

Sierra Leone: Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility, and Financing Assurances Review—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Sierra Leone.

In the context of the fourth review under the three-year arrangement under the Extended Credit Facility, and financing assurances review, the following documents have been released and are included in this package:

- The staff report for the fourth review under the three-year arrangement under the Extended Credit Facility, and financing assurances review, prepared by a staff team of the IMF, following discussions that ended on April 24, 2012, with the officials of Sierra Leone on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 5, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A supplement containing a Joint IMF/World Bank Debt Sustainability Analysis
- A Press Release summarizing the views of the Executive Board as expressed during its September 17, 2012 discussion of the staff report that completed the request and/or review.
- A statement by the Executive Director for Sierra Leone.

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

Letter of Intent sent to the IMF by the authorities of Sierra Leone*
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

SIERRA LEONE

Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility, and Financing Assurances Review

Prepared by the African Department
(In consultation with other departments)

Approved by Seán Nolan and Dhaneshwar Ghura

September 5, 2012

ECF arrangement: Sierra Leone's three-year Extended Credit Facility (ECF) arrangement was approved by the Executive Board on June 4, 2010 for the equivalent of SDR 31.11 million (30 percent of quota). The second and third reviews were completed on December 7, 2011.

Staff team: The team comprised Mrs. Kabedi-Mbuyi (head) and Messrs. Palmason, Stepanyan, and Orav (all AFR), Ms. Parulian (SPR), and Mr. Kumah (Resident Representative). It held discussions with HE Ernest Bai Koroma, President of Sierra Leone; Dr. Samura Kamara, Minister of Finance and Economic Development; Mr. Sheiku Sesay, Governor of the Central Bank of Sierra Leone; and other senior officials. The team also met with representatives of the donor community and civil society. Mr. Tucker (OED) participated in policy discussions.

Discussions Focus: The discussions took place in Freetown during March 29–April 11, 2012; and in Washington (April 21–24, 2012). They focused on conditions for completing the fourth ECF review, corrective measures to be implemented to address fiscal slippages that had occurred in late 2011, and policies for the remainder of 2012.

Mission outcome: Key performance criteria for end-December 2011 were met. However, sizeable spending overruns resulted in a higher-than-programmed fiscal deficit, financed by an increase in unpaid bills. Implementation of structural reforms was mixed, with some measures postponed to 2012. The authorities implemented all prior actions agreed with staff during the fourth ECF review discussions. Staff recommends completion of the fourth ECF review and the review of financing assurances.

Contents	Page
Abbreviations and Acronyms	4
Executive Summary	5
I. Recent Developments and Program Performance	6
II. Outlook and Risks	8
III. Policy Discussions	9
A. Fiscal Consolidation and Reform.....	9
B. Monetary and Exchange Rate Policies.....	13
C. External Debt Policy and Debt Management.....	13
D. Structural Reforms	14
IV. Program Monitoring and Capacity to Repay the Fund.....	14
V. Staff Appraisal	15
 Figures	
1. Real and External Sectors, 2008–12	17
2. Fiscal Sector, 2008–12.....	18
3. Monetary and Financial Sectors, January 2008–June 2012.....	19
4. Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2012–32	20
 Tables	
1. Selected Economic Indicators.....	21
2. Fiscal Operations of the Central Government	22
3. Fiscal Operations of the Central Government (Percent of Non-Iron Ore GDP).....	23
4. Monetary Accounts.....	24
5. Balance of Payments.....	25
6. Indicators of Capacity to Repay the Fund.....	26
7. Actual and Proposed Disbursements under the ECF Arrangement, 2010–13	27
8. Millennium Development Goals.....	28
9. Financial Soundness Indicators of the Banking System, 2005–11	29
 Box	
1. Corrective Fiscal Measures at end-June 2012	11

Appendix

I. Letter of Intent.....	30
Attachment I. Memorandum of Economic and Financial Policies for 2012	32
Attachment II. Technical Memorandum of Understanding.....	43

Abbreviations and Acronyms

BSL	Bank of Sierra Leone
CFMC	Cash Flow Management Committee
DSA	Debt Sustainability Analysis
DTD	Domestic Taxpayer Department
EU	European Union
EIRA	Extractive Industries Revenue Act
FAD	Fiscal Affairs Department
FSDP	Financial Sector Development Plan
GBAA	Government Budgeting and Accountability Act
GDP	Gross Domestic Product
GST	Goods and Services Tax
HIPC	Highly Indebted Poor Countries
IMF	International Monetary Fund
LTO	Large Taxpayer Office
MDAS	Ministries, Departments, and Agencies
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
MTDS	Medium-Term Debt Management Strategy
MTO	Medium Taxpayer Office
MMA	Mines and Minerals Act, 2009
MNRW-TTF	Topical Trust Fund for Managing Natural Resource Wealth
MOFED	Ministry of Finance and Economic Development
MTEF	Medium Term Expenditure Framework
NEER	Nominal Effective Exchange Rate
NRA	National Revenue Authority
PC	Performance Criterion
PIP	Public Investment Plan
PRSP	Poverty Reduction Strategy Paper
PV	Present Value
REER	Real Effective Exchange Rate
SDR	Special Drawing Rights
TMU	Technical Memorandum of Understanding

EXECUTIVE SUMMARY

- **Macroeconomic outcomes were broadly favorable in 2011.** Economic activity expanded further, supported by output increases in agriculture, construction, and services, as well as the scaling-up of infrastructure investments; GDP growth is estimated at 6 percent (5.3 percent in 2010). End-year inflation, although down from 2010, remained in double digits (16.9 percent), reflecting both external price shocks and a loose monetary policy stance in the first half of the year. The external current account deficit widened from 19.3 percent of non-iron ore GDP in 2010 to 52.3 percent in 2011 because of a significant increase in FDI-related imports; the sizeable FDI flows also contributed to exchange rate stability.
- **Program performance was mixed.** Most reform measures were implemented, albeit with some delays; and all performance criteria were met, except for that relating to the contracting of nonconcessional public external debt. However, the overall budget deficit was well above target, due in the main to expenditure overruns financed through float transactions (unpaid bills). By end-June 2012, the authorities had taken corrective fiscal measures agreed with staff to strengthen fiscal policy implementation.
- **The economic outlook continues to be broadly positive and consistent with program projections, although with downside risks.** Real GDP growth is projected at 21.3 percent, reflecting the beginning of iron ore production; non-iron ore GDP is expected to expand by 6.3 percent. The declining trend in consumer prices, combined with continued sound fiscal and monetary policies, should make the inflation target reachable although renewed risk of global food prices increase will add to the challenge. The fiscal position is expected to improve thanks to higher revenue collection coupled with expenditure restraint. As iron ore exports begin in 2012 and FDI-driven imports decline, the external position is set to strengthen in 2012. Key risks to the outlook are related to uncertainties on iron ore production and potential terms of trade shocks.
- **The risk of debt distress is moderate.** The debt sustainability analysis shows that, under the baseline scenario, debt burden indicators remain below the relevant thresholds over time. However, stress test results point to vulnerability to exogenous shocks, highlighting the need to sustain fiscal consolidation efforts, implement growth-enhancing policies, and maintain prudent borrowing policies.
- **Staff recommends completion of the fourth review under the ECF arrangement and the review of financing assurances.**

I. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

1. **Economic growth was robust in 2011** (Figure 1 and Table 1). Real GDP growth is estimated at 6 percent (5.3 percent in 2010), on account of strong performance in the agriculture and services sectors and increased construction activity. The last related to the scaling up of public investment in infrastructure and the construction of two iron ore projects.
2. **Although receding, inflation remained high.** Inflation eased somewhat in 2011, thanks to the decline in food prices and the tightening in the monetary policy stance in the second half of the year. However, inflation remained in double digits ending the year at 16.9 percent (December on December). The 12-month inflation rate dropped to 14.1 percent in June 2012.
3. **Monetary and banking sector developments were satisfactory** (Figures 3 and 4; Tables 4 and 9). Private sector credit growth remained strong at about 22 percent, with loans concentrated in trade, services, and construction. Financial sector soundness indicators show that, as of end-2011, most banks were adequately capitalized, profitable, and in compliance with prudential regulations.¹ The ratio of NPLs to total gross loans declined marginally from 15.6 percent at end-2010 to 15.1 percent at end-December 2011. Treasury bills auctions functioned smoothly during 2011, providing adequate financing for the government budget.
4. **The external current account worsened in 2011 because of FDI-related imports** (See Figure 1 and Table 5). Export growth was low, while imports rose significantly, reflecting the surge in global food and fuel prices and the increase in FDI-related imports. Consequently, the current account deficit widened from 19.3 percent of non-iron ore GDP in 2010 to 52.3 percent in 2011. Sizeable FDI inflows, mostly in the iron ore sector, helped cover the current account deficit and supported exchange rate stability. The leone depreciated by a modest 4.3 percent in 2011.
5. **Preparations for presidential, legislative, and local elections, scheduled for November 17, 2012, are advancing;** successful completion of the election process would mark another important step in Sierra Leone's transition from fragility. The United Nations and other development partners are financing two-thirds of the election costs. On the economic side, the ECF-supported program complements UN peace building and development partners' efforts in priority areas, especially in the health sector, youth employment, and training. Fund technical assistance, including tax administration, public financial management, and financial sector development, is closely coordinated with the assistance provided by development partners.

¹ The financial sector of Sierra Leone comprises 13 banks, 11 of which are privately owned, and one which remains partially state-owned, but is in the process of being privatized. Three banks are local, and 10 are subsidiaries of foreign banks.

6. **Program implementation has been mixed** (MEFP Tables 1, 2).
- *Quantitative fiscal and monetary performance criteria at end-December 2011 were met.* However, there were fiscal slippages; the overall fiscal deficit was substantially higher than envisaged (4.6 percent of GDP versus a target of 3.0 percent), reflecting sizeable expenditure overruns that were, in effect, financed by the accumulation of unpaid bills (float transactions). The exceptionally large float added to financing pressures in 2012. The limit on nonconcessional external borrowing was not observed due to the contracting of a nonconcessional loan that became effective in November 2011.²
 - *Structural reform implementation progressed, although at a slower pace than envisaged.* Two of three structural measures at end-December 2011 were implemented, albeit with delays. The integration of GST administration within the Large Taxpayer Office, and the publication of regulations for the PIP were completed in March and June 2012, respectively, while the implementation of the new small taxpayer regime is awaiting adoption by parliament of the legislation on the amended Finance Act. The latter was approved by Cabinet in early August 2012 and will be presented to parliament in coming weeks.
 - Preliminary information available suggests that all end-June quantitative performance criteria were met, while further progress has been made on structural reforms.³

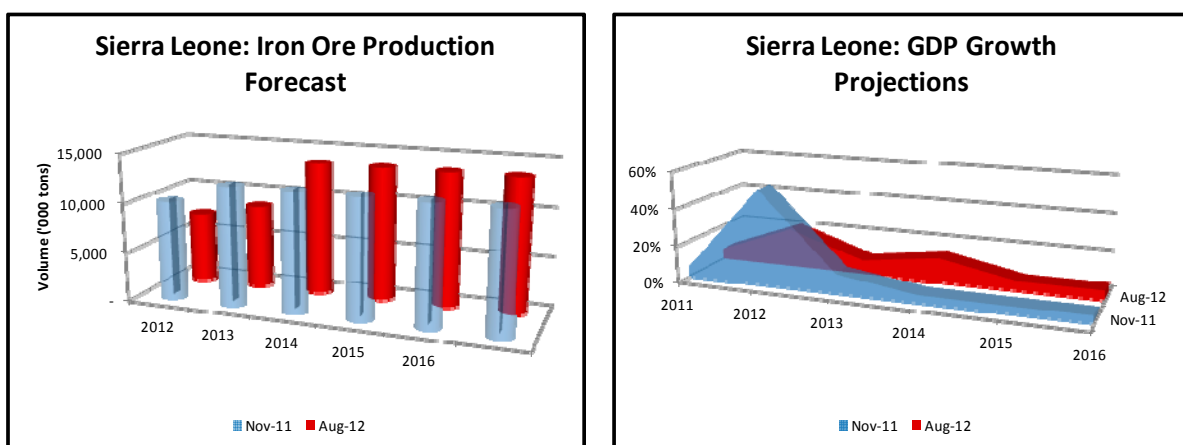
7. **The implementation of the fuel pricing mechanism introduced at the time of the second and third program reviews proved challenging.** The pricing formula did not call for increases in domestic fuel prices in the second half of 2011. However, after a sharp increase in the landed price in early 2012, the authorities decided to suspend the price adjustment mechanism for the remainder of the year, given heightened social tension ahead of the November elections and the absence of a well-targeted social safety net mechanism. They plan to re-instate the fuel pricing formula in 2013 (MEFP ¶ 13).

² The loan was contracted from Export-Import Exim Bank China for US\$15.89 million. It had been in negotiations since 2008, at which time it was assessed to be concessional with a grant element of about 40 percent. However, when it became effective in November 2011, the grant element had declined to below 35 percent. Since information on the loan was only reported to the staff after the December 2011 Board meeting on the second and third ECF reviews, the disbursement after the completion of these reviews was noncomplying. In a separate report on the noncomplying disbursement, a draft decision waiving the nonobservance of the performance criterion on new nonconcessional external debt that gave rise to the noncomplying disbursement has been proposed for the Executive Board's approval.

³ Compliance with end-June 2012 performance criteria will be examined in detail in the context of the fifth review under the ECF arrangement.

II. OUTLOOK AND RISKS

8. **The revised macroeconomic outlook envisages much lower GDP growth in 2012 than was previously projected—21 percent, down from 51 percent.** The downward revisions reflect both start-up problems⁴ at the largest mining operation and the weakening of world iron ore prices. Growth projections for 2013–16 have also been revised to reflect a new path for the ramping up of iron ore production in the initial phase of the projects. The outlook for iron production over the medium term is very favorable, with the two active companies already embarking on expansion plans and the projects estimated to have a life span in the range of 25–60 years.



9. **Growth in the non-iron ore economy is projected at about 6 percent over the medium term.** Agriculture, construction, and services will continue to be the main drivers. Non-iron growth would also be supported by productivity gains in the private sector from recent investment in infrastructure, as well as progress in structural reforms. The short-term impact of lower growth in iron ore on the non-iron ore sector is modest.

10. **The external sector outlook is positive.** The current account deficit is expected to improve in 2012–16, as FDI-related imports decline and iron ore exports grow rapidly. That said, the external position is vulnerable to terms of trade shocks and scaling back of FDI inflows.

11. **The balance of risks to the short and medium-term outlook is on the downside.** A global economic slowdown, with worsening terms of trade for Sierra Leone, would likely translate into lower growth in both the mining and non-mining sectors, and reduced resource

⁴ The production problems at the main mine included a breakdown of the railway system and work stoppages.

revenues for the government budget. Iron ore output and price shocks would weaken both the growth trajectory and the medium-term fiscal position. On the domestic side, near-term budgetary financing constraints are tight; failure to resist expenditure pressures in the remainder of the year would jeopardize the maintenance of macroeconomic stability. The authorities shared staff's assessment of risks to the outlook and agreed that vigilance in policy implementation will be needed to ensure that appropriate mitigating measures are taken should these risks materialize.

III. POLICY DISCUSSIONS

A. Fiscal Consolidation and Reform

12. **The fiscal outcome was weaker than expected in 2011** (Figure 2 and Tables 2 and 3)⁵. While the overall fiscal deficit narrowed somewhat from the elevated 2010 level, helped by an increase in taxes collected from mining, the outcome, at 4.6 percent of non-iron ore GDP, was significantly higher than targeted (3.0 percent, resulting from significant overruns late in the year). The authorities explained that the expenditure overruns were caused by the unexpectedly high cost of the pay reforms initiated in 2011, faster than expected implementation of infrastructure investment, and one-off spending in goods and services (MEFP ¶¶ 7 and 9).

13. **Staff argued for a tighter fiscal program in 2012 than originally budgeted**, given the need to settle outstanding bills from 2011 without resorting to a sharp increase in domestic bank financing (the fiscal anchor for the program)—a position the authorities accepted. Additional revenues from both mining taxes and petroleum licenses facilitate the planned adjustment effort. The processing of bids for oil exploration licenses (prior action) provides assurances that license receipts in 2012 will be broadly as programmed. Nevertheless, cuts in selected budget items (including domestic capital spending) are also required if the original limit on domestic bank financing is to be met.

14. **Staff noted that complying with the 2012 expenditure targets would require both administrative reforms and intensified efforts to contain spending levels, given the prior experience of sizeable expenditure overruns in both 2010 and 2011.** The authorities agreed with the need to strengthen expenditure controls, notably through the preparation and execution of monthly treasury cash flow statements consistent with the revised 2012 fiscal framework (**prior action**), and by reforming the payment system used for domestically-financed investment projects. It was agreed that compliance with an end-June target for the domestic primary deficit would constitute an adequate track record for

⁵ National Accounts statistics were revised substantially for the period 2001–11, based on IMF TA recommendations. All citations in this report refer to the new GDP series.

demonstrating the authorities' capacity to implement the tightened fiscal stance. In the event, all corrective measures were implemented at end-June, and the domestic primary balance target was met (Box 1; Text Table 1; MEFP ¶ 10).

Text Table 1. Sierra Leone - Fiscal Performance at End-June 2012 (In Billion Leones)		
	End-June 2012	
	Staff Proj.	Prel.
Domestic revenue	799	871
Expenditure and net lending	1,393	1,368
Current expenditure	880	920
Wages and salaries	381	445
Goods and services	164	213
Subsidies and transfer	203	134
Interest payments	132	128
Domestic	119	115
Foreign	13	13
Capital expenditure	513	448
Foreign financed	325	232
Domestically financed	188	216
Net lending	-	-
Domestic primary balance	-256.0	-252.0
Sources: Sierra Leone Authorities; and Fund staff estimates.		

Box 1. Sierra Leone: Corrective Fiscal Measures at end-June 2012

To enhance fiscal policy implementation and support the program objectives, the authorities implemented the following measures in the first half of 2012:

- Setting up of a high level Cash Management Committee (CMC) in early 2012. The CMC includes representatives from the Ministry of Finance, the Accountant General's Office, the National Revenue Authority, and BSL. Its work has been instrumental in improving short-term liquidity management and guiding the expenditure commitment process; enhancing budget execution monitoring; and improving coordination between fiscal and monetary policy.
- Preparation and execution of monthly cash flow statements reflecting expenditure priorities and financing constraints, under the supervision of the CMC.
- Renegotiation of payment arrangements with projects contractors to ensure that the submission of payment certificates on completed infrastructure projects is aligned with budgetary resources. This measure has played an important role in ensuring that domestically financed capital expenditures are consistent with budget allocations.
- Postponement of wage increase originally planned for 2012, pending the assessment of savings from the implementation of the pay reform.
- Tightening of the expenditure commitment process to contain non-priority spending.

15. **The fiscal adjustment made in the first half of the year will support the attainment of fiscal targets for 2012.** Expenditure adjustment in the first half of the year, as well as additional efficiency gains in revenue mobilization, and some exceptional revenue from the mining sector are expected to support further improvement in the fiscal position. The domestic primary deficit is projected to narrow from 3.8 percent of non-iron ore GDP to 1.9 percent (MEFP ¶¶ 11, 12, 14).

- *The authorities agreed that reaching the 2012 revenue targets entails continued revenue mobilization efforts to reduce reliance on one-off revenue windfalls. The projected increase in revenue to 12.2 percent of non-iron ore GDP (11.5 percent in 2011) is underpinned by increased non-iron ore activity; higher revenue from the extractive industries; exceptional corporate income tax from the mining sector and the expected oil revenue licenses. Tax administration measures introduced in 2011 should also bolster revenue collection, particularly the restructuring of the MTO and the integration of the GST administration with the LTO. Total revenue is now projected at Le 1,864 billion, compared with the original target of Le 1,607.*
- *The authorities plan to continue monitoring expenditure execution for the remainder of 2012 to support fiscal consolidation. They agreed with staff that budgetary appropriations for 2012 had to be revised to accommodate clearance of 2011 unpaid*

- bills, while maintaining the fiscal anchor (domestic financing not higher than 1–2 percent of GDP) in line with the program. As a result, spending on goods and services and domestically-financed investment were scaled down, compared with program projections, and the wage increase originally planned for 2012 was postponed pending an assessment of the pay reform impact. Thanks to these measures and the repayment of a government loan by a local mining company (Le 95 billion), expenditures are projected to be in line with the original program targets.
- *The revised fiscal framework is fully financed.* Under the assumptions discussed above, and based on the expected external budget support, the revised financing needs are covered.

16. **Staff called the authorities’ attention to the need for further adjustment efforts to improve the fiscal position in 2013 as one-off mining revenues in 2012 would not be repeated in 2013.** The domestic primary deficit could narrow from 1.9 percent of non-iron ore GDP in 2012 to 1.6 percent on the following assumptions: (i) a deceleration in wage adjustment, as savings from the 2011 pay reform are realized; (ii) nominal reduction in subsidies and transfers, reflecting the elimination of fuel subsidies with the scheduled resumption of the fuel pricing mechanism; and (iii) further scaling down of domestically-financed investment. While infrastructure needs remain large, domestically-financed investment may need to be lowered compared to the high levels in 2010–12, partly because recent increases were funded from exceptional sources, including one-off revenue from extractive industries that will not be available in 2013. Staff took the view that the fiscal adjustment effort in 2013 will have to rest mostly on expenditure since the impact of tax reform measures planned for 2012 will take time to materialize, and there is potential for lower royalties from the extractive industries. Further discussions on the 2013 fiscal program and on the medium-term fiscal strategy will take place at the time of the next ECF review.

17. **In addition to improving the tax system and administration, progress in PFM reforms will be critical for fiscal consolidation.** There was an agreement on the need to continue enhancing efficiency in tax administration and to advance tax reforms, including through the implementation of TA recommendations. Key measures planned for the remainder of 2012 are (MEFP ¶¶21, 22; MEFP, Table 4):

- The adoption by parliament of the Extractive Industry Revenue Act.
- The introduction of a resource rent tax on mining operations. The new tax was not introduced to parliament in June as programmed because it was integrated in the comprehensive legislation on extractive industries (EIRA).
- Implementation of the new small taxpayer regime.

B. Monetary and Exchange Rate Policies

18. **The authorities agreed with the staff assessment that monetary policy remains sufficiently tight to achieve the programmed inflation target.** In this context, continued adherence to the new regulation on BSL direct financing to the Government will be essential. Steadfast adherence to these regulations would provide opportunities for better liquidity forecasting and for enhancing the effectiveness of secondary market operations. The monetary policy rate will be increasingly used to signal the BSL's monetary policy stance and to proactively contain inflation expectations.

