

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Sierra Leone

Sripriya Iyengar Srivatsa and Martina Mchenga
April 2020

- Sierra Leone reported its first case of COVID-19 on 31 March 2020.
- The Ministry of Finance has announced that Sierra Leone is to receive \$7.5 million from the World Bank for COVID-19.
- The IMF has approved a grant of \$21.13 million to stimulate the economy.
- The main channels of impact include reduced exports of iron, titanium, diamonds, cocoa beans and tourism services.
- GDP, projected to grow at a rate of 4.2% in 2020, is expected to decline by half in the worst-case scenario.

Introduction

Sierra Leone reported its first [confirmed](#) case of COVID-19 on 31 March 2020. Several measures have been put in place to control the spread of the disease, essentially ‘flattening the curve’ by reducing the number of casualties. The president announced a three-day lockdown from 4 to 6 April. The same strategy was employed during the Ebola outbreak and proved effective. Other [measures](#) that have been put in place include restricting large gatherings in places of worship, restaurants, bars and pubs.

Before the COVID-19 outbreak, economic growth was projected to slow down from 6.5% in 2019 to 6% in 2020 as expressed in the [Fiscal Strategy Statement](#). As of 2016, current health expenditure per capita was at \$86 (World Bank indicators); although this is the [WHO recommended](#) expenditure to provide an essential health care package, it is a decline from \$120 in 2015 and may continue to go down. Households are the main contributors of current health care expenditure in Sierra Leone, contributing about 64.6% in 2014, while donors contributed about 36.6% (National Health Accounts 2014).

Economic and social impacts

Trade and production impacts so far

[The IMF](#) projects GDP growth of 4.6% in 2020 in Sierra Leone from 2019, when the economy showed 5% GDP increase from 2018. There is no update as yet on how this figure will change on taking into consideration the economic impact of COVID-19. Given the dual effects of the in-country disease burden

and the international economic slowdown, the country in the worst case could even experience negative rates of growth. The country has a [youth unemployment rate of 70%](#), and no strategy to address the problem in light of the outbreak has yet been announced.

Sierra Leone is a net exporter in the top commodity categories of iron ore ([\\$209 million, 25% of GDP](#)), titanium ore ([\\$141 million, 17% of GDP](#)), diamonds ([\\$104 million, 12% of GDP](#)) and cocoa beans ([\\$72.3 million, 8.6% of GDP](#)), as of 2017. The bulk of imports comprise rice, petroleum and machinery. With [prices](#) of these commodities plummeting, the country’s exports are bound to bring less of the much-needed foreign exchange to import rice, which forms part of the staple Sierra Leonean diet. Exports in 2019 brought in [\\$4.8 million-worth of foreign exchange](#). Tourism holds [4.6%](#) of the total export revenues that will be severely hit by the pandemic given that all international borders to Sierra Leone are now closed. Exports, which make up [17.5% of GDP](#), are likely to fall by half as a result of falling international prices and a halt to production and extraction activities. The value of exports in the second half of 2019 was \$556.6.9 million, largely owing to increases in mineral and agricultural exports. The slowing-down of activity in both these sectors means that exports will likely reduce by half in the worst-case scenario.

Finance and social impact

Inflation has steadily been increasing, with the latest figure showing that annual national consumer price inflation (year-on-year) has gone up by [0.80 percentage points](#), from 13.09% in November 2019 to 13.89% in December 2019. Inflation is driven largely by exchange rate depreciation of the Leone, which depreciated by [14.53%](#) (official rate) in the second

quarter of 2019, further weakening the purchasing power of incomes. In a country whose imports of goods and services equal 17.47% and [39.23%](#) of GDP, respectively, the increasing trend is bound to cause severe shortages in the upcoming days following the outbreak of COVID-19. The country is a net rice importer, with broken rice its top imported category.

