INTERNATIONAL MONETARY FUND

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LIBERIA

November 2017

SEVENTH AND EIGHTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LIBERIA

In the context of the Seventh and Eighth Reviews Under the Extended Credit Facility Arrangement, and Request for Nonobservance of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 13, 2017, following discussions that ended on September 26, 2017, with the officials of Liberia on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 1, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Liberia.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Liberia*

Memorandum of Economic and Financial Policies by the authorities of Liberia*

*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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November 13, 2017

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IMF Executive Board Completes Seventh and Eighth ECF Reviews for Liberia And Approves US$20.7 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the seventh and eighth (final) reviews of Liberia's economic performance under the program supported by the Extended Credit Facility (ECF) arrangement. Completion of these reviews enables the immediate disbursement of SDR 14.764 million (about US$20.7 million). This brings total disbursements under the arrangement to SDR 111.664 million (about US$ 156.7 million).

The Executive Board also approved the authorities' request to waive the non-observance of performance criteria. The waivers pertain to the end-December 2016 floors on total revenue collection of the central government and ceiling on the present value of gross external borrowing by public sector, and to end-June 2017 floors on total revenue collection of the central government, net foreign exchange position of the Central Bank of Liberia, and the ceiling on the Central Bank of Liberia's gross direct credit to the central government.

The ECF arrangement for Liberia was approved by the Board on November 19, 2012 (see Press Release No. 12/449) for SDR 51.68 million (about US$69.3 million or 40 percent of quota as of that date). In September 2014, as part of the response in the fight against Ebola, the Board approved an augmentation of access of SDR 32.3 million (about US$ 43.3 million or 25 percent of quota as of that date) under the ECF arrangement for Liberia.

Following the Board's discussion on Liberia, Mr. Tao Zhang, Deputy Managing Director and Acting Chair issued the following statement:

"Liberia's economic recovery has suffered some delay due to the lingering effects of the Ebola epidemic, low global commodity prices, and the impact of the withdrawal of the United Nations peacekeeping mission. The resulting sharp decline in net foreign currency inflows has put pressure on the exchange rate and inflation, and led to a mixed program performance.

"The authorities responded to these shocks with an appropriate macroeconomic policy mix. Combined with exchange rate adjustment, a relatively tight fiscal and monetary policy stance prevented exchange rate overshooting and contained second round inflationary dynamics.

“Going forward, maintaining macroeconomic stability is critical. In fiscal policy, adherence to rules governing the release of contingent expenditure will be crucial to avoid unintended financing gaps, while protecting high-priority social spending. The monetary policy stance needs to remain tight in the face of inflationary and exchange rate pressures. Staying within the spending limits set in the central bank’s three-year financial plan will be essential to regaining adequate reserve cover.

“Recourse to external borrowing should remain restrained as the risk of debt distress is already elevated. New borrowing should be on concessional terms and, to the extent possible, replaced with enhanced utilization of already signed and ratified loans.

“The publication of the executive summary of the forensic audit report of the circumstances leading up to the closure of First International Bank Liberia Limited and a significant financial loss by the central bank was an important first step in ensuring transparency. The publication of an action plan to improve central bank governance and supervisory capacity is also welcome. Sustained efforts will be needed for successful implementation.

“Good progress has been made on structural reforms, and it would be important that this momentum is maintained beyond the expiration of the Fund-supported program. Resolving the current political uncertainty in a timely manner consistent with the democratic process would be important to minimize the economic and social costs of delay.”

INTERNATIONAL MONETARY FUND

LIBERIA

November 1, 2017

SEVENTH AND EIGHTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. Lingering effects of the Ebola epidemic and the commodity price decline and the withdrawal of the United Nations Mission in Liberia (UNMIL) are delaying the economic recovery. Growth is below expectations, while fiscal space is constrained. A sharp decline in net foreign exchange inflows has put pressure on the exchange rate and inflation, and led to a loss of international reserves. The Presidential election is adding near-term uncertainty.

Program Performance. Two end-December 2016 performance criteria (PC, government revenue and gross public external borrowing) and three end-June 2017 PCs (government revenue, the net foreign exchange position of Central Bank of Liberia (CBL), and CBL's gross direct credit to the government) were not met. Three of six structural benchmarks (SBs) for the seventh review and two of four SBs for the eighth review were met. The rest except one was met with delay.

Request. The Liberian authorities request (i) a waiver for nonobservance of the end-2016 and end-June 2017 PCs on the basis of corrective actions have been taken; and (ii) the completion of the seventh and the eighth (and final) reviews.

Key risks. Risks are concentrated in the near term. While pressure on the exchange rate and inflation induced by pre-election capital flight is expected to ease, anything less than a smooth transition of power to the new government with fiscal discipline could undermine confidence and economic activity, as could the re-emergence of Ebola, even on a small scale, or further deterioration in commodity prices and aid flows.

Policy recommendations: (i) Respond to reduced fiscal revenue and lower donor budget support with restraint on expenditure, while avoiding a disproportionate impact on the poor; (ii) Contain the loss of gross reserves through rigorous implementation of the three-year financial plan of the CBL; (iii) Allow for greater flexibility in the exchange rate; and (iv) Sustain the momentum of the structural reforms, including governance reforms of the CBL.

Program status. The IMF Executive Board completed the fifth and sixth ECF reviews and approved augmentation (10.7 percent of quota) in December 2016. Prior to this, it approved a Rapid Credit Facility (RCF) disbursement (25 percent of quota) in February 2015; debt relief under the Catastrophe Containment and Relief Trust (20 percent of quota) in February 2015; and an ad-hoc ECF augmentation (25 percent of quota) in September 2014.

Approved By
Dominique Desruelle and Kevin Fletcher

Discussions were held in Monrovia (September 13–26, 2017). The mission comprised Ms. Saito (head), Messrs. Oshima, and Zandvakil (all AFR), and Shibata (SPR). Mr. Oestreicher, Resident Representative, Ms. Tejada (AFR), and Mr. Deline, Local Economist, assisted the mission. Mr. Jappah (OED) attended the policy meetings. The mission met with President Johnson Sirleaf; Minister of Finance and Development Planning Kamara; Central Bank Governor Weeks; other senior officials; representatives of the private sector and the legislature; and development partners.

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BACKGROUND

1. **Liberia is going through its first democratic transition of power since President Johnson Sirleaf came into office in 2006**. The first round of elections was peaceful and responsibilities for security are being assumed smoothly by national forces as the drawdown of the United Nations peacekeeping mission (UNMIL) continues.

2. **Fiscal and external pressures since end-2016 have been significant, and exogenous shocks have increased fragility**. Mining, especially gold and iron ore, and manufacturing are rebounding in 2017. However, the combination of the UNMIL withdrawal, sluggish commodity prices, and pre-election capital flight led to net foreign exchange inflows declining by 28 percent between FY2016 and FY2017, which forced the economy into a sharp adjustment, including through a rapid slowdown in absorption. Consequently, growth, though rising, will underperform expectations this year.

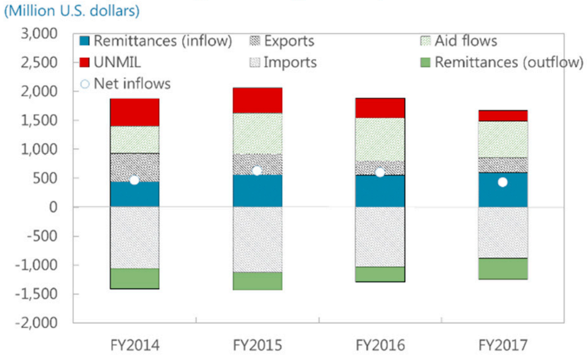
RECENT ECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS

3. **The weak global environment and the drawdown of UNMIL forces have adversely affected recent macroeconomic performance**.

- **Real GDP growth** in 2016 of -1.6 percent was significantly worse than anticipated at the time of the fifth and sixth reviews, due to larger than anticipated effects of low commodity prices and the UNMIL withdrawal. In 2017, the mining (gold and iron ore) and the manufacturing (cement) sectors have performed better than expected.

- **Net foreign currency inflows are much reduced**. This has impacted real incomes of households, aggregate demand, and domestic absorption, and contributed to the poor growth performance. The net inflows are measured by the sum of the four largest inflows (UNMIL-related inflows proxied by the UNMIL budget, aid flows, commodity export receipts, and inflows of remittances) less the largest outflows (imports and remittances). By this measure, net inflows of foreign exchange to Liberia are estimated to have declined by 28 percent from end-FY2016 to end-FY2017, mainly driven by the UNMIL withdrawal and a decline in net inflows of aid.

Liberia: Major Foreign Exchange Flows, FY2014-17
(Million U.S. dollars)



Sources: Central Bank of Liberia; and IMF staff estimates.

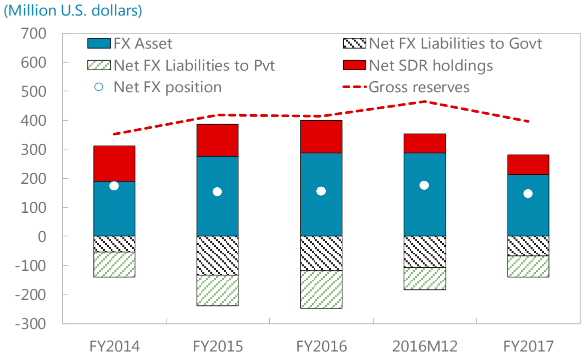
- **Reduced supply of foreign currency drove the depreciation of the Liberian dollar**. The rate of depreciation (year-on-year) has been above 20 percent since May 2017.

- **The fiscal sector was hit hard, with the share of tax receipts remitted in U.S. dollars declining precipitously, while U.S. dollar expenditure needs remained unchanged**. Liberia is a dual currency system where both U.S. dollar and Liberian dollar are legal tender—tax liabilities are denominated in U.S. dollars, but taxpayers may pay in either currency using an accounting exchange rate mandated by the Ministry of Finance and Development Planning (MFDP). The recent shortage of U.S. dollars, and the associated depreciation pressure, created an incentive to pay taxes in Liberian dollars. This was exacerbated by the practice of setting the previous month's end-of-period exchange rate as the exchange rate at which tax payments are remitted—as this was a period of depreciation, this created a financial incentive to pay taxes in local currency. As a result, the U.S. dollar composition, for example, of international trade tax revenue fell sharply from about 60 percent to 20 percent, while the U.S. dollar share of expenditure remained broadly unchanged.

- **The Central Bank of Liberia's (CBL) gross international reserves (GIR) declined, mainly due to drawdowns of U.S. dollar deposits held by the government**. More than half of the drawdowns were due to a return to the World Bank of excess U.S. dollar cash balances held at the CBL in the Ebola Emergency Response Project (EERP) account.[1] Moreover, with its outflows of U.S. dollars exceeding inflows, the government's foreign currency deposits at the CBL declined, despite its decision in February to suspend its dollar sales to the CBL. As the government's dollar deposits declined, GIR declined from $452 million (2.9 months of imports) at end-2016 to $397 million (2.5 months of imports) by end-FY2017. However, the CBL's net foreign exchange position (the program target and an indicator of the CBL's stock of freely usable reserves) would have remained unchanged over this period, were it not for the currency swap arrangements the government entered into with the CBL in 2017Q2 (which were reversed in 2017Q3). The stability in the net foreign exchange position (excluding the swaps) was due to the CBL's cost control through adherence to its three-year financial plan, and its willingness to allow the exchange rate to depreciate in line with fundamentals—including by returning only a portion of the 25 percent remittance

Liberia: CBL's Net Foreign Exchange Position, FY2014-17

(Million U.S. dollars)



Sources: Central Bank of Liberia; and IMF staff calculations.

[1]The EERP was restructured and the returned funds will be re-disbursed to finance other related projects.

surrender requirement introduced at end-2016 to the market through foreign exchange sales.

- **Inflation** has been relatively high. Driven by the exchange rate depreciation, it peaked at 13 percent in May. While expected to improve somewhat by end-year to about 12½ percent, this is still over 4 percentage points higher than projected at the time of the fifth and sixth reviews.

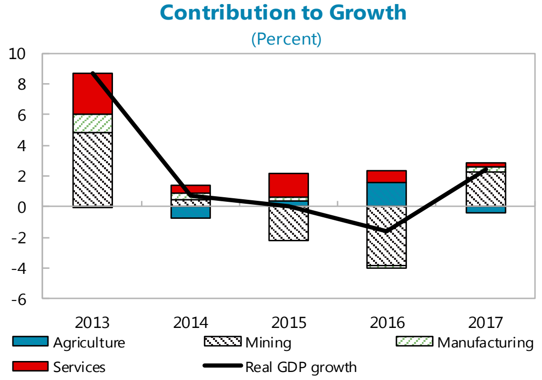
4. The authorities are taking actions to weather the shock, including by allowing the exchange rate to adjust to a new equilibrium. Interventions are used only to slow the rate of depreciation, not to resist it, with the intention of gradually reaching a sustainable equilibrium exchange rate at a lower level. Concurrently, (i) as a temporary measure, the government entered into a currency swap arrangement with the CBL in 2017Q2 (which was subsequently reversed); (ii) began paying 100 percent of wages in Liberian dollars in August 2017; and (iii) introduced a regulation that 50 percent of international trade taxes would need to be paid in U.S. dollars. It is also in the process of removing the disincentive to remit taxes in U.S. dollars by changing the accounting exchange rate used for tax collection from the end-of-previous-month rate to the end-of-the-previous-week rate.

5. The medium-term outlook is positive, provided structural reforms continue. Near-term growth has been revised down to 2.5 percent for 2017 and 3.9 percent for 2018 (from 3.2 percent and 5.2 percent, respectively, in the fifth and sixth reviews). Activity is, however, projected to rise gradually to close to 7 percent over the medium term led by mining, with support from agriculture, services and manufacturing. All these sectors are expected to benefit from structural reforms and infrastructure investment that were carried out throughout the ECF-supported program despite a number of setbacks (Annex I). Inflation should decline and stabilize at about 7 percent, as an improved balance of payments allows for a lower rate of exchange rate depreciation.

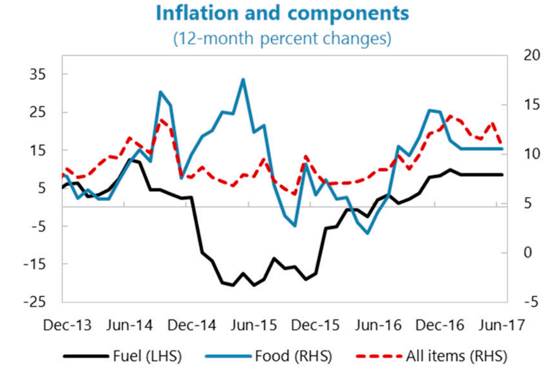
6. Risk to the outlook remains high (Annex II). Fragility persists due to the impact of the commodity price decline, the UNMIL withdrawal, and uncertainties surrounding the political transition. While not the baseline expectation, potential exists under a downside scenario for the transition to lead to a worsening of the security situation, disrupt domestic economic activity and investor sentiment, and create policy slippages, especially on the fiscal front with implications for arrears. In addition, although the probability is small, the recurrence of Ebola cannot be excluded. Conversely, a peaceful transition of power in January may release pent-up investment demand, lead to some repatriation of capital, and provide a boost to growth in 2018.

Figure 1. Liberia: Recent Economic Developments, 2013–17

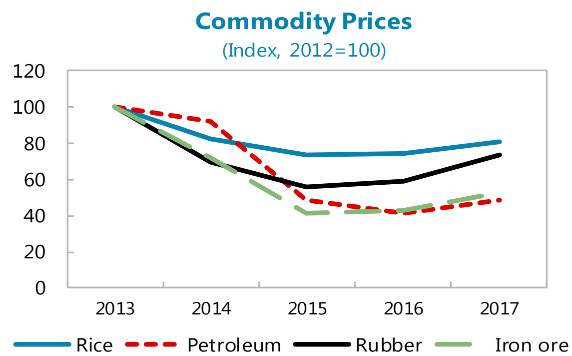
The contraction in 2016 was deeper than expected, but the economy began to recover in the first half of 2017 mainly due to a rebound in mining.



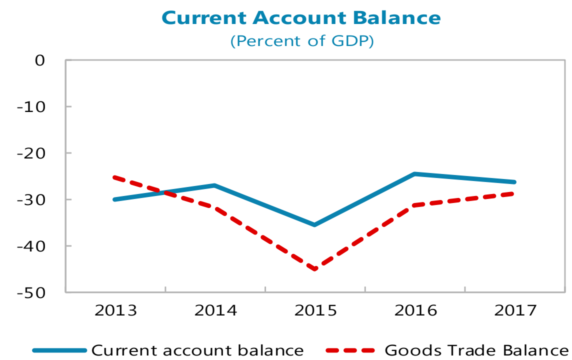
Inflation picked up, fueled by the depreciation of the currency and fuel prices.



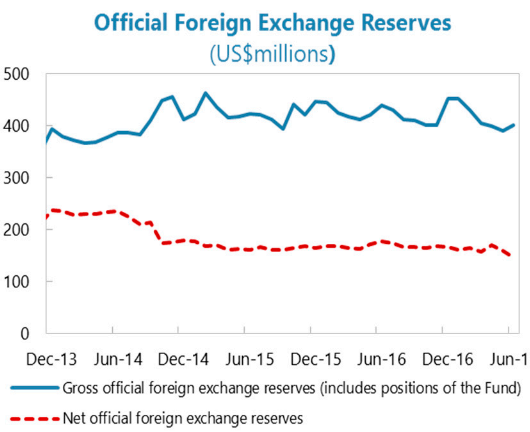
The low commodity price environment is recovering only slowly.



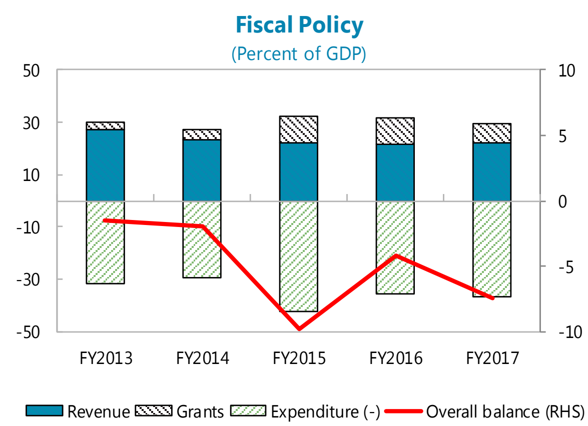
The current account deficit slightly worsened in the first half of 2017 due to reduced current transfers, partially offset by improvements in net exports.



Gross official reserves declined from 2.9 months to 2.5 months of import cover, while the central bank's net foreign exchange position remained relatively stable.



The resource envelope declined in FY2017 mainly due to a decrease in external grants.



POLICY DISCUSSIONS

Discussions focused on: allowing the exchange rate to absorb the current macroeconomic shocks while keeping relatively tight monetary and fiscal policy stances to avoid excess volatility in the exchange rate or inflation; and addressing financial sector vulnerabilities, including by addressing governance and supervision shortfalls exposed by the First International Bank Liberia Limited (FIBLL) case. The combination of a sluggish economy and upward pressure on inflation highlighted the importance of putting the right macroeconomic policy mix in place to ensure near-term macroeconomic stability, while keeping the momentum of structural reforms to improve productivity and increase potential output in the medium term.

A. Fiscal Policy

7. **Background**. The government ran a fiscal deficit of US$155 million (7.4 percent of GDP) in FY2016/17 with smaller revenue and expenditure than programmed. The weaker domestic economy resulted in a substantial revenue (both tax and non-tax) shortfall despite the implementation of the revenue measures approved in September and November 2016 (Memorandum of Economic and Financial Policies, MEFP ¶7). The financing gap was filled by expenditure containment through strong allotment control and additional budget support by the World Bank. Postponement of spending on roads financed by domestic borrowing also contributed to the lower fiscal deficit.

8. **The FY2017/18 revenue and grants, including for off-budget projects, are projected at 29.5 percent of GDP, remaining at the similar level as the FY2016/17 outturn**.

- While the grants are expected to decline slightly, revenue is projected to increase due to measures taken in FY2016/17 (e.g., the General Sales Tax rate increase and improved fuel storage surcharge collections).
- The FY2017/18 budget was enacted in July, a few months earlier than the past practice, with a moderately ambitious resource projection (MEFP ¶17). However, considering substantial downside fiscal risks, staff's baseline projection sets likely revenue and grants at US$537 million (24.9 percent of GDP). This is US$24 million lower than the enacted budget but US$5 million higher than the FY2016/17 outturn (MEFP ¶18).
- Fiscal risks include delays in disbursements of some budget support by donors (US$13 million) and weaker performance in some sectors, such as forestry, than expected at the time of the budget development (US$11 million) (MEFP ¶18).
- In addition, the government treats some US$23 million of additional resources as contingent and has agreed to delay the (lower priority) expenditure associated with it until it is confident that the revenue will attain (MEFP ¶18).

- Off-budget fiscal operations will decline this year along with the completion of the Mount Coffee Hydroelectric Project. This flagship project, financed largely by donor grants, was mostly finished in FY2016/17, resulting in a significant decline in external grants.

9. In response, government will cut spending to produce an overall fiscal deficit—including off-budget items—of 5.9 percent GDP, compared to 7.4 percent last year (Table 3).

- Austerity fiscal rules implemented over the last two years remain in place (MEFP ¶17). They include a hiring freeze outside health and education, and a reduction in travel allowances. In addition, the wage structure reform for civil service agencies will be postponed to reduce administration spending.

- The government will achieve the necessary US$24 million of expenditure cuts through prioritization and allotment control (MEFP ¶18). Reductions will be mainly concentrated in goods and services, and transfers and subsidies, while priority and pro-poor spending such as on the election, security, health, and education will be protected to the extent possible.

- Expenditure, including off-budget spending financed by loans, will be lower than in the previous year in absolute terms, as no budget support loan is assumed.

10. The FY2017/18 budget includes the newly established Road Fund. The Road Fund aims at securing financing resources for road construction, especially maintenance costs (MEFP ¶20). For transparency purpose, the budget summary table in the published budget book has specific lines describing Road Fund operations. Road Fund spending this fiscal year is set at US$26 million, financed by a fuel import surcharge (US$16 million) and US$10 million of grants from the Millennium Challenge Corporation (MCC). However, as the timing of this latter support is uncertain, only half has been included in the baseline resource projection, and Road Fund spending in the fiscal program has been correspondingly revised down by US$5 million.

11. The resulting fiscal program entails an appropriately tight policy stance, but risks are high. Expenditure pressure is elevated, with needs in health, education and infrastructure, especially roads and electricity, and tension from the need to allocate US$25 million for election and related security. With the rising—though still moderate—risk of debt distress placing real limits on borrowing options, fiscal space remains tight. Consequently, the authorities' recent efforts to enhance revenue mobilization, both policy measures (¶8) and administration reforms (¶13), are welcome. Their efforts to prioritize expenditure according to socio-economic needs, while containing it in line with available resources, is also appropriate. Staff considers that the use of contingent revenue and expenditure outlined in the program could help the government maintain orderly budget execution. Nonetheless, risks related to both revenue and expenditure remain high and reflect underlying uncertainty in the domestic and external economic situation and in the political transition.

Text Table 1. Liberia: Government Budget, FY2017–18[1]
(Millions of U.S. dollars)

Millions of U.S. dollars	FY2017 Program (5th & 6th Review)	FY2017 Estimates	FY2018 Approved Budget	FY2018 Baseline
Revenue and Grants	**569**	**533**	**562**	**537**
Revenue	499	466	502	491
Tax	403	382	399	392
Income and profit	145	144	148	147
Goods and services	60	49	54	53
International trade	192	185	190	185
Others	6	5	8	8
Non-tax	96	83	103	98
of which : Import fuel surcharge	43	28	36	34
Grants	70	67	60	47
of which : Road Fund support			10	5
Total Expenditure	**576**	**548**	**552**	**524**
Excluding election cost	556	531	527	499
of which : Spending from the road fund			26	21
Current expenditure	539	497	517	495
of which : Compensation of employees	255	289	289	289
of which : Goods and services	155	132	128	123
Capital expenditure	37	51	35	30
Overall balance	**-7**	**-15**	**10**	**13**
in percent of GDP	-0.3	-0.7	0.5	0.6
Financing	7	15	-10	-13
Borrowing	18	23	0	0
Amortization	-13	-6	-12	-15
Deposit financing (+: withdrawal, -: deposit)	2	-2	2	2
Memorandum				
Nominal GDP	*2183*	*2084*	*2154*	*2154*
Tax-GDP ratio (percent)	*18.7*	*18.3*	*18.5*	*18.2*
Revenue and grants, including off-budget grants	*695*	*611*	*635*	*635*
Expenditure, including off-budget projects	*860*	*766*	*774*	*762*
Overall balance	*-165*	*-155*	*-140*	*-127*

Source: Liberian authorities; and IMF staff estimates and projections.

[1] This table summarizes fiscal operation only under the budget. Thus, the numbers are different from the ones in Table 3a and 3b, which includes off-budget activities. Also, because of differences in revenue and spending classificaitons, presented numbers are different from the text table in the Memorandum of Economic and Financial Policies although both tables refer to the budget operations.

B. Fiscal Reform

12. Good progress has been made in fiscal reforms, particularly in public financial management (PFM) (MEFP ¶32–34, and 37). First, the authorities renewed their public financial management (PFM) reform strategy and action plan in July 2017 for a further three years. The new strategy focuses on areas identified by technical assistance and in past program reviews as needing improvement. They include the legal framework, cash management, expenditure control, public investment management, budget formulation, fiscal transparency and governance, and state-owned enterprise monitoring. Second, amendments to the 2009 PFM Act were submitted to the Legislature in July 2017 to address identified legal and regulatory weakness. Third, the public procurement process introduced the Advanced Procurement Framework Agreement to accelerate procurement activities for better expenditure control. Fourth, the Integrated Financial Management Information System (IFMIS) now covers more than half of ministries and agencies (M&As), including most of the large Ministries for timely expenditure monitoring.

13. Domestic revenue mobilization also advanced through administrative reforms (MEFP ¶43–47). The Liberia Revenue Authority (LRA), supported by donors, have implemented a wide range of measures to improve tax compliance and to reduce leakages, such as introducing a desk audit system for large taxpayers and educating taxpayers through workshops. In addition, a new compliance management framework was introduced in the first half of 2017 for further improvement of revenue mobilization.

14. Needs nonetheless remain high (MEFP ¶36, 38, and 40). The installment of the Treasury Single Account (TSA) has been significantly delayed despite substantial donor support. The 2016 Public Investment Management Assessment (PIMA) identified various weakness, including in project monitoring. Although the MFDP established a public investment database, monitoring public investment remains weak. The MFDP publishes quarterly reports of state-owned enterprises (SOE), but publication is often delayed, while comprehensive data on SOE activities remains unavailable due to limited resources and low capacity for information collection.

C. Monetary and Exchange Rate Policy

15. Background. While the pressure on the exchange rate and inflation remains elevated (¶3 and MEFP¶25), the effectiveness of monetary policy remains limited: (i) deposit and credit dollarization are about 80 percent and 90 percent respectively, undermining independent monetary policy and the CBL's ability to act as lender of last resort; (ii) the CBL's weak balance sheet makes it difficult to afford the costs of sterilizing excess liquidity; (iii) liquidity operations have limited effectiveness due to an inactive interbank market and poor transmission of monetary policy to deposit rates; and (iv) the large amount of excess reserves of the banking system at the CBL reduces the effectiveness of reserve requirements, the CBL's main monetary policy instrument.

16. Within these limitations, the current monetary policy stance has been appropriately tight, and aimed at containing the growth of Liberian dollar liquidity. This stance is reflected in an increase in reserve requirements on Liberian dollar-denominated deposits. However, the effectiveness of the reserve requirements on Liberian dollar deposits are limited (as mentioned above) and the reserve requirements on U.S. dollar deposits were lowered at the same time, offsetting some of the tightening effects. Nonetheless, tight monetary policy caused the growth of reserve money to be slower than anticipated, but the impact on broad money growth was limited.

17. Gross reserves in terms of next year's import cover will decline this year, but will rise above three months by end-2018. The CBL continues to auction proceeds collected from the surrender requirements, a capital flow management measure (CFM) introduced at the end of 2016.

Staff views this as an appropriate balance between maintaining buffers and the need for limited intervention to avoid excessively rapid depreciation. Gross reserves are expected to rebound in 2018 due to a recent pick-up in export activity (mining) and recently adopted measures to ease pressure on reserves (¶4).

18. Full implementation of the CBL's three-year financial plan is essential to strengthen its balance sheet and protect its gross reserves (MEFP ¶29). In the first half of 2017, the CBL fully adhered to its allotment plan, but in the second half, its capital expenditure is expected to exceed the plan mainly due to cost of printing well-overdue new banknotes.[2] The CBL is looking for savings on its operating expenses to offset part of this. In addition, to reinforce expenditure controls, in April 2017 the CBL established an Asset and Liability Committee (ALCO) to oversee CBL's risk management, balance sheet, and financial performance (SB for the eight review). The committee had its first meeting on August 8th 2017.

D. First International Bank Liberia Limited

19. In June 2016, the CBL resolved First International Bank Liberia Limited (FIBLL) through a purchase and assumption (P&A) agreement. The move followed a protracted period in which the bank's financial health had steadily deteriorated due to weak governance. During this period, FIBLL received large unsecured liquidity assistance from the CBL, eventually resulting into losses of over US$19 million for the CBL. Under the P&A, depositors were protected, and the buyer adequately capitalized the successor entity. The authorities commissioned a forensic audit to examine the circumstances, including CBL supervision, leading up to the closure and the CBL loss.

20. The May 2017 final forensic audit report of FIBLL raised serious concerns regarding the CBL's capacity to supervise the banking system and its internal governance (MEFP ¶51). The report confirms: (i) serious governance failures and mismanagement of resources at the FIBLL; and (ii) the enabling role played by the CBL through ineffective supervision, prolonged uncollateralized funding, and governance failings at the CBL.

21. The CBL recognizes the seriousness of the issues raised by the audit report and is determined to take corrective actions. Besides requesting the forensic audit report, the CBL has already (i) revised the Board Charter to address the governance issues on roles, responsibilities and functions of executive and nonexecutive Board members; (ii) established an Emergency Liquidity Assistance framework (ELA); and (iii) carried out preliminary work towards adoption of a Special Bank Resolution Regime (SRR) (MEFP ¶53-¶55).

