INTERNATIONAL MONETARY FUND

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SIERRA LEONE

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

March 2021

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 15, 2021, following discussions that ended on January 22, 2021 with the officials of Sierra Leone on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on February 26, 2021.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Sierra Leone.

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

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PRESS RELEASE

PR21/69

IMF Executive Board Approves US$50 million Disbursement to Sierra Leone to Address the Continuing Impact of the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The Sierra Leonean authorities' quick and decisive actions mitigated the impact of the COVID-19 pandemic, helping prevent a larger loss of life and even deeper economic costs.
- However, the pandemic will have long-lasting economic and social effects, and shrinking incomes, rising poverty, inequality, and food insecurity remain concerns.
- To help meet the authorities' urgent financing needs and support their continued response to the pandemic, the IMF has approved a US$50.37 million disbursement under the Rapid Credit Facility.

Washington, DC – March 15, 2021 The Executive Board of the International Monetary Fund (IMF) today approved the disbursement of SDR 35.26 million (US$50.37 million or 17 percent of quota) under the Rapid Credit Facility (RCF) to Sierra Leone to help meet the urgent balance of payments and fiscal needs stemming from the deep and persistent impact of the pandemic.

The Government's quick and decisive actions to contain COVID-19 prevented a larger outbreak and saved lives, yet they also came at an economic cost. Containment measures disrupted the transport of goods within the country, with a heavy impact on the services sector. At the same time, exports weakened significantly in 2020 due to weaker mining production and lower global demand.

The authorities' policy response has focused on saving lives and protecting livelihoods. The Bank of Sierra Leone (BSL) swiftly introduced a special facility for importers to help prevent disruptions to the supply of food and essential goods. Benefiting from the lessons of the Ebola health crisis, the authorities effectively deployed resources to support both health and containment efforts. Their *Quick Action Economic Response Programme* addressed the broader economic and social response, via support to farmers, direct cash transfers to vulnerable households, and labor-intensive public works.

The economic costs of the crisis—including setbacks to the Government's revenue mobilization goals—together with the necessary crisis response have exacerbated the already-tight fiscal financing and strained debt position. Continued support from development partners will be vital to recapture pre-crisis momentum and ensure a sustainable, inclusive recovery.

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

"Sierra Leone is grappling with serious and persistent effects of the COVID-19 pandemic. While the immediate health risks appear contained, 2021 will be another challenging year. The economic and social impact is likely to be protracted, exacerbating longstanding development challenges and the strained financing situation.

"The authorities have responded promptly to the crisis. In 2020, they scaled up health and other priority spending, consistent with their *Quick Action Economic Recovery Programme*. The Bank of Sierra Leone's special credit facility helped ensure that food supplies were not disrupted. The 2021 budget continues to prioritize COVID-19 and recovery-related spending within a tight budget envelope.

"Emergency financing from the IMF under the Rapid Credit Facility will help meet urgent external and fiscal financing needs in 2021, and ensure that the authorities can maintain their response and recovery efforts. In line with their National Development Plan priorities, they continue to strengthen governance, including transparently reporting on their COVID-19 response, and publishing details of large emergency-related procurement contracts.

"Looking ahead, the authorities remain committed to maintaining macroeconomic and fiscal stability, in line with their medium-term reform program supported by the Extended Credit Facility. They are taking steps to address vulnerabilities to debt sustainability, with IMF technical assistance. Nevertheless, Sierra Leone's large development needs and tight financing situation will require concessional support, ideally grants, from the international community in the coming years."

SIERRA LEONE

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

February 26, 2021

EXECUTIVE SUMMARY

Context: Sierra Leone continues to grapple with the serious and persistent economic and social effects of the pandemic. Containment measures and trade disruptions in 2020 weakened domestic demand and exports and caused domestic revenues to fall. Moreover, food insecurity has risen from its already-high pre-COVID-19 level. 2021 is set to be another challenging year, with the 'second wave' of infections and vaccine-related uncertainties posing further risks to the recovery. As import growth picks up and development partner support returns to pre-2020 levels, Sierra Leone faces urgent external and fiscal financing needs (both around about 2 percent of GDP). Uncertainty about the outlook and larger near-term financing gaps have impeded the immediate resumption of the program under the Extended Credit Facility (ECF). The authorities are therefore requesting a disbursement under the Rapid Credit Facility (RCF) of 17 percent of quota (SDR 35.26 million). This follows the June 2020 RCF (50 percent of quota or SDR 103.7 million) and would bring total access for the past 12-month period to 82 percent of quota (or 5½ percent of GDP), well within the 150 percent of quota annual PRGT access limit. The authorities also received debt relief under the Catastrophe Containment and Response Trust (CCRT) and are participating in the Debt Service Suspension Initiative (DSSI).

Policy recommendations: Staff agreed that continued support is needed to maintain COVID-19-related priority spending, ease human suffering, and help the recovery. Elevated—and intertwined—health and economic risks make for a highly uncertain outlook. With the added debt strains from the COVID-19 shock, sustained fiscal adjustment over the medium term and a cautious approach to financing will be vital to preserve debt sustainability. To signal their commitment to sustainable policies, the authorities have completed two prior actions to support better debt management and domestic revenue mobilization. Financial support mechanisms should aim to limit contingent risks and, if the central bank is involved, should remain temporary, limited and be governed by clear rules. Heightened financial risks require close monitoring. Renewed momentum in reporting the COVID-19-related emergency response will ensure accountability in the use of scarce public resources and support the authorities' broader anti-corruption efforts. In this spirit, the authorities recently published the

unaudited financial statements for their dedicated COVID-19 fund and all large COVID-19-related procurement contracts.

Staff supports the authorities' request: In staff's view, Sierra Leone meets the eligibility criteria for a disbursement under the RCF. Although the COVID-19 shock has further strained the debt situation and Sierra Leone remains at high risk of debt distress, the DSA shows debt to be sustainable on a forward-looking basis. The capacity to repay the Fund is adequate, though subject to risks over the medium-term.

Approved By
Abebe Selassie (AFR) and Anna Ilyina (SPR)

The staff team comprised Karen Ongley (head), Natalia Aivazova, Celine Bteish, and Rosalind Mowatt (all AFR), Masashi Saito (SPR), Fazeer Rahim (FAD), Monique Newiak (Resident Representative), and Michael Saffa (Economist, Freetown office). Discussions took place by videoconference from January 12-22, 2021. Riaan van Greuning (FIN) and Shelton Nicholls (MCM) provided support to the team and also joined some discussions. Executive Director Ita Mannathoko, Alternate Executive Director Willie Nakunyada, and Advisors James Garang and Patterson Ekeocha represented the Office of the Executive Director during the discussions.

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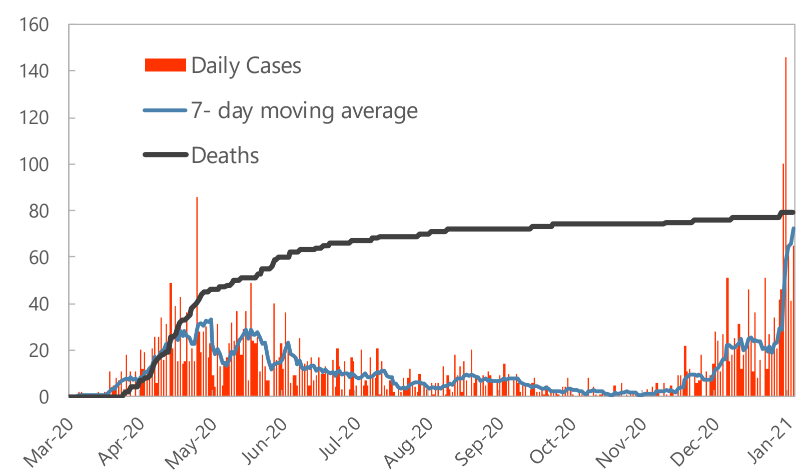
CONTEXT

1. **Sierra Leone has responded admirably to the severe COVID-19 shock, but its inherent fragility means the road to economic recovery will be challenging.** While the immediate health risks from the current pandemic had been contained, the country is experiencing a second wave with reported infections escalating since late December. The economic and social effects are likely to be protracted, with associated large financing gaps and implications for the adjustment path. Accordingly, the authorities are seeking a second disbursement under the RCF as a bridge to a delayed return to the Extended Credit Facility (ECF)-supported program.

- *Health situation:* The daily number of new cases has accelerated, with several peaks in early 2021. To help stem the rate of infections, the authorities temporarily introduced containment measures in late January/early February—such as restrictions on travel to/from the Western Area, and operations of restaurants and bars, as well as a night curfew, which have since been eased. Testing rates have increased from very low levels earlier in 2020, but challenges in testing (especially among high-risk populations and in hospitals) and risks of spillovers from the rest of the world remain, amidst a reopened airport, faster transmitting global variants of the virus, somewhat looser containment measures and increasing COVID-19 fatigue. Sierra Leone is part of the COVAX initiative, which is expected to initially cover 80 percent of the direct cost of vaccines for an estimated 20 percent of the population. The government is also exploring options to supplement this with additional supplies. The timeline for receiving vaccines is currently unclear.

New COVID-19 Cases and Deaths
(March 31, 2020-February 2, 2021)



- *Socio-economic situation:* The economic and social effects have been severe, with shrinking household incomes and employment opportunities, high food prices, and rising poverty and food insecurity looming large. The impact of the pandemic—particularly on the fiscal and external sectors—is likely to be more persistent than expected at the time the first RCF (RCF1) was approved in June 2020.

- *Program engagement:* While the authorities remain committed to the ECF-supported program, more time is needed to reorient the program to current circumstances. In that context, an RCF disbursement will help to fill financing gaps and support the economic recovery, providing crucial breathing space to recalibrate the ECF-supported program while avoiding an even sharper adjustment or undue domestic financing pressures that could be detrimental to financial stability in 2021.

IMPACT OF COVID-19 AND POLICY RESPONSE

2. **Assertive actions to help contain the spread of COVID-19 have come at an economic cost.** Significant containment measures were in force from mid-March through July, including curfews and travel restrictions. Inter-district travel restrictions and border closures disrupted the transport of goods within the country, with a heavy impact on the services sector.[1] In addition, the pandemic disrupted mining production and exports, although not to the extent anticipated at the time of RCF1.[2] Inflation rose as a result of higher food prices, particularly in the second quarter, but moderated in the second half of the year to levels well below the forecast at the time of RCF1 (10.4 percent y-o-y in December against the 17.5 percent forecast), despite significant growth in monetary aggregates.

3. **While exports weakened significantly, subdued imports and additional financing from development partners helped cushion the external sector impact in 2020.** Although the terms of trade did not deteriorate as anticipated at the time of RCF1, exports weakened significantly in 2020 due to weaker mining production[3] and lower global demand. However, serious pressure on gross official reserves has not yet been witnessed, due to weaker imports and substantial external support, including the first RCF loan disbursement, the CCRT, the DSSI, and larger-than-expected grants. In contrast to expectations at the time of RCF1, the exchange rate depreciated only moderately over the year to December (4.4 percent y-o-y).

4. **Survey data suggest that the pandemic substantially worsened food insecurity and poverty.** Sierra Leone imports much of its food and other essential goods, including an important proportion of its main staple, rice. The number of people who are food insecure has increased significantly since the pandemic began, from about 50 percent to about 60 percent of the population, due largely to reduced incomes and higher food prices.[4] At the same time, large-scale food supply disruptions did not occur as feared.

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[1] The stringency of containment measures between mid-March and July in Sierra Leone, as measured by the Oxford Stringency Index, was broadly in line with the Sub-Saharan African regional average.

[2] GDP growth for 2020 is somewhat less negative than projected at the time of RCF1 (-2.2 percent vs. -3.1 percent), partly due to better-than-expected mining production figures, but also due to refinements to estimates of the impact of the pandemic on the service sector.

[3] Weaker mining production can also be attributed to an ongoing legal dispute with SL Mining, which prevented iron ore production from resuming at the Marampa mine, as had been expected in the second half of 2020.

[4] According to a June 2020 survey by Sierra Leone's Ministry of Agriculture and the World Food Program, more than three in five people suffer from food insecurity, up from about half the population in January 2020. Respondents

(continued)

5. The authorities' policy response to COVID-19 has hinged on saving lives and supporting livelihoods:

- *Main economic and social response:* The supplementary budget passed in July was largely in line with RCF1 forecasts (Box 1). It includes spending on the direct COVID-19 response—health supplies, additional health care workers, quarantine expenditures, and an awareness campaign—as well as measures to stimulate economic recovery in line with the goals of the *Quick Action Economic Response Programme (QAERP)*, including spending to support farmers and labor-intensive public works.

- *Cash transfers:* One-time transfers were made to 29,000 households with informal workers deemed most vulnerable to the pandemic, while persons with disabilities also received cash and in-kind support during the lockdown. Building on ongoing World Bank support to widen social protection nets, the targeting and enrollment of a further 35,000 extremely poor households has been completed, and cash transfers to beneficiaries commenced in December 2020. Coverage will be extended to an additional 36,000 beneficiary households in Freetown, starting February 2021, funded by the European Union.

- *Arrears clearance:* To help cushion the impact of the pandemic on the private sector, the Government reprioritized some actions under its arrears clearance plan, paying down arrears (including unpaid checks) in the order of 2½ percent of GDP. This prioritized small- and medium-sized suppliers expected to have fewest buffers and be hardest hit.

- *Special Credit Facility (SCF):* The Bank of Sierra Leone (BSL) introduced a loan facility for importers to ensure that the supply of food and essential goods was not disrupted. Since the SCF was introduced, the BSL has disbursed about Le 495 billion of the Le 500 billion (US$50 million) available. This helped to prevent shortages of essential goods and keep inflationary pressures in check.

- *Other monetary measures:* The BSL also took early steps to ensure adequate liquidity in the financial system, reducing the monetary policy rate (MPR) and increasing the reserve requirement maintenance period in March 2020.[5] The BSL reduced the MPR again from 15 to 14 percent following the December 2020 Monetary Policy Committee meeting, in response to easing inflationary pressures.

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reported lack of money and travel restrictions as the primary reasons for difficulties in accessing food. A July 2020 World Bank survey found that most households experienced a decrease in income since March, with most also reporting that it was harder to get enough good food to feed their families compared to the same period in 2019, due to decreased income and higher prices. Updates to both these surveys were being carried out at the time of the mission, but results are not available yet.

[5] See *Request for Disbursement under the Rapid Credit Facility* (IMF CR/2020/196).

Box 1. Preliminary Assessment of 2020 Emergency Spending

Estimated spending on the overall emergency response in 2020 appears to have been broadly as envisioned during RCF1 discussions. The 2020 supplementary budget reflected the anticipated size of the response, although it shifted spending allocations somewhat towards health and economic support measures (reflecting emerging information on the impact of the crisis). Available data suggest that implementation was mixed, with differences in execution across categories.

Emergency spending in the supplementary budget approved in July 2020 was broadly in line with expectations during RCF1 discussions, with some reprioritization. By July, the authorities had begun to gradually ease restrictions. With the prospect of less prolonged lockdowns, they reprioritized the allocation for direct containment costs towards the health and economic response. With the BSL special credit facility operating successfully but not over-stretched by July 2020, they also decided not to supplement it with a concessional loan facility. While development partners continued to provide social support, planned budgeted spending on social support was lower-than-expected compared to RCF1, and prioritized towards direct support for, and ensuring incomes to employees in, the hardest hit tourism sector and aviation sector. The supplementary budget also provided additional allocations for health expenditures (such as upgrading laboratories, ambulance services, and hospitals), for economic support via public works, and other measures to improve economic and social wellbeing (supply of water, rural electrification).

Outturn through 2020Q3 and preliminary 2020Q4 estimates point to varied implementation across budget items. Spending on containment was higher-than-budgeted, reflecting uncertainties with the virus and difficulties in projecting costs for enforcing restrictions. Public health spending (excluding spending by development partners) is estimated to be slightly higher-than-budgeted, including due to upticks in cases towards year end. Spending on the economic and social response was somewhat lower-than-budgeted, including due to delays in procurement. Together with shifting the start of the micro credit scheme to 2021, underspending on these items more than offset higher-than-budgeted spending on roads.

Table: Sierra Leone: Budgeted and Implemented Emergency Spending

	Planned Spending		2020 Spending Outturn	
	Financing need (June 2020 RCF)	July 2020 Budget Allocation	2020Q1-Q3	2020 (estimate)
	(Billions of Leone)			
Initial Containment Response	**294**	**73**	**103**	**143**
Health Sector Response	**330**	**387**	**242**	**410**
Health Sector Resone Plan[1]	**330**	**275**	**223**	**375**
Other Health Sector Spending		**111**	**19**	**35**
Social and Economic Response	**625**	**921**	**577**	**787**
QAERP	**625**	**569**	**448**	**634**
Establish and maintain a stock and price monitoring system for essential commodities	5	-	-	-
Special loan facility (local and foreign currency) to businesses at concessional rates	100	-	-	-
Commence national micro credit scheme	50	50	4	4
Social Safety Net[1]	110	55	48	48
Cash Transfers and Food Assistance	*110*	*15*	*13*	*13*
Support to Aviation Sector		*20*	*30*	*30*
Support to Tourism Sector (Hotels)		*20*	*5*	*5*
Road work (trunk, feeder, township roads)	220	315	300	393
Provide farm inputs including chemicals and seedlings to farmers	100	71	30	45
Support to farmers to tractors/machinery and extension services to farmers	40	39	67	145
Other economic and social response		**351**	**128**	**152**
Tree Planting and Re-afforestation		40	17	24
Districts Electrification Project		146	36	40
Support to Agriculture/COVID-19 Response		20	7	7
Water Supply Projects		145	69	82
Total COVID19-related Budgetary Expenditure	**1,249**	**1,380**	**922**	**1,340**
in percent of non-iron ore GDP	*3.0*	*3.3*		*3.2*

[1]Excludes external financing identified at time of discussions for the June 2020 RCF that is not directly implemented through the budget (Le 93 bn. on health response; Le 40 bn. in social transfers)

6. Fiscal outcomes for the first three quarters of 2020 and preliminary fourth quarter estimates suggest a significant—but less than initially expected—widening of the deficit. The large shock to domestic revenue in 2020, as anticipated at the time of RCF1, has been borne out by preliminary performance through end-2020. This reflected both the weakening of business activity and increased challenges in revenue collection due to lockdowns and social distancing measures, despite the National Revenue Authority's sustained effort to improve compliance and broaden the tax base bringing in revenues slightly above budget projections. Preliminary data indicate that spending in 2020 was somewhat lower than expected within the supplementary budget, mainly on the back of lower-than-expected domestic capital expenditure (reflecting procurement challenges), but higher-than-budgeted expenditures on goods and services. On the back of these developments, the overall balance is estimated to be 5½ percent of GDP in 2020, against 6.8 percent projected at the time of the RCF.

Text Table 1. Sierra Leone's COVID-19 Response & the 2020 Budget

	2nd ECF Review 1/	First RCF 2/	Suppl. Budget 3/	Current Projection
		(Billions of Leone)		
Domestic Revenue	6,467	5,399	5,399	5,507
Grants	1,762	2,308	2,714	2,122
CCRT	0	243	243	352
Expenditure	9,687	10,784	10,852	10,249
Wages	3,175	3,175	3,339	3,276
Goods and Services	1,058	1,058	1,032	1,390
Subsidies and Transfers	1,018	1,018	1,293	1,174
Interest	1,258	1,261	1,261	1,209
Capital Expenditure	2,874	2,786	3,602	3,020
of which: Domestic	1,060	960	1,776	1,311
Other	305	305	325	180
Unallocated COVID-19 spending 3/	0	1,182	0	0
Overall Balance	-1,458	-2,834	-2,496	-2,269
in percent onf non-iron ore GDP	*-3.3*	*-6.8*	*-6.0*	*-5.5*

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

1/ The fiscal projections at the time of the second review under the ECF-supported program were in line with the original 2020 budget.

2/ Grants and CCRT for the first RCF request (June 2020) includes support presented as provisional at the time of the request.

3/ At the time of the first RCF request in June 2020, the additional fiscal cost of the COVID-19 response (QAERP) was estimated at Le 1,182 billion. The July supplementary budget was broadly consistent and allocated this spending along standard budget categories.

7. Ample liquidity saw interest rates on domestic government securities fall in the second half of 2020. Substantially larger than usual inflows from development partners fueled a monetary expansion in 2020, with interest rates on government debt falling sharply. With high levels of excess liquidity midyear from the bunching of external disbursements and slowdown in private sector credit, the BSL used a mix of repos and FX sales to partially mop up domestic currency liquid balances from the system. However, high levels of liquidity persisted and yields on government securities remained negative in real terms through end-2020. There are initial signs that this trend may be reversing, with excess reserves declining in December and real interest rates on government securities moving up to marginally positive levels in January. Interest rates for private sector credit have not shifted, reflecting the current higher risk premium in lending to the private sector and the underdeveloped transmission mechanism. Banks remain adequately capitalized, but NPLs remain high (18.5 percent of gross loans in September 2020 compared to 16.8 percent at end-2019).

8. **Acute shortages of domestic currency emerged in late December 2020 but have since been resolved.** Cash withdrawals progressed at a faster pace than typical seasonal patterns would have predicted, while re-deposits of cash in the banking system did not occur at their usual rate as the year progressed. This led to shortages of local currency at both commercial banks and the BSL. The BSL allowed some foreign exchange restrictions[6] to lapse ahead of time to allow for some of this demand to be met in foreign currency. A new shipment of local currency was received in mid-January and the authorities report that the problem has now been resolved. The BSL is investigating the potential causes of large growth in currency outside the banking system to better inform their forecast of cash demand, particularly in the context of COVID-19-related uncertainty.

OUTLOOK AND RISKS

9. **Notwithstanding a partial recovery with growth turning positive in 2021, the economic environment will remain weak.** External demand looks set to be more favorable to growth in 2021 than assessed at the time of the RCF1. Yet, Sierra Leone's export sector remains small and the benefits will largely be offset by domestic demand lingering in negative territory, particularly amid sizeable fiscal adjustment and the budgeted unwinding of the COVID-19 response. Even without a further increase in COVID-19 infection rates, the pandemic will continue to be a drag on the economy, with 2021 growth barely returning Sierra

Text Table 2. Sierra Leone: Macroeconomic Framework, 2019-23

	2019	2020	2020	2021	2021	2022	2023
	Est.	RCF 1	Proj.	RCF 1	Proj.	Proj.	Proj.
(In percent of non-iron ore GDP unless otherwise indicated)							
GDP at constant prices (percent change)	5.5	-3.1	-2.2	2.7	3.0	3.6	3.8
Excluding iron ore	5.3	-2.5	-2.0	2.3	2.4	3.6	3.7
Consumer prices (end-of-period)	13.9	17.5	10.4	13.5	13.3	12.1	10.8
Gross international reserves (excluding swaps, months of next year's imports)	3.8	4.2	4.7	4.1	4.7	4.4	3.5
Current account balance (incl. grants)	-22.3	-15.8	-15.0	-14.7	-14.4	-14.5	-14.7
Excl. grants	-24.2	-20.0	-19.8	-18.1	-16.9	-16.9	-17.1
External public debt	44.2	55.0	45.8	57.1	48.8	48.3	47.2
Revenue (excl. grants)	14.6	13.0	13.3	13.8	13.4	13.9	14.5
Domestic primary balance	-0.8	-4.9	-4.0	-0.4	-1.5	0.7	1.6
Overall Balance	-3.1	-8.2	-5.5	-5.2	-4.2	-2.7	-2.3

[6] These restrictions were put into place in 2019, and, among other things, restricted individuals, businesses and organizations in Sierra Leone from holding more than US$10,000 or its equivalent in foreign currency outside of the banking system.

