INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/172

LIBERIA

June 2018

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LIBERIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 Article IV Consultation with Liberia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 8, 2018 consideration of the staff report that concluded the Article IV consultation with Liberia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 8, 2018, following discussions that ended on May 20, 2018, with the officials of Liberia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 24, 2018.
- 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 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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June 8, 2018

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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2018 Article IV Consultation with Liberia

On June 8, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Liberia.

A new government is in place, with a mandate to achieve ambitious development objectives. Liberia's economy appears poised for recovery, as growth bottomed out in 2016 and edged to 2.5 percent in 2017. However, Liberia remains fragile with poor living conditions for the majority of the population. Moreover, a decline in aid inflows, which were elevated during 2014–16, has put pressure on the exchange rate and fiscal resources. The government is thus facing the daunting task of pursuing a demanding development agenda in the face of high expectations, while also managing near-term adjustments and safeguarding macroeconomic stability.

All the elements of the government's medium-term development agenda have not been fully outline. The baseline scenario presented in this Article IV consultation is staff's interpretation of the authorities' stated policies as articulated at the time of the March 2018 mission. The resulting analysis yielded insights into various sustainability issues. However, assuming the implementation of sound policies, the medium-term outlook appears favorable. The main upside risk is an increase in commodity prices and output, while downside risks include difficulties in mobilizing resources to fill the financing gap and in pursuing structural and institutional reforms.

Executive Board Assessment[2]

Executive Directors noted that Liberia's economy appears poised for recovery, but that significant fragilities remain, as reflected in the pressure on the exchange rate and on fiscal

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

resources resulting from declining aid inflows. Assuming sound policies, Directors agreed that the medium-term outlook is favorable, albeit with risks. Directors welcomed the authorities' pro-poor agenda and noted that macroeconomic stability is essential for advancing this agenda. They stressed the critical need to mobilize resources, ensure debt sustainability, and pursue structural and institutional reforms to achieve higher growth and reduce poverty.

Directors underscored the need to anchor fiscal policy with the goal of ensuring debt sustainability over the medium term. Directors urged the authorities to increase efforts to mobilize additional domestic resources, including by enhancing the IT system of the revenue authority to improve tax compliance and efficiency. They also emphasized that improved governance, and greater fiscal transparency and accountability are key to improving spending efficiency. Directors welcomed the authorities' efforts to contain the public wage bill and encouraged redirection of budgetary expenditures to capital spending, especially for rebuilding infrastructure. Directors emphasized that future debt obligations should be undertaken transparently, limiting new debt to concessional terms, with effective implementation of infrastructure projects.

Directors underscored that maintaining macroeconomic stability will also hinge on effective implementation of monetary policy. To equip the Central Bank of Liberia (CBL) with effective operational tools, its recapitalization would be necessary. Directors also stressed the need to safeguard international reserves, and preserve governance principles and central bank independence.

Directors highlighted the need to strengthen the external position by allowing greater exchange rate flexibility, while maintaining price stability, instituting structural reforms to improve productivity and competitiveness, and by reducing the public saving-investment gap.

Directors underscored the need to reduce risk in the banking sector. This would entail actions to reduce nonperforming loans, including by clearing government obligations to the banks, and completion of the implementation of the CBL's Action Plan of reform. Directors noted that the remittance surrender requirement, while currently appropriate, should be lifted when foreign exchange market conditions allow.

Directors acknowledged that while there has been a recent improvement in trade and aid data, serious data shortcomings still need to be addressed. They urged continued enhancement of data quality, especially in national accounts and external data. Directors also underscored the key role of capacity development and technical assistance for Liberia.

Liberia: Selected Economic Indicators, 2016–19[1]

	2016		2017	2018	2019
	Est. with previous GDP	Est. with revised GDP			
Output					
Real GDP growth (%)	-1.6	-1.6	2.5	3.2	4.7
Prices					
Inflation – average (%)	8.8	8.8	12.4	11.7	10.5
Central Government[1]					
Revenue and grants (% of GDP)[2]	51.9	33.3	31.0	28.2	28.3
Expenditure (% of GDP)[2]	56.1	36.0	35.8	33.3	33.4
Fiscal balance (% of GDP)[2]	-4.2	-2.7	-4.8	-5.2	-5.1
Public Debt (% of GDP)[2,3]	28.6	18.3	24.6	28.6	30.8
Money and Credit					
Broad money (% change)	-5.2	-5.2	-2.5	1.7	6.0
Credit to private sector (% change)	2.3	2.3	14.7	10.0	10.0
Balance of Payments					
Current account (% of GDP)	-28.9	-18.5	-22.7	-22.4	-22.3
Reserve (in months of imports)[4]	3.2	3.2	3.0	3.0	3.1
External public debt (% of GDP)[2]	28.0	17.9	22.7	26.3	29.9
Exchange rate					
NEER (% change)	-7.3	-7.3	-16.7	…	…
REER (% change)	0.1	0.1	-9.6	…	…

Sources: Liberian authorities; IMF staff estimates.

[1]The numbers expressed in percent of GDP are not comparable to those referenced in IMF Country Report 17/348 due to the revisions to GDP estimates.

[2] Central government operation is based on a commitment basis and refers to the budgetary central government operations and off-budget projects. Fiscal year refers to July 1 to June 30.

[3] Excluding the central government debts from the Central Bank of Liberia.

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

INTERNATIONAL MONETARY FUND

LIBERIA

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

May 24, 2018

KEY ISSUES

Context. A new government is in place, with a mandate to achieve ambitious development objectives. Liberia's economy appears poised for recovery, as growth bottomed out in 2016 and edged to 2.5 percent in 2017. However, Liberia remains fragile with poor living conditions for the majority of the population. Moreover, a decline in aid inflows, which were elevated during 2014–16, has put pressure on the exchange rate and fiscal resources. The government is thus facing the daunting task of pursuing a demanding development agenda in the face of high expectations, while also managing near-term adjustments and safeguarding macroeconomic stability.

Outlook and Risks. All the elements of the government's medium-term development agenda have not been fully outlined. The baseline scenario presented in this Article IV consultation is staff's interpretation of the authorities' stated policies as articulated at the time of the March 2018 mission. The resulting analysis yielded insights into various sustainability issues. Staff also discussed a reform scenario designed to accomplish the same development goals as under the baseline scenario, but with additional measures to foster macroeconomic and debt stability. Assuming the implementation of sound policies, the medium-term outlook appears favorable. The main upside risk is an increase in commodity prices and output, while downside risks include difficulties in mobilizing resources to fill the financing gap and in pursuing structural and institutional reforms.

Policy Recommendations. Policies to preserve macroeconomic stability while pursuing the authorities' pro-poor agenda are critically important, as the impact of instability would fall disproportionately on the most vulnerable groups and undercut the goal of poverty alleviation. These policies include:

- Ensuring medium-term debt sustainability, while mobilizing domestic resources to complement limited borrowing space;
- Strengthening the monetary policy framework by safeguarding gross international reserves, recapitalizing the CBL, and increasing central bank independence;
- Improving the external position by allowing for greater flexibility of the exchange rate, while pursuing structural reforms and maintaining price stability; and
- Promptly addressing arrears to the banking sector, while enhancing the CBL's bank resolution framework.

Approved By
Dominique Desruelle (AFR), Kevin Fletcher (SPR)

Discussions were held in Monrovia (March 7–20, 2018). The mission comprised Ms. Saito (head), Mr. Oshima, Ms. Tejada, and Mr. Zandvakil (all AFR). Mr. Oestreicher, Resident Representative, Mr. Deline, Local Economist, and Mr. Shibata (SPR) assisted the mission. Mr. Jappah (OED) and Mr. Desruelle (AFR) attended the policy meetings. The mission met with President Weah; Minister of Finance and Development Planning Tweah; Central Bank Governor Weeks; other senior officials; representatives of the private sector and legislature; and development partners. Ms. Kaze provided research support, and Mr. Magno provided assistance for the preparation of this report.

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APPENDIX

CONTEXT: A NEW BEGINNING

1. **The January 2018 election marked Liberia's first democratic transition of power between different political parties since 1944**. While the election process was subject to significant legal challenges, the election period passed without any reported violence, and Liberia emerged from the election period with increased confidence in its democratic and legal institutions. With all major ministerial appointments now completed, the new government of President George Manneh Weah is fully in place and functioning. In addition, the United Nations Mission in Liberia (UNMIL), which had been in Liberia since the peace agreement of 2003, handed over its security responsibilities to the national police and military at end-March 2018.

2. **Though specific policies are still being formulated, the focus of the new administration will be on poverty reduction, growth, and fighting corruption**. A detailed agenda has not yet been fully articulated—the medium-term development strategy is expected by end-June 2018—but the government's "pro-poor" agenda will clearly aim to reduce deficits in infrastructure, basic public services, and domestic food production. In particular, the authorities consider that completion of a triangle of paved roads to provide transportation links throughout the country—even in the rainy season—is critical for development and poverty alleviation (Box 1). Fighting corruption and redirecting previously misused public resources to the poor are also considered essential pillars of the development strategy.

3. **A recent revision to national accounts data has confirmed that the GDP estimates have understated Liberia's level of economic activity**. Surveys of establishments and households and enhanced collection of fiscal and import data carried out over the last few years were used to revise the estimate. The preliminary estimate of nominal GDP is approximately 1.5 to 1.6 times higher than the previous one. Staff has adopted these higher estimates.

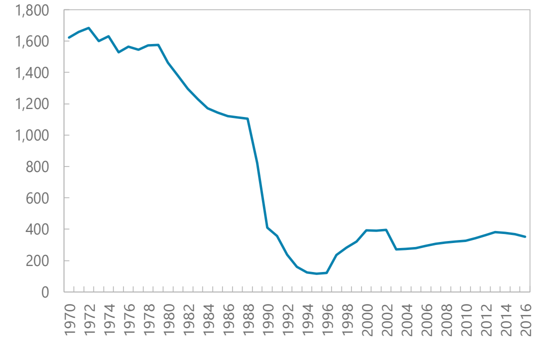
4. **Liberia remains a fragile country with poor living conditions for the majority of its population and huge development needs**. The 2016 Household Income and Expenditure Survey (HIES) shows that half of the population is living below the national poverty line. Most social indicators are still discouraging: education indices show Liberia in a disadvantaged position relative to regional peers, as do infant mortality data despite significant improvement over the last decade (see Annex I). Moreover, the large infrastructure gap is an impediment to poverty alleviation efforts and private sector development. For example, less than 20 percent of houses were electrified in 2016 and only 5 percent of roads are paved (Box 1).

5. **The new administration faces the challenging task of pursuing an ambitious development agenda, while simultaneously safeguarding macroeconomic and debt stability**.

Box 1. Liberia's Infrastructure Deficit

Liberia: GDP per Capita, 1970-2016

(Constant 2010 U.S. dollar)



Source: World Development Indicators.

Liberia's basic infrastructure and public service facilities were severely diminished during the two civil wars (1989–2003). In 2003, average income in Liberia was just one-quarter of what it had been in 1989 and just one-sixth of its level before the 1980 coup. This cumulative decline in GDP is substantial, even compared to similar dramatic episodes—e.g., falls of 54 percent in Rwanda (1992–94), 47 percent in the Democratic Republic of Congo (1974–2001), and 42 percent in Sierra Leone (1991–99) (Radelet, 2007).

Rebuilding infrastructure was the highest priority for the previous government, but financing was a major challenge even after debt relief. Only 13 percent of grants and 22 percent of loans were allocated for roads during FY2014–17. Seven years after debt relief, there are still only 565 km of paved roads, which is only 5 percent of the total length of roads (11,423 km) and 35 percent of the length of the primary roads (1,629 km). Most unpaved roads are in poor condition (Liberia Spatial Analysis of Transport Connectivity and Growth Potential, 2017).

Given that some roads have already boosted regional economic activity, the new administration considers that nothing should stop the rehabilitation of the rest of the national road network. As was observed with roads to Ganta, a border city with Guinea, an improved road network linking rural areas with highly populated areas would enable rural farmers to access markets and thereby generate incentives for them to improve their production. Securing logistical lines of medical and food supplies could also contribute to productivity gains through improved living standards.

Various investment programs are being contemplated. Different types of road rehabilitation and construction are being examined (e.g., asphalt, as well as various seal options for dirt roads) with different cost implications. One of the investment programs for the next five years is estimated to amount to approximately US$1 billion (Liberia Multimodal Transport Master Plan, 2017).

RECENT ECONOMIC DEVELOPMENTS

6. **The recovery from recent exogenous shocks has been slow** (Figure 1, Table 1). Domestic economic activities were impacted by the Ebola crisis, the decline in global commodity prices (especially iron ore and rubber), the withdrawal of the UNMIL (Annex II), and the political uncertainty surrounding the 2017 election. Growth bottomed out in 2016 at -1.6 percent and started recovering in 2017 to 2.5 percent.

7. **A reduction of net foreign exchange inflows, which had been high during 2014–16, put pressure on the exchange rate and exacerbated inflation**. As grants were frontloaded during the Ebola crisis and the largely grant-financed construction of the Mount Coffee hydropower station was completed, inflows of grants declined sharply from 2016 to 2017. The withdrawal of the UNMIL and the loss of confidence during the election year also contributed to reduced net foreign exchange inflows. As a result, the exchange rate depreciated year-on-year by 22½ percent in 2017, and inflation reached 14 percent by end 2017.

8. The external position weakened. The external current account deficit widened from 18.5 percent of GDP in 2016 to 22.7 percent of GDP in 2017 as a fall in imports provided only partial compensation for reduced inflow of grants.[1] Gross international reserves decreased from US$450 million at end-2016 to US$432 million (3 months of import cover) by end-2017. This was largely due to drawdowns of foreign exchange deposits by the government of Liberia (GOL) for various reasons, including (i) the need to return unused Ebola-related grants that had been parked in government foreign exchange deposits at the Central Bank of Liberia (CBL) and (ii) a delay in the disbursement of external budget support.

OUTLOOK, RISKS, AND SPILLOVERS

Near-Term Outlook

9. The near-term outlook remains challenging, as the authorities continue to make difficult but necessary adjustments to the lower level of aid inflows.

- *GDP growth* in 2018 is projected to reach 3.2 percent, mostly driven by a further expansion of mining (gold in particular).
- *Inflation* is projected to taper off somewhat, reaching 11 percent year-on-year by end-2018, as demand pressures are expected to remain low.
- The *trade balance* is projected to improve due to a further contraction in imports. However, with a decline in current transfers, the *current account deficit* will nonetheless remain elevated at 22.4 percent of GDP and *gross international reserves* are expected to decrease to US$405 million by end-2018.

Medium-Term Outlook

10. Staff examined two policy scenarios. The baseline scenario is staff's interpretation of the authorities' stated policies as articulated at the time of the Article IV mission in March 2018. Staff also discussed a reform scenario designed to accomplish the same development goals but with supplementary measures included to promote greater macroeconomic and debt stability.

11. The baseline and reform scenarios have different assumptions regarding external borrowing. The baseline assumes that annual external loan disbursements double from about $60 million in the recent past to US$120 million in the medium term. Under the reform scenario, annual external loan disbursements are assumed at about US$85 million per year, and higher domestic resource mobilization make up for the reduced borrowing (Text Table 1).

[1] The numbers expressed in percent of GDP are not comparable to those referenced in IMF Country Report 17/348 due to the revisions to GDP estimates (¶3).

12. The baseline scenario has a financing gap. Grants are projected to decline by 5.5 percentage points of GDP over the medium term, following recent development (¶7). Some adjustments are assumed under the baseline, both on the revenue and expenditure sides, but given the high level of development and social spending needs and the lack of adjustments observed in FY2018 (¶20), an average annual *financing gap* of about 0.7 percent of GDP is projected for the medium term.

Text Table 1. Liberia: Baseline vs. Reform Scenarios, FY2014-23

(Million U.S. dollar; unless otherwise indicated)

	FY2014-17	FY2018-23	
		Baseline	Reform
New loans (annual average)	60	120	85
Primary balance improves by (percentage point of GDP)		0.7	2.7

13. Liberia will remain at moderate risk of debt distress (Debt Sustainability Analysis, (DSA). As of end-FY2017, public external debt amounts to US$736 million (22.7 percent of GDP).[2] Under the baseline scenario, public external debt would increase by about $1 billion in the medium term. If the financing gap were to be filled with additional external borrowing (about $26 million per year), the public external debt to GDP ratio would increase to 40 percent of GDP by 2023 (Text Table 2). This level of public external debt would put Liberia at high risk of debt distress.

Text Table 2. Liberia: Selected Economic Indicators, 2018-23

(Percent of GDP, unless otherwise noted)

	2018	2019	2020	2021	2022	2023
Baseline Scenario						
Real GDP annual percent change	3.2	4.7	4.8	5.3	5.2	5.3
Revenue	12.9	13.6	14.2	14.5	14.7	14.8
Expenditure	33.3	33.4	32.3	31.3	30.5	29.0
Overall balance	-5.2	-5.1	-4.7	-4.8	-4.9	-4.4
Primary balance	-4.7	-4.3	-4.2	-4.4	-4.5	-4.0
Fiscal financing gap	-0.4	-1.5	-0.8	-0.6	-0.5	-0.4
impact on public debt						-3.4
Public external debt	26.3	29.9	32.4	34.4	36.1	37.3
Reform Scenario						
Real GDP annual percent change	3.2	4.6	4.7	5.3	5.6	5.8
Revenue	13.1	14.8	15.5	15.7	16.0	16.2
Expenditure	33.2	32.9	31.7	30.5	29.9	28.0
Overall balance	-4.8	-3.4	-2.8	-2.9	-3.0	-2.1
Primary balance	-4.4	-2.5	-2.2	-2.4	-2.6	-1.7
Fiscal financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Public external debt	26.3	29.7	31.0	31.8	32.2	31.6

Source: IMF staff projections.

Note: GDP growth is calendar year whereas other variables are fiscal year.

14. The reform scenario would ease the risk of debt distress. It illustrates a way in which the authorities can achieve roughly the same level of spending on roads over the medium term, while mitigating the impact on debt and macroeconomic stability.

15. Assuming the implementation of sound policies, the medium-term outlook appears favorable.[3] The medium-term growth projection, 5.1 percent on average, is based on the anticipated recovery of key exports (iron ore and gold) and investors' confidence and the scaling-up of infrastructure:

- The effect of the rehabilitation of roads on *aggregate supply* would be significant (Box 1);

[2] The debt to GDP ratio calculated for the Staff Report and the DSA differ because the former uses debt and GDP expressed in U.S. dollars, while the latter uses those expressed in national currency.

[3] Growth rates in the medium term are lower relative to IMF Country Report 17/348, mostly reflecting a base effect from a higher level of estimated GDP.

- The effect of the rehabilitation of roads on *aggregate demand*, however, would be limited. A sharp increase in capital expenditure is not anticipated, due to a reduction of other externally funded capital spending and given that only a small part of the total cost of asphalt-surfaced, capital-intensive roads would be expected to be sourced locally; and

- The effect of domestic revenue mobilization on *aggregate demand* would depend on revenue measures which are not fully specified yet.[4] However, the adverse impact is assumed to be at least partially offset by the positive impact on aggregate supply described above.

Risks and Spillovers

16. This medium-term outlook is subject to upside and downside risks (Annex III). The main upside risks are an increase in commodity prices, a quick recovery of iron ore production, and an increase in donor grants, which could follow evidence of strong reform efforts. The main downside risks are another collapse in commodity prices, a delay in formulating the national development strategy, the authorities' inability to mobilize resources to fill the financing gap, and slow structural and institutional reforms (more fully discussed in ¶34).

17. The shortage of foreign exchange in the economy is adversely affecting the highly dollarized banking sector.[5] Banks have direct and indirect exposure to the GOL, which is itself facing U.S. dollar payment difficulties.[6] Delays in the GOL's repayments to banks and the construction sector, which took advances from banks to carry out public road projects, are affecting banks' ability to extend U.S. dollar credit. The size of the banking sector is relatively small (¶28), but the impact on the corporate sector (e.g., retail and wholesale trade, telecommunication, and fuel importers) could be substantial. Further delays in resolving these arrears would put the medium-term outlook at risk.

18. Liberia is vulnerable to global inward spillovers, both through trade and financial channels. Changes in commodity prices would affect foreign exchange receipts, as the mining sector accounts for almost 70 percent of exports despite making up only about 8 percent of GDP. Moreover, remittances inflows, which greatly depend on the income of the Liberia diaspora, are an important income source for residents, constituting 17 percent of GDP. Surrender requirements on remittances are also the main funding source for the central bank's foreign exchange interventions.[7]

[4] The fiscal multiplier of revenue measures is typically low in Sub-Saharan African countries (Fall 2017 Sub-Saharan Africa Regional Economic Outlook).

[5] The share of tax receipts remitted in U.S. dollar declined in 2017 (IMF Country Report 17/348).

[6] The recent depreciation of the Liberian dollar created an incentive to pay taxes in Liberian dollars, which is permitted under the dual currency system. This shifted the currency composition of tax receipts while that of expenditure remained unchanged.

[7] Twenty-five percent of remittances are required to be sold to the CBL in exchange for Liberian dollars.

Authorities' Views

19. The authorities broadly agree with staff on the near-term challenges, but their medium-term outlook is more positive.

- Although the authorities view the near-term challenges with concern, they expect the economy to recover faster than staff projects: they feel the completion of the political transition and announcement of their development strategy will strengthen investor confidence relatively quickly, leading to expanded domestic and foreign direct investment. Establishing roads that are usable throughout the rainy season would quickly boost domestic economic activity and unlock Liberia's growth potential.

- The authorities broadly agreed with staff on the identification of risks. However, they consider the likelihood that downside risks will materialize is relatively small: they are committed to the timely publication of the national development plan and the continuation of structural reforms that will strengthen private sector development, revenue mobilization, and public financial management; they also consider that the domestic revenue mobilization outlined in the reform scenario (an increase in the revenue to GDP ratio by 3 percentage points in the medium term) is feasible.

LESSONS FROM PAST IMF ENGAGEMENTS

20. Well-prioritized efforts to strengthen key economic institutions, with due regard to capacity limitation, is important in both the program and surveillance context. Given that Liberia has been in long-term program engagement since 2006, an Ex-Post Peer Reviewed Assessments (EPRA) was conducted (Appendix I). It found that program objectives substantially changed and evolved over the course of the program. This occurred as the macroeconomic, social, and political environment changed and unanticipated events took place, which necessitated re-thinking the appropriate mix of structural benchmarks and technical assistance. In turn, this translated into an increasing number of structural conditions—prior actions and structural benchmarks—being in place and a corresponding decline in the share of these conditions that were ultimately fulfilled. The low traction of key recommendations of the 2016 Article IV consultation (Annex IV) also highlights the importance of taking account of capacity constraints in the context of surveillance.

21. Causes of repeated underperformance of performance criteria should be addressed. The EPRA found that the program target on the revenue floor was often missed, mostly due to overly optimistic revenue forecasts and the disconnect between revenue/expenditure outturns and budget preparations. Other program targets were missed partly to accommodate the underperformance of revenue.

22. Capacity building efforts should also pay due consideration to absorption capacity (Annex V). Liberia is one of the ten countries receiving the highest quantity of Fund technical assistance (TA) and is one of the pilot countries for the Capacity Building Framework (CBF). Despite the allocated resources, traction on capacity development has not been high, and aligning TA and training activities with surveillance and program work has faced some challenges. Going forward, more flexibility in the modality of TA activities (e.g., long- versus short-term exports, training versus TA) and in the areas of TA activities (e.g., fiscal versus statistics) could improve the efficiency of the use of capacity development resources.

POLICIES TO ENSURE SUSTAINABLE DEVELOPMENT

The Article IV consultation discussions focused on the need to deliver on the authorities' pro-poor agenda in a way that preserves macroeconomic stability and on the importance of well-prioritized efforts to strengthen key economic institutions in the presence of limited capacity.

A. Fiscal Policies

23. While the needs of the poorest segments of the population are high (Box 1; Annex I), the new Administration has taken power at a time when resource mobilization is facing challenges.

Text Figure 1. Liberia: Fiscal Conditions, Before and After GDP Revision, 2017

Sources: National Authorities; IMF staff estimates.

- *Debt* levels have been rising steadily in recent years. While the risk of debt distress remains moderate, borrowing space has clearly been falling over time.

- *Domestic revenue* generation is relatively low by regional standards (Text Figure 1). Moreover, FY2018 saw a substantial *revenue shortfall*, mostly due to slower economic recovery and unsettled legal issues that are hindering collection of imported fuel surcharges for the Road Fund.

- *Aid flows* remain substantial (Annex VI) but are on a declining trend. For instance, total grants declined from 19.3 percent of GDP in FY2016 to 16.7 percent in FY2017.

24. The combination of high spending needs and limited resources is resulting in a widening fiscal deficit. While a sharp decline in grants took place in FY2017, expenditure remained unchanged at about 36 percent of GDP, and the overall fiscal deficit widened from 2.7 percent of GDP in FY2016 to 4.8 percent of GDP in FY2017.

25. The *fiscal deficit* is projected at 5.2 percent of GDP for FY2018. The projection is based on the recast budget approved in late March 2018. It projects a significant revenue shortfall, which is assumed to be offset by additional budget support grants (with the central bank providing bridge financing until disbursements).

Policy Advice

26. Fiscal policy should be anchored by the goal of ensuring debt sustainability over the medium term. The government should continue to use caps on public debt accumulation as its main fiscal anchor. Liberia's overall fiscal balance has been driven mainly by the availability of external loans due to the limited capacity of the domestic market to supply financing. As this condition persists, this practice should continue. To refine the mechanism further, the primary balance, which stabilizes the debt to meet the main fiscal anchor, could usefully be adopted as an operational target to achieve medium-term debt objectives.

27. Stronger revenue mobilization is essential to contain new borrowing:

- On tax administration, addressing structural challenges of the Liberia Revenue Authority (LRA), including a more robust IT system to support its core processes, is critical for a successful implementation of new tax policy measures.

- On tax policy reforms, including the introduction of a Value-Added Tax (VAT), striking an appropriate balance between increasing revenue and protecting vulnerable groups is critical. For example, the VAT registration threshold should be carefully set to minimize the effect on small family businesses, and higher revenue should be used to raise pro-poor spending to ensure that the overall impact of the reform agenda is progressive.

- On tax expenditure reforms, reviewing existing tax exemption schemes and concession agreements is a potential source of fiscal savings.

- A comprehensive reform plan that encompasses all of the above elements would usefully be guided by the formulation of a *Medium-Term Revenue Strategy (MTRS)*.

28. Governance improvements, particularly with respect to inculcating greater fiscal transparency and accountability, are key to improving spending efficiency. Structural and governance reforms should continue. In particular, containing the growth of the wage bill and monitoring both domestically and foreign-funded public investment are critical. Conducting a comprehensive review of the Integrated Financial Management Information System (IFMIS), ensuring that a centralized payment function is established for the core budget institutions, installing a Treasury Single Account (TSA), strengthening cash management, and enhancing the monitoring of

SOEs would be important steps in this context. Expanding coverage of the IFMIS would also help improve fiscal reporting and in turn address overly optimistic revenue forecasts and the disconnect between outturns and budget preparations identified in the EPRA. In addition, the government could also usefully consider adopting a comprehensive program to clear domestic arrears (¶17) and prevent new ones from arising.

Authorities' Views

29. The authorities acknowledged staff's concerns and broadly agreed, especially on the importance of domestic revenue mobilization, but do not consider caps on public debt accumulation as the appropriate fiscal anchor for Liberia at this juncture.

- The authorities consider that debt thresholds should be country- and context-specific and Liberia's borrowing space is significantly larger than that estimated by staff. They remain more optimistic about medium-term growth and the return on investment from infrastructure projects.
- The authorities agreed with staff on the need to accelerate domestic revenue mobilization efforts. They noted that the LRA is committed to improving revenue collection, including by strengthening compliance with existing rules and by safeguarding the integrity and functionality of its aging IT system. However, they noted the attending serious funding challenges. They also noted that most of the increase would need to take place from FY2020 onward.
- The authorities expressed commitment to improving governance and implementing reforms, as well as to improving fiscal transparency of both on-budget and off-budget public expenditure.

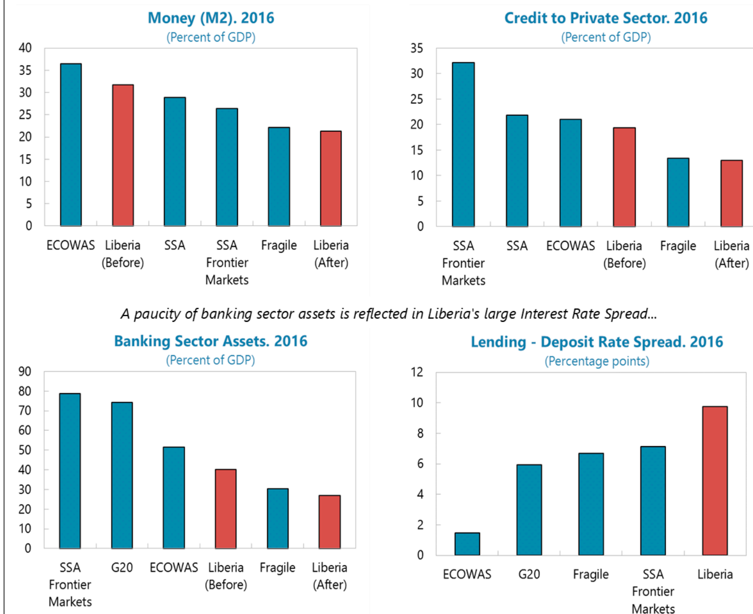
B. Monetary Policy

30. Monetary policy is largely passive, as the Central Bank of Liberia (CBL) lacks effective operational instruments. Liberian dollar and foreign exchange interbank markets are underdeveloped, making liquidity operations difficult to implement. Moreover, the CBL is undercapitalized and currently incurring losses on normal operations. It cannot, therefore, afford the interest cost that would be entailed by meaningful volumes of liquidity absorption. Moreover, the volumes of excess liquidity in the banking sector are so large that the effectiveness of changes to the Liberian dollar reserve requirement is limited.

31. The monetary policy transmission mechanism remains weak. The banking sector is small and characterized by limited financial intermediation (Text Figure 2). In addition, high dollarization, the large amount of excess Liberian dollar liquidity in the system, and the lack of policy instruments described above limit the ability of monetary policy to impact credit and real economic outcomes.

Text Figure 2. Liberia: Monetary Conditions, Before and After GDP Revision, 2016

The banking sector and bank credit are small relative to the size of economic activities.



Sources: International Financial Statistics (IFS); IMF staff estimates.

32. **The CBL has abandoned the exchange rate as a policy anchor, and the exchange rate is now a de facto "other managed" float**. Intervention in foreign exchange markets has declined as the GOL has not sold the CBL foreign currency since February 2017. Most of the proceeds from the 25 percent surrender requirement on remittance inflows—considered by staff to be a capital flow management measure (CFM)—are regularly auctioned by the CBL.

33. **In the last six months, the CBL extended two loans to allow the GOL to meet its U.S. dollar payment obligations**. The first was repaid at end-March, but the next one was extended soon after. Meanwhile, two non-executive members of the Board of Governors (BOG) of the CBL have stepped down. A quorum was, however, formed temporarily to make the BOG functional, which allowed it to legally approve the second loan.

Policy Advice

34. **The monetary policy framework needs to be strengthened** (Annex VII). Recapitalization of the CBL and assurance of ongoing recapitalization to statutory levels would provide the monetary authorities with the means to conduct monetary policy effectively and consistently. Over time, this would significantly improve the policy credibility of the CBL and strengthen the monetary policy transmission mechanism. Necessary support for this process would come from planned amendments to the Central Bank Act and from efforts to create fully functioning interbank markets in the Liberian dollar and foreign exchange. Creation of a good monetary policy framework would be valuable in its own right, but would also be necessary to promote an eventual voluntary reduction of the rate of dollarization (Annex VIII).

35. **The CBL should safeguard its reserves more tightly**. The large budget deficit of the CBL for 2017 and the expected deficit in 2018 have put pressure on international reserves levels. The CBL should review its budget and operational costs, including the currency composition of its expenses, and reduce its reliance on reserves to fund its budget deficits. Importantly, the CBL should plan to run a balanced budget to make its operations sustainable. Minimizing foreign exchange market intervention (to the degree possible while maintaining price stability) should also help safeguard reserves (see next section for more on this issue).