19. **The BSL remains committed to building international reserves as programmed, but will maintain a careful balance between reserve accumulation and liquidity management.** The expected increase in US dollar-denominated government revenue and financing flows in 2012 will support this objective, but will also generate challenges for liquidity management. The mission stressed the importance of relying on market-based policies in managing liquidity.

20. **While maintaining a floating exchange rate regime, BSL's interventions in the exchange market will be limited to smoothing exchange rate volatility.** To clearly distinguish between intervention and liquidity management functions of its foreign exchange operations, the BSL will only speed up foreign exchange sales when expected bulky inflows are realized and spent by the government. Close monitoring of market conditions, as well as coordination with the Treasury will be important to ensure that any needed sterilization measures are taken timely; and to contain volatility in the foreign exchange market.

C. External Debt Policy and Debt Management

21. **Debt Sustainability Analysis results show that the risk of debt distress remains moderate** (Figure 4). Under the baseline scenario, all external debt indicators are below their policy-dependent indicative thresholds throughout the projection period (2012–32). The analysis indicates that the medium to long-term debt outlook is vulnerable to fiscal, growth and exports shocks, as well as unfavorable borrowing conditions—pointing to the need to sustain fiscal consolidation efforts, remove impediments to growth, enhance export diversification, and maintain prudent borrowing policies.

22. **Debt management capacity needs to improve.** Staff expressed concerns over the poor reporting on the contracting of nonconcessional external debt, and urged the authorities to enhance external debt management capacity. The authorities have requested technical

assistance from the IMF and World Bank staff for the preparation of a Medium-Term Debt Management Strategy. In addition, they have taken measures to improved data monitoring and recording, as well as communication with Fund staff. For 2012, the authorities have introduced the following measures: (i) the re-assessment of the grant element of any loan prior to signing, in consultation with Fund staff; (ii) steadfast adherence to the procedures for recording all stages of external loan contracting; (iii) preparation of a quarterly report on the stock of debt outstanding, and loan agreements under discussion; and (iv) improved coordination and information sharing between all government agencies involved with external debt contracting (MEFP ¶20).

D. Structural Reforms

23. **The authorities plan to accelerate implementation of structural reforms.** With technical assistance from development partners, structural reforms will focus on the following measures (MEFP ¶24):

- Revision of prudential guidelines on banking supervision to ensure consistency with the amended banking Act, and enhance compliance with the Basel Core Principles.
- Reform of the payment and settlement system, with support from the AfDB.
- Preparation and implementation of an action plan to promote financial sector development.

IV. PROGRAM MONITORING AND CAPACITY TO REPAY THE FUND

24. **Program monitoring.** The program will be monitored based on quantitative performance criteria for end-June and end-December 2012, as well as structural benchmarks for 2012 (MEFP, Tables 3 and 4). To better assess fiscal performance, staff agreed with the authorities to introduce a domestic primary deficit target in the program.⁶ Prior actions for the fourth review aimed at enhancing public financial management and improving coordination between fiscal and monetary policies. They were implemented at end-June (see above).

25. **The burden of debt service to the Fund is manageable.** It is projected to average 0.4 percent of exports of goods and services (Table 6) for the remainder of the program period. The government is making good faith efforts to resolve arrears to commercial

⁶ The fiscal program is predicated on the complete elimination of unpaid bills at end-year; the indicative target includes a margin of 45 billion leones (equivalent to one-quarter of the stock of accumulated bills at end-2011) for December 2012 to accommodate a modest end-year float.

creditors, accumulated before and during the civil war, and has been making goodwill payments to avoid litigation. It is anticipated that a debt-buy-back operation will be initiated in the period ahead with support from the World Bank. Sierra Leone's record on meeting financial obligations, the country's economic outlook, as well as ongoing efforts to resolve arrears to commercial creditors, provides sufficient financing assurances on capacity to repay the Fund.

V. STAFF APPRAISAL

26. **Sierra Leone's economic growth has strengthened in recent years and medium-term prospects continue to be favorable.** Agriculture, construction, and services, as well as the scaling up of infrastructure investment, have been the main growth drivers, paving the way for higher output expansion in the non-mineral economy over the medium-term. The advent of iron ore production in late 2011 will significantly boost growth and exports in 2012 and beyond. Progress in structural reforms will be essential to buttress this positive outlook.

27. **There are, however, important downside risks.** The uncertain global economic outlook and the risk of adverse price movements for key commodities for Sierra Leone, notably iron ore and oil, could increase budget and external current account deficits and dampen growth prospects. Hence, staff urges the authorities to remain vigilant in policy implementation and take adjustment measures should these risks materialize to ensure that fiscal and monetary policies continue to support macroeconomic stability.

28. **Staff welcomes the authorities' efforts to contain spending in the first half of 2012.** Measures to improve expenditure execution monitoring in the first half of the year augurs well for the achievement of 2012 fiscal targets. Use of the CMC and of the monthly treasury cash flow statements was instrumental in the achievement of end-June fiscal targets and should continue for the remainder of the year.

29. **Staff encourages the authorities to strengthen fiscal consolidation efforts.** Revenue-enhancing measures to increase administrative efficiency, as well as tax reform in extractive industries, will be necessary to reduce reliance on exceptional revenue, broaden the tax base and create fiscal space for priority capital and social spending. Adoption and implementation of the planned tax and expenditure reforms will be critical.

30. **Continued tight monetary policy stance is needed to lower inflation expectations.** The trend decline in inflation since mid-2011 is encouraging. Absent a new exogenous price shock, and provided that the monetary policy stance remains tight, the authorities' inflation target for 2012 is reachable. In this context, staff encourages the authorities to continue adhering to the 2011 regulations limiting BSL direct financing to the government budget, and welcomes the BSL's commitment to use its money market instruments proactively to manage liquidity.

31. **The debt sustainability analysis shows that the risk of debt distress is moderate.**

All debt indicators remain below the policy-dependent thresholds in the long term. However, the debt outlook is vulnerable to shocks, notably unfavorable borrowing conditions. Staff encourages the authorities to maintain prudent borrowing policies, and to implement capacity-enhancing measures planned for 2012 to ensure that all external loan contracted are on concessional terms.

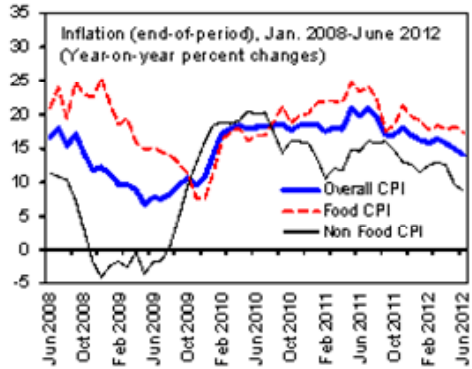
32. **Staff recommends the completion of the fourth review under the ECF arrangement and the review of financing assurances.**

Figure 1. Sierra Leone – Real and External Sectors, 2008–12

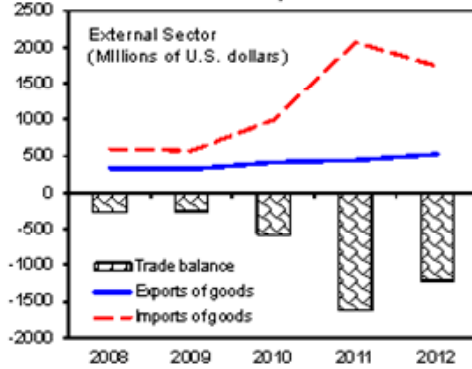
Growth has strengthened, similar to other SSA economies. 1/



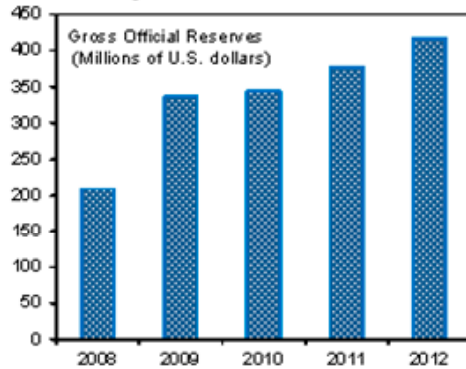
Inflation started decelerating in 2011, reflecting tighter monetary policy stance.



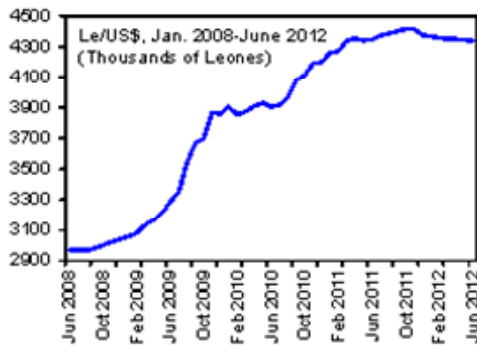
The trade balance widened in 2010-11 due to FDI-related imports...



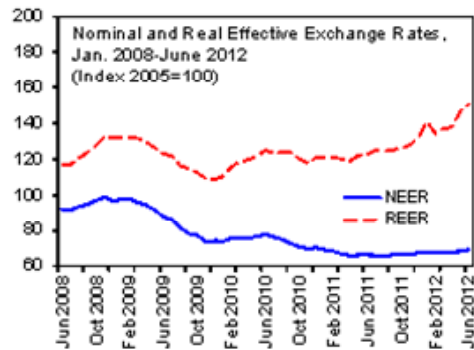
...reserves, however, were broadly unchanged.



The nominal exchange rate stabilized...

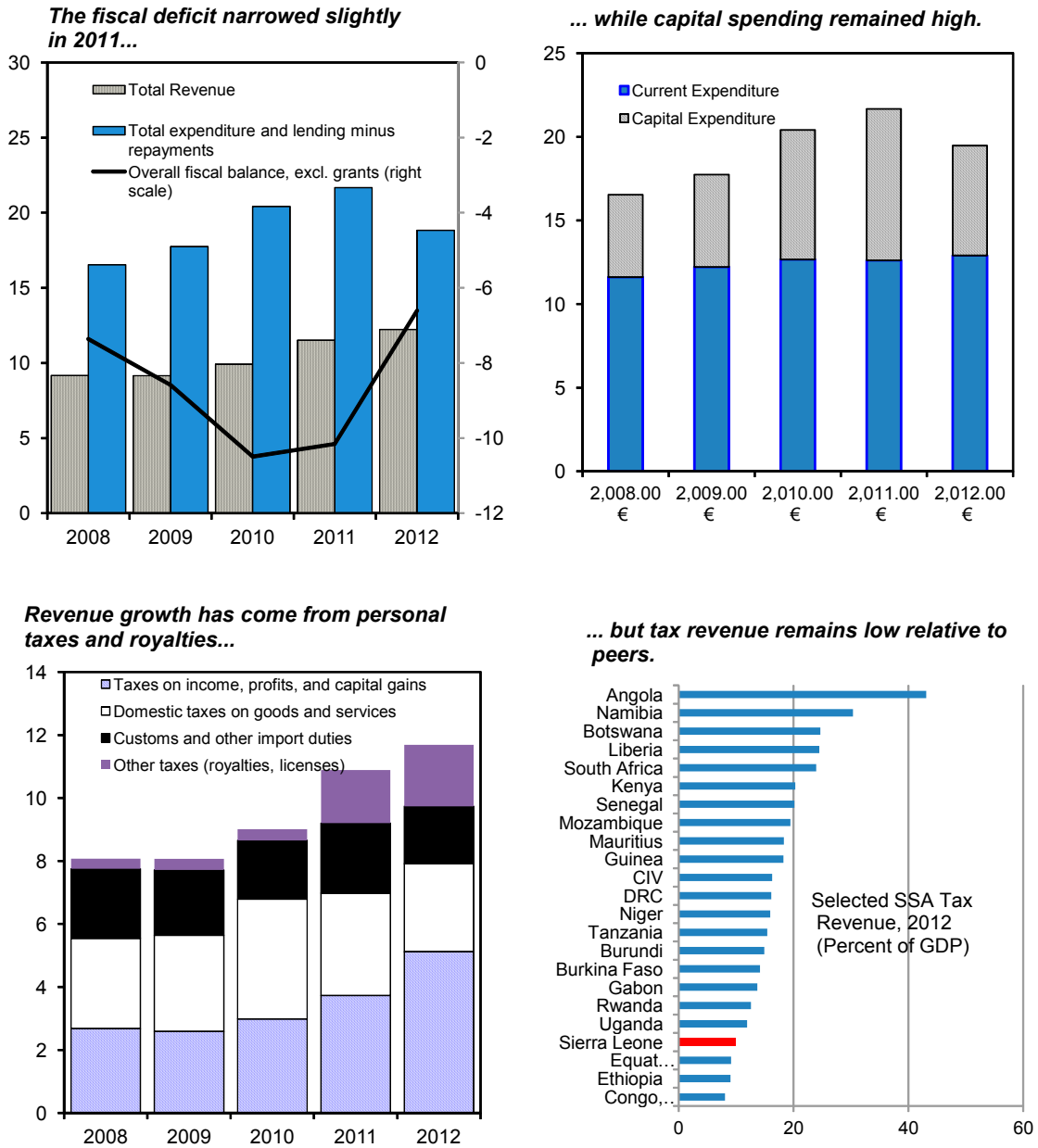


... and the real effective exchange rate remained constant.



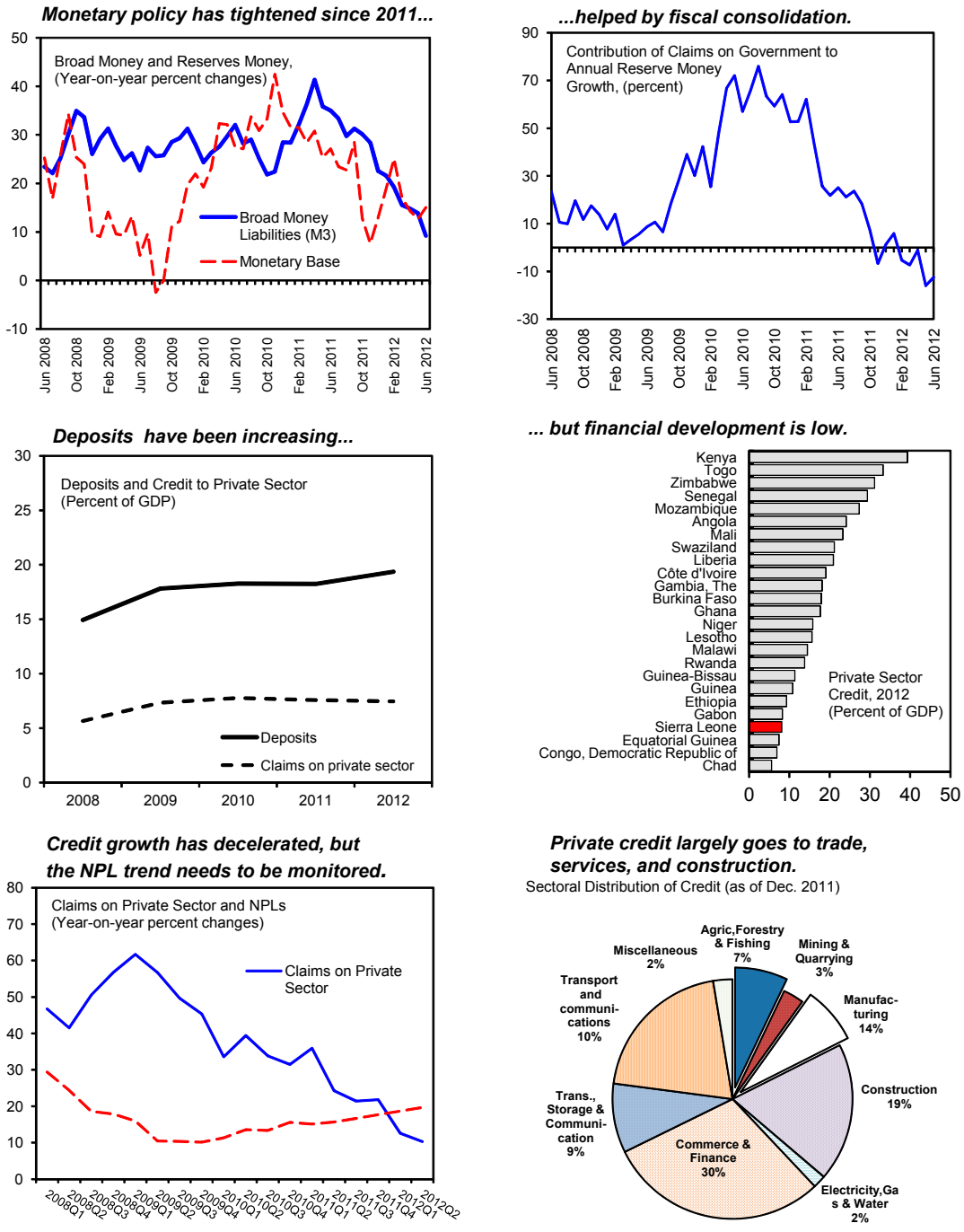
Sources: Sierra Leonean authorities; and IMF staff estimates and projections.
1/ Data for 2012 do not include impact of iron ore project.

**Figure 2. Sierra Leone - Fiscal Sector, 2008–12
(Percent of Non-Iron Ore GDP)**



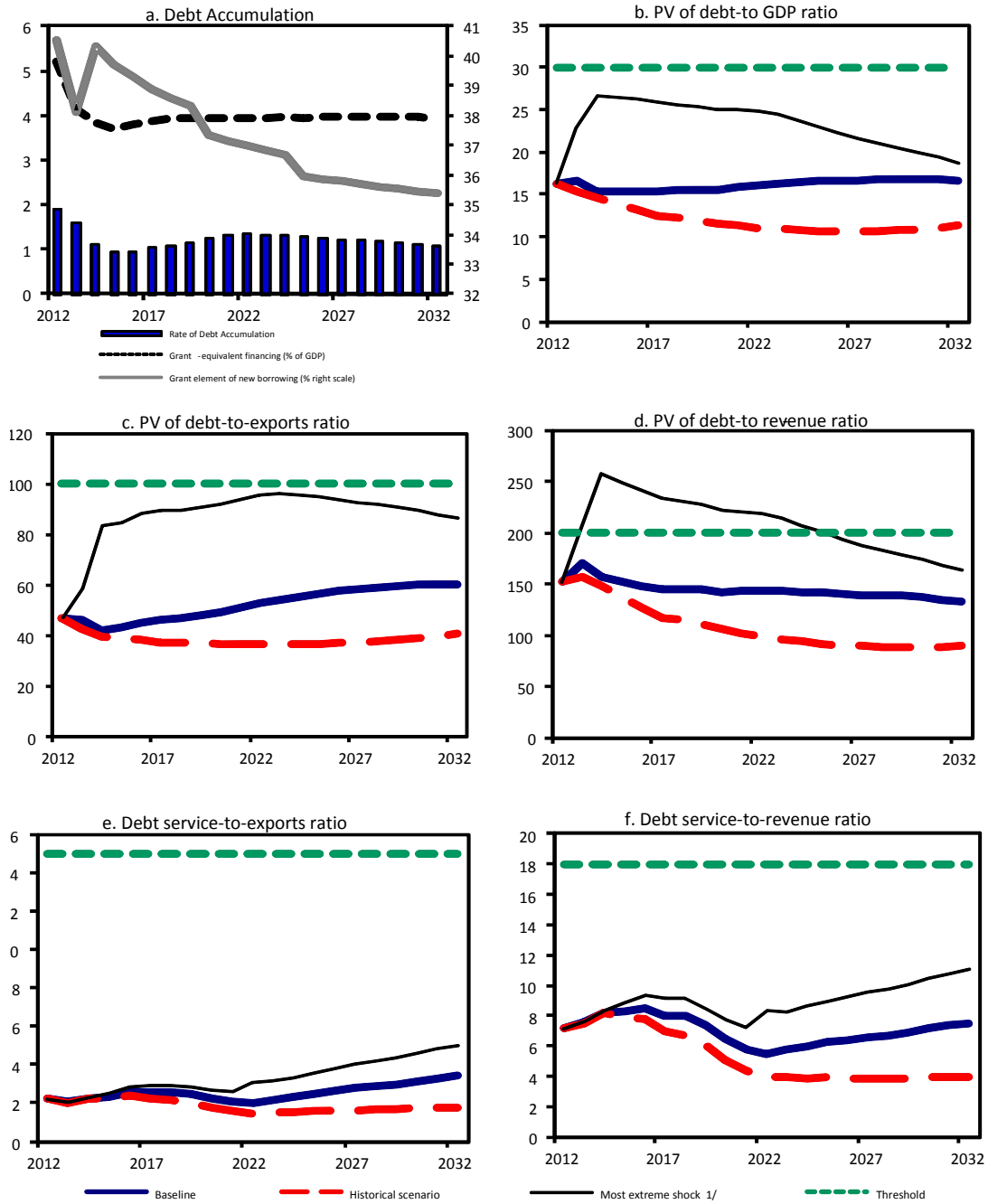
Sources: Sierra Leonean authorities; and staff estimates and projections.

Figure 3. Sierra Leone - Monetary and Financial Sectors, Jan. 2008–Jun. 2012



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

Figure 4. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2012–32^{1/}



Sources: Country authorities; and staff estimates and projections.