22. The CBL published the executive summary of the audit report with names and other identifiers redacted and an action plan to address the gaps in its governance and supervisory and regulatory framework (MEFP ¶51). The authorities have agreed to publish the full forensic audit report, which will increase transparency and accountability. However, its publication is postponed until it is determined that this will not interfere with the appropriate course of judicial

[2] Legislative approval of printing of new banknotes was unanticipated at the time the budget was formulated.

procedures. Meanwhile, the CBL has prepared and published a detailed and time-bound action plan (the Action Plan, hereafter) to address the significant governance and regulatory issues revealed by the FIBLL incident. The Action Plan includes measures which: (i) enhance the governance structure of the CBL; (ii) strengthen internal control procedures; (iii) enhance the efficacy of the supervision function of the CBL; and (iv) develop the crisis management framework of the CBL. The stipulated measures demonstrate the authorities' commitment to transparency and a willingness to bring significant reform to the CBL's governance and regulatory frameworks. Sustained efforts are essential to implement all agreed measures in the Action Plan.

23. Until implementation of the Action Plan is sufficiently advanced, the authorities have adopted interim measures to provide additional safeguards assurances (MEFP ¶52). These measures include (i) compilation of monthly reports on foreign exchange withdrawals and timely submission of these reports to the CBL Board of Governors at every Board meeting; and (ii) semi-annual external audits of the foreign exchange reserves of the CBL based on terms of reference prepared in consultation with IMF staff. The CBL will confirm as a prior action that an external auditor has been engaged to conduct the semi-annual audit. The semi-annual and monthly reports will be shared with the IMF staff without delay.

E. Financial Sector Development and Vulnerabilities

24. Despite significant growth in lending activity this year, the banking sector remains stressed from the high level of non-performing loans (NPLs). After a year of virtually no growth in private sector credit in 2016, U.S. dollar-denominated credit growth picked up this year, increasing 21.7 percent year-on-year to end June 2017. This was partly due to the easing of reserve requirements on U.S. dollar deposits. Moreover, the NPL ratio remains high at 14 percent as of June 2017, and profitability remains low, with return on equity (ROE) at around 0.9 percent as of June 2017.

25. While deficiencies remain, the authorities continue to implement measures to improve Anti-Money Laundering/Combatting the Financing of Terrorism (AML/CFT) compliance (MEFP ¶54). Three counter terrorism financing pieces of legislation were recently sent to the Legislature and approved. The Fund is providing TA on AML/CFT supervision to a new dedicated unit at the CBL. This unit, in cooperation with the Financial Intelligence Unit (FIU), has completed on-site examinations of all nine commercial banks and five additional follow-up inspections. The FIU is also helping the regulatory bodies of Designated Non-Financial Businesses and Professions (DNFBPs) in implementing the AML/CFT legal framework.

26. The CBL continues its enhanced monitoring of the banking sector (MEFP ¶50). The most recent data reveal that the banking sector remains adequately capitalized, however, provisions are expected to grow as the grace period for the remaining non-performing legacy loans from FIBLL ends at the end of September. The CBL is currently conducting on-site examinations.

27. The CBL has undertaken a number of welcome measures aimed at reforming and improving the financial sector. These include efforts to improve bank supervision and regulation

(MEFP ¶48), further advances in financial sector infrastructure (MEFP ¶49 and 56), enhancing competition and consumer protection (MEFP ¶58), and promoting financial inclusion (MEFP ¶56).

F. External Sector Issues

28. Borrowing space remains tight as Liberia's debt stock has increased rapidly since the Heavily Indebted Poor Countries (HIPC) debt relief of 2010 (MEFP ¶30). The December 2016 PC on external borrowing was missed, but this was due to a slippage in the reporting process. Since then, the authorities have respected the debt limit agreed under the fifth and sixth review, and the June 2016 PC target was met. As of end-June 2017, the total external debt stock stood at US$736 million or 35 percent of GDP. In FY2018, the authorities expect to ratify loans worth about US$100 million, all on strictly concessional terms (Text Tables 2 and 3).

29. The current Debt Sustainability Analysis (DSA) shows that the risk of debt distress remains moderate but close to being high and warrants caution. Nonetheless, compared to the December 2016 iteration, the current DSA shows some improvement in debt distress, mainly due to downward revisions in the PV of debt-to-exports ratio that are mainly attributed to increased gold and iron ore exports. However, tolerances are relatively slim, and Liberia's risk of debt distress remains vulnerable to additional external shocks.

Text Table 2. Liberia: Summary Table of Projected External Borrowing Program, FY2018

PPG external debt	Volume of new debt in FY2018		PV of new debt in FY2018 (program purposes)		PV of new debt in FY2018 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	**98**	**100**	**50**	**100**	**50**	**100**
Concessional debt, of which	**98**	**100**	**50**	**100**	**50**	**100**
Multilateral debt	61	62	29	58	29	58
Bilateral debt	37	38	21	42	21	42
Other	0	0	0	0	0	0
Non-concessional debt, of which	**0**	**0**	**0**	**0**	**0**	**0**
Semi-concessional	0	0	0	0	0	0
Commercial terms	0	0	0	0	0	0
By Creditor Type	**98**	**100**	**50**	**100**	**50**	**100**
Multilateral	61	62	29	58	29	58
Bilateral - Paris Club	0	0	0	0	0	0
Bilateral - Non-Paris Club	37	38	21	42	21	42
Other	0	0	0	0	0	0
Uses of debt financing	**98**	**100**	**50**	**100**	**50**	**100**
Infrastructure	67	69	35	70	35	70
Social Spending	30	31	15	30	15	30
Budget Financing	0	0	0	0	0	0
Other	0	0	0	0	0	0
Memo Items						
Indicative projections						
Year 2	**100**		**50**		**50**	
Year 3	**100**		**50**		**50**	

Sources: Liberian authorities; and IMF staff calculation.

30. In light of limited borrowing space and pressing investment needs, loans need to be carefully prioritized (MEFP ¶31). Staff welcome that the authorities are developing a medium-term debt strategy (MTDS), in consultation with the IMF and the World Bank, to govern borrowing policies over 2017–20. The MTDS appropriately stresses that new external borrowing should be on concessional terms, and restricted to growth-enhancing investments, such as energy and infrastructure. To maintain a moderate debt distress level, staff emphasized that the implementation of existing undisbursed loans should take priority over the signing of new commitments.

Text Table 3. Liberia: Type of New External Debt, FY2017
(Millions of U.S. dollars)

By the type of interest rate	
Fixed Interest Rate	98
Variable Interest Rate	0
Unconventional Loans	0
By currency	
USD denominated loans	0
Loans denominated in other currency	98

Sources: Liberian authorities; and IMF staff calculation.

31. The authorities are implementing Liberia's commitments under the World Trade Organization (WTO) (MEFP ¶60 and 61). A post-WTO accession plan is intended to enhance the business climate over the medium term. The plan would follow up on the implementation of the accession package to integrate Liberia into the multilateral trading system (Liberia became the 163rd WTO member in July 2016). The package includes comprehensive reforms in trade facilitation, reducing barriers to trade, agricultural value chains, and economic diversification. In parallel, the government is also implementing the Economic Community of West African States (ECOWAS) External Trade Liberalization Scheme (ETLS) and the Common External Tariff (CET).

G. Program Issues, Monitoring, and Risk

32. Program performance was mixed (MEFP ¶13–15). A sharper than anticipated slowdown in economic activity and a shortage of U.S. dollar liquidity in the economy underlie deviations from the program.

- **End-December 2016 Targets**: The quantitative performance criterion (PC) on the ceiling on external borrowing was missed by about US$7.8 million in present value (PV) terms because of a project loan that was ratified by the legislature in October but not included in the total amount of ratified loans. The PC on government revenue was missed by US$2 million (0.1 percent of GDP). All other PCs and indicative targets (ITs) were met.

- **End-June 2017 Targets**: Due to lower than anticipated economic activity, the PC on government revenue was missed by US$28 million (1.3 percent of GDP). A large decline in foreign exchange inflows led to excess demand of U.S. dollars from the government. Consequently, the government entered into a currency swap arrangement with the CBL, resulting in a breach of the PCs on CBL's net foreign exchange position by US$12 million (0.6 percent of GDP) and CBL's gross direct credit to the government by US$26 million (1.2 percent of GDP). A large deviation of the CBL's net domestic assets from the end-June indicative target also occurred, as the withdrawal of donor funds decreased NFA and raised

NDA above programmed targets—with the net impact being that the monetary policy stance tightened further as reserve money growth underperformed expectations.

- **Prior action**. As one of interim safeguards measures, the CBL will engage with an external auditor to conduct semi-annual audits on the CBL's foreign exchange reserves based on the terms of reference agreed with Fund staff.

33. The authorities are requesting waivers for the nonobservance of program targets on the basis of corrective actions have been taken.

- **Missed PC on gross external borrowing by the public sector for end-December 2016**: To ensure that all ratified loans are captured in the debt database in a timely manner, the Debt Management Unit of the MFDP has begun monthly reporting to the Fund on signed and ratified loans starting at end-May 2017.

- **Missed PC on government revenue for end-December 2016 and end-June 2017**: The government unified discretional surcharge rates of fuel import (¶8) and introduced direct transfers of collected charges to the budget resource accounts for FY2017/18.

- **Missed PC on net foreign exchange position for end-June 2017**: The swap arrangement of US$30 million was reversed in 2017Q3, and a number of measures were taken on the government side to reduce the currency-mismatch situation (¶4) as well as on the CBL side to look for savings on operational costs (¶18).

- **Missed PC on gross direct credit to the central government for end-June 2017**: This PC was also missed as a result of the swap agreement mentioned above, mainly because of the specific way in which the CBL's accounting framework recorded the agreement.

34. Structural Benchmarks: Three out of six structural benchmarks (SBs) for the seventh review were met while an additional two SBs (publication of quarterly state-owned enterprise (SOE) report and submission of the forensic audit final report to the IMF) were completed with six weeks and one week delay, respectively. The remaining SB, formalization of the agreement on revenue contribution deferral between the government and the four largest concession companies, was not completed because three of the four companies meant to sign had become inactive due to low commodity prices. Two out of four SBs for the eighth review (setting up ALCO and submission of the quarterly financial statement of CBL) were met. Submission of draft procurement plans by ministries and agencies (M&As) to the Public Procurement and Concessions Commission (PPCC) was completed in September while publication of quarterly SOE reports is expected to be completed by November.

35. Liberia's capacity to repay the Fund is adequate. Total outstanding Fund credit currently amounts to 55.49 percent of quota. Although the risk of debt distress has increased from low to moderate, the debt level remains manageable. Grants under the Catastrophe Containment and Relief (CCR) Trust have allowed prepayment of Liberia's debt service obligations to the Fund until late 2018.

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36. The impact of exogenous shocks has increased Liberia's fragility. Lingering effects of the Ebola epidemic, the impact of the commodity price decline, and the ongoing withdrawal of UNMIL are delaying the economic recovery. A sharp decline in net foreign exchange inflows has put pressure on the exchange rate and inflation, and decreased international reserves and fiscal space.

37. Worse than anticipated economic conditions affected program performance (¶28–30). All program performance criteria (PCs) for end-December 2016 were met, except the PC ceiling on gross external borrowing by the public sector was missed due to a technical error and the PC floor on government revenue narrowly (0.1 percent of GDP). However, three end-June 2017 PCs were not met, mostly due to the sharper than anticipated deterioration in the macroeconomic environment. The ceiling on the CBL's net domestic assets (indicative target) was also missed for the same reason. Three of six structural benchmarks (SBs) for the seventh review and two of four SBs for the eighth review were met. The rest except one were met with delay.

38. Faced with a difficult array of issues and constraints, the authorities are nonetheless reacting to the exogenous shocks with an appropriate macroeconomic policy mix. In the face of these shocks, they are correctly allowing the bulk of the external adjustment to take place through the exchange rate; while maintaining relatively tight monetary and fiscal stances to prevent exchange rate overshooting or second round inflationary impacts.

39. The fiscal policy stance embodied in the agreed fiscal program is also appropriate to the current economic situation. In this regard, it will be important to strictly adhere to the rules governing the release of contingent expenditure (MEFP¶18) in order to avoid the opening of unintended financing gaps and the accumulation of arrears, while securing social priority spending. The MFDP is also addressing the gap between U.S. dollar denominated fiscal revenue and expenditure in an appropriate manner. Switching to the use of a weekly, rather than a monthly exchange rate for tax collection purposes will remove a major disincentive to remitting tax payments in U.S. dollars. Cooperation between the CBL, MFDP, and LRA will be important in implementing this critical measure.

40. The tight monetary policy stance—revealed in the slow growth of base money—is appropriate given the pressure on the exchange rate and inflation. In light of the limited monetary policy tools available, maintaining adequate reserve cover will require that the CBL remain within the spending limits dictated by its three-year financial plan. While this limit will be breached in the later part of 2017, as funds are expended to replace badly worn out domestic currency, it will be important for the CBL to seek offsetting savings elsewhere in its operational budget to limit the impact. The surrender requirement on inflows of remittances, a CFM, is however appropriate only as a temporary measure to address extraordinary pressure on inflation and reserves. The requirement should be lifted as this pressure is relieved in response to the planned adjustment policies, in line with the Fund's Institutional View on capital flows.

41. **Recourse to external borrowing needs to be restrained, despite a very large infrastructure deficit and other investment needs**. Strong fiscal discipline will be required to contain spending at programmed levels in the short term. Over the longer term, the tension between needs and resources will ease somewhat, but will remain significant. Given the relatively elevated level of risk of debt distress, it will be important to hold borrowing to within program limits. New borrowing should be on concessional terms and, to the extent possible, replaced with enhanced utilization of already signed and ratified loans. Canceling of previously ratified debt should also be considered if the underlying projects no longer fit with government's priorities. The Debt Management Unit (DMU) of the MFDP also should continue to enhance debt management capacity and improve information flows between the Legislature, the Presidential Office, and DMU regarding ratification of new debts.

42. **Keeping the momentum of structural reforms beyond the expiration of the program is important**. The advances made during this program in the areas of PFM, governance, and business environment as well as access to finance (Annex 1), despite a number of severe and persistent shocks Liberia has gone through, were impressive, and the momentum should be maintained as a precondition for sustainable and inclusive long-term growth.

43. **The authorities' commitment to improve supervisory capacity and governance within the CBL is commendable, though sustained efforts are needed to successfully implement the Action Plan**. The forensic audit report, covering the events leading up to the closure of FIBLL, raised serious concerns about the CBL's governance and supervisory procedures and policies. The publication of the executive summary of the report, and the CBL's Action Plan to address the revealed deficiencies, demonstrates commitment to the transparency and policy rigor needed to effect meaningful change in these areas. Staff also recommends the authorities to pursue their efforts to enhance the AML/CFT regime.

44. **The Action Plan should assist in advancing outstanding safeguards recommendations**. In particular, legal amendments to align the CBL Act with best practices, strengthening the internal audit function, and enhancing audit and control oversight, have been incorporated in the Action Plan. The commitment of the CBL Board and the Audit Committee will be critical in improving the overall institutional framework at the CBL and sustaining progress with reforms.

45. **Based on the strength of the authorities' policy commitments and corrective measures taken, staff supports the authorities' request for waivers for nonobservance of performance criteria, and supports completion of the seventh and eighth program reviews**. Staff recommends a return to the 12-month cycle for Article IV Consultations.

Table 1. Liberia: Selected Economic and Financial Indicators, 2015–22

	2015	2016		2017		2018	2019	2020	2021	2022
	Est.	5th&6th Review[5]	Est.	5th&6th Review[5]	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
				(Annual percentage change)						
Real sector										
Real GDP	0.0	-0.5	-1.6	3.2	2.5	3.9	5.0	6.0	6.3	6.9
Agriculture & fisheries	0.7	6.4	6.4	4.1	1.8	2.6	3.8	4.3	4.6	5.2
Forestry	2.0	-7.0	0.0	3.0	-8.0	-4.0	6.0	6.0	6.0	6.0
Mining & panning	-15.9	-23.8	-33.0	5.5	28.8	29.7	14.0	16.7	11.0	15.7
Manufacturing	-1.5	-4.9	-5.2	0.0	1.4	1.6	4.6	5.1	6.2	6.2
Services	4.3	3.9	2.1	2.9	1.0	1.2	3.0	4.0	5.8	5.1
Real GDP excluding mining sector	2.6	2.6	2.5	3.0	0.2	1.1	3.7	4.4	5.5	5.3
Nominal non-mining per capita GDP (U.S. dollars)	452	463	460	477	441	429	443	468	487	583
Nominal GDP (millions of U.S. dollars)	2038	2112	2101	2224	2115	2125	2246	2438	2599	2884
Inflation										
Consumer prices (annual average)	7.7	8.7	8.8	9.7	11.9	11.4	10.5	9.5	8.5	7.5
Consumer prices (end of period)	8.0	11.3	12.5	8.2	12.4	11.0	10.0	9.0	8.0	7.0
Population (millions)	4.3	4.4	4.4	4.5	4.5	4.6	4.7	4.8	4.9	5.1
				(Percent of GDP, fiscal year)						
Central government operations[1]										
Total revenue and grants	32.4	31.4	31.4	31.8	29.3	29.5	27.4	27.3	27.0	27.1
Total revenue	22.4	21.8	21.8	22.8	22.3	22.8	24.3	25.3	25.6	25.8
Grants, including Ebola-related support	10.0	9.6	9.6	9.0	7.0	6.7	3.1	2.1	1.5	1.2
Total expenditure and net lending	42.2	35.6	35.6	39.4	36.8	35.4	32.4	31.2	30.2	29.8
Current expenditure	32.4	27.8	27.8	28.9	27.4	26.9	25.3	23.3	22.0	21.5
Capital expenditure	9.8	7.8	7.8	10.5	9.3	8.4	7.1	7.9	8.3	8.4
Overall fiscal balance, including grants	-9.8	-4.2	-4.2	-7.6	-7.4	-5.9	-5.0	-3.9	-3.2	-2.8
Overall fiscal balance, excluding grants	-19.8	-13.8	-13.8	-16.6	-14.4	-12.6	-8.1	-6.0	-4.7	-4.0
Public external debt	22.8	28.0	28.0	33.6	35.3	40.1	44.4	45.6	45.7	45.3
Central government domestic debt[2]	15.1	12.9	13.0	16.8	15.4	15.4	12.4	10.7	9.4	8.3
				(Percent, unless otherwise indicated)						
M2/GDP	34.8	33.6	32.2	33.4	31.0	31.3	31.5	32.6	35.0	38.0
Credit to private sector (percent of GDP)	20.1	21.1	20.3	21.6	22.4	24.6	25.9	26.3	27.4	27.2
Credit to private sector (annual percent change)	8.1	9.0	4.5	7.6	10.7	10.2	11.6	10.1	11.1	10.4
				(Percent of GDP, unless otherwise indicated)						
External sector										
Current account balance										
including grants	-35.4	-30.9	-24.6	-27.8	-26.1	-30.1	-25.7	-24.3	-23.5	-21.9
excluding grants	-85.5	-78.6	-71.9	-54.9	-66.9	-62.1	-53.5	-50.3	-45.5	-42.1
Trade balance	-45.1	-41.6	-31.2	-34.5	-28.6	-26.1	-23.5	-20.8	-17.4	-15.5
Exports	12.5	11.6	11.3	10.6	12.7	15.4	16.4	17.1	18.5	19.0
Imports	-57.6	-53.2	-42.5	-45.1	-41.3	-41.6	-40.0	-37.9	-35.9	-34.5
Grants (donor transfers, net)	50.1	47.7	47.3	27.0	40.8	32.0	27.8	26.0	22.1	20.2
Gross official reserves (millions of U.S. dollars)	446	469	452	501	426	476	488	509	548	616
Months of imports of goods and services[3]	3.0	2.9	2.9	3.2	2.7	3.2	3.2	3.3	3.4	3.6
CBL's net foreign exchange position[4] (millions of U.S. dollars)	164	181	167	192	149	180	196	246	295	345
Memorandum										
Terms of trade (annual percent change)	-25.9	5.6	15.1							
Iron ore price (US$ per metric ton)	56.1	53.9	58.6	48.4	71.7	62.0	57.1	54.6	54.6	54.6
Rubber (US cents per pound)	70.7	70.8	74.5	72.7	93.5	88.5	88.5	88.5	88.5	88.5

Sources: Liberian authorities; and IMF staff estimates and projections.

[1] Fiscal table is shown on a cash basis (i.e., debt service payments are shown after all debt relief) and refers to the budgetary central government operations and selected off-budget activities, such as Mt. Coffee hydro project and Ebola-related activities. Social security funds are excluded. Data and projections refer to fiscal year (July - June).

[2] Total central government debt includes short-term T-bill and T-bonds.

[3] In months of next year's imports excluding imports related to UNMIL operations and FDI projects such as iron-ore concessions.

[4] Net foreign exchange position is evaluated at the program exchange rates, instead of the current market exchange rates, and therefore, valuation adjustments are shown separately.

[5] Central government operations and external sector treated "World Bank additional grant" and "Election support", and "IMF ECF access augmentation" differently in the fifth and sixth review staff report from this report, and thus, some lines such as revenue and grants and current account balance have different numbers from the fifth and sicth review staff report. However, these two reports refer to the same macro framework. Please see the footnote 6 and 11 in Table 2 and Table 3 for more details.

Table 2. Liberia: Balance of Payments, 2015–19

(Millions of U.S. dollars, unless otherwise indicated)

	2015	2016		2017		2018	2019
	Est.	5th&6thReview[6]	Est.	5th&6thReview[6]	Proj.	Proj.	Proj.
Trade balance[1]	-918	-878	-655	-767	-605	-555	-528
Exports, f.o.b.	255	245	238	236	268	328	370
of which: Iron ore	104	61	48	55	55	75	79
of which: Gold	42	77	76	93	130	160	188
Imports, f.o.b	-1,174	-1,123	-893	-1,003	-872	-883	-898
Services (net)	-878	-884	-846	-545	-750	-690	-579
Income (net)	-285	-250	-248	-276	-271	-303	-334
of which: Compensation of employees	-58	-19	-14	-19	-14	-21	-24
of which: Public interest payments due	-4	-4	-5	-5	-8	-9	-7
Current transfers	1,360	1,360	1,232	969	1,074	910	864
Current account balance	-721	-652	-516	-619	-552	-639	-577
Current account balance, excluding grants	-1,742	-1,660	-1,510	-1,221	-1,416	-1,319	-1,201
Capital and financial account (net)	663	636	484	630	506	692	604
Capital account	58	61	60	60	61	61	62
Financial account	605	575	424	570	446	630	541
Foreign direct investment (net)	257	250	230	259	239	297	354
Portfolio investment (net)	0	0	0	0	0	0	0
Other investment (net)	348	325	193	311	207	333	187
Official financing: medium and long term (net)	113	99	97	126	126	119	116
Private financing (net)[2]	234	226	96	185	81	214	71
Overall balance	-58	-16	-33	11	-46	53	27
Financing	58	16	33	-11	46	-53	-27
Change in gross official reserves (increase -)[3]	-34	-23	-6	-32	26	-50	-12
Net use of IMF credit and loans	56	39	38	21	20	-3	-15
Donor financing	0	0	0	0	0	0	0
Exceptional financing	36	0	0	0	0	0	0
Financing gap (- deficit / + surplus)	0	0	0	0	0	0	0
Memorandum items:							
Current account balance (percent of GDP)							
Including grants	-35.4	-30.9	-24.6	-27.8	-26.1	-30.1	-25.7
Excluding grants	-85.5	-78.6	-71.9	-54.9	-66.9	-62.1	-53.5
Trade balance (percent of GDP)	-45.1	-41.6	-31.2	-34.5	-28.6	-26.1	-23.5
Donor transfers (net, percent of GDP)	50.1	47.7	47.3	27.0	40.8	32.0	27.8
Foreign direct investment (net, percent of GDP)	12.6	11.8	11.0	11.6	11.3	14.0	15.8
Public sector external debt (medium and long term, percent of GDP)[4]	22.8	28.0	28.0	33.6	35.3	40.1	44.4
Gross official reserves	446	469	452	501	426	476	488
Gross official reserves (months of imports)[5]	3.0	2.9	2.9	3.2	2.7	3.2	3.2

Sources: Liberian authorities; and IMF staff estimates and projections.

[1] The central bank is currently revising BOP statistics using the custom-based trade data, which would have better data coverage,

[2] "Private financing" may reflect current transfers that are not captured by the official statistics.

[3] Includes SDR holdings.

[4] Recorded in fiscal years.

[5] In months of next year's imports excluding imports related to UNMIL operations and FDI projects such as iron-ore concessions.

[6] "World Bank additional grant" and "Election support", and "IMF ECF access augmentation" were formally recorded under "Financing gap". For comparison, the first two items are included in "Current transfer" and access augmentation is included in "Net use of IMF credit and loans".

Table 3a. Liberia: Fiscal Operations of the Central Government, 2015–19[1]

(Millions of U.S. dollars)

	FY2015	FY2016	FY2017		FY2018		FY2019
	Est.	Est.[8]	5th&6th Review[11]	Est.	5th&6th Review	Proj.	Proj.
Total revenue and grants	646	652	695	611	642	635	598
Revenue	447	453	499	466	538	491	531
Tax revenue	369	402	402	382	441	392	424
Taxes on income, profits, and capital gains	147	163	145	144	165	147	162
Taxes on goods and services	50	47	60	49	69	53	59
Taxes on international trade	168	185	192	185	199	185	195
Other taxes	4	6	6	5	7	8	9
Non-tax	78	51	96	83	97	98	107
Grants	199	199	197	145	104	144	67
of which: Budget support	60	68	70	67	31	47	25
Expenditure and net lending	842	739	860	766	781	762	708
of which: Off-budget expenditure	241	195	284	218	227	238	162
Current expenditure[2]	646	576	631	572	614	580	552
Wages and salaries	255	277	258	291	263	291	281
Goods and services[3]	267	214	244	204	186	207	161
Subsides and transfers	115	76	116	67	128	68	62
Interest	10	9	13	9	37	14	47
Capital expenditure	195	162	227	194	168	182	156
of which: Mount Coffee	47	56	84	63	20	35	0
Foreign loan financed	70	60	83	85	84	84	84
Foreign grant financed	71	44	92	58	40	62	29
Domestically financed	54	59	52	51	43	35	43
Overall balance							
Including grants	-195	-87	-165	-155	-140	-127	-110
Central government budget balance	-104	-23	-7	-15	14	13	10
Excluding grants	-394	-286	-362	-300	-244	-271	-177
Identified financing	195	87	165	155	140	127	110
External financing (net)	142	112	113	117	118	114	117
Loans	147	113	119	122	120	120	120
of which: Budget support	48	28	0	6	0	0	0
of which: Ebola-related loans	48	28	0	0	0	0	0
Amortization (-)	-5	-1	-5	-4	-2	-6	-3
Domestic financing (net)	53	-25	52	38	22	13	-7
Central Bank of Liberia	40	7	-35	-5	1	6	21
Use of deposits	-53	7	-53	-22	14	6	34
Gross borrowing	99	0	18	17	0	0	0
Amortization	-5	0	0	0	-13	0	-13
Deposit money banks	13	-28	87	44	23	11	-16
Treasury bill purchases (net)	19	-21	64	44	0	8	-22
Other lending to government (net)	-6	-7	23	0	23	4	6
Other (including repayment of arrears)	0	-4	0	-1	-2	-4	-12
Financing gap (- deficit / + surplus)	0	0	0	0	0	0	0
Memorandum items:							
Iron-ore related revenue[4]	22	7	8	9	12	7	9
Total public external debt[5]	456	580	734	736	869	865	971
Central government domestic debt[6]	301	269	366	321	374	333	271
of which: foreign currency denominated	271	258	357	258	365	264	252
Basic balance[7]	0	75	62	39	28	55	45
Current balance	-199	-123	-133	-106	-76	-90	-22
Primary balance, including grants	-186	-78	-152	-146	-103	-113	-63
Total aid disbursement[9]	712	737	742	637	405	630	624
Road fund[10]					31	21	27
Fiscal year nominal GDP	1,994	2,073	2,183	2,084	2,326	2,154	2,186

Sources: Liberian authorities; and IMF staff estimates and projections.

[1] Fiscal table is shown on a cash basis (i.e., debt service payments are shown after all debt relief) and refers to the budgetary central government operations and selected off-budget activities, such as Mt. Coffee hydro project and Ebola-related activities. Social security funds are excluded.

[2] For FY2016 and after, the classification of current expenditure was reformed because some labor compensation spendings used to be classified into goods and services and subsidies and transfers. FY2015 had similar classification issues, but due to lack of information, it is difficult to resolve them.

[3] FY2017 goods and service spending includes election costs (one-off), security handover costs (partly one-off), and Mt Coffee hydro project, which ends in FY2017.

[4] Non-tax iron sector revenue, including social contribution by the iron companies.

[5] Includes debt to IMF and short-term T-bill and T-bond.

[6] Includes central government debt to the Central Bank of Liberia (which is excluded from domestic debt in the debt sustainability analysis).

[7] Basic balance is defined as (total revenue and grants minus project grants) minus (total expenditure minus foreign and domestically financed investment spending).

[8] Including end-FY2016 expenditure float.

[9] Total aid disbursement includes all the official grants and loans based on the new Aid Management Database. Since "Grants" covers only selected items, this item exceeds sum of "Grants" and "External loans". Projection of the total aid flow under the fifth and sixth review was based only on items confirmed by donors. In FY2017 estimate, US$33 million was net out because the Government of Liberia recalled a part of unused Ebola Emergency Support Project grant to the World Bank.

[10] The Road Fund has two financing sources. One is income from storage surcharges from imported fuel (25 cent per gallon). Another is matching grant by the Millennium Challenge Corporation for FY2018.

[11] "World Bank grant" and "IMF ECF access augmentation", which are recorded under "Financing gap" in the previous report, are included in "Grants" and borrowing from the Central Bank, respectively.

