SIERRA LEONE MEDIUM-TERM DEBT STRATEGY 2023-2027

Government of Sierra Leone

MINISTRY OF FINANCE

PUBLIC DEBT MANAGEMENT DIVISION

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Contents

FOREWORD

The Ministry of Finance updated the Medium-Term Debt Strategy (MTDS) 2023-2027 in August 2023 in accordance with Section 6 of the Public Debt Management Act 2011, which requires the formulation of a debt management strategy that considers: (a) the macroeconomic framework; (b) future borrowing requirements of Government; (c) market conditions; and (d) other factors as may be relevant for the development of the strategy. The Medium-Term Debt Strategy (MTDS) outlines the strategic options for minimising the cost and risks of the existing public debt portfolio and recommends the most compelling strategy for achieving the MTDS targets to Cabinet.

The previous MTDS conducted in 2020 needed to be updated to reflect the current macroeconomic environment and tackle the persistent challenges of the Global shocks on the debt portfolio. This update of the MTDS exercise was participatory and it was the first time that the National MTDS Team led the analytical work and report writing. It benefited from the useful comments from the development partners and the West African Institute for Financial and Economic Management (WAIFEM).

The National MTDS Team consist of representatives from the Ministry of Finance (led by the Public Debt Management Division, Fiscal Risk Division, Multilateral Project Division, Research and Delivery Division), Bank of Sierra Leone, National Revenue Authority, University of Sierra Leone, Civil Society Organizations (CSOs) and the Press.

The MTDS 2023-2027 recommends Strategy 3 (S3) for adoption by Cabinet. S3 is recommended because significant progress was made to issue medium to long-term bonds after the adoption of the previous MTDS in 2020 despite the challenges in the global environment and persistence of shocks. The share of new issuance of long-term to short terms domestic instruments increased from 4 percent in 2021 to about 37 percent in 2023 (see figures3b). Strategy 3 (Market Development) assumes an increase in domestic financing and also deepen the issuance of medium to long term bond. The increase in domestic borrowing in Strategy 3 is to support domestic debt market development. The rationale of this strategy is to increase the Average Time to Maturity (ATM) of domestic debt and reduce interest rate costs as well as rollover risk which is consistent with the overall debt management objective of the Government.

This comes with a cost because deepening the market to the long end comes with additional cost. This further reaffirms that the decision of Cabinet to adopted Strategy 3 in the last MTDS was appropriate and should be continued barring the current global development and persistence of shocks (CoVID-19 and Russian-Ukraine war challenges) that affected the success of the strategy. Recent development in Israel and Gaza war could also worsen the challenges but measures have been proposed to tackle the challenges if conditions change.

It is informative to note that most of the domestic instruments issued in prior years and denominated in foreign currency are maturing at a much-depreciated exchange rate relative to their issue date, which makes the rollover risk more pronounced and the implied cost high. In addition, external debt that was contracted to address the challenges of the Ebola epidemic and the COVID-19 pandemic, has started to mature (including loans contracted from IMF for addressing the Ebola epidemic). The debt service bills are significant and coincided with the recent Russian-Ukraine war shocks. The recent was in Israel and Gaza is an additional challenge.

Under this circumstance, the most critical parameter of success is to choose a strategy that is immediately implementable. The recommended strategy that would immediately handle the current challenge of the existing debt portfolio is to adopt the market development mechanism, which is proposed in Strategy 3.

We have revised the targets on the key MTDS indicators that will be monitored by the Expanded Cash and Debt Management Committee during the implementation period and provided clear policy guidelines to help with mitigating measures that will be taken in the event of shocks.

Cabinet approved the publication of the updated Medium-Term Debt Strategy 2023-2027 in October 2023. The publication of this document demonstrates the Government's commitment to public debt transparency and sound debt management, which would not have been possible without the support of development partners, the private sector, civil society, the university of Sierra Leone, staff of the Ministry of Finance, Bank of Sierra Leone and other stakeholders including the Press.

Sheku Ahmed Fantamadi Bangura
Minister of Finance

ACKNOWLEDGEMENT

The update and publication of the Sierra Leone Medium-Term Debt Strategy 2023-2027 gives a clear foresight to the public on the Government debt management strategy, which is aimed at reducing the cost and risk of the existing public debt portfolio. The Government will continue to pursue the objective of reducing the share of short-term domestic debt (T-bills), issue more longer-term domestic debt (T-bonds) and increasing highly concessional external borrowing within the borrowing limit. It also underscores the commitment of the Government to deepen debt transparency and management.

The updated MTDS 2023-2027 is home-grown with comments from development partners and West Africa Institute for Financial and Economic Management (WAIFEM). It was updated solely by the National MTDS Team made up of the Ministry of Finance (led by PDMD, FRD, AGD, DRD, MPD), Bank of Sierra Leone (BSL), the National Revenue Authority (NRA), Statistics Sierra Leone (SSL), University of Sierra Leone, Civil Society Organizations and the Press. The West Africa Institute for Financial and Economic Management served as a virtual consultant to support the process.

We also wish to thank the Minister of Finance, Deputy Ministers of Finance I and II, the Principal Deputy Financial Secretary, the Chief Economist, the Director and Staff of the Public Debt Management Division, the Director and Staff of the Macro Fiscal Policy Division, Director and Staff of Fiscal Risk and Oversight of State Owned Enterprise; Director and staff of the Research and Delivery Division, Director and Staff of Legal Affairs Division, Director and Staff of Internal Audit Division, the Accountant General and Staff, and our external auditors—Audit Service Sierra Leone for their invaluable support in ensuring the provision of valuable data, audit, analysis and writing for the update of the MTDS 2023-2027.

Matthew Dingie
Financial Secretary

EXECUTIVE SUMMARY

The Government of Sierra Leone updated the Medium-Term Debt Strategy (MTDS) at the National Workshop held between the 21st and 25th of August 2023. The Workshop brought together officials of the National Medium Term Debt Strategy and Debt Sustainability Analysis (DSA) Teams drawn from the Ministry of Finance (MoF), the Bank of Sierra Leone (BSL), Statistics Sierra Leone (SSL), the University of Sierra Leone, Civil Society Organizations and the Press. The Public Debt Management Division (PDMD), Ministry of Finance coordinated the exercise, while the West African Institute for Financial and Economic Management (WAIFEM) connected virtually to provide support. After the Workshop, the draft MTDS framework and report was shared with the World Bank, International Monetary Fund (IMF) and WAIFEM for technical comments. This was the first home-grown MTDS to be updated by the National Team including report writing. Previous updates were guided by World Bank and IMF experts, which signifies that the IMF and World Bank have provided adequate technical support over the years and the National Team is now capable of updating the MTDS with minimal support from development partners and external stakeholders.

Section 6(1) of the Public Debt Management Act 2011 (PDMA) provided for the formulation of an annual Public Debt Management Strategy by the Minister of Finance and should be approved by Cabinet. The PDMA 2011 further provides that the Medium-Term Debt Management Strategy, in its formulation, should consider: a) the macroeconomic framework; (b) future borrowing requirements of Government; (c) market conditions; and (d) such other factors as may be relevant for the development of the strategy.

The updated Medium-Term Debt Strategy (MTDS) incorporates proposed guidelines or specified targets for acceptable risks in the debt portfolio, as well as planned measures to promote the development of the domestic debt market. The strategy document is anchored on two objectives: (i) meeting the government financing needs at a minimal cost consistent with prudent degree of risks and (ii) the development of domestic debt management. It is the fourth MTDS document to be developed for Sierra Leone. The first MTDS document developed in Sierra Leone covered 2013 to 2017 and the subsequent documents covering 2018 to 2021 were not published because they didn't meet the requisite steps for the development of MTDS documents. The MTDS of 2023-2027 updated the macroeconomic assumptions to include the most recent projections of Government fiscal gap filling requirements. Its baseline is also consistent with the most recent macroeconomic projections of the International Monetary Fund in June 2023.

Public Debt Stock

The total public debt stock of Sierra Leone (excluding IMF-credits) as at end-December 2022 amounted to NLe50.9 million (US$2.69 billion) of which, external and domestic debt accounted for NLe34.5 million (US$1.76 billion) and NLe16.4 million (US$926 million) respectively. See Table

1a below. The stock of public debt increased significantly in local currency terms (from NLe32.76 million end-2020 to NLe50.9 million as of December 2022.

However, the stock of public debt declined in US Dollars terms from US$3.2 billion in 2021 to US$2.69 billion in 2022 on account of the impact of exchange rate depreciation on the domestic debt stock and high principal repayment relative to loan disbursement in 2022.

As a percent of GDP, the public debt stock increased from 66.1 percent in the last MTDS of 2021 to 91.3 percent in 2022 (excluding IMF). As noted above, exchange rate depreciation played a great role in the increase in the debt to GDP in 2022 relative to 2021. The Leone depreciated by 45.9 percent in 2022 (USD1/NLe18.9292) compared to the last MTDS in 2021 (USD1/NLe10.2347) and when applied to the stock of external debt, which accounts for over 66.8 percent of the public debt stock, it increased the total public debt in local currency, The Leones, compared to a lower denominator (Gross Domestic Product). Hence, the debt to GDP increased to 91.3 percent in 2022 relative to 66.1 percent in 2021. The increase in the debt to GDP is mainly associated with exogenous shocks, which statistically increased the debt stock without an increase in actual new debt accumulation/borrowing and lower nominal GDP denominated in US Dollars.

The stock of domestic debt accounted for 34.4 percent of the total public debt portfolio as at end 2022. The domestic stock comprises treasury bills and medium to long-term treasury bonds and is further classified into marketable and non-marketable securities and arrears. The treasury bills constitute about 22.9 percent of total public debt stock, reflecting a share of 70.3 percent of total domestic debt. Domestic Suppliers Arrears constitute 4.2 percent of total debt, reflecting a share of 13.0 percent of total domestic debt. The MTDS has been updated to reflect the new Spending Arrears Clearance Strategy 2023-2028.

Recommended Strategy

The MTDS 2023-2027 recommends Strategy 3 (S3) for adoption by Cabinet. S3 is recommended because significant progress was made to issue medium to long-term bonds after the adoption of the previous MTDS despite the challenges in the global environment and persistence of shocks. When compared to the other three strategies, Strategy 3 (Market Development) assumes an increase in domestic financing compared to strategies 1 and 2, and also deepens the issuance of medium to long term bond beyond strategy 2. The increase in domestic borrowing in Strategy 3 is to support domestic debt market development increasing the share of T-Bonds and T-bills to o 50 percent of new domestic debt issuance with more concentration of bonds in the 4–5-year T-Bonds. The rationale of this strategy is to increase the Average Time to Maturity (ATM) of domestic debt and reduce interest rate costs as well as rollover risk.

