deferment)	…	…	…	…	10	0	0	0	0	0
G20 debt initiative (payment)	…	…	…	…	0	0	-3	-3	-3	0
World Bank budget support (additional to budget assumption)	…	…	…	…	40	0	0	0	0	0
World Bank health sector support	…	…	…	…	9	0	0	0	0	0
Remaining gap	0	0	0	0	8	0	0	0	0	0
Memorandum items:										
Gross international reserves (excluding swaps)	501	487	506	572	565	569	575	582	589	600
Months of imports	3.8	3.7	3.5	3.7	4.2	4.1	3.9	3.9	3.7	3.6

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

Table 6. Sierra Leone: Indicators of Capacity to Repay the Fund

				Projection										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Fund obligations based on existing credit 1/														
(in millions of SDRs)														
Principal	21.2	30.2	42.1	44.3	46.5	38.1	26.9	13.3	9.3	6.2	1.6	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit														
(in millions of SDRs) 1/														
Principal	21.2	30.2	42.1	44.3	46.5	50.1	55.5	48.0	45.6	42.5	25.9	7.8	1.6	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit 1/														
In millions of SDRs	21.2	30.2	42.1	44.3	46.5	50.1	55.5	48.0	45.6	42.5	25.9	7.8	1.6	0.0
In millions of US$	29.2	41.9	58.7	61.8	65.1	70.3	76.4	64.8	60.4	55.2	33.0	9.7	1.9	0.0
In percent of exports of goods and services	3.7	4.6	5.7	5.5	5.2	5.2	5.1	3.9	3.4	2.8	1.6	0.4	0.1	0.0
In percent of total debt service 2/	29.8	36.2	43.0	42.2	43.2	45.2	46.9	41.3	37.7	34.7	23.5	8.0	1.6	0.0
In percent of GDP	0.8	1.1	1.5	1.5	1.6	1.6	1.7	1.3	1.2	1.0	0.6	0.2	0.0	0.0
In percent of gross international reserves	5.1	7.4	10.2	10.6	11.0	11.7	12.3	9.8	8.6	7.4	4.2	1.2	0.2	0.0
In percent of quota	10.2	14.6	20.3	21.4	22.4	24.1	26.7	23.1	22.0	20.5	12.5	3.8	0.8	0.0
Outstanding Fund credit based on existing and prospective credit														
In millions of SDRs	393.4	394.3	367.7	323.4	276.9	226.9	171.4	123.4	77.8	35.3	9.3	1.6	0.0	0.0
In millions of US$	543.3	547.0	511.9	451.5	387.6	318.7	236.1	166.6	103.0	45.8	11.9	1.9	0.0	0.0
In percent of exports of goods and services	68.7	59.6	49.3	40.0	31.3	23.5	15.8	10.2	5.7	2.3	0.6	0.1	0.0	0.0
In percent of total debt service 2/	554.5	472.9	375.0	307.9	257.5	204.9	145.1	106.3	64.2	28.8	8.4	1.6	0.0	0.0
In percent of GDP	14.0	14.3	13.2	11.3	9.4	7.3	5.2	3.4	2.0	0.8	0.2	0.0	0.0	0.0
In percent of gross international reserves	94.2	96.2	89.0	77.6	65.8	53.1	38.0	25.3	14.7	6.2	1.5	0.2	0.0	0.0
In percent of quota	189.7	190.1	177.3	155.9	133.5	109.4	82.6	59.5	37.5	17.0	4.5	0.8	0.0	0.0
Net use of Fund credit (in millions of SDRs)	129.2	0.9	-26.6	-44.3	-46.5	-50.1	-55.5	-48.0	-45.6	-42.5	-25.9	-7.8	-1.6	0.0
Disbursements	150.4	31.1	15.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	21.2	30.2	42.1	44.3	46.5	50.1	55.5	48.0	45.6	42.5	25.9	7.8	1.6	0.0
Memorandum items:														
Exports of goods and services (in millions of US$)	791	918	1,038	1,129	1,240	1,359	1,497	1,642	1,795	1,955	2,069	2,190	2,319	2,457
Total debt service (in millions of US$) 2/	98	116	136	147	151	156	163	157	160	159	141	121	117	122
Nominal GDP (in millions of US$)	3,877	3,826	3,883	3,996	4,145	4,346	4,574	4,857	5,196	5,558	5,919	6,305	6,716	7,156
Gross international reserves (in millions of US$)	577	569	575	582	589	600	621	659	700	743	782	824	868	915
Quota (millions of SDRs)	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4

Source: IMF staff estimates and projections.

1/ Projected repayments to IMF.

2/ Total debt service includes repayments to IMF.

Table 7. Sierra Leone: Financial Soundness Indicators of the Banking System, 2012-19

	2012	2013	2014	2015	2016	2017	2018				2019			
							Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
	(Percent, end of period, unless otherwise indicated)													
Capital adequacy														
Regulatory capital ratio 1/	28.0	30.1	30.2	34.0	34.1	34.1	43.5	43.4	40.0	38.4	46.4	47.2	44.9	41.7
Regulatory tier 1 capital ratio 2/	24.1	26.3	25.9	29.0	27.2	27.2	38.3	36.0	32.0	29.6	41.4	40.6	36.6	33.9
Asset quality														
Nonperforming loans to total gross loans	15.3	23.7	35.3	33.2	15.5	15.0	15.8	13.2	12.9	13.0	13.4	13.1	12.4	16.8
Nonperforming loans (net of provisions) to regulatory capital	19.2	31.7	41.8	31.9	1.2	12.1	9.2	8.0	9.5	9.9	9.3	8.9	2.9	7.2
Earnings and profitability														
Return on assets	3.8	2.2	2.6	3.2	3.8	5.6	6.0	6.3	6.0	6.0	6.1	6.5	6.6	6.1
Return on equity	16.6	9.6	15.4	18.0	21.8	29.8	29.7	30.5	28.8	28.6	27.2	28.2	28.3	26.1
Liquidity														
Ratio of net loans to total deposits	33.9	32.4	27.8	24.4	24.4	19.2	17.8	25.6	27.7	27.2	29.0	28.1	28.4	26.7
Liquidity ratio 3/	40.7	72.5	78.9	83.3	85.5	70.9	72.5	70.3	70.2	69.2	67.4	66.4	66.4	68.4
Statutory minimum liquidity ratio 3/ 4/	54.9	29.3	29.7	30.4	30.1	33.0	32.8	32.9	32.8	33.1	33.0	31.4	29.8	29.7
Share of foreign exchange deposits in total deposits	40.8	38.5	26.5	32.0	38.9	37.1	36.0	35.2	38.3	38.3	37.3	39.3	36.8	37.0
Memorandum Item:														
Number of banks	13	13	13	13	13	14	14	14	14	14	14	14	14	14

Source: Bank of Sierra Leone.
1/ Capital requirement over risk-weighted assets (solvency ratio).
2/ Core capital (Tier I) over total assets.

3/ Calculated taking into account both domestic currency and foreign currency deposits. Liquid assets include domestic currency cash in vault, claims on the BSL, claims on discount houses, and government securities.
4/ Effective November 2007, minimum liquidity includes 40 percent of demand deposits and 20 percent of quasi-money to be held in either cash or treasury bills.