Table 3b. Liberia: Fiscal Operations of the Central Government, 2015–19[1]

(Percent of GDP, unless otherwise indicated)

	FY2015	FY2016	FY2017		FY2018		FY2019
	Est.	Est.[8]	5th&6th Review[11]	Est.	5th&6th Review	Proj.	Proj.
Total revenue and grants	32.4	31.4	31.8	29.3	27.6	29.5	27.4
Revenue	22.4	21.8	22.8	22.3	23.1	22.8	24.3
Tax revenue	18.5	19.4	18.4	18.3	18.9	18.2	19.4
Taxes on income, profits, and capital gains	7.4	7.9	6.6	6.9	7.1	6.8	7.4
Taxes on goods and services	2.5	2.3	2.7	2.3	3.0	2.5	2.7
Taxes on international trade	8.4	8.9	8.8	8.9	8.5	8.6	8.9
Other taxes	0.2	0.3	0.3	0.2	0.3	0.4	0.4
Non-tax	3.9	2.5	4.4	4.0	4.2	4.6	4.9
Grants	10.0	9.6	9.0	7.0	4.5	6.7	3.1
of which: Budget support	3.0	3.3	3.2	3.2	1.3	2.2	1.1
Expenditure and net lending	42.2	35.6	39.4	36.8	33.6	35.4	32.4
of which: Off-budget expenditure	12.1	9.4	13.0	10.5	9.8	11.0	7.4
Current expenditure[2]	32.4	27.8	28.9	27.4	26.4	26.9	25.3
Wages and salaries	12.8	13.4	11.8	14.0	11.3	13.5	12.9
Goods and services[3]	13.4	10.3	11.2	9.8	8.0	9.6	7.4
Subsides and transfers	5.8	3.7	5.3	3.2	5.5	3.2	2.9
Interest	0.5	0.5	0.6	0.4	1.6	0.7	2.2
Capital expenditure	9.8	7.8	10.4	9.3	7.2	8.4	7.1
of which: Mount Coffee	2.3	2.7	3.9	3.0	0.8	1.6	0.0
Foreign loans financed	3.5	2.9	3.8	4.1	3.6	3.9	3.8
Foreign grant financed	3.6	2.1	4.2	2.8	1.7	2.9	1.3
Domestically financed	2.7	2.8	2.4	2.4	1.9	1.6	2.0
Overall balance							
Including grants	-9.8	-4.2	-7.6	-7.4	-6.0	-5.9	-5.0
Central government budget balance	-5.2	-1.1	-0.3	-0.7	0.6	0.6	0.4
Excluding grants	-19.8	-13.8	-16.6	-14.4	-10.5	-12.6	-8.1
Identified financing	9.8	4.2	7.6	7.4	6.0	5.9	5.0
External financing (net)	7.1	5.4	5.2	5.6	5.1	5.3	5.3
Loans	7.4	5.5	5.4	5.8	5.2	5.6	5.5
of which: Budget support	2.4	1.3	0.0	0.3	0.0	0.0	0.0
of which: Ebola-related loans	2.4	1.3	0.0	0.0	0.0	0.0	0.0
Amortization (-)	-0.2	-0.1	-0.3	-0.2	-0.1	-0.3	-0.1
Domestic financing (net)	2.7	-1.2	2.4	1.8	0.9	0.6	-0.3
Central Bank of Liberia	2.0	0.4	-1.6	-0.2	0.0	0.3	1.0
Use of deposits	-2.7	0.4	-2.4	-1.1	0.6	0.3	1.6
Gross borrowing	4.9	0.0	0.8	0.8	0.0	0.0	0.0
Amortization	-0.3	0.0	0.0	0.0	-0.6	0.0	-0.6
Deposit money banks	0.7	-1.3	4.0	2.1	1.0	0.5	-0.7
Treasury bill purchases (net)	1.0	-1.0	2.9	2.1	0.0	0.4	-1.0
Other lending to government (net)	-0.3	-0.3	1.1	0.0	1.0	0.2	0.3
Other (including repayment of arrears)	0.0	-0.2	0.0	-0.1	-0.1	-0.2	-0.6
Memorandum items:							
Iron-ore related revenue [4]	1.1	0.3	0.4	0.4	0.5	0.3	0.4
Total public external debt [5]	22.8	28.0	33.6	35.3	37.4	40.1	44.4
Central government domestic debt [6]	15.1	13.0	16.8	15.4	16.1	15.4	12.4
of which: foreign currency denominated	13.6	12.4	16.4	12.4	15.7	12.2	11.5
Basic balance [7]	0.0	3.6	2.8	1.9	1.2	2.5	2.1
Current balance	-10.0	-6.0	-6.1	-5.1	-3.3	-4.2	-1.0
Primary balance, including grants	-9.3	-3.8	-7.0	-7.0	-4.4	-5.2	-2.9
Total aid disbursement[9]	35.7	35.6	34.0	30.5	17.4	29.3	28.5
Road fund[10]					1.3	1.0	1.2
Fiscal year nominal GDP (mil. of U.S. dollars)	1,994	2,073	2,183	2,084	2,326	2,154	2,186

Sources: Liberian authorities; and IMF staff estimates and projections.

[1] Fiscal table is shown on a cash basis (i.e., debt service payments are shown after all debt relief) and refers to the budgetary central government operations and selected off-budget activities, such as Mt. Coffee hydro project and Ebola-related activities. Social security funds are excluded.

[2] For FY2016 and after, the classification of current expenditure was reformed because some labor compensation spendings used to be classified into goods and services and subsidies and transfers. FY2015 had similar classification issues, but due to lack of information, it is difficult to resolve them.

[3] FY2017 goods and service spending includes election costs (one-off), security handover costs (partly one-off), and Mt Coffee hydro project, which ends in FY2017.

[4] Non-tax iron sector revenue, including social contribution by the iron companies.

[5] Includes debt to IMF and short-term T-bill and T-bond.

[6] Includes central government debt to the Central Bank of Liberia (which is excluded from domestic debt in the debt sustainability analysis).

[7] Basic balance is defined as (total revenue and grants minus project grants) minus (total expenditure minus foreign and domestically financed investment spending).

[8] Including end-FY2016 expenditure float.

[9] Total aid disbursement includes all the official grants and loans based on the new Aid Management Database. Since "Grants" covers only selected items, this item exceeds sum of "Grants" and "External loans". Projection of the total aid flow under the fifth and sixth review was based only on items confirmed by donors. In FY2017 estimate, US$33 million was net out because the Government of Liberia recalled a part of unused Ebola Emergency Support Project grant to the World Bank.

[10] The Road Fund has two financing sources. One is income from storage surcharges from imported fuel (25 cent per gallon). Another is matching grant by the Millennium Challenge Corporation for FY2018.

[11] "World Bank grant" and "IMF ECF access augmentation", which are recorded under "Financing gap" in the previous report, are included in "Grants" and borrowing from the Central Bank, respectively.

Table 4. Liberia: Monetary Survey, 2015–18

(Millions of U.S. dollars; unless otherwise indicated)

	2015	2016		2017		2018
	Act.	5th&6thReview	Est.	5th&6th Review	Proj.	Proj.
(Central Bank Survey)						
Net foreign assets	189	181	168	194	89	141
CBL's gross foreign reserves	532	567	539	602	498	548
Commercial banks' US$ denominated deposits	87	98	88	101	72	72
CBL's gross official foreign reserves	446	469	452	501	426	476
CBL's net foreign exchange position[1]	164	181	167	192	149	180
Government US$ denominated deposits	129	100	97	96	55	77
Net domestic assets	-28	-24	-3	-35	56	39
Net claims on government	87	91	127	80	206	225
Claims on other public sector	0	0	0	0	0	0
Claims on private sector	4	4	21	4	20	24
Claims on commercial banks	28	28	16	28	20	0
Other items (net)	-147	-147	-168	-147	-190	-210
Monetary base (M0)	161	157	165	159	145	181
Monetary base (billions of Liberian dollars)	14	16	17	17	18	24
(Depository Corporation Survey)						
Net foreign assets	383	366	346	380	244	281
Net domestic assets	326	343	330	362	411	383
Net claims on government	118	122	158	111	244	248
Claims on public enterprises	33	43	52	53	36	41
Claims on private sector	409	446	427	479	473	522
Claims on nonbank financial institutions	2	2	2	2	2	2
Other Items (Net)	-238	-238	-310	-238	-364	-430
Broad money (M2)	709	709	677	742	655	664
L$ component	206	205	222	211	195	219
L$ Currency in circulation	109	104	116	100	124	123
L$ denominated deposits	97	101	106	111	95	97
US$ component (deposits only)	502	504	455	531	437	445
Memorandum items:						
Broad money (annual change)	1.7	0.1	-4.5	4.6	-3.1	1.3
L$ component as percent of broad money	2.9	-0.2	2.2	0.8	-3.9	3.7
US$ component as percent of broad money	-1.2	0.2	-6.7	3.8	-2.6	1.2
Monetary base (annual change)	5.6	-2.1	2.8	1.3	-12.3	24.7
Net credit to government (annual change)	-36.7	3.4	34.2	-9.0	54.0	1.7
Credit to private sector (annual change)	8.1	9.0	4.5	7.6	10.7	10.2
Velocity (GDP-to-M2)	2.9	3.0	3.0	3.0	3.2	3.2
Money multiplier (M2/M0)	4.4	4.5	4.1	4.7	4.5	3.7

Sources: Liberian authorities; and IMF staff estimates and projections.

[1] Net foreign exchange position is evaluated at program exchange rate.

Table 5. Liberia: Financial Soundness Indicators, 2014–17

(Percent)

	2014	2015	2016				2017	
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Capital adequacy								
Regulatory capital to risk-weighted assets	20.3	15.5	16.2	20.0	20.6	21.5	17.4	17.9
Reported net capitalization	12.6	11.8	11.6	13.3	14.7	15.9	19.3	18.3
Asset quality								
Non-performing loans to total loans	18.7	15.7	15.7	14.8	12.8	14.8	15.8	14.0
Provisions to non-performing loans net of interest in suspense	61.1	73.5	78.6	80.4	88.1	88.3	63.0	61.6
Provisions to classified loans net of interest in suspense	51.8	63.6	67.8	66.4	61.0	61.1	60.4	58.7
Loan concentration (share of total)								
Agriculture	6.8	7.0	6.9	6.9	7.4	4.4	3.4	2.8
Mining and Quarrying	0.6	0.4	0.4	2.0	0.4	0.1	0.3	0.4
Manufacturing	1.9	2.6	3.2	3.1	3.7	5.4	1.6	1.1
Construction	17.2	14.3	15.2	15.9	15.2	10.6	10.9	10.9
Transportation, Storage, and Communication	7.4	8.7	7.4	6.8	8.2	6.2	4.0	0.8
Trade, Hotels, and Restaurants	43.8	43.3	41.6	39.0	38.7	28.2	35.3	18.8
Services	6.3	5.6	6.9	6.9	9.9	3.3	9.1	8.0
Personal	9.7	10.0	11.2	11.8	8.5	12.4	19.1	42.8
Government of Liberia	2.2	2.5	2.2	2.0	1.8	0.0	0.0	0.0
Public corporations	1.1	0.7	0.7	0.7	1.6	0.1	0.0	0.0
Others	2.8	4.7	4.2	4.9	4.6	29.3	16.4	14.4
Earnings and profitability								
Return on assets	0.1	-1.0	-2.4	0.6	0.9	0.2	0.3	0.2
Return on equity	1.0	-9.0	-18.0	4.5	6.3	0.8	1.6	0.9
Non-interest income to total income	51.0	52.4	51.2	52.1	51.3	43.8	46.7	46.8
Net interest margin over average assets	7.4	7.6	1.9	3.9	5.9	2.7	0.6	0.9
Liquidity								
Liquid assets to deposits and designated liabilities	32.4	25.3	24.7	26.6	26.4	33.7	31.1	27.0
Liquid assets to net assets	34.0	26.7	26.4	28.1	27.6	35.6	34.5	30.0
Net loans to deposits	50.4	56.8	42.1	58.6	60.6	72.9	76.2	84.5

Sources: Liberian authorities; and IMF staff estimates.

Table 6. Liberia: Indicators of Capacity to Repay the Fund, 2016–27

(Percent)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
						Projections						
Prospective drawings based on existing and prospective credit	27.7	14.8	-	-	-	-	-	-	-	-	-	-
ECF[1]	27.7	14.8	-	-	-	-	-	-	-	-	-	-
RCF[2]												
Charges and interest												
Total obligations based on existing and prospective credit[2]	0.0	0.0	2.1	10.5	20.0	23.0	26.3	27.3	24.4	13.2	8.5	3.0
Repayments and repurchases	0.0	0.0	2.1	10.5	20.0	23.0	26.3	27.3	24.4	13.2	8.5	3.0
ECF-current	0.0	0.0	2.1	10.5	16.8	16.5	19.8	17.9	15.0	7.0	5.5	0.0
ECF-projected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	3.0	3.0	3.0	3.0
RCF-projected	0.0	0.0	0.0	0.0	3.2	6.5	6.5	6.5	6.5	3.2	0.0	0.0
Interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ECF-current	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ECF and RCF-projected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of												
GDP	0.0	0.0	0.1	0.6	1.1	1.2	1.3	1.2	1.0	0.5	0.3	0.1
Gross official reserves	0.0	0.0	0.6	3.0	5.5	5.8	5.9	5.6	4.6	2.3	1.4	0.4
Exports of goods and services	0.0	0.0	0.4	2.1	3.7	4.0	4.1	3.6	3.0	1.5	0.9	0.3
Fiscal revenue (excluding grants)	0.0	0.0	0.6	2.7	4.8	5.2	5.5	5.4	4.5	2.2	1.3	0.4
Outstanding Fund credit[1]	143.4	158.2	156.1	145.6	125.6	102.6	76.3	49.0	24.6	11.4	3.0	0.0
In percent of												
GDP	9.2	10.4	10.2	9.0	7.2	5.5	3.7	2.2	1.0	0.4	0.1	0.0
Gross official reserves	42.7	51.5	45.5	41.5	34.3	26.0	17.2	10.1	4.7	2.0	0.5	0.0
Exports of goods and services	30.2	35.4	33.2	29.2	23.2	17.7	12.0	6.4	3.0	1.3	0.3	0.0
Fiscal revenue (excluding grants)	43.4	48.0	44.4	37.6	30.4	23.3	16.1	9.7	4.5	1.9	0.5	0.0
Quota[3]	55.5	61.2	60.4	56.4	48.6	39.7	29.5	19.0	9.5	4.4	1.1	0.0

Sources: Liberian authorities; and IMF staff estimates.

[1] Including propsed access augmentation.

[2] RCF of SDR32.3 million was approved in February 23, 2015 by the Executive Board.

[3] On October 3, 2016 the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through December 31, 2018 and possibly longer. The Board also decided to extend zero interest rate on ESF until end 2018 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of SDR rate, the following interest rates are assumed beyond 2018: projected interest charges between 2019 and 2020 are based on 0/0/0/0.25 percent per annum for the ECF, SCF, RCF and ESF, respectively, and beyond 2020 0/0.25/0/0.25 percent per annum. The Executive Board will review the interest rates on concessional lending by end-2018 and every two years thereafter.

Table 7. Liberia: Schedule of Disbursements Under the ECF and RCF Arrangements, 2012–17

Amount (Total: SDR 143.964 million)	Date of Availability[1]	Conditions for Disbursement[2]
SDR 7.382 million	November 19, 2012	Executive Board approval of the three-year ECF arrangement
SDR 7.382 million	July 3, 2013	Executive Board completion of the first review under the three-year ECF arrangement
SDR 7.382 million	December 11, 2013	Executive Board completion of the second review under the three-year ECF arrangement
SDR 7.382 million	July 3, 2014	Executive Board completion of the third review under the three-year ECF arrangement
SDR 32.300 million	September 26, 2014	Executive Board approval of augmentation of access of 25 percent of quota under an ad hoc review
SDR 32.300 million	February 23, 2015	Executive Board approval of access of 25 percent of quota under a Rapid Credit Facility
SDR 7.382 million	December 21, 2015	Executive Board completion of the fourth review under the three-year ECF arrangement
SDR 13.842 million	December 16, 2016	Executive Board completion of the fifth review under the three-year ECF arrangement with 2.5 percent access augmentation
SDR 13.848 million	December 16, 2016	Executive Board completion of the sixth review under the three-year ECF arrangement with 2.5 percent access augmentation
SDR 7.382 million	March 30, 2017	Executive Board completion of the seventh review under the four-year ECF arrangement
SDR 7.382 million	September 30, 2017	Executive Board completion of the eighth review under the four-year ECF arrangement

Source: IMF staff estimates.
[1] With respect to previously completed reviews, the date indicated refers to the date of the Executive Board meeting.
[2] In addition to the conditions that normally apply to an ECF arrangement.

Annex I. Summary of the Achievements of the Current Program Arrangement under Extended Credit Facility

Completing its maximum possible length of five years, the ECF arrangement is set to conclude on November 18, 2017. Original access to 40 percent of quota (SDR 51.68 million) was augmented during the Ebola epidemic by 25 percent of quota (SDR 32.3 million). In December 2016, the Board approved an additional augmentation of 10.7 percent quota (SDR 27.68 million), of which SDR 12.92 was disbursed immediately and the remaining SDR 14.76 million was equally allocated to the seventh and eight reviews.

Macro Environment weakened but remained resilient. Liberia recorded strong macroeconomic performance between 2009–13 with average growth of 7.1 percent. The Ebola epidemic brought economic activity to a halt in mid-2014 and real GDP growth projections have seen subsequent downward revisions since. Liberia overcame the epidemic thanks to decisive policy actions, unparalleled international support, and community engagement. However, the post-Ebola recovery has been slow given the persistence of external shocks, with growth estimated at 2.5 percent for 2017. The decline in commodity prices, UNMIL withdrawal, and winding down of aid flows in 2014–15 continue to weigh on the economy; and high external and internal imbalances accompanied with low buffers add to vulnerabilities.

On aggregate, the ECF-supported program performance remained broadly positive, as it successfully helped maintain the macroeconomic situation under control despite multiple adverse shocks. Even with mixed results on quantitative targets and structural benchmarks, the country has made steady progress in supporting infrastructure; increasing access to credit; and pursuing structural reforms. Partly due to multiple adverse shocks, the ECF-supported program was however unable to create sufficient fiscal space to keep the risk of debt distress low.

- ***Creating fiscal space for higher capital spending***: The fiscal position remained accommodative as the fiscal stance adjusted over time to absorb the external shocks. Capital expenditure rose from average 3.9 percent of GDP between FY2009–FY2012 to 9.3 in FY2016-FY2017 (shares of total expenditure of 14.7 and 24.7, respectively), and the general government capital stock has increased by average of 4.4 percent since 2012. The Liberian authorities took various revenue mobilization and PFM reform initiatives addressing weaknesses in the legal framework, cash management, expenditure control, public investment management, budget formulation, SOE's oversight, tax compliance, and fiscal governance. The authorities have recently renewed its PFM reform strategy and its action plan for 2017-20; and has also submitted to the Legislature amendments to the 2009 PFM Act addressing some of the remaining weaknesses in the legal and regulatory framework. Despite these efforts, however, the creation of fiscal space was not sufficient to keep the risk of debt distress at the low level.

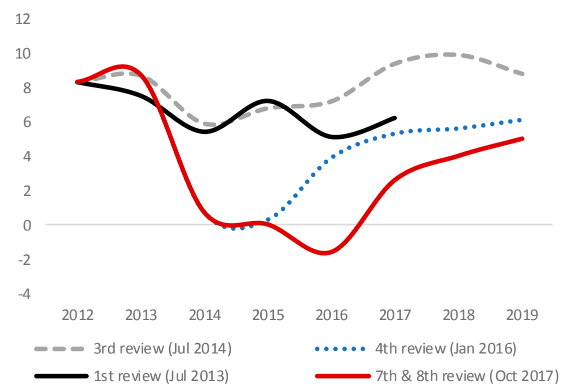
- ***Strengthening the financial sector***: With a tight monetary policy stance, reserves remain below-but-close to 3-months of imports as the CBL strikes the difficult balance of maintaining buffers and avoiding excessive depreciation. The implementation of the CBL's three-year financial plan is on track, and the CBL is committed to improving AML/CFT compliance. The CBL has made progress on the adoption of the ELA framework, groundwork for establishing a SRR, studied introduction of deposit insurance, and implemented additional interim safeguards. The CBL has indicated commitment to implement the CBL's Action Plan beyond the completion of the ECF arrangement.

- ***Underpinning growth with structural reforms***: The implementation of structural reforms remained largely on track but slower than desirable due to the limited absorption capacity of the Liberian institutions. The country has been recipient of a vast number of TAs on fiscal and monetary policy, as well as to improve data compilation and economic statistics. Progress has been made on PFM, governance, and competitive market including gaining WTO accession in 2016.

Table 1. ECF Arrangement Performance

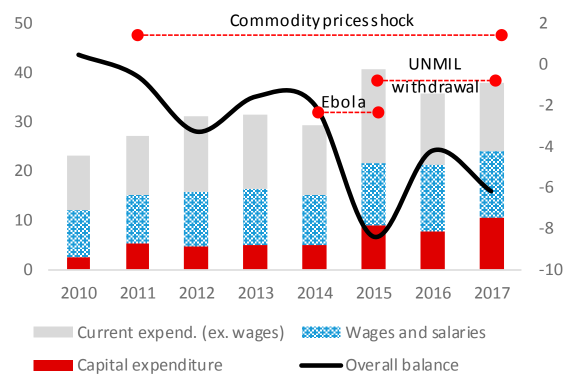
Multiple downward revisions to GDP growth projections

(Percent of GDP)



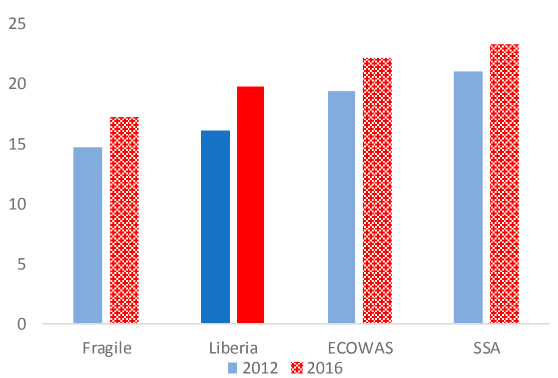
Fiscal policy has remained accommodative amid external shocks

(Percent of GDP)



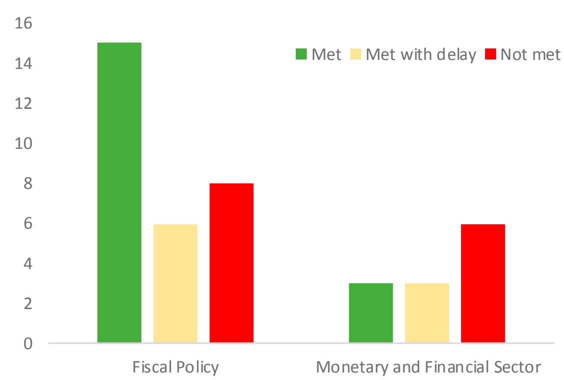
Credit access has increased

(Private credit, percent of GDP)



Mixed results on structural benchmarks

(Number of SBs per topic)



Source: WEO, IFS, and IMF staff calculations.

Annex II. Risk Assessment Matrix[1]

Sources	Likelihood	Potential Impact	Policies to Minimize Impact
External			
Significant slowdown in China and other large EMs/frontier economies, leading to further weakness in commodity prices.	Medium	Protracted low commodity prices could delay natural resource sector recovery, lowering overall medium-term growth and fiscal revenue.	Accumulate international reserve buffers. Diversify the structure of the economy and export markets. Seek additional financing resources and prioritize expenditure to compensate revenue shortfall.
Retreat from cross-border integration	Medium	Reduction in foreign aids backed by strong nationalism in donor countries significantly slow down infrastructure development and poverty reduction, increase spending pressure under the national budget, and reduce foreign exchange flow.	Prioritize public projects, develop contingent spending plans for sudden stop of aid flows, and accumulate fiscal and external buffer.
Reduced financial services by global/regional banks.	High	Lower trade finance, flow of remittances, and humanitarian aid follow difficulties in identifying credible counterparties.	Strengthen AML/CFT supervisory framework, address gaps in the AML/CFT legislature including terrorist financing, and improve tax system transparency,
Sharp decrease in aid flow	High	Slowdown of aid flow, reflecting political uncertainty, completion of large projects, and frontloaded Ebola-recovery support, could weaken domestic economy and reduce foreign exchange inflow.	Identify the linkage between foreign aids and domestic economy and develop accurate estimates of the impact of aid flow shortfall on fiscal and balance of payments sectors for adequate policy reactions.
Domestic			
Large scale re-emergence of Ebola disease	Low	Socio-economic recovery process would be delayed, depressing growth and worsening the living standards of vulnerable groups.	Continue efforts to fight the disease, including ensuring continued communities' engagement, and strengthen health and social protection systems.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Sources	Likelihood	Potential Impact	Policies to Minimize Impact
Deterioration of security conditions after the UNMIL withdrawal	Medium	A security vacuum would undermine investor and consumer confidence and slow down economic activity.	Ensure smooth transition from UNMIL to national security system.
Weak policy implementation	High	Possibly under the stress from a worsening of government revenue, security, and/or health situation, implementation of PFM measures, fiscal discipline, and exchange rate policy may be undermined, leading to an acceleration of exchange rate depreciation and the accumulation of domestic arrears.	Front-load policy implementation and maintain engagement with the IMF.
Increasing debt distress	High	The worsened macroeconomic outlook, especially key export sectors, and high public investment needs and borrowing pressures could raise risk of debt distress from moderate to high.	Prioritize public projects financed by external loans and seek grant financing instead of loan financing.

Appendix I. Letter of Intent

Monrovia, November 1, 2017

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C., USA

The attached Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and performance under the Extended Credit Facility (ECF) arrangement. It also updates the government's macroeconomic policies and objectives including beyond the expiration of the ECF arrangement in November 2017, as anchored in the government's long term development program—Liberia Rising 2030.

The post Ebola macroeconomic environment has been very challenging in the face of persistent shocks which have affected the country's growth. The impact of the commodity price decline proved more persistent than expected, affecting production and investment in the iron ore and rubber sectors and triggering a period of economic recession. The drawdown of peacekeeping operations of the United Nations Mission in Liberia (UNMIL) as well as the October 2017 general and presidential elections have dampened demand and added to the uncertainty for domestic and foreign investment.

Nonetheless, the medium-term outlook is still positive. Liberia has enjoyed 18 months without any further Ebola outbreak and has put in place systems to detect and contain any further outbreak. Based on this achievement, and the possible increase in the global prices of rubber and iron ore, and prioritized spending on enabling infrastructure, we are confident of experiencing an increase in economic activity over the medium term.

Against the background of the current challenges, the government remains grateful to the IMF for funds made available under the ECF and the Rapid Credit Facility (RCF) arrangements. These have been instrumental in helping the government deal with the balance of payments gap triggered by the Ebola crisis and the commodity price decline. Further, the extension of the program until November 18, 2017 is supporting the government's efforts to ensure continued macroeconomic stability in the run up to the elections.

Our performance under the ECF-supported program through end-June 2017 has been generally positive. We met all end-December indicative targets (IT) and all but two quantitative performance criteria (PCs). The PC floor on the government revenue was missed narrowly (0.1 percent of GDP). The PC ceiling on external borrowing was missed because of a project loan that was ratified by the legislature in October 2016, but not included in the total amount of ratified loans. We have since put in place enhanced reporting and tracking requirements sufficient to prevent a re-occurrence and, on this basis, are requesting a waiver for non-attainment of this PC. Over the six months since December 2016, due to the factors referred to above, our economic situation has deteriorated and diverged significantly from that projected at the time of the fifth and sixth program reviews. This was reflected in our performance against end-June 2017 program PCs and ITs. Specifically, we missed the end-

June 2017 PCs on revenue collection, external reserves, and Central Bank of Liberia's (CBL) gross credit to government. However, we have since put in place macroeconomic adjustment appropriate to our current circumstances described in the attached Memorandum of Economic and Financial Policies (MEFP) and, on this basis, request waivers for the non-attainment of these PCs.

The execution of the government's budget has been difficult due to lower resources and growing expenditure pressures ahead of the October elections. Reflecting the slowdown in economic activity, the total resource envelope for FY2016/17 was US$45 million (2.1 percentage points of GDP) lower than anticipated under the approved budget, despite our mitigating revenue measures. However, to adjust to these reduced circumstances, we significantly compressed spending by releasing allotments only when available resources permitted. This, combined with additional support from the IMF and the World Bank, permitted us to finish the fiscal year with a budget deficit of US$15 million, about 0.6 percentage points of GDP, slightly lower than the approved budget. In FY2017/18, we anticipate a shortfall in revenue and grants of US$24 million relative to the budget enacted in July 2017. We will offset this with corresponding spending cuts, while securing resources for key spending needs, including infrastructure projects, elections, security, and health and education.

We are committed to further progress in fiscal structural reforms. The Public Financial Management (PFM) Reform Strategy and its action plan, after several rounds of consultations by key donors, including the IMF, were finalized on July 25. The PFM reform strategy covers a wide range of reform areas for 2017–20 (see MEFP), and will guide the continuation of ongoing reforms. In addition, the amendments of the PFM Act we submitted to the National Legislature on July 13 aim at achieving strengthened fiscal responsibilities, more efficient budget execution and financial management functions, improved state-owned enterprise (SOE) governance, and improvements in internal controls, cash management, accountability and reporting, including sanctions for various breaches of the law.

Monetary policy will continue to focus on smoothing the inflation path by containing excess volatility in the foreign exchange market. Over the medium term, the CBL aims to increase reserve cover above the three months of imports to buttress macroeconomic stability. The government also intends to further develop financial markets and strengthen market-based policies aimed at improving confidence and encouraging the wider use of the Liberian dollar.

We commissioned an external forensic audit aimed at examining the circumstances that led to the closure of First International Bank Liberia Limited (FIBLL) and the resulting CBL losses. Upon the finalization of the report, the CBL transmitted the report to the Executive and the Fund Staff. In turn, the Executive has transmitted the report to the Ministry of Justice. The report indicated the existence of shortcomings within FIBLL and in CBL's governance and supervision capacities. In light of these revelations, we have adopted a response based on transparency and comprehensive reform. While it would be premature to publish the entire forensic audit, as this would compromise the judicial procedures that are underway, we have published the executive summary of the report with names and other identifiers redacted, and we believe this will provide the public with sufficient detail to ensure they are aware of what has transpired and what the relevant issues are. With the context thus clearly described, we have also published a time-bound action plan of reform, adopted in consultation with Fund staff, as a means of assuring the public that existing deficiencies in CBL's internal systems are being addressed. Finally, the Executive has agreed to publish the full forensic audit once it is determined that this will not interfere with the appropriate course of judicial procedures.

Based on the performance registered in implementing the economic program, on the strength of our future policy commitments, and on the comprehensiveness of the transparency and mitigation measures we have adopted in dealing with the FIBLL situation, we request that the waivers specified above be approved, that the seventh and eighth reviews under the ECF arrangement be completed, and that disbursements in the cumulative amount of SDR 14.764 million be effected.

