

SIERRA LEONE

Key conditions and challenges

| Table 1 | 2023 |
|--|-------|
| Population, million | 8.8 |
| GDP, current US\$ billion | 3.5 |
| GDP per capita, current US\$ | 394.1 |
| 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 | 151.7 |
| Life expectancy at birth, years ^b | 60.1 |
| Total GHG emissions (mtCO2e) | 9.7 |

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2018), 2017 PPPs.
 b/ Most recent WDI value (2021).

The economy continues to face significant challenges as policy missteps have aggravated the impact of external shocks, resulting in high and stubborn inflation, pressures on the currency, high risk of debt distress and inadequate growth to support poverty reduction. Despite some efforts in 2023, further corrective fiscal and monetary measures are urgently needed to address high inflationary pressure and the worsened food insecurity situation.

Economic development has been constrained by the country's susceptibility to external shocks, often been compounded by weak macroeconomic management. During the last decade, growth has averaged 4 percent (8 percent in the previous decade) with high volatility marked by episodes of boom and bust. The country's concentrated economic structure— heavy reliance on low-value-added agriculture, mining, a sizable informal services sector – lends itself to volatility. Policy slippages with regard to macroeconomic management have aggravated the impact of external shocks. In addition to low growth, this has caused debt levels to rise markedly, ranking among the highest in the region, and headline inflation to increase to a two-decade high in 2023. Economic growth has been held back by structural factors such as low private sector participation and investments, inadequate human capital, poor infrastructure, and weak institutions.

Recent developments

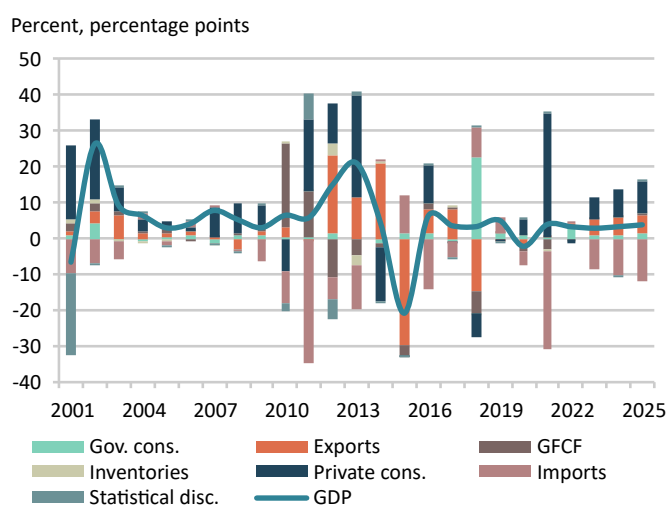
Economic activity slowed due to subdued aggregate demand and socio-political instability. GDP growth is estimated at 3.1 percent in 2023, marking the second consecutive year of a slowdown. High and persistent inflation, compounded by a recent

coup attempt, has eroded households' purchasing power and constrained private consumption and investment. However, amidst these challenges, the mining sector performed well, buoyed by strong iron ore production and exports, and promising agricultural output.

Inflationary pressures intensified, with some tentative signs of moderation in the last quarter of 2023. Headline inflation averaged 47.6 percent during 2023 – the second highest in Africa after Sudan – driven by a combination of supply side factors (high food and fuel inflation), a depreciated currency, and continued fiscal dominance. Food inflation averaged 57 percent. In response, the central bank raised rates by a cumulative 525 basis points in 2023 to 22.25 percent by year-end. However, the efficacy of monetary policy is limited by shallow financial markets, and fiscal dominance. Inflation showed some signs of moderating after peaking at 54.6 percent (y-o-y) in October, down to 47 percent by January 2024.

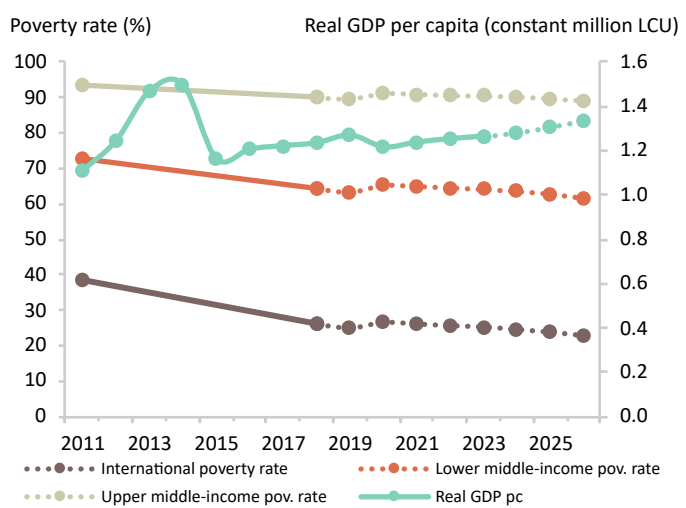
The fiscal position improved marginally in 2023 but fell short of the year's targets. The fiscal deficit narrowed to 8 percent – 1.3 percentage points lower than in 2022 but 2.2pp higher than the budgeted target. Expenditures were 2.6pp lower than in 2022, with cuts in wages and salaries (1pp), subsidies (1pp) and capex (0.6pp). Domestic revenue performance, although 1pp below target, improved by 0.4pp due to partial implementation of policy measures introduced in 2023, and improvements in tax compliance. Public debt declined to 87 percent of GDP from 93 percent in 2022, but liquidity and solvency

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



Sources: Statistics Sierra Leone and World Bank.