36. The governance principles and the independence of the central bank should be preserved as specified in the CBL Act. The temporary quorum should be replaced by permanent appointments of non-executive members of the BOG in a timely manner. The use of CBL bridge loans to the GOL should be resisted, as this compromises central bank independence and adversely affects CBL reserve levels.

Authorities' Views

37. The authorities agreed with the thrust of staff's policy advice.

- The CBL agrees that modernizing the monetary policy framework is a priority and they are in talks with the Ministry of Finance and Development Planning (MFDP) on recapitalization. The authorities also stated that they are in the process of introducing a deposit facility at the CBL as a means of improving their ability to mop up liquidity.
- The authorities share the concern regarding the level of international reserves and the pressure the CBL's operational losses puts on international reserves. However, they consider that a large part of the CBL's operational losses have been one-off items.
- The authorities agree with the staff that the vacant seats on the BOG should be filled as soon as possible, and they note that the bridge loans are in anticipation of external resources being secured by mid-2018.

C. External Sector Policy

38. Staff's External Sector Assessment shows that Liberia's external position is substantially weaker than implied by fundamentals and desirable policies (Annex IX). The current account deficit, a mirror image of the saving-investment gap of the economy, is larger than the level that would be consistent with Liberia's economic fundamentals. The current fiscal policy stance is looser than the optimal policy level, resulting in a larger public saving-investment gap. The current level of the current account deficit is also larger than the debt-stabilizing non-interest current account balance. Finally, the real effective exchange rate has depreciated less than the nominal effective exchange rate has (Figure 4 in Annex IX), partly due to large inflation differentials with trading partners, indicating that gains in relative price competitiveness have been limited.

39. Liberia's competitiveness as an investment destination seems to have weakened. Despite various structural reforms being enacted over the last few years, the pace of reform has been slow. For example, the average number of days goods remain at the port prior to clearing customs has increased, partly because of new changes introduced at customs, as reflected in some of the indicators on trade facilitations.

Policy Advice

40. It would be important to allow for greater flexibility in the exchange rate to absorb the bulk of external shocks, while maintaining price stability. Further adjustments in the real exchange rate are needed (at a minimum to the pre-2014 level) to promote economic diversification and strengthen domestic industries in the medium to long term.

41. Timely structural reforms to improve productivity and competitiveness are important. To take full advantage of the opportunities and potential productivity gains created by the improved transportation network, a number of reforms need to take place at the same time: greater access to land through passage of a Land Rights Act in an acceptable form, improvements in business conditions conducive to investment, greater and more reliable supply of power and other basic public services, enhanced access to credit—including collateral enforcement—and improvements in the judicial system, particularly in contract enforcement. The authorities should take measures and adopt legislation that aim to level the playing field among all domestically based businesses.

Authorities' Views

42. The authorities expressed the following views:

- The authorities believe the managed float regime they are implementing is best suited to Liberia's current situation. In light of the need to preserve reserve cover, the authorities maintained that their interventions in the foreign exchange market are meant to smooth, but not to resist, the pressure for exchange rate depreciation. They highlighted the serious impact of depreciation on the most vulnerable groups and maintained that a gradual depreciation was preferable to a more rapid adjustment.

- The authorities agree on the need to accelerate business-friendly structural reforms and stress the importance of infrastructure development and legal reforms that would promote more effective land use. They also note that the government supports constitutional amendments to permit outright foreign ownership of land and to allow long-time non-Liberian residents to obtain citizenship.

D. Financial Sector Policy

43. The net open position in foreign exchange of the banking sector is positive, but the banking system as a whole is subject to a shortage of U.S. dollars. Dollar denominated deposits in the banking sector stand at US$431 million, while the net foreign liquid assets of the financial system are US$107 million and the CBL's gross official foreign reserves are US$432 million.

44. Despite the relatively small size of the banking sector, it continues to be a significant macroeconomic risk factor. The banking system is still suffering from a high amount of non-performing loans (NPLs) (Table 5). There are indications that NPLs are systematically underreported and the full amount of NPLs may be substantially higher due to forbearance. The NPLs in turn reduce the amount of new credit that banks can extend to the private sector.

45. The impact of de-risking has stabilized. Following the banking system's widespread loss of correspondent banking relationships between 2014 and 2016, the affected Liberian banks have replaced the major international banks with Middle Eastern and African banks with international operations, and the situation has been relatively stable for the past two years.

Policy Advice

46. Macroprudential policies should be tightened to increase the resilience of the banking system to shocks. Given the shortage of U.S. dollar liquidity in the banking system, macroprudential policies are warranted, including a gradual increase in the reserves required on U.S. dollar deposits, with due consideration for the possible impact on individual banks and the system.

47. The implementation of the Action Plan prepared by the CBL should be completed. The events surrounding the failure of First International Bank Liberia Limited (FIBLL) led to the formulation of the CBL Action Plan. Prompt implementation is needed in the following areas:

- Establishing a *national task force*, comprising law-enforcement and integrity institutions of the government of Liberia, should take priority.

- Strengthening the *banking supervision* framework is needed to reduce systemic risks in the banking sector. The framework for recognition of NPLs needs strengthening. Once NPLs are fully recognized, the authorities should eschew forbearance and firmly require both proper provisioning and full compliance of undercapitalized banks with prudential regulations. The resolution of the direct and indirect exposure of the banking sector to the GOL will go a long way in reducing the outstanding NPLs of the system.

- Developing a robust *resolution framework* is critical to the credibility of banking supervision and hence financial stability. Although some progress has been made, much remains to be done to bring the resolution framework to an acceptable level.

- Enhancing the effectiveness of the compliance with Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) standards needs to continue by ensuring compliance with laws and regulations, notably by enhancing the risk-based implementation of AML/CFT obligations by supervisors and the financial sector and the quality of disseminations of financial intelligence by the Financial Intelligence Unit.

Authorities' Views

48. The authorities agree that the current level of liquid foreign currency assets of the banking system is sub-optimally low and are reviewing possible mitigating measures, such as increasing the reserve requirements on U.S. dollar deposits. They agree that the current level of NPLs is high and that a robust resolution framework is key to maintaining financial stability. However, while they remain vigilant to associated developments, they favor a course of gradual improvement and do not believe that strong action on NPLs is needed at this time. On the Action Plan, the authorities remain committed to its full implementation.

BETTER STATISTICS FOR BETTER POLICY

49. **Foreign aid flow data compiled by the MFDP has allowed staff to estimate off-budget activities more accurately than they previously could**. The MFDP established an online reporting system of aid flows, in which donors directly input their disbursement records. This has now allowed the government to capture nearly all foreign aid disbursements, both on budget and off budget. Based on this information, the coverage of fiscal data reported in this staff report was substantially expanded (Table 3a and 3b).

50. **Technical assistance to improve data quality and capacity building must continue**. Despite significant progress, there remains substantial room for improving the institutional framework for raw data collection, the compilation methodology, and compilers' capacity.

STAFF APPRAISAL

51. **Liberia's economy appears poised for recovery following a very difficult period**. Over the last five years, the Ebola crisis—with all its devastating humanitarian impact—combined with a large decrease in export prices, the ongoing withdrawal of the UN peacekeeping force, and some disruption associated with the end-December 2017 election period, kept economic activity at low levels. Growth bottomed out in 2016 and edged to 2.5 percent in 2017. The same factors also reduced net foreign exchange inflows, putting pressure on the exchange rate, foreign exchange reserves, and inflation.

52. **Assuming the implementation of sound policies, the medium-term outlook appears favorable**. The peaceful political transition will offer support to the recovery of the domestic economy through improved consumer and investor confidence. Moreover, key commodity sectors are expected to be more active as global commodity prices recover. Over the next few years, the development plan of the new government, with large-scale road construction in its center, will act to expand and connect markets and spur economic development. The average medium-term growth rate (2019–23) is projected at 5.1 percent, with both upside risks (an increase in commodity prices and a recovery in iron ore production) and downside risks (slowdown or discontinuation of ongoing structural and institutional reforms).

53. **Staff welcomes the authorities' adoption of a pro-poor agenda**. The needs of the poorest segments of the population are clearly large, and it is commendable that the authorities have made this their policy priority. Within this ambition, it would be particularly important to ensure that increases in expenditure go hand in hand with measures to ensure macroeconomic and debt stability, as the impact of instability would fall disproportionately on the most vulnerable groups and undercut the goal of poverty reduction.

54. The need to increase investment spending is coming at a time when resource mobilization is facing challenges. *First*, debt levels have been rising steadily in recent years. While the risk of debt distress remains moderate, borrowing space has clearly been reduced over time. *Second*, domestic revenue generation is low relative to peers. *Third*, aid remains substantial, but is on a declining trend from past levels. Looking forward, fiscal policy should ensure medium-term debt sustainability, and future debt obligations will need to be undertaken with caution, specifically with respect to securing favorable terms and conditions. At the same time, the authorities should aim to mobilize domestic resources of about 3 percentage points of GDP in the medium term, for example, by enhancing the IT system of the LRA to improve tax compliance and efficiency.

55. Governance improvements, particularly with respect to inculcating greater fiscal transparency and accountability, are key to improving spending efficiency. In particular, containing the growth of the wage bill and monitoring both domestically- and externally-financed public investment are critical. Expanding the coverage of IFMIS, installing the TSA, and enhancing the monitoring of SOEs would also be important steps in this context. In addition, the government could also usefully consider adopting a comprehensive program to clear domestic arrears and prevent the emergence of new ones, by reducing the disconnect between outturns and budget preparations identified in the EPRA.

56. Maintaining macroeconomic stability will also hinge on effective implementation of monetary policy. The CBL needs effective operational tools to conduct monetary policy. In this context, the recapitalization of the CBL, and assurance of ongoing recapitalization to statutory levels, would be necessary. At the same time, the CBL also needs to safeguard its reserves more tightly, by complying with its investment plan and reviewing operational costs and sources of deficits. The governance principles and the independence of the central bank should be preserved as specified in the CBL Act. In this regard, the temporary quorum of the BOG of the CBL should be replaced by permanent appointments of non-executive members in a timely manner, and the use of CBL bridge loans to the GOL should be resisted.

57. The external position is substantially weaker than the level implied by economic fundamentals and desirable policies. Improving the external position should entail a three-pronged approach. First, the CBL should allow for greater flexibility in the exchange rate, while maintaining price stability. Second, structural reforms to improve productivity and competitiveness should be implemented without delays; greater access to land, leveling the playing field among all domestically based businesses, and achieving a greater and more reliable supply of power and other basic public services are particularly important. Third, reducing the public saving-investment gap by mobilizing additional domestic resources over the medium term as discussed above should also help improve the external position.

58. Enhancing bank supervision would make banks less vulnerable to shocks. Promptly addressing arrears to the banking sector is important to minimize the adverse impact of NPLs in the banking sector on real economic activities. Enhancing the CBL's bank resolution framework would help improve the effectiveness and credibility of its bank supervision and financial stability. The implementation of the CBL's Action Plan should be completed.

59. The surrender requirement on inflows of remittances, a CFM, is appropriate only as a temporary measure to address extraordinary pressure on inflation and reserves. The requirement should be lifted as this pressure is eventually relieved in response to the recommended adjustment policies, in line with the Fund's Institutional View on capital flows.

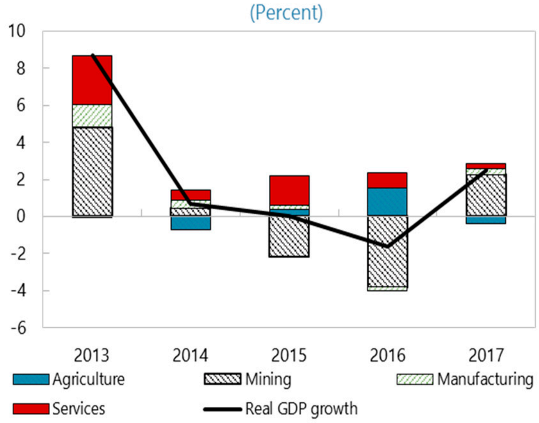
60. Partly driven by capacity constraints, data provided to the Fund have serious shortcomings that significantly hamper surveillance. Quality and availability of statistics have improved, especially in trade data, aid flow data, and the survey data underlying national accounts. Efforts should continue to enhance national accounts and BOP data.

61. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Liberia: Recent Economic Developments, 2014–18

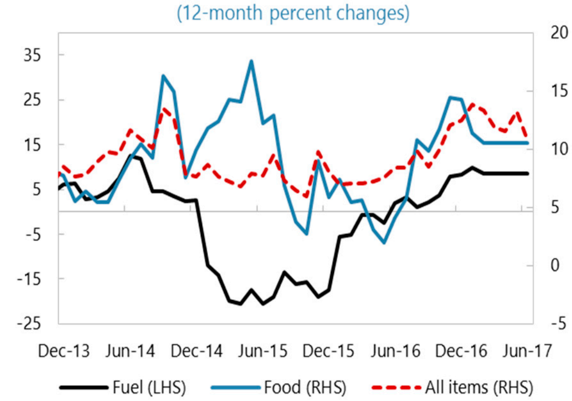
The contraction in 2016 was deeper and weaker than expected, but the economy should slowly recover.

Contribution to Growth
(Percent)



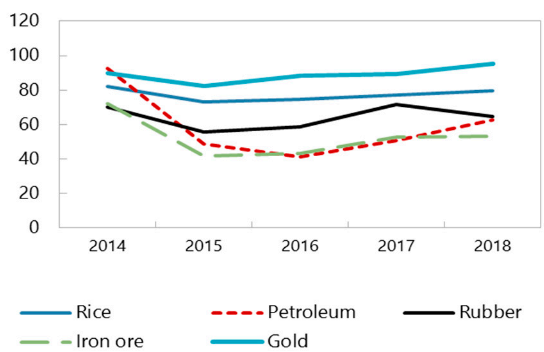
Inflation has picked up fueled by the depreciation of the currency and fuel prices.

Inflation and components
(12-month percent changes)



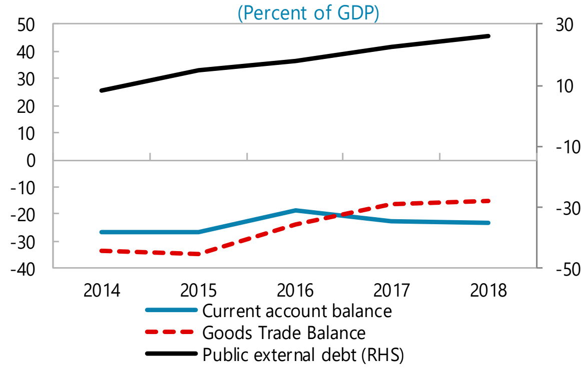
The low commodity price environment is likely to persist.

Commodity Prices
(Index, 2013=100)



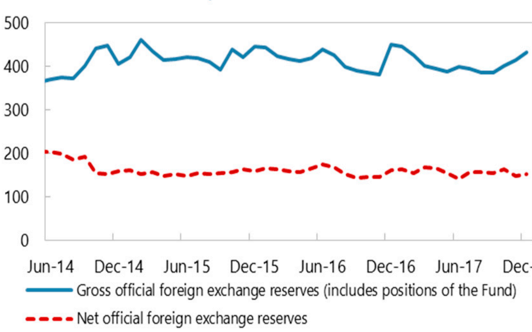
The current account deficit narrowed as imports decline following UNMIL withdrawal and low mining investment.

External Sector
(Percent of GDP)



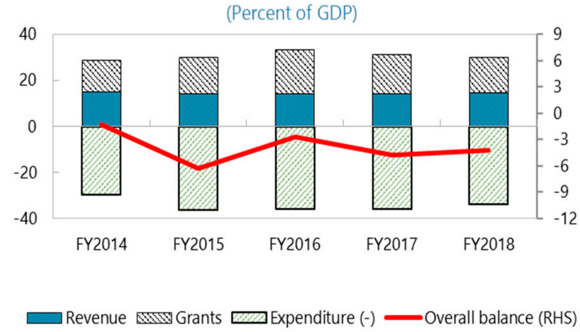
Gross official reserves cover 3.0 months of imports and the central bank's net position has stabilized.

Official Foreign Exchange Reserves
(US$millions)



The resource envelope will continue to weaken in FY2018.

Fiscal Policy
(Percent of GDP)



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

Table 1. Liberia: Selected Economic and Financial Indicators, 2016–23

	2016		2017	2018	2019	2020	2021	2022	2023
	Est. with previous GDP	Est. with revised GDP	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change)								
Real sector									
Real GDP	-1.6	-1.6	2.5	3.2	4.7	4.8	5.3	5.2	5.3
Agriculture & fisheries	6.6	6.6	1.7	2.7	3.8	4.3	4.6	5.2	6.7
Forestry	0.0	0.0	-8.0	-4.0	6.0	5.0	5.0	5.0	5.0
Mining & panning	-33.0	-33.0	28.8	22.3	13.1	9.2	8.7	6.7	5.0
Manufacturing	-5.2	-5.2	1.4	1.6	3.2	4.0	5.0	5.0	5.1
Services	2.2	2.2	1.0	1.2	3.0	3.9	4.7	4.7	4.7
Real GDP excluding mining sector	2.6	2.6	0.2	1.1	3.6	4.2	4.7	4.9	5.4
Nominal non-mining per capita GDP (U.S. dollars)	460	717	685	666	691	727	752	789	835
Nominal GDP (millions of U.S. dollars)	2101	3278	3285	3341	3542	3810	4044	4429	4790
Inflation									
Consumer prices (annual average)	8.8	8.8	12.4	11.7	10.5	9.5	8.5	7.5	6.3
Consumer prices (end of period)	12.5	12.5	13.9	11.0	10.0	9.0	8.0	7.0	5.5
Population (millions)	4.4	4.4	4.5	4.6	4.7	4.8	4.9	5.1	5.2
	(Percent of GDP, fiscal year)								
Central government operations[1]									
Total revenue and grants	51.9	33.3	31.0	28.2	28.3	27.6	26.4	25.6	24.6
Total revenue	21.8	14.0	14.3	12.9	13.6	14.2	14.5	14.7	14.8
Grants	30.1	19.3	16.7	15.2	14.7	13.4	11.9	10.9	9.7
Total expenditure and net lending	56.1	36.0	35.8	33.3	33.4	32.3	31.3	30.5	29.0
Current expenditure	35.6	22.8	22.9	22.1	22.1	20.6	19.4	18.3	16.8
Capital expenditure	20.4	13.1	12.9	11.3	11.3	11.7	11.9	12.2	12.2
Overall fiscal balance, including grants	-4.2	-2.7	-4.8	-5.2	-5.1	-4.7	-4.8	-4.9	-4.4
Overall fiscal balance, excluding grants	-34.3	-22.0	-21.5	-20.4	-19.8	-18.2	-16.8	-15.8	-14.1
Financing gap	0.0	0.0	0.0	-0.4	-1.5	-0.8	-0.6	-0.5	-0.4
Public external debt	28.0	17.9	22.7	26.3	29.9	32.4	34.4	36.1	37.3
Public domestic debt[2]	0.6	0.4	2.0	2.3	0.9	0.6	0.6	0.6	0.5
	(Percent, unless otherwise indicated)								
M2/GDP	32.0	20.5	19.9	19.9	19.9	19.9	19.9	19.9	19.9
Credit to private sector (percent of GDP)	19.9	12.8	14.6	15.8	16.4	16.8	17.4	17.5	17.8
Credit to private sector (annual percent change)	2.3	2.3	14.7	10.0	10.0	10.0	10.0	10.0	10.0
Velocity (GDP-to-M2)		4.7	4.9	5.0	5.0	5.0	5.0		
Money multiplier (M2/M0)		4.1	3.7	3.9	4.0	4.1	4.1		
	(Percent of GDP, unless otherwise indicated)								
External sector									
Current account balance									
including grants	-28.9	-18.5	-22.7	-22.4	-22.3	-22.4	-22.1	-20.7	-19.9
excluding grants	-73.5	-47.1	-44.2	-39.0	-36.4	-35.0	-33.6	-31.0	-29.0
Trade balance	-43.9	-28.1	-20.2	-18.2	-17.5	-16.8	-15.6	-15.0	-13.9
Exports	18.1	11.6	13.0	12.9	12.4	12.7	13.4	13.3	13.1
Imports	-62.0	-39.7	-33.2	-31.1	-29.9	-29.5	-29.0	-28.2	-27.0
Grants (donor transfers, net)	44.6	28.6	21.5	16.6	14.1	12.6	11.5	10.3	9.1
Financing gap (- deficit / + surplus)	0.0	0.0	0.0	-0.6	-1.1	-0.7	-0.6	-0.5	-0.2
Gross official reserves (millions of U.S. dollars)	450	450	432	405	429	443	463	482	503
Months of imports of goods and services[3]	3.2	3.2	3.0	3.0	3.1	3.0	3.1	3.1	3.1
CBL's net foreign exchange position[4] (millions of U.S. dollars)	162	162	153	124	164	202	247	296	347

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

[1] Central government operation is based on a commitment basis and refers to the budgetary central government operations and off-budget projects. Fiscal year refers to July 1 to June 30.

[2] Excluding the central government debts from the Central Bank of Libeira.

[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.

Table 2. Liberia: Balance of Payments, 2016–23

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

	2016	2017	2018	2019	2020	2021	2022	2023
	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance[1]	-922	-663	-608	-619	-641	-632	-663	-668
Exports, f.o.b.	380	427	432	440	484	542	587	626
of which: Iron ore	77	88	130	131	133	142	149	157
of which: Gold	76	130	166	197	224	253	281	303
Imports, c.i.f.	-1,302	-1,089	-1,040	-1,059	-1,125	-1,175	-1,250	-1,295
Services (net)	-678	-559	-528	-435	-430	-455	-464	-483
Income (net)	-209	-303	-425	-504	-544	-565	-548	-554
of which: Compensation of employees	-23	-23	-25	-29	-31	-35	-38	-41
of which: Public interest payments due	-5	-8	-9	-7	-7	-8	-10	-11
Current transfers	1,201	779	812	769	762	757	759	753
Current account balance	-607	-746	-749	-788	-854	-895	-916	-952
Current account balance, excluding grants	-1,545	-1,453	-1,304	-1,289	-1,335	-1,360	-1,371	-1,390
Capital and financial account (net)	573	707	704	788	865	915	934	979
Capital account	60	55	53	52	51	42	41	39
Financial account	513	652	651	737	814	873	893	939
Foreign direct investment (net)	233	242	300	376	428	476	530	548
Portfolio investment (net)	0	0	0	0	0	0	0	0
Other investment (net)	280	410	351	360	386	397	363	391
Official financing: medium and long term (ne	98	134	147	168	185	193	202	192
Private financing (net)[2]	182	276	204	192	201	204	161	199
Overall balance	-34	-39	-46	0	11	20	18	27
Financing	34	39	25	-40	-38	-43	-39	-37
Change in gross official reserves (increase -)[3]	-5	18	28	-24	-14	-20	-19	-20
Net use of IMF credit and loans	38	21	-3	-15	-25	-22	-19	-16
Donor financing	0	0	0	0	0	0	0	0
Exceptional financing	0	0	0	0	0	0	0	0
Financing gap (- deficit / + surplus)	0	0	-21	-40	-28	-23	-21	-10
Memorandum items:								
Current account balance (percent of GDP)								
Including grants	-18.5	-22.7	-22.4	-22.3	-22.4	-22.1	-20.7	-19.9
Excluding grants	-47.1	-44.2	-39.0	-36.4	-35.0	-33.6	-31.0	-29.0
Trade balance (percent of GDP)	-28.1	-20.2	-18.2	-17.5	-16.8	-15.6	-15.0	-13.9
Donor transfers (net, percent of GDP)	28.6	21.5	16.6	14.1	12.6	11.5	10.3	9.1
Foreign direct investment (net, percent of GDP)	7.1	7.4	9.0	10.6	11.2	11.8	12.0	11.4
Public sector external debt (medium and long term, percent of GDP)[4]	17.9	22.7	26.3	29.9	32.4	34.4	36.1	37.3
Gross official reserves	450	432	405	429	443	463	482	503
Gross official reserves (months of imports)[5]	3.2	3.0	3.0	3.1	3.0	3.1	3.1	3.1

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, especially on imports.

[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.

Table 3a. Liberia: Fiscal Operations of the Central Government, 2016–23[1]

(Millions of U.S. dollars)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,075	1,006	949	974	1,015	1,037	1,085	1,132
of which: Revenue, excl. grants	452	464	436	467	520	569	623	683
Taxes	400	385	372	400	438	474	513	561
Income, profits, and capital gains tax	117	114	109	117	130	141	154	169
Goods and services tax	91	76	80	88	93	99	104	111
International trade tax	185	185	175	185	202	220	239	263
Other taxes[2]	8	10	9	11	13	14	16	18
Other revenue	51	79	64	67	83	95	110	122
Grants	624	542	513	507	494	469	462	449
Expense	739	742	743	759	757	760	777	772
Compensation of employees	253	289	289	289	290	291	293	294
Use of goods and services	394	377	370	376	373	371	378	364
Interest	9	9	14	29	19	17	17	18
Subsidies and grants	81	65	68	63	72	78	86	92
Social benefits	1	2	2	2	3	3	4	5
Net operating balance	337	263	206	215	258	277	308	360
Gross investment in nonfinancial assets	424	419	379	391	432	467	517	563
Overall balance = Net lending/borrowing	-87	-155	-174	-176	-174	-190	-209	-203
excl. Grants	-711	-697	-686	-682	-668	-659	-671	-651
Primary balance	-78	-146	-159	-147	-155	-173	-192	-184
excl. Grants	-701	-687	-672	-653	-649	-642	-654	-633
Transactions in assets and liabilities	-87	-155	-162	-126	-144	-165	-188	-183
of which: External financial transactions	112	117	128	156	178	196	215	227
Net acquisition of financial assets	-7	22	-3	-22	-20	0	0	0
Currency and deposits	-7	22	-3	-22	-20	0	0	0
Others	0	0	0	0	0	0	0	0
Net incurrence of liabilities	80	178	159	104	124	165	188	183
Loan disbursements	92	183	175	155	179	217	241	247
External	113	122	135	165	188	203	221	237
Domestic	-21	62	39	-10	-8	14	20	10
Central Bank of Liberia	0	17	20	0	0	0	0	0
Other financial sectors[3]	-21	44	19	-10	-8	14	20	10
Amortization (-)	-8	-4	-11	-37	-42	-39	-39	-50
External	-1	-4	-7	-9	-10	-7	-6	-10
Domestic	-7	0	-5	-28	-32	-32	-34	-40
Central Bank of Liberia	0	0	0	-23	-32	-32	-34	-36
Other financial sectors	-7	0	-5	-6	0	0	0	-4
Others (net)	-4	-1	-4	-13	-13	-13	-13	-14
Financing gap	0	0	-12	-50	-30	-25	-21	-20
Memorandum items:								
Total public debts	591	799	962	1,060	1,213	1,373	1,556	1,740
External	580	736	884	1,030	1,189	1,351	1,530	1,718
Domestic[4]	11	64	78	30	23	22	26	23
Fiscal year GDP	3,233	3,245	3,367	3,442	3,676	3,927	4,236	4,609

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

[1] Fiscal table is shown on a commitment basis and refers to the budgetary central government operations and off-budget projects. Fiscal year refers to July 1 to June 30.

[2] Including property tax and social contribution by foreign concessions.

[3] Including net issuance of T-bill and T-bond.

[4] Excluding the central government debts from the Central Bank of Libeira.

Table 3b. Liberia: Fiscal Operations of the Central Government, 2016–23[1]

(Percent of GDP, unless otherwise indicated)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	33.3	31.0	28.2	28.3	27.6	26.4	25.6	24.6
of which: Revenue, excl. grants	14.0	14.3	12.9	13.6	14.2	14.5	14.7	14.8
Taxes	12.4	11.9	11.1	11.6	11.9	12.1	12.1	12.2
Income, profits, and capital gains tax	3.6	3.5	3.2	3.4	3.5	3.6	3.6	3.7
Goods and services tax	2.8	2.3	2.4	2.5	2.5	2.5	2.5	2.4
International trade tax	5.7	5.7	5.2	5.4	5.5	5.6	5.6	5.7
Other taxes[2]	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Other revenue	1.6	2.4	1.9	2.0	2.3	2.4	2.6	2.7
Grants	19.3	16.7	15.2	14.7	13.4	11.9	10.9	9.7
Expense	22.8	22.9	22.1	22.1	20.6	19.4	18.3	16.8
Compensation of employees	7.8	8.9	8.6	8.4	7.9	7.4	6.9	6.4
Use of goods and services	12.2	11.6	11.0	10.9	10.1	9.5	8.9	7.9
Interest	0.3	0.3	0.4	0.9	0.5	0.4	0.4	0.4
Subsidies and grants	2.5	2.0	2.0	1.8	2.0	2.0	2.0	2.0
Social benefits	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net operating balance	10.4	8.1	6.1	6.2	7.0	7.1	7.3	7.8
Gross investment in nonfinancial assets	13.1	12.9	11.3	11.3	11.7	11.9	12.2	12.2
Overall balance = Net lending/borrowing	-2.7	-4.8	-5.2	-5.1	-4.7	-4.8	-4.9	-4.4
excl. Grants	-22.0	-21.5	-20.4	-19.8	-18.2	-16.8	-15.8	-14.1
Primary balance	-2.4	-4.5	-4.7	-4.3	-4.2	-4.4	-4.5	-4.0
excl. Grants	-21.7	-21.2	-20.0	-19.0	-17.6	-16.3	-15.4	-13.7
Transactions in assets and liabilities	-2.7	-4.8	-4.8	-3.7	-3.9	-4.2	-4.4	-4.0
of which: External financial transactions	3.5	3.6	3.8	4.5	4.8	5.0	5.1	4.9
Net acquisition of financial assets	-0.2	0.7	-0.1	-0.6	-0.5	0.0	0.0	0.0
Currency and deposits	-0.2	0.7	-0.1	-0.6	-0.5	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	2.5	5.5	4.7	3.0	3.4	4.2	4.4	4.0
Loan disbursements	2.9	5.7	5.2	4.5	4.9	5.5	5.7	5.3
External	3.5	3.8	4.0	4.8	5.1	5.2	5.2	5.1
Domestic	-0.6	1.9	1.2	-0.3	-0.2	0.4	0.5	0.2
Central Bank of Liberia	0.0	0.5	0.6	0.0	0.0	0.0	0.0	0.0
Other financial sectors[3]	-0.6	1.4	0.6	-0.3	-0.2	0.4	0.5	0.2
Amortization (-)	-0.3	-0.1	-0.3	-1.1	-1.1	-1.0	-0.9	-1.1
External	0.0	-0.1	-0.2	-0.3	-0.3	-0.2	-0.1	-0.2
Domestic	-0.2	0.0	-0.1	-0.8	-0.9	-0.8	-0.8	-0.9
Central Bank of Liberia	0.0	0.0	0.0	-0.7	-0.9	-0.8	-0.8	-0.8
Other financial sectors	-0.2	0.0	-0.1	-0.2	0.0	0.0	0.0	-0.1
Others (net)	-0.1	0.0	-0.1	-0.4	-0.4	-0.3	-0.3	-0.3
Financing gap	0.0	0.0	-0.4	-1.5	-0.8	-0.6	-0.5	-0.4
Memorandum items:								
Total public debts	18.3	24.6	28.6	30.8	33.0	35.0	36.7	37.8
External	17.9	22.7	26.3	29.9	32.4	34.4	36.1	37.3
Domestic[4]	0.4	2.0	2.3	0.9	0.6	0.6	0.6	0.5
Fiscal year GDP	3,233	3,245	3,367	3,442	3,676	3,927	4,236	4,609

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

[1] Fiscal table is shown on a commitment basis and refers to the budgetary central government operations and off-budget projects. Fiscal year refers to July 1 to June 30.

[2] Including property tax and social contribution by foreign concessions.

[3] Including net issuance of T-bill and T-bond.

[4] Excluding the central government debts from the Central Bank of Libeira.