While the expiration of the program on November 18, 2017 precludes the establishment of program conditionality that would normally operationalize implementation and monitoring, we nonetheless remain fully committed to implementing the policies and undertakings laid out in the attached Memorandum of Economic and Financial Policies (MEFP) in line with our long-term strategy, Liberia Rising 2030.

We believe that the economic and financial policies described in the MEFP of November 19, 2012, its subsequent supplements, together with the attached supplementary MEFP provide an adequate basis for achieving the economic policy objectives of the government. However, the government stands ready to take any additional measures that may be required to meet our program goals. The government will consult with the IMF on the adoption of these measures and in advance of revisions to the policies contained in this attached supplementary MEFP, in accordance with the Fund's policies on such consultation. We will also, as far as is practicable, provide IMF staff with all the relevant information required to monitor program performance on a timely manner. We consent to the publication on the IMF website of this letter, the accompanying MEFP, the related staff report for the seventh and eighth reviews under our ECF-supported program.

Sincerely,

___________/s/___________	___________/s/___________
Hon. Boima S. Kamara	Hon. Milton A. Weeks
Minister of Finance and Development Planning	Executive Governor
Ministry of Finance and Development Planning	Central Bank of Liberia

Attachment:

- Supplementary Memorandum of Economic and Financial Policies

Attachment 1. Supplementary Memorandum of Economic and Financial Policies

INTRODUCTION

1. **The Executive Board of the International Monetary Fund (IMF) on November 19, 2012, approved a three-year arrangement under the Extended Credit Facility (ECF) in support of Liberia's economic reform program**. The overall objective of the program is to restore macroeconomic stability and promote inclusive economic growth through the implementation of sound macroeconomic policies and structural reforms in critical areas.

2. **In December 2016, the Board extended the ECF arrangement to November 18, 2017**. The extension was intended to help buttress macroeconomic stability leading to the October 2017 presidential and legislative elections and complete the implementation of the structural reform agenda. The Board also augmented access under the ECF supported program by 11 percent of quota, of which 5 percent of quota was immediately released to support the budget.

3. **This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and performance under the ECF arrangement**. It also updates the government's macroeconomic policies and objectives, including beyond the expiration of the ECF arrangement in November 2017, as anchored in the government's long term development program—Liberia Rising 2030.

4. **Despite the current difficulties, we believe the macroeconomic outlook may be finally turning around**. The crisis in the iron ore sector seems to have bottomed out, and production is expected to expand in 2017 and beyond as the one remaining active company continues its exploitation of a new, rich ore bed. This expansion, coupled with significantly increased gold production, should offset weaker activities in the forestry and service sectors and the effects of fiscal consolidation, and lead growth to rebound to around 2.5 percent in 2017. Looking further ahead, we would expect a boost to aggregate demand in the post-election period as investors release demand pent-up by risk aversion, and there is some repatriation of risk capital. Over the medium term, economic growth is conservatively projected to rise to about 6 percent, significantly higher than the rate of population increase, but somewhat lower than the pre-Ebola level of 8 percent—with expansion in the mining, agriculture, and manufacturing sectors driving medium term growth prospects. Inflation is projected to decline to 7 percent over the medium term, as the depreciation slows, and international food and oil prices stabilize.

RECENT DEVELOPMENTS AND OUTLOOK

5. **Coming on the heels of the Ebola epidemic, the commodity price shock and the United Nations peacekeeping withdrawal have further worsened the macroeconomic situation**. The decline in the prices of iron ore and rubber has caused delays in additional foreign investment and job creation in the natural resource sector. Added to this, the drawdown of the United Nations Mission in Liberia (UNMIL) has significantly weakened demand in the domestic economy and, combined with election-induced uncertainty, these factors appear to have reduced both foreign

investment and the net inflow of foreign currency into the economy. The drawdown has also generated significant fiscal pressure, as the government has had to increase spending in the security sector and civil administration in various counties.

6. **The weak global environment and domestic uncertainties have adversely affected macroeconomic performance since 2016**. Real GDP is estimated to have contracted by 1.6 percent last year due to lower production in the mining, forestry, and manufacturing sectors and a higher than estimated impact of the UNMIL drawdown, despite some recovery in the agriculture sector. Available information to date now indicates that the recovery in 2017, with growth originally expected to reach 3¼ percent, may now be lower by three quarters of a percentage point.

7. **The government cut FY2016/17 budget execution, due to weak activity in the domestic economy from the UNMIL withdrawal, low commodity prices, and political uncertainty**. Revenue measures approved in September and November and additional support by the IMF and the World Bank partially mitigated these adverse shocks, and the budget resources (tax, non-tax, and budget support grants and loans) turned out at US$556 million, US$45 million (2.1 percent of GDP) lower than the approved budget. Suspension of the implementing airtime surcharge to safeguard political stability contributed to this loss too. This revenue shortfall was filled by the same amount of spending cut through strong allotment control and spending prioritization, resulting in the budget deficit at US$15 million (0.6 percent of GDP). With the inclusion of off-budget activities, the overall fiscal deficit in FY2016/17 was US$155 million (7.4 percent of GDP), better than the programmed amount by US$10 million due to lower off-budget spending, reflecting the delays in some domestically financed projects.

8. **While the trade balance continued to improve due to a prolonged decline in imports, the current account is deteriorating in 2017**. In 2016, both the trade and current account balances improved, as a 24 percent UNMIL-induced decline in imports more than counteracted a 7 percent fall in exports originating with the commodity price shock. In 2017, the trade balance is expected to improve due to a near doubling of gold exports and the opening of a new iron ore mine site, and further declines in imports as the UNMIL withdrawal continues and the impact of the Liberian dollar depreciation is felt. The current account is on course to weaken somewhat, however, as declines in current transfers and income payments exceed gains in the trade and services balance.

9. **The shortage of US dollars, particularly since end-2016, led to depreciation of the exchange rate and a spike in inflationary pressures**. Total foreign exchange inflows have substantially declined by around 28 percent between FY2015/16 and FY2016/17 due to the UNMIL withdrawal and declines in both net remittance inflows and aid disbursements. The resulting shortage of foreign exchange has been felt clearly in the depreciation of the Liberian dollar, which is now significantly weaker, having depreciated by about 20 percent since the last review in December 2016. As a consequence, price pressures intensified, and inflation is expected to close 2017 at about 12½ percent.

10. **The deterioration in the supply of foreign exchange in the economy poses risk to both internal and external balance**. In December 2016, to help secure additional foreign currency for intervention purposes in the midst of the foreign exchange shortage and depreciation pressures, the Central Bank of Liberia (CBL) introduced a 25 percent surrender requirement on inward remittances

through money transfer companies. Up to mid-2017, the CBL has used a major portion of the U.S. dollars acquired from the surrender requirement to intervene in the foreign exchange market and the rest to augment its reserves. The net foreign exchange position of the CBL, computed at program exchange rates, declined from US$178 million in June 2016 to US$146 million in June 2017. This was mainly due to a swap arrangement of US$30 million with the government of Liberia (GOL) in June 2017. The swap was reversed in July and net foreign exchange position of the CBL recovered to US$162 million in end July 2017. Additionally, the decline in the CBL's net foreign exchange position can also be attributed to the inability of the GOL to effect foreign currency sales to CBL since February 2017 due to the lower than expected FX revenue collection.

11. While we have intervened in the foreign exchange market, this has been for smoothing purposes, not to actively resist the adjustment of the exchange rate. We recognize that the shocks experienced to date have effectively reduced our real income, and that an exchange rate adjustment is necessary to reestablish external equilibrium. Our goal with intervention strategy is to smooth out volatility in the exchange rate market to prevent a rapid fall of the Liberian dollar. To this end, given an environment made more volatile by the elections, we are intervening to slow the adjustment, and combining this with fiscal restraint in an effort to avoid both costly overshooting of the exchange rate and any second-round inflationary impact.

12. Credit growth has recovered and non-performing loans (NPLs) have declined, but the banking sector is suffering from the high level of NPLs. Following the contraction in private sector credit of 2 percent in 2016, credit grew strongly in the first half of this year and stood at 15 percent at end June 2017 year-on-year. However, there are signs that credit growth has decelerated substantially in recent months. The deceleration is related to the still anemic growth rate, and exacerbated by the high level of NPLs in the banking system. NPLs declined during the course of 2016 largely because of the write-off of NPLs of FIBLL and the restructuring of some loans and stood at around 14.8 percent at end December 2016, but this is likely to rise by the end of year due to difficulties in the domestic environment.

PERFORMANCE UNDER THE PROGRAM

13. Program performance was broadly satisfactory up to end-2016. All end-December quantitative performance criteria (PCs) were met except for the floor on government revenue and the ceiling on external borrowing. The revenue PC floor was missed narrowly by about US$2 million (0.1 percent of GDP). The external borrowing PC ceiling was missed by about US$7.8 million in present value (PV) terms because of a project loan that was ratified by the legislature in October but not included in the total amount of ratified loans. This reflects weaknesses in information flows around external borrowing ratifications. To prevent a re-occurrence and strengthen controls on new commitments, the Debt Management Unit (DMU) has begun monthly reporting on signed and ratified loans starting at end-May 2017 and has instituted a requirement to have official copies of all loan ratifications before inclusion in this reporting. All the indicative targets (ITs) for end-December were also met.

14. End-June 2017 program conditionality flagged, as we considered that the unanticipated deterioration in our economic circumstances had rendered the original targets inappropriate (Table 1). As discussed above, since end-2016, due to the larger than anticipated impact of the UNMIL drawdown, the commodity price shock, and the impact of the upcoming elections, our economic situation had deteriorated, and diverged significantly from that projected at the time of the fifth and sixth program reviews. This was reflected in our performance against end-June 2017 program PCs and ITs:

- Given the unanticipated decrease in the availability of foreign currency, we considered that meeting the original program floor on the CBL's net foreign exchange position would have entailed such a rapid depreciation that the hardship caused our most vulnerable groups in terms of inflation and reduced purchasing power could not be justified. In addition, we were concerned that such a rapid depreciation would enhance the risk of overshooting the equilibrium exchange rate level.

- We missed the end-December 2016 and the end-June 2017 PC on revenue collection due to the lower than anticipated level of economic activity. Implementation of revenue measures approved in September and November 2016, as agreed in the fifth and sixth reviews, and additional external support by the IMF and the World Bank partially offset this larger-than-expected shock. The remaining gap was closed by expenditure cuts through strong allotment control and reprioritization.

- We missed the end-June PC ceiling on CBL gross direct credit to central government due to the accounting conventions used to record swap transactions carried out in Q4 FY2016/17 with the CBL. With the shortage of US dollars, and the private sector's newfound preference for remitting taxes in Liberian dollars, the government found itself lacking the foreign currency needed to effect necessary US dollar transactions. In anticipation of foreign currency receipts from the World Bank and EU, the government swapped US$30 million Liberian dollars with the CBL, spent these funds up to end-June, and then repaid the CBL in July 2017. The Fund staff subsequently informed us that a pure swap of Liberian dollar for U.S. dollar should not involve gross credit to the central government. While a pure swap of Liberian for U.S. dollars would not have involved gross borrowing from the CBL, the accounting convention we employed resulted in a temporary recording of the swap as a credit to government, and this caused a breach of the program ceiling. The breach proved temporary, however, as the credit was subsequently reversed in July when the swap was unwound, at which time gross central bank direct credit to government fell back below the end-June program target.

- The end-June IT on net domestic assets of the CBL was missed because of a confluence of factors. The shortage of US dollars in the economy, and stepped up CBL exchange rate smoothing operations, depressed the stock of NFA held by the CBL. This impact was exacerbated by an unanticipated drawdown of off-budget donor funds held in government U.S. dollar accounts in the CBL—the expenditure of these funds decreased NFA further, while the loss of government deposits raised NDA. Consequently, by end-June, NDA was higher and NFA was lower than programmed, but the net impact was that reserve money growth underperformed expectations, and this was matched in the banking system by lower than programmed broad money growth. We consider that this relative monetary tightening in FY2016/17 was an appropriate complement to the fiscal restraint and exchange rate depreciation we undertook in response to the external shocks that buffeted our economy last fiscal year.

15. The implementation of the structural reform agenda under the program is largely on track, though some measures were carried out with delay due to capacity constraints (Table 2). Of the ten SBs specified for the seventh and eighth reviews, we completed five within the agreed deadline. The actions specified in a further three measures were fully completed, but with delay: (i) the quarterly reports on the financial performance of state-owned enterprises (SOEs) for the second quarter of FY2016/17 was published on May 15, 2017 rather than March 31, 2017 due to the delay in the data sharing and the administrative procedure for publication; (ii) the final forensic audit report of FIBLL was shared with the IMF on June 7, 2017 instead of May 31, 2017 due to delays in the review process on the part of the auditor; and (iii) submission of the spending and procurement plans of at least half of the Ministries and Agencies to the Public Procurement and Concession Commission—due by end-June 2017—was only achieved by September due to delays in the budget process itself. The quarterly SOE report for the fourth quarter of FY2016/17 is under process for the publication in November 2017. The remaining SB, a measure to improve natural resource revenue management by formalizing agreements with the four largest concession companies to specify the terms of deferment of some tax payments, was rendered mute after three of the four concession companies to which it applied ceased their Liberia-based operations.

OBJECTIVES OF ECONOMIC AND FINANCIAL POLICIES FOR 2017–18

16. Economic and financial policies for 2017–18 are anchored in the government's long term development program—Liberia Rising 2030. The priorities for 2017–18 will be to ensure a smooth and efficient democratic transition, maintain security and macroeconomic stability, develop more resilient health and education systems, and create an enabling environment for private sector development. The government will continue its focus on diversification of the economy emphasizing agricultural and manufacturing outputs to reduce dependence on the extractive sector.

A. Fiscal Policy

FY2017/18 Budget

17. The FY2017/18 budget was enacted on July 27, 2017, much earlier than in previous years. The total resource envelope (domestic revenue, external grants, and loans) was budgeted at US$564 million, about US$8 million more than FY2016/17 budget outturn. Although external budget support (grants and loans) is expected to decline, economic recovery and revenue collection measures are expected to raise domestic revenue. In particular, the government decided, under the endorsement of the National Legislature, to strengthen collection performance of the Road Fund Levy, which was originally called the Import Surcharge Levy. This measure will unify discretional surcharge rates and introduce direct transfers of collected charges to the budget resource accounts. The government will postpone the extension of the wage structure reform, so far implemented in the MFDP, the Ministry of Gender and Social Protection and the Civil Service Agency. Furthermore, the government maintains the freeze of nominal wages and most of the fiscal rules introduced in FY2016/17, such as the hiring freeze, except in the education, health and security sectors, and travel restrictions. We have allocated these resources in a manner that reflects our commitments to priority areas, including health, education, security, election, and key development projects.

Text Table 1. Government Budget Operations
(Millions of US dollars)

	FY2016/17			FY2017/18		
	Approved Budget	5th and 6th Reviews	Outturn Estimates	5th and 6th Review	Approved Budget	7th and 8th Reviews
Resource	600	589	556	569	564	539
o/w : contingent revenue	5	5	0	0	18	23
Tax	432	408	386	441	401	394
Non-tax	98	90	80	97	101	96
Grants	30	70	67	31	60	47
Loans	38	18	23	0	0	0
Carry forward from last year	2	2	0	0	2	2
Expenditure	600	589	556	569	564	539
o/w : contingent expenditure	5	5	0	0	18	23
Recurrent	520	512	492	495	505	481
o/w : principle and subscription payments	13	13	6	15	17	20
PSIP	80	77	61	74	59	59
Carry forward to next year	0	0	2	0	0	0
Budget balance	-27	-7	-15	15	10	13
Memorandum						
Revenue and grants, including off-budget	687	695	611	642	635	635
Expenditure, including off-budget	871	860	766	781	774	762
Overall balance, including off-budget	-185	-165	-155	-140	-140	-127

Source: Liberian authorities.

18. However, since the time of enacting the budget, we have identified various fiscal risks that required some alteration and adjustment to our fiscal framework.

- **We identified risks to resources of US$24 million for which we have made explicit offsetting cuts in expenditure**. These resource risks consist of a potential delay in donor support amounting to US$13 million, and a projected US$11 million domestic revenue shortfall stemming from a greater than expected impact of the weaker than originally programmed pace of economic growth and international trade. These potential losses have been mitigated by corresponding expenditure cuts, enacted through strong allotment control in a similar manner to how we proceeded in FY2016/17.

- **We also identified further downside risks of about US$23 million, which we will address through the use of contingencies**. These risks originate from some revenue items being exposed to specific risks, such as uncertainty, donor decision, and economic performance, and such revenue is treated as "contingent revenue." The government has identified corresponding "contingent expenditure" for each revenue item through expenditure prioritization. For operational purpose, the government classified the contingent revenue in two types: one-off revenue and over performance. The trigger of the contingent expenditure linked to one-off contingent revenue is straightforward: once the government receives the corresponding one-off revenue, the contingent expenditure will be released. The contingent expenditure linked to overperformance type contingent revenue will be released based on the cumulative performance observed by end-April, 2018. Each paired group of contingent revenue and expenditure will be evaluated separately—if by end-April 2018 at least 80 percent of the contingent revenue of a paired group has been received into the Consolidated Fund, then the corresponding contingent expenditure will be released. If the receipts are less than 80 percent, the corresponding expenditure will be cancelled.

19. Elections and the security handover continue to weigh on the budget. The total cost of the elections, including its security, is estimated at US$53 million (2.5 percent of GDP) of which about US$18 million was spent in FY2016/17 under the budget (with significant savings compared to the budgeted US$22 million) and US$25 million are budgeted for FY2017/18. The remaining costs were and would be funded by the donor community, including EU, UNDP, USA, and International Foundation of Electoral System (IFES).

20. The government established a Road Fund to secure financing sources for the maintenance, rehabilitation, and extension of existing roads. The Road Fund Act was passed by the Legislature in October 2016 and has been activated in FY2017/18. The Fund, which will be controlled by the MFDP, will be financed through a portion of the fuel storage fee and matching co-financing from the Millennium Challenge Corporation (MCC), which will provide up to US$15 million over 3 years. For FY2017/18 the Fund will be financed by US$16 million from Road Fund Levy and US$10 million by the MCC. For transparency purpose, the fiscal table in the published budget book has specific lines to the Road Fund for both revenue and expenditure. Along with the projection revision described in paragraph 17, the government now expects only US$5 million from the MCC for FY2017/18.

21. We reached an agreement with the National Social Security and Welfare Corporation (NASSCORP) regarding the repayment schedule of legacy obligations. Unsettled payments to National Social Security and Welfare Corporation (NASSCORP) under the National Pension Scheme and the Employment Injury Scheme have been accumulated since January 1984, reaching to US$52.08 million. Under the new agreement, we committed to clear these obligations over a period of 15 years (involving payments of about US$3 million a year) and to pay current contributions on a timely basis, beginning in FY2017/18. To further improve long-term viability, we intend to seek technical assistance to perform a full evaluation of the existing system.

22. Efforts to decrease the overall fiscal deficit, including off-budget activities, will continue. The projected overall deficit for FY2017/18, including off-budget operations, is US$127 million (5.9 percent of GDP) through further reduction of expenditure by loan financing. In the medium term, the government aims at reducing the deficit to around 3 percent of GDP.

23. The government plans to strengthen social safety nets in FY2017/18 with off-budget donor support. Key building blocks of the project include: (i) a social registry; (ii) data collection and household registration; (iii) eligibility screening; and (iv) an integrated Management Information System for monitoring. The National Social Safety Net (NSSN) secretariat under the Ministry of Gender, Children, and Social Protection will be in charge of implementation. The World Bank and USAID will provide financing support of US$10 million and US$6 million, respectively.

B. Monetary and Foreign Exchange Rate Policies

24. Our monetary policy framework—already constrained by underdeveloped financial markets and high dollarization—is now further complicated by lower foreign exchange inflows. Deposit and credit dollarization is about 80 and 91 percent respectively, restricting the scope for monetary policy and the lender of last resort function of the central bank. Moreover, our interbank market is under-utilized by commercial banks, while our foreign exchange market is fragmented, both of which reduce the effectiveness and transmission of monetary policy actions.

25. Our exchange rate has depreciated. This comes in the wake of the slump in commodity prices, the stronger-than-expected impact of the UNMIL drawdown, and what appears to be a certain amount of deferred investment and capital flight associated with election uncertainty—for example, while incoming workers' remittances remain relatively strong, outgoing remittances have picked up. In all, we estimate that the inflow of foreign exchange is significantly reduced perhaps by as much as US$167 million in FY2016/17. The shortage is showing up in government tax collection, where the amounts remitted in US dollars—normally about 80 percent of the total, has fallen to 45 percent in the first two months of FY2017/18.

26. In response, both the CBL and the MFDP have taken the following actions.

- In December 2016, the CBL introduced a 25 percent surrender requirement on remittances, in part to help improve the availability of foreign exchange. While helping to improve the availability of foreign currency, this has still not been sufficient for CBL intervention in the foreign exchange market.

- Since February 2017, the government has suspended sales of foreign currency to the CBL due to low US dollar revenues.

- In August 2017, the government began a policy of paying an increased share of its expenditure in Liberian dollars. However, the effectiveness of this measure is still to be determined—while it would be expected to relieve the immediate currency mismatch between government's revenue and expenditure, we recognize that pressures would still exist—and would perhaps be intensified—in the foreign exchange market.

- In September 2017, the government issued an administrative regulation for at least 50 percent of payment of trade tax to be made in US dollars.

- In September 2017, in order to ensure that taxpayers face appropriate incentives, the government mandated the use of the daily weighted average exchange rate of the previous week, rather than that of the previous month as had earlier been the practice. (In light of the persistent foreign exchange shortages, this had been recommended In August 2017 by the Liquidity Working Group (LWG)). This measure is expected to increase the amount of taxes paid in US dollars, as the use of a monthly rate in a depreciating environment had created a financial disincentive for using this currency.

27. Our monetary policy will continue to focus on containing inflationary pressure by smoothing and slowing the depreciation of the exchange rate. Despite the measures listed above, CBL reserves and the net foreign exchange position of the CBL are expected to decline in 2017 in the absence of foreign currency sales by the government and additional expenditure by the CBL to replace the remaining legacy notes as recently mandated by the Legislature. Within this constraint, the CBL will continue to balance the need to contain exchange rate volatility with the objective of having sufficient foreign reserves to maintain external sustainability and the buffers that prudence dictates a small open economy needs in an uncertain environment. Inflationary pressures have been high, mainly due to the ongoing exchange rate depreciation, but given our reserve situation, our scope for action is limited. Moreover, we recognize that the adverse external developments that have buffeted our economy mean that some exchange rate depreciation is justified by fundamentals. Consequently, we seek to smooth the depreciation, not resist it, with major goals being the attainment of a soft landing for the exchange rate and inflation, which implies we prevent both a damaging exchange rate overshooting and second round inflationary pressure. Gross reserves and the net foreign exchange position of the CBL are expected to decline in the course of 2017. Over the medium term, the improvement in the macroeconomic situation should allow the CBL to increase reserves and maintain reserve cover at about three months of imports to buttress macroeconomic stability.

28. The joint MFDP-CBL liquidity management working group will be strengthened to help anchor inflation. Coordination improved through meetings of the Liquidity Working Group (LWG) in 2016, with the participation of the CBL, the Liberia Revenue Authority (LRA), and the MFDP, with attendance elevated to the level of Deputy Governor for Economic Policy (CBL) and Deputy Minister for Economic Management (MFDP). As a result of improved coordination, the CBL issued on behalf the of MFDP in July and September 2016 a total of L$6 billion of government bonds to mop up excess domestic currency liquidity. This was followed by additional liquidity operations that withdrew L$1 billion in July and September 2017. Going forward, the CBL and MFDP will share the technical work on liquidity monitoring to better support liquidity management decisions. The government will build on the improved coordination of the joint LWG to agree on costs and to harmonize issuances and maturities of securities to avoid sharp swings in liquidity conditions. The CBL is examining the possibility of issuing CBL securities as an additional tool in the management of Liberia-dollar liquidity.

29. The implementation of the CBL's three-year financial plan has led to a sizeable reduction in operational deficits. Starting with Q1 2016, the CBL is providing quarterly financial statements with comments on the implementation of the CBL financial strategy to the Fund (*repeated SB for the fifth to eight reviews)*. The 2016 US dollar spending was cut by US$10 million compared to 2015. However, this reduction was somewhat lower than planned as the CBL had to address an US$5.2 million unplanned domestic currency printing (the last printing took place in 2012) to address seasonal shortages of liquidity and replace the severely worn-out stock of banknotes, following the approval by the Legislature of the long-standing request by the CBL in January 2016. The CBL accommodated about 60 percent of the printing costs by substituting dollar expenditures with Liberian dollar equivalent for other line items in the budget, minimizing the impact on the execution of the financial plan in 2016. For 2017, we have been instructed by the National Legislature to replace the remaining legacy notes. This will likely raise our 2017 expenses by US$7–10 million. Thus, we intend to initiate a review of our remaining 2017 expenses, with the aim of identifying some savings.

C. External Sector Policies

30. The country continues to face limited borrowing capacity, which we endeavor to balance with demands for growth-enhancing investment. In FY2016/17, we ratified external loans in the amount of about US$218 million or US$117 million in PV terms, thereby meeting the end-June 2017 PC ceiling on external borrowing (see Text Table 2). Although our debt stock remains low by regional standards, it has increased significantly in the last few years due to our considerable investment needs, including for the large-scale electrification and road projects to provide a foundation for economic growth. In recent years, the risk of debt distress has moved from low to moderate in a relatively short period after the completion of the HIPC debt relief in 2010. Relative to the December 2016 Debt Sustainability Analysis (DSA), the latest report shows that the debt to export ratio has slightly improved due to recent improvement in gold production and the exploitation of the new mine site for iron ore, but remains close to the high-risk of debt distress threshold in the baseline scenario.

Text Table 2. List of New External Loans for FY2016/17

Donor	Project	Nominal Value (in Millions of U.S. dollars)	Grant Element (percent)
	Ratified in FY2016/17		
OFID	Gbarnga-Salayea Road Project	20.0	36
BADEA	Gbarnga-Salayea Road Project	12.0	42
IDA	Additional Financing Agreement for the Accelerated Electricity Project	60.0	53
IDA	Youth Opportunities Project	10.0	53
CHINA EXIM BANK	Robert International Airport terminal Project	52.2	29
AfDB	Mano River Union Road Dev. & Transport Facilitation Program	35.0	58
IDA	Liberia Urban Water Supply Project	10.0	53
IFAD	Tree Crops Extension Project	13.0	58
IDA	Budget Support	5.5	53

Source: Liberian Authorities

31. In light of this, we have been implementing measures to strengthen debt management, improve performance of the current loan portfolio, and closely control new loan acquisition. With these policies, the government intends to continue to moderate new borrowing within program targets, which have been designed to keep the risk of debt distress at a moderate rating.

- The debt management unit (DMU) will be appropriately staffed to strengthen the capacity of the Unit to closely monitor the evolution of the country's debt stock. Given the multiple layers of interagency approvals required by law for new loans (e.g., signing, ratification, legal opinion), the DMU has instituted measures to improve timely information flows, including having verified printed copies of all loan ratifications prior to entering them into the database.

- The government is developing a medium-term debt strategy (MTDS), with advice from the IMF and the World Bank, to govern borrowing policies over 2017–20; strategy development has already begun with a zero draft shared with the Fund and is expected to be finished within 2–4 months. This time period will afford the DMU the opportunity to incorporate key update and policy advice from the pending Debt Sustainability Analysis as well as soliciting Technical Assistance (TA) in completing the final document. The updated MTDS, consistent with the current debt strategy, proposes that borrowing will be prioritized for concessional loans and mitigating currency risk by focusing on US dominated loans rather than other currency denominated loans. Additionally, the government reiterates its commitment to restraining ratification of new external borrowing, putting more emphasis instead on raising the implementation rate of existing loans. In addition, we recognize the ongoing need to keep borrowing on a highly concessional basis.

D. Implementation of the Structural Reform Agenda

Public Financial Management (PFM)

32. The government continues to make progress on its PFM reform agenda. The PFM reform strategy and its Action Plan (2017–20) was finalized on July 25, 2017 after several rounds of consultation with donors, including the IMF. The preparation of the strategy included review by a joint donor-government validation workshop. Furthermore, the Public Expenditure and Financial Accountability (PEFA) assessment, completed in July 2016, identified weaknesses in PFM and provided insights regarding priority areas for the reform strategy. Key highlights of the strategy include strengthening the legal and regulatory framework; improving budget credibility; mobilizing domestic revenue; establishing robust and linked Information Communication Technology (ICT) system and process; enhancing comprehensiveness and transparency of fiscal reporting; and strengthening external scrutiny.

33. The Government has embarked on efforts to amend the PFM Act of 2009 to reflect existing realities and needs. The draft amendments were submitted to the National Legislature on July 13th for approval. The amendments aim at strengthening fiscal responsibilities, encouraging more efficient budget execution and financial management functions, strengthening SOE governance, and promoting better internal controls, cash management, accountability and reporting. The proposed amendments also include sanctions for various breaches of the law.

34. The improvement in public procurement continues. The Public Procurement and Concessions Commission (PPCC) has introduced the Advanced Procurement Framework Agreement with the objective of accelerating procurement activities prior to the passage of the budget in order to avoid the costly delays that have characterized government activity in past years. This framework has enhanced the timely submission of procurement plans by Ministries and Agencies. Prior to the passage of the FY2016/17 budget, the PPCC approved and published 86 procurement plans on its website. This fell short of the 50 percent of Ministries and Agencies (M&As) specified in the SB for the eighth review, but is nonetheless a significant improvement compared to past years—M&As normally presented their procurement plans only after legislative approval of the budget, which created significant delays in the execution of procurement activities across government. In addition, the PPCC has developed, and will begin implementing, a strategy paper dealing with the professionalization of procurement that outlines a four-prong approach: (i) vertical education in procurement; (ii) procurement certification; (iii) a professionals licensing regime; and (iv) continuing professional development. Furthermore, the PPCC has forged and will continue strategic partnerships with the Internal Audit Agency, the Accounting Services Unit under the CAG's office at the MFDP, and the Department of Economic Affairs at the Ministry of Justice to mitigate shortage of human resources.

