SIERRA LEONE

Table 1	2020
Population, million	8.0
GDP, current US$ billion	3.8
GDP per capita, current US$	471.8
International poverty rate ($1.9)[a]	43.0
Lower middle-income poverty rate ($3.2)[a]	76.0
Upper middle-income poverty rate ($5.5)[a]	92.7
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	143.7
Life expectancy at birth, years[b]	54.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2018).

Sierra Leone's economy contracted by 2.2 percent in 2020, reversing recent poverty reduction gains. Despite monetary accommodation, inflationary pressures eased as nonfood prices fell. The current account deficit narrowed with increased official transfers to support government's response to the COVID-19 pandemic. But the fiscal deficit widened on revenue shortfalls and health-related spending pressures. Spurred by investments in mining and agriculture, the economy is expected to recover over the medium-term with growth averaging 3.6 percent supporting a gradual decline in poverty.

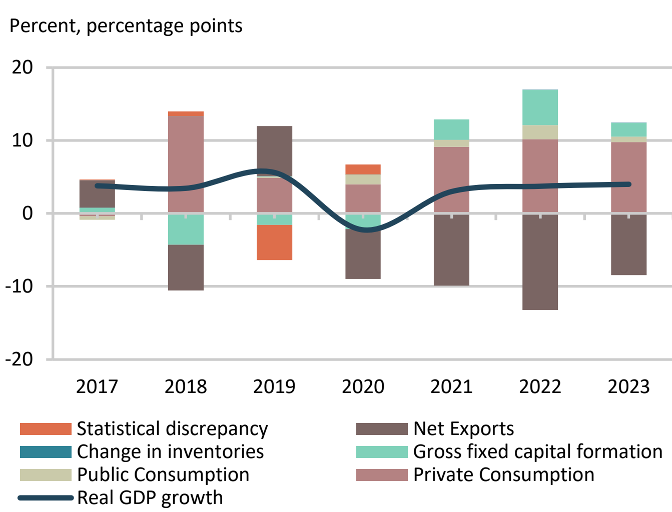
Key conditions and challenges

Sierra Leone's long-term growth performance has oscillated due to its vulnerability to both domestic and external shocks. Growth averaged 4.4 percent over the past decade, despite sharp economic contractions in 2015 and 2020 following the 2014 Ebola and COVID-19 pandemics, respectively. The country's reliance on commodity exports has caused economic growth to be highly volatile. The collapse of commodity prices in 2014/15 due to weak global demand resulted in closure of the two largest iron ore mines and a 74.6 percent reduction in mineral exports. Income per capita grew by just 2.8 percent per annum during the last ten years, reflecting low investments in physical and human capital and faster population growth (at 2.2 percent per annum), indicating that the economy is not growing fast enough to significantly reduce poverty. At the current rate it would take a generation to double income to substantially reduce the rate of poverty. Low human and physical capital accumulation due to low national savings and limited access to long-term capital have resulted in negative total factor productivity (TFP) growth. Over the past decade, Sierra Leone made significant progress in reducing extreme poverty (living on less than $1.9-a-day in 2011 PPP) from over 60 percent in 2009 to 40.5 percent in 2019. However, the global pandemic reversed these gains and in 2020, poverty increased sharply to 43.4 percent. Economic growth and incomes fell in 2020 following disruptions in supply chains, travel restrictions and border closures, and lower demand in advanced economies and emerging markets. In the first three months of the pandemic, the vast majority of households saw decreases in self-employment, wage, and non-labor income. Between July and November 2020, self-employment and wages saw a rebound, while non-labor income continued to decline. The government developed a Quick Action Economic Response Program (QAERP), which combined monetary and fiscal stimulus measures to maintain macroeconomic stability and help mitigate the COVID-19 impact on businesses and households.

Recent developments

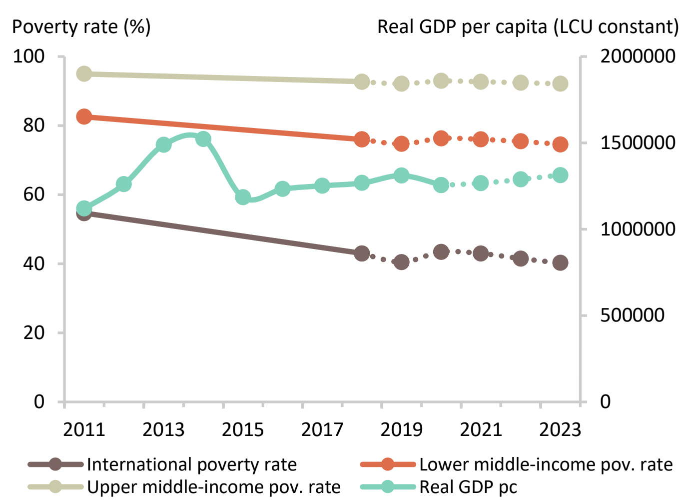
Sierra Leone's economy contracted by 2.2 percent in 2020 – 0.9 percentage point less than the World Bank's October 2020 forecast, reflecting easing of COVID-related restrictions in the second half of the year and the implementation of the QAERP. The contraction was driven mainly by a 10.0 percent decline in services, especially trade, travel and tourism. The pandemic related restrictions and supply chain disruptions also slowed activities in agriculture. Industry also declined by 1.8 percent largely reflecting the deceleration of mining activities due to the pandemic. On the demand side, lower gross fixed investments and net-exports out-weighed the

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.

increase in public consumption attributable to government's COVID-19 response. Average inflation fell to 13.5 percent in 2020 from 14.8 percent in 2019, as nonfood prices declined, reflecting lower demand during the pandemic. Food inflation increased to 13.8 percent from 8.8 percent in 2019, indicative of the prolonged impact of COVID-19 on domestic food supply.