Implementation of the MTDS will be monitored by the Expanded Cash and Debt Management Committee (ECDMC). The ECDMC will monitor the MTDS target semi-annually and serve as the anchor for using the right composition of financing consistent with the targets set in of the MTDS (see Section 4.2.6). In addition, the debt management processes will continue to be subjected to annual scrutiny by the Audit Service Sierra Leone and the Internal Audit Department of the Ministry of Finance. Government is also committed to undertake a Debt Management

Performance Assessment (DeMPA) with support from the World Bank and funded under the recently approved UA1 million budget support grants for enhancing efficiency in debt management in Sierra Leone.

In the event of shocks, it is recommended that Government should first rationalize spending and implement appropriate fiscal adjustment to contain the shock without compromising the targets set in the MTDS as specified in Section 4.2.6. Shocks may trigger a revision of the MTDS target in collaboration with stakeholders considering the cost and risk of the adjustment on the debt composition.

ACRONYMS

AfDB	–	African Development Bank
AGD	-	Accountant General's Department
ATM	–	Average Time to Maturity
ATR	–	Average Time to Re-fixing
ACNC	--	Arrears Clearance Negotiations Committee
BADEA	–	Arab Bank for Economic Development in Africa
BSL	–	Bank of Sierra Leone
CPIA	–	Country Policy and Institutional Assessment
CM	-	Commonwealth Meridian
CS-DRMS	–	Commonwealth Secretariat Debt Recording and Management System
CS-MDRMS	-	Commonwealth Secretariat Meridian Debt Recording and Management System (CS-DRMS)
CUB	–	Committed Undisbursed Balance
DAD	-	Development Assistance Database
DBR	–	Domestic Budget Revenue
DeMPA	–	Debt Management Performance Assessment
DOD	–	Disbursed Outstanding Debt
DRD	—	Directorate of Research and Delivery Department
EBID	–	ECOWAS Bank for Investment and Development
ECF	-	Extended Credit Facility
EEC	–	European Economic Community
EIB	–	European Investment Bank
FRD	—	Fiscal Risk & State-Owned Enterprise Management Division
GoSL	–	Government of Sierra Leone
ICM	-	International Capital Markets
ICT	–	Information and Communication Technology
IFMIS	–	Integrated Financial Management Information System
IMF	–	International Monetary Fund
MDA's	–	Ministries Departments and Agencies
MDRI	–	Multilateral Debt Relief Initiative
MoPED	–	Ministry of Planning and Economic Development
MoF	-	Ministry of Finance
MPD	—	Multilateral Project Division
MPR	—	Monetary Policy Rate
MTDS	-	Medium Term Debt Strategy

NASSIT	-	National Social Security and Insurance Trust
NDP	-	National Development Plan (2019-2023)
NRA	–	National Revenue Authority
PDMA	—	Public Debt Management Act
PDMD	–	Public Debt Management Division
PPP	—	Public Private Partnership
SOEs	–	State Owned Enterprises
SSSS	-	Script-less Securities and Settlement Systems
WB	–	World Bank
WAIFEM	-	West African Institute for Financial and Economic Management
RTGS	–	Real Time Gross Settlement
T-Bills	–	Treasury Bills
T-Bonds	-	Treasury Bonds

SECTION 1: OVERVIEW

1.0 Background

The Government of Sierra Leone updated the Medium-Term Debt Strategy (MTDS) at the National Workshop held on 21st to 25th August 2023. The Workshop brought together officials of the National Medium Term Debt Strategy and Debt Sustainability Analysis (DSA) Teams drawn from the Ministry of Finance (MoF), the Bank of Sierra Leone (BSL), Statistics Sierra Leone (SSL), National Revenue Authority (NRA), the University of Sierra Leone, Civil Society Organizations and the Press. The Public Debt Management Division (PDMD), Ministry of Finance coordinated the exercise while the West African Institute for Financial and Economic Management (WAIFEM) connected virtually to support the exercise. [After the Workshop, the draft MTDS framework and report was shared with the World Bank, International Monetary Fund (IMF) and WAIFEM for technical comments. This was the first time the MTDS was updated by the National Team. Previously, updates were led by World Bank and IMF experts, which signifies that adequate technical support has been provided by the IMF and World Bank over the years and the National Team is now capable of updating the MTDS with minimal support from the World Bank and IMF].

Section 6(1) of the Public Debt Management Act 2011 (PDMA) provided for the formulation of an annual Public Debt Management Strategy by the Minister of Finance and should be approved by Cabinet. The PDMA 2011 further provides that the Medium-Term Debt Management Strategy, in its formulation, should consider: a) the macroeconomic framework; (b) future borrowing requirements of Government; (c) market conditions; and (d) other factors that may be relevant for the development of the strategy.

The updated Medium-Term Debt Strategy (MTDS) incorporates proposed guidelines or specified targets for acceptable risks in the debt portfolio, as well as planned measures to promote development of the domestic debt market. The strategy document is anchored on two objectives: (i) meeting the government financing needs at minimal cost consistent with prudent degree of risks and also (ii) the development of the domestic debt management.

The updated MTDS covers a five-year projection period from 2023 to 2027. It is the fourth MTDS document to be developed for Sierra Leone. The first MTDS document developed in Sierra Leone covered 2013 to 2017 and the subsequent document covering 2018 to 2021 were not published because they didn’t meet the requisite steps for development of MTDS documents. The first MTDS document that met the eight steps in preparing debt strategies of the World Bank and IMF was the MTDS of 2021-2025 which was subsequently adopted by Cabinet and published following the endorsement of the Bank of Sierra Leone. The MTDS of 2023-2027 updated the macroeconomic assumptions to include the most recent projections of the Government’s fiscal gap filling requirement. Its baseline is also consistent with the most recent macroeconomic projections of the International Monetary Fund in June 2023.

In updating the MTDS 2023-2027, the National Team utilised the analytical tools of the World Bank (WB) and International Monetary Fund (IMF) Medium Term Debt Management Strategy framework. The Medium-Term Debt Strategy is a plan to guide the government's financing approach, taking into consideration the cost and risk implications on the debt portfolio. The following eight steps were followed in producing the strategy: (i) setting the objectives and scope of the MTDS; (ii) reviewing the existing debt management strategy and the cost-risk characteristics of the existing debt portfolio; (iii) identifying the potential sources of financing; (iv) reviewing the macroeconomic framework and medium-term projections and risks; (v) identifying structural factors; (vi) analyzing the cost and risks of alternative debt management strategies; (vii) reviewing alternative strategies with policymakers and market participants; and (viii) producing a debt management strategy document for approval, publication and dissemination.

1.1 Objective and Scope

The central objective of the MTDS is to reduce the exchange rate and rollover risks in the existing debt portfolio and achieve a lower cost and risk of the debt stock by the end of 2027. The general objectives of managing public debt in Sierra Leone, as reflected in Section 5 of the Public Debt Management Act 2011, are to (i) ensure that Government financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, with a low degree of risk; and (ii) to promote the development of the domestic debt market.

The scope of the stock of public debt for this MTDS covers central government external and domestic debt, including debt guaranteed by the Government of Sierra Leone and debt borrowed by the Central Government but on-lent to other government agencies. External debt for the MTDS includes public and publicly guaranteed external debt owed to multilateral, bilateral and commercial creditors. It excluded IMF loan because its debt obligations rest on the balance sheet of the central bank as represent external borrowing for the balance of payment support.

The actual arrears paydown was reflected in the historical amortizations schedule, whilst the arrears amortization assumptions in the updated Arrears Clearance Strategy and Principles (2023-2028) including treatment of NASSIT arrears and verified cheques as at end-June 2023 has been included in the updated MTDS.

The repayment of IMF loans, except when on exceptional circumstances on-lent to the Government by the Bank of Sierra Leone for budgetary support purposes, is the responsibility of the Bank of Sierra Leone. External commercial debt comprised of the stock of accumulated unpaid obligations for goods and services supplied and works performed prior to and during the civil war (23rd March 1991 to 18th January 2002) is included in the analysis and amortized according to the expected payment schedule. External commercial debt is part of the external debt stock in the MTDS.

The domestic debt included in the MTDS analysis reflects the stock of marketable and non-marketable securities held by the Bank of Sierra Leone, commercial banks, other financial institutions, including NASSIT and the general public. It should be noted that the stock of treasury bills is included at discounted costs and not at nominal or face value in the MTDS, to enable the separation of principal and interest payment within the analysis. Treasury bills are reported on a nominal value basis by the Public Debt Management Division in line with historical practices.

This MTDS also included the analysis of the stock of verified domestic arrears in line with the proposed settlement approach in the updated Domestic Suppliers and Contractors' Arrears Clearance Strategy and Principles (2023-2027). We further analyzed the currency component of the stock of arrears and the stock of verified domestic and contractors' arrears stood at US$89 million by the end of 2022, of which 37.8 percent is in foreign currency (about US$33.7 million). As per convention, the FX component of domestic arrears was included in the FX bond component of the MTDS debt stock. We also included the verified cheques payable for end-June 2023 and the NASSIT arrears for end-June amounting to US$32.9 million and US$24.9 million respectively.

1.2. Regulatory, Policy and Budget Environment

Public debt management is guided by the following regulations: i) Public Debt Management Act 2011 (PDMA 2011), ii) Public Financial Management Act 2016, iii) Section 118 of the 1991 Constitution of Sierra Leone and and) the Bank of Sierra Leone Act 2019. Debt management policy is largely informed by agreed financing targets under the economic programme arrangements with the IMF and the prevailing MTDS. These are further guided by the Fiscal Strategy Statement (FSS) which is updated annually. There is an Expanded Cash Management and Debt Committee which monitors and approves Government cashflow forecasts in line with the annual Budget Approved by Parliament. The Committee also monitors domestic and external debt levels. Members of the Expanded Cash Management Committee are drawn from the Ministry of Finance, National Revenue Authority, Accountant General's Department, Bank of Sierra Leone, Petroleum Directorate, National Minerals Agency and other Ministries, Departments and Agencies (MDAs).