35. The government is implementing the action plan addressing PFM weaknesses underlined in the GAC Audit on Special Procurement of the Ministry of Public Works for Construction of Roads and Bridges. All the contracts identified in this audit have been regularized and amounted to US$23 million at end FY2014/15. An amount of US$11 million was paid in the FY2016/17 budget to settle a large portion of these contracts; the remaining amount will be cleared during FY2017/18. The government has also taken steps to resolve deficiencies in spending controls identified by the audit. A project monitoring and evaluation unit has been established and staffed in the MFDP to strengthen public investment implementation. However, its effectiveness has been impeded by capacity and logistical challenges.

36. The government developed an action plan to reform the public investment management system with the help of IMF technical assistance. In July 2016, an IMF Public Investment Management Assessment identified various weaknesses in the current public investment practices, such as low investment efficiency, weak project monitoring system and capacity, and limited linkage between externally-financing projects and central government budget. The action plan to implement the PIMA recommendations is to be finalized in 2017, and implementation will commence in FY2017/18. Separately, as the first step of public investment management reforms, the government established a public investment database (SB for the seventh ECF review). The projects are categorized by their financing sources: external or domestic. They are being monitored by the Aid Management Unit and the Public Investment Unit, respectively. The government intends to improve the database system for public investment to ensure timely updates. At the same time, the MFDP is seeking to introducing regulation/guidelines that requires Ministries and Agencies to submit detailed project information to receive the financing resources of corresponding projects.

37. The government continues to improve the Integrated Financial Management Information System (IFMIS).

- IFMIS has been installed in about 50 M&As and efforts are ongoing to extend this further. Nonetheless, all transactions are processed by the IFMIS system, as those M&As in which IFMIS is not installed are required to have their transactions entered into the system by the MFDP. This is cumbersome, however, and work is therefore underway to extend IFMIS to more M&As. In addition, the government is working on introducing the budget module of IFMIS.

- The government has migrated 30 donor-financed projects from the Sun Accounting System to the Government National System (IFMIS) for accounting and reporting purposes. Beginning FY2017/18, to the extent possible, live IFMIS processing of these projects will commence, and new donor financed projects will be executed through IFMIS. The MFDP will also continue and build upon its appraisal of externally-financed projects, particularly through systematic appraisal of debt-financed projects.

- As a part of an integrity check, the government requested the GAC to carry out a system audit of the IFMIS. The results are being analyzed, and follow-up actions will be initiated as necessary.

38. **The implementation of the Treasury Single Account (TSA) remains a priority**. Indeed, it is one of the key priority areas that have been outlined in the new PFM Strategy and Action Plan. The MFDP has established a new unit, the Treasury Single Account Section (TSAS), charged with the installment of the TSA. TSAS is designing a TSA structure based on the Liberian treasury system, with the support of the IMF, and is expected to finalize it in December 2017. Outreach to M&As on the importance of the TSA has started and the Office of the Comptroller and Accountant General has made several presentations and workshops to M&As to deepen their understanding of the TSA and distributed a cash management template to M&As for capacity building. We anticipate implementation of the TSA by July 1, 2018.

39. **The government made best faith efforts to finalize an agreement with concession companies on the deferral of social contributions** (SB; seventh review). Due to the commodity price shock, foreign concession companies in the resource sector requested that the government defer their social contribution payments totaling about US$10–US$13.5 million per year. In view of the important role these companies play in the domestic economy, the government decided to accept partial deferral (50 percent of their payment) up to FY2018/19. Based on negotiations with the foreign companies, the government negotiated the agreement in Memorandums of Understanding (MOU) indicating the length of the deferral (four years starting FY2015/16) and the repayment schedule. An MOU was then signed with one concession company in May 2017. However, MOUs were not finalized with the other mining companies as they had ceased operating in Liberia.

40. **The government intends to tighten the control on SOEs to minimize fiscal risk**.

- To this end, publication of the quarterly SOE report will continue, including the financial statements of covered SOEs (SB for the eighth review). Publication of the Q2 and Q4 reports was delayed from the timeline of the SBs due to delay in data submission to the MFDP and the administrative procedure of publication. However, following this initial delay, the MFDP now intends to continue to publish the report on a quarterly basis. The coverage of the September 2016 report already included analysis of SOEs liabilities and investments and their sources of financing; and identified substantial amount of liabilities for 15 out of 37 SOEs, including deferred income and on-lending of external loans contracted by the government. We intend that the reports in FY2017/18 will widen their coverage to at least 18 SOEs.

- To identify the size of contingent liabilities of the central government, the MFDP is preparing an inventory of the debt of SOEs as of end-June 2017 including creditor, terms, and currency denomination to help properly track the evolution of debt in the sector. This will be completed by end-2017.

- Furthermore, the MFDP finalized by end-October 2017 a stock-taking compliance report of how well the SOEs comply with the PFM Act and regulations, and mandated reporting obligations.

41. The government continues to commit to strong expenditure control to avoid arrears. To this end, the MFDP/Comptroller and Accountant General's office circulated letters to Ministries and agencies and vendors to ensure compliance of expenditure procedure so that all the public spending commitments issued are backed by cash availability. In addition, the CAG's Office plans to conduct training for Comptrollers of line Ministries and Agencies in the second half of the FY2017/2018 in adhering to expenditure control protocols as outlined in the PFM Regulations.

42. The government will minimize the slowdown of reform progress stemming from the political transition. Upcoming political transition could delay ongoing reforms through changes in priority and/or human and resource allocation. To secure continuity, the PFM Reform Coordination Unit at the MFDP has a core team of competent staff who are mostly civil servants to provide orientation and training in key PFM areas for newly appointed officials. A mid-year review of the PFM strategy and action plan will be carried to incorporate changing and new priorities of the newly elected government.

Revenue Administration

43. Revenue administration continues to improve. The Liberian Revenue Authority (LRA) became operational in July 2014. Its corporate five-year strategic plan, finalized in 2016, envisages four strategic goals: (i) administer revenue legislation in an effective, fair, and transparent manner; (ii) maximize voluntary compliance; (iii) build an effective institution at all levels through excellence in leadership, accountability, technical and real infrastructural capacities; and (iv) transform revenue administration by utilizing effective Information and Communication Technology (ICT). Key achievements so far include: (i) the setup of the institution; (ii) completion of the strategic plan; (iii) introduction of first phase of strategic management system; (iv) introduction of desk audit system for large taxpayers on withholding taxes; (v) completion of sectorial audit manuals; (vi) provision of taxpayer education through workshops; (vii) implementation of goods and services tax return for some industries and online filing system; (viii) introduction of the auditing of loss making companies in an attempt to defer filing of losses; and (ix) the signing of MoU with other government agencies, such as Liberia Anti-Corruption Commission (LACC).

44. Additional efforts are needed to improve the capacity of the LRA to further mobilize domestic revenues. Capacity development in natural resource revenue management, innovation and expansion of automation of the tax administration system, and a comprehensive staff integrity management program are needed to continue the improvement in domestic revenue collection and transparency. These reforms will however require significant contributions from external partners to ensure successful implementation, especially in the areas of tax and customs modernization, IT, and capacity development complimented by hard and soft infrastructure support.

45. The LRA is establishing a robust and integrated compliance management program. The LRA is aware that streamlining and strengthening of compliance controls are crucial to improve execution and revenue mobilization. A compliance management framework (CMF) was developed to define strategies for the large taxpayer segment, which account for over 80 percent of total collection, in the first half of 2017. The strategy includes the development of risk analysis to support mitigation strategies that include audit and enforcement activities, as well as education and service options. The compliance management focuses on core risks (registration, filing, payment and accuracy of declarations) and the sectors dominant in the large taxpayer office (LTO). The large taxpayer framework will be adapted to the medium and small taxpayer segments to the extent that economic sectors overlap. In addition, effective control of large taxpayer compliance will be critical to enable the LRA to more effectively introduce and administer the value-added tax when it is initiated in 2019.

Tax Policy Reforms

46. **The government plans to introduce a VAT but implementation will not take place until 2019 due to logistical constraints**. The introduction of the VAT will provide additional scope to improve revenue generation, efficiency, and performance, and is required as part of a regional ECOWAS agreement. The VAT Steering Committee has been reconstituted with the Minister of Finance and Development Planning as Chair and the Terms of References for the VAT Steering Committee (VSC) and the VAT Project Team (VPT) have been finalized. In addition, the MFDP is currently closely collaborating with the LRA in the preparation of a VAT White Policy Paper, roadmap for implementation, and a draft VAT Act. An IMF technical assistance mission on the capacity of the LRA to implement and administer the VAT took stock of progress so far, and recommended delaying the implementation of the VAT until 2019 to allow for the necessary preparations. The government will commence stakeholder's engagements which are scheduled to commence by December 2017 and submit the VAT bill for ratification by 2019, while developing the capacity of the LRA to effectively implement the VAT.

47. **Following key modifications last year, the government is again reviewing the Liberia Revenue Code (LRC) to address a range of shortcomings**. A range of tax policy and non-tax policy challenges had arisen in the implementation of the existing LRC that are hindering government's efforts to raise and administer revenues. A review conducted by the MFDP in collaboration with the LRA and through a consultative process identified a number of key problematic tax policy issues including: (i) the design of presumptive tax; (ii) limitation of interest deduction; (iii) taxation of indirect transfer interest in immoveable property; (iv) excise taxation of beverages with reference to the World Trade Organization (WTO) and the Economic Community of Western African States (ECOWAS) compliance requirements; (v) taxation of telecommunication services; (vi) fuel tax exemptions; and (vii) special investment tax incentives, covering both direct and indirect taxes. The government is committed to streamlining the tax incentive regime by eliminating the differentiation based on region, local content and additional jobs. The government will also apply one uniform accelerated depreciation scheme for companies. The review of the revenue code is also necessary in the context of our membership of the WTO to make tax policies WTO compliant. Key also is simplification of the LRC to facilitate tax administration and compliance. The amendments relating to the presumptive tax, excise taxation of beverages and telecommunication, and investment incentives, complemented by an additional increase in goods and services tax and tobacco excise, were submitted to the Legislature in a bill attached to the FY2016/17 budget and approved in September. Finally, to collect the currency composition of tax receipts, LRA will move from the end of previous month rate to the previous day's rate.

Monetary and Financial Sector

48. The CBL is committed to promptly addressing the high level of NPLs in the banking system. The situation of non-performing remains a major challenge facing the banking sector. The CBL has requested Fund TA (AFRITAC West 2) for an assessment of the main drivers of NPLs, an evaluation of the ongoing measures to address NPLs, and recommendations to address the high NPL ratio. The central bank will intensify supervision of credit risk management by monitoring asset quality on a bank-by-bank basis and ensure commercial banks have adequate systems and controls in place, and comply with CBL Prudential Regulation concerning Asset Classification, Loan Loss Provisions and Suspension of Interest on Non-Performing Loans and Advances.

49. The CBL is upgrading its IT system of the national payment system as part of the creation of a common system for West African Monetary Zone (WAMZ) members. The new Temenos T24 system replaces the previous Bankmaster software and covers all the CBL's domestic and foreign exchange operations through front, middle, and back office processing, as well as payments. The system has interface with the payment and clearing systems, Automated Clearing House (ACH), Automated Checking Processing System (ACP), Real-Time Gross Settlement System (RTGS), and the Scriptless Securities Settlement System (SSSS). Following some difficulties in launching the system, the CBL is now reconciling back valued entries that were in Bankmaster core banking application to ensure that all transactions are posted in T24. Once the teething problems are resolved, the CBL will focus on producing a daily analytical balance sheet to inform the work of the LWG.

50. Enhanced monitoring of GN Bank continues. Based on recent assessment of the capitalization needs of the bank, GN Bank remains adequately capitalized with sufficient liquidity. The bank has strengthened its financial positions mainly by renegotiating deposit rates and containing operational expenses. However, provisions will be taken in line with prudential regulations of the CBL as the grace period for the remaining non-performing legacy loans from FIBLL ends at the end of September 2017. The CBL is currently carrying out a detailed on-site assessment of the bank.

51. The CBL prepared and published an Action Plan to address the gaps in its governance and supervisory and regulatory framework exposed by the failure of FIBLL. After closing FIBLL, a forensic audit covering the transactions of the bank from 2006 through the closure of FIBLL on June 4, 2016 was commissioned from KPMG. This report examined the circumstances that led to the closure of the bank and the resulting CBL's exposure to FIBLL of about US$17.5 million as of June 4, 2016. The report indicated the existence of shortcomings within FIBLL and in CBL's governance and supervision capacities, as well as likely cases of fraud within FIBLL, and has been made available to the Ministry of Justice by the Executive. In light of the revelations contained in the report, we have adopted a response based on transparency and comprehensive reform. While it would be premature to publish the entire forensic audit, as this would compromise the course of judicial procedures, we published the executive summary of the report with names and other identifiers redacted. We believe this will provide the public with sufficient detail to ensure they are aware of what has transpired and what the relevant issues are. With the context thus clearly described, we also published a time bound Action Plan of reform, adopted in consultation with Fund staff, as a means of assuring the public that existing deficiencies in CBL's internal systems are being addressed. The Executive agreed to publish the full forensic audit once it is determined that this will not interfere with the appropriate course of judicial procedures.

52. As the entire Action Plan will take time to have its anticipated impact, we have included in it a number of fast-acting interim measures to ensure adequate safeguards for CBL resources. These consist of (i) compilation of monthly reports on foreign exchange withdrawals from the CBL within two weeks of month end (beginning with completion of a report by November 15, 2017 for the month of October 2017) and timely submission of these reports to the CBL Board of Governors (BOG) at every Board meeting; (ii) semi-annual external audits on the foreign exchange reserves of the CBL to be submitted to the CBL Board of Governors, with the first report to include the period July 1-December 31, 2017 and to be completed within six weeks of the period end, and to be shared with Fund staff no later than eight weeks of the period end. To this end, we will engage as a prior action an external auditor to conduct this audit in accordance with the terms of reference prepared in consultation with Fund staff. The monthly and semi-annual reports indicated in (i) and (ii) will be made available to Fund staff without delay.

53. The CBL will continue to work towards a crisis preparedness and management framework to help protect financial stability. The CBL is currently reviewing gaps in the safety net system with emphasis on powers and tools for emergency liquidity, and bank resolution and drafting related regulations.

- The CBL, with technical assistance from the Monetary and Capital Markets department of the IMF, developed in May 2017 operational procedures specifying terms and conditions for the provision of emergency liquidity assistance (SB seventh review). The framework was finalized on time in May 2017. The CBL has revised the standing credit facility and reserve requirement regulation and both regulations were issued. In addition, the new reserve requirement framework provides banks access to additional liquidity by allowing them to draw down on some of their reserves during the maintenance period.

- The CBL has also drafted a preliminary crisis management and bank resolution framework. Further work in this area is contingent on the amendment of the Financial Institutions Act (FIA) that will enable the adoption of legislation underpinning a special resolution regime (SRR) allowing prompt resolution of failing banks without court involvement. Additional TA will be needed in the areas of crisis management and bank resolution to review the ongoing work, and the CBL has made a request to the IMF in this regard. Additionally, consistent with our commitment under the ECF arrangement, we will continue to avoid undertaking quasi-fiscal activities to preserve our financial position and our ability to act as a lender of last resort.

54. The government and the CBL are implementing measures to contain the withdrawal of correspondent banking relationships (CBR). To date, every Liberian bank has lost at least one CBR. The CBL is taking a lead role by aggregating metrics of the extent of the problem, engaging parent jurisdictions of the respondent banks, advocating for global banks' action at various international fora, and working closely with the commercial banks. Efforts are in train to improve the overall Anti-Money Laundering (AML) and Combatting the Financing of Terrorism (CFT) environment. The Anti-Terrorism Act that criminalizes the financing of individual terrorists for any purpose was passed by the legislature. The CBL has established a dedicated AML/CFT supervision unit and is working with other stakeholders, including the Financial Intelligence Unit (FIU). The AML/CFT Unit of the CBL has concluded the AML/CFT risk-based examination of all the nine commercial banks and the first follow up inspections of these five banks were completed in March 2017. The US Treasury, World Bank and the IMF continue to provide technical support toward strengthening the AML/CFT system of Liberia. The FIU has also been active in addressing gaps in AML/CFT laws relating to financing of terrorist activities and criminalization of illicit trafficking of goods—and was instrumental in the Legislature's passage of three anti-terrorism Acts in early 2017. The FIU has also increased Liberia's work with the Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA), the West African Financial Action Task Force (FATF)-styled regional body to which it belongs, as evidenced by its completion of a Mutual Evaluation Report in May 2011, seven follow-up reports, and regular participation in GIABA plenaries, including hosting the 2017 plenary.

55. The CBL is implementing the recommendations of the recent safeguards assessment. In addition to implementing the three-year financial plan described in ¶30, the CBL has also strengthened its financial position through the establishment of an asset and liability committee (ALCO) in April 2017 to oversee issues of risk management, balance sheet, and financial performance (structural benchmark for the eighth review). The ALCO had its first meeting in August 2017, at which time its leadership requested a TA on ALCO Pack from the IMF. The CBL has also completed the following reforms: (i) the published version of the CBL Act is kept up to date to reflect the most recent amendments; (ii) the CBL has completed an external quality assurance review of the internal audit function; (iii) the CBL regularly reviews commercial banks' external audit reports against their prudential returns (and results are reported to the Board of Governors); (iv) any deviations noted during Regulation and Supervision Department (RSD) reviews are documented and necessary actions taken against banks involved; and (v) the CBL has enhanced the governance structure of the CBL by reviewing a Board Charter with more detailed operational rules and guidance for the Board and its committees.

56. Several reforms are underway to strengthen financial infrastructure and improve access to finance.

- The CBL established the collateral registry in June 2014 as a means of perfecting security interest in movable assets, such as personal property and inventories, and establishing priority of secured parties based on the date and time of registration of a security interest.
- During the fourth quarter of 2016, the Liberian Bankers Association (LBA) with support from the CBL resumed the publication of the names of non-compliant delinquent borrowers.
- The CBL has established 12 rural community finance institutions (RCFIs) across eight counties for communities' banks and issued a new regulation for credit unions to facilitate access to finance to the unbanked public in the country including the rural areas. Funding from IFAD will allow us to increase the number of RCFIs to 19 in the course of five years. The CBL has also enacted regulation on agent banking to create an enabling environment for offering financial services and enhance financial inclusion.

57. An amendment to the 2014 mobile money regulations allows financial institutions (banks, non-bank financial institutions and non-bank financial service institutions) to apply for licenses. The CBL has issued two licenses to the non-bank financial institutions created by the two mobile networks to provide mobile money services and, at the same time, provide a conduit for access to finance.

58. The CBL has substantially strengthened the consumer protection framework. Regulation concerning interest determination and display of interest rates and charges and computation of lending rates brings transparency to the loan market and protects customers from fraud. Regulation concerning consumer protection and market sets minimum standards for financial institutions in dealing with their customers and requires financial institutions to establish and implement efficient and effective mechanisms for handling consumer complaints.

59. The CBL in collaboration with the government has adopted a financial sector implementation plan (FSDIP). The FSDIP is a comprehensive plan aimed at complementing ongoing efforts to reform the financial sector with focus on promoting access to finance, improving the legal and regulatory environment of the financial system and enhancing the national payment system. The plan which is being implemented in partnership with the World Bank intends to build an inclusive financial system and strengthen the role of the financial system in supporting economic growth and development.

External Sector

60. The government is following through on the implementation of the country's WTO post accession plan to further improve the business climate in the medium term. Liberia became the 163rd WTO member on July 14, 2016. The benefits of WTO membership, including lower cost of imports and wider export market access owing to reduced trade barriers, will fully materialize only in the medium term. Within Liberia's accession package are key commitments to integrate the country into the multilateral trading system. The government has commenced the implementation of the required legislative reforms that will help improve domestic business environment, thereby facilitating domestic and foreign investment. Key elements of the post accession plan include comprehensive reforms in trade facilitation, removing barriers to trade, trade integration, economic diversification, and agricultural value chains.

61. The government has commenced the implementation of the ECOWAS Common External Tariff (CET). The implementation of the CET by ECOWAS member states started in January 2014, but its introduction in Liberia was delayed by the Ebola epidemic. As the only ECOWAS country yet to implement the ECOWAS Trade Liberalization Scheme (ETLS), the government will continue to work to ensure the implementation of the CET along a four-year phasing-in timeline. The CET was approved by the legislature in September, 2016 and some products have already been migrated to the CET.

Business Climate

62. The provision of an enabling environment for private sector development remains a priority of the government. A Land Rights Act that will help secure land rights and clearly define mechanisms for acquiring land has been submitted to the Legislature. Access to electricity is improving. The Mount Coffee hydropower project is now operational producing about 66 MW of power bringing the country's total installed capacity to about 104 MW. Thanks to the savings made possible by the use of relatively cheap hydropower energy, the government has reduced electricity tariffs—among the highest in Africa—from US$0.49 to US$0.39 per kilowatt hour. Currently the binding constraint is the low level of connectivity to the grid, which prevents the majority of the installed capacity from being sold. However, work to increase the number of connections is underway as a priority and, as this progresses, average cost per delivered kilowatt hour will fall, enabling further price reductions to take place. Moreover, through the Cote d'Ivoire, Liberia, Sierra Leone, and Guinea (CLSG) connection project, we have been able to provide electricity to remote counties in the country at a cheaper rate compared to the Monrovia area tariff. The West Africa Power Pool CLSG project will begin building new transmission and distribution lines before the end of 2017 in order to catalyze regional energy trade and this will further reduce the tariff.

Capacity Development

63. **Capacity development is a priority of the government and continued Fund support will be needed**. Capacity building is one of the key factors of our medium-term strategy, Agenda for Transformation, and is also at the core of each strategic pillar under the government's revised PFM reform strategy. Key areas for capacity development include public financial management, public investment management, reform administration, natural resource taxation, monetary policy framework, financial regulation and supervision, and statistics. In January 2017, the government formalized a Memorandum of Understanding on Capacity Building Framework with the IMF along the lines of the country's TA priorities and this has been shared with other donors. The government will continue working with the IMF and other stakeholders to achieve our capacity development objectives. A comprehensive training curriculum focused on macroeconomic and fiscal policy is currently being developed and will be administered in September 2017 to strengthen these functions.

E. Statistics

64. **The government continues to make good progress in improving the quality of statistics**.

- *The National Establishment Census (NEC).* The Liberia Institute for Statistical and Geo-Information Services (LISGIS) has completed NEC on July 3, 2017. It contains turnover data of over 80,000 establishments. The summary report is expected to be published in November 2017.

- *The Household Income and Expenditure Survey (HIES).* The survey was originally conducted in 2014, but the project was stalled by the Ebola crisis after 6 months of data collection. The statistical abstract of the 2014 HIES was published in March 2016. The update was completed in January 2017, and the statistical abstract will be published soon.

- *The National Accounts*: LISGIS is revising national account estimates with technical assistance from the IMF and the World Bank, and has made important progress towards preliminary estimates for 2008–13. Additional data collection is needed to revise the national account estimates, but the funding has not been secured yet.

- *Consumer Price Index (CPI)*: LISGIS has already used the first half of 2014 HIES data collected to update the CPI basket and weights, with support from the World Bank and IMF's Statistics Department.

65. The CBL has produced a preliminary version of a new customs-based trade dataset. The CBL has been working on a new customs-based exports and imports data series using the Automated System for Customs Data (ASYCUDA) software package. The new data cover all the businesses whose goods go through customs, unlike the old trade data provided by the Bureau Inspection Valuation Assessment Control (BIVAC). The CBL has completed extending the ASYCUDA-based dataset back to January 2010 with some ongoing minor corrections in the series.

PROGRAM ISSUES AND MONITORING

66. We are requesting waivers for missed program performance criteria as specified above in our Letter of Intent.

Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, June 2016–June 2017

(Millions of US dollars, unless otherwise indicated)

	Jun. 16			Dec. 16				Jun. 17		
	Program	Actual	Status	Program	Adjusted	Actual	Status	Program	Actual	Status
Performance criteria[1]										
Floor on total revenue collection of the central government[2]	473.7	452.9	Not Met	196.6	196.6	194.5	Not met	493.5	465.5	Not Met
Ceiling on new external arrears of the central government (continuous basis)[3]	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	Met
Ceiling on new domestic borrowing of the central government[4]	144.5	75.0	Met	186.4	186.4	150.5	Met	186.4	173.3	Met
Floor on CBL's net foreign exchange position[5]	192.3	178.0	Not Met	181.0	160.5	166.9	Met	188.5	146.2	Not Met
Ceiling on CBL's gross direct credit to central government	352.9	353.4	Not Met	353.9	371.2	368.9	Met	372.0	398.1	Not Met
Ceiling on the present value of gross external borrowing by the public sector[6]	97.0	0.0	Met	101.2	101.2	109.0	Not Met	140.7	117.0	Met
Indicative Targets										
Ceiling on net domestic assets of the CBL[5]	25.2	45.9	Not Met	30.0	50.5	33.8	Met	39.0	163.6	Not Met
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	Met
Floor on social and other priority spending (percent of total actual expenditure, excluding contingencies)[7]	32.5	37.9	Met	32.5	32.5	38.6	Met	32.5	36.5	Met
Memorandum items:										
Total spending on education, health, social development services (percent of total actual expenditure, excluding contingencies)	25.0	23.6		25.0	25.0	13.7		25.0	16.2	
Programmed receipt of external budget support grants and committed external loans[1, 8]	140.0	96.1		66.2	66.2	62.0		88.4	90.1	

Sources: Liberian authorities and IMF staff estimates and projections.

[1] Fiscal targets are cumulative within each fiscal year (July 1-June 30).

[2] Total central government revenue collection includes all tax and non-tax receipt but excludes all contingent revenues and budget support grants.

[3] The authorities represent that they dispute the validity of the claims vis-a-vis Taiwan Province of China. There is also an ongoing litigation in New York between Liberia and Taiwan Province of China with respect to these claims. Accordingly, any arrears on such claims are not treated as arrears for purposes of the continuous performance criteria on arrears and the Fund's arrears policy.

[4] Includes issuance of treasury bills, domestic loans, advances, and any government debt instrument such as long-term securities issued in the domestic market. December 2014 actual borrowing included the disbursement under the ECF augmentation of SDR32.3 million. Targets after December 2014 includes disbursement under the ECF augmentation of SDR32.3 million and the RCF of SDR32.3 million.

[5] Includes SDR holdings net of ECF liabilities. SDR holdings converted at program exchage rate of 1 SDR=1.5844 US dollar.

[6] An adjustor of up to 5 percent applies in case deviations from the ceiling are prompted by a change in the financing terms.

[9] Effective from June 30, 2015, the nominal indicative target is replaced by the new PC on PV of grossexternal borrowings by public sectors.

[7] Includes spending on education, health care, social development services, and energy.

[8] The PC excludes the grants for Mount Coffee executed by the Liberian Electricity Company.

Table 2. Liberia: Structural Benchmarks for the Seventh ECF Review
(End-December 2016 to End-May 2017)

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
Expand the existing database of externally-financed projects to cover cost overrun, project implantation delay, and payment arrears.	End-December 2016	Strengthen the monitoring particularly of multi-year investment projects to ensure adequate budgetary allocations.	Met. The database was merged with the one of the domestically financed public investment projects.
Formalize the agreement with the four largest foreign concession companies, including the length of the deferment (no more than four years from FY2015/16) and payment schedule.	End-February 2017	Improve natural resource revenue management.	Not met. Only one company signed the Memorandum of Understanding. The remaining three companies stopped operations in Liberia.
Publish quarterly reports on the financial performance of State Owned Enterprises (SOEs) for FY2016/17Q1 and Q2.	End-March 2017	Improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	Not met. Q2 report was published on May 16, 2017.

Table 2. Liberia: Structural Benchmarks for the Seventh ECF Review (Concluded)

(End-December 2016 to End-May 2017)

Measure	Target Date	Justification	Current Status-Risks
Enhancing monetary operations and developing the financial sector			
Submit to the Fund staff the final report of the forensic audit of First International Bank of Liberia, and make the results available without delay to the relevant judicial authorities, consistent with Liberian laws.	End-May 2017	Safeguard against vulnerabilities in the banking sector and the CBL's financial position.	Not met. The report was shared with the IMF on June 7.
Develop a framework for Emergency Liquidity Assistance and bank crisis management.	End-May 2017	Ensure that emerging liquidity problems in the financial sector are tackled early with minimal impact on financial stability.	Met.
For Q1 2017, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.	End-May 2017	Ensure that efforts are being implemented to facilitate a gradual return to financial viability.	Met.

Table 3. Liberia: Structural Benchmarks for the Eighth ECF Review

(End-December 2016 to End-September 2017)

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
At least 50 percent of M&As with budget allocation lines to submit to the PPCC the spending and procurement plans for recurrent and PSIP expenditure based on the draft FY2017/18 budget.	End-June 2017	Strengthen budget process and improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	Not met. The budget process was delayed.
Publish quarterly reports on the financial performance of State Owned Enterprises (SOEs) for FY2016/17Q3 and Q4. The Q4 report should include summary financial statements.	End-September 2017	Improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	Not met. The publication of the Q4 report is planned in end-November.
Enhancing monetary operations and developing the financial sector			
Set up an asset liability committee (ALCO) to oversee issues of risk management, balance sheet, and financial performance.	End-April 2017	Strengthen the CBL's management of assets and liabilities and its financial position.	Met.
For Q2 2017, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.	End-September 2017	Ensure that efforts are being implemented to facilitate a gradual return to financial viability.	Met.

Table 4. Liberia: Prior Action for the Seventh and Eighth ECF Reviews

Measure	Target Date	Justification	Current Status-Risks
Prior Actions			
Engage with an external auditor that conducts semi-annual audits on the CBL's foreign exchange reserve based on the terms of reference agreed with Fund staff. Staff should receive an audit engagement letter as confirmation.		Strengthen safeguards of public resources.	

INTERNATIONAL MONETARY FUND

LIBERIA

November 1, 2017

SEVENTH AND EIGHTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA —INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

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RELATIONS WITH THE FUND

(As of September 30, 2017)

Membership Status: Joined: March 28, 1962. Article XIV

General Resources Account:	**SDR Million**	**%Quota**
Quota	258.40	100.00
Fund holdings of currency	226.08	87.49
Reserve Tranche Position	32.33	12.51

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	123.98	100.00
Holdings	153.82	124.07

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	32.30	12.50
ECF Arrangements	111.10	42.99

Latest Financial Arrangements:

	Date of Arrangement	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF	Nov. 19, 2012	Nov. 18, 2017	111.66	96.90
ECF[1]	Mar. 14, 2008	May 17, 2012	247.90	247.90
EFF	Mar. 14, 2008	Sep. 25, 2008	342.77	342.77

[1] Formerly PRGF.