^{1/} The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Non-debt flows shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Terms of trade shock and in figure f. to a Terms of trade shock

Table 1. Sierra Leone: Selected Economic Indicators

	2009	2010	2011		2012		2013
			Prog. 1/	Act.	Prog. 1/	Proj.	
(Annual percentage change, unless otherwise indicated)							
National account and prices							
GDP at constant prices	3.2	5.3	5.3	6.0	51.4	21.3	7.5
Excluding Iron ore	3.2	5.3	5.3	6.0	6.0	6.3	6.0
GDP deflator	8.6	17.9	19.7	17.9	11.6	10.6	4.5
Consumer prices (end-of-period)	10.8	18.4	16.0	16.9	11.0	11.0	7.5
Consumer prices (average)	9.2	17.8	18.3	18.5	10.7	13.7	7.0
External sector							
Terms of trade (deterioration -)	-2.6	6.8	-2.8	0.4	-0.3	7.3	-7.8
Exports of goods (US\$)	-1.0	33.8	15.0	2.3	299.3	232.1	12.4
Imports of goods (US\$)	-2.6	60.7	91.9	121.4	-18.5	-13.0	2.9
Average exchange rate (Leone per US\$)	3,410	3,988	...	4,357	...	...	...
Nominal exchange rate change (depreciation -)	-26.7	-8.9	...	-4.3	...	...	...
Real effective exchange rate (depreciation -)	-0.7	2.2	...	0.9	...	...	...
Gross intl. reserves, months of imports 2/	4.1	2.0	2.6	2.4	2.6	2.6	2.5
Excluding iron ore, months of imports 3/	4.1	3.4	3.3	2.7	3.0	3.0	3.0
Money and credit							
Domestic credit to the private sector	45.4	31.5	25.8	21.8	22.4	15.7	16.1
Base money	19.7	34.6	4.0	13.0	15.1	13.9	15.9
M2	28.3	21.8	11.7	20.0	20.1	20.4	16.9
91-day treasury bill rate (in percent)	14.0	24.5	...	23.4	...	...	...
(Percent of non-iron ore GDP, unless otherwise indicated)							
National accounts							
Gross capital formation	9.3	24.3	55.9	40.5	25.3	17.6	17.2
Government	5.5	7.7	10.4	9.0	8.6	6.6	6.2
Private	3.8	16.5	45.5	31.4	16.7	11.0	11.0
National savings	2.8	5.0	1.0	-11.8	11.3	2.7	6.8
External sector							
Current account balance							
(including official grants)	-6.5	-19.3	-54.9	-52.3	-14.1	-14.9	-10.4
(excluding official grants)	-9.9	-24.5	-58.2	-54.7	-15.7	-16.2	-11.5
External public debt (including IMF)	28.9	30.7	39.4	29.7	28.1	28.3	27.8
Central government budget							
Overall balance	-2.5	-5.1	-3.9	-4.6	-4.4	-1.9	-2.9
(excluding grants)	-8.6	-10.5	-11.8	-10.2	-10.4	-6.6	-6.4
Revenue	9.2	9.9	14.9	11.5	13.8	12.2	10.9
Grants	6.1	5.3	7.9	5.6	6.0	4.7	3.5
Total expenditure and net lending	17.7	20.4	26.7	21.7	24.2	18.8	17.3
Memorandum item:							
GDP at market prices (billions of Leone) 4/	8,183	10,161	9,579	12,698	16,185	17,036	19,145
Excluding iron ore	8,183	10,161	9,579	12,698	11,630	14,931	17,140
Excluding iron ore in millions of US\$	2,400	2,548	2,194	2,915	2,576	3,352	3,710
Per capita GDP (US\$)	421	436	366	486	582	621	656

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

1/ Staff Report, November 21, 2011.

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

3/ Excludes import of capital goods related to the iron ore project that was financed by FDI.

4/ Statistics Sierra Leone has revised the National Accounts Statistics for the years 2001-11, based on IMF TA. This resulted in approximately a 30 percent increase in nominal GDP for the period.

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

	2009	2010	2011		2012		2013
			Prog.	Act.	Prog.	Proj.		Proj.
Total revenue and grants	1,250	1,551	2,183	2,171	2,304	2,526	2,466
Revenue	749	1,008	1,426	1,462	1,607	1,826	1,864
Tax	660	916	1,315	1,383	1,497	1,746	1,729
Income Tax	183	292	411	467	443	760	713
Goods and Services Tax	...	246	335	351	408	410	473
Sales tax 1/	141	...	...	...	...	...	...
Excises	107	133	68	55	23	3	59
Import duties	170	190	283	282	344	271	299
Mining royalties and license	20	24	186	202	242	278	154
Other	39	31	32	24	37	24	30
Non-tax	89	92	111	80	110	80	136
Grants	500	544	757	709	697	701	602
Budget support	290	244	297	220	193	196	178
Project grants	186	277	371	428	348	348	393
Other	25	22	89	61	155	156	32
Expenditures and net lending	1,452	2,074	2,558	2,752	2,811	2,812	2,958
Current expenditures	1,000	1,286	1,564	1,603	1,810	1,926	1,902
Wages and salaries	402	536	650	681	798	878	958
Goods and services	350	426	351	396	361	356	405
Subsidies and transfer	145	165	326	275	391	418	258
Interest	103	159	237	250	260	274	281
Domestic	89	142	216	226	235	247	252
Foreign	14	17	21	24	25	27	29
Capital expenditure	452	787	995	1,149	1,001	981	1,056
Foreign financed	345	432	759	787	683	683	783
Domestic financed	107	355	236	362	318	298	273
Net lending 2/	0	0	0	0	0	-95	0
Domestic primary balance 3/	-343	-617	-353	-479	-495	-277	-281
Overall balance including grants	-202	-523	-375	-581	-507	-286	-492
Overall balance excluding grants	-703	-1,066	-1,133	-1,290	-1,204	-986	-1,094
Financing	202	523	375	581	507	286	492
External financing (net)	155	162	334	305	349	346	358
Borrowing	198	222	388	359	442	438	438
Project	160	155	388	359	335	335	391
Budget	39	67	0	0	107	104	47
Amortization	-43	-61	-54	-54	-93	-92	-79
Domestic financing (net)	47	357	41	274	158	-61	134
Bank	109	413	74	67	133	133	120
Central bank	163	298	-103	10	66	-14	28
Commercial banks	-54	116	176	57	66	146	92
Nonbank	-62	-56	-32	208	25	-194	14
Non bank financial institutions	-25	30	43	54	33	33	14
Privatization proceeds	10	0	34	34	35	35	0
Change in arrears	-59	-94	-68	-47	-43	-78	0
Float (checks payable)	12	8	-41	167	0	-183	0
o/w checks accumulated				183			
o/w checks repaid						183	
Errors and omissions/financing gap	1	4	0	2	0	0	0
Memorandum item:							
Total poverty expenditures	331	635	538	538	570	570	654
Public domestic debt	1,244	1,439	1,805	1,430	1,970	1,596	1,730
Bank and non-bank financing	84	443	117	121	166	166	134

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

1/ Replaced by GST on January 1, 2010.

2/ EUR16 million transfer to the budget from a maturing EU grant onlent to Sierra Rutile

3/ Revenue less expenditures and net lending adjusted for interest payments and foreign financed capital spending.

Table 3. Sierra Leone: Fiscal Operations of the Central Government
(Percent of non-iron ore GDP)

	2009	2010	2011		2012		2013
			Prog 1/.	Act.	Prog 1/.	Proj.		Proj.
Total revenue and grants	15.2	15.3	17.2	17.1	15.4	16.9	14.4
Revenue	9.1	9.9	11.2	11.5	10.8	12.2	10.9
Tax	9.8	9.0	10.4	10.9	10.0	11.7	10.1
Personal Income Tax	1.5	2.0	2.4	3.1	2.1	4.6	3.4
Corporate Income Tax	0.7	0.9	0.8	0.6	0.9	0.5	0.8
Goods and Services Tax	...	2.4	2.6	2.8	2.7	2.7	2.8
Sales tax 2/	1.7	...	...	...	...	...	...
Excises	1.3	1.3	0.5	0.4	0.2	0.0	0.3
Import duties	2.1	1.9	2.2	2.2	2.3	1.8	1.7
Mining royalties and license	0.2	0.2	1.5	1.6	1.6	1.9	0.9
Other	2.2	0.3	0.3	0.2	0.2	0.2	0.2
Non-tax	1.1	0.9	0.9	0.6	0.7	0.5	0.8
Grants	6.1	5.3	6.0	5.6	4.7	4.7	3.5
Budget support	3.5	2.4	2.3	1.7	1.3	1.3	1.0
Project grants	2.3	2.7	2.9	3.4	2.3	2.3	2.3
Other	0.3	0.2	0.7	0.5	1.0	1.0	0.2
Expenditures and net lending	17.7	20.4	20.1	21.7	18.8	18.8	17.3
Current expenditures	12.2	12.7	12.3	12.6	12.1	12.9	11.1
Wages and salaries	4.9	5.3	5.1	5.4	5.3	5.9	5.6
Goods and services	4.3	4.2	2.8	3.1	2.4	2.4	2.4
Subsidies and transfer	1.8	1.6	2.6	2.2	2.6	2.8	1.5
Interest	1.3	1.6	1.9	2.0	1.7	1.8	1.6
Domestic	1.1	1.4	1.7	1.8	1.6	1.7	1.5
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital expenditure	5.5	7.7	7.8	9.0	6.7	6.6	6.2
Foreign financed	4.2	4.3	6.0	6.2	4.6	4.6	4.6
Domestic financed	1.3	3.5	1.9	2.9	2.1	2.0	1.6
Net lending 3/	0.0	0.0	0.0	0.0	0.0	-0.6	0.0
Domestic primary balance 4/	-4.2	-6.1	-2.8	-3.8	-3.3	-1.9	-1.6
Overall balance including grants	-2.5	-5.1	-3.0	-4.6	-3.4	-1.9	-2.9
Overall balance excluding grants	-8.6	-10.5	-8.9	-10.2	-8.1	-6.6	-6.4
Financing	2.5	5.1	3.0	4.6	3.4	1.9	2.9
External financing (net)	1.9	1.6	2.6	2.4	2.3	2.3	2.1
Borrowing	2.4	2.2	3.1	2.8	3.0	2.9	2.6
Project	1.9	1.5	3.1	2.8	2.2	2.2	2.3
Budget	0.5	0.7	0.0	0.0	0.7	0.7	0.3
Amortization	-0.5	-0.6	-0.4	-0.4	-0.6	-0.6	-0.5
Domestic financing (net)	0.6	3.5	0.3	2.2	1.1	-0.4	0.8
Bank	1.3	4.1	0.6	0.5	0.9	0.9	0.7
Central bank	2.0	2.9	-0.8	0.1	0.4	-0.1	0.2
Commercial banks	-0.7	1.1	1.4	0.4	0.4	1.0	0.5
Nonbank	-0.8	-0.6	-0.3	1.6	0.2	-1.3	0.1
Non bank financial institutions	-0.3	0.3	0.3	0.4	0.2	0.2	0.1
Privatization proceeds	0.1	0.0	0.3	0.3	0.2	0.2	0.0
Change in arrears	-0.7	-0.9	-0.5	-0.4	-0.3	-0.5	0.0
Float (checks payable)	0.1	0.1	-0.3	1.3	0.0	-1.2	0.0
o/w checks accumulated				1.4			
o/w checks repaid						1.2	
Discrepancy/financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Total poverty expenditures	4.0	6.2	4.2	4.2	3.8	3.8	3.8
Public domestic debt	15.2	14.2	14.2	11.3	13.2	10.7	10.1
Bank and non-bank financing	1.0	4.5	0.9	1.0	1.1	1.1	0.8
Non-iron ore GDP (in Le billions)	8,196	10,161	12,698	12,698	14,931	14,931	17,140

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

1/ Given recent revisions to the national accounts statistics, the new GDP is used in program columns to facilitate comparison between the program and the outturn for 2011 and projections for 2012.

2/ Replaced by GST on January 1, 2010.

3/ EUR16 million transfer to the budget from a maturing EU grant onlent to Sierra Rutile

4/ Revenue less expenditure and net lending adjusted for interest payments and foreign financed capital spending.

Table 4. Sierra Leone: Monetary Accounts 1/
(Billions of leone; unless otherwise indicated)

	2009	2010	2011			2012				2012	2013
	Act.	Act.	June	Dec.	Act.	Mar.	June	Sept.	Dec.	Proj.	Prog.
			Act.	Prog.		Prog.	Prog.	Prog.			
I. Monetary Survey											
Net foreign assets	1,542	1,645	1,827	1,692	2,053	2,148	2,316	2,333	2,367	2,466	2,797
Net domestic assets	337	769	886	1,055	905	923	966	964	1,187	1,097	1,368
Domestic Credit	1,286	1,938	2,076	2,227	2,195	2,279	2,322	2,320	2,543	2,452	2,739
Claims on central government (net)	654	1,067	1,144	1,141	1,134	1,169	1,158	1,145	1,266	1,244	1,351
Claims on other public sector 2/	31	54	42	52	54	54	54	54	54	54	54
Claims on private sector	601	790	861	994	963	1,016	1,070	1,081	1,183	1,114	1,293
Other items (net) 3/	-984	-1,169	-1,190	-1,172	-1,290	-1,356	-1,356	-1,356	-1,356	-1,356	-1,371
Money and quasi-money (M3)	1,879	2,414	2,713	2,746	2,958	3,072	3,282	3,297	3,554	3,563	4,165
Broad money (M2)	1,442	1,755	1,903	1,961	2,107	2,186	2,335	2,356	2,531	2,537	2,966
Foreign exchange deposits	437	659	810	785	851	886	947	941	1,023	1,025	1,199
II. Bank of Sierra Leone											
Net foreign assets	1,005	959	986	855	1,118	1,192	1,261	1,249	1,263	1,360	1,512
Net domestic assets	-440	-198	-244	-63	-258	-307	-319	-310	-283	-381	-377
Claims on other depository corporations	6	22	15	229	6	-37	-58	-58	-80	-97	-150
Claims on central government (net)	293	591	599	489	601	601	610	618	667	587	640
Claims on other public sector 2/	0	0	0	0	0	0	0	0	0	0	0
Claims on private sector	7	7	8	12	7	7	7	7	7	7	7
Other items (net) 3/	-751	-822	-874	-798	-882	-888	-888	-888	-888	-887	-884
Reserve money	565	761	742	791	860	885	943	939	979	979	1,135
Currency in circulation	486	632	637	662	708	712	759	756	774	773	897
Commercial bank deposits	79	91	68	94	109	130	141	140	163	163	177
Other deposits		39	36	36	43	43	43	43	43	43	61
Memorandum items:	(Annual percentage change unless otherwise indicated)										
Reserve money	19.7	34.6	27.1	4.0	13.0	22.0	27.1	19.3	13.9	13.9	15.9
M3 (Money and quasi-money)	31.3	28.5	35.0	13.8	22.6	20.5	21.0	20.3	20.1	20.4	16.9
Credit to the private sector	45.4	31.5	24.3	25.8	21.8	12.5	7.5	-3.0	-25.7	15.7	16.1
Velocity (GDP/M3)	4.4	4.2	4.7	3.5	4.3	4.7	4.4	4.4	4.1	4.8	4.6
Money multiplier (M3/Reserve money)	3.3	3.2	3.7	3.5	3.4	3.5	3.5	3.5	3.6	3.6	3.7
Credit to the private sector (in percent of GDP)	7.3	7.8	6.8	10.4	7.6	7.0	7.4	7.4	8.1	6.5	6.8
Gross Reserves (in US\$ millions)	336	345	345	345	377	400	416	411	402	417	447
Program exchange rate (Leones/US\$)	3,856	3,990	3,990	3,990	3,990	4,400	4,400	4,400	4,400	4,400	4,400

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

1/ End of period

2/ Include public enterprises and the local government.

3/ Including valuation.

4/ Net foreign assets are presented at program exchange rate

Table 5. Sierra Leone: Balance of Payments
(Millions of U.S. dollars; unless otherwise indicated)

	2009	2010	2011	2012		2013
				Prog.	Proj.	
Current account	-155.1	-491.5	-1,524.2	-362.1	-499.8	-384.8
Trade balance	-186.6	-373.0	-1,258.0	583.8	-185.3	-73.5
Exports, f.o.b.	271.3	363.0	371.2	1,651.1	1,232.8	1,385.7
<i>Of which: diamonds</i>	105.5	127.6	141.7	145.5	182.9	239.3
<i>iron ore</i>		0.0	0.0	1,189.2	603.6	592.7
Imports, f.o.b.	-457.9	-736.0	-1,629.2	-1,067.3	-1,418.1	-1,459.3
<i>Of which: oil</i>	-92.7	-127.7	-214.5	-235.5	-237.8	-249.0
Services (net)	-63.2	-255.0	-362.2	-436.7	-351.9	-390.9
Income (net)	-35.0	-48.6	-68.9	-640.6	-130.3	-95.1
<i>Of which: interest on public debt</i>	-4.2	-3.5	-3.3	-4.5	-6.1	-6.4
Transfers	129.8	185.0	164.9	131.5	167.8	174.8
Official transfers	83.3	133.1	70.4	43.2	43.7	40.4
Other transfers	46.5	51.9	94.5	88.2	124.0	134.4
Capital and financial account	263.2	465.9	1,547.3	381.3	540.4	408.3
Capital account	71.0	72.1	101.2	81.1	81.4	87.1
<i>Of which: project support grants</i>	56.8	69.5	98.3	78.0	78.2	270.1
Financial account	192.2	393.8	1,446.1	300.1	459.0	321.2
Foreign direct and portfolio investment	79.4	445.9	1,232.1	222.4	407.5	270.1
Other investment	112.8	-52.2	214.0	77.7	51.6	51.1
Public sector (net)	45.9	45.3	78.8	82.3	82.2	79.9
Disbursements	56.8	55.6	82.3	98.1	98.4	97.0
Amortization	-10.9	-10.3	-3.5	-15.9	-16.2	-17.1
Monetary authorities	128.1	0.0	0.0	0.0	0.0	0.0
Change in net foreign assets of commercial banks	-23.1	-24.1	-50.3	-24.6	-30.6	-28.8
Other, including errors and omissions	-38.1	-73.3	185.6	20.0	0.0	0.0
Overall balance	108.1	-25.7	23.1	19.2	40.6	23.5
Financing						
Central bank net reserves (- increase)	-108.1	25.7	-23.1	-19.2	-40.6	-23.5
Gross reserve change	-126.9	-8.4	-32.0	-26.0	-40.3	-30.0
Use of Fund loans	18.8	34.1	8.9	6.8	-0.3	6.5
Purchases	18.8	36.3	14.0	14.1	6.8	13.4
Repurchases	0.0	-2.1	-5.2	-7.4	-7.0	-7.0
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
				(In percent of non-iron ore GDP)		
Current account	-6.5	-19.3	-52.3	-14.1	-14.9	-10.4
Trade Balance	-7.8	-14.6	-43.2	22.7	-5.5	-2.0
Capital and Financial Account	12.6	21.2	46.7	14.1	16.1	11.0
Overall Balance	4.5	-1.0	0.8	0.7	1.2	0.6
Official aid (grants and loans)	8.1	10.1	8.6	8.5	6.6	6.0
Budget support in US\$ (grants and loans)	82.9	149.9	70.4	67.2	67.0	50.6
Gross International Reserves						
(US\$ millions)	336	345	377	371	417	447
Months of imports	4.1	2.0	2.4	2.6	2.6	2.5
Excluding iron ore, months of imports	4.1	3.4	2.7	3.0	3.0	3.0
National currency per US dollar (average)	3,410	3,988	4,357	...	...	...

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

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

	Projection													
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund obligations based on existing credit														
<i>(in millions of SDRs)</i>														
Principal	1.4	1.9	2.3	4.6	8.1	9.9	11.7	12.1	12.1	8.6	5.5	1.8	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit														
<i>(in millions of SDRs)</i>														
Principal	1.4	1.9	2.3	4.6	8.1	9.9	11.7	12.1	13.9	11.3	8.1	4.5	2.7	0.9
Charges and interest	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit														
<i>In millions of SDRs</i>														
	1.4	1.9	2.3	4.6	8.3	10.0	11.8	12.2	14.0	11.3	8.2	4.5	2.7	0.9
<i>In millions of US\$</i>														
	2.1	3.0	3.5	7.0	12.5	15.1	17.8	18.4	21.0	17.1	12.3	6.7	4.0	1.3
<i>In percent of exports of goods and services</i>														
	0.5	0.7	0.3	0.5	0.7	0.8	1.0	1.0	1.0	0.8	0.6	0.3	0.2	0.1
<i>In percent of debt service 1/</i>														
	13.4	24.7	12.0	22.8	32.7	35.7	37.7	37.3	39.3	33.0	24.8	14.0	8.4	2.5
<i>In percent of GDP</i>														
	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.0
<i>In percent of Gross International Reserves</i>														
	0.6	0.8	0.8	1.6	2.6	3.0	3.3	3.2	3.5	2.7	1.8	0.9	0.5	0.2
<i>In percent of quota</i>														
	1.4	1.8	2.2	4.5	8.0	9.7	11.4	11.8	13.5	10.9	7.9	4.3	2.6	0.9
Outstanding Fund credit														
<i>In millions of SDRs</i>														
	73.4	79.0	78.8	83.1	75.0	65.1	53.4	41.3	27.4	16.2	8.0	3.6	0.9	0.0
<i>In millions of US\$</i>														
	111.9	124.7	119.9	125.3	113.0	98.1	80.5	62.2	41.3	24.3	12.1	5.4	1.3	0.0
<i>In percent of exports of goods and services</i>														
	26.5	28.0	9.0	8.4	6.5	5.4	4.4	3.3	2.1	1.1	0.5	0.2	0.1	0.0
<i>In percent of debt service</i>														
	701.0	1043.4	409.4	410.8	294.8	231.2	170.2	125.9	77.1	47.1	24.3	11.1	2.8	0.0
<i>In percent of GDP</i>														
	4.4	4.3	3.1	3.0	2.4	2.0	1.5	1.1	0.7	0.4	0.2	0.1	0.0	0.0
<i>In percent of Gross International Reserves</i>														
	32.5	33.1	28.8	28.0	23.7	19.3	15.0	11.0	6.9	3.8	1.8	0.8	0.2	0.0
<i>In percent of quota</i>														
	70.7	76.2	76.0	80.1	72.3	62.8	51.5	39.8	26.5	15.6	7.7	3.4	0.9	0.0
Net use of Fund credit (in millions of SDRs)														
Disbursements	23.8	8.9	4.4	8.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	1.4	3.3	4.6	4.6	8.1	9.9	11.7	12.6	14.3	11.3	8.1	4.5	2.7	0.9
Memorandum items:														
Exports of goods and services (in millions of US\$)	423	445	1,330	1,491	1,749	1,809	1,831	1,911	2,012	2,114	2,227	2,331	2,458	2,595
Debt service (in millions of US\$)	16	12	29	31	38	42	47	49	54	52	50	48	48	55
Nominal GDP (in millions of US\$)	2,548	2,915	3,824	4,144	4,752	5,028	5,349	5,714	6,087	6,528	7,003	7,353	7,721	8,107
Gross International Reserves (in millions of US\$)	345	377	417	447	477	507	537	567	599	633	670	710	752	797
Quota (millions of SDRs)	104	104	104	104	104	104	104	104	104	104	104	104	104	104

Source: IMF staff estimates and projections.

1/ Total debt service includes IMF repayments.