Leone's real GDP to 2019 levels. The gradual pickup of mining activities will help to buoy growth over the medium-term. Real GDP per capita is projected to recover some of its losses but will remain below 2019 levels for the next 2-3 years.

10. Substantial risks remain. Uncertainties related to the virus could see a possible further surge, requiring a scaling up of containment measures and health spending (Box 2). Challenges in obtaining and distributing vaccines could delay normalization, and the cost of administering them may be substantial, despite initial indications of financing by development partners (and not yet reflected in the baseline due to uncertainty). Separately potential resurgence of the Ebola virus disease in Sierra Leone, on the back of the outbreak in Guinea declared mid-February, would pose a substantial threat to lives and the economy, despite deployable vaccines. Higher spending needs or lower-than-expected support from development partners could exacerbate the already strained fiscal and debt sustainability situation. Risks to inflation would arise from a larger-than-anticipated exchange rate depreciation, or higher-than-projected monetary financing of the deficit, particularly if the authorities face delays in external financing (including from the IMF), difficulties accessing sufficient domestic bank financing, or challenges in further reprioritizing expenditures in the event of a shock. Food price inflation might remain high given the heavy reliance on food imports, putting continued pressure on an already largely food insecure population. Financial stability risks are elevated as a result of lower interest rates on government securities and high non-performing loans. Delays in resuming iron ore production or in bringing new mines on stream could undermine exports and worsen external imbalances. Policy slippages, amidst heightened social and political pressure—particularly given existing capacity constraints and the already tight budgetary situation—or lack of progress on anticorruption reforms could aggravate the above risks. In this context, increased tensions between the two main political parties could stall reform momentum and jeopardize nascent investor confidence.

11. Sierra Leone faces an urgent balance of payments (BOP) financing need in 2021. Following weaker imports in 2020, imports are likely to normalize in 2021 given the country's heavy reliance on imports of food and essential goods. However, although exports are expected to recover in 2021 (as iron ore production gradually resumes and global demand improves), the trade balance would remain in deficit. Further, budget support grants are projected to normalize in 2021 from their exceptional 2020 levels, and these are expected to be weaker than projected at the time of RCF1 (additional support in 2020 was partly made available by advancing support intended for future years). The combined impact of these developments is expected to result in larger overall BOP deficits (and faster drawdown of reserves) than projected at the time of RCF1, which amid heightened uncertainty, gives rise to an urgent BOP gap of around US$86 million (about 2 percent of GDP) in 2021.

Box 2. Illustrative Scenario—Possible Impact of More Serious 'Second Wave'

The 'second wave' of COVID-19 infections risks further complicating the recovery in 2021 and the government responded with a new round of temporary restrictions in late January. While more sustained infections may necessitate additional actions to contain the spread and respond to the health effects, the likelihood or extent of an additional response was unclear at the time of RCF2 discussions. This box illustrates the possible impact of sustained high levels of COVID-19 infection, and more stringent containment measures than projected under the baseline. In discussing how to handle these uncertainties, staff and the authorities favored moving ahead with the current RCF2 request to avoid more severe near-term disruptions, and continuing to evaluate the magnitude of any additional shock and the appropriate policy response when resuming ECF discussions.

Assumptions: The scenario assumes containment measures in place for a period of around three months, including restrictions on inter-district travel, and restaurants and entertainment, as well as a nighttime curfew, but stops short of assuming the closure of the international airport and full lockdowns. It also assumes that elevated case numbers persist for the first half of 2021.

Implications: Based on patterns observed in 2020, these containment measures could result in a further contraction (relative to 2020) in some service sectors (namely trade, tourism, and transport), and more muted growth in others (notably agriculture and mining). In these circumstances, economic growth in 2021 would decrease to 0.7 percent. Revenues suffer as a result of lower GDP and restrictions disrupting administration efforts (about Le 170 bn), while health, containment and other social expenditure would need to be scaled up (+Le 700 bn). Exports and FDI would be lower than in the baseline due to the impact of weaker mining production. While lower growth would reduce import demand, the reduction in imports is smaller than the impact on exports, given Sierra Leone's dependence on imports of food and essential goods, leading to a wider current account deficit.

Comparison of baseline and alternative scenarios for 2021

	2021	
	Baseline	Alternative
(In percent of non-iron ore GDP unless otherwise indicated)		
GDP at constant prices (percent change)	3.0	0.7
Excluding iron ore	2.4	0.2
Consumer prices (percent change, eop)	13.3	14.0
Current account balance (incl. grants)	-14.4	-15.0
Excl. grants	-16.9	-17.5
Revenue (excl. grants)	13.4	13.3
Domestic primary balance	-1.5	-3.4
Overall Balance	-4.2	-6.1
BOP financing gap (USD million) 1/	0.0	30
Fiscal financing gap (Le billion) 1/	0.0	872

Sources: Sierra Leonean authorities; and IMF staff estimates.
1/ After accounting for budget support from the World Bank and IMF.

Financing gaps: Illustratively, a shock of this magnitude could open up a balance of payments financing gap of about US$ 30 million (0.7 percent of GDP), and a fiscal gap of Le 872 billion (1.9 percent of GDP). Closing these gaps would require a combination of additional (grant) financing and fiscal reprioritization measures.

12. **Significant uncertainties in 2021 threaten reserve adequacy and underpin the urgent BOP need.** End-2021 gross international reserves are projected to be at around 4.7 months of the following year's imports, contingent on prospective grants from the World Bank and the proposed RCF2 disbursement. Absent that, reserve coverage would fall to around 4.1 months of imports. There are larger-than-usual uncertainties in 2021, including the duration of the COVID-19 pandemic and severity of the second wave, and related import needs for health and essential goods, access to and financing for vaccines, as well as the intermingled risks for resuming iron ore production and exports, FDI inflows, and global demand. The pressure on reserves in the aftermath of the Ebola

crisis demonstrates these vulnerabilities.[7] Maintaining reserve coverage at this level is therefore assessed to be critical to avoid an immediate and severe economic disruption, and ensure the supply of health care, food and essential goods imports vital to the recovery.[8] Sierra Leone is also projected to have a BOP financing gap after 2023, with reserve coverage projected to decrease over the medium term even with the proposed RCF2 disbursement, as the current ECF-supported program ends in 2022 and debt service continues to increase, while external budget support grants are projected to remain below the 2020 level.

POLICY ISSUES

Policy discussions focused on the need to continue supporting the economy in the context of the ongoing COVID-19 pandemic, while also charting a path forward for a return to the ECF program. Staff stressed that economic support should be undertaken in a manner which maintains fiscal and debt sustainability, minimizes contingent fiscal risks, preserves central bank autonomy and ensures transparency and accountability in reporting. Discussions also focused on financial stability risks, which are heightened as a result of the pandemic and require close monitoring.

A. Fiscal and Debt Sustainability

13. The 2021 fiscal stance strikes a delicate balance—addressing COVID-19 needs and supporting the recovery within a serious financing constraint. While domestic revenue is expected to increase, the lingering impact of COVID-19 is slowing the recovery of revenue mobilization (now projected to be 13.4 percent of GDP in 2021, compared to 13.8 percent in the RCF1). This, together with lower-than-expected external support (discussed below), has necessitated a substantial adjustment, with the 2021 budget set to deliver a contraction of the domestic primary balance of some 2½ percent of GDP.[9] Faced with a necessarily smaller expenditure envelope, the authorities have prioritized spending on health, food security, and labor-intensive public works, in line with their QAERP/COVID-19 response priorities (Box 3). As even deeper expenditure cuts would be counterproductive and undermine the recovery, the remaining fiscal financing gap is about 2 percent of GDP in 2021 (Text Table 3). With domestic budget financing at the limit of what the banking system can bear and support from other development partners not expected until mid-to-late 2021, a quick injection of liquidity via the RCF (on-lent to the budget) along with

[7] The exchange rate came under pressure in the wake of the twin shocks of Ebola and commodity prices. As external support fell post-shock, the Government had to resort to central bank financing to maintain essential supply, resulting in inflation and pressure on the exchange rate, while regular FX auctions by the BSL to stem depreciation and meet FX demand depleted reserves. See CR/17/154.

[8] Reserve coverage in 2021, assuming the proposed RCF2 disbursement and prospective grants from the World Bank, is projected to be at around 4.7 months of the next year's imports or 4.8 months of the same year's imports. The Fund's reserve adequacy assessment tool for credit-constrained economies suggests that this reserve coverage is broadly adequate, particularly in light of the more pronounced uncertainty in 2021, including from the second wave of the COVID-19 pandemic and the new Ebola outbreak in Guinea, and the associated exceptional uncertainties.

[9] The contraction in the overall fiscal balance is more limited (0.6 percent of GDP) due to lower grants in 2021.

additional World Bank budget support, would avoid damaging delays in executing the budget or exceptional recourse to domestic financing (when acute pressures are already emerging in the banking system).

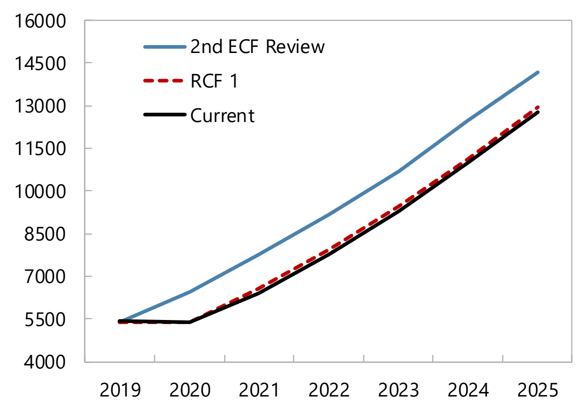
Text Table 3. Fiscal Financing Gap
(Billions of Leones)

	2020 Proj.	2021 Proj.
Total revenue and grants	**7,980**	**9,271**
Revenue	5,507	6,415
Other, Capital Transfers from BSL (CCRT Debt Re	352	331
Grants	2,122	2,524
Expenditures and net lending	**10,249**	**11,269**
Overall balance including grants	**(2,269)**	**(1,998)**
Financing	**2,269**	**1,998**
External financing (net)	692	244
Domestic financing (net)	1,512	676
G20 debt initiative (deferment)	65	101
Financing Gap	0	978
Second RCF disbursement (prospective)	...	594
World Bank budget support grant (prospective	...	384
Remaining Gap	...	0

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

14. While additional support can help avoid a larger disruptive adjustment in 2021, concerted revenue-led medium-term adjustment will be vital to ensuring debt sustainability. In this regard, the authorities remain firmly committed to the goals articulated in their National Development Plan and ECF-supported program notwithstanding delays associated with the COVID-19 shock. However, domestic revenue is now expected to recover its pre-crisis peak (about 14½ percent of non-iron ore GDP) only in 2023. While the goal of reducing domestic bank financing to about 2 percent of GDP will likely be reached by 2024, the sustainability of the overall fiscal strategy will require strong commitment to three broad principles.

Domestic Total Revenue
(in billions of Leones)



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

- *Resume bold revenue mobilization efforts, grounded in a more comprehensive and strategic approach that couples continued revenue administration measures with increased focus on tax policy reforms.*

  - The baseline assumes that, despite the global pandemic, the authorities will continue to push ahead with structural reform efforts in line with commitments under, and intended return to, the ECF-supported program. In late January, the authorities tabled in Parliament their updated National Revenue Authority (NRA) Act (**prior action**[10]) and staff encourages them to seek IMF advice in case the parliamentary review calls for any substantial changes, The Act, which draws on technical assistance (IMF and UK Foreign,

[10] In line with structural benchmark agreed at the time of the second review under the ECF-supported program to "submit the revised NRA Act to the Parliament, based on Fund staff review and advice on the draft NRA Act".

Commonwealth and Development Office), aims to modernize the agency's governance and accountability, and strengthen its ability to enforce revenue laws.

  - Other revenue administration improvements have been ongoing, with the easing of restrictions in 2020H2 helping efforts to stem the loss of revenues in 2020 and should also yield efficiency gains in 2021. They include improving GST compliance, lifting deferrals on imports GST, and introducing automated monitoring of fish vessels. In-person tax enforcement efforts that resumed in late 2020 are expected to step up further in 2021, assuming COVID-19 pressures recede. The benefits of implementing the new integrated tax administration system (ITAS) will begin to accrue, reaching full potential beyond 2021. Building data analytics capacity will also help strengthening revenues going forward.

  - However, sustained progress in boosting revenue collection beyond 2021 will be grounded in plans to prepare a comprehensive medium-term revenue strategy. This is an ambitious endeavor that the authorities hope to have in place ahead of the 2023 budget. In the interim, the World Bank's forthcoming review of the tax system will help identify the key weaknesses and specific actions for the 2022 budget that could be most fruitful in raising Sierra Leone's tax potential, including rationalizing tax exemptions and waivers (where reforms are already under preparation).[11]

- *Containing current spending and cautiously scaling up capital spending conditional on progress in mobilizing revenue and/or additional grant financing.* The baseline assumes continued rationalization of the wage bill, in line with the authorities' goal to reduce wage costs to 6 percent of GDP in the medium term, through limiting real wage increases, natural attrition, and effective payroll management and control. It will be crucial to carefully balance the need to maintain—and increase—development expenditure against the tight budget financing envelope. In this context, the imperative of ensuring that scarce public resources are well spent would be well served by increasing the medium-term orientation of expenditure planning, alongside continued actions to improve public financial management (PFM) and the efficiency of public investment.

- *Prioritizing highly concessional financing.* Limiting recourse to expensive domestic debt while avoiding detrimental spending cuts will also require continued support from the development community. In this regard, sustained revenue and PFM reforms could support fiscal adjustment efforts, while helping to catalyze concessional development partner support that would help close residual financing gaps in the short term and underpin the shift toward investing in physical and human capital.

[11] See Box 4 on *Tax Revenue Potential in Sierra Leone* in IMF Country Report No. 20/116.

Box 3. 2021 Budget—Priority Spending

Against strained domestic revenues and a tight financing envelope, Sierra Leone's 2021 budget aims to prioritize and safeguard expenditures that help to strengthen the health sector and sustain the COVID-19 health response, protect livelihoods and support the post-pandemic economic recovery (Figure 1.1).

Strengthening the health sector. Even though operations of the National COVID-19 Emergency Response Center (NaCOVERC) are scaled back as the immediate COVID-19 health crisis in Sierra Leone abates, it will use allocations (0.2 percent of GDP) to cover purchases of medical supplies, testing kits, personal protective equipment, and to implement the ongoing awareness strategy. It could require further funding in case of a resurgence. The rise in malaria infections and maternal deaths during the Ebola health crisis highlighted the risk of emergency spending crowding out other areas of an already weak health system. Thus, the health budget, at 11 percent of domestic primary expenditure in 2021, remains well above pre-crisis levels (7.5 percent in 2019) and allocates an additional Le 677 billion to bolster the health sector, including to hire 1000 additional health sector workers and to continue incentives for medical staff combatting COVID-19.

Supporting the economic recovery and protecting livelihoods. Capital expenditures prioritize food security and economic diversification in the following areas: agriculture and fisheries to promote local food production; repair and construction of roads—particularly "feeder" and "trunk" roads—to ensure more reliable food transport; support the hard-hit tourism sector; and sustainable energy. The labor-intensive nature of road construction simultaneously aims at creating jobs, while the Munafa Fund would support micro to medium-sized enterprises. Social transfers continue to be financed mainly through development partners. Regular transfers to local councils will be particularly important to ensure their day-to-day operations and local service delivery, including critical work on sanitation.

Figure 1. Overview of Priority Budget Areas

Strengthening the Health Sector	Supporting the Economic Recovery	Protecting Livelihoods
COVID-19 health and sanitation (Le 305 bn.)	**Agriculture** (Le 112 bn.)	**Job Creation**, including support to Micro, Small and Medium Enterprises (Le 79 bn.)
Health Workers, including new hires and risk allowances (Le 66 bn.)	**Roads**, including feeder roads (Le 270bn)	**Social Transfers** via NaCSA (Le 10 bn.)
Water Supply, including for improved sanitation (Le 103 bn.)	**Diversification:** fishery, tourism, energy & environment (Le 76 bn.)	**Transfers to local councils** to secure local level social & health services (Le 120bn.)
Le 474 bn.	**Le 458 bn.**	**Le 209 bn.**

Safeguarded priority expenditures: Le 1.14 trillion (16 percent of domestic primary expenditures)

Source: 2021 Budget, Sierra Leone Ministry of Finance and IMF staff estimates.

15. Sierra Leone faces a challenging debt landscape and, while debt remains sustainable on a forward-looking basis, the pandemic-related shock has further strained debt indicators.[12] Lower growth and revenues, and increased financing needs result in a prolonged breach of the thresholds[13] for both external and overall public debt indicators under the baseline scenario, indicating that Sierra Leone remains at high risk of debt distress. However, the declining trajectories of all debt indicators over the medium- to long-term remain largely unchanged from RCF1, and there has been no substantive change or deterioration in Sierra Leone's policy fundamentals. Thus, despite the added strains, Sierra Leone's debt is assessed as sustainable on a forward-looking basis, predicated on sustained and significant fiscal adjustment, as well as continued reliance on highly concessional external financing (largely grants), including from the IFIs, while limiting recourse to expensive domestic debt.

16. Maintaining debt sustainability will, first and foremost, require steadfast commitment to the authorities' fiscal adjustment plans. This should be underpinned by reforms to strengthen PFM, promote more effective expenditure prioritization, and redoubling revenue mobilization efforts. To demonstrate the authorities' commitment to debt sustainability, a prior action was set on the tabling of the updated NRA Act (para 14), which will support revenue mobilization efforts. However, to achieve a pace of adjustment that does not jeopardize the post-pandemic recovery and provides space to meet Sierra Leone's large development needs, it will be vital that the Government continues to rely on highly concessional financing, ideally grants. A very cautious financing approach is particularly appropriate, as about three quarters of Sierra Leone's external public and publicly guaranteed debt constitutes non-restructurable obligations to multilateral agencies. In parallel, the authorities are taking steps to improve cash and public debt management, guided by their Medium-Term Debt Strategy. This will be complemented by actions to enhance the institutional framework, including the recent decision to expand the role of the cash management committee to also cover debt management—a complement to existing requirements under the PFM Act and regulations—and resumption of regular meetings in February (**prior action**); and improving their debt monitoring and reporting capacity (including for arrears-related debt instruments), supported by ongoing Fund technical assistance.

17. The domestic arrears clearance strategy was approved by Cabinet in July 2020 and published on the MOF website.[14] The finalized strategy is broadly consistent with pre-crisis recommendations—underscoring the need for deep NPV reductions, transparency, and mindful of sectoral impacts. However, since the pandemic, the Government has come under added pressure to advance arrears clearance efforts and to do so on more favorable terms for suppliers. While clearance of a significant portion of unpaid checks helped to cushion the impact on suppliers and

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[12] The debt sustainability analysis (DSA) reflects the effects of the COVID-19 shock on growth, exports, and revenues, as well as measures to counter the health and socio-economic effects of the pandemic. It also takes into account additional financing in response to the COVID-19 shock, including the RCF1 and the proposed RCF2 disbursement, the CCRT (the first two and remaining tranches), and the DSSI (including the extension covering the first half of 2021).

[13] Indicative thresholds for the DSA were revised downwards reflecting that Sierra Leone is now assessed to have a weak debt-carrying capacity (revised from "medium" at the time of RCF1) due principally to lower global growth.

[14] Structural benchmark for the third review.

support the banking sector, going forward the pace of arrears clearance will need to be carefully calibrated to balance concerns about fiscal space, debt sustainability, and financial stability. Paying down the arrears stock without securing deep NPV reductions, or at a faster pace than expected, risks crowding out expenditures on development priorities, accumulating new arrears, or jeopardizing sustainability.

B. Financial Support and Financial Stability

18. The authorities envisage a continued role for the central bank and micro-finance programs in supporting the recovery in 2021. Staff emphasized the need to minimize and transparently report any resulting contingent fiscal risks, where applicable, and for activities to remain focused on the central bank's mandate.

- The SCF is almost fully disbursed and would be wound down as conditions ease later in 2021. However, the BSL is open to possibly expanding the SCF somewhat should the second wave of COVID-19 accelerate, impacting availability of food and other essential goods.
- Since RCF1, the Government has moved forward with several financial support initiatives envisaged under the QAERP. It launched a microfinance support program (MUNAFA) to provide financial and socio-economic support to the most vulnerable populations. The Small and Medium Enterprises Development Agency (SMEDA) will be responsible for the development and regulation of micro and small and medium enterprises.
- The authorities are also exploring an agricultural value chain financing mechanism to reduce food insecurity by incentivizing private sector participation in agriculture. This financing mechanism would include a low-interest medium-term lending facility (along similar lines as the SCF) amounting to Le 100 billion at the BSL for financing the production, procurement and distribution of agricultural implements and inputs. The BSL views this as within its mandate, given this initiative is intended to ultimately reduce food imports (mainly rice), therefore helping to achieve the BSL's price and exchange rate stability objectives. Staff emphasized that the BSL's lending facility should be temporary,[15] and clear rules should be established which enable transparent and effective oversight by the BSL and which set out a well-defined exit strategy.

19. The authorities are attentive to potential risks from excess liquidity and the associated low yields on government debt. Staff and the BSL discussed the potential impact and tradeoffs in the mix of monetary instruments to drain the excess liquidity that had emerged in mid-2020. Apart from liquidity management measures employed in August, the BSL has mostly taken a wait-and-see approach, mindful of the impact such measures could have on interest rates and its own balance sheet. Staff advised the authorities to stand ready to take further measures should inflationary pressures emerge, particularly in view of the rapid expansion of currency in circulation during 2020.

[15] The agricultural facility would be an initial step, pending broader reforms (supported by development partners) to increase private sector participation in agriculture gaining momentum.