Projected Payments to Fund

(SDR Million; **based on existing use of resources and present holdings of SDRs)**:

	Forthcoming				
	2017	2018	2019	2020	2021
Principal		2.10	10.46	20.04	22.97
Charges/Interest		0.00	0.00	0.00	0.00
Total		**2.10**	**10.46**	**20.04**	**22.97**

Implementation of HIPC Initiative: Enhanced Framework

Commitment of HIPC assistance

Decision point date March 2008

Assistance committed

By all creditors (US$ Million)[1]	2,739.20
Of which: IMF assistance (US$ Million)	721.10
(SDR equivalent in millions)	440.90
Completion point date	June 2010

Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	440.90
Interim assistance	30.14
Completion point balance	410.76
Additional disbursement of interest income[2]	10.99
Total disbursements	451.89

Delivery of Debt Relief at the Completion Point:

Debt relief (SDR Million)	548.53
Financed by: Liberia Administered Account	116.20
Remaining HIPC resources	432.33
Debt relief by facility (SDR Million)	

	Eligible Debt		
Delivery Date	GRA	PRGT	Total
June 2010	342.77	205.76	548.53

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Feb 23, 2015	25.84	25.84

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Safeguards Assessment

The November 2015 update safeguards assessment confirmed a weak governance and control environment at the Central Bank of Liberia (CBL). Some of the assessment's key concerns are being have been addressed by program measures. These include strengthening the CBL's investment policies, the approval of its financial plan (prior actions for the 4th review), and the establishment of an emergency liquidity assistance (ELA) framework (structural benchmark for the seventh review). In addition, the forensic audit of the FIBLL confirmed supervisory and governance failures within the CBL. The authorities developed an action plan to address these issues, in consultation with staff, which [was] published together with the executive summary of the forensic audit report with names redacted. Other remaining recommendations include legal amendments to align the CBL Act with best practices, strengthening the internal audit function, and enhancing audit and control oversight.

Exchange Rate Arrangement

The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender. The de jure exchange rate regime classification is 'managed floating'. The Central Bank of Liberia (CBL) intervenes in the foreign exchange market to smooth volatility. The exchange rate between the Liberian dollar and United States dollar at April 30, 2017 was L$106.5=US$1 (mid-point between buying and selling rates). The de facto exchange rate regime is classified as 'other managed arrangement' since November, 2011 when the exchange rate departed from the stabilized 2 percent band against the U.S. dollar. Liberia maintains an exchange rate system that is free of restrictions on payments for current and capital transfers.

Article IV Consultation, Review of the Extended Credit Facility (ECF) Arrangement, and Request of the Rapid Credit Facility (RCF) Arrangement and Debt Relief under the Catastrophe Containment and Relief Trust (CCRT).

Ad-hoc review under the ECF arrangement for augmentation of access and modification of performance criteria was discussed by the Board on September 26, 2014 (Country Report No. 14/299, September 2014) and is posted on the IMF website.

Request for disbursement under the RCF and debt relief under the CCRT were discussed by the Board on February 23, 2015 (Country Report No. 15/49, February 2015) and is posted on the IMF website.

The fifth and sixth reviews of the ECF arrangement request for waivers of nonobservance of performance criteria, augmentation of access, and extension of the arrangement was discussed by the Board on December 16, 2016 (Country Report No. 16/392, December 22, 2016) and is posted on the IMF website.

The 2016 Article IV consultation discussions were held in Monrovia during April 20–May 4, 2016. The staff report (Country Report No. 16/238, July 2016) was discussed by the Executive Board on July 8, 2016 and is posted on the IMF website.

Technical Assistance 2014–17

Topic	Date
Fiscal Affairs Department	
Revenue Administration	February–March and April-May 2014, November 2014–April 2015 (Remote), July–August, September-October, and November–December 2015, January, March, April, and May, November 2016, Long-term residential advisor has been deployed in the LRA since January 2016
Public Financial Management Reform	January, February, November 2016, May-June, July-August, September, October 2017
Natural Resource Revenue	January and March 2016, April 2017
Fiscal Decentralization	December 2015
Capacity Building and Sector Audit Training, including Computer assisted Audit Techniques in Telecommunications.	April 2014
Fiscal Framework for a New Model Petroleum Production Sharing Contract and Revenue Modeling	June 2014
Budget Formulation and Public Sector Investment Plan	June 2015
Public Investment Management Assessment	July 2016, July, September 2017
Tax Policy	February 2017
Cash Management	September 2017
Statistics Department	
Balance of Payments	July 2014 and January–February, June–July 2016, January, July 2017,
Government Financial Statistics	September 2016, October 2017
National Accounts and Consumer Price Index	May 2014, April–September (Remote), June–July, November 2015, March, July, August, September, December, December 2016, February, July-August 2017
Monetary and Capital Markets Department	
Banking Supervision	January, April, July 2014. February, April–May, August, November 2016

Topic	Date
Monetary and Capital Markets Department	
Central Bank Accounting	August 2016, March 2017
Monetary Analysis and Payment System	November 2016
Basel II/III Training Workshop	November 2016, July 2017
Liquidity Forecasting	May 2014, August 2015, and January–February 2016
Crisis Preparedness and Management Framework	October–November 2015, January 2017, March 2017
Finance Department	
Safeguards and Fiscal Investment	September 2017
Legal Department	
AML/CFT framework	June 2017
Tax Law	October 2017

Resident Representative

A resident representative has been posted in Monrovia since April 2, 2006. Mr. Amo-Yartey assumed the post as a representative on May 1, 2014, and was recently succeeded by Mr. Oestreicher on August 1, 2017.

JOINT WORLD BANK-IMF WORK PROGRAM, 2012–17

(As of October 2, 2017)

	Products	Timing of mission	Expected delivery date	Status
A. Mutual information on relevant work programs				
1. WB work program	1. Public Expenditure Review Notes	November 2011	July 2013	Completed
	2. First Poverty Reduction Support Development Policy Operation (PRSDPO I)	May 2013	August 2013	Approved and disbursed
	3. Second Poverty Reduction Support Development Policy Operation (PRSDPO II)	October 2013	September 2014	Approved and disbursed
	4. Supplemental Financing to PRSDPO II	October 2015	February 2016	Approved and disbursed
	5. Third Poverty Reduction Support Development Policy Operation (PRSDPO III)	September 2016	November 2016	Approved and disbursed
	6. Supplemental Financing to PRSDPO III	May 2017	June 2017	Approved and disbursed
	7. Fourth Poverty Reduction Support Development Policy Operation (PRSDPO IV)	September 2017	December 2017	Concept
	8. Household Income and Expenditure Survey-II	September 2017	November 2017	Completed
	9. Economic Growth and Diversification Study	September 2017	June 2018	Concept
	10. BOOST	May 2017	December 2017	TA- on-going
	11. Financial Sector TA	September 2017	November 2019	TA- on-going
2. IMF work program	1. Negotiation successor ECF	July–Sept. 2012	November 2012	ECF Program approved on Nov. 19, 2013
	2. Article IV Consultation	July–Sept. 2012	Nov. 2012	Completed
	3. First review of ECF Program	March 2013	July 3, 2013	Completed
	4. Second review of ECF Program	Sept. 2013	Nov. 2013	Completed
	5. Third review of ECF Program	March 2014	July 3, 2014	Completed

	Products	Timing of mission	Expected delivery date	Status
	6. Ad-hoc review of ECF Program for augmentation of access		September 26, 2014	Completed
	7. Request for RCF and Debt Relief under the CCR Trust		February 23, 2015	Completed
	8. Fourth Review of ECF Program	October 2015	December 2015	Completed
	9. Article IV Consultation	April 2016	July 2016	Completed
	10. Joint Fifth and Sixth review of ECF program	October 2016	December 2016	On-going
	11. Article IV Consultation	April 2017	July 2017	On-going
3. WB/IMF Joint work program	1. Updated Debt Sustainability Analysis	May 2017	June 2017	Draft
	2. AML/CFT TA	May 2017	December 2019	IMF working with CBL on improving AML/CFT supervision in financial sectors; WBG to commence National AML/CFT Risk Assessment in late 2017.
	3. Medium-term debt management strategy	February 2017	June 2017	Complete
	4. Economic Survey	September 2016	January 2017	Planned
B. Requests for work program inputs				
4. Fund request to Bank	1. Regular updates on the Liberia Reconstruction Trust Fund, disbursements of loans, including PRSC		Quarterly and as needed	
	2. World Bank Relations Note		As needed	
5. Bank request to Fund	1. Regular updates of performance under the Fund-supported program, macroeconomic projections and data following each IMF mission		Continuous	
	2. IMF Relations Note		As needed	

RELATIONS WITH THE WORLD BANK GROUP[1]

(As of October 3, 2017)

A. Bank Group Strategy

1. **The current Country Partnership Strategy (CPS) for Liberia was discussed by the Board of the World Bank Group on July 30, 2013**. The overarching objective of the CPS (2013–17) is to support the Government's Agenda for Transformation (AfT) to contribute to sustained growth, poverty reduction and shared prosperity while exiting fragility and building resilience. In this regard, the CPS pillars are aligned with three key pillars of the AfT: (i) Economic Transformation to reduce constraints to rapid, broad-based and sustained economic growth to create employment; (ii) Human Development to increase access and quality of basic social services and reduce vulnerability; and (iii) Governance and Public Sector Institutions to improve public sector and natural resources governance. In addition, the CPS is focused on the themes of capacity development and gender equity both of which will be mainstreamed throughout the Bank Group's portfolio.

2. **The World Bank Group's program under the CPS involves a combination of development policy financing, investment financing and analytical work in support of the strategic pillars**. The IDA allocation for the lending program for the CPS period is approximately US$308 million, including IDA 16 (up to June 2014) and the full IDA 17 allocation. Most the IDA financing during the CPS period is focused on investment in the energy and transport sectors to help remove binding constraints to growth and improve well-being. IDA financing under the CPS also support building institutional and human capacity essential for the effective implementation of the AfT and the country's long-term vision plan.

3. **The International Finance Corporation (IFC) investment over the CPS period is expected to average US$25 million per year**. The current IFC portfolio comprises US$5.4 million in equity; US$19 million credit and trade lines; US$13 million seed investment in the West Africa Venture Fund for direct on-lending to, or equity in SMEs (US$6.8 million allocated for Liberia and balance for Sierra Leone) and US$33.5 million debt financing approved and committed to the rubber and cocoa sectors. The priority sectors for IFC's investments include agribusiness, infrastructure including power, financial services and mining. IFC's advisory service will include strategic engagement in investment climate improvement, leasing, finance services infrastructure and private sector development.

4. **In response to the Ebola Virus Disease (EVD) outbreak, the World Bank Group has provided extraordinary support to Liberia**, well beyond the scope of the CPS and significantly above the IDA Performance Based Allocation, including commitment of some US$177 million equivalent from the IDA Crisis Response Window (CRW). In the wake of the Ebola crisis, the World

[1] Prepared by the World Bank.

Bank Group has undertaken a rapid review of its strategy and portfolio to ensure they remain aligned with the country's development needs.

5. The World Bank continued its support to Liberia, when its economy—already weakened by the adverse impact of the Ebola crisis—has been hard hit by severe exogenous shocks from the sustained slump in global commodity prices and the UNMIL withdrawal. The World Bank support to mitigate the fiscal and poverty impact of the twin shocks includes the following: (i) an increase in the financing for the Third Poverty Reduction Support Development Policy Operation (PRSDPO-III) from US$10 million grant equivalent to US$20 million equivalent; (ii) an augmentation of PRSDPO-III by US$19.1 million equivalent of grants, including from the IDA Crisis Response Window; and (iii) a supplemental financing to PRSDPO-III in amount US$12 million equivalent in IDA credits and grants, and US$4,366,500 in grants from Liberia Forest Landscape Single Donor Trust Fund (Norway). PRSDPO-III was approved by the World Bank Group Board on October 26, 2017, and the supplemental financing was approved by the Board on June 26, 2017.

6. The World Bank has started the preparation of a Systematic Country Diagnostic (SCD) for Liberia in October 2016. The SCD identifies a set of priorities through which a country may most effectively and sustainably achieve the poverty reduction and shared prosperity goals. The SCD is expected to be finalized by end-October 2017. The SCD will serve as the reference point for consultations when developing the new Country Partnership Framework in FY18.

B. Active Projects

7. There are currently sixteen active IDA projects in Liberia, including four regional projects, with a total commitment of approximately US$646.2 million equivalent, of which approximately US$364.3 million is undisbursed. Eight new projects were approved in 2016–17 for a total of US$78.53 million of IDA resources. These eight projects are summarized below:

8. Regional Disease Surveillance Systems Enhancement (REDISSE) Phase II project was approved on March 1, 2017 for US$15 million. The objectives of the Project are: (i) to strengthen national and regional cross-sectoral capacity for collaborative disease surveillance and epidemic preparedness in West Africa, thereby addressing systemic weaknesses within the animal and human health systems that hinder effective disease surveillance and response; and (ii) in the event of an Eligible Emergency, to provide immediate and effective response to said Eligible Emergency. The REDISSE2 project offers an excellent opportunity to strengthen collaboration across the 15 ECOWAS countries and build regional disease surveillance and response capacity.

9. The West Africa Regional Fisheries Program-Additional Financing project for Liberia was approved on September 30, 2016 for US$4.2 million. The objectives of the project are (i) to improve unloading facilities for industrial fishing vessels, space for the development of a fish processing unit, and a pier for loading exported fisheries products by completing the Mesurado Complex and (ii) support the Integration of the Mesurado-Robertsport Cluster, through the design and setting up a public private partnership model and preparation of Robertsport's facilities management contracts, and (iii) support selected coastal communities with facilities for handling, processing and storing of fisheries products and to enable a better logistics and value-chain integration between the Robertsport and the Mesurado fishery port complex, through: Upgrading and expanding the related equipment, including a cold storage and electrical power capacity in Robertsport.

10. **The MSME and Rural Finance Post-Ebola Project was approved in May 2016 for US$4.8 million**. The objective of the project is to enhance the capacity of local private sector financial institutions to lend profitably to MSMEs. This would comprise three subcomponents to support on-lending to micro and small entrepreneurs; (a)Provide line of credit to viable MSMEs; (b) Risk-sharing Instruments through the establishment of partial credit guaranty scheme; default risk to be shared 50/50 with participating banks for loans to MSMEs falling within agreed criteria and (c) assistance to participating financial institutions to improve the quality of lending by providing expertise in design and operation of credit and risk sharing operations, loan supervision, credit screening, cash-flow modeling etc.

11. **Girls Ebola Livelihood Support (GERLS) project was approved on October 17, 2016 for US$530,000**. The objective of the GERLS project is to support vulnerable girls in urban and peri-urban areas in Montserrado, Margibi and Grand Bassa counties, whose businesses are on the verge of collapse or already folded up as a result of the impact of the EVD. Half of the selected beneficiaries would have already benefited from a previous Ministry of Gender, Children and Social Protection's Economic Empowerment of Adolescent Girls and Young Women (EPAG) project. The remaining half will be adolescent girls who have not participated in the EPAG but are also vulnerable to post-EVD shocks.

12. **The Liberia Urban Water Supply Project was approved on March 24, 2016 for US$10 million**. The project development objectives are to increase access to piped water supply services in the project area in Monrovia and improve the operational efficiency of Liberia Water and Sewer Corporation (LWSC). The project has two components: (a) infrastructure improvements in Monrovia including targeted repairs and rehabilitations of the existing distribution network and extension of the distribution network to new areas and customers, and (b) capacity building for the LWSC, including the development of improved project management and monitoring and evaluation arrangements.

13. **The Liberia Social Safety Net Project was approved on April 28, 2016 for US$10 million**. The project development objective is to establish the key building blocks of a basic national safety net delivery system and provide income support to households who are both extremely poor and food insecure in the Republic of Liberia. The project consists of the following three components: (i) Strengthening of the National Social Safety Net System. This component supports the development of an information system for the delivery of social assistance, data collection and household registration and an eligibility screening mechanism to assess the poverty and food insecurity conditions of households; (ii) Cash Transfers to Extremely Poor and Food Insecure Households. This component covers the provision of income support to about 10,000 extremely poor and food insecure households through regular cash transfers; and (iii) Project Management and Capacity Building, covering capacity building of the Ministry of Gender, Children and Social

Protection to implement the project and strengthening coordination at the national and subnational levels.

14. The Liberia Renewable Energy Access Project was approved on January 11, 2016 for US$27 million, including US$25 million from the Strategic Climate Fund. The objective of the project is to increase access to electricity and to foster the use of renewable energy sources. The project has three main components. The first component—the largest—supports the expansion of access to reliable electricity to about 9,000 new users in an economic and agricultural in the North-Western part of Liberia, one of the hardest hit during the Ebola crisis. The second component provides technical assistance to support the government's program to expand decentralized electrification and foster the use of renewable energy. The third component supports the development of a national market for solar systems that could help provide access to modern energy services to more than 100,000 people.

15. The Liberia Land Administration Project was approved on September 28, 2017 for US$7 million. The objective of the project is to strengthen the institutional capacity of the Liberia Land Authority (LLA) and establish a land administration system. The project comprises of four components. The first component is support to the LLA. The second component is support for inventory and analysis of tribal land certificates. The third component is development of a land administration system. The fourth component is project coordination, monitoring and evaluation.

C. Advisory Services and Analytics

16. The World Bank has re engaged the government of Liberia in the implementation of BOOST as part of the open budget initiative. Specific objectives of the BOOST project are as follows; (i) link expenditure data in the current Chart of Accounts (CoA) to earlier Charts of Account and financial information systems, making analyzing historical spending across multiple classification easier; (ii) guide budget analysts and planners from both central and implementing agencies in how they can better analyze and interpret these data, including keeping the tool alive by demonstrating how new data can be added; and iii), subject to GoL approval, improving the efficiency of resource use via greater external accountability, by uploading a version of the tool to an accessible website. The government nominated three staff of the Ministry of Finance and Development Planning (MFDP) to be the BOOST contact persons to coordinate the implementation of BOOST in Liberia.

17. The World Bank Group (WBG) has launched an analytical work on forest sector, the findings of which will serve as the basis for: (I) Forest Action Plan(FAP) FY16–20 that was approved by the Board in 2016; (ii) the Climate Change Action Plan (presented to the Board on April 4, 2017); and the (iii) Climate Change Action Africa Climate Business Plan that was announced at UNFCCC COP21 in December 2015 which identifies Liberia as a key partner for its implementation. The WBG will aim to take a holistic look at forest landscapes to help Liberia access finance opportunities that can act as incentives to shift toward more sustainable practices so that its work in sectors like agriculture, transport and energy does not erode forest capital and generates instead positive forest outcomes for national economy and for communities that depend on this resource.

18. Financial Sector Development Implementation Plan (FSDIP) is a FIRST-funded program aimed at promoting financial inclusion. The specific objectives are: (1a) developing an agent banking regulatory framework, (1b) enhancing the mobile money strategy and regulatory framework, and (1c) fostering payment systems' development, regulations, and oversight; (2) enhancing the consumer protection framework; (3) bolstering consumers' financial capability through the design of a financial education strategy, program, and media campaign; (4) strengthening the regulatory, supervisory, and governance framework for MFIs; and (5) supporting capacity building and implementation support for the operationalization of the FSDIP, including for the Financial Inclusion and Financial Infrastructure working groups.

19. The World Bank is providing technical assistance to Liberia Institute of Statistics and Geo-Information Systems (LISGIS), under a Multi-Donor Trust Fund (MDTF). The overall objective of the project (National Statistics Strengthening Project) is to support LISGIS in the production of key economic statistics; namely; (i) implementation of the Household Income and Expenditure Survey (HIES); (ii) compilation of benchmark estimates for Poverty indicators, Consumer Price Index, National Accounts; and (iii) Capacity building. The 2014 HIES, was interrupted by the Ebola Virus Disease (EVD) Outbreak after 6 months of field. Base on the 6-month day, a statistical abstract on key poverty indicators is completed. The incidence of poverty is estimated at 54 percent. The data was however not able to capture the seasonality of incomes and expenditures as well as information at the county level. Consequently, 12-month HIES was launched in 2016. LISGIS has also finalized the compilation of National Accounts statistics for the period 2008 to 2013. Lastly, the weights for the compilation of the CPI has been updated using the 2014 HIES data.

20. The World Bank has completed the Public Expenditure Financial Accountability (PEFA) assessment in May 2016. The report shows that despite considerable IT-based modernization of PFM systems, PFM system performance has strengthened only slowly and has weakened in some areas. The establishment of a Treasury Single Account (TSA), an Integrated Financial Management Information System (IFMIS), the Standard Integrated Tax Administration System (SIGTAS), the Automated System for Customs Data Administration (ASYCUDA), and the Civil Service Management System (CSMS), alongside considerable amounts of Technical Assistance from development partners (DPs) together provided a solid basis for strengthening PFM performance. Human resource capacity constraints, power and connectivity problems, financial resource shortfalls, the impact of the Ebola Virus Disease (EVD), frequent in-year budget adjustments and insufficient compliance with expenditure commitment and other non-salary internal controls combined to slow the pace of reform and to reduce budget credibility.

D. Financial Relations

Active and Disbursing Projects (as at October 3, 2017)[1]

Project	Date, Approval	Date, Rev Closing	IDA Comm Amt, $US m	IDA Disb to Date, $US m	IDA Open Undisb Bal, $US m
LR-Smallholder Tree Crop Project	06/05/2012	11/30/2018	15.0	12.0	2.7
LR-Road Asset Management	06/07/2011	06/30/2024	157.7	75.8	75.7
LR-Health Systems Strengthening	05/30/2013	05/30/2018	10.0	7.2	2.8
LR-Accelerated Electricity Exp.	05/30/2013	04/30/2020	95.0	32.2	64.9
LR-Public Sector Modernization	02/10/2014	09/30/2019	2.0	1.9	0.0
LR-Youth Opportunities Project	11/06/2015	12/31/2020	10.0	2.8	9.3
Liberia Renewable Energy Access Project	01/11/2016	06/30/2021	2.0		2.1
Social Safety Nets Project	04/28/2016	12/31/2021	10.0		10.3
Urban Water Supply	03/24/2016	06/30/2021	10.0	1.0	9.3
Liberia Land Administration Project	09/28/2017	10/31/2022	7.0		
Liberia Forest Sector Project	04/19/2016	06/30/2020	36.7		32.7
Cheesemanburg Landfill & Urb Sanitation	06/28/2017	06/30/2020	10.5		10.5
Liberia MSME & Rural Finance post Ebola Reconstruction	4/4/2016	3/30/2019	4.8		3.7
Ebola Emergency Response Project	09/16/2014	03/31/2021	115.0		35.0
WAPP APL4 (Phase 1) - Cote d'Ivoire, Sierra Leone, Liberia, and Guinea Power System Re-development	5/31/2012	10/31/2019	144.5	42.9	88.6
Regional Disease Surveillance Systems Enhancement (REDISSE) Phase II	3/1/2017	8/31/2023	15.0	0.0	15.8
West Africa Region Fisheries Program AF Guinea, Sierra Leone and Liberia	2/8/2017	3/1/2018	1.0	0.0	0.8
Overall Result			**646.2**	**175.8**	**364.3**

[1] Amounts may not add up to original principal due to changes in the SDR/US exchange rate since signing.

IDA Disbursements and Debt Service (Since HIPC Completion Point)

US$ Million	Jul 2010–Jun 2011	Jul 2011–Jun 2012	Jul 2012–Jun 2013	Jul 2014–Jun 2015	Jul 2015–Jun 2016	Jul 2016–Jun 2017
Total disbursements	61.83	55.27	40.18	183.6	131.0	85.35
Repayments	0.33	0.00	0.00	0.00	0.00	0.00
Net disbursements	61.49	55.27	40.18	183.6	131.0	85.35
Interest and fees	0.05	0.12	0.25	0.79	0.96	1.84

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK[1]

(As of October 2, 2017)

There are 18 active AfDB projects in Liberia, in addition to projects funded by trust funds. The portfolio has a total commitment of approximately UA 275.91 million, equivalent to US$374.37 million, of which about 22 percent is disbursed. A brief description of these projects is provided below.

1. **Integrated Public Financial Management Reform Project Phase 2 (IPFMRP-II)**: This AfDB's UA 6.26 million project is a successor project to IPFMRP Phase I support to the Public Finance Management Sector that closed March 31, 2017. The Project was approved on January 30, 2017 and will run for three years. Supported with the World Bank, USAID, this US$29.67 million project builds on the phase I support which had represented an innovative approach for the Bank to support a comprehensive government program for PFM reform. By using a pooled funding arrangement, the project continues to harmonize support with other donors, increasing development effectiveness while decreasing the administrative burden on the Government. The project has three components: (i) strengthening transparency and accountability in public financial management; (ii) enhancing domestic revenue mobilization from the natural resource sector; and (iii) project management. Activities will include: Upgrade of the Integrated Financial Management Information System (IFMIS) platform, strengthening the capacity of institutions in PFM, strengthening debt management, macroeconomic forecasting, financial reporting, and better domestic revenue mobilization.

2. **Liberia–Urban Water Supply and Sanitation Project (UWSSP)**: This UA 26.1 million grant project aims to improve Monrovia's water and sanitation facilities. The project will: (i) provide access to adequate, safe and reliable water supply and public sanitation services in Monrovia, Buchanan, Kakata, and Zwedru; and (ii) enhance the institutional, operational, management capability, and the long-term financial viability of LWSC. The Project's components are: (i) Rehabilitation and augmentation of water treatment and distribution systems; (ii) Provision of public sanitation facilities; (iii) Institutional support; (iv) Environmental and Sanitation Sensitization.

3. **Agriculture Sector Rehabilitation Project (ASRP)**: This UA 18.4 million project is financed by a UA 12.5 million grant from the Bank, UA 3.4 million grant from IFAD, and the balance funded in kind by the Government of Liberia. The project covers eight of the fifteen counties in Liberia. The goal of the ASRP is to contribute to food security and poverty reduction. Its specific objective is to increase the income of smallholder farmers and rural entrepreneurs including women on a sustainable basis. The project is implemented under three components: Agriculture Infrastructure Rehabilitation; Agricultural Production and Productivity Improvement; and Project Management,

[1] Prepared by the African Development Bank.

with Agriculture infrastructure constituting 60 percent of the cost. This support closed disbursements end of June 2017 and currently concluding the Project Closure Report.

4. **Smallholder Agricultural Productivity Enhancement and Commercialization (SAPEC) Project**: This UA 34.08 million project will be funded by a UA 29.08 million grant from the Global Agriculture and Food Security Program (GAFSP), a UA 4.0 million ADF loan, and UA 1.0 million by in-kind contributions from the Government of Liberia. The intervention seeks to reduce rural poverty and household food insecurity by increasing income for smallholder farmers and rural entrepreneurs particularly women, youths and the physically-challenged. SAPEC will be implemented in 12 of the 15 counties of Liberia over 2014 to 2018 and seeks to scale-up the on-going Agricultural Sector Rehabilitation Project (ASRP). The project consists of four components, namely: (i) Sustainable Crop Production Intensification; (ii) Value Addition and Marketing; (iii) Capacity Building and Institutional Strengthening; and (iv) Project Management.

5. **Equity investment of US$1.2 million in the share capital of Access Bank (ABL)**: Access Bank Liberia (ABL) is a start-up microfinance bank sponsored in 2009/2010 by Access Microfinance Holding AG, with co-support by the International Finance Corporation (IFC) and the European Investment Bank (EIB). A capital increase of US$209,000 was approved in 2012. Access Bank is also benefitting from a US$460,000 grant funded by the Fund for Africa Private Sector Assistance (FAPA), approved in 2015, which is supporting technical assistance.

6. **Fostering Innovative Sanitation and Hygiene in Monrovia**: The objective of the grant of Euro 1.2 million from the African Water Facility administered by the ADB is to increase access to sustainable and affordable sanitation services with improved hygiene and livelihood for Monrovia's urban poor. The specific objectives include: (a) increase access to safe, sustainable and affordable sanitation services; (b) reduce the vulnerability of the urban poor populace to WASH related diseases caused by water contamination; and (c) implement an effective, efficient and sustainable FS management system with production of affordable FS fertilizer to increase scalable food security. The grant is currently undertaking closure activities.

7. **Paving Fish Town–Harper Road Project (Phase I)**: The objective of the Project is to provide efficient road transport access to South East Counties of Liberia and, by extension, to neighboring Mano River Union States. The project will involve upgrading from gravel to bitumen standard the Fish Town–Harper Road (Phase 1): Harper–Karloken section (50 km) at an estimated cost of UA 43.04 million including GoL counterpart funding of UA 1.0 million. The expected outcomes include: (a) improved socio-economic inclusion of population in south-east region; (b) attraction of investments with employment creation and stronger government presence; (c) facilitated cross-border trade in MRU member states; and (d) employment generation during construction and post construction phase.

8. **Mano River Union (MRU) Road Development and Transport Facilitation Program (Phases 1 and additional financing)**: The MRU Road Development and Transport Facilitation program will upgrade to bitumen standard 276.35 km of roads in eastern Guinea, West and South-West Côte d'Ivoire, and eastern Liberia.

The Program will be executed from June 2015 to June 2019 for an estimated net total cost of UA 221.97 million. Liberia's portion, covering Karloken-Fish Town (80 km) and Harper-Cavalla junction (16 km), is a UA 76.88 million loan from ADF and TSF. The project will also include the construction of joint border control posts.

9. **Regional Electricity Interconnection Project: Cote d'Ivoire, Liberia, Sierra Leone and Guinea (CLSG)**. The CLSG electricity interconnection project will construct a 1,357-km-long double circuit high voltage (225 kV) line to connect the national networks of the four countries (Côte d'Ivoire, Liberia, Sierra Leone and Guinea (CLSG)). This line is part of the backbone of the Mano River Union countries and one of the priority projects of the West African Power Pool (WAPP) Master Plan. The project will help establish a dynamic electric power market in the West African sub-region and secure power supply for participating countries which have a comparative advantage in importing power rather than producing it domestically. The project, estimated at an overall cost of UA 331.51 million, will be implemented over the 2014–17 period. The contribution of the Bank Group (ADF, FSF and NTF) amounts to UA 128.15 million (or 38.7 percent of the total cost). Some 24 million residents in the impact area will benefit from reliable electric power at competitive cost. The project will raise the average electricity access rate in the four countries from 28 percent in 2012 to 33 percent by 2017. The increased electricity access will contribute to improving the welfare of the beneficiaries and lead to the development of social and income-generating activities.

