

SIERRA LEONE

Key conditions and challenges

Table 1	2021
Population, million	8.1
GDP, current US\$ billion	4.0
GDP per capita, current US\$	490.5
International poverty rate (\$2.15) ^a	26.1
Lower middle-income poverty rate (\$3.65) ^a	64.3
Upper middle-income poverty rate (\$6.85) ^a	89.9
Gini index ^a	35.7
School enrollment, primary (% gross) ^b	141.3
Life expectancy at birth, years ^b	55.1
Total GHG emissions (mtCO2e)	9.4

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2018), 2017 PPPs.
 b/ Most recent WDI value (2020).

A nascent economic recovery from the pandemic was disrupted in 2022 by a net negative terms-of-trade shock with the onset of the war in Ukraine. Domestic inflation accelerated and presented risks to social and political stability. Back-to-back economic shocks have aggravated fiscal pressures and risks to debt sustainability. Slower growth and higher food inflation have intensified food insecurity and slowed the pace of poverty reduction.

Sustained economic growth has been constrained by (i) exposure to multi-dimensional exogenous shocks (economic, epidemic, climatic); (ii) fragile institutions; and (iii) limited fiscal space. Agriculture and mining account for two-thirds of all economic output. Thus, the economy is vulnerable to global commodity price fluctuations and climatic shocks. Institutions are under-resourced, and inefficiencies compounded by corruption. Fiscal space is limited and insufficient to bridge significant social and physical infrastructure deficits.

Since the 2010s, the economy has been affected by back-to-back crises, interspersed with periods of short-lived recovery: the Ebola epidemic (2014-16), the collapse in global commodity prices (2015-16), mudslide in Freetown (2017), COVID-19 pandemic (2020), and implications of the war in Ukraine (March 2022 onwards).

Accelerating inflation and intensifying fiscal pressures pose significant risks to the economic outlook. Risks of social instability have also risen, as witnessed during the violent riots in August 2022 which left 20 people dead.

Recent developments

In 2021, GDP growth reached 4.1 percent, driven by a rebound in private consumption

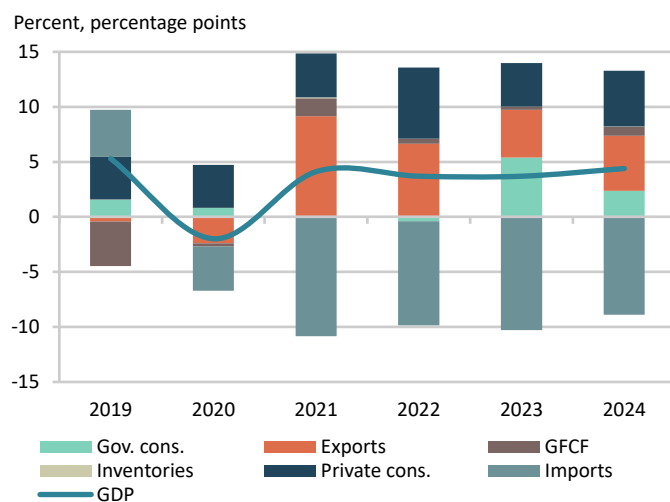
and mining activity. However, in 2022, this nascent recovery was disrupted by a net negative terms-of-trade shock with the onset of the war in Ukraine and the rise in global food and fuel prices (only partially mitigated by higher prices for key exports). The rise in fuel prices also caused pervasive power outages.

Higher inflation has put pressure on the Leone, which has depreciated by over 20 percent since end-2021, further fueling imported inflation. Bank of Sierra Leone raised the monetary policy rate by 175 basis points during 2022, but monetary policy effectiveness is limited by a shallow financial sector and fiscal dominance (over 3/4th of domestic credit is to the government). This sovereign-banking nexus has supported stability in the financial sector, despite an increase in non-performing loans (by 2.4 pp during 2021 to 14.8 percent of loans).

Fiscal pressures have intensified. In response to COVID-19, the deficit rose from 3.1 percent of GDP in 2019, to average 6.2 percent of GDP during 2020-21. During 2022, inflationary pressures have prompted authorities to increase energy subsidies and cash transfers to vulnerable households, slowing the planned fiscal consolidation.

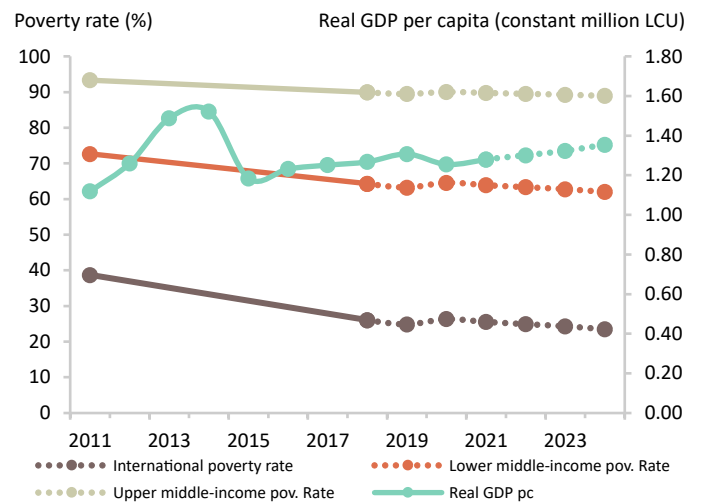
After dropping to 7.0 percent of GDP in 2020, the current account deficit rose to 14.5 percent of GDP in 2021, in line with historical averages, as the economy recovered, and trade flows resumed. An increase in mining FDI due to resumption of operations at the Marampa mine, an additional allocation of Special Drawing Rights (SDR), and emergency support from the IMF and WB boosted external reserves

FIGURE 1 Sierra Leone / Real GDP growth and contributions to real GDP growth



Sources: Sierra Leone authorities and World Bank staff estimates and projections.