Table 3c. Liberia: Fiscal Operations of the Budgetary Central Government, 2016–23[1]

(Millions of U.S. dollars)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	520	531	486	523	575	609	667	725
of which: Revenue, excl. grants	452	464	436	467	520	569	623	683
Taxes	400	385	372	400	438	474	513	561
Income, profits, and capital gains tax	117	114	109	117	130	141	154	169
Goods and services tax	91	76	80	88	93	99	104	111
International trade tax	185	185	175	185	202	220	239	263
Other taxes[2]	8	10	9	11	13	14	16	18
Other revenue	51	79	64	67	83	95	110	122
Grants	68	67	50	56	54	40	44	41
Expense	491	497	496	503	516	528	553	576
Compensation of employees	253	289	289	289	290	291	293	294
Use of goods and services	146	132	123	120	132	139	154	167
Interest	9	9	14	29	19	17	17	18
Subsidies and grants	81	65	68	63	72	78	86	92
Social benefits	1	2	2	2	3	3	4	5
Net operating balance	29	34	-10	20	59	80	114	149
Gross investment in nonfinancial assets	52	51	7	19	34	53	82	105
Overall balance = Net lending/borrowing	-23	-17	-16	1	25	27	32	44
excl. Grants	-91	-84	-67	-55	-29	-13	-12	3
Primary balance	-13	-8	-2	30	45	45	49	62
excl. Grants	-82	-75	-52	-26	-10	5	5	21
Transactions in assets and liabilities	-23	-17	-4	51	55	52	53	64
of which: External financial transactions	27	1	-7	-9	-10	-7	-6	-10
Net acquisition of financial assets	-7	0	0	0	0	0	0	0
Currency and deposits	-7	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0
Net incurrence of liabilities	15	17	4	-51	-55	-52	-53	-64
Loan disbursements	28	23	20	0	0	0	0	0
External	28	6	0	0	0	0	0	0
Domestic	0	17	20	0	0	0	0	0
Central Bank of Liberia	0	17	20	0	0	0	0	0
Other financial sectors[3]	0	0	0	0	0	0	0	0
Amortization (-)	-8	-4	-11	-37	-42	-39	-39	-50
External	-1	-4	-7	-9	-10	-7	-6	-10
Domestic	-7	0	-5	-28	-32	-32	-34	-40
Central Bank of Liberia	0	0	0	-23	-32	-32	-34	-36
Other financial sectors	-7	0	-5	-6	0	0	0	-4
Others (net)	-4	-1	-4	-13	-13	-13	-13	-14
Financing gap	0	0	-12	-50	-30	-25	-21	-20
Memorandum items:								
Total public debts	591	799	962	1,060	1,213	1,373	1,556	1,740
External	580	736	884	1,030	1,189	1,351	1,530	1,718
Domestic[4]	11	64	78	30	23	22	26	23
Fiscal year GDP	3,233	3,245	3,367	3,442	3,676	3,927	4,236	4,609

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

[1] Fiscal table is shown on a commitment basis and refers to the budgetary central government operations and off-budget projects. Fiscal year refers to July 1 to June 30.

[2] Including property tax and social contribution by foreign concessions.

[3] Including net issuance of T-bill and T-bond.

[4] Excluding the central government debts from the Central Bank of Libeira.

Table 3d. Liberia: Fiscal Operations of the Budgetary Central Government, 2016–23[1]

(Percent of GDP, unless otherwise indicated)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	16.1	16.4	14.4	15.2	15.6	15.5	15.7	15.7
of which: Revenue, excl. grants	14.0	14.3	12.9	13.6	14.2	14.5	14.7	14.8
Taxes	12.4	11.9	11.1	11.6	11.9	12.1	12.1	12.2
Income, profits, and capital gains tax	3.6	3.5	3.2	3.4	3.5	3.6	3.6	3.7
Goods and services tax	2.8	2.3	2.4	2.5	2.5	2.5	2.5	2.4
International trade tax	5.7	5.7	5.2	5.4	5.5	5.6	5.6	5.7
Other taxes[2]	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Other revenue	1.6	2.4	1.9	2.0	2.3	2.4	2.6	2.7
Grants	2.1	2.1	1.5	1.6	1.5	1.0	1.0	0.9
Expense	15.2	15.3	14.7	14.6	14.0	13.5	13.1	12.5
Compensation of employees	7.8	8.9	8.6	8.4	7.9	7.4	6.9	6.4
Use of goods and services	4.5	4.1	3.6	3.5	3.6	3.5	3.6	3.6
Interest	0.3	0.3	0.4	0.9	0.5	0.4	0.4	0.4
Subsidies and grants	2.5	2.0	2.0	1.8	2.0	2.0	2.0	2.0
Social benefits	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net operating balance	0.9	1.1	-0.3	0.6	1.6	2.0	2.7	3.2
Gross investment in nonfinancial assets	1.6	1.6	0.2	0.6	0.9	1.3	1.9	2.3
Overall balance = Net lending/borrowing	-0.7	-0.5	-0.5	0.0	0.7	0.7	0.7	1.0
excl. Grants	-2.8	-2.6	-2.0	-1.6	-0.8	-0.3	-0.3	0.1
Primary balance	-0.4	-0.2	-0.1	0.9	1.2	1.1	1.1	1.4
excl. Grants	-2.5	-2.3	-1.6	-0.7	-0.3	0.1	0.1	0.5
Transactions in assets and liabilities	-0.7	-0.5	-0.1	1.5	1.5	1.3	1.2	1.4
of which: External financial transactions	0.8	0.0	-0.2	-0.3	-0.3	-0.2	-0.1	-0.2
Net acquisition of financial assets	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	0.5	0.5	0.1	-1.5	-1.5	-1.3	-1.2	-1.4
Loan disbursements	0.9	0.7	0.6	0.0	0.0	0.0	0.0	0.0
External	0.9	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.5	0.6	0.0	0.0	0.0	0.0	0.0
Central Bank of Liberia	0.0	0.5	0.6	0.0	0.0	0.0	0.0	0.0
Other financial sectors[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization (-)	-0.3	-0.1	-0.3	-1.1	-1.1	-1.0	-0.9	-1.1
External	0.0	-0.1	-0.2	-0.3	-0.3	-0.2	-0.1	-0.2
Domestic	-0.2	0.0	-0.1	-0.8	-0.9	-0.8	-0.8	-0.9
Central Bank of Liberia	0.0	0.0	0.0	-0.7	-0.9	-0.8	-0.8	-0.8
Other financial sectors	-0.2	0.0	-0.1	-0.2	0.0	0.0	0.0	-0.1
Others (net)	-0.1	0.0	-0.1	-0.4	-0.4	-0.3	-0.3	-0.3
Financing gap	0.0	0.0	-0.4	-1.5	-0.8	-0.6	-0.5	-0.4
Memorandum items:								
Total public debts	18.3	24.6	28.6	30.8	33.0	35.0	36.7	37.8
External	17.9	22.7	26.3	29.9	32.4	34.4	36.1	37.3
Domestic[4]	0.4	2.0	2.3	0.9	0.6	0.6	0.6	0.5
Fiscal year GDP	3,233	3,245	3,367	3,442	3,676	3,927	4,236	4,609

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

[1] Fiscal table is shown on a commitment basis and refers to the budgetary central government operations and off-budget projects. Fiscal year refers to July 1 to June 30.

[2] Including property tax and social contribution by foreign concessions.

[3] Including net issuance of T-bill and T-bond.

[4] Excluding the central government debts from the Central Bank of Libeira.

Table 4. Liberia: Monetary Survey, 2016–19
(Millions of U.S. dollars, unless otherwise indicated)

	2016	2017	2018	2019
	Act.	Proj.	Proj.	Proj.
(Central Bank Survey)				
Net foreign assets	166	70	53	92
CBL's gross foreign reserves	537	483	455	479
Commercial banks' US$ denominated deposits	87	51	50	50
CBL's gross official foreign reserves	450	432	405	429
CBL's net foreign exchange position[1]	162	153	124	164
Government US$ denominated deposits	91	45	49	49
Net domestic assets	0	105	118	74
Net claims on government	129	241	260	270
Claims on other public sector	0	0	0	0
Claims on private sector	21	4	4	4
Claims on commercial banks	16	33	33	33
Other items (net)	-168	-174	-180	-223
Monetary base (M0)	165	175	183	189
Monetary base (billions of Liberian dollars)	17	18	24	27
(Depository Corporation Survey)				
Net foreign assets	244	107	73	117
Net domestic assets	428	548	593	589
Net claims on government	168	278	302	320
Claims on public enterprises	52	28	30	30
Claims on private sector	418	480	528	581
Claims on nonbank financial institutions	2	5	11	11
Other Items (Net)	-213	-243	-311	-386
Broad money (M2)	672	655	666	706
L$ component	222	224	228	241
L$ Currency in circulation	116	119	123	136
L$ denominated deposits	106	104	107	113
US$ component (deposits only)	450	431	438	465
Memorandum items:				
Broad money (annual change)	-5.2	-2.5	1.7	6.0
L$ contribution to broad money growth	2.2	0.3	0.6	2.1
US$ contribution to broad money growth	-7.4	-2.8	1.1	4.0
Monetary base (annual change)	2.8	5.8	4.5	3.4
Net credit to government (annual change)	39.2	65.7	8.7	6.1
Credit to private sector (annual change)	2.3	14.7	10.0	10.0
Velocity (GDP-to-M2)	4.7	4.9	5.0	5.0
Money multiplier (M2/M0)	4.1	3.7	3.6	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.	Sep.	Dec.
Capital adequacy										
Regulatory capital to risk-weighted asse	20.3	15.5	16.2	20.0	20.6	21.5	17.4	17.9	17.7	18.0
Reported net capitalization	12.6	11.8	11.6	13.3	14.7	15.9	19.3	18.3	18.6	19.7
Asset quality										
Non-performing loans to total loans	18.7	15.7	15.7	14.8	12.8	14.8	15.8	14.0	15.0	14.7
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	60.3	65.5
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	57.2	62.9
Loan concentration (share of total)										
Agriculture	6.8	7.0	6.9	6.9	7.4	4.4	20.9	18.6	27.6	30.1
Mining and Quarrying	0.6	0.4	0.4	2.0	0.4	0.1	2.0	2.4	7.0	1.4
Manufacturing	1.9	2.6	3.2	3.1	3.7	5.4	10.0	7.2	11.1	18.8
Construction	17.2	14.3	15.2	15.9	15.2	10.6	67.1	71.8	54.3	49.8
Transportation, Storage, and Communic	7.4	8.7	7.4	6.8	8.2	6.2	0.0	0.0	0.0	0.0
Trade, Hotels, and Restaurants	43.8	43.3	41.6	39.0	38.7	28.2	0.0	0.0	0.0	0.0
Services	6.3	5.6	6.9	6.9	9.9	3.3	0.0	0.0	0.0	0.0
Personal	9.7	10.0	11.2	11.8	8.5	12.4	0.0	0.0	0.0	0.0
Government of Liberia	2.2	2.5	2.2	2.0	1.8	0.0	0.0	0.0	0.0	0.0
Public corporations	1.1	0.7	0.7	0.7	1.6	0.1	0.0	0.0	0.0	0.0
Others	2.8	4.7	4.2	4.9	4.6	29.3	0.0	0.0	0.0	0.0
Earnings and profitability										
Return on assets	0.1	-1.0	-2.4	0.6	0.9	0.2	0.3	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	1.8	-1.4
Non-interest income to total income	51.0	52.4	51.2	52.1	51.3	43.8	46.7	46.8	43.2	42.6
Net interest margin over average assets	7.4	7.6	1.9	3.9	5.9	2.7	0.6	0.9	1.2	1.4
Liquidity										
Liquid assets to deposits and designate	50.4	36.8	34.7	40.2	40.2	51.4	47.3	46.3	47.2	45.6
Liquid assets to net assets	34.0	26.7	26.4	28.1	27.6	35.6	34.5	30.0	31.6	30.1
Net loans to deposits	50.4	56.8	42.1	58.6	60.6	72.9	76.2	84.5	78.9	83.4

Sources: Liberian authorities; and IMF staff estimates.

Annex I. Living Conditions of the Population

1. **Liberia remains fragile, with the majority of the population enduring poor living conditions**. While the 2016 HIES and on-going work on GDP rebasing reveal that living standards (especially for some) may be much higher than previously understood, poverty remains high and widespread: the "poverty rate has decreased from 63.8 percent in 2007 to 50.9 percent in 2016"[1] owing mainly to strong growth prior to the Ebola epidemic and large inflows of foreign aid.

2. **Income per capita is now estimated to be around US$724, which is 60 percent higher than the previous estimate**. Spending patterns are characteristic of low-income countries: the poor spend on average more than 60 percent of their income on food—while the non-poor spend just over 50 percent—and spending per capita on education and health among the entire population is less than 10 percent of total spending. Circumstances have improved in recent years, with 15 and 26 percent of the population reporting an improvement in their financial situation in the last 3 and 10 years, respectively, but 53 percent of the population still face food insecurity.

3. **Social development spending is sourced mainly from donors, instead of the government budget, which makes it vulnerable to shifts in donors' priorities, while access remains uneven**. Health indicators exhibit a positive trend over time, but the population remains vulnerable to income shocks and widespread health crises. Moreover, access and quality of services are uneven. Public and private primary care facilities, which provide basic services, remain the main type of facility attended. Only 6 percent of the population use private hospitals, which are considered to be of higher quality, while only 3 percent have health insurance. This increases households' vulnerability to shocks, especially if the breadwinner falls ill and fails to receive adequate treatment.

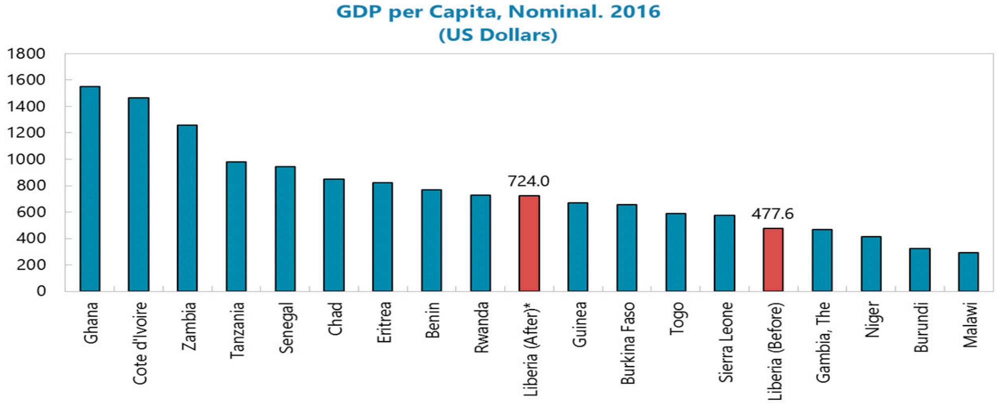
4. **Moreover, the distribution of the population is skewed towards the youngest cohorts, putting additional pressure on education spending amid the public service's limited resources**. About 45 percent of the population is younger than 15 years old. For this young, post-conflict generation to eventually join the labor force and contribute to economic activities and tax revenues, the pace of job creation needs to increase.

5. **Liberia is hindered by significant infrastructure gaps and high corruption**. Electricity production at 16.8 KWh per capita is costly, and one of the lowest in the world, with an estimated 81 percent of households having no access to electricity. Moreover, only 6 percent of roads are paved, hindering the positive spillovers of road connectivity, including on the productive economy and on bringing basic public services to remote areas.

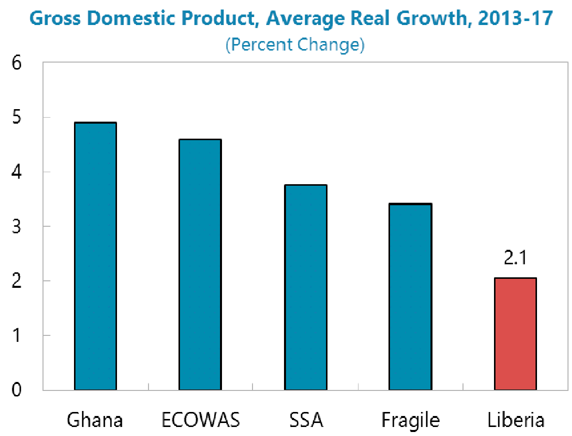
[1] Johnson Sirleaf, Ellen *Statement at the 72nd Regular Session of the United Nations General Assembly*, (September 2017).

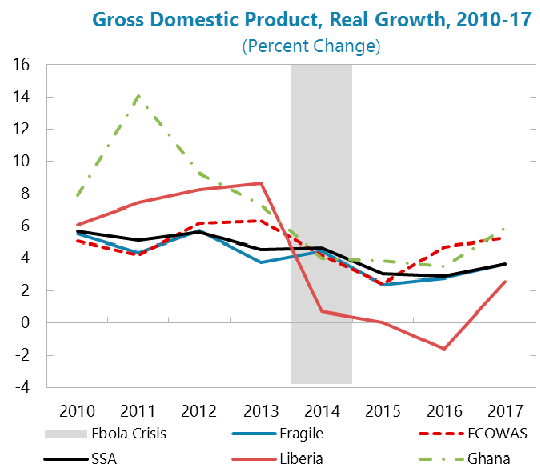
Figure 1. Liberia: Living Conditions Past and Present, 2005–17

Given a recent completion of Household Survey data, Liberia's economy fared better than previously anticipated...



Liberia's economy is on the rise, driven by the mining sector, but has yet to reach that of its peers and pre-Ebola levels ...



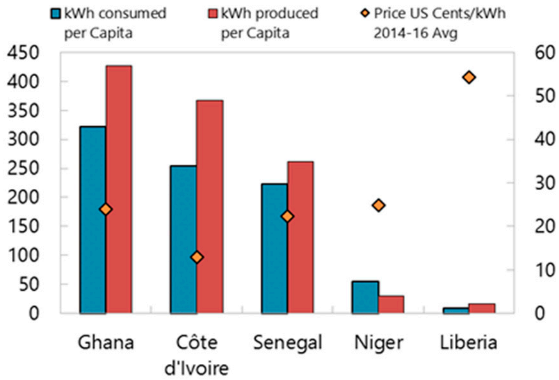


Sources: Liberian authorities; World Economic Outlook (WEO); and IMF staff estimates.
*Note: Revised GDP estimate is staff's estimate based on preliminary findings from the 2016 Household Income and Expenditure Survey (HIES).

Figure 1. Liberia: Living Conditions Past and Present, 2005–17 (Continued)

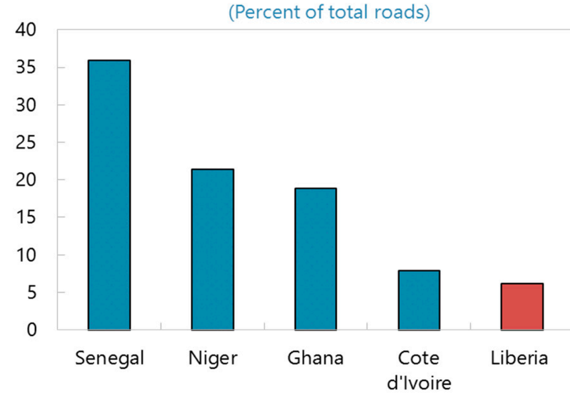
Compared to its peers, Liberia is hindered by significant infrastructure gaps

Electricity Production, Consumption and Price, 2014-16



Roads' Paved, 2013-14

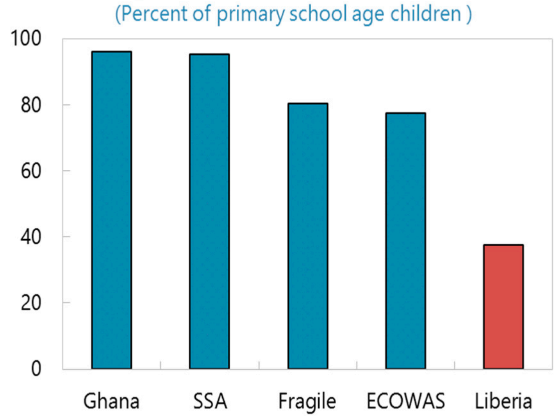
(Percent of total roads)



Education indicators point towards a disconnect in human capital development for future generations.

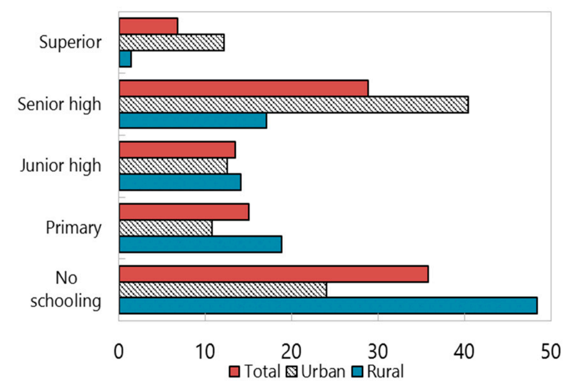
Primary Education, Enrollment Rate, 2015

(Percent of primary school age children)



Liberia: Head of Household Educational Attainment, 2016

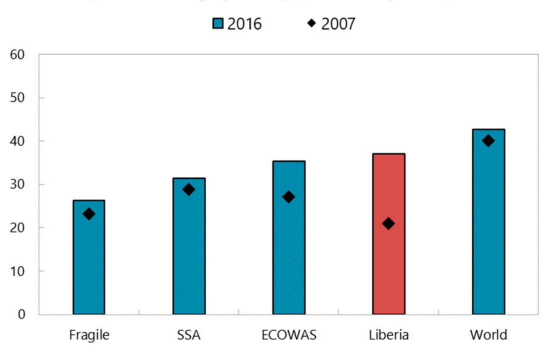
(Percent)



Some aspects of governance have improved relative to peers, but enhancing accountability seems to remain challenging.[1]

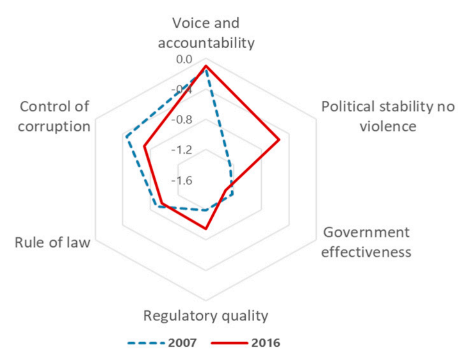
Corruption Perception Index. 2007-16

(Score 0 = Highly Corrupt, 100 = Very Clean)



Worldwide Governance Indicators, 2007-16

(Score -2.5 = Weak, 2.5 = Strong)



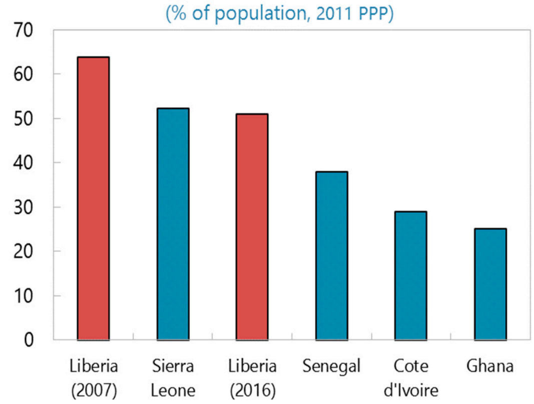
Sources: World Bank; IEA; CIA World Factbook; Transparency International (TI); World Governance Indicators; and Arlet. (2017).

[1]The Control of Corruption Index and the Worldwide Governance Indicators are perception-based indicators that are subject to select biases which do not represent the IMF's overall assessment of levels of corruption for individual countries. Methodological changes in the TI data also affect the comparison of scores over time. As such, the results should be interpreted with caution.

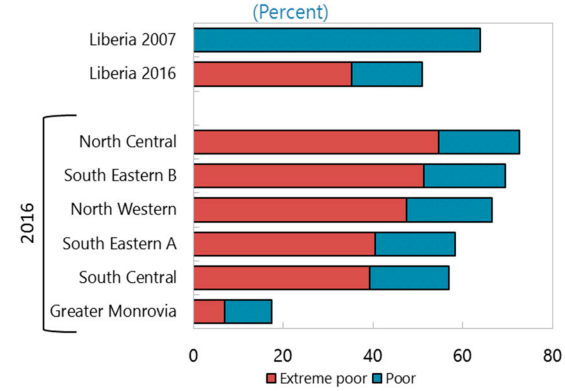
Figure 1. Liberia: Living Conditions Past and Present, 2005-17 (Concluded)

While inequality has improved and average expenditure has increased, poverty persists…[2]

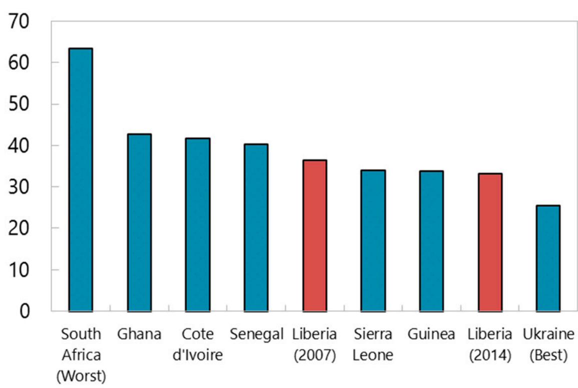
Poverty Headcount Ratio at $1.90 a Day, 2016
(% of population, 2011 PPP)



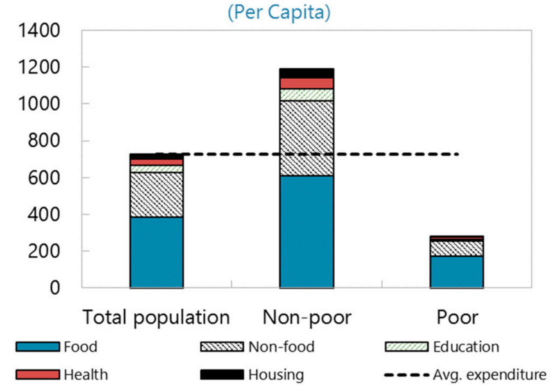
Liberia: Poverty rate per Region, 2016
(Percent)



GINI Index, Latest Data

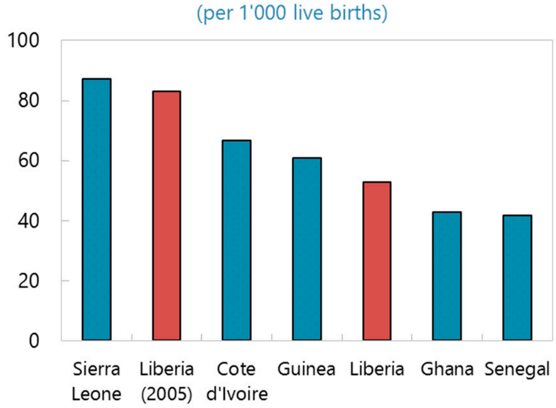


Liberia: Expenditure, 2016
(Per Capita)

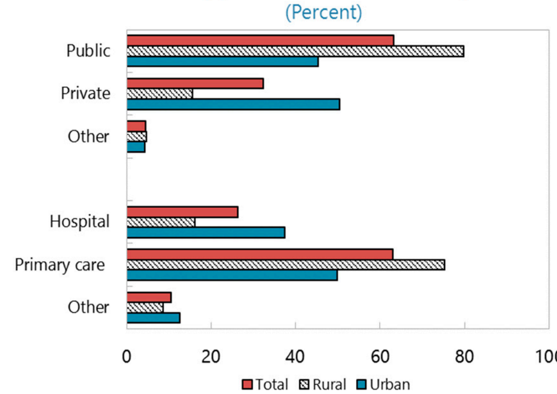


Advancements in health indicators have placed Liberia in better standing compared to its peers…

Infant Mortality Rate, 2015
(per 1'000 live births)



Liberia: Type of Heathcare Facility, 2016
(Percent)



Sources: Liberian authorities; World Bank; HIES 2016; IMF Country Report 12/340; and IMF staff estimates.

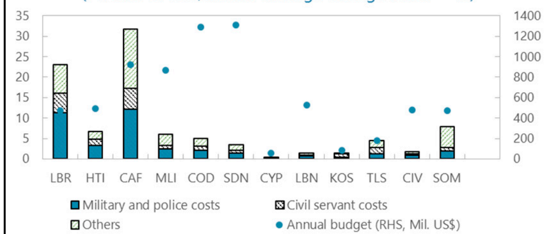
[2] Liberia poverty rates based on Liberia's national poverty line.

Annex II. The Impact of UNMIL Withdrawal

1. **The United Nations Mission in Liberia (UNMIL) was established on September 11, 2003**. The presence of the UNMIL was large compared to the Liberian economy; the average annual budget of UNMIL to GDP ratio during FY2007–18 was 23 percent, the second highest among existing Peacekeeping Operations in this period.

UN PKO Budget

(Percent of GDP, annual average during FY2007 - 18)

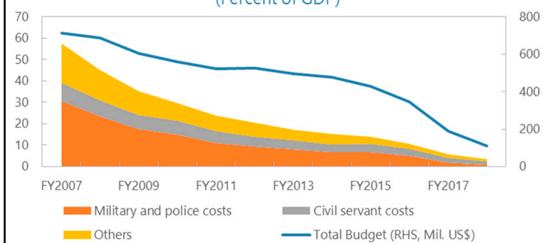


Sources: United Nations and IMF staff calculations.

2. **The UNMIL annual budget used to equal more than 55 percent of Liberia's GDP**, but it shrank to 3 percent of GDP by FY2018 as the mission downsized with the approach of its March 2018 termination date. The largest budget cut in nominal terms took place in FY2017 with a decrease of about US$160 million.

Liberia: UNMIL Budget, FY2007 - 18

(Percent of GDP)

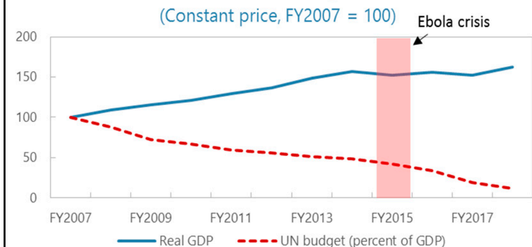


Sources: United Nations and IMF staff calculations.

3. **While the UNMIL operation was shrinking, real GDP continued to grow until the Ebola crisis**. During 2007–14, despite the downsizing of the UNMIL, the Liberian economy grew strongly thanks to domestic demand and iron ore production.

Liberia: GDP and UNMIL, FY2007 - 18

(Constant price, FY2007 = 100)

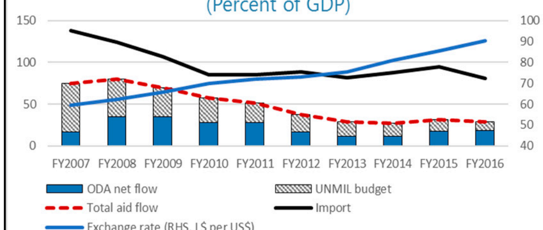


Sources: United Nations, WEO, and IMF staff calculations.

4. **The Ebola crisis abruptly stopped this robust growth**. Moreover, recovery from the crisis was hampered by a combination of commodity price shocks, political uncertainty due to the 2017 presidential election, and the withdrawal of the UNMIL.

Liberia: ODA and UNMIL, FY2007 - 16

(Percent of GDP)



Sources: United Nations and IMF staff calculations.

5. **The level of imports and the exchange rate were largely synchronized with the UNMIL's operations**. UN peacekeeping operations need not only military equipment, but also food and materials to maintain troops and administrators. With the Liberian economy being relatively undiversified, this demand spilled over into imports. UNMIL-related foreign exchange inflows also initially supported the exchange rate, but then generated depreciation pressure once UNMIL's operations downsized.

Annex III. Risk Assessment Matrix, January 2018[1]

Sources	Likelihood	Potential Impact	Policies to Minimize Impact
External			
Significant slowdown in China and other large EMs/Significant U.S. slowdown and its spillovers/ Structurally weak growth in key advanced economies.	**Low**/ **Medium**/ **High**	**High.** 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 for the revenue shortfall.
Retreat from cross-border integration.	**Medium**	**Low.** Strong isolationism and protectionism could adversely affect the economy through lowering trade, remittance, and aid flows.	Prioritize public projects, develop contingent spending plans for a sudden stop of aid flows, and accumulate fiscal and external buffers. Also, diversify the structure of the economy and export markets.
Sharp decrease in aid flow.	**Medium**	**High.** Slowdown of aid flow could weaken the domestic economy and reduce foreign exchange inflow.	Identify linkages between foreign aid and the domestic economy, and develop accurate estimates of the impact of the aid flow shortfall on fiscal and balance of payments sectors for adequate policy reactions.
Liberia Specific			
Delay in developing a medium- and long-term development strategy by the new government.	**Low**	**High.** Lack of a development agenda could reduce spending efficiency, damaging the credibility of the government and reducing fiscal space further.	Develop a concrete development strategy and formulate an action plan for each priority area as soon as possible.
Slowdown or discontinuation of ongoing structural reforms.	**Medium**	**Medium.** Delay in structural reforms agreed with the previous government could continue to dampen performance and the quality of government operations.	Continue and accelerate existing structural reforms, including by strengthening PFM institutions and the judiciary system and passing the Lands Rights Act. Knowledge transfer from the previous government to the new one should be smoothly and promptly completed.