Ongoing technical assistance to further develop near-term forecasting capabilities should help the authorities take a more forward-looking approach to setting monetary policy. If negative real interest rates on government securities are sustained, this will pose a risk to bank profitability given that earnings rely heavily on government securities (comprising just under half of banks' assets). Staff emphasized that liquidity management decisions should also reflect financial stability considerations. The long-run viability of the two state-owned banks (SOBs) also remains a priority issue. Although these SOBs remain under enhanced supervision and work continues on developing their business plans and internal risk management systems, it will also be important to take a timely final decision about the future of the SOBs based on a timebound action plan.[16]

20. The high level of nonperforming loans poses a financial stability risk. While aggregate capital adequacy ratios appear strong and are comfortably above the minimum threshold, asset quality remains a watchpoint. The NPL ratio, which had been on a declining trend between 2017 and 2019, climbed to 18.5 percent in September (from 16.8 percent in December 2019) in the wake of a sharp contraction in economic activity. There is also substantial variation in asset quality among banks. The increase in NPLs reflects, in large measure, COVID-19-related disruptions to activity in the hotels, transport, education and commerce sectors in the economy, and banks have made around Le 55.7 billion in loan-loss provisions. Banks have also restructured loans, mostly in sectors[17] impacted by the pandemic (11 percent of total loans as at September 2020). Ongoing TA support through the FSSR[18] will help to inform staff and the authorities' engagement on these and other financial sector issues. This includes for instance an upgrade of the prudential guidelines to strengthen the regulatory framework for capital adequacy, loan classification and provision as well as credit, market and operational risk.

C. Promoting Transparency and Accountability

21. Following early rapid progress to improve the governance of its emergency response in line with commitments under RCF1, the authorities' efforts stalled. They moved quickly to set up the National COVID-19 Emergency Response Center (NaCOVERC), and subsequently put in place sound processes to deliver and track health and containment measures. In parallel, the Audit Service of Sierra Leone (ASSL) successfully completed a real time audit of NaCOVERC's activities and recently submitted its report to Parliament and is well-positioned to undertake an ex-post audit per the RCF1 commitment. However, the authorities have made limited progress in terms of publishing information on some procurement contracts, and publishing reports covering only part of NaCOVERC's spending, which has so far amounted to Le 250 billion (US$25 million) and in some instances in limited details. The authorities cited earlier challenges associated with the evolution of NaCOVERC's financial management as a source of the delay.

[16] A structural benchmark under the third review of the ECF-supported program, which has not yet been completed.

[17] The main sectors impacted are construction, transport and storage, manufacturing and personal services.

[18] The concluding meeting for the FSSR took place on January 8, 2021. The FSSR has set out a detailed plan for follow-up TA to Sierra Leone.

22. The authorities have recently taken steps to recover lost ground and are working to broaden their approach to include the wider economic response to the crisis.

- As of mid-February 2021, they had published the unaudited financial reports for NaCOVERC's operations through end-December 2020 (**prior action**), and have committed to continue regular quarterly reporting in line with cycle for reporting quarterly fiscal data as long as NaCOVERC remains operational.

- Similarly, by mid-February, the authorities had published all large procurement contracts[19,20] through end-December 2020 on the website of the National Public Procurement Authority (**prior action**).

- Given the relative importance and size of the broader economic response beyond NaCOVERC activities,[21] staff encouraged the authorities to also transparently report on these activities. To this end, the authorities' 2020Q3 budget outturn (published on the MoF website) includes an overview table, detailing budget spending related to the containment, health, and socioeconomic elements of their COVID-19-response. Based on an ongoing technical dialogue with staff, the MoF is enhancing its current budget monitoring framework to better track the implementation of COVID-19-related measures in the context of their regular budget reporting, starting with the 2020 budget outturn. This will position the authorities to report regularly on COVID-19-related spending in 2021.

ACCESS, MODALITIES AND CAPACITY TO REPAY

23. The authorities are requesting a disbursement under the Exogenous Shocks window of the RCF with access at 17 percent of quota (SDR 35.26 million). Sierra Leone has an urgent BOP financing gap of around US$86 million (about 2 percent of GDP) in 2021, arising from foreign exchange needs to cover imports of food and essential goods, while exports recover more slowly and grants from international partners decrease relative to recent years. This BOP gap is caused primarily by a sudden and exogenous shock, and if not urgently addressed, the gap would result in an immediate and severe economic disruption, and the urgent nature of the BOP need prevents Sierra Leone from implementing an upper credit tranche-quality economic program. Against this background, the authorities are requesting an RCF disbursement of 17 percent of quota to fill part of the gap. This is well within access limits, given that RCF1 was 50 percent of quota (against an annual limit of 100 percent of quota for the RCF) while the total access over the past 12-months will amount, if this RCF request is approved, to 82 percent of quota (against an annual limit of

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[19] This includes information on the size of contract, names of contracting entities, awarded companies, and ultimate beneficial owner, and mode of procurement (i.e., sole source vs. competitive). Also see the prior action table in the authorities' *Letter of Intent* (Appendix I).

[20] The thresholds for publication of "large" contracts are as set by the *Public Procurement Regulations* (2020).

[21] The fiscal cost of the economic response is estimated at Le 1,200 billion and Le 938 billion for 2020 and 2021 respectively, compared to around Le 300 billion and Le 100 billion for the health response

100 percent of quota for the RCF). The RCF2 disbursement, is proposed to be used 100 percent as budget support, to help cover 60 percent of the fiscal financing gap arising from lower revenue collection in 2021 (relative to what was projected at the time of RCF1), and the authorities continue to reach out to other development partners for additional grant support.

24. The World Bank is also planning to provide additional emergency support, although other development partners' support is more constrained in 2021. Development partners rallied to support Sierra Leone at the beginning of the pandemic, with both European Union and African Development Bank frontloading their support, and exceptional World Bank budget support grants. This unprecedented response has also affected their capacity to provide grants in 2021. However, the remaining part of the external and fiscal financing gaps in 2021 is expected to be filled by additional budget support grants from the World Bank, catalyzed by the prospective RCF2 disbursement.

25. Sierra Leone's capacity to repay remains adequate, while financing will remain challenging and debt servicing capacity may become strained in the medium term. As of end-December 2020, total outstanding credit to the IMF stood at SDR 353.2 million (170.3 percent of quota), which given Sierra Leone's large quota relative to its economic size, this is equivalent to 11.7 percent of GDP.[22] Gross repayments to the IMF remain significant over the medium term (about 1½ percent of GDP in each year between 2023 and 2027).[23] In this context, debt initiatives such as the CCRT and the DSSI are welcome, and further highly concessional support from international partners will be instrumental in meeting financing needs over the medium term, and sustaining macroeconomic stability and growth.

26. This RCF disbursement will provide a critical financial bridge, with ongoing technical engagement with the authorities, to help chart an appropriate path to the ECF program. Although the authorities remain committed to a return to the ECF-supported program, the uncertainty about the economic environment and the emergence of near-term financing gaps have so far impeded the completion of the ECF reviews. A disbursement under the RCF will provide continued much-needed BOP support to the authorities while also fostering continued engagement with the Fund, with an eye to resuming the ECF-supported program by mid-2021.

27. There are risks to the economic program, mitigated in part through contingencies in the 2021 budget. Capacity constraints could slow progress on reforms, the global economy could worsen, and domestic financing conditions could tighten, possibly making it more challenging to mobilize revenue or tackle fiscal risks. The authorities' 2021 budget includes expenditure

[22] This compares to an average of 3.1 percent of GDP for all PRGT-eligible countries and 3.3 percent of GDP for GRA-only countries. In large part, Sierra Leone's exposure to the Fund reflects substantial Ebola era lending, and the damaging effects of the Ebola epidemic (and now the global pandemic) to output.

[23] This largely represents the peak repayments to the IMF of Ebola-era support coinciding with the start of repayments for RCF disbursements during the COVID-19 pandemic.

reprioritization as a contingency for shortfall in external financing, that could prove useful in case of other revenue shortfalls.

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

29. Further progress has been made addressing the recommendations of the safeguards assessment. A second deputy governor responsible for financial stability was appointed in July, in line with the new BSL Act (2019). Following challenges in implementing the IFRS-9 accounting standards, the 2018 audited financial statements of the BSL were finalized and published in January 2021. IMF technical assistance continues to support IFRS-9 implementation. The ASSL has appointed an auditor to concurrently conduct the 2019 and 2020 BSL audits, with a view to bringing them closer in line with statutory requirements. As planned under the remedial action plan, in response to the 2019 forensic audit, the BSL is in the process of selecting a Chief Internal Auditor and hiring a firm to conduct an external quality assessment of the internal audit function.

STAFF APPRAISAL

30. The COVID-19 pandemic has exacerbated Sierra Leone’s longstanding social and economic challenges. The pandemic will continue to dampen consumption and investment in 2021. While the immediate health risks had begun to moderate, this is no longer assured with the current resurgence of infections. This, together with new virus strains, spillovers from the rest of the world, and difficulties in vaccine rollout, pose serious risks to the economic outlook. In addition to uncertainty about the outlook, the emergence of urgent BOP and fiscal financing gaps have impeded an immediate return to the ECF-supported arrangement.

31. Helping to meet the urgent external and fiscal financing needs in 2021 will be critical to avoiding harmful disruptions to the recovery. Heavy reliance on imports for food and essential goods and a projected decrease in development partner support are expected to result in an urgent BOP financing gap in 2021, which is expected to be covered partly by the Fund’s RCF disbursement. The RCF disbursement is expected to catalyze additional budget support from the World Bank, which should be sufficient to cover the remaining gap. An RCF disbursement in early 2021 would bridge the gap until the further reviews under the ECF-supported program can be completed.

32. The pandemic has hit the budget hard, with revenue mobilization suffering a significant setback while new expenditure pressures emerged. The authorities’ policy response was appropriate, likely helping avoid an even deeper contraction in growth and protecting livelihoods. The prioritization of COVID-19 and recovery-related spending in the 2021 budget despite a contraction of the overall expenditure envelope is commendable and in line with staff advice. Staff also advised the authorities to continue with efforts to mobilize domestic revenue, which had yielded impressive results prior to the onset of this crisis. The RCF disbursement is proposed to be on-lent to the government as budget support, to smooth the near-term adjustment path and put the economic recovery on a strong footing.

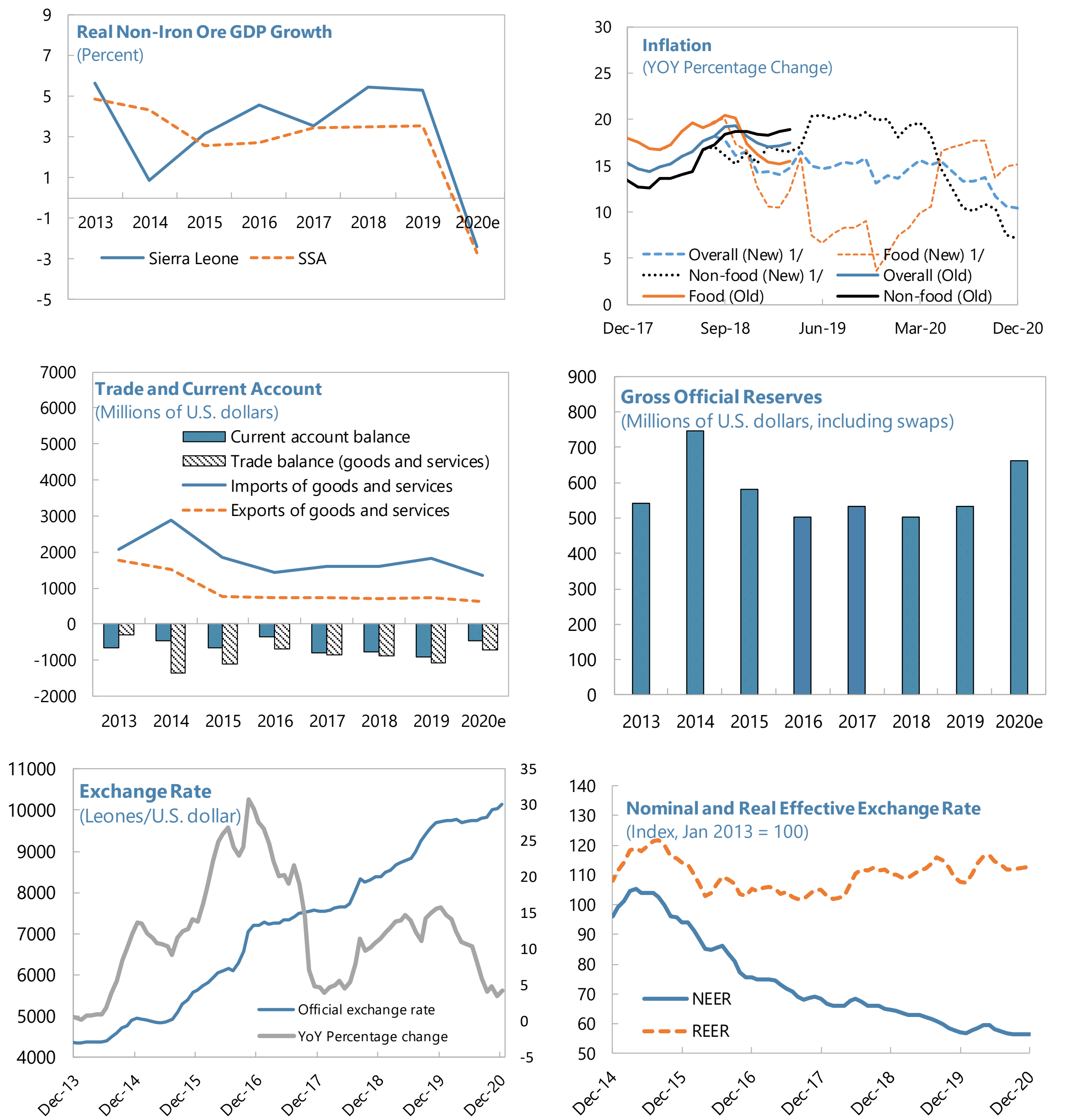
33. Sierra Leone's debt is assessed to be sustainable on a forward-looking basis and remains at high risk of debt distress. Preserving debt sustainability will require steady adjustment beyond 2021, underpinned by strengthened PFM, effective expenditure prioritization, and redoubling revenue mobilization efforts. Staff's assessment that debt remains sustainable is predicated on Sierra Leone's continued reliance on highly concessional external financing (ideally grants), while limiting recourse to expensive domestic debt. A more considered approach to arrears clearance is needed, with the possibility of slower clearance if fiscal space is tighter than expected. Any proposed new financial support mechanisms should be implemented in a way that minimizes the risks to public finances.

34. Monetary and financial stability risks require close monitoring. While the significant expansion in monetary aggregates has not yet translated into inflationary pressures, the BSL remains committed to using the tools at its disposal to ensure that inflation continues on a downward trajectory. While banks are adequately capitalized, NPLs remain high, and profitability and capitalization are underpinned by positive real rates returns on government securities. A sustained downturn in rates and/or a more muted recovery could pose significant financial stability risks. Staff reiterated that the BSL's medium-term agricultural lending facility should be temporary, with clear rules and an exit strategy in place for its use before it becomes operational.

35. Staff welcomed the actions to strengthen and expand the accounting for, and reporting on, COVID-19-related emergency spending. Establishing the dedicated COVID-19 fund (NaCOVERC), with sound financial management processes, was an important milestone. It will be vital to maintain momentum in continuing to publish NaCOVERC's financial reports and procurement contracts on a regular basis. Efforts to broaden regular tracking of COVID-19-related expenditure in reporting budget outturn will provide even greater transparency and accountability on the overall COVID-19 response and will support the government's anti-corruption efforts.

Against this background, staff supports the authorities' request for a disbursement under the RCF in the amount of SDR 35.26 million (17 percent of quota).

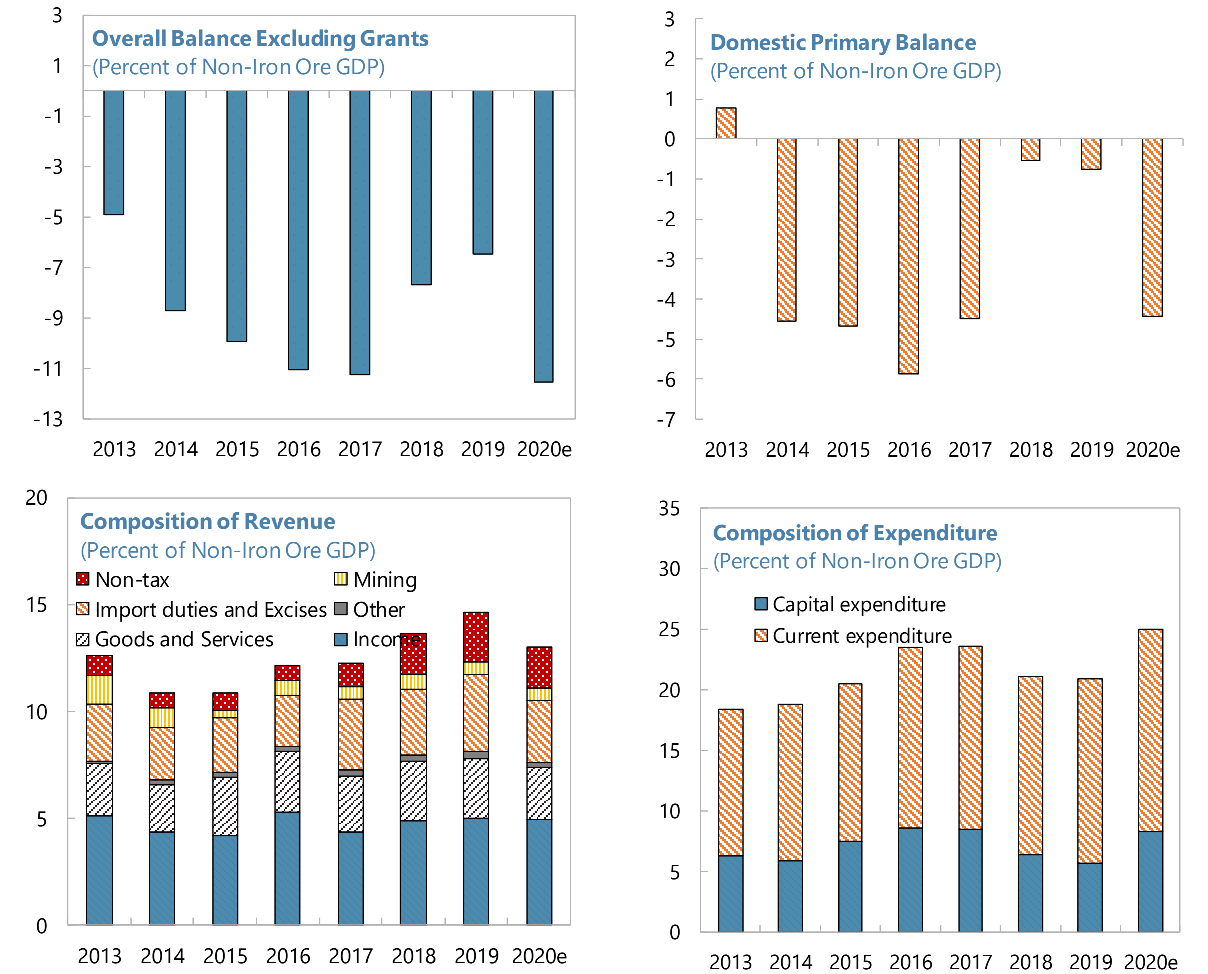
Figure 1. Sierra Leone: Real and External Sectors, 2013–20



1/ Reflects updated CPI series with technical corrections.

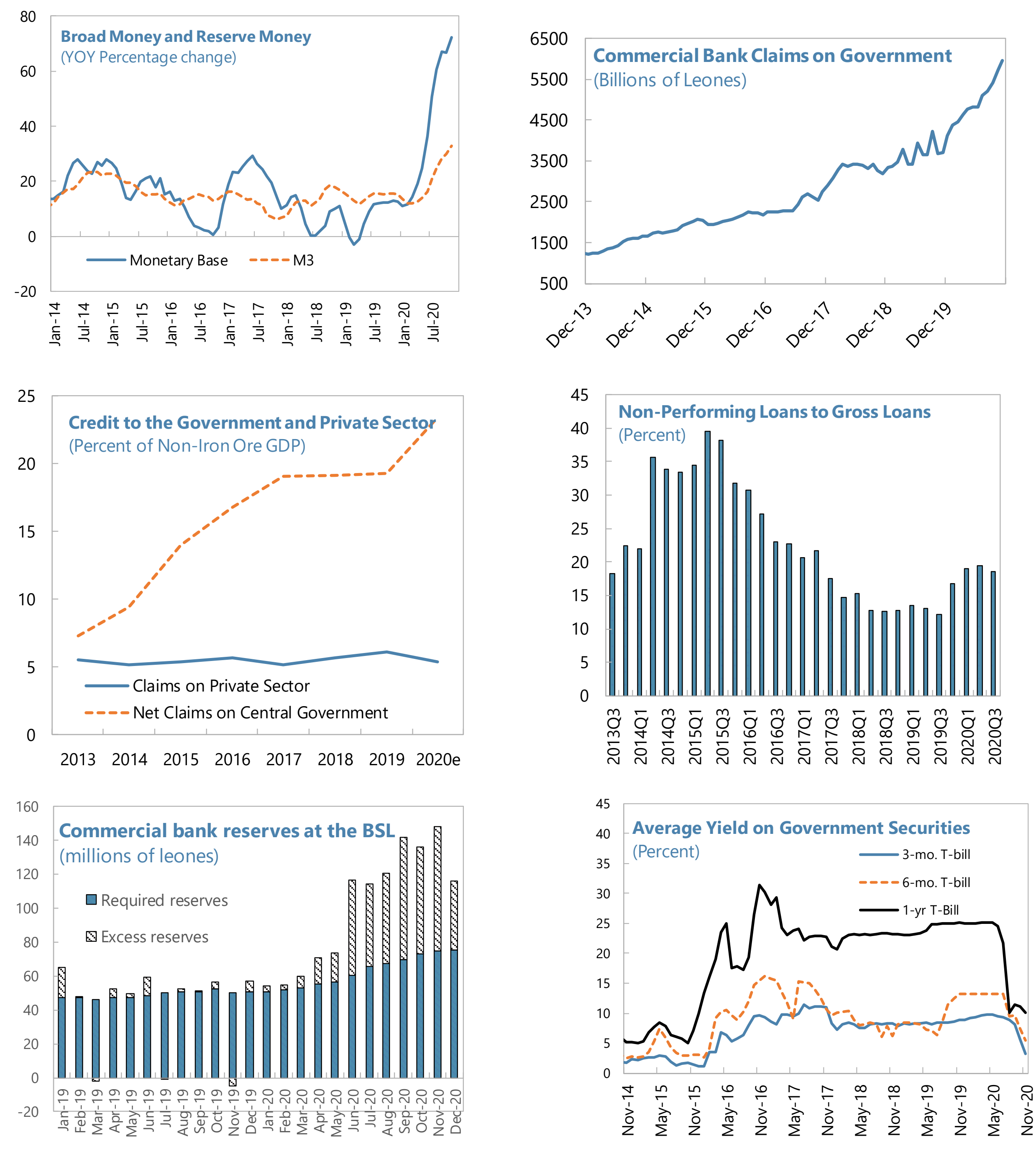
Sources: Sierra Leonean authorities; and IMF staff estimates.

Figure 2. Sierra Leone : Fiscal Sector, 2013–2020



Sources: Sierra Leonean authorities; and IMF staff estimates.