FIGURE 2 Sierra Leone / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

(>5 months of imports) in 2021. However, rising debt service obligations and increased forex demand for imports have eroded reserves through 2022.

High food and fuel inflation, and lower-than-normal agricultural yields, had significant social impacts. According to the World Food Programme (2022), 73 percent of Sierra Leoneans are food insecure. The poverty rate is estimated to have increased during the pandemic in early 2020. However, since 2021, poverty is estimated to have declined, albeit slowly, because GDP growth occurred mostly in the capital-intensive mining sector. These estimates are based on real per capita GDP growth and don't consider the additional distributional impact of food and energy inflation, which have a proportionately higher effect on the poorer segments of the population.

Outlook

GDP growth is now projected at 3.7 percent during 2022, down from 5 percent projected at the end of 2021. It will be supported by: (i) resumption of iron-ore mining at Marampa and Tonkolili, for the

first time since Ebola; and (ii) a gradual recovery in consumption demand. However, supply chain disruptions and inflationary pressures caused by the war in Ukraine will dampen investments and slow the recovery in private consumption. Over the medium-term, GDP growth is projected to average 4 percent, but remain below the long-term average of 4.3 percent, reflecting economic scarring from repeated shocks. Inflation will remain elevated (averaging 22 percent in 2022) and moderate gradually to 18 percent by 2024, in line with global projections for commodity prices and pick-up in domestic food production.

The overall fiscal deficit is projected at 5.0 percent of GDP in 2022, 1.2 percentage points higher than the original budget. However, it is expected to decline to about 3 percent of GDP by 2024, as the authorities strengthen expenditure controls and improve revenue mobilization through the development of a medium-term revenue strategy.

The current account deficit is expected to narrow to 12.7 percent of GDP by 2024 as the recovery in the mining sector boosts exports. However, import growth is also expected to remain high driven by

persistent high food and fuel prices, and a gradual rebound in aggregate demand (including from public investments). The deficit is expected to be financed over the medium-term by FDI in mining and agriculture and continued access to concessional financing from multilateral.

The poverty rate (at PPP US\$2.15/day) is expected to decline moderately given the pick-up in economic growth, driven largely by the mining sector. Reducing poverty and food insecurity would require raising agricultural productivity, which employs nearly 80 percent of the population, and creating jobs outside agriculture for low-skilled workers.

Besides commodity price fluctuations, the main risks to the outlook stem from rising public discontent, and uncertainties associated with the upcoming general elections. Any aggravation of the negative terms-of-trade shock could destabilize inflation and cause further public expenditure overruns. Higher food inflation would hurt the poor disproportionately. Rising inflation can further spur public discontent and rioting, which could hamper the authorities' reform appetite ahead of general elections in mid-2023, resulting in the populist policies.

TABLE 2 Sierra Leone / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.3	-2.0	4.1	3.7	3.7	4.4
Private Consumption	4.3	4.3	4.2	6.7	4.0	5.1
Government Consumption	5.1	2.7	0.1	-1.2	18.2	7.0
Gross Fixed Capital Investment	-34.2	-4.1	22.2	5.3	3.4	9.5
Exports, Goods and Services	-1.6	-9.8	40.8	22.0	12.2	13.0
Imports, Goods and Services	-7.0	7.5	18.5	14.2	14.0	11.0
Real GDP growth, at constant factor prices	5.3	-2.0	4.1	3.7	3.7	4.4
Agriculture	5.4	1.6	2.5	2.8	3.0	3.2
Industry	10.9	-7.1	17.4	9.0	8.0	9.8
Services	3.8	-5.9	3.3	3.5	3.4	4.5
Inflation (Consumer Price Index)	14.8	13.5	11.9	21.9	21.0	18.0
Current Account Balance (% of GDP)	-15.3	-7.0	-14.5	-14.9	-13.9	-12.7
Net Foreign Direct Investment Inflow (% of GDP)	7.9	3.4	8.7	8.4	6.4	5.5
Fiscal Balance (% of GDP)	-3.1	-5.8	-6.6	-5.0	-4.5	-3.0
Debt (% of GDP)	70.9	76.3	78.8	81.0	80.7	78.1
Primary Balance (% of GDP)	-0.4	-2.7	-3.4	-2.1	-1.5	0.1
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	24.9	26.3	25.6	24.9	24.3	23.5
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	63.2	64.6	63.9	63.3	62.8	62.0
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	89.5	90.1	89.8	89.5	89.3	88.9
GHG emissions growth (mtCO₂e)	-2.7	-1.4	0.7	6.4	0.8	0.6
Energy related GHG emissions (% of total)	9.5	9.1	9.0	8.5	8.5	8.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

a/ Calculations based on 2011-SLIHS and 2018-SLIHS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.

b/ Projection using point-to-point elasticity (2011-2018) with pass-through = 0.6 based on GDP per capita in constant LCU.