SECTION 2: EXISTING PUBLIC DEBT PORTFOLIO

2.0. Description of debt levels and trends, including drivers

The total public debt stock of Sierra Leone (including IMF credits) as at end-December 2022 amounted to NLe51.7 billion (US$2.69 billion) of which external and domestic debt (including verified cheques and NASSIT Arrears) accounted for NLe36.75 billion (US$1.76 billion) and NLe14.9 billion (US$926 million) respectively. See Table 1a below. The stock of public debt increased significantly in local currency terms (from NLe32.76 billion end-2020 to Le51.7 billion as of December 2022.

However, the stock of public debt declined in US Dollars terms from US$3.20 billion in 2021 to US$2.69 billion in 2022 on account of the impact of exchange rate depreciation on domestic debt stock and high principal repayment relative to loan disbursement in 2022.

As a percent of GDP, the public debt stock increased from 66.1 percent in the last MTDS of 2021 to 91.3 percent in 2022. As noted above, exchange rate depreciation played a great role in the increase in the debt to GDP in 2022 relative to 2021. The exchange rate which increased to US$1/NLe18.9292 at end 2022 from US$1/NLe10.2347 in 2020 depreciated by 45.9 percent and when applied to the stock of external debt, which accounts for over 65.58 percent of the public debt stock (valued in US Dollars), it increased the total public debt in Leones compared to lower denominator (Gross Domestic Product). Hence, the debt to GDP increased to 91.3 percent in 2022 relative to 66.1 percent in 2021. The increase in the debt to GDP is mainly associated with exogenous shocks which statistically increased the debt stock despite the decrease in actual borrowing and lower nominal GDP denominated in US Dollars.

2.1. Composition of Public Debt by Creditor, Currency, Interest Type

The stock of domestic debt accounted for 34.42 percent of the total public debt portfolio as at end 2022. The domestic stock comprises treasury bills and medium to long term treasury bonds and further classified into marketable and non-marketable securities and arrears. The treasury bills constitute about 22.7 percent of total public debt stock, reflecting a share of 70.3 percent of total domestic debt. Domestic Suppliers Arrears constitute 4.19 percent of total debt, reflecting a share of 13.0 percent of total domestic debt.

The MTDS exercise classified external debt as follows: Multilateral, Bilateral, Commercial-External Arrears and Domestic Foreign Currency Debts. The stock of external debt accounted for 71.5 percent of the total public debt stock (when valued in New Leones).

External debt slightly reduced (by 2.4 percent) to 71.1 percent in 2022 from 73.5 percent in 2020. In 2022, multilateral debt accounted for 54.3 percent of total public debt stock and 77.4 percent of the external debt portfolio. Bilateral debt accounted for 8.7 percent of total public debt (15.5 percent of external debt portfolio). Commercial-External Arrears accounted for 2.2 percent of total public debt stock (9.1 percent of external debt portfolio) and domestic debt denominated in foreign currency issued to settle contractors/suppliers' arrears with 2-, 3- and 5-years maturity periods and unpaid verified domestic arrears accounted for 5,9 percent of total public debt (18.5 percent of domestic portfolio).

The baseline public debt data by creditor category and by instrument as at end-2022 is shown in Table 1a (valued in US Dollars). Whilst the evolution of debt since the last MTDS to the current is shown in Table 1b (valued in Leones).

Table 1a: MDTS Public Debt Stock by Creditor Category and by Instrument by end of 2022 (in Million USD)

	FY 2022	Percent of Total
Total External Debt	**1764**	**65.58%**
Multilateral	1365	50.75%
Bilateral	239	8.88%
Commercial Debt	160	5.95%
Total Domestic Debt	**926**	**34.42%**
T-Bills/1	616	22.90%
2-yr T-Bonds	62	2.30%
3-yr T-Bonds	56	2.10%
5-yr T-Bonds	19	0.72%
10-yr T-Bonds	1	0.02%
FX Bonds	59	2.18%
Arrears	113	4.19%
Total Debt Stock	**2,690**	**100.00%**

Source: *Ministry of Finance*

1/ The 2023 MTDS analysis excluded the stock of IMF debt which is the obligation of the Bank of Sierra Leone and Treasury Bills are included at discounted value basis.

The external debt portfolio in the 2022 public debt stock is made up of the following currencies: United States Dollars, Euro, Chinese Yuan, Saudi Riyal, Great Britain Pounds, Japanese Yen, Kuwaiti Dinar and Arab Emirates Dirham. The largest portion of external debt portfolio is denominated in United States Dollar accounting for 56 percent of the total external debt portfolio. The second largest is denominated in Euro, 21 percent, and the total remaining currencies amounted to 23 percent.

The external debt portfolio continues to be dominated by high share of United States (US) dollar-denominated debt of 56 percent followed by the Euro and Chinese Yuan of 21 percent and 8 percent, respectively. The share of external debt by currency has remained largely unchanged since 2020.

For the definition of stylized instruments used in the MTDS simulations, the choice was to aggregate all the external debt instruments into a few representative instruments denominated only in US Dollars. The implicit assumption is that the national currency will fluctuate against other foreign currencies as it will also fluctuate against US Dollars during the strategy period of 2023-2027.

The interest type of the entire external debt portfolio is fixed, and a large proportion of the external debt portfolio is a combination of highly concessional, semi-concessional and concessional.

Table 1b. Composition of central government debt in FY2020 and in FY2022, In NLE million

Total central government debt	FY2020	In percent	FY2022	In percent
Total Domestic Debt	**8,679**	**25.8%**	**14,940**	**28.9%**
Treasury Bills	5,534	16.9%	11,543	22.3%
2-year T-Bond	333	1.0%	778	1.5%
3-year T-Bond	315	1.0%	1,069	2.1%
5-year T-Bond	368	1.1%	368	0.7%
10-year T-Bond	26	0.1%	11	0.0%
Suppliers Arrears	1,889	5.8%	1,053	2.0%
Ways and Means Advances	214	0.0%	118	0.2%
Total External Debt (SLL)	**24,082**	**73.5%**	**36,759**	**71.1%**
Multilateral	19,323	59.0%	28,055	54.3%
Bilateral	2,329	7.1%	4,522	8.7%
Commercial/External Arrears	1,874	5.7%	3,065	5.9%
FX Domestic Debt	555	1.7%	1,116	2.2%
Total Debt	**32,761**	**100%**	**51,699**	**100%**
Total Debt in US Dollars (including IMF)	**3,201**		**2,731**	

Source: Ministry of Finance

1/ Domestic debt was adjusted to exclude 37.8 percent of domestic arrears that is denominated in FX. We therefore adjusted the domestic arrears stock downwards by 37.8 percent and increased the FX bond component in the external debt.

2.2 Costs and Risks on the Existing Debt Portfolio as at end 2022

This section captures the cost and risks inherent in the public debt portfolio as of the end of December 2022, which is the base period for the MTDS. The MTDS developed strategies aimed at minimizing the identified costs and risks of the public debt portfolio during the period 2023 to 2027.

The structure and composition of public debt at end-2022 was partly influenced by agreed debt policy under various economic programme arrangements with the IMF and previous debt management strategies. The domestic debt market environment and fiscal policy path have largely influenced the structure of domestic debt as of the end of 2022. Government treasury securities (T-bills and T-bonds) have been used to finance the annual Government budget while external debt has been used to finance development projects at concessional terms.

The persistent dominant share of foreign currency debt in the overall debt portfolio indicates high exchange rate risks at end-2022 while the short-term nature of domestic debt poses refinancing risk. Interest rate risk is low for external debt portfolio while high in the domestic debt portfolio, despite the fixed interest rate nature of domestic debt instruments.

2.4. Implied Cost of the Public Debt Portfolio

The Weighted Average Interest (WAI) rate or implied interest rate of the overall public debt portfolio as of end 2022 was 6.6 percent compared to 4.8 percent in the base year (2020) under the previous MTDS, indicating increased interest cost burden driven by domestic interest rate. The relatively low interest of 6.6 percent of the overall debt portfolio was driven by the concessional nature of external debt of an average interest rate of 0.8 percent compared to 17.9 percent for domestic debt. Impliedly, the cost burden of domestic debt was 5.3 percent, compared to 0.8 percent of GDP for external debt in 2022, explaining the concessional nature of the external debt.

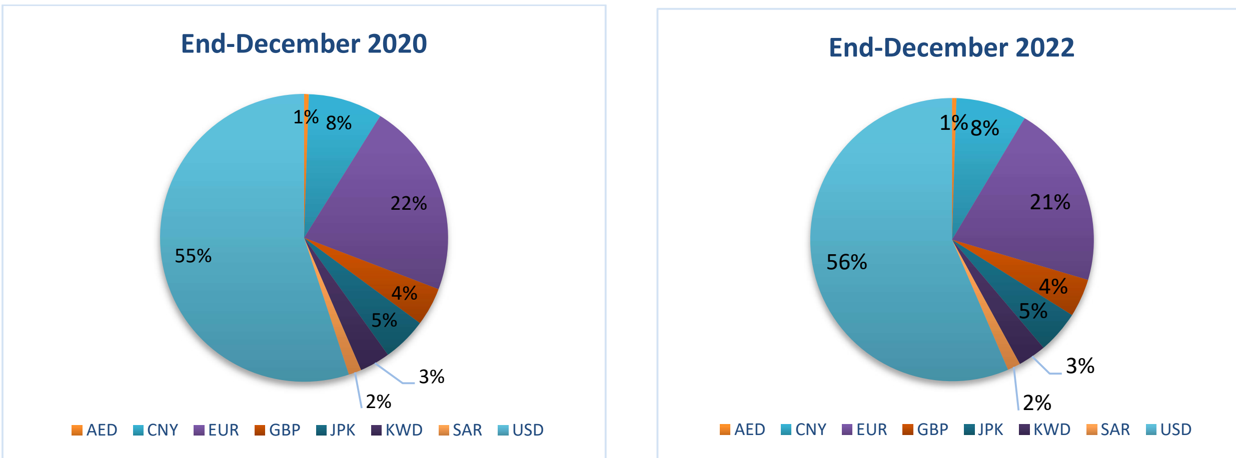
Table 2. Cost and Risk Indicators for Existing Debt as at end-2022

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of SLL)		34,509	16,382	50,891
Amount (in millions of USD)		1,823	865	2,688
Nominal debt as percent of GDP		63.0	29.9	92.9
PV as percent of GDP[1]		45.9	29.9	75.8
Cost of debt[2]	Interest payment as percent of GDP[3]	**0.8**	**5.3**	**6.2**
	Weighted Av. IR (percent)	**1.2**	**17.9**	**6.6**
Refinancing risk[2]	ATM (years)	**10.6**	**1.1**	**8.5**
	Debt maturing in 1yr (percent of total)	**5.5**	**75.0**	**20.9**
	Debt maturing in 1yr (percent of GDP)	**5.7**	**22.4**	**28.2**
Interest rate risk[2]	ATR (years)	**9.6**	**1.1**	**7.7**
	Debt refixing in 1yr (percent of total)	**14.2**	**75.0**	**27.7**
	Fixed rate debt incl T-bills (percent of total)	**91.0**	**100.0**	**93.0**
	T-bills (percent of total)	**0.0**	**71.2**	**15.8**
FX risk	FX debt (percent of total debt)			67.8
	ST FX debt (percent of reserves)			21.3
Notes:				
[1]PV as percent of GDP is calculated based on projected debt service payments where discount rate of 5% is applied to those instruments on concessional or semi-concessional terms.				
[2] Cost-Risk indicators that use projected cash flows such as weighted average interest rate, refinancing and interest rate risks use projected exchange rate assumptions.				
3 Interest payment as percent of GDP is calculated by dividing interest payment on outstanding debt at 2022 to 2022 GDP.				