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



Source: World Bank. Notes: see Table 2.

risks to debt sustainability remain elevated. External debt, mainly owed to multilateral organizations, constitutes two-thirds of the total, while the remaining is short-term domestic debt.

The trade and current account balances improved slightly due to stronger iron ore exports and subdued import demand. Capital inflows improved largely on account of higher project grants. However, official reserves declined nonetheless to barely three months of import cover due to external debt service, currency interventions, and foreign currency payments to diplomatic missions overseas. The currency depreciated by 18 percent (40 percent in 2022).

Decline in poverty slowed down in 2023. Extreme poverty rate is (PPP\$ 2.15/day) estimated at 25.3 percent in 2023, compared to 25.7 in the previous year. Rising food price increases will continue to have a disproportionate impact on the poor. WFP estimates high prevalence of insufficient food consumption, affecting 55 percent of the population.

Outlook

Growth is projected to recover slowly to 3.5 percent in 2024 against a backdrop of high inflation and continued fiscal consolidation, before converging to its long-term average of 4-4.5 percent in the medium-term. The projected recovery will be supported by (i) continued growth in iron mining with planned expansion at major mines, (ii) resilience in agricultural production as it trends closer to its long-term average of 3.2 percent growth, and (iii) gradual service sector improvements. Inflation will be influenced by global commodity prices and monetary tightening and is expected to moderate to 15 percent by 2026. Elevated prices will continue to impact consumption and investment appetite, while fiscal consolidation will affect aggregate demand.

Upholding fiscal and monetary policy tightening is pivotal for macroeconomic stability. Fiscal outlook relies on revenue

measures identified in the Medium-Term Revenue Strategy and near-term expenditure consolidation, especially on wages and subsidies. Monetary policy tightening should be complemented with reduced central bank interventions and developing the money market.

Pace of poverty reduction is expected to pick-up as inflation subsides in the medium term. The international poverty rate (PPP\$2.15 /day) is expected to decline to 22.7 percent by 2026, supported by recovering growth and moderating inflation.

This outlook is subject to several downside risks. Deviating from fiscal consolidation may jeopardize stability, as debt sustainability risks remain elevated. Adverse global developments (including slowing growth in China) can impact commodity prices and exports. Climate vulnerabilities and inflation could increase food insecurity and aggravate social tensions. The risk of political instability remains high, following a disputed general election and an attempted coup, that affected policy momentum.

TABLE 2 Sierra Leone / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

| | 2021 | 2022 | 2023e | 2024f | 2025f | 2026f |
|--|-------|------|-------|-------|-------|-------|
| Real GDP growth, at constant market prices | 4.1 | 3.5 | 3.1 | 3.5 | 4.0 | 4.3 |
| Private consumption | 36.7 | -0.7 | 5.1 | 6.4 | 7.4 | 8.0 |
| Government consumption | 0.6 | 10.2 | 2.4 | 2.3 | 3.8 | 5.3 |
| Gross fixed capital investment | -30.0 | -2.8 | 2.7 | 3.1 | 4.9 | 5.6 |
| Exports, goods and services | 1.9 | 5.0 | 20.0 | 19.5 | 18.0 | 15.0 |
| Imports, goods and services | 46.6 | -0.3 | 10.5 | 12.0 | 13.0 | 13.0 |
| Real GDP growth, at constant factor prices | 4.0 | 3.6 | 3.1 | 3.5 | 3.9 | 4.3 |
| Agriculture | 2.5 | 3.0 | 2.7 | 3.2 | 3.3 | 3.3 |
| Industry | 17.4 | 8.2 | 5.0 | 6.0 | 6.6 | 6.6 |
| Services | 2.8 | 3.2 | 3.0 | 3.1 | 4.1 | 5.0 |
| Inflation (consumer price index) | 11.9 | 27.0 | 46.7 | 30.5 | 20.0 | 14.6 |
| Current account balance (% of GDP) | -8.7 | -9.3 | -7.8 | -5.1 | -4.6 | -3.6 |
| Net foreign direct investment inflow (% of GDP) | 8.5 | 8.2 | 5.8 | 8.8 | 9.8 | 12.6 |
| Fiscal balance (% of GDP) | -7.6 | -9.3 | -8.0 | -5.0 | -3.1 | -2.6 |
| Revenues (% of GDP) | 21.1 | 18.9 | 18.1 | 20.1 | 20.1 | 20.5 |
| Debt (% of GDP) | 84.7 | 93.0 | 87.0 | 76.6 | 65.4 | 60.9 |
| Primary balance (% of GDP) | -4.2 | -6.0 | -3.9 | -0.5 | 1.0 | 1.0 |
| International poverty rate (\$2.15 in 2017 PPP)^{a,b} | 26.2 | 25.7 | 25.3 | 24.5 | 23.7 | 22.7 |
| Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b} | 65.0 | 64.6 | 64.1 | 63.5 | 62.7 | 61.4 |
| Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b} | 90.8 | 90.5 | 90.4 | 90.2 | 89.7 | 89.2 |
| GHG emissions growth (mtCO₂e) | 1.6 | 2.4 | 0.4 | 0.3 | 0.3 | 0.3 |
| Energy related GHG emissions (% of total) | 11.3 | 11.0 | 10.9 | 10.9 | 10.9 | 10.9 |

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

Notes: e = estimate, f = forecast.

a/ Calculations based on 2018-SLIHS. Actual data: 2018. Nowcast: 2019-2023. Forecasts are from 2024 to 2026.

b/ Projections using microsimulation methodology.