Figure 3. Sierra Leone: Monetary and Financial Indicators, 2013–20



Sources: Sierra Leonean authorities; and IMF staff estimates.

Table 1. Sierra Leone: Selected Economic Indicators

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Act.	Act.	RCF1 1/	Est.	RCF1 1/	Proj.	Proj.				
	(Annual percent change, unless otherwise indicated)										
National accounts and prices											
Growth											
GDP at constant prices	3.5	5.5	-3.1	-2.2	2.7	3.0	3.6	3.8	5.0	5.1	4.8
GDP excluding Iron ore	5.5	5.3	-2.5	-2.0	2.3	2.4	3.6	3.7	4.9	4.8	4.4
GDP excluding mining	3.8	5.0	-1.5	-1.1	2.2	2.4	3.8	4.1	4.4	4.5	4.5
Inflation											
Consumer prices (end-of-period)	14.2	13.9	17.5	10.4	13.5	13.3	12.1	10.8	9.8	8.0	6.0
Consumer prices (average)	16.0	14.8	15.7	13.4	15.5	10.4	12.7	11.5	10.3	8.9	7.0
External sector											
Terms of trade (deterioration -)	-10.4	-5.2	2.4	15.0	-2.2	-1.2	-0.2	0.8	-0.1	0.1	0.2
Exports of goods	-2.0	4.4	-16.6	-10.6	24.1	39.6	2.8	-5.0	16.2	15.6	17.7
Imports of goods	0.6	14.7	-4.3	-12.0	4.1	6.6	2.1	-0.2	5.8	6.0	5.9
Gross international reserves (excluding swaps, months of next year's imports)	3.2	3.8	4.2	4.7	4.1	4.7	4.4	3.5	3.1	3.0	3.0
Money, credit and reserves											
Domestic credit to the private sector	30.6	22.9	10.6	1.6	15.7	22.8	20.0	27.5	20.7	14.5	15.2
Domestic credit to the private sector in percent of non-iron GDP	5.6	6.1	6.1	5.6	6.1	5.9	6.1	6.8	7.1	7.2	7.5
Base money	6.5	12.4	19.6	61.3	19.8	6.4	0.8	10.2	10.7	12.5	10.5
M3	14.5	14.3	14.6	33.4	16.3	13.4	13.6	13.7	14.2	12.5	10.5
Gross international reserves (excluding swaps, US$ millions)	481	507	565	677	569	695	640	551	511	531	574
Net international reserves (excluding swaps, US$ millions)	105	126	3	170	6	100	61	38	66	158	281
	(Percent of non-iron ore GDP, unless otherwise indicated)										
National accounts											
Gross capital formation	16.9	16.2	16.5	15.8	15.4	17.5	16.0	17.3	18.3	18.2	18.4
Government	6.4	5.7	6.7	7.3	5.0	8.1	6.0	6.3	6.3	6.2	6.4
Private	10.5	10.5	9.8	8.5	10.4	9.4	10.0	11.0	12.0	12.0	12.0
National savings	-1.7	-6.1	0.8	0.8	0.7	3.1	1.5	2.6	4.5	5.4	7.4
Financing and debt											
Public debt	69.1	71.8	77.2	72.0	79.0	71.3	70.1	68.3	65.2	61.8	57.9
Domestic	27.9	27.6	22.2	26.2	21.9	22.5	21.9	21.2	19.9	18.2	16.1
External public debt (including IMF)	41.2	44.2	55.0	45.8	57.1	48.8	48.3	47.2	45.3	43.6	41.8
External sector											
Current account balance											
(including official grants)	-18.6	-22.3	-15.8	-15.0	-14.7	-14.4	-14.5	-14.7	-13.8	-12.7	-11.1
(excluding official grants)	-20.1	-24.2	-20.0	-19.8	-18.1	-16.9	-16.9	-17.1	-16.2	-15.1	-13.4
Central government budget											
Domestic primary balance 2/	-0.5	-0.8	-4.9	-4.0	-0.4	-1.5	0.7	1.6	2.1	2.3	2.3
Overall balance	-5.6	-3.1	-8.2	-5.5	-5.2	-4.2	-2.7	-2.3	-1.5	-0.8	-0.3
Overall balance (excluding grants)	-7.7	-6.5	-12.5	-10.6	-8.1	-9.4	-6.1	-5.7	-4.8	-4.1	-3.6
Revenue (excluding grants)	13.7	14.6	13.0	13.3	13.8	13.4	13.9	14.5	15.0	15.6	16.1
Grants	2.1	3.4	4.3	5.1	2.9	5.3	3.4	3.4	3.3	3.3	3.2
Total expenditure and net lending	21.4	21.1	26.0	24.8	21.9	23.5	20.4	20.1	19.9	19.7	19.6
Memorandum item:											
GDP at market prices (billions of Leone)	32,402	37,138	41,400	41,365	48,058	48,534	56,264	64,654	74,615	84,737	94,222
Excluding iron ore	32,402	37,041	41,400	41,365	47,733	47,865	55,581	63,870	73,554	83,271	92,114
Excluding iron ore in millions of US$	4,085	4,108	3,877	4,204	3,801	4,361	4,394	4,474	4,646	4,848	5,069
Per capita GDP (US$)	534	527	486	527	469	542	534	532	542	555	571
National currency per US dollar (average)	7,932	9,016	..	9,840	...	...	...	...	...	...	...
National currency per US dollar (EOP)	8,396	9,716	..	10,133	...	...	...	...	...	...	...

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

1/ See *Sierra Leone: Request for Disbursement under the Rapid Credit Facility* (CR/20/196), June 2020

2/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed capital spending, and arrears paydown.

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

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Act.	Est.	RCF1 1/	Est.	RCF1 1/	Proj.	Proj.				
Total revenue and grants	**5109**	**6666**	**7394**	**7980**	**7947**	**9271**	**9847**	**11407**	**13510**	**15689**	**17786**
Revenue	4428	5418	5399	5507	6578	6415	7753	9235	11049	12960	14796
Tax revenue	3809	4562	4511	4606	5561	5466	6661	7983	9582	11303	12966
Personal Income Tax	1158	1516	1661	1665	1934	2007	2381	2778	3280	3805	4325
Corporate Income Tax	438	339	340	334	412	399	507	666	804	931	1029
Goods and Services Tax	886	1025	931	1033	1202	1218	1503	1774	2116	2537	2972
Excises	358	603	548	579	664	685	798	937	1102	1311	1516
Import duties	650	730	641	643	919	765	957	1191	1482	1785	2063
Mining royalties and licenses	223	232	225	254	242	275	367	370	491	594	673
Other taxes	95	117	164	96	189	117	147	267	308	341	387
Non-tax	620	855	888	900	1017	949	1092	1251	1467	1657	1830
Other, Capital Transfers from BSL (CCRT Debt Relief)	...	...	197	352	0	331	210	0	0	0	0
Grants	680	1249	1798	2122	1369	2524	1885	2172	2461	2729	2990
Budget support	225	745	1050	1525	802	713	822	955	1091	1220	1375
Project grants	455	504	748	597	567	1811	1062	1217	1370	1509	1614
Expenditures and net lending	**6920**	**7814**	**10784**	**10249**	**10443**	**11269**	**11329**	**12846**	**14609**	**16381**	**18081**
Current expenditures	4748	5653	6511	7050	7535	7230	7822	8525	9706	10886	11820
Wages and salaries 2/	2057	2576	3175	3276	3548	3510	3665	3883	4379	4968	5490
Goods and services	1155	1180	1058	1390	1249	1164	1314	1478	1738	2008	2266
Subsidies and transfers	629	912	1018	1174	1177	1278	1242	1421	1726	2048	2376
Interest	906	986	1261	1209	1560	1278	1601	1744	1863	1862	1689
Domestic	812	886	1105	1089	1371	1139	1419	1525	1604	1574	1368
Foreign	95	100	156	120	189	138	182	219	259	287	320
Capital Expenditure	2083	2096	2786	3020	2409	3870	3317	4040	4614	5135	5933
Foreign financed	1409	1132	1826	1709	1851	2689	2201	2645	2954	3226	3508
Domestic financed	674	964	960	1311	558	1181	1116	1395	1660	1909	2424
Net lending	0	0	0	0	0	0	0	0	0	0	0
Contingent expenditure	89	65	40	21	90	20	26	21	30	100	100
Arrears Paydown (cash)			266	159	260	149	165	260	260	260	228
Additional COVID-19 Related Expenditure	...	...	*1182*	...	*150*	...	...	...	...	...	...
Domestic primary balance 3/	-176	-279	-2033	-1666	-196	-738	390	1037	1516	1926	2140
Overall balance including grants 4/	-1811	-1148	-3390	-2269	-2496	-1998	-1482	-1439	-1099	-693	-295
Overall balance excluding grants	-2492	-2396	-5188	-4391	-3866	-4523	-3367	-3611	-3560	-3422	-3285
Financing	**1811**	**1148**	**3390**	**2269**	**2496**	**1998**	**1482**	**1439**	**1099**	**693**	**329**
External financing (net)	714	282	500	692	717	244	355	511	490	785	908
Borrowing	1023	634	1078	1112	1454	878	1138	1428	1583	1967	2175
Projects	1023	634	1078	1112	1283	878	1138	1428	1583	1718	1894
Budget	0	0	0	0	171	0	0	0	0	249	281
Amortization	-309	-352	-578	-420	-737	-634	-784	-917	-1093	-1181	-1267
Domestic financing (net)	1097	865	645	1512	1252	676	1090	894	567	-61	-579
Total Banking Sector (net)	999	942	905	2860	1378	1220	1258	1078	765	-61	-579
Banks, net of onlending	817	819	1025	1631	1630	1361	1684	1605	1423	778	528
SDR onlending, Net	183	123	-120	1229	-252	-140	-426	-527	-658	-839	-1107
of which, exceptional financing-RCF	...	...	...	1392	...	0	...	...	...	...	...
Non-Bank Sector	440	-77	-261	-48	-125	-284	-168	-184	-198	0	0
Government Securities, General	5	174	0	112	0	0	0	0	0	0	0
Government Securities, Arrears-Related	435	-251	-261	-160	-125	-284	-168	-184	-198	0	0
o/w Pre-Arrears Strategy	435	-251	-241	-160	-106	-430	-120	-135	-150	0	0
Other 5/	-342	0	0	-1300	0	-261	0	0	0	0	0
G20 debt initiative (deferment)	...	...	...	65	...	101	0	0	0	0	0
G20 debt initiative (payment)	...	...	...	0	...	0	-39	-58	-64	-32	-33
Financing Gap 6/	...	...	2245	0	527	978	77	92	106	0	0
Second RCF disbursement (prospective)	...	...	...	...	...	594	...	...	...	...	...
World Bank budget support grant (prospective)	...	...	...	...	...	384	...	...	...	...	...
Remaining Gap	...	...	56	...	0	0	77	92	106	...	...
Memorandum item:											
Change in unpaid checks (+ = accumulation)	265	208	...	...	...	...	...	...	...	...	...
Total Stock of Arrears	3377	3586	...	...	...	...	...	...	...	...	...

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

1/ See *Sierra Leone: Request for Disbursement under the Rapid Credit Facility* (CR/20/196), June 2020.

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

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

4/ The projections for 2021 would equal -1614 if additional World Bank budget support were included.

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

6/ At the time of the RCF-1, identified financing towards closing the gap included RCF onlending, prospective CCRT support and G20 debt deferment, as well as World Bank budget and health sector support.

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

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Act.	Est.	RCF1 1/	Proj.	RCF1 1/	Proj.			Proj.		
Total revenue and grants	**15.8**	**18.0**	**17.9**	**19.3**	**16.6**	**19.4**	**17.7**	**17.9**	**18.4**	**18.8**	**19.3**
Revenue	13.7	14.6	13.0	13.3	13.8	13.4	13.9	14.5	15.0	15.6	16.1
Tax revenue	11.8	12.3	10.9	11.1	11.7	11.4	12.0	12.5	13.0	13.6	14.1
Personal Income Tax	3.6	4.1	4.0	4.0	4.1	4.2	4.3	4.3	4.5	4.6	4.7
Corporate Income Tax	1.4	0.9	0.8	0.8	0.9	0.8	0.9	1.0	1.1	1.1	1.1
Goods and Services Tax	2.7	2.8	2.2	2.5	2.5	2.5	2.7	2.8	2.9	3.0	3.2
Excises	1.1	1.6	1.3	1.4	1.4	1.4	1.4	1.5	1.5	1.6	1.6
Import duties	2.0	2.0	1.5	1.6	1.9	1.6	1.7	1.9	2.0	2.1	2.2
Mining royalties and licenses	0.7	0.6	0.5	0.6	0.5	0.6	0.7	0.6	0.7	0.7	0.7
Other taxes	0.3	0.3	0.4	0.2	0.4	0.2	0.3	0.4	0.4	0.4	0.4
Non-tax	1.9	2.3	2.1	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Other, Capital Transfers from BSL (CCRT Debt Relief)	…	…	0.5	0.9	0.0	0.7	0.4	0.0	0.0	0.0	0.0
Grants	2.1	3.4	4.3	5.1	2.9	5.3	3.4	3.4	3.3	3.3	3.2
Budget support	0.7	2.0	2.5	3.7	1.7	1.5	1.5	1.5	1.5	1.5	1.5
Project grants	1.4	1.4	1.8	1.4	1.2	3.8	1.9	1.9	1.9	1.8	1.8
Expenditures and net lending	**21.4**	**21.1**	**26.0**	**24.8**	**21.9**	**23.5**	**20.4**	**20.1**	**19.9**	**19.7**	**19.6**
Current expenditures	14.7	15.3	15.7	17.0	15.8	15.1	14.1	13.3	13.2	13.1	12.8
Wages and salaries 2/	6.3	7.0	7.7	7.9	7.4	7.3	6.6	6.1	6.0	6.0	6.0
Goods and services	3.6	3.2	2.6	3.4	2.6	2.4	2.4	2.3	2.4	2.4	2.5
Subsidies and transfers	1.9	2.5	2.5	2.8	2.5	2.7	2.2	2.2	2.3	2.5	2.6
Interest	2.8	2.7	3.0	2.9	3.3	2.7	2.9	2.7	2.5	2.2	1.8
Domestic	2.5	2.4	2.7	2.6	2.9	2.4	2.6	2.4	2.2	1.9	1.5
Foreign	0.3	0.3	0.4	0.3	0.4	0.3	0.3	0.3	0.4	0.3	0.3
Capital Expenditure	6.4	5.7	6.7	7.3	5.0	8.1	6.0	6.3	6.3	6.2	6.4
Foreign financed	4.3	3.1	4.4	4.1	3.9	5.6	4.0	4.1	4.0	3.9	3.8
Domestic financed	2.1	2.6	2.3	3.2	1.2	2.5	2.0	2.2	2.3	2.3	2.6
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent expenditure	0.3	0.2	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.1	0.1
Arrears Paydown (cash)	…	…	0.6	0.4	0.5	0.3	0.3	0.4	0.4	0.3	0.2
Additional COVID-19 Related Expenditure	…	…	*2.9*	…	*0.3*	…	…	…	…	…	
Domestic primary balance 3/	-0.5	-0.8	-4.9	-4.0	-0.4	-1.5	0.7	1.6	2.1	2.3	2.3
Overall balance including grants 4/	-5.6	-3.1	-8.2	-5.5	-5.2	-4.2	-2.7	-2.3	-1.5	-0.8	-0.3
Overall balance excluding grants	-7.7	-6.5	-12.5	-10.6	-8.1	-9.4	-6.1	-5.7	-4.8	-4.1	-3.6
Financing	**5.6**	**3.1**	**8.2**	**5.5**	**5.2**	**4.2**	**2.7**	**2.3**	**1.5**	**0.8**	**0.4**
External financing (net)	2.2	0.8	1.2	1.7	1.5	0.5	0.6	0.8	0.7	0.9	1.0
Borrowing	3.2	1.7	2.6	2.7	3.0	1.8	2.0	2.2	2.2	2.4	2.4
Projects	3.2	1.7	2.6	2.7	2.7	1.8	2.0	2.2	2.2	2.1	2.1
Budget	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.3	0.3
Amortization	-1.0	-1.0	-1.4	-1.0	-1.5	-1.3	-1.4	-1.4	-1.5	-1.4	-1.4
Domestic financing (net)	3.4	2.3	1.6	3.7	2.6	1.4	2.0	1.4	0.8	-0.1	-0.6
Total Banking Sector (net)	3.1	2.5	2.2	6.9	2.9	2.5	2.3	1.7	1.0	-0.1	-0.6
Banks, net of onlending	2.5	2.2	2.5	3.9	3.4	2.8	3.0	2.5	1.9	0.9	0.6
SDR onlending, Net	0.6	0.3	-0.3	3.0	-0.5	-0.3	-0.8	-0.8	-0.9	-1.0	-1.2
of which, exceptional financing-RCF	…	…	…	3.4	…	0.0	…	…	…	…	…
Non-Bank Sector	1.4	-0.2	-0.6	-0.1	-0.3	-0.6	-0.3	-0.3	-0.3	0.0	0.0
Government Securities, General	0.0	0.5	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government Securities, Arrears-Related	1.3	-0.7	-0.6	-0.4	-0.3	-0.6	-0.3	-0.3	-0.3	0.0	0.0
o/w Pre-Arrears Strategy	1.3	-0.7	-0.6	-0.4	-0.2	-0.9	-0.2	-0.2	-0.2	0.0	0.0
Other 5/	-1.1	0.0	0.0	-3.1	0.0	-0.5	0.0	0.0	0.0	0.0	0.0
G20 debt initiative (deferment)	…	…	…	0.2	…	0.2	0.0	0.0	0.0	0.0	0.0
G20 debt initiative (payment)	…	…	…	0.0	…	0.0	-0.1	-0.1	-0.1	0.0	0.0
Financing Gap 6/	…	…	5.4	0.0	1.1	2.0	0.1	0.1	0.1	0.0	0.0
Second RCF disbursement (prospective)	…	…	…	…	…	1.2	…	…	…	…	…
World Bank budget support grant (prospective)	…	…	…	…	…	0.8	…	…	…	…	…
Remaining Gap	…	…	0.1	…	0.0	0.0	0.1	0.1	0.1	…	…
Memorandum item:											
Change in unpaid checks (+ = accumulation)	0.8	0.6	…	…	…	…	…	…	…	…	
Total Stock of Arrears	10.4	9.7	…	…	…	…	…	…	…	…	
Non-iron ore GDP (Le billions)	32,402	37,041	41,400	41,365	47,733	47,865	55,581	63,870	73,554	83,271	92,114

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

1/ See *Sierra Leone: Request for Disbursement under the Rapid Credit Facility (CR/20/196)*, June 2020

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

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

4/The projections for 2021 would equal -3.4 if additional World Bank budget support were included.

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

6/ At the time of the RCF-1, identified financing towards closing the gap included RCF onlending, prospective CCRT support and G20 debt deferment, as well as World Bank budget and health sector support.

Table 3. Sierra Leone: Monetary Accounts[1]

(Billions of Leone, unless otherwise indicated)

	2018	2019	2020				2021	2022	2023
	Act.	Act		Act.		Est.			
	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Proj.	Proj.	Proj.
I. Monetary Survey									
Net foreign assets	**2685**	**2974**	**3068**	**3241**	**3918**	**3746**	**3548**	**3621**	**3802**
Net domestic assets	**4780**	**5559**	**5517**	**6297**	**6664**	**7634**	**9360**	**11042**	**12876**
Net domestic credit	**8039**	**9287**	**9863**	**10878**	**11069**	**12154**	**14494**	**16318**	**18331**
Claims on central government (net) 2/	6190	7133	7558	8624	8851	9993	11807	13065	14142
Claims on private sector	1845	2269	2366	2398	2385	2305	2831	3397	4332
Claims on others 3/	3	-115	-61	-144	-166	-144	-144	-144	-144
Other items (net)	-3259	-3728	-4346	-4581	-4405	-4519	-5134	-5276	-5455
Money and quasi-money (M3)	**7465**	**8533**	**8585**	**9538**	**10583**	**11380**	**12907**	**14663**	**16678**
II. Bank of Sierra Leone									
Net foreign assets	**879**	**1223**	**1261**	**1284**	**1791**	**1727**	**1177**	**826**	**571**
Net domestic assets	**1554**	**1513**	**1405**	**2391**	**2217**	**2684**	**3516**	**3904**	**4641**
Net domestic credit 4/	**2872**	**3255**	**2951**	**4018**	**3850**	**4479**	**5698**	**5952**	**6687**
Claims on other depository corporations	7	234	15	215	392	457	776	1011	1652
Claims on central government	2839	3004	2921	3803	3452	4005	4905	4923	5017
o/w SDR onlending	1172	1295	1295	2598	2598	2524	2977	2551	2024
Claims on other sectors	26	18	16	0	6	18	18	18	18
Other items (net) 5/	-1317	-1743	-1546	-1627	-1633	-1795	-2182	-2048	-2045
Reserve money	**2433**	**2735**	**2666**	**3675**	**4008**	**4411**	**4694**	**4730**	**5212**
Memorandum items:									
(Annual percent change unless otherwise indicated)									
Base money	6.5	12.4	19.6	55.5	74.8	61.3	6.4	0.8	10.2
M3	14.5	14.3	13.6	20.4	30.9	33.4	13.4	13.6	13.7
Credit to the private sector (growth)	30.6	22.9	14.2	9.9	3.9	1.6	22.8	20.0	27.5
Velocity 6/	4.3	4.6	...	...	...	4.2	3.9	4.0	4.1
Money multiplier (M3/base money)	3.1	3.1	...	...	...	2.6	2.7	3.1	3.2
Credit to the private sector (in percent of non iron ore GDP)	5.7	6.1	...	...	...	5.6	5.9	6.1	6.8
Nominal exchange rate, average (Leones/US $)	8,430	9,016	9,763	9,746	9,840	10,196	..	..	..
Nominal exchange rate, end of period (Leones/US $)	8,396	9,716	9,763	9,741	9,828	10,133	..	..	..

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

1/ End of period.

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

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

4/ Includes SDR onlending.

5/ Includes valuation.