2.5 Exchange Rate Risk

There is a slight decrease in the prevalence of foreign currency risks in the overall debt portfolio premised on the lower share of foreign currency debt of 67.8 percent as of end 2022, compared to 69.0 percent end of 2020. Despite its concessional nature, the build-up in external debt/foreign currency denominated debt should be monitored to effectively manage exchange rate risks. The level of foreign reserves and the depreciation of the Leone against major loan currencies are important parameters that explain exchange rate risks and the resilience capacity of Government against exchange rate volatility.

Figure 1: Public External Debt: Currency Composition, in percent of total external debt (as of end-December 2020 and 2022)



Source: Ministry of Finance

2.6. Rollover /Refinancing Risk

Rollover risk is moderate in the public debt portfolio, but high in the domestic debt portfolio. The Average Time to Maturity (ATM) of the total debt portfolio was 8.5 years as of end of 2022, compared to 9.3 years end of 2020, indicating a deterioration. External and domestic debt ATM are 10.6 years and 1.0 years respectively end of 2022 compared to 11.4 and 1.7 years respectively in 2020 which indicates increasing roll-over risks in both domestic and external debt portfolio. ATM for the external debt portfolio is high due to longer maturity profile typical of concessional debt. Refinancing risks is high in the domestic debt portfolio as 75.0 percent of domestic debt would mature in less than a year, compared to only 5.5 percent only for external debt. The inclusion of the maturity profile of up to 5 years for the verified stock of domestic suppliers' arrears contribute to improving roll-over risks in the domestic debt portfolio. Figure 2 shows the maturity profile of the debt portfolio with domestic debt concentrated in year 1 (2023) and external debt distributed over 40 years although with relatively large maturities between 2023 to 2027.

Figure 2:-
Redemption Profile External and Domestic of the Debt Portfolio end of 2022

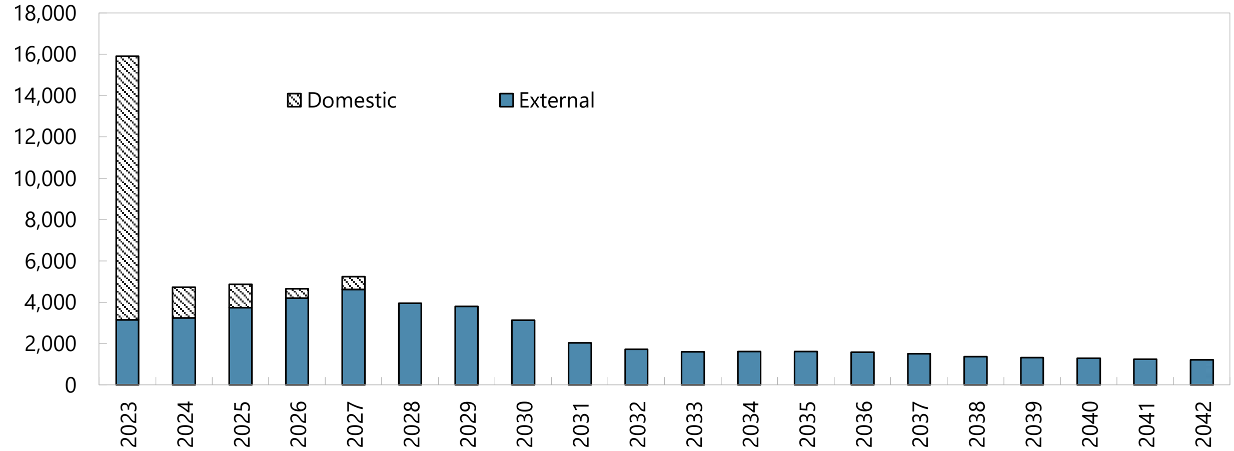
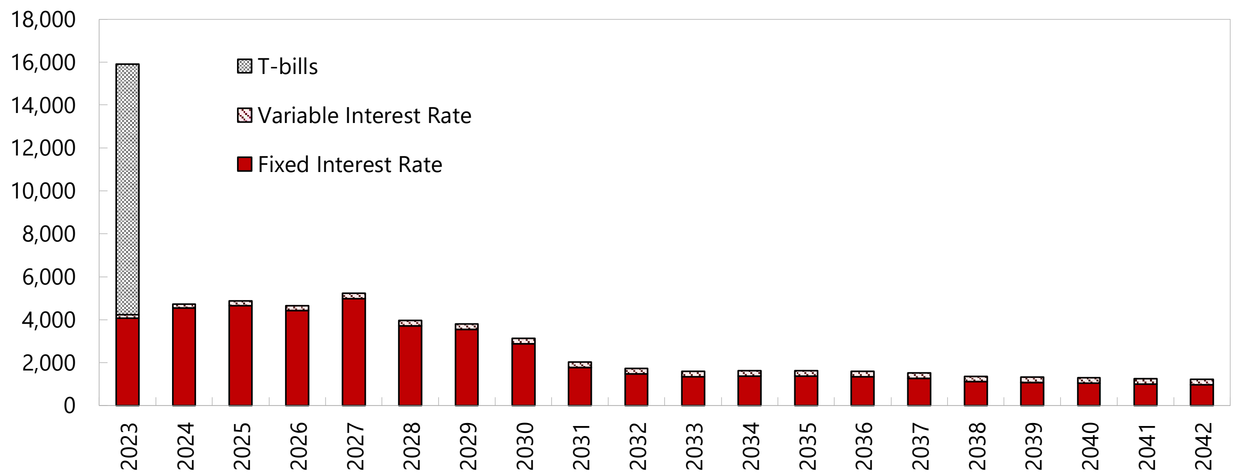


Figure 2a:-
Redemption Profile Composition of Domestic Debt in the Debt Portfolio end of 2022



2.7. Interest Rate Risk

Interest rate risk is assessed to have increased as even though the entire domestic debt portfolio is comprised of fixed interest rate instruments. The total portfolio to be re-fixed within 1 year is 27.7 percent end of 2022, compared to 19.8 percent at the end of 2020, indicating some deterioration in the interest rate risk parameter. However, interest rate risk is high in the domestic debt portfolio with 75.0 percent of domestic debt to be re-fixed within one year compared to 14.2 percent for external debt.

In summary, there is high exchange rate risk exposure in the overall debt portfolio and risk of high interest rate have emerged. Given that exchange rate risks emanate from external debt, managing such risks should be gauged against the low cost and low rollover risk associated with external debt and foreign currency denominated domestic debt. Refinancing and interest rate risks are significant in the domestic debt portfolio. The frequent rollover of domestic debt also triggers higher interest rate risks and should be minimized.

SECTION 3: ENVIRONMENT FOR DEBT MANAGEMENT

3.0. Market environment

Despite the fact that the domestic debt market is relatively underdeveloped, with limited number of debt instruments being traded, coupled with low levels of secondary market activities among counterparties bond issuance have increased remarkably since the last MTDS (see figure 3 below). Market participants are few and the banking sector is by far the dominant player in the Government Securities market. The domestic debt market that was dominated by short-term Treasury Bills and few medium to long-term Treasury Bonds improved from a ratio of 95.6:4.4 in 2021 to 62.0 to 38.0 as at end June 2023. The Government will take further steps including implementation of the activities planned in the UA1 million AfDB budget support grant aimed at enhancing the efficiency of debt management in 2023-2025. Some of the market development activities include: i) Review of Primary Dealership Arrangement in the financial sector consultancy, ii) Development of a robust communication and capacity building strategy for development of secondary markets, iii) Seminars with primary dealers and selected market players on pricing of securities, yield curve development, product developments and market deepening, iv) Training on Bond issuance, and Capital Market Development, v) Training on Treasury Securities fundamentals including trading and pricing of securities, vi) Secondment in sub-regional offices on enhancing front office capabilities for market deepening and promoting secondary activities, and vii) Training in Sustainable Development Financing/ green and Climate linked financing.