Appendix I. Letter of Intent

MINISTRY OF FINANCE

BANK OF SIERRA LEONE

GOVERNMENT OF SIERRA LEONE

May 27, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva,

Widespread disruptions from the global COVID-19 pandemic to global health and stability are having a severe impact on Sierra Leone. Across the world, case numbers are rising, and Sierra Leone is no exception. Since recording our first COVID-19 case on March 31, Sierra Leone has all too quickly surpassed 700 confirmed cases. The sharp contraction in external demand is already deteriorating external and fiscal accounts, opening up large financing gaps, and our proactive measures to contain the spread of the crisis have dampened economic activity.

Even with the legacy of the Ebola health crisis, the scale of the current pandemic is an unprecedented setback. It threatens our hard-won economic recovery and macroeconomic stabilization efforts of the recent years, and jeopardizes the path towards Sierra Leone's sustained development.

We expect economic pressures to intensify over 2020. We estimate real GDP will contract sharply, by about 3 percent, a downward revision of more than 7 percentage points compared to the pre-COVID outlook, and implying a per capita GDP decline of about 5 percent. Trade and tourism would be affected most severely, while supply chain disruptions that hamper imports of intermediate goods would dampen manufacturing and construction activity. Falling commodity prices and social distancing constraints are set to depress mining activity, a major source of foreign exchange, while dampened global sentiment and activity would limit FDI and remittances, creating pressure on the balance of payments. We expect a revenue shortfall of around 1¾ percent of GDP, reflecting the drop in external and domestic economic activity, and delayed revenue administration gains on the back of necessary social distancing and a more challenging technical assistance environment.

Our health response has been decisive. Building on the lessons from the Ebola health crisis, it is being designed and executed in close collaboration with the World Health Organization. Key measures to contain the contagion, include periodic nation-wide lockdowns, border closures, flight suspensions, restrictions on movements, and requiring the use of masks in public spaces. Through our *Public Health Emergency Operations Center*, all structures are in place for dedicated call centers, contact tracing, disease surveillance, testing, isolation, and treatment. The budgetary cost of scaling up these structures for an appropriate response is estimated at about US$40 million.

Our *Quick Action Economic Response Plan* (QAERP) aims to shield livelihoods from the crisis. It targets ensuring a stable supply of essential commodities, including to address food security concerns; ramping up social protection; and providing support to the private sector, in particular to affected small and medium enterprises. Within the context of the QAERP, the Bank of Sierra Leone (BSL) has already introduced measures to mitigate the economic impact on businesses, including reducing the policy rate and creating a Le 500 billion special credit facility to support production, procurement and distribution of essential goods. To continue to ensure an accurate picture of loan quality, we will continue to apply asset classification and prudential and IFRS 9 provisioning requirements to restructured loans and loans covered by any moratoria.

The direct effects of the crisis, together with our policy responses, will carry a large fiscal and external cost. We estimate the budgetary cost of measures to address the shock—health and containment, and economic and social support—will approach US$130 million. Where possible, we are reprioritizing expenditures that are not essential to tackling the immediate crisis, and we allowed the exchange rate to serve as a buffer. Even so, the costs of measures and loss of revenue, and associated external effects leave us with large external and fiscal financing gaps in the order of US$210 million.

We welcome commitments already made by development partners for higher-than-budgeted concessional financing, as well as the Catastrophe Containment and Relief Trust (CCRT) the debt service relief from the IMF approved in mid-April. We are also seeking temporary relief under the recently announced Debt Service Suspension Initiative, supported by the G20 and Paris Club. These efforts will cover a substantial portion of our financing gaps.

However, to address the remaining urgent balance-of-payment need, the Government of Sierra Leone requests a disbursement of SDR 103.7 million, equivalent to 50 percent of quota, under the Rapid Credit Facility. To address urgent fiscal needs, the BSL would on-lend the disbursement to the Treasury, based on a forthcoming Memorandum of Understanding that will establish a framework clarifying the responsibilities for timely servicing of the financial obligations to the IMF ahead of the RCF Board date. Notwithstanding pressures on countries around the world, we are hopeful that IMF support for our country will help catalyze further support from development partners.

The Government of Sierra Leone remains committed to responsible stewardship of the economy. Though our revenue mobilization momentum has been interrupted by this crisis, we continue to emphasize the vital role of revenue-mobilization and plan to re-start reform implementation as quickly as possible. We do not intend to introduce measures or policies that would exacerbate balance of payments difficulties. We will comply with the provisions of the IMF's *Articles of Agreement*, including those related to the imposing new or intensifying existing restrictions on the making of payments and transfers for current international transactions and also bilateral payments under Article VIII, and will implement public policies under that framework and avoid additional trade restrictions for balance of payment purposes.

Following our experience during the Ebola health crisis, we recognize the paramount importance of the transparency and accountability of all our COVID-19 related interventions, ensuring that above all they effectively support the health and well-being of all Sierra Leoneans. To that end, we immediately established a coordination mechanism to engage development partners and other stakeholders to develop a policy response that is sustainable, and implemented efficiently and in keeping with good governance practices. In addition to ongoing reforms to strengthen our AML/CFT and anti-corruption frameworks, we will be putting in place strong and targeted measures to ensure the proper use of emergency financing.

More precisely, we are introducing mechanisms for regular monitoring and reporting on the use of funds. Our Anti-Corruption Commission launched the *COVID-19 Response Transparency Taskforce* to ensure integrity, accountability and transparency in the use and management of funds. The Government also established a COVID-19 account to focus on delivering effectively our emergency response. In this regard, we have already begun regular reporting on the use of these emergency funds. We intend to further refine the coverage of these reports, and follow best practices in the management, reporting, and oversight of these accounts with the benefit of ongoing TA from IMF's Fiscal Affairs Department and AFRITAC West 2. In addition, the Audit Service Sierra Leone will audit the management of the COVID-19 Fund and COVID-19 response, and publish its report online, within 12 months of the end of the fiscal year as required under the Constitution and laws of Sierra Leone, including the PFM Act 2016. Finally, we also plan to publish on the Government's website large public procurement contracts related to crisis mitigation, the names of the companies awarded contracts, their beneficial owners, and ex-post validation of delivery.

Even in the face of this global crisis, we remain guided by the goals of our National Development Plan and our economic policies supported by the Extended Credit Facility. In particular, our commitment to develop human capital and curb corruption are stronger than ever. Working closely with IMF staff, we will also endeavour to maintain broad macroeconomic stability during the current global pandemic and in the post-pandemic recovery period. However, should the pandemic related shock prove deeper or more protracted than currently estimated, we may need to seek additional emergency support from the IMF. In line with the IMF's safeguards policy, we also commit to undergoing an update safeguards assessment ahead of any subsequent new arrangement with the IMF, and to finalise the FY2018 audit as soon as possible.

We authorize the IMF to publish this letter and all staff Board documents related to this request.