Table 7. Sierra Leone: Actual and Proposed Disbursements Under the ECF Arrangement, 2010–13

Availability	Disbursements		Conditions for Disbursement
	In millions of SDRs	In percent of quota	
Disbursed	4.44	4.28	Effectiveness of the three-year ECF arrangement
Disbursed	4.44	4.28	Board completion of the first review based on observance of performance criteria for June 30, 2010
Disbursed	4.44	4.28	Board completion of the second review based on observance of performance criteria for December 31, 2010
Disbursed	4.44	4.28	Board completion of the third review based on observance of performance criteria for June 30, 2011
September 17, 2012	4.44	4.28	Board completion of the fourth review based on observance of performance criteria for December 31, 2011
January 15, 2013	4.44	4.28	Board completion of the fifth review based on observance of performance criteria for June 30, 2012
May 15, 2013	4.47	4.32	Board completion of the sixth review based on observance of performance criteria for December 31, 2012
Total disbursements	31.11	30.00	

Table 8. Sierra Leone: Millennium Development Goals

	1990	1995	2000	2005	2010
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	64	64	63	65	65
Employment to population ratio, ages 15-24, total (%)	39	38	39	42	42
GDP per person employed (constant 1990 PPP \$)	..	..	..	..	..
Income share held by lowest 20%	..	..	..	6	..
Malnutrition prevalence, weight for age (% of children under 5)	25	..	25	28	21
Poverty gap at \$1.25 a day (PPP) (%)	45	..	..	20	..
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	63	..	..	53	..
Vulnerable employment, total (% of total employment)	..	..	..	92	..
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	..	..	..	37	48
Literacy rate, youth male (% of males ages 15-24)	..	..	..	60	68
Persistence to last grade of primary, total (% of cohort)	..	..	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	..	..	74
Total enrollment, primary (% net)	..	..	..	..	..
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	..	6	9	15	13
Ratio of female to male primary enrollment (%)	66	..	67	..	93
Ratio of female to male secondary enrollment (%)	49	..	68	..	..
Ratio of female to male tertiary enrollment (%)	..	..	78	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	..	23.2	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	..	..	37	71	82
Mortality rate, infant (per 1,000 live births)	162	159	142	128	114
Mortality rate, under-5 (per 1,000 live births)	276	271	233	202	174
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	151	146	144	120
Births attended by skilled health staff (% of total)	..	..	42	43	42
Contraceptive prevalence (% of women ages 15-49)	3	..	4	5	8
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1300	1300	1300	1000	890
Pregnant women receiving prenatal care (%)	..	..	68	81	87
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..	28
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	61	52	30
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	5
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	18
Incidence of tuberculosis (per 100,000 people)	207	279	377	509	682
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	1.5
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	0.6
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.2	0.9	1.5	1.6
Tuberculosis case detection rate (% , all forms)	8	18	24	26	32
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP \$ of GDP)	0	0	0	0	0
CO2 emissions (metric tons per capita)	0	0	0	0	0
Forest area (% of land area)	43.5	..	40.8	39.4	38.1
Improved sanitation facilities (% of population with access)	11	11	11	12	13
Improved water source (% of population with access)	38	42	46	51	55
Marine protected areas (% of territorial waters)	0	0	0	0	0
Net ODA received per capita (current US\$)	15	54	44	66	80
Goal 8: Develop a global partnership for development					
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	10	62	46	9	4
Internet users (per 100 people)	0	0	0.1	0.2	0.3
Mobile cellular subscriptions (per 100 people)	0	0	0	14	34
Telephone lines (per 100 people)	0	0	0	1	0
Fertility rate, total (births per woman)	6	6	6	5	5
Other					
GNI per capita, Atlas method (current US\$)	200	200	150	230	340
GNI, Atlas method (current US\$) (billions)	0.8	0.8	0.6	1.2	2
Gross capital formation (% of GDP)	10	5.6	6.9	17	15.8
Life expectancy at birth, total (years)	39	37	40	44	47
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	35	41
Population, total (millions)	4.0	3.9	4.1	5.2	5.9
Trade (% of GDP)	46.2	45.1	57.4	60.1	46.6

Source: World Development Indicators

Table 9. Sierra Leone: Financial Soundness Indicators of the Banking System, 2005–11

	2005	2006	2007	2008	2009	2010	2011
	(Percent, end of period, unless otherwise indicated)						
Capital adequacy							
Regulatory capital ratio 1/	35.7	33.3	35.0	43.5	34.0	30.7	27.0
Regulatory tier 1 capital ratio 2/	10.3	17.0	16.7	18.7	18.8	17.5	20.2
Asset quality							
Nonperforming loans to total gross loans	...	...	25.6	17.9	10.6	15.6	15.1
Nonperforming loans (net of provisions) to regulatory capital	...	...	28.5	4.6	9.5	13.1	19.6
Earnings and profitability							
Return on assets	8.1	5.8	3.1	2.2	1.6	3.4	3.8
Return on equity	28.0	17.0	10.3	7.2	4.0	12.1	15.6
Liquidity							
Ratio of net loans to total deposits	27.5	26.5	27.7	33.9	41.5	42.8	41.3
Liquidity ratio 3/	53.0	58.9	53.3	62.0	53.4	54.1	54.6
Statutory minimum liquidity ratio 3/ 4/	34.0	28.5	25.7	25.0	29.0	41.5	29.7
Share of foreign exchange deposits in total deposits	30.7	32.4	36.5	32.2	34.5	40.4	41.5
	(Number of banks not complying)						
Prudential ratios at year-end							
Capital adequacy	0	0	0	0	1	0	2
Minimum liquidity ratio	0	0	0	0	1	1	3
Minimum capital	0	1	1	1	2	0	4
Limit of single large exposure 5/	0	2	1	2	4	5	3
Memorandum Item:							
Number of banks	7	8	10	13	14	13	13

Source: Bank of Sierra Leone.

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

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

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

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

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

APPENDIX I. SIERRA LEONE: LETTER OF INTENT

September 4, 2012

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

Dear Madame Lagarde:

1. The attached Memorandum of Economic and Financial Policies (MEFP) updates the MEFP dated November 18, 2011. It summarizes recent economic developments in Sierra Leone and reviews progress in implementing the Government of Sierra Leone's ECF-supported program approved by the IMF Executive Board on June 4, 2010. It also sets out macroeconomic policies and structural reforms that the government will pursue in the remainder of 2012.
2. Program implementation in the second half of 2011 was challenging but we met all but one of the quantitative targets as of end-December. The continuous ceiling on the contracting and guaranteeing of nonconcessional external debt was not met because of a nonconcessional loan that became effective in November 2011. As explained in the attached MFEP, we have taken corrective measures to enhance monitoring of all the stages of a loan agreement process, to re-assess in consultation with IMF staff concessionality for new loans prior to signature and to improve debt data recording.
3. In the fiscal area, domestic revenue mobilization was strong and higher than programmed. On the expenditure side, higher-than-envisaged spending on infrastructure projects, wages, and goods and services resulted in the overall fiscal balance exceeding the target. Delays in processing project completion certificates by contractors meant that some bills were not paid at the end of the year. Our strict adherence to the limit on central bank financing of the budget enabled us to meet the central bank net domestic assets ceiling by a wide margin. At the same time, the end-December 2011 floor for gross foreign exchange reserves of the Bank of Sierra Leone (BSL) was exceeded. On July 30, in reply to your June 26 letter, I explained that the contracting or guaranteeing of nonconcessional external debt by the public sector was unintentional. On the basis of the remedial actions outlined in the attached MEFP, I requested a waiver of non-observance of the performance criterion under the ECF arrangement.
4. Two of three structural benchmarks for end-2011 were met, albeit with delays. Publication of regulations for the public investment plan was completed in June 2012, and the

integration of the GST administration within the Large Taxpayer Office was completed in March 2012. The implementation of a small taxpayer regime (end-December 2011) is incorporated in the revised Finance Bill soon to be considered by parliament.

5. The government took decisive actions in early 2012 to restore integrity of budget execution and strengthen public financial management. It established a high-level Cash Management Committee (CMC) in March 2012 to help synchronize weekly spending priorities with available financing. At the same time, payment arrangements with infrastructure project contractors have been revised to ensure alignment of payment certificates with budgetary resources. Further, and consistent with the mandate and operations of the CMC, the government's expenditure commitment procedures have been tightened to contain non-priority spending.

6. In support of its policies, the government requests the completion of the fourth review of Sierra Leone's ECF arrangement and the fifth disbursement under the ECF of SDR 4.44 million upon completion of the review.

7. In line with its commitment to transparency and accountability, the government authorizes the IMF to publish this letter, its attachments, and related staff report, including placement of these on the IMF website in accordance with Fund procedures, following the IMF Executive Board's conclusion of the review.

Very truly yours,

/s/

Samura M. W. Kamara

Minister of Finance and Economic Development

/s/

Sheku S. Sesay

Governor of Bank of Sierra Leone

Attachments

**ATTACHMENT I. SIERRA LEONE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES
FOR 2012**

Freetown, September 4, 2012

This memorandum updates that of November 18, 2011. It summarizes the government's assessment of the current economic situation as well as performance of the economy through June 2012 and discusses the projections and policy objectives for the remainder of the year. It also outlines macroeconomic policies and structural reform measures for the remainder of 2012.

I. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

1. **The economy continued to recover in 2011.** Real GDP¹ growth is estimated at 6 percent, mainly driven by expansion in the agricultural, construction, and services sectors, as well as the scaling up of infrastructure investments. In 2012, the same growth drivers combined with downstream activities from iron ore production are expected to support a 6.3 percent non-iron ore economic growth; while the onset of iron ore production is expected to boost total real GDP growth, but at a slower pace (21.3 percent) than originally anticipated (51.4 percent).
2. **Exogenous shocks and expansionary monetary policy towards end-2010 fueled inflationary pressures during the first half of 2011.** However, they receded in the second half of the year, thanks to the combination of a tighter monetary policy stance and stability in the exchange rate. The annual average inflation rate stood at 16.9 percent at end-2011, down from 18.4 percent in 2010. June 2012 data indicates that the declining trend is continuing, with year-on-year inflation at 14.1 percent.
3. **The external position improved in 2011, mainly reflecting surge in foreign direct investment in the mining sector.** Exports increased marginally, while imports more than doubled, partly because of mining projects. As a result, the current account deficit widened to 52.3 percent of non-iron ore GDP, up from 19.3 percent in 2010. Sizeable capital inflows, notably foreign direct investment in the mining sector, financed the deficit and contributed to reserves build up. It also supported stability in the exchange rate: the Leone depreciated only by 4.3 percent against the U.S. dollar in 2011, after falling by 8.9 percent in 2010. The external position is expected to improve further in 2012 on account of the projected improvement in terms of trade and the onset of iron ore exports, increased mining exports, and a decline in imports growth. The latter reflects the completion in 2011 of the

¹Statistics Sierra Leone revised National Accounts statistics in 2011, based on the recommendations of IMF TA missions. The revision resulted in a 30 percent upward adjustment in the nominal GDP.

construction phase for the iron ore mining projects. As a result, gross reserves are forecast at about 2.6 months of imports.

4. **Broad money expanded by 20 percent in 2011.** Net foreign assets of the BSL increased by 17 percent, in relation with improvement in the external position, while net domestic assets decreased by 30 percent reflecting a deceleration in government borrowing from the banking system in the second half of the year; partly due to the implementation of the new regulation on government financing from BSL. Credit to the private sector grew by 21.8 percent compared to 31.5 percent in 2010. Interest rate on six-month treasury bills spiked in late 2010 and remained high in 2011.

5. **Risks to economic growth are on the horizon in 2012, but macroeconomic stability would strengthen.** The iron ore sector has fallen behind relative to production and export plans, and the shortfall may impact adversely on the sector's expected contributions to real GDP growth and government revenues. Exports of iron ore slowed in the first half of 2012 on account of a couple of derailment accidents and labor unrest at a major iron ore mine.

Program Implementation

6. **Efforts to meet program objectives continued.** At end-December 2011, all but one performance criteria and two of three structural benchmarks were met (Table 1). However, there were delays in implementing some reform measures, one performance criterion was missed, and budget execution was challenging as the overall budget deficit was substantially higher than programmed leading to the accumulation of unpaid bills.

7. **All quantitative performance criteria, except one, were met with comfortable margins.** However, although net domestic bank credit to central government was below the program ceiling, the overall fiscal deficit before grants was higher than anticipated. Domestic revenue exceeded the program target, reflecting a robust economic activity, increased production in the mining sector, and measures to increase efficiency in tax administration. Strong performance was particularly noted in personal income tax, royalties, tax on goods and services, and import duties. Total expenditure rose to Le 2,752 billion in 2011, higher than anticipated under the program, mostly because of overruns in the wage bill, one-off spending on goods and services, and capital outlays. Expenditure on wages and salaries exceeded the programmed level because of the higher-than-expected cost of the pay reform, adjustment to pensions, and higher payments to the pension Fund. These developments, combined with a shortfall in budget aid, contributed to accumulation of unpaid bills amounting to Le 167 billion. In addition, envisaged reduction in the stock of domestic payments arrears did not materialize. The performance criterion on contracting or guaranteeing of new nonconcessional external debt by the public sector was not observed because of a nonconcessional loan with Exim Bank China. The loan which was in discussion since 2008, had a grant element of about 40 percent at the beginning of the negotiations, but

it declined to below 35 percent by the time the loan became effective November 2011. On the basis of the remedial actions outlined below, in a July 30 letter the government requested a waiver of nonobservance of the performance criterion under the ECF arrangement.

8. **On the structural front, despite delays most measures were implemented** (Table 2). To enhance efficiency in tax collection, the National Revenue Authority integrated the GST taxpayer services, filing and returns processing, and coordinated audit operations with the Large Taxpayer Office, and transferred all eligible taxpayers to the Medium Taxpayer Office. The technical work for the implementation of the new small taxpayer regime was completed. The new regime will become effective once the amended Finance Act, recently adopted by Cabinet, is passed by Parliament. The regulations to implement a Public Investment Plan (PIP) were published in June 2012, with TA from the World Bank (**Prior action**).

II. CORRECTIVE POLICY MEASURES

9. **Budget execution in 2011 translated into sizeable unpaid bills that constrained the resource envelope coming into 2012.** The unpaid bills mainly comprise delayed payments to contractors at various stages of contract execution. The policy challenges posed by the expenditure overrun are qualitatively different from those experienced in early 2011 on two fronts. First, interest rates on Treasury bills remained stable, mainly because the government did not borrow from the markets as much as it did in late 2010. Second, inflationary pressures slacked somewhat as food and oil price pressures abated and resort to central bank financing was constrained by a more independent and assertive monetary policy stance. The policy challenges relate, this time around, to public financial management.

10. **The government took measures to finance bills carried over from 2011, arrest expenditure overruns, and to bring the program and economic policies back on track.** To enhance expenditure and treasury cash flow management, the government established a high-level Cash Management Committee (CMC) in March 2012. The Committee is operational, and has prepared a monthly cash flow statement for the revised 2012 budget (Prior action), reflecting spending priorities and available financing. Payment arrangements with infrastructure project contractors have been revised to ensure that the submission of payment certificates is aligned with budgetary resources (April 2012). In addition, wage increases in 2012 have been frozen, pending the assessment of savings from implementation of the pay reform with World Bank support. At the same time, and consistent with the mandate and operations of the CMC, the government's expenditure commitment process has been tightened to contain non-priority spending and to better synchronize spending with resource availability. As a result of these corrective measures, budget integrity and execution have been restored. Budget execution in the first half of 2012 has constrained spending overruns and calmed the Treasury bill market, with the 91-day bill settling below 23 percent as of end-June.

III. POLICIES FOR THE REMAINDER OF 2012

A. Fiscal Policy

11. **The fiscal policy stance will be consistent with macroeconomic stability and medium-term fiscal and debt sustainability.** Revenue mobilization efforts will be enhanced while expenditure and treasury cash flow management will be strengthened. In the same vein, to reduce borrowing costs in the domestic securities market, domestic financing will be limited to Le 166 billion.

12. **Budgetary resources are expected to be higher than anticipated in the original 2012 budget.** Domestic revenue is forecast to increase by 24 percent to Le 1,826 mainly reflecting higher revenue from the iron ore sector for personal income tax; and signature bonuses from oil exploration licenses granted to eight companies in June 2012. Budget support is projected to exceed original projections partly because of the delayed disbursement of some 2011 budget grants. Furthermore, resources from the repayment of the loan granted by the government in 1994 to Sierra Rutile, with a grant from the EU, are expected to be released in 2012, in agreement with the EU. The Government has decided to use the additional budgetary resources to finance the higher cost of the 2011 pay reform, support fuel price stability in April-December 2012, if needed, clear unpaid bills for the 2011 budget, and accelerate settlement of domestic payment arrears. Therefore, expenditure targets for 2012 have been revised. In the new budget framework, current expenditure will increase by Le 116 billion and capital expenditure will be scaled down to compensate for the accelerated project execution in 2011. The higher level of current spending is mainly due to the higher wage bill and subsidies and transfers. The upward revision in the wage bill reflects the full year impact of the salary increase in the public service granted in the fourth quarter of 2011; the higher than anticipated cost of the pay reform; higher pensions payment, as well as contributions to the Pension Fund.

13. **The government remains committed to the implementation of the automatic fuel pricing mechanism adopted in 2011.** In the second half of the year, the change in landed costs generated by rising global oil prices remained below the 5 percent trigger for retail price adjustment under the mechanism. However, landed costs at end-March 2012, showed that the implementation of the fuel price adjustment mechanism would have required a 12.5 percent increase in fuel retail prices to contain the budgetary cost. Out of concern for social stability in a pre-election period, the Government decided to suspend implementation of the mechanism temporarily, and to use a portion of additional budget resources expected in 2012 to finance subsidies to petroleum products and offset the loss of revenue from the elimination of excises and import duties on these products. However, to protect resources for road maintenance, road-user charges were not reduced. The Government is aware of the high budgetary cost of subsidies on fuel products, and moved swiftly to restore excises and import duties on petroleum products when petroleum prices slackened in early May. The Government plans to resume implementation of the automatic the fuel pricing mechanism in 2013.

14. **The overall budget deficit is projected at Le 286 billion.** It will be financed with net external borrowing, domestic bank financing, and privatization receipts. The ceiling on domestic financing will be Le 166 billion as anticipated in the original program, while the ceiling on Ways and Means, projected as 5 percent of previous year's domestic revenue will be higher than budgeted, thanks to the strong revenue performance in 2011. This would help lower borrowing from the securities market, and contain interest costs on the budget.

15. **The Government intends to make an efficient use of the Cash Management Committee** to monitor budget execution taking into account priorities defined in the treasury cash flow statement and available financing.

B. Monetary and Exchange Rate Policies

16. **Monetary policy will remain appropriately tight, in support of price stability.** The central bank intends to use its money market instruments more actively to achieve its liquidity targets. The new regulations on BSL financing for the Government budget, adopted in late 2011 prevent its participation in the primary securities market. This provides an opportunity for the BSL to increase its T-bills transactions in the secondary market, thus supporting its development. In 2012, the BSL plans to purchase T-bills in the secondary market, to provide opportunities for market participants to increase the volume of transactions in the primary market. Through these operations, the BSL will be able to roll over in the secondary market its stock of securities maturing in 2012.

17. **Growth in monetary aggregates will be contained to anchor inflation expectations.** Accordingly, reserve money is forecast to grow by 13.9 percent, with broad money growth at 20.4 percent. Credit to the private sector is projected to increase by 15.7 percent. Absent additional exogenous shocks, and given the government's commitment to sound fiscal and monetary policies, inflationary pressures are expected to remain at bay and drive end-December 2012 inflation rate to below 12 percent.

18. **The BSL remains committed to a flexible exchange rate system.** The BSL will seek to address challenges expected to arise from the increase in foreign currency denominated government revenue in 2012. In this regard, it will be more responsive to developments in the foreign exchange market.

C. Debt Policies and Management

19. **The Government is aware that medium- to long-term debt sustainability requires prudent borrowing policies.** To this end, measures will be taken to enhance the monitoring of external debt commitments to ensure that new loans are contracted or guaranteed on highly concessional terms.

20. **Efforts to enhance debt management capacity will continue.** A comprehensive Medium-Term Debt Management Strategy (MTDS) will be prepared in 2012–13 with assistance from the World Bank. Preparatory work is also underway to link the Debt Recording and Management System (CS-DRMS) with the financial information system

(IFMIS). In line with the Public Debt Management Act of 2011, a procedure manual will be finalized before the end-2012. In addition, the measures below will be introduced:

- Re-assessment of the grant element of any loan prior to signing, and in consultation with the Fund staff;
- Steadfast adherence to the procedures for recording all stages of external loan contracting;
- Preparation of a quarterly report on the stock of debt outstanding, and loan agreements under discussion; and
- Improved coordination and information sharing between all government agencies involved with external debt contracting.

IV. STRUCTURAL REFORMS

21. **The implementation of fiscal reforms continued in 2011.** To curb tax evasion and strengthen revenue collection, the following measures were taken: (i) the application of penalties for failure to file tax returns, and underestimation of quarterly installment payments; and (ii) levying and collection on interests on late payment of taxes. Also, following the introduction of IFMIS in 13 MDAs, training for users has been initiated to ensure that the system is used properly and is effective in monitoring budget execution.

22. **The Government plans to introduce a resource rent tax on extractive industries before end-2012** to increase tax revenue when profitability increases in the resources sector. The tax will be part of a comprehensive Extractive Industries Revenue Act to be introduced in Parliament before the end of the year. On the expenditure side, preparatory work on the review of the GBAA is advanced. These amendments will clarify provisions related to supplementary budgets and contingency funds (structural benchmark for end-September 2012). In addition, building on regulations issued in June 2012, the Government will prepare a three-year public investment plan; in time to inform the 2013 budget.

23. **On civil service reforms,** the implementation of the pay reform initiated in 2011 focused on re-aligning incentives to attract qualified personnel to fill the missing middle-class levels in the public sector. Measures planned for 2012 include: (i) completion of the teacher biometric verification exercise; (ii) a civil service remuneration survey; and (iii) strengthening the Public Service Commission.