Figure 3: Estimated Share of T-bills versus T-Bonds in Domestic Debt Stock

(based on instruments, in percent)

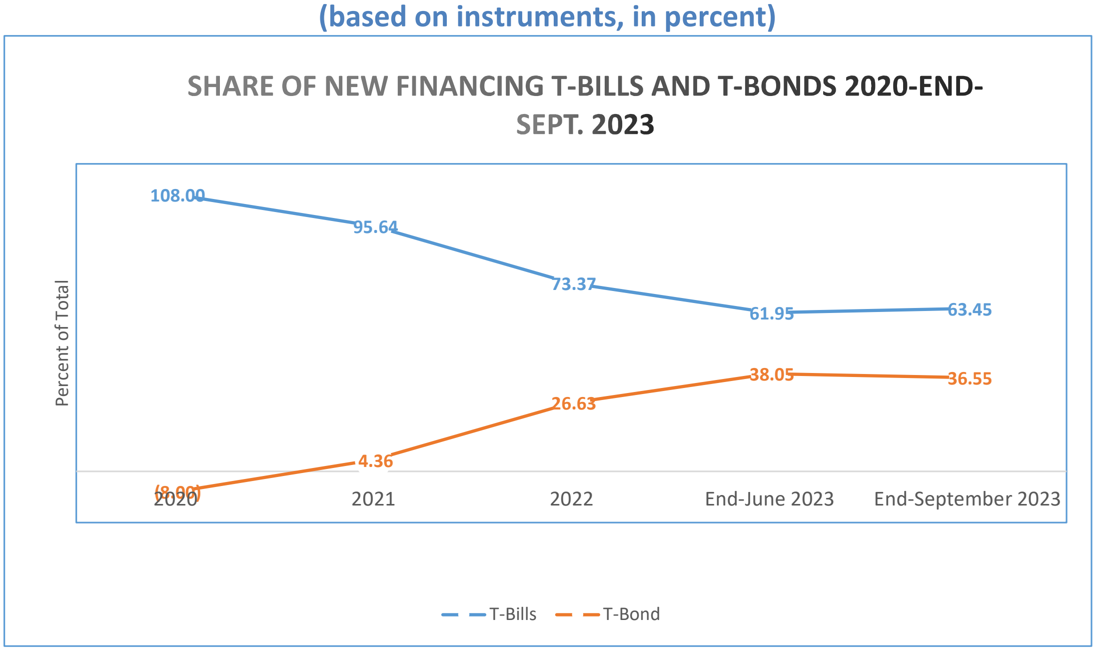
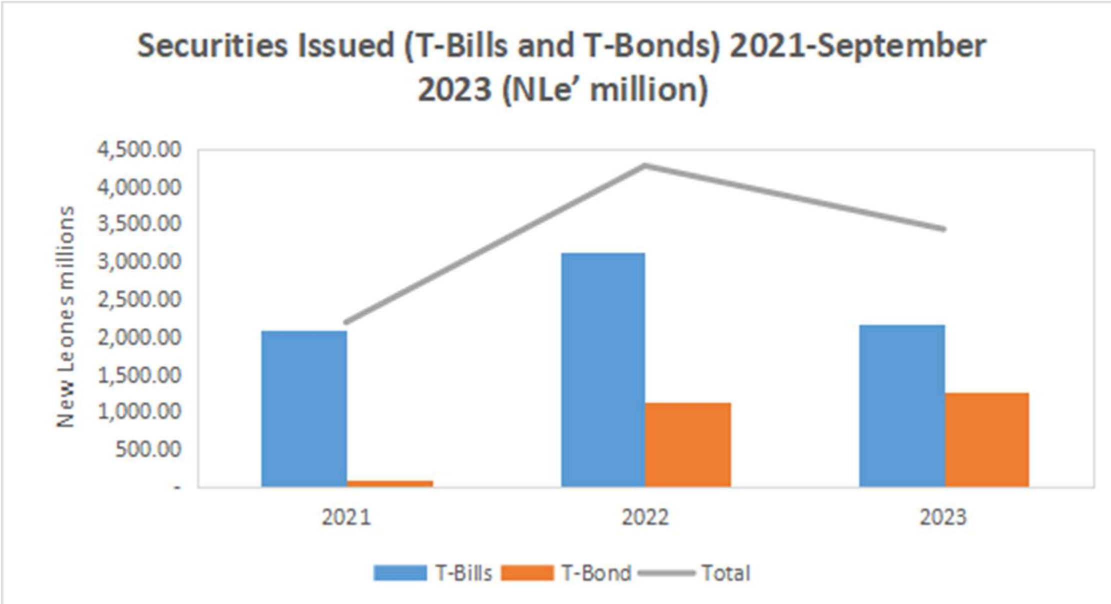


Figure 3b: Estimated Share of T-bills versus T-Bonds in Domestic Debt Stock



Treasury Bills auction is conducted on a weekly basis, whilst Treasury Bonds are done as and when the need arises. Issuances of the Treasury Bills and Bonds are largely informed by the quarterly Treasury Bills/Bonds Auction Calendar. The Auction Calendar is flexible, as it can be reviewed, and new issuances incorporated within the cause of the quarter and subsequently announced to the public via the Bank of Sierra Leone's website and the print and electronic media.

There is a Primary Dealership Arrangement in place, which was signed up to by all major market participants. The main objective of the Primary Dealership Arrangement is the underwriting of the undersubscribed portion of the offer amount at every Government Securities auction by the Primary Dealers (PDs). The Primary Dealers comprise all fourteen (14) commercial banks and the two (2) Discount Houses. Special privileges are being extended to Primary Dealers, such as, those directly participating at Government Securities auctions and commissions paid to Primary Dealers for every successful bid at the auctions. Primary Dealers are also charged with certain critical roles and responsibilities, such as mandatorily participating at every auction, market makers and underwriting unsubscribed portions of auction parcels. The Primary Dealership Arrangement has not been effectively functioning mainly due to liquidity challenges in the banking system over the period.

However, there is a need to review the Provisions of the Primary Dealership Arrangement with a view to ensuring its effective implementation and functioning as this would greatly improve the domestic debt market. Review of the Primary Dealership Arrangement is on-going.

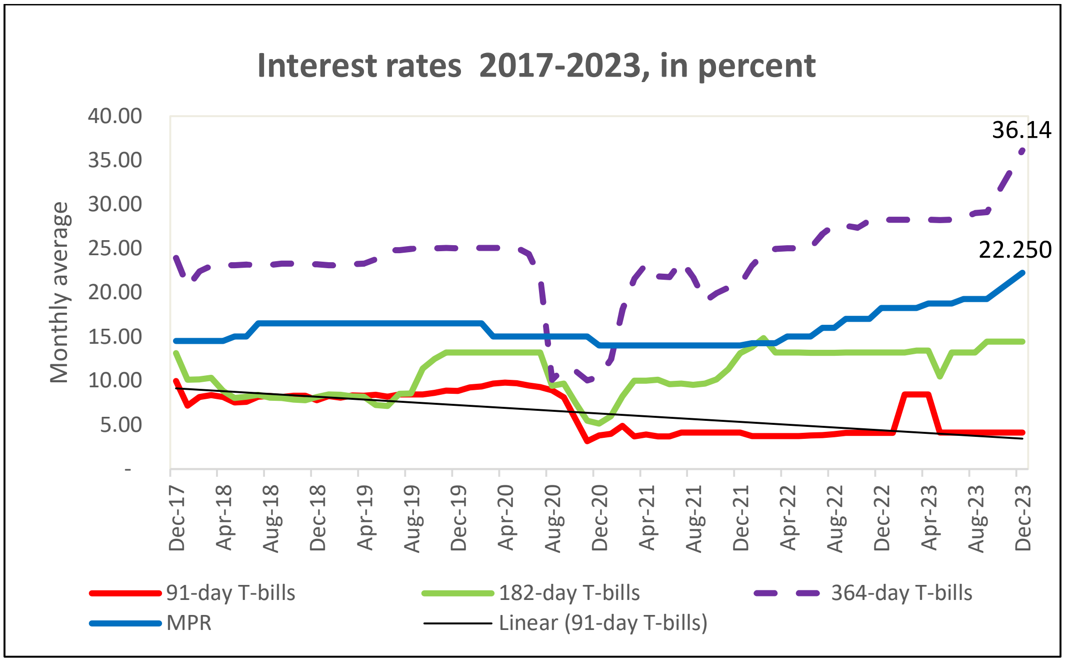
Also, to develop the domestic debt market in the West African Monetary Zone (WAMZ) to which Sierra Leone belongs, the West African Monetary Institute (WAMI) is currently implementing a project sponsored by the African Development Bank (AfDB) whose main objective is to deepen financial markets through the development of the debt market. Specifically, the Project aims to: (i) deepen the primary market and short-tenured instruments; (ii) develop secondary market and longer-tenure instruments; (iii) improve the debt market operating system that is, the IT Infrastructure; and (iv) broaden the investor base. The outcomes from the Project activities are expected to deepen domestic debt by increasing the pool of long-term funds and strengthen competition in financial market through the extension of the yield curve. Moreover, the process of deepening debt markets will enhance the efficiency of financial market and domestic resource mobilization with positive impact on growth and development.

As noted above, the African Development Bank (AfDB) is currently sponsoring a Project through the Ministry of Finance (MoF) for Enhancing Efficiency in Public Debt Management for which funds have been provided to the tune of UA1.0 million. The key objective of the Project is to promote effective and efficient public debt management operations and practices through improved institutional frameworks and enhanced staff capacity.

3.1. Domestic Interest Rates

The yield on the 364-day T-bills, which accounts for over 99 percent of the T-bills portfolio, increased to 28.2 percent in December 2022 compared to 10.5 percent in December 2020 due to tight liquidity in the Market after the Covid-19 challenges coupled with low domestic revenue and decline in budget support from development partners. The 364-day T-bills rates averaged 26.11 percent in 2022 compared to 18.72 percent in 2020. Whilst the 182 -day T-bills and 91-day T-bills averaged 11.9 percent and 3.9 percent in 2022 compared to 8.0 percent and 3.8 percent in 2020 respectively. The Monetary Policy Rate (MPR) reached 18.25 percent in December 2022 compared to 14.00 percent in 2020. Both the 91-day and 182-day rates have been below the MPR throughout 2022 while the 364-day T-bills rate increased above the MPR in 2022 reflecting the increased domestic financing to support Government response to CoVID-19 and the Russian-Ukraine war in the midst of tight liquidity in the market.

Figure 4:-
Sierra Leone Short Term Domestic Interest Rates



SECTION 4: DESCRIPTION OF MEDIUM-TERM DEBT STRATEGIES

4.0 Debt Strategies and Assumptions

The implementation of the last MTDS 2021-2025 faced significant challenges with decline in revenue and persistent international shocks especially the prolonged Russian-Ukraine war, and sharp exchange rate depreciation which made it difficult to achieve the target of Strategy 3 in the MTDS of 2021-2025. The MTDS 2023-2025 updated the macroeconomic assumptions to reflect the current global and domestic developments which underpins the four alternative scenarios that were calibrated as follows:

(i) **Strategy 1 (Baseline)**— assumes that government will follow the agreed borrowing limits with the IMF under the Extended Credit Facility programme. This includes prioritizing and maximizing external concessional borrowing as possible, keeping borrowing from multilateral and bilateral as in past trends.

(ii) **Strategy 2 (Gradual Introduction of Medium-Term Bonds)**—assumes domestic and external borrowing in the same proportion as in the baseline, but over time issuing 2-5-year treasury bonds to the market while proportionately reducing treasury bills to lower refinancing risk.