Very truly yours,

/s/	/s/
Jacob J. Saffa	**Kelfala M. Kallon**
Minister of Finance	Governor of Bank of Sierra Leone

SIERRA LEONE

May 27, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Dominique Desruelle and Kevin Fletcher (IMF) and Marcello Estevão (IDA)

Prepared by the staffs of the International Monetary Fund and the International Development Association

Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	No
Macroeconomic projections	This DSA incorporates the expected economic impact of the COVID-19 pandemic and policy response, with a sharp decline in growth (down more than 7 percentage points relative to pre-crisis projections) and exports (down one-third), and the fiscal deficit widens (by 3½ percentage points of GDP, including expected additional budget support grants and debt relief) in 2020. Growth is assumed to gradually rebound in 2021. The outlook is clouded with uncertainty and risks.
Financing strategy	With little fiscal space and a shallow domestic banking system, highly concessional financing and grants from development partners will be essential to meet the urgent and large financing gaps arising from the pandemic. This DSA incorporates a proposed RCF disbursement equivalent to 50 percent of quota.
Realism tools flagged	No
Mechanical risk rating under the external DSA	High
Mechanical risk rating under the public DSA	High

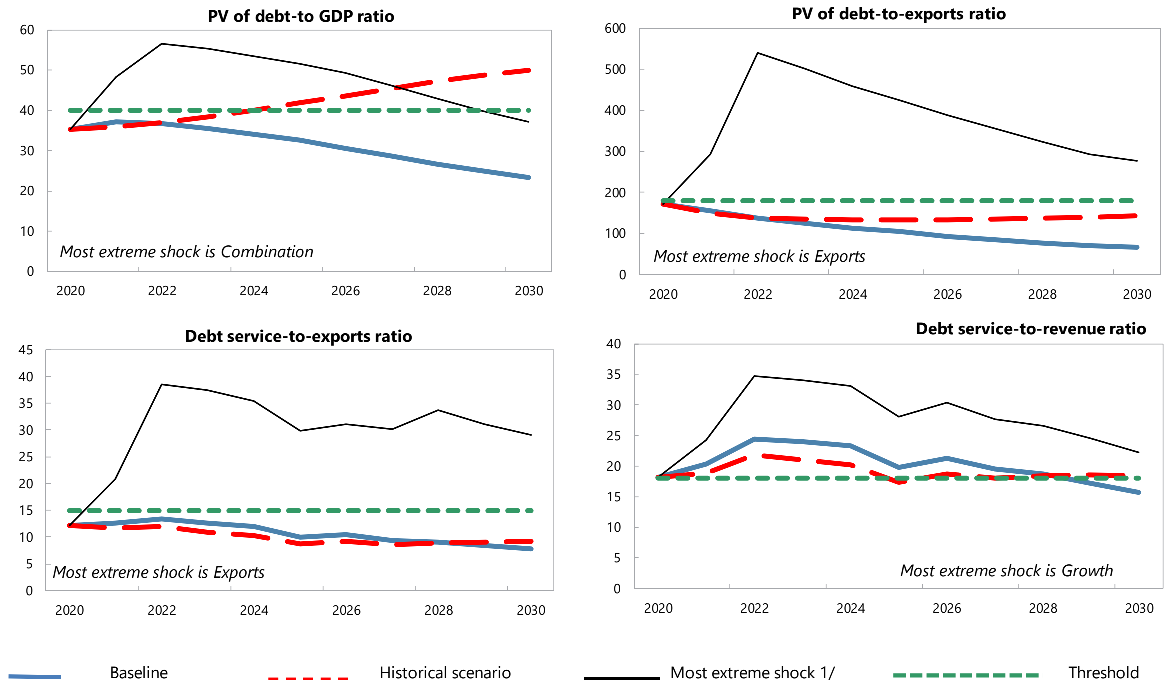
[1] The DSA follows the IMF and World Bank Staff Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries (February 2018). The Composite Indicator (CI) score of 2.693 based on the October 2019 WEO and the World Bank's 2018 CPIA (released in July 2019) indicates a medium debt-carrying capacity. The corresponding external debt indicative thresholds are: 40 percent for the present value (PV) of debt-to-GDP ratio; 180 percent for the PV of debt-to-exports ratio; 15 percent for the debt service-to-exports ratio; and 18 percent for the debt service-to-revenue ratio. Debt coverage remains unchanged from the previous DSA.

While Sierra Leone's debt remains sustainable, the risk of external and overall debt distress remains high—and the COVID-19 shock has elevated risks. The baseline macroeconomic scenario reflects both the deleterious effects of the COVID-19 shock on growth, exports, and revenues, and measures to combat the health and socio-economic effects of the pandemic. External and domestic financing needs have widened sharply in 2020, worsening all external and public finance indicators relative to the last DSA in March 2020, despite additional grant assistance from development partners. This DSA also assumes that the external financing gap created by the shock will be almost entirely filled by disbursement of the Rapid Credit Facility (RCF) (which would be on-lent to support the budget) and additional budget and project support grants from the World Bank after the COVID-19 shock. It also assumes debt service relief under the IMF's Catastrophe Containment and Relief Trust (CCRT), and that the authorities are seeking temporary relief under the Debt Service Suspension Initiative supported by the G20 and Paris Club. The authorities are continuing discussions with development partners to finalize support to address the relatively small remaining gap.

The setback to revenue mobilization under the baseline is long-lasting, and results in a larger and more prolonged breach of the external-debt-service-to-revenue ratio relative to the previous DSA. The PV of public-debt-to-GDP tracks downward from 2021, but remains above the threshold until 2024. While other indicators also deteriorate with the COVID-19 shock, they remain below the thresholds. The public-debt-service-to-revenue ratio and gross financing need increase over the medium term, indicating vulnerabilities in liquidity. The stress scenarios highlight the sensitivities to shocks to exports and growth (and their combination), resulting in significant and persistent breaches in many indicators.

Reducing debt requires sustained adjustment underpinned by strengthened public financial management, effective expenditure prioritization, and redoubling structural reform efforts. The authorities remain committed to continuing revenue mobilization reforms in the wake of near-term COVID-19 setbacks, which is key for reducing risks to sustainability. Still, the required fiscal adjustment will be challenging and steadily reducing recourse to domestic debt limits the scope for public investment relative to the pre-crisis outlook. Thus, while external borrowing should continue to rely on concessional financing, substantial additional grant support will be essential to boosting post-COVID recovery efforts, maintaining sustainability, and continuing to meet Sierra Leone's large development needs.

Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2020–30



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	No	No
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.8%	0.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	5	5