10. **Côte d'Ivoire, Liberia, Sierra Leone and Guinea – Rural Electrification (CLSG-RE)**: The CLSG-RE Project will finance construction of 151 km of 33kv distribution networks and about 550 substations along the TRANSCO-CLSG 225KV transmission line to electrify 130 small towns, villages and communities in Nimba, Bong, Grand Bassa, and Rivercess counties; extend connections to 8086 households and installation of 748 Street lights. The Project amount is UA 18 million.

11. **Liberia Energy Efficiency Access Project (LEEAP)**: LEEAP is a UA 31.38 million project aiming to increase access to electricity while promoting energy efficiency and strengthening the institutional capacity in the electricity sector. More specifically, the project will: (i) expand the electricity transmission and distribution network in Liberia; (ii) improve electricity accessibility of the communities in Pleebo to Fish Town in the River Gee County, and the Roberts International Airport (RIA) corridor); (iii) promote energy efficiency in the country; and (iii) improve the human and technical capacity of the energy sector by training skilled professionals (including engineers, technicians, maintenance and administrative personnel) from LEC, MLME, EPA and RREA.

12. **Technical Assistance from Transition States Facility and other Trust Funds**:

a. **Technical Assistance and Capacity Building Support to the Liberia Institute of Statistics and Geo-Information Services (TCB-LISGIS)**: This is a UA 500,000 grant that will support LISGIS to strengthen institutional and staff capacity, to conduct analysis, publish and disseminate results from the HIES and other related surveys. The data will be used to monitor the implementation of Liberia's national development strategy-the Agenda for Transformation 2012–17, and the Bank's Country Strategy Paper 2013–17.

b. **Youth Entrepreneurship and Employment Project (YEEP)**: This is a US$2.3 million project funded by the Transition Support Facility, TSF Pillar III and Fund for Africa Private Sector Assistance FAPA, and is aimed at improving entrepreneurial skills of the youth. The Project will contribute to building a competitive private sector in Liberia by strengthening the capacities of selected tertiary institutions that will design and deliver entrepreneurship and employment generation programs.

13. Program of Assistance to Trade Support Institutions in Liberia (PATSIL): This UA 658,735 project focuses on human capacity building by improving the human resource capacity of key trade support institutions to analyze and enhance policy framework of the trade sector, formulate and implement trade policies, improve institutional productivity and performance of the Ministry of Commerce and Industry and National Ports Authority through provision of logistical support. There are 18 active AfDB projects in Liberia, in addition to projects funded by trust funds. The portfolio has a total commitment of approximately UA 275.91 million, equivalent to US$374.37 million, of which about 22 percent is disbursed. A brief description of these projects is provided below.

STATISTICAL ISSUES

(As of October 2, 2017)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that significantly hamper surveillance. Most affected areas are: national accounts, government finance, and balance of payments statistics.
National Accounts: Comprehensive national accounts data are not available. Fund staff estimates GDP by activity using the production approach and primary source data provided by the Liberia Institute of Statistics and Geo-Information Services (LISGIS). Estimates for GDP by expenditure are not available. During May–September 2012, the LISGIS, assisted by a World Bank consultant, conducted a second round National Accounts Annual Survey (NAAS 2012) collecting information for the years 2010 and 2011. The processing of the NAAS 2012 was completed in June 2014, but several issues were identified within the data when reviewed by STA experts. Consequently, the set of GDP estimates for 2008–13 presented serious inconsistencies. The AFRITAC West 2 and STA experts have made final adjustments to GDP figures for the period 2008–13. AFRITAC West 2 experts are now providing assistance to LISGIS in compiling estimates for 2014 and 2015. These estimates will not be published until the next rebase. Shortcomings remain with the underlying NAAS 2012 data so it has been strongly recommended that an Economic Census be conducted with respect to 2016. This undertaking will be strongly supported by both AFRITAC West 2 and the World Bank. There is a lack of funds to undertake the survey required which is being addressed currently. A full 12-month Household Income and Expenditure Survey (HIES) was started in January 2016. The data collected to date have been processed and will be used in developing preliminary estimates of household final consumption expenditure (HFCE).
Price Statistics: Assisted by the EDDI 2 project,[1] the LISGIS introduced from February 2017 an updated CPI, using expenditure weights and an updated market basket based on the Household Income and Expenditure Survey conducted during 2014. Currently prices are collected only in Monrovia. By 2019 it is expected that the weights will be further updated based on the results of the full 12-month HIES undertaken in 2016 and national price collection will be introduced. The LISGIS does not currently compile a PPI for Liberia because this requires that an Economic Census be conducted. It is expected that work on the development of the PPI will commence during 2018.
Government Finance Statistics: Liberia has only reported annual GFS data up to 2013 for budgetary central government, excluding social security, but further improvements are expected once expenditure data on donor-financed projects becomes available and a detailed analysis of extra budgetary funds has been completed. Challenges remain in capturing cash expenditure data in IFMIS, so a non-cash reporting basis, based on either commitment or adjusted cash is deemed necessary for the time being. A September 2016 TA mission comprehensively assessed the structure of the Chart of Accounts and produced a bridge table to GFSM 2014 classifications as well as a number of further improvements. Notwithstanding the work that was done by this mission, the Liberia authorities have submitted no further data to the GFS team. A proposed follow up mission will encourage the authorities to update their data and look for further improvements.

Monetary and Financial Statistics (MFS): Liberia does not submit monetary data to STA using Standardized Report Forms (SRFs), but still uses the old reporting forms 10R (for the central bank sectoral balance sheet) and 20R (for banks). Data are generally submitted with long delays, and latest available data is for April 2017. STA provided technical assistance to the Central Bank of Liberia (CBL) in April 2013, to help the CBL compile MFS data using the SRFs but reporting of data based on SRFs has yet to materialize. However, CBL has committed to start reporting data using SRFs by October 2017.
Financial sector surveillance: The CBL has been in recent years a recipient of technical assistance under the Japan Sub-Account (JSA) project for English-speaking African countries. Under this project, the CBL developed FSIs for deposit takers but these have so far not been sent to STA or released for publication. Further, the CBL submits some supervisory ratios to AFR for surveillance purposes.
External sector statistics: As part of the UK DFID Project, the CBL has been receiving sustained TA missions. The quality of the ESS has been improving gradually, although for surveillance purpose it is still not yet adequate. Balance of payments statistics are compiled quarterly since August 2016 on a *BPM6* basis and have been submitted to STA since start of 2017. In addition, the CBL has recently compiled preliminary annual International Investment Position (IIP) and has submitted same to STA. With a view to further improve data quality, the July 2017 TA mission has designed new reporting forms to collect administratively sourced cross-border flows and positions as well as assisted the CBL to take necessary steps to implement an International Transactions Reporting System (ITRS). The mission has also helped the compilers to prepare tables with longer time series data for publication in a user-friendly format to better satisfy users' needs.

II. Data Standards and Quality	
Participant in the enhanced General Data Dissemination System (e-GDDS). Metadata for most data categories were updated in January 2013.	No Data ROSC mission has been conducted.

III. Reporting to STA
The authorities report quarterly balance of payments data, annual IIP and government finance statistics for the IFS, GFSY, and BOPSY). Liberia does not submit FSIs to STA for publication on the IMF website.
[1] Enhanced Data Dissemination Initiative (EDDI) phase 2 funded by the UK Department for International Development.

Liberia: Table of Common Indicators Required for Surveillance

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items: Data Quality – Methodological Soundness	Memo Items: Data Quality – Accuracy and Reliability
Exchange Rates	9/2017	Sep/2017	D	M	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	7/2017	Sep/2017	M	M	Q		
Reserve/Base Money	7/2017	Sep/2017	M	M	Q		
Broad Money	7/2017	Sep/2017	M	M	Q		
Central Bank Balance Sheet	7/2017	Sep/2017	M	M	Q		
Consolidated Balance Sheet of the Banking System	7/2017	Sep/2017	M	M	Q		
Interest Rates[2]	7/2017	Sep/2017	M	M	Q		
Consumer Price Index	7/2017	Sep/2017	M	M	Q		
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA		
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	7/2015	Sep/2017	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	7/2015	Sep/2017	M	M	Q		

Liberia: Table of Common Indicators Required for Surveillance (concluded)							
	Date of Latest Observation	**Date Received**	**Frequency of Data[7]**	**Frequency of Reporting[7]**	**Frequency of Publication[7]**	**Memo Items:**	
						Data Quality – Methodological Soundness	**Data Quality – Accuracy and Reliability**
External Current Account Balance	Q4/2016	Sep/2017	Q	Q	Q		
Exports and Imports of Goods and Services	7/2017	9/14/2017	M	M	Q		
GDP/GNP	2008	3/1/2011	Q	Q	I		
Gross External Debt	8/2017	9/21/2017	M	M	Q		
International Investment Position[6]	2015	March 2017	A	A	NA		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

INTERNATIONAL MONETARY FUND

LIBERIA

November 1, 2017

SEVENTH AND EIGHTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA —DEBT SUSTAINABILITY ANALYSIS

Risk of external debt distress:	moderate
Augmented by significant risks stemming from domestic public and/or private external debt?	No

Approved By
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Prepared by the International Monetary Fund and the World Bank.

This Debt Sustainability Analysis (DSA)[1] updates the analysis presented to the Board in December 2016 as background for the Staff Report for the Fifth and Sixth Reviews of the Extended Credit Facility (ECF). Although Liberia's risk of debt distress remains moderate, debt has accumulated at a fast pace in recent years, in part due to multiple adverse shocks, and growth projections have deteriorated. Nonetheless, the debt-to-exports ratio—one of the key indicators for the debt distress rating—has improved compared to the previous DSA, reflecting a moderate upturn in gold production and opening of an iron ore mine site. The authorities need to be vigilant of growing debt vulnerabilities and enhance their efforts to mobilize domestic revenue and achieve fiscal consolidation, while protecting social spending.[2]

[1] The previous DSA may be found in Country Report No. 16/392 December 2016 Staff Report prepared for Board Meeting. The last full DSA may be found in IMF Country Report No. 16/8, published on January 8, 2016.

[2] Liberia's policies and institutions are classified as "weak" under the World Bank's Country Policy and Institutional Assessment (CPIA) Index (average score over 2013–15: 3.11). The relevant indicative thresholds for this category are: 30 percent for the PV of debt-to-GDP ratio, 100 percent for the PV of debt-to-exports ratio, 200 percent for the PV of debt-to-revenue ratio, 15 percent for the debt service-to-exports ratio, and 18 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly guaranteed external debt.

BACKGROUND

1. **The external debt stock has been increasing at a fast pace, in part due to scaled-up infrastructure spending and multiple adverse shocks**. Since September 2016 to June 2017, the total debt stock has increased from US$597 million to US$736 million. Currently, the external debt stock comprises mostly multilateral loans (Text Table 1). In FY2017, around US$218 million of external loans have been ratified, and the debt accumulation is expected to continue.

Text Table 1. Composition of External Debt Stock

	End of June 2017	
	Millions of $US	% of Total
Total debt stock	**736**	**100**
(as % of GDP)	**35**	
By creditors		
Multilateral including IMF	683	93
Of which:		
IMF	199	27
World Bank	291	40
AfDB	70	9
Bilateral	54	7

Sources: Liberian authorities; and IMF staff calculations

UNDERLYING ASSUMPTIONS

2. **GDP projections have deteriorated while the outlook for export growth has improved both in the short- and medium-term**. In the short run, GDP projections for FY2017 have been revised downward due to stronger-than-expected effects from the withdrawal of the United Nations Mission in Liberia (UNMIL) and lower commodity production in the second half of 2016. In FY2017, GDP growth is expected to contract by -2.2 percent, and exports are also expected to contract by -3.4 percent.[3] At the same time, export growth projections have improved, mainly due to improved gold production and opening of an iron ore mine site (Text Table 2). In the medium term, the GDP growth projection is also slightly lower than previously estimated, while export growth is more favorable than previously estimated.[4] Nonetheless, the baseline scenario remains subject to significant risks. On the downside, an unexpected deterioration in the security condition or a recurrence of Ebola could disrupt economic activity and investor sentiment and put additional

Text Table 2: Underlying DSA Assumptions

	FY2017		FY2017-FY2022	
	Dec 2016 DSA	Current DSA	Dec 2016 DSA	Current DSA
Real GDP growth (percent)	1.4	-2.2	5.2	4.2
Exports growth (percent)	-10.9	-3.4	1.5	4.5

Sources: Liberian authorities; and IMF staff projections

[3] All the variables including GDP and exports growth rates in DSA are in fiscal year (July to June) instead of calendar year for Liberia. Additional details on the external debt could also be found in MEFP ¶30.

[4] Dynamics of domestic interest rates changed since the last DSA update, partly because: (i) the yield of 2-year treasury bond issued in FY2017 (coupon bond) were relatively high (13 percent at issuance) and (ii) the implied interest rate was calculated using actual interest payments (which do not appear until FY2019).

pressure on fiscal balances. Conversely, a peaceful transition of power in January may release pent-up investment demand, lead to some repatriation of capital, and provide a boost to growth in 2018.

EXTERNAL DSA

3. **Liberia's risk of external debt distress remains moderate**. There are no breaches of indicative threshold under the baseline scenario for any debt indicator. The PV of debt-to-GDP ratio has deteriorated slightly since the 2016 December DSA. The PV of debt-to-GDP ratio under the baseline scenario is projected to increase from 23.1 percent in FY2017 to 27.5 percent in FY2019 and to decline gradually afterwards. The peak of 27.5 percent in the PV of debt-to-GDP ratio is higher than previously projected (23.4 percent in the December 2016 DSA). On the other hand, the PV of debt-to-exports ratio has improved mainly due to higher projected commodity prices and a moderate upturn in gold and iron ore mining, and is projected to increase from 76.5 percent in FY2017 and to a peak of 89.2 percent in FY2019, lower than previously projected (99 percent in the December 2016 DSA).

4. **However, debt vulnerabilities remain substantial, with some breaches of thresholds under extreme shock scenarios**. Under the most-extreme stress scenarios, either one-time depreciation shock or an export shock, both the PV of debt-to-GDP and the PV of debt-to-exports breach their thresholds even as early as FY2018 and remain breached at least until FY2030. Under the historical scenario case, the PV of debt-to-GDP and the PV of debt-to-exports breach after FY2030 or later. These breaches confirm the Liberian economy's vulnerability to external shocks such as the Ebola shocks, commodity price shock as a commodity exporter, and a sharp decline in the exchange rate and underscore the technical rating of moderate risk of external debt distress (Figure A1). Based on the probability approach, all the indicators under the baseline scenarios remain below the threshold. However, the PV of debt to GDP ratio is close to breach, reflecting Liberia's debt vulnerability (Figure A3).

PUBLIC DSA

5. **The public DSA has not significantly changed compared to the December update**. Under the baseline, most standard alternative scenarios, and the extreme stress test, the key debt indicator remains similar to the level in the December 2016 DSA. The PV of public debt-to-GDP ratio is expected to rise from 26.5 percent in FY2017 to around 28.9 percent in FY2019 and decline slowly thereafter (Figure A2). However, it should be noted that under a scenario in which the primary balance is fixed at its value in the first projection year, the ratio of total Public and Publicly Guaranteed (PPG) debt to GDP increases sharply and moves well above the benchmark in FY2026, and well above the benchmark for the remaining forecast period. The PV of debt-to-revenue and grants ratio is expected to rise from 90.3 percent in FY2017 to a peak of 105.6 percent in FY2019 and fall slowly afterwards; while the debt-service to-revenue and grants ratio is expected to reach a peak of 7.5 percent in FY2021 and decline thereafter. All these ratios have deteriorated since the December 2016 DSA, due to both a worse GDP projection and a faster pace of debt accumulation.

Over the medium term, while revenue is expected to increase due to on-going revenue mobilization efforts, grants are projected to decline sharply. Pro-growth and pro-poor spending needs also remain high. This highlights the critical importance of a prudent fiscal policy for debt sustainability in Liberia.

CONCLUSION

6. Continued debt vulnerabilities call for a prudent debt management policy, a credible path of revenue mobilization and fiscal consolidation, and structural reforms to promote growth and economic diversification. The DSA shows that Liberia's risk of debt distress remains moderate. The authorities agreed with staff's assessment and share staff's concerns about debt vulnerabilities. The authorities emphasize the importance of strengthening much-needed infrastructure while respecting the debt limits under the ECF. To keep the debt distress risk at moderate, they intend to continue prioritizing grants and concessional loans for pro-growth projects. Moreover, to enhance debt management capacity, (i) information flows between the legislature, the President's office, and the DMU of MFDP need to improve; and (ii) DMU needs to build capacity to do their own debt sustainability analysis and to update a medium-term debt strategy (MTDS) as needed. As Liberia remains vulnerable to external shocks (e.g., commodity price shocks) as a commodity exporter, the authorities need to be committed to a prudent borrowing strategy, the prioritization of pro-growth projects, and the diversification of the economy to make it more resilient to external shocks. Creating much needed fiscal space to meet social and development needs (one of the main pillars of the ECF-supported program) remains important and efforts on fiscal consolidation and revenue mobilization need to continue. While fiscal consolidation will be needed to keep a sustainable debt trajectory, the nature of the fiscal adjustment should not jeopardize critical spending for poverty reduction and productivity.

Table A1. Liberia: External Debt Sustainability Framework, Baseline Scenario, 2014–37[1/]

(Percent of GDP, unless otherwise indicated)

	Actual			Historical [6/]	Standard [6/]	Projections									
				Average	Deviation							2017-2022			2023-2037
	2014	2015	2016			2017	2018	2019	2020	2021	2022	Average	2027	2037	Average
External debt (nominal) 1/	**13.6**	**23.3**	**29.5**			**38.2**	**42.9**	**46.3**	**47.1**	**47.1**	**46.6**		**39.9**	**30.3**	
of which: public and publicly guaranteed (PPG)	13.6	23.3	29.5			38.2	42.9	46.3	47.1	47.1	46.6		39.9	30.3	
Change in external debt	2.7	9.7	6.3			8.7	4.6	3.5	0.8	0.0	-0.5		-1.0	-0.9	
Identified net debt-creating flows	7.7	11.8	9.2			10.8	6.0	5.2	3.7	2.0	0.5		0.2	-0.2	
Non-interest current account deficit	**28.1**	**31.4**	**29.6**	**26.7**	**7.1**	**25.3**	**27.2**	**27.5**	**24.6**	**23.5**	**22.3**		**16.0**	**13.0**	15.6
Deficit in balance of goods and services	71.8	86.3	79.5			68.5	60.3	53.8	47.2	42.7	38.4		29.4	21.2	
Exports	42.6	37.2	31.4			30.2	29.6	30.8	30.8	30.9	30.8		31.7	21.9	
Imports	114.4	123.5	110.9			98.7	89.9	84.6	78.0	73.5	69.1		61.1	43.1	
Net current transfers (negative = inflow)	-61.6	-70.5	-62.5	-82.5	27.5	-55.3	-46.0	-40.6	-37.3	-34.1	-30.8		-23.2	-13.3	-20.2
of which: official	-32.2	-35.0	-29.5			-31.7	-30.6	-28.8	-26.8	-24.0	-21.1		-15.6	-8.8	
Other current account flows (negative = net inflow)	17.9	15.7	12.7			12.2	12.8	14.3	14.8	15.0	14.7		9.8	5.0	
Net FDI (negative = inflow)	**-19.7**	**-19.9**	**-19.7**	**-20.8**	**7.3**	**-15.5**	**-19.3**	**-21.4**	**-18.9**	**-19.1**	**-19.2**		**-13.8**	**-11.5**	-13.6
Endogenous debt dynamics 2/	**-0.8**	**0.3**	**-0.7**			**0.9**	**-1.9**	**-0.9**	**-2.0**	**-2.4**	**-2.5**		**-1.9**	**-1.6**	
Contribution from nominal interest rate	0.1	0.2	0.2			0.3	0.5	0.3	0.3	0.4	0.4		0.3	0.2	
Contribution from real GDP growth	-0.6	0.4	-0.5			0.6	-2.4	-1.2	-2.4	-2.7	-2.9		-2.3	-1.9	
Contribution from price and exchange rate changes	-0.3	-0.3	-0.3			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-5.0**	**-2.2**	**-3.0**			**-2.1**	**-1.4**	**-1.8**	**-2.9**	**-2.0**	**-1.0**		**-1.3**	**-0.6**	
of which: exceptional financing	0.0	-0.9	-0.9			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	17.9			23.1	25.5	27.5	27.4	26.8	26.0		22.0	17.1	
In percent of exports	...	...	57.1			76.5	86.4	89.2	88.9	86.9	84.5		69.4	78.0	
PV of PPG external debt	**...**	**...**	**17.9**			**23.1**	**25.5**	**27.5**	**27.4**	**26.8**	**26.0**		**22.0**	**17.1**	
In percent of exports	**...**	**...**	**57.1**			**76.5**	**86.4**	**89.2**	**88.9**	**86.9**	**84.5**		**69.4**	**78.0**	
In percent of government revenues	**...**	**...**	**82.0**			**103.4**	**112.2**	**113.1**	**108.5**	**105.0**	**100.5**		**90.5**	**63.1**	
Debt service-to-exports ratio (in percent)	**0.8**	**1.2**	**0.8**			**1.7**	**3.4**	**3.1**	**4.7**	**6.0**	**5.9**		**3.2**	**4.5**	
PPG debt service-to-exports ratio (in percent)	**0.8**	**1.2**	**0.8**			**1.7**	**3.4**	**3.1**	**4.7**	**6.0**	**5.9**		**3.2**	**4.5**	
PPG debt service-to-revenue ratio (in percent)	**1.4**	**2.0**	**1.2**			**2.2**	**4.5**	**3.9**	**5.8**	**7.3**	**7.0**		**4.2**	**3.6**	
Total gross financing need (Millions of U.S. dollars)	175.6	239.2	210.9			215.8	191.4	153.5	168.3	157.3	133.4		136.7	243.1	
Non-interest current account deficit that stabilizes debt ratio	25.4	21.8	23.4			16.6	22.5	24.0	23.9	23.5	22.8		17.0	13.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.7	-2.8	2.4	5.9	3.8	-2.2	6.5	2.8	5.5	6.2	6.6	4.2	6.1	6.5	6.2
GDP deflator in US dollar terms (change in percent)	2.4	2.3	1.5	5.1	2.9	2.8	-2.9	-1.3	1.6	1.3	2.1	0.6	2.8	2.3	2.7
Effective interest rate (percent) 5/	0.7	1.6	0.9	0.7	0.6	1.0	1.4	0.8	0.8	0.8	0.8	0.9	0.9	0.8	0.8
Growth of exports of G&S (US dollar terms, in percent)	-3.0	-13.2	-12.3	5.6	16.1	-3.4	1.2	5.7	7.3	7.7	8.4	4.5	7.2	4.7	6.7
Growth of imports of G&S (US dollar terms, in percent)	8.9	7.3	-6.6	5.2	9.6	-10.5	-5.8	-4.5	-1.2	1.4	2.3	-3.1	6.5	4.9	5.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	47.0	49.9	54.2	58.8	58.6	58.9	54.6	52.9	54.0	53.6
Government revenues (excluding grants, in percent of GDP)	23.5	22.4	21.8			22.3	22.8	24.3	25.3	25.6	25.8		24.3	27.1	26.2
Aid flows (in Millions of US dollars) 7/	77.6	199.1	198.6			252.1	245.7	168.5	170.9	160.7	164.3		170.9	347.5	
of which: Grants	77.6	199.1	198.6			145.3	144.3	67.1	48.3	37.6	33.6		42.7	101.7	
of which: Concessional loans	0.0	0.0	0.0			106.8	101.5	101.5	122.6	123.1	130.7		128.1	245.8	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			10.6	10.0	6.0	5.1	4.4	4.0		2.6	2.3	2.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			72.2	75.3	70.6	70.5	68.3	67.3		64.6	67.4	65.4
Memorandum items:															
Nominal GDP (Millions of US dollars)	2005.9	1994.1	2073.0			2084.0	2154.4	2185.7	2342.4	2518.5	2741.1		4271.6	10168.6	
Nominal dollar GDP growth	8.2	-0.6	4.0			0.5	3.4	1.5	7.2	7.5	8.8	4.8	9.0	8.9	9.1
PV of PPG external debt (in Millions of US dollars)			352.0			444.7	515.3	575.6	620.8	655.9	692.6		925.3	1710.4	
(PVt-PVt-1)/GDPt-1 (in percent)						4.5	3.4	2.8	2.1	1.5	1.5	2.6	1.5	1.0	1.3
Gross workers' remittances (Millions of US dollars)	473.0	615.3	549.7			597.8	608.2	617.1	620.7	629.6	639.6		854.3	1016.9	
PV of PPG external debt (in percent of GDP + remittances)	...	...	14.2			18.0	19.9	21.4	21.7	21.5	21.1		18.3	15.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	30.9			39.2	44.2	46.5	47.8	48.0	48.0		42.5	53.5	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	0.4			0.9	1.8	1.6	2.5	3.3	3.4		2.0	3.1	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

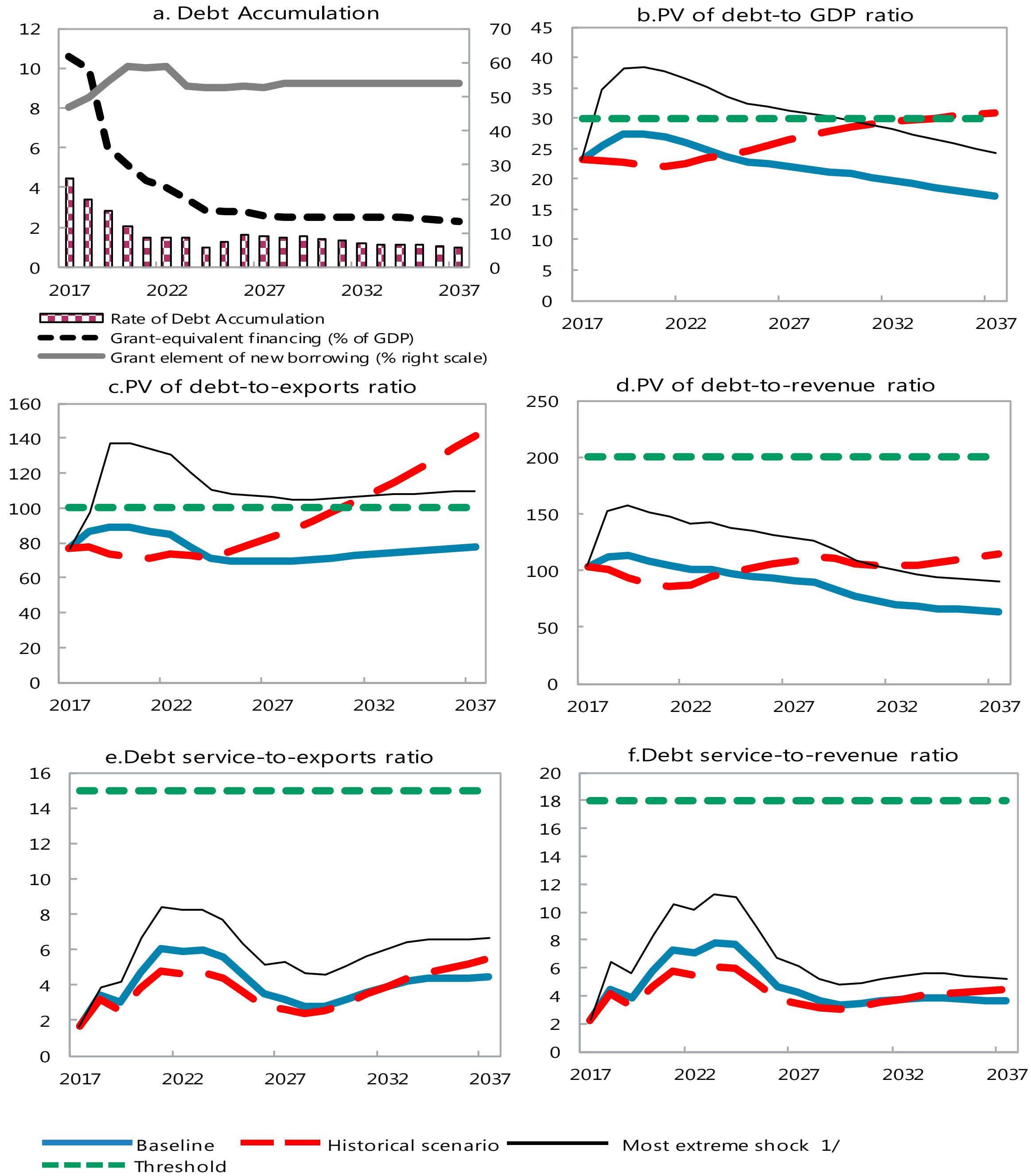
5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Figure A1. Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2017–37[1/]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table A2. Liberia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014–37

(Percent of GDP; unless otherwise indicated)

	Actual					Estimate					Projections				
	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	16.7	25.4	30.1			41.6	46.7	47.8	48.1	48.0	47.6		40.1	30.5	
of which: foreign-currency denominated	16.2	24.1	30.0			38.7	43.7	47.1	47.9	47.9	47.4		39.9	30.3	
Change in public sector debt	4.3	8.7	4.7			11.5	5.2	1.0	0.4	-0.1	-0.4		-1.0	-0.9	
Identified debt-creating flows	1.0	9.7	4.0			8.1	3.7	3.1	0.3	-0.3	-1.2		-1.5	-2.1	
Primary deficit	1.8	9.5	3.9	1.7	3.4	7.1	5.4	3.9	3.2	2.7	2.3	4.1	1.5	0.2	0.7
Revenue and grants	27.4	32.4	31.4			29.3	29.5	27.4	27.3	27.0	27.1		25.3	28.1	
of which: grants	3.9	10.0	9.6			7.0	6.7	3.1	2.1	1.5	1.2		1.0	1.0	
Primary (noninterest) expenditure	29.2	41.9	35.3			36.4	34.8	31.3	30.6	29.7	29.4		26.8	28.3	
Automatic debt dynamics	-0.8	0.2	0.1			1.0	-1.7	-0.8	-3.0	-3.0	-3.5		-3.0	-2.3	
Contribution from interest rate/growth differential	-0.7	0.5	-0.7			0.5	-2.9	-1.2	-2.8	-3.2	-3.4		-2.8	-2.2	
of which: contribution from average real interest rate	0.0	0.0	-0.1			-0.1	-0.4	0.1	-0.3	-0.4	-0.4		-0.4	-0.3	
of which: contribution from real GDP growth	-0.7	0.5	-0.6			0.7	-2.5	-1.3	-2.5	-2.8	-3.0		-2.3	-1.9	
Contribution from real exchange rate depreciation	-0.1	-0.4	0.8			0.4	1.2	0.4	-0.2	0.2	-0.1		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	3.3	-1.0	0.7			3.4	1.5	-2.1	0.1	0.2	0.8		0.5	1.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	18.5			26.5	29.4	28.9	28.4	27.7	27.0		22.2	17.3	
of which: foreign-currency denominated	...	...	18.4			23.6	26.3	28.3	28.2	27.6	26.8		22.0	17.1	
of which: external	...	...	17.9			23.1	25.5	27.5	27.4	26.8	26.0		22.0	17.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	2.2	10.8	5.7			7.7	9.0	8.7	5.5	4.9	4.3		2.8	1.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	58.9			90.3	99.9	105.6	104.1	102.5	99.6		87.7	61.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	84.7			118.4	129.2	119.0	112.5	108.5	104.3		91.3	63.8	
of which: external 3/	...	...	82.0			103.4	112.2	113.1	108.5	105.0	100.5		90.5	63.1	
Debt service-to-revenue and grants ratio (in percent) 4/	1.6	2.6	2.2			1.8	4.3	7.4	6.4	7.5	7.1		4.4	3.8	
Debt service-to-revenue ratio (in percent) 4/	1.9	3.8	3.1			2.4	5.5	8.3	7.0	7.9	7.4		4.6	4.0	
Primary deficit that stabilizes the debt-to-GDP ratio	-2.5	0.8	-0.8			-4.3	0.2	2.9	2.9	2.8	2.8		2.5	1.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.7	-2.8	2.4	5.9	3.8	-2.2	6.5	2.8	5.5	6.2	6.6	4.2	6.1	6.5	6.2
Average nominal interest rate on forex debt (in percent)	1.3	1.9	1.2	0.9	0.7	1.1	1.4	1.2	1.2	1.1	1.0	1.2	0.9	0.8	0.9
Average real interest rate on domestic debt (in percent)	...	-5.6	-6.8	-5.2	3.4	-10.7	-10.1	12.7	14.0	9.8	4.9	3.4	3.4	1.7	1.8
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.9	-2.2	3.4	-2.6	4.2	1.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	9.2	7.4	9.3	9.4	3.5	18.3	12.8	10.1	9.6	7.9	8.2	11.1	5.9	5.4	6.1
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.8	39.6	-13.6	2.6	13.7	0.8	1.8	-7.8	3.1	3.3	5.4	1.1	6.3	5.7	6.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	47.0	49.9	54.2	58.8	58.6	58.9	54.6	52.9	54.0	...