24. **In the financial sector, progress was made in bringing the prudential guidelines in line with the Banking Act.** To ensure that the revised guidelines will be issued by September as planned, the BSL initiated the following measures: (i) the banking supervision has begun drafting new prudential guidelines; and (ii) the Financial Sector Development Plan secretariat has prepared terms of reference to recruit consultants specialized in banking supervision. On the setting up of the payment system, preparations are ongoing in the context of the regional project supported by the African Development Bank. At end-2011, significant

progress had been achieved in the establishment of the core banking application, real time gross settlement, the automatic check processing and automatic clearing house, and the script less securities settlement system. However, there were some delays in meeting infrastructure requirements by commercial banks. The central bank is contracting consultants for required expertise in drafting regulatory texts and to build logistical and supervisory capacity.

V. PROGRAM MONITORING

25. **The program will be monitored on a semi-annual basis**, through quantitative and structural objectives (Tables 1 to 4). Quantitative targets for end-June 2012 and end-December 2012 will be performance criteria, while those for end-March 2012 and end-September 2012 will be benchmarks. To better assess fiscal performance, staff agreed with the authorities to introduce a domestic primary balance target in the program.²

26. **The government believes that the policies and measures included in this memorandum are adequate to achieve the objectives of the revised economic program for 2012**, but stands ready to take any further measures that may become necessary for this purpose. It will consult with the IMF at its own initiative or at the request of the IMF Managing Director prior to adopting any additional measures or in the event of changes to policies contained in this memorandum. The fifth and sixth reviews under the current program are expected to take place in between November 15 and end-December 2012 and May 15 and June 3, 2013, respectively.

² The fiscal program is predicated on the complete elimination of unpaid bills at end-year; the indicative target includes a margin of 45 billion leones (equivalent to one-quarter of the stock of accumulated bills at end-2011) for December 2012 to accommodate a modest end-year float.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2011 1/
(Cumulative change from beginning of calendar year to end of month indicated; Le billions, unless otherwise indicated)

	2011												
	Dec. 2010 6/					2011							
	Stock	Jun.			Status	September 2/				December			
Prog.		Adj. Prog.	Act.	Prog. 6/		Adj. Prog.	Prel.	Status	Prog.	Adj. Prog.	Prel.	Status	
Performance criteria													
Net domestic bank credit to the central government (ceiling)	897.6	106.6	146.7	76.5	Met	137.6	209.3	99.4	Met	73.6	142.5	66.6	Met
Unadjusted target (ceiling)			106.6				137.6				73.6		
Adjustment for shortfall (excess) in external budget support			46.0				79.8				79.8		
Adjustment for issuance of government securities to the nonbank private sector			-5.8				-8.1				-10.9		
Net domestic assets of the central bank (ceiling)	-207.5	112.8	123.8	-93.0	Met	146.6	170.5	-71.0	Met	87.3	115.6	-60.2	Met
Unadjusted target (ceiling)			112.8				146.6				87.3		
Adjustment for shortfall (excess) in external budget support			46.0				79.8				79.8		
Adjustment for exchange rate depreciation (appreciation)			-35.0				-55.9				-51.5		
Gross foreign exchange reserves of the central bank, US\$ millions (floor)	336.4	-14.8	-36.1	-0.6	Met	-24.7	-54.9	7.8	Met	0.0	-23.3	31.6	Met
Unadjusted target (floor)			-14.8				-24.7				0.0		
Adjustment for shortfall (excess) in external budget support 3/			-11.5				-20.0				-20.0		
Adjustment for shortfall in the US\$ value of IMF disbursement			-7.0				-7.0				0.0		
Adjustment for increase (decrease) in BSL short-term foreign currency liabilities			-2.8				-3.2				-3.3		
Contracting or guaranteeing of new nonconcessional external debt by the public sector with maturities of one year or more (ceiling) 3/	...	0.0		42.0	Not Met	0.0	0.0	42.0	Not Met 7/	0.0	0.0	57.9	Not Met 8/
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 3/	...	0.0		0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met
External payment arrears of the public sector (ceiling) 3/	...	0.0		...		0.0	0.0	...		...	0.0	...	
Indicative target													
Total domestic government revenue (floor)	...	549.7		666.3	Met	831.8		1,103.2	Met	1,425.7		1,462.1	Met
Poverty-related expenditures (floor)	...	271.0		274.7	Met	382.5		433.8	Met	537.7		537.7	Met
<i>Memorandum items:</i>													
External budgetary assistance (US\$ million) 4/	...	31.3		19.8		42.5		20.6		71.2		49.5	
Net credit to government by nonbank sector 5/	...	18.2		24.1		25.9		34.0		43.2		54.1	
ECF disbursements (SDR millions)		4.4		0.0		4.4		0.0		8.9		8.9	
Exchange rate (Leones/US\$)	4198	3,990		4,355		3,990		4,423		3,990		4,378	

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

2/ Indicative targets.

3/ These apply on a continuous basis.

4/ Including grants and loans. For 2011, World Bank budget support was overestimated by \$3.5 million at the time of the 3rd review due to cancellation of a disbursement that was inadvertently omitted.

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

6/ Staff Report, November 19, 2010

7/ The non-observance of this PC was waived by the Executive Board of the IMF at the December 2011 Board meeting.

8/ Includes \$42 million in nonconcessional loans waived by the Executive Board of the IMF at the December 2011 Board meeting and a \$15.9 million nonconcessional loan, for which a waiver has been requested in a separate staff report on misreporting on a noncomplying purchase under the ECF arrangement.

Table 2. Sierra Leone: Prior Action and Structural Benchmarks for 2011

Measures	Timing	Macro Rationale	Status
Prior Action (second and third review):			
<ul style="list-style-type: none"> Submit to parliament amendments to the Bank of Sierra Leone Act, to formally cap annual direct credit from the BSL to the Government to 5 percent of previous year's domestic revenue. 		Limit the monetization of the fiscal deficit in order to facilitate price stability.	Met.
Structural Benchmarks:			
<ul style="list-style-type: none"> Submit to parliament amendments to the BSL and Banking Acts to increase operational independence of the BSL and improve regulation and supervision of the financial sector. 	End-June	Facilitate efficient financial intermediation by improving the efficiency of the financial regulatory system.	Met with delay.
<ul style="list-style-type: none"> Develop a pay reform plan for public servants. 	End-June	To improve the quality of civil services by providing competitive wages.	Not met. A plan is in process of being completed, with salary adjustments consistent with the program.
<ul style="list-style-type: none"> Transfer all eligible taxpayers to the Medium Taxpayer Office (MTO) and integrate GST administration with MTO. 	End-September	To improve efficiency of revenue collection efforts.	Met.
<ul style="list-style-type: none"> Integrate the Goods and Services Tax (GST) administration within the Large Taxpayer Office (LTO). 	End-December	To ensure full and efficient implementation of the GST to achieve domestic revenue target.	Met with delay.
<ul style="list-style-type: none"> Implement new small taxpayer regime. 	End-December	To improve voluntary compliance and raise tax revenue.	Not met.
<ul style="list-style-type: none"> Prepare and publish regulations to implement a Public Investment Plan, fully integrated with the budget process. 	End-December	To improve efficiency of public investments and achieve medium-term growth targets.	Met with delay as a prior action.

Table 3. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2012 1/
(Cumulative change from beginning of calendar year to end of month indicated; Le billions, unless otherwise indicated)

	Dec. 2011	2012							
		Stock	Prog.	Adj. Prog.	Prel.	Status	Program		
			Mar. 2/				Jun.	September 2/	December
Performance criteria									
Net domestic bank credit to the central government (ceiling)	1133.5	35.4	17.0	-12.5	Met	24.8	11.6	132.8	
Unadjusted target (ceiling)			35.4						
Adjustment for the shortfall (excess) in external budget support			1.1						
Adjustment for the issuance of government securities to the nonbank private sector			-19.5						
Net domestic assets of the central bank (ceiling)	-258	-43.1	-33.8	-54.5	Met	-54.8	-46.7	-19.4	
Unadjusted target (ceiling)			-43.1						
Adjustment for the shortfall (excess) in external budget support			1.1						
Adjustment for exchange rate depreciation (appreciation)			8.2						
Gross foreign exchange reserves of the central bank, US\$ millions (floor)	345.2	15.5	11.2	8.8	Not Met	34.6	31.9	25.9	
Unadjusted target (floor)			15.5						
Adjustment for the shortfall (excess) in external budget support 3/			-0.3						
Adjustment for the shortfall in the US\$ value of IMF disbursement			0.0						
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-4.01						
Contracting or guaranteeing of new nonconcessional external debt by the public sector with maturities of one year or more (ceiling) 3/	...	0.0		0.0	Met	0.0	0.0	0.0	
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 3/	...	0.0		0.0	Met	0.0	0.0	0.0	
External payment arrears of the public sector (ceiling) 3/ 7/	...	0.0		0.0	Met	0.0	0.0	0.0	
Indicative target									
Total domestic government revenue (floor)	...	365.2		457.2	Met	798.9	1,222.9	1,606.9	
Poverty-related expenditures (floor)	...	142.0		142.0	Met	282.2	421.6	569.6	
Domestic primary balance (floor) 6/				...		...	...	-322
<i>Memorandum items:</i>									
External budgetary assistance (US\$ million) 4/	...	37.8		37.5		65.1	66.4	67.2	
Net credit to government by nonbank sector 5/	...	12.4		31.9		18.2	25.9	33.2	
ECF disbursements (SDR millions)		0.0		0.0		4.4	4.4	8.9	
Exchange rate (Leones/US\$)	4400	4,400		4,400		4,400	4,400	4,400	

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

2/ Indicative targets.

3/ These apply on a continuous basis.

4/ Including grants and loans.

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

6/ The fiscal program is predicated on the complete elimination of unpaid bills at end-year; the indicative target includes a margin of 45 billion leones (equivalent to one-quarter of the stock of accumulated bills at end-2011) for December 2012 to accommodate a modest end-year float.

7/ Includes \$42 million in nonconcessional loans waived by the Executive Board of the IMF at the December 2011 Board meeting and a \$15.9 million nonconcessional loan, for which a waiver has been requested in a separate staff report on misreporting on a noncomplying purchase under the ECF arrangement.

Table 4. Sierra Leone: Structural Benchmarks for 2012

Measures	Timing	Macro Rationale	Status
Prior Action (fourth review):			
<ul style="list-style-type: none"> Prepare and publish regulations to implement a Public Investment Plan, fully integrated with the budget process. 		To improve efficiency of public investments and achieve medium-term growth targets.	Met
<ul style="list-style-type: none"> Establish a high-level cash management committee under the leadership of Ministry of Finance and Economic Development in collaboration with the Accountant General and the Bank of Sierra Leone to take decisions on cash ceilings, short-term borrowing requirements, and placement of temporary cash surpluses. 		Improve short-term liquidity management and budget execution with a view to avoid accumulation of payments arrears, and limit short-term borrowing from the BSL.	Met
<ul style="list-style-type: none"> Prepare a monthly treasury cash flow statement for the 2012 budget 		To adequately monitor the treasury's cash flow.	Met
Structural Benchmarks:			
<ul style="list-style-type: none"> Privatize Rokel Bank by selling all Government shares in the bank. 	End-June	Enhance competition and efficiency in the banking system and increase fiscal space for infrastructure investment.	Met with a delay; shares of the bank were sold via the stock exchange in August 2012.
<ul style="list-style-type: none"> Introduce a resource rent tax on mining operations. 	End-June	Increase tax revenue in case of higher than normal profitability in the mining sector.	Delayed.
<ul style="list-style-type: none"> Submit amendments to the GBAA to the Parliament. The amendments will clarify provisions related to supplementary budgets and contingency funds. 	End-September	Strengthen budget preparation and execution.	
<ul style="list-style-type: none"> Issue revised prudential guidelines in line with Banking Act. 	End-September	Improve regulation and supervision of the financial sector.	
<ul style="list-style-type: none"> Implement new small taxpayer regime. 	End-December	To improve voluntary compliance and raise tax revenue.	Delayed from 2011; to be passed with new Fiscal Act
<ul style="list-style-type: none"> Complete a three-year public investment plan, fully integrated with the budget process, to be submitted with the 2013 budget. 	End-December	Strengthen medium-term expenditure framework, with focus on efficiency of public investments.	

ATTACHMENT II. SIERRA LEONE: TECHNICAL MEMORANDUM OF UNDERSTANDING

Freetown, September 4, 2012

I. INTRODUCTION

1. This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative performance criteria (PCs) and structural benchmarks (SBs) for the program supported by the Extended Credit Facility (ECF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 3 of the Memorandum of Economic and Financial Policies (MEFP).

2. **Program exchange rates.**¹ For the purpose of the program, foreign currency denominated values for 2012 will be converted into Sierra Leonean currency (leone) using a program exchange rate of Le 4400/US\$ and cross rates as of end September 2011.²

II. QUANTITATIVE PERFORMANCE CRITERIA**A. Gross Foreign Exchange Reserves of the Bank of Sierra Leone (BSL)**

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

4. **Adjustment clauses.** The floor on the change in gross foreign exchange reserves will be adjusted (a) downward (upward) by the amount in U.S. dollars of the shortfall (excess) in programmed external budgetary assistance³—the downward adjustment will be capped at the equivalent of US\$20 million; (b) downward (upward) for any shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the ECF arrangement; and (c) upward (downward) for any increase (decrease) in BSL short-term (one year or less in original maturity) foreign currency-denominated liabilities (to residents and nonresidents).

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

² For calculating program targets for 2012, all end 2011 stock variables will be based on program exchange rate of Le4400/US\$.

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

B. Net Domestic Assets of the BSL

5. **Definition.** Net domestic assets (NDA) of the BSL are defined as the end-period stock of the reserve money less the end-period stock of net foreign assets calculated at the program exchange rates. Reserve money includes currency issued (equal to currency outside banks plus cash in vaults), deposits of commercial banks with the BSL and the BSL liabilities to other private sector. Net foreign assets of the BSL are defined as gross foreign exchange reserves (defined above) minus foreign liabilities. Foreign liabilities are defined as foreign currency-denominated liabilities of the BSL to nonresidents and the outstanding use of Fund credit. For program purposes, foreign liabilities exclude SDR allocation.

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

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

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

- the net position of the Government with commercial banks, including: (a) treasury bills; (b) treasury bearer bonds; and (c) loan and advances of commercial banks to the Government; less Government deposits in commercial banks;
- the net position of the Government with the BSL, including: (a) treasury bills and bonds, excluding holdings of special bonds provided by Government to cover the BSL losses; (b) the stock of non-negotiable non-interest bearing securities (NNNIBS); (c) the difference between converted NNNIBS into treasury bills and proceeds from their sales; (d) ways and means; and (e) any other type of direct credit from the BSL to the Government; less (a) central Government deposits; and (b) HIPC and MDRI relief deposits.

8. **Adjustment clauses.** The ceiling on changes in NCG will be adjusted (a) upward (downward) by up to the leone value of the shortfall (excess) in external budgetary assistance—the upward adjustment will be capped at the equivalent of US\$20 million; (b) downward (upward) by the excess (shortfall) in the leone value of net issues of Government securities to the nonbank private sector vis-à-vis the program assumption (as specified in the memorandum items in Table 3 of the MEFP).

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

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

D. External Payment Arrears of the Public Sector

11. **Definition.** External payment arrears of the public sector are defined as the stock of new external overdue debt-service payments by the public sector. For the purposes of this PC, the public sector comprises the central Government, regional Government, all public enterprises and the BSL. The non-accumulation of external arrears is a performance criterion during the program period. Excluded from this PC are those debts subject to rescheduling. This PC will apply on a continuous basis.

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

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

13. Any external debt of which the net present value, calculated with the reference interest rates mentioned hereafter, is greater than 65 percent of the nominal value (grant element of less than 35 percent) is considered nonconcessional, with the exception of IMF lending. For debt with a maturity of more than 15 years, the average of the ten-year commercial interest reference rates (CIRRs) published by the OECD is used to calculate the grant element. The average of the six-month CIRRs is used for debt with shorter maturities. For loans in foreign currencies for which the OECD does not calculate a CIRR, calculation of the grant element should be based on the CIRR in SDRs. The Government will report any new external borrowing and its terms to Fund staff before external debt is contracted or guaranteed by the Government.

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

14. **Definition.** External short-term debt is defined as external debt stock with a maturity of less than one year contracted or guaranteed by the public sector (see paragraph 11 for definition of public sector). Debt is defined in Annex I of this TMU. For this purpose,

short-term debt will exclude normal trade credit for imports. For the purposes of this PC, the public sector is as defined in paragraph 11 above. This PC will apply on a continuous basis.

III. QUANTITATIVE INDICATIVE TARGET

A. Domestic Primary Balance

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

B. Domestic Revenue of Central Government

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

C. Poverty-Related Expenditures

17. **Definition.** Poverty-related expenditures refer to those expenditures in the areas identified in Table 2 of the Sierra Leone HIPC Decision Point Document.

IV. PROGRAM MONITORING

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

**ANNEX I. IMPLEMENTATION OF THE REVISED GUIDELINES ON PERFORMANCE
CRITERIA WITH RESPECT TO FOREIGN DEBT**

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

Sierra Leone: Summary of Data Reporting to IMF Staff

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

Sierra Leone: Summary of Data Reporting to IMF Staff (concluded)

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

INTERNATIONAL MONETARY FUND

SIERRA LEONE

**Fourth Review Under the Three-Year Arrangement Under the Extended Credit
Facility, and Financing Assurances Review
Informational Annex**

Prepared by the African Department
(In collaboration with other departments)

Approved by Seán Nolan and Daneshwar Ghura

September 5, 2012

Contents	Page
I. Relations with the Fund	2
II. Joint World Bank-IMF Work Program, 2012–13	7
III. Statistical Issues	9

Annex I. Sierra Leone: Relations with the Fund
(As of July 31, 2012)

I. Membership Status: Joined 9/10/62; Article VIII

II. General Resources Account:	SDR Million	% Quota
Quota	103.70	100.00
Fund holdings of currency	103.69	99.99
Reserve position	0.02	0.02

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	99.51	100.00
Holdings	114.10	114.67

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
ECF Arrangements	76.66	73.92

V. Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ECF ¹	Jul 01, 2010	Jun 30, 2013	31.11	17.76
ECF ¹	May 10, 2006	Jun 22, 2010	51.88	51.88
ECF ¹	Sep 26, 2001	Jun 25, 2005	130.84	130.84

VI. Projected Payments to Fund²

(SDR million; based on current use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Principal	2.31	4.62	8.12	9.86	11.68
Charges/interest	<u>0.00</u>	<u>0.00</u>	<u>0.17</u>	<u>0.15</u>	<u>0.12</u>
Total	2.31	4.62	8.29	10.00	11.80

VII. Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of HIPC Initiative assistance	
Decision point date	March 2002

¹Formerly PRGF.

² When a member has overdue financial obligations outstanding for more than three months, the amount will be shown in this section.

Assistance committed (NPV terms)	
By all creditors (US\$ million) ³	675.20
<i>Of which:</i> IMF assistance (US\$ million)	125.21
(SDR equivalent in millions)	100.00
Completion point date	December 2006

Disbursement of IMF assistance (SDR million)	
Amount disbursed	100.00
Interim assistance	66.03
Completion point balance	33.97
Additional disbursement of interest income ⁴	6.58
Total disbursements	106.58

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million) ⁵	117.34
Financed by: MDRI Trust	76.75
Remaining HIPC resources	40.59
II. Debt Relief by facility (SDR Million)	

	Eligible Debt		
<u>Delivery Date</u>	<u>GRA</u>	<u>PRGT</u>	<u>Total</u>
December 2006	N/A	117.34	117.34

IX. Safeguards Assessment:

The latest safeguards assessment for the Bank of Sierra Leone was completed on November 24, 2010. The assessment concluded that the BSL continues to maintain important elements of the safeguards framework; financial statements are prepared and audited in accordance with international standards and are published in a timely manner on the BSL website. Currently, the BSL is still in the process of strengthening staff capacity in its internal audit function.

³ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

⁴ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim.

⁵ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of 2004 that remains outstanding at the time the member qualifies for debt relief.

X. Exchange Rate Arrangement:

For customs valuation purposes and for official transactions, the Bank of Sierra Leone (BSL) calculates an official exchange rate every Friday morning as the weighted average of the auction rate, the commercial bank mid-rate, and the bureau mid-rate in the previous week. Commercial banks may buy foreign exchange from and sell it to individual customers and may trade among themselves or with the BSL on a freely negotiable basis. As of June 21, 2012, the BSL mid-rate was Le 4,340.08=US\$1.

Sierra Leone's *de jure* exchange rate regime is classified as floating, with the value of the leone determined by the market. Furthermore, effective November 1, 2008, the *de facto* exchange rate arrangement has been reclassified to 'floating' from a 'stabilized arrangement'.

Effective February 2, 2009, the *de facto* exchange rate arrangement was reclassified from a conventional pegged arrangement to a "stabilized arrangement" retroactively to April 30, 2008, due to a revision of the classification methodology. In March 2008, the exchange rate regime was reclassified as "a conventional peg" to reflect the nominal stability of exchange rate developments under *de facto* management through the auction by the BSL as the only seller of foreign exchange.

With effect December 14, 1995, Sierra Leone has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. Sierra Leone maintains one multiple currency practice subject to Fund jurisdiction arising from the applied multiple-price Dutch auction system, as there is no formal mechanism in place to prevent spreads of effective rates between winning bids from exceeding 2 percent.

XI. Article IV Consultation:

The Executive Board concluded the 2010 Article IV consultation on December 6, 2010. The next Article IV consultation will be held in accordance with the 2010 decision on consultation cycles.