The latest monthly economic review of the Bank of Sierra Leone publicly available is for October 2019. At that point, the country held gross foreign exchange reserves of [\\$527.97 million, a mere 12.8% of GDP](#). The [Inequality-adjusted Human Development Index](#) (IHDI) in Sierra Leone is one of the lowest in the world, at 0.282; the HDI is 0.438 for the year 2018. The COVID-19 outbreak, while affecting the entire country, is likely to affect some sections of society more than others.

Fiscal impacts

The [2020 Annual Budget](#) projected an increase in domestic revenue to Le6.47 trillion (14.9% of GDP) from the estimated amount of Le5.30 trillion for 2019 (14.3% of GDP) (p.33). The country intends to service the amount of Le1.23 trillion towards total interest payments and Le579.2 billion towards repayment of principal external debt (p.34). Given this background, the inevitable slowing-down of the economy owing to the lockdown situation in Sierra Leone means revenue collection targets cannot be met.

The country's total public debt rose to 62.3% of GDP in 2019, only to go up further to cope with the needs of the outbreak. The National Revenue Authority estimates a 15% fall in domestic revenue, further compromising the country's ability to meet its debt obligations. The overall fiscal deficit from actual figures in 2018 is confirmed at [4.70%](#) of GDP. The increasing gap reflected in budgets of the following years suggests pressure on widening of the fiscal purse ([Financial Stability Report, Bank of Sierra Leone, p.10](#)).

As of 2018, FDI net inflows were at 5.3% of GDP, which is an increase on 3.8% in December 2016 (World Bank indicators).

Monetary and financial policy

In order to prevent further deterioration of inflationary trends, the [Bank of Sierra Leone](#) reduced the monetary policy rate by 150 basis points – from 16.5% to 15% – in March 2020 as part of its response to the COVID-19 pandemic. The Bank has guaranteed that it will make provision to maintain sufficient foreign exchange [reserves](#) so that the country can import essential

commodities. A concessionary interest rate facility is being created to be channelled through commercial banks. This Le500 million fund is to be directed solely to activities that support the production or procurement and distribution of essential commodities and services. The Bank of Sierra Leone has also committed to extend the [reserve requirement maintenance period](#) from 14 to 28 days to ease tight liquidity. The government's commitment to providing cash transfers to aged and vulnerable persons could provide an essential safety net – the amount totals Le1.6 billion in the proposed FY2020 budget. However, there is uncertainty about meeting the various budgetary commitments made ([Annex 2A](#)).

Other policy

Several measures to deal with the COVID-19 outbreak have been announced by the [Ministry of Information and Communication](#) at various points in the past few weeks. These measures are similar to those implemented during the 2013–2016 [Ebola outbreak](#). For example, Sierra Leone has implemented a 'less touching' policy, limiting physical contact between people. Weddings, graduations and other such ceremonies will not be allowed to take place until restrictions are relaxed, and the crowded transportation sector is required to control the number of passengers on the various vehicles. All international borders remain closed except for the movement of essential commodities. The most relevant lesson drawn from the Ebola experience by the Ministry of Health and Sanitation is that of [treat, track and isolate](#), to contain the rapid spread of COVID-19.

Donor support

The World Bank has approved a grant of [\\$7.5 million](#) to help Sierra Leone strengthen its national response to the COVID-19 outbreak that has only just reported as arriving. In the Annual Budget for 2020, the finance minister announced that Sierra Leone had mobilised [\\$613 million](#) from external resources for various projects. It is likely that a portion of these funds will be redirected to be utilised to respond to the outbreak. The IMF has approved disbursement of [\\$21.13 million](#) to help stabilise the Sierra Leone economy.

The [Alibaba Foundation and Jack Ma Foundation](#) have donated medical supplies to Sierra Leone that the country received on 1 April 2020. The items included are 20,800 testing kits, 100,000 facial masks and 1,000 PPEs together with face shields.

Information in this note is correct as of 8 April 2020. The authors are ODI Fellows in the Ministry of Finance and the Ministry of Health and Sanitation; this note is written in a personal capacity. Comments welcome to m.mchenga.fs@odi.org.uk and s.i.srivatsa.fs@odi.org.uk