(iii) **Strategy 3 (Market Development)** assumes an increase in domestic financing compared to strategies 1 and 2, and also deepen the issuance of medium to long term bond beyond strategy 2. The increase in the share of medium-to-longer term bonds in the composition of domestic borrowing in Strategy 3 is to support domestic debt market development. The rationale of this strategy is to increase the Average Time to Maturity (ATM) of domestic debt and reduce interest rate costs as well as rollover risk.

(iv) **Strategy 4 (Increase external borrowing from existing multilateral, bilateral and non-traditional creditors).** This strategy is targeting the mobilization of increased concessional and Semi-concessional external resources to support the Big-Five Agenda of Government. It will also consider financing through Special Purpose Vehicle (SPVs) and resource-based lending backed by implementation of structural measures that supports the creation of institutions to drive infrastructure projects that are self-financing and growth drivers. Some of the resourced-based lending would be used to build up a sinking fund for the management of rising external debt service bills and domestic debt maturities.

4.1 Baseline Macroeconomic Assumptions

The assumptions that underpinned the last MTDS have changed significantly on account of the persistence of the global shock from the Russian-Ukraine war, post-COVID19 and significant decline in domestic revenue collection in 2021 and 2022 relative to the initial projections. Instead of primary surpluses assumed under the last MTDS, the recent global shocks translated into larger primary deficit and sharp exchange rate depreciation coming from larger external current account deficit. The updated macroeconomic baseline assumptions have incorporated these developments as outlined below:

- **Real GDP**: Growth reached 2.8 percent in 2022 and the economy is projected to grow by 2.7 percent and 4.7 percent in 2023 and 2024, respectively and average around 4.5 percent in the medium-term, reflecting accelerated policy adjustment, renewed focus on agriculture and food security, mining and projected rebound in services including tourism and travel. The non-iron ore economy is also projected to average around 4.0 percent in the medium-term 2023-2027.

- **Headline inflation:** reached 37.1 percent year-on-year in 2022 and is projected to remain high and hover around 40.0 percent throughout 2023. However, inflation is projected to start declining, albeit slower than originally projected. Inflation is projected to trend downward in the medium-term and return to pre-pandemic levels of 20.2 percent in 2025 and further declined to 11.4 percent in 2027. The gradual decline in domestic prices will be supported by a tight monetary policy stance to mop up excess liquidity and complete the redenomination process. Possible decline in international prices of energy and food, projected stability in the exchange rate and increased food production as government policy priorities shift to agriculture and food security would also support the decline in inflation in the medium-term.

- **Fiscal**: The overall primary fiscal balance is projected to improve from 9.6 percent of GDP in 2022 to 5.4 percent in 2023 and average below 3.0 percent over the medium-term, consistent with the assumptions in the Fiscal Strategy Statement 2023-2027. Government commitment to the adjustment measures on revenue mobilization and expenditure ceilings agreed under the IMF ECF supported programme will support achievement of the medium-term fiscal adjustment. Domestic revenue mobilization efforts will be supported by continued reforms to strengthen tax policy and tax administration including automating the system, and processes of tax administration, improving tax compliance, and strengthening tax audit and data analytics. Expenditure rationalization will also benefit from measures to improve the integrity and sustainability of the wage bill, strengthen commitment control for goods and services, and improve the efficiency of the domestic capital budget. The projected fiscal adjustment will be anchored on robust domestic revenue mobilization combined with controls on discretionary recurrent expenditures and the domestic capital budget, including energy subsidy.

- The above projections are exposed to fiscal risks which may arise from SOEs funding requirements (i.e. energy subsidies), and other fiscal support. Government with Technical Assistance support from the IM|F and World Bank has intensified SOEs debt reporting which now covers all SOEs annually. Moreover, IMF FAD has been providing advice on improving governance and financial oversight of SOEs over the last year.

- **External Account: International Reserve (USD million)—**Gross International Reserve is projected to decline from USD668 million in 2022 to USD535 million in 2023. If the current external/Global environment remains uncertain on account of the Russian-Ukraine war, GIR will continue to decline over the medium term and average at USD525 million during 2023-2027.

- **Exchange rate:** The exchange rate, which significantly depreciated in 2022, will slowdown in the medium-term projection. However, the projection considered different levels of standard shocks with depreciation assumed at the 30 percent standard shock whilst keeping the annual rates of depreciation at 17 percent in 2023, 14 percent in 2024 and 12 percent in 2025. The slowdown in the depreciation of the Leone would be supported by the expansion in export over the medium term. The government would manage its support towards the importation of fuel and other essential commodities to minimize its impact on the trade balance and the exchange rate depreciation.

- The Eighth and Final Review of the ECF programme with the Government ended in 2023 and with the halt in disbursement, reserves are expected to decline between 2022-2025 and pick up in 2025 and beyond in anticipation of a successor programme with the IMF and a significant boost in mineral exports. This MTDS is therefore based on the Government's macroeconomic projections after end of the IMF program. It will be updated when the successor program is approved by the Executive Board of the IMF in 2024.

Table 3: Summary Baseline Macroeconomic Assumptions 2022-2027

MACROECONOMIC ASSUMPTIONS

	Variables	Metric	2022	2023	2024	2025	2026	2027
1	Budgeted Revenue and Grants	In million of Leones	10,867	14,004	20,870	25,276	28,509	33,676
2	Domestic Revenue	In million of Leones	7,046	10,277	14,972	19,306	22,744	27,867
3	Grant	In million of Leones	3,821	3,727	5,898	5,970	5,765	5,809
4	Budgeted Primary Expenditure	In million of Leones	14,296	15,128	19,405	23,289	26,417	32,489
5	Total Expenditures including budgeted interest	In million of Leones	16,127	18,305	23,524	27,965	31,653	36,970
6	Budgeted interest payments	In million of Leones	1,830	3,177	4,120	4,676	5,236	4,481
7	International reserves (million)	In USD millions	668	535	498	498	525	570
8	Nominal GDP	In million of Leones	54,781	80,993	103,198	124,453	144,330	163,965
9	Real GDP	In million of Leones	10,831	11,293	11,806	12,368	12,997	13,658
10	Real GDP growth	In Percent of GDP	2.8	2.7	4.7	5.2	4.5	4.5
11	Inflation (eop)	In Percent	29.4	44.3	22.9	17.4	12.9	9.8
12	Inflation (average)	In Percent	26.1	45.6	33.6	20.2	15.2	11.4
13	Programme	In million of Leones	2,341.82	1,756.72	2,725.18	3,145.77	3,517.93	3,930.72
14	Projects	In million of Leones	1,478.91	1,970.45	3,172.41	2,824.19	2,246.90	887.31
15	Primary Balance	In percent of GDP	-13.2	-6.0	-4.3	-3.2	-2.5	-2.8
16	Domestic Revenue/GDP	In Percent of GDP	12.9	13.7	15.3	16.3	16.6	16.8
17	Overall Deficit (Including grants)	In million of Leones	(5,260)	(4,301)	(2,654)	(2,689)	(3,145)	(3,294)
18	Overall Deficit/GDP	In Percent of GDP	-9.6	-5.3	-2.6	-2.2	-2.2	-2.0
19	IMF Overall Deficit/GDP	In Percent of GDP	-10.4	-5.5	-2.8	-2.4	-2.4	-2.1

4.2 Limitations of the Debt Strategies, Assumptions and Forecasts

The limitations of the MTDS strategies, assumptions and forecasts are outlined below:

1) The global economy remains uncertain, especially under the COVID-19 environment, and the recent international supply chain disruptions have the tendency to affect the realism of the macroeconomic framework that underpins the assumptions in the above strategies. This limitation can be resolved by regular updates of the MTDS annually.

2) Liquidity conditions in the domestic financial market is unstable and the domestic debt market is shallow. However, progress was made to issue medium-to-long-term bonds (see figure 3b above). The majority of commercial banks usually do not invest in local currency medium to long-term bonds. Most of their investment portfolios are locked in the short end of the market and FX based domestic bonds, which limits the possibility of elongating the yield curve. Limited secondary market activities also pose a challenge to the deepening of the domestic debt market. This limitation can be moderated by a robust communication strategy and sensitization of the market on the instruments to be issued and this activity has been included in the annual work plan of the debt management office.

3) Overreliance on external concessional financing despite the shift in Global financial architecture towards market-based financing instruments for developing as well as LICs. This could be moderated by enhancing domestic revenue generation and public financial management.

4) Prudential requirements limit the ability of commercial banks to count their medium-term investment as part of liquid assets. Hence limiting their ability to lock funds in long-term investments to meet their prudential requirements. This limitation can be managed by reviewing outdated laws and guidelines in line with regional peers.

5) Exceptional fiscal pressures may lead to higher deficits, which could in turn, affect the borrowing targets under the MTDS. If fiscal pressures are not contained, it may lead to higher-than-planned borrowing and elevate the cost and risk of the baseline borrowing path. This limitation can be moderated by effective planning of electoral spending and seeking external financing (prioritizing grants) to support electoral processes.

4.3 Risks to the Outlook

Despite recent efforts by the government to restore macroeconomic and financial stability and bring public finances to a sustainable path, global headwind has intensified and both domestic and external risks persist and are tilted to the downside. These risks include: i) heightened global uncertainty underpinned by the escalating war in Ukraine, ii) sharp slowdown in China, Sierra Leone's main trading partner, iii) policy implementation challenges under the adjustment path agreed with the IMF under the ECF programme, iv) continued depreciation of the exchange rate, v) higher international prices of energy and food, vi) geo-economic fragmentation in international trade and finance, vii) continuous increase in domestic interest rate and viii) domestic political challenges.

4.4 Identifying Potential Sources of Financing

Government financing in the MTDS will come from the usual traditional sources of external and domestic creditors and new innovative sources. On the external front, the Government will continue to seek concessional financing from both bilateral and multilateral creditors through standard loans and grants.

Box 1. Special Purpose Vehicle and the Big-Five

When conditions are right, the government will pursue new innovative financing through special purpose vehicles (SPVs) to access semi-concessional funds for rapid disbursement to productive infrastructure that accelerates delivery of the Big-Five in the medium-term when conditions are right. New institutions would be created to manage earmarked revenues which would form the basis of new financing for implementation of critical transformational infrastructure projects under the SPVs. The government will also pursue innovative financing options such as PPPs, derivatives (like Debt2Health Swaps) and Climate-based financing to complement traditional external sources. On the domestic front, the Government will continue to issue more Treasury Bonds and less Treasury bills as best as possible to finance the budget. To deepen the domestic market, the Government will continue to explore competitive issuance of medium-term bonds.