XII. Technical Assistance:

Department	Purpose	Date
FAD	EI Fiscal Regimes Follow-Up	August 2012
	EI Macro-Fiscal, PFM, and Expenditure Policy	February 2012
	Post-GST Implementation Review	February 2012
	EI Fiscal Regimes Follow-Up	February 2012
	Finalize Terms of Draft EI Revenue Act (EIRA)	December 2011

Department	Purpose	Date
	Extractive Industry Fiscal Regimes	October/November 2011
	Tax Administration	October/November 2011
	Mining and Oil Tax Policy, and Macro-fiscal and Forecasting	July 2011
	Fiscal Regimes for Extractive Industries	July 2011
	Advancing Public Financial Management Reforms	June 2011
	Advancing Public Financial Management Reforms	April 2011
	Petroleum Product Prices	April 2011
	Reform Progress update	September 2010
	Review of petroleum pricing mechanism	February 2010
	Tax administration	January 2010
	Evaluation of progress in PFM reforms	March 2009
	Assistance in designing a simplified regime for small taxpayers	January 2009
	Evaluation of progress on tax administration reform and VAT preparation	September 2008
	Evaluation of progress on PFM reforms	July 2008
	Implementation of public financial management reforms	March 2008
	Tax administration reforms for successful VAT implementation	February 2008
MCM	TA Needs Assessment Mission	February 2012
	Financial Stability Analysis	April/May 2011
	Banking Supervision and Banking Regulation	April 2010
	Needs assessment and monetary operations and foreign exchange auction system	March 2010
	Follow-up assessment on TA needs	June 2009

Department	Purpose	Date
	Follow-up assessment of banking supervision processes at BSL	March 2009
	Follow-up assessment on progress in strengthening central bank internal auditing	March 2009
	BSL: Internal audit and management of the central bank	October 2008
	Monetary policy, banking supervision, and recapitalization of the BSL	April/May 2008
	Recapitalization of the BSL	February 2008
STA	Annual National Accounts Statistics Module Mission within the Enhanced Data Dissemination Initiative Project for Africa	December 2011
	Producer Price Index Mission	November 2011
	Producer Price Index Mission	June/July 2011
	Annual National Accounts Statistics Module Mission within the Enhanced Data Dissemination Initiative Project for Africa	May/June 2011
	Annual National Accounts Statistics Module Mission within the Enhanced Data Dissemination Initiative Project for Africa	February/March 2011
	Standardized Report Form Data Development for Other Financial Corporations	October 2010
	Producer Price Index Mission	October 2010
	Assist the authorities in implementing the international standards recommended in the <i>Monetary and Financial Statistics Manual</i>	April 2009
	National accounts statistics mission	March 2009
	National accounts statistics mission	September/October 2008
	National accounts statistics mission	January 2008

XIII. Resident Representative:

Mr. Francis Kumah assumed responsibility for the Fund office in Freetown in November 2010 as a new resident representative.

Annex II. Sierra Leone: Joint World Bank-IMF Work Program, 2012–13

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
World Bank work program	IPFMRP (PFM Project) Supervision	Feb, Jul, 2012	N/A
	Financial Sector TA	Dec 2012, May 2013	
	Mining Sector TA	Dec 2012, Mar 2013	N/A
	Sixth Governance Reform and Growth Credit (GRGC-6)	Feb, May, Jul, Dec, 2012	Mar 2013
	Pay and Performance Project	Feb, Mar, Aug–Sep, 2012, May 2013	N/A
Technical Assistance:			
	Anti Corruption Commission	June, Dec 2012	
	Household Survey	May, Jun, Sep 2012	
	AML/CFT, Law, Transnational Organized Crime Unit, Nuclear non-Proliferation Framework	Feb, Jul 2012, Mar 2013	N/A
	Anti-Corruption, asset disclosure system	Feb 2012	N/A
	Public Investment Management	May, Jun 2012, Feb 2013	
	Revenue Administration	Jun, Sep 2012	
IMF work program	2012 Article IV and Fifth Review under the ECF Arrangement	September 2012	December 2012
Technical Assistance:			
	FAD		
	EI Resource Tax Admin Diagnostic	Jul-12	N/A
	EI Tax Policy	Aug-12	N/A
	EI tax policy and Legal framework	Sep-12	N/A
	PFM MTEF/Budget Preparation	Sep-12	N/A
	EI tax policy and Legal framework	Oct-12	N/A
	EI Tax Policy Workshop	Dec-12	N/A
	EI Revenue Administration	Jan-13	N/A
	EI PFM Legal framework	Feb-13	N/A

Annex II. Sierra Leone: Joint World Bank-IMF Work Program, 2012–13 (concluded)

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
	MCM		
	Liquidity Forecasting & Development of Interbank FOREX Market	Aug-12	N/A
	Financial Stability Analysis	Oct-12	N/A
	Developing Secondary Market for T-Bills	Nov-12	N/A
	Banking Supervision	Jan and Mar-13	N/A
	STA		
	National Accounts	Jul and Dec -12	N/A
	Consumer Price Index and SRF Data Development	Aug-12	N/A
	LEG		
	TA in EI Fiscal Law (FAD)	Jul and Aug-12	
B. Agreement on Joint Products and Missions			
Joint products in 2012	DSA	March 2012	December 2012
	Assisting the authorities with the implementation of their financial sector reform strategy		Continuous

Annex III: Sierra Leone: Statistical Issues

A. Assessment of Data Adequacy for Surveillance

General: Data provision has serious shortcomings that significantly hamper surveillance. The prolonged civil war resulted in a virtual collapse of statistical systems in the late 1990s. Serious deficiencies still affect balance of payments (BOP) and international investment position (IIP) statistics, national accounts, government finance statistics, and social indicators. A major and sustained improvement in the coverage and timeliness of economic data will require greater interagency coordination and restructuring the institutional framework.

Real sector statistics: Improvements have been made in the compilation of construction, estimation of informal sector activity, measurement of government services, agricultural production, household final consumption, and constant price gross domestic product (GDP). Remaining issues concern rebasing the accounts, developing better data sources for agricultural production, and generally continuing the improvement of informal sector measurement. In addition, for constant price GDP, there is a need to supplement the consumer price index (CPI) with alternative price measures, such as the producer price index or industry-specific measures such as a construction cost index. Under a new DFID-funded project three technical assistance missions visited Freetown in March, June, and December 2011 to improve annual estimates of GDP. The mission worked with the authorities to prepare revised national accounts based on a 2006 benchmark and using 2006 prices to compile constant price estimates. However, shortages of resources and staff continue to pose major constraints to the statistical development undertaken by Statistics Sierra Leone (SSL).

The SSL compiles the CPI monthly and publishes it with a lag of about three weeks. It has been rebased to 2007 using the 2007 Sierra Leone integrated household survey and continues to cover the capital city and three main districts. While a national CPI is being compiled, the authorities continue to publish the old CPI (1992=100). To avoid confusion, the authorities have requested TA to validate the work done in order to adopt a common series.

Technical assistance missions visited Freetown in October 2010, June, and November 2011 to review the CPI and to advise on the development of a producer price index (PPI). The authorities are working to improve the index calculation methods for the CPI and procedures to aggregate regional CPIs to obtain the national index. They intend to publish revised CPI and newly developed PPI indices by the end of 2011.

The Authorities have developed PPI weights, selected a representative sample of establishments, and selected representative products and transaction for price collection. A work plan, in the form of Project Framework Summary, was drafted to guide the PPI staff in developing and releasing the new index.

Government Finance Statistics: The budget reporting system was established with assistance from the Fund/UNDP technical assistance project. Monthly cash flow data on budgetary central government revenue, current expenditure, and financing are provided. The transaction coverage of the budgetary central government cash flow is incomplete. There is an urgent need for more timely and accurate data on foreign-financed development projects. Reports on implementation of the development budget and its financing are currently not produced in a format that is suitable for budget analysis because the necessary data are not available. There is also need for quality control of the final data.

The authorities are currently considering introduction of a flash reporting system for government expenditure in general and for foreign aid-financed projects. As part of the GDDS regional project for Anglophone African countries, work has been undertaken to reconcile fiscal and monetary data and to improve the coverage and classification of the two data sets. With the current drive towards decentralization and the growing role of local government, there is an urgent need to compile and monitor the operations (and financial balance sheet data) for the whole of consolidated general government.

Monetary and financial statistics: The main components of the central bank balance sheet are available daily and weekly; this system provides an early warning system on key financial targets. The full monetary survey is compiled by the Bank of Sierra Leone (BSL) with a lag of about six weeks; it has comprehensive coverage of commercial banks.

There has been some progress in the compilation of data in line with the 2000 Monetary and Financial Statistics Manual. The BSL, with assistance from STA, has completed the preparation of a standardized report form (SRF) for the central bank. There is a need to expand coverage of other deposit corporations, improve data collection for other financial corporations and develop the financial corporations survey.

Balance of payments: The BSL is responsible for compiling BOP and IIP statistics and obtains its source data from the SSL, government ministries, the Customs and Excise Department (Customs), and the “Financial Survey of Major Limited Companies.” The BLS conducts the latter survey annually to obtain estimates for services and for income and capital flows relating to direct, portfolio, and other investment.

Imports and exports of goods estimates are based on data compiled by Customs and are adjusted in coverage, valuation, and timing to be aligned with the international guidelines. The BSL does not adjust BOP data using supplementary information to take account of unreported data.

External transactions are characterized by a large volume of activity in the informal sector, principally diamond smuggling. A considerable portion of imports is financed by these unrecorded exports. Estimates of smuggled imports and exports, in particular diamonds, are also not available. As a result, official BOP statistics tend to substantially understate transactions.

Data problems also exist for trade in services, income statistics, current transfers, and the capital and financial accounts. Regarding the financial account, there are substantial difficulties in tracking financial transactions of the public and private sector that are routed through commercial banks.

Information on official grant and loan receipts is of relatively good quality and is prepared by AFR on the basis of contact with the authorities and donor agencies, but data on private capital flows are very poor. Some information on private banking flows can be derived from the monetary survey. Other private flows, especially those linked to the informal diamond trade, are implicitly included in “errors and omissions.”

While the authorities are producing data on the IIP, improvements are required in coverage and in valuation adjustments. The problems in the available data become manifest when efforts are made to reconcile flow data in the BOP and stocks in the IIP.

STA has been providing technical assistance on BOP issues to help the authorities implement the *Balance of Payments Manual*, Fifth Edition (*BPM5*).

B. Data Standards and Quality

Sierra Leone commenced its participation in the General Data Dissemination System (GDDS) in 2003. Metadata need to be updated.

C. Reporting to STA

Fiscal data are reported to AFR, but it is not disseminated in the *International Financial Statistics*. Plans are underway to resume reporting annual data for publication in the GFS Yearbook (the most recent data refer to 2004).

The BSL started reporting monetary data in the SRF-format to the IMF in April 2010.

INTERNATIONAL MONETARY FUND

INTERNATIONAL DEVELOPMENT ASSOCIATION

SIERRA LEONE

Joint IMF/World Bank Debt Sustainability Analysis

Prepared by the Staffs of the International Monetary Fund
And the International Development Association

Approved by Seán Nolan and Dhaneshwar Ghura (IMF)
and Jeffrey D. Lewis and Marcelo Giugale (IDA)

September 5, 2012

The Joint World Bank-IMF staff's debt sustainability analysis for low-income countries (LIC-DSA) shows that the risk of debt distress continues to be moderate for Sierra Leone.¹ Under the baseline scenario, all external debt indicators are below their policy-dependent indicative thresholds² throughout the projection period (2012–32). The analysis indicates that the medium- to long-term debt outlook is vulnerable to adverse shocks to several macroeconomic variables notably growth, exports, inflation, FDI inflows and the fiscal primary balance. This underscores the need to sustain fiscal consolidation efforts, remove impediments to growth, enhance export diversification, and maintain prudent borrowing policies.

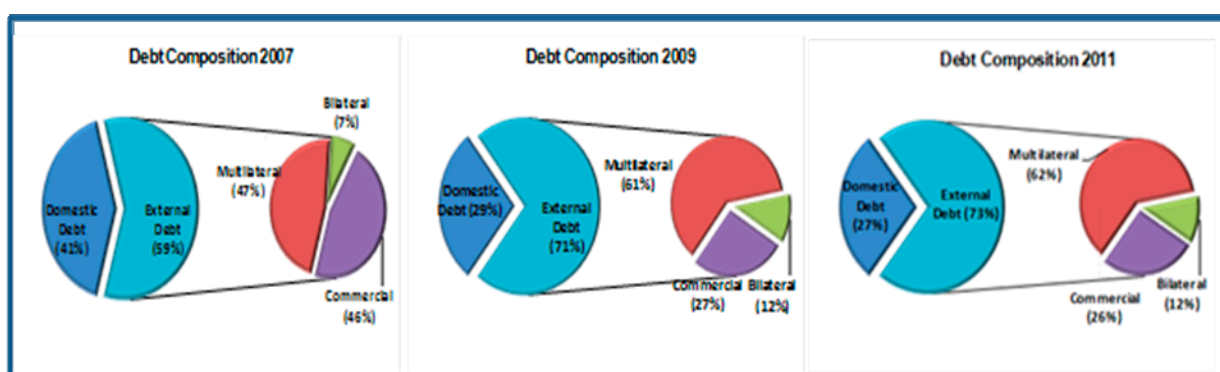
¹ This DSA was prepared by the IMF and World Bank staff using the debt sustainability framework for low-income countries (LIC DSF) approved by the Boards of both institutions.

² Sierra Leone is a weak performer under the World Bank's Country Policy and Institutional Assessment (CPIA) classification, with an average rating of 3.19 for 2008–10. As a weak performer, the debt and debt service thresholds under the joint IMF-WB DSA framework for LICs applied to Sierra Leone are: (i) 100 percent for the Present Value (PV) of debt-to-exports; (ii) 30 percent for the PV of debt-to-GDP; and (iii) 200 percent for the PV of debt-to-revenue. The relevant debt service thresholds are (i) 15 percent of exports; and (ii) 18 percent of revenue.

I. BACKGROUND AND ASSUMPTIONS

1. **The nominal stock of public and publicly guaranteed external debt³ amounted to US\$ 0.9 billion at end-2011.** Multilateral creditors accounted for about 62 percent of the stock, while bilateral and commercial creditors accounted for 12 and 26 percent respectively. Figure 1 and Table 1 below show the composition of the stock of debt for 2007–11. Debt to commercial creditors consists of arrears accumulated before and during the civil war that ended in 2002. The authorities have been making goodwill payments to some commercial creditors to avoid litigation.⁴

Text Figure 1. Sierra Leone: Composition of Public Debt, 2007–11



**Text Table 1. Sierra Leone: Debt Stock Evolution, 2007–11
(In indicated units)**

	2007	2008	2009	2010	2011
	In million USD				
Domestic Debt	390.4	428.7	364.8	342.8	326.7
External Debt	552.3	620.2	896.3	881.5	866.1
Multilateral	258.6	326.0	550.2	545.1	535.0
Bilateral	38.8	48.3	106.2	105.2	104.3
Commercial	254.9	245.9	239.9	231.2	226.7
TOTAL DEBT	942.7	1048.9	1261.1	1224.3	1192.8

³ Public sector refers to the Central Government and non-financial public sector.

⁴ Commercial debt comprises US\$226.7 million of un-reconciled debt, accumulated before and during the civil war. The government is making good faith efforts to resolve arrears to commercial creditors, and has been making goodwill payments to avoid litigation. It is anticipated that a debt-buy-back operation will be initiated in the period ahead with support from the World Bank.

Text Table 1. Sierra Leone: Debt Stock Evolution, 2007–11
(In indicated units) (concluded)

	2007	2008	2009	2010	2011
	In percent of GDP				
Domestic Debt	18.4	17.5	15.2	13.8	11.1
External Debt	25.9	25.8	36.9	32.3	29.9
Multilateral	12.2	13.3	23.0	21.4	18.4
Bilateral	1.8	2.0	4.4	4.1	3.6
Commercial	12.0	10.0	10.0	9.1	7.8

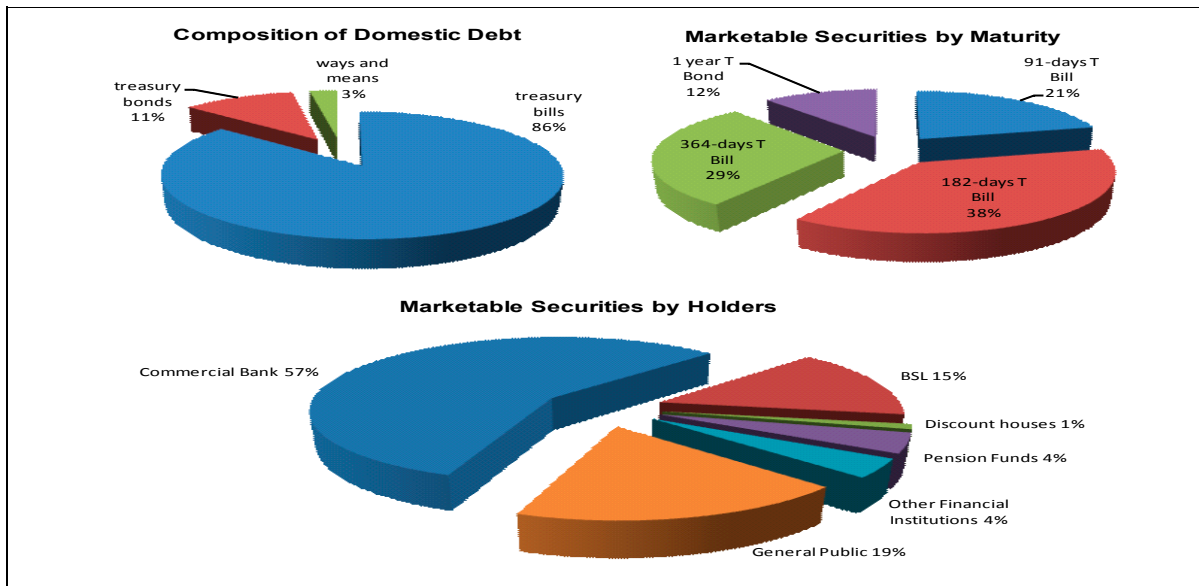
Source: Sierra Leone Authorities.

2. **Substantial debt relief in recent years has reduced Sierra Leone’s debt burden.** Public sector nominal external debt declined from 142 percent of GDP at end-2005 to about 26 percent of GDP at end-2007, thanks to HIPC and MDRI debt relief.⁵ It has since remained near that level, totaling about 30 percent of GDP at end-2011; and 125 percent of exports in present value (PV) terms. In 2011, debt service amounted to 1.5 percent of exports and 2 percent of government revenue.

3. **Domestic debt amounted to 11 percent of GDP at end-2011.** Government marketable securities accounted for about 67 percent of the stock, and the balance comprised the Government’s overdraft facility at the BSL (Ways and Means advances) and domestic payments arrears. The stock of marketable securities increased by 6 percent in 2011, emanating mainly from the conversion of the 2010 stock of Ways and Means advances into marketable securities, particularly 182 day and 364 day treasury bills. Commercial banks, other financial institutions, and the pension fund, accounted for about 66 percent of total marketable securities. The general public held 19 percent and the balance was held by BSL. In 2011, domestic interest payments increased by 58 percent compared with 2010 because of the rise in average interest rate and the conversion of the 2010 stock of Ways and Means Advances. Although the stock of domestic debt declined in the last two years, its maturity structure, with some 78 percent in short-term securities, highlights significant rollover and refinancing risk.

⁵ Sierra Leone has received debt relief under the MDRI Initiatives from the IMF, IDA, AfDB, EIB, IFAD, BADEA, IDB, and OPEC Fund. Under the HIPC Initiative, bilateral agreements have been signed with all participating creditors, except China, Kuwait, and Saudi Arabia.

Text Figure 2. Sierra Leone: Domestic Debt Stock, 2011



4. **The analysis in this report is based on the macroeconomic framework underlying the current ECF-supported program, and updates the 2010 DSA⁶.** The assumptions have been updated to take into account recent developments, notably the onset of iron ore production and exports in 2011/12. In addition, the previous DSA was based on the debt stock at end-2009, while the current DSA is based on the stock at end-2011. Medium- to long-term projections for the stock of debt reflect the authorities' resolve to scale up infrastructure investment and boost growth, while resorting mostly to grants and concessional borrowing to safeguard long-term debt sustainability. Regarding commercial debt, the external commercial debt buy-back, which the 2010 DSA assumed to take place in 2011, was not completed. Recently, the World Bank and the authorities reinitiated the preparation of a World Bank supported buyback operation.

⁶ IMF Country Report No. 10/370.

Comparison with the 2010 DSA
(Averages in percent of current GDP unless indicated)

	2011	2012-16		2017-21		2022-26		2027-29	
	Actual	DSA10	DSA12	DSA10	DSA12	DSA10	DSA12	DSA10	DSA12
Stock of external debt (eop, US\$ million)	866.1	869.0	1227.7	28.8	1715.1	27.8	2436.5	27.3	2961.9
Stock of external debt (eop , percent of G	29.9	29.3	23.3	28.8	23.2	27.8	23.5	27.3	23.2
Debt service on external debt	0.7	3.4	3.8	3.8	5.0	6.1	6.4	7.4	9.9
Exports of goods and nonfactor services	15.3	21.4	35.6	24.8	32.4	28.7	29.8	31.0	28.5
Current account deficit	52.3	5.7	8.4	5.1	6.8	4.9	6.3	5.1	5.8
Primary deficit	2.7	2.0	1.2	1.5	1.6	1.5	1.3	1.9	1.1
Domestic government revenue	11.5	14.3	10.2	15.3	10.8	16.1	11.5	16.4	12.1
Domestic debt	11.1	10.8	9.2	9.7	12.0	8.4	14.9	8.2	16.4
Real GDP growth (percent)	6.0	5.0	10.3	5.0	5.1	5.0	5.3	5.0	5.4

Sources: Sierra Leone authorities; and staff projections.

5. The baseline macroeconomic assumptions underlying this DSA are summarized in Box 1. They reflect the following:

- *Strong growth prospects.* Agriculture, mining, and services, as well as public investment in infrastructure remain the key drivers of economic growth under both DSAs. The non-iron ore economic growth projection remains at 6 percent in the long term, partly reflecting the expected increase in productivity in the agriculture sector, the impact of downstream activities from the Tonkilili iron ore project, and higher infrastructure investment. The current projections exclude iron ore production under phases II and III of the Tonkolili iron ore project, pending updated information on the scope of planned investment and commencement of operations.⁷
- *Improved fiscal position.* Government revenue is forecast to be higher than under the 2010 DSA on account of fiscal and tax administration reforms, stronger economic growth, and additional revenue from iron ore exports. PFM reforms are expected to enhance expenditure and treasury cash-flow management.
- *Price stability.* Monetary policy would continue to support price stability. In addition, continued adherence to the 2011 reform on government financing from the Central Bank⁸ is expected to enhance coordination between monetary and fiscal policy and support macroeconomic stability in the medium term.
- *Improved external position in the long term.* Although import growth is forecast to remain strong given higher investment and domestic demand, the current account is set to benefit from increased exports of agriculture and extractive industries. In addition, the exchange rate policy is expected to remain flexible and facilitate adjustment to adverse exogenous shocks.

⁷ IMF Country Report No. 11/361.

⁸ IMF Country Report No. 11/361.