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

Table 4. Sierra Leone: Balance of Payments
(Millions of U.S. dollars, unless otherwise indicated)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Act.	Act.	RCF1 1/	Est.	RCF1 1/	Proj.			Proj.		
Current account	**-761.8**	**-915.4**	**-611.2**	**-629.9**	**-559.8**	**-629.3**	**-636.9**	**-657.9**	**-639.8**	**-617.1**	**-562.0**
Trade balance	-570.8	-720.9	-620.9	-625.0	-527.9	-469.1	-473.6	-513.4	-458.7	-395.8	-290.3
Exports, f.o.b.	639.2	667.1	593.2	596.5	736.3	832.5	855.9	812.8	944.8	1,091.9	1,285.5
of which: Diamonds	156.0	167.6	77.1	160.8	73.1	162.0	155.3	157.8	210.2	255.4	264.4
Iron ore	13.1	13.5	0.0	0.0	53.4	152.6	138.3	168.8	214.7	291.7	446.2
Imports, f.o.b	-1,210.0	-1,388.0	-1,214.2	-1,221.5	-1,264.2	-1,301.6	-1,329.4	-1,326.2	-1,403.5	-1,487.7	-1,575.8
of which: Oil	-208.6	-188.7	-108.7	-185.6	-118.8	-243.8	-240.2	-242.6	-251.1	-261.4	-273.0
Services (net)	-304.9	-355.4	-193.8	-288.9	-235.3	-353.6	-357.7	-341.8	-383.1	-429.1	-487.8
Income (net)	-68.8	-68.3	-66.6	-69.5	-60.9	-73.8	-74.7	-76.7	-80.2	-83.6	-87.9
of which: Interest on public debt	-11.9	-11.0	-14.6	-12.5	-15.1	-13.8	-14.4	-15.3	-16.3	-16.7	-17.6
Transfers	182.6	229.1	270.2	353.4	264.3	267.2	269.0	274.1	282.2	291.5	304.0
Official transfers (net)	61.1	80.3	164.2	201.0	128.6	108.0	107.6	109.1	111.2	113.3	118.0
Other transfers (net)	121.6	148.9	105.9	152.4	135.7	159.2	161.4	164.9	171.1	178.1	186.0
Capital and financial account	**257.4**	**620.5**	**410.4**	**384.5**	**520.8**	**483.4**	**584.7**	**603.5**	**631.6**	**671.2**	**647.3**
Capital account	66.3	81.5	116.5	87.5	94.9	193.3	112.4	114.2	116.6	119.4	122.0
of which: Project support grants	48.7	55.1	70.0	60.6	45.2	165.0	84.0	85.3	86.5	87.8	88.8
Financial account	191.2	539.0	285.1	296.9	425.9	290.2	472.3	489.3	514.9	551.9	525.3
Foreign direct and portfolio investment	250.5	342.4	175.9	256.9	346.9	269.2	451.0	460.6	491.8	510.3	481.9
Other investment	-59.3	196.5	109.3	40.0	79.0	20.9	21.4	28.7	23.2	41.5	43.4
of which: Public sector (net)	82.7	154.1	85.9	59.0	65.0	22.2	28.1	35.8	31.0	45.7	49.9
Disbursements	120.8	193.1	140.0	113.0	123.7	80.0	90.0	100.0	100.0	114.5	119.7
Amortization	-38.1	-39.0	-54.1	-54.0	-58.7	-57.8	-61.9	-64.2	-69.0	-68.8	-69.7
Errors and omissions	**480.7**	**316.1**	**0.0**	**250.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-23.7**	**21.2**	**-209.5**	**4.5**	**-38.9**	**-145.9**	**-52.2**	**-54.4**	**-8.2**	**54.2**	**85.3**
Financing	**23.7**	**-21.2**	**-4.5**	**-4.5**	**-3.0**	**59.7**	**52.2**	**19.4**	**-31.8**	**-94.2**	**-125.3**
Change in net central bank reserves (- increase)	23.7	-21.2	-22.9	-46.7	-3.0	19.8	38.4	23.4	-27.8	-92.3	-123.5
of which: Change in gross central bank reserves (- increase)	20.1	-25.9	-58.1	-170.6	-4.2	-17.3	54.5	88.6	40.8	-20.5	-42.8
of which: Net use of Fund credit	3.6	4.7	35.2	123.9	1.2	37.1	-16.1	-65.1	-68.6	-71.8	-80.6
Disbursements	22.0	21.5	64.4	166.1	43.2	67.7	45.5	0.0	0.0	0.0	0.0
Repayments	-18.4	-16.8	-29.2	-42.2	-41.9	-30.6	-61.7	-65.1	-68.6	-71.8	-80.6
Exceptional financing	0.0	0.0	18.5	42.2	0.0	39.8	13.8	-4.0	-4.0	-1.8	-1.8
CCRT first tranche	…	…	18.5	18.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CCRT second tranche	…	…	…	17.0	…	0.0	0.0	0.0	0.0	0.0	0.0
Remaining CCRT 2/	…	…	…	0.0	…	30.6	16.9	0.0	0.0	0.0	0.0
DSSI (deferment)	…	…	…	6.6	…	9.2	0.0	0.0	0.0	0.0	0.0
DSSI (repayment)	…	…	…	0.0	…	0.0	-3.1	-4.0	-4.0	-1.8	-1.8
Financing gap	**0.0**	**0.0**	**214.0**	**0.0**	**41.9**	**86.2**	**0.0**	**35.0**	**40.0**	**40.0**	**40.0**
Second RCF disbursement (prospective)	…	…	…	…	…	51.2	0.0	0.0	0.0	0.0	0.0
World Bank budget support grant (prospective)	…	…	…	…	…	35.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing	0.0	0.0	8.0	0.0	0.0	0.0	0.0	35.0	40.0	40.0	40.0
First RCF disbursement (prospective at the time of RCF-1)	…	…	143.2	…	…	…	…	…	…	…	…
Remaining CCRT (prospective at the time of RCF-1)	…	…	4.3	…	41.9	…	…	…	…	…	…
G20 debt initiative (deferment) (prospective at the time of RCF-1)	…	…	9.7	…	0.0	…	…	…	…	…	…
World Bank budget support (prospective at the time of RCF-1)	…	…	40.0	…	…	…	…	…	…	…	…
World Bank health sector support (prospective at the time of RCF-1)	…	…	8.7	…	…	…	…	…	…	…	…
Memorandum items											
(Percent of non-iron ore GDP unless otherwise indicated)											
Current account	-18.6	-22.3	-15.8	-15.0	-14.7	-14.4	-14.5	-14.7	-13.8	-12.7	-11.1
Trade balance	-14.0	-17.5	-16.0	-14.9	-13.9	-10.8	-10.8	-11.5	-9.9	-8.2	-5.7
Capital and financial account	6.3	15.1	10.4	9.1	13.7	11.1	13.3	13.5	13.6	13.8	12.8
Overall balance	-0.6	0.5	-5.4	0.1	-1.0	-3.3	-1.2	-1.2	-0.2	1.1	1.7
Budget support (grants and loans)	0.7	2.0	2.6	3.7	2.0	1.5	1.5	1.5	1.5	1.8	1.8
Budget support (grants and loans, US$ millions)	27.7	83.9	99.3	156.4	77.5	65.0	65.0	66.9	68.9	85.6	91.1
Gross international reserves (including swaps, US$ millions)	503	533	577	709	569	696	640	551	511	531	574
Gross international reserves (excluding swaps, US$ millions)	481	507	565	677	569	695	640	551	511	531	574
Gross international reserves (excluding swaps, months of next year's imports)	3.2	3.8	4.2	4.7	4.1	4.7	4.4	3.5	3.1	3.0	3.0
National currency per US dollar (average)	7,932	9,016	…	…	…	…	…	…	…	…	…

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

1/ See *Sierra Leone: Request for Disbursement under the Rapid Credit Facility* (CR/20/196), June 2020.

2/ Subject to the availability of resources.

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

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Act.	Act.	RCF1 1/	Est.	RCF1 1/	Proj.			Proj.		
Financing needs	**-859**	**-1,077**	**-917**	**-1,098**	**-793**	**-843**	**-814**	**-808**	**-848**	**-892**	**-873**
Current account balance (excluding net official current transfers)	-823	-996	-775	-831	-688	-737	-745	-767	-751	-730	-680
Debt amortization (excluding IMF)	-38	-39	-54	-54	-59	-58	-62	-64	-69	-69	-70
Gross international reserves accumulation (- increase)	20	-26	-58	-171	-4	-17	55	89	41	-21	-43
Repayments to IMF	-18	-17	-29	-42	-42	-31	-62	-65	-69	-72	-81
Financing sources	**357**	**740**	**620**	**639**	**708**	**649**	**754**	**777**	**812**	**853**	**835**
Capital account	66	82	117	88	95	193	112	114	117	119	122
Disbursements from official creditors (excluding IMF)	121	193	140	113	124	80	90	100	100	115	120
Net official current transfers	61	80	164	201	129	108	108	109	111	113	118
Foreign direct and portfolio investment	250	342	176	257	347	269	451	461	492	510	482
Net acquisition of financial assets of commercial banks (- increase)	11	5	23	-19	14	-1	-7	-7	-8	-4	-7
Other	-153	38	0	0	0	0	0	0	0	0	0
Errors and omissions	**481**	**316**	**0**	**250**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other financing sources	**22**	**21**	**83**	**208**	**43**	**108**	**59**	**-4**	**-4**	**-2**	**-2**
Disbursements from IMF	22	21	64	166	43	68	46	0	0	0	0
Exceptional financing	0	0	18	42	0	40	14	-4	-4	-2	-2
CCRT first tranche	…	…	18	19	0	0	0	0	0	0	0
CCRT second tranche	…	…	…	17	…	0	0	0	0	0	0
Remainig CCRT	…	…	…	0	…	31	17	0	0	0	0
DSSI (deferment)	…	…	…	7	…	9	0	0	0	0	0
DSSI (repayment)	…	…	…	0	…	0	-3	-4	-4	-2	-2
Financing gap	**0**	**0**	**214**	**0**	**42**	**86**	**0**	**35**	**40**	**40**	**40**
Second RCF disbursement (prospective)	…	…	…	…	…	51	0	0	0	0	0
World Bank budget support grant (prospective)	…	…	…	…	…	35	0	0	0	0	0
Unidentified financing	0	0	8	0	0	0	0	35	40	40	40
First RCF disbursement (prospective at the time of RCF-1)	…	…	143	…	…	…	…	…	…	…	…
Remaining CCRT (prospective at the time of RCF-1)	…	…	4	…	42	…	…	…	…	…	…
G20 debt initiative (deferment) (prospective at the time of RCF-1)	…	…	10	…	0	…	…	…	…	…	…
World Bank budget support (prospective at the time of RCF-1)	…	…	40	…	…	…	…	…	…	…	…
World Bank health sector support (prospective at the time of RCF-1)	…	…	9	…	…	…	…	…	…	…	…
Memorandum items											
Gross international reserves (excluding swaps)	481	507	565	677	569	695	640	551	511	531	574
Gross international reserves (excluding swaps, months of next year's imports)	3.2	3.8	4.2	4.7	4.1	4.7	4.4	3.5	3.1	3.0	3.0

Sources: Sierra Leonean authorities; and IMF staff estimates and projections.
1/ See *Sierra Leone: Request for Disbursement under the Rapid Credit Facility* (CR/20/196), June 2020.

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

			Projection										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Fund obligations based on existing credit (millions of SDRs)													
Principal	21.1	42.1	44.3	46.5	48.5	47.7	34.0	30.1	27.0	11.9	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit (millions of SDRs)													
Principal	21.1	42.1	44.3	46.5	48.5	54.3	53.5	52.7	49.6	34.5	16.0	3.1	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit													
In millions of SDRs	21.1	42.1	44.3	46.5	48.5	54.3	53.5	52.7	49.6	34.5	16.0	3.1	0.0
In millions of US$	30.6	61.7	65.1	68.6	71.8	80.6	77.9	75.2	69.4	47.4	21.5	4.1	0.0
In percent of exports of goods and services	3.4	6.6	7.3	6.7	6.1	5.8	4.9	4.5	3.7	2.2	1.0	0.2	0.0
In percent of total debt service 1/	30.0	44.7	45.0	44.6	45.6	48.0	45.2	42.5	38.4	28.0	14.2	2.9	0.0
In percent of GDP	0.7	1.4	1.4	1.5	1.5	1.6	1.4	1.3	1.1	0.7	0.3	0.1	0.0
In percent of gross international reserves	4.4	9.6	11.8	13.4	13.5	14.1	12.6	11.3	9.7	6.3	2.7	0.5	0.0
In percent of quota	10.2	20.3	21.4	22.4	23.4	26.2	25.8	25.4	23.9	16.6	7.7	1.5	0.0
Outstanding Fund credit based on existing and prospective credit													
In millions of SDRs	414.0	402.9	358.7	312.2	263.7	209.4	155.9	103.2	53.6	19.1	3.1	0.0	0.0
In millions of US$	600.9	589.8	527.6	460.7	390.3	310.8	226.9	147.2	75.0	26.2	4.2	0.0	0.0
In percent of exports of goods and services	65.9	63.0	59.0	44.7	33.0	22.5	14.3	8.9	4.0	1.2	0.2	0.0	0.0
In percent of total debt service 1/	587.7	427.4	364.7	299.2	248.1	185.0	131.8	83.2	41.5	15.5	2.8	0.0	0.0
In percent of GDP	13.6	13.3	11.7	9.8	7.9	6.0	4.1	2.5	1.2	0.4	0.1	0.0	0.0
In percent of gross international reserves	86.3	92.2	95.7	90.2	73.5	54.2	36.8	22.2	10.5	3.5	0.5	0.0	0.0
In percent of quota	199.6	194.3	172.9	150.5	127.1	100.9	75.1	49.7	25.8	9.2	1.5	0.0	0.0
Net use of Fund credit (millions of SDRs)	60.8	-11.0	-44.3	-46.5	-48.5	-54.3	-53.5	-52.7	-49.6	-34.5	-16.0	-3.1	0.0
Disbursements	81.9	31.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	21.1	42.1	44.3	46.5	48.5	54.3	53.5	52.7	49.6	34.5	16.0	3.1	0.0
Memorandum items													
Exports of goods and services (millions of US$)	913	936	895	1,030	1,181	1,379	1,589	1,655	1,881	2,117	2,243	2,334	2,478
Total debt service (millions of US$) 1/	102	138	145	154	157	168	172	177	181	169	151	142	146
Nominal GDP (millions of US$)	4,422	4,448	4,529	4,713	4,934	5,185	5,529	5,938	6,372	6,833	7,277	7,752	8,253
Gross international reserves (millions of US$)	696	640	551	511	531	574	617	664	713	756	800	849	900
Quota (millions of SDRs)	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4

Source: IMF staff estimates and projections.

1/ Total debt service includes repayments to IMF.

Table 7. Sierra Leone: Financial Soundness Indicators of the Banking System, 2012-20

	2012	2013	2014	2015	2016	2017	2018	2019				2020		
								Mar	Jun	Sep	Dec	Mar	Jun	Sep
	(Percent, end of period, unless otherwise indicated)													
Capital adequacy														
Regulatory capital ratio 1/	28.0	30.1	30.2	34.0	34.1	34.1	38.4	46.4	47.2	44.9	41.7	46.8	47.1	45.8
Regulatory tier 1 capital ratio 2/	24.1	26.3	25.9	29.0	27.2	27.2	29.6	41.4	40.6	36.6	33.9	44.7	43.3	40.9
Asset quality														
Nonperforming loans to total gross loans	15.3	23.7	35.3	33.2	15.5	15.0	13.0	13.4	13.1	12.4	16.8	19.0	19.5	18.5
Nonperforming loans (net of provisions) to regulatory capital	19.2	31.7	41.8	31.9	1.2	12.1	9.9	9.3	8.9	2.9	7.2	9.2	8.1	3.1
Earnings and profitability														
Return on assets	3.8	2.2	2.6	3.2	3.8	5.6	6.0	6.1	6.5	6.6	6.1	6.3	6.4	6.4
Return on equity	16.6	9.6	15.4	18.0	21.8	29.8	28.6	27.2	28.2	28.3	26.1	27.1	27.1	28.1
Interest margin to gross income	61.7	59.2	43.5	36.6	51.1	63.2	63.2	65.1	65.9	66.7	66.9	67.9	69.6	68.9
Liquidity														
Liquid assets to short-term liabilities	76.4	81.3	87.0	87.0	86.0	77.8	82.3	83.7	83.3	85.3	86.8	89.6	93.4	119.0
Liquid assets to total assets	40.7	72.5	78.9	83.3	85.5	70.9	69.2	67.4	66.4	66.4	68.4	68.2	70.0	72.1
Memorandum Item:														
Number of banks	13	13	13	13	13	14	14	14	14	14	14	14	14	14

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

Appendix I. Letter of Intent

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

Freetown, February 25, 2021

Dear Ms. Georgieva,

The first wave of the global COVID-19 crisis continues to severely impact Sierra Leone's people and economy. This has demanded a strong health and economic response, which benefited from the support of our development partners. Now, a second wave of COVID-19 infections is hitting countries globally, jeopardizing the economic recovery in 2021. The spike in detected COVID-19 infections in Sierra Leone since December 2020 points to significant community transmission and risks reversing a containment that we had reached through early and stringent measures. Yet, in the context of an economy that had just started to recover from a severe twin shock (Ebola, commodity prices), with still thin fiscal and external buffers, the ongoing pandemic threatens to seriously disrupt the Sierra Leonean economy.

Our swift response to the health crisis and *Quick Action Economic Recovery Program* (QAERP) has averted an even more severe impact of the crisis on lives and livelihoods in Sierra Leone. Mitigating this required (and continues to require) difficult trade-offs, given the large economic and fiscal costs. The main pillars of our response are summarized below:

- Taking into account the lessons from the Ebola health pandemic, we responded with strong containment measures, even before the arrival of the index case in Sierra Leone. These measures included border and airport closures, restrictions on inter-district movements and gatherings, curfews, and full and partial lockdowns. Coordinated through our National COVID-19 Emergency Response Center (NaCOVERC) and in close dialogue with our development partners, we also ramped up health spending.

- To protect the economy and livelihoods, we also implemented additional spending on food security, labor-intensive public works to stimulate the economy, and implemented cash transfer programs in collaboration with development partners in 2020. The Bank of Sierra Leone's (BSL) Special Credit Facility successfully helped prevent shortages of food and essential goods, while higher-than-planned clearance of legacy arrears helped to keep small and medium enterprises afloat and to mitigate the impact of COVID-19 on the asset quality of commercial banks. However, despite these measures, food insecurity has risen, household incomes have shrunk, and companies and employees have been struggling.

2021 will be another challenging year, marked by tremendous uncertainty, and a tight external financing situation that leaves an urgent balance of payments (BOP) financing gap. The BOP gap arises from foreign exchange needs to cover imports of food and essential goods, and needs to be filled to avoid an immediate and severe economic disruption. Under the current baseline, we expect only a modest recovery to real GDP growth of 3 percent, little more than population growth, that is subject to significant downside risks if COVID-19 cases were to escalate. Exports are expected to recover only modestly as iron ore mining production gradually resumes and global demand strengthens. Imports, on the other hand, are expected to increase faster given Sierra Leone's reliance on imports of food, fuel and essential goods. At the same time, foreign grant support will decrease to pre-2020 levels. As a result, we expect a BOP financing gap of some US$86 million (or 2 percent of GDP) this year.

The crisis and weaker macroeconomic developments are also exacerbating an already tight budget financing situation, despite sharp fiscal adjustment and re-prioritization of measures. The global pandemic and associated domestic recession have taken a substantial toll on domestic revenue collection, and the lingering impact of COVID-19 is slowing its recovery. The substantial shock to growth, exports and revenues has worsened the already strained debt position compared to pre-pandemic levels, creating a tight borrowing environment, particularly amid ongoing uncertainty. To safeguard fiscal sustainability, our 2021 budget includes a significant adjustment—a reduction of the primary balance-to-GDP ratio of some 2½ percent of GDP. To avoid compromising the economic recovery of our country and the health of her people, we have reprioritized spending on health, food, security and labor-intensive public works, in line with initial QAERP and COVID-19 response goals. The debt service relief we are receiving under the Catastrophe Containment and Relief Trust, along with our request for continued deferment under the Debt Service Suspension Initiative (DSSI), will, to some extent, ease our fiscal financing pressures for 2021. However, despite these efforts, limited room for domestic borrowing and a tight external financing situation leaves us with a fiscal financing gap of 2 percent of GDP, which is necessitated by the fact that deeper expenditure cuts to further lower the gap would significantly undermine the economic recovery and put substantial hardship on households that are already under severe strain.

To help address these urgent BOP and fiscal financing gaps, we are therefore requesting a disbursement under the Rapid Credit Facility (RCF) of 17 percent of quota (SDR 35.26 million). To address urgent fiscal needs, the BSL would on-lend the disbursement to the Treasury, based on a forthcoming Memorandum of Understanding that will establish a framework clarifying the responsibilities for timely servicing of the financial obligations to the IMF ahead of the RCF Board date. We are hopeful that IMF support for our country will help catalyze further support from development partners, including scaled budget support by the World Bank.

The Government of Sierra Leone remains committed to macroeconomic stability, responsible economic management of the economy, strong governance, and transparency. We have demonstrated this commitment by maintaining responsible fiscal and monetary policies during the pandemic, which have kept the debt-to-GDP ratio from rising, ensured exchange rate stability, and put inflation on a downward trend (cutting it by nearly half since taking office). Post-COVID, the

Government will re-embark on its pre-COVID efforts to preserve debt sustainability, which will require it to redouble its efforts to ensure steady fiscal adjustment and further enhance debt management. The key pillars of those efforts are as follows:

- Revenue mobilization will remain a key driver of fiscal adjustment. Despite the crisis, we have continued efforts to broaden the tax base and will redouble these efforts in the years ahead. Going forward, revenue mobilization will require comprehensive reforms, both on revenue administration and policy. The new *National Revenue Authority Act* tabled in Parliament on January 26 (prior action) will provide stronger foundation for advancing these reforms, by modernizing the agency's governance, providing clearer accountability within government, and strengthening the enforcement of revenue laws. To maintain our fiscal reform momentum and ensure fiscal sustainability, we are working to reinvigorate our revenue administration reform efforts in the wake of the pandemic and put more emphasis on tax policy reforms. As a next step, we will identify a targeted set of tax policy measures to support the 2022 budget, drawing on an ongoing World Bank technical review of the tax system. To further sustain our revenue mobilization goals, we will develop a comprehensive medium-term revenue strategy to help inform the 2023 budget.

- Alongside this, sustainably investing in our country will require a considered, medium-term approach to government expenditures. This will guide our 2022 budget process to ensure spending is well-costed and well-planned (including by reprioritizing spending on strategic development areas and within medium-term spending ceilings), and well-executed (including by continuing to pursue our public financial management reform agenda).

- Strengthening debt management will also be crucial. Here, we are taking a cautious borrowing approach by continuing to seek highly concessional financing, ideally in the form of grants. In line with recent IMF technical assistance, we have re-instated the practice of regular inter-agency cash management meetings and in early February broadened the mandate to oversee cash, debt and arrears management as a whole, with the first meeting under the expanded mandate held on February 12 (prior action). Going forward, we expect to meet at least once a month. We see this effort as a significant step in a medium-term agenda to strengthen debt and cash reporting and management, supported by ongoing technical assistance.

Also, we do not intend to introduce trade restrictions or other measures or policies that would compound our balance of payments difficulties. We will comply with the provisions of the IMF's *Articles of Agreement*, including those related to imposing new or intensifying existing restrictions on the making of payments and transfers for current international transactions, introducing or modifying multiple currency practices, concluding bilateral payments agreements which are inconsistent with Article VIII, and will implement public policies under that framework.

