ANNUAL BORROWING PLAN FOR 2025 FISCAL YEAR

PUBLIC DEBT MANAGEMENT DIVISION

MINISTRY OF FINANCE SIERRA LEONE

Introduction

The Government of Sierra Leone's Annual Borrowing Plan (ABP) for 2025 Fiscal Year outlines the financing strategy to address the budget deficit, manage debt obligations, and finance public expenditures. The borrowing plan includes both domestic and external debt instruments, such as Treasury bills (T-bills) and Treasury bonds (T-bonds), concessional project and program loans and grants to cover the fiscal gap.

Fiscal Overview

Revenue, Expenditure and Fiscal Deficit

The government's projected revenue shows a quarterly variation, as shown in Table 1 below. The budgeted revenue for FY2025 excluding grants amounted to NLe18.91 billion; however, the expected grants for the 2025 Fiscal Year are NLe8.97 billion. The budgeted revenue (including grants) of NLe27.88 billion is less than the budgeted expenditure (excluding debt amortization) of NLe35.33 billion, resulting in a fiscal deficit of NLe7.45 billion.

Table 1. Government of Sierra Leone Borrowing Requirements for the Fiscal Year 2025 (NLe' million)

BORROWING REQUIREMENTS	Total	Q1	Q2	Q3	Q4
Total Revenue and Grants	**27,882**	**6,332**	**6,648**	**6,201**	**8,700**
Domestic Revenue	**18,909**	**4,618**	**4,934**	**4,487**	**4,870**
Grants	**8,973**	**1,714**	**1,714**	**1,714**	**3,830**
Total Expenditures	**35,332**	**9,010**	**8,881**	**8,553**	**8,888**
Fiscal Deficit	**(7,450)**	**(2,678)**	**(2,233)**	**(2,352)**	**(188)**
Debt Redemption/Amortization	**(3,954)**	**(842)**	**(1,048)**	**(1,445)**	**(618)**
Domestic	**(2,062)**	**(369)**	**(556)**	**(953)**	**(183)**
Treasury Bills	-	-	-	-	-
Treasury Bonds	(1,763)	(369)	(327)	(883)	(183)
Zero Coupon Bonds	(299)	-	(229)	(70)	-
External	**(1,892)**	**(473)**	**(492)**	**(492)**	**(435)**
Multilateral and Bilateral Loan	(1,670)	(399)	(418)	(492)	(361)
Commercial Loan	(222)	(74)	(74)	-	(74)
Total Borrowing Requirement	**(11,404)**	**(3,520)**	**(3,281)**	**(3,797)**	**(806)**

Debt Repayment Obligations for 2025

The total debt repayment obligation for 2025 is NLe3.95 billion, including domestic and external debt repayment. This repayment, along with the fiscal deficit forms the basis of the financing or borrowing requirement and will be financed through new issuance of Government securities (T-bills and T-Bonds) to the Market and disbursements of concessional external loans. Table 2 below shows the Gross Financing Requirement in 2025.

Table 2. Gross Financing Requirement for FY2025 (NLe' million)

GROSS FINANCING	Total	Q1	Q2	Q3	Q4
Domestic Debt	**7,755**	**3,051**	**1,559**	**3,680**	**(535)**
Treasury Bills	2,277	1,073	401	1,091	(287)
Treasury Bonds	5,478	1,978	1,158	2,590	(248)
External debt	**2,652**	**663**	**663**	**663**	**663**
Loans	2,652	663	663	663	663
IMF Budget Support	**997**	**(194)**	**1,059**	**(546)**	**678**
Total	**11,404**	**3,520**	**3,281**	**3,797**	**806**

Linking the Medium-Term Debt Strategy (MTDS) with the Annual Borrowing Plan to Finance the Fiscal Deficit and Debt Repayment

The ABP is linked to the recommended strategy in the MTDS 2023-2027. Whilst the macroeconomic assumptions of the ABP are more current (consistent with the IMF Article IV of November 2024), the recommended Medium-Term Debt Strategy for 2023-2027 has not changed. The recommended debt strategy assumes an increase in the share of medium to long-term bond (60 percent) in domestic financing to deepen the market. Treasury bills would account for 40 percent of the planned securities that would be issued. The planned domestic borrowing in the MTDS is to support domestic debt market development especially when inflation is trending down from 52.2 percent at end-2023 to 16.9 percent in October 2024. 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. To cover the fiscal deficit and debt repayment obligations, the government plans to raise funds through both domestic and external sources.

Financing Composition

The government continues to rely on domestic borrowing (NLe7.755 billion), which accounts for the majority (89.8 percent) of the net deficit financing. Of which, NLe5.478 billion will come from medium-long-term T-bonds, showing that the government MTDS aims for a more stable, longer-term debt obligations to avoid the short-term pressures typically associated with T-bills. Short-term T-bills of NLe2.277 billion will help meet the immediate liquidity needs of Government. Net external financing would account for NLe0.760 billion (or 10.2 percent) of the net financing requirement for FY 2025.

