

Recent macroeconomic and financial developments

The economy is estimated to have grown by 3.2% in 2021 after a contraction of 2% in 2020. Growth was driven on the demand side by higher exports from mining and agribusiness, and on the supply side by resumption of iron ore production alongside recovery in other key sectors. From 2020 to 2021, inflation is estimated to have declined to 11% from 13.4% (due mainly to improved production and trade), the fiscal deficit to have widened to 7.1% of GDP from 5.6% (due to the impact of the Russia–Ukraine conflict), public debt to have edged up to 75% of GDP from 74%; and the current account deficit to have narrowed to 13.9% of GDP from 16.7% (due to higher demand for commodities). The current account deficit is financed mainly by the financial account, notably FDI.

Gross foreign reserves increased to \$695.0 million as at end-June 2021 from \$653.8 million a year earlier (4.6 months of imports), reflecting disbursement of balance-of-payments support and the SDR allocation of \$283 million (6.5% of GDP); of the latter, the majority will be used to boost reserves, \$39 million will be spent on poverty-related areas, and \$9 million on payment arrears. The exchange rate remained relatively stable. Sierra Leone's financial sector is underdeveloped but generally sound with a capital-adequacy ratio of 41.8% against a regulatory minimum of 15%. The country has high levels of poverty (56.8% in 2018), of income inequality, and of youth unemployment (70%) attributable to slow growth and lack of economic diversification.

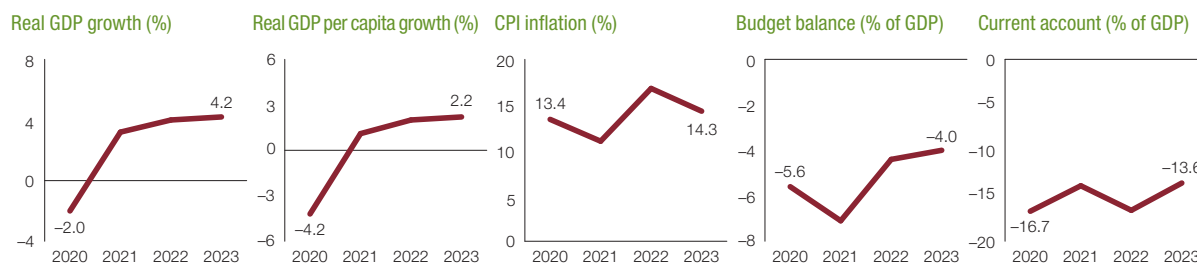
Outlook and risks

Growth is projected to accelerate to 4% in 2022—driven by mining and the recovery of agriculture, manufacturing, construction, and tourism—and then to marginally improve to 4.2% in 2023. Inflation is projected to increase to 16.8% in 2022 due to the Russia–Ukraine conflict but to decline to 14.3% in 2023. The fiscal

deficit is projected to narrow to 4.4% of GDP in 2022 and to 4% in 2023, due to higher tax revenue supported by improved economic activity and expenditure rationalization. The current account deficit is projected to widen to 16.6% of GDP in 2022 due to the Russia–Ukraine conflict but to decline to 13.6% in 2023, as the resumption of iron ore production boosts export revenues. Downside risks include the Russia–Ukraine conflict, an unexpected surge in COVID-19 cases, a more than forecast rise in international fuel and food prices and freight costs, and a fall in iron ore prices. The government aims to boost vaccination outreach, as well as accelerate reforms to diversify and transform the economy to withstand recurring external shocks.

Climate change issues and policy options

Sierra Leone is highly vulnerable to climate change, particularly extreme events including high temperatures, inconsistent weather patterns, recurrent storms, floods, mudslides, and a rising sea level. It was 86 on the 2019 Climate Risk Index. Sierra Leone has adopted a National Climate Change Policy, while its Medium-Term National Development Plan 2019–23 underscores the need for aligning environmental, climate, and economic development plans to mitigate the causes of global warming and help citizens adapt. Sierra Leone's NDC underscores that climate change mitigation is particularly crucial, as the country is ranked one of the least able to adapt to climate change. The NDC envisions achieving a reduction in the country's GHG emissions by 10% in 2030 from 74,655 Gg of CO₂ equivalent in 2020. The NDC's financing needs are estimated at \$2.76 billion for 2020–30, to be mobilized from public and private sources and international support under the Global Environment Facility and GCF, technology transfer, and technical assistance. Sierra Leone is likely to meet SDG 13 by 2030.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.