Box 1. Baseline Macroeconomic Assumptions

Economic growth. Real GDP is projected to increase from 6 percent in 2011 to 21.3 percent in 2012 mainly on account of iron ore production. After this initial upshot, economic growth is projected to decelerate somewhat in 2013–17, and average 5.3 percent a year during 2018–32. Economic growth would be supported by the authorities' policies to consolidate macroeconomic stability, support productivity gains in agriculture, scale-up infrastructure investment, and create a business-friendly environment. Downside risks to the outlook include terms of trade shocks and a global economic slowdown. On the upside, additional investment in the extractive industries, notably iron ore and oil would enhance long-term growth prospects.

Inflation. Continued prudent monetary and fiscal policies are expected to support price stabilization. Average inflation is forecast to decline from 18.5 percent in 2011, to about 4.8 percent in 2017 and remain below 5 percent thereafter.

External current account. The external position is expected to strengthen. Exports are projected to surge almost 200 percent in 2012 on account of production expansion in the extractive industries. Under the current conservative assumptions for iron ore production, export growth is expected to stabilize at an average growth rate of 5.7 percent over the long run. That notwithstanding, the current account deficit is forecast to narrow from 52.3 percent of non-iron ore GDP in 2011 to 7.2 percent of non-iron ore GDP in 2017, and 4.8 percent in 2032. Import growth remains around 6 percent, slightly higher than non-iron ore GDP, and terms of trade are expected to improve slightly.

Fiscal position. Continued PFM reforms and revenue-enhancing measures are expected to improve the fiscal position over the long-term. The primary deficit is projected to narrow from 3.8 percent of non-iron ore GDP in 2011 and stabilize at 2.7 percent by 2017. Government revenue is forecast to increase from 11.5 percent of non-iron ore GDP in 2011 to 13.1 percent by 2032, while expenditure is projected to stabilize around 20 percent of non-iron ore GDP, with an increasing share allocated to domestically financing capital outlays.

External financing. To preserve long-term debt sustainability, financing needs would continue to be covered mainly through grants and highly concessional loans. The grant element of new borrowing is expected to remain above 35 percent.

Domestic debt. Domestic debt is projected to increase from 11.1 percent of GDP in 2011 to 17.7 percent in 2032, as the financial sector develops and allows for mobilization of domestic resources. The real interest rate in the securities market is forecast to increase, mostly reflecting the projected decline in inflation.

II. EXTERNAL DEBT SUSTAINABILITY

Baseline

6. **Under the baseline scenario, all debt indicators remain below the policy-dependent indicative thresholds** (Table 1 and Figure 1). The nominal external debt stock is forecast to increase over time, but, as a share of GDP, it stabilizes at about 23 percent over the long run mainly reflecting prudent borrowing policies. In PV terms, the debt-to-GDP ratio is projected to remain in the 15–17 percent range, while the PV of debt-to-exports ratio is expected to rise from about 47 percent in 2012 to some 60 percent in 2032, in line with the projected deceleration in export growth, while remaining below the indicative threshold. The PV of debt-to-revenue ratio is projected to decline slightly in 2012–17 before stabilizing in the long-term. Debt service ratios point to low liquidity risk as they are projected to remain significantly below their relevant policy-dependent indicative thresholds.

Alternative scenario and stress tests

7. **DSA results highlight Sierra Leone’s vulnerability to adverse exogenous shocks affecting exports, exchange rate, real growth and non-debt creating flows** (Table 2a and Figure 1). Stress tests show that the most extreme shock is represented by the combination shocks with respect to the PV of debt-to-revenue⁹ and lower export value growth¹⁰ with respect to the PV of debt-to-exports. The latter indicator stays below its threshold throughout the projection period. Regarding the PV of debt-to-revenue, the threshold is breached in the medium term for more than one of the bound tests. Under the combination shocks, the PV of debt-to-revenue would rise from 152 percent in 2012 to 258 percent by 2014, before declining below the threshold to 163 percent in 2032. A one-time 30 percent nominal depreciation in 2013 would also lead to a temporary breach of the PV of debt-to-revenue threshold. Under an alternative scenario assuming less favorable borrowing terms,¹¹ all debt indicators increase over the long run while remaining below the policy-dependent indicative thresholds.

⁹ Mechanically, the DSA templates identifies net non-debt creating flows as the most extreme shock. However, this shock represents a sudden outflow of non-debt creating flows (FDI, official transfers, and remittances) equal to 12.8 percent of GDP. Since such a scenario is unlikely, the DSA results for the most extreme shock are based on a combination of lower GDP growth, export value growth, US dollar GDP deflator, and net non-debt creating flows.

¹⁰ Exports value growth at historical average minus one standard deviation in 2013–14.

¹¹ This scenario assumes that the interest rate on new borrowing is 200 basis points higher than in the baseline scenario, while the grace period and the maturity are the same as in the baseline scenario.

III. PUBLIC SECTOR DEBT SUSTAINABILITY

Baseline

8. **DSA results for public sector debt mirrors those of external debt** (Table 3). The stock of public debt is forecast to fall from 41 percent of GDP in 2011 to 34 percent in 2017, and to stabilize around 40 percent over the long run. The outlook shows a similar trend compared to the previous DSA, although the ratios are lower, consistent with the projected fiscal outlook. Domestic debt accumulation is expected to remain moderate, rising from 11 percent of GDP in 2011 to 18 percent of GDP over the long term. As the investor base broadens, the long-term fiscal projections assume that the domestic market can absorb about half of the public sector borrowing requirements at a sustainable interest cost. While this would be in line with expected progress under the financial sector development plan and improved fiscal management, domestic public debt needs to be carefully managed to avoid jeopardizing public debt sustainability.

Alternative scenario and stress tests

9. **Stress tests point to vulnerability to permanently lower GDP growth, a high primary fiscal deficit, and a large exchange rate shock** (Table 4 and Figure 2). Under an alternative scenario assuming permanently lower GDP growth,¹² the PV of public debt-to-GDP ratio, as well as the PV of public debt-to-revenue ratio, would increase continuously over the long term. The former would reach 59 percent by 2032 (34 percent in the baseline scenario), while the latter would rise from 218 percent in the baseline scenario to 363 percent at the end of the projection period. The results also show that the public debt outlook is vulnerable to adverse fiscal and exchange rate shocks. The PV of public debt ratios would rapidly and continuously increase in case of temporary shock to the primary fiscal balance.¹³ Similarly, a one-time 30 percent real depreciation in 2013 would result in a deterioration of the debt ratios. These results underscore the importance of fiscal consolidation, and continued implementation of growth-enhancing policies.

¹² This scenario assumes that real GDP growth is at baseline minus one standard deviation in 2013–14.

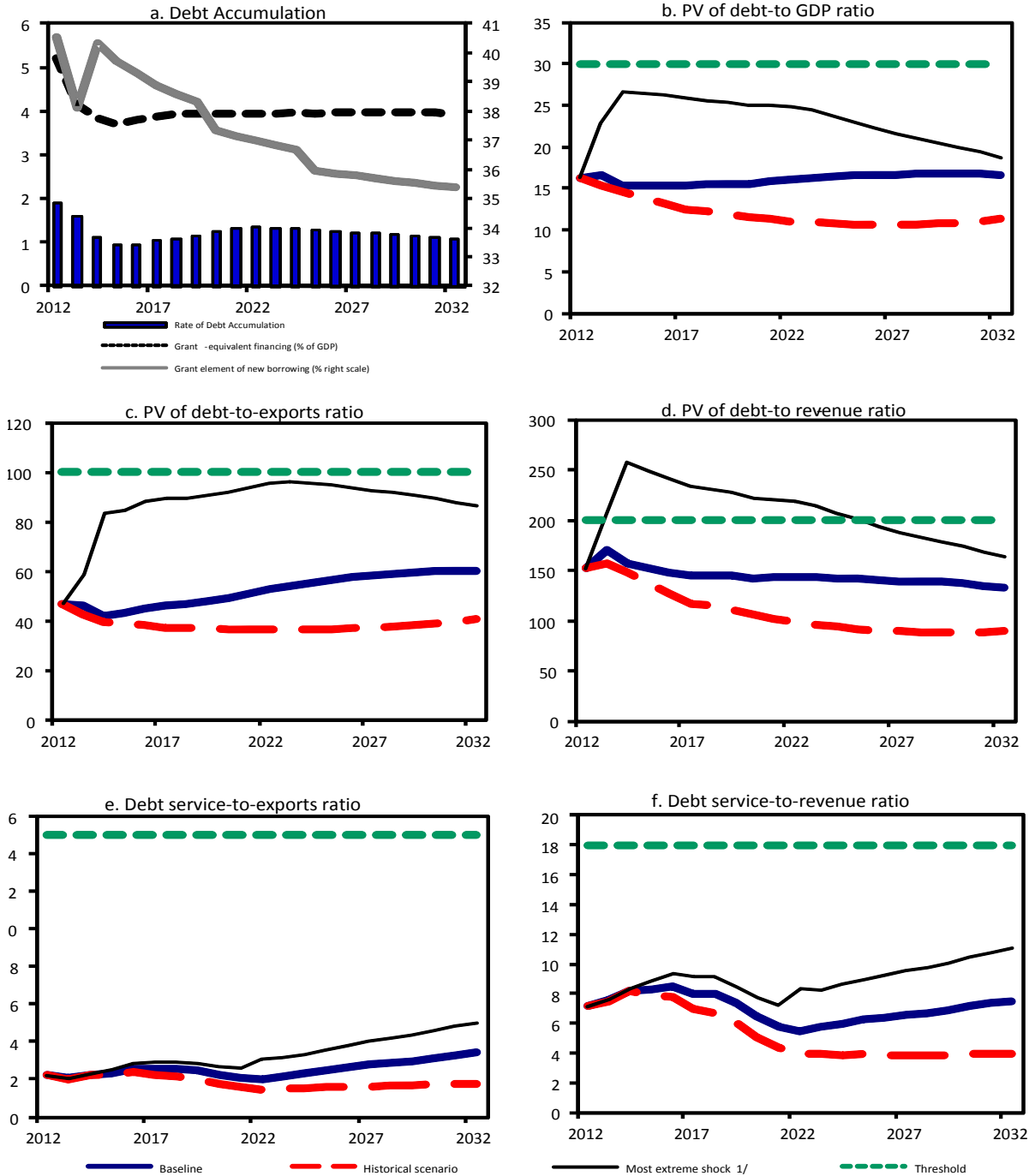
¹³ Assuming that the primary balance is at its 10-year historical average minus one standard deviation in 2013–14.

IV. CONCLUSIONS

10. **The results of debt sustainability analysis based on the LIC-DSA framework indicate that the risk of debt distress remains moderate for Sierra Leone.** Under the baseline scenario, all debt indicators remain below their respective policy-dependent indicative thresholds. However, sensitivity analysis shows that the long-term debt outlook is vulnerable to various shocks: adverse fiscal and exchange rate developments, lower exports and growth, as well as reduced FDI inflows and less favorable borrowing conditions.¹⁴ Consequently, to preserve long-term debt sustainability it will be important to sustain fiscal consolidation efforts, implement growth-enhancing policies, promote export diversification, and maintain prudent borrowing policies. The authorities agree with the staff's assessment.

¹⁴ The most extreme downside scenario with respect to external debt is generated with simulated combinations shocks, driven by growth, exports, and non-debt creating flows.

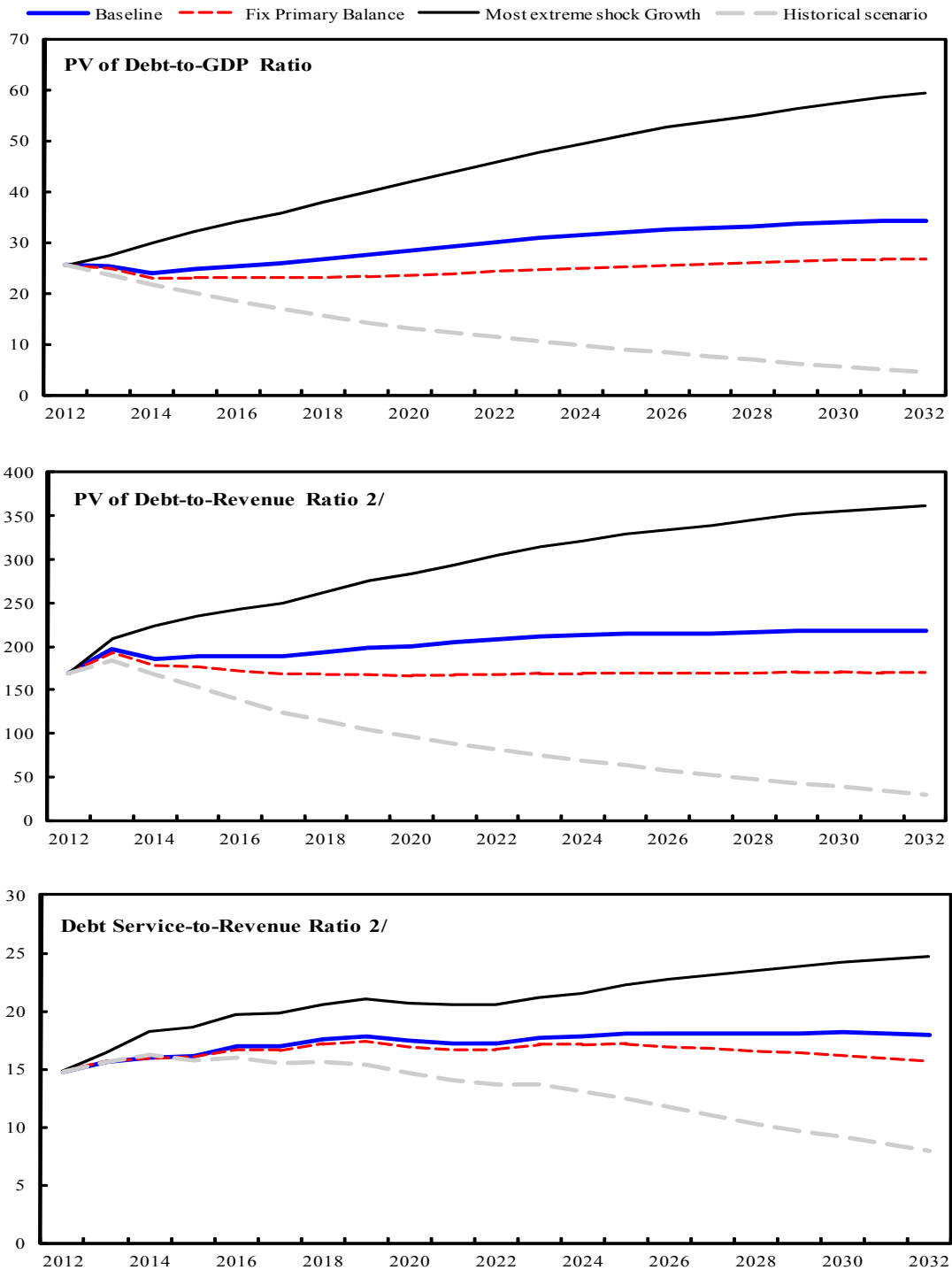
Figure 1. Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2012–32^{1/}



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Non-debt flows shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Terms of trade shock and in figure f. to a Terms of trade shock

Figure 2. Indicators of Public Debt under Alternative Scenarios, 2012–32^{1/}



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022.

2/ Revenues are defined inclusive of grants.

Table 1.: External Debt Sustainability Framework, Baseline Scenario, 2009-2032 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections						2012-2032				
	2009	2010	2011			2012	2013	2014	2015	2016	2017	Average	2022	2032	Average	
External debt (nominal) 1/	32.6	32.3	29.9			25.2	25.4	23.5	23.4	23.3	23.2			23.3	22.8	
o/w public and publicly guaranteed (PPG)	32.6	32.3	29.9			25.2	25.4	23.5	23.4	23.3	23.2			23.3	22.8	
Change in external debt	7.3	-0.3	-2.5			-4.6	0.2	-1.9	-0.1	-0.1	-0.1			0.1	-0.2	
Identified net debt-creating flows	3.9	-0.1	6.0			-2.4	1.0	-0.7	0.8	1.3	1.3			1.2	0.1	
Non-interest current account deficit	6.3	19.2	52.2	10.2	15.7	12.9	9.1	6.5	6.2	6.5	6.4			6.6	4.4	5.9
Deficit in balance of goods and services	10.4	24.6	55.6			14.0	11.2	8.6	7.9	8.4	8.5			9.2	7.4	
Exports	13.5	16.6	15.3			34.8	36.0	36.8	36.0	34.2	33.4			30.6	27.8	
Imports	23.9	41.2	70.9			48.8	47.2	45.4	43.9	42.7	42.0			39.8	35.2	
Net current transfers (negative = inflow)	-5.4	-7.3	-5.7	-7.6	3.1	-4.4	-4.2	-4.4	-4.4	-4.4	-4.5			-4.5	-3.6	-4.0
o/w official	-3.5	-5.2	-2.4			-1.2	-1.0	-1.2	-1.2	-1.2	-1.2			-1.2	-0.3	
Other current account flows (negative = net inflow)	1.3	1.8	2.2			3.2	2.1	2.4	2.8	2.6	2.4			1.9	0.6	
Net FDI (negative = inflow)	-3.1	-17.5	-42.3	-8.4	12.8	-10.6	-6.5	-4.5	-4.5	-4.4	-4.2			-4.4	-3.4	-4.1
Endogenous debt dynamics 2/	0.6	-1.7	-3.9			-4.7	-1.6	-2.7	-0.9	-0.9	-0.9			-0.9	-1.0	
Contribution from nominal interest rate	0.1	0.2	0.1			0.2	0.2	0.2	0.2	0.2	0.2			0.2	0.2	
Contribution from real GDP growth	-0.8	-1.6	-1.7			-4.8	-1.8	-2.9	-1.1	-1.1	-1.1			-1.1	-1.2	
Contribution from price and exchange rate changes	1.3	-0.3	-2.4			...	...	...	...	...	...			...	...
Residual (3-4) 3/	3.4	-0.2	-8.4			-2.2	-0.9	-1.2	-0.9	-1.4	-1.4			-1.1	-0.3	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	
PV of external debt 4/	...	...	19.1			16.2	16.5	15.4	15.4	15.4	15.4			16.1	16.6	
In percent of exports	...	...	125.3			46.7	45.9	41.8	42.8	44.9	45.9			52.5	59.9	
PV of PPG external debt	...	...	19.1			16.2	16.5	15.4	15.4	15.4	15.4			16.1	16.6	
In percent of exports	...	...	125.3			46.7	45.9	41.8	42.8	44.9	45.9			52.5	59.9	
In percent of government revenues	...	...	166.1			148.8	169.5	156.2	151.5	147.9	144.3			143.5	132.2	
Debt service-to-exports ratio (in percent)	4.3	3.3	1.5			2.2	2.1	2.2	2.3	2.6	2.5			2.0	3.4	
PPG debt service-to-exports ratio (in percent)	4.3	3.3	1.5			2.2	2.1	2.2	2.3	2.6	2.5			2.0	3.4	
PPG debt service-to-revenue ratio (in percent)	6.4	5.5	2.0			7.0	7.6	8.2	8.3	8.5	8.0			5.4	7.5	
Total gross financing need (Billions of US dollars)	0.3	0.1	0.3			0.1	0.1	0.1	0.1	0.2	0.2			0.2	0.3	
Non-interest current account deficit that stabilizes debt ratio	-1.0	19.5	54.7			17.5	9.0	8.4	6.3	6.7	6.5			6.4	4.6	
Key macroeconomic assumptions																
Real GDP growth (in percent)	3.2	5.3	6.0	7.9	6.8	21.3	7.5	13.0	4.9	4.9	5.0	9.4	5.2	5.5	5.3	
GDP deflator in US dollar terms (change in percent)	-5.0	0.9	7.9	2.8	6.7	8.2	0.8	1.4	0.9	1.4	1.8	2.4	1.8	1.7	1.7	
Effective interest rate (percent) 5/	0.5	0.5	0.4	1.0	0.5	0.7	0.7	0.7	0.7	0.8	0.8	0.7	0.9	0.9	0.9	
Growth of exports of G&S (US dollar terms, in percent)	-3.4	30.6	5.2	14.0	14.3	198.7	12.1	17.3	3.4	1.3	4.4	39.5	5.4	6.5	5.7	
Growth of imports of G&S (US dollar terms, in percent)	-3.6	83.2	96.5	26.2	35.8	-9.6	4.7	10.2	2.3	3.4	5.1	2.7	5.5	5.6	5.8	
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	40.5	38.1	40.4	39.7	39.3	38.9	39.5	37.0	35.4	36.5	
Government revenues (excluding grants, in percent of GDP)	9.2	9.9	11.5			10.9	9.7	9.8	10.2	10.4	10.6			11.2	12.6	11.6
Aid flows (in Billions of US dollars) 7/	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2			0.3	0.6	
o/w Grants	0.1	0.1	0.2			0.2	0.1	0.1	0.1	0.2	0.2			0.3	0.5	
o/w Concessional loans	0.1	0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.1			0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.2	4.1	3.8	3.7	3.8	3.9			4.0	3.9	4.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			76.2	71.9	76.0	76.1	75.9	75.7			75.2	74.6	75.1
<i>Memorandum items:</i>																
Nominal GDP (Billions of US dollars)	2.4	2.5	2.9			3.8	4.1	4.8	5.0	5.3	5.7			8.0	15.9	
Nominal dollar GDP growth	-1.9	6.2	14.4			31.2	8.4	14.7	5.8	6.4	6.8	12.2	7.0	7.3	7.1	
PV of PPG external debt (in Billions of US dollars)	...	...	0.6			0.6	0.7	0.7	0.8	0.8	0.9			1.3	2.6	
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...			1.9	1.6	1.1	0.9	0.9	1.0	1.3	1.4	1.1	1.2	
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.1			0.1	0.1	0.1	0.1	0.1	0.1			0.1	0.3	
PV of PPG external debt (in percent of GDP + remittances)	...	...	18.8			16.0	16.2	15.1	15.1	15.1	15.1			15.8	16.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	111.9			44.4	43.7	39.8	40.7	42.6	43.5			49.5	56.2	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.4			2.1	2.0	2.1	2.2	2.5	2.4			1.9	3.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g)] / (1+g+\rho+g)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes project grants (1.5 to 3 percent of GDP annually), exceptional financing (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/ Assumes that PV of private sector debt is equivalent to its face value.