• Net Domestic Financing

The estimated net domestic borrowing for 2025 to finance the budget deficit is projected at NLe7.450 billion. The MTDS aims at addressing the rollover risk and reducing cost and risk of the existing debt portfolio by issuing more medium-to-long-term bonds and less treasury bills to finance the fiscal gap as follows:

1. T-bills (Short-term Treasury Bills): NLe2.277 billion which is 40 percent of the total net new domestic securities financing, and

2. T-bonds (Medium-Long-term Treasury Bonds) NLe3.416 billion (60 percent of total net new domestic securities financing).

The assumption is that the government will rollover maturing T-bonds in 2025, meaning, issuance of new T-bonds to cover existing maturities. This approach to financing indicates a preference for longer-term debt (T-bonds), which can provide stability in debt servicing over time compared to the more volatile short-term T-bills.

IMF Budget support would also be on-lend by the Bank of Sierra Leone to the Government to finance NLe0.997 billion of the fiscal deficit.

• Net External Financing

The government plans to raise NLe0.760 billion from net concessional external loan disbursements. This external financing would come from international development partners or concessional foreign loans, contributing to the total financing required to cover the fiscal deficit and debt repayment obligations.

External borrowing accounts for a smaller portion of the deficit (23.2 percent of the total gross financing requirement). This is indicative of the government's strategy to maintain foreign debt and its related exchange rate risk within manageable levels.

Table 3. Net Financing Requirement for FY2025 (NLe' million)

NET FINANCING	Total	Q1	Q2	Q3	Q4
Domestic Debt (Excluding IMF on-lending)	**5,693**	**2,682**	**1,003**	**2,727**	**(718)**
Treasury Bills	2,277	1,073	401	1,091	(287)
Treasury Bonds	3,416	1,609	602	1,636	(431)
External Debt	**760**	**190**	**171**	**171**	**228**
Loans	760	190	171	171	228
IMF Budget Support	**997**	**(194)**	**1,059**	**(546)**	**678**
Total	**7,450**	**2,678**	**2,233**	**2,352**	**188**

Debt Sustainability: Domestic Interest rate and Inflation Nexus

While the reliance on borrowing to cover the fiscal deficit is traditional, Government underscores the criticality to maintain a sustainable debt profile. The government has structured its borrowing strategy with a mix of domestic and external debt to manage potential risks, such as fluctuations in interest rates and exchange rates. One particular objective that Government seeks to attain in the ABP for debt sustainability is to ensure reduction in the treasury bill rate and make it consistent with the decline in inflation from 52.2 percent at end 2023 to 16.9 percent in October 2024. Whilst banks are free to quote their price when investing, Government benchmark investment rate is inflation plus 2 percent (example, in the case of National Social Security and Insurance Trust (NASSIT)). Consistent with this objective, Government envisage interest rates to decline in 2025.

External Debt and Foreign Exchange Risks

The smaller share of external borrowing (NLe2.65 billion) helps to mitigate foreign exchange risk, since any depreciation of the local currency (The Leones) could increase the cost of servicing external debt. This portion of the borrowing plan would also depend on favourable lending terms from external creditors.

Implications of the ABP for the Sierra Leone Economy and Risks

Inflation and Monetary Policy

The significant reliance on domestic borrowing, particularly T-bills, could exert upward pressure on interest rates, potentially leading to inflationary pressures. The central bank will continue to carefully balance monetary policy to prevent the risk of crowding out the private sector and to maintain price stability.

Importance of Revenue Generation and Budget Deficits

To reduce reliance on borrowing in the future, the government is focusing on responsible and gradual implementation of the Medium-Term Revenue Strategy and increase the revenue base. This could involve improving tax collection, broadening the tax base, and enhancing efficiency in public revenue management. In the context of the ongoing structural transformation of the Economy, Government plans to expand non-mining revenue streams to finance the fiscal deficits sustainably. Expenditures would also be kept within the FY 2025 budget limit and implemented consistently in line with the Ministerial Directives on budget implementation.

Public Debt Management and Debt Transparency

Effective debt management and debt transparency are essential for maintaining investor confidence and ensuring the government can meet its financial obligations at lower cost without resorting to excessive borrowing. The mix of short-term and long-term borrowing instruments, along with a careful balance between domestic and external sources of debt would continue to be important in managing debt-servicing costs.

Publication of debt statistics and engagement of market participants and relevant stakeholders would continue to be critical debt management and debt transparency activities of the Government.

Government also plans to migrate the debt management software from Commonwealth Debt Recording and Settlement Systems to Commonwealth Meridian in 2025. The objective of the migration is to ensure debt transparency, enhance debt reporting and ensure institutional collaboration across Government on debt management. The activities for the migration to Commonwealth Meridian would be funded by the African Development Bank under the Enhancing Efficiency and Effectiveness in Public Debt Management Institutional Support Project.

Conclusion

The Government of Sierra Leone’s Annual Borrowing Plan for 2025 reflects a clear strategy to finance the fiscal deficit and debt repayment obligations through a combination of domestic and external borrowing. The total fiscal deficit of NLe 7.45 billion, coupled with debt repayment requirements, will be financed primarily through domestic instruments (about

90 percent), with a smaller share sourced externally (about 10 percent). The government's preference for T-bonds over T-bills signals an effort to manage long-term debt sustainability, while the moderate use of external debt would help to manage foreign exchange risk consistent with the MTDS.

However, the reliance on domestic borrowing underscores the need for continued improvements in revenue generation and fiscal consolidation to avoid excessive debt accumulation in the future.