[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
Inability to mobilize resources to fill the financing gap	**Medium**	**High.** Arrears and the sudden halt of projects could weaken the domestic economy and damage the credibility of the new administration. Increasing borrowing to fill the financing gap would put Liberia on the brink of being at high risk of debt distress.	Increase domestic revenue mobilization efforts by addressing structural challenges of the LRA and formulating a MTRS. Reduce spending waste and carefully prioritize public projects, while limiting borrowing even if on concessional terms.
Increasing risk of debt distress	**Medium**	**High.** The worsened macroeconomic outlook, especially for key export sectors, and high public investment needs and borrowing pressures could raise the risk of debt distress from moderate to high.	Prioritize public projects financed by external loans and seek grant financing instead of loan financing.
Deterioration of security conditions after the UNMIL withdrawal	**Low**	**High.** A security vacuum would undermine investor and consumer confidence and slow down economic activity.	Ensure smooth transition from the UNMIL to the national security system.
Large-scale public health incidence	**Low**	**High.** The socio-economic recovery process would be reversed, depressing growth and worsening the living standards of vulnerable groups.	Continue to strengthen health and social protection systems and communication channels between the central government and rural communities.
Reduced financial services by correspondent banks ("de-risking").	**Low**	**High.** Loss of correspondent banking relationships (CBRs) could reduce/slow down foreign exchange inflow, such as trade flows, remittances, and humanitarian aid.	Strengthen the AML/CFT supervisory framework, address gaps in the AML/CFT legislation, including terrorist financing, and improve tax system transparency,

Annex IV. Status of Key Recommendations for the 2016 Article IV Consultation

Fiscal Sector	
Deepen domestic revenue mobilization efforts	In progress. Various revenue measures were introduced, including an increase in the goods and services tax rate. Administration reforms with donor support are ongoing.
Shift resources form current to capital spending	In progress. Infrastructure provision remains the top priority. However, FY2018 capital spending is expected to be somewhat under budget because of election spending and tight revenue.
Advance the Treasury Single Account	Delayed. The Office of Comptroller and Accountant General established a new section to accelerate the installment. However, that is the only visible progress.
Improving investment management	Delayed. The MFDP developed an excel-based public project database. However, due to limited capacity and weak institutional framework, implementation of the PIMA recommendations has been delayed.
Tighten the grip on financial situation of SOEs	Delayed. Due to limited resources of the SOE unit and limited capacity in both the government and SOEs themselves, reform of SOE monitoring has been delayed.
Introduce a fiscal anchor (the long term)/Debt policy should be supported by a new medium-term strategy	Delayed. The government is developing a medium-term debt strategy, but finalization has been delayed because of the political transition.
Adhere to debt limits under the ECF	Done. The government successfully contained their borrowing.
Establish formal debt limits beyond the current ECF	Delayed. The political transition has delayed the development of long-term commitments.
Monetary and Exchange Rate Sector	
Limit foreign exchange interventions and allow more exchange rate flexibility	In progress. The Central Bank of Liberia reduced its foreign exchange market intervention despite continuation of depreciation pressure.

Financial Sector	
Implement the three-year CBL budget	In progress. CBL has followed their three-year budget with an adjustment for the unexpected currency issuance ordered by the Legislature.
Report regularly on the implementation of the three-year financial plan	In progress. CBL has shared their budget execution report with the Fund.
Phase out support to the financial sector	Done. CBL stopped their support to the financial sector.
Improve coordination among CBL, MFDP, and LRA towards liquidity management	Done. Meeting for liquidity management was regularized.
Reform the reserve maintenance system	Delayed.
Remove the statutory requirement for the CBL to obtain approval by the Legislature to issue currency	Delayed. CBL Act needs to be amended to remove this requirement.
De-dollarization	In progress. Discussion to develop a de-dollarization road map is ongoing.
Strengthen bank supervision	In progress.
Create an emergency liquidity assistance (ELA) framework	In progress. CBL Act needs to be amended to offer a legal underpinning to an ELA operational framework developed in consultation with the Fund.
Build a comprehensive strategy to tackle rising non-performing loans (NPLs) (including mandatory write-off of fully provisioned NPLs)	Delayed.
Set up bank safety net package, including ELA, bank resolution, and deposit insurance	In progress.
Step up efforts to address AML/CFT legislative gaps, strengthen the institutional capacity of the FIU	In progress.
Structural Reform	
Improve the business environment	Delayed.
Financial Inclusion	
Promote the usage of financial services	In progress.
Promote lending to SMEs	Delayed.

Annex V. Capacity Development

1. **Liberia is part of the pilot phase of the Capacity Building Framework (CBF)**. In May 2015, the Executive Board endorsed a proposal to pilot a more structured approach for Capacity Development (CD) activities in fragile states referred to as Capacity Building Framework (CBF).[1] The Central African Republic, Liberia, Mali, and Sierra Leone are part of the pilot phase. For these countries, CBF Strategies were prepared, in consultation with the World Bank and other CD partners, and discussed with country authorities. The strategy is fully aligned with the Resource Allocation Plan (RAP), including activities at Africa Regional Technical Assistance Centers (AFRITACs).

2. **Liberia is one of the largest recipients of capacity development assistance, which includes technical assistance and training**. The current level of technical assistance (TA) provided to Liberia exceeds 5 full-time equivalents (FTE, person years). The majority of TA is in the fiscal area, and most is sponsored by external donors and are part of multi-year CD projects.

3. **The level of CD provided to Liberia may be appropriate on the need basis, but not necessarily on the basis of absorptive capacity**. The need of assistance in various areas remains high in Liberia. However, traction of past recommendations is low. This could adversely affect Liberia's eligibility for future TAs in the future as the Fund moves more towards the result-based management (RBM) of TA resources.

4. **The allocation of CD delivery is generally well aligned with CBF Strategies, especially the alignment within each sector, but the allocation across sectors could be improved**. For example, TA in statistics has declined during 2014–15 and has never recovered to the level seen in the pre-Ebola period. Finding funding to field the National Accounts Annual Survey (NAAS)—a critical input to complete the GDP rebasing that started before the Ebola epidemic—has been difficult. At the same time, TA on fiscal issues remains above 3.6 FTEs.

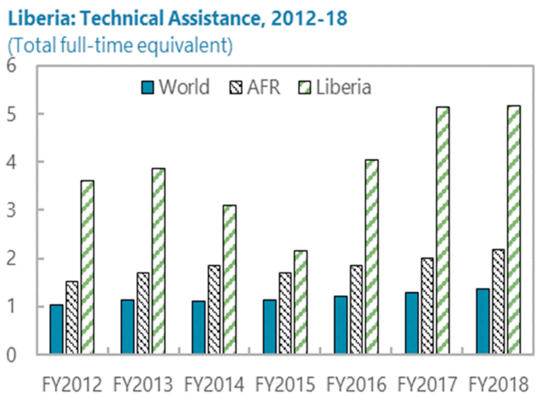
5. **The output of CD delivery is hard to measure, but in terms of program performance, CD delivery and program performance are consistent**. If the output of CD delivery is measured in terms of the number of structural benchmarks met, then CD delivery and program performance are consistent: they are both high in the fiscal area and low in the other areas. Program performance, however, does depend on other factors (see the Ex-Post Peer Reviewed Assessment for more detail).

6. **Aligning TA and training activities with surveillance and/or program work faces some challenges**. For example, more flexibility in the modality of TA activities (long- vs. short-term experts, training vs. TA, fiscal vs. statistics) could improve the efficiency of the use of CD resources.

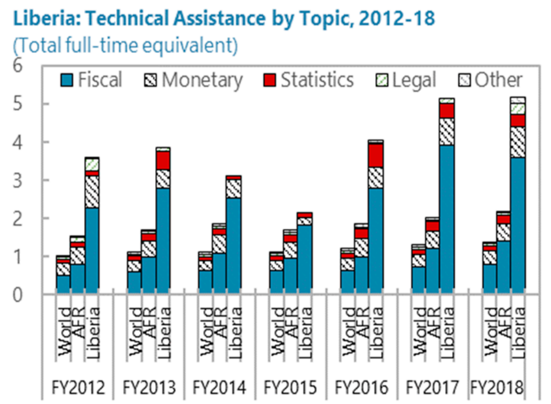
[1] IMF Engagement with Countries in Post-Conflict and Fragile Situations—Stocktaking (FO/Dis/15/68).

Figure 1. Capacity Development Priorities, 2012–18

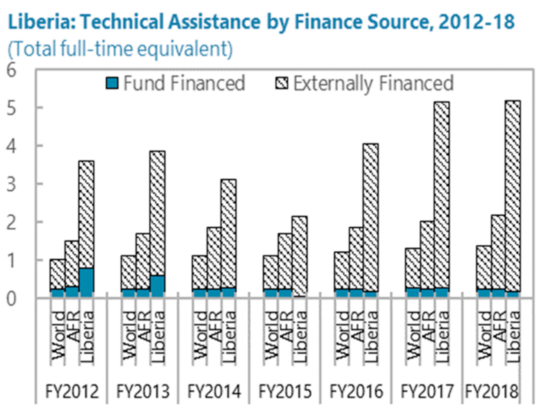
Technical Assistance (TA) to Liberia exceeds both IMF and AFR averages.



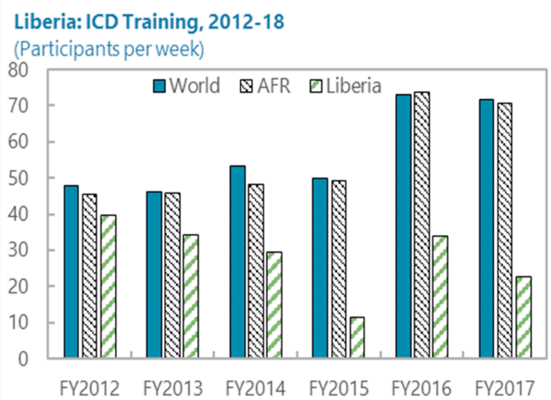
The Fiscal Sector has been the primary focus of TA support.



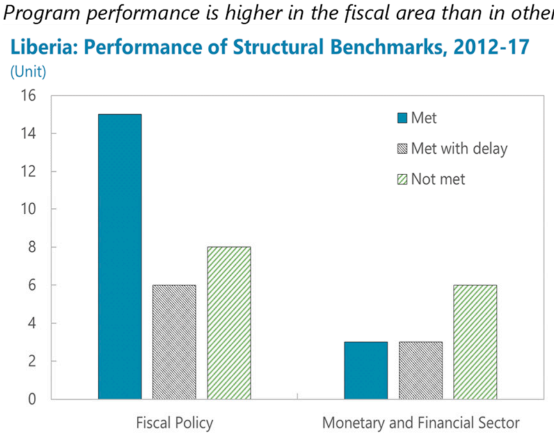
Over 95% of Capacity Development support is externally financed.



The Liberian authorities also participate in IMF trainings though the number has been declining in recent years.



Program performance is higher in the fiscal area than in other areas…



Sources: IMF Capacity Development Portal; IMF Country Report 17/348.

Annex VI. Liberia's Monetary Policy Framework: Seven Principles

1. **Liberia's monetary policy framework is in dire need of modernization**. The current framework, lacks the clear mandate and the operational tools necessary for the conduct of sound monetary policy. To complicate matters further, the central bank is currently undercapitalized, and its weak balance sheet limits the scope of monetary policy decisions.

2. **In this note we assess Liberia's monetary policy framework against the seven principles of effective monetary policy, as documented in the IMF board paper**.[1] The objective of the assessment is to understand what main elements of a sound monetary policy framework Liberia is currently lacking.

3. **This exercise reveals that Liberia is missing most of the elements of the Seven Principles**. The key issues are:

- The Liberian monetary policy framework does not include a clear mandate of price stability as the primary objective. Although the current CBL Act provides that the "principal objectives of the Central Bank shall be to achieve and maintain price stability…", price stability is not clearly the primary objective, as periods of fiscal dominance are evident in the economy.

- The Liberian monetary policy framework lacks a clear and effective operational framework. Therefore, Liberia has very limited choice in choosing an operating target through which the policy stance could be set and announced in terms of the specific level of this target.

- The CBL does not have a transparent and forward looking monetary policy strategy. Currently, the monetary transmission mechanism is poorly understood, and the central bank does not have a clear analytical toolbox with which to examine the effects of its decisions on inflation and inflation expectations.

- Under these conditions, an effective communication strategy is not possible. Without the ability to frame its actions in terms of internally consistent goals, methods and strategy, the CBL has difficulty harnessing the considerable support and policy reinforcement that effective communication can provide.

4. **Given the gaps revealed by the exercise above, the following steps are recommended**:

- Price stability should be adopted as the overriding objective of the CBL. This is an essential precondition for bringing the Liberian monetary policy framework into accordance with the seven principles and should be mandated in law. (The authorities are currently drafting amendments to the Central Bank Act, with IMF technical assistance, that will articulate price stability as the primary mandate of the central bank.)

[1] See "Evolving Monetary Policy Frameworks in Low-Income and Other Developing Countries", International Monetary Fund.

- Development of financial markets, especially well-functioning interbank markets in LBD and foreign currency, is essential for an effective monetary policy framework. Such markets, aside from promoting financial intermediation and inclusion, would also provide the CBL with additional operational tools. In particular, development of an interbank money market would provide the CBL with influence over liquidity conditions and the interest rates prevailing in the market. In the presence of an efficient foreign exchange market, control over domestic interest rates would also yield influence over the exchange rate and level of inflation and form the basis of an effective monetary policy framework.

- The CBL should be recapitalized, and credible provision made for future recapitalization when necessary. Security of capital is necessary to prevent the central bank from refraining from necessary policy actions, such as liquidity absorption, due to solvency concerns.

5. Development by the CBL of greater technical capacities, particularly in economic modeling, should be pursued, aimed at achieving a better understanding of the monetary policy transmission mechanism. In this regard, special attention should be devoted to understanding the factors affecting money demand and the drivers of the change in monetary conditions in the Liberian economy. The transmission channels of the current monetary policy framework and the relationship between monetary aggregates and the price level and exchange rates in the Liberian economy should also be pursued.

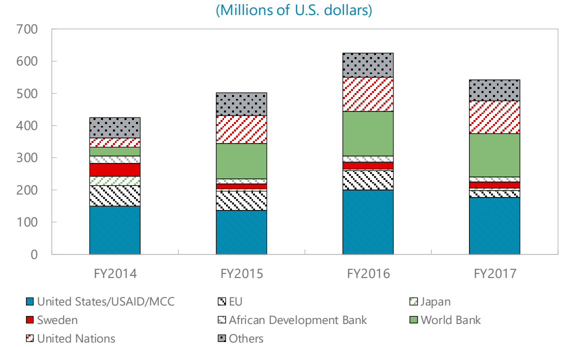
Annex VII. The Role of Aid Flows

1. Total loan and grant disbursements during FY2014–17 were US$431 million and US$2 billion, respectively, implying that the value of combined project and budget support grants is broadly equivalent to that of tax and nontax revenue. These aid flows in the past have extended into most economic and social areas, such as agriculture, infrastructure, energy, health, education, social development services, and to public administration (including both public finance management and budget support) (Figure 1). The decline in external funding over time implies that these public goods and services will need to be increasingly financed and provided by the GOL.

Figure 1. Liberia: The Role of Aid Flows, FY2014–17

Grants disbursed increased to US$624 million in FY2016, which were 1.4 times larger than the GOL's revenue.

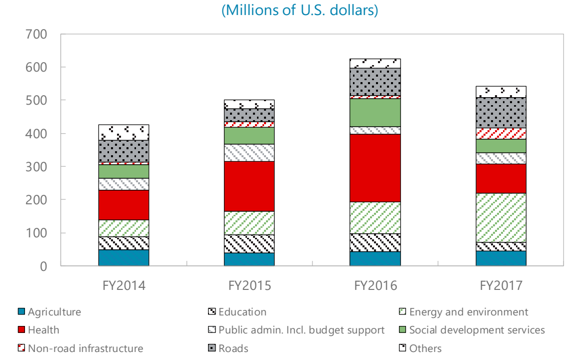
External Grants by Donors
(Millions of U.S. dollars)



Sources: MFDP/AMCU; and IMF staff estimation.

A third of grants in FY2015–16 were allocated to the health sector.

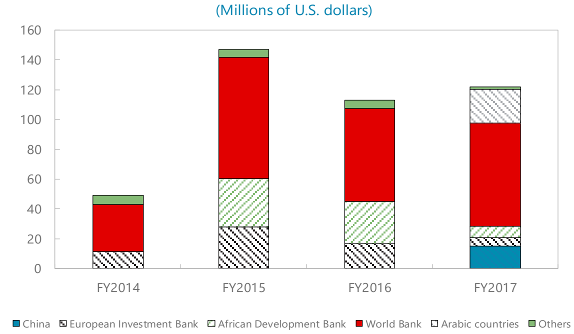
External Grants by Sectors
(Millions of U.S. dollars)



Sources: MFDP/DMU; and IMF staff estimation.

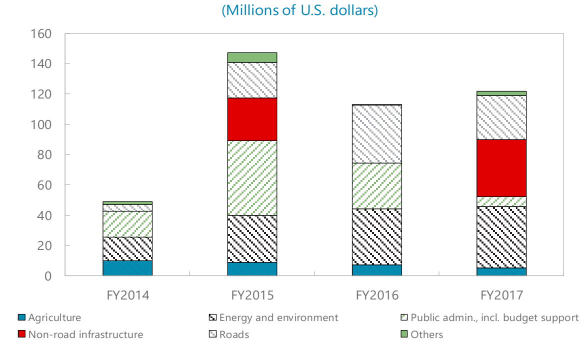
Two thirds of the total debt outstanding, $431 million, were disbursed during this period, with a focus on energy (29 percent), roads (22 percent), other infrastructure (15 percent), and budget support (21 percent).

External Loans by Donors
(Millions of U.S. dollars)



Sources: MFDP/AMCU; and IMF staff estimation.

External Loans by Sectors
(Millions of U.S. dollars)



Sources: MFDP/DMU; and IMF staff estimation.

Annex VIII. Cross-Country Experiences with De-Dollarization

1. **Liberia's economy is highly dollarized according to most definitions**.[1] The U.S. Dollar is used frequently as a medium of exchange, wages in both the public and private sectors are often denominated in dollars (Real Dollarization), and the banking system is highly dollarized (around 80 percent of deposits and 90 percent of credit is denominated in dollars).

2. **In this context, this note investigates de-dollarization experiences in other countries around the world and draws lessons for Liberia**. The main lessons that emerge are the following:

- Full de-dollarization is not necessarily optimal nor desirable.[2] Even in countries with strong macroeconomic performance and stable domestic prices and exchange rates, there is some degree of dollarization. This is especially the case for countries with a high degree of trade and financial openness, as importers and exporters will be natural holders of dollar deposits and loans. Since Liberia is a small open economy where trade volume to GDP is very high, and trade is dependent on foreign aid, the natural level of dollarization would be large.

- De-dollarization is only achieved when all market participants (i.e., households, corporations and banks) prefer to use the domestic currency. As such, the real return on holding Liberian dollar deposits (LBD) should be higher than the real return earned on U.S. dollar deposits and positive in real terms after adjusting for the risk differential, so that households are willing to hold domestic currency deposits. Similarly, the real interest rate paid on U.S. dollar loans should be higher than the real interest rate charged on Liberian dollar loans. It should be emphasized that all these changes should come through market forces—arising from policies that utilize the market mechanism and from appropriate regulation—with no interest rates imposed on the market by fiat. This point highlights the importance of an effective and credible monetary policy framework and well-functioning money markets, which would enable the central bank to affect market interest rates so that the local currency becomes more attractive to all market participants.

- Global experience indicates that de-dollarization is only achieved after an extended period of macroeconomic stability, especially price stability.[3]

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[1] Schumacher, Liliana B, and Jiro Honda. 2006. "Adopting Full Dollarization in Post-Conflict Economies: Would the Gains Compensate for the Losses in Liberia?" IMF Working Paper No.06/82 and Menkulasi, Jeta, Lodewyk Erasmus, and Jules Leichter. 2009. "Dedollarization in Liberia-Lessons From Cross-Country Experience." IMF Working Paper No. 09/37.

[2] Della Valle, Guido, Vasilika Kota, Romain Veyrune, Ezequiel R. Cabezon, and Shaoyu Guo. 2018. "Euroization Drivers and Effective Policy Response: An Application to the Case of Albania." IMF Working Paper No. 18/21.

[3] Kokenyne, Annamaria, Jeremy Ley, and Romain Veyrune. 2010. "Dedollarization." IMF Working Paper No. 10/188.

- De-dollarization takes a long time.[4] Even in the case of relatively advanced economies (such as Israel and Poland) with much more advanced financial markets, de-dollarization was a process that took decades. Thus, patience and persistence in sound policies is key. De-dollarization should be thought of as a byproduct of good policies being in effect (Stanley Fischer).

- Monetary policy can be effective in achieving price stability even in the face of high levels of dollarization.[5] Although high dollarization can limit the effectiveness of monetary policy in affecting the real economy and stimulating demand, one of the main benefits of dollarization is that central banks can still achieve price stability in domestic currency while dollarized. Experiences of low income and developing countries such as Cambodia and Laos illustrate this point.

- Forced de-dollarization is costly, is seldom effective, and often backfires.[6] As demonstrated in Mexico and Bolivia, forced de-dollarization can lead to disintermediation, economic recession, and capital flight. In both of these cases, dollarization returned even more strongly once the negative consequences of the policies forced the authorities to reverse course. Even in the few cases where forced de-dollarization achieved its goal, it came at the cost of an extended period of disintermediation in the banking sector that had serious repercussions on financial development and economic growth.

- Regulatory policies which incentivize the voluntary use of the local currency in the banking system can speed up de-dollarization.[7] Such policies include higher reserve requirement on dollar denominated deposits relative to domestic currency deposits, or higher fees charged

- on the clearing of dollar payments. For such policies, a strong regulatory framework is a prerequisite.

- The public sector can help the economy to de-dollarize[8] through various policies:

  - Accepting the local currency as the sole legal tender for tax purposes;

  - Using the local currency to pay their contractors and employees;

  - Requiring by law that all goods and services prices be quoted in the domestic currency.

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[4] Ibid.

[5] Reinhart, Carmen M., Kenneth S. Rogoff, and Miguel A. Savastano. 2003. "Addicted to dollars." NBER Working Paper No. 10015; and Leiderman, L, R Maino, and E Parrado. 2006. "Inflation targeting in dollarized economies." IMF Working Paper No.06/157.

[6] Kokenyne, Annamaria, Jeremy Ley, and Romain Veyrune. 2010. "Dedollarization." IMF Working Paper No. 10/188.

[7] Ibid.

[8] Ibid.

3. **Given the cross-country experiences mentioned above and considering the specifics of the Liberian economy, the following policies and actions are recommended**:

- Liberia needs a well-defined monetary policy framework, which has price stability as its main objective. This point is discussed in more detail in Annex IX. The importance of a forward looking and well defined monetary policy framework for de-dollarization purposes cannot be over emphasized. This should be complemented by policies aimed at developing money markets, market development, maintenance of real interest rates on LBD, and consistency in monetary policy.

- The supervisory and regulatory framework of the CBL needs to be strengthened considerably. As many of the cases of de-dollarization noted above suggest, regulatory policies that make the voluntary use of local currency more attractive, such as a higher reserve requirement on U.S. dollar deposits compared to domestic currency deposits, can speed up the de-dollarization process. Such policies can help market forces achieve higher real interest rates on domestic currency deposits and lower real interest rate on domestic currency loans. However, these policies require that a strong regulatory framework be in place that is capable of full enforcement of the regulations and which is agile enough to respond to changes in financial markets and conditions.

4. **The public sector can help with achieving de-dollarization**. It should be emphasized that the policies stated below are only effective once macroeconomic and price stability are achieved. These policies include:

- Utilizing the Liberian dollar for expenditure and revenue to the extent possible. The government could pay public workers (of all institutions including the CBL) in Liberian dollars. This would entail the government also raising most of its revenues in Liberian dollars, as well as the government exchanging some of the aid money it receives in US dollars for Liberian dollars, either through the FX markets or by sales to the CBL. A prerequisite for this would be for the CBL to be well capitalized and possess the necessary tools for sterilizing the liquidity consequences of these operations.

- Accepting the Liberian dollar as the only legal tender for tax purposes. This again should be preceded by some degree of matching of revenues and expenditures of the government in Liberian dollars to avoid having the government face exchange rate risk.

- Promoting the use of local currency in local transactions. This could include, for example, ensuring that all goods and services prices are quoted in local currency. The effectiveness of this policy would be related to the degree of price stability and the degree to which policy is geared towards maintaining the purchasing power of the LBD.

Annex IX. External Sector Assessment

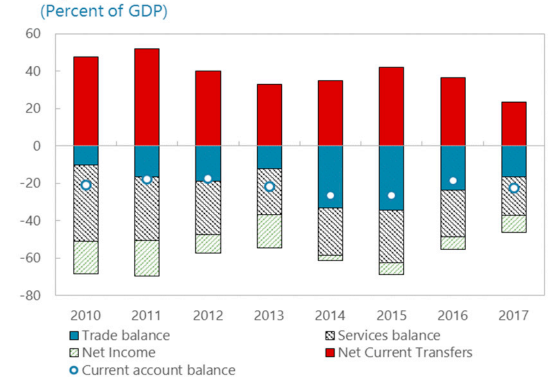
Liberia's external position in 2017 was substantially weaker than implied by fundamentals and desirable policy settings. The current account deficit remains large, and the real exchange rate is overvalued. Foreign reserves are also just at an adequate level. Reversing the deterioration in competitiveness will require greater flexibility in the exchange rate, fiscal adjustment, and a concerted structural reform effort.

Current Account

1. **Liberia faces high external vulnerabilities, with a significant current account deficit and large exposure to external shocks**. Liberia has faced various external shocks in recent years, including the Ebola crisis, the commodity price shock, and the completion of the UNMIL withdrawal in March 2018. While large foreign aid inflows supported remediation of the Ebola epidemic in 2014–15, the trade deficits were at their peak (Figures 1 and 2). In 2016, the current account improved slightly with lower imports due to the continued UNMIL withdrawal and the Liberian dollar depreciation. In 2017, trade deficits continued to improve as exports finally picked up due to the increase in gold production and modest recovery in commodity prices, but the current account deficit increased as net current transfers declined.

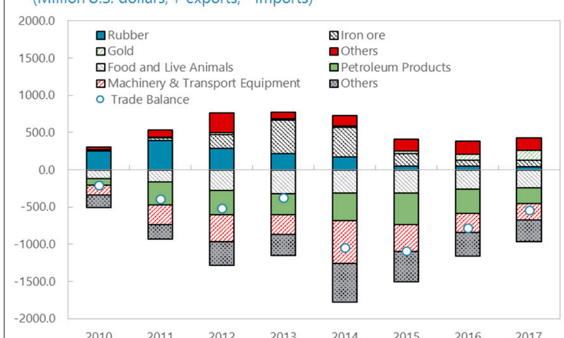
2. **Export composition has shifted during recent years.** Since 2010, there has been a pronounced shift from rubber and iron ore to gold production (Figure 2). This change in composition is attributable to a sharp decline in rubber and iron ore prices until 2015—and their only slow recovery since then—which triggered a sharp decline in production volume (Figure 3).

Figure 1. Current account, 2010-17
(Percent of GDP)



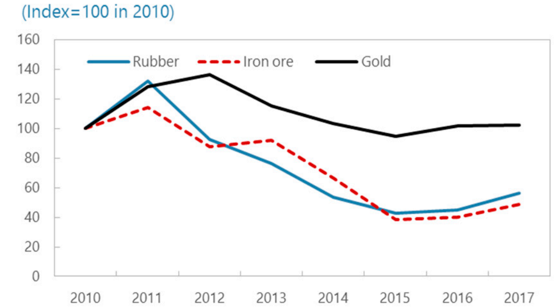
Sources: Liberian authorities; and IMF staff calculation.

Figure 2. Exports and Imports
(Million U.S. dollars, + exports, - imports)



Sources: Liberian authorities; and IMF staff calculation.

Figure 3. Export Commodity Prices
(Index=100 in 2010)



Source: IMF.

Real Exchange Rate and Foreign Exchange Intervention

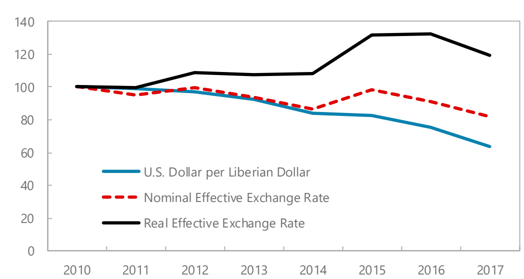
3. Since 2010, the Liberian dollar (LBD) has depreciated vis-à-vis the U.S. dollar (USD) in nominal effective terms, but the real effective exchange rate has appreciated. The Liberian dollar depreciated against the U.S. dollar by around 16 percent in 2017 and cumulatively by around 37 percent since 2010 (Figure 4). However, with the U.S. dollar stronger against other trading partner currencies, the nominal effective exchange rate (NEER) depreciated much less (by around 10 percent in 2017). With a higher inflation rate than other trading partners, the real effective exchange rate (REER) only depreciated by around by 3 percent in 2017. Prior to this, the real exchange rate had appreciated between 2013 and 2015, reflecting persistently high inflation in Liberia relative to its trading partners, at a time when the nominal exchange rate was prevented from compensating due to abnormally high Ebola-related foreign exchange inflows.

4. The CBL has intervened to smooth the depreciation path of the LBD against the USD, as the LBD depreciation has an inflationary impact that is disproportionately felt by the poor. The CBL has not attempted to prevent the depreciation, but has temporarily imposed a surrender requirement on inflows of remittances since late 2016 aimed at providing the funds needed to intervene in the foreign exchange market to smooth the depreciation path of the LBD against the USD. This surrender requirement, a capital flows management measure (CFM), has so far not appeared to have reduced the volume of remittance inflows (Figure 5). However, remittance outflows (part of which could be considered a proxy for capital flight) did intensify during the Presidential election period, adding further depreciation pressure.

EBA-Lite Results

Figure 4. Exchange Rate Developments

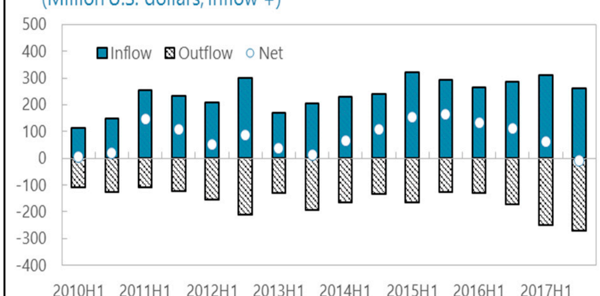
(Index 2010=100, increase is appreciation)



Source: IMF.

Figure 5. Remittance

(Million U.S. dollars, inflow +)



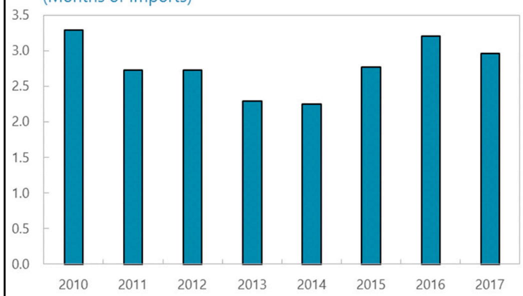
Sources: Liberian authorities; and IMF staff calculation.