There is the possibility of higher domestic revenues if the assumptions about the resumption of iron ore mining holds for both the Marampa and the Tonkolili mines. Both mines have the potential to increase domestic revenues from iron ore exports, especially in 2023 and in the medium-term. Unlocking these revenue sources would create the space for higher external borrowing as the debt distress rating will improve and pave the way for the raising of funds to roll out more innovative and transformative financing consistent with the PFM Act 2016 and Extractive Industries Revenue Act 2018.

The Big-Five: Upcoming National Development Plan 2023-2030

Sierra Leone is bracing up for the 2030 agenda and plans to expand the coverage of the next National Development Plan to aim at 2030. The Big-Five priorities articulated in the Manifesto of Government include the following: 1. Feed Salone, 2. Human Capital Development, 3. Youth Employment Scheme, 4. Revamping Public Service, and 5. Technology and Infrastructure. Government will develop the next National Development Plan and publish it by end-March 2024. In the interim, the above Big-Five priorities would form the main focus of the 2024 Budget and Statement of Economic and Financial Policies, and 2024 Finance Act. The 2024 Budget would outline additional revenue and expenditure measures for the medium-term 2024-2026 consistent with the fiscal and monetary targets on deficit, inflation and exchange rate. The Budget Call Circular for the 2024 Budget was released to guide MDAs on the Big-Five priorities of Government and provided the indicative framework and resource envelop that will later on dove tail in the next National Development Agenda.

4.5. Refinancing Risk

Refinancing risk continues to be high for domestic debt across all strategies, given the short-term nature of the stock of domestic debt unlike external debt with longer maturities. The Average Time to Maturity (ATM), which defines, on average how long a debt portfolio will mature, is the longest under S3 (11.4 years) for the total debt portfolio. Debt maturing within one year is 12.8% of the total debt portfolio, driven by lower primary balance, issuance of more medium-to long term bonds, enhanced domestic revenue mobilization and prioritization of expenditures toward achieving the Big-Five Agenda of Government in Strategy 3. On the external debt front, Strategy 3 have ATM at 11.4 years with the less refinancing risks. Strategy 3 is based on more realistic trend of the market and the posture of policy given the appetite of the domestic debt market and the need to raise foreign currency to meet the external debt-servicing needs of the Government in the medium-term.

Cost and Risk of Alternative Strategies

4.6. Exchange Rate Risk

Exchange rate risk has implications for managing the gross international reserves of the Bank of Sierra Leone and the cost of managing external or foreign currency debt. S3 puts the share of foreign currency debt to total debt at 65 percent, indicating lower foreign currency risks compared to 67.8 percent in 2022. Short-term foreign currency debt account for 20.7 percent of gross international reserves in strategy 3, indicating the capacity of the Government to support external debt service falling due within a year.

4.7. Interest Rate Risk

Interest rate risk have increased on the overall debt portfolio, despite that fact that the entire domestic debt portfolio is in fixed interest rate terms. However, debt to be re-fixed within one year would be subjected to the prevailing interest rate in the market, which is now around 30 % (as at 29th December 2023) over the total portfolio in S3 and considered to be high. The Average Time to Re-fixing (ATR) of S3, which is similar to ATM as the entire domestic debt portfolio is in fixed instrument, is 7.5 years and fixed rate debt improved from 93 percent in 2022 to 95.9 percent of the total portfolio under Strategy 3.

Table 4:- Cost and Risk Indicators end of 2027

Risk Indicators		2022	As at end 2027			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		92.9	61.7	61.3	61.8	61.3
Present value debt as percent of GDP		75.8	48.8	48.1	50.2	46.9
Interest payment as percent of GDP		6.2	4.0	3.7	4.3	3.7
Implied interest rate (percent)		6.6	6.4	6.0	7.6	5.8
Refinancing risk2	Debt maturing in 1yr (percent of total)	20.9	23.1	20.1	21.1	21.4
	Debt maturing in 1yr (% of GDP)	28.2	14.3	12.3	13.0	13.1
	ATM External Portfolio (years)	10.6	11.6	11.7	11.4	12.7
	ATM Domestic Portfolio (years)	1.1	0.9	1.14	1.47	0.9
	ATM Total Portfolio (years)	8.5	8.5	8.8	7.8	9.6
Interest rate risk2	ATR (years)	7.7	8.2	8.5	7.5	9.3
	Debt refixing in 1yr (percent of total)	27.7	27.0	24.0	24.9	25.3
	Fixed rate debt incl T-bills (percent of total)	93.0	95.9	95.9	95.9	95.9
	T-bills (percent of total)	15.8	12.1	7.9	10.4	11.0
FX risk	FX debt as % of total	67.8	71	73	64	73
	ST FX debt as % of reserves	21.3	20.7	20.7	20.7	20.7

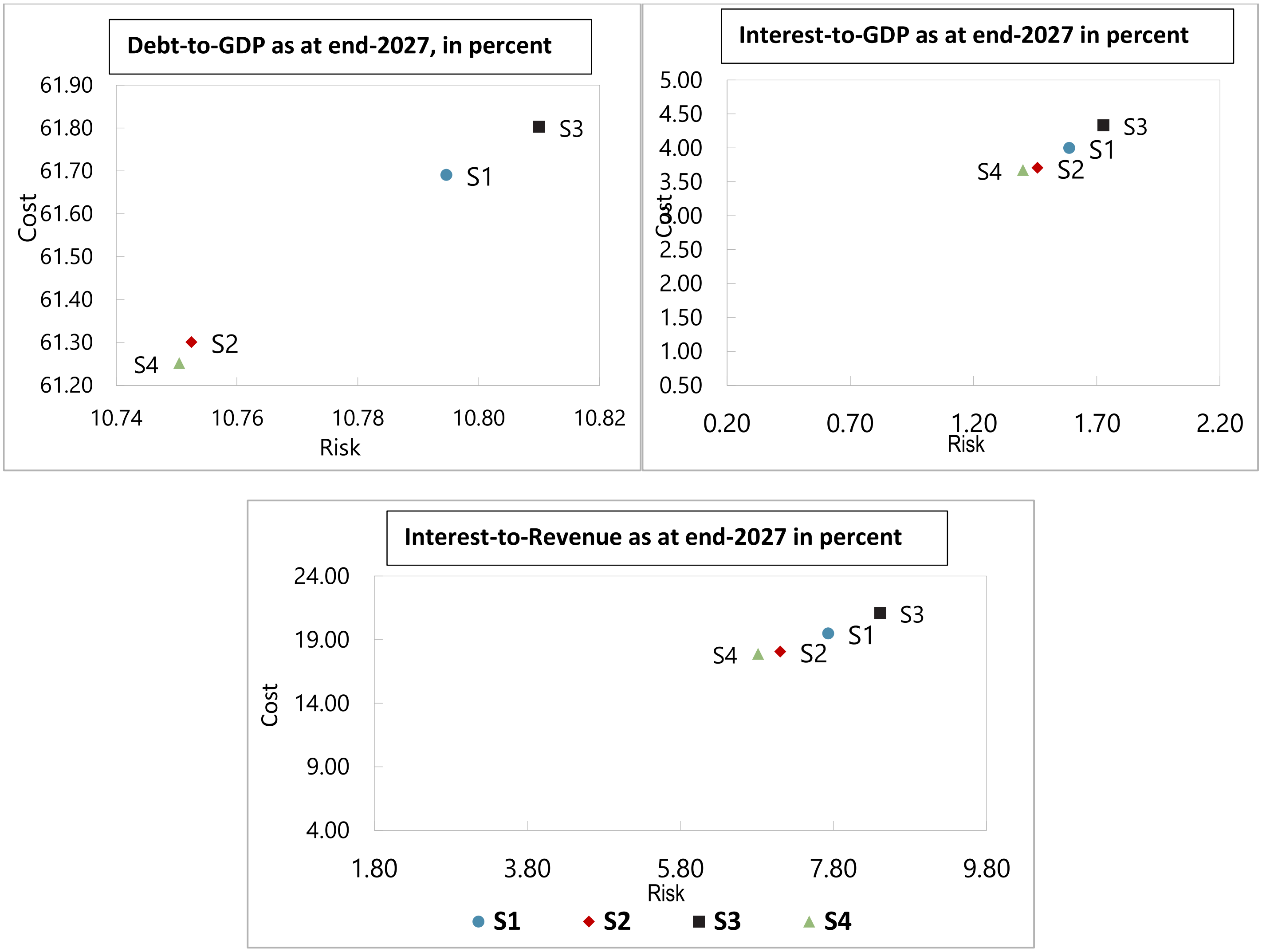
4.8. Other Cost Measures and Debt Indicators

Three cost measures and debt indicators, specifically interest payment to GDP, interest payment to budget revenue and PV of debt to GDP, are used to assess the cost and risk trade-off of the strategies.

1) **PV of debt to GDP**, which assesses the solvency capacity of the Government, is second best lowest in S3 (50.2 percent) due to larger share of external concessional borrowing in the debt stock. PV of debt to GDP in S2 and S4 are 48.1 percent and 46.9 percent respectively, compared to the highest, S1 (48.8 percent), as S1 assumes higher overall fiscal deficit under the baseline which is above the threshold of the 3.0 percent of GDP, financed by short-term domestic debt mainly treasury bills at a high interest rate.

2) **Interest payment as a percentage to GDP**, which assesses the liquidity condition in the economy, is highest in S3 (4.3 percent) reflecting the impact of the cost of issuing more longer-term domestic bonds during high interest rate environment, relative to 4.0, 3.7 and 3.7 in S1, S2, and S4 respectively) which accommodates more external borrowing. This points to the need for additional budget support to finance the impact of higher interest cost on the fiscal in order to achieve the objective of issuing long term domestic bonds and achieve the 50:50 percent share of T-Bills to T-Bonds in the new issuance of domestic debt in strategy 3.