In line with our Government's flagship agenda to eradicate corruption and strengthen governance, we are making concerted efforts to report on our emergency response, extend reporting to our overall response, and address known vulnerabilities. For instance:

- On February 25, we published on the Ministry of Finance's website detailed information on emergency spending in the form of NaCOVERC's unaudited financial statements as of December 31, 2020 (prior action). Going forward, we commit to publishing NaCOVERC's financial statements on a quarterly basis.

- We have also begun reporting on the implementation of our broader response to support the economic recovery, including under the QAERP. In line with our regular fiscal reporting, we have published information on the implementation on the QAERP up to the third quarter of 2020 on the Ministry of Finance's website. We will continue this practice and report on QAERP activities as part of our 2020 budget outturn.

- On February 25, we published key details of all large procurement contracts relating to crisis mitigation awarded as of December 31, 2020, including information on the names of companies awarded contracts and their beneficial ownership, on the National Public Procurement Authority's (NPPA) website (prior action). We commit to publishing this information on a monthly basis going forward. In the absence of a procurement contract in a particular month, we will note "no new contracts as of [month]" on the NPPA's website.

- We welcome the Audit Service Sierra Leone's real-time audit of our emergency response, its discussion report in Parliament, and its online publication in December 2020. This report will be scrutinized by Parliament's Public Accounts Committee, which will recommend further steps if necessary. We will take actions to sanction the irregularities and address the weaknesses in procurement, HR and fiduciary management identified by the audit exercise. We will also provide documentary evidence as requested. We will later facilitate the ASSL final audit of the COVID-19 response and the publication of its report within 12 months of the end of the fiscal year, as required under the Constitution.

Finally, we have continued to make progress in addressing the IMF's safeguards recommendations. In July 2020, the President appointed (and Parliament confirmed) a second Deputy Governor, responsible for financial stability, in line with the 2019 BSL Act. Following challenges in implementing the IFRS-9 accounting standards, we finalized the 2018 audited financial statements of the BSL and published them in January 2021. To expedite subsequent audits and bring them in line with the BSL's statutory requirements, Audit Service Sierra Leone has appointed an auditor to concurrently conduct the 2019 and 2020 audits of financial statements. To ensure that the audit shall be in line with international standards, we have engaged an international audit firm as a concurring international partner. We expect arrangements for its engagement to be finalized in February.

While our efforts over the past year have focused squarely on fighting the ravages of the pandemic, we remain fully committed to our broader engaging with the IMF under the Extended Credit Facility (ECF) arrangement. In that spirit, we expect all of these measures to support to macroeconomic stabilization, fiscal and debt responsibility, stronger governance, and improved social outcomes. Finally, and more importantly, that the requested RCF disbursement will provide temporary relief and avert a much deeper economic shock, as we work to reorient our program supported by the ECF by mid-2021, cannot be overstated.

We authorize the IMF to publish this letter of intent and the staff report for the request for disbursement under this emergency financial support.

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

Table 1. Sierra Leone Request for RCF Disbursement: Prior Actions

Measure	Objective	Completion Date	Verification Information
Publish on a Government website, key details of all large public procurement contracts related to COVID-19 crisis mitigation awarded as of December 31, 2020, which shall include information on (i) the names of companies awarded contracts and their beneficial owners; (ii) procurement request (nature of the goods or services procured), (iii) procurement method, and (iv) overall contract amount. The thresholds for publication of "large" contracts are as set by the *Public Procurement Regulations* (2020).	Enhance transparency and accountability on the emergency response to COVID-19	*February 25, 2021*	*https://nppa.gov.sl/covid-19-contracts*
Publish on a Government website the unaudited financial statements of the National COVID Emergency Response Center (NACOVERC) as of December 31, 2020.	Enhance transparency and accountability on the emergency response to COVID-19	*February 25, 2021*	*https://mof.gov.sl/wp-content/uploads/2021/02/NACOVERC-UNAUDITED-FINANCIAL-REPORT-MARCH-DECEMBER-2020.pdf*
In line with recent FAD TA, re-operationalize the Cash Management Committee, and expand its mandate to oversee cash, debt and arrears management processes, (i) through a formal announcement by the Ministry of Finance outlining the extended mandate, committee membership, meeting frequency (at least once per month) and date of effect to the new committee members and those with observer status, and (ii) hold the first meeting of the expanded Committee.	Better cash planning to facilitate budget implementation and better debt management to ensure spending needs (including arrears clearance) are financed on sustainable terms.	*February 12, 2021*	*Ministry of Finance circular, signed by the Financial Secretary on February 3, 2021, announced the expanded mandate and membership, including the roles of members. The IMF Resident Representative is a Committee member (observer status) and participated in the first meeting of the expanded committee on February 12.*
Table in Parliament the revised *National Revenue Authority Act*, based on Fund staff review and advice on the draft NRA Bill.	Provide a stronger institutional structure for enhanced revenue mobilization efforts	January 26, 2021	*Parliament Order Paper OP5/3/32; Votes and Proceedings of the thirty-second sitting.*

INTERNATIONAL MONETARY FUND

SIERRA LEONE

February 26, 2021

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

Approved By
Abebe Selassie and Anna Ilyina (IMF) and Marcello Estevão (IDA)

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

Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable on a forward-looking basis
Application of judgment	No

While Sierra Leone's debt is sustainable on a forward-looking basis, the risk of external and overall debt distress remains high, and the COVID-19 shock has elevated these risks. The baseline projection reflects the deleterious effects of the COVID-19 shock on growth, exports, and revenues, as well as the cost of measures to counter the health and socioeconomic effects of the pandemic. External and domestic financing needs have increased, and debt indicators have worsened, following the shock. This DSA assumes that the external financing gap in 2021 will be filled by a second disbursement under the IMF's Rapid Credit Facility (RCF) and additional budget support grants from the World Bank. It also reflects relief under the IMF's Catastrophe Containment and Relief Trust (CCRT) and the Debt Service Suspension Initiative (DSSI). Indicative thresholds were lowered due to weaker growth—particularly globally but also domestically. While the downward trajectory of the present value of public debt-to-GDP ratio over the medium to long term is broadly similar to the previous (June 2020) DSA, it takes somewhat longer to track below the now lower threshold, which primarily reflects weaker global growth. Some external debt indicators also remain above the thresholds over the medium term. The public debt service-to-revenue ratio and the external debt service-to-exports ratio keep rising over the medium term, indicating a period of high vulnerabilities in liquidity, before continuously declining in the medium to long term. The stress tests highlight the sensitivities to shocks to growth, commodity prices, and exports. Reducing debt requires, first and foremost, sustained adjustment underpinned by strengthened public financial management, effective expenditure prioritization, and redoubling structural and revenue mobilization reform efforts. However, it will be vital that Sierra Leone continues to rely on highly concessional financing and ideally grants, to adjust at a pace that does not imperil the post-pandemic recovery, supports adequate social and other priority spending, and can meet the country's large development needs.

[1] The DSA follows the 2018 IMF and World Bank Staff Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries. The Composite Indicator score of 2.65, based on the October 2020 WEO and the World Bank's latest CPIA, indicates a weak debt-carrying capacity.

PUBLIC DEBT COVERAGE

1. **The DSA covers known sources of public debt** (Text Table 1). As in earlier DSAs (including in June 2020), the debt stock includes central government public and publicly guaranteed debts. The DSA also includes the latest estimate of the consolidated stock of domestic payment arrears. The Government is working—with the support of development partners—to improve its financial management information systems and enhance the accounting and timely reporting of public debt, including those occurred by state-owned enterprises (SOEs) and self-accounting bodies.

Text Table 1. Public Sector Debt Coverage Under the Baseline Scenario

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

2. **The contingent liability stress test accounts for vulnerabilities associated with SOEs and financial market risks** (Text Table 2). The contingent liability for SOE debt is set at 7 percent of GDP, higher than the default 2 percent of GDP, reflecting the authorities' estimate of total external indebtedness of SOEs and self-accounting bodies. Contingent liabilities from financial markets are set at the standard minimum value of 5 percent of GDP, which represents the average cost to government of a financial crisis in LICs since 1980. The contingent liability of other elements of the general government is set at 0 percent of GDP, since estimated domestic arrears are already included in the baseline. Overall, Sierra Leone's total contingent liabilities are estimated at 12 percent of GDP, as in the previous DSA.

Text Table 2. Coverage of the Contingent Liabilities' Stress Test

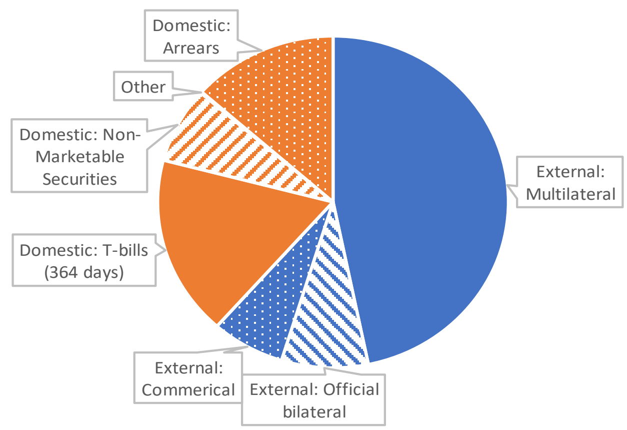
1. The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt		
	Default	**Used for the Analysis**	**Reasons for deviations from the default setting**
2. Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3. SOE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	7.0	Reflect the authorities' estimate of total external indebtedness of SOEs.
4. PPP	35 percent of PPP stock	0.0	
5. Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
Total (2+3+4+5) (in percent of GDP)		12.0	

1/ The default shock of 2 percent of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1). If it is already included in the government debt (1) and risks associated with SOE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0 percent.

BACKGROUND ON DEBT

3. The COVID-19 shock—weakening growth, revenue, and exports, and increasing financing needs—has impeded a near-term improvement in Sierra Leone's strained public debt situation. Despite an increased fiscal deficit in 2020—driven by the large shock to growth and revenues, and measures to counter the impact of the pandemic—public debt is estimated to remain broadly unchanged at around 72 percent of GDP at end-2020, in large part thanks to progress in clearing domestic payment arrears. It would fall slightly below this level in 2021 and continue to decrease over the medium term.

Text Figure 1. Composition of Public Debt, end-2019



4. Public and publicly guaranteed (PPG) external debt was around 44 percent of GDP at end-2019 and is projected to increase to around 46 percent at end-2020. This reflects additional loans incurred in 2020, including an RCF disbursement from the IMF in June 2020 (SDR 103.7 million or 50 percent of quota). About 76 percent of Sierra Leone's external PPG debt at end-2019 comprised non-restructurable obligations to multilateral creditors (Text Figure 1). The IMF and World Bank account for about 22 percent and 21 percent of total PPG external debt, respectively.[2] Official bilateral creditors account for around 13 percent of total PPG external debt. Sierra Leone also has pre-HIPC debt (arrears) to commercial creditors (about 11 percent of total PPG external debt or around US$187 million at end-2019).

5. Public domestic debt is estimated to have declined somewhat in 2020, on the back of domestic arrears clearance and domestic borrowing targets under the ECF-supported program. Public domestic debt is estimated to have declined from around 28 percent of GDP at end-2019 to around 26 percent of GDP at end-2020. Around three-quarters of domestic debt is owed to commercial banks mainly in the form of 364-day T-bills. Less than a tenth of obligations are to the non-bank sector, while the Bank of Sierra Leone holds less than 15 percent of public debt. Commercial banks see T-Bills as a crucial asset in an otherwise less developed market, limiting roll-over risks. The authorities started to clear some domestic arrears balances in the first half of the year (under their new arrears clearance strategy), while significant exceptional external financing in mid-2020 (IMF RCF; World Bank budget support, and front-loaded EU budget support) helped contain net issuances of relatively more costly T-bills. These disbursements also eased the financing situation, and interest on T-bills declined significantly (to about 10 percent, from near 25 percent earlier in the year). Sierra Leone has a shallow credit market and domestic

[2] Among other multilateral creditors, African Development Fund and Islamic Development Bank account for about 9 percent and about 7 percent of total PPG external debt, respectively. As for official bilateral creditors, each creditor accounts for less than 3percent of total PPG external debt.

banks have limited alternative investment options, attenuating the rollover risk on T-bills. However, with continued high financing needs, domestic borrowing costs are expected to increase over the medium term.

KEY ASSUMPTIONS UNDER THE BASELINE SCENARIO

6. The assumptions are consistent with the macroeconomic framework in the staff report.

- **Growth.** Real GDP is projected to fall by 2.2 percent in 2020, a nearly 6½ percentage point decline relative to the pre-COVID projection. This primarily reflects disruptions in production and trade due to the COVID-19 pandemic, although the delayed resumption of iron ore mining has also played a role. GDP growth is expected to begin a gradual recovery in 2021, rising to 3.0 percent, with iron ore production assumed to resume at the Tonkolili mine. Thereafter, real non-mining GDP growth is assumed to pick up to its long-run potential of around 4½ percent. Risks to the growth forecast include a resurgence of the virus (including in the rest of the world), and further delays in resuming mining production, including iron ore (although there are also upside risks to the mining forecasts).

- **Inflation.** Inflation (as measured by the GDP deflator) is expected to be broadly in line with actual average consumer price inflation in 2020 at around 14 percent and then to decline gradually over time, in line with CPI projections. Consumer price inflation is projected to reach single digits by 2024, benefiting from ongoing efforts to strengthen the monetary policy framework and a gradual easing of fiscal financing pressures.

- **Fiscal.** Fiscal assumptions about the long-term trends of domestic revenue, grants and the overall balance remain largely unchanged from the previous DSA (June 2020), with the exception of somewhat higher project grant assumptions, in line with new information from development partners. The projected 2021 fiscal position reflects the approved budget. Sustained adjustment in the medium to long term is consistent with the Government's efforts before the pandemic, in the context of their program supported by (and the expected resumption of) the Extended Credit Facility. Revenue assumptions reflect the authorities' continued commitment to revenue mobilization efforts, underpinned by revenue administration measures (e.g. ITAS, GST compliance) and increased focus on tax policy reforms, with a comprehensive medium-term revenue strategy ahead of the 2022 budget, supported by IMF and World Bank technical assistance. While the projection provides room for capital and social spending, scaling up to meet large investment needs would be contingent on faster progress on revenue mobilization or more grants. The overall balance is expected to average 0.8 percent of GDP in the medium. Both the overall balance and primary balance are estimated to have deteriorated significantly in 2020 (to –5.5 and -2.6 percent of GDP, respectively) as a result of both the negative shock to domestic revenue from, and additional spending to combat the impact of, COVID-19.[3]

[3] The primary deficit in 2020 was smaller than in the previous DSA due to higher than anticipated budget grants.

- **External.** Both exports and imports are projected to fall significantly in 2020, before recovering gradually (Table 1). Following a significant increase in external budget support grants in 2020, these are projected to decrease in 2021. The DSA reflects the first RCF disbursement in June 2020 (50 percent of quota or SDR 103.7 million), relief under the IMF's Catastrophe Containment and Relief Trust (CCRT), and the Debt Service Suspension Initiative (DSSI).[4] It is assumed that the external financing gap in 2021 will be covered by both a second RCF disbursement and additional budget support grants from the World Bank. The DSA also takes into account the external financing gap during 2023-26, which is assumed to be covered by concessional financing (possibly a combination of grants and loans from development partners) with an overall grant element of 35.5 percent.[5]

Text Table 3. Macroeconomic Assumptions

	Current DSA		June 2020 DSA	
	2020	2030	2020	2030
Real GDP growth (in percent)	-2.2	4.5	-3.1	4.5
Inflation (GDP deflator, in percent)	13.9	5.7	12.7	5.0
Primary deficit (percent of GDP)	2.6	-2.2	3.8	-1.0
Non-interest current account deficit (percent of GDP)	14.7	6.7	14.4	6.0

7. **Arrears clearance and domestic financing.** Sierra Leone has a large stock of legacy domestic payment arrears, amounting to close to 10 percent of GDP at end-2019, and clearing these arrears is a key priority for the authorities and their ECF-supported program (Box 1). The assumptions on arrears clearance remain broadly in line with those in the previous DSA, albeit with less ambitious assumptions on NPV reductions. This is because the authorities reprioritized the paydown of some arrears as they were finalizing arrears clearance strategy[6] and in the wake of COVID-19, with terms that fell short of the targeted NPV reductions. The NPV reduction on total stock going forward is therefore on the order of 35-40 percent, as opposed to the 55-60 percent assumed in the previous DSA. The fact that these domestic payment arrears do not accrue interest or charges, and that the authorities' arrears clearance strategy targets significant NPV reductions stock helps to ensure sustainability. The target of gradually reducing domestic bank financing remains consistent with the ECF--supported program.

8. **The "realism tool" shows the projected fiscal adjustment to be within the realistic range** (Figure 4). The primary deficit is expected to return to its 2019 level by 2022, implying a fiscal adjustment close to zero over the three years. However, the three-year average masks a deterioration in the primary balance due to the COVID-19 shock, followed by an improvement, which is driven by spending restraint

[4] Debt service deferment in 2020 under the DSSI is projected to be around US$6.6 million. Sierra Leone has reached out to relevant creditors, requesting debt service deferment for the extended portion of the DSSI in the first half of 2021. If approved, debt service deferment for the extended period would be in the order of US$9 million.

[5] IMF financing (the RCF and prospective disbursements under the existing ECF) has a 5.5-year grace period and 10-year maturity and carries a zero-interest rate at least through June 2021. Loans from other multilateral creditors (other than the World Bank) are assumed to have an overall grant element of 35 percent. Compared to the DSA at the time of the June 2020 RCF, project support grants from the World Bank from 2021 onwards are larger and project support loans from the World Bank from 2021 onwards are smaller.

[6] The Government paid down about 1.5 percent of GDP in arrears by mid-2020, while the arrears clearance strategy was finalized in June 2020 and approved by the Cabinet in July 2020.

and continued revenue mobilization efforts. Compared to the previous DSA (June 2020) changes in the near-term projections reflect a somewhat less sharp deterioration in the expected fiscal outturn in 2020 (largely due to somewhat higher than previously expected budget support grants), more favorable exchange rate developments through 2020 than projected in June, and the latest assumptions on external grants and loans (Figure 3). Notwithstanding the impact of the COVID-19 shock in delaying the nearer term reduction in domestic bank financing, the longer-term fiscal trajectory remains in line with previous projections under the ECF-supported program.

Box 1. Actions to Quantify and Clear Domestic Payment Arrears in Sierra Leone

Resolving the longstanding challenge of domestic expenditure arrears is a key priority for the authorities. In the context of their program, supported by an Extended Credit Facility (ECF) arrangement with the IMF, they have undertaken a comprehensive stocktaking exercise, and adopted an arrears clearance strategy. Given the magnitude of the arrears stock and the tight fiscal financing situation, the clearance strategy reflects the difficult choices, including significant NPV reductions, required to sustainably address this issue. This DSA fully reflects the current stock of domestic arrears and the planned terms for arrears clearance.

The Sierra Leonean authorities have made a concerted effort to understand the magnitude of domestic payment arrears.

- At the time, the ECF-supported program was approved in November 2018, the stock of arrears was estimated at about 4 percent of GDP—reflecting verified (crystalized) but unpaid checks accumulated at the Ministry of Finance—but indications were that it could be higher.
- In early 2019, they published several audits aimed at identifying inherited fiscal risks, including an audit by the Audit Service Sierra Leone (ASSL) to verify claims on the Government, including both future obligations and arrears.[1]
- During June-August 2019, the Ministry of Finance worked with ASSL, and relevant Ministries, Departments and Agencies to review and reconcile individual claims to determine the portion of verified claim in arrears.
- That stocktaking exercise, completed in September 2019, confirmed pre-April 2018 domestic payment arrears of Le 3.3 trillion (around 8¾ percent of 2019 non-iron ore GDP), of which around 90 percent were accrued during 2016 and 2017.[2]
- In addition to these legacy arrears, the authorities have continued to monitor the net accumulation of new arrears (unpaid checks) in the period since April 2018.

The authorities have also finalized their comprehensive arrears clearance strategy. Cognizant of the potentially substantial fiscal implications, the authorities collaborated closely with IMF staff, to develop a strategy to clear arrears based on the following key principles: transparency and equity, sustainability, macrofinancial stability, and preventing further arrears accumulation. The final strategy—approved by Cabinet in July 2020 and published on the *Ministry of Finance* website—implies full clearance over the medium term, assuming deep haircuts or NPV reductions.

The authorities have started clearing arrears at a pace faster than envisaged in the clearance strategy. In an attempt to cushion the impact of the COVID-19 pandemic on the private sector, and provide liquidity to the banking sector, the authorities prioritized clearing arrears to small and medium enterprises. However, as the haircuts applied were less than envisaged under their clearance strategy, the estimated overall NPV reduction of the prospective arrears clearance is also less than originally envisaged under the plan.

This DSA fully reflects the latest stock of arrears (Le 2.5 trillion as of end-December 2020). Since the September 2019 stocktaking exercise, all Fund-Bank DSAs have included the full stock of legacy arrears (adjusted for arrears that have since been cleared) and the net accummuation of new arrears (unpaid checks) since April 2018, and the expected terms of prospective arrears clearance (as noted above).

[1] See *Box 3. Progress Towards Domestic Payment Arrears* in IMF Country Report No. 19/217, July 2019.

[2] See *Box 3. Managing and Preventing Expenditure Arrears in Sierra Leone* in IMF Country Report No. 20/116, April 2020.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9. **With the recent deterioration in growth, Sierra Leone's debt-carrying capacity is now assessed to be weak.** The Composite Indicator (CI) score of 2.65, based on the October 2020 WEO and the World Bank's latest CPIA, indicates a weak debt carrying capacity. The CI score has declined from the previous level of 2.69, primarily due to weaker global growth and less so due to weaker domestic growth (Text Table 4). As a result of the decline in the CI score, Sierra Leone's debt-carrying capacity has changed from medium to weak. Text Table 5 shows applicable thresholds for debt indicators.

Text Table 4. Composite Indicator (CI) Rating

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.172	1.22	46%
Real growth rate (in percent)	2.719	2.555	0.07	3%
Import coverage of reserves (in percent)	4.052	35.823	1.45	55%
Import coverage of reserves^2 (in percent)	-3.990	12.833	-0.51	-19%
Remittances (in percent)	2.022	1.252	0.03	1%
World economic growth (in percent)	13.520	2.928	0.40	15%
CI Score			2.65	100%
CI rating			Weak	

Text Table 5. Applicable Thresholds for Debt Indicators	
PV of PPG external debt in percent of GDP	30%
PV of PPG external debt in percent of exports	140%
PPG external debt service in percent of exports	10%
PPG external debt service in percent of revenue	14%
PV of total public debt in percent of GDP	35%

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

External DSA

10. **Sierra Leone is assessed to be at high risk of external debt distress, and PPG external debt is assessed to be sustainable on a forward-looking basis.** Under the baseline, the PV of PPG external debt-to-GDP ratio and the PV of PPG external debt-to-export ratio exceed their thresholds over the medium term, and these return to their thresholds around 2025 (Figure 1, Table 1[7]). As the trajectory of the debt ratio has not significantly changed from the previous DSA, this more protracted deviation from the threshold is due to the downward change in the applicable threshold resulting from the recent change in the debt-carrying capacity. PPG external debt service-to-exports ratio also stays slightly above the threshold over the medium term. In the meantime, PPG external debt service-to-revenue ratio remains

[7] The residuals in Table 1 reflect exchange rate changes.

above its threshold for the next ten years, implying a tight liquidity situation for a prolonged period. Here too, the protracted deviations principally reflect the new lower thresholds. Stress tests indicate that the external debt indicators are sensitive to growth, exports, and their combination. In the stress scenarios, all the external debt indicators remain significantly above the thresholds for the next ten years. Since the PPG external debt indicators breach their thresholds under the baseline, Sierra Leone is assessed to be at high risk of external debt distress, as in the previous DSA. However, since all the external debt indicators are on a declining trend over the medium- to long-term, it is assessed that PPG external debt is sustainable on a forward-looking basis.