5. Liberia's real exchange rate is assessed against economic fundamentals and desirable policies. The External Balance Assessment (EBA)-lite has three approaches in assessing a country's current account balance and the real exchange rate.[1] Among the three, the current account (CA) model is used here. The CA model looks at determinants of national saving and investment since, when the former falls short of the latter, the country has to borrow abroad. More specifically, the CA

[1] IMF Policy Paper, Methodological Note on EBA-Lite. The results of the Real Effective Exchange Rate (REER) and the External Sustainability (ES) approaches are not discussed due to inadequacy of data.

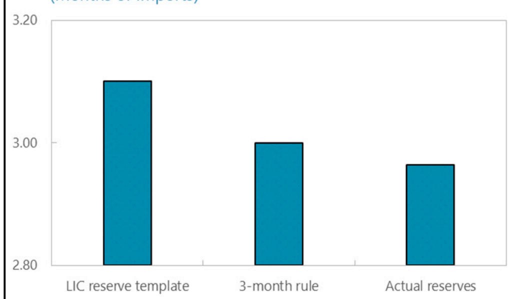
is modeled as a function of policy variables (fiscal balance, foreign exchange intervention, private credit, and capital controls), cyclical factors (output gap and terms of trade), and fundamentals (e.g., NFA, productivity, oil and gas exports, demographic indicators, aid and remittances, and institutional environment). To identify the sources of misalignment (economic fundamentals vs. policy deviations), staff made assumptions on "desirable" policies and then measured policy deviations from those. The desirable cyclically adjusted government deficit is set tentatively at 2.5 percent of GDP relative to the current level of 5.5 percent of GDP; the desirable level of private sector credit is set at 30 percent of GDP (i.e., the average level for the Frontier Market economies); and desirable reserve accumulation is set at US$100 million per year.

Figure 6. Foreign Reserves
(Months of Imports)



Sources: Liberian authorities; and IMF staff calculation.

Figure 7. Reserve Adequacy Assessment
(Months of imports)



Sources: Liberian authorities; and IMF staff calculation.

6. **The current account model suggests that the Liberia's real exchange rate is overvalued relative to the level implied by fundamentals and desirable policy settings**. While the actual current account is -22.7 percent of GDP in 2017, the current account norm, which is consistent with fundamentals and desirable policies, is estimated to be at 14.6 percent of GDP (Table 1). The resulting current account gap is 8.0 percent of GDP, while the real effective exchange rate gap is estimated to be 29.4 percent. The policy gap is relatively small, as the impact of a deviation of fiscal policy stance from its desirable level (which is increasing the current account deficit) is offsetting the impact of a deviation of private sector credit from its desirable level (which is reducing the current account deficit).

Table 1. Liberia: External Balance Assessment Results

	EBA-lite Current Account Regression
External Assessment Results	
Current account—actual	-22.7
Current account norm	-14.6
Current account gap	-8.0
o/w Policy Gap	0.6
Real exchange rate gap	29.4

Source: IMF staff estimates.

Reserve Adequacy

7. **Gross foreign reserves are just at reserve adequacy levels**. They dropped from 3.3 months of imports at the end of 2016 to 3.0 months in 2017. The reserve adequacy model for credit constrained economies suggests that the level of foreign reserves considered adequate to withstand external shocks—in particular, shocks to the terms-of-trade and aid flows that Liberia faces—is about 3 months of imports. The current level is at this reserve adequacy level. However,

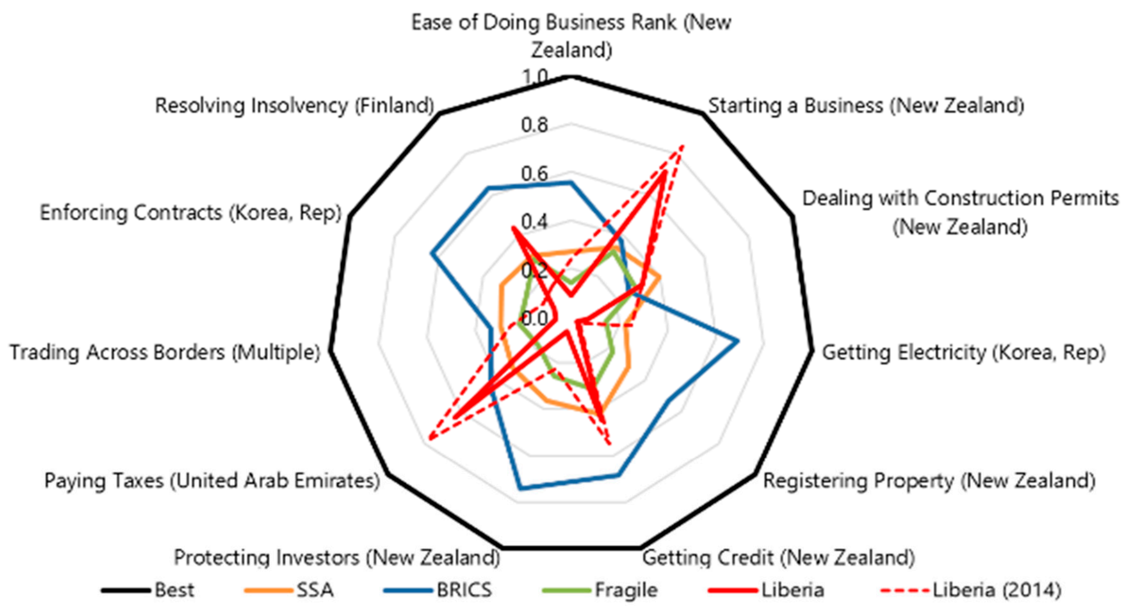
this metric does not fully take into account the need to preserve the financial stability of the highly dollarized banking sector (¶18).

Competitiveness

8. Liberia's competitiveness has deteriorated. Competitiveness, as measured by the World Bank's Doing Business Indicators, has deteriorated since 2014, and Liberia is currently ranked 172 out of 190 countries. While resolving solvency has improved between 2014 and 2017, other indicators suggest that Liberia suffered a decline in competitiveness (particularly in starting a business, enforcing contracts, and getting electricity).

Figure 8. Selected Economies: Doing Business Indicators, 2017*

(Normalized ranking, 1 = Best, 0 = Worst. In parenthesis, best country for indicator)



Sources: World Bank, Liberian authorities, IMF estimates.
* These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

Overall Assessment and Policy Implications

9. Staff drew from a broad range of perspectives to assess Liberia's external sector. These include analysis of CA balances, real exchange rates, foreign exchange intervention, capital flow measures, and reserve adequacy.

10. The above analysis suggests that Liberia's external position is substantially weaker than implied by fundamentals and desirable policy settings. Specifically, the current account deficit should be reduced by about 6.5–7.5 percent of GDP, and this could be accomplished through a further real depreciation of around 23–32 percent. Foreign reserves are just at an adequate level. The analysis also suggests that structural factors are inhibiting competitiveness.

11. The authorities should aim to narrow the current account deficit over the medium term by letting the REER depreciate, while accumulating foreign reserves and diversifying the exports sector to build resilience against external shocks. Retaining flexibility in the exchange rate is particularly important, as aid flows and net remittance inflows are trending down, the UNMIL withdrawal is now completed, and export commodity prices are only slowly recovering. Fiscal consolidation would also support external adjustment, including by helping to contain the inflationary effects of exchange rate depreciation.

12. Achieving meaningful private sector led growth will necessitate further structural reforms and policy measures to remediate the competitiveness deficit. Low hanging fruit could include improvements in electricity distribution networks to more fully utilize the generating capacity of the newly renovated Mount Coffee hydro project. Over the medium and longer terms, measures to reduce corruption, improve governance, and formalize land access in the legal system, as well as infrastructure investment to improve transportation linkages, especially sealed roads, will be crucial. Following up with WTO-related structural reforms is also important. Liberia should also invest in education to improve the skill base of workers over time and encourage knowledge spillovers from exporting and other sectors.

Appendix I. Ex-Post Peer Reviewed Assessments of Members with Longer-Term Program Engagement

CONTEXT

1. **Liberia was a post-conflict country with unsustainable debt when its long-term program engagement (LTPE) with the Fund began in 2006**. Liberia witnessed two civil wars between 1989 and 2003 with an estimated death toll of 200,000. By the end of the conflict, the country was facing daunting reconstruction challenges: its physical infrastructure was largely destroyed; its human capital was eroded after many years of intermittent conflict; public institutions were largely dysfunctional; and corruption was endemic. When former President Ellen Johnson-Sirleaf took office in January 2006, she expressed a strong desire to work with the international community to rebuild Liberia's shattered economy. The new government (i) endorsed the Governance and Economic Management Assistance Program (GEMAP) to improve governance and build capacity; (ii) established the Liberia Reconstruction and Development Committee to manage post-conflict recovery; and (iii) requested IMF assistance in formulating and monitoring policies to stabilize the economy and support economic reconstruction. This request led to two consecutive staff-monitored programs (SMPs) between February 2006 and March 2008.[1]

2. **Liberia made significant progress with its economic reforms during 2006–07 which led to the approval of a three-year Fund-supported program in 2008 and debt relief in 2010**. In March 2008, after a major fund-raising effort, Liberia's long-standing arrears to the Fund were cleared, voting rights were restored, and large Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF) arrangements were approved.[2] At the same time, Liberia reached the decision point under the Heavily Indebted Poor Countries (HIPC) Initiative.[3] Liberia received substantial interim assistance from the IMF to keep comply with debt service payments, keeping them at manageable levels, until its completion point in June 2010.

3. **Liberia requested a follow-up three-year Fund-supported program in 2012 which was extended and concluded in November 2017**. In November 2012, a three-year Extended Credit Facility (ECF) arrangement was approved.[4] In addition, at the onset of the Ebola epidemic in 2014, significant resources were mobilized—these included two ECF augmentations, a disbursement under the Rapid Credit Facility (RCF), and a debt relief under the Catastrophe Containment and

[1] IMF Country Report 06/166 and IMF Country Report 07/49.

[2] IMF Country Report 08/108.

[3] IMF Country Report 08/106. The successful implementation of SMP was a critical input in resolving Liberia's unsustainable debt—external debt was $4.7 billion in nominal terms, six times GDP at the time, and mostly in arrears.

[4] IMF Country Report 12/340.

Relief Trust (CCRT). IMF financial assistance to Liberia through Fund-supported programs and one-off assistance since the peace agreement in 2003 totaled SDR 718 million, about US$1.1 billion.

4. Liberia has been one of the largest recipients of technical assistance. Technical assistance is above 5 full-time equivalents (FTE) a year. However, the alignment of capacity development (CD) with surveillance and program recommendations has not been perfect.

Figure 1. Liberia: Financial Assistance, 2003–17

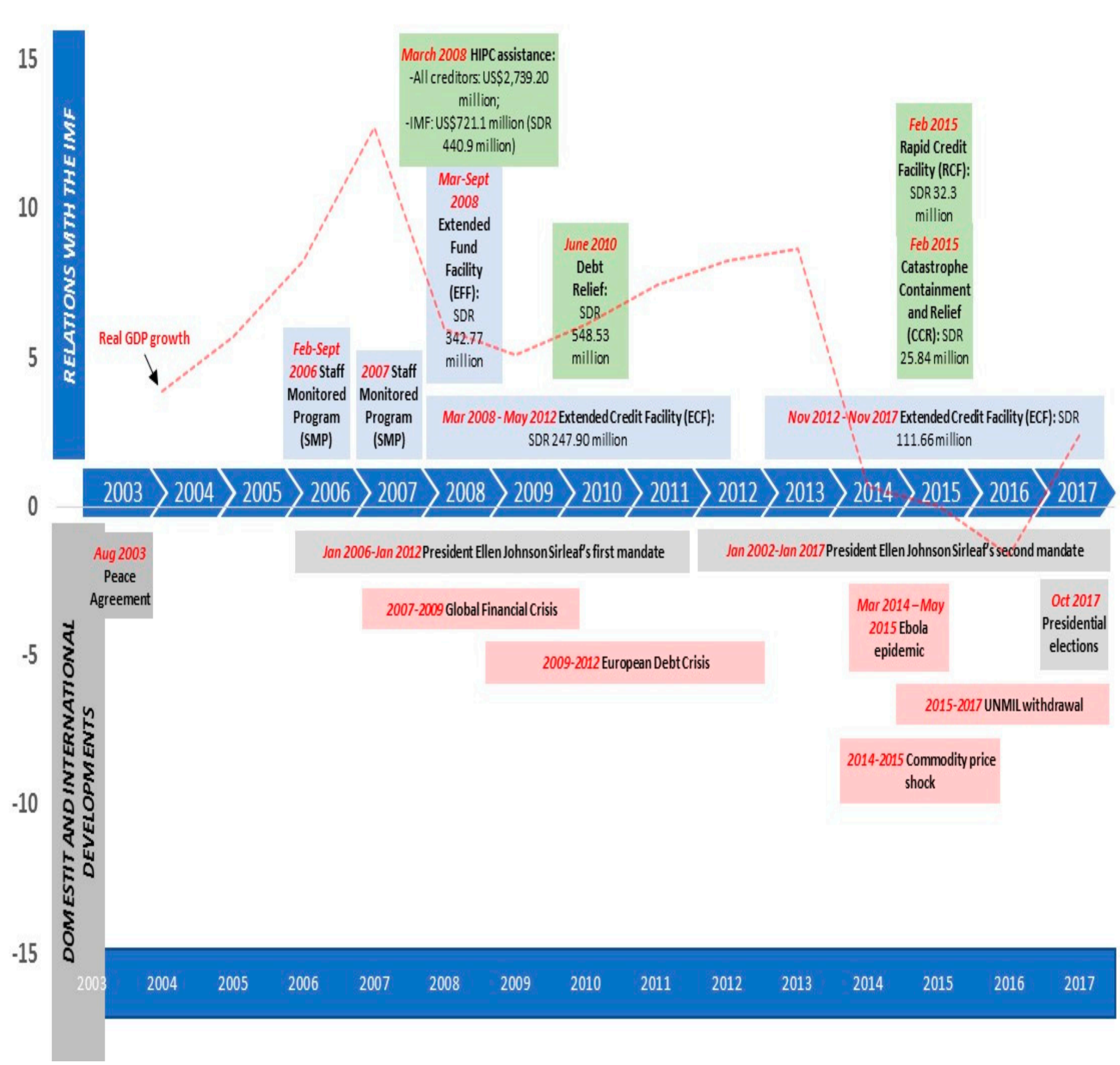
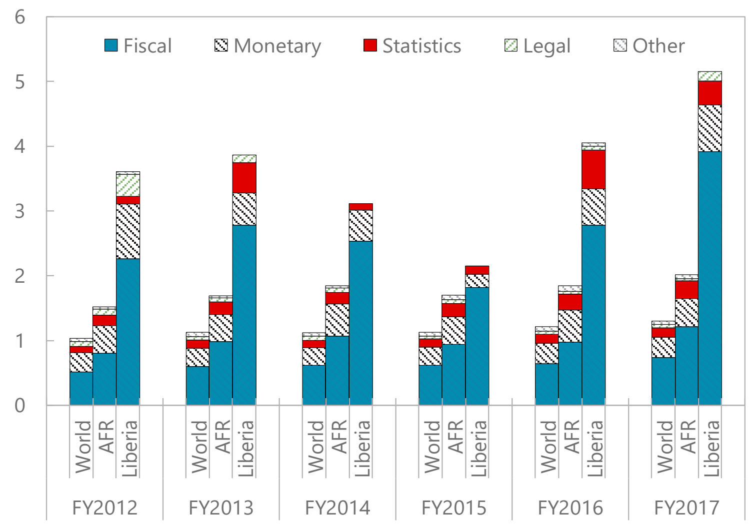


Figure 2. Liberia: Technical Assistance, 2012–17
(Full-time equivalent)



Source: IMF CD Portal.

PROGRAM OBJECTIVES

Program objectives changed overtime from rebuilding institutions in the two SMPs, sustaining economic reconstruction in ECF1, to jump-starting a growth path in ECF2.

5. **Goals of the initial SMPs reflected Liberia's post-conflict conditions and daunting reconstruction challenges**. Objectives of the SMPs (2006–07) were aligned with those of GEMAP, and aimed to (i) strengthen economic governance and financial management; and (ii) rebuild key economic institutions. Staff recommended focusing on: (i) reestablishing an effective implementation of the public expenditure management framework; (ii) raising the level of fiscal revenues; (iii) strengthening the Central Bank of Liberia (CBL)'s financial position;[5] and (iv) addressing governance issues—in particular, meeting requirements for the lifting of United Nations (UN) sanctions on diamond and timber exports.[6]

6. **Objectives of the first ECF (2008–12), ECF1 hereafter, were aligned with the 2008–11 Poverty Reduction Strategy (PRS1)**. The main objective of ECF1 was to sustain economic reconstruction by creating a stable macroeconomic environment to underpin rapid economic growth, job creation, poverty reduction, and progress toward achieving the Millennium Development Goals (MDGs).

[5] The government's failure to service its U.S. dollar-denominated debts to the CBL led to the budget cash deficit.

[6] UN sanctions were imposed in 2003, as revenue from the illicit trade in those goods was recognized to have played a major role in fueling West African conflicts.

7. Objectives of the second ECF (2012–17), ECF2 hereafter, were aligned with the 2012–15 Poverty Reduction Strategy (PRS2) and the *Agenda for Transformation* (AfT), which was a five-year development plan (2012–17) that underpinned *Vision 2030*, a vision of achieving middle-income status by 2030. The program focused on three key pillars: (i) creating fiscal space for higher capital spending by containing personnel costs and other current transfers; (ii) strengthening the financial sector by reducing vulnerabilities and improving access to credit; and (iii) buttressing growth with structural reforms to improve public financial management, governance, and the business environment.

PROGRAM PERFORMANCE

Program performance was strong in the SMPs and ECF1, but substantially weaker in ECF2, as the focus on the original program objectives became diluted by major corruption cases.

SMP (2006–07)

8. The staff consider that implementation of the SMPs through December 2007 was broadly satisfactory and met the standard of upper credit tranche conditionality, with the exception of the continued accrual of external payments arrears (IMF Country Report 08/108). Most of the quantitative benchmarks were achieved. Improved tax and customs administration and enforcement of the tax code allowed the government to continue exceeding revenue targets by wide margins; while rigorous implementation of the commitment control system ended the past practice of financing expenditures through domestic arrears.

9. Most of the SMPs structural benchmarks were achieved, though some with a delay. Progress was made in reinforcing commercial banks, improving CBL accounting and audit procedures, drafting legislation to establish an independent anticorruption commission, merging the Bureau of Budget into the Ministry of Finance, limiting budget transfers without legislative approval, revising the investment code, and tightening the administrative procedures law.

ECF1 (2008–12)

10. Performance under ECF1 (2008–12) was strong, supported by the authorities' commitment to reach the HIPC completion point and by rising commodity prices.[7] With sound policies, real GDP growth averaged 6.7 percent during 2008–12, while inflation was contained at or near single digits. All quantitative targets were met after the third review (Table 1). Based on this performance, on June 29, 2010, Liberia reached the HIPC Completion Point and received US$4.6 billion in debt relief. The quantitative performance criteria (QPC) on the fiscal balance was canceled after the HIPC debt relief.

[7] IMF Country Report 12/340 (in particular, Box 2) and IMF Country Report 12/121.

Table 1. Liberia: Quantitative Performance Criteria, 2008–17

	R0	R1	R2	R3	R4	R5	R6	R7	R8	R0	R1	R2	R3		R4			R5&R6		R7&R8	
Board Date	Mar-08	Dec-08	May-09	Dec-09	Jun-10	Dec-10	Jun-11	Dec-11	May-12	Nov-12	Jul-13	Dec-13	Jul-14		Dec-15			Dec-16		Nov-17	
Test Date	Jun-08	Dec-08	Jun-09	Dec-09	Jun-10	Dec-10	Jun-11	Dec-11		Dec-12	Jun-13	Dec-13	Jun-14	Dec-14	Jun-15	Dec-15	Jun-16	Dec-16	Jun-17		Grand Total
ECF1 (2008-12)																					
BOP/Reserve Test	M	M	M	M	M	M	M	M													8
Ceiling on External Arrears	M	M	M	M	M	M	M	M													8
Credit to Government/public sector	M	M	M	M	M	M	M	M													8
Domestic Arrears	M	W	M	M	M	M	M	M													7
Fiscal balance	M	M	M	M	M	CAN															5
Medium /Long Term External Debt	M	M	M	M	M	M	M	M													8
Total domestic credit	M	M	W	M	M	M	M	M													7
ECF2 (2012-17)																					
BOP/Reserve Test										M	W	M	W	W		W	W	M	W		3
Ceiling on External Arrears										M	M	M	M	M		M	M	M	M		9
Credit to Government/public sector										M	M	M	M	W		M	M	M	M		8
Fiscal balance										M	W	W	W	W		W	W	W	W		1
Medium /Long Term External Debt										M	M	M	M	M							5
Concessional Loans										M	M	M	M	M							5
Total domestic credit										W	W	M	M	W		M	W	M	W		4
Grand Total																					
Number of QPC	7	6	6	7	7	6	6	6		6	4	6	5	3		3	2	4	2		86
QPC met	7	7	7	7	7	6	6	6		7	7	7	7	7		5	5	5	5		108

Sources: Monitoring of Fund Arrangements (MONA); and IMF staff calculations.

Note: M = met; W = waived; and CAN = canceled.

11. **Most of the ECF1 structural benchmarks were also achieved, though some with delay** (Figure 3, Table 2). About 70 percent of 44 structural benchmarks in total were met over the course a little over four years (about 3.6 structural benchmarks per semi-annual review). Prudent fiscal policy and strengthened public financial management contributed to a near doubling of government revenue which, along with a resumption of direct budget support, facilitated the initiation of significant infrastructure development projects without the accumulation of expenditure arrears. Meanwhile, monetary policy focused on accumulating reserves, which sizably outperformed expectations during the program. Financial policies focused on strengthening the banking system and promoting intermediation.

ECF2 (2012–17)

12. **The track record for achieving QPCs for ECF2 was poor, starting with the second review and further deteriorating after the Ebola epidemic hit the country**. In particular, the QPC on the fiscal balance (floor on revenue) was only met once—in the first review—mostly due to overly optimistic revenue forecasts and the disconnect between revenue/expenditure outturns and budget preparation. The underperformance of revenue typically led to central bank credit to the government, or drawdowns on gross/net international reserves below the floor set as a QPC. A sharp decline in economic activities, and thus revenue receipts, also contributed to underperformance after the onset of the Ebola epidemic and the commodity price collapse in

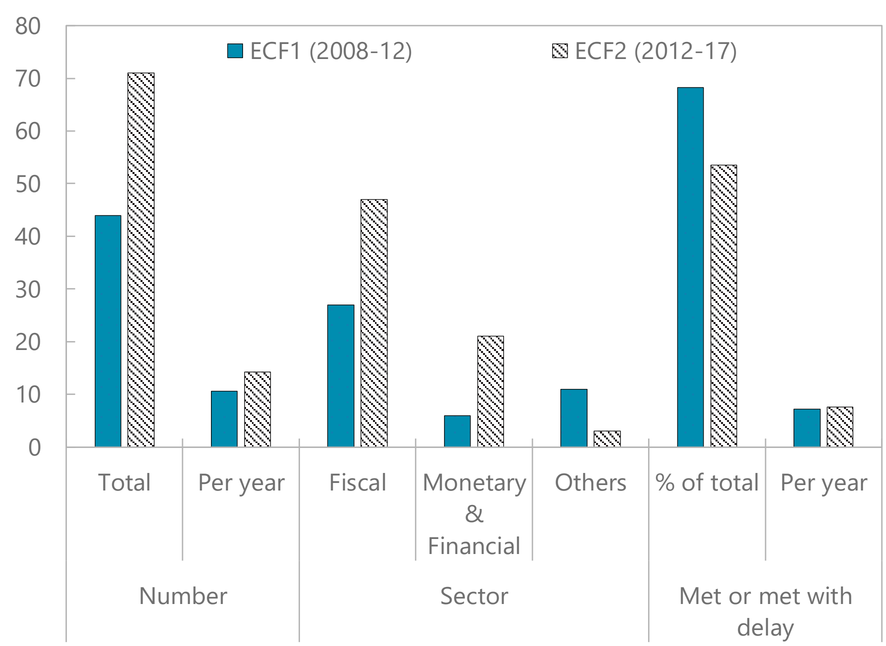
2014–15. Finally, when reviews were combined, missing targets of the earlier review became inevitable in a rapidly changing macroeconomic environment.

13. The structural benchmarks for ECF2 increased in number and scope relative to those of ECF1, despite the Ebola epidemic, while the number actually met remained unchanged. There were 71 structural benchmarks and prior actions in ECF2 during the course of five years (as opposed to 44 for ECF1). Only slightly above 50 percent of structural benchmarks were met or met with delay. There were twelve prior actions for ECF2, as opposed to only one for ECF1. However, if the performance of structural benchmarks were to be measured in terms of the number of structural benchmarks met per year, ECF2's performance was slightly better than ECF1's, indicating that the number of structural benchmarks might have been more than could be achieved given the authorities' absorptive and implementation capacity (see more below).

14. The number of structural benchmarks in other areas, particularly in statistics, declined sharply, partly to compensate for the increase described above.

Figure 3. Liberia: Structural Benchmarks, 2008–17

(Unit, otherwise indicated)



Sources: MONA; and IMF staff calculations.

Table 2. Liberia: Structural Benchmarks and Prior Actions, 2008–17

Review	R0				R1			R2					R3					R4		
Test Date	3/14/2008	3/31/2008	6/30/2008	9/30/2008	12/22/2008	12/31/2008	3/31/2009	5/6/2009	6/30/2009	7/31/2009	9/30/2009	10/31/2009	12/18/2009	12/31/2009	2/28/2010	3/31/2010	4/30/2010	6/23/2010	6/30/2010	9/30/2010
1. General government																				
Set up the Treasury Single Account approach at Ministry of Finance.																				
1.1. Revenue measures, excluding trade policy																				
Restart tax audits of large taxpayers																M				
Publication of the revised Liberian Revenue Code 2011.																				
Submit to the Legislature the draft petroleum sector law and the amendments to the revenue code.																				
1.2. Revenue administration, including customs																				
Implement ASYCUDA in Monrovia Free Port.															M					
Remove the import permit declaration requirement for imports covered by ASYCUDA. (A positive list containing a limited number of goods that are subject to price controls or affect national security will require clearance by the Ministry of Commerce.)																			MD	
Extend ASYCUDA system to the Monrovia oil terminal and international airport.																				
Create a small mining tax assessment team in the Large Taxpayer Unit with technical assistance if needed.																				
Create the Resource Revenue Unit in the Large Tax Payers Unit in the Ministry of Finance.																				
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.																				
1.3. Expenditure measures, including arrears clearance																				
Introduce the Civil Service Management (CSM) module within IFMIS and the Human Resource Management Information System (HRMIS) submodule within the CSM.																				
Activate the Civil Service Management (CSM) module within IFMIS and the Human Resource Management Information System (HRMIS) sub-module within the CSM.																				
Complete clean-up of payrolls of 7 remaining Ministries and Agencies (M&As) and upload payrolls of all M&As to IFMIS																				
Complete clean-up of payrolls of 5 Ministries and Agencies (M&As) and upload the cleaned payrolls to IFMIS.																				
Allocate budgetary resources only for contracts that have been validated by the audits.																				
Public Investment Unit (PIU) to compile and develop a database to cover all domestically-financed investment projects. The database must include total project cost, actual expenditure, future commitments cost overruns, implementation delay, and arrears.																				
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.																				

Review	R5				R6		R7			R8	R0			R1		R2				R3
Test Date	12/8/2010	12/31/2010	1/31/2011	2/28/2011	6/27/2011	9/15/2011	12/5/2011	1/31/2012	3/15/2012	5/9/2012	11/19/2012	5/15/2013	6/30/2013	7/3/2013	11/15/2013	12/11/2013	12/31/2013	3/31/2014	6/30/2014	7/3/2014
1. General government																				
Set up the Treasury Single Account approach at Ministry of Finance.												NM								
1.1. Revenue measures, excluding trade policy																				
Restart tax audits of large taxpayers																				
Publication of the revised Liberian Revenue Code 2011.							M													
Submit to the Legislature the draft petroleum sector law and the amendments to the revenue code.																	M			
1.2. Revenue administration, including customs																				
Implement ASYCUDA in Monrovia Free Port.																				
Remove the import permit declaration requirement for imports covered by ASYCUDA. (A positive list containing a limited number of goods that are subject to price controls or affect national security will require clearance by the Ministry of Commerce.)																				
Extend ASYCUDA system to the Monrovia oil terminal and international airport.		NM				M														
Create a small mining tax assessment team in the Large Taxpayer Unit with technical assistance if needed.									NM											
Create the Resource Revenue Unit in the Large Tax Payers Unit in the Ministry of Finance.															M					
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.																				
1.3. Expenditure measures, including arrears clearance																				
Introduce the Civil Service Management (CSM) module within IFMIS and the Human Resource Management Information System (HRMIS) submodule within the CSM.															MOD					
Activate the Civil Service Management (CSM) module within IFMIS and the Human Resource Management Information System (HRMIS) sub-module within the CSM.															MD					
Complete clean-up of payrolls of 7 remaining Ministries and Agencies (M&As) and upload payrolls of all M&As to IFMIS															MOD					
Complete clean-up of payrolls of 5 Ministries and Agencies (M&As) and upload the cleaned payrolls to IFMIS.																	M(	M		
Allocate budgetary resources only for contracts that have been validated by the audits.																				M
Public Investment Unit (PIU) to compile and develop a database to cover all domestically-financed investment projects. The database must include total project cost, actual expenditure, future commitments cost overruns, implementation delay, and arrears.																				
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.																				

Review		R4								R5&R6								R7&R8
Test Date	12/31/2014	12/21/2015	12/31/2015	12/31/2015	3/31/2016	5/31/2016	6/30/2016	9/30/2016	10/31/2016	12/16/2016	12/31/2016	2/28/2017	3/31/2017	4/30/2017	5/31/2017	6/30/2017	9/30/2017	11/13/2017
1. General government																		
Set up the Treasury Single Account approach at Ministry of Finance.																		
1.1. Revenue measures, excluding trade policy																		
Restart tax audits of large taxpayers																		
Publication of the revised Liberian Revenue Code 2011.																		
Submit to the Legislature the draft petroleum sector law and the amendments to the revenue code.																		
1.2. Revenue administration, including customs																		
Implement ASYCUDA in Monrovia Free Port.																		
Remove the import permit declaration requirement for imports covered by ASYCUDA. (A positive list containing a limited number of goods that are subject to price controls or affect national security will require clearance by the Ministry of Commerce.)																		
Extend ASYCUDA system to the Monrovia oil terminal and international airport.																		
Create a small mining tax assessment team in the Large Taxpayer Unit with technical assistance if needed.																		
Create the Resource Revenue Unit in the Large Tax Payers Unit in the Ministry of Finance.																		
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.												NM						
1.3. Expenditure measures, including arrears clearance																		
Introduce the Civil Service Management (CSM) module within IFMIS and the Human Resource Management Information System (HRMIS) submodule within the CSM.																		
Activate the Civil Service Management (CSM) module within IFMIS and the Human Resource Management Information System (HRMIS) sub-module within the CSM.																		
Complete clean-up of payrolls of 7 remaining Ministries and Agencies (M&As) and upload payrolls of all M&As to IFMIS																		
Complete clean-up of payrolls of 5 Ministries and Agencies (M&As) and upload the cleaned payrolls to IFMIS.																		
Allocate budgetary resources only for contracts that have been validated by the audits.																		
Public Investment Unit (PIU) to compile and develop a database to cover all domestically-financed investment projects. The database must include total project cost, actual expenditure, future commitments cost overruns, implementation delay, and arrears.										NM								
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.																NM		

Source: MONA.