Figure 5:-
Sierra Leone Summary MTDS Result by end-2027



3) **The cost and risk of interest payment to budget revenue**, which assesses the cost of debt in the portfolio of Government is the highest under S3 and least under S4. Strategies to lengthen the maturity and reduce domestic financing would improve the interest-to-revenue indicators under S2 and S3, but the current market environment makes them expensive to implement. Reducing the fiscal burden of debt servicing is the fundamental issue in the debt management objective of the Government. Selecting a strategy that is implementable given the current market condition and the financing opportunities would largely depend on how the Government is able to finance the upcoming debt servicing needs. Strategies that reduce the cost and risk of debt service to domestic revenue would be much preferred in the current environment of fiscal policy and over the medium term.

4.9. The Preferred Public Debt Management Strategy

Given the need to select a debt strategy that is implementable under the current environment of significant exposure of the existing public debt portfolio to exchange rate and rollover risks, high debt-to-GDP ratio (of 91.3 percent), coupled with the high domestic interest cost, strategy 3 (S3) is recommended to reduce the interest rate risk over the medium term. S3 assumes an increase in the share of medium to long-term bond in the share of domestic financing to deepen the market. The increase in domestic borrowing in Strategy 3 is to support domestic debt market development. The rationale of this strategy is to increase the Average Time to Maturity (ATM) of domestic debt and reduce interest rate costs as well as rollover risk.

4.10. Medium Term Cost and Risks Target

The medium-term cost and risks targets of the MTDS are derived from the preferred strategy (S3) and some of the targets are more ambitious with the aim of achieving a reduced cost and risk of the debt portfolio over the medium-term. It is anticipated that achievement of the MTDS targets would indirectly support fiscal sustainability and boost the link between progress on the MTDS to improvement in the debt sustainability indicators.

Table 5:- Medium-Term Cost and Risk Targets 2023-2027

Goal	Indicator	Baseline	Target /1 (by end-2027)
Reduce debt burden	Present value of debt to GDP	74.5%	50.2%
Manage FX risk	FX debt (as % of MTDS debt)	67.8%	≤ 64%
Domestic Market Development	Domestic Debt (as % of MTDS debt)	32.2%	≥ 40.0%
Manage refinancing risk	Overall ATM (years)	8.5	≥ 9.0
	Debts Maturing in 1 year (as % of GDP)	28.5%	≤ 12.8%
Manage interest rate risk	Fixed rate debt (% of MTDS debt)	93%	≥96%
	T-bills (% of total debt)	15.8%	≤ 10.0%

1/. The targets set in the MTDS are not completely under the control of PDMD and some are ambitious relative to strategy 4.

SECTION 5: CONCLUSIONS

5.0. Recommended Public Debt Management Strategy

The MTDS 2023-2027 recommends Strategy 3 (S3) for adoption by Cabinet. S3 is recommended because significant progress was made to issue medium to long-term bonds after the adoption of the previous MTDS despite the challenges in the global environment, high interest rate and persistence of shocks. When compared to the other three strategies assessed during the MTDS workshop, Strategy 3 (Market Development) assumes an increase in domestic financing, and also deepen the issuance of medium to long term bond. The increase in domestic borrowing in Strategy 3 is to support domestic debt market development. The rationale of this strategy is to increase the Average Time to Maturity (ATM) of domestic debt and reduce interest rate costs as well as rollover risk.

It is informative to note that pursuing the current trends/the baseline approach of debt management would worsen the cost and risk of the existing debt portfolio, whilst Strategies 4 that was initially recommended by the National Team would need significant structural policy implementation which comes with implementation delays requiring at least two years to achieve. Given that the updated MTDS calls for immediate implementation, stakeholders advised that Strategy 3 would be more feasible to implement given the progress already achieved in issuing medium to long term bonds and the possibility of speedy implementation. This further reaffirms that the decision of Cabinet to adopt Strategy 3 in the last MTDS was appropriate and should be continued despite the current global environment, high interest rate risk, and persistence of shocks (CoVID-19 and Russian-Ukraine war challenges) that affected the success of the strategy. The recent development in Israel and Gaza war could also worsen the challenges.

Strategy 4 has the potential to raise quick and more external financing at the least cost and risk but would come with implementation delays given the time it would take to implement the complementary structural measures as noted above. The national team analyzed Strategy 4 (Increase external borrowing from existing multilateral, bilateral and non-traditional creditors) which aims at the mobilization of increased concessional and semi-concessional external resources to support the Big-Five Agenda of Government. It will also consider financing through Special Purpose Vehicle (SPVs) and resource-based lending backed by implementation of structural measures that supports the creation of the institutions to drive infrastructure projects that are self-financing and growth drivers. Some of the resourced-based lending would be used to build up a sinking fund for the management of rising external debt service bills and domestic debt maturities.

5.1. Debt Management Reforms

The government is committed to short to long-term institutional and policy reforms in the overall public debt management architecture in order to achieve the agreed targets under the Medium-Term Debt Strategy 2023–2027. These reforms are intended to improve the efficiency of public debt management in Sierra Leone.

At the institutional level, the government is committed to addressing capacity-building challenges and promoting institutional reform in line with sound standards of sovereign debt management. With support from the African Development Bank, the following will be done over a period of three years:

- Review of the Legal, Regulatory, and Policy Framework (Revise the Public Debt Management Act 2011)
- Debt strategy development and debt sustainability analysis (training and annual update)
- Domestic Debt and Capital Market Development
- Consolidated Public Debt Data Base and Systems Management (Migration from CS-DRMS to Commonwealth Meridian)
- Debt recording, analysis, and reporting
- Other Staff Capacity Building and Development Programmes including relevant stakeholders Audit Service Sierra Leone, Internal Audit Department, Bank of Sierra Leone, Accountant General's Department, Multilateral Projects Division, Parliament etc.
- Improve the timeliness and quality of debt data reporting. The frequency of public debt bulletin would be enhanced from annual to semiannual publications starting in June 2023. To improve on the quality of debt data, the national MTDS and DSA teams are undergoing continuous professional development training (local and international) in key aspects of debt management and debt reporting with support from IMF, World Bank and WAIFEM.

In the short to medium term, these changes will facilitate the migration from the Commonwealth-Secretariat Debt Recording and Management System (CS-DRMS) to the Commonwealth Secretariat Meridian Debt Management Systems (CS-MDMS). As part of this support, the government is also committed to integrating Meridian with existing and potential PFM and banking platforms across diverse institutions involved in debt management while mitigating operational risks associated with the transition to Meridian. This will involve integrating the CS-MDMS with other applications and databases, including FreeBalance (Integrated Financial Management Information Systems) at the Accountant General's Department and the Development Assistance Database (DAD) at the Ministry of Planning and Economic Development and Script-less Securities and Settlement Systems (SSSS) and T-24 Domestic Debt systems at the Bank of Sierra Leone. When implemented, the Commonwealth Meridian will also serve as an audit trail to which the Audit Service Sierra Leone and Internal Audit Department of the Ministry of Finance will have access in order to perform audit functions. All of these reforms will strengthen the efficiency of public debt management in the long term.

Furthermore, Government will implement the Arrears Profiling System aimed at setting up a database that tracks accumulation of arrears across Ministries, Departments and Agencies

(MDAs), collaborating with Audit Service Sierra Leone to verify their status of contracts (new and old), tracking progress of implementation of contract, track payment status, track fines and penalties and outstanding balance. This activity is a priority under the enhancing efficiency of Debt Management Project in PDMD supported by the AfDB UA1 million.

The government is also committed to advancing debt transparency by ensuring that adequate information is provided on a regular basis regarding the status of the public debt and that this information is published on the website of the Ministry of Finance. This commitment is ongoing under DPO operations with the World Bank and other partner engagements, and public debt information is published in a machine-readable format. The government is considering developing an online transparency portal for public debt where all national debts are listed and that is easily accessible to the public in different formats.

The West African Monetary Institution/West African Monetary Agency is assisting the government in its efforts to enhance the domestic debt management system by providing support for the implementation of reforms in the domestic debt management system. The accomplishment of the goals outlined in the medium-term debt strategy will be facilitated by the progress made in connection with this continuing reform.

The government is also committed to advancing debt transparency by ensuring that adequate information is provided on the state of public debt on a regular basis and published on the website of the Ministry of Finance.

The government is implementing reforms through support from the West African Monetary Institution/West African Monetary Agency to enhance domestic debt management. Progress under this ongoing reform will support the achievement of the objectives set out in the Medium-Term Debt Strategy.

5.2. Monitoring of Progress and Evaluation of the Public Debt Management Strategy

The Expanded Cash and Debt Management Committee would monitor public debt cost and risk. As outlined in section 1.2 above, the Expanded Cash and Debt Management Committee monitors and approves Government cash flow forecasts in line with the annual Budget and financing ceiling approved by Parliament. The committee also monitors domestic and external debt levels against targets. The Expanded Cash and Debt Management Committee will continue to provide the anchor for monitoring public debt and support the implementation of reforms. The debt management processes will continue to be subjected to annual scrutiny by the Audit Service Sierra Leone and the Internal Audit Department of the Ministry of Finance. Progress towards achieving the targets in the MTDS will be measured at regular intervals and supported by a performance audit to be conducted by the Audit Service Sierra Leone and the annual audit reviews by the Internal Audit Department of the Ministry of Finance. Government will also undertake a Debt Management Performance Assessment (DeMPA) during the MTDS period to help identify areas for improvement.

5.3. Risk mitigating measures if conditions change.

Implementation of the MTDS is not devoid of external shocks, including the persistence of the CoVID-19 pandemic, the decline in international metal prices (iron ore, Rutile) and other minerals, spikes in international oil prices and the recent international supply chain disruptions triggered by the prolonged Russian-Ukraine war. The recent Israel and Gaza war has added to the list of global challenges. These shocks usually lead to increased fiscal pressures and higher deficit financing needs. The above shocks can also affect the external sector, leading to a higher balance of payment deficit and depreciation pressure on the local currency relative to other foreign currencies.

On the external front, Government should allow the currency to depreciate to serve as a partial automatic adjustor to the shock, whilst monetary policy would be designed to lean against the second-round impact of the exchange rate depreciation and its pass-through to inflation.

It is recommended that Government should seek exceptional assistance from development partners during shocks, seek innovative financing and implement fiscal adjustment whilst allowing the local currency to depreciate to prevent the Gross International Reserve levels from falling below 3.5 months of import cover.

In the event of a persistent increase in international fuel prices, Government should implement the pass-through of international fuel prices to domestic pump prices and complement the measure with credible social transfers or enhanced social safety nets to protect the most vulnerable.