The Bank of Sierra Leone (BSL) lowered its policy rate by 100 basis points to 14.0 percent in December 2020 to support aggregate demand. This followed the 150 basis points cut in March 2020 and the roll out of a US$50 million Special Credit Facility to ease supply chain problems. Interest rate fell as monetary conditions eased with the interbank rate falling below the policy rate for the first time since December 2018. Money supply (M3) grew by 35.8 percent (yoy), reflecting a sharp increase in net foreign asset (NFA) as gross external reserves rose sharply with increased budgetary and balance of payment support from development partners. The current account deficit narrowed to 14.9 percent of GDP in 2020 from 22.3 percent in 2019, driven mainly by increased official transfers, as the trade deficit widened on account of lower exports. The Leone depreciated by 5.9 percent against the US dollar compared to the 15.2 percent depreciation in 2019, reflecting the central bank's intervention to provide forex for the importation of essential commodities (food and fuel). However, forex restrictions imposed by the BSL early in 2020 helped push transactions to the parallel market, widening the premium between the official and parallel exchange rates. On the fiscal front, the budget deficit increased to 5.5 percent of GDP in 2020 from 3.1 percent in 2019, reflecting shortfalls in tax and nontax revenues as the economy contracted and increased spending on health to respond to the crisis and support households and businesses under the QAERP. Public debt increased to 72.0 percent of GDP from 70.0 percent in 2019 reflecting borrowings to finance the larger fiscal deficit. A recent joint World Bank and IMF Debt Sustainability Analysis assessed the risks of external and overall debt distress to be "high" while public debt was deemed sustainable over the medium-term.

Outlook

Sierra Leone's economy is expected to recover over the medium-term with an anticipated uptick in domestic and external demand as the COVID-19 pandemic recedes. Economic growth is projected to reach 4.0 percent by 2023, driven mainly by investments in mining (gold and iron ore) and agriculture. The outlook assumes the resumption of iron ore production in 2021 along with large-scale investments in agriculture following government's policy to promote private sector participation. The COVID-19 pandemic will continue to affect Sierra Leone's growth outlook. New COVID-19 strains have caused a resurgence of the pandemic, which could hinder recovery of external demand and prolong the disruptions in supply chains, increasing domestic food prices. An outbreak of the Ebola Virus Disease (EVD) in Guinea in February, 2021 poses additional risks to the economic outlook. Inflation is expected to decline gradually to single digits by 2023, supported by increased domestic food production. The current account deficit is expected to remain large, declining slightly to 13.0 percent of GDP by 2023, as higher mineral exports are offset by increased demand for imports of capital goods and fuel. Restoring fiscal consolidation in 2021 could prove challenging with depressed revenues, but the fiscal deficit is expected to decline gradually to 2.4 percent of GDP by 2023 as COVID-19 related spending is reduced and revenue mobilization improves as the economic recovery gains momentum. Against this improved backdrop, the poverty rate is expected to gradually decline over the medium term.

TABLE 2 Sierra Leone / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.4	5.6	-2.2	3.0	3.7	4.0
Private Consumption	13.5	4.5	4.1	8.0	8.5	7.8
Government Consumption	-1.3	2.7	14.9	9.5	18.3	6.2
Gross Fixed Capital Investment	-22.0	-10.9	-8.5	24.9	34.8	10.8
Exports, Goods and Services	-34.9	64.6	-21.8	19.8	12.1	23.2
Imports, Goods and Services	-11.5	16.5	-3.0	24.6	22.2	19.0
Real GDP growth, at constant factor prices	3.3	5.4	-2.2	3.0	3.7	4.0
Agriculture	3.9	5.6	3.2	3.2	3.4	3.6
Industry	-2.5	10.9	-1.8	4.1	4.5	4.7
Services	4.1	3.8	-10.0	2.4	4.0	4.5
Inflation (Consumer Price Index)	16.0	14.8	13.5	11.8	10.2	9.6
Current Account Balance (% of GDP)	-18.5	-22.3	-14.9	-14.2	-13.6	-13.0
Fiscal Balance (% of GDP)	-5.6	-3.1	-5.5	-4.3	-2.8	-2.4
Debt (% of GDP)	69.0	70.0	72.0	71.6	70.6	69.0
Primary Balance (% of GDP)	-4.7	1.1	-1.5	0.3	1.4	1.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	43.0	40.5	43.4	43.0	41.5	40.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	76.0	74.7	76.3	76.0	75.4	74.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	92.7	92.1	92.9	92.7	92.4	92.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2018-SLIHS. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.