Table 2. Liberia: Structural Benchmarks and Prior Actions, 2008–17 (continued)

Review	R0				R1			R2					R3					R4			R5				R6		R7			R8	R0			R1		R2				R3		R4								R5&R6								R7&R8
Test Date	3/14/2008	3/31/2008	6/30/2008	9/30/2008	12/22/2008	12/31/2008	3/31/2009	5/6/2009	6/30/2009	7/31/2009	9/30/2009	10/31/2009	12/18/2009	12/31/2009	2/28/2010	3/31/2010	4/30/2010	6/23/2010	6/30/2010	9/30/2010	12/8/2010	12/31/2010	1/31/2011	2/28/2011	6/27/2011	9/15/2011	12/5/2011	1/31/2012	3/15/2012	5/9/2012	11/19/2012	5/15/2013	6/30/2013	7/3/2013	11/15/2013	12/11/2013	12/31/2013	3/31/2014	6/30/2014	7/3/2014	12/31/2014	12/21/2015	12/31/2015	12/31/2015	3/31/2016	5/31/2016	6/30/2016	9/30/2016	10/31/2016	12/16/2016	12/31/2016	2/28/2017	3/31/2017	4/30/2017	5/31/2017	6/30/2017	9/30/2017	11/13/2017
1.5. Debt Management																																																										
Finalize debt management system, endorsed by the cabinet.			M																																																							
Debt management system software installed to support data storage, analysis, reporting and interface between the CBL and the Ministry of Finance.														MD																																												
Regular quarterly reporting of state owned enterprise financial operations to Ministry of Finance.																							NM			?																																
Reporting by 8 largest State Owned Enterprises (SOEs) on their financial performance to the SOE unit at Ministry of Finance for the quarter January March 2013.																																			M																							
Complete forward looking medium term debt strategy consistent with fully costed PRS2.																																					M																					
1.6. Expenditure auditing, accounting, and financial controls																																																										
Adopt legislation to limit transfers between budget lines without legislative approval to a cumulative of no more than 30 percent.		M																																																								
Prepare a chart of accounts consistent with GFSM 2001-compatible budgetary classifications.		M																																																								
Develop an internal audit strategy for the central government.			M																																																							
Submit draft public finance management (PFM) law to legislature.						M																																																				
External audit of the central government's accounts for FY 2007/08 completed by the General Auditing Commission and submitted to the legislature.							M																																																			
Adopt accounting standards for the government and a comprehensive chart of accounts.									PM							M																																										
Regulations for the new comprehensive Public Financial Management Act issued by the Minister of Finance.									MD																																																	
Regulations for the new comprehensive Public Financial Management Act by the Ministry of Finance.									CAN																																																		
Regulations and guidelines under the Public Procurement and Concessions Act by Cabinet.										MD																																																
Issue two successive quarterly implementation reports of the Public Financial Management law circulated to legislature, cabinet, General Auditing Commission and development partners.																	MD																																									
Compile a comprehensive computerized asset registry by the General Services Agency of all ministries and agencies.																			MD																																									
Direct salary payments to banks for all Monrovia-based civil servants.																			M																																									
Launch of pilot phase of the Integrated Financial Management Information System (IFMIS) linking Ministry of Finance, Civil Service Agency, Central Bank and GAC.																										DL		PM																																
Establish Project Management Office (PMO) at Ministry of Finance																																M																										
Fully connect the General Auditing Commission (GAC) to the Integrated Financial Management Information System (IFMIS) giving GAC full access to IFMIS.																																M																										
Set up the state owned enterprises (SOE) Unit at Ministry of Finance.																																M																										

Source: MONA.

Table 2. Liberia: Structural Benchmarks and Prior Actions, 2008–17 (continued)

Review	R0				R1			R2					R3					R4			R5			R6		R7			R8	R0
Test Date	3/14/2008	3/31/2008	6/30/2008	9/30/2008	12/22/2008	12/31/2008	3/31/2009	5/6/2009	6/30/2009	7/31/2009	9/30/2009	10/31/2009	12/18/2009	12/31/2009	2/28/2010	3/31/2010	4/30/2010	6/23/2010	6/30/2010	9/30/2010	12/8/2010	12/31/2010	1/31/2011	2/28/2011	6/27/2011	9/15/2011	12/5/2011	1/31/2012	3/15/2012	5/9/2012	11/19/2012
Implement monthly sweeping of balances in operational accounts of eight M&As held at the CBL into the treasury’s operational account.																															
Ministries and Agencies submit to the Department of Budget and the Project Management Office of the MoF by end-June 2013 their cash and procurement plans for investment projects included in the FY2013/14 budget.																															
Approve a risk management strategy indentifying US$30 million in savings in the FY 2014 budget, in consultation with the requisite Legislative committees.																															
Immediately distribute to ministries and agencies the budget allotment schedule upon budget approval, particularly those M&As that have submitted their cash and procurement plans.																															
Ministries and Agencies (M&As) submit to the Department of Budget and the Project Management Office of the MoF by end-June 2013 their cash and procurement plans for investment projects included in the FY2013/14 budget.																															
Commence daily sweeping of balances in operational accounts of all M&As held at the CBL into the treasury’s operational account.																															
General Auditing Commission (GAC) to complete audit of the FY 2011/12 budget using the Integrated Financial Management Information System (IFMIS).																															
Complete pilot phase for the migration of credit-financed projects to the Government’s Integrated Financial System (IFMIS).																															
Launch pilot phase of the TSA with zero-balance accounts for seven largest ministries.																															
Ministries and Agencies submit to the Department of Budget the cash and procurement plans for both recurrent and PSIP expenditure starting in FY2015.																															
Initiate a full financial audit of the extra-budgetary commitments for road projects at the Ministry of Public Works and a review of contracting practices in other key Ministries, including the Ministries of: Education; Health; Agriculture; Land, Mines and Energy; and Commerce.																															
Complete the pilot phase of the TSA with zero-balance accounts at the Central Bank of Liberia for all ministries and agencies.																															
PMO to compile and develop a database of all ongoing domestically and external credit-financed investment projects.																															
Submit to main stakeholders a public action plan for the GAC’s recommendations on issues identified in the GAC road project audit reports published in June 2015.																															
Extend IFMIS coverage to 15 externally financed projects.																															
Launch a quarterly regular donor meeting to collect necessary information to monitor externally-financed projects.																															

Review			R1		R2				R3		R4								R5&R6								R7&R8	
Test Date	5/15/2013	6/30/2013	7/3/2013	11/15/2013	12/11/2013	12/31/2013	3/31/2014	6/30/2014	7/3/2014	12/31/2014	12/21/2015	12/31/2015	12/31/2015	3/31/2016	5/31/2016	6/30/2016	9/30/2016	10/31/2016	12/16/2016	12/31/2016	2/28/2017	3/31/2017	4/30/2017	5/31/2017	6/30/2017	9/30/2017	11/13/2017	
Implement monthly sweeping of balances in operational accounts of eight M&As held at the CBL into the treasury’s operational account.		MD																										
Ministries and Agencies submit to the Department of Budget and the Project Management Office of the MoF by end-June 2013 their cash and procurement plans for investment projects included in the FY2013/14 budget.		MOD																										
Approve a risk management strategy indentifying US$30 million in savings in the FY 2014 budget, in consultation with the requisite Legislative committees.					M																							
Immediately distribute to ministries and agencies the budget allotment schedule upon budget approval, particularly those M&As that have submitted their cash and procurement plans.					M																							
Ministries and Agencies (M&As) submit to the Department of Budget and the Project Management Office of the MoF by end-June 2013 their cash and procurement plans for investment projects included in the FY2013/14 budget.					M																							
Commence daily sweeping of balances in operational accounts of all M&As held at the CBL into the treasury’s operational account.						MD																						
General Auditing Commission (GAC) to complete audit of the FY 2011/12 budget using the Integrated Financial Management Information System (IFMIS).						MD																						
Complete pilot phase for the migration of credit-financed projects to the Government’s Integrated Financial System (IFMIS).								M																				
Launch pilot phase of the TSA with zero-balance accounts for seven largest ministries.								NM																				
Ministries and Agencies submit to the Department of Budget the cash and procurement plans for both recurrent and PSIP expenditure starting in FY2015.								MOD								?												
Initiate a full financial audit of the extra-budgetary commitments for road projects at the Ministry of Public Works and a review of contracting practices in other key Ministries, including the Ministries of: Education; Health; Agriculture; Land, Mines and Energy; and Commerce.									M																			
Complete the pilot phase of the TSA with zero-balance accounts at the Central Bank of Liberia for all ministries and agencies.										NM																		
PMO to compile and develop a database of all ongoing domestically and external credit-financed investment projects.										NM																		
Submit to main stakeholders a public action plan for the GAC’s recommendations on issues identified in the GAC road project audit reports published in June 2015.											M																	
Extend IFMIS coverage to 15 externally financed projects.												M																
Launch a quarterly regular donor meeting to collect necessary information to monitor externally-financed projects.													NM															

Source: MONA.

Table 2. Liberia: Structural Benchmarks and Prior Actions, 2008–17 (continued)

Review	R0				R1			R2					R3					R4			R5				R6		R7			R8	R0			R1		R2				R3		R4								R5&R6								R7&R8
Test Date	3/14/2008	3/31/2008	6/30/2008	9/30/2008	12/22/2008	12/31/2008	3/31/2009	5/6/2009	6/30/2009	7/31/2009	9/30/2009	10/31/2009	12/18/2009	12/31/2009	2/28/2010	3/31/2010	4/30/2010	6/23/2010	6/30/2010	9/30/2010	12/8/2010	12/31/2010	1/31/2011	2/28/2011	6/27/2011	9/15/2011	12/5/2011	1/31/2012	3/15/2012	5/9/2012	11/19/2012	5/15/2013	6/30/2013	7/3/2013	11/15/2013	12/11/2013	12/31/2013	3/31/2014	6/30/2014	7/3/2014	12/31/2014	12/21/2015	12/31/2015	12/31/2015	3/31/2016	5/31/2016	6/30/2016	9/30/2016	10/31/2016	12/16/2016	12/31/2016	2/28/2017	3/31/2017	4/30/2017	5/31/2017	6/30/2017	9/30/2017	11/13/2017
Public Investment Unit (PIU) to compile and develop a database to cover all domestically-financed investment projects. The database must include project cost, actual expenditure, future commitments cost overruns, implementation delay, and arrears.																																													M													
Submit economic and financial analyses of all Public Sector Investment Plan (PSIP) projects to the Minister of Finance and Development Planning before approved by the Department of Budget for the FY2017 budget.																																													M													
Expand the existing database of externally financed projects to cover cost overrun, project implantation delay, and payment arrears.																																														MOD					M							
All M&As to submit to the PPCC the spending and procurement plans for both recurrent and PSIP expenditure based on the draft FY2017 budget. Coverage of PSIP expenditure in submitted procurement plans to be at a minimum of 90 percent.																																															NM											
Extend IFMIS coverage to additional 10 large externally-financed projects.																																															M											
1.7. Fiscal transparency (publication, parliamentary oversight)																																																										
Publish the FY2016 budget calendar which will, inter alia, require that discussions of the strategic orientations of the budget between the Ministry of Finance and M&As take place before the end of December 2014.																																							N																			
Publish quarterly reports on the financial performance of State Owned Enterprises (SOEs) for FY2016Q1 and Q2.																																													NM													
Publish quarterly reports on the financial performance of SOEs for FY2016Q3 and Q4.																																																M										
Publish quarterly reports on the financial performance of State Owned Enterprises (SOEs) for FY2016/17Q1 and Q2.																																																					NM					
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.																																																									NM	
1.8. Budget preparation (e.g., submission or approval)																																																										
Develop a medium-term macrofiscal framework for the purpose of preparing the 2009/10 budget.						M																																																				
Submit FY 2013/14 draft budget to legislature for approval.																																		M																								
1.9. Inter-governmental relations																																																										
Hold regular (monthly) meetings of the Liquidity Management Committee, with high-level (department director or deputy governor at least) participation by the CBL.																																									NM																	
2. Central Bank																																																										
For Q1 2017, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.																																																								M			
2.1. Central bank operations and reforms																																																										
Issue government treasury bills.																																M																										

Source: MONA.

Table 2. Liberia: Structural Benchmarks and Prior Actions, 2008–17 (continued)

Review / Test Date	R0 3/14/2008	3/31/2008	6/30/2008	9/30/2008	R1 12/22/2008	12/31/2008	3/31/2009	R2 5/6/2009	6/30/2009	7/31/2009	9/30/2009	10/31/2009	R3 12/18/2009	12/31/2009	2/28/2010	3/31/2010	4/30/2010	R4 6/23/2010	6/30/2010	9/30/2010	R5 12/8/2010	12/31/2010	1/31/2011	2/28/2011	R6 6/27/2011	9/15/2011	R7 12/5/2011	1/31/2012	3/15/2012	R8 5/9/2012	R0 11/19/2012	5/15/2013	6/30/2013	R1 7/3/2013	11/15/2013	R2 12/11/2013	12/31/2013	3/31/2014	6/30/2014	R3 7/3/2014	12/31/2014	R4 12/21/2015	12/31/2015	12/31/2015	3/31/2016	5/31/2016	6/30/2016	9/30/2016	10/31/2016	R5&R6 12/16/2016	12/31/2016	2/28/2017	3/31/2017	4/30/2017	5/31/2017	6/30/2017	9/30/2017	R7&R8 11/13/2017
Technical working group composed of MoF and CBL staff to prepare a proposal as to timing and possible terms of conversion of part of Central Government debt held by the CBL.																																									NM																	
Develop a three-year financial plan for the CBL aimed at a gradual return to financial viability.																																										M																
Update investment guidelines by aligning them with best international practices, especially with respect to requirements for placement of international reserves.																																										M																
Develop a framework for Emergency Liquidity Assistance and crisis management.																																													NM													
Develop a framework for Emergency Liquidity Assistance and bank crisis management.																																																							M			
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.																																																										M
2.2. Central bank auditing, transparency, and financial controls																																																										
Finalize the study of the impact of the measures introduced in December 2014 by the CBL to soften the impact of the Ebola crisis.																																											NM															
Starting with Q1 2016, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.																																														NM												
For Q2 2016, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.																																																	M									
Set up an asset liability committee (ALCO) to oversee issues of risk management, balance sheet, and financial performance.																																																						M				
For Q2 2017, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.																																																									M	
3. Civil service and public employment reforms, and wages																																																										
Finalize a comprehensive civil service reform strategy, endorsed by the cabinet.			M																																																							
Adopt legislation to merge Bureau of the Budget into the Ministry of Finance.			W																																																							
Complete the merger of the Bureau of the Budget into the Ministry of Finance.						M																																																				
6. Financial sector																																																										
Treasury bill auction regulation adopted by the Board of Central Bank of Liberia and publicized.																			M																																							
Convert into T-bills 20 percent of non-marketable Central Government debt held by the CBL.																																									MOD																	
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.																																																							NM			

Source: MONA.

Table 2. Liberia: Structural Benchmarks and Prior Actions, 2008–17 (concluded)

Review	R0				R1			R2					R3					R4			R5				R6		R7			R8	R0			R1		R2				R3		R4								R5&R6								R7&R8
Test Date	3/14/2008	3/31/2008	6/30/2008	9/30/2008	12/22/2008	12/31/2008	3/31/2009	5/6/2009	6/30/2009	7/31/2009	9/30/2009	10/31/2009	12/18/2009	12/31/2009	2/28/2010	3/31/2010	4/30/2010	6/23/2010	6/30/2010	9/30/2010	12/8/2010	12/31/2010	1/31/2011	2/28/2011	6/27/2011	9/15/2011	12/5/2011	1/31/2012	3/15/2012	5/9/2012	11/19/2012	5/15/2013	6/30/2013	7/3/2013	11/15/2013	12/11/2013	12/31/2013	3/31/2014	6/30/2014	7/3/2014	12/31/2014	12/21/2015	12/31/2015	12/31/2015	3/31/2016	5/31/2016	6/30/2016	9/30/2016	10/31/2016	12/16/2016	12/31/2016	2/28/2017	3/31/2017	4/30/2017	5/31/2017	6/30/2017	9/30/2017	11/13/2017
6.1. Financial sector legal reforms, regulation, and supervision																																																										
Publish a list of banks licensed to operate in Liberia as part of the strategy for resolution of abandoned and nonoperating banks.		M																																																								
Establish system of off-site inspection by requiring quarterly submission of prescribed data by all banks, and submit the first written reports to the Banking Compliance Committee.			M																																																						
First half-yearly on-site inspection report completed for each commercial bank, and reports, including directives and follow-up actions, approved by the Compliance Committee.											M																																															
First half-yearly on-site inspection report completed for each commercial bank, and reports, including directives and follow-up actions, approved by the Compliance Committee.											CAN																																															
Development by the Central Bank of Liberia of a road map and interim regulations for capital market development.																													M																													
Establish a collateral registry at CBL																																			MOD		M																					
Submit to legislature a revised Insurance Act																																			MOD			M																				
Starting September 2016, modify the implementation of reserve requirements by allowing banks to meet the requirements, on average, over a maintenance period.																																																NM										
Submit an interim report of the forensic audit of First International Bank of Liberia Limited to be conducted by an internationally reputable international firm.																																																		M								
7. Exchange systems and restrictions (current and capital)																																																										
Revise foreign exchange auction procedures including guidelines on purchase auctions and direct foreign exchange sales adopted by the CBL Board and make public.							M																																																			
10. Economic statistics (excluding fiscal and central bank transparency and similar measures)																																																										
Develop a comprehensive national statistical development strategy.		MD																																																								
Full balance of payments statistics for 2008 completed and published by the CBL and Liberia Institute for Statistics and Geo-Information Services (LISGIS).												MD																																														
National Accounts establishment survey completed.														MD																																												
National Accounts establishment survey completed.														CAN																																												
Publication of validated national accounts data for 2008 by the Statistical agency LISGIS.																				MOD				NM																																		
Commence Household Income Expenditure Survey.																																			NM																							
Compile and Publish Results of Establishment Survey																																			NM																							
Compile national accounts for 2008–13 using the results of the Establishment Survey.																																							NM																			
11.4. Anti-corruption legislation/policy																																																										
Establish a functioning Liberia Anticorruption Commission, consistent with Liberia's anticorruption legislation.				W																																																						

Source: MONA.

PROGRAM DESIGN

The choice of Fund arrangement, access, and program conditionality at the outset of ECF2 was appropriate, but the number of conditions increased after major corruption cases, challenging implementation capacity.

Fund Arrangement, Access, and Phasing

15. The choice of Fund arrangements. Given the significant need for structural reforms to rebuild a post-conflict state with unsustainable debt, the choice of the three-year ECF was appropriate.

16. Access and phasing. The access under the two ECFs including augmentations was appropriate given the BOP gaps at the time of approval. To allow for higher access at the onset of the Ebola epidemic/commodity price decline, the RCF was utilized, and this was an appropriate use of this facility. To create fiscal space by reducing debt service burden, the use of CCRT was also appropriate. Moreover, two augmentations were made to ECF2: one was to fill the BoP need arising from the fiscal gap due to the ongoing commodity price decline and the withdrawal of UNMIL (the combined 5th and 6th reviews); and the other was to fill the BOP need created by the worsening of export performance, with an extension to help support macroeconomic stability and the economic program during the pre-election period (the combined 7th and 8th reviews).

17. Conditionality.

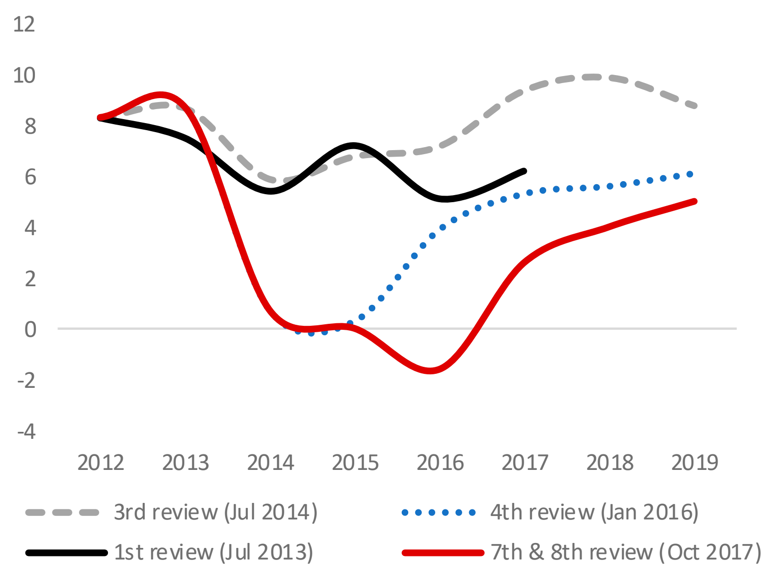
- The number of conditions—and structural benchmarks in particular—increased substantially from the beginning of ECF2, mostly in the area of auditing, accounting, and financial controls, following major corruption cases (e.g., Ministry of Public Works and First International Bank of Liberia Limited).
- Many of the structural benchmarks in ECF2 involving collaborations of institutions beyond the Ministry of Finance and Development Planning (e.g., structural benchmarks on the Treasury Single Account and the Integrated Financial Management System and state-owned enterprises) making implementation more difficult.
- In the event of unforeseen major macroeconomic shocks, the access to Fund resources was promptly modified (see above), but the extent of conditionality was not.

Key Assumptions, Risk Assessments, Contingency Planning

18. Macroeconomic projections were revised frequently. Growth rates decreased from 8.7 percent in 2013 to -1.6 percent in 2016. The post-Ebola recovery has been slow, with economic growth averaging 2 percent a year under the ECF2-supported program period (2012–17).

19. The lack of fiscal and external buffers contributed to Liberia missing multiple QPCs. Given the limited fiscal and external buffers, underperformance of revenue typically triggered central bank credit to the government, and/or drawdowns on gross/net international reserves below the floor set as a QPC. Unforeseen developments exacerbated these effects.

Figure 4. Liberia: Revisions to Growth Projections, 2013–17
(Percent)



LESSONS FOR PROGRAM DESIGN AND FUTURE ENGAGEMENT

This assessment highlights the importance of keeping the program on track, parsimonious and focused, while addressing major unforeseen events.

20. Program objectives should remain ambitious but parsimonious, with focused structual benchmarks and technical assistance supporting the objectives. Program objectives, as envisaged at approval, and objectives of subsequent structural benchmarks and technical assistance were not always aligned. This occured as the macroeconomic, social, and political environment changed and unanticipated corruption incidences were uncovered and addressed. This misalignment resulted in an increase in the number of conditionalities, prior actions, and disruptions associated with combined reviews, all of which challenged the implementation capacity of a fragile country with limited fiscal and external buffers.

21. Causes of repeated underformance of QPCs should be addressed a priori. For example, candid discussions of the causes of optimistic revenue forecast should take place before the next program engagement.

THE AUTHORITIES' RESPONSE TO THE STAFF'S ASSESSMENT

22. The authorities shared staff's view on the importance of ambitious, but focused program objectives. They noted the sharp contrast between performance in the two ECF-supported programs, and see the need to avoid repeating the experience of the second ECF arrangement. At the same time, they have an urgent need to pursue their development agenda at a time when sources of external financing are declining. Moreover, they note that mobilizing additional domestic resources will take time, despite efforts that have already begun (for example, by identifying and removing ghost workers and introducing civil servant biometric identification cards). In this context, they feel they need more flexibility in setting the self-imposed fiscal anchor of a debt ceiling in the near term, while continuing to pursue domestic resource mobilization efforts aggressively.

INTERNATIONAL MONETARY FUND

LIBERIA

May 24, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of April 19, 2018)

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	154.00	124.22

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	32.30	12.50
ECF Arrangements	125.86	48.71

Latest Financial Arrangements:

	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Nov. 19, 2012	Nov. 13, 2017	111.66	111.66
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				
	2018	2019	2020	2021	2022
Principal	2.10	10.46	20.04	22.97	26.28
Charges/Interest	0.00	0.00	0.00	0.00	0.06
Total	2.10	10.46	20.04	22.97	26.29

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

While key outstanding safeguards recommendations are included in the CBL's Action Plan and some progress in its implementation has been noted, the lack of a fully constituted Board presents a new risk. The action plan incorporates recommendations on the audit arrangements and legal amendments. An external audit of the CBL's foreign reserves for the six months, ending in December 2017, was conducted by an external audit firm without any major findings. However, the CBL is still working with staff on a suitable template to provide the required level of transparency for the monthly reports on foreign exchange holdings. The central bank established a task force to revise the CBL Act in line with staff's recommendations. The task force is reviewing the findings of a Fund TA mission and submission of amendments to Legislature is expected by end-June 2018. Stronger audit committee oversight is needed to address the findings of the external quality review of internal audit and to ensure implementation of the capacity development plan. Separately, the appointment of permanent non-executives to the Board to ensure a quorum should be expedited so that regular oversight on controls and operations can be resumed.

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 16, 2018 was L$130.4=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 transfers.

Article IV Consultation

The 2016 Article IV consultation was concluded on July 8, 2016. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Technical Assistance 2014–18

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, February, June, October, and December 2016, Long-term residential advisor has been deployed in the LRA since January 2016. February-April, July, November, and December 2017, January 2018, March-April 2018,
Public Financial Management Reform	January, February, November 2016, May-June, July-August, September, October, November, December 2017, April 2018
Natural Resource Revenue	January and March, and December 2016, February, and April 2017, April 2018
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, January 2018
Tax Policy	February 2017
Cash Management	September 2017, April 2018
Statistics Department	
Balance of Payments	July 2014 and January–February, June–July 2016, January, July 2017, Feb 2018
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, November 2017, December 2017, January 2018, February 2018, April 2018
Monetary and Capital Markets Department	
Central Bank Governance	November 2017
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, November-December 2017
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
AML/CFT framework	November 2017
Finance Department	
Safeguards and Fiscal Investment	September 2017
Legal Department	
AML/CFT framework	June 2017, March 2018
CBL Act	January 2018
Tax Law	October 2017

Resident Representative

A resident representative has been posted in Monrovia since April 2, 2006. Currently Mr. Oestreicher is in this role since August 1, 2017.

JOINT WORLD BANK-IMF WORK PROGRAM, 2012–18

(As of April 10, 2018)

Title	Products	Timing of mission	Expected delivery date	Status
A. Mutual information on relevant work programs				
1. WB work program	1. First Poverty Reduction Support Development Policy Operation (PRSDPO I)	May 2013	August 2013	Approved and disbursed
	2. Second Poverty Reduction Support Development Policy Operation (PRSDPO II)	October 2013	September 2014	Approved and disbursed
	3. Supplemental Financing to PRSDPO II	October 2015	February 2016	Approved and disbursed
	4. Third Poverty Reduction Support Development Policy Operation (PRSDPO III)	September 2016	November 2016	Approved and disbursed
	5. Public Expenditure and Financial Accountability	May 2016	July 2016	Completed
	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	January 2018	Approved and disbursed
	8. Household Income and Expenditure Survey-II	September 2017	November 2017	Completed
	9. Economic Growth and Diversification Study	June 2018	September 2019	On-going
	10. Systematic Country Diagnostic	September 2017	May 2018	Completed
	11. Country Partnership Framework, FY18-22	March 2018 May 2018	July 2018	Concept
	12. BOOST	May 2017	May 2018	TA- on-going
	13. Integrated Public Financial Management	June 2017	June 2017	Completed
	14. Financial Sector TA	September 2017	November 2019	TA- on-going
	15. Integrated Public Financial Management II	May 2018	June 2018	Under preparation

10.5	Products	Timing of mission	Expected delivery date	Status
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
	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	Completed
	11. Joint seventh and eighth review of the ECF program	September 2017	November 2017	Completed
	12. Article IV Consultation	March 2018	May 2018	On-going
3. WB/IMF Joint work program	1. Debt Sustainability Analysis	March 2018	June 2018	Draft
	2. AML/CFT TA	February 2018 April 2018	December 2019	On-going-WB NRA Tool training delivered in April 2018
	3. Medium-term debt management strategy	February 2017	June 2017	Completed
	4. National Establishment Census	September 2016	September 2018	Completed
B. Requests for work program inputs				
4. Fund request to Bank	1. Regular updates on the Liberia Reconstruction Trust Fund, disbursements of loans, including PRSDPO		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 April, 2018)

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) was 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$197 million equivalent from the IDA Crisis Response Window (CRW). In the wake of the Ebola crisis, the World Bank Group has undertaken a rapid review of its strategy and portfolio to ensure they remain aligned with the country's development needs. The augmented support aimed to contain the

[1] Prepared by the World Bank.

spread of Ebola infections, assist communities to cope with the economic impact of the crisis, and rebuild and strengthen essential public health systems and service delivery platforms in the region.

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 included the following: (i) the augmentation of the PRSDPO-II from US$10 million credit equivalent to US$20 million equivalent, including US$10 million equivalent of grants from the IDA CRW to help mitigate the ongoing effects of the Ebola epidemic;[2] (ii) the supplemental financing to PRSDPO-II amounting to US$5 million equivalent on grants from the Ebola Recovery and Reconstruction Trust Fund (ERRTF);[3] (iii) the augmentation of PRSDPO-III from US$10 million grant equivalent to US$39.1 million equivalent of grants, including US$8 million from the IDA CRW;[4] (iv) a supplemental financing to PRSDPO-III amounting to US$16.3 million equivalent, consisting of US$10.8 million of grants, including US$4.3 million in grants from Liberia Forest Landscape Single Donor Trust Fund,[5] and US$5.5 million equivalent of IDA credit;[6] and (v) the PRSDPO-IV amounting to US$24.67 million equivalent, consisting of US$20 million equivalent of IDA grants and US$4.67 million in grants from the Liberia Forest Landscape Single Donor Trust Fund.[7]

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 has been finalized and expected to be approved by the Board in June 2018. The SCD serves as the reference point for new Country Partnership Framework (CPF) for FY18–22, which is expected to be presented to the Bank Board in early FY19.

B. Active Projects

7. There are currently twenty-one active projects in Liberia, including four regional projects, with a total net commitment of approximately US$938.8 million equivalent, of which approximately US$426 million is undisbursed. These projects are financed by IDA and other trust funds, and in the majority of cases financed by both types of financing. Twelve new projects were approved in between FY2016 and FY2018 for a total net commitment of approximately US$162 million. These twelve projects are summarized below. Within this envelope and during the FY16–18 period, non-IDA trust-funded projects were approved in the areas of forestry, MSMEs rural

[2] Approved by the World Bank Board on November 12, 2014.

[3] Approved by the World Bank Board on February 19, 2016.

[4] Approved by the World Bank Board on November 21, 2016.

[5] The Single Donor for the Trust Fund is the Kingdom of Norway.

[6] Approved by the World Bank Board on June 26, 2017.

[7] Approved by the World Bank Board on January 24, 2018.

finance, health, and urban sanitation. As such for Liberia, non-IDA resources play a critical role in advancing the Liberia portfolio.

8. **The Liberia Youth Opportunities Project was approved in November 2015 for US$10 million**. The objective is to improve access to income generation opportunities for targeted youth, and strengthen the government's capacity to implement its cash transfer program. The project has four components including (1) a pre-employment social support and household enterprises for urban youth; (2) productive public works and life skills support; (3) capacity and systems building for cash transfers; and (4) project implementation and coordination. Through these components YOP will seek to cultivate youth skills needed for broad-based and inclusive growth in Liberia's priority sectors benefiting 15,000 youth.

9. **The Liberia Renewable Energy Access Project was approved in January 2016 and has a net commitment of 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-powered systems that could help provide access to modern energy services to more than 100,000 people.

10. **The Liberia Urban Water Supply Project was approved in March 2016 and has a net commitment of 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.

11. **The Liberia Social Safety Net Project was approved in April 2016 and has a net commitment of 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.

12. The Liberia Forest Sector Project was approved in April 2016 and has a net commitment of US$36.7 million. Its objective is improved management of, and increased benefit-sharing in, targeted forest landscapes. The Project pursues an integrated approach to the development of the forestry sector aligned to the "Three C's". The Project provides for (i) institutional capacity building of the Forestry Development Authority (FDA) and other key institutions involved in forest management; (ii) empowerment of communities in ownership and management of forests for income generation through both production and conservation; (iii) support to Liberia's aspiration to protect its forests; (iv) investments in forest and tree crops based production and enterprises for rural livelihoods; and (v) increasing the forest cover through reforestation of degraded lands.

13. The MSME and Rural Finance Post-Ebola Project was approved in May 2016 and has a net commitment of 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.

14. The Strengthening Liberia Health Systems Project was approved in June 2016 and has a net commitment of US$4.9 million. The objective is to improve maternal and neonatal health services through strengthening (1) the learning environment at the medical school; and (2) strengthen health facilities and community services in targeted health facilities. This project complements an earlier project approved in 2013 for US$31 million that focused on strengthening primary and secondary health services.