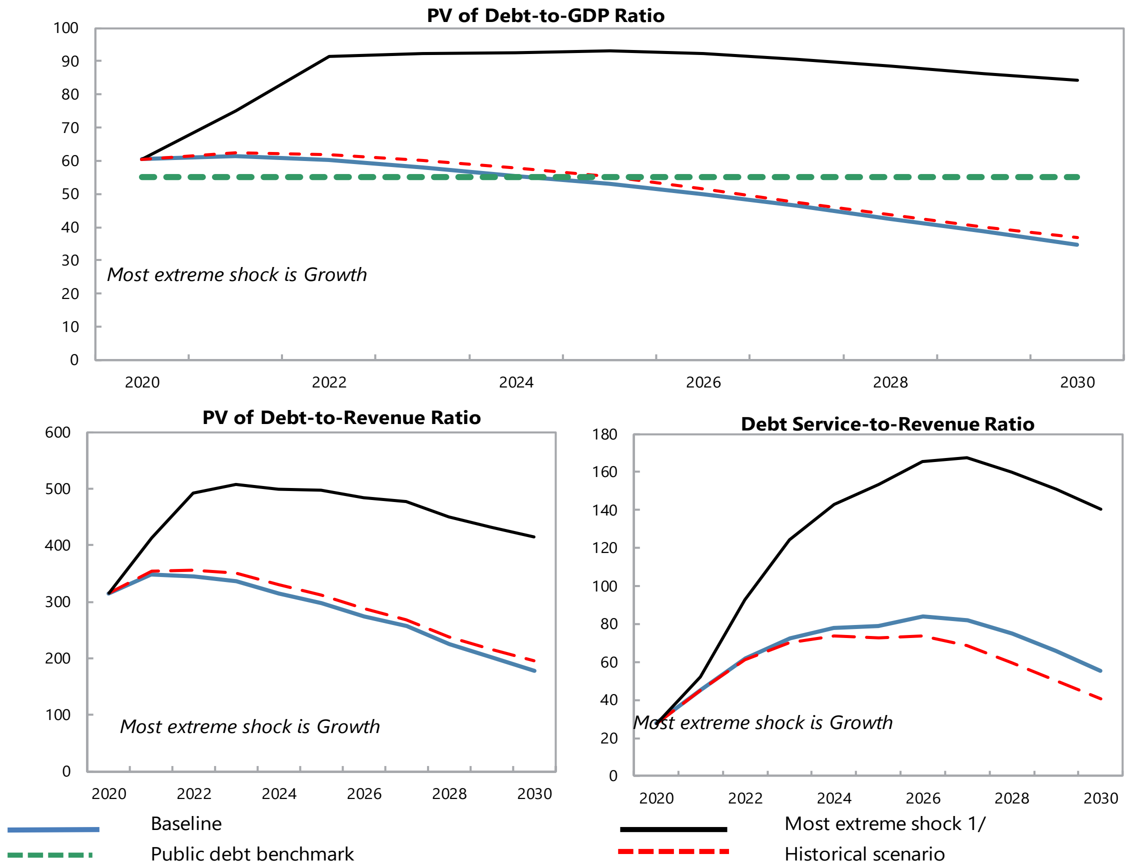
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. Stress tests with one-off breaches are also presented (in any), while these are one-breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Sierra Leone: Indicators of Public Debt Under Alternative Scenarios, 2020–30



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	32%	32%
Domestic medium and long-term	0%	0%
Domestic short-term	68%	68%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.8%	0.8%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	2%	2%

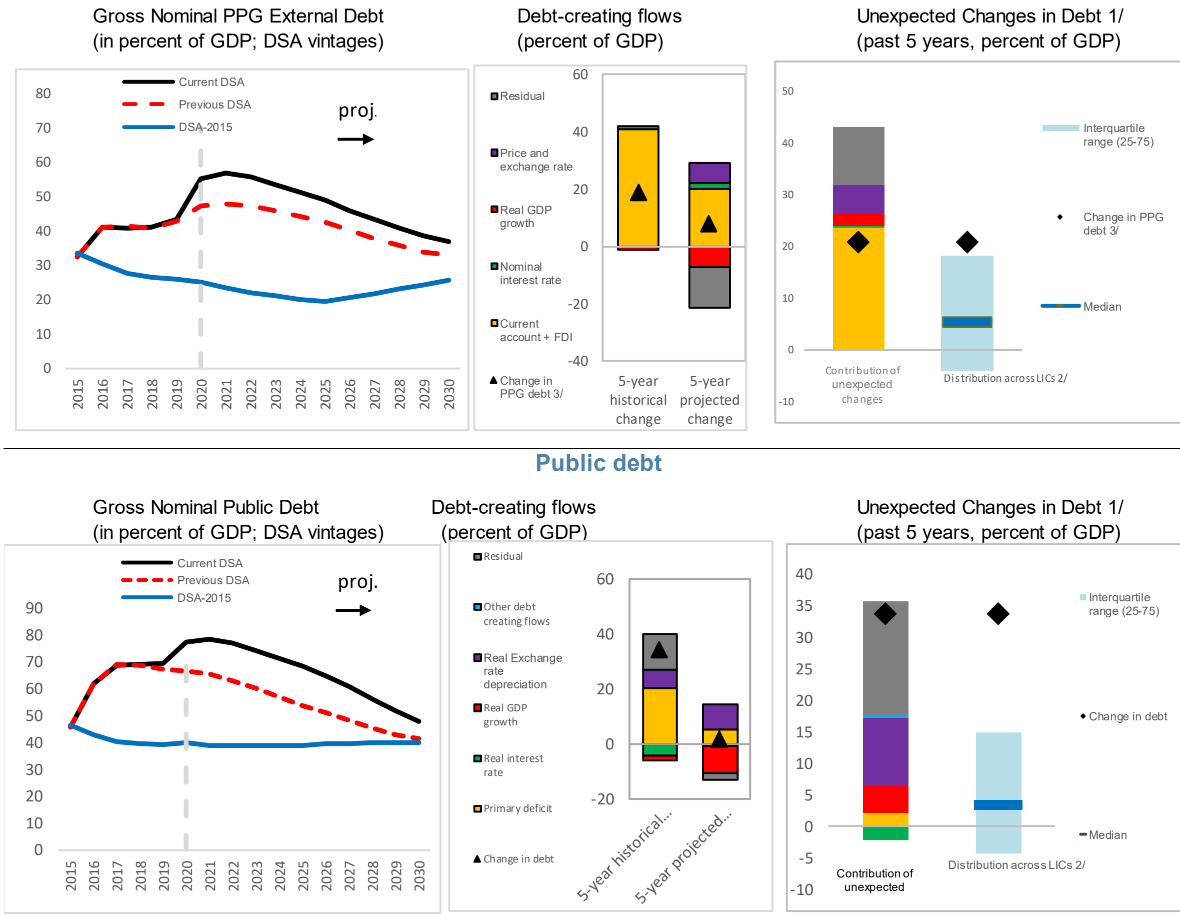
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

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

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (in any), while the one-breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Sierra Leone: Drivers of Debt Dynamics, Baseline Scenario, 2015–30



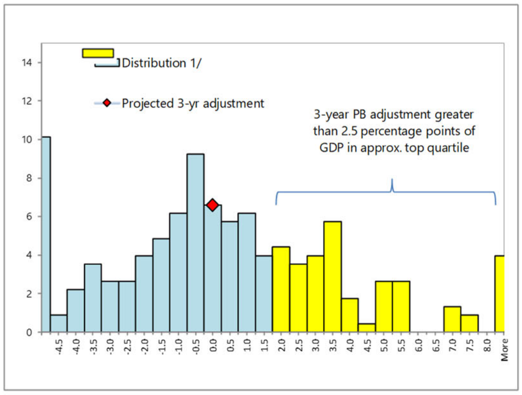
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

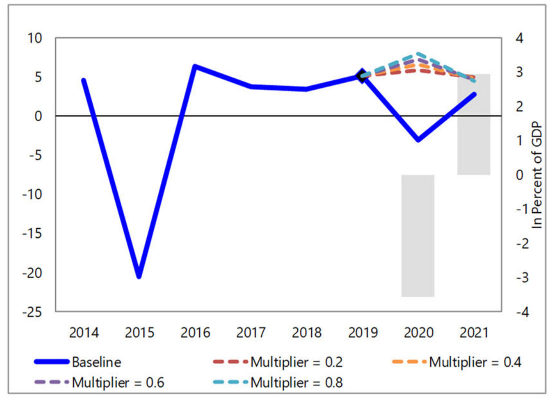
Figure 4. Sierra Leone: Realism Tools

3-Year Adjustment in Primary Balance
(In Percent of GDP)