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

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

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

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

Table 2a. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of debt-to GDP ratio								
Baseline	16	17	15	15	15	15	16	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	16	15	15	14	13	12	11	11
A2. New public sector loans on less favorable terms in 2012-2032 2	16	17	16	17	17	18	20	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	16	17	18	18	18	18	19	19
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	16	19	23	23	23	22	22	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	16	17	17	17	17	17	17	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	16	23	27	26	26	26	25	19
B5. Combination of B1-B4 using one-half standard deviation shocks	16	20	25	25	25	25	24	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	16	23	21	22	22	22	23	23
PV of debt-to-exports ratio								
Baseline	47	46	42	43	45	46	52	60
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	47	42	39	39	38	37	36	41
A2. New public sector loans on less favorable terms in 2012-2032 2	47	47	44	47	50	53	67	86
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	47	45	41	42	44	45	52	59
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	47	59	83	85	88	89	95	86
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	47	45	41	42	44	45	52	59
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	47	64	73	74	76	77	81	67
B5. Combination of B1-B4 using one-half standard deviation shocks	47	56	69	70	73	74	80	74
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	47	45	41	42	44	45	52	59
PV of debt-to-revenue ratio								
Baseline	152	170	156	152	148	144	143	132
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	152	157	148	137	126	117	99	90
A2. New public sector loans on less favorable terms in 2012-2032 2	152	173	165	165	166	166	182	189
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	152	177	182	177	173	169	168	155
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	152	192	235	226	219	211	197	143
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	152	174	169	165	161	157	156	144
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	152	235	271	261	252	243	222	149
B5. Combination of B1-B4 using one-half standard deviation shocks	152	205	258	248	241	233	218	163
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	152	237	218	212	207	202	201	185

Table 2b. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032 (continued)
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
Debt service-to-exports ratio								
Baseline	2	2	2	2	3	3	2	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	2	2	2	2	2	2	1	2
A2. New public sector loans on less favorable terms in 2012-2032 2	2	2	2	2	3	3	3	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	2	2	2	2	3	3	2	3
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	2	2	3	4	4	4	3	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	2	2	2	2	3	3	2	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	2	2	2	3	3	3	2	5
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	3	3	3	3	3	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	2	2	2	2	3	3	2	3
Debt service-to-revenue ratio								
Baseline	7	8	8	8	9	8	5	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	7	7	8	8	8	7	4	4
A2. New public sector loans on less favorable terms in 2012-2032 2	7	8	8	9	9	9	8	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	7	8	10	10	10	10	6	9
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	7	8	9	9	10	9	6	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	7	8	9	9	9	9	6	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	7	8	9	10	10	9	6	11
B5. Combination of B1-B4 using one-half standard deviation shocks	7	8	10	11	11	10	7	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	7	11	12	12	12	11	8	11
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	37	37	37	37	37	37	37	37

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009-2032
(In percent of GDP, unless otherwise indicated)

	Actual			Average ^{5/}	Standard Deviation ^{5/}	Estimate					Projections			2018-32	
	2009	2010	2011			2012	2013	2014	2015	2016	2017	Average	2022	2032	Average
Public sector debt 1/	47.8	46.5	41.1			34.6	34.4	32.3	33.0	33.6	34.1		37.4	40.5	
o/w foreign-currency denominated	33.3	32.7	30.0			25.3	25.4	23.5	23.4	23.3	23.2		23.3	22.8	
Change in public sector debt	5.0	-1.3	-5.4			-6.5	-0.2	-2.1	0.7	0.6	0.5		0.7	0.0	
Identified debt-creating flows	3.8	-2.0	-4.3			-8.6	-0.5	-1.9	0.9	0.9	0.8		0.8	-0.1	
Primary deficit	1.3	3.6	2.7	-1.5	7.7	0.6	1.1	1.4	1.6	1.6	1.6	1.3	1.5	1.0	1.3
Revenue and grants	15.3	15.3	17.1			14.8	12.9	12.9	13.1	13.4	13.7		14.4	15.8	
of which: grants	6.1	5.3	5.6			4.1	3.1	3.0	2.9	3.0	3.1		3.2	3.2	
Primary (noninterest) expenditure	16.5	18.9	19.8			15.5	14.0	14.2	14.6	15.0	15.3		15.9	16.8	
Automatic debt dynamics	3.0	-5.4	-6.3			-8.1	-1.5	-3.3	-0.6	-0.7	-0.7		-0.7	-1.1	
Contribution from interest rate/growth differential	-1.6	-3.3	-3.3			-6.9	-1.7	-3.2	-0.7	-0.7	-0.7		-0.7	-1.1	
of which: contribution from average real interest rate	-0.2	-0.9	-0.7			0.3	0.8	0.7	0.8	0.8	0.9		1.1	1.0	
of which: contribution from real GDP growth	-1.3	-2.4	-2.6			-7.2	-2.4	-4.0	-1.5	-1.5	-1.6		-1.8	-2.1	
Contribution from real exchange rate depreciation	4.6	-2.1	-2.9			-1.2	0.2	0.0	0.1	0.0	0.0		...	...
Other identified debt-creating flows	-0.4	-0.2	-0.7			-1.1	-0.2	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.1	0.0	-0.3			-0.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.3	-0.2	-0.5			-0.9	-0.2	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.1	0.7	-1.0			2.0	0.4	-0.2	-0.3	-0.3	-0.3		-0.1	0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	30.4			25.6	25.5	24.2	24.9	25.6	26.3		30.1	34.3
o/w foreign-currency denominated	...	...	19.3			16.3	16.5	15.4	15.4	15.4	15.4		16.1	16.6
o/w external	...	...	19.1			16.2	16.5	15.4	15.4	15.4	15.4		16.1	16.6
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	13.2	5.5	4.7			2.8	3.2	3.5	3.7	3.9	3.9		4.0	3.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	177.8			172.7	198.3	187.9	190.5	191.4	191.2		209.5	217.9
PV of public sector debt-to-revenue ratio (in percent)	...	...	264.0			239.0	262.3	245.5	245.3	246.9	246.8		269.2	272.8
o/w external 3/	...	...	166.1			151.6	169.5	156.2	151.5	147.9	144.3		143.5	132.2
Debt service-to-revenue and grants ratio (in percent) 4/	10.9	12.7	11.8			15.0	16.0	16.3	16.5	17.2	17.3		17.4	18.0	
Debt service-to-revenue ratio (in percent) 4/	18.3	19.6	17.5			20.7	21.1	21.2	21.2	22.2	22.3		22.3	22.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-3.7	4.9	8.1			7.2	1.3	3.5	0.9	1.0	1.0		0.8	1.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.2	5.3	6.0	7.9	6.8	21.3	7.5	13.0	4.9	4.9	5.0	9.4	5.2	5.5	5.3
Average nominal interest rate on forex debt (in percent)	0.8	0.5	0.4	1.2	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.7	0.9	0.9	0.9
Average real interest rate on domestic debt (in percent)	-1.1	-5.1	-1.5	-1.8	3.8	6.3	10.9	11.0	11.4	11.3	10.9	10.3	10.2	6.9	9.2
Real exchange rate depreciation (in percent, + indicates depreciation)	18.0	-6.6	-9.7	-0.8	8.8	-4.7
Inflation rate (GDP deflator, in percent)	8.6	17.9	17.9	11.1	6.6	10.6	4.5	5.3	4.4	4.6	4.8	5.7	4.8	4.7	4.7
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.2	0.1	0.1	0.2	-0.1	0.0	0.2	0.1	0.1	0.1	0.0	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	40.5	38.1	40.4	39.7	39.3	38.9	39.5	37.0	35.4	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 4. Sierra Leone: Sensitivity Analysis for Key Indicators of Public Debt 2012–2032

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	26	26	24	25	26	26	30	34
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	26	24	22	20	19	17	11	4
A2. Primary balance is unchanged from 2012	26	25	23	24	24	24	25	28
A3. Permanently lower GDP growth 1/	26	26	25	26	28	29	40	66
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	26	28	30	32	34	36	46	59
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	26	29	30	30	31	31	35	37
B3. Combination of B1-B2 using one half standard deviation shocks	26	27	28	30	31	32	40	49
B4. One-time 30 percent real depreciation in 2013	26	32	30	30	30	30	33	36
B5. 10 percent of GDP increase in other debt-creating flows in 2013	26	32	30	30	31	31	34	37
PV of Debt-to-Revenue Ratio 2/								
Baseline	173	198	188	191	191	191	210	218
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	173	185	169	154	140	126	83	30
A2. Primary balance is unchanged from 2012	173	196	182	181	178	174	177	181
A3. Permanently lower GDP growth 1/	173	201	194	200	206	211	268	395
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	173	211	225	237	245	252	306	363
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	173	222	232	233	232	229	240	234
B3. Combination of B1-B2 using one half standard deviation shocks	173	208	213	221	226	230	270	307
B4. One-time 30 percent real depreciation in 2013	173	250	231	229	225	221	229	230
B5. 10 percent of GDP increase in other debt-creating flows in 2013	173	246	231	232	230	228	240	233
Debt Service-to-Revenue Ratio 2/								
Baseline	15	16	16	16	17	17	17	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	15	16	17	16	16	16	14	8
A2. Primary balance is unchanged from 2012	15	16	16	16	17	17	17	16
A3. Permanently lower GDP growth 1/	15	16	17	17	18	18	20	25
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	15	17	19	19	20	20	21	25
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	15	16	17	17	18	18	18	19
B3. Combination of B1-B2 using one half standard deviation shocks	15	16	18	18	19	19	19	22
B4. One-time 30 percent real depreciation in 2013	15	17	19	19	20	20	19	21
B5. 10 percent of GDP increase in other debt-creating flows in 2013	15	16	17	18	18	18	18	19

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.



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FOR IMMEDIATE RELEASE
September 17, 2012

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Executive Board Completes Fourth Review Under ECF Arrangement for
Sierra Leone and Approves US\$6.9 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of Sierra Leone's economic performance under a program supported by the Extended Credit Facility (ECF) arrangement. The completion of the review enables the disbursement of an amount equivalent to SDR 4.44 million (about US\$6.9 million), bringing total disbursements under the arrangement to an amount equal to SDR 22.2 million (about US\$34.4 million).

The three-year ECF arrangement for Sierra Leone was approved on June 4, 2010 in an amount equivalent to SDR 31.11 million (see [Press Release No. 10/228](#)).

Following the Executive Board's discussion of Sierra Leone, Mr. Min Zhu, Deputy Managing Director and Acting Chair, issued the following statement:

“Economic growth has been robust and broad-based, reflecting the scaling-up of infrastructure investment and the implementation of projects in mineral sectors. External price shocks and a loose monetary policy stance through mid-2011 have kept inflation in the double digits. Medium-term prospects are favorable, as iron ore production in 2012 is expected to boost growth. However, the outlook is subject to downside risks, mostly stemming from the uncertain global environment.

“To address fiscal slippages incurred in 2011, the authorities have taken corrective measures, establishing a high-level Cash Management Committee and preparing monthly cash-flow statements. These measures improve fiscal management and enhance coordination between fiscal and monetary policies. Administrative efficiency gains and one-off payments from the extractive industries have supported revenues.

“The authorities maintain a prudent debt management strategy. They continue to make efforts to resolve arrears to commercial creditors accumulated before and during the civil war. The authorities are also taking measures to improve debt management capacity to ensure that new loan commitments are consistent with debt sustainability.

“After monetary policy conditions were appropriately tightened in late 2011, the statutory limit on direct central bank financing of the budget was observed, and the Bank of Sierra Leone used its money market instruments proactively to manage liquidity, thus helping lower inflation expectations. Continued tight monetary policy is needed in 2012 to support disinflation.

“Structural reform implementation has been backed by technical assistance from Sierra Leone’s development partners; and focused on public financial management, the financial sector; and private sector development. Continued progress in these areas is needed to underpin fiscal and monetary policy efforts, and support growth prospects.

“Inaccurate data on public sector new nonconcessional external debt provided in December 2011 at the time of the second and third reviews of Sierra Leone’s program under the ECF arrangement resulted in a noncomplying disbursement. In view of the corrective actions by the authorities, the Board decided to waive the nonobservance of the performance criterion that gave rise to the noncomplying disbursement,” Mr. Zhu added.

**Statement by Moeketsi Majoro, Executive Director for Sierra Leone
September 17, 2012**

Introduction

My Sierra Leonean authorities value highly the support from Management and Executive Directors in providing meaningful policy guidance and advice in their efforts to foster socio-economic development, while preserving the gains in macroeconomic stabilization. They appreciate the constructive and fruitful discussions with staff during the review mission in Freetown and the subsequent policy dialogue. While the challenges to implementing the country's development agenda have been daunting, the authorities' poverty reduction strategy 'the Agenda for Change' has undoubtedly made significant strides toward economic transformation. With the planned ushering in of their 'Agenda for Prosperity' in 2013, progress already achieved will be further consolidated and the country's growth potential effectively harnessed, with a view to attaining a more broad-based and inclusive growth. My authorities broadly share the thrust of the staff report, which they consider to be a balanced account of the country's economic policy challenges going forward.

Program performance

My authorities have remained steadfast in implementing transformational social and infrastructure development projects, in the face of limited domestic resources and dwindling external budgetary support. In spite of the many challenges to program implementation, their sustained effort to ensure that the program objectives were achieved, culminated in the attainment of key end-December 2011 quantitative performance criteria—net domestic bank credit to the central government, net domestic asset of the central bank, and gross foreign exchange reserves of the central bank—with comfortable margins. However, the higher cost of some essential expenditure outlays exerted immense pressure on budget execution in 2011 resulting in the accumulation of substantial amounts in unpaid bills. To restore fiscal prudence and maintain the course to achieving the overall objectives of the program, appropriate corrective measures have been instituted aimed at strengthening expenditure and treasury cash flow management. Extra-budgetary resources in the form of signature bonuses from recent issuance of oil exploration licenses are to be utilized to repay the outstanding bills.

On the structural front, progress has been steady as key structural reform measures under the program have been implemented, including in the area of tax administration. As indicated in the staff report, preliminary assessment by staff suggests that all end-June 2012 quantitative performance criteria were fulfilled, with further progress on structural reforms.

Notwithstanding the broadly strong program performance, my authorities unintentionally contracted a non-concessional loan in 2011 thereby breaching the zero limit on such external borrowing under the program. As highlighted in the accompanying report on non-complying

disbursements, the marked decline in the discount factor over the protracted negotiations period rendered the loan, which had otherwise been highly concessional at the inception of the negotiations, non-concessional. Furthermore, delays by China Export-Import Bank in transmitting the final loan approval resulted in the nondisclosure of the information to the Fund prior to the Board reviews of the program in December 2011.

As expressed in my authorities' response to the Managing Director's letter on the subject and in their Letter of Intent, this breach of the performance criterion was inadvertent and, as a result, appropriate remedial measures, including enhanced monitoring of the loan agreement process; reassessment, in consultation with Fund staff, of the concessionality of new loans prior to appending signature; strengthening of the debt data recording process; and preparation of an effective medium-term debt management strategy, have been instituted to prevent a recurrence. In view of these remedial actions and given their renewed undertaking to adhere to all program commitments, my authorities solicit the Executive Board's support for a waiver of nonobservance of the performance criteria on contracting nonconcessional external loans. They also request the Board's support for completion of the fourth review under the ECF arrangement.

Recent economic developments

Improving productivity across key sectors of the economy, notably agriculture and services, coupled with scaled-up public investments in infrastructure, has helped sustain the growth momentum. Real GDP continued its rebound, registering 6 percent in 2011 compared to 5.3 percent the preceding year. The tight monetary policy stance adopted by the authorities in the first half of the year, coupled with stability in the exchange rate, has contained the heightened inflationary pressures towards the end of last year. Annual average inflation rate which stood at 16.9 percent at end-2011, has followed a downward trajectory, registering 13.55 percent in July 2012. The authorities' strict adherence to the new limit on direct central bank credit to the government has also helped anchor inflation expectations. The financial sector remains stable, with most commercial banks adequately capitalized and in compliance with prudential regulations. While exports have expanded steadily, the more than proportionate increase in imports in support of mining projects occasioned a widening of the current account deficit. With the deficit fully financed by the significant capital inflows, the foreign reserves position has continued to improve and the exchange rate has remained relatively stable against major international currencies.

Implementation of the fiscal program in 2011 was challenging. While domestic revenue performance outperformed estimates, partly accounted for by increasing efficiency gains from reforms in tax administration, the unanticipated high cost of key expenditure outlays, notably the authorities' comprehensive pay reform and important infrastructure projects, undermined budget execution. However, as indicated in the authorities' MEFP, prompt action has been taken by my authorities, in consultation with staff, to address the expenditure

overruns and restore budget integrity. Appropriate measures have also been put in place to strengthen expenditure and cash flow management going forward.

Near and medium-term outlook and policies

Evidently, my authorities' Agenda for Change which forms the basis of their poverty reduction strategy has laid the foundation for sustained economic growth and poverty reduction, while, at the same time, succeeded in preserving macroeconomic stability. While transformative achievements have been registered, including in the areas of infrastructure development, electricity generation, human development, economic governance, and the business climate, significant challenges remain. To this end, my authorities plan to usher in a new comprehensive poverty reduction and growth agenda—the Agenda for Prosperity—to consolidate the progress accomplished while promoting economic diversification and improving natural resource management aimed at achieving a more inclusive and pro-poor growth. The policy interventions over the medium term will thus be predicated on priorities set out in the Agenda, expected to take effect in 2013. In the near term, policy will focus on attaining a sustainable fiscal position through necessary fiscal adjustments and tighter monetary policy.

The growth outlook over the medium term remains quite favorable, in spite of the recent downward revisions of the growth estimates primarily on account of weakening world iron ore prices. Real GDP growth is projected at 21 percent in 2012, remaining robust over the medium term as iron ore production intensifies. Sustained activities in key economic sectors, notably agriculture, construction, and services, and the scaled-up infrastructure investment, are expected to support a robust non-iron ore growth over the period. The external outlook is promising, with the current account gap projected to narrow significantly as FDI-related imports decline and iron ore exports increase. As the exchange rate stabilizes over the medium term, the gross foreign exchange reserves position is expected to strengthen further averaging about 5 months of imports coverage. This development, coupled with a more proactive monetary policy stance, would help contain inflationary pressures and return inflation to single digits.

Fiscal and debt policies

Mindful of the challenges encountered in implementing the fiscal program in 2011, my authorities agree with staff on the need for instituting necessary fiscal adjustments to restore public finances to a sustainable path and preserve the medium to long-term sustainability of the public debt. In this regard, effort will be made to further enhance revenue mobilization and rationalize expenditures, while, to the extent possible, refraining from domestic bank financing of the deficit, the anchor on which the program is predicated. Increased efficiency of the tax administration will be pursued, including through strengthening of the Medium Taxpayer Office and implementation of a new small taxpayer regime. Additionally,

parliamentary approval of critical revenue-enhancing legislation, notably the Extractive Industry Revenue Act and resource rent tax on mining operations, will be vigorously sought.

The streamlining of expenditure and strict monitoring of budget execution will form an integral part of the fiscal adjustment process. Non-statutory recurrent spending will continue to be contained while domestically-financed capital expenditures constrained within the limits of the fiscal program. My authorities plan to maintain the recently-established high-level cash management committee to oversee the expenditure commitment process. Also, efforts at strengthening public financial management, including by accelerating the roll out of the Integrated Financial Management Information System (IFMIS) to additional MDAs will be intensified.

My authorities welcome the latest update of staffs' debt sustainability analysis which reaffirms their assessment that the country's risk of debt distress remains moderate. They are, nonetheless, cognizant of the vulnerability of the long-term debt outlook to adverse exogenous shocks affecting mostly exports, exchange rate, and real growth. While my authorities remain committed to contracting external borrowing at highly concessional terms, they are concerned that the deterioration of the US dollar discount rate arising from the global financial crisis has kept the grant element of loans contracted from some of the country's major development partners—the People's Republic of China EXIM Bank, OPEC Fund for International Development (OFID), Kuwait Fund for Arab Economic Development (KFAED), Ecowas Bank for Investment and Development (EBID), Islamic Development Bank (IDB)—at below the 35 percent concessionality threshold required by the Fund. Under this circumstance, securing concessional external financing for critical transformative infrastructure and social development projects would be impossible, with the potential to undo gains already achieved in poverty reduction and growth inclusiveness, while constraining further progress in this regard. Going forward, due consideration will have to be given to this development and appropriate provision made to allow financing of important development projects.

Monetary and exchange rate policies

The current tight monetary policy stance will be maintained in order to contain inflationary pressures and achieve price stability. To this end, my authorities will ensure strict adherence to the new regulation on direct central bank financing of the Government budget, while further strengthening its liquidity forecasting and management framework and deepening secondary market operations. Efforts will be made to contain the growth of monetary aggregates within limits consistent with the program inflation objective. The monetary policy rate will remain critical in transmitting policy impulses to the market thereby anchoring inflation expectations. Over the medium term, inflation is expected to follow a downward trajectory, returning to single digits.

The flexible exchange rate regime has served the country well, especially in facilitating the needed adjustment of the economy to recent severe exogenous shocks. While remaining committed to maintaining the current regime, the authorities are mindful of the challenges of managing domestic liquidity in the face of increased foreign currency denominated government revenues. Thus, in addition to smoothening short-term exchange rate volatility, the central bank will proactively intervene in the foreign exchange markets to sterilize the excess liquidity build up from these revenues and to also absorb any externally-financed budget spending.

Structural reforms

Over the near to medium term, my authorities will seek to consolidate progress in implementing structural fiscal reforms, including in strengthening tax administration, minimizing revenue leakages, and improving public financial management. As indicated earlier, important tax legislations relating to the extractive industries will also be pursued. In addition, advances in rationalizing the institutional arrangements for public investment planning will be sustained allowing for the development of a three-year Public Investment Plan consistent with the medium-term expenditure framework.

Furthermore, my authorities will continue their efforts at preserving the stability and health of the financial sector by reinforcing the banking supervisory and regulatory framework in line with international best practices. Specifically, revisions to the prudential guidelines on banking supervision to ensure consistency with the amended Banking Act and compliance with the Basel Core Principles, will be expedited. Similarly, progress in adopting risk-based supervision will be consolidated. Furthermore, my authorities will work to develop the payments infrastructure and regulatory framework necessary for modernizing the payments system, financially supported by the African Development Bank.

Conclusion

My authorities remain committed to pursuing sound macroeconomic policies and undertaking extensive structural reforms, within the context of the ECF arrangement, to promote sustainable and inclusive growth, poverty reduction and social development. Cognizant of the need to return public finances to sustainable levels and preserve medium to long-term debt sustainability, they undertake to implement the required fiscal adjustments over the near term. My authorities consider the Fund's and other development partners' policy advice and financial assistance critical to successful implementation of their development agenda.