15. The West Africa Regional Fisheries Program-Additional Financing project for Liberia was approved in September 2016 and has a net commitment of US$1.0 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; (ii) support the Integration of the Mesurado-Robertsport Cluster, through the design and setting-up of 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.

16. Regional Disease Surveillance Systems Enhancement (REDISSE) Phase II project was approved in March 2017 and has a net commitment of 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.

17. The Cheesemanburg Landfill and Urban Sanitation Project was approved in June 2017 and has a net commitment of US$10.5 million. The objective is to sustain waste management activities in Monrovia through the construction of a new landfill, proper waste collection and disposal, and build the capacity of the agencies that operate within the waste sector.

18. The Liberia Land Administration Project was approved in September 2017 and has a net commitment of 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.

19. The Liberia Fourth Poverty Reduction Support Development Policy Project was approved in January 2018 and has a net commitment of US$24.7 million. This includes US$4.7 million from the Liberia Forest Landscape Single Donor Trust Fund. The objectives are to (i) strengthen governance with particular emphasis on transparency and accountability, as well as budget execution and oversight; (ii) address key constraints to growth, including electricity; and (iii) improve human capital development particularly through improved access to education and health.

C. Advisory Services and Analytics

20. 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.

21. **Financial Inclusion technical assistance project 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.

22. **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 2016 Household Income Expenditure Survey (HIES), was completed in February 2017. Since then, the survey data has been analyzed to ascertain the poverty profile of the country. The statistical abstract containing the broad findings of the HIES has been published. The dissemination of the HIES findings has been programmed for the period April–June 2018. Events comprising workshops and seminars are planned for both Monrovia and other counties in the country. Secondly, the CPI basket has been re-weighted using the 2014 HIES data and latest estimates will be included into the GDP calculations. Thirdly, LISGIS is working towards the rebasing of the country's GDP. To this end the National Establishment Census (NEC) was successfully completed between July and September 2017. The team is currently launching the National Accounts Annual Survey (NAAS) to be conducted in 2018. The outputs of the NEC and NAAS will ultimately feed into the rebasing of the GDP.

23. **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 of March 31, 2017–end of Q3 FY18)[1]

Project Name	Approval FY	Closing FY	Net Comm Amt ($m)	Tot Disb ($m)	Tot Undisb Bal ($m)
Liberia Road Asset Management Project - LIBRAMP	FY11	FY24	266.6	173.80	84.08
Liberia Smallholder Tree Crop Revitalization Support Project	FY12	FY19	15.0	12.79	1.06
West Africa Power Pool (Phase 1)	FY12	FY20	189.8	44.72	134.59
Liberia Health Systems Strengthening	FY13	FY18	31.0	8.32	22.48
Liberia Accelerated Electricity Expansion Project (LACEEP)	FY13	FY20	95.0	42.55	51.79
Liberia Public Sector Modernization Project	FY14	FY20	6.3	5.55	0.73
Liberia - Strengthening the National Statistics System	FY14	FY18	3.8	3.68	0.10
Ebola Emergency Response Project	FY15	FY21	167.0	145.28	17.44
Supporting Psychosocial Health and Resilience in Liberia	FY15	FY19	2.8	2.26	0.49
Liberia Forest Sector Project	FY16	FY20	36.7	5.09	31.61
Liberia Youth Opportunities Project	FY16	FY21	10.0	2.75	7.41
Liberia Renewable Energy Access Project	FY16	FY21	27.0	3.27	21.73
Liberia Social Safety Nets Project	FY16	FY22	10.0	1.00	9.59
Liberia Urban Water Supply Project	FY16	FY21	10.0	1.18	9.18
Liberia MSME & Rural Finance post Ebola Reconstruction	FY16	FY19	4.8	3.63	1.18
Strengthening Liberia Health System	FY16	FY19	4.9	4.90	0.00
Cheesemanburg Landfill and Urban Sanitation Project	FY17	FY20	10.5	1.14	9.36
West Africa Region Fisheries Program	FY17	FY18	1.0	0.53	0.47
Regional Disease Surveillance Systems	FY17	FY24	15.0	-	16.27
Liberia Fourth Poverty Reduction Support Development Policy	FY18	FY19	24.7	25.4	0.00
Liberia Land Administration Project	FY18	FY23	7.0	0.00	7.01
Overall Result			**938.8**	**487.8**	**426.6**

[1] Amounts may not add up to original principal due to changes in the SDR/US exchange rate since signing. The amount listed in the table combine financing from IDA and trust funds.

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**	**Jul 2017-Mar 2018**
Total disbursements	61.83	55.27	40.18	183.6	131.0	85.35	73.36
Repayments	0.33	0.00	0.00	0.00	0.00	0.00	0.00
Net disbursements	61.49	55.27	40.18	183.6	131.0	85.35	73.36
Interest and fees	0.05	0.12	0.25	0.79	0.96	1.84	1.19

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK[1]

(As of April, 2018)

There are 11 ongoing Bank Operations in Liberia, in addition to 4 projects funded by bi-lateral trust funds managed by the Bank. The portfolio has a total commitment of equivalent to US$348.21 million, of which about USD 99.29 million has been disbursed.

A summary of the on-going projects is provided below:

1. Integrated Public Financial Management Reform Project Phase 2 (IPFMRP - II): This is a USD 8.89 million AfDB funding to support the implementation of the Integrated Public Financial Management Reform Program (IPFMRP). The Bank had previously provided USD 4.26 million in 2012 to support Phase I of the Program which was completed on March 31, 2017.

The current project **(IPFMRP - II)** was approved on January 30, 2017 and will run for three years. The project is co-funded with the World Bank and the USAID. 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 is a USD 37.01 million grant project to improve Monrovia and three other county capitals' 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. The project has completed all activities in Zwderu, Kakata and Buchanan, and is currently at about 95% completion of the activities in Monrovia. The Project closes on 31 May 2018.

3. Smallholder Agricultural Productivity Enhancement and Commercialization (SAPEC) Project: This is a USD 54.02 million project jointly funded by the Bank and the Global Agriculture and Food Security Program (GAFSP). The intervention seeks to reduce rural poverty and household food insecurity by increasing income for smallholder farmers and rural entrepreneurs particularly

[1] Prepared by the African Development Bank.

women, youths and the physically-challenged. SAPEC is being implemented in 12 of the 15 counties of Liberia over 2014 to 2019. It seeks to scale-up the Agricultural Sector Rehabilitation Project (ASRP) which was funded with USD 17 million by the AfDB and was completed in 2017. The current project (SAPEC) 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. SAPEC undertook an e-registration of over 350,000 farmers and farm inputs suppliers in all the counties. The progress in implementation is currently estimated at about 48%, and the project is expected to close in 2019.

4. Equity investment of US$1.2 million in the share capital of Access Bank (ABL): Access Bank Liberia (ABL) is a 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). The Bank has supported Access Bank with total of US$1.2 million comprising a capital investment of US$0.91 million and US$0.31 million in technical assistance. The Project is undertaking closure activities until end March 2018 when it will close.

5. 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 involves upgrading from gravel to bitumen standard the Fish Town–Harper Road (Phase 1): Harper–Karloken section (50 km) at an estimated cost of USD 61.11 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. The Project is currently at about 38% progress and measures have been put in place to ensure that this is accelerated to be able to close the Project at the end of 2019.

6. 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 USD 315.20 million.

Liberia's portion, covering Karloken-Fish Town (80 km) and Harper-Cavalla junction (16 km), is a USD 109.17 million loan from ADF and TSF. The project will also include the construction of joint border control posts. The Project is currently at 29% progress and will close in 2020.

7. 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 USD 331.51 million, will be implemented over the 2014–19 period. The contribution of the Bank Group amounts to USD 128.15 million (or 38.7 percent of the total 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. The Project is currently undertaking construction works, and closes in end 2019.

8. Rural Electrification (Under CLSG-RE): The Project will finance the 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 install 748 Street lights. The Project amount is USD 25.56 million. Implementation of the Project started in 2017 and currently completing the procurement of the engineering design firm. It is expected to be completed in 2020.

9. Liberia Energy Efficiency Access Project (LEEAP): LEEAP is a USD 44.56 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.

The Project was ratified in August 2017 and implementation has only began after fulfilment of all the loan and grant conditions.

10. Trust Funded Projects

a. **Technical Assistance and Capacity Building Support to the Liberia Institute of Statistics and Geo-Information Services (TCB-LISGIS)**: This is a USD 0.710 million grant that has supported LISGIS to strengthen institutional and staff capacity, to conduct analysis, publish and disseminate results from various studies and surveys. The data was used to monitor the implementation of Liberia's national development strategy-the Agenda for Transformation 2012–17. The Project has been under implementation since 2014 and is expected to close in March 2018.

b. **Youth Entrepreneurship and Employment Project (YEEP)**: This is a USD 2.3 million project which 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. The Project will close in June 2019.

c. **Program of Assistance to Trade Support Institutions in Liberia (PATSIL)**: This USD 0.936 million 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. The Project is currently recruiting technical assistance which will work to improve institutional productivity. The Project will close in 2019.

d. **The Development of Agriculture Value Chains**: The Project has an amount of USD 0.174 million to support the Development of Agriculture Value Chains in Liberia in the Ministry of Agriculture under the Liberia Agriculture Transformation Agenda (LATA). The MoA embarked on a process of hiring technical assistance, which unfortunately stopped mid-way. The Bank will pick up discussions with the new Minister of Agriculture when appointed. The grant was approved in 2017 and is expected to end in 2019.

STATISTICAL ISSUES

(As of April , 2018)

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 2014–16. 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 was completed and was strongly supported by both AFRITAC West 2 and the World Bank. A full 12-month Household Income and Expenditure Survey (HIES) for 2016 was completed in February 2017 and the statistical abstract containing the broad findings has been published. The data will be used in developing preliminary estimates of household final consumption expenditure (HFCE). Moreover, the CPI basket has been re-weighted using the 2014 HIES data and latest CPI and HFCE estimates are being included into the GDP calculations. These GDP estimates will also incorporate the complete trade in goods data set. The national accounts staff is currently 40 percent under strength. It is urgent to recruit additional staff to bring the team up to complement. A review of the status of NAAS was carried out during the April 2018 mission. All survey instruments are being designed, sample selected, enumerators recruited. Fieldwork is expected to commence in April–May 2018, pending some final procurement issues.
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.
[1] Enhanced Data Dissemination Initiative (EDDI) phase 2 funded by the UK Department for International Development.

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 Liberian 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 recently received SRF-based data compiled by the Central Bank of Liberia (CBL) following the April 2013 TA mission recommendations. STA reviewed the data and provided comments which CBL is in the process of implementing.
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 February 2018 TA mission has tapped new administratively sourced cross-border flows and positions, as well as assisted the CBL 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) since October 2005. Metadata for most data categories were updated in November 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.

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]
Exchange Rates	1/2018	Feb/2018	D	M	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	1/2018	Feb/2018	M	M	Q
Reserve/Base Money	1/2018	Feb/2018	M	M	Q
Broad Money	1/2018	Feb/2018	M	M	Q
Central Bank Balance Sheet	1/2018	Feb/2018	M	M	Q
Consolidated Balance Sheet of the Banking System	1/2018	Feb/2018	M	M	Q
Interest Rates[2]	1/2018	Feb/2018	M	M	Q
Consumer Price Index	1/2018	Feb/2018	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	12/2017	02/2018	M	M	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/2017	02/2018	M	M	Q
External Current Account Balance	12/2017	02/2018	Q	Q	Q
Exports and Imports of Goods and Services	12/2017	02/2018	M	M	Q
GDP/GNP	2016	12/07/2017	A	A	I
Gross External Debt	9/2017	02/2018	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

May 24, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—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
Dominique Desruelle (IMF) and Paloma Anos-Casero (IDA)

Prepared by the International Monetary Fund and the World Bank.

Liberia remains at moderate risk of debt distress, though care and precision in implementing its ambitious infrastructure program will be critical. Under the baseline scenario, which reflects staff's interpretation of the authorities' stated plans, Liberia will remain at moderate risk of debt distress but move closer to thresholds that mark a high probability of debt distress. Adverse risks to the baseline are also significant. Staff discussed an alternative reform scenario that would ease the risk of debt distress while achieving roughly the same level of spending. The reform scenario assumes that all external financing would be on concessional terms and the amount of additional borrowing would be strictly controlled and supplemented with domestic resource mobilization. Such steps would be beneficial not only to improve the safety margin for the preservation of debt and macroeconomic stability, but also to sustain broad-based growth over the forecast horizon.

CONTEXT

1. **This debt sustainability analysis (DSA) was conducted in the context of the 2018 Article IV consultation**. The last Low-Income Country DSA (LIC-DSA) update was considered by the Executive Board in November 2017 as part of Liberia's seventh and eight reviews under the Extended Credit Facility Arrangement (ECF).[1] In January, Liberia successfully completed its first democratic political transition between different political parties since 1944. It does not currently have a Fund-supported program but continues to be subject to the IDA Non-Concessional Borrowing Policy (NCBP) regardless of the risk of debt distress.[2]

2. **Liberia remains a fragile country vulnerable to external shocks, with a significant infrastructure deficit and poor living conditions for the majority of its population**. Two civil wars between 1989 and 2003 effectively destroyed Liberia's basic infrastructure and social services. When the war ended, average income in Liberia was just one-quarter of what it had been in 1989 and just one-sixth of its level before the 1980 coup (Box 1, Staff Report). This cumulative decline in GDP was substantial, even compared to similar dramatic episodes in other countries. By 2008, Liberia's total external debt had reached $4.7 billion in nominal terms (over 600 percent of GDP) and was mostly in arrears. In 2010, the Heavily Indebted Poor Countries (HIPC) debt relief initiative's completion was reached, and debt-financed reconstruction of the country began. After eight years, however, there is still far to go. The Mount Coffee hydropower plant is rehabilitated, but an estimated 81 percent of households still have no electricity. Moreover, only 5 percent of the country's roads are paved, leaving much of the population isolated during the six-month rainy season.

3. **More recently, Liberia has seen a sharp decline in grant inflows, which were elevated during 2014–16**. Total grant inflows declined from 19.3 percent of GDP in FY2016 to 16.7 percent of GDP in FY2017, as significant amounts of grants were frontloaded during the Ebola crisis, the largely grant-financed rehabilitation of the Mount Coffee hydropower station was completed, and UN peacekeeping operations were wound down. With limited domestic revenue mobilization and expenditure adjustment, the overall fiscal deficit increased from 2.7 percent of GDP in FY2016 to 4.8 percent of GDP in FY2017.

4. **National accounts data have been revised, and indicate that Liberia's nominal GDP is higher than previously reported by a factor of between 1.5 to 1.6** (¶3, Staff Report). Thus, the potential tax base is significantly higher than previously estimated and more effort is needed to tap into those domestic resources.

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[1] The DSA was prepared jointly by the staff of the IMF and World Bank, in collaboration with the authorities of Liberia. The last joint DSA update prepared for the 7th and 8th ECF review can be found in IMF Country Report No. 17/348, November 2017.

[2] The NCBP requires a minimum grant element of 35 percent or higher, should a higher minimum level be required under a Fund-supported program.

5. Accumulation of external debt has accelerated since 2010 due to scaled-up infrastructure spending and the fiscal response to a series of adverse shocks. The total public external debt stock was $736 million (25 percent of GDP) at end-FY2017, comprising mostly multilateral loans (Text Table 1).[3] The GOL also has ratified but undisbursed loans amounting to $422 million. Two thirds of the total debt outstanding, $431 million, was disbursed during the last four years (FY2014–17). The distribution of external loans is concentrated in infrastructure (excluding energy) and basic services (37 percent), energy (29 percent), public administration (including both public finance management and budget support, 24 percent), agriculture (7 percent), and health (4 percent) (Staff Report, Annex VII).

6. The coverage of fiscal data has been expanded to include off-budget grant-financed project spending.[4] For example, FY2016 revenue is reported at $453 million (14.0 percent of GDP), but reported grants now include both budget support and project financing grants, which amount to $624 million (19.3 percent of GDP) instead of $199 million reported in IMF Country Report 17/348.

Text Table 1. Liberia: Composition of External Debt Stock, 2017

	End of March 2017	
	Millions of US dollar	Percent of Total
Total debt stock	**736**	**100**
(as % of GDP)	25	
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

7. Finally, as remittances data have become more reliable over time, remittances have now been included in the assessment of Liberia's capacity to repay its external obligations in this DSA. Liberia's inward remittances averaged close to 18 percent of GDP and 78 percent of exports of goods and services between 2015 and 2017.

UNDERLYING ASSUMPTIONS

8. The baseline scenario presented in this Article IV consultation is staff's interpretation of the authorities' stated policies as articulated at the time of the March 2018 mission. The key changes in the macroeconomic assumptions relative to the November 2017 DSA update are as follows (Text Table 2):

- The path of ***real GDP growth*** is projected to be lower to account for the upward revision in the GDP level. Growth is projected at 3.2 percent in 2018, compared to 3.9 percent in the previous DSA update, and is mostly driven by a further expansion of the mining sector.

[3] The debt to GDP ratio calculated for the Staff Report and the DSA differ because the former uses debt and GDP expressed in U.S. dollars, while the latter uses those expressed in national currency.

[4] Fiscal data cover the central government, and all public external debt is included in the analysis.

- The ***fiscal position*** of the central government in FY2018 and subsequent years has been revised to reflect revenue shortfalls observed since November 2017.

- An average annual financing gap of about 26 million (0.7 percent of GDP) is projected under the assumption that current expenditure would not fully adjust to accommodate a shrinking fiscal resource envelope,[5] given the high level of development and social spending needs. The gap is expected to be filled with non-debt creating flows or under execution of spending.

Text Table 2. Liberia: Underlying DSA Assumptions

		FY2018	FY2018-2023	FY2023-2040
Nominal GDP		(In million US dollar)	Growth (In percent)	Growth (In percent)
Nov 2017 Board		2154	6.4	8.8
Current	*Baseline*	3367	6.1	7.6
	Reform	3367	6.1	7.7
Exports of Goods and Service				
Nov 2017 Board		629	7.5	6.4
Current	*Baseline*	721	3.5	6.0
	Reform	722	3.4	6.1

Sources: Liberian authorities; and IMF staff projections.

- The ***current account deficit*** has been revised downwards for 2018 and subsequent years relative to the previous DSA update. The trade balance has also improved due to the decline in fuel imports. This DSA also assumes substantially lower iron ore production in the medium to long term, as it no longer assumes the return of the iron ore producer China Union to Liberia in the medium term.

9. External borrowing and accompanying debt disbursement are revised upwards to reflect the newly elected government's ambitious infrastructure plan over the medium term.

- ***Borrowing***. The baseline assumes that: (i) annual external loan disbursements almost double from about $60 million during the past four years to $120 million in the medium term and (ii) already ratified, but not disbursed, loans ($422 million) will be disbursed by the end of the medium term. The combination of these two would increase public external debt by about $1 billion in the next five years. If the financing gap were to be filled with additional borrowing, the public external debt to GDP ratio would increase to over 40.7 percent of GDP by 2023 (Staff Report, Text Table 2).

- ***Financing terms***. The baseline assumes no constraint on the availability of concessional loans. The grant element is assumed at 45 percent (Figure 1, panel a). However, as financing terms are assumed to be less favorable over the medium term when the elevating borrowing will take place, the baseline assumes that borrowing will be mostly on IDA terms until 2030 when the grant element will begin to gradually decline to 35 percent.

[5] With the current assumptions on the pace of reforms, domestic revenue is expected to improve by 2 percentage points of GDP over the medium term. Over the same period, however, aid inflows are anticipated to decline by 5.5 percentage points of GDP, resulting in a continuously shrinking fiscal resource envelope.

Box 1. Key Baseline Macroeconomic Assumptions, 2018–37

Real GDP growth. Following a period of sluggish growth due to stronger-than-expected adverse external shocks, and assuming the implementation of good policies, the medium-term outlook appears favorable. GDP growth in 2018 is projected at 3.2 percent, driven by expansion in the mining sector, and is expected to steadily increase to 5.3 percent by 2023. A number of factors are contributing to this positive outlook: (i) the peaceful political transition is favorable for the recovery of the domestic economy, as it will improve both consumer and investor confidence; (ii) the recovery in commodity prices is expected to positively impact key sectors of the Liberian economy (particularly iron ore and gold); (iii) improvements in power supply and road connectivity will support economic activity in the medium to long terms; and (iv) the effect of the rehabilitation of roads on aggregate supply would also be significant (Box 1, Staff Report). However, the effect of road construction on aggregate demand may be fairly limited, since only a small part of the total cost of asphalt-surfaced, capital-intensive roads would be expected to be sourced locally. The medium-term outlook is subject to both upside and downside risks (Annex III, Staff Report).

Inflation. Inflation is projected to remain high in the near term, given the sharp depreciation of the Liberian dollar in the past year, and then to gradually decline from an estimated 11.7 percent in 2018 to 6.3 percent in 2023. In the long run, inflation is set to continue its gradual decline and stabilize at around 5½ to 6 percent.

Tax revenues. The revenue-to-GDP ratio is estimated to improve from 12.9 percent in FY2018 to 15 percent in FY2023 by, among other measures, improving tax compliance and efficiency and expanding coverage, after which it is expected to remain broadly stable.

Fiscal balance. The fiscal deficit is expected to remain elevated as the authorities meet high spending needs, declining only from 5.1 percent of GDP in FY2018 to 4.4 percent in FY2023.

External account. The current account deficit has improved compared to the previous DSA and is projected to improve due to a further contraction in imports. However, with a decline in current transfers, the current account deficit will nonetheless remain elevated at 22.4 percent of GDP in 2018. With limited net capital inflows anticipated for the remainder of 2018, gross international reserves are projected to decrease further to about 3 months of imports by the end of 2018, which is lower than in the previous DSA update. The External Sector Assessment (ESA) shows that Liberia's external position is substantially weaker than implied by fundamentals and desirable policy settings.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

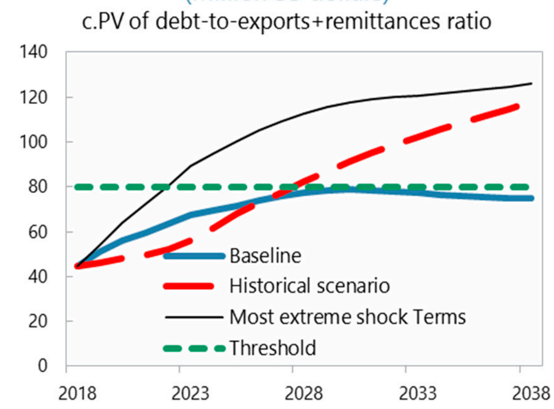
10. Liberia's risk of distress will remain moderate assuming the government uses care and precision in the implementation of its ambitious infrastructure program. The authorities' large-scale plan to rehabilitate the national road network will significantly raise the PV of debt relative to its foreign exchange earning capacity, bringing it closer to the threshold that marks high risk of debt distress (Table 1; Figure 1, panel c).

11. Given the concessional financing terms, the ratios of debt service-to-exports and debt service to-revenue will remain within the range associated with moderate risk of debt distress. The burden of debt service will remain relatively low until 2030 (Table 1; Figure 1, panels e and f), and only rise marginally thereafter, making the near- to medium-term servicing of debt manageable.

12. The sustainability of the external debt profile is most vulnerable to terms of trade shocks and changes in the exchange rate (Table 2). Under the baseline scenario, given the positive medium- to long-term outlook for growth and revenue, the PV of public external debt, measured either as a ratio to GDP or to revenue, remains consistent with moderate risk of debt distress (Figure 1, panels b and d). Sensitivity analysis, however, shows that the PV of external debt surpasses the threshold if Liberia experiences the most extreme shocks—either a one-time 30 percent depreciation or a one-standard-deviation terms of trade shock.

Text Figure 1. Liberia: If Financing Gap is Financed with External Borrowing

(Million US dollars)



13. If the financing gap projected under the baseline scenario were financed by external borrowing, Liberia would move to a high risk of debt distress. This deterioration would take place even if the additional borrowing was on IDA terms (Text Figure 1).

PUBLIC SECTOR DEBT SUSTAINABILITY

14. The public sector DSA also highlights the importance of fiscal adjustments and sustained growth. Given the limited available domestic sources of funding, the general picture of domestic debt sustainability is similar to the analysis for the public external debt sustainability. The PV of public debt-to-GDP ratio is projected to increase from an estimated 19.5 in FY2018 to a peak of 22.3 in FY2027 and decline slowly thereafter (Table 3; Figure 2), while staying well below the benchmark of 38 percent of GDP that marks a high risk of debt distress. However, the alternative scenario, where the current primary deficit remains at 4.6 percent of GDP, highlights the importance of effecting a gradual adjustment over time (Figure 2, first panel). Moreover, sensitivity analysis illustrates Liberia's vulnerability to growth shocks, with the most extreme shock— a one standard deviation shock to growth in 2019–20—highlighting the importance of sustained growth going forward.

REFORM SCENARIO

15. Staff also discussed a reform scenario that would ease the risk of debt distress while achieving roughly the same level of spending. By adopting additional measures to mitigate the baseline's adverse impact on debt, this scenario allows for greater assurance of debt and macroeconomic sustainability, while achieving the same development goals. This reform scenario (Text Table 3; Text Figure 2), which

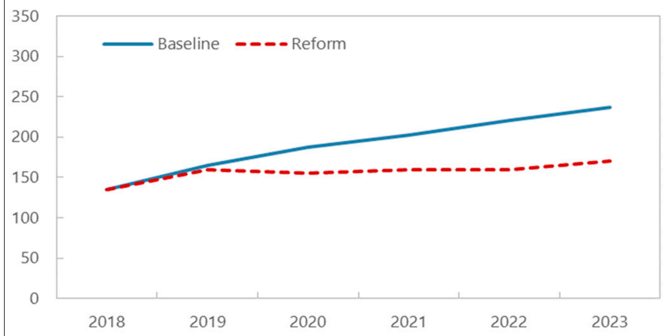
Text Table 3. Liberia: Baseline vs. Reform

(Million U.S. dollar; unless otherwise indicated)

	FY2014-17	FY2018-23	
		Baseline	Reform
New loans (annual average)	60	120	85
Primary balance improves by (percentage point of GDP)		0.7	2.7

relies less on external borrowing, entails: (i) annual external loan disbursements increasing from about $60 million over the past four years to about $85 million in the medium term ($35 million less than in the baseline scenario); (ii) financing on IDA terms (close to 60 percent grant element rather than 45 percent grant element); (iii) already ratified, but not disbursed loans totaling US$422 million are disbursed by the end of the medium term (same as in the baseline); and (iv) additional domestic resources of 3 percentage points of GDP are mobilized by FY2023 to compensate for reduced borrowing. The combination of all these measures would allow the government to have the same level of public resources available to meet development and social spending needs while reducing significantly the risk factors (outlined in ¶16 and ¶17).

Text Figure 2. Annual Disbursement Schedule
(Millions of US dollars)



Source: IMF Staff Projection.

16. There are uncertainties around the borrowing limits proposed in both scenarios that have implications for debt sustainability:

- *Timing of disbursement and inventories:* Liberia has ratified various loans in recent years, and the timing of disbursement is uncertain. If disbursement of the whole $422 million of these loans was to take place in the next few years, then the change in timing of disbursement alone could lead to an elevated risk of debt distress.

- *Concessionality of new loans:* If new loans were on concessional terms, but with less favorable terms than those offered by IDA, Liberia's risk of debt distress could deteriorate to "high" as this would raise the PV of debt and debt service.

17. The main sources of downside and upside risks that can affect the level of debt distress in the reform scenario would be the same as in the baseline scenario:

- *High volatility in exports:* Exports of goods and services have been volatile, as the standard deviation of the export growth rate is around 15 percent. Thus, Liberia remains vulnerable to exogenous shocks (e.g., commodity price shocks). This volatility poses both downside and upside risk. A sharp decline in exports of goods and services could bring Liberia to a high level of debt distress. On the upside, an increase in remittances (which are less volatile than exports) or the return of China Union would improve the risk assessment.

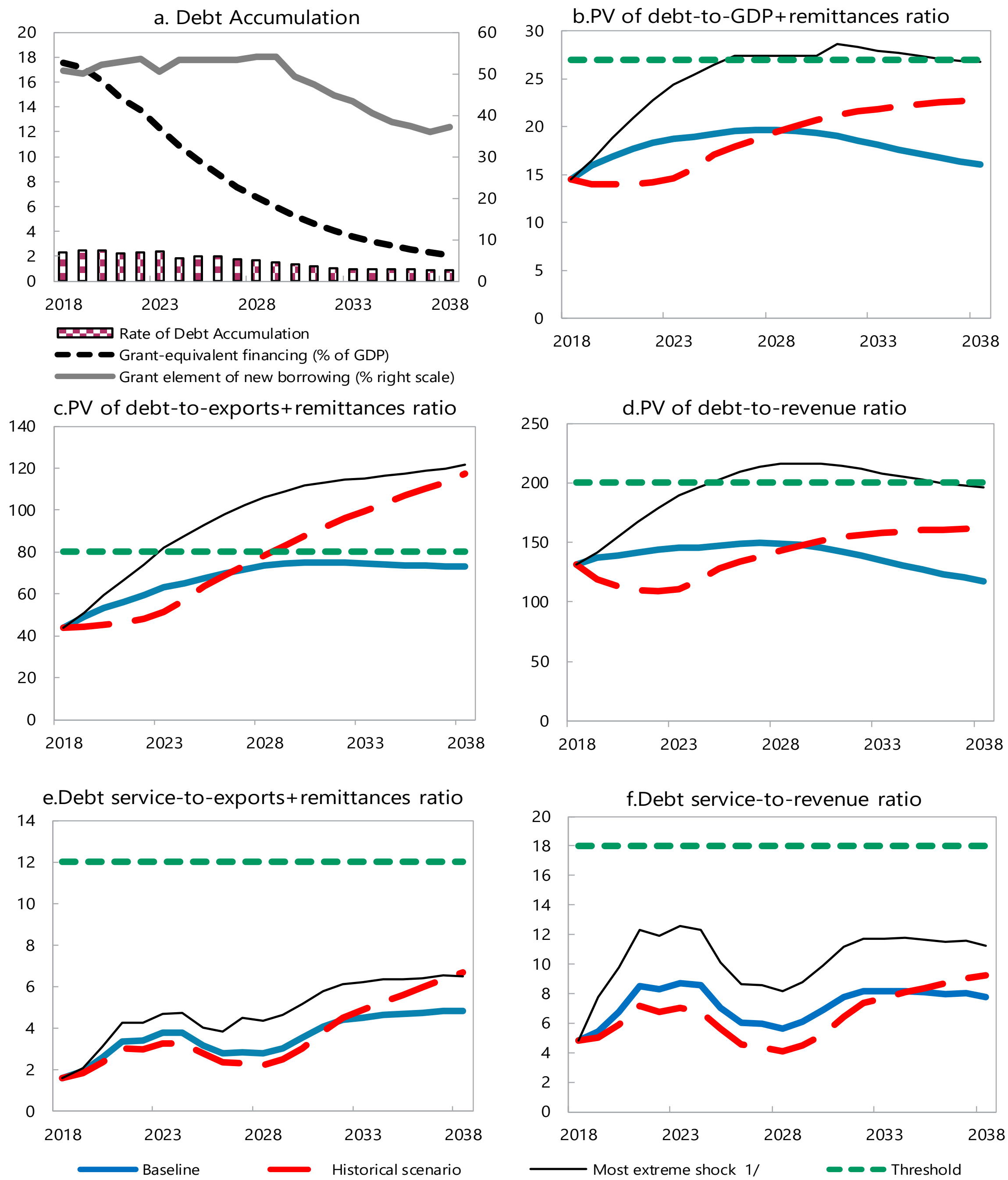
- *High volatility in growth*: Shocks to growth could have nontrivial impacts as discussed above. Sustained growth is critically important.

CONCLUSION AND AUTHORITIES' VIEWS

18. Liberia's vulnerabilities call for a prudent fiscal policy, maintenance of the fiscal anchor on debt accumulation, and the implementation of effective measures to mobilize domestic resources. To maintain debt levels at moderate levels, it is important to continue to prioritize grants and concessional loans. A strong commitment to mobilizing domestic resources—for example through the adoption of a Medium-Term Revenue Strategy (MTRS)—is critical for maintaining macroeconomic stability, while satisfying the high spending needs currently faced by the government. It is also important to enhance debt management capacity by improving the information flow between different entities and strengthening the capacity of the Debt Management Unit (DMU) within the Ministry of Finance.