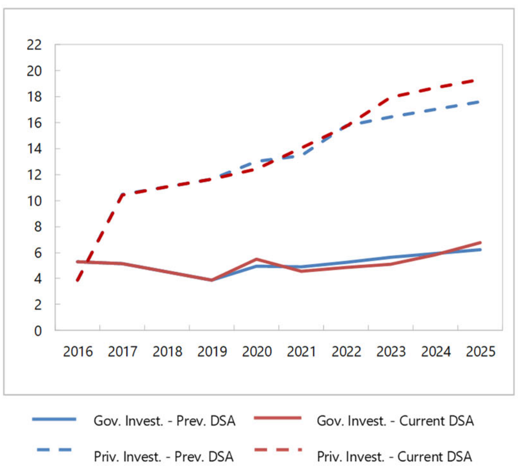
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/
(In Percent)



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

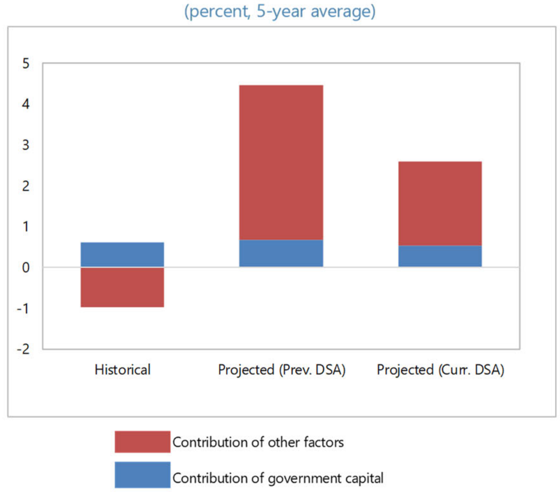
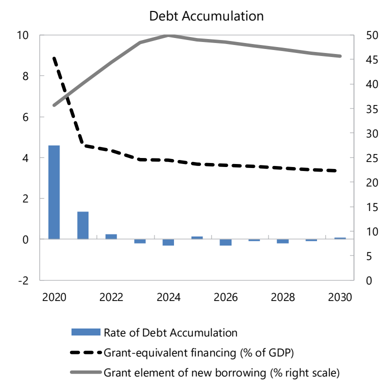


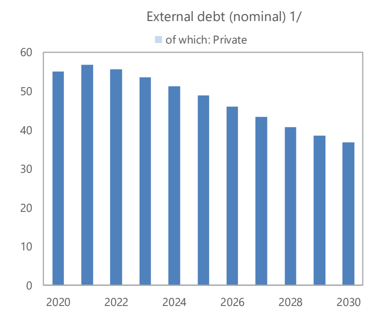
Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2017–40

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	40.8	41.2	43.2	55.0	56.7	55.6	53.5	51.1	48.8	36.7	30.4	33.6	47.8
of which: public and publicly guaranteed (PPG)	40.8	41.2	43.2	55.0	56.7	55.6	53.5	51.1	48.8	36.7	30.4	33.6	47.8
Change in external debt	-0.3	0.4	2.0	11.8	1.7	-1.1	-2.1	-2.4	-2.3	-1.7	-1.1		
Identified net debt-creating flows	...	...	...	11.6	4.0	1.0	-1.0	-0.8	-0.7	0.4	1.0	...	1.1
Non-interest current account deficit	20.7	18.4	13.4	14.4	14.3	12.8	11.3	10.9	10.1	6.0	3.8	19.9	10.0
Deficit in balance of goods and services	22.5	21.0	19.1	21.0	19.9	18.5	16.4	15.9	14.9	10.4	7.6	25.5	15.1
Exports	20.3	18.1	22.1	20.4	24.0	26.7	28.2	29.9	31.3	35.0	31.4		
Imports	42.8	39.0	41.2	41.4	43.9	45.2	44.6	45.9	46.2	45.3	39.0		
Net current transfers (negative = inflow)	-4.2	-4.0	-7.3	-8.0	-6.9	-6.9	-6.6	-6.6	-6.3	-5.6	-4.5	-9.2	-6.5
of which: official	-1.4	-1.1	-3.6	-5.3	-3.4	-3.4	-3.1	-3.1	-2.9	-2.4	-1.7		
Other current account flows (negative = net inflow)	2.4	1.5	1.6	1.4	1.2	1.2	1.6	1.5	1.5	1.3	0.7	3.6	1.4
Net FDI (negative = inflow)	-11.1	-6.1	-8.9	-4.5	-9.1	-9.8	-10.2	-9.8	-8.9	-4.3	-1.7	-11.8	-7.6
Endogenous debt dynamics 2/	...	...	...	1.8	-1.2	-2.0	-2.1	-1.9	-1.9	-1.3	-1.1		
Contribution from nominal interest rate	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.3		
Contribution from real GDP growth	-1.6	-1.3	-2.1	1.4	-1.5	-2.4	-2.5	-2.3	-2.2	-1.6	-1.3		
Contribution from price and exchange rate changes	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	...	...	...	0.2	-2.3	-2.1	-1.1	-1.5	-1.6	-2.1	-2.1	...	-1.6
of which: exceptional financing	...	...	...	-0.8	-1.1	-0.3	0.1	0.1	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	28.0	35.2	37.0	36.7	35.5	33.9	32.5	23.4	19.9		
PV of PPG external debt-to-exports ratio	...	...	126.7	172.4	154.3	137.3	125.7	113.4	103.9	66.9	63.4		
PPG debt service-to-exports ratio	7.7	9.9	7.5	12.1	12.5	13.4	12.6	11.9	10.0	7.8	4.4		
PPG debt service-to-revenue ratio	12.8	13.1	11.6	18.1	20.4	24.4	24.0	23.3	19.8	15.7	7.2		
Gross external financing need (Million of U.S. dollars)	416.2	574.5	256.8	478.6	314.1	255.6	184.5	192.7	184.3	259.1	406.8		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.8	3.5	5.1	-3.1	2.7	4.2	4.5	4.5	4.6	4.5	4.6	5.0	3.8
GDP deflator in US dollar terms (change in percent)	-5.1	5.8	-2.5	-4.4	-3.9	-2.6	-1.6	-0.7	0.2	1.9	3.9	1.3	-0.5
Effective interest rate (percent) 4/	0.6	0.7	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.9	0.9	0.6	0.8
Growth of exports of G&S (US dollar terms, in percent)	1.7	-2.6	25.3	-14.5	16.1	13.1	8.7	9.9	9.6	5.8	6.5	18.7	7.9
Growth of imports of G&S (US dollar terms, in percent)	12.0	0.0	8.2	-6.9	4.7	4.5	1.5	6.7	5.5	5.3	5.9	18.0	4.2
Grant element of new public sector borrowing (in percent)	...	...	...	35.6	40.1	44.4	48.5	50.0	49.0	45.6	40.9	...	45.7
Government revenues (excluding grants, in percent of GDP)	12.2	13.7	14.2	13.6	14.8	14.7	14.8	15.3	15.7	17.5	19.3	11.6	15.7
Aid flows (in Million of US dollars) 5/	92.7	84.7	142.3	272.3	172.4	185.5	190.0	205.4	201.3	226.4	317.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	8.8	4.6	4.3	3.9	3.9	3.7	3.4	2.8	...	4.2
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	59.9	63.8	68.5	71.1	71.3	69.5	67.2	62.9	...	67.7
Nominal GDP (Million of US dollars)	3,729	4,082	4,186	3,877	3,826	3,883	3,996	4,145	4,346	5,919	11,803		
Nominal dollar GDP growth	-1.5	9.5	2.5	-7.4	-1.3	1.5	2.9	3.7	4.9	6.5	8.7	6.4	3.3
Memorandum items:													
PV of external debt 7/	...	...	28.0	35.2	37.0	36.7	35.5	33.9	32.5	23.4	19.9		
In percent of exports	...	...	126.7	172.4	154.3	137.3	125.7	113.4	103.9	66.9	63.4		
Total external debt service-to-exports ratio	7.7	9.9	7.5	12.1	12.5	13.4	12.6	11.9	10.0	7.8	4.4		
PV of PPG external debt (in Million of US dollars)			1171.9	1363.7	1416.6	1426.0	1418.8	1406.6	1411.7	1385.1	2349.9		
(PVt-PVt-1)/GDPt-1 (in percent)				4.6	1.4	0.2	-0.2	-0.3	0.1	0.1	1.3		
Non-interest current account deficit that stabilizes debt ratio	21.0	18.0	11.4	2.6	12.6	13.9	13.4	13.3	12.4	7.7	4.8		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