Overall Risk of Public Debt Distress

11. Sierra Leone is assessed to be at high overall risk of public debt distress, and the trajectories of debt indicators indicate that public debt is sustainable on a forward-looking basis. Under the baseline, the PV of public debt-to-GDP ratio gradually declines to the now lower threshold of 35 percent before 2030 (Figure 2). The public debt service-to-revenue ratio is projected to rise over the medium term, suggesting high vulnerabilities in liquidity over that period. The large debt service in 2021-25 is expected to be financed with grants, concessional loans, and government revenues. Over this period, the largest debt service would be to the IMF. Sierra Leone will need continued access to concessional financing, including from the Fund, to ensure that financing terms remain contained. For the long term, as the economy fully recovers and tax administration gains materialize, the public debt service-to-revenue ratio is expected to decline gradually. Stress tests indicate that the public debt indicators are sensitive to shocks to growth and commodity prices. Considering that both external debt indicators and public debt indicators exceed their thresholds under the baseline, the country is assessed to have high overall risk of public debt distress. Nevertheless, public debt is assessed as sustainable on a forward-looking basis, reflecting the downward trend in all the indicators over the long term (despite prolonged breaches in some indicators), which is predicated on a combination of (i) sustained and significant fiscal adjustment, and (ii) continued reliance on highly concessional external financing (largely grants), including from the IFIs which account for a large share of Sierra Leone's PPG external debt, while limiting recourse to expensive domestic debt.

RISK RATING AND VULNERABILITIES

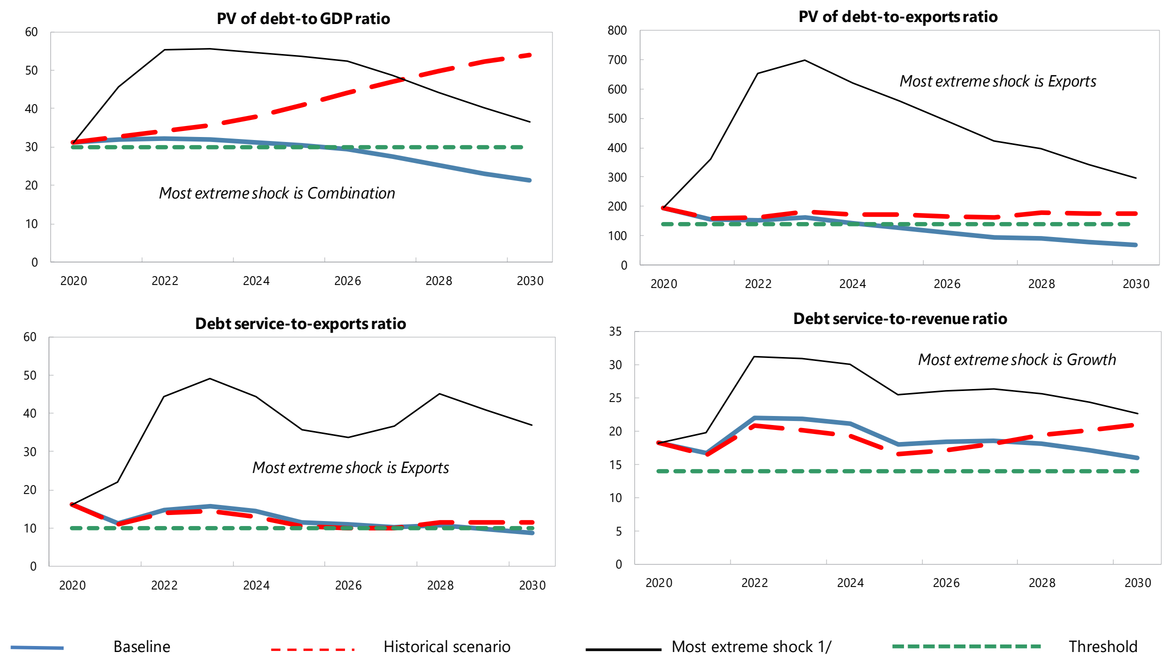
12. While Sierra Leone is assessed to be at high risk of external debt distress and high risk of overall public debt distress, its debt is assessed to be sustainable on a forward-looking basis. The COVID-19 shock weakened growth, revenue, and exports, and increased financing needs, and it has worsened Sierra Leone's public debt situation, while the medium- to long-term trajectories of debt ratios remain largely unchanged. The assessment on the risk of debt distress remains unchanged from the previous DSA in June 2020. While some debt indicators exceed their thresholds over the medium term under the baseline, the more protracted deviations principally reflect the lower thresholds associated with the changed assessment of the debt-carrying capacity primarily due to weaker global growth, rather than inherent change in the debt trajectory. All the indicators remain on a declining trend over the medium to long term. Thus, debt is assessed to be sustainable on a forward-looking basis, predicated on continued reliance on highly concessional external financing (largely grants), while limiting recourse to expensive domestic debt. However, the public debt service-to-revenue ratio is projected to rise over the medium term, suggesting high vulnerabilities in liquidity. The stress tests also highlight that debt indicators are sensitive to shocks to growth, commodity prices, and exports.

13. This debt sustainability analysis underscores the importance of continued fiscal discipline efforts and structural reforms, supported by technical assistance and prudent financing choices. Reducing debt and maintaining debt sustainability requires, first and foremost, sustained fiscal adjustment, underpinned by strengthened public financial management, effective expenditure prioritization, and redoubling structural and revenue mobilization reform efforts. However, to achieve a pace of fiscal adjustment that does not imperil the post-pandemic recovery and allows the country to continue addressing its large development needs, it will be vital that Sierra Leone continues to rely on highly concessional financing and ideally grants. In addition, following technical assistance on debt recording earlier this year, further technical assistance in debt management and development of a domestic market will also be important.

Authorities' Views

14. The authorities concurred with staff assessment on the risk of debt distress and debt sustainability. The authorities also acknowledged the importance of redoubling efforts to ensure sustained fiscal adjustment beyond 2021. The authorities highlighted the range of ongoing reforms, supported by IMF technical assistance, to strengthen revenue administration, improve public expenditure management, and further enhance debt management. Collectively, these efforts aim to support steady fiscal adjustment and better manage debt in ways that are compatible with the country's immediate fiscal financing needs for dealing with the COVID-19 crisis and its needs for economic development.

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



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

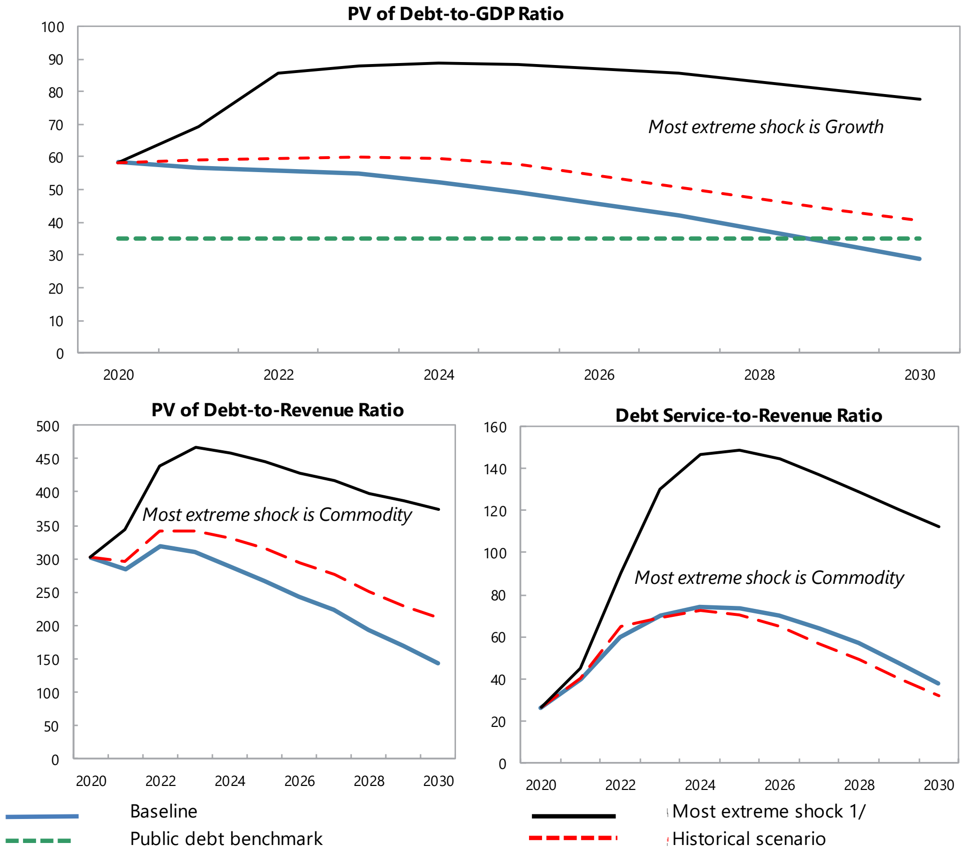
Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.9%	0.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	5	5

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

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

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

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



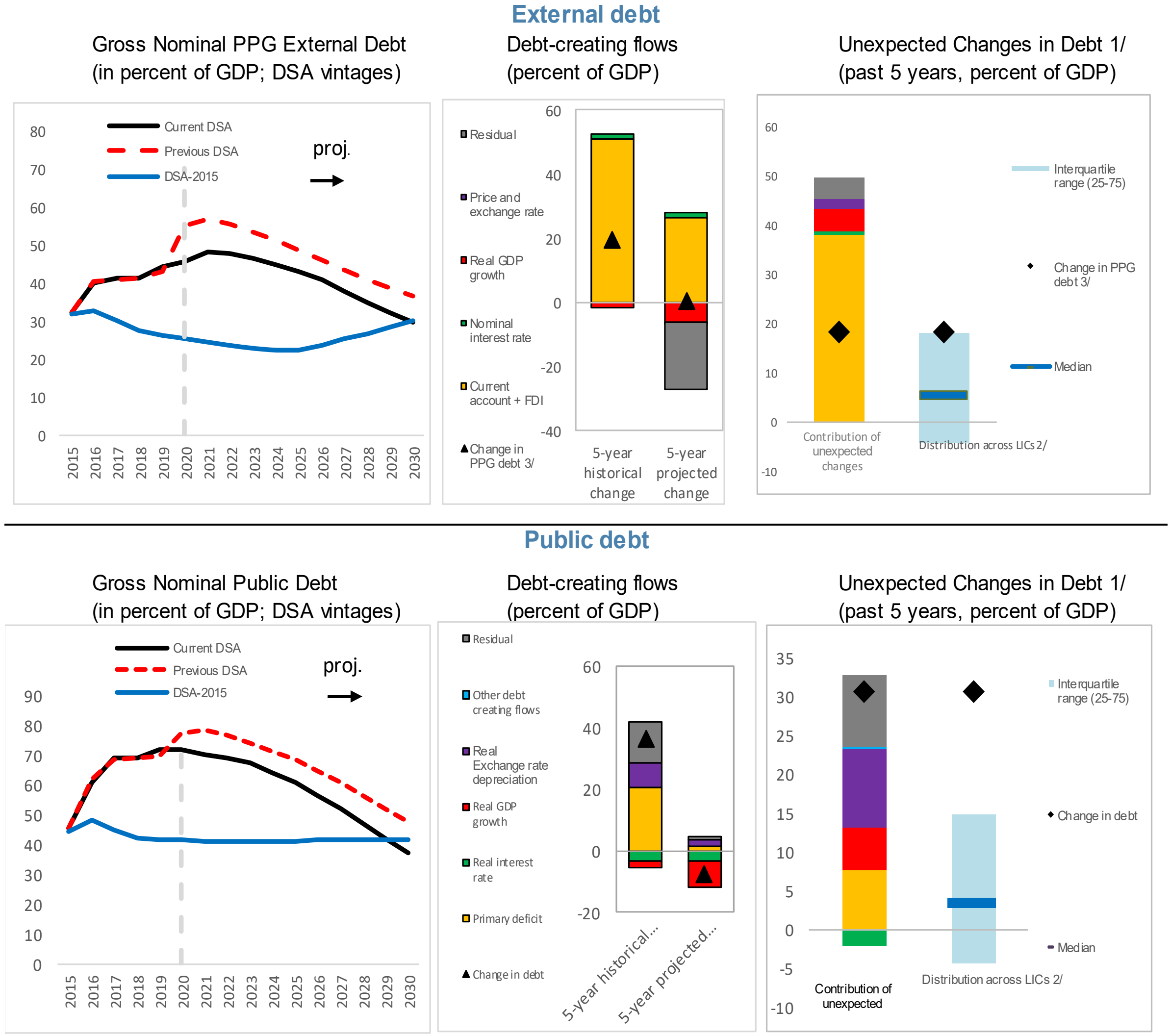
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	33%	33%
Domestic medium and long-term	0%	0%
Domestic short-term	67%	67%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.9%	0.9%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	1%	1%

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

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

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

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



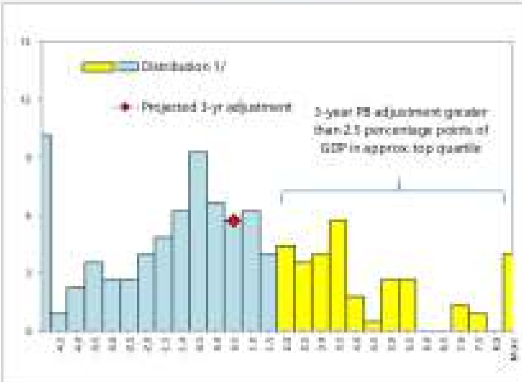
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

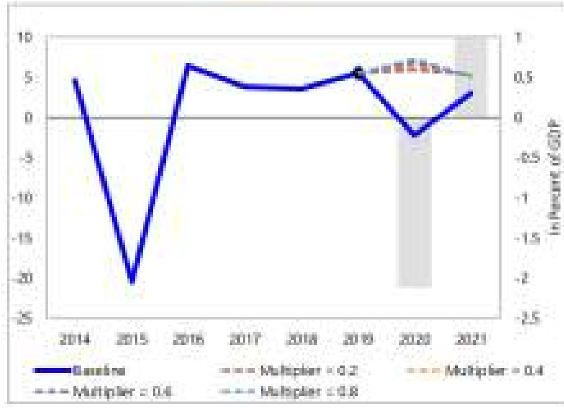
Figure 4. Sierra Leone: Realism Tools

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



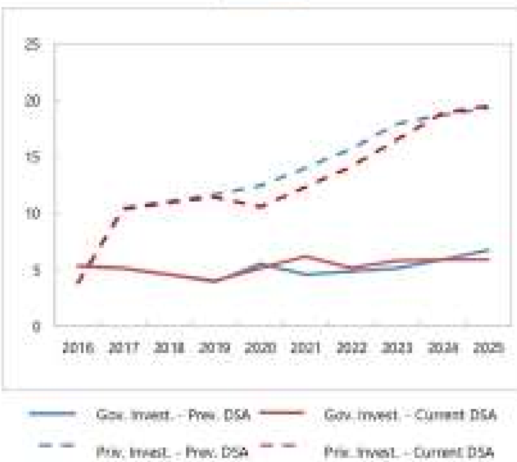
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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



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

Public and Private Investment Rates
(% of GDP)



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

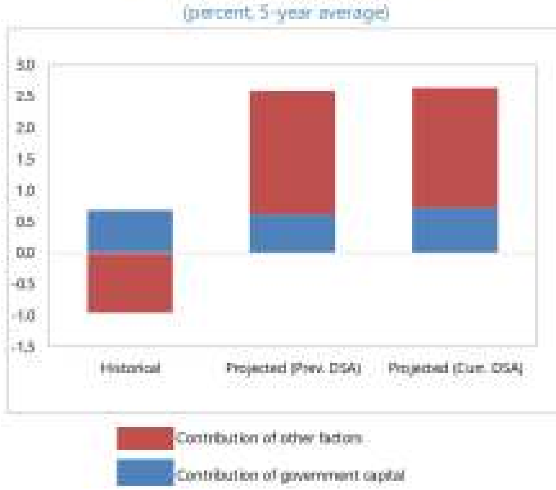
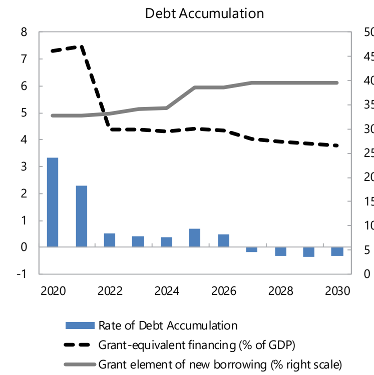


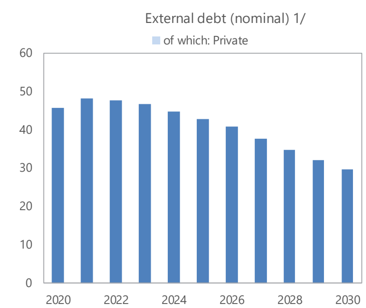
Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2017–40

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	41.4	41.2	44.1	45.8	48.2	47.7	46.6	44.6	42.8	29.7	21.7	33.3	41.0
of which: public and publicly guaranteed (PPG)	41.4	41.2	44.1	45.8	48.2	47.7	46.6	44.6	42.8	29.7	21.7	33.3	41.0
Change in external debt	1.4	-0.2	2.9	1.7	2.4	-0.5	-1.1	-2.0	-1.8	-2.4	-0.8		
Identified net debt-creating flows	...	...	...	9.8	6.0	2.5	2.6	0.9	0.0	0.2	2.0	...	1.8
Non-interest current account deficit	21.5	18.4	22.0	14.7	13.1	14.0	14.2	13.2	12.2	6.7	7.3	20.4	11.4
Deficit in balance of goods and services	23.3	21.4	26.1	21.7	18.6	18.7	18.9	17.9	16.7	10.8	10.6	25.9	16.1
Exports	19.7	17.6	18.0	16.0	20.6	21.0	19.8	21.9	23.9	31.0	27.6		
Imports	42.9	39.0	44.1	37.7	39.2	39.7	38.6	39.7	40.7	41.7	38.3		
Net current transfers (negative = inflow)	-4.2	-4.5	-5.6	-8.4	-6.8	-6.0	-6.1	-6.0	-5.9	-5.4	-4.7	-9.1	-6.1
of which: official	-1.4	-1.5	-1.9	-4.8	-3.2	-2.4	-2.4	-2.4	-2.3	-2.0	-1.6		
Other current account flows (negative = net inflow)	2.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	3.6	1.4
Net FDI (negative = inflow)	-11.1	-6.1	-8.3	-6.1	-6.1	-10.1	-10.2	-10.4	-10.3	-5.5	-4.6	-11.7	-8.4
Endogenous debt dynamics 2/	...	...	...	1.3	-1.0	-1.4	-1.4	-1.9	-1.8	-1.0	-0.7		
Contribution from nominal interest rate	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2		
Contribution from real GDP growth	-1.6	-1.3	-2.2	1.0	-1.3	-1.7	-1.8	-2.2	-2.2	-1.3	-0.9		
Contribution from price and exchange rate changes	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	...	...	...	-8.2	-3.6	-3.0	-3.7	-2.8	-1.8	-2.5	-2.8	...	-3.1
of which: exceptional financing	...	...	...	-1.0	-0.9	-0.3	0.1	0.1	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	28.5	31.2	31.8	32.1	32.0	31.1	30.4	21.3	15.1		
PV of PPG external debt-to-exports ratio	...	...	158.1	194.8	154.2	152.7	161.9	142.2	126.8	68.6	54.7		
PPG debt service-to-exports ratio	7.5	9.5	9.0	16.2	11.2	14.8	15.8	14.4	11.5	8.9	4.9		
PPG debt service-to-revenue ratio	12.2	12.3	11.1	18.2	16.6	22.0	21.9	21.2	18.0	16.0	6.7		
Gross external financing need (Million of U.S. dollars)	441.2	567.9	628.8	469.2	413.4	310.3	323.3	279.5	225.6	271.6	547.8		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.8	3.5	5.5	-2.2	3.0	3.6	3.8	5.0	5.1	4.5	4.4	5.1	3.8
GDP deflator in US dollar terms (change in percent)	-7.2	6.3	-4.4	4.4	2.1	-2.9	-1.9	-0.9	-0.3	2.7	3.8	1.1	0.9
Effective interest rate (percent) 4/	0.6	0.8	0.7	0.7	0.7	0.7	0.7	0.8	0.8	1.0	1.0	0.7	0.8
Growth of exports of G&S (US dollar terms, in percent)	-0.1	-1.5	3.3	-9.3	35.7	2.6	-4.4	15.1	14.7	12.6	6.4	16.3	10.6
Growth of imports of G&S (US dollar terms, in percent)	12.0	0.0	14.1	-12.7	9.4	1.9	-1.0	7.0	7.2	7.3	6.3	19.0	4.4
Grant element of new public sector borrowing (in percent)	...	...	...	32.8	32.8	33.2	34.2	34.3	38.5	39.5	39.3	...	36.6
Government revenues (excluding grants, in percent of GDP)	12.2	13.7	14.6	14.2	13.9	14.2	14.3	14.8	15.3	17.2	20.1	11.6	15.3
Aid flows (in Million of US dollars) 5/	92.3	85.8	138.5	215.6	265.0	149.0	187.1	195.4	233.4	244.7	419.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	7.3	7.5	4.4	4.4	4.3	4.4	3.8	3.3	...	4.7
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	62.1	71.2	68.2	69.1	68.8	69.7	73.5	70.6	...	70.4
Nominal GDP (Million of US dollars)	3,713	4,085	4,119	4,204	4,422	4,448	4,529	4,713	4,934	6,833	13,503		
Nominal dollar GDP growth	-3.7	10.0	0.8	2.1	5.2	0.6	1.8	4.1	4.7	7.2	8.4	6.2	4.7
Memorandum items:													
PV of external debt 7/	...	...	28.5	31.2	31.8	32.1	32.0	31.1	30.4	21.3	15.1		
In percent of exports	...	...	158.1	194.8	154.2	152.7	161.9	142.2	126.8	68.6	54.7		
Total external debt service-to-exports ratio	7.5	9.5	9.0	16.2	11.2	14.8	15.8	14.4	11.5	8.9	4.9		
PV of PPG external debt (in Million of US dollars)			1172.7	1310.3	1407.3	1429.4	1448.4	1465.0	1497.7	1452.0	2041.3		
(PVt-PVt-1)/GDPt-1 (in percent)				3.3	2.3	0.5	0.4	0.4	0.7	-0.3	0.8		
Non-interest current account deficit that stabilizes debt ratio	20.1	18.5	19.1	13.0	10.7	14.5	15.3	15.2	14.0	9.0	8.1		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