19. The authorities concurred on the importance of macroeconomic stability and debt sustainability in the medium term, but remain more optimistic than staff. They maintained that debt thresholds should be country- and context-specific and that Liberia's borrowing space is significantly larger than that estimated by staff. In particular, they remain more optimistic about medium-term growth and the return on investment from infrastructure projects.

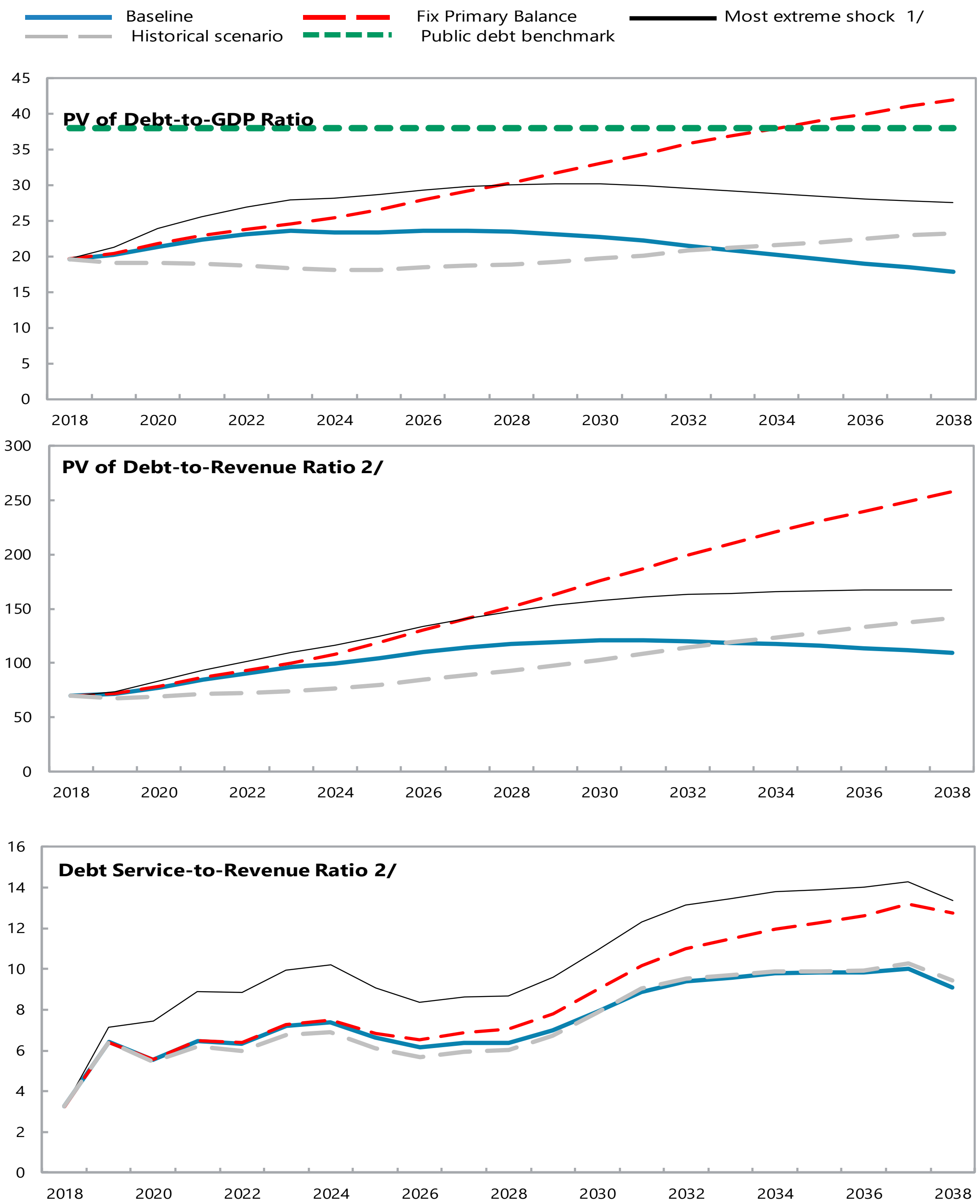
Figure 1. Liberia: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2018–38[1]



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 2028. In figure b. it corresponds to a Terms shock; in c. to a Terms shock; in d. to a Terms shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Liberia: Indicators of Public Debt Under Alternative Scenarios, 2018–38[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 2028.
2/ Revenues are defined inclusive of grants.

Table 1. Liberia: External Debt Sustainability Framework, Baseline Scenario, 2015–38[1]

(Percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
		0.0	0.0	0.0	Deviation							2018-2023			2024-2038
	2015	2016	2017			2018	2019	2020	2021	2022	2023	Average	2028	2038	Average
External debt (nominal) 1/	**14.6**	**19.0**	**25.0**			**28.2**	**31.1**	**33.2**	**35.3**	**37.0**	**37.9**		**38.7**	**27.3**	
of which: public and publicly guaranteed (PPG)	14.6	19.0	25.0			28.2	31.1	33.2	35.3	37.0	37.9		38.7	27.3	
Change in external debt	6.1	4.3	6.0			3.2	2.9	2.2	2.0	1.7	1.0		-0.3	-0.9	
Identified net debt-creating flows	7.4	5.9	6.4			6.3	5.5	4.7	4.0	3.5	2.9		0.4	-1.0	
Non-interest current account deficit	**26.7**	**22.3**	**20.7**	**20.8**	**3.0**	**21.9**	**22.1**	**22.2**	**22.1**	**21.1**	**20.0**		**14.6**	**9.6**	13.1
Deficit in balance of goods and services	61.5	55.3	43.5			35.0	31.8	28.9	27.5	26.1	24.7		20.2	14.5	
Exports	29.8	24.5	23.3			21.7	21.0	20.4	20.3	19.9	19.3		17.6	15.3	
Imports	91.3	79.9	66.8			56.8	52.8	49.3	47.8	46.1	44.0		37.8	29.8	
Net current transfers (negative = inflow)	-39.2	-39.3	-30.5	-46.1	13.4	-23.6	-23.0	-20.8	-19.3	-17.9	-16.4		-13.0	-8.3	-11.5
of which: official	-16.5	-17.7	-17.1			-15.4	-14.7	-13.4	-12.1	-10.9	-9.7		-7.4	-4.7	
Other current account flows (negative = net inflow)	4.4	6.2	7.7			10.5	13.3	14.1	13.9	12.9	11.7		7.4	3.4	
Net FDI (negative = inflow)	**-19.5**	**-16.0**	**-14.4**	**-16.7**	**1.7**	**-15.2**	**-15.6**	**-16.3**	**-16.7**	**-16.2**	**-15.6**		**-12.7**	**-9.5**	-11.9
Endogenous debt dynamics 2/	**0.2**	**-0.4**	**0.1**			**-0.5**	**-1.1**	**-1.2**	**-1.4**	**-1.5**	**-1.6**		**-1.5**	**-1.0**	
Contribution from nominal interest rate	0.1	0.1	0.2			0.3	0.2	0.2	0.2	0.2	0.2		0.3	0.3	
Contribution from real GDP growth	0.0	0.2	-0.5			-0.8	-1.3	-1.4	-1.6	-1.7	-1.8		-1.8	-1.4	
Contribution from price and exchange rate changes	0.1	-0.8	0.4			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-1.3**	**-1.6**	**-0.4**			**-3.0**	**-2.6**	**-2.5**	**-1.9**	**-1.8**	**-1.9**		**-0.7**	**0.0**	
of which: exceptional financing	-0.6	-0.6	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	15.4			17.1	18.7	19.7	20.5	21.2	21.6		22.1	17.5	
In percent of exports	...	...	66.2			78.5	88.7	96.5	101.2	106.1	111.8		125.4	114.1	
PV of PPG external debt	**...**	**...**	**15.4**			**17.1**	**18.7**	**19.7**	**20.5**	**21.2**	**21.6**		**22.1**	**17.5**	
In percent of exports	**...**	**...**	**66.2**			**78.5**	**88.7**	**96.5**	**101.2**	**106.1**	**111.8**		**125.4**	**114.1**	
In percent of government revenues	**...**	**...**	**108.0**			**131.8**	**137.3**	**138.9**	**141.6**	**143.9**	**145.5**		**149.2**	**117.7**	
Debt service-to-exports ratio (in percent)	**1.0**	**0.7**	**1.4**			**3.0**	**3.7**	**4.9**	**6.1**	**6.1**	**6.7**		**4.7**	**7.5**	
PPG debt service-to-exports ratio (in percent)	**1.0**	**0.7**	**1.4**			**3.0**	**3.7**	**4.9**	**6.1**	**6.1**	**6.7**		**4.7**	**7.5**	
PPG debt service-to-revenue ratio (in percent)	**2.1**	**1.2**	**2.3**			**5.0**	**5.7**	**7.0**	**8.5**	**8.3**	**8.7**		**5.7**	**7.8**	
Total gross financing need (Millions of U.S. dollars)	233.5	209.9	213.9			248.1	252.2	252.3	261.0	262.0	264.1		184.6	178.3	
Non-interest current account deficit that stabilizes debt ratio	20.7	18.0	14.7			18.7	19.3	20.0	20.1	19.4	19.1		14.9	10.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	0.0	-1.6	2.5	4.4	3.8	3.2	4.7	4.8	5.3	5.2	5.3	4.8	5.1	5.2	5.1
GDP deflator in US dollar terms (change in percent)	-0.7	5.7	-2.1	5.6	5.5	0.5	-2.4	1.9	1.5	2.6	3.3	1.2	2.7	1.9	2.6
Effective interest rate (percent) 5/	1.6	0.9	1.0	0.7	0.6	1.3	0.7	0.6	0.6	0.7	0.7	0.8	1.0	1.2	1.0
Growth of exports of G&S (US dollar terms, in percent)	-14.8	-14.5	-4.5	5.3	18.9	-3.3	-1.1	3.4	6.3	6.1	5.3	2.8	6.3	5.6	6.2
Growth of imports of G&S (US dollar terms, in percent)	10.4	-9.1	-16.1	3.1	12.8	-11.8	-4.8	-0.4	3.5	4.1	3.9	-0.9	6.0	5.1	5.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	50.6	50.1	52.2	52.9	53.5	50.4	51.6	54.0	37.1	46.4
Government revenues (excluding grants, in percent of GDP)	14.0	14.0	14.3			12.9	13.6	14.2	14.5	14.7	14.8		14.8	14.8	14.8
Aid flows (in Millions of US dollars) 7/	500.8	623.6	648.3			629.3	653.1	681.6	671.8	682.6	685.6		550.5	421.3	
of which: Grants	500.8	623.6	541.6			512.9	506.6	494.0	468.7	461.9	448.9		347.4	208.0	
of which: Concessional loans	0.0	0.0	106.8			116.5	146.5	187.6	203.1	220.7	236.7		203.1	213.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			17.6	17.1	16.1	14.7	13.7	12.3		6.8	2.1	5.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			88.5	87.7	86.9	85.8	85.0	82.9		83.0	65.2	77.0
Memorandum items:															
Nominal GDP (Millions of US dollars)	3110.4	3233.0	3244.7			3367.1	3441.8	3676.3	3926.8	4236.0	4609.1		6763.6	14370.6	
Nominal dollar GDP growth	-0.7	3.9	0.4			3.8	2.2	6.8	6.8	7.9	8.8	6.1	7.9	7.1	7.9
PV of PPG external debt (in Millions of US dollars)			455.1			533.0	615.6	699.5	781.6	871.7	973.2		1474.5	2470.2	
(PVt-PVt-1)/GDPt-1 (in percent)						2.4	2.5	2.4	2.2	2.3	2.4	2.4	1.7	0.8	1.3
Gross workers' remittances (Millions of US dollars)	544.2	582.5	560.8			570.6	580.6	609.2	636.4	663.1	690.1		845.1	1237.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.2			14.6	16.0	16.9	17.6	18.3	18.8		19.7	16.1	
PV of PPG external debt (in percent of exports + remittances)	...	...	38.0			44.1	49.2	53.2	56.2	59.4	63.0		73.4	73.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.8			1.7	2.0	2.7	3.4	3.4	3.8		2.8	4.8	

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).

Table 2. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018–38[1]

(Percent)

	Projections							
	2018	2019	2020	2021	2022	2023	**2028**	2038
PV of debt-to GDP ratio								
Baseline	17	19	20	21	21	22	**22**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	17	16	16	16	16	16	**21**	24
A2. New public sector loans on less favorable terms in 2018-2038 2	17	19	22	24	26	28	**32**	29
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	17	19	21	22	22	23	**24**	19
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	17	19	23	23	24	24	**24**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	17	17	19	20	20	21	**22**	17
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	17	14	10	11	12	13	**17**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	17	10	4	5	6	7	**13**	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	17	26	27	29	30	30	**31**	25
PV of debt-to-exports ratio								
Baseline	78	89	97	101	106	112	**125**	114
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	78	77	79	78	80	85	**120**	157
A2. New public sector loans on less favorable terms in 2018-2038 2	78	92	108	120	132	145	**181**	190
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	78	85	93	98	103	109	**123**	112
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	78	104	152	158	164	173	**185**	155
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	78	85	93	98	103	109	**123**	112
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	78	65	50	56	62	69	**95**	111
B5. Combination of B1-B4 using one-half standard deviation shocks	78	49	20	27	35	43	**82**	123
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	78	85	93	98	103	109	**123**	112
PV of debt-to-revenue ratio								
Baseline	132	137	139	142	144	145	**149**	118
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	132	119	113	110	109	110	**143**	162
A2. New public sector loans on less favorable terms in 2018-2038 2	132	142	155	167	179	189	**216**	196
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	132	137	145	149	151	154	**159**	125
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	132	140	160	162	163	164	**161**	116
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	132	128	133	136	139	141	**146**	115
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	132	101	73	79	84	90	**113**	114
B5. Combination of B1-B4 using one-half standard deviation shocks	132	71	25	34	42	49	**86**	112
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	132	190	194	198	202	205	**212**	167

Table 2. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018–38 (Concluded)

(Percent)

Debt service-to-exports ratio

Baseline	3	4	5	6	6	7	**5**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	3	3	4	5	5	5	**3**	9
A2. New public sector loans on less favorable terms in 2018-2038 2	3	4	5	7	7	8	**7**	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	3	4	5	6	6	7	**5**	8
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	3	4	7	9	9	10	**9**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	3	4	5	6	6	7	**5**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	3	4	4	5	5	6	**1**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	4	5	5	6	**-2**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	3	4	5	6	6	7	**5**	8

Debt service-to-revenue ratio

Baseline	5	6	7	9	8	9	**6**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	5	5	6	7	7	7	**4**	9
A2. New public sector loans on less favorable terms in 2018-2038 2	5	6	7	10	10	10	**9**	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	5	6	8	9	9	9	**6**	8
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	5	6	7	9	9	9	**7**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	5	6	7	8	8	9	**6**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	5	6	6	7	7	7	**1**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	6	6	6	6	**-2**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	5	8	10	12	12	13	**8**	11
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	55	55	55	55	55	55	**55**	55

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 3. Liberia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015–38

(Percent of GDP, fiscal year, unless otherwise indicated)

	Actual					Estimate	Projections								
	2015	2016	2017	Average 5/	Standard Deviation 5/	2018	2019	2020	2021	2022	2023	2018-23 Average	2028	2038	2024-38 Average
Public sector debt 1/	16.0	19.3	27.1			30.7	32.0	33.9	35.8	37.6	38.4		38.8	27.3	
of which: foreign-currency denominated	15.2	19.3	25.3			28.7	31.6	33.8	35.8	37.5	38.3		38.7	27.3	
Change in public sector debt	5.4	3.4	7.8			3.5	1.3	1.9	1.9	1.8	0.8		-0.3	-1.1	
Identified debt-creating flows	6.2	2.9	5.5			3.4	3.3	2.4	2.6	2.3	1.1		-0.8	-1.5	
Primary deficit	6.1	2.5	4.6	1.7	2.1	4.8	4.4	4.4	4.5	4.6	4.1	4.5	1.8	0.1	0.8
Revenue and grants	30.1	33.3	31.0			28.2	28.3	27.6	26.4	25.6	24.6		20.0	16.3	
of which: grants	16.1	19.3	16.7			15.2	14.7	13.4	11.9	10.9	9.7		5.1	1.4	
Primary (noninterest) expenditure	36.2	35.8	35.6			33.0	32.7	32.0	31.0	30.3	28.7		21.7	16.4	
Automatic debt dynamics	0.1	0.4	0.9			-1.4	-1.1	-1.9	-2.0	-2.4	-3.0		-2.5	-1.6	
Contribution from interest rate/growth differential	0.0	0.2	-0.6			-1.3	-1.5	-1.8	-2.0	-2.1	-2.3		-2.3	-1.6	
of which: contribution from average real interest rate	0.0	-0.1	-0.1			-0.5	-0.1	-0.3	-0.3	-0.3	-0.4		-0.4	-0.2	
of which: contribution from real GDP growth	0.0	0.3	-0.5			-0.9	-1.4	-1.5	-1.7	-1.8	-1.9		-1.9	-1.4	
Contribution from real exchange rate depreciation	0.0	0.2	1.5			-0.1	0.4	-0.2	0.1	-0.3	-0.7		...	...	
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	-0.7	0.5	2.3			0.1	-2.0	-0.5	-0.6	-0.5	-0.3		0.4	0.4	
Other Sustainability Indicators															
PV of public sector debt	...	...	17.6			19.6	19.6	20.3	21.1	21.8	22.1		22.3	17.5	
of which: foreign-currency denominated	...	...	15.8			17.6	19.2	20.2	21.0	21.7	21.9		22.1	17.5	
of which: external	...	...	15.4			17.1	18.7	19.7	20.5	21.2	21.6		22.1	17.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	7.0	3.7	5.0			7.3	8.0	6.2	6.4	6.3	6.0		3.1	1.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	56.8			69.4	69.1	73.6	79.8	85.1	89.8		111.5	107.2	
PV of public sector debt-to-revenue ratio (in percent)	...	...	123.1			151.0	144.0	143.6	145.6	148.2	148.9		150.2	117.7	
of which: external 3/	...	...	108.0			131.8	137.3	138.9	141.6	143.9	145.5		149.2	117.7	
Debt service-to-revenue and grants ratio (in percent) 4/	1.8	1.3	1.2			3.3	6.5	5.6	6.4	6.2	7.1		6.3	8.8	
Debt service-to-revenue ratio (in percent) 4/	3.9	3.2	2.7			7.2	13.6	11.0	11.6	10.9	11.8		8.4	9.7	
Primary deficit that stabilizes the debt-to-GDP ratio	0.6	-0.8	-3.2			1.3	3.1	2.4	2.6	2.9	3.3		2.1	1.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	0.0	-1.6	2.5	4.4	3.8	3.2	4.7	4.8	5.3	5.2	5.3	4.8	5.1	5.2	5.1
Average nominal interest rate on forex debt (in percent)	1.9	1.2	1.1	0.9	0.7	1.3	1.1	1.0	0.9	0.9	0.8	1.0	1.0	1.2	1.0
Average real interest rate on domestic debt (in percent)	-2.9	-8.8	-6.0	-4.8	4.1	-13.6	14.1	16.9	9.6	10.1	5.5	7.1	2.5	...	2.1
Real exchange rate depreciation (in percent, + indicates depreciation)	0.5	1.3	7.9	-2.4	6.6	-0.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.6	11.6	12.3	11.1	6.2	17.4	9.0	10.0	8.1	8.7	8.6	10.3	5.9	5.0	5.8
Growth of real primary spending (deflated by GDP deflator, in percent)	21.9	-2.9	1.9	2.3	7.0	-4.2	3.7	2.4	2.0	2.8	-0.2	1.1	1.1	4.7	1.3
Grant element of new external borrowing (in percent)	...	...	...	...	...	50.6	50.1	52.2	52.9	53.5	50.4	51.6	54.0	37.1	...

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.

Table 4. Liberia: Sensitivity Analysis for Key Indicators of Public Debt, 2018–34

(Percent)

		Projections						
	2018	2019	2020	2021	2022	2023	2025	2034
PV of Debt-to-GDP Ratio								
Baseline	20	20	20	21	22	22	22	17
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	20	18	18	18	17	17	17	23
A2. Primary balance is unchanged from 2018	20	20	21	22	22	23	29	42
A3. Permanently lower GDP growth 1/	20	20	21	22	23	24	27	31
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-2020	20	21	23	24	25	26	29	27
B2. Primary balance is at historical average minus one standard deviations in 2019-2020	20	19	20	21	21	22	22	17
B3. Combination of B1-B2 using one half standard deviation shocks	20	19	20	21	22	23	24	22
B4. One-time 30 percent real depreciation in 2019	20	27	26	25	25	24	22	19
B5. 10 percent of GDP increase in other debt-creating flows in 2019	20	24	25	25	26	26	26	19
PV of Debt-to-Revenue Ratio 2/								
Baseline	69	69	74	80	85	90	112	107
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	69	65	65	66	67	67	86	138
A2. Primary balance is unchanged from 2018	69	70	75	82	88	94	146	255
A3. Permanently lower GDP growth 1/	69	70	75	82	89	95	132	186
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-2020	69	71	79	88	96	104	141	165
B2. Primary balance is at historical average minus one standard deviations in 2019-2020	69	68	72	78	83	88	110	106
B3. Combination of B1-B2 using one half standard deviation shocks	69	67	70	77	84	90	120	132
B4. One-time 30 percent real depreciation in 2019	69	94	94	96	97	98	112	114
B5. 10 percent of GDP increase in other debt-creating flows in 2019	69	86	90	96	102	106	128	119
Debt Service-to-Revenue Ratio 2/								
Baseline	3	7	6	6	6	7	6	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	3	7	6	6	6	7	6	9
A2. Primary balance is unchanged from 2018	3	7	6	6	6	7	7	12
A3. Permanently lower GDP growth 1/	3	7	6	6	6	7	7	12
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-2020	3	7	6	7	7	8	7	11
B2. Primary balance is at historical average minus one standard deviations in 2019-2020	3	7	6	6	6	7	6	9
B3. Combination of B1-B2 using one half standard deviation shocks	3	7	6	6	6	7	7	10
B4. One-time 30 percent real depreciation in 2019	3	7	8	9	9	10	8	13
B5. 10 percent of GDP increase in other debt-creating flows in 2019	3	7	6	7	7	7	7	10

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.

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

June 8, 2018

I. Introduction

1. The Liberian authorities extend their appreciation to staff for the candid discussions and policy advice proffered during the Article IV Consultations, and look forward to continuation of the dialogue in support of the country's macroeconomic and debt sustainability goals.

2. Benefitting from two (2) successive Fund-supported economic programs and supportive policies, a solid foundation to economic recovery has been laid. However, Liberia continues to face significant challenges, including weak economic growth, lower revenues, elevated inflation, high poverty, as well as exchange rate and expenditure pressures. Recognizing these challenges, the new administration is putting in place measures to sustain the recovery and harness growth potential. In furtherance thereof, and following a nation-wide consultative process, they have embarked on the preparation of a medium-term national development plan, *Pro-Poor Agenda for Prosperity and Development (PAPD)*-2019-2023.

3. The PAPD will be a transformational program that focuses on strengthening public institutions; accelerating infrastructure investments needed to boost productive capacity; improving productivity in the real sector, to enhance economic diversification; increasing investment in human capital, through strong support to youth employment and health; and improving competitiveness, while simultaneously safeguarding macroeconomic and debt sustainability. Construction of roads is expected to be a major thrust of the new national development plan, having been identified as a major constraint to growth and poverty alleviation. The plan is expected to be unveiled by the government in July 2018, to coincide with the new budget year.

II. Recent Economic Developments and Outlook

4. The economy modestly recovered in 2017, as GDP expanded by 2.5 percent, from a negative base of 1.6 percent in 2016, mainly driven by increases in the mining and panning sector (28.8 percent), as a rise in industrial gold production fueled growth. Real GDP growth in 2018 is forecasted to improve to 3.2 percent, spurred by further expansion in gold production. Looking ahead, medium-term growth prospects remain positive, with GDP growth expected to rise at an average of 5.1 percent, supported by sound policies, steady recovery in commodity prices, and gains from public investment. Notwithstanding, there are significant downside risks to the outlook, which would be addressed as the PAPD is rolled-out.

5. Inflation remains high at 11 percent, but is expected to abate over the medium term as demand pressures subside on account of an improved business climate.

6. The current account deficit widened from 18.5 percent of GDP in 2016 to 22.7 percent of GDP in 2017, and is expected to marginally improve to -22.4 in 2018, following a contraction in imports, including fuel and service payments. Diminishing aid flows are expected to substantially contribute to a further decline in the external position, but would be offset by increased investment through improvement in the business environment. Anticipated increase in Foreign Direct Investments (FDIs), more utilization of local currency in domestic transactions, and limited market intervention are expected to ease pressure on foreign reserves, and support their accumulation.

III. Medium Term Plan

Consistent with the objectives of the PAPD and the discussions with the Fund, our authorities intend to pursue an appropriate mix of fiscal and monetary policies, supported by deeper structural reforms.

Fiscal Policy

7. The authorities' fiscal strategy for the near and medium term is geared towards fostering fiscal consolidation, while creating fiscal space for the much-needed investment in growth-enhancing projects and targeted pro-poor expenditures. Towards this end, and considering anticipated decline in aid flows, the FY 18/19 draft national budget reflects the authorities' objective to contain recurrent costs, including the huge wage bill. Along these lines, they have reduced cabinet members' salaries by 10 percent; implemented haircuts in public servants' salaries, that are at the upper echelon of the pay scale; capped salaries of heads of public corporations and autonomous agencies; and initiated a review of contractual obligations to public servants. On the other hand, allocations to education, health, and agricultural sectors have been increased. Meanwhile, civil service reforms, including pay and grading reforms, remain on course.

8. Domestic resource mobilization is critical in the government's plan to maintain fiscal sustainability. In this regard, the Liberia Revenue Authority (LRA) is developing a Medium-Term Revenue Strategy (MTRS), aimed at strengthening revenue and tax administration. This objective is central to ongoing Technical Assistance (TA) discussions with the Fund. Further, the revenue authority is implementing an action plan to modernize revenue administration in line with recent Tax Administration Diagnostic Assessment Tool (TADAT) and Public Expenditure and Financial Accountability (PEFA) recommendations, including preparing for VAT introduction in 2019. Furthermore, the LRA recently launched the country's first mobile money tax payment scheme to improve revenue compliance, and intends to deploy more robust IT systems to support core revenue processes.

9. Sound public finance management (PFM) implementation remains important to the current budget execution, reporting, and accountability mechanisms. In this vein, assessment of the current Integrated Financial Management Information System (IFMIS), to improve the credibility of the system, is expected to begin in June 2018, while coverage of the Civil Service Management (CSM) module has been expanded to five (5) ministries and agencies, in support of the civil service reform. As a complementary reform to the Treasury Single Account (TSA), the Ministry of Finance and Development Planning (MFDP), the Central Bank of Liberia (CBL), and the LRA have commenced implementing an Electronic Funds Transfer System, which is expected to become fully operational by July 2018.

10. In addition, the fiscal authorities have extended the monitoring and reporting coverage of key State-owned Enterprises (SOEs) from an initial nine (9) to fifteen (15). The financial performance reports, which cover risk analyses and going concern assessments, are regularly posted on the MFDP website.

Debt Management

11. While pursuing resources to finance their national development plan, the authorities would remain fully cognizance of the criticality of maintaining debt sustainability. Therefore, they are committed to responsibly sourcing financing, and only on highly- concessional terms. In addition, they plan to evaluate previously contracted loans with the view of rolling back disbursements that might not be consistent with their development plan, as well as re-negotiating others on highly concessional terms. Further, they would ensure that debt financing arrangements would not breach the debt thresholds under the Debt Sustainability Framework for Low-Income Countries (LIC-DSF).

Monetary Policy

12. The CBL remains fully committed to implementing policies aimed at sustaining a stable macroeconomic environment characterized by broad exchange rate stability and low inflation. In this regard, the CBL continues to work closely with the fiscal authorities to ensure policy coordination and price stability. The conduct of monetary policy will be underpinned by a managed float exchange rate regime and the need to maintain inflation in single digit levels. The CBL officially maintains the exchange rate as its policy anchor, but has in the interim reverted to a managed float regime owing to low inflows of foreign exchange. It is confident that this regime presents the best option under the current situation, and should facilitate reserve accumulation.

13. In line with the recommendations of the recent Fund TA report, the CBL has commenced drafting amendments to its current Act, to strengthen its governance and operational independence. Going forward, management of the CBL would engage members of the National Legislature to create greater awareness and support for the proposed amendments. Meanwhile, discussions are ongoing between the CBL and the MFDP on the Bank's recapitalization.

14. Regarding de-dollarization, the authorities remain committed to the adoption of a gradual and sequential process. In this connection, they are focused on adopting a strategic approach underpinned by market fundamentals. To this end, they are convinced that the attainment of a smooth transition to de-dollarization would be supported through implementation of the PAPD. In the meantime, the authorities have scaled up transactional de-dollarization with increased use of Liberian dollars to pay vendors and civil servants.

15. As articulated in the Bank's *Policy Statement 2018*, "the CBL will continue to review the policy on remittance split to determine the optimal percentage that will continue to instill confidence in the system, while also allowing for most effective interventions in the foreign exchange markets". The authorities view the surrender requirements, introduced in 2016, as a temporary measure, which would be phased out, once the environment permits.

16. Going forward, and in addition to other monetary policy measures underway, the CBL is planning to undertake the following measures:

- Create a secondary market and develop additional policy instruments for the effective management of excess liquidity in the economy. To this end, the CBL has initiated work to add retail sales of T-Bills and T-Bonds, as well as CBL bills to its portfolio, and is developing a communications and awareness strategy to precede these initiatives.
- Develop a Consumer Confidence Index (CCI) and a Business Confidence Index (BCI) to gauge both customers and business perceptions and craft future policies in respond thereof; and
- Create standing deposit facilities to expand the available policy tools.

Financial Sector

17. Confidence in the banking system continues to increase as evidenced by the strong balance sheet position. Key macro-prudential indicators of the industry, including capital adequacy and liquidity ratios, remain above the minimum requirements. In addition, the authorities have taken measures to address the high level of Non-Performing Loans (NPLs), including: naming and shaming, through publishing the names of delinquent borrowers; barring delinquent borrowers from access to formal financial services; introduction of vRegCoss, an automation of loan classification intended to compel banks to report true status of loans; and rigorous onsite review of commercial banks' loan books. Further, they are considering engaging the government to service its direct and indirect exposure to the sector. Meanwhile, to enhance financial intermediation and promote financial inclusion, the CBL recently supported a pan-African financial institution to launch a new platform to provide services to unbanked and underbanked segments of the population.

Structural Reforms

18. With the smooth completion of the political transition and the planned launch and subsequent roll out of the PAPD, which should strengthen investors' confidence, the economy is expected to recover faster. Within this context, the authorities are stepping up efforts to mitigate dependence on primary commodities through improving the investment climate and increasing access to electricity. Relatedly, improved road connectivity, as highlighted in the PADP, would help link agriculture production areas to markets, contribute to improved productivity gains, and help improve the external sector. Most areas targeted in the plan are within the south-eastern belt, which is completely disconnected from the country during rainy seasons.

19. In respect of other measures, the National Legislature is currently reviewing draft legislative enactments to address the controversial land ownership and citizenship issues. In addition, a commission of lawyers was appointed to review all concession agreements to ensure that all contractual and legal tenets are adhered to by all parties, including the government and concessionaires.

20. Regarding its intent to improve data quality, the government would continue to leverage Fund TA, including those provided by AFRITAC West to the Liberia Institute of Statistics and Geo-Information Services (LISGIS).

IV. Conclusion

21. The new administration requires support and regular constructive dialogue with development partners, particularly the Fund, as a trusted advisor. Institutionalizing reforms necessary to propel the ambitious national development agenda, including maintaining macroeconomic and debt stability, would require a blend of careful policy calibration and capacity development initiatives. In this regard, the authorities would continue to work very closely with the Fund, and remain particularly grateful for the level of capacity building support provided.