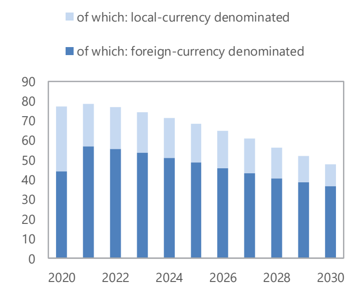
Table 2. Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–40

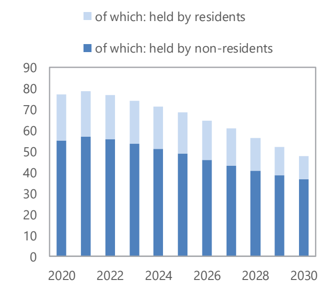
(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	69.4	77.2	78.5	76.8	74.1	71.1	68.4	47.8	32.4	50.9	66.1
of which: external debt	43.2	55.0	56.7	55.6	53.5	51.1	48.8	36.7	30.4	33.6	47.8
Change in public sector debt	0.3	7.8	1.3	-1.6	-2.7	-3.0	-2.8	-4.1	-1.3		
Identified debt-creating flows	-1.7	9.0	0.7	-1.2	-1.9	-2.3	-2.3	-3.4	-4.5	0.9	-1.5
Primary deficit /2	0.2	3.8	0.9	0.4	0.2	0.1	0.5	-1.0	-1.9	3.3	0.2
Revenue and grants /3	17.6	19.2	17.6	17.4	17.2	17.6	17.9	19.5	21.0	15.4	18.3
of which: grants	3.4	5.6	2.8	2.8	2.4	2.3	2.1	2.0	1.7		
Primary (noninterest) expenditure	17.8	23.0	18.5	17.8	17.4	17.7	18.3	18.4	19.1	18.6	18.4
Automatic debt dynamics	-1.9	5.2	-0.2	-1.6	-2.1	-2.4	-2.8	-2.3	-2.6		
Contribution from interest rate/growth differential	-4.1	2.0	-2.0	-3.5	-3.5	-3.3	-3.2	-2.4	-1.8		
of which: contribution from average real interest rate	-0.8	-0.2	0.0	-0.3	-0.2	-0.1	-0.1	-0.1	-0.3		
of which: contribution from real GDP growth	-3.4	2.2	-2.1	-3.2	-3.3	-3.2	-3.1	-2.2	-1.5		
Contribution from real exchange rate depreciation	2.2	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	2.0	2.0	2.5	1.5	0.6	0.3	0.0	-0.7	2.4	1.3	0.4
Sustainability indicators											
PV of public debt-to-GDP ratio 4/	56.3	60.5	61.5	60.1	57.9	55.4	53.1	34.8	22.1		
PV of public debt-to-revenue and grants ratio	319.9	315.1	348.6	345.0	336.5	314.3	297.4	178.6	105.1		
Debt service-to-revenue and grants ratio 5/	22.6	27.7	45.4	61.9	72.4	77.7	79.2	55.6	7.3		
Gross financing need 6/	4.2	9.1	8.9	11.2	12.6	13.8	14.6	9.8	-0.4		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	5.1	-3.1	2.7	4.2	4.5	4.5	4.6	4.5	4.6	5.0	3.8
Average nominal interest rate on external debt (in percent)	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.9	0.9	0.6	0.8
Average real interest rate on domestic debt (in percent)	-1.4	-0.8	1.5	2.2	2.1	2.2	2.3	1.9	2.0	-0.4	2.0
Real exchange rate depreciation (in percent, + indicates depreciation)	5.8	...	...	...	...	...	...	...	...	0.1	...
Inflation rate (GDP deflator, in percent)	11.3	12.7	13.0	11.1	9.8	8.8	8.1	5.0	4.9	11.5	8.2
Growth of real primary spending (deflated by GDP deflator, in percent)	0.9	25.2	-17.4	0.4	2.0	6.5	8.2	6.5	4.6	6.3	4.5
Primary deficit that stabilizes the debt-to-GDP ratio 7/	-0.1	-4.0	-0.4	2.0	2.9	3.1	3.2	3.0	-0.6	0.7	2.1
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ Distinct from the *domestic* primary balance as shown in Staff Report tables 2a and 2b, which for program purposes exclude grants and foreign financed capital spending.

3/ Projections assume debt relief under the IMF's Catastrophy Containment and Relief Trust (CCRT) through April 2022, subject to the availability of resources.

4/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

6/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

7/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Sierra Leone: Sensitivity Analysis, External Debt, 2020-2030