Sources: Country authorities; and staff estimates and projections.

1/ The public sector debt in DSA covers the central budgetary government's gross debt.

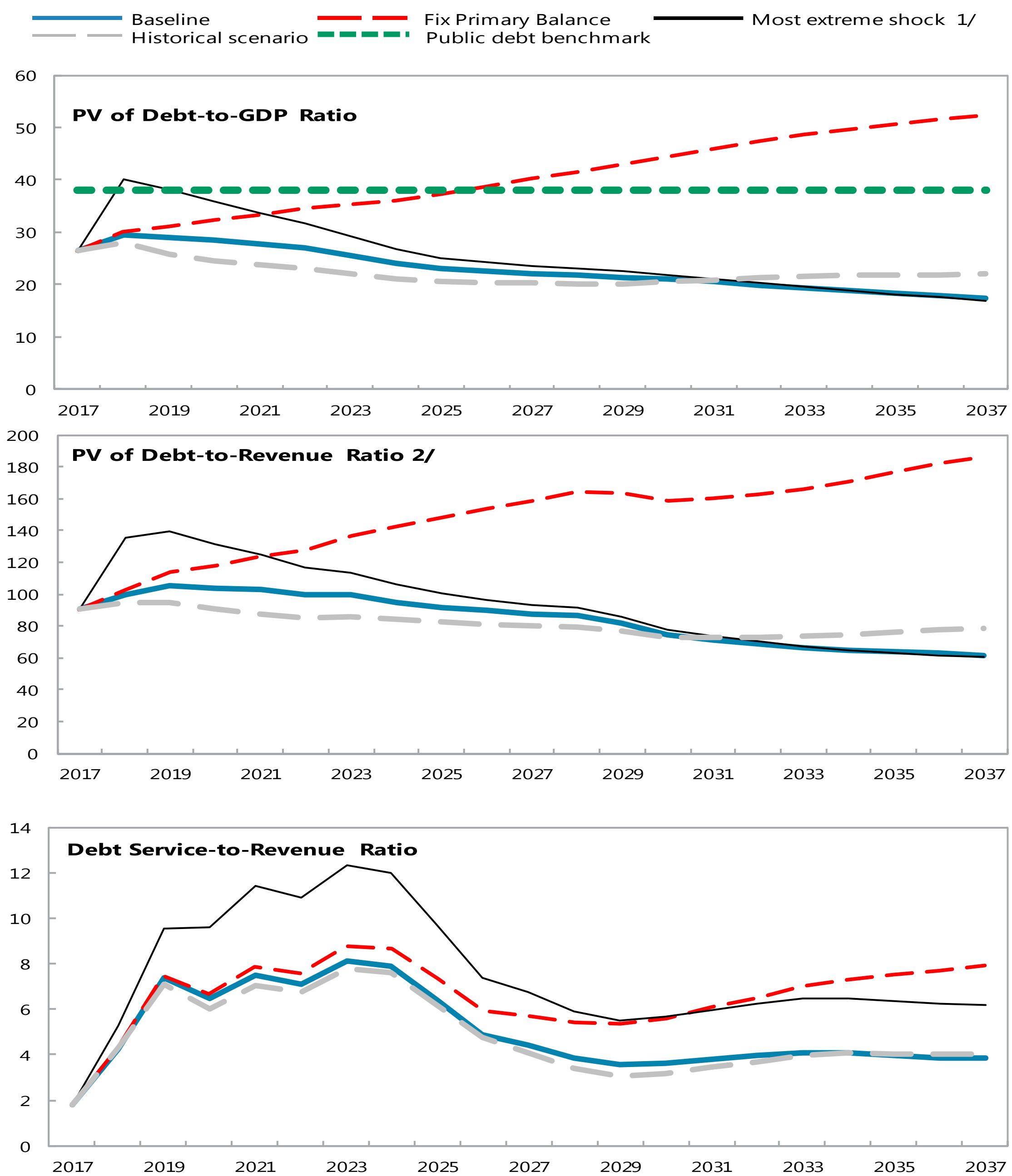
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

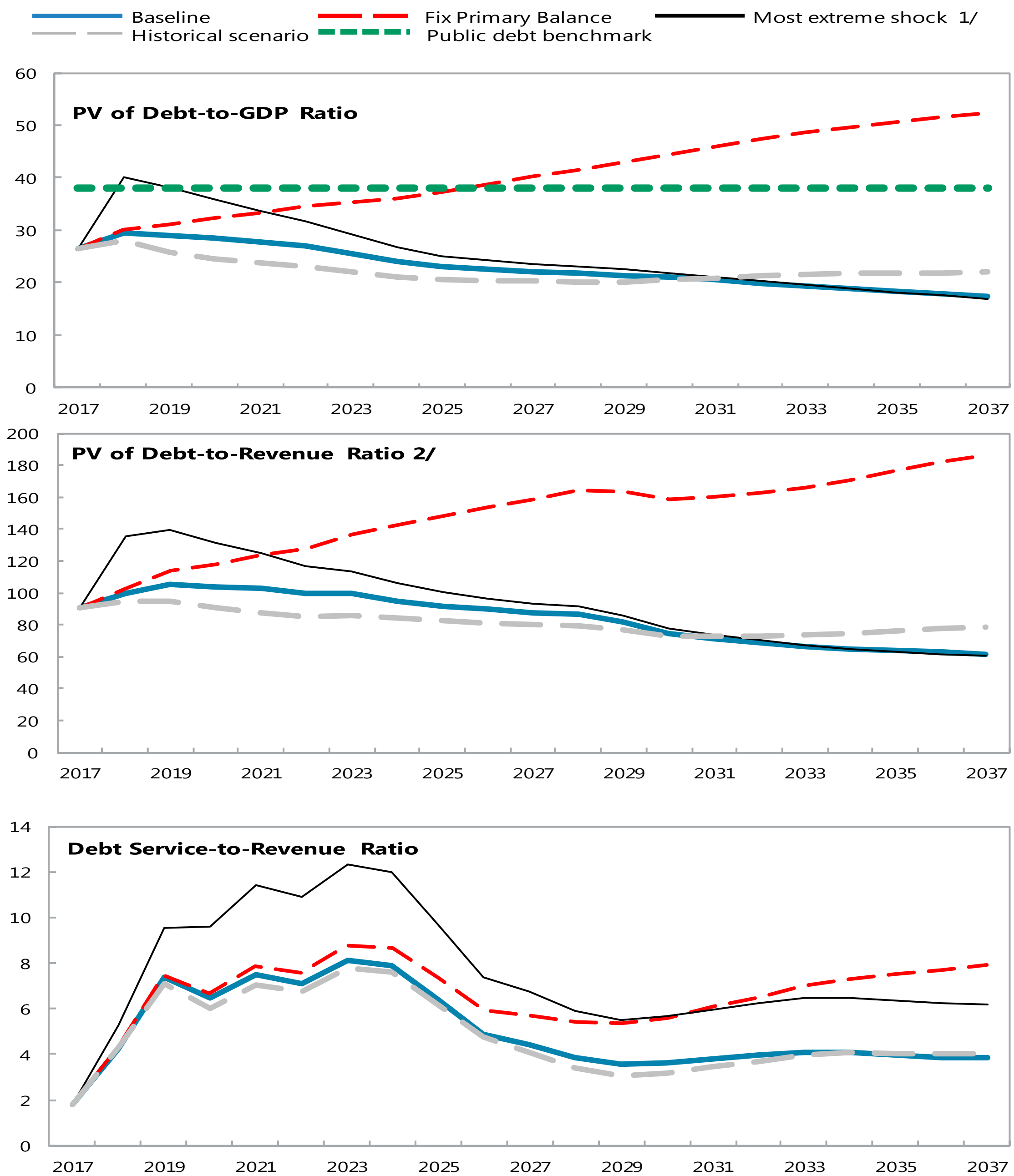
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Figure A2. Liberia: Indicators of Public Debt Under Alternative Scenarios, 2017–37[1/]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.
2/ Revenues are defined inclusive of grants.

Figure A2. Liberia: Indicators of Public Debt Under Alternative Scenarios, 2017–37[1/]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.
2/ Revenues are defined inclusive of grants.

Table A3. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37

(Percent)

		Projections						
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to GDP ratio								
Baseline	23	26	27	27	27	26	**22**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	23	23	23	22	22	23	**26**	31
A2. New public sector loans on less favorable terms in 2017-2037 2/	23	26	30	31	32	32	**32**	28
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	23	25	28	28	27	26	**23**	18
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	23	26	32	32	31	30	**25**	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	23	23	24	24	24	23	**20**	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	23	22	22	22	22	21	**19**	16
B5. Combination of B1-B4 using one-half standard deviation shocks	23	12	1	2	2	2	**5**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	23	35	38	38	38	37	**31**	24
PV of debt-to-exports ratio								
Baseline	77	86	89	89	87	84	**69**	78
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	77	78	74	72	71	73	**83**	141
A2. New public sector loans on less favorable terms in 2017-2037 2/	77	86	96	101	104	105	**100**	129
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	77	81	85	86	84	82	**68**	77
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	77	98	137	137	134	130	**106**	110
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	77	81	85	86	84	82	**68**	77
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	77	76	70	71	70	69	**59**	72
B5. Combination of B1-B4 using one-half standard deviation shocks	77	46	4	7	8	9	**18**	57
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	77	81	85	86	84	82	**68**	77
PV of debt-to-revenue ratio								
Baseline	103	112	113	108	105	101	**91**	63
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	103	101	93	88	86	87	**109**	114
A2. New public sector loans on less favorable terms in 2017-2037 2/	103	112	122	124	126	126	**130**	104
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	103	109	114	110	107	103	**93**	65
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	103	112	130	125	121	116	**103**	66
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	103	100	99	96	93	90	**82**	57
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	103	98	89	87	85	82	**76**	58
B5. Combination of B1-B4 using one-half standard deviation shocks	103	55	4	7	8	9	**19**	37
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	103	152	157	152	147	141	**129**	90

Table A3. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37 (concluded)

(Percent)

Debt service-to-exports ratio								
Baseline	2	3	3	5	6	6	**3**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	2	3	3	4	5	5	**3**	5
A2. New public sector loans on less favorable terms in 2017-2037 2/	2	3	3	5	7	7	**4**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	2	3	3	5	6	6	**3**	4
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	2	4	4	7	8	8	**5**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	2	3	3	5	6	6	**3**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	2	3	3	4	6	6	**3**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	2	4	3	4	5	5	**0**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	2	3	3	5	6	6	**3**	4
Debt service-to-revenue ratio								
Baseline	2	4	4	6	7	7	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	2	4	3	5	6	5	**3**	4
A2. New public sector loans on less favorable terms in 2017-2037 2/	2	4	4	6	8	8	**5**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	2	5	4	6	8	7	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	2	4	4	6	8	7	**5**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	2	4	4	5	7	6	**4**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	2	4	4	5	7	7	**3**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	2	4	3	4	5	5	**-1**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	2	6	6	8	11	10	**6**	5
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	53	53	53	53	53	53	**53**	53

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table A4. Liberia: Sensitivity Analysis for Key Indicators of Public Debt 2017–37

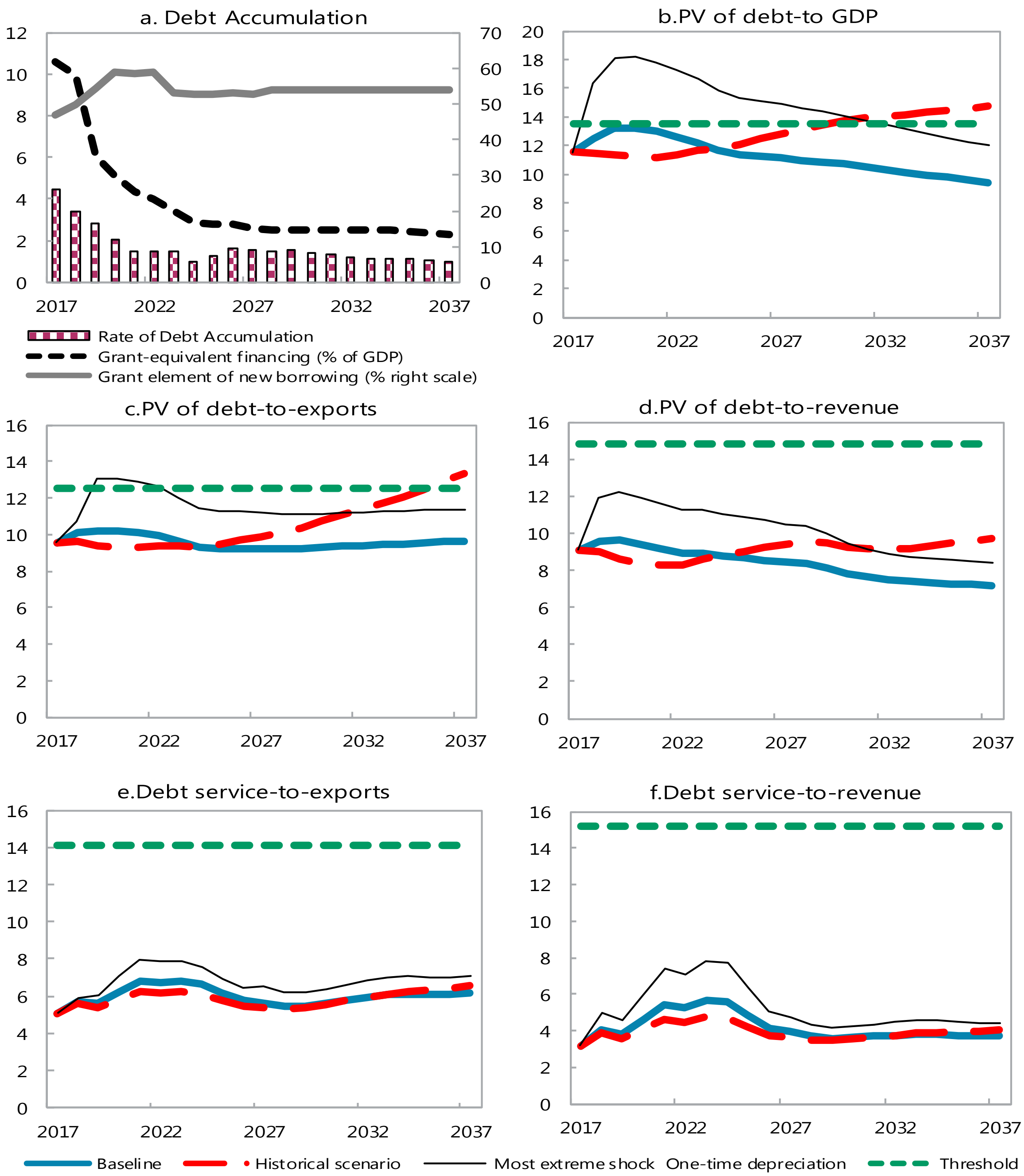
	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	26	29	29	28	28	27	22	17
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	26	28	26	25	24	23	20	22
A2. Primary balance is unchanged from 2017	26	30	31	32	33	35	40	52
A3. Permanently lower GDP growth 1/	26	30	30	30	29	29	28	37
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	26	31	31	31	31	31	28	26
B2. Primary balance is at historical average minus one standard deviations in 2018-201	26	29	29	29	28	27	22	17
B3. Combination of B1-B2 using one half standard deviation shocks	26	29	28	28	27	27	23	19
B4. One-time 30 percent real depreciation in 2018	26	40	38	36	34	32	24	17
B5. 10 percent of GDP increase in other debt-creating flows in 2018	26	34	33	33	32	31	25	19
PV of Debt-to-Revenue Ratio 2/								
Baseline	90	100	106	104	103	100	88	62
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	90	95	94	90	88	85	80	79
A2. Primary balance is unchanged from 2017	90	102	114	118	123	128	159	187
A3. Permanently lower GDP growth 1/	90	101	108	108	109	108	112	130
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	90	105	114	114	115	114	110	91
B2. Primary balance is at historical average minus one standard deviations in 2018-201	90	99	107	106	104	101	89	62
B3. Combination of B1-B2 using one half standard deviation shocks	90	99	103	102	101	98	89	67
B4. One-time 30 percent real depreciation in 2018	90	136	139	132	125	117	93	60
B5. 10 percent of GDP increase in other debt-creating flows in 2018	90	114	121	119	118	114	100	67
Debt Service-to-Revenue Ratio 2/								
Baseline	2	4	7	6	8	7	4	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	2	4	7	6	7	7	4	4
A2. Primary balance is unchanged from 2017	2	4	7	7	8	8	6	8
A3. Permanently lower GDP growth 1/	2	4	7	7	8	7	5	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	2	4	8	7	8	8	5	5
B2. Primary balance is at historical average minus one standard deviations in 2018-201	2	4	7	6	8	7	4	4
B3. Combination of B1-B2 using one half standard deviation shocks	2	4	7	6	8	7	4	4
B4. One-time 30 percent real depreciation in 2018	2	5	10	10	11	11	7	6
B5. 10 percent of GDP increase in other debt-creating flows in 2018	2	4	8	7	8	7	5	4

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Figure A3. Liberia: Probability of Debt Distress of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2017–37[1/]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Statement by Mr. Maxwell Mkwezalamba, Executive Director for Liberia and Mr. Bernard Wleh Jappah, Advisor to the Executive Director

November 13, 2017

Our Liberian authorities value the engagement with the Fund and thank staff for the constructive policy dialogue during the seventh and eighth reviews of their economic program under the Extended Credit Facility (ECF) arrangement approved in November 2012. They broadly agree with staff's assessment of Liberia's macroeconomic challenges and policies. In line with the country's long term development agenda, "Liberia Rising 2030", the authorities have remained committed to implementation of sound macroeconomic policies and structural reforms under the ECF arrangement. On the other hand, the post- Ebola macroeconomic environment has been challenging, while the impact of the commodity price decline has proven more persistent than expected, and the drawdown of peacekeeping operations (United Nations Mission in Liberia- UNMIL) has dampened demand. While recognizing the potential risks emanating from the political transition following the Presidential and general elections held in October 2017, our authorities are determined to manage the process to a successful conclusion.

Program Performance

Despite the challenges, performance under the ECF arrangement has broadly been satisfactory. Two end-December 2016 performance criteria (PCs) on government revenue and gross public external borrowing were missed, whereas three end-June 2017 PCs on government revenue, net foreign exchange position of the Central Bank of Liberia (CBL), and on CBL's gross direct credit to government were also missed.

The PC on revenue was missed owing to subdued economic activity. To address the PC on revenue, the authorities have unified discretional surcharge rates on fuel imports and introduced a process of direct transfers of these funds to the central treasury, beginning in FY 2017/18. The PC on gross public external borrowing was missed owing to weaknesses in information flow around external borrowing ratifications. The authorities have since taken corrective measures, including having the Debt Management Unit in the Ministry of Finance and Development Planning (MFDP) ensuring that all ratified loans are fully recorded in the debt database in a timely manner, while at the same time reporting to the Fund on all signed and ratified loans as of end May 2017. The PC on net foreign exchange position was missed due to a swap arrangement to cover high U.S. dollar commitments, including elections and security expenditures. This missed PC has been resolved through the swap reversal. Further, the CBL is reviewing its operational budget with a view of identifying possible savings in foreign currency. The PC on gross direct credit to the central government was missed owing to the accounting convention used in the swap arrangement mentioned above. The credit was reversed in July, bringing gross credit below the end June 2017 target.

Two of the structural benchmarks (SB) for the seventh review, namely, publication of quarterly reports on financial performance of state-owned enterprises (SoEs) for FY 2016/17 Q1 & Q2, and submission to Fund staff of the final report of the forensic audit of First International Bank Liberia Limited (FIBLL), were met with delays, while one benchmark could not be completed because the four major concession companies that were required to formalize an agreement to specify terms for the deferral of some tax payments were not operational owing to low commodity prices. Two (2) SBs for the eighth review were also missed. These were the publication of quarterly reports on financial performance of SoEs for FY 2016/17 Q3 & Q4, and submission of procurement and spending plans on the draft budget for FY 2017/18 of at least 50 percent of spending entities to the Public Procurement and Concessions Commission (PPCC). The SB on SoE reporting was delayed due to late data sharing and the need to follow administrative procedures for publication. The authorities have since put in place measures for seamless transmission of information and have also streamlined the clearance process regarding publication. Meanwhile, reports on FY 2016/17 Q4 are being processed for publication in November 2017. A longer-than-anticipated review process by the external auditor led to a one week delay in submitting the final report of the forensic audit of FIBLL to Fund staff. Lateness in the submission of procurement plans to the PPCC was due to a delay in the passage of the budget by the National Legislature.

Based on the foregoing, our Liberian authorities request for a waiver for non-observance of the end-2016 and end-June 2017 performance criteria given that corrective actions have been taken. They also request for the completion of the seventh and eighth (and final) reviews of their economic program under the ECF arrangement.

Recent Economic Developments and Outlook

Real GDP growth contracted by 1.6 percent in 2016, due mainly to lower production in the forestry, mining, and manufacturing sectors, as well as a higher-than-expected impact of the withdrawal of UNMIL, and the residual effects of the Ebola crisis. The weak external environment and elections-induced uncertainties also undermined economic performance. Notwithstanding these challenges, growth is projected to rebound to 2.5 percent in 2017, largely driven by expansion in iron ore and gold production. In addition, manufacturing is expected to improve, partly due to increased power distribution and a reduction in energy rates. That said, weakening of activity in the forestry, services, and agriculture and fisheries sectors are expected to partially moderate the growth momentum. Looking ahead, growth is projected to rise steadily to 7 percent, supported by all the major sectors of the economy, alongside the dividends of sustained structural reforms.

The slow recovery in commodity prices, coupled with declining donor support, and pre-election capital flight exerted significant pressure on the exchange rate. Consequently, the local unit has depreciated by 20 percent in nominal terms since May 2017, culminating in sharp increases in inflation from 9.7 percent to 12.4 percent in September 2017. This notwithstanding, inflation is expected to subside to low and stable levels, averaging

10 percent over the medium term, on the back of a tight monetary policy stance, and the expected easing of exchange rate pressure in the post-election period.

Fiscal Policy and Debt Management

Implementation of the FY 2017/18 budget faces substantial risks emanating from potential delays in donor support and decline in international trade, with $24 million (1.1 percent of GDP) unlikely to be realized. Moreover, elections and elections-related costs continue to weigh heavily on the FY 17/18 budget. In this regard, the authorities stand ready to effect corresponding reductions in expenditure to offset the decline in revenues. In addition, they have adopted a contingency plan to ensure certain expenditures are only triggered when contingent revenues are realized. Further, strong allotment control measures have been put in place to contain expenditures. With the overall fiscal deficit for FY 17/18, including off-budget activities, estimated at 5.9 percent of GDP, the authorities are committed to bringing it down to 3 percent in the medium term. This will be achieved through sustained fiscal consolidation, including maintenance of the hiring freeze outside the health and education sectors, restrictions on travel, and postponement of wage reforms in the medium term.

The authorities have made significant progress towards enhancing domestic resources mobilization, including through introducing measures to improve tax compliance and reduce leakages. Among others, they have introduced taxpayers' education, desk audits for large taxpayers, and a new compliance management framework. Further, the authorities are reviewing the Liberia Revenue Code to address a range of shortcomings in an effort to raise additional revenues. The review also covers current investment incentives. The authorities are also planning to implement VAT in 2019. In this regard, they are preparing a white paper outlining a roadmap for VAT implementation, in line with Fund TA recommendations, and envisage a stakeholders' engagement commencing in December 2017.

Though debt levels remain moderate, they are edging close to high-risk of distress. In response, the authorities are committed to utilize the already ratified but not yet disbursed resources and avoid new borrowings. Where necessary, new borrowing would be sought at highly concessional terms. The authorities are also committed to assessing all previously ratified loans with a view to streamlining them. In addition, the authorities are developing a medium- term debt strategy (MTDS) in consultation with the Fund and the Work Bank to govern debt practices going forward.

To control fiscal risks and maintain transparency associated with SoEs governance, our authorities have reinforced publication of financial performance reports of SoEs, including analyzing their liabilities, investments, and financing sources. In addition, they have embarked upon an exercise to take stock of contingent liabilities of the central government relating to SoEs. This exercise will be completed by end December 2017.

Monetary, Exchange Rate, and Financial Sector Policies

The CBL has maintained a tight monetary policy stance, resulting in the deceleration of base money growth. This stance is appropriate to dampen exchange rate pressures, following the depreciation of the Liberian dollar since May 2017. At the same time, our authorities remain committed to maintaining flexibility in the exchange rate, with interventions aimed at smoothening volatility and protecting against speculative demand.

The financial sector remains adequately capitalized, while non-performing loans (NPLs) declined from 15.8 percent in March 2017 to 14 percent in June 2017, driven by write-offs and restructuring of loans. Notwithstanding, the authorities recognize the challenge of high NPLs, and have requested the Fund's assistance to assess their key drivers and evaluate the appropriateness of ongoing measures to address them.

To address gaps in the supervisory and regulatory framework amplified by the failure of FIBLL, the CBL has prepared and published a time-bound action plan which incorporates recommendations from the recent Fund safeguard assessment, forensic audit of FIBLL, and an independent review. Meanwhile, interim measures, including submission of monthly reports to the Board on foreign exchange withdrawals and preparation of semi-annual external audits of foreign exchange reserves, are being undertaken pending the implementation of the action plan. The executive summary of the forensic audit has been published, while the full report has been submitted to the judicial authority for appropriate legal recourse.

To safeguard the system against criminal activities, the authorities in partnership with the U.S. Treasury and other regional organizations, drafted an anti- money laundering Act which was passed by the National Legislature in February 2017. Further, the CBL established a dedicated AML/CFT Unit to oversee full implementation of the anti-money laundering law. Relatedly, the Unit concluded risk-based examination of all commercial banks and subsequently completed follow up inspections of over 50 percent of the banks. The CBL also established an Asset and Liability Committee (ALCO) to oversee risk management, while embarking upon a series of internal reforms, including the conclusion of an external quality assurance review, and a review of the bank's Board Charter to strengthen governance. Further, the CBL established an Emergency Liquidity Assistance (ELA) framework, and is working on a Special Bank Resolution Regime.

Structural Reforms

The authorities are committed to maintain the momentum of structural reforms in the areas of public financial management (PFM), governance, and business environment, including beyond the expiration of the current program. In this regard, amendments to the PFM legal and regulatory framework aimed at strengthening fiscal responsibilities; ensuring efficient budget execution and financial management; and improving SoE governance, internal controls, and cash management, were submitted to the National Legislature to address weaknesses identified during the 2016 Public Expenditure Financial Accountability (PEFA) assessment. The Public Procurement and Concessions Commission (PPCC) has developed a strategy paper to professionalize the procurement career track, and it is working with spending entities to ensure timely reporting on procurement activities. Further, the authorities have established a monitoring and evaluation unit in the Ministry of Finance and Development Planning to strengthen the implementation of public investment projects, and are implementing recommendations from a recent Public Investment Management Assessment (PIMA) report.

Our authorities reaffirm their commitment to continue implementing policies geared towardsacreating an enabling environment to attract foreign investment. In this vein, they have reduced the energy tariff from $0.49 to $0.39 per kilowatt hour, following savings realized through cheap hydropower energy. In addition, they have expanded access to the national power grid, with additional connectivity earmarked through regional projects. To build capacity of its workforce and improve the quality of data, the authorities signed a memorandum of understanding (MoU) with the Fund regarding a Capacity Building Framework consistent with the country's TA priorities**.** The framework has been shared with other development partners.

Conclusion

Our authorities are committed to implementing sound macroeconomic policies aimed at achieving sustainable and inclusive growth. Though challenges persist, they remain confident that ongoing reforms to support the economic agenda, including the government's diversification program, would lead to long term economic stability. In this regard, they look forward to the conclusion of the 7th and 8th (final) reviews under the ECF and further engagement with the Fund.