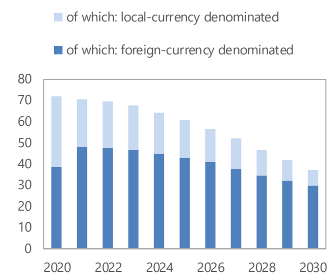
Table 2. Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–40

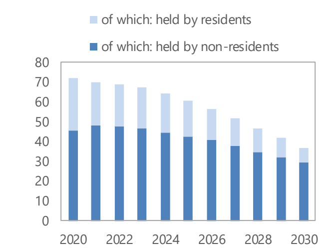
(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	**71.7**	**72.0**	**70.4**	**69.3**	**67.5**	**64.3**	**60.7**	**37.0**	**23.6**	**50.7**	**58.0**
of which: external debt	**44.1**	**45.8**	**48.2**	**47.7**	**46.6**	**44.6**	**42.8**	**29.7**	**21.7**	**33.3**	**41.0**
Change in public sector debt	2.6	0.3	-1.6	-1.1	-1.8	-3.2	-3.6	-4.9	-1.0		
Identified debt-creating flows	**-0.1**	**-0.3**	**-1.4**	**-1.3**	**-1.8**	**-3.4**	**-4.0**	**-4.3**	**-5.4**	**1.1**	**-3.1**
Primary deficit	**0.4**	**2.6**	**0.7**	**-0.2**	**-0.5**	**-1.0**	**-1.4**	**-2.2**	**-3.6**	**3.3**	**-0.8**
Revenue and grants	18.0	19.3	19.9	17.5	17.6	18.1	18.5	20.1	22.6	**15.4**	**18.9**
of which: grants	3.4	5.1	6.0	3.3	3.4	3.3	3.2	2.9	2.4		
Primary (noninterest) expenditure	18.4	21.9	20.6	17.3	17.2	17.1	17.1	17.9	18.9	**18.7**	**18.1**
Automatic debt dynamics	**-0.5**	**-2.8**	**-2.0**	**-1.1**	**-1.4**	**-2.4**	**-2.6**	**-2.2**	**-1.8**		
Contribution from interest rate/growth differential	-3.7	0.5	-3.6	-2.9	-2.7	-3.3	-3.0	-2.0	-1.2		
of which: contribution from average real interest rate	-0.1	-1.2	-1.5	-0.4	-0.1	-0.1	0.1	-0.2	-0.2		
of which: contribution from real GDP growth	-3.6	1.6	-2.1	-2.4	-2.5	-3.2	-3.1	-1.8	-1.0		
Contribution from real exchange rate depreciation	3.3	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**2.6**	**-2.7**	**1.3**	**2.0**	**1.3**	**1.1**	**0.8**	**-0.8**	**3.9**	**1.3**	**0.1**
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	**58.2**	**58.3**	**56.4**	**55.9**	**54.7**	**52.2**	**49.3**	**28.8**	**17.1**		
PV of public debt-to-revenue and grants ratio	**324.5**	**302.1**	**283.8**	**319.1**	**309.8**	**288.4**	**266.2**	**143.6**	**75.9**		
Debt service-to-revenue and grants ratio 3/	**22.3**	**26.3**	**40.2**	**59.7**	**69.8**	**74.3**	**73.3**	**37.8**	**6.6**		
Gross financing need 4/	4.4	7.6	8.7	10.2	11.8	12.4	12.2	5.4	-2.2		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	5.5	-2.2	3.0	3.6	3.8	5.0	5.1	4.5	4.4	**5.1**	**3.8**
Average nominal interest rate on external debt (in percent)	0.7	0.7	0.7	0.7	0.8	0.8	0.8	1.0	1.0	**0.7**	**0.8**
Average real interest rate on domestic debt (in percent)	1.1	-3.4	-3.4	0.3	1.8	2.0	2.9	1.2	2.1	**-0.1**	**1.0**
Real exchange rate depreciation (in percent, + indicates depreciation)	8.4	...	...	...	...	...	...	...	...	**0.4**	**...**
Inflation rate (GDP deflator, in percent)	8.6	13.9	13.9	11.9	10.7	9.9	8.1	5.7	4.8	**11.2**	**8.8**
Growth of real primary spending (deflated by GDP deflator, in percent)	4.5	16.2	-2.9	-13.0	3.1	4.5	5.4	5.5	4.5	**6.6**	**3.8**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-2.1	2.3	2.3	0.9	1.3	2.2	2.2	2.8	-2.7	**-0.4**	**2.3**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Note: Grants include grants for debt service relief under the Catastrophe Containment and Relief Trust (CCRT), projected to amount to 0.7 percent of GDP in 2021.

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

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	31.2	31.8	32.1	32.0	31.1	30.4	29.3	27.3	25.2	23.1	21.3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	31.2	32.6	34.2	35.6	37.8	40.8	44.1	47.1	49.7	52.1	54.0
B. Bound Tests											
B1. Real GDP growth	31.2	37.8	45.5	45.3	44.0	43.0	41.5	38.7	35.6	32.7	30.1
B2. Primary balance	31.2	32.8	35.0	36.1	36.0	35.7	35.0	33.0	30.6	28.3	26.2
B3. Exports	31.2	39.7	50.6	50.8	49.9	49.1	47.9	44.9	40.9	37.1	33.7
B4. Other flows 3/	31.2	42.2	53.3	53.7	52.9	52.1	51.0	47.7	43.3	39.2	35.5
B5. One-time 30 percent nominal depreciation	31.2	40.1	36.7	36.4	35.3	34.4	33.1	30.7	28.3	26.1	24.1
B6. Combination of B1-B5	31.2	45.7	55.3	55.6	54.5	53.6	52.3	48.6	44.3	40.2	36.5
C. Tailored Tests											
C1. Combined contingent liabilities	31.2	34.3	36.3	37.3	37.1	36.8	36.0	34.0	31.8	29.6	27.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	31.2	33.1	34.8	34.7	33.5	32.4	30.9	28.2	25.3	22.6	20.3
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	194.8	154.2	152.7	161.9	142.2	126.8	110.3	95.1	90.3	78.3	68.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	194.8	157.8	162.3	180.2	172.8	170.6	165.8	163.8	178.5	176.5	174.4
B. Bound Tests											
B1. Real GDP growth	194.8	154.2	152.7	161.9	142.2	126.8	110.3	95.1	90.3	78.3	68.6
B2. Primary balance	194.8	159.0	166.1	182.6	164.5	149.1	131.4	114.8	109.9	95.9	84.5
B3. Exports	194.8	362.1	652.5	698.8	620.5	557.3	489.5	424.4	398.4	341.7	295.5
B4. Other flows 3/	194.8	204.6	253.3	271.9	242.1	217.8	191.7	165.9	155.4	132.9	114.6
B5. One-time 30 percent nominal depreciation	194.8	154.2	138.5	146.4	128.2	114.0	98.8	84.7	80.7	70.2	61.8
B6. Combination of B1-B5	194.8	293.2	218.5	378.0	335.4	301.1	264.3	227.3	213.5	183.1	158.5
C. Tailored Tests											
C1. Combined contingent liabilities	194.8	166.2	172.4	188.7	169.6	153.5	135.2	118.4	114.0	100.4	89.2
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	194.8	169.8	173.1	182.5	157.5	137.5	116.9	98.9	91.4	77.2	65.9
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	16.2	11.2	14.8	15.8	14.4	11.5	10.9	10.2	10.7	9.7	8.9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	16.2	11.1	14.0	14.5	13.1	10.6	10.1	9.9	11.5	11.5	11.6
B. Bound Tests											
B1. Real GDP growth	16.2	11.2	14.8	15.8	14.4	11.5	10.9	10.2	10.7	9.7	8.9
B2. Primary balance	16.2	11.2	14.9	16.0	14.6	11.8	11.1	10.7	11.7	11.0	10.2
B3. Exports	16.2	21.9	44.3	49.0	44.4	35.8	33.6	36.8	45.1	40.8	36.8
B4. Other flows 3/	16.2	11.2	15.5	17.3	15.7	12.7	11.9	14.1	17.4	15.7	14.2
B5. One-time 30 percent nominal depreciation	16.2	11.2	14.8	15.6	14.2	11.3	10.7	10.0	9.7	8.9	8.1
B6. Combination of B1-B5	16.2	16.4	25.0	27.1	24.6	19.8	18.6	21.9	24.3	22.0	19.9
C. Tailored Tests											
C1. Combined contingent liabilities	16.2	11.2	15.0	16.1	14.7	11.8	11.2	10.4	10.9	10.0	9.1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	16.2	12.0	16.0	17.2	15.5	12.3	11.6	11.1	11.8	10.7	9.6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	18.2	16.6	22.0	21.9	21.2	18.0	18.4	18.6	18.1	17.1	16.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	18.2	16.5	20.8	20.1	19.3	16.5	17.1	18.2	19.5	20.2	20.9
B. Bound Tests											
B1. Real GDP growth	18.2	19.8	31.2	31.0	30.0	25.5	26.1	26.4	25.6	24.3	22.7
B2. Primary balance	18.2	16.6	22.1	22.1	21.6	18.4	18.8	19.6	19.9	19.3	18.3
B3. Exports	18.2	17.3	24.2	25.0	24.1	20.6	21.0	24.8	28.2	26.4	24.5
B4. Other flows 3/	18.2	16.6	23.1	24.0	23.2	19.8	20.1	25.9	29.6	27.6	25.6
B5. One-time 30 percent nominal depreciation	18.2	20.9	27.7	27.1	26.3	22.3	22.9	23.1	20.7	19.7	18.4
B6. Combination of B1-B5	18.2	18.4	27.7	27.9	27.0	23.1	23.5	29.9	30.7	28.8	26.7
C. Tailored Tests											
C1. Combined contingent liabilities	18.2	16.6	22.3	22.3	21.7	18.5	18.9	19.1	18.6	17.6	16.4
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	18.2	19.4	26.1	26.3	24.6	20.2	20.1	20.1	19.9	18.6	17.1
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

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

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

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	PV of Debt-to-GDP Ratio										
Baseline	**58.3**	**56.4**	**55.9**	**54.7**	**52.2**	**49.3**	**45.8**	**42.0**	**37.7**	33.3	28.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	**58**	**59**	**60**	**60**	**59**	**58**	**54**	**51**	**47**	**44**	**41**
B. Bound Tests											
B1. Real GDP growth	**58**	**69**	**86**	**88**	**89**	**88**	**87**	**85**	**83**	**80**	**78**
B2. Primary balance	**58**	**61**	**65**	**63**	**60**	**56**	**53**	**49**	**44**	**39**	35
B3. Exports	**58**	**63**	**72**	**71**	**69**	**65**	**62**	**57**	**51**	**45**	**39**
B4. Other flows 3/	**58**	**68**	**78**	**78**	**75**	**72**	**68**	**63**	**56**	**50**	**43**
B5. One-time 30 percent nominal depreciation	**58**	**59**	**57**	**55**	**52**	**48**	**44**	**40**	35	30	25
B6. Combination of B1-B5	**58**	**61**	**64**	**59**	**57**	**55**	**51**	**47**	**43**	**38**	34
C. Tailored Tests											
C1. Combined contingent liabilities	**58**	**67**	**66**	**64**	**61**	**57**	**53**	**49**	**45**	**40**	**36**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**58**	**62**	**69**	**74**	**77**	**79**	**79**	**79**	**78**	**77**	**75**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
	PV of Debt-to-Revenue Ratio										
Baseline	302.1	283.8	319.1	309.8	288.4	266.2	242.4	223.6	193.6	168.6	143.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	302	296	341	341	330	314	293	277	250	230	211
B. Bound Tests											
B1. Real GDP growth	302	331	455	464	456	446	433	427	401	384	366
B2. Primary balance	302	307	371	357	331	305	279	258	226	199	172
B3. Exports	302	318	412	403	379	354	327	303	262	229	196
B4. Other flows 3/	302	340	448	440	415	388	360	333	288	251	216
B5. One-time 30 percent nominal depreciation	302	302	332	319	292	265	237	214	181	153	125
B6. Combination of B1-B5	302	307	364	332	313	292	268	250	219	193	167
C. Tailored Tests											
C1. Combined contingent liabilities	302	338	375	361	335	309	283	263	230	203	177
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	302	345	438	467	458	445	428	417	398	386	374
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio										
Baseline	26.3	40.2	59.7	69.8	74.3	73.3	70.3	63.6	56.9	47.7	37.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	26	40	65	69	73	70	65	57	49	40	32
B. Bound Tests											
B1. Real GDP growth	26	45	88	117	132	138	139	135	128	120	110
B2. Primary balance	26	40	78	103	96	87	80	70	63	53	43
B3. Exports	26	40	60	71	75	74	71	67	64	54	44
B4. Other flows 3/	26	40	61	72	76	75	72	70	67	57	46
B5. One-time 30 percent nominal depreciation	26	39	60	68	73	72	69	62	56	47	38
B6. Combination of B1-B5	26	41	63	74	82	83	81	76	69	60	50
C. Tailored Tests											
C1. Combined contingent liabilities	26	40	105	99	93	86	79	69	61	51	40
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	26	45	90	130	146	149	145	137	128	120	113
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Statement by Ms. Ita Mary Mannathoko, Executive Director for Sierra Leone and Mr. James Garang, Advisor to the Executive Director

March 15, 2021

I. Introduction

1. Our Sierra Leonean authorities face significant pressure from the ongoing pandemic and appreciate the constructive discussions held with Fund staff during negotiations for the second Rapid Credit Facility (RCF-2). Support under this second RCF is critical at this juncture, helping to close immediate financing gaps while supporting the authorities' efforts to progress the ECF program's medium-term objectives.

2. With the second wave underway, the COVID-19 pandemic continues to exact a heavy toll on Sierra Leone, worsening food insecurity and welfare, and reversing the progress towards recovery seen following earlier shocks. Deep macroeconomic imbalances induced by the pandemic alongside a sizeable financing gap, threaten to reverse recent gains. The authorities seek Directors' support for a second disbursement under the RCF amounting to 17 percent of quota. They expect to fill the residual financing gap through budget support from the World Bank. The debt relief under the Catastrophe and Containment Relief Trust and the G20 Debt Service Suspension Initiative have also been helpful in freeing up critical resources needed for crisis intervention measures.

3. Consistent with the commitments made under the first RCF disbursement, the authorities have ensured transparent use of COVID-related resources. To this end, they have published unaudited financial statements from the National COVID-19 Emergency Response Center (NaCOVERC), alongside procurement contracts including the names of the awarded companies and their beneficial owners, and they have continued to report actual spending related to the *Quick Action Economic Response Program* (QAERP). They also commit to the publication on the government's website of information on large public procurement contracts related to crisis mitigation under this RCF-2. The Audit Service Sierra Leone (ASSL) will also conduct ex-post audits of government COVID-19 spending. The assessments will be published online, consistent with the provisions of statutory laws.

II. Impact of the COVID-19 Pandemic

4. Since confirmation of the first COVID-19 case on March 31, 2020, with the country now in its second wave, infection rates have continued to rise. It remains unclear when the pandemic will be brought under control as adequate vaccines are still not available. Infections are expected to remain elevated on the back of weaknesses in the health system

and a resurgence of the COVID-19 pandemic in the region. As part of measures taken to secure vaccines, the authorities expect to benefit from the COVAX facility and are also exploring other options to supplement the COVAX allocation, which is inadequate. The authorities will have to raise funds to cover the remaining part of the population. The path forward out of the pandemic remains unclear and difficult as direct purchases come with a significant premium that is not affordable for most African countries.

5. Economic activity, including in services - especially tourism and trade, and in the mining sector, contracted sharply; disrupted by the fallout from the pandemic and accompanying containment measures. GDP growth is estimated to have declined by close to 8 percentage points to -2.2 percent in 2020 from 5.5 percent in 2019. The contraction had an adverse impact on revenue performance in the midst of elevated health expenditures necessitated by the pandemic, and while RCF-1 helped to temper the projected 2020 fiscal deficit of over 8 percent at that time, the overall fiscal balance still deteriorated to - 5.5 percent in 2020. The crisis has also increased the demand for essential items such as medical supplies and created additional pressure on the balance of payments in a context where the country is also food insecure and heavily reliant on food imports. As noted by staff, survey data suggest that the pandemic substantially worsened food insecurity and poverty. Looking ahead, economic growth is projected to rebound to 3.1 percent in 2021 assuming this is not curtailed by the resurgence of the virus. The projection is contingent on improved mining activity, a pickup in global demand, and reopening of other productive sectors. Inflation is projected to rise to 13.5 percent in 2021 from 10.4 percent in 2020, and to stabilize at single digits in 2024 as food inflation normalizes and exchange rate depreciation ends.

III. The Government Response to the Pandemic

6. The authorities took decisive measures to contain the spread of the virus and cushion the economic impact of the pandemic. The NaCOVERC's prompt action with broad containment measures and support to districts, helped to slow down infections and save lives. The economic response program, QAERP, was able, with Fund emergency support, to leverage health-related spending and relieve adverse pressure on the economy. As the first wave waned, weighing the balance of risks, the authorities relaxed containment measures and continued providing necessary support to agriculture to sustain production and employment. In 2021 however, the second wave may hamper the envisaged recovery.

7. To minimize the effects of the pandemic on vulnerable households, the authorities provided support in collaboration with other development partners. In particular, they deployed more resources towards food security, and labor-intensive public works. They also implemented cash transfer programs with development partner support in 2020, and plan to expand the coverage in 2021.

8. Accommodative monetary policy measures were implemented to cushion vulnerable households and businesses from the shock. BSL reduced the monetary policy rate and ensured adequate liquidity in the economy. It also established a loan facility for

importers, the Special Credit Facility (SCF) providing finance for essential goods and service imports. BSL has disbursed over 99 percent from the SCF to date, which has helped to prevent shortages of essential goods and keep inflationary pressures in check. The BSL is assessing whether or not there is a need to expand the SCF. They are considering an agricultural value chain financing mechanism to enhance food security through private sector participation. This would provide credit to agro-dealers for production, import and distribution of agricultural inputs. The scheme would play a "balancing act" during crises, while reducing the government footprint and enhancing efficiency and transparency.

9. In the financial sector, though commercial banks restructured distressed loans to viable customers by extending maturities, NPLs have still risen. Under the FSSR, the authorities plan an upgrade of prudential guidelines to strengthen the regulatory framework for capital adequacy, loan classification and provision, as well as credit, market and operational risk. They intend to strengthen financial resilience and oversight, with more effective monitoring of banks' asset portfolios, and enforcing of prudential regulations.

IV. Policy Measures in Line with the ECF

10. The authorities remain committed to macroeconomic stability, responsible economic management, strengthening governance, transparency, and the medium-term policy objectives under the ECF program.

Fiscal Policy

11. Recognizing the importance of fiscal and debt sustainability, our authorities have maintained responsible fiscal policies during the pandemic, which have kept the debt-to-GDP ratio contained. In line with the ECF, they remain committed to pursuing revenue enhancing measures and growth-friendly fiscal adjustment as the crisis abates. For 2022 they will identify a targeted set of tax policy measures to support the budget, while they develop a comprehensive medium-term revenue strategy to help inform the 2023 budget.Planned measures to support revenue mobilization also include automating IT systems and improving GST compliance. The revised National Revenue Authority Act tabled in Parliament on January 26, 2021 backs these reforms, enabling the agency's governance, accountability, and enforcement of revenue laws.

12. The authorities remain committed to expenditure rationalization to ensure debt sustainability. To this end, the 2021 budget made significant adjustments, including a reduction of the primary balance by more than 2¼ percent of GDP. The authorities prioritized the clearance of past arrears in line with the *Arrears Verification Stock in July 2020* issued by the audit service, ASSL. They have also set up a Cash Managementand Debt Management Committee, to monitor and enhance debt management and transparency. They continue to seek concessional financing, especially grants from development partners, in order to rein-in public debt.

Monetary and Financial Sector Policies

13. The BSL prioritizes strengthening monetary policy with a view to bringing inflation down to single digits in the medium term and supporting exchange rate stability. The monetary policy stance remains data-dependent, supporting the recovery. The monetary authorities will also continue to rebuild FX buffers, strengthen central bank governance, work to deepen the financial sector, and enhance the regulatory and supervisory framework.

14. Work to modernize payments systems continues, leveraging the increased role of the digitalization in the broader economy. On local currency supplies in the market, the BSL has addressed local currency shortages experienced in December 2020 with a currency shipment received in January 2021 and will explore the use of electronic payments to reduce cash transactions. BSL is investigating the potential causes of large growth in currency outside the banking system in order to take appropriate and timely action.

15. To safeguard financial stability, BSL continues to focus on lowering NPLs and ensuring adequate bank capital and provisioning for bad debts. Work has advanced to restructure the two weak State-Owned Banks (SOBs) and improve their governance to ensure viability. One of the SOBs has completed its strategic plan to ensure viability while the other is making significant progress in this direction.

16. Regarding the BSL audits, the authorities completed the 2018 audit and are advancing on those for 2019 and 2020, while enhancing compliance with the IFRS-9. The business model fashioned on the IFRS-9, which benefitted from expert support, has been developed.

Structural Reforms

17. The authorities have indicated that they plan to accelerate key structural reforms to promote good governance; and remain committed to the anti-corruption agenda. They will act to sanction irregularities and address weaknesses in procurement, HR and fiduciary management identified by the audit exercise. They will also provide documentary evidence as requested.

18. The authorities have also continued to make progress in addressing the IMF safeguards recommendations. A second BSL Deputy Governor was appointed in July 2020 to oversee the financial stability mandate, in line with the 2019 BSL Act. Relatedly, the authorities will continue to leverage Fund TA to improve key economic statistics in support of timely and prudent policymaking. This includes TA support to rebase GDP, conduct the Nationwide Economic Prospects Survey, and build a Data Warehouse for analysis.

V. Conclusion

19. Our Sierra Leonean authorities reaffirm their commitment to prudent macroeconomic policies needed to lay a solid foundation for durable and inclusive growth once the pandemic subsides. To the extent possible, within the limitations imposed by the crisis, they have sustained policy efforts important to key development objectives articulated in the ECF and under the National Development Plan, 2019–23. The RCF-2 helps them avert a much deeper shock as they work to reorient their program in the wake of COVID-19 and prepare to resume the ECF. They look forward to Executive Directors' support forthe RCF-2 to anchor current efforts to contain the pandemic and limit its impact on the economy and social outcomes. They also hope it will catalyze external support.