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	35.2	37.0	36.7	35.5	33.9	32.5	30.6	28.7	26.7	24.8	23.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	35.2	36.0	36.8	38.4	39.9	**41.8**	**43.5**	**45.4**	**47.1**	**48.7**	**50.0**
B. Bound Tests											
B1. Real GDP growth	35.2	**44.2**	**52.2**	**50.5**	**48.2**	**46.2**	**43.5**	**40.8**	37.9	35.3	33.3
B2. Primary balance	35.2	37.8	39.0	38.7	37.8	36.8	35.1	33.3	31.1	29.1	27.5
B3. Exports	35.2	**44.3**	**56.1**	**55.0**	**53.4**	**51.7**	**49.5**	**46.9**	**43.4**	**40.2**	37.5
B4. Other flows 3/	35.2	**45.7**	**54.3**	**53.3**	**51.9**	**50.3**	**48.3**	**45.6**	**42.1**	39.0	36.4
B5. One-time 30 percent nominal depreciation	35.2	**47.4**	**43.5**	**41.9**	39.9	38.0	35.6	33.3	30.9	28.9	27.3
B6. Combination of B1-B5	35.2	**48.3**	**56.5**	**55.2**	**53.4**	**51.6**	**49.2**	**46.3**	**42.8**	39.7	37.2
C. Tailored Tests											
C1. Combined contingent liabilities	35.2	39.1	**40.3**	40.0	39.0	37.9	36.2	34.4	32.4	30.5	29.0
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	35.2	37.8	38.3	37.2	35.5	33.9	31.8	29.6	27.2	25.1	23.4
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	172.4	154.3	137.3	125.7	113.4	103.9	93.4	84.9	77.2	70.6	66.9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	172.4	149.8	137.7	135.9	133.3	133.8	133.0	134.4	136.5	138.4	142.9
B. Bound Tests											
B1. Real GDP growth	172.4	154.3	137.3	125.7	113.4	103.9	93.4	84.9	77.2	70.6	66.9
B2. Primary balance	172.4	157.7	145.8	137.2	126.4	117.5	107.2	98.4	90.1	82.9	78.8
B3. Exports	172.4	**292.1**	**539.7**	**500.9**	**458.8**	**425.4**	**388.9**	**356.5**	**322.5**	**293.6**	**276.0**
B4. Other flows 3/	172.4	**190.4**	**203.1**	**188.8**	173.3	161.0	147.5	134.9	122.0	110.9	104.2
B5. One-time 30 percent nominal depreciation	172.4	154.3	127.1	115.9	104.1	95.0	85.0	76.9	70.0	64.2	61.0
B6. Combination of B1-B5	172.4	**230.5**	177.8	**258.2**	**235.8**	**218.1**	**198.8**	**180.9**	163.8	149.2	140.5
C. Tailored Tests											
C1. Combined contingent liabilities	172.4	163.0	150.5	141.6	130.4	121.4	110.7	101.9	93.7	86.7	82.9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	172.4	162.9	147.0	134.2	120.4	109.5	97.5	87.9	79.1	71.7	67.3
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	12.1	12.5	13.4	12.6	11.9	10.0	10.5	9.3	9.1	8.4	7.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	12.1	11.6	12.0	11.0	10.3	8.7	9.2	8.6	8.9	9.0	9.2
B. Bound Tests											
B1. Real GDP growth	12.1	12.5	13.4	12.6	11.9	10.0	10.5	9.3	9.1	8.4	7.8
B2. Primary balance	12.1	12.5	13.4	12.7	12.1	10.1	10.7	9.6	9.6	9.1	8.5
B3. Exports	12.1	**20.8**	**38.5**	**37.4**	**35.5**	**29.8**	**31.1**	**30.2**	**33.6**	**31.1**	**29.1**
B4. Other flows 3/	12.1	12.5	13.9	13.5	12.8	10.7	11.2	11.5	12.5	11.6	10.8
B5. One-time 30 percent nominal depreciation	12.1	12.5	13.4	12.4	11.8	9.8	10.4	9.2	8.5	7.9	7.4
B6. Combination of B1-B5	12.1	**15.7**	**21.7**	**20.6**	**19.5**	**16.4**	**17.1**	**17.2**	**17.6**	**16.2**	**15.2**
C. Tailored Tests											
C1. Combined contingent liabilities	12.1	12.5	13.5	12.7	12.1	10.2	10.7	9.5	9.3	8.6	8.0
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	12.1	13.1	14.0	13.1	12.4	10.4	10.9	9.7	9.6	8.8	8.2
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	**18.1**	**20.4**	**24.4**	**24.0**	**23.3**	**19.8**	**21.3**	**19.5**	**18.7**	17.3	15.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	**18.1**	**18.9**	**21.8**	**20.9**	**20.2**	17.3	**18.7**	18.0	**18.4**	**18.6**	**18.4**
B. Bound Tests											
B1. Real GDP growth	**18.1**	**24.3**	**34.7**	**34.1**	**33.1**	**28.1**	**30.3**	**27.7**	**26.5**	**24.5**	**22.2**
B2. Primary balance	**18.1**	**20.4**	**24.5**	**24.2**	**23.6**	**20.1**	**21.7**	**20.2**	**19.8**	**18.6**	17.1
B3. Exports	**18.1**	**21.4**	**27.3**	**27.8**	**27.0**	**23.0**	**24.6**	**24.7**	**26.9**	**24.8**	**22.6**
B4. Other flows 3/	**18.1**	**20.4**	**25.3**	**25.7**	**25.0**	**21.3**	**22.8**	**24.1**	**25.8**	**23.8**	**21.7**
B5. One-time 30 percent nominal depreciation	**18.1**	**26.1**	**31.2**	**30.3**	**29.5**	**25.0**	**27.0**	**24.7**	**22.4**	**20.7**	**18.8**
B6. Combination of B1-B5	**18.1**	**22.2**	**29.9**	**29.7**	**28.9**	**24.6**	**26.4**	**27.4**	**27.3**	**25.2**	**23.0**
C. Tailored Tests											
C1. Combined contingent liabilities	**18.1**	**20.4**	**24.6**	**24.3**	**23.7**	**20.2**	**21.8**	**20.0**	**19.1**	17.7	16.0
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**18.1**	**22.2**	**26.9**	**26.7**	**25.5**	**21.2**	**22.4**	**20.3**	**19.6**	**18.1**	16.3
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Sierra Leone: Sensitivity Analysis, Public Debt, 2020-2030

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	**60.5**	**61.5**	**60.1**	**57.9**	**55.4**	53.1	50.0	46.6	42.6	38.6	34.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	**61**	**62**	**62**	**60**	**58**	**55**	52	48	44	40	37
B. Bound Tests											
B1. Real GDP growth	**61**	**75**	**91**	**92**	**92**	**93**	**92**	**91**	**88**	**86**	**84**
B2. Primary balance	**61**	**66**	**68**	**65**	**62**	**59**	**56**	52	48	43	39
B3. Exports	**61**	**67**	**76**	**74**	**71**	**69**	**65**	**61**	**56**	51	46
B4. Other flows 3/	**61**	**71**	**79**	**77**	**74**	**72**	**68**	**64**	**58**	53	48
B5. One-time 30 percent nominal depreciation	**61**	**65**	**62**	**59**	**56**	53	49	45	40	35	31
B6. Combination of B1-B5	**61**	**66**	**68**	**63**	**61**	**59**	**56**	52	48	44	40
C. Tailored Tests											
C1. Combined contingent liabilities	**61**	**72**	**69**	**66**	**63**	**60**	**57**	53	49	45	41
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**61**	**66**	**71**	**74**	**76**	**78**	**79**	**78**	**78**	**77**	**76**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	315.1	348.6	345.0	336.5	314.3	297.4	274.5	256.6	225.9	201.6	178.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	315	354	356	351	330	312	288	268	238	216	195
B. Bound Tests											
B1. Real GDP growth	315	414	493	508	499	497	484	478	450	432	415
B2. Primary balance	315	372	390	377	350	330	305	286	253	227	202
B3. Exports	315	380	434	427	403	384	357	336	296	265	236
B4. Other flows 3/	315	401	452	445	420	401	374	351	309	277	246
B5. One-time 30 percent nominal depreciation	315	372	362	349	321	298	270	248	213	185	159
B6. Combination of B1-B5	315	374	387	360	341	326	303	286	254	229	205
C. Tailored Tests											
C1. Combined contingent liabilities	315	407	396	383	356	337	311	292	259	233	208
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	315	400	434	459	453	451	439	432	412	402	393
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	27.7	45.4	61.9	72.4	77.7	79.2	84.2	81.9	74.9	65.7	55.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	28	45	61	70	73	73	74	68	60	50	40
B. Bound Tests											
B1. Real GDP growth	28	52	93	125	143	153	165	167	160	151	141
B2. Primary balance	28	45	80	105	99	93	94	89	80	70	60
B3. Exports	28	45	62	74	79	80	85	85	80	71	60
B4. Other flows 3/	28	45	63	74	79	81	86	86	81	72	61
B5. One-time 30 percent nominal depreciation	28	45	62	71	77	78	83	80	73	64	54
B6. Combination of B1-B5	28	46	65	77	86	90	97	96	89	80	70
C. Tailored Tests											
C1. Combined contingent liabilities	28	45	108	103	98	93	93	88	79	69	58
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	28	49	85	124	143	151	159	158	149	141	133
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by Mr. Dumisani Hebert Mahlinza, Executive Director for Sierra Leone and Mr. Willie Nakunyada, Advisor to the Executive Director

Executive Board Meeting

June 3, 2020

Introduction

1. Our Sierra Leonean authorities appreciate the Fund's prompt response to their request for emergency financing under the Rapid Credit Facility (RCF). They consider the RCF as instrumental in catalyzing donor support from other development partners.

2. Sierra Leone has been severely impacted by the Coronavirus Disease (COVID-19) outbreak, which comes five years after the devastating effects of the Ebola virus. With the economy still recovering from the 2014 commodity price slump and intermittent climate disasters, which have created deep macroeconomic imbalances, COVID-19 threatens to reverse the impressive progress made in recent years. Against this backdrop, the authorities request emergency financial support under the RCF in the amount of SDR 103.7 million, equivalent to 50 percent of quota to address urgent balance of payments needs. The authorities are also seeking additional resources from other development partners, including debt service relief under the G20 Debt Service Suspension Initiative (DSSI). That said, they stand ready to seek additional emergency support from the IMF if the shock turns out to be more severe and prolonged than anticipated.

3. To ensure effective and transparent use of COVID-related resources, the authorities have put in place measures to manage and monitor spending. They have established a dedicated COVID-19 Fund at the Bank of Sierra Leone (BSL) which is being implemented with Fund TA support. Moreover, they plan to publish on the government's website, large public procurement contracts related to crisis mitigation, including the names of the companies awarded contracts, their beneficial owners, and ex-post validation of delivery. In addition, the Audit Service Sierra Leone (ASSL) will conduct ex-post audits on the management of government's COVID-19 Fund and the broader pandemic response. The assessments will be published online, consistent with the provisions of the 2016 Public Financial Management Act. At the same time, the Anti-Corruption Commission's COVID-19 Transparency Taskforce and the ASSL will play an instrumental role in ensuring integrity, accountability, and transparency in the use and management of COVID-19 related funds. The authorities also stand ready to undergo an updated safeguards assessment ahead of subsequent Fund arrangements.

Impact of the COVID-19 Pandemic

4. Since the first confirmed case of COVID-19 was reported on March 31, 2020, the case load has continued to increase, reaching levels above 700 at end May 2020. Going forward, the numbers are likely to continue rising as work to enhance the testing capacity intensifies, placing a heavy burden on the weak health system with heightened uncertainty and risks to the outlook.

5. The outbreak of the pandemic and consequent implementation of containment measures has disrupted activity in the manufacturing and construction sectors. Similarly, trade, tourism, and other services sectors which account for about 40 percent of GDP, are expected to contract sharply. Consequently, economic growth is projected to decline by over 7 percentage points to -3.0 percent in 2020, compared to the pre-COVID-19 estimate. At the same time, the downturn in international metal prices as well as delayed investments will further constrain mining activity and depress export receipts. Further, delays in project disbursements, declining remittances, and elevated imports of food and medical supplies, have also exerted substantial pressure on the balance of payments. Moreover, the contraction in external and domestic economic activity has depressed revenue mobilization by an estimated 1.8 percent of GDP, in the context of elevated health expenditures. As a result, the fiscal deficit is estimated to widen by 4.9 percentage points in 2020 compared to the pre- crisis estimate.

Interventions and Policy Responses

6. Leveraging on the experience of the Ebola health crisis, the authorities have established a governance structure to coordinate the COVID-19 response and engage development partners and other stakeholders. In this context, they have implemented national emergency measures, since the first COVID-19 case was recorded. Key containment measures include restricting gatherings, closure of land borders, suspension of international passenger flights, and shutting down of education institutions. The authorities have also activated the Public Health Emergency Operations Center to intensify contact tracing, disease surveillance, and testing, while revamping isolation and treatment facilities. They have also developed an economic response plan, the Quick Action Economic Response Program (QAERP). The intervention measures under QAERP, which is being rolled out, are largely geared at cushioning the impact of the crisis on businesses and households. In collaboration with the World Health Organization and other development partners, government also prepared the COVID-19 Preparedness and Response Plan for the health sector.

7. Consistent with the objectives of the National Development Plan (NDP) to protect the most vulnerable and invest in the health of Sierra Leoneans, the authorities have ramped up expenditure on social protection and public works. Further, in collaboration with the World Bank and other development partners, the authorities are providing cash transfers to families of people with disability, vulnerable workers, and low-income earners in the informal sector. The authorities also seek to support economic activity, particularly in the poorest areas of the country, by re-orienting non-essential expenditures in the national budget. At the same time, they plan to leverage budget resources ear-marked for on-going projects to shore-up private sector activity and create employment. Furthermore, they intend to introduce import tax deferrals to facilitate importation of essential goods.

8. To mitigate the impact of the COVID-19 pandemic and cushion vulnerable businesses, the BSL has implemented several accommodative monetary policy measures including cutting the policy rate. They have maintained a flexible exchange rate to absorb external shocks. In addition, the central bank has established a Le 500 billion Special Credit Facility to provide finance for the production, procurement, and distribution of essential goods and services. To ease liquidity conditions in financial markets, the reserve requirement

maintenance period for commercial banks was also extended. Looking forward, the BSL will continue to closely monitor banks' asset portfolio and apply IFRS9 provisioning to restructured loans. Further, the authorities are advancing governance reforms at the BSL to enhance financial sector oversight.

Post Crisis Measures

9. The authorities remain committed to the medium-term policy objectives of the ECF- supported program. In this regard, they are determined to resume growth-friendly fiscal consolidation efforts to restore fiscal and debt sustainability once the crisis abates. Concurrently, they will continue to seek grant and concessional resources and non-debt creating capital inflows. In addition, the authorities intend to pursue both revenue enhancing and expenditure rationalization measures to consolidate the gains made under the ECF program. The BSL will also strengthen monetary policy implementation to bring down inflation; seek to build FX reserves; strengthen central bank governance; and deepen the financial sector, while enhancing the bank regulatory and supervisory framework. Further, the authorities will accelerate key structural reforms to promote good governance, develop human capital, intensify the fight against corruption, and improve the business environment. At the same time, the authorities will continue to leverage Fund technical support in strengthening the reporting of securities previously issued to clear arrears.

Conclusion

10. Our Sierra Leonean authorities reaffirm their commitment to sustained implementation of prudent macroeconomic policies to lay a solid foundation for accelerated, durable, and inclusive growth, once the pandemic abates. They view policy efforts to unlock the country's growth potential as important to help the attainment of the key development objectives, articulated in the NDP. The authorities look forward to Executive Directors' support for emergency financing under the RCF to anchor on-going efforts to contain the spread of the pandemic and limit its impact on the economy.